Hong Kong, China

Hong Kong maintains a highly capitalist economy built on a policy of free market, low taxation and government non-intervention.

- Demand for office space in Hong Kong’s CBD has been very strong demand in the last several quarters, leading to asking rents as high as HK$153/SF/month. Rentals have been supported by a lack of visible supply in Central district and continued demand from existing and new financial tenants who remain willing to pay for the premium location. Vacancies in Central remain below 4%.

- These strong supply-demand forces are compensating for the trend towards decentralization, where larger existing tenants are looking to move back-office operations to neighboring areas to reduce costs. Approximately 5.5 million SF of new Class A office space will come online in 2007 and 2008, with 90% located in secondary districts.

- The economic outlook remains positive in Hong Kong, and both a recent government survey and private poll indicated optimism from Hong Kong entrepreneurs.

- Industrial rentals increased slightly in Q1 2007 as economic growth was balanced by the continued industrial migration to Southern China. However, industrial investments remain highly sought-after by developers and international funds looking to convert industrial properties to commercial or residential use.

- The retail sector remains healthy, buoyed by retail sales growth of 7.3% in 2006 and 9.4% year-over-year growth in Q1 2007. Consequently, this has increased visitor arrivals both from mainland China and international locations.

- Four recent en-bloc transactions of malls this year indicate increased interest by foreign funds for investment in this asset class.