

Briefing Retail leasing

May 2017



SUMMARY

After three bleak years for the retail market, rents and retail sales finally seem to be stabilizing.

- There are already signs that the rate of rental decline on prime streets is slowing.
- The rise is attributed to firm domestic demand and a recovery in visitor arrivals numbers.
- Despite the good news, full first quarter sales were down year-on-year and prime shopping mall rents continued to drift off.
- Food & beverage, cosmetics & skincare, outlet malls and fast fashion are proving to be the key pillars of the industry.
- Given current vacancy levels and in the absence of a significant rebound in mainland visitor numbers, landlords will have to wait until 2018 to see rental growth.

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 "The worst appears to be behind us but ample vacancy will have to be absorbed before rents return to positive growth next year."
 Simon Smith, Savills Research

→ **Overview**

There are already signs that the rate of rental decline on prime streets is slowing (prime streets are off 50% from peak on average) while recent government data has recorded the first rise in retail sales in March for over two years. The rise was attributed to firm domestic demand and a recovery in visitor arrivals numbers. Leading the uptick was jewellery, watches and valuable gifts, a category which has previously borne the brunt of falling tourist spending. Despite the good news, full first quarter sales were down year-on-year and prime shopping mall rents continued to drift off. On secondary and third tier streets vacancy levels remain a hurdle to any rebound in rents and should take nine months to a year to fully absorb.

With the rise in retail sales, it is worth focusing on four supporting pillars of the retail industry which have emerged recently:

Food and beverage

An area which is always popular but has seen particularly dynamic change over the past few years. New concepts and new entertainment districts have emerged both on and off the island, including Sai Ying Pun High Street, Kennedy Town, Star Street in Wanchai and Pok Man Street in Tai Kok Tsui.

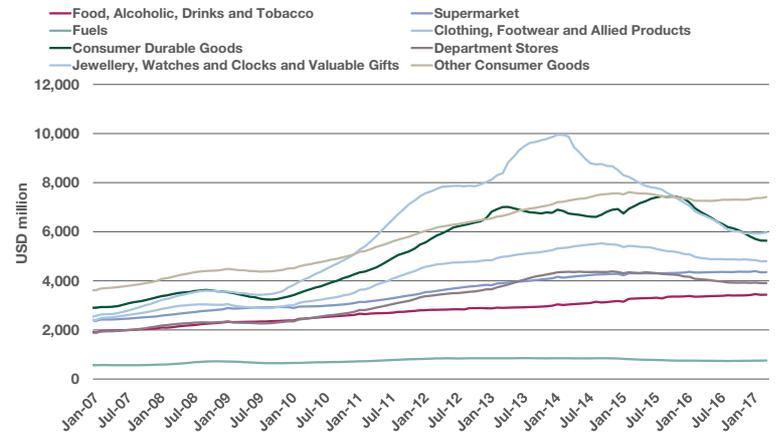
Cosmetics and skincare

Popular particularly among mainland tourists given the substantial cost saving (Hong Kong cosmetics are typically 20% to 25% cheaper than in mainland China), this sector has continued to attract new-to-market brands. Memebox, a Korean brand, has recently launched its first store on Pak Sha Road in Causeway Bay while Innisfree is expanding in Causeway Bay and Tsim Sha Tsui.

Outlet malls

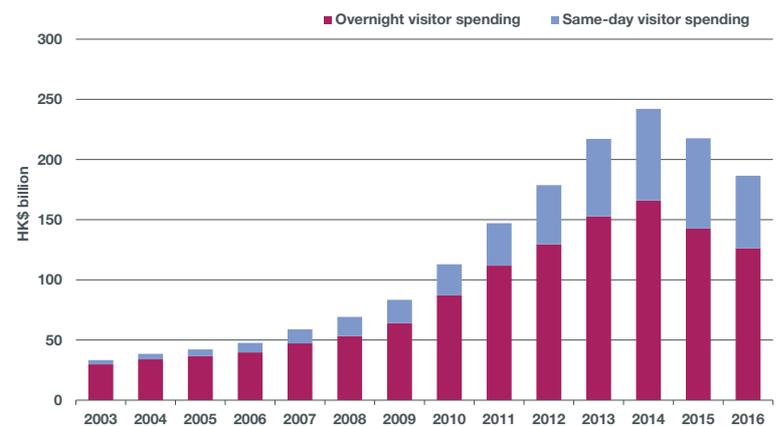
Enormously popular among mainland tourists to the UK and Europe, this concept has come home with a vengeance. Citygate, the largest outlet mall in Hong Kong if not Asia, is adding 100 shops to its existing 100 units, doubling in size to create a 475,000 sq ft lettable centre due

