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MarketView
Hong Kong Industrial

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Second Quarter 2010

Quick Stats

		Y-o-Y change	Q-o-Q change
Warehouse Rental Value	HK$5.7 psf	↑	↑
Warehouse Capital Value	HK$1,276 psf	↑	↑
Warehouse Vacancy Rate	4.6%	↓	↔
I/O Rental Value	HK$9.6 psf	↑	↑
I/O Capital Value	HK$3,050 psf	↑	↑
Factory Rental Value	HK$6.9 psf	↑	↑
Factory Capital Value	HK$1,912 psf	↑	↑

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

Hot Topics

- Industrial property values remained on an uptick in the second quarter with the rebound in trade flows in the region, as well as sustained investor interest on the back of redevelopment opportunities.
- Hong Kong Air Cargo Terminals (Hactl) announced recently that over 752,316 tons of cargo were processed over the second quarter, an increase of 39.1% y-o-y.
- The value of exports in May increased 24.4% y-o-y to total HK$254.2 billion; imports meanwhile increased 29.7% y-o-y over the period to total HK$279.3 billion.
- Industrial sales values are expected to remain firm going forward; rental growth may be impacted by concerns surrounding the sustainability of trade flows with overseas markets.

Industrial property values remained on an uptrend in the second quarter with the rebound in trade flows in the region, as well as sustained investor interest on the back of redevelopment opportunities. Hong Kong Air Cargo Terminals (Hactl) announced recently that over 752,316 tons of cargo were processed over the second quarter, an increase of 39.1% y-o-y; cargo handled in June alone increased 30.5% y-o-y to total 245,352 tons. The latest figures indicate that the value of exports in May increased 24.4% y-o-y to total HK$254.2 billion, following on a 21.7% y-o-y increase in April. Imports increased 29.7% y-o-y over the period to total HK$279.3 billion, up from the 28.8% y-o-y increase a month earlier. Regional exports in May increased 27.3% y-o-y; outside of the Asia region, exports to the Netherlands and the United States were up 52.4% y-o-y and 24.0% y-o-y respectively over the month, while the value of exports to the United Kingdom fell slightly in May. Continued improvement in domestic demand translated into higher imports from countries like Korea, Japan and Taiwan.

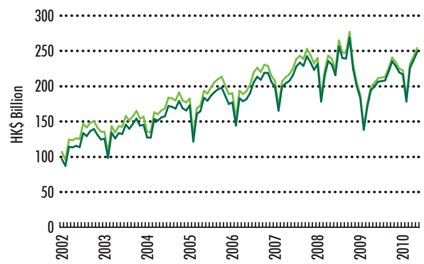
Analysed by commodity type, strong increases were registered in both exports and imports of electrical machinery, apparatus and appliances, telecommunications and sound recording equipment, as well as office and data processing machines. It appears that a rebuilding of inventories is taking place on the back of healthy economic growth locally and in the region as companies expand their businesses, and also with improving levels of domestic consumption and tourist spending.

Cargo throughput remained resilient through the quarter on the back of rebounding trade flows. Container throughput totalled over 2 million TEUs in June, up 16.7% y-o-y and higher than the 15.2% increase registered in May. Meanwhile air cargo increased 28.6% y-o-y in June to total 347,000 tons, compared to a 41.9% y-o-y increase in May.

The market remained resilient in the second quarter on the back of stronger occupier demand amid the uptick in trade throughput, as well as robust investor interest given the rise in overall property values and conversion potential of older industrial buildings. Rental values are expected to remain firm going forward however the rate of increase may moderate in the coming months given concerns surrounding the sustainability of overseas demand. With the possible constraint in rental returns this may act to temper the growth in prices as well, although there is still significant demand for prime assets with conversion/redevelopment potential.

Merchandise Trade

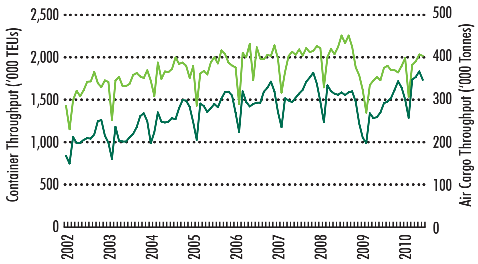
Total Exports
Re-exports



Source: Census & Statistics Department

Container and Air Cargo Throughput

Container Throughput ('000 TEUs)
Air Cargo Throughput ('000 Tonnes)



Source: Marine Department; Civil Aviation Department

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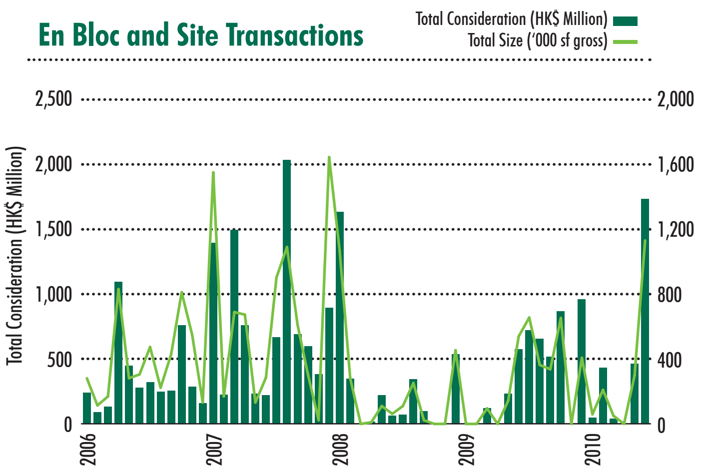
Selected Leasing Transactions in Q2 2010

