

# Hong Kong Luxury Residential

## Quick Stats

		Y-o-Y change	Q-o-Q change
Vacancy Rate	5.0%	↑	↑
Capital Value	HK\$13,570 psf	↓	↑
Rental Value	HK\$37.24 psf	↓	↓
Yield	3.5%	↑	↓

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value.

## Hot Topics

- Improved sentiment in the primary market led to a rebound in the luxury residential sales market, and both prices and volume recovered significantly in the first quarter of 2009.
- Luxury residential sales transactions picked up towards the end of the quarter, potentially signalling renewed confidence in the long-term prospects of Hong Kong's luxury residential market.
- Rental yield fell slightly to 3.5% as rents dropped while capital values improved. As interest rates are expected to remain low this year, luxury residential yields should remain attractive to potential investors.
- Major banks have initiated price wars on mortgage terms, demonstrating that banks' lending sentiment has improved significantly.

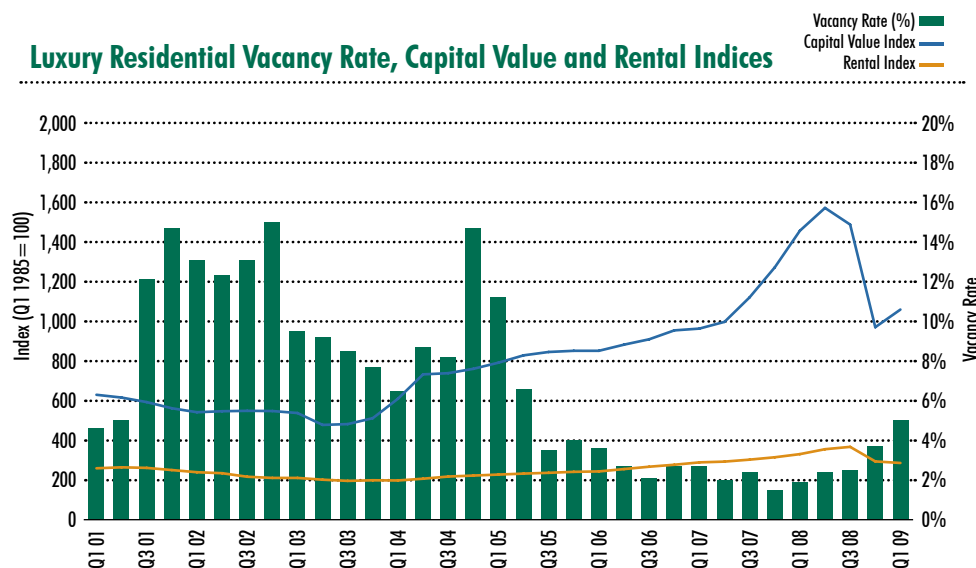
Although the year 2009 opened with gloomy economic forecasts, the entire residential property market including the luxury residential sector perked up in March, closing the quarter with an unexpected and significant rebound in both price and volume. The major focus of this quarter was clearly the Cullinan, which absorbed the purchasing power of more than HK\$6 billion. The primary market led the market rebound, and the positive sentiment spread to the secondary market. Banks' lending sentiment has also improved: they have not only relaxed credit policy but also started a price war on mortgage terms. The luxury residential leasing sub-markets experienced varied performances by district during the quarter, as the supply and demand dynamic of individual districts differed to some extent. Although the vacancy rates of the four districts tracked by CBRE have increased, the overall number of units available remains tight. However, for some districts such as Pokfulam, which have more units available to the market, the room for rent cuts is relatively larger.

After the luxury property market experienced a severe correction in November of last year due to the global financial crisis, many potential buyers adopted a "wait-and-see" attitude. This led to pent-up buying power at the beginning of the quarter. Once the market appeared to stabilise in the first two months of 2009, the large discounts

compared to 2008 prices lured end-users and long-term investors back to the market. New supplies in the primary market released in the quarter, including the Cullinan, Bel-air and Belgravia, were priced close to the secondary market. Buyers responded positively to the prices, and the stock sold very quickly. According to the developer, more than 300 units in the Cullinan were sold in a single month. A significant proportion of the purchasers are understood to be mainland Chinese investors. The developers' strategy released the pent-up buying power and also improved the overall market sentiment, and the secondary market also experienced a solid rebound in March. 468 deals with a transaction value of HK\$10 million or above were completed in March, according to the Land Registry. The figure has recovered to the level before the Lehman collapse.

