

Quick Stats

		Y-o-Y change	Q-o-Q change
Warehouse Rental Value	HK\$5.4 psf	↓	↔
Warehouse Capital Value	HK\$1,131 psf	↑	↑
Warehouse Vacancy Rate	3.6%	↓	↓
I/O Rental Value	HK\$9.1 psf	↓	↔
I/O Capital Value	HK\$2,900 psf	↑	↑
Factory Rental Value	HK\$6.5 psf	↓	↔
Factory Capital Value	HK\$1,582 psf	↑	↑

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

Hot Topics

- Trade volumes improved further in December. Total exports increased 9.2% y-o-y, while imports increased 18.7% y-o-y.
- Exports to Asia markets were strongest in December rising 17.7% y-o-y, while European and North American export markets remained weak.
- Several industrial sites transacted recently in Yau Tong, and are being planned for residential redevelopment.
- Industrial capital values increased 4% to 5% over the quarter, while rents were largely flat.

Trade flows improved in the fourth quarter, with stronger overseas demand, and as companies rushed to fill inventories in the lead up to the holiday shopping season. Both exports and imports increased in value in December, up 9.2% y-o-y and 18.7% y-o-y respectively. Asian markets continued to perform better than those of western countries. Total exports to Asia increased by 17.7% in value in December 2009 over a year earlier, with exports to India, Taiwan and Indonesia particularly strong, surging 50% or more in value. On the other hand, exports to countries like Germany, the United Kingdom and the United States were weak, falling 8% to 16% y-o-y as the pace of recovery in those countries remained slow.

Container and air cargo throughput also showed robust growth with healthier trade movements through Hong Kong. The volume of airfreight handled at Hong Kong International Airport in December reached 330,000 tonnes, a notable increase of 35.5% from a year earlier. Meanwhile, cargo throughput increased 3% y-o-y, ending 13-months of decline.

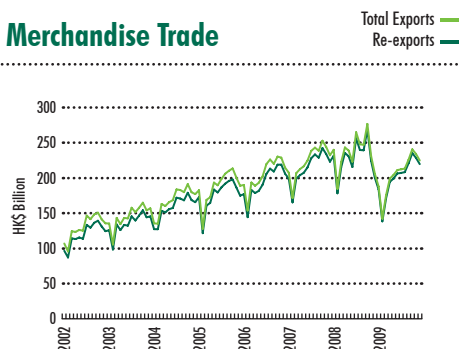
The government revealed a package of measures to help revitalise industrial buildings in the October Policy Address, which included lowering the threshold for compulsory sale for redevelopment

from 90% to 80%, and exempting the waiver fee for changing the land use for wholesale conversion. The policy stimulated demand for buildings with more than 80% undivided ownership, and resulted in a rise in en-bloc transactions. Industrial properties located within residential or commercial development zones were particularly in demand. For instance, several sites are currently being planned for residential redevelopment in Yau Tong, including two industrial buildings that were transacted en-bloc in the fourth quarter.

Although the new measures had relatively less impact on the strata-titled market, attractive rental returns of 5% to 7% helped support growth in values, particularly given continued low interest rates. Strata-title industrial values increased 4% to 5% on average over the fourth quarter.

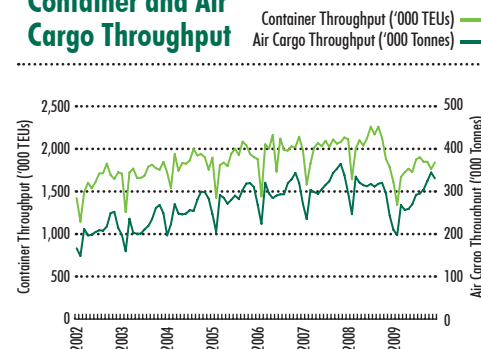
In the leasing market, rents levelled off as the downturn in trade appeared to have bottomed out. In a vote of confidence on the outlook of Hong Kong as a regional transport and logistics hub, Australian industrial developer Goodman Group and Goodman Hong Kong Logistics Fund recently announced their joint venture to construct a 2.4-million sf warehouse and distribution centre in Tsing Yi at a development cost of HK\$3.01 billion.

