

# Hong Kong Luxury Residential

FOURTH QUARTER 2006

The fourth quarter of 2006 proved to be an exciting period for luxury residential property owners, as a series of positive developments provided a solid platform for further increases in capital values. In addition to the improving economic conditions and the influx of foreign investment, stock investors captured huge profits as the Hang Seng Index set record highs, breaking through the 20,000 barrier. Many stock investors were preparing to maximize their portfolios by investing part of their gains into other fixed asset items such as houses and apartments in traditional luxury residential districts, in order to achieve more stable returns.

*A string of positive results from recent land sales have driven up investor expectations for high-end residential properties.*

A string of positive results from land sales in the fourth quarter, particularly in the high-end residential sector, also enhanced the sector's appeal to investors. At the end of November, Sino Land fended off several competitors to win the bid for a Kowloon Tong luxury residential site at a price of \$1.94 billion, or the equivalent of \$9,868 psf. The transaction price was at a 76% premium over the initial reserve price. Furthermore, in December, Sun Hung Kai Properties successfully acquired a site on Mount Kellett Road at auction for a price of \$1.8 billion, the equivalent of \$42,658 psf -- a new world record. The price was 134% above the reserve price and 20% over the average price of

current ready-for-sale primary luxury residential houses on The Peak.

Prices of houses on The Peak are sky-high at the moment due to the extremely limited supply. Houses 6 and 7 of the newly developed property "8 Severn Road" recorded a transaction in November at \$36,500 psf, while House 3 of 3-5 Gough Hill Path sold for \$225 million, the equivalent of \$28,846 psf. Prices

of primary luxury residential properties have been climbing at a faster pace than those in the secondary market, as the values of the properties mentioned above were respectively 49% and 56% above those for comparable secondary houses in the same district.

In the meantime, the US Federal Reserve has maintained steady interest rates, while banks in Hong Kong lowered their prime rate by 25 basis points in November due to excess monetary reserves. Optimistic investors believed they were witnessing the start of an interest rate downtrend cycle, and some analysts also predicted that the US Federal Reserve would lower interest rates in 2007. The strong economic conditions have prompted some forerunners to step in and purchase local luxury residential properties, as short-term capital value growth in this sector seems to be a certainty.

## QUICK STATS

	Change in Q3 06	Change in Q4 06
New Supply	↔	↔
Demand	↑	↑
Vacancy Rate	↓	↑
Prime Rents	↑	↑

### MAJOR LEASING TRANSACTIONS IN 4Q 2006

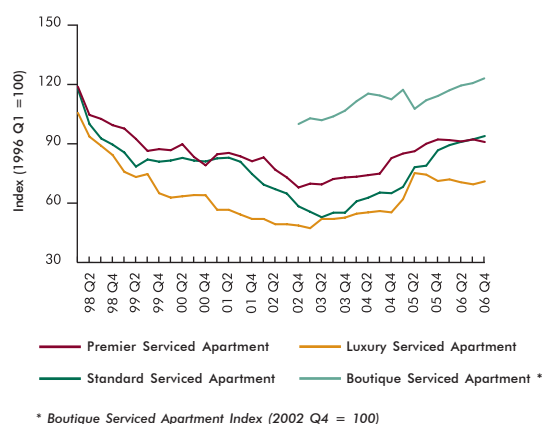
Month	Property	Floor	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Oct-06	Eredine	High	The Peak	3,300	110,000	33.33
	Circle Villa	House	Island South	3,600	112,000	31.11
	Hong Kong Parkview, Tower 16	High	Island South	2,490	84,000	33.73
Nov-06	3 Repulse Bay	High	Island South	2,161	86,000	39.80
	Fairlane Tower	High	Mid-Levels	2,850	120,000	42.11
	Palatial Crest	Mid	Mid-Levels	1,066	33,000	30.96
Dec-06	1-3 Pollock's Path	High	The Peak	2,777	148,000	53.29
	Celestial Garden	High	Island South	2,375	85,000	35.79
	Hillsborough Court, Tower 1	High	Mid-Levels	1,369	42,000	30.68

