

Quick Stats

		Y-o-Y change	Q-o-Q change
Vacancy Rate	3.7%	↑	↑
Capital Value	HK\$11,827 psf	↓	↓
Rental Value	HK\$36.22 psf	↓	↓
Yield	3.68%	↑	↑

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value.

Hot Topics

- Both prices and rents peaked in 2008, and the fourth quarter witnessed sharp drops in capital values and rental.
- Luxury residential sales transactions began to pick up towards the end of the year, perhaps signalling renewed confidence in the long-term prospects of Hong Kong's luxury residential market.
- As both interest rate and price drops are expected over the next quarter, yields in the property market should look increasingly attractive to capital-rich bargain hunters.
- The most exclusive category of serviced apartments continued to show resilience, although the least expensive category was hit hard by the global economic slowdown.

Hong Kong's luxury residential market opened the fourth quarter still reeling from the blow to consumer confidence caused by the global financial turmoil that made headlines in September and worsened throughout the quarter. According to the Land Registry, the number of transactions worth \$10 million or above in the fourth quarter amounted to only 575, lower than the 642 transactions in the third quarter, and far lower than the 2,807 transactions in the fourth quarter of 2007.

Market sentiment did pick up a bit in November with the launching of two major projects by Sun Hung Kai Properties. The projects, Peak One in Shatin and La Grove in Yuen Long, sold over 60% within a short time of launching, signalling that at least some buyers were abandoning their "wait-and-see" attitudes. Subsequent launchings in December were also received favourably.

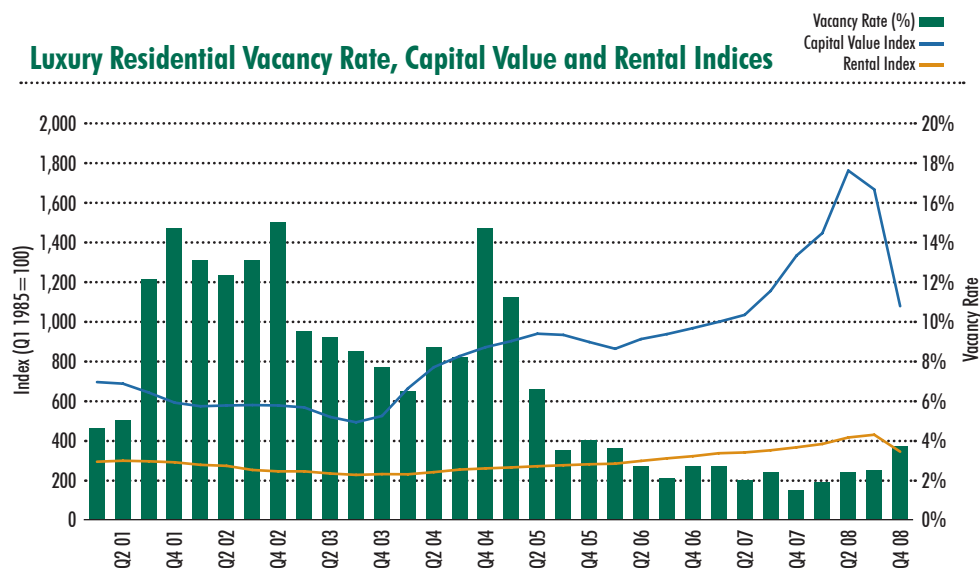
The increased activity in the luxury residential market toward the end of the year is not a sure sign that Hong Kong has weathered the worst of the global financial crisis. Rather, it is a reflection not only of the significant discounts, but also of the

continued strong fundamentals of the market, as well as the lack of sound investment options in the face of low interest rates, fluctuating and crashing stock markets, and continued credit controls, among others. The large cash reserves deposited in Hong Kong bank accounts indicate that there is strong liquidity in the territory; the increased activity reflects those who see Hong Kong's luxury real estate market as a safe investment to wait out the economic storm.

While it remains unclear as to whether the lower prices and high-profile offerings will continue to lure buyers and stabilise the market, further price drops are expected over the next few quarters. As the yields turn more attractive, increasing numbers of investors may become willing to brave the market uncertainty.

Despite the fact that the fundamentals of Hong Kong's luxury residential market remained strong, there was much speculation as to how far prices would fall in the current climate. Residential prices on Hong Kong Island ultimately dropped 35.4% q-o-q and 19.2% y-o-y in the fourth quarter, with rentals falling almost 20% q-o-q and 5.9% y-o-y.

