CORPORATE LOCATIONS

Market Update

Rentals / Forecasts

Good news and bad news

The office rental market continues to converge with the top prime rates still softening, albeit at a slower rate and the economic/budget end of the market is firming. Many companies in the higher grade buildings who have standard three years leases coming up for review this year will be pleasantly surprised when they find they can probably renew their leases at rates significantly lower than their current rent. Rates in this sector have probably fallen by between 10% and 15% in the last two years so companies currently paying around $90.00 per sq ft may find they can possibly renew at around $75.00 - $80.00 per sq ft (effective).

However, the opposite is true at the other end of the market where those companies currently paying around $30.00 per sq ft are now faced with a rental hike up to around $40.00 per sq ft. This is because it is this sector that has seen the most demand with companies looking to save costs. The only exception to this is Kowloon East where rates were already competitive at around $25.00 - $30.00 per sq ft and have softened further to around $22.50 - $27.00 per sq ft (effective) due to increased supply.

Leasing activity is expected to remain subdued over the next 12 months

Leasing activity is expected to remain subdued over the next 12 months with only those companies that need to move (either due to expansion or cost savings) being serious prospects for the vacant space. Some will take the opportunity to upgrade their current space if there is no increase in their current overheads, but the majority will prefer to enjoy the cost savings and renew for at least another two years until the global economy shows strong signs of a recovery.

Current trend of converging market will continue with lower end possibly seeing a further 10% increase

Rentals in the economy/budget range will continue to firm, maybe by around 10% over the next 12 months, with continued demand from cost savers and the limited choice / scarcity factor coming into play. Rents in the mid-tier market will remain static because there is reasonable supply and modest demand. The prime market will continue to soften with landlords in this sector being particularly vigilant to hold onto their current tenants.

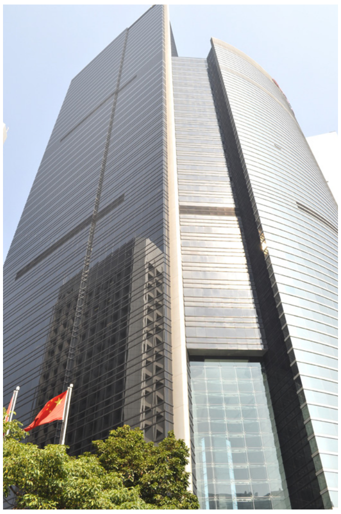
Demand has been patchy

Demand for office space in Hong Kong has been patchy with many companies taking a cautious approach and deciding to renew where they are for at least another two to three more years. There has however been activity in all quarters of the market and from a wide variety of sources. The top prime market has been quiet, but what activity there has been has been dominated by mainland Chinese companies, many entering the market for the first time and looking to make a statement. Two IFC has been the main focus for these types of companies and new tenants here include Yuan Management Hong Kong, De Rong Asset Management, China Universal and Zhuguang Holdings. Other new tenants here include Sapinda Asia Pacific, Tiger Global Hong Kong and Ayers Alliance Securities. Cinda International has moved from Cosco Tower to AIA Central and China Merchants Securities has leased another whole floor at One Exchange Square.

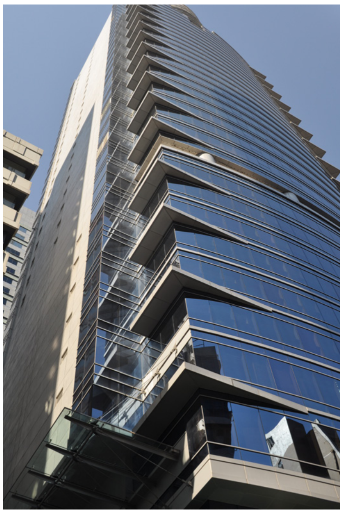
PRC companies have dominated the prime market

In the upper mid-tier market, Citibank Plaza has been one of the most popular choices particularly from hedge fund related businesses. New tenants here include Guard Capital, Kontiki Capital, SCP Capital 3W Funds and Autonomous Research. Sumitomo Asset Management moved from Chater House to Citic Tower. In the economy range, Trident Corporate Services has leased a whole floor at Golden Centre (from Two Chinachem Plaza) and Weyerhaeuser (Asia) Limited have leased a floor here as well moving, from Great Eagle Centre. On Hing Building has attracted several whole floor tenants including Gemini Personnel and Zetland Fidiciary (from FWD Financial Centre). Architectural design firm WoodsBagot has leased a whole floor at The Centrium, and this building has been one of the most active during the past five months.

Wan Chai has seen a range of activity from a variety of industries. Langham Hospitality has just moved into one whole floor at Great Eagle Centre. Accounting firm Morrison Heng has moved from Allied Kajima Building to take a whole floor at Overseas Trust Bank Building. Recruitment company Drake International has leased half a floor in Tai Yau Building. The Consulate of South Africa has moved into Central Plaza and other new tenants here include Hong Kong China Chamber of Commerce.



Citibank Plaza



The Centrium

Supply

One Harbour Square (181 Hoi Bun Road)

Overall vacancy rate for Hong Kong Island is around 5%

The overall vacancy rate for Hong Kong Island is around 5% although the CBD has a higher rate of around 7%, and Island East has the lowest rate of approximately 3%. The supply situation remains challenging with limited choices around except at the top end of the market where demand is limited, hence the vacancy rate in prime Central is nearer 8%.

Many companies that looked around the market often decided to stay where they are as the alternatives were restricted and often did not show enough benefit either in cost savings or increased efficiency to justify a move. On Hong Kong Island there are no major new office developments scheduled for completion in the next three to four years which will put pressure on vacancy rates that are already low once demand picks up.

There are no major new office developments scheduled for completion in the next 3 - 4 years

There are still good choices around for tenants looking for between 2,000 to 4,000 sq ft to suit a wide range of budgets, but those tenants looking for around 7,000 - 10,000 sq ft may be surprised at how little choice there is except at the top end of the market. Both Admiralty and Quarry Bay have limited choices and the selection is wider in North Point and Wan Chai.

Supply in Kowloon East is set to increase with Pioneer Place (220,000 sq ft), One Harbour Square (181 Hoi Bun Road - 240,000 sq ft) and YHC Tower (212,000 sq ft) all coming on stream this year.