

Briefing Retail leasing

November 2017



SUMMARY

The retail sector is turning around after four painful years of adjustment and some retailers are taking advantage of the tenant's market which has emerged.

- The retail sector is slowly coming to life after four years of painful adjustment which has seen the emergence of a 'tenant's market'.
- While landlords of street shops remain on the back foot, the larger territorial centres are proving relatively immune to the downturn.
- The gap between the malls and street shops has narrowed considerably and tenants are now finding that a prime street front pitch can be a viable alternative to taking space in a nearby mall.
- In a mixed market some trade categories are performing well and pharmacies in particular are expanding aggressively at the moment.
- Savills prime street shop rental indices remained flat over the third quarter while rents in prime malls continued to drift off marginally.

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 "September retail sales data has confirmed what we are seeing on the street; a steady if cautious recovery."
 Simon Smith, Savills Research

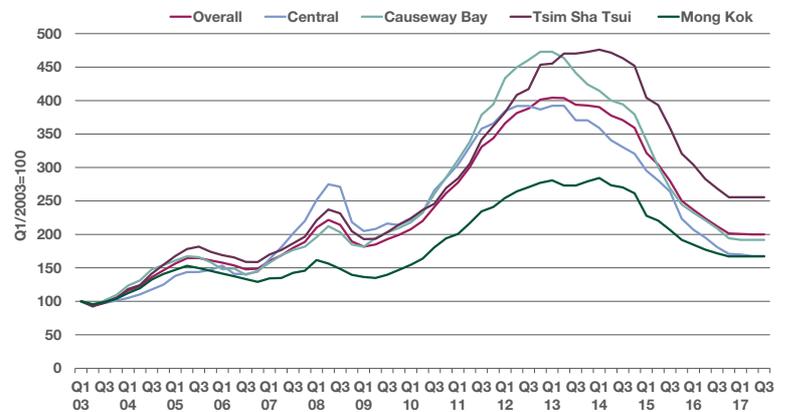
→ **Market overview**

The retail sector is slowly coming to life after four years of painful adjustment which has seen the emergence of a ‘tenant’s market’, a rare occurrence in Hong Kong’s landlord dominated retail scene. Over recent months, retailers have been taking the opportunity to upgrade for little or no extra cost and examples include Pandora who has moved within IFC Mall while Hourglass, who run Patek Philippe, has relocated within Tsim Sha Tsui from the Imperial Hotel to a better site in the Holiday Inn. In further evidence of upgrade demand, Harry Winston has taken the space previously occupied by Ferragamo in the Mandarin Hotel and will open in early 2018. Alternatively, retailers are cutting overheads as they find that renewal negotiations are yielding significant savings as landlords discover a new pragmatism. Top Shop, for example, is rumoured to have renewed the lease on its Queen’s Road Central store at a significant discount.

While landlords of street shops remain on the back foot, the larger territorial centres are proving relatively immune to the downtown. This type of centre includes Harbour City, IFC Mall and New Town Plaza where even sales of watches & jewellery are making a comeback. In IFC Mall Boggi, a menswear brand from Milan, opened recently while Brunello Cucinelli has launched a new flagship in the same mall. As street shop rents have fallen heavily while centre rents have only seen a minor adjustment, the gap between the two has narrowed considerably and tenants are now finding that a prime street front pitch can be a viable alternative to taking space in a nearby mall. This is the narrowest the gap has been since 2009 and represents a return to the norm after seven years of major gains in street shop rents.

