

Market summary

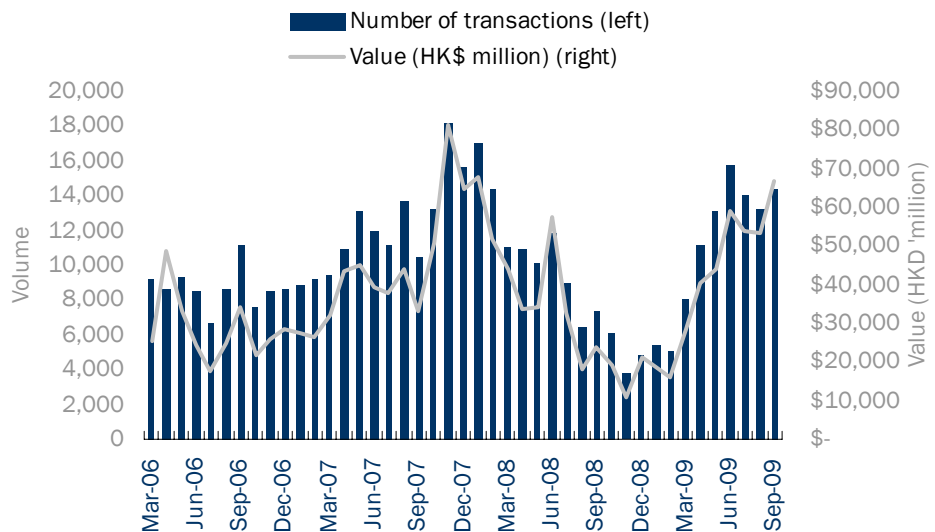
The city's home prices have increased for the third consecutive month and are now back to the same level as this time last year, according to transaction records from the Land Registry. Overall, prices of flats at various key housing estates we track were up 11% on the preceding quarter, averaging HK\$5,300 per sq ft at end-September.

In the third quarter, a total of 100,532 transactions across all property sectors were filed with the Land Registry, with an aggregate value of HK\$379 billion. In September alone, the number of sale pacts officially registered was 14,422, representing assets worth HK\$66.54 billion. Both figures were up 8.9% and 25.1% respectively on that of August.

Ostensibly, luxury property has become the cash cow for most homebuilders these months. In terms of volume, sales of new homes were down 36% on August to 1,484 units, or HK\$20 billion by value. Two talk-of-the-town projects, The Masterpiece and The HarbourSide, both located in Tsim Sha Tsui, went up for sale during the month. A total of 463 units (worth HK\$8.3 billion) and 214 units (HK\$6 billion) were sold at the two projects respectively.

Notably, a couple of duplex apartments at the Masterpiece have fetched staggering square-foot prices of over HK\$35,000 a pricing level never have we seen in Hong Kong for just an apartment. At the time of writing, Henderson Land Development is seeking to sell 5,636-sq ft apartment at 39 Conduit Road for an eye-popping HK\$357.7 million, or HK\$63,473 a square foot. If this is sold as wished, that would set an Asian record on a square-foot basis.

S&P agreements for all types of properties



Sources: The Land Registry, Vigers Research

Key economic indicators

	Q308	Q408	Q109	Q209	Latest
Real GDP growth (% change y-o-y)	1.7	-2.6	-7.8	-3.8	-3.8 (Q209)
Private consumption expenditure (% change y-o-y)	0	-4.1	-6.0	-1.0	-1.0 (Q209)
CPI (% change y-o-y)	4.6	2.3	-0.9	-1.6	-1.5 (July)
Unemployment rate (%)	3.8	4.1	5.4	5.4	5.4 (Jun-Aug)
Retail sales value (% change y-o-y)	3.8	4.1	-4.1	-0.2	-0.2 (Aug)
Retail sales volume (% change y-o-y)	4	-2.4	-5.9	-1.0	-1.0 (Aug)

Sources: Census and Statistics Department, Vigers Research

By segment, the prime residential market outperformed all other sectors. On a month-on-month basis, the upmarket saw a 61%-increase in sales volume, marking yet another 15-month record. However, the momentum appeared running out of steam towards the end of September, during which weekly home sales dropped to recent new lows.

