

Guidebook to setting up an office in Hong Kong





The process of setting up or moving office can be complex, time-consuming and highly demanding. After human resources, real estate costs are the largest financial expenditure a company incurs.

As a result, those decisions taken when setting up an office are extremely important to the long term strength of a business.



Why appoint an advisor?

Appointing the right professional real estate advisor is one of the most important steps in navigating your way through a commercial property transaction. JLL's involvement will not only help identify the right opportunity and maximise the chances of securing the most favourable terms, but will ensure the process runs seamlessly.

Our goal is to work with new and existing clients to meet their occupational requirements and help take advantage of current and future market conditions. Our track record and commitment to deliver the best possible service is what sets us apart from our competitors.

The Hong Kong team has extensive knowledge and expertise on the commercial property market. Whether you are looking at serviced offices or require strategic real estate advice, we will tailor our approach according to your business needs.

Over 45 licensed professionals covering the Hong Kong and Kowloon markets bring a strategic, proactive leasing approach to your property needs and provide a hassle free solution, so that you can focus on your core business.

JLL is the most respected real estate consultancy firm in Hong Kong. Our property professionals are specialists in their field and cover each and every discipline, providing a full-service to our clients, including:



Office Leasing
Tenant Representation



Interior Fit-Out
Project Management
Design and Build



Workplace Utilisation Study



Market Leading Research

Office Market

Hong Kong’s Grade A office market covers approximately 99.5 million sq ft. Central, Admiralty and Sheung Wan – where finance and professional services firms have traditionally been located – accounts for around 24% of this supply.

Advances in public transport and infrastructure projects have acted as a catalyst in promoting the development of a number of alternative business districts such as Hong Kong East, Kowloon East and Kowloon West. These locations provide occupiers with suitable alternative office space that is more affordable and in many circumstances, more efficient and newer stock.

