WORKING PAPER No. 46
PLANNING STRATEGY FOR CBD GRADE A OFFICES

PURPOSE

1. The purpose of this paper is to outline a planning strategy for “Central Business District (CBD) Grade A offices” for incorporation into an overall strategy of the HK2030 Study.

BACKGROUND

2. Hong Kong needs a steady supply of CBD Grade A offices to strengthen its role as an international financial and business centre as well as to maintain as a choice location for corporate headquarters/regional headquarters. To ensure that the projected requirement (in terms of both quantity and quality) of CBD Grade A offices could be met, a planning strategy is needed.

3. CBD Grade A office is one of the three uses under the new typology for employment land uses recommended by the economic consultants of the HK2030 Study. The proposed demand for CBD Grade A offices was assessed by the consultants. In gist, the demand for CBD Grade A offices is projected to increase from 4.1 to 6.7 million m$^2$ in gross floor area (GFA), representing a net increase of 2.6 million m$^2$. Taking into account the surplus stock and “natural vacancy”, the net total requirement of CBD Grade A offices would be 2.7 million m$^2$ (Table 1).

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>Increase 2003-2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>4.1</td>
<td>5.1</td>
<td>5.8</td>
<td>6.7</td>
<td>2.6 million m$^2$</td>
</tr>
<tr>
<td>Requirement (Demand – Surplus Stock + Vacancy)</td>
<td>4.7</td>
<td>5.6</td>
<td>6.4</td>
<td>7.4</td>
<td>2.7 million m$^2$</td>
</tr>
</tbody>
</table>

Table 1 – CBD Grade A Office Floorspace Demand and Requirement

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1 Source: GHK (Hong Kong) Ltd., Hong Kong 2030 Planning Vision and Strategy, Economic Planning Services Final Report, June 2006

2 “Natural Vacancy” refers to a level of vacancy that is normally present in the property market. While the level would constantly vary, a 10% rate has been assumed here, based on the average vacancy level for Grade A offices located at Core Districts in the period between 1999 and 2003, as recorded by the Ratings and Valuation Department.
DEFINITION OF CBD

4. While the CBD is a widely used term denoting an area of intense business activities, it is technically difficult to be demarcated in any precise manner because of the constant change in development patterns and the mix of land uses at the peripheries. Some may narrowly define our CBD as the financial district located within a few street blocks in the core of Central. Other may take a more liberal approach to include those major commercial districts in the northern shore of Hong Kong Island and the southern tip of the Kowloon Peninsula. While we recognise the dynamic nature of the CBD, it is still necessary to define the CBD for assessing office demand and supply.

5. The traditional office districts of Central, Wanchai, Causeway Bay, Sheung Wan and Tsim Sha Tsui are defined by the Ratings and Valuation Department (R&VD) as the “Core Districts” of Hong Kong. For the purpose of presenting data under this study, we have defined these districts as the CBD. Other than these five districts, the part of the West Kowloon Reclamation lying south of Jordan Road has also been included as it is a natural extension of the existing and planned high-grade office developments at Harbour City and Airport Railway Kowloon Station.

PAST TRENDS

Fluctuations in Supply and Take-up

6. According to information compiled by RV&D, the total stock of Grade A offices increased rapidly from about 3.05 million m$^2$ internal floor area (IFA)$^3$ in 1991 to 5.80 million m$^2$ IFA in 2006 (Figure 1). The supply of Grade A offices was higher in the 1990s, averaging 0.31 million m$^2$ IFA per annum. The supply thereafter decreased sharply to 0.12 million m$^2$ IFA per annum in 2000-2006 mainly as a result of the economic downturn. The level was the lowest in 2005 with only 0.03 million m$^2$ (Figure 2).

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$^3$ Internal Floor Area is defined as the area of all enclosed space of the unit measured to the internal face of enclosing external and/or party walls. Depending on the design of individual office building, the IFA may account for 50% to 70% of the GFA.
7. Similarly, the demand for Grade A offices has also been rather sporadic as reflected by the sharp and short-span fluctuations in the vacancy rates (ranging from 4.8% in 1993 to 15.3% in 1998). In actual terms, the floor area of vacant office premises in 1998 (0.8 million m² IFA) was almost five times of that in 1993. Their annual take-up volumes have been equally unpredictable, ranging from a low of 2,000 m² in 2002 to a high of 434,000 m² in 1999 (Figure 2).

