



The Knowledge

MARKET OVERVIEW | APRIL | 2008



MARKET TRENDS

OFFICE



LUXURY RESIDENTIAL



INDUSTRIAL



RETAIL



Market Summary

OFFICE SECTOR

- The pace of growth of Grade A office rentals regained momentum and posted a dramatic growth of 15.3% quarter-on-quarter (QoQ) to HK\$64.93 per sq ft per month on an effective basis as at the end of February 2008. The average Grade A office rental in Central reached HK\$108.54 per sq ft as at the end of February 2008, surpassing the HK\$100 mark for the first time.
- With strong demand fundamentals and limited new supply coming on line in the core areas, Grade A office rentals are anticipated to edge up by an average of 8% over the next 12 months. Traditional business districts are going to be the key market drivers.

LUXURY RESIDENTIAL SECTOR

- Supported by the demand-supply imbalance of luxury stock, the average transacted price in those key luxury residential districts posted a strong growth of 16.2% QoQ to HK\$13,760 per sq ft as at the end of February 2008.
- The average luxury residential capital value is expected to increase by 25% over the next 12 months. Underpinned by the sustained occupational demand across the board, the average luxury residential rents will increase 15% during the same period.

INDUSTRIAL SECTOR

- Clouded by the prevailing uncertainty on US economic growth, the pace of industrial rental growth tapered off from a 2-3% range during 4Q 2007 to less than 2% in 1Q 2008.
- Industrial property rentals are predicted to rise 6-10%, while capital values will be supported by sustained buying interests and are expected to increase 12-20% over the next 12 months.

RETAIL SECTOR

- Thanks to the growing local consumption demand and the rising number of visitor arrivals, the average rental in traditional shopping districts increased 3.6% QoQ in 1Q 2008.
- Leveraging on the inflow of overseas visitors into the region attending the Beijing Olympics in the second half of 2008, retail rental and capital values are predicted to grow by 28% year-on-year (YoY) and 30% YoY respectively over the next 12 months.



EXECUTIVE SUMMARY

ECONOMIC INDICATORS	MEASURE	2006	2007	2008	2009	2010	2011	2012
GDP	YoY % Change	6.8	5.7	4.0	4.6	5.3	5.5	5.4
Population growth (mid-year)	YoY % Change	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Average consumer prices	Rate (%)	2.0	2.0	3.7	3.3	3.0	2.9	2.9
Average unemployment rates	Rate (%)	4.8	3.5	3.2	3.2	3.1	3.1	2.9
Best lending rate	Rate (%)	7.9	7.6	7.1	8.1	8.1	8.1	8.1
Average real wage	YoY % Change	0.4	1.6	0.8	0.4	0.6	0.8	0.7

Source: The Economist Intelligence Unit; Hong Kong SAR Government; Colliers International (Hong Kong) Limited



The local Gross Domestic Product posted a strong growth of 6.7% year-on-year (YoY) in 4Q 2007 and stayed distinctly above its ten-year trend growth (i.e. 3.8% YoY) thanks to the continued catch-up of private consumption expenditure and the sustained growth of export of services

STRONG PRIVATE CONSUMPTION

Despite the prevailing concern on the sub-prime mortgages in the US and the volatility of global financial markets, there has been no significant adverse impact on the local economy. According to the latest release by the Hong Kong SAR Government, the local Gross Domestic Product posted a strong growth of 6.7% year-on-year (YoY) in 4Q 2007 and stayed distinctly above its ten-year trend growth (i.e. 3.8% YoY) thanks to the continued catch-up of private consumption expenditure and the sustained growth of export of services. In the case of the former, the level of private consumption expenditure registered an encouraging growth of 10.0% YoY in 4Q 2007 due to the positive market sentiment as a result of the general rise in household income together with an inflationary environment. Meanwhile, the ever-rising number of inbound visitors continued to make a major contribution to exports of services which increased by 10.5% YoY in 4Q 2007. According to the 2008-09 Budget delivered by the Hong Kong SAR Government, there were over 28 million visitors to Hong Kong during 2007, representing an increase of 11.6% YoY. Meanwhile, the total visitor spending is estimated to have increased 8.9% YoY to over HK\$130 billion in 2007.

SENTIMENT BOOSTED BY TAX CUT

In addition to the above fundamental reasons, the prevailing positive consumption market sentiment was further boosted by the announcement of the Budget 2008-09 by the Hong Kong SAR Government. As far as the property market is concerned, the key proposed fiscal initiatives by the Government should be tax reduction and the increase of tax allowances. The following is a summary of the key changes for the fiscal year 2008-09.

- On salaries tax and tax under personal assessment, the standard rate of salaries tax is proposed to be reduced by one percentage

point to 15.0%. Meanwhile, the corporate profits tax rate will be lowered by one percentage point to 16.5% in 2008-09.

- Taxpayers are going to enjoy a one-off tax reduction of 75% of salaries tax and tax under personal assessment for 2007-08, subject to a ceiling of HK\$25,000. The same will be applied to business enterprises and property taxpayers.
- Rates for 2008-09 will be waived subject to a ceiling of HK\$5,000 per quarter for each rateable tenement. It is estimated that 99% of domestic properties will be subject to no rates in the year.
- In addition, the basic allowances and the single parent allowances will be raised from HK\$100,000 to HK\$108,000. The current tax bands will be widened from HK\$35,000 to HK\$40,000.

As a key factor reflecting the market sentiment, the total value of retail sales showed further signs of growth with its average monthly volume surpassing HK\$25 billion for the first time ever as of January 2008.

INFLATIONARY PUSH

Fundamentally, the inflationary environment in Hong Kong has created a major push not only to the volume of retail sales but also the whole real estate sector. According to the official figures issued by the Government, the annual change in Composite Consumer Price Index was 3.2% YoY as of January 2008. With the prospective revaluation of Renminbi and the sustained surge of energy and food prices, the market consensus is anticipating a further increase of consumer prices during the rest of 2008. The latest forecast by The Economist Intelligence Unit suggests the inflation rate for 2008 is going to accelerate to 3.7% per annum for the full year of 2008. Compared with the prevailing effective mortgage rates at largely below 3.00% per annum, the local real estate market has already

entered into a negative mortgage rate environment during 1Q 2008, thus prompting more monies flowing into the local asset market.

On the real estate front, more investors were found to jump onto the bandwagon to snap up quality office developments in anticipation of further capital growth. Whole-block investment sale transactions with price brackets in the order of HK\$200–500 million stole the limelight in 1Q 2008. For example, Tern Commercial Building in Tsim Sha Tsui was sold for HK\$350 million, representing a unit price of HK\$13,258 per sq ft. In the office market, the strata-titled office market remained active with prices in central business districts increased by more than 20% quarter-on-quarter (QoQ) during 1Q 2008.

HONG KONG PROPERTY MARKET SECTOR

In the office property sector, another major reason for the sharp growth in capital values is simply because of sustained rental growth. In general, hiring expectations continued to rise across the board in 1Q 2008. In particular, companies engaged in banking and the financial services sector remained aggressive in expanding their headcount, thus translating into the continued demand for quality office space. Largely above market expectations, the pace of rental growth in Central picked up strongly again and rose 7.8% QoQ to HK\$123.43 per sq ft per month as at the end of February 2008. Against the backdrop of a severe supply squeeze, individual companies have chosen to leave Central for other districts such as Quarry Bay in Island East, or Tsim Sha Tsui across the harbour.

In the luxury residential property market, the bulk of vendors remained confident in 1Q 2008 and stayed firm on their asking prices. Their expectations have principally leveraged on further capital growth over the near- to medium-term amid the prevailing negative real mortgage rates environment. However, the prevailing uncertainties in the external environment have put individual risk-averse players on the sidelines, thus leading to a short-term contraction of the number of sale transactions. Amid a lack of quality stock in the marketplace, the average transacted prices in the luxury residential sector recorded a strong growth of 16% QoQ to HK\$13,760 per sq ft as at the end of February 2008. Detached houses in the traditional luxury residential districts on

Hong Kong Island such as The Peak and South Side remained sought after in the marketplace. For example, a luxury house at Severn 8 in The Peak was sold for HK\$240 million, representing a unit price of HK\$55,500 per sq ft – the record high ever achieved in Hong Kong.

In the retail sector, the pace of growing demand showed no signs of abating during 1Q 2008. Amid the changing consumption pattern, more tenants engaged in food and beverage industries determined to expand their market coverage despite the general high cost of capital expenditure in opening a new outlet. Newcomers from overseas remained confident on the long-term growth of China and continued to favour Hong Kong as their strategic entry point to the Mainland market. However, due to a general lack of stock in the marketplace, individual tenants have opted to go for retail units on upper floors rather than the typical street-level shopping space. Other tenants have chosen to go to second-tier streets in traditional shopping districts. Overall, the average retail property rental amongst the four traditional shopping districts increased 3.6% QoQ in 1Q 2008.

In the industrial property market, the occupational demand for logistics warehouses remained strong in 1Q 2008 as indicated by the sustained growth of airfreight volume. Generally, overseas operators are typically coming with an average floor area requirement of 30,000 sq ft to 50,000 sq ft in anticipation of sustained growth of cargo throughput. Meanwhile, a rising number of industrialists have returned to Hong Kong in order to aim at the high value-added production amid the general cost inflation in the Mainland. Boosted primarily by the warehousing and industrial-office sector, the average industrial rentals rose 1.6% QoQ in 1Q 2008.

MARKET OUTLOOK

Looking forward, the local property market is going to experience sustained growth in both rental and capital values since the market has entered into a negative real interest rates environment in 1Q 2008. With robust investment demand, the local real estate market is likely to extend its rally into the following quarter of 2008. Individual property sectors facing a major supply squeeze are anticipated to have their growth pace surpass the market expectations on the upside.

