Monthly Digest
Vigers Research

Market summary

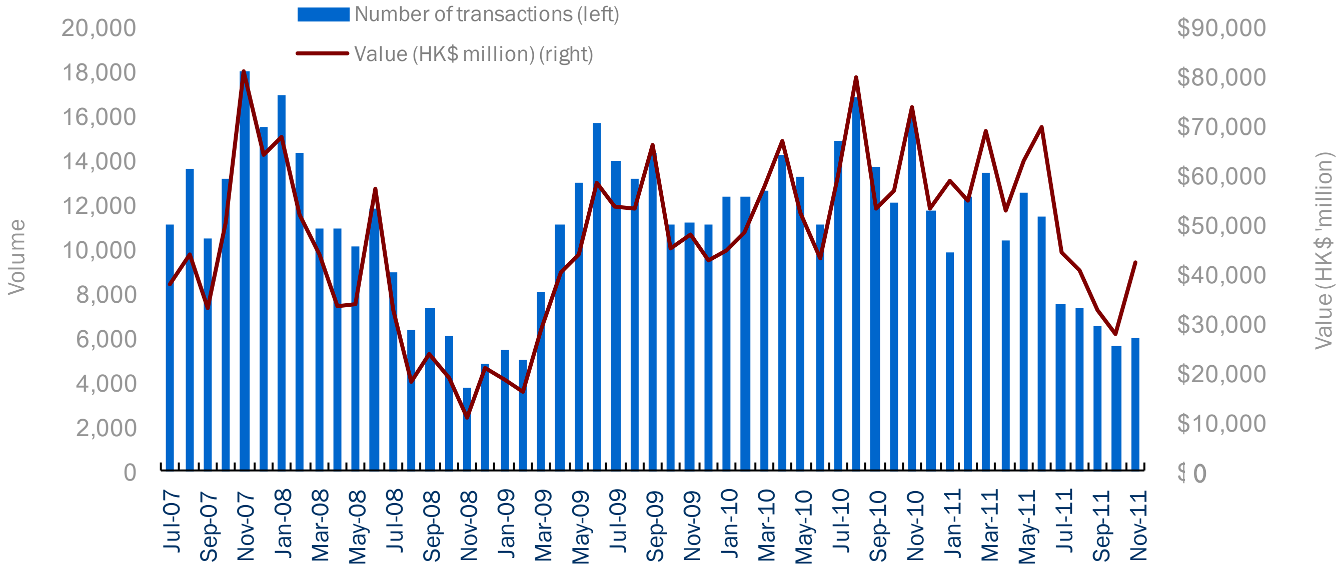
The sixth round of mortgage rates tightening took place in November. Following Standard Chartered Bank's adjustment of its Hong Kong interbank offered rate (HIBOR)-based mortgage rate to H+3% (which in real terms amounts to a 3.22%), Bank of China's HIBOR-based mortgage rates was also raised to the same level at the end of the month.

With the continued sales of new residential projects, primary residential transactions increased by 44.1% m-o-m. On the other hand, the mass residential sector saw transactions continued to fall, though in a milder manner compared with the previous month, reporting a decrease of 5.2% m-o-m. Meanwhile, the commercial property transactions rebounded, in particularly the office segment, which more than doubled by month.

Following the market speculation over the statement by the Financial Secretary John Tsang Chun-wah's in early December over the possible loosening of the special stamp duty, the Chief Executive later reiterated the government's original position that there is no intention to ease restrictions on property market at this point in time. However, even if the stamp duty imposition is lifted, its impact on the property market is expected to be minimal. While the number of confirmor transactions has fallen below 100-per-month for the past 10 months, a significant drop in residential prices is yet to be seen.

Compared with the special stamp duty, the increase in the loan-to-value ratio and the rising mortgage rates is believed to have played a greater role in the driving down sales, given its direct impact on housing affordability. Looking forward, despite the recent tightening of mortgage rates, it is expected that there is still room for another round of tightening in the medium term.

