In connection with the Global Offering, the Company has engaged Savills (Hong Kong) Limited to conduct a detailed analysis of the property market in Hong Kong. Savills (Hong Kong) Limited prepared a market research report dated 6 June 2013 (the ***"Market Research Report"****) for the purpose of incorporation in this prospectus, the text of which is set out below.*

Savills is a global real estate services provider listed on the London Stock Exchange. It has an international network of over 500 offices and associates and over 25,000 staff throughout the Americas, the United Kingdom, Continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

The Company has included the Market Research Report in this prospectus because the Company believes such information would facilitate investors' understanding of the property market in Hong Kong where the Group's principal business operations and properties are located. The Company was charged a total of HK$650,000 for the services provided by Savills.

6 June 2013

The Directors
Hopewell Hong Kong Properties Limited

BOCI Asia Limited
Credit Suisse (Hong Kong) Limited

Savills (Hong Kong) Limited
23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

Dear Sir,

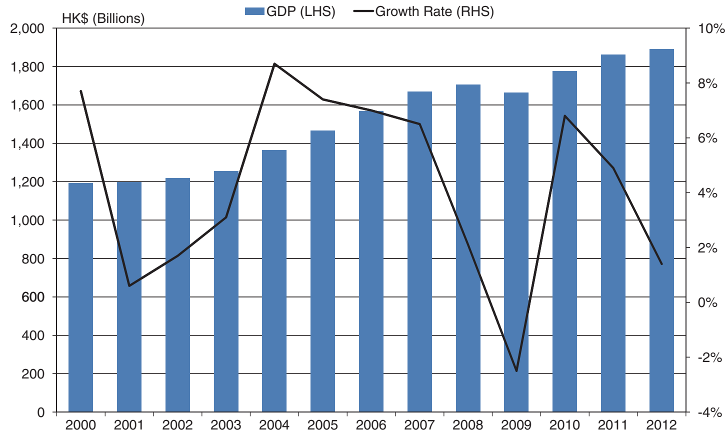
As requested we have prepared a property market overview to be inserted into the prospectus for the listing of Hopewell Hong Kong Properties Limited (the "Company"). The report includes an overview of the office, retail, hotel, serviced apartment and residential sectors, and the meetings, incentives, conventions and exhibitions ("MICE") market in Hong Kong.

1.0 HONG KONG ECONOMIC OVERVIEW

1.1 Hong Kong's key economic and demographic indicators

Having posted a relatively slow real GDP growth of 2.1% in 2008 and a 2.5% contraction in 2009, as a result of quantitative easing ("QE") measures introduced by many global economies, particularly mainland China, the economy rebounded thereafter, with GDP registering a 6.8% growth in 2010, followed by a 4.9% growth in 2011. However, due to the deteriorating euro sovereign debt problem and the slowing pace of economic growth in the US, the export market has weakened. With uncertain external demand, GDP growth softened to 1.4% in 2012.

Hong Kong real GDP and growth rate, 2000–2012



Source: Census and Statistics Department, Savills Research & Consultancy

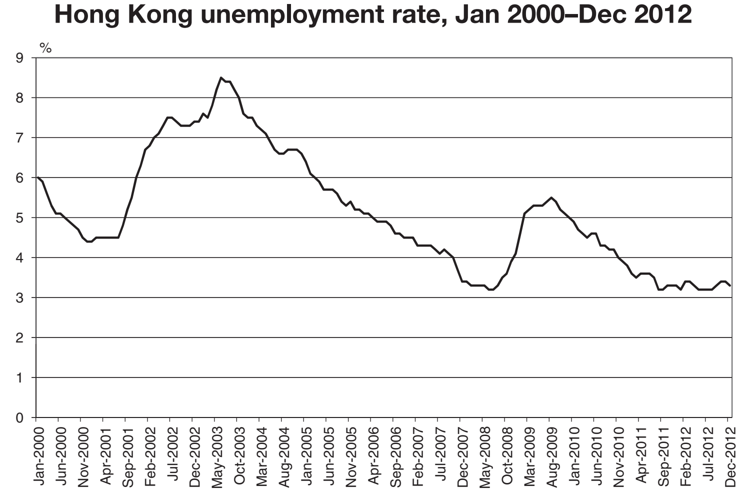
As a service-based economy, the service industry contributed 93.1% to GDP in 2011[1], with financing, insurance, real estate, professional and business services industry ("Finance") sharing the largest share at 27.3%, followed by 25.9% accounted for by import/export, wholesale and retail trades ("Trading") and public administration, social and personal services ("Administration") (16.5%).

The composite CPI increased again, due to the growing economy, to register 0.5%, 2.4% and 5.3% growth in 2009, 2010 and 2011, respectively.

During 2012, inflationary pressure continued to increase, with the composite CPI climbing by 4.1% over the period, mainly resulting from external (imported inflation due to escalating global food and commodity prices) and internal (the feed-through effect of higher residential rents and the one-off effect of the statutory minimum wage) factors.

Reflecting the deterioration of the employment situation as the global economy declined, the seasonally-adjusted unemployment rate increased from a ten-year low of 3.2% for the three months ending in July 2008, to 5.5% for the three months ending in August 2009. The employment situation has since improved with the economic recovery, and the unemployment rate gradually fell from 5.5% in the three months ending in August 2009 to 3.3% for the three months ending in December 2012, a new low since the Asian financial crisis of 1998, and a level signifying high employment and local demand for labour.

Hong Kong unemployment rate, Jan 2000–Dec 2012



Source: Census and Statistics Department, Savills Research & Consultancy

[1] Based on "Table 036: Gross Domestic Product ("GDP") by Economic Activity — Percentage Contribution to GDP at Basic Prices". Source: Census and Statistics Department.

1.1.1 Incomes, savings and retail spending

The primary measure of the incomes of the Hong Kong population living in private housing estates is private median monthly household income. The previous peak in this measure was recorded in Q1/2008, with the median income reaching HK$25,500 per month, but the subsequent global crisis caused a drop in income to HK$24,000 per month in Q2/2009. The economic recovery, which led to record low unemployment rates, exerted upward pressure on private median household incomes, which rose to HK$30,000 per month in Q4/2012, a new high since 1994. These higher income levels are giving rise to more domestic retail spending.

In terms of median monthly household income by district, Wan Chai is the highest with HK$33,000 per month, followed by Central and Western (HK$32,000) and Sai Kung (HK$26,000), according to the 2012 Population and Household Statistics Analysed by District Council District.

Hong Kong wage levels have shown a slightly higher increment than price inflation, suggesting increased purchasing power. Following three years of negative growth from 2002 to 2004, wage growth returned to positive territory in 2005 on the back of broader economic growth, and continued until the global financial crisis hit in 2008 when wage growth reverted to negative territory registering a fall of -2.1%. QE helped the local economy recover and benefited a wide range of employees, with the average wage rate of all selected major sectors stabilising in 2009 before rebounding by 3.1%, 9.1% and 5.1% in nominal terms in 2010, 2011 and 2012, respectively.

1.1.2 Closer integration with mainland China

Following the introduction of the mainland's open-door policy in 1978, Hong Kong has developed close links with mainland China, and this will remain a key factor in the future success of the territory. On 18 October 2005, the Hong Kong Government and the Central People's government reached an agreement to further liberalise measures governing Hong Kong's trade with the mainland under the Closer Economic Partnership Arrangement ("CEPA"). Under CEPA, concessions are granted giving Hong Kong companies a first-mover advantage and encouraging better synchronisation in the chain of cross-boundary financial activity, goods production and distribution.

CEPA's main contribution to trade between the two partners is that it has removed import tariffs on almost all Hong Kong-made products[2] since January 2006. From 2004 to 2011, the number of products eligible for CEPA's tariff-free treatment expanded from 273 to 1,630[3].

Under the Individual Visit Scheme ("IVS"), which was introduced as a liberalisation measure under CEPA, residents of selected mainland cities may visit Hong Kong in their own capacity. The coverage of the IVS has been expanded in the past few years and is now implemented in 49 mainland cities, including approximately 270 million residents in total. According to the Hong Kong Tourism Board ("HKTB"), in 2012, mainland Chinese residents made more than 23.1 million trips to Hong Kong under the IVS, an increase of 3.2 times since 2005. These visitors accounted for 66.3% of all mainland visitors or 47.6% of total visitors.

The Pearl River Delta ("PRD")[4] region has now become one of the leading global sources for a wide range of light-manufactured goods and is one of the leading locations for the manufacture and assembly of high-tech electronic products. The further development of this economy will require the investment, management, market knowledge, technology and international connections available through Hong Kong.

2 Except for prohibited articles (such as used or waste electrical machinery and medical/surgical products, chemical residues, municipal waste, tiger bones and rhinoceros horns).

3 Source: Hong Kong Trade Department research "CEPA Supplement VIII Measures (Summary) — Opportunities for Hong Kong" February 2012.

4 to the PRD Economic Zone comprising Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai. Also referred to as the 'Greater PRD' if Hong Kong and Macau are included.

1.1.3 Economic forecast

More moderate growth is expected in 2012 for the global economy. In the US, the latest data suggests that the economy is maintaining only moderate economic growth and a relatively high unemployment rate after introducing expansionary monetary policies in 2009. Countries in the eurozone with high debt levels are struggling and are undertaking cuts to their government budgets in order to reduce the debt burden. While the mainland economy is displaying relatively strong fundamentals, a lack of export orders and sluggish domestic consumption expenditure may act to slow growth in 2013.

Locally, with the low jobless rate, steady wage growth and tourist spending all supporting retail consumption, consumer spending is expected to be stable in 2012. Moreover, the development of new business areas, the Hong Kong Government's intention to increase land — and thus apartment — supply, and the implementation of a comprehensive infrastructure programme[5] over the next few years will increase demand for fixed investments.

From 2003 to 2012[6], GDP growth has averaged approximately 4.5% per annum. Facing an uncertain economic situation, 2012 saw a below-average ten-year growth rate of 1.4%[7]. Long-term real GDP growth is forecast to remain moderate, however, averaging approximately 4.2% per annum from 2013 to 2017[8].

Upward pressure is expected on prices over the next few years, given sufficient market liquidity, along with the US dollar peg and a weaker Hong Kong dollar against the renminbi. Inflation is therefore projected to average 3% per annum over the five-year period from 2013 to 2017[9].

1.1.4 Resident population and projections

There were a total of 7.07 million residents in Hong Kong in mid-2011[10]. The working population numbered approximately 3.55 million[11], representing approximately 50% of the total population. Recently, population growth has risen slightly, with an average annual growth rate of 0.6% recorded over the five-year period from 2006 to 2011[10], compared with 0.4% and 0.9% from 2001 to 2006 and from 1996 to 2001[10], respectively.

Over the past two decades, population growth has been concentrated in the New Territories. While the overall population grew by 24.6% from 1991 to 2011, the New Territories population grew by 55.4% over the same period. Of the 1.4 million newly added population over the past two decades, 1.3 million, or 94%, of the increased population were located in the New Territories.

There are approximately 3.7 million people and 1.2 million households[12] in the New Territories, followed by 2.1 million people and 0.7 million households in Kowloon, and 1.3 million people and

5 The 2007–2008 Policy Address announced ten major infrastructure projects to promote economic development in Hong Kong and create employment opportunities. The ten major infrastructure projects include the South Island Line (rail), Sha Tin–Central Link (rail), Tuen Mun–Chek Lap Kok Link and Tuen Mun Western Bypass, the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, Hong Kong–Zhuhai–Macau Bridge, a rail connection between the Hong Kong and Shenzhen airports, Lok Ma Chau Loop, West Kowloon Cultural District, Kai Tak Development ("KTD"), as well as North East New Territories ("NENT") New Development Areas ("NDAs") and Hung Shui Kiu NDA. Source: 2007–2008 Policy Address, HKSAR Government.

6 Based on "Table 030: Gross Domestic Product (GDP), implicit price deflator of GDP and per capita GDP". Source: Census and Statistics Department.

7 Based on "Table 030: Gross Domestic Product (GDP), implicit price deflator of GDP and per capita GDP". Source: Census and Statistics Department.

8 Source: World Economic Outlook Database, October 2012, IMF.

9 Source: World Economic Outlook Database, October 2012, IMF.

10 Based on "Population and Average Annual Growth Rate, 1981–2011 (A102)". Source: 2011 Population Census, Census and Statistics Department.

11 Based on "Working Population by Occupation, 2001, 2006 and 2011 (C104)". Source: 2011 Population Census, Census and Statistics Department.

12 Based on "Population by District Council District, 2001, 2006 and 2011 (A201)". Source: 2011 Population Census, Census and Statistics Department.

0.4 million households on Hong Kong Island. The average household size[13] on Hong Kong Island and in Kowloon stood at 2.9 people and 2.8 people, respectively, while a household size of 3 people was recorded for the New Territories.

The population density (including the marine population) in Hong Kong stood at 6,405 people per sq. km. in 2011[14]. Kwun Tong is the most densely populated district, in terms of District Council Districts, with 55,204 people per sq. km.[15]. The population densities of Wan Chai and Tsuen Wan stood at 15,477 and 4,918 people per sq. km., respectively.

Hong Kong's population is projected to increase from 7.07 million in mid-2011 to 7.37 million in mid-2016, while following an ageing trend[16]. The proportion of people aged 65 and above is forecast to rise from 13% in mid-2011 to 16% by mid-2016, while the proportion of those aged under 15 is projected to fall from 12% to 11% over the same period. As a result, the median age is projected to rise from 41.7 years in 2011 to 43.4 years in 2016. The overall population density (including the marine population) will increase from 6,405 people per sq. km. in mid-2011 to 6,676 people per sq. km. in mid-2016[17].

The former Kai Tak Airport site in Kowloon is expected to house a major population in the near future. According to the Hong Kong Government, there will be a total of 33,200 residential flats built on this site which will be able to accommodate a population of 89,800. The first phase of the development is scheduled to be completed in 2013, while the whole Kai Tak development is estimated to be completed between 2021 and 2022.

1.2 Hong Kong tourism trends and analysis

1.2.1 Tourist arrivals by country of origin

From 2001 onwards, a series of measures have been introduced to relax restrictions on travel by mainland Chinese to Hong Kong (application procedures as well as currency controls), which have helped tourist-related retail demand. One such measure is the IVS, introduced in July 2003, which allows travellers from selected mainland cities to visit Hong Kong independently rather than coming in tour groups only. The scheme has now been extended to 49 cities in China, covering approximately 270 million people.

Visitor arrivals increased by 213% from 2003 to 2012 as a result of increased mainland Chinese visitor arrivals, and stood at 48.6 million at the end of 2012. Visitor arrivals from mainland China increased from 8.5 million in 2003 to 34.9 million in 2012, a 312% rise since the implementation of the IVS. This growth has made mainland China the single largest source of tourists to Hong Kong, and in 2012, their number represented approximately 71.8% of that year's total.

13 Based on "Number of Domestic Households and Average Domestic Household Size by District Council District, 2001, 2006 and 2011 (D201)". Source: 2011 Population Census, Census and Statistics Department.

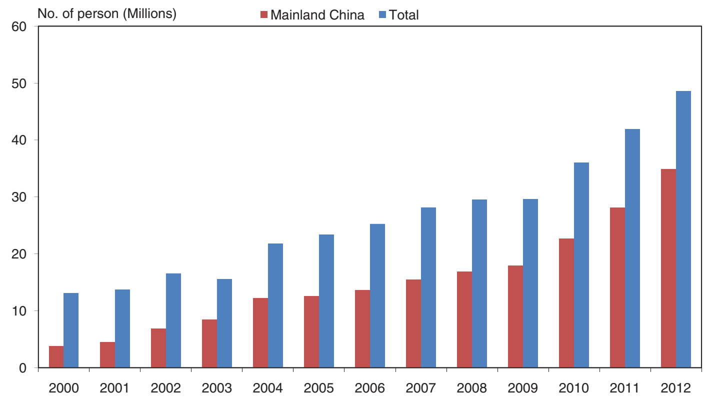
14 Figures compiled using the overall population divided by Hong Kong's land area (1,104 sq. km.). Source: Hong Kong Population Projections, 2012–2041 and Hong Kong Annual Digest 2011, Census and Statistics Department.

15 Based on "Population Density by District Council District, 2001, 2006 and 2011 (A202)". Source: 2011 Population Census, Census and Statistics Department.

16 Source: Hong Kong Population Projections, 2012–2041, Census and Statistics Department.

17 Figures compiled using the overall population divided by Hong Kong's land area (1,104 sq. km.). Source: Hong Kong Population Projections, 2012–2041 and Hong Kong Annual Digest 2011, Census and Statistics Department.

Overall visitor arrivals vs Mainland Chinese visitor arrivals, 2000–2012



Source: HKTB, Savills Research & Consultancy

During 2012, visitor arrivals continued to grow, with 48.6 million visitors arriving in Hong Kong, representing a 15.9% year-on-year growth rate. As expected, mainland Chinese arrivals were the largest in number, with 34.9 million or 71.8% of visitors, and their 24.2% year-on-year growth rate is the only above-average growth among major markets of origin.

1.2.2 Visitor profiles

In 2012, approximately 60.4% of all overnight visitors were in Hong Kong for vacation, according to data from the HKTB. Reflecting the rising numbers of mainland Chinese visitors, 22.5% of overnight visitors were visiting friends and relatives, while overnight business travellers recorded a 34.5% increase from 2001 to 2012, reflecting Hong Kong's role as a global centre for finance, trade and communications. Growth in the number of mainland Chinese overnight business travellers has risen by 140.3% from 2001 to 2012. Mainland overnight business travellers represented 45.2% of the total in 2012.

Average length of stay has increased from 3.1 nights in 2001 to 3.6 nights in 2011, and mainland Chinese overnight visitors now stay as long as long-haul visitors (both 3.9 nights in 2011), and longer than short-haul visitors (2.8 nights in 2011),[18] reflecting the change in nature of these visitors in extending their Hong Kong experience beyond simply shopping.

Average length of stay, overall and mainland Chinese visitors, 2007–2011

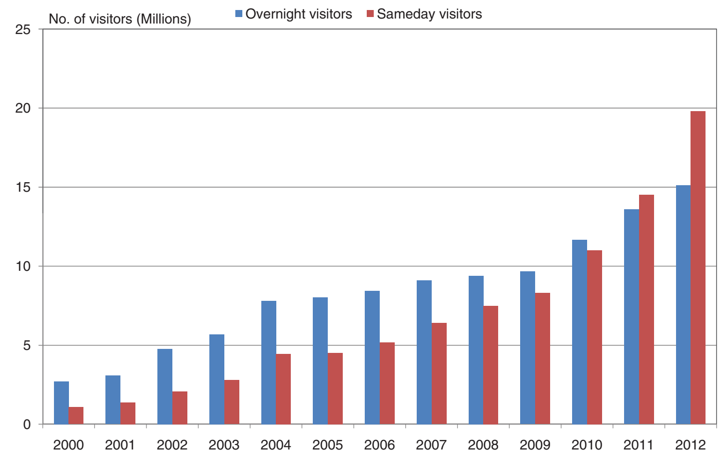
	Days				
	2007	**2008**	**2009**	**2010**	**2011**
Overall	3.3	3.3	3.2	3.6	3.6
Mainland	3.6	3.5	3.4	3.9	3.9

Source: HKTB, Savills Research & Consultancy

Another notable trend is the rising proportion of same-day-in-town mainland Chinese visitors. Over the past decade, approximately 60% to 70% of mainland Chinese visitors stayed overnight in Hong Kong, although this percentage has gradually declined. During 2012, the number of same-day mainland Chinese visitors surpassed their overnight counterparts, standing at 19.8 million (57% of total mainland Chinese visitor arrivals).

18 Long-haul includes the Americas, Europe, Africa, the Middle East, Australia, New Zealand and the South Pacific. Short-haul includes North Asia, South and Southeast Asia, Taiwan and Macau. Source: HKTB.

Mainland Chinese visitor arrivals, overnight vs same-day, 2000–2012



Source: HKTB, Savills Research & Consultancy

This trend is the result of the increasing number of IVS travellers from southern China, and shows that there exists a mature group of repeat visitors, who have already explored new retail venues such as Sha Tin and Sheung Shui.

1.2.3 Tourist expenditure

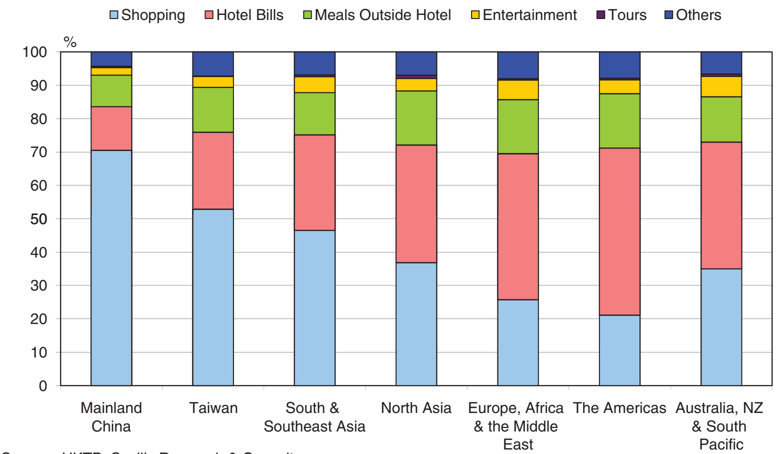
Shopping was the most common activity for tourists, and in 2011, 87% of all visitors did some shopping, according to the Visitor Profile Report 2011 published by the HKTB. In terms of shopping items, ready-made wear was the most popular shopping item, attracting 46% of all visitors in 2011, while other popular items included snacks/confectioneries, cosmetics/skin-care products, and shoes/other footwear.

Visitor spending[19] totalled approximately HK$263.1 billion in 2011, an increase of 325.6% compared with 2001, HK$166.7 billion of which was spent by overnight visitors, representing a 63.3% share. In 2011, approximately 59.3% of total overnight visitor spending was on “shopping items”. According to the provisional figures, the total tourism expenditure was HK$306.5 billion in 2012.

Among visitors from different countries, spending preferences differ. The Americas, and Europe, Africa and Middle East overnight visitors tend to spend more on hotels (around 50% and 44%, respectively) while Asian visitors (around 35% to 53%), particularly mainland Chinese, allocate a larger proportion — almost 70% — of their spending to shopping.

19 Including both same-day-in-town visitors and overnight visitors. Source: HKTB.

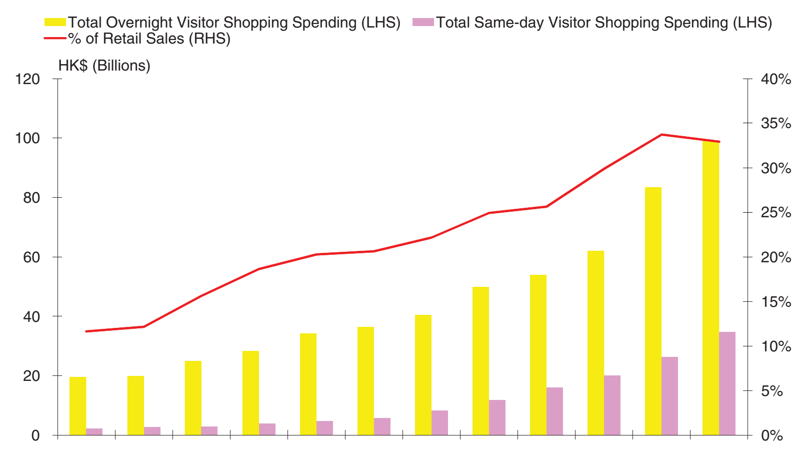
Breakdown of overnight visitor expenditure by category and major market, 2011



Source: HKTB, Savills Research & Consultancy

Overseas visitor spending has played an increasingly significant role in supporting the retail market in the past few years. Total visitor expenditure on "shopping items" represented approximately 11.6% of total retail sales value in 2000, and by 2011 this percentage had increased to approximately 32.9%, the remainder of the retail sales (67.1%) being generated by local demand.

Total visitor shopping spending as a percentage of total retail sales, 2000–2011



Source: HKTB, Census and Statistics Department

1.2.4 Mainland Chinese tourist spending

In addition to representing a significant proportion of total arrivals, visitors from mainland China contributed approximately 67.1% of total overnight tourist expenditure in 2011.

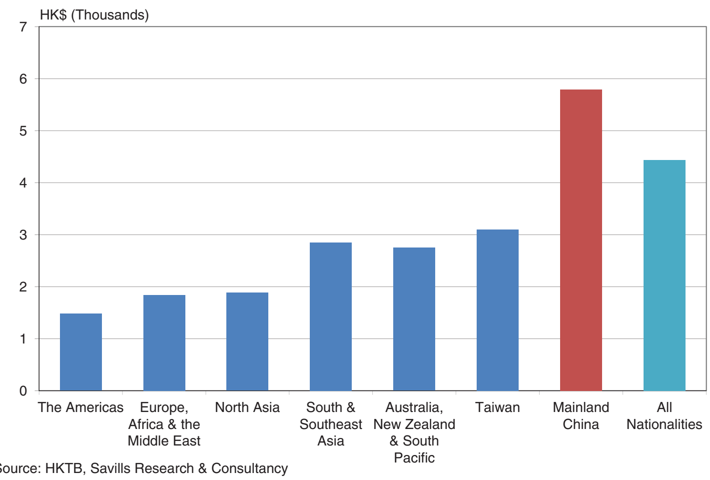
In urban areas of China, a middle-class population is emerging, resulting from the growing economy and increasing disposable incomes. Over the past decade, urban disposable incomes have risen by 218.9% to reach RMB24,565[20] per annum in 2012.

Along with increased incomes comes an appreciation for personal style and fashion, and this population group is willing to pay more for goods which they consider to be well designed and stylish, as well as for the latest international products. This is also a consumer group which has higher

20 Source: National Bureau of Statistics of China.

expectations than other groups, with strong demand for quality products and well-known brands. In terms of per capita shopping spending, overnight visitors from mainland China were among the highest of all nationalities in Hong Kong in 2011, and their purchasing power has risen as a result of the gradual increase in the value of the renminbi.

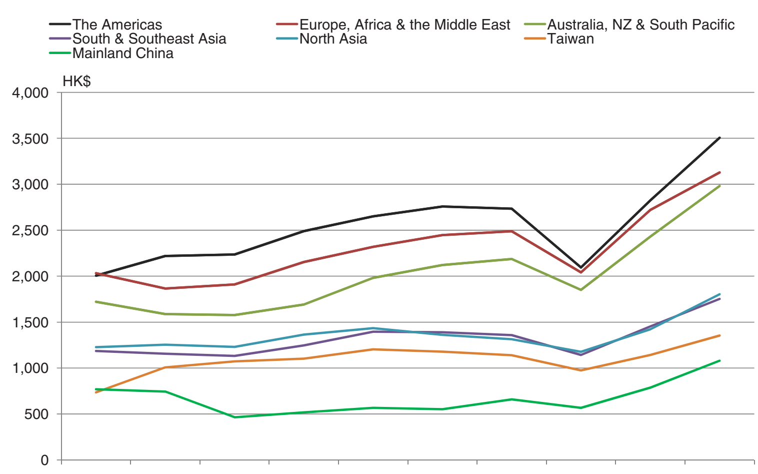
Overnight visitor per capita shopping spending in Hong Kong by major market, 2011



Source: HKTB, Savills Research & Consultancy

In terms of hotel expenditure, we can also see a change in the spending patterns of affluent groups of mainland Chinese visitors. Per capita spending on hotel bills by mainland Chinese tourists amounted to HK$1,079 in 2011, and while this only amounted to approximately one-third of the spending of visitors from the US/Canada (HK$3,532), Europe (HK$3,135) and Australia/New Zealand (HK$2,981), it is increasing and has more than doubled from 2004 to 2011.

Overnight visitors per capita spending on hotel bills by country of origin, 2002–2011



Source: HKTB, Savills Research & Consultancy

The rising per capita hotel spending potentially reflects a growing awareness among mainland Chinese visitors of the quality of accommodation available when travelling to Hong Kong. While still spending the majority of their budgets on shopping (71% in 2011), their aspirations for personal style and leisure indicate that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience.

Overnight mainland Chinese visitor spending and China GDP, 2000–2011

Source: National Bureau of Statistics of China, HKTB, Savills Research & Consultancy

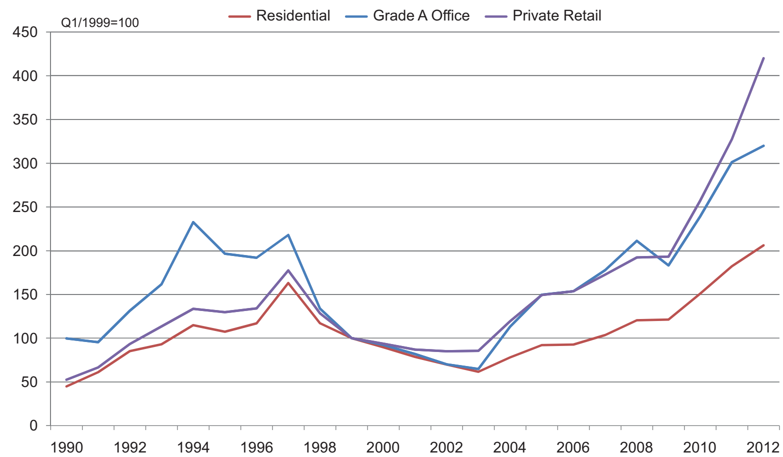
Mainland Chinese visitor spending on shopping grew at a compound annual growth rate ("CAGR") of 22.4% from 2000 to 2011, higher than the 15.3% CAGR of China's GDP in the same period. The growth in GDP and appreciation of the renminbi relative to the Hong Kong dollar has encouraged mainland Chinese visitors to shop in Hong Kong due to an increase in incomes as a result of economic growth and a discount in the prices of goods in Hong Kong.

The proportion of mainland Chinese visitors shopping in Hong Kong generally increased from 2005 to 2010. The rising number of mainland shoppers increased retail activity in Hong Kong, especially in the core retail districts in Central, Wan Chai/Causeway Bay, Tsim Sha Tsui and Mong Kok. The ratio was 92% in 2010 and in 2011 the figure stood at 90%.

1.3 Hong Kong's real estate market

The Hong Kong real estate market has been driven by local demand/supply dynamics as well as the external environment, and significant events causing structural shifts in the market have often resulted in fluctuations in prices. While the Asian financial crisis affected all sectors negatively in 1998, closer integration with mainland China has benefited the entire economy since 2003. The implementation of the IVS increased both retail rents and prices from 2003, while the global financial crisis had a short-term adverse impact which the subsequent QE programme reversed, resulting in a steep rise in volumes. Prices of residential, Grade A office and retail premises increased by 360%, 221% and 701%, respectively, from 1990 to 2012.

Property price indices by sector, 1990–2012



Source: Rating and Valuation Department, Savills Research & Consultancy

Aside from demand-side catalysts, significant fluctuations can also be explained by the varying amounts of supply over different time periods during the past two decades, as well as interest rate movements and government measures. With limited supply a well documented issue in the recent past, coupled with a period of low interest rates from QE1 in 2008, the most recent rally in both prices and volumes from 2008 to 2010 can be explained. The fear of another asset price bubble in the residential market prompted the Hong Kong Government to announce various tightening measures to the residential sector from 2010 onwards, which succeeded in slowing price growth and volumes in 2011. Nevertheless, strong local fundamentals and abundant liquidity meant investment interest moved elsewhere, causing an increase in prices and volumes in the commercial sector in 2011.

The proportion of transaction considerations accounted for by residential properties declined from 87% in 2002 to 80% in 2012, with retail transaction values increasing from 8% to 14% over the same period, showing a shift in investment interest.

2.0 OFFICE MARKET OVERVIEW

2.1 Overview of Hong Kong's office market

2.1.1 Stock and distribution

By the end of 2011, Grade A office space totalled approximately 73.4 million sq. ft. of internal floor area ("IFA")[21], accounting for 63.2% of all office stock, while grade B and C office space accounted for approximately 26.5 million sq. ft. and 16.2 million sq. ft., respectively.[22]

Central is Hong Kong's administrative centre and central business district ("CBD") and accounts for approximately 20% of the total office stock of all grades and 24% of the total stock of Grade A

21 IFA is defined as the area of all enclosed space of a unit measured to the internal face of the enclosing external and/or party walls.

22 **Grade A** — Modern with high-quality finishes; flexible layouts; large floor plates; spacious lobbies and circulation areas; effective central air-conditioning; good lift services zoned for passengers and goods deliveries; good management; parking facilities normally available.

Grade B — Ordinary design with good-quality finishes; less flexible layouts; average-sized floor plates; adequate lobbies; central or free-standing air-conditioning; adequate lift services; average or above average management; parking facilities not essential.

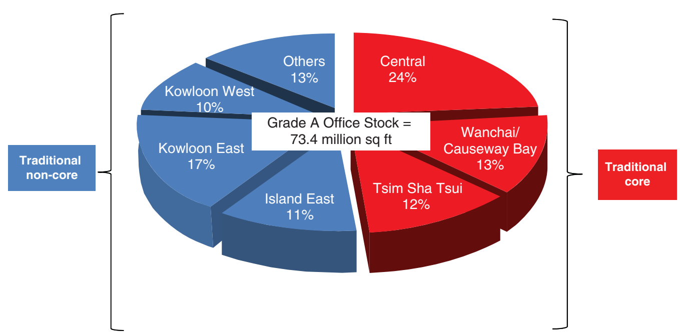
Grade C — Plain with basic finishes; restricted layouts; small floor plates; basic lobbies; generally without central air-conditioning; barely adequate or inadequate lift services; minimal to average management; no parking facilities.

office space. At the end of 2011, Central, together with the other traditional business districts of Wan Chai/Causeway Bay and Tsim Sha Tsui, represented approximately 48.5% of total Grade A office stock.

Wan Chai/Causeway Bay is home to many multinational companies of a diversified nature, such as insurance, trading and consumer goods, and pharmaceutical companies. The district also features many prime Grade A offices such as Times Square, World Trade Centre, Hysan Place and Lee Gardens. Grade A office stock in the district amounted to 9.8 million sq. ft. at the end of 2011.

Alongside Hong Kong's growing economy, demand for quality commercial accommodation has increased and developers of Grade A office space have attempted to keep pace. However, development constraints in the established districts of Central, Wan Chai/Causeway Bay and Tsim Sha Tsui have limited the ability of these districts to expand, and important submarkets, such as Island East, Kowloon East and Kowloon West, have emerged in decentralised areas over the past ten years as a result.

Distribution of Grade A office stock, 2011



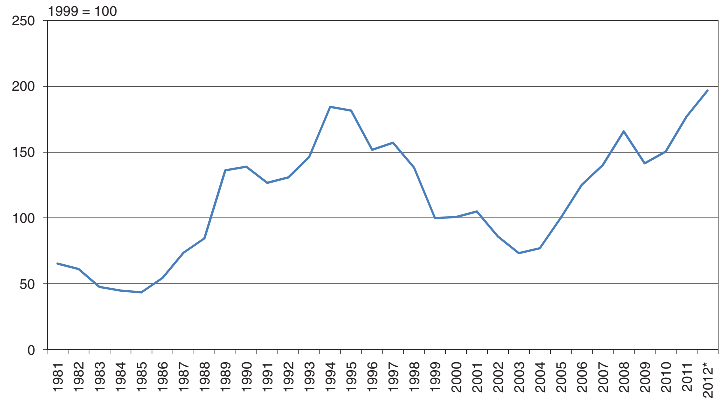
Source: Rating and Valuation Department, Savills Research & Consultancy

2.1.2 Rents and capital values

2.1.2.1 Rental movements

Following the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the average Grade A office rent increased by approximately 126% from the end of 2003 to 2008, the result of a growing stock market and a substantial IPO pipeline, as well as the expansion of investment banks prior to the global financial crisis in Q3/2008. During the crisis period in 2008 and the first half of 2009, many tenants in the finance industry experienced layoffs and downsizing, lessening demand for office space and pulling rents down by 15%. In 2009, following QE measures introduced in both the US and mainland China, rental rates improved with new leasing demand from overseas funds and finance-related companies from mainland China, rising by 25% from 2009 to 2011. During this period, Hong Kong became the largest IPO market in the world, as mainland Chinese firms sought listings on the local exchange.

Overall Grade A office rental index, 1981–2012

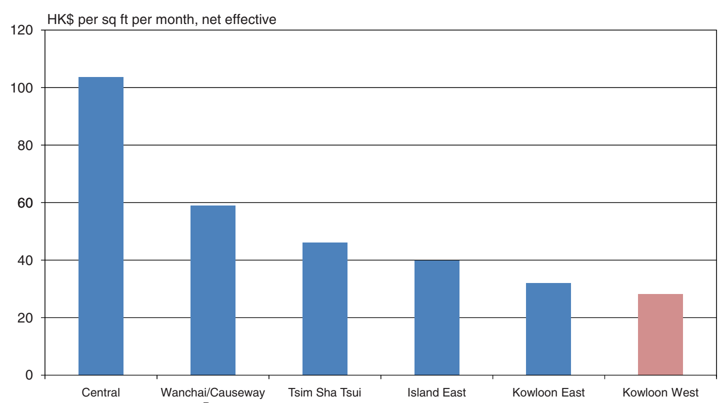


Source: Rating and Valuation Department, Savills Research & Consultancy

* Provisional figures

Since the second half of 2011, office rental growth decreased alongside a weakening of the local economy and uncertain business sentiment, with companies becoming more cost-conscious and halting expansion plans. As the IPO market dwindled, financial services firms cut headcount, and Grade A office rental rates in Hong Kong stood at HK$57 per sq. ft. net at the end of Q4/2012.[23]

Average Grade A office rents by district, Q4/2012



Source: Savills Research & Consultancy

At the end of the fourth quarter of 2012, average Grade A rents in Central stood at HK$104 per sq. ft. net effective, 76% higher than in Wan Chai/Causeway Bay, the closest district in terms of accommodation overheads. Central's rental premium over other business districts has been widening over the past few years, reflecting the limited availability of quality office space in the area, as well as the preference for the CBD as an office base among the financial community. However, the rental gap between Central and other districts began to narrow in mid-2011, as the latest round of global economic uncertainties suppressed demand from financial institutions and the IPO market remained sidelined. While affecting rents in the CBD, rental levels in other districts came through the period relatively unscathed.

