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# MarketView
# Hong Kong Luxury Residential

**SECOND QUARTER 2006**

The second quarter is usually the peak season for the luxury residential leasing market and 2006 has proved to be no exception. In fact, several factors were present to amplify the current buoyancy. Inflation in June continued to edge up moderately as it registered a 2.2% increase, driven mainly by the rise in private housing rentals, demonstrating the bullishness of the residential leasing market. Furthermore, labour market conditions continued to improve with the seasonally adjusted unemployment rate down to 5% in the April to June period, close to the 57-month low of 4.9% registered in the March to May period. The forecast of continued improvement in the job market and further rise in income levels are expected to fuel rising demand in the residential leasing segment. Meanwhile, the luxury residential leasing market was buoyed by a renewed influx of overseas corporate executives as Hong Kong remains a preferred choice by MNCs for the establishment of regional headquarters.

> *The forecast continued improvement in the job market and rising incomes are expected to stoke upgrade demand in the luxury residential leasing segment.*

Limited supply of international school places in Hong Kong continued to act as a constraint on the recruitment activities of many MNCs, imposing an external limitation on staff selection for relocation to the SAR. However, this limitation fuelled a further dynamic in the wider residential market. On one hand, the market witnessed a surge in luxury residential leasing demand from those families who have been able to secure school places for their children for the upcoming academic year beginning in September. On the other hand, young professionals, dispatched by MNCs as a means to circumvent the constraint of limited schooling provision, fuelled demand for serviced apartments. Looking forward, the prospects for the leasing market look positive across-the-board with substantial demand chasing limited leasing stock.

Polarisation in the luxury residential sales market was particularly obvious in the second quarter in the face of downward pressure in the investment market, which was negatively impacted by the sustained interest rate hike cycle. Notwithstanding the listlessness of the residential sales market generally, villas, which are scarce in the market, attracted a high level of acquisitional interest despite the interest rate cycle. A number of major villa transactions were the highlights of this otherwise relatively quiet period. Amongst these villa transactions, House 3 of The Gough Hill, a new but not yet officially launched project by Wheelock Properties at 3-5 Gough Hill Path, The Peak, was sold for $220 million (about $28,000 psf). This value is now being used as the benchmark for a number of upcoming projects in the same league, namely Severn 8 and 10 Black's Link.

## QUICK STATS

| | Change in Q1 06 | Change in Q2 06 |
|---|---|---|
| New Supply | ↔ | ↔ |
| Demand | ↑ | ↑ |
| Vacancy Rate | ↓ | ↓ |
| Prime Rents | ↑ | ↑ |

## MAJOR LEASING TRANSACTIONS IN 2Q 2006

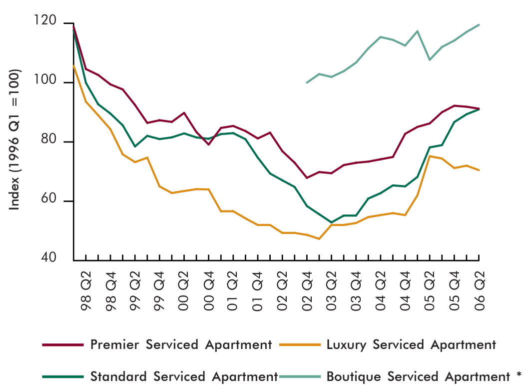
| Month | Property | Floor | Location | Size (sf) | Gross Rental (HK$ per month) | Gross Rental (HK$ psf per month) |
|---|---|---|---|---|---|---|
| Apr-06 | Vantage Park | Low | Mid-Levels | 817 | 22,000 | 26.93 |
| | Hillsborough Court | High | Mid-Levels | 1,385 | 45,000 | 32.49 |
| | Repulse Bay Apartments | Low | Island South | 2,465 | 68,000 | 27.59 |
| May-06 | Po Garden | High | Mid-Levels | 2,586 | 68,000 | 26.30 |
| | Residence Bel-Air | High | Island South | 1,379 | 39,000 | 28.28 |
| | 80 Robinson Road | Mid | Mid-Levels | 1,387 | 26,000 | 27.59 |
| Jun-06 | Bamboo Grove | High | Mid-Levels | 3,282 | 113,500 | 34.58 |
| | 37 Barker Road | Mid | The Peak | 2,100 | 75,000 | 35.71 |
| | Hong Kong Parkview | Low | Island South | 2,066 | 60,000 | 18.75 |

