

Hong Kong's buoyant economy has resulted in further expansion by banks, hedge funds and other finance related companies. Interest in Grade A office space from financial institutions has continued to grow, driving rents in the best buildings upwards while second-tier buildings are experiencing a softening in rents. Major activity in Central during the fourth quarter included UBS committing to lease approximately 76,400 sf (gross) in Li Po Chun Chambers, and Sama Dubai and China Construction Bank taking 8,275 sf and 10,300 sf, respectively, in the newly opened York House.

Rents in Central increased by 41% during 2006 and we have seen some record transactions achieved in Two IFC and York House.

The polarisation of Hong Kong's Grade A office market persisted in the fourth quarter of 2006 as rents for prime quality space in Central continued to be bid up by the strong demand, while rents in the Kowloon sub-markets started to consolidate. Rents in Central increased by 41% during 2006 and we have seen some record transactions achieved in Two IFC (\$162 psf per month) and York House (\$140 psf per month).

The Kowloon sub-market saw a flurry of leasing transactions during the fourth quarter. There has been growing interest in Kowloon East, which has continued to develop as a commercial hub with Hang Seng Bank and DHL committing to

Enterprise Square 5 in Kowloon Bay. Philip Van Heusen has committed to lease two floors in One Kowloon, whilst Bausch and Lomb, relocating from Hong Kong East, have committed to lease one floor in the same project.

In Kwun Tong there have been a number of new lettings, mainly in Millennium City.

Both Hypercom, a new start-up company from Germany, and a leading sports manufacturer leased approximately 10,000 sf.

Elsewhere in

Kowloon, some cost-conscious tenants are leaving Tsim Sha Tsui; Olympus relocated from The Gateway to Langham Place in Mong Kok, where it leased approximately 17,000 sf.

The introduction of six million sf of new Grade A office supply in decentralised areas -- primarily East Kowloon and Hong Kong East -- before the end of the decade is expected to have a significant impact on these areas. While seeing continued expansion in the financial sector, we anticipate that the Central market will remain buoyant and a "typhoon barrier" will ensure that the trophy office stock remains a safe haven for the foreseeable future. However, the impact of new supply in some decentralised markets will create tremors in these markets that will also have repercussions in other decentralised markets.

QUICK STATS

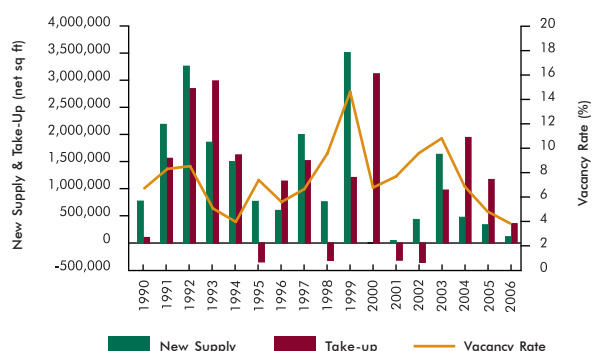
	Change in Q3 06	Change in Q4 06
New Supply	↔	↑
Demand	↑	↔
Vacancy Rate	↓	↑
Prime Rents	↑	↑

OFFICE NEW SUPPLY, STOCK AND VACANCY IN OCTOBER - DECEMBER 2006

	New Supply (Net sf)	Total Stock (Net sf)	Vacancy Rate
Core Central	115,737	13,315,531	2.16%
Admiralty	-	4,132,600	3.38%
Sheung Wan	-	3,294,015	7.03%
Wan Chai	-	6,060,460	3.27%
Causeway Bay	-	4,327,255	4.95%
Tsim Sha Tsui	-	7,865,778	5.44%
Overall Prime	115,737	38,995,639	3.84%
Decentralised Hong Kong	-	9,428,862	5.06%
Decentralised Kowloon	548,288	11,069,082	8.18%
Overall Decentralised	548,288	20,497,944	6.74%
Overall Total	664,025	59,493,582	4.84%

