Rating and Valuation Department

Hong Kong Property Review 2006 Preliminary Findings

PRIVATE DOMESTIC

Meanings of Terms

To assist in the interpretation of the findings, the definitions of the terms used are explained below:

- **Completions** refer to premises issued with an occupation permit.
- **Take-up** represents the net increase in the number of units occupied in the year under review. The figure was arrived at by adding the completions in that year to the vacancy figure at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.
- **Vacancy** indicates the number of units not physically occupied at the time of the survey conducted at the end of the year. It should be noted that some of these units were not yet issued with Certificate of Compliance or Consent to Assign and could not have been occupied. Units under decoration are also classified as vacant.
- It should be noted that the **take-up** and **vacancy** figures bear **no** relationship to the number of units sold by the developers (i.e. primary market transactions) or still retained by them (the unsold stock).
- Completion, take-up and vacancy figures **exclude** village houses.

Findings

17 320 domestic units were completed in 2005, 33% less than the previous year. The New Territories contributed 53% of these new units, while Hong Kong contributed 25%, and Kowloon the remaining 22%. District-wise, Tsuen Wan provided the highest number of new units, at 24% of overall completions, followed by Sham Shui Po and the Eastern District of Hong Kong, each accounting for 13%.

It was estimated as at 31 December 2005 that about 17 200 units and 16 400 units would be completed in 2006 and 2007 respectively. In 2006, about 54% of the new units would be located in the New Territories, followed by another 35% in Kowloon and the remaining 11% in Hong Kong. On district level, Tseung Kwan O and Yau Tsim Mong would contribute about 18% and 14% respectively of the new units. In 2007, 73% of the estimated total supply in that year would come from the New Territories.

Take-up in 2005 was 17 450 units, down 44% from 31 400 units in 2004. Vacancy at the year end decreased to 63 540 units, equivalent to 6% of the total stock. About 6 700 of these vacant units were not yet issued with Certificate of Compliance or Consent to Assign, and could not have been occupied.

Prices rose rapidly in the early part of 2005, consolidated in the second quarter and declined towards the end of the year. The overall price index in the last quarter of 2005 registered a 7% growth over the same period of the previous year. Large units recorded a higher increase of 11% during the period, relative to the 7% increase for small/medium units. Rents followed a steady rising trend throughout the year. The rental index in the last quarter of 2005 rose 12% from the same period of the year before. (***See Appendices A to D***)

PRIVATE OFFICE

Office completions in 2005 were 34 000 m^2, only 12% of 2004 and a record low since 1970. Grade A space completions were 30 000 m^2, comprising only one development located in Central. Grade B and Grade C completions were each 2 000 m^2.

Strong take-up of Grade A space was recorded. Overall take-up was 420 000 m^2, with 324 000 m^2, 73 000 m^2 and 23 000 m^2 being Grade A, B and C space respectively. As the take-up far exceeded the completion level, overall vacancy at the year end dropped significantly to 854 000 m^2, representing 8.7% of stock. The improvement in vacancy was recorded in all sub-sectors. The vacancy rate of Grade A offices stood at 8.1%, with Grade B and Grade C at 9.2% and 10.5% respectively.

Completions in 2006 and 2007 are expected to increase to 152 000 m^2 and 186 000 m^2 respectively. Grade A space forecast completions are 115 000 m^2 in 2006 and 162 000 m^2 in 2007. Supply in 2006 will mainly come from Kwun Tong, Tsuen Wan and Chek Lap Kok, while Central will contribute only one Grade A development. In 2007, the three districts of Yau Tsim Mong, Kwun Tong and Sha Tin are expected to account for all Grade A space completions. Grade B space forecast completions in 2006 are 28 000 m^2, but will plunge to 5 000 m^2 in 2007. Grade C space completions are anticipated to be 9 000 m^2 and 19 000 m^2 in 2006 and 2007 respectively.

Prices rose sharply at the beginning of 2005, followed by a gentle upward path from the second quarter onward. Grade A offices gained 19% in the last quarter of 2005 relative to the same period of a year earlier. Grade B and Grade C offices registered notable price increases of 29% and 24% respectively over the period. As regard rents, they climbed up steadily throughout the year with strong growth for Grade A space. Comparing the last quarter of 2005 with the corresponding period of 2004, the increase in rent was 35% for Grade A, 22% for Grade B, and 13% for Grade C offices.

PRIVATE COMMERCIAL

Completions in 2005 were 111 000 m^2, 22% above the previous year, and were located mainly in the New Territories. 70% of the overall completions were attributed to AsiaWorld-Expo at Chek Lap Kok. Urban areas contributed only 13% to the total supply. Take-up of 139 000 m^2 was considerably higher than that in the previous year. Vacancy recorded a slight decrease to 980 000 m^2, equivalent to 10.3% of stock.

Higher completions are expected in the following two years, at 127 000 m^2 in 2006 and 119 000 m^2 in 2007. About 60% of the new supply in 2006 will be located in Kowloon, largely at Kowloon Station, while another 33% will come from the New Territories. In 2007, Kowloon will again account for a major share of the supply, at almost 70%, mainly in Kwun Tong.

Retail prices moved upwards in the first half of the year, came down after mid-year, and fluctuated in the second half of the year. Price increase of 6% was registered in the last quarter of 2005 over the 2004 year end level. Rents rose 8% over the same period.

PRIVATE FLATTED FACTORIES

As there were no flatted factory completions in 2005, vacancy fell to 1 273 000 m^2 which was about 7.3% of stock. Take-up of 219 000 m^2 recorded a decrease compared to the previous year.

There is unlikely to be any new supply in 2006, while the forecast completions for 2007 are 7 000 m^2, located in Tsing Yi.