## SELECTED SALES TRANSACTIONS IN 2Q 2006

| Month | Property | Location | Size (sf) | Price (HK$ Million) | Price (HK$ psf) |
|---|---|---|---|---|---|
| Apr-06 | Unit 13, 56 Repulse Bay Road | Island South | 3,251 | 56.00 | 17,225 |
| | House I, Overthorpe | The Peak | 2,761 | 76.88 | 27,845 |
| | Unit B, 33/F, Tower 2, Regence Royale | Mid-Levels | 2,522 | 48.40 | 19,190 |
| May-06 | House 3, The Gough Hill | The Peak | 7,857 | 220.00 | 28,000 |
| | House 2, No. 33 Island Road | Island South | 6,079 | 160.00 | 26,863 |
| | Unit A, 29/F, Tower 3, Leighton Hill | Happy Valley | 1,911 | 26.50 | 13,867 |
| Jun-06 | House 37, Manderly Garden | Island South | 3,594 | 47.00 | 13,077 |
| | House 19, Strawberry Hill | The Peak | 2,880 | 60.00 | 20,833 |
| | 15A, West Block, The Albany | Mid-Levels | 2,546 | 36.50 | 14,336 |

## SERVICED APARTMENTS

### Serviced Apartment Rental Index




* Boutique Serviced Apartment Index (2002 Q4 = 100)

With the second quarter not impacted by the long holiday periods of the fourth and first quarters, business resumed normal operations which translated into a steady stream of demand for serviced apartment units. However, competition between operators at the top end segment was so intense that the impact resonated through the market as high demand failed to translate into any rental increases in either the premier or luxury sub-segments. Meanwhile, the rental performance of standard and boutique serviced apartments continued to play catch-up, registering q-o-q rises of 1.8% and 2.1%, respectively.

The all-inclusive rental difference between serviced apartments and conventional luxury flats was reduced to less than $1 psf in the second quarter, a phenomenon that will see serviced apartments continuing to tempt tenants of conventional apartments away due to the convenience, flexibility and lifestyle factors. Nevertheless, the niche villa leasing market will maintain its strong resistance to the gravitational pull of serviced apartments, particularly for those desire cleaner and lower-density living environments which are outside of the metropolitan core area, such as The Peak and Island South.

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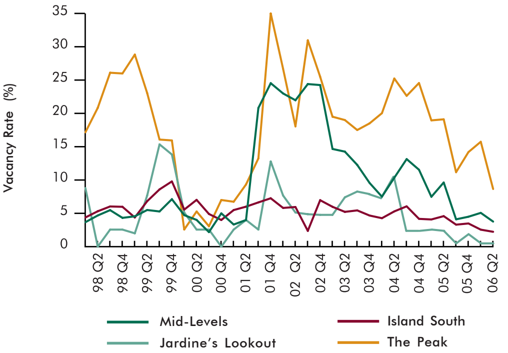
## VACANCY

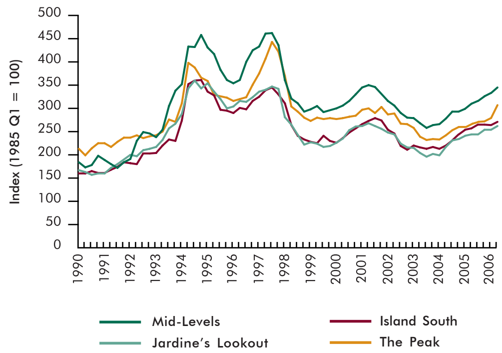
### Luxury Residential Vacancy Rate




The bullishness of leasing demand across the broader luxury residential market on Hong Kong Island was clearly observed as vacancy sank to 2.7%, the lowest rate witnessed since the market peak in 1997. Apart from the seasonal factor of the new expatriate arrivals to secure places in international schools for their children, financially capable landlords, who had taken positions in real estate to hedge against the rising inflation, sought to translate the strength in leasing demand into higher achieved rentals. District-wise, The Peak registered the sharpest contraction at 7.1 percentage points q-o-q, highlighting the uptick in demand for premier grade properties.

## LEASING MARKET

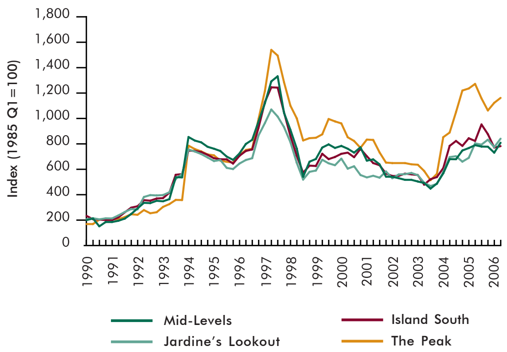
### Luxury Residential Rental Index




The luxury residential leasing market registered a 5% q-o-q increase on Hong Kong Island overall. The keenness of newly-arrived expatriates to secure accommodation earlier rather than later worked in conjunction with the limited supply of leasing units to drive the uptick in rentals. Meanwhile, the lingering effects of the transitional termination notice continued to be felt although it is approaching the end of its effective period. Nevertheless, the landlords of luxury residential property, being optimistic on the market, increasingly refused to compromise about asking rentals. Within the second quarter, the firmer stance of such landlords began to translate into substantial rental hardening, with The Peak registering the greatest surge at 10% q-o-q.

