

Hong Kong Luxury Residential

Third Quarter 2009

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Quick Stats

		Y-o-Y change	Q-o-Q change
Vacancy Rate	3.1%	↑	↓
Capital Value	HK\$17,520 psf	↓	↑
Rental Value	HK\$37.3 psf	↓	↑
Yield	2.7%	↓	↓

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

Hot Topics

- Cash-rich wealthy investors continued to snap up luxury apartments, pushing prices up 18% over the quarter.
- Transaction volumes remained healthy over the summer months, with sales of luxury flats tripling in September.
- Prices for new apartments reached ever higher, with a new apartment in Tsim Sha Tsui selling at \$36,000 psf.
- Rents meanwhile appeared to have bottomed out on increased demand and an improved economic environment.

The luxury residential sector continued to grab headlines over the third quarter as wealthy investors snapped up prime new apartments. Prices jumped 18% over the quarter on Hong Kong Island, with overall transaction volumes almost tripling in September. Meanwhile, leasing demand strengthened as companies started to increase employee headcounts amid improved economic conditions.

More than RMB 8.7 trillion of new bank lending took place in mainland China for the year to September as the central government maintained a relaxed monetary policy. Hong Kong's monetary base increased 58% this year to \$804 billion over the same period. A percentage of the newly created capital is assumed to have found its way into the local property market. Developers estimate that up to 30% of sales of new luxury residential properties in Hong Kong can be attributed to mainland Chinese investment.

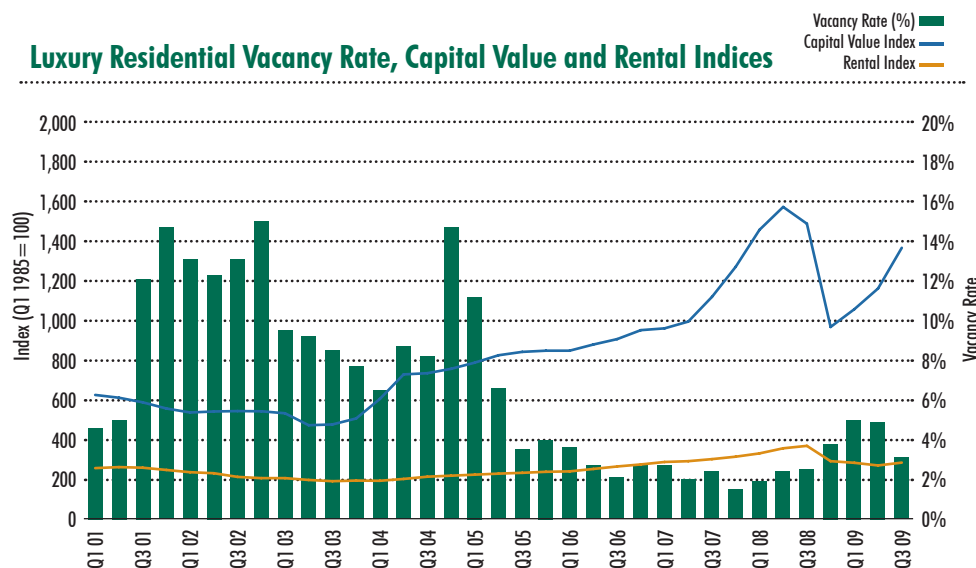
Wealthy investors have poured capital into the local property market, driven by low interest rates and a weak dollar. Many local banks have continued to offer HIBOR based mortgages, and when factoring in the premium, this results in effective rates of around 1%. Prime lending rate

based mortgages also remained low at around 2%. The weak dollar has also been attributed to the rise in demand for local real estate. Hong Kong's currency is pegged to the US dollar within a narrow trading band of US\$1 to HK\$7.75 – HK\$7.85. Compared to a basket of currencies, the US greenback has fallen around 15% since March this year.

Capital values of luxury residential property on Hong Kong Island jumped 17.6% over the third quarter, to average \$17,520 psf. Prices increased at a much faster rate compared to the second quarter, when prices were noted to increase an average 9.8%. While all districts recorded double digit growth over the quarter, the strongest increase was noted in Jardine's Lookout, where prices appreciated 23.1% to average \$14,161 psf. Prices have risen 41% on average compared to the fourth quarter of last year.

Rents meanwhile appeared to have bottomed out over the quarter with the improvement in leasing demand. Peak rents increased the most on Hong Kong Island, rising 7.8% over the quarter to average \$44.3 psf. Rental yields continued to fall over the quarter given the faster appreciation in capital values, dropping 27 basis points to average 2.7%.

