



JANUARY 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE RENTS TO INCH HIGHER IN 2011

Hong Kong's office leasing market was quiet in the traditionally low season of December, with many decision-making senior executives having left on vacation. However, activity is expected to recover swiftly after the holidays, as the corporate sector has displayed strong intention to expand and leasing demand remains robust.

There were few headline-grabbing leasing deals in December and most transactions involved renewals, or relatively small buildings or floor plates. Value Partners committed to a mid-floor unit in Nexus Building in Central, while AMTD Strategic Capital leased another in World Trade Centre in Causeway Bay. Capitol Int'l leased two low-floor units in Infinitus Plaza (previously known as Vicwood Plaza) in Sheung Wan.



Despite the inactive market, rents of key buildings continued to edge up, as landlords stood firm on their asking rents amid decreasing availability. The average rent of Grade-A offices rose 2.8% in December from the previous month. Kowloon East and Causeway Bay continued to lead the market, with rents there growing 7.3% and 6.7% over the past month. Traditional Central also witnessed notable growth of 4.2%. Overall in 2010, Grade-A office rents grew 33.5%, after falling 19.3% in 2009.

Unlike the leasing market, the office sales market remained active over the month. Four mid-floor units in Great Eagle Centre in Wan Chai reportedly sold for HK\$150 million or a record-high HK\$14,800 per sq ft for the building, while a mid-floor unit in Lippo Sun Plaza in Tsim Sha Tsui sold for HK\$13 million or HK\$11,300 per sq ft—a new high for the office building since 1997.

The average price of Grade-A offices edged up 2.2% last month, compared with 1.5% month-on-month growth in November. Among all major districts, Causeway Bay saw the strongest growth of 5.5%, followed by Central with 4.8% and Admiralty with 2.5%. After rebounding 42.1% in 2009, the average price of Grade-A offices rose 21.2% in 2010.

Office rents are expected to continue to inch higher in 2011, due to tight supply and robust demand. New office supply will come mainly from the redevelopment of old buildings, as no commercial sites intended for office development have been successfully triggered for land sale over the past six years. We estimate that about 1.2 million square feet of Grade-A office space will be available for occupation in 2011—32.7% less than the annual take-up over the past three years.

An estimated 525,000 sq ft of office space in Central is slated for completion over the coming year, and expected to be swiftly absorbed by the expanding corporate sector. 2011 is forecast to be another banner year for Hong Kong's IPO market. The city is likely to remain the world's top IPO market in 2011 and expected to raise HK\$400 billion, according to an international accountancy firm. A thriving financial market coupled with a steady stream of incoming companies will create solid demand for office space in the CBD.

More than 700,000 sq ft of Grade-A office space is scheduled for completion in Kwun Tong and Kwai Chung next year. Increasingly high office rents in Central will continue to drive professional firms and local finance companies away from the CBD, and into less expensive districts. We expect the average rent of Grade-A offices in Hong Kong to grow 20–30% in 2011.



Prime office report

Hiring intention remains robust among Hong Kong employers.

Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q3 2010	+6.8%#	+2.4%	-2.7%	+4.5%
Inflation rate	November 2010	+2.9%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to November 2010	4.1%#	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

Grade-A office rents grew 33.5% in 2010, after falling 19.3% in 2009.

District	Net effective rent		Change		Price HK\$psf	Change		
	HK\$psf /mth	From Nov 10	From Sep 10	From Dec 09		From Nov 10	From Sep 10	From Dec 09
Premium Central	158.8	1.4%	12.0%	40.7%	n/a	n/a	n/a	n/a
Traditional Central	107.7	4.2%	11.8%	37.6%	19,990	4.8%	18.1%	37.3%
Admiralty	76.4	2.4%	11.2%	29.7%	15,196	2.5%	7.1%	26.0%
Sheung Wan	49.9	1.7%	3.4%	23.6%	13,632	0.8%	2.7%	17.6%
Wan Chai	48.4	1.0%	10.2%	29.1%	10,996	1.2%	5.7%	15.6%
Causeway Bay	53.6	6.7%	21.8%	48.6%	12,300	5.5%	12.3%	24.7%
North Point	28.5	4.6%	13.6%	26.4%	n/a	n/a	n/a	n/a
Quarry Bay	41.4	2.1%	15.3%	30.8%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	37.3	0.4%	6.0%	18.2%	9,656	1.4%	3.2%	11.7%
Cheung Sha Wan	18.7	0.0%	2.9%	19.2%	n/a	n/a	n/a	n/a
Hung Hom	23.5	0.0%	0.0%	20.4%	n/a	n/a	n/a	n/a
Kowloon East	27.1	7.3%	19.6%	43.1%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	41.4	3.5%	9.7%	18.7%	n/a	n/a	n/a	n/a

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



There were few headline-grabbing leasing deals and most transactions involved renewals or relatively small floor plates.

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Jardine House	22/F / units 6-19	8,566	Appleby
Central	Nexus Building	21/F / unit 2	4,957	Value Partners Ltd
Causeway Bay	World Trade Centre	22/F / units 4-5	n/a	AMTD Strategic Capital Ltd
Kwai Fong	Kowloon Commerce Centre – Tower 1	30/F	23,468	Veolia Water-Leighton-John Holland JV
Sheung Wan	Infinitus Plaza (previously known as Vicwood Plaza)	6/F / units 1-2	3,372	Capitol Int'l Ltd

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

The office sales market remained active over the past month.

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Sheung Wan	Shun Tak Centre West Wing	Mid floor / unit 8	1,440	\$26	\$18,055
Sheung Wan	Shun Tak Centre West Wing	20/F / unit 6	2,421	\$38.74	\$16,000
Wan Chai	CNT Tower	27/F	940	\$14	\$14,894
Central	Wing On Plaza	5/F	1,351	\$19.52	\$14,450
Admiralty	Admiralty Centre	Tower 2 / 17/F / unit 7	942	\$13.09	\$13,900
Tsim Sha Tsui	Lippo Sun Plaza	Mid floor unit 2	1,154	\$13.04	\$11,300

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

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