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Asia Pacific Property Digest

GREATER CHINA

Fourth Quarter 2007

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Asia Pacific Economy Weathering the Winter Storms

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Global growth is slowing

Global economic growth is set to slow after an exceptionally strong period from 2004 to 2007. Major contributing factors include the turmoil in the world's financial markets and the high likelihood of an economic slowdown in the US. According to the Economist Intelligence Unit (EIU), the global economy is expected to expand by 2.9% in 2008 following an estimated 3.5% in 2007.

The negative impacts of the credit crunch have been partially mitigated by recent injections of liquidity by major central banks, and further US interest rate cuts are possible this year in addition to the 225 basis points easing between September 2007 and January 2008. To date, the effects of the sub-prime crisis have been most pronounced in the US and Western Europe. The Asia Pacific region has been largely shielded by strong economic fundamentals including current-account surpluses, healthy fiscal conditions and high rates of domestic savings. However, the region faces a number of risks including weaker external demand for exports, heightened inflationary and wage pressures and tighter monetary policy.

... Impacting regional export growth

Despite rising intra-regional trade, the region remains vulnerable to a softening of demand by OECD countries. The EIU expects that growth in real exports of goods from Asia Pacific will slow from 10.8% in 2007 to 8.6% in 2008. In particular, China's export growth is forecast to fall

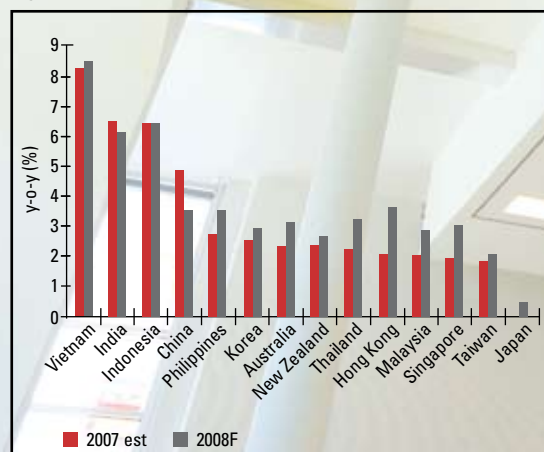
from 20.1% to 14.8%. Japan's exports are likely to hold up at a 6.8% growth rate, while exports from the ASEAN nations are expected to grow at a slightly slower 5.3% pace. However, growth in exports from West Asia should remain vibrant at 9.7% while the projected 3.4% growth in exports from Australasia is a reflection of continuing strong global demand for commodities.

Inflationary pressures are rising...

Rising energy costs remain a threat to growth in Asia Pacific, with the region importing two-thirds of the oil that it consumes. In the emerging markets of Asia, food prices are also rising rapidly as strong domestic demand is running into supply constraints exacerbated by the quickening pace of urbanisation and fuel costs. Consumer prices in China increased by 4.8% in 2007, with food prices surging by 12.3%. In an attempt to alleviate economic overheating, the People's Bank of China raised interest rates six times in 2007, with the benchmark one-year renminbi lending rate up by 135 basis points in the year to 7.47%. With further monetary and administrative tightening likely in China this year, the EIU expects inflation to ease to 3.5% in 2008 (Figure 1).

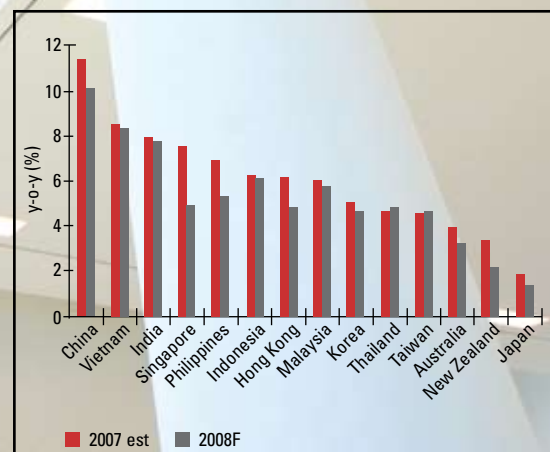
The region's other emerging giant, India, is also seeing above-average growth in consumer prices, with forecast inflation of 6.1% in 2008. The Reserve Bank of India has raised its repo rate nine times since October 2004, taking the rate to 7.75%. The other countries in the region that are forecast to record relatively high inflation rates this year are Indonesia and Vietnam, at 6.2% and 8.5%, respectively.

Figure 1: Consumer Price Inflation



Source: Economist Intelligence Unit, January 2008

Figure 2: Real GDP Growth



Source: Economist Intelligence Unit, January 2008

Key Performance Indicators

	GDP (%)		Prime Lending Rate (%)		CPI (%)		Employment Growth (%)		Retail Sales Growth (%)		Industrial Production (%)	
	2008F	2009F	2008F	2009F	2008F	2009F	2008F	2009F	2008F	2009F	2008F	2009F
Hong Kong	4.8	5.7	7.0	7.6	3.6	3.6	1.6	1.1	4.0	1.7	-0.5	-1.4
China	10.1	9.6	8.1	7.8	3.5	3.6	1.1	1.0	13.2	12.8	15.7	13.0
Taiwan	4.6	3.9	4.7	5.3	2.0	1.3	1.1	0.7	1.5	1.4	5.0	5.1
Japan	1.3	1.3	2.1	2.8	0.4	0.7	-0.5	-0.7	-0.1	0.5	1.2	1.4
South Korea	4.7	4.7	6.4	6.2	2.5	2.3	0.5	0.5	2.8	2.9	6.7	4.6
Philippines	5.3	5.4	8.6	9.3	3.5	3.3	3.3	3.1	3.9	5.2	5.5	5.5
Singapore	4.9	4.7	5.5	5.4	3.0	1.3	1.0	1.4	1.5	1.8	5.9	5.6
Malaysia	5.7	5.8	6.5	6.5	2.5	2.3	2.0	2.0	4.8	4.0	3.8	5.2
Thailand	4.8	4.1	6.5	6.2	3.2	2.7	1.2	1.2	1.1	2.9	6.0	5.2
Indonesia	6.1	5.7	13.0	12.4	6.2	5.8	2.4	1.9	5.2	4.5	4.4	4.0
India	7.7	7.2	12.9	12.4	6.1	5.6	2.3	2.3	5.0	6.2	9.3	8.0
Australia	3.2	2.8	10.3	9.6	3.1	2.8	1.9	1.1	1.4	3.8	3.4	2.6
New Zealand	2.3	2.7	12.7	12.2	2.6	2.5	1.2	1.3	1.8	3.2	2.0	1.9
Vietnam	8.3	8.2	11.6	11.3	8.5	7.5	2.5	2.6	6.0	6.0	16.5	16.5
World	2.9	3.3	NA	NA	3.3	3.2	1.4	1.4	2.3	3.5	NA	NA

Source: Economist Intelligence Unit, January 2008

At the other end of the spectrum, the region's largest economy, Japan, is seeing comparatively modest increases in consumer prices. In December, inflation picked up 0.7% y-o-y as a result of hikes in the prices of petroleum and food, but the Bank of Japan is expected to remain cautious in regard to further monetary tightening.

...As are wage hikes

Rising production costs, in China certainly but also India, are an increasing concern. Unit labour costs (the labour cost of producing one unit of output) are expected to rise by 14.2% in China this year after increasing 9.2% in 2007, while in India the respective figures are 11.5% and 14.3%. Thus far, increasing labour productivity in the region has largely offset rising labour costs. However, recent developments, including China's labour contract law which came into effect at the beginning of this year, may hasten wage increases and become a constraint to growth.

Cost increases in China and India may benefit the economies of South East Asia, many of which expect less rapid growth in labour costs. For example, Vietnam is gaining in popularity as a cost-effective alternative to China. However, no destination is yet able to support manufacturing processes on the same scale and efficiency levels as China.

Asia Pacific: another solid year of growth in store

Despite these risk factors, the Asia Pacific economy is still likely to remain a bright spot against a dimmer global economic landscape. Capital spending has been boosted by cyclical factors such as high levels of capacity

utilisation, ample liquidity and improved financial positions of corporations. Fixed investment is likely to surge ahead at rates of 11.8% in China, 12.1% in India and 9.2% in ASEAN countries this year. Regional consumption growth is also likely to accelerate, from 3.9% last year to 4.2% in 2008. Excluding Japan where consumer spending remains sluggish, this growth is expected to increase to 6.3% this year.

China's economy expanded by a staggering 11.4% y-o-y in 2007, the strongest result in 13 years, and growth is unlikely to decelerate significantly ahead of the Beijing Olympics. Indeed, GDP growth is forecast to slow only modestly to 10.1% in 2008. India's GDP grew 8.9% y-o-y in the third quarter of 2007, and the country's strong manufacturing and service sectors will continue to underpin buoyant growth estimated at 7.7% this year. Japan's economy has resumed its moderate expansion after GDP contracted at an annualised rate of 1.8% in the second quarter of 2007, and output is expected to grow at a tepid 1.2% in 2008. The major economies of South East Asia are expected to grow by an average of 5.5% y-o-y in 2008, following 5.8% last year, supported by their strong cyclical upswings. Australia is expected to notch up a healthy 3.2% growth rate this year, following an estimated 3.9% growth in 2007 (Figure 2).

Consensus forecasts are that the Asia Pacific region will continue to significantly outperform the world economy this year. According to the EIU, aggregate output of the region ex Japan is still expected to expand at a very healthy 7.1% pace this year. This is significantly higher than the projected 1.9% growth in OECD countries.

Asia Pacific Property Market Prospects Remain Bright

Global financial market turmoil arising in the second half of 2007 has had the potential to derail the property markets in Asia Pacific. Partly as a direct result of lessons learned ten years ago following the Asian Financial Crisis, the region has weathered the storms well to date, with occupier and investor demand remaining steadfast. Reviewing performance over the last 12 months, rental and capital value growth has been generally strong, exceeding expectations in some markets, while yields have held firm or compressed.

Regional investment continues to grow

Despite the fallout in global financial markets and the shadow now cast over the US economy, real estate fundamentals remain healthy in most of the world's major markets. Vacancy rates are generally low and most supply pipelines are modest. The credit crunch has certainly sidelined most highly leveraged buyers as credit has become more difficult to access.

In Asia Pacific, investment volumes have held up well over the last six months. Our latest Global Capital Flows research shows that total investment in Asia Pacific rose by 27% in 2007, with the second half of the year accounting for 55% of total volumes. Cross-border investment surged to almost half (47%) of total activity over the last year, compared with 33% in 2006 (Figure 3). This outcome reflects the heightened interest in the region's real estate markets and the expectation of comparatively attractive returns over the short to medium term. In addition to increasing inter-regional flows from Europe, the Middle East and the US, there has also been an increase in cross-border activity by Singaporean, Hong Kong and Australian investors.

At this stage, we do not expect that there will be a major impact on leasing and investment activity in Asia Pacific this year as a result of the global credit crunch. However, financial market strain and potential flow-on effects to the real economy do remain key risk factors and a careful watching brief is required.

Market fundamentals: still strong in 2008

In the *office sector*, occupier demand is expected to remain solid across Asia Pacific in 2008. Coupled with a moderate supply pipeline, most markets are forecast to see further rental increases, albeit at a more moderate rate. So unfortunately for corporate real estate executives the next year is likely to remain challenging. With the continued weight-of-money in the region and office retaining the title of the most preferred core sector, further capital value growth and a compression of yields is expected in some markets. Singapore Raffles Place

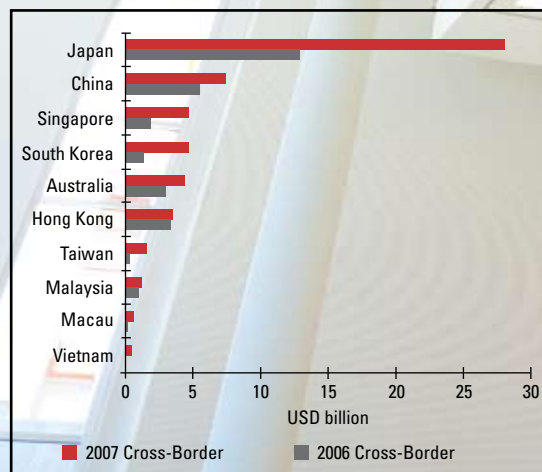
and Hong Kong Central should continue to outperform in regard to total returns, while a few markets including Bangkok will be challenged by a rise in building completions.

Our recent Retailer Sentiment Surveys confirmed a healthy *retail sector*. The region's retailers are bullish about trading prospects in 2008 and are also planning to expand, although high occupancy costs and low vacancy rates are constraints. Further rental increases are expected in nearly all markets, an exception being Beijing which will see the completion of numerous shopping centres. Yields are expected to remain generally steady, with further compression in a few markets. Hong Kong Central is our pick for best-performing market with rents and capital values both expected to grow strongly.

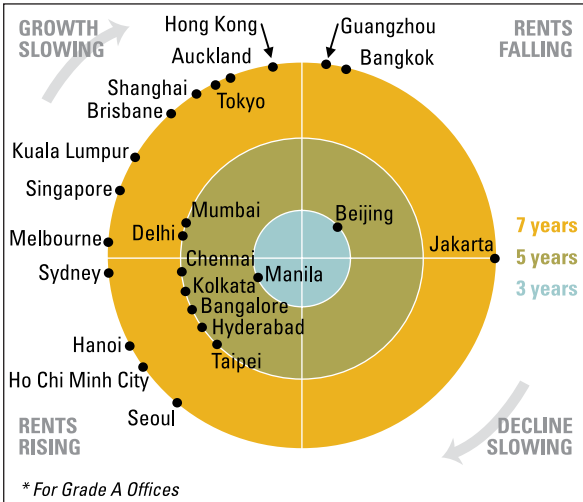
The *high-end residential sector* is also benefiting from strong labour markets and rising household incomes. Hong Kong, China, India and Singapore all have particularly strong residential markets. Rental values are expected to appreciate over the year while some markets will see yield compression. We predict prime Hong Kong rents and capital values will continue to rise as a result of the demand-supply imbalance, and Singapore should continue to see low vacancy rates and strong total returns despite its comparatively large development pipeline.

In the *industrial sector*, developers are looking beyond the traditional markets of Singapore and Hong Kong. They are building speculatively in emerging markets such as China and Thailand, anticipating growth in manufacturing, retail and 3PL segments. This investment will start to replace the poor-quality warehousing currently dominating the industrial landscape in these countries, and will be welcome news to international

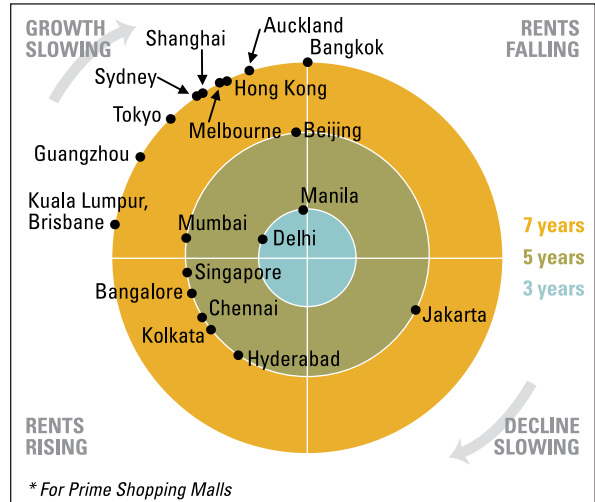
Figure 3: Asia Pacific capital flows: direct commercial transactions



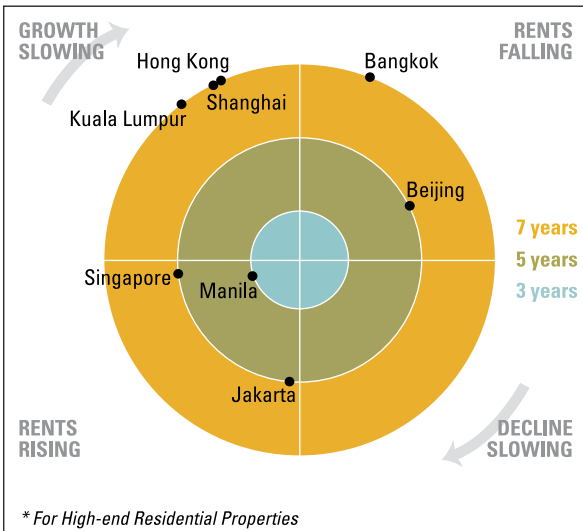
Grade A Office



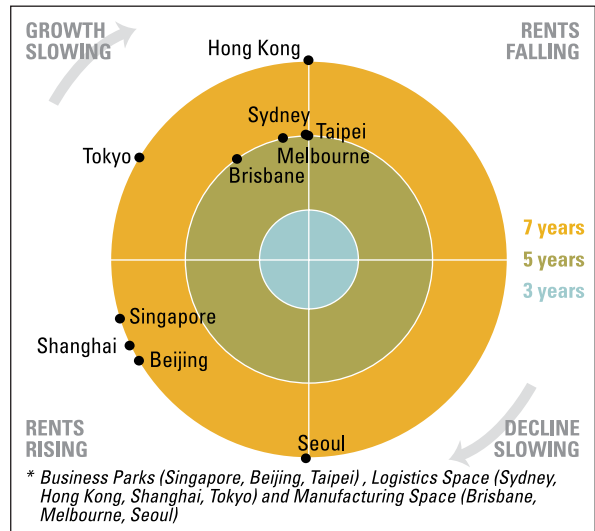
Prime Retail



Prime Residential



Industrial



* The concentric circles represent the estimated length of the current property cycle in each of the respective markets.

logistics occupiers who are ramping up their commitment to the region. But both occupiers and investors will be seeking further investment by governments in transport infrastructure, with those markets further down this path already seeing development rewards. Service exports are also driving the sector, with R&D and BPO operations supporting tech/business park growth.

Asia Pacific still has wind in its sail

All in all, 2008 looks set to see another solid year of activity in the region's real estate markets. As always, there are a number of risks and the preceding commentary indicates that decision makers may face a number of growing financial and economic challenges over the course of the year. At the same time, the massive structural changes that are occurring in Asia Pacific – the opening up of economies to foreign players, increasing urbanisation and wealth, improving property market transparency to name a few – will continue to create a wealth of opportunities for the real estate industry. The increasing globalisation of property and associated trends such as the growing momentum around sustainable real

estate development will also be major forces helping to shape the region's markets over the coming year.

ABOUT THE AUTHOR

Dr Jane Murray joined Jones Lang LaSalle in 1998 and in April 2005 was appointed as Head of Research - Asia Pacific.

In this role, Jane leads a team of 140 professional researchers in the region, which forms part of a network of around 300 researchers in over 50 countries around the globe.



The Asia Pacific Research team produces a range of outputs to assist the clients of the Firm with their decision making, including comprehensive market monitoring and analysis across major institutional-grade real estate markets in the region; forecasts of key real estate indicators; consultancy projects; thought leading research papers on topical issues as well as regular publications.

Grade A Office Market

	Vacancy Rate (%)	RENTAL VALUES*				CAPITAL VALUES				Yield (%)
		q-o-q+ (%)	y-o-y+ (%)	USD psm pa**	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm**	12-month outlook	
Tokyo CBD	2.1	1.5	15.8	1,581	↔	1.8	28.4	35,920	↔	3.1
Seoul CBD	0.5	0.1	2.7	604	↔	0.5	22.2	6,658	↔	5.5
Beijing	16.2	13.0	11.7	375	↔	2.3	6.1	3,009	↔	8.0 - 10.0
Shanghai (Central Puxi)	1.9	4.2	11.9	425	↔	5.3	19.7	5,459	↔	7.3 - 8.9
Guangzhou	25.3	-0.2	-1.2	278	↔	1.9	8.5	3,300	↔	7.9 - 9.2
Chengdu	27.0	2.7	15.1	156	↔	6.5	14.7	1,510	↔	9.7 - 11.8
Taipei CBD	9.4	1.2	6.5	277	↔	5.6	17.3	5,539	↔	5.0
Hong Kong Central	1.6	9.1	32.2	1,587	↔	19.0	40.3	20,526	↔	4.6 - 6.9
Singapore	2.7	7.9	75.3	1,198	↔	0.0	70.6	21,584	↔	5.2 - 5.7
Kuala Lumpur CBD & GT	9.1	1.2	3.4	154	↔	1.3	6.1	1,994	↔	7.4 - 7.6
Makati CBD	4.1	3.8	19.1	204	↔	2.1	15.0	1,854	↔	10.0 - 10.5
Bangkok CBD	13.6	-1.0	-0.9	210	↔	-0.3	1.6	2,663	↔	6.7 - 8.2
Jakarta CBD	19.4	4.0	4.7	111	↔	2.6	3.7	1,375	↔	8.0 - 8.2
Ho Chi Minh CBD	0.0	12.6	69.4	657	↔	-	-	-	-	-
Delhi CBD & SBD	2.2	3.9	44.6	894	↔	4.6	46.7	7,814	↔	11.4
Mumbai CBD & SBD	1.1	2.4	17.4	907	↔	2.8	20.5	8,100	↔	11.2
Bangalore CBD & SBD	0.4	3.8	17.9	185	↔	4.8	24.4	1,733	↔	10.7
Chennai CBD & SBD	0.6	0.0	9.0	184	↔	0.0	16.3	1,669	↔	11.0
Hyderabad CBD & SBD	2.1	11.1	40.1	182	↔	11.7	73.7	1,768	↔	10.3
Kolkata CBD & SBD	7.5	0.0	45.5	393	↔	0.0	52.5	3,550	↔	11.1
Melbourne CBD	4.2	2.9	8.9	342	↔	2.6	16.3	6,336	↔	5.75 - 6.50
Sydney CBD	6.1	9.7	19.4	603	↔	9.3	22.5	10,180	↔	5.00 - 5.75
Brisbane CBD	0.6	9.4	72.7	722	↔	11.9	73.4	9,718	↔	5.50 - 6.00
Auckland CBD	5.1	1.1	14.6	333	↔	0.3	18.5	4,672	↔	6.50 - 7.75

* Refers to net rent except for Tokyo (gross rent), Singapore (effective rent), Jakarta (effective rent), Melbourne (gross effective rent), Sydney (gross effective rent), Brisbane (gross effective rent), Hong Kong (net rent quoted on GFA), Guangzhou (net rent on GFA), Beijing (effective rent), Chengdu (effective rent), Shanghai (net rent on GFA), Taipei (gross rents on GFA), Ho Chi Minh (effective rents on NLA), Mumbai (gross rent on GFA), Delhi (gross rent on GFA), Bangalore (gross rent on GFA), Chennai (gross rent on GFA), Hyderabad (gross rent on GFA) and Kolkata (gross rent on GFA).

** Capital values are quoted on NLA except for Beijing, Shanghai, Hong Kong, Guangzhou, Chengdu, Delhi, Mumbai, Bangalore, Chennai, Hyderabad and Kolkata (all quoted on GFA).

+ Percentage changes are based on local currency of individual markets except Jakarta.

++ The USD exchange rate as at end-Dec 2007.

