



Quick Stats

	Latest data	Trend
Unemployment rate	3.2% (Jul–Sep 11)	↓
Median household income	HK\$ 20,000 (Jun-Aug 11)	↑
Inflation rate	5.8% (Sep 11)	↑
Visitor arrivals	3.19 million (Sep 11)	↑
Retail sales value	HK\$34.3 billion (Aug 11)	↑
Prime retail rental value	HK\$555 psf	↑

Hot Topics

- Tourist spending by a record number of Mainland visitors continued to support retail sales
- Demand from overseas brands was strong over the third quarter as retailers remained optimistic about Hong Kong's retail outlook.
- Both luxury and casual fashion labels actively sought out prime retail space to expand their retailing networks
- Retail rental growth maintained strong momentum in the third quarter, thanks to strong retail sales

OVERVIEW

• Tourist spending continued to be the growth engine of local retail sales

Tourist arrivals to Hong Kong reached an historical high in August 2011, surpassing 4 million. Mainland arrivals set a new high. In September, Hong Kong also saw its visitor arrivals go up. Retail sales continued to find support from spending by the record number of Mainland visitors. Overall sales rose to HK\$34.3 billion. Key growth drivers were mostly the top-picks from mainland tourists, including electrical goods and photographic equipment and jewellery, watches and clocks, and valuable gifts continued to lead.

• Prime retail space demand remained strong mainly from overseas brands

Leasing activity remained buoyant, with keen competition amongst overseas brands trying to identify prime space in most core locations as they remained optimistic about Hong Kong's retail market outlook. Both luxury and casual fashion retailers including French, British, Japanese and American brands, were active in the leasing market during the quarter. First tier rents continued to rise over the quarter on the back of resilient demand for prime located shops among international brands. Facing high rental pressure, some local retailers withdrew from the prime arteries and relocated their shops to non-prime areas. In this way, rental growth has spilled over to second-tier retail locations, especially those adjacent to prime areas.

• Stable growth of Hong Kong retail rents expected

Despite the increasing level of uncertainty surrounding the global economic outlook, the still buoyant employment situation, together with the prevailing strength of inbound tourism, continues to bode well for the retail sector in the near term. International brands are expected to continue expanding in Hong Kong given robust retail sales and vibrant inbound tourist arrivals. Against this backdrop, the outlook for retail demand, especially space in prime locations, is likely to remain strong, with retail rents to maintain positive growth in the coming months.

Selected leasing transactions in Q3 2011

Property	Unit/Floor	District	Size (sf)	Tenant
Queensway Plaza, 93 Queensway	Entire mall	Admiralty	78,600'G	Lane Crawford
1 Duddell Street	B/M-3/F	Central	25,750'G	Shanghai Tang
Soundwill Plaza, 38 Russell Street	Shop A, B, G/F, 1/F	Causeway Bay	7,760'G	Burberry
39-47 Lee Garden Road	Shop J, K, G/F, 1/F	Causeway Bay	3,150'G	Luk Fook Jewellery
The Toy House, 100 Canton Road	B/M, G/F, 1/F, 2/F, 3/F	Tsim Sha Tsui	33,859'G	Apple Store
Silvercord, 30 Canton Road	Shop 1, 2, G/F, 1/F, 2/F	Tsim Sha Tsui	7,974'G	Longchamp
Parklane Shopper's Boulevard, Site D, 111-139 Nathan Road	Shop 5-8, G/F, Shop 4-5, 1/F	Tsim Sha Tsui	5,288'G	TSL
mpm, 240-244 Portland Street	G/F, 1/F, 2/F	Mong Kok	24,600'G	GAP
Grand Plaza, 639 Nathan Road	Portion G/F, 1/F	Mong Kok	15,000'G	Lowrys Farm
Ginza Plaza, 2A Sai Yeung Choi Street South	Shop 7, G/F	Mong Kok	1,691'G	Nokia

