

Hong Kong Luxury Residential

FIRST QUARTER 2007

Entering into the first quarter of 2007, the performance of luxury residential market did not disappoint both the investors and owners. Although the Hong Kong stock market was relatively volatile during the quarter, the property market was only mildly affected on the back of strong demand for luxury residential premises and the relative scarcity of housing stock currently available.

Buyers' positive sentiment persisted into the first quarter has reaffirmed that the resurgence of the luxury housing market was not a one-off event confined to year-end 2006.

Due to better quality outfit and superior facilities typically featured by recently completed luxury units, many affluent individuals have been chasing after brand new luxury houses and apartments instead of older existing premises. As a result, the primary luxury market did exceptionally well in this quarter, as evidenced by the success enjoyed in the launch of various new luxury projects including The Legend in Jardine's Lookout and Bel-Air No.8 in Island South. Meanwhile, the sales of The Vineyard located in Yuen Long have also been respectable, as its unique wine-concept has attracted a group of special buyers.

The fact that buyers' positive sentiment persisted into the first quarter has reaffirmed that the resurgence of the luxury housing market was not a one-off event confined to year-end 2006. Whilst

the effect of the record sale of Mount Kellett Road site has not yet been fully digested by the market, the satisfactory results achieved by the land auction in mid-March had a further positive impact on the atmosphere for luxury housing sales. The Pak Shek Kok reclamation site A

and site C in Tai Po were being sold at a price of \$6,109 psf and \$4,668 psf respectively, and particularly the unit land price of site A was a new record

high among the sites being sold within the New Territories. As these two sites are going to be developed as luxury residential complexes by the developers, these land sales have had an immediate ripple effect on the luxury residential market in other areas, including the traditional luxury districts.

Within a short period after the land auction, new sales records were achieved for luxury properties in Jardine's Lookout and Island South. A unit at The Legend named "King of House" was acquired for \$128 million, or around \$33,300 psf, which was a record-breaking unit price for any penthouse units sold in Hong Kong to date. Simultaneously, on the Island South, units 48A and 48B of the Tower 8B of Bel-Air No.8 were sold for a combined sum of \$55 million, or the equivalent of a consideration of \$14,794 psf.

QUICK STATS

| | Change in Q4 06 | Change in Q1 07 |
|--------------|-----------------|-----------------|
| New Supply | ↔ | ↔ |
| Demand | ↑ | ↑ |
| Vacancy Rate | ↑ | ↑ |
| Prime Rents | ↑ | ↑ |

SELECTED LEASING TRANSACTIONS IN 1Q 2007

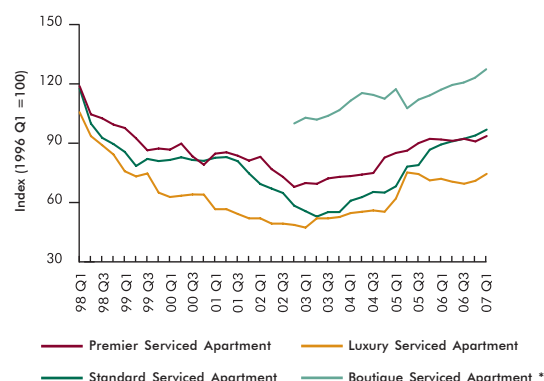
| Month | Property | Floor | Location | Size (sf) | Gross Rental (HK\$ per month) | Gross Rental (HK\$ psf per month) |
|--------|------------------------------|-------|--------------|-----------|-------------------------------|-----------------------------------|
| Jan-07 | Tower 2, Robinson Place | High | Mid-Levels | 1,286 | 38,000 | 29.55 |
| | Pine Court, 5 Old Peak Road | Mid | Mid-Levels | 2,500 | 70,000 | 28.00 |
| | Rosecliff, 20 Tai Tam Road | House | Island South | 3,980 | 160,000 | 40.20 |
| Feb-07 | Tower 10, Hong Kong Parkview | Low | Island South | 2,772 | 95,000 | 34.27 |
| | The Manhattan Tower | High | Island South | 2,593 | 88,000 | 33.94 |
| | 37 Barker Road | Mid | The Peak | 2,100 | 78,000 | 37.14 |
| Mar-07 | Block A, Faber Court | Low | Island South | 1,900 | 43,000 | 22.63 |
| | Greenland Court | Mid | Mid-Levels | 1,350 | 60,000 | 44.44 |
| | Bamboo Grove | High | Mid-Levels | 1,772 | 60,000 | 33.86 |

