

Market summary

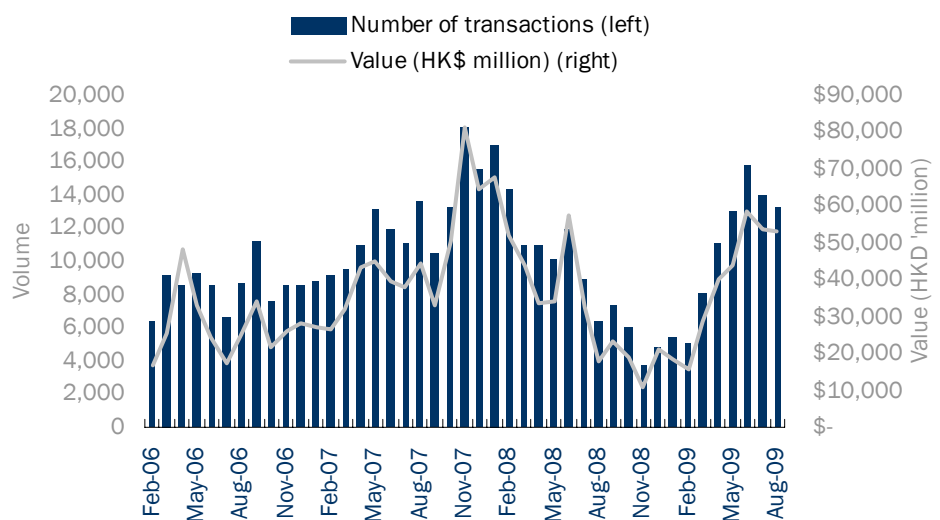
This September, despite being the start of a new academic year, marks the first anniversary of the fallout of Lehman Brothers, which subsequently sent shockwave to the global economy in the year past. A year on, we are still unable to call the crisis is truly over. The bullish and bearish camps both have their claims and reasons, yet we are pretty sure that the Hong Kong housing market has ridden out of the storm the soonest compared with most western markets.

Following months of far-better-than-expected sales, the market finally softened in August. Property transactions across the board were down 5.7% to 13,237 units in volume, or down 0.6% to HK\$53.27 billion by value, from July, the latest stats from the Land Registry have revealed. Secondhand home sales contracted measurably as landlords had turned aggressive in asking figures. New home sales remained remarkably buoyant, which somehow offset the shrinkage in the secondary market.

New home sales shot up by an astounding 73.2% to 1,665 from July, or by 44.9% to an aggregate HK\$13.04 billion in transaction value. The Capitol, a new-build development in Tsueng Kwan O, registered 1,665 sales during the month, altogether fetching HK\$8.18 billion. In second place was Harbour Place in Hunghom, which posted 179 transactions, or HK\$830 million in value. Emerald Green in Yuen Long was in third place, posting 179 sales, or HK\$110 million.

There were 8,119 sales worth HK\$26.53 billion reported in the secondary market, down 15.7% and 19.7% respectively from 9,631 and HK\$33.03 billion recorded in July. Of major housing estates, Kingswood Villas, Mei Foo Sun Chuen and City One Plaza fared the best with 122, 92 and 83 units snapped up during the month. Discovery Bay and Taikoo Shing came in fourth and fifth places posting 69 and 64 sales respectively.

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	-3.8 (Q209)
Private consumption expenditure (% change y-o-y)	3.5	0	-4.1	-6.0	-1.0 (Q209)
CPI (% change y-o-y)	5.7	4.6	2.3	-0.9	-1.5 (July)
Unemployment rate (%)	3.5	3.8	4.1	5.4	5.4 (May-Jul)
Retail sales value (% change y-o-y)	3.5	3.8	4.1	-4.1	-5.5 (July)
Retail sales volume (% change y-o-y)	7	4	-2.4	-5.9	-5.4 (July)

Sources: Census and Statistics Department, Vigers Research

In the prime office sector, the real estate investment arm of Macquarie has reportedly sold off ten office floors at Grand Millennium Plaza for HK\$1.3 billion. Excluding its retail portion the value of the office property sold in the deal is assessed at HK\$8,000 per sq ft, and thus the purchase price reflects 4.8% initial yield for the Taiwanese investor surnamed Chang.