A notable trend in the office market witnessed over the past few years has been relocations to Kowloon, which started with several investment banks decentralising to the International Commerce Centre ("ICC"), and later, the relocation of major insurance tenants to Kowloon East from Wan Chai/ Causeway Bay. Kowloon East remains an emerging area, attracting tenants from Hong Kong Island

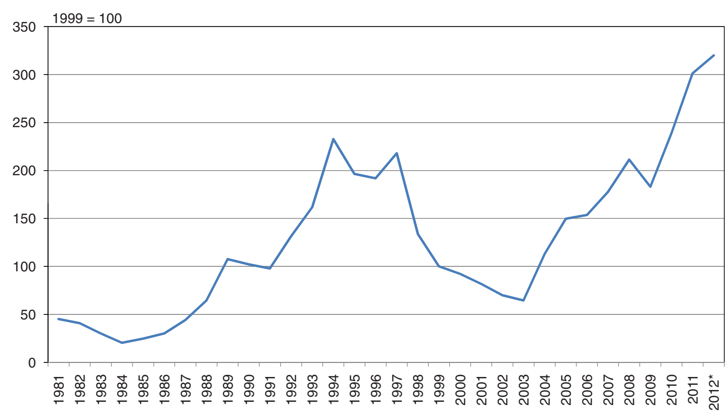
23 Source: Savills Research & Consultancy.

looking for cost savings, with average rents in the area standing at HK$32 per sq. ft. net effective, while average Grade A rents in Wan Chai/Causeway Bay stood at HK$59 per sq. ft. net effective at the end of the fourth quarter of 2012.

2.1.2.2 Price movements

The economic rebound from mid-2003 onwards, together with the low interest-rate environment, had a positive effect on the office sector, and prices increased by over 75% from 2003 to the end of 2004. Demand from financial institutions and multinationals, which induced the rise in rental rates from 2005 onwards, also stimulated investment interest in the Grade A office market, and prices rose by a further 32% over the year.

Grade A office price index, 1981–2012



Source: Rating and Valuation Department, Savills Research & Consultancy * Provisional figures

Office prices decreased during the global financial crisis period from 2008 to the first half of 2009, with many investors being forced to sell their office properties in the face of tightening liquidity and uncertain leasing market prospects.

QE measures and low interest rates in the US subsequently induced investment interest in office space, and along with rising rental growth, office prices increased by nearly 65% from 2009 to 2011. Transaction volumes were driven by both local investors as well as overseas investment funds.

Grade A office price growth was slow across most districts (except Kowloon East) in 2012. Following a sluggish leasing market and an uncertain external environment, as well as weakening investment sentiment, according to Savills Grade A office price indices, office prices rose marginally by 10% in 2012.

2.1.3 Impact of government policies on the office market

CBD2

The CBD2 initiative in Kowloon East began on 7 June 2012 when the Development Bureau set-up the Energizing Kowloon East Office (“EKEO”). The aim of the EKEO is to oversee and monitor the development of Kowloon East to ensure the transformation of the area into a second prime CBD in Hong Kong. A detailed discussion of the CBD2 scheme can be found in **Section 8**.

Revitalising industrial buildings

As a result of the government initiatives to better utilise vacant or under-used industrial buildings through redevelopment or wholesale conversion, industrial buildings can be converted to offices, which will create additional office space in traditional industrial areas, for example, Kwun Tong and Kowloon Bay. The upgrade from an industrial area to a commercial hub is expected to enhance the overall image of Kowloon East.

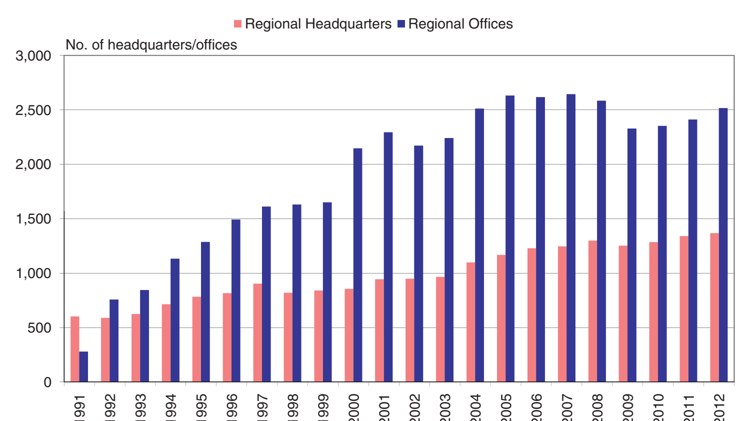
2.2 Market trends, demand drivers and future prospects

2.2.1 Economic and social drivers

With the finance, trading and administration industries contributing a total of 70% of GDP in 2011, these industries are the major occupiers of office space in both core and decentralised office areas.

Another element influencing Hong Kong's Grade A office market is the increasing attractiveness of Hong Kong as an Asian business hub for multinationals. According to the Census and Statistics Department, the number of regional headquarters[24] and regional offices[25] rebounded in both 2011 and 2012. At the end of 2012, there were 1,367 regional headquarters and 2,516 regional offices in Hong Kong representing their parent companies located outside Hong Kong.

Number of regional headquarters and regional offices, 1991–2012



Source: Census and Statistics Department, Savills Research & Consultancy

Reflecting the fact that Hong Kong has remained a popular location from which international companies oversee their regional operations in Asia Pacific, the number of regional headquarters and regional offices has increased by 51% and 56%, respectively, since the change of sovereignty in 1997. Hong Kong's favourable business environment, offering a low and simple tax system, a free flow of information, an absence of exchange controls, a well established transport infrastructure, a strategic geographical location and political stability, all continue to attract international companies to set-up regional headquarters and offices in the city. These companies are an important component of the demand for Grade A office space.

In recent years, there has been a trend in which new companies and state-owned enterprises have set-up local offices in Hong Kong, especially those from mainland China. In 2012, according to the Census and Statistics Department, mainland China had the largest number of local offices in Hong Kong (595 companies), followed by Japan (543), the US (519), Taiwan (239) and the

24 A regional headquarters is an office which has managerial control over offices in the region (i.e., Hong Kong plus one or more additional places) on behalf of its parent company located outside Hong Kong, according to the Census and Statistics Department.

25 A regional office is an office which coordinates offices and/or operations in the region (i.e., Hong Kong plus one or more additional places) on behalf of its parent company located outside Hong Kong, according to the Census and Statistics Department.

UK (233). Many of the mainland Chinese local companies prefer to set-up their offices in Grade A buildings in prime Central locations, such as Harvest Funds in Exchange Square, China International Capital Corporation and Renhe Commercial Management in One International Finance Centre, and China Trust Commercial Bank in Two International Finance Centre.

2.2.2 Office decentralisation

The traditional office locations of Central and Tsim Sha Tsui face development constraints, limiting the ability of these districts to expand in the short to medium term. The Grade A office inventory in traditional locations such as Central and Tsim Sha Tsui is also ageing as development opportunities decrease. Future office supply is focused in decentralised markets, particularly Kowloon East which is growing to maturity with an increase of new high-quality properties in the pipeline.

Given the presence of new high-quality office space being offered on very competitive terms, the emerging decentralised Grade A office markets have become more attractive, in particular to large space users. Moreover, escalating Central rents over the past two to three years have widened the rental gap between core and non-core districts. High occupation costs and limited availability have therefore combined to push cost-sensitive tenants out of core locations.

Following a 7.2% year-on-year growth in retail sales volume in the whole of 2012, international retailers are also looking to expand. Many international retailers are expanding in major shopping areas, which indirectly translates into demand for office space. Tsim Sha Tsui is one such area benefiting from this trend, and tenants who have been active in the area include Samsonite, Estee Lauder and Dolce & Gabbana. Some retailers, such as Nike, Polo Ralph Lauren and Adidas, are also setting-up offices in other Kowloon areas, such as Kowloon East.

Space availability in Wan Chai/Causeway Bay and Kowloon East has become limited as a result of rising rents in Central over the past few years. Tenants have been spilling over to Wan Chai/ Causeway Bay from Central, while the Kowloon East decentralisation trend continues to drive vacancy rates down.

2.3 Supply analysis

2.3.1 Historical supply

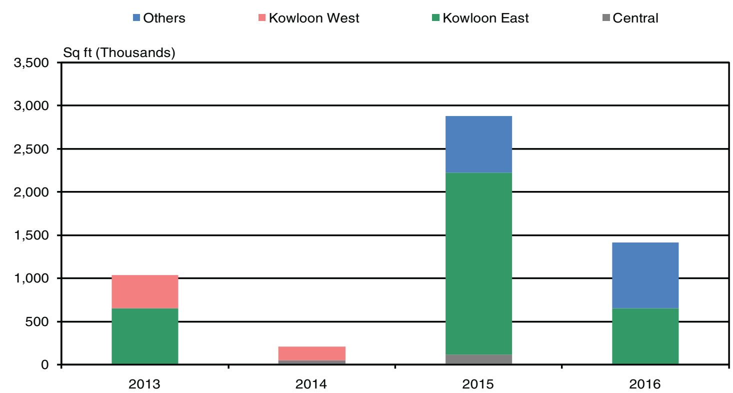
There was a small number of large-scale projects completed in core areas between 1997 and 2006, most of them on reclaimed land. However, the majority of new office supply (66% or 15.5 million sq. ft.) was erected in decentralised office areas, including Island East (3.5 million sq. ft.), Kowloon East (3.4 million sq. ft.) and Kowloon West (2.8 million sq. ft.). Large-scale projects were also completed outside these three main decentralised areas over the same period, such as Grand Millennium Plaza (COSCO Tower and 181 Queen's Road Central) in Sheung Wan and Cathay City on Lantau Island.

Supply rebounded in 2007 and 2008 with a total of 6.6 million sq. ft. of mostly large-scale projects located in Kowloon East, being completed over the period, such as Manulife Financial Centre, Landmark East, Manhattan Place and Exchange Tower. These high-quality Grade A buildings have influenced several multinational companies to move across the harbour from Hong Kong Island, including Manulife, AXA and Shell.

Between 2009 and 2011, office supply decreased, with average annual supply standing at around 1.3 million sq. ft. The main developments completed during this period were Phases 2 and 3 of ICC above Kowloon Station, another new development accommodating well-known international banks such as Morgan Stanley, Deutsche Bank and Credit Suisse. In 2012, an estimated 840,000 sq. ft. of Grade A office space was completed.

2.3.2 Future supply

Grade A office supply forecast by district, 2013E–2016E



Source: Buildings Department, Savills Research & Consultancy

Over the next four years, future Grade A office supply will be concentrated in decentralised areas, with a large proportion (3.75 million sq. ft. or 62%) to be erected in Kowloon East. Larger scale completions in the pipeline include 181 Hoi Bun Road (240,700 sq. ft.) and 6 Wang Kwong Road (200,000 sq. ft.), which are expected to be completed in 2013.

A total of 2.8 million sq. ft. of new supply located in decentralised areas is expected to be developed in 2015, with the most notably volume of upcoming supply located in the Kowloon East and Shek Mun areas, including a 730,000-sq. ft. project located at the junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road in Kwun Tong by Wheelock Properties, and two Billion Development and Project Management Ltd development projects located along On Kwan Street in Shek Mun.

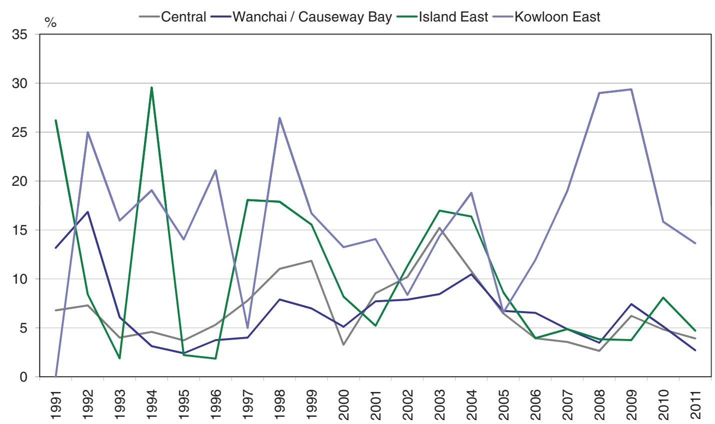
As stated in the 2013 Policy Address, long-term commercial supply will be more focused in Kowloon East with the completion of office space in the Kai Tak area as well as the ongoing revitalisation and redevelopment of industrial premises in Kwun Tong and Kowloon Bay.

2.4 Demand analysis

2.4.1 Historical take-up and vacancy rates

From 2007 to 2011, a total of 9.9 million sq. ft. of take-up was recorded in non-core areas, as more and more non-financial tenants were willing to relocate to non-core areas in order to save on costs or to consolidate, while only 650,100 sq. ft. of take-up was recorded in core locations over the same period. The strong take-up in non-core locations, particularly in Kowloon East, reflected decentralised demand, given their relatively low rental rates and the availability of suitable space.

Grade A office vacancy rates by district, 1991–2011



Source: Rating and Valuation Department, Savills Research & Consultancy

Core area vacancy rates have remained relatively stable over the past two decades, as the established business districts have accounted for a relatively large proportion of total Grade A office space and have appealed to a broad tenant base. However, decentralised areas, with their relatively smaller supply and the addition of major new offices which increase vacancy rates in particular years, have recorded greater fluctuations in vacancy rates over the years.

With limited stock availability, both Island East and Kowloon East have enjoyed low vacancy rates over the past two decades. The commitment levels at Kerry Centre (382,500 sq. ft. net) by tenants such as Armani, AIA and Swatch also helped Island East to maintain low vacancy rates in 2010 and 2011.

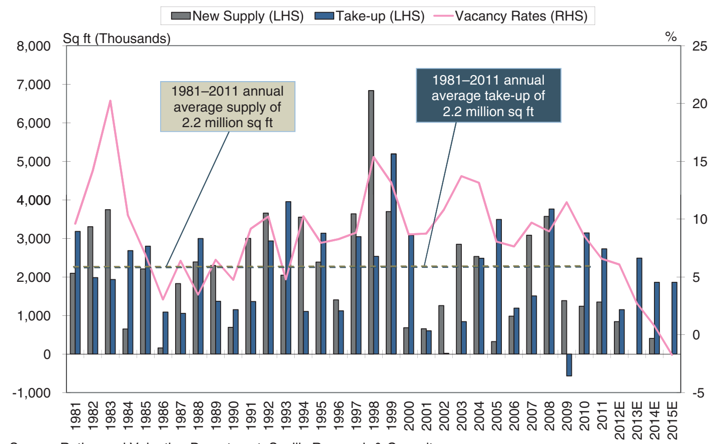
With the completions of Manhattan Place (530,900 sq. ft. net), Exchange Tower (457,000 sq. ft. net), Landmark East (890,000 sq. ft. net) and Manulife Financial Centre (840,600 sq. ft. net), Kowloon East saw an increase in vacancy rates from 2006 to 2009, ending that year at 29%. The relatively low rental rates in the area influenced many multinational companies to decentralise (particularly insurance companies), bringing the vacancy rate down during both 2010 and 2011.

2.5 Market outlook

By taking advantage of the low operating costs in the PRD region and leveraging Hong Kong's supply of business services providers, its infrastructure and experience in international trade, manufacturers in Hong Kong will continue to expand their businesses. The completion of intra-regional transport infrastructure, such as the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link in 2015, the Tuen Mun–Chek Lap Kok Link, the Tuen Mun Western Bypass and the Hong Kong–Zhuhai–Macau Bridge in 2016, should further enhance Hong Kong as a regional transportation and logistics hub, therefore providing greater opportunities for trading and logistics companies, and greater office demand as a result. In the longer term, the planned third runway at HKIA aims to improve passenger and cargo-handling capacity.

With increased demand for services such as personal banking, trade finance, fund raising, law and accounting expected from the region, as well as the broader PRC, all of these companies are expected to pursue expansion opportunities within the territory, across all business districts.

Supply, take-up and vacancy rates for Grade A offices, 1981–2015E



Source: Rating and Valuation Department, Savills Research & Consultancy

Supply, take-up and vacancy rate forecasts for Grade A offices, 2012–2015E

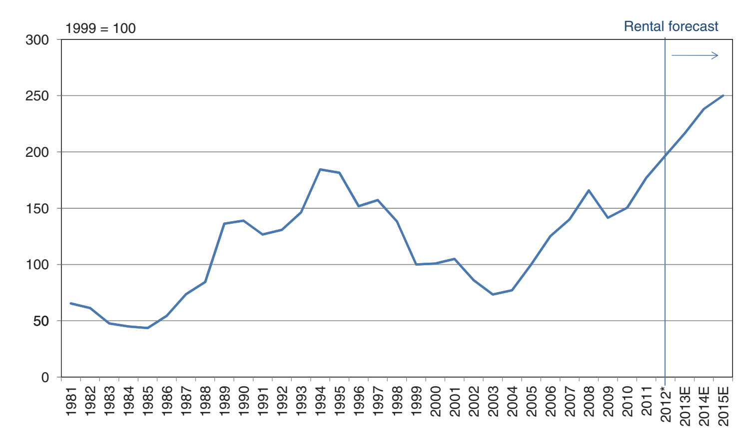
Year	Stock (sq. ft.)	Supply (sq. ft.)	Vacant space (sq. ft.)	Vacancy rate (%)	Take-up (sq. ft.)
2012	74,225,395	841,825	4,511,907	6.1	1,152,191
2013	75,262,764	1,037,369	3,061,696	4.1	2,487,579
2014	75,468,201	205,438	1,406,253	1.9	1,860,880
2015	78,348,029	2,879,828	2,425,201	3.1	1,860,880

Source: Savills Research & Consultancy

2.5.1 Rental and price forecasts

A total of 2.9 million sq. ft. of Grade A office space will be added to the market in 2015, causing an increase in supply and slowing rental growth. However, much of the supply in that year will be stratified or owner occupied. The supply of space available for lease-only is estimated at approximately 1.65 million sq. ft. lower than the actual supply number reported. As a result, we expect average Grade A office rental growth to slow to 5%.

Grade A office rental index, 1981–2015E



Source: Rating and Valuation Department, Savills Research & Consultancy

* Provisional figures

Grade A office rental forecast, 2013E–2015E

Year	Rental growth (%)
2013	**+10.0**
2014	**+10.0**
2015	**+5.0**

Source: Savills Research & Consultancy

On a by-district basis, Central rental rates are expected to continue to be affected by global economic uncertainties, while the reviving IPO market may inject some optimism into the sector in the second half of the year. We expect a rebound in rental rates from 2014 onwards, though further rental growth may be capped by already high rental levels and thus may lag behind market growth.

Wan Chai/Causeway Bay should continue to enjoy low vacancy rates and lack available space, and its rental gap with Central should continue to attract tenant movements out from the CBD. As a result, we expect rental movements in the area to track the overall market over the next three years.

Kowloon East has transformed into a business hub with multinationals, in particular those in the insurance and consumer goods industries, willing to relocate and consolidate into the area. With more quality Grade A offices coming in the future, we expect this trend to continue. However, the stratification of most of the recently completed offices means that less space will be put back into the market for lease, and thus we expect the low vacancy situation to be prolonged, and office rental growth to slightly outpace the overall market over the next two years until the supply up-tick in 2015, which may slow rental growth to market average levels.

Grade A office rental forecast by district, 2013E–2015E

Year	Central (%)	Wan Chai/Causeway Bay (%)	Kowloon East (%)
2013	**+2.0**	**+10.0**	**+11.0**
2014	**+8.0**	**+10.0**	**+12.0**
2015	**+3.0**	**+5.0**	**+0 to 5**

Source: Savills Research & Consultancy

<u>Short-term office price forecast</u>

The recent introduction of the double stamp duty, which applies to the residential and non-residential markets, along with the existing Special Stamp Duty ("SSD") and Buyer's Stamp Duty ("BSD") may cool commercial transaction volumes in the short term. In the commercial market, volumes may come off to a greater extent in all areas, while prices could stabilise in core areas. There may be 5% to 10% declines in decentralised business districts where the recent run-up in capital values has been dramatic.

The expected annual average supply of 1.1 million sq. ft. from 2012 to 2015, which is lower than the 2002 to 2011 average take-up of 1.8 million sq. ft., will provide support to rental rates, and will indirectly support price growth.

With the major projects scheduled for completion in 2015 likely to be available for sale rather than lease, we estimate that approximately 1.7 million sq. ft. of new for-sale office stock will be available to the market at that time.

Nevertheless, with the CBD2 initiatives being well underway by 2015, more business occupiers, either leasing or buying their own offices, are likely to be interested in relocating to the Kowloon East area and should be able to absorb most of the excess supply in that year.

According to a press release from the US Federal Reserve dated 24 October 2012, the low interest-rate environment is likely to last until mid-2015. We expect Grade A office rental yields to stabilise at around 3% over this period, given such a low cost of capital. The well supported leasing market, increasing pool of speculative demand, low level of supply as well as a high inflation environment with low interest rates will likely push asset prices up by nearly 3% between 2013 and 2014. As prices in core areas are at historical highs, we believe that this potential 3% growth will be concentrated in non-core areas such as Kowloon East.

Long term office price forecast

The long-term prospects of the office sales market look more uncertain. In 2015, interest rates are likely to rise gradually as the US economy makes a measured recovery.

Moreover, we believe that affordability will eventually become an issue. After a 3% price growth, office prices were 24% higher at the end of 2012 than their previous 1994 peak. Both business conditions and investor sentiment would have to remain strong in order to sustain these levels (rents and prices) beyond 2015.

We expect these factors to result in near market equilibrium and thus forecast stable office price movements in 2015 for the overall market.

Grade A office price and yield forecast, 2013E–2015E

Year	Price growth (%)	Yields (%)
2013	**-5 to -10**	**3.6**
2014	**-5**	**4.1**
2015	**0.0**	**4.3**

Source: Savills Research & Consultancy

3.0 RETAIL MARKET OVERVIEW

3.1 Overview of Hong Kong's retail market

3.1.1 Stock distribution and supply

Between 1980 and 2011, the total stock of private commercial premises[26] in Hong Kong doubled to 116.2 million sq. ft. at the end of 2011[27]. In 2011, around 41% of private commercial stock was located in Kowloon, while Hong Kong Island and the New Territories accounted for around 30% and 29% of the remaining commercial stock, respectively.

Along with the increase in the total stock of private commercial premises and rising income levels, per capita stock[28] has also risen, standing at 16.3 sq. ft. per person at the end of 2011, an increase of 6.5 sq. ft. per person since 1981.

From 1980 to 2011, private commercial supply averaged approximately 2.0 million sq. ft. per annum. However, supply levels were lower in the 2000s when compared with the previous two decades. Shopping centre supply reached a recent peak in 2006 when some 2.0 million sq. ft. was completed, including some larger scale malls such as Elements in Tsim Sha Tsui and MegaBox located in Kowloon Bay.

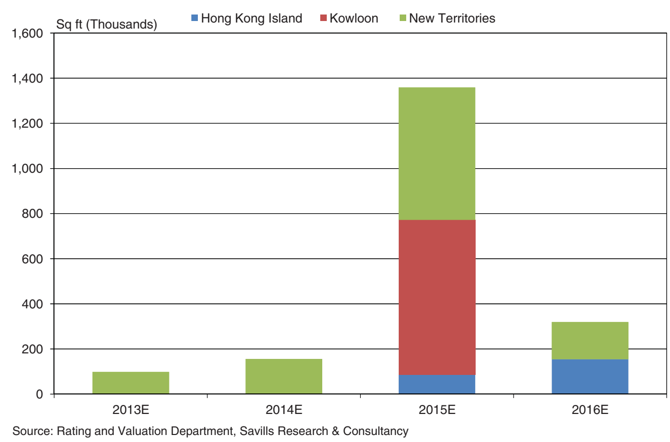
26 Defined by the Rating and Valuation Department, private commercial premises include retail premises and other premises designed or adopted for commercial use, with the exception of purpose-built offices. Car parking space is excluded.

27 According to the Rating and Valuation Department, from 2006 onwards private commercial stock figures include properties owned by The Link REIT, which had a total IFA of 10.3 million sq. ft. in 2006.

28 Total year-end private commercial stock divided by total year-end population.

3.1.2 New supply

Private commercial supply by district, 2013E–2016E



Major shopping centre supply in Hong Kong is expected to fall to an average of 483,546 sq. ft. per annum between 2013 and 2016, with the highest proportion of new centres located in the New Territories, representing 52% of total future supply.

Some larger shopping centres, such as Hysan Place (400,000 sq. ft.) in Causeway Bay and V City (269,000 sq. ft.) in Tuen Mun were completed in 2012. New shopping centres forecast for completion by 2013 and 2014 are small in scale, with GFAs of less than 110,000 sq. ft.

Only one major retail development will be completed in Kowloon in 2015, namely Kowloon Development's Ngau Chi Wan project, providing 686,426 sq. ft of retail space. Notably, most of the large-scale shopping centre supply in the New Territories comprises the retail podiums of large residential estates.

From 2013 to 2016, there is no private commercial supply scheduled to be completed in Central. In Wan Chai, there is one project, 200 Queen's Road East Project (86,000 sq. ft.) to be completed in 2015. In Kowloon there is a project at the junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road in Kwun Tong scheduled for completion in 2015. It is a Grade A office project with retail space. However, the retail area is yet to be confirmed.

3.1.3 The impact of government policies on the retail market

IVS

One important policy with regard to the retail market is the IVS. Since its implementation in July 2003, more than 97 million mainland Chinese tourists have visited Hong Kong via this scheme. The IVS has transformed the local retail scene, with mainland Chinese spending power and the desire for luxury goods resulting in an influx of luxury retailers to core retail areas, pushing up both retail rental rates and prices by 55% and 286%, respectively, from 2003 to 2011.

Revitalisation policy for industrial buildings

This policy allows eligible industrial buildings to be converted for permitted commercial uses without paying premiums or waiver fees. Since its implementation in April 2010, 25 special waiver cases have been executed, 16 cases of which are either pure retail or have some retail element. As the pace of conversion is slow, we do not anticipate that this policy will result in a large amount of retail supply or create any new retail clusters in the short to medium term.

CBD2

As detailed in section 2.2, the government initiatives to transform Kowloon East into CBD2 are impacting the area with new commercial developments, and the area's retail market stands to benefit. Currently, the planned retail/hotel GFA in the KTD area amounts to 8.6 million sq. ft., while the Kwun Tong Town Centre redevelopment will add another 1.2 million sq. ft. of retail space when fully completed in 2021.

BSD

A 15% stamp duty is levied on any overseas and corporate buyers in the residential market. As such, we expect these buyers, especially those with shorter investment horizons, to shift their focus to the commercial sector, including the retail market. Nevertheless, even if this shift does materialise, we anticipate this may be confined to peripheral retail areas, as prime retail assets in core areas are tightly held by vendors with prices — both in terms of lump sums and averages — at much higher levels than the residential sector.

3.2 Retail demand analysis

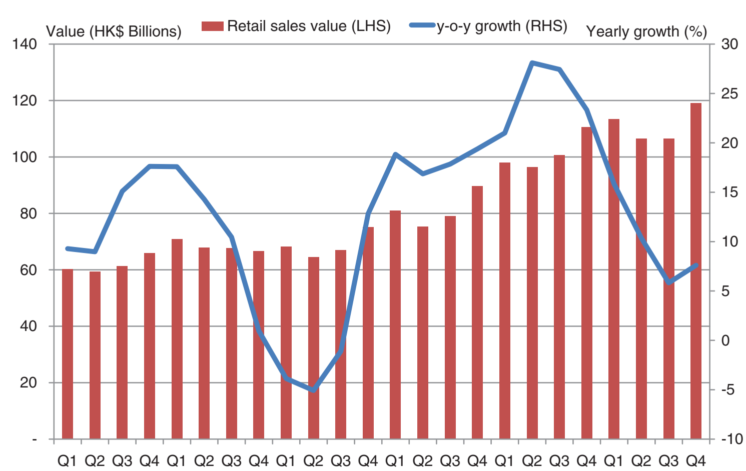
3.2.1 Retail performance

Total retail and restaurant sales

Retail sales have grown strongly over the past few years as a result of the local economy which has encouraged local spending, as well as the growing dominance of mainland Chinese visitors who spend heavily on shopping. Following a slight decrease near the end of 2008 and the beginning of 2009 when the global financial crisis reduced spending, retail sales registered growth of 10.6%, 0.6% and 18.3% in 2008, 2009 and 2010, respectively. Although the euro debt crisis and global economic uncertainties affected the local economy from mid-2011 onwards, the retail sector, supported by both local and tourist spending, was relatively unscathed and saw another 24.8% growth in 2011.

In 2012, more uncertainty in both the global and Chinese economies was witnessed. The local retail market responded to these adverse conditions with a moderate growth rate of 9.8% year-on-year in retail sales in 2012. The luxury products sector, typically favoured by mainland Chinese tourists, was a significant factor behind the slowing growth.

Retail sales value and year-on-year growth, Q1/2007–Q4/2012



Source: Census and Statistic Department, Savills Research & Consultancy

Similar to retail sales, restaurant receipts recorded growth of 13.1%, 0.6% and 5.1% in 2008, 2009 and 2010, respectively. Local demand has been a key driver of the food and beverage ("F&B") sector, and rising incomes and favourable employment conditions contributed to increased spending on F&B in 2011, when a 6.4% increase was recorded over the period.

The F&B sector was also affected by the local economic slowdown, with restaurant receipts slowing to a 5.0% growth in 2012. Among the different types of restaurants, only fast-food shops recorded a higher rate of growth than the same period in 2011, registering growth of 7.6% in 2012.

Retail sales per capita is driven by income levels as well as broader consumer confidence. After declining by 27% from the 1997 peak to 2003, total sales per capita rebounded by 52.4% from 2004 to 2008 and stood at HK$39,220 per person in 2008. The global financial crisis stalled rather than reduced this figure, with sales per capita remaining static in 2009. Retail sales per capita rose by 45.2% from 2009 to 2011 to stand at HK$57,046 per person as a result of the increase in retail sentiment and mainland Chinese spending. In 2012, the figure grew by 8.8% to HK$62,082.

Retail sales by trade category

The highest performing subsector in 2011 was jewellery, watches and clocks and valuable gifts, which recorded a 46.6% increase. However, this decreased to a 7.6% year-on-year growth in 2012, reflecting less mainland Chinese spending. Clothing, footwear and allied products, also registered 7.7% growth over the same period. Strong local spending was still evident, with both consumer durable goods and supermarket spending registering the highest growth in 2012 at 19.4% and 10.3%, respectively.

Percentage change in retail sales by category, 2012 vs 2011

Trade category	% change
Food, alcoholic drinks and tobacco	**+2.8**
Supermarket spending	**+10.3**
Fuel	**+3.3**
Clothing, footwear and allied products	**+7.7**
Consumer durable goods	**+19.4**
— Motor vehicles and parts	*+5.5*
— Electrical goods and photographic equipment	*+21.2*
— Furniture and fixtures	*-3.0*
— Other consumer durable goods, not elsewhere classified	*+55.9*
Department stores	**+9.7**
Jewellery, watches and clocks, and valuable gifts	**+7.6**
Other consumer goods	**+9.0**

Source: Census and Statistics Department, Savills Research & Consultancy

3.2.2 Outlook for the retail sector

The recent decrease in retail sales growth may be a short-term phenomenon due to uncertainties affecting both the local and mainland Chinese economies, rather than a structural shift in the local retail landscape.

With the unemployment rate at an historical low, income growth and gradually rebounding consumer confidence, we anticipate local retail spending to continue to support to the retail market, both in terms of necessities and leisure shopping. While luxury shopping items favoured by mainland Chinese tourists may have slowed to single-digit growth over the first few months of the year, we do not see any major slip in visitor spending on shopping. On the contrary, overnight tourist expenditure on shopping continued to increase by 16.8% in the first half of 2012 to reach HK$50.4 billion. We believe that, coupled with the sustained growth in mainland Chinese visitor arrivals and a gradual relaxation of the macro measures in China, mainland Chinese spending on shopping will continue to increase, and their appetite for all shopping items will continue in the coming years.

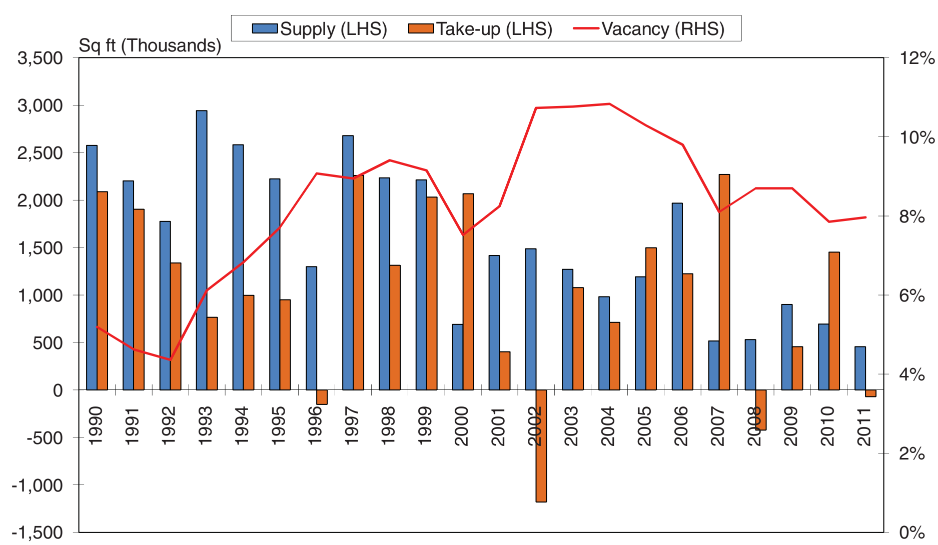
As a result, we expect the local retail market to continue to be well supported by both local and tourist spending, not necessarily at the rate of 20% to 30% growth per annum as in 2010 and 2011, but rather at a slower but sustainable rate.

3.2.3 Take-up and vacancy

Between 1980 and 1989, 1990 and 1999 and 2000 and 2011, average take-up stood at approximately 2.3 million sq. ft., 1.4 million sq. ft. and 0.8 million sq. ft., respectively. The falling take-up is attributable to decreasing supply levels, as well as the maturing market. Take-up rebounded from 0.8 million sq. ft. in 2004 to 2.3 million sq. ft. in 2007.

Due to the demand contraction following the global financial crisis, negative take-up of retail space was witnessed in 2008, and a number of chain retailers closed in Hong Kong, including Tai Lam and U-Right, both of which closed near the end of that year. As a result, vacancy rates increased to 8.7% in 2008. Take-up of retail space rebounded to 450,000 sq. ft. and 1.5 million sq. ft. in 2009 and 2010, respectively, with the subsequent influx of mainland Chinese visitors and the recovering economy favouring the retail market. With the recent global economic uncertainties and record-high rental rates slowing leasing activity, take-up declined to close to zero and vacancy rates hovered at approximately 8.0% in 2011.

Private commercial supply, take-up and vacancy rate, 1990–2011



Source: Rating and Valuation Department, Savills Research & Consultancy

Kowloon recorded the highest level of average take-up at 410,000 sq. ft. per annum from 2000 to 2011, followed by the New Territories (300,000 sq. ft. per annum) and Hong Kong Island (174,000 sq. ft. per annum), mainly due to a number of major centres being completed over the past decade, such as MegaBox, K11, i-Square and The One, all located in Kowloon.

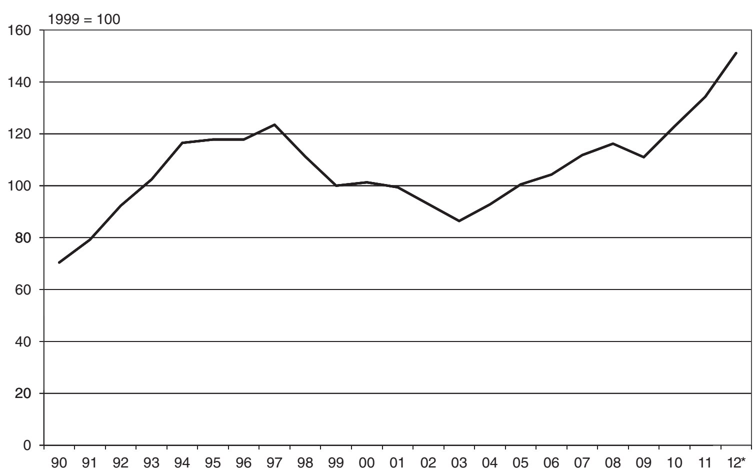
On a district scale, the performance of the shopping malls in Central, Admiralty and Causeway Bay suggest that the north side of Hong Kong Island is a major retail area. However, there are no large shopping malls in Wan Chai, located between Central/Admiralty and Causeway Bay, which can be regarded as either territorial malls or regional malls. We believe the opening of the retail portion of 200 Queen's Road East Project will help the potential growth in retail activity in Wan Chai.

International retailers are expanding towards non-core retail districts as mainland Chinese traffic is spilling over into areas along the East Rail. For example, Zara has opened shops in Metro City Plaza in Tseung Kwan O, TMT Plaza in Tuen Mun and New Town Plaza in Sha Tin. Bershka opened shops in Olympic City in Tai Kok Tsui and Metro City Plaza in Tseung Kwan O. The trend is driving up retail demand and therefore retail rental rates in these regions.

3.3 Historical retail rental and price trends

3.3.1 Rental trends

Private retail rental index, 1990–2012



Source: Rating and Valuation Department, Savills Research & Consultancy * Provisional

The implementation of the IVS, along with the rebound in the local economy, affected the recovery of the retail market, and from 2003 to 2011 private retail rents increased by approximately 55%.

The upward momentum in both retail rental rates and prices is supported by international retailers leasing prime space in core retail areas on Hong Kong Island. Apple opened its first store in Hong Kong in the ifc Mall, while Abercrombie & Fitch opened their flagship store in the Pedder Building. In Causeway Bay, Forever 21 leased six floors of Capitol Centre for six years with an option to renew for three years as their flagship store, while other international fashion retailers leased space in the newly opened Hysan Place.

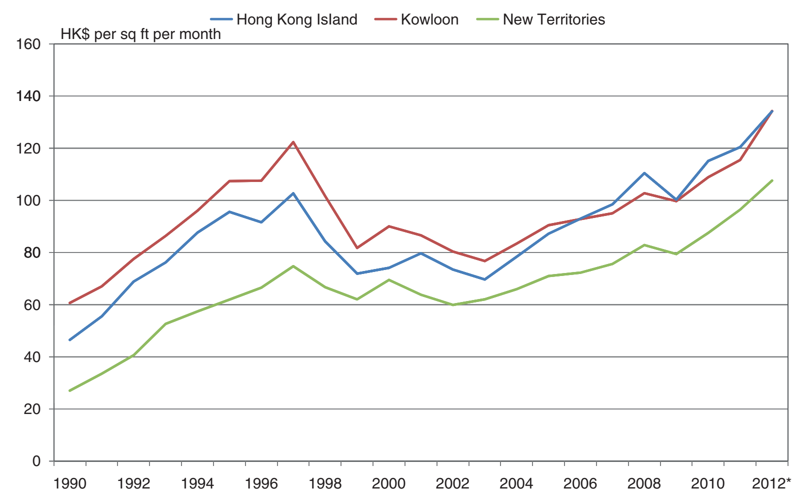
In 2012, the tourist market and improving local consumer sentiment continued to support the growth of retail sales and retail rental rates. Retail rental rates grew by 12.5% in 2012.

