

### Market summary

The standoff between developers and the government continued. In the face of controversies over arbitrary floor numbering, inflated gross floor area, market manipulations and transparency of off-plan sales transactions, the city's top officials repeatedly warned that if developers do not behave, the government will have no choice but step in.

As mediator, the Real Estate Developers Association (Reda) has issued guidelines to members in response to the government request to boost off-plan sales transparency. The association said members will publish information on sale and purchase agreements on their website within five working days after a deal is signed. That compares with one month's time limit previously required to register their transactions with the Land Registry.

Nevertheless, to address the misleading marketing tactics in regard to floor numbering and square footage, the government has taken the initiative, issuing new guidelines which now require developers to state clearly the floor number and net usable square footage in their sales brochure.

Amidst a public outcry over surging property prices and fearing that the government may alter its land planning and housing policies, homebuyers appear to be taking some patience to see how the story unfolds before committing themselves to a purchase.

In November, property transactions completed and filed with the Land Registry were up modestly 0.7% to 11,188. In terms of value, all properties traded in November were worth HK\$48.05 billion, compared with

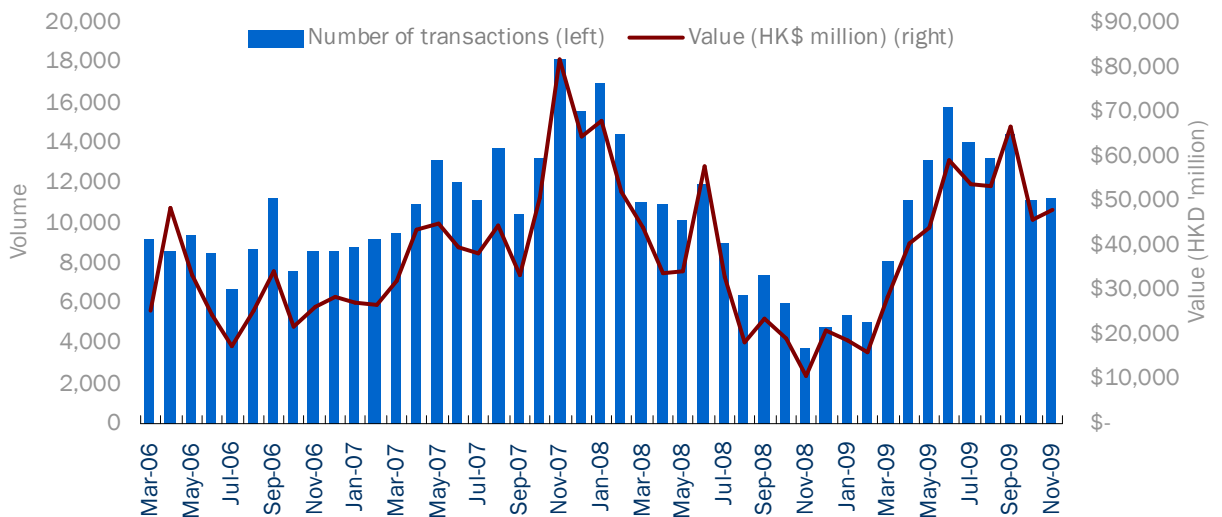
HK\$45.45 billion posted in October.

In the primary market, new home sales showed a 39% increase to a monthly volume of 853, or a 40% rise in value to HK\$10.73 billion. Henderson Land Development has sold 25 apartment units at its controversial project at 39 Conduit Road for HK\$3.28 billion. The transaction that has triggered widespread media coverage involved the sale of a luxury flat on the 68th floor (the de facto 44th floor) at HK\$71,280 psf unit price, or HK\$439 million. This has sparked a series of investigative reports in the mainstream media on who's behind the mysterious and jaw-dropping deal.

Sales of secondhand homes fell further by 2.8% to 7,522 units, or by 5.1% to HK\$23.8 billion by value, from one month ago. The value of a typical flat increased by 2.3% to HK\$5,625 psf, according to transaction figures from four popular housing estates we track. Since the figures here reflect completed sales, rather than on-going activity, homebuyers had actually signed on the dotted line as early as in September, before the government repeatedly issued warnings on asset bubbles in November. Therefore, these negative effects on the market sentiment have yet to be reflected in next month's stats.

