

Market summary

By the end of the month crowds of homebuyers were seen outside of show flats waiting for chance to pick an apartment at a few new projects on sale in Kowloon. Whether these "green shoots" in new home sales are pointing to a solid recovery is yet to be proved. But at very least, the first-quarter market appears to be past its rock bottom, with both sales and prices having rebounded albeit modestly from the previous quarter.

The Land Registry stats, which are based on completed sales, show that 18,860 sales and purchase agreements for all types of properties were signed during the first three months of the year, up 22.8% from 15,359 registered in Q408, but still miles from 42,361 sales posted over the same period a year ago.

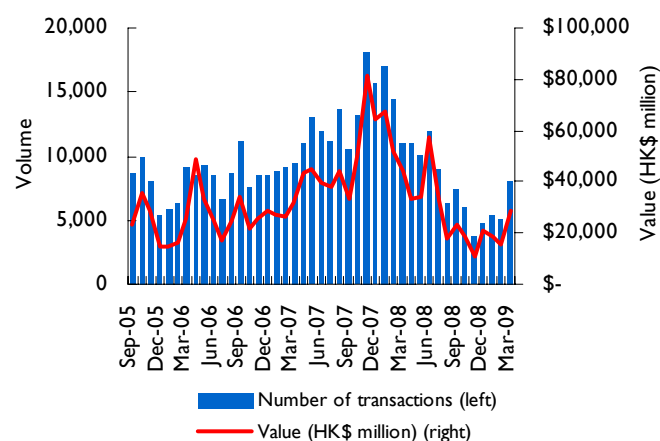
Of all property transactions, 14,873 were for residential units, representing a 60% fall in volume but up 17% over the previous quarter. Total transaction value rose 25.8% from Q408 to HK\$63 billion, but down 61.5% on Q108.

Luxury-home prices rose slightly by 1.1% quarter on quarter, according to deals closed at major luxury housing estates. New home sales, in terms of numbers and value, rose 11.0% and 14.0% respectively on quarter-over-quarter basis to 1,539 and HK\$14.68 billion as new projects recorded better-than-expected sales despite price cuts claimed by property developers.

Lowered mortgage rates and months-long price corrections continue to bring buyers into the housing market. In March, major lenders such as HSBC, CCB (Asia), DBS, Wing Lung Bank, BEA, and Citibank slashed rates to below 3%. HSBC's new scheme boasts various rates of as low as 2.18%, and on its heels BEA and Citibank also rolled out preferential mortgage schemes to offer rates of between 2.18-3%.

The improvement in housing affordability therefore contributes to an upward trend for home sales, as apparently banks are resuming to mortgage business which they are supposed to be focused on. Homebuyers also find it easier now than merely two months ago to borrow up to 70% of their new property value.

S&P agreements of all types of properties



Key economic indicators

	Q108	Q208	Q308	Q408	Latest
Real GDP growth (% change y-o-y)	4.3	1.7	-2.5	-2.5	-2.5 (Q408)
Private consumption expenditure (% change y-o-y)	3.5	0	-3.2	-3.2	-3.2 (Q408)
CPI (% change y-o-y)	5.7	4.6	2.3	2.3	0.8 (Feb 09)
Unemployment rate (% change y-o-y)	3.5	3.8	4.1	4.1	5 (Dec 08 - Feb 09)
Retail sales value (% change y-o-y)	3.5	3.8	4.1	4.1	5 (Dec 08 - Feb 09)
Retail sales volume (% change y-o-y)	7	4	-2.4	-2.4	5.4 (Jan 09)

Source: Land Registry, Census & Statistics Dept, Vigers Research

GRADE A OFFICE MARKET

Sales market

At end-March, a total of 246 sales in the first three months were recorded in the office property market, up 6.5% from 231 sales posted in Q408. By consideration value, all transactions amounted to HK\$23 billion, down 4% on the Q408 figure. Sales rebounded in March particularly to a record level since the financial meltdown as risk-taking investors come back for bargain assets.