Prices rose continually during the year, resulting in a 35% growth in the fourth quarter 2005 relative to the end of 2004 level. Rents on the other hand moved up at a slow pace, leading to a 6% increase over the same period.

PRIVATE INDUSTRIAL/OFFICE

4 000 m^2 industrial/office space located in Kwai Chung was completed in 2005. Take-up amounted to 11 000 m^2, lowering the vacancy level to 61 000 m^2, at 9.8% of stock.

Similar to flatted factories, many industrial/office development projects have been put on hold. There are unlikely to be any completions in 2006 or 2007.

PRIVATE DOMESTIC

ALL UNITS
COMPLETIONS, TAKE-UP AND VACANCY

No. of units

	2001✦	2002	2003	2004	2005	2006	2007
Completions	26 260	31 050	26 400	26 040#	17 320	[17 200]	[16 400]
Take-up*	19 320	18 240	22 490	31 400#	17 450		
Vacancy	60 410	65 270	68 780	64 250	63 540		
%✰	5.7	6.6	6.8	6.2	6.0		

"Private domestic" excludes flats built under the Home Ownership, Private Sector Participation, Buy or Rent Option, Tenants Purchase, Urban Improvement, Flat-For-Sale and Sandwich Class Housing Schemes.

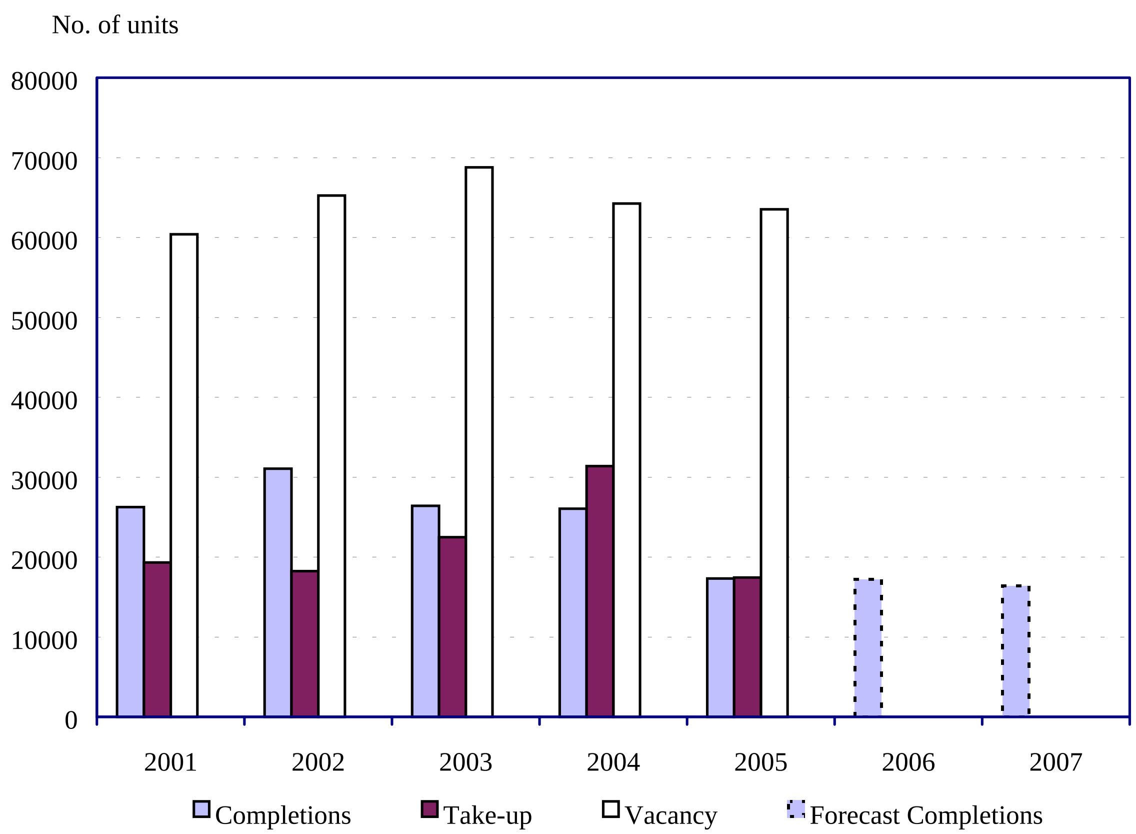
✦ 2001 figures are inclusive of village houses. However figures from 2002 onwards exclude village houses.

* Take-up figures represent the net increase in the number of units occupied in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

\# Including those private flats converted from subsidized sale flats during the year.

✰ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]



PRIVATE DOMESTIC

SMALL/MEDIUM UNITS (Saleable Area less than 100 m^2)
COMPLETIONS, TAKE-UP AND VACANCY

No. of units

	2001✦	2002	2003	2004	2005	2006	2007
Completions	24 050	29 030	25 000	23 460#	16 250	[15 500]	[14 100]
Take-up*	17 220	17 780	20 080	30 890#	16 150		
Vacancy	54 770	58 390	62 980	56 400	56 000		
%✫	5.6	6.4	6.7	5.9	5.7		

