

Hong Kong Luxury Residential

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Second Quarter 2009

Quick Stats

		Y-o-Y change	Q-o-Q change
Vacancy Rate	4.9%	↑	↓
Capital Value	HK\$14,855 psf	↓	↑
Rental Value	HK\$35.5 psf	↓	↓
Yield	3.0%	↓	↓

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

Hot Topics

- Hong Kong's luxury residential market experienced a divergence in prices and rents in the quarter. Strong growth was recorded in price, while rents softened further.
- The transaction volumes of the overall residential market hit a 15-month high in June, while the volume of transactions for \$10 million or above also hit a recent high after the Lehman collapse.
- The average yield dropped to 2.96%, a historical low since CBRE began tracking this data.
- The luxury residential price index increased by an additional 10% in the quarter, which brought the index gains to 20% year-to-date. However, the luxury residential rental index dropped 4.4% in the quarter.

Hong Kong's luxury residential market experienced a divergence in prices and rents over the second quarter of 2009. Although both volume and price have increased strongly since March, the rebound did not stop rents from dropping.

Transaction volumes in the residential market have risen on improved sentiment, driven by factors such as lower prices as well as low interest rates. The number of sale and purchase agreements of residential properties above \$10 million in the second quarter increased 87% compared to the first quarter.

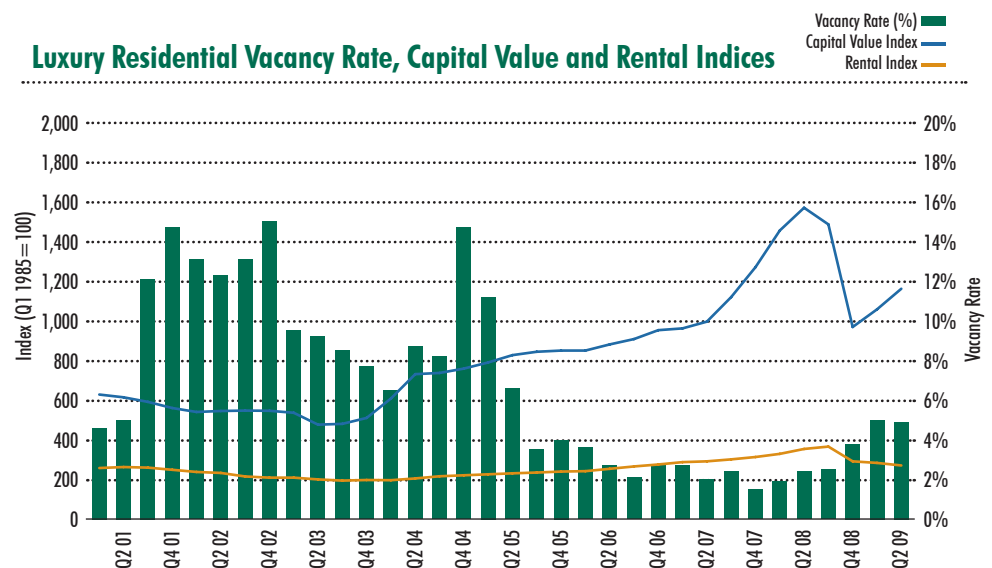
With the high level of transactions, the overall luxury residential price index maintained its momentum, increasing 9.8% q-o-q, almost hitting 1997's peak. The price index of the Peak did exceed 1997 levels, soaring 30% higher than it was in 1997. Overthorpe was sold in June for \$75.8 million, over \$30,000 psf, while it had only been sold for \$25,000 psf in 1997. Moreover, Skyhigh, built by film star Stephen Chow and Ryoden Development, was sold for \$300 million, equivalent to \$41,500 psf. These transactions show the high levels of optimism in the market.

Although the economy has not yet recovered, the momentum of the property market did not ease as many analysts expected. Sentiment improved due to speculation the economy had bottomed out. Positive sentiment has also been supported by the stock market rally, high bank liquidity, and continued economic growth in China, as well as the stimulus measures unveiled by the Government at the end of last year. The redundant capital flowed into the luxury property market, pushing prices higher.

