

# MarketView

## Hong Kong Retail

Third Quarter 2009

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### Quick Stats

		Y-o-Y change	Q-o-Q change
Inflation Rate	0.5% (Sep 09)	↓	↑
Unemployment Rate	5.3% (Jul 09- Sep 09)	↑	↔
Visitor Arrivals	2.834 million (Aug 09)	↑	↑
Prime Retail Rental Value	HK\$412 psf	↓	↔

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

### Hot Topics

- The rebound in local stock and property markets coupled with improved tourist arrivals translated into better retail sales.
- Private consumption increased on a quarterly basis, while the decline in retail sales was rather mild in August.
- Businesses benefiting from mainland Chinese tourist spending took the opportunity to expand market share.
- Retail rents were largely unchanged over the third quarter in prime shopping districts, rising 0.6% q-o-q to \$412 psf.

There were signs of stabilization in Hong Kong's overall economy in the third quarter of 2009. According to the latest figures from the Census and Statistics Department, real GDP returned to expansion, increasing 3.3% in the second quarter after contracting for four consecutive quarters. Private consumption expenditure increased 7% q-o-q, fuelled by positive sentiment surrounding the rebound in stock and property markets. The unemployment rate held steady at 5.4% through the summer months, but dropped 10 basis points to average 5.3% for the three months to September.

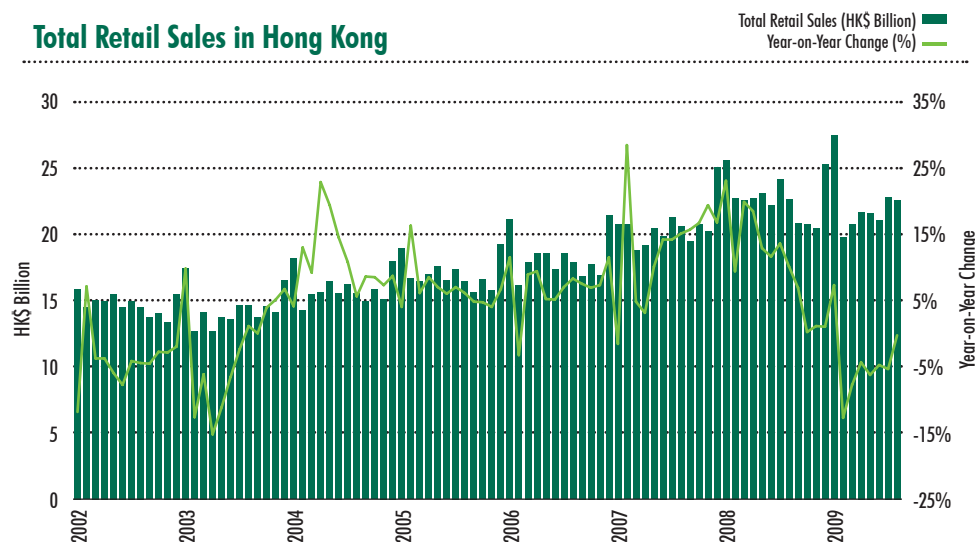
The decrease in retail sales tapered off significantly as the value of total retail sales in August was down only 0.2% when compared with a year earlier. Analysed by category, value of sales in cars dropped the most, down 28.6% y-o-y, followed by fuel (-9.8% y-o-y) in August. On the other hand, strong gains were recorded in sales of alcoholic drinks and tobacco, up 27.3%. The value of sales for medicine and cosmetics was up 8.0% y-o-y, while Chinese drugs and herbs, and sales of jewellery and watches were up 5.9% and 5.8% y-o-y respectively. These gains may be due

to the recovery of the number of tourist arrivals, especially from mainland China. Overall and mainland China visitor arrivals increased 5.8% and 9.2% q-o-q respectively in August, compared to declines recorded in the previous quarter.

On average, retail rents were largely unchanged over the third quarter, rising 0.6% q-o-q to \$412 psf. Although an increasing number of factors indicate that the economy is stabilising and tenants were not as pessimistic as they had been in the first half of the year, retailers remained conservative and cost conscious.

However, some retailers that directly benefit from mainland Chinese visitors are taking the opportunity to expand their business and market share. For example, Sa Sa Cosmetics continued to expand, and leased a 25,000 sf flagship store on Granville Road. Also, The Body Shop relocated to a larger store on Russell Street with a high rent. With the improvement in sentiment on the back of the strong rebound in property market prices, and with more leases expiring in the next quarter, we expect a greater increase in rents will be recorded.

