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HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

NON-CORE DISTRICTS LEAD THE MARKET

Business and investment activity slowed in Hong Kong over the past month, on the back of negative economic news from Europe and the US as well as a volatile global stock market. The Grade-A office leasing market in core areas showed signs of correction, with fewer transactions and softening rents. However, office leasing demand in non-core districts remained strong, narrowing the rental gap between core and non-core office districts.

New leases in Central mainly involved relatively small floor plates. These included a 6,600-sq-ft floor at 50 Connaught Road Central, reportedly taken up by Manchester United for HK\$150 per sq ft and a low-floor, 3,100-sq-ft unit in One IFC absorbed by Apple Inc. Meanwhile, office demand in major non-core districts remained firm over the past month. Notable transactions included the leasing of a 20,500-sq-ft, mid floor unit in Cosco Tower, Sheung Wan by The Hong Kong Mortgage Corporation and the taking up of an 8,200-sq-ft, mid-floor unit in Convention Plaza Office Tower, Wan Chai by a logistics

firm. A 10,200-sq-ft, high-floor unit in Dah Sing Financial Centre, Wan Chai was also taken up during the month.

Amid the current turmoil in the global financial market, expansion demand came mainly from non-finance related industries. Luxury retailer Chanel reportedly took up a whole floor in Hong Kong Club Building in Central measuring 8,600 sq ft, while Siemens expanded their office space in Landmark East, Kwun Tong by leasing an additional half floor measuring about 10,000 sq ft. The Siemens rent was reportedly signed at HK\$36 per sq ft—which would make it a record-high for offices in Kowloon East.

Grade-A office rents continued to soften in September, with the rental gap narrowing between core and non-core business districts. Central recorded the first month-on-month rental drop since August 2009, edging down 1.3% during the month, while non-core districts continued to see rental growth. North Point led the market with a rental gain of 2.8%, followed by Causeway Bay and Wan Chai with gains of 1.7% and 1.6%, respectively.

Activity in Hong Kong's office sales market remained subdued over the past month. Transaction volume remained at a low level of just over 200. Having remained stable for two consecutive months, Grade-A office prices fell 1.8% from August—the first month-on-month decline since May last year. Central and Wan Chai witnessed the largest price drops of over 2%, month on month, while Admiralty, Sheung Wan, Causeway Bay and Tsim Sha Tsui experienced price falls of over 1%.

During the month, sales transactions mainly involved small floor plates, as buyers became increasingly cautious amid an uncertain economic environment. In Admiralty, a half-floor unit in Lipppo Centre was sold for HK\$108 million or approximately HK\$17,000 per sq ft; a number of units in Bank of America Tower were sold for about HK\$218 million or HK\$26,900 per sq ft and a high-floor unit in United Centre was sold for HK\$90 million or HK\$16,237 per sq ft.

Looking ahead, the demand for office space, particularly in Central, is likely to soften in the coming months with the world economy slowing and major stock markets entrenched in a bear environment. Key uncertainties remain as to how the European sovereign debt crisis will unfold and where the US economy is heading. However, a lack of new supply and low vacancy levels will offset the effect of weakening demand and rents should hold firm in the coming months. Grade-A office rents are likely to remain stable, although the rental gap between core and non-core areas will further narrow.



Prime office report

Hong Kong's economy continued to be buoyed by strong private consumption, but a drop in the Composite Purchasing Managers Index reflected a deteriorating external environment.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q2 2011	+5.1%#	-2.7%	+6.8%	+5.5%
Inflation rate	August 2011	+5.7%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to August 2011	3.2%#	5.4%	4.4%	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

Amid the current turmoil in the global financial market, expansion demand came mainly from non-finance related industries.

Table 2 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Two IFC	10 th floor / units 1 and 16	3,140	Apple Inc.
Central	Hong Kong Club Building	14 th floor	8,600	Chanel
Kowloon East	Landmark East	43 rd floor unit	About 10,000	Siemens
Sheung Wan	Cosco Tower	34 th floor	20,500	The Hong Kong Mortgage Corporation
Wan Chai	Convention Plaza Office Tower	27 th floor	8,200	A logistics company
Wan Chai	Dah Sing Financial Centre	22 nd floor	10,200	n/a

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



Hong Kong's office sales market remained quiet over the past month.

