

Retail Leasing



Recovery remains elusive

In a broadly stable market, some signs of leasing activity were detected in Central, while F&B again proved to be the go-to sector for landlords.

- The market has been relatively stable over the third quarter with retail sentiment weak, while F&B has remained a rare bright spot.
- Dining-out or 'eat-cations' have become the 'new holiday' for locals, supporting the F&B sector across all price points.
- Leasing activity in core locations remains largely subdued except Central which continues to benefit from its reliance on high-end local demand.
- Rents in both the prime street shop and major shopping centre segments have stabilised and registered a QoQ growth rate of 0.4% and 1.2% respectively.

“Retailers’ expansion plans are still firmly on hold while former tourist districts remain no go areas. Most brands continue to value the security of malls and are reluctant to return to the high street.”

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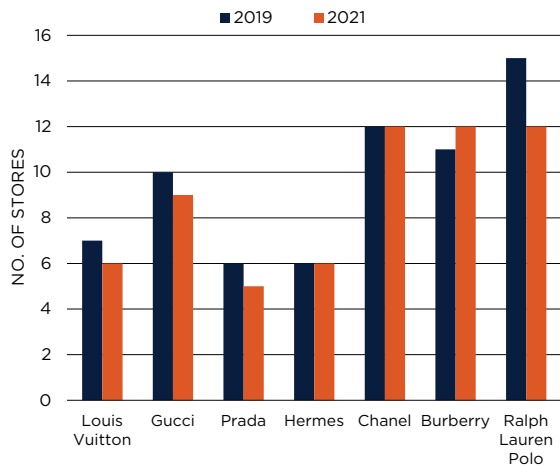
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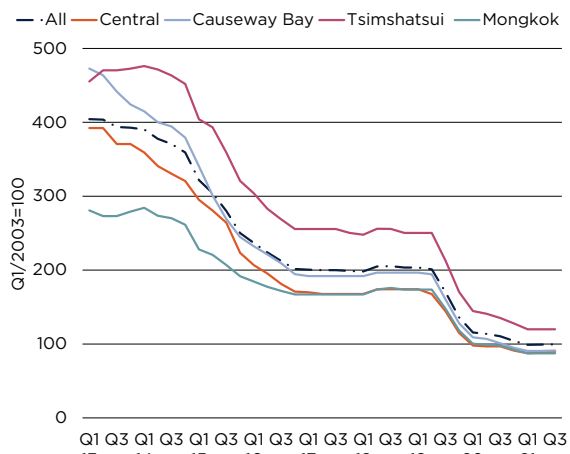
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GRAPH 1: Number of Free-standing Stores in Hong Kong by Brand, 2019 versus 2021

Source Savills Research & Consultancy

GRAPH 2: Savills Prime Street Shop Rental Indices, Q1/2013 to Q3/2021

Source Savills Research & Consultancy

MARKET COMMENTARY

The market has been relatively stable over the third quarter with retail sentiment weak, while F&B has again been a rare bright spot. Overall, retailers remained largely restrained in terms of expansion given uncertainties over the date of border reopening and the return of tourists. Leasing market activity was particularly sluggish in the prime street shop segment.

Central is showing marginally more activity than other core locations, benefiting from its reliance on high-end local demand and the fact that office workers have largely returned to their desks and are spending again. Recent transactions include Samsung who took up shops G3-G4 in China Building while further down on Queen's Road Central in Lansing House, Petit Bazaar, a premium children's product store, took up shop 41, a duplex unit comprising ground and basement floors. Lululemon took MLB's space on the ground floor of H Queen's. The restaurant group JIA Group will replace the existing Shanghai Tang at 1 Duddell Street.

In less positive news, we note that districts previously dependent on tourists remain no-go areas for retailers, and luxury brands are still wary of stepping outside established malls and onto the high street. In fact, some of the luxury fashion brands have rationalised their networks due to the challenging business environment over the past two years, with some downsizing flagship stores and/or reducing store numbers. At the same time, luxury watch brands popular among locals have run down inventory to the point where this is limiting expansion plans.

Thanks to the government's Consumption Voucher Scheme (CVS), the domestic market continued to improve in August with retail sales recording a YoY double-digit growth

rate of 11.9%. The apparel-related sector witnessed the strongest rebound of over 40%. F&B is still strong across all price points, from fine dining to casual restaurants. The fine dining sector has been fuelled by strong demand from local consumers for unique gastronomic experiences and dining-out or 'eat-cations' have become the 'new holiday' for locals during the pandemic era. On the other hand, 'couponing' is helping to support the casual dining sector in shopping malls. Coupons are given upon the purchase of goods and spending at restaurants (usually above a certain value) which can then be used in that mall's F&B outlets and in selected shops. This has supported leasing demand from the F&B sector and encouraged some shopping mall landlords to converted more general retail space into restaurants. As an example, Wharf REIC has converted two shops on the main retail floors of Times Square into F&B outlets for the first time.

