

Hong Kong Luxury Residential

FOURTH QUARTER 2005

Expected to inject further impetus into Hong Kong's strong economy, the latest extension of CEPA (Closer Economic Partnership Arrangement Phase III) was agreed in October. Under the agreement, 23 new liberalisation measures spread across various service areas, including legal and accounting, were slated for implementation on 1 January 2006. These measures will widen business opportunities on the mainland for Hong Kong enterprises and professionals, and the SAR's attractiveness to overseas investors should be enhanced. This in turn will draw more overseas executives to Hong Kong and will provide further growth momentum to the luxury residential market.

As the market is focused on whether local banks will again deviate from the Fed's interest rate strategy, potential homebuyers will continue to act cautiously in the short run.

Despite starting on a positive note, the period quietened as is typical of the year's last quarter when market activities tend to subside towards Christmas. Whilst some "early-bird" tenants made prior arrangements to secure their leases for early 2006, others were left in limbo as demand continued to outpace leasing supply. Indeed, given the effect of the transitional termination notice (TTN) currently exerting a previously unseen constraint on the residential sector, the market saw restricted room for manoeuvre on rental increment. With many leases held artificially low, buoyant demand failed to translate into higher

rentals and in turn the market saw comparatively low yields for luxury residential properties. On this basis, more landlords may opt to sell their investment properties, thus further squeezing available leasing supply.

Whilst the sales market had previously exhibited resilience in the face of the ratcheting up of interest rates in the first nine months of 2005, prices in the luxury residential

market began to register moderate correction in the fourth quarter as buyers adopted a firmer stance on the rate of capital appreciation. Catalysing buyer hesitation was the spurt in interest rates as they were boosted by 100 basis points from the end of September to mid-December. This included one occasion where local banks leapfrogged the US interest rate increase by a quarter of a point with a hike of 50 basis points. The interest rate acceleration resulted in potential buyers stepping onto the sidelines. However, given the continuing positive general economic conditions, the overall dip in sales activities is anticipated to be short-lived. Indeed, the cooled buying momentum should be seen as beneficial as it gives the market the chance to consolidate towards a healthier position from which it can foster a more sustainable growth rate in the longer run.

QUICK STATS

	Change in Q3 05	Change in Q4 05
New Supply	↔	↔
Demand	↑	↑
Vacancy Rate	↓	↓
Prime Rents	↔	↔

SELECTED LEASING TRANSACTIONS IN Q4 2005

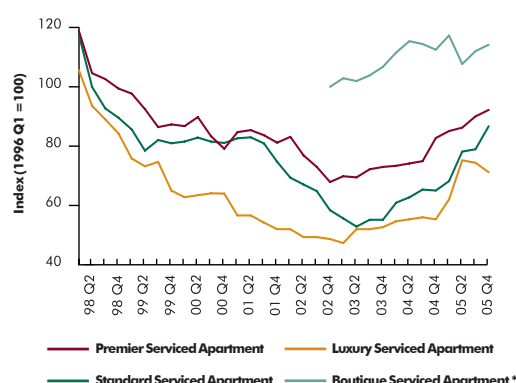
Month	Property	Floor	Location	Size (sf)	Gross Rental (HK\$ per month)	Gross Rental (HK\$ psf per month)
Oct-05	Queen's Garden	Low	Midlevels	2,960	82,000	27.70
	Cedar Drive, Redhill Peninsula	House	Island South	3,339	97,600	29.23
	Regent on the Park	Mid	Midlevels	1,344	42,000	31.25
Nov-05	Conway Mansion	Low	Midlevels	1,400	33,000	23.57
	Dynasty Court	Low	Midlevels	2,266	80,000	35.30
	The Repulse Bay	High	Island South	2,590	89,500	34.56
Dec-05	Realty Gardens	Mid	Midlevels	1,350	33,000	24.44
	24A Repulse Bay Road	Low	Island South	2,400	90,300	37.63
	Residence Bel-Air	High	Island South	3,322	98,000	29.50

SELECTED SALES TRANSACTIONS IN Q4 2005

Month	Property	Location	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Oct-05	House B, 40 Island Road	Island South	5,300	148.00	27,925
	House 9, 39 Deep Water Bay Road	Island South	4,047	75.00	18,532
	45A, Highcliff	Mid-Levels	3,816	65.00	17,034
Nov-05	House 48, 46-60 Black's Link	The Peak	3,738	72.80	19,476
	33 Horizon Drive	Island South	14,625	185.00	12,650
	Unit 59, 56 Repulse Bay Road	Island South	3,606	79.33	22,000
Dec-05	Houses 8A & 9, Residence Bel-Air	Island South	13,125	210.00	16,000
	Unit A1, G/F, Guildford Court	The Peak	2,750	43.80	15,927
	Unit E2, Altadena	The Peak	4,500	94.00	20,889

