

Briefing Office sector

May 2015



Image: Offices in Hong Kong

SUMMARY

There is evidence of cautious expansion among financial services firms.

- The boom in stock market activity under the Shanghai-Hong Kong Stock Connect has prompted securities and asset management firms to expand
- Financial firms are expanding in Central, however, it is the financial services companies such as financial information providers and credit agencies who are growing faster
- PRC securities firms and investment firms are still filling up vacant space in Central, eyeing a potential increase in stock market activity under the Shenzhen-Hong Kong Stock Connect in 2H/2015
- In Kowloon East there is a trend for consolidation of tenants who are moving off Hong Kong Island to obtain more readily-available large scale, quality space
- We have also witnessed the leasing of offices revitalised from industrial buildings in Kowloon East and the Western Corridor

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 “We maintain a close watch on PRC firms who continue to take up space in Central in anticipation of the Shenzhen-Hong Kong Stock Connect.”
 Simon Smith, Savills Research

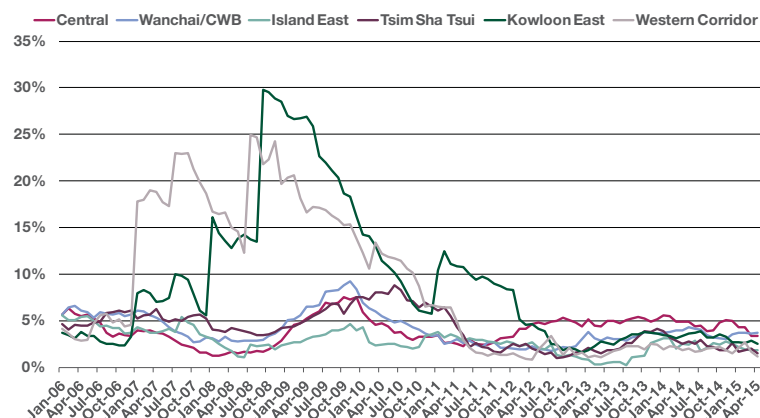
➔ **Market commentary**

Overall Grade A office rents grew by 1.2% in Q1/2015, with all districts rising by 0.3%-2.1%. Demand was mainly in the 5,000 to 10,000 sq ft range. Although the decrease in mainland visitors translated as a drop in retail sales of luxury goods, exerting some pressure on retailers with offices in core districts, the boom in stock market activity under the Shanghai-Hong Kong Stock Connect has prompted securities and asset management firms to expand.

Financial firms are expanding in Central. However, it is the financial services companies such as financial information providers and credit agencies who are growing instead of the traditional multi-national investment banks. The buildings which have high vacancy rates are gradually being filled. Although PRC securities firms and investment firms are still taking up vacant space in Central, eyeing a potential increase in stock market activity under the Shenzhen-Hong Kong Stock Connect, most of the space they leased was between 5,000 and 10,000 sq ft, relatively small compared with their multi-national counterparts. Central Grade A office rents rose by 1.6% in Q1. Meanwhile, the occupancy rate fell to 3.4%, 1.6 percentage points (ppt) below the end of December 2014.

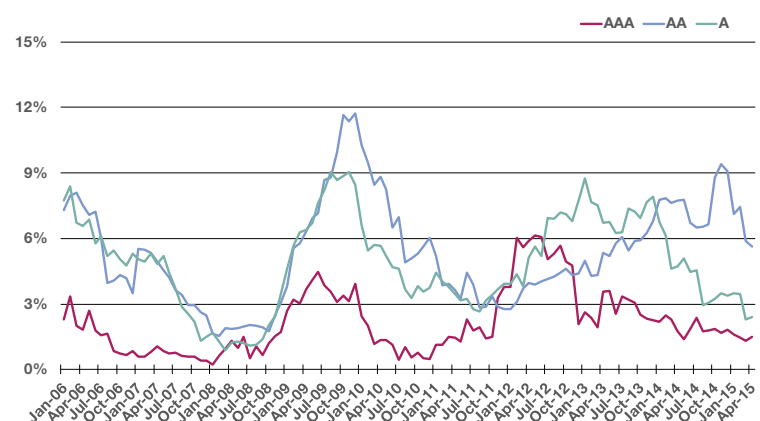
In Wanchai/Causeway Bay, demand was focused on areas of less than 10,000 sq ft, with only a handful of new

GRAPH 1 **Savills Grade A office vacancy rates by district, Jan 2006–Apr 2015**



Source: Savills Research & Consultancy

GRAPH 2 **Savills Central office vacancy by Grade, 2006–Apr 2015**



Source: Savills Research & Consultancy

TABLE 1 **Savills Grade A office rental growth, Q1/2015 and Q4/2014**

	Q1/2015 (%)	Q4/2014 (%)
Central	+1.6	+0.8
Wanchai/Causeway Bay	+2.1	+1.0
Island East	+0.3	+0.1
Tsim Sha Tsui	+1.0	+1.2
Kowloon East	+0.8	-0.4
Kowloon West	+1.2	+0.4

Source: Savills Research & Consultancy

TABLE 2
Major new leasing deals, Q1/2015

Tenant	Building	Size (sq ft)
Beijing Bank	Two iFC	12,000
Toppan Vite	Gloucester Tower	18,700
Hong Kong Art Development Council	1063 King's Road	10,603
UBS	One Peking	23,200
OOCL	One Harbour Square	55,000
Kiabi	KC100	24,700

Source: Savills Research & Consultancy

→ letting deals over this. The vacancy rate of the district stood at 3.6%. Some investment firms, banks and insurance banks are expanding in Tsim Sha Tsui, tightening availability there. Rents in the district were up by 1.0% over the quarter.

In Kowloon East there is a trend for consolidation of tenants who are moving out of Hong Kong Island to obtain more readily-available large, quality space. This pushed rents up by

0.8%. For example, the Government Property Agency leased five floors and OOCL leased three floors in One Harbour Square. In the Western Corridor, rents grew by 1.2%. Major transactions include the leasing of 10,000 sq ft in Metroplaza by Boeing International Group. We also witnessed some leasing of offices revitalised from industrial buildings in the two areas, such as the leasing of Energizer Hong Kong in Pioneer Place and Kiabi in KC100. ■

OUTLOOK

The prospects for the market

With a healthy economy and the potential launch of the Shenzhen-Hong Kong Stock Connect, we believe the demand for Hong Kong Grade A office space will persist, especially in Central. We expect a narrowing rental gap between core and fringe Central which is favoured by PRC financial firms. However, luxury retailers occupying core office space may be replaced by expanding insurance companies as core Grade A offices are still in short supply.

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