More investors were found to jump onto the bandwagon to snap up quality office developments in anticipation of further capital growth. Whole-block investment sale transactions with price brackets in the order of HK\$200–500 million stole the limelight in 1Q 2008

GRADE A OFFICE SECTOR

SUB-MARKET BREAKDOWN

	RENTS					
	Face Rents (HK\$ / sq ft / month)			Effective Rents (HK\$ / sq ft / month)		
	Feb 07	Feb 08	Feb 09 (f)	Feb 07	Feb 08	Feb 09 (f)
Central	88.56	123.43	148.12	83.25	116.38	139.66
Admiralty	70.59	94.11	108.23	66.47	88.55	101.83
Wan Chai	43.03	54.91	60.41	39.95	51.34	56.47
Causeway Bay	39.04	49.85	57.33	36.39	46.61	53.60
North Point	25.12	32.04	30.44	23.39	30.04	28.54
Quarry Bay	30.51	29.51	28.03	28.81	27.00	25.65
Sheung Wan	40.18	56.17	64.60	37.35	52.45	60.31
Tsim Sha Tsui	36.99	43.54	41.36	34.28	41.12	39.06
Kwun Tong	23.91	29.12	27.67	22.36	27.50	26.13
Kowloon Bay	21.37	25.99	24.69	20.10	24.41	23.19

	CAPITAL VALUES AND YIELDS					
	Capital Values (HK\$ / sq ft)			Yields		
	Feb 07	Feb 08	Feb 09 (f)	Feb 07	Feb 08	Feb 09 (f)
Central	18,001	26,379	33,243	3.2%	3.4%	3.2%
Admiralty	12,921	18,828	22,631	3.7%	3.7%	3.5%
Wan Chai	12,437	16,314	19,079	3.7%	3.9%	3.7%
Tsim Sha Tsui	10,301	12,933	12,971	3.7%	3.4%	3.2%

On net floor area basis

Source: Colliers International (Hong Kong) Limited

GRADE A OFFICE RENTALS CENTRAL AND ADMIRALTY



Source: Colliers International (Hong Kong) Limited

The average Grade A office rental in Central and Admiralty reached HK\$108.54 per sq ft as at the end of February 2008, surpassing the HK\$100 mark for the first time

DEMAND FUNDAMENTALS REMAIN INTACT

The looming threat attributed to the consolidation of the housing market in the US and the lingering effect of the sub-prime mortgage problems continued to challenge global financial markets during 1Q 2008. With the concerted effort from key central banks to inject liquidity into their banking systems and a series of interest rate cuts announced by the US Federal Reserve, the prevailing credit squeeze tension in financial markets was greatly reduced and the world economy could therefore be shielded from further adverse impact.

Despite the prevailing problems of sub-prime mortgages in the US, the bulk of the banking and finance institutions in Hong Kong were virtually decoupling from the rippling effect arising out of the US. In particular, most local banks disclosed that their exposure to sub-prime mortgage debt securities was largely limited to a minor percentage of their total assets. The prevailing trend of expansionary demand attributed to the banking and finance industries remained largely intact during 1Q 2008. The market situation in Hong Kong can be illustrated by the prevailing trend of hiring expectations in various business sectors. According to a quarterly survey conducted

by Hudson, hiring expectations continued to rise across the board in 1Q 2008. According to the findings of the survey, 58% of respondents reported that they planned to increase their headcount, representing the highest level since 3Q 2006. Companies engaged in banking and the financial services sector remained positive on their headcount growth. The majority (i.e. 60%) of the respondents planned to take on more people. Meanwhile, the professional service industries including the legal sector also reported positive hiring expectations, with 65% of the respondents planning to increase their staff force during 1Q 2008.

THE BIG CHALLENGE

Amid the prevailing genuine occupational demand for office space, the Grade A office market continued to be challenged by a serious supply squeeze in 1Q 2008. In the primary market, Kwun Tong 223 was the major Grade A office development completion during the period between December 2007 and February 2008. Developed by Henderson Land, Kwun Tong 223 provides a total of over 1 million sq ft gross office floor area in Kwun Tong - the decentralised office location on the eastern part of Kowloon. However, in the traditional business districts on Hong Kong Island, there was no new supply in

the primary market during the period. Tenants as usual resorted to the available stock in the secondary market. Because Kwun Tong 223 is yet to be 100% occupied, the average vacancy rate of the Grade A office market edged up slightly from 2.88% in November 2007 to 3.38% as at the end of February 2008. However, the sub-market in Central bucked the overall market trend with its average vacancy rate coming down further, from 2.14% in November 2007 to just barely below 1.00% in February 2008.

RENTALS RE-ACCELERATING

Largely above market expectations, the pace of growth of Grade A office rentals regained momentum and posted a dramatic growth of 15.3% QoQ to HK\$64.93 per sq ft per month on an effective basis as at the end of February 2008. The key market drivers continued to be the sub-market of Central due to the extreme imbalance between supply and demand. The average Grade A office rental in Central and Admiralty reached HK\$108.54 per sq ft as at the end of February 2008, surpassing the HK\$100 mark for the first time.

Competition for available space remained keen amongst various occupiers engaged in the banking and finance industries, since there was no new space available in 1Q 2008. The current situation is anticipated to sustain until the completion of Nexus Building in the second half of 2008. Essentially, Nexus Building is the refurbished project at 77 Connaught Road, which will only be available for occupation in 3Q 2008. The project, jointly owned by Morgan Stanley, Pamfleet and Gateway Capital, is a 24-storey office building providing a total of about 190,000 sq ft of lettable office space in the heart of Central. Against the backdrop of a severe supply squeeze, rentals in Central and Admiralty rose further by 16.3% QoQ to HK\$108.54 per sq ft per month as at the end of February 2008. Individual companies have chosen to leave Central for other districts such as North Point in Island East, or Tsim Sha Tsui across the harbour. Because of the so-called positive spillover from the sub-market of Central, the average rental in North Point and Tsim Sha Tsui both registered an impressive gain of over 20% QoQ during 1Q 2008.

INVESTMENT DEMAND

Due to the continued surge of office rentals and the fact there has been more investment capital finding its way into the real estate sector, the number of

sale transactions of the Grade A office property market was active in 1Q 2008. In the central business district, sales transactions continued to concentrate on a few strata-title buildings, e.g. Lippo Centre. Reflecting the buoyant prevailing market conditions, the average strata-title office price increased by more than 20% during 1Q 2008. Meanwhile, whole-block investment sales transactions with a price bracket in the order of HK\$200 million to HK\$500 million stole the limelight in 1Q 2008. For example, Tern Commercial Building in Tsim Sha Tsui was sold for HK\$350 million, representing a unit price of HK\$13,258 per sq ft.

CHANGES IN CENTRAL

Due to the sustained rise of office rentals in Central, the prevailing trend of companies relocating out of Central to other districts was not restricted to non-finance firms but included individual banking and finance companies. The latest example was the relocation of a Taiwanese bank from Central to Tsim Sha Tsui. In addition, Banco Intesa is reported to relocate from Central to Causeway Bay.

In view of the tight supply conditions in Central, the government has put forward a number of initiatives in an attempt to consolidate the office supply in the existing central business district (CBD). According to one of the working papers published by the Planning Department of Hong Kong SAR Government in October 2007, one of the key objectives is to free up space at private office buildings in the CBD currently occupied by the government. The latest announcement by the Transport and Housing Bureau of the HKSAR Government on the go-ahead of the construction of the MTR Shatin-Central Link is believed to be the latest move by the government to substantiate its initiative outlined above. According to the government, the proposed 18 km MTR link is expected to start in 2010. The section from Tai Wai to Hung Hom is expected to be completed during 2014 to 2016, while the section from Hung Hom to Central is expected to be completed after 2017. In order to facilitate the commencement of construction of the new MTR link, the two facilities controlled by Hong Kong Post of Hong Kong SAR Government (i.e. the General Post Office in Central and the International Mail Centre in Hung Hom) will have to relocate to other districts. It is reported that Hong Kong Post is currently looking for suitable sites in Kowloon Bay to house its two facilities under one roof by 2011.

GRADE A OFFICE VACANCY RATE CENTRAL



Source: Colliers International (Hong Kong) Limited

The sub-market in Central bucked the overall market trend with its average vacancy rate coming down further, from 2.14% in November 2007 to just barely below 1.00% in February 2008

In addition, the government has awarded the tender to the winning parties for the design and build contract of the Tamar Development project – the sizeable coastal site located between Central and Wanchai. Upon completion in 2011, the Tamar project will provide a total gross floor area of 1.4 million sq ft. The contract covers the design and construction of the Central Government Complex, the Legislative Council Complex, pedestrian footbridges and other ancillary facilities. Recalling the working paper published by the Planning Department of the Hong Kong SAR Government, there is speculation that individual sites currently occupied by the government will be made available to the private sector. However, it is our view that there is no relief to the current tight supply situation in Central over the near term.

RENTAL GROWTH MODEL

In addition to the tight supply and positive hiring expectations, the latest statistics issued by the government also suggests the level of job vacancies in the finance, insurance and real estate (“FIRE”) sector, a proxy to measure the demand for office space, posted a distinct growth during 4Q 2007. By comparing the change of job vacancies in the FIRE sector and the rental change of office rentals in Central, the former, as a leading indicator for office demand, was in fact much stronger than our expectations. After reviewing our research model, office rental growth in Central has been revised up to 20% over the next 12 months, while the latest forecast of rental growth in the whole Grade A market has been adjusted upward from 3% per annum to 8% per annum.

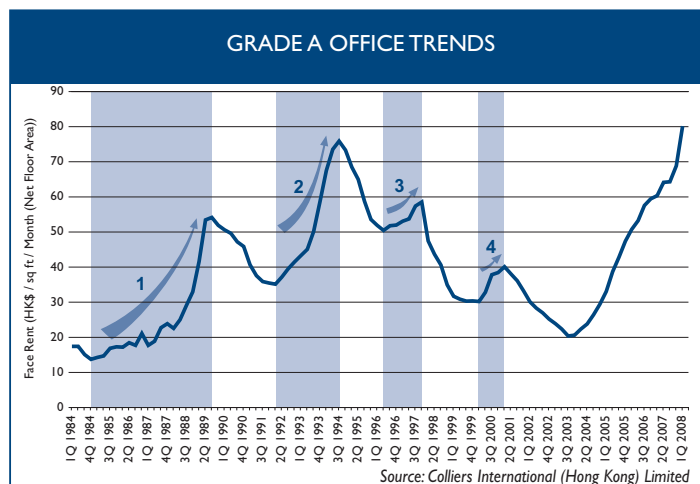
The above revision on rental forecast is primarily based on the projection on the current trend of demand growth and the prospective completion of new developments. The former, closely linked

to the performance of the finance industries, has been volatile and could change dramatically if the external environment turns against the office market. It will not only deter occupiers from taking on new space but could create a spate of existing space being handed back by existing tenants to their respective vendors. Although the anticipated stream of new supply remains largely the same, the overall vacancy rate could shoot up in a relatively short period.

THE PROPERTY CYCLES

Although the overall rental projection has been revised upward, it is our view that the market is gradually heading close to its cyclical peak, since there are less tenants in the marketplace prepared to pay the prevailing rental rates. In addition, from the research point of view, the current market upswing has passed a total of 19 quarters since the start of the cycle in 3Q 2003. With reference to the office market performance over the past 24 years, no single upswing had lasted for more than 20 quarters. The following are four up-cycles during the period from 1984 to 2003:

- Cycle 1 (4Q 1984 – 3Q 1989)
This lasted for a total of **20 quarters** during the period. Office rentals increased by 294%, but the cycle was stopped by two unforeseeable events – the Tiananmen incident in mid-1989 and the political tension in the Middle East.
- Cycle 2 (1Q 1992 – 3Q 1994)
The second cycle was essentially driven by asset price inflation and negative interest rates. Office rentals shot up 116% in **11 quarters**. The upswing was temporarily halted by the austerity measures in mainland China.