SERVICED APARTMENTS

Serviced Apartment Rental Index



* Boutique Serviced Apartment Index (2002 Q4 = 100)

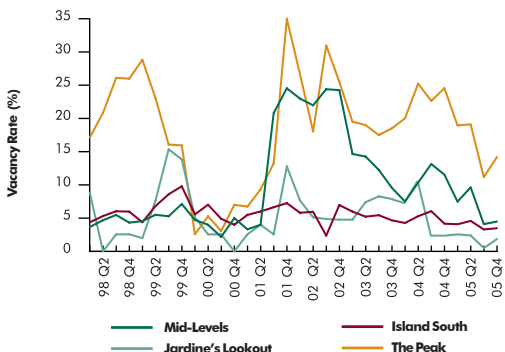
Source: CB Richard Ellis CBRE Research

Carrying forward the vibrant performance registered since the end of 2004, the serviced apartment sector continued to be active during the period under review. Many popular developments were fully occupied, with some even having waiting lists for new tenants. According to CBRE's Serviced Apartment Rental Index, rentals in general continued to head north in the quarter. Standard serviced apartments outperformed other sub-segments with a rental rise of 9.8%, followed by the premier and boutique sub-segments which rose by 2.4% and 1.9%, respectively. Meanwhile, as luxury serviced apartments were under pressure from comparable alternatives in boutique and refurbished standard players, their rental performance was impacted, as reflected by the 4.3% correction registered in the fourth quarter.

On the back of strong underlying demand and limited upcoming supply (about 800 units), the serviced apartment sector is expected to continue to outperform the general luxury residential market in 2006. Indeed, as more established brand names are eyeing the serviced apartment business in Hong Kong, bringing in new standards of living with proprietary services to leverage on the buoyant market demand, there is room for further growth in this field.

VACANCY

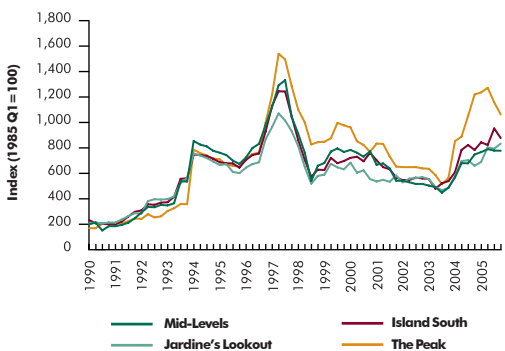
Luxury Residential Vacancy Rate



Overall luxury residential vacancy on Hong Kong Island remained generally flat in the fourth quarter with an average vacancy rate of 4.0%. Despite a slight rebound from 3.5% in the third quarter, the current vacancy rate still represents a substantial decline over the same period in 2004 when it stood at 14.7%. This improvement exhibits the level of buoyancy witnessed in 2005, which was last observed in 2000. On an individual district basis, the vacancy rates for Jardine's Lookout, Island South, Mid-Levels and The Peak at the end of the fourth quarter stood at 1.9%, 3.5%, 4.5% and 14.2%, respectively.

SALES MARKET

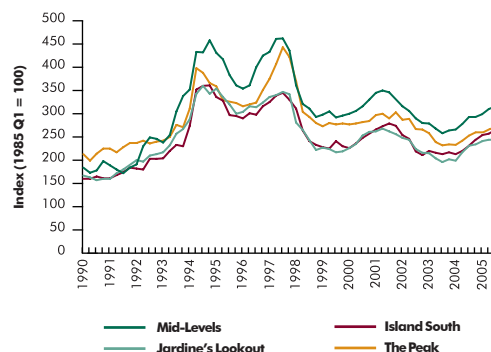
Luxury Residential Capital Value Index



The luxury residential sales market was inactive towards the end of 2005, as the consolidating effect of continuing interest rate rises remained. With some owners becoming more flexible on their asking prices, certain investors made opportunistic searches for quality properties in prime locations at knock-down prices. However, the general inactivity did not cause any sharp decline in luxury residential prices, as a moderate slide of 3.9% was registered in the fourth quarter across Hong Kong Island. District by district, corrections between 0.1% and 8.3% were recorded in Mid-Levels, Island South and The Peak whilst prices in Jardine's Lookout trended against the grain, achieving a rebound of 5.0%, q-o-q.

