

Hong Kong Luxury Residential

THIRD QUARTER 2007

Hong Kong sailed through the third quarter of 2007 on a strong note with gains in the local stock market, strong economic fundamentals and rapid growth in real estate values. Developers, users and investors were particularly enthusiastic about the luxury residential sector supported by high land prices, the local market rally and stable mortgage rates.

Amid the local stock market rally, conservative investors locked in profit by diverting part of their surplus to fixed asset investment, boosting both transaction volume and value in premier-grade properties.

Developers' faith in the long-term prospects of the luxury residential market was evidenced by their aggressiveness in seeking plots and submitting redevelopment proposals. In August, Emperor International acquired 9A-H Seymour Road in Mid-Levels for \$464 million via compulsory sale in the Lands Tribunal and planned to develop eighty 1,800-sf luxury residential units. Sun Hung Kai Properties intended to invest \$800 million to turn Southside Villas in Shouson Hill into 30 to 40 luxury villas within the next three years. A waterfront residential plot at Pak Shek Kok (Site B) in Tai Po, sold at auction for \$4.55 billion, achieving 48% above the reserve price. Sino Land, K. Wah, Nan Fung and USI Holdings will jointly develop the site, with the adjacent Sites A and C acquired in March, into a 1,000-unit luxury residential project.

Hong Kong benefited substantially from bullish economic performance in China. Whilst the Hang Seng Index surged a massive 22.5% in the third quarter and shows no sign of slowing down,

conservative investors locked in profits by diversifying to fixed asset investment, boosting both transaction volume and value in premier-grade properties. Sun Hung Kai Properties fetched \$184 million, or \$33,500 psf, from the record sale of a penthouse unit at The Arch in early July, Asia's most expensive penthouse in terms of unit price in the quarter.

Continued RMB appreciation as well as the SAR's well-developed legal framework and free economic system prompted some high net-worth Mainland investors to acquire Hong Kong luxury residential properties. Mainland and domestic demand pushed the capital value of luxury residential property on Hong Kong Island up a stunning 11.7% over the quarter, outpacing the q-o-q rental growth of 3.5%. As luxury residential landlords opted to lock in profits by selling rather than leasing their properties, subsequent rent increases and limited options in traditional luxury residential locations shifted some leasing demand to increasingly popular residential areas in West Kowloon and Sai Kung.

In short- to medium-term, the local prime lending rate is likely to slip following recent global credit market turbulence. Positive sentiment should persist in Hong Kong's luxury residential market as real estate investment provides a hedge against looming inflationary pressure.

QUICK STATS

	Change in Q2 07	Change in Q3 07
New Supply	↔	↔
Demand	↑	↑
Vacancy Rate	↓	↑
Prime Rents	↑	↑

SELECTED LEASING TRANSACTIONS IN 3Q 2007

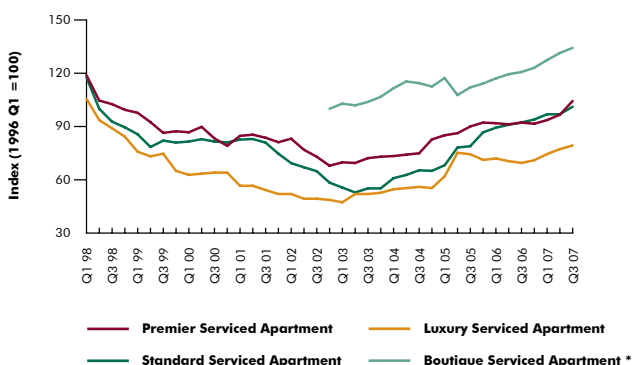
Month	Property	Floor	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Jul-07	House 5, Manderly Garden	House	Island South	3,504	215,000	61.36
	Unit B, Wing Hong Mansion	Low	Mid-Levels	1,399	50,000	35.74
Aug-07	House 25, Strawberry Hill	House	The Peak	2,945	220,000	74.70
	House D32, Regalia Bay	House	Island South	4,937	240,000	48.61
	Unit B, Tower 1, Garden Terrace	Mid	Mid-Levels	6,500	95,000	14.62
Sep-07	House 27, Strawberry Hill	House	The Peak	2,890	180,000	62.28
	House 3, 61-63 Deep Water Bay Road	House	Island South	3,479	195,000	56.05
	House 4, Belvedere	House	Island South	3,240	125,000	38.58
	House 1, 3 Coombe Road	House	The Peak	4,436	360,000	81.15