District analysis

Central, Causeway Bay and Tsim Sha Tsui are the traditional core retail areas in Hong Kong, with retail shops and shopping centres focusing on luxury products and fine dining for affluent locals and, more recently, mainland Chinese tourists who are visiting Hong Kong in increasing numbers as a result of the implementation of the IVS in 2003.

Over the past decade, as site availability becomes increasingly scarce in urban areas, new retail premises, have been completed in fringe Kowloon and the New Territories, forming the suburban retail market. A major characteristic of suburban retail centres is that they often come in the form of large retail podiums of new residential developments, with a strong and often captive primary catchment, offering mainly daily necessities and basic comparison goods with a strong F&B presence.

Private retail rents by district, 1990–2012

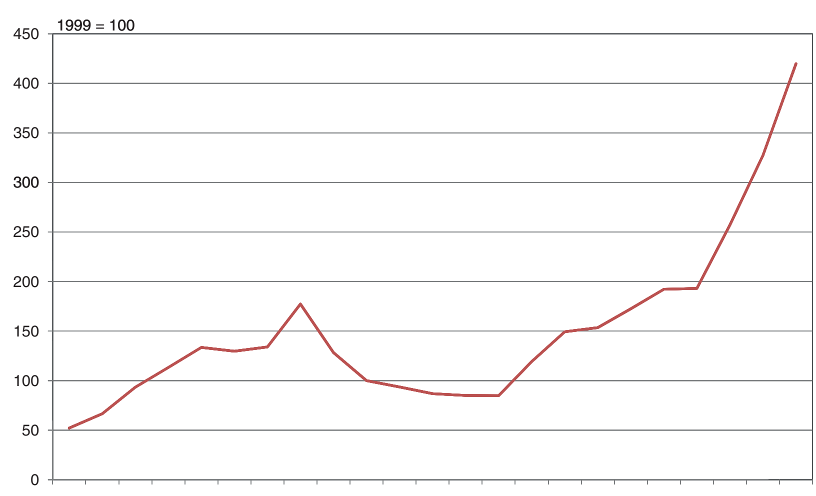


Source: Rating and Valuation Department, Savills Research & Consultancy * Provisional

With the presence of popular street shops and centres in Tsim Sha Tsui, private retail rents in Kowloon were formerly the highest among the three districts from 1990 to 2006, with Hong Kong Island surpassing Kowloon from 2006 onwards. Private retail rental rates in the New Territories have proved to be relatively more stable than rental rates on Hong Kong Island and in Kowloon, especially during market downturns, decreasing by only 17% during the Asian financial crisis, compared with 30.0% and 33.2% drops for Hong Kong Island and Kowloon, respectively.

3.3.2 Price trends

Private retail price index, 1990–2012



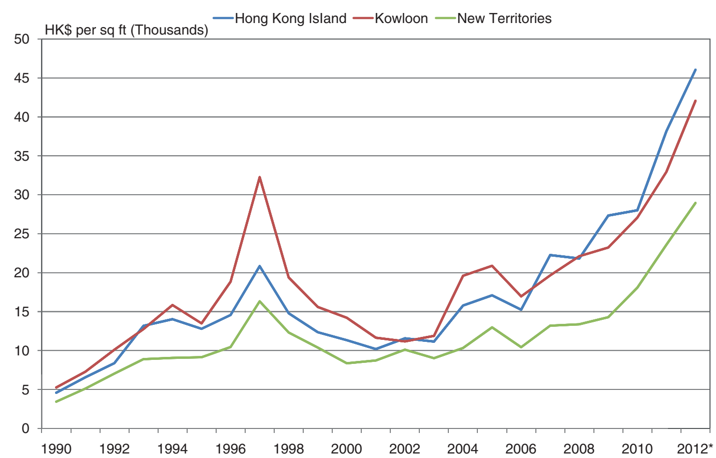
Source: Rating and Valuation Department, Savills Research & Consultancy * Provisional

After rising by more than 395% from 2003 to 2012, yield compression became an obstacle for most investors looking for investment properties.

The low interest-rate environment and the low cost of capital, coupled with tight stock availability, have pushed retail prices up further in the retail sales market, with prices of private retail premises in Hong Kong recording a growth of 28.3% in 2012, despite low investment returns and a slowing leasing market.

District analysis

Private retail prices by district, 1990–2012



Source: Rating and Valuation Department, Savills Research & Consultancy * Provisional

Similar to the leasing market, Kowloon private retail prices were above the other two districts in the 1990s and early 2000s, but also showed the highest volatility among the three districts. Kowloon prices increased by 520% from 1990 to 1997 to surpass HK$30,000 per sq. ft., and then declined by 52% during the Asian financial crisis. With the implementation of the IVS in 2003, which benefited luxury shops in Tsim Sha Tsui, Kowloon retail prices again rose by 76% from 2003 to 2005. However, Hong Kong Island prices also increased over this period, with luxury retailers beginning to take prime street space in Central and Causeway Bay, pushing up both rental rates and investment values in the district. On Hong Kong Island, prices increased by 169% from 2005 to 2012, compared with a 101% growth in Kowloon retail prices over the same period.

After reaching a recent high of 8.1% in 2001, private retail yields compressed to 3% in 2011 due to the success of the leasing market (inspired by the mainland Chinese influx after the introduction of the IVS), the gradual lowering of the cost of capital and substantial investment sentiment.

With both retail sales and rents registering moderate growth in 2012, prices continued to increase following low interest rates and tight stock availability, and as such, private retail yields contracted further to 2.5% in 2012.

3.4 Market outlook

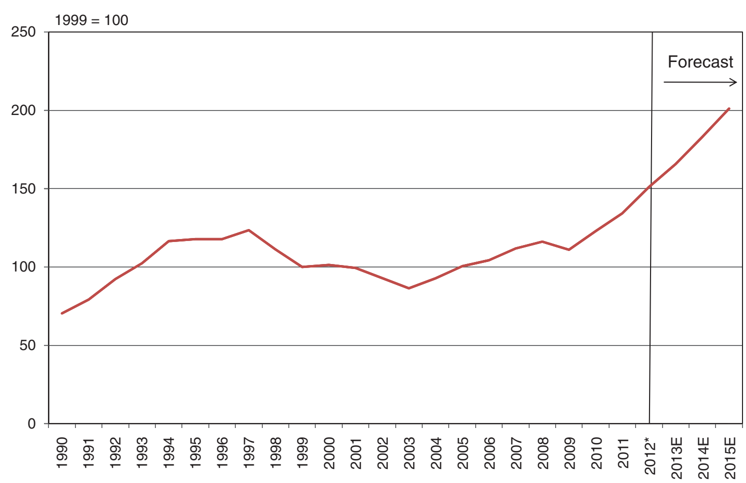
3.4.1 Rental forecast

The retail sector performance is no longer confined to core retail areas but has spread to non-core locations, and is well supported by both local consumption and visitor spending, both of which appear set to remain healthy in the near future. The recent global economic uncertainties (to which China has not been immune), have slowed the leasing market. However, the latest phase of QE in China should help to counter any weakness in aggregate demand which may result from the global economic slowdown.

While visitor arrivals grew by 16% over 2012, this has been largely attributable to the 24% growth in mainland Chinese visitor arrivals, with the growth of visitors from most other countries below average over the same period. This increasing reliance on mainland Chinese visitors to drive visitor growth may not be sustainable, and thus we have adopted a more conservative trend growth of 10% per annum in visitor arrivals for the period from 2013 to 2015.

For the above reasons, the total retail sales value is expected to increase by 11.1% per annum from 2013 to 2015. Combined with limited supply, retail rents are expected to increase by 10.0% per annum from 2013 to 2015.

Retail rental forecast, 1990–2015E



Source: Rating and Valuation Department, Savills Research & Consultancy * Provisional

Summary of private retail rental forecast, 2013E–2015E

Year	Overall rental growth (%)
2013	**+5 to 10**
2014	**+10 to 15**
2015	**+5 to 10**

Source: Savills Research & Consultancy

* The average rental growth of the three districts may not be the same as the overall rental growth due to differences in their baskets.

3.4.2 Price and yield forecast

Key drivers of price trends in the retail market include leasing market prospects, the cost of capital and stock availability. With the leasing market expected to remain strong in the short term, and interest rates to remain low at least until 2015, the lack of stock should prove to be the catalyst for further price growth.

Pent-up demand for the sector, both in terms of sales and leasing, should result from the lack of supply over the recent years, as well as in 2013 and 2014. The gradual reversion of supply to historical average levels in 2015 should see some of this pent-up demand being met, and we expect active take-up in that year with a positive impact on both rents and prices.

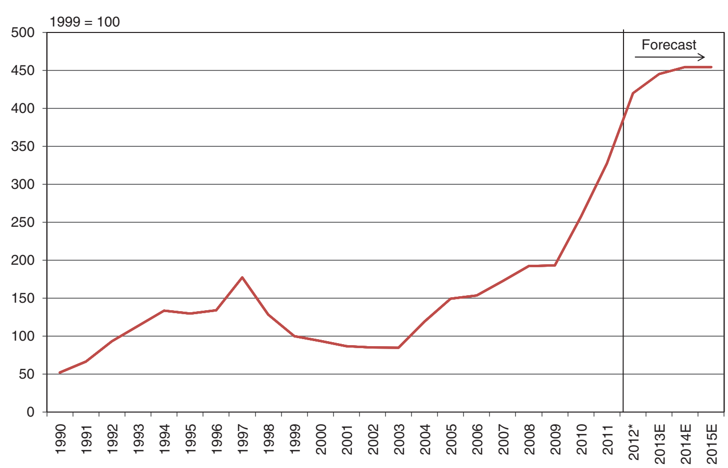
However, affordability could become an issue, particularly following a 28% price growth this year. Furthermore, retail prices should be 137% higher than their previous 1997 peak by year-end. At some level, both tenants and investors will find rents and values unaffordable, precipitating a market correction in the longer term.

The recent introduction of double stamp duty and the charging of stamp duty for non-residential transactions on the signing of the sale and purchase ("S&P") agreement instead of charging when a conveyance on sale of the property is executed may trigger the correction. Transaction volumes are expected to decrease substantially.

Viewing the market from an investment perspective, we can forecast yields by taking the three-month HIBOR forecast from FocusEconomics and applying the average retail yield carry of 2.4% (the difference between private retail yields from the Rating and Valuation Department and the three-month HIBOR from Q1/2011 to Q4/2012) to derive yield levels from 2013 to 2014, assuming sufficient stock will be made available in the coming years. FocusEconomics forecasts three-month HIBOR to rise from 0.5% in 2013 to 0.6% in 2014, which we have adopted, as we believe HIBOR is more affected by local interbank liquidity, and thus fund flows to and from Hong Kong, rather than the US Federal Funds rate.

By adopting our rental forecast in section 3.5.1 we are then able to derive retail price growth of 4.0% per annum on average from 2013 to 2014. In 2015, the increase in supply should be met by pent-up demand, while the positive impact on prices of this supply/demand dynamic will be countered by further growth in interest rates, when three-month HIBOR is expected to rise to 1.0%. We assume that retail prices will remain broadly stable in 2015 as a result.

Retail price forecast, 1990–2015E



Source: Rating and Valuation Department, Savills Research & Consultancy
* Provisional

Summary of private retail yields and price forecast, 2013E–2015E

Year	Retail yields (%)	Overall price growth (%)
2013	2.8	+5 to 10
2014	2.9	+0 to 5
2015	3.3	0

Source: Savills Research & Consultancy

* The average price growth of the three districts may not be the same as the overall rental growth due to differences in their baskets.

4.0 HOSPITALITY MARKET OVERVIEW

4.1 General hotel market

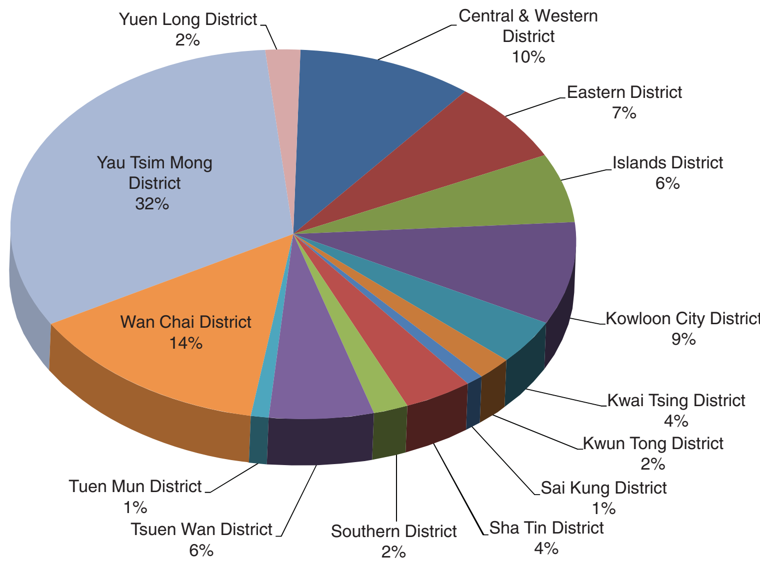
4.1.1 Stock distribution by class and district

According to the HKTB, hotels in Hong Kong can be classified into three main categories, namely high tariff A, high tariff B and medium tariff. The classifications are based on a scoring system of five key criteria, namely location, facilities, staff-to-room ratio, room rates and business mix.

At the end of Q4/2012, there were 211 hotels in Hong Kong, representing 67,394 rooms, with 26% classed as high tariff A, 37% as high tariff B and 29% as medium tariff.

According to the Office of the Licensing Authority, Home Affairs Department, 32% of total hotel rooms, or 21,806 rooms, are located in the Yau Tsim Mong District, followed by 14% in the Wan Chai District with 9,235 rooms. These are Hong Kong's traditional tourist and retail areas, including Mong Kok, Tsim Sha Tsui and Causeway Bay. Six percent of the total hotel stock in Hong Kong is located in the Tsuen Wan District.

Distribution of hotel stock by district, Q4/2012

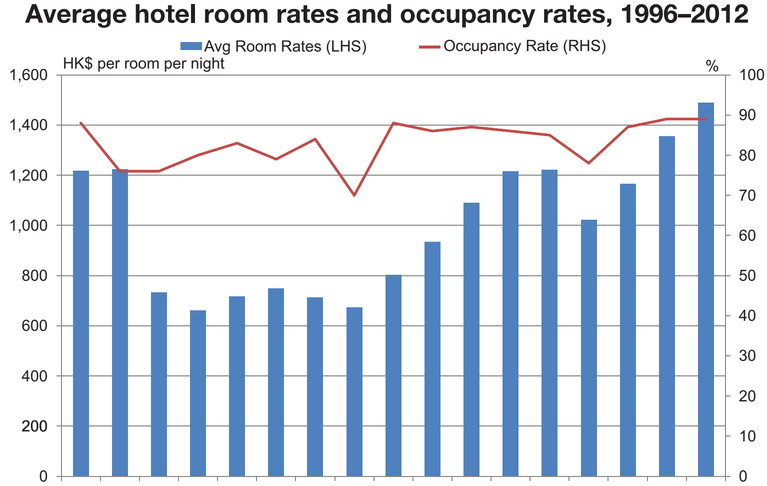


Source: Office of Liscensing Authority, Savills Research & Consultancy

The hotel sector has expanded rapidly over the past few years, as increasing numbers of mainland Chinese tourists enter Hong Kong. In 2012 alone, 4,188 new rooms were added.

4.1.2 Hotel performance

Average hotel room rates and occupancy rates, 1996–2012



Source: HKTB, Savills Research & Consultancy

Average hotel room rates stood at HK$706 per night between 1998 and 2003. The introduction of the IVS increased the tourism market, and average hotel room rates rose 52% from 2004 to 2008 before the global financial crisis hit. Average room rates then dropped 16% from 2008 to 2009 due to the weakening economic situation, as well as the reduction in the number of long-haul travellers from the US, Europe and Australia. Corporate travellers also reduced their travel budgets, with some postponing their travel plans during this cost-averse period in 2008 and 2009.

Average room rates rebounded by 46% from 2009 to 2012. The latest figures in December 2012, released by the HKTB, show that average hotel room rates stand at HK$1,646 per night.

Average hotel occupancy rates showed improvement from nearly 70% in 2003 to 89% at the end of 2012, reflecting the demand for hotel rooms, supported by mainland Chinese visitor numbers due to the IVS. At the end of December 2012, average hotel occupancy rates stood at 92%.

4.1.3 The restaurant/catering/banquet business in hotels

According to the HKTB, 65% of hotel revenue comes from room rates, while approximately 29.2% of total revenue is contributed by the F&B department, a second important revenue source. Spas/health clubs contribute a small amount of revenue (close to 1%) as these facilities are only popular with female guests.

Percentage distribution of hotel revenues by hotel type, 2011

	All hotels	High tariff A hotels	High tariff B hotels	Medium tariff hotels
Rooms	64.9	55.8	74.5	81.7
F&B	29.2	36.8	21.5	15.7
Telephone	0.5	0.5	0.5	0.3
Spa/health club	0.8	1.3	0.2	N/A
Minor operations	1.8	2.0	1.5	1.3
Rents and other incomes	2.7	3.7	1.8	N/A

Source: HKTB, Savills Research & Consultancy

For high tariff A hotels, room rates accounted for a total of 56% of all revenues, while around 37% of revenue comes from F&B, higher than high tariff B and medium tariff hotels.

All F&B facilities recorded positive growth in 2011 compared with 2010. The highest F&B check per cover (spending per capita) is for the banquet business, standing at HK$549 per cover in 2011, 40% more than in 2010. The average F&B check per cover was similar for Chinese and specialty restaurants in 2011 at HK$387 and HK$393, respectively.

Average Hong Kong dollar F&B check per cover by hotel type, 2011

	All hotels	High tariff A hotels	High tariff B hotels	Medium tariff hotels
All-day dining	191	236	173	120
Chinese restaurant	387	852	194	191
Specialty restaurant	393	616	159	N/A
Lobby lounge	158	220	116	114
Other bars and lounges	209	303	151	82
Room service	216	246	40	113
Banquets	549	697	408	317

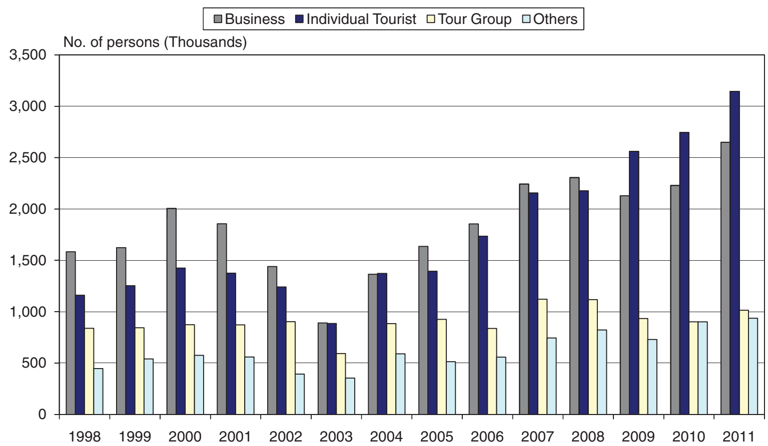
Source: HKTB, Savills Research & Consultancy

For high tariff A hotels, Chinese restaurants are the major source of F&B checks, standing at HK$852 per cover in 2011, the highest among any other type of F&B facility, and higher than that of high tariff B and medium tariff hotels.

4.1.4 Market segmentation

There were approximately 7.75 million hotel guests in 2011. According to the HKTB, in 2011, business travellers[29] accounted for approximately 34% of guests received by all hotels, while individual tourists and tour groups accounted for 40.6% and 13.1%, respectively.

Estimated number of hotel guests by segment, 1998–2011



Source: HKTB, Savills Research & Consultancy

Numbers of both business travellers and individual tourists increased, recording growth rates of 197% and 255%, respectively, from 2003 to 2011. The increase in mainland Chinese visitors arriving for vacations and visiting friends/relatives (up 232%), largely affected by the IVS, impacted this increase in individual tourists between 2003 and 2011.

The growth in business travellers was due to the increasing number of regional offices in Hong Kong, as well as the growing MICE market. According to the Census and Statistics Department, there were 2,516 regional offices at the end of 2012 compared with 2,412 at the end of 2011.

4.1.5 Impact of government policies on the hospitality sector

The completion of planned tourist infrastructure, as well as the further development of the MICE market, should attract more vacation and business overnight visitors to Hong Kong. The on-going expansion of Disneyland Hong Kong (the final phase of the expansion project is expected in 2013), the future cruise ship terminal (the first phase to be completed in 2013 and the second in 2014), as well as the planned third phase of HKCEC are all new attractions drawing tourists and business travellers.

In terms of transport infrastructure, the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, Hong Kong–Zhuhai–Macau Bridge, Tuen Mun–Chek Lap Kok Link and Tuen Mun Western Bypass will further enhance the integration of mainland China with Hong Kong. Accessibility to Hong Kong from mainland China will improve with the completion of these projects in 2015 and 2016 and further strengthen the role of mainland tourists.

While the Guangzhou-Shenzhen-Hong Kong Express Rail Link will shorten travel times from key cities in mainland China to Hong Kong significantly and will inevitably draw more long-haul mainland Chinese visitors to Hong Kong who are likely to stay overnight in Hong Kong, the shorter travel time for short haul mainland Chinese visitors (mainly from Guangdong province) may also mean that more can afford same-day travel and thus reduce the percentage of overnight visitors among this group.

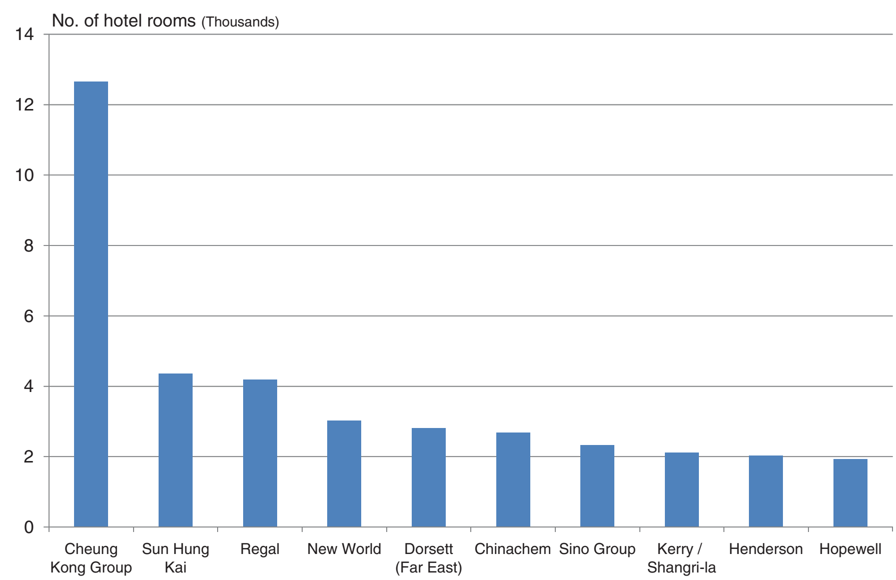
29 Including government officials, business travellers, in-house meetings and other MICE travellers according to HKTB's classification.

In the longer term, the proposed third runway of the Hong Kong International Airport ("HKIA") should increase the capacity of the aviation industry, benefiting the tourism industry, especially for long-haul travellers from Europe and the Americas. The third runway will have no short-term impact on the tourism industry in Hong Kong, however.

The average length of stay of overnight visitors in 2011 was 3.6 nights. To enhance the competitiveness of the hotel industry and entice visitors to lengthen their stay, the Hotel Accommodation Tax (3%) has been waived since 1 July 2008. The government has undertaken a number of initiatives to promote hotel development to meet the diversified needs of visitors. For example, a number of sites in different parts of Hong Kong have been designated as "hotel use only". There are also initiatives to allow both the conversion of old industrial buildings and the revitalisation of heritage buildings into hotels.

4.1.6 Hotel owners' market share

Hotel owners' market share by number of hotel rooms, 2018E



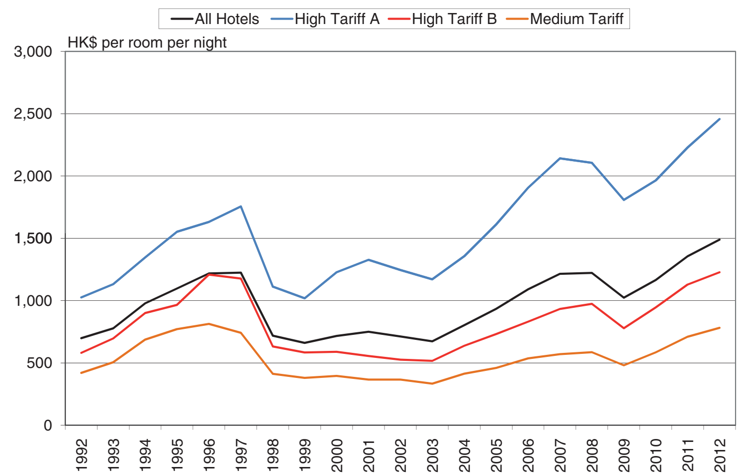
Source: Office of the Licencing Authority, HKTB, Savills Research & Consultancy

There are a number of hotel portfolios being held by different hotel owners, and taking into account both existing hotel stock up to 2012, future hotel supply from 2013 to 2018, as well as the ownership structure of different hotel portfolios, Cheung Kong Group (including Cheung Kong and Hutchison) is largest with over 12,000 hotel rooms in their hotel portfolio, and Sun Hung Kai and Regal rank second and third, respectively, each with over 4,000 hotel rooms in their portfolio. The Company ranks 10th with around 2,000 hotel rooms in 2018 after the completion of HCII.

4.2 Key market trends, drivers and future prospects

4.2.1 An analysis of the performance of high tariff A and B hotels

Average room rates by type, 1992–2012



Source: HKTB, Savills Research & Consultancy

High tariff A hotel room rates increased by 110% from 1999 to 2007, outperforming high tariff B hotels and the overall market at 60% and 84%, respectively, over the same period. Affected by the global financial crisis, the demand for high tariff A hotels softened due to the decrease in long-haul travellers from Europe and the Americas, as well as business travellers. High tariff A room rates fell 16% from 2007 to 2009, similar to the downward adjustment in both high tariff B hotels and the overall market over the same period.

High tariff A average room rates rebounded by 36% from 2009 to 2012 to a peak level following a rebound in tourist numbers. With the influx of mid-budget business travellers, as well as individual mainland Chinese travellers, seen over the period, high tariff B room rates outperformed and registered a 58% increase from 2009 to 2012. In 2012, high tariff A and high tariff B average room rates stood at HK$2,457 and HK$1,228 per night, respectively, which were record highs since 1992.

High tariff A hotel occupancy rates moved in line with other hotel types between 1992 and 2012. Occupancy rates of high tariff A hotels decreased from 84% in 2007 to 72% in 2009 mainly reflecting weakened global economies, an increase in business travellers cancelling or deferring business travel plans and corporations becoming more cost-averse. High tariff A occupancy rates then rebounded from 2009 and stood at 85% in 2012.

4.2.2 Long-stay packages in hotels and their interchangeable nature with hotel-like serviced apartments

Certain hotels also provide guests with long-stay packages which permit hotel guests to remain for a longer period of time, varying with hotel, from one week to one month, effectively allowing guests to use the hotel rooms as temporary accommodation. The nature of the long-stay packages offered by hotels is very similar to serviced apartments. As a result, some hotel rooms are actually interchangeable with serviced apartments in terms of use. The advantages of providing long-stay packages are to maintain room occupancy and avoid vacancy, while enjoying stable revenues.

4.3 An introduction to conference hotels

4.3.1 Definition

A hotel which provides facilities and services geared to meet the needs of large group and association meetings and trade shows. Typically, these hotels have more than 500 guest rooms and contain substantial amounts of function and banquet space, normally over 30,000 sq. ft. Included in this category are hotels attached to convention centres and conference centres.

4.3.2 Key characteristics and potential demand drivers

A key characteristic of conference hotels is their ability to provide a one-stop service to conference/meeting delegates with venues and catering services, as well as accommodation. The layout of the conference/meeting facilities is usually sufficiently flexible to host different types of events and can be combined or split to host events of different scales. This provides both convenience and cost effectiveness to mid to large groups of guests, in particular during peak exhibition and conference seasons.

Although most business hotels also offer some sort of meeting and conference facilities, normally they are not large enough (<10,000 sq. ft.) and are not designed to cater for large groups of 100 people or more. Therefore, while large business meetings may still utilise large-scale business hotels (>500 rooms) as their choice of accommodation, they may also need to find alternative meeting/conference venues in nearby convention/business centres.

In terms of potential demand drivers of conference hotels, two potential categories emerge:

- Overnight MICE visitors, in particular in large groups (>100 people) organising large-scale events/conferences/seminars; and

- Corporate clients (both local and multinational) hosting internal conferences/meetings.

Detailed trends of MICE visitors will be discussed in **Section 7**.

4.3.3 The restaurant/catering/banquet business in conference hotels

As discussed in **Section 4.1.1**, the highest F&B check per cover in hotels is for the banquet business, standing at HK$549 per cover in 2011, 40% higher than the next two highest categories, namely Chinese and specialty restaurants, and reflecting the profitable nature of this type of business. There are also 0.49 covers per occupied room, and we expect most of these covers to come from overnight guests participating in conferences/meetings within the same hotel.

Although we do not have separate figures for conference hotels, we would expect both F&B checks per cover as well as covers per occupied room for banquets to be higher in conference hotels, given the higher frequency of such events on a larger scale, with F&B provision frequently being integrated into such conferences/meetings.

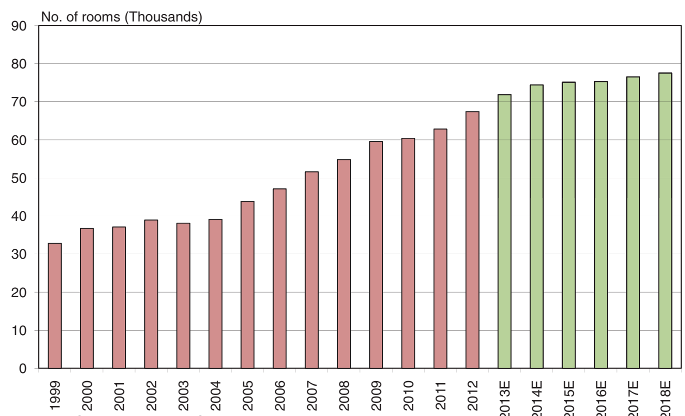
4.3.4 Conference hotel benchmarks

To illustrate the various facilities and characteristics of conference hotels, we have identified three conference hotels as benchmarks, namely L'hotel Nina et Convention Centre, Regal Airport Hotel in Hong Kong, and The Venetian Macao in Macau.

	L'hotel Nina et Convention Centre	Regal Airport Hotel	The Venetian Macao
No. of rooms	1,608	1,104	3,000
Total meeting/ convention facilities area (sq. ft.)	110,000	10,000 + 12 meeting rooms	3,700,000
Other facilities	NA	Close proximity to AsiaWorld-Expo	CotaiArena™ — Seats for up to 15,000 people

4.4 Historical and forecast hotel supply, including future developments, conversions and refurbishments, overall and by district

Number of hotel rooms, 1999–2018E



Source: HKTB, Savills Research & Consultancy

Hotel room inventory increased from 32,871 rooms in 1999 to 67,394 rooms in Q4/2012. The projected year-end number in 2018 is 77,557 rooms in 272 hotels. These numbers also include unclassified hotels which cater mainly to tour groups, especially those from mainland China, and other types of accommodation providers, such as serviced-suite hotels offering long-stay packages, but excluding guesthouses. The breakdown of these establishments is approximately 8,870 rooms in 42 hotels, and they represent 13% of the total hotel room inventory.

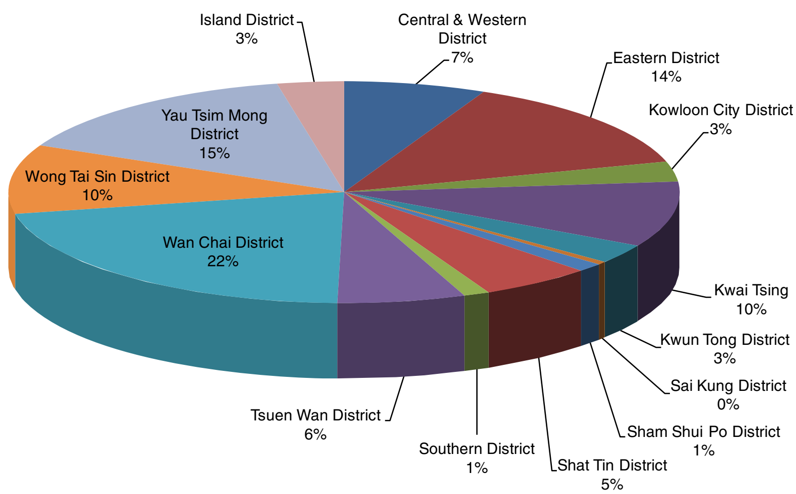
According to the HKTB, there will be an additional 10,163 hotel rooms on the market between 2013 and 2018 with the majority concentrated in 2013, 2014 and 2017 (8,194 rooms or 81% of all new supply). Notably, the 1,024 rooms to be completed in 2018 all come from Hopewell Centre II.

Hotel supply by year, 2013–2018

Year	No. of rooms
2013	4,495
2014	2,525
2015	741
2016	204
2017	1,174
2018	1,024

Source: HKTB, Savills Research & Consultancy

Hotel supply by district, 2013E–2018E



Source: HKTB, Savills Research & Consultancy

22% of the future supply of hotels is located in Wan Chai District with 2,187 hotel rooms, followed by 15% of the total supply in Yau Tsim Mong District with 1,509 hotel rooms. Tsuen Wan District will account for 6% of future hotel rooms, while Hopewell Centre II in Wan Chai District will add approximately 1,024 rooms upon completion in 2018.

Major large-scale hotel supply, 2013–2018

Hotel/project name	Location	Developer/architect	No. of rooms
Hopewell Centre II	Kennedy Road, Wan Chai	Hopewell	1,024
Oil Street Project	Oil Street, North Point	Ocean Century Investment Limited	840
Penta Kowloon	15–19 Luk Hop Street, San Po Kong	Head Step Limited	695

Source: HKTB, Savills Research & Consultancy

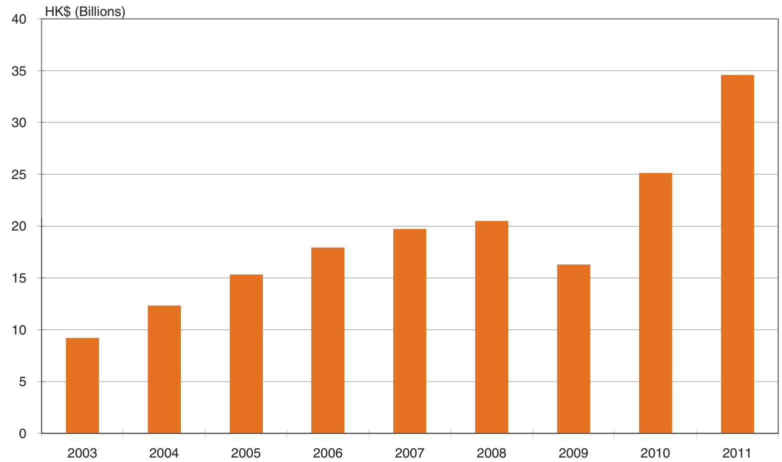
There are three hotels which are considered to be large-scale projects with at least 600 rooms. Hopewell Centre II with 1,024 rooms will be the largest hotel developed in terms of hotel room provision between now and 2018, followed by an 840-room hotel project on Oil Street. The majority of future hotels are relatively small in scale.

Another source of hotel supply is from the revitalisation of industrial buildings. As of December 2012, there had been only two special waivers executed for industrial buildings to be converted into hotels. These hotel conversion projects are both located in Kwun Tong. The number of rooms provided in these two projects has not yet been confirmed. As current hotel room provision in Kwun Tong only accounts for 2% of the total room stock, these two revitalisation projects will not have a significant impact on overall Kwun Tong stock.

4.5 Demand and occupancy levels (historical, forecast and trends), overall and by classification

In addition to an increasing number of visitor arrivals and their changing travelling patterns, especially mainland Chinese tourists who are placing more emphasis on leisure travelling experiences, overnight visitor spending on hotel bills has risen over the past nine years, increasing from HK$9,183 million in 2003 to HK$34,560 million in 2011, a 276% increase.

Overnight visitor expenditure on hotel bills, 2003–2011



Source: HKTB, Savills Research and Consultancy

From 2003 to 2012, average room rates of high tariff A hotels rose by 110%, while high tariff B hotel rates rose by 138%. In the medium tariff category, popular among mainland Chinese tourists, the average room rate rose by 134% over the period.

Demand for high tariff A hotels derives from high-budget travellers. Senior business executives and long-haul travellers usually stay in such hotels, especially those situated in business districts or traditional tourist areas, eg, Central, Wan Chai/Causeway Bay and Tsim Sha Tsui.

High occupancy rates for high tariff A hotels have been recorded since 1992, with rates above 70%, even during the previous economic downturns in 1997, 2003 and 2008. Occupancy rates for high tariff A hotels decreased from 84% in 2007 to 72% in 2009 as the global financial crisis resulted in a decrease in high-budget business and long-haul travellers. The rebounding economy, together with improving visitor numbers helped to maintain occupancy rates at 85% in 2012. Revenue per available room ("RevPAR")[30] fell from HK$1,798 in 2007 to HK$1,302 in 2009 as a result of reduced visitor numbers over the period.

Driven by high occupancy levels of 85% in the high tariff A hotel market, RevPAR performance registered a record post-1992 high of HK$2,088 in 2012.

Demand for high tariff B hotels comes from corporate visitors as well as overseas leisure travellers who visit Hong Kong with mid to high budgets. As the average high tariff A hotel room rate surpassed its 2007 and 2011 peaks in 2012, more prospective high tariff A guests may have chosen to stay in high tariff B hotels as a result of the rising costs.

High tariff B hotels have maintained a high occupancy rate of over 80% since 1992, with the exception of 2003, the year of the SARS outbreak. Average room rates also showed a rising trend, with room rates rising by 88% from 2003 to 2008, before the global financial crisis, when room rates decreased by 20%. From 2009 to 2012, room rates rose again by 58% in conjunction with a growing number of tourists. Average room rates in 2012 stood at HK$1,228.