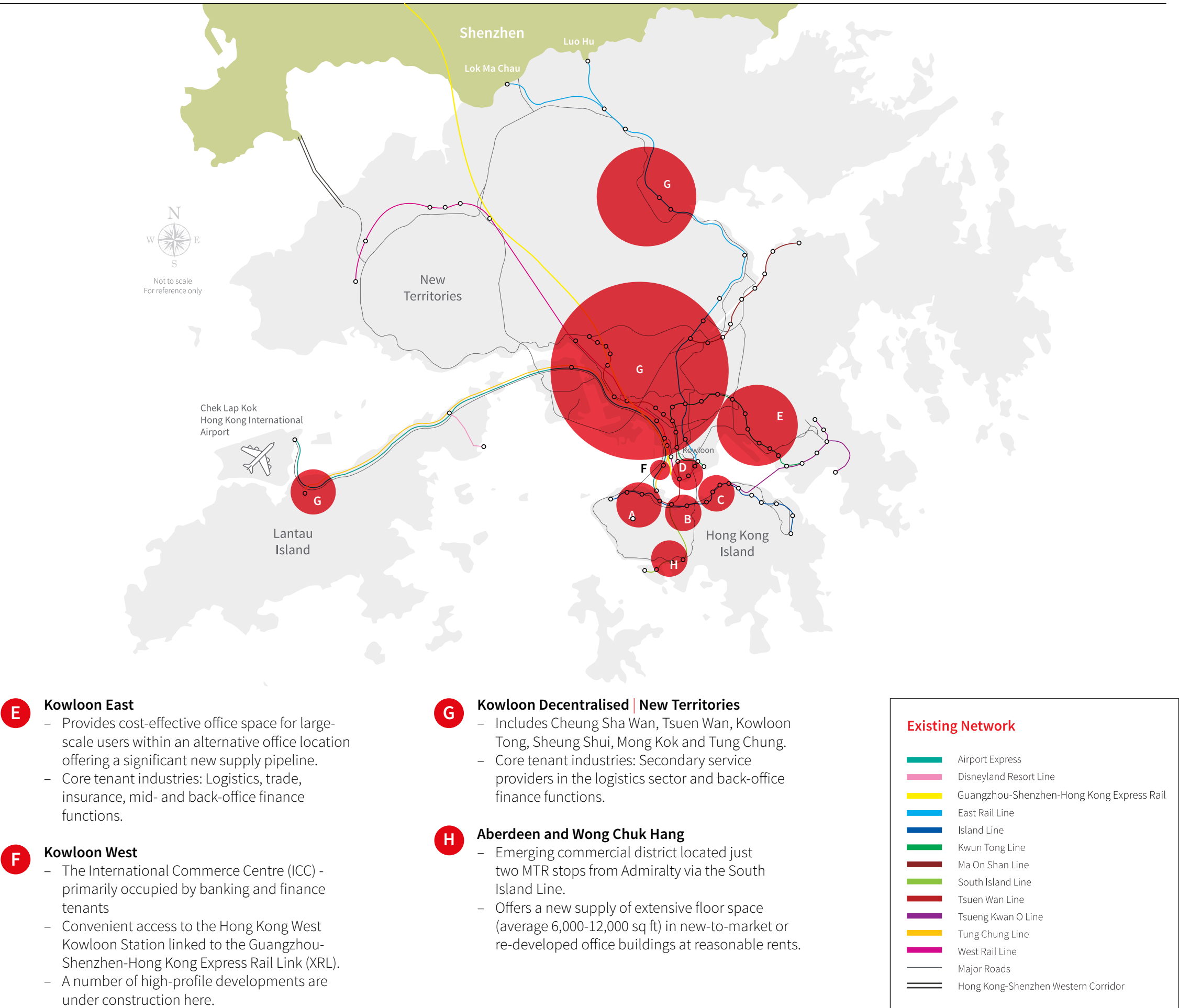
- A

Central | Sheung Wan | Admiralty
 - Commands the highest rents as Hong Kong’s traditional business hub.
 - Core tenant industries: Financial institutions, professional services firms, high-net-worth organisations.
 - PRC occupiers
- B

Wan Chai | Causeway Bay
 - Offers more economical real estate conveniently located 5-10 minutes from Central.
 - Popular with the service industries, technology, retail and insurance companies.
- C

Hong Kong East
 - High-quality, cost effective space in a vibrant office cluster.
 - Core tenant industries: professional services, finance and insurance, media, technology, luxury retail companies.
 - New by-pass shortens travel time to Central within 10 minutes.
- D

Tsim Sha Tsui (TST) | Hung Hom
 - Preferred location for merchandising and trading companies.
 - Easy access to the China Ferry Terminal and the Hong Kong West Kowloon Station connecting the city to the warehousing and the manufacturing base in South China.



Leasing Guidelines

The best approach to leasing office accommodation should focus on location, space, timing and budget. Rents and incentives in Hong Kong are constantly changing in line with market drivers. JLL can provide analytical and timing advice, setting out a list of suitable properties based on a specific requirement.



Location Preference

The location of an office is of paramount importance for operational efficiency and perception within the business community. Location can drive staff retention and productivity. It is important to address the demographics of staff, ensuring the office is easily accessible. Similarly, the availability of amenities and supporting facilities has been proven to reduce downtime and help increase productivity.

JLL can assist companies in this regard, by providing “sector” specific information on the market, which can then form part of the decision making process.



Space Requirements

The number of employees and the intended use of the space is crucial in determining the size of the proposed office. Similarly, factoring in growth expectations over the lease term (typically 36 months) will be important. If flexibility is required then serviced offices might be more suitable.

To assist in determining the configuration of the office, JLL can prepare indicative “test-fit” plans; illustrating how each short-listed office can be set out. These plans can then be tailored to meet the needs of the business and used to tender the cost of the works.



Timing

For companies looking to set up from abroad, there are a number of prerequisites a business will need to consider prior to committing to an office. Depending on the size of the business and type of accommodation required, the time required to set up an office takes between two weeks and six months—from initial conception through to formal occupation.



