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ISLAND EAST: AN EXTENSION OF THE CBD

The Central-Wan Chai Bypass reshapes Hong Kong Island's office market



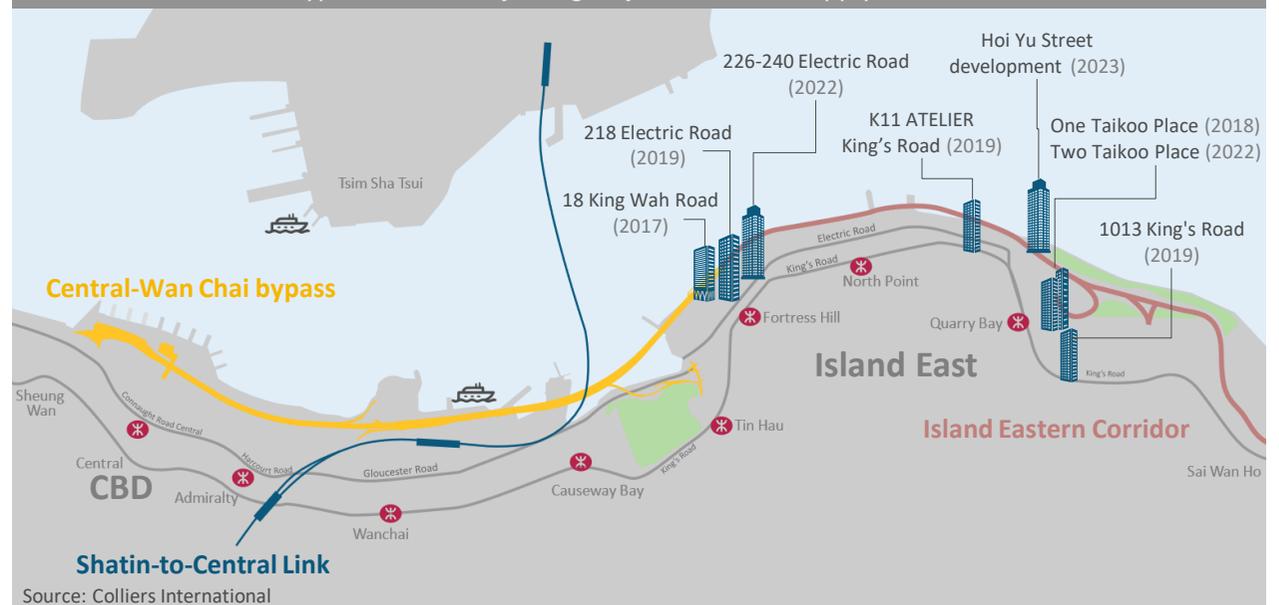
Summary & Recommendations

Thanks to the increase of new high quality supply, office rents in Island East have been growing over the past five years. In 2019, the Central-Wan Chai Bypass should unlock the potential of Island East, which previously was thought to be a far flung submarket. Island East's three key strengths are:

- > A high number of quality office buildings with reasonable rents
- > The prestige of being located on Hong Kong Island with an established business community
- > An increase in amenities and mixed-use properties with North Point's redevelopment

CBD tenants with relocation or consolidation requirements should explore the cost-effective options in this rising submarket.

The Central-Wan Chai Bypass and the adjoining major new office supply



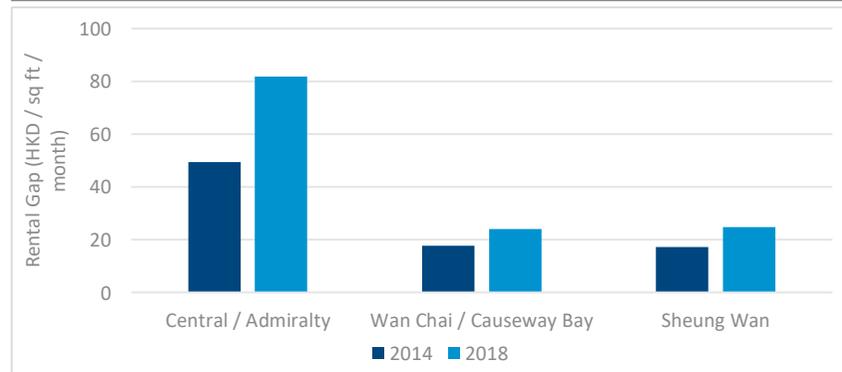
Island East, comprising North Point and Quarry Bay in the north-eastern part of the Hong Kong Island, was previously considered a decentralised area and a destination for middle or back offices for multinational companies (MNCs) and banks. Now, it is transforming into an extension of the CBD as it attracts an increasing number of the MNCs' headquarters. In addition to new Grade A office stock, the Central-Wan Chai Bypass, completed in Q1 2019, has become a key driver in the repositioning of the district.

