

Quick Stats

		Y-o-Y change	Q-o-Q change
Warehouse Rental Value	HK\$6.4 psf	↓	↓
Warehouse Capital Value	HK\$999 psf	↓	↓
Warehouse Vacancy Rate	3.2%	↑	↑
I/O Rental Value	HK\$10.5 psf	↓	↓
I/O Capital Value	HK\$2,681 psf	↓	↓
Factory Rental Value	HK\$7.1 psf	↓	↓
Factory Capital Value	HK\$1,275 psf	↓	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value.

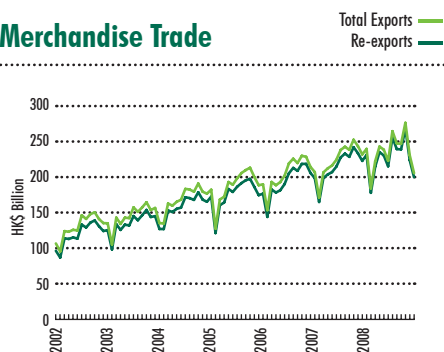
Hot Topics

- Merchandise exports witnessed a notable contraction and external demand was weak as many of Hong Kong's trading partners were hit by the economic slowdown.
- Demand for warehouse facilities declined because of the deteriorating trade environment, although factors such as the minimal new supply and the government's stimulus measures should prevent rentals from falling too drastically.
- I/O properties were the most affected by the economic downturn, losing their market appeal due to the falling office rents.
- The impact of the financial turmoil on the factory property market intensified, and demand for factory space is expected to diminish further after Chinese New Year.

In the face of the gloomy global economic situation, Hong Kong merchandise exports witnessed a notable contraction in December 2008. According to the Census and Statistics Department, the value of Hong Kong's total exports plunged 11.4% y-o-y to \$205.8 billion in December 2008, after an annual drop of 5.3% in November. Likewise, the value of re-exports fell by 10.3% over a year earlier to \$200.3 billion in December, following a slide of 4.1% y-o-y in November. For the whole year of 2008, the value of total exports grew by 5.1% y-o-y. Within this total, the value of re-exports rose by 6% y-o-y. Both performances fared worse compared to the corresponding annual growth of 9.2% and 10.8% respectively over 2007. On the other hand, Hong Kong's total imports of goods also shrank further to \$217.6 billion in December, down 16.2% y-o-y.

External demand from Hong Kong's trading partners was weak, as many of them were suffering from the global economic slowdown. The overall value of total exports to Asian markets registered an annual decline of 12.2%. In particular, the total exports to the Mainland, which is Hong Kong's largest export market, saw the greatest fall since May 1999 as it decreased significantly by 12.1% y-o-y in December 2008 after a slide of 9% y-o-y in November. Total exports to Japan also contracted substantially by 6.1% y-o-y in December from a growth of 1% y-o-y in November. Meanwhile, double-digit drops were witnessed in the values of total exports to most Western regions including the US and some European countries such as the United Kingdom and the Netherlands.

Merchandise Trade

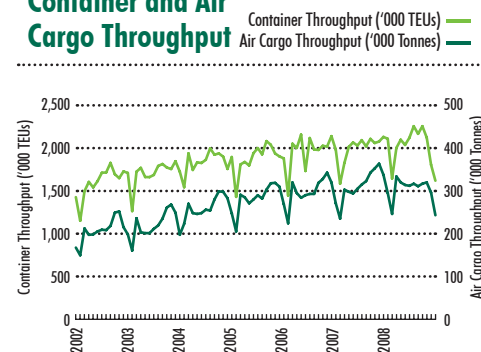


Source: Census & Statistics Department

In the meantime, Hong Kong's cargo throughput was severely affected by the shrinking domestic consumption and slackening external sector. According to the latest government figures, the total container throughput continued to slide sharply by 24.1% y-o-y to 1,618,000 TEUs in December, after its y-o-y decrease of 13.1% in November. Concurrently, the air cargo throughput also fell markedly to 243,000 tonnes by 28.1% y-o-y in December from a drop of 18.7% y-o-y in November, representing an annual decrease for the fifth consecutive month since August 2008.

Amid the worsening global trade environment during the economic slowdown, Hong Kong's industrial property market maintained its consolidation course in the fourth quarter of 2008. Demand for industrial space weakened, and the overall rental level continued to drop, especially for I/O properties. While the vacancy of some warehouse buildings has increased, the overall rate of vacancy remains relatively low. In regard to investment, the fourth quarter was also fairly quiet. There was only one whole block transaction recorded, as both buyers and owners remained uncertain about economic prospects in the future. As end users generally looked for opportunities to surrender extra space in order to lower operation costs and investors continued their 'wait-and-see' attitude towards investments in this property market, demand for industrial space is expected to moderate further, which may foretell declining trends of both prices and rentals in the coming months.

