

Quick Stats

	Change from	
	Q1 11	Q2 10
Rental Growth	↓	↓

Economic Update, Q2 2011

Asia Pacific	Y-o-Y change Q2 11
GDP growth	3.9%
Growth in industrial production	2.9%
Export growth	17.4%

Source: IHS Global Insights

Hot Topics

- Online retailers in China turn more active in committing to new logistics facilities
- Increasing numbers of Japanese manufacturers set up operations in Southeast Asia
- Multi-storey logistics facilities see as the way forward in China amid the limited supply of land for logistics use

OVERVIEW

• Industrial production slows in aftermath of Japan earthquake

Industrial production in Asia Pacific slowed in the second quarter as the March 11 earthquake in Japan disrupted regional supply chains. The negative impact is expected to be short-term, however, with the automotive and electronics sectors in Japan already beginning to restore production capacity. Strong regional currencies, particularly in Australia, China and Japan, lowered the competitiveness of manufacturers' products in those markets, placing profitability under pressure.

• Rental growth moderates in Asia while Pacific remains stable

The CB Richard Ellis Asia Pacific Logistics Rental Index rose by 1.4% q-o-q in the second quarter compared to a 2.2% q-o-q increase in the previous quarter. Almost all markets recorded lower rental growth except Beijing and Chengdu which remained under tight supply pressure. Rents in most Pacific cities remained stable as landlords offered incentives to retain tenants under the strong currency environment.

• Capital values rise, land values remain steady

Despite an easing in rental growth, industrial capital and land values moved fairly quickly in several Asian markets. Values in the Pacific remained largely steady over the quarter, as financing remained tight amid a stagnant occupier market. Capital values in Hong Kong and Singapore continued to appreciate at a brisk rate in the second quarter with momentum largely driven by investor demand.

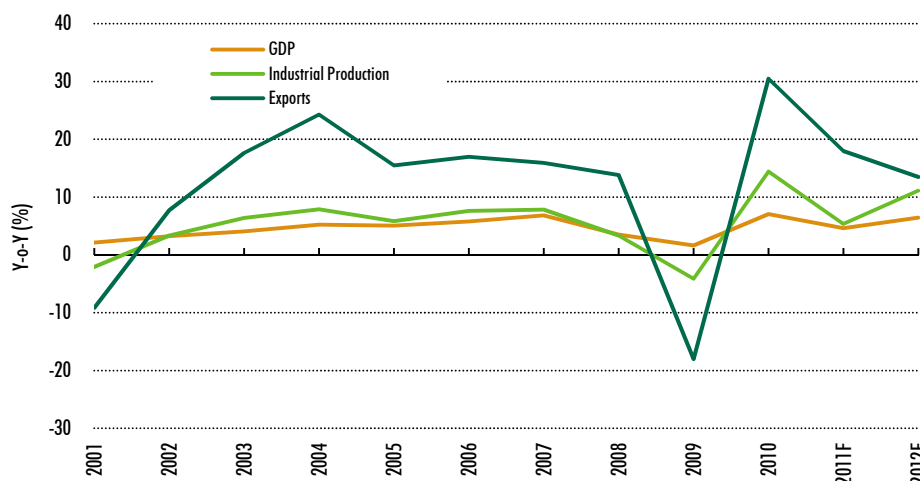
• Growth of retail sector spurs demand for logistics properties

Manufacturers affected by supply chain disruption adopted a wait-and-see approach in the second quarter whilst logistics operators turned quieter following a period of brisk expansion. Retailers were a major source of demand for logistics facilities as the online retail industry continued to expand.

• Sites for modern logistics facilities attract growing interest

Developers continued to seek sites for future development as the existing supply of modern logistics facilities remained insufficient to meet demand. In the Pacific some projects which had been put on hold were restarted while the period also saw the return of small-scale speculative developments in some key transport hubs.

