

# MarketView

## Hong Kong Retail

First Quarter 2009

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### Quick Stats

		Y-o-Y change	Q-o-Q change
Inflation Rate	1.2% (Mar 09)	↓	↓
Unemployment Rate	5.2% (Jan 09- Mar 09)	↑	↑
Visitor Arrivals	2.162 million (Feb 09)	↓	↓
Prime Retail Rental Value	HK\$405 psf	↓	↔

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value.

### Hot Topics

- Private consumption expenditure contracted in the fourth quarter of 2008. Locals cut back on spending due to fears regarding economic prospects and job security.
- Retail sales fell 2% during the first two months of 2009. Sales of durables and big ticket items decreased the most; car sales dropped 35.6% y-o-y.
- Some retailers were noted to be scaling back their operations in Hong Kong, whereas mass market F&B chains were looking for new opportunities.
- The retail market is expected to remain challenging for the remainder of the year - retail sales figures are likely to remain subdued due to factors such as steep discounts and fewer people eating out.

Hong Kong's economy contracted 2.5% y-o-y in the final quarter of 2008. While full-year growth for 2008 was 2.5%, most of that growth took place during the first half before the deterioration in global economic conditions. Full-year growth was also markedly lower than the 5% to 6% expansion forecast at the beginning of 2008.

Private consumption expenditure fell 3.2% in the fourth quarter of 2008 after remaining steady in the third quarter. The wealth effect dissipated as both the Hang Seng Index and property prices continued their downward path. Corporate cutbacks, salary reductions and layoffs also resulted in curtailed spending.

The latest figures indicate that retail sales value dropped 12.6% y-o-y in February, compared to an increase of 7.4% y-o-y in January. Taking the first two months of this year together, the value of retail sales fell 2% y-o-y. Car sales fell by 35.6% y-o-y, followed by fuel (-9.7%) and other consumer durable goods (-8.3%). On the other hand, the volume of sales of electrical goods increased by 7.3%.

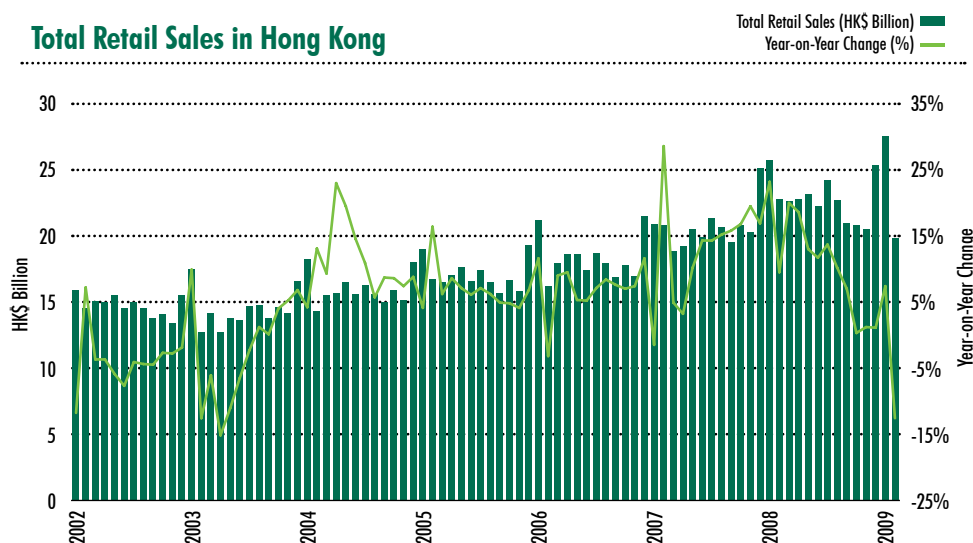
Retail rents were largely unchanged over the first quarter, rising 0.4% to average \$405 psf. Some

downward adjustments to rents were noted in Causeway Bay, while rents jumped for shop space on Wellington Street in Central. Retail property prices also held fairly firm over the quarter, although landlords appeared more willing to adjust prices downward compared to rents. The yield for retail space increased 5 basis points over the quarter to 4.8%. Compared with the same period last year, retail property prices dropped some 20.5% to average \$103,287 psf.

While some retailers were noted to be scaling back operations in Hong Kong in favour of mainland expansion, others such as mass market F&B chains were looking for new opportunities. And despite the difficult economic environment, prime shop space remained in demand.

K11 at Hanoi Road in Tsim Sha Tsui received its occupation permit in January. The landlord has leased some of the ground floor space to luxury watch retailers as well as fashion labels. Also in Tsim Sha Tsui, iSquare, located at the junction of Nathan Road and Peking Road, is expected to be completed by year-end. Prime ground floor space is leasing at \$600 to \$800 psf, while upper floor space inside the mall is leasing at \$40 to \$200 psf.

