

The sustained growth of external trade combined with new players entering the records management and mini-warehouse storage business placed increased demand on industrial properties in the fourth quarter of 2007. The increasing demand for storage is expected to push up rental and capital values for industrial properties in 2008, though at a measured pace.

Given the proximity of Hong Kong to fast developing China, merchandise trade growth related to the Mainland accounted for nearly 50% of the

Apart from the uncertainties in the global market, growth momentum in emerging markets remained fairly robust and continues to support Hong Kong's export performance.

SAR's total exports, compared with about 45% in 2006, according to the Census and Statistics Department. The value of total exports of goods in Hong Kong grew 9.2% y-o-y to \$2,688 billion in 2007. The value of re-exports went up by 10.8% y-o-y to \$2,578 billion during the same period. Despite the weakened US trading market in the fourth quarter, the Mainland and European markets continued to hold up well and maintained steady growth. With global economic prospects being overshadowed by the current financial market chaos and the slowdown in the US economy, the external trade outlook for the upcoming years is subject to a large degree of uncertainty. Yet, growth momentum in emerging markets, particularly the Mainland and a number of Southeast Asian countries, remains fairly robust, and this should continue to support Hong Kong's export performance.

The opening of the Hong Kong-Shenzhen Western Corridor in July 2007 provided another passage to increase cross-boundary traffic in the northwest of the

New Territories and is especially beneficial to the logistics business. However, the effect of transportation improvement did not immediately trigger the industrial property market, and the leasing activities in the district remained relatively mild. Nevertheless, considering the sustainable trade growth with China, as well as the continued falling of the overall vacancy

rate and competitive rental values in Tuen Mun and Yuen Long, the leasing market in these districts should be more active in 2008.

In addition to persistent demand for warehouse space from local logistics corporations, a new stream of storage demand from office-related uses emerged in the fourth quarter. Hong Kong office space is currently very limited and costly, so creative solutions are required to minimize operational costs. Thus, mini-warehouses for document storage and record management have recently enjoyed strong growth. Notably clustered in Hong Kong East, these operations contributed to the district's low vacancy rate of 0.3% in the fourth quarter, versus an overall vacancy rate of 1.6%.

Industrial properties still offer the highest yield, with a range between 5 to 7% in the fourth quarter of 2007. Although there is a considerable degree of uncertainty overshadowing the trading market, capital values are expected to increase 10 to 15%, and rents are expected to surge 5 to 10% in 2008. Growth will be supported by increasing demand, the vibrant trade between China and other emerging markets, and promising yields.

QUICK STATS

	Change in Q3 07	Change in Q4 07
WAREHOUSE		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↔
Vacancy Rate	↑	↓
INDUSTRIAL/OFFICE		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↑
Capital Values	↑	↑
FACTORY		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↑
Capital Values	↑	↑

SELECTED LEASING TRANSACTIONS IN 4Q 2007

Property	Floor	Location	Type	Size (sf)	Gross Rental (HK\$ psf per month)
Ever Gain Plaza Tower 1	17/F	Kwai Chung	I/O	22,819	15.0
Kong Nam Industrial Building	19/F	Tsuen Wan	Industrial	26,410	4.0
Tai Sang Shatin Warehouse 2	17/F	Shatin	Industrial	13,214	5.3
Sun Hung Kai Logistics Centre	4 Floors	Fo Tan	Industrial	129,272	5.8

SELECTED SALES TRANSACTIONS IN 4Q 2007

Property	Floor	Location	Type	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Southeast Industrial Building	Units A & B on 2/F	Tsuen Wan	Industrial	34,996	22.80	652
Midas Plaza	11/F	San Po Kong	Industrial	10,697	31.56	2,950
Wah Shing Centre	Units 1 & 2 on G/F	Kwai Chung	Industrial	24,725	89.00	3,600
Ever Gain Plaza Tower 1	21/F	Kwai Chung	I/O	23,642	61.47	2,600
Harbour Centre Tower 2	Units 2, 3, 7 & 8 on 5/F with 3 car parks	Hunghom	Industrial	14,017	45.12	3,219
Hing Wai Centre	27/F	Aberdeen	Industrial	28,399	32.80	1,155
Newport Centre	LG/F	To Kwa Wan	Industrial	25,000	24.30	972

