



# The Knowledge

MARKET OVERVIEW | JULY | 2008



## MARKET TRENDS

OFFICE



LUXURY RESIDENTIAL



INDUSTRIAL



RETAIL



## Market Summary

### OFFICE SECTOR

- Average Grade A office rentals increased further by 4.9% quarter-on-quarter (QoQ) to HK\$77.32 per sq ft per month as at the end of May 2008. In Central, individual companies became hesitant to commit to new space when the prevailing rental level edged close to HK\$120 per sq ft per month, surpassing their affordable thresholds.
- The pace of rental growth will taper off further in anticipation of more office stock coming on line in the second half of 2008. Overall, Grade A office rentals are predicted to rise by 15% over the next 12 months.

### LUXURY RESIDENTIAL SECTOR

- Notwithstanding the uninspiring sales volume, the average transacted price in the luxury residential sector increased 8.2% QoQ to HK\$14,868 as at the end of May 2008, thanks to the limited supply of luxury stock.
- With the underlying risks of a global economic contraction and the expectation of a tightening cycle, the pace of capital growth might slow to the range of 5%-10% over the next 12 months.

### INDUSTRIAL SECTOR

- Despite the external uncertainties, the local industrial property market remained resilient, with an average rental growth of 1%-2% QoQ during 2Q 2008.
- Underpinned by the prospective growth of intra-regional trade, industrial rentals will rise 8% over the next 12 months, while capital values may potentially increase 10% during the same period.

### RETAIL SECTOR

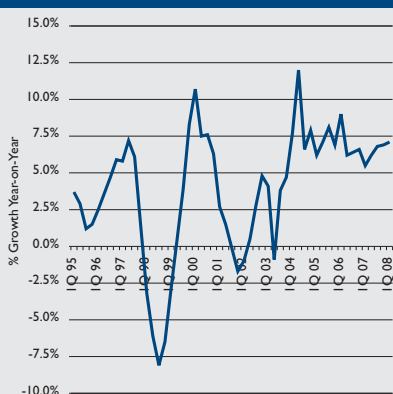
- The pace of rental growth in the traditional shopping districts slowed to 2.7% QoQ in 2Q 2008 due to growing uncertainties in the external environment and the uninspiring stock market performance in 2Q 2008.
- In anticipation of further growth in retail sales, retail rentals and capital values are predicted to grow 15% over the next 12 months.

## EXECUTIVE SUMMARY

ECONOMIC INDICATORS	MEASURE	2006	2007	2008	2009	2010	2011	2012
<b>GDP</b>	YoY % Change	7.0	6.3	4.6	4.5	4.4	4.9	4.8
<b>Population growth (mid-year)</b>	YoY % Change	0.8	0.8	0.9	0.9	0.9	0.9	0.9
<b>Average consumer prices</b>	Rate (%)	2.0	2.0	5.3	4.3	3.3	2.9	2.9
<b>Average unemployment rates</b>	Rate (%)	4.8	3.5	3.0	2.8	2.8	2.8	2.3
<b>Best lending rate</b>	Rate (%)	7.9	7.6	5.9	6.4	7.7	8.4	8.4
<b>Average real wages</b>	YoY % Change	0.4	1.9	1.2	0.5	0.3	0.8	0.7

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

## HONG KONG GDP



Source: Census & Statistics Department, HKSAR Government

*The local economy remained resilient to external adversities and posted a stronger-than-expected growth of 7.1% year-on-year (YoY) in 1Q 2008*

## THE CHALLENGING ENVIRONMENT

Despite the challenges in the external environment including the volatility of financial markets and the continued surge in energy prices, the local economy remained resilient to external adversities and posted a stronger-than-expected growth of 7.1% year-on-year (YoY) in 1Q 2008. With reference to the historical time series, the local economy stayed above its long-term growth for 18 quarters in a row during 1Q 2008.

On the external trade front, the US market was dampened by the sub-prime mortgage problem and the weakening of consumption. However, the overall export of goods managed to grow 8.3% YoY during 1Q 2008 thanks to the strong performance of the Mainland market and the further expansion of the EU market. Meanwhile, exports of services saw further growth of 10.8% YoY as a result of the strong performance in the financial services sector as well as the significant contributions for inbound visitors.

## STRONG MARKET CONFIDENCE

In addition, one of the major pillars for the buoyant economic growth has been the strong consumer confidence as indicated by the remarkable growth of domestic expenditure. Due to the general rise of household income and favourable labour market conditions, the total private consumption expenditure increased 7.9% YoY during 1Q 2008. Meanwhile, the total gross domestic fixed capital formation grew 8.9% YoY as a result of a rebound in building and construction activity although the local stock market saw further consolidation during 1Q 2008.

## UPWARD PRICE PRESSURE

Underpinned by the solid growth of household income and the continued rise of private consumption expenditure, the local economy showed further signs of price inflation across the board. In addition, the pace of price rise picked

up additional momentum due to the surge in food and energy prices around the globe. As reported, the Composite Consumer Price Index inflation accelerated from 3.5% in 4Q 2007 to 4.6% in 1Q 2008. The adjusted figure after netting out the one-off effects of the rates concession in 2008 and the waiver on public housing rental in 2007 should have been higher at 4.9% in 1Q 2008.

## INTEREST RATES BOTTOMED

Due to the currency peg, the direction of interest rates in Hong Kong largely follows that of the US. However, local banks kept their best lending rates unchanged although there was 25 basis points reduction of the US federal funds rate in late April 2008. The following is the account of the latest changes in the target of the US federal funds rate and the corresponding movement of best lending rates offered by major banks in Hong Kong.

- 20 March 2008

Following the recent 75-basis point interest rate cut in the US on 19 March 2008, Hong Kong banks announced a reduction of their best lending rates by 50 basis points, effective on 20 March 2008. HSBC, Hang Seng Bank and Bank of China have their best lending rates set at 5.25%.

- 2 May 2008

Further to the announcement made by the US Federal Reserve that the target of federal funds rate was lowered by 25 basis points on 30 April 2008 to 2.00%, banks in Hong Kong did not follow suit and kept their prime rates unchanged. HSBC, Hang Seng Bank and Bank of China kept their best lending rates unchanged at 5.25%.

In addition, individual local banks have announced to raise their effective mortgage rates by scaling back on loan incentives including the discount on mortgage rates and the reduction of cash rebate from say 1.0% to a maximum of 0.5% of new mortgage loans.

## PROPERTY INVESTMENT MARKET

Due to the surge in local inflation and the reduction of interest rates, the local real estate market continued to see a negative interest rate environment in 2Q 2008. Given the prevailing effective mortgage rate at 3.00% and inflation running about 5.00% in 2008, the real effective mortgage rate was actually at -2.00% as of 2Q 2008 – a favourable environment for real estate investment. However, the total value of investment transactions declined by more than 23% QoQ compared with the average in 1Q 2008 since prospective purchasers are yet to catch up with vendors' positive expectations on the pace of capital appreciation in the real estate market. Generally, local purchasers were bold to snap up opportunities with steady investment yields. The key investment transactions included the sale of Trade Square, the decentralised office development in Cheung Sha Wan, for a lump sum consideration of HK\$1,518 million to a local developer. In May 2008, KCP - the shopping mall in Kowloon City was sold to a local investor for HK\$1,500 million.

## HONG KONG PROPERTY MARKET SECTOR

In the office property sector, hiring expectations amongst the major business sectors in Hong Kong remained positive, since 57% of the respondents indicated to increase their staff force during 2Q 2008. Legal firms were the most aggressive amongst the other business groups. Reflecting the sustained demand situation in the marketplace, the average Grade A office rentals increased further by 4.9% quarter-on-quarter (QoQ) to HK\$77.32 per sq ft per month as at the end of May 2008.

However, the overall pace of rental growth tapered off significantly during 2Q 2008. With average effective rentals in Central edging close to HK\$120 per sq ft per month in 2Q 2008, individual companies including professional firms hesitated to commit new space since the prevailing rental levels had already surpassed their affordable thresholds. Meanwhile, individual finance companies began to consider second-tier office alternatives in Central since effective rentals amongst the top-tier Grade A buildings are currently fetching above HK\$160 per sq ft per month. Due to the fact that rentals in the fringe business areas e.g. Causeway Bay on Hong Kong Island remained at a steep discount of over 50%, a number of non-finance companies are seriously

considering relocating out of Central in view of the potential rental savings as well as the availability of floor space to meet their requirements.

In the luxury residential property sector, the number of sale transactions saw a significant decline of more than 30% QoQ in 2Q 2008. However, property prices increased further by 8% QoQ to HK\$14,870 per sq ft as at the end of May 2008, thanks to the sustained occupational demand and the general expectations of growing inflation. Finance industries and the professional services sector remained the key business group underpinning the leasing demand. Overall, the average luxury residential rental increased 6.7% QoQ to HK\$45.24 per sq ft per month as at the end of May 2008.

In the retail property sector, property rentals continued to creep up thanks to the sustained rise of retail sales attributed to both local consumption and contributions from inbound visitors. Although market sentiment was temporarily dampened by the earthquake in the Sichuan province of China, the local market demand fundamentals remained solid as of 2Q 2008. Since the majority of retailers have been keen on their expansion plans, the average retail rental amongst the key shopping districts increased 4% QoQ in 2Q 2008.

In the industrial property sector, the demand for logistics warehouses showed no signs of abating during 2Q 2008. Rentals in the warehousing sector edged up further thanks to the continued growth of re-exports and rising demand for logistics facilities for local distribution. Amid the prevailing trend of companies relocating from core business districts to decentralised areas, the industrial-office property sector is set to benefit from a rental growth of 2.2% QoQ in 2Q 2008.