SELECTED SALES TRANSACTIONS IN 3Q 2007

Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Jul-07	House 2, Bello Horizonte	Island South	3,475	79.00	22,734
	House 8, Villa Rosa	Island South	3,980	82.00	20,603
	House 8, Abergeldie	The Peak	3,655	130.00	35,568
Aug-07	6 Belleview Drive	Island South	4,676	200.00	42,772
	Units A & B, 20/F, Tower 2, Regence Royale	Mid-Levels	5,219	90.00	17,245
	House A, Kelleteria	The Peak	5,261	140.00	26,611
Sep-07	House 15, 1-9 Shouson Hill Road	Island South	4,331	73.00	16,855
	House 18, Villa Rosa	Island South	4,013	83.80	20,882
	Unit A, 28/F, Tower 2, Garden Terrace	Mid-Levels	3,002	38.50	12,825

SERVICED APARTMENTS

Serviced Apartment Rental Indices



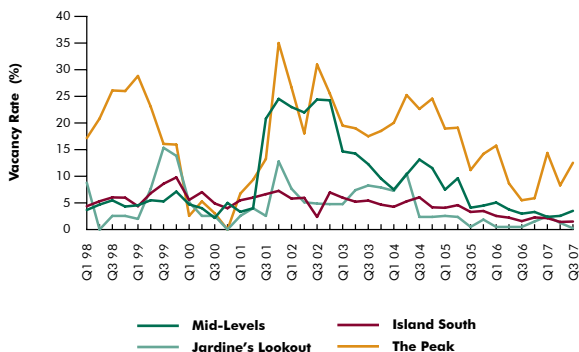
* Boutique Serviced Apartment Index (2002 Q4 = 100)

Driven by the expanding demand from major financial institutions and Mainland corporations with jet-setting executives needing flexible and convenient accommodation, the serviced apartment market continued to register strong performance in the third quarter of 2007. The average rent of premier serviced apartments recorded the strongest quarterly growth of 8.1%, followed by standard (4.4%), luxury (2.7%) and boutique (2.2%) serviced apartments.

Apart from continued demand from MNC users, the decrease in non-serviced luxury flats for lease in the wake of the current acquisition binge in the residential market led to considerable new demand for serviced apartments. For example, the premier Four Seasons Place has recorded occupancy rates over 90% over the past 12 months whilst rent surged from \$60 psf to \$82.5 psf. New serviced apartments are appearing to cluster near Tsim Sha Tsui. The HarbourView Place will be the next project to launch in the area. This 266-suite premier project adjacent to the ICC will be available in the first quarter of 2008, with average rents of \$60 psf according to an announcement this past September.

VACANCY

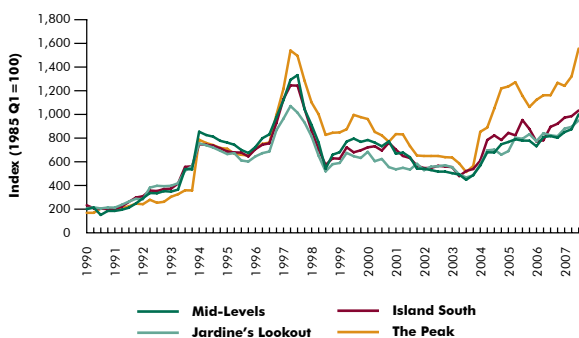
Luxury Residential Vacancy Rate



The overall vacancy rate for luxury residential properties on Hong Kong Island rose 0.4 percentage points in the third quarter of 2007 to 2.4%, also a 0.3 percentage points increase y-o-y. The slightly increased vacancy rate was expected as landlords opted to sideline their properties while anticipating the best time to sell. From a district-level perspective, the vacancy rates at Jardine's Lookout, Island South, Mid-Levels and The Peak at the end of the quarter stood at 0.2%, 1.5%, 3.5% and 12.5%, respectively. Although The Peak had the highest vacancy rate increase at 4.2 percentage points, the figure was skewed by the relative larger average floor area of the premises there and should not give cause for alarm.

SALES MARKET

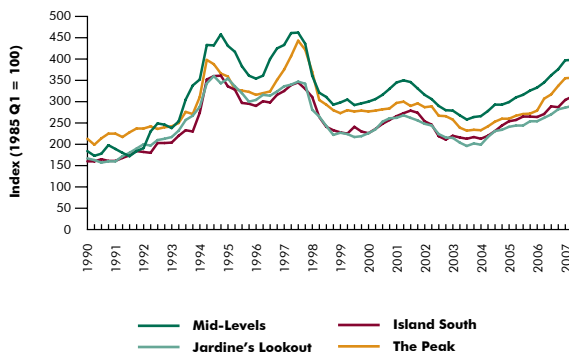
Luxury Residential Capital Value Indices



Sales of luxury residential properties were extremely brisk in the third quarter, with average capital values surging 11.7% q-o-q, the sharpest quarterly growth since the second quarter of 2004. It was the sixth consecutive quarterly increase registered for the average sales price of luxury premises, mainly driven by the supply shortage and high acquisition interest. As the local stock market continued to break record-highs in an unchecked fashion, some conservative investors opted to lock in profits by allocating part of their portfolios to fixed asset investment. Premier villas on The Peak remained the top targets of discerning investors or users in the third quarter, highlighted by The Peak's most remarkable capital value quarterly increase over the past three years, registered at 17.7%.