LEASING MARKET

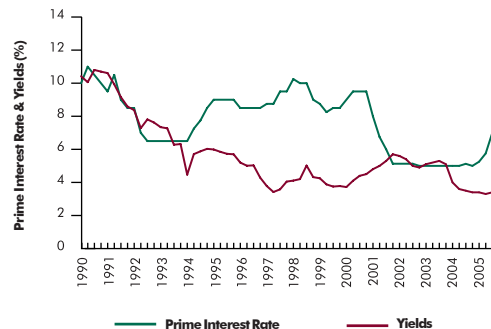
Luxury Residential Rental Index



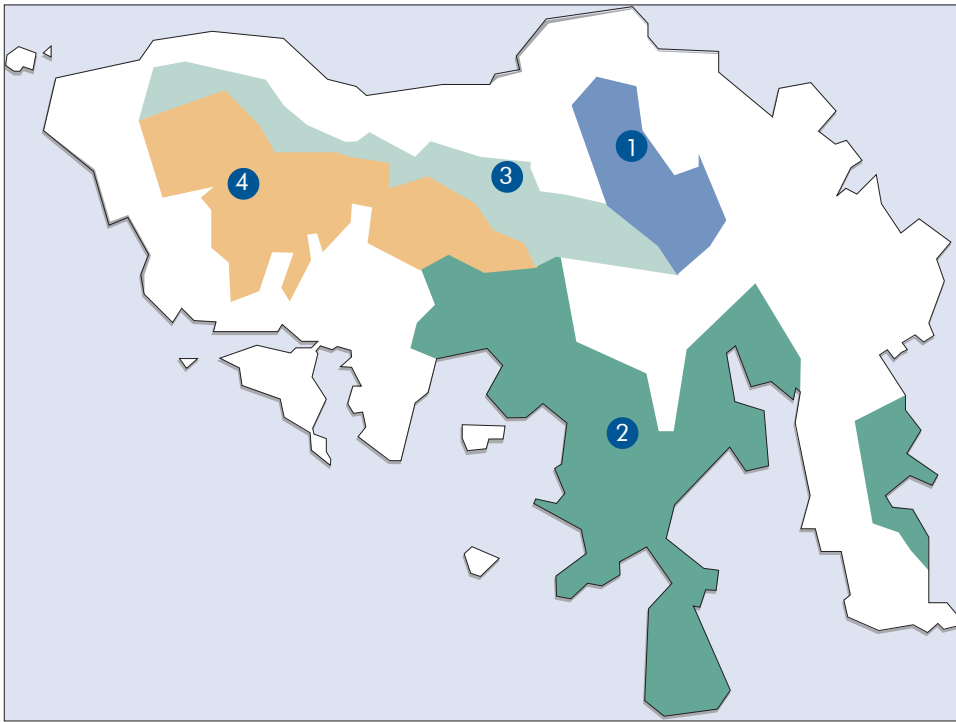
Demand for luxury residential leasing on Hong Kong Island began the quarter in upbeat mood but tailed off somewhat latterly, resulting in a mild rental q-o-q increment of 1.7%. As the market's focus tilted in favour of lease renewals, which limited available options for new tenants, many flat seekers had to compromise on their original expectations. However, even with demand outweighing supply, rental increment was restrained with the TTN currently dominating the scene. During the fourth quarter, Jardine's Lookout and Mid-Levels registered growth of 4.1% and 3.4% respectively. Meanwhile, achieved rentals in The Peak and Island South remained relatively unchanged.

YIELDS

Luxury Residential Yields



Previously trailing the US interest rate hike cycle, local banks in 2005 started to play catch-up and, on at least three occasions throughout the year, they even leapfrogged the Fed's rise by 25 basis points. This rise has contributed to a spreading correctionary trend in the wider residential market, which in the fourth quarter took in the high-end market. Rental values meanwhile continued to grow on the back of constant demand, thereby nudging the yield level up from 3.4% at the end of the third quarter to 3.6% in the fourth. With the interest rate hike expected to end soon, and provided that buyers remain cautious, the difference between the yield level and the interest rate should continue to narrow.



