

Market summary

In the dark days of November and December the market came to a halt. In January there was little more activity but since February sales have come to a standstill again, partly due to the fact that Chinese New Year is a traditional low season, and partly that the back-to-back launches of various new projects after Christmas had dried up the secondary market.

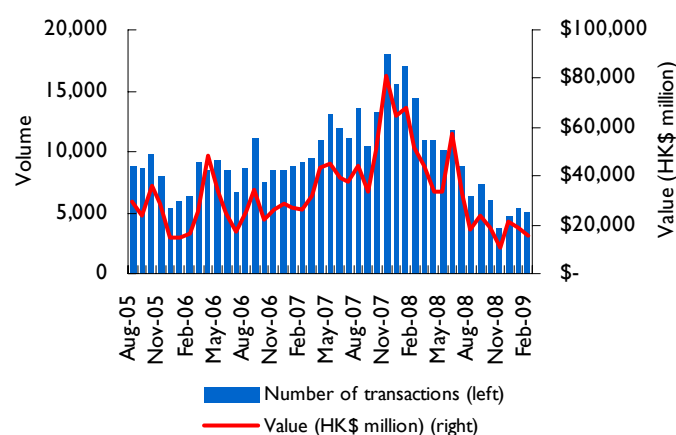
February saw 5,043 sales and purchase agreements for all types of properties filed with the Land Registry, down 12.4% on the January figure, also representing a 65% decline compared with a year ago. Total transaction value fell 69% to HK\$15.87 billion on a year on year basis.

Of all property transactions, 4,487 were for residential units, representing a fall of 64% year on year, and down 8% on January. Total home sales value fell 15.5% from last month, or 69% from last year, to HK\$13.62 billion. On the luxury residential side, the number of transactions worth over HK\$20 million fell 33% from January to 69. New home sales dropped 60% from January to 158 transactions. Yet we are expecting to see a double-digit jump in new home sales figures in March as better-than-expected sales in February will be shown after a month.

With jobless rate now standing at four-year high of 4.6% and fearing that it may surge to the Sars level of 8% in the months ahead, a majority of homebuyers were put off committing themselves to a new apartment. In his 09/10 budget, Financial Secretary John Tsang said the housing market is not as severe as in 1998 and 2003, quoting similar statistics referred to by Joseph Yam, chief of Hong Kong Monetary Authority (HKMA), last month. It all implies that the SAR Government has no intention to roll out any rescue plan to prop up home prices and restore the market in a short future.

Property developers have urged publicly the Government to lower the asking prices of sites for public auction to ensure adequate land supply. Likewise, six major estate agents associations have jointly proposed measures to help agents survive this downturn, such as engaging agents in selling Home Owners Scheme (HOS) flats, extending mortgage repayment period of HOS buyers from 25 years to 30 years, offering more flexible stamp duty payment terms to HOS buyers, etc.

S&P agreements of all types of properties



Key economic indicators

	Q407	Q108	Q208	Q308	Latest
Real GDP growth (% change y-o-y)	7.3	4.3	1.7	-2.5	-2.5 (Q4 08)
Private consumption expenditure (% change y-o-y)	7.6	3.5	0	-3.2	-3.2 (Q4 08)
CPI (% change y-o-y)	4.6	5.7	4.6	2.3	3.1 (Jan 09)
Unemployment rate (% change y-o-y)	3.4	3.5	3.8	4.1	4.6 (Nov 08- Jan 09)
Retail sales value (% change y-o-y)	3.4	3.5	3.8	4.1	4.6 (Nov 08- Jan 09)
Retail sales volume (% change y-o-y)	11.7	7	4	-2.4	5.4 (Jan 09)

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

GRADE A OFFICE MARKET

Sales market

Investment continues to be hampered by worsening sentiment in the occupational market. In February, about 60 transactions, down 14% month on month, for office property were filed with the Land Registry, together worth about HK\$510 million in consideration value.

As testing times offer opportunities for risk-takers, bargain-hunters are now turning to (foreclosure) auctions in search of good deals, especially those with long-term income. At a forced auction, a bank-repossessed property at 9 Queen's Road Central fetched HK\$120 million, equating to HK\$9,013 psf, compared with HK\$18,800 psf recorded a year ago. The premises was bought by the Australia-based Chimaera Financial Group in 2006 for HK\$160 million (HK\$11,700 psf).