The high occupancy rate of high tariff B hotels helped to push RevPAR up from HK$631 in 2009 to HK$1,117 in 2012.

30 Estimated by occupancy × average room rate.

4.6 Market outlook

We are confident in the outlook for the hospitality industry in Hong Kong over the next three years, as a number of positive influences should continue to have an impact on the sector. Leisure travellers are expected to be attracted to Hong Kong as a result of both Disneyland and Ocean Park, as well as the first berth of the cruise ship terminal at Kai Tak which is due to open in 2013. For mainland Chinese, the appeal of Hong Kong as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now value a more complete travel experience and are willing to spend more on hotels and sightseeing. Rising incomes, improving employment prospects, a more global perspective and more leisure time should also ensure a continuing flow of visitors from elsewhere in Asia.

Business travellers will be drawn to Hong Kong by its strengthening role in the PRD, China's wealthiest and most advanced region. Hong Kong is becoming more economically integrated with China and today plays an important role as a finance, logistics and business services hub.

Improvements to Hong Kong's transport infrastructure will make cross-border travel easier and will improve mobility within Hong Kong itself. Long-haul travellers are already well catered for by HKIA and this facility may be extended and enhanced if a third runway is built, which could increase HKIA's capacity to 620,000 flight movements per year, meeting projected demand up to and possibly beyond 2030. The project has been granted government approval in principle and the Airport Authority Hong Kong has adopted the three-runway system for planning purposes as a future development option. This is still at an early planning stage and it is anticipated that the entire project will take at least 11 years from planning to implementation, and thus there will be no short-term impact on the tourism industry in Hong Kong.

Competition does exist in Asia's tourist market. Singapore has also launched a number of initiatives to attract leisure and business travellers with new 'Integrated Resorts' featuring casinos and convention and exhibition facilities. Other regions and countries have also implemented schemes similar to the IVS to attract mainland Chinese visitor arrivals. For example, Taiwan implemented such a scheme in June 2011, and up to January 2013, a total of 250,000 mainland Chinese visitors had visited Taiwan via the scheme[31].

4.6.1 Visitor arrival forecasts

Despite such competition, the size of the mainland Chinese market and its growing wealth, coupled with positive prospects for intra-Asian tourism and long-haul demand, are expected to generate sustainable growth in visitor arrival numbers over the next three years, although the pace of growth is expected to be more moderate than in previous years due to a high base of comparison, as well as more uncertainties in the external environment.

Visitor arrival forecasts, 2013E–2015E

	Total	YoY % change
2013	53,631,000	+10.3
2014	59,164,000	+10.3
2015	65,268,000	+10.3

Source: HKTB, Savills Research & Consultancy

31 Source: National Immigration Agency, Taiwan.

We expect total visitor arrivals to grow at an average rate of 10.3% per annum from 2013 to 2015, which is the long-term visitor arrivals trend growth from 1985 to 2011. We have taken such a long period of reference in order to capture the long-term growth trend of visitors to Hong Kong, and to balance out any short-term negative events, such as the Asian financial crisis, SARS, the global financial crisis of 2008, with positive measures such as IVS and CEPA.

The forecast rise in visitor numbers from 48.6 million in 2012 to 65.5 million by 2015 appears dramatic. However, the increase represents an annual average growth rate ("AAGR") of 10.3% over the period compared with an historic AAGR of 12.0% between 2003 and 2011. The 10.3% average forecast growth for the period 2013 to 2015 also appears conservative when compared to more recent growth in visitor arrivals (18.0% per annum from 2010 to 2012) as well as the year-on-year growth over the first two months of 2013 (15.2%).

4.6.2 Hotel room demand forecasts

On average in 2011, 46,019 hotel rooms were occupied daily, resulting in 16.8 million paid room nights over the year as a whole. The average number of guests per room in that year stood at 1.66 persons and the average length of stay at 3.60 nights. It can therefore be estimated that approximately 7.7 million visitors stayed in hotels during 2011, or 35% of all overnight visitors.

It is possible to project future demand for hotel rooms using this methodology by adopting visitor arrival forecasts and making assumptions regarding the future ratio of hotel guests to overnight visitors, the average number of guests per room and average lengths of stay.

Demand and supply of hotel rooms, 2001–2014E

	(1) Total visitor arrivals ('000 persons)	(2) Overnight visitors ('000 persons)	(3) Average length of stay (nights)	(4) Average no. of guests per room	(5) Hotel rooms occupied	(6) Estimated no. of hotel guests ('000 persons)	(7) Hotel guests as % of overnight guests	(8) Total hotel rooms	(9) Total no. of rooms available for sale per day	(10) Occupancy rate (%)
2001	13,725	8,878	3.08	1.48	26,580	4,662	52.5	37,132	33,630	79
2002	16,566	10,689	3.62	1.36	29,003	3,977	37.2	38,949	34,395	84
2003	15,537	9,676	4.06	1.31	23,126	2,724	28.1	38,133	32,928	70
2004	21,811	13,655	3.73	1.43	30,109	4,213	30.9	39,128	34,256	88
2005	23,359	14,763	3.66	1.43	31,348	4,471	30.3	43,866	36,522	86
2006	25,250	15,832	3.46	1.47	32,161	4,987	31.5	47,128	37,054	87
2007	28,169	17,155	3.28	1.66	33,913	6,265	36.5	51,581	39,270	86
2008	29,507	17,320	3.26	1.6	35,850	6,422	37.1	54,804	42,362	85
2009	29,591	16,926	3.24	1.55	35,863	6,262	37	59,627	45,199	78
2010	36,030	20,069	3.6	1.6	41,778	6,777	33.8	60,428	48,228	87
2011	41,921	22,302	3.6	1.66	46,019	7,745	34.7	62,830	51,517	89
2012E ...	48,615[(a)]	23,770[(a)]	*3.6*	*1.61*	*50,446*	*8,255*	*34.7*	67,394[(a)]	*56,611*	89[(a)]
2013E ...	*53,631*	*26,223*	*3.6*	*1.61*	*55,651*	*9,107*	*34.7*	*71,889*	*61,825*	*90*
2014E ...	*59,164*	*28,928*	*3.6*	*1.61*	*61,392*	*10,046*	*34.7*	*74,414*	*65,484*	*94*

Note: Projected numbers in italics, (a) means actual 2012 numbers
Source: HKTB (where indicated below), Savills Research & Consultancy

Key forecast assumptions

The key assumptions used in preparing the above forecasts are as follows:

(1) Total visitor arrivals

We have forecast total visitor arrivals from 2013 to 2014 based on the long-term trend growth trend of 10.3% as detailed in section 4.6.1 above.

(2) Overnight visitors

We have assumed that the number of overnight visitors will be a certain percentage of the number of total visitor arrivals. Although this percentage declined gradually from 60.9% in 2007 to 48.9% in 2012, we do not anticipate that this percentage will drop any further in 2013 and 2014 as one of the main reasons behind this decline over the past few years has been the strong increase in Chinese same-day-in-town (i.e. day-trip only) visitors (from 6.4 million in 2007 to 19.8 million in 2012, a 210% increase, compared to a 125% increase in total Chinese arrivals over the same period), driven in part by trips to purchase daily necessities such as baby milk powder and pharmaceuticals, and by trips for the purpose of parallel trading into China. With two new measures, namely a weight limit on passenger luggage of 23kg on six designated MTR East Rail Line stations (Lo Wu, Sheung Shui, Fanling, Lok Ma Chau, Tai Po Market and Fo Tan), as well as measures to combat cross-border parallel trading, we expect a significant decline of same-day-in-town Chinese visitors, and thus we have assumed that the number of overnight visitors as a percentage of total visitor arrivals will remain at 48.9% from 2013 to 2014.

(3) Average length of stay

We have assumed that the average length of stay from 2012 to 2014 is 3.60 nights, the same as the 2011 figure, as we have not found any significant rising or declining trends from 2001 to 2011 in this figure or other reasons to expect it to rise or decline significantly. This forecast figure is higher than the figure for the 2007 to 2009 period because this was during the global financial crisis period when tourists generally spent a much shorter period time in Hong Kong due to reduced travelling budgets, but it is commensurate with the changing travel patterns of mainland Chinese visitors, who have stayed considerably longer in more recent years (increasing from 3.6 nights in 2007 to 3.9 nights in 2011).

(4) Average no. of guests per room

We have assumed that the average number of guests per room is 1.61 from 2012 to 2014, the same as the average of the period between 2007 and 2011, as we have not found any significant rising or declining trends from 2001 to 2011 in this figure or other reasons to expect it to rise or decline significantly. It is noteworthy that this figure fell from 1.61 in 1998 to 1.47 in 2006 but then rose to around 1.61 in the following five years. Use of this higher figure assumes that more visitors will be willing to share rooms in view of the expected tightening availability and higher accommodation costs. A higher number of average guests per room will also yield a more conservative occupancy projection. The assumed figure is not as high as the figure recorded in 2011 (1.66) since new hotel supply was extremely tight in 2011 (net increase of 2,402 hotel rooms), while there will be more hotel supply from 2012 to 2014 (net increase of 11,584 rooms over the period, or 3,861 net increase of rooms per annum), slightly alleviating the tight supply situation.

(5) Hotel rooms occupied

Figures from 2001 to 2011 are provided by HKTB, while projected figures from 2012 onwards are derived from the following calculation: (6) ÷ (4) × (3) ÷ 365.

(6) Estimated no. of hotel guests

Figures from 2001 to 2011 are derived from the following calculation: (5) × (4) ÷ (3) × 365, while projected figures from 2012 onwards are derived from the following arithmetic relation: (2) × (7), which differs from the formula used for 2001 to 2011 because (5) (hotel rooms occupied) is estimated based on, among other things, (3) (average length of stay) and (4) (average no. of guests per room) therefore it would be circular, whereas for 2001 to 2011, (5) is based on HKTB data.

(7) Hotel guests as % of overnight guests

We have assumed that hotel guests will be a certain percentage of overnight guests. We have assumed that 34.7% of overnight visitors will be hotel guests from 2012 to 2014, which was the figure for 2011, for the following reasons: (i) we have not found any significant rising or declining trends in this percentage from 2001 to 2011; (ii) we consider it reflects the changing travel and accommodation patterns of both short-haul and long-haul visitors, as well as those from China; and (iii) the percentage has fluctuated over the past five years and averaged 35.8% from 2007 to 2011, so in adopting a lower figure we have made a more conservative assumption.

(8) Total hotel rooms

Both historical (2001 to 2012) and forecast data (2013 to 2014) are provided by HKTB.

(9) Total no. of rooms available for sale per day

Total number of rooms available for sale per day equals total hotel rooms excluding those under repair or being refurnished. We have assumed that 84% of total hotel rooms will be available for sale per day in 2012. This is based on the percentage in 2011 (82%), and we have assumed that this ratio will rise gradually in 2013 and 2014 based on trend growth from 2007 to 2011 as the continuing tightening supply situation over the next few years is likely to prompt existing owners to delay major renovations or minor and non-emergency repair works, and thus rooms available for sale per day should gradually increase.

(10) Occupancy rate

Historical occupancy rates (2001 to 2012) are provided by the HKTB. Our forecast occupancy rate (2013 to 2014) is based on rooms occupied against rooms available for sale per day, i.e. (5) ÷ (9).

Based on this projected number of rooms occupied of 50,446 and the projected number of rooms available for sale per day of 56,611, the occupancy rate in 2012 is estimated to be 89%, the same as 2011 levels. The same methodology is applied to forecast occupancy rates in 2013 and 2014, resulting in projected occupancy rates of 90% and 94%, respectively. For analysis purposes, we assume occupancy rates in 2015 to be 95%.

Although future new supply cannot be broken down by class, projections of occupancy rates by hotel class can still be made by referencing the historical relationship (1997 to 2011) between occupancy rates of hotel classes and the overall market.

Summary of average occupancy rate projections, 2013E–2015E

Year	All hotels (%)	High tariff A (%)	High tariff B (%)	Medium tariff (%)
2013	90	86	92	93
2014	94	90	95	98
2015	95	91	96	98

Source: Savills Research & Consultancy

4.6.3 Average room rate forecasts

Summary of average room rate projections, 2013E–2015E

Year	All hotels (%)	High tariff A (%)	High tariff B (%)	Medium tariff (%)
2013	+9.2	+9.2	+9.7	+8.9
2014	+9.6	+9.6	+10.1	+9.3
2015	+4.3	+4.3	+4.5	+4.2

Source: Savills Research & Consultancy

While short-term demand from financial executives for high tariff A rooms may slow further in 2013, it may be offset by more affluent mainland Chinese, as well as multinationals utilising Hong Kong as a springboard into mainland China. High tariff B and medium tariff hotels are expected to continue to benefit from the anticipated growth of mainland Chinese visitors. High tariff B hotels are also expected to benefit from their more diversified guest profile to take advantage of mainland Chinese business travellers who are more willing to spend on hotels. Medium tariff hotels are expected to continue to attract mainland Chinese leisure travellers as their core customers. Such travellers are usually more price sensitive and therefore their pricing power is expected to be slightly more constrained.

4.6.4 RevPAR forecasts

RevPAR of all hotels is expected to increase by an AAGR of 10.1% per annum from 2013 to 2015, with RevPAR of all three hotel categories projected to increase at similar rates. The projected RevPAR growth rates are at similar levels to the ten-year historical average (2003 to 2011).

RevPAR growth rates summary, 2003–2015E

	All hotels	High tariff A	High tariff B	Medium tariff
10-year (2003–2011) historic average (% per annum)	10.3	9.6	11.6	11.3
Projected average growth rates, 2013–2015 (% per annum)	10.1	10.2	10.2	9.8

Source: HKTB, Savills Research & Consultancy

In absolute terms, RevPAR of all hotels is expected to surpass the peak levels recorded in 1996 by the end of this year, and based on the assumption of a 95% occupancy rate in 2015, RevPAR of all hotels by 2015 will be 62% higher than in 1996. RevPAR of high tariff A, high tariff B and medium tariff hotels are expected to exceed their respective 1996 peak levels by 95%, 36% and 30%, respectively, in 2015.

The above projections are industry averages and the performance of individual hotels will deviate from the mean due to specific micro-economic factors and operating strategies. Hotels facing less competition within their surrounding areas, offering superior amenities or in close proximity to improved infrastructure are therefore expected to outperform the market as a whole.

5.0 SERVICED APARTMENT MARKET OVERVIEW

5.1 An overview of the serviced apartment sector[32]

5.1.1 Stock and distribution of serviced apartments

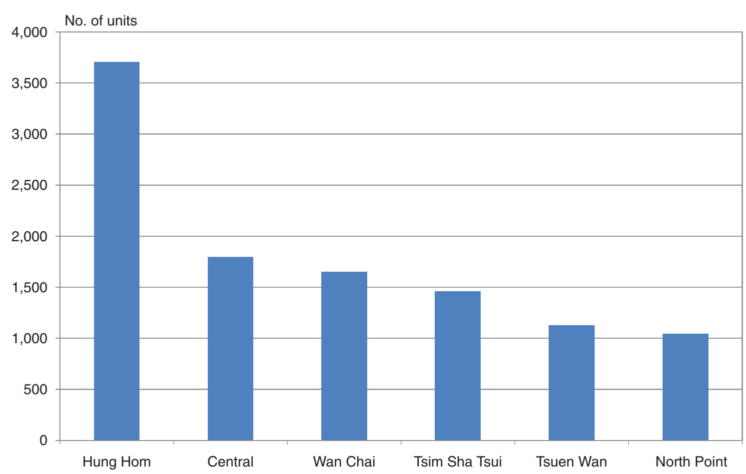
There were approximately 18,625 serviced apartments in Hong Kong at the end of 2012. Of these 18,625 units, 61% were hotel-like units[33] and 39% were apartment-like units.

Stock of serviced apartments in Hong Kong by district and by category, Nov 2012

	Hong Kong Island	Kowloon	New Territories
Hotel-like	2,602	5,202	3,635
Apartment-like	5,882	1,304	0

Of the 18,625 serviced apartments, 8,484 units or 46% of the total stock is on Hong Kong Island, while 6,506 units and 3,635 units are to be found in Kowloon and the New Territories, respectively.

Stock distribution of serviced apartments in major districts, 2012



Source: Savills Research & Consultancy

Hung Hom has the largest stock of serviced apartments with 3,707 units, followed by Central (1,797 units) and Wan Chai (1,653 units). This stock breakdown by district accounts for 19.9%, 9.6% and 8.9% of the total number of serviced apartments, respectively.

The development of areas such as Sheung Wan and Sai Ying Pun, as a result of the new MTR line to be opened in 2014, has been observed in recent years. The supply of serviced apartments has risen to meet demand in these areas. Upon completion of the West Island Line such serviced apartments will be in close proximity to core business and entertainment districts. In 2012, 128

32 A serviced apartment is a fully furnished studio, suite or apartment including kitchen facilities under central management, and inclusive of housekeeping and maintenance services. The two main types of unit are classified as either 'apartment-like' or 'hotel-like'. Hotel-like units are usually characterised as furnished studios or one-bedroom units under central management, providing central air-conditioning and communal facilities such as dining, laundry and housekeeping, usually to be found in hotels. Hotels providing long-stay units (a period of over one month to less than one year) are also categorised as hotel-like serviced apartments. In addition, long-stay hotel rooms and normal hotel rooms are interchangeable at the hotel's discretion, in which case we regard all rooms in that type of hotel as serviced apartments. Apartment-like units resemble conventional residential flats in terms of building design, flat size and internal layout. Services provided in this type of accommodation are occasionally regarded as a marketing tool for the leasing of residential developments and can be quite basic.

33 Of these 11,439 hotel-like serviced apartments, 7,411 are hotel rooms within hotels offering long-stay packages and are therefore interchangeable with hotel rooms.

serviced apartment units were completed in Sheung Wan while 40 units were completed in Western District, accounting for almost one-third of the new supply of 519 units in that year.

5.1.2 Key demand drivers and market segmentation

There are a select number of distinctive demand groups for serviced apartments, namely expatriates, locals, business travellers and immigrants from various immigration schemes.

5.1.2.1 The expatriate community

As described in **Section 2.2.1**, the number of regional headquarters and regional offices in Hong Kong declined in 2009 due to the global financial crisis. The figures rebounded slightly in 2010 as business activity levels increased, bringing more expatriates back to the city. For example, HSBC moved its group CEO's principal office to Hong Kong in January 2011. The figures continued to rebound slightly in 2012, with the total number of regional headquarters and offices up by 2.0% and 4.3%, respectively.

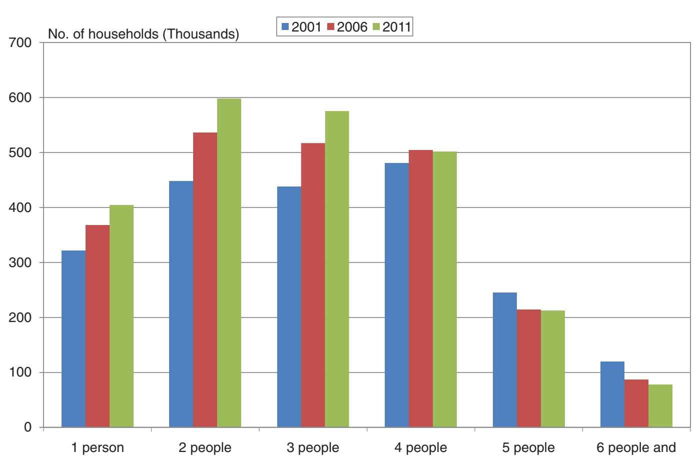
According to the Immigration Department, 30,557 and 28,625 visas were issued in 2011 and 2012, respectively, under the General Employment Policy which allows applicants who possess special skills, knowledge or experience to work in Hong Kong.

Wan Chai, with its close proximity to both Central and Causeway Bay business districts, is considered a good choice for expatriates, with or without families, as location and convenience often take precedence over other factors when deciding where to live on a temporary basis. Proximity to place of work is considered a highly important criteria driving demand for serviced apartment units from this demand group.

5.1.2.2 Local demand

A trend towards smaller households, or household splitting, has been noted. Between 2001 and 2011, the percentage of large families with five or more people fell from 18% to 12%, while the percentage of households with only one or two people increased by 5 percentage points from 37% to 42% over the same period.

Number of households by size, 2001 vs 2006 vs 2011



Source: Census and Statistics Department, Savills Research & Consultancy

The shift towards smaller households is mainly due to a move away from the traditional extended family, combined with increasing levels of personal wealth which is allowing grown children to make separate accommodation arrangements. This larger number of small families, mostly comprising the younger generation, has led to an increase in potential demand for serviced apartments, especially at a time when residential prices are at a record high, pushing many young families into the leasing sector.

5.1.2.3 Business travellers

A large number of business travellers from mainland China and expatriates on lower budgets, often opt to stay in apartment-like units in areas such as Wan Chai, Causeway Bay and North Point, which offer lower rents than traditional core business districts such as Central and Tsim Sha Tsui. Sheung Wan is an emerging area and has been successfully attracting many young executives from the finance industry, given its close proximity to Central. Hotel-like serviced apartments in major shopping areas are also popular with tourists from other Asian countries, such as Taiwan, Japan and mainland China.

5.1.2.4 Immigration schemes

The Admission Scheme for Mainland Talents and Professionals[34] was implemented on 15 July 2003. By the end of 2012, 59,325 mainland talents and professionals had been admitted under the scheme, with 10,304 admitted in 2012 alone. With an initial stay of 12 months after successful admission, serviced apartments have become the choice of accommodation as new entrants determine their job prospects and living requirements. This scheme is expected to continue to support the serviced apartment market.

The Quality Migrant Admission Scheme, implemented on 28 June 2006 which allows successful applicants to bring their spouse and children to Hong Kong, is expected to further boost demand for short-term accommodation. At the end of 2011, a total of 2,094 applicants were allocated quotas.

5.1.2.5 Summary of potential demand groups

Overseas and Chinese expatriates, as well as business travellers, local bachelors and young working couples, can be regarded as potential demand groups for serviced apartments in Hong Kong.

Demand groups	Number*	Date of source
Overseas residents with employment visas (except domestic helpers and labourers)	52,534 (2011 and 2012 figures)	2012
Domestic households with one or two people	1,045,900	2012
Business travellers	3,584,400 (per annum)	2012
Processed applications under the Admission Scheme for Mainland Talents and Professionals	59,325	2012
Quality Migrant Admission Scheme	2,094	2011
Total	4,751,001	
Total existing serviced apartment stock	18,625	***2012***

* All numbers are cumulative unless otherwise stated.

Source: 2011 By-census, HKTB, Immigration Department, Savills Research & Consultancy

34 The objective of the Scheme is to attract qualified Mainland talents and professionals to work in Hong Kong in order to meet local manpower needs and enhance Hong Kong's competitiveness in the globalised market. The Mainland talents and professionals must possess skills and knowledge not readily available or in shortage locally. Admitted talents and professionals must be able to contribute to the operation of the firms and sectors concerned with a view to facilitating economic development in Hong Kong. The Scheme also caters for the entry of talents and professionals in the arts, culture and sports sectors as well as those in the culinary profession so as to enhance Hong Kong's status as an Asian world city.

5.1.3 Impact of government policies on the serviced apartment sector

Infrastructure projects planned and underway

In recent years the HKSAR Government has initiated a number of large-scale infrastructure and development projects, such as the KTD, the new international cruise terminal and the West Kowloon Cultural District, with infrastructure projects in the pipeline including a number of network extension projects by MTRC, including the West Island Line, Sha Tin–Central Link, Kwun Tong Line Extension, South Island Line (East) and the Guangzhou–Shenzhen–Hong Kong Express Rail Link, a high-speed rail link to China. These projects will attract construction-related professionals to Hong Kong for long-term appointments or project-based work, supporting corporate occupier demand for serviced apartments.

Recent measures to dampen the property market

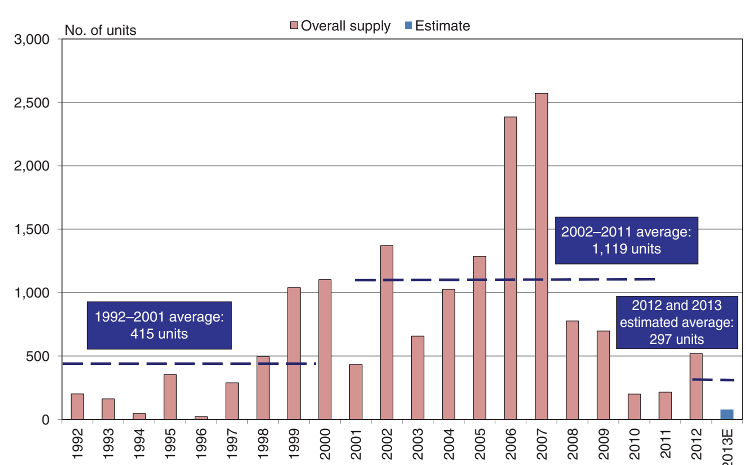
Although the Hong Kong Government has enacted a number of measures to dampen the residential market, including the introduction of an SSD and a BSD while limiting the availability of credit, particularly for non-local buyers, the effect on the serviced apartment sector has been limited.

Although the government has imposed a double stamp duty on non-residential property transactions, since the measure took effect in February 2012, it has had little impact on serviced apartment rents.

5.2 Analysis of historical and forecast supply, including future developments, conversions and refurbishments, overall and by district

From 2002 to 2011, the rate of serviced apartment supply in Hong Kong increased, with an average of 1,119 units completed each year, compared with only 415 units per annum completed between 1992 and 2001. However, estimated new supply will drop to only 297 units in 2012 and 2013.

New serviced apartment supply, 1992–2013



Source: Savills Research & Consultancy

Supply increased in 2006 and 2007 as a result of the completion of Harbourview Horizon (1,980 units) and Harbourfront Horizon (1,662 units) in Hung Hom. Supply then fell to approximately 780 completed units in 2008, including Shama Fortress Hill in North Point (115 units). Approximately 700 units were provided in 2009, including GardenEast in Wan Chai (216 units). There were 519 units completed in 2012.

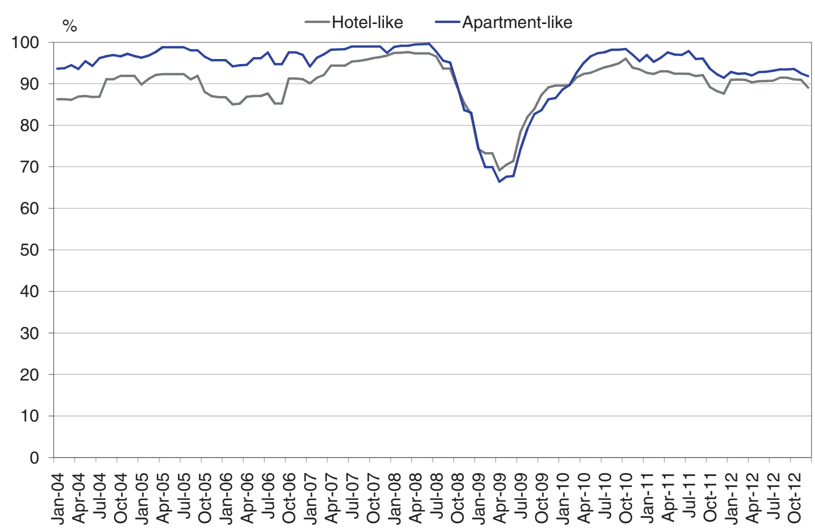
5.3 Analysis of demand and occupancy levels (historical, forecast and trends), overall and by classification

During 2004 and 2005, the average occupancy rate for serviced apartments stood at 90%, with an upward trend after Q3/2006 reflecting the growing financial services sector, increasing tourist numbers and the increasing popularity of this type of accommodation. The average occupancy rate peaked at a record high of 98% in June 2008, with some individual apartment buildings achieving 100% occupancy.

Hotel-like and apartment-like units show a trend similar to the overall serviced apartment occupancy rate over this period, with apartment-like units recording higher volatility. From Q1/2004 to Q3/2008, the occupancy rate of apartment-like units stood at an average of 96.9% while hotel-like units reached 91.3%, 5.6 percentage points lower than that of the apartment-like units.

Adversely affected by the global financial crisis of 2008, layoffs were witnessed at multinational and financial services firms, discouraging the arrival of expatriates who are considered a major demand driver for serviced apartments. The occupancy rates of both hotel-like units and apartment-like units fell in April 2009 to 69.2% and 66.4%, respectively.

Serviced apartment occupancy rates by type, Jan 2004–Dec 2012



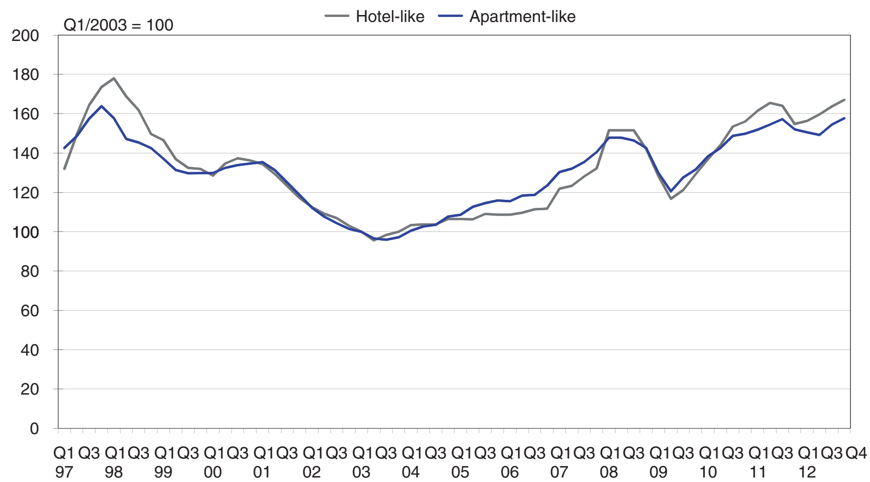
Source: Savills Research & Consultancy

In Q1/2010, with business activity and the financial markets gradually improving after a series of policies by governments and central banks world-wide to stimulate the global economy in 2009, the occupancy rates of hotel-like and apartment-like units both passed 90%. In Q4/2012, the occupancy rate of apartment-like units reached 91.9%, 3 percentage points higher than that of hotel-like units.

In addition, we have noted an 'overflow effect' from the high-occupancy hotel sector, given the high room rates and limited supply. Serviced apartments which provide a wide range of services and prices achieve market differentiation and capture a variety of visitor types.

Average rents

Serviced apartment rental index by type, Q1/1997–Q4/2012



Source: Savills Research & Consultancy

Serviced apartment rents reached a low in mid-2003 as expatriates left the city during the SARS outbreak and visitor numbers fell. Hotel-like apartments were also affected, experiencing a 7% fall in rental rates, compared with a 5% decrease in apartment-like rental rates.

After Hong Kong was removed from the World Health Organization list of areas with local transmission of SARS in June 2003, and with the introduction of the IVS, the local economy began to recover. Serviced apartment rents, driven by strong economic growth and demand from the thriving tourism sector, have rebounded since 2004. Average rents rose by 44% over the full cycle, with a 9% growth achieved in a single quarter in Q1/2008.

In addition to the global financial crisis, a peak in the supply of serviced apartments of 2,571 units in 2007 also exerted downward pressure on the overall average rent, causing the average rent to decline by 20% from Q3/2008 to Q2/2009. Again, hotel-like rents experienced a larger decrease of 23% compared with the 18% fall recorded for apartment-like rents.

With a revival in business activity and the resumption of the IPO pipeline in 2009, sentiment in the serviced apartment sector improved. Expatriates, especially those employed by the financial services sector, returned to Hong Kong in 2H/2009, increasing average rents by 43.2% and 30.9% for hotel-like and apartment-like units, respectively, to Q4/2012.

5.4 Three-year outlook of the serviced apartment market in respect of forecast supply, occupancy rates and average rents

5.4.1 Future demand and occupancy

Although the job market has stabilised in the short term with more than half of employers intending to retain headcount, according to the Hudson Report, October to December 2012, employers in the banking and financial services sector, who generally pay higher housing allowances, are reporting an increase in their intentions to lower staff levels during the next quarter. The sector continues to be affected by global uncertainties as well as a lack of local IPO business, and many companies are now more cost-conscious with regard to housing budgets. This will indirectly affect demand for serviced apartments in the short term. Cost conscious companies have a higher demand for smaller or studio serviced apartments.

Over the longer term, long-stay visitors' preferences have shown a clear shift towards serviced apartments, illustrated by the fact that the occupancy rates of serviced apartments have been higher than hotel occupancy rates since 2003.

5.4.2 Future supply

Future supply is expected to be comparatively low, as only 75 units are expected to be completed in 2013, compared with average new supply of 1,119 units per annum over the past ten years. All of the units are located on Hong Kong Island. The scale of soon-to-be-completed projects is small in terms of the number of rooms, as only two projects with 45 and 30 rooms are to be completed.

The serviced apartment market in Hong Kong has mostly been dominated by small, independent operators or small local chains. The trend towards the inclusion of serviced apartments within major five-star hotels is fairly new, but is expected to continue, as international chains seek to develop the serviced apartment subsector.

In 2013, two serviced apartment developments providing a total of 75 units on Hong Kong Island will be completed.

Future supply of serviced apartments, 2013

Name	District	No. of units	Remarks
130–136 Johnston Road	Wan Chai	45	New development
194–196 Queen's Road Central	Central	30	New development
	Total:	***75***	

Source: Savills Research & Consultancy

For 2014 and 2015, while we have identified the serviced apartment supply shown in the table below, the number of units to be completed is not yet known. Moreover, as some hotel units are interchangeable with serviced apartment units, we believe that some of the upcoming hotels in 2014 and 2015 may change some or all of their hotel rooms to serviced apartment use, given the strong demand which currently exists.

Future supply of serviced apartments, 2014E–2015E

Name	District	Remark
3 Broadwood Road	Happy Valley	New development
38–42 Lyndhurst Terrace	Central	New development
98–100 Tung Lo Wan Road	Causeway Bay	New development
11–13 Lin Fa Kung Street West	Causeway Bay	New development
11–15 Lin Fa Kung Street East	Causeway Bay	New development

Source: Savills Research & Consultancy

5.4.3 Average rental rates — analysis and forecast

Despite global economic uncertainties, the serviced apartment market is likely to experience further rental increases and near full occupancy rates in the near future, given the continued economic growth in mainland China (7.8% GDP forecast for 2012 by the IMF) and the current tight occupancy situation.

Demand for serviced apartments hinges to a large extent on business activity and therefore is similar to the office market. As a result, there is a high correlation between changes in serviced apartment rental rates and changes in rental rates for Grade A office space. A forecast can be developed by considering this relationship, alongside serviced apartment stock, assuming a 1,119-unit increase in 2014 and 2015, equal to ten-year average supply from 2001 to 2011.

The economy is expected to recover in 2013, and supported by limited supply, rents are expected to see growth of between 3.0% and 7.6% per annum from 2013 to 2015.

Serviced apartment rental forecast, 2013E–2015E

Year	Rental growth (%)
2013	+7.6%
2014	+6.7%
2015	+3.0%

Source: Savills Research & Consultancy

6.0 RESIDENTIAL MARKET OVERVIEW

6.1 Overview of the residential sector

6.1.1 Classification of residential units

Private residential units can be grouped into five classes by their unit size, measured in saleable area[35], according to the Rating and Valuation Department.

Unit size (saleable area)	Rating and Valuation Department classification
less than 40 sq. m./430 sq. ft.	Class A
40–69.9 sq. m./430–752 sq. ft.	Class B
70–99.9 sq. m./753–1,075 sq. ft.	Class C
100–159.9 sq. m./1,076–1,721 sq. ft.	Class D
160 sq. m./1,722 sq. ft. or above	Class E

Source: Rating and Valuation Department

6.1.2 Stock and distribution

Over the past ten years, residential supply in the suburban area (New Territories) has outpaced supply in the urban area (Hong Kong Island and Kowloon). As a result, the total amount of stock in the suburban area reached 39.3%, 2.6 percentage points higher than in 2002. It is noted that the number of large-scale residential developments on Hong Kong Island with over 1,000 units have been in scarce supply over the last ten years. Only four projects on Hong Kong Island have over 1,000 units and no large-scale projects have been completed after 2008.

Large-scale residential developments on Hong Kong Island, 2003–2012

Area	Name of development	No. of units	Completion year
Pokfulam	Residence Bel-Air	2,744	2008
Sai Wan Ho	Grand Promenade	2,020	2005
Sheung Wan	Queen's Terrace	1,148	2003
Ap Lei Chau	Sham Wan Tower	1,040	2004

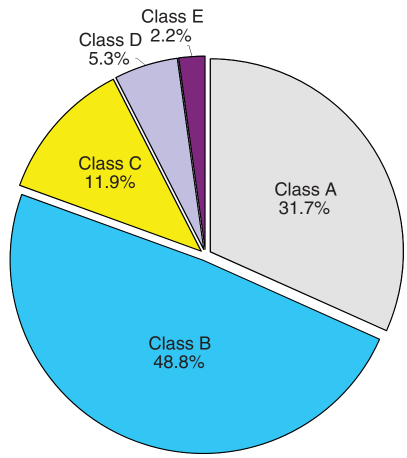
At the end of 2011, total private residential stock in Hong Kong amounted to 1,110,561 units, with 323,346 units (29.1%) located on Hong Kong Island, 350,234 units (31.5%) in Kowloon and 436,981 units (39.3%) in the New Territories.

35 "A domestic unit is measured on the basis of 'saleable area' which is defined as the floor area exclusively allocated to the unit including balconies and verandahs but excluding common areas such as stairs, lift shafts, pipe ducts, lobbies and communal toilets. It is measured from the outside of the exterior enclosing walls of the unit and the middle of the party walls between two units. Bay windows, yards, gardens, terraces, flat roofs, carports and the like are excluded from the area" according to the Rating and Valuation Department.

From 2002 to 2011, Class B residential units accounted for most of the stock in Hong Kong, followed by Class A, Class C, Class D and Class E. We note that the proportion of luxury to overall residential units rose slightly from 2002 to 2011. The ratio was 7.3% in 2002 and 7.5% in 2011.

In terms of sizes of these units, 352,056 units (31.7%) were in Class A, 542,381 units (48.8%) were in Class B, 132,600 units (11.9%) were in Class C, 59,156 units (5.3%) were in Class D and 2,478 units (2.2%) were in Class E.

