

Market summary

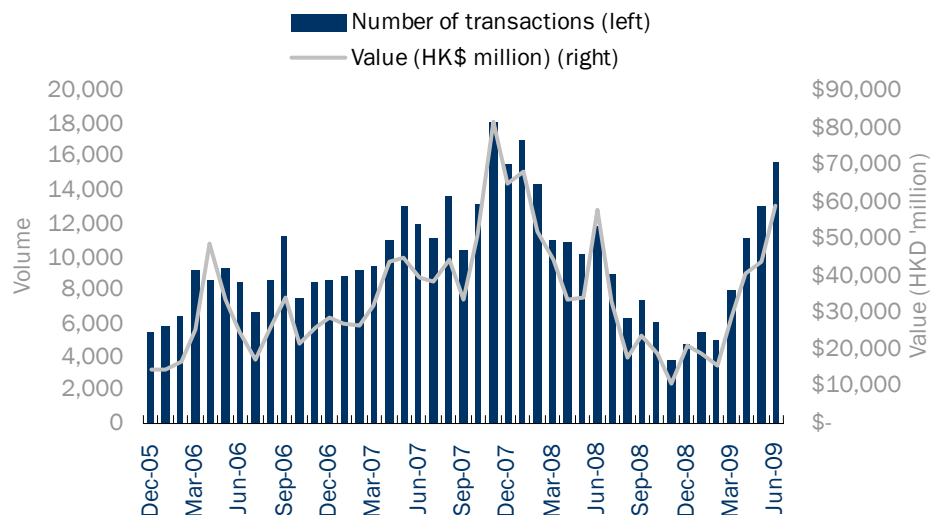
No exaggeration, the city’s property market has demonstrated to the world what a so-called V-shaped recovery really looks like – trending up sharply and rapidly but amid jubilations and doubts. Having plummeted by 25% after the October stock crash, flat prices at key housing estates have rebounded strongly and revisited where they were one year ago, almost undoing the damage wrought by the financial crisis to property values.

In June, overall sales across all property sectors climbed 20.5% in volume, or 32.3% by value, to 15,747 and HK\$58.19 billion respectively on May’s figures, Land Registry data show. It hit a 17-month high since the heights in the winter of 07-08. A rebound in the stock market, the comeback of IPO market, ample liquidity flowing in from across the border, the much-hyped zero-interest rate environment, and so forth – all that combined has created the feel-good factor, albeit lacking fundamental improvements in our real economy, to sustain the market.

What’s more, various new residential projects on sale have delivered spectacular sales figures, which helped pass on the positive sentiment to the secondary market. Last month, a total of 2,696 residential units from newbuilds were sold, up 7.7% from 2,504 saw in May. By consideration value the figure was up 30% to HK\$14.74 billion. In June, excited investors snapped up 1,786 units at “Lake Silver”, from which its developer Sino has received HK\$8.712 billion of revenue. Another new project “8 Royal Green” in Sheung Shui also has had 156 units worth HK\$481 million sold. “Emerald Green” in Yuen Long have posted 92 sales and HK\$257 million in transaction value.

Also on a strong rebound, secondhand home sales rose 20% to 9,967 in volume or HK\$31.13 billion in value on a month-on-month basis, hitting yet another 16-month high. Transactions at Kingswood Villas, Mei Foo Sun Chuen, City One Shatin and Taikoo Shing have surged to above the 100 levels, whilst that of Discovery Bay has got very close as well.

S&P agreements for all types of properties



Sources: The Land Registry, Vigers Research

Key economic indicators

	Q208	Q308	Q408	Q109	Latest
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 (May)
Unemployment rate (% change y-o-y)	3.5	3.8	4.1	5.2	5.3 (Mar-May)
Retail sales value (% change y-o-y)	3.5	3.8	4.1	5.2	-4.4 (Apr)
Retail sales volume (% change y-o-y)	7	4	-2.4	-5.9	-5.5 (Apr)

Sources: Census and Statistics Department, Vigers Research

Looking back in the first half, the housing market has not behaved in the way we predicted; prices were supposed to be suppressed, and sales were supposed to be running at low levels. Which both were not. Home sales rose a stunning 54.9% to 37,978, or 65.5% to HK\$205.85 billion in value, in the first six months versus the second half of 2008. To be precise, new home sales were up 2.2 times to 8,309, or up 1.1 times to HK\$48.65 billion in consideration value. Secondhand home sales were up 59% to 38,877 or up 63% to HK\$72.42 billion over the same period.