In contrast, luxury residential rents continued to fall as demand remained weak amid rising unemployment and wage cuts. Fewer overseas professionals were admitted to Hong Kong for employment. Only 4,285 visas were issued in the first quarter of 2009, compared to 26,466 in 2008. However, the ongoing recovery of prices eased downward pressure on rents.

The prolonged rebound may show signs of slowing down after sellers raised asking prices aggressively, while there was still no good news about the economy. As the prices and rents have to converge in the long term to reflect market fundamentals, if the expectations of recovery do not materialise, there will be a risk of market correction.

Luxury Residential Vacancy Rate, Capital Value and Rental Indices



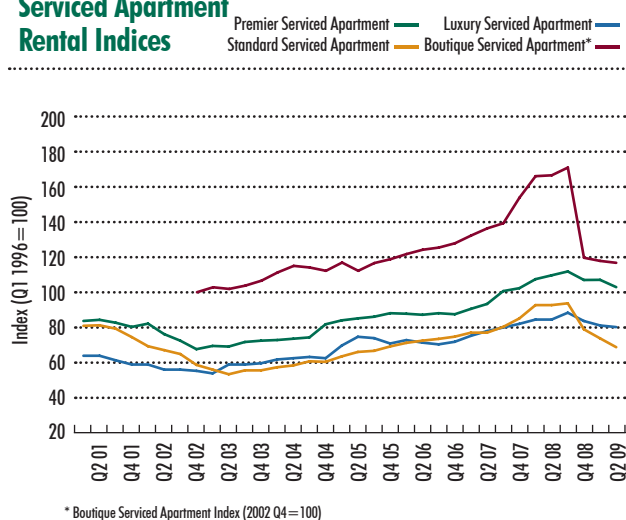
Selected Leasing Transactions in Q2 2009

Month	Property	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Apr-09	High Floor, House 3, 1 Plantation Road	The Peak	2,280	95,000	41.7
	Mid Floor, Tower A, Queen's Garden	Mid-Levels	2,960	97,500	33.0
May-09	Mid Floor, Aigburth	Mid-Levels	3,020	96,000	31.8
	Mid Floor, Tower 1, Grand Garden	Repulse Bay	3,054	92,000	30.1
	Low Floor, Repulse Bay Apartment	Repulse Bay	2,465	70,000	28.4
Jun-09	Low Floor, Branksome Grande	Mid-Levels	3,030	83,000	27.4
	High Floor, Branksome Crest	Mid-Levels	2,355	110,000	46.7
	Low Floor, Block 1, The Mount Austin	The Peak	932	33,000	35.4
	Low Floor, Jadebeach Villa	Stanley	1,980	56,000	28.3

Selected Sales Transactions in Q2 2009

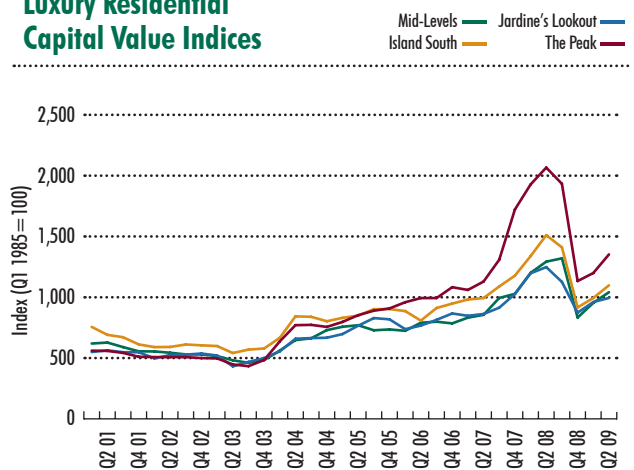
Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Apr-09	40 Island Road	Repulse Bay	5,080	152.0	29,921
	High Floor, 31 Robinson Road	Mid-Levels West	2,665	62.0	23,265
May-09	Duplex, High Floor, Tower 4, Dynasty Court	Mid-Levels	2,772	51.6	18,615
	The Belvedere	The Peak	6,924	196.8	28,423
	2 Units, High Floor, Tower 1, Regence Royale	Mid-Levels	5,263	105.1	19,970
Jun-09	45 Chung Hom Kok Road	Stanley	13,585	150.3	11,067
	Severn 8	The Peak	3,363	158.0	46,982
	18 Pollock's Path	The Peak	7,229	300.0	41,500
	High Floor, Estoril Court	Mid-Levels	3,347	65.0	19,420

