



FEBRUARY 2010

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

PREMIUM CENTRAL LEADS THE MARKET

Hong Kong's office sales market remained robust over the past month. About 250 sales transactions were registered in January—the eighth consecutive month to record over 200 deals. Sales were particularly active in Admiralty, where several record-breaking transactions were concluded. A unit in Far East Finance Centre, for example, was sold for HK\$57 million or HK\$22,800 per sq ft—a new high in the district.

Although there were few transactions involving large floor plates over the past month, the growth in prices accelerated compared with the previous three months. The average price of Grade-A offices increased 2.8% in January, with most districts experiencing notable price gains. Prices rose the most in Admiralty—by 3.9%—followed by 3.5% in Tsim Sha Tsui and 3.0% in Sheung Wan.

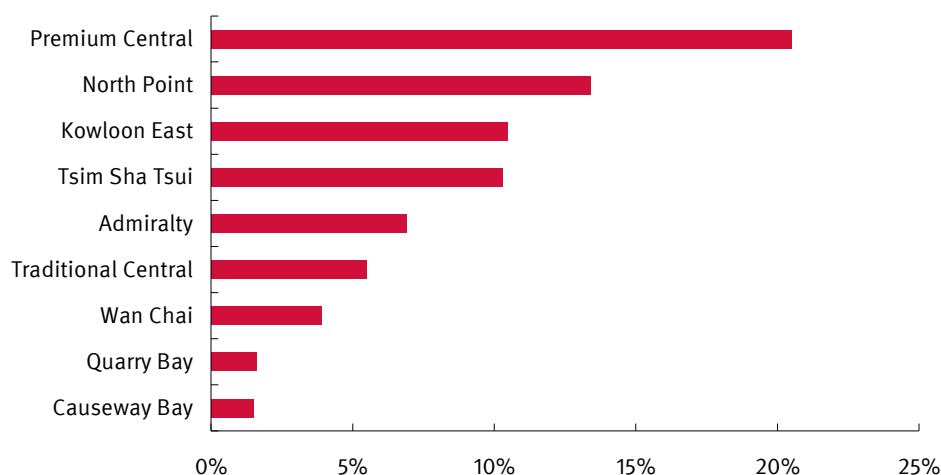


In the leasing sector, activity revived after the Christmas and New Year holidays. Demand from the financial sector was strong, particularly for premium Grade-A offices in Central. Four major leasing deals were completed in Exchange Square in Central over the past month, including an entire 13,000-sq-ft floor taken by Essence, a Chinese brokerage house. RBS leased an additional 3,000 sq ft of space on the 15/F of Cheung Kong Center in Central, while a local securities house reportedly committed to six floors in a key office building in Causeway Bay, totalling 90,000 sq ft.

The market continued to see companies relocate from Tsim Sha Tsui to Kowloon East. A major transaction involved engineering consultancy Mott MacDonald, which moved from New World Centre in Tsim Sha Tsui to Tower 2 of Landmark East in Kwun Tong, taking up one-and-a-half floors totalling 40,000 sq ft. Meanwhile, Japanese firm Kaga Electronics moved its Tsim Sha Tsui office to a 20,000-sq-ft space in Manhattan Place, Kowloon Bay, and after months of negotiation, insurance giant AIA took five floors of Landmark East in Kwun Tong, totalling around 100,000 sq ft.

'Premium Central' continued to lead the Hong Kong Grade-A office market, with rent levels growing 4.0% over the past month. By the end of January, the average rent in the prime district had rebounded a spectacular 20.5% from the trough in mid-2009. With a rising number of companies moving to premium buildings in Central, of which availability is limited, Central landlords were demonstrating less flexibility at the negotiation table. However, as many industries are yet to benefit from the nascent recovery, rent growth in less prestigious business districts lagged behind.

Office rental rebound from the trough in 2009



Source: Knight Frank

Looking forward, office demand from the financial sector is likely to further strengthen, intensifying competition for office space in the Central Business District. 'Premium Central' is likely to continue its leading role in the market recovery and we maintain our view that the average rent of Grade-A offices in Hong Kong will rise by 15% this year.



Prime office report

The sovereign debt crisis in Europe and whether it can be swiftly solved has major implications on the local economy.

Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q3 2009	-2.4#	2.4%	-3.3%^	3.5%
Inflation rate	December 2009	+1.3%	4.3%	0.5%	1.5%
Unemployment	Three months to December 2009	4.9%#	3.6%	5.2%^	4.7%
Prime lending rate	Current	5.00–5.25%	5.3%*	5.0%*	5.0%*

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

'Premium Central' continued to lead the Grade-A office market, recording the fastest growth in rent levels.

