

In the second quarter, the Hong Kong economy continued to grow buoyantly with a GDP rise of 5.2% in real terms over a year earlier. Benefiting from improving employment conditions, economic growth in the second quarter was supported by positive domestic consumption, which further picked up 5.0% y-o-y in real terms in the second quarter, slightly higher than the 4.5% growth in the first quarter. Total exports (comprising re-exports and domestic exports), meanwhile, rose by 6.4% in real terms in the second quarter over a year earlier. It is noteworthy that for the first eight months of 2006 as a whole, the value of domestic exports increased by a robust 20.3% while the value of re-exports rose by 8.4%. It is expected that economic fundamentals including the sustained brisk expansion of the mainland's economy and the recent pause in the US interest rate up-cycle, in addition to resilient domestic demand will underpin Hong Kong's positive economic outlook for the near to medium term.

In a continuation of the trend witnessed during the previous quarter, the Hong Kong industrial property market exhibited a mild consolidation in the third quarter but industrial property owners remained optimistic towards the market, mainly on

the back of limited supply of industrial properties in the market, particularly high-quality investment grade premises. Industrial property landlords' optimistic stance, in addition to increasing demand for industrial properties, led landlords to stand firm on asking rentals and prices. This phenomenon fuelled increases in industrial rents and capital values across all industrial property sub-segments. This rise was particularly evident in Kwun Tong

district on the back of the recent news that the Urban Renewal Authority has drawn up plans to redevelop 5.3 hectares of land in the district into a commercial and retail hub, prompting landlords in the district to further raise their expectations.

Although the Kwun Tong Town Centre Redevelopment proposal does not cover any industrial premises, industrial landlords of the district consider that the values of their properties will enjoy substantial rises as the redevelopment will further expedite the transformation of the district from a traditional industrial area into a commercial hub. Kowloon Bay, due to its proximity to Kwun Tong, may also experience an accelerated transformation similar to that witnessed in Kwun Tong, thereby reducing the future supply of industrial properties in the two districts.

*The Hong Kong industrial property market exhibited a mild consolidation in the third quarter but industrial property owners remained optimistic towards the market.*

**QUICK STATS**

	Change in Q2 06	Change in Q3 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	↑	↑

**MAJOR LEASING TRANSACTIONS IN 3Q 2006**

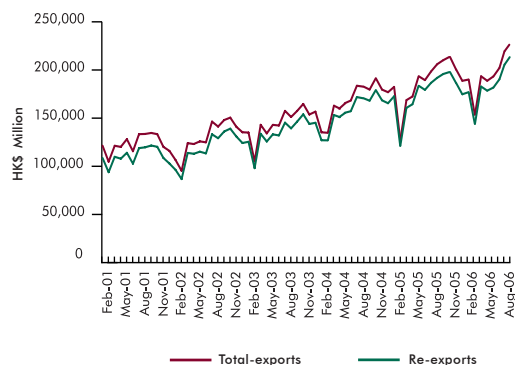
Property	Floor	Location	Type	Size (sf)	Gross Rental (HK\$ psf per month)
Tai Ping Industrial Park Block A	1/F	Tai Po	Industrial	13,972	4.20
Tins Plaza	21/F	Tuen Mun	Industrial	53,000	3.20
Meeeco Industrial Building	10/F	Shatin	Industrial	12,626	3.60
No.1 Hung To Road	Units 12 & 13, 26/F	Kwun Tong	Industrial	12,608	12.0
No.1 Hung To Road	Units 12 & 13, 35/F	Kwun Tong	Industrial	11,405	13.0
Riley House	Units 6 & 7, 14/F	Kwai Chung	Industrial	14,440	4.90
Kwai Tak Industrial Centre Block 1	Units A-D, 7/F	Kwai Chung	Industrial	12,864	3.90

**MAJOR SALES TRANSACTIONS IN 3Q 2006**

Property	Floor	Location	Type	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
No.1 Hung To Road	Units 1-3, 35/F	Kwun Tong	Industrial	11,361	34.1	3,000
Union Hing Yip Factory Building	Unit B, 1/F	Kwun Tong	Industrial	10,964	11.5	1,050
Everwin Centre	Units A & B, 2/F	Kwun Tong	Industrial	11,054	12.2	1,100
Sunbeam Centre	Unit 3, 8/F	Kwun Tong	Industrial	11,250	11.9	1,060
Sunking Factory Building	Unit B, 6/F	Shatin	Industrial	14,514	13.3	919
Por Mee Factory Building	Units A & B, 8/F	Cheung Sha Wan	Industrial	11,541	13.3	1,152
Sun Fung Centre	Units 6 & 7, 1/F	Kwai Chung	Industrial	13,638	14.1	1,032
Hang Ngai Jewelry Centre	Units 8-14, 8/F	To Kwa Wan	Industrial	14,125	22.0	1,560
Sing Dao Industrial Building	9/F	Aberdeen	Industrial	13,974	12.0	859

