



MARCH 2010

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE MARKET RALLY CONTINUES

Hong Kong's economy showed further signs of recovery this past month, benefiting from a revival in regional trade, improving job security and robust capital market activity. In the first two months of the year, Mainland China's total external trade grew 44.8% in value compared with a year earlier. Economic confidence strengthened as the unemployment rate dropped to 4.6% in the three months to February from the peak of 5.4% in mid 2009. Moreover, activity in the financial market continued to gather pace. An accountancy firm expects total funds raised from IPOs in the local stock market to reach HK\$370 billion this year, representing a record high and a 51.8% growth from last year.

Broadening economic recovery and a low interest rate environment continued to buoy the office sales market. Over 260 office transactions were recorded in February, representing a rise of over 10% from January and the highest level since August 2009. Sales activity was particularly strong in Admiralty and



Sheung Wan, while some large-scale deals were also seen in non-core areas. A Mainland bank reportedly snapped up ten floors in One Harbour East in Kwun Tong for HK\$1.1 billion or HK\$7,365 per sq ft; Sam Cheong Building in Sheung Wan changed hands for HK\$280 million and a 50% stake of Nam Wo Hong Building in Sheung Wan was sold for HK\$240 million or HK\$3,664 per sq ft. The en-bloc sale of Vicwood Plaza in Sheung Wan is reportedly about to be concluded for about HK\$4 billion.

In line with robust sales activity, the average office price rose 3.9% in February, after gaining a total of 2.7% in the previous three months. Sheung Wan saw the greatest price gain, surging 6.3% thanks to a number of notable transactions. Three units on the 31st floor of Shun Tak Centre, for example, changed hands for HK\$78 million or HK\$14,905 per sq ft—the highest per sq ft price in the building since 1997. Admiralty also saw prices rise 5.3% over the month, amid thriving sales in the district. A major deal involved a 2,200-sq-ft, high-floor unit in Lippo Centre sold for HK\$34.1 million or HK\$15,500 per sq ft.

The economic recovery also benefited the office leasing market, with demand continuing to pick up in February. A business centre, which operates by subleasing office space to other companies, has been expanding rapidly over the past month. After taking up one and a half floors in The Center in Central earlier this year, the business centre committed to four floors of office space in various other buildings, including Man Yee Building and Silver Fortune Plaza in Central.

Other major leasing deals involved an international insurance company and a Mainland bank, both of which leased 100,000 sq ft of space in Landmark East in Kwun Tong. An international property consultant, meanwhile, moved its office from Wan Chai to Three Exchange Square in Central, committing to two floors totalling around 22,000 sq ft of space. Telstra—an Australian telecommunications firm—took a floor in One Island East in Quarry Bay totalling 22,000 sq ft.

Office rents maintained their uptrend in February, rising 2.3%. Hung Hom saw the largest rent jump of 8.1%, as the landlord of a key building in the district raised its asking rents by 10%. Grade-A office rents also grew a notable 3.8% over the past month. So far, landlords in Central have benefited the most from the recent revival in the office leasing market. By the end of February, rents in “Premium Central” had rebounded an impressive 25.4% from their 2009 trough, while those in Traditional Central climbed 9.2% after bottoming in August last year.

In the coming months, Hong Kong’s economic recovery is likely to extend from the financial sector to the industries of trading and other supporting services. In line with this, the Grade-A office market is likely to see further rent growth in non-core areas, following strong rent growth in the CBD driven by vigorous demand from financial institutions. Over the coming 12 months, the office vacancy rate on Hong Kong Island is expected to drop further from the 4.1% recorded in February, giving landlords the upper hand in rent negotiations.



Prime office report

In the three months to February 2010, Hong Kong's unemployment rate dropped 0.3 percentage point to 4.6%.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q4 2009	+2.6#	+2.4%	-2.7#	+4.5%
Inflation rate	January 2009	+1.0%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to February 2009	4.6%#	3.6%	5.2%^	4.0%
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

In line with robust sales activity, the average Grade-A office price rose 3.9% in February, after growing a total of just 2.7% in the previous three months.

Table 2 Prime office market indicators—February 2010								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Jan 10	From Nov 09	From Feb 09	HK\$psf	From Jan 10	From Nov 09	From Feb 09
Premium Central	122.2	4.0%	11.2%	-4.0%	n/a	n/a	n/a	n/a
Traditional Central	81.6	3.5%	5.9%	-11.8%	15,153	2.1%	5.1%	64.9%
Admiralty	60.0	1.4%	3.8%	-3.2%	13,195	5.3%	9.0%	73.6%
Sheung Wan	41.3	1.2%	5.3%	-2.3%	12,693	6.3%	9.5%	82.6%
Wan Chai	38.0	0.6%	2.2%	-10.4%	9,646	1.4%	0.8%	44.4%
Causeway Bay	36.3	-0.2%	1.3%	-19.1%	10,229	1.4%	3.7%	70.0%
North Point	23.9	2.0%	8.8%	-1.9%	n/a	n/a	n/a	n/a
Quarry Bay	32.3	0.4%	2.0%	-6.0%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	32.4	1.1%	8.1%	0.0%	9,115	1.8%	3.5%	61.7%
Cheung Sha Wan	16.1	2.6%	12.1%	8.9%	n/a	n/a	n/a	n/a
Hung Hom	21.8	8.1%	14.0%	10.5%	n/a	n/a	n/a	n/a
Kowloon East	19.3	1.6%	4.8%	4.5%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	35.2	1.4%	5.2%	6.7%	n/a	n/a	n/a	n/a

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



A business centre expanded rapidly over the past month.

