

Hong Kong Luxury Residential

THIRD QUARTER 2006

The luxury residential market entered its traditionally busy phase in the third quarter of 2006. New companies continued to set up in Hong Kong, particularly mid-sized operations, bringing all classes of expatriates to the SAR. According to government statistics, the number of regional operations and local offices in Hong Kong operated by overseas and Mainland companies reached its highest-ever level, totalling 6,354, in 2006. However, towards the end of September, the leasing market started to settle down as expatriate activity began to conclude prior to the start of the school year. As a result of the strong uptrek of expatriate arrivals in Hong Kong, structural issues are more clearly emerging due to the shrinking availability and high cost of residential accommodation, and the persisting shortage of international school places. On the back of these issues, some expatriates were found postponing their arrival to Hong Kong for one year or choosing to relocate to Singapore instead.

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intensified competition between operators in the banking sector as they sought out quality customers and business with new products and service arrangements. This phenomenon was further stimulated by the aggressive participation of mortgage referral services business that saw brokers tie in with real estate agents and financial institutions to attract customers. The preferential mortgage plans have, to a certain degree, helped offset the negative impact of rising interest rate.

On the supply side, it is noted that the total volume of new luxury residential projects in the four traditional luxury residential areas on Hong Kong Island over the coming two years comprise the lowest pipeline figures since the last supply peak in 2004. This is down from 1,814 units in 2004 to 547 units in 2006 and 249 units in 2007. Due to the limited new stock, coupled with the recent failure of developers in triggering more frequent land sales, capital values of luxury residential properties continued to register upbeat performance during the third quarter. At the same time, difficulty in the acquisition of plots in old and under-utilised residential areas such as Mid-Levels (e.g. near Babington Path/ Lyttelton Road area) and Happy Valley (e.g. Broadwood Road area) through private tender due to high asking prices by existing owners, compounded the lack of new supply.

Under the expectation that interest rates will likely remain steady in the near future given the US decision to hold interest rates unchanged in August and September, buyer sentiment began to edge up within the period under review. In addition, the easing liquidity condition in the Hong Kong dollar market led to

QUICK STATS

	Change in Q2 06	Change in Q3 06
New Supply	↔	↔
Demand	↑	↑
Vacancy Rate	↓	↓
Prime Rents	↑	↑

MAJOR LEASING TRANSACTIONS IN 3Q 2006

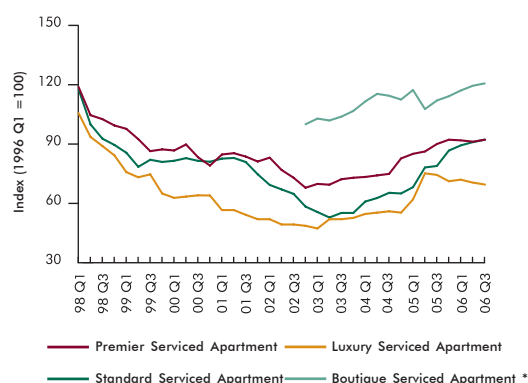
Month	Property	Floor	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Jul-06	Pine court	Low	The Peak	2,400	68,000	28.33
	Branksome Grande	Mid	Mid-Levels	3,030	95,000	31.35
	Hong Kong Parkview	Low	Island South	2,066	60,000	29.04
Aug-06	Royal Court	Low	Mid-Levels	1,428	40,000	28.01
	May Tower One	Low	Mid-Levels	2,850	79,000	27.72
	Hatton House	Low	Mid-Levels	2,800	64,000	29.04
Sep-06	Tregunter Tower II	Low	Mid-Levels	3,052	78,000	25.56
	The Manhattan	High	Island South	2,837	72,000	25.38
	Bamboo Grove	High	Mid-Levels	1,813	66,500	36.68

