

Hong Kong Luxury Residential

Quick Stats

		Y-o-Y change	Q-o-Q change
Vacancy Rate	2.8%	↓	↓
Capital Value	HK\$18,713 psf	↑	↑
Rental Value	HK\$39.1 psf	↑	↑
Yield	2.7%	↓	↔

* 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

- Rents for luxury residential property on Hong Kong Island increased 5.0% over Q4 to average \$39.1 psf.
- Companies increased staff headcounts to meet rising business opportunities in the region.
- Improvement noted in serviced apartment sector, with close to full occupancy toward year end.
- Capital value growth moderated, rising 6.9% over Q4 compared to a 17.6% increase in Q3.
- Government implemented measures to increase transparency, and tighten lending regulations, in response to concerns of asset bubble forming in Hong Kong's residential market.

Hong Kong's economy appears to be rising out of the economic slump, with GDP growth of 0.4% q-o-q recorded in the third quarter, the second consecutive quarterly expansion this year. The local employment market is also improving, with the unemployment rate averaging 4.9% for the three-month period to December, down from a high of 5.4% in August. Companies have taken on more staff to meet rising business opportunities in the region. Latest figures indicate that 6,720 visas under the general employment policy were issued in the third quarter, up from a total of 5,032 issued a quarter earlier.

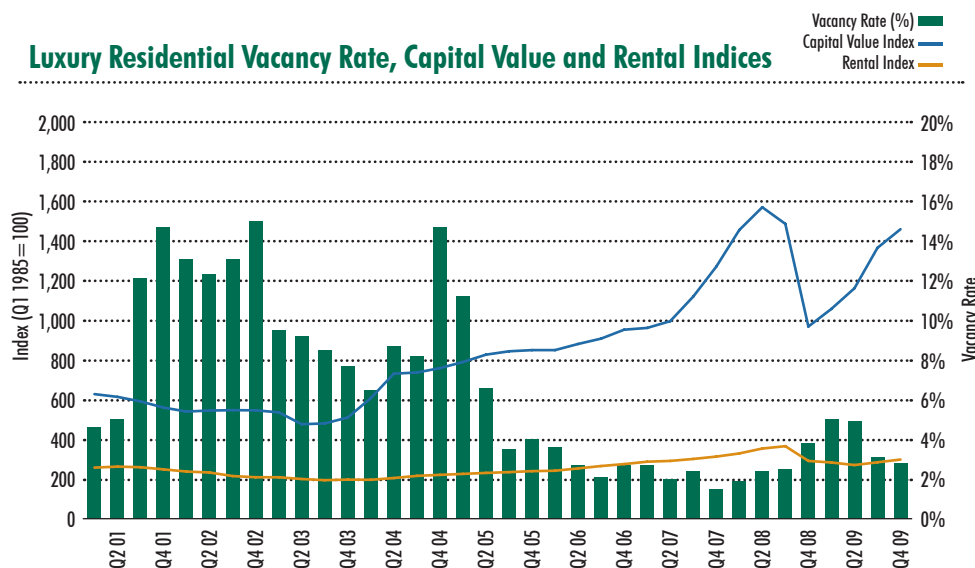
Rents for luxury residential property on Hong Kong Island increased 5.0% over the fourth quarter to average \$39.1 psf. This follows on a similar percentage increase in the third quarter of the year, as demand continued to strengthen against a backdrop of limited rental properties. Rental growth was strongest in Island South, with rents rising 7.1% q-o-q to average \$41.3 psf. Rents in Mid-Levels and Jardine's Lookout averaged 4% higher over the quarter, while rents on The Peak increased 2.8% to average \$45.5 psf.

Prices of new luxury residential apartments recently surpassed global records, with an

apartment by Henderson Land at 39 Conduit Road selling for HK\$71,280 psf. This follows on the sale of apartments at the Masterpiece in Tsim Sha Tsui selling for around \$30,000 psf in October, as well as the more recent 'off-the-plan' sale of apartments at 9 Seymour Road in Mid-Levels reportedly selling for \$42,000 psf. The surge in prices at the top end of the market prompted Government officials to respond to rising concerns of asset bubbles forming in the residential market. A series of measures were announced as a result, to increase transaction transparency, and tighten lending regulations on luxury homes. Sales volumes moderated over the final quarter of the year, with some potential home sellers taking a slightly softer stance in negotiations.

Luxury residential capital values increased a more modest 6.9% over the fourth quarter to average \$18,713 psf, compared to the 17.6% quarterly increase recorded in the third quarter. Relatively stronger growth was noted in Island South, with prices rising 9.7% q-o-q to average \$18,079 psf, followed by a 6.3% quarterly increase on The Peak. While luxury residential values remained on an uptrend on Hong Kong Island, prices in West Kowloon softened 2.5% in the fourth quarter to average \$12,915 psf.

