

# Briefing Office sector

May 2014



Image: Offices in Central

## SUMMARY

The office market is a market in the doldrums, drifting sideways.

- There was subdued take-up in Q1, especially from multinational corporations (MNCs), while PRC firms remained reasonably active.

- Many PRC companies entering Hong Kong are doing so for the first time and are at the early investment stage, not necessarily chasing quick profits but establishing themselves for the long haul.

- Tsim Sha Tsui is looking increasingly attractive to insurance firms, where well-located agency offices can provide services direct to visiting mainlanders.

- Island East rents are relatively stable and prospects for the area are supported by 'displacement demand' as the government relocates to Cityplaza 3 from Cornwall House, and in the longer term by 'demolition demand' from Cornwall House and Warwick House.

- In Kowloon East, strata completions are luring tenants with below-market rents, and rents in single-owned buildings are feeling the pressure.

- We expect a further rental adjustment to take place in Central,

and this should be sufficient to lower the overall average rent for the rest of the year.

.....  
 "When it comes to Grade 'A' office take up, Mainland firms currently account for a larger slice of a smaller pie."  
 .....

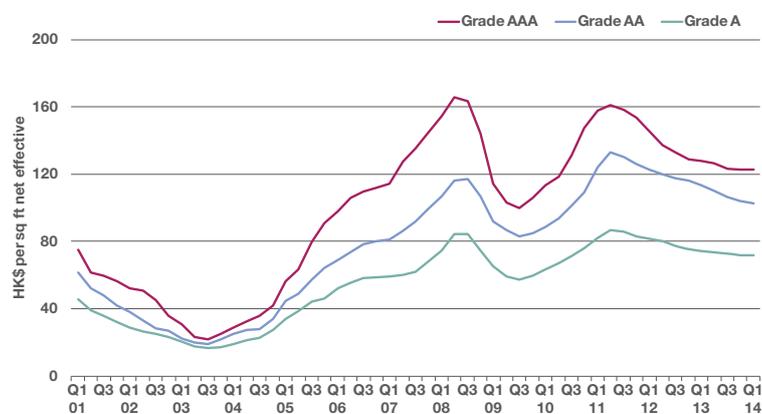
Simon Smith, Savills Research

➔ **Market commentary**

After our Residential Leasing Briefing revealed an absence of arriving expats, it is interesting to turn to the office market to see how this trend is playing out there. What we found was subdued take-up in Q1, especially from multinational corporations (MNCs), while PRC firms remained reasonably active. Mainland firms, it seems, are accounting for a larger slice of a smaller pie when it comes to Grade A office take-up. A 0.3% rebound in rents was witnessed in the market overall in Q1 and vacancies across all submarkets declined to 3.7% from 4.1% in the last quarter of last year.

Many PRC companies entering Hong Kong are doing so for the first time and are at the early investment stage, not necessarily chasing quick profits but establishing themselves for the long haul. MNCs, on the other hand, are well-established in the territory and accustomed to moving with the markets, and this currently means downsizing in response to lower business activity levels.

GRAPH 1 **Central office rents by grade, Q1/2001–Q1/2014**



Source: Savills Research & Consultancy

PRC entities remain fairly thick-skinned when it comes to cost, increasingly favouring IFC, Exchange Square and Pacific Place, drawn by access to prime malls and top hotels. During the quarter, two office buildings, IFC and The Center, both recorded rises in rents against a general trend of stable or falling rents in most Central buildings. Both

buildings saw an influx of PRC tenants, which quickly reduced vacancy. Vacancy remains stubbornly high in a small number of buildings though, and this can be expected to weigh on the market. As a result, Grade AAA office rents in Central fell by only 0.1%, compared with a 0.9% decline in overall Central rents over the quarter.

TABLE 1 **Savills Grade A office rental growth, Q1/2014 vs Q4/2013**

	Q1/2014 (%)	Q4/2013 (%)
Central	-0.9	-1.3
Wanchai/Causeway Bay	-0.1	-0.5
Island East	+0.2	-0.7
Tsim Sha Tsui	+1.9	-0.8
Kowloon East	+0.3	-0.5
Kowloon West	-0.9	-0.1