As for the office sector, sales rose 85.8% from the previous quarter to HK\$9.8 billion in the third quarter, implying a six-quarter high. Transaction volume also rose by 32% to 797 over the six-month period. Of all prime areas, Sheung Wan turned out to be an investment hotspot. An office floor (25/F, 20,900 sq ft) at Cosco Tower, previously owned by Singapore sovereignty fund GIC, was sold for HK\$200 million, equating to HK\$10,000 per sq ft. The price of this tenanted office generates an initial yield of 3.8% pa for its new owner.

Another well-known trader, Gale Well Group, has also reportedly bought from GIC another floor (32/F, 20,506 sq ft) at Cosco Tower in a HK\$233-million deal, or HK\$11,400 per sq ft. Last, but not least, Guotai Jun'an, a mainland securities firm, agreed to pay HK\$350 million, or HK\$11,300 per sq ft, for a 15,500-sq ft space arranged on 27/F and 28/F within the same office tower.

In the top deal of the month, Eric Chu Nap-kee bought the 260,000-sq ft Nexus Building for HK\$3.6 billion, or at HK\$13,846 per sq ft unit price, from Morgan Stanley and Pamflet Asset Management. About 85% of the 48-year-old building is leased, with office space rented at HK\$50 psf a month on average. Retail space in prime areas is rented at more than HK\$600 psf. The yield is expected to be around 4.3%.

Prime office market

Sales market

Overall office property sales rose 85.8% quarter on quarter to HKK\$9.766 billion in the third quarter, hitting a record high over the previous six quarters. Transaction volume rose from the second quarter by 32.4% to 797 transactions, marking a record high in five quarters.

Sales figures of July and August were much encouraging, but then the market softened measurably in September. Monthly office sales fell by 66% to HK\$4.372 billion, or 13.2% to 295 in terms of volume, in that particular month.

In view of sales by key submarket, Hong Kong Island saw HK\$848 million/116 transactions, down 53.7% and up 6.4% on August respectively. That reflects the fact that more sales have been completed for lowered-priced assets.

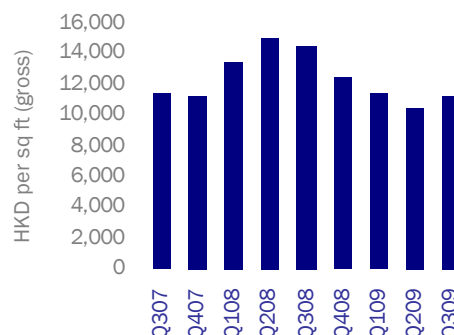
Elsewhere, Kowloon saw 114 deals, worth HK\$581m, down 37% and 77.1% month on month. In the New Territories, transactions were up 640% and 420% to HK\$58 million and 26 units.

Sales on the Hong Kong side were generally quiet with the exception of Sheung Wan. An office floor (25/F, 20,900 sq ft) at Cosco Tower, previously owned by Singapore sovereignty fund GIC, was sold for HK\$200 million, equating to HK\$10,000 per sq ft. The price of this tenanted office generates an initial yield of 3.8% pa for its new owner.

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Average capital values of prime office property



Source: Vigers Research

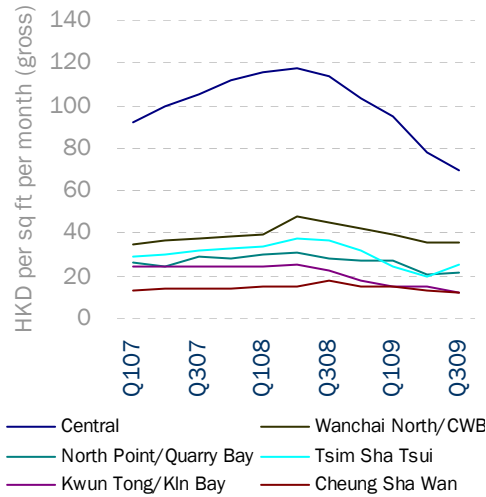
Top office property deals

Property	District	Price HK\$'m	Sq ft (G)	HK\$/sq ft
United Success Commercial Ctr	Wan Chai	113	-	-
01-03&05, 25/F, Enterprise Square Three	Kln Bay	44.28	8,970	4,936
Unit 03B, 10/F, East Ocean Ctr	TST East	28.6	3,870	7,400
Unit 05, 7/F, Star House	TST	10.35	1,218	8,500
Unit A, 25/F, 1 Wang Kwong Rd	Kowloon Bay	19.26	1,710	4,890

Sources: The Land Registry, Vigers Research

Leasing market

Average prime rents by major submarket



Source: Vigers Research

Most rental deals were completed for prime space at IFC and 9 Queen’s Road. Other than these, letting activity was evenly distributed across major landmarks in the area.