Serviced Apartment Rental Indices



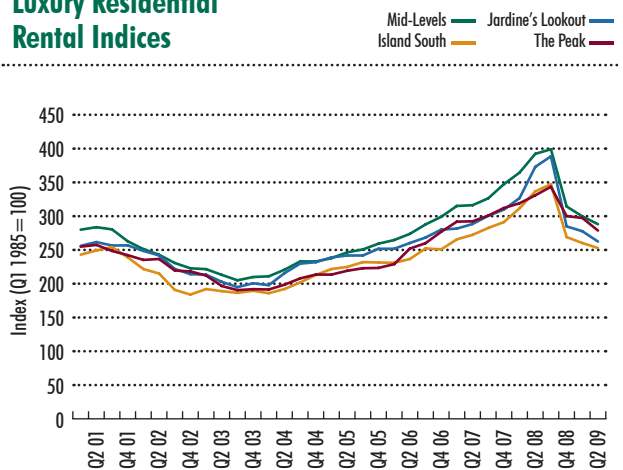
Rents continued to soften for serviced apartments over the second quarter of the year. In the premier serviced apartment category rents fell 4.0% q-o-q, in line with the decline in luxury residential rents. A stronger decline of 7.1% q-o-q was noted in the standard serviced apartment sector, possibly reflecting weaker demand for apartments in this category. On the other hand, other categories of serviced apartments showed signs of stabilising. After a sizable drop of 30% in the fourth quarter of 2008, the average rent for boutique serviced apartments fell only 1% over Q2. Luxury serviced apartment rents meanwhile softened 1.2% q-o-q. While rents for all categories were lower over the quarter, the performance within categories was mixed. We expect serviced apartment rents to remain flat over the second half of the year however, due to fewer tourists and business travellers arriving in Hong Kong, combined with a weaker economic outlook. We also expect traditional hotels to provide greater competition, as occupancy and room rates are down compared with the same period last year.

Luxury Residential Capital Value Indices



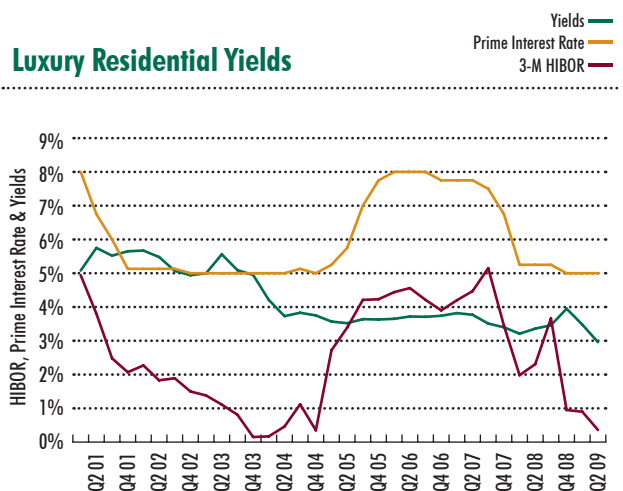
The transaction volume of residential properties for \$10 million or above steadily climbed throughout the quarter to hit a post-Lehman collapse high, as the luxury residential market sentiment further improved. The average price in luxury residential districts on Hong Kong Island increased 9.8% in the quarter, gaining almost 20% year-to-date. The Peak witnessed the best performance amongst the four districts; its average price went up by 12.8% q-o-q. Island South and Mid-Levels followed with respective gains of 10.5% and 9.2% q-o-q. However, the average price in Jardine's Lookout grew only 3.5% q-o-q, much less than in other districts. This may be because Jardine's Lookout experienced smaller price declines, down 20% y-o-y. In contrast, although the luxury residential market in the Peak experienced the strongest rebound in the quarter, its average price was still almost 35% lower than a year before.