At a tender sale of a foreclosed property at 9 Queen's Road, words in the market have it that the sales agent received nine bids, and a firm specialised in trading whole-block properties is rumoured to be the secretive buyer behind the deal, paying HK\$9,015 a square foot for this 13,721-sq ft space.

After severe corrections in prices, the market now sees buyers up in arm eyeing distressed assets at bargain prices. But prime office landlords are not desperate to sell at throat-cutting prices and so the sales

Notable deals in Q109

Property	GFA sq ft	Price HK\$m	Price HK\$/sf
Full-floor space at Harcourt House, Admiralty	17,054 (G)	123.8	7,259
Full-floor space at United Centre, Admiralty	20,489 (G)	106.1	5,180
Full-floor space at Silver Fortune Plaza, 1 Wellington Street, Central	13,191 (G)	98.3	7,450
Full-floor space at Overseas Trust Bank Bldg, 160 Gloucester Road, Wanchai	21,379 (G)	96.0	4,490
Units 01-02, 33/F, Bank of America Tower, 12 Harcourt Road, Admiralty	3,778 (G)	32.5	8,600
Full-floor space, Block A, 1 Wang Kwong Road, Kowloon Bay	13,851 (G)	58.5	4,224
Full-floor space, Block A, 1 Wang Kwong Road, Kowloon Bay	13,851 (G)	57.0	4,117
Full-floor space, Block A, 1 Wang Kwong Road, Kowloon Bay	12,000 (G)	43.2	3,604

Source: EPRC, Vigers Research

market remains sluggish compared with the heydays. With the successful sales of the abovementioned property and another space at United Centre (see the table below), it is believed that the number of lower-price deals will rise in the few months ahead.

Leasing market

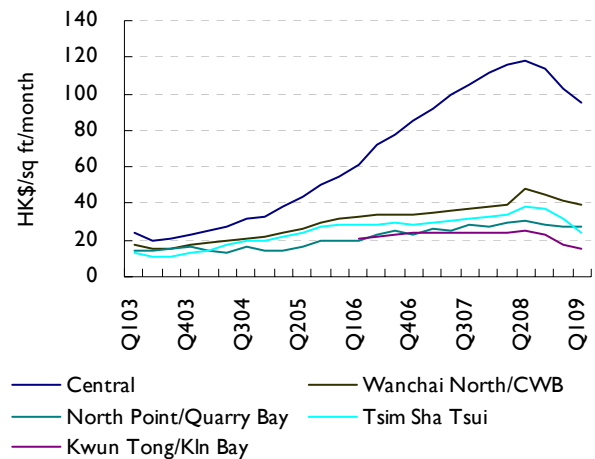
The lettings market took a predictable slide during the first quarter, with vacancy level on Hong Kong Island reaching 6.3%. Prime Central office's availability rate climbed to 4% as two factors — shrinking banking sector and abundant supply in Kowloon East — have prompted Central occupiers to shed space, terminate lease by early surrender or relocate to the Kowloon side.

As tenants find it attractive and cost-effective to occupy a brand new space in Kowloon East, the emerging submarket is the only area where office take-up was positive during the quarter despite falling rents.

Average rent for prime **Central** buildings fell 8% to HK\$95 psf/month, from HK\$103 psf/month at the end of 2008 and 23% off the peak in Q108. **Wanchai North/Causeway Bay's** average rent stood at HK\$39 psf at the end of the quarter, down 7.4% on the previous quarter. **North Point/Quarry Bay** stayed at HK\$27.5, which is just the same as at end-2008.

Across the harbour the Kowloon market has seen steeper decline. **Tsim Sha Tsui** has fallen 22% in rents to HK\$24 psf/month. The rise of availability thanks to many new projects in **Kln East** has sent the average rents there down by 17% to HK\$15 psf/month.