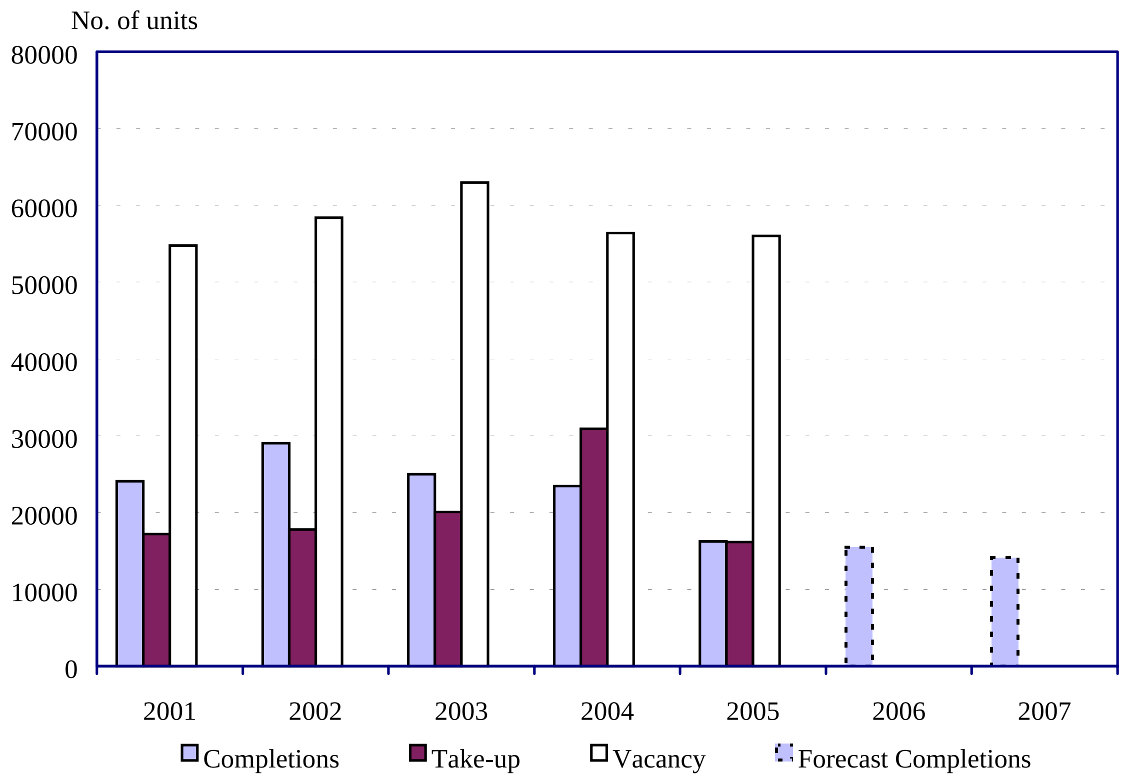
✦ 2001 figures are inclusive of village houses. However figures from 2002 onwards exclude village houses.

* Take-up figures represent the net increase in the number of units occupied in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

Including those private flats converted from subsidized sale flats during the year.

✫ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]



PRIVATE DOMESTIC

LARGE UNITS (Saleable Area 100 m^2 or above)
COMPLETIONS, TAKE-UP AND VACANCY

No. of units

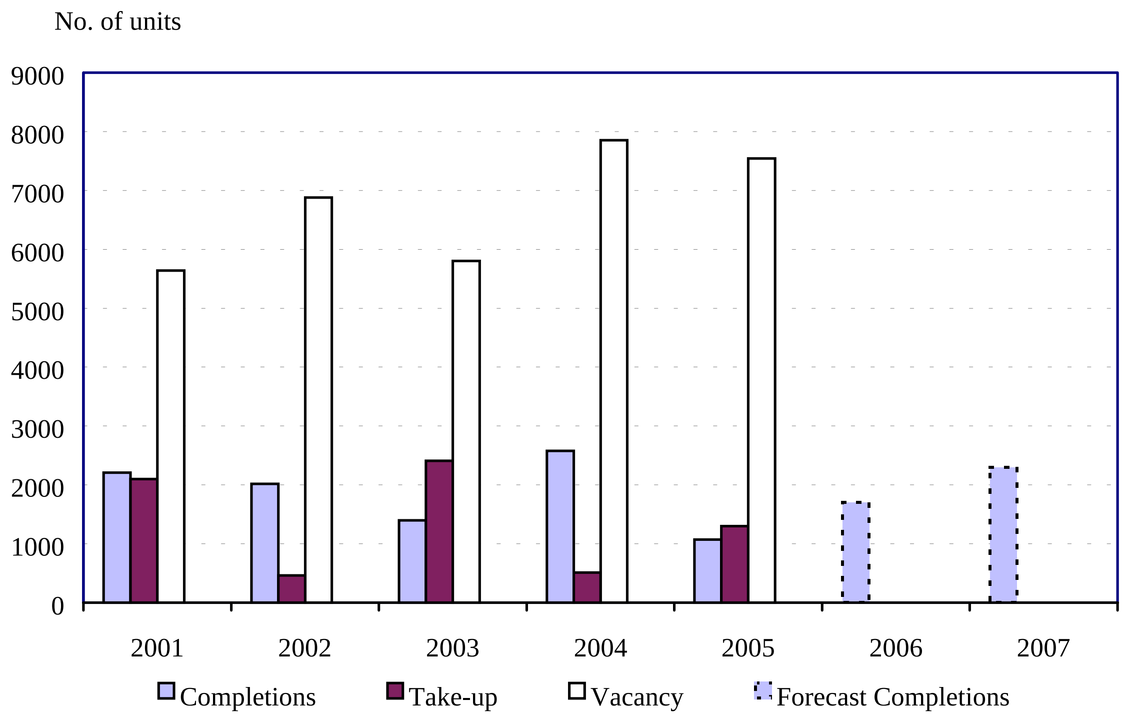
	2001✦	2002	2003	2004	2005	2006	2007
Completions	2 210	2 020	1 400	2 580	1 070	[1 700]	[2 300]
Take-up*	2 100	460	2 410	510	1 300		
Vacancy	5 640	6 880	5 800	7 850	7 540		
%✫	7.3	9.6	8.0	10.4	9.9		

✦ 2001 figures are inclusive of village houses. However figures from 2002 onwards exclude village houses.

