



The Knowledge

MARKET OVERVIEW | OCTOBER | 2008



Market Summary

OFFICE SECTOR

- The average effective office rent in Central grew marginally by 0.7% quarter-on-quarter (QoQ) in 3Q 2008, although the overall effective Grade A market increased 1.4% QoQ during the same period. On a monthly basis, average rentals in Central posted their first decline in five years, falling by 0.4% month-on-month in August 2008.
- After a five-year rally, the current office cycle in Hong Kong will stage a consolidation due to the prospective slowdown in the demand side of the market. If the external environment deteriorates further, Grade A office rentals are anticipated to come down by 15%-20% over the next 12 months.

LUXURY RESIDENTIAL SECTOR

- More vendors started to reduce their asking prices and rentals in mid-September 2008, although the average luxury residential prices stayed largely flat during 3Q 2008 and stood firm at HK\$14,800 per sq ft as at the end of August 2008.
- The knock-on impact on the global economy arising from the damage to the financial system might send local luxury residential rentals down by 15% over the next 12 months. Capital values might see a steeper downward adjustment in the order of 15%-20% during the period.

INDUSTRIAL SECTOR

- Due to the general slowdown in the demand side of the market, industrial property rentals tapered off to a 1%-2% growth QoQ during 3Q 2008.
- Industrial property rentals might see a potential downward adjustment in the order of 5%-12% over the next 12 months if there is a consolidation of the volume of re-exports and logistics throughput in Hong Kong.

RETAIL SECTOR

- In the wake of the global financial turmoil and growing uncertainties in the external environment, retail rentals fell 3.6% QoQ in 3Q 2008 – the first decline since 3Q 2006.
- In anticipation of a slowing growth in the total value of retail sales and the easing of local inflationary pressure, retail rentals are predicted to fall 5%-10% over the next 12 months, while capital values will come down in the order of 10% during the period.

MARKET TRENDS

OFFICE



LUXURY RESIDENTIAL



INDUSTRIAL



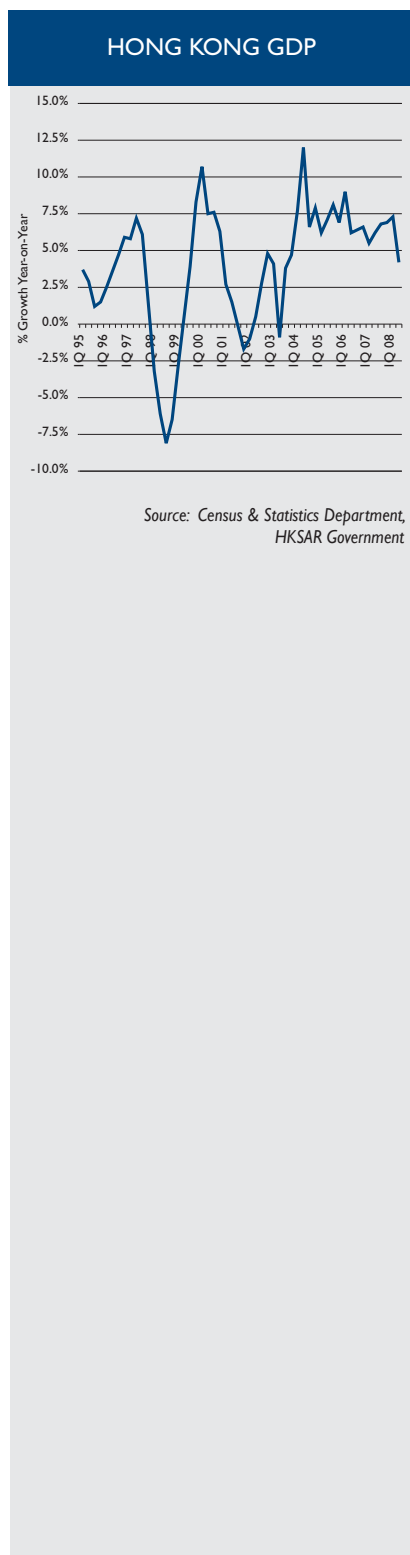
RETAIL



EXECUTIVE SUMMARY

ECONOMIC INDICATORS	MEASURE	2006	2007	2008	2009	2010	2011	2012
GDP	YoY % Change	7.0	6.4	4.4	4.2	4.6	5.1	5.3
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	5.4	4.3	3.3	2.9	2.9
Average unemployment rates	Rate (%)	4.8	4.0	3.4	3.2	3.1	3.1	2.7
Best lending rate	Rate (%)	7.9	7.6	5.6	6.4	7.7	8.4	8.4
Average real wages	YoY % Change	0.4	1.9	-1.3	-0.3	0.3	0.8	0.7

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



THE ECONOMIC MODERATION

Due to the lingering financial market turbulence and the slowing growth in some of major economies around the globe, there were signs of moderation for the local economy during 2Q 2008. In terms of gross domestic product, the local economy expanded moderately by 4.2% QoQ in 2Q 2008 after the stronger-than-expected growth of 7.3% registered in 1Q 2008. Notwithstanding the slowdown, the overall pace of economic growth continued to stay above its long-term trend in 2Q 2008.

Amongst the various economic components, exports of services continued to be the key economic driver due to the sustained contributions from inbound tourism and further expansion in offshore trade. However, the growth pace also moderated from 10.2% quarter-on-quarter (QoQ) in 1Q 2008 to 7.1% QoQ in 2Q 2008 as a result of the recent adjustments in the global financial markets.

Signs of moderation also emerged in private consumption expenditure. After having double-digit growth for the two quarters in the second half of 2007, the level of private consumption showed a distinct slowdown from a growth of 7.9% QoQ in 1Q 2008 to 3.1% in 2Q 2008 due to the worsening market sentiment arising from the price correction in the stock market and dimmer economic outlook. In addition, the sharp rise in inflation not only eroded the purchasing power of many households but also threatened their overall income in real terms.

THE RELIEF PACKAGE

In order to alleviate the pressure on the grassroots and middle-class community as a result of growing inflationary pressure but slower salary growth, the local Government announced to introduce a number of short-term relief measures in mid-July 2008. Scheduled to be fully implemented in the second half of 2008, the measures include

tax reduction, rates waiver, three months rent free for public housing tenants, extra payment of Comprehensive Social Security Assistance, Disability Allowance and old-age-allowance and electricity subsidy etc. In total, the whole package of relief measures is estimated to cost about HK\$11 billion. Since the bulk of the relief measures are either one-off or with a time limit, it is anticipated that it will not carry long-term implications on the Government's operating account. Overall, the relief measures have been welcomed by the local households, particularly amongst the families falling within the lower-income bracket.

NEGATIVE SENTIMENT PREVAILS

In addition to the problems resulting from the rising cost of living, the sentiment of the local property market was dampened by the discouraging performance of the local stock market prices. During the three-month period between May and August 2008, the Hang Seng Index came down by 13% to settle at 21,261 as at the end of August 2008. The so-called negative wealth effect resulting from the decline in stock market prices and the uncertain market outlook have essentially delayed buying decisions amongst the bulk of prospective property purchasers. In addition, the recent collapse of Lehman Brothers in September 2008 was another bearish sign showing that the local real estate market might experience further rental and price correction over the near-to medium-term as a result of the anticipated consolidation of the whole finance industry. From the occupiers' perspective, a number of business entities have chosen to put their expansion plans on hold due to the prospective global economic slowdown and the prevailing uncertainties in the financial sector.

PROPERTY INVESTMENT MARKET

On the property investment front, the market remained quiet and the number of sale transactions with price brackets of HK\$30 million or above staged a further decline of 20% QoQ in 3Q

2008. Generally, the bids offered by prospective purchasers were yet to match vendors' expectations during the entire period. On the one hand, prospective purchasers largely believed the local real estate market was edging close to its cyclical peak. The trend can be illustrated by the fact that growth has been tapering off since the market started worrying about the sub-prime mortgage problem a year ago. On the other hand, vendors preferred to hold on and stayed firm with their asking prices in 3Q 2008. However, with the fallout of Lehman Brothers in mid-September 2008, vendors' asking prices have started softening.

Essentially, the problem of the credit crunch in the US finally rippled into Hong Kong with a rise in the cost of financing. Although the level of Best Lending Rate was largely unchanged (i.e. 5.25% quoted by HSBC) in 3Q 2008, the average yield of 10-year Exchange Fund Notes, as a proxy to risk-free rates, actually increased by 37 basis points from 2.88% p.a. in May 2008 to 3.25% p.a. in August 2008. Meanwhile, the level of three-month interbank rates in Hong Kong rose 29 basis points during the same period to 2.26% in August 2008. Local banks prepared to lend but with reduced loan-to-value ratios and conservative valuation.

