



# The Knowledge

MARKET OVERVIEW | JULY | 2010



## MARKET TRENDS

OFFICE



LUXURY RESIDENTIAL



INDUSTRIAL



RETAIL



## Market Summary

### OFFICE SECTOR

- The average office rental increased 8.4% quarter-on-quarter (q-o-q) to HK\$48.46 per sq ft per month as of May 2010. Compared with the 5.2% q-o-q increase in 1Q2010, these figures suggest that overall rental growth momentum picked up significantly during 2Q2010.
- Given the solid demand fundamentals, our rental prediction remains unchanged, at 20% over the next 12 months. Central will take the lead, as usual, to outperform other districts in rental growth during the period.

### LUXURY RESIDENTIAL SECTOR

- Boosted by the sustained positive market sentiment, the average transacted price of luxury units saw a further growth of 4.5% q-o-q to HK\$16,783 per sq ft as of May 2010, although there was a contraction of transactional volume in 2Q2010.
- Amid the continued economic recovery and rising occupational demand, luxury residential rents are expected to increase a further 15% over the next 12 months. Given a low interest rate environment, luxury residential capital value will stay on its upward trend, with a prospective upside of 10% during the same period.

### INDUSTRIAL SECTOR

- Market fundamentals improved further in 2Q2010 amid the continued rebound in cargo throughput and re-export volumes, but most occupiers remained cautious about taking on new space as overall business volume remained about 10% below the pre-crisis level seen in 2008.
- In anticipation of the gradual recovery of overseas demand for imports and the sustained intra-regional trade, industrial rentals could see further growth ranging from 5% to 9% over the next 12 months.

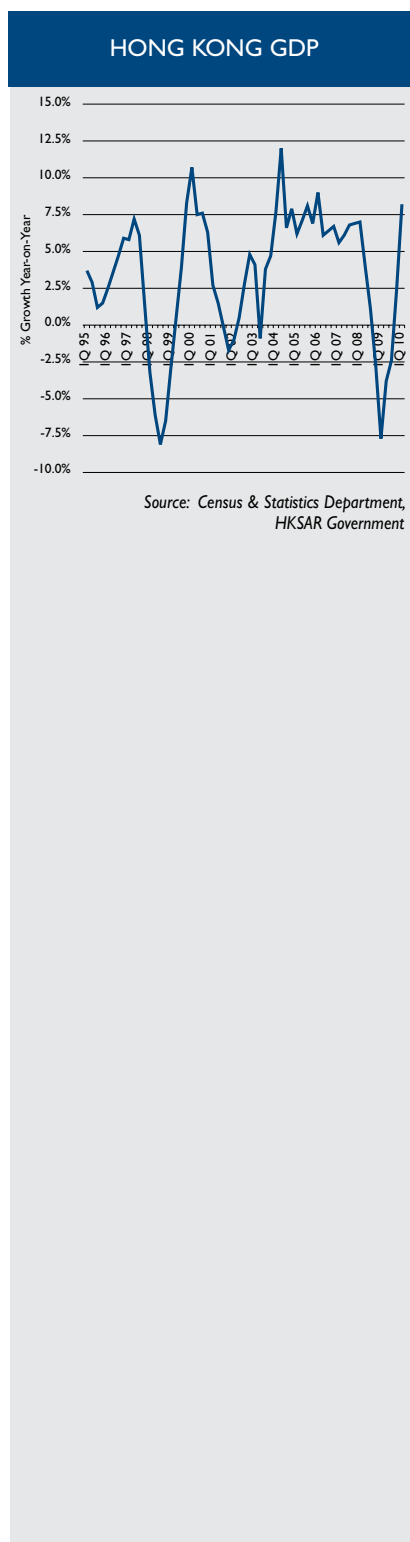
### RETAIL SECTOR

- Thanks to the growing value of retail sales attributed to the resilient local consumption and the sustained contribution from inbound visitors, retail rentals of ground floor shops in traditional district saw growth of 5.7% q-o-q in 2Q2010.
- The consistent growth in the number of inbound tourists and additional inflationary pressure are expected to drive a further growth of retail rentals, in the order of 10%, over the next 12 months.

## EXECUTIVE SUMMARY

| ECONOMIC INDICATORS               | MEASURE        | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------------------------|----------------|------|------|------|------|------|------|------|
| <b>GDP</b>                        | y-o-y % change | 2.2  | -2.8 | 5.6  | 4.4  | 4.6  | 4.2  | 4.1  |
| <b>Population</b>                 | million        | 7.0  | 7.1  | 7.1  | 7.1  | 7.2  | 7.2  | 7.2  |
| <b>Average consumer prices</b>    | Rate (%)       | 4.3  | 0.5  | 2.4  | 2.5  | 2.6  | 2.8  | 3.2  |
| <b>Average unemployment rates</b> | Rate (%)       | 3.5  | 5.2  | 4.6  | 4.1  | 3.6  | 3.6  | 3.3  |
| <b>Best lending rate</b>          | Rate (%)       | 5.3  | 5.0  | 5.3  | 6.0  | 7.5  | 9.0  | 9.0  |
| <b>Average real wages</b>         | y-o-y % change | -0.9 | -1.5 | -0.4 | -0.3 | 0.2  | 0.1  | 0.3  |

Source: The Economist Intelligence Unit; Hong Kong SAR Government; Colliers International (Hong Kong) Limited



## GATHERING MOMENTUM

Following the 2.5% year-on-year (y-o-y) GDP growth in 4Q2009, the local economy forged further ahead on its path of recovery with an encouraging growth of 8.2% y-o-y registered in 1Q2010. Looking at the breakdown by economic contributors, this was largely broad-based, with the key highlight the external trade sector, which can be attributed largely to the sustained growth in the Mainland market and the increase by 28.0% y-o-y in total imports of goods in 1Q2010. Meanwhile, the recovery of intra-regional trade and a gradual improvement in demand for imports in the major economies ensured that total exports of goods posted an impressive gain of 21.6% y-o-y during the same period.

On the local front, private consumption expenditure continued to grow steadily, with an increase of 6.5% y-o-y in 1Q2010. Despite the imminent threat of a debt crisis in a few European economies, the local consumption sentiment remained positive due to the continued improvement of the local employment market and the additional push of inflation expectations. The Composite Consumer Price Index compiled by the Government picked up additional momentum at the beginning of 2Q2010, registering a growth of 2.5% y-o-y as of May 2010. Hiring expectations in the private sector were increasingly positive in 2Q2010, with more companies, particularly those engaged in the financial services sector, determined to increase their workforce in anticipation of more business opportunities in both Hong Kong and the region.

## NEW REGULATORY MEASURES

Thanks to the economic growth, real estate prices in Hong Kong continued to surge at the beginning of 2Q2010, with individual first-hand residential units, particularly in the high-end luxury sector, achieving record unit prices during the period. However, there has been public concern about sales

arrangements, and the dissemination of pricing and transaction information. In response, the Government issued nine new guidelines on the sale of uncompleted residential units in order to ensure market transparency in property sales and transaction prices. The key guidelines include the provision of at least one show flat demonstrating the same conditions as the actual flat to be handed over to the buyer on completion. In addition, the minimum number of units to be included at the launch of sales must be 30, or 30% of the total number of units available for sale, whichever is higher. For larger developments, the minimum number will be 50 units, or 50% of the total number of units, whichever is higher.

## LOW INTEREST RATE ENVIRONMENT

The above guidelines became effective on 1 June 2010. However, well before the effective date, the luxury residential market, particularly the first-hand sector, saw an immediate slowdown in the number of sales transactions. Notwithstanding a fall in the prices of individual second-hand units, no significant downward price adjustment was registered during 2Q2010, the key reason for which was the market resilience in the face of the clear support of improving economic fundamentals, as well as the supply of credit and the sustained low interest rate environment. According to statistics provided by the Hong Kong Monetary Authority, the aggregate balance in the local banking sector retreated by about 30% in 2Q2010. However, the volume of liquidity remained plentiful, at HK\$149 billion as at the end of May 2010. Against the backdrop of a net outflow of capital, the three-month HIBOR in Hong Kong increased 13 basis points from 0.13% in February to 0.26% in May 2010. Mortgage rates edged up correspondingly, but the increase was generally below 10 bps. In the case of residential properties, the effective mortgage rate offered by individual local banks was effectively 2.45% in 2Q2010.

## PROPERTY INVESTMENT MARKET

In general, the consolidation of the strata-title residential sales market has proved short-lived, with the overall market sentiment turning positive again in June 2010 when the market learned that the auction results for a residential plot in Homantin were stronger than originally expected. In fact, the activity in the investment market saw no significant disruption during 2Q2010.

Of the various property classes, the office sector was particularly active due to strong buying interests from local buyers and the return of institutional investors. For example, Capital Strategic Investment Limited, a locally listed property investment company, acquired a sub-divided office unit with a total floor area of 2,662 sq ft in the Bank of America Tower for a lump sum of HK\$43.9 million, or a unit price of HK\$16,499 per sq ft, in February 2010. Meanwhile, the 22/F and the 35/F of Cosco Tower were purchased by Gale Well, a local property investor, for HK\$207.333 million and HK\$284.866 million, respectively, in March 2010. Since whole-block developments available for sale in the CBD are limited, more investors turned to decentralised locations, such as Island East, in 2Q2010. In April 2010, the Hong Kong Housing Society, a semi-government body, bought the whole of the Fortis Centre in Quarry Bay from Fortis Insurance for a total consideration of HK\$1.825 billion. Based on a total floor area of 289,540 sq ft, the average price was HK\$6,303 per sq ft. On the institutional front, Manulife Tower in North Point was sold to a Singapore real estate investment fund for HK\$2.25 billion in mid-June 2010; based on a total floor area of about 384,000 sq ft, the average unit price was HK\$5,850 per sq ft.

## HONG KONG PROPERTY MARKET

In addition to the revival of sentiment and the sustained low cost of funding, office investors have been encouraged by the solid occupational demand for office space and the potential of rental catch-ups over the near to medium term. On the leasing front, the local office market was virtually immune from the threat of the outbreak of a debt crisis in 2Q2010. In addition to the buoyant demand attributed to the financial sector, there were constant enquiries during the period from a number of mainland-based companies planning to establish a presence in Hong Kong. Overall, office rentals saw a growth of 8.4% quarter-on-quarter (q-o-q) to HK\$48.46 per sq ft per month as of May 2010.

In the luxury residential sector, the overall volume of sales transactions slowed significantly in 2Q2010 as prospective investors put their purchase plans on hold in view of the implementation by the Government in April 2010 of new regulatory measures covering the sale of primary residential units. Developers deferred their sales schedules accordingly. Despite the volume contraction, average prices for luxury residential property managed to rise by 4.5% q-o-q to HK\$16,783 per sq ft as of May 2010, thanks partially to the accelerating growth momentum in the leasing sector during the same period.

In the industrial sector, whole-block developments available for sale dried up in 2Q2010. Most existing vendors have put a hefty premium on their asking prices, while others plan to hold on to their assets until additional market signals emerge after the official launch in April 2010 of the new measures covering the revitalisation of old industrial buildings. On the leasing front, demand fundamentals improved further in 2Q2010 amid the continued rebound in cargo throughput and re-export volumes. However, most occupiers remained cautious about taking on new space as overall business volume remained about 10% below the pre-crisis level seen in 2008.

In the retail sector, resilient local consumption and the growing number of inbound tourists continued to buoy the market. Sizeable international banks showed signs of returning to ground-floor units in traditional retail districts, while overseas retailers continued to eye the markets in Hong Kong and the Mainland. The latest evidence of this was the commitment by Forever 21 to lease 51,158 sq ft in the Capitol Centre in Causeway Bay. Food and beverage operators focused more on Tsim Sha Tsui due to the fact that more stock is coming up for lease there following the completion of a number of brand new retail developments over the past couple of quarters.

## MARKET OUTLOOK

Looking forward, the local real estate market is expected to have more room for growth over the next 12 months in anticipation of the further strengthening of occupational demand. The recent consolidation in the sales market is thought to be paving the way for healthy growth ahead. The key challenges are clearly the amount of vacant stock for lease and the prospective pick-up of inflationary pressure. Individual property sectors with below-average vacancy rates might see faster-than-expected rental growth over the near term.

