

MarketView

Hong Kong Industrial

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First Quarter 2009

Quick Stats

| | | Y-o-Y change | Q-o-Q change |
|-------------------------|---------------|-----------------|-----------------|
| Warehouse Rental Value | HK\$5.87 psf | ↓ | ↓ |
| Warehouse Capital Value | HK\$971 psf | ↓ | ↓ |
| Warehouse Vacancy Rate | 4.0% | ↑ | ↓ |
| I/O Rental Value | HK\$9.38 psf | ↓ | ↓ |
| I/O Capital Value | HK\$2,544 psf | ↓ | ↓ |
| Factory Rental Value | HK\$6.56 psf | ↓ | ↓ |
| Factory Capital Value | HK\$1,268 psf | ↓ | ↓ |

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

Hot Topics

- Hong Kong's total exports fell 22.4% for the first two months of 2009 compared to the same period last year; exports fell the most to countries such as Singapore, Taiwan and Korea.
- Demand for industrial space has weakened largely due to the reduction in cargo movement volumes and subdued demand for both retail and industrial goods.
- The number of sales transactions for industrial properties was 75% lower over the first two months of 2009, compared to the same period last year. Only two en bloc transactions took place over the quarter.
- The short-term outlook for the industrial property sector remains subdued with I/O properties in areas of oversupply likely to come under the most pressure in terms of rental and capital values.

Hong Kong's export sector has suffered as external demand contracted from the second half of 2008. Latest figures indicate that the value of Hong Kong's total exports decreased 22.4% for the first two months of 2009 compared to the same period last year. Analysed by category, the value of re-exports fell 21.5% while domestic exports plummeted 46%. Meanwhile, the value of Hong Kong's imports dropped 22.8% over the first two months y-o-y, reflecting the pullback in local spending. Of the major trading partners, exports to Singapore fell the most, declining 30.4% y-o-y, followed by drops in trade with Taiwan (-30.1%) and Korea (-29.5%).

Container throughput was down according to the latest statistics, corresponding to the downward slide in export demand. An estimated total of 1.625 million TEUs were processed in March, a decline of 18.9% y-o-y. However there was an improvement when analysed on a monthly basis, with cargo volumes rising 24.5% compared to February. Air freight volumes were also down in March, falling 19.8% y-o-y. However when viewed on a monthly basis there was marked improvement as air freight volumes increased 35% over the month.

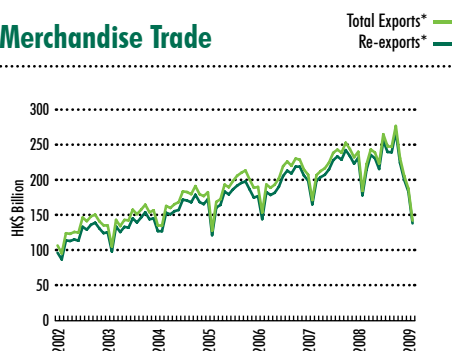
Demand for industrial space in Hong Kong has weakened, reflecting the slump in external demand and the poor outlook for the sector over

the medium-term. Latest figures indicate that there were an estimated 188 transactions for flatted factories in February, an improvement of 25.3% over the previous month. However, the combined volume of transactions during January and February were less than one-fourth of the amount in the same period a year ago, where a total of 1,390 industrial properties changed hands during the first two months of 2008.

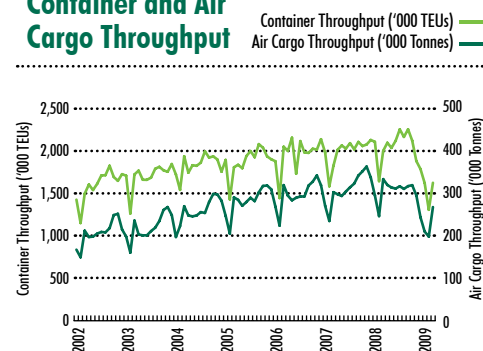
Many industrial end-users are holding back on relocation or investment decisions given the current economic environment. However, companies seeking properties for self-use were active in the market. Luk Yeung Restaurant acquired a new facility in the Tai Po Industrial Estate for \$39.8 million.