### Total Retail Sales in Hong Kong



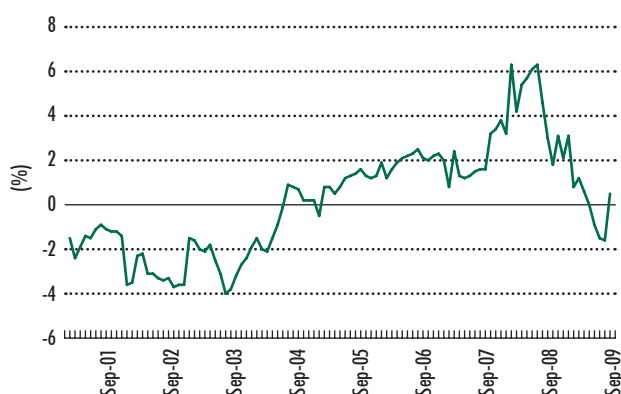
Source: Census &amp; Statistics Department

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## Selected Leasing Transactions in Q3 2009

District	Property	Size (sf)	Tenant
Central	G/F, 1/F, HSH Centre, 55 Des Voeux Rd	G/F : 4,292 (gross) 1/F : 2,947 (gross)	Colourmix
Central	Shop B2, G/F, Century Square, 1-13 D'Aguilar Street	960 (gross)	Corum Watch
Central	Shop 5-7, 9, G/F & Shop B1, B2, B/M, New Henry House, Ice House Street	10,924 (net)	I.T Group
Causeway Bay	Shop G1-G4, G/F, 29-31 Lee Garden Road	800 (gross)	CSS Jewellery
Causeway Bay	G/F, 20 Russell Street	1,200 (gross)	Bonjour Cosmetics
Causeway Bay	G/F, 22 Russell Street	1,242 (gross)	The Body Shop
Tsim Sha Tsui	Shop 101, 1/F, Whole of 1/F, 2/F, Albion Plaza, 2-6 Granville Road	25,500 (gross)	Sa Sa Cosmetics
Tsim Sha Tsui	Shop G15, G16, G/F, 1/F, Parklane Shopper's Boulevard, Site D, 111-139 Nathan Road	2,644 (gross)	Luk Fook Jewellery
Tsim Sha Tsui	Shop G27, G/F, Star House, 3 Salisbury Road	300 (gross)	AV Shop
Mongkok	G/F-4/F, Wang On Building, 73-81 Argyle Street	25,016 (gross)	Broadway AV Shop

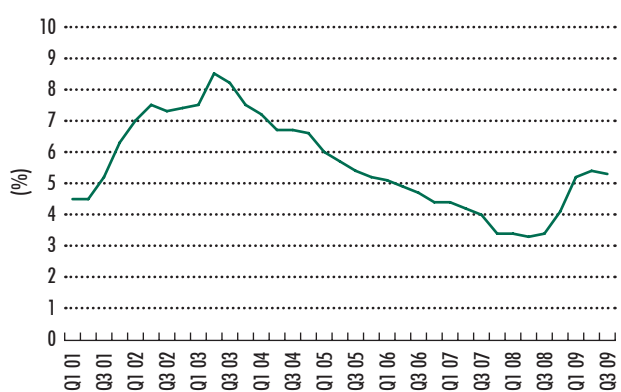
## Hong Kong Inflation Rate



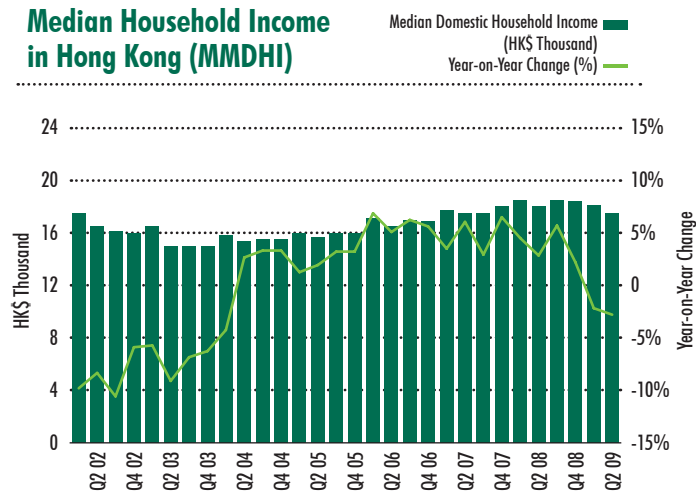
Source: Census & Statistics Department

The composite consumer price index increased 0.5% in September y-o-y, compared to a 1.6% y-o-y decline in August. The increase was mostly due to the gradual fading out of the household electricity subsidy. Netting out the effects of the government relief measures, September inflation was -0.3% y-o-y, unchanged from the past two months. Looking forward, the inflation rate is expected to stay at a contained level in the near future.