In the prime office sector, in spite of the increase in investment activity rents are not showing signs of a recovery. So far this year rental levels on the Island side have fallen by 20% to an average of HK\$41 psf/month. Prime rents in Central were down 18% this year to HK\$79 psf/month, and may fall further by some 10% by this year's end. However, occupiers are taking advantage of low rental levels to relocate to a bigger and better space at a discount, which is evidenced by a couple of significant rental deals completed during the month.

Prime office market

Sales market

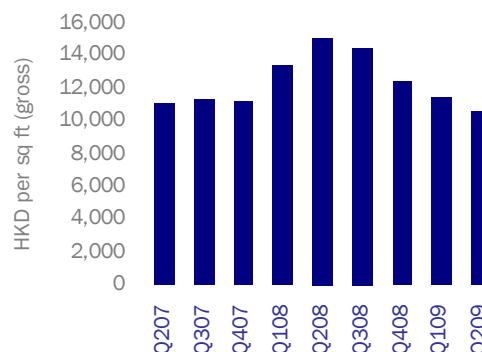
To a great extent, the increase in investment activity is fueled by the hot money from across the border. Intense interest from mainland and local investors alike is helping to hold prices, despite the uncertainty about the pace of economic recovery and falling rents in prime areas.

Speculative optimism is evidently on the rise, given the sharp rise in confirmor sales, a local term that translates into flip deals. Confirmor sales for office property rose ten-fold to HK\$114 million in a month's time. By number, there were 12 flip deals, compared with only one in May.

In one confirmor deal worthy of note, property trader Capital Strategic Investment bought a floor of space on 36/F in China Merchants Tower, Shun Tak Centre for HK\$262 million, and flipped it in 24 hours to pocket HK\$15 million. The buyer is Gale Well Group, another active trader, justifying the extra cost it paid is absolutely worth it. Another significant deal involves the sale of an office floor at 9 Queen's Road Central by Henderson for HK\$264 million, or HK\$18,000 psf. This transaction price turns the time back to before the financial crisis.

On the Kowloon side, "1 Wang Kwong Road" in Kowloon Bay has drawn in a number of long-term investors. In June alone, at least 53,000 sq ft of office space at "1 Wang Kwong Road" was sold, the latest of which was a full floor in Block A along with a suite in Block B (together 17,000 sq ft) being sold for about HK\$76 million, or HK\$4,500 a square foot. Earlier the month, another two floors in Block A were sold for an average price of HK\$3,900 psf.

Average capital values of prime office property



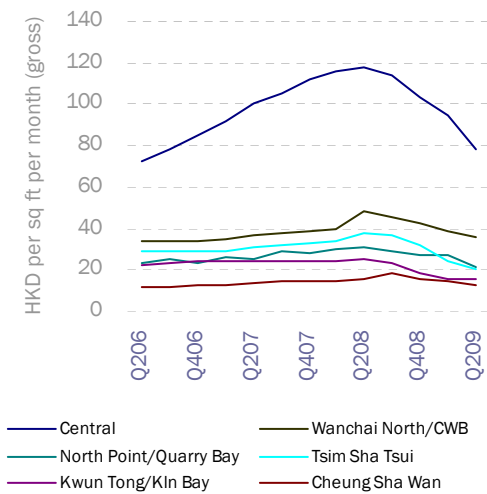
Source: Vigers Research

Notable office property deals

Property	District	Sales price HK\$m	Sq ft (G)	HK\$/ sq ft
Full-floor space at 9 Queen's Road Central	Central	217.55	13,769	15,800
Full-floor space at Wing On House	Sheung Wan	105	11,062	9,492
Unit 2102, 21/F, Tower 1 Admiralty Centre	Admiralty	104	10,918	9,526
Units 08-11, 19/F Bank of America Tower	Admiralty	71.07	5,290	13,435
Full-floor space, Block A 1 Wang Kwang Road	Kowloon Bay	64.95	13,851	4,689
Units 11-12, 23/F, Tower 2 Lippo Centre	Admiralty	27.72	2,132	13,000
Unit 1707, 17/F, West Wing Shun Tak Centre	Sheung Wan	26.87	2,559	10,500