If history repeats and the 20-quarter threshold applies, the current office market upswing might possibly end in the second half of 2008

GRADE A OFFICE SUPPLY (2008 - 2011 & BEYOND)

Building	District	NFA (sq ft)	Developer	Status
2008				
Manhattan Place	Kowloon Bay	601,180	Manhattan	Under construction
Exchange Tower	Kowloon Bay	517,662	Sino Land	Under construction
Tai Lin Pai Road, Kwai Chung (Phase I)	Kwai Chung	487,900	Sun Hung Kai Properties	Under construction
Landmark East	Kwun Tong	875,500	Winsor Properties	Under construction
One Island East	Quarry Bay	1,383,572	Swire Properties	Completed
Total		3,865,813		
2009				
International Commerce Centre (Stage II)	West Kowloon	435,400	Sun Hung Kai Properties	Under construction
4 Lai Yip Street/114 Wai Yip Street	Kwun Tong	248,566	Sun Hung Kai Properties	Under construction
Total		683,966		
2010				
International Commerce Centre (Stage III)	West Kowloon	618,100	Sun Hung Kai Properties	Under construction
Po Hing Centre redevelopment, 18 Wang Chiu Road	Kowloon Bay	296,650	Sino Land	Planning
Tai Lin Pai Road, Kwai Chung (Phase II)	Kwai Chung	422,450	Sun Hung Kai Properties	Under construction
1 Wang Kwong Road	Kowloon Bay	456,424	Billion Development	Under construction
Total		1,856,624		
2011 & beyond				
500 Hennessy Road	Causeway Bay	606,684	Hysan Development	Demolition
Hotel Ritz Carlton redevelopment	Central	191,250	Lai Sun/China Construction Bank	Demolition
Crocodile House 1&2 and Ananda Tower redevelopment	Central	135,000	Citigroup	Under renovation
Central Market Redevelopment	Central	569,500	Hong Kong SAR Government	Existing site
863 - 865 King's Road	North Point	434,350	Kerry Properties	Demolition
Total		1,936,784		

Source: Colliers International (Hong Kong) Limited

- Cycle 3 (2Q 1996 - 4Q 1997)
The third cycle was short, lasting for only **seven quarters**. In anticipation of a smooth handover of Hong Kong's sovereignty to China, office rentals increased 16% during the period. The subsequent downward adjustment of rentals was attributed to the outbreak of regional currency turmoil in 3Q 1997.
- Cycle 4 (1Q 2000 - 1Q 2001)
The fourth upswing only lasted for **five quarters** due to the short-lived technology rally. Office rentals increased 33% during the cycle, but it was ended by the recession in the US.

If history repeats and the 20-quarter threshold applies, the current office market upswing might possibly end in the second half of 2008. The reason for disruption could be anything, but it is likely to be an external event such as the last recession in the US during 2001.

MARKET OUTLOOK

Over the near term, the local Grade A office market is going to be supported by a general lack of space in Central.

With strong demand fundamentals and limited new supply coming on line in the core areas, Grade A office rentals are anticipated to edge up by an average of 8% over the next 12 months although a potential rental peak might happen in the second half of 2008.

LUXURY RESIDENTIAL SECTOR

LUXURY RESIDENTIAL MARKET - KEY MARKET INDICATORS

	Rents (HK\$ / sq ft / month)			Capital Values (HK\$ / sq ft)			Yields		
	Feb 07	Feb 08	Feb 09(f)	Feb 07	Feb 08	Feb 09(f)	Feb 07	Feb 08	Feb 09(f)
Peak	44.55	52.65	63.18	13,417	20,124	26,162	3.98%	3.14%	2.90%
South Side	36.89	45.96	52.85	10,469	14,357	17,947	4.23%	3.84%	3.53%
Mid-levels	29.90	41.65	47.89	8,462	10,956	13,695	4.24%	4.56%	4.20%
Happy Valley	26.83	35.60	40.94	7,845	10,786	13,482	4.10%	3.96%	3.64%
Island East	22.81	28.96	31.85	6,620	8,629	10,354	4.14%	4.03%	3.69%
Average	33.66	42.41	48.93	9,910	13,760	17,258	4.08%	3.70%	3.40%

Source: Colliers International (Hong Kong) Limited

Supported by the demand-supply imbalance of luxury stock, the average transacted price in those key luxury residential districts posted a strong growth of 16.2% Q-o-Q to HK\$13,760 per sq ft as at the end of February 2008

Despite the traditional holiday season and greater volatility of the global financial markets in 1Q 2008, prospective buyers on the whole remained confident on the local luxury residential market in the light of sustained economic growth and falling Hong Kong interest rates. The Best Lending Rates (BLRs) offered by local banks were lowered 125 basis points to the range of 5.75- 6.00% as at the end of February 2008. Occupational and investment demand for properties remained particularly strong, primarily leveraged on further capital gains amidst the looming negative real mortgage rate environment. However, individual potential buyers adopted a wait-and-see approach as they turned cautious in view of the weakening US economy and the problem of the US sub-prime mortgage market.

According to the Census and Statistics Department, the total number of sale and purchase agreements for residential units recorded a double-digit growth of 14.2% quarter-on-quarter (QoQ) to 40,870 during the three-month period ended February 2008. On the contrary, the number of sales transactions with a lump sum consideration of HK\$10 million or above in the three traditional luxury residential districts contracted by 43% QoQ during the same period.

Nevertheless, the average transacted price in the luxury sector displayed a stronger growth momentum as compared to the previous quarter. Supported by the demand-supply imbalance of luxury stock, the average transacted price in those key luxury residential districts posted a strong growth of 16.2% Q-o-Q to HK\$13,760 per sq ft as at the end of February 2008.

TAX REDUCTION

Meanwhile, the market sentiment has been encouraged by the Budget Speech 2008-09 due to the initiatives of tax reduction and the increase of tax allowances.

In late February 2008, the Financial Secretary announced that for 2008-2009, rates will be waived subject to a ceiling of HK\$5,000 per quarter for each ratable tenement, the lowering of standard rate of salaries tax by one percentage point to 15%, and the widening of tax bands from HK\$35,000 to HK\$40,000. Moreover, the one-off tax reduction of 75% of property and salary tax under personal assessment for 2007-2008, subject to a ceiling of HK\$25,000.

DISPARITY OF PRICE EXPECTATIONS

On the supply front, there was no residential site being sold via public auction during the three-month period ended February 2008 since the expectation price gap between the government and the private sector remained wide. With regards to scarce availability of clean sites especially on Hong Kong Island, developers and investors continued to resort to the alternative of acquiring existing properties in the open market.

Some notable transactions concluded in February 2008 included the acquisition of 81% undivided shares of Pun Tak Building (109 residential units) in Causeway Bay for a total of HK\$498 million or an average unit price of HK\$6,199 per sq ft based on a total floor area of 80,338 sq ft, and the sale of the whole residential block of The Amber at 45 Blue Pool Road, Happy Valley for a total consideration of HK\$290 million. Based on a total floor area of 37,014 sq ft, the average

MAJOR RESIDENTIAL SALES TRANSACTIONS

Month	Property	District	GFA (sq ft)	Price (HK\$ m)	Unit Price (HK\$ / sq ft)
Dec-07	Abergeldie, House 1	The Peak	3,580	\$122.80	34,302
Dec-07	Kellett Grove, House 7&9	The Peak	30,000	\$1,650.00	55,000
Jan-08	Severn 8, House 15	The Peak	4,325	\$240.00	55,491
Jan-08	28 Gough Hill Road, House 8	The Peak	6,080	\$238.00	39,145
Feb-08	Severn 8, House 21	The Peak	3,363	\$184.80	54,951
Feb-08	Strawberry Hill, House 41	The Peak	3,200	\$106.30	33,219
Dec-07	Bellevue Place, House 6	South Side	3,206	\$66.88	20,861
Dec-07	Repulse Bay Garden, Blk 3, 17/F	South Side	2,810	\$43.03	15,311
Dec-07	Hazelton, House 2	South Side	3,195	\$54.00	16,901
Dec-07	Park Place, Blk C, 8/F, Unit 2	South Side	2,288	\$44.80	19,580
Dec-07	Regalia Bay, Ph 1, House A20	South Side	4,710	\$91.00	19,321
Dec-07	Regalia Bay, Ph 1, House B28	South Side	4,100	\$53.60	13,073
Dec-07	Regalia Bay, Ph 1, House B27	South Side	4,100	\$55.00	13,415
Dec-07	Regalia Bay, Ph 1, House C6	South Side	4,212	\$63.00	14,957
Dec-07	L'Harmonie, House H	South Side	3,557	\$64.25	18,063
Dec-07	Redhill Peninsula - Cedar Drive, House 118	South Side	2,985	\$52.00	17,420
Dec-07	Residence Bel-Air Ph 02, South Twr 5, 47/F, Flat A-B	South Side	3,316	\$49.00	14,777
Jan-08	Residence Bel-Air Ph 02, South Twr 5, 52/F, Flat A-B	South Side	3,358	\$53.28	15,867
Jan-08	Grosvenor Place, 22/F	South Side	2,809	\$56.18	20,000
Jan-08	Repulse Bay Bellevue Garden, House 5	South Side	4,457	\$80.00	17,949
Jan-08	Hazelton, House 6	South Side	3,195	\$57.00	17,840
Jan-08	Ruby Court, Twr 1, 5/F, Flat A	South Side	2,200	\$35.38	16,082
Jan-08	Hillgrove, House B8	South Side	2,680	\$40.00	14,925
Jan-08	Le Palais, House 5	South Side	3,348	\$58.50	17,473
Jan-08	Rosecliff, House 1	South Side	3,209	\$91.80	28,607
Jan-08	Faber Court, Blk B, 5/F, Flat A	South Side	2,250	\$34.50	15,333
Feb-08	Repulse Bay Towers, 7-8/F, Flat D	South Side	3,100	\$52.00	16,774
Feb-08	3 Repulse Bay Road, 15/F, Flat B	South Side	2,078	\$53.50	25,746
Feb-08	Ruby Court, Twr 2, 22-23/F, Flat A	South Side	2,790	\$53.00	18,996
Feb-08	Ruby Court, Twr 1, 7/F, Flat A	South Side	2,200	\$37.20	16,909
Feb-08	45 Island Road, House 3	South Side	2,705	\$61.80	22,847
Feb-08	Repulse Bay Towers, 7-8/F, Flat G	South Side	3,100	\$66.80	21,548
Feb-08	Rehill Peninsular - Cedar Drive, House 23	South Side	2,672	\$43.80	16,392
Dec-07	Dynasty Court, Twr 1, 38/F, Flat A	Mid-levels	2,691	\$58.50	21,739
Dec-07	Garden Terrace No 03, 13/F, Flat A	Mid-levels	3,319	\$45.00	13,558
Dec-07	Albany, Blk A, 8/F	Mid-levels	2,546	\$53.50	21,013
Dec-07	Highcliff, 56/F, Flat A	Mid-levels	3,816	\$91.10	23,873
Dec-07	Legend, Twr V, 57-58/F, Flat A	Mid-levels	2,278	\$72.90	32,000
Dec-07	Highcliff, 44/F, Flat A	Mid-levels	3,816	\$81.10	21,253
Jan-08	Clovelly Court, Blk 1, 37/F, Flat A	Mid-levels	2,809	\$70.00	24,920
Jan-08	Garden Terrace No 03, 29/F, Flat B	Mid-levels	3,307	\$50.00	15,119
Jan-08	Mayfair, 31/F, Flat B	Mid-levels	2,838	\$63.00	22,199
Jan-08	Tregunter Twr 3, PH/F, Flat A	Mid-levels	4,146	\$70.80	17,077
Jan-08	Regence Royale, Twr 1, 29/F, Flat B	Mid-levels	2,566	\$62.55	24,375
Jan-08	Borrett Mansion, 16/F, Flat 9A	Mid-levels	2,722	\$53.00	19,471
Feb-08	Garden Terrace No 03, 25/F, Flat A	Mid-levels	3,319	\$43.50	13,106
Feb-08	Regence Royale, Twr 2, 25/F, Flat B	Mid-levels	2,522	\$52.00	20,619