Island East is the second largest Grade A office market on the Island following Central, with a net floor area of 10.7 million sq feet (994,063 sq meters) of Grade A office space. In 2018, Island East had a remarkable year with annual net take-up of 1.1 million sq feet (102,193 sq meters), almost 40% of the city's total net take-up. This strong demand demonstrates the massive inflow of companies, leading to our expectation that this area will thrive as an increasingly important business district for Hong Kong. The 1.7 million sq feet (157,940 sq meters) of new office supply set to come online in Island East by 2022 should provide more cost-effective options for CBD tenants when strategising for their next lease.

CENTRALISING ISLAND EAST

The Central-Wan Chai Bypass – a 4.5 km trunk road with a traffic-light free 3.7 km long tunnel, slashes travel time from 15 minutes to five minutes.¹ This has helped bring traditional CBD tenants to set up headquarters in Island East, with Facebook, EY and Baker McKenzie having taken the lead to set up headquarters in the area. The Securities and Futures Commission, Hong Kong’s securities and futures markets regulator, will also likely relocate from Central to Quarry Bay².

Rental savings in Island East over other districts



Source: Colliers International

These relocations demonstrate companies are increasingly paying attention to Island East over Wan Chai/Causeway Bay. With the travel time from Central being slashed dramatically, Island East’s strengths as a relocation destination with high quality offices and low rents are revealed.

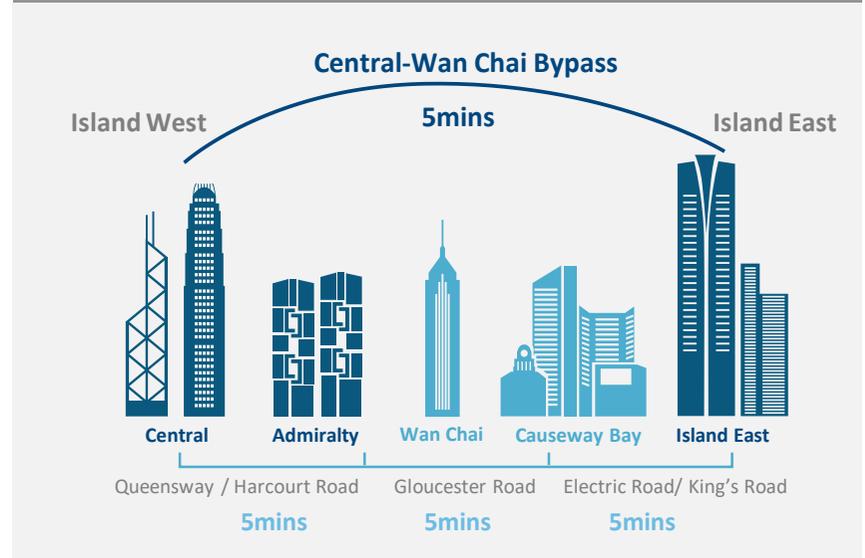
When occupiers relocate for lower rents, Island East’s well-established Grade A office portfolio and its prestige of being located on Hong Kong Island have been two major advantages over Kowloon East. Furthermore, despite the similar number of licensed restaurants and similarly sized retail market, the population density in Island East is only half of that in Kowloon East³. This lower density provides Island East a better opportunity to focus on office development and establishing a sophisticated business community.

¹ [Highways Department](#)

² [SCMP](#), 13 February 2019

³ [Census and Statistics Department](#)

The improvement of vehicle accessibility to Island East



Source: Colliers International

Comparison of non-CBD sub-markets for office tenants



Source: Colliers International

Note: methodology for ranking awards 1 pt. for the least desirable among non-CBDs; and 5 pts. for the most desirable among non-CBDs.