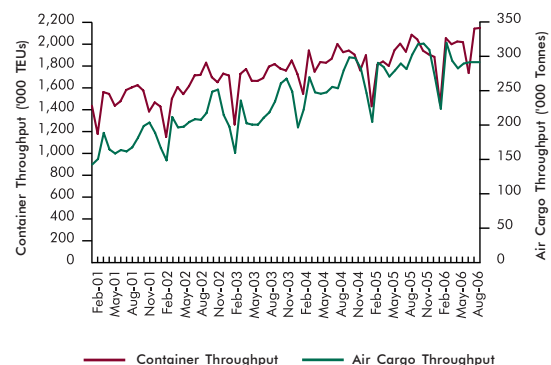
**ECONOMIC INDICATORS**

**Merchandise Trade**



Source: Census & Statistics Department

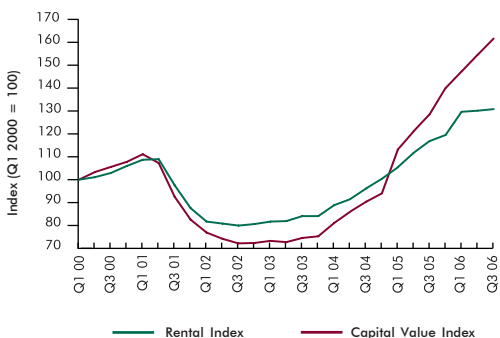
**Container and Air Cargo Throughput**



Source: Marine Department; Civil Aviation Department

## WAREHOUSE

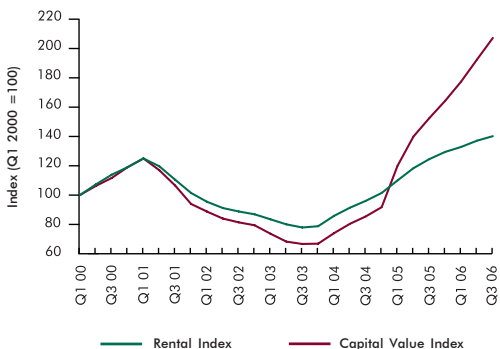
### Warehouse Rental and Capital Value Indices



Owing to robust export performance, demand for warehouses remained at a positive level, particularly those with large floor plates and located close to highway networks. On the back of limited warehouse supply, the vacancy rate fell to 2.5% in the third quarter from 3% in the second. Warehouse properties continued in the third quarter to offer the highest yields, at 8.1%, of the three industrial property sub-sectors in Hong Kong. The relatively higher yields of warehouses lured a growing number of investors to show strong interest in acquiring warehouse properties within the period under review but the limited supply of top tier properties in the market acted to restrain transaction volume.

## FACTORY

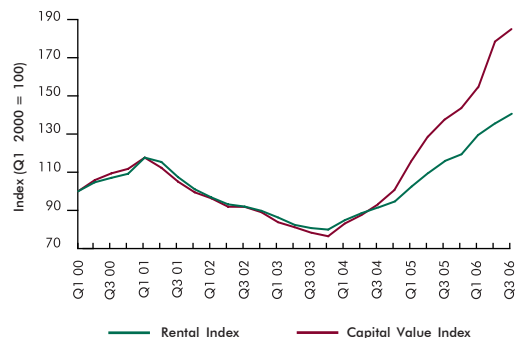
### Factory Rental and Capital Value Indices



Upbeat demand for factory premises for expansion purposes was witnessed in the third quarter as factory users sought to secure additional space to accommodate the growth of their operation. At the same time, there were an increasing number of factory operators observed as planning to expand their factories according to Building Department records, as the number of factory expansion applications approved by the department during the first eight months of 2006 saw a considerable spike to accommodate the growth in demand for factory space in Hong Kong, a phenomenon largely attributed to improved links with the mainland under the further expansion of CEPA. Overall, acquisitions of factory space mostly involved smaller areas, generally of less than 10,000 sf, as end-users rather than investors, dominated the market.