SELECTED SALES TRANSACTIONS IN 1Q 2007

| Month | Property | Location | Size (sf) | Price (HK\$ Million) | Price (HK\$ psf) |
|--------|----------------------------------|--------------|-----------|----------------------|------------------|
| Jan-07 | Unit C, 43/F, Tower 3, Tregunter | Mid-Levels | 3,034 | 38.80 | 12,788 |
| | House B, 110 Repulse Bay Road | Island South | 6,150 | 136.00 | 22,114 |
| | Unit 16, 4/F, Peak Garden | The Peak | 1,640 | 29.80 | 18,171 |
| Feb-07 | Unit B, 31/F, The Mayfair | Mid-Levels | 2,838 | 42.80 | 15,081 |
| | House 6, 39 Deep Water Bay Road | Island South | 4,754 | 110.00 | 23,138 |
| | House G, Wing On Villas | The Peak | 2,400 | 50.00 | 20,833 |
| Mar-07 | House 5, 8 Severn Road | The Peak | 5,143 | 198.00 | 38,499 |
| | Unit B, 30/F & 31/F, The Albany | Mid-Levels | 3,566 | 68.80 | 19,293 |
| | House D, 40 Island Road | Island South | 5,080 | 148.00 | 29,134 |

SERVICED APARTMENTS

Serviced Apartment Rental Index



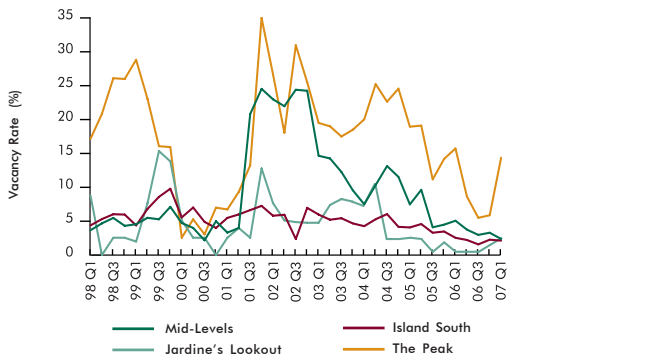
* Boutique Serviced Apartment Index (2002 Q4 = 100)

The Hong Kong serviced apartment market witnessed a strong performance in the first quarter of 2007. Some of the investors noticed the potential for future growth in this market sector and have been exploring ways to increase their involvement. Earlier this year, Bo Yip Building in Tsim Sha Tsui was acquired by the family of Mr. Chan Shu Kui for \$660 million in an opportunistic play which will see the building converted to serviced apartments. Meanwhile, various developers have unveiled new projects to capitalise on the rising demand for serviced units. These include the launching of Domus Mercury by Yu Ming Investment in February, which brought 69 new units onto the market in Tin Hau.

According to CBRE Serviced Apartment Rental Index, all of the four sub-segments within this market sector showed signs of growth in the first quarter. Luxury serviced apartments performed the best with 4.9% q-o-q growth, while the prices of boutique, standard and premier serviced apartments rose 3.5%, 3.1% and 3.0%, q-o-q, respectively.

