

MarketView

Hong Kong Retail

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Second Quarter 2009

Quick Stats

		Y-o-Y change	Q-o-Q change
Inflation Rate	-0.9% (June 09)	↓	↓
Unemployment Rate	5.4% (Apr 09- Jun 09)	↑	↑
Visitor Arrivals	2.027 million (May 09)	↓	↓
Prime Retail Rental Value	HK\$409.5 psf	↓	↑

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

Hot Topics

- Retail sales fell 6.2% in May y-o-y, due to weaker domestic consumption and a drop in tourist arrivals.
- Prime retail rents remained firm over the second quarter, with increases noted in traditional tourist districts such as Causeway Bay and Tsimshatsui.
- Prime well located retail space remained in high demand; tight vacancy has helped support rental growth.
- There has been a lack of expansion activity as both local and foreign retailers view continued high rents as a barrier to entry.

Retail sales continued to decline on the back of weaker domestic consumption and lower tourist arrivals, amidst the economic recession as well as the outbreak of H1N1. Recent figures indicate that retail sales value fell 6.2% in May y-o-y to \$21.6 billion, a stronger decline compared to the 4.3% y-o-y decline in April. Analyzed by category, sales of cars dropped the most, down 38% y-o-y, followed by other consumer goods (-20.1% y-o-y) and fuels (-19.7% y-o-y). Bucking the trend, sales of supermarket goods increased 6.6% y-o-y, possibly representing a shift in consumption as consumers prepare more meals at home in an attempt to cut back on discretionary spending. Private consumption expenditure fell 5.5% y-o-y over the first quarter, compared to the 4.1% decline recorded over the fourth quarter of last year. However we expect an improvement in domestic consumption figures when they are released for the second quarter, in light of better sentiment overall on the back of a rebound in both the stock and property markets.

Lower tourist arrivals following the outbreak of H1N1 in May has also had a negative impact on retail sales in Hong Kong. According to the Hong Kong Tourism Board, tourist arrivals dropped 13.4% in May y-o-y to 2,027,572. The decline was most pronounced amongst short haul visitors from within the Asia region. Mainland tourist

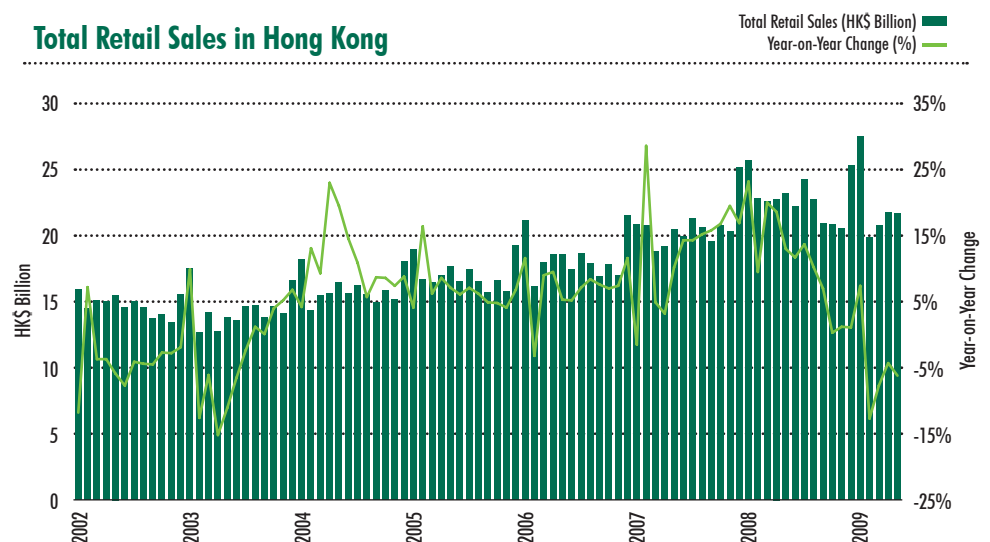
arrivals, Hong Kong's most important and largest market, fell 9.6% y-o-y.

Retail rents were largely stable over the second quarter, rising 1.1% to average \$409.5 psf. Rents for retail shops in prime locations in traditional tourist areas such as Causeway Bay and Tsimshatsui remained firm and even strengthened in some cases, due to strong demand for those locations coupled with tight supply. Meanwhile, the average price increased 11.7% to \$119,000 psf over the second quarter, reflecting stronger investor demand for retail property as rental yields are attractive given the low interest rate environment.

