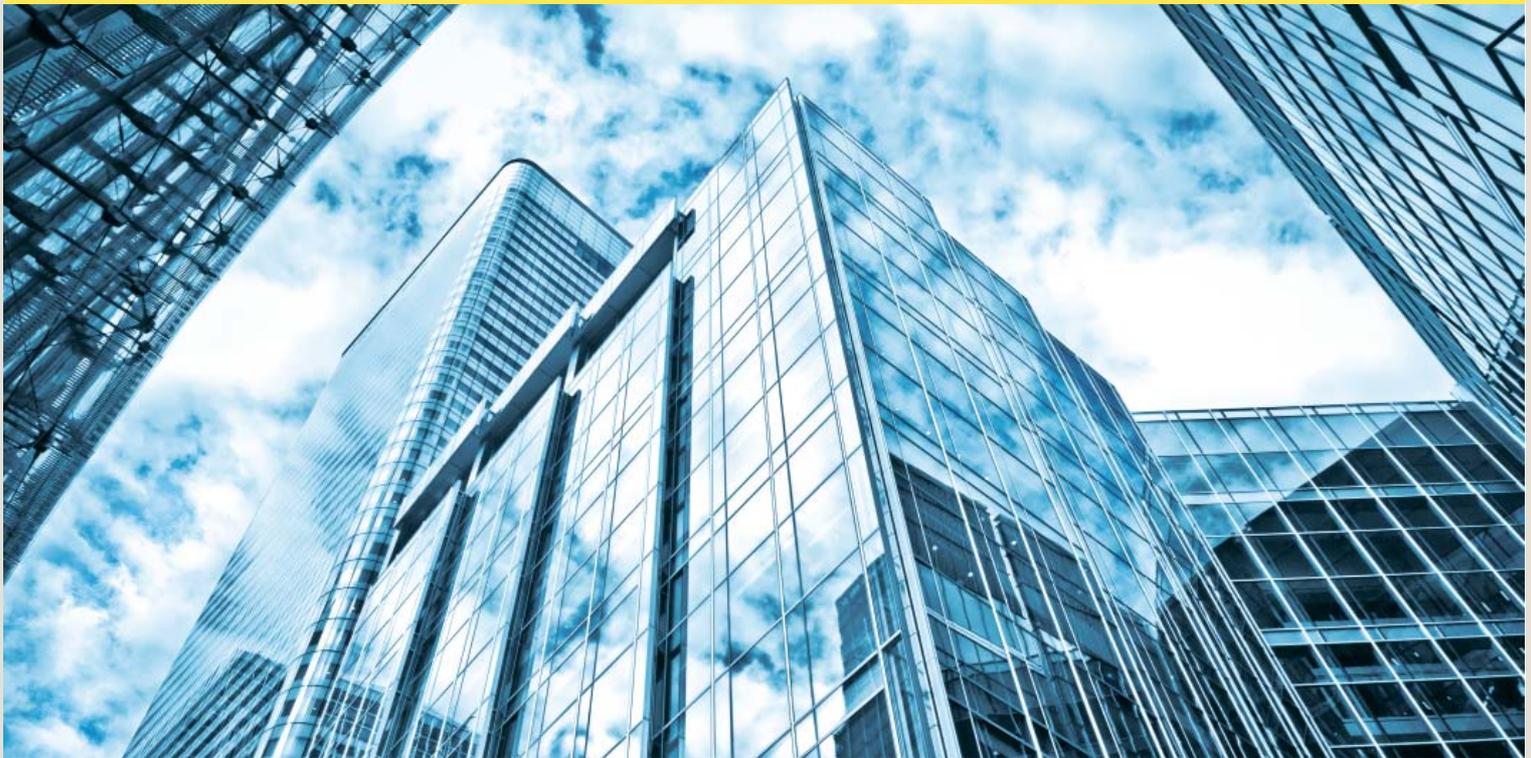


Briefing Office leasing

February 2017



SUMMARY

Decentralisation seems to be the name of the game as limited availability and high rents chase tenants out of Central.

■ AllianceBernstein and Freshfields have both taken space in One Island East, the first time a first tier 'magic circle' law firm has left Central.

■ The Central - Wan Chai Bypass and Island Eastern Corridor Link once completed should dramatically improve access to areas like Island East

■ With no lease expiries among the major banks this year, landlords of new

supply will be chasing small to medium size banks and fund managers in Central.

■ Wong Chuk Hang continues to attract tenants with its new MTR link, competitive rents and quality buildings

■ Some Kowloon East landlords may break ranks and lower rents while some may choose to wait until Wong Chuk Hang is fully leased up in the second half

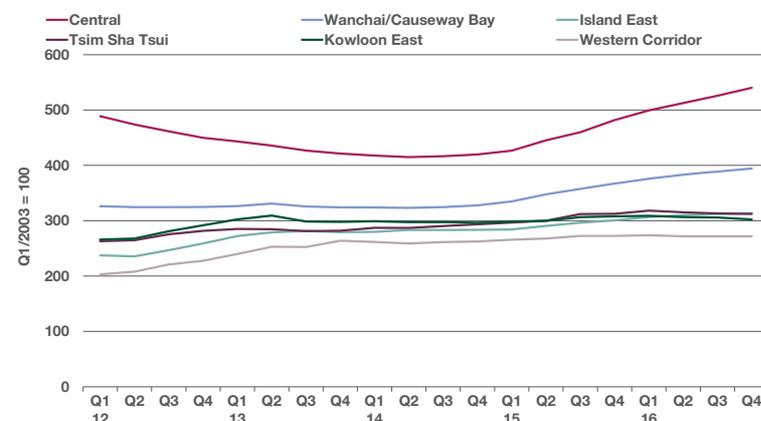
.....
 "Rents on Hong Kong Island are still making small gains while in Kowloon new supply and generally weak demand is resulting in minor falls."
 Simon Smith, Savills Research

➔ **Market commentary**

The leasing market has got off to a surprisingly brisk start this year with some major relocations; AllianceBernstein and Freshfields have both taken space in One Island East, the first time a first tier ‘magic circle’ law firm has left Central. The bold moves are arguably further evidence that the CBD no longer casts the spell it used to and also serve to highlight continuing decentralisation. The Central - Wan Chai Bypass and Island Eastern Corridor Link to be completed at the end of this year or early next (delays possible) should dramatically improve access to areas like Island East, giving Central tenants a broader choice of alternative locations.