LEASING MARKET

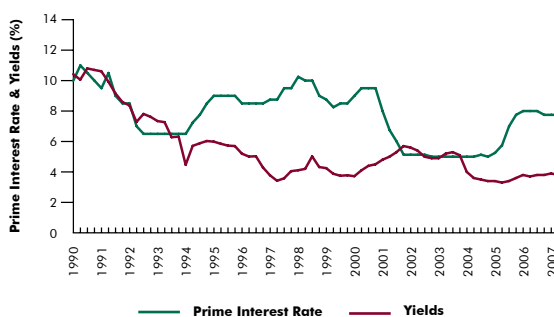
Luxury Residential Rental Indices



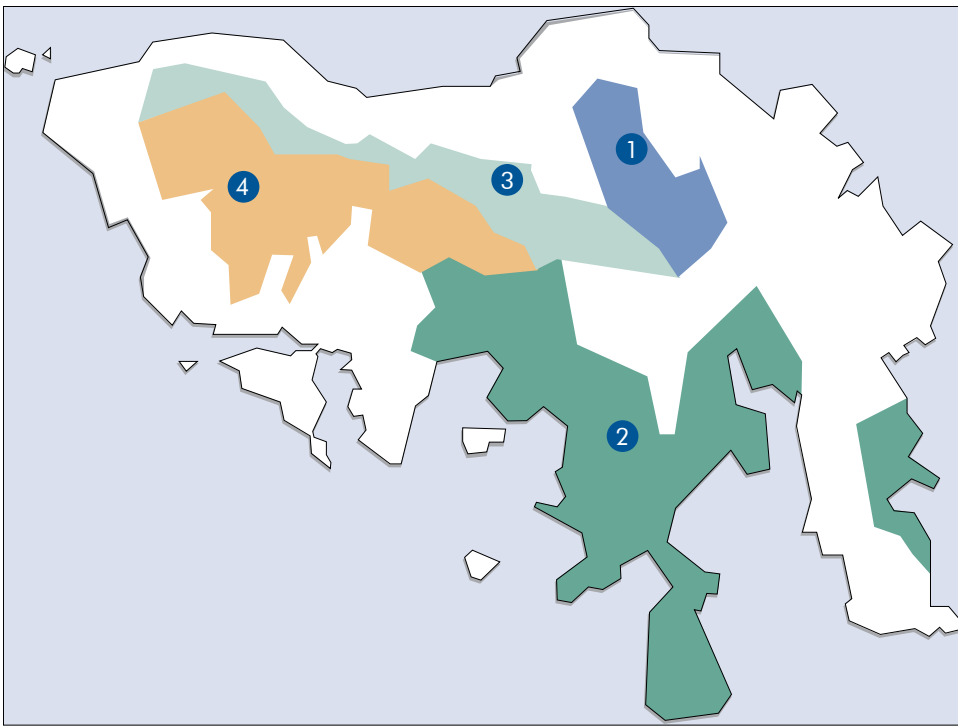
Overall luxury residential rents on Hong Kong Island registered 3.5% quarterly growth in the third quarter. Rental performance in Jardine's Lookout registered the strongest q-o-q growth of 4.2% while the rental market in Island South, Mid-Levels and The Peak also achieved q-o-q growth of 3.8%, 3.2% and 2.9% respectively. The rising local Consumer Price Index and the supply shortage of luxury residential units on Hong Kong Island continued to fuel landlords' aggressive rent increases. However, the rising rental market performance has been moderated since the first quarter of 2007, likely due to the increasing number of users opting to buy rather than rent as a hedge against the inflationary environment.

YIELDS

Luxury Residential Yields



Significant quarterly growth in capital values, outpacing rental growth, has resulted in a yield compression of 0.3 percentage points that reduced the overall yield of luxury residential premises on Hong Kong Island to 3.5% in the third quarter. Favourable financial policies from the Mainland, such as the expansion of the QDII scheme and the anticipated direct investment programme for Mainland individuals contributed to the high liquidity within the local banking system. Coupled with Hong Kong's own prime interest rate cut from 7.75% to 7.5% corresponding with the Fed's decision to cut lending rates in September, the prevailing cash-rich environment has fueled optimism in the real estate market. Many investors seemed undaunted by compressing yields in the wake of the prevailing vibrant property acquisition spree.



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.