Key Economic Indicators, Asia Pacific, 2001 - 2012



Source: IHS Global Insights

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ECONOMIC UPDATE

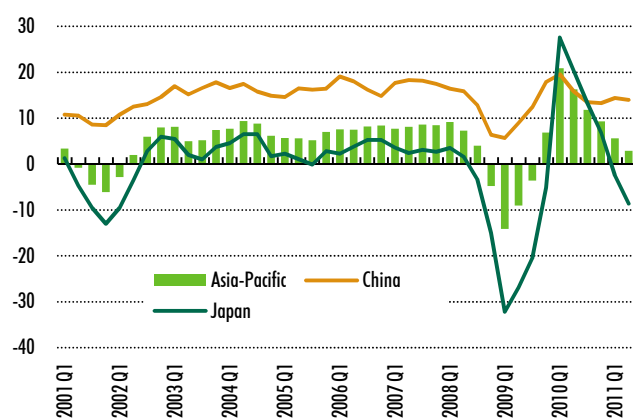
Economic growth in Asia Pacific slowed in the second quarter as momentum was interrupted by the March 11 quake and tsunami in Japan and the series of natural disasters which struck the Pacific earlier in the year. While the impact of the disruption in the regional supply chain following the Japan quake is expected to be short-term, the potential decline in global demand will pose a major risk on the longer term outlook of the region's industrial sector.

Merchandise exports across the region registered growth of 17.4% y-o-y, slower than the 23.1% y-o-y recorded in the previous quarter. Intra-regional trade remained a primary source of export growth on the back of strong domestic consumption. However, this demand may begin to weaken under persistent high inflation, while further deterioration of the economic situation in the United States and the Eurozone will result in reduced demand for products and commodities from Asia Pacific. In fact, Hong Kong and Singapore have already reported decline in exports towards the end of the quarter, forewarning that the impact of the latest economic turmoil in the west may reach to the Asia Pacific region faster than expected.

Industrial production growth in the region as a whole slowed from 5.9% y-o-y in the first quarter to 2.9% y-o-y in the second quarter due to the impact of supply chain disruption. PMI indices from a number of markets in the region further suggested that industrial activity softened during the period. The fall in activity resulted from strong currencies and high production costs driven by high commodity prices squeezing manufacturers' profitability in a number of markets across the region, particularly in Australia, China and Japan. The strong Australian and New Zealand dollar placed pressure on domestic manufacturers' profit margins, particularly those outside of the resources sector. In addition, a number of advanced economies in the west have launched deficit reduction plans involving spending cuts which will have a knock-on effect on demand for products produced in Asia Pacific. However, demand arising from reconstruction and rebuilding work in Japan and the Pacific will partly offset these negative impacts.

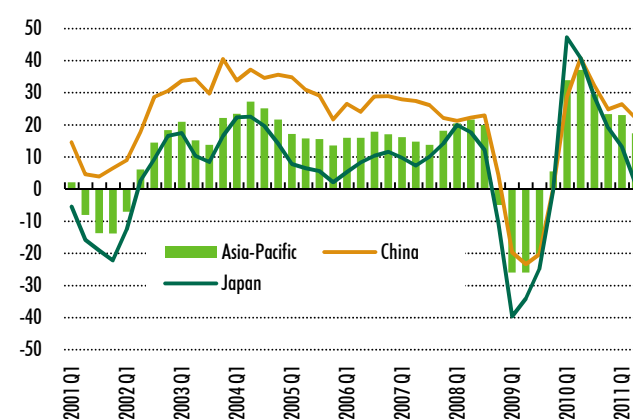
The region remains overshadowed by quite a number of challenges including rising inflation combined with escalating interest rates, potentially weaker domestic demand should inflation persist, and softening export demand from the United States and the Eurozone. A number of cross border manufacturers are currently formulating strategies to reduce operating costs to retain profitability. The tougher business environment may act as a catalyst to stimulate relocation of manufacturing production to lower cost markets, with Southeast Asia the main beneficiary of this trend.

Industrial production growth (% y-o-y)



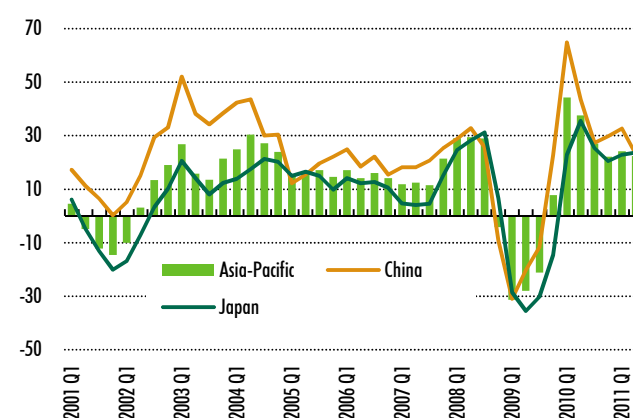
Source: IHS Global Insight

Export growth (% y-o-y)