It is rumoured that Och-Ziff Capital Management, one of the largest hedge funds in the US, has signed into a lease for a 16,000-sq ft space arranged on 36/F and 37/F at IFC2 at HK\$100 psf monthly rate. Average rates at the IFC towers ranged from HK\$90 psf to HK\$100 psf in September. Overall, the average rent of Central stood at HK\$68 psf/month, compared with HK\$70 psf (gross) in August.

Prime rents in Wanchai North/Causeway Bay were down to an average of HK\$36 psf (gross) from HK\$37 psf (gross) in August. Wanchai North saw more leases signed for office units at Office Tower Convention Plaza, Sun Hung Kai Centre and Central Plaza. Despite increased investment activity, prime rents in Sheung Wan averaged HK\$28 psf (gross), whilst that of Shun Tak (West Wing) stood at HK\$29 psf (gross).

Rents for North Point/Quarry Bay offices have rebounded to HK\$21.5 psf (gross) from HK\$18.8 psf (gross). Worthy of some note is a lease signed for a 3,543-sq ft space at Once Island East.

TST office rents rose to an average of HK\$25.5 psf (gross) from HK\$24 psf (gross). Miramar Tower, HK Pacific Centre, Wing On Plaza, The Toy House, TST Centre, and China HK City were the most desirable locations.

In the Kowloon East market, rents rose modestly to HK\$12.4 psf from HK\$12.3 psf. Futura Plaza, developed and owned by Sino, has seen most rental transactions at rates of HK\$14-15 psf.

It is apparent that excessive stock in Kowloon East is being taken up gradually by island occupiers seeking to branch out. Billion, a medium-sized developer, has recently secured a lease for a 24,950-sq ft office floor at its complex at 1 Wang Kwong Road at HK\$20 psf/month rent, or HK\$499,000 per month. By unit rate this means a record high in the submarket.

Housing market

Secondary market

There were 9,696 transactions registered in the secondary market during the month, fetching an aggregate value of HK\$32.23 billion, up 20% and 18% respectively on the August figures.

The city's flat prices has increased substantially since Q408, edging up 11% between the second and third quarters, with a square foot of space now costing HK\$5,300.

By high-volume housing estate, Taikoo Shing was up 15% to HK\$6,900 psf compared with the second quarter. Whampao Garden and Residence Oasis were up 10.4% and 8.9% to HK\$5,300 psf and HK\$4,900 psf respectively. Apartment prices at City One Shatin were up 7.9% to an average of HK\$4,100 psf.

New home sales

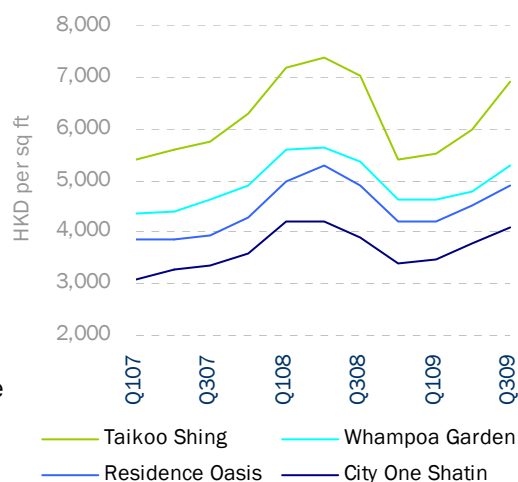
There were 1,484 transactions registered during the month in this category. Two much-hyped projects, The Masterpiece and The HarbourSide, went on sale last month, thereby driving up the transaction value by 60% to HK\$12.5 billion, a record high since June 2008. With the market going for quality instead of quantity, the volume has shrunk by 34.4% to 1,484 units.

Comparing new projects on sale, The HarbourSide sold 463 units (HK\$8.3 billion), The Masterpiece sold 214 units (HK\$6 billion), whilst Harbour Place sold 121 units (HK\$522 million) during the month.

