Spotlight
Hong Kong's retail hierarchy – A trade mix analysis
September 2013
Hong Kong’s retail sector relies heavily on shopping malls, particularly given the local climate during the summer months, the density of the population and the popularity of shopping as a pastime. A closer look at these centres reveals some interesting differences.

**Introduction**

Trade and tenant mix has enormous implications for the success of any retail mall and correctly identifying the most suitable combination is as much an art as it is a science. Perhaps the first thing to note is that the mix is not static but evolves over time in response to changing context (more detail later). Mistakes made in defining the mix can be costly while success sees complementary tenants feeding off each other, meeting shopper needs and optimising revenues.

A wide range of forces define trade and tenant mix including catchment demographics, transport infrastructure as well as the competitive landscape and all these need to be understood not just in today’s market but in the future market also. What changes are expected? New roads or rail lines, new residential or commercial developments in the surrounding area, ageing populations, rising household incomes or shifts in gender profiles? All should be considered.

Before a mall opens, it is usually the job of a retail consultant to quantify these diverse factors and recommend an initial mix (perhaps along with advice on design, layout and phasing). Adjustment to the mix then occurs over time as recommendations are tested by the market.

**GRAPH 1**

**Trade mix comparison, Q1/2013**

<table>
<thead>
<tr>
<th></th>
<th>F&amp;B</th>
<th>Supermarket &amp; Foodstuffs</th>
<th>Department Store</th>
<th>Apparel</th>
<th>Household &amp; Electronic</th>
<th>Leisure &amp; Entertainment</th>
<th>Services</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall*</td>
<td>26%</td>
<td>11%</td>
<td>6%</td>
<td>20%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td>Neighbourhood</td>
<td>31%</td>
<td>17%</td>
<td>1%</td>
<td>8%</td>
<td>7%</td>
<td>1%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>District</td>
<td>27%</td>
<td>8%</td>
<td>8%</td>
<td>20%</td>
<td>6%</td>
<td>7%</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>Regional</td>
<td>22%</td>
<td>6%</td>
<td>9%</td>
<td>23%</td>
<td>7%</td>
<td>11%</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>Super-Regional</td>
<td>17%</td>
<td>6%</td>
<td>11%</td>
<td>36%</td>
<td>5%</td>
<td>11%</td>
<td>4%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Savills Retail Consultancy
*Refers to the overall average of all shopping centres in the basket.
reality of the market place and sales volumes give a clearer guide as to what is working and what is not.

In this research study we have looked at the trade mix of 40 existing (rather than planned) Hong Kong malls totalling 21 million sq ft from different parts of the retail hierarchy – neighbourhood, district, regional and super-regional. We surveyed almost 6,000 tenants representing 20 different trades over a three-month period. The results yield ‘typical’ trade mixes for each type of mall and give an insight into how our local market is structured.

Looking at the scale of the different types of centre, there was little divergence from what might be expected. Neighbourhood centres were the smallest by area and number of shops, while district-level centres were slightly larger. Surprisingly though, typical regional centres were actually bigger than typical super-regional centres and offered a greater number of retailers. Clearly, super-regional centres rely more on location, design, branding and management than purely their size to attract customers.

In terms of ownership, Sun Hung Kai dominated our basket accounting for 24% of the total floor area, followed by Wharf with 15%, Sino with 11%, the MTRC with 9% and Kerry with 6%.

Trade mixes across centres
Comparing the four types of centre, some obvious trends emerge. F&B dominates neighbourhood centres and represents a less significant proportion of floor area in super-regional centres. A similar pattern emerges for supermarkets and foodstuffs despite a slightly higher representation in super-regional centres due to upmarket offerings such as delicatessens and specialty food outlets. Department stores are important anchors at a super-regional level while apparel also dominates. Household and electronics retailers have a strong foothold at a district and regional level while services favour neighbourhood centres.

Neighbourhood centres
Neighbourhood centres arguably have least flexibility when it comes to deciding trade mix. They serve a very specific purpose, to meet the convenience needs of the local community, and therefore have to cater to the more mundane requirements of the immediate catchment. Not surprisingly, F&B was the largest trade category representing on average 31% of floor area followed by supermarkets (13%), services (20%) and apparel (8%). The largest F&B category was accounted for by conventional Chinese followed by fast food and specialty Chinese.

District centres
Located in larger residential suburbs and still with a strong convenience bias, district centres cater for the mass- to mid-market. F&B again dominates the trade mix with 27% of floor area followed by apparel (20%), services (10%) and department stores (8%). Within the F&B category, Asian offerings match conventional Chinese in terms of area while apparel is dominated by casual fashion. Department stores make an appearance in these malls as anchors, sometimes in addition to a supermarket.

