

# Retail Leasing



## Q1 offers reasons for hope

Although we are not out of the woods yet, some signs of improvement have been noted in the first quarter as rates of rental decline have slowed and retail sales have picked up.

- Despite the impact of the fourth wave of infections and an absence of international visitors, Hong Kong's retail sales turned around in the first two months of 2021 with total sales value up by 2.7% YoY.
- The leasing market showed early signs of revival in the first quarter while consumer sentiment and business confidence have been gradually improving.
- Given a more local-centric market environment, shopping centre landlords are increasing their leisure offerings for families, and a number of international entertainment operators/concepts have made their debut in the Hong Kong market.
- Rates of rental decline are slowing in both the prime street shop and major shopping centre segments.
- The rollout of a vaccination programme, the relaxation of social distancing and the reopening of borders will all help to fuel a recovery in the tourism and retail markets in the near term.

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“As the worst looks like it is behind the retail market questions surround the rate of turnaround and what changes will prove permanent.”

SIMON SMITH, SAVILLS RESEARCH

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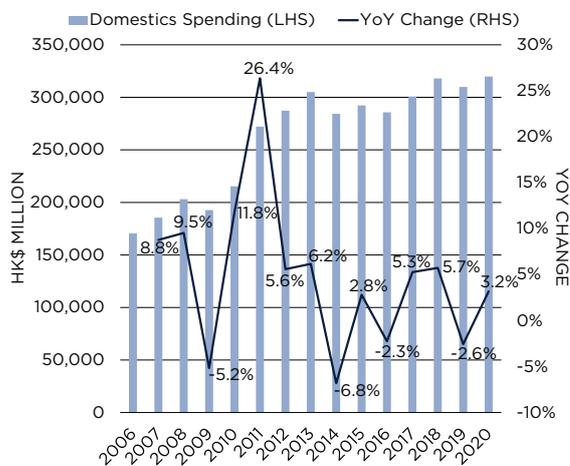
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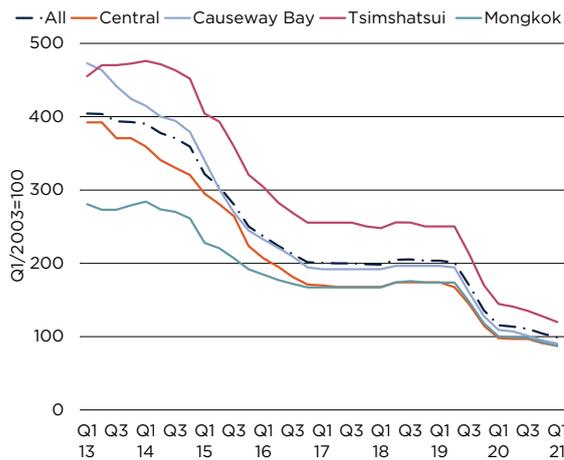


GRAPH 1: Domestic Retail Spending, 2006 to 2020



Source Census and Statistical Department, Hong Kong Tourism Board, Savills Research & Consultancy

GRAPH 2: Savills Prime Street Shop Rental Index, Q1/2013 to Q1/2021



Source Savills Research & Consultancy

TABLE 1: Prime Street Shop Rental Changes

	Q1/2021		
	QOQ CHANGE	YOY CHANGE	FROM PEAK (Q1/2013)
Overall	-4.9%	-14.5%	-75.7%
Central	-4.0%	-10.7%	-77.7%
Causeway Bay	-4.5%	-17.0%	-80.0%
Tsim Sha Tsui	-6.1%	-17.0%	-73.6%
Mong Kok	-5.2%	-12.9%	-68.9%

Source Savills Research & Consultancy

## MARKET COMMENTARY

As the COVID-19 pandemic hits the “one year later” mark, both local consumers and local businesses seem to be adapting to pandemic-disrupted life and a “new normal” has settled on the retail market. Local consumption has emerged relatively unscathed from 2020, and domestic spending is estimated to have grown by 3.2% YoY last year to hit nearly HK\$320 billion, a 15-year high for domestic consumption.

