

The total value of goods exported between September and November rose by 8.9% y-o-y, with re-exports increasing by 11.6% y-o-y. Moreover, both container and air cargo throughput in Hong Kong set all-time records. The estimated container throughput for the first eleven months of 2006 was 21.4 million TEUs, a 3.5% y-o-y increase, while airfreight handled at the Hong Kong International Airport reached 3.3 million tons in the same period, registering y-o-y growth of 5.4%. The weakness of the US dollar, to which the Hong Kong dollar is pegged, was one of the main drivers of the increase in export activities.

Tight supply plus sustained demand has extended the rise of rental and capital values of local industrial properties since 2004.

Although fierce competition is expected from various nearby ports, local logistics firms still consider Hong Kong to be the region's major logistics hub. Federal Express, which has a great influence on local logistics development, has announced the expansion of its Express Distribution Centre, which is relocating to Kwai Chung, as part of its local service enhancement. It has also established a new station in Yuen Long, with an area of 53,820 sf, for the convenience of customers making cross-border shipments between Mainland and Hong Kong.

Nevertheless, the rapid development of Guangzhou and other PRD cities adds an element of uncertainty to the Hong Kong industrial market. Some of the smaller logistics companies may be under pressure to lower storage and

transportation costs.

Inversely, the government's shelving of the potential Goods and Services Tax (GST) has eased concern about additional operating

costs among local industrial investors, as many believed the implementation of a GST would have hindered the industry, impacting Hong Kong's status as a logistics hub.

Shortage of new industrial property supply continued across the three sub-sectors, as only 294,931 sf of new warehouse space was provided to the market in the first eleven months of 2006. Tight supply and sustained demand has extended the rise of both rental and capital values of Hong Kong industrial properties since 2004. Looking forward, majority of industrial property owners are likely to remain generally optimistic towards the market, mainly on the back of the limited supply, especially high-quality investment premises. Both rents and prices of industrial properties are expected to achieve a further 10-15% increase in 2007.

QUICK STATS

	Change in Q3 06	Change in Q4 06
WAREHOUSE		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↑
Vacancy Rate	↓	↓
INDUSTRIAL/OFFICE		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↑
Capital Values	↑	↑
FACTORY		
Demand	↑	↑
Supply	↓	↓
Rents	↑	↑
Capital Values	↑	↑

MAJOR LEASING TRANSACTIONS IN 4Q 2006

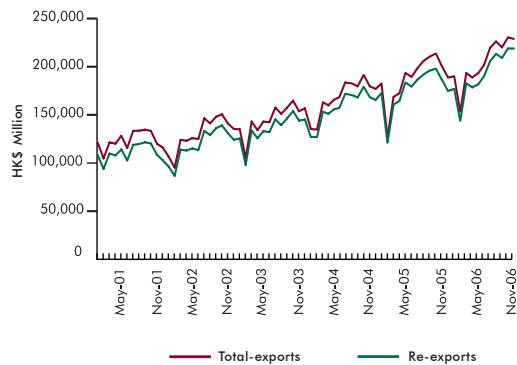
Property	Floor	Location	Type	Size (sf)	Gross Rental (HK\$ psf per month)
Hilder Centre	Unit 8, 1/F	Hung Hom	Industrial	5,858	9.2
Honour Industrial Centre	Unit 3, 21/F	Chai Wan	Industrial	7,756	6.2
New Trend Centre	Units 5-11, 18/F	San Po Kong	Industrial	4,954	5.5
Hewlett Centre	Unit 2, G/F	Kwun Tong	Industrial	4,492	20.0
CCT Telecom Building	Units 6-10, 15/F	Shatin	I/O	7,626	13.0
Hong Kong Worsted Mills Industrial Building	Unit 4, 10/F	Kwai Chung	Industrial	10,156	5.3
Ever Gain Plaza Tower 2	Units 6-10, 11/F	Kwai Chung	I/O	10,574	12.5
Tsuen Wan International Centre	Units A-B, 17/F	Tsuen Wan	Warehouse	12,792	5.0
Tai Sang Shatin Warehouse Centre Phase II	14/F	Shatin	Warehouse	13,214	5.0

MAJOR SALES TRANSACTIONS IN 4Q 2006

Property	Floor	Location	Type	Size (sf)	Price (HK\$ Million)	Price (HK\$ psf)
Dragon Industrial Building	Unit C, 3/F	Cheung Sha Wan	Industrial	7,367	8.33	1,130
Yip Fat Factory Building Phase 2	Unit E, 3/F	Kwun Tong	Industrial	5,972	7.15	1,197
Fu Hang Industrial Building	Units 5-7, 8/F	Hung Hom	Industrial	8,371	13.80	1,649
Cable TV Tower	30/F	Tsuen Wan	Industrial	35,687	46.89	1,314
Hoi Yuen Industrial Centre	Unit 29, 4/F	Kwun Tong	Industrial	9,671	12.50	1,293
Harbour Centre Tower 2	Unit 3, 8/F	Hung Hom	Industrial	4,379	10.95	2,500
Waylee Industrial Centre	Units A-B, 19/F	Tsuen Wan	Industrial	6,284	6.29	1,000
Kodak House Block II	Units 3-5, 4/F	North Point	Industrial	5,614	19.64	3,498
Eastern Centre	Unit 4, 15/F	Quarry Bay	Industrial	3,853	6.50	1,687