* Take-up figures represent the net increase in the number of units occupied in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

✫ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]



PRIVATE OFFICE

ALL GRADES
COMPLETIONS, TAKE-UP AND VACANCY

	2001	2002	2003	2004	2005	2006	2007
Completions ('000 m^2)	76	166	299	279	34	[152]	[186]
Take-up* ('000 m^2)	3#	0.2	118#	373	420		
Vacancy ('000 m^2)	1 012	1 175	1 334	1 240	854		
%✫	11.1	12.6	14.0	12.7	8.7		

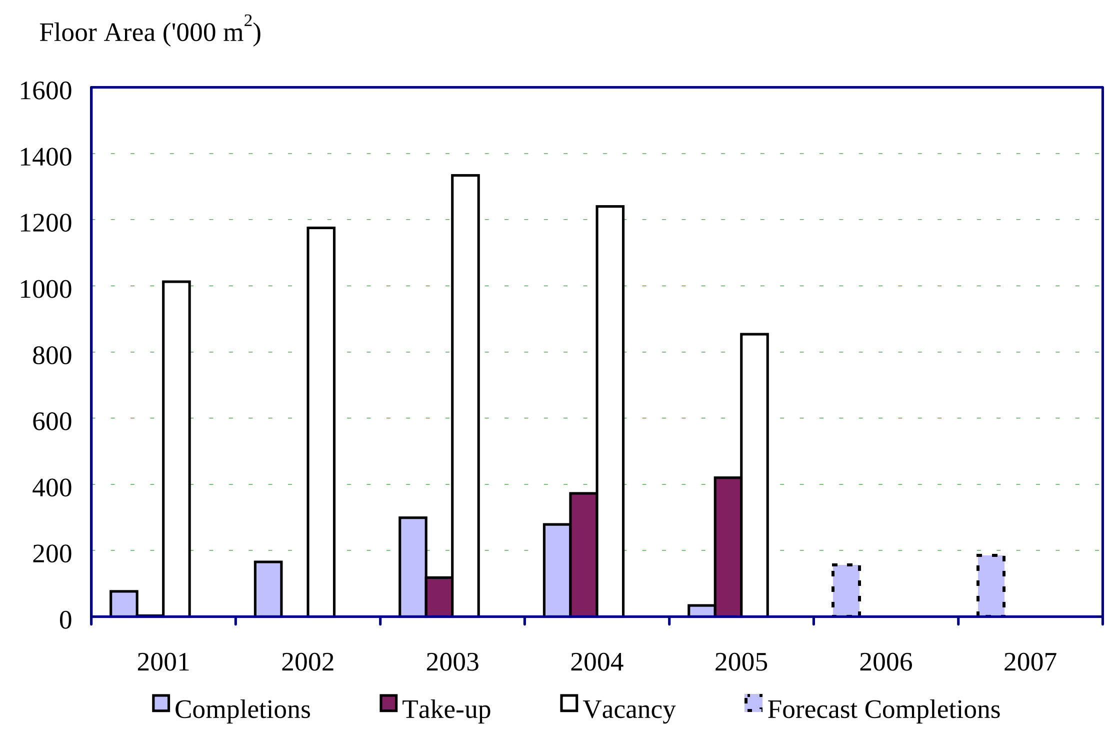
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

\# The take-up figures had been adjusted to reflect building conversions which took place during the year.

✫ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]

N.B. Office grades are determined in accordance with criteria which principally reflect the qualities of construction, finishes, facilities and management. Location is not a criterion.



PRIVATE OFFICE

GRADE A
COMPLETIONS, TAKE-UP AND VACANCY

	2001	2002	2003	2004	2005	2006	2007
Completions ('000 m^2)	61	117	265	235	30	[115]	[162]
Take-up* ('000 m^2)	53#	2	62#	250#	324		
Vacancy ('000 m^2)	451	566	752	756	462		
%✰	8.7	10.8	13.7	13.1	8.1		

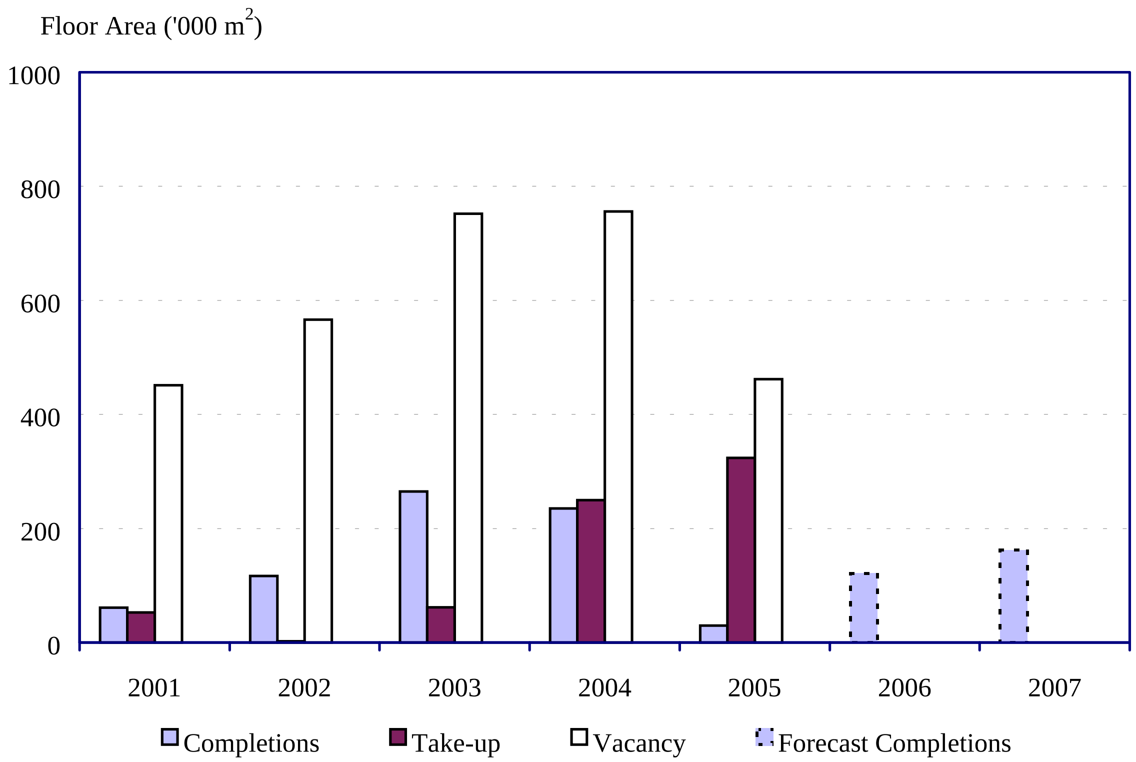
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

