

# Retail Leasing



## Early signs of recovery late in the third quarter

While July and August saw further falls in retail sales, albeit at a slower rate, we began to see signs of returning foot traffic in September.

- The rate of decline in retail sales slowed in July and August during the third wave of COVID-19.
- Retailing in the New Territories and Kowloon is expected to recover quicker once same-day mainland visitors return.
- The supermarket and grocery-related sectors and online platforms have all proved resilient during the pandemic.
- Rental declines also stabilised in both the prime street shop and shopping centre segments, registering a -2.0% decline and zero growth respectively over Q3/2020.
- Local spending is holding up and patronage of shopping malls and restaurants improved in September.
- According to our in-house trade and tenant mix analysis, overall vacancy in shopping centres has increased more than two-fold from 2% in September 2018 (pre-social unrest and COVID-19) to 7% in September 2020.

“While this is a very difficult situation to paint pretty, there were some early signs of returning activity in late September and a clearer picture of the new normal is beginning to emerge.”

SIMON SMITH, SAVILLS RESEARCH

### Savills team

Please contact us for further information

#### RETAIL

**Nick Bradstreet**  
Managing Director  
Head of Leasing  
+852 2842 4255  
nbradstreet@savills.com.hk

**Barrie Chan**  
Deputy Senior Director  
+852 2842 4527  
bchan@savills.com.hk

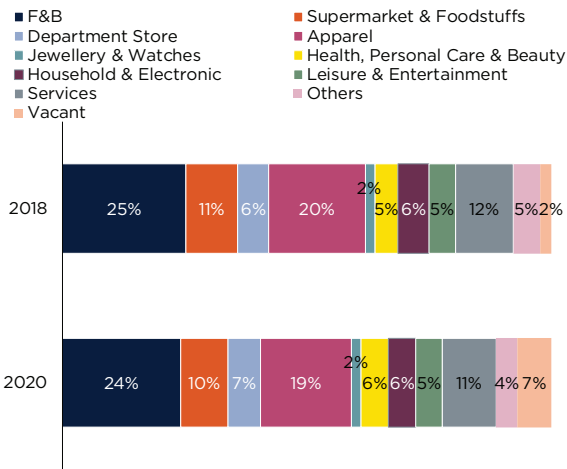
#### RESEARCH

**Simon Smith**  
Senior Director  
Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk

**Kathy Lee**  
Director  
Retail Consultancy  
+852 2842 4591  
kylee@savills.com.hk

Savills plc  
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

**GRAPH 1: Savills Shopping Mall Trade And Tenant Mix Analysis, September 2018 vs September 2020**



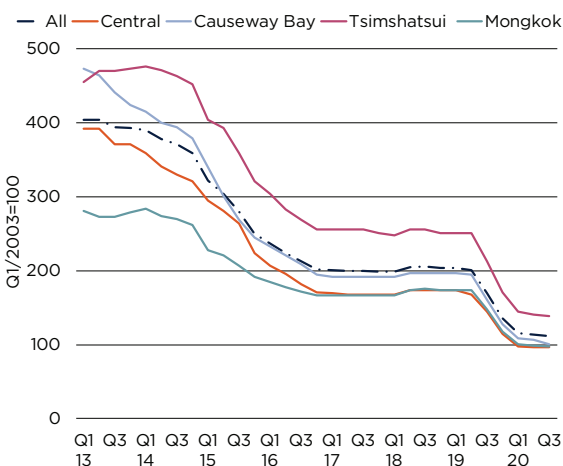
Source Savills Research & Consultancy

**TABLE 1: Prime Street Shop Rental Changes**

	Q3/2020		
	QOQ CHANGE	FROM PEAK (Q1/2013)	YTD
Overall	-2.0%	-72.5%	-18.1%
Central	0.0%	-75.3%	-15.9%
Causeway Bay	-5.6%	-78.6%	-21.0%
Tsim Sha Tsui	-1.3%	-69.4%	-18.3%
Mong Kok	-1.1%	-65.1%	-17.1%

Source Savills Research & Consultancy

**GRAPH 2: Savills Prime Street Shop Rental Index, Q1/2013 to Q3/2020**



Source Savills Research & Consultancy

**MARKET COMMENTARY**

The third wave of COVID-19 set back the slow recovery of the retail market in the Q3, but despite the rise in cases, the rate of decline in retail sales slowed in July and August. The F&B sector was particularly hard hit, however, due to a restriction on the number of people allowed to gather and limited operating hours for bars and restaurants. The retail sales value fell by 30% in the first eight months of the year, attributable to the fall in mainland tourist arrivals as a result of ongoing travel restrictions.

