

2011 Mid Year Review of Hong Kong Property Market

July 2011

VIGERS
威格斯

Vigers Appraisal and Consulting Limited

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Government Land Auction



Government Land Auction - A Market Indicator

H1 2011 Land Auction Results

Month	Lot No. & Location	Address	Usage	Est. GFA (sf)	Price (HK\$M)	Price (HK\$psf)
March	NKIL 518	On Ning Road, Tai Kiu Road and Yuen Long On Lok Road	Residential R1	644,150	44,116	3,629
April	KIL 11184	Ko Shan Road, Hung Hom	Residential R1	153,515	1,525	9,934
	IL 8963	Stubbs Road, Hong Kong	Residential R3	180,838	4,490	24,829
May	NKIL 6498	Begonia Road, Yau Yat Chuen, Kowloon	Residential R3	38,781	579	15,742
	LOT No. 2086 in DD 105	Ngau Tam Mei, Yuen Long	Residential R4	101,095	662	6,548

Source: Lands Department, Vigers Research

Government Land Auction - A Market Indicator

H1 2011 Land Auction Results

Month	Lot No. & Location	Address	Usage	Est. GFA (sf)	Price (HK\$M)	Price (HK\$psf)
June	IL 8949	Borrett Rd, Hong Kong	Residential R2	435,292	11,650	26,764
	LOT NO. 2129 in DD 121	Ping Kwai Rd, Ping Shan, Yuen Long, New Territories	Residential R3	65,403	300	4,587
	HHIL 555	At the Junction of Gilles Avenue South and Bulkeley Street, Hung Hom, Kowloon	Residential R1	53,410	406	7,002
	HHIL 556	Lee Kung Street, Hung Hom, Kowloon	Residential R1	104,840	801	6,581

Source: Lands Department, Vigers Research

Tender Program 2011-2012

Estimated Tender Invitation Date	Lot No.	Location	Use	Area (sf)
17 June 2011	TCTL 36	Area 55A Tung Chung, Lantau	Residential R2	273,403
17 June 2011	NKIL 6314	Junction of Kai Cheung Road and Wang Kwong Road, Kowloon Bay	Commercial	71,042
30 June 2011	KIL 11111	Junction of Hung Luen Road and Kin Wan Street, Hung Hom, Kowloon	Commercial	147,498

Tender Program 2011-2012

Estimated Tender Invitation Date	Lot No.	Location	Use	Area (sf)
15 July 2011	IL 8920	Ex-Government Supplies Depot, Oil Street, North Point	Hotel and Residential/ Commercial	84,895
Aug 26 2011	STIL 91	Hoi Fung Path, Stanley	Residential	6,622
Aug 26, 2011	Lot 1613 in DD 222	Kap Pin Long, Sai Kung	Residential R4	18,654

Tender Program 2011-2012

Estimated Tender Invitation Date	Lot No.	Location	Use	Area (sf)
Dec 2011	IL 8947	123 Gloucester Road and 219-227 Lockhart Road, Former Wan Chai Police Station cum Wan Chai Police Married Quarters	Hotel/ Commercial/ Community and Cultural	40,989
Dec 2011	IL 9036	Murray Building, 22 Cotton Tree Drive, Hong Kong	Hotel	68,566
Mar 2012	TWTL 415	Ex-Tai Wo Hau Factory Estate, Sha Tsui Road, Tsuen Wan	Residential and Commercial	107,639

Coming Land Auction

Lot No. & Location	Use	Site Area (sf) (About)	Date of Land Auction
STTL 525	Residential R2	248,173	9 August 2011
Shatin Area 56A, Kau To (Site A)			

Major Infrastructure Updates

- **Shatin-Central Rail Express Link (SCL)**
 - First consulted in 2008, it is expected to commence construction in 2012
 - The Tai Wai to Hung Hom Section is expected to be completed in 2018
 - The Hung Hom to Admiralty Section is expected to be completed in 2020



Major Infrastructure Updates



Interchange Station at North South Corridor

Tai Wai Station

New Territories North Passengers will be able to change trains for destinations in **East Kowloon**

Exhibition Station

It will be the interchange station between the SCL and the **future North Island Line**

Admiralty Station

Admiralty Station will become the transport hub on Hong Kong Island that serves as an interchange for **the Island Line, Tsuen Wan Line, future South Island Line (East)** and the SCL.

The **Existing East Rail Line** will be extended from **Hung Hom Station** via the SCL (Hung Hom to Admiralty Section), through the fourth cross-harbour rail tunnel to **Admiralty Station** enabling passengers to reach the commercial heart of Hong Kong Island directly from **Lo Wu** or **Lok Ma Chau**

Major Infrastructure Updates



Interchange Station at East West Corridor

Tai Wai Station

Ma On Shan Line passengers will be able to switch to the East Rail Line

Diamond Hill Station

As the interchange station for the Kwun Tong Line and SCL

Ho Man Tin Station

Ho Man Tin Station will be an interchange station for the future Kwun Tong Line Extension and the SCL.

The existing **Ma On Shan Line** starting from **Wu Kai Sha Station** will be extended from **Tai Wai Station** via the **SCL** (Tai Wai to Hung Hom Section) to **Hung Hom**, and link up with **West Rail Line** to **Tuen Mun Station**

Major Infrastructure Updates

- **Express Rail Link**
 - The Hong Kong Section of the Express Rail Link runs from the terminus in West Kowloon, heading north to the Shenzhen/Hong Kong Boundary, where it connects with the Mainland Section
 - Estimated Completion in 2015



- **Hong Shui Kiu (HSK) New Development**
 - The Chief Executive announced in his 2007-2008 Policy Address the planning for the HSK NDA as one of the ten major infrastructure projects for economic growth
 - Due to the change of planning circumstances, the HSK NDA will be re-planned in Q3 2011
 - The government aims to formulate the plan based on land requirements for public and private housing, commerce and industries (particularly the six industries where Hong Kong enjoys clear advantages)



Major Infrastructure Updates

- These major infrastructure developments will drive property values upward at different areas



- Hung Hom, Tai Wai, Homantin and Diamond Hill will be benefited by the future presence of SCL's interchange station
- West Kowloon will be benefited from the future presence of the terminal station of the Express Rail Link
- Hong Shui Kiu, based on the current planning objectives, will be benefited from the future residential and commercial development

Major Infrastructure Updates

- **Qianhai Development**
 - The State Council designated Qianhai, 15 square kilometres of reclaimed land north of Shekou, as a "Shenzhen-Hong Kong modern service industries co-operation zone" in August 2010
 - Qianhai has been included in China's 12th five-year plan for 2011-15



- **Special Stamp Duty (SSD)**
 - Effective since 20 November 2010, the SSD will be levied to re-sales within 24 months from the date of acquisition
 - Regressive rates range from 5-15% based on the length of time the property was held