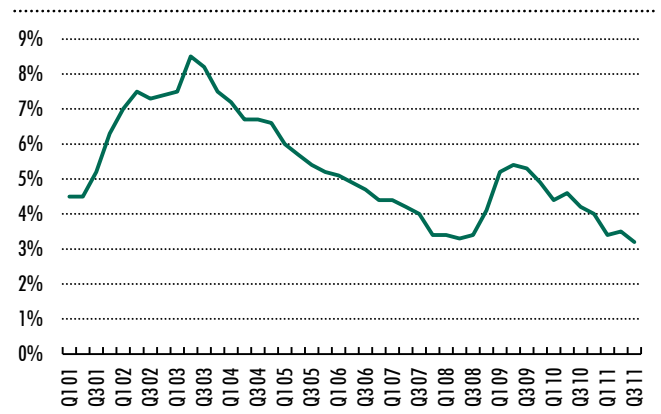
Hong Kong's labour market continued to improve over the period, as reflected by the seasonally adjusted unemployment rate falling by 0.3 percentage points from 3.5% in the second quarter of 2011 to 3.2% in third quarter, the lowest rate since the second quarter of 2008, according to the latest figures from the Census and Statistics Department. Meanwhile, the underemployment rate also fell from 1.8% in the second quarter of 2011 to 1.7% in the third quarter. Total employment rose for the seventh consecutive month and reached a new record high of 3,642,400 in the third quarter.

With the tight labour market conditions, workers are enjoying higher nominal earning growth. According to the latest government statistics, growth in average wages accelerated to 8% y-o-y in nominal terms in June 2011, after an increase of 4.9% y-o-y in March 2011, therefore boosting household income. Median monthly household income continued to record double-digit y-o-y increases, rising by 11% in June – August 2011 to HK\$20,000. Coming after a 10% y-o-y rise in Q2, household income has now reached peak levels last seen in Q1 1997.

Inflation is a main challenge to the retail sector. The composite consumer price index rose by 5.8% y-o-y in September 2011, slightly larger than the increase of 5.7% in August. The government launched a series of one-off relief measures last year, including the waiver of public rental, and these affect the annual comparison. Netting out the effects of all those measures, the underlying inflation rate in September was 6.4%, compared to 6.3% in August, mainly due to the enlarged growth in private housing rentals. Inflation pressures are likely to remain elevated due to the rise in global commodity prices and the impacts of a weaker currency. Rising private residential rents will also continue to filter through the economy and put pressure on disposable income.

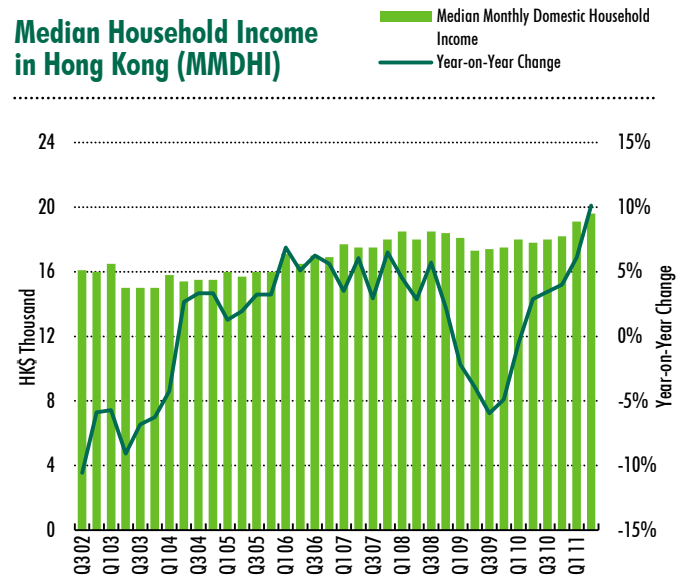
Tourist arrivals to Hong Kong in August 2011 reached an historical high, surpassing 4 million, a jump of 17.7% y-o-y, according to the Hong Kong Tourism Board. Arrivals from the Mainland registered a rise of 23% y-o-y, to exceed 2.91 million, making it the highest ever Mainland arrival figure for a single month. In September, Hong Kong also saw its visitor arrivals go up by 16.8% y-o-y. The strong performance was led by sustained growth of the Mainland economy and appreciation of the Renminbi, which boosted the spending power of mainland shoppers and continued to provide extra incentive for them to spend in Hong Kong.

