



NOVEMBER 2011

HONG KONG PRIME OFFICE

Monthly Report

Knight Frank 萊坊

OFFICE VACANCY RATE IN CENTRAL TO RISE

Over the past month, momentum in the office sales market continued to weaken. About 120 office sales transactions were registered in October, representing a drop of approximately 40% from the previous month and the lowest level since early 2009. Speculative activity continued to wane, with only five transactions involving confirmors recorded over the past month, compared with a monthly average of about 30 in the first nine months of the year.

Sales activity in Kowloon East increased this past month, fuelled by the announcement of the 'Energising Kowloon East' scheme in the recent 2011–12 Policy Address. A number of major office sales deals were concluded, including a 40,500-sq-ft, mid-floor unit in Enterprise Square, Kowloon Bay, which was sold for about HK\$211 million or HK\$5,209 per sq ft. Meanwhile, Kin Sang Chemical snapped up around half of a property currently under construction at 49 King Yip Street, Kwun Tong for about HK\$520 million or HK\$6,868 per sq ft. The building is an office project by Sun Hung Kai Properties

(0016.HK) and the transaction involved 12 floors totaling 75,700 sq ft, 29 car-parking spaces and the building's naming rights, making it the largest deal concluded in Kowloon East this year, by total consideration.

Other major transactions this past month included five, high-floor units totaling 13,105 sq ft in Shun Tak Centre East Wing, Sheung Wan, which were sold for about HK\$219 million or HK\$16,739 per sq ft and two floors totaling 27,440 sq ft at Nine Queen's Road Central in Central, sold by an investor to a Southeast-Asian fund for HK\$735.5 million or HK\$26,804 per sq ft.

Grade-A office prices continued to edge down this month, but at a slower pace. The average Grade-A office price in Hong Kong fell 0.6% last month, compared with a drop of 1.8% in September. Prices in Central and Wan Chai remained stable, while Admiralty, Sheung Wan and Tsim Sha Tsui recorded price drops of less than 1% during the month.

While the sales market remained subdued, rental activity increased compared with September, as a number of firms were eager to commit to new leases before the approach of the holiday season. Relocation activity was robust, with a number of companies moving to non-core districts in order to lower running costs amid an uncertain economic outlook. One major deal involved Hamburg Süd, a German shipping company, which relocated to a 20,000-sq-ft floor in Tower Two of Landmark East in Kwun Tong.

Non-core districts benefiting from the robust relocation activity included Quarry Bay and Wan Chai. Financial services provider Tricor Group expanded its presence in Hopewell Centre in Wan Chai, leasing five more floors totaling 80,000 sq ft in the building. In Quarry Bay, Imperial Tobacco Group leased 10,000 sq ft of mid-floor office space in Kerry Centre, while PR agency Publicis Hong Kong took up two floors totaling 20,000 sq ft in Warwick House.

With rents in Central dropping in recent months, some international firms took the opportunity to establish a foothold in the core business district. A Japanese firm, for instance, reportedly leased two floors totaling 32,000 sq ft in Citibank Tower, while Berwin Leighton Paisner, a London-based law firm, reportedly set up its first Hong Kong office on a low, 6,565-sq-ft floor at 50 Connaught Road Central.

The average rent of Grade-A offices recorded a 0.5% month-on-month drop in October. In Central, the rent decline was slightly sharper at 1.6%, as landlords there showed more flexibility in negotiation. Kowloon continued to lead the overall market, with Kowloon East witnessing a 3.4% rental growth last month.

Looking forward, office demand from financial institutions—that usually favour space in core districts—is likely to remain low amid the Eurozone debt crisis. Meanwhile, local firms are also expected to slow their expansion plans amid a slowing local economy. Between now and the first quarter of 2012, a number of multinational corporations, including banks and insurance and professional services firms, are likely to move their offices out of core areas to cut costs. This will free up a considerable amount of office space in core areas and we believe the vacancy rate in Central may edge up to about 5% in 2012. Grade-A office rents in core areas will continue to see a mild correction, in the short term.



Prime office report

The Hong Kong government lowered the city's GDP growth forecast for 2012 from 5–6% to 5%.

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 market saw more companies expanding into non-core districts such as Quarry Bay and Wan Chai, this past month.

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Citibank Tower	34 th and 36 th floor	32,000	A Japanese firm
Kwun Tong	Landmark East	Tower 2 / 42 nd floor	20,000	Hamburg Süd Group
Quarry Bay	Kerry Centre	12 th floor / units 1-2	10,000	Imperial Tobacco
Quarry Bay	Warwick House	9 th and 11 th floor	20,000	Publicis Hong Kong
Wan Chai	Hopewell Centre	Five floors	80,000	Tricor
Wan Chai	Hopewell Centre	27 th floor and part of 26 th floor	20,000	Principal

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



Sales activity in Kowloon East increased this past month, fuelled by the announcement of the 'Energising Kowloon East' scheme in the 2011–12 Policy Address.

