

Market summary

With the market remaining sluggish, a total of 5,759 sales and purchase agreements for all types of properties were registered with the Land Registry in January 2009, representing a 66.1% decline compared with a year ago. Total transaction value fell 72.4% to HK\$18.7 billion in a year.

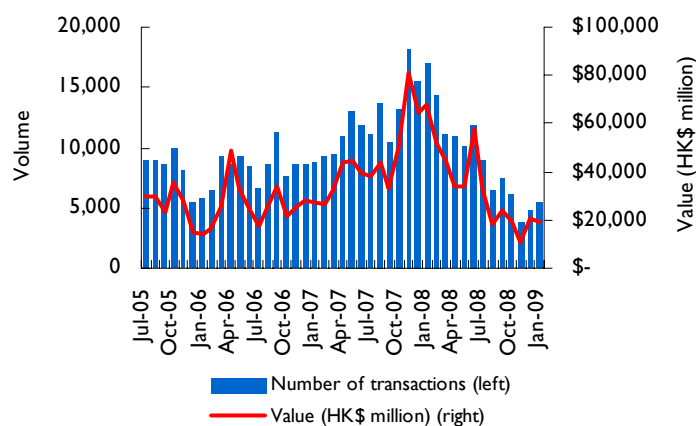
Of all property transactions, 4,875 were for residential units, representing a decrease of 67% year on year, yet up slightly 3.6% from that of December. Total sales value fell 8.9% month on month and fell 71.5% year on year to HK\$16.1 billion. In the luxury sector, deals worth HK\$10 million or above totalled 258, down 21% from December 2008 and 64.9% from last year. New home sales totalled 500, amounting to HK\$4.1 billion in transaction values, down 40% from a month ago, due to the fact that new supply was mainly confined to smaller-scale residential blocks in Kowloon.

The bad news is, according to data from the Hong Kong Monetary Authority, the estimated number of residential mortgage loans (RMLs) in negative equity in Hong Kong surged 326% in Q408 to 10,949 cases as property prices fell. The aggregate value of RMLs in negative equity rose to HK\$24.8 billion at end-December from HK\$6 million at end-September.

The unsecured portion of these loans increased to HK\$2.7 billion from HK\$0.4 billion three months earlier. The loan-to-value ratio of the RMLs in negative equity rose to 112% from 107% in late September.

The good news is, the number of underwater properties is still long way behind the 106,000 cases recorded in the post-Sars month of June in 2003. Although Mr Joseph Yam, HKMA's chief, does not quite believe that the situation, in terms of the number of negative cases, will worsen to be like 1998 and 2003, demand will remain thin throughout this year as the "second wave" of the financial tsunami is yet to hit the city.

S&P agreements of all types of properties



Key economic indicators

	Q407	Q108	Q208	Q308	Latest
Real GDP growth (% change y-o-y)	6.9	7.3	4.2	1.7	1.7 (Q308)
Private consumption expenditure (% change y-o-y)	9.5	7.9	3.2	0.2	0.2 (Q308)
CPI (% change y-o-y)	3.5	4.6	5.7	4.6	2.3 (Q408)
Unemployment rate (% change y-o-y)	3.4	3.4	3.4	3.8	4.1 (Q408)
Retail sales value (% change y-o-y)	3.4	3.4	3.4	3.8	4.1 (Q408)
Retail sales volume (% change y-o-y)	13.6	11.7	7	4	-2.8 (Nov 08)

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

GRADE A OFFICE MARKET

Sales market

Transaction records from the Land Registry show that a total of 2,414 deals were closed for office properties during 2008, with all considerations amounting to HK\$22.1 billion, falling 44% and 37% from the 2007 figures. Market sentiment took a U-turn in the second half, during which total sales plunged 58% when compared with the first half of the year.

The Chinese New Year holiday break is traditionally low season for office sales. But unfazed by a market downturn, some local buyers have returned for bargain properties. In January alone, the market did capture a handful of notable deals that had not been seen in November and December.

For example, a lower-floor office with a gross floor area of 17,054 sq ft in Harcourt House in Admiralty was sold for a sum of HK\$124.4 million, or an average of HK\$7,300 per sq ft. A lower-floor unit with a floorspace of 21,379 sq ft in Overseas Trust Bank Building in Wanchai fetched HK\$96.1 million, or an average price of HK\$4,497 per sq ft.

Yet another prime space, sizing 3,788 sq ft gross, in Bank of America Tower was sold for HK\$32.1 million, or HK\$8,500 per sq ft. The seller was reported to have bought the property in 2004 for HK\$6,800 per sq ft, thereby reaping a profit of HK\$6.42 million from the deal.

