SPOTLIGHT

Savills Research

Hong Kong Retail

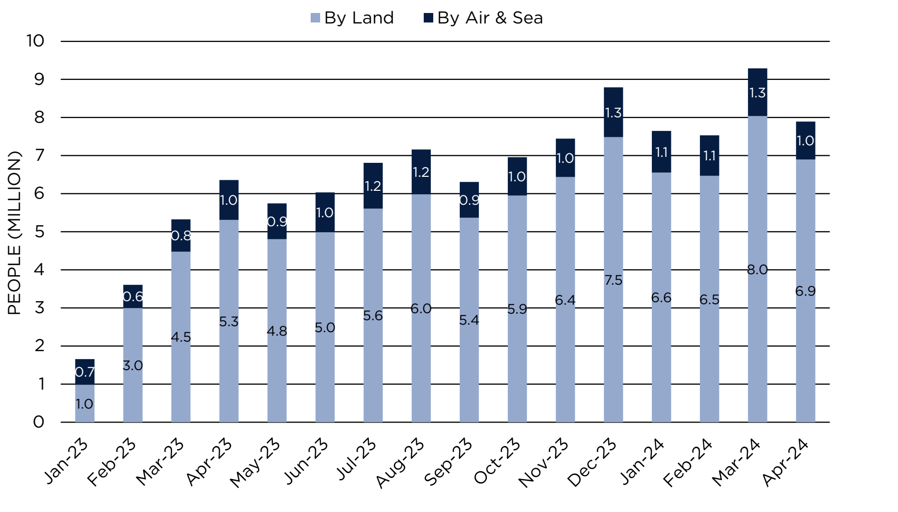
Is northbound travel the only reason for the retail downturn?

NORTHBOUND TRAVEL TRENDS

In January 2023 when Hong Kong finally reopened its borders, everyone was hoping for a rebound in both the local economy and inbound tourist numbers, benefiting the much-depressed local retail sector. In the first half of 2023, the retail market did indeed stage a strong rebound of 21% YoY in terms of sales and 5% in terms of street shop rents. Nevertheless, the recovery proved short-lived with retail sales only registering 12% growth in the second half of 2023, before recording a first meaningful decline of 1% in Q1/2024. Retail rents flattened out in the second half of 2023 before heading downwards by 3% as a result.

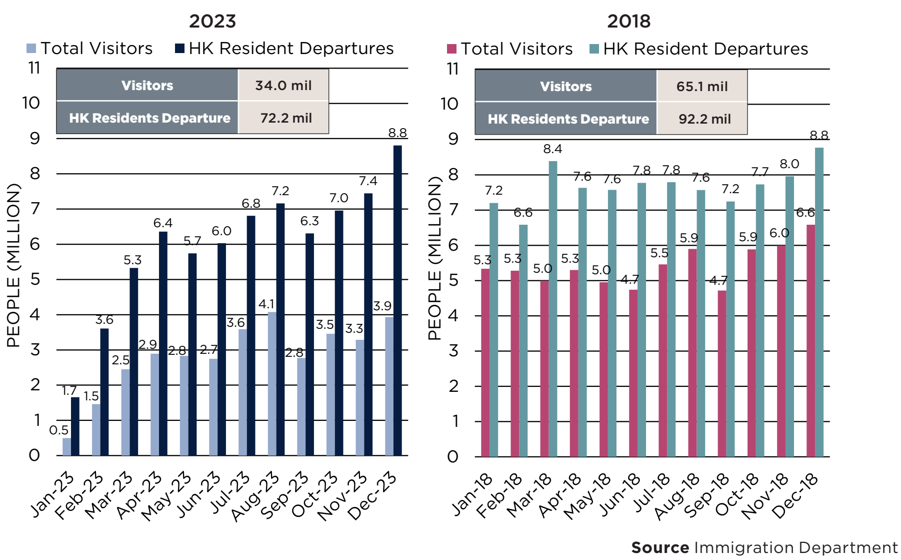
The retail market downturn coincided with the rise of northbound travel, when Hong Kong residents departing by the various land control points increased from 3.9 million trips per month in the first half of 2023 to 6.1 million trips per month in the second half of 2023. Such travel increased to 7.0 million trips per month in the first four months of 2024, with a majority of these trips likely to be same-day trips to Shenzhen and other cities within the Greater Bay Area (GBA).

