

The Hong Kong retail sector continued its upward growth trend in the third quarter of 2007 backed by strong domestic spending and steady growth in tourist arrivals. Although the recent spate of new commercial developments in Macau has attracted a considerable number of locals and tourists, Hong Kong remained an attractive shopping destination with both retail landlords and retailers highly optimistic on Hong Kong's retail outlook.

*Although the recent spate of new commercial developments in Macau has attracted a considerable number of locals and tourists, Hong Kong's position as an attractive shopping paradise remains intact.*

The retail leasing market in Central performed remarkably well in the third quarter. With strong consumer spending power coming from traditional luxury residential districts around Central and executives working in the CBD, opening shops in prime areas of Central has proven a very effective method to enhance brand image. Numerous up-market global retailers have been eager to open shops there. Given the limited supply of prime retail space in the district, along with keen demand from luxury brands, rents in prime shops in Central soared by 35.7% q-o-q. Competition for retail space was so intense in the district that demand expanded into areas adjacent to prime retail arteries, resulting in a general increase in rents on these second-tier retail streets.

The situation was different in Causeway Bay. Only the prime retail areas of

the district, such as Russell Street and Paterson Street, were highly sought-after by retailers. Early leasing pre-commitments subsequently pushed up the rents of these prime locations. However, retailers' specific demand for prime retail areas limited rental growth on second-tier retail streets in the district. Nonetheless, the retail leasing market in the district remained active with overall vacancy rates hovering at low levels. Notable leasing transactions included Swarovski's leasing of a 2,000-sf shop on

the ground floor of 40-42 Yun Ping Road in Causeway Bay and Stefanel's take-up of 4,300 sf on the ground floor and first floor of Shop 9-10 in Fashion Island, also in Causeway Bay.

Several ongoing redevelopment projects in Tsim Sha Tsui, including those on Hanoi Road and the former Marine Police Headquarters, are due for completion next year and will bring a new shopping spree to the district. In anticipation of Tsim Sha Tsui's role as a prime shopping district increasing within the next year or so, a significant level of retail leasing activity was registered in the quarter, with rental rises being bolstered mostly by watches and jewellery retailers. Some notable transactions saw Chow Sang Sang committed to lease a 5,910-sf duplex shop at Parklane Shopper's Boulevard, while Chow Tai Fook took a 1,500-sf shop at Majestic House.

### QUICK STATS

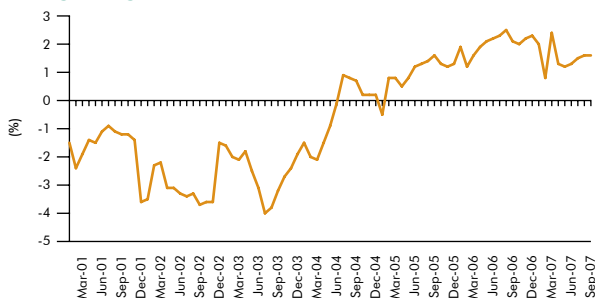
	Change in Q2 07	Change in Q3 07
New Supply	↔	↔
Demand	↑	↑
Vacancy Rate	↔	↔
Prime Rents	↔	↑

**SELECTED LEASING TRANSACTIONS IN 3Q 2007**

District	Property	Size (sf)	Tenant
Central	G/F, 1/F & 2/F, Hing Wai Building	8,000 (gross)	Coach
Central	Shops G20, 20A & LG, Pacific House	G/F: 3,049 (gross) LG: 3,486	Diesel
Central	Shops G9-10, Central Building	1,148 (gross)	Lacoste
Causeway Bay	G/F, 40-42 Yun Ping Road	2,000 (gross)	Swarovski
Causeway Bay	G/F & 1/F, Shop 9-10, Fashion Island	4,300 (lettable)	Stefanel
Tsim Sha Tsui	Shops G1-4 & 1/F, Parklane Shopper's Boulevard Site D	G/F : 3,036 (gross) 1/F : 2,874 (gross)	Chow Sang Sang
Tsim Sha Tsui	Shops G19-20 & 1/F, Parklane Shopper's Boulevard Site D	G/F : 1,302 (gross) 1/F : 1,342	Lacoste
Tsim Sha Tsui	Shop GA, Majestic House	1,500 (gross)	Chow Tai Fook
Tsim Sha Tsui	Shop G4, Hanley House	1,000 (gross)	The Body Shop
Mong Kok	G/F & M/F, 48-50 Sai Yeung Choi Street South	G/F : 2,000 (gross) M/F : 1,800	Chung Yuen Electrical Co. Ltd.