VACANCY

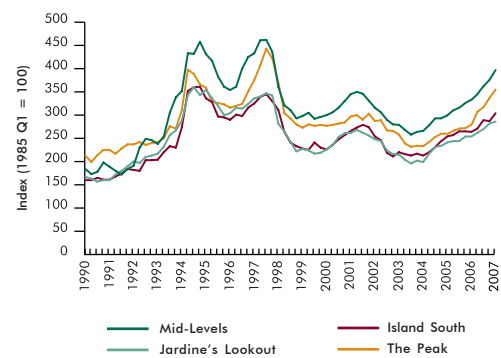
Luxury Residential Vacancy Rate



Prices of properties on The Peak were strongly buoyed by the successful sale of the Mount Kellett Road site at the end of last year. Since then, landlords have been taking houses and apartments off of the leasing market, as contracts with existing tenants expire, rather placing them on offer for sale instead. These moves collectively acted to drive up the vacancy rate for luxury residential premises on The Peak this quarter. However, this scenario did not apply to the three other luxury districts on Hong Kong Island, with only minor adjustments compared with the fourth quarter of 2006. The overall vacancy rate remained low at 2.7%, which was the same level as recorded during the previous quarter.

LEASING MARKET

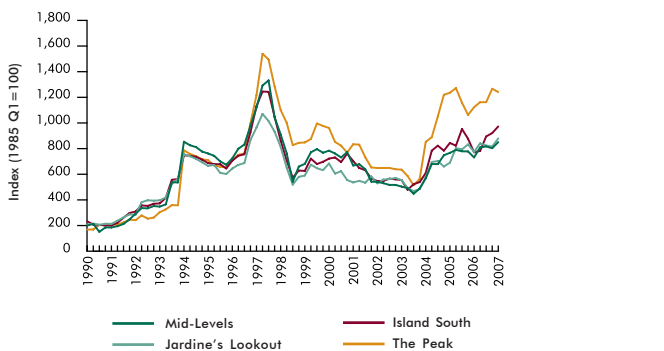
Luxury Residential Rental Index



As landlords continue to prefer to place their luxury residential properties on the sales market, units available for lease are becoming more scarce. Tenants in luxury units who are willing to extend their leases after the existing agreements expire will face some increment of upward adjustment in rents by their landlords. These adjustments were reflected in the first quarter rental index, as premises in Mid-Levels, Island South and The Peak have demonstrated q-o-q rental growth of more than 5%. However, rents in Jardine's Lookout registered a comparatively lower q-o-q growth of 1.4%, as a portion of interest focused on this district was attracted to the newly developed project - The Legend.

