

Briefing Retail leasing

October 2018



SUMMARY

Decelerating retail sales in July and August resulted in minimal rental growth in both shopping malls and street shops.

- Mainland brands, especially F&B brands, are gaining ground in Hong Kong and are targeting mid to high price points.
- International sports brands are expanding rapidly to capitalise on increasingly active lifestyles.
- The retail sales recovery is losing some momentum as retail sales growth in the first eight months decelerated to 12.2% YoY.
- A record-breaking number of mainland tourist arrivals did not

translate into stronger retail sales because of lower spending per capita and a change in spending patterns.

- 84,000 mainlanders travelled to Hong Kong via the new Guangzhou-Shenzhen-Hong Kong Express Rail Link over the first two days of the October Golden Week, benefitting Tung Chung MTR Line malls.
- Shopping centre and street shop rents flattened as landlords and retailers adopted a much more cautious stance given current macro uncertainties.

"The highly anticipated rally in the retail market is unlikely to fully materialize as landlords and retailers recalibrate expectations for the fourth quarter."

Simon Smith, Savills Research

→ Market commentary

Mainland brands are proving to be a welcome addition to the retail scene in Hong Kong. Over the past few years, successful Chinese brands have established branches in prime retail locations and are gaining in popularity among local Hong Kongers. Many of these brands are F&B and provide various specialty Chinese cuisines such as Sichuan-style hot pot (Haidilao, Xiao Yu Hotpot Restaurant and Hero Shu), Beijing cuisine (Xiheyayuan), Shanghainese cuisine (Jardin de Jade) and light refreshment, such as cheese bubble tea (Hey Tea).

In more positive news mainland brand Xiaomi, a smart phone and consumer electronics manufacturer, has set up a new flagship store in Chong Hing Square, Mong Kok with an eye to boosting sales and building brand awareness. Meanwhile NOME has joined Miniso in selling lifestyle products with three new stores opening this year. MO&Co., a mainland fashion house, has opened alongside other high-end brands in Fashion Walk, Causeway Bay and Elements, Kowloon Station (using the brand name MO&Co. Edition 10) as high-end shopping malls become more receptive to mainland offerings, hoping to bring more variety and differentiate themselves from others.

What about other brands? An increasing health-conscious population is fueling the rapid expansion of sports brands. We believe that sportswear is one of the major factors behind the growth in retail sales in the Clothing, Footwear and Allied Products category over the first eight months of the year (10.2% YoY). Capitalising on this trend, large sportswear retailers including Nike and Puma have opened new outlets in Mira Place and Elements respectively in the third quarter of 2018. Gigasports will follow suit with a planned new store in Elements as well. The opening of new sportswear shops in prime shopping malls indicates the increasing willingness of shopping centre owners to include goods at very different price points.

The strong retail sales growth in first half of 2018 threw into relief

TABLE 1
Mainland brands in Hong Kong, Q3/2018

Category	Brand	Type of goods
Fashion	MO&Co.	High-end fashion
	Balabala	Kids fashion
Lifestyle	Miniso	Lifestyle products
	NOME	Lifestyle products / Homeware
Food retail	Morri Sofa	Furniture
	Gui Tea	Tea retailer
Services	Juewei	Snack retailer
	Qfang	Real estate agency
F&B	China Mobile	Telecoms
	Hey Tea	Light refreshment
Electronic and Tech	Haidilao	Hot pot
	Xiheyayuan	Peking duck
Jewellery	Jardin de Jade	Shanghai cuisine
	Xiaoyu Hot Pot Restaurant	Hot pot
F&B	Hero Shu	Hot pot
	Xiaomi	Consumer electronics
Jewellery	Huawei	Smart phone
	Lao Feng Xiang	Jewellery

Source: Savills Research & Consultancy

TABLE 2
Sports brands opening in shopping malls, Q3/2018

Brand	Location
Nike	Mira Place, TST
Puma	Elements, Kowloon
Gigasports	Elements, Kowloon (to be opened)

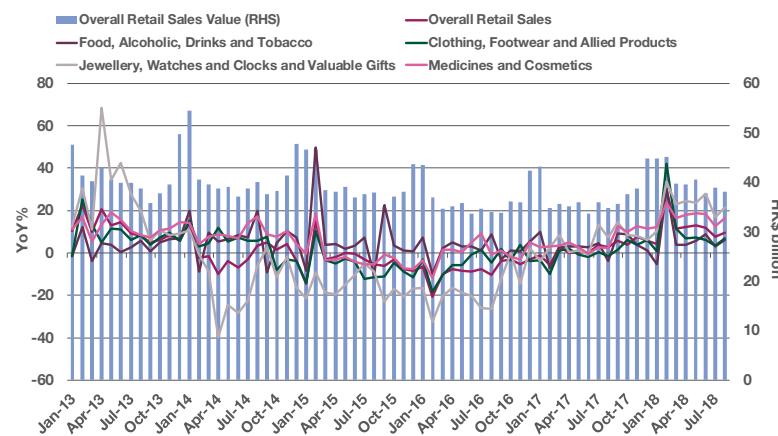
Source: Savills Research & Consultancy

TABLE 3
Other new brands opening in Hong Kong, Q3/2018

Brand	Country of Origin	Type of goods	Location	Size (approx.)
OWNDAYS	Japan	Glasses	East Point City, Hang Hau	1,200 sq ft
			TMT Plaza	1,400 sq ft
Jins	Japan	Glasses	APM, Kwun Tong	1,000 sq ft
Foot Locker	US	Footwear	Beijing Road, TST (ex-Esprit store)	22,000 sq ft
Charles & Keith	Singapore	Footwear & accessories	New Town Plaza, Shatin	n/a
			Parker House, 72 Queen's Road Central, Central	n/a
A Happy Pancake	Japan	F&B	Lee Garden 3, CWB	n/a