Source: The Land Registry

Average prime rents by major submarket



Source: Vigers Research

Leasing market

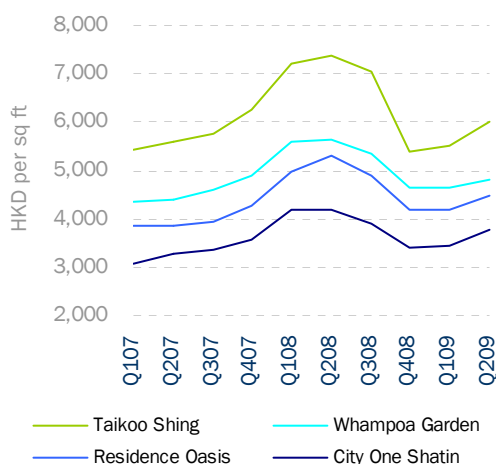
Notwithstanding the increase in investment activity, rental levels in the prime Central area have fallen by 18% since Q1 this year to an average of HK\$79 psf/month as at Q2. With particular weakness in our financial hub, we see further falls by as much as 10% in the near future in the area as well.

Swire Properties, the largest landlord in the Admiralty office area, also reduced rents at Pacific Place 20% from last year's peak when leases came up for renewal. Rents at One, Two and Three Pacific Place have dropped from as much as HK\$100 psf/month last year to HK\$80 psf/month.

But on one positive note, the fall in rents are actually presenting an amazing opportunity for companies to relocate to a bigger and a better space at a discount. During the month, we saw an increase in leasing activity, both on the Island and Kowloon sides, as companies find the current rental levels convincing enough to relocate or expand:

- Standard Chartered confirmed it would move more than 400 employees at its global markets team to the newly leased 38,000-sq ft office at IFC2, where rents have dropped 17% since September. Average rents at this skyscraper now stand at HK\$125 psf a month.
- Census and Statistics Department has leased 70,000 sq ft of floorspace arranged over three floors at Tower 2 of Landmark East in Kwun Tong, paying a monthly rent of HK\$15 psf on average. The government office will become the largest occupier there.

Average flat prices by key housing estate



Source: Vigers Research

Housing market

Secondary market

Secondhand home sales climbed 20% to 9,967 in volume or HK\$31.13 billion in value on May's figures, hitting yet another 16-month high. Sales at Kingswood Villas, Mei Foo Sun Chuen, City One Shatin and Taikoo Shing rose to above the 100 levels, whilst that of Discovery Bay was very close to it as well.

Looking closer at the four housing estates we have long tracked, prices at Taikoo Shing and Residence Oasis rose 8.5% and 7.1% respectively quarter on quarter to HK\$6,000 psf and HK\$4,500 psf, but were still 18% and 15% below their highest points in Q208. Prices at Whampao Garden and City One Shatin were up 3.2% and 9.8% respectively to HK\$4,800 psf and HK\$3,800psf, and were 15% and 9.5% below their peaks exactly one year ago.

New home sales

Last month, a total of 2,696 residential units from new completions were sold, up 7.7% from 2,504 registered in May. By consideration value the figure was up 30% to HK\$14.74 billion.