Luxury Residential Vacancy Rate, Capital Value and Rental Indices



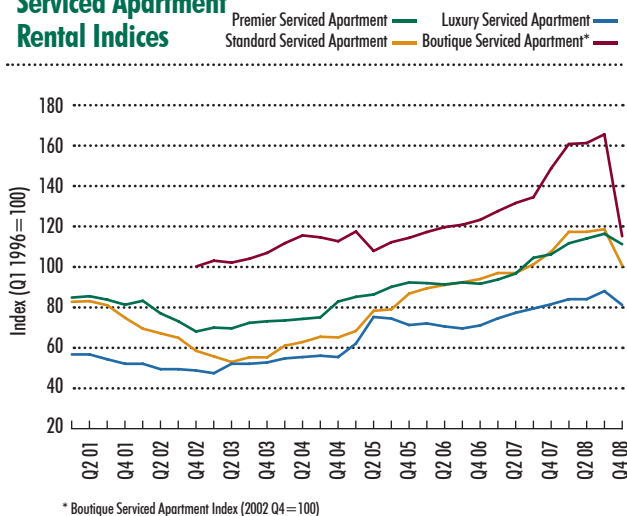
### Selected Leasing Transactions in Q4 2008

Month	Property	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Oct-08	Unit 40B, Tower 3, Estoril Court	Mid-Levels	3,348	140,000	41.82
	Unit 9A, Tower 2, Ruby Court	Island South	1,780	65,000	36.52
Nov-08	Unit 32F, Tower 2, Robinson Place	Mid-Levels West	1,266	42,000	33.18
	House, Kelleteria	The Peak	3,198	185,000	57.85
	Unit 20B, Fairlane Tower	Mid-Levels	1,700	80,000	47.06
Dec-08	Unit 27B, Tower 3, Garden Terrace	Mid-Levels	3,307	92,000	27.82
	Unit 12A, 68 Mount David Road	Pok Fu Lam	2,801	110,000	39.27
	Unit C, Tower 1, Robinson Place	Mid-Levels West	1,350	50,000	37.04
	Unit B, Tower 1, Pacificview	Tai Tam	1,334	35,000	26.24

### Selected Sales Transactions in Q4 2008

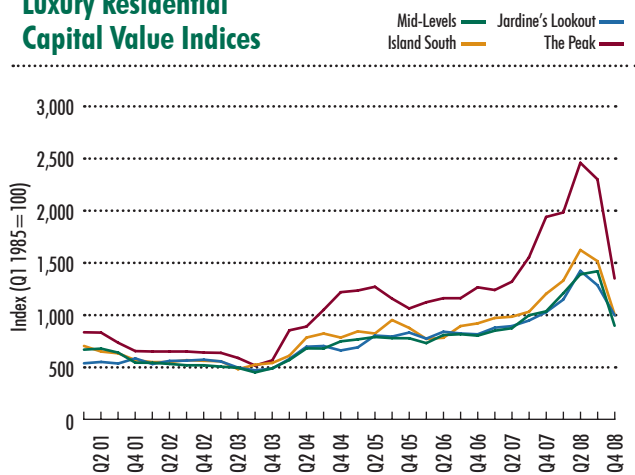
Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Oct-08	House 17, 8 Severn Road	The Peak	3,330	76.00	22,823
	Flat A, Celestial Garden	Island South	2,375	27.00	11,368
Nov-08	Unit B, Tower 2, Hillsborough Court	Mid-Levels	783	6.08	7,765
	High Floor, Mountain Lodge	The Peak	2,650	35.00	13,208
	House, Regalia Bay	Stanley	4,100	38.00	9,268
Dec-08	Low Floor, Robinson Place	Mid-Level West	1,266	7.70	6,082
	House, La Hacienda	The Peak	3,200	56.00	17,500
	High Floor, Garden Terrace	Mid-Levels	3,307	41.50	12,549
	Cedar Drive House, Redhill Peninsula	Tai Tam	2,880	31.50	10,938