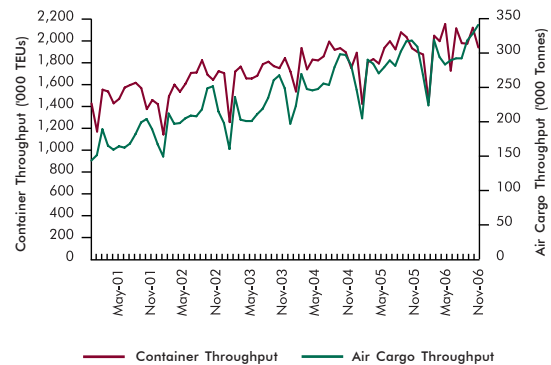
ECONOMIC INDICATORS

Merchandise Trade



Source: Census & Statistics Department

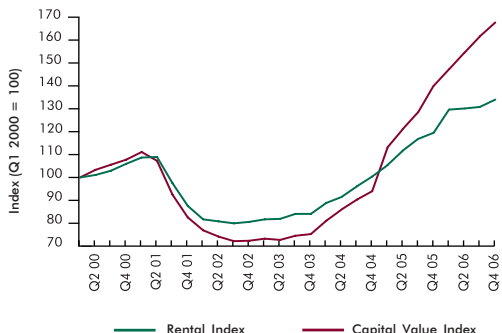
Container and Air Cargo Throughput



Source: Marine Department; Civil Aviation Department

WAREHOUSE

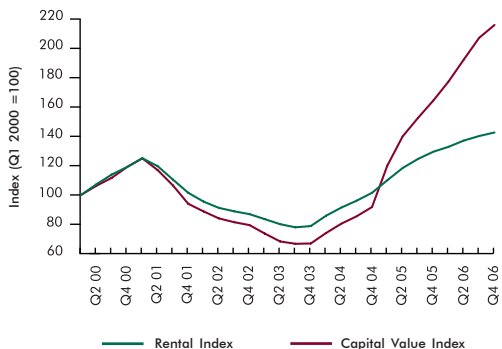
Warehouse Rental and Capital Value Indices



Air and sea freight volumes in Hong Kong again broke records in 2006. As the freight business entered its traditionally busiest period in the fourth quarter, logistics firms were keen to source additional warehouse spaces to cope with their workload. Strong demand again pushed the overall warehouse vacancy rate down. The rate fell from 2.5% in the third quarter to 2.1% in the fourth quarter, the lowest rate ever recorded. Meanwhile, warehouse properties as a whole continued to out-perform I/O and factory properties in terms of yield, with overall warehouse yields reaching 8.0%, and yields for prime warehouses ranged between 6.5%-7%.

FACTORY

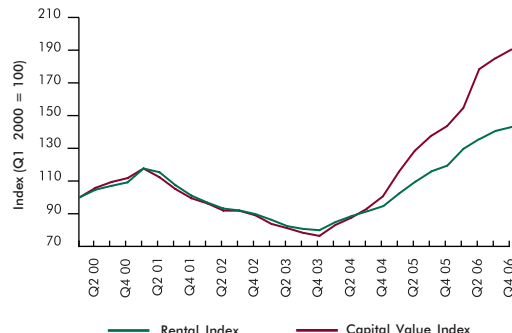
Factory Rental and Capital Value Indices



The considerable amount of factory spaces absorbed in the first three quarters of 2006 was offset by the more conservative approach adopted by existing factory users in the fourth quarter. The number of factory acquisitions due to rapid expansion declined this quarter, as most owners prepared their 2007 business plans and held resources and capital in reserve. As with I/O properties, factory rental and capital values rose at a lower rate in the period under review due to the substantial increases seen in preceding quarters. Rentals and capital values grew 1.7% and 4.2%, respectively, q-o-q.

INDUSTRIAL/OFFICE (I/O)

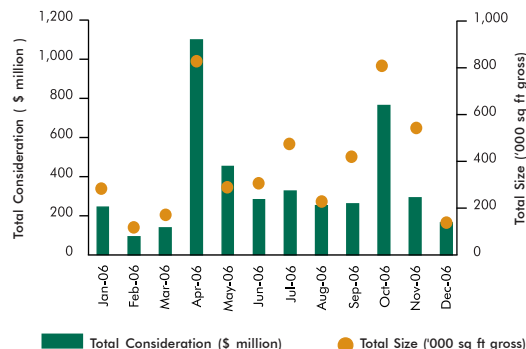
Industrial/Office Rental and Capital Value Indices



Rental and capital values of I/O properties continued to increase gradually during the fourth quarter. Rental values increased 1.7% q-o-q, while capital values registered 2.9% q-o-q growth. Growth rates of rentals and capital values of I/O properties have begun to slow as they search for their peak, since they no longer appear cheap to users and investors. In line with this pattern, interest in I/O properties has cooled among office tenants who had considered moving into I/O buildings due to their comparatively lower cost.

EN BLOC & SITE TRANSACTIONS

En bloc and Site Transactions



2006 proved to be a banner year for industrial en bloc transactions, with the number of whole building transfers increasing by 31% y-o-y. En bloc industrial transactions recorded a sharp q-o-q increase in the fourth quarter. Nine major en bloc deals, involving total consideration of \$1.2 billion and a total area of 1,491,251 sf, took place in the quarter. Major acquisitions included the transfer of Kerry (Yuen Long) Warehouse I, a 321,000 sf facility, in a deal worth \$233 million, and the Hung Wai Industrial Building (260,000 sf) also in Yuen Long, for \$130 million.



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- Western Kowloon
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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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