



OCTOBER 2010

HONG KONG
PRIME OFFICE

Monthly Report

Knight Frank 萊坊

LAGGING DISTRICTS CATCHING UP

Hong Kong's office sales market remained active this past month. About 350 sales transactions were recorded in September—another record high since early 2008. Sales activity was particularly robust in Tsim Sha Tsui, with Concordia Plaza recording a number of major transactions, including a high floor reportedly sold for HK\$400 million or HK\$14,200 per sq ft and two high-floor units sold at HK\$42.1 million or HK\$10,500 per sq ft. Another significant transaction last month involved a whole floor in World-Wide House in Central, that changed hands for HK\$300 million or HK\$18,000 per sq ft.

A number of large-scale transactions are reportedly about to conclude. The entire Tai Sang Bank Building in Mong Kok is under offer for HK\$105 million or HK\$ 6,532 per sq ft, while a 90% stake of AXA Centre in Wan Chai could be sold at HK\$2.8 billion or HK\$ 9,333 per sq ft. In addition, two floors in Lippo Centre in Admiralty are about to close at HK\$411 million or HK\$14,000 per sq ft.

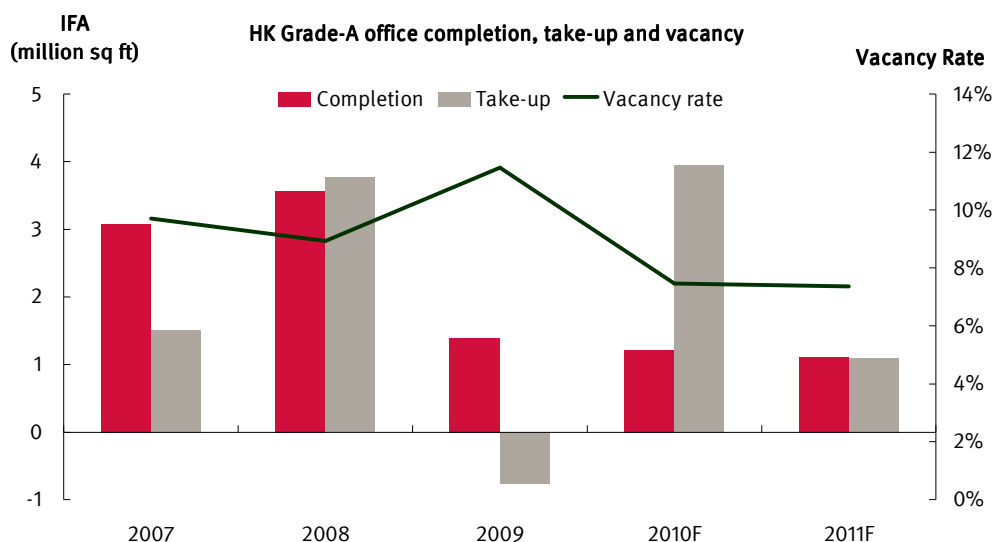


Office prices grew 1.2% in September, compared with 1.3% in the previous month. Among all major districts, Causeway Bay witnessed the strongest growth of 2.5%, followed by Admiralty with 2.0% and Tsim Sha Tsui with 1.7%. After growing 6.3% in the past two months, prices in Sheung Wan remained stable in September. The average price of Grade-A offices had risen 13.5% in the first nine months of the year.

The leasing sector remained vibrant in September. The remaining vacant spaces in Kowloon East were quickly snapped up during the month. Siemens moved from Wan Chai to 42,000-sq-ft premises in Landmark East in Kwun Tong, while a construction consultancy firm, Davis Langdon & Seah, committed to two floors in the same building totaling 41,000 sq ft.

Since the fallout of the global financial crisis ebbed and the office letting market reached its last trough in August 2009, Central and Kowloon East have seen the most robust rent growth. However recently, leasing activity in lagging districts such as Wan Chai, North Point and Causeway Bay have shown signs of picking up. A Belgian financial institution took up a mid-floor unit in Central Plaza in Wan Chai totaling 16,000 sq ft, while an international financial news provider expanded into an 11,100-sq-ft unit in 248 Queen's Road East in the same district. Meanwhile, Neoderm—an aesthetic products retailer—committed to three floors in Times Square in Causeway Bay measuring 50,000 sq ft and a number of office units in AIA Tower in North Point were under offer.