## MARKET OUTLOOK

Looking forward, the local real estate market is expected to stage further growth despite the challenge of a potential rise of interest rates in late 2008 or early 2009. In anticipation of a tightening cycle in 2009, it is our prediction that the prospective growth of rental and capital values are going to taper off further in the next 12 months. However, underpinned by the prevailing occupational demand, the local property market might see further growth over the next 12 months.

## GRADE A OFFICE SECTOR

### SUB-MARKET BREAKDOWN

	RENTS					
	Face Rents (HK\$ / sq ft / month)			Effective Rents (HK\$ / sq ft / month)		
	May 07	May 08	May 09 (f)	May 07	May 08	May 09 (f)
Central	97.02	128.89	152.08	90.75	121.33	143.17
Admiralty	74.60	100.76	115.87	70.26	94.78	108.99
Wan Chai	45.20	58.10	66.82	41.97	55.01	63.26
Causeway Bay	40.23	57.35	71.69	37.63	53.49	66.86
North Point	24.69	33.50	36.86	23.41	31.40	34.54
Quarry Bay	29.88	36.98	46.22	28.02	34.85	43.56
Sheung Wan	41.20	56.81	71.01	38.11	53.05	66.31
Tsim Sha Tsui	36.38	45.50	52.32	33.59	44.05	50.65
Kwun Tong	23.55	31.04	34.15	22.24	29.32	32.25
Kowloon Bay	21.37	26.52	29.17	20.19	25.21	27.74

	CAPITAL VALUES AND YIELDS					
	Capital Values (HK\$ / sq ft )			Yields		
	May 07	May 08	May 09 (f)	May 07	May 08	May 09 (f)
Central	19,117	30,198	34,154	3.1%	3.2%	3.4%
Admiralty	13,645	21,554	23,839	3.6%	3.5%	3.7%
Wan Chai	13,084	16,314	17,880	3.6%	4.2%	4.4%
Tsim Sha Tsui	10,889	13,968	15,058	3.4%	3.2%	3.4%

On net floor area basis

Source: Colliers International (Hong Kong) Limited



### THE ASIA STORY

Despite the imminent threat of the prevailing uncertainties attributed to both the credit crisis in the US financial sector and the continued surge of energy prices, the local Grade A office market continued to stage further growth during the three-month period between March and May 2008. The prime reason is the growth expectations in Asia where the prospective GDP growth is going to perform significantly better than the matured markets like the US and Europe. Even with the prevailing credit problem in the western world, Asia has been largely resilient to the impact since the region has gradually developed its own growth engine. Hong Kong being part of China has been the one of the brightest spots in the region since Hong Kong has benefited from the ongoing intra-regional growth amid the rising consumption in China, and the massive accumulation of wealth in the region.

Essentially, the logical link between economic growth and office leasing demand is the prospective business expansion amongst the bulk of business entities in the market. Although there were press reports showing the ongoing consolidation in the US financial sector, the overall financial community in Hong Kong remained healthy

and there were no signs of similar consolidation happening in the marketplace. Despite the comments by individual tenants saying local office rentals are increasingly expensive, the majority of companies in Hong Kong remain positive on their hiring expectations, and confident to secure nearly every property alternative in order to meet their long-term floor area requirements.

### HIRING EXPECTATIONS

In general, hiring expectations continued to be positive across the board during 2Q 2008, thus providing the solid support for further growth in the local Grade A office sector. According to a quarterly survey conducted by Hudson, hiring expectations amongst the major business sectors in Hong Kong remained positive, since 57% of the respondents indicated they would increase their staff force during 2Q 2008. Looking at the historical trend, the percentage of respondents reported to grow their headcount in 2Q 2008 remained healthy since it stayed within the historical range from 50% and 62% during the past three years. Amongst the six key business sectors, legal firms together with IT&T companies were the most aggressive in taking on new staff according to the findings.

**LIMITED VACANT STOCK**

Similar to the situation in 1Q 2008, the lack of office stock for lease in the marketplace continued to challenge the business plans for most occupiers in Hong Kong. Further to the completion of One Island East in 1Q 2008, the brand-new 70-storey Grade A office development comprising a total of 1.5 million sq ft in Quarry Bay, there was no completion of Grade A office building in 2Q 2008. In the secondary market, the amount of vacant stock for lease started to fall again since the pace of absorption picked up in 2Q 2008. According to our research, the average vacancy rate in the Grade A office market declined to 3.19% as of May 2008 compared with 3.38% in the preceding three months.

Although there was an overall decline in vacancy rates during 2Q 2008, the average vacancy rate in Central edged up from the level of just barely below 1.00% in February 2008 to 1.15%. Meanwhile, decentralised sub-markets including Causeway Bay and Island East recorded distinct drops in vacancy rates. For example, the sub-market in Island East comprising a total office stock of over 10 million sq ft space, registered a fall of vacancy from 2.81% in February 2008 to 2.66% in May 2008. Similarly, the fringe business districts in Wanchai and Causeway Bay saw a decline from 2.09% in February 2008 to 1.79% in May 2008. Firstly, the overall decline in vacancy showed that the market was buoyed by sustained leasing demand. Secondly, the different vacancy trends between Central and the fringe sub-markets were in fact attributed to the relocations of individual companies from the core areas to non-core districts during the three-month period between February and May 2008.

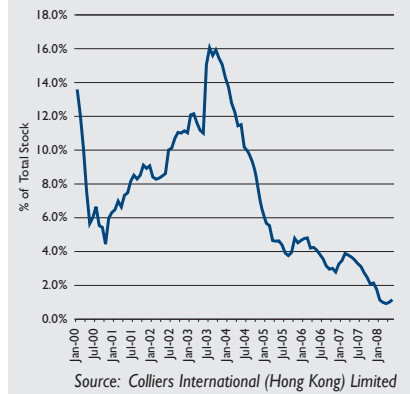
**RENTAL GROWTH**

With the continued lack of supply and the sustained occupational demand for office space, the average Grade A office rentals increased further by 4.9% quarter-on-quarter (QoQ) to HK\$77.32 per sq ft per month as at the end of May 2008. In terms of the quarterly rental changes, the performance during 2Q 2008 was a significant slowdown compared with the dramatic growth of 15.3% QoQ registered during 1Q 2008. The key reason for the slowdown was because individual companies, including professional firms, became hesitant to commit new space when the prevailing rental level in Central has edged close to HK\$120 per sq ft per month, and surpassed their affordable thresholds. In addition, individual finance companies, including individual hedge funds, began to consider seriously second-tier office alternatives in Central since effective rentals amongst the top-tier Grade A buildings are now fetching around HK\$160 per sq ft per month, representing over 30% rental premium on average in Central.

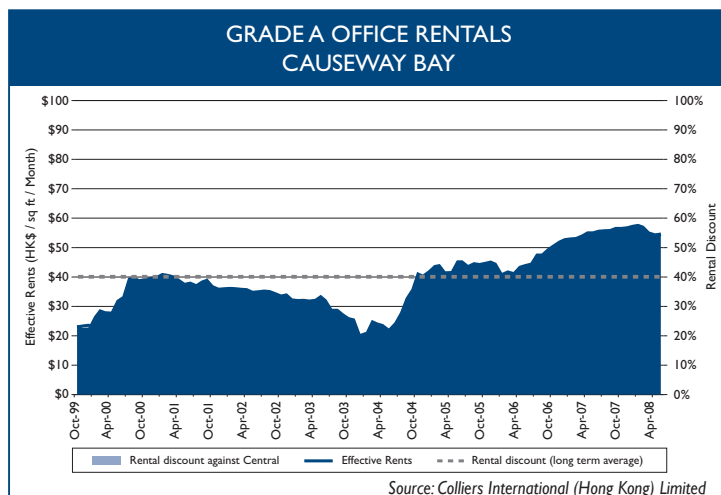
**RENTAL DISCOUNTS**

The disproportional rental growth between Central and other sub-markets has thus created a steep rental gap between various sub-markets. As mentioned earlier, the average effective rental in Central was HK\$120 per sq ft per month as at May 2008. In the case of the fringe business districts on Hong Kong Island such as Causeway Bay, the current rental level was around HK\$54 per sq ft per month on an effective basis, representing a rental discount of 55% to the average in Central. With reference to the past time series, the percentage of rental discount in Causeway Bay in comparison with Central has been rising above the historical average of 40%

**GRADE A OFFICE VACANCY RATE CENTRAL**



*Although there was an overall decline in vacancy rates during 2Q 2008, the average vacancy rate in Central edged up from the level of just barely below 1.00% in February 2008 to 1.15%*



*With reference to the past time series, the percentage of rental discount in Causeway Bay in comparison with Central has been rising above the historical average of 40% since 3Q 2004*

since 3Q 2004. In other words, rentals in Central increased quicker than Causeway Bay during the period. As of 2Q 2008, the sustained supply squeeze in Central and the steep rental discount in Causeway Bay therefore looks very attractive to a group of non-finance companies who want to expand, but who are being restrained by a lack of stock in core locations. The same also applied to the sub-market of Island East where the average effective rental was in the region of HK\$34 per sq ft per month and the rental discount to that in Central was even steeper in the order of 70%. Overall, the property alternatives in the above non-core locations provide tenants with solutions to satisfy their expansion needs and bring significant amounts of rental savings as well.