Logistics operators and the import/export trades continued to seek out lower cost industrial accommodations given the weak economic outlook. Leasing inquiries have risen as companies are keen to reduce operating expenditure, via several means: sublease or surrender of their current premises, renegotiating lease terms at lower rents, or relocating or downsizing in less costly locations. Goodman leased 24,000 sf to Maersk in East Asia Building, in Tuen Mun, which notably is one of the least expensive properties in their Hong Kong industrial portfolio.

Merchandise Trade



Container and Air Cargo Throughput

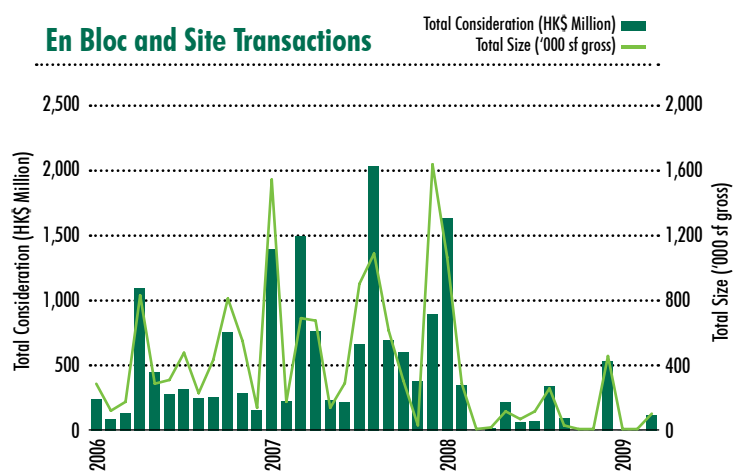


Selected Leasing Transactions in Q1 2009

| Property | Floor | Location | Type | Size (sf) | Gross Rental (HK\$ psf per month) |
|-------------------------------|--------|----------|------------|-----------|-----------------------------------|
| Chiaphua Industries Building | Ground | Shatin | Industrial | 66,864 | 11.0-12.0 |
| Fountain Set Building | 6/F | Tuen Mun | Industrial | 32,101 | 4.8-5.0 |
| Fountain Set Building | 9/F | Tuen Mun | Industrial | 32,101 | 4.8-5.0 |
| East Asia Industrial Building | 8/F | Tuen Mun | Industrial | 42,000 | 3.8-4.0 |

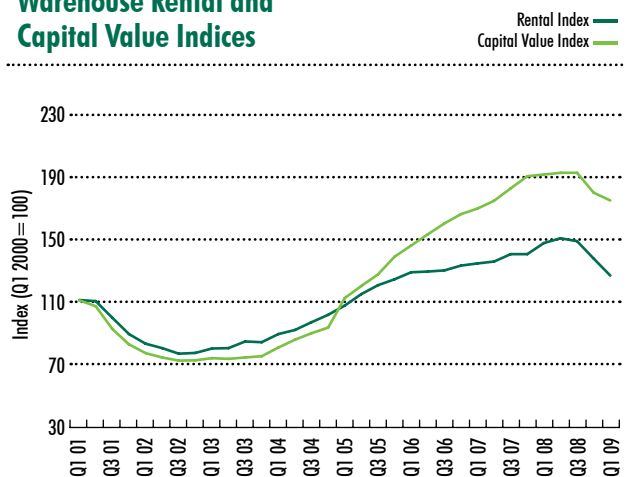
Selected Sales Transactions in Q1 2009

| Property | Floor | Location | Type | Size (sf) | Price (HK\$ Million) | Price (HK\$ sf) |
|---|-------------|-------------|------------|-----------|----------------------|-----------------|
| TPTL 1 sB & Ext, Tai Po Industrial Estate | En Bloc | Tai Po | Industrial | - | 39.8 | - |
| Informtech Industrial Centre | En Bloc | Shatin | Industrial | 95,582 | 121.0 | 1,266 |
| Kodak House Block 2 | 18/F & 20/F | North Point | Industrial | 66,208 | 300.0 | 4,531 |