GRAPH 1: HK Residents Departure By Mode of Transport, January 2023 to April 2024



Source Immigration Department

GRAPH 2: Visitor Arrivals vs Hong Kong Resident Departures, 2018 vs 2023



Source Immigration Department

Improving accessibility to and from cities in the GBA (Shenzhen in particular) has been evident over the past few years, especially after the full operation of the high-speed train (XRL) in 2018. A 20-minute ride can now take you to Futian in Shenzhen, while a less-than-an-hour ride can take you to Guangzhou South Station, making trips to these GBA cities relatively easy. The total number of Hongkongers departing via XRL amounted to 4.6 million in 2023, a 37% increase compared to 2019, the first full year of XRL's operation before COVID. Other hassle-free means of transport to Shenzhen include Northbound Travel for Hong Kong Vehicles, the booking of 7-seaters or shuttle buses with multiple pick-up and drop-off locations all adding to the convenience of northbound travel.

Other than ease of transport, attractions in Shenzhen are diverse: there are plenty of large modern shopping malls with a wide variety of shopping, dining and entertainment options which are good value for money, and appealing to youngsters, couples, and young families. Also, with the presence of big-box retailers such as Sam's Club and Costco, there are ample opportunities to shop for low-cost daily necessities in large quantities, which are attractive to the elderly and low-income groups, especially those living in Hong Kong's North and Yuen Long Districts close to the border.

With all the hype of north-bound travel harming local retail, the total outgoing number in 2023, which amounted to 72.2 million, was only 78% of 2018 departures, our previous retail peak, while inbound tourists only rebounded to 34.0 million, slightly more than half of the number recorded in 2018. Clearly, northbound travel was a phenomenon even before COVID, so blaming it as the only reason behind the sub-par retail performance seems an over-simplification of the structural shift which the local retail market is currently facing.

REASONS FOR THE LOCAL RETAIL DOWNTURN

The strong Hong Kong dollar, a side effect of high interest rates, has been a fact of life over the past two years, with the RMB and Euro depreciating by around 10% against the currency, while the Japanese Yen has declined by over 30% during the same period. This phenomenon, together with 'revenge travel' in 2023 after three years of border closure, led to more locals travelling abroad (short and long-haul) over the following 18 months. Likewise with most goods and services bought by tourists in Hong Kong more expensive than four years ago, inbound tourists did not recover as fast as expected, and many who came spent significantly less than in 2018, with total tourist spending declining by 48% in 2023 to HK$141.3 billion, HK$130 billion less than 2018 levels. Consumption downgrading was also evident among Mainland tourists, with their same day and overnight spending receding by 43% and 8% respectively from 2018 to 2023.

The huge disparity in hotel room rates between Hong Kong and Shenzhen, where room rates of the same 5-star hotels over a normal weekend in Hong Kong can be anywhere between 125% to 230% higher than their Shenzhen counterparts, has prompted more potential overnight visitors to stay in Shenzhen for daily travel to Hong Kong to shop and dine.

