

Briefing Retail leasing

August 2018



SUMMARY

Anticipated rent rises have finally kicked-in in the second quarter in both malls and street shops.

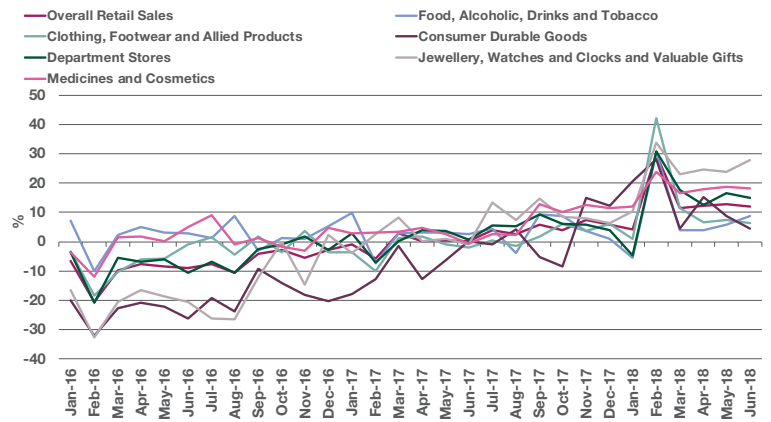
- Retail sales were up strongly by 13.4% over the first six months of the year with all market segments reporting healthy growth.
- Mainland tourists are returning in larger numbers, particularly same-day visitors, with positive implications for convenience goods and malls in the New Territories/Fringe Kowloon.
- Data from mall landlords showed buoyant growth in retail sales over the first quarter, including malls less dependent on PRC tourists.
- After a flat 2017, rents in major shopping malls rose by 2.0% YoY over the second quarter while street shop rents followed suit with a 2.4% YoY increase.
- Confidence among landlords and retailers is returning even if currency and trade issues could cool sentiment over Q3.
- Looking ahead, an above-average 3.26 million sq ft of new prime mall supply is expected over 2018 and 2019, much of it due to come on stream in the New Territories/Fringe Kowloon.

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 "The market seems to be showing clear signs of a turnaround with malls reporting brisk sales and the luxury segment showing a return to form."

Simon Smith, Savills Research

Retail sales have been clawing back ground since positive growth resumed from 2017. Over the first six months of 2018, retail sales rose by 13.4% in value YoY and all market segments recorded buoyant numbers not least Jewellery, Watches and Clocks & Valuable Gifts (23.3% YoY) and Medicines & Cosmetics (17.7% YoY). As goods traditionally favoured by mainland shoppers, this data would seem to reflect rising PRC tourist spending and/or a rise in numbers.

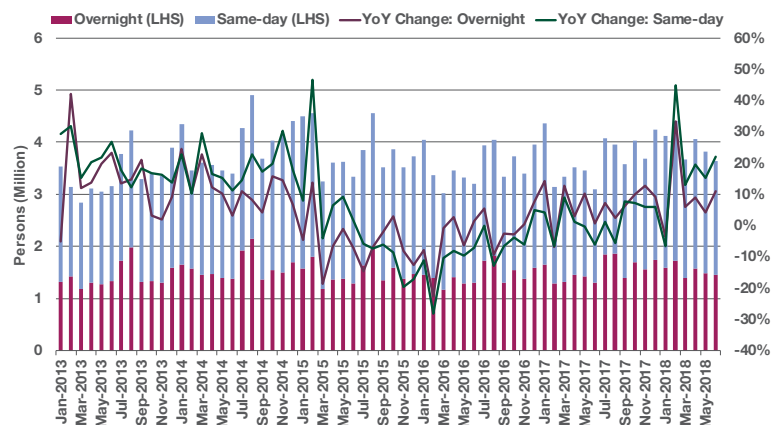
GRAPH 1
Retail sales by sector, Jan 2016 – Jun 2018



Source: Census and Statistics Department, Savills Research & Consultancy

Sure enough, mainland tourist numbers are 13.4% up YoY over the first six months but perhaps of more interest is the fact that same-day visitor numbers are rising much faster than overnights (16.2% vs 9.2%). The implication is that same-day visitors tend to spend less per capita but shop more in the New Territories/Fringe Kowloon and buy more convenience goods (often personal care items). Despite the slower growth in numbers, however, overnight visitors remain more significant spenders and this is supported by healthy sales of luxury items.