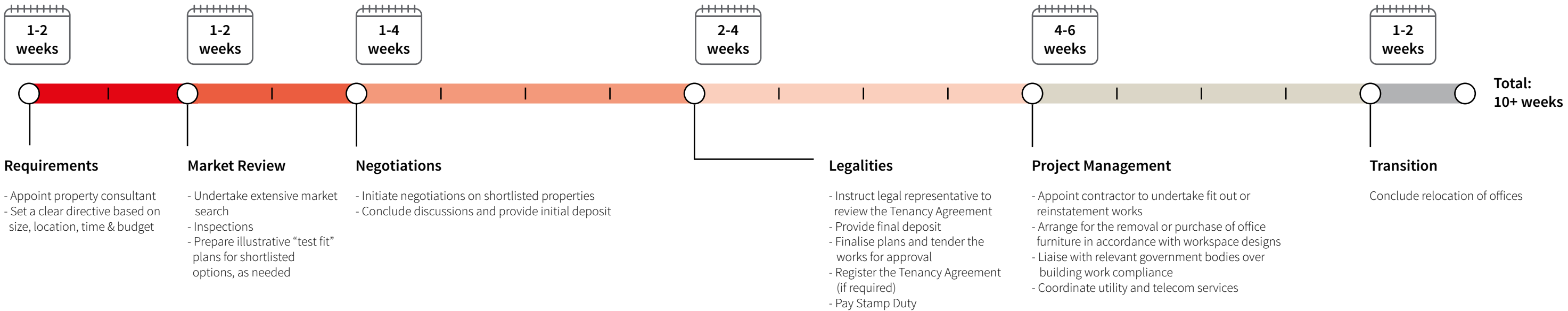
Financial Budget

Office rents in Central are amongst the highest in the world. Therefore a realistic budget, against locational preference, should be set as soon as possible. This will set the parameters for the office search and help manage costs throughout the process.

Occupiers are advised to act on the side of caution when comparing a list of properties for financial analysis, as landlords are not required to quote areas in a standardised form (see “Office Areas” – defined on page 8).

Indicative Timeline

Based on a 5,000 sq ft requirement



Landlords



Landlords in Hong Kong can be categorised as one of three types: Portfolio, Single Ownership & Strata-Title Landlords.

Portfolio Landlords

“Portfolio Landlords” represent a large proportion of the overall market, often owning clusters of buildings including a mixture of retail and commercial. Portfolio Landlords are generally involved in the development of the property or scheme. Most take responsibility for in-house building management.

Single Ownership

Typically held by private investors, institutions or larger organisations. The owners will frequently employ the services of a third party specialist to take care of the day-to-day running of the property.

Strata-Title

A small number of the office buildings in Hong Kong are held by way of a “strata-title” where various landlords own office suites or floors in a building. Similar to an apartment block, the communal areas of the property (including the exterior of the building) are usually managed by an external management company.



The process of acquiring space in a strata-title property is no different to any other commercial space. However, occupiers should be aware that any future expansion plans may be challenging. Sale and redevelopment clauses can also cause some concern in these buildings.

Office Grading

Office premises in Hong Kong vary considerably, from older small floor plate buildings, those built for immediate sale and those developed by Portfolio Landlords, brimming with the latest in technology and sustainability.

The Hong Kong office market is conventionally grouped into a number of classes according to a definition based on property quality that excludes consideration of location. Grade A is the highest generally recognised category followed by Grade B and Grade C, respectively.

While there are no set guidelines to govern which “Grade” an office premise affords, the following summary provides a generic approach adopted by JLL to classify Grade A office buildings into one of three quality tiers: Grade A1, Grade A2 and Grade A3. Grade A1 office buildings are effectively Premium Grade A offices and are typically the benchmark for excellence in terms of specification.