Source: IHS Global Insight

Import growth (% y-o-y)



Source: IHS Global Insight

KEY INDICATORS

Indicative Logistics Rents

Country	City	Type of space	Indicative logistics rent				
			Local measurement	Local	US\$ / sq sf / annum	Q-o-Q (%)	Y-o-Y (%)
China	Beijing	Logistics	RMB sq. m. p.m.	30.9	5.3	5.1	12.9
	Shanghai	Logistics	RMB sq. m. p.m.	29.4	5.1	1.2	8.8
	Guangzhou	Logistics	RMB sq. m. p.m.	28.0	4.8	2.4	10.4
	Chengdu	Logistics	RMB sq. m. p.m.	21.3	3.7	4.1	18.5
	Hong Kong	Warehouse	HK\$ sq. ft. p.m.	6.6	10.2	2.6	10.6
Japan	Tokyo	Mid to large distribution centre	JPY tsubo pm	5,230	21.8	-4.6*	-5.6
Singapore	Singapore	Warehouse	S\$ sq. ft. p.m.	1.6	15.2	3.3	17.0
Australia	Sydney	Warehouse	A\$ sq. m. p.a.	125.4	12.5	-0.3	0.9
	Melbourne	Warehouse	A\$ sq. m. p.a.	82.1	8.2	0.7	6.8
	Brisbane	Warehouse	A\$ sq. m. p.a.	116.5	11.6	-0.4	3.3
	Adelaide	Warehouse	A\$ sq. m. p.a.	86.0	8.6	0.0	1.7
	Perth	Warehouse	A\$ sq. m. p.a.	109.9	10.9	0.0	3.9
	Canberra	Warehouse	A\$ sq. m. p.a.	101.3	10.1	0.0	-1.6
New Zealand	Auckland	Warehouse	NZ\$ sq. m. p.a.	119.9	9.2	0.0	0.5
	Wellington	Warehouse	NZ\$ sq. m. p.a.	90.0	6.9	0.0	-6.3

* Six month change

Indicative Land Value

Country	City	Type of Property	Indicative Land Value			
			Local measurement	Local	US\$ / sq sf	Q-o-Q (%)
China	Beijing	Industrial Park	RMB sq. m.	1,926	27.7	15.3
	Shanghai	Industrial Park	RMB sq. m.	1,695	24.4	5.2
	Guangzhou	Industrial Park**	RMB sq. m.	473	6.8	1.3
	Chengdu	Industrial Park	RMB sq. m.	486	7.0	0.7
Singapore	Singapore	60-year leasehold land	S\$ sq. ft.	116	94.5	10.5
Thailand	Bangkok	Industrial Park	THB sq. ft.	262	8.5	0.0
Vietnam*	HCMC	Industrial Park	US\$ sq. ft.	5.6	5.6	0.0
	Hanoi	Industrial Park	US\$ sq. ft.	5.5	5.5	0.0
Australia	Sydney	1.6 ha land	A\$ sq. m.	378	32.1	-2.7
	Melbourne	1.6 ha land	A\$ sq. m.	200	17.0	1.4
	Brisbane	1.6 ha land	A\$ sq. m.	291	24.6	0.0
	Adelaide	1.6 ha land	A\$ sq. m.	144	12.2	-0.4
	Perth	1.6 ha land	A\$ sq. m.	394	33.4	0.0
	Canberra	1.6 ha land	A\$ sq. m.	175	14.8	0.0

* Land sites under 35 – 50 years leases

** The indicative land value for Guangzhou refers to factory land value in industrial park

INDUSTRIAL OCCUPIER ACTIVITY

While demand for industrial properties largely remained firm, manufacturers affected by supply chain disruption following the Japan quake, particularly those in the automotive and electronic sectors, adopted a wait-and-see approach in the second quarter. Logistics operators turned quieter and accounted for a few leasing transactions following a period of brisk expansion last year. Demand for modern logistics facilities was largely driven by retailers over the quarter, most notably online retailers who continued to account for the majority of leasing deals in China.

The quarter saw a number of foreign manufacturers look for sites in lower cost markets such as Thailand, Vietnam and the Philippines. There was a notable increase in enquiries from Japanese companies in Bangkok and cities in Vietnam while Manila welcomed the entry of several foreign shipbuilding companies into a number of its special economic zones. Low operating costs will continue to drive manufacturers' entry to Southeast Asia and will act as a key demand driver for industrial sites and property in these markets in the coming quarters.