Private residential stock by class, 2011



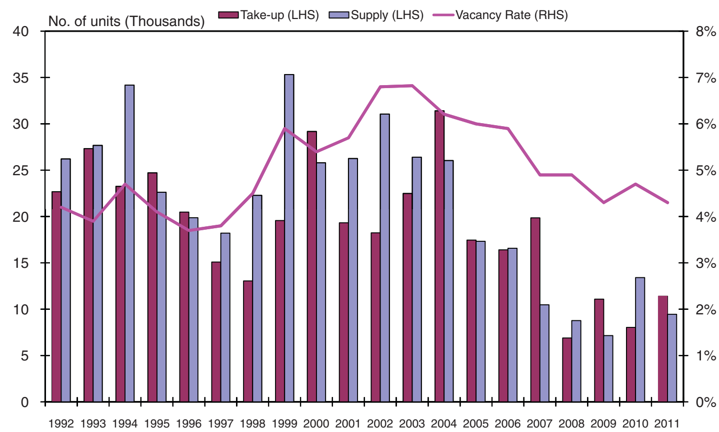
Source: Rating and Valuation Department, Savills Research & Consultancy

6.1.3 Average vacancy rates, take-up and transaction volumes

After average vacancy rates[36] reached their peak (since 1992) in 2002 and 2003 at 6.8%, they fell gradually from 2003 to 2009 and reached 4.3% in 2009. The vacancy rate then rebounded to 4.7% in 2010 due to the completion of a number of large projects of over 1,000 units each, such as Festival City Phases 1 and 2 (2,728 units), Le Prestige (1,688 units) and Central Park Tower Phase 2 (1,068 units), which developers had started in previous years due to improved property market sentiment. However, strong economic growth which resulted in an increase in demand from both investors and end-users led to strong take-up of 11,400 units in 2011, which exceeded supply for the year of 9,449 units, and reduced the average vacancy rate to 4.3%.

36 Vacancy indicates that a unit was not physically occupied at the time of the survey conducted at the end of the year according to the Rating and Valuation Department. The average vacancy rate is obtained by dividing the vacancy by total stock at the end of the year.

Average vacancy rate, take-up and supply, 1992–2011



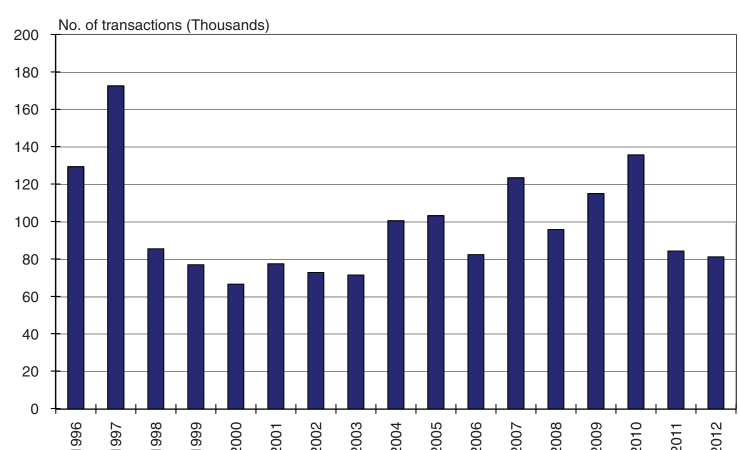
Source: Rating and Valuation Department, Savills Research & Consultancy

6.1.4 Transaction volumes

Although an increase in local mortgage rates was implemented in 2006 to dampen residential market activity, transactions rebounded in 2007 as a result of strong local economic growth and an inflationary environment.

The global financial crisis in 2008 significantly affected the financial sector and lowered residential transaction volumes. The subsequent injection of liquidity into the market by the US Federal Reserve as well as a prolonged period of low interest rates, fuelled local home buying activity and an influx of mainland Chinese capital to the market in 2009 and 2010. However, to curb speculation in the residential market the government introduced the SSD in November 2010, which is charged on residential properties resold within two years. Market sentiment then turned sluggish and transactions in 2011 decreased significantly as a result. In November 2012, the government extended the resale period for the SSD from two years to three years, and introduced a BSD on non-local and corporate buyers to further suppress investment demand.

Residential unit transaction volumes, 1996–2012



Source: Rating and Valuation Department, Savills Research & Consultancy

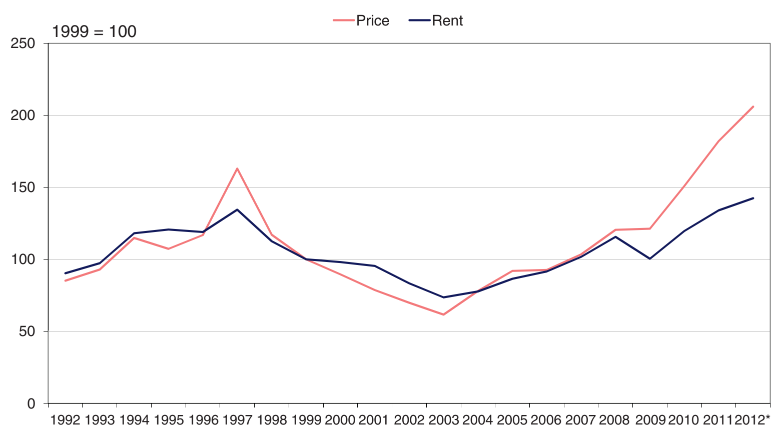
6.1.5 *Average prices and rents*

6.1.5.1 Average prices

The injection of liquidity into the market by the US Federal Reserve, and a long period of low interest rates, fuelled the rise of property prices, leading to the property price index passing its previous 1997 peak, despite a series of government measures to curb home prices, including a tightening of credit. According to the Rating and Valuation Department, the overall residential price index in 2012 was 13.2% (provisional) higher than in 2011.

From mid-2009, negative real deposit rates were another driver of residential prices. Negative real deposit interest rates mean a negative reward for storing wealth in cash, as inflation, resulting from the US Federal Reserve's QE plans, depletes the buying power of cash. Under these conditions, individuals prefer to preserve their wealth in the form of real assets, such as property, as a hedge against inflation. This has served to drive property prices up over recent years.

Average price and rental indices, 1992–2012



Source: Rating & Valuation Department, Savills Research & Consultancy * Provisional

6.1.5.2 Average rents

Residential rents have followed a similar trend to prices, only demonstrated less volatility as rental movement is more driven by housing demand than speculative activity. Economic recovery from mid-2003 rejuvenated housing demand and rents increased by 57% from 2003 to 2008 before the negative impact of the global financial crisis. The global financial crisis adversely affected economic activity and the employment market, resulting in a year-on-year decline in rents of 13% in 2009. Supported by a gradual economic recovery and a limited supply of flats, residential rents rebounded by 41.9% from 2009 to 2012. According to the Rating and Valuation Department, overall residential rents in 2012 were 6.3% (provisional) higher than in 2011.

6.1.6 *The impact of government policies on the residential market*

From Q3/2009, the government has enacted a number of measures to cool the residential market and ensure the healthy development of the sector. The measures can be classified into three major approaches — raising stamp duty, tightening credit and increasing supply.

6.1.6.1 Stamp duty

On 24 February 2010, the Financial Secretary announced that starting from 1 April 2010, stamp duty on properties valued at over HK$20 million would be raised from 3.75% to 4.25%, and buyers would no longer be allowed to defer payment of stamp duty on such transactions. The act was the first move to cool the luxury residential sales market using stamp duty.

In light of rising home prices in both the mass and luxury sectors, the Financial Secretary announced the SSD on 19 October 2010, whereby 15% of the property price is levied on residential units resold within six months, 10% on residential units resold between six and 12 months, and 5% on residential units resold between 12 and 24 months. On 26 October 2011, the Financial Secretary then announced an amendment to the Stamp Duty Ordinance to adjust the rates and to extend the holding period in respect of the SSD. Under the adjusted regime, any residential property acquired on or after 27 October 2012, and resold within 36 months, would be subject to the new rates of SSD. The new rate is set at 20% if the property has been held for six months or less, 15% if the property has been held for more than six months but for 12 months or less, and 10% if the property has been held for more than 12 months but for 36 months or less.

In October 2012, the government introduced a BSD of 15% of the higher of the stated consideration or the market value of the property for non-local and corporate buyers, in order to further curb speculation.

On 22 February 2013, the Financial Secretary doubled the stamp duty for all buyers, except for Hong Kong Permanent Residents, who do not own any other residential property in Hong Kong at the time of acquisition.

All the stamp duty is now charged on the signing of the sale and purchase agreement, instead of the current practice of charging it when a conveyance on sale of non-residential property is executed. The new stamp duty rates are applicable to non-residential property transactions.

Impact on the residential property market

The increase in stamp duty for properties valued at over HK$20 million has had minimal effect, with prices for class E units continuing to rise.

The introduction of the SSD increased the transaction costs for residential properties and impacted the transaction volume significantly. According to the Land Registry, the transaction volume of residential properties in 2011 declined by 37.8% to 84,402 units, compared with 2010. However, the effect on prices seems to be limited. Mass (classes A, B and C) and luxury (classes D and E) residential price indices dropped in December 2010 by 0.43% and 1.0%, respectively, compared with November 2010. The two price indices then rose in January 2011 to a level exceeding that of December 2010, indicating that the SSD had a limited effect on prices. In October 2012, the government lengthened the holding period for the SSD, in order to increase its effectiveness, and to raise rates.

Given limited timing, the effect of the extended SSD, the BSD and double stamp duty remains to be seen.

6.1.6.2 Credit tightening

Although the interest-rate movements in Hong Kong have essentially moved in lockstep with the US Federal Funds target rate due to the pegged exchange rate system, the HKMA has carried out a number of other measures to tighten credit, rather than affecting the mortgage interest rate directly.

Limit on LTV ratio

The HKMA has lowered the loan to value ("LTV") ratio several times for different price tiers from October 2009, as follows:

Maximum LTV ratio requirements for residential properties of different value, 2009–present

HK$ million	Before 23 Oct 2009	Between 23 Oct 2009 and 13 Aug 2010	Between 13 Aug 2010 and 19 Nov 2010	Between 19 Nov 2010 and 11 Jun 2011	11 Jun 2011 and onward
>20.0	70%	60%	60%	50%	50%
12.0–20.0	70%	70%	60%	60%	50%
10.0–12.0	70%	70%	70%	60%	50%
8.0–10.0	70%	70%	70%	60%	60%
7.0–8.0	70%	70%	70%	70%	60%
<7.0	70%	70%	70%	70%	70%

Source: HKMA, Savills Research & Consultancy

The LTV ratio for residential properties valued from HK$7 million to HK$10 million fell from 70% to 60%, and that of property valued over HK$10 million decreased from 70% to 50%. The measure lowered the gearing available for luxury properties and caused a slower price growth in the luxury residential sector.

Impact on residential prices

According to the Rating and Valuation Department, the price index of class A, B and C units in October 2012 was 71.1% higher than in October 2009, compared with a rise in the property price index of class D and E properties of 40.9%. The tighter credit available for larger and luxury residential properties may have contributed to the smaller rise in prices.

6.1.6.3 Increase in supply

In view of rising home prices, the government implemented a series of measures to increase residential supply.

Home Ownership Scheme ("HOS")

The government halted the construction of new HOS estates indefinitely in 2003. The secondary market for 300,000 HOS flats was then revitalised; over 60,000 flats had land premiums paid and 250,000 or so flats had no premiums paid, and these were put on sale on the open market and on the HOS secondary market. These flats are mostly priced below HK$2 million and are situated in various districts of the territory. The government then announced the resumption of the HOS in the 2011/2012 Policy Address. In addition, the government will allow 5,000 eligible "white-form applicants" to purchase HOS flats on the secondary market each year, without paying the land premium.

Land supply

The government has actively found ways to explore new residential sites available to serve as long-term residential supply. These actions have included increasing the rate of launch and development of MTR and Urban Renewal Authority ("URA") projects, lowering the threshold from 90% to 80% when applying for a compulsory auction and increasing the frequency of government-initiated land tenders. Meanwhile, the government is exploring the use of green belt areas in the New Territories which are de-vegetated, deserted or are no longer performing their original functions, and convert them into housing sites. It has also examined "Government, Institution or Community" sites to avoid the under-utilisation of sites long reserved but without specific development plans, and has studied ways to reduce the restrictions posed by government utilities on the development of adjacent areas.

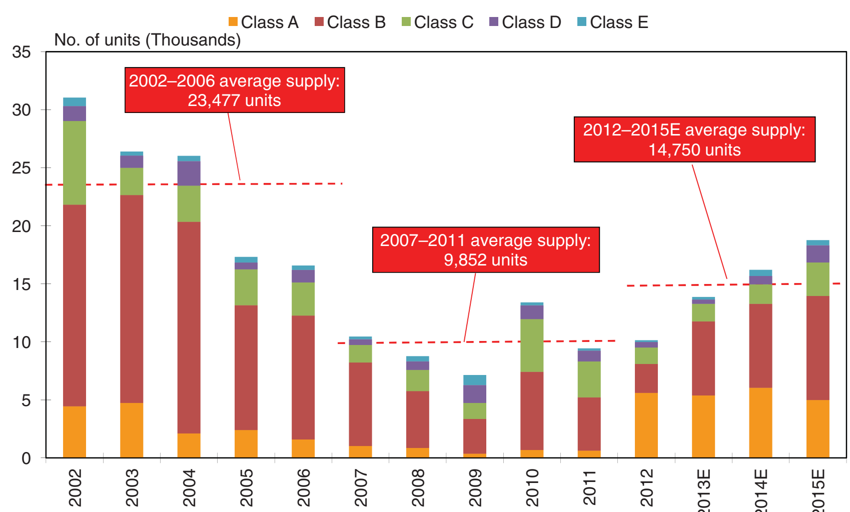
In the Policy Address 2013, the Government stressed that they are tackling the housing problem by increasing residential land supply. As a result future land supply will focus on residential land uses.

Impact on residential prices

Although residential prices softened soon after the announcement of the policies, the actually effect of the measures is questionable. The new HOS and land supply policies require time for completion and will not affect residential supply in the short term. In fact, the development of the HOS may have squeezed some of the land resources originally intended for private residential developments and may worsen the undersupply situation for this sector.

6.2 Analysis of historical and forecast supply, including future developments, conversions and refurbishments, overall and by district

Historical and future private residential supply by class, 2002–2015E



Source: Rating and Valuation Department, Buildings Department, Savills Research & Consultancy

Since the moratorium on land sales in late 2002 and the agreement by the MTRC and KCRC to postpone property developments to 2007, a market perception of undersupply in the coming years developed, which induced some purchasers to enter the property market. The resumption of the application list, which saw only a handful of large-scale sites, as well as the government's tough stance on accepting applications, reinforced the government's intention to keep supply firmly under control.

Supply over 2002 to 2006 reached 23,477 units per annum, which is significantly more than the average supply from 2007 to 2011 of 9,852. The low level of supply from 2007 to 2011 is one of the reasons fuelling home prices in the recent years.

6.2.1 Future supply by district

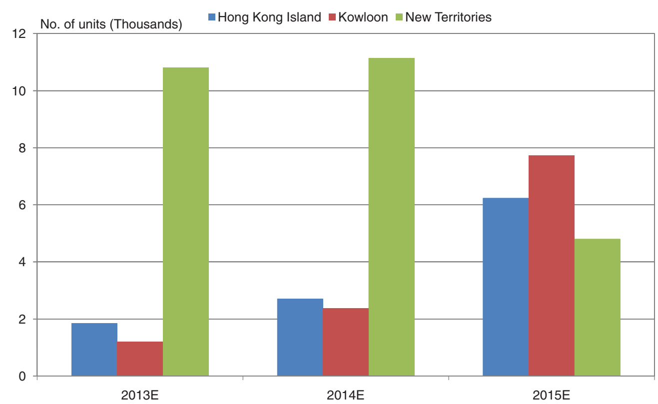
From 2013 to 2015, the New Territories will supply most of the residential units among the three districts, with an average of 8,917 units per year, followed by Kowloon which has an average annual supply of 3,768 units per annum. Hong Kong Island has the lowest expected supply of about 3,599 units per year from 2013 to 2015.

On Hong Kong Island, the number of large-scale projects is limited, with only the Company's 200 Queen's Road East Project (approximately 1,300 units) offering over 1,000 units. It is estimated to be completed in 2015. Nan Fung Development's 31–69 Chai Wan Road project (approximately 700 units) to be completed in 2015 and New World's 5 Kai Yuen Street, Lower Kai Yuen Lane and Upper Kai Yuen Lane project (611 units) to be completed in 2014 are examples of two other major developments on Hong Kong Island in the coming years.

In Kowloon, the St Joseph's Home For the Elderly redevelopment project (2,120 units) in Ngau Chi Wan, and sites C and D at Austin MTR Station (1,266 units) in Yau Ma Tei are the two largest projects providing over 1,000 units.

The New Territories will serve as the source of major supply in the future, with a number of projects of over 1,000 units to be completed in the coming years. The Lok Wo Sha project (3,537 units) in Ma On Shan, Yoho Town Phase 3 (2,508 units) in Yuen Long, the Reach (2,595 units) in Yuen Long and the Beaumount in Tseung Kwan O (1,777 units) are the largest projects to be completed.

Future residential supply by district, 2013E–2015E



Source: Buildings Department, Lands Department, MTRC, URA, Company Reports, Savills Research & Consultancy

6.3 Analysis of demand

6.3.1 Birth and marriage rates

According to the Census and Statistics Department, the number of births in 2012 reached the second highest level of about 91,600 and the number of marriages in 2012 reached an historical high of 60,300. The figures suggest strong end-user demand for residential units.

6.3.2 Household analysis

We have already seen the growth rate in the number of households in Hong Kong over the past decade and its close relationship with the growth of total housing stock as in **Section 5.1.3.2.**

According to the Census and Statistics Department, the downsizing of households, or household splitting as it is often known, has been noted. By Q4/2012, approximately 74% of households comprised two to four people, compared with 67% in 2001. This reflects an increase in the number of smaller families, mostly comprising the younger generation, which may favour smaller units in newly launched projects located in more distant areas, contributing to the population growth in the New Territories. Together with the increasing number of smaller households and the higher affordability of small- to medium-size units, demand for these types of units on Hong Kong Island will be the greatest among the three districts as it has the smallest average household size.

6.3.3 Mortgage interest rate

The low interest rate is considered a factor which has contributed significantly to the rise in home prices in recent years. The lower the interest rate, implying a low cost of borrowing from banks, leads to more affordable home purchases and a higher demand for homes. As a result, mortgage interest rates have an inverse relationship with mass home prices. According to the latest speech by the Chairman of the US Federal Reserve dated 20 November 2012, exceptionally low levels for the Federal Funds rate will likely be warranted at least through to mid-2015.

6.3.4 Future supply/demand dynamics

Supply over the period from 2012 to 2015 is expected to reach 14,750 units per annum, 49.7% more than average supply per annum of 9,852 units from 2007 to 2011. By considering new family formation in the coming years estimated by the Census and Statistics Department and future private and public housing demand, we found that there is a difference between housing supply and demand.

	Demand from new families
Demand from new families in 2013	30,800
Demand from new families in 2014	31,800
Demand from new families in 2015	31,900
Total demand	94,500
Net: Public rental housing supply from Housing Authorities from 2013 to 2015[37]	45,000
Net: Private residential supply from 2013 to 2015	48,852
Difference between supply and demand of residential units assuming no demolition from 2013 to 2015	*648*

Source: Census and Statistics Department, Housing Authorities, Housing Society, Savills Research & Consultancy

The 648 units is the estimated unfulfilled demand for housing excluding village type developments. This illustrates that despite the increase in supply from 2012 to 2015, the undersupply situation is expected to continue.

6.4 Three-year residential market outlook in respect of forecast supply, average prices and average rents

6.4.1 Price forecast

Although overall residential prices have risen 2.3 times from 2003 to 2012, and are now 26% above their 1997 peak, this uptrend is likely to stop in the future, as some positive factors which have fuelled mass-residential prices are outweighed by the series of cooling measures implemented by the government as well as the rising mortgage interest rate.

Assuming that the mortgage rate will rise to 2.8% with household income unchanged, residential prices need to adjust down by 20% for the affordability ratio to return to its historical (Q1/1998 to Q4/2012) mean of 40%. As a result, under a bearish scenario, the average residential price over the next three years could drop by a total of 20%.

However, given the fact that gearing is low (60% of residential properties are free of mortgages according to the 2011 census), the low level of speculation and that the government may lift some of the measures when prices begin to drop, we believe the average residential price over the next three years is more likely to drop by a total of nearer 10%.

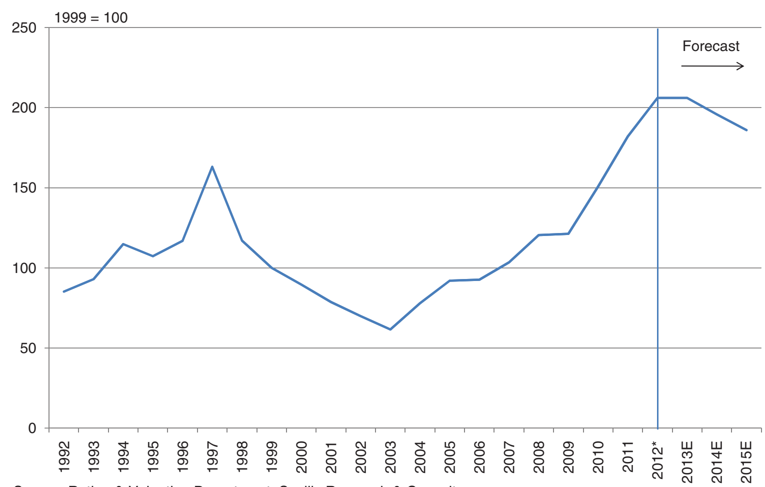
37 A total of 75,000 public rental housing units will be completed within 2012/2013 to 2016/2017, showing an average of 15,000 units will be completed per annum according to Housing in figures by the Housing Authorities.

Residential price forecast, 2013–2015

Year	Mass price change (%)
2013	0.0
2014	-5.0
2015	-5.0

Source: Savills Research and Consultancy

Residential price index, 1992–2015E



Source: Rating & Valuation Department, Savills Research & Consultancy

* Provisional

7.0 MICE MARKET OVERVIEW

7.1 MICE market development in Hong Kong

Despite a structural economic shift away from the territory's traditional manufacturing base, Hong Kong has remained a popular meeting point for buyers and suppliers, given its strategic location, well established infrastructure and other competitive advantages. The completion of phase II of HKCEC and KITEC in the 90s strengthened Hong Kong's position as the 'showroom' for manufacturers of the PRD. At the same time, the transformation of Hong Kong into an international finance centre and tourist/retail destination made the city a regional hub for international MICE events.

Given growing demand for exhibition space from HKCEC's clients, HKCEC started its second phase of expansion in May 2006, which was completed in April 2009. The project has brought 19,400 sq.m. of additional exhibition space to HKCEC.

Hong Kong is recognised around the world as one of the best destinations for MICE and business travellers; in 2011, Hong Kong was named the Best Business City in the World at the 2011 Business Traveller Asia-Pacific Travel Awards, and was ranked first at the Best MICE City Awards organised by CEI Asia magazine.

HKTDC has made an enormous effort to bolster the Hong Kong MICE market, especially on the exhibition front. Both the number of exhibitors and trade buyers at HKTDC-organised merchandised trade fairs have increased by more than 40% from FY2005/2006 to FY2011/2012[38], reaching 32,774 and 675,300 in FY2011/2012, respectively.

38 From 2005/2006 to 2011/2012. Source: HKTDC annual reports 2005/2006 and 2011/2012.

Ten of HKTDC's trade fairs ranked first of their kind in Asia in terms of number of exhibitors in FY2011/2012, while three events, namely the HKTDC Hong Kong Gifts and Premium Fair, the HKTDC Hong Kong Watch & Clock Fair and the HKTDC Hong Kong Electronics Fair (Autumn Edition) hosted the largest number of exhibitors among similar kinds of exhibitions globally in the same year.

7.2 Facilities and upcoming developments

7.2.1 Existing exhibition and convention facilities

There are a number of exhibition facilities in Hong Kong hosting different kinds of international, regional and local trade and consumer exhibitions. The larger-scale and more popular choices among large exhibitors are HKCEC, AsiaWorld-Expo and KITEC, in which a high proportion of exhibitions, conferences and corporate events are held given their size, strategic location and variety of facilities.

7.2.2 Conference/meeting facilities in hotels

Conference and meeting facilities in Hong Kong are to be found in most major hotels which, aside from lodging, offer theatre halls, classrooms, banqueting facilities and reception areas. Few, however, offer exhibition space and conference facilities with meeting rooms, although several have ballrooms which are appropriate for smaller exhibitions.

The provision of conference facilities in hotels will greatly improve in 2018 with the completion of Hopewell Centre II in Wan Chai, offering an alternative to HKCEC.

7.2.3 Future exhibition and convention facilities[39]

The Hong Kong government is currently examining the feasibility of a HKCEC Phase 3 expansion, due to the tight supply of exhibition space at HKCEC and AsiaWorld-Expo during peak seasons. In November 2011, the Legislative Council Panel on Commerce and Industry noted that the government was in discussion with AsiaWorld-Expo developers to carry out the AsiaWorld-Expo Phase 2 expansion as soon as possible. The AsiaWorld-Expo Phase 2 expansion, if carried out, will expand the facility's exhibition area from 66,000 sq.m. to 100,000 sq.m..

The lack of development land on Wan Chai harbourfront for the Hong Kong Convention and Exhibition Centre Phase 3 expansion, and the location of AsiaWorld-Expo, away from Hong Kong's CBD are the current difficulties facing these two expansion projects. However, the AsiaWorld-Expo expansion project does not face land constraints.

Mr Gregory So, Secretary for Commerce and Economic Development stated in the Legislative Council on 9 January 2013 that the government has realised that there is a strong demand for MICE space in peak seasons. The government noted that from 2010 to 2012, HKCEC turned down a total of 44 applications for renting exhibition venues because of a shortage of space, and among them, only 13 cases were concerned with trade exhibitions. Over the same period, HKCEC also declined a total of 89 applications for conference venues due to a shortage of space, although the targeted dates for most of these applications fell in the peak seasons of the exhibition industry. Meanwhile, AsiaWorld-Expo has not rejected any applications owing to a shortage of space in the last three years. In 2012, the exhibition facilities of HKCEC reached saturation on 41 show days, which were mainly during the peak seasons of the exhibition industry. AsiaWorld-Expo was almost full for eight days in 2012, including the period during the September Hong Kong Jewellery and Gem Fair as well as the October China Sourcing Fair — Electronics and Components (Autumn Edition).

As these two projects are still in the planning stage, no confirmed timeline of completion can be released at this time.

39 *Source*: HKTDC.

7.3 Demand for MICE facilities

7.3.1 MICE visitors

Hong Kong has grown into a centre for conventions and exhibitions in Asia. In 2011, approximately 1.56 million overnight MICE visitors came to Hong Kong, a 9% increase from 2010 and a 33.9% increase when compared with 2008. In 2012 1.61 million overnight MICE visitors visited Hong Kong, a 3% increase over last year. The proportion of overnight MICE visitors to total overnight visitor arrivals also increased from 6.7% in 2008 to 6.8% in 2012.

Overnight MICE visitors

Year	No. of overnight visitors	YoY growth (%)
2008	1,167,657	
2009	1,164,848	-0.2
2010	1,429,941	+22.8
2011	1,562,940	+9.3
2012	1,606,154	+2.8

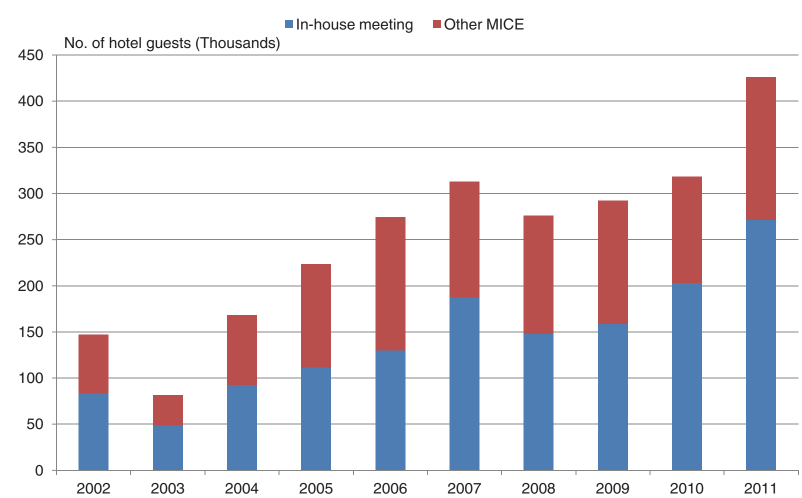
Source: HKTB, Savills Research and Consultancy

Mainland Chinese constituted the highest proportion (45.2%) of overnight MICE visitors across all major markets in 2012, compared with 35.5% in 2008. The total number of mainland Chinese overnight MICE visitors stood at 726,272 in 2012, while the same figure stood at 670,156 in 2011, a 61.9% increase from 2008.

MICE visitors also tend to spend more during their stay in Hong Kong. According to the HKTB, per capita spending of MICE visitors amounted to HK$9,187 per person in 2011, 25% higher than overnight visitors but 3% lower than business travellers in the same year.

7.3.2 MICE hotel guests

MICE hotel guests by category, 2002–2011



Source: HKTB, Savills Research & Consultancy

MICE visitors also support the local hospitality industry. In 2011, around 426,000 identified MICE visitors stayed in hotels, a 189% increase when compared with 2002. The proportion of MICE hotel guests also increased from 3.7% in 2002 to 5.5% in 2011, and this proportion ought to be higher as some incentive travellers may have been categorised as individual tourists, and some travellers with multiple business purposes (including attending MICE events) may have been categorised as business travellers.

7.3.3 MICE contribution to the local economy

The exhibition industry contributed HK$35.8 billion (US$4.6 billion) to Hong Kong's economy in 2010 (equivalent to 2.1% of Hong Kong's GDP), up 19% from 2008, according to the latest available figures from the Economic Impact Study commissioned by the Hong Kong Exhibition & Convention Industry Association. Of this amount, HK$9.8 billion (US$1.3 billion) came from visitor expenditure contributed by exhibition visitors, and HK$8.1 billion (US$1.0 billion) from spending by exhibition organisers and exhibitors (both local and overseas). In 2011, the number of exhibiting companies showcasing in Hong Kong rose 7.2% to 60,817.

7.4 Market outlook

Hong Kong has its own critical success factors which make it distinguishable from other Asian cities and continue to attract overseas MICE visitors:

- A diverse range of hotel accommodation, a variety of cuisines and international service standards.
- The presence of reputable and reliable professional service providers and a high standard of English.
- Almost one-third of the world's population lives within a five-hour flight of Hong Kong. More than 55 international airlines provide some 1,900 scheduled passenger flights per week connecting the city to more than 130 destinations. Hong Kong has made it easier by its visa-free entry for citizens of more than 170 countries.
- The Hong Kong dollar is a fully convertible currency which has been pegged at a fixed rate to the US dollar since 1983, and there are no restrictions on the flow of money. The comprehensive and fair legal system also ensures that business contracts are honoured and any trade disputes can be resolved in a fair and legal manner.
- Hong Kong is perceived as a secure and safe city offering diversity and sophistication with its fusion of east and west.

Nevertheless, the relatively high accommodation costs for visitors, as well as insufficient exhibition space resulting in unmet exhibitor demand, post challenges for the further growth of the local MICE market. The recently completed HKCEC extension should help boost five of HKTDC's mega fairs to become number one in the world in their industries[40].

The government and the HKTDC also intend to expand existing trade fairs to attract more exhibitors and buyers, as well as to further explore opportunities to lure international fairs and conferences from elsewhere in Asia to Hong Kong — ITU Telecom World 2006 and Asian Aerospace International Expo and Congress 2007 are successful examples.

Nevertheless, instead of entering into head-to-head competition with neighbouring cities such as Guangzhou, Shenzhen and Macau, Hong Kong aims to collaborate with these cities, especially in the areas of conventions and exhibitions, in which Hong Kong can utilise its high English proficiency, and comprehensive business and legal support systems to handle more sophisticated and high-end product trade fairs and more international conferences, while other Chinese cities can take on their size and cost advantages to handle large-scale commoditised product trade fairs, and more domestic and regional conferences.

The high-spending MICE visitors should continue to benefit the local hospitality, F&B and retail sectors during their stay in Hong Kong. For those who attend trade fairs and large conventions, held in HKCEC, AsiaWorld-Expo or KITEC, their first choice accommodation will be high tariff hotels within the vicinity of these facilities, while retail and F&B outlets in the same areas also stand to benefit.

40 *Source*: HKTDC.

8.0 DISTRICT OVERVIEW

8.1 Wan Chai/Causeway Bay district overview

8.1.1 Wan Chai/Causeway Bay overview

Wan Chai is a key area for business, conventions and exhibitions, entertainment and shopping, as well as art and cultural activities. The district is a key traffic hub and an interchange for east and west Hong Kong Island. Immediately to the east of Wan Chai are Causeway Bay, Happy Valley and North Point/Quarry Bay, while Admiralty, Central and Sheung Wan are all situated to the west of the district. The area is well served by the MTR, trams, ferries, buses and minibuses which employees and residents can commute to and from the district on a daily basis.

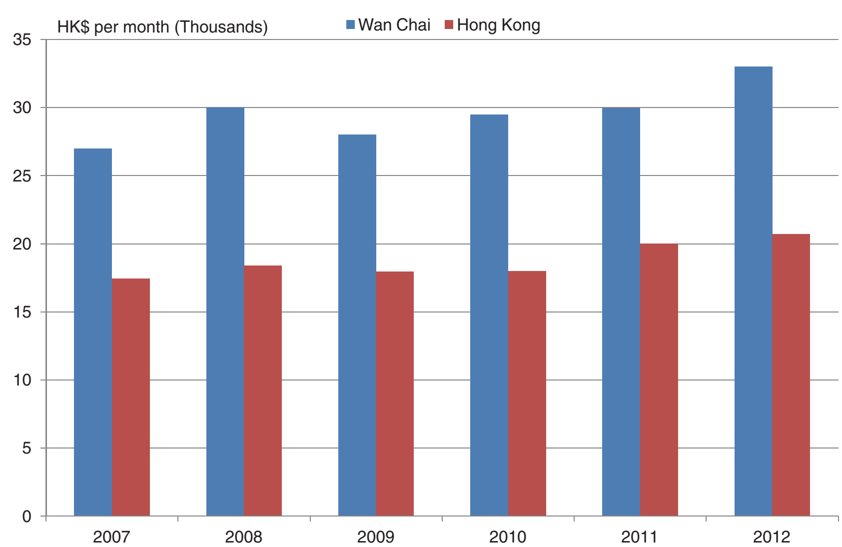
Key demographics of Wan Chai, 2012

Resident population	154,400
% of age group — 15 to 64	74.3
% of age group — 25 to 44	43.0
Working population	86,500
Project of mid year population in 2016	157,500
Medium household income (HK$ per month)	33,000

Source: Census and Statistics Department, Planning Department, Savills Research & Consultancy

With more affluent families moving into the area due to the increasing number of new residential developments via redevelopment, the median monthly household income of Wan Chai amounted to HK$33,000 in 2012, the highest among all districts in Hong Kong according to the 2012 Population and Household Statistics Analysed by District Council District.

Median monthly household income, Wan Chai and Hong Kong, 2007–2012



Source: Census and Statistics Department, Savills Research & Consultancy

Grade A office space in Wan Chai amounted to around 9.8 million sq. ft. at the end of 2011, 6.2 million sq. ft. of which was classified as Grade B. Wan Chai is a convenient location and the availability of high-quality Grade A offices at affordable rents has attracted major multinational tenants such as AXA, Mass Mutual, Procter & Gamble, Dow Jones Newswires, ExxonMobil and the Walt Disney Company. A number of major developers, such as Sun Hung Kai Properties and China Resources are also headquartered in the area. The area lacks enclosed shopping centres (except for a few retail podiums in commercial buildings operated in centre format) with street shops being the key retail format.

8.1.2 Major developments in Wan Chai

Conventionally, Wan Chai can be delineated into two areas, namely north Wan Chai and south Wan Chai, with Gloucester Road separating the two. In north Wan Chai there is a cluster of office developments, both private and public, such as Central Plaza, Sun Hung Kai Centre and Shui On Centre, as well as the Hong Kong Convention and Exhibition Centre ("HKCEC"), which is the premier exhibition and convention facility location in Hong Kong. South Wan Chai, on the other hand, comprises a mixture of Grade A offices, traditional residential buildings and street retail, but the area is being transformed with many URA projects underway.

The Wan Chai office district is now starting to move into south Wan Chai, and although there are many big-name landlords located in Wan Chai, many of them only own one or two assets in the area. The two landlords who have asset portfolios in Wan Chai are the Company and Swire Properties. The Company owns Hopewell Centre, QRE Plaza and GARDENEast (total floor area approximately 1 million sq. ft.), with the future completion of 200 Queen's Road East Project, (approximately 1,300 units) and Hopewell Centre II (approximately 1.1 million sq. ft.) expanding its property portfolio in south Wan Chai to over 2 million sq. ft., making the Company one of the largest landlords in Wan Chai in terms of floor space owned. Meanwhile, Swire Properties owns over 800,000 sq. ft. of office space in Three Pacific Place, 8 Queen's Road East and 28 Hennessy Road, as well as having developed and sold strata-title Star Crest (329 residential units) and 5 Star Street (25 residential units), all on the western edge of Wan Chai, in close proximity to Admiralty. The potential redevelopment of Asian House will further strengthen the office provision in the south Wan Chai office node.

As no major shopping centres exist in Wan Chai, the retail portfolio of the Company in the area, both current and future, which will amount to 640,000 sq. ft., would be the largest within the area.

A major new project in the district is Hopewell Centre II on Kennedy Road which has been proposed by the Company. The development will be a 55-storey conference hotel with around 1,024 rooms and will comprise 336,000 sq. ft. of commercial space. The proposed project also includes some roadwork improvements on Kennedy Road, Queen's Road East and Spring Garden Lane. Upon completion of the project, Hopewell Centre II will become a landmark hotel in the area, as well as a retail destination which should serve to attract more spending power.

The Grand Hyatt Hotel (572 rooms) and Renaissance Harbour View Hotel (862 rooms) both have extension and conversion plans which have been approved by the Buildings Department. The plans will add another 94,322 sq. ft. of hotel space to meet the increasing demand for accommodation. The Hong Kong Trade Development Council ("HKTDC"), the organisation which oversees the operation of HKCEC, has proposed to the government a third phase of expansion for HKCEC but this is still in the planning stage.

Meanwhile, a refurbishment of the China Resources Building complex will be completed in mid-2013 (currently 90% complete). The refurbishment comprises a renovation of the office tower and retail podium (the high block of China Resources Building) and the development of an 18-storey six-star hotel located in the high block of China Resources Building with 120 rooms, expected to be completed in 2016.

Other upcoming commercial developments include a refurbishment project at 8 Queen's Road East (formerly Sincere Insurance Building) which has already been taken-up by a well-known insurance firm who will relocate from Causeway Bay upon completion of the building next year.

