



JULY 2011

# HONG KONG PRIME OFFICE

Monthly Report

**Knight Frank 萊坊**

## LEASING ACTIVITY TO RISE IN SECOND HALF

In June, the Hong Kong Monetary Authority expanded its credit-tightening measures from the residential market to the office sector. Under the new measures, the maximum loan-to-value ratio for borrowers whose income is not derived in Hong Kong has been lowered by ten percentage points to 40% for non-residential properties. Meanwhile, further hikes in HIBOR-based mortgage rates also impacted the office sales market. The number of office sales transactions continued to rise last month, but the growth rate slowed to about 3% month on month.

Amid the new measures, two landmark transactions failed to complete last month with intended buyers opting to forfeit their deposits instead. One case involved the sales of two high-floor units in Far East Finance Centre in Admiralty, which would have represented a new price high for Hong Kong, at HK\$28,000 per sq ft, or a total consideration of HK\$178 million. The potential buyer reportedly forfeited a deposit of over HK\$8 million. Another case involved the third and fourth floors of BCC Building—a

Grade-B property in Tsim Sha Tsui—where a price of HK\$108 million or HK\$7,700 per sq ft had previously been agreed upon.

However, these were isolated cases and overall, market sentiment remained strong, with a number of record-breaking transactions reported in the month. Units 2–11 on a high floor in Lippo Centre in Admiralty were sold for HK\$222 million, or HK\$22,700 per sq ft, while three units in Tower 2, Silvercord in Tsim Sha Tsui were sold at HK\$68 million, or HK\$15,600 per sq ft, breaking the previous price record for the building set in May.

Meanwhile, the demand for premium Grade-A offices showed no signs of abating. A Mainland bank was reportedly looking into buying an en-bloc Grade-A office building in Central for its headquarters, while a property fund was reportedly negotiating to acquire the whole office building at 50 Connaught Road Central in Central. Strong demand pushed up the average price of Grade-A offices another 1.9% in June, compared with the previous month.

While the sales market remained robust, leasing activity slowed in the month due to the low availability of Grade-A office premises, particularly on Hong Kong Island. In June, the average vacancy rate fell to a new low of just over 2% on the island. Certain premium buildings in Central, such as The Center and One IFC, were almost fully occupied.

Financial institutions continued to scramble for the limited remaining office space in core business areas, despite rent levels having reached post-2008 highs. In Central, five high-floor units covering a total floor area of 8,700 sq ft in The Center were taken up by a financial firm; private equity firm Kohlberg Kravis & Roberts committed to an entire 22,000-sq-ft floor in Cheung Kong Center and Swedish financial group Skandinaviska Enskilda Banken AB took up a floor measuring 14,000 sq ft in Jardine House.

Aside from the financial industry, demand for premium offices from other sectors remained vibrant during the month. Fitness chain Physical Fitness leased three floors in One8One Queen's Road Central in Sheung Wan totaling 46,000 sq ft, while an architectural firm took up a 16,700-sq-ft floor in Kerry Centre in Quarry Bay. In Causeway Bay, Internet-based commercial platform Alibaba Group leased one and a half floors totaling 26,000 sq ft in Times Square and pharmaceutical firm Roche committed to a 14,400-sq-ft floor in Caroline Centre.

We expect the volume of leasing transactions to pick up in the latter half of the year, when a number of large office floor plates are vacated and become available for rent in the CBD. With continuing expansion in the corporate sector, these spaces are likely to be absorbed swiftly. During the first half of the year, Grade-A office rents had increased 20%. We expect rental growth to be slower in the second half of the year and maintain our forecast that Grade-A office rents in Hong Kong will grow by about 30% over 2011.