Hong Kong Unemployment Rate



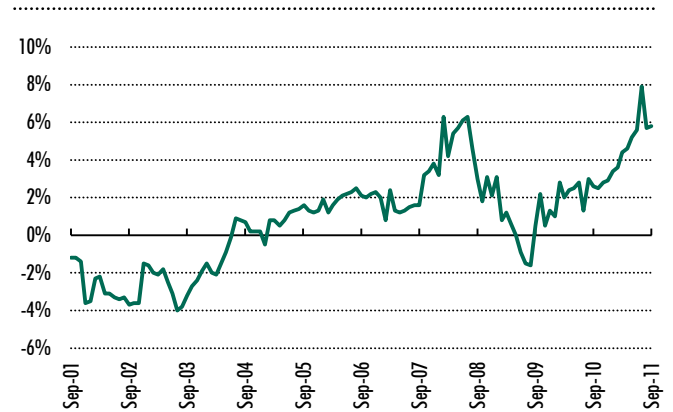
Source: Census & Statistics Department

Median Household Income in Hong Kong (MMDHI)

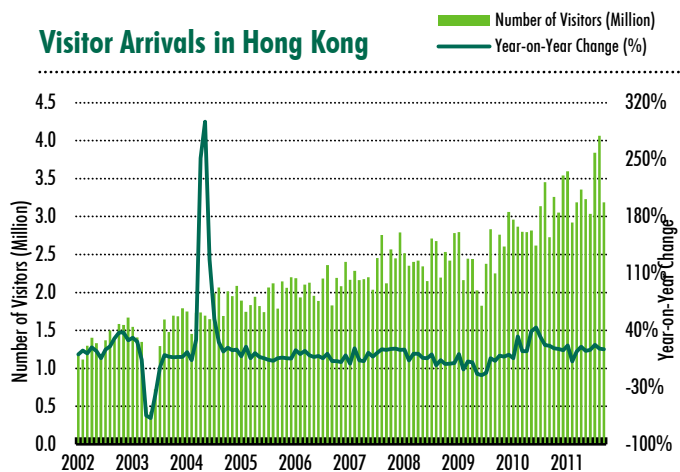


Source: Census & Statistics Department

Hong Kong Inflation Rate



Source: Census & Statistics Department



Source: Census & Statistics Department

The robust trend of the Hong Kong retail sector continued in August 2011, with overall sales rising by 29% y-o-y in value to HK\$34.3 billion. Besides the increase in the value of sales, volume also rose by 20.7% y-o-y in August when compared with a year earlier. Key growth drivers, mostly the top-picks from mainland tourists, including electrical goods and photographic equipment (+53.7% in volume) and jewellery, watches and clocks, and valuable gifts (+33.6% in volume) continued to lead. Despite the increasing level of uncertainty in the global environment, the still buoyant employment situation, together with the prevailing strength of inbound tourism continues to bode well for the retail business in the near term.

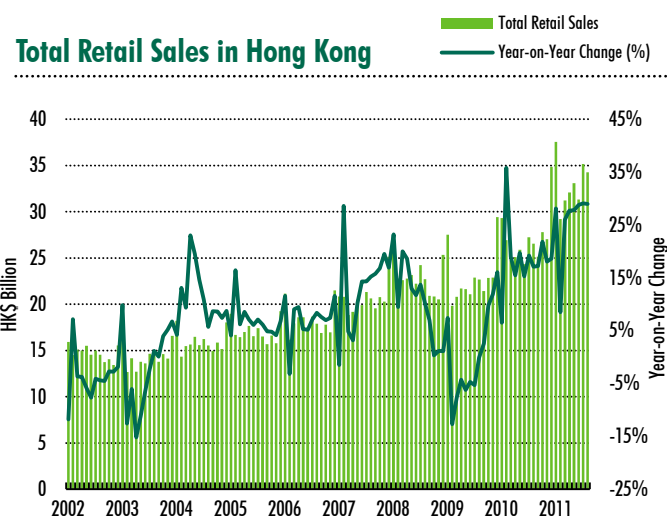
Hong Kong retail rental growth still maintained strong momentum in the third quarter, thanks to strong retail sales, supported by mainland Chinese shoppers and growing local consumer spending due to continued improvement income conditions. Leasing activity remained buoyant, with keen competition among overseas brands seeking out prime shops in most core locations. Prime retail rental growth accelerated from the mild increase of 2.2% q-o-q in the second quarter to 6.2% q-o-q, to average \$555 psf in the third quarter.

Tsim Sha Tsui district witnessed its largest ever q-o-q rental increase, surging 11.1% q-o-q to \$573 psf in the quarter. A number of major leasing transactions were recorded at Canton Road in the district, including the lease of Apple Store in The Toy House at 100 Canton Road. This will be its third store, with over 30,000 sf in Hong Kong, after its first one in ifc mall in Central and the one in Hysan Place to be opened next year in Causeway Bay. The French luxury handbag label, Longchamp, leased a three-storey shop, occupying almost 8,000 sf at Silvercord.

