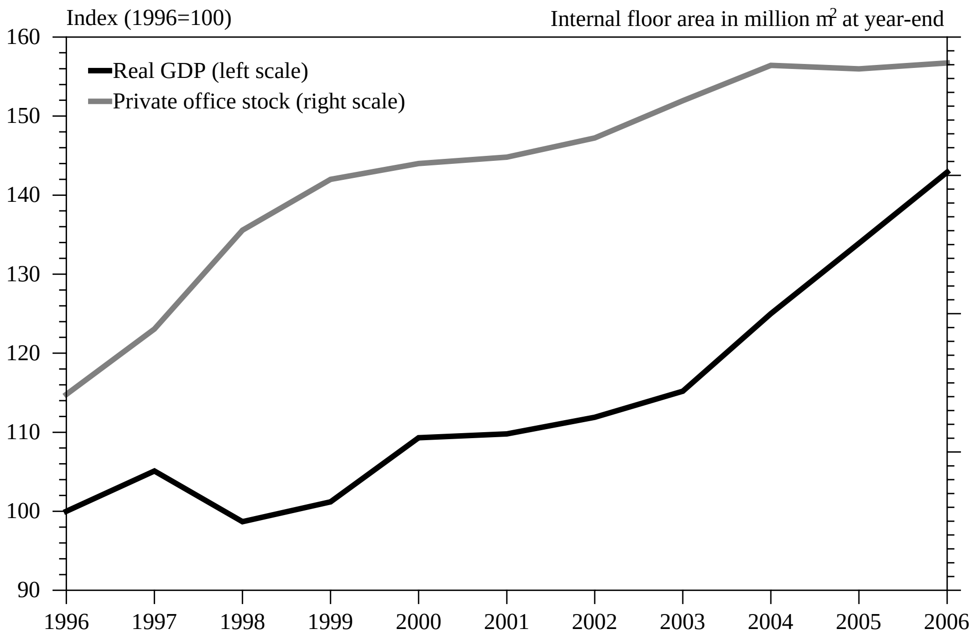
Box 3.1

Brief review of office market structure during the past decade

Over the past decade, the total stock of private office space in Hong Kong rose substantially by 32% from 7.4 million m^2 at end-1996 to 9.8 million m^2 at end-2006[(a)]. The expansion of the office market was in tandem with remarkable economic growth averaging at 4% per annum during 1997-2006. Also contributed were further shift of economic structure towards service orientation (with the share of services sector in GDP up from 86% in 1997 to around 90% in 2006) and development of Hong Kong as an international business hub (with the number of regional headquarters and offices up from 2 514 in 1997 to 3 845 in 2006).

Real GDP and stock of private office space, 1997-2006



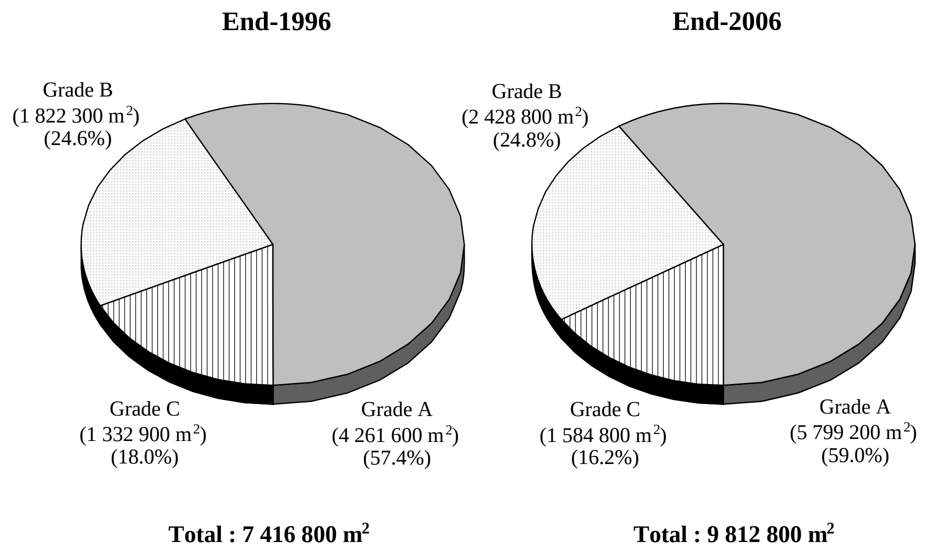
Analysed by grade[(b)], market demand for quality office space has been hectic over the past decade as the economy has been moving up the value chain. This is particularly apparent in the finance, insurance, real estate and business services sectors where premier properties with professional management and modern facilities are increasingly required to meet operational needs. In response, new supply of office space has been concentrated in Grade A office space, with its share in total surging from 49% in 1996 to 85% in 2006 (and further to the forecast ratio of 94% in 2008). As a result, the Grade A office stock expanded markedly by 36% over the decade to 5.8 million m^2 at end-2006, with its share in total office stock rising to almost 60%. The new supply was well absorbed by the market, as manifested by the fall in the vacancy rate of Grade A office space from 8.3% to 7.6% during the past decade. The corresponding figure in Central/Admiralty went down even more, from 5.3% to 3.9%.

(a) All areas quoted in this article are in terms of internal floor area. Offices owned by the Government and managed by the Government Property Agency are not included in the calculation of private office stock.

(b) Office grading is based on rating of such parameters as quality of property management, facilities, finishes, sizes of floor plate, property age, etc. by Rating and Valuation Department (R&VD). For details, see "Hong Kong Property Review 2007" published by R&VD.

Box 3.1 (Cont'd)

Private office stock by grade



As regards Grade B and Grade C office spaces, the stock expanded by 33% and 19% respectively over the past decade but the increases occurred largely in the earlier years. New supply was relatively limited in the more recent years. Compared with a decade earlier, the share of Grade B in private office stock held stable at 25% at end-2006 while that of Grade C office space fell to 16%. The demand for lower-graded office space mainly came from small and medium enterprises so that the size of units involved were smaller in general. Crudely, it was estimated from a sample of leasing transactions in 2006 that the average sizes of Grade B and Grade C office units involved were 92 m^2 and 46 m^2 respectively as compared to the corresponding figure of 274 m^2 for Grade A office units[(c)].

Analysed by location, office spaces in Grade B and C remain concentrated in more peripheral areas. Yet for Grade A office, the profile has become more decentralised due to faster increase for new supply in non-core districts than core districts. As a result, the share of Grade A office stock being located in non-core districts rose sharply from 28% at end-1996 to 38% at end-2006. Quarry Bay, North Point, Tsuen Wan and Kwun Tong are notable non-core areas with more Grade A office buildings. Among core districts, the share of Wan Chai/Causeway Bay dropped markedly from 23% to 16%. The shares of Central/Admiralty and Tsimshatsui fell more mildly, from 29% and 17% to 27% and 14% respectively.

A major driving force for Grade A office relocation from core to non-core districts is the more abundant supply of land available for office developments in fringe areas, in contrast to limited new sites in the core districts. This has led to wider rent gap between core and non-core districts which induces office relocation. The tendency is reinforced by growing efficiency of domestic transport system that makes peripheral areas increasingly accessible. Communications technology also plays a role. Its wider use has enabled enterprises to move at lease part of the operations, especially back-up services, to more affordable peripheral locations. As new office supply in core districts is likely to remain tight, the tendency of office relocation is expected to continue in the short to medium term.

(c) Crude estimates by R&VD based on a sample of units analysed in 2006.

Box 3.1 (Cont'd)

Grade A office stock by district