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MarketView

Hong Kong Luxury Residential

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Second Quarter 2010

Quick Stats

		Y-o-Y change	Q-o-Q change
Vacancy Rate	1.9%	↓	↓
Capital Value	HK$20,642 psf	↑	↑
Rental Value	HK$43.1 psf	↑	↑
Yield	2.8%	↓	↔

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

Hot Topics

- Steady take-up in the luxury residential sector has resulted in tight rental market conditions across Hong Kong.
- Vacancy rate fell 67 basis points q-o-q; vacancy has fallen 3 percentage points over the past 12 months.
- Residential sales volume slowed end quarter; prices largely stable.
- Pricing for new mass residential developments appears lower than previously expected.
- Higher than expected land sales in Homantin and the Peak; outlook remained optimistic.

Steady take-up in the luxury residential sector has resulted in tight rental market conditions across Hong Kong. The vacancy rate for luxury residential property on Hong Kong Island averaged 1.9% in the second quarter, down 67 basis points compared to the first quarter of the year. The drop in vacancy is even more apparent compared to the same period last year when the vacancy rate averaged 4.9%. The residential market has improved substantially over the course of the past 12 months as companies have expanded on the back of an optimistic economic outlook. Landlords choosing to sell, or holding on to potential rental properties in expectations of selling them at even higher prices, has also resulted in a smaller pool of available properties for lease.

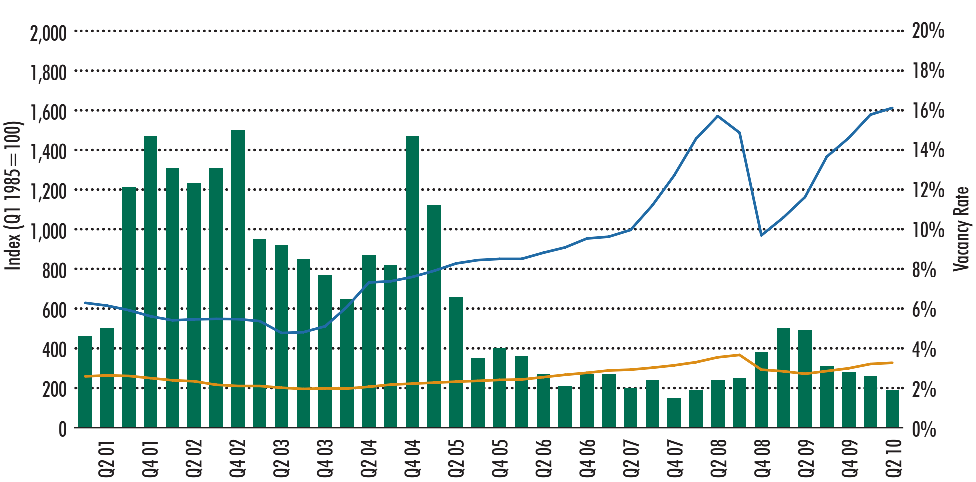
Luxury residential rents on Hong Kong Island increased 2.1% over the quarter to average $43.1 psf, and was 9.5% higher than year end 2009. While rents continued on an uptrend, the rate of growth narrowed in the second quarter, which may be a result of fewer concluded transactions given the lack of available units.

Residential transaction volumes for apartments of HK$10 million and above slowed toward the end of the quarter. Both investors and property owners were taking a "wait-and-see" attitude, given the faster than expected rebound in capital values over the course of 2009, combined with the rising frequency of announcements from both the Hong Kong SAR Government, as well as from the mainland Chinese government, surrounding action to be taken to prevent a speculative bubble from forming in the property market, particularly the luxury residential sector. Similar to the rental values, growth in luxury property prices slowed to a 2.2% quarterly advance in the second quarter, averaging $20,642 psf.

While developers may have taken a more pragmatic stance on the mass residential market, the outlook for the luxury residential sector remained optimistic, as a site on Barker Road was sold for HK$1.82 billion to the Lee family of Henderson Land, which is equivalent to HK$68,000 psf, a record price for a residential development site in Hong Kong. More recently, Sun Hung Kai Properties purchased a luxury residential site in Ho Man Tin for HK$10.9 billion, or HK$12,450 psf. The site was previously expected to sell at HK$8.41 billion.

It is expected that sales volume will improve in the coming months as developers prepare to launch more new properties for sale on the back of the positive response to Sinoland's The Hermitage, the first new residential project to be sold according to the Government's new conditions regarding developer sales marketing, and greater industry transaction transparency.