## GRADE A OFFICE SECTOR

| EFFECTIVE RENTS  |              |              |              |              |                             |
|--|--------------|--------------|--------------|--------------|-----------------------------|
|  | - 3 Years    | - 1 Year     | - 3 months   | - 1 Month    | Current Month<br>(May 2010) |
| <b>Grade A Effective Office Rentals (HK\$ / sq ft / month)</b> |              |              |              |              |                             |
| Central/Admiralty  | 84.98        | 66.29        | 71.34        | 77.63        | 79.87                       |
| Wan Chai/Causeway Bay  | 40.36        | 35.25        | 36.55        | 38.56        | 39.70                       |
| Island East  | 26.89        | 26.34        | 27.01        | 28.34        | 28.41                       |
| Sheung Wan   | 38.11        | 32.56        | 38.74        | 40.89        | 41.45                       |
| Tsim Sha Tsui  | 33.59        | 31.03        | 32.17        | 32.73        | 32.95                       |
| Kowloon East   | 21.18        | 16.50        | 19.18        | 21.13        | 20.84                       |
| <b>Overall</b>   | <b>53.05</b> | <b>41.79</b> | <b>44.70</b> | <b>47.81</b> | <b>48.46</b>                |
| <b>% Change</b>  |              |              |              |              |                             |
| Central/Admiralty  | -6.0%        | 20.5%        | 12.0%        | 2.9%         | -                           |
| Wan Chai/Causeway Bay  | -1.6%        | 12.6%        | 8.6%         | 3.0%         | -                           |
| Island East  | 5.7%         | 7.9%         | 5.2%         | 0.2%         | -                           |
| Sheung Wan   | 8.8%         | 27.3%        | 7.0%         | 1.4%         | -                           |
| Tsim Sha Tsui  | -1.9%        | 6.2%         | 2.4%         | 0.7%         | -                           |
| Kowloon East   | -1.6%        | 26.3%        | 8.6%         | -1.4%        | -                           |
| <b>Overall</b>   | <b>-8.7%</b> | <b>16.0%</b> | <b>8.4%</b>  | <b>1.4%</b>  | <b>-</b>                    |

On net floor area basis

Source: Colliers International (Hong Kong) Limited

### STRONG LEASING DEMAND

Notwithstanding the short-term sales volume consolidation in the individual property sector, leasing demand in the local Grade A office market remained solid during the three-month period between February and May 2010. In fact, the whole office leasing market was virtually immune from both the local market adjustments and the imminent threat of a debt crisis in the external environment. Fundamentally, the growing financial services sector continued to underpin the market. In addition, there were constant enquiries in 2Q2010 from a number of mainland-based companies planning to establish a presence in Hong Kong.

A recent employment survey confirms the trend of sustained positive hiring expectations among most companies in Hong Kong. According to the latest survey undertaken by Hudson, a leading human resources consultant, permanent hiring expectations in the private sector remained positive in 2Q2010. In the survey of more than 500 companies across various business sectors, 59% of the respondents anticipated an increase in headcount in 2Q2010, compared with 53% in 1Q2010. Companies engaged in the banking and financial services industries reported the highest expectations, at 73%, and looked to take on additional staff across the board, from back-office

to frontline divisions. In the legal sector, 35% of the respondents anticipated an increase in hiring and there was no companies forecasting a reduction. In the manufacturing and industrial sector, there was an obvious increase in the percentage of hiring expectations, up from 39% in 1Q2010 to 57% in 2Q2010 as companies responded to the revival of demand in overseas markets. Another reason for the rise of hiring expectations was attributed to newcomers setting up business in Hong Kong.

### ACCELERATING RENTAL GROWTH

As mentioned in the previous update in February 2010, the leasing demand for quality office space showed a distinct pick-up shortly after the Lunar New Year and the market activity showed no signs of abating in the subsequent months. On the other side of the equation, the average vacancy rate continued to stay at low levels during the three-month period between February and May 2010 as there were no completions of major developments available for lease. The only new supply was the third stage of International Commercial Centre (ICC), but it was largely pre-committed well before its physical completion. In relative terms, the average vacancy rate for the whole market was about 8% in 3Q2009 when the market was at the bottom of its trough. In fact, this was not a high level compared with the historical average of 7% over the past ten years. In other words,

rentals could see a rapid rise with a mild increase in demand as has actually been witnessed in the market in 2Q2010. Across the various office sub-markets, the average office rentals increased 8.4% quarter on quarter (q-o-q) to HK\$48.46 per sq ft per month as of May 2010. Compared with the 5.2% q-o-q increase in 1Q2010, these figures suggest that overall rental growth momentum picked up significantly during 2Q2010.

Looking at the breakdown by sub-market, Central, Wanchai/Causeway Bay and Kowloon East were the strongest rental performers in 2Q2010. As usual, Central continued to deliver an exceptionally strong rental growth of 12.0% q-o-q in 2Q2010. Individual top-end office buildings completed after 2000 registered an even stronger growth, in the order of 20% q-o-q over the same period. In Wanchai/Causeway Bay, rental growth in 2Q2010 was slightly better than the market average as vendors were emboldened to raise asking rentals after learning that a significant portion of the space being vacated by Manulife was committed. In Kowloon East, average rents increased 8.6% q-o-q in to HK\$20.84 per sq ft per month in May 2010 due to the continued intake of insurance and financial services tenants from other sub-markets on Hong Kong Island.

**SUPPLY CONDITIONS**

On the supply front, there was no addition of new sites for office development in 2Q2010. Meanwhile, no significant development designated for lease was completed during the period. As discussed, the occupation permit for the last stage of ICC was granted in 2Q2010, but this had no significant impact on market supply in 2Q2010 as it was expected more than two years ago. Without major new supply of office stock in the primary market, prospective tenants continued to focus on the available stock for lease in the secondary markets. Thanks to positive market absorption, the overall average vacancy rate in the market edged down from 6.0% in February 2010 to 5.0% in May 2010.

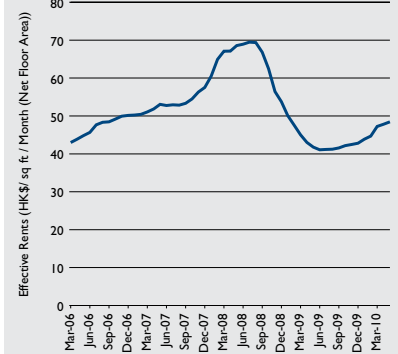
In Central/Admiralty, the average vacancy rate edged down further from 4.6% in 1Q2010 to 4.0% in 2Q2010 due to the strong leasing demand attributed to a batch of financial tenants. Lately, it has been reported that the Bank of America plans to relocate from Citibank Plaza to take up 46,000 sq ft in One ifc in Central. ING, the outgoing tenant, will be leaving for ICC in West Kowloon.

In terms of new supply, the next major development coming on line will be the redevelopment of The Ritz-Carlton Hotel, which is scheduled for completion in 2012. Other than that, a minor commercial project, called The Forum, will be incorporated within Exchange Square at 8 Connaught Place in Central. According to the information provided by the Government, The Forum will be a 5-storey commercial block comprising a total floor area of about 40,000 sq ft on net. Completion is anticipated in late 2012. In addition, there are two small schemes, namely 31 Queen's Road Central and 1-7 Theatre Lane, and 50, 55 and 57-59 Connaught Road Central, which are scheduled for completion in 2011. The former is developed by The Luk Hoi Tong Co Ltd. On completion, the project will provide 178,000 sq ft of office floor area. The latter, previously owned by Citigroup, is expected to be completed in 2012. The size of the scheme is about 172,000 sq ft.

In Wanchai/Causeway Bay, there were no completions of new developments in 2Q2010. The next brand new Grade A scheme coming on line will be the retail/commercial development at 500 Hennessy Road. Developed by Hysan Development, the scheme will provide a total of 260,000 sq ft gross floor area on completion in 2011. Other minor developments include the proposed redevelopment at 24-34 Hennessy Road, Wanchai. The building, formerly called Tai Sang Commercial Building, will be developed into an office block in 2012, comprising a total office space of 146,000 sq ft. Over the near term, the prime focus continued to be placed on the secondary vacant stock in individual single-owned buildings, e.g. Times Square and Windsor House. With the continued positive absorption in the market, the average vacancy rate fell further from 5.52% in 1Q2010 to 4.36% in 2Q2010.

In Island East, the average vacancy rate fell further from 4.77% in February to 3.26% in May 2010 due to the relocation of companies to the sub-market. For example, Telstra confirmed that it will move its office from Wanchai to Island East by taking 21,600 sq ft office space at One Island East. As usual, the average vacancy rate of individual single-owned premises in Quarry Bay was generally below 3% in 2Q2010. On the front of new supply, the next market focus will be the Kerry Centre. Developed by Kerry Properties, the project will provide over 500,000 sq ft of office floor area on completion in 4Q2010. Half of the building will be occupied by the developer and the group of companies, with high specifications

**GRADE A OFFICE RENTAL TRENDS**



Source: Colliers International (Hong Kong) Limited

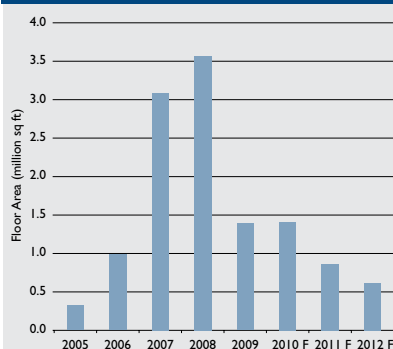
*Rentals could see a rapid rise with a mild increase in demand as has actually been witnessed in the market in 2Q2010*

*Thanks to positive market absorption, the overall average vacancy rate in the market edged down from 6.0% in February 2010 to 5.0% in May 2010*

**GRADE A OFFICE VACANCY TRENDS**



Source: Colliers International (Hong Kong) Limited

GRADE A OFFICE  
SUPPLY TREND

Source: HKSAR Government (2005-2009);  
Colliers International (Hong Kong) Limited (2010-2012)

Overall, the total new supply of 1.4 million sq ft of office space scheduled for completion in 2010 will be 40% below the 20-year historical average (i.e. 2.3 million sq ft per annum). The trend will continue at least over the next two years (2011 and 2012) as the annual completion will stay below 1 million sq ft

and full sea view on every single floor, the new scheme is expected to offer a real estate alternative for financial tenants currently located in the CBD on Hong Kong Island.

In Tsim Sha Tsui, the average vacancy rate bucked the overall market trend with a mild increase from 6.78% in 1Q2010 to 6.81% in 2Q2010 as individual tenants in the sub-market were tempted to go elsewhere, given a sufficiently wide rental difference. Another reason was that a batch of existing leases came up for renewal in 2Q2010. However, with the threat attributed to the new stock in Kowloon East gradually diminishing and the completion of the renewal cycle, the sub-market is expected to catch up with the market as a whole in terms of take-up and rental growth.

In Kowloon East, due to the continued intake of tenants originally located in other sub-markets, the average vacancy rate dropped further from 11.9% in February to 9.2% in May 2010 – the first time it has fallen below 10% since late 2007. Key leasing deals included a commitment by Nike to take 84,000 sq ft in Exchange Tower in Kowloon Bay and AXA's confirmation that it will lease 180,000 sq ft in Tower One, Landmark East in Kwun Tong in 2Q2010. On the front of new supply, the next new scheme will be the office building developed by Sino Land at 18 Kowloon East, Kowloon Bay. On completion by late 2010, the project will provide 350,000 sq ft of gross office floor area. In 2011, a total of about 730,000 sq ft of new office space will be available from the two schemes, namely 414 Kwun Tong Road and 133 Hoi Bun Road. No new supply is anticipated in 2012, although another tranche of new space totalling 690,000 sq ft will be coming through in 2013 and beyond.

Overall, the total new supply of 1.4 million sq ft of office space scheduled for completion in 2010 will be 40% below the 20-year historical average (i.e. 2.3 million sq ft per annum). The trend will continue at least over the next two years (2011 and 2012) as the annual completion will stay below 1 million sq ft. In 2007 and 2008, there was a spike of new supply due to the completion cycle in Kowloon East. However, going forward from 2010 onward, the amount of sizeable stock for lease is diminishing. Over the near term, tenants going for new stock will see 18 Kowloon East and Kerry Centre as their alternatives. With encouraging take-up at One Island East, a major development completed in Island East during 2008, the anticipated completion of Kerry

Centre will attract the attention of the market by late 2010.