### SELECTED SALES TRANSACTIONS IN 4Q 2006

Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Oct-06	House 2, 21-35 Black's Link	The Peak	3,350	68.00	20,299
	Unit B, 2/F, Royal Garden	Island South	2,680	34.00	12,687
	Unit A, 27/F, Tower 1, Regency Royale	Mid-Levels	2,697	53.98	20,015
Nov-06	House 3, 8 Severn Road	The Peak	5,100	167.21	32,786
	Unit A, 17/F, Manhattan Tower	Island South	2,243	38.89	17,338
	Unit 9B, 16/F, Borrett Mansions	Mid-Levels	2,708	29.70	10,968
Dec-06	House C, 40 Island Road	Island South	5,300	123.80	23,358
	House 8, Bel-Air	Island South	6,562	105.00	16,000
	Unit A, 34/F, Tower 1, Clovelly Court	Mid-Levels	2,809	45.00	16,020

### SERVICED APARTMENTS

#### Serviced Apartment Rental Index



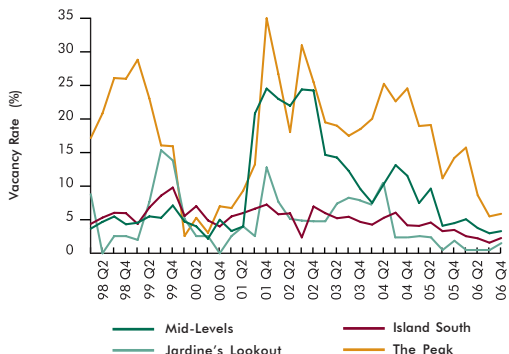
The vast majority of serviced apartment residents are now looking for lower cost or vogueish serviced apartments with monthly rental ranging from \$27,000 to \$40,000. Boutique and standard serviced apartments, which fit such users' needs ideally, were therefore in demand in 2006. Aboe, a boutique serviced apartment in Aberdeen, was launched in November with a view to capture the strong interest from potential tenants who are chasing for unique lifestyle.

The sustained rental surge recorded in the fourth quarter was the best indicator of the situation described above, with rents of standard and boutique serviced apartments rising by 1.8% and 2.0%, respectively, q-o-q. Luxury serviced apartments, which are relatively cheaper than premier units, also benefited from strong demand, as rental in the fourth quarter rebounded from a loss in the previous quarter to register a 2.2% q-o-q increase. Meanwhile, there was a 1.4% q-o-q drop in premier serviced apartment rents, largely due to increased competition from Four Seasons Place.

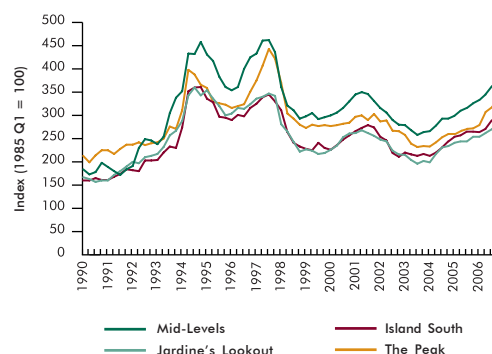
## VACANCY

## LEASING MARKET

### Luxury Residential Vacancy Rate



### Luxury Residential Rental Index



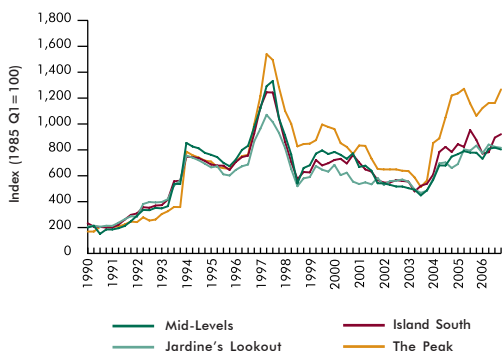
Owners were content to wait for higher bids for their luxury residential properties due to the overall upward adjustment in asking prices triggered by the recent land sales. Many investors were reluctant to rent out their luxury houses or apartments since it would weaken their flexibility in selling the property. As a result, the overall vacancy rate in the fourth quarter rose to 2.7% from 2.1% in the previous quarter. Luxury residential districts recorded q-o-q increases in vacancy rates ranging from 0.3% to 1.0%. As the 376 units of The Legend in Jardine's Lookout will come on stream in early 2007, the vacancy rate may be driven up further.

