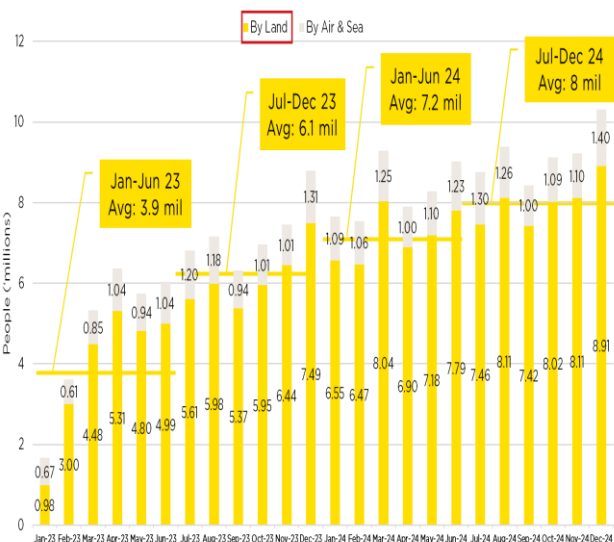


RETAIL LEASING

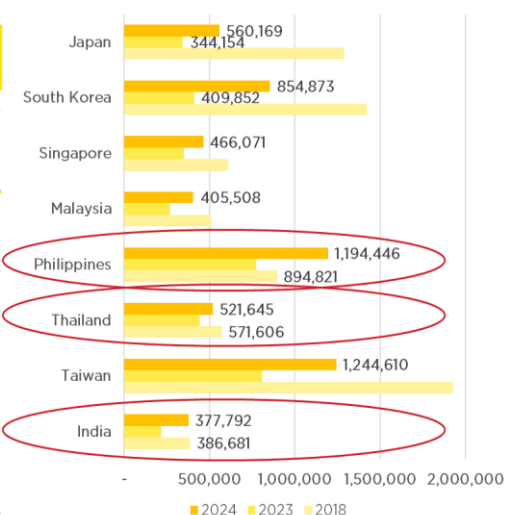
“In Q4 2024, the retail leasing market experienced a sustained downturn, leading to the closure of operations by large-space tenants. While we observe a cautious sentiment in the retail sector, there is emerging expansion demand from both Chinese and local brands, which may help mitigate the effects of reduced local and tourism spendings.”

JACK TONG, SAVILLS RESEARCH & CONSULTANCY

GRAPH 1: Hong Kong Outbound Travellers Numbers



GRAPH 2: Cumulative Visitors Arrival in HK, 2018, 2023-2024



Source Immigration Department, Savills Research & Consultancy

The Hong Kong retail leasing market remained in a state of cautious recalibration, with retailers adopting conservative expansion strategies amid a 7.3% year-on-year decline in retail sales and persistently uncertain market sentiment for 2024 as a whole. While tourism recovery showed gradual momentum, structural challenges—including weakened per capita spending by mainland Chinese visitors and a surge in outbound travel—continued to weigh on leasing activities.

The retail landscape continued to grapple with subdued consumer sentiment and uneven tourism recovery. Despite a 31% year-on-year increase in overall tourist arrivals compared to 2023, tourist numbers remained 32% below 2018 peak levels. While markets such as the Philippines, Thailand, and India have rebounded to pre-pandemic visitor numbers—with South Korea surging by 110% YoY—the dominating Mainland China market, which accounted for 76% of total arrivals, revealed concerning trends. Per capita spending by Chinese overnight and same-day tourists declined by 24% and 7.1% respectively in 2024, with shopping and sightseeing expenditures plummeting by 18% and 45%. This decline, coupled with a persistent outbound tourism deficit of 1.8 million during Lunar New Year in 2025, underscored the fragility of luxury retail and hospitality segments, compounded by a strong Hong Kong dollar and regional competition and shifting travel preferences.

The pivot to digital services has irreversibly altered Hong Kong's physical space demand, with 2024 marking a tipping point for sectors unable to adapt. Hong Kong's cinema sector, for example, saw total revenue plunging 6.2% YoY to a 13-year low, triggering nine closures—including high-profile exits like Cinema City at Langham Place. Operators such as Broadway Cinemas slashed rents by 50% to survive amid collapsing demand.

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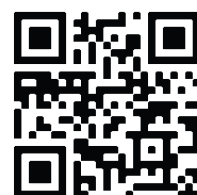
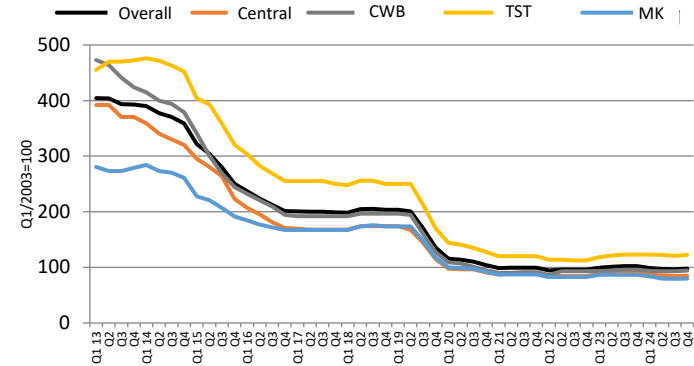