## DEMAND CONDITIONS

Against the backdrop of improving economic fundamentals, the overall leasing demand is expected to remain strong over the next 12 months. In the case of CBDs, there are signs that demand has started to spill over from a few top-tier developments to a larger group of Grade A buildings in the same location. In line with our projections made in 1Q2010, other business sectors, including a number of legal and professional firms, and non-finance companies, have seen a corresponding growth of occupational demand. However, with the continued narrowing of the rental difference between decentralised and core business districts, the trend of relocations has begun to slow down. Tenants with their leases due to expire over the next 9 to 12 months are mostly considering straight renewals or individual new stock opportunities due for occupation by late 2010.

## OFFICE SALES MARKET

With the faster-than-anticipated rental growth registered in the past couple of quarters, office investors turned aggressive when offering bids in 2Q2010. Inspired by the continued catch-up of rentals over the near to medium term, the office sales market saw sustained buying interest from local players and the return of institutional investors during the period. For example, Capital Strategic Investment Limited, a locally listed property investment company, acquired a sub-divided office unit with a total floor area of 2,662 sq ft in the Bank of America Tower for a lump sum of HK\$43.9 million, or a unit price of HK\$16,499 per sq ft, in February 2010. Meanwhile, two office floors (22/F and 35/F) in Cosco Tower were purchased by Gale Well, a local property investor, for HK\$207.333 million and HK\$284.866 million, respectively, in March 2010.

As whole-block developments available for sale in the CBDs is limited, more investors turned to decentralised locations, such as Island East, during 2Q2010. In April 2010, the Hong Kong Housing Society, a semi-government body, bought the whole block of Fortis Centre in Quarry Bay from Fortis Insurance for a total consideration of HK\$1.825 billion. Based on a total floor area of 289,540 sq ft, the average unit price was HK\$6,303 per sq ft. Based on the current income stream, the

## GRADE A OFFICE SUPPLY (2010 - 2013 AND BEYOND)

| Building                                  | District     | NFA<br>(sq ft)   | Developer                        | Status                                |
|---|--------------|------------------|----------------------------------|---------------------------------------|
| <b>2010</b>                               |              |                  |                                  |                                       |
| International Commerce Centre (Stage III) | West Kowloon | 681,100          | Sun Hung Kai Properties          | Completed                             |
| 18 Kowloon East                           | Kowloon Bay  | 296,438          | Sino Land                        | Under construction                    |
| Kerry Centre                              | North Point  | 434,350          | Kerry Properties Limited         | Under construction                    |
| <b>Total</b>                              |              | <b>1,411,888</b> |                                  |                                       |
| <b>2011</b>                               |              |                  |                                  |                                       |
| 500 Hennessy Road                         | Causeway Bay | 237,344          | Hysan Development                | Under construction                    |
| 414 Kwun Tong Road                        | Kwun Tong    | 203,570          | Chiefast Investment Ltd          | Under construction                    |
| 133 Hoi Bun Road                          | Kwun Tong    | 422,821          | Billion Development              | Under construction                    |
| <b>Total</b>                              |              | <b>863,734</b>   |                                  |                                       |
| <b>2012</b>                               |              |                  |                                  |                                       |
| Hotel Ritz-Carlton redevelopment          | Central      | 191,250          | Lai Sun; China Construction Bank | Under construction                    |
| KCC (Phase 2)                             | Kwai Chung   | 442,000          | Sun Hung Kai Properties          | Under construction                    |
| <b>Total</b>                              |              | <b>633,250</b>   |                                  |                                       |
| <b>2013 &amp; beyond</b>                  |              |                  |                                  |                                       |
| 10 Harcourt Road                          | Central      | 419,468          | Hutchison                        | Under planning<br>(Existing Building) |
| 979 King's Road, Taikoo Place             | Taikoo Place | 475,165          | Swire Properties                 | Under planning<br>(Existing Building) |
| 52 - 56 Tsun Yip Street                   | Kwun Tong    | 305,989          | Billion Development              | Under planning<br>(Existing Building) |
| 181 Hoi Bun Road                          | Kwun Tong    | 262,650          | Sun Hung Kai Properties / Wong's | Under Planning (Bare Site)            |
| 77 Leighton Road                          | Causeway Bay | 385,300          | Hysan Development                | Under planning<br>(Existing Building) |
| <b>Total</b>                              |              | <b>1,848,572</b> |                                  |                                       |

**Note:****Demolition:** Demolition work is actively undergoing**Under construction:** Construction activity, including either foundation or superstructure, are undergoing on site**Under planning (Existing Building):** Building plan for a site, currently occupied by a tenanted building, is approved by the Government**Under planning (Vacant Building):** Building plan for a site, currently occupied by an empty building, is approved by the Government**Under planning (Bare Site):** Building plan for a bare site is approved by the Government**Completed:** Construction is completed and an occupation permit is issued by the Government

Source: Colliers International (Hong Kong) Limited

passing rental yield was about 4.3% per annum, representing a premium of 100 basis points above the average of 3.3% per annum across the whole Grade A market in 2Q2010. On the institutional front, Manulife Tower in North Point was sold to a Singapore real estate investment fund for HK\$2.25 billion in mid-June 2010. Based on a total floor area of about 384,000 sq ft, the average unit price was HK\$5,850 per sq ft.

**MARKET OUTLOOK**

Given the solid demand fundamentals, our rental prediction remains unchanged, at 20% over the next 12 months. Central will take the lead, as usual, to deliver an outperforming rental growth during the period. Tsim Sha Tsui will catch up

when the competitive stock in Kowloon East is gradually absorbed. However, after the relocation of a number of insurance houses to Kowloon East and the continued narrowing of the rental difference between Kowloon East and other sub-markets on Hong Kong Island, the pace of major relocations looks set to take a breather over the near term. For tenants looking to relocate but to stay on Hong Kong Island, Kerry Centre might be an option, along with renewals. As such, it is our view that the prospective launch of the Kerry Centre will help bring the market focus back to Hong Kong Island in the second half of 2010.

## LUXURY RESIDENTIAL SECTOR

### LUXURY RESIDENTIAL MARKET - KEY MARKET INDICATORS

|                     | Rents (HK\$ / sq ft / month) |              |              | Capital Values (HK\$ / sq ft) |               |               | Yields       |              |              |
|---------------------|------------------------------|--------------|--------------|-------------------------------|---------------|---------------|--------------|--------------|--------------|
|                     | May 09                       | May 10       | May 11(f)    | May 09                        | May 10        | May 11(f)     | May 09       | May 10       | May 11(f)    |
| <b>Peak</b>         | 45.07                        | 52.15        | 60.29        | 20,250                        | 26,875        | 29,831        | 2.67%        | 2.33%        | 2.43%        |
| <b>South Side</b>   | 37.73                        | 42.29        | 48.43        | 14,413                        | 17,713        | 19,661        | 3.14%        | 2.87%        | 2.96%        |
| <b>Mid-levels</b>   | 33.41                        | 39.97        | 46.09        | 9,060                         | 11,803        | 12,983        | 4.42%        | 4.06%        | 4.26%        |
| <b>Happy Valley</b> | 31.01                        | 38.56        | 44.22        | 8,893                         | 12,300        | 13,284        | 4.18%        | 3.76%        | 3.99%        |
| <b>Island East</b>  | 22.35                        | 29.01        | 34.24        | 7,833                         | 9,560         | 10,325        | 3.42%        | 3.64%        | 3.98%        |
| <b>Average</b>      | <b>34.64</b>                 | <b>40.93</b> | <b>47.19</b> | <b>12,955</b>                 | <b>16,783</b> | <b>18,443</b> | <b>3.21%</b> | <b>2.93%</b> | <b>3.07%</b> |

Source: Colliers International (Hong Kong) Limited

*Well before the effective launch of the new guidelines from the Government to regulate the sales of first-hand residential units in June 2010, the overall sales volume in the residential market continued to surge in 2Q2010*

### SALES MARKET DIVERGENCE

The local residential sales market saw a diverging trend between the mass and luxury segments in 2Q2010. Well before the effective launch of the new guidelines from the Government to regulate the sales of first-hand residential units in June 2010, the overall sales volume in the residential market continued to surge in 2Q2010. According to the Land Registry of the Hong Kong SAR Government, the total number of sale and purchase agreements for residential units increased 8.3% quarter-on-quarter (q-o-q) during the three-month period ended in May 2010. The secondary sales market was responsible for this growth, although there was a retreat in the number of new launches in the primary residential market.

However, the volume of luxury residential sales transactions retreated in 2Q2010 due to growing uncertainties in a number of economies in Europe and the knock-on effect of the cooling measures implemented in mainland China. According to our research, the total number of residential sales transactions in traditional luxury locations recorded a decline of 12% q-o-q during the three-month period ending May 2010.

### FURTHER PRICE GROWTH

Similar to 1Q2010, the threats attributed to the uncertainties in the external environment were partially offset by the ease of access to real estate financing in 2Q2010. According to statistics provided by the Hong Kong Monetary Authority, the aggregate balance in the local banking sector retreated by about 30% q-o-q in 2Q2010. However, the volume of liquidity remained plentiful, at HK\$149 billion as at the end of May 2010. Against the backdrop of a net outflow of capital, the three-month HIBOR in Hong Kong increased 13 basis

points from 0.13% in February to 0.26% in May 2010. Mortgage rates edged up correspondingly, but the increase was generally below 10 bps. In the case of residential properties, the effective mortgage rate offered by individual local banks was effectively 2.45% in 2Q2010. As such, the average transacted prices continued to hold up well in 2Q2010, notwithstanding the contraction of transactional volume. According to our research, the average transacted prices of luxury residential properties saw a further growth of 4.5% q-o-q to HK\$16,783 per sq ft as of May 2010.

### PRIMARY LAUNCHES

Since the effective date (i.e. 1 June, 2010) of the launch of the new regulatory measures on the sales of new residential flats, three residential projects were launched in June 2010. They included Hopewell's Broadwood Twelve in Happy Valley (19 units), Henderson Land's Legende Royale (The Beverly Hills Phase 3) in Tai Po (30 units) and Sino Land/Chinese Estates Holdings Ltd/Nan Fung Group's The Hermitage in Tai Kok Tsui (661 units). The Hermitage achieved an absorption rate of 73%, with 37% for Broadwood Twelve and 30% for Legende Royale. The Hermitage was the top performer compared with the typical market average of 65% over the past two years.

### LAND SALES

In 2Q2010, developers were very keen to replenish their land banks, and land sales were recorded in both the luxury and mass residential sectors. In the case of the former, the Hui family of Central Development Limited successfully sold Falconridge, a five-storey residential building at 35 Barker Road on The Peak, to the Lee family of Henderson Land for a total consideration of HK\$1.82 billion through a private auction held in

