

Briefing Retail sector

August 2014

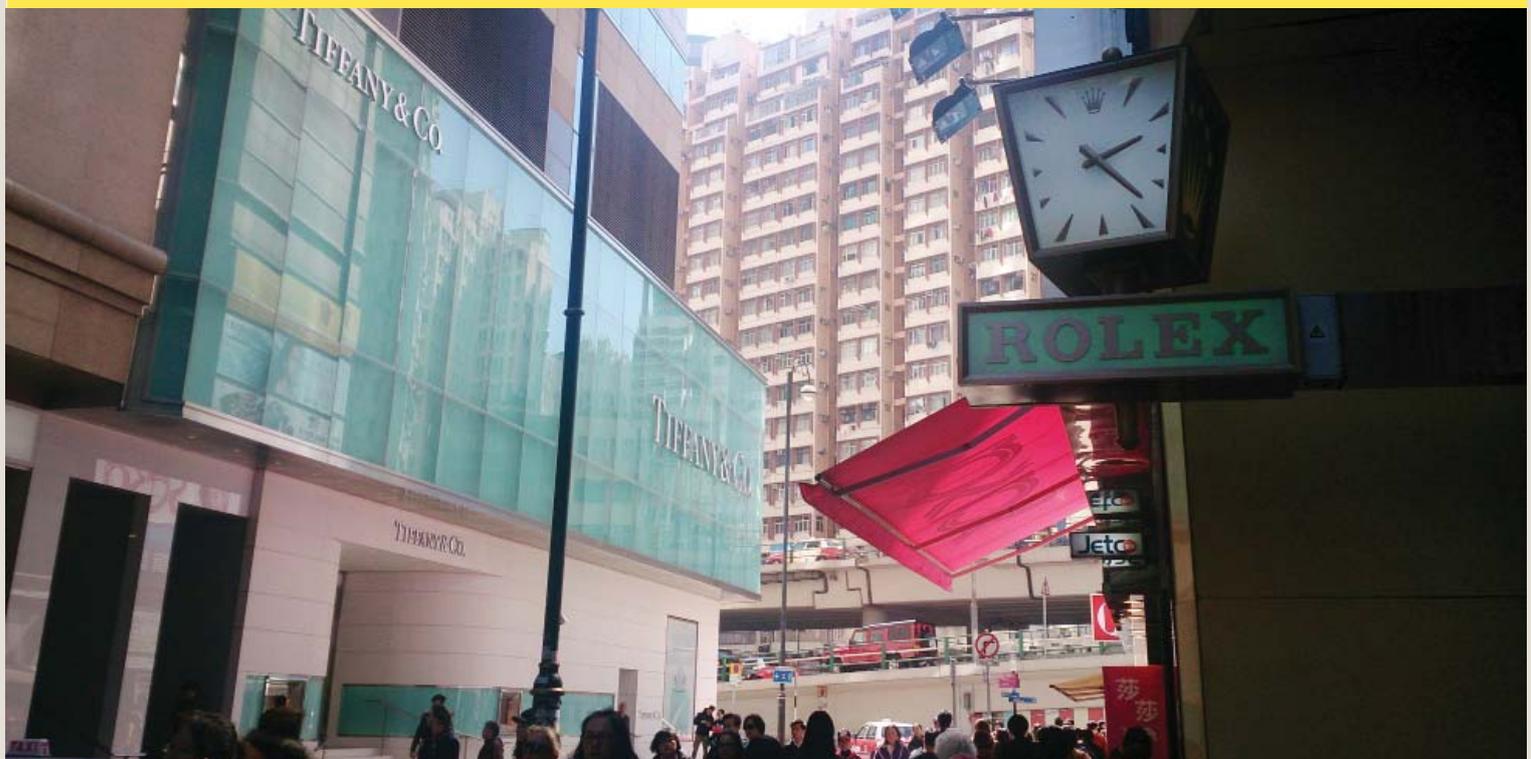


Image: Causeway Bay

SUMMARY

Prime first-tier shop rents have flattened while rents in major malls rose slightly.