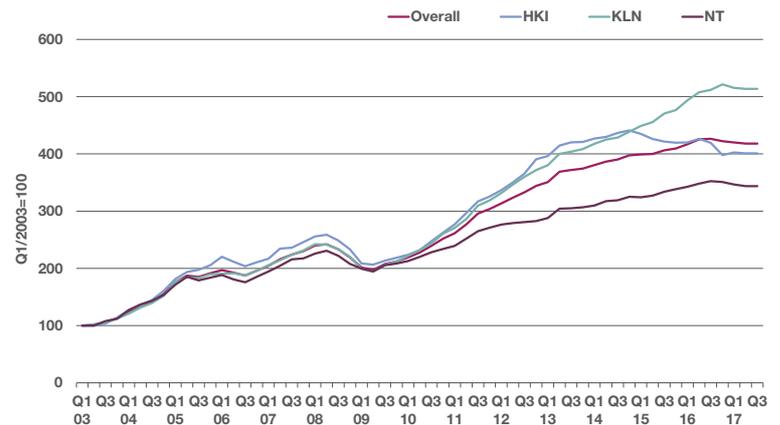
We also note that regional/district malls such as Popcorn in Tseung Kwan O and Tuen Mun Town Plaza are doing relatively well. Hong Kong’s tight geography, excellent transport infrastructure and dense retail environment has helped this type of mall defend against the threat from online. The appeal of air conditioned spaces in the summer months and the lure of enhanced F&B offerings (Hong Kong is a dining-out culture after all) have also helped boost the

GRAPH 1 **Savills prime street shop rental index by district, Q1/2003–Q3/2017**



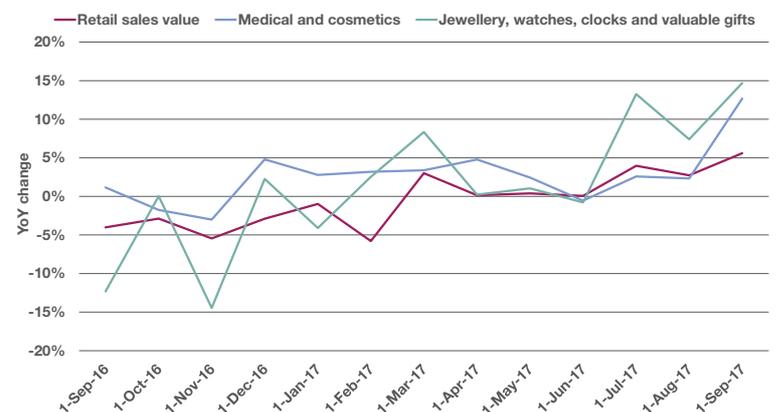
Source: Savills Research & Consultancy

GRAPH 2 **Shopping centre rental index by region, Q1/2003–Q3/2017**



Source: Savills Research & Consultancy

GRAPH 3 **Retail sales YoY, Sep 2016–Sep 2017**



Source: Savills Research & Consultancy

→ appeal of local malls. We have also seen landlords putting more effort into marketing campaigns with better events, more pop-up stores and creative TV and online advertising. Most malls now have a very well-established cyber-presence via websites and apps. Click and collect (buy online and collect in-store) is making some limited headway locally with brands such as Zara, Burberry, L'Occitane, Watson's Wine, Chow Sang Sang and Starbucks all offering the service.

In a mixed market some trade categories are performing well and pharmacies in particular are expanding aggressively at the moment. Not every landlord wants them but they are often prepared to pay above-market rents. F&B is also out-performing, driven in part by a richly valued stock market and rising wages. Luxury fashion is turning around in Hong Kong even though brands have been closing stores in Macau and mainland China over the past year or so (luxury sales in China have actually surged over the past six to nine months). Cosmetics retailers are reporting fairly stable business but after a period of rapid

TABLE 1 Prime street shop and shopping mall rental indices, Q3/2017 YoY

	2017 YTD	Q3/2017 YoY
Prime street shop rents		
Overall	-0.7%	-5.8%
Central	-1.9%	-7.5%
Causeway Bay	-1.3%	-8.3%
Tsim Sha Tsui	0.0%	-4.9%
Mong Kok	0.0%	-2.8%
Major shopping centre rents		
Overall	-1.0%	-2.0%
Hong Kong Island	+0.8%	-4.4%
Kowloon	-1.5%	+0.4%
New Territories	-2.1%	-2.5%

Source: Savills Research & Consultancy

expansion, many brands are still culling store numbers. Electrical goods retailers are consolidating in what is a very competitive marketplace.

Savills prime street shop rental indices remained flat over the third quarter while rents in prime malls continued to drift off marginally. The

latest September retail sales figures from government recorded a seventh consecutive month of rises attributable in part to strong inbound tourist numbers. Jewellery, watches, clocks and valuable gift sales outperformed, rising by 14.7% YoY with strong growth also noted for medicines, cosmetics and Chinese drugs. ■

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