

Despite an element of uncertainty on external factors stemming from still-high oil prices, the ratcheting up of US interest rates and exchange rates, the overall impact on Hong Kong's external trade has so far been limited.

Merchandise exports recorded double-digit y-o-y growth for the fourth consecutive month in November, which saw the values of total exports and re-exports in the first 11 months of 2005

rise by 11.9% and 12.2%, respectively, over the same period in 2004. This positive note, meanwhile, resonated on the domestic front, as the latest GDP outturn was stronger than expected at 8.2% in real terms at the end of the third quarter over the same period in 2004, following a revised growth figure of 7.3% (up from 6.8%) in the second quarter of 2005.

Dominating the property headlines in the fourth quarter were reports revolving around real estate investment trusts (REITs), following the successful launch of the Link REIT in November. Aside from the retail-focused Link, all the REITs currently under the spotlight hold industrial premises as key constituents. For example, amongst the seven commercial properties that comprised the Prosperity REIT, four of them were industrial, including three I/O and one factory building. Such REIT-related

interest over industrial premises was also notable amongst foreign institutions, as one even acquired three different industrial developments en bloc in Tsuen Wan and Tuen Mun between November and December.

*The planned logistics park on Lantau Island will keep storage facilities in Tsuen Wan and Northwest New Territories largely occupied in the long run.*

The SAR's bullish external trade has generated exceptionally strong end-user demand for suitable warehouse premises, particularly those on the west of

the SAR in Tsuen Wan and Kwai Chung where average vacancy maintained at about 1%, while other areas witnessed between 3% and 6%. The significance of the area's proximity to the ports and terminals, as well as planned transport links and infrastructure such as the Hong Kong-Zhuhai-Macao Bridge, also played a large part in the formulation of the government's initiative to develop a logistics park on Lantau Island with a view to enhancing Hong Kong's position as a preferred international and regional logistics hub. On the understanding that a scoping study on the operational aspects of the project has been completed, it is observed that the logistics park plan is high on the government's agenda for Lantau and would foster continued demand for the existing warehouse facilities in Hong Kong's western reaches, where they could provide storage support to the logistics park.

**QUICK STATS**

|                          | Change in Q3 05 | Change in Q4 05 |
|--------------------------|-----------------|-----------------|
| <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 Q4 2005**

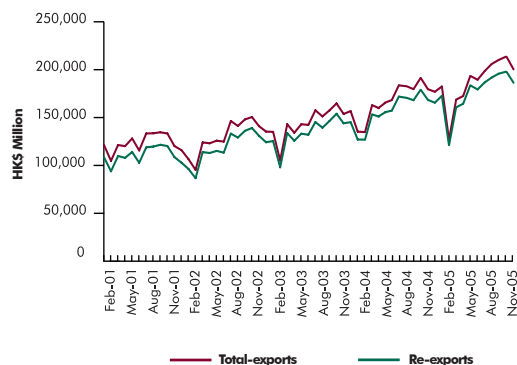
| Property                        | Floor          | Location  | Type                   | Size (sf) | Gross Rental (HK\$ psf per month) |
|---------------------------------|----------------|-----------|------------------------|-----------|-----------------------------------|
| Union Hing Yip Factory Building | Units A-B, 9/F | Kwun Tong | Industrial             | 14,926    | 4.40                              |
| Hang Ngai Jewelry Centre        | Unit 1, 2/F    | Hung Hom  | Industrial             | 36,840    | 6.40                              |
| Sunking Factory Building        | 4/F            | Tai Wai   | Industrial             | 31,368    | 4.00                              |
| Aitken Vanson Centre            | 31/F           | Kwun Tong | I/O                    | 5,723     | 11.00                             |
| Kader Industrial Building       | Unit B, 4/F    | Fanling   | Industrial / Warehouse | 19,450    | 3.40                              |

**SELECTED SALES TRANSACTIONS IN Q4 2005**

| Property                         | Floor            | Location    | Type                   | Size (sf) | Price (HK\$ Million) | Price (HK\$ psf) |
|----------------------------------|------------------|-------------|------------------------|-----------|----------------------|------------------|
| Westlands Centre                 | Unit 2, 2/F      | Quarry Bay  | Industrial             | 8,393     | 12.00                | 1,430            |
| Harbour Centre Tower 1           | Unit 6, 3/F      | Hung Hom    | Industrial             | 15,511    | 22.65                | 1,460            |
| Shing Dao Industrial Building    | 10/F             | Aberdeen    | Industrial             | 13,974    | 10.10                | 723              |
| New Trend Centre                 | Units 1-4, 33/F  | San Po Kong | I/O                    | 5,157     | 10.23                | 1,984            |
| Ever Gain Plaza Tower 2          | Units 6-10, 11/F | Kwai Chung  | I/O                    | 10,574    | 20.00                | 1,891            |
| Shatin Industrial Centre Block A | Units 2-8, 2/F   | Shatin      | Industrial / Warehouse | 28,475    | 27.03                | 949              |
| Paul Y. Centre                   | En Bloc          | Kwun Tong   | I/O                    | 377,443   | 780.00               | 2,067            |
| Dynamic Cargo Centre             | En Bloc          | Tsuen Wan   | Warehouse              | 718,168   | 650.00               | 905              |
| Fountain Set Building 1 and 2    | En Bloc          | Tuen Mun    | Industrial             | 1,183,819 | 459.65               | 388              |