### Serviced Apartment Rental Indices



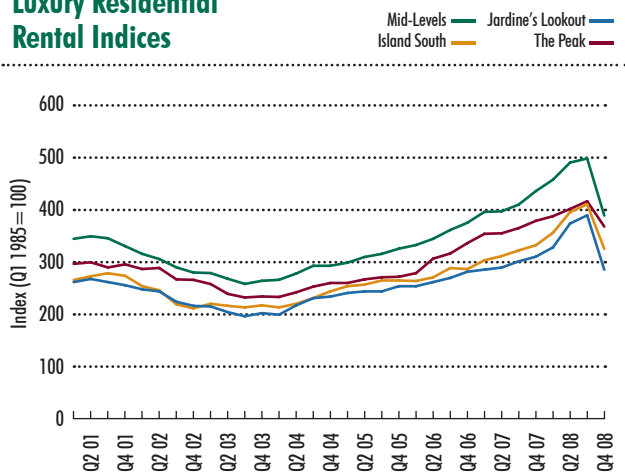
The vulnerability of serviced apartment rentals to the global economic downturn varied widely based on category. Rentals in the most exclusive category, premier, experienced rather mild effects, falling only 4.4% q-o-q – much lower than the 20% rental plunge in luxury residential property – due to the limited supply in this category and the currently secure positions of the top executives who rent such premises. The stability of premier serviced apartments was in sharp contrast to the least exclusive category: boutique serviced apartments. The average boutique apartment rental fell 30.5% q-o-q, as there was a great deal of new supply in the category which came on stream in the second half of 2008. As landlords become more willing to negotiate rents and terms for luxury flats, the flexibility and convenience of serviced apartments came under increasing challenge. Rentals in the other two categories, luxury and standard serviced apartments, experienced q-o-q drops of 7.8% and 15.1%, respectively, in the fourth quarter.

### Luxury Residential Capital Value Indices



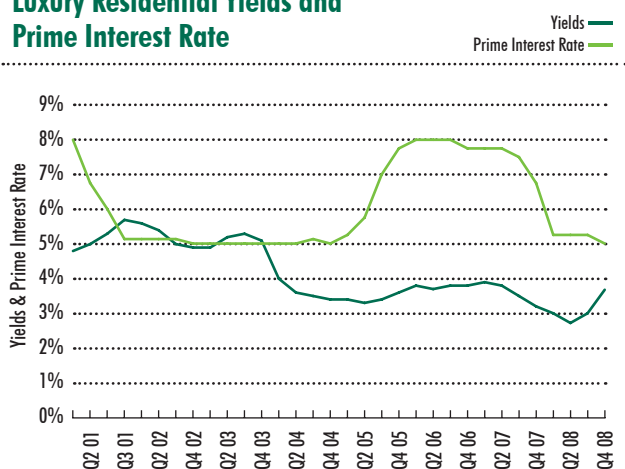
Sales picked up at the end of the fourth quarter after significant price cuts emboldened some investors to venture back into the luxury property market despite the ongoing credit crunch. The positive reception of two luxury developments in November and December, Peak One in Shatin and Belgravia in Island South, which sold over 60% and 50% respectively within a short time of launching, sparked off a turnaround in buyers' confidence - and increased transactions - in the sales market. The Peak best reflected the buoyant sentiment, with a whopping five transactions in a single month, also in December. The increased transaction activity, however, took place at the expense of plummeting prices. Overall, prices on Hong Kong Island fell 35.4% q-o-q and 19.2% y-o-y in the fourth quarter, with prices in the Peak decreasing the most, plunging 41.4% q-o-q and 30.5% y-o-y.

### Luxury Residential Rental Indices



After over four years of steady rent increases, prices dropped sharply in the fourth quarter of 2008, giving back the year's previous gains. The average rental for luxury residential properties on Hong Kong Island dropped around 20% q-o-q to an average unit rate of \$36.22 psf. Rental stock began to pile up, as owners moved their properties from the sales market to the leasing market in reaction to the "wait-and-see" attitude of potential buyers and mounting pressure on prices. Owners eager to secure tenants while waiting out the standoff in the sales market became more flexible in rents in the fourth quarter, resulting in the significant discounts. Despite the large reductions, rentals are still nowhere near the lows experienced during the SARS or 1997 financial crisis. This suggests that prices may drop still lower if the impact of the global economic crisis on Hong Kong deepens.

