

Retail Leasing



A grim 2020 draws to a close

A raft of poor economic data alongside travel restrictions meant a muted end to the year and a much more pragmatic attitude from landlords.

- The rate of decline in retail sales slowed further in October during the fourth wave of COVID-19.
- F&B continues to take up space as landlords are keen to sign up crowd-pulling concepts to support footfall in major malls. Beyond F&B, market activity remains very low.
- Shopping centre landlords are now reconciled to market conditions and becoming more flexible in both asking rents and lease terms.
- Amidst a sluggish leasing market, both prime street shop rents and base rents of major shopping centres fell by -5.9% QoQ in Q4/2020.
- Savills forecast that rents will continue to drop by 2% to 5% in 2021, before a rebound of 5% to 10% in 2022.

“While rents may continue to slip over the first half of this year, we can see some activity returning after Chinese New Year with a market turnaround likely in 2022.”

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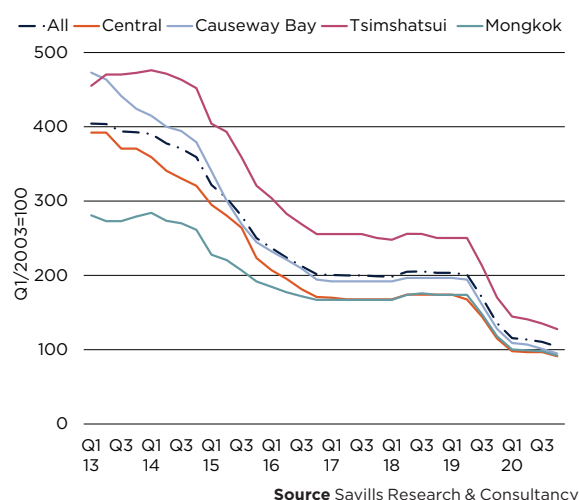
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GRAPH 1: Savills Prime Street Shop Rental Index, Q1/2013 to Q4/2020**MARKET COMMENTARY**

As another grim year for the retail market draws to a close, the only good news is that rents are likely to bottom out in the first half of this year. There is plenty of data to dampen spirits during the festive season with retail sales down by 27% YoY January–October, retail unemployment hitting 9.3% in September and hotel occupancy at 55% with ADRs down by 27.2% YoY January–October too. With little capex for expansion retailers are sitting tight (landlords are not accepting surrenders) until leases are due when many are opting to hand back the keys.

Not all news is bad, however, and F&B continues to take up space as landlords are keen to sign up crowd-pulling concepts, often local, to support footfall in major malls. Beyond F&B, activity levels are very low and the market remains frozen with only a handful of deals concluded in the fourth quarter. International retailers look set to continue to rationalize

networks over the next one to two years with local operators likely to step up to fill vacant units at competitive rents. Many remain poised to take advantage of market conditions and activity may revive post Chinese New Year.