HONG KONG PROPERTY MARKET SECTOR

Against the backdrop of a global economic slowdown and the turmoil in the US financial sector, the local Grade A office market slowed during 3Q 2008. Although there was no additional new office stock in the traditional business districts on Hong Kong Island in 3Q 2008, the average vacancy rate edged up from 3.2% in 2Q 2008 to 4.3% in 3Q 2008 due to the gradual completion of new developments in non-core areas. Despite the signs of softening in late 3Q 2008, the average effective office rental managed to edge up by a marginal 1.4% QoQ in 3Q 2008 to HK\$72.73 per sq ft per month in August 2008.

Since office rentals in the core business districts have reached over HK\$120 per sq ft per month as of 3Q 2008, a number of tenants resorted to less expensive alternatives such as Nexxus Building - the renovated ex-Hang Seng Bank Building in Central. Meanwhile, the brand-new developments in Kowloon East have been appealing to a group of non-finance tenants who have been looking to upgrade themselves to premises with better fit out.

In the luxury residential property sector, buying sentiment was dampened by the discouraging performance of the financial markets and, more importantly, the uncertain economic growth around the globe. Despite the fact that the overall number of sale transactions declined by nearly 40% QoQ during 3Q 2008, the average luxury residential property prices increased 0.5% QoQ to HK\$14,797 per sq ft as at the end of August 2008. On the leasing front, the majority of tenants adopted wait-and-see attitudes without making any drastic move during 3Q 2008 but increasing cost consciousness was the general tone amongst the key occupiers in the marketplace.

In the retail property sector, the overall consumption sentiment was affected by the continued fall of stock market prices and the threat of drastic increase of inflationary pressure. However, the continued influx of visitors into Hong Kong continued to support the total revenue in the sector. During the three-month period between June and August 2008, the total volume of retail sales managed to maintain double-digit growth on a year-on-year (YoY) basis. Although there were individual tenants putting their plans on hold, high-end retailers remained there in the marketplace to look for the best location for their flagship stores.

In the industrial property market, rentals continued to stay on their upward trend during 3Q 2008. Quality warehousing developments located in the first-tier locations continued to be favoured by the market. Although there were signs of slowing down in the external trade, the sustained growth in the volume of retail sales continued to underpin the demand for logistics facilities catering for local distribution. According to our research, the average rental for warehouses equipped with ramp access increased 1.5% QoQ during 3Q 2008.

MARKET OUTLOOK

Looking forward, the local real estate cycle in Hong Kong, after a five-year rally, is predicted to stage a consolidation due to the prospective slowdown on the demand side of the market. If the external environment deteriorates further, a potential contraction of leasing demand is going to send property rentals down by about 10% over the next 12 months. In anticipation of a general rise in financing cost and property yields, capital values might see a steeper downward adjustment in the order of 15% during the period.

GRADE A OFFICE SECTOR

SUB-MARKET BREAKDOWN

	RENTS					
	Face Rents (HK\$ / sq ft / month)			Effective Rents (HK\$ / sq ft / month)		
	Aug 07	Aug 08	Aug 09 (f)	Aug 07	Aug 08	Aug 09 (f)
Central	98.21	129.16	118.83	92.41	122.22	112.44
Admiralty	75.28	101.04	92.96	70.91	95.39	87.76
Wan Chai	45.30	58.45	53.77	42.08	55.31	50.89
Causeway Bay	39.96	59.38	54.63	37.44	55.89	51.42
North Point	24.90	34.38	32.66	23.65	32.16	30.55
Quarry Bay	29.34	39.12	37.16	26.80	37.05	35.20
Sheung Wan	45.74	60.79	57.75	42.44	57.41	54.54
Tsim Sha Tsui	35.10	45.73	43.45	32.42	44.10	41.90
Kwun Tong	22.84	29.47	25.05	21.57	27.84	23.66
Kowloon Bay	21.47	25.84	21.96	20.28	24.16	20.54

	CAPITAL VALUES AND YIELDS					
	Capital Values (HK\$ / sq ft)			Yields		
	Aug 07	Aug 08	Aug 09 (f)	Aug 07	Aug 08	Aug 09 (f)
Central	19,526	30,661	25,726	3.1%	3.3%	3.6%
Admiralty	13,936	21,884	18,870	3.6%	3.7%	3.9%
Wan Chai	13,319	16,461	14,283	3.6%	4.0%	4.3%
Tsim Sha Tsui	10,933	13,706	11,385	3.4%	3.3%	3.7%

On net floor area basis

Source: Colliers International (Hong Kong) Limited

GROWTH HAMPERED

Despite a retreat of oil prices, there were no signs of the improvement of the problem of the global credit crunch in the external environment. Dampened by the general consolidation of stock market prices and expectations of deepening economic contraction around the globe, the bulk of office occupiers turned cautious on their prospective business growth in 3Q 2008. As a proxy to the demand conditions of the local office market, the latest survey conducted by Hudson indicates that the average level of hiring expectations amongst the various business sectors in Hong Kong fell significantly from 57% in 2Q 2008 to a four-year low of 42% in 3Q 2008.

Amongst the various business sectors, the legal sector registered the highest expectations despite the fact that there was a slowdown in the number of new listings of mainland companies in Hong Kong. According to the survey, 59% of respondents indicated to increase headcount and nobody forecast a reduction as of 3Q 2008. Meanwhile, the hiring expectations in the banking and financial services sector were less positive since only 47% of respondents forecasted headcount growth. Individual global banks have decided to freeze their headcount as the problem of the sub-prime mortgage takes its toll. In addition, the manufacturing sector is found to have the lowest

hiring expectations in 3Q 2008 since their business prospects were affected by softening demand in a number of overseas markets including the US.

MORE BEARISH SIGNS

Furthermore, the overall market sentiment turned dramatically bearish in the first half of September 2008 primarily because of the worsening problem of the credit crunch. According to the recent key events in the US financial sector, the negative impact attributed to the liquidity crisis on the global markets was not only limited to a number of mortgage lenders who have exposed themselves to the sub-prime mortgages in the US but there were signs of spilling over to a number of sizeable financial companies including some top-notch investment banks and even insurance companies.

In Hong Kong, the demand scenario in the local office market has been largely positive throughout 3Q 2008 but the market conditions deteriorated after the recent collapse of Lehman Brothers in mid-September 2008. The market read the fall out of Lehman as a bearish sign showing the local office market is going to see material rental decline over the near- to medium-term as a result of the anticipated consolidation of the whole finance industry.

NEW SUPPLY

On the supply side, there was no major completion of new office developments in traditional business districts on Hong Kong Island in 3Q 2008. However, there were a couple of new developments completed in Kowloon East during the period. Firstly, Manhattan Place was finished by Manhattan in August 2008. With an average size of floor plate of 19,000 sq ft lettable, the 41-storey Grade A office building has added over 707,000 sq ft of office space to the sub-market in Kowloon Bay. Secondly, the occupation permit of Landmark East has been granted by the Government in September 2008. The project is a twin-tower Grade A office development completed by Windsor Properties. With the floor plate size ranging from 13,500 to 27,000 sq ft gross, the whole development provides a total of about 1.3 million sq ft of office space to the market. Due to the increase in new supply in Kowloon East during 3Q 2008, and the fact that the new space is yet to be fully occupied, the overall average Grade A office vacancy rate edged up from 3.2% in 2Q 2008 to 4.3% in 3Q 2008.

Similar to the trend in 2Q 2008, the average vacancy in Central edged up further from 1.15% in May to 1.54% in August 2008 since a number of companies found the prevailing rental level in Central has surpassed their affordable limits, and have chosen to leave Central for decentralised districts where cheaper alternatives are available. Elsewhere in Tsim Sha Tsui, the average vacancy rate bucked the overall market trend to fall from 3.4% in 2Q 2008 to 2.6% in 3Q 2008, thus representing the most resilient sub-market in 3Q 2008.

KOWLOON EAST

With the completion of a number of Grade A office building in Kowloon East including Kwun Tong and Kowloon Bay, the sub-market has gradually restructured itself from an industrial area into a decentralized business hub. Due to its sophisticated transportation network and the provisions of more amenities and supporting facilities, the sub-market has proven to be an ideal office location for the back-office function of a number of banks. In addition, the latest trend is that the brand-new developments in the sub-market have been appealing to a group of non-finance tenants who have been looking to upgrade themselves to premises with better fit out. One of the latest leasing transactions was the commitment of 14,400 sq ft office space

at Landmark East by a multinational company engaged in the manufacturing and distribution of home care and beauty products.

THE SECONDARY MARKET

During the current office cycle, the severe imbalance between supply and demand has pushed Grade A office rentals in Central up by more than 500% from around HK\$18 per sq ft per month in 4Q 2003 to HK\$115 per sq ft per month on an effective basis. Now there are softening signs on the demand side of the market but the supply scenario in Central remains largely intact since no major development is going to finish at least in the next two years. The key swing factor is actually on the prospective increase of supply in the secondary market. For example, the space originally occupied by Lehman Brothers in Central is certainly going to be the focus of the market since it will be critical whether the space will be fully absorbed by the purchaser of Lehman or other tenants in the marketplace. The next interesting question is obviously the level of rental that will be agreed between the related parties. With reference to the historical rental performance, the rental premium in Central over the average of the market will narrow when the market enters into a consolidation period. If this is going to be the case, the incoming tenant is unlikely to pay the current premium rentals in Central for the Lehman's space.

