

MarketView

Hong Kong Retail

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Fourth Quarter 2008

Quick Stats

		Y-o-Y change	Q-o-Q change
Inflation Rate	2.1% (Dec 08)	↓	↓
Unemployment Rate	4.1% (Oct-Dec 08)	↑	↑
Visitor Arrivals	29.5 million (Jan-Dec 08)	↑	N/A
Prime Retail Rental Value	HK\$389.62 psf	↓	↓

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

Hot Topics

- Dampened consumer sentiment continued to prevail in the fourth quarter in Hong Kong amidst the ongoing economic downturn with sluggish external and domestic demand.
- The impact of the financial tsunami on Hong Kong's retail property market intensified in the fourth quarter, as evidenced by the accelerated quarterly slide in retail rents across-the-board in all the prime shopping districts under review, with the first annual rental drop witnessed since the fourth quarter of 2003.
- In the short-term, the majority of activity in the retail property market may come from retailers selling necessities, low-priced products, and from the mass F&B sector, if rents drop low enough to prove attractive to retailers hoping to capture market share during the downturn.

The growth of Hong Kong's economy decelerated markedly in the third quarter, dragged down by the sluggish external and domestic demand triggered by the outbreak of the global credit crunch towards the end of the quarter. According to the latest figures from the Census and Statistics Department, real GDP growth in the third quarter of 2008 moderated to 1.7% y-o-y from 4.2% in the second quarter, the slowest pace since the SARS epidemic in 2003. Domestic demand has also demonstrated signs of declining. Growth in private consumption expenditures slowed notably to 0.2% from 3.2% over the same period.

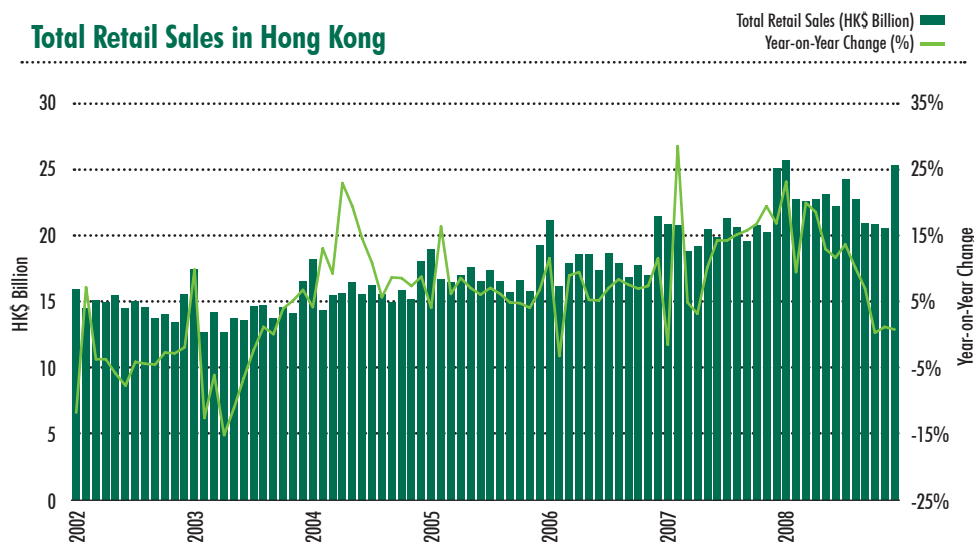
Following the downtrend, dampened consumer sentiment continued to prevail in the fourth quarter amidst the ongoing economic downturn. Total retail sales value recorded a slight growth of 0.8% y-o-y at \$25.3 billion. After taking into account the effect of price changes over the same period, the retail sales volume continued to shrink by 0.7% y-o-y in December following the annual decline of 2.7% in November. The financial tsunami has hurt consumer confidence and the will to spend diminished, especially for non-essential retail goods. Among all retail categories, the sales volume of motor vehicles and parts decreased the most, down 22.3% y-o-y. The sales volume of other luxury items including jewellery, watches, clocks and valuable gifts also saw a drop of 9.8%

y-o-y, suggesting a contracting retail market with weak sentiment. Consumers are expected to remain cautious about spending amid rising job security during the economic downturn in the coming months.

The rent bubble in prime retail property burst in the third quarter, and retail rents continued to slide across-the-board in all the prime shopping districts under review, with a 8.7% q-o-q plunge in overall rents in the fourth quarter from a mild drop of 0.8% in the third. The annual rental growth has also begun to reverse, from a 9.9% increase last quarter to a 0.9% decrease this quarter, the first fall since the fourth quarter of 2003.