## SALES MARKET

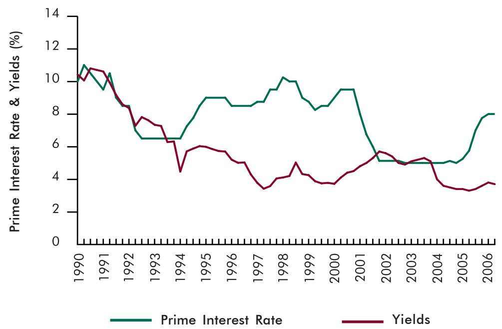
### Luxury Residential Capital Value Index




Within the second quarter, a number of more financially robust buyers were encouraged to make opportunistic moves to acquire quality luxury residential units at bargain levels following the earlier dip in prices. However, the upbeat economic outlook narrowed the room for negotiation, which in turn fuelled an overall q-o-q rebound in capital value of 5.7% across Hong Kong Island's luxury residential districts. The sharpest improvement was noted in Mid-Levels (10.7%), followed by Jardine's Lookout (8.7%), The Peak (3.6%) and Island South (1.5%). Looking ahead, the compressing vacancy rate will continue to serve as a factor providing a firm underpinning for the luxury residential sales market overall.

## YIELDS

### Luxury Residential Yields




Given that interbank liquidity remained high in Hong Kong on the back of strong short-term inflows of funds speculating on the further appreciation of the RMB, local banks maintained interest rates at a steady level within the second quarter. The welcome decision provided luxury residential capital values with an immediate boost which contained yields to the same 3.7% level as in the previous quarter. While US economic data suggested a possibility of the approaching end of the current interest rate hike cycle, Hong Kong interest rates are expected to have come to a plateau but not yet reached their peak. Buyers in Hong Kong are therefore likely to remain positive but cautious, thus supporting luxury residential yields at a relatively stable level.



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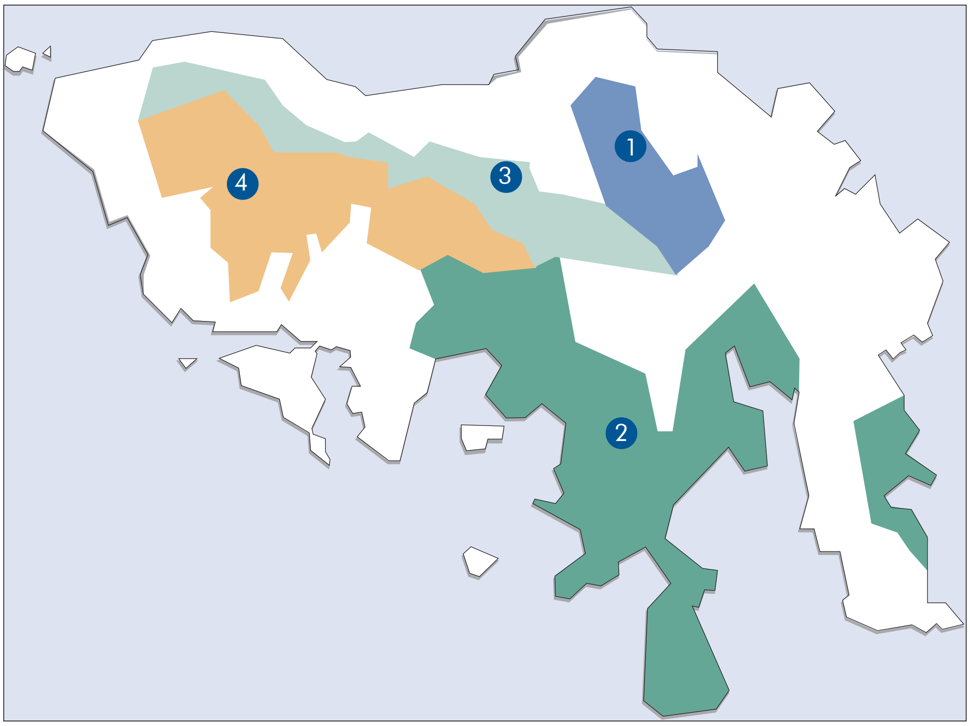


## HONG KONG LUXURY RESIDENTIAL SUBMARKET DESCRIPTIONS

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.