

The latest government figures on GDP and external merchandise trade confirmed 2005 to be a year of broad-based economic upturn. Overall GDP y-o-y growth for 2005 was registered at 7.3% in real terms. In particular, the buoyancy in exports contributed much to this 2005 GDP growth in that the total exports (comprising re-exports and domestic exports) recorded y-o-y growth of 11.2% in real terms in 2005. Meanwhile,

*More local investors are following the path of the institutional players in acquiring en bloc industrial properties, thus providing support to the capital values of these premises.*

given that the external economic environment remained largely supportive, the value of total exports, for the first quarter of 2006, rose by 12.1% y-o-y, and the value of re-exports was noted to have increased y-o-y by 10.7% over the same period. Concurrently, the value of domestic exports surged by 38.7%, indicating distinct increases in exports of clothing items and office machines, according to remarks made by the Census and Statistics Department.

While no new REITs were listed in the first quarter of 2006, the positive sentiment generated by earlier launches did not diminish, leaving the market speculating over potential REITs in the pipeline as it kept a close eye on the acquisition of industrial properties within the period under review. Mapletree Logistics Trust was an early mover in 2006 with its various acquisitions within the first quarter,

including a cluster of floors in two warehouse buildings held by the Ever Gain Group in Shatin for an aggregate of \$1.08 billion and its purchase of Pressfield Centre in Fanling for \$113 million. These investments acted to further buoy the level

of optimism held by the market with regard to industrial real estate. Indeed, it is becoming apparent that growing numbers of local investors are following the path of institutional players in

acquiring en bloc industrial properties, thus providing added support to the level of capital values witnessed in the sector.

Meanwhile, properties in the highly sought after warehouse segment, particularly those acquired earlier by institutional players, were noted to have registered substantial rental hardening, fuelling improved yield return. As the new yield-driven owners had acquired these properties at a premium in lieu of the expected capital appreciation, and in view of the current shortage in supply which will support high rentals in the market, it is very likely that in the long run, the logistics users in these properties would inevitably have to pass at least part of the rental burden onto the shoulders of their customers. The rise in operational cost incurred from surging rentals in Hong Kong warehouse properties may have a dampening impact on the future prospects of the logistics industry of the SAR.

**QUICK STATS**

	Change in Q4 05	Change in Q1 06
<b>WAREHOUSE</b>		
Demand	↑	↑
Supply	↓	↔
Rents	↑	↑
Vacancy Rate	↓	↔
<b>INDUSTRIAL/OFFICE</b>		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↑
Capital Values	↑	↑
<b>FACTORY</b>		
Demand	↑	↑
Supply	↓	↓
Rents	↑	↑
Capital Values	↑	↑

**SELECTED LEASING TRANSACTIONS IN 1Q 2006**

Property	Floor	Location	Type	Size (sf)	Gross Rental (HK\$ psf per month)
Lu Plaza	12/F Portion & 18/F	Kwun Tong	I / O	30,000	12.00
ICI Container Building	7/F & 8/F	Kwai Chung	Warehouse	37,690	3.80
Lucky Industrial Godown Building	Unit B, 13/F	Kwai Chung	Warehouse	11,000	3.00
Westlands Centre	Units 7 & 8, 17/F	Quarry Bay	Industrial	4,516	8.20
Luks Industrial Building	En Bloc	Tuen Mun	Industrial	189,920	2.20

**SELECTED SALES TRANSACTIONS IN 1Q 2006**

Property	Floor	Location	Type	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Shatin Industrial Centre Block A	Unit 8, G/F	Shatin	Industrial	6,857	16.00	2,333
Shing Dao Industrial Building	10/F	Aberdeen	Industrial	13,974	10.10	723
Safety Godown Industrial Building	2-4/F	Chai Wan	Warehouse	114,910	68.00	592
Sheung Shui Plaza Block A	1/F	Sheung Shui	Warehouse	29,901	17.00	569
Riley House	16/F	Kwai Chung	Industrial	48,468	28.90	596
Fook Cheong Building	3/F	Kwun Tong	Industrial	10,490	13.50	1,287
Enterprise Square Two	Units 6-8, 23/F	Kowloon Bay	I / O	4,672	14.00	2,997
Westley Square	Unit 1, 19/F	Kwun Tong	I / O	4,646	14.23	3,065
Wilson Logistics Centre	En Bloc	Kwai Chung	Warehouse	281,286	243.00	865