Merchandise Trade



Source: Census & Statistics Department

Container and Air Cargo Throughput



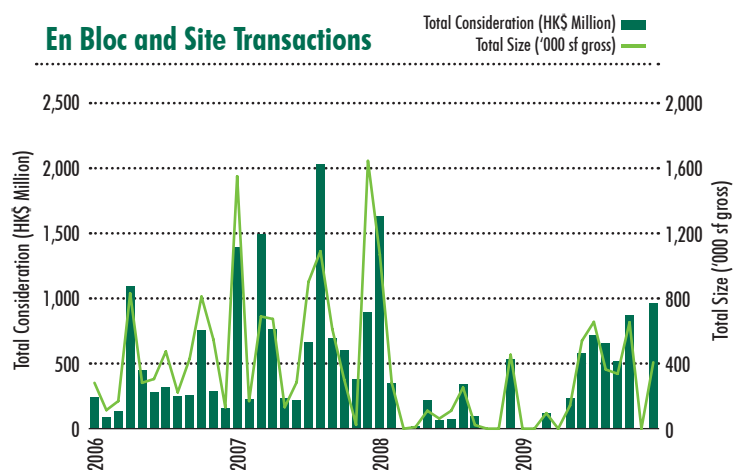
Source: Marine Department; Civil Aviation Department

Selected Leasing Transactions in Q4 2009

Property	Floor	Location	Type	Size (sf)	Gross Rental (HK\$ psf per month)
Interlink	1,21,22	Tsing Yi	Industrial	290,000	-
Interlink	13,15,17,18,19,20	Tsing Yi	Industrial	530,000	-
Roxy Industrial Centre	Low floor	Kwai Chung	Industrial	10,453	5.0
Kader Industrial Centre	En bloc	Fanling	Industrial	207,900	Est. 4.0 – 5.0

Selected Sales Transactions in Q4 2009

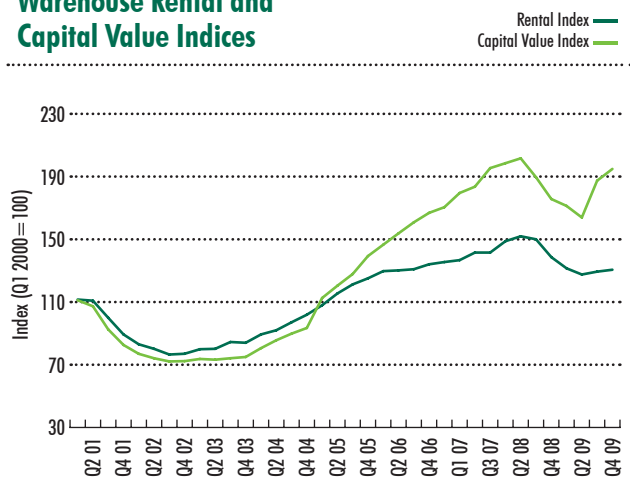
Property	Floor	Location	Type	Size (sf)	Price (HK\$ Million)	Price (HK\$ sf)
Sun Hing Chekiang Godown	En-bloc	Yau Tong	Warehouse	-	390.0	-
Wah Sun Godown	En-bloc	Yau Tong	Factory	-	248.0	-
Fanling Distribution Centre	En-bloc	Fanling	Warehouse	137,738	150.0	1,089
18-20 Dai Fat Street, Tai Po Industrial Estate	En-bloc	Tai Po	Factory	150,000	73.9	492.5



A rise in en-bloc transactions by industrial end users was noted over the quarter. Tao Heung Holdings, a restaurant operator, acquired two industrial blocks in Tai Po Industrial Estate at a cost of \$74 million, and is understood to be consolidating its office and logistics operations in the property. Yau Lee Holdings, a construction contractor, purchased Woo Hing Industrial Building in To Kwa Wan for \$121 million and will be using the property for its own offices, while Fanling Distribution Centre at 23 Yip Cheong Street was sold for \$150 million to a Chinese medicine company.