\# The take-up figures had been adjusted to reflect regradings and building conversions.

✰ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]

N.B. Office grades are determined in accordance with criteria which principally reflect the qualities of construction, finishes, facilities and management. Location is not a criterion.



PRIVATE OFFICE

GRADE B
COMPLETIONS, TAKE-UP AND VACANCY

	2001	2002	2003	2004	2005	2006	2007
Completions ('000 m^2)	12	37	34	39	2	[28]	[5]
Take-up* ('000 m^2)	- 24#	- 14	46	61#	73		
Vacancy ('000 m^2)	307	355	338	297	226		
%✰	13.1	14.6	13.8	12.1	9.2		

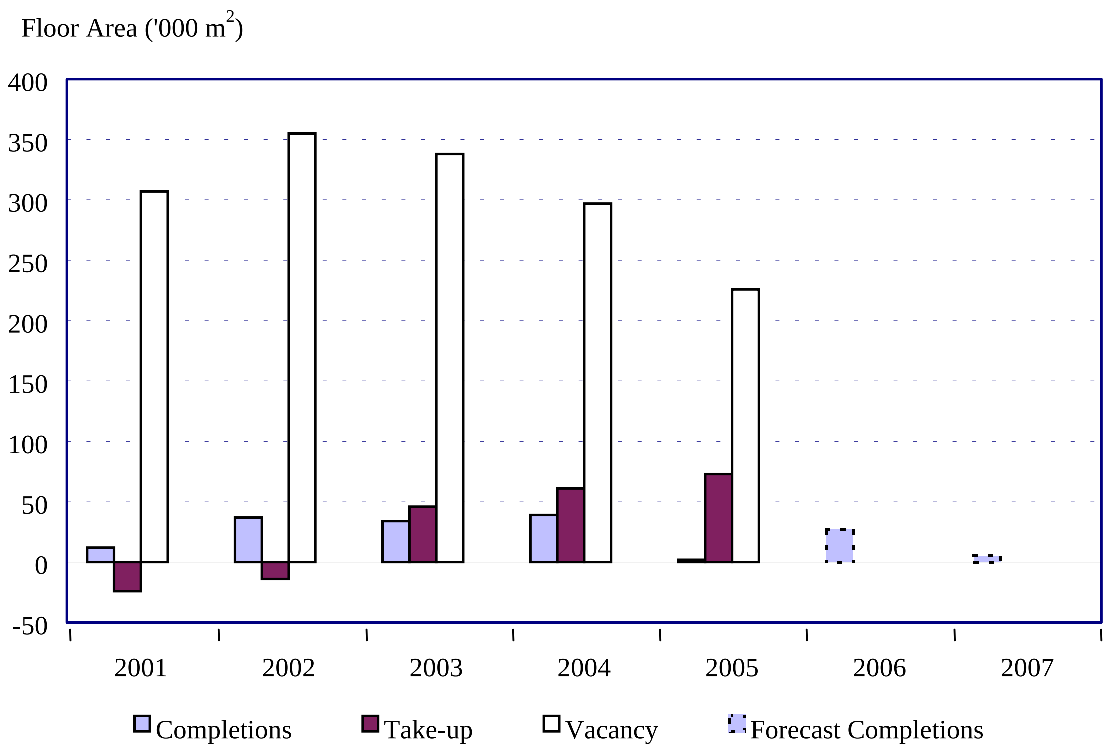
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. A negative figure indicates a net decrease in occupied floor space.

\# The take-up figures had been adjusted to reflect regradings and building conversions.

✰ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]

N.B. Office grades are determined in accordance with criteria which principally reflect the qualities of construction, finishes, facilities and management. Location is not a criterion.