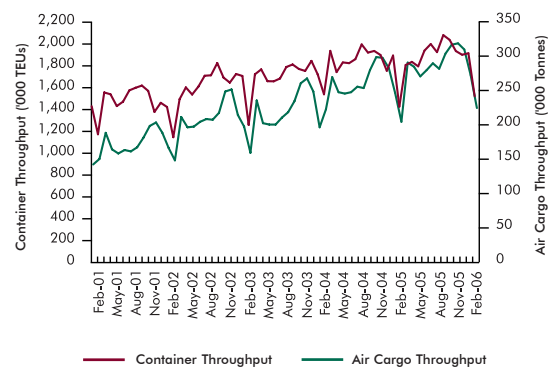
**ECONOMIC INDICATORS**

**Merchandise Trade**



Source: Census & Statistics Department

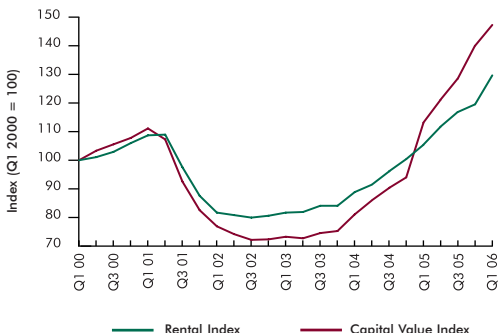
**Container and Air Cargo Throughput**



Source: Marine Department; Civil Aviation Department

## WAREHOUSE

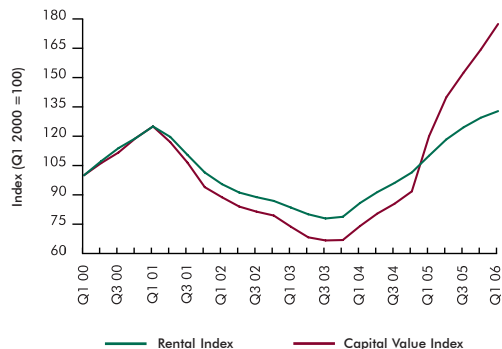
### Warehouse Rental and Capital Value Indices



The sustained bullish performance of export trade in general provided support to the rental growth of warehouse properties as logistics players are still seeking space to cater for their expanding operations. However, in view of the surging rentals, some tenants opted to put their expansion plans on hold, which contributed to a slight rebound in warehouse vacancy figure from 2.1% in the last quarter to 2.4%. Nevertheless, such a correction should be short-term, given the squeeze on supply. Meanwhile, as capital values of warehouses had earlier appreciated to a relatively high level, the rate of appreciation corrected moderately in the first quarter, resulting in a boosted yield of 8.8%.

## FACTORY

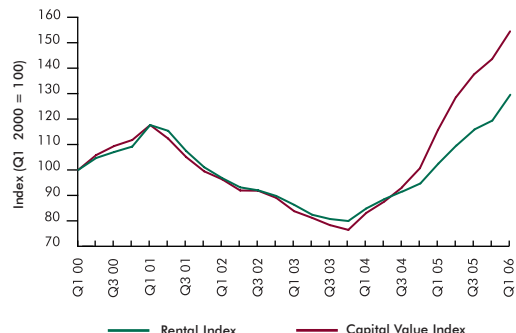
### Factory Rental and Capital Value Indices



On the back of the Lunar New Year holidays the first quarter is traditionally a quiet period. However, strata industrial sales remained active at the start of 2006 as the market still registered a number of notable transactions. Examples of noteworthy transactions included Unit 8 on G/F of Block A of Shatin Industrial Centre in Shatin for about \$16 million (i.e. \$2,333 psf) and the sale of 3/F of Fook Cheong Building in Kwun Tong for a consideration of \$13.5 million (i.e. \$1,287 psf). However, as the growth in factory capital values outpaced rental appreciation, average yield contracted by 0.4 of a percentage point, unlike the other two industrial sub-sectors that registered a rebound in yields within the same period.