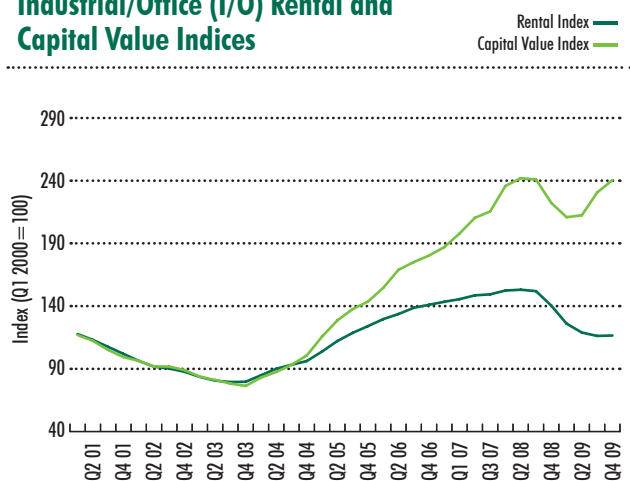
After the government announced the industrial revitalisation scheme, sales activity of industrial buildings with more than 80% undivided ownership also increased. In November, approximately 85% of undivided share of Yeu Shing Industrial Building in Tuen Mun was sold for \$155 million, while more than 80% ownership of block 9 of Tin's Centre Industrial Building, at 3 Hung Cheung Road, was sold for \$123 million the same month. Both buildings are located close to the Tuen Mun MTR station. The investors have the option to convert or redevelop the properties in order to maximise their asset value under the new scheme.

Warehouse Rental and Capital Value Indices



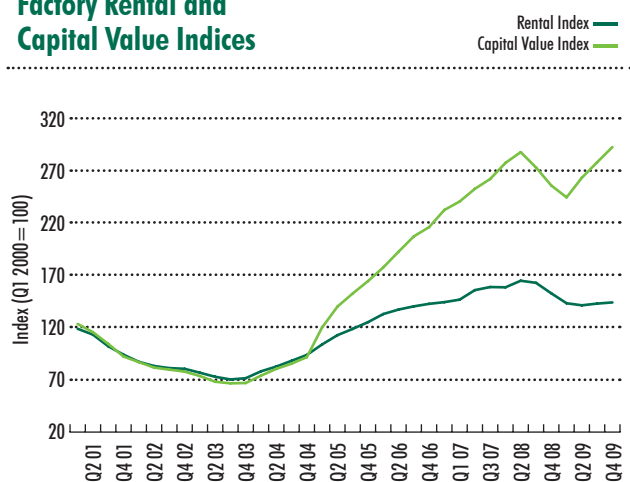
Warehouse investment sales increased over the quarter, compared to a relatively quiet leasing market. Prices for en-bloc and strata properties held firm due primarily to low interest rates, attractive yields and the desire for owner-occupiers to secure more space to take advantage of the lower prices. The rental market remained somewhat lacklustre however with most industrial occupiers inquiring about lower cost relocation options. Warehouse capital values increased 4% q-o-q to average \$1,131 psf, while rents were largely unchanged averaging \$5.4 psf.

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



Positive take-up of newly completed grade A office space in Kowloon East helped push vacancy rates down from an average of 32% in January to 17% in December. This helped to relieve some of the downward pressure on I/O rents, which held firm over the past 3 months to average \$9.1 psf. Prior to this I/O rents had been on the decline for 5 consecutive quarters. Capital values meanwhile increased 4.3% q-o-q to average \$2,900 psf.

Factory Rental and Capital Value Indices



Rents inched up 0.8% q-o-q to average \$6.5 psf, while capital values increased 5.2% q-o-q to average \$1,582 psf. As a result, yields fell 56 basis points over the quarter to 5.8%. Demand for en-bloc factories continued to strengthen as developers acquired sites for redevelopment purposes, with industrial buildings located in commercial or residential areas seeing the most activity.

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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