In addition, it has been learnt that a number of major financial companies have agreed with their respective landlords to take additional space subject to options set out in their contracts. If those options are not going to be exercised, the market might see an increase in the level of available stock in the secondary market. Overall, it is our opinion that the sub-market in Central will continue to experience a lack of new supply in the next two years. However, the potential rise of vacancy in the secondary market should remain the key uncertain factor on the supply side.

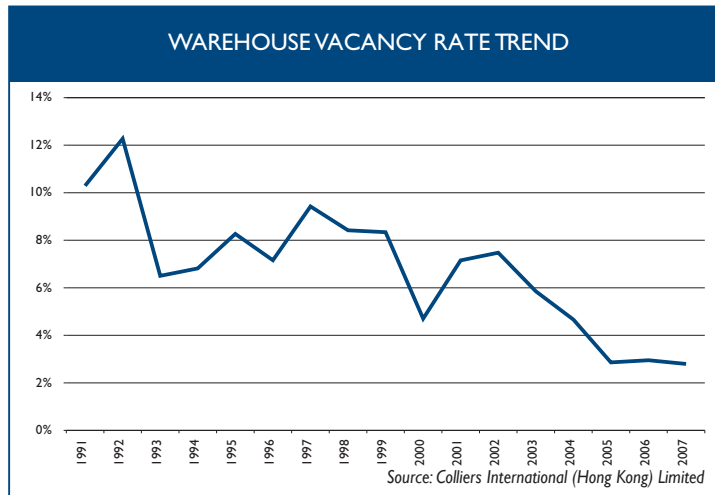
RENTAL GROWTH STALLS

As mentioned previously, individual companies have chosen to relocate from Central to other sub-markets because of the dramatic rental rise in the past three years. For some companies who want to stay in Central, some of the less expensive stock such as Nexxus Building – the renovated ex-Hang Seng Bank Building in Central could be the next best property options.

GRADE A OFFICE VACANCY RATE CENTRAL

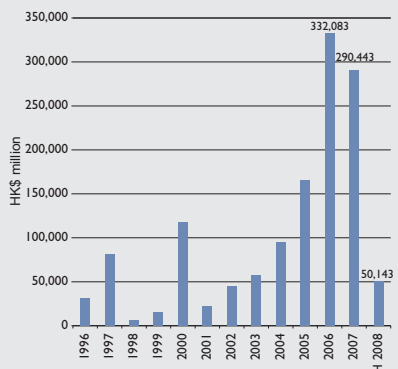


The average vacancy in Central edged up further from 1.15% in May to 1.54% in August 2008 since a number of companies found the prevailing rental level in Central has surpassed their affordable limits



On a monthly basis, average rental in Central actually declined by 0.4% month-on-month (MoM) in August 2008 compared with the level in the preceding month

IPO FUNDS RAISED THROUGH HONG KONG MAIN BOARD



A significant contraction of IPO funds raised in 2008 implies a possible rental downturn in the year

Amid the current trend of relocations and softening demand on the leasing side, the rental trend in Central showed signs of weakness in 3Q 2008. According to our research, the average effective office rent in Central posted a marginal growth of just 0.7% quarter-on-quarter (QoQ) in 3Q 2008 although the overall effective Grade A market increased 1.4% QoQ during the same period. On a monthly basis, average rental in Central actually declined by 0.4% month-on-month (MoM) in August 2008 compared with the level in the preceding month.

Looking at the rental performance in Central, the negative growth in August 2008 was the first time during current upswing which started in late 2003. Historically, the rental changes in Central lay in a wide range from 0.2% MoM in January 2006 to the maximum of 11.5% MoM in May 2005. Therefore, the rental fall in Central on a monthly basis in August 2008 might develop into a tipping point for the Grade A office market if leasing demand is to contract further. In addition, office rentals might trace a downward cycle going forward.

THE CYCLICAL PEAK

In addition to the warning signal that office rentals have started softening in 3Q 2008, it is worthwhile to review the whole market again whether it has reached its cyclical peak in 3Q 2008. With the latest market data, it is interesting to examine the likelihood of having a cyclical market peak in 2008 by revisiting the following models again.

The first model is the correlation between the volume of initial public offering (IPO) funds raised through Hong Kong main board in the local stock

exchange and the cyclical office downturn. The second one is simply the measurement of monthly rental changes in Central over the past years.

• IPO Funds Raised

Looking at the volume of equity funds raised through IPOs in the main board of the Hong Kong stock exchange, a decline of volume happened in 1998 and 2001 when the local office market was in its down cycle.

With reference to time series, the total IPO funds raised in 2007 was HK\$290 billion, representing a decline of 13% compared with the level of HK\$332 billion in 2006. However, there was no rental decline in 2007. One thing to note is that the rate of decline was relatively mild in 2007 compared with -93% in 1998 and -82% in 2001. In 2008, there was an accumulated total of about HK\$50 billion so far in the first two quarters. The percentage decline in 2008 will be much higher even if the momentum of IPO funds raised in the second half is to keep the same pace as in the first half of 2008. Therefore, a significant contraction of IPO funds raised in 2008 implies a possible rental downturn in the year.

• Central Rentals

According to our research, the average Grade A office effective rent posted a mild fall of less than 1% MoM in August 2008 - the first time of negative growth during the current upswing. It is our view that it is likely to be the tipping point of the market because the damage created by the recent financial turmoil might impact negatively on the global economy and the demand in the local office market.

GRADE A OFFICE SUPPLY (2008 - 2011 & BEYOND)

Building	District	NFA (sq ft)	Developer	Status
2008				
Manhattan Place	Kowloon Bay	601,180	Manhattan	Completed
Exchange Tower	Kowloon Bay	517,662	Sino Land	Under construction
Kowloon Commerce Centre (Phase I)	Kwai Chung	487,900	Sun Hung Kai Properties	Completed
Landmark East	Kwun Tong	875,500	Winsor Properties	Completed
One Island East	Quarry Bay	1,383,572	Swire Properties	Completed
Total		3,865,814		
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	296,438	Sino Land	Planning
Kowloon Commerce Centre (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		1,856,411		
2011 & beyond				
500 Hennessy Road	Causeway Bay	352,279	Hysan Development	Under construction
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	Demolition
Central Market Redevelopment	Central	569,500	Hong Kong SAR Government	Existing site
Chung Kong Road (IL 8998)	Central	827,281	Hong Kong SAR Government	Existing site
979 King's Road	Taikoo Place	475,165	Swire Properties	Existing Building
863 – 865 King's Road	North Point	434,350	Kerry Properties	Demolition
414 Kwun Tong Road	Kwun Tong	203,570	WKK	Planning
Total		3,183,600		

Source: Colliers International (Hong Kong) Limited

MARKET OUTLOOK

Looking forward, the current office cycle in Hong Kong, after a five-year rally, is predicted to stage a consolidation due to the prospective slowdown on the demand side of the market. Although there will be no significant increase in new supply in the traditional business districts, a potential rise of vacancy in the secondary market remains the major threat. If the external environment deteriorates further, Grade A office rentals are anticipated to come down by 15-20% over the next 12 months.

LUXURY RESIDENTIAL SECTOR

LUXURY RESIDENTIAL MARKET - KEY MARKET INDICATORS

	Rents (HK\$ / sq ft / month)			Capital Values (HK\$ / sq ft)			Yields		
	Aug 07	Aug 08	Aug 09(f)	Aug 07	Aug 08	Aug 09(f)	Aug 07	Aug 08	Aug 09(f)
Peak	46.26	58.44	49.67	15,358	21,902	17,522	3.61%	3.20%	3.40%
South Side	41.93	49.56	44.60	11,222	15,580	13,243	4.48%	3.82%	4.04%
Mid-levels	37.30	45.14	40.62	8,932	11,759	9,995	5.01%	4.61%	4.88%
Happy Valley	32.73	40.00	36.00	8,621	11,026	9,372	4.56%	4.35%	4.61%
Island East	26.55	31.33	28.19	7,024	9,068	7,708	4.54%	4.15%	4.39%
Average	38.32	46.24	41.27	10,829	14,797	12,409	4.25%	3.75%	3.99%

Source: Colliers International (Hong Kong) Limited

VOLUME CONTRACTION

The local residential market continued to be battered by the discouraging performance of global financial markets and the uncertainty on the global economic growth during 3Q 2008. Prospective property buyers became alert and put in a thicker risk premium in making their offers in view of the prevailing problem of the global credit crunch and the volatile stock market prices. With the significant correction of the Hang Seng Index during the period, the so-called negative wealth effect resulting from the decline in stock market prices and the uncertain market outlook have essentially delayed buying decisions amongst the bulk of prospective property purchasers.

