

Market summary

With mortgage rates as low as 2%, excessive liquidity slopping around the financial system and deposit rates being shed to next to nothing, the property market was buoyed by these monetary measures in May, during which property sales hit a 15-month record, revisiting levels last seen in the first quarter a year ago.

Overall, sales and purchase agreements signed and filed with the Land Registry rose by 17.2% from April to 13,063, the highest reading ever since February 2008. All sales have completed HK\$43.85 billion in total transaction value, up 8.8% on April's total amount.

Contrasting with our forecast last month, buying sentiment among new home buyers is unusually high, despite the fact that the economy shrank in the first quarter and jobless rate is standing at 5.3%, a level considered alarming in this city. New home sales rose by 59.5% to 2,500 on last month's volume, marking a record since November 2007. By total consideration value, new home sales shot up by 44.8% to HK\$11.35 billion, posting another 11-month record.

Among a dozen of new projects on sale, Sino Land fared the best with over 1,000 flats at its new oceanfront complex, Lake Silver, being snapped up in just a few days to the end of the month. Riding on this wave, more developers are set to inject further 3,000 stock units to the supply pipeline in the few months ahead.

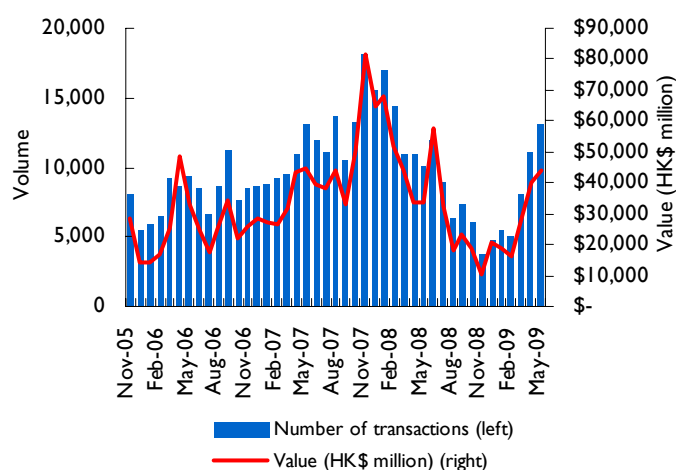
In the secondary housing market, both total transaction volume and value edged up by 12.3% and 13.8% respectively to 8,350 and HK\$25.22 billion. The figures represent a 15-month high and a decent growth for three straight months.

As for the prime residential market, based on the transactions completed at four prime residential complexes Vigers Research tracks, the sales price of an average luxury flat rose 7.1% to HK\$10,725 per sq ft in May.

It is worthy of note that confirmor sales, a local term literally means flip deals, have hit a 10-month high, reaching 134 in volume, or HK\$580 million in transaction value. Flipping off-plan properties have resurfaced, but is not rampant yet, though occasional profit-making deals were claimed by estate agents.

(Continued on next page)

S&P agreements of all types of properties



Key economic indicators

	Q208	Q308	Q408	Q109	Latest Figure
Real GDP growth (% change y-o-y)	4.3	1.7	-2.6	-7.8	-7.8 (Q109)
Private consumption expenditure (% change y-o-y)	3.5	0	-4.1	-5.5	-5.5 (Q109)
CPI (% change y-o-y)	5.7	4.6	2.3	1.7	0.6 (Apr)
Unemployment rate (% change y-o-y)	3.5	3.8	4.1	5.2	5.3 (Feb-Apr)
Retail sales value (% change y-o-y)	3.5	3.8	4.1	5.2	5.3 (Feb-Apr)
Retail sales volume (% change y-o-y)	7	4	-2.4	-5.9	-5.5 (Apr)

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

In the Grade A office sector, investment activity continues to be underpinned by long-term investors taking commercial property as safe haven rather than speculators we used to see during past rallies. We expect office transaction value to rise by 20-30% in May on HK\$652 million turnover registered in April.