Source: Colliers International (Hong Kong) Limited

MAJOR RESIDENTIAL LEASE TRANSACTIONS

Month	Property	District	GFA (sq ft)	Rental (HK\$ / month)	Unit Rental (HK\$ / sq ft / month)
Feb-08	11 Plantation Road	The Peak	2,129	120,000	56.36
Dec-07	63 Deep Water Bay Road	South Side	3,479	195,000	56.05
Dec-07	127 Repulse Bay Road	South Side	2,990	147,000	49.16
Dec-07	Fairwinds	South Side	3,547	180,000	50.75
Jan-08	9 Stanley Village Road	South Side	2,800	120,000	42.86
Jan-08	No.1 Shouson Hill Road East	South Side	4,331	200,000	46.18
Dec-07	Dynasty Court	Mid-levels	2,266	107,000	47.22
Jan-08	Queen's Garden	Mid-levels	2,000	119,500	59.75
Feb-08	Branksome Grande	Mid-levels	3,030	110,000	36.30
Feb-08	Dynasty Court	Mid-levels	2,691	126,000	46.82

Source: Colliers International (Hong Kong) Limited

During the period from December 2007 to February 2008, the luxury residential market continued to see solid growth, thanks to the sustained occupational demand growth from the accounting and finance industry as well as the legal sector

The average luxury residential rental edged up further by 5.6% QoQ to HK\$42.41 per sq ft per month as at the end of February 2008

unit price was HK\$7,835 per sq ft. Last but not least, 118-122 Tung Lo Wan Road in Causeway Bay was sold for HK\$310 million with a unit price of about HK\$11,382 per sq ft.

GROWING RENTALS

During the period from December 2007 to February 2008, the luxury residential market continued to see solid growth, thanks to the sustained occupational demand growth from the accounting and finance industry as well as the legal sector. Landlords remained firm in rental negotiations particularly with low-rise/large-sized apartments and detached houses which have been in limited supply in the traditional luxury residential areas. Tenants were gradually catching up to match vendors' expectations by offering rental bids for top quality units. This translated into satisfactory performance of the leasing market in 1Q 2008. The average luxury residential rental edged up further by 5.6% QoQ to HK\$42.41 per sq ft per month as at the end of February 2008.

According to the latest employment and human resources survey done by Hudson in 1Q 2008, hiring expectations remained positive across various business sectors. It is our view that the sustained hiring expectations will gradually translate into occupational demand in the luxury residential market. Generally, the findings of the survey suggest that 58% of the respondents are planning to increase their staff levels in 1Q 2008 compared with 54% in the preceding quarter while the key business sectors including the legal and banking industries reported the highest hiring expectations. In the legal sector, 65% of the

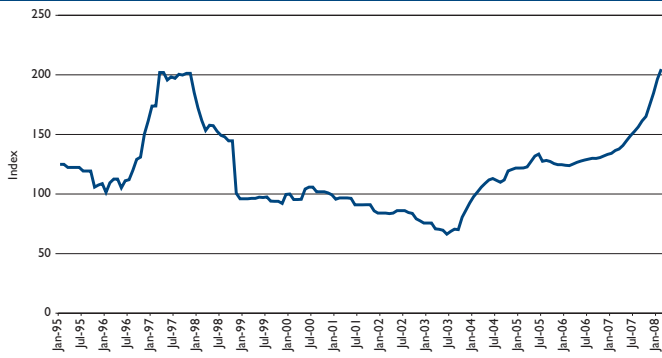
respondents planned to increase their headcounts, while 60% of the respondents in the banking and finance industries said they will increase their headcounts.

THE PEAK

Luxury residential prices on The Peak continued to outperform those in Mid-levels and South Side, with the average capital values posting the strongest growth of 17.2% QoQ, from HK\$17,170 per sq ft in November 2007 to HK\$20,124 per sq ft in February 2008. Demand for top-end properties in prestigious locations continued to strengthen with significant price premium attached at above market average. Sun Hung Kai Properties' Severn 8 continued to lead the market by achieving a new high for transacted prices. During 1Q 2008, House 15 was sold for HK\$240 million, representing a unit price of HK\$55,491 per sq ft based on a total gross floor area of 4,325 sq ft. Compared to the price tag of the last sale transaction of House 15 in November 2006 (i.e. HK\$146 million), there was a dramatic capital growth of 64% during a period of three months. In the absence of new property launches, buyers remained focus on the secondary market. For example, House 8 at 28 Gough Hill Road was transacted for HK\$238 million in January 2008 or HK\$39,145 per sq ft based on a gross floor area of 6,080 sq ft, and House C at 31 Barker road was sold for HK\$178 million or HK\$29,936 per sq ft based on a gross floor area of 5,946 sq ft.

In the leasing market, the average luxury residential rental edged up 8.2% QoQ from HK\$48.7 per sq ft per month in November 2007 to HK\$52.7 per

LUXURY RESIDENTIAL PRICES INDEX - PEAK



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

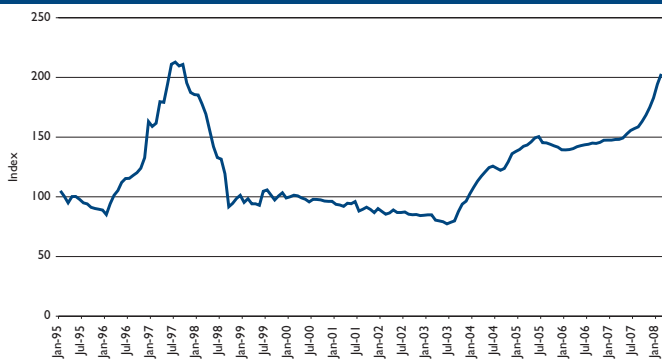
LUXURY RESIDENTIAL RENTALS - PEAK



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

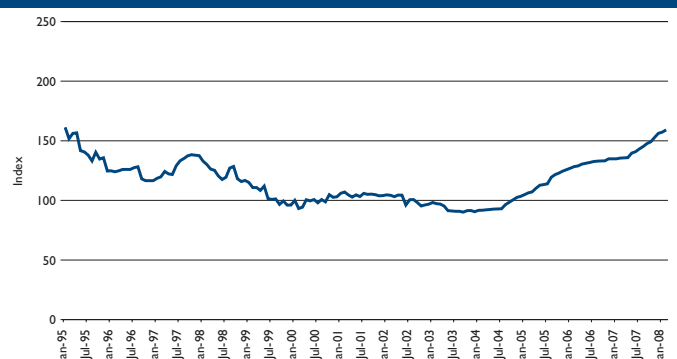
LUXURY RESIDENTIAL PRICES INDEX - SOUTH SIDE



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

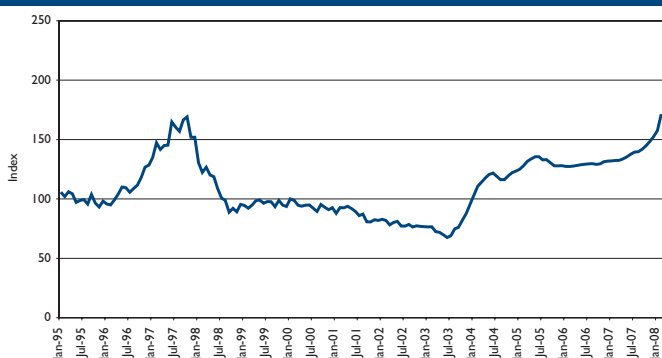
LUXURY RESIDENTIAL RENTALS INDEX - SOUTH SIDE



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL PRICES INDEX - MID-LEVELS



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL RENTALS INDEX - MID-LEVELS



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

sq ft per month as at the end of February 2008. In line with the sales market, quality detached houses remained sought after. For example, a house in 40 Peak Road was leased for HK\$330,000 per month exclusive or a unit rental of HK\$56.18 per sq ft per month.

SOUTH SIDE

In South Side, average luxury residential prices rose 16.1% QoQ from HK\$12,372 per sq ft in November 2007 to HK\$14,357 per sq ft in February 2008. Transacted prices at Hongkong Parkview - the traditional benchmark development in South Side - were generally going in line with the overall trend of the sub-market. A high-floor unit comprising a floor area of 2,620 sq ft, in Tower 18 was sold for HK\$38 million or a unit price of HK\$14,504 per sq ft in February 2008. Elsewhere, a high-floor unit of Tower 11 with a comparable size of 2,490 sq ft and similar orientation was transacted at HK\$30.08 million or a unit price of HK\$12,080 per sq ft in December 2007. Besides, other developments in South Side included Repulse Bay Tower and 117 Repulse Bay Road with apartment units being sold for HK\$66.80 and HK\$70.00 million respectively. In terms of unit price, the latest price tag achieved at HK\$21,548 per sq ft and HK\$24,920 per sq ft at the respective developments set a new record during 1Q 2008.

On the leasing front, luxury residential rentals continued to rise during 1Q 2008. The overall average rentals increased 4.1% QoQ from HK\$44.10 per sq ft per month in November 2007 to HK\$46.00 per sq ft per month in February 2008. Leasing demand for large-sized apartment units and quality houses remained strong. For example, a house in Deep Water Bay Road was leased for HK\$195,000 per month or a unit rate of HK\$56.05 per sq ft per month. Meanwhile, a house in Shouson Hill Road East was rented for HK\$200,000 per month or a unit rate of HK\$46.18 per sq ft per month.