NEW SUPPLY, TAKE-UP AND VACANCY IN PRIME AREAS

Grade A Office Supply, Take-Up and Vacancy



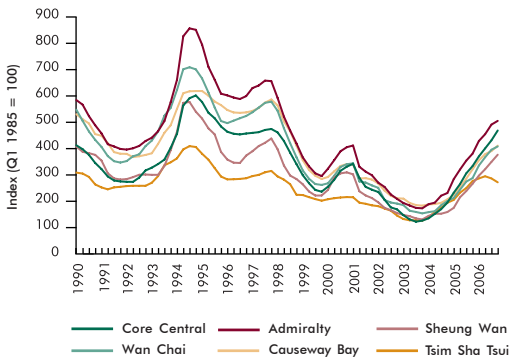
York House, the only new supply in the CBD this year, received its occupation permit in November. Five of its 14 floors were committed, and potential occupiers had expressed strong interest in another three. Looking at upcoming new supply, ICC Phase I will be available by end of 2007. It is rumoured that a financial institution currently located in Central will occupy approximately 50% of this phase, while another major Central tenant is also negotiating a sizable amount of space in the project.

Whilst we have seen fairly aggressive demand from a number of the investment banks, securing expansion space has proved difficult, as prime office supply remains tight. According to a CBRE Research occupancy analysis of the top ten Grade A buildings in the CBD, average vacancy in these buildings fell to 0.8% in the fourth quarter.

Financial occupiers requiring larger floor plates for expansion are now being forced to occupy two or three locations or secondary office space in Central, instead of traditional single strategic location. However, the rumoured moves by a few financial institutions into ICC Phase I, the only upcoming new supply in prime areas, could potentially trigger a series of relocations by Central tenants into this emerging new office hub.

RENTAL TRENDS IN PRIME AREAS

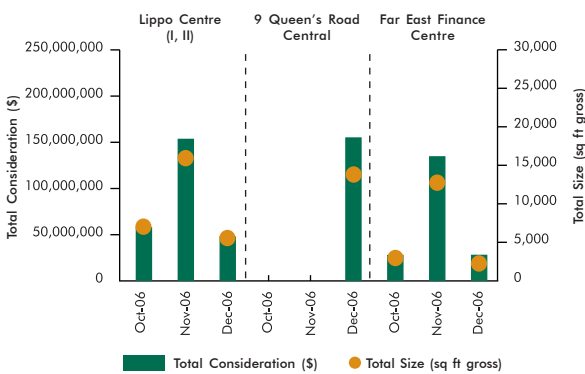
CB Richard Ellis Grade A Office Rental Index



Financial institutions were aggressive in their search for expansion space in Core Central, with wealth management and private banking driving a significant increased demand for office space. While rent for prime office space in Central continued to harden, registering q-o-q growth of 8.7% under strong demand from financial-related sectors, the pace of upswing in the remainder of the market showed signs of easing. Tsim Sha Tsui even registered a q-o-q downward adjustment of 5.2%. A number of cost-sensitive tenants have downgraded their requirements to encompass some of the top lower-quality CBD facilities, or relocated to decentralised districts.

CAPITAL VALUE TRENDS IN PRIME AREAS

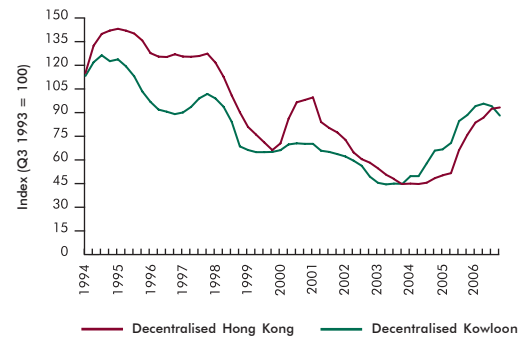
Major Transactions in Q4 2006



The bullish local stock market has heightened investment sentiment but has not translated directly into an increase in strata-title sales of office space. Capital values increased by a mild 1.6% q-o-q. However, a significant en bloc transaction was concluded during the quarter: Pacific Century Insurance Holdings acquired a Grade-A office building at 1063 King's Road in Quarry Bay for \$1.47 billion. With a gross floor area of 294,000 sf, the price represents an average of \$5,000 psf. The fourth quarter also witnessed an acquisition by a foreign investor as the Morgan Stanley Real Estate Fund, active in acquiring office premises in Hong Kong over the past year, purchased the majority portion of Lyndhurst Tower and 78 Wellington Street in Central for \$440 million, or \$5,500 psf.