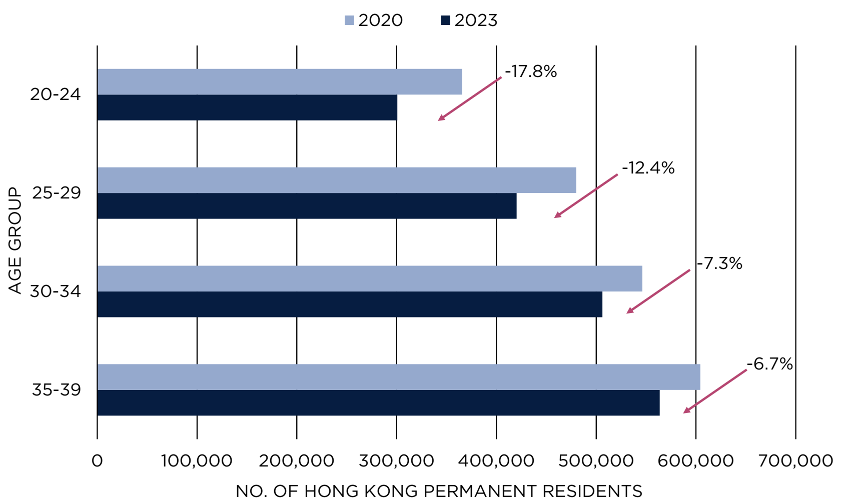
Northbound travel has heated up since the second half of 2023, and while a substantial amount of potential retail spending has been diverted to southern China, there are other structural shifts in the local retail market behind the recent downturn.

TABLE 1: Total Visitor Spending (Overnight + Sameday) in Hong Kong by Major Region, 2018 vs 2023

Region	2018	2023	Change
MAINLAND CHINA	HK$214.8 B	HK$100.4 B	↓ 53%
SHORT HAUL	HK$34.5 B	HK$28.1 B	↓ 19%
LONG HAUL	HK$23.1 B	HK$12.9 B	↓ 44%
ALL	HK$272.4 B	HK$141.3 B	↓ 48%

Source Census and Statistics Department, HKTB

GRAPH 3: Structural Change in Population in Hong Kong, 2020 vs 2023



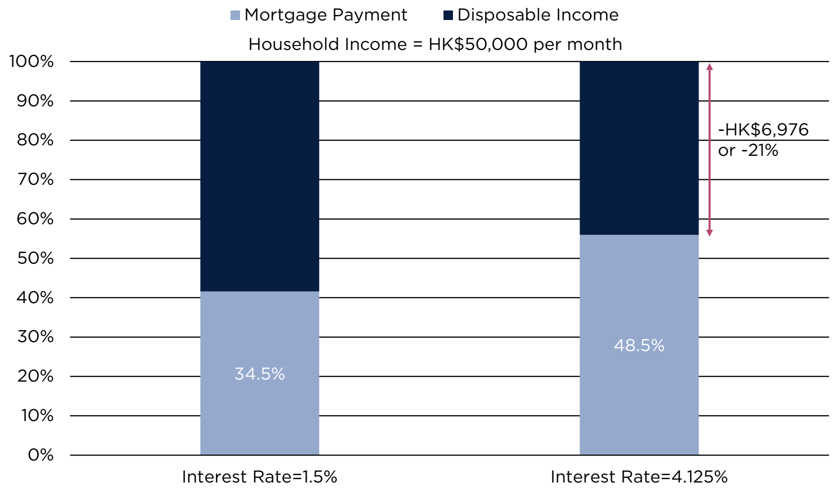
Source Census and Statistics Department, Savills Research & Consultancy

Government statistics also revealed a net emigration of 160,000 Hong Kong permanent residents from 2020 to 2023, a 2% population decline, which looks trivial at first glance. Nevertheless, a more detailed analysis reveals that the demographic structure of Hong Kong has undergone tremendous changes over the past three years, as the youth and middle-aged permanent population has decreased significantly. Young talents aged 20-29, who have high income growth potential and a higher propensity to spend, have left at a much higher rate (-14.8%) over the past four years. The middle-class aged 30-39 who are in the prime of their career development with a relatively higher spending power, also saw a 7% rate of departure over the same period. The loss of over 200,000 permanent residents within these two age groups was a significant blow to local retail spending.