## MAJOR RESIDENTIAL SALES TRANSACTIONS

| Month             | Property                                 | GFA<br>(sq ft) | Price<br>(HK\$ m) | Unit Price<br>(HK\$ / sq ft) |
|-------------------|--|----------------|-------------------|------------------------------|
| <b>The Peak</b>   |  |                |                   |                              |
| Mar-10            | Overthorpe, House C                      | 2,439          | \$115.00          | \$47,150                     |
| Mar-10            | Severn 8, House 8                        | 4,650          | \$280.00          | \$60,215                     |
| Apr-10            | 8-12 Peak Road, Block A2, 6/F, Flat B    | 2,891          | \$62.00           | \$21,446                     |
| Apr-10            | La Hacienda, Block B, 4/F, Flat 2        | 3,812          | \$59.50           | \$15,609                     |
| Apr-10            | Montebello, Suite 5                      | 3,070          | \$54.50           | \$17,752                     |
| Apr-10            | 6-16 Peel Rise, A batch of 6 houses      | 24,970         | \$1,098.00        | \$43,973                     |
| May-10            | Guildford Court, 6/F, Flat A7            | 2,800          | \$62.00           | \$22,143                     |
| May-10            | Kellett Villas, House J                  | 5,000          | \$175.00          | \$35,000                     |
| May-10            | 35 Barker Road                           | 26,675         | \$1,820.00        | \$68,229                     |
| <b>South Side</b> |  |                |                   |                              |
| Mar-10            | Hillgrove, House C5                      | 2,960          | \$65.00           | \$21,959                     |
| Mar-10            | Regalia Bay, House C28                   | 4,212          | \$78.00           | \$18,519                     |
| Mar-10            | 2-8 Shouson Hill Road West               | 4,000          | \$120.00          | \$30,000                     |
| Mar-10            | Springfield Garden, House B6             | 3,000          | \$79.00           | \$26,333                     |
| Mar-10            | Belleview Place, House 10                | 3,206          | \$90.00           | \$28,072                     |
| Mar-10            | Belgravia Heights, 7/F, Flat B           | 2,877          | \$58.00           | \$20,160                     |
| Mar-10            | 8 Tai Tam Road, House B                  | 5,484          | \$180.00          | \$32,823                     |
| Mar-10            | 16 Stanley Mound Road, Good Cheer Villa  | 4,200          | \$70.00           | \$16,667                     |
| Apr-10            | 2 Cape Drive, Morning Side               | 38,557         | \$541.00          | \$14,031                     |
| Apr-10            | 37 Island Road, House D                  | 8,300          | \$462.80          | \$55,759                     |
| Apr-10            | Villa Rosa, House 3                      | 3,960          | \$92.00           | \$23,232                     |
| Apr-10            | Horizon Ridge, House 3                   | 2,850          | \$70.00           | \$24,561                     |
| Apr-10            | Pinewaver Villas, House A                | 2,995          | \$52.00           | \$17,362                     |
| Apr-10            | The Hazelton, House 6                    | 3,195          | \$73.80           | \$23,099                     |
| Apr-10            | Belleview Place, House 5                 | 3,206          | \$75.00           | \$23,394                     |
| Apr-10            | Regalia Bay, House B21                   | 4,100          | \$60.00           | \$14,634                     |
| Apr-10            | Grosvenor Place, 17/F                    | 2,809          | \$68.80           | \$24,493                     |
| Apr-10            | Grosvenor Place, 27/F                    | 2,809          | \$72.00           | \$25,632                     |
| May-10            | Regalia Bay, House C9                    | 4,212          | \$70.50           | \$16,738                     |
| May-10            | 39A Shouson Hill Road                    | 27,000         | \$1,148.00        | \$42,519                     |
| May-10            | 16A South Bay Road, House 8              | 4,860          | \$238.00          | \$48,971                     |
| May-10            | Grand Garden, Block 1, 16/F, Flat B      | 3,061          | \$53.00           | \$17,315                     |
| May-10            | Regalia Bay, House A10                   | 4,212          | \$70.80           | \$16,809                     |
| May-10            | Grand Garden, Block A, 22/F, Flat A      | 3,054          | \$58.50           | \$19,155                     |
| May-10            | Pine Crest, 14/F, Flat B                 | 2,250          | \$55.00           | \$24,444                     |
| <b>Mid-levels</b> |  |                |                   |                              |
| Mar-10            | Tregunter, Tower 1, 34-35/F, Flat A      | 6,693          | \$85.00           | \$12,700                     |
| Apr-10            | Brewin Court, G/F, Flat A                | 2,600          | \$62.50           | \$24,038                     |
| Apr-10            | Catalina Mansion, 3-4/F                  | 4,300          | \$54.00           | \$12,558                     |
| Apr-10            | The Albany, Block C, 11/F                | 2,546          | \$73.50           | \$28,869                     |
| Apr-10            | Estoril Court, Block 1, 26/F, Flat A     | 3,347          | \$57.88           | \$17,293                     |
| Apr-10            | Kennedy Heights, 14/F, Flat B            | 3,400          | \$54.40           | \$15,999                     |
| Apr-10            | Regence Royale, Tower 2, 26/F, Flat A    | 2,697          | \$58.00           | \$21,505                     |
| Apr-10            | Estoril Court, Block 2, 38/F, Flat C     | 3,347          | \$66.00           | \$19,719                     |
| May-10            | Kennedy Heights, 21/F, Flat B            | 3,400          | \$67.68           | \$19,906                     |
| May-10            | Grenville House, Block C, D, 6/F, Flat C | 3,700          | \$66.80           | \$18,054                     |
| May-10            | The Albany, 15/F, Flat A                 | 2,546          | \$63.00           | \$24,745                     |
| May-10            | Clovelly Court, Block 1, 6/F, Flat B     | 2,809          | \$59.00           | \$21,004                     |
| May-10            | Hong Villa, 20/F                         | 3,833          | \$80.00           | \$20,871                     |
| May-10            | The Royal Court, 38-39/F, Flat A         | 2,840          | \$50.80           | \$17,887                     |

Source: Colliers International (Hong Kong) Limited

*A site transaction at 35 Baker Road located on The Peak fetched an accommodation value of HK\$68,229 per sq ft, the highest average accommodation value ever achieved in Hong Kong*

May 2010. The transacted price was 17.4% above the opening bid of HK\$1.55 billion. Given a site area of 53,350 sq ft and a developable area of 26,675 sq ft, the average accommodation value was HK\$68,229 per sq ft, the highest average accommodation value ever achieved in Hong Kong. The Lee family intends to redevelop the building for self-use purposes.

Elsewhere, a high-end residential site in the traditional luxury area of Ho Man Tin in Kowloon was triggered for sale under the Application List system. According to The Lands Department, the ex-Valley Road Estate Phase 2 site in Ho Man Tin (KIL 11175) was offered at an opening bid of HK\$6.8 billion (or an accommodation value of HK\$7,823 per sq ft). The site was sold to Sun Hung Kai Properties for HK\$10.9 billion. Based on a total developable gross floor of 869,247 sq ft, the average accommodation value was HK\$12,540 per sq ft. The purchase price was 60.3% above the minimum guaranteed bid.

In the mass sector, a residential plot located at Tung Chung Area 55B, Lantau (TCTL 37) was sold to Nan Fung for HK\$3.42 billion (or an accommodation value of HK\$2,378 per sq ft), which was 18.9% above the minimum guaranteed bid of HK\$2.876 billion (or an accommodation value of HK\$2,000 per sq ft). Moreover, the lot in Fanling Sheung Shui Town (Lot No. 177) at the junction of Ma Sik Road and Sha Tau Kok Road (Lung Yeuk Tau section), Area 19, Fanling, was sold to Hong Kong Ferry (Holdings) Company Limited for HK\$1.33 billion (or an accommodation value of HK\$2,414 per sq ft). The purchase price was 26.2% above the opening bid.

With regard to the Nam Cheong Station Project, the expectation price gap between the government and developers was kept wide. The MTR Corporation invited parties to submit an Expression of Interest for the development of a site at Nam Cheong Station in the northern part of the West Kowloon Reclamation. However, the MTRC announced the withdrawal of a tender for the Nam Cheong Station residential project. Some developers commented that the project would not be profitable due to the fact that the land premium levy of HK\$13 billion (or an accommodation value of HK\$6,582 per sq ft) charged by the government was too high.

## THE LEASING MARKET

On the leasing front, the market picked up further in 2Q2010 due to an increasing number of enquiries and more confirmed arrivals, especially from expatriate families, after the look-see trips seen in previous quarters. As such, sizable houses and apartment units saw stronger demand in 2Q2010.

Newcomers from the banking and finance sector remained the key groups contributing to the total arrivals as more senior executives from the sector have been posted to Hong Kong in anticipation of prospective growth in the region. Meanwhile, expatriates from non-finance sectors, such as the manufacturing, legal or business services sectors, also saw sustainable demand. Given a housing allowance of HK\$18,000 to HK\$25,000 per month for entry level staff, demand for medium-sized one-bedroom units was particularly high in 2Q2010. Demand for mid-range units remained steady. For senior executives, there was a challenge since, as usual, there was a general lack of stock available for lease in the top-end luxury sector.

On the back of strong leasing demand, a drop in the availability of sizeable leasing stock and positive market sentiment, landlords stood firm on their asking rentals. In general, average transacted rentals increased further by 4.7% q-o-q to HK\$40.93 per sq ft per month in May 2010, following the growth of 3.9% q-o-q recorded in the previous quarter.

## THE PEAK

During the three-month period between February and May 2010, average luxury residential prices on The Peak recorded the strongest growth (7.2%) of the three sub-markets of South Side and Mid-Levels, up from HK\$25,063 per sq ft in February 2010 to HK\$26,875 per sq ft in May 2010. In addition to the sale of Falconridge at 35 Barker Road for HK\$1.82 billion (accommodation value of HK\$68,229 per sq ft), prominent transactions for the quarter included the sale of a batch of six semi-detached houses, developed by Swire Properties located at 6-16 Peel Rise for HK\$1.098 billion. The six houses have a total gross floor area of 24,970 sq ft, which amounts to an average unit price of HK\$43,973 per sq ft.

LUXURY RESIDENTIAL PRICES INDEX - PEAK



LUXURY RESIDENTIAL RENTALS INDEX - PEAK



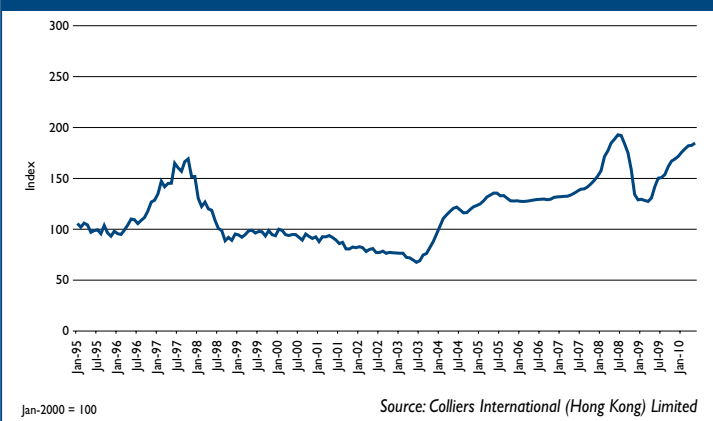
LUXURY RESIDENTIAL PRICES INDEX - SOUTH SIDE



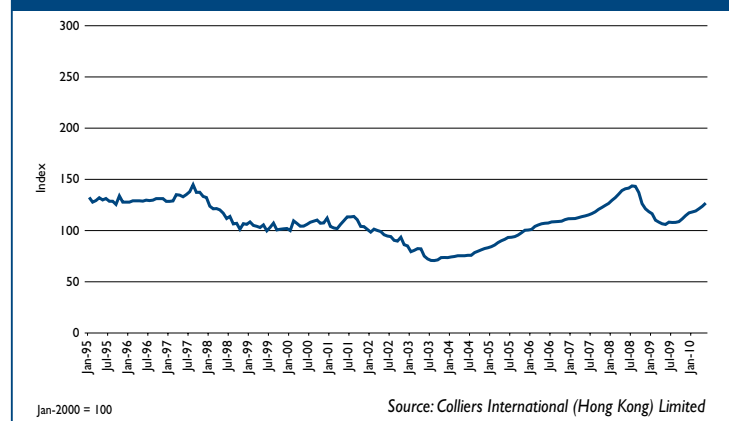
LUXURY RESIDENTIAL RENTALS INDEX - SOUTH SIDE



LUXURY RESIDENTIAL PRICES INDEX - MID-LEVELS



LUXURY RESIDENTIAL RENTALS INDEX - MID-LEVELS



## MAJOR RESIDENTIAL LEASE TRANSACTIONS

| Month  | Property                  | District   | GFA<br>(sq ft) | Rental<br>(HK\$ /<br>month) | Unit Rental<br>(HK\$ / sq ft /<br>month) |
|--------|---------------------------|------------|----------------|-----------------------------|--|
| Mar-10 | Garden Terrace            | Mid-Levels | 3,726          | 98,000                      | 26.30                                    |
| Mar-10 | Branksome Crest           | Mid-Levels | 2,355          | 106,000                     | 45.01                                    |
| Apr-10 | The Summit                | Mid-Levels | 3,272          | 125,000                     | 38.20                                    |
| Apr-10 | The Repulse Bay - Harston | South Side | 2,500          | 104,000                     | 41.60                                    |
| Apr-10 | Fairmount Terrace         | South Side | 3,000          | 155,000                     | 51.67                                    |
| May-10 | 14 Stanley Beach Road     | South Side | 2,800          | 110,400                     | 39.43                                    |
| May-10 | Fairwinds                 | South Side | 2,750          | 180,000                     | 65.45                                    |

Source: Colliers International (Hong Kong) Limited

*In general, average transacted rentals increased further by 4.7% q-o-q to HK\$40.93 per sq ft per month in May 2010, following the growth of 3.9% q-o-q recorded in the previous quarter*

From a leasing perspective, average luxury residential rentals on The Peak increased by 4.0% q-o-q from HK\$50.13 per sq ft per month in February 2010 to HK\$52.15 per sq ft per month in May 2010. Despite stronger demand for luxury properties, notable leasing transactions on The Peak concentrated on strata-titled apartment units due to the scarce supply of houses available for lease in the sub-market. For example, a 2,210 sq ft apartment unit on Plantation Road was leased for HK\$110,000 per month, or an average unit rent of HK\$49.77 per sq ft per month.