Prime rents by major submarket



Source: Vigers Research, Land Registry

RESIDENTIAL MARKET

Mass market

Of all property transactions registered between January and March, 14,873 were for residential units, representing a 60% decline year on year, but up 17% quarter on quarter. Total transaction value rose 25.8% from Q408 to HK\$63 billion, but down 61.5% on Q108.

New home sales, in terms of numbers and value, rose 11.0% and 14.0% respectively on quarter-over-quarter basis to 1,539 and HK\$14.68 billion as new projects recorded better-than-expected sales despite price cuts claimed by property developers.

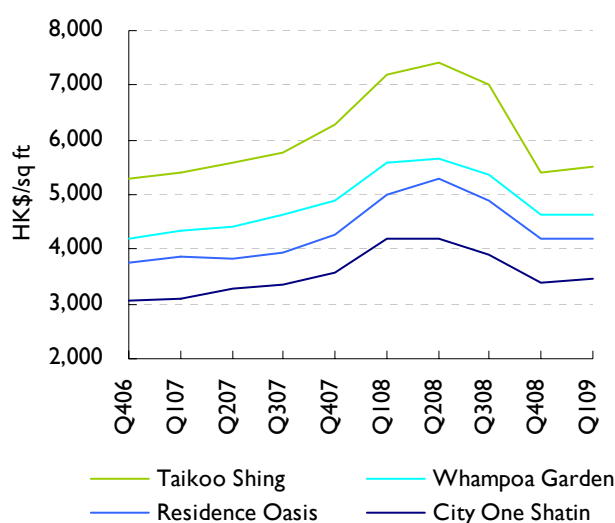
Home prices at key housing estates increased by 1.1% compared with the final quarter in 2008, indicating that the housing market is experiencing a slow recovery. This has been helped by the deep reduction in mortgage rates by the city's major lenders, with the prospect of more banks joining the bandwagon soon.

On a monthly basis, new home loans approved by Hong Kong banks rose for the fourth month in February to HK\$11.4 billion, according to the Hong

Kong Monetary Authority. On an annual basis, the value of these new loans granted in February fell for the seventh straight month.

By key housing estate indicative of the mass market, the average price recorded at **Taikoo Shing** has risen 2.4% to HK\$5,530 psf, whilst that for **City One Shatin** has increased 1.8% to HK\$3,460 psf. Prices for an average apartment at **Whampao Garden** and **Residence Oasis** are HK\$4,650 psf and HK\$4,200 respectively, exactly the same as in Q408.

Average home prices by key housing estate



Source: EPRC, Vigers Research

New residential supply in March 2009

Project	Location	Unit size sq ft (G)	No. of units for sale	Average price HK\$psf	Developer
Florient Rise	Kowloon	598-1,300	63	\$6,968	Nan Fung Group, URA
Harbour Place	Hung Hom	559-770	155	\$5,220	NWD, SHKP
i-home	Kowloon	509-712	40	\$4,073	Chinese Estates, URA
Jadewater	Aberdeen	747-964	10	\$6,117	Asia Standard Group
La Grove	Yuen long	852-1,175	10	\$3664	SHKP
MOD 595	Mong Kok	535-696	6	\$4,504	Chinese Estates, URA
Shining Heights	Kowloon	710-1,178	43	\$5,104	Hong Kong Ferry (Holdings) Ltd
The Cullinan	Kowloon Station	752-2,070	176	\$14,710	SHKP, MTR
Vista	Sham Shui Po	412-928	18	\$5,049	Sino, URA
Wylie Court	Ho Man Tin	2,002	6	\$10,577	NWD
York Place	Wan Chai	577-981	4	\$9,777	Chinese Estates