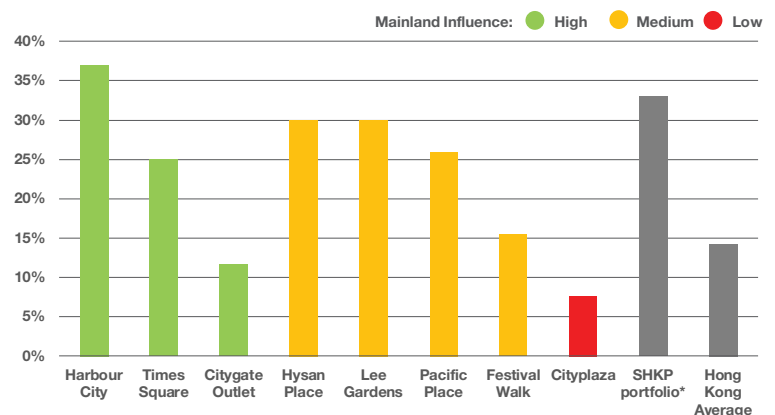
GRAPH 2
Mainland visitor arrivals, Jan 2013 – Jun 2018



Source: HK Tourism Board, Savills Research & Consultancy

From various financial sources we have been able to compile Q1 figures for retail sales growth in various prime shopping malls. As is clear from the chart opposite, it seems the good times are back and sales are up strongly, even in malls more dependent on local demand. This is borne out by private consumption expenditure (a component of GDP) which rose by 17.4% over the first quarter.

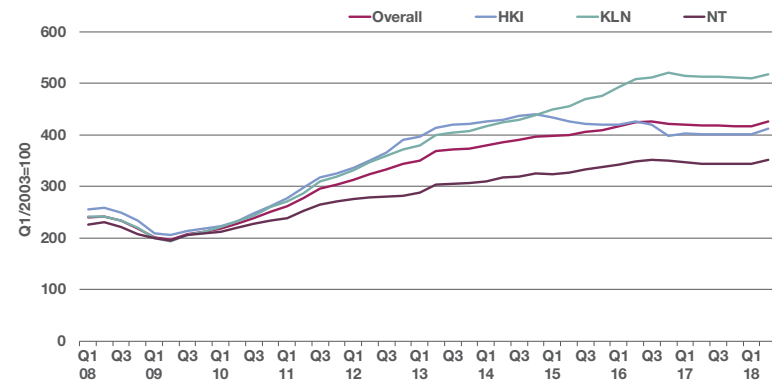
GRAPH 3
YoY growth in retail sales in major shopping malls, Q1/2018



Source: Company announcements, Citi Research, Census and Statistics Department, Savills Research & Consultancy
*SHKP's 10 largest shopping malls, including Landmark North, East Point City, Park Central, Mikiki, PopWalk, Chelsea Heights Plaza, K-Point, Tsuen Kam Centre, Grand City Plaza and Blossom Garden Shopping Arcade.

So what are the implications for rents? Firstly, prime malls in Central and Tsim Sha Tsui are thriving and we have seen some brisk rates of growth since 2009 (210% and 294% up respectively). Lagging somewhat is Wanchai/Causeway Bay which we put down to being oversaturated and over-priced in 2014 and therefore the area was hit particularly hard when tourist spending slowed. After a period of relative stability over 2017, however, major shopping mall rents across all districts have begun to respond to rising retail sales and were up 2.0% YoY in the second quarter.