Luxury Residential Vacancy Rate, Capital Value and Rental Indices



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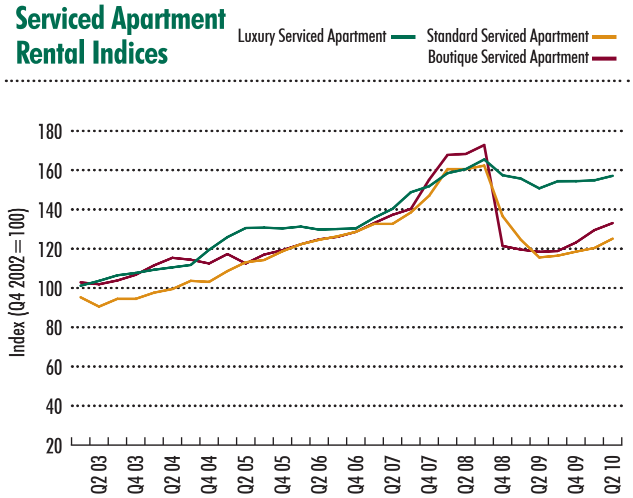
Selected Leasing Transactions in Q2 2010

Month	Property	Location	Size (sf)	Gross Rental (HK$ per month)	Gross Rental (HK$ psf per month)
Apr-10	Flat A, Low Floor, The Harbourview	Mid-Levels	2,340	115,000	49.2
	Flat B, High Floor, Block 2, Dynasty Court	Mid-Levels	2,256	112,000	49.7
	Flat A, Low Floor, 127 Repulse Bay Road	Repulse Bay	2,990	160,000	53.5
May-10	Flat A, Block 3, Banoo Villa	Stanley	2,133	94,000	44.1
	Flat B, Mid Floor, Pacific View	Tai Tam	2,054	74,000	36.0
	Flat B, Block 2, The Mount Austin	The Peak	2,715	125,000	46.0
Jun-10	Flat A, Grand Garden	South Bay	3,054	105,000	34.4
	High Floor, HK Parkview	Repulse Bay	2,692	100,000	37.2
	Flat B, Repulse Bay Apartment	Repulse Bay	2,465	84,000	34.1

Selected Sales Transactions in Q2 2010

Month	Property	Location	Size (sf)	Price (HK$ Million)	Price (HK$ psf)
Apr-10	Flat C, Tower 2, 26/F, Regence Royale	Mid-Levels	2,697	68.0	25,213
	27/F, Grosvenor Place	Repulse Bay	2,809	72.0	25,632
	Unit 2, 4/F, La Hacienda Apartment	The Peak	3,812	59.5	15,609
May-10	35 Barker Road	The Peak	2,667 (House) 5,335 (Site)	182.0	68,241
	20/F, Hong Villa	Mid-Levels	3,833	80.0	20,871
	Flat B, 16/F, Tower 1, Grand Garden	South Bay	3,061	53.0	17,315
Jun-10	Flat C&D, 16/F, Dragon View	Mid-Levels	4,900	90.0	18,367
	Flat A, 21/F, Tower 4, Dynasty Court	Mid-Levels	1,962	35.2	17,931
	Flat A, 18/F, Tower 8, Leighton Hill	Happy Valley	1,618	33.0	20,396

Serviced Apartment Rental Indices



Mirroring the market conditions in the luxury residential market, the serviced apartment sector was also tight over the quarter, with many operators reporting close to, if not full occupancy. This is unsurprising given the lack of available residences in the luxury residential market, which has likely resulted in demand spilling over to the serviced apartment sector.

Serviced apartments rents increased 2.6% over the quarter to average $45.9 psf. Compared to the same period last year, rents have increased 7.9%. Standard serviced apartment rents increased the most over the quarter to average $40 psf, rising 4.0% in the second quarter and averaging 8.3% higher over the year. Meanwhile luxury rents increased 1.5% over the quarter to average $53.4 psf. Boutique serviced apartments experienced the strongest growth in rents over the past 12 months, rising some 12.4% to average $44.2 psf.

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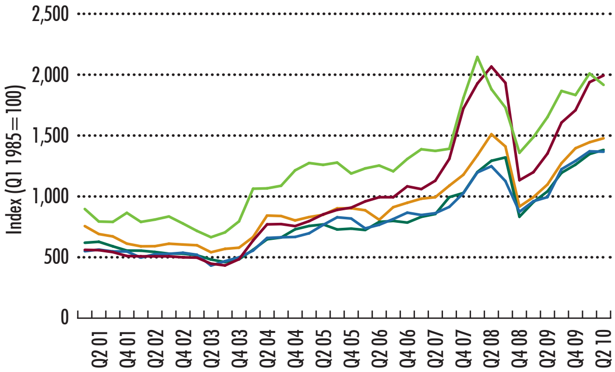
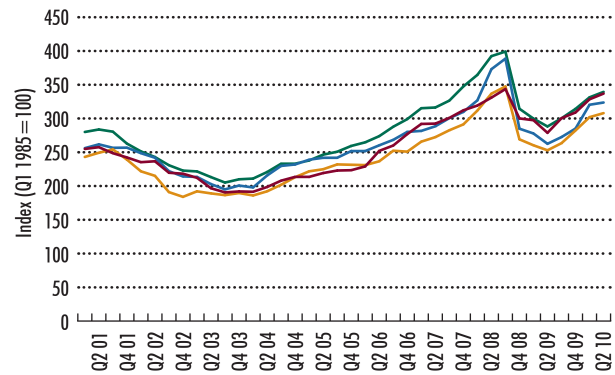
Luxury Residential Capital Value Indices



