



DECEMBER 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE RENTS TO DECLINE OVER 2012

Sentiment in the office sales market improved slightly over the past month, following the reduction of borrowing costs by six foreign central banks. The People's Bank of China also lowered the Reserve Requirement Ratio (RRR) by 50 basis points. About 180 office sales transactions were registered in November, a rise of approximately 60% from the previous month. However, the figure was still relatively low compared with the monthly average of over 260 for the first 11 months of the year.

The market continued to see major office transactions worth over HK\$100 million, such as the sale of the 15,929-sq-ft, 11th floor of Harbour Centre in Wan Chai, which was transacted at about HK\$315 million or HK\$19,775 per sq ft. Meanwhile, two floors with a net floor area of 9,874 sq ft in BCC Building, Tsim Sha Tsui were sold for about HK\$101 million or HK\$10,229 per sq ft and a Mainland bank bought the 29,000-sq-ft, 19th floor of MG Tower in Kwun Tong as well as six parking spaces for about HK\$215 million or about HK\$7,400 per sq ft.

Grade-A office prices edged down at a faster pace, decreasing 3.2% in November, compared with 2.3% in October. Causeway Bay witnessed the largest price drop of 3.7%, followed by Wan Chai and Sheung Wan, which both saw price falls of about 1.7%. Prices in Central and Admiralty remained stable during the month.

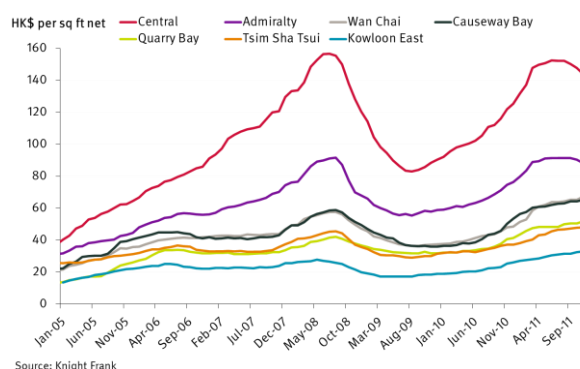
The leasing market was quieter last month with the holiday season approaching and most transactions involved small floor plates. With office rents lowering, some financial institutions took the opportunity to establish a foothold in Central. For example, US fund EIG Global Energy Partners set up its first office in Hong Kong in three mid-floor units totaling about 4,300 sq ft in Two International Finance Centre, reportedly for HK\$185 per sq ft per month.

Chinese firms became the major source of leasing demand in the Grade-A office market. China Galaxy International Securities, for instance, took up most of the 35th floor of Cosco Tower in Sheung Wan, a space totaling 16,500 sq ft. Meanwhile, Sino Gas leased two units on the 28th floor of Bank of America Tower in Admiralty, totaling 2,700 sq ft.

With a number of major tenants moving out of the CBD, vacancy rates in Central rose to 3.0% in November, the highest level in the last 12 months. Conversely, vacancy levels in non-core districts remained low during the same period, as companies relocated from core areas and filled up the available spaces. Vacancy rates in Wan Chai and Tsim Sha Tsui were as low as 1.5%.

The rental performances of core and non-core districts continued to diverge. Central and Admiralty saw rents drop by 2.6% and 2.3%, respectively—the largest month-on-month declines since mid 2009. Non-core districts, however, were immune to the softening, given relocation demand. Hung Hom led the market with a 3.3% rental growth, followed by 3.0% in Wan Chai and 2.5% in Quarry Bay.

Grade-A office monthly rents



The joint offerings of currency swap lines by central banks and the lowering of the RRR by The People's Bank of China is expected to temporarily lend support to the weak stock and property markets. However, the failure to agree a comprehensive debt solution at the recent European Union Summit means the crisis will continue to impact the economy as well as the local office market next year. Looking ahead, office demand in Hong Kong is expected to remain weak amid slow business expansion and limited new office set-ups. We forecast the current downtrend in Grade-A office rents will continue in 2012. Rent levels in Central may drop around 10–15%, although those in non-core areas are more likely to remain firm over the next 12 months.



Prime office report

The unemployment rate rose 0.1 percentage point in October—the first increase since February this year.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q3 2011	+4.3%#	-2.7%	+6.8%	+5%
Inflation rate	October 2011	+5.8%	+0.5%	+2.4%	+5.2-5.3%
Unemployment	Three months to October 2011	3.3%#	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

The leasing market quietened, with transactions mainly involving small floor plates.

Table 2 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Admiralty	Bank of America Tower	28th floor / units 5–6	2,700	Sino Gas
Central	Cheung Kong Center	55th floor / unit 1	16,505	A financial firm
Central	Two International Finance Centre	38th floor / units 14–16	4,282	EIG Global Energy Partners
Sheung Wan	Cosco Tower	35th floor / units 1–7 & 13–14	16,449	China Galaxy International Securities
Tsim Sha Tsui	Concordia Plaza	8th floor / units 15–17	7,400	n/a

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



The market still saw some major office sales transactions worth over HK\$100 million this past month.