- **Regulation on Home Loans**
 - Hong Kong Monetary Authority instructed that banks should lend no more than 50% on homes valued HK\$10 million or above (down from a cap of 60%)
 - A 60% maximum loan to value ratio has been imposed on properties worth HK\$7 to HK\$10 million, down from HK\$8 to HK\$12 million
 - New and tougher restrictions are also introduced on non-residents such that their maximum LTV ratio will be reduced by at least 10%
- **HOS to be resumed?**
 - Momentum is building for the government to revive its subsidized Home Ownership Scheme, which was suspended in 2002

- **Rise in HIBOR-based Mortgage Rates impacts on Affordability**
 - Over the past few months, HIBOR-based mortgage rates was increased consecutively
 - In April, Bank of China announced that the HIBOR-based mortgage rate is to be raised to H+1-1.5%
 - As of 7 July, HSBC raised their HIBOR -based mortgage rates to H+1.8-2.3% and prime lending rates to P-2.7%
- The banking industry predicts that if high capital cost continues, banks may further increase their mortgage rates at varying degrees

Overall Market Performance



Overall Market Performance

- The volume of property transactions (total S & P Agreements) in H1 2011 stands at 70,342, with a 17.7% drop compared with H2 2010
- The drop in transactions is attributed to the tsunami & nuclear leaks in Japan, the rise in mortgage rates and the announcement on the possible resumption of the Home Ownership Scheme
- As of June, the monthly S & P agreements stood at 11,601 and has yet to recover to the level prior to the introduction of the Special Stamp Duty (SSD) since November 2010 (which stood at near 16,000)

Overall Market Performance

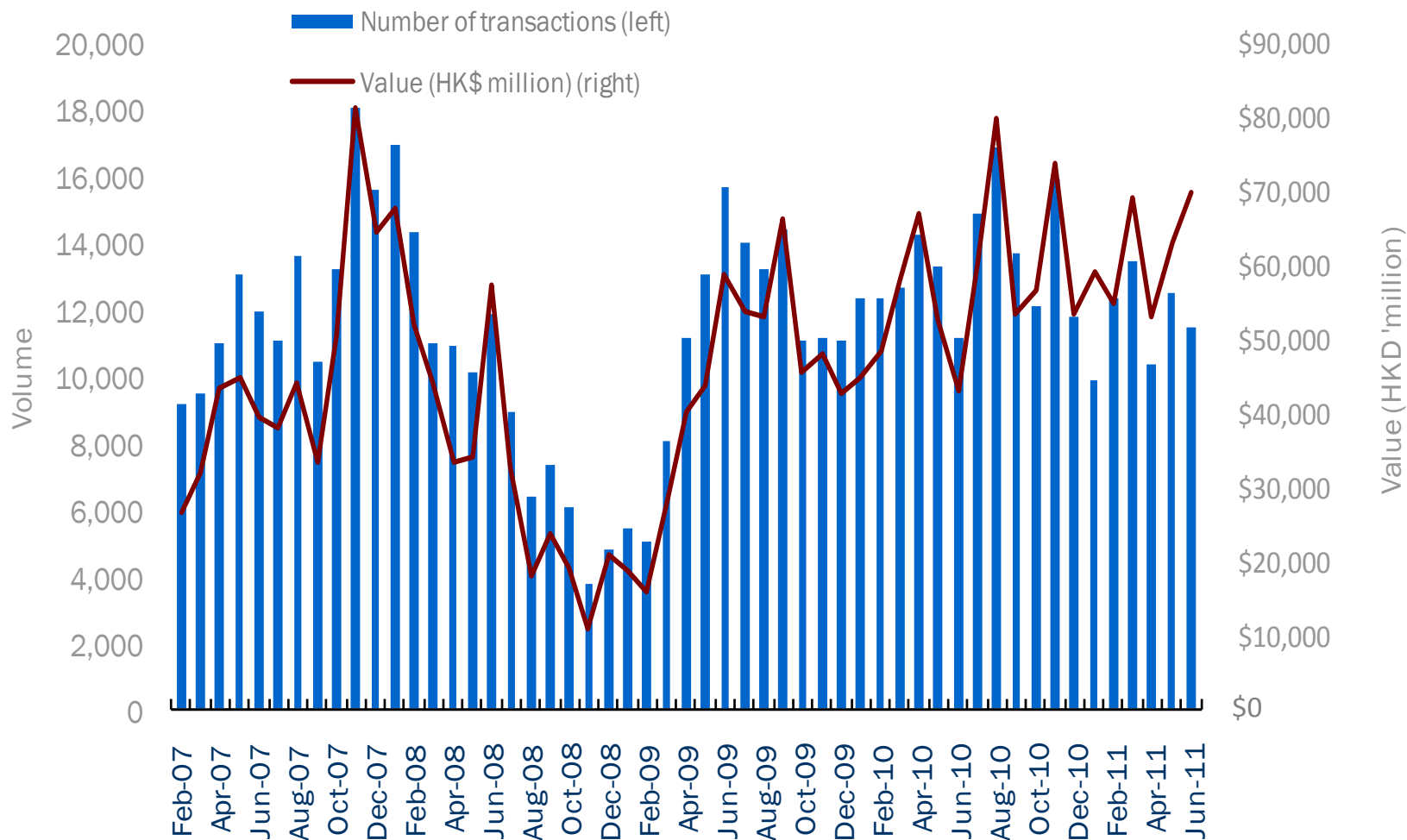
Key Economic Indicators

	Q110	Q210	Q310	Q410	Q12011 /Latest *
Real GDP Growth (% Change y-o-y)	+8.1	+6.4	+6.7	+6.4	+7.2
Private Consumption Expenditure (% Change y-o-y)	+7.4	+4.1	+5.3	+8.1	+7.6
Consumer Price Inflation (% Change y-o-y)	+1.9	+2.3	2.9	+2.7	+5.2% (May)
Unemployment Rate (% Change y-o-y)	4.4	4.6	4.1	3.8 (Nov-Jan)	3.4 (Mar-May)
Retail Sales (Volume) (% Change y-o-y)	+20.4	+16.8	+17.8	+19.5	+21.6 (May)
Retail Sales (Value) (% Change y-o-y)	+17.3	+13.5	+17.0	+17.0	+27.8 (May)
Prime Rate	5	5	5	5	5