Luxury Residential Vacancy Rate, Capital Value and Rental Indices



* Hong Kong Island only

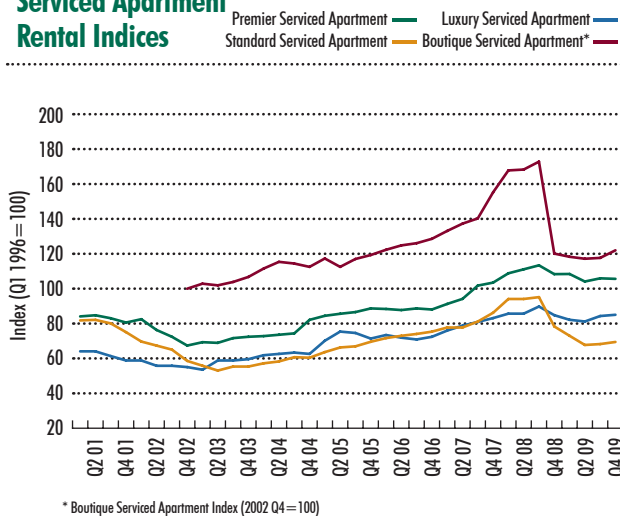
Selected Leasing Transactions in Q4 2009

Month	Property	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Oct-09	House D7, Evergreen Garden	Shouson Hill	3,095	125,000	40.4
	Low Floor, Tower 16, Hong Kong Parkview	Repulse Bay	2,714	95,000	35.0
Nov-09	3B, Banoo Villa	Stanley	2,054	85,000	41.4
	High Floor, Tower 1, Grand Garden	Repulse Bay	3,054	105,000	34.4
	Low Floor, Tower 3, 1 Plantation Road	The Peak	1,768	80,000	45.2
Dec-09	Low Floor, The Hacienda	Repulse Bay	3,000	100,000	33.3
	Low Floor, Branksome Grande	Mid-Levels	3,030	95,000	31.4
	High Floor, Block 3, Dynasty Court	Mid-Levels	1,962	72,000	36.7
	Low Floor, De Ricou, The Repulse Bay	Repulse Bay	2,185	70,000	32.0

Selected Sales Transactions in Q4 2009

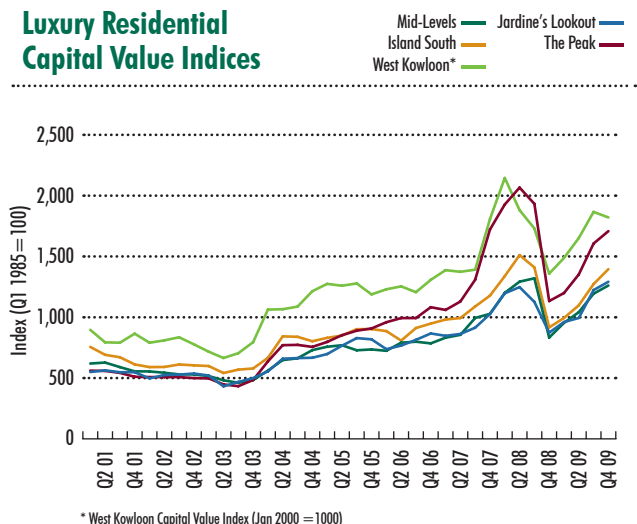
Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Oct-09	House 43, Strawberry Hill	The Peak	2,880	98.8	34,306
	House 19, Manderly Garden	Shouson Hill	3,594	83.0	23,094
Nov-09	Unit A, 25/F, Regence Royale Tower 2	Mid-Levels	2,697	55.0	20,386
	12/F, May Tower II	Mid-Levels	3,393	73.8	21,751
	Unit B, 11/F, The Belgravia	Repulse Bay	2,790	60.0	21,505
Dec-09	Unit 83, 5/F, Hong Kong Parkview	Repulse Bay	2,490	41.9	16,819
	13 Big Wave Road	Shek O	8,000	480.0	60,000
	Unit A, 38/F, The Mayfair	Mid-Levels	2,918	80.0	27,416
	House 5, Redhill Peninsula, Palm Drive	Tai Tam	2,904	54.0	18,595

Serviced Apartment Rental Indices



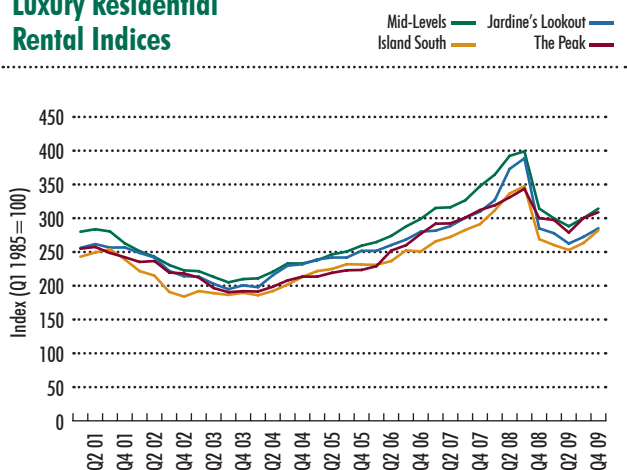
The serviced apartment sector continued to benefit from strong economic growth in greater China. Hong Kong remained a favorable base for exploring business opportunities in the region, and the number of expats working in Hong Kong has risen as a result. Occupancy rates improved over the quarter, with many operators noting close to full occupancy toward year end. Rents increased some 1.5% over the quarter to average \$43.4 psf. Relatively stronger rental growth was noted in the boutique serviced apartment category, with rents increasing 3.7% q-o-q to average \$40.5 psf, whereas rents in the premier sector were largely unchanged. The increase may reflect stronger demand for apartments in the boutique serviced apartment category, which tend to attract a younger clientele with their modern design. However boutique serviced apartments also tend to have fewer rooms compared to some of the larger operators in the premier category, and are therefore more flexible in adjusting rents according to market conditions.