### SOUTH SIDE

In general, luxury residential prices in South Side increased 2.2% q-o-q from HK\$17,338 per sq ft in February 2010 to HK\$17,713 per sq ft in May 2010. Luxury residential site transactions were recorded not only on The Peak but also in South Side in 2Q2010. Yu Tai Hing sold a residential lot - The Morning Side at 2 Cape Drive - to a Mainland Chinese investor for HK\$541 million. The lot comprises a total of 11 houses. Based on an existing total gross floor area of 38,557 sq ft, the average unit price was HK\$14,031 per sq ft. Meanwhile, prominent transactions for houses included House D in Park Villa at 37 Island Road, with a floor area of 8,300 sq ft, which was sold for HK\$462.8 million, representing a unit price of HK\$55,759 per sq ft.

As far as apartment units are concerned, property prices in benchmark developments, such as Redhill Peninsula, remained relatively stable over the period. A low floor unit in Redhill Peninsula with a floor area of 1,391 sq ft in Tower 2 was transacted at HK\$14.18 million, or a unit price of

HK\$10,194 per sq ft, in February 2010. In April, a low floor unit with a floor area of 1,301 sq ft was sold for HK\$13.5 million, or a unit price of HK\$10,377 per sq ft, corresponding to a 1.8% increase during the period.

On the leasing front, luxury residential rentals in South Side increased by 3.6% q-o-q from HK\$40.81 per sq ft per month in February 2010 to HK\$42.29 per sq ft per month in May 2010. Demand for houses in South Side was particularly strong in 2Q2010. Prominent transactions for the quarter were highlighted by the lease of a 2,750 sq ft house in Fairwinds for HK\$180,000 per month (a unit rate of HK\$65.45 per sq ft per month) and a 3,200 sq ft house at 56 Repulse Bay Road for HK\$183,000 per month (a unit rate of HK\$57.19 per sq ft per month). Elsewhere, the lease renewal of a 3,765 sq ft house on Ching Sau Lane for HK\$165,000 per month or a unit rate of HK\$43.82 per sq ft per month. In the apartment unit segment, a 3,000 sq ft unit at 127 Repulse Bay Road was leased for HK\$155,000 per month (a unit rate of HK\$51.67 per sq ft per month).

### MID-LEVELS

In Mid-Levels, the average residential price edged up by 3.1% q-o-q, up from HK\$11,443 per sq ft in February 2010 to HK\$11,803 per sq ft in May 2010. In spite of the continual growth in property prices, the sub-market had in fact experienced the sharpest decline in sales transaction volume compared with the sub-markets of The Peak and South Side, down by about 40% q-o-q as of May 2010. Transactions were recorded in benchmark developments during the period; for example, a low floor unit in Block 1 of Clovelly Court was

## CONSENT TO SELL RESIDENTIAL UNITS

| District          | Development              | No. of units | Estimated completion | Developer  |
|-------------------|--------------------------|--------------|----------------------|--|
| <b>March 2010</b> |                          |              |                      |  |
| STTL 529          | Phase I of Festival City | 1,360        | 31-Jan-11            | Kowloon Canton Railway Corporation / Cheung Kong |
| KIL 11167 & 11168 | The Hermitage            | 852          | 31-Dec-10            | Chinese Estates, Nan Fung and Sino Land          |
| <b>April 2010</b> |                          |              |                      |  |
| NIL               |                          |              |                      |  |
| <b>May 2010</b>   |                          |              |                      |  |
| NIL               |                          |              |                      |  |

Source: Lands Department, HKSAR Government

sold in May 2010 for HK\$59 million, or a unit price of HK\$21,004 per sq ft, and a mid-floor unit in Regence Royale Tower 2 was sold in April 2010 for HK\$58 million, or an average unit price of HK\$21,505 per sq ft.

In the leasing market, the average residential rent in Mid-Levels saw the largest growth of 6.5% q-o-q from HK\$37.54 per sq ft per month in February 2010 to HK\$39.97 per sq ft per month in May 2010. Notable transaction in 2Q2010 was the lease of a 3,700 sq ft apartment unit in Grenville House for HK\$130,000 (a unit rate of HK\$35.14 per sq ft per month).

### SERVICED APARTMENTS

Due to rising occupational demand, leasing activities in the serviced apartment market remained robust in 2Q2010. Serviced apartments continued to be a preferred option among a number of newly arrived expatriates as short-term accommodation before committing to a permanent residence. In particular, the increasing number of expatriate family arrivals in 2Q2010 prompted exceptionally strong demand for large serviced apartment units, particularly those larger than 2,000 sq ft. Newcomers were put on a long waiting list (i.e. more than 2 months) for individual developments in South Side. Meanwhile, more tenants ended up extending their leases in serviced units up to 12 months due to limited stock available for lease in the marketplace.

According to our research, the number of short leases (i.e. with terms of six months or less) concluded between January and June 2010 constituted 53% of the pie, below the long-term

average of 67%. Meanwhile, the number of long leases (i.e. with terms of six months or longer) saw an increasing proportion, accounting for 47% of the total during the first six months of 2010, compared with the longer-term average of 33%.

The average rental in the serviced apartment market increased 3.7% q-o-q across the board in May 2010. Looking at the breakdown, average serviced apartment rents in the top-tier (i.e. rentals ranging from HK\$65,000 to HK\$190,000 per month) showed the strongest growth of 5.2% between February and May 2010. The growth was generally underpinned by units in decentralised locations, such as Repulse Bay and Tai Tam. On average, rentals of top-tier units in decentralised locations grew 7.2% q-o-q in 2Q2010 compared with 2.9% q-o-q for similar units in core locations.

### MARKET OUTLOOK

Looking ahead, market sentiment is expected to be positive, despite the recent slowdown in the number of sales transactions in 2Q2010. Amid the continued economic recovery, rising occupational demand and the scarce supply of luxury residential stock, luxury residential rents are expected to increase further by 15% over the next 12 months. This will, in turn, lend support to luxury residential property prices. Given a low interest rate environment, luxury residential capital values will stay on an upward trend, with a prospective upside of 10% over the same period.

*Amid the continued economic recovery, rising occupational demand and the scarce supply of luxury residential stock, luxury residential rents are expected to increase further by 15% over the next 12 months.*

*Given a low interest rate environment, luxury residential capital values will stay on an upward trend, with a prospective upside of 10% over the same period.*

PROJECTED NEW SUPPLY OF LUXURY RESIDENTIAL UNITS IN 2010

| Development  | * House             | * Apartment | Developer / Owner                     | No. of units | Status             |
|--|---------------------|-------------|---------------------------------------|--------------|--------------------|
| <b>Peak</b>  |                     |             |                                       |              |                    |
| 3 Black's Link                                     | 2 @ 3-s             | -           | Fortune Link Development Ltd          | 2            | Under Construction |
| 37 Severn Road                                     | 3 @ 3-s,<br>4 @ 3-s | -           | SHKP                                  | 7            | Under Construction |
| <b>South Side</b>                                  |                     |             |                                       |              |                    |
| 4A South Bay Road                                  | 1 @ 3-s             | -           | Infinite Ltd                          | 1            | Under Construction |
| 20, 22, 26A, 26B, 26C, 26D, 26E & 26F<br>Cape Road | 8@3-s               | -           | Sinomax Development Ltd               | 8            | # O.P. In Mar 2010 |
| 32 Chung Hom Kok Road                              | 1 @ 3-s             | -           | Regent Focus Consultants Ltd          | 1            | Under Construction |
| 5-11 South Bay Close and<br>13-19 South Bay Close  | -                   | 2 @ 8-s     | Chit Sen Co Ltd & The Tao Kwan Co Ltd | 28           | Under Construction |
| <b>Mid-levels</b>                                  |                     |             |                                       |              |                    |
| 62 Kennedy Road                                    | -                   | 1 @ 16-s    | Brianhill Ltd                         | 8            | Under Construction |
| 8 Rednaxela Terrace                                | -                   | 1 @ 22-s    | Rednaxela Development Ltd             | 16           | Under Construction |
| 6 Shiu Fai Terrace                                 | -                   | 1 @ 12-s    | K.Wah                                 | 24           | # O.P. in Jan 2010 |

Note: \* No. of blocks @ No. of storey  
# O.P. = Occupation Permit

Source: Colliers International (Hong Kong) Limited

## INDUSTRIAL SECTOR

## INDUSTRIAL MARKET - KEY MARKET INDICATORS

|                                    | Rents (HK\$ / sq ft / month) |        |            | Capital Values (HK\$ / sq ft) |        |            | Yields |        |            |
|------------------------------------|------------------------------|--------|------------|-------------------------------|--------|------------|--------|--------|------------|
|                                    | May 09                       | May 10 | May 11 (f) | May 09                        | May 10 | May 11 (f) | May 09 | May 10 | May 11 (f) |
| <b>Factory</b>                     | 6.21                         | 6.79   | 7.40       | 1,254                         | 1,617  | 1,746      | 5.9%   | 5.0%   | 5.1%       |
| <b>Cargo Lift Access Warehouse</b> | 5.13                         | 5.41   | 5.68       | 1,525                         | 1,781  | 1,923      | 5.6%   | 5.0%   | 4.8%       |
| <b>Ramp Access Warehouse</b>       | 7.43                         | 7.75   | 8.22       | 1,633                         | 1,893  | 2,044      | 5.4%   | 4.8%   | 4.7%       |
| <b>I-O Building</b>                | 10.05                        | 10.76  | 11.62      | 2,130                         | 2,524  | 2,776      | 5.7%   | 5.1%   | 5.0%       |

Source: Colliers International (Hong Kong) Limited

## HONG KONG IMPORTS AND EXPORTS

| Date   | Imports<br>(HK\$ m) | y-o-y<br>Change | Domestic Exports<br>(HK\$ m) | y-o-y<br>Change | Re-exports<br>(HK\$ m) | y-o-y<br>Change |
|--------|---------------------|-----------------|------------------------------|-----------------|------------------------|-----------------|
| May 09 | 215,361             | -19.2%          | 5,085                        | -37.4%          | 199,290                | -13.7%          |
| Jun 09 | 227,620             | -7.9%           | 4,704                        | -38.7%          | 206,432                | -4.2%           |
| Jul 09 | 233,947             | -17.8%          | 5,139                        | -41.3%          | 207,140                | -19.2%          |
| Aug 09 | 235,150             | -9.8%           | 5,031                        | -37.3%          | 208,270                | -13.2%          |
| Sep 09 | 255,040             | -3.1%           | 5,108                        | -35.0%          | 220,790                | -7.8%           |
| Oct 09 | 259,945             | -10.7%          | 5,405                        | -32.9%          | 235,350                | -12.5%          |
| Nov 09 | 254,821             | 6.5%            | 5,521                        | -19.4%          | 228,574                | 1.9%            |
| Dec 09 | 258,267             | 18.7%           | 5,152                        | -7.0%           | 219,670                | 9.7%            |
| Jan 10 | 251,787             | 39.5%           | 5,619                        | 33.9%           | 216,660                | 18.0%           |
| Feb 10 | 202,105             | 22.4%           | 4,107                        | 8.3%            | 178,348                | 29.1%           |
| Mar 10 | 270,641             | 39.8%           | 5,712                        | 29.4%           | 226,043                | 32.1%           |
| Apr 10 | 277,466             | 28.8%           | 5,546                        | 19.7%           | 236,686                | 21.7%           |
| May 10 | 279,321             | 29.7%           | 5,978                        | 17.6%           | 248,256                | 24.6%           |

Source: HKSAR Government

## CONTINUED RECOVERY IN EXTERNAL TRADE

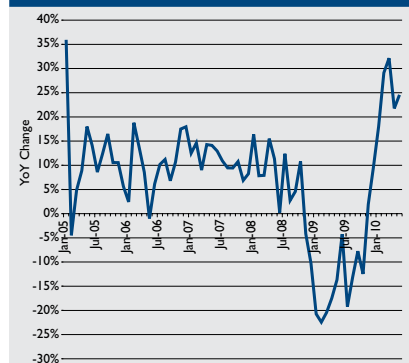
Benefiting from the continued recovery of the external trade environment, in particular the vibrant intraregional trade in Asia, the Hong Kong external trade performance continued to improve in 2Q2010. In the case of re-exports, the pace of growth stayed above the level of 20% year-on-year (y-o-y) during the period from March to May 2010.