Amidst the good performance of the quarter, however, there are still some threats in the market. In light of the negative GDP growth, a climbing unemployment rate and other deteriorating economic indicators, the rebound may only be due to the pent-up purchasing power and capital flows from China. If the economy does not recover fundamentally in the year, as many economists expect, the prices may eventually begin to fall again once the pent-up purchasing power is released.

## Luxury Residential Vacancy Rate, Capital Value and Rental Indices



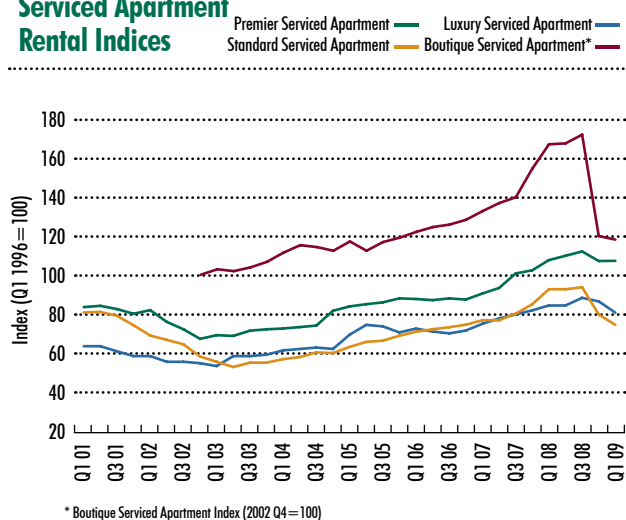
## Selected Leasing Transactions in Q1 2009

Month	Property	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Jan-09	Lower Floor, Tower 2, Mount Austin	The Peak	2,600	105,000	40.38
	High Floor, Tower 1, Grand Garden	South Bay	3,054	110,000	36.02
	Mid Floor, Pearl Garden	Mid-Levels	2,100	62,000	29.52
Feb-09	Lower Floor, 29 Severn Road	The Peak	2,300	120,000	52.17
	Upper Floor, Pine Court, 5 Old Peak Road	Mid-Levels	3,000	118,000	39.33
	Upper Floor, Tower 1, The Merton, 38 Kennedy Town Praya	Kennedy Town	1,773	36,000	20.30
Mar-09	Upper Floor, House 3, 1 Plantation Road	The Peak	1,768	92,000	52.04
	Mid Floor, Queen's Garden	Mid-Levels	2,830	105,000	37.10
	Upper Floor, The Hacienda	Repulse Bay	2,300	80,000	34.78

## Selected Sales Transactions in Q1 2009

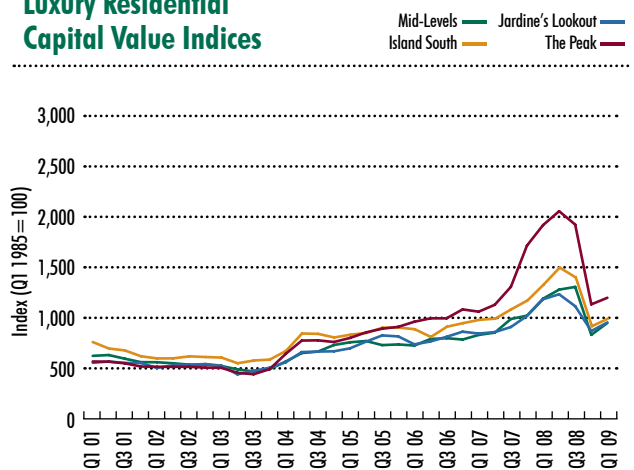
Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Jan-09	85 Repulse Bay Road	Repulse Bay	11,348	445.0	39,214
	House 3B, Gough Hill Path	The Peak	5,657	180.0	31,819
	8 Belleview Drive	Repulse Bay	5,175	150.0	28,986
Feb-09	House 2, 36 Repulse Bay Road	Repulse Bay	4,966	130.0	26,178
	House E, 12-16 Tai Tam Road	Tai Tam	4,965	100.0	20,141
	Triplex, High Floor, Dynasty Court	Mid-Levels	4,242	82.0	19,331
Mar-09	House 3, Rosecliff	Tai Tam	3,980	96.0	24,121
	Unit B, 20/F, Tower 1, Regence Royale	Mid-Levels	2,522	33.5	13,283
	Unit B, 4/F, Ming Wai Gardens	Repulse Bay	1,900	23.0	12,105