### Total Retail Sales in Hong Kong

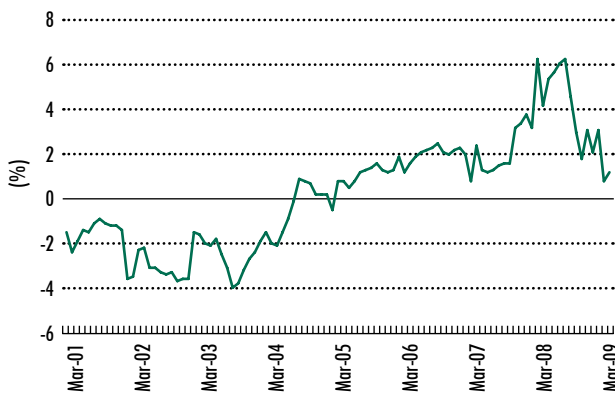


Source: Census &amp; Statistics Department

## Selected Leasing Transactions in Q1 2009

District	Property	Size (sf)	Tenant
Central	Shop A, G/F, 48-52 Des Voeux Road Central	1,200 (gross)	Jipi Japa
Central	Shop 4A, G/F, Tak Shing House, 20 Des Voeux Road Central	1,100 (net)	Belle Shoes
Causeway Bay	G/F, 1/F, 2/F, 3/F, Coasia Building, 496-498 Lockhart Road	6,298 (gross)	Tough Jeans
Causeway Bay	G/F, 1/F, 17-19 Percival Street	4,000 (gross)	Burger King
Causeway Bay	Shop C, G/F, Soundwill Plaza, 38 Russell Street	856 (gross)	TAG Heuer
Causeway Bay	Shop B4, G/F, 59-65 Russell Street	750 (gross)	Shu Uemura
Tsim Sha Tsui	Whole Block, 6 Cameron Road	5,200 (gross)	Beijing Tong Ren Tong
Tsim Sha Tsui	Shop 3, G/F, 1/F, Holiday Inn, 50 Nathan Road	2,500 (gross)	Rimowa
Tsim Sha Tsui	Shop B, C, G/F, 116-120 Canton Road	1,450 (gross)	Bonjour Cosmetic
Mong Kok	Shop 4, 5, G/F, Sim City, 47-51 Shantung Street	1,320 (gross)	Citicall

### Hong Kong Inflation Rate



Source: Census & Statistics Department

The Composite CPI (Consumer Price Index) was 1.2% in March 2009, up slightly from the 0.8% y-o-y increase in February 2009 but down from the 2.1% in December 2008. Excluding the effects of the government's one-off relief measures, the Composite CPI in March 2009 rose 2.6% y-o-y, smaller than the average rate of increase in January and February (3.3%) mainly due to the decreases in private housing rentals and food prices. Looking ahead, prices should continue to moderate as demand is expected to remain weak amidst the gloomy external economic environment.

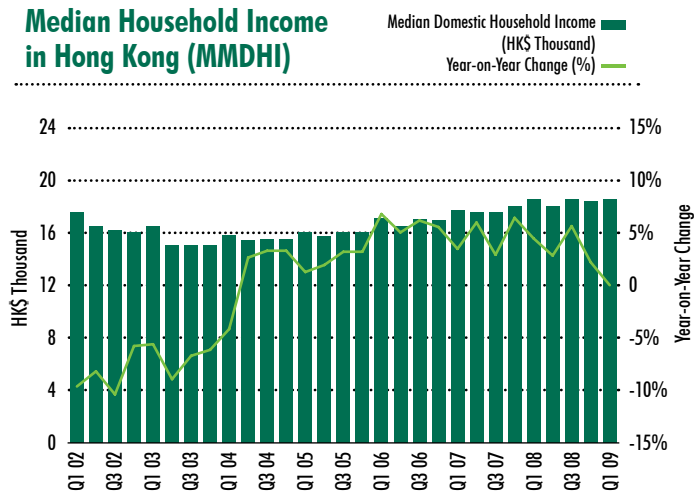
### Hong Kong Unemployment Rate



Source: Census & Statistics Department

The number of unemployed continued to rise as companies cut back on operating costs amid weak earnings. The latest figures indicate that the unemployment rate increased to 5.2% for the three months to March, compared to 5% from December through February. Sectors most affected include construction, transportation, hotels and finance. Headcounts remain frozen and those laid off will find it difficult finding new employment. Jobless numbers are likely to keep rising as companies continue to downsize their operations.

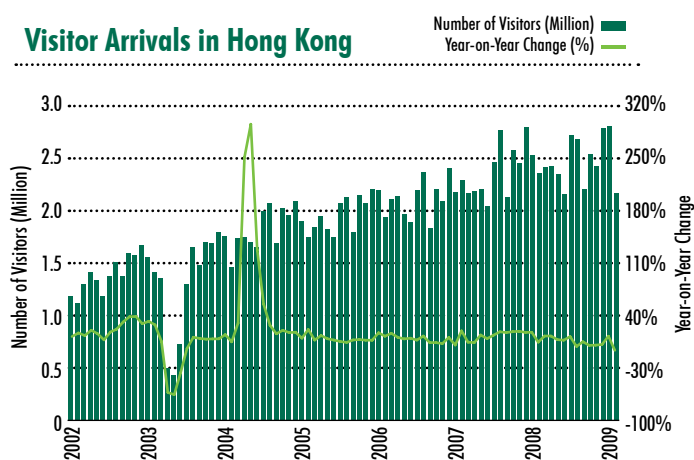
### Median Household Income in Hong Kong (MMDHI)



Source: Census & Statistics Department

Household income improved slightly from December 2008 to February this year at \$18,500, compared to the earlier figure of \$18,400 for the three months to January. Household income is unchanged when compared to the same period last year. It is expected that incomes may recede as companies seek to cut back on costs by reducing salaries. Rising unemployment will also likely contribute to falling household incomes.

