CBRE
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MarketView
Hong Kong Retail

FIRST QUARTER 2006

Hong Kong's retail leasing market reignited in the first quarter of 2006 following the November to December period, the traditionally quiescent time for retail leasing. Underpinned by strong consumer spending during the Christmas and Chinese New Year holidays, retail operators briskly expanded their networks in major shopping districts in the first quarter, further strengthening their market presence and gearing up to capture the anticipated Easter holiday spending. A noteworthy take-up saw timepiece retailer Time Zone undertake aggressive expansion in major prime retail locations, such as Mong Kok, Causeway Bay and Central.

Retail operators briskly expanded their networks in major shopping districts in the first quarter, intending to further strengthen their market presence.

Meanwhile, following the recent refurbishment of some of Central's landmark buildings as well as the opening of the Four Seasons Hotel and AIG Tower, major international luxury brands are being increasingly attracted to take space along Queen's Road Central and D'aguilar Street. The facelift of the cityscape along these retail avenues is expected to rejuvenate the district and reinforce its position as Hong Kong's premiere high-end retailing destination. Riding on this momentum, a number of mid-range local retailers are attempting to carve out a stake for themselves in this niche retail hub. Highlighting this trend, the market witnessed Le Saunda footwear open a 1,200-sf shop on Des Voeux Road Central, while luxury brand Chloe finalised their lease of 3,000 sf on the ground floor of the Mandarin Oriental Hotel, which is currently undergoing a major renovation.

Elsewhere, Tsim Sha Tsui also displayed a significant level of retail leasing activity. Amongst these, Japanese restaurant Sushi One took a 3,366-sf premises at Cameron Road, while HMV committed to lease a 10,000-sf duplex shop at the Hong Kong Pacific Centre, which will see them relocate from their existing outlet on Peking Road. With respect to the department store sub-market, Dickson Concepts confirmed the opening of a 52,000-sf Seibu in Kowloon Hotel, which is slated to open later this year following the closing of the department store's Causeway Bay outlet in Windsor House.

Carrying forward Hong Kong's strong retail sales performance in 2005, it is expected that the retail market will remain buoyant throughout 2006. This outlook is attributed to positive employment conditions, upbeat consumer sentiment and the continued record inflow of tourists, particularly with the expanded inclusion of more Mainland cities in the Individual Visit Scheme. On the back of these driving factors, CBRE expects that the overall rental levels for retail properties will record double-digit growth in 2006, an upward revision of our earlier projection of between 5% and 8%.

QUICK STATS

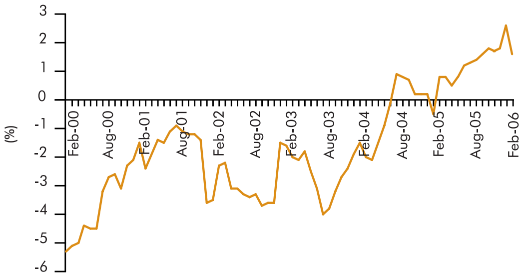
	Change in Q4 05	Change in Q1 06
New Supply	↔	↔
Demand	↑	↑
Vacancy Rate	↔	↔
Prime Rents	↑	↑

SELECTED LEASING TRANSACTIONS IN 1Q 2006

District	Property	Size (sf)	Tenant
Causeway Bay	Shop C, G/F, Po Hon Building	600 (lettable)	Time Zone
Causeway Bay	1/F, Po Ho Building	3,140 (gross)	Maxim's Fast Food
Causeway Bay	Shop 7, G/F, Plaza 2000	1,408 (gross)	Azure Blu Men's Wear
Causeway Bay	G/F, M/F, 63 Percival Street	G/F: 900 (gross) M/F: 600 (gross)	Watch Shop
Causeway Bay	Shops A & B, G/F, 17 Yun Ping Road	1,100 (gross)	Puiyee Optical
Tsim Sha Tsui	Portion G/F, Portion 1/F, Hong Kong Pacific Centre	G/F: 5,000 (gross) 1/F: 5,000 (gross)	HMV
Tsim Sha Tsui	Shop C, G/F, Tung Shun Hing Commercial Centre	860 (gross)	Leona Underwear
Tsim Sha Tsui	Shop A, G/F, China Insurance Building	3,366 (gross)	Sushi One Japanese Restaurant
Central	Shops 38 & 40, G/F, Manning House	2,415 (lettable)	Nike
Central	Shop A, G/F, Prosperous Building	1,200 (gross)	Le Saunda