While we noted at the end of last year that certain retailers were looking to expand market share given the economic downturn and an expected drop in retail rents, in actuality that never materialised as rents remained largely flat over the first half of the year. We anticipate little new expansion as both foreign and domestic retailers view continued high rents as a barrier to entry.

There has been a drop in tourist arrivals since May due to concerns surrounding the outbreak of H1N1. We expect demand for retail space to moderate as a result, with rents to remain largely flat over the second half of the year.

Total Retail Sales in Hong Kong



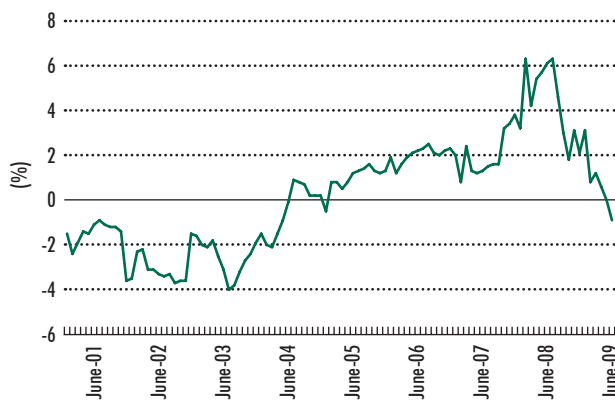
Source: Census & Statistics Department

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Selected Leasing Transactions in Q2 2009

District	Property	Size (sf)	Tenant
Central	G/F, 1/F, Manning House, 38 Queen's Road Central	G/F: 1,125 (Lettable) 1/F: 1,516 (Lettable)	Omega
Central	G/F, M/F, Lansing House, 47 Queen's Road Central	G/F: 600 (gross) M/F: 400 (gross)	Millie's Shoes
Causeway Bay	G/F, 15 Yun Ping Road	2,414 (gross)	Omega
Causeway Bay	G/F, 17 Yun Ping Road	1,500 (gross)	M.A.C & Estee Lauder
Causeway Bay	Shop Q, G/F, M/F, Hong Kong Mansion, 1M-1L Yee Wo Street	750 (gross) 750 (gross)	Bonjour Cosmetics
Mong Kok	Shop 1-3, G/F, Wayfoong Plaza, 664 Nathan Road	2,025 (gross)	Mirabell Shoes
Tsim Sha Tsui	Shop A, G, G/F, Golden Crown Court, 66-70 Nathan Road	1,000 (gross)	Luk Fook Jewellery
Tsim Sha Tsui	G/F, Prestige Tower, 23-25 Nathan Road	6,383 (gross)	Prince Jewellery & Watch
Tsim Sha Tsui	G/F, 1/F, Hang Lung Bank Tsim Sha Tsui Branch Building, 46-48 Granville Road	G/F: 4,830 (gross) 1/F: 4,000 (gross)	Apex Sports Co Ltd
Central	Shop C, G/F, Wheelock House, 20 Pedder Street	3,313 (Lettable)	International Watch Brand

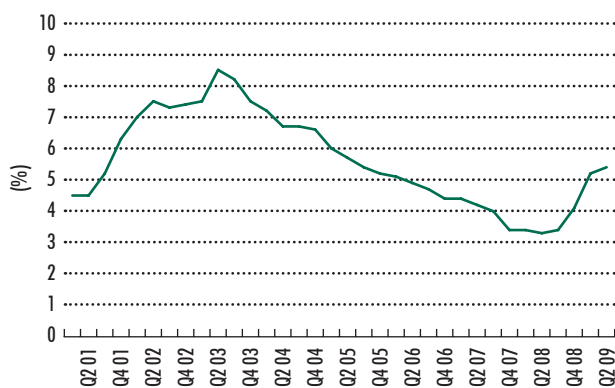
Hong Kong Inflation Rate



Source: Census & Statistics Department

Latest figures indicate that prices were down 0.9% in June y-o-y, compared to the 0% y-o-y change recorded in May. Discounting the effect of government subsidies, the Composite CPI in June was up 0.4%, compared to the 1.3% increase in May, largely due to moderation in food prices and residential rents. Little upward pressure on prices is expected in the short term due to the continuing effects of the economic recession.

