

Retail Leasing



Moderate pick up in leasing activity

Activity levels picked up in the second quarter as locally-focused retailers moved to take advantage of lower rents and improved availability in prime locations.

- Stimulated by the latest round of the Consumption Voucher Scheme dispersed from April 7th, retail sales value rose by 11.7% YoY in April, before falling back by -1.7% in May as the stimulus effect faded.
- Leasing activity picked up modestly in Q2/2022 in both core and suburban locations after a slow first quarter, mainly driven by F&B, grocery and lifestyle related trades.
- Supported by improved sentiment in the leasing market, rents in both the prime street shop and major shopping centre segments remained relatively stable over Q2/2022 registering modest YoY growth of 1.7% and 0.4% respectively.
- Luxury brands continued to offload non-profit making stores but at the same time mass market and locally focused fashion chains took advantage of the lower rent environment to take up space in prime locations.
- Some of the new supply in the pipeline this year will be delayed to 2023, with many of the upcoming projects located in suburban locations to capitalise on fast growing residential populations.
- Eligible registrants for Phase 2 of the CVS will include non-permanent residents. The expanded program will add an

extra 300,000 people and an additional HK\$1 billion, and this will give another boost to the local retail market. However, rising mortgage rates and slower economic growth will hit the disposable incomes of local residents and reduce overall spending power in the second half of the year.

“After a tough first quarter market activity lifted in the second and modest rises in rents were seen in some areas. The latter half of the year will see a spending boost from the Consumption Voucher Scheme, but higher mortgage rates and slower growth may hold consumers in check.”

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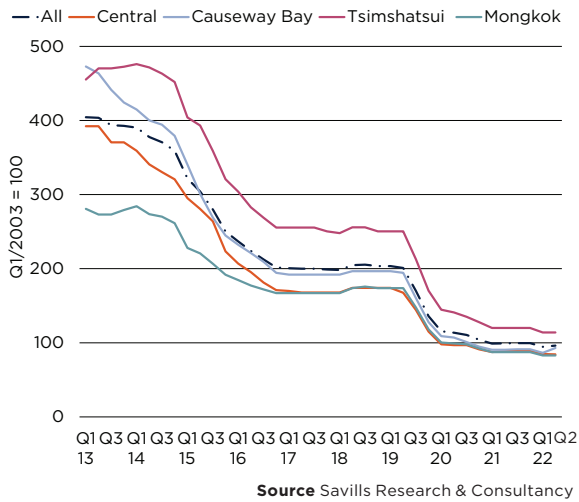
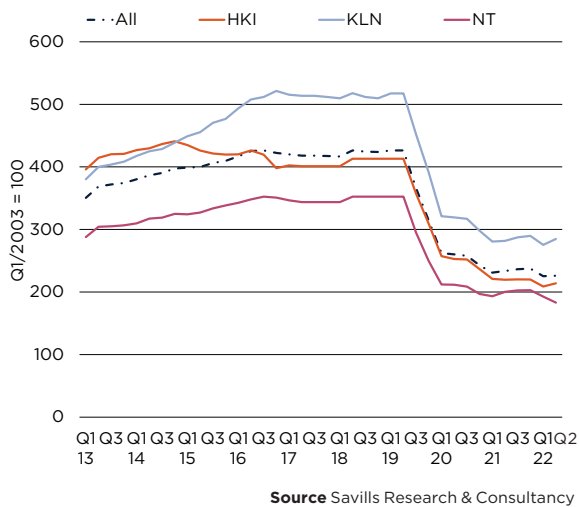
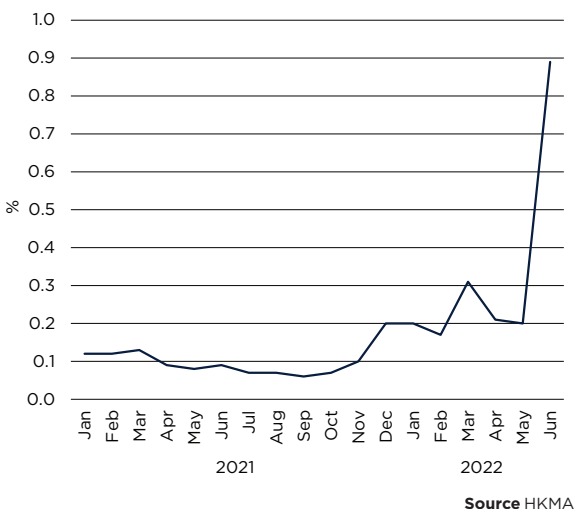
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GRAPH 1: Savills Prime Street Shop Rental Index, Q1/2013 to Q2/2022**GRAPH 2: Savills Shopping Centre Rental Index (Base Rent), Q1/2013 to Q2/2022****GRAPH 3: 1-month HIBOR, January 2021 to June 2022****MARKET COMMENTARY**