Source: Census & Statistics Dept. & Vigers Research

* Forecast #Provisional Figure

Overall Market Performance



Mass Residential Market



Mass Residential Market

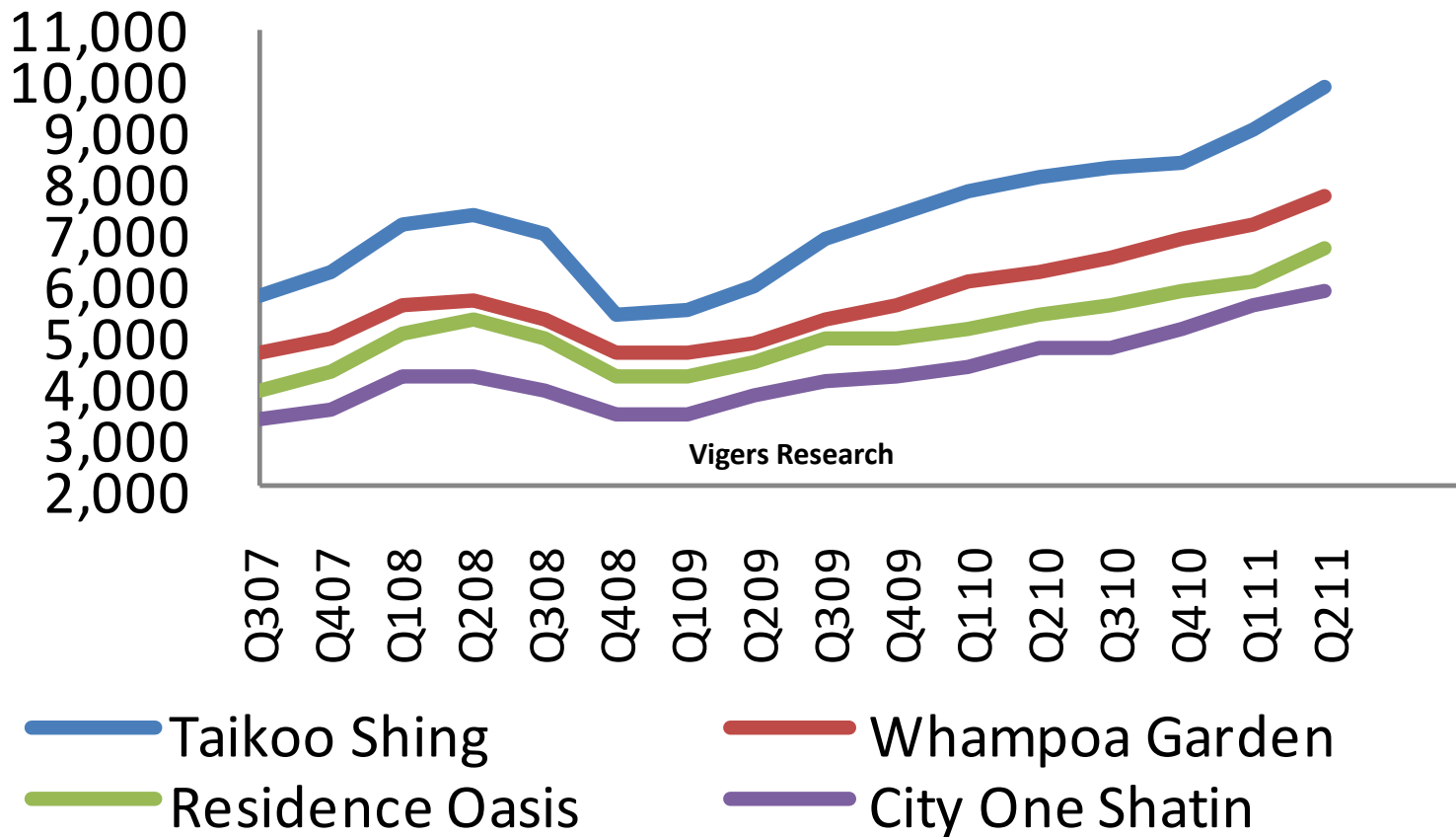
- Residential S & P transaction volume for first-hand and second-hand homes are estimated at 5256 and 43695 respectively in H1 2011, with a drop of 5.6% and 22.2% respectively compared with H2 2010
- The drop in transaction volume is attributed to the imposition of the Special Stamp Duty, the earthquake in Japan and most recently, the rise in mortgage interest rates and the news of the possible resumption of the Home Ownership Scheme

- **The average price of mass residential units rose by 11.1% in H1 2011 compared to H2 2010**
- **The average prices of key housing estates exhibit increases at varying degrees in H1 2011 compared to H2 2010**
 - **Residence Oasis (+25%), Taikoo Shing (+18%), Whampoa Garden (+17%), City One Shatin (+12%)**

Mass Residential Market

HK\$/psf

Average flat prices by key housing estate



Opportunities

- It is expected that future development of the Shatin-Central Link would drive up property values
 - Districts to be benefited include areas where interchange rail stations are located, such as Hung Hom and Tai Wai; furthermore, Homantin, which currently have no rail access yet, will also be benefited
 - This explains why SHK was willing to pay a high price of HK\$12,540 per s.f. for the Ex-Valley Road Estate Ph 2 in Ho Man Tin in June last year

- Overall, the number of home completions is still low with only 10,675 completions in 2011 thus far, thereby supporting property capital values
- According to information from R & V Dept, though the no. of completions rebounded from the forecasted 7,200 in 2009, the supply is still low compared to the historical average of about 18,600 units per year
- On another note, the government has auctioned/tendered around 3,600 units in 2011 so far, meaning that it has only achieved around 18% of its annual target of minimum 20,000 units

Threats

- **The rise in HIBOR-based mortgage rates has an adverse impact on the affordability of the mass residential market**
 - **The Affordability Ratio is reported to have risen up to 0.5 as of June – i.e. half of median household income is used to pay home mortgages**
 - **The banking industry predicts that if high capital cost continues, banks may further increase their mortgage rates**

Mass Residential Market	H1 2011	Predicted H2 2011
Capital Value	+11.1%	+0-5%

- Momentum in growth of capital value will slow down in the mass residential market due to the rise in mortgage rates , which has an impact on housing affordability

- While there are reported cases of 0-10% price cuts in secondary homes, such a trend has not appeared in the overall secondary home market as the majority of property owners have held on to their assets since the global financial crisis
- Although the government has increased the residential land supply, its effect will not materialize in the short-term; meanwhile, completions remain low at 10,675 thereby sustaining home prices overall