In late November, the Hong Kong Monetary Authority (HKMA) warned that a huge asset bubble could be on the way, inflated by large amounts of hot money pouring in. The authority admitted for the first time that the huge influx of capital from the US and Europe into Hong Kong poses serious threats to the SAR. The risk of asset bubbles may lie ahead next year, it warned. It is estimated that more than HK\$500 billion of hot money has poured into Hong Kong in the past 12 months, which is "unprecedented".

S&P agreements for all types of properties



Sources: The Land Registry, Vigers Research

HKMA's warning has echoed what the chief executive, Donald Tsang, had said earlier the month. He was quoted as saying that the government does not want to see huge property bubble developing in Hong Kong. The government had tools in the arsenal to stabilise the market, he said, but did not give further details.

Apart from tightened guidelines on new home sales and fears for asset bubbles, the market is indeed looking forward to a long-awaited auction sale on December 28 of two prime waterfront residential sites in Tai Po, the New Territories.

A handful of leading developers, including Henderson, Cheung Kong (Holdings) and Chinachem, have expressed genuine interest in taking part in the auction. Whilst Sino Land and Nan Fung Development, along with other stakeholders, own three neighbouring sites and therefore the sites are believed to be of highest interest to them. There would probably be 5-6 bidders but the competition will likely be fierce.

The sites combined can accommodate a total floor area of 1.44 million sq ft. But rather conservative, we estimate that the accommodation value of the sites will lie in the range of HK\$7,000-8,000 psf.

### Key economic indicators

	Q408	Q109	Q209	Q309	Latest
Real GDP growth (% change y-o-y)	-2.6	-7.8	-3.8	-2.4	-2.4 (Q309)
Private consumption expenditure (% change y-o-y)	-4.1	-6.0	-1.0	-0.2	-0.2 (Q309)
CPI (% change y-o-y)	2.3	-0.9	-1.6	-0.8	2.2
Unemployment rate (%)	4.1	5.4	5.4	5.3	5.2 (Aug-Oct)
Retail sales value (% change y-o-y)	4.1	-4.1	-0.2	-0.1	2.4 (Sep)
Retail sales volume (% change y-o-y)	-2.4	-5.9	-1.0	-1.0	1 (Sep)

Sources: Census and Statistics Department, Vigers Research

## Prime office market

### Sales market

In October, office property sales increased by 4.6% from September to 248 in terms of volume. The month was filled with more large deals, as aggregate consideration value jumped by 106% to HK\$2.955 million from September. The figures are still behind August, during which 317 deals worth HK\$4.19 million were sealed.

Entering November, the investment market seemed to soften, as larger deals in Island prime office areas were sporadic. By contrast, Kowloon East has reported most investment deals:

- ◆ An office floor at 12,029 sf at EGL Tower, Kwun Tong has fetched HK\$41.8m, or HK\$3,475 psf (gross)
- ◆ The office tower at 7 Shing Ip Street, Kwun Tong has registered four transactions for space from 917 sf to 2,484 sf in GFA, at unit prices of HK\$4,304-HK\$4,830 psf (gross)
- ◆ It is reported that two office units (2,178 sf and 2,100 sf) of Billion Centre has been sold at HK\$4,995 psf and HK\$4,695 psf (gross) respectively
- ◆ In a flip deal, property trader Liu Wai-lun has managed to sell a 1,650-sf property (Unit 1708) in Tower Two of Lippo Centre for HK\$22.6m, or HK\$13,700 psf

In the Tsim Sha Tsui submarket, investment activity has increased substantially in the past few months. Transaction prices for grade A space at Lippo Sun Plaza and Star House have clawed back almost all their ground lost during the financial crisis.

For instance, the highest price fetched for Star House this year is HK\$9,100 psf, only 12.6% lower than the peak. Lippo Sun Plaza has also seen its highest unit price passing the HK\$9,500 psf mark, only 9.6% below the peak.

### Leasing market

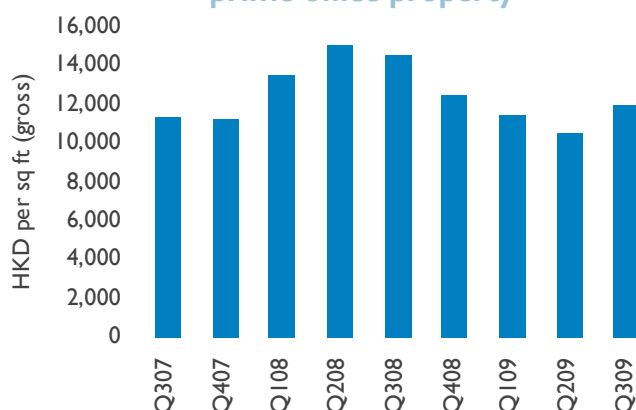
In the absence of MNC or big red-chip company taking up larger space, the office leasing market has been primarily driven by smaller deals.