Meanwhile, most vendors continued to hold onto their developments and stayed firm with their asking prices throughout 3Q 2008. The wide bid-ask spread between vendors and sellers therefore led to the continued decline in the volume of sale transactions during the period. According to the Census and Statistics Department, the total number of sale and purchase agreements for residential units contracted by 15% quarter-on-quarter (QoQ) during the three-month period ended August 2008. On the luxury front, the number of sale transactions posted a steeper fall of 25% QoQ during the period.

RENTAL AND PRICE SOFTENING

The market showed a distinct change of direction after the recent collapse of Lehman Brothers in September 2008, which was reckoned as a bearish sign as the local residential market might experience further rental and price correction over the near- to medium-term. More vendors started to reduce their asking prices and rentals in mid-September 2008 although the average luxury residential prices stayed largely flat during 3Q

2008 and stood firm at HK\$14,800 per sq ft as at the end of August 2008. Individual landlords have changed their plans by offering their units for lease rather than for sale in view of the fact that the liquidity in the sale market has dried up.

CAUTIOUS LENDING POLICY

On the side of real estate financing, the problem of the credit crunch in the US finally rippled into Hong Kong with a general rise in funding costs. As the typical benchmark for property financing, the level of the three-month interbank rates in Hong Kong rose 29 basis points from slightly below 2.00% in May 2008 to 2.26% in August 2008 although the level of best lending rates stayed unchanged during 3Q 2008. Local banks continued to offer mortgage financing but with reduced loan-to-value ratios and conservative valuation. Lately, HSBC took the lead to raise rates for newly approved residential mortgage loans by 50 basis points to the range between 3.25% and 3.50% in order to reflect the increase in inter-bank rates.

LAND SALES

During the first eight months of 2008, a total of six land sale applications were lodged to the Lands Department, but only a mini-sized residential site in Pak Sha Wan in Sai Kung was successfully triggered for auction in May 2008. In view of the increasing difficulty to obtain new sites from the Application List system, developers also turned to alternative sources including sites from MTR Corporation (MTRC) and the Urban Renewal Authority (URA). Cheung Kong won the development contract for MTRC's Tsuen Wan West TW 7 project. The total developable floor area is 1.35 million sq ft, including a total of 1.23 million sq ft designated for residential uses. The land premium for the site fetched a total of

MAJOR RESIDENTIAL SALES TRANSACTIONS

Month	Property	District	GFA (sq ft)	Price (HK\$ m)	Unit Price (HK\$ / sq ft)
Jun-08	8-12 Peak Road Blk A1, 8/F, Flat B	The Peak	NA	\$84.00	NA
Jun-08	8-12 Peak Ropad Blk A1, 8/F, Flat A	The Peak	NA	\$80.80	NA
Jun-08	Steward Terrace, B-G/F, Unit 5	The Peak	3,077	\$50.00	16,250
Jun-08	Radcliffe, 17-18/F	South Side	3,620	\$58.00	16,022
Jun-08	Royal Garden, 12/F, Flat B	South Side	2,680	\$63.60	23,731
Jun-08	Regalia Bay, Ph 2, House A29	South Side	NA	\$61.00	NA
Jun-08	Regalia Bay, Ph 2, House B50	South Side	4,002	\$56.00	13,993
Jun-08	Evergreen Garden, 01-02/F, Flat B	South Side	2,849	\$51.80	18,182
Jun-08	Spyglass Hill, 1/F, Flat A-B	South Side	NA	\$63.80	NA
Jun-08	Residence Bel-Air Ph 02 South, House 2	South Side	4,654	\$90.71	19,490
Jul-08	Park Place, Blk B, 7/F, Unit 1	South Side	NA	\$53.00	NA
Jul-08	Regalia Bay Ph 01, House C19	South Side	4,212	\$61.00	14,482
Jul-08	Ocean Bay, Unit E	South Side	3,180	\$96.38	30,308
Jun-08	Falcon Lodge, Unit A	Mid-levels	2,340	\$52.00	22,222
Jun-08	Bowen Mansion, 4/F, Unit 4	Mid-levels	NA	\$58.20	NA
Jun-08	Mayfair, 26/F, Flat A	Mid-levels	2,905	\$66.30	22,823
Jul-08	Highcliff, 27/F, Flat B	Mid-levels	3,676	\$80.80	21,980
Jul-08	Tregunter, 57-58/F, Flat D	Mid-levels	3,798	\$79.00	20,800
Jul-08	31 Robinson Road, 33/F, Flat A	Mid-levels	2,665	\$68.56	25,727
Aug-08	Estoril Court, Blk 1, 40/F, Flat B	Mid-levels	3,347	\$58.00	17,329
Aug-08	Estoril Court, Blk 1, 38/F, Flat A	Mid-levels	3,347	\$57.00	17,030

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)
Jul-08	Strawberry Hill	The Peak	3,928	250,000	63.65
Aug-08	Oasis	The Peak	2,719	145,000	53.33
Jun-08	Pine Lodge	South Side	2,800	145,000	51.79
Jun-08	Belvedere	South Side	3,240	130,000	40.12
Jun-08	Residence Bel-Air	South Side	3,200	135,000	42.19
Jun-08	Hong Kong Parkview	South Side	2,000	140,000	70.00
Jul-08	Nicholson, The Repulse Bay	South Side	2,823	139,000	49.24
Aug-08	Bel-Air on The Peak	South Side	2,432	135,000	55.51
Jul-08	Clovelly Court	Mid-levels	2,800	120,000	42.86

Source: Colliers International (Hong Kong) Limited

HK\$2.663 billion or an average accommodation value of HK\$2,188 per sq ft. Elsewhere, Kowloon Development was awarded the development rights for the Macpherson Indoor Stadium redevelopment project in Mong Kok, led by the Hong Kong Playground Association (HKPA) and the URA. The project covers a site area of about 25,800 sq ft. Upon completion, the mixed development is expected to provide a total of 180,000 sq ft residential premises, 26,000 sq ft commercial space and 60,000 sq ft indoor stadium and youth centre.

In addition, a number of developers remained keen on snapping up whole block opportunities during 3Q 2008. Henderson Land successfully acquired 100% ownership through the compulsory sale of Kam Kwok Building and National Building in Wanchai for a total of HK\$1,421 million. The group already acquired over 92% undivided shares in both buildings for a total consideration of HK\$825 million in 2006. The two buildings will be redeveloped into a commercial / residential building and a hotel. Covering a total site area of about 16,000 sq ft, the total developable floor area for the commercial / residential development will

be about 120,000 sq ft and the hotel development will be about 66,000 sq ft. Sun Hung Kai Properties purchased a building located at the junction of 45-49 Boundary Street and 189-195 Sai Yeung Choi Street North in Mong Kok for a total consideration of HK\$265 million or an accommodation value of HK\$5,008 per sq ft.

LEASING DEMAND SOFTENS

On the leasing front, the average luxury residential rental edged up further by 2.2% QoQ to HK\$46.24 per sq ft per month as at the end of August 2008. However with the recent financial turmoil in the US and the collapse of Lehman Brothers, the leasing market started to worry about the sustainability of occupational demand. In anticipation of the prospective economic slowdown and the consolidation of the finance industries, most companies have turned cautious and are prepared to wait and see at least for the coming two quarters. New headcounts were frozen and high volume of hiring was reduced.

Before the problem of the credit crunch started worsening in Hong Kong, the latest survey done

LUXURY RESIDENTIAL PRICES INDEX - PEAK



LUXURY RESIDENTIAL RENTALS - PEAK



LUXURY RESIDENTIAL PRICES INDEX - SOUTH SIDE



LUXURY RESIDENTIAL RENTALS INDEX - SOUTH SIDE



LUXURY RESIDENTIAL PRICES INDEX - MID-LEVELS



LUXURY RESIDENTIAL RENTALS INDEX - MID-LEVELS



by Hudson in 3Q 2008 revealed that the hiring expectations had already dropped significantly. According to the findings, the average hiring expectation fell from 57% in 2Q 2008 to 42% in 3Q 2008 – the first dip below 50% over the past four years. Amongst the various business sectors, the legal sector registered the highest expectations despite the fact that there was a slowdown in the number of new listings of mainland companies in Hong Kong. Meanwhile, the hiring expectations in the banking and financial services sector were less positive since only 47% of respondents forecasted headcount growth. In addition, the manufacturing sector is found to have the lowest hiring expectations in 3Q 2008 since their business prospects were affected by softening demand in a number of overseas markets including the US.

THE PEAK

During the three-month period between June and August 2008, luxury residential prices on The Peak grew at a slower pace. The average luxury residential price increased 2.3% QoQ from HK\$21,419 per sq ft in May to HK\$21,902 per sq ft in August 2008. Although most property buyers continued to stay on the sidelines, individual purchasers were willing to pay market prices for quality developments that match their requirements in terms of size and location. For example, a house at 16 Pollock's Path on The Peak was sold for HK\$380 million during the period. With a total floor area of 7,226 sq ft, the deal translates into a unit price of HK\$52,588 per sq ft.

On the leasing front, rental growth on The Peak started to taper off, with the average luxury residential rental posting a growth of 1.6% QoQ

from HK\$57.50 per sq ft per month in May to HK\$58.40 per sq ft per month as at the end of August 2008.

