



JUNE 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE MARKET RALLY SUSTAINS

Hong Kong's office sales market continued to be robust this past month. About 350 sales transactions were recorded in May, the third consecutive month to feature over 300 deals. Short-term trading activity spilled over to non-core areas: one notable transaction involved a whole floor in One Island South in Wong Chuk Hang reportedly sold for HK\$236 million or HK\$8,000 per sq ft, with the landlord reaping a 27% gain in four months. A whole floor in Billion Centre in Kowloon Bay, meanwhile, was sold for HK\$70 million or HK\$5,560 per sq ft, after being bought for HK\$63 million in January.

The sales market recorded more price-breaking deals in the month. Two units in Far East Financial Centre in Admiralty were sold for HK\$178 million or HK\$28,000 per sq ft—a record high per-sq-ft price across the city. Meanwhile, a mid-floor unit in Shun Tak Centre West Wing in Sheung Wan was snapped up for HK\$59.8 million, creating a new price-high of HK\$23,354 per sq ft for the district and a high-floor unit in Star House in Tsim Sha Tsui changed hands for HK\$11.4 million, a record-breaking price of

HK\$12,590 per sq ft for the building.

These successive landmark transactions encouraged landlords to suspend sales and hold on to their units, in expectation of even higher prices. The average Grade-A office price in Hong Kong edged up another 7.3% last month—the fastest month-on-month growth since June 2010. Sheung Wan led the market, gaining 9.3%, followed by Causeway Bay and Admiralty with gains of 8.4% and 8.0%, respectively. The average Grade-A office price in Hong Kong has now surpassed its last peak recorded in early 2008, by 19.0%.

On the leasing front, tenants continued to expand in Central, despite the high rents. Bloomberg decided to expand its offices in Cheung Kong Center, committing to another floor in the building covering 20,500 sq ft. VTB Capital—the second largest Russian bank—leased a 5,600-sq-ft unit in the building, reportedly for HK\$140 per sq ft per month.

Meanwhile, a serviced-office operator absorbed a 10,400-sq-ft floor in World Wide House in Central last month. The operator had already rented a number of floors in Vicwood Plaza in Sheung Wan, Admiralty Centre in Admiralty and Soundwill Plaza in Causeway Bay over the past six months, snapping up a total of 41,600 sq ft of office space.

Other major office districts also recorded large-scale leasing transactions. Holman Fenwick William, an international law firm, expanded in Lippo Centre in Admiralty, taking up another floor totaling 14,900 sq ft. Across the harbour, China Minmetals Corporation reportedly took up an 11,000-sq-ft space in International Commerce Centre in Tsim Sha Tsui for about HK\$65 per sq ft per month.

Grade-A office rents continued to rise in May, but the pace slowed to 1.1% after growing a marked 6.5% in March and 2.3% in April. Rental growth in Kowloon continued to outpace that on Hong Kong Island, with rents growing 2.3% on the peninsula, compared with only 0.9% on the island. Rental appreciation in Kowloon East accelerated to 3.7%, while rents in Central remained relatively stable during the month. This resulted in a narrower gap between rents on the two sides of the harbour.

Looking forward, increasing policy risks in the residential sector are likely to push more investors and speculators to the office sales market. Amid buoyant sentiment, a number of office owners have raised their asking prices by at least 10%, after a 147,497-sq-ft commercial site in Hung Hom was recently triggered for sale. We believe current per-sq-ft price records would be broken in the coming months. On the leasing side, as office demand in major business areas remains strong, landlords are likely to raise their asking rents significantly in the short term, which may trigger another wave of rental appreciation. We expect Grade-A office rents in Hong Kong to grow about 30% over 2011.



Prime office report

The Hong Kong economy is expected to witness a robust growth of 5–6% in 2011.

Table 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q1 2011	+7.2%#	-2.7%	+6.8%	+5.5%
Inflation rate	April 2011	+4.6%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to April 2011	3.5%#	5.4%	4.3%	4.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

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

Tenants continued to expand in Central this past month, despite relatively high rents.

Table 2
Selected office leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Cheung Kong Center	25 th floor	20,500	Bloomberg
Central	Cheung Kong Center	23 rd floor / unit 01	5,600	VTB Capital
Central	World Wide House	27 th floor	10,400	A serviced office
Admiralty	Lippo Centre	8 th floor	14,900	Holman Fenwick William
Tsim Sha Tsui	International Commerce Centre	85 th floor	11,000	China Minmetals Corporation

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



Successive landmark transactions encouraged landlords to suspend sales and hold on to their units, in expectation for even higher prices.