S&P agreements for all types of properties



Sources: The Land Registry and Vigers Research

Land tender results

Month	Lot No. & location	Address	Usage	Est. GFA (sf)	Price (HK$mn)	Price (HK$psf)
November	DD 221 LOT 1950	Junction of Wai Man Rd & Sha Ha Rd, Area 4, Sai Kung Town	Hotel	289,659	719	2,483
	RBL 1168	Near 35 South Bay Road, Hong Kong	Residential R3	12,962	499	38,488
	STTL 463	Junction of On Yiu Street and on Kwan Street, Shek Mun	Business	430,399	828	1,924
December	STTL 412	On Kwan Street, Shek Mun	Business	351,983	680	1,932
	LOT NO. 724 in DD NO. 332	Cheung Sha, Lantau Island	Residential R4	31,904	177	5,542
	LOT NO. 726 in DD NO. 332	Cheung Sha, Lantau Island	Residential R4	32,507	180	5,537

New tender projects in 2011-2012

Tender closing date	Lot No.	Location	Usage	Site Area (sf)
16 December 2011	KIL 11205	Junction of Hung Luen Road and Wa Shun Street, Hung Hom Bay Reclamation, Kowloon	Hotel	168,165
16 December 2011	Lot 726 in DD 4	Mui Wo, Lantau	Residential and Commercial	24,326
9 January 2012	TW5	Tsuen Wan, Kowloon	Residential	602,990
6 January 2012	TKOTL 119	Tseung Kwan O Area 66B2	Residential R2	88,759
3 February 2012	TMTL 423	Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun	Residential R3	722,764

Land Market

The commercial site in Shek Mun was sold for HK$680 million or HK$1,932 psf to Billion Group. With this acquisition, the company has now over 780,000 sf in gross floor area available for development in the area, taking into account of its early acquisition of another government land piece in the area. The company expects that construction will begin in the first quarter next year.

Furthermore, two residential land sites in Cheung Sha, Lantau, were sold for HK$177 million and HK$180 million respectively; and it is expected that 30 villas will be built in the area. According to the Lands Department, the former was sold for HK$176.8 million or HK$5,542 psf while the latter for HK$180 million or HK$5,537 psf. The buyer is Bao Wei Enterprises Limited, which is an overseas registered company.

Key economic indicators

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11/(Latest)
Real GDP growth (% change y-o-y)	+6.7	+6.4	+7.2	+5.3	+4.3
Consumer price index (% change y-o-y)	+2.9	+2.7	+3.8	+5.2%	(+5.8%) (October)
Unemployment rate (%)	4.1	3.9	3.4	3.5	(3.3) (Aug—Oct)
Retail sales (value) (% change y-o-y)	+17.0	+17.0	+16.5	+28.8	(+23.1) (October)
Value of import goods (% change y-o-y)	+24.2	+15.1	+18.8	+11.5	(+10.9) (October)

* At constant price in chained (2008) dollars

Sources: Census & Statistics Department, APEC Study Centre HKU and Vigers Research

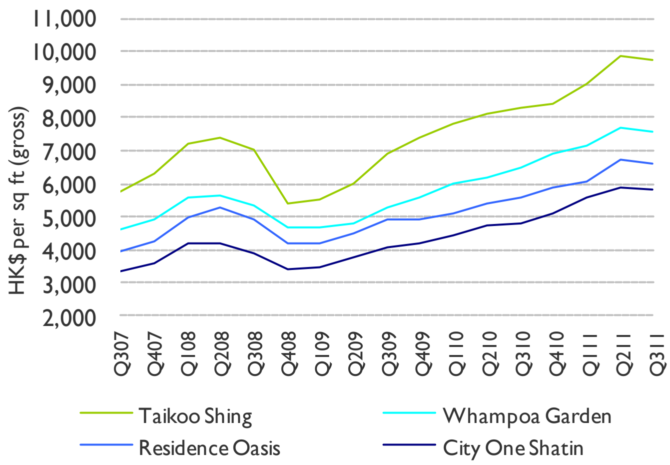
Housing market

Secondary home market

In November, the monthly transaction volume of second-hand homes stood at 3,317, with a m-o-m drop of 5.2%. Sales turnover, on the other hand, decreased 0.6% m-o-m to HK$15.9bn.

The average price of mass housing showed an increase of 1.3% m-o-m. The average price of selected key housing estates showed similar decreases: Whampoa Garden (+2.7%), City One Shatin (+1.8%), Residence Oasis (+1.4%), with the exception of and Taikoo Shing (-4.1%).