NEW DEVELOPMENT

Despite the short term weakening of occupier demand, developers continue to acquire sites for future development as existing modern industrial facilities are not sufficient to satisfy medium-term demand in most Asian countries. In Tokyo a number of developers were actively looking for sites upon which to construct large scale facilities whilst in China the major 3PL logistics providers adjusted their development strategy to overcome the limited land supply for logistics use by developing multi-storey warehouse facilities.

Developers in Southeast Asia are actively building new industrial parks as existing parks are nearly full and new infrastructure slated for completion in the coming years will shift occupier demand in the new areas.

In the Pacific some development schemes which had been on hold were restarted during the second quarter, most notably in Perth where the companies directly or indirectly linked to the resources sector fueled logistic requirements throughout the metropolitan area. In Sydney, a shortage of supply in the Outer West sub-region is spurring development in response to the emerging trend for a number of larger South Sydney tenants to relocate to the sub-region to lower their real estate costs. Meanwhile, small scale development has returned to Adelaide and Auckland as demand for smaller units and sites increased in well located areas.

Major industrial leasing transactions, Q2 2011

Market	Property	Approx. Size (SF)	Tenant
Shanghai	GLP Park Songjiang	407,380	Vand
Shanghai	Shinning	344,450	No.1 Shop
Guangzhou	GLP Park Xintang	322,920	Moonbasa
Shanghai	Shinning	322,920	Brothers Logistics
Tokyo	Yokosuka Butsuryu Centre	230,000	Paltac
Beijing	GLP Daxing Park	129,170	Watson's
Beijing	GLP Daxing Park	129,170	Tiantian.com

Source: CB Richard Ellis

Manufacturer movements, Q2 2011

Market	Location	Company	Activity
Chengdu	Chengdu High-Tech Development Zone	Philips	Developing its second regional headquarters
Hanoi	Dinh Vu Industrial Park	Nippon Kyohan Kogyo	Developing its first factory in Southeast Asia
Singapore	Seletar Aerospace Park	Bell Helicopter	Developing its overhaul hangar

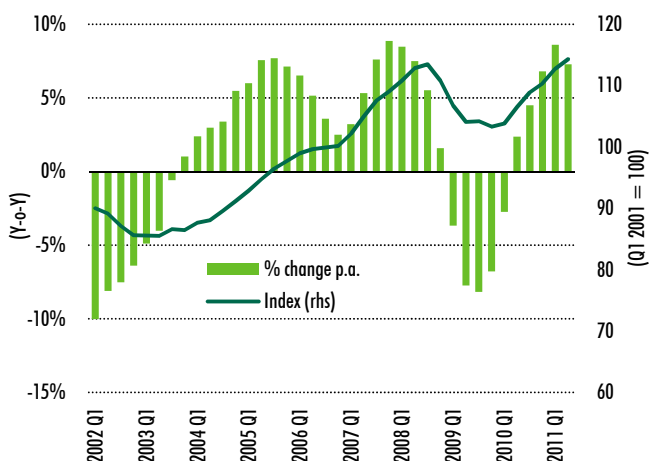
Source: CB Richard Ellis

Key Logistics Facility Developments ('000 sq. ft.)

Market	Location	Approx. Size	Developer
2011			
Shanghai	Goodman Pudong International Airport Logistics Park, Pudong Airport	2,077	Goodman
Greater Tokyo	Prologis Parc Kawajima, Saitama Prefecture	1,558	Prologis
Guangzhou	R&F International Airport Integrated Logistics Park Phase II Park I, Huadu	1,453	R&F Properties
Guangzhou	GLP Park Xintang Phase I, Guangzhou East Auto Industry Area	1,227	GLP
Shanghai	GLP Huali Park	1,042	GLP
Beijing	GLP Park Daxing	1,023	GLP
Melbourne	Kmart Distribution Centre, Leakes Road, Truganina	840	Goodman
2012			
Hong Kong	Interlink, Tsing Yi	2,400	Goodman
Shanghai	Watson Pudong Airport Logistics Centre, Pudong Airport	2,368	Watson
Shanghai	Mingjiang Logistics Park, Songjiang Hi-tech Park	1,209	Blogis
Singapore	Jurong Pier Road Project	1,017	Yang Kee Holdings
Greater Tokyo	ProLogis Parc Zama II, Zama City, Kanagawa Prefecture	1,000	Prologis
Sydney	Metcash Distribution Centre, Eastern Creek	861	Goodman

