

# Retail Leasing



## A market still adrift

Rents nudged down marginally in the third quarter in some districts but more broadly appear to have found a floor.

- In an uneventful third quarter, retail rents continued to drift sideways and are expected to remain flat over the final quarter of the year.
- Both prime street shop and shopping centre rents continued to stabilize in Q3 with minimal -0.3% and -0.4% adjustments respectively. By district, there was little variation among prime street shops with a very minor downturn in Tsimshatsui while shopping centres saw a minor adjustment in Kowloon.
- Any turnaround next year will depend on the performance of the local economy, home prices and most importantly, China's zero-COVID policy.
- Even if mainland tourists do return in numbers, slowing growth and housing market woes in China combined with a strong US Dollar/HK Dollar will mean that spending will be below previous levels.
- Singapore, Malaysia, Vietnam and Thailand saw a strong uptick in retail performance early this year as they re-opened. According to Oxford Economics' forecast, retail spending is expected to surge by over 10% from a low base in markets such as Kuala Lumpur, Bangkok, Ha Noi, Ho Chi Minh City, Jakarta and Manila.

“The third quarter proved to be relatively uneventful with a continued reliance on domestic demand and growing concerns over higher interest rates, stock market volatility and slower growth.”

SIMON SMITH, SAVILLS RESEARCH & CONSULTANCY

### Savills team

Please contact us for further information

#### RETAIL

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

#### RESEARCH

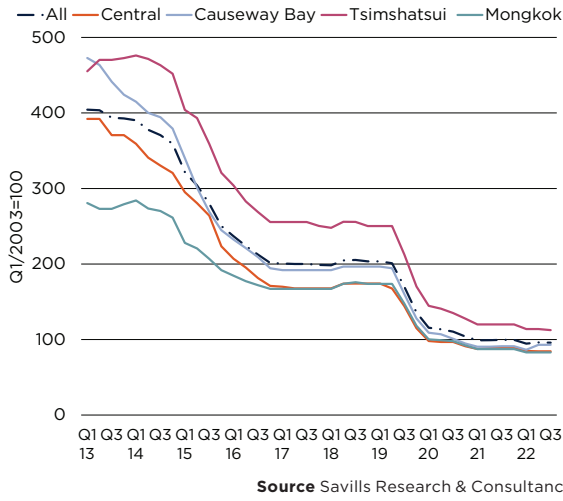
**Simon Smith**  
 Regional Head of  
 Research & Consultancy  
 Asia Pacific  
 +852 2842 4573  
 ssmith@savills.com.hk

**Jack Tong**  
 Director  
 +852 2842 4213  
 jtong@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 It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent.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 Prime Street Shop Rental Index, Q1/2013 to Q3/2022**



**MARKET COMMENTARY**

In an uneventful third quarter, retail rents continued to drift sideways and are expected to remain flat over the final quarter of the year. The release of another round of consumption vouchers should provide some support to domestic expenditure, though the effect is likely to be rather minimal as rising interest rates and volatility in the stock and housing markets continues to weigh on consumer sentiment.

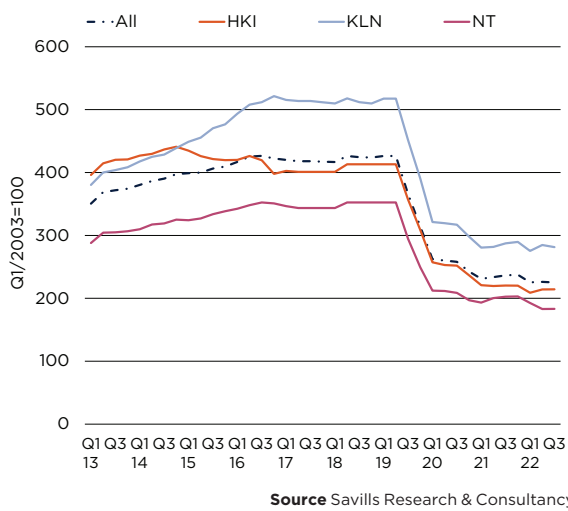
Retail sales recorded a 4.1% YoY growth in July and were flat in August. Both prime street shop and shopping centre rents continued to stabilize in Q3 with minimal -0.3% and -0.4% adjustments respectively. By district, there was little variation among prime street shops with a very minor

downturn in Tsim Sha Tsui while shopping centres saw a minor adjustment in Kowloon.

Any turnaround next year will depend on the performance of the local economy, home prices and most importantly, China's zero-COVID policy. Tourist numbers are unlikely to pick up until all restrictions on travelers are lifted as they have been elsewhere in the world. As pandemic measures continue to unwind across the Asia Pacific, the retail markets within the region are dividing into those which are recovering amid an influx of inbound tourism and subsequent boost to local economies, and those constrained by their reliance on domestic consumption.