Prime rents in Central fell 2.8% to HK\$70 psf a month – the rate of decline is in fact slowing down. The submarket of North Point and Quarry Bay saw increased activity though rental levels were down 10.5% to HK\$18.8 psf/month. Benefitting from a new MTR line, rental demand was strong in TST, driving average rents there to HK\$24 psf/month. With its large inventory yet to be absorbed, rents in Kowloon East fell to HK\$12.2 psf/month from HK\$14 psf/month.

Prime office market

Sales market

Investment activity in Central has fallen to very low levels, despite that a space with 31,849 sq ft (gross) on a lower floor level at Silver Fortune Plaza was rumoured to be sold for HK\$550 million, or HK\$17,269 a square foot. The deal has yet to be completed and officially recorded.

In Admiralty, activity was concentrated in Bank of America Tower, which saw its pricing level reaching HK\$13,090 psf (gross). That compares favourably with about HK\$9,000-10,000 levels earlier this year.

In Sheung Wan, two deals were reportedly struck for spaces in Shun Tak Centre (a low-floor unit, 3,882 sq ft (gross), West Wing) and Cosco Tower (a low-floor unit, 1,225 sq ft (gross)), respectively fetching HK\$48.5 million (HK\$12,500 psf) and HK\$12.64 million (HK\$10,320 psf).

Investors largely focused on Grade B properties in Wanchai and Causeway Bay. Even so, a deal worthy of some note here involves the sale of a mid-floor unit, comprising 4,100 sq ft (gross), at Shun On Centre, of which the price was reported to be HK\$45 million, or HK\$10,976 psf.

Further eastbound, however, there was no transaction recorded for Grade A offices in North Point and Quarry Bay in August. By much contrast, investment activity increased notably in the Kowloon East market, in particular, Kowloon Bay.

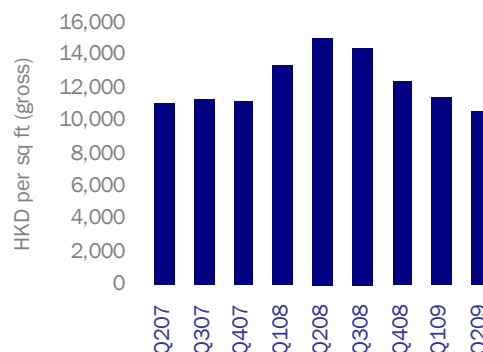
Located at 7 Shing Yip Street, a new project developed by mid-sized developer Billion came onto the market in July and has since then dominated the market in Kowloon East. According to official filings, 44 transactions were recorded for 97,088 sq ft of floorspace. The units were sold at an aggregate value of HK\$428,427,262, equating to a unit rate of HK\$4,280 psf (gross).

According to agents, about 75% of available units of the complex have been sold since July. The rest of the deals were concentrated in Enterprise Square and 1 Wang Kwong Road, fetching HK\$3,619 psf (gross) in average unit prices.

Like North Point/Quarry Bay, there was no remarkable deal registered in Tsim Sha Tsui during the month. A handful of transactions were reported for spaces at Star House, Lippo Sun Plaza and Concoridia Plaza but have yet to be confirmed. Pricing levels ranged between HK\$7,600 psf and HK\$9,500 psf (gross).

The sale of a full-floor unit, fitted with 5835 sq ft (gross), at Kings Tower for HK\$20 million, or HK\$3,425 psf, has demonstrated renewed confidence in the emerging market of Cheung Sha Wan/Lai Chi Kok.