* West Kowloon Capital Value Index (Jan 2000 =1000)

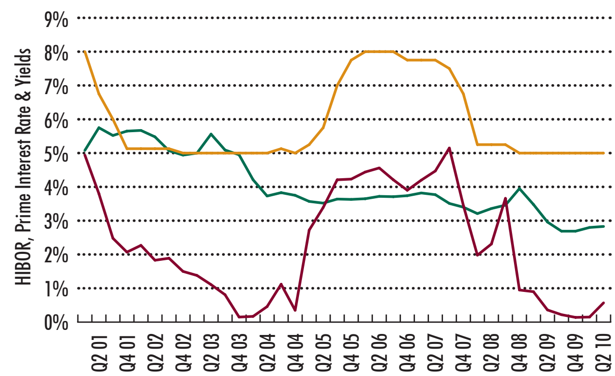
The appreciation in luxury residential prices slowed to a 2.2% advance in the second quarter to average $20,642 psf, compared to an 8.1% quarterly increase in the first quarter. Growth in residential prices slowed in both the mass and luxury residential markets, with buyers and sellers taking a "wait-and-see" attitude amidst the Government's implementation of new regulations in residential property sales. Residential prices experienced the strongest quarterly growth in the Peak once again, rising 2.8% over the quarter to average $28,981 psf. While prices in most districts remained on a slight uptrend, prices for properties in Jardine's Lookout were largely unchanged. Prices for luxury residential apartments in West Kowloon meanwhile fell 4.6% over the quarter to average $13,592 psf.

Luxury Residential Rental Indices



Steady demand for luxury rental accommodation coupled with shrinking stock of available properties helped push rental values higher across all districts over the quarter, rising some 2.1% q-o-q to average $43.1 psf. Rents in the Peak area increased the most over the quarter, up 2.6% to average $50.4 psf. Mid-Levels and Island South rents increased 2.4% and 2.0% respectively, while rents in Jardine's Lookout increased at the slowest pace, rising 1.0% over the quarter to average $32.5 psf.

Luxury Residential Yields



* West Kowloon Capital Value Index (Jan 2000 =1000)

Rental yields improved marginally over the quarter, as rents maintained steady growth amidst a slowdown in capital value appreciation. The yield for luxury residential properties on Hong Kong Island averaged 2.83%, compared to 2.8% in the first quarter. Yields increased across most districts, while there was a slight softening in yields on the Peak. Interest rates increased slightly over the quarter, with the Hong Kong Interbank Rate (Hibor) increasing 42 basis points.

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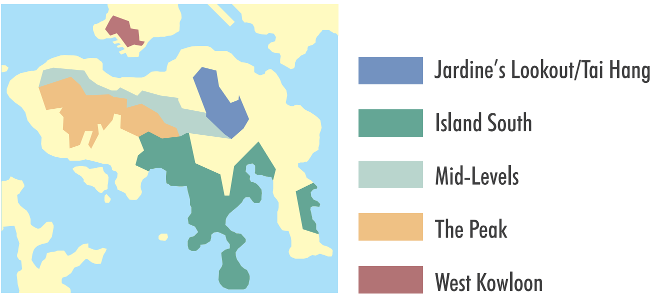
Selected New Luxury Residential Supply

Project	Location	No. of Units	Expected date of Completion
Broadwood Twelve	Happy Valley	78	2010
The Icon	Mid-Levels	67	2010
37 Severn Road	The Peak	7	2010
20-26 Cape Road	Stanley	8	2011
53 Stubbs Road	Mid-Levels	12	2011
2A-E Seymour Road	Mid-Levels	200	2012

Hong Kong Luxury Residential Submarket Locations



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.

West Kowloon

West Kowloon is an up and coming new luxury residential district located within the Kowloon Peninsula. Properties in this district are newly developed luxury apartments with easy access to major transportation hubs, such as Kowloon Station. West Kowloon will benefit from the establishment of an arts and culture district, as well as becoming a major regional transportation hub.

STANDARD LEASE TERMS

Lease Term:

Residential lease terms are typically 2 years in length. The first year is usually fixed, while the second year is optional.

Break Clause

The Landlord or Tenant shall have the right to terminate the lease by giving not less than 2 or 3 months' written notice, or payment in lieu of notice to the other party.

Initial Deposit

Equal to first month's rental upon signing of the offer letter.

Security Deposit

Normally, extra 2 or 3 months rental for security deposit, which is refundable upon expiry of the tenancy, subject to loss or damage to the premises.

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

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