Prime Retail

	RENTAL VALUES*				CAPITAL VALUES				Yield (%)
	q-o-q+ (%)	y-o-y+ (%)	USD psm pa**	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm**	12-month outlook	
Beijing	1.8	-0.3	951	↔	1.8	-0.3	6,706	↔	6.8 - 8.8
Shanghai	2.0	9.4	2,091	↔	2.0	12.3	17,892	↔	11.2
Guangzhou	4.2	9.6	862	↔	-	-	-	-	-
Macau (Prime Street Shops)	4.0	4.0	1,725	↔	6.9	6.9	29,059	↔	5.9
Hong Kong (Prime Street Shops)	2.5	17.9	5,091	↔	3.6	17.0	132,788	↔	3.8
Hong Kong (Prime Shopping Centres)	2.3	15.3	5,163	↔	-	-	-	-	-
Hong Kong (Decentralised Shopping Centres)	0.3	7.5	2,112	↔	-	-	-	-	-
Singapore	0.6	3.0	3,151	↔	2.8	16.6	59,022	↔	5.3
Kuala Lumpur (City Centre)	6.0	14.4	912	↔	4.2	13.2	8,921	↔	7.5 - 11.0
Makati	1.9	6.3	446	↔	1.0	7.0	3,795	↔	11.0 - 11.5
Bangkok	0.8	-2.8	591	↔	0.8	5.7	4,955	↔	11.4 - 12.4
Jakarta	0.0	1.3	475	↔	-0.8	-0.1	3,105	↔	15.2 - 15.4
Delhi	0.0	16.7	1,146	↔	0.0	8.6	10,422	↔	11.0
Mumbai	0.0	9.1	983	↔	0.0	4.5	8,974	↔	10.9
Bangalore	3.8	23.0	544	↔	4.1	20.3	4,925	↔	11.0
Chennai	4.2	15.4	246	↔	5.1	6.9	2,238	↔	11.0
Hyderabad	14.9	85.0	606	↔	15.1	83.3	5,404	↔	11.2
Kolkata	5.5	45.0	950	↔	6.5	46.5	8,539	↔	11.1
Sydney (Regional)	1.2	4.8	1,577	↔	-	-	-	-	5.25 - 6.00
Sydney (Sub-regional)	1.0	4.2	784	↔	-	-	-	-	6.00 - 6.75
Auckland	1.0	3.4	1,542	↔	-2.8	3.4	22,840	↔	6.00 - 7.5

* Rents are net prime rent except Beijing (net effective rent on NLA), Guangzhou (net effective rent on NLA), Delhi (gross rent), Mumbai (gross rent), Bangalore (gross rent), Chennai (gross rent), Hyderabad (gross rent) and Kolkata (gross rent).

** Capital values are quoted on NLA except for Beijing, Hong Kong, Macau and Guangzhou (all quoted on GFA).

+ Percentage changes are based on local currency of individual markets.

++ The USD exchange rate as at end-Dec 2007.

Luxury Residential

	RENTAL VALUES*				CAPITAL VALUES				Yield (%)
	q-o-q* (%)	y-o-y* (%)	USD psm pa**	12-month outlook	q-o-q* (%)	y-o-y* (%)	USD psm**	12-month outlook	
Beijing (Luxury Apt)	-2.3	-10.6	163	🔴	8.4	32.8	2,873	🔴	5.5 - 7.5
Shanghai (Luxury Apt)	-1.2	-2.3	350	🔴	2.3	14.0	4,688	🔴	4.9 - 7.1
Shanghai (High-end Apt)	0.1	-0.5	193	🔴	2.2	12.7	3,158	🔴	4.8 - 7.7
Macau (Overall)	7.7	22.3	140	🔴	15.5	28.5	4,188	🔴	3.3
Hong Kong (Overall)	5.4	17.6	651	🔴	8.2	25.2	20,899	🔴	3.1
Singapore	7.4	38.1	547	🔴	5.8	52.8	20,468	🔴	2.7
Kuala Lumpur	0.0	2.8	145	🔴	0.2	10.3	1,875	🔴	7.5 - 8.0
Makati	2.0	11.5	149	🔴	4.1	17.4	2,113	🔴	7.0 - 7.5
Bangkok	-1.8	-7.5	117	🔴	-0.2	-1.8	2,425	🔴	4.8 - 5.1
Jakarta	0.0	2.3	144	🔴	-1.9	0.8	1,310	🔴	10.9 - 11.2

* Rents are net rent except for Shanghai (gross rent), Beijing (net effective rent) and Jakarta (effective rent).

** Capital values are quoted on NLA except for Beijing, Shanghai, Hong Kong and Macau.

+ Percentage changes are based on local currency of individual markets except Jakarta.

++ The USD exchange rate as at end-Dec 2007.

Industrial

LOGISTICS	RENTAL VALUES				CAPITAL VALUES				Yield (%)
	q-o-q* (%)	y-o-y* (%)	USD psm pa**	12-month outlook	q-o-q* (%)	y-o-y* (%)	USD psm**	12-month outlook	
Hong Kong	0.9	1.6	114	🔴	1.0	3.4	1,632	🔴	6.5 - 7.0
Brisbane	0.0	6.9	109	🔴	-	-	-	-	6.75 - 7.25
Sydney	0.0	1.9	92	🔴	3.8	7.3	1,380	🔴	6.75 - 7.00
Melbourne	1.5	4.6	60	🔴	-	-	-	-	6.50 - 7.50
Shanghai	3.1	19.8	60	🔴	2.5	23.0	632	🔴	9.4
Tokyo (Bay Area)^	5.9	16.1	233	🔴	10.3	28.4	3,910	🔴	4.7
Tokyo (Inland)^	1.4	2.8	120	🔴	4.7	11.6	1,628	🔴	5.8
Tianjin*	-1.1	-	44	🔴	-0.5	-	452	🔴	9.6

BUSINESS PARKS	RENTAL VALUES				CAPITAL VALUES				Yield (%)
	q-o-q* (%)	y-o-y* (%)	USD psm pa**	12-month outlook	q-o-q* (%)	y-o-y* (%)	USD psm**	12-month outlook	
Taipei	0.0	0.0	150	🔴	3.8	25.1	2,750	🔴	5.5
Shanghai	3.8	11.3	163	🔴	0.0	5.5	1,573	🔴	10.4
Singapore	26.8	127.8	269	🔴	24.4	65.5	2,679	🔴	9.9 - 10.3
Beijing	14.1	-	141	🔴	-	-	-	🔴	-
Chengdu	12.4	14.4	42	🔴	6.4	13.9	596	🔴	7.1
Guangzhou	1.6	6.6	77	🔴	-	-	-	-	-

MANUFACTURING	RENTAL VALUES				CAPITAL VALUES				Yield (%)
	q-o-q* (%)	y-o-y* (%)	USD psm pa**	12-month outlook	q-o-q* (%)	y-o-y* (%)	USD psm**	12-month outlook	
Brisbane	1.0	9.4	92	🔴	2.9	13.3	1,259	🔴	6.75 - 7.25
Singapore	9.5	53.0	113	🔴	15.6	65.2	1,935	🔴	5.7 - 6.1
Melbourne	1.3	14.5	69	🔴	2.5	16.3	940	🔴	6.8 - 8.0
Chengdu^^	-	-	-	-	-	-	-	-	-
Shanghai	1.2	10.3	35	🔴	12.7	25.2	405	🔴	8.7
Bangkok	-0.6	-0.8	66	🔴	-	-	-	-	-
Jakarta^	1.0	4.0	46	🔴	-	-	-	-	-

* Indicates newly covered markets.

+ Percentage changes are based on local currency of individual markets.

++ The USD exchange rate as at end-Dec 2007.

^ Tokyo and Jakarta updates coverage twice per year. As such, the quarterly percentage change is based on half-yearly data.

^^ Chengdu and Jakarta updates manufacturing coverage twice per year.

Investing in Chinese Property Markets in 2008

Kenny Ho

Head of Research – China

2008 is the year of the Beijing Olympics and all eyes will be on China as it celebrates its arrival as a major global power.

Politically, this is the first full year in President Hu Jintao's second five-year term. Having consolidated his power following the 17th Party Congress, Hu will likely be pushing forward with reforms over the next five years as he builds his political legacy. With the US economy moving closer to a recession, we expect China to enlarge its prominence as a major growth engine for the world economy.

Below we discuss some of the overriding trends affecting residential, retail and office property markets across China, and offer our advice to the individual and the institutional property investors.

Office: supply, supply, supply...demand?

By mid-2008, the completion of Shanghai World Financial Center, one of the world's tallest buildings, will mark the official beginning of the second office supply boom in Shanghai (the first one being from 1996 to 2001.) In fact all across China, we are in or will soon be entering a five-year supply cycle. Cities across China are trying to

copy the Pudong model in creating new CBDs, though we are alarmed to see various Tier III cities, such as Yantai, trying to promote themselves as international financial centres. The obvious question to ask is, 'will there be enough demand?'

Our answer is 'yes' there will be demand, but 'no' demand will not be enough to fill all of the new space. In the medium term, office demand should continue on an upward trend in major Tier II commercial hubs as companies eagerly try to tap into China's growing domestic market. Nevertheless, while cities such as Shanghai will be able to absorb most of the 800,000 sqm of new supply this year, we do expect office supply in most Tier II cities to outpace demand over the next 12 months, and in some cases by a wide margin.

The good news for investors who are still keen is that all offices are not built equal. Good-quality buildings will still achieve a significant rental premium over market average while attracting the most prestigious tenants. We have observed this phenomenon in a number of instances, for example The Exchange in Tianjin and International Finance Plaza in Guangzhou. Therefore, as an office property investor, it is crucial that a) the quality of your



building will withstand a rapidly evolving market, and b) that you have a solid grasp of the competition in your particular market segment.

Retail: shopping for identity

As revealed in our recently published 2007 Retailer Sentiment Survey, retailers will continue to expand their China presence in 2008, and are optimistic on both revenue and profit margins. Nevertheless, it is important to keep in mind that while the retail scene in Tier I cities such as Shanghai and Beijing is rapidly diversifying and maturing, most Tier II and III markets remain much less sophisticated. The reality of these markets is that the majority of consumers in China still prefer to save a significant portion of their income and spend on necessities, child education and quality of life items such as homes and cars. When Chinese consumers do spend on luxury items, their choices are often guided by their needs for identity, social status and bragging rights. It is no wonder that well-established brands such as Louis Vuitton and Gucci are hugely popular in Tier II markets while less known brands trail them by a wide margin.

We expect retailers to invest heavily in marketing their brands to the Chinese consumers. This means that highly visible retail space in prime locations will continue to be the hottest commodity, whether in Beijing, Chongqing or Foshan. Outside of the best locations, mall owners must work hard to attract and maintain a winning roster of retail tenants, and by doing so create an irreplaceable retail destination for shoppers.

Residential: shaken, not stirred

Over the last few months we have often been asked 'Will further policy tightening lead to a major correction in residential prices?' In short, the answer is 'no'. Contrary to popular belief, the Chinese government's policy goal is not to lower prices in the existing market. Instead, the government is working hard to ensure the future availability of affordable housing in three ways:

- Increase effective land supply, either through the release of new land plots or repossessing dormant land plots from the hands of developers.
- Lower land prices, by introducing more land supply and limiting the ability of developers to bring capital from offshore sources (such as foreign funds or Hong Kong stock markets) and use it to capitalise their onshore project companies.
- Discourage investment demand in the residential market, by increasing the down payment requirement (from 30% to 40%) and raising the mortgage rate (from 6.6% to 8.6%) for second home buyers.

On the demand side, owner-occupier demand remains strong as the Chinese population continues to improve their standard of living. However, markets such as Shenzhen, where prices have been driven largely by speculative buyers from Hong Kong, are experiencing an obvious slowdown, and in some cases, significant price drops. It is best to confine purchases to areas where demand is visible and easily understandable (central business districts, traditional high-end residential clusters or areas near mass transit stations).

For residential investors, it is important to also keep in mind that with current taxes and mortgage rates, your total transaction cost adds up to over twenty per cent of your purchase price. While we are comfortable with a steady ten per cent annual growth in residential prices given that urban income rises at around the same rate, a twenty per cent transaction cost will eat up most of your profits if you hold for less than two years.

In conclusion, while we are expecting a slower economy, a large amount of new office supply and continued uncertainty around government austerity measures in 2008, the long-term demand outlook remains positive for all three property sectors in China. For patient investors, 2008 may turn out to be a good year to look for bargains and to start building long-term positions in your China portfolio.

ABOUT THE AUTHOR

Kenny leads a team of forty researchers covering office, retail, residential and industrial property sectors across twenty cities in China. He is an expert in issues relating to property investment and development in China, and he has frequently commented in international as well as local media. He has been instrumental in the significant expansion of the Firm's premier Real Estate Intelligence Service (REIS) in China, offering quarterly market data, forecast and analyses on sixteen emerging Chinese cities.



Hong Kong: Grade A Office

Demand

Demand for Grade A office space remained relatively strong in 4Q07 despite lingering concerns over the impact of the US sub-prime mortgage market meltdown on the global economy.

While businesses remained in an expansive mode, there was an increasing trend of larger Central tenants opting to meet their expansion requirements in upcoming Grade A office developments in the non-core area markets. Credit Suisse and DBS Bank, for example, both announced plans to relocate the bulk of their offices from Central into the upcoming International Commerce Centre (ICC) in West Kowloon and One Island East (OIE) in Hong Kong East, respectively.

The strong levels of pre-commitment leasing in new supply completed during the quarter boosted net take-up to 1.3 million sq ft (net), lifting the full-year total to just under 3.4 million sq ft (net); the greatest amount achieved in a single year since 2000.

Activity in the investment market surged in 4Q07 on the back of lower borrowing costs and a negative real interest rate environment. Transaction volumes and capital values of strata-titled properties in particular ended the quarter significantly higher as speculators entered the market. The market also saw several larger en bloc sales completed during the quarter including 68 Yee Wo Street in Causeway Bay for HKD 1.56 billion, Tai Sang Commercial Building in Wanchai for HKD 1.36 billion and 410 Kwun Tong Road in Kwun Tong for HKD 700 million; the latter two being non-Grade A office buildings.

Supply

Two Grade A office developments were issued with Occupation Permits in 4Q07; Phase 1 of Sun Hung Kai Properties' ICC (732,000 sq ft (net)) in West Kowloon and Henderson Land's Kwun Tong 223 (865,700 sq ft (net)) in Kwun Tong.

Overall vacancy ended the year at 5.1%. Vacancy rates decreased across all the sub-markets during the quarter with the exception of Kowloon East where vacancy rose on the back of the completion of Kwun Tong 223.

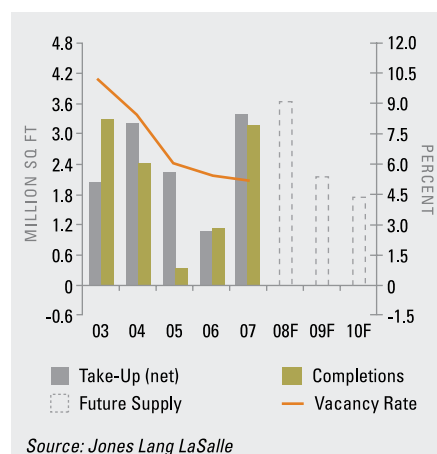
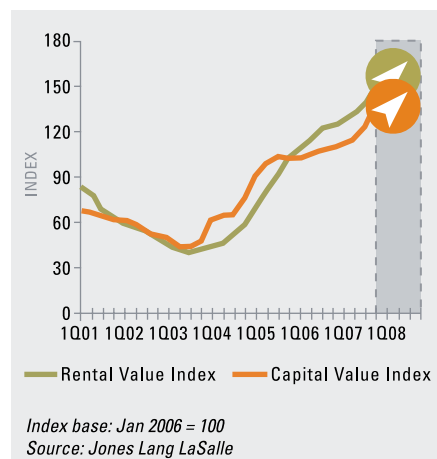
Asset Performance

Tightening vacancy levels allowed landlords to maintain a rental growth strategy, with overall average rentals accelerating 8.2% in 4Q07 and ending 21.6% higher than a year earlier. The quarter also saw Central rentals reach an all-time high, surpassing the peak level set in 1994.

Capital values continued to rise across all the sub-markets, especially where a relative increase in investment activity was recorded. Overall average capital values surged 15.1% in 4Q07, bringing full-year growth to 28.6%.

12-Month Outlook

In spite of our previous concerns of a weakening in demand arising from a slowing global economy, business sentiment in Hong Kong remains upbeat. As such, demand for quality office space in Hong Kong is likely to remain at relatively strong levels in the coming 12 months as businesses continue to execute expansion plans. Rentals are expected to continue to rise over the next 12 months on the back of low vacancies in the core-area markets. The low interest rate environment along with inflation will continue to support capital value growth.



Growth	Rental Value	Capital Value
q-o-q	8.2%	15.1%
1 Year	21.6%	28.6%
3 Years	159.8%	88.1%

* Rental values are based on NFA
** Capital values are based on GFA

	4Q07
Vacancy Rate (Overall)	5.1%
Net Effective Rent	HKD 56.0 psf pm
Capital Value	HKD 9,999 psf
Investment Yield	3.4% - 6.9%

12-MONTH OUTLOOK

RENTAL VALUE

CAPITAL VALUE

Hong Kong: Grade A Office – Central

Demand

While Central remained the location of choice for the majority of banking, finance and professional services sector tenants, high rentals and the inability to secure large contiguous space for expansion continued to result in some of these larger tenants opting to relocate away from Central.

Credit Suisse became the second large-space tenant to commit to the upcoming International Commerce Centre in West Kowloon, leasing 290,000 sq ft (gross) after Morgan Stanley's commitment to about 350,000 sq ft (gross) in 3Q07. Meanwhile, DBS Bank announced plans to relocate some of their offices away from Central to the upcoming One Island East in Quarry Bay.

Near record-low vacancy levels entering the quarter curbed net take-up in Central to about 190,000 sq ft (net) in 4Q07; the relocation of Morgan Stanley, Credit Suisse and DBS Bank will not be reflected in net take-up figures until their current leases expire, the majority of which are from late 2008 onwards. Net take-up for the whole of 2007 amounted to 608,360 sq ft (net).

The surge in investment activity arising from the lower interest rate environment saw the volume of transactions and capital values rise accordingly. Traditional strata-titled Grade A office buildings including Lippo Centre and Nine Queen's Road Central both recorded whole-floor transactions with unit prices in excess of HKD 16,000 per sq ft (gross).

Supply

No new Grade A office buildings were completed in Central in 4Q07.

Positive levels of net take-up together with the absence of new supply saw vacancy tighten further, ending the year at 1.6%.

Asset Performance

Central rents reached a new record high after average rentals grew 9.1% in 4Q07. The new level surpasses the previous record peak set in 2Q94. The strongest growth was recorded in the lower-quality buildings while rentals at the other end of the quality spectrum remained relatively stable as tenants became more cost conscious. For the whole year, Central rents increased by 32.2%.

The relative increase in market activity saw average capital values surging 19% in 4Q07, the greatest amount in a quarter since 1Q05, and boosting full-year growth to 40.3%.

Major Leasing Transactions

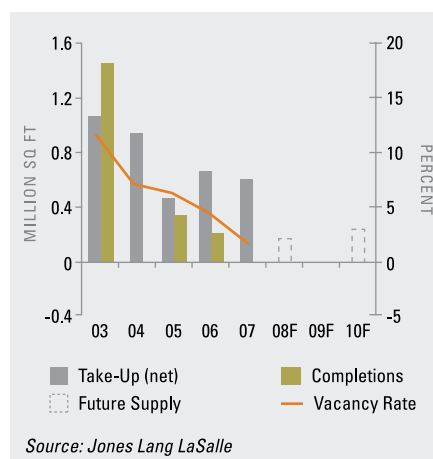
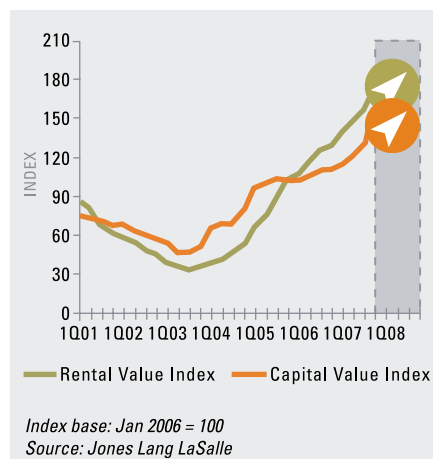
- > CITIC Securities leased 10,250 sq ft (lettable) in CITIC Tower;
- > Appleby leased 15,160 sq ft (gross) in Bank of America Tower;
- > Heidrick & Struggles leased 10,010 sq ft (lettable) in Two Pacific Place;
- > Rabobank leased 24,710 sq ft (net) in York House; and
- > CICC leased 21,280 sq ft (lettable) in One International Finance Centre.



Lippo Centre

Major Sales Transactions

- > 26/F of Nine Queen's Road Central was sold to Snorunt for HKD 230.9 million (HKD 16,800 per sq ft (gross));
- > 18/F of Nine Queen's Road Central was sold to Ample China Holdings for HKD 246 million (HKD 17,945 per sq ft (gross));
- > 41/F of Lippo Centre Tower 1 was sold to Cugu Group (HK) for HKD 181.6 million (HKD 16,230 per sq ft (gross)); and
- > 3/F of Far East Finance Centre was sold to De Monsa for HKD 158 million (HKD 14,630 per sq ft (gross)).



Growth	Rental Value	Capital Value
q-o-q	9.1%	19.0%
1 Year	32.2%	40.3%
3 Years	227.2%	98.0%

* Rental values are based on NFA
** Capital values are based on GFA

	4Q07
Vacancy Rate	1.6%
Net Effective Rent	HKD 95.9 psf pm
Capital Value	HKD 14,881 psf
Investment Yield	4.6% - 6.9%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Hong Kong: Grade A Office – Wanchai/Causeway Bay

Demand

A low-vacancy environment saw leasing activity slow in Wanchai/Causeway Bay through 4Q07 as businesses were provided with limited opportunities for expansions and relocations. The slowdown was particularly evident in the demand arising from the relocation of Central tenants compared with previous quarters.

Demand was largely underpinned by the in-house expansion of existing tenants and relocation of smaller sized tenants within the sub-market. The relative slowdown in leasing activity contributed to net take-up slowing to about 20,140 sq ft (net) in 4Q07, bringing the full-year total to about 311,880 sq ft (net).

The sales market was highlighted by the en bloc sales of 68 Yee Wo Street in Causeway Bay to a consortium led by US investment fund Angelo, Gordon & Co for HKD 1.56 billion and Tai Sang Commercial Building in Wanchai to Swire Properties for HKD 1.36 billion.

Supply

There were no new Grade A office buildings completed in Wanchai/Causeway Bay in 4Q07.

The vacancy rate ended 4Q07 at 2.1% after dipping below the 2% level during the quarter.

Asset Performance

In spite of a relative slowdown in demand, the low-vacancy environment, not only in Wanchai/Causeway Bay but across all the Island office sub-markets, provided a platform for landlords to continue raising rentals. For 4Q07, average rentals were up 7.8%, bringing full-year growth to 12.4%.

Lower borrowing costs together with the prospect of further rental growth on the back of low Island vacancies and relative rental discount against Central attracted investors into the Wanchai/Causeway Bay sales market. As a result, the sub-market saw average capital values going up by 14.9% in 4Q07 and taking full-year growth to 23.6%.

Major Leasing Transactions

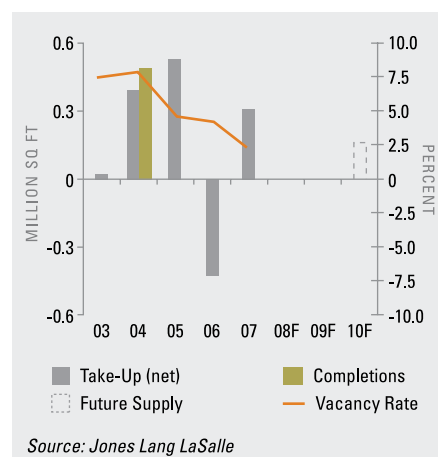
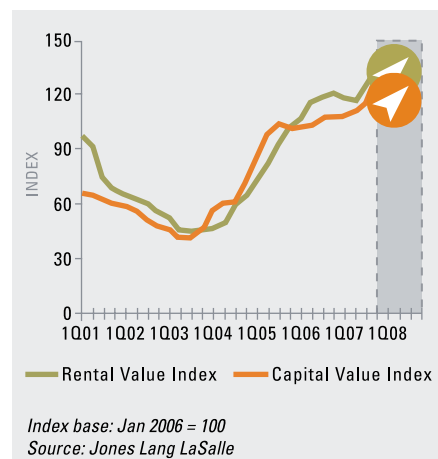
- > Dubai International Finance Centre leased 20,000 sq ft (lettable) in Central Plaza;
- > Towers Perrin leased 11,670 sq ft (lettable) in Central Plaza;
- > Banca Intesa Sanpaolo leased 16,400 sq ft (lettable) in Lee Gardens;
- > Yoga Yoga leased 12,770 sq ft (gross) in World Trade Centre.