Average capital values of prime office property



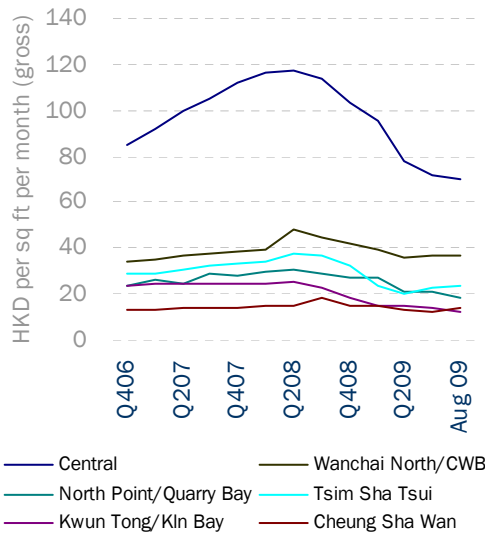
Source: Vigers Research

Top office property deals

Property	District	Price HK\$m	Sq ft (G)	HK\$/sq ft
Whole-floor unit, Blk A, 1 Wang Kwong Road	Kln Bay	69.26	13,851	5,000
Whole-floor unit, Blk A, 1 Wang Kwong Road	Kln Bay	55.77	12,590	4,430
Whole-floor unit, Blk B, 1 Wang Kwong Road	Kln Bay	49.4	12,360	4,000
Low-floor unit, Enterprise Plaza Two	Kln Bay	20.97	5,826	3,600
Whole-floor unit, Kings Tower	Cheung Sha Wan	19.98	5,835	3,425

Sources: The Land Registry, Vigers Research

Average prime rents by major submarket



Source: Vigers Research

Leasing market

Notwithstanding increased investment activity in some submarkets, the rental markets have seen rents go down in all districts – with the exception of Tsim Sha Tsui.

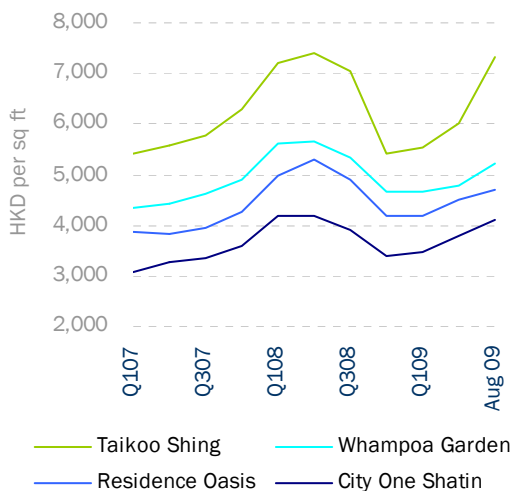
Prime rents in Central fell 2.8% to HK\$70 psf a month (gross). That's a good sign indeed, as the slide has slowed. Henley Building, for example, was priced at HK\$65 psf/month (lettable) lately. Rents for space at Entertainment Building and The Center averaged HK\$44 psf/month (lettable) and HK\$43 psf/month (gross) respectively.

Wanchai North/Causeway Bay had its office rents stabilised at HK\$37 psf/month (gross). Letting activity at Convention Plaza, Shui On Centre, Sun Hung Kai Centre and Central Plaza increased, with rental rates fixed within the range of HK\$30-40 psf/month (gross). North Point/Quarry Bay has seen rents come down to HK\$18.8 from HK\$21 psf/month (gross), but activity increased taking up more space at Manulife Tower, Island Place Tower, K.Wah Centre and 148 Electric Road.

A new train line running between TST and NT West was launched in August, thereby stimulating rental demand in TST. Prime rents have climbed to HK\$24 psf/month (gross) from HK\$23 psf/month (gross) one month ago. Miramar Tower, 1 Beijing Road, Concordia, China Hong Kong City, and Star House registered most rental deals.

With its large inventory yet to be absorbed, prime rents in Kowloon East have fallen 12% to an average of HK\$12.2 psf/month (gross). More space at Kwun Tong 223, International Exchange Centre and Chevalier Commercial Centre has been let. In Cheung Sha Wai/Lai Chi Kok, average rent stood at HK\$13.7 psf (gross). 909 Cheung Sha Wan Road has lately been priced at HK\$17 psf/month (gross).