District	Net effective rent		Change		Price HK\$psf	Change		
	HK\$psf /mth	From Dec 09	From Oct 09	From Jan 09		From Dec 09	From Oct 09	From Jan 09
Premium Central	117.4	4.0%	12.4%	-16.6%	n/a	n/a	n/a	n/a
Traditional Central	78.8	0.6%	4.1%	-21.3%	14,847	2.0%	3.0%	54.6%
Admiralty	59.2	0.5%	1.5%	-10.5%	12,532	3.9%	4.5%	57.0%
Sheung Wan	40.8	1.1%	2.3%	-9.8%	11,941	3.0%	3.2%	71.8%
Wan Chai	37.7	0.6%	1.9%	-17.2%	9,511	0.0%	-1.6%	35.0%
Causeway Bay	36.4	1.1%	0.2%	-22.4%	10,083	2.2%	3.4%	57.7%
North Point	23.4	3.9%	7.5%	-6.1%	n/a	n/a	n/a	n/a
Quarry Bay	32.2	1.6%	-1.8%	-9.7%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	32.0	1.5%	6.4%	-7.4%	8,952	3.5%	2.0%	55.9%
Cheung Sha Wan	15.7	0.0%	9.2%	-4.1%	n/a	n/a	n/a	n/a
Hung Hom	20.2	3.6%	7.4%	2.2%	n/a	n/a	n/a	n/a
Kowloon East	19.0	0.0%	3.2%	-0.8%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	34.7	-0.4%	7.7%	-0.8%	n/a	n/a	n/a	n/a

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



Leasing demand from the financial sector strengthened.

Table 3
Selected office leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Admiralty	One Pacific Place	24/F	22,500	Moody's Asia
Central	Exchange Square	Tower 1 / one floor	n/a	ANZ Bank
Central	Exchange Square	Tower 2 / 20/F	About 13,000	BSI
Kwun Tong	Landmark East	12-13/F, 15-17/F	100,000	AIA
Wanchai	Harcourt House	13/F	13,000	A pharmaceutical firm

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

Sales were particularly active in Admiralty, where several record-breaking transactions were registered.

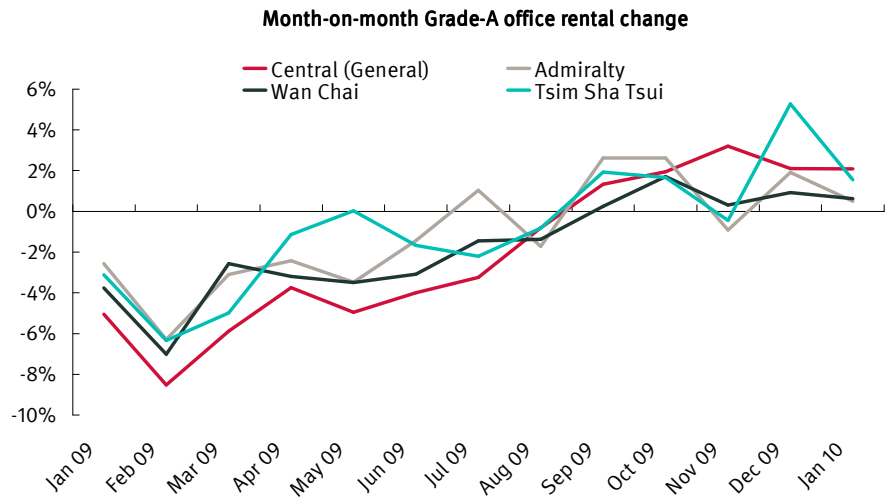
Table 4
Selected office sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	Far East Finance Centre	43/F / unit 3	2,500	\$57.0	\$22,800
Admiralty	Far East Finance Centre	43/F / units 6-7	2,980	\$59.6	\$20,000
Admiralty	Bank of America Tower	33/F / unit 8	1,303	\$23.8	\$18,300
Admiralty	Bank of America Tower	35/F / unit 6	2,125	\$35.7	\$16,800
Central	Nine Queen's Road Central	15/F / unit 11	3,202	\$52.8	\$16,480
Central	Wing On House	23/F / units 1-2	11,062	\$118.7	\$10,729

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

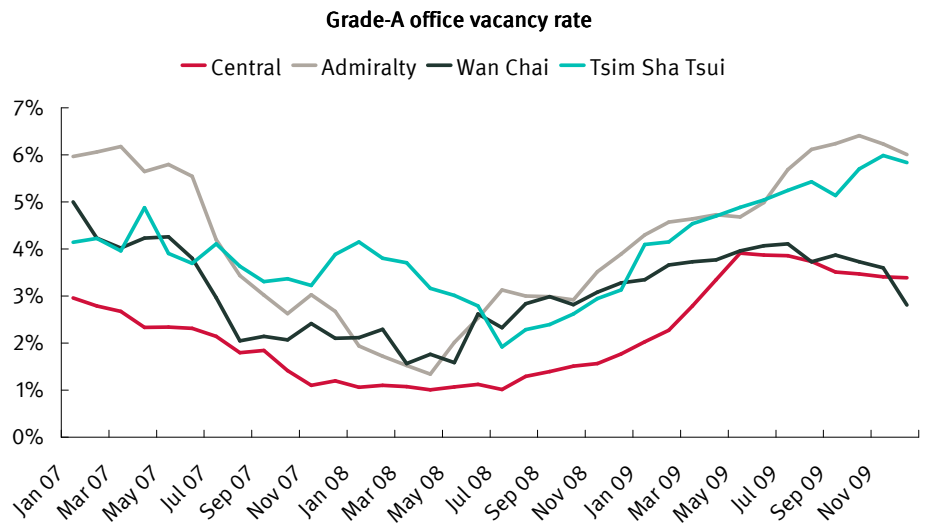


The average office rent rose 1.6% in January, with most business districts recording rent increments.



Source: Knight Frank

The vacancy rates continued to fall, as the market saw solid demand for office space.



Source: Knight Frank

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