68 Yee Wo Street

Major Sales Transactions

- > 68 Yee Wo Street was sold en bloc to a consortium led by Angelo, Gordon & Co for HKD 1.56 billion (HKD 6,805 per sq ft (gross));
- > Tai Sang Commercial Building was sold en bloc to Swire Properties for HKD 1.36 billion (HKD 7,335 per sq ft (gross));
- > The Phoenix was sold en bloc to a local investor for HKD 486.8 million (HKD 6,875 per sq ft (gross)); and
- > 9/F of Harcourt House was sold to a local investor for HKD 180 million (HKD 10,555 per sq ft (gross)).



Growth	Rental Value	Capital Value
q-o-q	7.8%	14.9%
1 Year	12.4%	23.6%
3 Years	111.9%	87.2%

* Rental values are based on NFA
** Capital values are based on GFA

	4Q07
Vacancy Rate	2.1%
Net Effective Rent	HKD 40.7 psf pm
Capital Value	HKD 8,976 psf
Investment Yield	3.9% - 5.5%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Hong Kong: Grade A Office – Tsimshatsui

Demand

The Tsimshatsui Grade A office market experienced a relative pick-up in demand in 4Q07 as several larger-space tenants took advantage of the availability of large contiguous floor spaces arising from returning stock through 3Q07.

Expansion and upgrading requirements continued to underpin leasing demand. In two of the largest leases transacted during the quarter, Mizuho Corporate Bank leased an adjoining whole floor in The Gateway II, Towers 3 & 5 while Puma relocated their offices from Kowloon East into The Gateway, Towers 1 & 2.

After experiencing consecutive quarters of net withdrawals, net take-up in 4Q07 rebounded to about 126,600 sq ft (net), bringing the full-year total to 79,360 sq ft (net).

The investment market saw a relative surge in activity, owing in part to the large amount of strata-titled Grade A office properties in Tsimshatsui compared to the other sub-markets. The relative increase in activity was largely due to the return of speculators, as evident by the relative increase in the number of confirmor sales recorded.

Supply

There were no new Grade A office buildings completed in Tsimshatsui in 4Q07.

The relative increase in demand pushed vacancy down to 4.6% at the end of 4Q07 and below the 5% level for the first time since in 3Q06.

Asset Performance

Stronger levels of demand together with lowering vacancy allowed landlords to adopt a more aggressive stance in rental negotiations. Average rentals grew 8.2% in 4Q07, the strongest rate of growth in a quarter since 1Q06 and pushing rentals levels in Tsimshatsui 3.6% beyond their 1997 pre-Asian Financial Crisis levels.

The relative increase in investment activity and presence of property speculators contributed to average capital values increasing 11.3% in 4Q07. For 2007 as a whole, capital values increased 16.2%.

Major Leasing Transactions

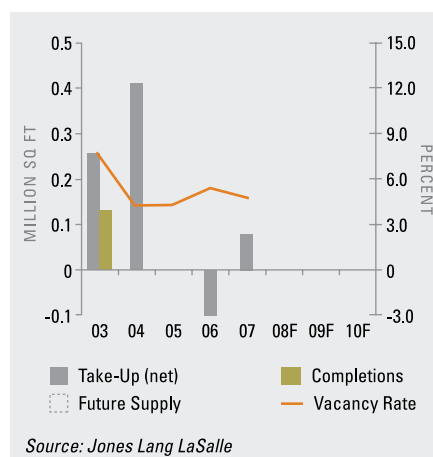
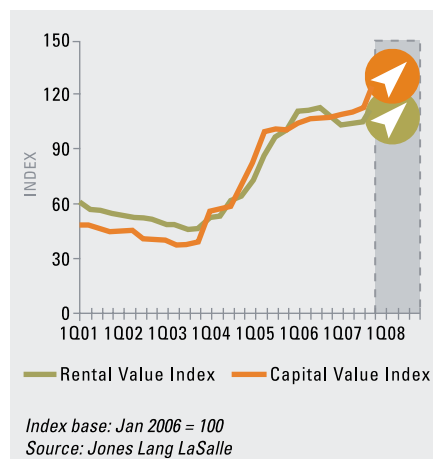
- > Mizuho Corporate Bank leased 47,000 sq ft (gross) in The Gateway, Towers 3 & 5;
- > Puma leased 19,700 sq ft (gross) in The Gateway, Towers 1 & 2; and
- > Man Sang leased 19,900 sq ft (gross) in The Gateway, Tower 5.



The Gateway

Major Sales Transactions

- > 13/F of Lippo Sun Plaza was sold to Phoenix Garden Investment for HKD 213 million (HKD 8,190 per sq ft (gross));
- > 5/F of Wing On Plaza was sold to Regal Victor Trading for HKD 200 million (HKD 9,125 per sq ft (gross)); and
- > 8/F of New Mandarin Plaza Tower A was sold to 823 Investment for HKD 123.7 million (HKD 6,195 per sq ft (gross)).



	Rental Value	Capital Value
Growth		
q-o-q	8.2%	11.3%
1 Year	5.8%	16.2%
3 Years	78.8%	78.7%

* Rental values are based on NFA
** Capital values are based on GFA

	4Q07
Vacancy Rate	4.6%
Net Effective Rent	HKD 35.7 psf pm
Capital Value	HKD 8,235 psf
Investment Yield	3.4% - 4.6%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Hong Kong: Grade A Office – Hong Kong East

Demand

With vacancy back down to relatively low levels entering the quarter, leasing activity in Hong Kong East was primarily focused on Swire Properties' upcoming 1.3 million-sq ft (lettable) One Island East (OIE) in Quarry Bay. Scheduled for completion in 1Q08, OIE drew strong interest from tenants across a broad spectrum of industries but particularly those from the FIREBS sector. In the largest transaction in the building to date, DBS Bank agreed to lease 11 floors to facilitate their partial relocation out of Central.

Away from OIE, leasing activity was largely underpinned by the expansion of in-house tenants into marketable spaces (i.e. upcoming vacant space arising from relocated tenants). Leasing in 633 King's Road, a new building completed in 2Q07, continued to gather momentum and benefited from being amongst the few buildings within the sub-market with whole-floors available for lease.

The limited availability of vacant space slowed net take-up to about 34,740 sq ft (net) for 4Q07, bringing the total for 2007 to about 293,060 sq ft (net).

Owing to the limited availability of investment stock, sales activity in Hong Kong East remained relatively subdued compared to other sub-markets. In the largest transaction recorded in the quarter, several whole-floor premises in Citicorp Centre were sold for a total of HKD 213.5 million.

Supply

There were no new Grade A office buildings completed in Hong Kong East in 4Q07.

The leasing activity in 633 King's Road coupled with the limited amount of returning stock and absence of new supply saw vacancy end the year at 3%.

Asset Performance

Strong demand in the upcoming OIE and lowering vacancy levels saw average rentals in Hong Kong East increase by 3.1% in 4Q07, bringing the full-year growth to 2.7%.

The relative strength of demand together with the increase in rentals saw average capital values growing by 4.3% in 4Q07 and 10.3% for 2007. The relatively milder rate of growth in 4Q07 compared to the other sub-markets due in part to the smaller volume of transactions.

Major Leasing Transactions

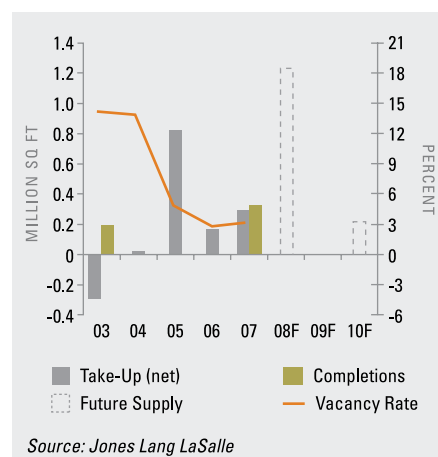
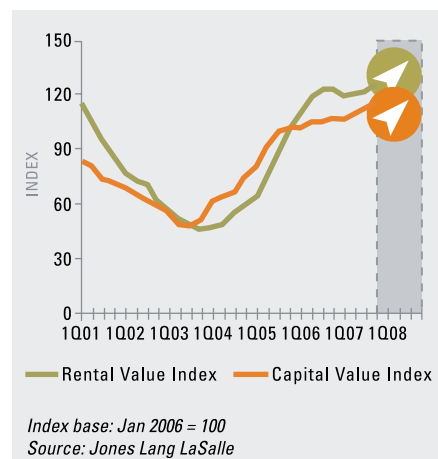
- > DBS Bank leased 224,190 sq ft (lettable) in One Island East;
- > Davis SK Au & Associates leased 10,045 sq ft (gross) in 633 King's Road;
- > Nomura leased 13,500 sq ft (lettable) in DCH Commercial Centre;
- > British Telecom leased 78,720 sq ft (gross) in Warwick House; and
- > AIA leased 17,170 sq ft (gross) in AIA Tower.



Citicorp Centre

Major Sales Transactions

- > 3-6/F of Citicorp Centre were sold to Tipau Hong Kong Ltd for HKD 213.5 million (HKD 3,920 per sq ft (gross));
- > Units 1-6 on 22/F of Island Place Tower were sold to Polywin (HK) Ltd for HKD 82.3 million (HKD 5,695 per sq ft (gross)); and
- > Units 1-10 on 8/F of Island Place Tower were sold to Yue Hing Holdings Ltd for HKD 92 million (HKD 4,600 per sq ft (gross)).



Growth	Rental Value	Capital Value
q-o-q	3.1%	4.3%
1 Year	2.7%	10.3%
3 Years	117.7%	59.3%

* Rental values are based on NFA
** Capital values are based on GFA

	4Q07
Vacancy Rate	3.0%
Net Effective Rent	HKD 28.7 psf pm
Capital Value	HKD 5,180 psf
Investment Yield	4.5% - 6.0%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Hong Kong: Grade A Office – Kowloon East

Demand

New lettings in the Kowloon East Grade A office market continued to be focused on recently completed buildings including One Kowloon, Enterprise Square 5 and Millennium City 6.

Demand was largely from upgrading and expansion requirements. Triumph, for example, upgraded from industrial premises into two floors in One Kowloon while Maersk expanded a further whole-floor in One Kowloon. Meanwhile, the quality of new buildings such as Millennium City 6 together with their competitive rentals continued to draw tenants from the other more established sub-markets.

The strong leasing in One Kowloon and Millennium City 6 in 4Q07 boosted net take-up to 311,080 sq ft (net). For 2007 as a whole, net take-up amounted to 855,680 sq ft (net).

The limited availability of Grade A office investment stock in Kowloon East saw sales activity focused on non-Grade A offices. In the largest transaction recorded for the quarter, ING Real Estate sold 410 Kwun Tong Road en bloc to a consortium of local investors for HKD 700 million. Meanwhile, several whole floors in EGL Tower in Kwun Tong were being sold in the range of HKD 2,970-4,000 per sq ft (gross).

Supply

Kwun Tong 223, Henderson Land's 865,700-sq ft (net) Grade A office development at the junction of Wai Yip Street and King Yip Street in Kwun Tong, was issued with an Occupation Permit in 4Q07. Whilst several tenants are negotiating space in the building, it was 100% vacant at the time of completion.

Vacancy steadily declined through 4Q07, reaching a low of 7.2% at the end of November, before the completion of Kwun Tong 223 saw it rise to 15.9% at the end of the year.

Asset Performance

In spite of the completion of new supply, landlords continued to raise rentals on the back of robust demand and reducing vacancies in many of the major buildings within the sub-market. As a result, average rentals grew by 6.9% during 4Q07, the strongest quarterly growth for 2007 and bringing full-year growth to 10.8%.

Capital values continued their upward trend on the back of ongoing demand from end users, increasing 3.5% in 4Q07 and bringing full year growth to 7.7%.

Major Leasing Transactions

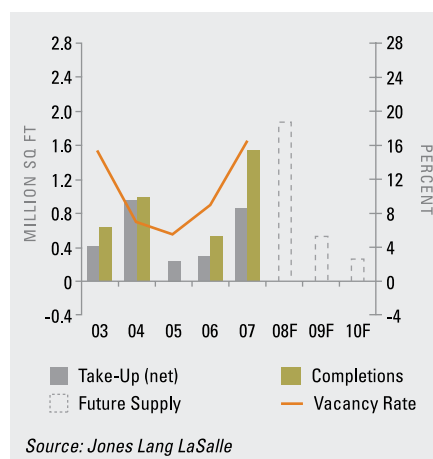
- > Triumph leased 47,920 sq ft (gross) in One Kowloon;
- > Maersk leased 23,300 sq ft (gross) in One Kowloon;
- > MTRC leased 51,350 sq ft (gross) in Millennium City 6; and
- > Farrington leased 34,235 sq ft (gross) in Millennium City 6.



One Kowloon

Major Sales Transactions

- > 410 Kwun Tong Road was sold en bloc to a consortium of local investors for HKD 700 million (HKD 4,770 per sq ft (gross));
- > 6, 7 & 9/F of EGL Tower was sold to Alpha Start for HKD 107.2 million (HKD 2,970 per sq ft (gross)).



Growth	Rental Value	Capital Value
q-o-q	6.9%	3.5%
1 Year	10.8%	7.7%
3 Years	NA	NA

* Rental values are based on NFA
** Capital values are based on GFA

	4Q07
Vacancy Rate	15.9%
Net Effective Rent	HKD 21.7 psf pm
Capital Value	HKD 4,573 psf
Investment Yield	4.1% - 4.9%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Hong Kong: Retail

Demand

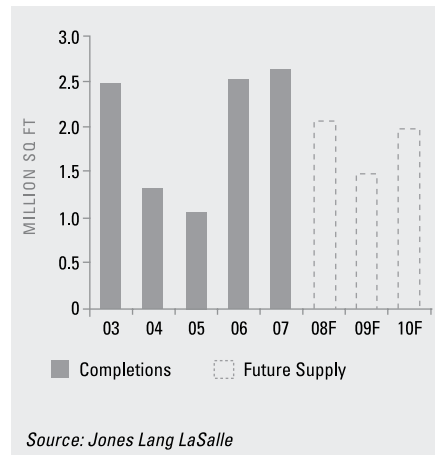
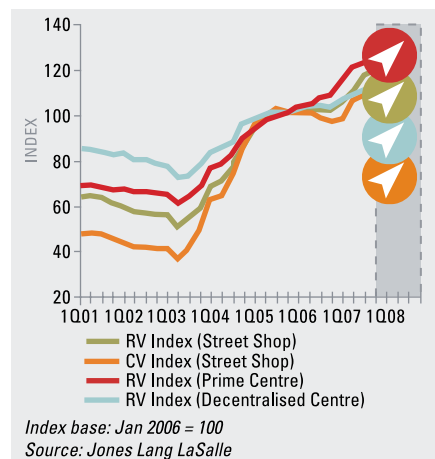
A tightening labour market, the wealth effect stemming from growing wages and stock market gains, together with a growing inbound tourism market all combined to underpin growth in retail consumption in 4Q07.

Strong consumer confidence—as reflected in the latest MasterIndex of Consumer Confidence, in which Hong Kong scored 85.9—along with seasonal factors, suggest that private consumption expenditure in 4Q07 is likely to grow further after increasing 9.7% y-o-y in 3Q07. Meanwhile, the spill-over effect arising from the emergence of Macau as a regional tourist destination contributed to the growth of Hong Kong’s inbound tourism market. Over 28 million visitors arrived in 2007, 11.6% higher than in the previous year.

The investment market saw higher levels of activity in 4Q07 as investors sought to benefit from lower borrowing costs and growing retail sales. The market was largely dominated by local investors who were keen on acquiring prime retail properties, especially street shops with heavy foot traffic in Causeway Bay.

Supply

The quarter saw the opening of phase I of Elements, a high-end shopping mall atop Kowloon Station. Phase I of the mall consists of about 902,350 sq ft (gross) of retail space, while phase II will provide an additional 108,190 sq ft (gross) and is scheduled to open by mid-2008. On Hong Kong Island, the opening of the converted office-to-retail floors in World Trade Centre (wtc more) in Causeway Bay was delayed until 1Q08. Upon completion, the conversion will increase retail space within the building by 110,000 sq ft (gross).



Growth	q-o-q	1 Year	3 Years
Prime Shopping Centres Rental Value	2.3%	15.3%	41.3%
Decentralised Shopping Centres Rental Value	0.3%	7.5%	16.6%
Prime Street Shops Rental Value	2.5%	17.9%	38.3%
Prime Street Shops Capital Value	3.6%	17.0%	30.8%

* Rental and capital values are based on GFA

3Q07	Vacancy	Rental Value	Capital Value	Yield
Prime Shopping Centres	NA	HKD 311.9 psf pm	NA	NA
Decentralised Shopping Centres	NA	HKD 127.6 psf pm	NA	NA
Prime Street Shops	NA	HKD 307.6 psf pm	HKD 96,268 psf	3.8%

Asset Performance

Robust demand, arising from growing retail sales, resulted in landlords raising rentals in 4Q07. Rental growth in prime shopping centres was relatively stronger in 4Q07, up 2.3% while rental growth in high-street shops moderated to 2.5% for the same period. For the whole of 2007, rentals for prime shopping centres and high-street shops were up 15.3% and 17.9%, respectively.

A more active investment market, particularly in Causeway Bay, contributed to the increase in capital values of high-street shops by 3.6% in 4Q07, bringing the full-year growth to 17%.

12-Month Outlook

In spite of a slowing US economy and rising imported inflation from China, Hong Kong’s economy is expected to remain relatively strong in 2008. The waiver of government rates and potential tax relief measures announced in the 2008–2009 Budget are likely to induce stronger levels of local consumption. Meanwhile, the inbound tourism market is set to benefit from the positive spill-over effects of the Beijing Olympic Games and the continuing emergence of Macau’s gaming and convention/exhibition industry.

Retailers are likely to continue to execute expansion plans, providing support for further rental growth. The low interest rate environment, along with the projected rise in retail sales, is likely to continue to attract investor interest in retail properties, paving the way for further rental growth.

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
PRIME STREET SHOPS	PRIME STREET SHOPS
PRIME SHOPPING CENTRES	
DECNTRLSD. SHOPPING CENTRES	

Hong Kong: Luxury Residential

Demand

The quarter saw residential demand booming on the back of falling interest rates and a relative rise in fund flow largely due to profit taking from the stock market. Hong Kong's best lending rates were cut 75 basis points in 4Q07 to 6.75–7%. Coupled with rising inflation, Hong Kong's real mortgage rates fell to an average of 0.15%, the lowest since January 1995.

As such, sales of residential properties saw a sharp rise, with the number of residential sale and purchase agreements for the quarter ballooning to 40,533, the highest amount in a quarter since 3Q97. For 2007 as a whole, the total number of residential sale and purchase agreements amounted to 123,575 and the highest in a year since 1997. Demand for luxury properties was particularly strong, with 477 units where the price tags were in excess of HKD 30 million being sold during 4Q07, up 333.6% y-o-y.

The sales market was highlighted by the sale of a penthouse duplex unit in Branksome Crest in the Mid-levels for a record high of HKD 39,800 per sq ft. At the Peak, two houses in Severn 8 were sold in the range of HKD 38,900–39,500 per sq ft. The launch of 31 Robinson Road in the Mid-levels was also well received. About 50 of the 81 available units were reportedly sold in the range of HKD 10,500–19,800 per sq ft.

The leasing market for luxury properties remained strong through 4Q07, with demand mainly coming from the ongoing expansion of the banking and finance sector.

Supply

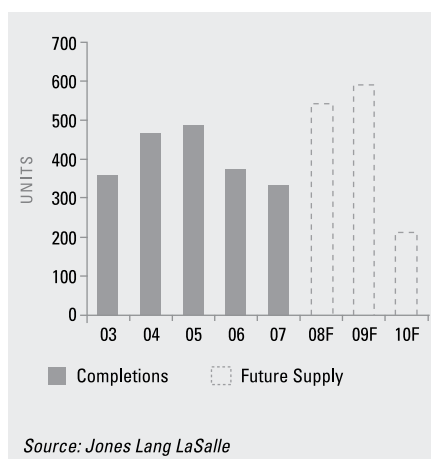
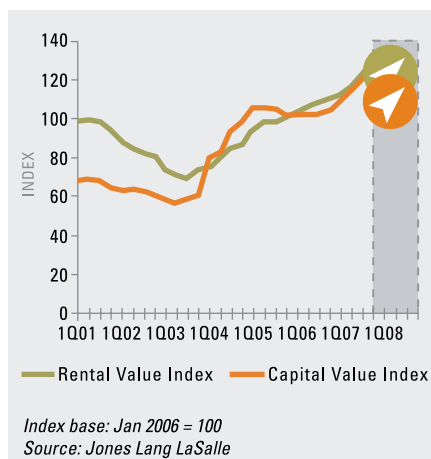
The market saw a total of 9,406 residential units completed in 2007, of which, 335 were luxury units. Two residential development sites under the 2007–2008 Application List were sold at auction during 4Q07—one on Lantau Island (Lot No 245 in DD 331) and the other in Aberdeen (AIL 451). The two sites will provide the market with about 819 units, which will be completed in 2012 and 2013, respectively.

Asset Performance

Strong demand and declining stock helped push capital values higher during 4Q07. Luxury properties grew by 8.2% for the quarter, bringing full-year growth to 25.2%. This is in contrast to the 2.9% and 3.2% growth in 2005 and 2006, respectively. Capital values for mass properties grew by 11.3% during the quarter, the biggest quarterly growth since 1Q05 and bringing the full-year growth to 20%. Luxury residential rentals went up 5.4% during the quarter and up 17.6% for 2007 as a whole.

12-Month Outlook

Negative real savings rates, the potential for further income and wealth growth stemming from strong labour and stock markets, further tax cuts and declining primary market property stocks are all paving ways for residential prices to climb higher in 2008. Although there are still concerns in the market as to how severe the US economic slowdown could impact the global economy, there is no significant sign pointing to potential company contractions in Hong Kong. Thus, we expect luxury residential capital values to grow a further 25% in the 12 months ahead. The leasing market will continue to see rental growth on the back of sustained expatriate demand and the tight supply of leasing properties. We expect luxury residential rentals to grow a further 15% in 2008.



Growth	Rental Value	Capital Value
q-o-q	5.4%	8.2%
1 Year	17.6%	25.2%
3 Years	49.1%	33.0%

* Rental and capital values are based on GFA

	4Q07
Net Rent	HKD 39.3 psf pm
Capital Value	HKD 15,151 psf
Investment Yield	3.1%

12-MONTH OUTLOOK

RENTAL VALUE		CAPITAL VALUE	
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Hong Kong: Industrial – Warehouse

Demand

Hong Kong's warehouse market continued to enjoy relatively strong levels of demand in 4Q07 against a backdrop of growing global economic uncertainties. The growth in exports to European and Mainland China markets offset the continued decline in exports to the United States, Hong Kong's largest trading partner after the Mainland. The total value of Hong Kong's imports and exports expanded by 9.4% y-o-y in 4Q07, bringing the total trade value for 2007 to just over HKD 5,556 billion, a 9.8% y-o-y increase.

The growth in external trade continued to lend support to warehousing demand through 4Q07. Both third-party logistics companies and end-users remained active in the leasing market, particularly in higher-quality warehouses. Some of the more notable transactions concluded during the quarter included:

- > First Flag International leasing 28,230 sq ft (gross) in Fanling Distribution Centre in Fanling for HKD 4.5 per sq ft per month;
- > Static Control Components (HK) leasing 21,025 sq ft (gross) in Global Gateway in Tsuen Wan for HKD 8.3 per sq ft;
- > a Japanese logistics company leasing 32,920 sq ft (gross) in Phase 3 of YKK Building in Tuen Mun for HKD 5 per sq ft per month; and
- > an end-user leasing 50,000 sq ft (gross) in Dynamic Cargo Centre in Tsuen Wan for HKD 6 per sq ft per month.