Wan Chai, in particular south Wan Chai, is undergoing rapid redevelopment, particularly of many of the older residential buildings. With government support, the URA, in partnership with major developers, has a number of successful projects in the district, including The Zenith, a 904-residential-unit development by Chinese Estates completed in 2006, J Residence, a 381-residential-unit development by K.Wah, and recently Queen's Cube by Nan Fung.

Another large-scale URA project, 200 Queen's Road East Project, will provide a total of approximately 1,300 residential units with a total gross floor area ("GFA")[41] of 835,000 sq. ft. for residential and commercial use, together with public open space and a residential care home for the elderly. The project will also feature a cluster of themed shops catering to weddings and a culture gallery in three preserved historical buildings along Queen's Road East. Completion is anticipated in 2015 by developers Sino Land and the Company.

The following table sets out a list of future developments and infrastructure relevant to Wan Chai:

Development/infrastructure	Development information	Expected completion
Private residential developments		
200 Queen's Road East Project	approximately 1,300 units	2015
21–23 Wing Fung Street	N/A	Planning
137–143 Wan Chai Road	N/A	Planning
5–9 Hing Wan Street	N/A	Planning
Retail developments		
200 Queen's Road East Project	86,000 sq. ft.	2015
Hopewell Centre II	299,000 sq. ft.	2018
Hotel developments		
388–390 Jaffe Road and 12–20 Marsh Road	66,129 sq. ft. (91 rooms)	Q1/2013
Kong Link Hotel, 25–27 Morrison Hill Road	47,820 sq. ft. (121 rooms)	Sep 2014
Brighton Hotel, 128 Lockhart Road	70 rooms	Mid-2013
Hotel Indigo Hong Kong Island, 242–246 Queen's Road East	138 rooms	Q1/2013
373 Queen's Road East	299 rooms	Q3/2015
China Resources Building (Lower Block)	145,273 sq. ft. (120 rooms)	May 2016
Hopewell Centre II	759,000 sq. ft. (1,024 rooms)	2018
1 Harbour Road (extension)	94,322 sq. ft.	Planning
137–143 Wan Chai Road	34,353 sq. ft.	Planning
51–57 Hennessy Road	50,867 sq. ft.	Planning
8–12 Hennessy Road (China HK Tower)*	61,305 sq. ft.	Planning
Office developments		
8 Queen's Road East	60,000 sq. ft.	2013
1 Hennessy Road and 2 Arsenal Street	315,000 sq. ft.	Planning
Hopewell Centre II	37,000 sq. ft.	2018
Other developments		
HKCEC, Phase 3		Under planning
China Resources Building refurbishment		Mid-2013
130–136 Johnston Road (CHI Residences serviced apartment)	45 units	2013
Transport infrastructure		
Wan Chai Development Phase 2 (Central–Wan Chai Bypass)		2017
Sha Tin–Central Link		2018/2020
North Island Line		Under planning

* Approved by the Town Planning Board.

Source: Development Bureau, Transport & Housing Bureau, Planning Department, Town Planning Board, HKTB, MTR Corporation ("MTRC"), company annual reports, Savills Research & Consultancy

41 GFA is the area contained within the external walls of the building measured at each floor level, including any floor below the level of the ground, and excluding any floor space which the Building Authority is satisfied was constructed or intended to be used solely for parking motor vehicles, the loading or unloading of motor vehicles or occupied solely by machinery or equipment for any lift, air-conditioning or heating systems or any similar service.

The upcoming office and retail developments, as well as the proposed extension of HKCEC should further enhance Wan Chai as a business and entertainment hub and thus attract more business and leisure travellers to the district. Moreover, the upcoming residential developments should create further retail demand within the area, and such additional demand, together with the strong existing potential spending power of the area (having the highest household income of HK$33,000 among all districts in 2012), should be met with the completion of the retail portion at 200 Queen's Road East Project in 2015, as well as the shopping centre at Hopewell Centre II in 2018, both to be operated in centre format.

Additionally, the Hong Kong Government has noted that the amount of available commercial land in core areas is unable to match the increasing demand for office space. The Hong Kong Government plans to relocate operations from three government office towers in the Wan Chai North area to Kai Tak and make these sites available for office redevelopment use in the long term. The future offices on these sites will likely enhance Wan Chai's overall image.

8.1.3 Transport infrastructure in Wan Chai/Causeway Bay

Wan Chai is served by both the MTR and road networks, and the accessibility of the area is due to be enhanced with the addition of further transport infrastructure.

The construction of a Central–Wan Chai Bypass is proposed to alleviate the heavy volumes of traffic in Wan Chai. The Central–Wan Chai Bypass will be a 4.5-km dual, three-lane trunk road connecting Central with Wan Chai across the north shore of Hong Kong Island. The proposed trunk road will also connect to the Eastern Corridor via the Island East Corridor Link upon completion in 2017.

The MTR has also proposed a Sha Tin–Central Link with a station near the existing HKCEC to enhance accessibility to HKCEC and the surrounding developments. The Sha Tin–Central Link is a 17-km project connecting the existing Tai Wai MTR Station in Sha Tin with Admiralty MTR Station. Construction of the proposed line started in 2010, with the first phase from Tai Wai to Hung Hom expected to be completed in 2018 and the cross-harbour section to be in operation by 2020.

The proposed North Island Line will connect with Island East and Central via Wan Chai and Admiralty. The proposed Exhibition MTR Station for both the Sha Tin–Central Link and the North Island Line will be located to the north of Great Eagle Centre and Harbour Centre, with proposed entrances at the current public transportation hub. Properties in the area will benefit from these two MTR lines upon completion. The North Island Line, however, is still under planning with no confirmed date of completion.

The proposed Exhibition MTR Station will be located underground with only two exits above ground. One exit will be near the existing taxi stand at the Wan Chai North Public Transport Interchange while the other will be at the existing Harbour Road Sports Centre.

Proposed Wan Chai Bypass

The Central–Wan Chai Bypass and Island Eastern Corridor Link form part of an east-west strategic route on the northern shore of Hong Kong Island, which will serve to alleviate traffic congestion along the existing Gloucester Road–Harcourt Road–Connaught Road Central corridor. It is a 4.5-km long, dual three-lane trunk road with a 3.7-km long tunnel. It will link the Rumsey Street Flyover in Central with the Island Eastern Corridor at North Point near City Garden. The project aims to provide a fast track connecting the east and west of Hong Kong Island in order to ease traffic congestion in Central, Admiralty, Wan Chai and Causeway Bay.

The plan to connect the existing Happy Valley subway to Victoria Park via Causeway Bay MTR Station includes a 24-hour pedestrian link through Great George Street, Kai Chiu Road and Matheson

Street, which will further extend to Happy Valley via Wong Nai Chung Road. Currently this plan has no confirmed timeline and will be submitted for a second stage of public consultation, although dates have not been confirmed.

Proposed Wan Chai pedestrian walkway

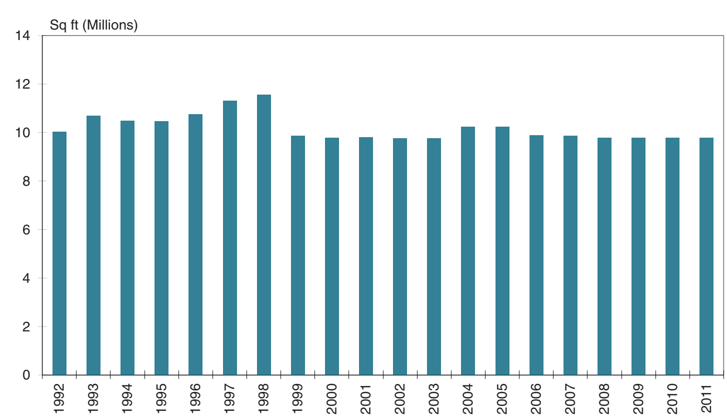
Further works include the construction of a new 100-m pedestrian subway which will connect Wan Chai MTR Station with the basement of 200 Queen's Road East Project, running underneath Southorn Playground and across Johnston Road, as well as the modification of the existing railway facilities. The pedestrian subway will provide direct access for pedestrians and MTR passengers crossing Johnston Road, and will enhance the pedestrian connectivity between north and south Wan Chai and between south Wan Chai and Wan Chai MTR station. Station entrance D will be located at the interface of the proposed pedestrian subway and the basement of 200 Queen's Road East Project.

These schemes should enhance the overall accessibility of Wan Chai, especially south Wan Chai, and further strengthen its role as a major retail/entertainment hub. The proposed Wan Chai pedestrian walkway will be the first connection between north and south Wan Chai to enhance pedestrian flow between the two areas, while commercial facilities in both areas will be able to draw from the whole of Wan Chai as their potential catchment area.

8.1.4 Wan Chai/Causeway Bay office market overview

8.1.4.1 Stock

Wan Chai/Causeway Bay grade A office stock, 1992–2011

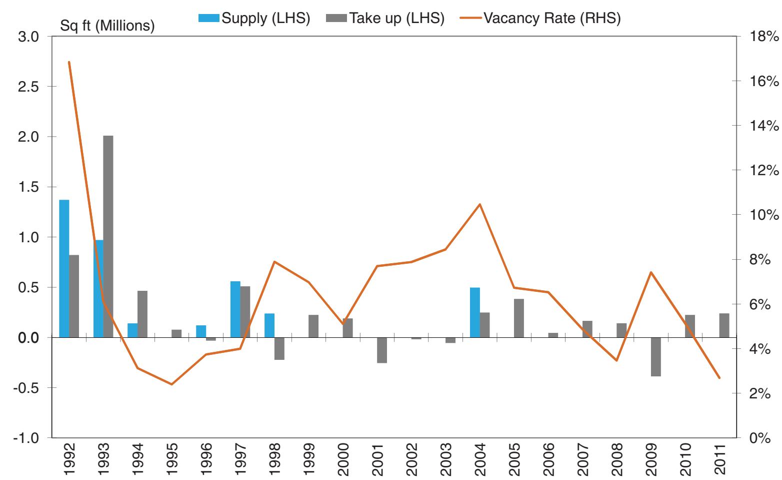


Source: Rating and Valuation Department, Savills Research & Consultancy

Grade A office stock in Wan Chai/Causeway Bay stood at 9.8 million sq. ft. at the end of 2011 according to the Rating and Valuation Department. The stock level in Wan Chai/Causeway Bay has been relatively stable over the past ten years, reflecting limited site availability for office development in the district.

8.1.4.2 Supply, take-up and vacancy rates

Wan Chai/Causeway Bay supply, take-up and vacancy rates, 1992–2011

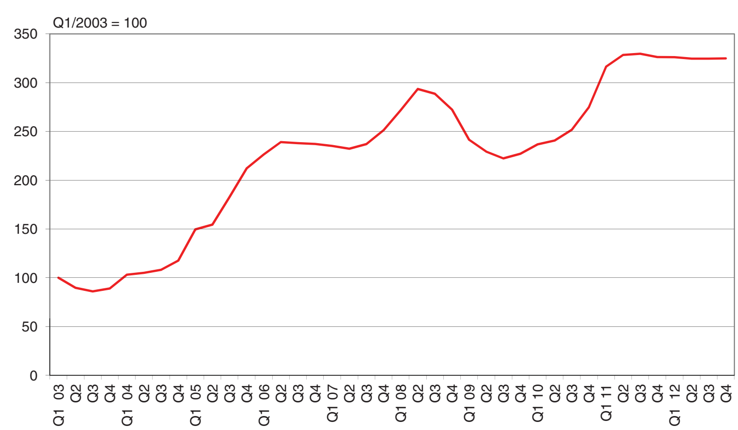


Source: Rating and Valuation Department, Savills Research & Consultancy

Grade A office supply is traditionally limited in the Wan Chai/Causeway Bay area. The only supply in the district after 1999 has been Three Pacific Place in 2004, and 28 Hennessey Road and Hysan Place in 2012. The limited availability of office space in the district has helped to keep vacancy rates below 10% over the past five years. At the end of 2011, the vacancy rate stood at 2.7%.

8.1.4.3 Rents

Wan Chai/Causeway Bay Grade A office rental index, Q1/2003–Q4/2012

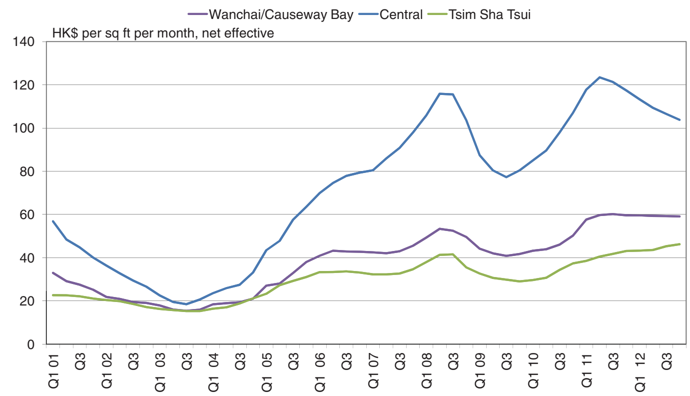


Source: Savills Research & Consultancy

Office rental rates in Wan Chai/Causeway Bay district recorded growth of 194% between Q1/2003 and Q2/2008 before the outbreak of the global financial crisis in the second half of 2008. Office rental rates in the district fell by 24% during the global financial crisis between Q2/2008 and Q3/2009, before rebounding by 48% from Q3/2009 to Q3/2011. Rents decreased by 2% from Q3/2011 to Q4/2012 as decreasing financial services demand, rising CBD vacancy and ongoing global uncertainties took effect.

Leasing activity in Wan Chai/Causeway Bay in the third quarter was driven by new leasing demand from mid-sized tenants, with space requirements of around 3,000 sq. ft. to 5,000 sq. ft.

Grade A office rents, Wan Chai/Causeway Bay, Central and Tsim Sha Tsui, Q1/2001–Q4/2012



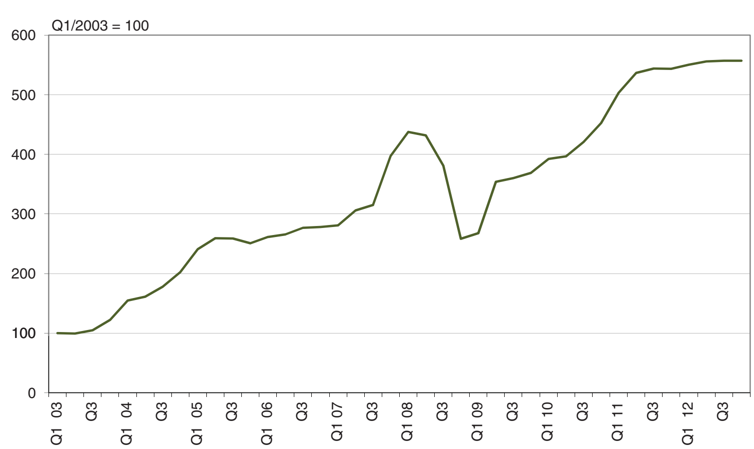
Source: Savills Research & Consultancy

As discussed in **Section 2.2.2**, Wan Chai/Causeway Bay office rents were below Central rents even after the softening of Central office rents over the past 12 months. However, office rents in Wan Chai/Causeway Bay were frequently higher than those in Tsim Sha Tsui over the past decade, but such a premium has gradually declined from HK$19 per sq. ft. net effective in Q2/2011 to HK$13 per sq. ft. net effective in Q4/2012.

The large rental differential between Central and Wan Chai/Causeway Bay has also attracted many Central tenants to set-up offices in the Wan Chai/Causeway Bay area in order to control their occupational costs. Notable transactions in Wan Chai/Causeway Bay include the move of Aon China and KPMG, suggesting that this area is an alternative to Central for tenants. KPMG has taken-up a total of five floors (around 80,000 sq. ft.) in Hysan Place, while Aon China currently occupies approximately 79,000 sq. ft. in Times Square. Rabo Bank relocated to Three Pacific Place from York House, while Bayer moved from The Center to Hopewell Centre. The Wan Chai/Causeway Bay district is benefiting from escalating rents in Central, where the average Wan Chai/Causeway Bay Grade A office rent of HK$59 per sq. ft. net effective in Q4/2012 was at a 43% discount to Central's HK$104 per sq. ft. net effective over the same period[42].

8.1.4.4 Prices

Wan Chai/Causeway Bay Grade A office price index, Q1/2003–Q4/2012



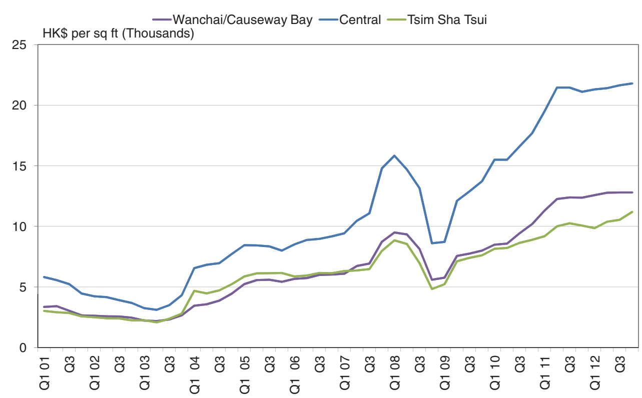
Source: Savills Research & Consultancy

42 Savills estimates.

The Wan Chai/Causeway Bay grade A office market has limited stock available for sale, but office floors in the area have attracted both end users as well as investors, at buildings such as AXA Centre and Convention Centre. Grade A office prices recorded a decrease of 41% from Q1/2008 to Q4/2008, and rebounded by 116% from Q4/2008 to Q4/2012, following increased investment sentiment and limited high-quality stock.

As many of the strata-titled office floors in Wan Chai/Causeway Bay are not available for sale, only a few transactions have been reported this year in Grade A buildings in the district, including at AXA Centre and Fortis Bank Tower. Prices in Wan Chai/Causeway Bay increased by a relatively modest 2.5%.

Grade A office prices, Wan Chai/Causeway Bay, Central and Tsim Sha Tsui, Q1/2001–Q4/2012

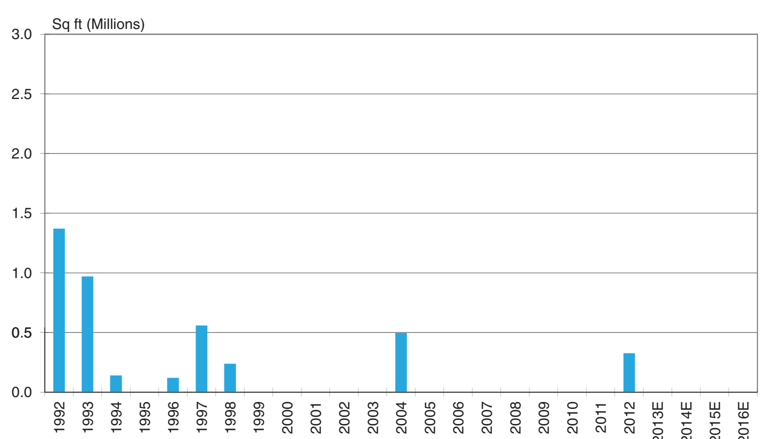


Source: Savills Research & Consultancy

Wan Chai/Causeway Bay Grade A office prices, which stood at HK$12,800 per sq. ft. in Q3/2012, were below the HK$21,800 per sq. ft. rate for offices in Central, but were above the average office prices in Tsim Sha Tsui, which amounted to HK$11,200 per sq. ft. over the same period.

8.1.4.5 Market outlook

Wan Chai/Causeway Bay Grade A office supply 1992–2016E



Source: Rating and Valuation Department, Savills Research & Consultancy

No Grade A office supply is scheduled for completion after 2012. New supply in 2012 included only 28 Hennessey Road in Wan Chai and Hysan Place in Causeway Bay.

8.1.4.6 Recent comparable office supply

28 Hennessy Road, Wan Chai

Address	24–34 Hennessy Road
No. of blocks	1
No. of storeys	29 with 1 basement floor
GFA (sq. ft.)	145,389
Developer	Swire
Completion date	July 2012

Source: Buildings Department, Savills Research & Consultancy

This Swire office project located at 24–34 Hennessy Road in Wan Chai was completed in July 2012. The office building is 29 storeys with one basement floor and a total GFA of 145,389 sq. ft.

8.1.5 Wan Chai retail market overview

8.1.5.1 Stock

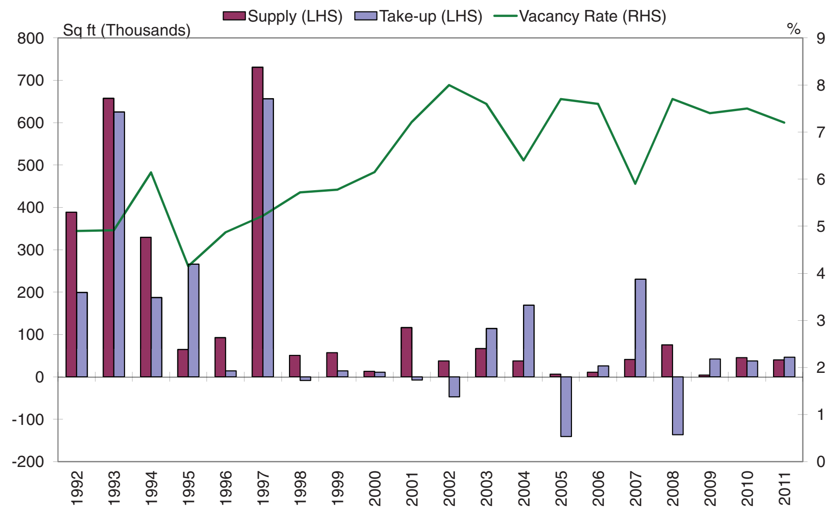
Private commercial stock in Wan Chai/Causeway Bay, 1992–2011

Source: Rating and Valuation Department, Savills Research & Consultancy

Retail stock increased from 8.9 million sq. ft. in 1992 to 11.5 million sq. ft. in 1999, mainly due to the completion of various large-scale shopping centres, such as Times Square, wtc more, Lee Theatre Plaza and Lee Gardens. Stock levels stabilised at around 11 million sq. ft. thereafter with no large-scale shopping centres completed. Notably, all major shopping centres are located in Causeway Bay with street shops being the key retail format in Wan Chai.

8.1.5.2 Private commercial supply, take-up and vacancy rates[43]

Wan Chai/Causeway Bay private commercial supply, take-up and vacancy rates, 1992–2011



Source: Rating and Valuation Department, Savills Research & Consultancy

The strong take-up of commercial space in 1993 reflected the completion of Times Square that same year, while take-up in 1995 was mainly due to the successful opening of wtc more and Lee Theatre Plaza (completed in 1994). While part of the strong take-up in 1997 was a result of Lee Gardens opening, the majority of both supply and take-up was due to the expansion of HKCEC, which more than doubled its prime function space in the year.

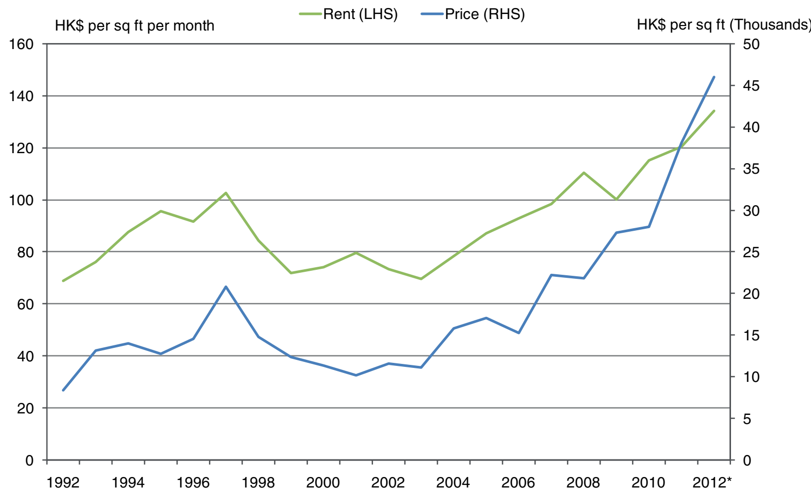
The subsequent negative take-up in 2005 was a reflection of the slowdown in mainland Chinese visitor arrivals as well as a static local economy resulting from interest-rate rises. However, take-up then revived in 2006 and 2007 due to a stronger economy and a rising stock market. The reverse in 2008 was mainly caused by the global financial crisis which affected the core retail market. As supply has remained limited over recent years, vacancy rates have remained at 6% to 7%, despite increased movements in take-up.

Hysan Place was the only large-scale development completed in Wan Chai/Causeway Bay District in 2012. With its retail portion almost fully let, we would expect a take-up level in line with supply. The retail portion of 200 Queen's Road East Project will enter the market in 2015 and will be the only retail supply to be completed between 2013 and 2015.

43 All floor areas quoted in this section are IFA as defined by the Rating and Valuation Department.

8.1.5.3 Rental and price movements

Average private retail rents and prices on Hong Kong Island, 1992–2012



Source: Rating and Valuation Department, Savills Research & Consultancy * Provisional

As no separate private retail rental and price data series is available for Wan Chai/Causeway Bay, we have adopted the Hong Kong Island data series as a proxy. Retail rents on Hong Kong Island rebounded after the containment of SARS and recorded a 58.5% increase from 2003 to 2008 as an increase of mainland Chinese tourists resulted in strong luxury spending. The global financial crisis affected the core retail market with rents decreasing by 9.3% in 2009. The subsequent economic recovery resulted in increased local and visitor spending which helped to increase retail rents on Hong Kong Island by 33.8% from 2009 to 2012.

Hong Kong Island retail prices followed a similar pattern and rebounded by 99.5% from 2003 to 2007, the highest among three sub-districts, as investment interest in core retail premises rose. The global financial crisis impacted the financial sector, and thus the core retail market, on Hong Kong Island, with retail prices declining by 2.1% in 2008. The retail sales market rebounded thereafter with prices increasing by 68.5% from 2009 to 2012.

While some international brands opted for Central, there were others who favoured Wan Chai/ Causeway Bay, as it is a popular tourist spot, and opened their stores in the area, such as Forever 21, Hollister and GAP.

Examples of international fashion retailers leasing in Causeway Bay

Tenant	Brand	Location	Lease term
Forever 21 Asia Holdings Ltd	Forever 21	B/F–4/F, Capitol Centre	Sep 2011–Aug 2018
AFH Hong Kong Stores Ltd	Hollister	Units 218–220, 327–328, Hysan Place	Apr 2012–Apr 2020
GAP Ltd	GAP, GAP KIDS and baby GAP	Units 109–113, Hysan Place Units 411–417, Hysan Place	May 2015–May 2017

Source: EPRC

8.1.5.4 Future comparable retail supply

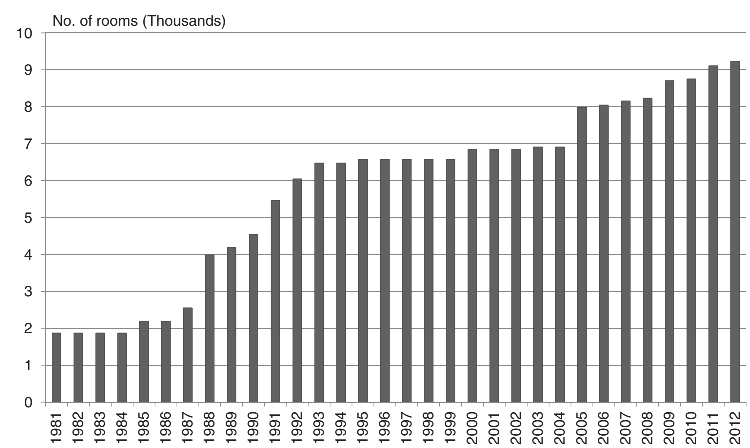
Other than retail property to be owned by the Company (the 200 Queen's Road East Project), there will be no comparable future retail supply in Wan Chai/Causeway Bay from 2013 to 2015.

8.1.6 Wan Chai/Causeway Bay hotel market overview

8.1.6.1 Stock and supply

According to the HKTB, there were 33 hotels located in the Wan Chai/Causeway Bay area in Q4/2012, comprising approximately 9,235 rooms, or 14% of the territory's total.

Hotel stock in Wan Chai/Causeway Bay, 1981–2012



Source: HKTB, Home Affairs Department, Savills Research & Consultancy

Hotel development in Wan Chai/Causeway Bay dates back to the 1970s when hotels such as The Excelsior (883 rooms, 1972) and The Park Lane (803 rooms, 1973) were completed. Hotel stock levels remained at 2,000 rooms over the early 1980s until the supply increased in 1988. Over the next six years, a number of large-scale hotels were completed, such as The Grand Hyatt (556 rooms, 1988), Renaissance Harbour View Hotel (860 rooms, 1988), Novotel Century Hong Kong (511 rooms, 1991) and Regal Hongkong Hotel (429 rooms, 1993, with an additional 53 rooms completed in 2007). The number of hotel rooms had increased to approximately 6,500 by 1993. Hotel stock levels remained the same for nearly a decade until 2000, when nine hotels were completed (1,997 rooms in total) from 2000 to 2006, five of which (1,334 rooms) were completed in 2005 alone, increasing hotel stock in the area to approximately 8,000.

The opening of Crowne Plaza in 2009 (263 rooms), together with three other hotels, accounted for the 500-room increase that year. Hotel stock increased by a further 300 rooms in 2011 when Best Western Hotel (258 rooms) and Vela Hotel (98 rooms) were opened.

8.1.6.2 Wan Chai/Causeway Bay hotel occupancy rates

Average occupancy rates by year

	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)
Overall	86	85	78	87	89	89
Wan Chai/Causeway Bay	86	85	78	86	89	87

Source: HKTB, Savills Research & Consultancy

Hotel occupancy rates in Wanchai/Causeway Bay averaged 87% from January 2007 to December 2012, moving closely with the overall market over the past six years.

8.1.6.3 Wan Chai/Causeway Bay future comparable hotel supply

There are nine scheduled hotel developments in Wan Chai/Causeway Bay from 2013 to 2015 totalling 1,005 rooms, five of which are expected to be completed before the end of 2013, namely 388 Jaffe Road (91 rooms), Hotel Indigo (138 rooms), Brighton Hotel (70 rooms), 13 Pennington Street (80 rooms) and 2 Tang Lung Street (38 rooms). The largest future supply will be a proposed hotel at 373 Queen's Road East, which will provide 299 rooms when completed in Q3/2015.

Proposed hotel developments in Wan Chai/Causeway Bay, 2013E–2015E

Development	No. of rooms	Expected completion
388 Jaffe Road, Wan Chai	91	Q2/2013
Hotel Indigo, 242–246 Queen's Road East, Wan Chai	138	Q1/2013
Brighton Hotel, 128 Lockhart Road, Wan Chai	70	Mid-2013
13 Pennington Street, Causeway Bay	80	Mid-2013
2 Tang Lung Street, Causeway Bay	38	End 2013
Kong Link Hotel, 25–27 Morrison Hill Road, Wan Chai	121	Q3/2014
32 Tang Lung Street, Causeway Bay	69	Q4/2014
60 Jardine's Bazaar, Causeway Bay	99	Q1/2015
373 Queen's Road East, Wan Chai	299	Q3/2015
Total	**1,005**	

Source: HKTB, Savills Research & Consultancy

All of the scheduled hotels have 300 rooms or less and thus are not comparable to the subject property (Hopewell Centre II) both in terms of scale and facilities to be provided.

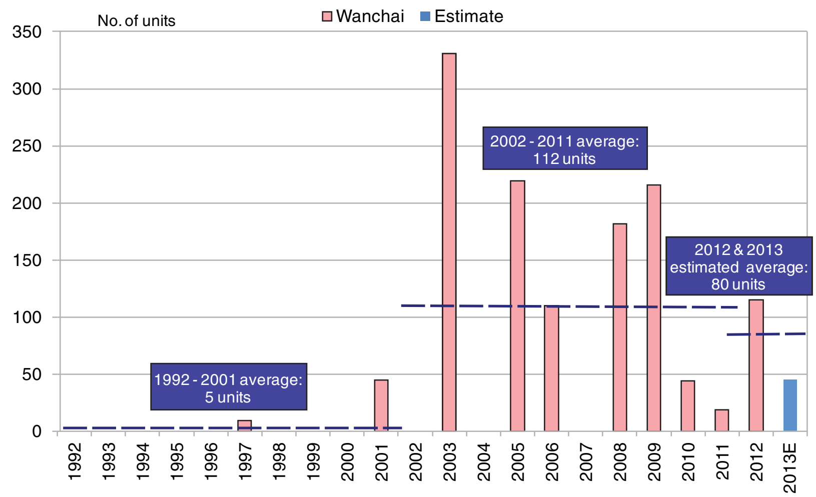
8.1.7 Overview of the serviced apartment sector in Wan Chai/Causeway Bay

8.1.7.1 Stock and supply

In Wan Chai/Causeway Bay, serviced apartment stock stood at 2,696 units in 2012, representing 14% and 32% of the total serviced apartment stock in Hong Kong and on Hong Kong Island, respectively.

In Wan Chai/Causeway Bay, there is a higher percentage (84%) of apartment-like serviced apartments than hotel-like serviced apartments, compared with 40% in the overall market.

Supply of serviced apartments in Wan Chai, 1992–2013E



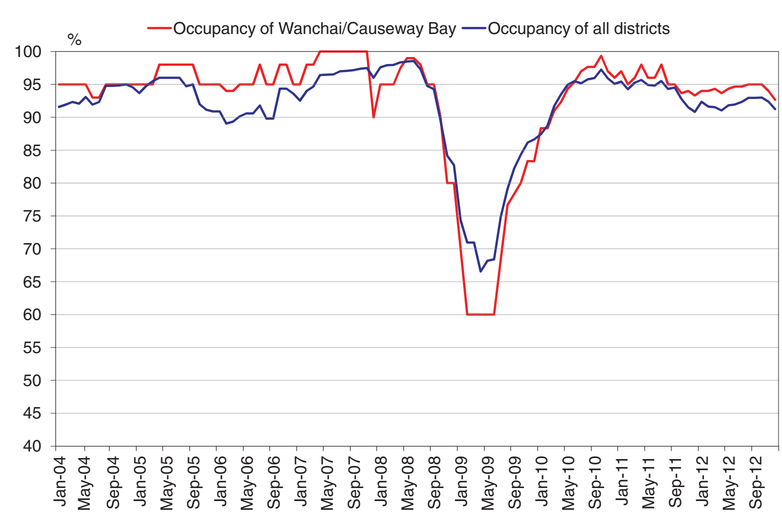
Source: Savills Research & Consultancy

Serviced apartment supply in Wan Chai has followed a trend similar to overall supply. From 2002, serviced apartment supply in Wan Chai rose to an average of 112 units completed each year, compared with only 5 units per annum between 1992 and 2001. Estimated new supply will decrease to 80 units per annum in 2012 and 2013.

Supply increased in 2003 and 2005 as a result of the completion of Kapok Apartments (280 units) and Harmony Mansion (194 units) in those respective years. Approximately 216 units were provided in 2009, solely because of supply from GardenEast. The 130–136 Johnston Road Project (45 units) will be completed in 2013.

8.1.7.2 Occupancy and rental trends

Wan Chai/Causeway Bay serviced apartment occupancy rate, Jan 2004–Dec 2012



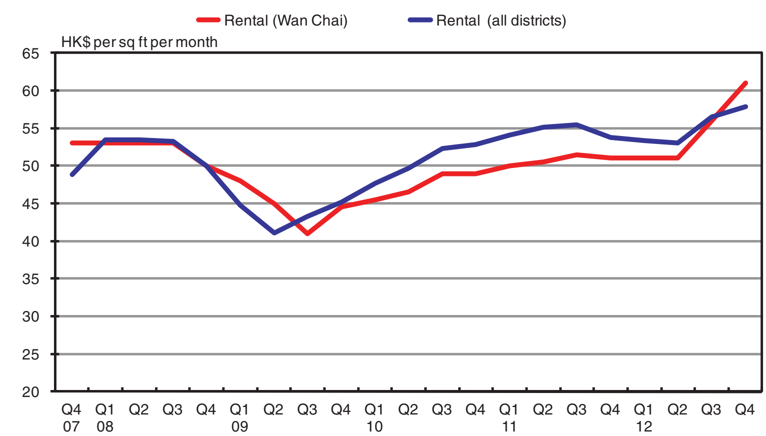
Source: Savills Research & Consultancy

Serviced apartment occupancy rates in Wan Chai/Causeway Bay followed the overall Hong Kong average before the global financial crisis. However, the district rate decreased between 2008 and 2009 to 60% compared with 67% for Hong Kong as a whole.

Wan Chai/Causeway Bay's occupancy rate increased from 2H/2009, however, as a result of the local economic rebound, especially in the finance industry, and began to outperform the average occupancy rate of Hong Kong as a whole after May 2011. The occupancy rate at year's end then decreased because of the traditional holiday period when expatriates return home.

Wan Chai/Causeway Bay serviced apartments have a higher average occupancy rate than the overall serviced apartment market. The average occupancy rate of Wan Chai/Causeway Bay serviced apartments reached 93% in December 2012, 1 percentage point higher than that of overall serviced apartments. Wan Chai/Causeway Bay's seven-year average occupancy rate (2006 to 2012) stands at 92%, in line with the overall average.

Wan Chai serviced apartment average rents, Q4/2007–Q4/2012



Source: Savills Research & Consultancy

Hong Kong experienced an economic downturn in 2008 as a result of the global financial crisis and serviced apartment markets in all business districts were particularly affected. Wan Chai landlords reduced rents by 23% from HK$53 to HK$41 per sq. ft. per month from Q2/2008 to Q2/2009. However, demand returned to previous levels in just six quarters, rising by 29%, similar to the overall property market over the period, as a result of the strong Asian markets.

Rents in Wan Chai/Causeway Bay have typically underperformed compared with the average of all districts due to the fact that most of the serviced apartments there are apartment-like and charge lower rents than hotel-like units.