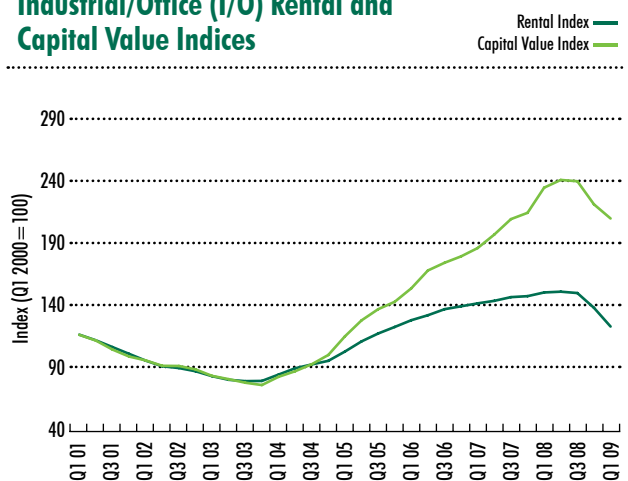
The investment market for en bloc sales remained quiet over the first quarter. While local sentiment appears to have improved, particularly in the residential market, demand for industrial properties overall remained weak. This can largely be attributed to falling exports and a poor outlook for the sector for the remainder of the year. Informtech Industrial Centre in Siu Lek Yuen, Shatin, was sold for HK\$121 million, the only en bloc sale over the quarter. The sale was distinct in that the property has a prime location, and no single ownership property has been sold in Siu Lek Yuen in the past 10 years.

Warehouse Rental and Capital Value Indices



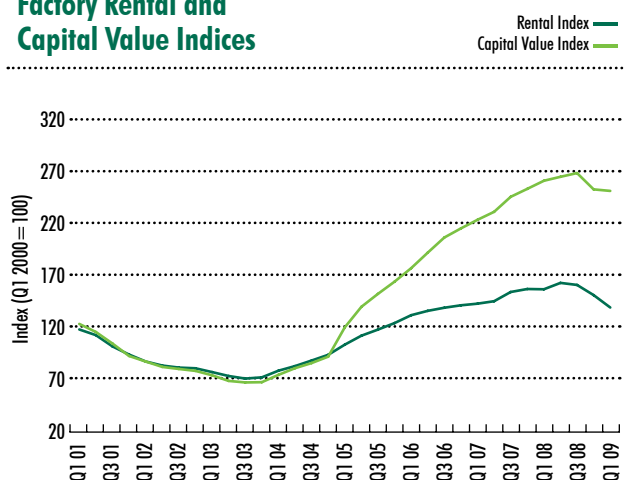
The slowdown in both sea and cargo throughput has negatively impacted the warehouse sector. However, this sector was active with tenants looking to downsize and save costs, resulting in companies relocating even further afield to locations in the New Territories, or choosing even lower cost premises. Rents have declined around 8% over the quarter to average \$5.87 psf. Sales prices also continued on a downtrend over the quarter, falling 2.8% to average \$971 psf.

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



The I/O market remained quiet over the first quarter of the year, as rental levels for these properties approximated those for new Grade A office space completed in areas such as Kowloon East. Rents for I/O properties fell over the first three months of the year to average \$9.38 psf. On the other hand, face rents for prime new offices in Kowloon East range from \$10 - \$15 psf. When factoring in rental incentives, these newer office properties are much more attractive to potential tenants in comparison to I/O properties. Prices meanwhile fell 5.1% over the quarter to average \$2,544 psf.

Factory Rental and Capital Value Indices



The global recession has resulted in a drop in consumption, and Hong Kong's exports have suffered as a result. Latest figures indicate that domestic exports halved in January. Coupled with a downturn in domestic demand and local business closures, vacancy rates have been rising and rents have fallen as a result. Rents in this category fell over the quarter to average \$6.56 psf. Prices meanwhile averaged \$1,268 psf, largely unchanged from year-end 2008.

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. This area shows strong growth potential which will to a large extent be driven by the opening of the Stone Cutters Bridge.

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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