

Rating and Valuation Department

Hong Kong Property Review 2009

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

Completions in 2008 were 8 780 units, of which about 52% were in the New Territories, 31% in Kowloon and 17% on Hong Kong Island. District-wise, Tseung Kwan O continued to provide the largest number of new units, at 24% of overall completions, followed by Sha Tin at 20% and Sham Shui Po at 13%.

Take-up, at 6 890 units, was less than the year's completions probably because several large developments were completed near the end of the year. As a result, vacant units increased slightly to 52 940, or 4.9% of total stock. About 7 400 vacant units (14%) were not yet issued with Certificate of Compliance or Consent to Assign, and could not have been occupied.

The number of units forecast for completion in 2009 is around 14 740. Again, a significant proportion of the 2009 completions, about 76%, would be in the New Territories with the largest concentration in Tseung Kwan O and Sha Tin. A further 12 600 units are expected to be completed in 2010 and the New Territories would account for 64% of the year's supply, with Yuen Long contributing some 30% of the completions.

Prices in the secondary market posted considerable gain in the first quarter but took a turn in the second half of the year. The overall price index for the last quarter of 2008 registered a drop of 5% from a year earlier. The rental index showed a meagre 1% reduction over the same period. (See Appendices A to D)

PRIVATE OFFICE

Office completions in 2008 amounted to 341 000 m², slightly higher than the 2007 level. Grade A space completions were 331 000 m², all in non-core districts and more than half in Kwun Tong. Grade B and Grade C completions were 9 000 m² and 700 m² respectively.

Overall take-up rose substantially to 345 000 m², on a par with completions in the year. While take-up of Grade A and B space were 350 000 m² and 3 000 m² respectively, Grade C take-up was a negative 8 000 m². Although completions figure matches with that for take-up, vacancy edged down fractionally to 8.4%, or 873 000 m², due to demolition during the year. The vacancy rate of Grade A office stood at 8.9%, with Grade B and Grade C at 6.9% and 8.6% respectively. Vacancy in core districts also decreased generally.

After two years of abundant supply, completions are expected to plunge to 152 000 m² in 2009 and further decline to about 102 000 m² in 2010. Grade A space forecast completions in 2009 are 125 000 m², with all being found in non-core districts of Kwun Tong and Yau Ma Tei. These two districts would continue to contribute about 80% of the anticipated Grade A space in 2010, which points to 79 000 m². Supply in core office areas remain tight and Central would likely see the completion of 9 700 m² Grade A space in 2010. Grade B space forecast completions in 2009 would rise to 19 000 m² and 23 000 m² in 2010. Grade C space completions would be around 8 000 m² and 200 m² in 2009 and 2010 respectively.

The rising trend of office price continued into 2008 but lost momentum in the second half of the year. Grade A office prices in the last quarter of 2008 were 9% below the 2007 last quarter level. Grade B and Grade C office showed a drop of 8% and 4% respectively over the same period. Rents also adjusted downward in the fourth quarter but at a milder pace. Notwithstanding, the rental index for Grade A office in the last quarter was up by 15%, while Grade B and Grade C office rents grew 12% and 8% respectively compared to a year before.

PRIVATE COMMERCIAL

Completions in 2008 were 49 000 m², at similar level as 2007. Nearly half of the completions were in Kowloon and the districts of Sham Shui Po, Kwun Tong and Yau Tsim Mong together accounted for about 40% of total new supply. Take-up turned negative. The vacancy rate increased to 8.7% of stock, amounting to 920 000 m².

Forecast completions for the coming two years point to a significant increase, to 94 000 m² in 2009 and 90 000 m² in 2010. Around 73% of the new supply in 2009 would be found in Kowloon, largely in Yau Tsim Mong, and the remainder spread fairly well between Hong Kong Island and the New Territories. In 2010, Kowloon will continue to contribute the bulk of space completions at about 64%, and the New Territories accounts for around 33%.

The retail indices showed that price and rents at the last quarter of 2008 fell 7% and 1% respectively from a year earlier.

PRIVATE FLATTED FACTORIES

Completions in 2008 increased markedly to 70 000 m², a level not seen after 1997. Take-up was a negative 107 000 m² due largely to a relatively high demolition rate in the year. Vacancy at the year end rose marginally to 6.5% of stock.

Completions in 2009 would reduce to 20 000 m², while 2010 is expected to see completions rising again to 66 000 m².

The price index for the last quarter of 2008 edged down by 1% against the same period in 2007 while rents crept up mildly by 2%.

PRIVATE INDUSTRIAL/OFFICE

Completions in 2008 were 4 000 m², coming from one development in Kwun Tong. The new completions also brought vacancy at the year end to 40 000 m², representing 6.5% of stock.