RENTAL TRENDS IN DECENTRALISED AREAS

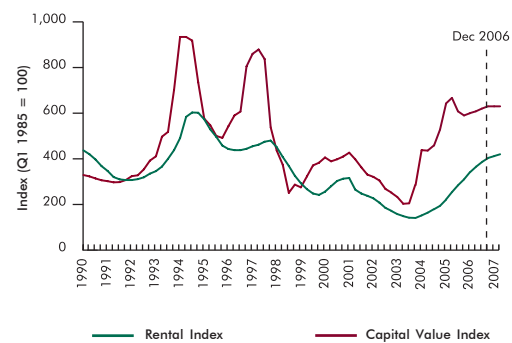
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Following the demolition of Hennessy Centre in Causeway Bay, AIA, one of the anchor tenants, relocated to Devon House in Quarry Bay. In the Kowloon sub-markets, Johnson Controls/York leased 40,000 sf in Enterprise Square in Kowloon Bay, moving out from Kwun Tong and Tsim Sha Tsui. Neo Derm relocated from Sheung Wan to Langham Place in Mong Kok, for a reported face rent of around \$40 psf, setting a record for the highest rent in Kowloon. Price and non-location sensitive tenants have begun to look at opportunities in cheaper locations, and these locations are therefore competing with their existing locations, creating an ongoing price war. During the fourth quarter, average rents in decentralised areas exhibited a minor consolidation of 2.6%, q-o-q.

PROJECTIONS

Grade A Office Rental and Capital Value Projection to Q2 2007



Demand for Grade A office space, especially in Central, remains strong on the back of continued growth in the financial sector. We see healthy pre-commitment levels from anchor tenants as a number of banks are reviewing their long-term property strategies in Hong Kong, with some expected to pre-commit to new developments, in the next two to three months. New developments will continue to offer attractive incentives to entice tenants to relocate and we anticipate that secondary buildings will offer further rental discounts to retain existing tenants or back-fill major voids. We forecast a rental decline across the decentralised markets on the back of competition generated by new decentralised supply.



PRIME OFFICE DISTRICTS IN HONG KONG

CORE CENTRAL

This is the banking, legal and financial centre of Hong Kong and the district with the highest office rentals. Core Central consists of 13.2 million sq ft of Grade A office space or 34 per cent of the prime Grade A office stock.

PERIPHERAL CENTRAL

Peripheral Central is divided into east and west including areas such as Admiralty and Sheung Wan. Over the past decade these areas have grown dramatically, establishing themselves as the extensions of Core Central. Peripheral Central consists of 7.4 million sq ft of Grade A office space or 19 per cent of the prime Grade A office stock.

WAN CHAI

Gloucester Road divides Wan Chai into two distinct sectors. The reclaimed area to the north has developed as an area for tenants requiring affordable rentals in good quality buildings, close to Central. Beyond the southern side of Gloucester Road are generally older, smaller buildings of lesser quality. Wan Chai consists of 6.1 million sq ft of Grade A office space or 15 per cent of the prime Grade A office stock.

CAUSEWAY BAY

Causeway Bay has a number of good quality office buildings at rental similar to Wan Chai. The area consists of 4.6 million sq ft of Grade A office space or 12 per cent of the prime Grade A office stock.

TSIM SHA TSUI

The prime Grade A buildings are mainly concentrated along Canton Road and Nathan Road. The area consists of 7.9 million sq ft of Grade A office space or 20 per cent of the prime Grade A office stock.

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TERMINOLOGY

GRADE A:

Modern facility with high quality finishes; flexible layout; large floor plates; spacious lobbies and circulation areas; effective central air-conditioning; good lift services zoned for passengers and goods deliveries; good management and parking facilities are normally available.

NEW SUPPLY:

The number and/or square footage of buildings completed (including redevelopment) in a period.

TAKE-UP:

The net absorption of office space let, or sold to the acquirer for occupation.

VACANCY RATE:

The amount of vacant space divided by the total stock.

RENT:

Rents are presented in HK\$ on a net basis, unless otherwise specified.

CAPITAL VALUE:

Capital values are presented in HK\$ on a gross basis, unless otherwise specified.

CBRE
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