Other notable office property deals

Property	GFA sq ft	Price HK\$'m	Price HK\$/sq ft
W/F unit, Tower A, 1 Wang Kwong Road, Kowloon Bay	13,851	58.50	4,224
Low-floor unit, Pico Tower, Wanchai	2,575	15.45	7,855
88 Lockhart Road, Wanchai	3,483	7.0	2,010

Source: Vigers Research

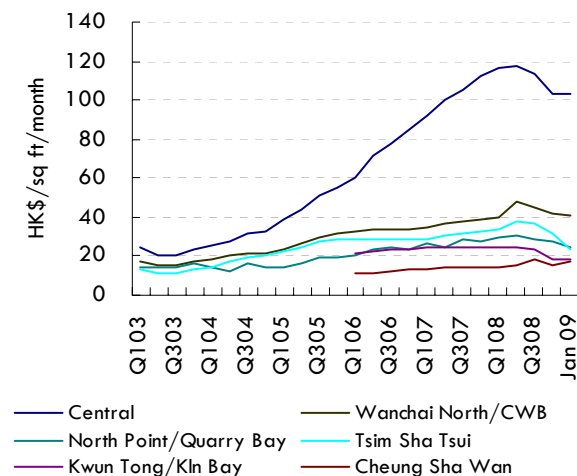
Leasing market

The shrinking banking and finance sector has led to a weak demand for Central office space. Over the 31-day period, no rental deal was closed for any prime Central office, despite a dozen or two leases being signed for some less sought-after offices in the vicinity of Central's core. We believe that rental activity will remain quiet over the months ahead. Though vacancy rate should stay low for a while, chances are rental levels in Central may dip to as low as HK\$60 psf some time this year eventually.

The neighbouring Wanchai and Causeway Bay posted a number of rental deals, including Harbour Centre, Central Plaza, Windsor House, etc. Rents fetched in these newly signed leases range from HK\$37 psf/month to HK\$50 psf/month. In North Point and Quarry Bay, noteworthy deals were registered in DCH Commercial Centre, Stanhope House, Citicorp Centre, and K. Wah Centre, ranging from HK\$18 psf to HK\$29 psf in monthly rents.

On the Kowloon side, the Tsim Sha Tsui market was fairly active, with new tenants taking up space in Wing On Plaza, East Sea Commercial Centre, Star House, Lippo Sun Plaza and Concordia Plaza for rental rates of between HK\$18 psf and HK\$28 psf. In Kowloon East, Millennium Plaza remains a magnet to tenants from across the harbour. A total of five deals were closed in January for the Kwun Tong landmark, ranging from HK\$15 psf to HK\$22 psf in monthly rents.

Prime office rents by major submarket



RESIDENTIAL MARKET

Mass market

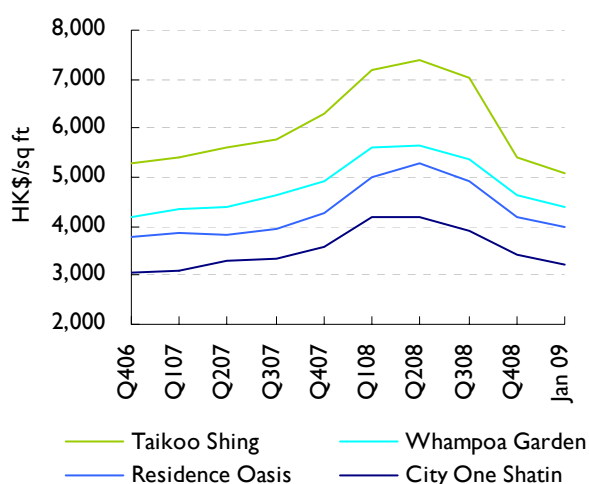
The month saw 5,759 sales and purchase agreements filed with the Land Registry for all types of properties, an increase of 5.9% on December but a 66.1% fall on January 2008. Total consideration of these agreements was HK\$18.7 billion, down 8.9% on December and 33.7% on last January.

Of the 5,759 sales pacts, 4,875 were for residential units, up 3.6% month on month but down 67% on a yearly basis. The total consideration of these agreements fell 8.7% on December, to \$16.1 billion. Compared with the same period last year, the figure dropped 71.5%.

Secondary home sales in the mid-priced (HK\$2-5m) and low-priced (below HK\$2m) segments rose 16% and 7% respectively from that of December. New home sales in January are forecast to reach 500 in volume and HK\$3.9 billion in values, declining 40% from the December figures, due to the fact that new supply in January was mainly confined to smaller-scale residential blocks in Kowloon, such as City 33 and Bedford 28 (see the table below).