PRIVATE OFFICE

GRADE C
COMPLETIONS, TAKE-UP AND VACANCY

	2001	2002	2003	2004	2005	2006	2007
Completions ('000 m^2)	3	12	0.3	5	2	[9]	[19]
Take-up* ('000 m^2)	- 26#	12	10	62	23		
Vacancy ('000 m^2)	254	254	244	187	166		
%✰	15.8	15.8	15.2	11.7	10.5		

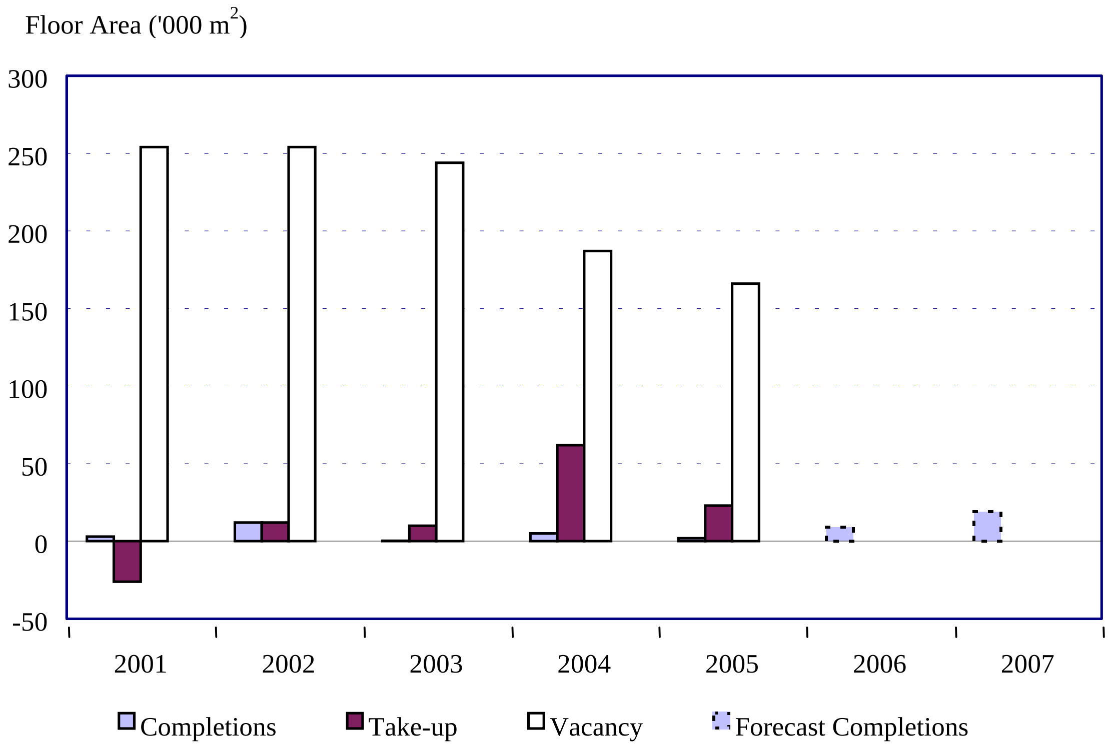
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. A negative figure indicates a net decrease in occupied floor space.

\# The take-up figures had been adjusted to reflect regradings and building conversions.

✰ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]

N.B. Office grades are determined in accordance with criteria which principally reflect the qualities of construction, finishes, facilities and management. Location is not a criterion.



PRIVATE COMMERCIAL

COMPLETIONS, TAKE-UP AND VACANCY

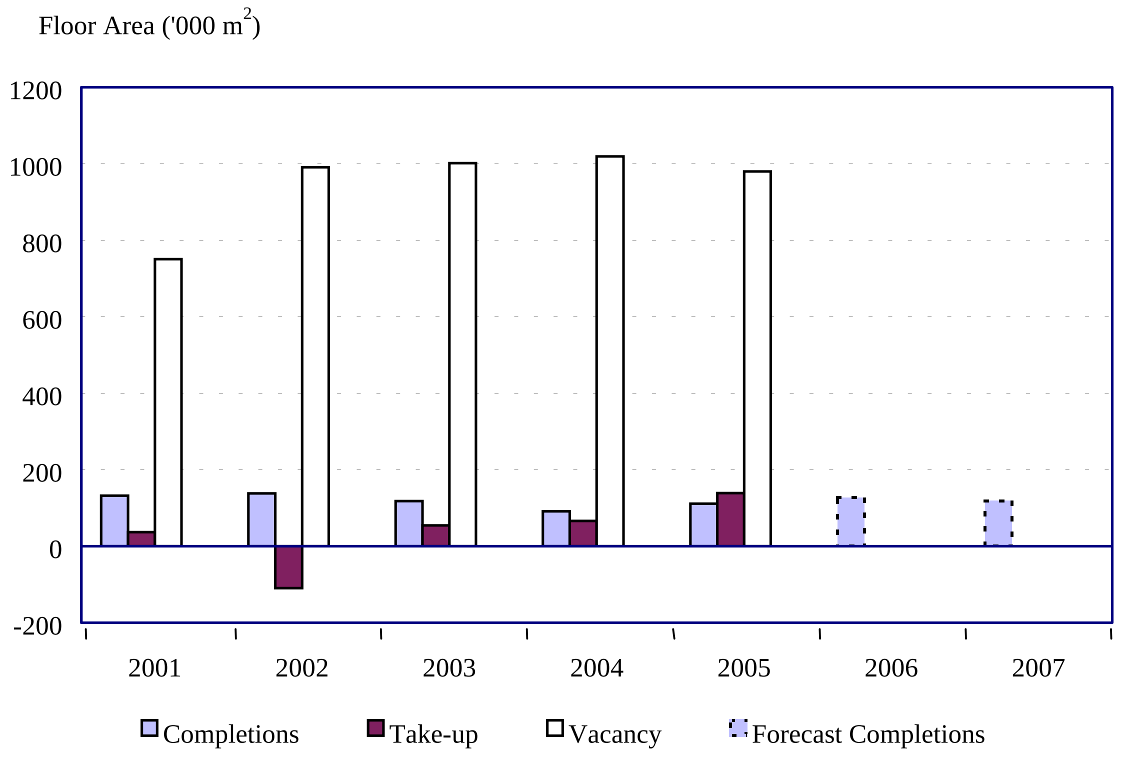
	2001	2002	2003	2004	2005	2006	2007
Completions ('000 m^2)	132	138	118	91	111	[127]	[119]
Take-up* ('000 m^2)	37	- 110	54#	66	139		
Vacancy ('000 m^2)	751	991	1 002	1 019	980		
%✰	8.2	10.7	10.8	10.8	10.3		

* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. A negative figure indicates a net decrease in occupied floor space.