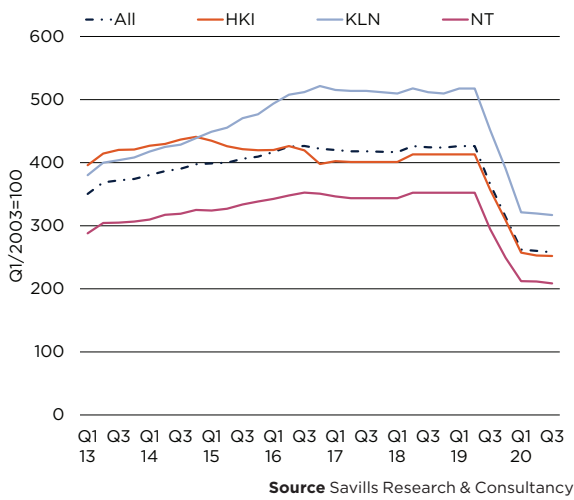
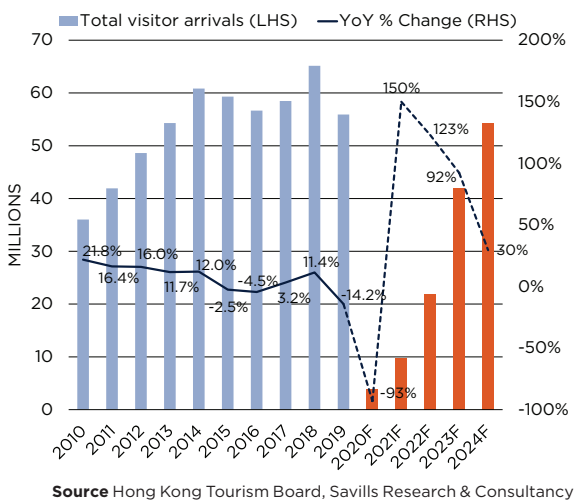
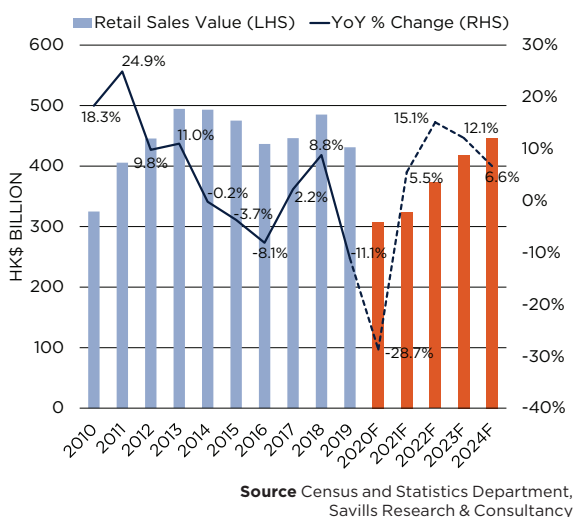
Landlords are now mostly reconciled to market conditions and we hear of ‘turnover-only’ deals for 12-month periods. With key shopping districts and most malls facing sharply higher vacancies, we have seen a rise in the number of short-term tenancies of six months or so. Typical tenants include sellers of masks, red packets, groceries and frozen meats, concepts which work best in densely populated residential areas. On the street, landlords are opening their doors to local restaurants, not always pretty, but they pay the rent. Attempts by some landlords to break down larger shops into smaller units are usually met with little interest.

The international brands have by no means written off Hong Kong but are more focused on

TABLE 1: Recent Closings And Openings, Q4/2020

RETAILER/BRAND	SECTOR	LOCATION(S)
Retailer Closings		
GAP	Fashion	Central - Queen's Road Central
Giordano Ladies	Fashion	Central - Queen's Road Central
MLB	Fashion	Central - Queen's Road Central
Topshop	Fashion	Central - Queen's Road Central
LINE FRIENDS Stores	Gadgets	Causeway Bay - Hysan Place / Kwun Tong - apm / Sha Tin - New Town Plaza / Tung Chung - Citygate
Adidas	Sports	Central - Queen's Road Central
Nike	Sports	Central - Queen's Road Central
Smiggle	Stationary	Causeway Bay - Windsor House / Kowloon Tong - Festival Walk / Tsing Yi - Maritime Square / Sha Tin - New Town Plaza
Cartier	Watches & Jewellery	Tsim Sha Tsui - 1881 Heritage
Retailer Openings		
Bakehouse	Bakery	Central - SoHo
Butter Cake Shop (pop-up)	Bakery	Central - Landmark
Homebake (by Maxim's)	Bakery	Central - Queen's Road Central
SAKImoto Bakery	Bakery	Tsim Sha Tsui - Harbour City (will open in late December)
C45	Club	Central - California Tower
American Eagle Outfitters	Fashion	Yuen Long - YOHO Mall
Initial	Fashion	Tsim Sha Tsui - Harbour City
Theory	Fashion	Taikoo - Cityplaza
Between	F&B	Central - Tai Kwun
Crepe Delicious	F&B	Wan Chai - Lee Tung Avenue
Espresso Alchemy	F&B	Tsim Sha Tsui - Harbour City
Joint Asian Market (J.A.M.)	F&B	Central - Nexus Building (will open in late December)
NINETYs Roastery	F&B	Causeway Bay - Lee Garden Two
Sexy Crab	F&B	Tsim Sha Tsui - K11 Musea
Shiawase	F&B	Tsim Sha Tsui - Harbour City
Tamjar San Gor	F&B	Central - Connaught Road Central / Tsim Sha Tsui - Harbour City
The Tea Academics	F&B	Central - LHT Tower
Yakiniku Ishidaya	F&B	Central - Century Square
A local Sichun noodle shop	F&B	Tsim Sha Tsui - Peking Road (Street shop)
Le Fiori	Florist	Kowloon Tong - Festival Walk
Decathlon	Sports	Central - Queen's Road Central
Don Don Donki	Supermarket	Central - Queen's Road Central / Tseung Kwan O - Monterey Place
Living Plaza by AEON	Supermarket	Diamond Hill - Plaza Hollywood