The retail property market starts to capitalise on increasing mainland tourist numbers following the announcement of multi-entry visa for Shenzhen residents in March, which is also likely to be spread to other mainland cities. During the month, a prime retail space (Shop 27, 134 sq ft) on G/F of Star House, Tsim Sha Tsui is said to have fetched HK\$450,000 per sq ft, the second highest amount ever fetched in terms of unit price.

The current shift in different property markets in some sense is a reflection of Hong Kong's economic structure in transition. The city's glorious banking and finance sector shrank inevitably after a worldwide bust, but it more or less remains as a magnet for mainland

tourists.

Whether or not the rally can be sustained over a longer run is in doubt. At very least, fundamental economic factors, few in their negative territory, are not suggesting so. Though so far rarely have we heard of any government official admits publicly to the bleak fact about stagflation – inflation coupled with economic contraction – which many economists believe is in fact awaiting us.

As CBRC, China's banking regulator, forewarns: "Deficit spending by various governments around the world aimed at hauling their economies out of recession could sow the seeds of stagflation." As such, when the spillover effect now on the property market from increased lending finally inflates bubbles, mainland and local authorities will find it necessary to tighten up on lending again. That time, only will fundamental economic factors take command of property prices and sales, not quite the over-hyped "zero-interest rate era" we are being told of.

GRADE A OFFICE MARKET

Sales market

There was HK\$652 million turnover of office properties in 160 transactions officially recorded in April (latest available figure as at June 1, 09), representing a 40% rise on March but a 61% plunge on one year ago. We expect office transaction value to rise further by 20-30% in May.

Activity continues to be underpinned by long-term investors taking commercial property as safe haven, rather than speculators we used to see during past rallies. Though investment activity warms up in Central, the area's vacancy has risen by 0.6 percentage point to 6.8% at end-May. We maintain our estimate of 8-10% of vacancy level later this year should the banking/finance sector demonstrate no improvement.

From peak to trough, the pricing correction is estimated at 45% and is likely to slow and bottom out in the upcoming 6-9 months. As prime yields are relatively low in Hong Kong, usually 4-4.5%, whereas typical mortgage rates for commercial property is about 3%, some investors may eventually cash out certain

prime assets.

De Monsa, a name the market is so familiar with, reportedly sold a 16,518-sq ft whole-floor space located on 25/F at Office Tower, Convention Plaza for HK\$198 million, or HK\$12,000 per sq ft, to Sinopec.

In the largest en-bloc deal of the month, Gateway Capital, a property investment fund, reportedly sold a 43,843-sq ft commercial block at 33 Argyle Street, Mongkok, to a local company for a total of HK\$250 million. The long leasehold of Bank of China for its retail space underneath as well as other occupiers of the office space on upper floors gives the new landlord an initial yield of 5.7%.

Notable deals in May 09

Property	GFA sq ft	Price HK\$m	Price HK\$/sf
Unit 04B, 10/F, Tower I, Admiralty Centre	2,927 (G)	26.2	8,951
Unit 07, 36/F, Tower I, Lippo Centre	2,500 (G)	22.5	9,000
Unit 08, 31/F, China Merchants Tower, Shun Tak Ctr	1,637 (G)	16.7	10,202

Source: EPRC, Vigers Research

Leasing market

As expected, last month delivered further rental reductions across the prime Central area along Queen’s Road, Des Voeux Road and Connaught Road. But this time, the fall is greater than we forecast. Prime rents in Central fell further from HK\$89 psf (G) to HK\$67 psf (G), representing a 25% plunge in a month’s time.

A modestly sized unit at IFC2 is rumoured to have been leased at a rate of HK\$95 psf/month. That compares with a peak rental value of HK\$170 psf/month 15 months ago, meaning a fall of 44% pa. Apart from a few rental transactions for offices at Wheelock House and The Center, overall letting activity in Central decreased to a very low level.