8. In 2005, there was a net take-up of 324,000m² in IFA of Grade A offices, representing 1.3 and 5.2 times over the corresponding figures in 2004 and 2003 respectively. Although the net take-up in 2006 at 81,000m² was well below the 2005 level, it was equivalent to about 90% of the completion in 2006. The strong take-up drove down the vacancy rate from 13.1% in 2004 to 7.6% in 2006, and led to an increase in Grade A office rents of 35% and 15% in the last quarter of 2005 and 2006 respectively, compared with the corresponding period in each of the preceding years. More recent reports⁴ indicate that the office vacancy rate in Central has even fallen to about 2% to 5%. The rents of Grade A offices in Central have increased by 13% in the first six months of 2007⁵. From the information on supply and take-up, a number of characteristics can be derived, as detailed in the following paragraphs.

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⁴ Sources: CB Richard Ellis, “Market View Hong Kong Office” (Q2, 2007); Savills, “Office Leasing Briefing” (June 11, 2007).
⁵ Hong Kong Property Review – Monthly Supplement October 2007
As shown in Figure 3, the supply of Grade A offices is concentrated in the CBD, which accounted for some 62% (3.6 million m² IFA) of the stock in 2006. Moreover, the vacancy rate of CBD Grade A offices is generally much lower in any given year, and the fluctuation less distinct (5 to 13% against 5 to 21%), than the offices outside the CBD.

Within the CBD, different business sectors also dominate different localities. For example, finance and banking, professional services and major corporate headquarters tend to concentrate in Central/Admiralty, while Tsim Sha Tsui is becoming increasingly favourable to firms with a manufacturing base in the Pearl River Delta⁶.

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⁶ Source: Jones Lang LaSalle, “Corporate Occupiers Guide” (April 2005) and “The Evolving Hong Kong Grade A Office Landscape” (April 2006)
Decentralisation of Offices

11. A particularly noticeable phenomenon in the past decade or so is the trend for office decentralisation. The supply of Grade A offices outside the CBD alone increased by 4.4 times from 1991 to 2006. While conventional industrial areas such as Kwun Tong and Kowloon Bay are in a rapid process of transformation into secondary office nodes, the growth of Taikoo Place at Quarry Bay (former shipyard and industrial area) is worth noting. This development began with Devon House in 1993 and, unlike the other secondary office nodes, it has managed to “rival” even office properties at the CBD, particularly with the completion of such higher-grade additions as the Oxford House in 1999 and Cambridge House in 2003.

12. The growth, and success, of this office node could be attributed to a number of factors. They include good accessibility provided by the MTR and the fact that the land was being held under single ownership with unrestricted lease. Moreover, the developer was determined to create a “non-conventional” office location through comprehensive planning and good building management. Timing was also a critical
factor – the chronic shortage of supply of quality office accommodation when it first started has helped to boost its take-up.

**Improved Quality of Office Buildings**

13. Apart from the sprout of high-grade office clusters, there has been a general improvement in the standard of office accommodation across the territory, with greater emphasis on the quality of finishes, building services and communication facilities. This is demonstrated by the rise in the proportion of Grade A offices against the total office stock from 55% in 1991 to 59% in 2006.

**PLANNING CONSIDERATIONS**

**Key Elements of a Quality CBD**

14. A particularly important study on office development in Hong Kong was the “Study on the Propensity for Office Decentralisation and the Formulation of an Office Land Development Strategy” (OLDS Study) commissioned by the Planning Department in the late 1990s. A survey was conducted as part of the OLDS Study, aiming at researching on what office users look for in office accommodation as well as the factors affecting their choice of location. Some of the key findings are summarised below:

**Accessibility**

15. Businesses situated in the CBD regard good accessibility as their prime concern in the selection of office locations. There is a strong reliance on rail as a mode of transport for making business contacts.

**Agglomeration**

16. Achieving agglomeration economies as well as providing sufficient supporting facilities are also important concerns. Businesses locating in the CBD not only make more business contacts than non-CBD companies, their business contacts are usually concentrated within the CBD. The survey also indicates that there is a higher proportion of
business contacts made on foot than non-CBD companies. This supports the concept of “critical mass” in the planning for office buildings. While the size of the critical mass would be difficult to be determined, the OLDS Study suggests that a minimum office floor space of 500,000m$^2$ GFA is required for creating a successful office node.