### CORPORATE RELOCATIONS

The above relocation strategy triggered by the prevailing steep rental discounts in the fringe areas work well for small to medium size firms or individual companies who have offices in multiple locations such that they can strategise their office space usage between their frontline and back office divisions. The simple reason is that the average vacancy rates in both Central and fringe business districts have fallen to a level of below 3.0% as of May 2008. For multi-national companies going for contiguous floor plates or sizable floor area requirements, the current property alternatives available in the marketplace are either the remaining stock available in International Commerce Centre (ICC) or brand-new developments in non-traditional districts such as Kowloon Bay or Kwun Tong.

With the lease commitments from a number of sizeable investment banks such as Morgan Stanley and Credit Suisse, ICC in West Kowloon has gradually established its market position as the natural extension of Central - the traditional finance hub in Hong Kong. Lately, it is Deutsche Bank who has confirmed to lease a total of 12 office floors at ICC or a total floor area of 420,000 sq ft, and has an option to increase to 18 floors. Meanwhile, EFG Bank, a private bank based in Switzerland, has confirmed to lease one and a half office floors at ICC or 50,000 sq ft. In addition, SNP Vite has committed a portion of office space in Phase 1 and Phase 3 of ICC, involving 20,000 and 35,000 sq ft respectively. Although ICC is scheduled for full completion by 2010, the overall pre-commitment rate of ICC has reached over 80% as of May 2008.

After the latest round of commitments in ICC, there are signs of upward rental pressure and the stock availability has become less. It looks increasingly likely that the market will shift its focus to the forthcoming stock available in Kowloon East. In 2Q 2008, one of the landmark leasing deals in the office market was PricewaterhouseCoopers who has confirmed to lease 18/F and 19/F or a total of about 100,000 sq ft in Tower A of Kwun Tong 223 in Kwun Tong - the brand-new office development completed in late 2007.

### NEW DEVELOPMENTS

With the encouraging absorption rate at ICC, it is our view that the occupancy rate at Kwun Tong 223 will be catching up if more occupiers turn their eyes to Kowloon East. In addition, there will be three office developments namely, Manhattan Place, Exchange Tower and Landmark East scheduled for completion in 2008. In total, there will be over 2 million sq ft of brand-new office floor space available in the second half of 2008. In the New Territories, the first phase of Kwai Chung Town Lot 215, comprising the south tower with about 600,000 sq ft Grade A office space, will also be completed in the second half of 2008. In Central, there will be no brand-new stock due for completion in the next 12 months except Nexxus Building which is the renovated scheme of the ex-Hang Seng Bank Building located at core Central, providing a total of over 264,000 sq ft office space. Essentially, the forthcoming supply will be largely located in non-core areas such as Kowloon East and Kwai Chung. Although the supply situation of the overall Grade A office market might improve in the second half of 2008, the current tight supply situation in Central is going to sustain. Firstly, there is no net increase in office stock in Central since Nexxus is basically a renovated project. Secondly, the addition the whole Nexxus Building represents only 1.6% of the existing stock in Central.

### INVESTMENT MARKET

Largely encouraged by the sustained rise in office rentals, investors remain keen on office investment opportunities particularly in the sub-market of Central. The investment thesis remains the severe supply gap from 2008 to at least 2010. Although the pace of rental growth in Central slowed to single digits in 2Q 2008, the sale transactions concluded during 2Q 2008 indicated that the average capital values rose in the order of over 10% during the period. Essentially, the average office investment yields in Central edged slightly down by about 20

## GRADE A OFFICE SUPPLY (2008 - 2011 &amp; BEYOND)

Building	District	NFA (sq ft)	Developer	Status
<b>2008</b>				
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	Completed
Landmark East	Kwun Tong	875,500	Winsor Properties	Under Construction
One Island East	Quarry Bay	1,383,572	Swire Properties	Completed
<b>Total</b>		<b>3,865,813</b>		
<b>2009</b>				
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
<b>Total</b>		<b>683,966</b>		
<b>2010</b>				
International Commerce Centre (Stage III)	West Kowloon	681,100	Sun Hung Kai Properties	Under Construction
Po Hing Center redevelopment, 18 Wang Chiu Road	Kowloon Bay	296,438	Sino Land	Planning
Tai Lin Pai Road, Kwai Chung (Phase II)	Kwai Chung	422,450	Sun Hung Kai Properties	Under Construction
I Wang Kwong Road	Kowloon Bay	456,424	Billion Development	Under Construction
<b>Total</b>		<b>1,856,411</b>		
<b>2011 &amp; beyond</b>				
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	129,205	Citigroup	Under renovation
Central Market Redevelopment	Central	569,500	Hong Kong SAR Government	Existing Site
863 - 865 King's Road, North Point	North Point	434,350	Kerry Properties	Demolition
414 Kwun Tong Road	Kwun Tong	203,570	WKK	Planning
<b>Total</b>		<b>2,134,559</b>		

Source: Colliers International (Hong Kong) Limited

basis points during 2Q 2008. The key transactions included the sale of 9/F, 11/F and 16/F at Cosco Tower, Sheung Wan, for a total consideration of HK\$561 million. Based on a total floor area of 59,053 sq ft, the deal translated into an average unit price of HK\$9,500 per sq ft.

## MARKET OUTLOOK

Looking forward, the current tight supply is not going to improve until the completion of a couple of developments in non-core areas such as Kowloon East. Challenged by a lack of stock in traditional business locations, an increasing number of companies with multiple office

locations are expected to strategise on their office usages in order to plan ahead for the floor space requirements. Overall, the pace of rental growth in the local Grade A office market is going to taper off further in anticipation of more office stock coming on line in the second half of 2008. Due to the steep rental gap between Central and the fringe districts on Hong Kong Island, property alternatives coming up will provide opportunities for individual non-core companies to expand their business and to take advantage of the potential rental savings. Overall, it is our prediction that Grade A office rentals are going to rise by 15% in the next 12 months.

## LUXURY RESIDENTIAL SECTOR

## LUXURY RESIDENTIAL MARKET - KEY MARKET INDICATORS

	Rents (HK\$ / sq ft / month)			Capital Values (HK\$ / sq ft)			Yields		
	May 07	May 08	May 09(f)	May 07	May 08	May 09(f)	May 07	May 08	May 09(f)
<b>Peak</b>	45.72	57.54	69.05	14,252	21,419	23,561	3.85%	3.22%	3.52%
<b>South Side</b>	38.02	48.32	55.56	10,800	15,669	16,452	4.22%	3.70%	4.05%
<b>Mid-levels</b>	30.59	44.38	51.03	8,657	12,048	12,651	4.24%	4.42%	4.84%
<b>Happy Valley</b>	28.08	38.57	44.35	8,226	11,380	11,949	4.10%	4.07%	4.45%
<b>Island East</b>	23.35	30.46	33.51	6,840	9,321	9,787	4.10%	3.92%	4.11%
<b>Average</b>	<b>34.63</b>	<b>45.24</b>	<b>52.16</b>	<b>10,333</b>	<b>14,868</b>	<b>15,781</b>	<b>4.02%</b>	<b>3.65%</b>	<b>3.97%</b>

Source: Colliers International (Hong Kong) Limited

*Notwithstanding the uninspiring sales volume, the average transacted price in the luxury sector increased 8.2% QoQ to HK\$14,868 as at the end of May 2008, thanks to the limited supply of luxury stock*

## SALES ACTIVITY SOFTENED

The sustained volatility of global financial markets further dampened the Hong Kong market sentiment in 2Q 2008. Prospective purchasers became increasingly cautious in view of the uncertainties in the external environment including the sub-prime mortgage problem in the US and the pace of global economic consolidation. A substantial number of prospective buyers were on the sideline, thus leading to a general contraction in the number of sales transactions during the three-month period between March and May 2008. In some respects, individual buyers had started entering the market since they perceived the consolidation period as a good point of entry in the light of sustained economic growth.

The Hong Kong Best lending Rates were lowered in the range of 5.25–5.5% as at the end of May 2008, down 50 basis points from the level in February, which was very close to the historic low of 5%. Due to the low holding cost, the majority of vendors remained firm on their asking prices.

According to the Census and Statistics Department, the total number of sale and purchase agreements for residential units contracted by 34% quarter-on-quarter (QoQ) to 26,878 during the three-month period ending May 2008. Likewise, the number of sales transactions with a lump sum consideration of HK\$10 million or above in the three traditional luxury residential districts of The Peak, South Side and Mid-levels fell by 44% QoQ during the same period. Notwithstanding the uninspiring sales volume, the average transacted price in the luxury sector increased 8.2% QoQ to HK\$14,868 as at the end of May 2008, thanks to the limited supply of luxury stock.

## NEGATIVE INTEREST RATE

Underpinned by the rising food and energy prices as well as the steady appreciation of Renminbi, the local inflation rate edged up in 2Q 2008. Although there is a possibility that Hong Kong might enter into an upward interest rate cycle shortly, the current negative real mortgage rate environment is going to sustain in the wake of accelerating inflation rate.

## LAND SALES

In the development land market, available sites in the Application List for auction remained relatively limited while developers remained keen to replenish their land banks. According to the most recent 2008/09 Application List, there are a total of 62 development sites, 42 of which have been earmarked for residential development. Despite the number of residential sites increasing from 33 in the previous list, the tight supply situation in the traditional luxury districts did not improve much. Only four sites are located in traditional luxury districts, including two in South Side, one on The Peak and one in Mid-levels. During the three-month period ending May 2008, there was one residential site being sold via public auction, which was the first government land auction in 2008/09 fiscal year. A 2,060-sq ft residential site at Pak Sha Wan, Sai Kung (Lot 1200 in DD 217) was sold for HK\$16.5 million or an accommodation value of HK\$13,350 per sq ft based on a maximum developable floor area of 1,236 sq ft. The price tag was 65% higher than the opening price at HK\$10 million.