Average flat prices by key housing estate



Source: Vigers Research

Housing market

Secondary market

Transaction figures from four key housing estates indicate that apartment prices in the mass market rising by 8.2% from the second quarter to HK\$4,775 psf in August. However, the number of transactions has dropped 15.7% to 8,119, with the aggregate value of all newly stamped contracts falling 19.7% to HK\$33.03 billion.

Among popular housing estates most remarkable was Taikoo Shing, which saw an impressive 11.7% rise in average prices in just two months, to HK\$7,306 psf. Sales volumes were up 57% on July to 95 units. Flat prices at Whampao Garden and Residence Oasis were 8.3% and 4.4% higher respectively, arriving at HK\$5,200 psf and HK\$4,700 psf. City One Shatin rose 7.9% in average prices to HK\$4,100 psf.

New home sales

New home sales have shot up by an astounding 73.2% to 1,665 units from July, or by 44.9% to HK\$13.04 billion in value.

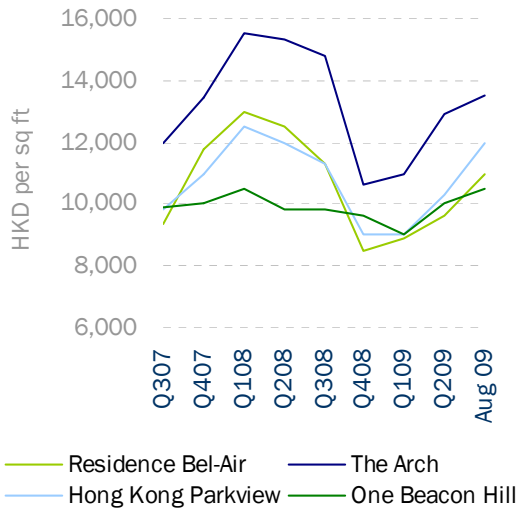
The Capitol, a new-build development in Tsueng Kwan O being marketed by CKH, posted a total of 1,665 sales, worth HK\$8.18 billion, during the month. Second to it was Harbour Place, which saw 179 deals worth HK\$830 million. Emerald Green came in the third posting 179 deals worth HK\$110 million.

New residential projects on sale

Project	District	Unit size sq ft	Units for sale	Avg price HK\$/sq ft	Developer
8 Royal Green	Sheung Shui	576-1,043	20	\$4,136	Henderson
Harbour Place	Hunghom	630-770	246	\$6,508	NWS, SHKP
Lake Silver	Ma On Shan	710-1,305	29	\$6,369	Sino, MTR
Le Prestige	Tsueng Kwan O	898-1,303	122	\$4,627	CKH, Nan Fung
The Masterpiece	Tsim Sha Tsui	816-2,062	30	\$18,394	NWD, URA
The Harbourside	Kowloon Station	1,032-1,445	148	\$14,041	Hang Lung, MTRC
The Palazzo	Shatin	888-2,379	23	\$11,415	Sino, MTRC
The Spectacle	Kowloon	734-769	20	\$5,336	Henderson
Vista	Kowloon	710-748	11	\$5,217	Sino, URA
York Place	Wanchai	576-1,116	14	\$12,973	Chinese Estates

Source: Financial Chronicle, Vigers Research

**Average flat prices
at prime housing estates**



Source: Vigers Research

Prime residential

Sales of prime residential properties worth HK\$10 million apiece were down 21.8% to 487 units, or 27.4% to HK\$13.31 billion in transaction value, from one month earlier. After weeks of rapid price growth, demand has finally weakened. However, the current levels of volume and value are still more than double that of exactly one year ago, when Lehman Brothers collapsed.

Rosy sales of The Masterpiece flats are yet to be finalised and filed with the Land Registry next month. Apart from it, most sales were registered for pricy apartments at Residence Bel-air (30, HK\$735m), The Cullinan (18, HK\$317m), Aqua 33 (17, HK\$288m), and Sorrento (15, HK\$214m).

