

APRIL 2010

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

CORPORATE SECTOR EAGER TO EXPAND

Hong Kong's office sales market continued to be active this past month. About 240 sales transactions were recorded in March, the tenth consecutive month to feature over 200 deals. The market continued to see major transactions, including the en-bloc acquisitions of The Broadway in Wanchai for HK\$590 million and Fortis Centre in Quarry Bay for HK\$1.8 billion. An 80% stake of Neich Tower in Wanchai was also reportedly sold for HK\$880 million.

The sales market would have been even more robust had certain landlords not suspended sales while holding out for higher prices. A fund which owns a 90% stake of Lyndhurst Tower in Central raised its asking price by 15% to HK\$800 million as the deal was about to conclude, while a real estate fund suspended the sale of Vicwood Plaza in Sheung Wan in the hope of further price appreciation.



A number of offices changed hands more than once within a short period of time, pushing up the average Grade-A office price, month on month, by 4.8%—the largest gain in five months. Admiralty saw the biggest monthly increase of 7.0%, followed by Central with 6.5% and Sheung Wan with 3.7%. Office prices in some districts came very close to their last peaks of 2008. Tsim Sha Tsui's office prices were only 4.1% lower than their 2008 peaks, while Sheung Wan's prices were only 4.5% lower.

Robust leasing demand and decreasing vacancies continued to boost office rents. The average rent of Grade-A offices edged up another 1.7% in March, after rising 11.1% in the previous six months. Cheung Sha Wan and "Premium Central" led the rental recovery, with rents increasing by 5.7% and 5.1% respectively over the month. Other districts that recorded rent growth of more than 2% included Admiralty, Wan Chai, Mong Kok and Yau Ma Tei.

There were a number of corporate expansions this past month, underscoring the strengthening economic recovery. One international firm specialising in corporate secretarial and accounting services moved from its 7,000-sq-ft office in Times Square, Causeway Bay to a 15,000-sq-ft office in The Lee Gardens nearby. Meanwhile, financial information provider Bloomberg took up additional office space in Cheung Kong Centre in Central and China International Capital Corporation committed to an additional floor in One IFC in the same district.

AXA made plans to move its offices to less expensive locations. The global insurance company committed to 28,000 sq ft of space in Dorset House and 25,000 sq ft in One Island East, both in Quarry Bay, as well as about 100,000 sq ft in Landmark East in Kwun Tong. AXA's local offices are now scattered in Wan Chai, Causeway Bay and Tsim Sha Tsui, but expected to become more consolidated after moving into the newly committed offices in Kwun Tong and Quarry Bay. AXA is the third insurance giant to have moved a major part of its operations to Kowloon East to cut costs in the past few months, following AIA and Manulife.

Although several insurance companies moved out of Causeway Bay this past month, the vacant spaces were quickly absorbed, demonstrating the district's enduring appeal. Vacancy in The Lee Gardens dropped significantly over the past two months as the building saw major leasing deals, including six floors taken up by Sun Hung Kai Securities. Office space in Windsor House was also actively sought after: Eugene Group leased a whole floor totalling 19,100 sq ft, while an educational institute took up another floor of similar size.

Looking forward, the recovery in the office rental market is expected to continue on the back of fast absorption rates. Recently, tenants in key Central offices have been eager to make early pre-letting commitments, as availability continues to decrease. In Kowloon East, vacancies in major office buildings such as Manhattan Place, Landmark East and Manulife Financial Centre are becoming scarce, with many large floor plates having been taken up over the past few months. Some landlords have raised their asking rents markedly as occupancy has improved. As we expect leasing demand to continue to strengthen in the coming months in tandem with the economic recovery, we believe Grade-A office rents will rise faster than expected.



Prime office report

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Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q4 2009	+2.6%#	+2.4%	-2.7%	+4.5%
Inflation rate	February 2010	+2.8%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to March 2010	4.4%#	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

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Table 2 Prime office market indicators—March 2010								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Feb 10	From Dec 09	From Mar 09	HK\$psf	From Feb 10	From Dec 09	From Mar 09
Premium Central	128.4	5.1%	13.7%	10.2%	n/a	n/a	n/a	n/a
Traditional Central	82.0	0.6%	4.8%	-7.6%	16,140	6.5%	10.9%	70.4%
Admiralty	61.2	2.1%	4.0%	2.0%	14,115	7.0%	17.0%	82.5%
Sheung Wan	41.3	0.0%	2.3%	-0.7%	13,160	3.7%	13.5%	82.7%
Wan Chai	38.8	2.2%	3.4%	-6.0%	10,001	3.7%	5.1%	49.7%
Causeway Bay	36.9	1.4%	2.2%	-15.2%	10,229	0.0%	3.7%	70.0%
North Point	23.4	-2.1%	3.7%	-1.3%	n/a	n/a	n/a	n/a
Quarry Bay	32.3	0.0%	2.0%	-4.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	32.2	-0.4%	2.3%	4.8%	9,416	3.3%	8.9%	64.8%
Cheung Sha Wan	17.0	5.7%	8.4%	17.2%	n/a	n/a	n/a	n/a
Hung Hom	22.2	1.6%	13.7%	12.3%	n/a	n/a	n/a	n/a
Kowloon East	19.5	1.5%	3.1%	13.2%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	36.1	2.5%	3.6%	16.0%	n/a	n/a	n/a	n/a

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



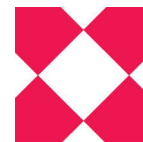
The vacant spaces in Causeway Bay were quickly absorbed, demonstrating the district's enduring appeal.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Causeway Bay	The Lee Gardens	12/F	15,500	An accounting and secretarial services firm
Causeway Bay	Windsor House	16/F	19,000	Eugene Group
Causeway Bay	Windsor House	26/F	19,000	An educational institute
Central	One IFC	25/F	20,400	China International Capital Corporation
Kwun Tong	Landmark East	n/a	100,000	AXA
Quarry Bay	Dorset House	28-29/F	About 29,000	AXA
Source: Knight Frank				
Note: All transactions are subject to confirmation.				

Sales activity would have been even more robust had certain landlords not suspended sales while holding out for higher prices.

Table 4 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Quarry Bay	Fortis Centre	En bloc	293,100	\$1,825	\$6,227
Wan Chai	The Broadway	En bloc	65,577	\$590	\$8,997
Sheung Wan	Cosco Tower	35/F	20,946	\$284.87	\$13,600
Sheung Wan	Cosco Tower	34/F	20,506	\$274.78	\$13,400
Sheung Wan	Cosco Tower	22/F	19,746	\$207.3	\$10,500
Admiralty	Lippo Centre	Tower 2 / 17/F / unit 6	1,700	\$24.65	\$14,500
Source: Economic Property Research Centre / Knight Frank					
Note: All transactions are subject to confirmation.					

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