In view of the limited number of available sites for sale, developers continued to explore other opportunities in the private sector to replenish their portfolio in addition to government land

## MAJOR RESIDENTIAL SALES TRANSACTIONS

Month	Property	District	GFA (sq ft)	Price (HK\$ m)	Unit Price (HK\$ / sq ft)
Mar-08	La Hacienda, House 15	The Peak	2,800	\$98.00	35,000
Apr-08	Century Twr II, 13/F	The Peak	3,638	\$65.00	17,867
May-08	Century Twr II, 10/F	The Peak	3,663	\$66.30	18,100
Mar-08	Monte Verde, 20/F, Flat B	South Side	2,500	\$50.00	20,000
Mar-08	Somerset, 4/F, Flat A	South Side	2,464	\$51.50	20,901
Mar-08	Grosvenor Place, 10/F	South Side	2,809	\$68.00	24,208
Apr-08	Redhill Peninsula - Cedar Drive, House 3	South Side	3,377	\$58.50	17,323
May-08	Stanley Knoll Type B, House B1	South Side	2,655	\$50.00	18,832
May-08	Le Palais, House 11	South Side	3,271	\$60.00	18,343
May-08	Regalia Bay Ph 02, House A28	South Side	4,212	\$62.00	14,720
May-08	Grosvenor Place, 20/F	South Side	2,809	\$65.80	23,425
May-08	Rosecliff, House 8	South Side	3,209	\$91.99	28,666
Mar-08	Hong Villa, 20/F	Mid-levels	3,833	\$68.10	17,767
Mar-08	31 Robinson Road, 36/F, Flat A	Mid-levels	2,665	\$68.56	25,726
Mar-08	31 Robinson Road, 40/F, Flat A	Mid-levels	2,665	\$74.22	27,848
Mar-08	Tregunter Twr 3, 51-52/F, Flat D	Mid-levels	3,688	\$85.00	23,048
Apr-08	Regence Royale Twr 2, 26/F, Flat B	Mid-levels	2,522	\$53.00	21,015
Apr-08	Dynasty court, 38/F, Flat A	Mid-levels	2,691	\$59.80	22,222
Apr-08	Estoril Court Blk I, 42/F, flat B	Mid-levels	3,347	\$60.00	17,927
Apr-08	Albany Blk A, 21/F	Mid-levels	2,549	\$60.60	23,774
Apr-08	Legend Twr V, 57-58/F, Flat B	Mid-levels	2,308	\$88.80	38,475
Apr-08	Highcliff, 55/F, Flat B	Mid-levels	3,676	\$100.80	27,421
Apr-08	Legend Twr I, 58-60/F, Flat A	Mid-levels	3,190	\$113.60	35,611
Apr-08	31 Robinson Road, 38/F, Flat A-B	Mid-levels	4,984	\$124.87	25,053
May-08	Cavendish Heights Blk 03, 26/F, Flat A-B	Mid-levels	3,638	\$63.00	17,317
May-08	53 Perkins Road	Mid-levels	9,324	\$310.37	33,287

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)
May-08	84 Peak Road	The Peak	5,100	400,000	78.43
May-08	Residence Bel-Air	South Side	2,365	120,000	50.74
May-08	Residence Bel-Air	South Side	2,438	119,000	48.81
May-08	Le Palais	South Side	4,372	220,200	50.37
Apr-08	Aigburth	Mid-levels	3,050	187,000	61.31
Apr-08	Fairlane Tower	Mid-levels	2,830	140,000	49.47
Apr-08	Villa Elegance	Mid-levels	3,500	128,000	36.57
May-08	Borrett Mansion	Mid-levels	2,800	145,000	51.79

Source: Colliers International (Hong Kong) Limited

*Due to the lack of new supply and tight supply conditions in the secondary market, rentals in the traditional luxury areas continued to edge up during 2Q 2008. The average luxury residential rental registered a rise of 6.7% QoQ from HK\$42.41 per sq ft per month in February to HK\$45.24 per sq ft per month as at the end of May 2008*

auctions. For example, Sino Land won the tender for URA's development site in Pine Street/Anchor Street in Tai Kok Tsui. The 25,000-sq ft site will provide a maximum gross floor area of 225,500 sq ft upon completion. Sino Land also secured the development rights for URA's Baker Court Project in Hung Hom. The project covers a site area of about 2,980 sq ft. Upon completion, the site will provide a maximum gross floor area of about 26,800 sq ft for both residential and commercial use. Meanwhile, local purchasers remained keen in snapping up whole-block opportunities during 2Q 2008. For instance, 338-346 Queen's Road West in the Western district reportedly sold for HK\$198 million. The site covers an area of 4,892 sq ft. The developer intends to redevelop the property into a 250-room serviced apartment building with a gross floor area of about 60,000 sq ft. Elsewhere, a local investment company acquired over 95% of undivided shares of the residential blocks located at 147-159 Shau Kei Wan Road in Shau Kei Wan for a total consideration of about HK\$190 million. Given a site area of 6,350 sq ft, the maximum developable floor area is about 55,245 sq ft.

#### LEASING MARKET SHOWED NO SIGNS OF SLOWING

The luxury residential leasing market saw encouraging performance in 2Q 2008, mainly fueled by the sustained occupational demand growth from the banking and finance sector. Due to the lack of new supply and tight supply conditions in the secondary market, rentals in the traditional luxury areas continued to edge up during 2Q 2008. The average luxury residential rental registered a rise of 6.7% QoQ

from HK\$42.41 per sq ft per month in February to HK\$45.24 per sq ft per month as at the end of May 2008.

The other key reason for the buoyant rentals in the luxury residential market is the positive hiring expectations amongst various industries in Hong Kong. According to the latest employment and human resources survey done by Hudson in 2Q 2008, 57% of the respondents expect to increase their staff levels. 59% of the respondents in the banking industry plan to increase their headcounts while 73% of the respondents in the legal sector said they will increase their staff force.

#### THE PEAK

Over the three-month period between February and May 2008, luxury residential prices on The Peak continued to pick up at a healthy pace. The average luxury residential price increased 6.4% QoQ from HK\$20,124 per sq ft in February to HK\$21,419 per sq ft in May 2008. Demand for top-tier properties in prestigious locations continued to strengthen with significant price premium attached at above market average. House No. 2 in Severn 8, one of the luxury projects developed by Sun Hung Kai Properties, continued to draw the market attention. The sale transaction of House 23 at Severn 8 on The Peak fetched a total consideration of HK\$165 million, representing an average unit price of HK\$49,063 per sq ft.

In the leasing market, rentals on The Peak continued to outperform those in Mid-levels and South Side, with the average luxury residential rental posing the strongest growth of 9.3% QoQ from HK\$52.7 per sq ft per month in February

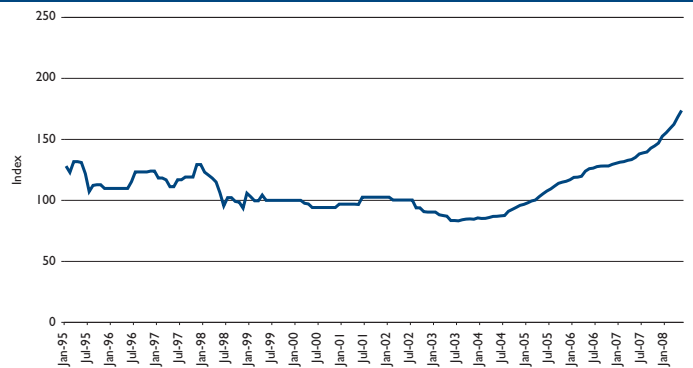
LUXURY RESIDENTIAL PRICES INDEX - PEAK



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

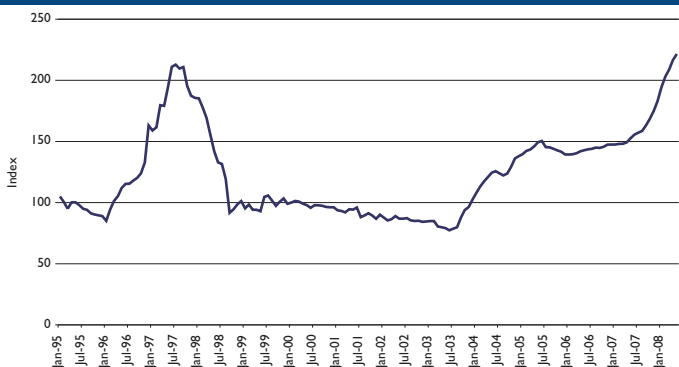
LUXURY RESIDENTIAL RENTALS - PEAK



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

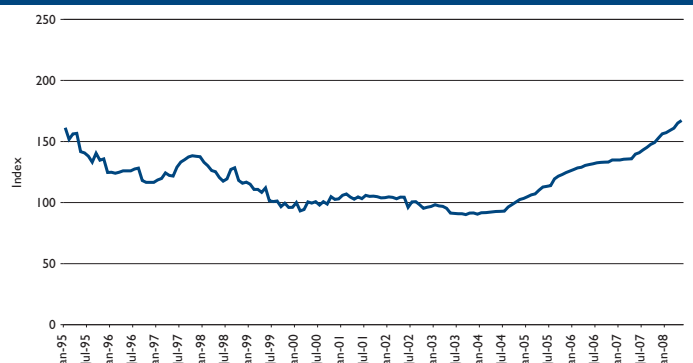
LUXURY RESIDENTIAL PRICES INDEX - SOUTH SIDE



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

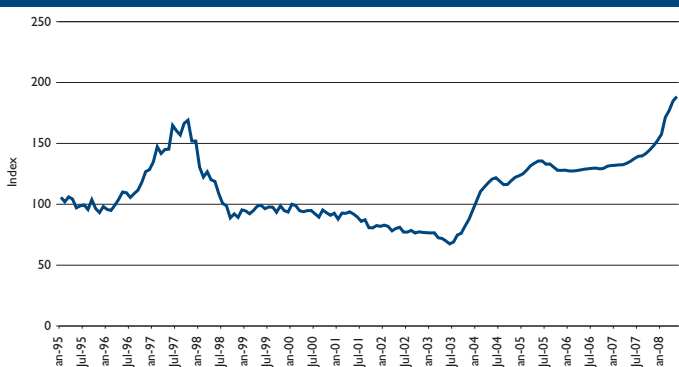
LUXURY RESIDENTIAL RENTALS INDEX - SOUTH SIDE



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

*Due to the positive business environment and the consistent growth of corporate headcount, the serviced apartment market continued to ride on a healthy momentum during 2Q 2008*