- Retail sales in April and May fell rapidly by 9.8% and 4.1% year-on-year (YoY), mainly due to the 'gold rush' during the same period last year.
- Tourist arrivals during the Labour Day Golden Week dropped 1.7% compared with last year, the first decline since 2003.
- Sales of luxury products, including fashion, watches and jewellery, have continued to cool.
- We have noted a rising number of early surrender cases, while vacancy continues to increase in the prime street shop segment, forcing landlords to renew tenancies.
- Rents in major shopping malls grew slightly by 1.7% quarter-on-quarter (QoQ).

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 "While sales of jewellery and watches have borne the brunt of the downturn this year, other sectors have continued to do surprisingly well."
 Simon Smith, Savills Research

→ **Market commentary**

Hong Kong retail sales fell rapidly in April, May and June by 9.8%, 3.9% and 6.9% respectively on a YoY basis partly due to a high base of comparison because of the frenzied sale of jewellery from April to June 2013. Sales of jewellery, watches and clocks, and valuable gifts declined by 39.9% YoY in April 2014, followed by a 24.4% decrease in May and another 28.2% in June, which had a significant effect on total retail sales. If this category is excluded from the total retail sales figures a very different

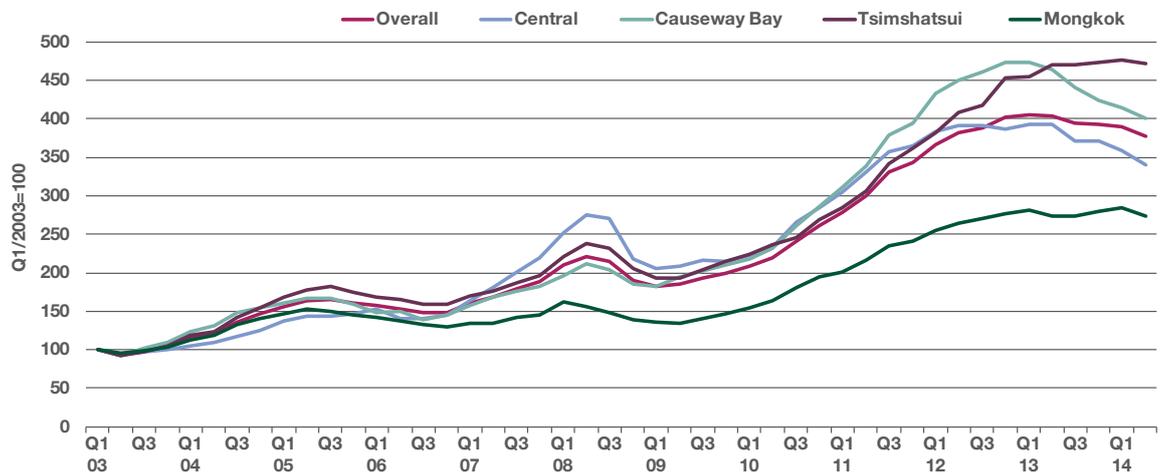
picture emerges, with growth of 3.21%, 3.26% and 0.92% YoY in April, May and June respectively.

According to the Immigration Department, tourist arrivals during the Labour Day Golden Week (1 May to 3 May) dropped slightly by 1.7% compared with last year (29 April to 1 May 2013), the first decline since the introduction of the Individual Visitor Scheme in 2003. Nevertheless, visitor arrivals in May increased 10.8% YoY, including a 13.1% growth in mainland Chinese visitors. Due to the changing

travel behaviours and visitor profiles of mainland Chinese tourists, they are no longer limiting their visits to major holiday periods.