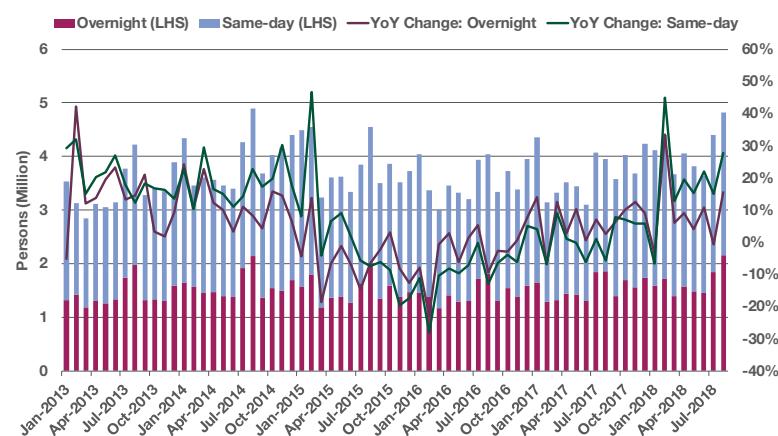
Source: Savills Research & Consultancy

GRAPH 1

Retail sales by sector, Jan 2013 – Aug 2018

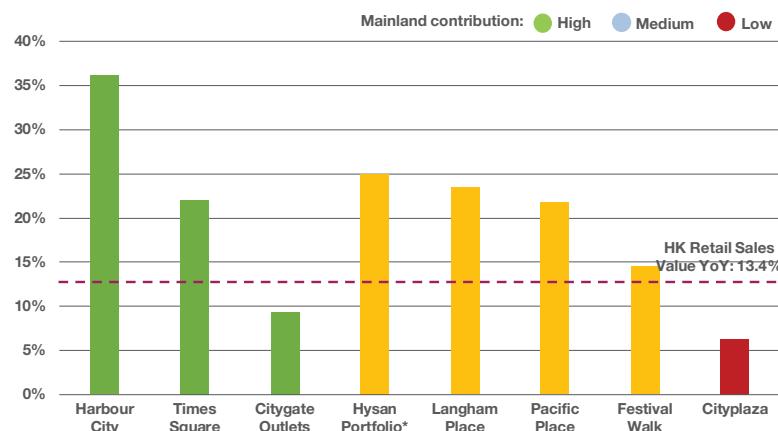
Source: Census and Statistics Department, Savills Research & Consultancy

GRAPH 2

Mainland visitor arrivals, Jan 2013 – Aug 2018

Source: HK Tourism Board, Savills Research & Consultancy

GRAPH 3

YoY growth in retail sales in major shopping malls, 1H/2018

Source: Company announcements, Savills Research and Consultancy

* Hysan Portfolio consists of Lee Theatre Plaza, Leighton Centre, One Hysan Avenue, Hysan Place and Lee Gardens.

a disappointing July and August. Over the first eight months, retail sales rose by 12.2% YoY with other market segments such as Medicines and Cosmetics (16.7% YoY) and Jewellery, Watches and Clocks & Valuable Gifts (22.4% YoY) recording healthy growth figures. However, July and August dragged down the year-to-date figure, recording only single-digit growth in overall retail sales over the two months. This may be a sign of things to come as a weak Renminbi, the ongoing trade spat between China and the US, rising interest rates and generally cooler real estate markets take their toll on consumer spending.

Despite a record-breaking summer in terms of the number of mainland tourists, this was not reflected directly in retail sales. The first eight months of 2018 saw a 13.8% YoY increase in the number of mainland visitors, supported by the strongest summer vacation (July and August) to date with 9.23 million mainland tourist numbers surpassing the previous peak of 9.16 million in 2014.

The growth was largely accounted for by the rapid increase in same-day visitors (17.5% YoY) over the first eight months, rather than overnight visitors (8.7% YoY). As mainland visitors, especially overnight visitors, have switched their spending from luxury brands to more affordable items, it is highly likely that the lower spending per capita led to the less-than-surprising retail sales growth. Convenience items such as medicines and cosmetics are still among the favourite purchases of Chinese tourists.