Institutional investors remained active in the sales market. In the largest transaction of the quarter, Goodman acquired the OMC Centre site in Tsing Yi for HKD 700 million. In view of the relative size of the existing building, which utilises less than 15% of the maximum permissible GFA of about 1.5 million, the site will most likely be redeveloped.

Supply

No new warehouse supply were completed in 4Q07 after the completion of DHL's 202,355-sq ft (gross) Central Asia SuberHub at Hong Kong International Airport and Hong Kong Resort Company's 14,225-sq ft (gross) warehouse facility at Marine Drive in Discovery Bay were delayed. As at the end of 2007, neither development had yet been issued an Occupation Permit.

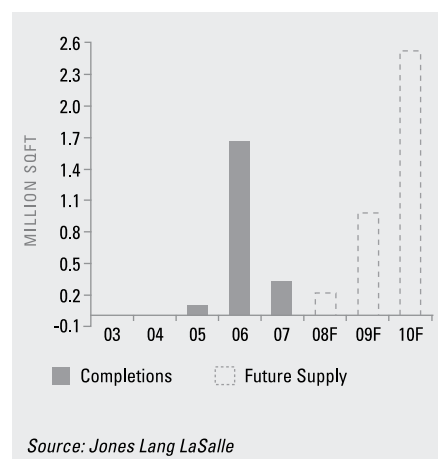
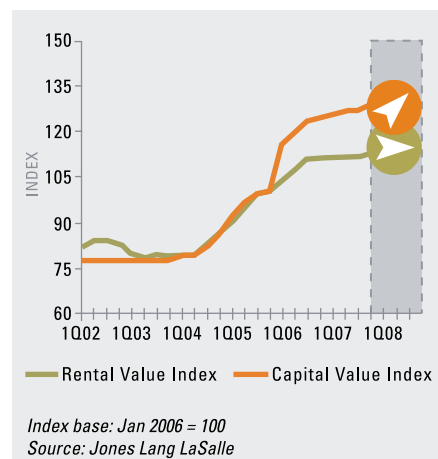
Asset Performance

Warehouse rentals continued their slow rise, edging up 0.9% in 4Q07, bringing the full-year growth to 1.6%.

The surge in capital values recorded across the other property sectors in 4Q07 was less apparent in the warehouse market. Average capital values increased 1% in 4Q07, bringing growth for 2007 to 3.4%.

12-Month Outlook

A slowing US economy is likely to dampen demand for Mainland Chinese exports in the 12 months ahead. However, the relative impact of the slowdown in exports to the US is likely to be reduced by growing trade to European countries arising from a weaker Hong Kong dollar and the continuing emergence of Mainland markets. While, a weaker external trading environment may reduce logistics and warehousing demand in Hong Kong, rentals are likely to remain broadly stable in view of the limited availability of leasing stock; none of the new supply scheduled for completion in 2008 will be available for commercial lease.



Growth	Rental Value	Capital Value
q-o-q	0.9%	1.0%
1 Year	1.6%	3.4%
3 Years	32.2%	50.0%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	NA
Net Rent	HKD 6.9 psf pm
Capital Value	HKD 1,183 psf
Investment Yield	6.5% - 7.0%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Macau: Retail

Demand

The surge in visitor arrivals and strengthening local consumption demand helped boost retailers' confidence about expansion in Macau. In many of the core shopping districts, available shops were swiftly taken up by expanding retailers. Brands like 3D-Gold, SaSa Cosmetics, Bauhaus and IZOD all leased new street-shop premises during 4Q07. These high street shops were mainly in Travessa de S. Domingos and were leased for HKD 100-300 per sq ft.

In view of the optimistic retail market, investors remained keen on acquiring retail properties in strategic locations. In Nam Van district, for instance, Emperor International Holdings purchased a three-storey building for HKD 430 million, involving a total GFA of 10,167 sq ft.

Supply

The market saw no new completions in 4Q07. However, the remaining portion of Grand Canal Shoppes in The Venetian Macao was opened, accommodating retailers like agnès b, DKNY, Haagen Dazs and many more. Until now, the Grand Canal Shoppes is more than 95% leased.

MGM Grand Macau was opened on 18 December, adding a few luxurious retail stores and 12 restaurants and bars. The expansion of Wynn Macau, which officially opened on 24 December, added 85 gaming tables, 551 slot machines, and 11 retail shops to the scheme. The retailers include Dunhill, Ermenegildo Zegna, Ferrari, Gucci, Hermès, Hugo Boss, Miu Miu, Van Cleef & Arpels, Versace, Vertu, and Wynn & Company Watches & Jewelry. These shops are expected to open for business in January 2008.

Asset Performance

Strong local and tourist consumption helped boost retailers' demand for prime retail space, fuelling rental and capital value growth in 4Q07. The quarter saw capital value for high-street shops rising 6.9% q-o-q while rents were up 4%. In particular, the opening of The Venetian Macao attracts more foot traffic to Taipa Village, leading to stronger capital value and rental growth in the sub-market. For instance, capital values and rents in Rua Do Cunha went up 25% and 22%, respectively during 4Q07.

12-Month Outlook

The continuous visitor arrival growth due to Macau's increasing tourism attractiveness and its development of the MICE industry, coupled with rising local consumer confidence, makes us believe that retail demand will remain strong in the 12 months ahead. However, there are more than seven million sq ft of prime shopping centre space coming on-stream between 2008 and 2010, thereby refraining us from being too bullish on retail rental growth in the 12 months ahead. We expect retail rents to remain relatively flat in 2008.



The Venetian Macao

Growth	Rental Value	Capital Value
q-o-q	4.0%	6.9%
1 Year	4.0%	6.9%
3 Years	NA	NA

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	NA
Net Rent	HKD 104.2 psf pm
Capital Value	HKD 21,067 psf
Investment Yield	5.9%

12-MONTH OUTLOOK

RENTAL
VALUE



CAPITAL
VALUE



Macau: High-End Residential

Demand

Macau's best lending rates were cut by 75 basis points in 4Q07 to an average of 6.75%. The lower borrowing costs coupled with rising inflation helped push real interest rates down, a big trigger for property investment demand. As such, the number of residential sale and purchase agreements is estimated to be about 5,450, bringing the full-year figure to an estimate of 22,250, highest in record.

The fourth quarter saw a number of notable investment transactions. In Taipa, a bulk of 132 units in Nova City, Block 6 was sold to an institutional investor for an average at HKD 3,063 per sq ft (gross). Another investor also purchased 40 units in Block 7 of the same development for an average of HKD 2,790 per sq ft (gross). In NAPE, an investment fund purchased eight residential units in Le Royal Arc for a total of HKD 100 million. These units have sizes in the range of 2,200-3,500 sq ft (gross).

The leasing market continued to ride on the growing expatriate population, stemming from the opening of new casinos and hotels. In many of the higher quality and newer estates, vacancy remained tight while bidding for available premises continued to be fierce.

Supply

The quarter saw the completion of La Cite (1,021 units), which brings the full-year residential supply to 2,197 units. It is estimated that about 5,000 units will be completed in 2008. Based on the figures from Macau Land, Public Works and Transport Bureau, a total of 10,562 units are currently under construction in 61 projects, while 25,085 units in 118 projects are pending for approval.

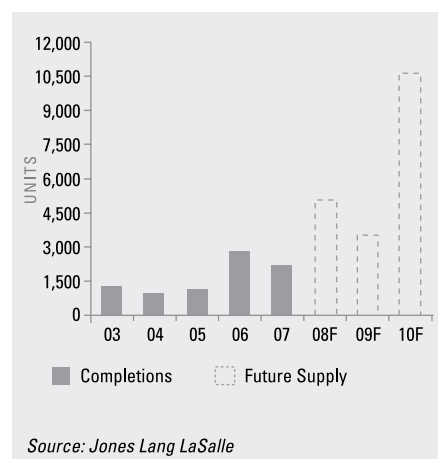
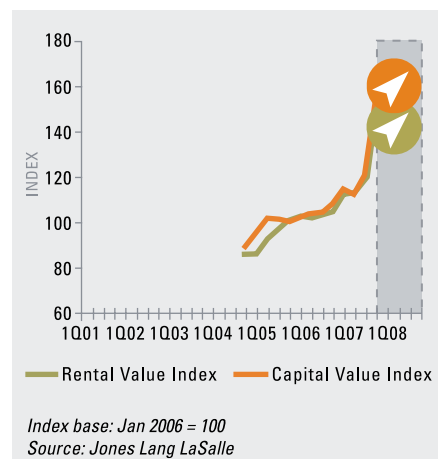
In the leasing market, The Manhattan South (88 units) was launched for lease in the form of fully furnished apartments. The indicative monthly rentals are in the range of HKD 10-15 per sq ft (gross) while the unit sizes are in the range of 1,683-2,314 sq ft (gross).

Asset Performance

The strong demand as mentioned above helped push high-end residential capital values high, which grew 15.5% overall in 4Q07. Villas saw even stronger growth of over 30%. Rents were also on the rise, growing by 7.7% during 4Q07, bringing the full-year growth to 22.3%.

12-Month Outlook

In view of Macau's negative real interest rate environment and on the back of rising income growth, strengthening employment prospects and the new beneficial property tax measures, we are very confident about Macau's residential demand in 2008. It is of high possibility that both capital values and rents will remain on the rise in the 12 months ahead.



* Total private residential

Growth	Rental Value	Capital Value
q-o-q	7.7%	15.5%
1 Year	22.3%	28.5%
3 Years	49.2%	55.5%

* Rental and capital values are based on GFA

	4Q07
Net Rent	HKD 8.5 psf pm
Capital Value	HKD 3,036 psf
Investment Yield	3.3%

12-MONTH OUTLOOK

RENTAL VALUE

CAPITAL VALUE

Beijing: Office

By end-2007, prime office space totalled 6.76 million sqm, of which an astounding 20% was completed in 2007. The market's rapid absorption of space surpassed expectations, with rentals finishing the year at their highest level in six years. Vacancy rose to 16.2%, an increase of 3.3 percentage points y-o-y. In essence, economic growth is accelerating take-up via existing business expansions and start-ups within the service sector.

Demand

In 2007, net absorption for the year reached 942,602 sqm—an all-time high, representing a 160% y-o-y rise. Firms are eagerly expanding in new Grade A offices after years of undersupply at the top end of the market. Demand is particularly strong for assets in the CBD, where about 53% of the 2007 supply was completed. For the first ten months of the year, 4,799 companies located to the sub-market, a 12.2% y-o-y increase, according to the Beijing CBD Administrative Commission. About 60% of these companies are in the service sector, accounting for 80% of tax revenue in the CBD.

Notable transactions in the quarter include Samsung Corporation and its sister company leasing almost 10,000 sqm in the Exchange; Bank of East Asia taking 28,000 sqm in Prosper Centre; and Condé Nast, Skandia Insurance and Xinyuan (a real estate firm, which recently had its IPO on the NYSE) each leasing 2,300 sqm in China Central Place. Pre-leasing was good for new Grade A properties entering the market. Both Prosper Centre and Yintai, two long-awaited completions, opened about 50% leased, while Taikang International Centre reportedly opened 40% occupied.

Supply

Over 370,000 sqm (GFA) entered the market in 4Q07, with about 60% of that located in the CBD and about 19% located in Finance Street. Long-awaited CBD projects such as Prosper Centre and Yintai were completed, adding 89,000 sqm and 75,000 sqm, respectively. The Finance Street area also received some new properties, with the completion of Taikang International Centre and Petrol China Building (owner occupied, self use). Vacancy rose to 16.2%, a q-o-q rise of 0.6%. New supply pushed up vacancy in the CBD to 27.1%, a q-o-q rise of almost 3%. In spite of new completions in Finance Street, the vacancy rate dropped by 2 percentage points q-o-q to 9.1%.

Asset Performance

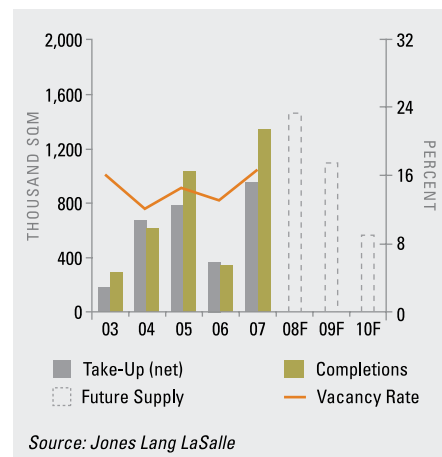
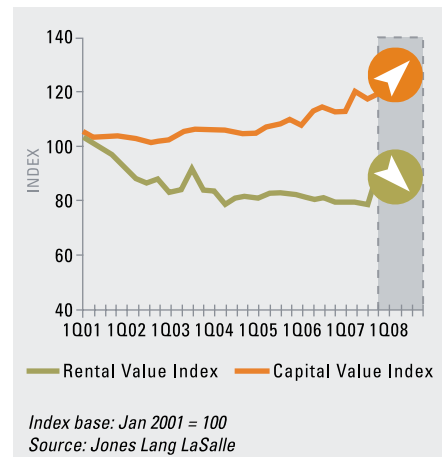
After being relatively stagnant all year, rentals shot up 13% q-o-q, irrespective of the massive supply. At face value, this seems in contradiction to basic supply and demand principles; however, on a deeper level, all the dynamics are still at play. Ignoring buildings that are less than one year old, market vacancy is at 7.8%, while for the CBD, it would be 6.5%. Demand remains strong, considering the influx of supply and the fact that overall vacancy only rose 3.3 percentage points y-o-y. This paints a very different picture for the market and helps explain why rentals are holding, and even increasing, at the seasonal time for renewals, causing property yields to rise to 9%. Capital values rose 2.3% q-o-q to RMB 21,976 per sqm.

There were several sales in 4Q07. Tower B1 of R&F Edinburgh Plaza, an 89,000-sqm prime-located Grade A office, was sold to Beijing Lan Quan Property Management Ltd for RMB 1.71 billion. Shihua International was purchased by Shanghai Fudi Group and Sage Capital bought Grand Pacific.

12-Month Outlook

A decline in rentals is expected for 2008 in the face of a forecast 1 million sqm of new supply. Demand will continue to be strong, but vacancies will still climb, driving greater competition and exerting downward pressure on average rentals.

Domestic and foreign investors are actively looking to acquire quality assets in Beijing. With yields more attractive than in Shanghai, compounded by more products for sale, investments in the Capital are appealing.



	Rental Value	Capital Value
Growth		
q-o-q	13.0%	2.3%
1 Year	11.7%	6.1%
3 Years	8.9%	14.6%

* Rental Value is based on NLA

** Capital Value is based on GFA

	4Q07
Vacancy Rate	16.2%
Effective Rent	RMB 228 psm pm
Capital Value	RMB 21,976 psm
Investment Yield	8.0% - 10.0%

12-MONTH OUTLOOK

RENTAL
VALUE



CAPITAL
VALUE



Beijing: Prime Retail

Beijing's economy continued to expand rapidly, driving incomes and consumer ambitions northward. For the first eleven months of 2007, the total aggregated retail sales of consumer goods grew 15.3% y-o-y, reaching RMB 343.7 billion, and urban residents' per capita disposable income reached RMB 20,185, a 14% rise over the same period last year. In the face of received and expected massive supply deliveries, rentals concluded 2007 in a stable manner from where they began, down only by 0.3% y-o-y.

Demand

Beijing remains a key expansion choice, according to the 2007 Jones Lang LaSalle Retailer Sentiment Survey. This was evidenced by dynamic pre-leasing in projects anticipated to open in 2008. While the Olympics have served as a catalyst for retailers entering the market, many retailers now state that they are entering the market due to the sheer income growth and potential customer size. New supply has given retailers the option to expand to new areas of the city to capture growth. Consumer attitudes are rapidly changing across China, and this can be witnessed best in the Capital, where the retail scene has tended to lag enormously behind Shanghai, in spite of incomes and the size of the population being roughly similar.

Leases signed in 4Q07 include an Apple iPod store of 3,000 sqm at The Place, Versace taking a 485-sqm store at ShinKong Place and Nike opening a 200-sqm store at the recently renovated APM.

Supply

The retail podiums at China Central Place were completed in 4Q07, delivering 40,000 sqm to the market and causing total retail space to reach 2.26 million sqm by end-2007. In 2008, a whopping 1.4 million sqm is currently anticipated for completion; most of these projects will not be strata-titled. Vacancy increased 0.5 percentage point q-o-q to 10.1%.

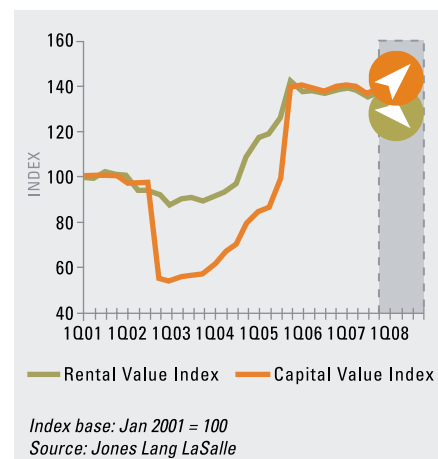
Asset Performance

Rentals finished the year slightly down y-o-y, arriving at RMB 579 per sqm per month. Top properties continued to command high rentals, although most of these have no vacancy available. Meanwhile, strata-titled properties or those in off-locations decreased rentals to compete with new supply. Strata-titled retail in the CBD area was selling at RMB 35,000–40,000 per sqm. Gross annual rental yields for en bloc retail are estimated at 7.8%.

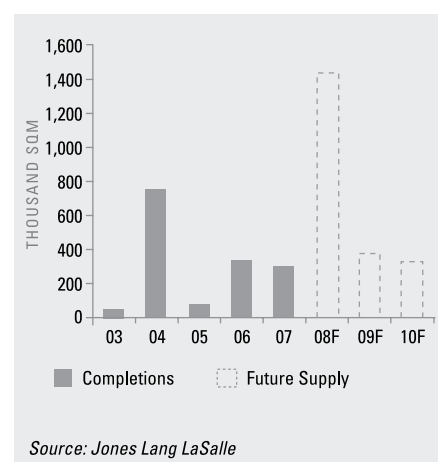
12-Month Outlook

The year 2008 is anticipated to be a huge supply year for prime retail. Currently, about 1.4 million sqm is slated for completion in the next 12 months. While market demand is strong, vacancies are expected to rise and owners of strata-titled properties are expected to have a difficult time competing with new supply, which is mostly wholly owned. The en bloc retail sales market is expected to see a record number of transactions in 2008 and 2009, as the number of projects under construction will provide investors with more opportunities.

Owing to the sheer volume of supply, Beijing should witness a number of en bloc retail sales in the coming 24 months, much like the office market experienced in the last two years.



* Change from USD denominated values to local currency denominated values



	Rental Value	Capital Value
Growth q-o-q	1.8%	1.8%
1 Year	-0.3%	-0.3%
3 Years	26.8%	77.1%

* Rental Value is based on NLA
** Capital Value is based on GFA

	4Q07
Vacancy Rate	10.1%
Net Effective Rent	RMB 6,949 psm pa
Capital Value	RMB 48,981 psm
Investment Yield	6.8% - 8.8%

12-MONTH OUTLOOK	
RENTAL VALUE	
CAPITAL VALUE	

Beijing: High-end and Luxury Residential

According to the Zhongfang Index, total residential transactions from January to November 2007 reached almost 114,000 units, which was a 30% decrease over the same period y-o-y. According to the Beijing Statistics Bureau, average residential prices for new construction rose 12.4% y-o-y, showing that price growth is slowing somewhat (last year's prices rose about 20%). With local GDP and incomes rising in the double digits, it is unlikely that prices will fall post-Olympics—or if so, that any decrease will be temporary.

Demand

In spite of the fact that overall transaction volume is down, strong demand for luxury property continued to drive up the price sharply towards end-2007, with luxury apartments posting an 8.4% q-o-q increase. As new projects are launched at ever-higher prices, second-hand sales prices are rising to catch up. Sales demand remained strong for luxury and high-end apartment projects. Although Beijing recorded its first ever decline in transaction volume in 2007, luxury and high-end apartments seem temporarily immune to this trend. Beijing's high-end and luxury apartments still trade at a noticeable discount to Shanghai and even some Tier II cities such as Hangzhou.

Supply

About 3,400 luxury and high-end units were delivered to the market in 4Q07, bringing the total supply to over 34,000 units. Completed projects included HYDE Avenue (361 units), the long-awaited Park Hyatt Residences (260 units), NAGA (116 units), phase II of Star River (300 units), United Apartments (293 units), Shihua Centre (300 units) and Ocean International Serviced Apartments (228 units). Sales prices for these units ranged from RMB 20,000 per sqm to over RMB 40,000 per sqm. These completions were mainly focused in the CBD and Chaoyang Park area.

Asset Performance

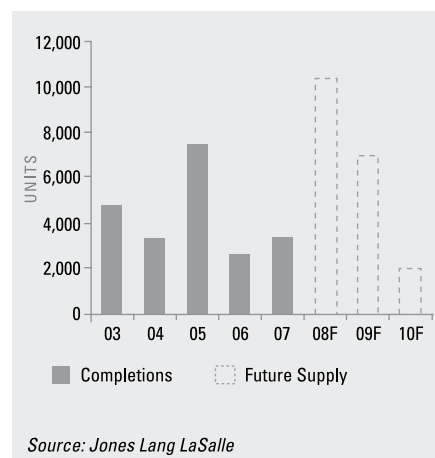
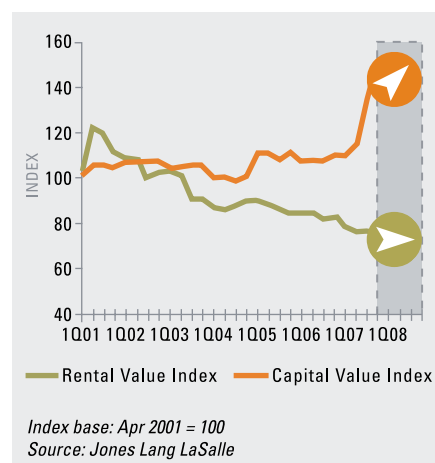
Over the last year, prices of luxury apartments have increased by almost 33%, while rentals have fallen by about 11% over the same period. As a result of these diverging movements, gross rental yields of luxury apartments have fallen sharply, decreasing from 9.8% to 6.5%. Current capital values of luxury apartments reached almost RMB 21,000 per sqm, while the average net rent was only RMB 99 per sqm per month.

There were quite a few en bloc residential sales in 4Q07. A developer purchased 76 villas in Lakeside Villas for RMB 303.8 million. SOHO China purchased the remaining units of Beijing Chateau for RMB 1.41 billion.

12-Month Outlook

While there may be a rental rise as a result of the forthcoming Olympic Games, this is expected to be a short-term phenomenon, with rents continuing to flat line by end-2008 because of the continual delivery of completed projects. Sales demand should remain strong and prices will rise as a result of the strong economy and rising incomes; however, slower price growth is expected in 2008 and beyond.

Ultimately, prices will continue to rise in Beijing as long as the economy and incomes continue to grow in double digits. Slower price growth is expected in 2008, however. Rents for luxury apartments should ultimately stagnate, although there may be some temporary Olympic uplift.



Growth	Rental Value	Capital Value
q-o-q	-2.3%	8.4%
1 Year	-10.6%	32.8%
3 Years	-18.4%	45.0%

* Rental and capital values are based on GFA

Luxury Apartments	4Q07
Vacancy Rate	NA
Net Rent	RMB 1,188 psm pa
Capital Value	RMB 20,982 psm
Investment Yield	5.5% - 7.5%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Beijing: Industrial

Demand

Logistics continued to be the most dynamic aspect of the Beijing industrial market in 4Q07. Recent transactions include ProLogis pre-leasing all 27,300 sqm of space at its development site in Tongzhou Logistics Park with completion due by end-2008. Also, Schenker Logistics have secured around 12,000 sqm of space in the Beijing Airport Logistics Park (PGL Facility) for an Olympics-related project. The ProLogis facility has been leased by Unilever (15,000 sqm) and KX Logistics (12,300 sqm), a third-party logistics (3PL) provider for companies in the food and beverage industry.

