



SEPTEMBER 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

NON-CORE DISTRICTS LEAD THE MARKET

Sentiment in the office market remained mixed over the past month. The sales market was relatively quiet, but the leasing market continued to be resilient although global stock markets turned sour. Rents in Central's premium buildings remained stable, while Grade-A office rents in non-core districts such as Causeway Bay and Kowloon saw substantial growth, narrowing the rental gap between the CBD and other districts.

The leasing market in Central was relatively active during the month, as landlords showed greater flexibility on the negotiation table by reducing rent hikes and offering more incentives. According to the Land Registry, the Securities and Futures Commission committed to six floors in Cheung Kong Center on a six-year lease. The 120,000-sq-ft space was reportedly leased for a monthly rent of approximately HK\$125 per sq ft. Meanwhile, a fund house took up four units in Two IFC.

Grade-A office buildings in non-core areas on Hong Kong Island, such as Causeway Bay and Quarry Bay, continued to be in strong demand, as these well-established business districts provide quality space with proximity to the CBD at comparatively lower rates. Citibank committed to two more floors in One Island East in Quarry Bay, totaling 22,000 sq ft, while AON leased a number of floors in Times Square, Causeway Bay. A 1,029-sq-ft, low-floor unit in Great Eagle Centre in Wan Chai was reportedly leased for HK\$75 per sq ft, a record-high for the building and underscoring robust demand in that area.

Companies were also expanding on the Kowloon side. Audit firm PricewaterhouseCoopers decided to extend its office in Manulife Financial Centre, Kwun Tong, taking up the entire top floor of the building. The 33,300-sq-ft space was reportedly leased for HK\$25, hitting the building's new per-sq-ft rental record. Meanwhile, Japanese home-furnishing store Francfranc expanded its presence in Landmark East in the same district, taking up the remaining 9,000 sq ft of space on the 32nd floor of Tower Two, for a reported HK\$30 per sq ft.

Overall, Grade-A office rents in Hong Kong remained stable, edging up less than 1% in August. Quarry Bay led the market with a growth of 3.4%, followed by Kowloon East with 1.9% and Causeway Bay with 1.6%. Rents in Central and Admiralty stayed at roughly the same levels as the previous month, resulting in a reduction in the rental gap between core and non-core business districts in the city.

Meanwhile, the sales market saw diverse performance over the past month. While activity involving small floor plates was low, the market for en-bloc and large-scale transactions was relatively brisk. An office building at 188–190 Hennessy Road, Wan Chai, housing 20,000 sq ft of space, was reportedly sold for HK\$270 million, or HK\$13,500 per sq ft. CCT Telecom Holdings (0138.HK) bought two floors totaling 12,540 sq ft in Fortis Tower in the same district, for HK\$161 million. This represented a record-high for the building, at about HK\$12,800 per sq ft. Overall, Grade-A office prices in Hong Kong remained stable during the month.

Looking ahead, we remain positive on our outlook for the office market. On the supply side, only about 350,000 sq ft of new space is expected to come on stream in Central for the rest of 2011 and over 2012. Quality space for office tenants in non-core areas is also evaporating, with extremely low vacancies in traditional buildings such as Central Plaza in Wan Chai and Times Square in Causeway Bay. Availability would be further lowered after a number of major deals about to be concluded in Quarry Bay and Tsim Sha Tsui take place.

On the demand side, most international and Mainland firms where Hong Kong is part of their long-term growth strategy have—up until now—adopted expansion plans in the territory. While some banks are reportedly implementing redundancy programmes in the city, an audit firm recently announced aggressive hiring plans over the next few years. It remains to be seen whether the recent market volatility would affect expansion plans in Hong Kong's corporate sector. We therefore maintain our positive forecast and expect Hong Kong's Grade-A office rents to grow about 2–3% for the rest of the year, with non-core districts such as Causeway Bay leading the market.



Prime office report

Consumer prices soared 7.9% in July—the fastest pace since November 1995.

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	July 2011	+7.9%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to July 2011	3.4%#	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

Offices in non-core areas on Hong Kong Island, such as Causeway Bay and Quarry Bay, continued to be in strong demand.

Table 2 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Cheung Kong Center	21 st , 30 th –33 rd and 35 th floors	120,000	Securities and Futures Commission
Central	Two IFC	41 st floor / units 9–12	n/a	Viking Global Hong Kong
Kowloon East	Manulife Financial Centre	Top 23 rd floor	33,300	PricewaterhouseCoopers
Kwun Tong	Landmark East	32 nd floor remaining units	9,000	Francfranc
Quarry Bay	One Island East	55–56 th floors	22,000	Citibank
Wan Chai	Great Eagle Centre	Low-floor unit	1,029	n/a

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



While sales activity involving small floor plates was low, the market for en-bloc and large-scale transactions was relatively brisk.