## Prime office report

**In May 2011, Hong Kong's inflation rate rose to a 34-month high of 5.2%.**

Table 1  
**Economic indicators and forecasts**

Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q1 2011	+7.2%#	-2.7%	+6.8%	+5.5%
Inflation rate	May 2011	+5.2%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to May 2011	3.5%#	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  
# Provisional \* HSBC prime lending rate

**Financial institutions continued to scramble for the limited remaining office space in core business areas.**

Table 2  
**Selected office leasing transactions**

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Causeway Bay	Caroline Centre	24 <sup>th</sup> floor	14,440	Roche
Causeway Bay	Times Square	25 <sup>th</sup> floor (half) and 26 <sup>th</sup> floor	26,000	Alibaba Group
Central	Cheung Kong Center	56 <sup>th</sup> floor	22,000	KKR
Central	Jardine House	17 <sup>th</sup> floor	14,000	Skandinaviska Enskilda Banken AB
Central	The Center	78 <sup>th</sup> floor / units 9–13	8,700	A financial firm
Sheung Wan	One8One Queen's Road Central	Three floors	46,000	Physical Fitness

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



Overall, market sentiment remained strong, with a number of record-breaking transactions being reported last month.

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	Lippo Centre	Tower 1 / 44–45 <sup>th</sup> floor	19,420	\$488	\$25,129
Sheung Wan	Shun Tak Centre West Wing	14 <sup>th</sup> floor / unit 1	2,559	\$48.62	\$19,000
Admiralty	Lippo Centre	Tower 2 / 38 <sup>th</sup> floor / units 2–11	12,265 (Net)	\$222	\$18,100
Admiralty	Lippo Centre	Tower 1 / 13 <sup>th</sup> floor / unit 6	2,091	\$37.63	\$17,996
Central	Fairmont House	9 <sup>th</sup> floor / units 6–7	3,147	\$55	\$17,477
Tsim Sha Tsui	Lippo Sun Plaza	4 <sup>th</sup> floor / units 8B–8C	2,950	\$32.45	\$11,010

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

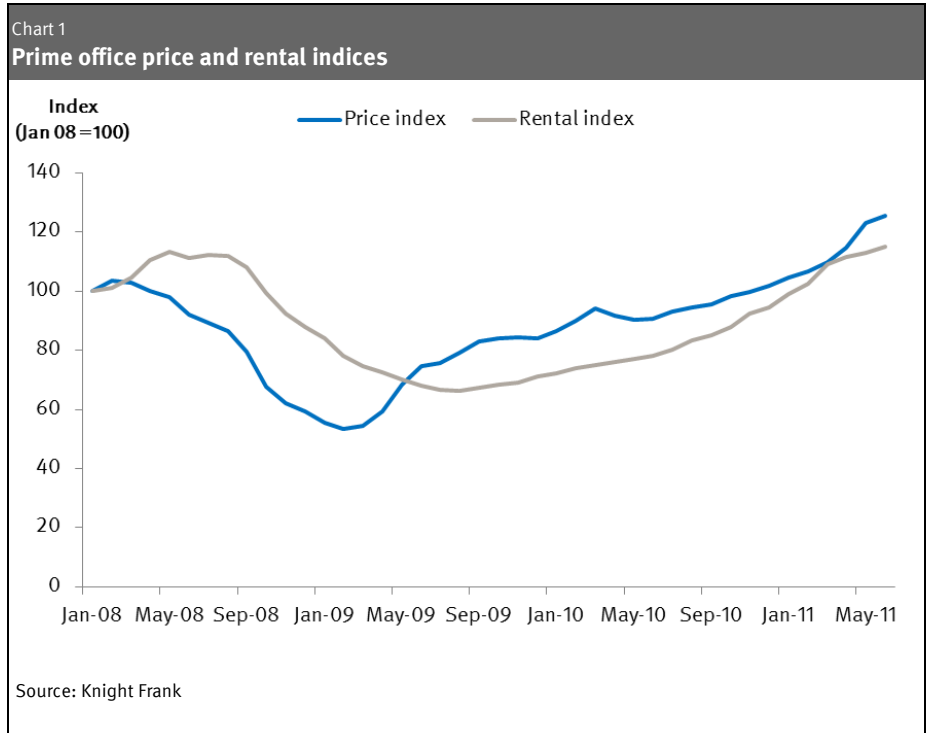
Rent growth on Hong Kong Island continued to be outpaced by that in Kowloon.