In Central, a 3,242-sf space set on a lower floor at 100 Queen's Road Central has been let at HK\$164,532 psf/month, or HK\$48 psf/month. The rest of the deals were concluded for smaller offices ranging from 1,000 to 2,000 sf in floor area at HK\$37-45 psf/month (gross). Popular office buildings included The Center, 9 Queen's Road Central, 1 Duddell Street as well as Dina House. Average rent there stood at HK\$67 psf/month (gross) at end-November.

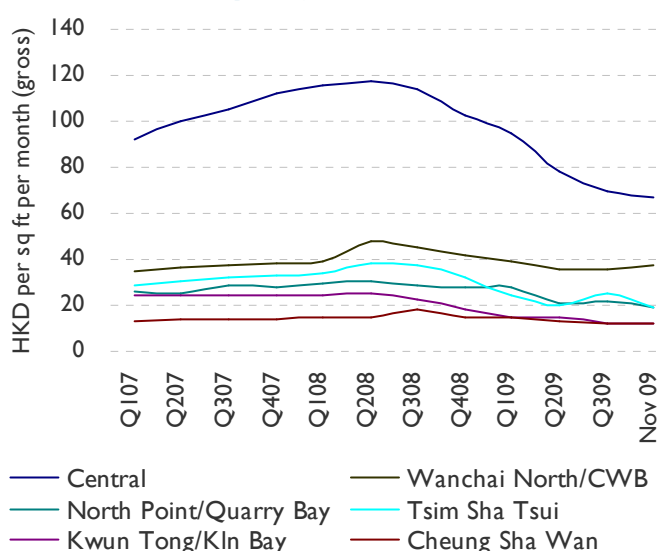
In Wanchai North and Causeway Bay, a dozen of rental transactions for offices measuring 2,000-5,500 sf (gross and lettable) have been completed at Central Plaza, Office Tower Convention Plaza, Manulife Plaza, SHK Centre and Times Square, with rental rates averaging HK\$37 psf/month (gross).

Letting activity has also subdued in North Point and Quarry Bay. Two transactions were registered for two units (4,100 sf and 4,728 sf) at 88 Hing Fat Street and Island Place Tower respectively at HK\$20-22 psf/month (gross). Also, two low-floor units

Average capital values of prime office property



Average prime rents by major submarket



Source: Vigers Research

at Stanhope House were priced at HK\$20 psf/month (gross). An AT Tower deal has fetched HK\$18 psf/month for yet another 2,350-sf unit. K.Wah Centre and Prosperity Millennium Plaza lettings were at HK\$15-18 psf/month (gross).

In Tsim Sha Tsui, though investment activity has heated up over the past months, rents fell 3% to an average of HK\$19 in November. A modestly sized unit at 1,561 sf (gross) at Chevalier House has fetched HK\$20 psf/month, or HK\$31,200 a month. Lippo Sun Plaza was in the HK\$21-23 psf/month (gross) range.

In Kowloon East, activity has slowed down, with average rent standing at HK\$12.5 psf (gross). A low floor unit with 1,426 sf of space at Millennium City 2 is reported to have been let at HK\$17 psf, a relatively high pricing level in the area. Whilst the rest of the deals ranged from HK\$10 to HK\$13 psf in rents.

Cheung Sha Wan was marked by a deal at Saxon Tower at HK\$17 psf for a 1,578-sf space. Vacant offices at 9 Wing Hong Street are currently asking for HK\$12-14 psf (gross).

## Housing market

### Secondary market

Sales of secondhand homes fell further by 2.8% to 7,522, or by 5.1% to HK\$23.8 billion by value, from one month ago. The value of a typical flat increased by 2.3% to HK\$5,625 psf, according to transaction figures from four popular housing estates we track. Since the figures here reflect completed sales, rather than on-going activity, homebuyers had actually signed on the dotted line as early as in September, before the government repeatedly issued warnings on asset bubbles in November. Therefore, these negative effects on the market sentiment have yet to be reflected in next month's stats.