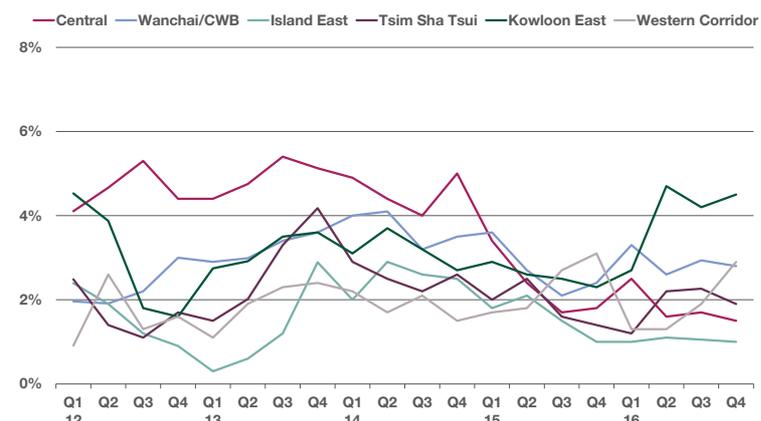
BNP will also move to Quarry Bay later this year leaving eight floors behind them in Three Exchange Square, the main supply in the district. So is Central suffering? Not really. The Freshfields floors in Two Exchange Square will be taken by the Stock Exchange while the AllianceBernstein space in One IFC will pass to a PRC tenant. It is highly likely that the BNP offices will be also be occupied by a PRC financial services firm. Central vacancy currently stands at a frictional 1.5% and rents are at an historical premium to the rest of the market. With no lease expiries among the major banks this year, landlords of new supply will be chasing small to medium size banks and fund managers in the district. Mainland demand remains a force but raising deposits of six to nine

GRAPH 1 **Savills Grade A office rental index by district, Q1/2012–Q4/2016**



Source: Savills Research & Consultancy

GRAPH 2 **Savills Grade A office vacancy rates by district, Jan 2012–Dec 2016**



Source: Savills Research & Consultancy

TABLE 1 **Savills Grade A office rental growth, Q3/2016 vs Q4/2016 and 2016**

	Q3/2016 (%)	Q4/2016 (%)	2016 (%)
Central	+2.6	+2.7	+12.1
Wanchai/Causeway Bay	+1.5	+1.5	+8.8
Island East	+0.8	+0.5	+4.3
Tsim Sha Tsui	-0.7	-0.3	+0.0
Kowloon East	-0.2	-1.2	-1.9
Kowloon West	+0.0	+0.0	-0.3

Source: Savills Research & Consultancy

TABLE 2
Major new leasing deals, Q4/2016

Tenant	Building	Size (sq ft)
HNA Group	Two IFC	15,800
Agile Group	Three Pacific Place	15,465
HOK	41 Heung Yip Road	11,700
Chinalin Securities Holdings	International Commerce Centre	12,200
Inchcape	Manulife Financial Centre	30,700
WT Partnership	Pioneer Place	21,100

Source: Savills Research & Consultancy

→ month’s rent could become an issue given recent capital controls.

Elsewhere in the ‘fringe’ markets Wong Chuk Hang continues to attract tenants with its new MTR link, competitive rents and quality buildings. For senior staff, the fact that the area is a short drive from Southside’s residential enclaves is an added benefit. Lunch on the beach anyone?

New supply in the area currently leasing includes 41 Heung Yip Road (325,000 sq ft), Vertical Square (190,000 sq ft) and 38 Southside

(148,000 sq ft). Across the three buildings, 373,000 sq ft of availability remains. There is only one major project, Swire’s 8-10 Wong Chuk Road (382,500 sq ft) due for completion in 2018. The next project to complete will be the Yip Kan Road project jointly developed by Sino and Imperial Group in 2020.

Kowloon East meanwhile is faring less well as high rents and relatively unfamiliar landlords are driving tenants elsewhere. Elevated supply levels in the district this year and next (1.6 million sq ft in total) are expected to put added pressure on rental levels

which currently average around HK\$35 per sq ft net effective.

Wong Chuk Hang will offer better value for money until fully leased in six to nine months while Island East’s high quality buildings and first tier landlord(s) present a compelling alternative. How Kowloon East’s landlords react to this set of circumstances is anyone’s guess. Some may break ranks and lower rents while some may choose to wait until Wong Chuk Hang is fully leased up to launch marketing campaigns in the fourth quarter. ■

Please contact us for further information

Savills Office Leasing



Ricky Lau
Deputy Managing Director
Head of Office Leasing
+852 2842 4501
rklau@savills.com.hk



Albert Yeung
Deputy Senior Director
Hong Kong Office Leasing
+852 2842 4568
ayeung@savills.com.hk



William Yiu
Deputy Senior Director
Kowloon Office Leasing
+852 2378 8664
wyiu@savills.com.hk



Simon Smith
Senior Director
Asia Pacific
+852 2842 4573
ssmith@savills.com.hk



Ron Mak
Senior Manager
+852 2842 4287
rclmak@savills.com.hk

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