## INDUSTRIAL/OFFICE (I/O)

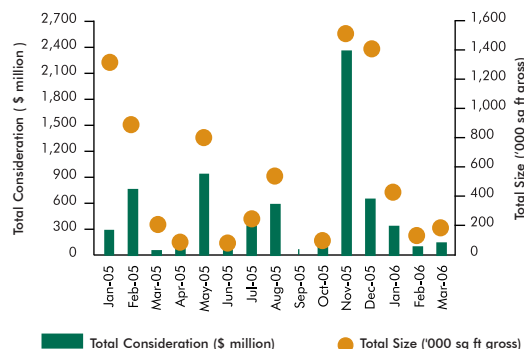
### Industrial/Office Rental and Capital Value Indices



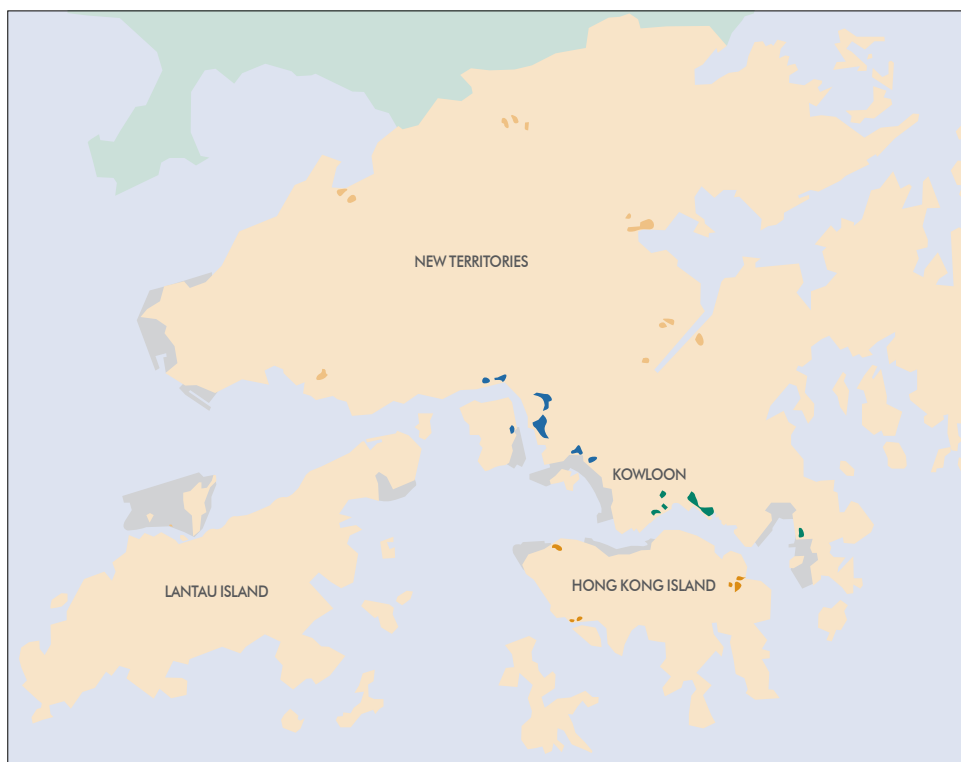
With the across-the-board hardening of rentals in Hong Kong's office market, I/O facilities are increasingly being considered as a feasible alternative by office occupiers in that their quality and rentals are generally very favourable in comparison with Grade A offices in decentralised areas. As a result of the current office squeeze, I/O properties are benefiting from the knock-on impact of upward pressure on rentals in Hong Kong's office sector, which is driving a flight-cost-savings across the market. The impact of these relocation moves on I/O properties became particularly apparent within the first quarter given that many office leases, signed in the midst of the SARS outbreak three years ago, came up for renewal. As a result, demand in this segment fuelled I/O rental and capital value growth of 8.5% and 7.6%, q-o-q, respectively.