In the Beijing Economic and Technological Development Area (BDA), domestic investors and end-users continue to drive demand for small-unit warehouse accommodation and stand-alone business park-type buildings. Westrac have confirmed that they will occupy 6,000 sqm in the SKY Building in the BDA in an effort to improve corporate image and accommodate the expansion of their business. Smaller domestic technology companies, service related industry and light engineering firms are also actively driving take-up – especially in projects like a recent new development by the Fuxing group, which provides warehouse units under 3,000 sqm. This development has achieved over 75% occupancy less than six months after completion.

Supply

Most of the new industrial supply is scheduled for completion in 1H08, with very little new supply entering the market in 4Q07. Upcoming noteworthy projects include phase I of Global Innovation Park, which is a high-quality business park development in the Tongzhou area (Jinqiao Science Park). Phase I comprises 25,000 sqm (GFA) of stand-alone office buildings.

In Tsinghua Science Park, there have been no new completions, which is creating undersupply and driving strong rental growth. Various companies are searching for space in the area for new set-ups, and existing companies continue to expand actively as they further develop their China operations.

Asset Performance

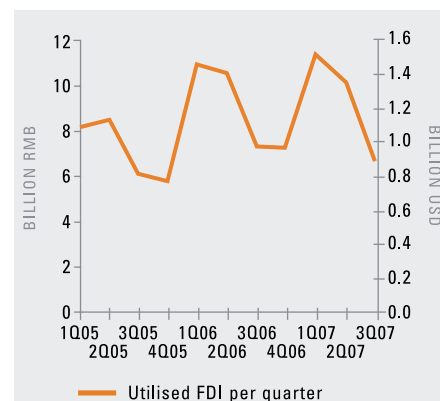
Rentals grew strongly across the market in 4Q07. In Tsinghua Science Park, rentals rose by 8% to RMB 5.40 per sqm per day, while in the BDA, rentals increased by over 20% to RMB 2.68 per sqm per day. This growth is driven by the widespread expansion and new set-up activity in the face of very little new supply. Additionally, the overall quality of new space is higher than what previously existed in the market, which serves to further push up rental levels.

12-Month Outlook

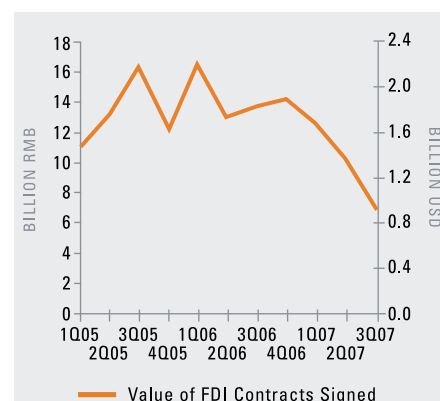
As rentals in well-established science and industrial parks continue to grow, one should anticipate increasing activity in more peripheral areas of Beijing. This is particularly relevant for more pollution-intensive industry that is looking to move outside the 6th Ring Road to areas like Xiji and Langfang, where land is generally significantly cheaper.

The strength of the retail sector and the continued growth of China's economy will see continued strong growth in demand for industrial space, both for light manufacturing/high-tech uses and also logistics support. There is likely to be significant interest in the Airport Precinct with the activation of Terminal Three and the pending Olympics together with new development in the Beijing Airport Logistics Park and Airport City Logistics Park coming on-stream.

The overall quality of new space is higher than what previously existed in the market, which serves to further push up rental levels.



Source: Beijing Statistics Bureau



Source: Beijing Statistics Bureau

Average Gross Rental (RMB per sqm per annum)	
Zone	4Q07
Beijing Airport Logistics Park	438
Tsinghua Science Park	1,971
Zhongguancun Z Park	1,679
Beijing Economic Technological Development Area	986

12-MONTH OUTLOOK

RENTAL VALUE		CAPITAL VALUE	
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Chengdu: Office

Demand

Followed by the historically high take-up level in 3Q07, the Chengdu Grade A office market remained active in end-2007. In spite of some decline compared with that of last quarter, the total absorption in 4Q07 was still at a high level, which amounted to about 16,700 sqm. Overall vacancy rate dropped 5.2 percentage points to 27%.

New completed and high-quality offices were very popular among tenants during 4Q07, represented by three quality buildings, Shangri-La Centre, Plaza Central and Time Plaza, which achieved 76% of the recorded transaction volume. The market showed a notable trend that MNCs upgraded and relocated from Grade B or old Grade A buildings to new high-quality buildings. For instance, Fuji Xerox relocated to Shangri-La Centre, taking 1,480 sqm, Ernst & Young upgraded its facilities to Shangri-La Centre, leasing 1,484 sqm and Raffles City, a subsidiary of CapitaLand, upgraded to Plaza Central, taking 567 sqm.

The office sales market has been strong during 4Q07 after Air China Century Centre was launched for pre-sale in this quarter. State-owned financial institutions showed strong interest to purchase high-quality office buildings for self-use. Air China Century Centre, a Grade A office developed by Air China Group and will be completed in 2008, was involved in a number of strata-sale transactions with banks and financial institutions.

Supply

There was no new supply in 4Q07. The newly completed Huamin Empire Plaza, developed by Shanghai Huamin Group, was no longer considered as a Grade A building since its building provisions cannot meet Grade A office requirements. Therefore, there was only one Grade A office building that was delivered to the market with a GFA of 44,700 sqm in 2007.

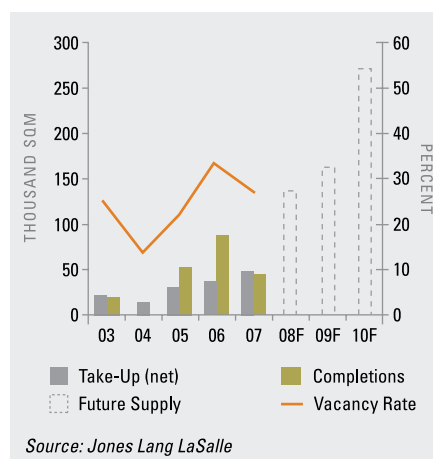
In 2008, there will be two Grade A buildings, Air China Century Centre and Lippo Tower, to be completed, adding 136,000 sqm of new supply to the market. However, the leasable area from these two buildings will be very limited as these two buildings have been strata-titled and the majority of space will be occupied by their owners.

Asset Performance

Influenced by higher rentals in quality offices due to great demand as well as the rentals maintained in old Grade A buildings through lower-tenant positioning, the average effective rental in 4Q07 rose by 2.7 percentage points to RMB 94.9 per sqm per month.

12-Month Outlook

The local government planned to develop Chengdu as the financial centre in West China. We witnessed an increasing number of financial institutions setting up sub-branches in Chengdu, which will bring continuous demand for quality offices. Other industries, particularly professional services, will also be strong sources of office absorption. On the supply side, leasable areas of quality office space will be tight as most spaces of two new supplies in 2008 will be occupied by their owners. We expect the rental and capital values to keep rising in the future, with continuing low vacancy rate as a result of tight supply coupled with increasingly strong demand.



Growth	Rental Value	Capital Value
q-o-q	2.7%	6.5%
1 Year	15.1%	14.7%
3 Years	NA	NA

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	27.0%
Net Rent	RMB 1,139 psm pa
Capital Value	RMB 11,033 psm
Investment Yield	9.7% - 11.8%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Chengdu: Industrial – Business Parks

Demand

Domestic companies and SOEs of finance and high-tech industries showed strong interest in business parks in 4Q07. Demand for both leasing and sales markets was strong in this quarter. Most tenants were finance companies, as the government plans to build a financial service centre in Chengdu High-Tech Development Zone (CDHT). The occupancy rate of several old business parks reached a high level of over 95%, while new completions such as Qingyang Concentrated Industrial Development Zone and Jinniu Concentrated Industrial Development Zone also witnessed a significant rise in occupancy rate by successfully attracting well-financed domestic enterprises. Heeg, located in Jinniu Concentrated Industrial Development Zone in West Chengdu, had sold 96% of its total space. Driven by strong demand, overall vacancy slightly rose by 1 percentage point to 11% despite a number of new supplies coming on to the market in this quarter.

Major leasing and sale transactions:

- > Ping An Insurance leased 3,900 sqm in South Chengdu High-Tech Plaza;
- > China National Petroleum Corporation (CNPC) leased two units in Heeg with a total GFA of 8,000 sqm;
- > Zhejiang Futong Group bought 6,780 sqm in ICON High-Tech International Plaza;
- > Alpha Network Inc (Taiwan) bought 10,000 sqm in Qingyang Concentrated Industrial Development Zone to set up its office headquarters.

Supply

In 4Q07, 34,500 sqm of new supply entered the market, including South Chengdu High-Tech Plaza phase I (19,500 sqm) and Tianfu Creative Industry Garden phase I (15,000 sqm). South Chengdu High-Tech Plaza phase II (19,295 sqm) postponed its completion date to early 2008.

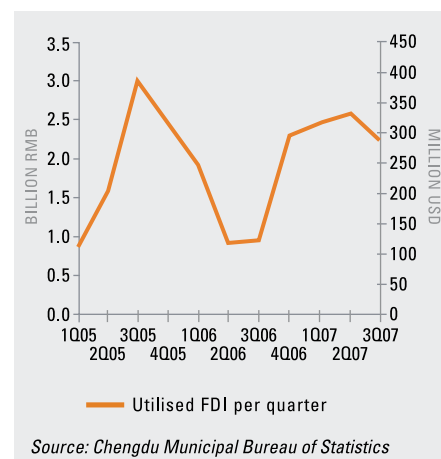
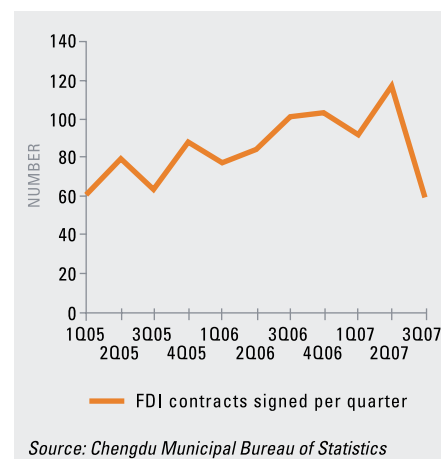
Apart from tradition business parks, supply related to creative industries will rise in the coming years as Sichuan becomes a base of creative industry. Loft 7, which will be completed in 2Q08, has been labelled as ‘the most prospective business park for investment’. Tianfu Creative Industry Garden phase II will be completed in 4Q08 and Qingyang Concentrated Industrial Development Zone will release the new plan of its future supply by 1Q08.

Asset Performance

Influenced by South Chengdu High-Tech Plaza and Heeg, rentals surged by 12% q-o-q to RMB 25.8 per sqm per month in 4Q07 and sales price rose by 6.36% q-o-q to RMB 4,356 per sqm. Besides, the increasing land price also contributed to the rising price. The land in CDHT (south) recorded the highest price in this quarter at RMB 1.54 million per mu (RMB 2,310 psm). The main purchasers of these industrial lands come from local manufacturing and high-tech industries. To improve the efficiency of land utilisation, the government does not limit the plot ratio of these lands so it is very probable for buyers to take the land for self-occupation or investment.

12-Month Outlook

The business parks invested by private companies will become the major trend in the Chengdu market. As a result, supply is expected to surge. As a shortage of land in CDHT appears, other industrial zones try to expand. The anticipated future demand mainly comes from finance, high-tech and creative industries. In the next 12 months, the rentals and sales prices of the Chengdu market will vary as supply–demand changes. It needs further study to see whether the soaring supply would bring a negative impact on asset performance.



Average Effective Rental (RMB per sqm per annum)	
Zone	4Q07*
Chengdu Hi-Tech Industrial Development Zone	408
Jinjiang Industrial Zone	340
Qingyang Concentrated Industrial Development Zone	340
Chengdu National Cross-Straight Technology Industry Development Park	204
Wuhou National Science Park	261
Jinniu Concentrated Industrial Development Zone	306

Average Capital Value (RMB per sqm)	
Zone	4Q07*
Chengdu Hi-Tech Industrial Development Zone	5,933
Jinjiang Industrial Zone	3,500
Qingyang Concentrated Industrial Development Zone	5,000
Chengdu National Cross-Straight Technology Industry Development Park	2,500
Wuhou National Science Park	3,700
Jinniu Concentrated Industrial Development Zone	5,500

12-MONTH OUTLOOK

RENTAL VALUE		CAPITAL VALUE	
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Guangzhou: Grade A Office

Demand

The Guangzhou Grade A office market saw active expansion demand from various industries during 4Q07. The trend of inter-district expansion and relocation from traditional areas such as Dongshan and Yuexiu remained evident. Tianhe CBD and Zhujiang New Town continued to be the most sought-after office markets with a high level of demand, experiencing strong take-up this quarter. The expansion of the financial and banking industry into newly completed Grade A office buildings with higher quality continued to highlight the overall office market during 4Q07. Notable leasing transactions over the last quarter of 2007 included Mizuho Corporate Bank leasing 2,000 sqm in Zhujiang New Town's International Finance Place and ABN Amro occupying 1,200 sqm in Tianhe CBD's Teem Tower. In both cases, the tenants relocated from Dongshan area.

New set-up demand was active on the back of the growing economy in Guangzhou as well as in the Pearl River Delta at end-2007. The Executive Centre committed to open a new office in a newly completed Grade A office building—Skyfame Tower—taking one floor with 1,460 sqm of space.

Overall net absorption amounted to 86,273 sqm in 4Q07, which is 7,646 sqm higher than in 3Q07.

Supply

Three Grade A office buildings totalling 200,695 sqm were completed in 4Q07. Among the new completions is R & F Center (127,695 sqm) in Zhujiang New Town, in which its landlord, Hong Kong-listed developer R & F Properties, occupied approximately 25,000 sqm for headquarters use. The other two newly completed buildings, Skyfame Tower (40,000 sqm) and Victory Plaza phase I (33,000 sqm), were both located in the Tianhe CBD. Completion of these new supply increased the total Grade A office stock to 1,887,542 sqm at end-2007, and pushed overall vacancy level up to 25.3%.

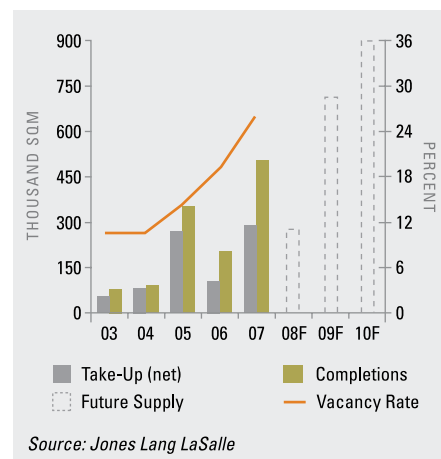
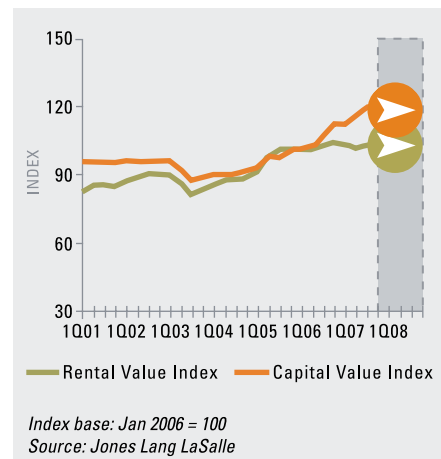
Asset Performance

Although 200,695 sqm of office space entered the market, overall Grade A office rental was broadly stable in 4Q07. The majority of the 506,695 sqm of office space completed in 2007 was of higher quality and specification compared to the existing stock. These new buildings continued to maintain their current rental level while being successful in attracting top-tier tenants. On the other hand, we saw a slight rental decline in older buildings. This led to a minor drop in overall effective rentals of 0.2% over 4Q07.

Investment interest from institutional and individual investors continues to be strong for wholly-owned and strata-titled Grade A office buildings. Limited supply of space for sale boosted capital value growth. Overall capital value rose by 1.9% in 4Q07.

12-Month Outlook

Around 270,000 sqm of Grade A office space is projected to be completed in 2008, which equates to half of the supply in 2007. Apart from one Grade A office building in Dongshan, the other two projects will be located in the Tianhe CBD. Part of the space in these new offices will be occupied by landlords and private owners. Meanwhile, it is expected that the decreasing supply will drive the overall vacancy rate down in 2008. Coupled with the anticipated rise in demand next year, rental is likely to remain stable over the next 12 months.



Growth	Rental Value	Capital Value
q-o-q	-0.2%	1.9%
1 Year	-1.2%	8.5%
3 Years	15.5%	33.2%

* Rental and Capital Values are based on NFA
** Revision of property basket in 3Q07

	4Q07
Vacancy Rate	25.3%
Net Effective Rent	RMB 169 psm pm
Capital Value	RMB 24,104 psm
Investment Yield	7.9% - 9.2%

12-MONTH OUTLOOK

RENTAL VALUE	➔	CAPITAL VALUE	➔
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Guangzhou: Retail

Demand

For the first eleven months of 2007, the total retail sales of consumer goods in Guangzhou registered a y-o-y growth of 18.5%, reaching RMB 235.3 billion. The consumption of jewellery, cosmetics and high-end fashion was the main propeller of retail growth. On the back of rising sales volume and bright economic prospects, retailers are actively expanding in the market, leading to strong take-up of space in prime shopping malls.

Leasing transactions reported during 4Q07 include the following:

- > SM Bellecia, a Korean cosmetics brand, opened a store on the ground floor of Sky Gallery in Citic Plaza. This is its first store in China;
- > V.E.DELURE, a French fashion brand, leased a 100-sqm store on the ground floor of Sky Gallery in Citic Plaza. This is its third store in Guangzhou besides those in La Perle and China Hotel;
- > Titoni leased 90 sqm on the ground floor of Grandview Plaza;
- > UR (Urban Renewal), a fashion brand from the US, leased another 118 sqm for men's clothing on the second floor of Grandview Plaza; and
- > Wanko, a fashion brand that originated from Hong Kong, leased a store on the second floor of TeeMall.

Wal-Mart signed a contract with a shopping mall in Panyu, Guangzhou, to open a Sam's Club store, with over 20,000 sqm of space, in 2008. This will be Wal-Mart's first store in Guangzhou.

Lai Fung sold its 25% of issued share capital in Tianhe Entertainment Plaza to Right Rich Investments Limited, which holds 75% of the plaza, for HKD 422 million. Tianhe Entertainment Plaza consists of East Tower, West Tower and a shopping mall, including hotel, office and retail space, with a total GFA of 25,665 sqm.

Supply

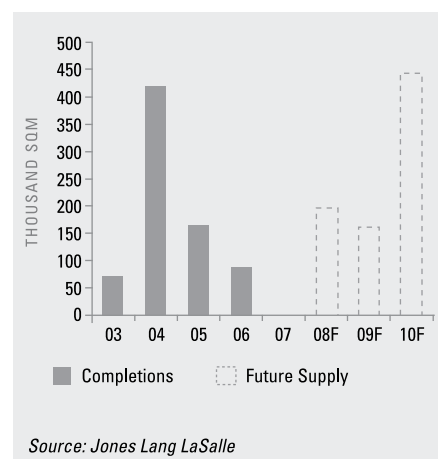
In contrast to the strong demand, the supply of prime retail space is tight in Guangzhou's retail market, with no new supply in 4Q07. However, there will be a surge of supply in 2008, with five projects due for completion within that year, adding 195,500 sqm of retail space to the market. Half of the upcoming supply will be located in Tianhe district, two will be along Beijing Road and the rest along Shangxiajiu Road.

Asset Performance

Owing to the tight supply and strong demand, average rental for prime shopping malls recorded a q-o-q growth of 4.2% in 4Q07, reaching RMB 524 per sqm per month. Prime malls in the Tianhe CBD and other upgraded shopping centres alongside the Lingyuan west catchments continue to outperform the overall market. Since major shopping malls are repositioning, rentals for anchor tenants have seen a continuous rise.

12-Month Outlook

Lured by the rapid economic growth and increasing disposable income in Guangzhou, retailers—both foreign and domestic alike—are eager to capture market share in Guangzhou. However, with ample supply in 2008, the chances of a sharp rise in average rentals for prime retail catchments are slim. Instead, we expect moderate and steady rise in rentals.



Growth	Rental Value	Capital Value
q-o-q	4.2%	NA
1 Year	9.6%	NA
3 Years	NA	NA

* Rental values is based on GFA

	4Q07
Vacancy Rate	NA
Net Effective Rent	RMB 524 psm pm
Capital Value	NA
Investment Yield	NA

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
	NA

Guangzhou: Industrial – Business Parks

Demand

The development of business parks in Guangzhou maintained momentum in 4Q07. Guangzhou Development District (GDD) recorded a contracted FDI of USD 1.88 billion for the first ten months of 2007, representing a 13.1% y-o-y growth. The figures showed the interest of foreign companies in Guangzhou's business parks. Examples include the following:

- > JATCO, the world's second largest manufacturer of automatic transmissions, sets up its production base in Guangzhou Science City, which is also its first one in China. The total investment amounts to USD 90 million and it will start operation in 1H09.
- > Microsoft (China) Industry Base in Guangzhou Science City had commenced construction on 10 November 2007, and is due for completion in October 2008. Situated at the heart of Science City, the base covers a 150,000-sqm site area and the GFA will reach 300,000 sqm. The base will include Microsoft Technology Centre in South China, an advanced software training centre and a business operation centre as well as an international software outsourcing industry base.

In order to attract more companies in the secondary and tertiary industries, GDD offers incentives of up to RMB 20 million to companies, which will set up their headquarters in the district.

Supply

The second part of phase I of the Headquarters Economic Zone in Guangzhou Science City is planned to commence construction in December and due for completion in August 2009. The investment involved reaches RMB 214 million, and the construction area above ground is about 30,500 sqm.

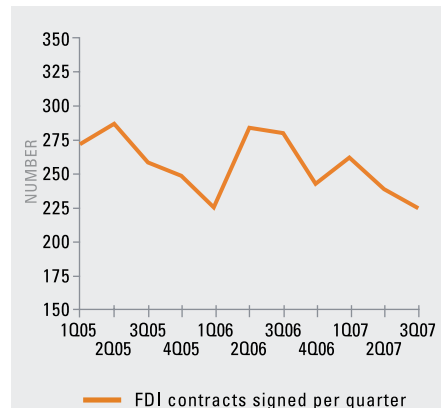
The Guangzhou Science City Commercial Centre may open at end-2007. With a construction area of 435,600 sqm, it is the largest commercial complex in Guangzhou at present. It is said that some of the office buildings may be sold to large MNCs in GDD.

Asset Performance

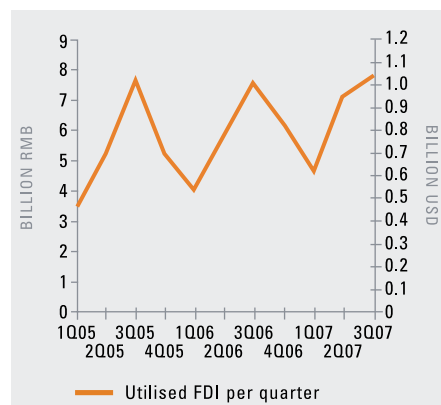
There was no big change in tenants in business parks and no dramatic change in average rentals during 4Q07. Average rentals edged up 1.57% over 3Q07. As of end-2007, rentals for industrial offices ranged between RMB 20 per sqm per month and RMB 85 per sqm per month (gross), depending on the location, building quality and government incentives.