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

ASIA OFFICES

HONG KONG

Suite 3401 Central Plaza
18 Harbour Road, Wanchai
Hong Kong
Telephone: (852) 2820 2800
Facsimile: (852) 2810 0830

BEIJING

PEOPLE'S REPUBLIC OF CHINA
12/F, Beijing Fortune Plaza, Tower A
7 Dong San Huan Zhong Road
Chaoyang District
Beijing 100020
People's Republic of China
Telephone: (86) 10 5820 9288
Facsimile: (86) 10 5820 9088/9188

SHANGHAI

PEOPLE'S REPUBLIC OF CHINA
Suite 3201, 3203-3206
32/F, K. Wah Center
1010 Huai Hai Middle Road
Shanghai, 200031
People's Republic of China
Telephone: (86) 21 2401 1200
Facsimile: (86) 21 5403 7519

GUANGZHOU

PEOPLE'S REPUBLIC OF CHINA
Rm 2001, Guangzhou
International Electronics Tower
403 Huanshi Road East
Guangzhou 510095
People's Republic of China
Telephone: (86) 20 8732 2332
Facsimile: (86) 20 8732 2981

SINGAPORE

Six Battery Road, #32-01
Singapore 049909
Telephone: (65) 6224 8181
Facsimile: (65) 6225 1987

BANGKOK, THAILAND

46th Floor, CRC Tower
All Seasons Place
87/2 Wireless Road
Lumpini, Pathumwan
Bangkok 10330, Thailand
Telephone: (66) 2 654 1111
Facsimile: (66) 2 685 3300-1

PHUKET, THAILAND

12/9 Moo 4, Thepkrasatri Road
Koh Kaew, Amphur Muang
Phuket 83000, Thailand
Telephone: (66) 76 239 967
Facsimile: (66) 76 239 970

JAKARTA, INDONESIA

7th Floor, Permata Bank Tower I
Jalan Jenderal Sudirman Kav. 27
Jakarta 12920, Indonesia
Telephone: (62) 21 523 7337
Facsimile: (62) 21 523 7227

TAIPEI, TAIWAN

7/F Cosmos Building
134 Sec 3, Minsheng East Road
Taipei, Taiwan
Telephone: (886) 2 2713 2266
Facsimile: (886) 2 2712 3065

TOKYO, JAPAN

28/F, Izumi Garden Tower
1-6-1 Roppongi, Minato-Ku
Tokyo 106-6028, Japan
Telephone: (81) 3 6230 1188
Facsimile: (81) 3 6230 1177

NEW DELHI, INDIA

Press Trust of India Building
Ground Floor, 4 Parliament Street
New Delhi 110 001, India
Telephone: (91) 11 2335 7448/49
Facsimile: (91) 11 2331 7670

MUMBAI, INDIA

9A, 2nd Floor, Laxmi Tower
C-25, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051, India
Telephone: (91) 22 2652 7628/7665
Facsimile: (91) 22 2652 7655

BANGALORE, INDIA

3rd Floor, The Hulkul
81/37, Lavelle Road
Bangalore 560 001, India
Telephone: (91) 80 5112 1240-49
Facsimile: (91) 80 5112 1239

CHENNAI (MADRAS), INDIA

2H, 2nd Floor, Gee Gee Emerald
151 Village Road
Nungambakkam
Chennai 600 034, India
Telephone: (91) 44 2821 4599/71
Facsimile: (91) 44 2821 4607

HYDERABAD, INDIA

Eden Garden 8-2-595/3/5
Road No:10, Banjara Hills
Hyderabad 500 034, India
Telephone: (91) 40 2335 8886/7

PUNE, INDIA

CB Richard Ellis
South Asia Pvt. Limited
Bungalow No. 33, Hermes Heritage
Phase I, Nagar Road
Shashrinagar, Pune, India
Telephone: (91) 20 3094 6577

SEOUL, KOREA

12/F, Korea First Bank Building
100 Kongpyung Dong
Jongro-ku
Seoul, Korea 110-702
Telephone: (822) 2170 5800
Facsimile: (822) 2170 5899

MANILA, PHILIPPINES

Suite 1003-1005
10/F Ayala Tower One &
Exchange Plaza, Ayala Avenue
1200 Makati City
Philippines
Telephone: (632) 752 2580
Facsimile: (632) 752 2571

HANOI, VIETNAM

Unit 12A, Vincom City Tower
191 Ba Trieu Street
Hanoi, Vietnam
Telephone: (844) 220 0220
Facsimile: (844) 220 0210

HO CHI MINH CITY, VIETNAM

Unit 1301, Me Linh Point Tower
2 Ngo Duc Ke Street, District 1
Ho Chi Minh City, Vietnam
Telephone: (848) 824 6125
Facsimile: (848) 823 8418

11, Thao Dien, An Phu
District 2, Ho Chi Minh City
Vietnam
Telephone: (848) 744 2621/22
Facsimile: (848) 744 2620

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.

CBRE
CB RICHARD ELLIS