MID-LEVELS

In Mid-levels, the average residential price grew 15.7% QoQ from HK\$9,471 per sq ft in November 2007 to HK\$10,956 per sq ft in February 2008. Benchmark developments such as Regence Royale and Dynasty Court remained in the market favour.

In Regence Royal, two high-floor units were sold at HK\$20,619 per sq ft (a lump sum of HK\$52 million) in February 2008 and HK\$24,375 per sq ft (a lump sum of HK\$62.546 million) in January 2007, which was higher than the average of HK\$10,956 per sq ft in the sub-market. In Dynasty Court, the average selling prices were ranging from HK\$14,213 per sq ft to HK\$15,975 per sq ft, which was also higher than the average price of the secondary market. In addition, the market continued to see an increasing appetite from investors who are looking for stock in the secondary market such as Estoril Court and Garden Terrace, which are believed to provide decent capital growth over the medium term.

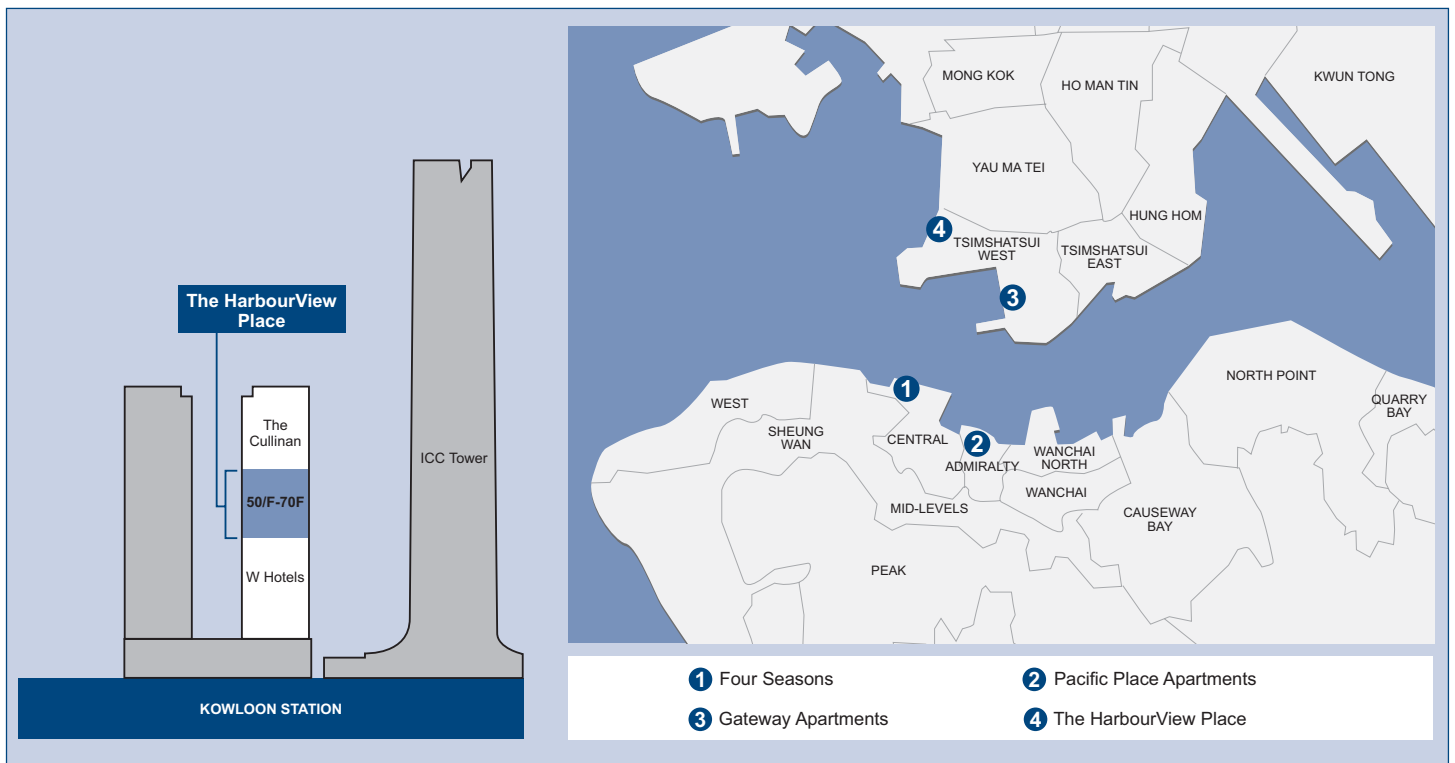
On the leasing front, luxury residential rentals in Mid-levels also witnessed an upward adjustment during 1Q 2008. The average unit rental increased 6.1% QoQ from HK\$39.25 per sq ft in November 2007 to HK\$41.65 per sq ft in February 2008.

SERVICED APARTMENTS

The serviced apartment market continued with its impetus in 1Q 2008, thanks in large to the banking and finance industry. Demand for luxury serviced apartment units continued to be a preferred choice amongst newly arrived expatriates for temporary accommodation before committing to permanent residences. We observed demand for serviced apartments, like Four Seasons Place and Pacific Place Apartment remained popular. Products in core locations commonly attached with long waiting lists of up to twelve months. In general, the leasing of two bedrooms serviced suites in the central business districts (CBDs) fetched over HK\$80,000 per month inclusive or a unit rate of HK\$ 70 per sq ft. We expect the overall serviced apartment rents in CBDs will continue to pick up in 1Q and 2Q 2008.

The HarbourView Place in West Kowloon is scheduled to open in June 2008. The luxury serviced apartment will occupy the 50th to 70th floors of The Cullinan II and One of the ICC complex's twin towers. The first batch 70 suites of HarbourView Place will be available in mid-2008, with unit sizes ranging from 464 - 1,623 sq ft. The gradual openings of International Commerce Centre (ICC) and its proximity to the ICC, the HarbourView Place is expected to attract strong demand from newly arrived expatriates after the settlement of major banking corporates.

KEY SERVICED APARTMENTS



Source: Colliers International (Hong Kong) Limited

MARKET OUTLOOK

Looking forward, the luxury residential market is expected to post positive growth. The prevailing solid demand fundamentals, negative real interest rates and the limited supply of quality stock in traditional luxury residential districts will remain the key market drivers pushing property prices further upward. Overall, the average luxury residential capital value is expected to increase by 25% year-on-year (YoY) over the next 12 months. In the leasing market, with the sustained occupational demand across the board, the average luxury residential rents will increase 15% YoY over the next 12 months.

Overall, the average luxury residential capital value is expected to increase by 25% year-on-year (YoY) over the next 12 months. In the leasing market, with the sustained occupational demand across the board, the average luxury residential rents will increase 15% YoY over the next 12 months

CONSENT TO SELL RESIDENTIAL UNITS

District	Development	No. of units	Estimated completion	Developer
December 2007				
KIL 11076	Harbour Place	2,470	31-May-08	Sun Hung Kai Properties
January 2008				
NIL	-	-	-	-
February 2008				
TKOTL 70 RP	Lohas Park - The Capitol	2096	30-Jun-09	Cheung Kong

Source: Lands Department, HKSAR Government

PROJECTED NEW SUPPLY OF LUXURY RESIDENTIAL UNITS IN 2008

Development	* House	* Apartment	Developer / Owner	No. of units	Status
Peak					
15 Bluff Path	2 @ 3-s	-	Chuang's Consortium International Ltd	2	Under Construction
3 Middle Gap Road Wanchai	1 @ 3-s	-	Yu Ming	1	Under Construction
3-5 Plunkett's Road	6 @ 4-s	-	Tai Cheung Properties Holdings Ltd	6	Under Construction
36 Plantation Road	9 @ 3-s	-	Jardine Matheson & Co Ltd	9	Under Construction
South Side					
11-12 Headland Road	4 @ 4-s	-	Henderson Land	4	Under Construction
14 Headland Road	-	1 @ 3-s	Kadoorie Estates Ltd	7	Under Construction
Cyberport Road Telegraph Bay, Pokfulam (Stages 10-12) (Towers 10-18)	-	2 @ 28-s, 2 @ 34-s 2 @ 40-s 2 @ 41-s	PCPD, HKSAR Government	709	Under Construction
Mid-levels					
20 Tung Shan Terrace	-	1 @ 5-s	Anelco Ltd	16	Under Construction
29 Mosque Street & 35-41 Mosque Junction	-	1 @ 35-s	Kerry Properties	74	Under Construction
39 Conduit Road	-	1 @ 45-s	Henderson Land	65	Under Construction

Note: * No. of blocks @ No. of storey

Source: Colliers International (Hong Kong) Limited

INDUSTRIAL SECTOR

INDUSTRIAL MARKET - KEY MARKET INDICATORS

	Rents (HK\$ / sq ft / month)			Capital Values (HK\$ / sq ft)			Yields		
	Feb 07	Feb 08	Feb 09 (f)	Feb 07	Feb 08	Feb 09 (f)	Feb 07	Feb 08	Feb 09 (f)
Factory	7.19	7.88	8.67	1,155	1,506	1,777	7.5%	6.3%	5.9%
Warehouse	6.75	7.40	8.14	1,026	1,390	1,668	7.9%	6.4%	5.9%
I-O Building	12.39	13.03	13.81	2,205	2,628	2,943	6.7%	5.9%	5.6%

Source: Colliers International (Hong Kong) Limited

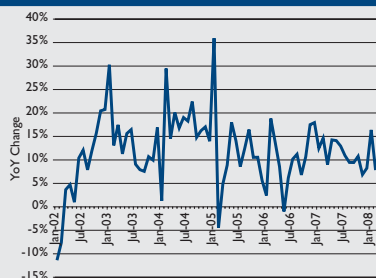
HONG KONG IMPORTS AND EXPORTS

Date*	Imports	YoY	Domestic Exports	YoY	Re-exports	YoY
	(HK\$m)	Change	(HK\$m)	Change	(HK\$m)	Change
Nov-05	628,750	12.8%	44,073	26.0%	579,945	12.5%
Feb-06	567,931	11.8%	36,646	33.5%	495,762	7.9%
May-06	622,761	9.7%	32,475	25.2%	543,020	6.8%
Aug-06	676,347	11.2%	38,693	7.3%	609,300	9.2%
Nov-06	703,083	11.8%	32,337	-26.6%	647,016	11.6%
Feb-07	626,254	10.3%	23,171	-36.8%	570,317	15.0%
May-07	699,227	12.3%	25,423	-21.7%	610,609	12.4%
Aug-07	747,640	10.5%	29,754	-23.1%	676,596	11.0%
Nov-07	775,081	10.2%	30,310	-6.3%	705,405	9.0%
Feb-08	707,418	13.0%	23,857	3.0%	632,884	11.0%

*Three-month ended

Source: HKSAR Government

RE-EXPORT TRADES YEAR-ON-YEAR GROWTH



Source: Census and Statistics Department, HKSAR Government

RE-EXPORTS GROWTH TAPERING OFF

Despite uncertainties attributed to the weakening US economy and volatile financial markets, the various economies in the region and the sustained growth momentum on the Mainland continued to underpin external trade growth in Hong Kong. Although the growth pace of re-exports in Hong Kong has tapered off since 1Q 2007, the performance in 1Q 2008 remained satisfactory with the total value of re-exports increasing 11.0% year-on-year (YoY) to HK\$633 billion as at the end of February 2008.