12-Month Outlook

Economic growth in Guangzhou's business parks remained robust. For instance, GDD registered a GDP growth of 19.05% y-o-y for the first three quarters of 2007. In the future, GDD intends to focus more on the services industry and encourage more innovations. With corresponding incentive measures, more and more companies, such as high-tech companies and back office operations of banks and financial companies, will be attracted to Guangzhou's business parks. We are optimistic about this property sector and believe that rentals will remain stable in the years ahead.



Source: Guangzhou Statistical Bureau



Source: Guangzhou Statistical Bureau

Growth	Rental Value	Capital Value
q-o-q	1.6%	NA
1 Year	6.6%	NA
3 Years	NA	NA

Average Effective Rental (RMB per sqm per annum)	
Zone	4Q07
Science City	357
Tianhe Software Park	732
Haizhu & Panyu Area	558

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE

NA

Shanghai: Office

Demand

Driven by the continued demand from new set-ups as well as the aggressive expansion from existing tenants, city-wide vacancy edged further down to 1.56% in 4Q07. As a result, pre-leasing has been active on both sides of the Huangpu River. Plaza 336, which began pre-leasing in 2Q07, entered the market in 4Q07 with only three floors left for lease. Owing to the strong demand and little available space, many tenants were also forced to look outside of the core CBD to fill their space requirements. Metro Plaza in Hongqiao, which was handed over just last quarter, is already 91% occupied, up from 40% in 3Q07. As next year's supply surge in Pudong nears, we have seen more pre-leasing on that side of the river as well. Pre-commitments in Mirae Asset rose from 4% in 3Q07 to 30% in 4Q07. Pre-leasing in One Lujiazui saw a similar rise, from 1% during the last quarter to 25% in this quarter.

Supply

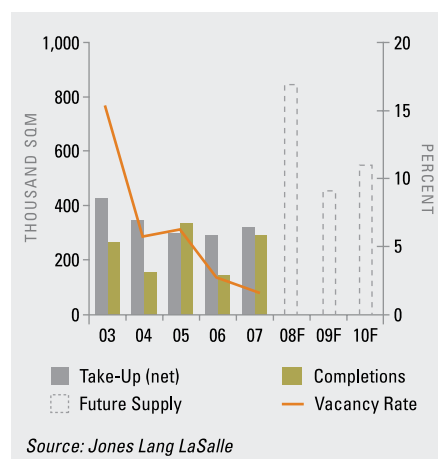
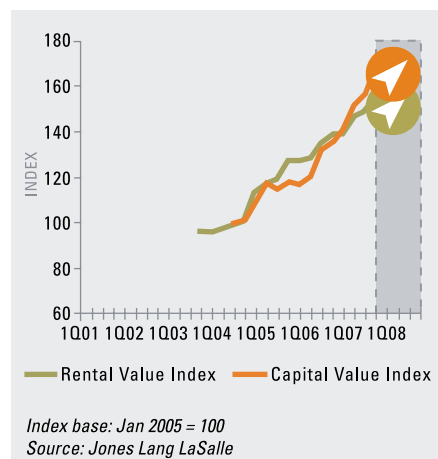
New supply this quarter was limited, with only two projects coming online. Chong Hing Finance Center in Puxi and Chamtime International Financial Center in Pudong added a total of only 78,660 sqm to the Shanghai office market. However, the supply situation will dramatically change in the coming quarters. By end-2008, eight buildings, totalling 652,234 sqm, will enter the Pudong market. However, supply will remain tight for a little longer in Puxi, with only three buildings, totalling 182,154 sqm, coming online over the next 12 months.

Asset Performance

Tight supply combined with rising demand resulted in rental increases across the city. Rentals for the city's overall Grade A market have rose 5.02% to RMB 8.80 per sqm per day. Rental increases among premium Grade A buildings in 4Q07 have been even greater. A rise of 5.65% has brought the average rentals up to RMB 11.60 per sqm per day. In 3Q07, we saw a rush to complete acquisitions before regulatory changes were announced and since then have seen little activity in the investment market.

12-Month Outlook

Over the next 12 months, we will begin to see a divergence in rentals between the two sides of the Huangpu River. Rental growth in Puxi will continue at a strong pace throughout the next 12 months. However, with the flood of supply coming online in Pudong over the next 12 months, we will begin to witness a sluggish rental growth. As the gap in rentals reverses, it will be interesting to see which tenants make the leap from Puxi to Pudong first.



Growth	Rental Value	Capital Value
q-o-q	5.0%	6.7%
1 Year	13.5%	23.5%
3 Years	56.2%	63.5%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	1.6%
Net Rent	RMB 3,219 psm pa
Capital Value	RMB 41,385 psm
Investment Yield	7.3% - 8.9%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Shanghai: Office – Pudong

Demand

The healthy demand for office space from the financial sector, as well as an increasingly diverse group of occupiers, has continued in Pudong. For example, BP took 6,000 sqm in You You International Plaza, Shimao Group took 8,000 sqm in One Lujiazui and Bank of Tokyo-Mitsubishi UFJ leased 2,000 sqm in Bank of Shanghai Tower. With strong demand and limited supply, the Pudong office market is still a landlord's market. However, as opposed to recent quarters, tenants are beginning to receive more concessions. Much of the demand in Pudong in 4Q07 came from relocations and expansions. A number of occupiers, such as EMC, are taking over previous tenants' existing fit-outs. The rationale behind this trend is that with the significant number of new options hitting the market over the coming 24 months, this is not the right time to invest a large amount of capital in an expensive fit-out. While it has not yet become a deal breaker, 4Q07 has also seen the emergence of sustainability as a factor that MNC occupiers consider when selecting office space. The global platforms of many MNCs include sustainable features, and this is beginning to be reflected in their choice of office space. As Shanghai IFC has been designed for LEED certification, it will be interesting to see if others will follow suit.

Supply

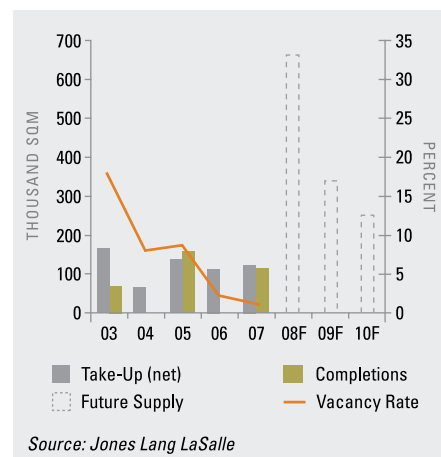
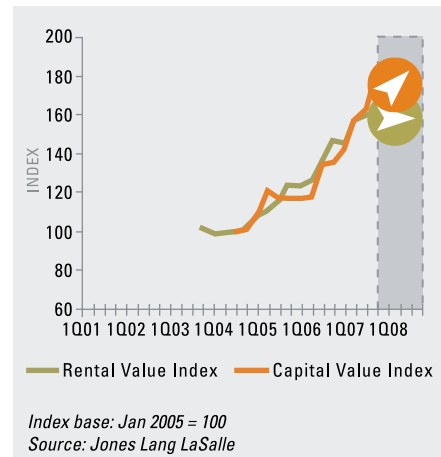
With only Chamtime International Financial Center coming online, the supply situation in Pudong is still very tight. Limited supply is the direct result of a number of building delays, including Mirae Asset, Golden Landmark, Shanghai World Financial Center and One Lujiazui, which have plagued the Pudong market. Delays have been attributed to the inexperience of some developers as well as a stricter certification process. The Shanghai government realises that Lujiazui is on the world stage. The result has been the lengthening of the time required for things such as fire safety certification, which took very little time in the past. Over the next 12 months, the supply floodgates will open, with eight buildings totalling 652,234 sqm entering the market.

Asset Performance

As a result of strong demand and extremely limited supply, rentals grew sharply in 4Q07. Average rentals rose by 6.6 % q-o-q to RMB 9.50 per sqm per day. As we transition from a landlord's market to a tenant's market, a gap has emerged between asking and achievable rentals. In a few of Pudong's higher-profile buildings, the gap can be as much as 25–40%. Vacancies are at rock-bottom levels in Pudong and are expected to remain low in premium Grade A buildings. However, vacancies in older Grade A buildings will rise as higher-quality stock enters into the market over the next 12 months.

Major Leasing Transactions

- > Shimao Group took 8,000 sqm in One Lujiazui in an expansion/move from Jinmao Tower;
- > BP took 6,000 sqm in You You International Plaza; and
- > Bank of Tokyo-Mitsubishi UFJ leased 2,000 sqm in Bank of Shanghai Tower.



Growth	Rental Value	Capital Value
q-o-q	6.6%	9.5%
1 Year	16.8%	31.9%
3 Years	69.1%	76.9%

* Rental and capital values are based on GFA

Grade A	4Q07
Vacancy Rate	0.8%
Net Effective Rent	RMB 3,474 psm pa
Capital Value	RMB 44,694 psm
Investment Yield	7.5% - 8.2%

12-MONTH OUTLOOK

RENTAL VALUE

CAPITAL VALUE

Shanghai: Office – Puxi

Demand

Demand for office space in Puxi has continued to be strong during 4Q07, with new buildings being filled up quickly. Plaza 336, which started pre-leasing in 2Q07, is now nearly full with only three floors left, and Metro Plaza, which was completed just last quarter, is already 91% occupied. A number of occupiers have taken large amount of space in Metro Plaza. Japanese automotive company Isuzu took 720 sqm, American orthopaedics manufacturer Zimmer leased 1,443 sqm and Sanei took another 940 sqm in the building. The rising demand for IPO assistance, as well as compliance and listing issues, is coming not only from the banking sector but also from a growing number of local companies. The high demand for audits has spurred the rapid expansion of accounting firms in Shanghai. Deloitte expanded in Bund Center in 3Q07, and Ernst & Young took 4,328 sqm in Cloud 9 to serve as a back office and an additional 7,796 sqm in Park Place.

Strong demand and tight supply forced occupiers to begin looking outside of central Puxi to fill their space requirements. Rather than looking to Pudong to fill their needs, the majority of tenants are seeking space in decentralised locations in Puxi. Employee attrition is the most commonly cited reason for staying in Puxi. Deloitte recently conducted an informal staff survey, which revealed that the majority of junior-level to middle-level staff members would be unhappy with moving to Pudong. BP recently moved to You You International Plaza in Pudong but only after negotiations broke down with Cloud 9, which was its first choice. In the future, law firms and other small-partnership companies may begin to move from Puxi to Pudong. The lack of a large base of junior-level staff in these types of companies make them more nimble and therefore able to capitalise on the lower rentals expected over the next 12 months as a large amount of supply is completed in the Pudong market.

Supply

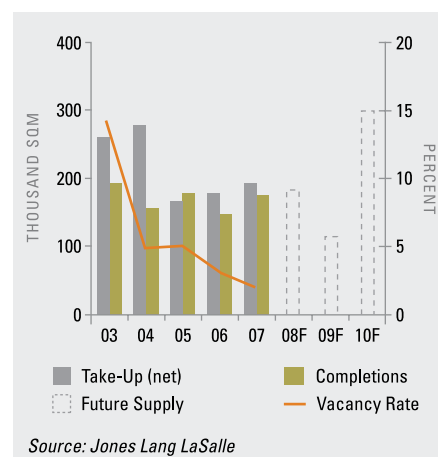
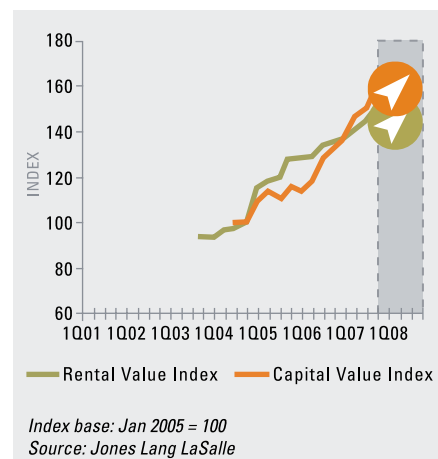
The only project that was completed in Puxi in 4Q07 was Chong Hing Finance Center in Huangpu District, adding a much-needed 33,660 sqm into the market. The tight supply situation in Puxi is likely to continue through 2008. With the large amount of supply coming online next year in Pudong, occupiers may begin to be lured to the other side of the river. In Hong Kong, one major occupier, Morgan Stanley, once moved from Central to Kowloon, and a number of others followed. If rentals in Pudong fall significantly, the same thing could happen in Shanghai in 2008.

Asset Performance

As a result of the robust demand and few supply options, rentals continued to rise in 4Q07. The average rentals in Puxi rose by 4.23% q-o-q to RMB 8.50 per sqm per day. For the seventh consecutive quarter, yields continued to firm, slightly falling to 7.78%.

Major Leasing Transactions

- > Ernst & Young pre-leased 7,796 sqm in Park Place;
- > Zimmer leased 1,443 sqm in Metro Plaza;
- > Sanei leased 940 sqm in Metro Plaza;
- > Motorola leased 733 sqm in CITIC Square; and
- > TEC leased 2,330 sqm in The Center.



Growth	Rental Value	Capital Value
q-o-q	4.2%	5.3%
1 Year	11.9%	19.7%
3 Years	50.4%	57.4%

* Rental and capital values are based on GFA

Grade A	4Q07
Vacancy Rate	1.9%
Net Rent	RMB 3,103 psm pa
Capital Value	RMB 39,876 psm
Investment Yield	7.3% - 8.9%



Shanghai: Retail

Demand

Driven by healthy retail sales, robust retail sector growth continued in 4Q07. Rising consumption, fuelled by stock market gains pushed retail sales to reach RMB 8 trillion this year, up 16.4% from last year. Luxury brands are now looking for larger spaces than before to introduce more product lines, they especially prefer duplex stores with double façades because they increase the visibility of the brand. Visibility and brand awareness are important in this increasingly competitive retail landscape. Gucci will open a double-façade store in CRC Times Square in Pudong early next year. Montblanc's recently opened flagship store in CITIC Square is the largest Montblanc store in the world and maximises the visibility of that space with two floors and expansive windows facing the street.

Mini anchors, including multi-brand shops, flagship shops and fast fashion retailers are actively expanding in the market. Lane Crawford department store has announced that it will shift from a traditional department store format to a fashion buyer style format, transforming the traditional department store into a multi-brand store. Lane Crawford is currently seeking new stores sites with total area at around 8,000 sqm. Fast fashion retailers are still expanding quickly in the market, as ZARA has confirmed the opening of a new store in Joffre 688, while C&A is setting up a new store located just opposite Joffre 688 in Huaihai Middle Road.

Supply

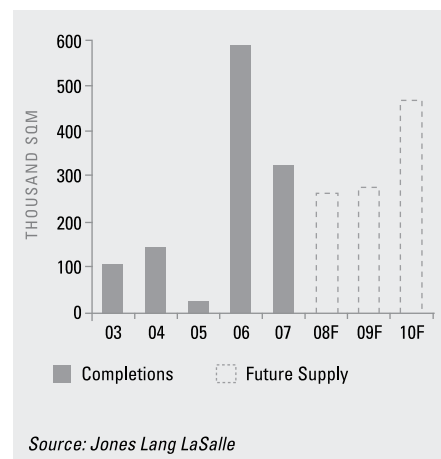
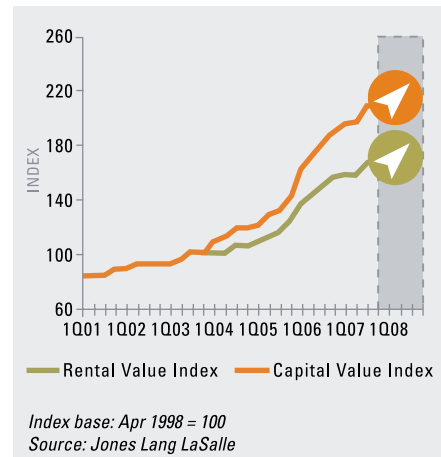
As a result of limited land supply in prime retail areas, many existing projects are being redeveloped or upgraded to maximise the use of existing land and existing structures. Rock Bund, a mixed-use project comprising 12 heritage buildings located in the bund area, will begin pre-leasing soon. The project will include boutique stores on the ground floor of the buildings and office space and a boutique hotel on upper floors, and is expected to be completed by end-2009 and open for business by early-2010.

Asset Performance

Average rentals increased by 2.0% over 4Q07, with the largest growth occurring in the Xujiahui area, which has recently received increasing attention from international retailers and even a number of luxury brands. Vacancies reached a historical low, falling to a tight 3.67%. The most remarkable drop in vacancies occurred in Shanghai Infiniti which fell from 40% last quarter to around 6% this quarter.

12-Month Outlook

We will see fewer prime retail projects completed in 2008 than 2007, with total GFA at 265,043 sqm, down 24.2% y-o-y. These projects will include Dragon Gate Mall located in City God Temple area, Tom Lee Building located in Nanjing West Road, Park Place located in the Jing'an Temple area (will be opened at late-2008 or early-2009), Plaza 353 located in Nanjing East Road and so forth. The majority of the new supply will be located in the traditional retail clusters within Jing'an and Huangpu districts, which are going to relieve the tight supply condition of prime retail properties.



Growth	Rental Value	Capital Value
q-o-q	2.0%	2.0%
1 Year	9.4%	12.3%
3 Years	60.5%	79.1%

	4Q07
Vacancy Rate	3.7%
Net Rent	RMB 15,273 psm pa
Capital Value	RMB 130,686 psm
Investment Yield	11.2%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Shanghai: Luxury Residential

Demand

To curb property speculation and to restrain the continuing hikes in housing price, China's Central Bank raised down payment for second property buyers to 40% from previously 30% on 27 September 2007. The definition of second property buyer was clarified on 11 December 2007 that it refers to families of mortgage applicants rather than individual applicants.

Nevertheless, as we observed, luxury apartment buyers tend to have relatively strong financial affordability. As such, the impact of the new regulation on the luxury residential market has not been significant. Buying demand remained steady in 4Q07. It was evidenced by the sales volume of 40 units (out of 50 units) in the Prince Hills project, developed by Yuchang Real Estate in Changning district in the quarter.

Leasing demand for both serviced and non-serviced apartments remained solid throughout 4Q07. Senior expatriates from MNCs continued to relocate to Shanghai and are a major tenant group and source of demand. Although the quarter saw additional supply from both new completions and secondary market, average vacancy rate just rose slightly from 8.66% in 3Q07 to 9.5% in 4Q07.

Supply

The only new completion this quarter was Jing'an Four Seasons in Jing'an District, adding 419 units to the market. Projects that are scheduled for completion in 2008 include Chateau Pinnacle in Changing District and Fraser Place in Pudong District, which are both delayed from 4Q07. Other projects, such as The Peak in Jing'an District, Huaihai Apartments in Xuhui District and Prince Hills in Changning District, are all expected to be handed over in 2008.

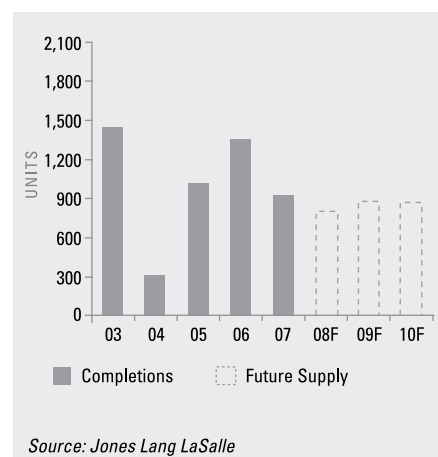
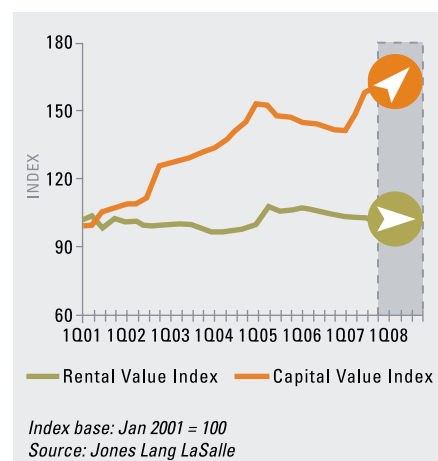
In terms of pre-sale, we expect to see more new supply in 2008 compared to that in 2007. Major new launches will include Lakeville phase III in Luwan District, Prince Hills in Changing District and Lanxin Apartment in Luwan District.

Asset Performance

With new supply coming to the market, rental value faced downward pressure. Average rental in the luxury residential market reached RMB 213 per sqm per month in 4Q07, showing a 1.23% decline compared with in the last quarter. On the other hand, capital value grew steadily and reached RMB 34,244 per sqm, experiencing a 2.31% q-o-q or 14.0% y-o-y rise in 4Q07, mainly due to the continuous buying interest in the Shanghai luxury residential market.

12-Month Outlook

We expect buying demand for luxury apartments to remain strong in 2008, on the back of broad strong investment interest from both domestic and foreign buyers. On the supply side, according to the developers' schedule, more new units are likely to be offered for sale in 2008. However, we believe the new supply will still be very limited in comparison to demand. Therefore, capital values of luxury apartments in Shanghai are likely to continue to increase steadily. Rental values will also rise, but in a slower manner, resulting in declining yield.



Growth	Rental Value	Capital Value
q-o-q	-1.2%	2.3%
1 Year	-2.3%	14.0%
3 Years	3.3%	11.8%

* Rental and capital values are based on GFA

	4Q07
Gross Rent	RMB 2,556 psm pa
Capital Value	RMB 34,244 psm
Investment Yield	4.9% - 7.1%

12-MONTH OUTLOOK

RENTAL VALUE	→	CAPITAL VALUE	↗
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Shanghai: High-end Residential

Demand

In spite of the wait-and-see attitude in the mass market, buying demand for high-end apartments in Shanghai remains solid in 4Q07 as is the case for luxury apartments. City Castle in Jing'an District, for instance, sold out the remaining 36 units in 4Q07 at an average price over RMB 46,000 per sqm.

Leasing demand was solid this quarter, driven by more expatriates coming to Shanghai. Vacancy rate almost kept unchanged and stood at 14.72% in 4Q07. High-end apartments in Jing'an District became the most popular ones, followed by those in Pudong, mainly due to the reason that the properties in the aforementioned area are close to Shanghai's two major grade A office clusters – Nanjing West Road in Jing'an District and Lujiazui in Pudong.

Supply

There was a surge in new completions this quarter. A total of 1,645 units were handed over, in contrast to 1,639 units in the first three quarters of 2007. Major new completions include 946 units from Eight Park Avenue in Jing'an District and 307 units from Forte Elegant Garden phase II in Huangpu District. Moreover, City Castle added another 392 units into the market, 292 units of which are for strata-title sale and the remaining 100 units for lease only.

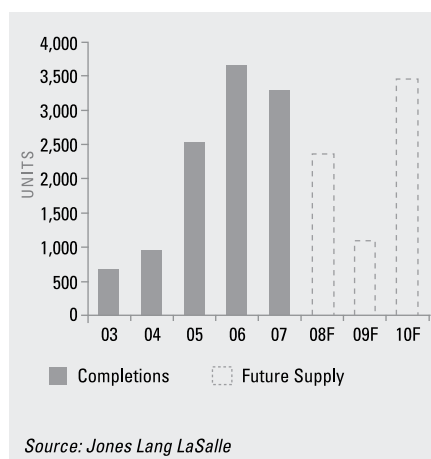
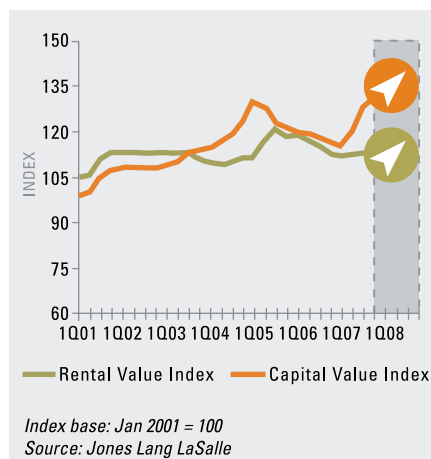
Le Marquis in Xuhui District has been delayed for handover to next year. New completions in 2008 also include The Bund Side phase II in Huangpu District, Maison Des Artistes in Changning District and Yongye Apartment phase II in Luwan District.