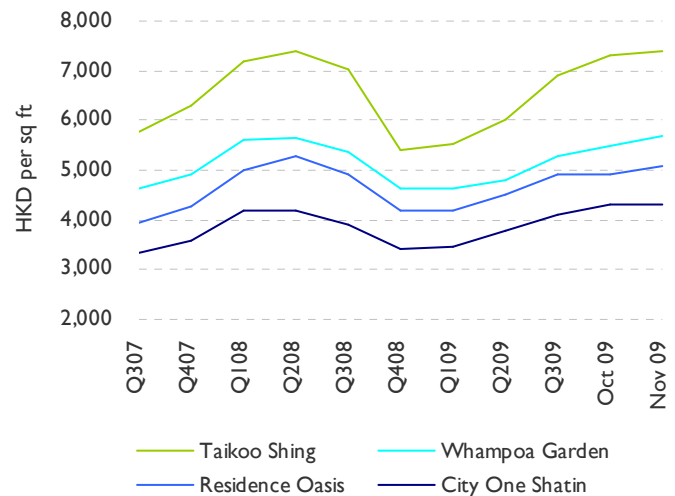
### New home sales

In the primary market, new home sales showed a 39% increase to a monthly volume of 853, or a 40% rise in value to HK\$10.73 billion. Henderson has sold 25 apartment units at its controversial project at 39 Conduit Road for HK\$3.28 billion. The transaction that has triggered widespread media coverage involved the sale of a luxury flat on the 68th floor (the de facto 44th floor) at HK\$71,280 psf unit price, or HK\$439 million. This has sparked a series of investigative reports in the mainstream media on who's behind the mysterious and jaw-dropping deal.

### Prime residential

The pricing index compiled by the Rating and Valuation Department, representing residential properties in excess of 1,000 sf, stood at 175.1 points at end-September, which was very close to the all-time highs between August and October of 1997. However, price growth did not just end there. According to our survey, between October and November luxury home prices surged by another 10.2%, with now the average unit price standing at HK\$13,475 psf in four sought-after housing estates.

Average flat prices by key housing estate



Average flat prices by prime housing estate



Source: Vigers Research

New residential projects on sale

Source: Vigers Research

Project	District	Unit size sq ft	Units for sale	Unit price HK\$ psf	Developer
39 Conduit Road	Mid-levels	2,800-7,600	66	\$33,000	Henderson Land
8 Royal Green	Sheung Shui	576-1,043	20	\$4,465	Henderson Land
Aria	Kowloon	533-1,555	49	\$8,153	SHKP
Celestial Heights (Phase 2)	To Kwa Wan	1,225-1,618	39	\$9,870	CKH, Nan Fung
Emerald Green	Yuen Long	758-1,443	13	\$3,635	NWD
Green View	Tuen Mun	710-1,140	2	\$4,071	SHKP
Kingston Lodge	Shatin	682-1,409	19	\$5,408	Centaline, Grand Union Investments
La Grande Vineyard	Yuen Long	2,470-2,816	10	\$8,522	SHKP
Le Prime	Tsueng Kwan O	723-1,035	31	\$4,748	CKH, Nan Fung, MTRC
Masterpiece	Tsim Sha Tsui	1,123-4,088	31	\$25,176	NWD, URA
Shining Heights	Kowloon	710-1,178	22	\$5,977	Hong Kong Ferry (Holdings)
The Beverly Hills	Tai Po	2,685-4,073	10	\$6,922	Henderson Land
The Latitude	San Po Kong	571-841	30	\$6,204	SHKP
The Palazzo	Shatin	717-1,407	21	\$8,879	Sino, MTRC

Source: Financial Chronicle, Vigers Research

## Market intelligence

### Residential

Hong Kong's property price index was at 128.7 points at end-September, down only 4.2% from 134.3 points posted in April 1998, latest stats from the Rating and Valuation Department showed. Pricing levels of flats smaller than 1,000 sf stood at 126.8 points and is 26.4% below the peak in 1997. However, luxury home prices have climbed to 175.1 points, getting quite close to all-time highs. (Apple Daily, 6.11.2009)

Uncertain about the near-term market, US hedge fund TPG-Axon has reportedly cut the asking prices of its residential stock units by an average of 2%. For instance, asking prices for its five HarbourSide units are now 9% lower than before. The fund also owns 70 units at "The Sparkle", a new-built project in Cheung Sha Wan, which are now repriced at HK\$6,000-7,000 psf. (Apple Daily, 25.11.2009)

