Hong Kong – January 2023

MARKET IN MINUTES

Savills Research

Retail Leasing

Weak conditions persist at year-end

Rents were broadly unchanged in the last quarter amid softer retail sales and a lack of new lettings.

- The final quarter of 2022 ended on a dull note with little change in market tone.
- Despite attempts by landlords to lease up empty units before Christmas and Chinese New Year, activity levels have remained stubbornly low.
- Relative to street shops, shopping malls are faring a bit better and most report high occupancy as landlords have diligently focused on lease-up rates rather than rents this year.
- For luxury retailers the focus is on shopping malls rather than the high street and as the younger generation becomes a greater force in the retail market, we note a shift away from traditional mainstream luxury towards fresher concepts.
- Given the economic uncertainties and ongoing COVID restrictions, we do not expect retailers and travelers to flood back to the city in the short term.
- We see little to suggest a major turnaround in 2023 and we think that rents will remain largely flat and expect a 0% to 5% rise over the year as a whole.

"We expect a muted recovery in 2023 as the market faces on-going COVID restrictions, a strong Dollar, higher interest rates and softer residential prices."

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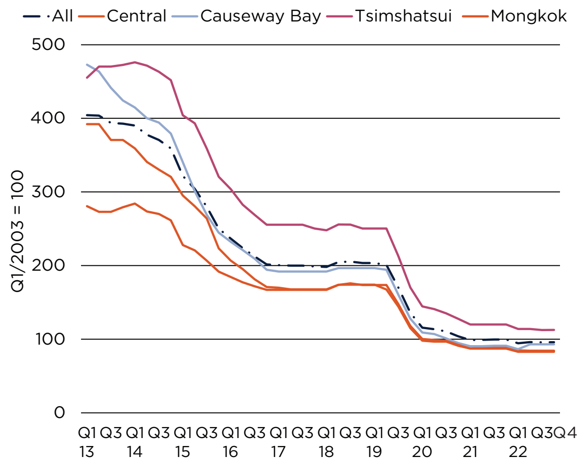
GRAPH 1: Savills Prime Street Shop Rental Index, Q1/2013 to Q4/2022



Source Savills Research & Consultancy

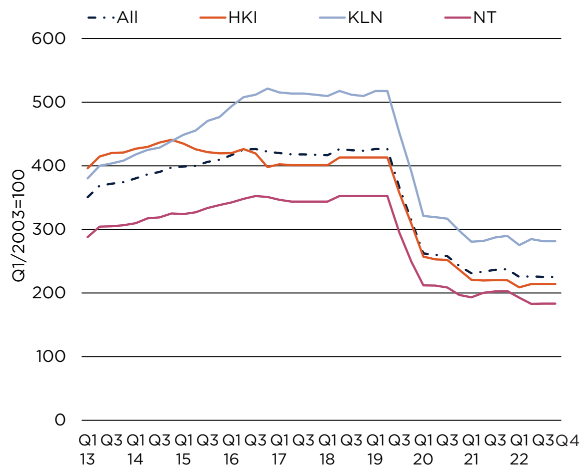
MARKET COMMENTARY

Restricted by the social distancing measures and without the spending from inbound tourists, the final quarter of 2022 ended on a dull note with little change in market tone. Pressured by rising interest rates and higher mortgage costs, household disposable incomes were affected, resulting in a fall in retail sales. Retail sales by value dropped by 0.7% YoY over the first ten months, among which spending on clothing and footwear and department stores declined by 9.6% and 9.3% YoY respectively. In some positive news, the F&B sector finally experienced a slight rebound in the third quarter, and the value of restaurant receipts rose by 9.3% QoQ, mainly due to the resumption of banqueting and family dinner gatherings in Q3.

In the face of higher vacancy rates especially on most major streets including Russell Street, Canton Road and Sai Yeung Choi Street, landlords have been trying to lease up empty units before Christmas and Chinese New Year, but activity levels have remained stubbornly low. The lifting of some travel restrictions in Hong Kong has done nothing to revive tourism to any extent and even demand from F&B tenants, for so long the mainstay of the market, has reached saturation. Relative to street shops, shopping malls are faring a bit better and most report high occupancy as landlords have diligently focused on lease-up rates rather than rents this year.

Economic challenges facing mainland consumers, a strong Dollar and a softer residential market in Hong Kong are among many factors which may mute any recovery