*The overall average serviced apartment rents rose 5.8% QoQ from HK\$50.06 per sq ft per month in February to HK\$52.97 per sq ft per month as at the end of May 2008*

to HK\$57.5 per sq ft per month as at the end of May 2008. Along the lines of the sales market, quality detached houses remained highly sought after. For example, a house at 84 Peak Road was renewed for a rental of HK\$400,000 per month or a unit rental of HK\$78.43 per sq ft per month during 2Q 2008.

### SOUTH SIDE

In South Side, luxury residential prices rose 9.1% QoQ from HK\$14,357 per sq ft in February to HK\$15,669 per sq ft in May 2008. The overall transacted price at the benchmark development of Hong Kong Parkview in Repulse Bay was virtually in line with the overall price trend of the sub-market. For instance, a high-floor unit comprising a floor area of 1,263 sq ft, in Tower 5 was sold for HK\$16.5 million or a unit price of HK\$13,064 per sq ft in May 2008. Elsewhere, a high-floor unit of Tower 5 with a comparable size of 1,299 sq ft and similar orientation was transacted at HK\$15 million or a unit price of HK\$11,547 per sq ft in March 2008. This represented a 13% price growth during the three-month period ending May 2008. Besides, other developments in the South Side such as 37 Repulse Bay Road, an apartment unit was sold for HK\$18 million or a unit price of HK\$14,694 per sq ft in April 2008. Meanwhile, demand for detached houses remained strong. Notable sales transactions recorded during the quarter included a house in Rosecliff in Tai Tam for about HK\$92 million (HK\$28,666 per sq ft), a house in Le Palais in Tai Tam for about HK\$60 million (HK\$18,343 per sq ft) and a house in Redhill Peninsula which was transacted at HK\$58.5 million (HK\$17,323 per sq ft).

On the leasing front, luxury residential rentals in South Side also registered an upward growth of 5.1% QoQ from HK\$45.96 per sq ft per month in February to HK\$48.32 per sq ft per month as at the end of May 2008. A prominent transaction during the three-month period was the lease of a house in Le Palais for HK\$220,200 per month or a unit rate of HK\$50.37 per sq ft per month.

### MID-LEVELS

In Mid-levels, the average residential price grew 11% QoQ from HK\$10,852 per sq ft in February to HK\$12,048 per sq ft in May 2008. Benchmark developments including Tregunter,

Regence Royale and Dynasty Court remained a popular choice among buyers. In Tregunter, the average selling prices ranged from HK\$11,082 – HK\$23,048 per sq ft in 2Q 2008 (a lump sum of HK\$33.8–HK\$85 million), which was higher than the average unit price in the secondary market. In Regence Royal, two high-floor units were sold at HK\$21,015 per sq ft (a lump sum of HK\$53 million) in April 2008 and HK\$19,647 per sq ft (a lump sum of HK\$49.55 million) in May 2008. While in Dynasty Court, the transacted average price was ranging from HK\$14,790–HK\$22,222 per sq ft (a lump sum of HK\$32.5–HK\$59.8 million), which was also higher than the average of HK\$12,048 per sq ft in the sub-market.

From the leasing perspective, luxury residential rents in Mid-levels continued to catch up during the three-month period in 2Q 2008. The average unit rentals increased 6.6% QoQ from HK\$41.65 per sq ft in February to HK\$44.38 per sq ft as at the end of May 2008.

### SERVICED APARTMENTS

Due to the positive business environment and the consistent growth of corporate headcount, the serviced apartment market continued to ride on a healthy momentum during 2Q 2008. Serviced apartment units continued to be a preferred choice among newly-arrived expatriates for temporary accommodation before committing to permanent residences. The overall average serviced apartment rents rose 5.8% QoQ from HK\$50.06 per sq ft per month in February to HK\$52.97 per sq ft per month as at the end of May 2008.

Amid rising demand for serviced apartment units across the board, demand for quality units in the traditional business locations including Central, Causeway Bay and Wanchai was particularly strong due to a severe lack of supply. A prominent transaction was a prestigious serviced apartment in Central, where a top-floor penthouse was leased for over HK\$600,000 per month reportedly. Given the current imbalance between demand and supply, serviced apartments rents in core areas saw exceptional growth in 2Q 2008. The average serviced apartment rental in the central business locations was HK\$59.17 per sq ft per month as at the end of May 2008, representing a rental premium of more than 35% above the standard units in non-core districts.

On the supply front, several new serviced apartments were launched for lease during 2Q 2008. This included The HarbourView Place Phase 1 in West Kowloon, which involved a total of 70 units with sizes ranging from 464 to 1,623 sq ft. It is reported that the units in Phase 1 were fully let. Key tenants are expatriates coming from investment banks and financial institutions. In view of strong leasing demand, a second-batch of 80 suites is available for lease with rentals ranging from HK\$29,000 to HK\$100,000 per month. The average unit rent rate is HK\$63 per sq ft per month, representing a 5% growth as compared with the suites in Phase 1. Meanwhile, Shama Fortress Hill, the 115-unit serviced apartment development in Fortress Hill, was launched for

lease at an average rent of about HK\$40 per sq ft per month, with unit sizes ranging from 300 to 800 sq ft.

#### MARKET OUTLOOK

Looking forward, the luxury residential market is expected to stage further growth. With optimistic hiring expectations across the board and the additional push of rising inflation, luxury residential rentals are expected to increase 15% over the next 12 months. However, with the underlying risks of a global economic contraction and the expectation of a tightening cycle, the pace of capital growth might slow to the range of 5-10% over the next 12 months.

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*With the underlying risks of a global economic contraction and the expectation of a tightening cycle, the pace of capital growth might slow to the range of 5-10% over the next 12 months*

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CONSENT TO SELL RESIDENTIAL UNITS

District	Development	No. of units	Estimated completion	Developer
<b>March 2008</b>				
AIL 365	Jadewater	180	31-Dec-08	Asia Standard International Group Limited
<b>April 2008</b>				
STTL 470 Corporation	The Palazzo	1,375	30-Jun-09	Sino Land, Kowloon Canton Railway
YLTL 499	The Brand	28	31-Aug-08	Ocean Fame International Limited
<b>May 2008</b>				
NKIL 6425	Fuk Wing Street and Fuk Wa Street, Shamshuipo	173	28-Feb-09	Urban Renewal Authority
KIL 11124	Celestial Heights	500	31-Jul-09	Cheung Kong, Nan Fung

Source: Lands Department, HKSAR Government

## PROJECTED NEW SUPPLY OF LUXURY RESIDENTIAL UNITS IN 2008

Development	* House	* Apartment	Developer / Owner	No. of units	Status
<b>Peak</b>					
15 Bluff Path	2 @ 3-s	-	Chuang's Consortium International Ltd	2	Under Construction
3 Middle Gap Road	1 @ 3-s	-	Yu Ming	1	Under Construction
3 Plunkett's Road	6 @ 4-s	-	Tai Cheung Properties Holdings Ltd	6	Completed
36 Plantation Road	9 @ 3-s	-	Jardine Matheson & Co Ltd	9	Under Construction
<b>South Side</b>					
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
<b>Mid-levels</b>					
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		
	May 07	May 08	May 09(f)	May 07	May 08	May 09(f)	May-07	May 08	May 09(f)
<b>Factory</b>	7.38	8.03	8.67	1,199	1,555	1,788	7.4%	6.2%	5.8%
<b>Warehouse</b>	6.95	7.46	8.21	1,069	1,466	1,686	7.8%	6.1%	5.8%
<b>I-O Building</b>	12.65	13.31	14.51	2,252	2,839	3,265	6.7%	5.6%	5.3%

Source: Colliers International (Hong Kong) Limited

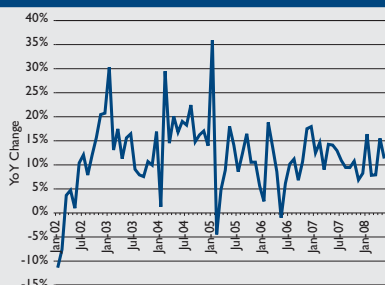
### HONG KONG IMPORTS AND EXPORTS

Date*	Imports (HK\$m)	YoY Change	Domestic Exports (HK\$ m)	YoY Change	Re-exports (HK\$ m)	YoY Change
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%
May-08	776,673	11.1%	23,373	-8.1%	681,501	11.6%

\*Three-month ended

Source: HKSAR Government

#### RE-EXPORT TRADES YEAR-ON-YEAR GROWTH



Source: Census and Statistics Department, HKSAR Government

*The pace of growth was marginally higher than the rate of 11.0% YoY recorded during the preceding three-month period*

#### RESILIENT TRADE VOLUME

Despite the challenge of the slowing US market and soaring energy prices, the total external trade volume in Hong Kong continued to advance in 2Q 2008 thanks to the sustained economic growth in both the Mainland and key centres in the region. As reported, the total value of re-exports registered a growth of 11.6% year-on-year (YoY) to HK\$682 billion during the three-month period ended May 2008. The pace of growth was marginally higher than the rate of 11.0% YoY recorded during the preceding three-month period.