Tourist shopping spending has accounted for about one-third of the city's total retail sales on average over the past 10 years but vanished once the government closed the borders for non-Hong Kong residents in March. Domestic demand, on the other hand, has remained relatively steady at around HK\$180 billion over the first seven months.

Boosted by the incentives given by landlords and a marginal relaxation of government restrictions in early September, some shopping centres saw elevated local traffic on the weekends in late August and September. In some areas, queues of customers were spotted in front of luxury brand stores and restaurants.

Late in the quarter, the retail leasing market also showed signs of bottoming-out with some bargain-hunting activity from non-mainstream retailers. Local F&B chains are looking for expansion space in neighbourhood areas

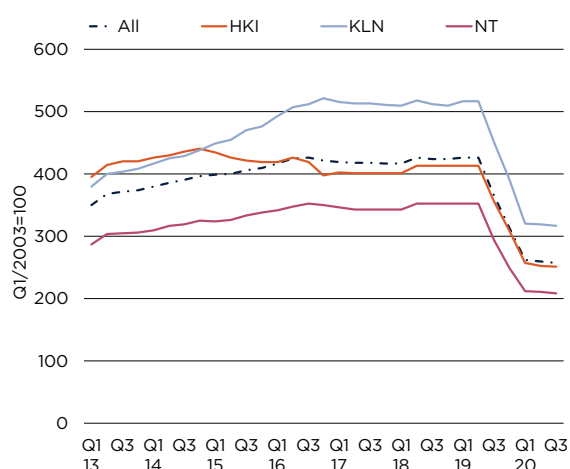
supported by large residential populations such as Tseung Kwan O, while lifestyle brands are eyeing locations with affluent local demand like Central. Necessity-focused retailers are looking to increase their footprint in both core and non-core areas. Mainstream retail segments such as fashion and apparel, sports, cosmetics products and watches and jewellery continued to suffer during the summer season with their sales value dropping by 44% to 54% in July YoY. Some mid-range fashion brands such as H&M, GAP and Tommy Hilfiger are rationalising their business operations and offloading unprofitable stores, and some brands have reduced the number of outlets by 20% to 50%.

On the other hand, supermarkets are proving to be more resilient during the current downturn and this was the only sector to report positive growth in July. New market players such as Don Don Donki and Fresh continue to expand their presence in the city. Don Don Donki has confirmed that they will open three new stores in Central, Tseung Kwan O and Siu Sai Wan following the success of their existing stores in Tsim Sha Tsui, Tsuen Wan and Causeway Bay. Fresh is a new supermarket concept operated by Uni-China Group Holdings Limited, the mother company of Hong Kong Market. The retailer just opened its first 20,000-sq ft store in The Lohas, a newly opened shopping mall in Lohas Park, Tseung Kwan O, and is planning a second store

**TABLE 2: Timeline of government restrictions, July to September 2020**

3rd July to 13th July	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 50</li> <li>Maximum number of customers per table in bars, pubs and nightclubs: 8</li> <li>Bars, pubs, cinemas, nightclubs maximum seating capacity: 80%</li> </ul>
11th July to 14th July	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 8</li> <li>Maximum number of customers per table in bars, pubs and nightclubs: 4</li> </ul>
15th July to 28th July	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 4</li> <li>Restaurants must cease to provide dine-in services from 6:00 pm to 4:59 am of the subsequent day</li> <li>Bars, pubs, beauty salons, gyms, massage parlours, game centres and karaoke establishments have to close</li> </ul>
29th July to 4th August	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 2</li> <li>Restaurants must cease to provide dine-in services at all times and can only offer takeaway services and deliveries. Seating areas in food courts also have to be closed</li> </ul>
5th August to 25th August	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 2</li> <li>Restaurants must cease to provide dine-in services from 6:00 pm to 4:59 am of the subsequent day</li> </ul>
27th August to 3rd September	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 2</li> <li>Restaurant operating hours extended to 9:00 pm</li> <li>Cinemas and beauty salons are allowed to open with conditions</li> </ul>
4th September to 17th September	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 2</li> <li>Restaurant operating hours extended to 10:00 pm</li> <li>Gyms, game centres (except ice-skating rinks), beauty salons and massage parlours are allowed to open with conditions</li> </ul>
18th September to 1st October	<ul style="list-style-type: none"> <li>Number of people allowed to gather in public places: 4</li> <li>Restaurant operating hours extended to 12:00 am</li> <li>Bars, pubs and karaoke establishments are allowed to open</li> </ul>