Retailers generally are expected to suffer from the deteriorating spending sentiment in the coming months, particularly luxury retailers, as consumers will cut back on spending. Luxury retailers who have been aggressively bidding up rents for prime locations will become more conservative in their expansions. However, the downturn is likely to provide more business opportunities for retailers targeting mass or sub-market spenders to expand and capture larger market share. Thus, the greatest amount of activity may be carried out by retailers selling necessities, low-priced products, and from the F&B market, once rents become sufficiently attractive to offset the potential risk.

Total Retail Sales in Hong Kong



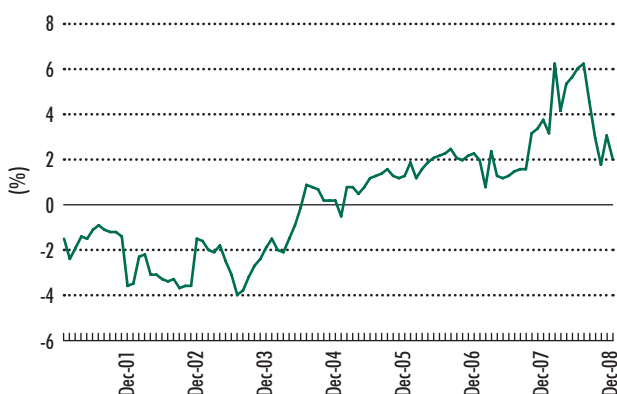
Source: Census & Statistics Department

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Selected Leasing Transactions in Q4 2008

District	Property	Size (sf)	Tenant
Central	Shop 4B, G/F, Tak Shing House, 20 Des Voeux Road Central	1,030 (net)	Le Saunda
Central	Shop 1, LG/F, Century Square, 1-13 D'Aguilar Street	1,500 (gross)	Hublot
Causeway Bay	B/M, Causeway Bay Commercial Building, 1-5 Sugar Street	8,800 (gross)	Fairwood Fastfood
Causeway Bay	G/F-2/F, Henry Duplex, 487-489 Lockhart Road	6,000 (gross)	I.S.A Fashion
Causeway Bay	Shop G, H, G/F, 61-73 Lee Garden Road	1,800 (gross)	Eye & I Optical
Causeway Bay	G/F, 18 Russell Street	800 (gross)	Swatch
Tsim Sha Tsui	Shop 1,2, G/F, 26 Kimberley Road	4,814 (gross)	Sa Sa Cosmetic
Tsim Sha Tsui	G/F, 14A Cameron Road	1,500 (gross)	1010
Mong Kok	Shop GSA-GSD, GSP-GSQ, G/F, Argyle Centre, 688 Nathan Road	1,859 (gross)	Bonjour Cosmetic
Mong Kok	Shop D, G/F, 4 Sai Yeung Choi Street South	650 (gross)	Okashiland

Hong Kong Inflation Rate



Source: Census & Statistics Department

Hong Kong's headline inflation was 2.1% in December, down 1 percentage point from November. Excluding the effects of the government's one-off relief measures of electricity subsidies and rate concessions, the underlying inflation rate eased from November's 5.6% to 4.6% in December. The decline was due largely to the drop in energy prices and easing of food price inflation. Looking ahead, Hong Kong's inflation is likely to moderate further in the first half of 2009 as price pressures have been suppressed generally alongside the current weak domestic demand and the deteriorating external economic conditions.

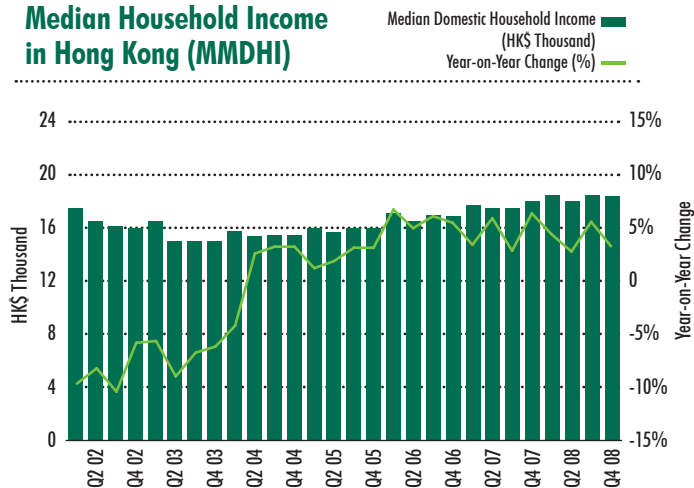
Hong Kong Unemployment Rate



Source: Census & Statistics Department

The labour market continued to reflect the adverse effects of the global financial turmoil. According to government figures, the seasonally adjusted unemployment rate rose further from 3.4% in July to September to 4.1% in October to December 2008, the highest level since the period of July to September 2007. The pace of unemployment growth is also the most rapid it has been since SARS. The underemployment rate climbed slightly from 1.8% to 1.9% over the same period. Although the government is prepared to speed up various infrastructure projects, the corresponding impacts may not be realised until the latter part of 2009. As business market conditions worsen further in the first half of this year, a new wave of corporate bankruptcies and downsizing is expected to be triggered, inevitably dimming job prospects in the coming months.