Luxury Residential Vacancy Rate, Capital Value and Rental Indices



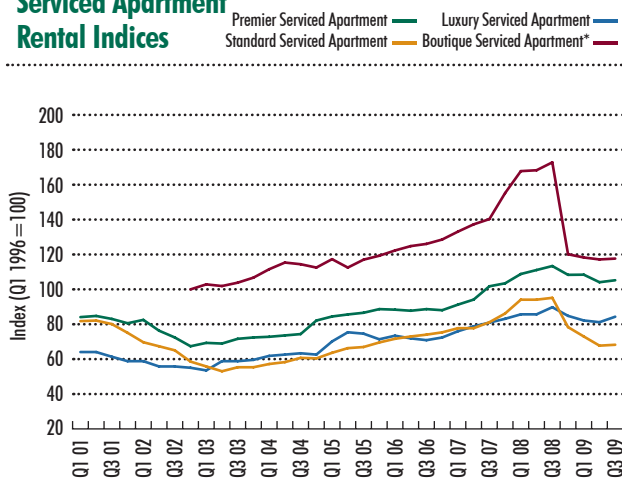
Selected Leasing Transactions in Q3 2009

Month	Property	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Jul-09	High Floor, House 1, Chelsea Court	The Peak	1,509	60,000	39.8
	High Floor, Repulse Bay Apartment	Repulse Bay	2,165	60,000	27.7
Aug-09	Mid Floor, Tower 1, Pacific View	Tai Tam	1,772	42,000	23.7
	Mid Floor, Carmina Place	Repulse Bay	2,393	105,000	43.9
	77 Peak Road	The Peak	2,734	81,000	29.6
Sep-09	High Floor, Regent on the Park	Mid-Levels	2,750	80,000	29.1
	High Floor, Aigburth	Mid-Levels	3,080	145,000	47.1
	Mid Floor, Branksome Crest	Mid-Levels	2,370	100,000	42.2
	Jadebeach Villa	Stanley	2,650	83,000	31.3

Selected Sales Transactions in Q3 2009

Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Jul-09	Unit B, 39/F, Tower 1, Clovelly Crt	Mid-Levels	2,809	70.0	24,920
	House 1, La Hacienda	The Peak	3,600	88.0	24,444
Aug-09	Unit A, 8/F, The Somerset	Repulse Bay	2,464	46.9	19,026
	House 59, The Belvedere	The Peak	4,790	250.0	52,192
	House 15, Severn 8	The Peak	4,325	175.0	40,462
Sep-09	Duplex A, 15/F, Phase 3, Residence Bel Air	Pokfulam	6,603	116.8	17,689
	36 Chung Hom Kok Road	Stanley	6,400	236.8	37,000
	House 12, 56 Repulse Road	Repulse Bay	3,236	78.2	24,159
	Unit B, 29/F, The Mayfair	Mid-Levels	2,872	65.0	22,632

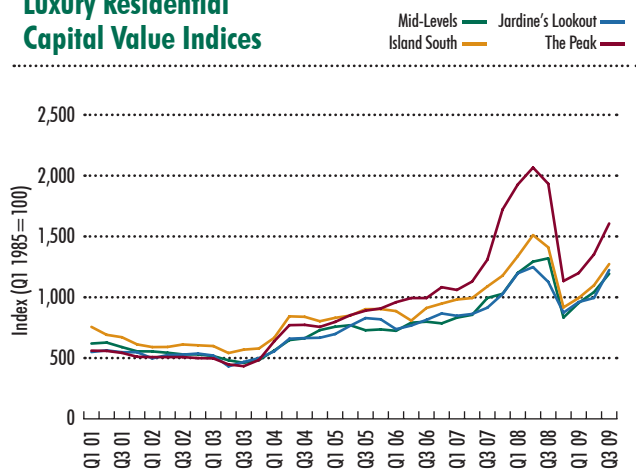
Serviced Apartment Rental Indices



* Boutique Serviced Apartment Index (2002 Q4 = 100)

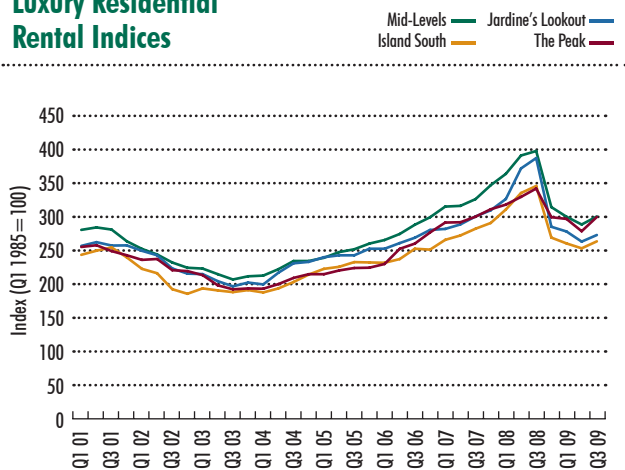
Demand for serviced apartments improved over the quarter, with operators noting that there had been an increase in expats coming to Hong Kong. We believe this reflects companies taking on a more optimistic outlook, particularly in regards to business opportunities in the Greater China region. It appeared that serviced apartment rents bottomed out over the quarter, in line with the rental trend noted in the greater residential market. When analyzed by category, slightly stronger quarterly rental growth was noted in the luxury serviced apartment sector with rents rising 3.8% to average \$39.4 psf. Investors appeared optimistic about the serviced apartment sector outlook. Sinoland purchased the Fraser Suites Serviced Apartment on Johnston Road in Wanchai for \$580 million, or \$11,000 psf.