Luxury Residential Rental Indices



Although rents in June recovered slightly, the average rental for luxury residential properties on Hong Kong Island softened by 4.4% q-o-q. Opposite to capital values, the Peak performed the worst in the rental market; its average rent dropped the most, by 6.3%. Jardine's Lookout and the Mid-levels followed, with average rents falling by 5.5% and 3.9% respectively. The average rent on Island South had only softened by 2.9%. As Hong Kong's economic indicators show signs of slowing declines, the positive sentiment in the capital market may spread to the rental market. As the capital market returned to more active levels and with the historical low yields, owners may be reluctant to further reduce rents, and signs of stabilisation in the rental market may be seen in the second half of the year.

Luxury Residential Yields

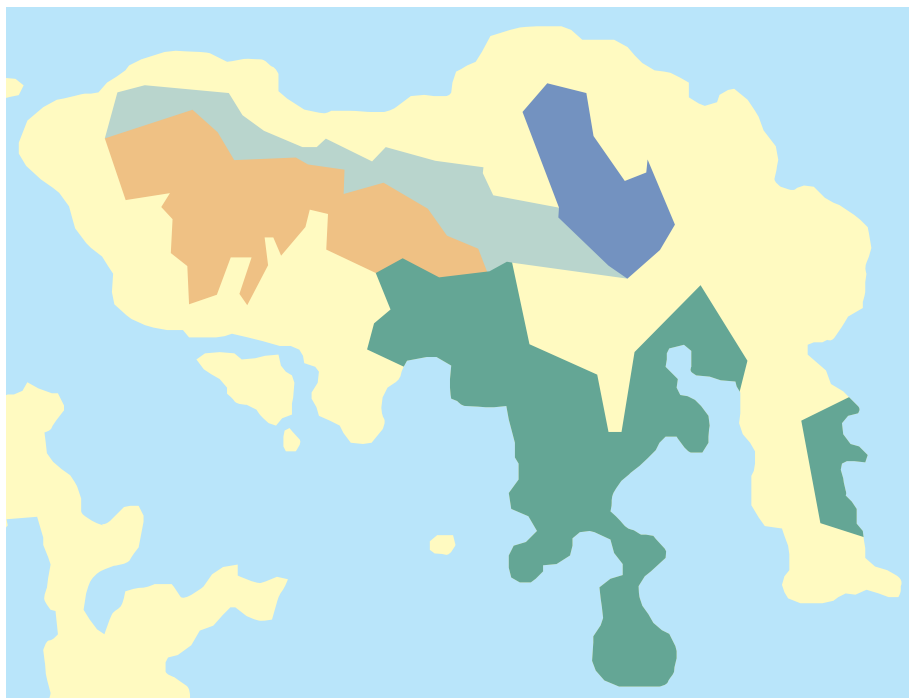


As the luxury residential market experienced a divergence in prices and rents, the average yield dropped to a historical low since CBRE began tracking the figures. As the deposit rate was also at an all-time low, at virtually zero, the redundant liquidity was keen to seek investment with relatively higher income in the market. Capital flew into the luxury residential market even though the overall economy as well as the rental market had not yet recovered. The recent strong increase in price and volume also attracted some speculators, who mainly focus on the potential capital gain of their property investments, to return to the market. The average yield was thus pulled down considerably, dropping 52 basis points in the quarter to 2.96%.

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
11-12 Headland Road	Island South	4	2009
The Icon	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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