New residential projects on sale

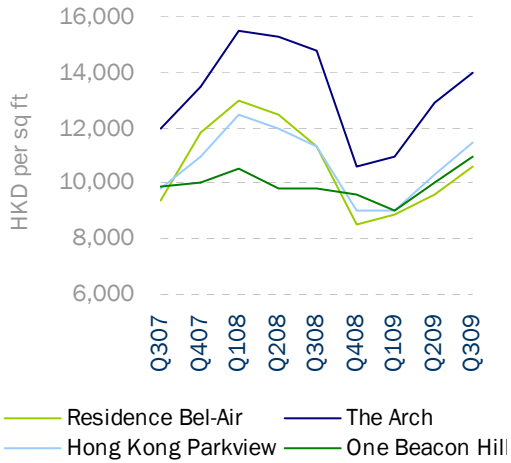
Project	District	Unit size sq ft	Units for sale	Avg price HK\$/sq ft	Developer
Aqua 33	Po Fu Lam	1,434-2,002	17	\$9,732	MacauLand, Angelo, Gordon
Celestial Heights (Phase 2)	To Kwa Wan	1,491-2,052	88	\$9,639	CKH, Nan Fung
Grand Garden	Shau Kei Wan	665-950	9	\$6,792	Circle Prop Dev, Pofield
La Grande Vineyard	Yuen Long	2,501-2,846	6	\$7,815	SHKP
Le Prestige	Cheung Kwan O	906-1,303	61	\$4,646	CKH, Nan Fung, MTRC
Masterpiece	Tsim Sha Tsui	842-2,052	180	\$17,346	NWD, URA
One Lasalle	Kowloon City	2,203-2,387	7	\$17,779	Hansison, NWS
The Babington		902-1,139	19	\$11,462	Wheelock
The Celebrity	Kowloon	962	8	\$6,554	External Profit Enterprises
The HarbourSide	Kowloon Station	734-1,445	140	\$14,299	Hang Lung, MTRC
The Palazzo	Shatin	1,156-2,379	25	\$9,783	Sino, MTRC
The Spectacle	Kowloon	734-1,042	2	\$5,596	Henderson

Average flat prices by key housing estate



Source: Vigers Research

Average flat prices at prime housing estates



Source: Vigers Research

Prime residential

Sales of prime residential property totalled 1,317 units in September, fetching a total value of HK\$27.2 billion, up 170% and 180% respectively month on month. Monthly sales have hit a 22-month high since November 2007.

The secondary market of this sector grew 25% and 36% to 474 units in volume or HK\$9.77 billion by transaction value. Both figures represent a 19-month high since February 2008.

News round-up

RESIDENTIAL

- Mortgage approvals climbed to 12,657 in August, revisiting levels last seen before the onset of the financial crisis, figures from a mortgage broker showed. HSBC has successfully overtaken rivals and dominate the market with its 23.1% market share. (Oriental Daily, 3.9.2009)
- Apartment rents rose 2.5% on the previous month to an average of HK\$16.66 psf/month in September, latest stats from an estate agent showed, up 17.9% on January. That represents an increase for the third consecutive month. (HKET, 11.9.2009)

PRIME RESIDENTIAL

- A Sai Kung-based agent said a "village house", combined by two houses (1,750 sq ft+1,400 sq ft) in a discreet location in Sai Kung were sold for HK \$38 million, equating to HK\$8,333 psf. (HKET, 30.9.2009)
- An odd-numbered house (3,458 sq ft) at The Vineyard, low-density development in Yuen Long, was sold to a buy-to-let investor with its existing tenancy for HK \$24.28 million, or HK \$7,021 psf. (Hong Kong Daily News, 28.9.2009)
- A 3,856-sq ft adjunct unit at Block 2 of Manhattan Hill, a residential complex by SHKP in Lai Chi Kok, has reportedly been sold for HK\$62 million, or HK\$16,000 psf, marking highest selling and unit prices in the location. (Apple Daily, 29.9.2009)
- A single-block development on the seafront of Tsuen Wan, with views of Tsing Ma and Ting Kau Bridges, will be put on the market in October, its developers Grosvenor and Asia Standard said. Only units on the middle and lower floors will be released in the first place, with listed prices indicated at HK\$12,000 psf. (HKET, 29.9.2009)
- A 4,000-sq ft house, featuring a 10,000-sq ft garden with pool, at

Grandview Terrace in Siu Lam, Castle Peak Road, was purchased by a mainland investor for about HK\$35 million, or HK\$8,750 psf. (Sing Pao, 16.8.2009)

- De Monsa, an Indonesian investment firm, has recently sold off its odd-numbered house at Severn 8, which it purchased for HK \$240 million in 2007, for HK\$175 million, translating into a loss of HK\$65 million. (Apple Daily, 10.9.2009)