Average flat prices by key housing estates



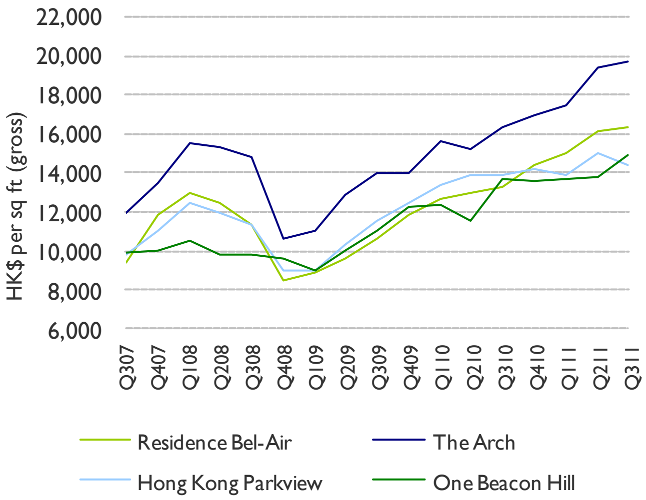
Sources: The Land Registry and Vigers Research

Prime residential market

In November, the transaction volume and value of prime housing estates (HK$10m+) soared 189.3% m-o-m and 227.7% m-o-m respectively; the former stood at 622 and while the latter at HK$20.0bn. This is mainly contributed by the sale of a number of new prime residential projects during the month.

No transactions were recorded in Hong Kong Parkview during the month, while only a few transactions were recorded in Residence Bel-Air, The Arch and One Beacon Hill.

Average flat prices by prime housing estates



Sources: The Land Registry and Vigers Research

Housing market

Selected new residential projects on sale in November

Project	District	Unit size (sf)	Units for sale	Unit price (HK$ psf)	Developer (s)
Hong Kong Island					
Marinella	Hong Kong South	745-5,173	77	19,640	Nan Fung
Winfield Building Block A & B	Happy Valley	1,940-2,468	84	25,361	Nan Fung
The Altitude	Happy Valley	1,855-3,887	126	19,129	Kerry, Peterson
3 Warren St.	Tai Hang	543-1,000	103	18,176	Wing Tai
One Wanchai	Wanchai	415-1,989	237	18,539	Chinese Estates, Urban Renewal Authority
Kowloon					
One Mayfair	Kowloon Tong	1,352-3,100	120	17,822	Sino
8 College Road	Prince Edward Road	2,420 - 3,680	7	28,000	Hanison
New Territories					
La Splendeur	Tseung Kwan O	804-2,245	1,168	5,941	Cheung Kong, MTRC
The Wings	Tseung Kwan O	665-2,560	1,028	12,698	Sun Hung Kai, MTRC
Festival City Phase 3	Tai Wai	864-2,368	1,536	8,109	Cheung Kong, MTRC
Providence Bay	Tai Po	781 - 5,408	1,235	10,731	Sino, Nan Fung, K. Wah, Wing Tai

Sources: EPRC and Vigers Research

New home market

In November, the transaction volume and value of the primary residential sector increased 44.1% m-o-m and 215.4% m-o-m respectively. The former stood at 1,153 while the latter stood at HK$19.8bn. Due to the release of number of luxury residential projects, the overall transaction value was given a boost.

While the release of several new residential projects has absorbed much of the demand in the secondary home market, it is expected that the number of new projects in December will be significantly less - with an estimated total supply of 1,400 units. Given that there will be a lack of large-scale residential projects, along with the downturn in the property market, it is expected that the developers may delay the release of their respective projects. New residential projects to be soon released include Park Haven (Causeway Bay), Star Ruby (Hung Hom), La Verte (Fan Ling) and the recently announced Met. Focus (Hung Hom) and Grand Metro (Prince Edward).

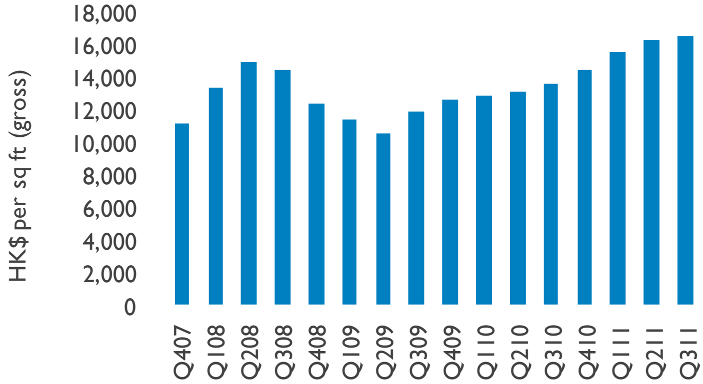
With the news over the possibility of the government relaxing the SSD, developers have become more aggressive in the release of new home projects. Yu Tai Hing announced that 30 units of its new residential project, Grand Metro, will be released for HK$12,000 psf, with the base cost of a unit at HK$11.2 million, 30% higher than that of units in the same area.