Asset Performance

With solid buying demand, capital value witnessed a steady increase of 2.22% q-o-q or 12.7% y-o-y this quarter and stayed at RMB 23,068 at year-end. Meanwhile, leasing demand for high-end apartments remained solid in the quarter. As such, in spite of the increase in new supply, rental value still remained at the level of RMB 117 per sqm per month in this quarter, with a rise of 0.07% q-o-q.

12-Month Outlook

New expatriates will continue to come to Shanghai since most MNCs are still keeping their pace of aggressive expansions in China, as evidenced by the strong office space requirements in Shanghai. Therefore, we expect that vacancy rate for high-end apartments will slightly go down, with rental values growing steadily as there will be a decrease in new completions in 2008. On the buying side, Shanghai still attract investors both from domestic and abroad. Demand would still remain strong and further growth in capital values could be expected.



	Rental Value	Capital Value
Growth q-o-q	0.1%	2.2%
1 Year	-0.5%	12.7%
3 Years	1.6%	6.7%

* Rental and capital values are based on GFA

	4Q07
Gross Rent	RMB 1,409 psm pa
Capital Value	RMB 23,068 psm
Investment Yield	4.8% - 7.7%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Shanghai: Industrial - Business Parks

Demand

Demand for high-quality office and R&D space in Shanghai's business parks remained strong throughout 4Q07 as MNCs continue to enter the market. A number of large leasing transactions occurred this quarter. An online job search firm took 4,300 sqm in First Shanghai. TRW, an automotive safety equipment manufacturer and a Blackstone affiliate, leased 7,000 sqm in Caohejing. A California-based semiconductor producer, Atheros, took 3,000 sqm in Zhangjiang's Microports. Simon & Simon took another 8,000 sqm in Microports. As the business park market matures and developers begin to cash out their investment, a concern among occupiers has emerged. Tenants that occupy many floors, or even several buildings, worry that the landlord could strata sell their space, leaving them with multiple landlords. To address this problem, many tenants have begun negotiating terms into their contracts, limiting the number of buyers the landlord can sell to.

Supply

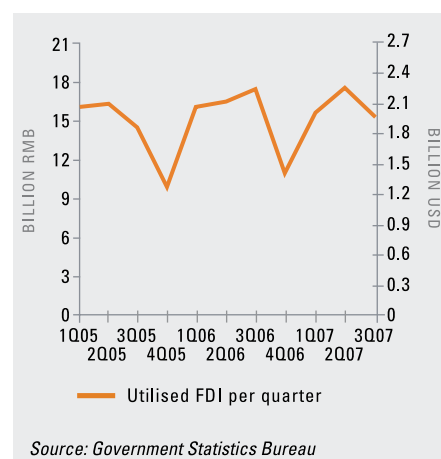
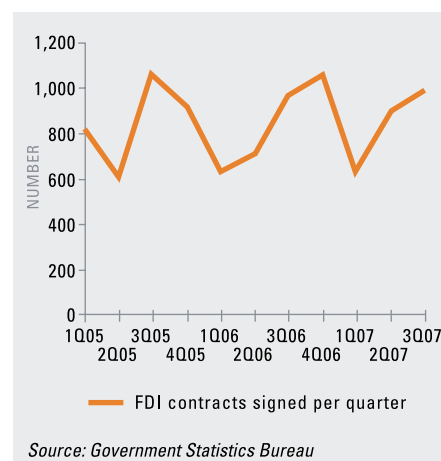
Towers are beginning to spring up in business parks in an effort to maximise the use of limited land area. While many of these towers rival their downtown counterparts in terms of height and quality, they are not currently able to achieve higher rentals in the high zones as compared to those in the low zones. In fact, the majority of business park towers are seeing rentals in roughly the same range as traditional low-rise buildings. Refurbished factories, dubbed 'brown-built facilities', are emerging as a popular choice for design-conscious tenants. The factories in Zhabei include both a tower and brown-built facilities and have proven to be popular among tenants that are searching for a unique point of difference. Caohejing's brown-built SBA site will boast the added advantage of including retail space and an amenities centre.

Asset Performance

With strong performance in areas such as Shibei's Innovation Park and Zhanjiang's First Shanghai and KBT offsetting new supply, vacancies fell by 4.1 percentage points to 8.9%. Rentals in Shanghai's business park market rose at a faster pace than in the previous two quarters, rising 3.8% from RMB 3.15 per sqm per day to RMB 3.27 per sqm per day. The modest rise in rentals, combined with stable capital values, has caused yields to rise from 10% to 10.4% this quarter.

12-Month Outlook

Over the coming year, demand will roughly equal supply, holding vacancy fairly constant. Small-scale developments (15,000–20,000 sqm without phases) located in Middle Ring Road will fill the niche demand from occupiers that do not need a high-profile building in the downtown area but are not large enough to build their own space in the outskirts of the city. These developments, which are being developed by wealthy individuals rather than the government, offer several advantages over peripheral areas. As opposed to government-developed parks, these developments do not limit the tenants that are accepted into the park to certain industries. They are also being developed in more developed areas and, as such, offer greater convenience. The disadvantage of these developments is that they do not offer government incentives.



Average Effective Rental (RMB per sqm per annum)	
Zone	4Q07
Knowledge & Innovation Centres	1,825
IBP	1,387
Zhangjiang	1,314
Caohejing	1,173
Shibei	937
Zizhu	730

Average Capital Value (RMB per sqm)	
Zone	4Q07
IBP	18,888
Knowledge & Innovation Centres	15,000
Caohejing	12,598
Zhangjiang	12,486
Shibei	8,409

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Shanghai: Industrial – Logistics

Demand

The major transaction in 4Q07 occurred in Songjiang, where the third-party logistics provider (3PL) Shenzhen ST-Anda Logistics Company tasked Italian warehouse developer Vailog with the construction of a 119,000-sqm warehouse. This was Vailog's first warehouse in China, and the deal was entirely driven by demand. Luxury retail continues to be the main driver behind the growth in the logistics market in Shanghai, with Franco Vago, an Italian freight forwarder, taking a 3,900-sqm warehouse in Jinqiao and supplying mainly retail stores. Other leasing transactions include DHL, which leased a 51,000-sqm warehouse from Goodman International in Kangqiao, and Laurels, which leased 10,000 sqm from ProLogis in Lingang.

Supply

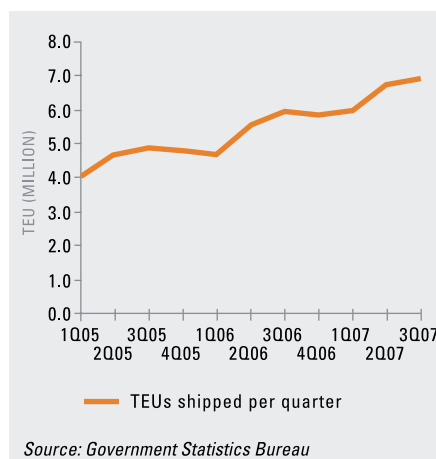
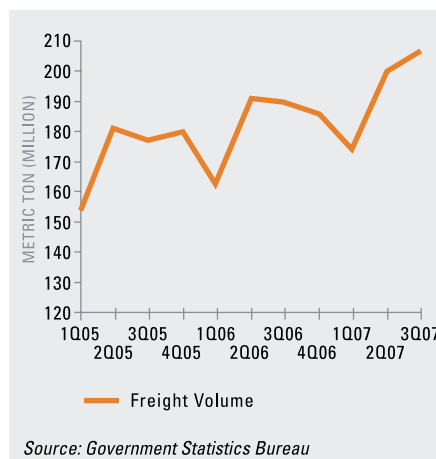
Five new projects were completed in 4Q07. ProLogis added two new projects to the market—a 43,657-sqm renovation of a warehouse in Xujing, Qingpu and the phase III of ProLogis Park Lingang—totalling 23,220 sqm of lettable space. Other projects include a 20,000-sqm warehouse from the Minhang government, a 20,000-sqm warehouse in Songjiang from a local developer and a 15,000-sqm project by Shanghai's Bailian Logistics in Putuo district.

Asset Performance

Average rentals are at RMB 1.20 per sqm per day, representing a 3.4% q-o-q increase. After Waigaoqiao and Northwest both raised their rents in 3Q07, other areas such as Minhang, Pudong and Songjiang have followed suit in 4Q07, with Minhang rentals rising by 10%. Average capital value growth is higher this quarter, increasing 7% q-o-q to RMB 5,093 per sqm. This is because more and more logistics developers enter the market, causing the annual investment yield for warehouses to fall by 3.4% to 8.6%. One investment transaction occurred this quarter, with ProLogis purchasing a facility with a total GFA of 110,000 sqm.

12-Month Outlook

The total supply of 709,385 sqm in 2007 was similar to that in 2006 (698,856 sqm) and is becoming scarce due to aggressive attempts by developers to obtain land. With supply forecast to fall dramatically by 37% in 2008 and demand expected to remain strong, rentals will continue to rise. More and more investment in this sector over the next 12 months will mean that land will become even scarcer, driving up capital values and compressing investment yields further.



Average Effective Rental (RMB per sqm per annum)	
Zone	4Q07
Waigaoqiao	500
Lingang	390
Baoshan	380
Songjiang	350
Pudong Airport	420
Northwest	440
Minhang	400

Average Capital Value (RMB per sqm)	
Zone	4Q07
Waigaoqiao	5,600
Baoshan	4,000
Northwest	4,650
Songjiang	3,850

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Shanghai: Industrial – Manufacturing

Demand

There has been a big increase in the number of industrial plots of land being listed, from 48 in 3Q07 to 81 in 4Q07. This suggests that the new land auction policy introduced in 2007 is maturing. In terms of leasing transactions, we have seen a pharmaceutical company took 2,000 sqm in Kangqiao, a Taiwanese mechanical company leased 5,000 sqm in Baoshan, an Italian furniture maker took 2,500 sqm in Qingpu and a German equipment manufacturer took 3,000 sqm, also in Qingpu.

Supply

Total supply fell by 20% from 220,000 sqm in 3Q07 to 175,000 sqm in 4Q07, reflecting the fact that land is becoming tighter in Shanghai. The majority of this quarter's new supply is made up of multi-storey factories. Two new predominantly multi-storey projects are being completed in Jinqiao Industrial Park and Xinzhuang Industrial Park, bringing 45,000 sqm and 70,000 sqm of space to the market, respectively. Meanwhile, 60,000 sqm of single-storey space was completed in Songjiang Industrial Park.

Asset Performance

Average asking rentals rose 7% q-o-q to RMB 0.70 per sqm per day. The rise was entirely attributed to the increase in rentals in Songjiang Industrial Park, owing to the 60,000-sqm new supply of single-storey buildings in the park, which are more desirable due to their higher ceilings (7–12 m compared to 4–5 m) and exclusivity of occupation. Rentals in all other industrial parks remain unchanged. Land values rose by 3.6% q-o-q, reflecting the shortage of industrial land. The average vacancy across all parks has fallen to 30% as the market gradually absorbed the existing properties that were completed in the past six months. High vacancy is still attributable to the high vacancies on the upper floors of multi-storey properties. Investment yield significantly fell to 8.5% from 9.4% during the last quarter. This is due to confirmed increases in capital values in three industrial zones—Songjiang, Nanhui and Jiading—where landlords are unwilling to sell but are more willing to hold onto their assets.

12-Month Outlook

Land values are expected to continue rising because of the limited available land quota, while vacancy rate will continue to fall as more and more supply is absorbed. As the land auction system becomes more established, the previously well-documented transparency and pricing problems will be solved.



Average Effective Rental (RMB per sqm per annum)	
Zone	4Q07
Xinzhuang	310
Songjiang	274
Baoshan	292
Nanhui	248
Jiading	219
Qingpu	245
Fengpu	201

Average Land Value (RMB per sqm)	
Zone	4Q07
Xinzhuang	740
Songjiang	465
Baoshan	450
Nanhui	420
Jiading	600
Qingpu	450
Fengpu	501

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Tianjin: Office

Demand

In 4Q07, Japanese trading corporations were the most active tenants in the Tianjin market, leasing 3,477 sqm of high-quality space. Murata Electronics Trading relocated to The Exchange Tower 2 from The Exchange Tower 1, doubling its space to 872 sqm. Meanwhile, Toyota Tsusho Corporation also leased 1,637 sqm in the same building. CMA-CGM Logistics expanded 500 sqm in Tianjin International Building, occupying 1,700 sqm. With MNCs looking for high-quality premises in the city, The Exchange Tower 2, which opened in June 2007, was about 50% occupied by year-end. The first serviced office operator in Tianjin—The Executive Centre—already signed a lease contract with The Exchange Tower 2, occupying a whole floor of 1,409 sqm. Demand for office space was robust, and we expect to see strong demand from European companies in 2008. Among all the Grade A transactions in this quarter, 65.1% were relocation—showing strong demand from companies that are upgrading their office space, 18.3% were new set-ups and the rest were expansion.

Supply

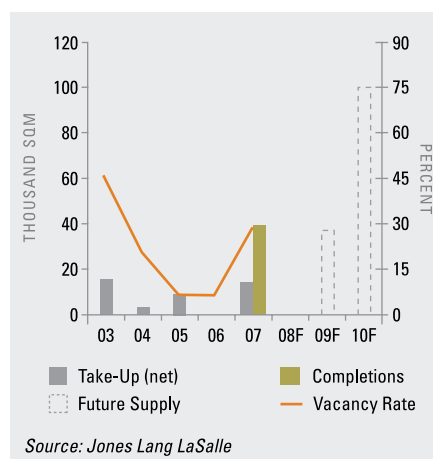
There was no new supply in 4Q07. The 39,449-sqm The Exchange Tower 2 was the only new supply during the entire year. Owing to the very limited Grade A office supply, vacancy rate decreased from 33% in 3Q07 to 27.2% in 4Q07. Tianjin Centre, which was scheduled to be completed in 2008, was postponed to 2009, resulting in no new supply entering the market until 2009. We believe that this will further sharpen the scarcity of available high-quality office space.

Asset Performance

In 4Q07, the effective rental of Grade A office in Tianjin grew by 7.28% q-o-q, reaching RMB 136.93 per sqm per month from RMB 127.63 per sqm per month in 3Q07. The main driver pushing rentals higher came from the landlord of The Exchange Tower 2, which upon seeing strong demand for this best building in town raised its rental rates. Capital values of Grade A office rose to RMB 16,922 per sqm, a slight growth of 0.57% q-o-q. As a number of foreign investors are looking for appropriate properties, which are not necessarily Grade A office buildings, and negotiating with local landlords, we may expect some en bloc transactions in 2008.

12-Month Outlook

Besides the delay of Tianjin Centre, Hutchison Whampoa's project was also postponed to 2010 from its original plan of opening in 2009. Future supply will be a key topic in Tianjin in the next several years with a large amount of space completed. These projects will introduce new levels of construction quality and amenities, including larger floor plates, higher ceilings and so forth. In 2008, space in well-specified buildings will be in short supply, and rentals will continue to rise.



	Growth	Rental Value	Capital Value
q-o-q		7.3%	0.6%
1 Year		8.3%	9.6%
3 Years		-15.3%	17.2%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	27.2%
Effective Rent	RMB 1,643 psm pa
Capital Value	RMB 16,992 psm
Investment Yield	9.7%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Tianjin: Retail

Demand

Booming economy and rising incomes continued to drive Tianjin's retail market. Opening its first store in the city, IKEA pre-leased 66,700 sqm in the 810,000-sqm Top 1 Mall, which is located in Dongli district. Sephora, a cosmetics chain owned by LVMH Group, opened its first Tianjin store in December on the ground floor of Milenio along Nanjing Road, occupying 350 sqm of space. Meanwhile, fashion retailers are also expanding their presence in the city together with F&B operators. Golden Jaguar leased a whole floor of 8,600 sqm in the newly opened Robbinz Department Store. Din Tai Fung opened its first store in Hexi district, which is also its largest flagship store in China, occupying an area of 2,000 sqm. South Beauty also leased 1,700 sqm of space in Five Great Roads Area to open its first store in the city.

Supply

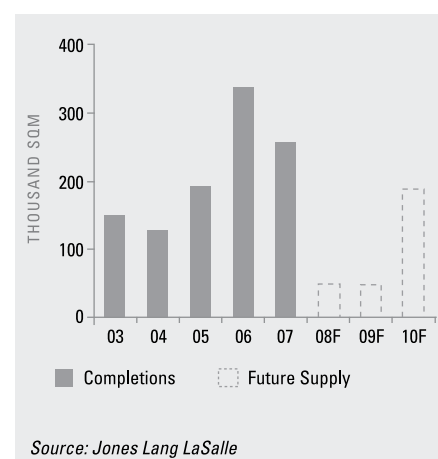
In 4Q07, a number of new department stores were opened for operation. In November, the 100,000-sqm Robbinz Department Store, operated by Lippo Group, was opened. This enhanced the leading retail position of the Binjiang Avenue and Nanjing Road area. Tianjin International Plaza, which is now occupied by Maison Mode, completed its upgrading by adding brands like Max Mara and Tommy Hilfiger. Besides its first store in International Plaza, Maison Mode is doing fit-outs for its second store in Magnetic City, which is situated in a high-end residential area near the Olympic Stadium. After half a year of renovation and upgrading, Milenio successfully attracted several international brands that are entering the Tianjin market for the first time, including Tous and ZARA which is scheduled to open in February 2008.

Asset Performance

Net rentals reached RMB 352.32 per sqm per month in 4Q07, a 1.3% rise over 3Q07. Rentals of department stores along Binjiang Avenue continue to be the highest, followed by those along Nanjing Road and Youyi Road. Capital values rose to RMB 49,033 per sqm, an 8.67% y-o-y growth. Owing to the optimism in rental growth, most landlords of prominent retail properties would lease their space to retailers for long-term rental return, rather than sell them to individual buyers for short-term cash revenue.

12-Month Outlook

New projects changed the city's retail scene in 2007. Some new projects that were scheduled to be completed in 2008 have been postponed to 2009 or 2010. These include Tianjin Center and Hutchison Whampoa's project, which will offer large high-quality retail space. This results in Phoenix Plaza in Hebei district being the only new supply in 2008. However, we will see active pre-leasing in 2008. In 2007, we witnessed several new trends in the Tianjin commercial real estate market. Retailers are showing their confidence in the market, and we expect to see a good number of new brands opening their first stores in Tianjin in 2008.



Growth	Rental Value	Capital Value
q-o-q	1.3%	0.7%
1 Year	23.1%	8.7%
3 Years	81.9%	79.7%

	4Q07
Vacancy Rate	12.5%
Net Rent	RMB 4,228 psm pa
Capital Value	RMB 49,033 psm
Investment Yield	8.6%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
↗	↗

Tianjin: Industrial – Logistics

Demand

Aside from international logistics corporations, local and state-owned firms also play an important role in the take-up figures in the Tianjin market. Net absorption in 4Q07 reached 24,143 sqm. Kintetsu World Express (KWE) and 'K' Line Logistics leased 600 sqm and 1,200 sqm, respectively, in Transwell Customs Supervision Warehouse, the most popular property in Tianjin Airport Logistics Park. Tianjin Mayget Industry & Development Co Ltd occupied 9,700 sqm in Mapletree Tianjin Dongjiang Port Logistics Processing Zone, which provides a lot of policy and tax incentives to corporations. The overall vacancy rate rose to 22.81%, up 2.01 percentage point from 3Q07. Projects that are scheduled to be completed in 2008 have reported active pre-leasing. These projects include ProLogis Park in Xiqing District and Tianjin East Port Haitian Bonded Logistics Warehouse, which was co-developed by China Merchants and Tianjin Port.

Supply

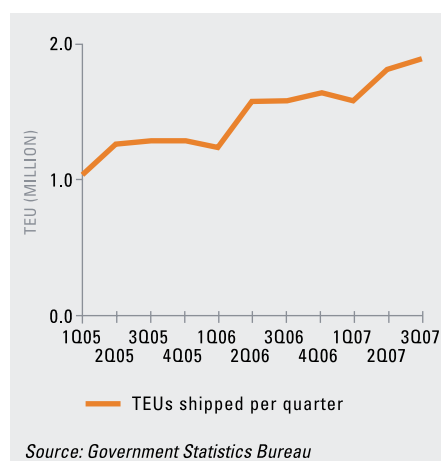
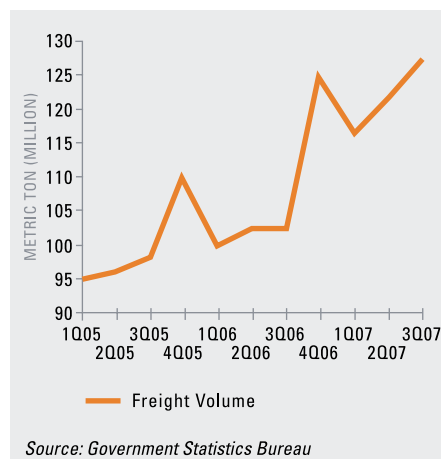
Most logistics stock are located in Tianjin Port Free Trade Zone and the airport area. The only project completed in 4Q07 is Mapletree Tianjin Dongjiang Port Logistics Processing Zone phase I, which is located in East Port Free Trade Zone and provides 45,400 sqm of new supply for the market. East Port will eventually host a 10-sq km free trade area, which will be the biggest and most open free port in China. Warehouse supply in Tianjin peaked in 2007, with a total of 159,565 sqm entering the market. On the other hand, the average supply in the past four years was at around 44,000 sqm.

Asset Performance

The average rent in 4Q07 was RMB 0.87 per sqm per day excluding management fees, a minor decline of 0.51% q-o-q. Some non-bonded warehouse properties that are located in less prime locations lowered their rentals to attract more clients. In contrast, a number of bonded warehouses were raising their rentals due to the tight available space of such properties. Capital values fell slightly from RMB 3,321 per sqm in 3Q07 to RMB 3,304 per sqm in 4Q07. A couple of foreign investors are negotiating with landlords to acquire existing warehouse properties in premium locations with good facilities. Investment yield in 4Q07 was at 9.65%, the same level as in the previous quarter.

12-Month Outlook

The new supply in 2008 will be four times of that in 2007, reaching 645,650 sqm. This construction boom will continue over the next two to three years, indicating that developers and investors are showing their strong confidence in the Tianjin market. For example, ProLogis will complete three projects in different logistics sub-markets in Tianjin such as Tianjin Economic – Technological Development Area (TEDA) and Tianjin Airport Industrial Park, etc. Mapletree as well as other international players in the East Port area will considerably help ease the strong demand for bonded warehouses. As a result of the large new supply expected in 2008, rentals are not likely to rise, nor will capital values. However, warehouses that are located in good locations and have comprehensive functions like customs supervision will continue to outperform the rest of the market.



Average Effective Rental (RMB per sqm per annum)	
Zone	4Q07
Overall	318

Average Capital Value (RMB per sqm)	
Zone	4Q07
Overall	3,304

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Taipei: Grade A Office

Demand

Demand for Grade A office space was tilted again in Xinyi's favour, with the sub-market accounting for about 60% of the 9,200 ping (30,000 sqm) of absorption. In spite of this, it was more evenly distributed than it has been in the past, indicating that the restraint in rental hikes that landlords of less-attractive properties have displayed has translated into modest demand.

In response to one of Asia Pacific's most favourable spreads between investment yields and financing and an anticipated warming in cross-Strait economic relations, the investment market exhibited its most active quarter on record over 4Q07. A combined NTD 32.07 billion (USD 990 million) worth of property changed hands for the quarter, well up on the NTD 9.23 billion transacted for the same period in 2006. The spike in deals was underpinned by a rise in foreign capital, which is actively seeking investment-grade assets in Taipei.