Overall, average prices in the prime property market were 9% higher, reaching HK\$11,750 psf, according to transactions tracked by Vigers Research. Residence Bel-Air and Hong Kong Parkview posted increases of 14.6% and 16.5% compared with end-Q209, to HK\$11,000 psf and HK\$12,000 psf respectively. The Arch and One Beacon Hill were up modestly by 4.7% and 5% to HK\$13,500 psf and HK\$10,500 psf.

News round-up

OFFICE

- Macquarie has sold ten floors at Grand Millennium Plaza at a total amount of HK\$1.3b. Excluding the retail portion, the value of the office property is assessed at HK\$8,000 psf. The purchase price reflects 4.8% initial yield. (HKET, 25.8.2009)

- Property trader Tong Kwan-ming said he had traded out four office floors at Eastern Commercial Centre in Shau Kei Wan for HK\$40m, or HK\$2,500 psf. Each floor comprises circ 4,000 sq ft. (HKET, 21.8.2009)

RESIDENTIAL

- July mortgage approval amount for home purchases was up 27.5% on a month earlier, to HK\$26b, according to latest stats from HKMA. The figure has now risen for six months in a row, revisiting levels last seen in July 1997. (Metro HK, 27.8.2009)

- Expecting home prices will go up further from now, Wheelock has scheduled the sale of its latest project, The Babington, early next year. Estate agents said at least five flats were reserved by impatient buyers, paying HK\$11,000-12,500 psf in advance. (Ming Pao, 26.9.2009)

- NWD and URA have started selling units of the Masterpiece, a prime development in TST. The 67-storey complex offers 345 units, including 307 standard flats and 38 duplexes/ adjoining units. The lower floor zone hosts a clubhouse and the Hyatt Hotel. (SCMP, 26.9.2009)

- Nearly 62,000 Hongkongers have made Shenzhen their home, with more than 70% citing family reunions as the reason, a survey showed. Of the 61,900, about 33,100 do not maintain a home in Hong Kong, and only about one-tenth said they intended to return to Hong Kong to live in five years. (SCMP, 21.8.2009)

- Hang Lung Properties is offering its HarbourSide units at prices that undercut its joint-venture partner, MTR

Corp. Averaging HK\$14,000 psf, the prices were 6% lower than MTR's tender sale of five units at HK\$15,000 psf. (SCMP, 12.8.2009)

- The number of homeowners on "underwater" mortgages fell to the lowest in three quarters, according to figures from HKMA. So-called negative-equity mortgages dropped to 3,767, with a total value of HK\$8.1b, for the three months ended June 30, from 9,553 such home loans worth HK\$21.4b in the preceding quarter. (Bloomberg, 4.8.2009)

PRIME RESIDENTIAL

- A foreclosed property (Unit A, 50/F + 2 c/p) at HighCliff repossessed from a default investment firm has fetched HK\$87m, or HK\$22,798 psf, at an auction hosted by DBS Bank. That compares with its purchase price of HK\$65.8m in 2007. (Ming Pao, 27.8.2009)

- A five-bedroomed penthouse duplex at Residence Bel-air, comprising 6,603 sq ft, a roof terrace and a terrace, has been sold for HK\$116.8m, equating to HK\$17,689 psf, according to agents. (Wen Wei Po, 25.8.2009)

- A single-family home (House B), with 1,600 sq ft of space, a roof terrace and two car-parking spaces, located at 10 Stafford Road, Kowloon Tong, has reportedly been sold for HK\$23.8m, or HK\$14,875 psf. (HKET, 27.8.2009)

- A repossessed property (2,406 sq ft, Unit 2, lower floor, Block A + 2 c/p) at Villa Lotto in Happy Valley was sold for HK\$30.89m, or HK\$12,839 psf, the highest bid out of 25 offers. (HKET, 20.8.2009)

- Located at 35 Tung Tau Wan Road, Stanley, a luxury 5,450-sq ft townhouse has fetched HK\$150m, or HK\$27,522 psf. The seller is said to have pocketed HK\$54.65m profit from the deal. (Ming Pao, 12.8.2009)