Luxury Residential Market



Luxury Residential Market

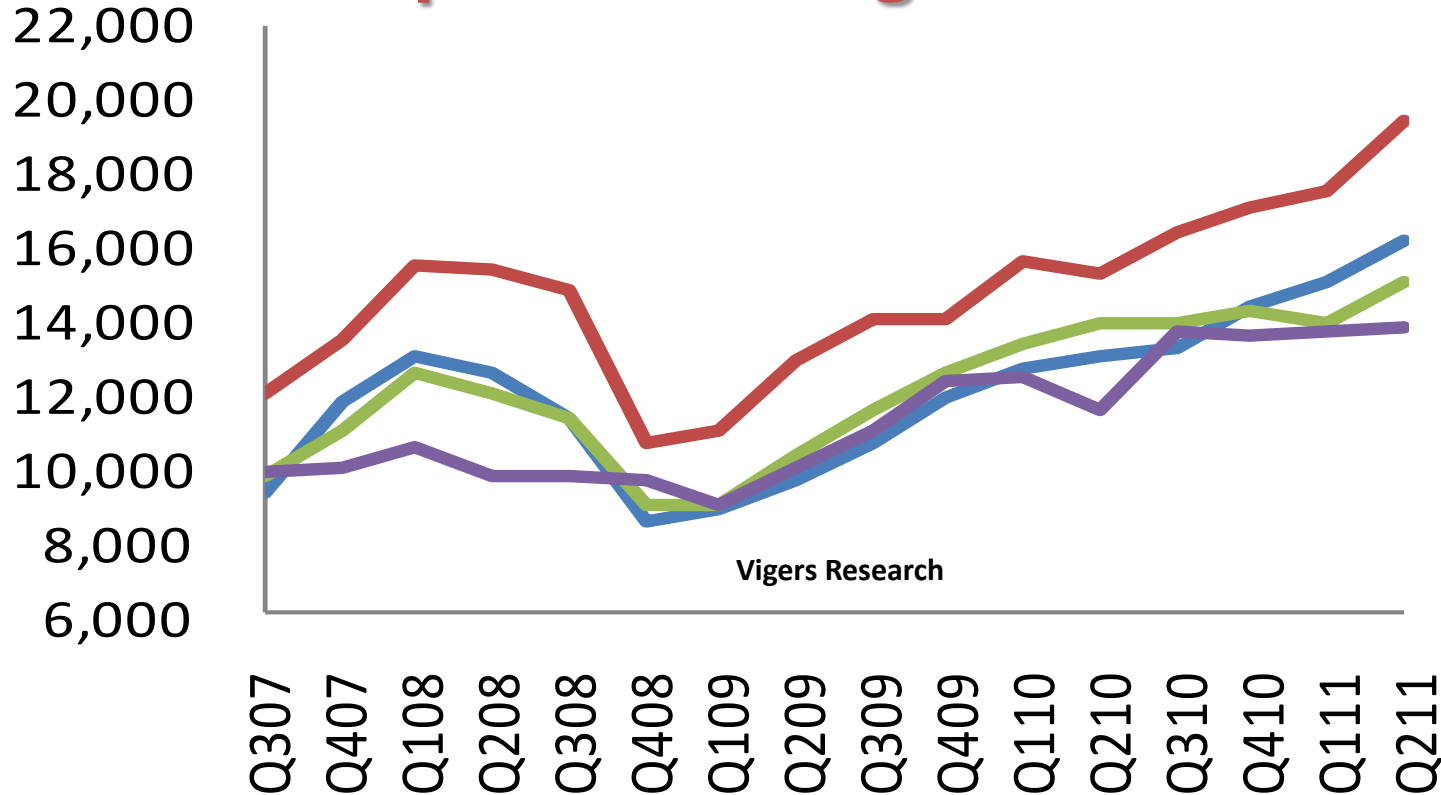
- The transaction volume and value of S&P agreements for residential properties worth HK\$10M or above, stands at 3200 and HK\$84.1B in H1 2011, with a drop of 20.5% and 18.1% respectively compared with H2 2010
- Nonetheless, the average prices of the luxury homes in H1 2011 rose up to 16.3% compared with H2 2010
- The rise in price is attributed to the continued demand of Mainland buyers, which quickly recovered from the introduction of SSD

- The average prices of prime housing estates exhibit increases at varying degrees in H1 2011 compared with H2 2010
 - Hong Kong Parkview (+14.5%), The Arch (+13.7%), One Beacon Hill (+8.5%) and Residence Bel-Air (+2.5%)

Luxury Residential Market

Average flat prices by prime housing estate

HK\$/psf



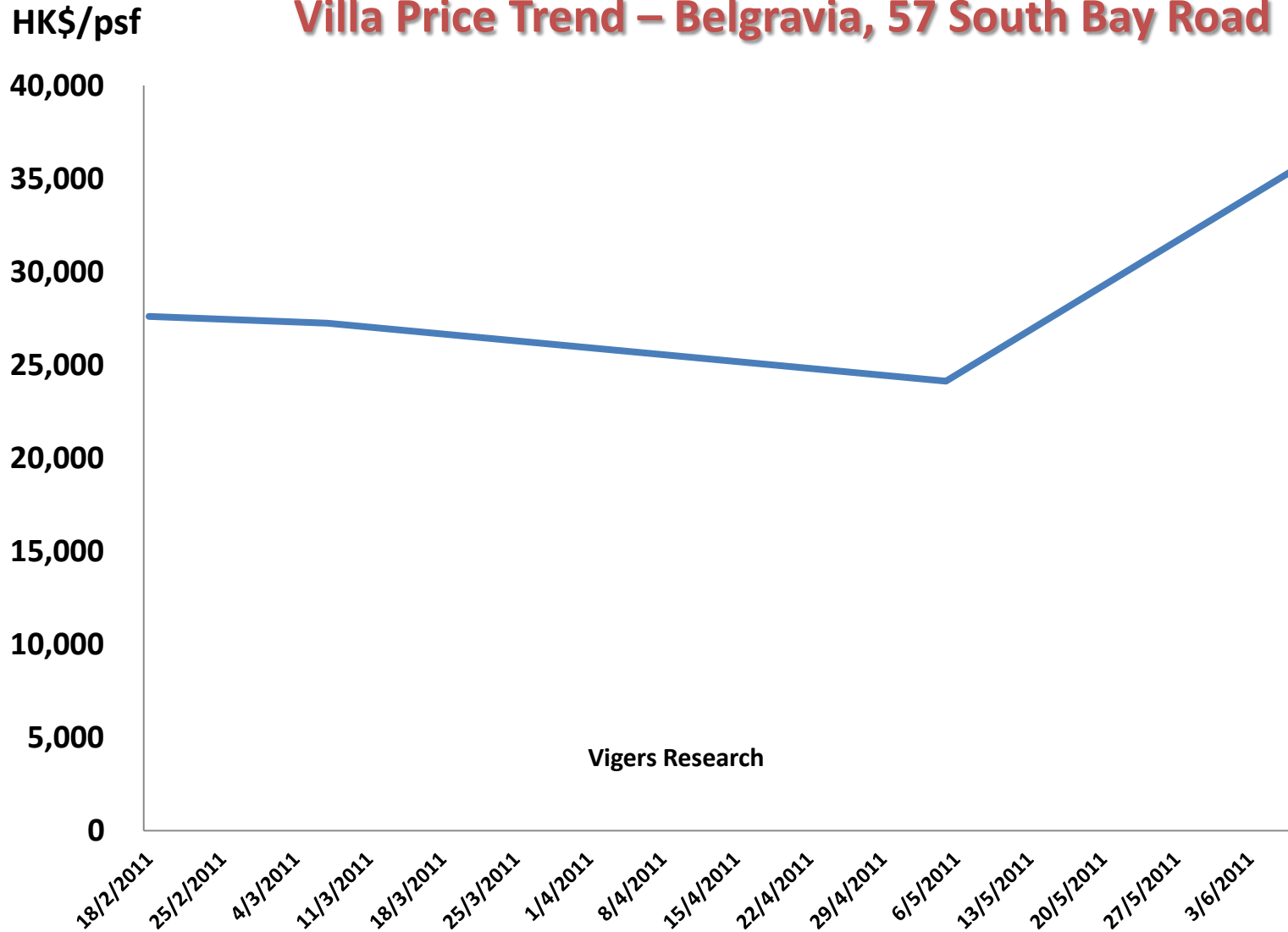
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- Residence Bel-Air
- Hong Kong Parkview
- The Arch
- One Beacon Hill