Citing latest figures from the Immigration Department, an estate agent estimated that the approval figures of Capital Investment Entrant Scheme would rise to above 3,000 by this year-end, forecasting that the total investment in real property via the immigration programme would climb to HK\$5 billion this year. (Ming Pao, 25.11.2009)

New-built homes for sale in the year to October fell to 6,047 units, well below the 14,738 units projected by the government for the whole year. Five new projects entered the supply pipeline in October, such as Island Crest by Kerry and URA and three Henderson-built townhouses at Headland Road. (Sing Tao Daily, 26.11.2009)

CKH is set to become the first developer to sell homes with prices calculated in saleable area when Le Prime hits the market. The developer is to launch 33 flats in Le Prime - the second phase of Le Prestige at Lohas Park in Tseung Kwan O. At a saleable ratio of around 75%, their average saleable area price will be HK\$6,614 psf. The more commonly used gross floor area price averages HK\$4,988 psf, according to executive director Justin Chiu Kwok-hung. (The Standard, 27.11.2009)

### Prime residential

The government lived up to market expectations, making HK\$172 million by auctioning eight luxury homes in a batch of 10 on Hong Kong Island. The Government Prop-

erty Agency earned HK\$30.2 million (HK\$14,892 psf) from an Elm Tree Towers flat. Seven other homes at The Beverly Hills, Elm Tree Towers and Baguio Villa were sold for between HK\$16.1 million and HK\$23.2 million. (The Standard, 13.11.2009)

All 24 apartments sold so far at Henderson Land's 39 Conduit Road, including a HK\$438.94 million record-setting duplex in October, were bought by companies incorporated in the British Virgin Islands - all using the same law firm, which is also registered in BVI. (South China Morning Post, 13.11.2009)

Rents across 35 luxury housing estates rose 1% to an average of HK\$29.7 psf per month in October from September, according to an agent referring to its own rental transactions. Prime residential rents have increased by 16% in the past 10 months accordingly. (Ming Pao, 20.11.2009)

SHKP's new low-density development in Ku Tung, Sheung Shui will go on sale early next year. Unit prices of the project will be set on a par with that of The Peak and Southside, the developer claimed. The entire development covers 1.7 million sf of area and offers 300 townhouses. (Apple Daily, 24.11.2009)

An odd-numbered townhouse at Residence Bel-Air in Pokfulam has reportedly been sold for HK\$89 million, equating to HK\$19,000 psf. The property is located in Phase 3 and comprises 4,669 sf of floor area. (Sing Tao Daily, 10.11.2009)

### Retail

Henderson Land will team up with Kwai Hung Properties to build a "Ginza-style" high-rise shopping mall on On Lan Street in the SOHO area of Central. Upon completion, the location will be turned into an iconic landmark in Central, the developers have claimed. (Sing Tao Daily, 2.11.2009)

A portfolio of retail shops at CKE shopping mall, located at 36-44 Nathan Road, TST, are put up for sale in their entirety by its owner Join Glory Ltd at HK\$780 million asking figure. Taking into account all revenue streams from rental income and LED TV advertising, the asking price only implies 3.5% initial yield for the investor. (Ming Pao, 10.11.2009)

A 2,800-sf first-floor shop at Zhongda Building, located at 38-40 Haiphong Road,

TST has reportedly fetched HK\$62.8 million, equating to HK\$22,429 psf. The space is currently occupied by Spaghetti House at HK\$120,000 monthly rate, therefore offering an initial yield of 2.3% pa. (Sing Tao Daily, 25.11.2009)

Located at 65-67 Kimberley Road, TST, a 2,300-sf retail shop has fetched HK\$34.38 million, or HK\$14,948 psf. The subject property (Units 1 and 2) is laid on the ground floor. The seller had just bought the premises one month earlier for HK\$31 million, hence managing to reap a HK\$3.38 million quick profit. (Sing Tao Daily, 9.11.2009)

Agents reported that the buyer behind the HK\$145 million deal for a prime retail shop (Shop 18) at 111-181 Park Lane in Tsim Sha Tsui is Lee Yiu-wah, a well-known property trader. The 800-sf space is leased to a shoe retailer paying HK\$400,000-450,000 rental rate, implying 3.7% initial yield. (Ming Pao, 27.11.2009)