Container and Air Cargo Throughput



Source: Marine Department; Civil Aviation Department

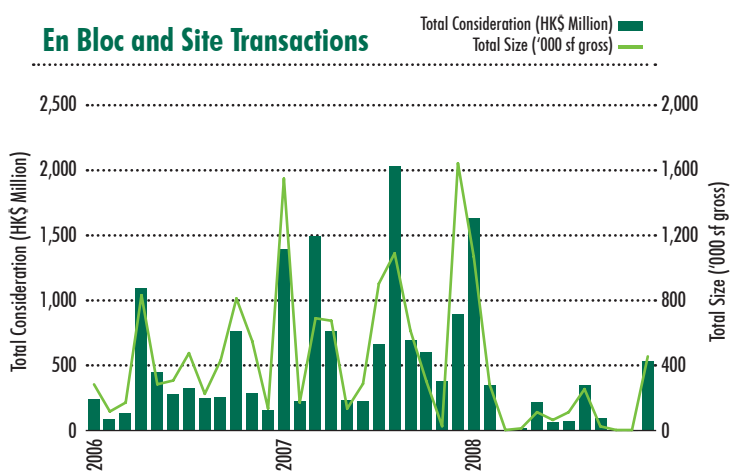
Selected Leasing Transactions in Q4 2008

Property	Floor	Location	Type	Size (sf)	Gross Rental (HK\$ psf per month)
Kader Industrial Building	Unit B, 4/F	Kowloon Bay	Industrial	19,450	6.4
Tsuen Wan International Centre	Unit A, 16/F	Tsuen Wan	Industrial	22,502	5.5
Sunking Factory Building	Unit A-B, 4/F	Shatin	Industrial	31,368	5.5
Fu Cheung Centre	11/F	Shatin	Industrial	14,636	4.6
Riley House	Unit 5-6, 13/F	Kwai Chung	Industrial	11,330	5.0

Selected Sales Transactions in Q4 2008

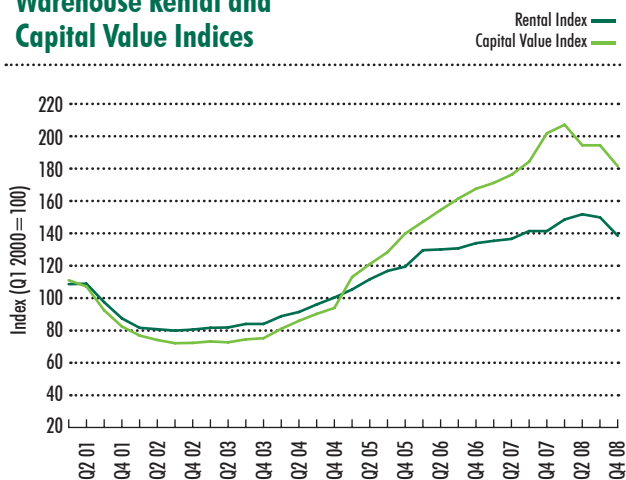
Property	Floor	Location	Type	Size (sf)	Price (HK\$ Million)	Price (HK\$ sf)
Vita Tower	17/F	Wong Chuk Hang	Industrial	15,503	25.50	1,645
Regent Centre, Tower B	6/F	Kwai Chung	Industrial	21,766	27.00	1,240
Paramount Building	19/F	Chai Wan	Industrial	20,390	24.90	1,221
Fu Wah Industrial Building	2/F	Yuen Long	Industrial	21,572	12.30	574

En Bloc and Site Transactions



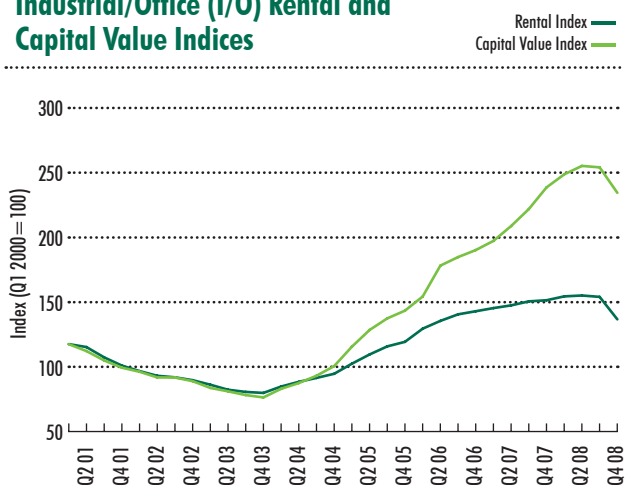
Hong Kong's industrial property market continued to feel the adverse effects of the slowing economy in the fourth quarter, and the industrial investment market remained generally quiet. While both buyers and owners were uncertain about economic prospects in the future, the lending markets remained tight as banks' appetite for funding diminished. With the credit controls in place, many investors became more conservative and adopted a 'wait-and-see' approach, although some investors took advantage of this period to hunt for strategic sites for long term development. Towards the end of the fourth quarter, one major en bloc transaction took place, amounting to around \$535.5 million.

