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MarketView

Hong Kong Industrial

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Third Quarter 2009

Quick Stats

		Y-o-Y change	Q-o-Q change
Warehouse Rental Value	HK$6.1 psf	↓	↔
Warehouse Capital Value	HK$1,032 psf	↓	↑
Warehouse Vacancy Rate	3.8%	↑	↓
I/O Rental Value	HK$9.1 psf	↓	↓
I/O Capital Value	HK$2,812 psf	↓	↑
Factory Rental Value	HK$6.5 psf	↓	↔
Factory Capital Value	HK$1,500 psf	↑	↑

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

Hot Topics

- Total exports remained down compared to the same period last year but the decline appears to have moderated in recent months.
- Demand for industrial property was somewhat lacklustre over the third quarter as occupiers continued to focus on minimising costs given the decline in export demand since the end of last year.
- On the other hand, the sales volume of industrial property continued to rise over the quarter, buoyed by low interest rates and high liquidity.
- Capital values appreciated at a much faster rate than rents, with industrial office rents under downward pressure from increased competition of new decentralised office space.

Leasing demand for industrial property was somewhat lacklustre over the third quarter as occupiers continued to focus on minimising costs given the decline in export demand since the end of last year. However, rents appeared to have stabilised amidst improved sentiment. Investment activity remained on an uptrend, which is in line with the overall rebound of Hong Kong's property sector.

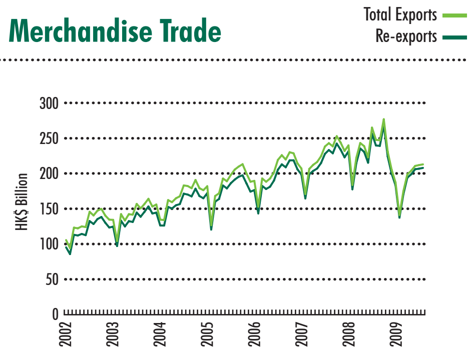
For the year through August the value of total exports fell 17.2% y-o-y. The value of imports meanwhile fell 17.4% over the same period. It appears, however, that the decline in exports moderated in recent months on the back of healthier external demand. The value of exports for the three months to August increased 2.6% compared to the preceding 3 months, while the value of imports increased 8.3% over the same period. Imports have risen in recent months as a result of better sentiment locally on the back of a rebound in both the stock and property markets. Tourist figures have also improved, which has translated into better retail sales.

Demand for industrial space remained lacklustre over the quarter, with activity largely due to occupiers relocating to less expensive locations, or remaining in their current premises but renegotiating at a lower rent. Of recent activity, a logistics operator relocated from Kwun Tong to Sha Tin to take up around 30,000 sf. There has been a rise in inquiries recently from companies in the logistics sector looking for more space, possibly trying to capture the decline in rents amidst improving exports. Meanwhile, VST Computers relocated from Global Gateway to Dynamic Cargo Centre, remaining within the Goodman portfolio. Also, discount electronics group DCS leased two floors totalling 60,000 sf in the Goodman Tuen Mun Distribution Centre at around $5 psf.

Warehouse Rents remained fairly flat over the quarter to rise 1.4% to average $6.1 psf, compared to quarterly declines of 3% to 5% in the first and second quarters of the year. It appears that rents may be bottoming out amidst better sentiment compared to the beginning of the year. With exports still down and occupiers remaining cost conscious, however, there has been little new demand to date to support a sustained rise in rents.

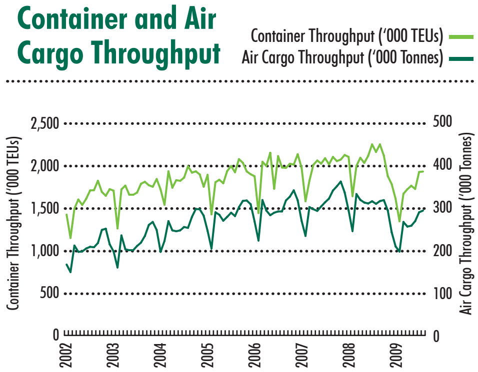
Capital values increased 11.8% over the third quarter to average $1,031 psf. Warehouse transaction volumes have been rising steadily since the beginning of the year, which has been attributed to continued low interest rates and high liquidity. An expected easing in government policy toward the conversion of industrial buildings to alternative uses has also contributed to stronger demand. Yields continued to contract over the quarter given the faster appreciation in capital values, to average around 6%.