## Hong Kong Unemployment Rate



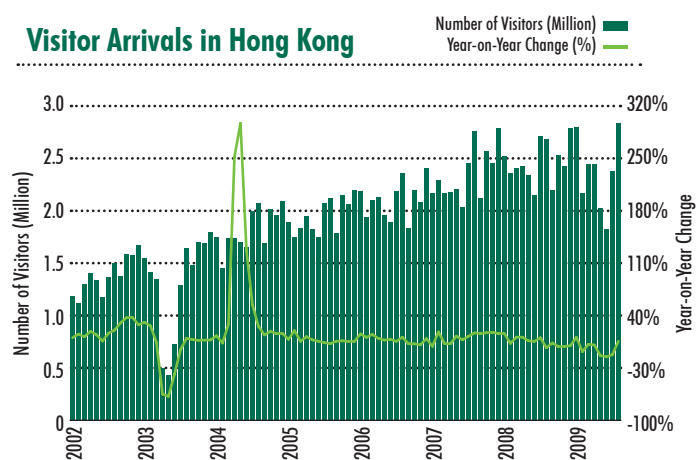
### Median Household Income in Hong Kong (MMDHI)



Source: Census & Statistics Department

Median monthly household income in Hong Kong was \$17,500 in the second quarter of 2009, down \$600 from \$18,100 in the first quarter. Compared to a year earlier, median household income was \$500 lower. As the unemployment and underemployment rates stabilised in the third quarter, the downward pressure on MMDHI is expected to diminish in the next released MMDHI data.

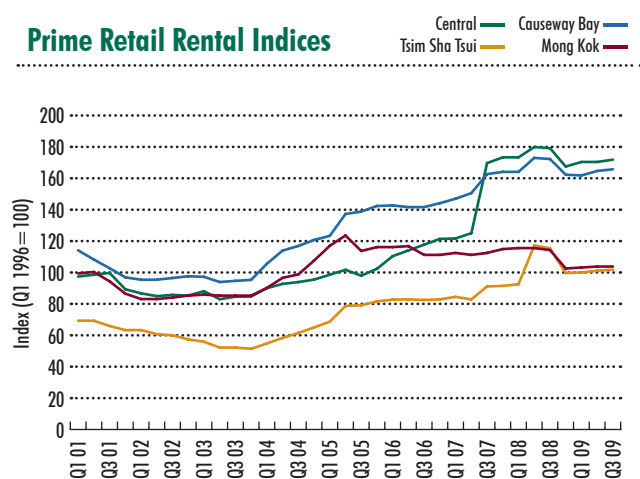
### Visitor Arrivals in Hong Kong



Source: Hong Kong Tourism Board

Total visitor arrivals in August increased 5.8% y-o-y to 2,834,178, reversing the downward trend of the previous three months. Although the overall visitor arrivals hit a monthly record high in August 2009, the large percentage increase was partly attributed to the lower base of arrivals during the Beijing Olympics in August 2008. Meanwhile, visitors from Mainland China increased 9.2% y-o-y to 1,855,907, the second highest monthly figure on record. Positive gains were also recorded in long-haul market regions, including the Americas and Europe, and Africa and the Middle East, which increased 9.7% and 10.4% respectively y-o-y.

### Prime Retail Rental Indices



Source: CBRE Research

The retail leasing market was largely stable over the third quarter of 2009. The average rent in Central rose slightly by 0.9% q-o-q to \$470 psf, which was the highest gain amongst four prime shopping districts. A slight increase in average rents of 0.7% q-o-q was recorded in both Causeway Bay and Tsim Sha Tsui, while Mongkok rents were virtually unchanged, averaging \$280 psf. Tenants in general remained conservative and cost conscious amidst an uncertain economic outlook. However, retailers benefiting from the growth in Mainland Chinese visitors took the opportunity to expand their shops.

## Prime Shopping Districts in Hong Kong



### MTR System

-  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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