

# Hong Kong Luxury Residential

## Quick Stats

		Y-o-Y change	Q-o-Q change
Vacancy Rate	2.5%	↑	↑
Capital Value	HK\$18,132 psf	↑	↓
Rental Value	HK\$45.27 psf	↑	↔
Yield	3%	↓	↑

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

## Hot Topics

- Many domestic market fundamentals remain unscathed, although risks of economic downturn have increased somewhat.
- Local developers are not in any hurry to sell given that the current land supply remains limited.
- Hong Kong's domestic market is weighed down by lack of confidence and tightened credit controls, which has led to a decrease in turnover and may subsequently translate to pressure on prices.
- Luxury residential rentals are likely to have peaked and are set to fall as the global financial turmoil threatens to bring layoffs in financial institutions to Hong Kong, the traditional major market occupiers.
- Serviced apartments continued to show resilience in terms of rising rentals and high occupancy rate during this challenging time, likely due to the unique flexibility and convenience to occupiers.

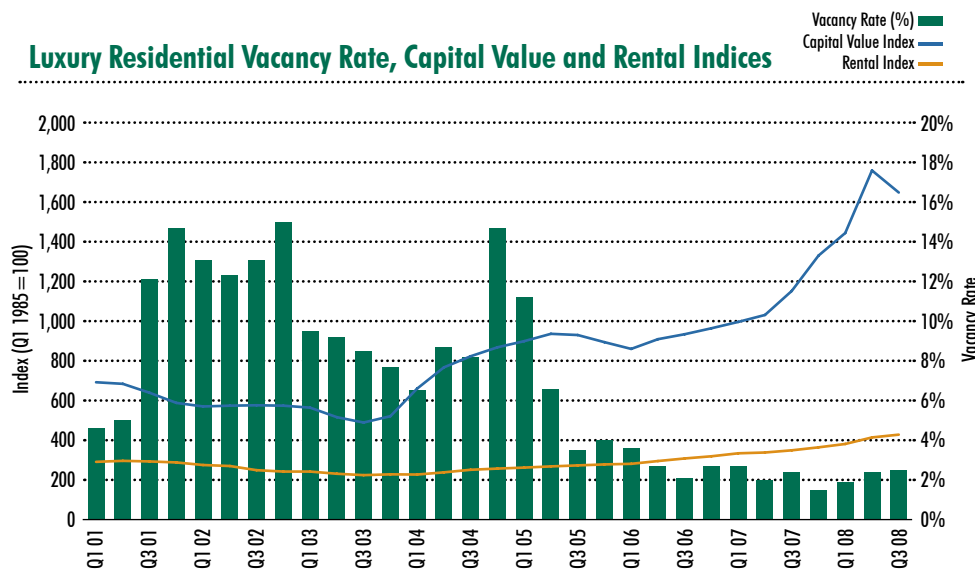
Hong Kong's luxury residential market was hit hard in the third quarter following a short surge around the middle of the year. Potential buyers turned cautious in the face of the broad-based credit crunch and deepening worries over a prolonged global recession. Market transactions have shown signs of sustained correction on the back of a disappointing stock market performance and tightening credit controls, as well as rising borrowing costs; all these factors have effectively kept many investors on the sidelines. The weakened market sentiment was clearly evidenced by the discouraging monthly residential market snapshot from the Land Registry – the latest number of domestic transactions worth \$10 million or above plunged from the last peak of 1,302 transactions in November 2007 to only 152 transactions in August.

The downside risk to Hong Kong's near-term economic outlook has increased, mainly reflecting the international market situation. This has affected available liquidity in the market, which in turn will inevitably have a negative impact on asset values. Impacts of the US-led sub-prime mortgage crisis and economic downturn are becoming more evident, but are thus far only limited to the sales market as opposed to the leasing market, where activity has remained somewhat stable in the third quarter. Yet, the decline in property prices to date is not especially severe when viewed in context of the rapid run-up in rents and prices over the past few years before the

credit crunch arrived. Although there were a number of speculators who were willing to reduce their profit margins so as to unload some of their distressed assets, the selling pressure from these players is unlikely to rock the market substantially. More veteran investors understand that luxury residential prices normally trend up from one cycle to another, and they will not have a strong intention to sell unless they fall victim to the prevailing meltdown in market liquidity. Thus, the key questions vendors should ask themselves now are how long they perceive this correction will last and whether they are ready to accept pricing that better reflects existing market conditions. That said, as uncertainty regarding future market conditions and disparate expectations between buyers and sellers continue to grow, the transaction volume is more likely to fade over the next few quarters at least.