- **Villas at the luxury segment also performed well such as Belgravia, which rose 22% in H1 2011**

Luxury Residential Market

Villa Price Trend – Belgravia, 57 South Bay Road



Luxury Residential Market

Notable Villa Transactions above HK\$35,000psf

Property	Transaction (HK\$M)	Size (s.f)	Psf (HK\$)
Stanley Tung Tau Wan Rd	300	6,700	44,800
Tai Tam Turtle Cove	141	4,002	35,232
Southern District 56 Repulse Bay Rd	115	3,173	36,000
Southern District Headland Rd, 12B House	511	10,023	51,000
The Peak Sunshine Villa Block F	138	2,857	46,300

Opportunities

- While transaction growth has slowed down, Mainlanders remain to be major buyers in the luxury home market
 - The proportion of the total primary transaction value accounted to Mainland buyers rose from 34% in 2010 to 38% in H1 2011
 - The proportion of the total secondary transaction value accounted to Mainland buyers rose from 22% in 2010 to 27% in H1 2011

Threats

- Following the announcement of a CPI increase of 5.5% y-o-y in May, the People's Bank of China announced on 6 July that it would raise the reserves requirement ratio by 50 basis points, pushing the ratio to 21.5% for big Chinese banks



This may impact on the inflow of capital from Mainland which has been directed to the luxury home market

Luxury Residential Market

Luxury Residential Market	H1 2011	Predicted H2 2011
Capital Value	+16.3%	+7-12%

- While luxury home prices remain largely unaffected by the tightened regulation of loans for luxury homes as seen in increase of 16.3% in H1 2011, it is expected that the momentum will slow down in the latter half of the year – but will be still better than that of the mass residential market
- The implementation of new restrictions on monetary supply is expected to lower capital flows to the luxury home market, which would adversely impact on demands

Office Market

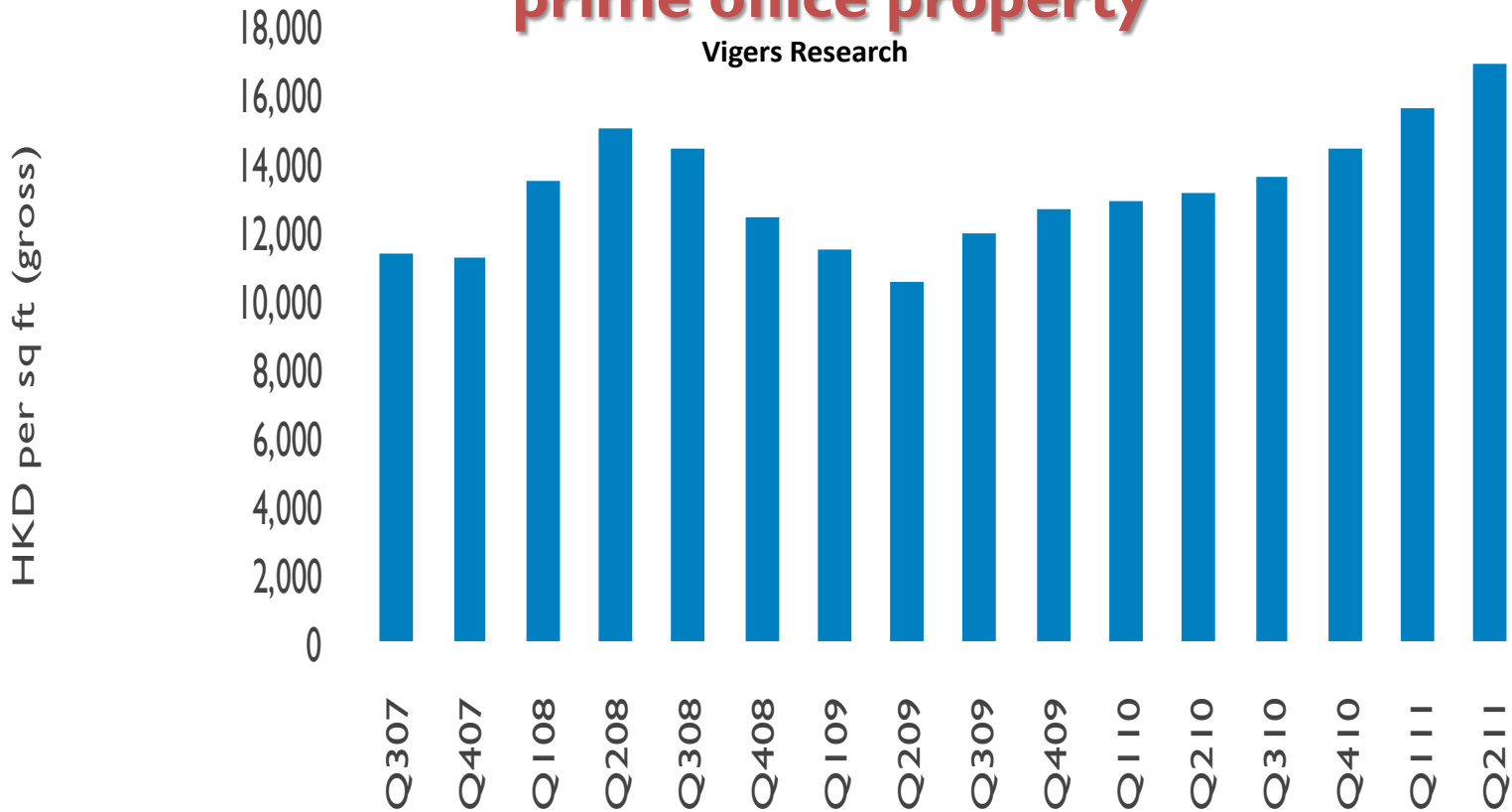


- In H1 2011, there are over 1,971 transactions, the highest since 1997; in the same period, total transaction value stands at HK\$44.4B
- During H1 2011, both office price and rents have risen 21.2% and 13.9% respectively compared with H2 2010

