

Briefing Retail leasing

April 2018



SUMMARY

Despite an obvious pick-up in retail sales, rents have failed to follow suit over the first quarter.

- Rebounding retail sales had little impact on street shop or shopping mall rents during the first quarter of 2018 which remained flat.
- Strong performers included watches, luxury and casual fashion and F&B despite the challenges.
- Mainland visitors have returned to Hong Kong partly thanks to a stronger Renminbi, but are not spending as much as previously.
- Pockets of vacancy remain, not least on Queen's Road Central where several large units are currently on the market.
- Leasing activity is picking up gradually after two years of retrenchment but plenty of caution remains.
- The Hong Kong section of the Express Rail Link is likely to have a positive impact on West Kowloon retail while the Hong Kong-Zhuhai-Macau Bridge should be of more benefit to logistics operators rather than retailers.

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 "Watches, casual fashion and F&B all continue to recover but given stubborn pockets of vacancy, landlords remain pragmatic when cutting deals."
 Simon Smith, Savills Research

➔ **Market overview**

Having fallen back to earth, both prime street shop and shopping mall rents have remained stubbornly flat across most sub-markets in Q1/2018, even as retail sales recorded exceptionally strong growth of 15.7% YoY in value over January and February as the sector continued to gather pace.

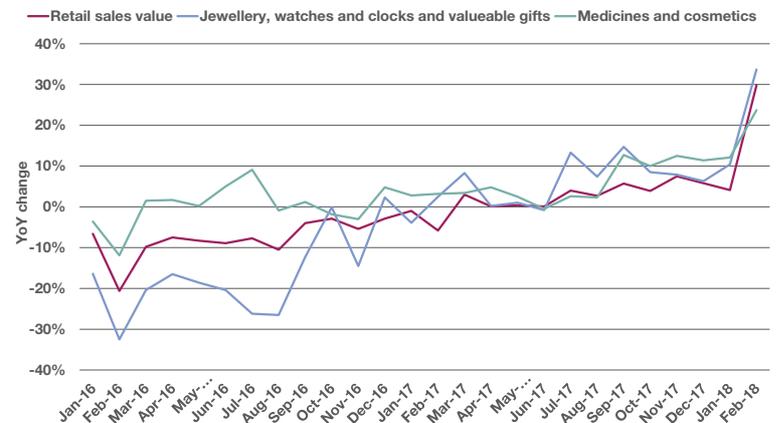
If you were worried that there are not enough watch shops in Hong Kong, you will be glad to know that this popular market segment is expanding again. Watch retailers are looking for units in Tsim Sha Tsui and Causeway Bay at competitive rents, typically of HK\$500,000 to HK\$800,000 per month, with good access to tourist traffic.

While not quite as positive as watches, casual fashion has benefited from an unusually cool winter and sales have lifted. We note that young Korean brand MLB offering baseball-related fashion has opened in H Queens in Central, Times Square in Causeway Bay and on Sai Yeung Choi Street in Mong Kok. Luxury fashion is also performing well, with some retailers reporting a 30% increase in sales over January and February.

Food & beverage (F&B) remains a go-to sector for landlords but the industry is plagued by rising capex and a shortage of labour (vacant positions increased by 12.4% from Q3 to Q4/2017 to 12,116). Good quality Mainland F&B operators are making more of a mark here in Hong Kong - Sichuan Haidilao Hot Pot, well known for its high service standards, has opened in Yau Ma Tei and will open soon in Causeway Bay.

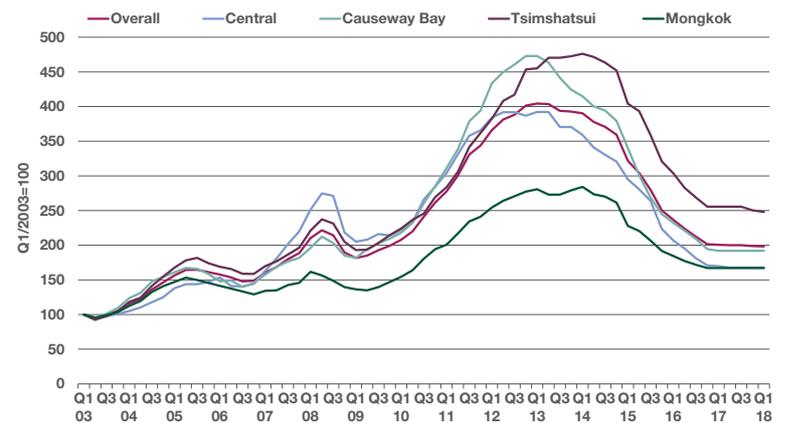
Mainland shopper numbers continue to revive even if their shopping bags are smaller than they were. We also notice far fewer purchases for gifting. Despite the upturn, local landlords remain flexible in offering terms, particularly for good covenants. If there is one area of weakness in the market, it may be Queen's Road Central where a number of large units are available in 8 Queen's Road Central, Pacific House and Entertainment Building.

GRAPH 1 **Retail sales YoY% changes, Jan 2016 – Feb 2018**



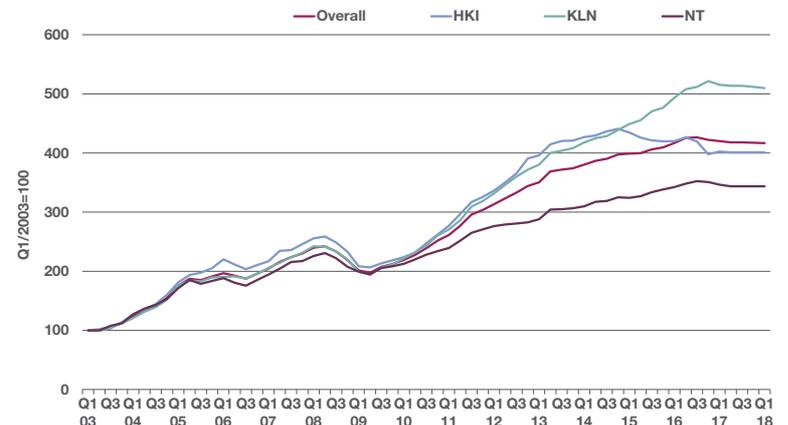
Source: Savills Research & Consultancy

GRAPH 2 **Savills prime street shop rental index by district, Q1/2003–Q1/2018**



Source: Savills Research & Consultancy

GRAPH 3 **Savills major shopping centre rental index by region, Q1/2003–Q1/2018**



Source: Savills Research & Consultancy

→ New transport infrastructure can have a big impact on spending patterns and the September completion of the Hong Kong section of the Express Rail Link is expected to transform Mainland access to the territory and vice versa. Travel times will be slashed (15 minutes to Shenzhen North from 45 minutes previously and 30 minutes to Guangzhou South from 2 hours previously) and the West Kowloon/Tsim Sha Tsui retail environment will be given a huge boost. There will be 13 daily pairs of long-haul trains to and from 14 major mainland cities with anticipated passenger numbers of 109,200 per day.

The Hong Kong-Zhuhai-Macau Bridge, due for completion in Q3/2018, will probably have a less

significant impact on Hong Kong's retail scene but may prove more of a boon for logistics operators. Macau's gaming spend tends to stay in Macau anyway, and is tightly focused on the very high end segment and on the 'big three' flagship malls – The Venetian, The Four Seasons and The Galaxy. We note that retailers in the enclave are showing a clear preference to take space in malls over street shops. ■

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