In Kowloon Bay, a whole-floor unit (12,700 sq ft) located on 31st floor in the new office block at 1 Wang Kwong Road was sold for HK\$52.07 million, or on average HK\$4,100 psf. Prior to that, another whole-floor unit (12,600 sq ft) on 17th floor in Block A had also been sold for HK\$46.25 million, or HK\$3,700 psf.

Leasing market

Monthly rents for prime space in **Central** dropped 10% from Q408 to HK\$93 psf (G), but still it is said as the world's most expensive place for running an office.

Letting activity and demand for Central offices retracted significantly over the last six months in response to the shrinking banking and finance sector. Key lettings were seen in Jardine House, Gloucester Tower and 9 Queen's Road Central.

With a diverse occupier base, average rents in **Wanchai North/Causeway Bay** fell 6% from January to HK\$38.3 psf (G) at end-February. It wasn't that bad for Wanchai despite falling rents, as we take note that occupiers have taken up more smaller-sized and mid-sized space (1,500-3,000 sq ft) in Central Plaza, Sun Hung Kai Centre, Shui On Centre, Harbour Centre and HKCEC Office Tower.

North Point/Quarry Bay bucked the trend and rose 12% to HK\$30 psf (G). Key lettings were reported in the prime location of Taikoo Place, particularly Devon House and Warwick House, along with a few notable rental deals for space in AIA Plaza, Chinachem Exchange Square II, Prosperity Millennia Plaza, etc.

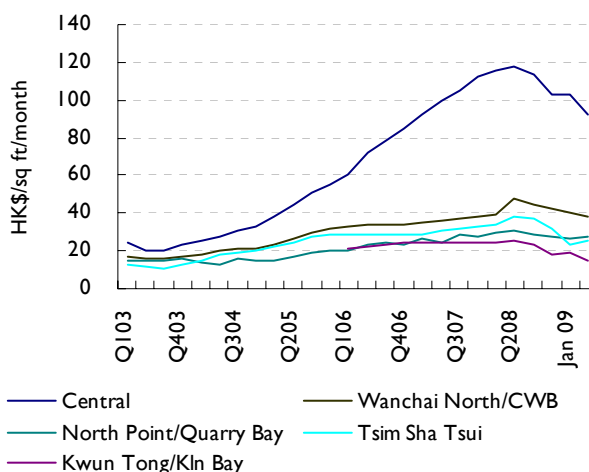
In **Tsim Sha Tsui**, where many exporters and trading firms gather, monthly rents rose 9% to HK\$25.2 psf on January. Monthly rents for Miramar Tower just off Nathan Road ranged HK\$32-34 psf (G); Lippo Sun Plaza and Star House have been respectively priced at HK\$30 and HK\$26 psf/month.

The recent rise in supply, especially the newly marketed space in the twin towers of Landmark East, has dragged the rents in **Kowloon Bay/Kwun Tong** down by 12% to HK\$14.7 psf (G).

Notable deals

Property	GFA sq ft	Price HK\$m	Price HK\$/sf
Low-floor unit, 9 Queen's Road Central	13,721	123.7	9,015
Mid-floor unit, Cosco Tower, 183 Queen's Rd C	7,346	58.8	8,000
Low-floor units, Blk A, 1 Wang Kwong Rd, Kln Bay	13,851	56.8	4,100
Low-floor unit, Cosco Tower, 183 Queen's Rd C	2,155	15.5	7,200
Low-floor unit, Pearl Oriental House, 60 Stanley Street	2,082	13.9	6,700
Low-floor unit, Tower 2, Lippo Ctr, 89 Queensway	1,294	10.3	7,950