Similar to the sales market, market rents for quality detached houses in prestigious locales stayed steady during the bulk of 3Q 2008. For instance, a house in Strawberry Hill was leased for a rental of HK\$250,000 per month or a unit rental of HK\$63.65 per sq ft per month during 3Q 2008. However, with the recent changes in the external environment and the anticipated contraction of leasing demand, sizeable units with a monthly rental of over HK\$200,000 per month saw more significant downward pressure of rental adjustment.

SOUTH SIDE

In South Side, luxury residential prices fell marginally by 0.6% QoQ from HK\$15,669 per sq ft per month in May to HK\$15,580 per sq ft per month in August 2008. However, there were steeper downward price adjustments recorded in individual developments. In Hong Kong Parkview, the average transacted prices was generally coming down by about 10% during 3Q 2008 as individual investors wanted to de-leverage their positions by offloading some of their properties.

For instance, a high-floor unit at Tower 4 with a floor area of 2,105 sq ft was transacted for HK\$29.38 million or a unit price of HK\$13,957 per sq ft in the beginning of June 2008. A month later, a similar unit at Tower 7 with comparable size of 1,924 sq ft was sold for HK\$23.38 million or a unit price of HK\$12,152 per sq ft in June 2008. Comparing the two transactions, there was a price

fall of 13% in a single month of June 2008. In the case of high-end luxury developments such as quality houses, transacted prices continued to hold firm during 3Q 2008. For example, a house at 12 Tai Tam Road was sold for HK\$161 million or a unit price of HK\$31,003 per sq ft in June 2008. There was a significant price rise compared with another house in the same development which was sold for HK\$138 million in March 2008.

On the leasing front, the luxury residential rental in South Side registered a mild growth of 2.6% QoQ from HK\$48.32 per sq ft per month in May 2008 to HK\$49.56 per sq ft per month as at the end of August 2008. A notable transaction during the three-month period was the lease of a house at Redhill Peninsula for HK\$160,000 per month or a unit rate of HK\$55.17 per sq ft per month.

MID-LEVELS

In Mid-levels, the average residential price fell 2.4% QoQ from HK\$12,048 per sq ft in May to HK\$11,759 per sq ft in August 2008. However, prices of individual benchmark developments including Tregunter and Dynasty Court were essentially flat during 3Q 2008, thus providing some support to the sub-market. In Dynasty Court, an apartment on the high-floor zone was transacted for HK\$38 million or a unit price of HK\$19,260 per sq ft.

Elsewhere on the Kowloon side, a penthouse in The Arch at Kowloon Station broke the previous record achieved by a unit in Branksome Crest in Mid-levels, which was sold for a unit price of HK\$39,800 per sq ft in November 2007. The penthouse in Moon Tower in The Arch was sold for HK\$226.1 million, representing a unit price of HK\$41,125 per sq ft, setting the highest unit price for luxury residential apartments in Hong Kong.

Going in line with other sub-markets of The Peak and South Side, rental growth in Mid-levels tapered off significantly in 3Q 2008. The average unit rentals increased 1.7% QoQ from HK\$44.38 per sq ft per month to HK\$45.14 per sq ft per month as at the end of August 2008. However, with the general contraction of demand and an increase of stock for lease, rentals saw signs of softening starting September 2008.

SERVICED APARTMENTS

Due to the recent changes in the business environment and increasing cost consciousness, the average serviced apartment rents dropped 2.9% QoQ from HK\$52.97 per sq ft per month to HK\$51.44 per sq ft per month as at the end of August 2008. A number of companies became increasingly cost sensitive and tightened their housing budgets.

However, the positive note is that a group of non-finance companies remained there in the marketplace and prepared to hold onto their original plans in terms of relocating people to Hong Kong. As reported, a sizeable non-finance enterprise has recently secured a lease of 250 serviced apartment units in Hong Kong in order to provide accommodation for their employees. Essentially, most non-finance companies would wait and see until a clear picture emerges between 4Q 2008 and 1Q 2009.

On the supply front, there was no completion of brand new serviced apartment developments in 3Q 2008. One of the new projects coming on line will be the one at 214-224 Queen's Road East in Wanchai. The development, comprising a total of 216 serviced apartments with unit size from 400 sq ft to 600 sq ft, is scheduled for completion in the first half of 2009.

MARKET OUTLOOK

Looking ahead, the prevailing credit contraction around the globe and the process of de-leveraging in the US financial sector are expected to represent the key threat to the local finance industries – the key pillar for the occupational demand in the luxury residential sector. Although a group of non-finance companies is going to provide support to the leasing market, the knock-on impact to the global economy arising from the damage in the financial system might send the local luxury residential rentals down by 15% over the next 12 months. In anticipation of the general rise of funding costs and investment yields, capital values might see a steeper downward adjustment in the order of 15 – 20% during the period.

CONSENT TO SELL RESIDENTIAL UNITS

District	Development	No. of units	Estimated completion	Developer
June 2008				
NIL	NIL	NIL	NIL	NIL
July 2008				
Lot 2081 RP in DD 109	Seasons Monarch	244	30-Jun-09	Cheung Kong
IL 8982	No. 86 Victoria Road, Hong Kong	95	31-Oct-09	The Hong Kong Land Company Limited
August 2008				
TCTL 4	Coastal Skyline (Phase IV) - Le Bleu Deux (low-rise Blocks 1-3 & 5-7)	524	30-Jun-09	Urban Renewal Authority

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	Completed
3 Middle Gap Road	1 @ 3-s	-	Yu Ming	1	Completed
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
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, I.L. 8969 s.B	-	2 @ 28-s, 2 @ 34-s, 2 @ 40-s, 2 @ 41-s	PCPD, HKSAR Government	709	Completed
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		
	Aug 07	Aug 08	Aug 09 (f)	Aug 07	Aug 08	Aug 09 (f)	Aug 07	Aug 08	Aug 09 (f)
Factory	7.52	8.12	7.31	1,245	1,611	1,417	7.3%	6.0%	6.2%
Cargo Lift Access Warehouse	6.21	6.64	6.17	1,331	1,763	1,587	7.4%	6.2%	6.4%
Ramp Access Warehouse	9.00	9.50	9.03	1,499	1,990	1,831	7.4%	5.8%	6.0%
I-O Building	12.75	13.47	11.85	2,300	2,901	2,466	6.7%	5.6%	5.8%

Source: Colliers International (Hong Kong) Limited

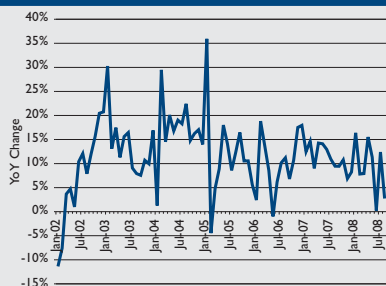
HONG KONG IMPORTS AND EXPORTS

Date*	Imports	YoY	Domestic Exports	YoY	Re-exports	YoY
	(HK\$m)	Change	(HK\$ m)	Change	(HK\$ m)	Change
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%
Aug-08	792,534	6.0%	24,454	-17.8%	711,746	5.2%

*Three-month ended

Source: HKSAR Government

RE-EXPORT TRADES YEAR-ON-YEAR GROWTH



Source: Census and Statistics Department, HKSAR Government

SLOWING GROWTH

Because of the tightening credit conditions and the economic slowdown across the globe, the growth of external trade in Hong Kong dampened during 3Q 2008. Although the value of re-exports surged to a total of HK\$712 billion during the three-month period ended August 2008, the overall growth tapered off significantly to 5.2% year-on-year (YoY) during the three-month period ended August 2008 compared with 11.6% YoY registered in the preceding quarter.

Signs of moderation also emerged in the airfreight sector. According to statistics compiled by the Government, the growth rate of airfreight throughput (in terms of tonnes) showed a dramatic consolidation from a growth of 8.1% YoY during the three-month period between March and May 2008 to a negative growth of 0.3% YoY between June and August 2008.

RENTAL TREND

According to our research, the industrial property market saw rental growth tapering off during 3Q 2008 due to the general slowdown in the demand side of the market.

Backed by end-users' demand for industrial property, rentals edged up by 1%-2% quarter-on-quarter (QoQ) in 3Q 2008. As at the end of August 2008, factory rentals increased 1.1% QoQ to HK\$8.12 per sq ft per month. Rentals for ramp access warehouses increased 1.5% QoQ to HK\$9.50 per sq ft per month, while rentals for cargo lift access warehouses increased 1.1% QoQ to HK\$6.64 per sq ft per month. In the industrial-office (I-O) sector, rentals increased 1.2% QoQ to HK\$13.47 per sq ft per month.

Quality warehouses with ramp access continued to be the best performing sub-sector, with average rentals increasing 1.5% QoQ to HK\$9.50 per sq ft per month as at the end of August 2008. Third-party logistics companies continued to look for quality warehousing premises in order to meet the growing demand attributed to industrialists who have chosen to outsource their logistics functions amid rising fuel and operating costs. Generally, premises with floor areas ranging from 30,000 sq ft to 50,000 sq ft remained popular as of 3Q 2008.