SELECTED SALES TRANSACTIONS IN 3Q 2006

Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Jul-06	No. 58 Black's Link	The Peak	4,380	84.30	19,247
	House 5, Turtle Cove Villas	Island South	4,003	79.00	19,735
	Unit A, 29/F, Tower 5, The Leighton Hill	Happy Valley	2,238	33.00	14,745
Aug-06	Wafford Villa	The Peak	3,300	72.80	22,061
	Unit B, 29/F, Mayfair	Mid-Levels	2,872	40.50	14,101
	Unit A2, 29/F, Nicholson Tower	Happy Valley	1,993	24.00	12,042
Sep-06	Suite 7, Montebello	The Peak	3,085	56.00	18,152
	12/F, Grosvenor Place	Island South	2,809	50.00	17,800
	Unit C, 7/F, The Albany	Mid-Levels	2,546	36.50	14,336

SERVICED APARTMENTS

Serviced Apartment Rental Index



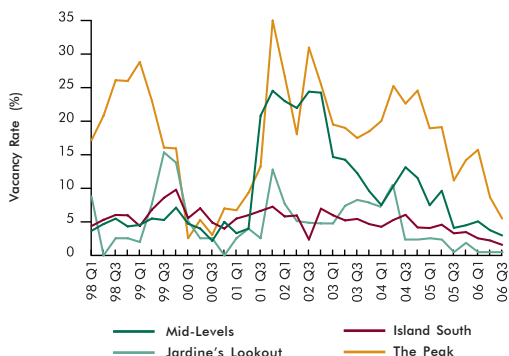
* Boutique Serviced Apartment Index (2002 Q4 = 100)

The high occupancy rate in the third quarter shows there is sustained demand in the overall serviced apartments market. The standard serviced apartment rental remained the front-runner by achieving q-o-q growth of 1.4%, whilst the rental of boutique serviced apartments retained the growth in the last few quarters, registering a 1.0% q-o-q rise.

The continuous strong interests in serviced apartments have paved way for several optimistic providers to modify their existing strategies. Shama, owning a portfolio of boutique serviced apartments in Hong Kong, is considering an upward rental revision in the fourth quarter. On the other hand, Atrium released plans to carry out a major renovation project commencing from February 2007. In result, it could create a stimulating effect to the premier segment in the forthcoming months, recouping part of the negative rental growth as shown in the first two quarters. Nevertheless, the competition between premier services apartment providers remained fierce and notably, Gateway has offered promotional packages recently to entice more tenants.

VACANCY

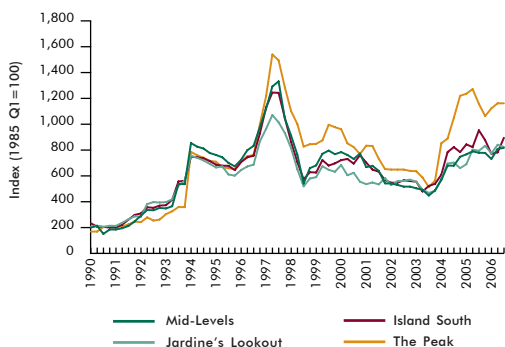
Luxury Residential Vacancy Rate



With the ongoing supply shortage in luxury residential properties, combined with the high-flying demand of buyers, the vacancy rate in this segment reached its historical lowest point at 2.1%. The Peak recorded the most significant drop in vacancy rate, falling 3.2 percentage points to 5.5% during the quarter. As salary and employment prospects continued to improve in 2006, there is an expected increase in demand from skilled professionals as they are more affordable to pay for better livings. On the other hand, the scarcity in new supply would continue as only one project, namely, Ho's Villa was launched for lease during the third quarter.