Warehouse Rental and Capital Value Indices



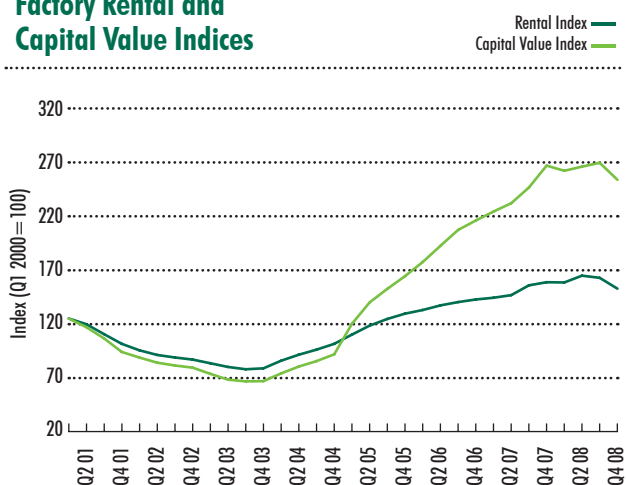
Logistics players were inevitably affected by the deteriorating trade environment, and became less keen in seeking out warehouse space. Accordingly, demand for warehouse facilities showed a declining trend in the fourth quarter. Vacancy in warehouses rose to 3.2% in December 2008 compared with 1.6% in September, but it still remained at a relatively low level. Warehouse rents and prices dropped further by 7.6% and 6.6% q-o-q in the fourth quarter respectively. Nevertheless, in the longer run, factors such as the softening energy prices, the minimal new supply at least until 2010, and the government's stimulus measures regarding the construction of infrastructure projects provide a certain degree of optimism, and should prevent rentals from falling too drastically in this market.

Industrial/Office (I/O) Rental and Capital Value Indices



Of the three industrial sub-sectors, the I/O property market was affected the most by the economic downturn in the fourth quarter. As a practical alternative to office properties, one of the key attractions to many foreign investors and local buyers in the first half of 2008, I/O properties lost their market appeal due to the falling office rents since the third quarter, especially in the Kowloon East area. The average rental of I/O properties slid dramatically in the fourth quarter with a double-digit drop of 11.3% q-o-q, from a gentle fall of 0.7% q-o-q in the third quarter. This was the sharpest decline since the SARS epidemic of 2003. I/O capital values also witnessed a quarterly plunge of 7.7% in the quarter, from a slight decrease of 0.4% q-o-q in the previous quarter.

Factory Rental and Capital Value Indices



The impact of the global financial turmoil on the overall factory property market intensified in the fourth quarter. The average rental of factory facilities continued its downward trend by falling a further 6.2% q-o-q in this quarter from a mild drop of 1.2% q-o-q in the previous quarter. Meanwhile, the average factory price began to reverse, from a quarterly growth of 1.3% in the third quarter to a 5.8% decrease in the fourth quarter. Anticipating that the weak economy and reduced consumer spending will continue, a new wave of corporate bankruptcies and downsizing will be triggered in 2009, particularly after Chinese New Year. Demand for factory space is expected to be dragged down further, hence creating downward pressure on both factory prices and rentals in the coming months.

Major Hong Kong Industrial Areas



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

Major Industrial Districts in Hong Kong

Kwun Tong

A former industrial precinct gradually transforming to a decentralised office node, the area still holds a considerable share of Hong Kong's industrial stock, particularly in the I/O sector (36.9%) given the industrial cum commercial nature. The area is also home to about 7.9% of the total warehouse space and 19.2% of the factory stock in Hong Kong.

Kwai Tsing/Tsuen Wan

As the area is in close proximity to the Container Terminals in Kwai Chung and Tsing Yi, as well as strategically linked to the Hong Kong International Airport by the Tsing Ma Bridge, many logistics players opt to cluster in the area to benefit from its convenient access to these facilities. As a result, over 52% of Hong Kong's warehouse space is found in the Kwai Tsing and Tsuen Wan districts. In addition, about 18.3% of Hong Kong's I/O space and 32.2% of its factory stock are located in these districts.

Tuen Mun

As the River Trade Terminal is near the area, this traditional industrial district is also popular among Hong Kong's logistics players. Currently, the district holds about 4.2% of Hong Kong's warehouse space while some 8.1% of the SAR's factory stock is located in the area.

Yuen Long

Yuen Long's share of the industrial property stock within Hong Kong is limited to about 3.4% of the total warehouse stock and 1.2% of the factory space, respectively. Yet, the area is gaining wider market acceptance from logistics users who value its easy access to the Hong Kong landing point of the Deep Bay Link. The Deep Bay Link, opened in July 2007, is the fourth vehicular access link connecting Hong Kong to Shenzhen within the Pearl River Delta.

Sha Tin

This area has traditionally been an important logistics hub in terms of rail-based cargo shipment in addition to its role as Hong Kong's major precinct for manufacturing activities. Currently, about 13.3% of Hong Kong's warehouse stock, 6.3% of I/O stock and 6.5% of factory stock are located in Sha Tin.

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/Tsuen Wan alone accounting for over 52%.

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% 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% of the total supply.

All monetary values are presented in Hong Kong dollars unless otherwise specified.

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