RENTAL GROWTH MODERATED

Clouded by the prevailing uncertainty on US economic growth, the majority of industrial occupiers turned cautious in taking on additional space. The situation was reflected by the slowdown of rental growth during 1Q 2008. According to our research, the pace of industrial rental growth tapered off from a 2-3% range during 4Q 2007 to less than 2% in 1Q 2008. In the factory sector, the average rental rose 1.8% quarter-on-quarter (QoQ) to HK\$7.88 per sq ft per month as at the end of February 2008. Meanwhile, rentals in the warehousing and I-O sector posted approximately 1% QoQ growth to HK\$7.40 per sq ft per month and HK\$13.03 per sq ft per month respectively during 1Q 2008.

NEGATIVE REAL BORROWING RATES

Despite the slow rental growth, capital values for most industrial properties performed well with double-digit growth during 1Q 2008. In the warehousing sector, average prices rose 17.1% QoQ to HK\$1,390 per sq ft as at the end of February 2008. In the factory sector, average prices rose 14.0% QoQ to HK\$1,506 per sq ft while the prices in the I-O sector increased 10.2% QoQ to HK\$2,628 per sq ft.

One of the key reasons for the disparity between rental and capital growth was the development of a negative interest rate environment. After a series of interest rate cuts in 1Q 2008, the effective mortgage rates offered by most local banks have come down to 3.75-4.25% per annum. Meanwhile, the annualised change in consumer prices as a proxy of inflation has been running at over 6.0% in 1Q 2008 due to the continued rise in energy prices and imported inflation from the Mainland. As such, real borrowing rates, after taking into account the inflation factor, have actually entered into negative territory in 1Q 2008.

POSITIVE CARRY

Amid the prevailing negative interest rate environment, investors were encouraged and a number of industrialists remained keen on acquiring premises for their own occupation

purposes. Generally, investment yields were compressed to a range between 5.0% and 5.5% per annum. However, the overall industrial property sector continued to provide a positive carry of over 75 basis points against the average effective mortgage rate of 4.25% per annum.

VOLUME CONTRACTION

As mentioned, prevailing negative borrowing rates and positive carry continued to encourage buying interests from both investors and occupiers. However, owing to seasonal factors, the number of sale transactions took a breather during the period December 2007 to February 2008. In the case of strata-title sale transactions, the number of sale transactions fell 3.5% QoQ to 1,764, while the total value of sale transactions decreased 7.8% to HK\$4,874 million during 1Q 2008.

Meanwhile, the number of sale transactions with a price tag of HK\$100 million or above decreased from 11 in 4Q 2007 to 6 in 1Q 2008. The total value of the transactions within the price bracket decreased by 9.9% QoQ from HK\$2,503 million in 4Q 2007 to HK\$2,255 million in 1Q 2008. There were two major investment transactions during 1Q 2008. Firstly, Goodman, an institutional investor, acquired the entire block of Tins Plaza in Tuen Mun for a total consideration of HK\$850 million. Meanwhile, Far East Consortium bought Tower 28 in Kwai Chung for a total consideration of HK\$250 million with an intention to turn the site into a hotel development.

FACTORIES RELOCATING BACK TO HONG KONG

Because of the continued revaluation of the renminbi and the corresponding increase in both labour and production costs, manufacturers on the Mainland continued to feel upward cost pressure. In order to cope with the above changes, some industrialists have started exploring various options. A number of them have found that the option of relocating a portion of their manufacturing facilities back to Hong Kong could enhance overall cost efficiency. The average floor area requirement is generally in the range of 30,000 to 50,000 sq ft.

The above option is even more attractive for manufacturers involved in the production of high value-added items. The key reason owes to the production facility in Hong Kong being able to provide a steady supply of both power and water, which are clearly among the major considerations for most manufacturers.

KOWLOON EAST

In addition to the relocation of individual manufacturers back to Hong Kong, the local industrial property market continues to witness a number of changes. Older, individual industrial districts are anticipated to see major transformations over the coming years as a result of continued development of new infrastructure links and the implementation of a number of town planning initiatives.

In Kowloon East, a number of local banks including Standard Chartered Bank, Bank of East Asia and Hang Seng Bank have moved their back offices and supporting functions into the district. With the opening of apm and Megabox – two sizable shopping malls in Kowloon East, the area became one of the fastest-growing areas in the territory.

Over the past years, the completion of a number of office and retail redevelopment projects in Kowloon East and the increasingly popularity of Kowloon East as a non-core business hub has provided a boost to industrial property prices in the area. The existing industrial and I-O buildings in the area have also benefited from an increase in occupational demand, thus enhancing the value of industrial properties in the district.

In 2003, average industrial property prices in Kowloon East were below that of Cheung Sha Wan. Benefitting from the completion of new Grade A office and retail facilities in the area, average industrial property prices in Kwun Tong have surpassed that of Cheung Sha Wan since 2007.

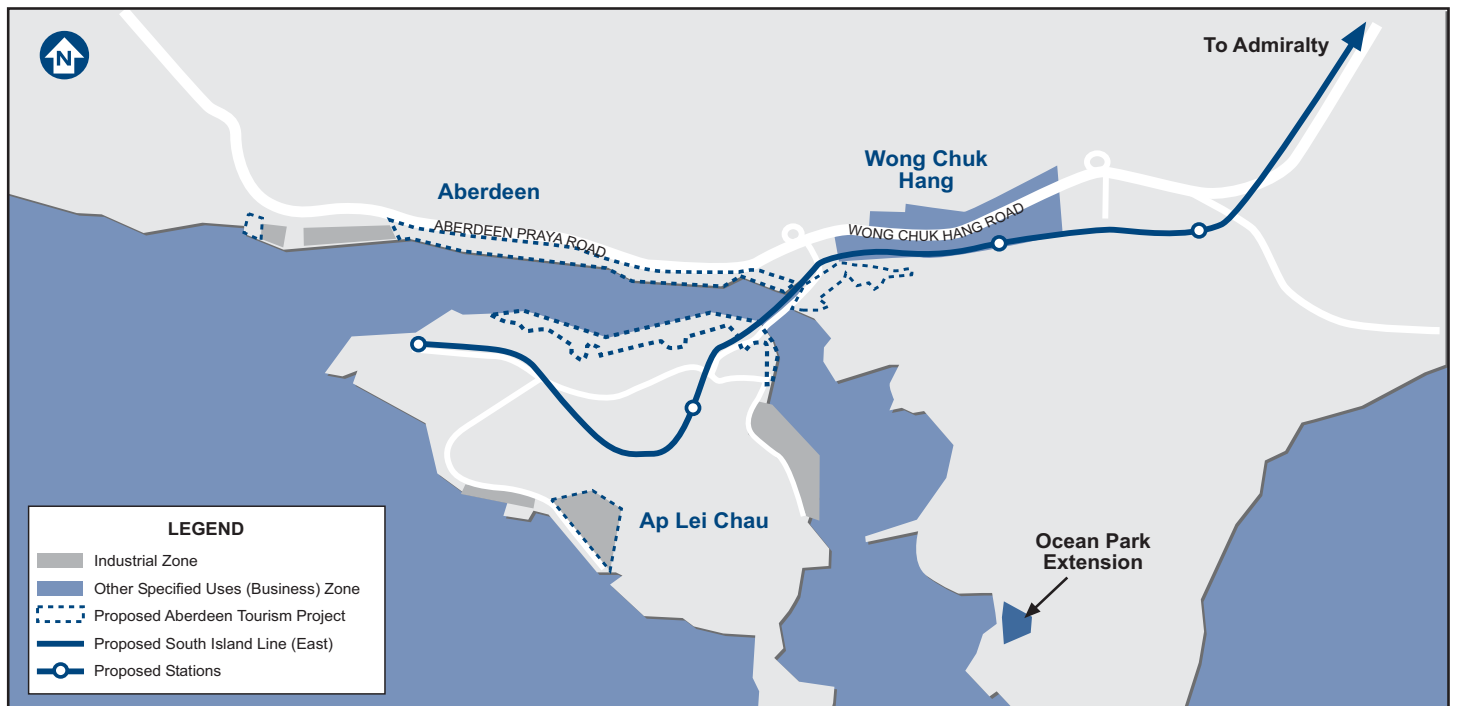
SAN PO KONG

San Po Kong, one of the old industrial areas in Kowloon, is another classic example of transformation occurring amid the continued development of infrastructure projects. Thanks to the go-ahead of the construction of the MTR Shatin to Central link and the new cruise terminal at Kai Tak, the pace of redevelopment at Kai Tak's adjacent areas including San Po Kong has been picking up momentum. In addition, the Government's plan to relocate some public facilities including the General Post Office in Central and some Government departments in Wan Chai to Kowloon East will give further boost to the redevelopment of Kowloon East and adjacent areas. The latest industrial redevelopment project in Kowloon East is Nan Fung Group's project at Lam Chak Street in Kowloon Bay. The

Because of the continued revaluation of the renminbi and the corresponding increase in both labour and production costs

A number of them have found that the option of relocating a portion of their manufacturing facilities back to Hong Kong could enhance overall cost efficiency

PROPOSED ABERDEEN TOURISM PROJECT AND SOUTH ISLAND LINE (EAST)



Source: MTR Corporation; Hong Kong SAR Government

It is our view that industrial property could see further growth particularly on the logistics front, although the pace of rental growth may narrow further as a result of global economic slowdown in 2008

group is redeveloping the site into an 845,000-sq ft industrial building.

Due to the gradual completion of new infrastructure links, individual industrial properties in San Po Kong are anticipated to be the targets of acquisition by real estate investors, particularly when the average industrial property prices in San Po Kong remains relatively lower than those in Kwun Tong.

ABERDEEN

Across the harbour, Aberdeen and Wong Chuk Hang are going to see a lot of changes as a result of the Government's plan to convert the two districts into tourist spots and business zones as well as owing to the future completion of the new MTR South Island Line (East) sometime between 2014 and 2015. As such, it is our prediction that there will be more industrial premises in the two areas readily available for conversion into other commercial uses such as retail and hotel.