Prime office market

Sales market

The monthly office sales volume rebounded 59.8% m-o-m to 189 while the turnover more than doubled, reporting a 207.2% increase to HK$3.3bn. This was led by the continued transaction of prime offices in Kowloon East following the earlier announcement of government's plan for the area.

Average capital values of prime office property



Source: Vigers Research

Notable deals of the month:

Several high profile deals were recorded in Kowloon East during the month, the majority of which came from financial sector tenants.

- The whole 8/F (12,590 sf) in block A at Billion Centre, Kwun Tong, was sold for HK$84.35 million or HK$6,700 psf. (Hong Kong Economic Journal - 22.11.2011)
- Bank of Communications (3328) bought in 29,000 sf of offiice space in MG Tower for HK$215mn or HK$7,414 psf. (Mingpao 10.11.2011)
- Chong Hing Bank bought the whole 15th floor (over 40,505 sf) of Enterprise Square, Kowloon Bay, for HK$211mn or HK$5,221 psf. (Hong Kong Economic Journal - 4.11.2011)

Other notable deals include:

- Henry Group (859)'s chairman bought the whole 27/F of Guangdong Tour Centre, Causeway Bay, for HK$8,204 psf - a record-high in the said building. Meanwhile, a unit in the nearby Fortune Centre was also sold at a record-breaking HK $15,000 psf. (Hong Kong Economic Journal-06.12.2011)
- The whole 11/F (15,929 sf) in Harbour Centre, Wanchai, was sold for HK$315 million or HK$19,775 psf. The original owner was Tysan Holdings (687), which had bought the the property for HK$132 million in October 2007. (Hong Kong Economic Journal - 25. 11.2011)

Leasing market

With a number of companies moving out of the Central district due to high rents, there has been a larger room for negotiation in the leasing market. Prime rents in the area have showed signs of a slight drop of 1%-2% , while that of Grade A office prices were more firmer, ranging from 0.5%-1%.

Notable rental deals of the month:

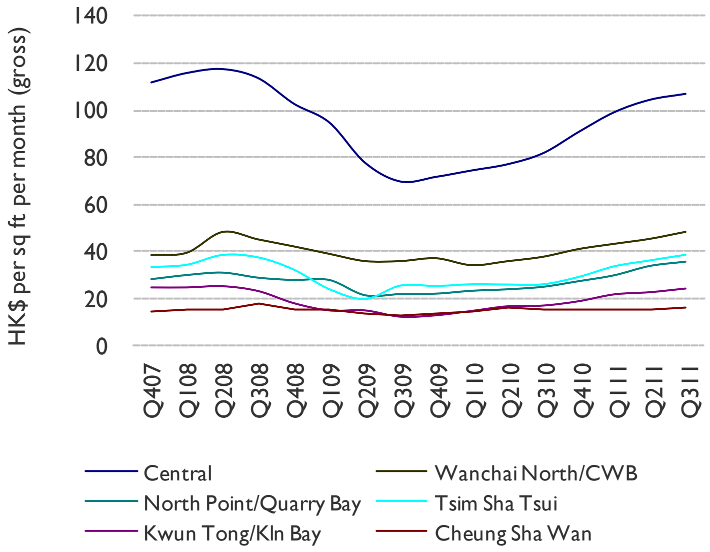
With the limited supply of Grade A offices in the core areas, rentals remained solid. Several headline transactions include:

- A unit in Far East Financial Centre, Admiralty, was leased for HK$70psf/month. (Hong Kong Economic Times - 05.12.2011)
- The whole 3/F at 50 Connaught Road, Central, was leased by two separate financial companies at HK$95 psf. (Hong Kong Economic Times, 28.11.2011)
- Two floors (32,000 sf) at Citibank Tower, Central, were leased for HK$95 psf per month by Nissan. (Hong Kong Economic Times -16.11.2011)

Investment flow has been channeling towards Grade B Office properties in Hong Kong Island as well as Kowloon East. The latter has become the market focus after the government announced to develop it into the city's 2nd CBD.