## EN BLOC & SITE TRANSACTIONS

### En bloc and Site Transactions



The buoyancy in industrial en bloc sales was carried forward to 2006 with six notable transactions registered in the first quarter. Four of these six transactions involved buildings in the Tsuen Wan/Kwai Chung prime industrial area. As in previous quarters, institutional players played a major part in heating up the en bloc sales market with Macquarie Goodman kicking the quarter off with their latest industrial acquisition for Wilson Logistics Centre in Kwai Chung for \$243 million. Mapletree Logistics Trust Management then acquired the Pressfield Centre in Fanling for \$113 million in March, setting a relatively high benchmark of \$823 psf in the On Lok Tsuen market. Elsewhere, the market saw Keng Sing Industrial Building in Kwai Chung sold to a local investor for \$38.7 million.



## MAJOR HONG KONG INDUSTRIAL AREAS

- Hong Kong Island
- South East Kowloon
- Western Kowloon
- The New Territories

## ASIA OFFICES

### HONG KONG

34/F, Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong  
Telephone: (852) 2820 2800  
Facsimile: (852) 2810 0830

### BEIJING

PEOPLE'S REPUBLIC OF CHINA  
12/F, Beijing Fortune Plaza, Tower A  
7 Dong San Huan Zhong Road  
Chaoyang District, Beijing 100020  
People's Republic of China  
Telephone: (86) 10 5820 9288  
Facsimile: (86) 10 5820 9088/9188

### SHANGHAI

PEOPLE'S REPUBLIC OF CHINA  
Suite 3201, 3203-3206  
32F, K. Wah Center  
1010 Huai Hai Middle Road  
Shanghai, 200031  
People's Republic of China  
Telephone: (86) 21 2401 1200  
Facsimile: (86) 21 5403 7519

### GUANGZHOU

PEOPLE'S REPUBLIC OF CHINA  
Rm 2001, Guangzhou  
International Electronics Tower  
403 Huanshi Road East  
Guangzhou 510095  
People's Republic of China  
Telephone: (86) 20 8732 2332  
Facsimile: (86) 20 8732 2981

### CHENGDU

PEOPLE'S REPUBLIC OF CHINA  
Suite 2906, Building A, Times Plaza  
No. 2, Zong Fu Road, Chengdu 610016  
People's Republic of China  
Telephone: (86) 28 8665 2018  
Facsimile: (86) 28 8665 0502

### SINGAPORE

Six Battery Road, #32-01  
Singapore 049909  
Telephone: (65) 6224 8181  
Facsimile: (65) 6225 1987

### BANGKOK, THAILAND

46th Floor, CRC Tower  
All Seasons Place  
87/2 Wireless Road  
Lumpini, Pathumwan  
Bangkok 10330, Thailand  
Telephone: (66) 2 654 1111  
Facsimile: (66) 2 685 3300-1

### PHUKET, THAILAND

12/9 Moo 4, Thepkrasattri Road  
Koh Kaew, Amphur Muang  
Phuket 83000, Thailand  
Telephone: (66) 76 239 967  
Facsimile: (66) 76 239 970

### JAKARTA, INDONESIA

7th Floor, Permata Bank Tower I  
Jalan Jenderal Sudirman Kav. 27  
Jakarta 12920, Indonesia  
Telephone: (62) 21 523 7337  
Facsimile: (62) 21 523 7227

### TAIPEI, TAIWAN

7/F Cosmos Building  
134 Sec 3  
Minsheng East Road  
Taipei, Taiwan  
Telephone: (886) 2 2713 2266  
Facsimile: (886) 2 2712 3065

