

Along with the arrival of Chinese New Year holiday and the continuously improving economy, domestic spending remained strong in the Hong Kong retail sales market in the first quarter, benefiting retail business across the spectrum, and in turn, triggering many expansion moves.

Along with this trend, the persisting scarcity of supply of retail space in prime shopping districts, in conjunction with the sharp increase in demand from international luxury brand retailers eager to use Hong Kong as a springboard to enter the Mainland retail market placed upward pressure on the rentals for desirable retail space, especially for shops enjoying wide street frontage which is effective in enhancing brand prestige.

Consequently, those retailers along prime retail corridors who were unwilling to accept further rises in their already-high rentals opted to relocate their shops to secondary locations. For examples, a long-established noodle shop relocated from Russell Street in Causeway Bay to Percival Street in the same district in order to trim down operating costs. Several retailers also changed their positions in Park Lane Shopper's Boulevard to opt for more affordable retail space. In the meantime, some local retail chains cut back the number of high-rent street-level shops which they had opened during

previous expansion phases, opting instead to revert to establishing retail networks within shopping malls in a move towards rental cost-saving.

In Central, the opening of a large Swedish fashion retail outlet H&M, featuring 38,000 sf of retail space in Queen's Road Central, placed rentals for street-level shops in the area under upward pressure. The agglomeration effect resulting from the opening of this brand-new mega shop, however, is still working to attract many other overseas brands to open shops nearby, effectively working to upgrade the quality of retailing in the entire surrounding area. Several retailers, for example, Twist, Diesel and Top Secret have recently opened mega shops ranging from 1,500 sf to 9,200 sf in order to establish a foothold in this area.

With respect to the retail property investment sector, the market witnessed foreign institutional funds widening the scope of the types of assets they would consider acquiring to include not only prime offices but retail properties as well. Highlighting this trend, foreign funds acquired two shopping malls, Mong Kok Computer Centre and Golden Plaza, both at Mong Kok, for \$750 million (\$28,846 psf) and \$530 million (\$11,557 psf), respectively.

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### QUICK STATS

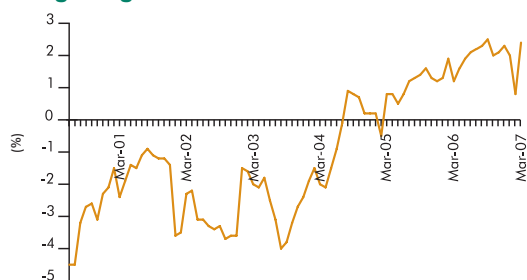
	Change in Q4 06	Change in Q1 07
New Supply	↔	↔
Demand	↔	↔
Vacancy Rate	↔	↔
Prime Rents	↔	↔

### SELECTED LEASING TRANSACTIONS IN 1Q 2007

District	Property	Size (\$)	Tenant
Causeway Bay	G/F-3/F, Siki Centre	6,335 (gross)	Bank of China
Causeway Bay	G/F-4/F, 15A Matheson Street	5,000 (gross)	Bauhaus
Causeway Bay	G/F-1/F, Tak Fat Building	2,000 (gross)	The Body Shop
Causeway Bay	G/F, 22 Russell Street	1,242 (gross)	Sunglass Hut
Central	G/F-G1/F, M88, Wellington Street	9,199 (gross)	Twist
Central	G/F-1/F, 4-6 On Lan Street	2,000 (gross)	Diesel
Central	Shop G7, New Henry House	1,500 (gross)	Top Secret
Central	Shop G4A, Tak Shing House	1,100 (net)	Venilla Suite
Tsim Sha Tsui	Shop G1A, The Toy House	2,208 (gross)	The Sweet Dynasty
Tsim Sha Tsui	Shop G18 & 1/F, Parklane Shopper's Boulevard Site D	G/F:677 (gross) 1/F:597	Geox

### ECONOMIC CONDITIONS

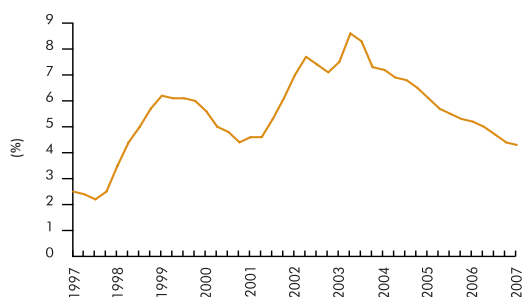
#### Hong Kong Inflation Rate



Source : Census & Statistics Department  
 Remark : As from the reference month of October 2005 onwards, the year-on-year rates of change are derived from the new 2004/05-based Consumer Price Indices.

The inflation rate in Hong Kong was recorded at 2.4% in March, following the rate of 0.8% seen in February. The acceleration in price growth was mainly attributable to the one-off waiver of collection of public housing rental in February by the Housing Authority and Housing Society. Looking forward, the sustained labour productivity growth and such concessions in the 2007-2008 Budget as the waiver of collection of rates in the first two quarters of 2007, should help contain anticipated inflationary pressure arising from weak US dollar and renminbi appreciation.