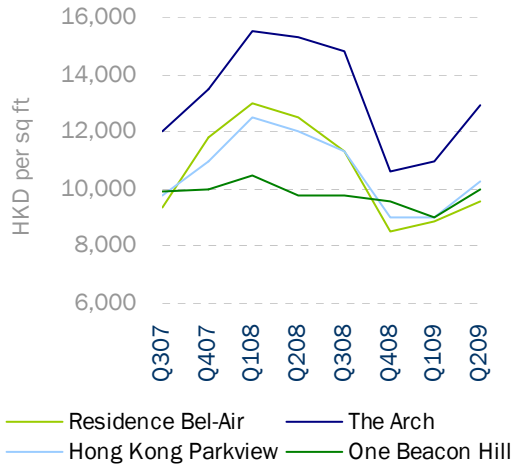
Excited investors have snapped up 1,786 units at “Lake Silver”, from which its developer Sino has received HK\$8.712 billion of revenue. Another new project “8 Royal Green” in Sheung Shui also has had 156 units worth HK\$481 million sold. “Emerald Green” in Yuen Long have posted 92 deals and HK\$257 million in sales value.

New residential projects on sale

Project	District	Unit size sq ft	Units for sale	Avg price HK\$/sq ft	Developer
Emerald Green	Yuen Long	686-1,754	68	\$3,173	NWD
Island Lodge	North Point	817-1,306	5	\$10,823	CMB, Swire
Lake Silver	Ma On Shan	710-2,091	301	\$4,864	Sino, MTR
Lime Habitat	North Point	375-1,493	160	\$9,070	SHKP
Primorse Hil	Tsuen Wan	692-1,062	55	\$5,025	Kerry Properties
Seasons Mon-arch	Kam Tin	2,525-2,683	4	\$3,098	CKH
Sky One	Sha Tin	391-806	29	\$6,226	SHKP
The Sail at Victoria	Mid-levels West	663-1,419	30	\$9,668	HK Land
The Sparkle	West Kowloon	709-1,074	16	\$6,239	Henderson
Wylie Court	Ho Man Tin	2,002	5	\$10,578	NWD

Sources: *Financial Chronicle, Vigers Research*

Average sales flat prices at prime housing estates



Source: Vigers Research

Prime residential

According to the Land Registry, sales of prime residential properties worth HK\$10 million or more apiece rose 20% and 29% to 393 in volume and HK\$8.08 billion in value on May's figures. Both figures represent a new high in 16 months. Sales of brand new luxury residential property last month totalled 201, or amounted to HK\$3.49 billion in transaction value, down 16% and 5.2% respectively month on month.

In the past six months to the end of June, prime residential property sales were up 112% and 74% on the second half of 2008, reaching 2,422 in volume and HK\$48.07 billion in value. The strong rebound is a reflection of the positive sentiment in new home sales, which then helps buoy the secondary market.

So far in the year, "The Cullinan" in TST has topped the bestseller list by posting 389 sales worth HK\$7.62 billion. Residence Bel-air in Pokfulam remains an investment hotspot, with 278 sales registered fetching HK\$4.88 billion in total consideration value. The average price of a flat at Residence Bel-air now stands at HK\$9,600 psf, up 7.9% on the first quarter, according to our records.

News round-up

OFFICE

- The unsold stock units at "1 Wang Kwong Road" are up for sale now with asking prices for the space on lower floors set at HK\$3,200 psf, while that for upper floors is around HK\$4,000 psf. (Ming Pao, 3.6.2009)

- Swire Properties recently reduced office rents at Pacific Place 20% from last year's peak when leases came up for renewal, but the company believes Hong Kong's office market has bottomed out, chief executive Martin Cubbon said. (SCMP, 19.6.2009)

- An office property owned by Henderson at 9 Queen's Road Central has been sold for HK\$246m, or about HK\$18,000 psf. That turns the time back to before the financial crisis. (HKET, 11.6.2009)

RESIDENTIAL

- Wheelock Properties said that the group is set to launch two of its projects on Hong Kong Island for sale between this year-end and mid-2010. The projects are "The Babington" in MLW as well as a commercial project located at Heung Yip Rd, Aberdeen. (Ming Pao, 2.6.2009)