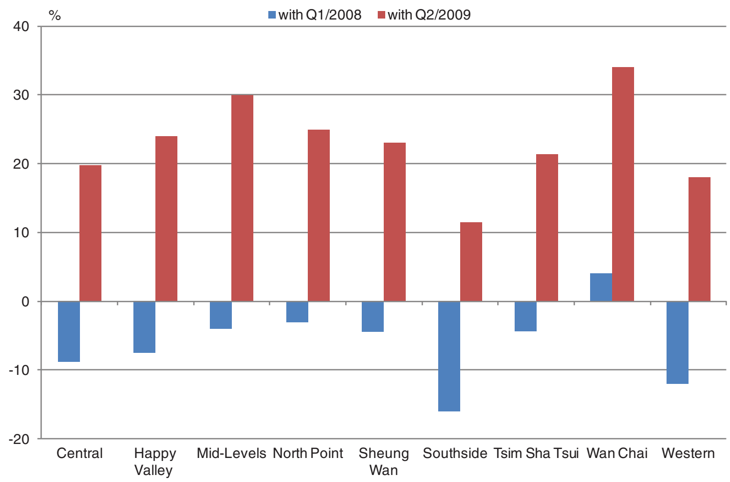
Summary of average serviced apartment rents, Q4/2012

District	HK$ per sq. ft. per month
Hong Kong Island	59
Wan Chai/Causeway Bay	61
Kowloon	52
Overall	58

Source: Savills Research & Consultancy

Rents for serviced apartments on Hong Kong Island in Q4/2012 stood at HK$59 per sq. ft. per month on average, outperforming Kowloon and the overall market. This was largely due to the fact that Hong Kong Island is the location of major business districts, including Central, Wan Chai/ Causeway Bay and Island East, resulting in higher average rents.

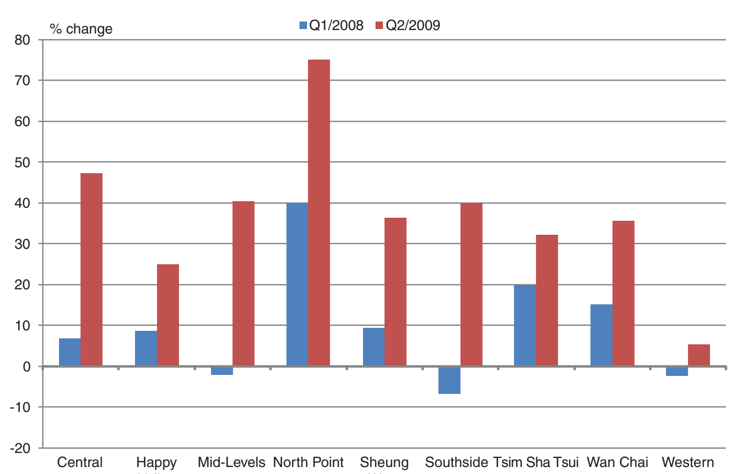
Vacancy performance of serviced apartments by district compared with Q4/2012



Source: Savills Research & Consultancy

The performance of serviced apartments varies with district. Although the overall occupancy rate of serviced apartments rose in Q4/2012 compared with the previous peak in Q1/2008 and the decrease in Q2/2009, among the nine major serviced apartment districts only Wan Chai attained an occupancy level higher than that seen in both Q1/2008 and Q2/2009. In Q4/2012, the Wan Chai occupancy level reached 94.0%, 4 percentage points above the pre-crisis peak and 34.0 percentage points higher than the level during the crisis.

Q4/2012 rental performance of serviced apartments by district compared with Q1/2008 and Q2/2008



Source: Savills Research & Consultancy

Despite the fact that rental levels are higher than those seen during the financial crisis in the nine districts, not all rental levels have recovered to the pre-crisis level. Only serviced apartments in Central, Happy Valley, North Point, Sheung Wan, Tsim Sha Tsui and Wan Chai have higher rental levels in Q4/2012 than they did in Q1/2008. Among them, North Point has a rental level 40% higher than the pre-crisis period, followed by Tsim Sha Tsui (19.8%) and Wan Chai (15.1%).

8.1.7.3 Future supply in Wan Chai

According to our in-house data, there is one serviced apartment comparable scheduled for completion in 2013, namely the 45-room CHI Residences 130 located at 130–136 Johnston Road, Wan Chai. The proposed development, located next to the Wan Chai MTR Station, will be operated by CHI Residences, a chain of luxury serviced apartment operator in Hong Kong.

Designed by architects KplusK Associates, CHI Residence 130 consists of 13 studios, 25 one-bedroom units, three two-bedroom units, and four top-floor two-bedroom duplex apartments, two of which have private access to roof gardens, ideal for families or groups.

8.1.8 Wan Chai residential market overview

Wan Chai is one of the oldest residential districts in Hong Kong, and no large residential developments of over 1,000 units are found there. The largest project so far is the 936-unit Causeway Centre in north Wan Chai. Most of Wan Chai's residential buildings are single-block formats, with street shops on the G/F.

8.1.8.1 Stock

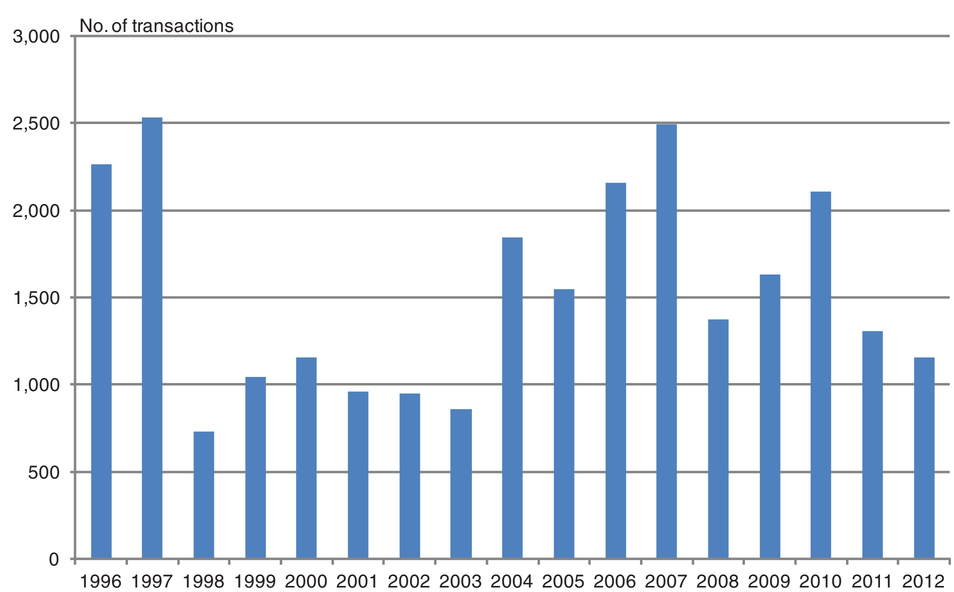
Wan Chai residential stock reached its peak in 2007 at 62,191 units. In 2008 and 2009, the units demolished for redevelopment were greater than the number of units to be erected. Hence, residential stock declined to a recent low of 61,448 units.

In 2011, Wan Chai residential stock reached 61,834 units, representing 19.1% of the residential stock on Hong Kong Island as a whole and 5.6% of the total residential stock in Hong Kong.

8.1.8.2 Demand

Residential transaction trends in Wan Chai resembled those of the overall market over the past decade. The Wan Chai residential market outperformed the overall market (in terms of year-on-year growth in transaction volume) in 2004, 2006 and 2010 due to the successful launch of the primary projects such as The Zenith (480 units), J Residence (381 units), One Wanchai (237 units), The Gloucester (177 units) and Oakhill (130 units) in those years.

Residential transaction volume in Wan Chai, 1996-2012

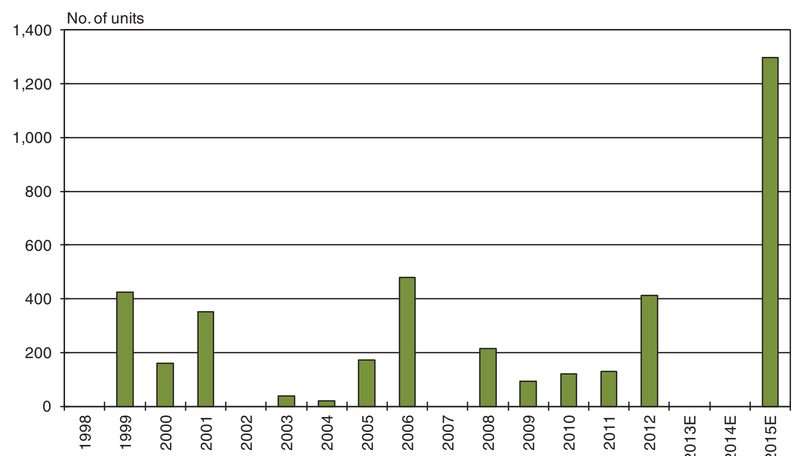


Source: EPRC, Savills Research & Consultancy

8.1.8.3 Historical and future supply

From 1998 to 2011, the average supply per annum was 158 units. In the years 1998, 2002 and 2007, there were no completions of residential units, due to limited land available in Wan Chai, with most units in the area resulting from the redevelopment of old buildings. From 2012 to 2015, the completion of a select number of redevelopment projects supplied 414 units in 2012 and will supply 1,299 units in 2015. Notably, the approximately 1,300 units to be completed in 2015 will come from 200 Queen's Road East Project.

Private residential supply in Wan Chai, 1998–2015E



Source: Rating and Valuation Department, Savills Research & Consultancy

8.1.9 Overview of Wan Chai MICE market

Wan Chai is one of the core business districts of Hong Kong, partly because it is located between two key business hubs, Central and Island East, making it a natural location for Hong Kong Island's MICE market.

8.1.9.1 MICE market in Wan Chai

HKCEC[44]

1 Expo Drive, Wan Chai, Hong Kong

HKCEC opened in November 1988, and given the demand for exhibition space, commenced its second expansion project in May 2006, which was completed in April 2009. HKCEC has a total gross area of 306,000 sq.m. with total rentable space of 91,500 sq.m. HKCEC currently provides 66,000 sq.m. of purpose-built exhibition space, 20,000 sq.m. of multi-functional venues and 5,500 sq.m. of event support space. It is owned by Hong Kong Trade Development Council and the Hong Kong Government and is managed and operated by HKCEC Management Limited, a wholly-owned subsidiary of NWS Holdings Limited.

44 All information sourced from HKCEC website unless otherwise stated.

Details of HKCEC

6 exhibitions halls	66,000 sq.m.
2 multi-purpose halls (for conventions or banquets)	5,700 sq.m.
2 theatres (with seating for 336 and 637)	800 sq.m.
52 meeting rooms	6,000 sq.m.
Other multi-functional rental space	13,000 sq.m.
7 restaurants	Total seating capacity of 1,340
2 underground car parks	Over 700 parking bays

Source: HKCEC

Exhibition capacity

Venue	GFA (sq. m.)	Ceiling height (m)	Capacity
			Number of stands
Hall 1 (A+B+C+D+E)	19,890	10.5	1,312
Hall 3 (B+C+D+E)	14,982	10.5	983
Hall 3 (F+G)	8,917	8.25	542
Hall 5 (B+C)*	7,598	10.5	498
Hall 5D*	1,185	5	30
Hall 5E	4,570	8.25	294
Hall 5 (F+G)	8,917	8.25	542
Expo Drive Hall (A+B)	6,996	2.2	288
Grand Hall*	3,880	15	216
Grand Foyer*	2,094	21	51
Convention Hall (A+B+C)*	1,819	7.7	88
Convention Foyer*	1,740	5.2	60

Convention/meeting capacity

Venue	GFA (sq. m.)	Capacity					
		Theatre	Classroom	Boardroom	U-shape	Banquet	Cocktail
N100 Series Meeting Rooms	38–740	28–600	11–296	13–110	11–80	12–432	25–530
N200 Series Meeting Rooms	38–740	28–600	11–296	13–110	11–80	12–432	25–530
S200 Series Meeting Rooms	42–581	28–506	18–300	14–102	12–81	12–288	25–385
S400 Series Meeting Rooms	42–433	28–380	18–198	14– 96	12–75	12–240	25–285
Hall 5 (B+C)*	8,098	8,000	4,000	—	—	—	—
Hall 5D*	1,185	500	306	—	—	—	—
The Forum	6,000	4,760	2,400	—	—	—	—
Grand Hall*	3,880	3,800	1,890	—	—	2,160	3,800
Grand Foyer*	—	—	—	—	—	—	1,400
Convention Hall (A+B+C)	1,819	1,800	903	—	—	1,032	1,500
Theatre 1	507	637	—	—	—	—	—
Theatre 2	293	336	—	—	—	—	—
Theatre Foyer	457	—	—	—	—	—	300

* These halls/venues can host both exhibitions and conventions/meetings.

HKCEC provides some 66,000 sq. m. of purpose-built exhibition space, another 5,700 sq. m. of multi-purpose halls and 6,000 sq. m. of meeting rooms space. Linked to the Grand Hyatt Hotel and

Renaissance Harbour View Hotel with covered walkways, HKCEC is located on the Victoria Harbour waterfront, accessible by most major means of transportation, including buses, ferries and the MTR.

HKCEC is regarded as one of the most efficient and functional meeting and exhibition centres in the region. Each year, HKCEC hosts more than 50 regional and international trade fairs, including the world's largest jewellery fair, electronics fair, timepiece event and gift fair. The regular international fairs/events for house ware, lighting, wine and spirits, beauty, leather, and fashion are Asia's largest. In FY2011/2012, HKCEC hosted 1,224 events with over 5.6 million participants (both local and international).

Serving as the venue for Hong Kong's handover ceremony in 1997, the sheer size of HKCEC has meant that it has often been the first choice for many large conference organisers. The advanced simultaneous interpretation system, state-of-the-art lighting and provisions of stage rigging can support the hosting of international conferences. The exhibition venue has hosted many international meetings, including Sibos 2009, the World Ophthalmology Congress 2008, the WTO Hong Kong Ministerial Conference 2005, the 88th Lions Clubs International Convention 2005 and the IMF World Bank Conference 1997.

The centre has won many awards, including being voted Best Convention and Exhibition Centre in Asia on ten occasions at the Industry Awards conducted by CEI Asia magazine from 2001 to 2013, and the Best Convention & Exhibition Centre for the fourth time at the TTG Travel Awards in 2012 by readers.

HKCEC has a strong exhibition portfolio and has held many of the world's largest or largest-in-Asia fairs, including the Jewellery & Gem Fair by UBM Asia Ltd, and the Hong Kong Watch and Clock Fair and the Hong Kong Toys and Games Fair by the HKTDC. HKCEC presents more top global events than any other Asian venue and over 50 of these events are major regional and international trade fairs each year.

Major exhibition events at HKCEC

Event name	Organiser
HKTDC Hong Kong Toys & Games Fair	HKTDC
HKTDC Hong Kong Fashion Week for Fall/Winter	HKTDC
66th Valentine's Wedding Service & Banquet Expo	Hongkong-Asia Exhibition (Holdings) Ltd
HKTDC Hong Kong International Jewellery Show	HKTDC
Education UK Exhibition 2012	The British Council
Hong Kong International Film & TV Market (FILMART) 2012	HKTDC
Hong Kong International Lighting Fair (Spring Edition)	HKTDC
Hong Kong Electronics Fair (Spring Edition)	HKTDC
The 12th Hong Kong International Education Expo	Neway International Trade Fairs Limited
ART HK 2012	Asian Art Fairs Ltd

Source: HKCEC

Hong Kong Exhibition Centre ("HKEC")

HKEC is located on 3/F and 4/F of the low block of China Resources Building in Wan Chai, next to HKCEC. HKEC comprises an exhibition hall located on the 3/F with a GFA of 2,100 sq. m. and the exhibition gallery on the 4/F of 450 sq. m..

HKEC is the venue for many small- to medium-scale fairs and exhibition events, such as Dynamic Youth and the Oil Painting Exhibition, which selects contemporary Chinese artists' works from the Sichuan Fine Art Institute. HKEC also hosts art auctions, including the 2012 Hong Kong Autumn Chinese Fine Art Auction and Auction of Fine Chinese Painting.

Hopewell Centre II

A new project in the district is Hopewell Centre II on Kennedy Road which has been proposed by Hopewell. The proposed development will include a 55-storey conference hotel with approximately 1,024 rooms and will comprise 1.1 million sq. ft. (including approximately 759,000 sq. ft. of hotel space).

8.2 Kowloon East district overview

8.2.1 Kowloon East overview

8.2.1.1 Overview

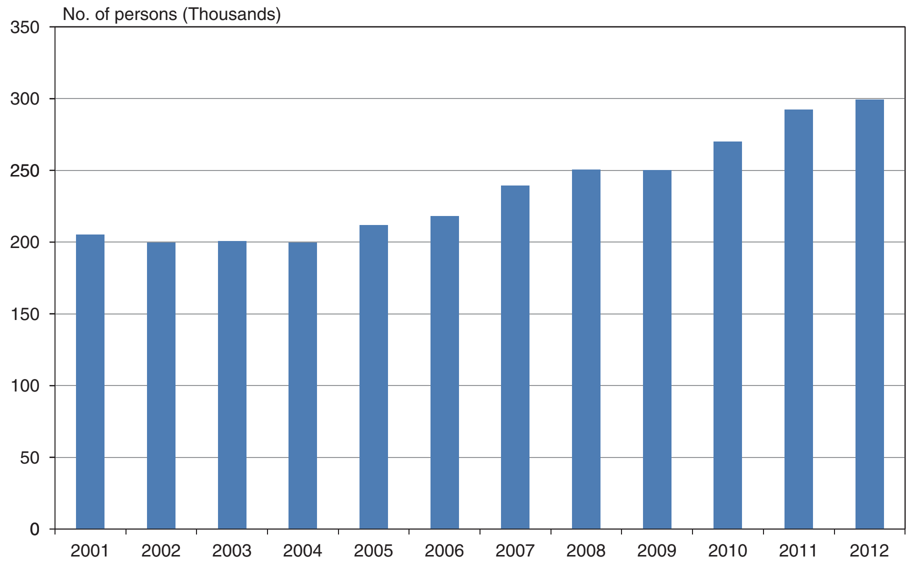
Kowloon East comprises Kowloon Bay, Kwun Tong and Kai Tak as defined by the Hong Kong Government. Kai Tak, the former Hong Kong International Airport, has already been subject to a comprehensive redevelopment plan and will be developed into a residential, commercial and tourist complex over the next ten to 15 years. Together with Kwun Tong and Kowloon Bay, the Hong Kong Government has a vision for Kowloon East as a second CBD in Hong Kong.

Kowloon East is one of the earliest industrial areas in Hong Kong, where many trading, manufacturing and garment companies are located. According to the Rating and Valuation Department, at the end of 2011, there were 44.3 million sq. ft. of private flatted factories, representing 65.4% of the total stock in Kowloon. Many of the existing industrial buildings are old and vacancy rates in these buildings are high. The district has substantial redevelopment potential and the area is in currently in a redevelopment phase.

Given the redevelopment potential of Kowloon East, developers and tenants have both been active in the district. Completed in 1995, KITEC was the first large-scale multi-purpose commercial complex in Kowloon East. Sun Hung Kai and Kerry have successfully developed their Millennium City and Enterprise Square portfolios, while Billion Development & Project Management Ltd (Billion) has been active in the redevelopment of industrial buildings into offices. Kowloon East also has a dynamic tenant profile and the high-quality new office buildings have attracted a cluster of Tsim Sha Tsui trading companies and major logistics firms. Banks with a presence in the area include Standard Chartered, Bank of East Asia and Hang Seng. Kowloon East is now the second largest Grade A office district in Hong Kong after Central with 12.6 million sq. ft. of office space at the end of 2011, according to the Rating and Valuation Department.

Given the continuous evolvement of Kowloon East into a vibrant business area, the working population increased from 205,145 in 2001 to 299,253 in 2012, a 46% increase over the past decade.

Number of employees working in Kowloon East, 2001–2012



Source: Census and Statistics Department, Savills Research & Consultancy

8.2.1.2 Energising Kowloon East

Kowloon East and CBD2 — overview

The chief executive announced in his 2011–2012 Policy Address in October 2011 plans to develop Kowloon East into CBD2, with a target to provide an additional office floor area of 4 million sq. m. in the district, as quality office space in the traditional core business districts can no longer match growing demand.

Additional development strategies for the district being drawn-up by the Hong Kong Government include enhancing connectivity within Kowloon East through the improvement of pedestrian access networks, the consideration of an environmentally friendly linkage system ("EFLS") through the entire district and the strengthening of external connectivity through the Kwun Tong MTR Line extension and the future Sha Tin — Central MTR Link.

Urban design concepts have been submitted, with green features and pedestrian promenades to create a pleasant business district. Also advocated are developments for cultural, leisure and water sports activities to energise the district.

The EKEO was set-up to implement and monitor the development of the area by the Development Bureau in June 2012, with a view to facilitating its transformation into Hong Kong's CBD2, which it is hoped will support economic growth and strengthen the territory's global competitiveness. A number of initiatives, including the KTD, as well as the cruise ship terminal and Kwun Tong Promenade, have been consolidated in the CBD2 proposal.

Conceptual Kowloon East map

Source: Savills Research & Consultancy

In order to enhance the connectivity of the area, a proposed 12-km monorail will run through the Kwun Tong, Kai Tak and Kowloon Bay MTR stations, with a total of 12 stations around Kowloon East. Currently, the Hong Kong Government plans for early commissioning in 2023. This monorail will also ease accessibility for international tourists travelling to or from the cruise ship terminal as there is a proposed station on the old runway.

The development of Kowloon East is expected to strengthen the appeal of the decentralised office market in Kowloon as a whole and establish a viable alternative to the traditional business districts.

<u>Government initiatives</u>

Since 2001, all industrial land in Kwun Tong and Kowloon Bay has been rezoned to “Business” use, which allows industrial buildings to be redeveloped into office and commercial uses. In April 2010, the government introduced measures to revitalise industrial buildings in Hong Kong. By the end of December 2012, 27 applications had been approved and executed for wholesale conversion or redevelopment, and 18 of them are in Kwun Tong and Kowloon Bay. These industrial buildings will be redeveloped or converted into offices, shops and services and hotels.

About 11.4 million sq. ft. of office space has been planned within the 320-ha KTD site. The Hong Kong Government is building a Kai Tak Government Office and is planning to relocate other government office buildings there. With another 8.6 million sq. ft. of retail and hotel accommodation planned, some 33,200 public and private housing units, an international cruise terminal and sports and tourism facilities, KTD will inject development density and diversity into the area. Together with 168 ha in the Kwun Tong and Kowloon Bay Business Areas, Kowloon East has great potential to evolve into a vibrant premier business district in Hong Kong.

The proposal is to increase the decentralised office supply to 57 million sq. ft. gross in Kowloon East, including Kwun Tong, Kowloon Bay and KTD. The proposed supply is equivalent to 37% of the overall grade A, B and C office stock, or 59% of the overall Grade A office stock. Assuming an average household size of 2.7, the 33,200 proposed residential units in KTD will bring an additional 90,000 residents to the area.

Key developments[45] of Kai Tak

Population	89,800
No. of residential units	33,200
Office GFA (sq. ft.)	11.4 million
Retail/hotel GFA (sq. ft.)	8.6 million
No. of hotel rooms	6,300

Source: Hong Kong Government, Savills Research & Consultancy

Cruise terminal

The Hong Kong Government is developing a new cruise terminal on the site of the former Kai Tak Airport runway. It has two alongside berths, which can accommodate the largest cruise vessels in the world. Below are some development parameters of the new cruise terminal:

Cruise terminal	
Number of berths	2
Length of apron area	850 m
Water depth	12–13 m (for dredging)
Air draft restriction	Nil
Customs, immigration and health quarantine operations	To clear 3,000 passengers per hour
Cruise vessel that can berth at the cruise terminal	
Displacement tonnage	110 000
Gross tonnage	220 000
Length overall	360 m

The cruise terminal is being developed mainly under two contracts. The first is the site formation works contract, involving the construction of berthing facilities, while the second is the cruise terminal building works contract, including the customs, immigration and health quarantine facilities and other supporting facilities.

Site formation

Site formation works commenced in November 2009. The first berth, which is able to accommodate the largest cruise vessels in the world, is expected to come into operation in mid-2013. The second berth will be commissioned in 2014 and will also be able to accommodate the largest cruise vessels in 2015 after the relevant dredging works on the seabed are completed.

Cruise terminal building

Construction commenced in May 2010. The terminal building is expected to begin operation in mid-2013. The terminal building will be iconic, highly functional and efficient in providing world-class services.

Monorail

The Hong Kong Government has also proposed a monorail system (the EFLS), which is a 9-km, 12-station line linking the Kowloon Bay MTR Station, through Wang Kwong Road, to the KTD Station Square, where it can interchange with the Kai Tak MTR Station on the future Sha Tin–Central Link. The EFLS will then run all the way through the former runway and end at the Kwun Tong MTR Station.

45 Including sites for existing residential developments in Ma Tau Kok, Pacific Trade Centre and Kowloonbay International Trade & Exhibition Centre ("KITEC").

Kai Tak Fantasy

The former runway tip in the Kai Tak Development Area has excellent potential to be developed into a tourism and entertainment hub. The Hong Kong Government proposed in the 2013 Policy Address setting up a recreational landmark on this site — Kai Tak Fantasy. On top of recreation facilities, it can be turned into an "edutainment" destination which will reflect Kai Tak's unique aviation, maritime and transportation history.

Others

A multi-purpose stadium complex as well as a metro park will also be built within KTD to provide leisure and recreation facilities for the area.

8.2.1.3 Major infrastructure initiatives

Kwun Tong Town Centre redevelopment

Kwun Tong Town Centre redevelopment

Site area	5.35 ha
No. of residential units	2,100
Retail (sq. ft.)	1.2 million
Office (sq. ft.)	708,917
Hotel (sq. ft.)	344,448
Completion Date	2013–2021

Source: URA, Savills Research & Consultancy

The URA has proposed a redevelopment plan for Kwun Tong Town Centre, one of the largest urban redevelopments in Hong Kong. Facing Millennium City in Kwun Tong, the town centre redevelopment has a site area of approximately 5.35 ha comprising residential, retail, office and hotel developments. The scale of the office space in this redevelopment is around 708,917 sq. ft.

Route 6

Route 6 is a major road planned to connect Tseung Kwan O to Kowloon West via three different sections, namely the Central Kowloon Route ("CKR"), Trunk Road T2 and the Tseung Kwan O–Lam Tin Tunnel ("TKO–LT Tunnel").

The TKO–LT Tunnel is a dual, two-lane highway of approximately 4.2 km connecting TKO at Po Shun Road in the east with the proposed Trunk Road T2 in the KTD in the west. About 2.6 km of the highway is in the form of a tunnel. This tunnel is currently listed as an ongoing project with no confirmed completion date by the Civil Engineering and Development Department.

Trunk Road T2 is a dual, two-lane trunk road of approximately 3.6 km connecting the CKR and TKO–LT Tunnel. About 2.6 km of the trunk road is in the form of a tunnel. This road is currently listed as an ongoing project with no confirmed completion date by the Civil Engineering and Development Department.

The proposed CKR will provide an access road between the East Kowloon road network and the Yau Ma Tei interchange of the West Kowloon Highway. The route will be a 4.7-km dual, three-lane trunk road, including a dual, three-lane tunnel of about 3.9 km. According to the Highways Department, It is anticipated that the works will start in around 2015 and will be completed in about 5 years.

The Sha Tin — Central Link

The development of Kowloon East will be integrated with major transportation infrastructure. The proposed MTR Sha Tin — Central Link will connect the New Territories and Central with stations in major Kowloon districts, such as Kai Tak, Ho Man Tin and Hung Hom. The 17-km link is expected to be fully competed by 2020, with the completion of the Tai Wai to Hung Hom section scheduled for 2018.

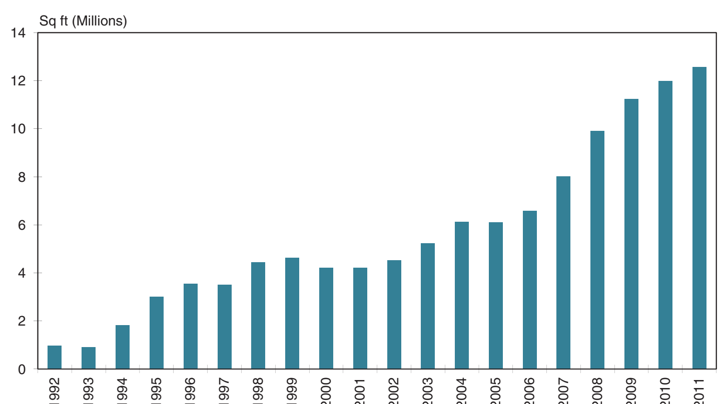
Other infrastructure

Enhanced pedestrian connectivity is another key infrastructure programme in Kowloon East. According to master plan 2.0 proposed by the EKEO, there are three pedestrian connectivity enhancement programmes in Kowloon Bay, Kwun Tong and Ngau Tau Kok. The enhancement programmes in Kowloon Bay include the formation of an elevated pedestrian network taking the proposed footbridge links with the Kowloon Bay MTR Station along Lam Wah Street and Siu Yip Street as the retail spines.

8.2.2 Kowloon East office market overview

8.2.2.1 Stock

Grade A office stock in Kowloon East, 1992–2011

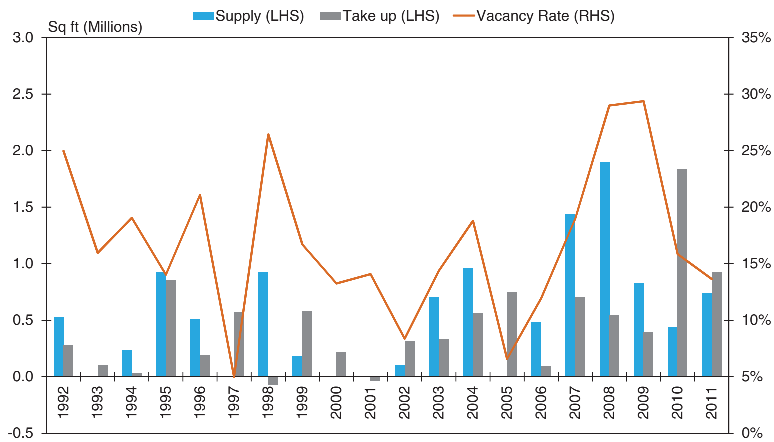


Source: Rating and Valuation Department, Savills Research & Consultancy

Grade A office stock in Kowloon East totalled 12.6 million sq. ft. in 2011, compared with only 974,140 sq. ft. at the end of 1992. A significant increase in stock was noted after 2006 when several large-scale projects were completed, including Manulife Financial Centre (2007), Landmark East (2008), Manhattan Place (2008) and Exchange Tower (2008), signalling the gradual reforming of the area into an office district and business hub.

8.2.2.2 Supply, take-up and vacancy rates

Kowloon East supply, take-up and vacancy rates, 1992–2011



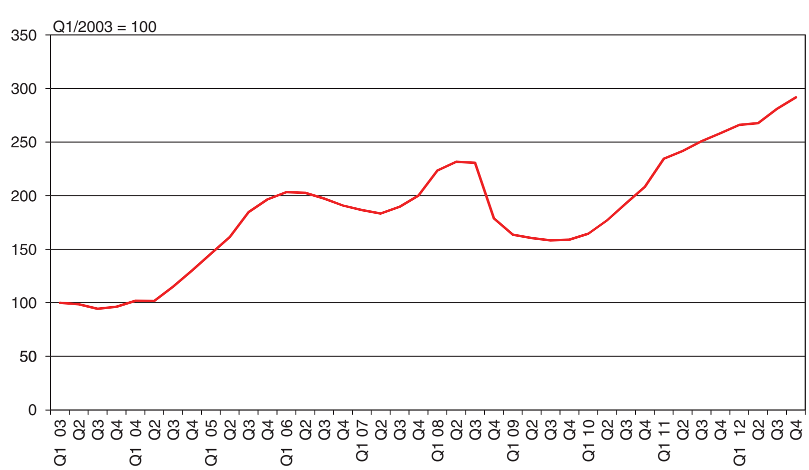
Source: Rating and Valuation Department, Savills Research & Consultancy

Supply spikes were noted in 2007 and 2008, when a total of 3.3 million sq. ft. of Grade A office space was completed, including Manulife Life Financial Centre (around 1 million sq. ft.). This increased vacancy rates from 6.6% in 2005 to 29% in 2008, the highest vacancy rate recorded in the market since 1992.

With attractive, high-quality buildings and economical rental levels, the Kowloon East market recorded increased take-up of 4.4 million sq. ft. from 2007 to 2011 by several multinational firms relocating from Hong Kong Island, as well as other districts. Demand came from insurance companies, such as Manulife, AIA and AXA, and vacancy rates gradually decreased to only 14% by the end of 2011. Many large corporations are attracted by the large floor plates available and the availability of contiguous floors, as well as naming rights for some high-quality office buildings in Kowloon East.

8.2.2.3 Rents

Kowloon East Grade A office rental index, Q1/2003–Q4/2012



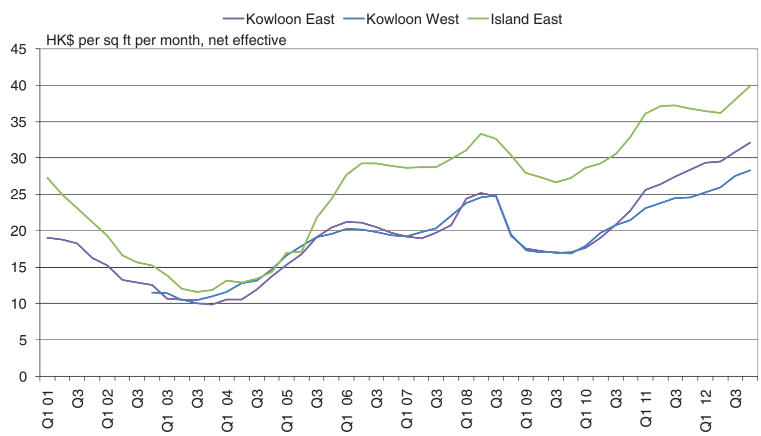
Source: Savills Research & Consultancy

Office rents in Kowloon East have shown a strong rising trend since 2003, except during the global financial crisis in 2008 and 2009 when rents fell by approximately 32% from Q2/2008 to

Q3/2009. Following increased take-up in 2011 and 2012, rents in Kowloon East resumed their rising trend, increasing by nearly 84% from Q3/2009 to Q4/2012.

In 2012, rents rose in Tsim Sha Tsui, Kowloon East and Western Corridor, supported by robust demand in all areas of Kowloon. In Tsim Sha Tsui, newcomers to the retail sector were active, taking-up increasing amounts of office space, and rents rose by 8% in 2012. Driven by relatively low rents, expansion demand from insurance firms was noted in Kowloon East and rents in the area rose by 13% in 2012.

Grade A office rents, Kowloon East, Kowloon West and Island East[46], Q1/2001–Q4/2012



Source: Savills Research & Consultancy

When comparing the rental levels of Kowloon East to comparable districts, such as Kowloon West and Island East, we can see that Kowloon East rents, standing at HK$32 per sq. ft. net effective in Q4/2012, maintained a 14% premium over Kowloon West rents but were 20% lower than rents in Island East over the same period.

The relocation of large, multi-floor occupiers from core areas is another decentralisation trend witnessed recently. Multinational companies are gradually forming a cluster in Kowloon East, with most of the demand deriving from the wholesale and trade, and insurance sectors. The Hong Kong Government has also become a large occupier in the district, for example the Hospital Authority and the Census and Statistics Department.

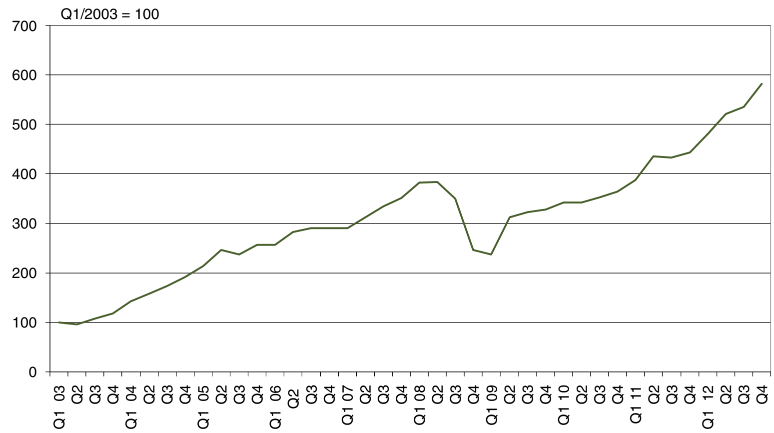
Office relocations to Kowloon East began in the late 1990s with the completion of the Millennium City portfolio in Kwun Tong by Sun Hung Kai Properties, which now houses Standard Chartered Bank and Bank of East Asia.

The relocations of Manulife and PriceWaterhouse Coopers in 2008 began another round of decentralisation in the office market. Peer and cluster effects gradually induced AIA and AXA, along with other multinational companies, to open offices in Kowloon East. The large rental differential between the core areas, especially Central, and Kowloon East provided a strong incentive for large occupiers who were also not able to find large areas of contiguous floor space in core locations. At the end of Q4/2012, the rental differential between Central and Kowloon East stood at HK$72 per sq. ft. net effective.

46 Savills estimates.

8.2.2.4 Prices

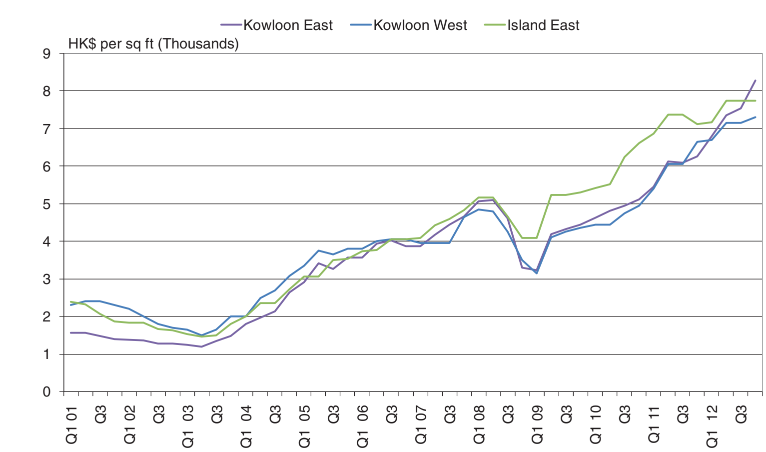
Kowloon East Grade A office price index, Q1/2003–Q4/2012



Source: Savills Research & Consultancy

The Kowloon East office sales market has been supported by a cluster of investors and end users, and prices more than tripled from 2003 to 2008, before the global financial crisis. We witnessed local and mainland Chinese investors active in the Kowloon East office market in 2010 and 2011, attracted by the CBD2 scheme, while overseas funds have recently taken an interest. Prices rebounded by 145% from Q1/2009 to Q4/2012 on the back of ample liquidly and low interest rates. Several new Grade A office developments in the area have been successfully strata titled, including King Palace Plaza at 55 King Yip Street and 49 King Yip Street.