### TOKYO, JAPAN

28/F, Izumi Garden Tower  
1-6-1 Roppongi, Minato-Ku  
Tokyo 106-6028, Japan  
Telephone: (81) 3 6230 1188  
Facsimile: (81) 3 6230 1177

### NEW DELHI, INDIA

Press Trust of India Building  
Ground Floor, 4 Parliament Street  
New Delhi 110 001, India  
Telephone: (91) 11 2335 7448/49  
Facsimile: (91) 11 2331 7670

### MUMBAI, INDIA

9A, 2nd Floor, Laxmi Tower  
C-25, G Block  
Bandra Kurla Complex, Bandra (E)  
Mumbai 400 051, India  
Telephone: (91) 22 2652 7628/7665  
Facsimile: (91) 22 2652 7655

### BANGALORE, INDIA

3rd Floor, The Hulkul  
81/37, Lavelle Road  
Bangalore 560 001, India  
Telephone: (91) 80 5112 1240-49  
Facsimile: (91) 80 5112 1239

### CHENNAI (MADRAS), INDIA

2-C&D, Gee Gee Emerald  
151 Village Road, Nungambakkam  
Chennai 600 034, India  
Telephone: (91) 44 2821 4599  
Facsimile: (91) 44 2821 4607

### HYDERABAD, INDIA

Eden Garden 8-2-595/3/5  
Road No:10, Banjara Hills  
Hyderabad 500 034, India  
Telephone: (91) 40 2335 8887  
Facsimile: (91) 40 2335 8886

### PUNE, INDIA

CB Richard Ellis  
South Asia Pvt. Limited  
Bungalow No. 33, Hermes Heritage  
Phase I, Nagar Road  
Shashtrinagar, Pune, India  
Telephone: (91) 20 3094 6577

### SEOUL, KOREA

12/F, Korea First Bank Building  
100 Konggyung Dong  
Jongro-ku  
Seoul, Korea 110-702  
Telephone: (822) 2170 5800  
Facsimile: (822) 2170 5899

### MANILA, PHILIPPINES

Suite 1003-1005  
10/F Ayala Tower One &  
Exchange Plaza, Ayala Avenue  
1200 Makati City  
Philippines  
Telephone: (632) 752 2580  
Facsimile: (632) 752 2571

### HANOI, VIETNAM

Unit 12A, Vincom City Tower  
191 Ba Trieu Street  
Hanoi, Vietnam  
Telephone: (844) 220 0220  
Facsimile: (844) 220 0210

### HO CHI MINH CITY, VIETNAM

Unit 1301, Me Linh Point Tower  
2 Ngo Duc Ke Street, District 1  
Ho Chi Minh City, Vietnam  
Telephone: (848) 824 6125  
Facsimile: (848) 823 8418

### 11, Thao Dien, An Phu

District 2, Ho Chi Minh City  
Vietnam  
Telephone: (848) 744 2621/22  
Facsimile: (848) 744 2620

## INDUSTRIAL PROPERTY DEFINITIONS

### WAREHOUSE:

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

### INDUSTRIAL/OFFICE:

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 was distributed in 10 districts throughout the territory, with predominance in Kwun Tong, Cheung Sha Wan, Sham Shui Po, Kwai Tsing and Shatin, which together accounted for 80 per cent of the total space.

### FACTORY:

This category comprises flatted factories and ancillary office accommodation. This includes flatted factory space with planning permission for industrial/office use, but for which Government lease modification has not yet been completed. 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 also be noted that much of the flatted factory space completed in recent years has been built to a good standard with good finishes. Although many factory buildings are occupied as offices, showrooms, or a mix of these and light industrial uses, they should be distinguished from buildings with proper industrial/office status. A majority of the stock was distributed in 4 districts, namely Kwun Tong, Tsuen Wan, Kwai Tsing and Tuen Mun, which accounted for 60 per cent of the total supply.