Source: CB Richard Ellis

Asia Pacific Logistics Rental Index



Source: CB Richard Ellis

Asia Pacific rental movement

	Q2 2011		Q1 2011	
	q-o-q	y-o-y	q-o-q	y-o-y
Asia	1.8%	8.8%	2.6%	10.7%
Pacific	0.1%	2.9%	0.8%	2.5%
Asia Pacific	1.4%	7.3%	2.2%	8.6%

Source: CB Richard Ellis

LOGISTICS RENTS

In response to slower occupier activity, logistics rental growth slowed from 2.2% q-o-q in Q1 to 1.4% in the current quarter. However, it remains to be seen whether it signals the beginning of a growth moderation period as part of the impact could be temporary due to the disruption in supply chain during the quarter.

Almost all markets in Asia recorded lower rental growth except Beijing and Chengdu, which remain under tight supply pressure. Headline rents in most Pacific cities remained stable over the quarter as landlords looked to increase incentives rather than accept lower rents.

Rental growth in Beijing and Chengdu accelerated as occupiers competed for quality logistics facilities amid a lack of existing supply. Tokyo remained as the only market staying on a rental downward cycle in Asia with lower quality mid-scale facilities suffering the most, while rents for large-scale facilities with advanced specifications held steady.

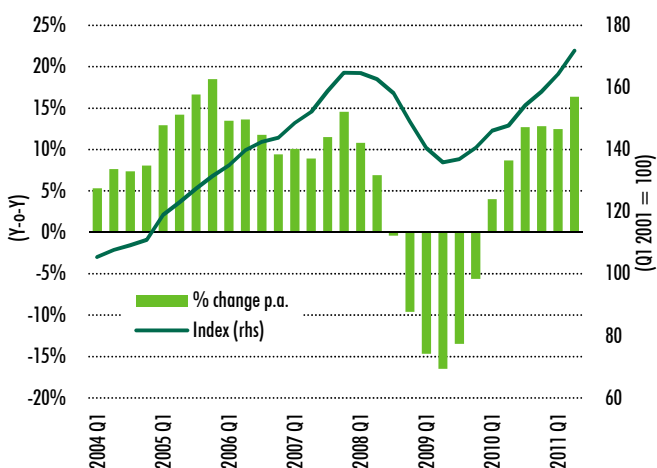
CAPITAL VALUES AND LAND VALUES

Despite an easing in rental growth, industrial capital and land values moved fairly quickly in several Asian markets. Values in the Pacific remained largely steady over the quarter, as financing remained tight amid a stagnant occupier market. Indeed, investment levels across the Pacific were low over the quarter as little prime product was brought to the market and the disparity between vendor and purchased expectations continued.

Capital values in Hong Kong and Singapore continued to appreciate at a brisk rate in the second quarter with momentum largely driven by investor demand shifting from the residential sector to strata-title industrial properties for a higher yield and the avoidance of recent tightening measures on housing.

Industrial land supply in the major industrial areas of China remained limited and failed to satisfy the needs of manufacturers in acquiring land sites for developing built-to-suit factories. This imbalance of supply and demand has driven the price of industrial land in major industrial parks in Beijing and Shanghai to their highest level in history. Meanwhile in the Pacific land values remained flat across most markets with outlying cheaper locations receiving significant interest. This was the case in Sydney where overall land values declined by 2.7% over the quarter, as the demand for cheaper land in the West sub-districts caused declines in values in the more expensive North and South sub-districts.

Asia Pacific Logistics Capital Value Index



Source: CB Richard Ellis

MARKET SUMMARIES



Industrial rents in **Beijing** accelerated in the second quarter as landlords asked for higher rents due to limited vacancy and strong leasing demand from online retailers and MNCs for logistics and business park space. Industrial land prices continued to increase

rapidly and were supported by strong demand from automotive manufacturers acquiring sites for factory construction and the limited future land supply. Rents are expected to continue to climb upwards driven by demand from the automotive and retail sectors.

Logistics property in **Shanghai** was the subject of robust demand from domestic online retailers in the second quarter. However growth in average logistics rents increased less rapidly as occupiers turned more resilient to rental increases. The lack of land available for logistics use continues to encourage developers to build multi-storey logistics facilities with major 3PL logistics providers including GLP, AMB and Goodman all in the process of building two-storey warehouse buildings.