Regional centres
Typically 600,000–1,000,000 sq ft NLA and located in well-established suburbs, regional centres offer a mix of anchors and mini-anchors. In this category, apparel overtakes F&B for the first time as the largest trade with 23% of floor area versus 22% for F&B. Leisure and entertainment
features prominently with 11% of floor area, generally accounted for by cinemas and other leisure facilities.

**Super-regional centres**

These are the most prominent of the retail centre formats with floor areas of more than 700,000 sq ft and accommodation for over 200 retailers with three or more anchors. Located in prime commercial or tourist areas, these malls are dominated by apparel retailers who represent on average 36% of floor area followed by F&B (17%) and department stores (11%). Western offerings represent the largest F&B segment while apparel is accounted for largely by luxury fashion often aimed at overseas tourists, especially mainland Chinese.

**Future trends**

What patterns are currently emerging in Hong Kong’s evolving retail scene? At a super-regional level the march of apparel, particularly luxury fashion, seems unstoppable and the trade mix of these centres continues to emphasise this trade at the expense of other anchors/tenants. We believe that the jewellery and watches sector has stabilised for the time being at around 5% of floor area.

Regional centres in the New Territories will shift trade mix to meet mainland demand and this will inevitably mean more apparel. With greater numbers of same-day visitors from China (compared with overnight visitors) provision of convenience retail may also increase over time particularly cosmetics and pharmaceuticals in centres within easy reach of the border.

At a district level, trade mix is expected to remain relatively stable although larger, better located centres may try to reposition themselves as sub-regional

**GRAPH 4**

Regional centre trade mix, Q1/2013

**GRAPH 5**

Super-regional centre trade mix, Q1/2013

Source: Savills Retail Consultancy
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malls where market opportunity allows. Lacking the allure of the much larger regional and super-regional centres and without the convenience of neighbourhood malls, this segment may be most vulnerable to e-tailing over time. The internet is a particularly effective means of undertaking the type of comparison shopping which occurs at a district centre level and many of the trades are already well represented on the web.

The outlook for neighbourhood centres is positive as major landlords, such as The Link, continue to upgrade the sector although this is sometimes at the expense of variety as independents give way to chains. Government housing bodies also continue to improve the design and layout of new centres, and coupled with rising incomes, there is plenty of potential for convenience and mass-market retailers.

One area we haven’t covered in this paper is transit retail – a rapidly emerging sector of the retail hierarchy, in part reflecting Hong Kong’s insatiable demand for big infrastructure. At border crossings, airports, railway stations and even ferry piers retailers are finding new ways to get in front of Asia’s restless consumers. This trend has not been lost on the likes of the Airport Authority and the MTRC who have been quick to recognise the opportunity to increase revenues and enhance transit environments.

Rental development
The sector has obviously seen phenomenal rental growth since the Individual Visit Scheme was introduced in 2003, pausing only briefly in 2008 and 2009 during the global financial crisis. Since then, super-regional centres have recorded particularly strong rises in base rents as they have cemented their position of dominance in the hierarchy supported by mainland shoppers. We also note that district centres have seen a dramatic uplift in rents over the past six months as a number of malls have undertaken extensive upgrades.

Only regional centres seem to have performed less well, with base rental growth moderating since 2011. We reason that this segment may have compromised base rental growth in order to secure new international brands. We believe, however, that sales turnover in this segment has gone a long way to improving rental returns and mitigating the lower base rents.

Geographically, post-global financial crisis New Territories rents have

Graph 6
YoY growth rate in shopping centre indices by type, Q1/2003–Q2/2013

Source: Savills Retail Consultancy

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**Trade mix sub-categories**

- **Apparel**
  - Clothing, footwear and accessories
- **Department stores**
- **F&B**
  - Asian
  - Conventional Chinese
  - Cafe or light refreshment
  - Fast food
  - Food court
  - Specialty Chinese
  - Western
- **Household and electronic**
  - Electronic products
  - Household products
- **Leisure and entertainment**
- **Services**
  - Banking
  - Beauty/hair salon
  - Educational
  - Other services
- **Supermarkets and foodstuffs**
  - Convenience stores and foodstuffs
  - Supermarkets
- **Others**
  - Jewellery and watches
  - Health, personal care and beauty
  - Other general merchandise
  - Vacant

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risen more slowly than either Hong Kong Island or Kowloon. We believe that this is changing, however, as overheads challenge affordability in traditional locations and retailers chase new opportunities closer to the border with mainland China. Rising numbers of same-day visitors should support this trend over the next year or two and centre repositioning is already much in evidence.

GRAPH 7

Shopping centre indices by district, Q1/2003–Q2/2013

Source: Savills Retail Consultancy

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Savills Retail

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