Against a modest demand for this type of property, there would unlikely be any new supply in 2009 and 2010.

PRIVATE DOMESTIC

ALL UNITS COMPLETIONS, TAKE-UP AND VACANCY

No. of units

	2004	2005	2006	2007	2008	2009	2010
Completions	26 040 [#]	17 320	16 580	10 470	8 780	[14 740]	[12 600]
Take-up*	31 400 [#]	17 450	16 400	19 850	6 890		
Vacancy	64 250	63 540	62 670	52 470	52 940		
%☆	6.2	6.0	5.9	4.9	4.9		

“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.

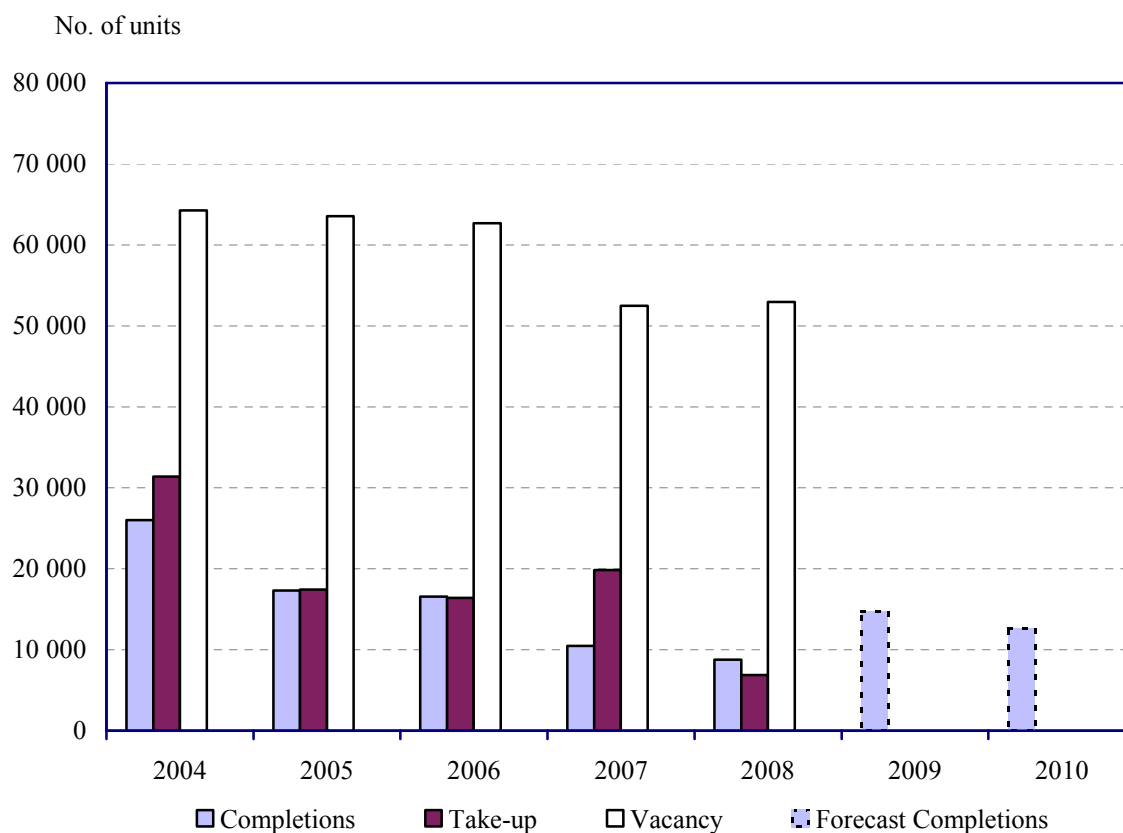
Figures exclude village houses.

* 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 subsidised 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 m²) COMPLETIONS, TAKE-UP AND VACANCY

No. of units

	2004	2005	2006	2007	2008	2009	2010
Completions	23 460 [#]	16 250	15 130	9 730	7 600	[12 350]	[10 980]
Take-up*	30 890 [#]	16 150	14 040	19 300	6 290		
Vacancy	56 400	56 000	56 190	45 920	45 950		
%☆	5.9	5.7	5.7	4.6	4.6		