Leasing demand for logistics facilities in **Guangzhou** continued to be driven by online retailers, resulting in the rapid increase of logistics rents. The quarter also saw some IT companies lease space in business parks for back office use. In light of the high rentals and limited available space in the Guangzhou Development Zone, occupiers have begun to look for space in peripheral areas.

Domestic and foreign companies remained active in absorbing logistics space in **Chengdu** in the second quarter as rental growth continued to gather pace. Retail and trading companies continued to expand while foreign companies in the automotive and document management business were also active in the leasing market. Despite a new wave of supply slated to come on stream by the end of the year or early 2012, the supply demand imbalance is not expected to alleviate as the majority of future supply has either been pre-leased or will have been built to suit. It is therefore expected that landlords will be in a strong position to ask for higher rents for the rest of the year.

Demand for logistics facilities in **Hong Kong** remained firm during the second quarter as logistics companies and international retailers competed for quality logistics space. Several large scale transactions were recorded which further tightened the availability of prime logistics facilities. Average rents for warehouse space rose 2.6% q-o-q in the second quarter. The period saw occupiers begun to shift their focus to securing quality space in future new supply. The new Interlink logistics facility currently under development has reported a pre-commitment rate of over 60%. Investors retained an interest in industrial property thanks to strong occupier demand and stable rental returns. Capital values for logistics facilities recorded their biggest quarterly rise since the global financial crisis began, posting a rise of 14.1% q-o-q.



The vacancy rate for logistics facilities in **Tokyo** rose only slightly by 80 bps q-o-q thanks to the limited cancellation of short term contracts following the quake and the healthy absorption of vacant space, mainly in new properties. Local firms in the apparel

and mail-order business were active in consolidating and relocating their operating bases during the period as companies in these sectors continue to restructure their business. Vacant space in large scale facilities continued to be steadily filled up during the period but mid-scale and older logistics facilities was starting to become less attractive to tenants, thereby forcing landlords of such facilities to lower rents. Demand will be dominated by consolidation into better quality modern units for the rest of the year and rents should bottom out soon given the lack of new supply of large scale logistics facilities.



Despite the manufacturing sector suffered from the supply chain disruption caused by the Japan quake, leasing demand for logistics facilities in Singapore remained healthy primarily from 3PL logistics companies consolidating their distribution network. This

encouraged landlords to raise the average logistics rent. Average rents for high-tech space accelerated as some companies moved their operations from more expensive office premises to high-tech industrial buildings to reduce real estate costs. The overall outlook is healthy as logistics operators continue to look for large industrial spaces to consolidate their operations or for expansion, trends which should provide momentum for rental growth.

Average rents for factories in **Bangkok** remained steady as landlords sought to remain competitive to attract tenants. Pace of expansion from auto-parts manufacturers slowed early in the quarter due to insufficient production inventory from Japan. The situation has started to improve as suppliers in Japan are restoring their production. Some Chinese companies show interest in investing in the manufacturing sector while Japanese companies especially from auto-parts and electronics industries started to search for site towards the end of the quarter.

Demand for industrial space in **Manila** moderated amid a decline in export growth during the quarter. However, special economic zones such as Clark Freeport and Subic Freeport witnessed expansionary activity and the new entry of manufacturing companies involved in the production of various plastics products and shipbuilding. It is expected that industrial rents will remain stable in the second half as demand is not strong enough to move rents upwards.

Industrial rents in **Ho Chi Minh City** remained stable during the review period as most industrial developers left asking rents unchanged due to the uncertain economic conditions. Foreign companies were looking for opportunities to establish their manufacturing base in the city to take advantage of low operating costs while some electronic products manufacturers continued to expand. Future supply over the next five years will be located in areas surrounding the city and is expected to satisfy demand from occupiers who desire locations close to the metropolis.

Foreign companies remained active in **Hanoi** in the second quarter despite high inflation and uncertain economic conditions inhibiting leasing demand. A total of US\$3.3 billion FDI was invested in the processing and manufacturing industry in the first half of the year. The quarter saw Nippon Kyohan Kogyo acquire a land site in Dinh Vu Industrial Park to build its first steel manufacturing plant in Vietnam whilst the period saw two additional commitments by Japanese petrochemical companies in the same park. Demand for warehouse and logistics facilities continues to grow in the city thanks to increasing export volume on textile products including clothes, shoes and accessories.