Source Savills Research & Consultancy

**GRAPH 3: Savills Shopping Centre Rental Index, Q1/2013 to Q3/2020**

Source Savills Research &amp; Consultancy

**TABLE 3: Shopping Centre Rental Changes**

	Q3/2020		
	QOQ CHANGE	FROM PEAK (Q1/2018)	YTD
Overall	-0.8%	-39.5%	-17.9%
Hong Kong Island	-0.3%	-39.0%	-18.3%
Kowloon	-0.8%	-38.8%	-18.8%
New Territories	-1.4%	-40.8%	-16.3%

Source Savills Research &amp; Consultancy

in Kornhill Plaza which is scheduled to open during the Chinese New Year. A new Japanese food and lifestyle store, Guu San also opened its doors at H Zentre (ex-Middle Public Carpark) in Tsim Sha Tsui in mid-September.

With signs of stabilisation, retail rents seemed to have found a floor in the third quarter of 2020. Prime street shop rents fell by -2.0% QoQ in Q3/2020 while shopping centre rents (base rents) dropped marginally by -0.8%. Generally speaking, high street landlords are more flexible in their asking rents as high lump sum rents remain a major challenge for retailers. Landlords are very keen to retain existing tenants and are willing to offer up to 30% rental reductions upon renewal while offers of a one-year lease extension are becoming more common. In terms of location, street shops and shopping centres with a strong focus on the visitor market are inevitably seeing higher vacancy rates.

According to our in-house trade and tenant mix analysis, overall vacancy in the 40 shopping centres we surveyed has increased more than two-fold from 2% in September 2018 (pre-social unrest and COVID-19) to 7% in September 2020. In terms of retail hierarchy, district malls in the New Territories witnessed the highest vacancy of up to 12% as some of their anchor tenants (often mid-range fashion brands and conventional Chinese restaurants) offloaded their larger outlets in these centres. In mainland tourist-favoured shopping malls such as Harbour City, Times Square and New Town Plaza we have also noticed high vacancy rates which have climbed to over 10% in recent months.

Besides supermarkets, online shopping platforms which provide “remain-within-

doors” convenience to customers have been another beneficiary of the pandemic. As an example, the sales turnover of HKTVMall, a Hong Kong-based shopping platform, has increased by 114% YoY over the first six months of the year.

The pandemic gloom is unlikely to lift in 2020 and unrestricted international travel is very unlikely until a vaccine becomes widely available. The SAR Government intends to form travel bubbles or air bridges with its counterparts in the Asia Pacific region but it is uncertain where many of them will stand on reopening their borders to visitors. If Hong Kong is going to reopen its border, we believe that same day mainland visitors would be the first to return.

What does this mean for the retail market? Landlords and their tenants will have to rely on local consumption for the time being and the retail scene will shift further from luxury and general retail to mid-market and “whole of life” offerings. Retailing in the New Territories and Kowloon will recover faster once same-day mainland visitors return but the timing is uncertain.

Luxury brands have already shifted their focus to cities in the Greater Bay Area including Guangzhou, Shenzhen as well as Hainan Island and will continue reweighting to southern China and away from Hong Kong. A structural shift in the market fundamentals is inevitable and many believe that the new normal for retail sales will be 30% to 40% below 2018 levels. We continue to watch the economic situation with some concern as more widespread business distress and rising unemployment could undermine local spending and push any recovery out to beyond next year.

**TABLE 4: Economic indicators of Hong Kong, Guangzhou and Shenzhen**

	HONG KONG	GUANGZHOU	SHENZHEN
GDP (HK\$ million)	1,253,114	1,250,385	1,440,310
GDP Growth Rates (%)	-9.0%	-2.7%	0.1%
Population (2019, million)	7.6	13.0	12.1
Total Retail Sales (HK\$ million)*	187,320	567,506	503,528
Total Retail Sales YoY Growth Rates (%)	-32%	-9%	-12%
Online Retail Sales YoY Growth Rates (%)	13.0%#	31.6%	-1.3%
Online Retail Sales as a share of Total Retail Sales (%)	12%-16%#	21.2%	N/A

Source Shenzhen Statistics Bureau, Guangzhou Statistics Bureau and HKSAR Census and Statistics Department

\* Data from Jan-Jun 2020

# CAGR 2020-2024 of 13.0%, and the online retail sales as a share of total retail sales in Hong Kong is estimated by the data from Statista