Source: Financial Chronicle, Vigers Research

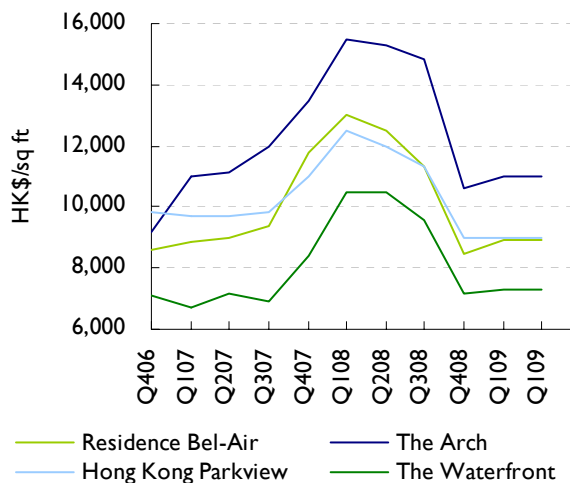
Luxury sector

The average unit price of a luxury home rose by 2.6% to HK\$9,050 psf from Q408. Falling prices, lower mortgage rates, intense mainland buyer interests at the start of the year are contributing to the mild recovery.

Specifically, an average flat at **Residence Bel-air** now commands HK\$8,900 a square foot, up 4.7% from the previous price tag of HK\$8,500 psf. **The Arch** and **The Waterfront**, both occupying a prime site in Tsim Sha Tsui, rose 3.8% and 1.4% respectively to HK\$11,000 psf and HK\$7,300 in price. **Hong Kong Parkview** is selling at HK\$9,000 psf, unchanged from Q408.

We believe that while there are some signs of softening price falls mixed with moderate rebounds for luxury homes, it is too soon to call the bottom of the luxury housing market, albeit erratic price movements still expected over the coming months.

Average luxury home prices by key housing estate



Source: EPRC, Vigers Research

MONTHLY NEWS DIGEST

Office

- Richfield Group, a firm specialised in buying up ownerships and reselling properties en bloc, is rumoured to be the secretive buyer behind a deal for a full-floor space on 6/F at 9 Queen's Road at a unit price of HK\$9,015 psf. The property had been repossessed by a bank from an Australian company last year. (HKET, 20.3.2009)

- March office property sales climbed to record levels ever since the onset of the financial meltdown. Grade A office prices are likely to tick up by 3-8% in Q209 from the current average of HK\$7,800 psf, according to an estate agency who tracks the transaction history of 12 buildings in core areas. (Ming Pao, 26.3.2009)

Residential

- The city expects a 68% rise in the number of homes available for sale this year. The number of residential units forecast for completion in the territory this year is expected to climb to about 14,740 units compared with 8,780 units in 2008, data from Hong Kong's Rating and Valuation Department showed. (Reuters, 6.3.2009)

- Luxury-home prices in Hong Kong rose an average 2.1% in Q109, signalling the market is recovering, according to a report by an estate agency. Prices for existing luxury residences averaged HK\$8,958 a square foot, according to transactions the agency arranged at the city's 30 main projects. In December, the figure was HK\$8,773 a square foot. (Bloomberg, 27.3.2009)

- The fall in rents for luxury residential properties in Hong Kong shows no signs of abating as a sharp decline in leasing demand and abundant supply keep up the pressure on landlords to offer discounts and preferential terms to lure tenants, say property consultants. (SCMP, 4.3.2009)

- Harbour Place, a new project on sale on Hunghom waterfront developed by NWS and SHKP, has posted over 800 sales so far this year after the developer had slashed prices by 20% off last year's. (Ming Pao, 16.3.2009)

- An even-numbered, 4,966-sq ft terraced house situated on Repulse Bay Road, Southside has been sold for HK\$130m, equating to HK\$26,170 psf. The buyer is said to be Lam Wai-yan, chairman of Pacific Online. His new neighbour is Vincent Lo, chairman of Shui On. (Sing Tao Daily, 12.3.2009)

- A two-storey detached property located at 55 Cumerland Road, Kowloon Tong has been sold to a buy-to-let

investor for a total of HK\$76.8 million, equating to HK\$12,632 psf. The property is currently occupied by "Mona Lisa Bridal Salon" as wedding-photo studio at a monthly rent of HK\$158,700. (Sing Tao Daily, 12.3.2009)