CAPITAL VALUES

In response to recent changes in the external environment, the pace of capital growth in the industrial property market narrowed during 3Q 2008. Genuine end-users remained keen in acquiring suitable industrial units for occupation purposes over the long term, but buying decisions have been delayed due to the general rise in funding costs, as well as growing uncertainties in the external environment in 3Q 2008. Overall, the average capital growth of the industrial property market tapered off from about 4% QoQ in 2Q 2008 to 3.2% in 3Q 2008.

Among the various sub-sectors, factory prices grew the most to HK\$1,611 per sq ft as of August 2008, representing an increase of 3.6% QoQ during 3Q 2008. With a general slowdown in office rental growth, the average capital growth in the industrial office (I-O) sector increased 2.2% to HK\$2,901 per sq ft during the same period. In the warehousing sector, premises with ramp access edged up 1.7% QoQ to HK\$1,990 per sq ft as of August 2008, but individual developments equipped only with cargo lifts posted a slower growth of 1.2% QoQ to HK\$1,763 per sq ft as at the end of August 2008.

INVESTMENT MARKET

As discussed earlier, the trend of rising borrowing costs as a result of the continued credit squeeze in the marketplace has been one of the key reasons holding back a significant portion of investment activity in the industrial property market during 3Q 2008. In addition, a number of prospective investors became skeptical on the prospective capital growth due to uncertainty over rental growth over the near to medium term. As a result, the industrial investment market turned quiet in 3Q 2008 and the total number of sale transactions declined 15.1% QoQ to 1,159 as at the end of the three-month period ended August 2008. In particular, the volume in August 2008 saw a total of less than 300 sale deals, representing the slowest month since 1Q 2004.

Despite a general contraction in market volume, individual local purchasers were bold to commit during 3Q 2008. The table below lists three major whole-block transactions during 3Q 2008. Lemmi Centre in Kwun Tong and No. 4 Shung Shun Street were both acquired by local purchasers.

Over the past years, the whole of Kowloon East, including Kowloon Bay, Kwun Tong and Yau Tong, has gradually transformed from an industrial area into a decentralised business hub. With an increasingly sophisticated transportation network and the support of amenities, quality industrial developments have been favoured by a number of investors for redevelopment.

STOCK FOR LEASE

Due to the recent financial turmoil and the uncertainty surrounding the prospective knock-on effect on the local economy, a number of vendors have changed their strategies in terms of the disposal of industrial premises. The more cautious among them anticipate that the liquidity of the sale market will not return soon and are prepared to offer their developments for lease rather than for sale. As such, the amount of stock for lease increased in late 2008, thus presenting more alternatives for existing occupiers.

PROPERTY OPTIONS

Although there was an increase in the amount of stock for lease, the availability of prime-quality industrial premises remains tight since a number of genuine occupiers have committed to taking on additional space over the past couple of years.

On the demand side of the market, as at 3Q 2008, there are no signs that existing tenants will downsize their scale of operations, although there is an imminent threat attributed to the global economic consolidation. For leases with expiry due in the next six months, it is anticipated that existing tenants will prefer lease renewal to relocation. In addition, genuine occupiers taking

The volume in August 2008 saw a total of less than 300 sale deals, representing the slowest month since 1Q 2004

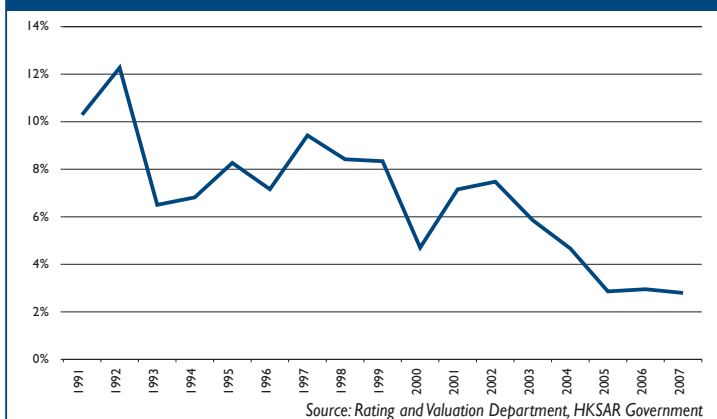
INDUSTRIAL TRANSACTIONS PRICED OVER HK\$100 MILLION (JUNE -AUGUST 2008)

District	Property	Price (HK\$ m)	Average Price (HK\$/sq ft)	Purchaser
Cheung Sha Wan	Angel Tower	\$285	\$3,265	Industrialist
Kwun Tong	Lemmi Centre	\$276	N/A	Local investor
Yau Tong	4 Shung Shun Street	\$188	N/A	Local developer

N/A: Information not available

Source: Colliers International (Hong Kong) Limited

WAREHOUSE VACANCY RATE TREND



The vacancy of warehousing premises remained low, at 2.8%, at the end of 2007 compared with 5.6% for the whole industrial property market

a long-term view of Hong Kong and the China market remained in the marketplace to look for appropriate developments to consolidate their operations under one roof.

LOGISTICS WAREHOUSES

In the logistics warehousing sector, individual vendors continued to hold a positive market outlook on the long-term growth of the logistics market in Hong Kong, casting a vote of confidence through their commitment to massive redevelopment schemes. These investment decisions reflected the long-term growth prospects of the logistics sector in Hong Kong. Despite the near-term challenge arising from the consolidation of the financial sector and the prospective economic slowdown, the uniqueness of Hong Kong, as Southern China's major port, should enable the logistics industry to capture the prospective growth in China over the medium to long term.

For example, an overseas fund recently announced the redevelopment of two warehousing premises, namely Seaview in Tsuen Wan and Interlink in Tsing Yi. These premises are expected to provide a total of 3.7 million sq ft of quality warehousing space on completion in 2010 and 2011, respectively.

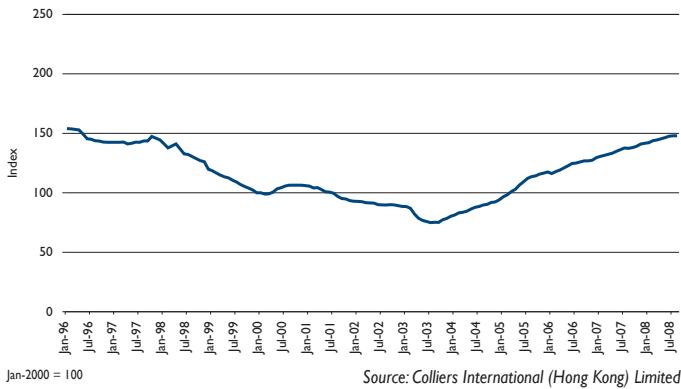
According to statistics provided by the Rating and Valuation Department of the Hong Kong SAR Government, the vacancy of warehousing premises remained low, at 2.8%, at the end of 2007 compared with 5.6% for the whole industrial property market.

MARKET OUTLOOK

With the recent financial turmoil in the US and the potential consolidation of the global economy, the whole industrial property sector in Hong Kong will face a major challenge concerning the prospective growth of re-exports and the overall volume of logistics throughput in Hong Kong. If the external environment deteriorates, local industrial rentals and capital values will see significant downward pressure going forward.

According to our research, rentals of factories and I-O buildings are expected to come down by 10% and 12%, respectively, over the next 12 months. Depending on the availability of physical provisions, such as ramp access, logistics warehousing is anticipated to be the most resilient sub-sector, with prospective downward rental adjustments in the order of 5%-7% over the next 12 months.