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Bank of America Tower	32 nd floor units	8,088	\$217.9	\$26,944
Sheung Wan	Shun Tak Centre, China Merchants Tower	9 th floor / units 1 and 20	2,970	\$54.9	\$18,498
Admiralty	Lippo Centre	Tower 2 / half of 12 th floor	6,409	\$108	\$16,851
Admiralty	Lippo Centre	Tower 1 / 18 th floor / units 1 and 8–9	8,166	\$137	\$16,777
Admiralty	United Centre	26 th floor / unit A	5,543	\$90	\$16,237

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

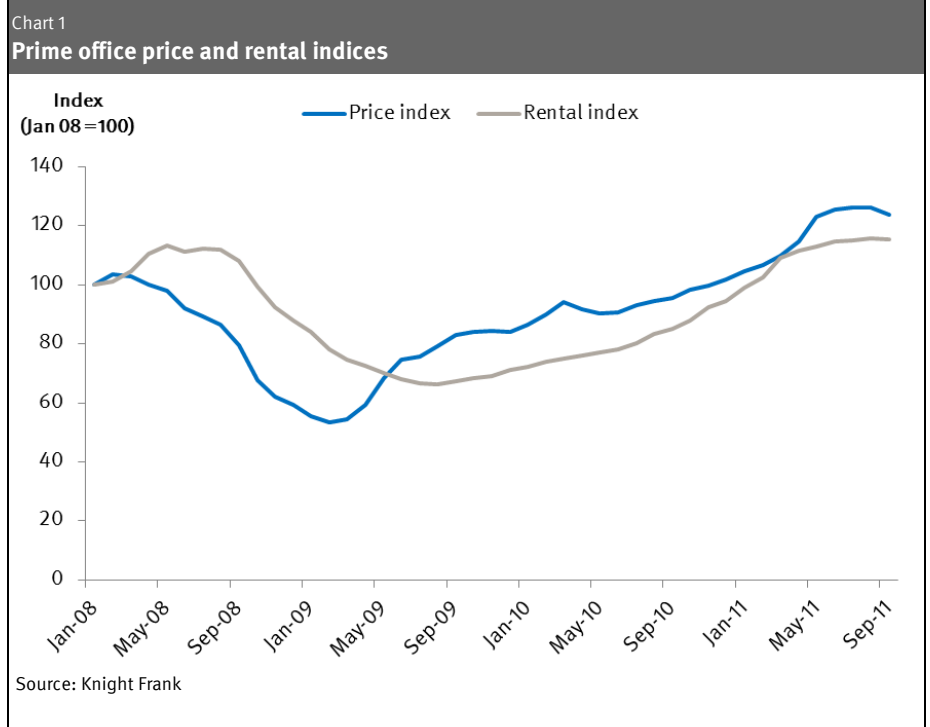
Grade-A office rents started to soften in September, with the rental gap narrowing between core and non-core business districts.

District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Aug 11	From Jun 11	From Sep 10	HK\$psf	From Aug 11	From Jun 11	From Sep 10
Premium Central	177.2	-1.4%	-1.9%	24.9%	n/a	n/a	n/a	n/a
Traditional Central	135.7	-1.3%	-1.3%	40.9%	24,028	-2.6%	-2.6%	42.0%
Admiralty	91.3	-0.2%	0.0%	32.9%	18,678	-1.8%	-1.2%	31.7%
Sheung Wan	62.4	0.7%	1.5%	29.3%	16,512	-1.2%	-1.2%	24.4%
Wan Chai	65.2	1.6%	2.1%	48.4%	13,857	-2.5%	-2.1%	33.2%
Causeway Bay	64.2	1.7%	3.6%	46.0%	14,572	-1.8%	-1.8%	33.0%
North Point	37.2	2.8%	4.8%	48.3%	n/a	n/a	n/a	n/a
Quarry Bay	50.4	1.0%	4.4%	40.2%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	47.4	1.4%	3.9%	34.6%	11,234	-1.4%	0.4%	20.0%
Cheung Sha Wan	21.2	1.2%	1.2%	16.6%	n/a	n/a	n/a	n/a
Hung Hom	28.4	0.0%	2.5%	21.0%	n/a	n/a	n/a	n/a
Kowloon East	31.4	-0.4%	3.2%	38.5%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	50.3	1.0%	2.5%	33.2%	n/a	n/a	n/a	n/a

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



A lack of new supply and low vacancy levels will offset the effect of weakening demand and rents should hold firm over the coming months.



Non-core business districts are expected to lead the Grade-A office leasing market in the coming months.



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