Rents in both the prime street shop and major shopping centre segments remained static over the third quarter. Some retailers took advantage of the current low rent environment to test new markets and launch new retail concepts. Following the success of its pop-up in Causeway Bay, Ikea has launched the world's first "Ikea Close to You" concept store inside the Market Place supermarket in Discovery Bay. This is also the retailer's first store located inside a supermarket. According to the retailer, the new concept store focuses on the digital experience, offering a number of solutions such as an interactive screen 'Digital Experience for Furnishing Inspiration' and self-pick-up lockers which support flexible pick-up times and free shipping. Meanwhile Japanese megastore Don Don Donki has also opened its first-ever sushi restaurant, Sen Sen Sushi, in OP Mall in Tsuen Wan West.

TABLE 1: Prime Street Shop Rental Changes

	Q3/2021		
	QOQ CHANGE	YTD CHANGE	FROM PEAK (Q1/2013)
Overall	+0.4%	-4.3%	-75.4%
Central	+0.7%	-2.1%	-77.3%
Causeway Bay	0.7%	-3.8%	-80.7%
Tsim Sha Tsui	0%	-6.1%	-73.6%
Mong Kok	0%	-5.2%	-68.9%

Source Savills Research & Consultancy

TABLE 2: Shopping Centre Rental Changes

	Q3/2021		
	QOQ CHANGE	YTD CHANGE	FROM PEAK (Q2/2018)
Overall	+1.2%	-2.5%	-44.5%
Hong Kong Island	+0.3%	-6.8%	-46.7%
Kowloon	+2.0%	-3.5%	-44.5%
New Territories	+1.1%	-2.9%	-42.5%

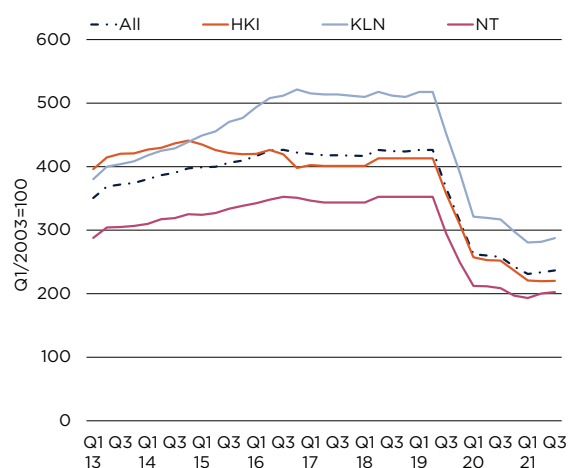
Source Savills Research & Consultancy

TABLE 3: Full Vaccination Rate and Retail Sales Change by Region

REGION	HONG KONG	SINGAPORE	SOUTH KOREA	TAIWAN	AUSTRALIA	UK
Fully vaccination rate (as of early October 2021)	63%	83%	41%	14%	58%	66%
Retail sales change (1H/2021, YoY)	8.4%	20.3%	8.6%	5.8%	-9.0%	6.8%

Source Savills Research & Consultancy

GRAPH 3: Savills Shopping Centre Rental Index (Base Rent), Q1/2013 to Q3/2021



Source Savills Research & Consultancy

In the short run, the second instalment of the government's consumption voucher scheme which was disbursed on 1st October will further boost local consumption and benefit the suburban retail market. Core areas including Tsim Sha Tsui, Mong Kok and Causeway Bay will continue to suffer until borders reopen, however, and the old 'golden mile' from 1881 Heritage to China Hong Kong City is still seeing a lot of availability.

A clear timetable for the reopening of borders with mainland China would provide a clearer picture of the market outlook into next year. The government has already resumed the "Return2hk" scheme in early September (however applications for people returning from Macau, Fujian and Heilongjiang provinces were temporarily suspended from 25th September due to the latest COVID situation in those areas). The government has further launched another quarantine-free travel scheme "Come2hk" allowing non-Hong Kong residents from the mainland and Macau to come to the city: the scheme has a total daily quota of 2,000, 1,000 each for Shenzhen Bay Port and the Hong

Kong-Zhuhai-Macau Bridge Hong Kong Port.

The Hong Kong Government is also in close contact with the governments of Guangdong and Macau to broaden the resumption of cross-boundary travel among the three locations. These include the resumption of business travel visa applications in Guangdong province, a pilot scheme which covers operators of businesses or workers at enterprises in Guangdong and is expected to launch on 11th October. The three governments are also studying the potential integration of a health code system to facilitate inter-city travel. A high inoculation rate may also help to speed up the restoration of cross-border and international travel. The fully vaccinated population in Hong Kong reached 63% in early October, similar to the UK. Looking at the region, Singapore is reported to have one of the highest fully vaccinated rates (83%) in the world, while its neighbours Malaysia, Indonesia and Thailand have fully vaccinated 64%, 19% and 23% of their populations, respectively.