ENHANCEMENT OF AMENITIES AND BUSINESS COMMUNITY

The opening of large corporate headquarters should reinforce Island East's business community. Although Island East is certainly not overtaking Central to become Hong Kong's CBD, the district should be ready to play an important role as a business hub hosting top companies from the professional services, TMT, insurance and financial sectors, the most important business sectors in Hong Kong.

The upgrade of the harbourfront will likely sharpen the competitive edge of Island East. The government is set to rezone the industrial sites on Hoi Yu Street to provide 400,000 sq feet (37,155 sq meters) of commercial space⁴. The redevelopment is set to come with a two-kilometre pedestrian promenade connecting Oil Street in North Point and Hoi Yu Street in Quarry Bay, adding value to the office assets along the Island East harbourfront.

NORTH POINT'S REGENERATION

North Point should benefit the most from its proximity to the Bypass's exits. Apart from the new Bypass, the district hosts transportation facilities comparable to Central, which includes bus and ferry terminals, tram stations, as well as the second Hong Kong Island – Kowloon MTR interchange. The enhancement of connectivity has recently triggered investors to redevelop old properties into office buildings and accelerate the regeneration of the district.

18 King Wah Road, a new Grade A office building redeveloped from an old industrial building, is prompting investors to look into the area again. The growing maturity of North Point has triggered increasing interests from renowned developers and investors around the area. For instance, Gaw Capital, which has been actively investing in Island East, plans to pay HKD4.8 billion (USD615 million) to Swire Properties and China Motor Bus, the joint owners of the Grade A office building at 625 King's Road in North Point⁵.

The ongoing new redevelopments around the North Point area, not only in the office sector but also residential and hotels, should accelerate the regeneration of the area, turning North Point into a vibrant new submarket.

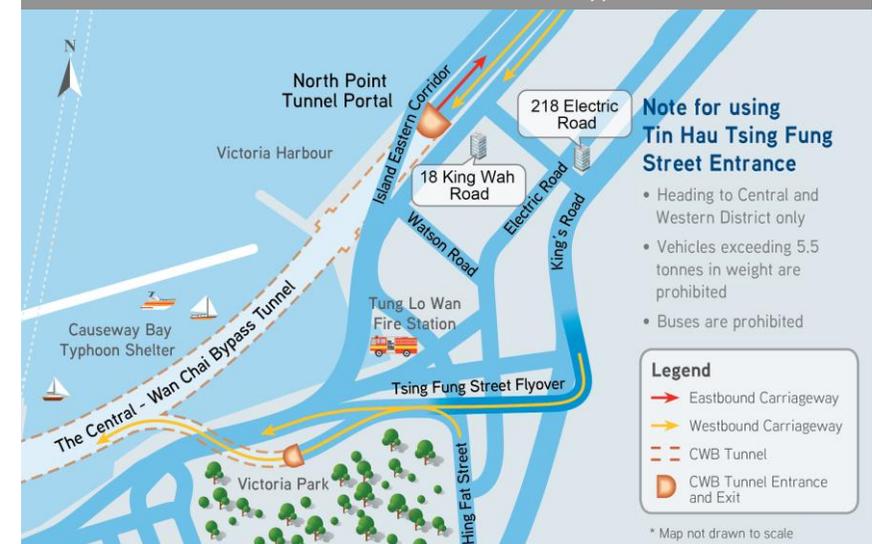
MORE OPTIONS FOR OCCUPIERS

Office supply in Island East is likely to increase with more investment and development, thanks to developers' confidence in the future growth in the Island East area. By 2022, Island East's office market is planned to expand with 1.7 million sq feet (157,935 sq meters) GFA of new office space, accounting for 57% of the future supply on Hong Kong Island over the same period.

In North Point, K11 ATELIER King's Road from New World Development and 218 Electric Road from Henderson Land, are set in to bring an additional 500,000 sq feet (46,451 sq meters) of Grade A office space to the area in 2019.

As Island East becomes more competitive, its rental level should eventually catch up, narrowing the gap with other districts on Hong Kong Island. CBD tenants who remain hesitant should make a bold move before the rental savings diminishes and the availability of space in Island East disappears.

The North-Point exit of the Central-Wan Chai Bypass



Source: [Central – Wan Chai Bypass and Island Eastern Corridor Link Driving Guide](#), Highways Department

⁴ [HKSAR](#)

⁵ [hknnews](#), 21 May 2019

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