- A two-storey family house at 6 Somerset Road, Kowloon Tong was sold for HK\$140 million, or HK\$24,530 psf. The 9,920-sq site it is built on is zoned as R(C) with 0.6 times plot ratio. (Sing Tao Daily, 4.9.2009)

RETAIL

- Jimmy Tang, boss of upmarket watch retailer Prince Jewellery & Watch, has agreed a deal to acquire a 3,000-sq ft retail property (Units G32-34, Tai On House) a 57-87 Shau Kei Wan Road, paying HK\$70 million, or HK\$23,000 psf. (HKET, 30.9.2009)

- LED light maker Neo-Neon has agreed to pay HK\$125 million, or HK\$4,700 psf, for an 11,000-sq ft street-front space and a 15,000-sq ft basement at New East Ocean Centre in TST East. (Apple Daily, 29.9.2009)

- A retail shop (Unit A, G/F, 400 sq ft+3,500-sq ft basement) at 58-60 Kimberley Road, TST has been sold for HK\$32 million, or HK\$11,034 psf. The purchase price reflects 3.4% initial yield. (Sing Tao Daily, 25.9.2009)

- A retail shop at 42-50 Parkes Street, Jordan has been sold for HK\$45 million, or HK\$7,418 per sq ft. The 6,066-sq ft property is located at Unit 7 and arranged on the ground and first floors. On a monthly rent of HK\$180,000, the price reflects 4.8% initial yield for the new owner. (Sing Tao Daily, 24.9.2009)

- A 1,800-sq ft retail shop at 17 Wong

Nai Chung Road, Happy Valley has been sold for HK \$38 million, or HK\$21,111 psf. The purchase price reflects 3.5% initial yield on a monthly rent of HK\$112,000. (Sing Tao Daily, 14.9.2009)

- A 1,200-sq ft retail shop (Unit D, G/F) at Ng Po House, 103-109 Sai Yeung Choi Street South, Mongkok, fetched HK\$38 million, or HK\$31,667 psf. Let for HK\$93,000 a month, the initial yield generated is 2.9% pa. (Sing Tao Daily 3.9.2009)

- A ground-floor retail shop (10,000 sq ft) at Cameplaint Building at 60-62 Hoi Yuen Road, Kwun Tong, was sold for HK \$105 million, equating to HK\$10,500 psf. The purchase price reflects only 2% yield on the rental income of HK\$170,000 a month. (Sing Tao Daily, 12.9.2009)

HOTEL

- Tai Hung Fai Enterprise Co Ltd said its HK\$800 million hotel project, Island Indigo Hotel, is scheduled for completion by 2012. Located at 43-46 Tai Yuen Street in Wanchai the boutique hotel will be configured with 150 rooms. (HKET, 30.9.2009)

- Lai Sun Development said its joint venture with China Construction Bank will borrow HK\$1.53 billion through a syndicated loan facility to redevelop the former Ritz-Carlton Hong Kong site. (The Standard, 23.9.2009)

EN-BLOC DEALS

- After weeks of negotiations, Eric Chu Nap-kee, a Chinese Vietnamese, reached agreement with sellers Morgan Stanley and Pamflet Asset Management to buy the 260,000-square-foot Nexus Building at an average price of HK\$13,846 psf, the sources said. About 85% of the 48-year-old building is leased, with office space rented at HK\$50 psf a month on average. Retail space in prime areas is rented at more than HK\$600 psf. The yield is expected to be around 4.3%. (The Standard, 22.9.2009)