- The twin towers that had undergone refurbishment owned by Chinachem standing in Sham Tseng, Tsuen Wan will go on sale this month with a price tag of HK\$6,000 psf. (Hong Kong Commercial Daily, 12.6.2009)

- Kerry Properties said it had secured buyers for more than 250 flats at Primrose Hill since sales kicked off in early June and selling prices for standard units ranged between HK\$4,763 and about HK\$7,000 psf. (SCMP, 17.6.2009)

- A group of small landlords have put up their decades-old apartment block at 28 Tsui Fung Street, Wong Tai Sin for sale by public tender, asking for HK\$8.8m. Covering a site area of 600 sq ft, the premises comprise a total gross floor area of over 4,000 sq ft. (Sing Tao Daily, 15.6.2009)

- Through only word of mouth, all 168 units at SHKP's off-plan project in North Point, "LIME Habitat", were completely sold out at prices between HK\$8,260 and HK\$8,580 psf. (Wen Wei Po, 19.6.2009)

- As home prices climb at a much faster pace than rents, rental yield has predictably headed south. The average unit price recorded at 50 key housing estates now stands at HK\$4,336 psf, as opposed to an average rent of HK\$15.46 psf/month. That reflects a yield of only 4.28% pa. (Sing Pao, 19.6.2009)

PRIME RESIDENTIAL

- Sales of single-family homes rose 18.3% in volume and 2.3% in value to 110 units and HK\$1.755 billion respectively in May from April, according to data compiled by an estate agents group. That represents a 7-month record since October 08 (am730, 16.6.2009)

- Chinachem has appointed a letting agent to market its prime rental property at 129 Repulse Bay. Rental rates are set at HK\$60 psf/month up. With 300,000 sq ft of floor area, if fully occupied, the premises should generate HK\$200m a year in cash flows for Chinachem. (Ming Pao, 3.6.2009)

- An agent reported that a mainland investor had purchased into a 5,113-sq ft penthouse duplex unit at Phase 6, Residence Bel-air, Pokfulam for HK\$86m, or HK\$17,000 psf. (HKET, 10.6.2009)

- A 4,790-sq ft townhouse at The Belvedere on The Peak has been sold for HK\$198m, lifting the average unit price of this prime location to HK\$41,300 psf. (Sing Tao Daily, 15.6.2009)

RETAIL

- The Census and Statistics Department said the value of retail sales fell 4.4% in April from a year earlier, compared with March's 7.7% fall. The city's retail sales by volume fell 5.5% from a

year earlier compared with March's 9.2% fall. (AWSJ, 2.6.2009)

- A total of 246 sales were completed in May for retail property, with consideration values amounting to HK\$2.447b, up 83% on April's amount. (Sing Tao Daily, 11.6.2009)

- A prime 1,228-sq ft space at 2 Cannon Street, Causeway Bay has been sold for HK\$245m, or HK\$163,880 psf. That gives the new owner an initial yield of 4.5% pa. (Sing Tao Daily, 11.6.2009)

- Active property trader Lee Yiu-wah has offloaded his assets at 72 Nathan Road, TST for HK\$120m. The 1,000-sq ft retail property with a 400-sq ft basement is set on the G/F of Cheong Hing Bldg. The sales price reflects an initial yield of 3.5% pa. (HKET, 12.6.2009)

- Stanhope Group has sold the 18-storey, 66,000-sq ft Cyber Plaza in Jordan for about HK\$260m, equating to HK\$3,939 psf. The price reflects an initial yield of 5.5% pa. (Apple Daily, 16.6.2009)

- A 29-storey, 1.3m-sq ft retail complex on Nathan Road will be completed shortly and up for lease shortly. It is by far the tallest shopping arcade in town and is allegedly named after pageant-turned-celeb Michelle Lee, whom Chinese Estates boss Joseph Lau Luen-hung once intimately called "The One". (HKET, 17.8.2009)

- "Uncle Bor" has unloaded his assets at 1032-1044 King's Road for HK\$78m, pocketing HK\$29.83m. He purchased the shops during 06-07 for HK\$48.16m. That reflects an initial yield of 4.1% pa for the new owner. (Apple Daily, 18.6.2009)