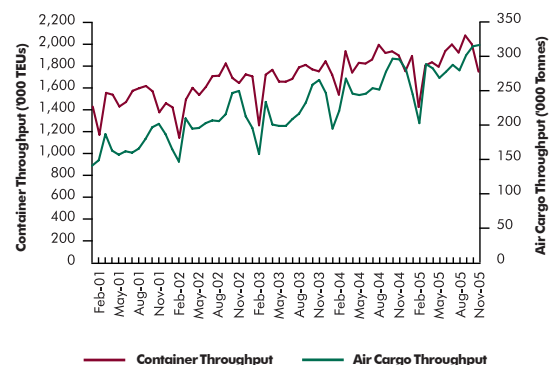
**ECONOMIC INDICATORS**

**Merchandise Trade**



Source: Census & Statistics Department; CB Richard Ellis CBRE Research

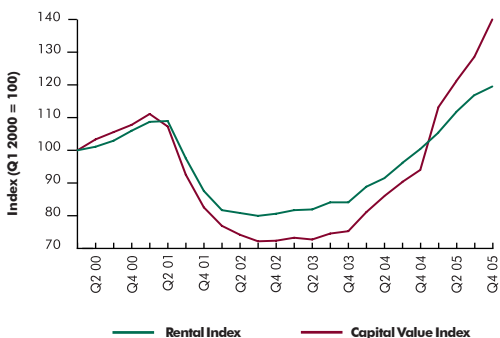
**Container and Air Cargo Throughput**



Source: Census & Statistics Department; Hong Kong Port and Maritime Board; CB Richard Ellis CBRE Research

## WAREHOUSE

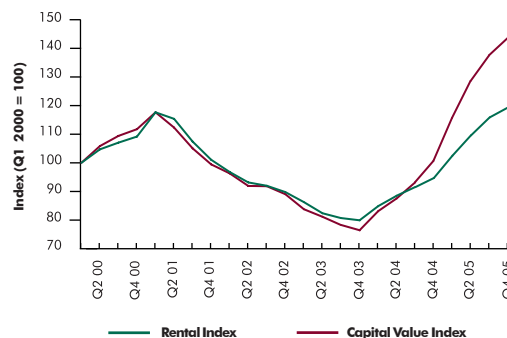
### Warehouse Rental and Capital Value Indices



Logistics players continued to dominate warehouse transactions in the fourth quarter leading a demand surge that pushed both rentals and capital values north. A number of notable transactions were registered in Shatin, where higher average prices are commanded, which fuelled a sharp hike of 9.0% in capital values. While rental performance appeared somewhat subdued as leases registered a restrained rise of 2.3%, q-o-q, leasing demand remained robust, as highlighted by the re-emergence of pre-letting which has been unheard of for over 10 years. This demonstrated the buoyancy currently seen in the warehouse market, as the pre-lease rental of about \$6.0 psf achieved in a new project in Tuen Mun is 50% above the current average for the area.

## INDUSTRIAL/OFFICE (I/O)

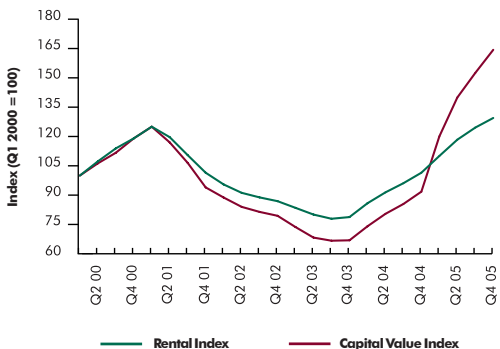
### Industrial/Office Rental and Capital Value Indices



Rentals and capital values of I/O premises continued to trend upwards, albeit more moderately, within the fourth quarter, registering increases of 3.0% and 4.4%, respectively. The growth was attributable to the firm stance of owners on prices and rents resulting from buoyant sentiment following the robust market response to the Prosperity REIT which comprised three I/O properties. A recent transaction in Ever Gain Plaza in Kwai Chung saw a space in an older property and on a lower floor than a third quarter sale in a nearby I/O facility, achieve a unitary price which was 5.1% higher than that registered in the proximate facility.

## FACTORY

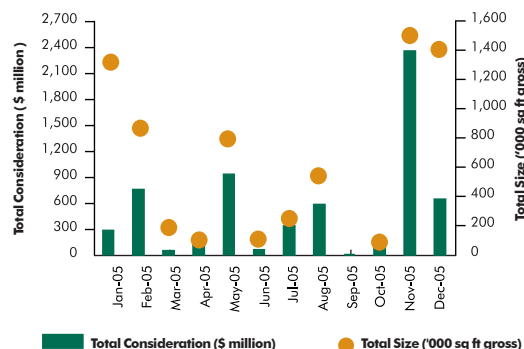
### Factory Rental and Capital Value Indices



Rentals and capital values in the factory segment moderated their growth on the previous quarter, registering q-o-q rises of 3.9% and 7.7%, respectively. The rise in interest rates saw some market players opt for a more cautious stance on investment decisions. However, given that factory premises remained the highest yield-generating property type, they were still highly sought after. Strata-title end-users, meanwhile, were lively in committing to leases or acquiring units on the understanding that no new supply of factories will be available in this sub-segment over the near term. Additionally, the shrinkage of existing space, lost to redevelopment in some areas, also implies that the later they act, the more they will have to pay.

## EN BLOC & SITE TRANSACTIONS

### En bloc and Site Transactions



The buoyancy in industrial en bloc sales reached its peak for 2005 in the fourth quarter thanks to a large number of REIT-related sales – six out of seven en bloc industrial transactions in the quarter were made by local and overseas institutions for both confirmed and potential REITs. It is noteworthy that en bloc I/O building transactions were registered within the fourth quarter for the first time in 2005, showing that investors' interest in industrial properties has spread across the board, in that even comparatively lower yield-generating I/O properties are included on their shopping lists. The most notable I/O transaction of the quarter saw a Lehman Brothers-Capital Strategic Investment partnership purchase the Paul Y. Centre in Kwun Tong for \$780 million in November.

