



AUGUST 2010

HONG KONG
PRIME OFFICE

Monthly Report

Knight Frank 萊坊

CORPORATE FIRMS EXPAND AGGRESSIVELY

After a three-month consolidation period, Grade-A office sales rebounded over 40% in July to total over 300 deals—the highest level since February 2008. A notable en-bloc transaction this past month involved 88 Gloucester Road in Wan Chai, which was sold by a Singapore investment fund for about HK\$1 billion or HK\$10,460 per sq ft. It was the fourth transaction worth over HK\$1 billion so far this year, underscoring the red-hot office-acquisition market.

Other landmark transactions included a 1,440-sq-ft unit in Shun Tak Centre (West Wing) in Sheung Wan, which was sold for HK\$22.8 million or HK\$15,800 per sq ft—a record high for the office building on a per sq ft basis. Meanwhile, a whole floor in Cosco Tower in Sheung Wan changed hands for HK\$287 million or HK\$14,533 per sq ft. Some property investors were able to make quick, handsome profits through confirmor deals, amid a rapidly rising market. For example, a unit in Wing On House in Central changed hands for HK\$9,831 per sq ft, a month after it was bought for HK\$8,685 per sq ft.



Grade-A office prices rebounded 2.9% after a 3.8% correction over the previous three months and all districts recorded growth. Sheung Wan led the market with a price growth of 4.6% with robust sales activity, followed by 4.0% in Causeway Bay and 3.3% in Wanchai. Office prices in some districts were becoming increasingly close to the high levels recorded before the onset of the recent global financial crisis. For example, the average price in Causeway Bay had become only 2.2% lower than its 2008 peak.

On the leasing front, the market was taken aback by the aggressive expansion plans of some corporate firms. Many eye-catching deals were recorded this past month, including Jardine Engineering's lease of 70,000 sq ft of space in Manulife Financial Centre, Kwun Tong; an accounting firm which committed to about 130,000 sq ft of office space in Citic Tower, Admiralty and a financial company which took up more than 100,000 sq ft of space in Three Exchange Square, Central. In Tower Two of Landmark East, Kwun Tong, a whole floor of about 20,000 sq ft was taken by a telecommunications company, while a 9,000-sq-ft unit was taken by Francfranc, a home furniture store.

Limited availability pushed tenants to make early pre-let commitments. A beauty salon committed to three whole, soon-to-be-vacated floors in Times Square, Causeway Bay, totalling 50,000 sq ft. In Central, a financial institution, having taken three whole floors in One IFC last month, committed to another one-and-a-half floors in Two IFC, which will not be vacated until mid 2011. Other pre-let deals in the district involving substantial amounts of office space are likely to be concluded soon.

Amid robust office demand, rents rose an average of 3.0% last month—the fastest month-on-month growth since April 2008. Sheung Wan led the Grade-A office market, with rents growing 5.2%, followed by 4.8% in Causeway Bay and 4.6% in Premium Central. Tsim Sha Tsui was not far behind, with rents rising 3.2%—the largest month-on-month increase in the district in the past seven months.

Vacancy rates in most office districts continued to edge down. The most significant improvement was seen in Causeway Bay, where the vacancy rate dropped from 6.7% in March to 4.1% in July, followed by North Point and Tsim Sha Tsui, where rates fell 1.8% and 0.7% respectively during the same period.

With developed economies stagnating, some multinational corporations decided to relocate their operations and executives to Hong Kong in a bid to capitalise on the robust growth in Mainland China. The fast absorption of prime office space in Hong Kong underscores this trend. With office-space availability decreasing, landlords are likely to raise their asking rents aggressively in the near future and the office rental market is expected to witness strong growth over the next 12-18 months.



Prime office report

Some multinational corporations decided to relocate their main operations to Hong Kong, to capitalise on the robust growth in Mainland China.

Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q2 2010	+6.5%#	+2.4%	-2.7%	+4.5%
Inflation rate	June 2010	+2.8%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to June 2010	4.6%#	3.6%	5.4%	4.0%
Prime lending rate	Current	5.00–5.25%	5.3%*	5.0%*	5.0%*

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

Amid robust office demand, rents rose 3.0% last month—the fastest month-on-month growth since April 2008.

District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Jun 10	From Apr 10	From Jul 09	HK\$psf	From Jun 10	From Apr 10	From Jul 09
Premium Central	138.3	4.6%	6.6%	41.9%	n/a	n/a	n/a	n/a
Traditional Central	88.0	2.0%	5.7%	15.4%	16,028	1.0%	0.3%	20.9%
Admiralty	64.7	2.4%	6.4%	14.9%	13,784	2.1%	1.2%	25.3%
Sheung Wan	47.8	5.2%	13.2%	22.6%	13,063	4.6%	2.7%	26.7%
Wan Chai	42.5	2.5%	8.4%	15.4%	10,472	4.0%	3.9%	20.0%
Causeway Bay	40.7	4.8%	6.8%	10.2%	10,472	1.5%	-1.6%	17.4%
North Point	24.0	-1.2%	0.6%	16.3%	n/a	n/a	n/a	n/a
Quarry Bay	34.4	1.9%	3.6%	7.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	33.5	3.2%	2.0%	14.5%	9,138	2.4%	0.3%	20.8%
Cheung Sha Wan	17.9	5.4%	5.4%	27.0%	n/a	n/a	n/a	n/a
Hung Hom	23.1	4.3%	4.3%	29.5%	n/a	n/a	n/a	n/a
Kowloon East	21.1	3.3%	4.8%	22.7%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	36.0	0.0%	-0.7%	19.1%	n/a	n/a	n/a	n/a

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



The market was taken aback by the aggressive expansion plans of many corporate firms. Moreover, limited availability pushed tenants to make early pre-let commitments.

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Causeway Bay	Times Square	3 floors	50,000	A beauty salon
Central	Three Exchange Square	n/a	More than 100,000	A financial institution
Central	Two IFC	One-and-a-half floors	n/a	A financial institution
Kwun Tong	Landmark East	Tower 2 / 33/F	20,000	Elite
Kwun Tong	Landmark East	Tower 2 unit	9,000	Francfranc
Kwun Tong	Manulife Financial Centre	5–6/F and part of 7/F	70,000	Jardine Engineering Corporation

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

Grade-A office sales rebounded over 40% in July to over 300 deals—the highest level since February 2008.

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Wan Chai	88 Gloucester Road	En bloc	95,600	About 1,000	10,460
Sheung Wan	Cosco Tower	37/F	19,745	274.46	13,900
Admiralty	Bank of America Tower	High floor / unit 2	3,826	65.04	17,000
Sheung Wan	Shun Tak Centre West Wing	13/F / unit 10	1,440	22.75	15,799
Admiralty	Lippo Centre	Tower 2 / 36/F / unit 4	2,412	34.97	14,500
Sheung Wan	Shun Tak Centre West Wing	21/F / unit 7	2,560	35.2	13,750

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

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