## Serviced Apartment Rental Indices



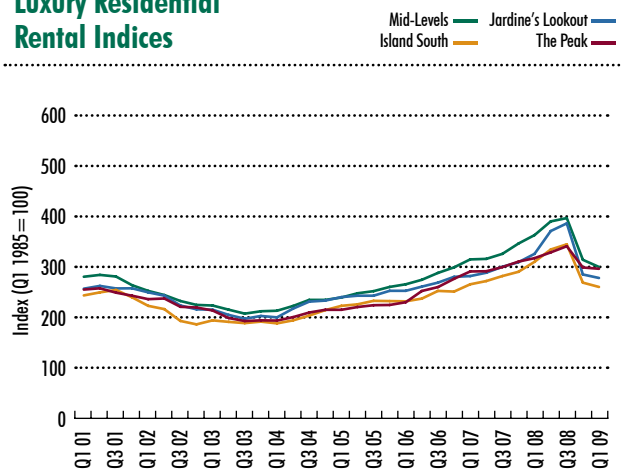
Although many serviced apartments were impacted by the massive MNC layoffs in the fourth quarter of 2008, the sector stabilised once many companies completed their restructuring in the first quarter of 2009. According to serviced apartment operators, there were some arrivals of overseas employees in the quarter, although on average their accommodation budgets had been reduced compared to last year. The average rental of the most exclusive category, premier serviced apartments, stayed relatively stable due to the limited supply in this category, whereas the average rental of luxury and standard serviced apartments dropped about 4% and 6.7%, q-o-q respectively. The average rental of the least exclusive category, boutique serviced apartments, has stabilised in the first quarter, registering a q-o-q drop of 1.5% after experiencing a 30.5% drop in the fourth quarter of 2008. The average occupancy rate of all categories maintained a healthy level of over 75%, while the most exclusive category, premier, had an average occupancy rate of almost 90%.

### Luxury Residential Capital Value Indices



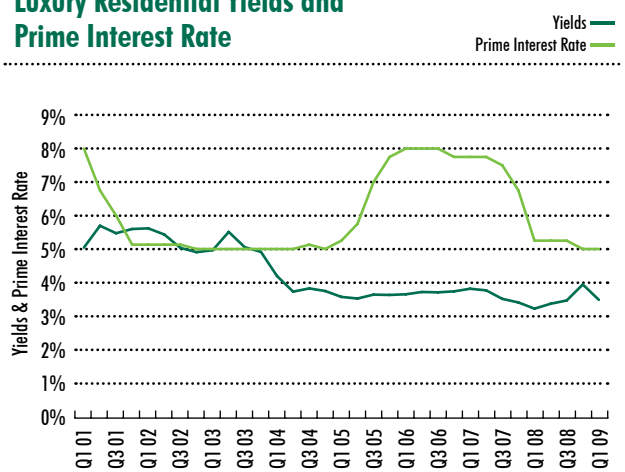
Although the overall economic indicators were still under pressure in the first quarter of 2009, the sales price of luxury residential properties rebounded significantly in the quarter, and the transaction volume also picked up, especially since March. The average price in luxury residential districts on Hong Kong Island recovered 9.3% q-o-q. The price in the Mid-Levels recorded the strongest gain of 14.5% q-o-q. On the Peak, the average price increased only 5.8% in the quarter, while the average prices in Jardine's Lookout and Island South grew about 8-10%. Nonetheless, prices were still heavily discounted compared to 2008, as they returned to the level of mid-2007. On a y-o-y basis, the overall average price of luxury residential property on Hong Kong Island decreased 27.3%, while the average price of the four districts was at least 20% lower.

### Luxury Residential Rental Indices



Although the luxury residential leasing market was still under pressure in the first quarter of 2009, the rate of decline stabilised. The average rental for luxury residential properties on Hong Kong Island softened by 2.8% q-o-q, compared to last quarter's drop of around 20%. The largest rental decrease was recorded in the Mid-Levels at 4.6% q-o-q, while the average rents of Jardine's Lookout and Island South fell 2.5% and 3.3% q-o-q respectively. The Peak rental dropped the least, nudging down by less than 1%. The low numbers of available units at the Peak helped rents in the district remain steady.