Average home prices we track in four key housing estates dropped, albeit somehow showing sign of stabilising, by 5.4% to HK\$4,175 per sq ft from Q408. Taikoo Shing and City One Shatin posted significant declines in capital values, averaging HK\$5,100 per sq ft and HK\$3,200 per sq ft respectively, down 5.6% and 5.9%. Whampao Garden and Residence Oasis also fell 5.4% and 4.8% to respectively HK\$4,400 per sq ft and HK\$4,000 per sq ft.

Average home prices by key housing estate



Source: EPRC, Vigers Research

New residential supply in January 2009

Project	Location	Unit size sq ft (G)	No. of units for sale	Average price HK\$/sq ft	Developer
Bedford 28	Mongkok	511-761	21	\$4,965	Sun Kung Kei Properties
Belgravia	Repulse Bay	2,390-2,790	10	\$13,803	New World Development
City 33	Kowloon	670-965	26	\$6,368	Henderson Land
La Grove	Yuen Long	586-1,060	83	\$2,942	Sun Hung Kai Properties
Le Billionaire	Kowloon City	714-1,163	36	\$5,960	Chinachem Group
Peak One	Shatin	1,452-2,503	24	\$6,301	Sun Hung Kai Properties
Prince Ritz	Prince Edward	738-1,144	10	\$6,344	New World Development
The Sail At Victoria	Island West	663-1,429	20	\$9,703	Hongkong Land
Vista	Sham Shui Po	412-928	73	\$4,933	Sino Group, URA

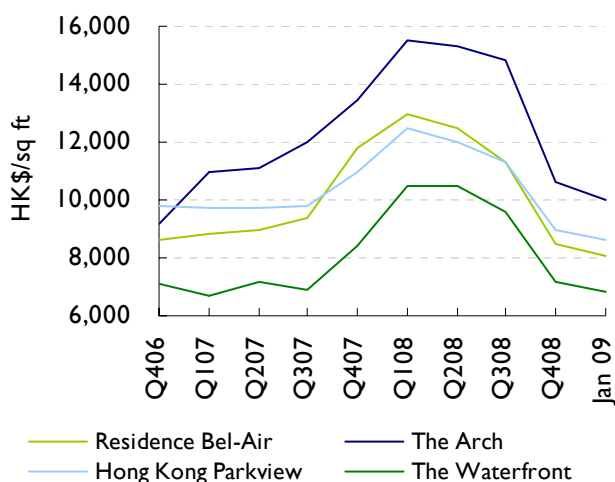
Source: Financial Chronicle, Vigers Research

Luxury market

In the luxury sector, deals worth HK\$10 million or above totalled 258, down 21% on December and down 64.9% year on year. Prices of the representative properties we track in January fell further 5.1% to HK\$8,375 per sq ft from Q408.

Fetched prices of The Arch and The Waterfront of Tsim Sha Tsui fell 5.7% and 25.6% respectively to HK\$10,000 per sq ft and HK\$6,800 per sq ft from Q408. Residence Bel-Air in Pokfulam and Hong Kong Parkview in Tai Tam posted 4.7% and 4.4% declines in transaction values, coming down to HK\$8,100 per sq ft and HK\$8,600 per sq ft as at end-January.

Average luxury home prices by key housing estate



Source: EPRC, Vigers Research

Notable residential property deals

	GFA sq ft	Price HK\$m	Price HK\$/sq ft
85 Repulse Bay Road, Shouson Hill	445	15,000	39,214
32 Oxford Road, Kowloon Tong	71.5	16,903	7,813

MONTHLY NEWS DIGEST

Office

- A property consultancy firm said that Grade A office rents in Central are set to drop further 15-20% this year after the market recorded a 14% slide in Q408. The slide was quickening as tenants in the financial hub continued to be rocked by the financial crisis. (SCMP, 7.1.2009)

- A basket of properties in Chuang's Enterprises Bldg in Wanchai, including five retail shops and a few floors of office space, have been put up for tender sale. The sales agent said they are worth HK\$230m in total. Closing date for tender submission is March 11. (HKET, 15.1.2009)

Residential

- Sino's new towering residential block in Sham Shui Po, Vista, was up for sale with a total of 20 units released in the first batch. With a price tag of HK\$5,098 psf on average, the developer reported better-than-expected sales, per usual. (HKET, 7.1.2009)

- A fancifully named development, The Sail at Victoria, was also up for sale during the month. Its developer HongKong Land said prices set for this harbourfront development are HK \$10,213 on average. (HKET, 8.1.2009)

- SHKP is marketing three penthouse duplex apartments (over 4,000 sq ft) in its brand new harbourfront residential skyscraper The Cullinan, located adjacent to ICC, which is due to hit the market in Q109. Again, "rumours" have it that a deal is almost closed for one of them for HK\$65.6m, or HK\$28,500 psf. (Sing Tao Daily, 10.1.2009)