\# The take-up figure had been adjusted to reflect building conversions which took place during the year.

✰ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]



PRIVATE FLATTED FACTORIES

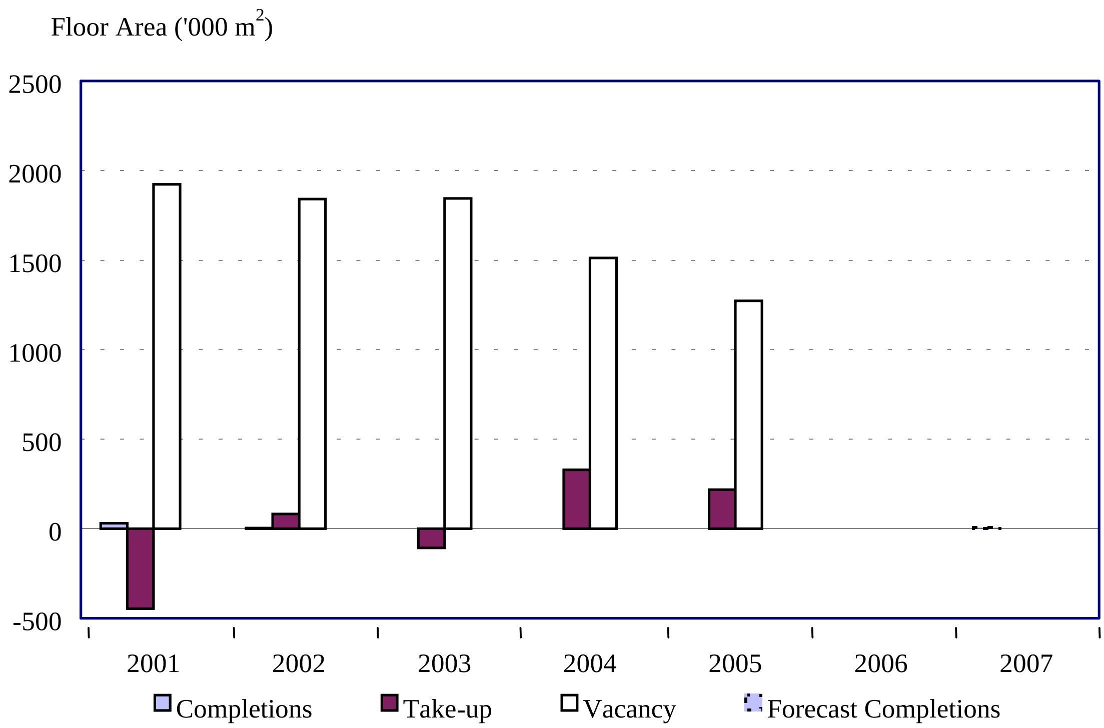
COMPLETIONS, TAKE-UP AND VACANCY

	2001	2002	2003	2004	2005	2006	2007
Completions ('000 m^2)	30	3	0	1	0	[0]	[7]
Take-up* ('000 m^2)	- 447	82	- 107	329	219		
Vacancy ('000 m^2)	1 923	1 840	1 844	1 512	1 273		
%✰	10.9	10.5	10.6	8.7	7.3		

* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. A negative figure indicates a net decrease in occupied floor space.

✰ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]



PRIVATE INDUSTRIAL/OFFICE

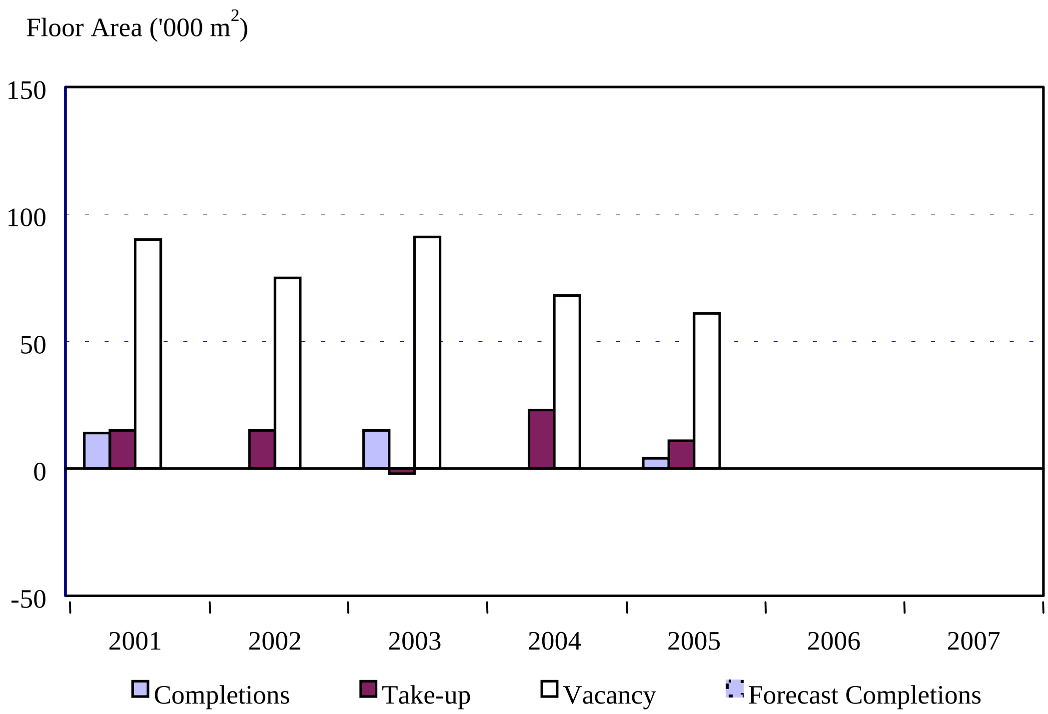
COMPLETIONS, TAKE-UP AND VACANCY

	2001	2002	2003	2004	2005	2006	2007
Completions ('000 m^2)	14	0	15	0	4	[0]	[0]
Take-up* ('000 m^2)	15	15	- 2	23	11		
Vacancy ('000 m^2)	90	75	91	68	61		
%✰	15.0	12.5	14.8	11.1	9.8		

* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. A negative figure indicates a net decrease in occupied floor space.