#### MILD RENTAL GROWTH

The current resilient market condition was reflected by the sustained rental growth in the local industrial property market during 2Q 2008. According to our research, the overall industrial property market advanced further, with a further rental growth of 1%-2% QoQ in 2Q 2008. Rentals in the factory and industrial-office (I-O) property sector grew 1.9% and 2.2% QoQ to HK\$8.03 per sq ft per month and HK\$13.31 per sq ft per month, respectively, as at the end of May 2008. Meanwhile, rentals in the warehousing sector edged up 0.7% QoQ to HK\$7.46 per sq ft per month in May 2008.

#### CAPITAL GROWTH TAPERS OFF

Inspired by the prevailing low interest environment, the overall growth rate of industrial capital values continued to rise faster than rentals during 2Q 2008. However, the pace of capital growth showed a distinct slowdown from double-digit growth on a quarterly basis to less than 10% QoQ during 2Q 2008. In the warehousing sector, the average property value increased 5.5% QoQ to HK\$1,466 per sq ft as at the end of May 2008. In the factory sector, average property values rose 3.2% QoQ to HK\$1,555 per sq ft. Property values in the I-O sector continued to perform, with a growth of 8.0% QoQ to an average of HK\$2,839 per sq ft in May 2008.

#### INVESTMENT MARKET

Despite the continued growth in both industrial rental and capital values, the investment market for industrial properties was quiet in 2Q 2008. One of the key reasons was the lack of investment grade assets for sale and, more importantly, the bulk of vendors remained firm on their asking prices. The asking prices for most of the quality developments translated into an average initial yield of below 5% per annum. Meanwhile, prospective investors

**INDUSTRIAL TRANSACTIONS PRICED OVER HK\$100 MILLION  
(MARCH–MAY 2008)**

District	Property	Price	Average Price	Purchaser
		(HK\$ m)	(HK\$/sq ft)	
Western District	Tak Fu Industrial Building	\$104	N/A	Emperor Group
Kwun Tong	Cosmos Shing Building	\$220	\$2,000	Woodrose Inv Int'l Ltd
Kwun tong	Piazza Industrial Building	\$622	\$1,524	Billion Development

N/A: Information not available

Source: Colliers International (Hong Kong) Limited

turned cautious during 2Q 2008 in anticipation of the start of an upward interest rate cycle that might potentially increase the total financing cost in their future cash flow.

In terms of the number of sale transactions, the total volume declined 23% QoQ to 1,357 transactions during the three-month period between February and May 2008. However, with the continued growth in capital values, the value of sale transactions dropped 17% to HK\$4,795 million during the same period. In addition, the volume of sizeable sale transactions posted a steeper fall in 2Q 2008. For example, the number of sale transactions with a lump sum consideration of HK\$100 million or above contracted 50% QoQ, while the value of transactions declined 58% QoQ in 2Q 2008.

Meanwhile, local players remained keen on acquiring en-bloc industrial buildings in 2Q 2008. For example, Emperor Group acquired Tak Fu Industrial Building in Western District for a total consideration of HK\$104 million. The group plans to redevelop the building together with the adjacent site into a hotel development. Billion Development acquired Piazza Industrial Building in Kwun Tong for a total consideration of HK\$622 million. The company plans to redevelop the building for commercial use.

### STRUCTURAL CHANGE IN CONTAINER THROUGHPUT

According to the findings from the Study on Hong Kong Port Cargo Forecasts 2005/2006 commissioned by the Transport and Housing Bureau of the Hong Kong government, Hong Kong's container throughput increased from 17.8 million TEUs in 2001 to 23.5 million TEUs in 2006, representing a compound annual growth rate (CAGR) of 5.7% per annum. From January to May 2008, the volume of container throughput increased 4.5% YoY to 9.9 million TEUs.

Meanwhile, the transshipment of containers between ocean vessels increased by a CAGR of 13.5% per annum between 2001 and 2006. The growth differential illustrates that the growth of container throughput has been restrained by the capacity of the existing terminals.

### NEW CONTAINER TERMINAL

According to the government's latest forecast on container throughput growth, the handling capacity of existing container terminal facilities will be fully utilised by 2015-2020. In order to capture the potential container throughput growth, the government proposed the development of Container Terminal 10 (CT 10).

Two sites located in Northwest Lantau and Southwest Tsing Yi have been identified by the government as optimal locations for the future CT 10. On a comparative basis, the Tsing Yi site is a favourable option due to its close proximity to Kwai Chung port.

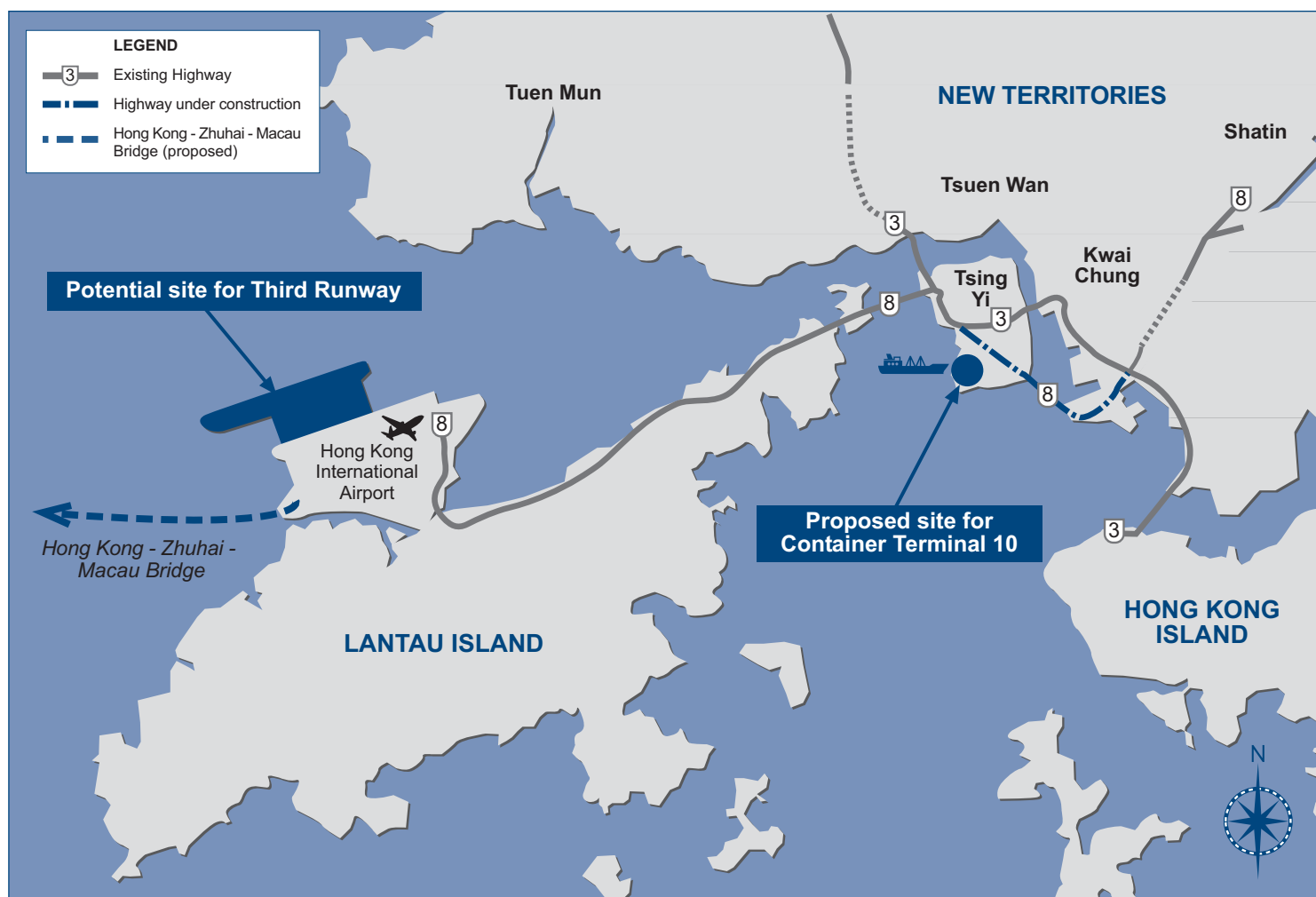
### AIR CARGO

In the airfreight sector, the volume of cargo handled by the Hong Kong International Airport increased 4.5% YoY to 3.74 million tonnes in 2007, making Hong Kong the second busiest airport in the world.

Meanwhile, according to the Census and Statistics Department of the Hong Kong SAR Government, the value of air cargo increased 204% from HK\$573 billion in 1995 to HK\$1,745 billion in 2006. Meanwhile, the value of high-tech products shipped via air freight grew more dramatically by 418% from HK\$162 billion in 1995 to HK\$840 billion in 2006.