- The continued low-interest environment, large capital inflow, coupled with the lack of office supply, have contributed to the price and rent hike
- The overall vacancy rate stands at 4%:
 - Wanchai and Causeway Bay → 3.4%
 - Central and Admiralty → 3.1%

Average capital values of prime office property

Vigers Research

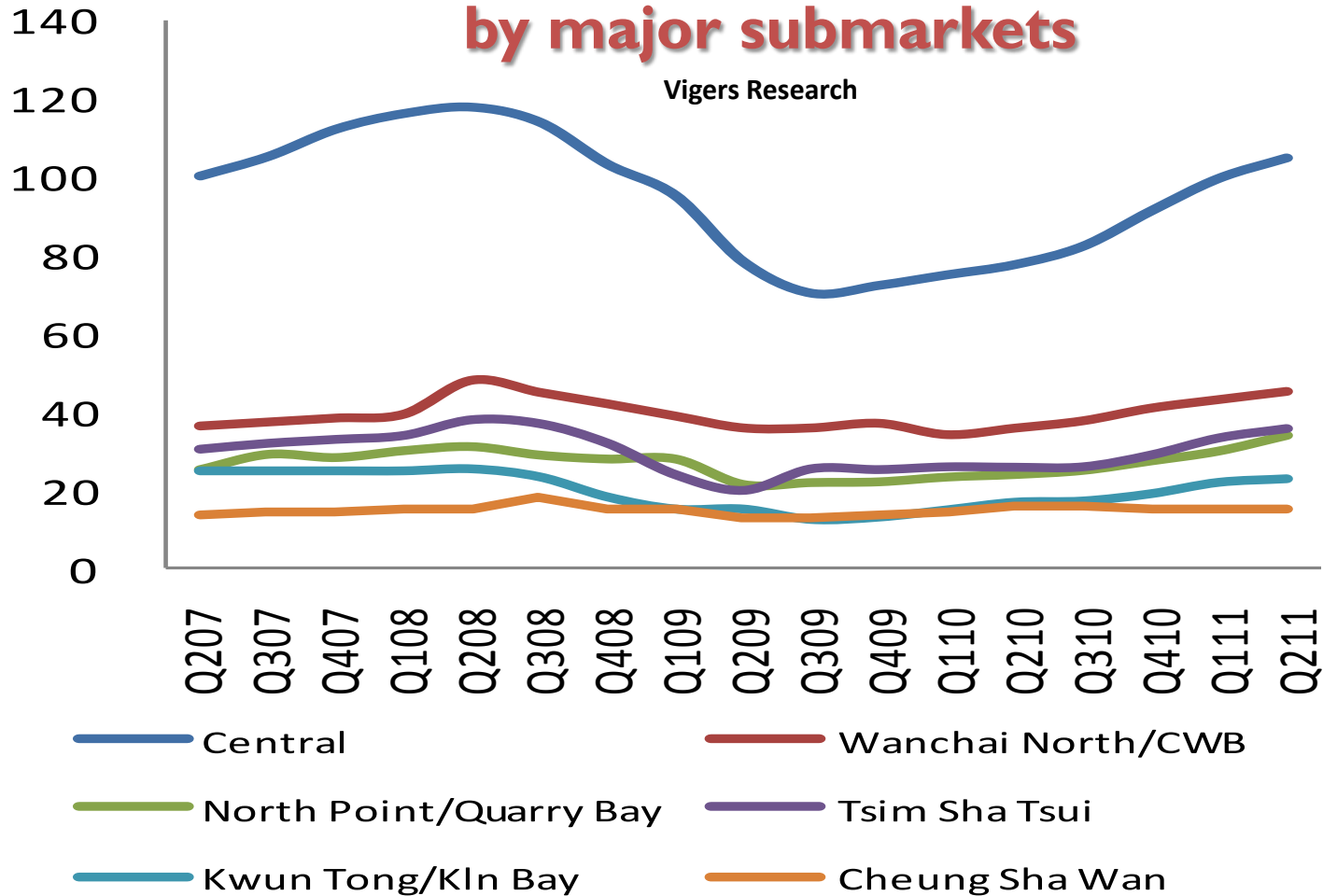


Recent Notable Sales Transactions within H1 2011

Location	Property	Consideration (HK\$M)	Area (s.f.)	Avg. Price (p.s.f.)
Central	Nine Queen' s Road Central	378	13,742	27,507
Admiralty	Bank of America Tower	100	3,857	26,000
Causeway Bay	East Point Centre	17.5	2,703	6,500
Island East	Island Place Tower	140	20,090	7,000
Tsim Sha Tsui	Silvercord Tower 2	67.6	4,336	15,600
Kowloon East	Billion Centre Block A	37.3	4,492	8,300

Average prime rents by major submarkets

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- **The overall rental value rose by 13.9% in H1 2011 compared with H2 2010**
- **Hong Kong East recorded the largest growth – a 19.2% increase in H1 2011 compared with H2 2010**
- **As rents approach their peak, the momentum in rental growth slowed in Q2 2011**

Opportunities

- It is predicted by the HKU APEC Study Centre that economic growth would gain traction of 5.1% in Q3 2011 compared with Q3 2010
- Meanwhile, tenants are expected to continue to seek more cost effective spaces in decentralized areas which would support rental values in areas such as Kowloon East
- With Grade A office price running high, investors are turning to Grade B offices in the core/non-core area

Threats

- With Qianhai to be developed as a destinations for headquarters with a focus in the finance and logistics industry, its development may attract HK enterprises to establish office headquarters and therefore impact on office market for the long term
- Nonetheless, given the recent change in the proposed legal system for Qianhai, its development needs to be closely monitored

- In addition, the uncertain global economic outlook due to the European debt crisis may deter Mainland enterprises to expand to Hong Kong , thereby impacting on demand
- Furthermore, the recent tightened bank lending policies on commercial properties would dampen the price hike

Prime Office Market	H1 2011	Predicted H2 2011
Rental Value	+21.2%	+13-17%

- While economic growth prediction by the HKU APEC Study Centre is positive, there are still concerns on the global economic outlook, which may impede expansion plans of Mainland enterprises to Hong Kong
- While office supply continues to run low and office rental value approaches near its peak, it is expected that the rental growth will inevitably slow down

Prime Office Market	H1 2011	Predicted H2 2011
Capital Value	+13.9%	+9-12%

- Driven by long-term investors whom have been attracted by the rise in rental value, office capital growth is predicted to slow down, following rental market trends