✰ Vacancy at the end of the year as a percentage of stock.

[Forecast figures]



Appendix A

MONTHLY PRICE INDICES FOR DOMESTIC PREMISES

(1999 = 100)

Year	Month	Small & Medium	Large	Overall
1997	Oct (Peak)	172.3	183.4	172.9
2004	Jan	68.5	84.5	69.5
	Feb	72.1	89.7	73.2
	Mar	76.7	98.0	78.1
	Apr	78.0	99.2	79.4
	May	76.2	98.1	77.5
	Jun	73.3	96.2	74.7
	Jul	73.5	96.3	74.9
	Aug	76.3	96.4	77.6
	Sep	79.4	104.0	80.9
	Oct	82.4	109.0	84.1
	Nov	80.9	109.6	82.7
	Dec	81.5	111.2	83.3
2005	Jan	83.8	115.5	85.7
	Feb	87.9	114.8	89.4
	Mar	93.1	120.4	94.6
	Apr	93.8	124.0	95.4
	May	93.8	122.3	95.3
	Jun	91.2	123.7	92.9
	Jul	91.1	123.9	92.8
	Aug	92.3	124.2	93.9
	Sep	92.4	125.4	94.0
	Oct*	89.8	124.8	91.5
	Nov*	86.2	120.5	87.8
	Dec*	86.5	121.6	88.1

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

(i) Small/Medium units are those with saleable area less than $100m^2$. Large units are those with saleable area $100m^2$ or above.

(ii) The indices are based on an analysis of prices paid for completed properties sold in the secondary market. Date of sale is the date on which an Agreement for Sale and Purchase is signed. Provisional agreement is generally reached 2-3 weeks earlier.

Appendix B

PRICE INDICES

(1999 = 100)

Private Domestic Properties	**2004**	**2005**			
	4Q	**1Q**	**2Q**	**3Q**	**4Q***
Small and Medium Units (Saleable Area less than 100m^2)	81.6	88.3	92.9	91.9	87.5
Large Units (Saleable Area 100m^2 or above)	109.9	116.9	123.3	124.5	122.3
Overall	**83.4**	**89.9**	**94.5**	**93.6**	**89.1**

Non-Domestic Properties		**2004**	**2005**			
		4Q	**1Q**	**2Q**	**3Q***	**4Q***
Offices :	Grade A	127.6	146.3	148.4	152.7	152.2
	Grade B	106.2	114.7	142.4	144.4	136.7
	Grade C	88.1	90.8	107.1	107.0	109.6
	Overall	**112.0**	**123.2**	**135.6**	**137.7**	**134.8**
Retail Premises :		134.2	144.3	153.0	148.6	142.3
Flatted Factories :		99.7	108.6	122.5	130.7	134.1

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

The indices are based on an analysis of prices for completed properties. Premises of all ages and in all locations are included. Where appropriate, the date of agreement is taken as the date of sale.

Appendix C

RENTAL INDICES

(1999 = 100)

Private Domestics Properties	2004 4Q	2005 1Q	2005 2Q	2005 3Q	2005 4Q*
Small and Medium Units (Saleable Area less than $100m^2$)	78.6	80.9	84.3	86.6	88.6
Large Units (Saleable Area $100m^2$ or above)	89.3	91.8	93.6	98.9	100.5
Overall	**80.2**	**82.5**	**85.5**	**88.3**	**90.1**

Non-Domestics Properties		2004 4Q	2005 1Q	2005 2Q	2005 3Q*	2005 4Q*
Offices :	Grade A	81.4	89.6	95.1	104.2	109.9
	Grade B	83.9	86.5	91.4	96.2	102.5
	Grade C	81.4	83.8	87.8	90.6	92.1
	Overall	**82.1**	**87.7**	**92.8**	**99.6**	**104.9**
Retail Premises :		96.0	96.8	99.0	102.1	103.6
Flatted Factories :		79.3	81.0	82.4	82.3	83.8

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

The indices are based on an analysis of rentals paid for completed properties. Premises of all ages and in all locations are included. Where appropriate, the commencement date of a tenancy agreement is adopted as the effective date. However, rents are normally agreed earlier (2-4 weeks earlier for fresh lettings and 1-3 months for lease renewals). Rent-free periods are taken into account if known.

Appendix D

PRICE AND RENTAL MOVEMENTS IN 2005

(based on Appendices B & C)

Private Property Category (Territory-wide)		% Change 4Q 2005 / 4Q 2004	
		Price	**Rent**
Domestic Premises :	Small and Medium Units (Saleable Area less than 100m^2)	7.2	12.7
	Large Units (Saleable Area 100m^2 or above)	11.3	12.5
	Overall	**6.8**	**12.3**
Offices :	Grade A	19.3	35.0
	Grade B	28.7	22.2
	Grade C	24.4	13.1
	Overall	**20.4**	**27.8**
Retail Premises :		6.0	7.9
Flatted Factories :		34.5	5.7