



DECEMBER 2010 HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE TENANTS INCREASINGLY SQUEEZED

Last month was a difficult time for companies seeking office space for expansion or relocation in Hong Kong, as there was keen competition among potential tenants for a limited amount of available office spaces. Amid decreasing vacancies, the leasing market was relatively quiet, with only a few small deals being concluded.

One major transaction over the past month involved a property consultant, which took up two floors in Three Pacific Place in Wan Chai, totaling 30,000 sq ft. Other transactions involved smaller floor plates: a 1,400-sq-ft mid-floor unit in Shun Tak Centre West Wing in Sheung Wan was leased, while a 1,900-sq-ft mid-floor unit in East Point Centre in Causeway Bay was taken up for about HK\$39 per sq ft per month.



Some landlords revised upwards their asking rents aggressively, leading to a surge in office rents of 5.1% over the past month. Kowloon East saw a 9.4% month-on-month rental increment, the largest gain among all districts, followed by 9.3% in Causeway Bay and 7.9% in Quarry Bay. Certain major landlords in Causeway Bay and Kowloon East raised their asking rents by at least 20% compared with three months earlier.

Amid excess demand, landlords could increasingly get offers from more than one potential tenant. In the hope of securing even higher rental income, certain landlords of strata-titled buildings refused to negotiate lease renewal terms with their existing tenants three to four months before lease expiry—a rare market phenomenon that occurs only when the market is extremely tight. Under normal circumstances, potential tenants of large floor plates are often able to secure lower unit rents at bulk discounts. However, with the availability of large office spaces evaporating, such discounts have been narrowing.

Despite rapidly rising rents, Knight Frank's commercial agents witnessed keen interests from both expanding foreign and indigenous corporations. In addition to the office demand from a number of newly established hedge funds, some commercial banks increased headcounts in their Treasury operations, in a bid to capitalise on the expanding offshore RMB business in Hong Kong.

Over the past few months, a number of companies decided to relocate to far larger office spaces. Examples include Ernst & Young which would move from a 60,000-sq-ft office in Two IFC in Central to a 150,000-sq-ft space in Citic Tower in Admiralty and Daiwa Capital Markets which took up an additional floor in One Pacific Place in Admiralty last month, after taking up part of a floor in the same building a few months ago.

In the sales market, the average price of Grade-A offices continued to edge up, albeit at a slower rate than rental growth. Central saw the greatest price gain of 4.5%, followed by 3.8% in Causeway Bay. Prices in other districts remained relatively stable. A landmark deal in the past month involved a high-floor unit in Bank of America Tower in Admiralty, which reportedly changed hands for HK\$31.9 million or HK\$24,500 per sq ft—the highest per-sq-ft price ever recorded in the building.

It appears that the government's latest tightening measures, including lowering the loan-to-value ratios for all industrial and commercial properties, have had no significant impact on the office market. About 430 office sales transactions were registered last month, representing a surge of over 60% from October and the highest level since January 2008. As the Special Stamp Duty targets only residential properties, some investors shifted their focus to the office market, targeting Grade-B offices in particular.

With economic recovery taking hold in Hong Kong, the intention to expand of local companies is expected to remain strong. Coupled with limited new supply, excessive demand for quality offices is likely to be sustained in the foreseeable future. Companies looking to expand will need to make early commitments to avoid being further squeezed in an increasingly tight market.



Prime office report

As the Special Stamp Duty targets only residential property, some investors have shifted their focus to the office market.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q3 2010	+6.8%#	+2.4%	-2.7%	+4.5%
Inflation rate	October 2010	+2.6%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to October 2010	4.2%#	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

Some landlords raised asking rents aggressively, leading to a surge in average office rents.

Table 2 Prime office market indicators—Nov 2010								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Oct 10	From Aug 10	From Nov 09	HK\$psf	From Oct 10	From Aug 10	From Nov 09
Premium Central	156.6	6.8%	11.0%	42.6%	N/a	n/a	n/a	n/a
Traditional Central	103.4	3.9%	9.1%	34.2%	19,077	4.5%	15.7%	32.3%
Admiralty	74.6	3.7%	12.2%	29.1%	14,820	1.0%	6.5%	22.5%
Sheung Wan	49.1	0.0%	2.7%	25.1%	13,523	0.8%	1.9%	16.7%
Wan Chai	47.9	5.1%	11.3%	29.0%	10,867	1.2%	4.9%	13.5%
Causeway Bay	50.2	9.3%	16.1%	39.9%	11,655	3.8%	9.1%	18.2%
North Point	27.2	3.8%	12.3%	24.1%	n/a	n/a	n/a	n/a
Quarry Bay	40.6	7.9%	16.7%	28.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	37.1	2.2%	7.9%	23.9%	9,520	1.2%	3.4%	8.1%
Cheung Sha Wan	18.7	2.9%	2.9%	30.2%	n/a	n/a	n/a	n/a
Hung Hom	23.5	0.0%	1.5%	22.5%	n/a	n/a	n/a	n/a
Kowloon East	25.3	9.4%	13.1%	37.7%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	40.0	6.0%	9.6%	19.4%	n/a	n/a	n/a	n/a

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



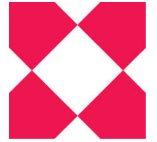
Amid decreasing vacancies, the leasing market was quiet over the past month.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Wan Chai	Three Pacific Place	Two low floors	29,900	A property consultant
Admiralty	Two Pacific Place	One floor	Over 22,000	Daiwa Capital Markets
Causeway Bay	East Point Centre	Mid floor / unit 13	1,860	n/a
Sheung Wan	Shun Tak Centre	Mid floor / unit 3	1,354	n/a
Source: Knight Frank Note: All transactions are subject to confirmation.				

About 430 office sales transactions were registered last month, representing a surge of over 60% from October, and the highest level since January 2008.

Table 4 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	Bank of America Tower	31/F	13,880	\$283	\$20,389
Admiralty	Bank of America Tower	19/F / units 8–11	5,390	\$112.11	\$20,800
Admiralty	Lippo Centre	Tower 2 / 38/F	15,331	\$300	\$19,568
Admiralty	Lippo Centre	Tower 1 / 25/F / unit 2	1,784	\$30.86	\$17,298
Sheung Wan	Shun Tak Centre West Wing	17/F / unit 6	2,013	\$31	\$15,400
Admiralty	Admiralty Centre	Tower 1 / 13/F / unit 3	6,275	\$88.67	\$14,131
Source: Economic Property Research Centre / Knight Frank Note: All transactions are subject to confirmation.					

RESEARCH



Americas

USA
Bermuda
Brazil
Caribbean
Australasia
Australia
New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand

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

Xavier Wong

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

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers and investors, as well as financial and corporate institutions. All recognise the need for the provision of expert independent advice, customised to their specific needs.

Our worldwide research reports are also available at www.knightfrank.com.

© Knight Frank 2010

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.