Meanwhile, according to the Tourism Commission's proposal, the Aberdeen tourism project will undertake thematic architectural enhancements on Aberdeen and Ap Lei Chau seafronts and will feature Chinese and Western seafood restaurants, retail shops as well as open space for alfresco dining and festive and cultural activities. Works is expected to commence in 2009 toward a 2012 completion. Furthermore,

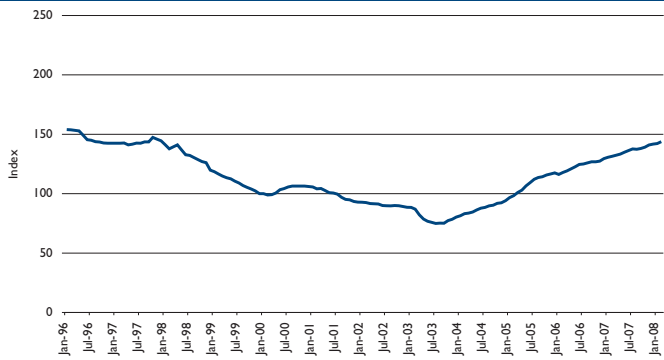
three new hotels, representing at total of 1,300 rooms, will be incorporated in Ocean Park. The three hotel projects are expected to be completed in phases between 2011 and 2012.

MARKET OUTLOOK

Looking ahead, the prospective growth of the Mainland economy is going to underpin the development of the local industrial property market despite the threats from the external environment including the subprime mortgage problem in the US. It is our view that industrial property could see further growth particularly on the logistics front, although the pace of rental growth may narrow further as a result of global economic slowdown in 2008.

Factory and warehouse rentals are expected to increase by 10% over the next 12 months. The pace of rental growth in the I-O sector is going to be slowed by the gradual completion of new office developments in decentralised districts such as Kowloon Bay. Our research suggests the average I-O rental to post mild growth of 6% over the next 12 months. Meanwhile, the expectation is for capital values in the industrial property market to be buoyed by keen buying interest among a massive group of end-users. Generally, the prospective upside is reckoned at 12% to 20% over the next 12 months. The warehousing sector as usual will continue to be the key performer.

FACTORY RENTAL INDEX



Jan-2000 = 100

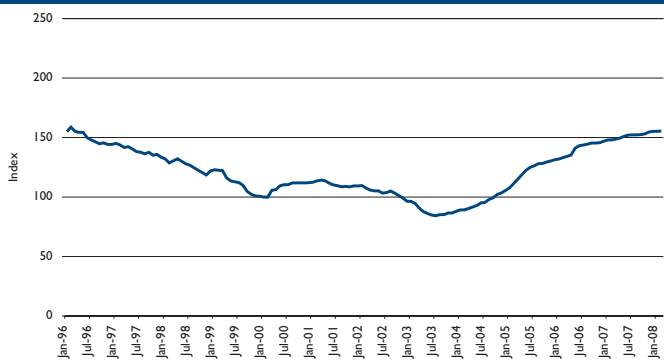
Source: Colliers International (Hong Kong) Limited

FACTORY RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

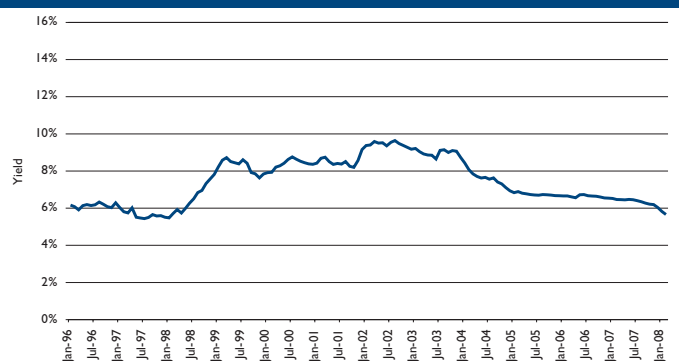
I-O BUILDING RENTAL INDEX



Jan-2000 = 100

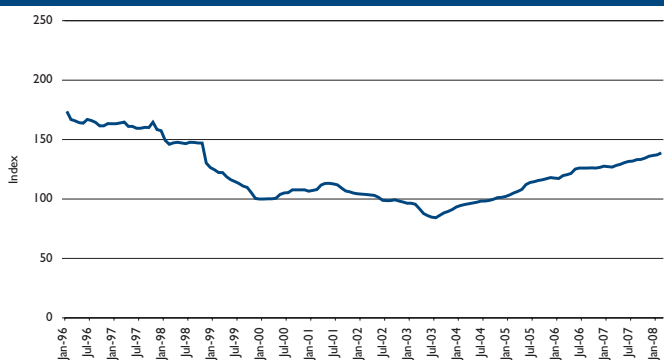
Source: Colliers International (Hong Kong) Limited

I-O BUILDING RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

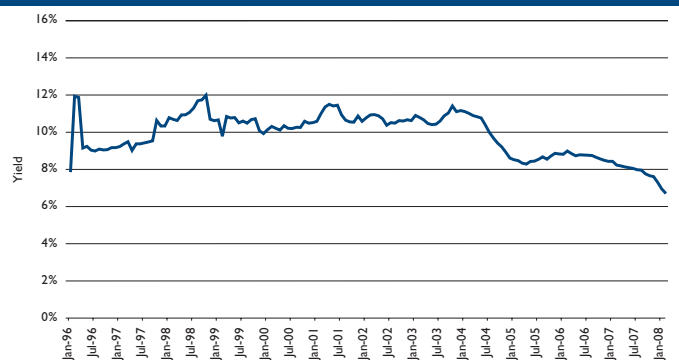
WAREHOUSE RENTAL INDEX



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

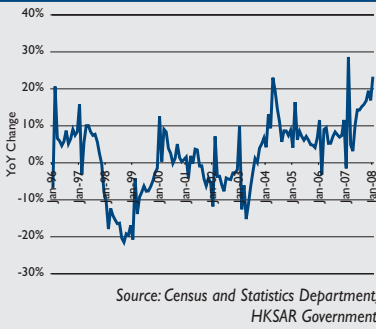
WAREHOUSE RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

RETAIL SECTOR

TOTAL RETAIL SALES



Total retail sales value amounted to HK\$247.7 billion in 2007, representing a year-on-year (YoY) growth of 12.8%, which was the strongest growth in a single year since 1992

STRONG RETAIL SALES

The Hong Kong retail market performed well in 2007, thanks to a booming local economy, growing local consumption demand, and escalating total visitor arrivals. Total retail sales value amounted to HK\$247.7 billion in 2007, representing a year-on-year (YoY) growth of 12.8%, which was the strongest growth in a single year since 1992. Demand for big-ticket items flew high. Over the same period of time, the sales of jewellery, watches and valuable gifts achieved a growth of 24.5% YoY, followed by the sales of motor vehicles, increased by 20.8% YoY. Meanwhile, the fashion retailers also soared in sales with the sale of clothing, footwear and allied products edging up by 15.9% YoY.

GROWING NUMBER OF INBOUND VISITORS

Tourism in Hong Kong remained buoyant with the total number of visitor arrivals registering a full-year growth of 11.6% YoY to 28.2 million as at the end of 2007, which was a record year for Hong Kong's inbound tourism market. According to the Hong Kong Tourism Board (HKTb), the total expenditure associated with inbound tourism added up to HK\$130 billion in 2007, registering a growth of 9% YoY. Per capita spending by same-day, in-town visitors observed a substantial growth of 8.4% YoY from HK\$1,015 per capita in 2006 to HK\$1,100 in 2007.

LOCAL CONSUMPTION DEMAND

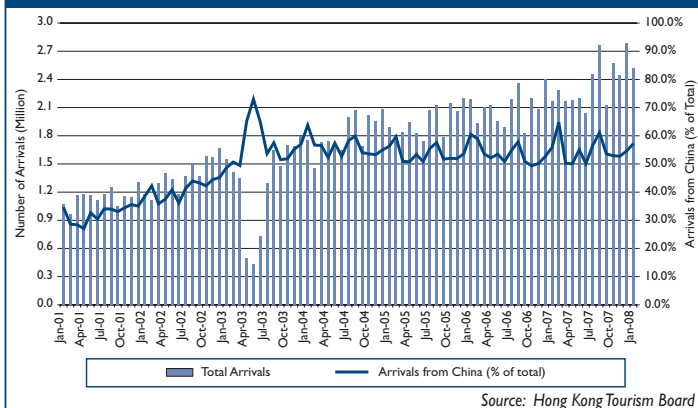
Supported by a booming economy, private consumption expenditure grew 7.8% YoY for the whole year of 2007. The labour market remained positive, with the overall unemployment rate maintained at a low level of 2.1% YoY during

the three-month period between November 2007 and January 2008. Meanwhile, a higher level of household income was attained at an average of HK\$18,000 per month in 4Q 2007 compared with HK\$16,900 per month in 4Q 2006. Enhanced job security and rising incomes lend strong support to strengthen consumer confidence thus inducing spending in the local market. In addition, the generous offerings of tax cuts, increased allowances and tax rebates proposed in the 2008/09 Budget speech in early February will increase disposable incomes of households, which in turn will further enhance local consumption expenditure. An improving consumption level will soon after be realised when some of the rebates get underway. Provided the continual steady growth in economic fundamentals together with a rising number of inbound visitors, the retail market outlook should remain promising over the next 12 months.

INVESTMENT TARGETS

Despite the traditional seasonal effect between December 2007 and February 2008, the number of sales transactions of retail shops remained active in those traditional key retail areas, mainly driven by a favourable interest rate environment. In the wake of decreasing availability of sizable retail space, local investors were keen on street shops in prime locations. Prominent transactions for the quarter included a ground floor shop at 1 Lang Fong Road in Causeway Bay which sold for HK\$200 million; Shop A, B/F in Thai Kong Building (482 Hennessy Road) in Causeway Bay for HK\$250 million; Shop A-B, B1/F in East Ocean Centre (98 Granville Road) in Tsim Sha Tsui for HK\$198.2 million; and Shop 1-3, G/F in Ginza Plaza in Mong Kok for HK\$600 million.