### En-bloc deals

Five en-bloc sales of several decades-old residential buildings have been reported in the past few months, fetching HK\$1.462 billion in total, according to sources. The deals include the sale of a Kowloon City building by CIAM Group, Angela Leung On-ki's purchase of two apartment blocks on Yun Ping Road and Village Road respectively, transaction of "Chi Yuen" at Tai Hang Road, and the sale of a building on Wellington Street. (Apple Daily, 4.11.2009)

A 29,700-sf retail space arranged on the ground and first floors at 57-63 Kai Tin Road, Lam Tin was sold for HK\$315 million, equating to HK\$10,606 psf. The transaction price reflects 6.1% initial yield. (Sing Tao Daily, 2.11.2009)

Chairman of a lobby group representing Sneaker Street shopowners, Cham Kam-shu, has his faith tied to the prime shopping area by acquiring a 1,600-sf shop at 42 Sai Yeung Choi Street South, Mongkok for HK\$150 million, or HK\$100,000 psf. The initial yield implied is 4% pa. (Ming Pao, 3.11.2009)

Lai Sun Group chairman Peter Lam Kingok has sold his 6,573-sf family house, previously configured as show house, at 8623 Tai Po Road for HK\$100 million, or HK\$15,000 psf. The property features a 7,500-sf private garden. (Sing Tao Daily, 6.11.2009)

Rumour has it that the four Shama-branded serviced apartment blocks in CWB, Central, Wanchai and the Mid-levels, currently owned by a Morgan Stanley real estate fund, are under a HK\$1.4 billion offer from a buyer. The deal has yet to close. (Ming Pao, 12.11.2009)

An oceanfront family house (Unit D) with 5,193 sf of floor area at 12-16 Tai Tam Road, Southside has been sold for HK\$150 million, equating to HK\$28,800 a square foot. (Sing Tao Daily, 25.11.2009)

A residential low-rise at 60 Conduit Road was sold in a HK\$45 million deal, according to agents. With the square-foot price at HK\$11,000, the property comprises four floors, measuring 1,000 sf each. (Sing Pao, 17.11.2009)

### Office

In a flip deal, property trader Liu Wai-lun has managed to sell a 1,650-sf space (Unit 1708) in Tower Two of Lippo Centre in Admiralty for HK\$22.6 million, equating to HK\$13,700 psf. The subject property saw a 6% appreciation in value in a month's time. (Sing Tao Daily, 18.11.2009)

An office unit on a middle floor at Concordia Plaza in Tsim Sha Tsui has reportedly

been sold for HK\$14.88 million, or HK\$8,500 psf. The subject property is Unit 6 and comprises 1,751 sf of floorspace. The transaction price reflects 3.4% initial yield. (Sing Tao Daily, 26.11.2009)

### Land supply and development

A handful of developers, including Henderson, Cheung Kong (Holdings) and Chinachem, have expressed genuine interest in taking part in an upcoming auction selling two prime waterfront sites in Tai Po, the New Territories. The sites can accommodate 1.44 million sf of floor area and are widely speculated to fetch HK\$7,000-8,500 psf in terms of accommodation value. (Apple Daily, 20.11.2009)

New World Development has agreed to pay HK\$2.6 billion for a planning permission to convert a Yuen Long agricultural site into a residential development site. The approval will allow the developer to build a low-density development not exceeding four-storey height limit. (Apple Daily, 16.11.2009)

K.Wah has agreed to pay HK\$210 million land premium in return for an approval to increase the square footage of its residential development at 6 Shiu Fai Terrace by about 18,000 sf. That translates into a

square-foot price of HK\$11,000. The completed project will likely go on sale in the middle of next year. (Ming Pao, 24.11.2009)

### Government and legislation

The Real Estate Developers Association (Reda) has issued guidelines to members in the wake of government measures to boost transparency in the sale of uncompleted flats. The association said members will provide on their website and sales offices information on sale and purchase agreements within five working days after a deal is signed. (The Standard, 24.11.2009)

Hitting back at moves by the government to stop awarding extra floor area in return for green features, the Real Estate Developers Association (Reda) said the real solution to the proliferation of wall-like buildings, poor ventilation, rising urban temperatures, lack of green space and air pollution was to sell less urban land and to use sites now planned for sale to create more open space. It also urged the government to "consider carefully" the impact of its proposals on the value of land developers had bought but not yet built on. (SCMP, 2.12.2009)

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