



APRIL 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

JAPAN DISASTERS FUEL HK OFFICE MARKET

While the recent disasters in Japan hurt sentiment in the local residential market, the Grade-A office market found demand further boosted by Japanese finance corporations looking to relocate operations to Hong Kong. According to the Immigration Department, more than 270 professionals from Japan have been given Hong Kong work visas since the earthquake, while more applications are pending approval. One Japanese investment bank, for example, ceased efforts to find a replacement tenant for its existing premium office in Central and switched to looking for expansion within the district.

Leasing activity in CBD remained robust during the month. One landmark transaction involved Mainland bank ICBC, which leased a whole floor in Citibank Plaza in Central totaling 34,000 sq ft. Meanwhile, a mid-floor, 2,000-sq-ft unit in Central's Exchange Square was taken up by a Mainland property firm and a securities firm committed to a 10,700-sq-ft floor in Admiralty Centre in Admiralty. With offices being rapidly absorbed, only a handful of large floor plates remained available in Hong

Kong's Grade-A office buildings and spaces about to be vacated had been under multiple offers.

With vacancies continuing to vaporise and demand showing no signs of abating, landlords had been reluctant to close deals early. Limited availability and high rents had forced tenants to the other side of the harbour. One French investment bank, for instance, decided to move its office from Two Pacific Place in Admiralty to a one-and-a-half-floor space in International Commerce Centre in Tsim Sha Tsui, totaling around 50,000 sq ft.

Having gained the upper hand, landlords continued to raise asking rents markedly, particular in CBD. Hong Kong's average Grade-A office rent surged another 6.5% last month—the largest month-on-month growth since December 2007. Wan Chai led the market, where rents rose 10.5% during the month, followed by Traditional Central and Sheung Wan, where rents grew 9.7% and 6.7%, respectively. Most major business districts on Hong Kong Island registered rental growth of over 5% during the month.

Office sales maintained its momentum in March, with about 420 deals being closed and total transaction value reaching over HK\$8 billion. The market continued to see notable transactions: a whole floor in Nine Queen's Road Central in Central was reportedly sold for about HK\$382 million or HK\$27,800 per sq ft, making it the most expensive Grade-A office in Hong Kong. Meanwhile, a high-floor unit in World-Wide House in Central was reportedly sold for about HK\$85.8 million or HK\$24,500 per sq ft and a mid-floor unit in Admiralty Centre in Admiralty for HK\$88.7 million or HK\$15,500 per sq ft—the highest per-sq-ft prices ever achieved in those buildings. One Island South in Wong Chuk Hang had reportedly sold about 90% of its new space within two months.

Growth in Grade-A office prices accelerated to 3.1% last month—the highest month-on-month increase since March 2010. Causeway Bay led the market, where prices grew 6.3%, followed by Admiralty and Wan Chai, where prices rose 4.2% and 3.5%, respectively. The average Grade-A office price gained 7.8% in the first three months of this year, after surging 21.2% in 2010.

Looking forward, leasing transactions of Grade-A office space are expected to slow amid limited availability and a widening gap between asking and bidding rents for remaining space. Even tenants with high affordability, such as financial firms, have started to feel the pain of soaring office rents and become more cautious of committing to leases.

However, demand for Grade-A offices is expected to remain vibrant. The supply shortage is unlikely to ease until major tenants in CBD free up space upon relocation. Landlords will remain on the upside on the negotiation table, with flexibility in rental terms continuing to be squeezed. We expect the market imbalance to continue for the rest of the year and maintain our forecast of a 20–30% rental growth throughout 2011.



Prime office report

Hong Kong's inflation rate rose to 3.7% in February 2011—a new high over the last 30 months.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q4 2010	+6.2%#	-2.7%	+6.8%	+4.7%
Inflation rate	February 2011	+3.7%	+0.5%	+2.4%	+2.9%
Unemployment	Three months to February 2011	3.6%#	5.4%	4.3%^	4.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank
 ^ Estimate # Provisional * HSBC prime lending rate

The average Grade-A office rent surged another 6.5% last month—the largest month-on-month growth since December 2007.

Table 2 Prime office market indicators—March 2011								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Feb 11	From Dec 10	From Mar 10	HK\$psf	From Feb 11	From Dec 10	From Mar 10
Premium Central	178.6	6.0%	12.4%	39.1%	n/a	n/a	n/a	n/a
Traditional Central	132.4	9.7%	22.9%	61.4%	22,002	3.0%	10.1%	36.3%
Admiralty	88.8	6.5%	16.3%	45.0%	16,569	4.2%	9.0%	17.4%
Sheung Wan	57.9	6.7%	15.9%	40.0%	14,200	1.6%	4.2%	7.9%
Wan Chai	58.5	10.5%	20.9%	50.9%	12,498	3.5%	13.7%	25.0%
Causeway Bay	60.4	4.6%	12.7%	63.8%	13,186	6.3%	7.2%	28.9%
North Point	32.7	5.1%	14.9%	40.0%	n/a	n/a	n/a	n/a
Quarry Bay	47.5	3.9%	14.7%	47.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	40.5	2.7%	8.6%	25.5%	9,994	1.2%	3.5%	6.1%
Cheung Sha Wan	19.6	4.9%	4.9%	15.3%	n/a	n/a	n/a	n/a
Hung Hom	23.8	0.0%	1.5%	7.4%	n/a	n/a	n/a	n/a
Kowloon East	28.1	2.0%	8.0%	43.6%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	42.9	2.1%	3.7%	18.8%	n/a	n/a	n/a	n/a

Source: Knight Frank
 Rents and prices are subject to revision.



With offices being rapidly absorbed, only a handful of large floor plates remained available in Grade-A office buildings.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Admiralty	Admiralty Centre	11/F	10,600	A Mainland bank
Admiralty	Admiralty Centre	16/F	10,700	A securities firm
Central	Citibank Plaza	37/F	34,000	ICBC
Central	Exchange Square	Mid floor unit	2,000	A Chinese property firm
Tsim Sha Tsui	International Commerce Centre	One and a half floors	50,000	Natixis

Source: Knight Frank
Note: All transactions are subject to confirmation.

Office sales maintained its momentum in March, with a number of record-breaking transactions being registered.

Table 4 Selected office sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Nine Queen's Road Central	20/F	13,743	\$382.05	\$27,800
Admiralty	Far East Finance Centre	17/F	10,800	\$275	\$25,463
Central	World-Wide House	21/F / unit 1	3,503	\$85.82	\$24,500
Admiralty	Lippo Centre	Tower 2 / 13/F / unit 9	1,060	\$18.13	\$17,100
Admiralty	Lippo Centre	Tower 2 / 6/F / units 13 and 15	2,469	\$40	\$16,200
Wan Chai	Convention Plaza Office Tower	14/F / units 8–9	4,411	\$70.58	\$16,000

Source: Economic Property Research Centre / Knight Frank
Note: All transactions are subject to confirmation.

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Hong Kong contacts

Alan Child

Executive Chairman
T: (+852) 2846 9522
E: alan.child@hk.knightfrank.com

Mark Bernard

Executive Director
Commercial Agency
T: (+852) 2846 4811
E: mark.bernard@hk.knightfrank.com

Thomas Lam

Director, Head of Research
Research Department
T: (+852) 2846 4819
E: thomas.lam@hk.knightfrank.com

Pamela Tsui

Manager
Research Department
T: (+852) 2846 4843
E: pamela.tsui@hk.knightfrank.com

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