TABLE 1: Prime Street Shop Rental Changes

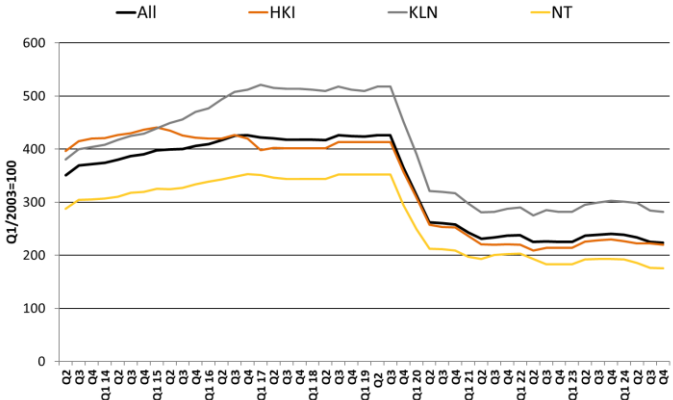
	2023 Q3 (QoQ%)	2023 Q4 (QoQ%)	2024 Q1 (QoQ%)	2024 Q2 (QoQ%)	2024 Q3 (QoQ%)	2024 Q4 (QoQ%)
Overall	+1.0%	0%	-2.9%	-1.8%	-0.7%	+1.0%
Central	+1.0%	0%	-5.0%	-1.3%	-1.3%	+0.6%
Causeway Bay	+1.5%	0%	-2.5%	-0.1%	0.0%	+1.2%
Tsim Sha Tsui	+1.5%	0%	-0.1%	-0.7%	-1.3%	+1.4%
Mong Kok	0%	0%	-3.8%	-5.0%	-0.1%	+0.7%



Source Savills Research & Consultancy

TABLE 2: Major Shopping Centre Rental Changes (Base Rent)

	2023 Q3 (QoQ%)	2023 Q4 (QoQ%)	2024 Q1 (QoQ%)	2024 Q2 (QoQ%)	2024 Q3 (QoQ%)	2024 Q4 (QoQ%)
Overall	-0.8%	-2.1%	-3.4%	-0.8%	+1.0%	-2.1%
Hong Kong Island	-1.2%	-2.0%	0.0%	-1.0%	+1.9%	-2.0%
Kowloon	-0.8%	-0.8%	-4.6%	-0.8%	+0.9%	-0.8%
New Territories	-0.5%	-3.7%	-5.0%	-0.5%	+0.3%	-3.7%



Source Savills Research & Consultancy

With audiences shifting to online streaming platforms and demand dwindling, further closures are anticipated in 2025. Meanwhile, digital banking adoption accelerated the retreat of physical branches, with HSBC shuttering three multi-story locations in Tsim Sha Tsui, Quarry Bay, and Kowloon Bay over the past few months. On the other hand, online booking platforms now account for majority of travel bookings, eroding demand for traditional travel agency services, as China Travel Service (CTS) contracted self-operated stores from 27 (pre-pandemic) to 13 in 2024—a 52% decline.

At the same time, travel retail operators experienced significant challenges, with DFS shutting down its prominent Tsim Sha Tsui East store, a cornerstone of luxury retail. Additionally, other duty-free shops at the airport grappled with rising vacancy rates.

Amid economic headwinds, Mainland Chinese brands aggressively expanded into Hong Kong’s local consumer market. Over 40 F&B chains have expanded into residential neighborhoods like Olympic, Tsuen Wan, Shatin, Tseung Kwan O since border reopening, targeting local lifestyle demand. These retailers are pivoting to middle-and lower-tier consumer segments, prioritizing affordability to sustain demand. In particular, a Chinese discount supermarket chain, Hotmaxx, dominated Hong Kong’s price-sensitive segment by leveraging competitive pricing to disrupt local competitors, with 9 expansion within a year in various residential neighborhoods.

Local retailers were also capitalizing on the middle-and lower-tier consumer segments in high-traffic areas such as Causeway Bay. With tourism-centric segments under pressure, businesses such as Kuen Fat Kitchen in Causeway Bay’s Tang Lung Street—offering value meals to cater to budget-conscious diners, and Lung Fung Pharmacy—targeting price-sensitive shoppers’ spending, were intensifying footprints in the price-sensitive market competition.

Hong Kong’s 2025 Outlook: Challenges and Opportunities

Hong Kong’s 2025 outlook balances challenges with promising catalysts. A strong Hong Kong dollar, anchored to slower U.S. Fed rate cuts, may prolong northbound travel trends, pressuring domestic spending, while high CAPEX costs are expected to deter retailers’ expansion. However, inbound tourism is poised to rebound, driven by the potential expansion of multi-entry visas to other cities, and the *Kai Tak Sports Park* launch. Policy relaxation is expected to boost arrivals, while mega-events—global arts festivals and sports spectacles—will attract affluent Mainland and overseas visitors, reviving luxury and experiential retail demand in core districts. Though CAPEX hurdles persist, strategic focus on high-value tourism and event-driven inflows could offset local spending outflows, positioning 2025 as a year of cautious optimism. Balancing these dynamics will be critical to harnessing growth amid fiscal constraints.

Savills Forecast in 2025

Prime Street Shop	0% to -5%
Prime Shopping Mall	0% to -5%