EN-BLOC DEALS

- Mid-sized developer Billion has pur-

chased a five-storey warehouse building for about HK\$280m. Sitting on a 29,500-sq ft site (GFA: 442,500 sq ft), the property can be turned into a commercial development with paid rezoning permission. (Sing Tao Daily, 25.8.2009)

- A decades-old apartment block on Electric Road has been sold en bloc to CKH for HK\$450m, or HK\$5,625 psf, from its owners all from the Lee's family. The sale agent said CKH had raised the offer price to HK\$450m from HK\$390m in order to outbid other suitors. (Sing Tao Daily, 20.8.2009)

- Spending HK\$160m, Richfield Group has completed purchase of 90% of ownership of a decades-old apartment block (126,000 sq ft) at 3-5A Gordon Road, just opposite the one bought by CKH at 133 Electric Road. (Sing Pao, 28.8.2009)

- Yip Hing Factory Building, located at 332 Kwun Tong Road, was purchased by an investor in its entirety for HK\$63m, equating to HK\$1,991 psf. The subject property comprises eight floors, or exactly 31,640 sq ft. (HKET, 20.8.2009)

- Sino said it had acquired Fraser Suites, a serviced apartment operated by Fraser, in its entirety from its owner Harvest Capital for about HK\$580m, or HK\$11,000 psf. The purchase price reflects an initial yield of approx 5% pa. (HKET, 19.8.2009)

- Veteran investor Lee Yiu-wah has reportedly bought IKON Seaview Crescent Plaza, a shopping mall in Tung Chung, for HK\$138m. The mall comprises circ 38,000 sq ft together with 59 car-parking spaces. However, its occupancy rate is as low as 10-20% with kindergartens and beauty salons taking up some units. (HKET, 12.8.2009)

Cheung Kong Electronic Building, located at 4 Hing Yip Street, Kwun Tong, has been sold for HK\$180m, or HK\$1,800 psf, en bloc. The 11-storey building comprises circ 100,000 sq ft

of space. The investment provides the buyer with an initial yield of 6-7%. (Sing Tao Daily, 5.8.2009)

- Four decades-old apartment blocks located at Po Tuck Street and Clarence Terrace in Sai Wan have reportedly been purchased by Richfield Group in their entirety at a total amount of HK\$130m from 100% of owners. Average acquisition price is HK\$2,970 psf. (Sing Tao Daily, 7.8.2009)

DEVELOPMENT & LAND SUPPLY

- A residential project owned by Henderson and SHKP sitting on an "agricultural" site on Tai Tong Road, Yuen Long has been given rezoning permission at a land premium of HK\$4b, or HK\$3,500 psf in accommodation value. By contrast, an average flat at a nearby housing estate is selling at HK \$2,500 psf. (HKET, 27.8.2009)

- Urban Renewal Authority (URA) said various developers had expressed interest for the Yuet Wah Street redevelopment scheme. With overwhelming response the site may soon go up for sale by tender shortly, URA said. (Wen Wei Po, 20.8.2009)

- Citing a report weighing the competi-

tiveness of international cities, the Professional Commons, a think-tank, has called on the Government to store regular land auction to tame high-flying property prices. In terms of property and office costs, Hong Kong is ranked No. 50 out of 57 cities. (Ming Pao, 20.8.2009)

- Mid-sized developer Nan Fung said it would pay HK\$130m in land premium for an office development scheme in Kowloon Bay. Due to complete next year, the 30-storey office complex will offer 680,100 sq ft of floorspace. (HKET, 7.8.2009)

- Only 1,639 residential units entered the development pipeline in the seven months to July, down 70% compared with the same period one year ago, according to figures from Transport and Housing Bureau. (HKET, 28.8.2009)

- An ideally located residential site in Kau To Shan, Shatin, and along with six other sites in the district, has been added to the Application List and made available for auction. The total value of the newly added sites is assessed at over HK\$10b, with over 1.8 million sq ft being injected to the land supply. (Sing Tao Daily, 28.8.2009)

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