

Quick Stats

		Y-o-Y change	Q-o-Q change
Warehouse Rental Value	HK\$5.7 psf	↓	↓
Warehouse Capital Value	HK\$923 psf	↓	↓
Warehouse Vacancy Rate	4.7%	↑	↑
I/O Rental Value	HK\$9.5 psf	↓	↓
I/O Capital Value	HK\$2,667 psf	↓	↑
Factory Rental Value	HK\$6.9 psf	↓	↔
Factory Capital Value	HK\$1,382 psf	↔	↑

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

Hot Topics

- Investors returned to the market to seize strong yielding opportunities in the industrial sector, with a focus on mid-sized en-bloc transactions.
- An estimated total of 422 sales transactions were recorded for flatted factories in May, representing an increase of 41.6% compared to March.
- New leasing activity remained weak with most occupiers preferring to renew contracts rather than relocate, with most also maintaining existing space as downsizing efforts diminish.
- Sentiment is slowly improving, particularly on the back of economic stimulus injected by mainland China. While transactions volumes are expected to improve, further declines of up to 5% in rents and capital values over the second half of the year remain likely.

Trade volumes in Hong Kong have continued to decline as a result of persistent weak external demand amidst the global economic downturn. Looking at the first half of the year, the value of total exports dropped 17.2% y-o-y, while the value of imports fell by 18.6% y-o-y. Hong Kong recorded a visible trade deficit of \$78.0 billion over the period. In June, the value of total exports declined 5.4% y-o-y, a significant moderation in decline compared to the 14.5% y-o-y drop in May. Imports meanwhile decreased 7.9% in June y-o-y, compared to an earlier decline of 19.2% y-o-y in May.

External demand appears to be improving however as the value of total exports increased 11% on a quarterly basis over Q2. The value of re-exports increased 11.4%, indicating better industrial conditions on the mainland as orders start to pick up. Domestic exports meanwhile remained soft, falling 1.3% over the quarter.

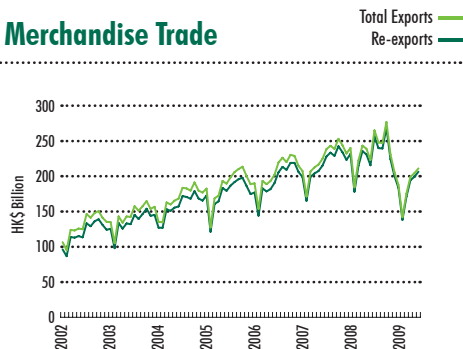
Regional demand picked up 3.1% y-o-y in June, while exports to mainland China were up 9.3% y-o-y. However the value of total exports to most major markets remained in negative territory. Latest figures estimate that air cargo volumes were 13.4% lower in June y-o-y to 270,000 tonnes, while container throughput was down

15.6% in June y-o-y to 1.792 million TEUs.

Sentiment picked up toward the end of the quarter on the back of moderating declines in exports, as well as indications of improving manufacturing conditions in mainland China. There has been an increase in leasing enquiries, and take-up is expected to improve over the second half of the year. A transaction of note was Italian company Snatt Far East Ltd taking up expansion space of 106,000 sf in Tin's Plaza, Tuen Mun. There are also indications that after a long period of inactivity, investors are re-entering the market, and relatively safer, high yielding industrial properties seem to be primary targets. It has been reported that the Lung Wah International Godown owned by Goodman has been sold to a private investor at a yield of around 7%.

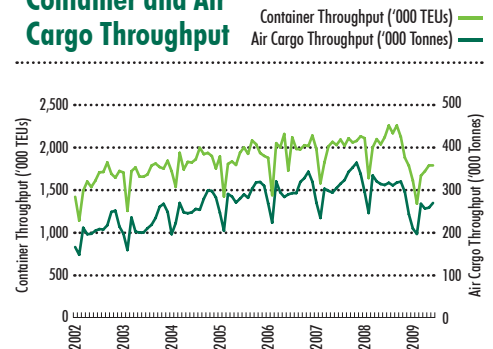
However given the continued uncertain outlook, many occupiers remain focused on restructuring their current lease commitments to save costs, and landlords have been responsive by way of offering lower rentals and larger incentives. Sumitomo and GAC are notable tenants that have recently renewed their existing leases at preferential rates. Havi Foods is relocating to a ground floor unit in Shatin, which is to be custom fitted to suit their requirements for food storage and distribution.