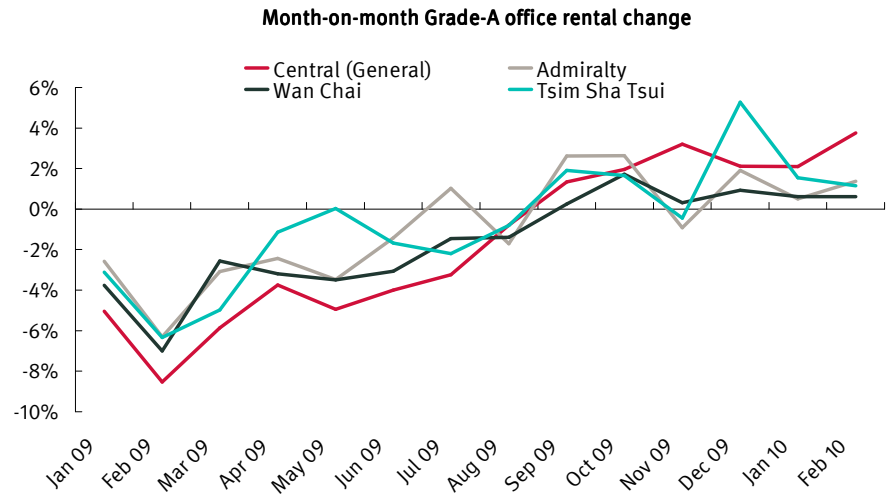
Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Man Yee Building	16/F	11,500	A business centre
Central	Silver Fortune Plaza	18–19/F	9,000	A business centre
Central	Three Exchange Square	Two floors	22,000	A property consultant
Kwun Tong	Landmark East	n/a	100,000	An international insurance company
Quarry Bay	Fortis Centre	10/F	9,000 (net)	A business centre
Quarry Bay	One Island East	43/F	22,000	Telstra
Source: Knight Frank				
Note: All transactions are subject to confirmation.				

Sales activity was particularly strong in Admiralty and Sheung Wan, while some large-scale deals were also seen in non-core areas.

Table 4 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	Lippo Centre	Tower 1 / 18/F / units 1–2 & 8–9	7,583	\$118	\$15,561
Admiralty	Lippo Centre	Tower 2 / high floor / unit 2	2,200	\$34.1	\$15,500
Admiralty	Fairmont House	18/F	8,824	\$132	\$14,959
Sheung Wan	Shun Tak Centre West Wing	31/F / units 7–9	5,233	\$78	\$14,905
Kwun Tong	One Harbour East	18–23/F and 25–28/F	168,440	\$1,068	\$6,341
Sheung Wan	Nam Wo Hong Building	A 50% stake	65,500	\$240	\$3,664
Source: Economic Property Research Centre / Knight Frank					
Note: All transactions are subject to confirmation.					

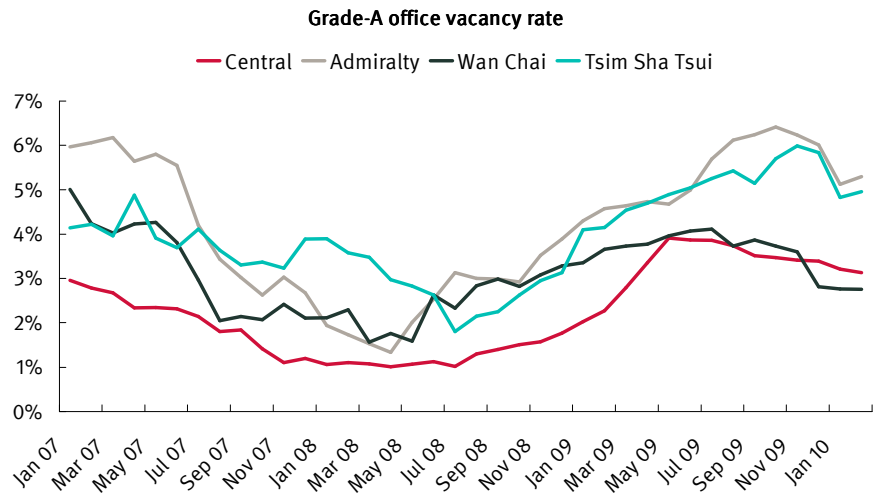


Landlords in Central benefited the most from the recent revival in the office leasing market.



Source: Knight Frank

The vacancy rate in Central fell to 3.1%—the lowest level since March 2009.



Source: Knight Frank

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.