Quality office premises

17. Compared with non-CBD establishments, companies located in the CBD indicate a clear demand for high quality offices and more space. Half of the surveyed CBD companies occupy an area of 1,000 to 5,000 ft$^2$, whereas the majority of the non-CBD offices occupy a space of less than 1,000 ft$^2$. The employees in CBD offices normally enjoy a lower employment density than non-CBD workers (in terms of an IFA of 20m$^2$ per person against 18m$^2$). Besides, among the surveyed CBD companies, there is a higher proportion of multi-national businesses and head offices mainly serving the regional and global market. Under the HK2030 Study, we have attempted to cross-check this statement by carrying out a desktop research of the office locations of the top 50 Fortune 500 companies. The research findings reveal that 24 of these 50 companies have established their representing offices in Hong Kong; 17 of these 24 companies have chosen to set up their office in the CBD, with 70% locating in Central. The OLDS survey also indicates that the quality of the local environment and the prestige of the location are also important considerations. Moreover, multi-national corporations intending to set up office in Hong Kong tend to prefer buildings with larger floor-plates and better architectural design.

18. When asked about the unfavourable factors affecting their choice of location for setting up regional headquarters and regional offices (RHQ/RO) in Hong Kong, 32% of the surveyed companies indicated “availability and cost of business accommodation” as one of the most important reasons, second to the factor of “availability and cost of residential accommodation” (33%).

Overall

19. In sum, to maintain and further develop Hong Kong’s status as an
international financial and service hub and a choice location for corporate headquarters/regional headquarters, a continuous and steady supply of quality office buildings in our CBD is necessary. Good accessibility, creation of critical mass to facilitate agglomeration, and ensuring that a sizeable proportion of our potential CBD office supply is of, not only Grade A, but “Super Grade A” quality on larger sites are the most important elements in our long-term office planning strategy.

**Role of the Government**

20. In the period of 1998 to 2006, a total of 15 larger-sized Grade A office developments were completed in the CBD, providing 1.31 million m$^2$ GFA. The following table categorises these new productions according to the source of land:

<table>
<thead>
<tr>
<th></th>
<th>Private Redevelopment</th>
<th>Government Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>• Gateway Tower 2 (Ph. 1), Tsim Sha Tsui (TST)</td>
<td>• The Center, Central</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• International Finance Centre (IFC) One, Central</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cosco Tower and Millennium Plaza, Central</td>
</tr>
<tr>
<td>1999</td>
<td>• Cheung Kong Center, Central</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>• Gateway Tower 2 (Ph. 2), TST</td>
<td>• Centrium, Central</td>
</tr>
<tr>
<td></td>
<td>• Man Yee Building, Central</td>
<td>• Metropolis, TST</td>
</tr>
<tr>
<td>2000</td>
<td>• Gateway Tower 2 (Ph. 3), TST</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>-</td>
<td>• IFC Two, Central</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• One Peking, TST</td>
</tr>
<tr>
<td>2002</td>
<td>• Chater House, Central</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>-</td>
<td>• IFC Two, Central</td>
</tr>
<tr>
<td>2004</td>
<td>• Three Pacific Place, Wan Chai</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>• AIG Tower, Central</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>GFA</strong></td>
<td>0.78 million m$^2$ (59%)</td>
<td>0.53 million m$^2$ (41%)</td>
</tr>
</tbody>
</table>

Table 2  Large-sized Grade A Office Developments in the CBD Completed in Recent Years

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7 For illustration purposes, CBD Grade A office developments with a site area larger than 1,000m$^2$ are taken as “larger-sized Grade A offices”.

8
21. As shown in Table 2, nearly 60% of the new CBD larger-sized Grade A office supply had come from private redevelopment, with the rest relying on Government land, urban renewal schemes undertaken by the Urban Renewal Authority or rail projects.

22. Sources of private-sector supply have mainly come from redevelopment of hotels (e.g. Cheung Kong Center and AIG Tower) or intensification of existing offices (e.g. Gateway). However, it is expected that prospects for new supply through this means is diminishing. Remaining redevelopment opportunities, if any, are hindered by fragmented land ownership and the viability problem. Sites, even if assembled, would tend to be small and unsuitable for “Super Grade A” offices. Hence, there seems to be a continuous role for Government to ensure a steady supply of suitable land to fill this gap. While the current method of land sale through the Application List System relying on the operation of market mechanism to trigger off the actual release of sites for sale could fulfil this function, the crux is to ensure that adequate and suitable sites are available on the list to allow the mechanism to work.

**Job decentralisation**

23. Based on the data we obtained in 2003, some 77% of our employment was concentrated in the Metro Area\(^8\), while about 41% of the working population were residing in the New Territories. This necessitates long journeys to work and exerts heavy pressure on our domestic transport network, especially the cross-harbour routes. In various public consultations under the HK2030 Study, we have received comments on the wish for more job decentralisation. Although we recognise the nature of agglomeration economies of Grade A offices in the CBD, provision of more employment opportunities in the outer part of the Metro Area, Kowloon in particular, could help to reduce the time for commuting to work and address the mismatch of job and residence locations. While it will be unlikely that most workers would be able to find a job close to home, more employment opportunities on the Kowloon side could help to make better use of the “backflow” capacities in public transport.