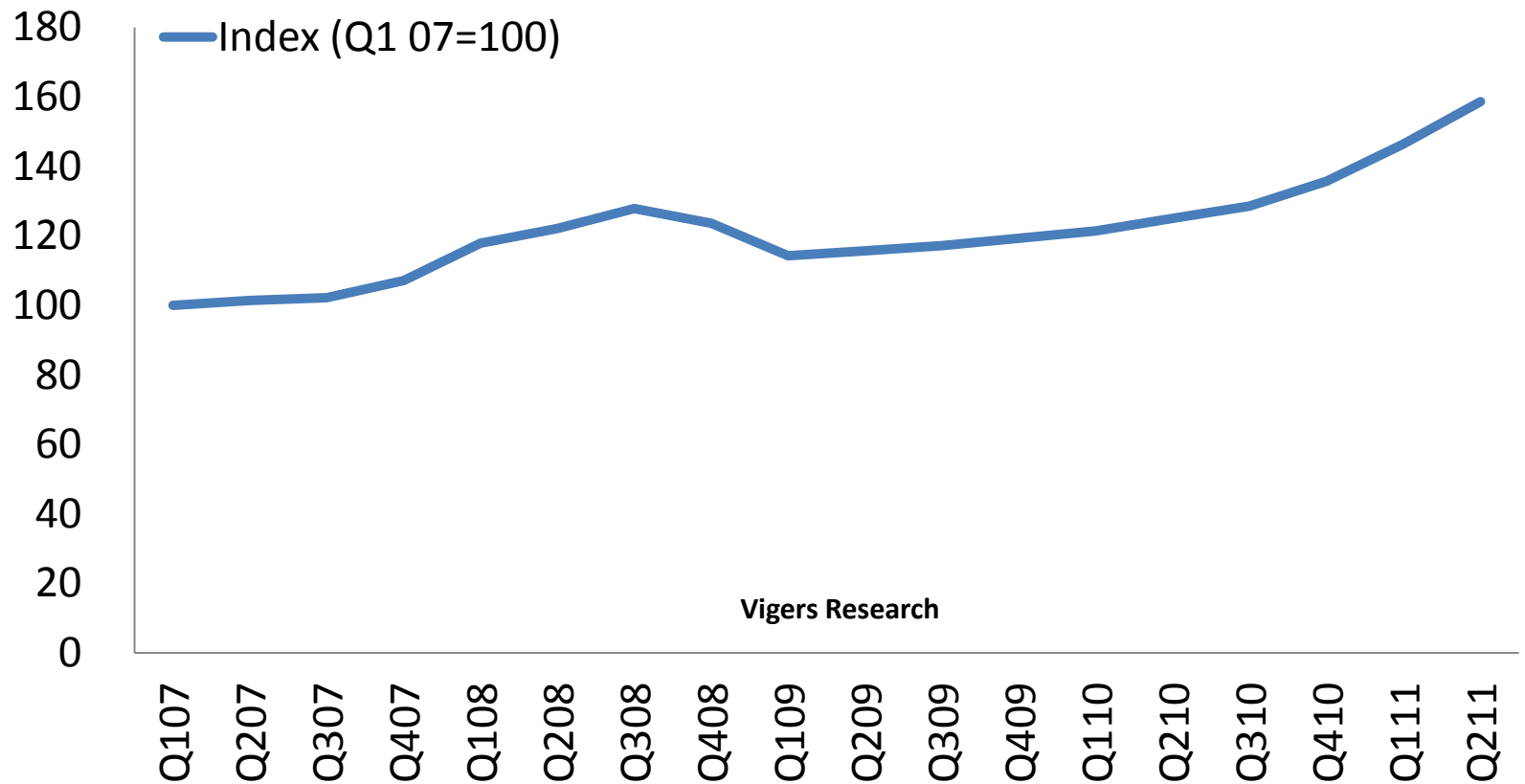
Retail Market



- The total retail transaction volume and value is estimated at 2,650 and HK\$28.6B in 2011 H1
- Monthly retail transaction volume reached at 69-month high at 535 in May 2011, with a total transaction value at HK\$5.6 billion

- Retail rents increased 13.3% in H1 2011 compared with H2 2010
- The vibrant retail property market has been backed up by high retail sales volume, which increased 21.8% y-o-y in May
- The total retail sales value stands at HK\$32.1 billion in May, up 27.8% y-o-y

Average prime retail rents



Major Retail Rental Transactions in 2011

Location	Property	Consideration (HK\$)	Area (s.f.)	Avg. Price (p.s.f.)
Central	Ground Shop on Wellington Street	800,000	2,000	400
Mongkok	Ground Shop at Ginza Plaza Sai Yeung Choi Street South	1,200,000	3,000	400
Tsim Sha Tsui	Ground Shop at Canton Road	1,000,000	1,500	667

- Since the introduction of Special Stamp Duty, the retail sector has caught the attention of investors, which has contributed to the vibrant retail market
- Furthermore, Hong Kong has exhibited a huge growth in mainland tourists
 - In May, the no. of tourists stands at 3.23 million, with a y-o-y increase of 14.7%;
 - Among which, the no. of mainland tourists stands at 2.11 million, with a y-o-y increase of 23.4%
 - This phenomenon was driven by mainland tourists' high spending power and the appreciation of the Yuan against the Hong Kong dollar

- Retail growth has also extended its reach to new districts including Yuen Long, Tuen Mun, Sham Shui Po, North Point and in particular Sheung Shui, which is backed up by demands from Mainland consumers
- Retail activities at these areas include the sale of basic commodities such as diapers, milk powder, shampoo and pharmaceutical products, etc

Sheung Shui

- **Main Location:** Near Sheung Shui Centre
- **Retail Types:** Pharmacy, supermarket (diapers, milk powder, shampoo, cosmetics, etc)



Rent at Prime Location :
HK\$95 psf approx.
Average Rate of Return:
2.3%

Recent Sales Transaction

Property	Size sq ft	Price HK\$m	Psf (Sale) HK\$psf
G/F Shop at Lung Fung Garden	566	24	42,403

Opportunities

- Local consumer demand is predicted to grow as consumers are still in spending mode supported by growing income and better job prospects
- The momentum of Mainlanders visiting HK is also expected to continue at the rate of more than 20% per annum , thereby contributing to continuous growth in retail sales

Threats

- While an estimated 170,000 mainlanders visiting Taiwan per year through the new cross-strait solo-visitor arrangement since June, it is still a small proportion of the mainland visitors in Hong Kong
 - 170, 000 = 5% approx. of the no. of Mainland tourist in May alone

- **While Asia (in particular Singapore, Tokyo and Beijing) continues to be a key target for luxury brands, Hong Kong 's remains to be the global No. 1 retail destination**
 - **HK attracts over 80% of major global luxury & business fashion retailers to locate in the city**
 - **While Beijing plans to lower hefty taxes on imported luxury goods to prevent mainlanders buy abroad as well as to attract luxury brands to establish retail chains locally, it has yet to challenge HK as the top retail destination in Asia**

Prime Office Market	H1 2011	Predicted H2 2011
Rental Value	+13.3%	+9-12%
Capital Value	+20.1%	+10-15%