Merchandise Trade



Source: Census & Statistics Department

Container and Air Cargo Throughput



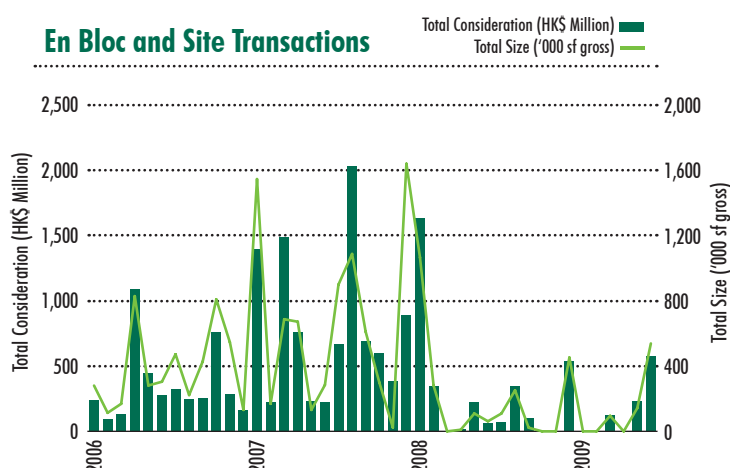
Source: Marine Department; Civil Aviation Department

Selected Leasing Transactions in Q2 2009

Property	Floor	Location	Type	Size (sf)	Gross Rental (HK\$ psf per month)
Chiap Hua Industries Building	Ground Floor	Shatin	Industrial	67,000	11.5
Asia Terminals (ATL)	-	Kwai Chung	Logistics	50,000	7.5
Hutchison Logistics Centre (HLC)	1/F	Kwai Chung	Logistics	127,000	8.0

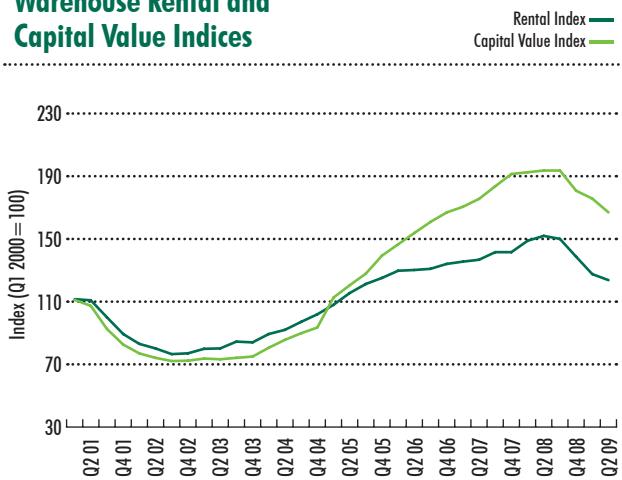
Selected Sales Transactions in Q2 2009

Property	Floor	Location	Type	Size (sf)	Price (HK\$ Million)	Price (HK\$ sf)
Lemmi Centre	Top Floor	Kwun Tong	Industrial	6,272	16.5	2,630
Yiu Fung Cold Storage	En-bloc	Kwai Chung	Warehouse	304,000	390.0	1,283
Niche Centre	En-bloc	Kowloon Bay	Industrial	143,000	234.0	1,636
Gold Peak Building	En-bloc	Kwai Chung	Industrial	200,000	155.0	775