Merchandise Trade



Source: Census & Statistics Department

Container and Air Cargo Throughput



Source: Marine Department; Civil Aviation Department

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Selected Leasing Transactions in Q3 2009

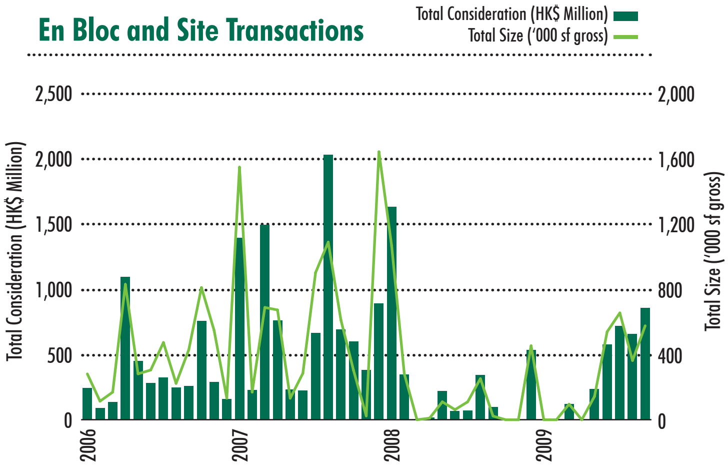
Property	Floor	Location	Type	Size (sf)	Gross Rental (HK$ psf per month)
Grantech Centre	1-2,G/F	Shatin	Warehouse	31,000	7.5
Lucky Industrial Godown Building	8/F	Kwai Chung	Warehouse	20,000	3.8
Cheung Fung Industrial Building	02, 9/F	Tsuen Wan	Industrial	20,000	6

Selected Sales Transactions in Q3 2009

Property	Floor	Location	Type	Size (sf)	Price (HK$ Million)	Price (HK$ sf)
Universal Industrial Building	En-bloc	Tsuen Wan	Flatted Factory	277,900	468.0	1,684
10 Shing Yip Street	En-bloc	Kwun Tong	Flatted Factory	200,000	340.0	1,700
77 Wing Hong Street	Multiple whole floors	Cheung Sha Wan	Industrial/Office	38,141	113.0	2,963
6 Wang Kwong Road	En-bloc	Kowloon Bay	Warehouse	147,000*	280.0	-

* Estimated

En Bloc and Site Transactions



While most investment activity remained focused on strata-title units, there was a noticeable increase in en-bloc activity over the quarter. No.3 Kwong Sun Hong Godown in Kowloon Bay was sold for $280 million on a site area of approximately 29,500 sf. Universal Industrial Building, at 52-66 Sha Tsui Road in Tsuen Wan, was sold for $468 million, while Ryoden Industrial Centre was sold for $202 million, or $842 psf. In terms of the strata-title market, some noteworthy transactions include a whole floor sale measuring 14,000 sf in the Ching Cheong Industrial Building in Kwai Chung at $670 psf, as well as a floor of 6,416 sf in Pat Tat Industrial Building, San Po Kong being sold at $1,170 psf.

Billion Development was particularly active, purchasing several buildings over the past three months. The company acquired No.3 Kwong Sun Hong Godown in August with the intent to redevelop the warehouse into an office block. Even more recently, Billion Development purchased Trinity Textile Industrial Building, located at 10 Shing Yip Street, for $340 million.