Although the government has been active in attracting talents (mainly from the Mainland) in an effort to replenish such losses, and has succeeded in luring over 110,000 newcomers to Hong Kong over the past 15 months under various admission schemes, their income and spending profiles are very different from local Hongkongers, and the local retail market has yet to fully adjust to cater for this change.

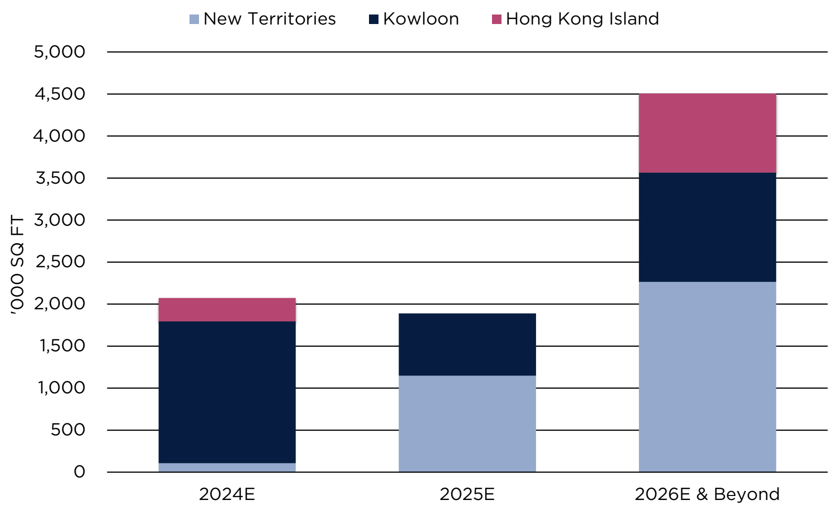
Even for the middle-class Hongkongers who chose to stay, those who have home mortgages have faced rising mortgage payments over the past two years due to sharp rises in interest rates. A typical family with a HK$50,000 per month household income and a HK$5 million mortgage loan would have seen mortgage instalments rise by 40%, or HK$7,000 per month from

GRAPH 4: Change in Disposable Income, July 2022 vs March 2024



Source Census and Statistics Department, Savills Research & Consultancy

GRAPH 5: Major New Shopping Centres Opening, 2024 - 2026 & Beyond



Source Company Annual Reports, Savills Research & Consultancy

July 2022 to March 2024. With most middle class enjoying next to no pay rises, their disposable incomes have shrunk significantly, reducing their spending power locally. Therefore, the rising standards of shopping, dining and entertainment offered by brand new malls in Shenzhen at a fraction of Hong Kong's cost are very appealing to this local middle class, who would like to maintain their standard of living in the face of diminishing spending power.

WAY FORWARD

With more than 10 million sq ft of new shopping malls to be completed and opened from 2024 to 2026 and beyond, the local retail market will remain competitive in the foreseeable future. The recent wave of retail / F&B closures is partly due to less spending power from both locals and visitors but is also partly due to the unsustainable business models of some F&B operators who opening during COVID, when heavy government subsidies and guaranteed loans masked many of their operational shortcomings, which were fully exposed after border reopening and the end of those subsidies.

While both central and local governments are putting up various initiatives to help revive the local retail scene, including expanding the IVS scheme to 10 new cities in China covering 53 million people, and the hosting of 100+ mega events in 2H/2024 to encourage 1.7 million more tourists with HK$7.2 billion of additional spending. The impact of these initiatives will take time, and we anticipate that the local retail scene will continue to be challenged by the ongoing structural shift in local and tourist spending habits for some time to come.

For more information about this report, please contact us

Savills Hong Kong

Raymond Lee
CEO
Greater China
+852 2842 4518
rlee@savills.com.hk

Savills Research

Jack Tong
Director, Research &
Consultancy, Hong Kong
+852 2842 4213
jtong@savills.com.hk

Simon Smith
Regional Head of Research
& Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.asia