Prime rents by major submarket



Source: Vigers Research, Land Registry

RESIDENTIAL MARKET

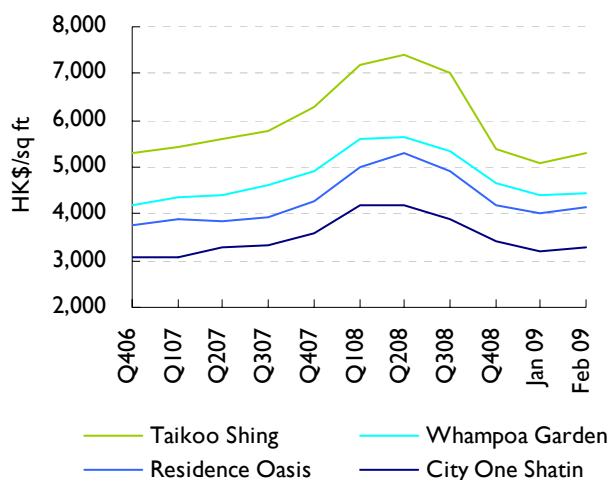
Mass market

Of all property transactions, 4,487 were for residential units, representing a fall of 64% year on year, and down 8% on January. Total home sales value fell 15.5% from last month, or 69% from last year, to HK\$13.62 billion.

The CNY holiday break is a traditional low season for market activity, which is then reflected in the usually lower statistics in February. However, the February market is in no way to be compared to that of 2007 and 2008, in which 12,581 and 7,804 transactions had been registered during the same periods.

Despite low levels of transaction activity, average sale price in the mass market rose slightly by 3% to HK\$4,300. For instance: Taikoo Shing (HK\$5,300 psf, +3.92%), Whampao Garden (HK\$4,450 psf, +1.14%), Residence Oasis (HK\$4,150 psf, +3.75%), City One Shatin (HK\$3,300, +3.13%).

Average home prices by key housing estate



Source: EPRC, Vigers Research

New home sales dropped 60% from January to 158 transactions. Yet we are expecting to see a double-digit jump in new home sales figures in March as better-than-expected sales in February will be shown after a month.

New residential supply in February 2009

Project	Location	Unit size sq ft (G)	No. of units for sale	Average price HK\$psf	Developer
15 Homantin Hill	Ho Man Tin	2,008-2,320	6	\$16,390	Kerry Properties Ltd
Casa 880	Quarry Bay	1,066	5	\$7,610	Cheung Kong (Holdings) Ltd
City 33	Kowloon	647-1,003	5	\$6,918	Henderson Land Development Ltd
Jadewater	Aberdeen	747-964	22	\$6,105	Asia Standard Group
La Grove	Yuen long	586-1,552	229	\$3,107	Sun Hung Kai Properties Ltd
Le Billionaire	Kowloon City	714-1,163	65	\$6,105	Chinachem Group
One Hyde Park	Yuen Long	2,096-2,900	11	\$4,396	Sun Hung Kai Properties Ltd
Peak One	Shatin	1,726-2,596	31	\$6,827	Sun Hung Kai Properties Ltd
Shining Heights	Kowloon	710-1,178	20	\$5,103	Hong Kong Ferry (Holdings) Ltd
The Cullinan	Kowloon Station	1,382-2,589	20	\$19,533	Sun Hung Kai Properties Ltd/ MTR
The Dynasty	Tsuen Wan	972-1,739	22	\$6,190	Sino Group/ Urban Renewal Authority
Vista	Sham Shui Po	412-928	19	\$5,097	Sino Group/ Urban Renewal Authority
Wylie Court	Ho Man Tin	2,002	7	\$9,750	New World Development Co Ltd

Source: Financial Chronicle, Vigers Research

Mid-market projects rolled out during the month include Shining Heights (Henderson Land), Wylie Court - Block A (NWD), and the resale of forfeited units at Harbour Place (SHKP), not counting the stock units left over from projects launched earlier on.

Pricing of these new apartments reportedly fell by 15-30% compared with eight months ago. Developers are especially pressured to clear stock units before the employment market weakens further, tipped at 7-8% in terms of jobless rate, this summer.

Luxury market

On the luxury residential side, the number of transactions worth over HK\$20 million fell 33% from January to 69. A list of notable deals are listed in the table below.