## INDUSTRIAL/OFFICE (I/O)

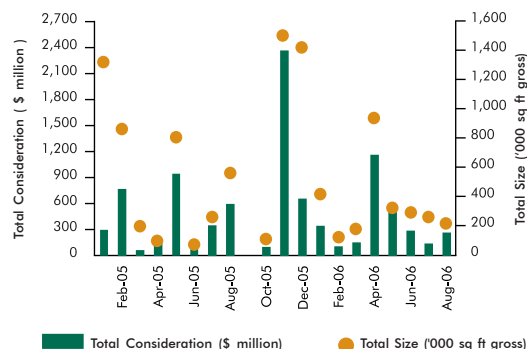
### Industrial/Office Rental and Capital Value Indices



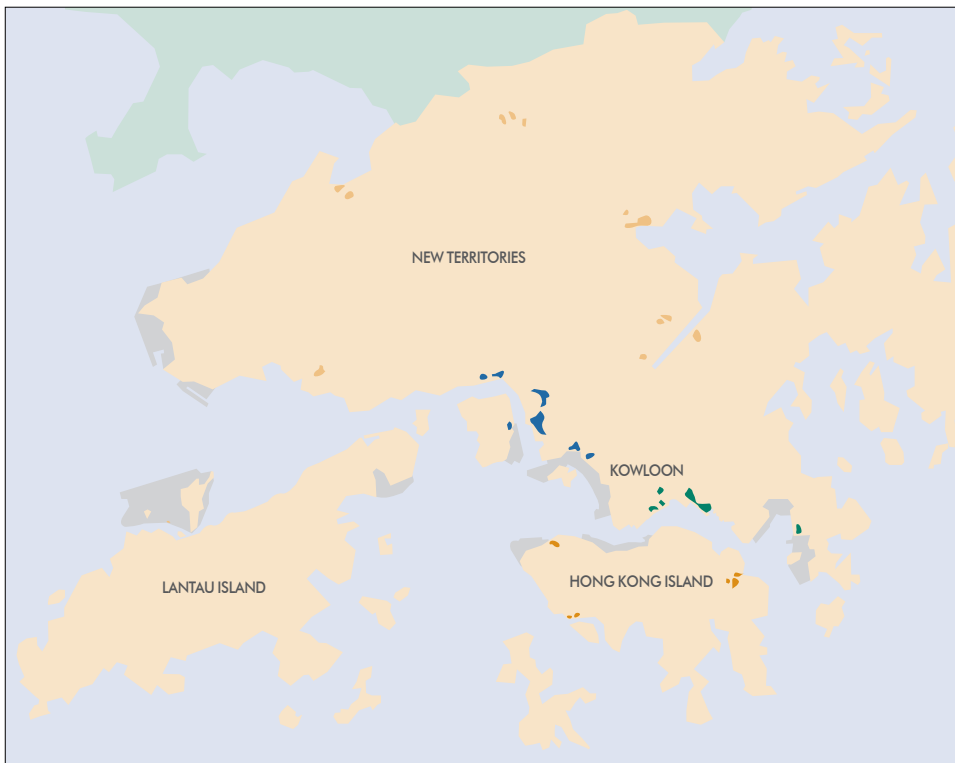
Capital values in the I/O segment witnessed more restrained q-o-q growth in the third quarter at 3.7%, as compared with 15.5% in the preceding three-month period. Rentals, meanwhile, also registered a more gradual q-o-q growth of 3.7%, in comparison to the second quarter hardening of 4.6%. The slower rental and capital value growth was mainly attributed to the boosted upcoming supply of decentralised office space slated for the market. It is expected that the significant quantum of new supply in the Kowloon office sector will exert further pressure on I/O properties as tenants that previously relocated to I/O buildings for cost-saving will have a number of market options as new supply is forecast to result in rental competition between landlords to secure tenants.

## EN BLOC & SITE TRANSACTIONS

### En bloc and Site Transactions



The industrial sales market was relatively quiet in the third quarter. There were a total of four major en bloc transactions, involving a total area of 493,258 sf and an aggregate consideration of \$369.4 million. Among them, significant transactions involving larger floor space included the acquisition of Shibusawa (Hong Kong) Building in Tsuen Wan, with a total gross floor area of 190,000 sf, for a consideration of \$210 million, the equivalent of \$1,100 psf. At the same time, Hing Wai Ice & Cold Storage in Aberdeen, offering a total gross floor area of 200,000 sf, was sold for \$70 million, or \$350 psf. Within the period under review, interest in and demand for industrial properties persisted but was hampered by investors' and end-users' opposition to the level of appreciation.



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- Hong Kong Island
- South East Kowloon
- 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. 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.

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