Amid all the negatives, there are indeed no significant changes to many of the sound fundamentals supporting Hong Kong's property market in terms of a historically low new residential supply this year, the increasing difficulty in replenishing land banks and the strong balance sheet position of many local developers, as well as the relatively low interest rate environment. The current market corrections are not anticipated to lead to a stop-loss sell-off, but the time required for a sustainably robust rebound of market sentiment will depend on the emergence of a clearer outlook for both market liquidity and economic growth.

Luxury Residential Vacancy Rate, Capital Value and Rental Indices



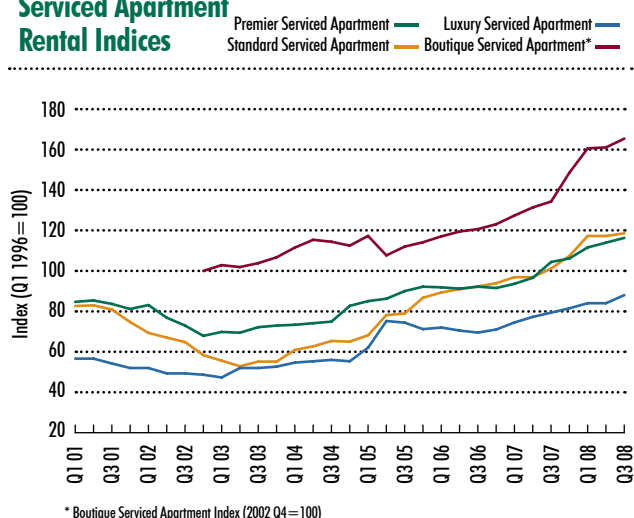
## Selected Leasing Transactions in Q3 2008

Month	Property	Floor	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Jul-08	Le Palais, 8 Pak Pat Shan Road	House	Tai Tam	3,271	170,000	51.97
	74 Mount Kellett Road	House	The Peak	3,800	250,000	65.79
Aug-08	Royal Garden, 27 Repulse Bay Road	High	Repulse Bay	2,680	115,000	42.91
	Interocean Court, 26 Peak Road	High	The Peak	3,844	230,000	59.83
	Hong Kong Parkview, 88 Tai Tam Reservoir Road	High	Tai Tam	2,490	120,000	48.19
Sep-08	Kennedy Heights, 10-18 Kennedy Road	Middle	Mid-Levels	3,400	120,000	35.29
	Branksome Grande, 3 Tregunter Path	Middle	Mid-Levels	3,030	115,000	37.95
	Pine Court, 5 Old Peak Road	Low	Mid-Levels	2,650	110,000	41.51
	RedHill Cedar Drive	House	Tai Tam	3,339	140,000	41.93

## Selected Sales Transactions in Q3 2008

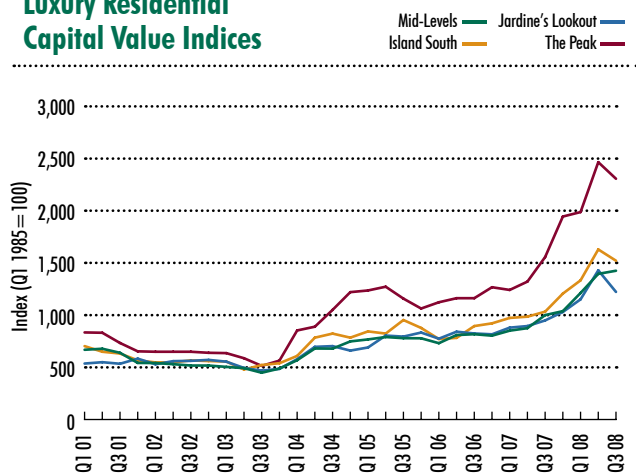
Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Jul-08	Park Place, Block B1, High Floor	Island South	2,338	53.00	22,668.95
	Hillsborough Court, Tower 4, High Floor	Mid-Levels	1,385	26.80	19,350.18
Aug-08	Altadena House, Low Floor	The Peak	4,500	140.00	31,111.11
	Leighton Hill, Tower 7, High Floor	Happy Valley	1,911	36.80	19,256.93
	Royalton II, High Floor	Pok Fu Lam	1,750	14.50	8,285.71
Sep-08	Ruby Court, Tower I, Low Floor	Island South	2,200	38.38	17,445.45
	Pacific View, Tower 3, High Floor	Island South	2,054	32.15	15,649.95
	Estoril Court, High Floor	Mid-Levels	3,347	58.00	17,328.95
	Villa Monte Rosa, High Floor	Mid-Levels East	3,300	44.30	13,424.24

