



SEPTEMBER 2010

# HONG KONG PRIME OFFICE

Monthly Report

**Knight Frank 萊坊**

## OFFICE RENTAL GROWTH ACCELERATES

Office sales activity remained strong over the past month. There were about 300 sales transactions in August, representing the highest level since early 2008. En-bloc sales also showed no signs of abating, with Bowa House in Tsim Sha Tsui snapped up by a local investor for HK\$280 million or HK\$10,000 per sq ft. Meanwhile, a 80% stake of Neich Tower in Wan Chai was reportedly sold at HK\$828 million or HK\$8,970 per sq ft, after it changed hands at HK\$668 million or HK\$7,422 per sq ft about a year ago.

Another major transaction involved a whole floor in Bank of America Tower in Admiralty, which was sold for about HK\$236 million or HK\$16,980 per sq ft. A whole floor in Lippo Centre in the same district changed hands for HK\$195 million or HK\$15,213 per sq ft. A number of landlords put their office premises up for sale amid the red-hot market. For example, an office building in Central was reportedly put on the sales market with an asking price of HK\$4.3 billion or HK\$25,000 per sq ft. Grade-A office price growth slowed slightly to 1.3% this past month, compared with 2.9% in July.

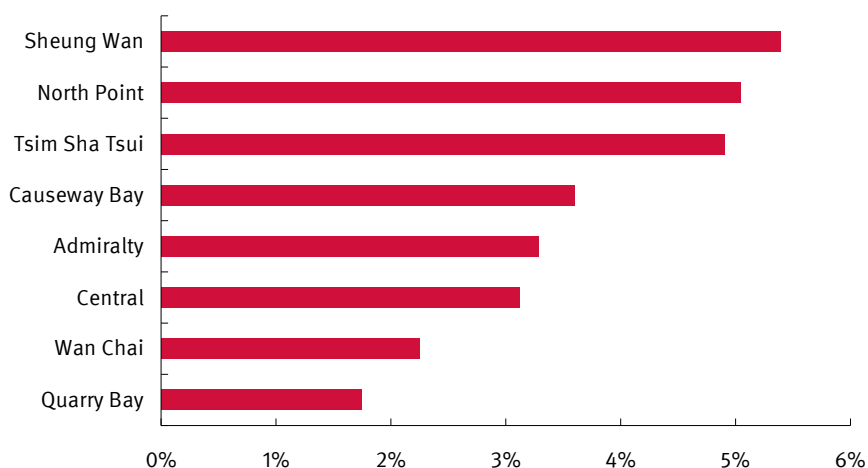


Central led the market with price growth of 2.1%, followed by Causeway Bay and Sheung Wan with growth of 2.0% and 1.6%, respectively. Office prices in Admiralty and Tsim Sha Tsui remained relatively stable in August. After rebounding 76.1% over the past 18 months, the average Grade-A office price this month was only 8.8% lower than its 2008 peak.

In the leasing market, a number of financial institutions and professional services firms scrambled for limited spaces in core areas. Allied Securities took a whole floor measuring 15,700 sq ft in AIA Central in Central; Daiwa Capital Markets committed to about 16,000 sq ft in One Pacific Place in Admiralty; while Allianz Global Investors and McKinsey & Company respectively leased 34,000 sq ft and 17,600 sq ft of spaces in Citibank Plaza in Central.

Because of aggressive expansion in the corporate sector and a dearth of new office supply, the availability of office space continued to decline. The average vacancy rate on Hong Kong Island dropped to 3.1% in August, from 3.5% three months earlier. Office availability has been particularly tight in Central, where there is an absence of new supply in 2010 and demand from the financial sector has been distinctly strong. We have identified 15 office buildings in Central with near-zero vacancy rates as of August.

**Vacancy rates in major office districts, Aug 2010**



Source: Knight Frank

On the back of continual strong demand and declining vacancies, growth in office rents continued to accelerate. The average Grade-A office rent rose 3.9% in August, after rising 3.0% in July. In August, rent growth month on month was the fastest since April 2008. “Traditional Central” led the market this past month, where rents grew 7.7%, followed by 6.3% in Causeway Bay and 5.9% in Kowloon East.

Considering the stronger-than-expected leasing demand, we have revised our forecast of office rent growth in 2010, from 15% to 25%. In 2011, the average rent is expected to rise at a marginally less-rapid rate of 20%, as a number of office completions in Central, including the redevelopment of Dragon Seed Building, Luk Hoi Tung Building and Crocodile House, are due. By mid 2012, the average Grade-A office rent is expected to surpass the previous peak recorded in May 2008.



## Prime office report

The unemployment rate fell to 4.3% in the three months to July 2010—the lowest rate since October 2008.

Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q2 2010	+6.5%#	+2.4%	-2.7%	+4.5%
Inflation rate	July 2010	+1.3%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to July 2010	4.3%#	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

On the back of continual strong demand and declining vacancies, office rents grew 3.9% in August—the fastest growth since April 2008.

District	Net effective rent		Change		Price HK\$psf	Change		
	HK\$psf /mth	From Jul 10	From May 10	From Aug 09		From Jul 10	From May 10	From Aug 09
Premium Central	141.2	2.1%	8.3%	43.3%	n/a	n/a	n/a	n/a
Traditional Central	94.8	7.7%	12.0%	27.0%	16,359	2.1%	3.8%	20.8%
Admiralty	66.4	2.7%	6.8%	20.0%	13,915	0.9%	3.4%	22.1%
Sheung Wan	47.8	2.4%	9.3%	23.3%	13,277	1.6%	6.9%	24.4%
Wan Chai	43.1	1.2%	7.1%	18.5%	10,358	1.4%	4.7%	14.0%
Causeway Bay	43.2	6.3%	14.0%	18.5%	10,686	2.0%	7.7%	12.8%
North Point	24.2	1.0%	1.7%	16.3%	n/a	n/a	n/a	n/a
Quarry Bay	34.8	1.0%	4.6%	9.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	34.4	2.6%	4.5%	18.5%	9,204	0.7%	3.0%	12.5%
Cheung Sha Wan	18.2	1.5%	4.4%	28.9%	n/a	n/a	n/a	n/a
Hung Hom	23.1	0.0%	4.3%	29.5%	n/a	n/a	n/a	n/a
Kowloon East	22.4	5.9%	9.4%	29.9%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	36.5	1.4%	-0.7%	20.1%	n/a	n/a	n/a	n/a

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



**A number of financial institutions and professional services firms scrambled for limited space in core areas.**

Table 4  
Selected office leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Admiralty	One Pacific Place	Part of 17/F	15,800	Daiwa Capital Markets
Central	AlA Central	15/F	15,700	Allied Securities
Central	Citibank Plaza	High floor	17,600	McKinsey & Company
Central	Citibank Plaza	27/F	34,000	Allianz Global Investors
Central	The Hong Kong Club Building	21–22/F	11,500	Chanel

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

**En-bloc sales activity showed no signs of abating and a number of landlords put their offices up for sale amid the red-hot market.**

Table 5  
Selected office sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Wan Chai	Neich Tower	A 80% stake	92,000	828	8,970
Tsim Sha Tsui	Bowa House	En bloc	28,000	280	10,000
Admiralty	Bank of America Tower	10/F	13,900	235.96	16,980
Admiralty	Lippo Centre	Tower 2 / 12/F	12,800	195	15,213
Sheung Wan	Shun Tak Centre West Wing	Mid floor / units 4–6	5,300	67.52	12,650
Sheung Wan	Shun Tak Centre West Wing	25/F / units 6–7	4,500	61.29	13,699

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

# RESEARCH



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