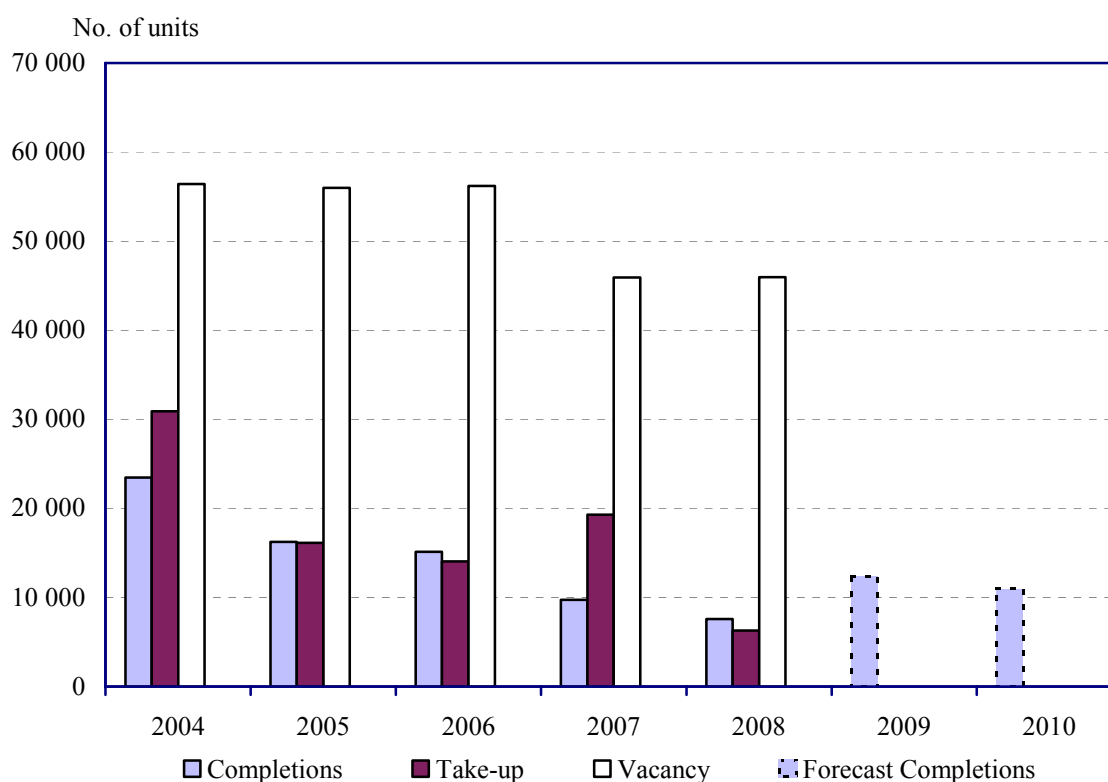
Figures exclude village houses.

* 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 subsidised 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 m² or above)
COMPLETIONS, TAKE-UP AND VACANCY**

No. of units

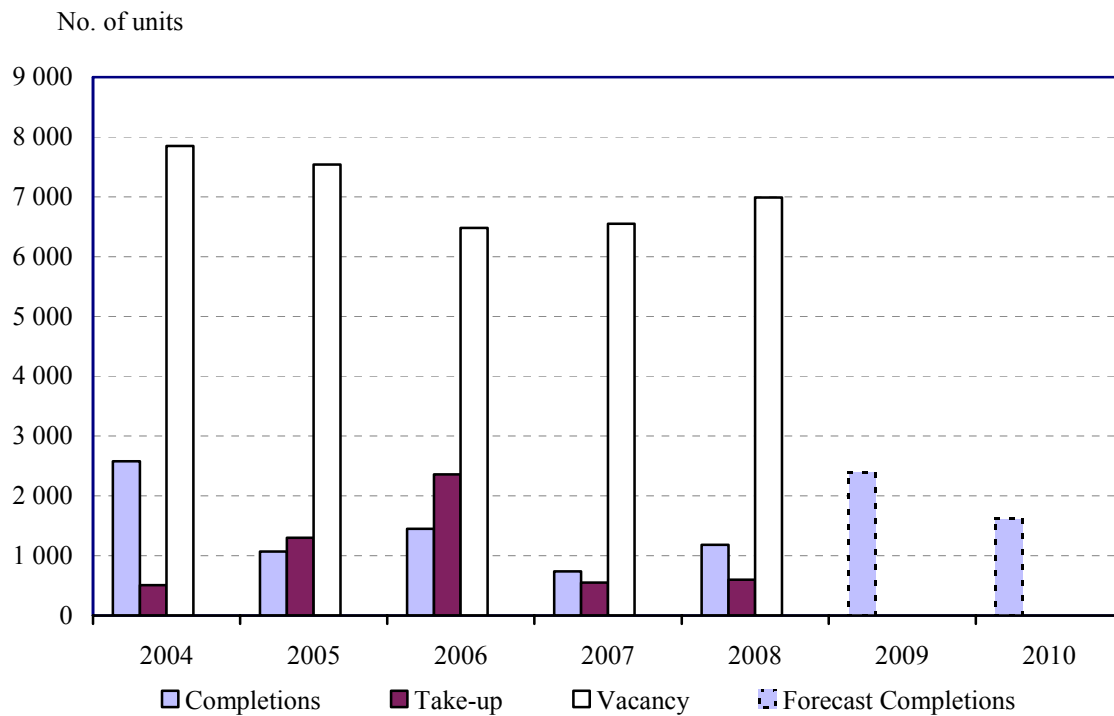
	2004	2005	2006	2007	2008	2009	2010
Completions	2 580	1 070	1 450	740	1 180	[2 390]	[1 620]
Take-up*	510	1 300	2 360	550	600		
Vacancy	7 850	7 540	6 480	6 550	6 990		
%☆	10.4	9.9	8.4	8.4	8.8		