### Luxury Residential Yields and Prime Interest Rate

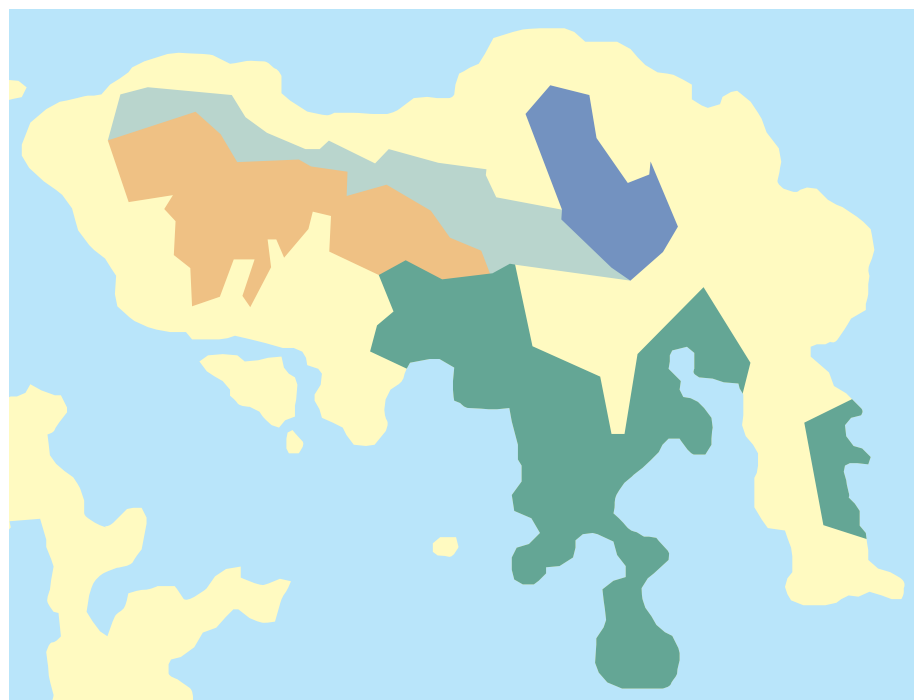


As prices dropped in the fourth quarter, the yield rose to close to 3.7%, up from 3% in the third quarter, while the prime interest rate dropped to 5% from 5.25%. Although the credit crunch may have impacted the general sales market, buyers in the luxury residential market proved sufficiently solvent to lead a spike in sales on the back of increasing yields. Further price drops may lure more buyers into the market over the coming months, so long as sentiment sustains the fragile recovery witnessed from November to December. As both interest rate and price drops are expected over the next quarter, yields in the property market should look increasingly attractive to capital-rich bargain hunters.

Selected New Luxury Residential Supply

Project	Location	No. of Units	EDC
6D-6E Babington Path	Mid-Levels	47	2009
39 Conduit Road	Mid-Levels	66	2009
15-17 Bluff Path	The Peak	2	2009
Ex-Memo Building	Mid-Levels	67	2010
Ex-Lai Sing Court	Jardine's Lookout	275	2010
2A-E Seymour Road	Mid-Levels	150	2011

Hong Kong Luxury Residential Submarket Locations



- Jardine's Lookout/Tai Hang
- Island South
- Mid-Levels
- The Peak

Hong Kong Luxury Residential Submarket Descriptions

Jardine's Lookout/Tai Hang

Covering Jardine's Lookout, Tai Hang and Happy Valley, this submarket is of medium and low density: high-rise and medium-rise buildings clustered in Tai Hang and Happy Valley while Jardine's Lookout is predominantly an area of low-rises. Commanding a full view of the Happy Valley Racecourse, the area is home to occupiers from young working professionals to upper middle class families.

Island South

Island South has a broad coverage extending from exclusive neighbourhoods in Big Wave Bay, medium-rise developments in Tai Tam, low to medium density premises and town houses scattered in Repulse Bay and Stanley, to the low density villas in Deep Water Bay and Shouson Hill. Selected high-end developments in Pok Fu Lam are also included in this submarket. Apart from being home to many local tycoons, this submarket is well-received by expatriates with considerable housing budgets.

Mid-Levels

The only high density submarket to be regarded as luxury residential, the area features high-rise towers on Hong Kong Island for metropolitan dwellers. The area stretches in a linear fashion from medium-rise homes near Stubbs Road in Wan Chai to the high-rise residential cluster abutting the University of Hong Kong with the numerous high-rise buildings adjacent to Central near Robinson Road and the SOHO area sandwiched in between. The high-rise towers in the Old Peak Road area are arguably the most prestigious residential towers in Hong Kong.

The Peak

The most expensive luxury residential submarket in Hong Kong, this area is dominated by low density low-rise dwellings like single detached houses that exclusively transact at premium prices or rents. The high topography of the area means that panoramic view of the city is ideal, depending on weather conditions. This area is mostly occupied by billionaires or senior management staff of conglomerates with an exceptionally generous housing budget.

All monetary values are presented in Hong Kong dollars unless otherwise specified.

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