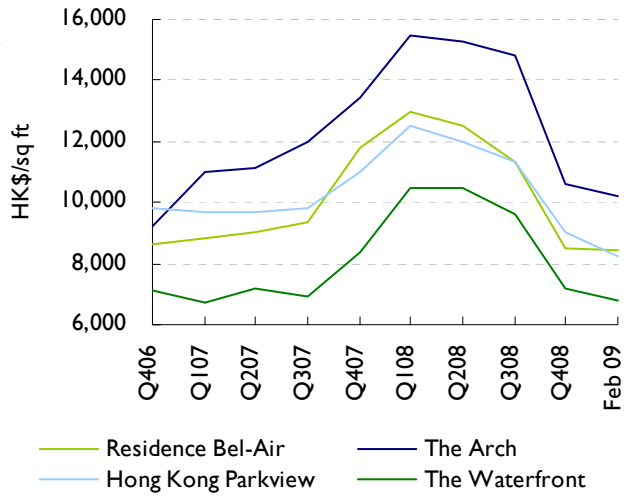
Sales activity of The Cullinan seems to have slowed the slide in value in the secondary market. In major prime locations, average price even rose very slightly by 0.7% from January to HK\$8,437 psf as at end-Feb. Average sale price of Hong Kong Parkview fell 4% to HK\$8,268 psf, but that of Residence Bel-air rose 4.4% to HK\$8,454 psf. Prices of The Arch at Kowloon Station rose 2.2% to HK\$10,224 psf, whilst that of The Waterfront remained unchanged at HK\$6,800 psf.

Notable deals

Property	GFA sq ft	Price HK\$m	Price HK\$/sf
Even-numbered house at 61-63 Deep Bay Water Road, Southside	3,479	120	34,500
Odd-numbered house, Strawberry Hill. 8 Plunkett's Rd, The Peak	3,600	75	20,833
High-floor unit, Leighton Hill, Happy Valley	1,915	28	14,621
Unit B, high floor, Tower 2, The Legend at Jardine's Lookout	1,918	24.8	12,930
Even-numbered house, Mei Wo Circuit, Shatin	3,400	38	11,200
Unit A on an unspecified floor with seaviews, 31 Robinson Road	2,665	47	17,636
Odd-numbered house, Deerhill Bay, Tai Po	3,361	36	10,711

Source: EPRC, Vigers Research

Average luxury home prices by key housing estate



Source: EPRC, Vigers Research

SHKP dominates new home sales

Over the last four months to February, SHKP has altogether rolled out six projects. The most prestigious project — The Cullinan — has sold over 250 apartments and generated revenue of HK\$5b in February alone. Prices of all The Cullinan units sold averaged HK\$17,000 psf.

It is estimated that SHKP has sold over 1,200 units over the past three months ending February from all its projects on sale, including La Grove (Yuen Long), One Hyde Park (Yuen Long), Peak One (Shatin), Bedford 28 (Mongkok), and The Latitude (Prince Edward).

Part of the stock units at Harbour Place (Hungghom), forfeited from buyers withdrawing from the deals, is to be up for sale in early March but at 30% discount off their sale prices last year.

Two further residential projects, respectively located in Yuen Long and Tsim Sha Tsui, will also be available for sales off-plan later this year.

MONTHLY NEWS DIGEST

Office

- Former chief advisor to Morgan Stanley Peter Churchouse said prime rents and prices, especially of Central space, are going to come down by 50-60% off their peaks to the end of 2009, as the market had been in "huge bubble". (The Standard, 2.2.2009)

- NWD plans to invest up to HK\$3b to redevelop the east wing of New World Centre in TST. The developer said the Buildings Authority had approved NWD's proposal to redevelop the area into a 63-story hotel with commercial property and a three-level basement, with gross floor area of more than 1.3m sq ft. (The Standard, 3.2.2009)

- Full-floor office property sales in January jumped 12 times to HK\$287m in consideration value, according to government figures. A total of eight deals were closed on the Island during the month. (Ming Pao, 11.2.2009)

- Four office units in Billion Dev's tower situated at 1 Wang Kwong Road, Kowloon Bay have been sold for a total of HK \$78m. Average price fetched is HK\$3,700-3,900 psf. (Hong Kong Economic Times, 12.2.2009)

- Hopewell has applied to Town Planning Board for rezoning a section in its project QRE Plaza from "open space" to "commercial". The plan has been approved by the Board but a height limit of 94m is to be imposed on the new builds. (Ming Pao, 16.2.2009)

- Hong Kong has overtaken London as the world's most expensive city for offices, according to a report published by NY-based Cushman & Wakefield. Falling rents in London with weakening pound brought prime rents down 23% to US\$1,783/sq m/year. That compares with US\$2,218/sq m/year in Hong Kong. (Bloomberg, 25.2.2009)

- A bank-repossessed property located on 6/F with full-floor occupancy in 9 Queen's Road was sold at a foreclosure sale for HK \$123m, or approx HK\$9,015 psf. This deal is overshadowed by the stunning price of HK\$20,900 psf fetched in September a year ago.