Prime warehouse rents across **Sydney** declined slightly in the second quarter as the high Australian dollar continued to put pressure on local manufacturers. A driver of this rental movement was the emerging trend of a number of large South Sydney

tenants looking to relocate to the cheaper Western suburbs. As a result, the prospects for rental growth in the South and North sub-regions remain limited, especially as infrastructure in the Outer West sub-regions begins to reach the standards found closer to the city. The Outer South, however, has faced considerable downward pressure due to a high vacancy rate in the area.

There was little rental movement in **Melbourne** as deals during the quarter were completed at market levels. Leasing activity was mild but there was an underlying level present which kept the pulse going, particularly from the import and retail trade sectors. In general a wait and see approach was adopted as investment and land sales remained generally stagnant with small pockets of movement occurring in areas with new transport planned, such as Carrum Downs.

The **Brisbane** industrial sector saw little change in rents as the market continued to absorb existing stock and companies took longer to negotiate lease agreements. That said as the development pipeline has dried up for the time being, there is likely to be some upward pressure on prime large facilities in coming months and re-emerging interest in design and construct options. Current development levels across Brisbane are one fifth what they were at their peak with the Western corridor the main driver of current development.

Weak retail and employment conditions continued to be an impediment for growth in the **Canberra** Industrial market in the second quarter. As the home of Australia's Federal Government, economic conditions are highly dependent on the political environment and as a result constraints on spending are having a flow through affect on property markets. This caused another quarter of stagnant rents and yields in this market.

Prime warehouse rents remained stable across **Adelaide** in the second quarter, ranging from AU\$61 per sq. m. in the Outer North region to AU\$130 per sq. m. in the West. Leasing activity was subdued across most areas over the quarter with enquiries also remaining slow by normal standards. The exception was for smaller properties less than 1,000 sq. m. in size located close to the city centre, for which interest remained reasonably firm. There are a number of developments with development approval earmarked for construction and completion in 2011, however without pre-commitments in place it is unlikely that these will be commenced in the near future.

Prime industrial rentals remained stable in **Perth** over the second quarter after a 4.3% increase in levels in the first quarter. There has been an overall rebound in business confidence throughout the area as companies directly or indirectly involved in the resources sector look to expand and increase their industrial requirements throughout the metropolitan area. Vacant industrial premises are taking noticeably less time to lease in the current climate as caution is finally overruled in light of the hopeful resource outlook. A lack of large available properties for lease may be a driver for rental growth moving forward, although construction levels have begun to increase again after a previous period of stagnation.

Both prime and secondary rents in **Auckland** remained unchanged over the second quarter at NZ\$110 per sq. m. and NZ\$69 per sq. m. respectively. Positive signs were evident as overall industrial vacancy declined over the first half of the year as increasing demand placed pressure on a constrained supply pipeline. Owner occupiers were actively looking for sites over the quarter, while developers were showing interest in smaller sites for tenants looking for design and build options.

Prime rents across **Wellington's** industrial sector remained unchanged at NZ\$90 per sq. m. in the second quarter as leasing activity remained fairly flat and occupancy levels stable. Cost control has evidently become a major priority for tenants with most seemingly prepared to compromise building quality for lower rents, which is resulting in landlords increasing incentives in order to attract new tenants.

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CB Richard Ellis Global Research and Consulting

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Notes and Definitions

The CBRE Asia Pacific Weighted Average Industrial / Logistics Rental index track the performance of 14 industrial markets throughout Asia Pacific.

The CBRE Asia Pacific Weighted Average Industrial / Logistics Capital Value index track the performance of 11 industrial markets throughout Asia Pacific.

Industrial rents – average rental values are derived from a basket of prime industrial properties (as defined below) located in major industrial zones in each market.

Warehouse - This category comprises premises that are designated as logistics centres or storage space where commodities are stocked. This usually includes a small office for employees working there. Such offices do not conduct business with customers, but are solely for the general operation of the associated warehouse (In Hong Kong, this category comprises premises designed or adapted for use as godowns or cold stores and includes ancillary offices)

Factory - Factory space is broadly defined as the space used or intended to be used where goods are made. It generally consists of buildings or part of buildings which are designed to accommodate activities such as printing and publishing, food and beverages, aerospace, machinery, fabricated metals, electronic industries, chemicals, manufacturing and assembly