Amid the continued recovery in external trade performance, air cargo and container throughput continued to register strong growth. During the period from March to May 2010, the air cargo throughput volume increased 36.4% y-o-y to 1,068,000 tonnes, compared with 36.2% y-o-y growth in the preceding three-month period. In fact, the air cargo throughput volume reached an all-time high during the period from March to May 2010. Meanwhile, container throughput increased 14.2% y-o-y to 5.9 million TEUs during the period from March to May 2010, compared with 14.3% y-o-y in the preceding three-month period.

Underpinned by a gradual recovery in business volume, the number of persons engaged in trading and logistics industries has been increasing. On the real estate front, the headcount growth is expected to be translated into end-user demand for industrial premises.

## TRADING INDUSTRY RECOVERING

As the volume of external trade and other trade-related statistics showed significant rebound amid the recovery of the external trade environment, trading industry in general has been recovering gradually. According to the Census and Statistics Department of HKSAR Government, the number of persons engaged in Import and Export Trade peaked in June 2008 at 520,934. Amid the development of the global financial crisis, the number of headcounts engaged in the industry contracted for four consecutive quarters, to the trough of 491,002 recorded in June 2009. Amid the recovery of external trade, the headcount number increased gradually. As at March 2010, a total of 499,695 persons were engaged in the Import and Export Trade industry, which was about 4.1% below the peak level in June 2008.

RE-EXPORT TRADES  
YEAR-ON-YEAR GROWTH

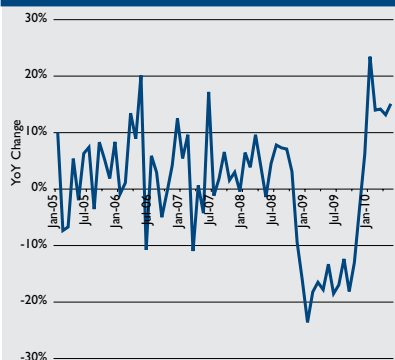
Source: Census and Statistics Department, HKSAR Government

**Air Cargo Throughput  
Year-on-Year Change**



Source: Civil Aviation Department, HKSAR Government

**Container Throughput  
Year-on-Year Change**



Source: Marine Department, HKSAR Government

**HEADCOUNT GROWTH IN LOGISTICS INDUSTRY**

Although the contraction of the external trade volume affected the demand for logistics services, the relatively resilient performance in local retail sales provided some support to the logistics industry. According to the Census and Statistics Department, amid the development of the global financial crisis, the number of persons engaged in the Transportation, Storage, Postal and Courier Services industry dropped from its peak level of 156,983 in June 2008 to its trough at 155,838 in December 2008. Unlike the trading industry, the headcounts started to increase in March 2009. In March 2010, the number of persons engaged in the industry reached its all-time high at 159,435, which was about 1.6% above the level recorded in June 2008.

**RENTALS EDGING UP**

On the real estate front, although individual operators are seeking suitable premises for business expansion, the overall industrial property market was yet to see demand growth across the board. In 2Q2010, some industrial occupiers, including companies engaged in logistics and wholesale/distribution, were active in searching for real estate options to consolidate their operations under one roof primarily aiming at improving their operational efficiency. Meanwhile, due to an increase in rentals in the office market, the overall industrial market continued to enjoy positive spillover from the traditional office sector. During 2Q2010, individual office tenants in Tsim Sha Tsui chose the relocation option to industrial premises in Cheung Sha Wan in view of cheaper rentals. According to our research, the average rentals of brand-new industrial premises in Cheung Sha Wan were in the range of HK\$11

to HK\$12 per sq ft per month. The tenants would save rental outgoings of up to 30% if they took the relocation option.

As at the end of May 2010, the average rental in the factory sector increased 2.5% quarter-on-quarter (q-o-q) to HK\$6.79 per sq ft per month. The average rental of ramp access warehouses increased 2.4% q-o-q to HK\$7.75 per sq ft per month, while that of cargo access warehouses increased 2.9% q-o-q to HK\$5.41 per sq ft per month. Meanwhile, the average rental in the industrial-office (I-O) sector increased 2.5% q-o-q to HK\$10.76 per sq ft per month.

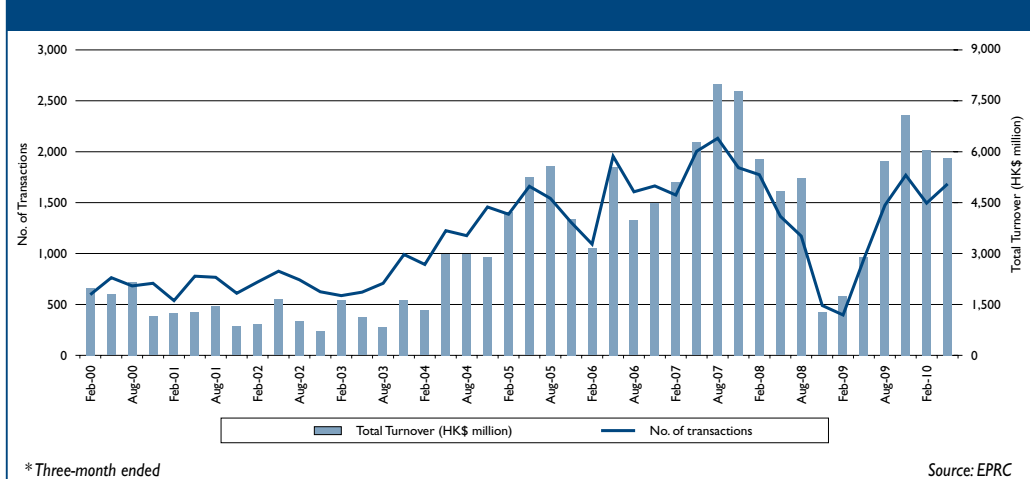
**CAPITAL VALUES**

Due to the sustained low interest rate environment and the keen buying interest amongst a large group of industrial occupiers, overall industrial property prices increased further in 2Q2010. During the quarter, industrial property prices saw growth of 3.5% to 4.6% q-o-q. As at the end of May 2010, average prices of factories increased 4.6% q-o-q to HK\$1,617 per sq ft. The average price of ramp access warehouses increased 4.0% q-o-q to HK\$1,893 per sq ft, while that of cargo lift access warehouses increased 4.0% q-o-q to HK\$1,781 per sq ft. Meanwhile, the average price of I-O buildings increased 3.5% q-o-q to HK\$2,524 per sq ft.

**SALES ACTIVITY**

After consolidation in 1Q2010, the level of sales market activity resumed positive growth in 2Q2010. During the period from March to May 2010, the number of strata-titled sales transactions increased 12.9% q-o-q to a total of 1,680, while the total value of the transactions increased 8.9% q-o-q to HK\$5,274 million.

**INDUSTRIAL PROPERTY TRANSACTION VOLUME**



\*Three-month ended

Source: EPRC

On the whole-block transaction front, overall investment demand has been on the rise amid the announcement and implementation of the new government measures regarding revitalising industrial buildings on 1st April 2010. In view of the appreciation in asking prices for whole-block industrial buildings, the sales activity virtually stalled in April 2010. There were two whole-block industrial buildings transacted in March 2010 and there was no record of single-owned industrial building transaction in April 2010. As prospective buyers digested the price appreciation, market activity picked up in May and June 2010. There were a total of nine whole-block industrial building transactions recorded in May and June 2010. The following were four of the major whole-block industrial transactions registered in May and June 2010:

- Campell acquired the whole block of General Garment Building in Kwai Chung for a total consideration of HK\$418 million in May 2010. Based on a total floor area of about 260,000 sq ft, the average price was about HK\$1,608 per sq ft.
- Sundart International Holdings Limited, a locally listed company, acquired the whole block of Elite Industrial Building in Kwun Tong from Malleson Limited, an indirectly owned subsidiary of a food manufacturing company listed on Tokyo Stock Exchange, for a total consideration of HK\$315 million in May 2010. Based on a total floor area of 150,172 sq ft, the average unit price was HK\$2,098 per sq ft.
- Billion Development acquired the whole block of Unimix Industrial Centre in San Po Kong for a total consideration of HK\$601 million in June 2010. Based on a total floor area of 394,000 sq ft, the average unit price was HK\$1,525 per sq ft.
- Mansion Industries Limited acquired the whole block of Lucky Industrial Building in Kwai Chung from Winsor Properties for a total consideration of HK\$348 million in June 2010. Based on a total floor area of 292,520 sq ft, the average unit price was HK\$1,190 per sq ft.

#### GOVERNMENT INITIATIVE

There are a couple of factors stimulating the acquisition demand from both investors and end users. As discussed earlier, the new government

measures regarding revitalisation of industrial buildings have stimulated investment demand for whole-block industrial premises. The potential rental income growth after successful conversion of industrial premises for non-industrial uses has been attracting investors' interests. According to the Secretary for Development, during the period from 1st April to early June 2010, the scheme for revitalising industrial buildings had drawn 13 applications from owners who want to revamp old industrial properties for new uses, including offices, hotels and retail.

#### POSITIVE CARRY

In addition, inflation expectation and positive carry are other major factors stimulating end users and investors to acquire strata-title units. As the major central banks around the globe have adopted quantitative easing measure, inflation expectation has been stimulated. The rise in inflation expectation has in turn fuelled the anticipation of rental and price growth in real estate properties including industrial premises. The potential rental and price appreciation has lured a group of investors and occupiers to acquire industrial properties for both investment and owner occupation purposes. According to our research, the initial yield of recent industrial transactions was in the range of 5% to 6% per annum. Given the current low interest rate environment, industrial premises would provide a positive carry in the order of 2.5% to 3.0% per annum. When compared with other property sectors, the relatively high positive carry has attracted a group of investors acquiring industrial premises.

#### OVERSEAS PLAYERS

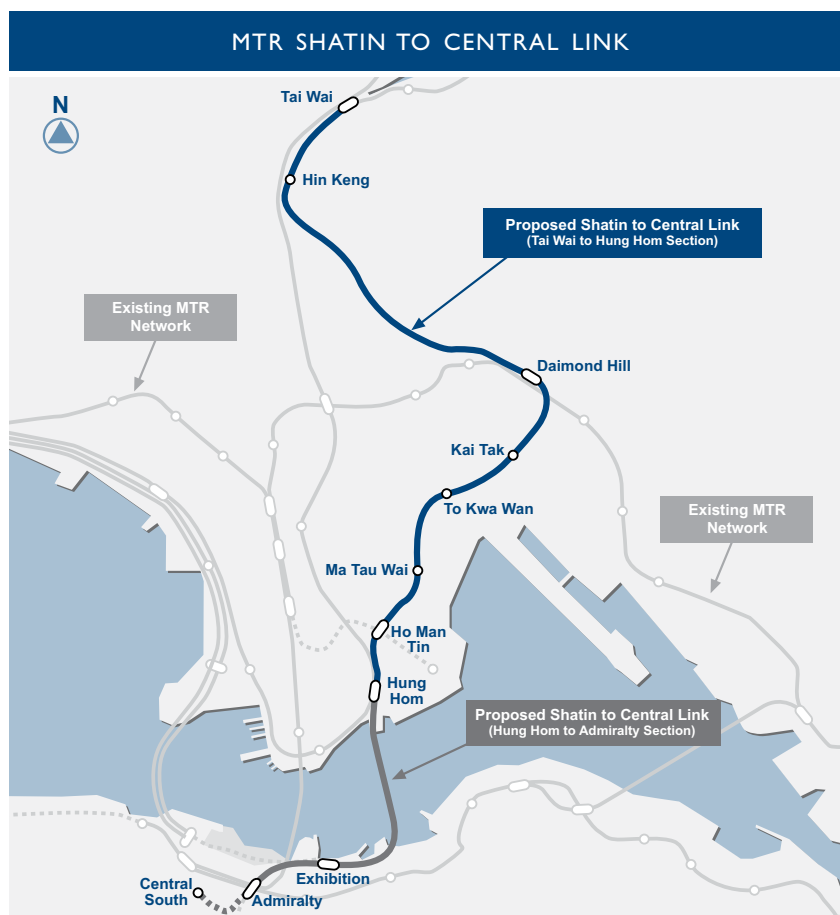
According to the Economist Intelligence Unit, the impact of the global financial crisis on the economies of developing countries was less severe when compared with the developed world. The economies of many developing countries are growing robustly and Asia has led the way. The Economist Intelligence Unit expected real GDP growth in Asia and Australasia (excluding Japan) would reach 7.4% and 6.5% in 2010 and 2011 respectively, above the world's forecast real GDP growth at 4.2% and 3.6% in 2010 and 2011 respectively.