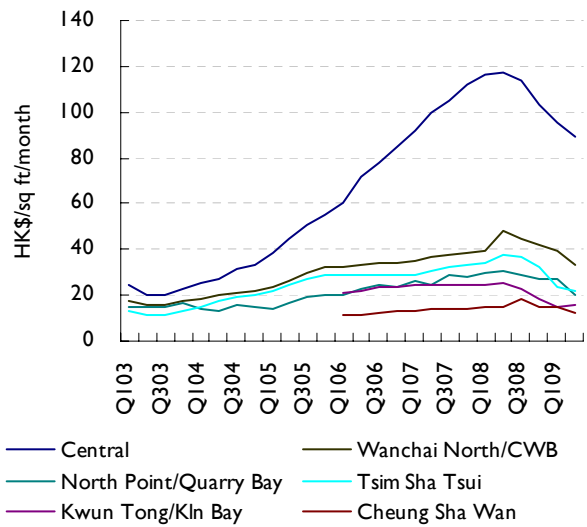
As for Wanchai North/Causeway Bay, prime rents managed to maintain at similar levels, rising albeit modestly to HK\$34 psf/month (G) from HK\$33.5 psf/month (G) in April. Resilience is also demonstrated by North Point/Quarry Bay, where rents rose 10% to HK\$22 psf/month following a 27% plunge in April.

Across the Harbour, TST office demand was given a boost by the renewed optimism about increasing mainland tourist numbers. Though average rent there dropped by 11% to HK\$19.5 psf/month (G), letting activity increased considerably, especially for space at

Star House, Tern Plaza and Concordia Plaza.

As the months-long momentum wanes, the letting activity in Kowloon East eventually took a break. Only a few suites at Millennium City and 9 Chong Yip Street were taken up during the month at an average rent of HK\$15 psf/month (G), down 4.5% on previous month’s figure.

Prime rents by major submarket



Source: Vigers Research, Land Registry, market sources

RESIDENTIAL MARKET

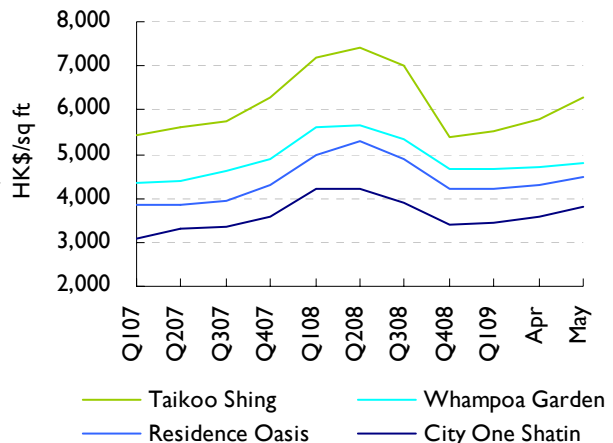
Mass market

With mortgage rates as low as 2%, excessive liquidity slopping around the financial system and deposit rates being shed to next to nothing, the property market was buoyed by these monetary measures in May, during which property sales hit a 15-month record, revisiting levels last seen in the first quarter a year ago.

Of all transactions completed in May, 11,788 were for residential properties, representing a 19.6% rise in a volume on the previous month, and a 42.3% surge on a year-over-year basis. Total consideration value of all residential properties sold rose 24.8% on April -- and jumped by 49.9% on one year ago -- to HK\$39.42 billion in May.

The price of the average flat rose 5.7% to HK\$4,850 per sq ft from April, reversing the downtrend lingering since Q308, according to transactions closed at four key housing estates we track. City One Plaza, Taikoo Shing and Whampao Garden were among best-selling housing estates, reporting 118, 114 and 102 transactions respectively during the month.

Average home prices by key housing estate



Source: EPRC, Vigers Research

New home sales

Contrasting with our forecast last month, buying sentiment among new home buyers is unusually high, despite the fact that the economy shrank in the first quarter and jobless rate is standing at 5.3%, a level considered alarming in this city.

New home sales rose by 59.5% to 2,500 on last month's volume, marking a record since November 2007. By transaction value, new home sales shot up by 44.8% to HK\$11.35 billion, posting another 11-month record.