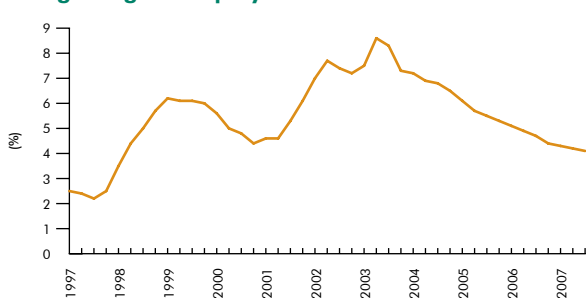
**ECONOMIC CONDITIONS**

**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.

**Hong Kong Unemployment Rate**



Source: Census & Statistics Department

Hong Kong's headline (1.6%) and underlying inflation rates (2.7%) in September 2007 remained unchanged from August, with the latter netting out the effect of rates concession. An increase in the cost of basic foodstuffs against the background of global food inflation continued to drive price growth. As the favourable effect of the rates concession fades out after September, higher food prices, RMB appreciation, the weak US dollar and surging oil prices should trigger increased inflation in the fourth quarter. However, the recent cut in public housing rents and a sustained rise in labour productivity should help alleviate upward price pressure in the coming months.

Total employment declined only moderately as of the end of the third quarter despite many summer seasonal workers going back to school, with the total labour force remaining above the 3.5 million mark at 3,502,200 (provisional figure). After discounting the seasonal factor, the unemployment rate edged down 0.1 percentage points to 4.1%, back to its lowest level for more than nine years. This highlights the SAR's job creation credentials amid sustained economic growth.

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

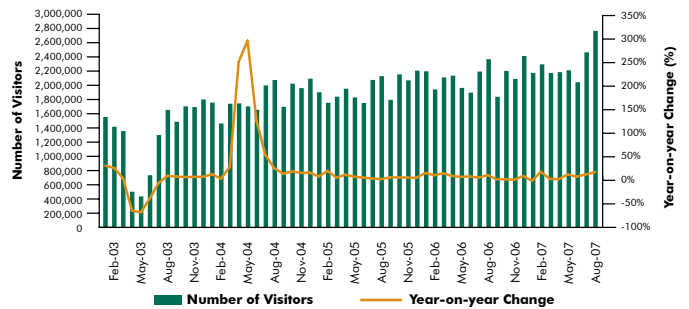
### Median Household Income in Hong Kong



Source: Census & Statistics Department

The MMDHI was recorded at \$17,500 in the second quarter of 2007, slightly down from the first quarter figure of \$17,700, likely due to the payment of Chinese New Year bonuses and double-pay increases in the first quarter. In fact, the MMDHI recorded in the second quarter represented a y-o-y increase of 6.1%, which was higher than the y-o-y growth of 3.5% in the preceding quarter, thanks to Hong Kong's continued economic growth. The MMDHI is forecasted to register positive growth over the near- to medium-term on the back of the prevailing buoyant employment market.

