

Briefing Retail sector

February 2015



Image: Queen's Road Central, Central

SUMMARY

The Hong Kong retail leasing market has experienced the 'coldest' winter since 2003.

- Retail sales in Hong Kong weakened towards year-end 2014, and recorded their first full-year decline since 2003.

- Sales of luxury products, including popular tourist items such as watches, jewellery, electrical goods and photographic equipment, have continued to cool.

- The strengthening of the U.S. dollar and the weakening of the euro combined to make Hong Kong less

appealing to affluent Chinese visitors as a luxury shopping destination.

- Overall rents for prime street shops continued to fall by 3.1% quarter-on-quarter (QoQ) in Q4/2014.

- Looking forward, prime street shop rents are expected to decline by 10% to 15% in 2015. In contrast, major shopping centre base rents are expected to see further growth in the range of 5% to 10% over the same period.

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 "After a long bull run, street shop rents are finally softening while rents in prime malls continue their upward trajectory." Simon Smith, Savills Research

➔ **Market commentary**

According to the latest statistics from The Census and Statistics Department, the weaker-than-expected Christmas period resulted to a 3.9% year-on-year decline in retail sales by value in December 2014. For 2014 as a whole, the total sales value stood at HK\$493.3 billion, down by 0.2% over 2013. This is the first decline since the SARS outbreak in 2003, and was mainly due to lower sales of luxury items including jewellery and watches which dropped by nearly 14% over the year.

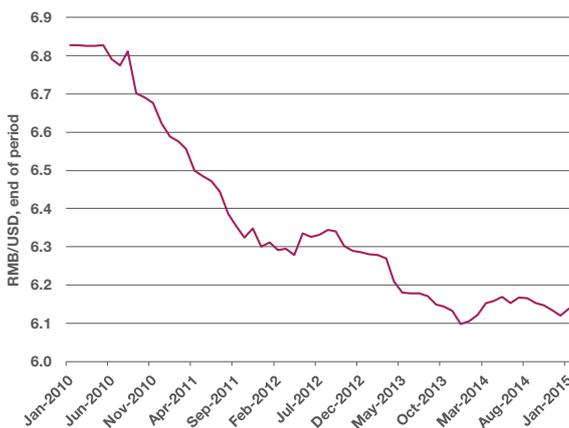
Despite the continued growth in Mainland visitor arrivals in Q4/2014, the shifting of the visitor profile, from

overnight to same-day, resulted in lower per capita sales and a slowing of the visitor spending driven retail categories, including jewellery, watches and department store items. Furthermore, the movements in global currencies also played a role in the change in Chinese visitor spending patterns. The strengthening of the U.S. dollar (to which the Hong Kong dollar is pegged) against major currencies including the Chinese yuan and the weakening of the euro combined to make luxury goods in Hong Kong less appealing to affluent Chinese visitors. This has further persuaded high-end Chinese visitors to try other

travel and shopping destinations other than Hong Kong.

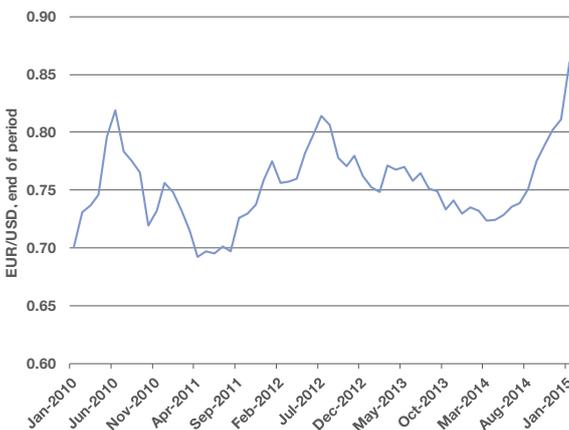
Leasing activity in Hong Kong's retail market remained fairly subdued over the last quarter of 2014, particularly in the prime street shop segment. Generally, market sentiment has softened, reflected in a sluggish sales performance since Q2/2014. Retailers have been increasingly selective and cautious in committing to new space with tighter rental budgets. Transaction momentum also slowed over Q4/2014 despite the last quarter of the year being a traditionally active leasing season for retail. Overall prime street

