



MAY 2011

# HONG KONG PRIME OFFICE

Monthly Report

**Knight Frank 萊坊**

## RENTAL GAP CONTINUES TO NARROW

The office sales market remained robust in April, with about 330 transactions being recorded—a slight increase on the average of 320 deals per month in the first quarter of the year. The market continued to witness record-breaking deals, one of them involving a low-floor unit in China Merchants Tower in Sheung Wan which was reportedly sold for HK\$67.5 million or HK\$22,900 per sq ft – the highest price ever recorded in the building.

Confirmors were active in the market. One of them reportedly sold a 6,300-sq-ft, mid-floor unit in Admiralty Centre in Admiralty for HK\$10.2 million or HK\$15,900 per sq ft, reaping a 13% profit in a month. Meanwhile, a low-floor unit in the same building were repeatedly sold in recent months: for HK\$14,500 per sq ft in late February; HK\$16,624 per sq ft in early April; then HK\$17,000 per sq ft in late April.



With limited Grade-A offices available for sale, demand spilled over into the Grade-B market. A whole floor in the Grade-B Hong Kong Diamond Exchange Building in Central, for example, reportedly changed hands for HK\$70 million or HK\$25,455 per sq ft, a price comparable with those of Grade-A buildings in the district. Meanwhile, a whole floor in the Grade-B Chung Hing Commercial Building in the same district was reportedly sold for HK\$19.5 million or HK\$12,999 per sq ft.

On the back of red-hot sales activity, the average Grade-A office price grew another 4.4% in April—the largest month-on-month gain since March 2010. Central saw the biggest monthly price increase of 6.3%, followed by Tsim Sha Tsui with 4.7% and Wan Chai with 4.6%. Meanwhile, the successive conclusions of landmark deals over the past month prompted certain landlords in Admiralty and Central to aggressively raise their asking prices by over 30%.

On the leasing front, the volume of rental transactions fell, as rents were relatively high on the back of vaporising vacancies and strong demand. A number of Central tenants decided to relocate to nearby business districts, as rents in Central had become increasingly unaffordable. KPMG, for example, would relocate some of its current offices in several premium buildings in Central to five floors totaling 80,000 sq ft in Hysan Place in Causeway Bay. Meanwhile, a bank would reportedly move from Central to a 16,000-sq-ft office in Three Pacific Place in Admiralty.

However, office demand in the CBD showed no signs of abating, with major leasing transactions continuing to be recorded. Financial Times leased a whole floor in The Center totaling 25,100 sq ft and two high-floor units in Two IFC were reportedly leased by a Russian fund at a post-2008 rental record of HK\$190 per sq ft a month. A financial company would reportedly move from Far East Financial Centre in Admiralty to a 15,000-sq-ft whole floor in AIA Central at HK\$135 per sq ft—the highest monthly rent for the building since 2008.

The lower volume of leasing transactions slowed the pace of rental appreciation in April. The average rent of Grade-A offices rose 2.3% during the month, after surging 15.5% in the first quarter. While rental growth on Hong Kong Island overall slowed to 1.8% last month, rents in Kowloon showed signs of picking up, growing 4.7% in April. Rent growth in Central slowed to 1.4% last month, compared with 8.1% in March, while rent growth in Tsim Sha Tsui accelerated to 6.6% last month, after rising 2.7% in March.

As a result, there are signs that the rental gap between Kowloon and Hong Kong Island's Grade-A offices is narrowing. A whole floor in Millennium City 5 in Kwun Tong was reportedly taken up by Bank of China, while three high-floor units in Landmark East in the same district were reportedly leased to I.T. Both premises were transacted at HK\$30 per sq ft per month—not that much less than the current average rents of HK\$48 per sq ft in Quarry Bay and HK\$34 per sq ft in North Point. The rental gap is likely to continue shrinking in the coming months, reducing the incentive for tenants to relocate across the harbour.

Looking forward, office demand in Admiralty and Wan Chai is expected to be given a further short-term boost by the scheduled completion of the new Government Headquarters in 2011 and the area's transformation into a new political and business hub. We expect Grade-A office rents in Hong Kong to grow 20–30% over 2011, with Admiralty and Wan Chai likely to see outstanding rental performances.



## Prime office report

**Hong Kong saw a 7.2% year-on-year economic growth in the first quarter of 2011—a new high over the last four quarters.**

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%	+4.7%
Inflation rate	March 2011	+4.6%	+0.5%	+2.4%	+2.9%
Unemployment	Three months to March 2011	3.4%#	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  
 ^ Estimate # Provisional \* HSBC prime lending rate

**A number of Central tenants decided to relocate to nearby business districts, as rents in Central had become increasingly unaffordable.**

Table 2  
**Selected office leasing transactions**

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Admiralty	Three Pacific Place	High floor	16,000	Rabobank
Causeway Bay	Hysan Place	5 floors	80,000	KPMG
Central	AIA Central	Mid floor	15,000	China Construction Bank
Central	The Center	22 <sup>nd</sup> floor	25,100	Financial Times
Central	Two IFC	67 <sup>th</sup> floor / units 11–12	3,700	A Russian fund
Kwun Tong	Millennium City 5	25 <sup>th</sup> floor	25,000	Bank of China

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



The sales market continued to witness record-breaking deals.