- With retail rental and capital values increased to a certain extent, it is expected that both will still grow, albeit at a slower pace
- It is expected that the rental and capital value will be supported by the continued high retail demand from local and Mainland consumers

- **Even if there are an estimated 170,000 mainland visitors visiting Taiwan per year, it is still a small proportion of the mainland visitors in Hong Kong**
- **Despite competition from Beijing, Singapore and Tokyo, HK remains to be the top retail destination of major retailers from global luxury brands**



- In H1 2011, transaction volume and value of S & P Agreements for industrial properties stood at 4351 and HK\$17.3B, with an increase of 9.8% and 10.5% respectively compared with H2 2010
- The half-yearly transaction volume and value both reached to a new height since the peak in H2 1995

- A lot of investors have turned to the industrial property market due to the favorable rate of return at around 6% and the more affordable cost – there have been a large amount of industrial properties selling below HK\$2M
- At the same time, the industrial revitalization policy introduced last year has taken effect with over 20 en-bloc transactions since its establishment
- As a result, the overall industrial capital value rose 6% in H1 2011 compared with H2 2010

Average capital values of Industrial property



Recent Notable En-bloc Transactions

Property	Location	HK\$M
Candy Novelty House	164 Wai Yip Street	178
Culturecom Centre	47 Hung To Road	286
Cheung Fai Industrial Building	133 Wai Yip Street	470

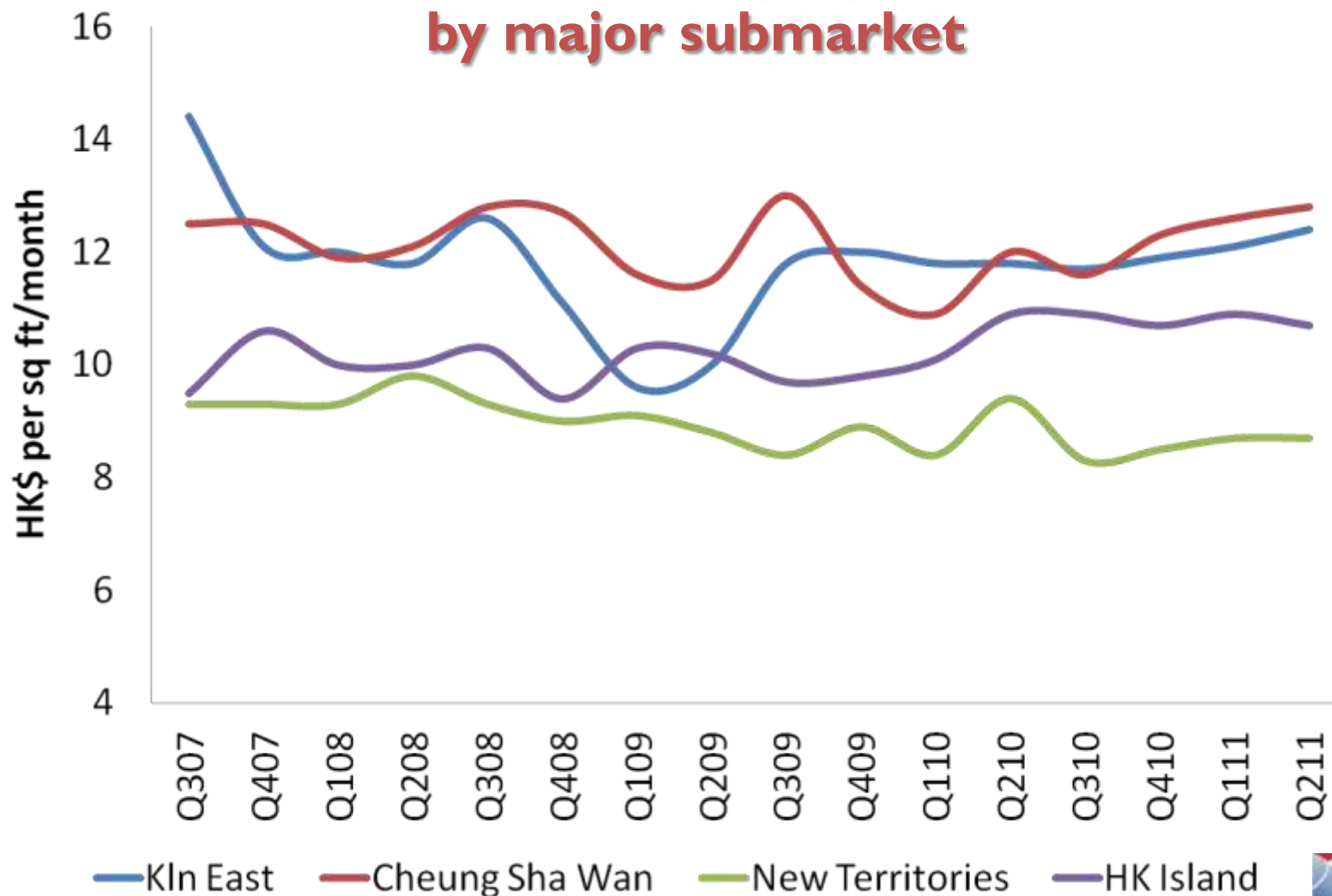
Total En-bloc Applications since the Industrial Revitalization Policy

Period	No of Application	Successful Application	
		Re-modification	Redevelopment
M/Y	Cases	Cases	Cases
4/2010 – 3/2011	47	13	7

Source: Lands Department, updated as of April 2011

- Over the H1 2011, industrial property rental values rose slightly at 1.2% compared to H2 2010
- Despite the fact that regional supply chains caused by the earthquake has driven down the demand of logistics operator, industrial rental values were largely unaffected

Average industrial property rents by major submarket



Opportunity

- Industrial properties at Kowloon Bay and Kwun Tong would continue to attract investors given the success in converting industrial buildings to office use in the area
- At the same time, it is expected that the government will continue to support the revitalization of industrial building
 - Announced in the Chief Executive's Policy Address, the government plans to relocate the Water Supply Department to a revitalized industrial building by 2015

- Apart from industrial-to-office conversion, the government has also been actively identifying industrial land for future residential supply, which would further lower supply levels
- In the Chief Executive's policy address in February, 30ha of industrial land was identified for future residential use

Industrial Market	H1 2011	Predicted H2 2011
Rental Value	+1.2%	+0-2%
Capital Value	+6%	+4-8%

- With good market response since the new policy on industrial revitalization, it is predicted that industrial capital values would continue to be supported in the latter half of the year
- Investors will continue to be attracted by the high rate of return as well as "nil waiver fee" concessions for the change of use of industrial buildings that meet certain criteria stipulated by the government

- **As old industrial areas undergo transformation with more and more industrial buildings converted/redeveloped to office use, the lowered industrial space would also support capital and rental values**

