



JULY 2010

HONG KONG
PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE MARKET QUIETENS

Hong Kong's office leasing market quietened last month as relocation activity slowed due to the limited availability of space in districts such as Central, Causeway Bay and Kowloon East. Only a handful of transactions involving large floor plates were recorded. Bank of America took up three whole floors in One IFC in Central totalling 46,000 sq ft, while an international insurance firm leased a whole floor in Exchange Tower in Kowloon Bay measuring 26,000 sq ft. Other transactions mainly involved small floor plates.

Despite the slowdown of leasing activity, office rents in most districts continued to edge up. The average Grade-A office rent in Hong Kong rose a further 1.4% in June, representing a year-to-date growth of 9.9%. Central and Kowloon East led the recent rental recovery, with rents surging 23.2% and 19.1% respectively over the last ten months. However last month, rents began to pick up in fringe-CBD areas such as Sheung Wan, Wanchai and Causeway Bay, where rents gained 3.9%, 3.2% and 2.3%



respectively.

The performance of the sales market last month was similar to the leasing sector, with stabilising prices and shrinking activity. The average Grade-A office price grew 0.3% after a consolidation of 4.2% in the previous two months. Causeway Bay led the market with prices rising 1.5%, followed by Central and Sheung Wan, where prices grew about 1%.

A number of major sales transactions were recorded last month. According to the Land Registry, Manulife Tower in North Point was sold for HK\$2.3 billion or HK\$5,859 per sq ft, representing the largest sales transaction of the year in terms of total consideration. The sale of PCCW Tower in Quarry Bay has also reportedly reached its final stage and is expected to fetch HK\$4 billion. Other major transactions included a whole floor in United Centre in Admiralty, which was bought by SiS International for HK\$184 million or HK\$8,980 per sq ft.

After a strong rebound in property prices over the past year, a number of landlords have recently put their en-bloc offices on the market. Examples include 68 Yee Wo Street in Causeway Bay which has an asking price of HK\$2.5 billion or HK\$11,400 per sq ft. A 90% stake of AXA Centre in Wanchai was also put up for sale by CSI Properties at a price of HK\$3 billion or HK\$10,000 per sq ft, while a landlord has subdivided his whole-floor office in Cosco Tower in Sheung Wan and placed it on the market.

The leasing market is looking forward to fresh Grade-A office supply, which will be focused in non-core areas. Two Grade-A office buildings have recently been completed, namely Kerry Centre in Quarry Bay and 7 Shing Yip Street in Kwun Tong, which together provide over 340,000 sq ft of new office supply. Projects expected to be completed in the coming months include Tower Two of Kowloon Commerce Centre in Kwai Chung and 18 Kowloon East in Kowloon Bay. The leasing market is expected to become more active again when pre-leasing of these buildings commences.

Table 1
2010 Grade-A office supply

District	Development	Net floor area (sq ft)
Kowloon Bay	18 Kowloon East	261,525
Kwai Chung	Kowloon Commerce Centre—Tower 2	372,750
Kwun Tong	7 Shing Yip Street	287,480
Kwun Tong	One Harbour East	248,566
Quarry Bay	Kerry Centre	408,721
Tsim Sha Tsui	International Commerce Centre (Phase 3)	800,000

Source: Buildings Department / Knight Frank

Grade-A office rents are likely to continue their uptrend in the second half of the year against a backdrop of strong office demand, supported by a rise in hiring intention in the private sector. We expect Grade-A office rents to grow a further 5% in the coming six months. However, the overhang of the European sovereign debt crisis and a slowdown in the US economy are major uncertainties that may affect local economic recovery and cap the upside of the sales market.



Prime office report

The European sovereign debt crisis and a slowdown in the US economy remain major uncertainties that may affect local economic recovery.

Table 2 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q1 2010	+8.2%	+2.4%	-2.7%	+4.5%
Inflation rate	May 2010	+2.5%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to May 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

Grade-A office rents rose 9.9% in the first half of 2010, outperforming Grade-A office prices.

Table 3 Prime office market indicators—Jun 2010								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From May 10	From Mar 10	From Jun 09	HK\$psf	From May 10	From Mar 10	From Jun 09
Premium Central	132.2	1.4%	2.9%	34.1%	n/a	n/a	n/a	n/a
Traditional Central	86.3	2.0%	5.2%	7.9%	15,871	0.7%	-1.7%	21.2%
Admiralty	63.2	1.6%	3.2%	13.3%	13,497	0.3%	-4.4%	24.6%
Sheung Wan	45.7	5.3%	10.7%	17.3%	12,490	0.6%	-5.1%	22.3%
Wan Chai	41.5	3.2%	6.9%	10.9%	9,891	0.0%	-1.1%	16.5%
Causeway Bay	38.8	2.3%	5.2%	0.8%	10,066	1.5%	-1.6%	17.4%
North Point	24.3	1.9%	4.0%	14.3%	n/a	n/a	n/a	n/a
Quarry Bay	33.8	1.7%	4.6%	4.4%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	32.5	-1.3%	0.8%	8.6%	8,923	-0.1%	-5.2%	19.8%
Cheung Sha Wan	17.0	-2.4%	0.0%	20.6%	n/a	n/a	n/a	n/a
Hung Hom	22.2	0.0%	0.0%	17.9%	n/a	n/a	n/a	n/a
Kowloon East	20.4	0.0%	4.6%	19.1%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	36.0	-2.0%	-0.3%	19.1%	n/a	n/a	n/a	n/a

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



Only a handful of leasing transactions were recorded during the past month.

Table 4 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	One IFC	37–39/F	46,000	Bank of America
Kowloon Bay	Exchange Tower	22/F	26,000	an insurance firm
Central	Nine Queen's Road Central	23/F / unit 5	4,127	n/a
Wan Chai	Convention Plaza Office Tower	32/F / unit 8	1,300	n/a

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

The market continued to see major sales transactions. A number of landlords put up their en-bloc offices for sale.

Table 5 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
North Point	Manulife Tower	en bloc	384,000	\$2,250	\$5,859
Admiralty	United Centre	23/F	20,489	\$184	\$8,980
Central	Wing On House	28/F / units 3–10	8,000	\$72	\$9,000
Sheung Wan	Cosco Tower	11/F / unit 7	1,956	\$22.5	\$11,500
Tsim Sha Tsui	Star House	17/F / unit 5	1,218	\$12.5	\$10,300
Tsim Sha Tsui	Wing On Plaza	10/F / unit 14	1,140	\$12.5	\$11,000

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

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