Figures 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

	2004	2005	2006	2007	2008	2009	2010
Completions ('000 m ²)	279	34	108	320	341	[152]	[102]
Take-up* ('000 m ²)	373 [#]	420	167 [#]	170	345		
Vacancy ('000 m ²)	1 240	854	753	901	873		
%☆	12.7	8.7	7.7	8.9	8.4		

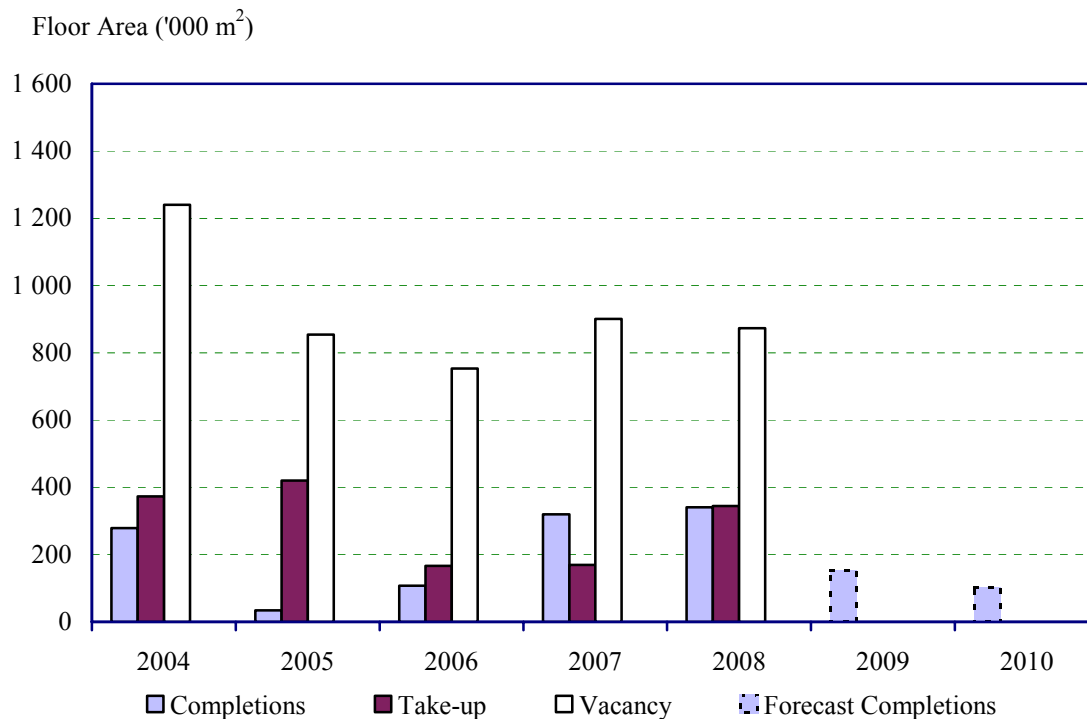
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

The take-up figures had been adjusted to reflect regradings / building conversions or additional stock other than arising from new completions.

☆ 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**

	2004	2005	2006	2007	2008	2009	2010
Completions ('000 m ²)	235	30	92	286	331	[125]	[79]
Take-up* ('000 m ²)	250 [#]	324	81	140	350		
Vacancy ('000 m ²)	756	462	443	589	571		
%☆	13.1	8.1	7.6	9.7	8.9		