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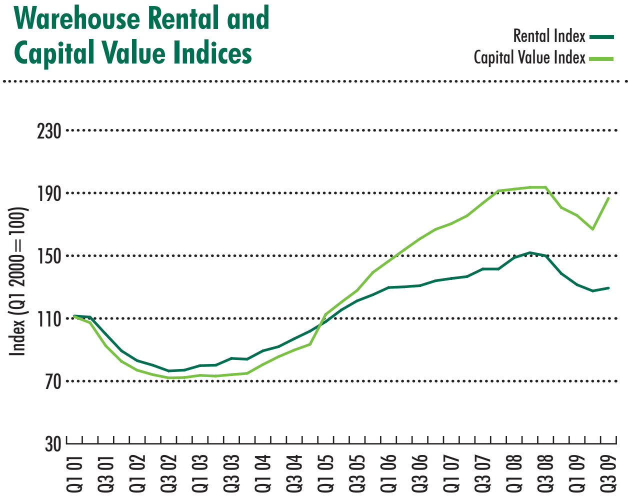
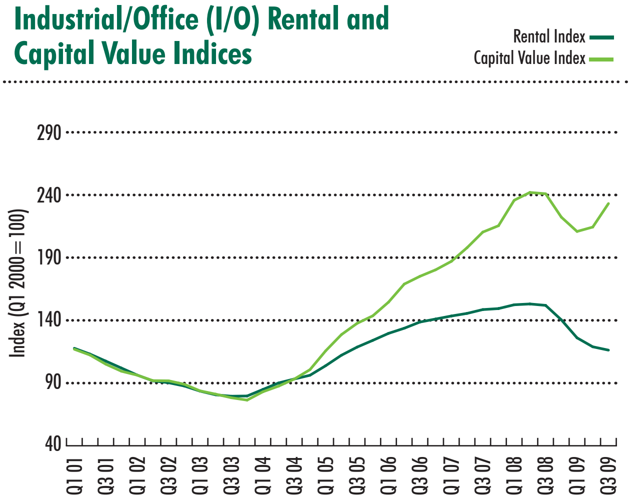
Warehouse Rental and Capital Value Indices



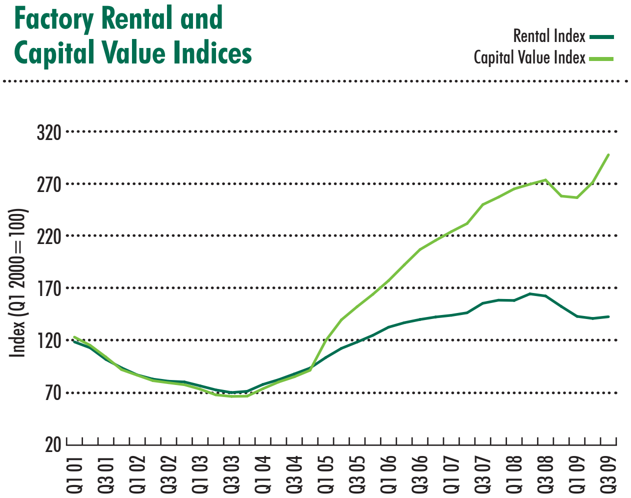
Warehouse rents were fairly flat over the quarter, rising 1.4% to average $6.1 psf. Warehouse rents appeared to be bottoming out with the improvement in overall sentiment and market activity. Capital values increased at a much faster rate over the quarter, rising 11.8% to average $1,032 psf. The rebound in property values could be attributed to continued low interest rates and high liquidity, which has helped push capital values higher across all property sectors. Investors also expected a relaxation in land policies regarding a change in use of old industrial buildings in the 2009/2010 Policy Address.

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



Capital values in the industrial/office (I/O) sector also increased over the quarter, rising 8.7% q-o-q to average $2,812 psf. The rise in capital values during the third quarter is higher than the 1.7% increase recorded during the second quarter. Rents meanwhile remained under downward pressure, given the substantial increase in new offices in decentralised areas of Kowloon. Rents fell 2.2% over the quarter to average $9.1 psf.

Factory Rental and Capital Value Indices



Rents for flatted factories increased 1.1% q-o-q to average $6.5 psf. Similar to warehouse space, rents for flatted factories appeared to be bottoming out amid better market sentiment. Capital values increased 9.7% in the third quarter, averaging $1,500 psf. Demand for en-bloc factories appeared to strengthen as developers acquired sites with the intent to redevelop them into new office projects.

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Major Hong Kong Industrial Areas

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 Hong'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.

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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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