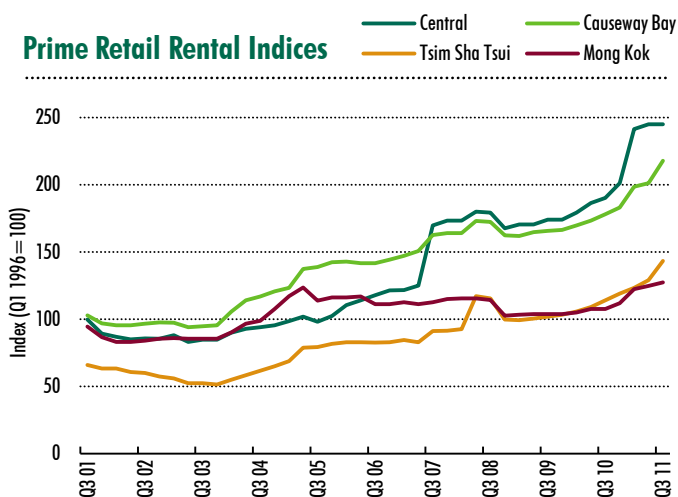
Retail rent in Causeway Bay also recorded exceptional growth of 8.3% q-o-q, to average \$612. British luxury fashion brand Burberry leased the retail space of almost 8,000 sf, which is currently occupied by Nokia in Russell Street.

Mong Kok saw a gentle increase of 2% q-o-q, to average \$343 psf. The Japanese casual clothing brand Lowrys Farm further expanded its retailing network by leasing a space of 15,000 sf at Grand Plaza, while the American fashion label Gap also leased 24,600 sf in mpm at Portland Street.

Rents remained fairly flat in Central, averaging \$670 psf. One of the major leasing transactions was recorded for Shanghai Tang which leased over 25,000 sf space at Duddell Street, relocating from its current shop location at Pedder Building.

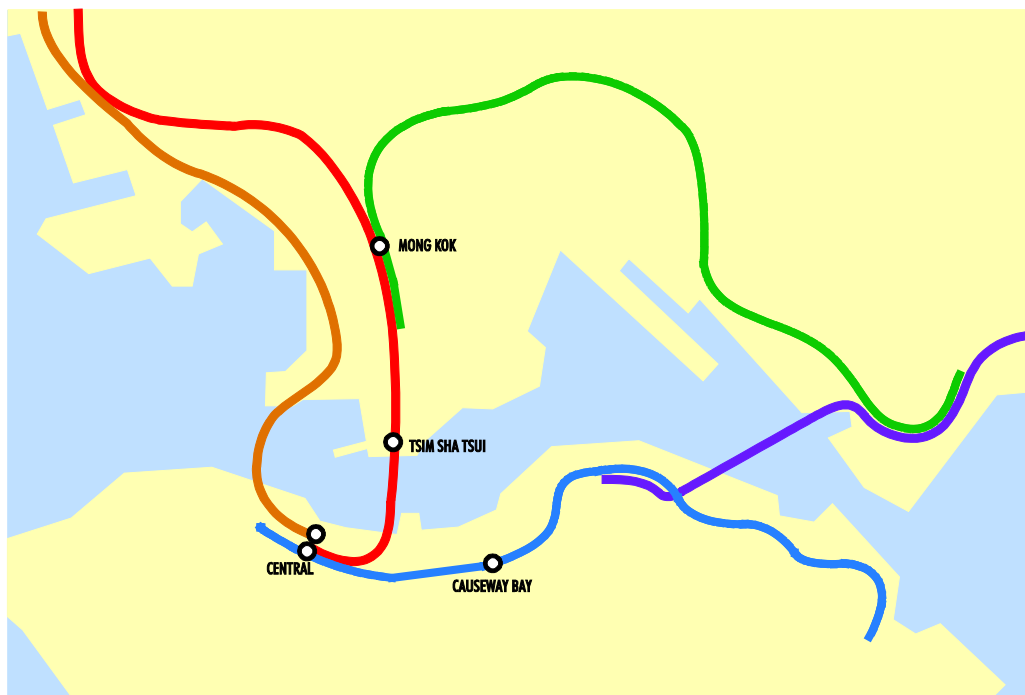


Source: Census & Statistics Department



Source: CBRE Research

Prime Shopping Districts in Hong Kong



MTR System	— Tsuen Wan Line	— Island Line	— Tseung Kwun O Line
	— Kwun Tong Line	— Airport Express	

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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