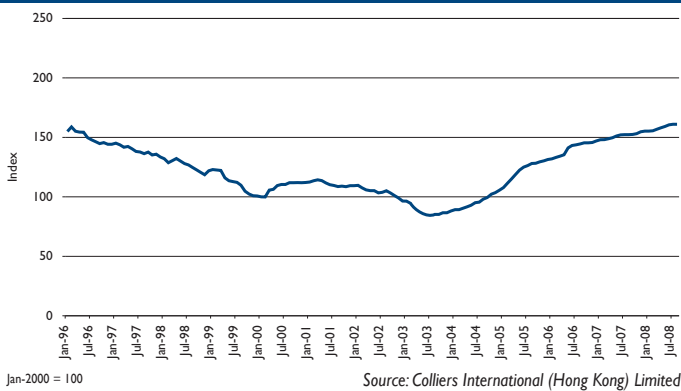
FACTORY RENTAL INDEX



FACTORY RENTAL YIELD



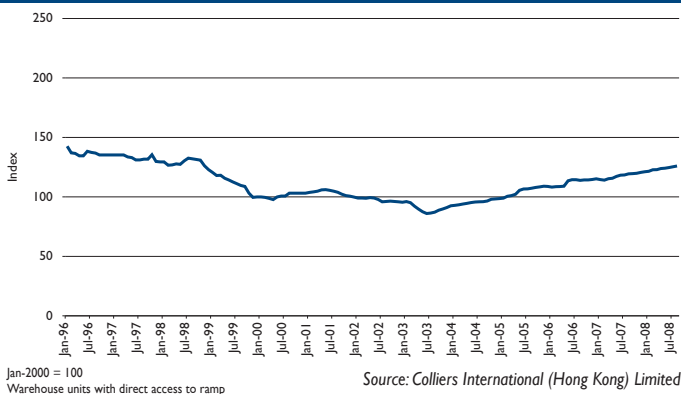
I-O BUILDING RENTAL INDEX



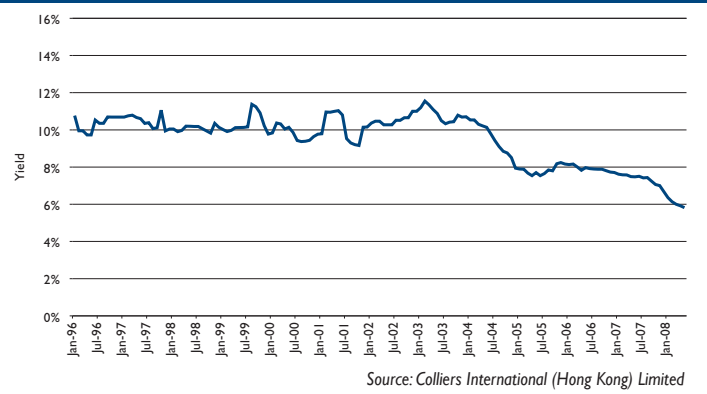
I-O BUILDING RENTAL YIELD



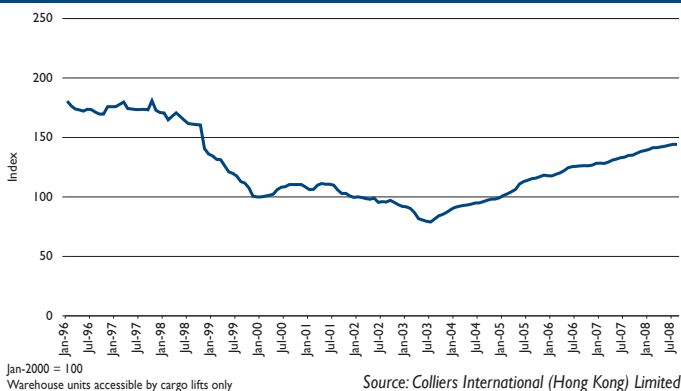
WAREHOUSE (RAMP ACCESS) RENTAL INDEX



WAREHOUSE (RAMP ACCESS) RENTAL YIELD



WAREHOUSE (CARGO LIFT ACCESS) RENTAL INDEX

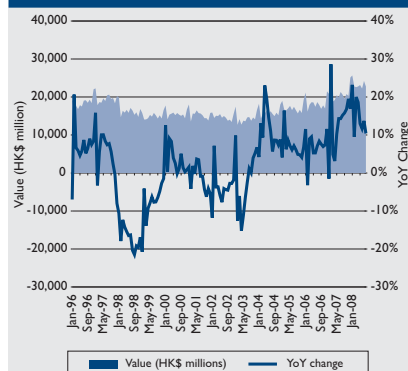


WAREHOUSE (CARGO LIFT ACCESS) RENTAL YIELD



RETAIL SECTOR

TOTAL RETAIL SALES



Source: Census and Statistics Department, HKSAR Government

PRIVATE CONSUMPTION

The overall economic environment showed signs of moderation as the local GDP tapered off from 7.3% year-on-year (YoY) in 1Q 2008 to 4.2% in 2Q 2008 due to the knock-on effect created by the lingering financial market turbulence. The level of private consumption, being one of the major components of the local economy, as well as the key fundamental driving the local retail property market, showed a distinct slowdown from a growth of 7.9% quarter-on-quarter (QoQ) in 1Q 2008 to 3.1% in 2Q 2008.

Retail market sentiment was dampened as a result of the price correction in the stock market. Consumers have turned cautious on spending and the sharp rise in inflation not only eroded the purchasing power of many households, but also threatened their overall income in real terms. Although the latest available macro evidence, such as employment conditions, do not yet reflect the recent turmoil in the global financial markets, individual retailers anticipate that the recent damage to the financial system may eventually have an impact on the local economy, thus representing a major challenge to their overall business strategies going forward.

VISITOR SPENDING

Despite the fact that the growth in local consumption expenditure has started tapering off, the total number of visitor arrivals posted a strong growth during the three-month period between June and August 2008. According to statistics provided by the Hong Kong Tourism Board, total visitor arrivals to Hong Kong increased 5% QoQ

to 7.5 million, while visitors from the Mainland posted an impressive growth of 17% QoQ to 4.5 million during the same period.

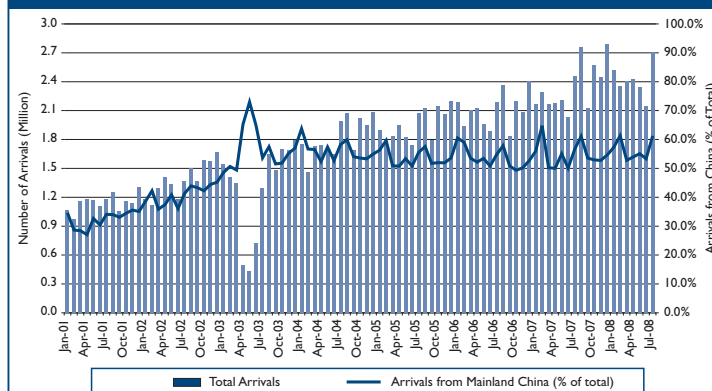
In 2007, total spending per visitor from the Mainland was HK\$5,193, representing a growth of 10.4% YoY. Because of the encouraging growth in the number of Mainland visitors to Hong Kong, the anticipated growth in total visitor spending is expected to underpin the local retail market, even if average spending per capita remains flat in 2008.

RETAIL SALES

Despite the dramatic changes in the financial sector, total consumption expenditure in dollar terms showed no corresponding adjustment. According to statistics provided by the Census and Statistics Department of the HKSAR Government, the total value of retail sales posted a positive growth of 1% QoQ to HK\$69.2 billion during the three-month period between June and August 2008. On an annual basis, as of August 2008, the total value of retail sales continued to register encouraging growth in the order of 10% YoY, although the pace of growth has actually moderated compared with the average growth of 18% YoY recorded during 4Q 2007. Essentially, the increase has been inflated partially by the continued rise in consumer prices. If the inflation factor is removed, the volume of retail sales increased mildly by 3.9% YoY in August 2008. Looking at the historic time series, the volume growth rate in August 2008 was in fact the slowest since May 2007.

Retail market sentiment was dampened as a result of the price correction in the stock market. Consumers have turned cautious on spending and the sharp rise in inflation not only eroded the purchasing power of many households, but also threatened their overall income in real terms

VISITORS ARRIVALS



Source: Hong Kong Tourism Board

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Looking at the breakdown of local retail sales, the growth rates among the various types of retail outlet varied significantly. The key difference was found between daily necessities and luxury goods. In the case of the former, the category of “Supermarkets” saw an increase of 7.2% QoQ to HK\$8,742 million during the three-month period between June and August 2008, while the “Department Stores” category saw an increase of 2.9% QoQ to HK\$6,590 million. However, luxury items, such as those categorised under “Motor Vehicles and Parts”, fell 2.6% to HK\$3,336 million during the period.

INVESTMENT DEMAND

Fundamentally, the sustained increase in the total value of retail sales continued to ensure that the local retail property sector came under the radar of most investors. However, with the general rise in funding costs as a result of the global credit crunch, prospective investors incorporated a wider risk margin in 3Q 2008, thus widening the bid-ask spread to about 50 basis points as at the end of 3Q 2008. As a result, the total number of sale transactions contracted in 3Q 2008. As far as retail units located in traditional shopping districts and transacted for a lump sum consideration of HK\$10 million or above are concerned, the number of such deals concluded declined 14% QoQ in 3Q 2008.

One of the key transactions was the acquisition of the 2/F in the Peninsula Centre in Tsim Sha Tsui by a local investor for a total consideration of HK\$228 million. As reported, the development had been occupied by a food and beverage operator who had been paying monthly rental of about HK\$900,000. As such, the initial rental yield was 4.7% per annum, which was 40 basis points higher than the average of 4.3% per annum in July 2008 across the board.

LEASING DEMAND

Against the backdrop of a sustained increase in retail sales and growing expenditure by inbound visitors, particularly those from the Mainland, the overall occupancy demand in the retail property sector remained positive. Although some individual retailers are concerned about the prospective turnover growth in luxury items, the majority of occupiers remain optimistic about Hong Kong over the long term. This is particularly the case for some of the top-end international labels that have been searching for the best

locations for their retail flagships. During the three-month period between June and August 2008, there were no signs of demand contraction on that front. However, it was a fact that the total number of genuine occupiers in the marketplace was lower than that in the previous quarters and the majority of them have turned cautious about making any new commitment. According to our research, vendors have generally softened their asking rentals and the average transacted retail rentals in the four traditional shopping districts has fallen.