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\(^8\) Including Hong Kong Island, Kowloon, Tsuen Wan, Kwai Chung and Tsing Yi.
Public views on office development pattern

24. While the community generally supports the concept of more jobs closer to places of residence, public comments received during the HK2030 Stage 3 consultation were rather diverse regarding the planning for prime office development. Some opined that in consideration of the advancement in telecommunications and the high operating cost in the CBD, the Government should set up new business development areas elsewhere and facilitate office decentralisation. Others however expressed support of concentration of prime office development around the existing CBD to leverage on agglomeration economies.

25. Despite the difficulties of expanding our existing CBD and the social costs (traffic congestion, air pollution and longer journeys to work) associated with its further intensification, we have been advised in various public consultations that decentralised office nodes could not totally replace the functions of the CBD. Besides, as indicated in our previous Study of the Impacts of Information Technology (IT) on Planning (2002), IT has not yet become a major influence on the choice of office location, although it could facilitate some office decentralisation, especially of back-office activities.

PLANNING STRATEGY

26. In the light of the above, we need to be very vigilant in planning for future office development – on the one hand, consolidating the existing CBD to enhance its supply of offices in terms of both quantity and quality; on the other hand, exploring opportunities for the development of a second prime-grade office node to facilitate decentralisation. This strategy may foster a filtering process to take place with “Super Grade A” offices staying mainly in the well-established CBD while some Grade A office premises will be found in high quality office nodes outside the CBD. Six objectives have been formulated to achieve this goal:
(a) To ensure adequate supply of Government land suitable for “Super Grade A” office development at the CBD;

(b) To strengthen the Quarry Bay office cluster through rezoning and area improvement, and to reserve land in Kai Tak for developing a high-quality office node outside the existing CBD in the longer term;

(c) To facilitate redevelopment by the private sector for production of Grade A office development;

(d) To encourage decentralisation of office activities to secondary office nodes at former industrial areas at the urban fringe;

(e) To free up spaces at private office buildings at the CBD currently occupied by Government uses; and

(f) To enhance public transport accessibility, emphasise high quality design and improve the public realm of the existing CBD;

27. The projected requirement of CBD Grade A offices from 2003 to 2030, as mentioned above, is 2.7 million m\(^2\) GFA. In working out a planning strategy for CBD Grade A offices, we shall uphold our commitments on harbour reclamation. While meeting all requirement for Grade A office space at the CBD may not be a desirable option in planning terms, decentralisation alone is neither able to fully satisfy the planning criteria of CBD Grade A offices both in terms of quantity and agglomeration requirement. We should therefore adopt a hybrid of both options in formulating the planning strategy for CBD Grade A offices.

28. The existing CBD could be reinforced through making use of the remaining undeveloped office sites, vacated Government, Institution or Community sites, or, where appropriate, freeing up space or land currently occupied by government offices to facilitate the provision of Grade A offices. Private-sector redevelopments within the CBD are also expected to contribute to the office supply.
29. In parallel, we note the continued development of up-market office space at Quarry Bay through private initiatives. This may well form an off-CBD office node that provides the kind of accommodation comparable to Grade A offices within the CBD. This office node may appeal to those multi-national companies which do not necessarily need to remain at the CBD but would opt for high-grade office accommodation at a convenient location outside the CBD. Work on rezoning suitable sites for office use should continue, and at the same time, the overall environment of the district should be enhanced through area improvement.

30. Located at an important transportation hub with the convergence of three existing and planned railways, the West Kowloon Reclamation also provides good opportunities to be turned into another high-grade office cluster. In addition, we will plan for, in the medium to longer term, the development of a new office node at the former Kai Tak Airport site. Similar to Quarry Bay, this new office node may address the needs of some of the conventional CBD occupiers and could produce synergy with the neighbouring Kowloon Bay and Kwun Tong business districts currently undergoing transformation from their industrial origins. Figure 4 illustrates our proposed strategy for CBD Grade A offices.
31. In a nutshell, we believe that the supply in hand, including the known private projects in the CBD and Quarry Bay, will be sufficient to meet the office requirement at least for the next decade or so. Longer-term supply from government sources will continuously come on-stream upon resolution of such issues as urban design, traffic impacts and reprovisioning of existing uses. This supply is expected to be supplemented by further private redevelopments to be realised under the market mechanism.

PLANNING DEPARTMENT
OCTOBER 2007