GRAPH 1 **U.S. Dollar vs RMB, Jan 2010–Jan 2015**



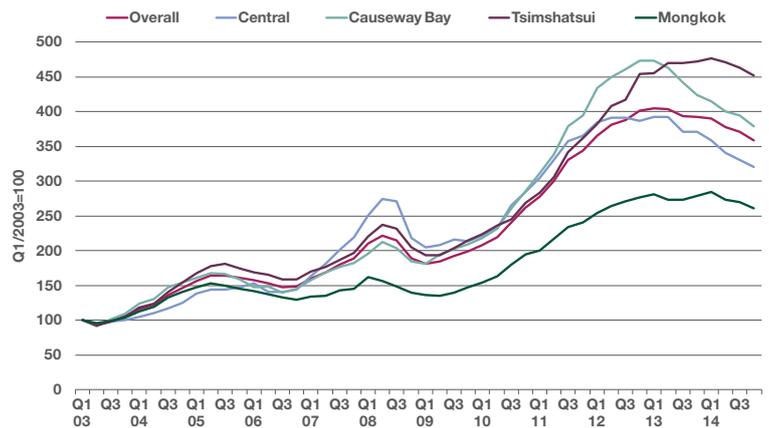
Source: Savills Research & Consultancy

GRAPH 2 **U.S. Dollar vs Euro, Jan 2010–Jan 2015**



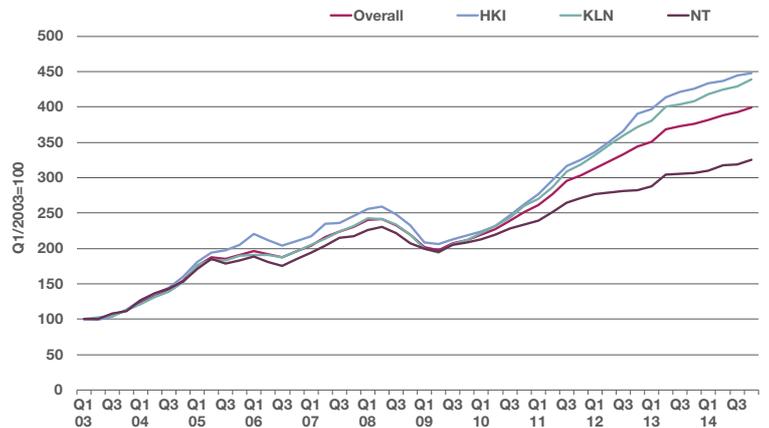
Source: Savills Research & Consultancy

GRAPH 3 **Savills prime street shop rental indices by district, Q1/2003–Q4/2014**



Source: Savills Research & Consultancy

GRAPH 4 **Savills major shopping centre rental indices, Q1/2003–Q4/2014**



Source: Savills Research & Consultancy

GRAPH 5
Retail sales value (YoY changes), Jan 2010 – Dec 2014



Source: Savills Research & Consultancy

shop rents fell by 3.1% QoQ over Q4/2014 and dropped by 8.5% in 2014 as a whole. On the other hand, major shopping centres in Hong Kong continued to see sustained demand from both local and international retailers and average base rents increased by 1.8% QoQ and registered a full-year increase of 6.4% in 2014.

Looking ahead, we believe the leasing market in the prime street shop segment is becoming more tenant-friendly over the short- to medium-term as landlords have started to become more 'realistic' and flexible in their asking rents. Market momentum is expected to pick up again when the rental expectation gaps between retailers and landlords close. A rental correction is expected to continue in the prime street shop sub-market in 2015 and overall rents are expected to decline by 10% to 15%. The shopping centre segment will be less affected and is expected to remain relatively strong with further rental growth in the range of 5% to 10% over 2015. ■

Please contact us for further information

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