- A pre-war building long occupied by Lung Moon Restaurant, a historic dim-sum restaurant in the colonial days, was sold to an investor surnamed Cheung for HK \$405 million two months ago, who then found it effortless to make a quick buck of HK\$175 million by reselling it to another high-profile investor Lo Ka-po. The property will be handed over to Lo when the redevelopment project is completed. (Apple Daily, 29.9.2009)
 - Once up for sale under collective agreement, it is rumoured that Wai Oi Mansion, an old apartment block with 42,000 sq ft of floor area on North Point harbourfront, has eventually been acquired by NWD for HK\$230 million, equating to HK\$5,476 psf. (Apple Daily, 25.9.2009)
 - In order to regenerate a decayed area on Anchor/Fuk Tsun Street in exchange for a hotel project, URA has reoffered to buy up an old apartment block from individuals at an average rate of HK\$6,607 psf, compared with HK\$4,500 proposed earlier on. (Sing Tao Daily, 24.9.2009)
 - A five-storey apartment block, now serving as serviced apartment namely "ACTS Happy Valley", has been sold for HK\$45 million. The property comprises circ 4,100 sq ft and is built on an 845-sq ft site. (HKET, 18.9.2009)
 - An industrial new-build, yet to be ready for move-in, in Tsuen Wan has been sold off plan for HK\$400 million, or HK\$1,481 psf. At 52A Sha Tsui Road, the 32-storey, 270,000-sq ft building comprises nine lower floors and 19 upper floors, with four floors of car-parking space underneath. (HKET, 16.8.2009)
 - Henderson has reportedly acquired Hoi On Building, a decades-old apartment block, at 11-13 Lee Tak Street, Tai Kok Tsui for HK\$600 million. The building comprises eight floors and 151 apartment units, ranging in sizes from 109 to 574 sq ft, and along with 25 retail shops and one roof terrace. (HKET, 16.8.2009)
 - A four-storey, 5,965-sq ft commercial building located at 178 Aberdeen Main Road has been sold for HK\$60 million, or HK\$10,059 per sq ft. Leased out at HK\$228,000 a month, the transaction price reflects 4.6% initial yield. (Sing Tao Daily, 1.9.2009)
- DEVELOPMENT & LAND SUPPLY**
- Swire Pacific's and building architect Frank Gehry's 12-storey apartment block will be built on Stubbs Road in the Mid-Levels district by 2011. The Gehry-designed project will have one apartment with an area of about 6,000 sq ft on each floor, Swire said at a press conference.
 - Swire isn't selling the apartments because the company considers the site a "family heirloom". Swire bought the site in the 1940s and built the first home of its group's director there. (Bloomberg, 29.9.2009)
 - Winfield Building, a prime residential block in Happy Valley owned by Government Property Agency, was sold to Nan Fung Group for HK\$210 million. Drawing on such optimism the Government is expected to put more prime properties on the market in October. (Sing Tao Daily, 28.9.2009)
 - Sources close to the deal said Cheung Kong (Holdings) had acquired a 300,000-sq ft site in Tong Yan San Tsuen, Yuen Long for about HK\$120 million, or HK\$400 per sq ft. Designated as R(A), and given a plot ratio of 0.4 times, the site can accommodate 120,000 sq ft of floor area, which translates into a low-density development comprising mainly six-storey apartment blocks. (HKET, 25.9.2009)
 - A prime site centrally located in the core of Central, now remaining as a vacant "wet market" no longer selling fish and vegetables, has reportedly been removed from the Application List. The plot may be reassessed by URA for alternative developments, sources said. (HKET, 22.9.2009)
 - Five streets in Mong Kok are to be given a HK\$100 million facelift to reflect their rare features and make shopping an enjoyable experience, URA chairman Barry Cheung Chun-yuen said. "Careful consideration will be given to the unique character of the themed streets as well as their existing conditions," Chung said. (The Standard, 1.9.2009)
- GOVERNMENT & LEGISLATION**
- "Operation Building Bright", a Government-led scheme to sponsor individual homeowners to fix up their buildings suffering wear and tear, has received a large number of applications well in excess of its quota. Yet, of all applications received, about 5% were disqualified for some reason. After reassessing a few rejected cases, Carrie Lam, head of Development Bureau, said the Government is likely to ease the application criteria in order to offer more flexibility to small homeowners. Further details have yet to be announced. (HKET, 28.9.2009)
 - The Government is set to reap at least HK\$4.9 billion, and probably much more, from RTHK's existing sites in Broadcast Drive after the station moves to new premises in Tseung Kwan O. A document presented to the Legislative Council says this was the site's estimated value last year, but property values have since risen. (SCMP, 23.9.2009)
 - The Housing Authority will shortly resume selling the unsold stock of HOS flats, or affordable homes, totalling 1,400 units. Of them, 370 are located at Yau Chui Court in Kwun Tong, whilst the rest are spread across various housing estates in Tsueng Kwan O, Sha Tin, Tin Shui Wai and Northern District. (HK Daily News, 22.9.2009)
 - At end-August there were 23,627 registered as estate agents in Hong Kong, according to EAA. The number has now increased for six months in a row, representing a record high since EAA's establishment. (Oriental Daily, 2.9.2009)

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