

# Briefing Retail leasing

February 2016



Image: Central

## SUMMARY

Retailers remain under pressure and examples of lease surrenders and requests for rental reductions are on the increase.

- Having fallen by 10.6% during Q4/2015, our prime street shop retail rental index ended 2015 30% down on the year representing a 38% fall from the peak in 2013.

- Not only are rents falling, tenant profiles are also changing as luxury fashion gives way to mid-market fashion, 'leisure wear' and lifestyle brands.

- Luxury retailers have definitely been hit hardest and there are plenty

of examples of lease surrenders and requests for rental reductions as sales collapse by 30% or more.

- Prime shopping mall rents have remained on a steady upward trajectory even if luxury brands are releasing space.

- New Territories malls appear to be doing reasonably well as local demand for convenience goods and same visitor spending both seem to be holding up well.

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 "While street shop rents have been hard hit by the downturn, shopping mall rents are holding up well. Luxury fashion is bearing the brunt while mid-market fashion, leisure wear and lifestyle brands appear to be thriving." Simon Smith, Savills Research  
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➔ **Market commentary**

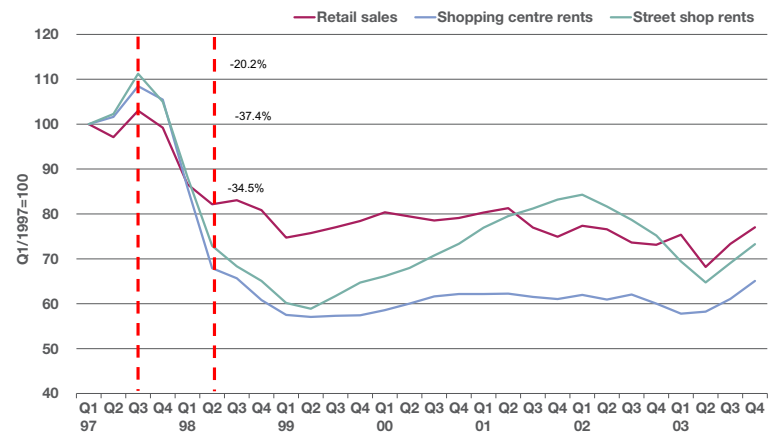
Hong Kong's retail market began to buckle as far back as Q1/2013 when China began its anti-corruption drive. Since then a series of new policies (import tax reform, Renminbi depreciation and reform of multiple-entry visas) and events (Occupy, stock market turbulence) have conspired to put further pressure on retailers. Having fallen by 10.6% during Q4/2015, our prime street shop retail rental index ended 2015 30% down on the year representing a 38% fall from the peak in 2013.

More vulnerable to the changing winds of economic fortune, street shop rents have fallen hardest and there are plenty of examples of rents being reduced anywhere between 20% and 40% at the end of a three-year lease. But not only are rents falling, tenant profiles are also changing as luxury fashion gives way to mid-market fashion, 'leisure wear' and lifestyle brands. It should be noted that during the previous Asian Financial Crisis in 1997/98, street shop rents fell in the order of 50% to 60% peak-to-trough.

As both same day and overnight visitor numbers fall alongside per capita spending, what do retailers think? Luxury retailers have definitely been hit hardest and there are plenty of examples of lease surrenders and requests for rental reductions as sales collapse by 30% or more. Meanwhile jewellery and cosmetics brands favoured by mainlanders have also taken a hit with sales reportedly down 20% to 30%. Other brands appear to be thriving and we note that Adidas, Nike and New Balance are all active, alongside Uniqlo, Furla, and other high street chain stores.

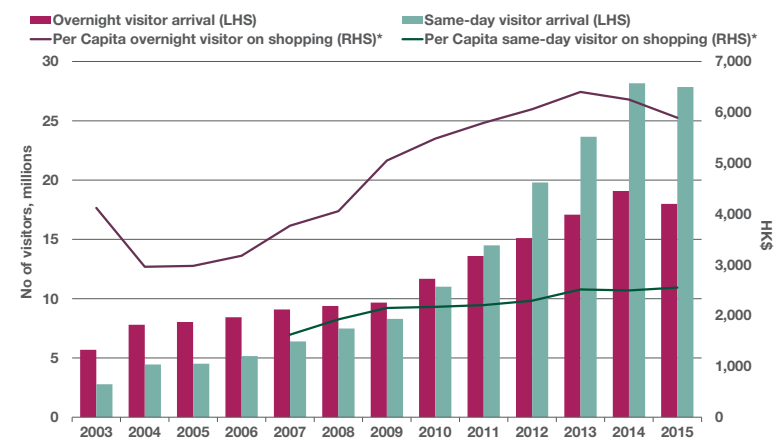
Prime shopping mall rents have remained on a steady upward trajectory even if luxury brands are releasing space. Landlords have not been immune however, and have been shifting focus to new-to-town brands, lifestyle offerings and F&B to maintain footfall and support rents. Larger market dominant malls with a greater mass have been exerting a greater gravity on local markets at the expense of smaller, less well