- A 2,800-sq ft space at 49-51A, Shing Woo Road, Happy Valley is reported by an estate agent to have been sold for HK\$49.8m, equivalent to a unit price of HK\$17,000 psf. It is currently occupied by Hang Seng Bank, which pays HK\$120,000 in rent every month. (HKET, 30.6.2009)

- World-famous houseware seller Ikea has signed a lease for a 120,000-sq ft store vacated by B&Q at MegaBox with its landlord Kerry Properties. Including the surrounding space Ikea will occupy 150,000 sq ft of space at the Kowloon Bay shopping mall. The company will relocate to there from Telford Plaza. The new store is expected to open July next year. (Ming Pao, 29.6.2009)

LAND SUPPLY & DEVELOPMENT

- A low-density residential site at Tan Kwai Tsuen, Hung Shui Kiu, Yuen Long has been added to the Application List through which developers may initiate land auction in the case they are interested. The site is big enough to accommodate 60 single-family homes and is valued at about HK\$241m. (HKET, 2.6.2009)

- A harbourfront residential site located at the intersection between Oi King Street and Hong Luen Road in Hung-hom has been added to the Application List. Surveyors put the site's value at HK\$1.829b, or HK\$5,000 psf. (HKET, 16.6.2009)

- After a year of reassessment, two residential sites worth HK\$6.776b are finally listed on the Application List for sale. The plot ratio of the Ko Shan Road site has however been lowered to 7.5 from 9, with total floor area being trimmed by 30,000 sq ft. (HKET, 26.6.2009)

GOVERNMENT & LEGISLATION

- In an attempt to close the loophole that might lure government officials into taking bribe or avoiding tax through developers' controversial "internal purchase scheme", URA has added various terms to its tender document for the Wanchai regeneration scheme, requesting the chosen developer submit a detailed sale plan six weeks after the permission is granted. (HKET, 12.6.2009)

- Eagerly awaited by developers and agents, the Government has proposed to lower the ownership percentage of the undivided shares in a lot to 80% from 90% previously stipulated by the Land (Compulsory Sale for Redevelopment) Ordinance. Once passed by

LegCo, the new term applies to 50-yo residential property and 30-yo industrial rundowns. (HKET, 17.6.2009)

- SHKP has got the greenlight from two city planning authorities to add seven detached houses as well as 200 units to its low-density development in Kam Tin, Yuen Long. (HKET, 19.6.2009)

COMPANY NEWS

- Chinese Estates, controlled by Joseph Lau Luen-hung, is seeking to tap HK\$1.67b by selling 118m shares. An option to sell a further 29.5m shares could lift the offering to HK\$2b. (SCMP, 26.6.2009)

EN-BLOC DEALS

- Real estate investment fund Macquarie Goodman (MG) has closed a deal selling an industrial building at 72 -76 Wang Lung Street, Tsuen Wan, named Lung Wah International Godown, en bloc for HK\$210m, or HK \$891 psf. (Sing Tao Daily, 29.5.2009)

- Continental Holdings has sold a retail and commercial building for about HK \$700m, according to property agents. The building has a floor area of 45,964 sq ft. Continental bought it for HK \$350m in 2004. (SCMP, 18.6.2009)

- A private developer has bought the traditional Chinese Lung Moon Restaurant in Wanchai for HK\$420m. Henry Cheung Wai-keung is considering two plans to redevelop the site of the 4-story restaurant on Johnston Road. (The Standard, 30.6.2009)

- Chinachem agrees to pay HK\$161m for a decades-old apartment block at 39 Nga Tsin Wai Road, Kowloon City through a tender offer. Earlier on, the developer also acquired a nearby building for HK \$192.5m. (HKET, 19.6.2009)

- Ka To Building, a decades-old, 10-storey residential block at 116 Argyle Street, Mongkok, is under a HK\$310m offer from Richfield Group. As at end-June it was not confirmed that if all landlords had signed on the dotted line to sell their premises to Richfield. (Sing

Tao Daily, 3.6.2009)