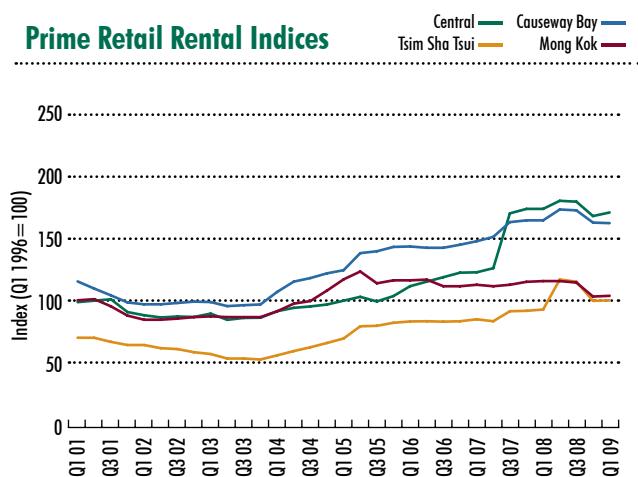
### Visitor Arrivals in Hong Kong



Source: Hong Kong Tourism Board

Visitor arrivals in February 2009 reached 2,162,325, down 8.1% y-o-y. Looking back at the first two months of the year, cumulative arrivals totaled 4,958,424, up 1.8% during the same period last year. Visitor arrivals were down in February for almost every major market, most noticeably Taiwan (-17.3%). However, visitors from South and South East Asia held comparatively firm. Mainland tourist numbers were down 6.7%, likely due to a post-Lunar New Year lull. However, this sector will become increasingly important in coming months as Shenzhen permanent residents can now apply for unrestricted 12-month visas to Hong Kong.

### Prime Retail Rental Indices



Source: Census & Statistics Department

Hong Kong retail rents held firm over the first quarter of 2009, registering a mild increase of 0.4%, as retailers targeting mass or sub-market spenders expanded to capture larger market share. This is an improvement from the 8.7% decline recorded in the fourth quarter of last year. Rents in parts of Causeway Bay dropped, pulling the average down 0.3% over the quarter. However, strong rental growth for a property along Wellington Street helped push up average rents in Central by 1.7%. Overall, prime retail rents were largely unchanged compared to the same period last year.

### Prime Shopping Districts in Hong Kong



- Kwun Tong Line
- Tsuen Wan Line
- Island Line
- Airport Express
- Tseung Kwan O Line

### Prime Shopping Districts in Hong Kong

#### Central

This traditional banking and financial centre of Hong Kong is also a popular shopping hub for shoppers from medium- to high-income groups. Strategically linked with the Airport Railway and MTR, and supported by a number of Grade A office buildings, 5-star hotels and prestigious shopping centres in the area, Central has a large catchment area and attracts a broad spectrum of shoppers including tourists, expatriates, office workers, singles and families.

#### Causeway Bay

This area attracts a broad mix of international tourists, local shoppers, including office workers from commercial buildings within the area, young shoppers and family shoppers. The area has a comprehensive mix of retailers and restaurateurs catering to young, rich, budget minded and family clientele.

#### Tsim Sha Tsui

This area has the largest concentration of hotels and attracts tourists, affluent young shoppers predominantly from Kowloon, and office workers from commercial buildings within the area. There is a wide array of retailers ranging from necessity to luxury goods, restaurants, tailors and entertainment venues such as discos and karaoke bars.

#### Mong Kok

Strategically located along both MTR and KCR lines, Mong Kok also attracts a wide spectrum of shoppers, mainly local residents and Chinese tourists. The area consists of a number of modern fashion and accessories boutique stores catering to the young and hip crowd.

### TERMINOLOGY

#### Inflation Rate:

This refers to the Composite Consumer Price Index (CPI) compiled by the Census and Statistics Department to provide an indicator of overall price movements affecting households. A weighting system is used to represent the relative importance, in terms of expenditure, of individual items in the basket of goods and services consumed by households. The weight of each item represents the importance of the item in the total expenditure of households.

#### Saleable Area:

The saleable area of a shop unit is measured up to the centre line of the wall separating adjoining units. The full thickness of the external walls and walls separating the units from the common areas, staircases, etc. are included.

#### Gross Floor Area:

The gross floor area of a shop unit is measured by adding the proportionate share of the common area to the saleable area of the unit.

All monetary values are presented in Hong Kong dollars unless otherwise specified.

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