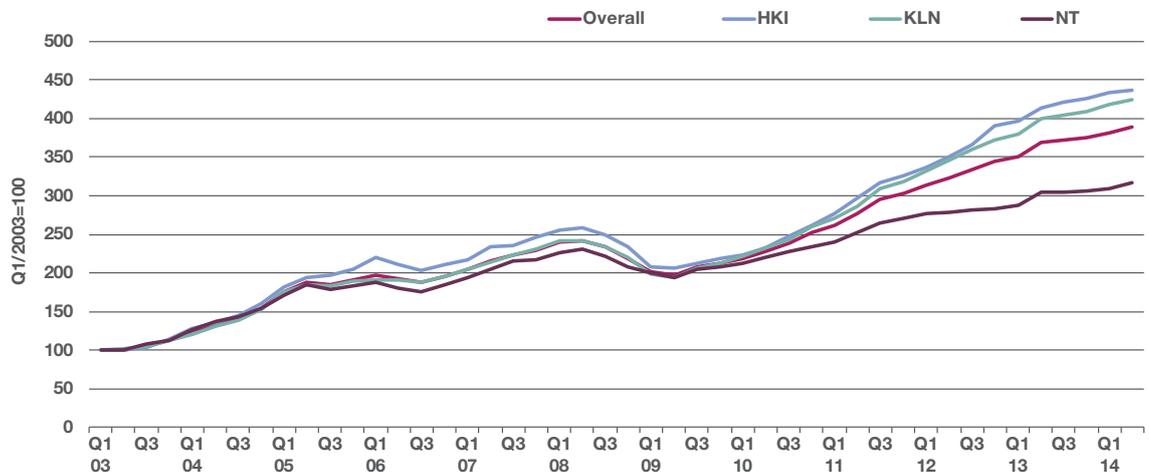
The anti-corruption campaign and the changing spending patterns of consumers from mainland China continue to have a dampening effect on the sale of luxury goods in Hong Kong, with luxury brands and jewellery retailers, such as Prada and Luk Fook, posting less strong performances. Some affected retailers are halting expansion plans

GRAPH 1 **Savills prime street shop rental indices by district, Q1/2003–Q2/2014**



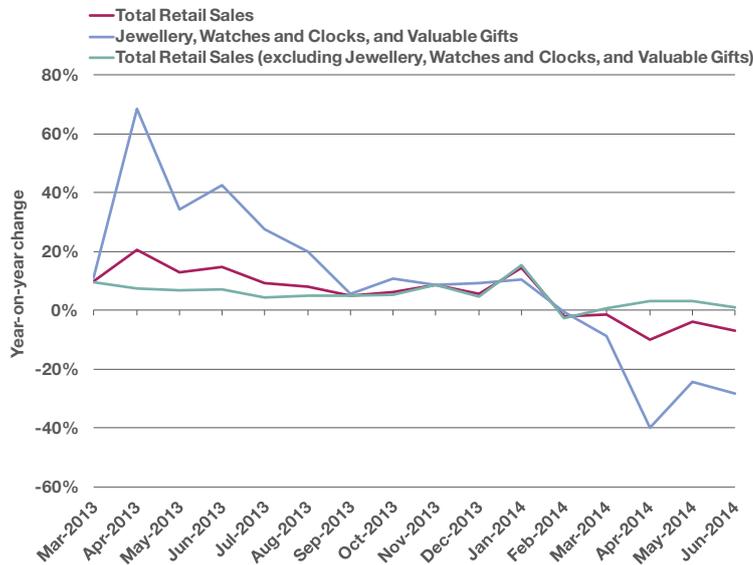
Source: Savills Research & Consultancy

GRAPH 2 **Savills major shopping centre rental indices, Q1/2003–Q2/2014**



Source: Savills Research & Consultancy

GRAPH 3
Retail sales value (YoY changes), Mar 2013 – Jun 2014



Source: Savills Research & Consultancy

and are considering relocating their existing shops to save on rents.

Meanwhile, prime street shop rents in first-tier locations remained flat over Q2/2014. However, due to declines in the submarkets, overall prime street shop rents fell by 3.2% over the last quarter, as a result of the sluggish leasing market. The Causeway Bay and Central submarkets registered greater decreases of 3.5% and 5.1% respectively, due to increasing vacancy and more early surrender cases while Mong Kok, a popular location for mid-market retailers, recorded a fall of 3.8% QoQ.

In the shopping centre segment, base rents in major shopping centres saw continued growth and recorded a 1.7% QoQ increase over Q2/2014. Due to the strong demand in suburban areas, Savills in-house rental index showed that the average base rent at shopping centres in the New Territories rose by 2.5% QoQ in Q2/2014. ■

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