GRAPH 2: Savills Shopping Centre Rental Index (Base Rent), Q1/2013 to Q4/2022



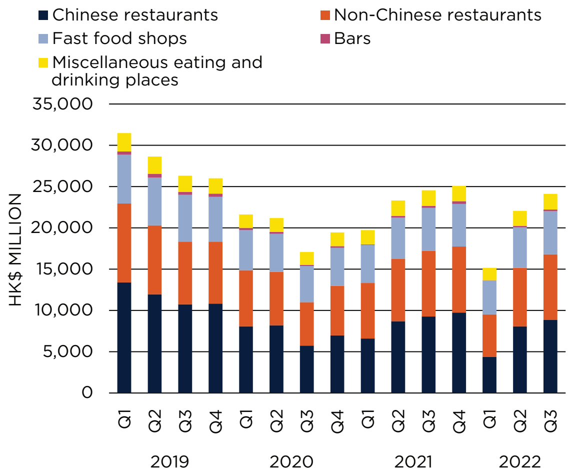
Source Savills Research & Consultancy

TABLE 1: Prime Street Shop Rental Changes

	2018	2019	2020	2021	Q4/2022
Overall	+2.4%	-33.2%	-23.4%	-4.3%	0%
Central	+3.8%	-34.0%	-20.8%	-2.1%	0%
Causeway Bay	+2.4%	-34.9%	-25.9%	-3.8%	0%
Tsim Sha Tsui	0%	-32.0%	-25.0%	-6.1%	+0.1%
Mong Kok	+3.9%	-32.0%	-21.9%	-5.2%	0%

Source Savills Research & Consultancy

GRAPH 3: Total Restaurant Receipts by Type of Restaurant, 2019 to Q3/2022



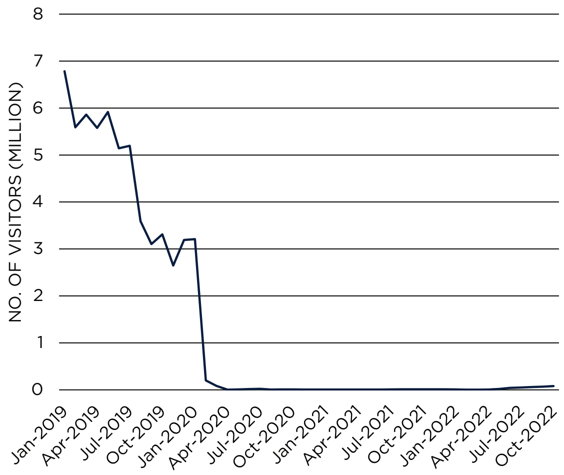
Source Census and Statistics Department

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

	2018	2019	2020	2021	Q4/2022
Overall	+1.6%	-30.5%	-22.8%	-2.1%	0%
Hong Kong Island	+3.0%	-30.6%	-23.4%	-6.9%	0%
Kowloon	-0.4%	-29.2%	-23.7%	-2.7%	0%
New Territories	+2.6%	-32.0%	-21.0%	+3.1%	0%

Source Savills Research & Consultancy

GRAPH 4: Visitor Arrivals to Hong Kong, 2019 to October 2022



Source Hong Kong Tourism Board

in 2023. For luxury retailers the focus is on shopping malls rather than the high street and as the younger generation becomes a greater force in the retail market, we note a shift away from traditional mainstream luxury towards fresher concepts and more affordable offerings. Looking ahead, we see early signs of demand from PRC brands who have not yet entered the local retail scene and in this respect, the Li Ning flagship store letting on Canton Road is significant. Li Ning is a major mainland sports brand named after the gymnast and entrepreneur who founded the company.

With hopes dashed early on in the year by the fifth wave of the pandemic, rents have ended 2022 largely flat even though a small number of landlords have recently used the possibility of border reopening with the mainland to make minor increases. Most, however, remain flexible. Among significant tenant activity, the British brand Fortnum & Mason opened a new outlet at Hong Kong airport in order prepare for the border reopening while landlord New World will start to operate the 3.8 million sq ft 11 SKIES from 2023 which will eventually include 2.7 million sq ft of retail entertainment and dining. The huge project will open in phases to 2025.

Looking ahead to next year, a freer border will initially unlock demand from families keen to visit relatives in China and business travelers. Tourists will return first from Southern China, and this is typically driven by day tripper demand for convenience goods within easy reach of the border. However, given the economic uncertainties and ongoing COVID restrictions (compare Hong Kong with the outdoor mask-free policies and relaxed PCR test requirements of Thailand, Japan and Korea), we do not expect retailers and travelers to flood back to the city in the short term. We therefore see little to suggest a major turnaround in 2023 and we think that rents will remain largely flat and expect a 0% to 5% rise at most.

TABLE 3: Major New Shopping Centres Opening in 2023 and Beyond

PROJECT	REGION	LOCATION	GFA (SQ FT)	SCHEDULED COMPLETION	DEVELOPER
Kai Tak Area 1E Site 2 (Twin Towers)	Kowloon	Kai Tak	1,087,000	2023	Lifestyle International (SOGO)
The Wai (Tai Wai Station)	New Territories	Tai Wai	652,000	2023	MTRC
11 SKIES - SkyCity Sites A2 & A3	New Territories	Chek Lap Kok	First Phase: 887,000	First Phase: 2023	New World Development
The Southside (Wong Chuk Hang Station)	Hong Kong Island	Wong Chuk Hang	506,000	2023	MTRC
Kai Tak Sports Park (Retail Portion)	Kowloon	Kai Tak	600,000	2023	New World Development
11 SKIES - SkyCity Sites A2 & A3	New Territories	Chek Lap Kok	Later Phases: 1,773,000	Later Phases: 2024-2025	New World Development
XRL Topside Development	Kowloon	West Kowloon	603,000	2026	Sun Hung Kai Properties

Source Company annual reports, Savills Research & Consultancy