The robust economic growth in Asia is expected to support further growth in trade volume, which in turn will underpin demand for logistics services. The potential demand growth for logistics services

*As prospective buyers digested the price appreciation, market activity picked up in May and June 2010*

*Given the current low interest rate environment, industrial premises would provide a positive carry in the order of 2.5% to 3.0% per annum*

The price gap between Kwun Tong and San Po Kong is anticipated to narrow with the future completion of the MTR Shatin to Central Link



Source: MTR Corporation Limited

has attracted a group of overseas logistics operators to expand their operations in the Asia region. As one of the key hubs in Asia and a major gateway to China, several overseas logistics companies were attracted to expand their operations in Hong Kong. One of the latest operators expanding operations in Hong Kong was Aramex, a Dubai-listed global logistics and transportation solutions provider. Its Hong Kong office was established 10 years ago as a customer service centre for the company's network in the Middle East and Europe, mainly for express and freight movements out of China. The expansion will see the Hong Kong office become an independent business centre and regional hub. According to our market intelligence, these overseas logistics companies are seeking suitable logistics warehouse premises with size of about 30,000 sq ft.

#### DISTRICT OPPORTUNITIES

Looking forward, the development of the MTR Shatin to Central Link will improve the connection of San Po Kong to other districts. The industrial premises in San Po Kong will benefit from the improvement in infrastructure. Currently, the average price of industrial premises in San Po Kong is below that of Kwun Tong. The price gap between the two districts is anticipated to narrow with the

future completion of the MTR Shatin to Central Link. The rental and price growth potential in San Po Kong has attracted a number of investors seeking investment opportunities in the district. The latest example was Billion Development's acquisition of Unimix Industrial Centre for a total consideration of HK\$601 million.

#### MARKET OUTLOOK

The Hong Kong Trade Development Council upgraded its forecast for Hong Kong total exports growth for 2010 from 5% to 12%. In the second half of 2010, Hong Kong's total exports are anticipated to grow further, but the pace of growth will moderate from the level of over 20% y-o-y recorded in the first half of the year. The industrial property market performance will continue to benefit from the sustaining improvement in Hong Kong external trade performance. It is our prediction that the rentals of factory and I-O sectors will increase 9% and 8% respectively in the next twelve months. In the warehousing sector, rentals are expected to increase 5% to 6%, depending on the availability of such physical provisions as ramp access. Meanwhile, we expect the prices of industrial properties to increase 8% to 10% over the next 12 months.

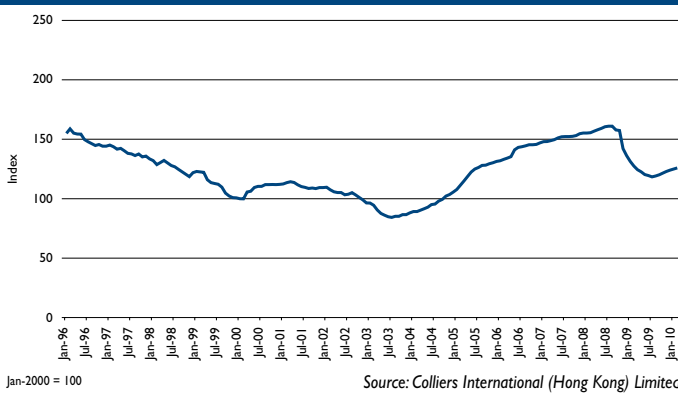
FACTORY RENTAL INDEX



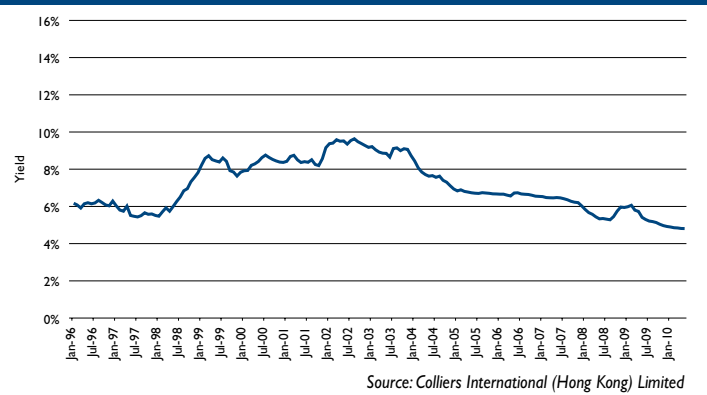
FACTORY RENTAL YIELD



I-O BUILDING RENTAL INDEX



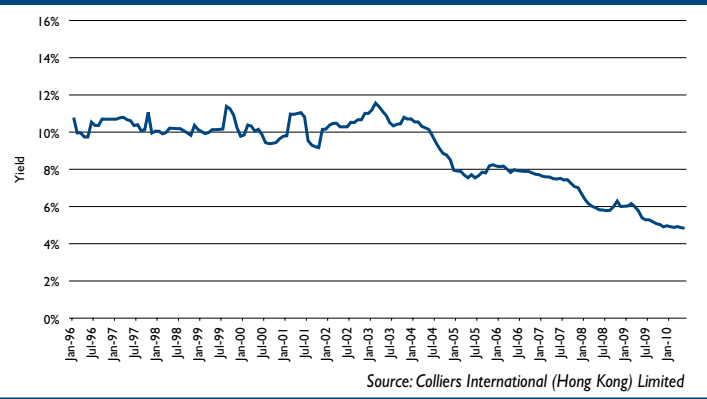
I-O BUILDING RENTAL YIELD



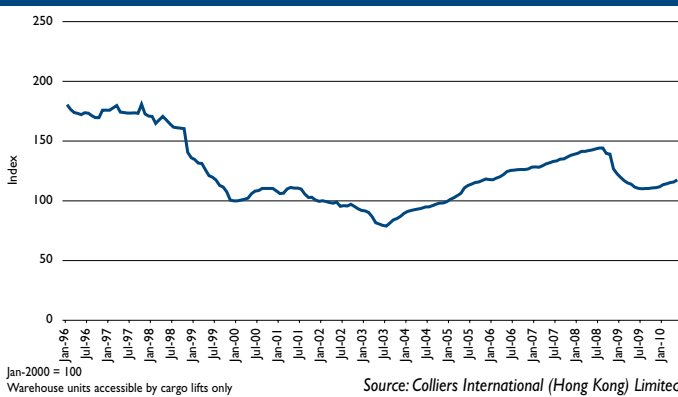
RAMP ACCESS WAREHOUSE RENTAL INDEX



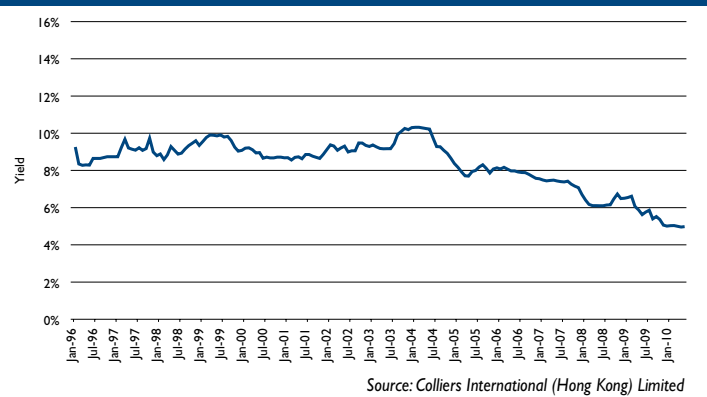
RAMP ACCESS WAREHOUSE RENTAL YIELD



CARGO LIFT ACCESS WAREHOUSE RENTAL INDEX



CARGO LIFT ACCESS WAREHOUSE RENTAL YIELD



## RETAIL SECTOR

### TOTAL RETAIL SALES



Source: Census and Statistics Department, HKSAR Government

### POSITIVE SENTIMENT

Despite the imminent threat attributed to a debt crisis in Europe, the local retail market picked up additional momentum in 2Q2010 thanks to the relief measures provided by the Government and the positive market sentiment boosted by the sustained growth of asset prices in Hong Kong. Meanwhile, the increase in job opportunities in the local labour market and the sustained hiring expectations among most companies were clear stimulants of consumption sentiment. According to the official statistics, the average unemployment rate continued to stay low, at 4.6%, in May 2010.

### VISITOR SPENDING

Meanwhile, the buoyant number of inbound visitors, particularly the massive groups coming from the Mainland, continued to provide additional support to retail consumption in 2Q2010. According to the Hong Kong Tourism Board, the total number of visitor arrivals increased 22% year on year (y-o-y) to a total of 8.4 million during the three-month period between March and May 2010. Mainland visitors remained the largest group by country of origin. As of May 2010, the total number of visitors from the Mainland was 1.7 million, constituting 61% of all arrivals.

### RETAIL SALES

Against the backdrop of positive consumption sentiment, the total value of retail sales in Hong Kong displayed a very strong performance in 2Q2010. The total value of retail sales amounted to

HK\$75.73 billion during the three-month period between March and May 2010, representing a double-digit growth of 18% y-o-y. Looking at the breakdown by type of retail outlets, the sales of jewellery, watches and clocks, and valuable gifts continued to achieve an impressive growth of 42% y-o-y to a total of HK\$13.35 billion during 2Q2010. As usual, luxury items for sale in Hong Kong continued to be favoured by most visitors from the Mainland because of the tax difference and the assurance of quality.

Meanwhile, the food and beverage sector picked up at a faster rate, as indicated by the quarterly survey of restaurant receipts, which noted that the total value of restaurant receipts rose by 5.1% y-o-y to HK\$20.9 billion in 1Q2010 compared with a 2.0% increase in 4Q2009.

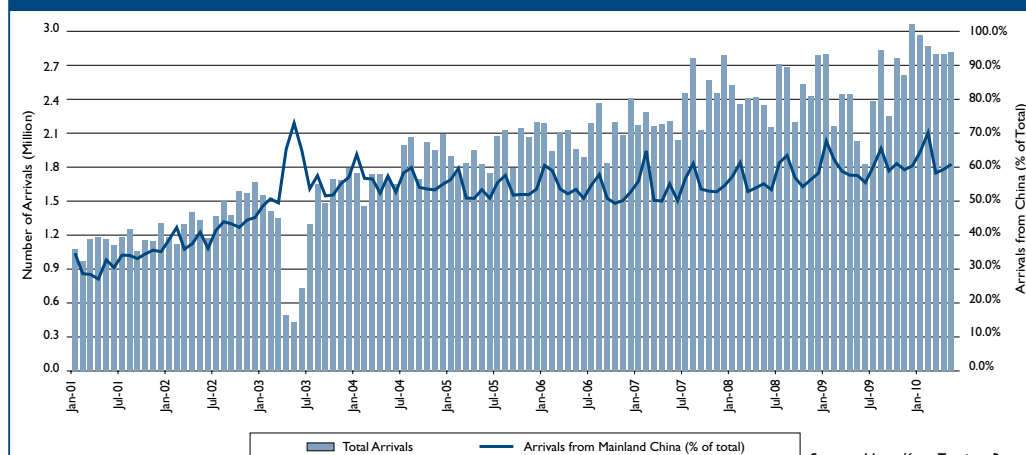
### INVESTMENT DEMAND

On the investment front, market activity continued to be overshadowed by a batch of local investors. Undaunted by a number of uncertainties in the external environment, investors remained keen to secure quality retail property assets for long-term growth, particularly when local interest rates are expected to stay low over the near to medium term. Overall, the number of sales transactions with a lump sum consideration of HK\$10 million or above saw a sustainable growth of 2.9% quarter on quarter (q-o-q) in 2Q2010.