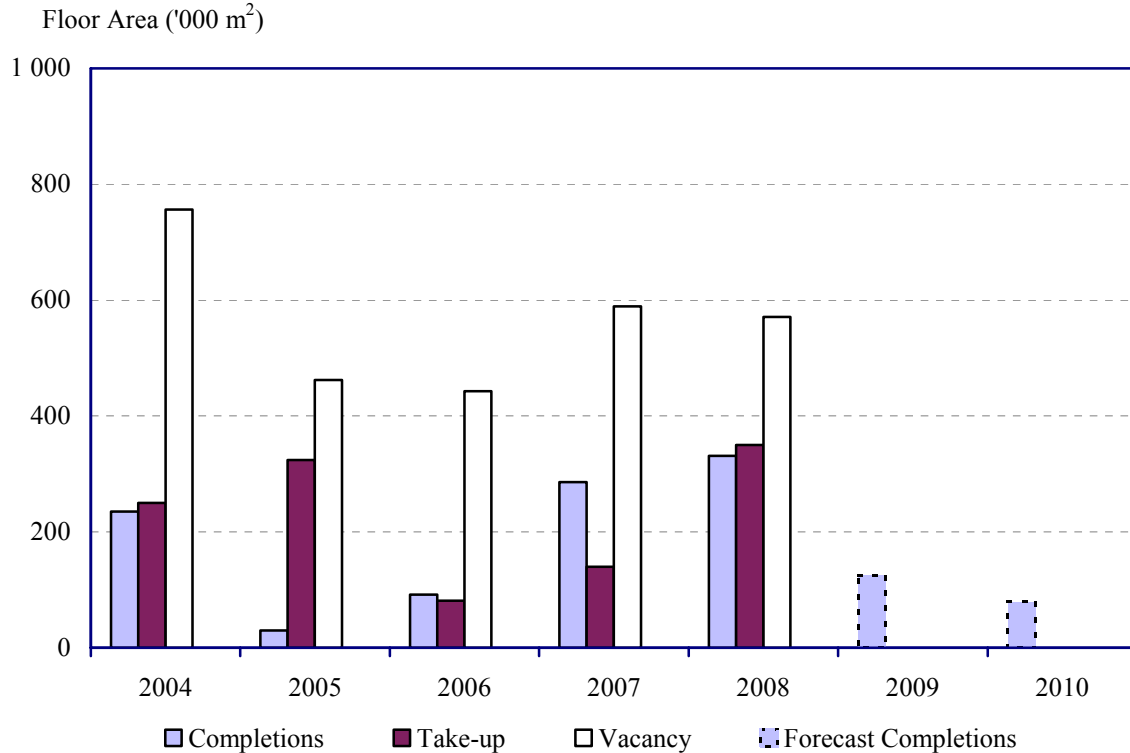
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The take-up figures had been adjusted to reflect regradings / building conversions or additional stock other than arising from new completions.

☆ 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**

	2004	2005	2006	2007	2008	2009	2010
Completions ('000 m ²)	39	2	9	31	9	[19]	[23]
Take-up* ('000 m ²)	61 [#]	73	62 [#]	14	3		
Vacancy ('000 m ²)	297	226	163	181	168		
%☆	12.1	9.2	6.7	7.3	6.9		

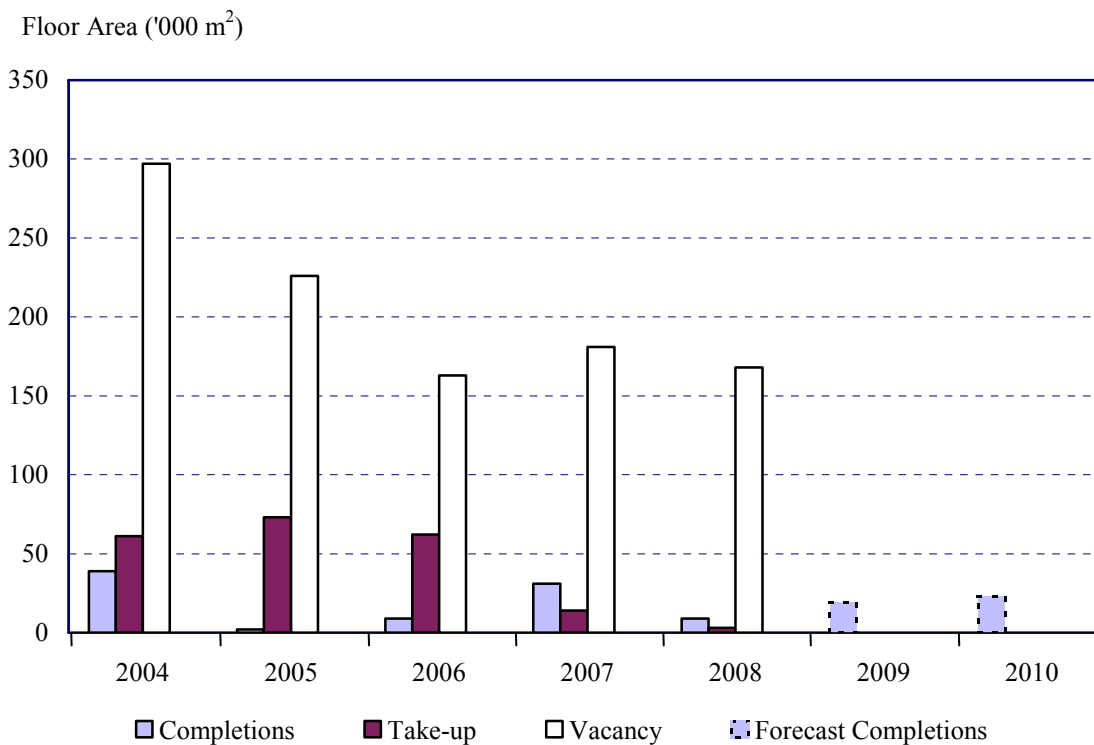
* Take-up figures represent the net increase in the occupied floor space in the year under review and are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

The take-up figures had been adjusted to reflect regradings / building conversions or additional stock other than arising from new completions.