Grade A1



- Raised floor of at least 150 mm
- Backup power and redundancy to accommodate investment banking requirements
- Dual riser space
- Floor to ceiling height of at least 2.6 m
- Excellent vertical transportation
- Car parking provision

Grade A2



- Proactive upgrading and modernisation program
- Floor plate in excess of 6,000 sq ft net
- Good quality, planned, preventive maintenance program
- Easy access to public transport (MTR | taxis | buses)
- Close proximity to hotels, restaurants and retail
- Good vertical transportation

Grade A3



- Centralised air-conditioning system: delivered via floor or ceiling
- Chilled water supply for server room
- Floor plate in excess of 4,000 sq ft net
- Proximity to other businesses
- International property management standards
- Strong tenant mix



Co-working and Serviced Offices

For those companies considering an office in Hong Kong for the first time, it often requires a six month approach to focus on business strategy, understanding medium-term growth plans and where the business is best located. It is recommended that businesses consider temporary offices, so that companies can evaluate likely business growth requirements before taking on a traditional lease.

“Co-working” or “Serviced Offices” can provide an immediate occupation solution. Typically these providers can accommodate a range of office sizes, from one person and up to 200+ people, with use of shared services including meeting rooms, reception area, server room and breakout facilities.

In contrast to traditional leases, they can provide greater flexibility for those companies that are looking to set up quickly, need a short-term commitment and / or want to limit capital expenditure.



Generally, commitments range from 3-12 months. Terms are documented by way of a “Service Agreement” which sets out all the pertinent terms and conditions of the licence and is signed by both the provider and the occupier. JLL has a specialist Flex team who work with all the providers and can assist companies in this area.

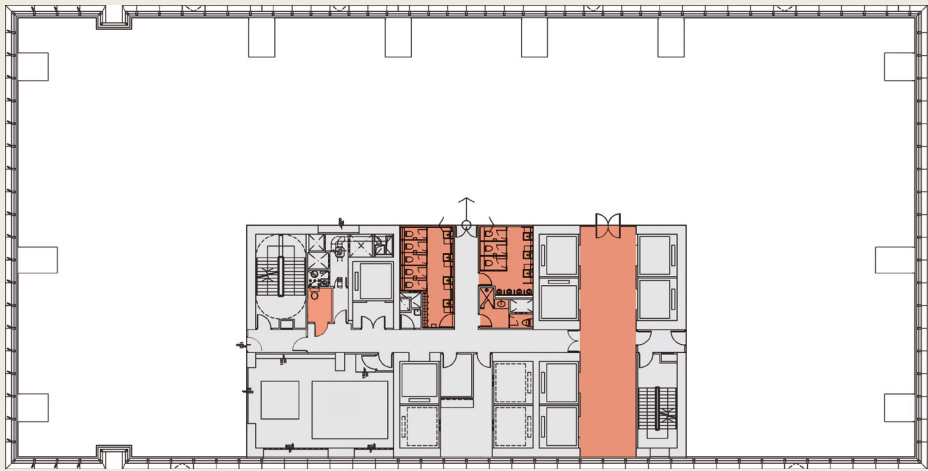


Office Areas Defined



Tenants should take care in confirming the true usable area of potential office space to ensure they can compare the associated costs on a like-for-like basis.

The following is a summary of the definitions advised by the Hong Kong Institute of Surveyors (HKIS).



Gross Area

Approx. 70% to 75% efficient

Includes all areas within the external walls at each floor level and the whole thickness of the external walls.

Included

- ✓ Toilets
- ✓ Columns
- ✓ Service corridors
- ✓ Fire staircases
- ✓ Lift lobbies | Fire staircase lobbies
- ✓ Plant rooms | Service rooms
- ✓ All internal and external walls
- ✓ Lift shafts

Excluded

- ✗ Mechanical | Electrical service rooms
- ✗ Refuse rooms
- ✗ Water tanks
- ✗ Car parking floors



Lettable Area

Approx. 80% to 95% efficient

Includes toilets and lift lobbies but excludes lift shafts, plant rooms and fire staircases.