Among a dozen of new projects on sale (see the table below), Sino Land fared the best with over 1,000 flats at its new oceanfront complex, Lake Silver, being snapped up in just a few days to the end of the month. According to media reports, another batch of at least 3,000 stock units are about to be injected to the supply pipeline by the end of this year.

Secondary market

In the secondary market, both total transaction volume and value edged up by 12.3% and 13.8% respectively to 8,350 and HK\$25.22 billion. The figures represent a 15-

-month high and an exhilarating growth for three straight months.

Home-flipping

It is worthy of note that confirmor sales, a local term literally means flip deals, have hit a 10-month high, reaching 134 in volume, or HK\$580 million in transaction value. Flipping off-plan properties have resurfaced but is not rampant yet, though occasional profit-making deals were claimed by agents.

Luxury sector

Based on the transactions completed at four prime residential complexes, the average sales price of luxury flats rose 7.1% to HK\$10,725 per sq ft in May.

Over the past few months, we have seen the rising interest from mainland buyers lured by reduction in prices of prime properties. Unlike westerners or Hong Kong taipans who prefer a detached property on The Peak or Mid-levels, we have seen townhouses or low-rise apartments in places like Kowloon Tong, Homan-tin, Prince Edward Road, etc being snapped up by cash-rich buyers from the mainland. Some estate agents

New residential supply in May 2009

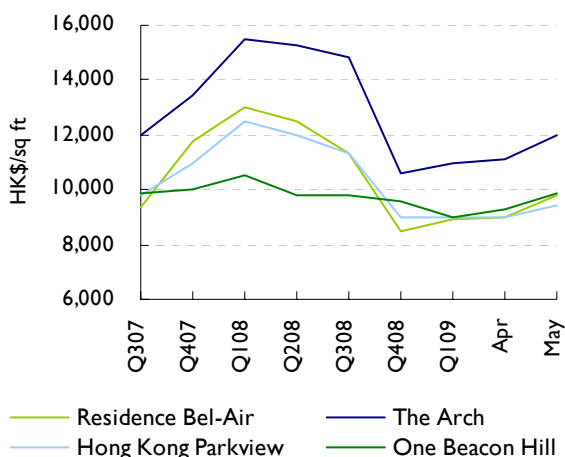
Project	Location	Unit size sq ft (G)	No. of units for sale	Average price HK\$psf	Developer
8 Royal Green	Sheung Shui	576-1,043	40	\$3,787	Henderson Land
Celestial Heights	Ho Man Tin	1,491-1,645	20	\$15,975	CKH/Nan Fung
Emerald Green	Yuen Long	686-1,074	44	\$2,982	NWD
Floriant Rise	Kowloon	619-1,299	65	\$7,453	Nan Fung /URA
Grand Waterfront	To Kwai Wan	588-1,505	17	\$7,746	Towngas
Jadewater	Aberdeen	747-964	10	\$6,711	Asia Standard Group
Lake Silver	Ma On Shan	710-1,281	38	\$4,648	Sino/MTR
Le Billionnaire	Kowloon City	766-2,214	20	\$6,807	Chinachem
Seasons Monarch	Kam Tin	2,880-3,568	5	\$2,553	CKH
Shining Heights	Kowloon	710-1,178	12	\$5,265	HK Ferry
The Cuillinan	Kowloon Sta- tion	883-886	17	\$13,115	SHKP/MTR
The Dynasty	Tsuen Wan	972-1,739	13	\$6,335	Sino/URA
The Latitude	Kowloon	663-1,907	177	\$6,962	SHKP

Source: Financial Chronicle, Vigers Research

reported that about 15-20% of the buyers of prime assets in Kowloon and the New Territories come from the mainland. This “new market order” explains why developers these days conduct roadshows to market their new flats in mainland cities concurrently with or even before an official launch in Hong Kong.

Even so, we are still quite on the conservative side about the sudden uplift in the luxury housing sector. Prime residential property value, to some extent, is pushed up by the excessive liquidity released by the bank lending. Prime asset value may keep going up for a while because of the strong liquidity inflow. Nevertheless, an early-stage bubble seems to be forming, whilst we remain cautious about its medium-term outlook.