Domestic consumer sentiment continued to improve coming into 2021. Despite the impact of the fourth wave of infections which has lingered since November and an absence of international visitors, overall retail sales turned around in the first two months of 2021 rising by 2.7% when taking the figures for January and February together (eliminating the impact of the timing of Chinese New Year). Sales of electrical goods performed best growing by over 34% YoY, followed by sales of fresh food items and furniture and fixtures, possibly driven by WFH/dining at home demand. It is a surprise to see that the supermarket segment has reversed its growth trend of previous quarters to fall by 8.6%. This may be attributable to a decline in sales of festive gifting items over Chinese New Year as a result of the muted New Year celebrations. Sales of apparel related items and watches and jewellery have also improved while sales of medicines and cosmetics continued to slump.

Landlords of both prime street shops and shopping malls are working hard to manage soaring vacancy, but they are taking slightly different approaches to filling empty units. On the street, landlords are using pop-ups and short-term tenancies to keep hold of income streams while waiting for the market

to recover. Shopping centre landlords on the other hand are looking for new concepts and crowd-pulling retailers in a bid to diversify their trade and tenant mix and increase foot traffic. F&B, lifestyle brands and necessity-focused retailers are now taking the lead in the leasing market, and local retailers are also taking advantage of the lower rent environment to look for opportunities to increase store presence.

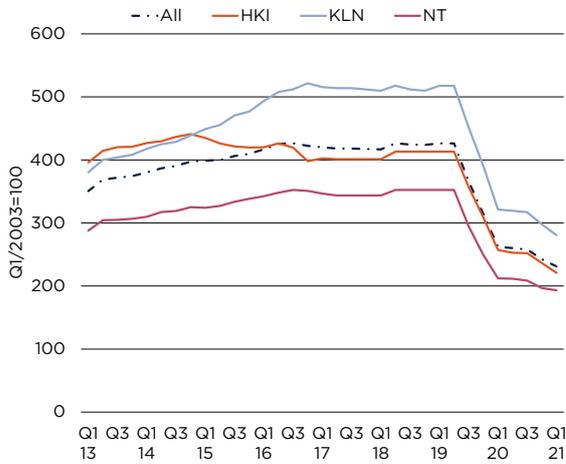
A number of international entertainment operators/concepts have also made their debut in the Hong Kong market in recent months, including Legoland Discovery Centre in K11 Musea, NAMCO Sportainment Arena in Telford Plaza II, DOCODOCO (a kids entertainment concept by NAMCO) in The LOHAS and CUPNOODLES MUSEUM by Nissin Foods in China Hong Kong City. Given a more local-centric market environment, shopping centre landlords are also increasing their leisure offerings for “family”, including family with kids and family with pets to woo local consumers, and concepts include an interactive/digital entertainment zone, a free kids STEAM centre, a kids playground/bike park, and a pets park.

The leasing market showed early signs of revival in the first quarter of the year while consumer sentiment and business confidence has been gradually improving. We have noticed that some vacant or surrender space in core locations has been slowly absorbed over recent months. For instance, Foot Locker has taken up the 20,000-sq ft space at Gala Place in Mong Kok which was previously occupied by H&M, the pre-GAP space at LHT Tower, Central has been leased to American Eagle Outfitters and a lifestyle brand (for the basement space) while Dang Wen Li by Dominique Ansel will open a street shop

TABLE 2: Examples of Local Brands, Lifestyle, F&amp;B and Mass-market Retailers Replacing Luxury/international Retailers or Tourist Oriented Trades