Included

- ✓ Toilets
- ✓ Columns
- ✓ Lift lobbies
- ✓ Service corridors

Further Excluded (to Gross)

- ✗ Plant rooms | Service rooms
- ✗ Fire staircases
- ✗ Fire staircase lobbies
- ✗ Lift shafts



Net Area

Approx. 100% efficient

Is the usable (carpetable) area within the unit and excludes common areas such as toilets.

Included

- ✓ Lift lobbies (only applicable to whole floor tenants)
- ✓ Columns

Further Excluded (to Gross and Lettable)

- ✗ Toilets
- ✗ Service corridors
- ✗ Fire staircases
- ✗ Fire staircase lobbies
- ✗ Plant rooms | Service rooms
- ✗ Lift shafts


Note: For reference only. Tenants should verify the Net Area with their respective consultants or advisors.

Terms and Conditions

| | | | |
|---|--|-------------------------------------|--|
| Lease Term | Lease terms in Hong Kong are typically for three years, although variations are negotiable. | Management Fee | Payable monthly in advance and based on the leased area. Management charges generally include air conditioning, building security, lift maintenance and common area cleaning. (Subject to revision by the management company.) |
| Security Deposits | Tenants are required to pay a security deposit equivalent to 3-6 months' rent, service charges and one quarter's government rates. | Government Rates and Rent | Government rates and rent are payable quarterly in advance and are calculated at 5% and 3% respectively of the rateable value of the property. Government rent is usually borne by the landlord. |
| Rent | Rent is payable monthly in advance. Rents are quoted in Hong Kong dollars (HK\$) per square foot, per month and are calculated with reference to the leased area as defined by the landlord. The rent is exclusive of management fees and is typically fixed for the term of the lease or until the agreed rent review date. | Stamp Duty | Stamp duty is borne by the landlord and the tenant in equal shares. The prevailing rate ranges in line with the lease term (see page 12). |
| Utilities | Electricity and telephone charges are separately metered and paid directly by the tenant. Water rates are charged to the landlord and passed onto the tenant. | Reinstatement Provisions | A reinstatement provision is common place in most Hong Kong leases. The tenant is required to hand the premises back to the landlord at the expiration of the term, in a bare shell or standard landlord handover condition. |
| Insurance | The tenant will need to take out sufficient insurance to protect themselves against third party liabilities (including fire and flooding). | Sale or Redevelopment Clause | Changes of ownership or plans to redevelop the site on which the subject premises is located can trigger the landlord's rights to take back possession of the leased premises. It is advised occupiers seek appropriate legal advice in this regard. |
| Rent Free | Landlords typically offer a rent free period (for a new letting), to allow the tenant time to fit out the premises. The length of the rent free period is negotiable and varies by landlord and the area of the premises in question. | Rent Reviews | It is customary for longer leases to incorporate a 'Rent Review' at the expiry of the 3rd year. Rent is normally reviewed to the prevailing open market level, the definition of which will vary from lease to lease. |
| Sub-Letting, Alienation and Early Termination Rights | Sub-letting rights are prohibited under most agreements and where they are permissible, are subject to approval by the landlord. Similarly, assignment of the lease and early termination are usually non-negotiable. | Option to Renew | Options to renew may be considered subject to market conditions and landlords; however, are usually only negotiable on 5,000+ sq ft requirements. |
| | | Fit-out Subsidies | Capital contributions for fit-outs are generally not open for negotiation. |


Associated Costs





Fit-out Costs


Possession of the premises is normally provided in “bare shell” condition. Costs associated with fitting out the space will be borne by the tenant.



Stamp Duty (Ad Valorum Tax)

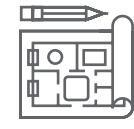
At the commencement of 2014 the following Stamp Duty rates apply and are payable upon execution of the lease:

- 0.25% of the average annual rent / lease term 1 year or less
- 0.5% of the average annual rent / lease term 1-3 years
- 1% of the average annual rent / lease term of 3+ years




Reinstatement

Tenants are obliged to re-instate their premises before the expiration of the tenancy at their own cost.