The growth of Grade-A office rents decelerated to 1.8% in September, as rent growth in Central and Kowloon East slowed to 1.1% and 1.9% respectively, after rising 22.8% and 18.0% in the first eight months of the year. However, districts where rent growth lagged behind in the past eight months, outperformed. For instance, North Point and Quarry Bay saw office rents gain more than 3% over the past month.



Source: Rating and Valuation Department / Knight Frank

Hong Kong's corporate sector is expected to remain in an expansion mode in the coming year, with local economic recovery taking hold and the Mainland economy exhibiting robust growth. The trend of multinational corporations shifting their operations to Hong Kong would stay intact and office demand would remain strong against this backdrop. On the supply side, the amount of Grade-A office completions is projected to be 1.2 million sq ft in 2011, compared with an annual average of about two million sq ft in the previous five years. Overall, office demand should be strong enough to absorb the new office supply, keeping vacancy rates at low levels.



Prime office report

The unemployment rate fell to a 20-month low of 4.2%, underscoring the continuing expansion of the corporate sector.

Table 2 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q2 2010	+6.5%#	+2.1%	-2.7%	+4.5%
Inflation rate	August 2010	+3.0%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to August 2010	4.2%#	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

The growth of Grade-A office rents decelerated to 1.8% in September, but lagging districts such as North Point and Quarry Bay, outperformed.

Table 3 Prime office market indicators—September 2010								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Aug 10	From Jun 10	From Sep 09	HK\$psf	From Aug 10	From Jun 10	From Sep 09
Premium Central	141.9	0.5%	7.3%	41.0%	n/a	n/a	n/a	n/a
Traditional Central	96.4	1.7%	11.7%	28.1%	16,533	1.1%	4.2%	15.3%
Admiralty	68.7	3.4%	8.7%	20.9%	14,187	2.0%	5.1%	19.9%
Sheung Wan	48.3	1.0%	6.3%	24.7%	13,277	0.0%	6.3%	14.8%
Wan Chai	43.9	2.1%	5.9%	20.6%	10,402	0.4%	5.2%	9.0%
Causeway Bay	44.0	1.7%	13.4%	21.7%	10,955	2.5%	8.8%	14.6%
North Point	25.1	3.4%	3.2%	20.0%	n/a	n/a	n/a	n/a
Quarry Bay	35.9	3.4%	6.3%	12.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	35.2	2.2%	8.3%	18.9%	9,358	1.7%	4.9%	10.8%
Cheung Sha Wan	18.2	0.0%	6.9%	28.9%	n/a	n/a	n/a	n/a
Hung Hom	23.5	1.5%	5.8%	31.4%	n/a	n/a	n/a	n/a
Kowloon East	22.8	1.9%	11.4%	24.9%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	37.7	3.4%	4.8%	18.8%	n/a	n/a	n/a	n/a

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



The remaining vacant spaces in Kowloon East were quickly snapped up during the month.

Table 4 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Causeway Bay	Times Square	35–37/F	50,000	Neoderm
Kwun Tong	Landmark East	About two floors	42,000	Siemens
Kwun Tong	Landmark East	37–38/F	41,000	Davis Langdon & Seah
Wan Chai	248 Queen's Road East	One floor	11,000	Euromoney
Wan Chai	Central Plaza	Part of 20/F	16,000	A Belgian financial institution

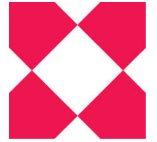
Source: Knight Frank
Note: All transactions are subject to confirmation.

A number of large-scale transactions were reportedly about to conclude.

Table 5 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	World-Wide House	6/F	16,693	\$300	\$18,000
Tsim Sha Tsui	Concordia Plaza	20/F / units 14–15	4,009	\$42.1	\$10,500
Central	Nine Queen's Road Central	7/F / unit 2	1,609	\$28.0	\$17,396
Sheung Wan	Shun Tak Centre West Wing	Mid floor / unit 12	2,013	\$26.7	\$13,250
Tsim Sha Tsui	New East Ocean Centre	9/F / units 13–14	2,996	\$24.0	\$8,000
Tsim Sha Tsui	Concordia Plaza	6/F / unit 14	2,327	\$22.2	\$9,528

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

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