☆ 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**

	2004	2005	2006	2007	2008	2009	2010
Completions ('000 m ²)	5	2	8	3	1	[8]	[0.2]
Take-up* ('000 m ²)	62	23	24	16	- 8		
Vacancy ('000 m ²)	187	166	147	131	134		
%☆	11.7	10.5	9.3	8.4	8.6		

* 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]

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

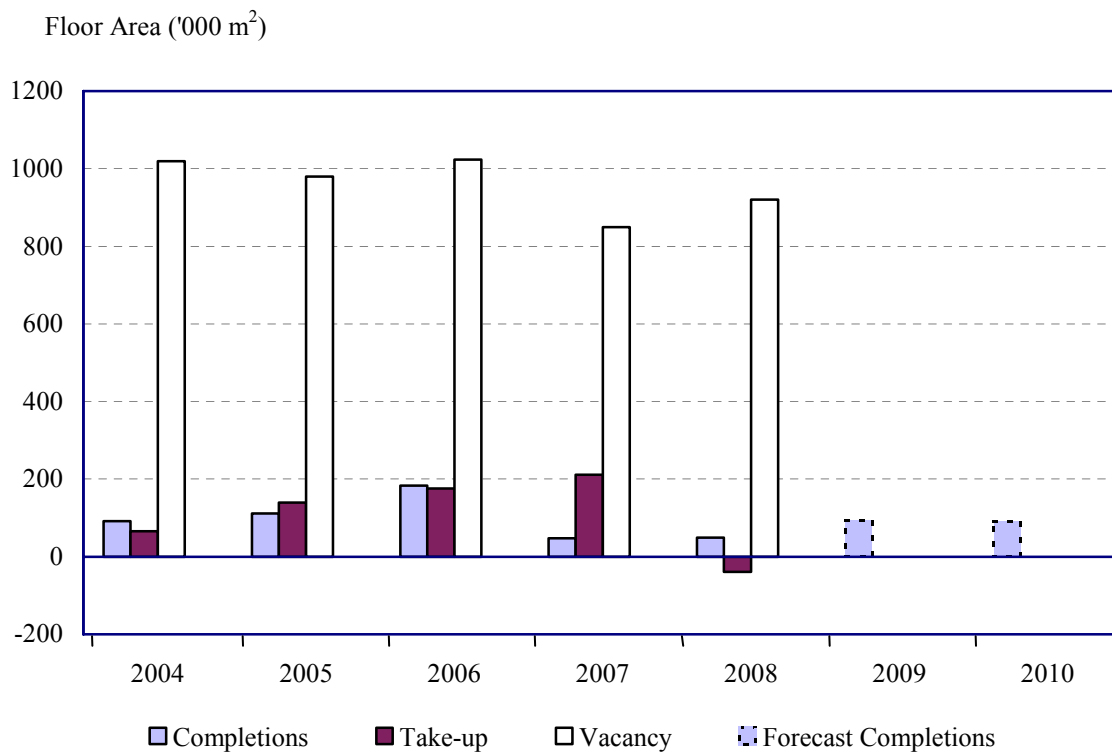
	2004	2005	2006	2007	2008	2009	2010
Completions ('000 m ²)	91	111	183	48	49	[94]	[90]
Take-up* ('000 m ²)	66	139	176 ⁺	211	- 39		
Vacancy ('000 m ²)	1 019	980	1 023	849	920		
%☆	10.8	10.3	9.8	8.1	8.7		

* 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. A negative figure indicates a net decrease in occupied floor space.

+ The take-up figure has been adjusted to include that attributed to The Link REIT properties.