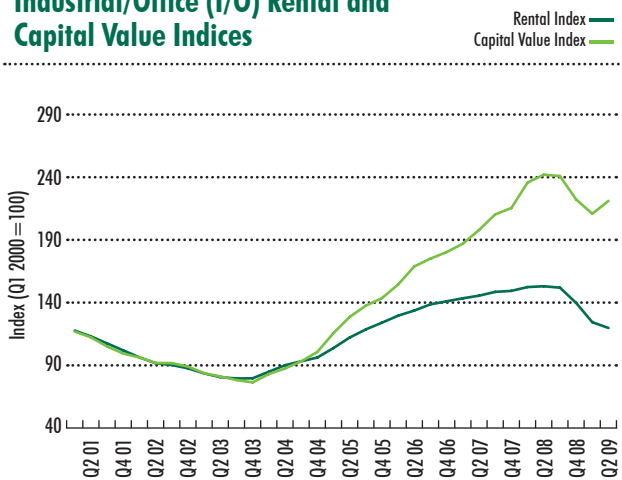
The number of sales and purchase agreements for industrial properties increased over the quarter, similar to the overall investment market trend. An estimated total of 422 flatted factories were sold in May, up from 298 in March and 144 in January this year. En-bloc or large value transactions remained somewhat rare however, although the number of transactions increased over the quarter. Some notable transactions include the sale of Yiu Fung Cold Storage in Kwai Chung sold for HK\$390 million to a private investor, representing a yield of around 7% on current passing income. As well, Gold Peak Industries sold their 200,000 sq industrial building in Kwai Chung to a private investor, on a sale and lease back with a yield of around 9%.

Warehouse Rental and Capital Value Indices



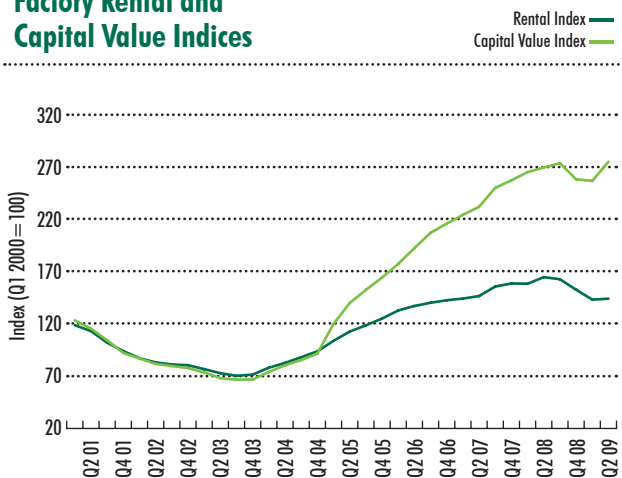
Latest figures indicate that while external demand remained weak, declines in both exports and imports are moderating. The warehouse sector however continued to be impacted by the drop in demand, with tenants likely to restructure their leases given the weaker market conditions. Rents fell 3% over the quarter to average \$5.7 psf. Yields meanwhile increased to 7.7%, largely due to the comparatively faster decrease in capital values over the quarter. Warehouse prices fell 5% over Q2 to \$923 psf.

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



The I/O market remained under pressure due to increasing competition from newly completed grade A office buildings in decentralized areas of Kowloon. Rents fell 3.7% over the second quarter to average \$9.5 psf. On the other hand, capital values were noted to rise over the quarter, up 4.9% to average \$2,667 psf. Yields meanwhile fell 42 basis points to 4.7%.

Factory Rental and Capital Value Indices



Similar to the I/O sector, capital values for factories increased over the second quarter, rising some 7.2% to average \$1,382 psf. Rents to a large degree remained unchanged to average \$6.9 psf. Yields dropped 22 basis points due to the uptick in asset values.

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. This location will benefit from further strengthening of HK-PRD related opening up.

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. This location will benefit from further strengthening of HK-PRD related opening up.

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 its I/O stock and 6.5% of its factory stock are located in Sha Tin. It is also proving to a popular location for users coming out of Kowloon East.

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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