GRAPH 1 **Retail sales by sector (12-month moving average), Jan 2007–Mar 2017**



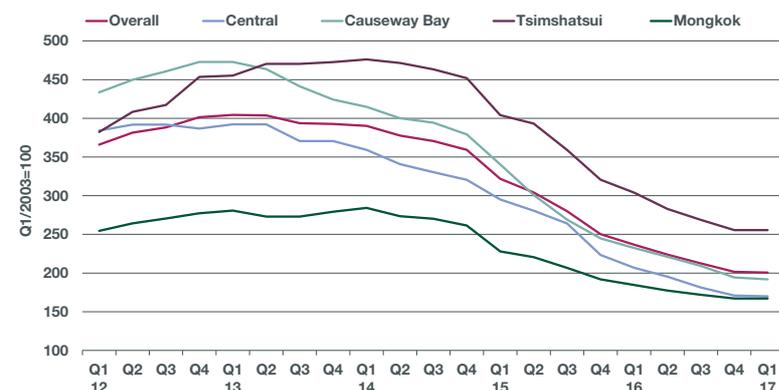
Source: Census and Statistics Department

GRAPH 2 **China visitor spending in Hong Kong, 2003–2016**



Source: Hong Kong Tourism Board

GRAPH 3 **Savills prime street shop rental index by district, Q1/2012–Q1/2017**



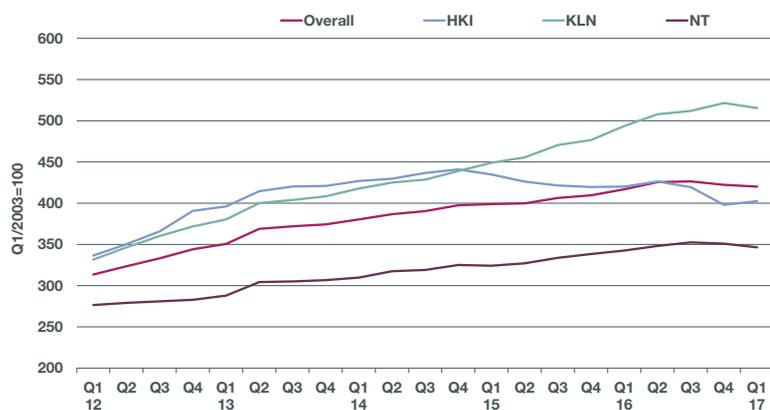
Source: Savills Research & Consultancy

TABLE 2 Prime street shop and shopping mall rental indices, Q1/2017

	Q1/2017 QoQ	2016 YoY	2015 YoY
Prime street shop rents			
Overall	-0.4	-19.5	-30.4
Central	-0.6	-23.5	-30.0
Causeway Bay	-1.3	-20.6	-35.5
Tsim Sha Tsui	0.0	-20.3	-29.0
Mong Kok	0.0	-12.9	-26.6
Major shopping centre rents			
Overall	-0.5	+3.1	+3.0
Hong Kong Island	+1.1	-5.2	-4.8
Kowloon	-1.2	+9.4	+8.6
New Territories	-1.3	+3.7	+4.1

Source: Savills Research & Consultancy

GRAPH 4 Shopping central rental index by region, Q1/2012–Q1/2017



Source: Savills Research & Consultancy

to fully open in 2018. The focus will be on luxury and premium brands. Meanwhile Florentia Village @ KC100 in Kwai Chung is a new comer to the outlet industry, opening in February this year. Prada is a particularly high profile tenant but other high profile brands include Kenzo, Ferragamo and Versace.

Fast fashion

New fast fashion brands GU (from the same family as UNIQLO) and Tokyo Base Co. have recently opened their first stores in the territory. Its not all smooth sailing for this category, however, as a strong US Dollar has narrowed the price discount to the Renminbi while many familiar brands are now widely available in China.

Prospects

In our previous Briefing, we said that high street rents had probably over-shot on the downside and this has been supported by recent data suggesting that rents have found a floor. The question is “when will we see a return to rental growth?” Given current vacancy levels and in the absence of a significant rebound in mainland visitor numbers, landlords will have to wait until 2018 to see rental growth and even then, we expect a moderate rise of 5% to 10% over the year as a whole. ■

Future major retail supply in Hong Kong, 2017 & 2018



	Region	Project	GFA (sq ft)	Tentative completion	Developer
1	Yuen Long	Grand YOHO	471,000	Q3/2017	SHK Properties
2	Tsim Sha Tsui	Ocean Terminal Extension	94,200	Q3/2017	Wharf Holdings
3	Tsim Sha Tsui	Ex-New World Centre Redevelopment	1,000,000	Q4/2017	New World Development
4	Tung Chung	Citygate Extension	345,000	Q4/2017	Swire Properties
5	Nam Cheong	Nam Cheong Station	298,000	Q4/2017	MTRC/SHK Properties
6	Tsing Yi	Maritime Square Extension	200,000	Q1/2018	MTRC
7	Tsuen Wan	Ocean Pride	435,942	Q2/2018	MTRC/Cheung Kong
8	Tseung Kwan O	MONTEREY (Area 68B2)	147,600	Q3/2018	Wheelock Properties
9	Tseung Kwan O	Area 68A2	114,270	Q4/2018	Lai Sung & Walter Kwok
10	Tsuen Wan	TW5, Tsuen Wan West Station	120,557	Q4/2018	MTRC/Chinachem

Source: Savills Research & Consultancy

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