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

[Forecast figures]



PRIVATE FLATTED FACTORIES

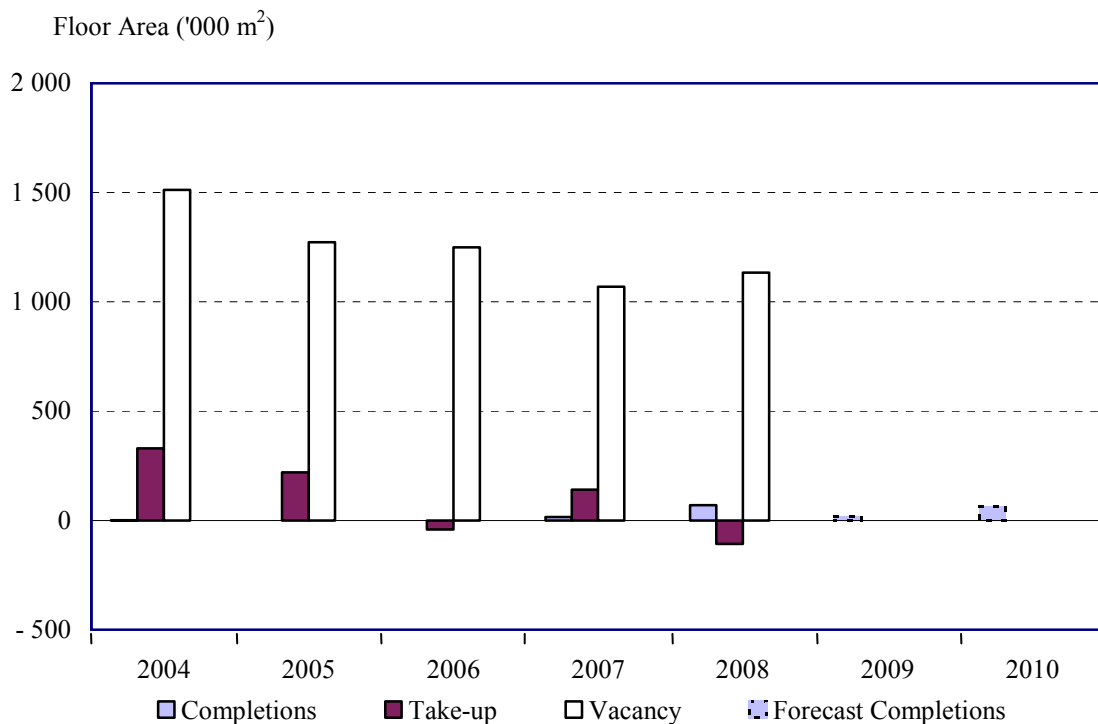
COMPLETIONS, TAKE-UP AND VACANCY

	2004	2005	2006	2007	2008	2009	2010
Completions ('000 m ²)	1	0	0	16	70	[20]	[66]
Take-up* ('000 m ²)	329	219	- 42	141	- 107		
Vacancy ('000 m ²)	1 512	1 273	1 250	1 070	1 134		
%☆	8.7	7.3	7.2	6.2	6.5		

* 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.

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

[Forecast figures]