SALES MARKET

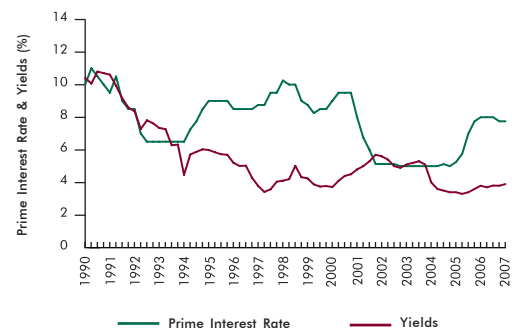
Luxury Residential Capital Value Index



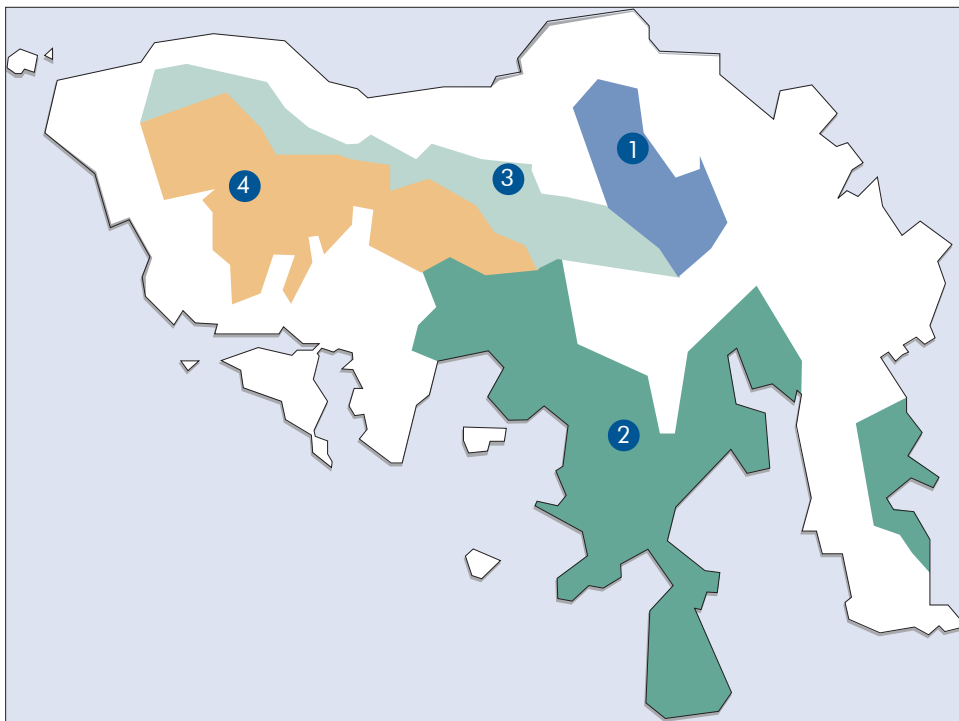
During the first quarter, some owners of the premises on The Peak were rather too aggressive in marking up the prices of their properties on offer, thus creating a gap between the bidding and asking prices for such properties - leading to failure of many potential sales transactions. The 2.1% drop in capital values for premises on The Peak within the first quarter was considered to be a natural adjustment, after the huge price surge experienced in the previous quarter. However, in other districts, capital value growth was strong, with sentiment having been further buoyed after the sale of Pak Shek Kok site in mid-March. Jardine's Lookout achieved the strongest q-o-q growth of capital values at 7.8%, while Mid-Levels and Island South also registered incremental increases of 6.0% and 5.7% respectively, q-o-q.

YIELDS

Luxury Residential Yields



Intense competition in mortgage lending amongst local banks extended into the first quarter of 2007. However, since the US interest rate movement is still uncertain due to the combined effect of inflation and the sub-prime mortgage lending rate, the local prime rate is unlikely to experience upward or downward adjustment in the near future. The yield of luxury properties remained relatively stable in the first quarter, rising slightly to 3.9% from the 3.8% recorded in the previous quarter. As there will be only around 250 new luxury units placed on Hong Kong Island this year, the further tightening of supply level which will predictably occur in the remaining months of the year means a drop in luxury residential prices and rents would be a very unlikely scenario.



HONG KONG LUXURY RESIDENTIAL SUBMARKET DESCRIPTIONS

1. **JARDINE's LOOKOUT/TAI HANG** Medium low-rise, Medium low density
2. **ISLAND SOUTH** Low-rise, low density
3. **MID-LEVELS** High-rise, high density
4. **THE PEAK** Low-rise, low density

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USEFUL INFORMATION WHEN LEASING RESIDENTIAL PROPERTY

RENTAL:

This is always referred to as monthly rental, and is payable monthly, in advance, by the tenant to the landlord.

RATES:

This is a tax charged by the Hong Kong Government and is usually paid by the tenant, unless the landlord has leased the property on inclusive rental terms. The charge is paid as a percentage of the 'rateable value' of the property, which is fixed by the Hong Kong Government.

MANAGEMENT FEES:

Unless paying an inclusive rental, this is charged to the tenant and usually covers building maintenance and cleaning services.

STAMP DUTY:

On leasing, this is divided equally between the tenant and the landlord, but on sale this is paid totally by the purchaser.

LEGAL FEES:

Each party bears its own legal costs.

DEPOSIT:

This usually takes the following form, but may vary between landlords:

- An initial one month's rental deposit immediately upon terms being agreed;
- two further months' deposit upon signing of the Tenancy Agreement.

Amounts required when signing the Tenancy Agreement:

1. First month's rental
2. First month's rates and management fees
3. Two months' rental as deposit
4. Electricity / Gas / Telephone deposit
5. Agent's fee
6. Stamp Duty

NB: The above can vary depending on the landlord and the lease terms agreed.