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	Lippo Centre	Tower 2 / 23 rd floor / units 10–12	3,203	\$64.60	\$20,169
Wan Chai	Harbour Centre	11 th floor	15,929	\$315	\$19,775
Admiralty	Lippo Centre	Tower 2 / low floor / unit 5	1,950	\$32.18	\$16,500
Tsim Sha Tsui	BCC Building	3 rd –4 th floors	9,874 (Net)	\$101	\$10,229
Kwun Tong	MG Tower	19 th floor	29,000	\$215	\$7,414
Kwun Tong	Elite Centre	15 th floor	11,875	\$72.44	\$6,100

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

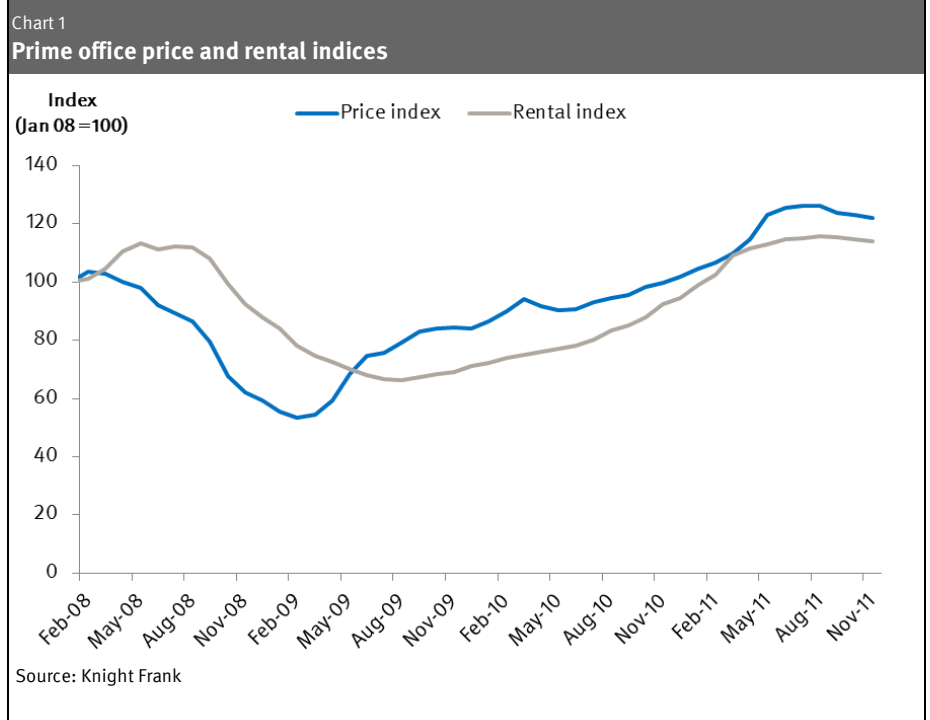
The average Grade-A office price dropped 0.9% in Hong Kong last month, while the average rent declined 0.7%.

District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Oct 11	From Aug 11	From Nov 10	HK\$psf	From Oct 11	From Aug 11	From Nov 10
Premium Central	169.6	-2.8%	-5.7%	8.3%	n/a	n/a	n/a	n/a
Traditional Central	130.3	-2.4%	-5.3%	26.0%	24,028	0.0%	-2.6%	26.0%
Admiralty	88.2	-2.3%	-3.5%	18.3%	18,539	0.0%	-2.5%	25.1%
Sheung Wan	62.4	0.0%	0.7%	27.1%	16,168	-1.7%	-3.2%	19.6%
Wan Chai	67.2	3.0%	4.6%	40.1%	13,616	-1.7%	-4.2%	25.3%
Causeway Bay	65.3	1.7%	3.5%	30.2%	13,572	-3.7%	-8.5%	16.4%
North Point	37.2	0.0%	2.8%	36.6%	n/a	n/a	n/a	n/a
Quarry Bay	51.7	2.5%	3.5%	27.3%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	48.1	0.4%	2.9%	29.5%	11,111	-0.7%	-2.5%	16.7%
Cheung Sha Wan	22.3	3.1%	6.4%	19.1%	n/a	n/a	n/a	n/a
Hung Hom	29.7	3.3%	4.6%	26.5%	n/a	n/a	n/a	n/a
Kowloon East	33.0	1.6%	4.7%	30.5%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	48.8	0.0%	-2.0%	21.9%	n/a	n/a	n/a	n/a

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



We forecast that the current downtrend in Grade-A office rents will continue in 2012.



The rental performances of core and non-core districts continued to diverge.



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