## Serviced Apartment Rental Indices



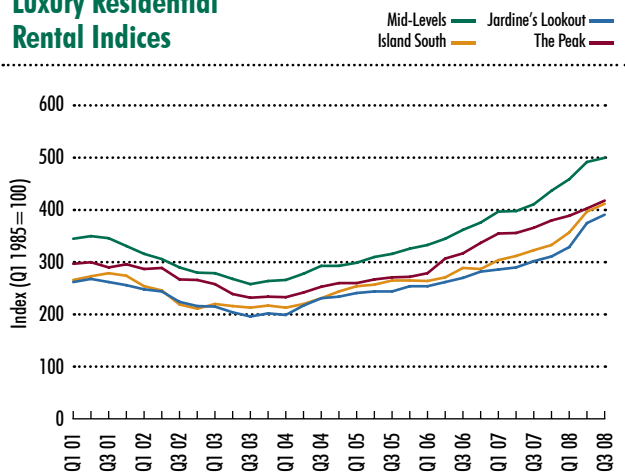
Amid the chaos coursing through the global markets, Hong Kong remains a leading business hub in Asia as supported by the all-time high figure of 6,612 overseas and Mainland firms representing parent companies outside Hong Kong choosing to host their operations in the city, according to the "2008 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong" conducted by the government. Third quarter serviced apartment rents appeared to echo the positive survey results by registering relatively encouraging broad-based upside quarterly growth ranging from 1.1% in standard serviced apartments to 4.8% in serviced premises in the luxury category. With occupancy rates consistently registering over 96% even in these challenging times, this kind of performance remains exemplary. It is likely the unique flexibility and convenience to occupiers that warrant their continued popularity.

### Luxury Residential Capital Value Indices



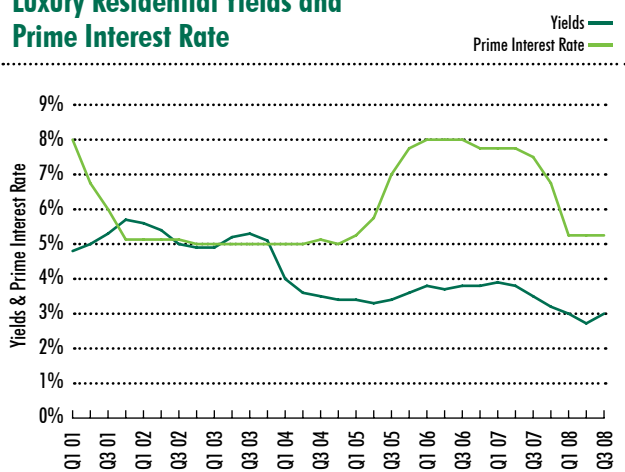
In the face of the current credit void, the luxury residential sales market will only get worse before it gets better. Pricing is softening and so is the appetite of potential buyers. The third quarter was clearly a turning point since the last across-the-board price correction recorded in the first quarter in 2006. Yet, prices have not fallen nearly as much as the number of sales. The average unit price of luxury residential districts on Hong Kong Island has just fallen a mere 6.3% q-o-q in the third quarter to \$18,132 psf. On a y-o-y basis, this unit rate was still 43.1% above the same period last year. Nonetheless, the total number of transactions of units worth \$10 million or above dropped 68.3% y-o-y in August 2008. Among the four submarkets on Hong Kong Island, Jardine's Lookout registered the worst performance in average unit price with a quarterly drop of 14.5% to \$12,345 psf.