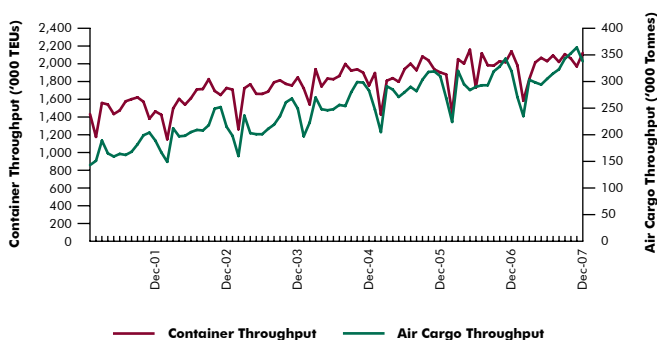
ECONOMIC INDICATORS

Merchandise Trade



Source: Census & Statistics Department

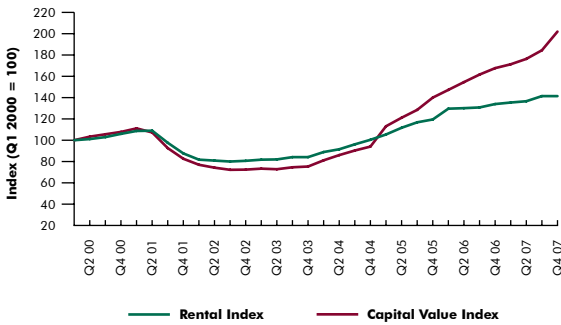
Container and Air Cargo Throughput



Source: Marine Department; Civil Aviation Department

WAREHOUSE

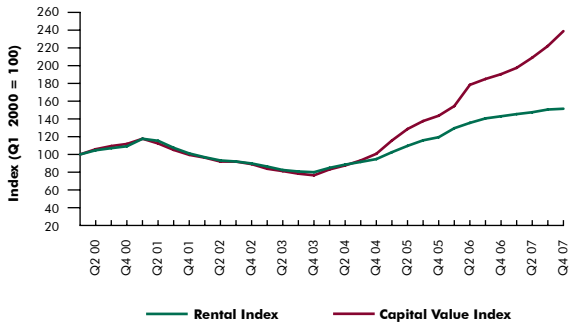
Warehouse Rental and Capital Value Indices



Warehouse leasing activities in the fourth quarter of 2007 were relatively stable as the traditionally quiet quarter was buoyed by increasing number of players in the records management and mini-warehouse storage business actively taking up space to operate. The shrinking overall vacancy rate from 2.3% in the third quarter to 1.6% in the fourth quarter demonstrated an encouraging sign that external trade demand was still strong despite a weakening US consumer market. Although there was no rental growth in the fourth quarter, a considerable surge of 9.5% q-o-q in the capital value index was recorded. Investors' attention has been captured, due to the general perception that warehouse prices still lag behind the rest of the market, and more transactions are expected.

INDUSTRIAL/OFFICE (I/O)

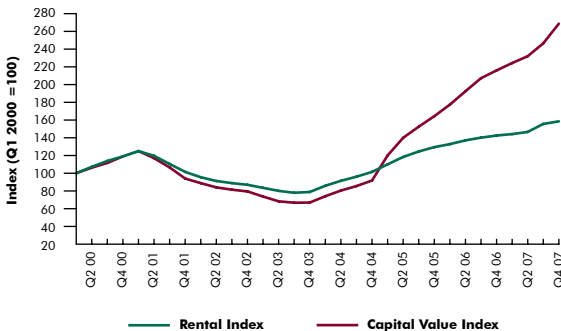
Industrial/Office Rental and Capital Value Indices



The dual purposes of I/O properties give both foreign investors and local buyers flexibility in utilizing I/O floor space in accordance with the needs in the micro-market. As I/O properties in Kwai Chung are close to container terminals, they continue to be welcome by institutional investors who opt to hold them in their logistics-focused portfolios. A notable sales transaction involved 23,642 sf of space in Ever Gain Plaza purchased by an overseas institutional fund for \$61.47 million. Given the increased popularity of decentralized office space, landlords of I/O properties in such locations will likely use the mixed-use buildings more like office premises. In an extreme case, the landlord of Delta House even paid the premium to change I/O use of the building to office. The capital values of I/O properties recorded considerable growth of 7.5% q-o-q while rental growth registered mild quarterly growth of 0.6% in the last quarter of 2007.