### Luxury Residential Yields and Prime Interest Rate

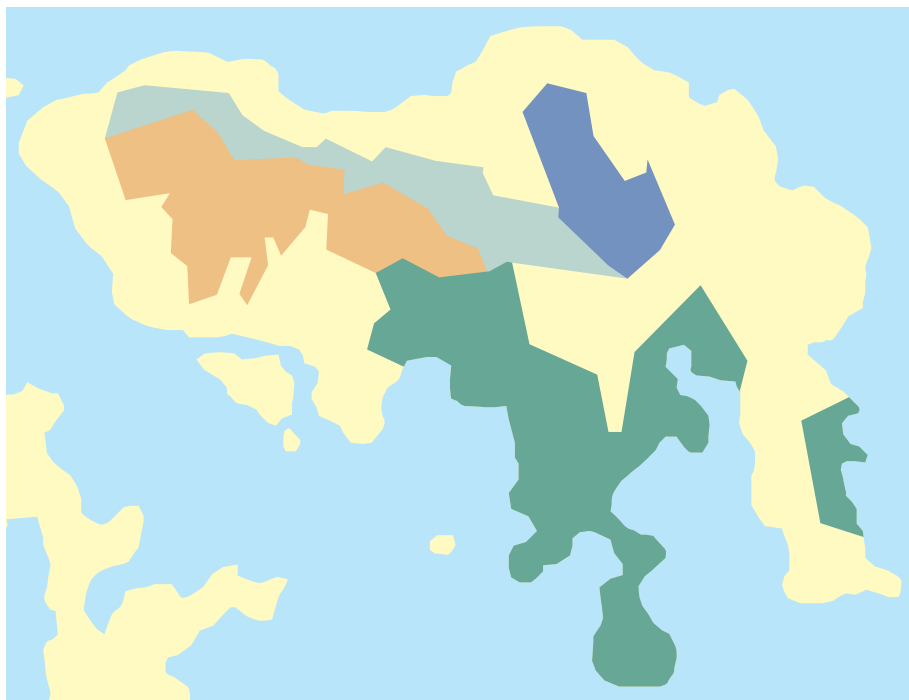


Although the prime rate did not change in the quarter, banks loosened their credit policies and engaged in price wars to offer the lowest mortgage rates. Various HIBOR plans and fixed rate plans were launched that brought down the mortgage rate to less than 3%. Although the price war directly helped the mass residential market, it also improved the market sentiment in the luxury market, which has traditionally been financed through equity rather than debt. The average yield of Hong Kong Island dropped slightly to 3.5%, as the sales market performed well in the quarter.

Selected New Luxury Residential Supply

Project	Location	No. of Units	Expected date of Completion
6D-6E Babington Path	Mid-Levels	47	2009
39 Conduit Road	Mid-Levels	66	2009
15-17 Bluff Path	The Peak	2	2009
Ex-Memo Building	Mid-Levels	67	2010
Ex-Lai Sing Court	Jardine's Lookout	275	2010
2A-E Seymour Road	Mid-Levels	150	2011

Hong Kong Luxury Residential Submarket Locations



- Jardine's Lookout/Tai Hang
- Island South
- Mid-Levels
- The Peak

Hong Kong Luxury Residential Submarket Descriptions

Jardine's Lookout/Tai Hang

Covering Jardine's Lookout, Tai Hang and Happy Valley, this submarket is of medium and low density: high-rise and medium-rise buildings clustered in Tai Hang and Happy Valley while Jardine's Lookout is predominantly an area of low-rises. Commanding a full view of the Happy Valley Racecourse, the area is home to occupiers from young working professionals to upper middle class families.

Island South

Island South has a broad coverage extending from exclusive neighbourhoods in Big Wave Bay, medium-rise developments in Tai Tam, low to medium density premises and town houses scattered in Repulse Bay and Stanley, to the low density villas in Deep Water Bay and Shouson Hill. Selected high-end developments in Pok Fu Lam are also included in this submarket. Apart from being home to many local tycoons, this submarket is well-received by expatriates with considerable housing budgets.

Mid-Levels

The only high density submarket to be regarded as luxury residential, the area features high-rise towers on Hong Kong Island for metropolitan dwellers. The area stretches in a linear fashion from medium-rise homes near Stubbs Road in Wan Chai to the high-rise residential cluster abutting the University of Hong Kong with the numerous high-rise buildings adjacent to Central near Robinson Road and the SOHO area sandwiched in between. The high-rise towers in the Old Peak Road area are arguably the most prestigious residential towers in Hong Kong.

The Peak

The most expensive luxury residential submarket in Hong Kong, this area is dominated by low density low-rise dwellings like single detached houses that exclusively transact at premium prices or rents. The high topography of the area means that panoramic view of the city is ideal, depending on weather conditions. This area is mostly occupied by billionaires or senior management staff of conglomerates with an exceptionally generous housing budget.

All monetary values are presented in Hong Kong dollars unless otherwise specified.

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