### Luxury Residential Rental Indices



Despite a relatively firm performance in rents of luxury residential properties, which have risen 3.3% q-o-q to an average unit rate of \$45.27 on Hong Kong Island, rents are likely to have peaked and are set to fall as the global financial turmoil threatens to bring layoffs to Hong Kong. The various scale backs in hiring by many financial institutions are particularly discouraging as their employees were traditionally the major market occupiers. Together with the rapidly deteriorating economic outlook in relation to market liquidity, many owners are more eager to secure tenants for their spare units, with enhanced room for negotiation on worries that the full impacts of the global economic crisis are yet to be seen. This was especially obvious in the Mid-Levels, where leasing supply is abundant. The third quarter saw rents in the area edging up only a mild 1.7% q-o-q to \$46.29 psf.

### Luxury Residential Yields and Prime Interest Rate

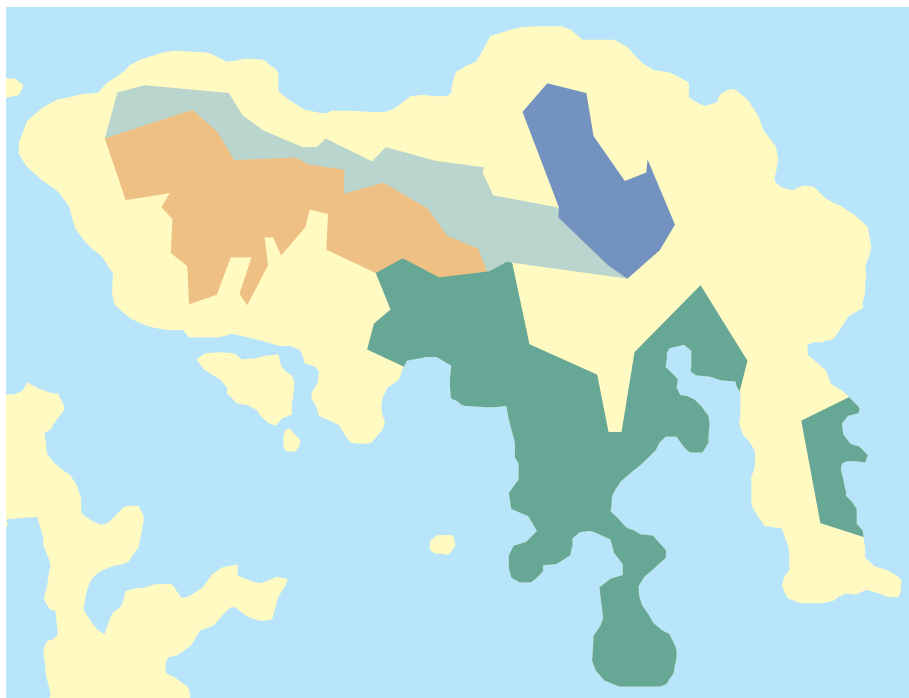


The luxury residential market of late has not been racked as much by inflation-driven market volatility as it has by the sapped liquidity in the money market. The latter led to a spike in Hong Kong's interbank rate, that prompted many local banks to raise their rates some 50 basis points near the end of the third quarter to new mortgage loans only. The decelerated market activity in the third quarter led to a deeper correction in prices than to the relatively stable rents, thus supporting the luxury residential yield to rebound to 3%. Considering that the fragile US economy should rule out any interest rate increments in the near future, and Hong Kong's prime interest rate should follow suit, the SAR's mortgage rates are expected to remain at the current level of about 3.5%. Barring impetuous fallout from dampening sentiment, a substantial fall of local property prices is rather unlikely.

Selected New Luxury Residential Supply

Project	Location	No. of Units	EDC
Soho 38	Mid-Levels	76	2008
Bel-Air No.8	Pok Fu Lam	709	2008
39 Conduit Road	Mid-Levels	66	2008
Ex-Memo Building	Mid-Levels	67	2009
37 Severn Road	The Peak	7	2009
Ex-Lai Sing Court	Jardine's Lookout	275	2010

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.

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