### Visitor Arrivals in Hong Kong

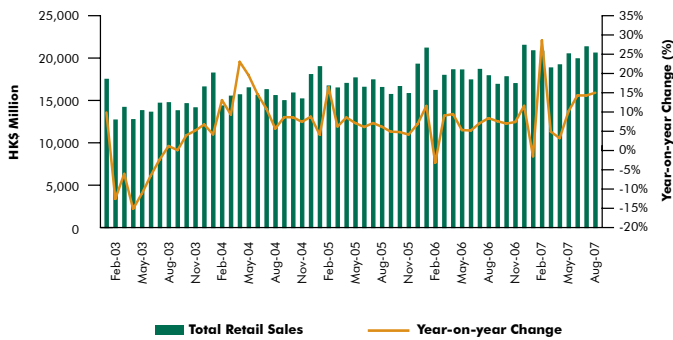


Source: Hong Kong Tourism Board

Tourist arrivals in August 2007 reached 2.76 million, a record high month and an increase of 16.9% over the same period last year. Arrivals from the Mainland registered a sharp rise of 23.5% y-o-y to 1.69 million in August, the highest monthly total for Mainland arrivals. Tourist groups from Australia, New Zealand and South Pacific; and Europe, Africa and the Middle East also performed remarkably well in August, with visitor arrivals surging 16.7% and 15.6% y-o-y, respectively. Total tourist arrivals in the year to August stood at 18.24 million, a rise of 9% over the same period in 2006. Among them, 61.5% were overnight visitors while the remaining 38.5% were visitors who left on the same day of their arrival.

## RETAIL SALES

### Total Retail Sales in Hong Kong

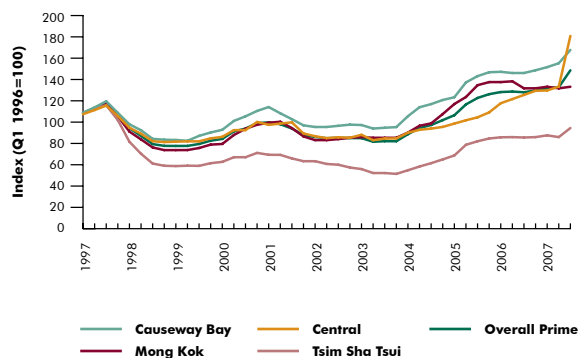


Source: Census & Statistics Department

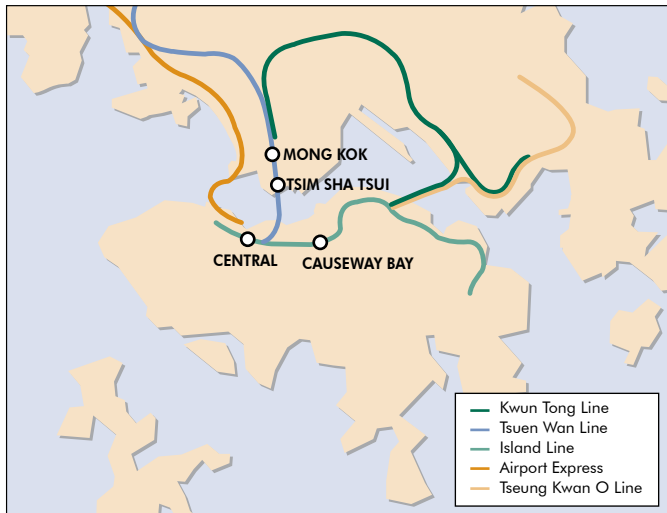
The total value of retail sales was provisionally estimated at \$20.6 billion in August 2007, representing an increase of 15% over a year earlier. After taking into account the effect of price changes over the past 12 months, the volume of retail sales grew 12.5% y-o-y. Bullish consumer sentiment amid a robust economy and a steady growth of inbound tourism fuelled retail sales. Electrical goods and photographic equipment sales registered the largest y-o-y increase of 37.7% in volume, followed by sales of jewellery, watches and clocks, and valuable gifts (31.8%); and footwear, allied products and other clothing accessories (19.5%).

## RETAIL RENTAL TRENDS

### Prime Retail Rental Indices



The overall rents in prime shopping districts registered a sharp increase of 11.9% q-o-q in the third quarter following the slight growth of 1.5% and 0.8% q-o-q in the preceding quarters of 2007. The rental performance in Central was particularly strong in the third quarter, as demonstrated by its 35.7% q-o-q increase driven by intense demand from international luxury brands to mark their presence in the area where there is of limited supply. Tsim Sha Tsui and Causeway Bay also recorded substantial rental rises of 9.9% and 8% q-o-q, respectively, as demand for prominent shop space in the districts grew remarkably in the quarter.



## 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.