Luxury Residential Capital Value Indices



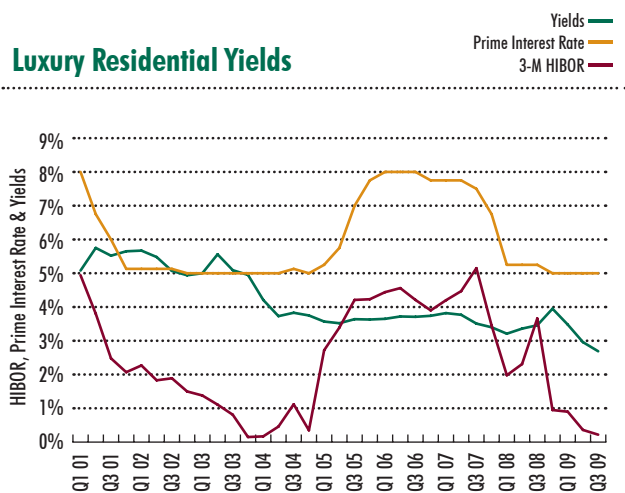
Residential sales activity maintained its momentum over the third quarter, with 12,285 sales and purchase agreements signed in September. There have been more than 11,000 residential sales transactions per month since May, which is more than double the monthly volume of sales activity recorded at the beginning of the year. Wealthy investors have poured capital into the luxury sector of the market with a total of 1,351 sales of properties HK\$10 million and above recorded in September, almost triple the volume of sales in August. A high floor 4,088-sf unit in The Masterpiece sold for \$150 million, or \$36,693 psf. Such was the optimism permeating the luxury residential sales market that property developer Sun Hung Kai announced that they were selling penthouse apartments in The Cullinan for \$300 million each, or \$75,000 psf.

Luxury Residential Rental Indices



There was a noticeable improvement in demand in the leasing sector, due to an increase in the number of expats arriving in Hong Kong for employment. Strong economic growth in China, as well as faster than expected regional economic recoveries, has resulted in multinational firms redirecting the focus of their business strategies on markets in the region. Latest figures indicate that 5,032 employment/investment visas were issued in the second quarter, up from 4,285 in the first quarter. While more overseas executives are coming to Hong Kong, it has been noted that housing budgets are substantially lower than last year, especially for top level management. Rents held relatively firm over the third quarter, rising around 5%. Peak rents increased the most, up 7.8% to average \$44.3 psf.

Luxury Residential Yields

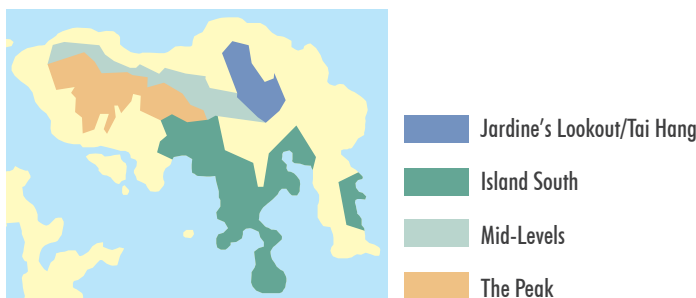


The yield for luxury residential properties on Hong Kong Island narrowed a further 27 basis points over the quarter to average 2.7%. Continued strong demand for luxury residential properties has helped support the further rise in capital values over the quarter, which has resulted in lower rental yields. Prices increased up to 23% on Hong Kong Island, compared to only a mild rise in rents. Investors have been more interested in the capital appreciation in residential properties to date, given low carrying costs and expectations of further increase in the future. While rents are expected to improve due to better leasing demand and a more optimistic economic outlook, yields should remain relatively low in the short term.

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 Island 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.

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.

For more information regarding the MarketView, please contact:

CBRE Research:
 Benedict Ma
 T. 852. 2820 2806
 E. benedict.ma@cbre.com.hk

CBRE Residential:
 Monica Lau
 T. 852. 2820 2981
 E. monica.lau@cbre.com.hk

CB Richard Ellis
 34/F Central Plaza, 18 Harbour Road
 Wanchai, Hong Kong
 T. 852. 2820 2800 F. 852. 2810 0830