



FEBRUARY 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

RENTS TO SURPASS 2008 PEAKS BY YEAR-END

Players in Hong Kong's office leasing market started the game of 'musical chairs' again at the beginning of 2011, but with fewer available chairs and more competing tenants than last year. Leasing activity was more robust in January compared with the previous month, as corporate decision makers returned after the Christmas and New Year holidays. With further growth in the local economy, demand came from a variety of business sectors, in particular from the financial industry.

On the back of sustained economic growth, companies were looking to expand. Listed developer Agile Property, for example, took up a 17,800-sq-ft floor in Citibank Plaza in Central, while global investment firm Invesco expanded into two floors totaling 34,000 sq ft in the same building. The market also saw new firms enter Hong Kong last month, including a foreign bank which committed to an 8,600-sq-ft unit in Gateway in Tsim Sha Tsui.

A number of office leasing deals were concluded at record-breaking rents this past month, including an 8,600-sq-ft unit in Nine Queen's Road Central in Central, which was leased for HK\$69 per sq ft per month—a new rent-high for the building. Meanwhile, five high-floor units in Two IFC in the same district were reportedly taken up for HK\$160 per sq ft per month—the highest office rent achieved in Hong Kong since the outbreak of the global financial crisis in late 2008.

With strong absorption over the past year, there is little premium business space left in Hong Kong's major business districts. More Grade-A office buildings achieved full occupancy at the end of 2010, including New World Tower Two in Central, The Lee Gardens in Causeway Bay as well as Cityplaza Four, Cornwall House and Somerset House in Quarry Bay.

With demand outstripping supply, a number of landlords received multiple offers from potential tenants competing for limited spaces. Asking rents were raised more aggressively and more frequently. For instance, a major landlord in Central recently raised asking rents by as much as 18% after securing a number of landmark deals last month. There was little room for negotiation and rent-free periods were shortened to only two months, compared with the previous norm of at least three to four months.

The growth in Grade-A office rents accelerated last month, gaining another 4.5%. Traditional Central outperformed with a 6.3% rise, followed by Wan Chai with 6.1% and Quarry Bay with 5.1%. A number of office buildings in Quarry Bay saw rents surpass their previous 2008 peaks, making it the first district to see rents return to pre-crisis levels. By the end of 2011, it is likely that rents in all major business districts in Hong Kong would surpass their previous 2008 peaks. With another wave of rent rises expected after the Lunar New Year holiday, we maintain our forecast that the overall Grade-A office rents could rise 20-30% over the year.

Table 1 Grade-A office rents in major districts		
District	Jan 2011 compared with 2008 peak	Magnitude of rebound from 2009 trough
Quarry Bay	3.3%	37.4%
Kowloon East	-2.6%	57.8%
Causeway Bay	-4.0%	57.3%
Wan Chai	-10.9%	41.4%
Sheung Wan	-11.1%	34.1%
Admiralty	-12.9%	44.0%
Central (Traditional)	-14.4%	53.4%
Tsim Sha Tsui	-16.5%	31.1%
Central (Premium)	-17.6%	68.8%
Source: Knight Frank		



Prime office report

On the back of sustained economic growth, companies were looking to expand.

Table 2 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q3 2010	+6.8%#	-2.7%	+6.6%^	+4.7%
Inflation rate	December 2010	+3.1%	+0.5%	+2.4%	+2.9%
Unemployment	Three months to December 2010	4.0%#	5.4%	4.3%^	4.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank
 ^ Estimate # Provisional * HSBC prime lending rate

The average Grade-A office rent in Hong Kong surged another 4.5% in January 2011, after soaring 33.1% in 2010.

Table 3 Prime office market indicators—January 2011								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Dec 10	From Oct 10	From Jan 10	HK\$psf	From Dec 10	From Oct 10	From Jan 10
Premium Central	164.5	3.6%	12.2%	40.1%	n/a	n/a	n/a	n/a
Traditional Central	114.5	6.3%	15.1%	45.4%	20,840	4.3%	14.2%	40.4%
Admiralty	79.7	4.3%	11.9%	34.7%	15,702	3.3%	7.0%	25.3%
Sheung Wan	51.9	4.0%	5.8%	27.2%	13,763	1.0%	2.6%	15.3%
Wan Chai	51.4	6.1%	12.6%	36.1%	11,454	4.2%	6.6%	20.4%
Causeway Bay	56.4	5.4%	0.0%	54.9%	12,400	0.8%	10.4%	23.0%
North Point	29.6	4.1%	12.9%	26.6%	n/a	n/a	n/a	n/a
Quarry Bay	43.5	5.1%	15.8%	35.3%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	38.1	2.1%	4.8%	18.9%	9,874	2.3%	5.0%	10.3%
Cheung Sha Wan	18.7	0.0%	2.9%	19.2%	n/a	n/a	n/a	n/a
Hung Hom	23.5	0.0%	0.0%	16.2%	n/a	n/a	n/a	n/a
Kowloon East	27.1	4.2%	17.1%	42.9%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	41.4	0.0%	9.7%	19.2%	n/a	n/a	n/a	n/a

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



A number of office deals were concluded at record-breaking rents this past month.

Table 4

Selected office leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Admiralty	Admiralty Centre	16/F	10,600	A local securities firm
Central	Citibank Plaza	33/F	17,800	Agile Property
Central	Citibank Plaza	41-42/F	34,000	Invesco
Central	Nine Queen's Road Central	Mid-floor unit	8,600	Chanel
Central	Two IFC	Five high-floor units	6,400	Investec
Kwun Tong	Landmark East	6/F	27,300	GUESS

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

The office sales market remained active over the past month, with some investors shifting from the residential sector.

Table 5

Selected office sales transactions

District	Building	Tower / Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Nine Queen's Road Central	High floor / unit 2	1,224	\$31	\$25,327
Admiralty	Bank of America Tower	19/F / units 10-11	2,690	\$64.022	\$23,800
Sheung Wan	Shun Tak Centre West Wing	22/F / units 6-7	4,980	\$83.66	\$16,800
Admiralty	Admiralty Centre	Tower 2 / mid floor unit	3,000	\$44.40	\$14,800
Admiralty	Admiralty Centre	Tower 1 / 21/F / unit 3	6,564	\$94.52	\$14,400
Wan Chai	AXA Centre	14/F	12,750	\$159	\$12,510

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

RESEARCH



Americas

USA
Bermuda
Brazil
Caribbean
Australasia
Australia
New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand

Hong Kong contacts

Alan Child

Executive Chairman
T: (+852) 2846 9522
E: alan.child@hk.knightfrank.com

Mark Bernard

Executive Director
Commercial Agency
T: (+852) 2846 4811
E: mark.bernard@hk.knightfrank.com

Pamela Tsui

Manager
Research Department
T: (+852) 2846 4843
E: pamela.tsui@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers and investors, as well as financial and corporate institutions. All recognise the need for the provision of expert independent advice, customised to their specific needs.

Our worldwide research reports are also available at www.knightfrank.com.

© Knight Frank 2011

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.