District	Net effective rent		Change		Price HK\$psf	Change		
	HK\$psf /mth	From May 11	From Mar 11	From Jun 10		From May 11	From Mar 11	From Jun 10
Premium Central	182.1	0.6%	3.0%	37.8%	n/a	n/a	n/a	n/a
Traditional Central	137.6	2.1%	4.0%	59.5%	24,659	1.2%	12.1%	54.9%
Admiralty	91.3	0.0%	2.8%	44.5%	18,909	1.9%	14.1%	40.1%
Sheung Wan	61.5	0.0%	7.0%	35.4%	16,709	3.3%	17.7%	33.8%
Wan Chai	63.9	2.9%	9.1%	54.0%	14,153	1.6%	13.2%	43.1%
Causeway Bay	62.0	1.3%	2.7%	59.8%	14,840	0.0%	12.5%	47.4%
North Point	35.5	2.6%	8.5%	46.1%	n/a	n/a	n/a	n/a
Quarry Bay	48.3	0.0%	1.5%	42.8%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	45.6	4.4%	12.6%	40.2%	11,185	1.6%	11.9%	25.4%
Cheung Sha Wan	21.0	4.5%	6.7%	23.1%	n/a	n/a	n/a	n/a
Hung Hom	27.7	4.9%	16.3%	24.9%	n/a	n/a	n/a	n/a
Kowloon East	30.4	2.9%	8.3%	48.8%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	49.0	4.5%	14.2%	36.2%	n/a	n/a	n/a	n/a

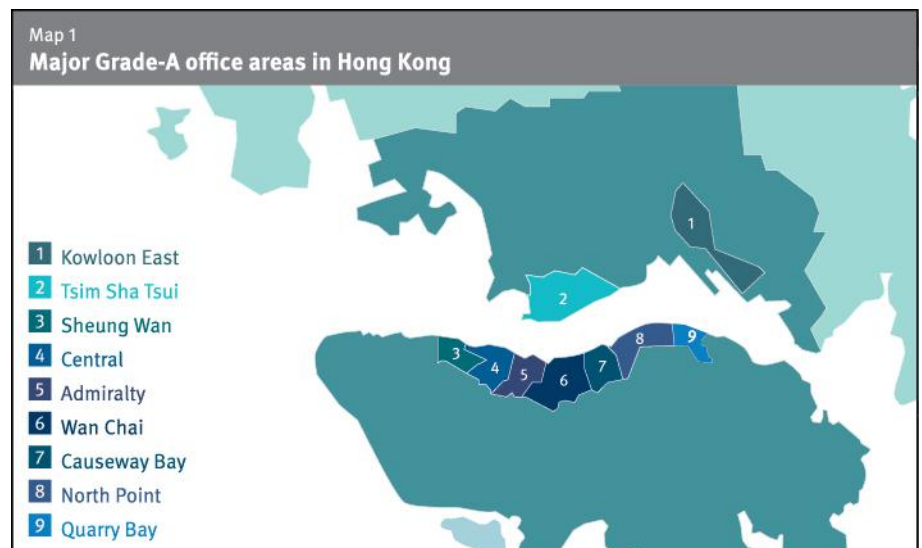
Source: Knight Frank  
Rents and prices are subject to revision.



**We maintain our forecast that Hong Kong Grade-A office rents will grow about 30% over 2011.**



**Office leasing activity is expected to pick up in the latter half of the year, when a number of large floor plates become vacant for lease in the CBD.**



# RESEARCH

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Australia  
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Poland  
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