Vetting Fees

The landlord will charge a fee for the vetting and approval of layout plans, together with a management charge for works in progress.




Legal Fees

Each party will bear their own legal costs in the negotiation and execution of the lease and any further documentation required.



Agency Fees

If the tenant enters into a commitment with a new landlord, that landlord will pay the agent a fee; which is normally one month of the new rent.



Government Rates and Rent

Government Rates are normally levied on the landlord who recovers the charge from the tenant. In some cases the tenant may be charged directly. They are currently levied at 5% of the rateable value.

Government Rent is payable by the Government lessee levied at 3% rateable value. Some owners pass this charge onto the tenant. The rateable value of the premises is the estimated monthly rent payable calculated by the Government. (www.rvd.gov.hk)

Workplace Strategy

Extracting the real value from every square foot means looking beyond spatial efficiency to create people-centric spaces.

Our JLL Consulting team focuses on the processes, systems and technologies required to support this, and the resulting organisational culture, behaviours and symbols that need to be recognised and proactively aligned. We employ an inclusive action research approach to define solutions that engage individuals and teams, enhance organisational work, and inspire imaginative environments. This approach provides a process to ensure that your transition to a new workplace is effective and enduring.

| | | | | |
|---|----------|------------|--|---|
|  | Initiate | Activities | <ul style="list-style-type: none">- Existing data review- Kickoff meeting- Site Tour | <ul style="list-style-type: none">- Visioning session- Floor plan analysis- Weekly project updates |
|  | Discover | | <ul style="list-style-type: none">- Leadership interviews- Functional group interviews- Workplace Experience Survey (WES)- Badge swipe analysis | <ul style="list-style-type: none">- Workplace Utilisation Study (WUS)- Focus groups- Field study- Benchmarking |
|  | Create | | <ul style="list-style-type: none">- Workplace Utilisation Study (WUS)- Workplace Experience Surveys- Leadership Interviews | <ul style="list-style-type: none">- Leadership Visioning Session- Staff Focus Groups |



Project Management

Our Project and Development Services team has been working with real estate owners, tenants and investors in Asia Pacific since 1981. Whether clients are looking to fit out an office or build a new facility, we can manage the design and construction of real estate projects from beginning to end, handling every detail on their behalf.

With over 130 specialists in Greater China, supported by a truly transparent global delivery platform, our professionals excel at interior fit-outs, move management, capital improvements, development management and advisory, technical due diligence and design-and-construct development.

A team of 35 project management professionals in Hong Kong. Undertook 186 assignments across the region, ranging from 5,000 to 200,000 sq ft. The team worked with more than 120 clients across Hong Kong in 2018, fitting out more than 500,000 sq.ft. of commercial space in Hong Kong and completing all projects to strict cost and quality parameters.

Our value added services:

- Rapid response **space analysis** and **test fits** to quickly assess options with your CRE team
- **Due diligence** service pre-commitment to ensure your interests are fully protected
- **Sensitive stakeholder management**, accustomed to dealing with multiple local and international stakeholders and securing alignment
- **Open book procurement** in conjunction with our clients, driving strict governance and best value through competition
- **Turnkey solution** available, resulting in minimal client administration
- **Extensive experience** in working in buildings owned by all major Hong Kong landlords, resulting in total understanding of their requirements and procedures
- Ability to **negotiate** and **purchase** discounts across suppliers
- Pre-qualified bench of **Interior Design** and other consultants enables rapid assembly of professional team
- **Holistic Project Management** of the entire design and construction process, including Cost Management and Value Engineering
- **Move management** to ensure smooth transition and no disruption of your business
- Secure, **cloud based operations and reporting platform**, allowing real time client access to all project details and documents
- **Consistent global standards** underpinned by advanced, growing technology



We have the right people, resources, and long-term commitment to deliver valuable solutions with high levels of service and expertise.

Contact us



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