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Sheung Wan	Shun Tak Centre West Wing	27 <sup>th</sup> floor / unit 6	1,892	\$41.62	\$22,000
Admiralty	Lippo Centre	Tower 2 / 23 <sup>rd</sup> floor / units 10–12	3,105	\$62.05	\$19,983
Admiralty	Lippo Centre	Tower 1 / 13 <sup>th</sup> floor / unit 3	1,790	\$32.58	\$18,200
Sheung Wan	Shun Tak Centre West Wing	14 <sup>th</sup> floor / unit 1	2,559	\$44.27	\$17,300
Admiralty	Admiralty Centre	Tower 1 / 7 <sup>th</sup> floor / unit 4D	1,955	\$33.24	\$17,000

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

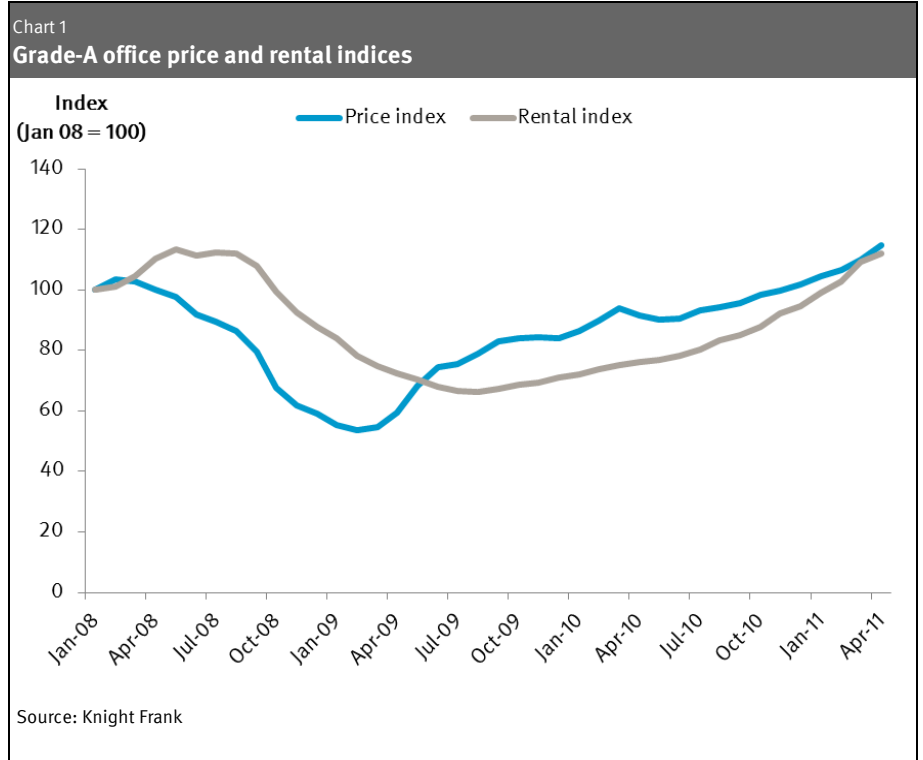
There are signs that the rental gap between Kowloon and Hong Kong Island's Grade-A offices is narrowing.

District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Mar 11	From Jan 11	From Apr 10	HK\$psf	From Mar 11	From Jan 11	From Apr 10
Premium Central	182.4	2.1%	10.9%	40.6%	n/a	n/a	n/a	n/a
Traditional Central	133.5	0.8%	16.5%	60.4%	23,378	6.3%	12.2%	46.3%
Admiralty	89.6	0.9%	12.5%	47.4%	17,189	3.7%	9.5%	26.1%
Sheung Wan	61.1	5.6%	17.6%	44.7%	14,796	4.2%	7.5%	16.3%
Wan Chai	61.0	4.2%	18.8%	55.6%	13,074	4.6%	14.1%	31.3%
Causeway Bay	60.8	0.7%	7.7%	59.6%	13,686	3.8%	10.4%	35.8%
North Point	34.3	5.0%	15.9%	44.1%	n/a	n/a	n/a	n/a
Quarry Bay	48.3	1.7%	11.0%	45.4%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	43.2	6.6%	13.4%	31.2%	10,460	4.7%	5.9%	14.8%
Cheung Sha Wan	20.1	2.1%	7.1%	17.7%	n/a	n/a	n/a	n/a
Hung Hom	25.4	6.9%	8.5%	14.8%	n/a	n/a	n/a	n/a
Kowloon East	28.5	1.5%	5.2%	41.5%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	44.9	4.6%	8.5%	23.8%	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 4.4% in April, while rents rose only 2.3% during the month.



The incentive for tenants to relocate across the harbour is likely to be reduced in the coming months, as the rental gap continues to shrink.





## 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

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