Luxury Residential Capital Value Indices



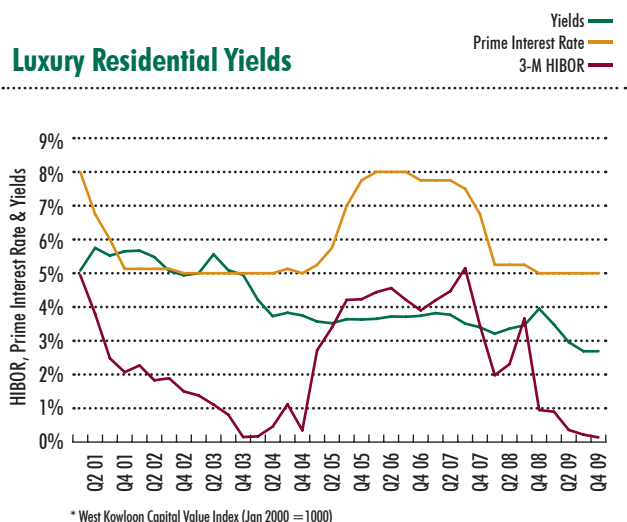
The growth in prices on Hong Kong Island decelerated to a 6.9% advance in the fourth quarter to average \$18,713 psf. Prices during the third quarter jumped 17.6% in comparison, with almost double digit quarterly increases recorded during the first half of the year. Prices increased the most in Island South, rising some 9.7% q-o-q to average \$18,079 psf, while prices on the Peak increased 6.3% to average \$24,835 psf. West Kowloon prices meanwhile softened 2.5% q-o-q to average \$12,915 psf. Sales volumes moderated in recent months after the Government announced concerns over a possible asset bubble in the luxury residential market. A total of 1,630 residential sales and purchase agreements for properties HK\$10 million and above were signed in the fourth quarter, compared to 2,486 in the third quarter.

Luxury Residential Rental Indices



Better economic conditions, combined with a rise in demand as expats returned to the territory, helped push rents up 5.0% over the fourth quarter to average \$39.1 psf. Rents increased the most in Island South, rising some 7.1% over the quarter to average \$41.3 psf. Somewhat milder rental growth of 2.8% q-o-q was recorded on the Peak, with rents averaging \$45.5 psf. Jardine's Lookout and Mid-levels rents increased by 4% over the quarter to average \$28.6 and average \$41.1 respectively. Leasing demand picked up as companies hired new staff amid a more positive economic outlook. There was also a notable rise in the number of expats arriving in Hong Kong, as overseas headquartered companies continued to take a positive view of Hong Kong as a base of operations for business development in the region.

Luxury Residential Yields

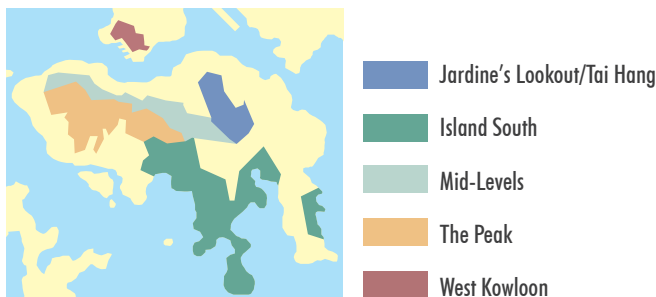


Rental returns in the luxury residential sector remained largely unchanged over the quarter to average 2.7%. In comparison, rental yields at this time last year averaged 4.0%. Yields have contracted due to a strong rebound in capital values in the luxury residential sector, with prices rising some 51% on Hong Kong island over the past year. In comparison, rents were under downward pressure following on the financial crisis last year. Rents softened over the first half of 2009, with improvement only noted in the second half. Despite the contraction in yields, residential property remained attractive to many investors given low interest rates and expectations of further capital appreciation.

Selected New Luxury Residential Supply

Project	Location	No. of Units	Expected date of Completion
Broadwood Twelve	Happy Valley	76	2010
The Babington	Mid-Levels	47	2010
The Icon	Mid-Levels	67	2010
37 Severn Road	The Peak	7	2010
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.



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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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