PRIVATE INDUSTRIAL/OFFICE

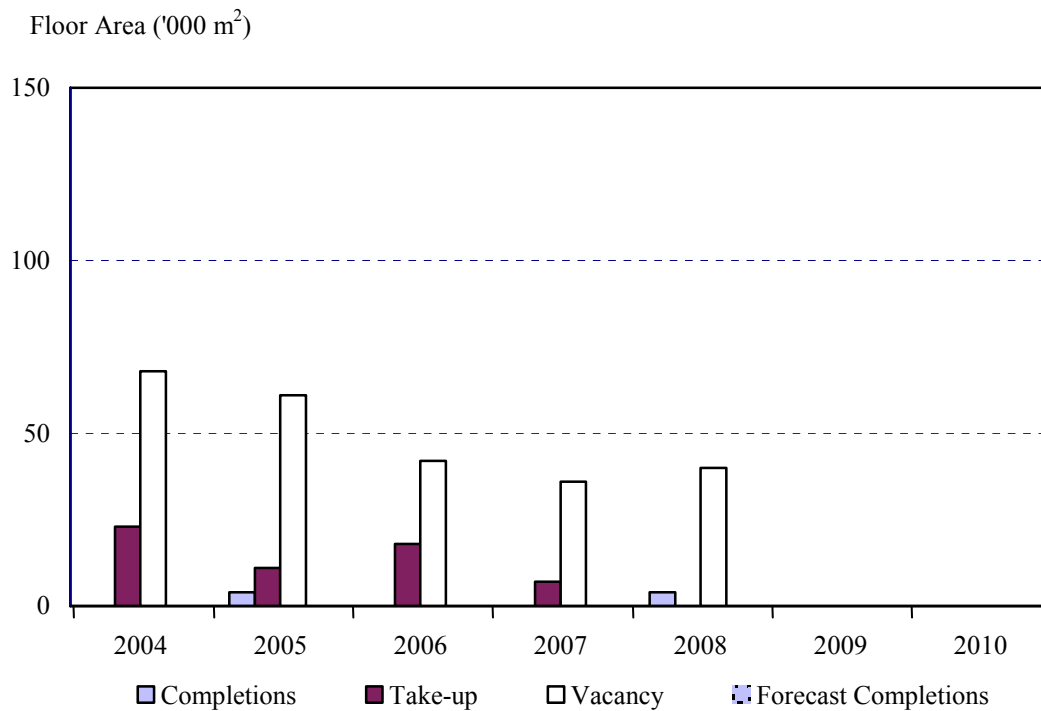
COMPLETIONS, TAKE-UP AND VACANCY

	2004	2005	2006	2007	2008	2009	2010
Completions ('000 m ²)	0	4	0	0	4	[0]	[0]
Take-up* ('000 m ²)	23	11	18	7	0		
Vacancy ('000 m ²)	68	61	42	36	40		
%☆	11.1	9.8	6.9	5.8	6.5		

* 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.

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

[Forecast figures]



MONTHLY PRICE INDICES FOR DOMESTIC PREMISES**(1999 = 100)**

Year	Month	Small & Medium	Large	Overall
1997	Oct (Peak)	172.3	183.4	172.9
2007	Jan	93.3	130.3	95.2
	Feb	94.7	131.8	96.6
	Mar	96.0	133.3	97.9
	Apr	96.7	136.4	98.7
	May	98.6	137.0	100.5
	Jun	99.5	140.7	101.6
	Jul	100.8	141.2	102.8
	Aug	101.8	146.3	104.0
	Sep	103.1	149.0	105.3
	Oct	106.2	153.6	108.5
	Nov	110.9	158.8	113.3
	Dec	115.4	165.9	117.9
2008	Jan	120.8	170.2	123.2
	Feb	123.3	171.8	125.5
	Mar	124.1	173.1	126.4
	Apr	122.4	172.5	124.7
	May	124.2	173.3	126.4
	Jun	124.4	175.7	126.6
	Jul	122.9	170.2	124.9
	Aug	121.0	166.2	122.9
	Sep	120.2	162.5	121.9
	Oct	112.9	150.0	114.3
	Nov*	103.7	135.6	104.9
	Dec*	103.4	135.0	104.5

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

Technical Notes :

- (i) Small/Medium units are those with saleable area less than 100m². Large units are those with saleable area 100m² 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.

PRICE INDICES

(1999 = 100)

Private Domestic Properties	2007	2008			
	4Q	1Q	2Q	3Q	4Q*
Small and Medium Units (Saleable Area less than 100m ²)	110.8	122.7	123.7	121.4	106.7
Large Units (Saleable Area 100m ² or above)	159.4	171.7	173.8	166.3	140.2
Overall	113.2	125.0	125.9	123.2	107.9

Non-Domestic Properties	2007	2008			
	4Q	1Q	2Q	3Q*	4Q*
Offices : Grade A	200.8	221.6	226.6	214.2	183.7
Grade B	194.8	204.4	203.7	207.1	178.7
Grade C	167.4	180.4	186.0	185.7	160.0
Overall	189.6	206.4	210.4	204.7	175.1
Retail Premises :	185.9	197.2	204.2	193.7	173.6
Flatted Factories :	219.9	236.5	244.4	244.6	217.1

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

Technical Notes :

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

RENTAL INDICES

(1999 = 100)

Private Domestic Properties	2007	2008			
	4Q	1Q	2Q	3Q	4Q*
Small and Medium Units (Saleable Area less than 100m ²)	105.9	113.1	117.8	117.8	104.2
Large Units (Saleable Area 100m ² or above)	124.8	133.5	140.3	143.7	128.0
Overall	108.1	115.4	120.2	120.5	106.7

Non-Domestics Properties	2007	2008			
	4Q	1Q	2Q	3Q*	4Q*
Offices : Grade A	146.6	155.1	167.4	171.1	168.6
Grade B	136.0	143.0	152.4	158.6	152.9
Grade C	118.4	122.5	129.7	130.2	127.5
Overall	138.7	146.1	156.9	160.9	157.5
Retail Premises :	115.9	116.8	117.2	117.2	114.6
Flatted Factories :	104.2	108.7	111.9	111.4	106.2

* 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.

PRICE AND RENTAL MOVEMENTS IN 2008

(based on Appendices B & C)

Private Property Category (Territory-wide)	% Change*	
	<u>4Q 2008*</u> 4Q 2007	
	Price	Rent
Domestic Premises : Small and Medium Units (Saleable Area less than 100m ²)	- 3.7	- 1.6
Large Units (Saleable Area 100m ² or above)	-12.0	2.6
Overall	- 4.7	- 1.3
Offices : Grade A	- 8.5	15.0
Grade B	- 8.3	12.4
Grade C	- 4.4	7.7
Overall	- 7.6	13.6
Retail Premises :	- 6.6	- 1.1
Flatted Factories :	- 1.3	1.9

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