Driven by increases in asking prices, rentals in the luxury residential leasing market remained strong in the fourth quarter. Luxury properties on The Peak saw the largest increases, posting a q-o-q increase of 6.5%, while rents in Jardine's Lookout and Mid-Levels registered 4.4% and 3.9% q-o-q increases, respectively. Island South was the exception to the trend as rents declined 0.5% from the third quarter. Rents in the luxury residential market are expected to grow at a rate of 10%-15% in 2007, following the double-digit increase of 15% in 2006.

## SALES MARKET

## YIELDS

### Luxury Residential Capital Value Index

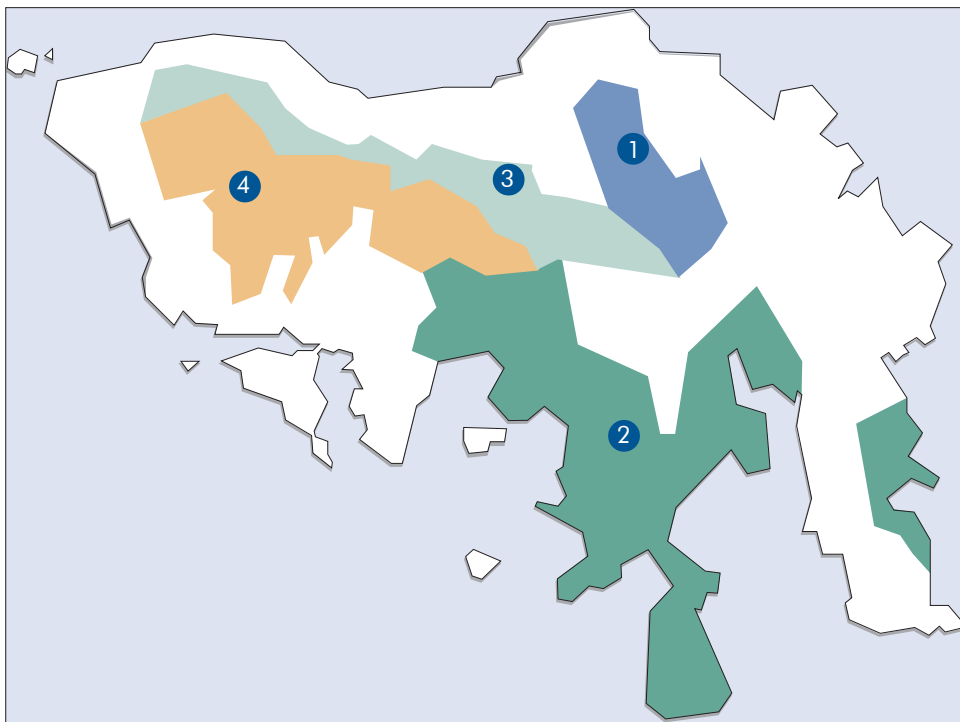


### Luxury Residential Yields



Better-than-expected land sale results have extended the rising trend in the sales market. In particular, the record-breaking sale of the Mount Kellett Road site prompted a sudden surge in value in nearby residential properties, which eventually resulted in a 9.0% q-o-q increase in capital values for luxury properties on The Peak. Luxury houses and apartments located in Island South, meanwhile achieved a healthy growth of 2.9% compared with the third quarter. However, both Mid-Levels and Jardine's Lookout recorded slight drops in capital values in the last three months, arguably due to the sharp increase in the second quarter of 2006.

In November 2006, the Hong Kong and Shanghai Banking Corporation reduced its prime lending rate from 8% to 7.75%, triggering the first rate reduction in Hong Kong since the fourth quarter of 2004 and positively reinforcing investor interest in purchasing luxury residential properties. As just 38 new luxury residential units were completed on Hong Kong Island in 2006, prices and rents are expected to see further increases. While both the sales and leasing markets were active in the fourth quarter, yields remained the same, at 3.8%.



## 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.