#### Hong Kong Unemployment Rate

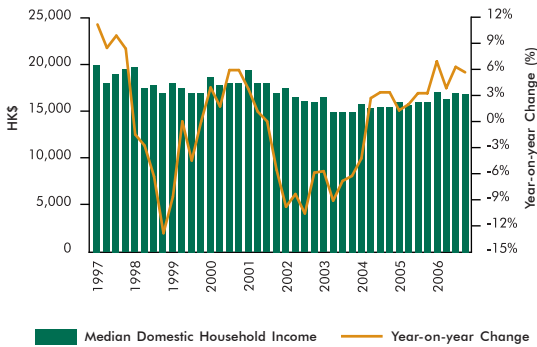


Source : Census & Statistics Department

The SAR's labour market remained robust on the back of the continuous economic growth. The provisional unemployment rate declined to 4.3% in the first quarter, the lowest since the middle of 1998, and the decrease was mainly observed in the amusement and recreational services, communications and real estate sectors.

**MEDIAN MONTHLY DOMESTIC HOUSEHOLD INCOME (MMDHI) TOURIST ARRIVALS**

**Median Household Income in Hong Kong**

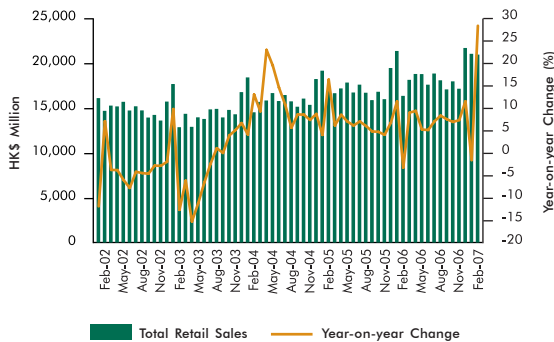


Source : Census & Statistics Department

The MMDHI was up by 5.6% y-o-y, at \$16,900 within the fourth quarter of 2006. Strong economic fundamentals and record levels of total employment underpinned the y-o-y growth in the quarter, although it was slightly down from the third quarter number of \$17,000. According to the Census and Statistics Department, about 56% of the companies surveyed awarded wage increases in December 2006 over a year earlier, which was in line with the continuous decline in the unemployment rate in 2006. Looking ahead, analysts generally expect that employment conditions will continue to improve and private sector salaries will keep growing, which combine to continue to bolster household income.

**RETAIL SALES**

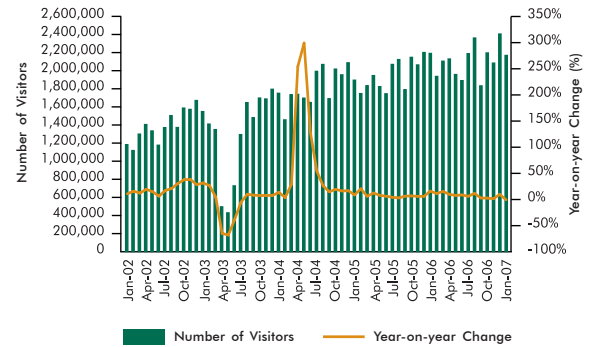
**Total Retail Sales in Hong Kong**



Source : Census & Statistics Department

The total value of retail sales in Hong Kong was provisionally estimated at \$20.8 billion in February 2007, representing a sharp increase of 28.4% y-o-y mainly due to the fact that Chinese New Year fell in February this year rather than in January as it did last year. Looking beyond this distortion by comparing the first two months of 2007 with last year's corresponding period, the total value of retail sales still grew by a significant 11.4%, this being mainly attributable to strong local consumer spending underpinned by robust economic fundamentals and further stimulated by the wealth effect. In terms of types of retail outlets, the volume of sales of jewellery, watches and clocks, and valuable gifts increased the most in the first two months of 2007, by 14.5%, followed by the sales of motor vehicles and parts, 14.1%.

**Visitor Arrivals in Hong Kong**

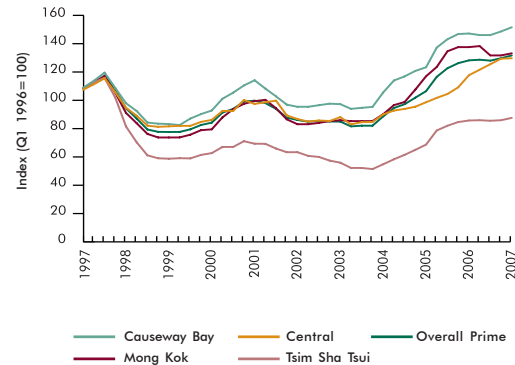


Source : Hong Kong Tourism Board

The total number of visitor arrivals to Hong Kong was 2.17 million in January 2007, representing a slight drop of 1.0% y-o-y. The slight decrease was attributable to the fact that Chinese New Year fell in February in 2007 but occurred in January in the previous year, this being a period in which extraordinarily large number of visitors from the Mainland and Taiwan are attracted to visit Hong Kong. In fact, strong y-o-y growth was seen in arrivals from other key source markets in January 2007, with many witnessing double-digit increases. Arrivals from the United Kingdom and France, for instances, surged 26.7% and 25.2%, respectively.

**RETAIL RENTAL TRENDS**

**Prime Retail Rental Index**



In the wake of substantial rental rises over the past few years, the retail leasing market showed signs of stabilising in the first quarter of 2007. Overall rentals remained mostly flat, recording a slight q-o-q rise of 1.5% within the quarter. However, upward pressure on the rentals for prominent shop space in prime shopping districts started emerging, largely fuelled by international luxury brands' eagerness to establish a presence in these prime areas. Analysed by district, Causeway Bay recorded the largest q-o-q rise of 2.0% while Central registered the mildest increase of 0.2%, with rentals calming slightly following its consistent rental outperformance of other prime shopping districts since the fourth quarter of 2005.



## 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.