- Figures from Rating & Valuation Dept reveal that, in the year of 2008 to November, a total of 4,780 flats were completed in the pipeline, accounting for only 44% of the projected supply. Rental and sales price indices as at Nov 08 fell 9.3% and 6.9% to respectively 103.5 and 107.7, back to where they were in July 2007. (Ming Pao, 8.1.2009)

- Mortgage approvals rebounded 22.8% in December, boosted by a number of new projects and an easing of requirements for home-loan applicants. Approval numbers fell 5.9% to 110,186, but total value rose 5.8% to HK\$226.2b. (SCMP, 30.1.2009)

- Central Mansion, located in Causeway Bay, comprising retail and residential properties, was offered for en-bloc sale by tender. Asking price for the residential section is HK\$10,000 psf, and that for the retail space in the basement and on the ground floor are HK\$22,000 psf and HK\$91,700 respectively. (HKET, 19.1.2009)

- A 1954-built mansion block located at 18 Ventris Road, Happy Valley was up for tender sale. The four-storey building has a floor area of 3,682 sq ft and can be turned into a 11,430-sq ft residential property on a plot ratio of nine. (HKET, 29.1.2009)

- Home sales during the CNY holiday nearly came to stand-still despite developers offered "festival sweeteners" such as lai see packets to lure buyers. For example, Henderson Land Development, Chinacham Group and Sino land offered red packets of between HK\$28,000 and HK\$68,000 to homebuyers. (SCMP, 29.1.2009)

Retail

- Retailers are reeling from dampened spending sentiment and rentals of retail shops are seen falling 15-30% this year, *The Standard* quoted a few estate agents as saying. (The Standard, 12.1.2009)

- Thanks to Individual Visit Scheme, skincare products retailer Bonjour Cosmetics is doing just fine. Last month, the chain store took up two prime retail shops in Mongkok, respectively 1,200 sq ft and 2,526 sq ft in sizes, for monthly rates of HK\$156,000 and HK\$305,000 respectively. (HKET, 21.1.2009)

- A portfolio of retail properties, with a combined area of 4,000 sq ft, on Kau Yuk Road, Yuen Long have recently been sold for a total amount of HK\$100 million, or HK\$25,000 psf. (HKET, 22.1.2009)

- On the Island side, a retail shop set on Lan Fong Rd, Causeway Bay fetched HK\$130 million, or an average price of HK\$86,000 psf. (HKET, 22.1.2009)

Company news

- Hyson has got the greenlight from the Buildings Dept for the redevelopment project of Hennessy Centre in Causeway Bay, in which case the developer is allowed to extend the project to the adjoining Golden Plaza. Total floor-space will be increased from 715,600 sq ft to 800,000 sq ft. (Ming Pao, 2.1.2009)

- Sources told *Apple Daily* that Cheung Kong (Holdings) is offloading its residential properties, including eight townhouses, in Shanghai, for HK\$80,000/sq m on average. The developer is also planning to sell some more units in another residential development, Regency Park, in the city. (Apple Daily, 15.1.2009)

- Bank of East Asia (BEA) has purchased ten floors of office space (19,600 sq m) in Gao Bao Finance Building in Lujiazui, just opposite the bank's existing headquarters, for 825 million yuan. (Wen Wei Po, 16.1.2009)

- Kerry Properties and sister firm Shangri-La Asia said that they had cancelled a 7.3 billion yuan hotel and property project in northern China due to poor market conditions. Kerry said the venture will pay 21 million yuan or 0.3% of the total planned investment to Tangshan City Land Resources Transactions Centre, as penalty. (Reuters, 16.1.2009)

- Shui On Construction and Materials announced that it had decided to withdraw from a deal to purchase an unfinished building in Guangzhou. The withdrawal is seen as a remedial response to falling property prices and rental return of office buildings in Guangzhou. (National Business Daily, 22.1.2009)

Development & investment

- The Land Registry has launched a public consultation on amendments to the Land Titles Bill and the transition from the Land Registration Ordinance to the Land Titles Ordinance. Details of the consultation are available on its website. (The Standard, 2.1.2009)

- URA said it will persist with its HK\$5,937 psf offer to property owners affected by the Kwun Tong regeneration scheme. URA warned if the offer is rejected again, then the residents risk a lower office price in the future as a result of declining property prices. (The Standard, 6.1.2008)

- Happy Valley lost the latest round of battle to convince the government to give it a station on the MTR's South Island line. Draft plans for the line, which will be published by mid-year, would not include a Happy Valley stop, a senior government source said. (SCMP, 14.1.2009)

- An oceanfront site located in Tung Chung, Lantau (Area 55, Tung Chung), just off the existing development Caribbean Coast, is to be included on the Application List from where interested developers can initiate land auction this year. (HKET, 13.1.2009)

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