Residential

- US fund TPG-Axon is rumoured to have requested that a deal for buying 50 flats from NWS and SHKP, worth HK\$300m combined, be delayed. It is also unsure to this month if the fund has withdrawn from another deal for 96 units in a new residential block in Cheung Sha Wan. (Ming Pao, 2.2.2009)

- Average price of a flat was 14.7% lower in December last year on a year-over-year basis, according to figures published by an estate agency. From peak to trough, home prices have declined 22%, as indicated by transaction data recorded in 10 key housing estates. (Ming Pao, 3.2.2009)

- The number of foreclosure cases may hike and surpass 1,000 levels in the year to Q309 as the second wave of the financial tsunami sweeps, said an auction house. Foreclosed properties up for in early February totalled 300. (Hong Kong Economic Times, 4.2.2009)

- The city's luxury residential property ranks the fifth most expensive in the world, according to Global Property Guide, which compares prices of downtown homes of 1,300 sq ft. It says average property price in Hong Kong is US\$16,125/sq m. (Ming Pao, 10.2.2009)

- An estate agency expects that prices of luxury houses and apartments on the Island will continue to fall by a range of 10-15% this year. Peak's house prices will be hit the hardest. Research data show that luxury home prices on the Island declined 35.4% quarter on quarter and 19.2% year on year. Peak's house prices plunged over 40% as of Q408. (Sing Tao Daily, 18.2.2009)

- CSI Group has opened its first serviced apartment, Han Residence, which is located on Hankow Road, TST. Monthly rents range from HK \$20,000 to HK\$45,000 for the 51 flats (350-664 sq ft), with a few penthouse units available at premium rents. (Hong Kong Economic Times, 12.2.2009)

- Located in Jordan, another branded service apartment, CHI Residences, has been launched. The apartment block comprises 59 flats offering nine different layouts, between 430 sq ft and 490 sq ft in size. Rental rates: Studios, 430-490 sq ft, HK\$18,000-23,800; one-bedrooms, 410-760 sq ft, HK \$18,500-34,500/month; luxury one-bedrooms, 900 sq ft, HK \$40,000-45,000; premium two-bedrooms, 1,400 sq ft, HK \$55,000/month. (Ming Pao, 26.2.2009)

- Chinese Estates will slash the prices of presold flats by up to 20% at its luxury project York Place in a bid to avoid defaults by buyers. The average price of first-batch flats will be cut to about HK\$12,000 psf from HK\$15,000 psf. Similarly, Chinachem Group has announced price cuts for its flats on sale as well. (The Standard, 13.2.2009)

- SoundWill Holdings has finished acquiring six residential blocks located at 13-27 Warren Street, CWB, and has floated the portfolio for sale by tender, pricing the 8,848-sq ft site at HK\$440m, equating to HK \$5,500 psf. GFA is capped at 80,000 sq ft. (Hong Kong Economic Times, 13.2.2009)

- Zimbabwe's President Robert Mugabe and his wife Grace have secretly bought a HK\$40m bolt-hole in Hong Kong. The Mugabes' house, in a residential complex JC Castle in Tai Po, was purchased on their behalf by a middleman. (Times, 15.2.2009)

- The number of negative equity properties is expected to soar following falls in prices. Pan Asian Mortgage Advisory estimates the number of negative equity cases will climb to 20,000-25,000, if property prices fall a further 10-15%. Residential mortgage loans in negative equity quadrupled to 10,949 at end-Dec from 2,568 at end-Sep 2008, according to Hong Kong Monetary Authority. (The Standard, 17.2.2009)

- A residential block at 10 North Point Road has been put up for en-bloc sale by tender, of which the closing date is March 27. The 26-storey, 60,786-sq ft property is initially priced at HK\$260 million, or HK\$4,277 psf. (Hong Kong Economic Times, 17.2.2009)