FACTORY

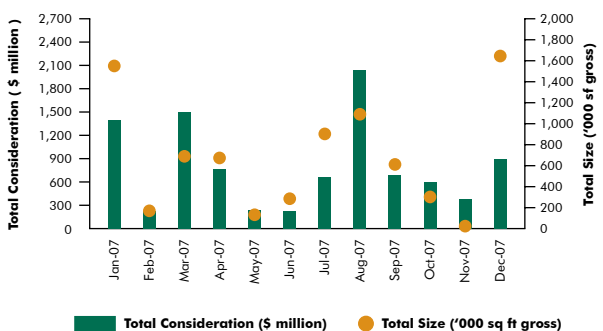
Factory Rental and Capital Value Indices



In the fourth quarter of 2007, leasing activities in factory premises remained relatively moderate, with q-o-q growth of 1.9% registered in comparison with 6.2% achieved in the previous quarter. Yet, buoyed by strong investment interest from predominantly local investors who considered industrial properties lagging behind other real estate types, the average capital values surged 9% q-o-q in the fourth quarter, the highest quarterly gain since mid-2005. Recent above-market-average unit prices achieved for 24,725-sf at Wah Shing Centre in Kwai Chung (\$3,600 psf), and 14,017-sf at Harbour Centre Tower in Hungghom (\$3,219 psf) sent shockwaves to upsurge the capital values in these districts, underlining the strong demand.

EN BLOC & SITE TRANSACTIONS

En bloc and Site Transactions



Compared with 2006, the total floor area involved in en bloc transactions registered a significant yearly increase of 32.1% in 2007 while total considerations rose 55.3%. Two uncommon and encouraging transactions were noted in the fourth quarter – two bare industrial sites changed hands in November 2007 in the established industrial precincts of Tsuen Wan and Kwai Chung. The sites, located on Fui Yiu Kok Street in Tsuen Wan and on Yiu Wing Street in Kwai Chung, were transacted at \$72 million and \$116 million, respectively. These bare site transactions reflect the eagerness of investors and developers to take advantage of the prevailing supply crunch in quality industrial properties. Future developments on these sites will most likely involve industrial premises highly adaptive to the need of logistics players, given the high level of existing industrial activity in the area, which is also an important logistics hub.



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- Western Kowloon
- The New Territories

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INDUSTRIAL PROPERTY DEFINITIONS

WAREHOUSE:

This category comprises premises designed or adapted for use as godowns or cold stores and includes ancillary offices. Premises located within the container terminals are also included. About 80% of the stock is located in the New Territories, with Kwai Tsing alone accounting for 40 per cent.

INDUSTRIAL/OFFICE (I/O):

This category comprises floor space in developments with planning permission and lease modification for industrial/office use and certified for occupation as such. The stock is distributed in 11 districts throughout the territory, with Kwun Tong, Shum Shui Po and Kwai Tsing, accounting for more than 70 per cent of the total floor space.

FACTORY:

This category comprises flatted factories and ancillary office accommodations. It includes flatted factory space that has received planning permission for industrial/office use but has not yet completed the government lease modification. Also included in this category is strata-title floor space with temporary planning permission for industrial/office use and short-term waivers of government lease restrictions. It should be noted that much of the flatted factory space completed in recent years has been built to a high standard with good finishes. Although many factory buildings are occupied as offices, showrooms, or a mixture of these uses and light industrial purposes, they should be distinguished from buildings with proper industrial/office status. The majority of the stock is found in four districts of Hong Kong, namely Kwun Tong, Tsuen Wan, Kwai Tsing and Tuen Mun, which account for 60 per cent of the total supply.