Local consumer sentiment has remained relatively upbeat. Stimulated by the latest round of the Consumption Voucher Scheme which dispersed from April 7th the local economy grew by 1.2% (compared with a 0.7% GDP boost from the previous distribution), and the retail sales value rose by 11.7% YoY in April. However, the sales value fell back by -1.7% in May YoY as the stimulus effect faded. Despite the challenges, leasing activity picked up moderately in Q2/2022 in both core and suburban locations after a slow first quarter, mainly driven by F&B, groceries and lifestyle related trades.

Notable transactions in core areas included IKEA taking up the ex-I.T space (15,000 sq ft) in the basement of K11 Art Mall in Tsim Sha Tsui. Across the harbour in Causeway Bay, Market Place has leased 7,000 sq ft of space in the basement of Capitol Centre (ex-Victoria's Secret space) for around HK\$500,000 per month; while a food hall has taken part of the ex-Neway Karaoke Space on 2/F and

3/F of Lok Sing Centre for a monthly rent of HK\$1.5 million. Prime shops previously occupied by luxury fashion brands or tourist-oriented trades in core locations have also been snapped up by F&B, for example, the ex-Burberry space at 38 Russell Street has been taken by A La Carte who will open a Transformers-themed restaurant while the old Sa Sa space on the same street was leased to Five Guys.

In suburban locations, new-to-Hong Kong Japanese drugstore chain Matsumoto Kiyoshi has opened three stores in Kwun Tong (APM), Shatin (New Town Plaza) and Tuen Mun (TMT Plaza) since January 2022. It is confirmed that Matsumoto Kiyoshi will open its flagship store in Causeway Bay, taking over 14,000 sq ft in Hang Lung Centre. In further positive news, Don Don Donki has continued to expand its footprint in the city taking space in Amoy Plaza in Ngau Tau Kok and Whampoa Garden in Hung Hom.

Luxury brands meanwhile have continued to offload non-profit making stores but at the

TABLE 1: Prime Street Shop Rental Changes

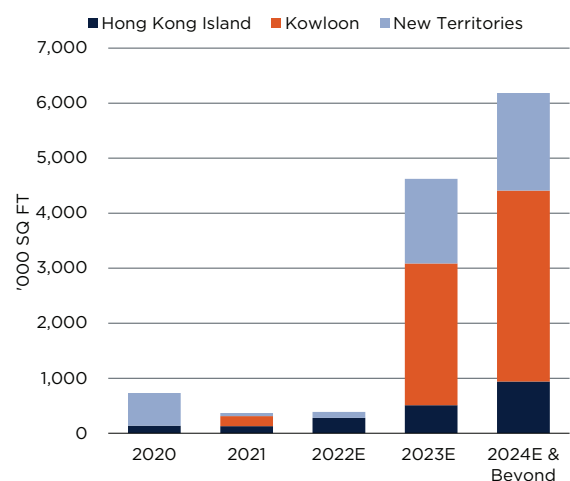
	2018	2019	2020	2021	Q2/2022
Overall	+2.4%	-33.2%	-23.4%	-4.3%	-5.0%
Central	+3.8%	-34.0%	-20.8%	-2.1%	-0.6%
Causeway Bay	+2.4%	-34.9%	-25.9%	-3.8%	+7.6%
Tsim Sha Tsui	0%	-32.0%	-25.0%	-6.1%	0%
Mong Kok	+3.9%	-32.0%	-21.9%	-5.2%	0%