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Nine Queen's Road Central	12-13 th floors	27,440	\$735.5	\$26,804
Sheung Wan	Shun Tak Centre East Wing	33 rd floor / units 16,18 and 26-28	13,105	\$219.36	\$16,739
Kwun Tong	55 King Yip Street	32 nd floor	12,682	\$95.27	\$7,512
Kwun Tong	MG Tower	19 th floor	29,000	\$215	\$7,414
Kwun Tong	49 King Yip Street	12 floors*	75,708	\$520	\$6,868
Kowloon Bay	Enterprise Square	Tower 1-3 / 15 th floor	40,505	\$211	\$5,209

* Including the building's naming rights and 29 car-parking spaces
Source: Economic Property Research Centre / Knight Frank
Note: All transactions are subject to confirmation.

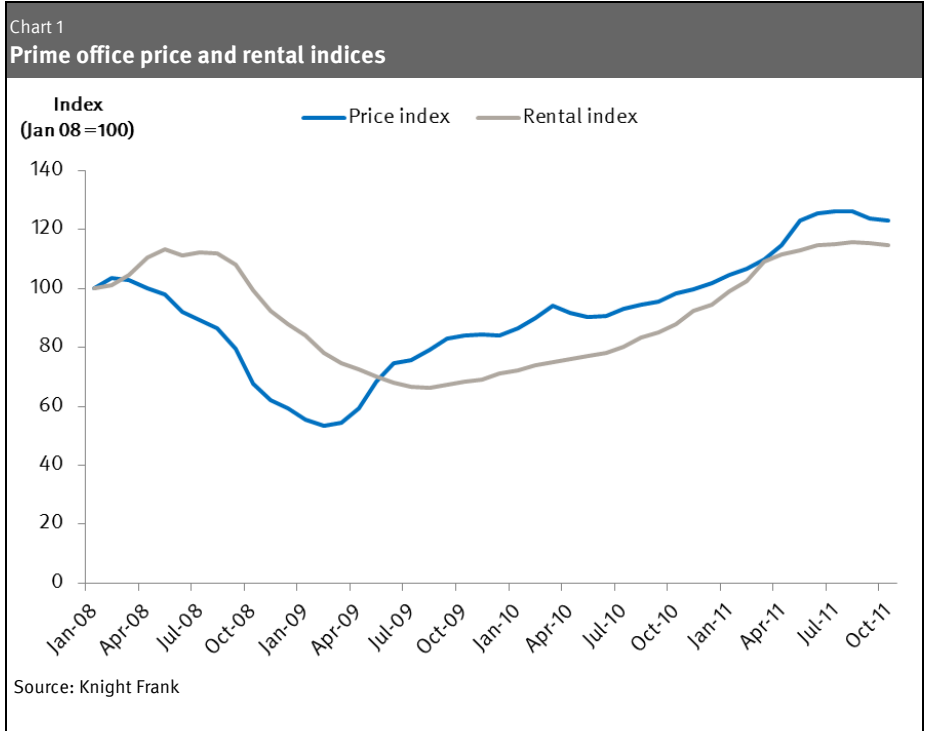
The average Grade-A office price in Hong Kong dropped 0.6% last month, a slower decline when compared with the 1.8% drop in September.

District	Net effective rent		Change		Price		Change	
	HK\$psf /mth	From Sep 11	From Jul 11	From Oct 10	HK\$psf	From Sep 11	From Jul 11	From Oct 10
Premium Central	174.5	-1.6%	-3.1%	19.0%	n/a	n/a	n/a	n/a
Traditional Central	133.4	-1.7%	-2.9%	34.1%	24,028	0.0%	-2.6%	31.6%
Admiralty	90.3	-1.0%	-1.1%	26.9%	18,539	-0.7%	-2.5%	26.3%
Sheung Wan	62.4	0.0%	1.5%	27.1%	16,449	-0.4%	-1.6%	22.6%
Wan Chai	65.2	0.0%	2.1%	42.9%	13,857	0.0%	-2.5%	29.0%
Causeway Bay	64.2	0.0%	2.3%	39.9%	14,094	-3.3%	-5.0%	25.5%
North Point	37.2	0.0%	4.8%	41.7%	n/a	n/a	n/a	n/a
Quarry Bay	50.4	0.0%	4.4%	34.0%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	47.9	1.1%	3.0%	31.8%	11,191	-0.4%	-1.8%	19.0%
Cheung Sha Wan	21.6	1.9%	3.2%	18.8%	n/a	n/a	n/a	n/a
Hung Hom	28.7	1.2%	2.5%	22.4%	n/a	n/a	n/a	n/a
Kowloon East	32.5	3.4%	5.0%	40.4%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	48.8	-1.5%	-0.5%	29.3%	n/a	n/a	n/a	n/a

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



Grade-A office rents are likely to remain under pressure in the short term.



A number of multinational corporations are expected to move their offices out from core areas between this year-end and the first quarter of 2012 to cut costs.



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