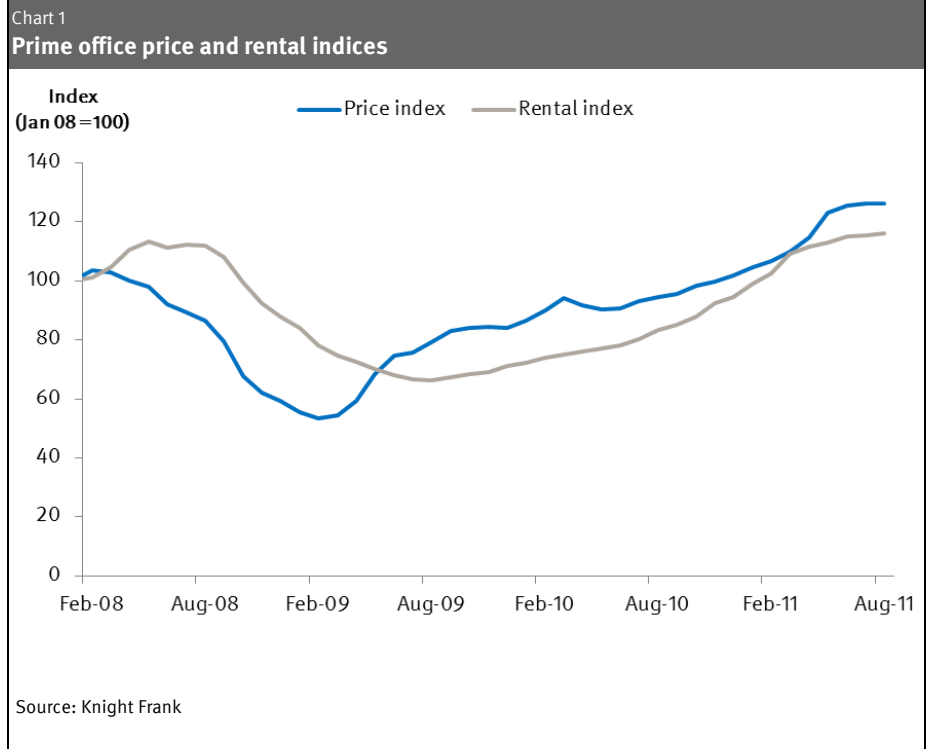
Table 3 Selected office sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Wan Chai	Bank of East Asia Harbour View Centre	15 th floor / unit 2	1,672	\$24.6	\$14,700
Wan Chai	Harcourt House	25 th floor / units 3–5	4,116	\$59.7	\$14,500
Mong Kok	Argyle Centre	10 th floor / unit 2	644	\$9.0	\$14,000
Wan Chai	188–190 Hennessy Road	En bloc	20,000	\$270.0	\$13,500
Tsim Sha Tsui	Concordia Plaza	Low floor / unit 6	1,751	\$18.9	\$10,800
Wan Chai	Fortis Tower	31 st –32 nd floors	12,540	\$161.0	\$12,800
Source: Economic Property Research Centre / Knight Frank					
Note: All transactions are subject to confirmation.					

Both Grade-A office prices and rents remained stable during August.

Table 4 Prime office market indicators—Aug 2011								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Jul 11	From May 11	From Aug 10	HK\$psf	From Jul 11	From May 11	From Aug 10
Premium Central	181.8	0.3%	0.4%	28.8%	n/a	n/a	n/a	n/a
Traditional Central	138.0	0.3%	2.4%	45.6%	24,659	0.0%	1.2%	49.5%
Admiralty	91.4	0.2%	0.2%	37.6%	19,023	0.0%	2.5%	36.7%
Sheung Wan	62.0	0.7%	0.7%	29.6%	16,709	0.0%	3.3%	25.8%
Wan Chai	64.2	0.5%	3.4%	49.2%	14,216	0.0%	2.1%	37.2%
Causeway Bay	63.8	1.6%	4.3%	47.6%	14,840	0.0%	0.0%	38.9%
North Point	36.2	2.0%	4.7%	49.3%	n/a	n/a	n/a	n/a
Quarry Bay	49.9	3.4%	3.4%	43.5%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	46.5	0.1%	6.6%	35.2%	11,397	0.0%	3.5%	23.8%
Cheung Sha Wan	21.0	0.0%	4.5%	15.1%	n/a	n/a	n/a	n/a
Hung Hom	28.4	1.2%	7.5%	22.8%	n/a	n/a	n/a	n/a
Kowloon East	31.5	1.9%	6.6%	41.0%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	49.8	1.5%	6.1%	36.4%	n/a	n/a	n/a	n/a
Source: Knight Frank								
Rents and prices are subject to revision.								



We maintain our positive forecast and expect Grade-A office rents to grow about 2–3% for the rest of the year.



The rental gap between core and non-core business districts in the city narrowed last month.



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