Source: Savills Research & Consultancy

TABLE 2 **Major transactions, Q1/2014**

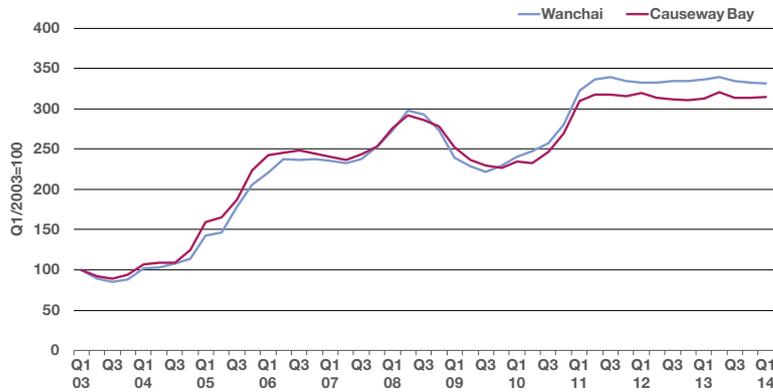
Tenant	Building	Size (sq ft)
Shanghai Pudong Development Bank Co, Ltd Hong Kong Branch	Bank of America Tower	13,900
Compass offices Plaza	Citibank Plaza	14,100
China Merchants Securities (HK) Co, Limited	One Exchange Square	14,400

Source: Savills Research & Consultancy

In Wanchai/Causeway Bay we note a divergence between the two markets, something which began in 2011. Currently vacancy is keeping rents competitive, while IT and retail expansion demand, which has traditionally looked to Causeway Bay, is soft. In contrast Wanchai north continues to prove popular among PRC firms and vacancy there is falling. We note that the Grand Hyatt has long been popular with PRC officials and businessmen.

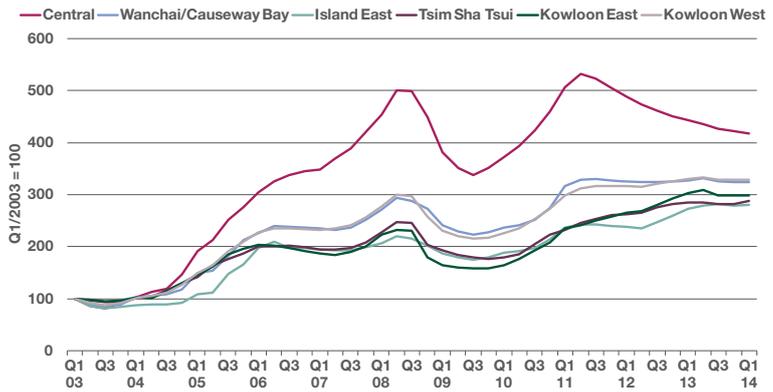
Island East rents are relatively stable and prospects for the area are supported by 'displacement demand' as government functions relocate to Cityplaza 3 from Cornwall House, and in the longer term by 'demolition demand' from Cornwall House and Warwick House. Strong take-up in Devon House as well as Citiplaza 4 further squeezed availability in the district, pushing down vacancies

**GRAPH 2**  
**Savills Grade A office indices in Wanchai and Causeway Bay, Q1/2003–Q1/2014**



Source: Savills Research & Consultancy

**GRAPH 3**  
**Savills Grade A office rental indices by district, Q1/2003–Q1/2014**



Source: Savills Research & Consultancy

there by 0.9 of a percentage point in Q1.

Tsim Sha Tsui is looking increasingly attractive to insurance firms, where well-located agency offices can provide services direct to visiting mainlanders. Compared with Kowloon East, staff retention is still easier with an office in Tsim Sha Tsui and this will remain the case until the Southeast Kowloon Masterplan is more fully realised. In Kowloon East, strata completions are luring tenants with below-market rents, and rents in single-owned buildings are feeling the pressure as a result. ■

## OUTLOOK

### The prospects for the market

Although the Chinese government announced the “Through Train Scheme” which may enhance capital flow between the Shanghai and Hong Kong securities markets, its effect on the expansion of PRC and Hong Kong financial firms is in doubt, due to uncertainties in the timing and implementation of the policy. We expect a further rental adjustment to take place in Central, and this should be sufficient to lower the overall average rent for the rest of the year.

## Please contact us for further information

### Savills Office Leasing



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



**Jeffrey Wong**  
 Deputy Senior Director  
 Deputy Head of Hong Kong Office Leasing  
 +852 2842 4290  
 jwong@savills.com.hk



**Albert Yeung**  
 Director  
 Head of Kowloon Office Leasing  
 +852 2378 8682  
 ayeung@savills.com.hk



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



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

### Savills Research

**Savills plc**

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.