



MARCH 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE MARKET REMAINS HEATED

On the back of further growth in the local economy—reflected by the 6.8% GDP growth last year, a four-year high and the 3.8% unemployment rate in January 2011, a 26-month low—Hong Kong continued to witness robust office leasing activity in February 2011. The corporate sector continued to expand rapidly, but with little office space available, rents rose significantly as landlords raised asking rents more aggressively.

Transaction volume in Central diminished, given the low availability of space. The only major leasing deal in the district last month involved private equity firm Kohlberg Kravis & Roberts, which reportedly committed to an entire floor in Cheung Kong Center totaling about 20,500 sq ft. Other districts, where comparatively more space was available, recorded more leasing transactions. For example, a finance company reportedly leased a floor in Times Square in Causeway Bay totaling 19,400 sq ft, while AIA reportedly committed to a 16,700-sq-ft floor in Kerry Centre in Quarry Bay. Across the harbour, a

17,000-sq-ft, half-floor unit in International Commerce Centre in Tsim Sha Tsui was reportedly taken up by ABN Amro, while three floors totaling 52,000 sq ft in C-BONS International Centre in Kwun Tong were also reportedly absorbed by an insurance company.

Traditional Central continued to lead the market last month, where rents grew another 5.4% after surging 6.3% in January, followed by North Point and Quarry Bay, where rents both rose 5.0%. Rents in Tsim Sha Tsui also gathered pace, growing 3.6% last month—the largest month-on-month increase since December 2009.

Activity in the office sales market was brisk in the past month, with more speculators shifting from the residential market, where interest has curtailed after the introduction of various government cooling measures. Grade-A office properties were particularly attractive to investors, as they offered higher rental yields (3.2% in December 2010) than luxury homes (2.5% in the same month). There were about 300 office sales transactions in February, up over 20% from the previous month.

A number of major sales transactions were registered last month, including a 1,756-sq-ft, mid-floor unit in Star House, Tsim Sha Tsui reportedly sold for about HK\$22.5 million or HK\$12,800 per sq ft and a 5,732-sq-ft, high-floor unit in United Centre, Admiralty reportedly sold for HK\$80 million or HK\$13,957 per sq ft. Both transactions hit record price-highs for the buildings. A number of offices changed hands more than once within a short period, including two units in Cosco Tower in Sheung Wan reportedly sold for HK\$36 million or HK\$12,775 per sq ft, reaping a profit of HK\$3 million in just a month.

In February, the average price of secondary Grade-A offices rose 1.8% month on month to HK\$13,791 per sq ft, surpassing its last peak in early 2008 by 3.0%. Wan Chai saw the biggest monthly price growth of 5.4%, followed by Central and Sheung Wan where prices rose 2.5% and 1.6%, respectively. In the primary market, One Island South—a new 29-floor office building in Island South—was completed last month and released for sale. About ten floors were reportedly acquired within two weeks of launch, with one deal involving Moisse International where an entire 29,800-sq-ft floor was bought for around HK\$187 million or about HK\$6,200 per sq ft.

In order to remedy the short supply of Grade-A offices in core districts, the government has proposed slashing the 850,000-sq-ft of prime office space it now leases in Central and Admiralty by 97%, to about 2,500 sq ft by 2014. Moreover, it will continue its plans to redevelop three government buildings in Wan Chai North and the West Wing of Central Government Offices in Central into Grade-A office buildings, which would provide 2.5 million sq ft of prime office space in the two districts. However, such moves are unlikely to ease the shortage problem in the near term, as it could take at least six years to complete the new office buildings.

In the 2011–2012 Budget, the government has also proposed to include 16 commercial sites on its ‘List of Sites for Sale by Application’ for 2011–2012, which could provide over six million sq ft of office and retail space. However, given that it would take a minimum of four years to develop such sites into new offices, office supply in CBD will remain tight in the foreseeable future. Amid limited supply and continual demand for office premises, we maintain a positive outlook for the office market and forecast a rent growth of 20–30% this year.



Prime office report

Hong Kong's economy continued to recover, with the unemployment rate dropping to 3.8%—a new low in 26 months.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q4 2010	+6.2%#	-2.7%	+6.8%	+4.7%
Inflation rate	January 2011	+3.6%	+0.5%	+2.4%	+2.9%
Unemployment	Three months to January 2011	3.8%#	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

Rents in Tsim Sha Tsui gathered pace, growing 3.6% last month—the largest month-on-month increase since December 2009.

Table 2 Prime office market indicators—February 2011								
District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Jan 11	From Nov 10	From Feb 10	HK\$psf	From Jan 11	From Nov 10	From Feb 10
Premium Central	168.4	2.4%	7.5%	37.9%	n/a	n/a	n/a	n/a
Traditional Central	120.7	5.4%	16.7%	47.9%	21,365	2.5%	12.0%	41.0%
Admiralty	83.4	4.6%	11.8%	39.0%	15,906	1.3%	7.3%	20.5%
Sheung Wan	54.2	4.4%	10.4%	31.2%	13,981	1.6%	3.4%	10.1%
Wan Chai	53.0	3.2%	10.6%	39.5%	12,076	5.4%	11.1%	25.2%
Causeway Bay	57.7	2.2%	14.9%	58.7%	12,400	0.0%	6.4%	21.2%
North Point	31.1	5.0%	14.3%	30.4%	n/a	n/a	n/a	n/a
Quarry Bay	45.7	5.0%	12.7%	41.4%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	39.4	3.6%	6.2%	21.7%	9,874	0.0%	3.7%	8.3%
Cheung Sha Wan	18.7	0.0%	0.0%	16.2%	n/a	n/a	n/a	n/a
Hung Hom	23.8	1.5%	1.5%	9.1%	n/a	n/a	n/a	n/a
Kowloon East	27.5	1.7%	8.9%	43.0%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	42.0	1.5%	5.0%	19.3%	n/a	n/a	n/a	n/a

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



Districts with more office availability recorded more leasing transactions than those with limited supply.

Table 3

Selected office leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Causeway Bay	Times Square	One floor	19,400	A financial firm
Central	Cheung Kong Center	25/F	20,549	Kohlberg Kravis & Roberts
Kwun Tong	C-BONS International Centre	22–23/F, 25/F	52,000	An insurance firm
Quarry Bay	Kerry Centre	17/F	16,700	n/a
Tsim Sha Tsui	International Commerce Centre	Half floor	17,000	ABN Amro
Wan Chai	Harbour Centre	20/F	8,300	A Mainland firm

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

High rental yields and less government influence in the office sector continued to attract speculators from the residential market.

Table 4

Selected office sales transactions

District	Building	Tower / Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	Bank of America Tower	15/F	13,880	\$300.8	\$21,671
Admiralty	Far East Finance Centre	High floor unit 5	597	\$9.55	\$16,000
Admiralty	United Centre	26/F unit C	5,732	\$80	\$13,957
Sheung Wan	Grand Millennium Plaza	15/F unit 1	3,166	\$39.58	\$12,500
Island South	One Island South	13/F	28,000	\$175	\$6,250
Island South	One Island South	6/F	29,800	\$179	\$6,007

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

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