Source Savills Research & Consultancy

GRAPH 2: Savills Shopping Centre Rental Index, Q1/2013 to Q4/2020**GRAPH 3: Annual Visitor Arrivals And Projections By Savills, 2010 to 2024F****GRAPH 4: Total Retail Sales And Projections By Savills, 2010 to 2024F****TABLE 2: Prime Street Shop Rental Changes**

	Q4/2020		
	QOQ CHANGE	YOY CHANGE	FROM PEAK Q1/2013)
Overall	-5.9%	-23.4%	-74.3%
Central	-5.9%	-20.8%	-76.8%
Causeway Bay	-6.2%	-25.9%	-80.0%
Tsim Sha Tsui	-5.5%	-25.0%	-71.9%
Mong Kok	-5.9%	-21.9%	-67.2%

Source Savills Research & Consultancy

TABLE 3: Shopping Centre Rental Changes

	Q4/2020		
	QOQ CHANGE	YOY CHANGE	FROM PEAK (Q2/2018)
Overall	-5.9%	-22.8%	-43.1%
Hong Kong Island	-6.2%	-23.4%	-42.8%
Kowloon	-6.0%	-23.7%	-42.5%
New Territories	-5.7%	-21.0%	-44.1%

Source Savills Research & Consultancy

China with its vast domestic market, currently less encumbered by COVID than many parts of the world. We have noted in our office market research that such retailers can be expected to relocate their regional headquarters from Hong Kong in the coming years with Shanghai the first choice for most. International luxury is focused on first tier and top tier two cities and they tend to follow a trusted cohort of PRC and Hong Kong developers.

Looking at the latest retail sales data, retail sales values continued to decline in October but slowed to -8.8%, the first single-digit figure after 15 months of consecutive double-digit declines. Aside from food related and supermarket trades, we have noticed some improvements in the sales performance of motor vehicles, furniture and fixtures, as well as department stores.

Amidst the fourth wave of the COVID pandemic and a sluggish leasing market, rental values have tumbled again in Q4/2020. Both prime street shop rents and base rents of major shopping centres fell by -5.9% QoQ in the last quarter of 2020. Prime retail streets such as Queen's Road Central in Central and Percival Street in Causeway Bay have seen vacancy as high as 20% in recent months.

The coronavirus pandemic has brought unprecedented challenges to economies worldwide and its full implications are still unfolding. As 2020 comes to a close, it is the time to look ahead to the road to recovery. The COVID-induced uncertainty has made economic and market forecasting extremely difficult. Despite the fact that Savills in-house forecasting model captures the economic and retail market performance data of the SARS period in 2003, the duration and scale of impact of the two crises are very different rendering the historical data less relevant. We have, however, made assumptions

on the recovery of total retail sales and visitor arrivals over the next few years.

Visitor arrivals virtually vanished in 2020, dropping by nearly 93% YoY over the first 10 months of the year. The start of the Travel Bubble Agreement which has been deferred to beyond 2020 will not improve the overall picture in 2020. Nevertheless, we expect the tourism market to recover gradually over the next three years when the global pandemic passes and COVID vaccines become widely available. Given the extremely low base in 2020, we predict that visitor numbers will rebound by 150% in 2021 to around 9.8 million, which is about 15% of the 2018 peak or similar to 1994/95 levels. This will be followed by a 123% rise in 2022 to around 22 million (similar to 2004 post-SARS levels) and then 92% to 42 million (similar to 2010/2011 post-Global Financial Crisis levels) when the overnight visitor and long-haul markets start to pick up in earnest.

The recovery in tourism will certainly reinvigorate the retail market. The return of tourists and their shopping spending will fuel growth in total retail sales of between 5.5% and 15.1% from 2021 to 2023. According to forecasts by FocusEconomics, a service provider of consensus economic forecasts from over 30 independent institutes, the local labour market will also improve gradually once the economy recovers from the damage of the coronavirus.

Based on our assumptions, we anticipate a further drop in both prime street shop rents and shopping centre rents by 2% to 5% in 2021. With the recovery of the overnight/long-haul visitor market and their shopping spending, prime street shop rents are likely to bounce back by 7% to 10% and 20% to 23% in 2022 and 2023 respectively, while shopping centres will recover by 5% to 10% per annum over the same period.