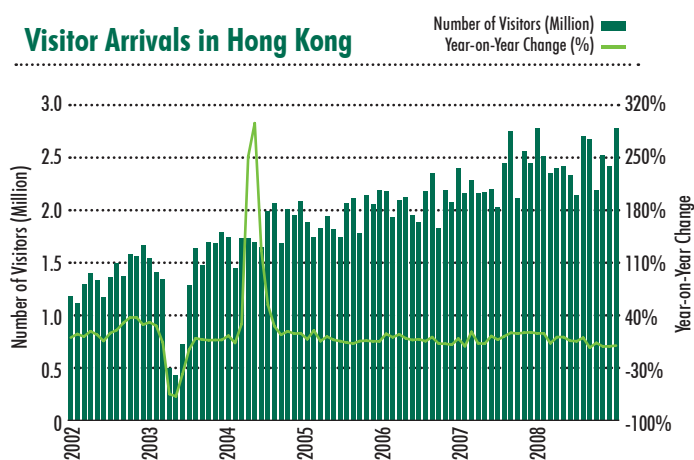
Median Household Income in Hong Kong (MMDHI)



Source: Census & Statistics Department

MMDHI recorded at \$18,400 from September to November 2008, dropped from \$18,500 in the period of June to August 2008. But still, it captured a y-o-y growth of about 3.4%, which slightly outpaced the headline inflation in November. Nevertheless, the rising unemployment rate as a result of the global credit crunch and economic downturn put pressure on salary increases, which in turn led to pressure on any further growth of MMDHI. Although inflation has eased, with the continued negative wealth effect as a result of the corrections in the local stock and property markets, the purchasing power of local residents is expected to be eroded further.

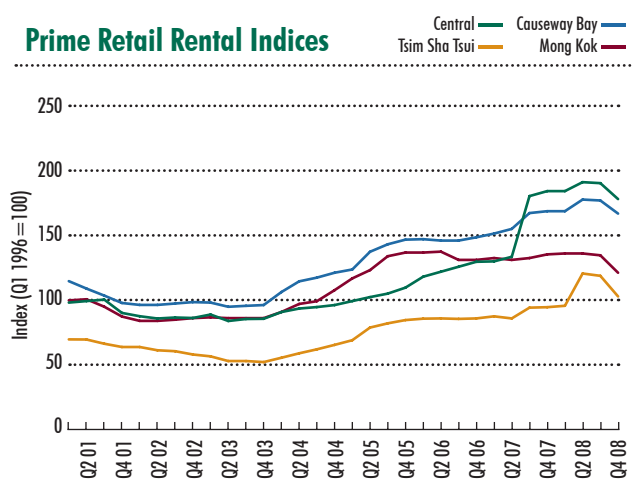
Visitor Arrivals in Hong Kong



Source: Hong Kong Tourism Board

According to the Hong Kong Tourism Board, tourist arrivals in December 2008 witnessed a 0.2% y-o-y drop to 2.8 million. Significant y-o-y decreases were found in long-haul visitors. Arrivals from the Mainland grew 6.4% y-o-y to 1.6 million. The cumulative arrivals for January-December 2008 were 29.5 million, 4.7% more than over the same period last year. The number of visitor arrivals, especially those from the long-haul markets, will likely continue to decrease or grow at a slow pace in the coming months, as tourism continues to suffer in the gloomy global economic environment. Mainland China is set to become the major source of arrivals in the coming year, especially in light of the stimulus proposals from the Chinese government to allow more mainland visitors to Hong Kong, including the expansion of the individual visit scheme to cover more Mainland cities.

Prime Retail Rental Indices



Source: Census & Statistics Department

Impacts of the financial tsunami on Hong Kong's retail property market intensified in the fourth quarter. The overall rents in prime shopping districts fell substantially from the mild drop of 0.8% in the third quarter to 8.7% q-o-q in the fourth quarter. Its yearly growth has also begun to reverse from a 9.9% increase last quarter to a 0.9% decrease this quarter, the first drop since the fourth quarter of 2003. Tsim Sha Tsui consistently witnessed the greatest rental drops, with a plunge of 13.6% q-o-q. Yet, it still captured a 9% y-o-y increase, pulling off the only growth amongst all of the prime shopping districts. Central, Causeway Bay and Mongkok recorded quarterly rental decreases of 6.5%, 5.8% and 10.3% respectively.

Prime Shopping Districts in Hong Kong



- 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.

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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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