Average luxury home prices by key housing estate



Source: EPRC, Vigers Research

MONTHLY NEWS DIGEST

Office

- Transaction data of April shows that the average unit price of Lippo Centre has climbed to HK\$9,300 psf, up 25% from HK\$7,000 psf fetched in March. Letting agents are confident that the HK\$10,000 psf level is in sight. (HKET, 8.5.2009)

- An investment fund owned by property tycoon Lee Shau-kee has sold a full-floor space on 4/F at 9 Queen's Road Central for about HK \$164m, or HK\$13,721 psf. The premises is currently occupied by a Taiwanese bank. (HKET, 14.5.2009)

- In a confirmor deal, a 6,727-sq ft office (Unit B) on an upper floor at United Centre, Admiralty has been sold for HK\$46.8m to an investor. The space is currently leased at a rate of HK\$26.7 psf/month, or HK \$180,000. (HKET, 29.5.2009)

- A 13,800-sq ft whole-floor unit on 8/F, BoA Tower is said to have been sold for HK\$187m, equating to HK\$13,500 psf. Monthly rent receivable from the existing occupier is about HK \$600,000, giving the new landlord an initial yield of 3.8% p.a. (HKET, 27.5.2009)

- A 7,800-sq ft space arranged across Units 8-12 on a high floor at Office Tower, Convention Plaza has been sold for HK \$87.36m, equating to HK\$11,200 psf. (HKET, 25.5.2009)

Residential

- Despite the 7.8% y/y slump in GDP in Q109, average price of luxury flats on Hong Kong Island rose 6% during the period, with the Southside outperforming with 14% growth, data from a property consultant shows. (SCMP, 20.5.2009)

- With hot money flowing in, the banking system is currently parked with deposits amounting to over HK\$253b. Hong Kong Interbank offered rate (Hibor) has therefore fallen to 0.104%, meaning that the borrowing costs and risk premium are hovering near historic lows. It further suggests that lenders may soon reduce adjustable mortgage rates from the current level of 2.5% to as low as 2.0%. This foreseeable rate cut would likely buoy buy-to-let. (Apple Daily, 14.5.2009)

- The mortgage approval data from HKMA shows that the total amount lent by 23 recognised banks rose for the third consecutive month by 19.3% to HK\$10.6b. By approval number the figure has also increased by 25% to 5,589. Besides, the total mortgage amount lent to first-time buyers surged by 31.4% to HK\$21.9b, returning to its “normality” before the financial crisis. (Wen Wei Po, 27.5.2009)

- In April, 23 sales were reported for apartments at The Cullinan, a prime residential complex above Kln Station. Of the apartments sold, the average price of two-bedroomed flats has revisited the HK\$16,000 psf level, close to that of other flats sold before the onset of the tsunami. (HKET, 14.5.2009)

- An odd-numbered single-family home (3,960 sq ft) at Villa Rosa on Red Hill Road, Southside has been sold for HK \$90m, or for an average of HK\$22,727 psf. (HKET, 5.5.2009)

- A foreclosed property (Unit A, high floor, 3,816 sq ft) at HighCliff, a prime residential complex in Mid-levels, has been sold for HK\$70m, or HK\$18,344 psf, at an auction. This is the second foreclosure sale registered this year in the same location. (Apple Daily, 15.5.2009)

Retail

- Emperor Int'l is reported to have purchased a tiny 134-sq ft retail property on the street-fronting G/F of Star House, which is located on the high street Canton Road, for a whopping HK\$60m, or HK\$450,000 psf. By unit price, this is the second largest deal ever closed in the retail property market. (Apple Daily, 13.5.2009)

- A 1,000-sq ft shop previously owned by DCH at 56 Percival Street, CWB has been sold for about HK\$100m, or HK\$100,000 psf. (HKET, 11.5.2009)