Grade A office prices, Kowloon East, Kowloon West and Island East[47], Q1/2001–Q4/2012



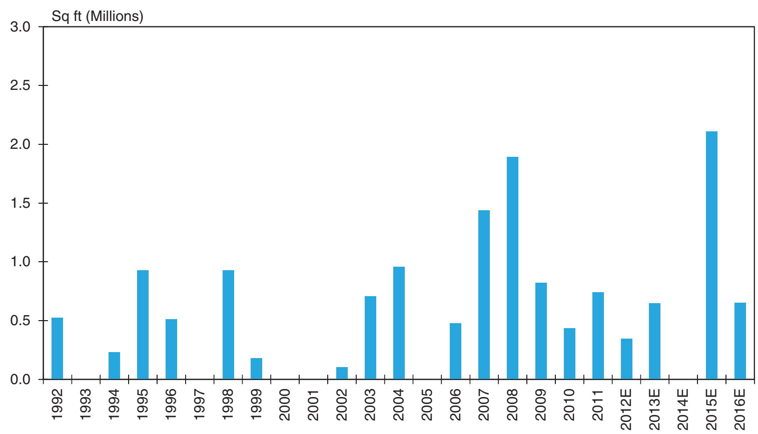
Source: Savills Research & Consultancy

With a relatively wide spectrum of rental ranges among the three districts, grade A office prices in Kowloon East, Kowloon West and Island East were much closer, trading at around HK$7,300 to HK$8,300 per sq. ft. in Q4/2012. Notably these estimated average prices were biased towards secondary stock, as primary stock in Kowloon East was selling at around HK$10,000 per sq. ft. in Q4/2012.

47 Savills estimates.

8.2.2.5 Market outlook

Kowloon East Grade A office supply, 1992–2016E



Source: Rating and Valuation Department, Savills Research & Consultancy

Supply levels are expected to be limited from 2012 to 2014 with only a total of 1 million sq. ft. completed during this period, before a supply spike in 2015. In 2015, approximately 2.1 million sq. ft. will be completed in Kowloon East.

8.2.2.6 Future comparable office supply

181 Hoi Bun Road, Kwun Tong

Address	181 Hoi Bun Road
No. of blocks	1
No. of storeys	25
GFA (sq. ft.)	307,684
Developer	Sun Hung Kai Properties
Completion date	2013

Source: Buildings Department, Savills Research & Consultancy

This high-quality project developed by Sun Hung Kai Properties and situated on the harbour front at 181 Hoi Bun Road, is a single-block, 25-storey building. It has a total GFA of 307,684 sq. ft. and is expected to be completed this year.

The building enjoys harbour views and faces the future cruise terminal. It is expected that Sun Hung Kai will put the building up for sale on a strata-titled basis.

6 Wang Kwong Road, Kowloon Bay

Address	6 Wang Kwong Road
No. of blocks	1
No. of storeys	33
GFA (sq. ft.)	264,589
Developer	Billion
Completion date	2013

Source: Buildings Department, Savills Research & Consultancy

6 Wang Kwong Road is a 33-storey office building developed by Billion. Based on Billion's track record, the building could be strata titled for sale in 2013 with an expected completion date in the same year.

Floors in the high zone have harbour views, while the views from the low-zone floors will be blocked by other developments.

NKIL 6269, junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road

Address	Junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road
No. of blocks	2
No. of storeys	21 with 2 basement floors
GFA (sq. ft.)	926,621
Developer	Wheelock
Completion date	2015

Source: Buildings Department, Savills Research & Consultancy

This site was sold to Wheelock by the Hong Kong Government in July 2011. The proposed development comprises two blocks of 21 storeys with two basement floors. This project has a total GFA of 926,621 sq. ft. with allocations for retail and office space. The towers are situated on the harbour front and have sea views.

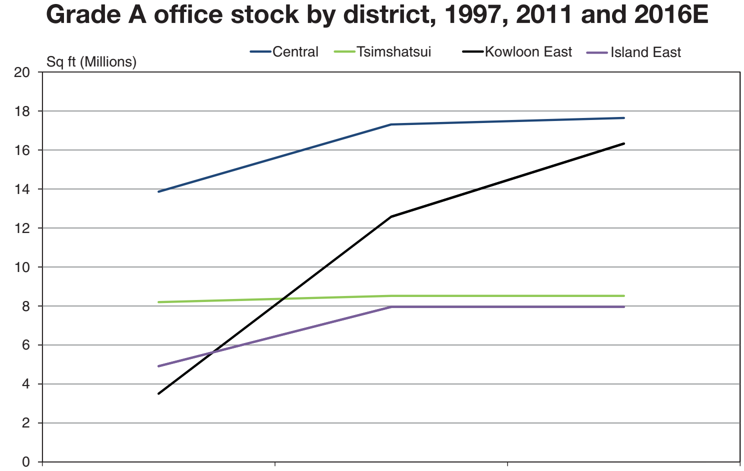
NKIL 6314, junction of Kai Shun Road, Wang Kwong Road and Kwai Cheung Road, Kowloon Bay

Address	Junction of Kai Shun Road, Wang Kwong Road and Kwai Cheung Road
No. of blocks	1
No. of storeys	28 with 3 basement floors
GFA (sq. ft.)	852,363
Developer	Goldin Properties
Completion date	2015

Source: Buildings Department, Savills Research & Consultancy

This site was held by the government and tendered to Goldin Properties in July 2011. The proposed development will be a 28-storey building with three basement floors, and a total GFA of 852,363 sq. ft. Completion is estimated to be in 2015. This is the first project by Goldin, and as a result, both the quality and the means of disposal by lease or sale remain uncertain.

Grade A office stock by district, 1997, 2011 and 2016E



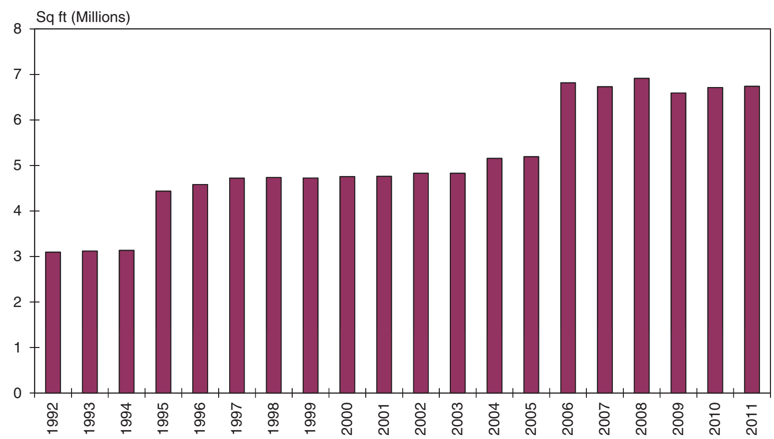
Source: Savills Research & Consultancy

Future Grade A office stock in Kowloon East is forecast to increase significantly with approximately 16.3 million sq. ft. by 2016, while office stock in Central, Tsim Sha Tsui and Island East will remain relatively stable.

8.2.3 Kowloon East retail market overview

8.2.3.1 Stock

Private commercial stock in Kowloon East[48], 1992–2011

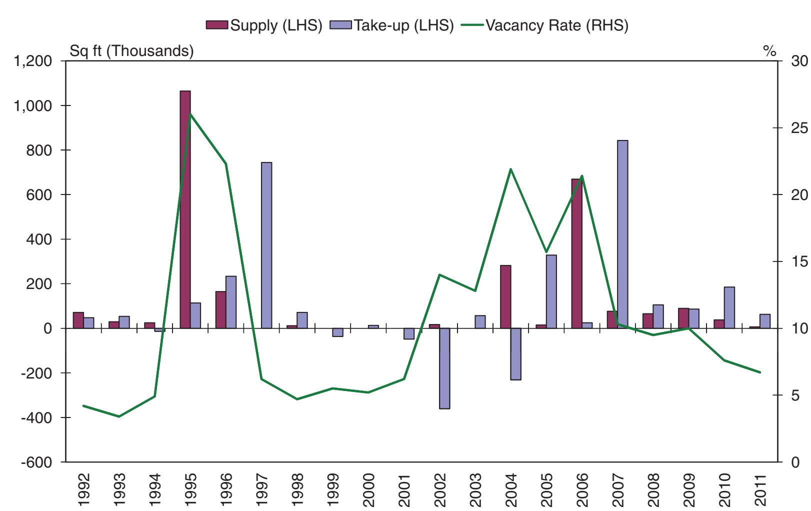


Source: Rating and Valuation Department, Savills Research & Consultancy

The increment in stock in 1995 was mainly due to the completion of KITEC, which at the time was classified as trademart and convention facilities and thus fell within the 'private commercial' category. With the reclassification of the shopping centres held under the Link REIT from public to private commercial space, as well as the completion of MegaBox in the same year, 2006 saw an increase in stock. Retail space remained stable thereafter and stood at 6.7 million sq. ft. in 2011.

8.2.3.2 Private commercial supply, take-up and vacancy rates[49]

Kowloon East private commercial supply, take-up and vacancy rate, 1992–2011



Source: Rating and Valuation Department, Savills Research & Consultancy

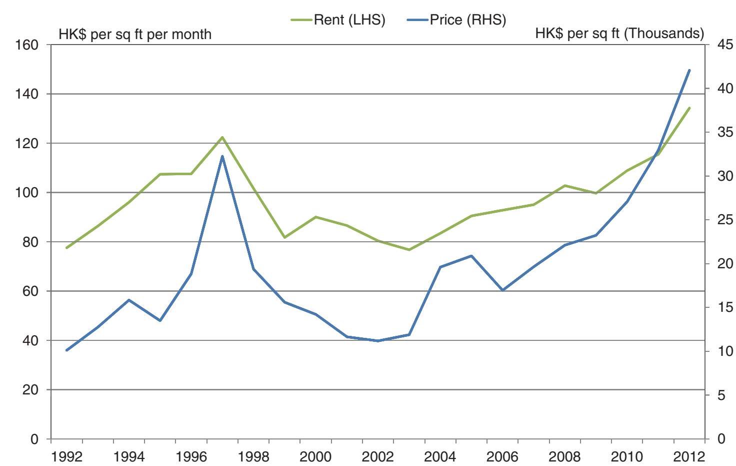
48 Refers to Kwun Tong District Council District, which includes Kwun Tong, Kowloon Bay and Yau Tong.
49 All floor areas quoted in this section are IFA as defined by the Rating and Valuation Department.

The large amount of supply from KITEC in 1995 was gradually taken-up from 1995 to 1997, bringing the vacancy rate down from 26% to 5%. Negative take-up in 2002 and 2004 was mainly due to economic contraction and the aftermath of SARS.

Over the past ten years, major private commercial supply in Kowloon East was concentrated in the years 2004 and 2006, when Millennium City (APM) and Megabox were completed, respectively. As a result, vacancy rates rose to 21.4% in 2006, but decreased to 6.7% in 2011 due to retail demand in the area from the larger office catchment.

8.2.3.3 Rental and price movements

Average private retail rents and prices in Kowloon, 1992–2012



Source: Rating and Valuation Department, Savills Research & Consultancy

As no separate Kowloon East private retail rental and price data series is available, we have adopted the Kowloon data series as a proxy. Retail rents in Kowloon rebounded after the containment of SARS and recorded a 33.9% increase from 2003 to 2008 as mainland arrivals provided support to luxury spending. The global financial crisis affected the core retail market with rents decreasing by 3.0% in 2009. The subsequent economic recovery brought about local and visitor spending, helping to increase retail rents in Kowloon by 34.7% from 2009 to 2012.

Kowloon retail prices followed a similar pattern and rebounded by 65.3% from 2003 to 2007. While the global financial crisis affected the financial sector, and therefore the core retail market, on Hong Kong Island, the Kowloon market was supported by mainland Chinese spending and thus retail prices increased by 12.6% in 2008, and continued to rise by 81.1% from 2009 to 2011.

A select number of major shopping centres in fringe Kowloon have been sold over the past two years due to the rising retail market, including Festival Walk in Kowloon Tong and Laguna Plaza in Kwun Tong.

Major shopping centre transactions in fringe Kowloon, 2011–2012

Transaction date	District	Property	Unit	Consideration (HK$)	Gross area (sq. ft.)	Gross unit price (HK$ per sq. ft.)	Vendor	Purchaser
Jul 2011	Kowloon Tong	Festival Walk	Whole block (office + retail)	18,800,000,000[50]	1,210,000	15,537	Swire Properties	Mapletree
Dec 2011	Tsuen Wan	Belvedere Garden	Commercial portion	1,250,000,000	276,862	4,515	Cheung Kong	Fortune REIT
Jul 2012	Tsuen Wan	Indihome	Retail podium	360,080,000	50,000	7,202	Healthy Sun Ltd	Antron Inv Ltd
Aug 2012	Kwun Tong	Laguna Plaza	Shopping centre	1,500,000,000	163,000	9,202	Hang Lung	CLSA Capital Partners

Source: EPRC

8.2.3.4 Future comparable retail supply

No comparable retail projects are in the pipeline from 2013 to 2015, although longer term retail provision may be available as part of the KTD, as well as from the ongoing revitalisation and redevelopment of industrial premises within the area.

8.2.4 Kowloon East MICE market

8.2.4.1 MICE market in Kowloon East

KITEC[51]

1 Trademart Drive, Kowloon Bay, Hong Kong

KITEC is the major exhibition and conference facility in Kowloon East. KITEC has a total GFA of 1,775,000 sq. ft., comprising office located from 7/F to 13/F, retail located from B1/F to 6/F, and conference and exhibition venue located on G/F, 3/F, 5/F, 6/F and 7/F.

Details of KITEC

Rotunda 1, 2, 3	5,411 sq. m.
Star Hall	2,912 sq. m.
Auditorium	1,137 sq.m. (702 seats)
Meeting rooms	1,545 sq. m.

Source: KITEC

Exhibition capacity

Venue	Floor area (sq. m.)	Ceiling height (m)	Capacity: Number of stands	Capacity: Number of Persons: Theatre*	Capacity: Number of Persons: Classroom*	Capacity: Number of Persons: Banquet*
Star Hall	2,912	14.3–16.0	120	3,600	1,450	1,920
Rotunda 1	1,795	4.40–6.45	90	1,000	760	960
Rotunda 2	1,804	5.30–8.80	90	1,600	1,000	1,200
Rotunda 3	1,812	5.30–8.80	90	1,600	1000	1,200

*Convention capacity.

50 Total investment cost is HK$19.3 billion including taxes and related costs.
51 All information sourced from Hopewell unless otherwise stated.

Convention capacity

Venue	Usable floor area (sq. m.)	Ceiling height (m)	Capacity		
			Theatre	Classroom	Banquet
Auditorium	1,137	3.29–4.25	702	—	—
Meeting Room 601	107	2.2	120	54	36
Meeting Room 602	107	2.2	120	54	36
Rooms 1–15	56–115	2.2–2.3	45–200	30–140	24–144

KITEC comprises event space of around 22,000 sq. m., which is suitable for any kind of business and/or banqueting functions. KITEC has a total GFA of 164,903 sq. m. with office, retail and convention/exhibition space and facilities. The centre is the only major exhibition venue in Kowloon, with a shuttle bus service available between the centre and the Kowloon Bay MTR Station, and is geared towards holding a number of local events, corporate functions and entertainment concerts.

Smaller exhibition spaces such as HKEC, City Hall and New World Centre also exist but they tend to host smaller and more local events catering for more specific needs. Most exhibitors at City Hall, for example, will be performance-related, whereas HKEC is more popular for China-related exhibitions. Some exhibitions at KITEC in the past have included Hong Kong Wedding Expo and Beauty Expo.

Major exhibition events at KITEC, 2008–2012

Event name	Organiser
Hong Kong Wedding Showcase	Audace International Fairs Ltd
Hong Kong International Pet Accessory Expo	Paper Communication Exhibition Services
Sports Expo 2012	Sportsoho Media Ltd
Beauty Expo	In-Sister Express
Asia International Arts & Anitques Fair	Paper Communication Exhibition Services

Source: KITEC

KITEC offers a range of venues for meetings and conferences, accommodating up to 3,000 delegates, but is also suitable for small- to medium-scale conferences, seminars or presentations. KITEC is expected to benefit from the formation of Kowloon East into CBD2.

Major conferences, seminars and presentations at KITEC, 2008–2012

Event name	Organiser
Company monthly meeting	Centaline Property Agency Limited
Hong Kong University SPACE Graduation Ceremony	HKU SPACE
ACCA Exam	ACCA
Japanese Language Proficiency Exam	JETRO
TVB Jade Solid Gold Award Presentation	The Community Chest/TVB

Source: KITEC

Star Hall at KITEC has become an increasingly popular integrated performance venue, hosting concerts by local and overseas artists as well as other performances, such as magic shows and boxing competitions. KITEC is now a popular place for both local and overseas artists who do not require a big venue in the town centre for their performances.

Star Hall has a column-free design, 16-m high ceilings, a custom-built stage, a state-of-the-art audio system and supporting facilities. Star Hall is also equipped with backstage dressing rooms, rehearsal studios and a VIP lounge.

Star Hall provides a specifically designed venue in terms of size, location and event solutions for live performances, and KITEC has become a market leader in mid-scale integrated performance venues.

Major performances at KITEC, 2008–2012

Event name	Organiser
Janice 3000 Day & Night Concert	East Asia Record Production Co, Ltd
Pretenders — Live in Hong Kong	Lushington Entertainments (HK) Limited
Charice Live in Hong Kong	Lushington Entertainments (HK) Limited
Shine Again Concert 2012	Star Studio Ltd
PAKHO Imperfect Live 2012	Warner Music Hong Kong
Craig David — Greatest Hits Tour	Live Nation (Hong Kong) Ltd
Tamaki Hiroshi Live Tour 2009–2010 Live in Hong Kong	Bravo Entertainment International Ltd
Legend 2 Fighting Championship	Legend Entertainment Ltd
Kenny G Heart & Soul Hong Kong Live 2011	168 Production & Engineering Services Ltd
Fight Factory Arena	Arena Thai & Kickboxing

Source: KITEC

Banqueting is another key driver for KITEC; creative designs and set-ups can be adapted to the flexible floor layouts to host banquets from 20 tables to 160 tables. As more corporations are now relocating to Kowloon East, KITEC stands to benefit from the increasing demand for company events in the area, including meetings, conferences and banquets.

Major banquets at KITEC, 2008–2012

Event name	Organiser
Jones Lang LaSalle annual dinner	Jones Lane LaSalle
Dairy Farm Wellcome annual dinner	Dairy Farm — Wellcome
HSBC annual dinner	HSBC Insurance
McDonalds annual dinner	McDonalds
Swire Coca Cola HK Ltd annual dinner	Swire Coca Cola HK Ltd
DHL Global Forwarding Ltd annual dinner	DHL Global Forwarding
CSL Ltd annual dinner	CSL Ltd

Source: KITEC

Nevertheless, given their different locations, positioning and leasing strategies, the utilisation of the three convention and exhibition venues are very different.

With over 400 events per annum, the utilisation rate of KITEC is relatively high.

8.3 Tsuen Wan

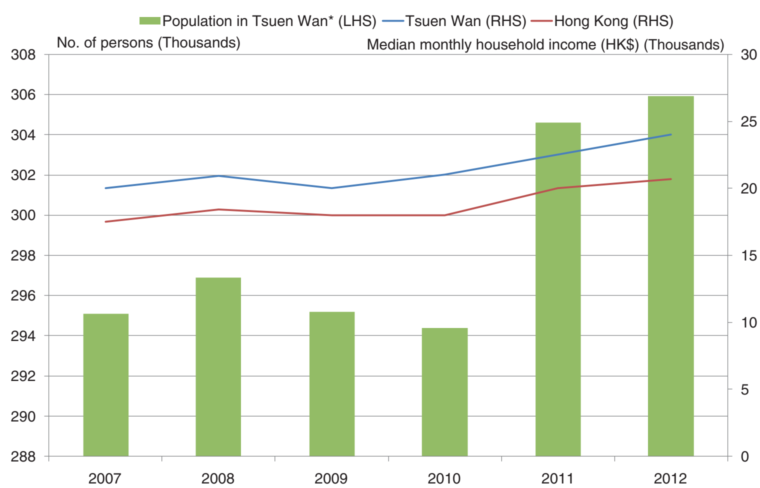
8.3.1 District overview

Tsuen Wan, one of the first three new towns developed in Hong Kong, is located in the southwest New Territories.

The town is currently moving away from its traditional manufacturing and industrial base, and is undergoing a redevelopment and transition phase towards residential, retail, hospitality and service-based industries. Many industrial buildings are being redeveloped into new private residential and commercial properties, such as Chelsea Court, H Cube and Indi Home. Key redevelopment projects include Vision City and The Dynasty, a residential-cum-retail redevelopment project, and the Nina Tower Development, a mixed-use complex comprising commercial, hotel and convention centre areas.

With more affluent families moving into the area due to the increasing number of new residential developments, the average household income of Tsuen Wan amounted to HK$24,000, as per the 2012 Population and Household Statistics Analysed by District Council District, higher than the overall Hong Kong average.

Tsuen Wan population and household income, 2007 – 2012



Source: Census and Statistics Department, Savills Research & Consultancy *Mid-Year Population Figures

Most of the key residential developments within the district have adjacent shopping arcades, and include Luk Yueng Sun Chuen (4,072 units with 111,492 sq. ft. of retail space), Discovery Park (3,360 units with 466,400 sq. ft. of retail space), Vision City and The Dynasty (1,722 units, and Citywalk I and II with a total retail area of 432,419 sq. ft.), Belvedere Garden (6,016 units with 277,000 sq. ft. of retail space) and Riviera Garden (5,640 units with 242,685 sq. ft. of retail space).

The new residential developments completed in recent years have also induced an increase in population, with over 10,000 people moving into the district in 2011 alone.

Many hotels have been completed in Tsuen Wan to accommodate tourists, as it is strategically located on the airport corridor. These include Panda Hotel (911 rooms), Royal View Hotel (691 rooms), Silka Far East Hotel (240 rooms) and L'hotel Nina at the Convention Centre (around 1,608 rooms).

Commercial and industrial activity has also increased recently with two industrial buildings, namely 52A Sha Tsui Road (259,878 sq. ft.) and One Midtown (585,072 sq. ft.), being completed and successfully stratified in 2010 and 2012, respectively.

The three coastal sub-districts in the west of Tsuen Wan are Ting Kau, Sham Tseng and Tsing Lung Tau, where a number of villages can be found. Residential units in these areas are a combination of villa-style, low-rise developments and mid- to high-rise private apartments, and major residential developments in these sub-districts include Rhine Garden (1,066 units), Bellagio

(3,345 units), Sea Crest Villa (2,409 units), Ocean Pointe (560 units) and Hong Kong Garden (2,830 units).

Another sub-district of Tsuen Wan is Ma Wan, an island situated between Lantau Island and Tsing Yi Island. Developments on the island include a 5,292-unit residential project, Park Island, as well as Noah's Ark Hong Kong, a tourist attraction.

Tsuen Wan is a gateway to HKIA on Lantau Island, and one of the major transportation hubs in the western New Territories. The comprehensive road network connects the district to various locations, and major trunk roads include Castle Peak Road, Sha Tsui Road and Tsuen Wan Road. The district is connected to the airport via the Tsing Ma Bridge and to the northwest New Territories via the Ting Kau Bridge.

Three MTR lines serve the district — the Tsuen Wan Line, the West Rail Line and the Airport Express Line. In December 2009, Route 8 between Tsing Yi and Cheung Sha Wan was completed and opened to traffic.

The convenience of Tsuen Wan can be highlighted by the relatively short travelling time to key business districts and infrastructure on the MTR. It takes 14 minutes to travel to Tsim Sha Tsui, 21 minutes to Central, and 34 minutes to HKIA, all on the MTR.

8.3.2 Future developments

Most of the future property developments in Tsuen Wan will take place in western Tsuen Wan, along the coastal strip near the Tsuen Wan West MTR Station which is further out from the town centre.

The largest of these future developments is the potential private residential development above the Tsuen Wan West MTR Station. The entire development will comprise three different phases: Tsuen Wan West TW5; Tsuen Wan West TW6; and Tsuen Wan West TW7. In September 2008, Tsuen Wan West TW7, which will provide 1,720 residential flats, was tendered to Cheung Kong Holdings and the project is expected to be completed in 2013.

The Tsuen Wan West TW5 site is further subdivided into Cityside and Bayside, with Cityside tendered to Chinachem in January 2012, which will provide 942 units and 120,000 sq. ft. of retail space. The other site, Bayside, was tendered to Cheung Kong in August 2012 and will provide 2,384 units and 436,500 sq. ft. of retail space. Both sites are expected to be completed in 2018.

The Tsuen Wan West TW6 site, which is yet to be tendered, will provide a further 894 units but has no definite completion dates. The four sites at the Tsuen Wan West MTR Station will together provide 5,940 units and around 550,000 sq. ft. of retail space when fully completed.

Major developments in Tsuen Wan

Location	Development information					Expected completion
	Residential	Retail	Hotel	Office	Industrial	
Development/infrastructure						
1) TW7, Tsuen Wan West MTR Station	1,720 units					2013
2) 106–114 Kwok Shui Road	402 units					2013
3) 13–17 Fu Uk Road	105 units					2014
372–380 Castle Peak Road, Casam Beach, Ting Kau	46 units					2014
TLTL 67, Tsing Lung Tau	4 units					2014
4) TW5, Tsuen Wan West MTR Station Cityside	942 units	120,000 sq. ft.				2018
5) TW5, Tsuen Wan West MTR Station Bayside	2,384 units	436,500 sq. ft.				2018
6) TW6, Tsuen Wan West MTR Station	894 units					Planning
7) HOS development at the old Tai Wo Hau Factory Estate	877 units					Planning
8) Dorsett Regency, Hong Kong Tsuen Wan, 659 Castle Peak Road			548 rooms			2013
Chuen Lung Spa Hotel, Chuen Lung Street TWTL 389			78 rooms			2013
9) Billion Square, 3 Hoi Shing Road					703,042 sq. ft.	2013
Transport infrastructure						
Extension of footbridge network in Tsuen Wan – Footbridge A along Tai Ho Road						2013
Reconstruction and improvement of Tuen Mun Road – eastern section						2014

Source: HKTB, Buildings Department

Location map of major new developments

In terms of commercial developments, two hotels providing over 600 rooms are to be completed in 2013, while another large-scale quasi-office/industrial building, Billion Square, is poised for completion in the same year.

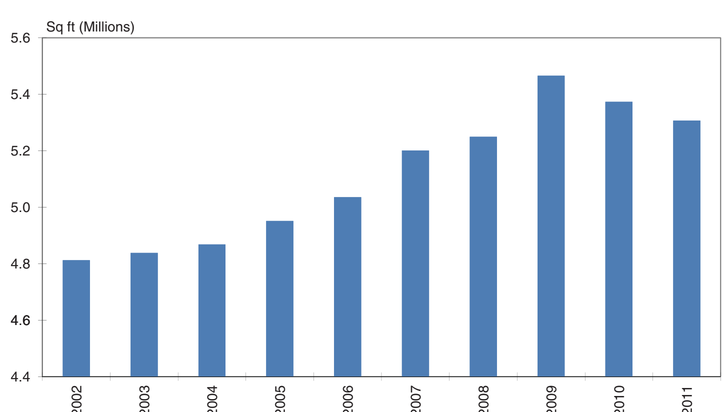
There are only two transport infrastructure projects in the pipeline — an extension of the footbridge system in the town centre which should further enhance pedestrian flow, and the reconstruction of Tuen Mun Road which should improve Tsuen Wan's links with the sub-districts to the west.

Upon completion of these developments and infrastructure projects, we expect more high-income households, which would benefit the retail market in the area. The easier accessibility of Tsuen Wan will also attract more overnight visitors looking for more affordable accommodation.

8.3.3 Tsuen Wan retail market overview

8.3.3.1 Stock

Private commercial stock in Tsuen Wan, 2002–2011

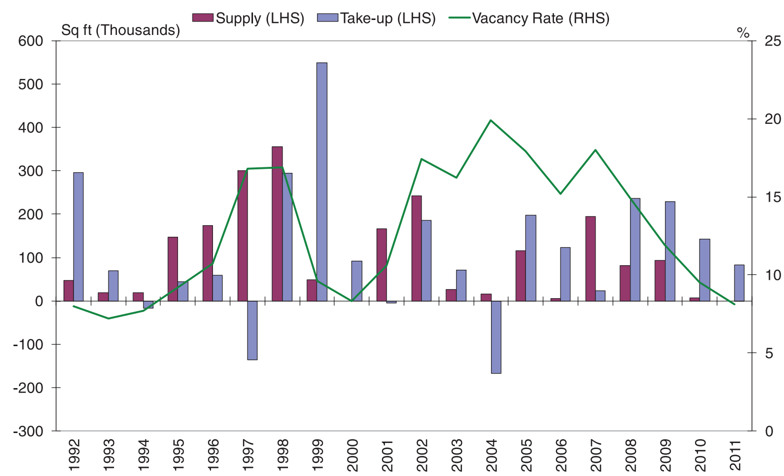


Source: Rating and Valuation Department, Savills Research & Consultancy

According to the Rating and Valuation Department's area definition, Kwai Tsing was included in the Tsuen Wan district before 2002. For consistency, we have only shown private commercial stock in Tsuen Wan from 2002. Retail stock gradually increased from 4.8 million sq. ft. in 2002 to 5.5 million sq. ft. in 2009, mainly due to the phased completions of the Nina Tower retail podium, as well as Citywalk.

8.3.3.2 Private commercial supply, take-up and vacancy rates[52]

Tsuen Wan private commercial supply, take-up and vacancy rates, 1992–2011



Source: Rating and Valuation Department, Savills Research & Consultancy

The strong take-up of commercial space in 1999 reflected the delayed take-up of Maritime Square in Tsing Yi, which was completed in 1998 during the Asian financial crisis.

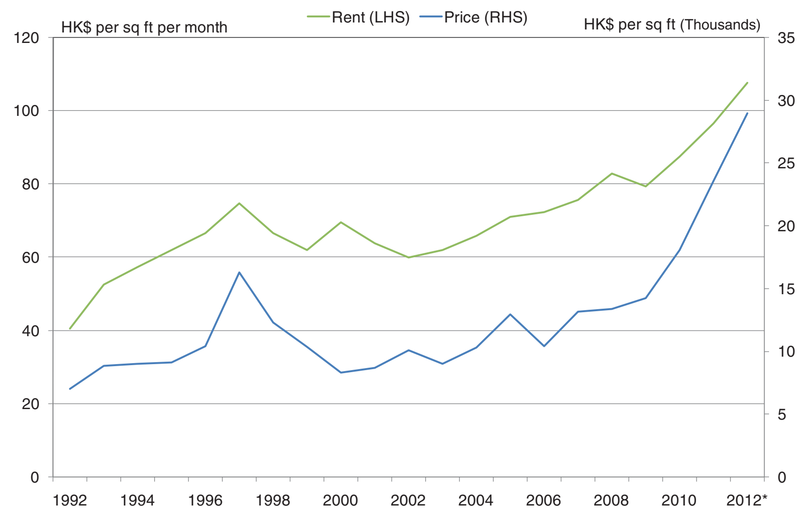
The decreased take-up of 166,840 sq. ft. in 2004 was mainly due to the delayed impact of SARS, which pushed vacancy rates up as high as 19.9%. Annual average supply between 2005 and 2011 amounted to 71,000 sq. ft. per annum, when the two phases of Citywalk were completed. Average take-up outpaced supply at 150,000 sq. ft. per annum over the same period due to the gradual transition of the area into a new, vibrant residential area attracting a more affluent residential population, and bringing vacancy rates down to 8.1%.

In the short run, no retail space of any significant scale will be added to the Tsuen Wan retail scene. The proposed shopping centres at the two sites on TW5, which total 556,500 sq. ft., are scheduled for completion in 2018.

52 All floor areas quoted in this section are IFA as defined by the Rating and Valuation Department.

8.3.3.3 Rental and price movements

Average private retail rents and prices in the New Territories, 1992–2012



Source: Rating and Valuation Department, Savills Research & Consultancy

* Provisional

As no separate private retail rental and price data series is available for Tsuen Wan, we have adopted the New Territories data series as a proxy. Retail rents in the New Territories rebounded swiftly after the containment of SARS and recorded a 33.5% increase from 2003 to 2008 amid the economic recovery and increased levels of local spending. The global financial crisis only affected the New Territories retail market slightly, with rents decreasing by 4.1% in 2009. The subsequent economic recovery brought about a rebound in the local retail market and New Territories retail rents increased by 35.4% from 2009 to 2012, the highest among the three sub-districts.

New Territories retail prices followed a similar pattern and rebounded by 46.3% from 2003 to 2007. While the global financial crisis impacted the financial sector and the core retail market (especially in Central), the more necessity-driven suburban retail markets in the New Territories were relatively unaffected, with retail prices continuing to increase by 1.3% in 2008. This upward momentum continued from 2009 to 2012, and saw prices increasing further by 102.7%, the highest among the three sub-districts, likely due to a lower base of comparison.

A select number of shopping centres were transacted in Tsuen Wan over the past two years due to positive investment sentiment, including the retail podiums of Belvedere Garden and Indihome, as well as Emperor Plaza.

Major shopping centre transactions in Tsuen Wan, 2011–2012

Transaction date	District	Property	Unit	Consideration (HK$)	Gross area (sq. ft.)	Gross unit price (HK$ per sq. ft.)	Vendor	Purchaser
Dec 2011	Tsuen Wan	Belvedere Garden	Commercial portion	1,250,000,000	276,862	4,515	Cheung Kong	Fortune REIT
May 2012	Tsuen Wan	Emperor Plaza	En-bloc	1,450,000,000	215,000	6,744	Pleasure View Inv Ltd	Man Hei International Inv Ltd
Jul 2012	Tsuen Wan	Indihome	Retail podium	360,080,000	50,000	7,202	Healthy Sun Ltd	Antron Inv Ltd

Source: EPRC

8.3.3.4 Future comparable retail supply

Tsuen Wan West MTR Station, Cityside

Address	Tsuen Wan West MTR Station, Cityside
No. of blocks	1
No. of storeys	NA
GFA (sq. ft.)	120,000
Developer	Chinachem
Completion date	2018

Source: MTRC website, Savills Research & Consultancy

The retail podium of the Cityside residential development (942 residential units) will have direct access to the Tsuen Wan West MTR Station and will potentially also have direct access to the residential towers above. The retail space may benefit from some synergy with the adjacent Bayside development which also comprises residential units and a retail podium. The expected completion date is around 2018.

Tsuen Wan West MTR Station, Bayside

Address	Tsuen Wan West MTR Station, Bayside
No. of blocks	1
No. of storeys	NA
GFA (sq. ft.)	436,500
Developer	Cheung Kong
Completion date	2018

Source: MTRC website, Savills Research & Consultancy

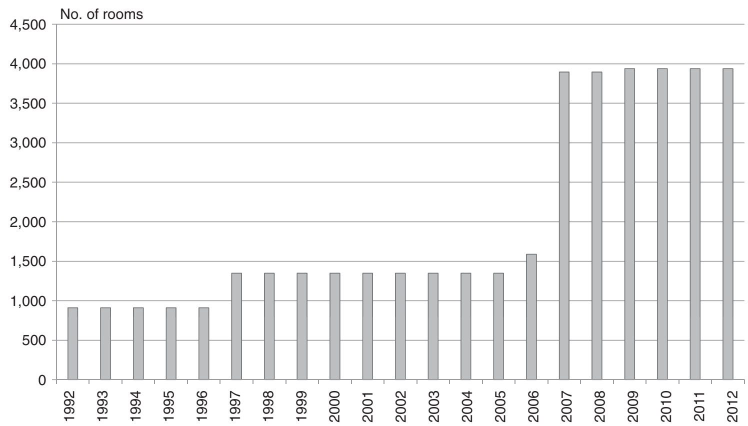
Similar to the Cityside project, this 436,500-sq. ft. shopping arcade is the retail podium of the entire Bayside residential development comprising 2,384 residential units and direct access from both the Tsuen Wan West MTR Station and the residential towers above. Although on a much larger scale, this shopping centre may also synergise with the adjacent Cityside development and create a critical mass of retail shops around the Tsuen Wan West MTR Station. The expected completion date of the project is in 2018.

8.3.4 Tsuen Wan hotel market overview

8.3.4.1 Stock

According to the HKTB, there were six hotels located in the Tsuen Wan area in 2012, comprising approximately 3,938 rooms, or 6% of the territory's total.

Hotel stock in Tsuen Wan, 1992–2012



Source: HKTB, Home Affairs Department, Savills Research & Consultancy

Panda Hotel (911 rooms, 1992) was the first hotel opened in Tsuen Wan. Following its completion, there were no hotels completed until Bay Bridge in 1997 (438 rooms). Hotel development continued to be scarce in the area until 2006 and 2007, when the completion of three hotels, namely Silka Far East Hotel (240 rooms, 2006), L'hotel Nina et Convention Centre (1,615 rooms, 2007) and Royal View Hotel (691 rooms, 2007), more than doubled stock in the area.

8.3.4.2 Tsuen Wan hotel occupancy rates

As there is no hotel occupancy rate data available for Tsuen Wan we have adopted All Others[53] as a proxy. Occupancy rates of All Others have moved relatively in line with the overall market over the past five years, with occupancy rates in the area averaging 86% from January 2007 to December 2012, slightly below the overall average of 87%. Occupancy rates in Tsuen Wan began to diverge from the overall trend in early 2012, with Tsuen Wan maintaining a 2-percentage point premium over the overall market in 2012, mainly due to the increasing influx of mainland Chinese visitors from 2010 onwards favouring hotels in fringe areas.

Average occupancy rates by year

	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)
Overall	86	85	78	87	89	89
All others	84	84	76	88	92	91

Source: HKTB, Savills Research & Consultancy

8.3.4.3 Tsuen Wan future comparable hotel supply

There are two scheduled hotel developments in Tsuen Wan from 2013 to 2015, totalling 626 rooms, both of which are expected to be completed in 2013. While the Dorsett Regency Hotel is of a smaller scale to the subject property (Panda Hotel), it may have a similar market positioning and thus may constitute some competition.

53 All Others: All areas excluding Central/Western, Wan Chai/Causeway Bay, Eastern and Southern Hong Kong, Tsim Sha Tsui and Yau Ma Tei/Mong Kok. Source: HKTB.

Proposed hotel developments in Tsuen Wan, 2012–2015

Development	No. of rooms	Expected completion
Dorsett Regency Hong Kong Tsuen Wan, 659 Castle Peak Road, Kwai Chung	548	Q1/2013
Chuen Lung Spa Hotel, TWTL 389, Tsuen Wan	78	Q3/2013
Total	**626**	

Source: HKTB, Savills Research & Consultancy

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Yours sincerely,
Savills (Hong Kong) Limited

Simon Smith
Senior Director
Head of Research & Consultancy