*Prospective investors turned cautious during 2Q 2008 in anticipation of the start of an upward interest rate cycle that might potentially increase the total financing cost in their future cash flow*

PROPOSED NEW INFRASTRUCTURE



Source: Airport Authority; Transport and Housing Bureau, HKSAR Government; GHK (Hong Kong) Ltd

*Amid the continued increase in the volume of cargo throughput and the government initiatives in pushing ahead a number of infrastructure facilities, the demand for logistics facilities in the warehousing sector is expected to increase over the coming years*

**THE THIRD RUNWAY**

In order to meet growing demand for logistics facilities, the Hong Kong International Airport has been undergoing a series of facility and system improvements that will enhance the overall operational efficiency of the airport. Meanwhile, the Airport Authority will soon commission a 20-year development blueprint - the Master Plan 2030. Furthermore, the Authority will commission environmental impact and engineering feasibility studies for a third runway later in 2008.

**LOGISTICS WAREHOUSING**

Amid the continued increase in the volume of cargo throughput and the government initiatives in pushing ahead a number of infrastructure facilities, the demand for logistics facilities in the warehousing sector is expected to increase over the coming years. Quality warehousing premises located close to Kwai Chung and Tsing Yi are expected to be the key beneficiaries.

**MARKET OUTLOOK**

Looking ahead, the local industrial property market will stage further growth in anticipation of the resilient performance of the external trade sector in Hong Kong. Despite the prospective slowdown in the US market, the prospective growth of intra-regional trade is expected to underpin the industrial property market over the short to medium term. As such, it is our prediction that industrial rentals will rise 8% over the next months, while capital values may potentially increase 10% over the same period. With the government's initiative in pushing ahead with a number of major infrastructure schemes, the warehousing sector will be the key beneficiary over the long term.

FACTORY RENTAL INDEX



Jan-2000 = 100

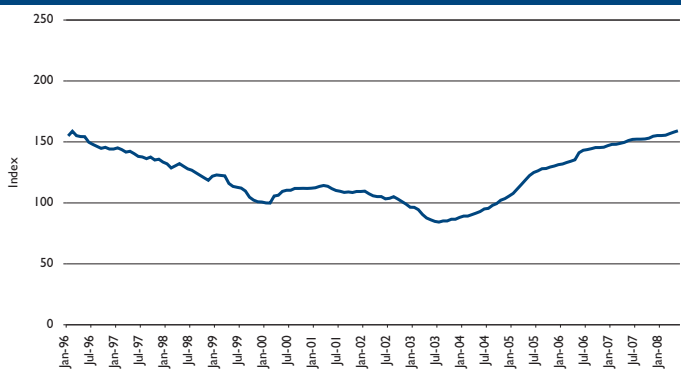
Source: Colliers International (Hong Kong) Limited

FACTORY RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

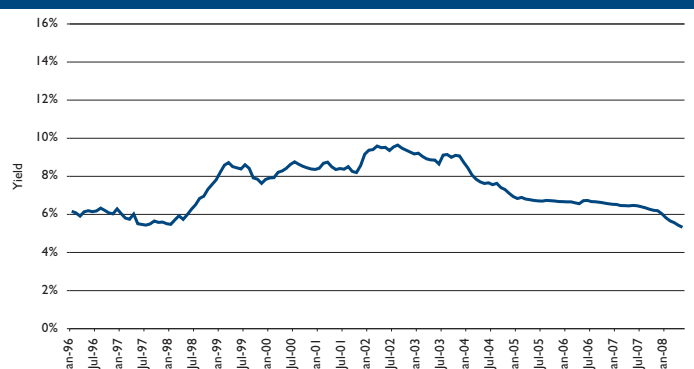
I-O BUILDING RENTAL INDEX



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

I-O BUILDING RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

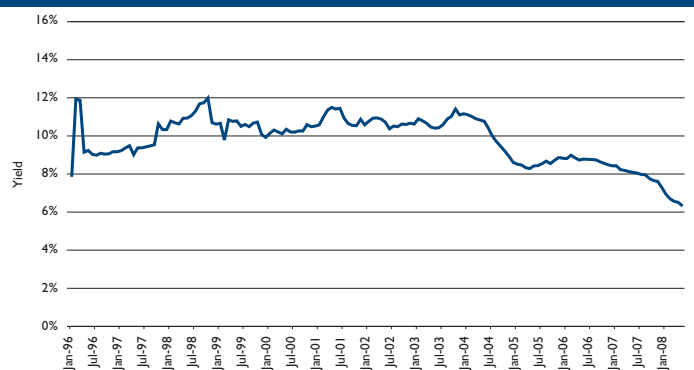
WAREHOUSE RENTAL INDEX



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

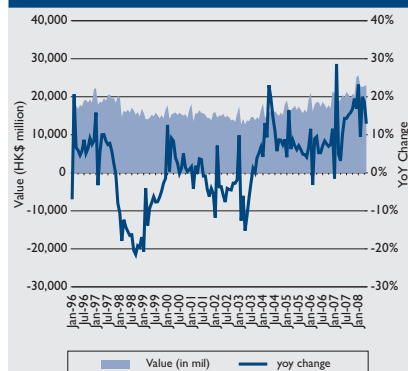
WAREHOUSE RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

## RETAIL SECTOR

### TOTAL RETAIL SALES



Source: Census and Statistics Department, HKSAR Government

*With the help of a low interest rate environment, investment demand in the retail sector remained solid during the three-month period between March and May 2008*

### MARKET ENVIRONMENT

Notwithstanding the slowdown in the US economy and the sustained volatility in the global stock markets, the Hong Kong retail market continued to enjoy the benefits of an expanding local economy, a growing local consumer demand and a rising number of visitor arrivals, as evidenced by a healthy growth in retail sales value. During the first four months of 2008, the value of total retail sales amounted to HK\$93,829 million, representing a year-to-date growth of 17.8% year-on-year (YoY). The growth in retail sales continued to be underpinned by demand for big-ticket items. Over the same period of time, the sales value of jewellery, watches and valuable gifts achieved a growth of 25.8% YoY, followed by the sale of motor vehicles, which increased by 29.6% YoY. Meanwhile, fashion retailers also enjoyed soaring sales, with the sale of clothing, footwear and allied products edging up by 16.5% YoY.

### CONSUMPTION EXPENDITURE

The growing inbound tourism market coupled with strong domestic consumer demand helped boost total retail sales value. According to the Hong Kong Tourism Board, the total number of visitor arrivals registered an accumulative growth of 9.5% YoY to 12.04 million during the period between January and May 2008. Meanwhile, visitors from Mainland China continued to represent the bulk of the total, accounting for 55% of all arrivals.

Thanks to the continued economic growth and favorable employment conditions, the rising disposable incomes of households lent strong support to strengthen local consumer confidence,

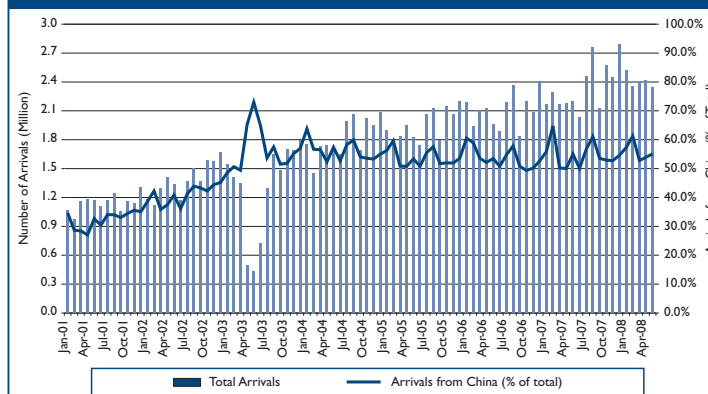
which, in turn, enhanced overall local consumer expenditure. According to the latest statistics provided by the Government, local private consumption expenditure grew by 7.9% YoY in 1Q 2008. The labour market was optimistic, with the overall unemployment rate staying at the low level of 3.3% during the three-month period between March and May 2008.

### INVESTMENT DEMAND

With the help of a low interest rate environment, investment demand in the retail sector remained solid during the three-month period between March and May 2008. The B/F and G/F of Bank of America Tower in Central was sold for a total of HK\$540 million, or an average unit price of HK\$7,417 per sq ft based on a gross floor area of 72,281 sq ft. Kowloon City Plaza (KCP) in Kowloon City was sold to a local investor for HK\$1.48 billion, or an average unit price of about HK\$2,313 per sq ft based on an existing gross floor area of 640,000 sq ft. KCP was previously acquired in 2004 by a joint venture between Morgan Stanley Real Estate Funds, Pamflet and Pioneer Global for a total consideration of HK\$2.2 billion; the sale came in a package with the ex-Paliburg Plaza located at 68 Yee Wo Street in Causeway Bay.

Moreover, investors also showed keen interest in street shops located in prime locations. In Causeway Bay, shop 20 on the G/F of 24-26 East Point Road was sold for HK\$205 million, and shops 4 and 5 on the G/F and M/F of 24-26 East Point Road sold for HK\$187 million. In Tsim Sha Tsui, shops A, D2 and E2 on the G/F of 81 Nathan Road sold for HK\$164.5 million,

### VISITORS ARRIVALS



Source: Hong Kong Tourism Board

*The total number of visitor arrivals registered an accumulative growth of 9.5% YoY to 12.04 million during the period between January and May 2008*

the B/F of 83 Nathan Road was transacted for HK\$130 million, while shop A on the G/F of 29 Cameron Road sold for HK\$100 million. A local investor also purchased a four-storey residential/commercial building at 53 Carnarvon Road in Tsim Sha Tsui for HK\$215 million, provided that the G/F was assigned for retail purposes. Lately, in Mongkok, four connected shops on the G/F of Ginza Plaza were sold for a total of HK\$600 million; shops 1, 2 and 13 on the G/F of Nathan Centre was transacted for a total of HK\$189.5 million; a batch of 50 units on the 1/F-3/F of Sim City was sold for HK\$150 million; and the G/F-1/F and M/F of 751A-B in Nathan Road were sold for HK\$136 million.