- All landlords have agreed willfully to sell their decades-old homes at 468-474 Sai Yeung Choi North Street, Shek Kip Mei to Kowloon Development for HK\$160m. Total redevelopment cost for the developer is projected at HK\$300m. (HKET, 10.6.2009)

OTHERS

- SMEs have increased their investments in assets such as property and stocks as the financial turmoil made them more cautious about expanding operations, according to HSBC. In its survey the bank found that almost one in three small businesses in the city had investments. (SCMP, 26.6.2009)

- Leading home loan lenders HSBC and BoC(HK) are cutting their mortgage rates to as low as 2% in actual terms offered to eligible borrowers, but BoComm(HK), which is the first bank in the city to slash its rates to 2%, has stopped offering such privileged terms. (The Sun, 22.6.2009)

FOR SALE BY TENDER

North Point shopping malls for sale

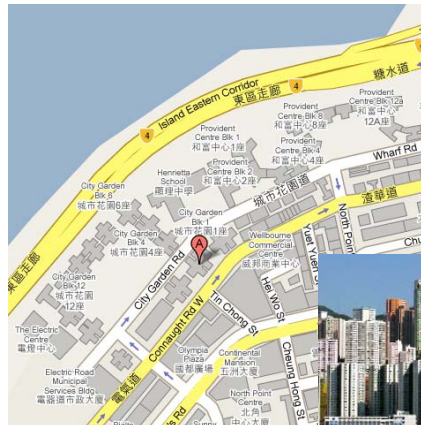
Vigers Realty has been instructed to seek investors with genuine interest for a portfolio of retail premises, comprising a total floor area of 76,978 sq ft (gross), or 46,187 sq ft (net), at City Garden, a residential complex in North Point.

The shopping malls presented for sale in their entirety are arranged on the ground floors at Blocks 7 to 14 of the residential development, which is ideally located on the harbourfront off Electric Road. Laid out with 125 shops of various shapes and sizes, all units in the malls are fully occupied by community-serving businesses, ranging from tuition centres/children workshops to supermarkets/restaurants.

This retail property generates HK\$1 million a month in cash flows for the investor, thus reflecting an initial yield of about 7% pa based on its estimated capital value of HK\$180 million. Shopowners are also granted the rights to use all external walls (subject to terms and conditions of the Deed of Mutual Covenant).

Tenders close at 4pm, August 5 (Wednesday).

For more details and submissions please contact exclusive sale agents James Pong (License E-047879, Mobile 9810 0142) and Jason Leung (License E-256637, Mobile 9470 0131) at Vigers Realty.



City Garden, 223 Electric Road, North Point



Shopping malls at Blocks 7-14 for sale by tender



Sources: Google Map, Vigers Realty

CONTACT US AT VIGERS

	Tel	Fax	@vigershk.com
Vigers Asia Pacific	+852 2810 1100	+852 2153 6180	info
Appraisal & Consulting	+852 2377 5270	+852 3101 9041	raymondh
Realty	+852 2377 5123	+852 2377 2977	michellel
Building Consultancy	+852 2810 1100	+852 2377 3166	stephenfung
Research	+852 2377 5127	+852 2153 6180	vigersresearch
Media Inquiry	+852 2377 5115	+852 2810 1571	communication

E-mail privacy

Vigers Appraisal and Consulting Limited allows our report recipients to opt out of receiving e-mail from us with a simple request. To opt out of our mailing list you can send a request to remove your address from the list to vigersresearch@vigershk.com.

By signing up you verify that you would like to be added to our distribution list and that you will now allow the Vigers to send periodic information pertaining to special Vigers news and reports. Please remember that you can unsubscribe at any time.

Legal disclaimer

The information contained in this research report does not constitute an offer to sell properties or the solicitation of an offer to buy, or recommendation for investment in, any properties in Hong Kong, Macau, PRC and/or any other regions it covers. The information and opinions herein are not intended as investment advice, which only constitute a judgement as at the date indicated. Although every care has been taken in compiling this report, it is subject to change and Vigers cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of this research report