Source Savills Research & Consultancy

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

	2018	2019	2020	2021	Q2/2022
Overall	+1.6%	-30.5%	-22.8%	-2.1%	-5.1%
Hong Kong Island	+3.0%	-30.6%	-23.4%	-6.9%	+2.5%
Kowloon	-0.4%	-29.2%	-23.7%	-2.7%	+3.4%
New Territories	+2.6%	-32.0%	-21.0%	+3.1%	-5.0%

Source Savills Research & Consultancy

GRAPH 4: Future Shopping Centre Supply, 2020 to 2024 and beyond

Source Company annual reports, Savills Research & Consultancy

same time mass market and locally focused fashion chains are taking advantage of the lower rent environment to selectively take up space in prime locations including Bauhaus, Cotton On, Top2 and Love, Bonito. (See Appendix 1)

Supported by improved sentiment in the leasing market, rents in both prime street shop and major shopping centre segments remained broadly stable over Q2/2022 registering modest YoY growth of 1.7% and 0.4% respectively. Rental growth in the prime street shop segment was mainly driven by the rental improvement in the Causeway Bay sub-market which saw increasing transaction volumes.

Rents are now significantly below peak 2013/14 levels and are at or close to 2003 levels before the Individual Visitor Scheme unlocked mainland tourist demand and a shopping frenzy for luxury goods, pharmaceuticals, and electronics among other categories. After the current reset, we

feel that another multi-year rally is possible as mainlanders once again return to Hong Kong's shops but until then, today's soft market conditions are likely to persist.

In a retail economy reliant on domestic demand there are more than a few clouds on the horizon as stock market turbulence, rising interest/mortgage rates, inflation and an exodus of expats and local professionals come together to weaken the outlook for consumer spending in the second half. Any return of mainland tourists still seems a long way off as city lockdowns continue with the casino enclave of Macau providing the latest example.

In terms of supply, a number of projects in the pipeline this year will be delayed to 2023 including Airside in Kai Tak. Many of the new projects scheduled to complete over the next few years are in suburban locations and aim to capitalise on fast growing residential populations in areas such as Kai Tak, Tai Wai and Wong Chuk Hang.

TABLE 3: New Shopping Centres, 2022 and beyond

PROJECT	REGION	LOCATION	GFA (SQ FT)	SCHEDULED COMPLETION DATE	DEVELOPER
Central Market Revitalisation Project	HKI	Central	130,000	2021	URA / Chinachem
Kwun Tong Town Centre Redevelopment	KLN	Kwun Tong	1,203,200	2021 / 2026	URA, Sino
Hopewell Mall Extension	HKI	Wan Chai	280,000	2022	Hopewell
AIRSIDE	KLN	Kai Tak	700,000	2023	Nan Fung
The Wai (Tai Wai Station)	NT	Tai Wai	650,000	2023	MTRC
Kai Tak Area 1E Site 2 (Twin Towers)	KLN	Kai Tak	980,000	2023	Lifestyle International (SOGO)
Kai Tak Sports Park	KLN	Kai Tak	600,000	2023	New World Development
APM 2 (98 How Ming Street)	KLN	Kwun Tong	500,000	2023	Sun Hung Kai Properties
The Southside (Wong Chuk Hang Station)	HKI	Wong Chuk Hang	510,000	2023	MTRC
Kai Tak Area 1F Site 1	KLN	Kai Tak	262,000	2024	Sun Hung Kai Properties
West Kowloon Terminus Topside Development	KLN	West Kowloon	603,000	2024	Sun Hung Kai Properties
SkyCity Site A2 & A3	NT	Tung Chung	2,100,000	2023 - 2027	New World Development
Central Harbour Site 3	HKI	Central	940,000	2027 / 2032	Henderson Land Development