Property	Floor	Location	Type	Size (sf)	Gross Rental (HK$ psf per month)
Global Gateway	201, 2/F	Tsuen Wan	Warehouse	16,660	Circa 8.5 – 9
Cargo Consolidation Complex	12/F	Kwai Chung	Warehouse	18,533	Circa 6.5
Texaco Centre	11/F	Tsuen Wan	Factory	21,084	Circa 4.2
Wo Kee Hong Centre	9/F	Kwai Chung	Factory	25,619	Circa 5.5
Wo Kee Hong Centre	A, 6/F	Kwai Chung	Factory	13,025	Circa 5.5
Wyler Centre 2	14/F	Kwai Chung	Factory	25,618	Circa 8
Roxy Industrial Centre	1 unit on 19/F	Kwai Chung	Factory	7,862	Circa 5

Selected Sales Transactions in Q2 2010

Property	Floor	Location	Type	Size (sf)	Price (HK$ Million)	Price (HK$ sf)
Unimix Industrial Centre	En-bloc	San Po Kong	Factory	394,000	601.0	1,525.4
General Garment Building	En-bloc	Kwai Chung	Factory	291,763	418.0	1,432.7
Room + Kwun Tong	En-bloc	Kwun Tong	Industrial	70,800	140.0	1,977.4

En Bloc and Site Transactions



A total of 12 applications for wholesale conversion were submitted between April to May, while 1 application was submitted for redevelopment of a property in Kowloon. The largest value transaction concluded over the quarter was the sale of Unimix Industrial Centre in San Po Kong for $601 million or $1,525 psf. Another notable transaction was the sale of the General Garment Building in Kwai Chung for $418 million or $1,433 psf. The relaxation of requirements for the change in land use of older industrial buildings in the Policy Address last year has had a positive impact on demand for such properties, with investors seeking value in converting usage of the buildings to more commercial uses.

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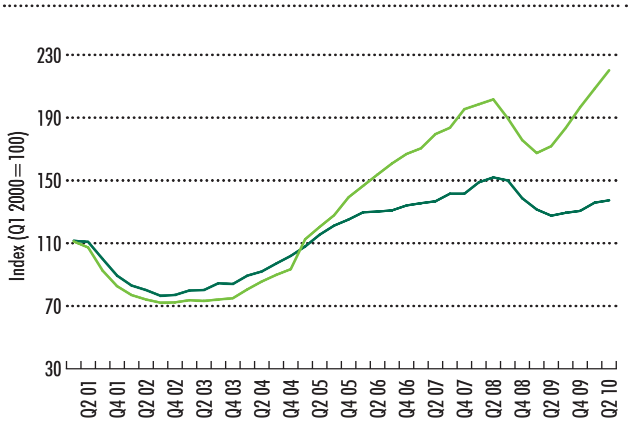
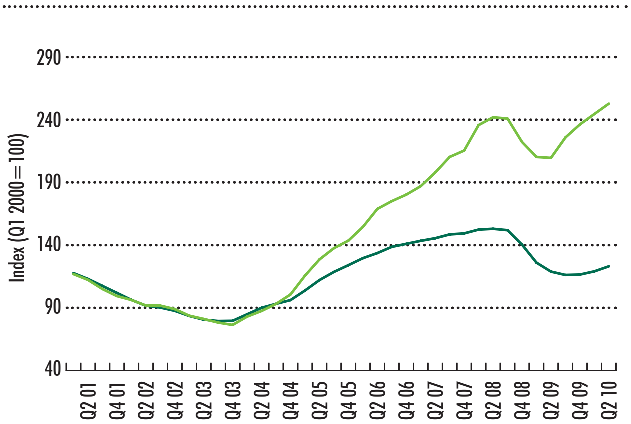
Warehouse Rental and Capital Value Indices



Steady take-up for warehouses occurred on the back of healthier economic conditions and a pick up in trade flows in the region. Improved occupier demand translated into higher warehouse values. Over the quarter rents increased 1.1% to average $5.7 psf, while capital values increased 5.6% to average $1,276 psf. Compared to the same period last year, however, warehouse capital values averaged almost 28% higher. Yields meanwhile fell 24 basis points over the quarter to average 5.3%.

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



It appears as though I/O rents are starting to pick up pace, after having lagged behind the strong rebound in newly completed Grade A office buildings in decentralized districts. I/O rents were 3.4% higher over the quarter, compared to an increase of 2.2% in the first quarter, to average $9.6 psf. While capital values increased 3.4% over the quarter to average $3,050 psf, compared to the same period last year values averaged almost 21% higher. Yields averaged 4.0%, down 9 basis points compared to the first quarter of the year.

Factory Rental and Capital Value Indices

Factory space remained in strong demand, which is reflected by the almost 9% increase in capital values to average $1,912 psf. Occupier demand was also robust over the quarter, which helped to support further rental growth of 2%, with rents averaging $6.9 psf. Yields fell 23 basis points over the quarter, averaging 5.1%.

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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 into 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

AAs 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 ties between Hong Kong and the Pearl River Delta, and related opening up activities.

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 total factory space. However, 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 be 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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