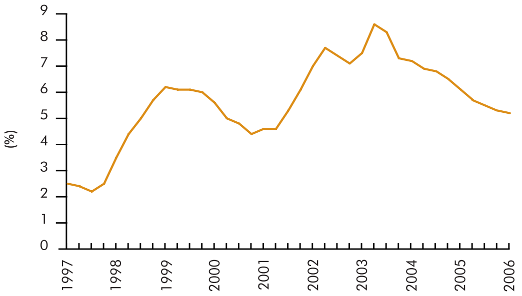
ECONOMIC CONDITIONS

Hong Kong Inflation Rate



Source : Census & Statistics Department

Hong Kong Unemployment Rate



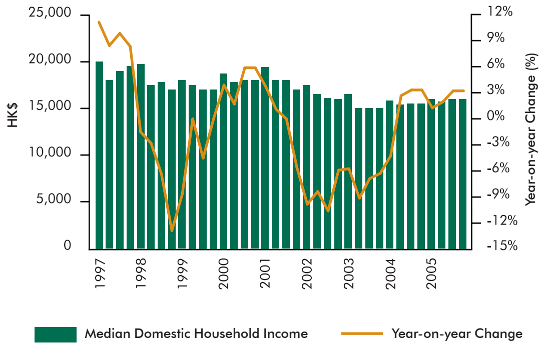
Source : Census & Statistics Department

The inflation rate in Hong Kong was recorded at 1.6% in February, following the rate of 2.6% seen in January. The deceleration in price growth was mainly attributable to moderate declines in the prices of basic foodstuffs and inbound and outbound transport fares after the Chinese New Year holiday, according to the Census and Statistics Department. However, taking into account the distortion caused by the difference in the timing of the Chinese New Year between 2005 and 2006, the Composite CPI increased by 2.1% over a year earlier for the first two months of 2006. Looking ahead, inflationary pressure is expected to continue in 2006 at a moderate level as rental costs increase across all property sectors.

Driven by strong economic growth, Hong Kong's unemployment rate remained firm at 5.2% in the December 2005 to February 2006 period, the lowest rate since the second quarter of 2001. The total number of employed persons in the SAR reached 3,587,000 (provisional), a mild decline of 11,400 on the November 2005 to January 2006 period. This reduction in employment within the December to February period was mainly observed in the construction and sanitary service sectors. Overall, the unemployment rate is expected to be stable, buoyed by the relatively strong labour market outlook.

MEDIAN MONTHLY DOMESTIC HOUSEHOLD INCOME (MMDHI)

Median Household Income in Hong Kong

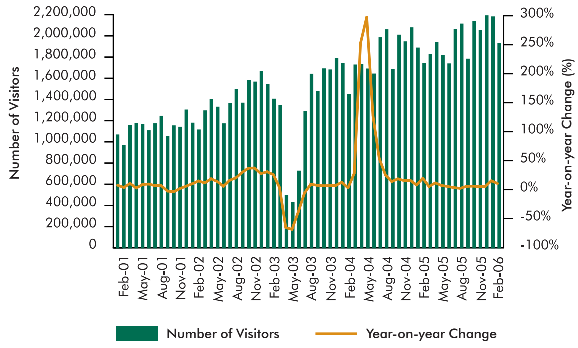


Source : Census & Statistics Department

The MMDHI was reported at $16,000 in the fourth quarter of 2005, the same level as the preceding quarter. This represents a 3.23% increase on the same period in 2004. While the MMDHI plateaued in the third and fourth quarters, analysts expect that employment growth and an increase in private sector salaries (of between 2% and 3%) should act to bolster household income. Rises in these areas are predicted on the basis of continuing momentum in economic and tourism growth. The MMDHI is forecast to continue registering improvement over the near to medium term, as the broader population begins to benefit from the economic upturn.

TOURIST ARRIVALS

Visitor Arrivals in Hong Kong

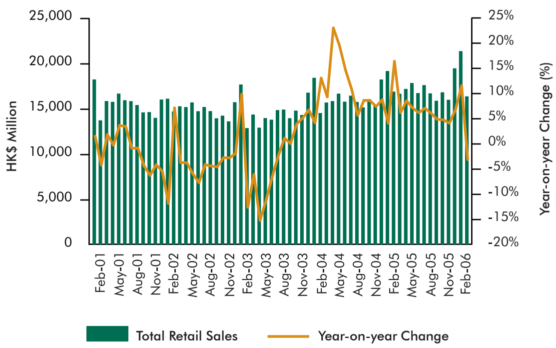


Source : Hong Kong Tourism Board

Total tourist arrivals in 2005 reached an all-time yearly high of 23 million, a rise of 7.1% over the number seen in 2004. This record-beating performance carried forward into 2006. The February visitor influx of 1,934,666 represented a record figure for the year's second month, and double-digit growth of 10.9%, y-o-y. At the same time, the cumulative total arrivals for the first two months of 2006 also amounted to a record high of 4,123,482, representing a 13.3% rise on the same period in 2005. Driving the increase was the double-digit growth registered in most regions in February over a year earlier.