- A prime house located at 61-63 Deep Water Bay Road, Southside owned by Swire's President and CEO Mr Keith Kerr has been sold for HK\$120m, or HK\$34,500 psf. The terraced house features an area of 3,479 sq ft and a 1,000-sq ft private garden. (Hong Kong Economic Times, 27.2.2009)

- SHKP's luxury project The Cullinan, posted over 150 sales in the month, according to agents working on deals on site. Average prices recorded so far fall into the range of HK\$15,000-35,000 psf. The better-than-expected sales of the project has encouraged other property owners in the neighbourhood to stand firm on their asking prices, which were only met with even poorer response from the market. (Ming Pao, 21.2.2009)

Retail

- An estate agency said January retail property sales amounted to HK\$579m, down 35% year on year. It also hit a record low ever since February 2003 during which HK \$454 million was posted. Only 76 deals were closed in January, second lowest in 13 years. (Ming Pao, 9.2.2009)

- A 900-sq ft retail shop with a 900-sq ft rooftop located at No 122-132A Ho Pa Street, Tsuen Wan has been sold for HK\$25m, or HK\$28,000 psf. (Sing Tao Daily, 9.2.2009)

- A retail space at 144 Austin Road, TST has been sold for HK \$32m, or HK\$6,400 psf. The units are located on G/F and I/F and have a floor space of 5,000 sq ft. (Sing Tao Daily, 11.2.2009)

- As part of its regeneration scheme, URA has offered to buy the properties from various landlords in a mixed-use block at 98 Fa Yuen Street, Mongkok for HK\$99.91m, equating to HK\$14,000 psf. (Hong Kong Economic Times, 17.2.2009)

- Apart from the Fa Yuen Street premises, URA has acquired two street-front shops (3,900 sq ft + 1,000 sq ft with upper-stair space) situated at 70-84 Fu Yan Street, Kwun Tong for HK\$93m, equating to HK\$49,000 psf. (Hong Kong Economic Times, 24.2.2009)

- A portfolio of retail properties consisting of 11 retail shops at 28 Java Road,

North Point (498-1,153 sq ft) owned by investor Mr Wan Pak-kuen is up for tender, priced at HK\$155m. Tender closing date: Mar 31, 2009. (Hong Kong Economic Times, 20.2.2009)

Company news

- Fung Shui master Mr Tony Chan Chun-chuen has for the first time publicly offered to settle late tycoon Nina Wang's inheritance out of court with rival Chinachem. He said he has never thought the matter could not be settled and believed things could be resolved quicker "if all parties can let go of their own interests." (The Standard, 26.2.2009)

Development & investment

- Two plots of land situated on the harbourfront of Hunghom Bay will be passed to Town Planning Board for final assessment. On a plot ratio of four the building height is capped at 20 stories. Ventilation corridors and a promenade are required by the Board as additional green features. (Hong Kong Economic Times, 25.2.2009)

Government & legislation

- The R&V Dept has launched the 24 hour Property Information Online service for open browsing of the city's domestic properties. Available property info includes saleable area, age, zoning and the aligned property address reference of the Land Registry. (Apple Daily, 12.2.2009)

- The Government's land revenue for the first nine months of this fiscal year is almost 65% less than expected, Secretary for Development Ms Carrie Lam . In the year to December the total land revenue only amounted to HK\$15.8 billion, 63.3% less than the government's projected HK\$43.1 billion in 2008-09. (The Standard, 3.2.2009)

- R&V Dept said most landlords in the next fiscal year will pay HK\$126-HK\$238 less in government rates after reviewing the properties' rental values. In addition, Financial Secretary Mr John Tseng has announced in his second budget that two quarterly government rates payable by 90% of residential property owners and 58% of commercial property owners will be waived. (Apple Daily, 26.2.2009)

- Ms Sandy Chan Pui-shan has decided to step down as EAA's CEO upon completion of her contract this July. The Authority is looking for a successor via public recruitment.

- EAA is stepping up efforts in stamping out misconduct of estate agents by sending undercover staff to monitor sales activity on site. Also, the Authority is reported to be spot checking property adverts on a regular basis against misleading information. (Hong Kong Economic Times, 27.2.2009)

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