### SUSTAINABLE LEASING DEMAND

In 2Q 2008, retail space in core areas continued to see sustainable leasing demand from international brands who have been keen to expand their networks in Hong Kong, despite the surge in prime retail rents. Retailers continued to establish their brand image in the region as they see Hong Kong as a stepping stone to enter the Greater China Market. Meanwhile, the sustained growth of retail sales is one of the key drivers pushing tenants to go for their expansion plans. For instance, Coach and Diesel opened their first three-storey flagship stores in Central during 2Q 2008.

Despite the anticipated slowdown in the US economy, a rising number of inbound visitors, especially from Mainland China, will help offset some of this negative impact. In general, the prospective growth of retail sales in the order of 15% per annum is going to drive leasing demand in the second half of 2008.

### SUB-MARKET ANALYSIS

Underpinned by the sustained leasing demand, retail rents and capital values remained on the rise in 2Q 2008. According to the Rating and Valuation Department of the Hong Kong SAR Government, the average retail rental showed no signs of retreat in 2Q 2008. Meanwhile, according to our in-house statistics, the average rentals in the traditional shopping districts of Mong Kok, Tsim Sha Tsui, Causeway Bay and Central, showed a growth of 2.7% QoQ in 2Q 2008. However, the dynamics of rental growth in core areas began to

taper off in the wake of the looming US economy and growing uncertainties surrounding the global economy, as well as the sustained volatility of the global stock markets.

In Mong Kok, average retail rents grew 1.6% QoQ in 2Q 2008. Transactions for the quarter were highlighted by the lease of a street shop at 34 Sai Yeung Choi Street South for HK\$330,000 per month, or a unit rent of HK\$660 per sq ft per month based on an area of 500 sq ft. Within the sub-market, Sai Yeung Choi Street South continued to be the preferred area among retailers due to its high pedestrian flow for both locals and visitors.

In Tsim Sha Tsui, average retail rents increased 2.8% QoQ in 2Q 2008. Leasing activities in Tsim Sha Tsui remained strong. A cosmetics brand rented the G/F and 1/F of 82-84 Canton Road for HK\$1,300,000 per month, or a unit rate of HK\$395 per sq ft per month based on a floor area of 3,295 sq ft. A local jewellery shop rented shops 1B and 1C on the G/F of 99-101 Nathan Road for HK\$530,000 per month, or a unit rate of HK\$404 per sq ft per month based on a shop size of 1,313 sq ft, while shops 2 and 3 on the G/F, M/F and part of the 1/F of the Holiday Inn were leased to a watch brand for HK\$3,300,000 per month, or a unit rate of HK\$737 per sq ft per month based on a floor area of 4,478 sq ft.

In Causeway Bay, average retail rents increased 2.9% QoQ in 2Q 2008. Street shops with a high pedestrian flow remained retailers' favourites. For example, a jewellery shop rented a corner shop at 16 Kai Chui Road and Yun Ping Road for HK\$900,000 per month.

In Central, average retail rents increased 3.3% QoQ in 2Q 2008. Big-ticket items remained active in securing spaces in prime locations; for example a shop C, a ground floor shop located at 30 Queen's Road Central - Entertainment Building was rented by an international fashion retailer for HK\$2,300,000 per month. Based on a total shop size of 4,500 sq ft, the unit rental was HK\$51 per sq ft per month. Elsewhere a fashion retailer secured a G/F and B/F retail space at 2-12 D'Aguilar Street for HK\$1,300,000 per month. Based on a total shop area of 8,380 sq ft, the unit rental was HK\$155 per sq ft per month.

*According to our in-house statistics, the average rentals in the traditional shopping districts of Mong Kok, Tsim Sha Tsui, Causeway Bay and Central, showed a growth of 2.7% QoQ in 2Q 2008*

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*Local retail market is expected to stay on its upward trend given the solid fundamentals including prospective economic growth, rising household income and positive employment conditions*

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*Overall, retail rental and capital values are predicted to grow 15% YoY over the next 12 months*

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#### MARKET OUTLOOK

Over the next 12 months, the local retail market is expected to stay on its upward trend given the solid fundamentals including prospective economic growth, rising household income and positive employment conditions. As usual, the steady rising number of inbound visitors and the receipts from tourism are expected to provide additional contribution to the value of total retail sales going forward. Overall, retail rental and capital values are predicted to grow 15% YoY over the next 12 months.

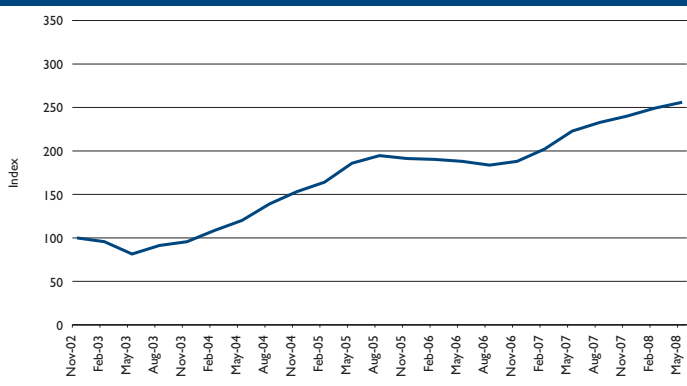
INDICATIVE RETAIL RENTAL INDEX BY MAJOR DISTRICTS

Street Name	Rental Index Feb-08	Rental Index May-08
<b>Causeway Bay</b>	<b>249</b>	<b>256</b>
% Change (QoQ)	4%	3%
<b>Central</b>	<b>244</b>	<b>252</b>
% Change (QoQ)	5%	3%
<b>Mong Kok</b>	<b>208</b>	<b>211</b>
% Change (QoQ)	3%	2%
<b>Tsim Sha Tsui</b>	<b>292</b>	<b>300</b>
% Change (QoQ)	3%	3%
<b>Overall</b>	<b>247</b>	<b>253</b>
% Change (QoQ)	4%	3%

(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

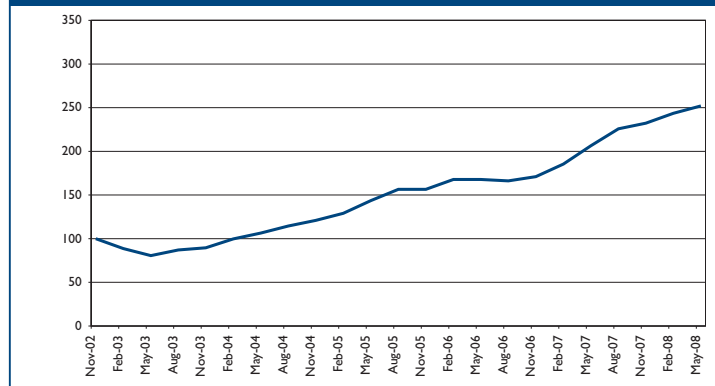
AVERAGE RETAIL RENTAL INDEX IN CAUSEWAY BAY



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

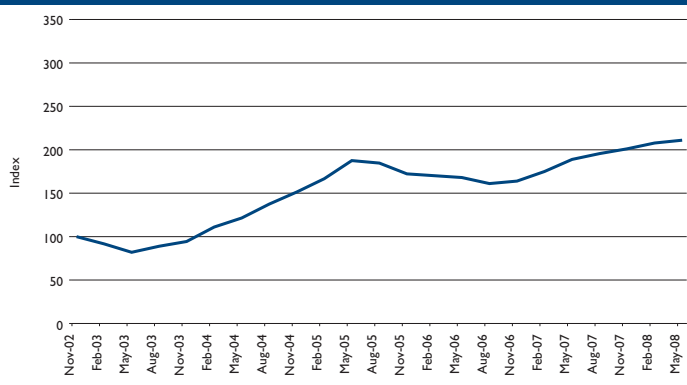
AVERAGE RETAIL RENTAL INDEX IN CENTRAL



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

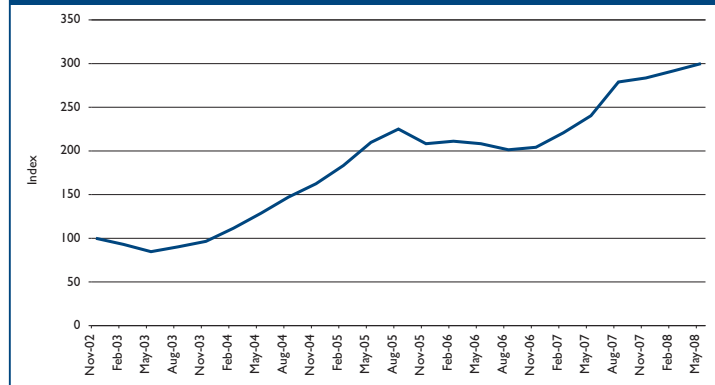
AVERAGE RETAIL RENTAL INDEX IN MONG KOK



(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

293 OFFICES IN 61 COUNTRIES ON 6  
CONTINENTS

USA 99  
Canada 19  
Latin America 18  
Asia Pacific 62  
EMEA 95

Revenue in 2007  
Over US\$2 billion

Property Management  
868 million sq ft

11,000 Professionals

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