VISITORS ARRIVALS



Tourism in Hong Kong remained buoyant with the total number of visitor arrivals registering a full-year growth of 11.6% YoY to 28.2 million as at the end of 2007

SUSTAINABLE DEMAND GROWTH

During 1Q 2008, leasing demand for retail spaces in core districts stayed strong, owing to the spillover effect from a quarter ago as some retailers found their expansion plans set in 2007 could not be achieved as they were unable to secure spaces in face of fierce competition to rent desirable locations in key shopping areas. Meanwhile, the market continued to see new entrants to Hong Kong as a strategic location for stepping into the Greater China Market. Numerous new retailers perceive Hong Kong as their first China stop and subsequently diffused into other Mainland cities once they have established their brands in Hong Kong. Amongst various retailers, international brands remained the key driver in the market. International fashion labels continued to seek for retail units in prime locations to expand their network in Hong Kong, while grocery products also showed interest in opening new shops. In general, landlords continued to take advantage of the buoyant leasing market, whereas tenants were aggressive to bid on their favoured units. Since Hong Kong is further emerging and becoming more dependent on the China economy, this will act as a cushioning effect to the weakening US economy. Given a stable growth in retail sales and positive spending sentiment, leasing demand is expected to remain on the rise in 2008.

SUB-MARKET ANALYSIS

Underpinned by the buoyant leasing sentiment, retail rents and capital values continued to edge up in 1Q 2008. According to the Rating and Valuation Department of Hong Kong SAR Government, the general retail rental and price indices rose 2.1% and 6.7% respectively as at the end of February 2008. Meanwhile, according to our in-house statistics, the average rental in traditional shopping districts such as Mong Kok, Tsim Sha Tsui, Causeway Bay and Central, displayed a growth of 3.6% quarter-on-quarter (QoQ) in February 2008.

In Mong Kok, the average retail rents grew 3.3% QoQ as at the end of February 2008. Prominent transactions for the quarter were highlighted by the lease of a street shop in 46-50 Tung Choi Street and 6F-G Nelson Street for HK\$1,400,000 per month or a unit rent of HK\$424 per sq ft per month based on an area of 3,300 sq ft. Within the sub-market, Sai Yeung Choi Street South continued to be a preferred area among retailers due to its high pedestrian flow of both locals and visitors. For example, a whole floor shop on the second floor of Ginza Plaza was leased for HK\$338,000

per month or a unit rent of HK\$47.4 per sq ft per month based on an area of 7,130 sq ft.

In addition, the Urban Renewal Authority (URA) will begin property acquisition in Mong Kok, and issue offer letters to owners of property interests affected by the Sai Yee Street project. The project will be redeveloped into a "Sports Retail City" so as to enhance the unique local character of the sports retail trade. Scheduled for completion in 2013, the project will provide about 88,000 sq ft of floor area for retail, recreation, sports and cultural uses.

In Tsim Sha Tsui, the average retail rents increased 2.9% QoQ as at the end of February 2008. Retailers seem to favour shops with street frontage in shopping centres as it allows more eye-catching advertisements which bring higher foot traffic. In 1Q 2008, a ground floor shop and its first floor in 82-84 Canton Road was leased for a total of HK\$1,300,000 per month, or a unit rental of HK\$395 per sq ft per month based on a total shop size of 3,295 sq ft.

In Causeway Bay, the average retail rents increased 3.8% QoQ as at the end of February 2008. The first-tier street shops with high pedestrian flow remained retailer's favourites, and they are willing to pay a premium rental to secure the prime units in this sector. The prevailing trend of fashion retailers setting up flagship stores continued, and in fact, such trend is filtering down to some mass market retailers. Meanwhile, landlords continued to take advantage of the optimistic leasing market as we witnessed rents doubling on lease reversions. For example, a local fashion retailer secured a retail space (G/F, 1/F and 2/F) in Fortune Centre (48 Yun Ping Road) for HK\$2,000,000 per month. Based on a total shop size of 10,500 sq ft, the unit rental was HK\$190 per sq ft per month. These flagship stores not only attract more customers but also help to distinguish their brand image.

In Central, the average retail rents increased 4.9% QoQ from HK\$480 per sq ft per month in November 2007 to HK\$503 per sq ft per month as at the end of February 2008. Big-ticket items remained active in securing spaces in prime locations, like a street-level shop and its basement located at 37 Queen's Road Central which was rented by a local jewellery shop for HK\$3,000,000 per month. Based on a total shop size of 6,400 sq ft, the unit rental was HK\$469 per sq ft per month.

According to our in-house statistics, the average rental in traditional shopping districts such as Mong Kok, Tsim Sha Tsui, Causeway Bay and Central, displayed a growth of 3.6% quarter-on-quarter (QoQ)

In general, retail rentals and capital values are predicted to grow by 28% YoY and 30% YoY respectively over the next 12 months

MARKET OUTLOOK

Going forward, the local spending sentiment will remain buoyant and the upward trend of the retail market is expected to continue. A stable economic growth, lower interest rate environment and the consistent growth of disposable household income are key components to underpin domestic consumption in the year ahead. However, recent volatility of the stock market arising from global economic uncertainties may grind down some of the positive effects. On the other hand, leveraging on Macau's continuous growth and the inflow of overseas visitors into the region attending the Beijing Olympics towards the second half of 2008, the ongoing growth of tourism is anticipated to provide a strong platform to boost the volume of retail sales. In general, retail rentals and capital values are predicted to grow by 28% YoY and 30% YoY respectively over the next 12 months.

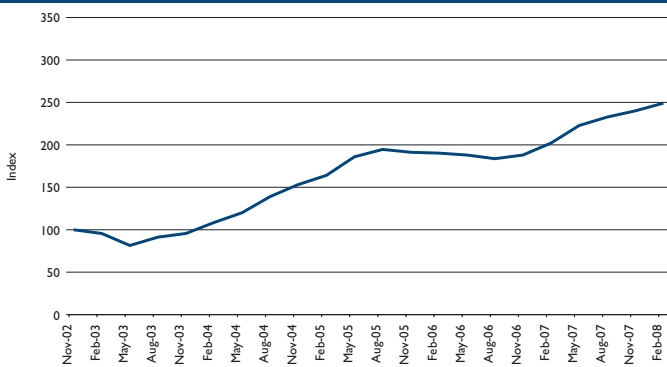
INDICATIVE RETAIL RENTAL INDEX BY MAJOR DISTRICTS

Street Name	Rental Index	
	Nov-07	Feb-08
Causeway Bay	240	249
% Change (QoQ)	3%	4%
Central	232	244
% Change (QoQ)	3%	5%
Mong Kok	201	208
% Change (QoQ)	3%	3%
Tsim Sha Tsui	284	292
% Change (QoQ)	2%	3%
Overall	238	247
% Change (QoQ)	3%	4%

(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

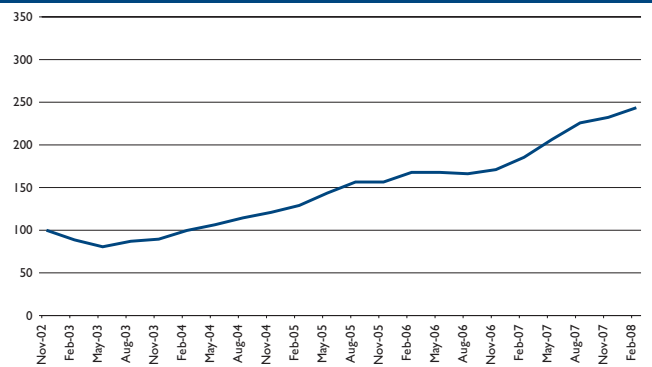
AVERAGE RETAIL RENTAL INDEX IN CAUSEWAY BAY



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

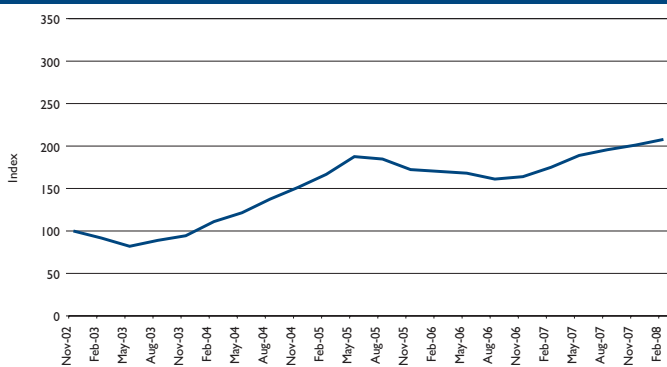
AVERAGE RETAIL RENTAL INDEX IN CENTRAL



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

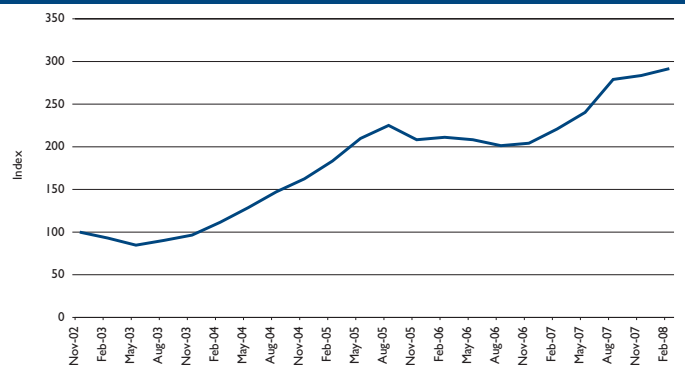
AVERAGE RETAIL RENTAL INDEX IN MONG KOK



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

AVERAGE RETAIL RENTAL INDEX IN TSIM SHA TSUI



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

267 OFFICES IN 57 COUNTRIES ON 6
CONTINENTS

USA 95
Canada 17
Latin America 17
Asia Pacific 53
EMEA 85

\$63.5 billion in annual transaction volume
672.9 million square feet under management
10,171 Professionals

CONTACT INFORMATION

Colliers International (Hong Kong) Limited

Suite 5701 Central Plaza
18 Harbour Road, Wanchai
Hong Kong
Tel : 852 2828 9888
Fax : 852 2828 9899
Company Licence No: C-006052

Piers Brunner

Chief Operating Officer - Asia,
Managing Director, Hong Kong
Tel : 852 2822 0727
Fax : 852 2810 5970
Email : Piers.Brunner@colliers.com
Individual Licence No: E-183614

Simon Lo

Director, Research & Consultancy
Tel : 852 2822 0511
Fax : 852 2868 5275
Email : Simon.Lo@colliers.com

The content of this report is for information only and should not be relied upon as a substitute for professional advice, which should be sought from Colliers International prior to acting in reliance upon any such information. The opinions, estimates and information given herein or otherwise in relation hereto are made by Colliers International and affiliated companies in their best judgement, in the utmost good faith and are as far as possible based on data or sources which they believe to be reliable in the context hereto. Notwithstanding, Colliers International and affiliated companies disclaim to the extent permitted by law, any liability in respect of any claim which may arise from any errors or omissions or from providing such advice, opinions, judgement or information.

Colliers Macaulay Nicolls Inc., and certain of its subsidiaries, is an independently owned and operated business and a member firm of Colliers International Property Consultants, an affiliation of independent companies with over 240 offices throughout more than 50 countries worldwide