It will be interesting to see how the recently opened Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) impacts the travel patterns of mainland visitors to and around Hong Kong in the near future. A total of 84,000 mainland visitors travelled to Hong Kong via XRL over the first two days of the October Golden Week. Elements, the premium shopping mall near the West Kowloon Terminus has already seen a noticeable increase in mainland visitors since the opening of the new cross-border railway link. The new

→ link could also benefit other shopping malls along the Tung Chung MTR Line, such as ifc for those pursuing a luxury shopping experience or Olympian City for those looking for more popular high street fashion brands and lifestyle products.

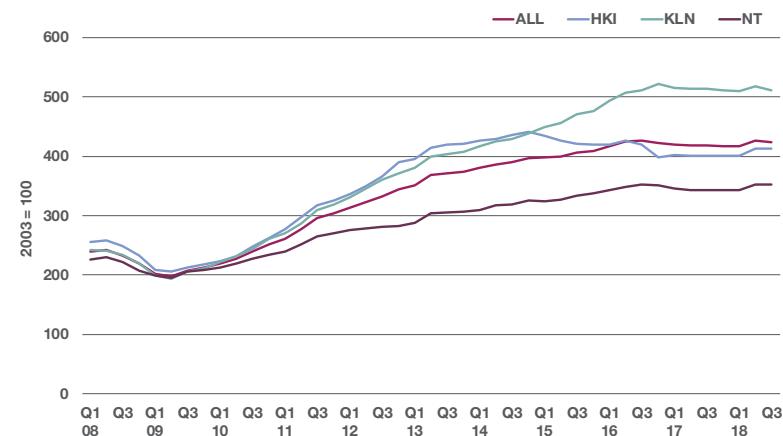
Thanks to the strong first quarter results, the first half figure for retail sales growth in prime shopping malls remained high. Though most key shopping malls outperformed overall retail sales in the first half, there is a slight concern that we may see a weakening of sales growth YoY in some of the shopping malls in Q3, reflecting the more cautious spending patterns of shoppers in both mainland- and local-dependent malls.

After a long period of stagnation, strong growth in shopping mall rents in Q2/2018 suggested that the tide was finally turning for landlords. However, the third quarter saw shopping centre rents revert to a flat trend with an overall change of -0.4% recorded QoQ. Shopping malls in Kowloon were largely responsible for the decrease with a -1.2% change over the previous quarter, while malls on Hong Kong Island and in the New Territories remained unchanged.

Despite the optimistic outlook in the second quarter, a strong rebound in street shop rents has yet to materialise. Zero growth over the previous quarter was recorded in most of the districts in Q3, with the exception of Mong Kok which

GRAPH 4

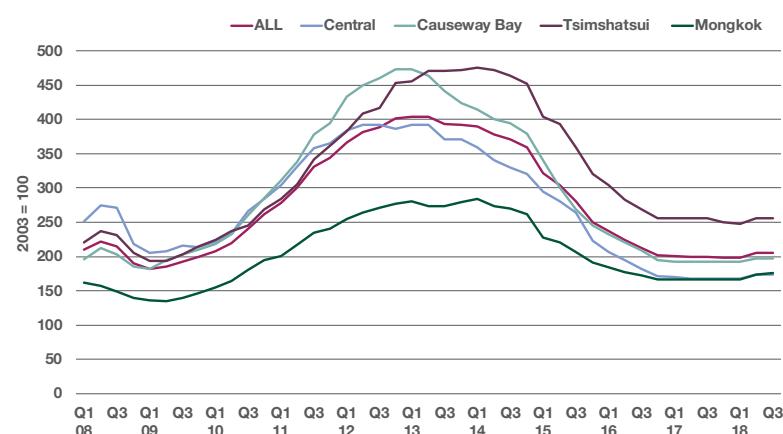
Savills shopping centre rental index, Q1/2008 – Q3/2018



Source: Savills Research & Consultancy

GRAPH 5

Savills prime street shop rental index, Q1/2008 – Q3/2018



Source: Savills Research & Consultancy

TABLE 4

Shopping centre rental changes

	2018 YTD	Q3/2018 (YoY%)	Q3/2018 (QoQ%)
Hong Kong Island	3.0%	3.0%	0.0%
Kowloon	0.0%	-0.4%	-1.2%
New Territories	2.6%	2.6%	0.0%
Overall	1.7%	1.6%	-0.4%

Source: Savills Research & Consultancy

witnessed an increase of 1.2% QoQ. The long-awaited rebound has been stopped in its tracks by a number of factors – rising interest rates, a weak Renminbi and a tumbling stock market, harming market sentiment and making local consumers and mainland tourists less willing to spend.

As threats to the positive outlook mount, it is reported that some landlords of street shops are starting renewal negotiations with tenants nine months ahead of lease expiry in order to retain them. Tenants on the other hand have slowed down expansion plans to hedge against uncertainties. ■

TABLE 5
Prime street shop rental changes

	2018 YTD	Q3/2018 (YoY%)	Q3/2018 (QoQ%)
Central	3.8%	3.8%	0.1%
Causeway Bay	2.4%	2.4%	0.0%
Tsim Sha Tsui	2.2%	0.1%	0.0%
Mong Kok	5.2%	5.2%	1.2%
Overall	3.3%	2.7%	0.3%

Source: Savills Research & Consultancy

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