GE Real Estate was the latest foreign investor to make its first foray into Taiwan commercial property, fresh on the heels of Citi Property Investors (CPI), which spent an accumulative NTD 14.5 billion over 4Q07, and Citadel Investment Group Ltd. Both Citadel and CPI have reportedly received financing at around 2.8%, while GE Real Estate sourced its capital from Japan, for obvious reasons. Neihu Technology Park was once again the most popular destination for capital, with just over half of the 4Q07 transactions concluded in the park. The fierce competition for assets in Neihu has compressed yields to a level that is marginally above what is offered by the Taipei Grade A office market.

Supply

No Grade A buildings were completed during 4Q07.

Asset Performance

As expected, rentals displayed little significant movement after registering sizeable increases during 3Q07. As with the recent past, most of the expansion was achieved through gains in high-profile properties in Xinyi and Dunhua South.

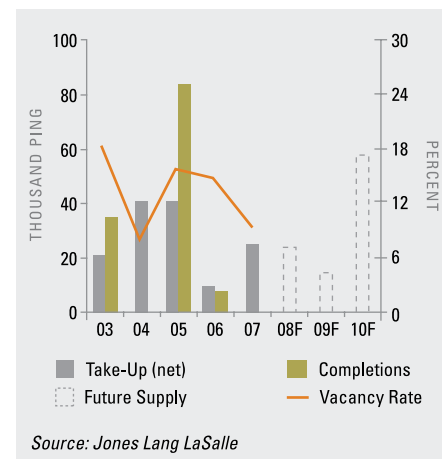
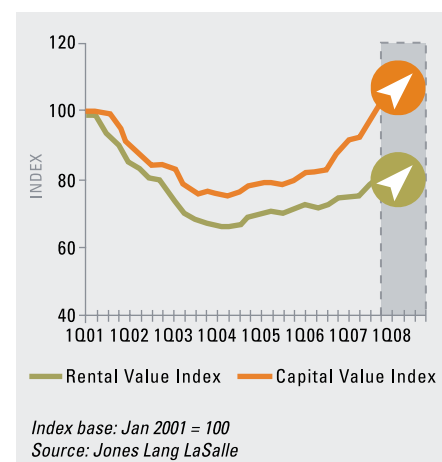
On the back of increased competition for office assets, capital values remained on their upward trajectory and continued to outpace rental increases, which did little to alleviate the downward pressure that has been placed on yields throughout 2007.

12-Month Outlook

Based on market fundamentals, we see little respite for further rental escalations in 2008. Driven by a supply crunch that will last into 2009, the risk with rentals is that they may eclipse their historic highs before the next parcel of new supply arrives.

With rents finally beginning to make up some lost ground on capital values and an election, which is expected to render a president that will soften economic policies directed at the Mainland, we only see the prospect for a rise in the amount of equity—both foreign and domestic—chasing yield.

GE Real Estate was the latest foreign investor to make its first foray into Taiwan commercial property, fresh on the heels of Citi Property Investors (CPI), which spent an accumulative NTD 14.5 billion over 4Q07, and Citadel Investment Group Ltd.



Growth	Rental Value	Capital Value
q-o-q	1.2%	5.6%
1 Year	6.5%	17.3%
3 Years	14.1%	33.4%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	9.4%
Gross Rent	NTD 2,479 per ping pm
Capital Value	NTD 594,960 per ping
Investment Yield	5.0%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Taipei: Office – Xinyi

Demand

After two relatively subdued quarters, Xinyi saw its absorption figures rebound, which was predominantly achieved through tenant movement into President International Tower. The two-and-a-half-year-old building is now close to being fully leased, illustrating that strong demand for space in Xinyi is not confined to Taipei 101 Tower.

Although the full-year absorption figure of 15,800 ping (52,200 sqm) in 2007 has fallen off the 2006 pace of 18,400 (60,800 sqm), it is still a good indication of the robust demand that MNCs have for quality space in the sub-market. To substantiate this, we only need to observe the list of recent signings, which include Merrill Lynch, Panasonic, Google, Sumitomo Bank and LSI Logic Corporation.

Supply

We have noted the emergence of a pre-lease market—something that had not existed in the past—as a consequence of the dearth of new supply as well as improvements in the quality of construction and diligence. The first evidence of this occurred in the 15,000-ping (49,600 sqm) under-construction building on the A6 site in Xinyi. However, with a large supply of good-quality stock slated to enter the district beginning in 2009, we expect to see this trend gather steam.

Asset Performance

As expected, rentals continued to advance in Xinyi, albeit at a more reserved pace than what we witnessed over 3Q07. One notable transaction that took place over 4Q07 saw an occupier renew its existing lease agreement at a rate of about NTD 3,700 per ping per month (NTD 1,100 per sqm per month). This represents a new high for a headline rent paid in Taiwan, which would seem to suggest that the run in rentals has some distance to go before completing its current cycle.

Capital values edged up based on the premise that 4.9% was a realistic investment yield for the sub-market. On the other hand, given that most investors are of the opinion that rentals will face continuous upward pressure, it would not be surprising to see a transaction that provided an initial yield of below 4.9% (gross).

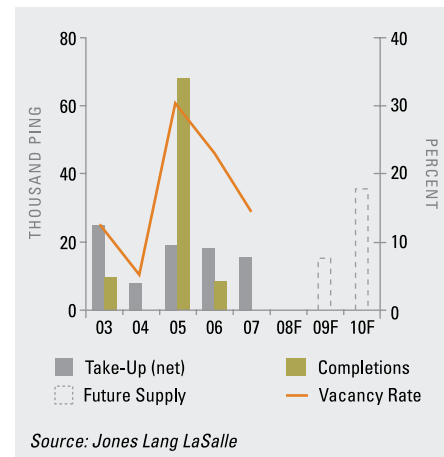
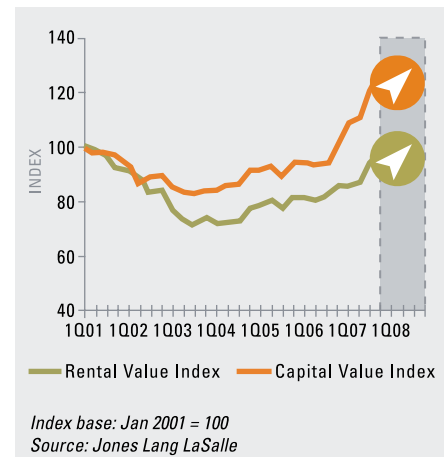
Major Leasing Transactions

- > Epson renewed its lease agreement for 1,300 ping (4,300 sqm) in Cathay Financial Center;
- > Panasonic signed on to take 990 ping (3,300 sqm) in President International Tower;
- > Sumitomo Bank leased 670 ping (2,400 sqm) in President International Tower;
- > Google signed for 720 ping (2,300 sqm) in Taipei 101 Tower;
- > LSI Logic Corporation leased 390 ping (1,300 sqm) in Taipei 101 Tower; and
- > Merrill Lynch leased 360 ping (1,200 sqm) in Taipei 101 Tower.



President International Tower

We have noted the emergence of a pre-lease market—something that had not existed in the past—as a consequence of the dearth of new supply as well as improvements in the quality of construction and diligence.



Growth	Rental Value	Capital Value
q-o-q	1.5%	3.6%
1 Year	13.6%	23.5%
3 Years	22.8%	26.7%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	14.6%
Gross Rent	NTD 2,831 per ping pm
Capital Value	NTD 693,306 per ping
Investment Yield	4.9%

12-MONTH OUTLOOK

RENTAL VALUE



CAPITAL VALUE



Taipei: Office – Dunhua North

Demand

Although the disparity in rental figures between Xinyi and Dunhua North has been the impetus for a modest rise in demand for space in the latter, the uptake has not been dispersed evenly. There remain a few dated properties in the sub-market that have failed to enact the requisite maintenance to retain existing tenants. Accordingly, two occupiers elected to return a combined 1,500 ping (5,000 sqm) of space over 4Q07 and will move out of the district in early-2008.

Dunhua North was home to the only en bloc transaction for a Grade A office property, which saw Shin Kong Bank sell its 14-storey Shin Kong Min Sheng Building to a consortium of investors for NTD 7.3 billion (USD 225 million). The deal translates into an acquisition price of roughly NTD 700,000 per office ping (NTD 212,800 per sqm) and will offer an initial investment yield of about 3.8% (gross) based on current rent rolls. The investment group is composed of Tatien Co, Mayer Steel Pipe Corp, Taiwan Fire & Marine Insurance Corp Asset Management Co (TFMI) and is reported to have acquired financing from Shin Kong Bank at a very attractive rate of 2.5%.

The 14,000-ping (47,000 sqm) building is one of the more recent additions to the Grade A stock—coming into market at end-2005—and there has been sustained demand for its space since then. As proof of this, we only need to observe that the building became 100% leased after being in the market for just two years. This achievement is even more remarkable given that it was accomplished in an area that has displayed tepid take-up figures over the said period.

Supply

The next parcel of new supply to come on-stream will be the refurbished 10,000-ping (33,000 sqm) Taipei Financial Center, slated for a 2010 completion date.

Asset Performance

Given the price that the Shin Kong Min Sheng Building was transacted for, we felt that capital values should be increased to reflect what is required to obtain a Grade A office building in the sub-market. However, we would caution that the deal is not the best comparison for overall prices in the area for a couple of reasons. First, the building is just two years old in a district where the average age of the office stock is approaching 16 years. Second, the very attractive interest given on the loan—by the same company that is the vendor—allows for some latitude on what is an acceptable capitalisation rate.

We are of the opinion that the slight contraction in rentals for 4Q07 is reflective of the age of the average building in Dunhua North, and of a situation that we do not expect to reverse without some necessary renovations to a handful of older properties. On the other hand, with a dearth of new supply until 2009 and a relatively low vacancy rate, we do not anticipate much tightening either.

Major Leasing Transaction

- > Hewlett-Packard leased 1,500 ping (5,000 sqm) in Shin Kong Min Sheng Building.

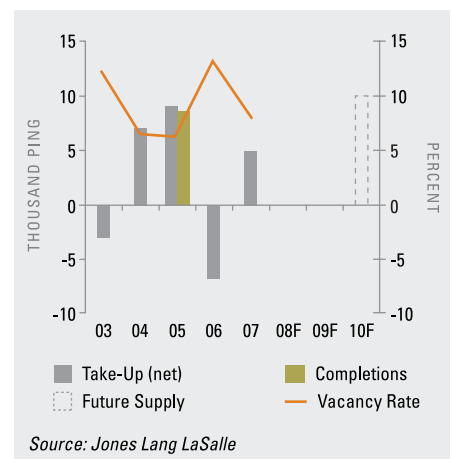
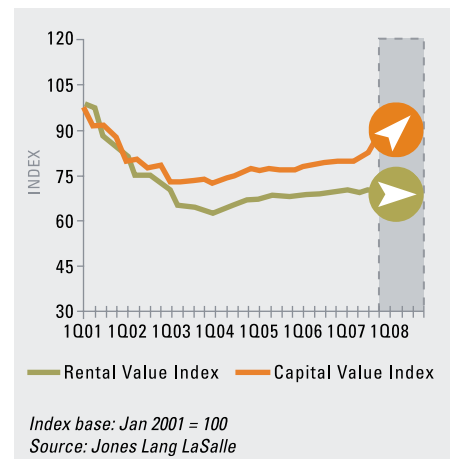
Major Sales Transaction

- > Shin Kong Bank sold Shin Kong Min Sheng Building to a consortium of investors for NTD 7.3 billion (USD 225 million).



Taiwan Gate Building, an example of one of the newer properties in a sub-market where the average age of the stock is approaching 16 years.

There remain a few dated properties in the sub-market that have failed to enact the requisite maintenance to retain existing tenants.



Growth	Rental Value	Capital Value
q-o-q	-0.7%	5.3%
1 Year	0.5%	8.5%
3 Years	3.7%	17.3%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	7.9%
Gross Rent	NTD 2,278 per ping pm
Capital Value	NTD 515,774 per ping
Investment Yield	5.3%

12-MONTH OUTLOOK	
RENTAL VALUE	CAPITAL VALUE

Taipei: Office – Dunhua South

Demand

Demand for quality space remained strong in Dunhua South as evidenced by the high number of lease renewals—often with healthy rentals escalations built-in—over recent quarters. Consequently, the overall vacancy rate fluctuated by a negligible amount over 2H07. The latest high-profile existing tenant renewal was Fidelity Investments in the 100%-occupied Taipei Metro Building.

In scrutinising the tenant lists of buildings in the sub-market, it becomes apparent that the remaining pockets of vacancy have existed for an extended period of time. However, this is not the case in every property as leases concluded over 2H07 reveal that as the best space becomes vacated, it is readily filled up. Accordingly, 4Q07 could best be categorised as a quarter that saw a few small occupiers move out of the area, which was subsequently offset by others moving in.

Supply

Construction has been completed on the 5,200-ping (17,200 sqm) Yuanta Core Pacific Securities Headquarters Building. The 13-storey property is now waiting on its occupancy permit, but will be 100% owner-occupied once this is received.

Asset Performance

In spite of a healthy 2.6% expansion in rentals over 4Q07, we do not expect to see similar increases for the district going forward. Rather, the lift was buoyed by escalations in a few select properties. However, we anticipate that institutional landlords will enact rental reductions throughout a good deal of their portfolios to maintain existing tenant lists. The net effect of this polarisation will likely result in the average rents for the area remaining dormant.

Although there were no transactions for Grade A property during 4Q07, we lifted capital values by 4.6% based on what we believe is a reasonable investment yield given the current rentals.

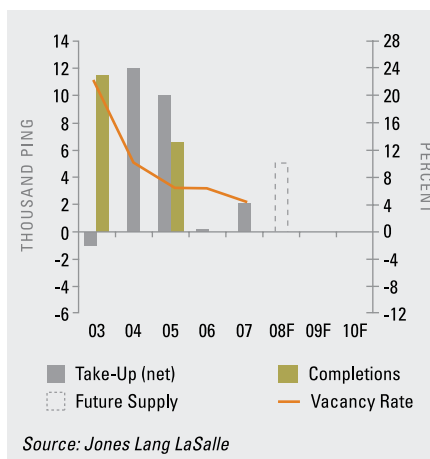
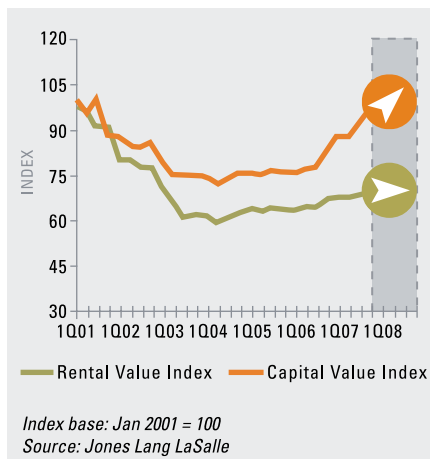
Major Leasing Transactions

- > Fidelity Investments renewed its lease on 630 ping (2,100 sqm) in Taipei Metro Building.



Dun Nan Continental Building (CEC Dunnan), one of the most sought-after properties in Dunhua South.

Going forward, we anticipate that institutional landlords will enact rental reductions throughout a good deal of their portfolios to maintain existing tenant lists.



Growth	Rental Value	Capital Value
q-o-q	2.6%	4.6%
1 Year	5.5%	17.0%
3 Years	11.8%	33.9%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	4.1%
Gross Rent	NTD 2,443 per ping pm
Capital Value	NTD 586,320 per ping
Investment Yield	5.0%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
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Taipei: Office – Non-core CBD

Demand

Demand for Grade A office space in the district was primarily confined to local companies that continued to seize small pockets of space throughout the sub-market. In keeping average rentals well below what is required to secure space in more high-profile locations, landlords in the area have been successful in reducing the vacancy rate by more than 3 percentage points over the course of 2007. This should not be surprising given that the average age of Grade A buildings in the area is on par with that of Xinyi.

None-core CBD witnessed two noteworthy transactions over 4Q07, one of which saw GE Real Estate purchase its first commercial property in Taiwan. In doing so, the affiliate of GE Capital acquired the 1,240-ping (4,100 sqm) HCG Building from Hocheng Corporation (HCG) for NTD 684 million (USD 21 million). The 12-storey office property along Jianguo North Road is expected to provide the company with an initial yield of around 5% (gross) through a sale-and-leaseback deal with HCG.

The second en bloc transaction in the district was Taiwan Life Insurance Company's purchase of Kuo Hua Life Building for NTD 5.37 billion (USD 165.74 million) through a public tender. The insurer intends to use the 6,700-ping (22,000 sqm) property along Zhongshan North Road as its headquarters.

Supply

The 8,800-ping (29,000 sqm) AEGON Building (formerly Meifu Construction Building) is nearing completion and should receive its occupancy permit in 2Q08. AEGON Taiwan will lease the entire building from Meifu Construction, but it has stated that it will make roughly 1,500 ping (5,000 sqm) available on a sub-lease basis.

Asset Performance

Rentals were marginally down over 4Q07, which is consistent with the apparent campaign by landlords to keep accommodation costs at their current level.

We reduced the investment yield by 20 basis points to bring it more in line with the deal that was transacted for investment purposes. Going forward, we may raise capital values again in the absence of any acquisitions offering more than a 5% gross capitalisation rate.

Major Leasing Transactions

- > GSK (GlaxoSmithKline) leased 1,100 ping (3,600 sqm) in Shin Kong Life Tower;
- > A foreign bank leased 600 ping in Fubon Zhongshan Building and
- > A local financial company moved into 470 ping (1,400 sqm) in Fubon Nanjing Building.

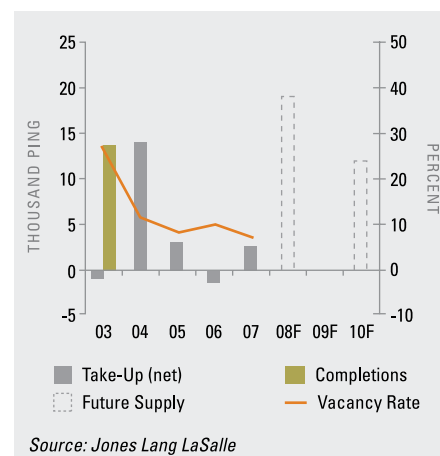
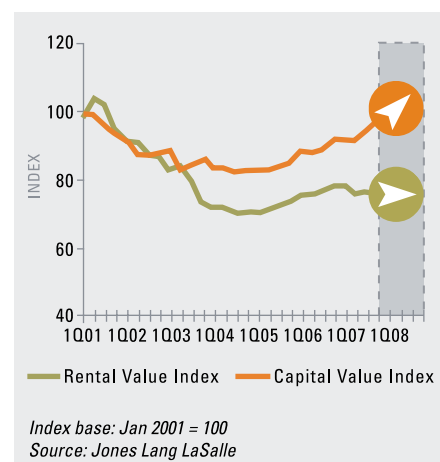
Major Sales Transactions

- > Taiwan Life Insurance Company purchased Kuo Hua Life Building from Kuo Hua Life Insurance Company for NTD 5.37 billion (USD 165.74 million); and
- > GE Real Estate acquired HCG Building from Hocheng Corporation (HCG) in a sale-and-leaseback deal for NTD 684 million (USD 21 million).



Aurora 21 Building

Demand for Grade A office space in the district was primarily confined to local companies that continued to seize small pockets of space throughout the sub-market.



	Growth	Rental Value	Capital Value
q-o-q		-1.1%	3.6%
1 Year		-3.1%	6.1%
3 Years		4.4%	28.9%

* Rental and capital values are based on GFA

	4Q07
Vacancy Rate	6.8%
Gross Rent	NTD 2,046 per ping pm
Capital Value	NTD 463,245 per ping
Investment Yield	5.3%

12-MONTH OUTLOOK	
RENTAL VALUE	➔
CAPITAL VALUE	➔

Taipei: Industrial – Business Parks (Neihu)

Demand

The major leasing transaction for 4Q07 saw NVIDIA lease all 6,000 ping (19,800 sqm) of Neihu Min Hu Building in consolidating its operations under one roof. The agreement provides a good representation of the nature of the lease market in Neihu, wherein landlords can often fill an entire building with only one tenant. This is a consequence of the small average building size in the park—around 5,000 ping (16,500 sqm)—and the large space requirements of a typical occupier.

The investment market was extremely active over 4Q07 with four transactions taking place. This resulted in six buildings worth a combined NTD 17.52 billion (USD 540.74 million) being traded. Of this, NTD 14.5 billion was splashed out by Citi Property Investors (CPI) as it acquired the three office buildings that comprise Asia Plaza as well as B&Q Building. CPI's shopping spree not only marks the company's entry into Taiwan commercial property, but also serves to underscore the sustained demand from foreign investors for assets in Neihu Technology Park.

Two other en bloc transactions were concluded during 4Q07, both of which demonstrate that many end-users of office space in Neihu prefer to purchase buildings. The larger of the two was TVBS' purchase of the 8,100-ping (26,800 sqm) GTV Building from Gala Television Corporation (GTV) for NTD 2.598 billion (USD 80.19 million). The other saw Bionet Corp buy the 1,360-ping (4,500 sqm) Te Lin Logistics Building from Te Lin Logistics for NTD 420 million (USD 12.96 million).

Supply

The 27,000-ping (89,000 sqm) Asia Plaza was completed during 4Q07 and will enter the market with just under 50% of its total space leased. According to our calculations, the addition of the three buildings (Asia Plaza – Buildings A, B and C) into the existing stock will boost the average vacancy rate of the park to 13%.

Asset Performance

In evaluating the average capital values and yields for Neihu, we are of the opinion that CPI's acquisition of Asia Plaza is a relatively good example of what investors can now expect from the market CPI's purchase price translates to about NTD 300,000 per office ping (NTD 90,800 per sqm) and will provide them with an initial investment yield of around 5.3% (gross).

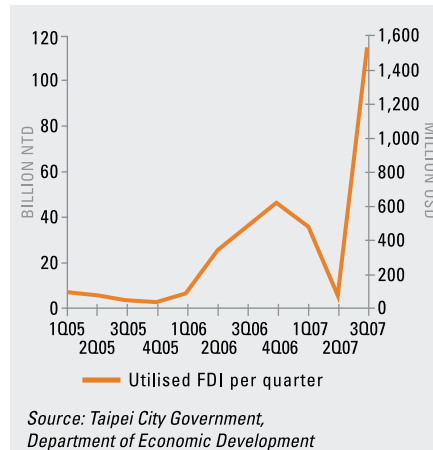
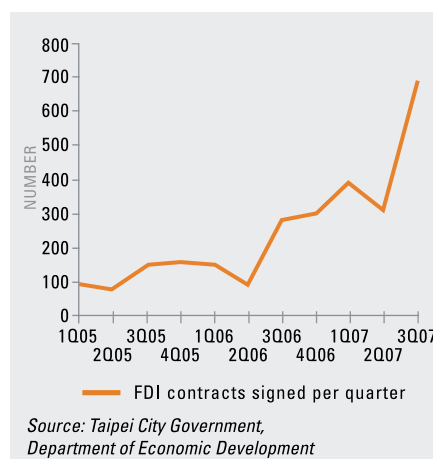
With regard to rentals, we have not seen any evidence to indicate that they have fluctuated over 4Q07.

12-Month Outlook

With Asia Plaza bringing 14,600 ping (48,200 sqm) to the lease market and the nearby Nangang Software Park set to release 34,000 ping (112,400 sqm), it seems unlikely that rentals will exhibit much growth over the next 12 months.

After climbing rapidly for more than a year, we anticipate that additional capital value increases will be hampered now that yields in the park are approaching the same level as what can be found in the Taipei Grade A sector. On the other hand, the outcome of the March presidential election may underpin further expansion.

The investment market was extremely active over 4Q07 with four transactions taking place. This resulted in six buildings worth a combined NTD 17.52 billion (USD 540.74 million) being traded.



Average Asking Rental NTD per ping per month	
Zone	4Q07
Neihu Technology Park	NTD 1,346

Average Capital Value NTD per ping	
Zone	4Q07
Neihu Technology Park	NTD 295,380

12-MONTH OUTLOOK

RENTAL VALUE	➔	CAPITAL VALUE	➔
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