LOCATION (S)	PREVIOUS TENANTS	NEW TENANT
Entertainment Building, Central	MCM	Decathlon
Entertainment Building, Central	Philipp Plein	Sweet Dreams by Heinemann
Melbourne Plaza, Central	Carlson Watch	Homebake (by Maxim's)
H Queen's, Central	-	Dang Wen Li by Dominique Ansel
100 QRC, Central	Oriental Watches	Don Don Donki
LHT Tower (B/F), Central	GAP	A lifestyle brand
Lee Garden Two, Causeway Bay	Moncler	NINETYs Roastery
Harbour City, Tsim Sha Tsui	Trussardi	Initial
Harbour City, Tsim Sha Tsui	Sony	Cupping Room Coffee Roasters
Harbour City, Tsim Sha Tsui	Hot No.1	Tamjar Mixian
Elements, West Kowloon	Coach	lululemon
Festival Walk, Kowloon Tong	Weekend by Max Mara	Saloon (a hair salon)

Source Savills Research & Consultancy

**GRAPH 3: Savills Shopping Centre Rental Index, Q1/2013 to Q1/2021**

Source Savills Research &amp; Consultancy

**TABLE 3: Shopping Centre Rental Changes**

	Q1/2021		
	QOQ CHANGE	YOY CHANGE	FROM PEAK (Q2/2018)
Overall	-4.8%	-11.9%	-45.8%
Hong Kong Island	-6.6%	-14.1%	-46.5%
Kowloon	-5.8%	-12.6%	-45.8%
New Territories	-1.8%	-8.9%	-45.2%

Source Savills Research &amp; Consultancy

outlet at H Queen's on Queen's Road Central. In the meanwhile, prime street shop rents have contracted by another 4.9% QoQ in Q1/2021 following a 23.4% YoY decline in 2020 (street shop rents are now down a staggering 76% from peak levels in 2013/14). Base rents in major shopping centres have also fallen by 4.8% QoQ over the first quarter representing an equally eye-popping 46% decline from peak.

#### MARKET OUTLOOK

The rollout of a vaccination programme, the relaxation of social distancing and the reopening of borders will all inevitably help to fuel a recovery in the tourism and retail markets in the near term. But what are the lessons learnt from the pandemic and the subsequent global shutdown? And what should we do to drive more sustainable growth in the longer-term? The pandemic has transformed many aspects of people's lives and there have been dramatic shifts in how we live, work, play as well as how we shop. Some of these changes will have a long-lasting impact on the consumer market so we have tried to identify some of the key developments:

#### Work from Home

Working from home during the pandemic has proved that people are capable of working remotely and meetings can be held effectively via the internet, which means a flexible mix of working locations may result and less business travel will be required. This may have a greater negative impact on the hospitality industry than retail, but the electronic and technology sectors will benefit, at least in the short- to medium-term, due to the increase in demand for work-from-home equipment, home-office

furnishings and may be home entertainment equipment. Neighbourhood retail also stands to win from the WFH trend while city centre shops catering to worker catchments can expect to see some drop off in traffic.

#### Local tourism - appreciating our own backyard

The decimation of international travel has prompted people to look for alternative ways to spend their leisure time locally. The need for "social distancing" and the growth in health consciousness have also caused people to turn to the great outdoors for refuge and well-being, both physical and psychological. Outdoor activities such as hiking, cycling, camping and glamping have garnered huge interest over the past year with flocks of local visitors discovering public parks, hiking trails and country parks on weekends and public holidays.

The government has invested in a cycle track network in the New Territories with a total length of about 82 km to foster a "bicycle-friendly environment" and enhance public enjoyment. In related news, according to information from Carousell, a Singaporean online sales platform operating in Hong Kong, Malaysia, Indonesia, the Philippines, Cambodia, Taiwan, Macau, Australia, New Zealand and Canada, Hong Kong came out top for bicycle sales in 2020 with a total of 40,000 bicycles sold, followed by 18,000 in Malaysia. If this enthusiasm for nature and outdoor activities is not just a craze, we believe that we will continue to see sustainable growth in related retail sectors in the future.