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	Bank of America Tower	22 nd floor unit	3,880	\$100.28	\$25,846
Admiralty	Lippo Centre	Tower 1 / mid floor / unit 3	1,736	\$34.72	\$20,000
Tsim Sha Tsui	Silvercord	11 th floor / unit 2	1,400	\$19.6	\$14,000
Tsim Sha Tsui	Silvercord	Tower 2 / 10 th floor / unit 10	1,450	\$20	\$13,793
Wan Chai	Bank of East Asia Harbour View Centre	17 th floor	7,857	\$104.12	\$13,251
Tsim Sha Tsui	Silvercord	Tower 1 / 16 th floor / unit 6	2,106	\$27.38	\$13,001

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

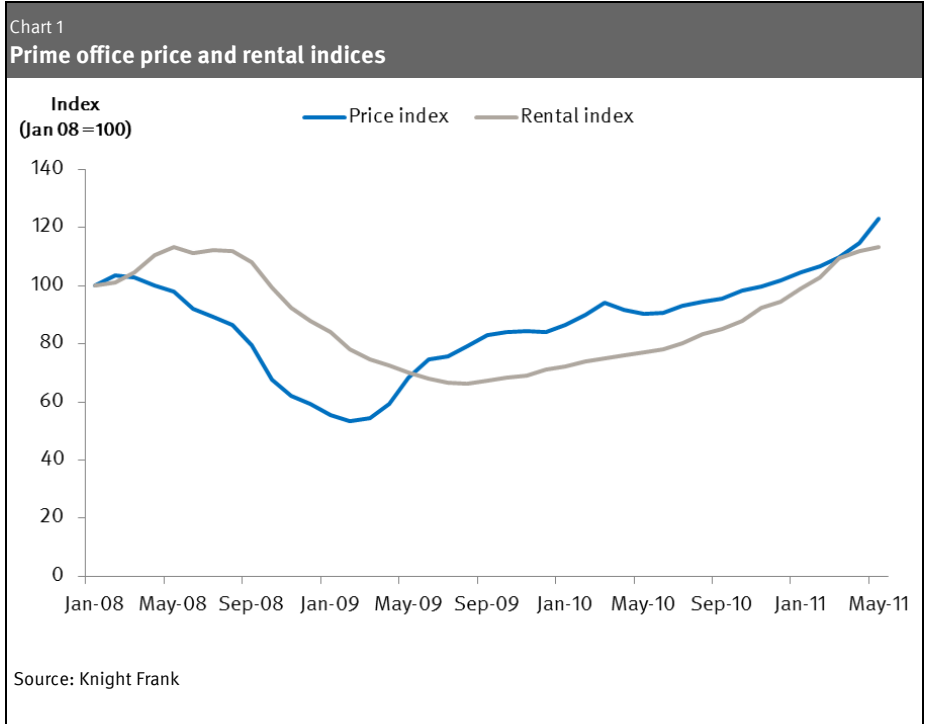
Rent growth in Kowloon continued to outpace that on Hong Kong Island.

District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Apr 11	From Feb 11	From May 10	HK\$psf	From Apr 11	From Feb 11	From May 10
Premium Central	182.7	0.2%	8.4%	40.1%	n/a	n/a	n/a	n/a
Traditional Central	134.8	1.0%	11.7%	59.3%	24,372	4.3%	14.1%	54.7%
Admiralty	91.3	1.9%	9.6%	46.8%	18,565	8.0%	16.7%	37.9%
Sheung Wan	62.3	2.0%	15.0%	42.5%	16,168	9.3%	15.6%	30.2%
Wan Chai	61.8	1.3%	16.7%	53.8%	13,924	6.5%	15.3%	40.8%
Causeway Bay	60.8	0.0%	5.4%	60.3%	14,840	8.4%	19.7%	49.6%
North Point	34.6	0.7%	11.1%	45.1%	n/a	n/a	n/a	n/a
Quarry Bay	48.3	0.0%	5.7%	45.4%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	43.6	1.1%	10.7%	32.6%	11,009	5.2%	11.5%	23.2%
Cheung Sha Wan	20.1	0.0%	7.1%	14.9%	n/a	n/a	n/a	n/a
Hung Hom	26.4	3.7%	10.9%	19.1%	n/a	n/a	n/a	n/a
Kowloon East	29.6	3.7%	7.4%	44.6%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	46.9	4.4%	11.6%	27.6%	n/a	n/a	n/a	n/a

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



The average Grade-A office price grew another 7.3% in May, while the average rent rose only 1.1% during the month.



A narrower gap between rents on the two sides of the harbour was witnessed.



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

Thomas Lam

Director, Head of Research, Greater China
Research Department
T: (+852) 2846 4819
E: thomas.lam@hk.knightfrank.com

Pamela Tsui

Senior Research Manager
Research Department
T: (+852) 2846 4843
E: pamela.tsui@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 2011

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.