RETAIL SALES

Total Retail Sales in Hong Kong

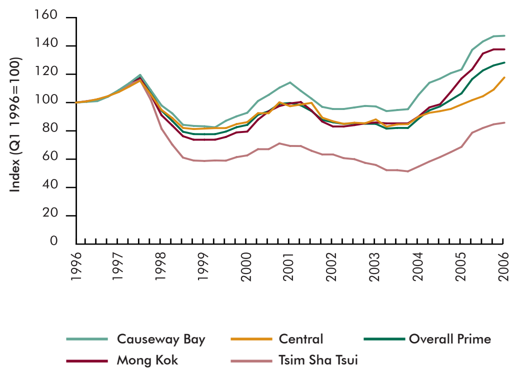


Source : Census & Statistics Department

Boosted by Chinese New Year spending, total retail sales registered double-digit growth of 11.6% (value) in January 2006. This preceded a dip of 3.1% in value and 4.9% in volume (provisional) in February 2006. The oscillation in performance is attributed to the difference in timing of Chinese New Year between this year and the last. Compensating for this, the combined figure for the first two months of 2006 saw total retail sales increase by 4.7% (value) and 3.2% (volume) over the same two-month period in 2005. Analysed by retail outlet type, it was observed that retail sales were no longer skewed so heavily towards electrical goods, cosmetics and jewellery, categories which had previously been boosted by Mainland visitor spending. Instead, retail sales were observed as being more evenly spread across all types of major retail outlets.

RETAIL RENTAL TRENDS

Prime Retail Rental Index



Leasing demand for retail premises in Hong Kong began the quarter on an upbeat note. Retail operators expanded their branch networks in major shopping districts in anticipation of the busy trading period in the run-up to and during the Easter holidays. Certain retail operators adopted an aggressive approach in terms of their expansion strategies in the SAR. Overall, retail rents increased by 1.6% in the first quarter of 2006. By district, Central continued to record the strongest performance, with a 7.9% q-o-q rise in rentals, while Tsim Sha Tsui registered a modest increment of 1.3%. Meanwhile, retail rents in both Mong Kok and Causeway Bay remained stable within the period under review.

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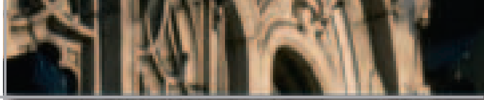

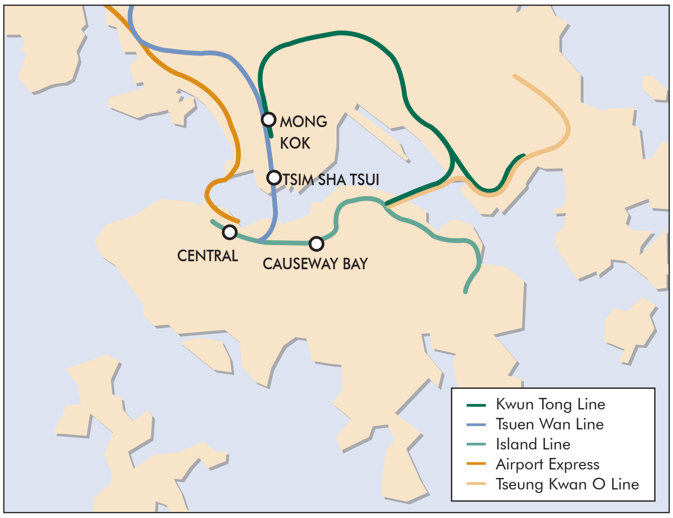

PRIME SHOPPING DISTRICTS IN HONG KONG

CENTRAL

This traditional banking and financial centre of Hong Kong is also a popular shopping hub for middle to upper class shoppers. 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. The area consists of a number of modern fashion and accessories boutique stores catering to the young and hip crowd.

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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.