GRAPH 4 Savills shopping centre rental index, Q1/2008 – Q2/2018



Source: Savills Research & Consultancy

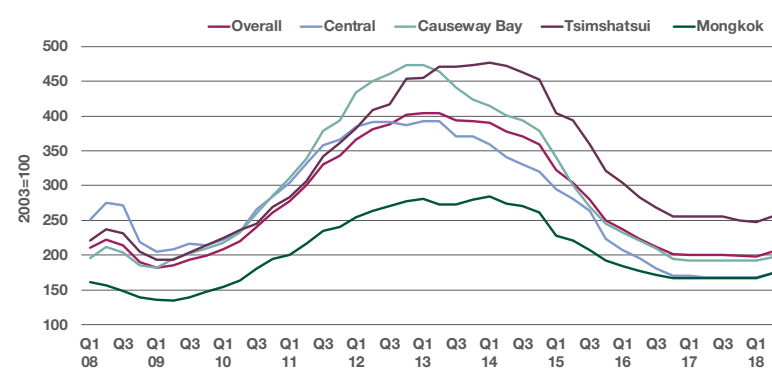
TABLE 1 Shopping centre rental change

	2018 YTD	Q2/2018 (YoY%)
Hong Kong Island	3.0%	3.0%
Kowloon	1.2%	0.8%
New Territories	2.6%	2.6%
Overall	2.2%	2.0%

Source: Savills Research & Consultancy

Having endured a ferocious correction from 2014, street shop rents hit bottom in 2017 and have begun to recover in 2018, rising by 2.4% YoY over the second quarter. Threats to the positive outlook include a stronger Dollar/weaker Renminbi and the widespread negative impact a US/China trade war would have on the broader economy, undermining both overseas and domestic retail spending.

GRAPH 5 Savills prime street shop rental index, Q1/2008 – Q2/2018



Source: Savills Research & Consultancy

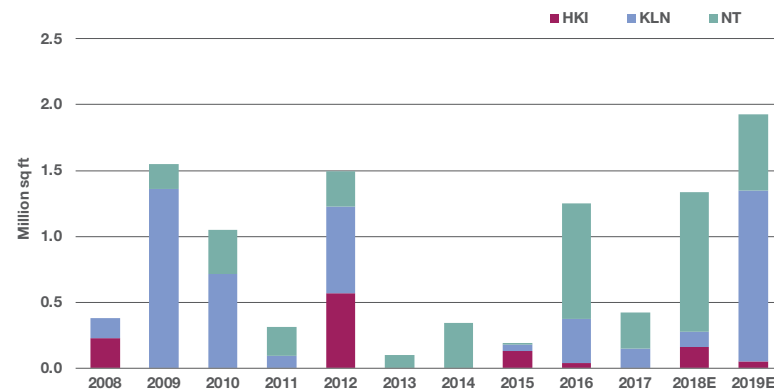
TABLE 2 Prime street shop rental change

	2018 YTD	Q2/2018 (YoY%)
Central	3.7%	3.7%
Causeway Bay	2.4%	2.4%
Tsim Sha Tsui	2.2%	0.1%
Mong Kok	4.0%	4.0%
Overall	3.0%	2.4%

Source: Savills Research & Consultancy

Lastly, new supply over this year and next should begin to pick up with the majority of new projects located in the New Territories. Two areas in particular look set to see their shopping environments given a boost by new openings this year – Tsuen Wan will see OP Mall and Nina Mall completed while Alto Residences, Monterey and Papillons Square will come on line in Tseung Kwan O later in 2018. 2019 looks to be one of the highest years of supply we have seen since 2006 with around 2 million sq ft. Half that total will come from one project alone, the much anticipated K11 MUSEA. ■

GRAPH 6 **New supply of shopping malls, 2008 – 2019E**



Source: Savills Research & Consultancy

TABLE 3 **Major new shopping mall supply, 2018/19**

Shopping mall	Location	Approx GFA (sq ft)	Opening date	Developer
We Go Mall	Ma On Shan	160,000	May 2018	Paliburg & Regal Hotels
Lee Garden Three	Causeway Bay	100,000	May 2018	Hysan
T.O.P	Mong Kok	114,000	Jun 2018	Link REIT
OP Mall	Tsuen Wan	435,000	Q3/2018	Cheung Kong
Alto Residences	Tseung Kwan O	114,000	Q3/2018	Lai Sun & Walter Kwok
Monterey	Tseung Kwan O	147,600	Q3/2018	Wheelock
Papillons Square	Tseung Kwan O	140,000	Q4/2018	Chinachem
Citygate Outlets Extension	Tung Chung	345,000	Q1/2019	Swire Properties
V Walk	Nam Cheong	300,000	Q1/2019	SHKP
Nina Mall (Phase II)	Tsuen Wan	120,000	Q2/2019	Chinachem
K11 MUSEA	Tsim Sha Tsui	1,000,000	Q3/2019	New World

Source: Savills Research & Consultancy

Please contact us for further information

Savills Retail



Nick Bradstreet
 Managing Director
 Head of Leasing
 +852 2842 4255
 nbradstreet@savills.com.hk



Barrie Chan
 Director
 Retail
 +852 2842 4527
 bchan@savills.com.hk



Simon Smith
 Senior Director
 Asia Pacific
 +852 2842 4573
 ssmith@savills.com.hk



Kathy Lee
 Director
 Retail Consultancy
 +852 2842 4591
 kyylee@savills.com.hk

Savills Research

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