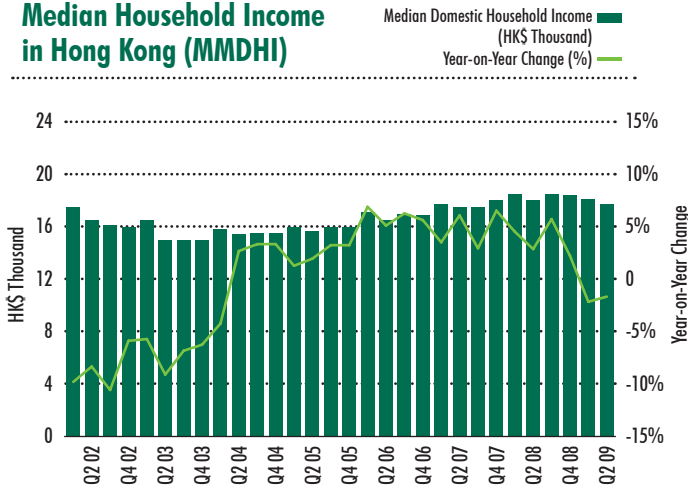
Hong Kong Unemployment Rate



Source: Census & Statistics Department

The unemployment rate averaged 5.4% for the three months to June, up 10 basis points from May. Increases in the unemployment rate were noted in areas such as the arts, entertainment and recreation, social work activities and wholesale sectors. The number of unemployed increased 1.7% to 203,000 persons for the three months to June. It should be noted however that there has been significant improvement in construction industry employment, particularly for individuals employed in the decoration and maintenance sectors.

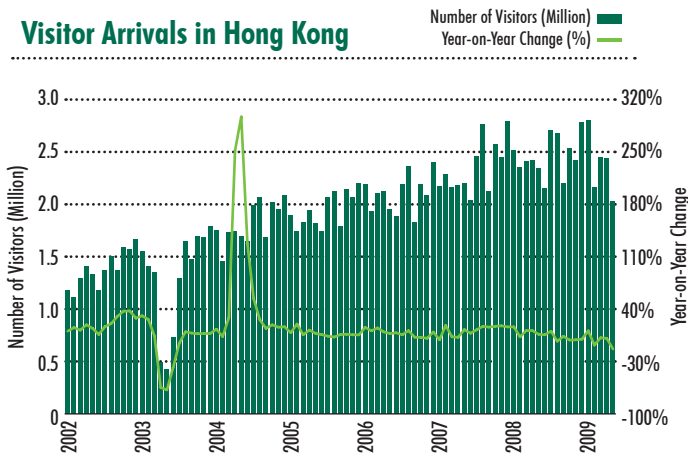
Median Household Income in Hong Kong (MMDHI)



Source: Census & Statistics Department

The median monthly household income was \$17,700 for the three months to May, down from \$18,000 in the first quarter. Median household income was also lower when compared to the same period last year, at \$18,000. It is unsurprising that household income has continued to decline, due to rising unemployment and falling wages.

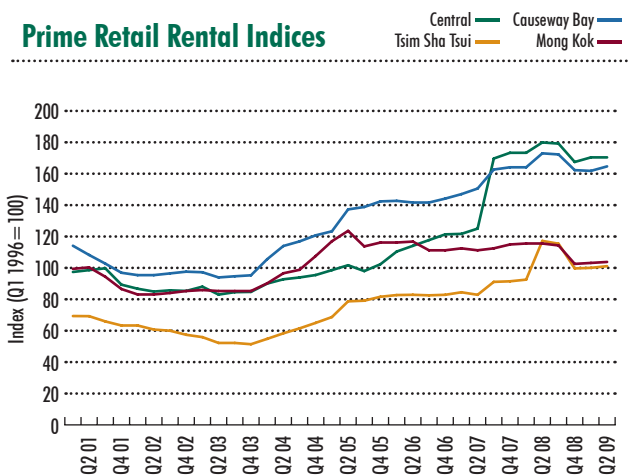
Visitor Arrivals in Hong Kong



Source: Hong Kong Tourism Board

Recent figures indicate that tourist arrivals fell 13.4% in May y-o-y to 2,027,572. Short haul tourist arrivals from within the Asia region dropped 14.3%, while the number of mainland Chinese tourists coming to Hong Kong fell 9.6%. The drop in tourism is largely being blamed on the outbreak of H1N1 and tourists' fears of catching the virus while travelling to and from Hong Kong. Meanwhile, long haul tourist arrivals fell 9.5% y-o-y, largely due to weaker demand for travel amidst the global economic recession.

Prime Retail Rental Indices



Source: CBRE Research

Prime retail rents were largely unchanged over the quarter, rising 1.1% to average \$409.5 psf. Mild rental growth was recorded in traditional tourist districts such as Causeway Bay and Tsimshatsui, with average rents rising 1.8% and 1.1% respectively. Analysed by district, rents increased 9.5% for a retail space on Percival Street in Causeway Bay, while rents were up 9.7% for a shop on Haiphong Road in Tsimshatsui.

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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