Singapore, Malaysia, Vietnam and Thailand saw a strong uptick in retail performance early this year as they re-

**GRAPH 2: Savills Shopping Centre Rental Index (Base Rent), Q1/2013 to Q3/2022**

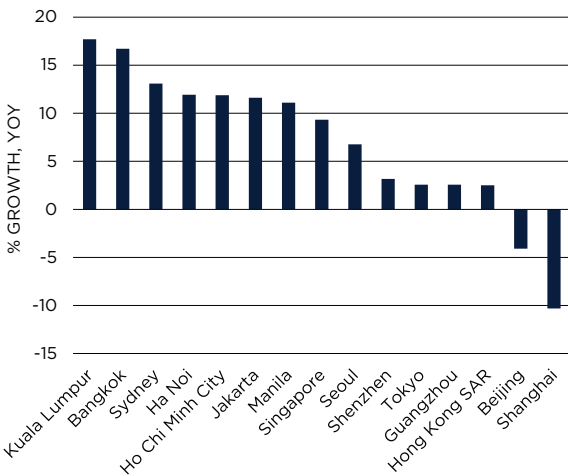


**TABLE 1: Prime Street Shop Rental Changes**

	2018	2019	2020	2021	Q3/2022
Overall	+2.4%	-33.2%	-23.4%	-4.3%	-0.3%
Central	+3.8%	-34.0%	-20.8%	-2.1%	0%
Causeway Bay	+2.4%	-34.9%	-25.9%	-3.8%	0%
Tsim Sha Tsui	0%	-32.0%	-25.0%	-6.1%	-1.3%
Mong Kok	+3.9%	-32.0%	-21.9%	-5.2%	0%

Source Savills Research & Consultancy

**GRAPH 3: Retail Spending Growth by Major Retail Markets, 2022F**

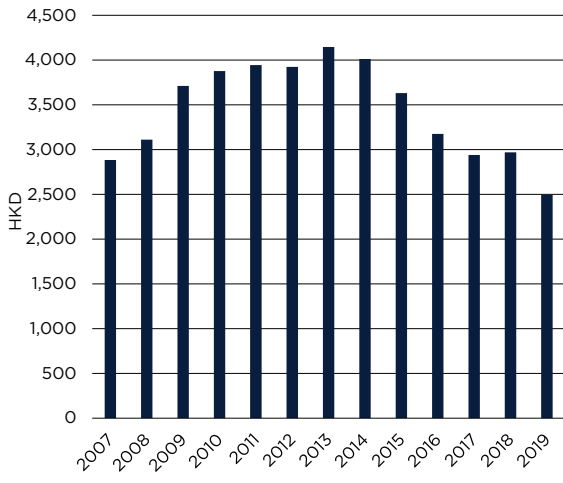


**TABLE 2: Major Shopping Centre Rental Changes (Base Rent)**

	2018	2019	2020	2021	Q3/2022
Overall	+1.6%	-30.5%	-22.8%	-2.1%	-0.4%
Hong Kong Island	+3.0%	-30.6%	-23.4%	-6.9%	+0.1%
Kowloon	-0.4%	-29.2%	-23.7%	-2.7%	-1.2%
New Territories	+2.6%	-32.0%	-21.0%	+3.1%	+0.1%

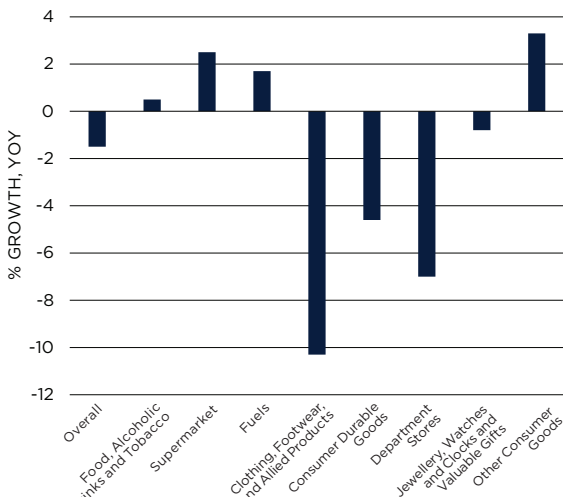
Source Savills Research & Consultancy

**GRAPH 4: Mainland Chinese Tourist's Per Capita Spending on Shopping, 2007 to 2019**



Source Hong Kong Tourism Board

**GRAPH 5: Retail Sales by Trade, Jan-Aug 2022 vs Jan-Aug 2021**



Source Census and Statistics Department

opened. According to Oxford Economics' forecast, retail spending is expected to surge by over 10% from a low base in markets such as Kuala Lumpur, Bangkok, Ha Noi, Ho Chi Minh City, Jakarta and Manila, whereas Singapore and Seoul, markets which have previously shown more resilience, could see a relatively more moderate expansion of 9.3% and 6.8% respectively over 2022.

Meanwhile, mainland attitudes to the pandemic are not expected to change until at least after the Chinese New Year at the end of January. Even if mainland tourists do return in numbers, slowing growth and housing market woes in China combined with a strong US Dollar/HK Dollar will mean that spending will be below previous levels.

As demand is still driven by locals, tenant profiles continue to reflect that fact and the trade and tenant mix remains bias towards daily necessities while health-related trades are also popular. Gyms and food and beverage in particular continue to look for expansion space, especially in residential areas. As overseas travel becomes more palatable, we reason that some consumption demand may head elsewhere although airline capacity and the cost of tickets will cause many to defer holiday plans into next year.

While the number of department stores and supermarkets appears saturated, smaller operators such as Bestmart 360 are still finding room to grow. Another popular trend is 'retail-tainment' and we notice that a rock-climbing operator has leased the entire retail podium of One North, Yuen Long, while a 20,000-sq ft skateboard park

has also just opened in the Mills, Tsuen Wan. Children's games centres are also popular with Jumping Gym expanding aggressively.

For landlords of prime street shop units and shopping centres, the priority is occupancy rather than high rents and there is now a greater flexibility when it comes to tenant mix. In some instances, larger retail spaces are being subdivided as was the case in Whampoa where the Marks & Spencer unit has become multi-tenanted. In another strategy to attract footfall, more malls are becoming pet friendly in an attempt to win over this high-spending group.