With a mild retreat in retail rentals, retailers taking a long-term investment perspective of Hong Kong have viewed this as an opportunity to enter the market. Prime retail units in traditional shopping locations continued to be favoured by a broad range of retailers. Strategically, some local retailers have started rationalising their retail outlets by putting more resources into the core areas and shutting down underperforming outlets in non-core locations.

SUB-MARKET ANALYSIS

In the wake of the global financial turmoil and growing uncertainties in the external environment, as well as a prospective slowdown in the global economy, retail rentals registered the first decline in two years during 3Q 2008. According to our research, the average retail rental in the four traditional shopping districts of Mong Kok, Tsim Sha Tsui, Causeway Bay and Central fell 3.6% QoQ in August 2008.

In Mong Kok, average retail rents decreased 4.7% QoQ in August 2008. Prominent transactions for the quarter included the lease of a street-level shop at 617-623 Nathan Road to a watch distributor for HK\$660,000 per month, or a unit rent of HK\$275 per sq ft per month based on an area of 2,400 sq ft. Sai Yeung Choi Street South continued to be the focal point in Mong Kok due to its high pedestrian flow. For instance, a local beauty/cosmetic retailer rented the G/F of 2X-2W Sai Yeung Choi Street South for HK\$700,000 per month, or a unit rent of HK\$318 per sq ft per month based on an area of 2,200 sq ft.

In Tsim Sha Tsui, average retail rents declined 3.9% QoQ in August 2008, although there was no major retreat in overall activity. An international fashion retailer recently rented the G/F-3/F space at 7 Peking Road and Ashley Road for HK\$2,300,000

According to our research, the average retail rental in the four traditional shopping districts of Mong Kok, Tsim Sha Tsui, Causeway Bay and Central fell 3.6% QoQ in August 2008

In anticipation of a slowing growth in the total value of retail sales and the easing of local inflationary pressure, retail rentals are predicted to fall 5%-10% over the next 12 months, while capital values will come down in the order of 10% during the period

per month, or a unit rate of HK\$85 per sq ft per month based on a total shop size of 27,000 sq ft. The retailer also rented the G/F and 1/F of China Hong Kong City for HK\$1,500,000 per month, or a unit rate of HK\$100 per sq ft per month based on a floor area of 15,000 sq ft.

In August 2008, a local jewelry shop took a lease of a G/F unit (including the basement) in the Holiday Inn Golden Mile Hotel for HK\$1,700,000 per month, or a unit rate of HK\$524 per sq ft per month based on a shop area of 3,244 sq ft. In June, a retailer committed to paying HK\$850,000 per sq ft per month for a 1,400 sq ft G/F shop on Canton Road. In terms of unit rental, this was one of the most expensive leasing deals concluded during 3Q 2008. Looking ahead, the market is expecting the completion two major retail developments in the sub-market, namely K11 and iSQUARE, which will add 340,000 sq ft and 600,000 sq ft, respectively, of brand new retail floor area to the market by 3Q 2009.

In Causeway Bay, average retail rents decreased 3.2% QoQ in August 2008. Street-level shops with high pedestrian flow remained retailers' favourites. For instance, an optical shop rented a G/F retail unit at 59-61 Russell Street for HK\$570,000 per month, or a unit rate of HK\$398 per sq ft per month based on a shop area of 1,433 sq ft. Meanwhile, a watch distributor leased the G/F of 15 Pak Sha Road for HK\$1,000,000 per month.

Based on the total floor area of 1,000 sq ft, the unit rental was HK\$1,000 per sq ft per month.

As usual, Central remained the most resilient sub-market with its average retail rental edged down by 2.6% QoQ in August 2008. International fashion brands remained active in securing space in prime locations. For example, a G/F and M/F shop located at 62 Queen's Road Central was rented by an international fashion retailer for HK\$870,000 per month. Based on a total shop size of 2,250 sq ft, the unit rental was HK\$387 per sq ft per month. In general, the sub-market in Central continues to be the most preferred location for the majority of both existing retailers and newcomers who want to set up flagship stores in Hong Kong despite the recent turmoil in the global financial markets.

MARKET OUTLOOK

Looking ahead, local spending sentiment is expected to be affected by the global financial turbulence and uncertainty about overall economic growth across the globe. However, with the genuine support of spending by inbound visitors, the local retail property market will be the most resilient sector going forward. In anticipation of a slowing growth in the total value of retail sales and the easing of local inflationary pressure, retail rentals are predicted to fall 5%-10% over the next 12 months, while capital values will come down in the order of 10% during the period.

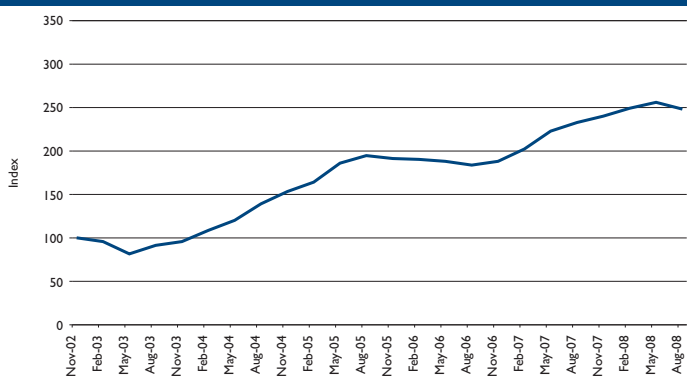
INDICATIVE RETAIL RENTAL INDEX BY MAJOR DISTRICTS

Street Name	Rental Index May-08	Rental Index Aug-08
Causeway Bay	256	248
% Change (QoQ)	3%	-3%
Central	252	245
% Change (QoQ)	3%	-3%
Mong Kok	211	201
% Change (QoQ)	2%	-5%
Tsim Sha Tsui	300	288
% Change (QoQ)	3%	-4%
Overall	253	244
% Change (QoQ)	3%	-4%

(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

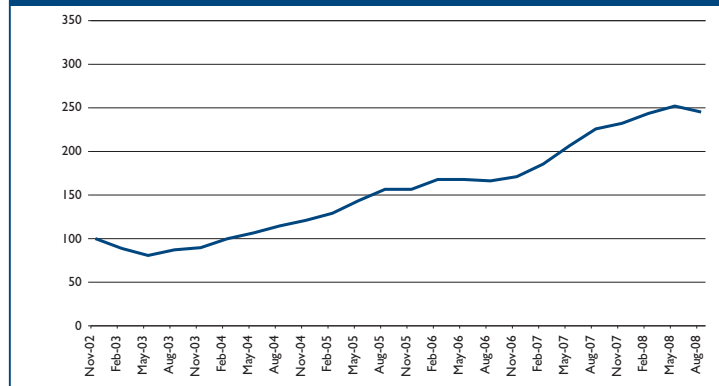
AVERAGE RETAIL RENTAL INDEX IN CAUSEWAY BAY



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

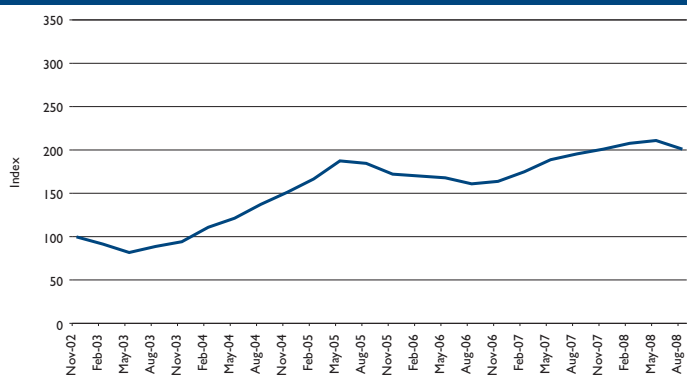
AVERAGE RETAIL RENTAL INDEX IN CENTRAL



(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

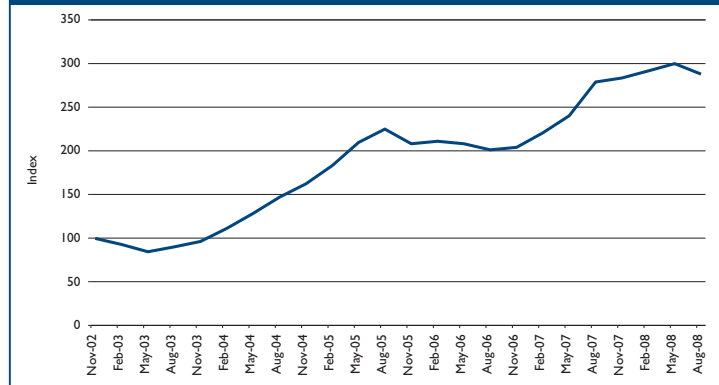
AVERAGE RETAIL RENTAL INDEX IN MONG KOK



(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

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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