GRAPH 1 **Retail sales and rents, 1997–2003 (AFC-SARS)**



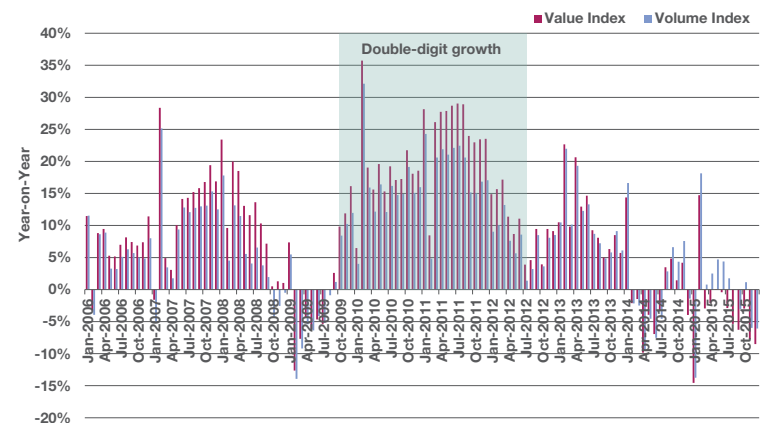
Source: Source: Census and Statistic Department, Savills Research & Consultancy

GRAPH 2 **Mainland overnights vs same day, 2003–2015**



Source: Hong Kong Tourism Board, Savills Research & Consultancy  
\*Per capita visitor on shopping refers to the figures in the first half of 2015

GRAPH 3 **Monthly retail sales, (YoY % changes), Jan 2006–Dec 2015**

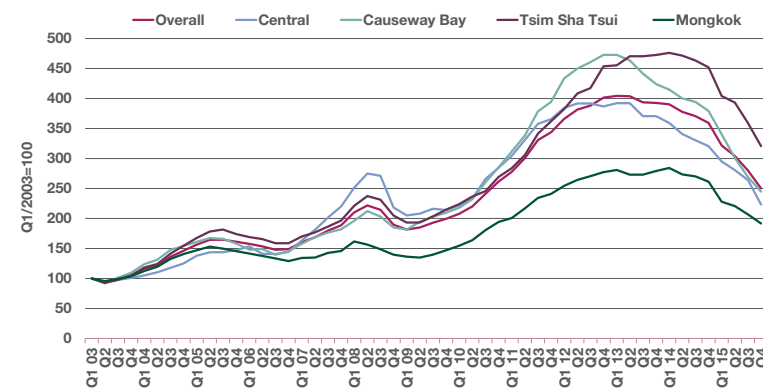


Source: Census and Statistics Department, Savills Research & Consultancy

located peers. New Territories malls appear to be doing reasonably well as local demand for convenience goods and same visitor spending both seem to be holding up well. Again, the larger destination centres such as Tuen Mun Town Plaza and New Town Plaza are outperforming.

As the wealth effect from the local residential market begins to fizzle and mainland China's economic fortunes falter, our earlier predictions of a 10% to 15% decline in street shop rents and a 0 to 5% increase in prime shopping centre rents in 2016 may prove to be overly optimistic. ■

GRAPH 4 Prime street shop rental indices, Jan 2006–Dec 2015



Source: Savills Research & Consultancy

TABLE 2 Prime street shop and shopping centre rents, Q4/2015

	Q4/2015(%)	2015 (%)	2016F (%)
Shopping centre rents	0.8	+3	0 to +5
Prime street shop rents	-10.6	-30	-10 to -15

Source: Savills Research & Consultancy

## Please contact us for further information

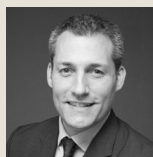
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### Savills Research

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