- With more room for negotiations, a foreign pharmaceutical company recently moved to Hopewell Centre from The Center and took up two floors leased at HK$35 psf per month, less than a half of that at The Center. (Hong Kong Economic Times - 21.11.2011)
- According to SHKP, Millennium City in Kwun Tong currently has a letting rate of over 90%. (Hong Kong Economic Times - 16.11.2011)

Average prime rents by major submarkets



Source: Vigers Research

Industrial property market

Investment market

Investment activity in the industrial property market rebounded slightly in November, with the monthly transaction volume and value increased by 19.5% m-o-m to 324 and 42.6% m-o-m to HK$1.65bn respectively; only 3 transactions over HK$20 million were recorded during the month.

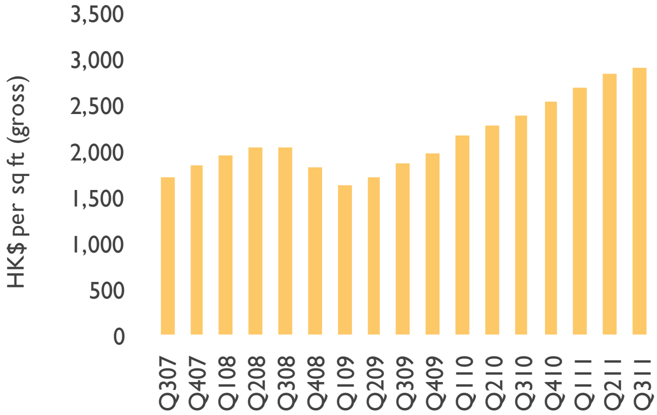
Notable deals if the month

- The newly re-developed industrial building on 403 - 413 Castle Peak Road, Kwai Chung, has already received reservations following the release of its price list. Among which, the whole 1/F (7,100 sf), was reserved for HK$4,200 psf or HK$29.8 million. (Hong Kong Economic Times - 25.11.2011)
- A workshop unit at 167-169 (20,000 sf), Hoi Bun Road, Kwun Tong, was sold for HK$168 million or HK$8,400 psf. (Hong Kong Economic Journal - 1.12.2011)

Coming Supply

- In Q2 2012, First Group plans to release its pre-sale program of its new industrial property at 35 Hung to Road, Kwun Tong. It is expected that the development will be completed by Q2 2013. (Hong Kong Economic Journal - 30.11.2011)
- The application for the conversion of a Ban Thong Industrial Building, Kwai Chung, for hotel-use was supported by the Planning Department. The plan is to develop a 24-storey hotel supplying 160 rooms in total. (Oriental Daily - 01.12.2011)

Average capital values of industrial property



Source: Vigers Research

Application for wholesale conversion and redevelopment of industrial buildings

Period	No. of applications	
Start of industrial revitalization policy to date	Wholesale conversion (Cases)	Redevelopment (Cases)
April 2010 - November 2011	52 (2)	9 (0)

( ) - Number of Applications received in November 2011

Sources: Vigers Research and Lands Department

In November, one application for wholesale conversion (for special waiver) was received while nil applications for redevelopment (for lease modification) were received. Up till November, there have been only twelve special waivers executed for wholesale conversion and two lease modification executed for redevelopment since the industrial revitalization policy began on April last year.

CONTACT US AT VIGERS

RESEARCH

Heyson Young
Tel +852 6309 5776
heysonyoung@vigers.com

BUSINESS LINES & SERVICES

	Contact	Tel	Fax	@vigers.com
Hospitality Consulting	Patrick Tung	+86 21 6093 2186	+86 21 6093 2158	patrickt
Appraisal & Consulting	Raymond Ho	+852 6309 0042	+852 3101 9041	raymondh
Realty	Raymond Ho	+852 6309 0042	+852 3101 9041	raymondh
Building Consultancy	Lawrence Lai	+852 6308 6385	+852 2951 0766	lawrencelai
Property Management	Wilfred Chui	+852 6309 2804	+852 2951 9810	wilfredchui
Security	Philip Cheng	+852 6309 4481	+852 2951 9810	philipcheng
Media Inquiry	Claire Pang	+852 6309 5880	+852 2951 0868	clairepang