Retail

- A retail space fronting Nathan Road (No. 498-500) in Mongkok with 3,000 sq ft in size has recently been sold for HK \$47.5 million, equating to HK\$15,833 psf. (HKET, 31.3.2009)

- A retail shop at No 89 Fu Yan Street, Kwun Tong has been sold to Urban Renewal Authority (URA) for HK \$131.7 million, or on average HK\$10,450 psf. The subject is reportedly Units A & G on G/F which has a gross floor area of 1,260 sq ft. The original landlord bought the property for HK\$36 million in 1991, pocketing HK\$95.7 million in profit after 18 years' holding. (Sing Tao Daily, 25.3.2009)

- Owned by musical instrument chain store Tom Lee, a prime retail property (incl G/F and 1st-4th floors; 5,000 sq ft) located at 6 Cameron Road, Tsim Sha Tsui has been let to Tong Ren Tang, a famous Chinese herb retailer, for a monthly rate of HK\$330,000, or an average rent of HK\$66/sq ft/month. (Ming Pao, 27.3.2009)

- URA has acquired a retail property at 89 Fu Yan Street, Kwun Tong for HK\$131.7m (HK\$10,450 psf) as its renewal project progresses. The properties are reportedly Units A & G on G/F and are 1,260 sq ft in size. (Sing Tao Daily, 25.3.2009)

- A retail space set on G/F of Nam Hoy Building in Wan Chai has been sold for HK\$22m or an average of HK\$33,800 psf. The property, Unit C, has a gross floor area of 650 sq ft and is leased at a monthly rent of HK\$67,000. (Sing Tao Daily, 13.3.2009)

Land supply & development

- URA announced on March 24 that it had received 15 expressions of interest in the Wanchai regeneration scheme. Market rumours have it that Wheelock Properties, SHKP, China Estates, K Wah Int'l, NWD, CKH and Hopewell have all submitted expressions of interest. (The Standard, 25.3.2009)

- The plot ratio of a residential site on Inverness Road, Kowloon Tong listed for auction has been cut by half to three, resulting in a 37% drop in valuation. The site was initially planned for public housing before being rearranged for private development and had a plot ratio of six. (Apple Daily, 24.3.2009)

- According to the Buildings Department, the number of residential projects commenced in Feb fell 99% to 8 y/y,

including two small-scale projects in Kowloon Tong, whilst completions totalled 51 stock units, down 8% y/y. (Ming Pao, 30.3.2009)

- A tiny-sized site in Sheung Shui, The New Territories has been pulled off the Application List by a developer and will be put up for public auction this May. Estimated values of the site range between HK\$2,311 and HK\$2,840 psf. Following the sale of a residential site in Sai Kung a year ago there has been no land auction since then. (Apple Daily, 31.3.2009)

- Located at 63 Mt Kellett Rd, Wheelock's existing development Chelsea Court has been approved by the Buildings Department for plans to turn it into a new complex to comprise 10 three-storey houses along with a car-parking complex (total GFA: 42,400 sq ft). (HKET, 26.3.2009)

Government & legislation

- Six major estate-agency industry bodies have proposed to the Government a number of measures to kickstart the housing market. Among them, the group suggested that agents could help sell the stock units under Home Owners Scheme (HOS), the city's major affordable housing scheme. (Sing Tao Daily, 2.3.2009)

- Secretary for Development Bureau Carrie Lam said the proposed estab-

lishment of a Development Opportunities Office will provide one-stop consultation and co-ordination services to facilitate private development projects. (HK Govt News, 12.3.2009)

- HKIS and five other industry bodies have called for relaxing legal barriers for issuing compulsory purchase order. The association believes that reducing the required ownership to 80% from the current 90% can help developers stock up land bank much easier and stimulate private projects. (HKET, 16.3.2009)

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