Source Company annual reports, Savills Research & Consultancy

Appendix 1

TABLE 4: Notable Transactions in Core and Non-core Locations, Q2/2022

RETAILER/BRAND	DISTRICT	LOCATION	AREA (SQ FT)	MONTHLY RENT (HK\$)	UNIT RENT (HK\$ PSF)	TRADE CATEGORY	REMARKS
Core Locations							
Cotton On	Central	Wings Building, 110-116 Queen's Road Central	9,722	\$500,000	\$51	Fashion	Street shop, ex-Esprit space
Love, Bonito	Central	Entertainment Building	2,400	\$300,000	\$125	Fashion	Street shop, ex-Mercedes Me space
Lao Feng Xiang Jewellery	Causeway Bay	Jade & Pearl Plaza	1,000	\$300,000	\$300	Jewellery & watches	Street shop
Bakehouse	Causeway Bay	16 Kai Chiu Road	3,400	\$300,000	\$88	Grocery & food-related	-
Five Guys	Causeway Bay	8 Russell Street	6,700	\$500,000	\$75	F&B	Ex-Sa Sa space
Ruby Tuesday	Causeway Bay	Plaza 2000	5,042	\$300,000	\$60	F&B	-
A La Carte ("Transformers" Restaurant)	Causeway Bay	Soundwill Plaza	5,200	\$1,000,000	\$192	F&B	Street shop, ex-Burberry space
A food hall	Causeway Bay	Lok Sing Centre (2/F & 3/F)	50,000	\$1,500,000	\$30	F&B	Ex-Neway Karaoke space
Matsumoto Kiyoshi	Causeway Bay	Hang Lung Centre	14,000	\$1,000,000	-	Personal care	-
Market Place	Causeway Bay	Capitol Centre	7,000	\$500,000	\$71	Supermarket	Ex-Victoria's Secret space
Top2	Causeway Bay	Excelsior Plaza	7,000	-	-	Fashion	-
IKEA	Tsim Sha Tsui	K11 Art Mall	15,000	-	-	Homewares & furniture	Ex-I.T space
Granville food Square	Tsim Sha Tsui	46-48 Granville Road	3,760	\$300,000	\$80	F&B (food court)	Ex-tenant is a pharmacy
Bauhaus	Tsim Sha Tsui	Golden Crown Court	1,600	\$250,000-\$280,000	-	Fashion	Street shop
Longiness	Tsim Sha Tsui	Holiday Inn Golden Miles	1,657	-	-	Jewellery & watches	G/F and M/F
LUSH	Mong Kok	48-50 Sai Yeung Choi Street	3,600	\$500,000	\$139	Personal care	-
Non-Core Locations							
Don Don Donki	Ngau Tau Kok	Amoy Plaza Ph 3	26,000	-	-	Grocery & food-related	Ex-Taste space
Don Don Donki	Hung Hom	Whampoa Garden - Fashion World	25,000	\$1,200,000	\$47	Grocery & food-related	Ex-Uniqlo space
Eslite (marketplace)	San Po Kong	Mikiki	2,000	-	-	Grocery & food-related	Pop-up
Matsumoto kiyoshi	Kwun Tong	APM	3,500	-	-	Personal care	1st store in HK
Matsumoto kiyoshi	Shatin	New Town Plaza	5,000	-	-	Personal care	-
Matsumoto kiyoshi	Tuen Mun	TMT Plaza	-	-	-	Personal care	-
Porsche	Wan Chai	153-167 Queen's Road East	20,000	\$2,000,000	\$100	Car	G/F - 3/F

Source Market sources, Newspaper, Savills Research & Consultancy