Investment yields remained virtually unchanged in 2Q2010 despite the recent uncertainties in the external environment. However, due to the

Against the backdrop of positive consumption sentiment, the total value of retail sales in Hong Kong displayed a very strong performance in 2Q2010. The total value of retail sales amounted to HK\$75.73 billion during the three-month period between March and May 2010, representing a double-digit growth of 18% y-o-y

### VISITORS ARRIVALS



Source: Hong Kong Tourism Board

sustained low interest rate environment and the limited number of quality assets for investment, average investment yields largely stayed below 3.0% in 2Q2010.

In general, demand for quality premises in prime shopping locations remained strong in 2Q2010, while some market players shifted their focus out of the first-tier street segments in core areas considering the limited supply of retail space. Instead, they banked on stronger capital growth potential in the second-tier street segments in core areas. For example, due to the supply of retail space that is unable to meet the strong demand in Central, there has been significant positive spillover from Lan Kwai Fong into Soho (i.e. South of Hollywood Road). From an investor's perspective, Soho – a cluster of fine dining restaurants and special F&B outlets – is expected to have a strong growth potential as the whole of Lan Kwai Fong has been expanding and the Government is determined to promote retail/leisure functions in Central. The latest evidence was the proposed revamp of the existing Central Wet Market Building into a leisure/retail development. In addition, Soho has proved its success as a cluster of F&B outlets over the years, despite the economic trough in the second half of 2008. On the transaction front, notable deals in 2Q2010 were the sale of shop 1-1A on the ground floor at 17-19 D'Aguilar Street, Central to a local investor for HK\$139.18 million, representing an average unit price of HK\$92,787 per sq ft based on a 1,500 sq ft floor area.

In Tsim Sha Tsui, shop 3-5 located on the ground floor at 240-252 Nathan Road was transacted at HK\$145 million or an average unit price of HK\$80,556 per sq ft, based on a floor area of 1,800 sq ft. Meanwhile, Shop D on the ground floor at 32-34 Haiphong Road was sold to a local investor for HK\$152.5 million. Based on a floor area of 500 sq ft, the average unit price was about HK\$305,000 per sq ft.

Elsewhere, in Mong Kok, shop 26 on the ground floor at 26-36 Sai Yeung Choi Street South was sold to a local investor for HK\$185 million. Given a floor area of 600 sq ft, the average unit price was about HK\$308,333 per sq ft. Last but not least, a ground floor shop at 292 Portland Street was transacted at HK\$109.8 million or an average unit price of HK\$49,909 per sq ft based on a floor area of 2,200 sq ft.

## LEASING DEMAND

On the leasing front, the market focus continued to be on traditional shopping districts (i.e. Causeway Bay, Central, Tsim Sha Tsui and Mong Kok). In particular, the sub-market of Tsim Sha Tsui remained the centre of attention as it has the largest shopping geographical area, along with cultural, sightseeing and hotel facilities that cater to tourists.

In 2Q2010, a number of local retailers resumed their business plans and real estate commitments. For example, an increasing number of banks opened flagship stores or ground floor shops on high streets in core shopping areas. According to our research, several banks started to get back to retail banking by, for instance, promoting fee-income business.

After the global financial crisis in 4Q2008, the US economy is now on the road to recovery. The gradual improvement of the US economy has prompted a number of international retailers to become more certain about their business directions, triggering the resumption of their expansion plans that had largely been put on hold since 4Q2008. In fact, the market started to see concrete leasing commitments by international retailers in 2Q2010.

## SUB-MARKET ANALYSIS

Retail rentals continued to pick up in 1Q2010, with average retail rentals in the four traditional shopping districts of Central, Causeway Bay, Mong Kok and Tsim Sha Tsui increasing by 2.6% q-o-q in 2Q2010, following a strong growth of 5.7% q-o-q in the preceding quarter. Sustained growth was seen across the board in all street segments.

Of the four key shopping areas, Causeway Bay saw the largest rental growth, underpinned by substantial leasing deals recorded during the quarter. The average retail rental increased 2.9% q-o-q in May 2010. Leasing transactions were highlighted by the lease of a shop on G/F, 1-4/F plus B/F in Capitol Centre to Forever 21 – a US fashion retailer – for close to HK\$11 million per month. Based on a total floor area of 50,000 sq ft, the corresponding average unit rental was HK\$220 per sq ft per month.

Meanwhile, shop 4-5 located on the ground floor at 26 East Point Road was leased to Bossini – a local fashion retailer – for HK\$600,000 per

*Retail rentals continued to pick up in 1Q2010, with average retail rentals in the four traditional shopping districts of Central, Causeway Bay, Mong Kok and Tsim Sha Tsui increasing by 2.6% q-o-q in 2Q2010, following a strong growth of 5.7% q-o-q in the preceding quarter*

*The consistent growth in the number of inbound tourists, coupled with the additional push of inflationary pressure and the prospective growth in retail sales, is expected to drive rental growth higher, in the order of 10% over the next 12 months*

month, or a unit rental of HK\$262 per sq ft per month based on from a floor area of 2,290 sq ft. Its adjacent shop, shop 13-16 on G/F and 1/F at 26 East Point Road was leased to Broadway – a local electrical appliances retailer – for HK\$1.5 million per month. Based on a total floor area of 3,815 sq ft, the average unit rate was HK\$393 per sq ft per month. Elsewhere, Standard Chartered Bank rented the G/F, 1/F and 2/F shops (a total floor area of 12,000 sq ft) at 44-48 Yun Ping Road for HK\$2.06 million per month or a unit rental of HK\$172 per sq ft per month.

In Mong Kok, the average retail rental increased by 2.3% q-o-q in May 2010. In 2Q2010, Citibank rented a 20,000 sq ft store on G/F and 1/F to 3/F at 664 Nathan Road for HK\$2.5 million per month, or a unit rental of HK\$125 per sq ft per month.

Elsewhere, average retail rents in Tsim Sha Tsui recorded an increase of 2.7% q-o-q in May 2010.

Notable transactions included shop C and D located on G/F at 51-52 Haiphong Road, which was leased to Milan Station, a second-hand shop that sells luxury international brand handbags, for HK\$1 million per month. Based on a total floor area of 1,500 sq ft, the unit rent was HK\$667 per sq ft per month. Meanwhile, in Central, average retail rentals increased by 2.5% q-o-q in February 2010.

## MARKET OUTLOOK

Looking ahead, the local retail market is expected to forge ahead under a persistent economic recovery in Hong Kong and an improvement in the labour market that will help strengthen local consumer confidence. The consistent growth in the number of inbound tourists, coupled with the additional push of inflationary pressure and the prospective growth in retail sales, is expected to drive rental growth higher, in the order of 10% over the next 12 months.

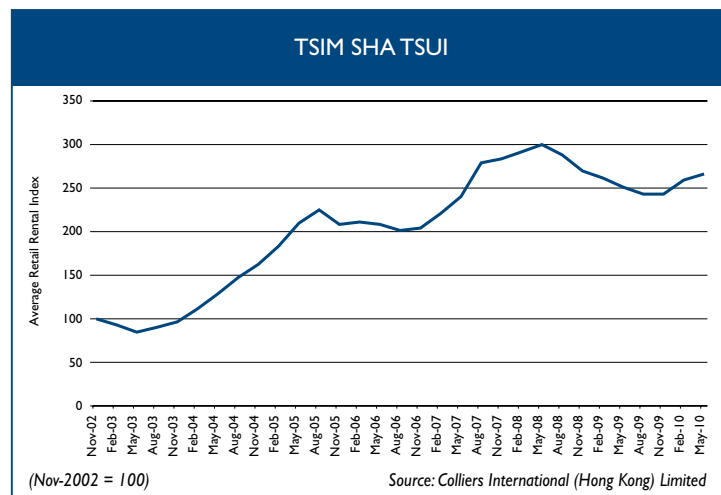
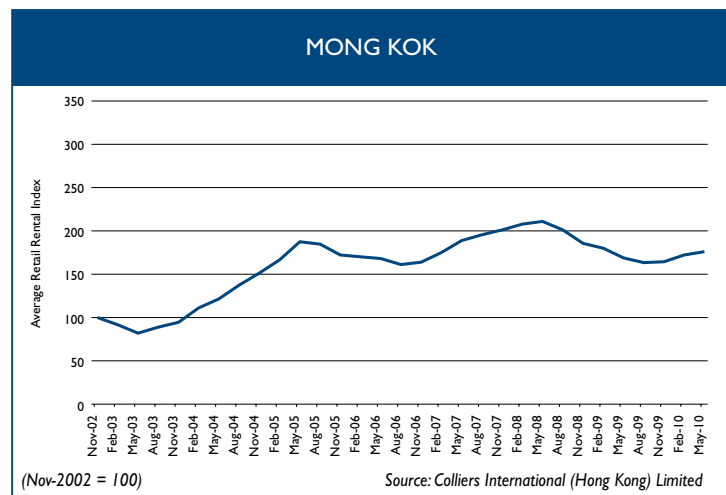
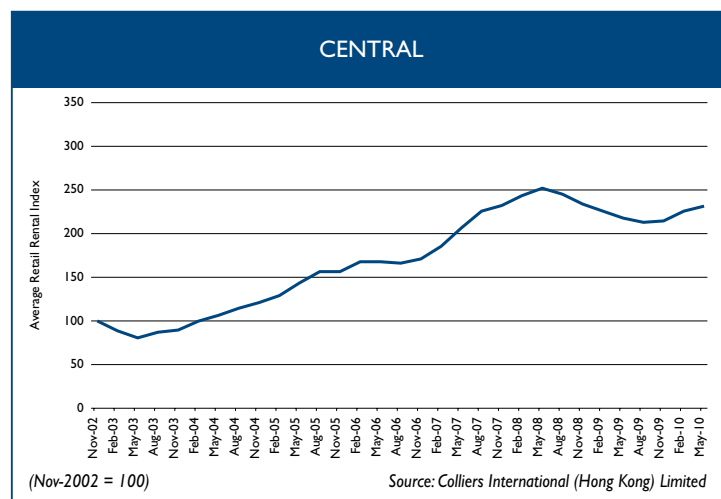
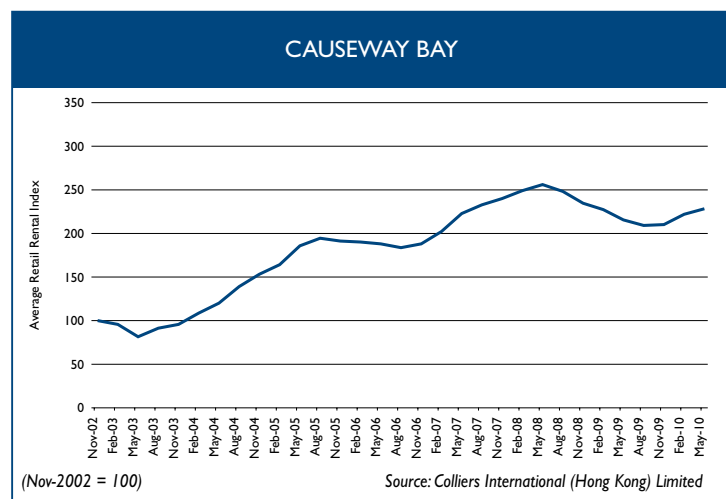
\*RETAIL RENTAL INDEX BY MAJOR DISTRICTS

| District             | Rental Index<br>Feb-10 | Rental Index<br>May-10 |
|----------------------|------------------------|------------------------|
| <b>Causeway Bay</b>  | <b>222</b>             | <b>228</b>             |
| % Change (q-o-q)     | 5.6%                   | 2.9%                   |
| <b>Central</b>       | <b>226</b>             | <b>231</b>             |
| % Change (q-o-q)     | 5.3%                   | 2.5%                   |
| <b>Mong Kok</b>      | <b>172</b>             | <b>176</b>             |
| % Change (q-o-q)     | 4.7%                   | 2.3%                   |
| <b>Tsim Sha Tsui</b> | <b>259</b>             | <b>266</b>             |
| % Change (q-o-q)     | 6.7%                   | 2.7%                   |
| <b>Overall</b>       | <b>218</b>             | <b>224</b>             |
| % Change (q-o-q)     | 5.7%                   | 2.6%                   |

(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

\* Street-level shops on key street segments



480 OFFICES IN 61 COUNTRIES ON  
6 CONTINENTS

USA 135  
Canada 39  
Latin America 17  
Asia Pacific 194  
EMEA 95

Revenue in 2010  
Over US\$1.9 billion

Property Management  
2.4 billion sq ft

15,000 Professionals

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