SALES MARKET

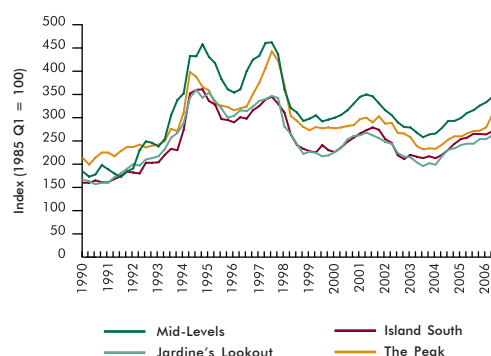
Luxury Residential Capital Value Index



Investors are in a bullish mood as local stock market kept trying to explore its all-time high in recent months. During the third quarter, there was an overall q-o-q rebound in capital value of 2.8% across Hong Kong Island's luxury residential districts. The sharpest improvement was noted in Island South (14.4%), followed by Mid-Levels (1.0%). Transactions of luxury properties within the quarter included the en bloc sale of No. 25 South Bay Close, which fetched \$370 million (\$8,400 psf). Two houses located at No.7 Pollock's Path, the Peak, and 37 Deep Water Bay Road, Island South, were sold for \$117 million (\$32,000 psf) and \$350 million (\$21,700 psf), respectively.

LEASING MARKET

Luxury Residential Rental Index



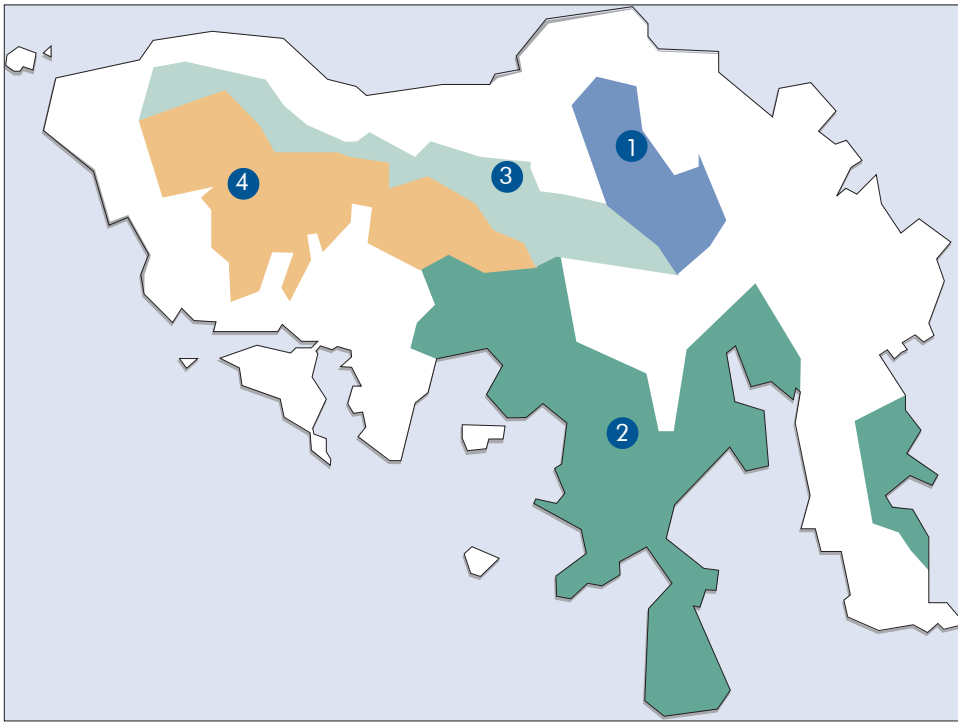
The third quarter of 2006 proved to be a busy summer period for the luxury residential market. The average rental of luxury residential properties on Hong Kong Island increased by 4.5%, compared with the last quarter. The "grace period" under the transitional termination notice has already approached the end of its effective period, and will no longer effectively act to contain the level of rental growth. Alongside, the luxury residential properties are in a shortage of supply and most of the major prime developments are fully leased. Among the major luxury residential districts, the Island South outperformed others by registering a 6.6% q-o-q increase.

YIELDS

Luxury Residential Yields



Residential property prices, particularly in the luxury segment, rose in a contained pace amidst the gradual escalation of local interest rates since March 2005, following the US rate hike cycle. However, more recently the US interest rate is indicating signs of peaking out. As a result, luxury residential property prices would have further room for appreciation in the near to medium term. Coupled with the positive local economic figures and the limited leasing options available over the near-term, an upward movement in rental is also expected which will continue to sustain luxury residential yield to hover between 3.8-4.0% over the near-term.



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.



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