- A 1,433-sq ft shop (Unit 5) at 59-61 Russell Street, CWB has been sold for HK\$190m, or HK\$132,000 psf. Rental yield is said to be 3.6% p.a. (Sing Tao Daily, 11.5.2009)

- A prime retail space (Shops 1&1A, 1,400 sq ft) at 17-19 D'Aguiar Street, Central has been sold for HK\$138m, or HK \$98,571 psf. (Sing Tao Daily, 5.5.2009)

- A 5,437-sq ft shop at 109-115 Queen's Road East, Wanchai has been sold for HK\$61.8m, or for a unit price of HK\$21,853 psf. With a yield of 4.5% p.a., monthly rent receivable from its current occupier is HK\$230,000. (Sing Tao Daily, 22.5.2009)

- A two-storey shop (2,000 sq ft) benefiting from huge pedestrian traffic at 13 Matheson Street, CWB has reportedly fetched HK\$53.88m, or HK\$26,940 psf. (HKET, 19.5.2009)

- Shoe seller Belle has signed a 600-sq ft lease at 35-37 Haiphong Road, TST at a monthly rental rate of HK\$300,000, or HK \$500/month/sq ft. (HKET, 19.5.2009)

Industrial

- The nine-storey, 150,000-sq ft Niche Centre, located at 14 Wang Tai Road, Kln Bay, has fetched HK\$234m, or a unit price of HK\$1,560 psf. The premises was previously owned by ING Real Estate Fund, which has netted a handsome profit of HK\$14m from this deal. (Sing Tao Daily, 20.5.2009)

- An anonymous investor has purchased en bloc Gold Peak Building, a 200,000-sq ft industrial block located at 30 Kwai Wing Road, Kwai Chung, for HK\$150m, or HK\$750 sq ft on average.

Land supply & development

- The Government's first land auction in nearly a year attracted fierce competition as a small site in Sheung Shui was sold for HK\$61m – 103% higher than the starting price. The 3,292-sq ft site was sold to Coda Properties, which is chaired by Richard Tong Kwan-ming. (The Standard, 6.5.2009)

- Local residents have been insisting on further curbing the building height and scale of a development scheme in Yuen Long, exerting pressure on the Government to have two major high-rise buildings removed from the plan. If this is so, the total GFA of the project will be trimmed by 15% with the plot ratio being cut to 3.93 from 4.64. (HKET, 14.5.2009)

- SHKP is planning on developing a site adjacent to Fairview Park in Yuen Long into a low-density project to comprise 100 two-storey townhouses. The site sits on an area between Kam Pok Road and Fairview Park. Scheduled to complete in 2015-2016, the scale of the project is estimated at 195,900 sq ft in GFA. (HKET, 15.5.2009)

- Yau Lee Group has acquired a hotel site (site area: 6,952 sq ft) at 77-85 Jervois Street, Sheung Wan from CSI Group for HK\$350m, 13% lower than how much the seller had asked for. A 32-storey, 280-room hotel is permitted to

be built on this site. (Sing Tao Daily, 6.5.2009)

Company news

- HKMC hopes its planned Shenzhen joint venture could break even in 12-18 months, after it begins operations in Q309, according to its CEO James Lau. Lau said expanding the agency's business outside Hong Kong would widen the scale of its operations and improve its capacity to provide liquidity to Hong Kong banks, if needed. (SCMP, 8.5.2009)

- New World China Land Ltd said it agreed to boost its stake in a China property firm for HK\$523.3m. The company, a 71%-owned unit of blue-chip conglomerate New World Development Ltd, said in a statement it plans to buy a 52.5% stake in Shanghai Trio Property Development Co. Ltd. from its executive director, William Doo. (AWSJ, 4.5.2009)

En-bloc sales

- An apartment block configured as serviced apartment run by Shama, located at Staunton Street, has been sold for HK\$71.8m in its entirety by Morgan Stanley. The building comprises 10 units ranging from 500 to 700 sq ft in size. Average monthly room rate is HK\$20,000+ (HK\$40+ psf), giving the buyer an initial yield of 4% p.a. (Sing Tao Daily, 26.5.2009)

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