

Malls are tailoring retail offers to meet changing demand

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Backed by improving market conditions since H2 2017, retail sales in prime malls returned to positive growth in 2017. Malls are being transformed into lifestyle hubs, driven by new demand for excitement. We expect continuing tenant-mix refreshments and extended new dining experiences, paired with a comprehensive entertainment programme. Mall operators are stepping up digital customer engagement and launching mobile apps to attract new visitors. Due to a strengthening economy and further increasing tourist arrivals, retailers recorded strong Lunar New Year results, with retail sales soaring 15.7% YOY in the first two months. We expect the strong fundamentals to drive the retail market in 2018 and project retail sales to grow 4-5% YOY. Rising retail sales and robust demand for prime locations should contribute to a slight recovery of overall high-street rents this year.

Forecasts



Demand

Appetite for international affordable luxury and lifestyle brands, medicines and cosmetics and new F&B concepts is increasing.



Rent

In 2018, we expect a slight rise of 1-3% YOY for overall high-street rents, while second and third-tier high-streets will likely remain under pressure in H1. For 2019, we expect overall rents to rise by 3-5% YOY.



Supply

In 2018 we expect 1.41 million sq ft (131,200 sq m) and in 2019 339,700 sq ft (31,560 sq m), of new retail space to come to the market in core retail districts, led by Victoria Dockside in Tsim Sha Tsui and H Code in Central (2018), and 15 Middle Road in Tsim Sha Tsui (2019).



Retail Sales

Driven by strong growth across retail sectors, retail sales jumped 15.7% YOY in January and February combined. For 2018 and 2019, we expect an accelerated annual growth of 4-5% and a further positive outlook for 2020.



2018 High-Street Retail Rents Projection

District	QOQ	2018F
Overall Rental Index*	-0.3%	+2%
Central	-1.4%	+2%
Causeway Bay	-0.2%	+2%
Tsim Sha Tsui	-0.5%	+3%
Mong Kok	+0.9%	+5%

Index: Nov 2011 = 100. * Street level shops on key street segments
Source: Colliers

Shopping centres announced positive retail sales growth

2017 has marked a turnaround for prime shopping centres in Hong Kong. Operators of prime malls in major retail districts have recently published their annual financial results, showing a positive development of their tenant sales in 2017. Wharf REIC's flagship mall Harbour City in Tsim Sha Tsui and Champion REIT's Langham Place Mall located in Mong Kok announced YOY growth of 9.1% and 5.3%, respectively; above Hong Kong's overall YOY retail sales growth of 2.2% in 2017. The upturn has extended into 2018 with shopping malls enjoying a positive start into the Year of the Dog. Sun Hung Kai Properties (SHKP) announced that foot traffic in 12 of its malls was up 13% YOY and retail sales jumped 16% YOY, during the Lunar New Year (LNY) period.

Tenant Sales Growth of Prime Malls in Major Retail Districts vs Overall Retail Sales Growth



Source: Annual reports of selected shopping mall operators, Census and Statistics Department

Evolving into lifestyle hubs

Not immune to major shifts in customer behaviour with digitally aware shoppers increasingly turning to e-commerce, and the desire for experience, mall operators have taken an experiential approach to capture shoppers' attention. By means of tenant-mix reshuffling, extension of F&B offerings, and integration of "retailtainment", malls have been evolving into lifestyle hubs, aiming to tap into millennial consumers and the rising buying power of Generation Z (post millennials).

Tenant-mix: Driven by demand for choices, operators are reducing shop sizes and adding sizable numbers of young fashionable lifestyle and affordable luxury brands.

F&B: A variety of F&B options entices shoppers to extend their time spent in the mall. Harbour City's new Ocean Terminal Extension, dedicated to new restaurant concepts, increased the mall's F&B area share from 16% to 21%, while Langham Place Mall has doubled its F&B tenants from 26 in 2011 to more than 50 in 2017.

"Retailtainment": Kids' zones, cinema upgrades, and diverse year-round marketing events boost foot traffic, strengthen brand value and drive revenue.

Increasing mall digitalisation

Mobile optimised websites and broadcasting of events and promotions via social media platforms are vital; with dominant channels used by key malls being Facebook, Sina Weibo, and Instagram. To enhance customer engagement, malls are launching mobile apps to create a more convenient shopping journey. The most widely used functions are a mall directory, event, transportation and parking information, as well as mall promotions. Beyond that, some support shop promotions and navigation, such as Harbour City's interactive indoor map.

Top O2O ("online to offline") functions used include shareable e-coupons, digital loyalty programmes, O2O games, and promotions received via push notifications. Digital reward schemes, already used by some malls including Langham Place Mall, can boost repeat purchases by allowing customers to collect points as they shop and via upload of receipts. Moreover, SHKP malls offer e-queuing, e-table and cinema booking, and real-time parking space information for selected malls, while Landmark provides online reservations with in-store pick up. Integrated third party apps, like calling a taxi or sharing promotions with friends should grow, to further enhance the user experience. With the digital transformation just having started, we expect malls to use more digital tools and social media platforms to take advantage of new consumer habits and preferences.

Development of Tenant Mix of Selected Key Malls in Major Retail Districts



■ F&B and Entertainment ■ Fashion and Sports Wear ■ Jewellery and Beauty

Source: Annual reports of selected shopping mall operators
* Central retail portfolio of Hongkong Land

App Features and Social Media Platforms of Key Malls in Major Retail Districts



★★★	Top functions
○	Digital loyalty program
○	E-table booking (dining)
○	E-queuing (dining)
○	Movies on show & e-booking
○	Share e-coupons
○	Reservation & pick up
○	O2O games
○	Recommendations "You may also like"
○	Offers via push notifications

★★	Advanced functions
○	Shop promotions
○	New shops
○	Share shops
○	Show shop on location map
○	Indoor navigation
○	Club membership privileges
○	Upcoming events
○	Real-time parking info
○	Dining menu
○	Bookmark/ Like

★	Basic functions
○	Shopping & Dining Directory
○	Mall plan
○	Mall promotions
○	Parking information
○	Transportation
○	Free Wi-Fi

Social media platforms	
10	Facebook
9	Weibo
7	Instagram
3	WeChat
3	Twitter
2	YouTube
1	tripadvisor
1	QQ

Source: Websites and apps of key shopping malls in Central, Causeway Bay, Tsim Sha Tsui and Mong Kok



Lunar New Year boosts retail sales

Increased traffic during the LNY, attributable to higher visitor numbers and strong employment and salary figures, saw overall retail sales soaring 29.8% YOY in February and 15.7% YOY for the first two months combined; lifting retailers' business confidence. Valentine's Day, coinciding with this year's LNY benefited the sales. Positive sales growth was recorded across almost all retail trades during the first two months.

The medicines and cosmetics sector recorded strong continued growth with sales rising 17.4% YOY during Q1. Sa Sa reported a 17.8% YOY increase in turnover for Q1, amid higher demand from both local customers and Chinese tourists, particularly during the holiday season.

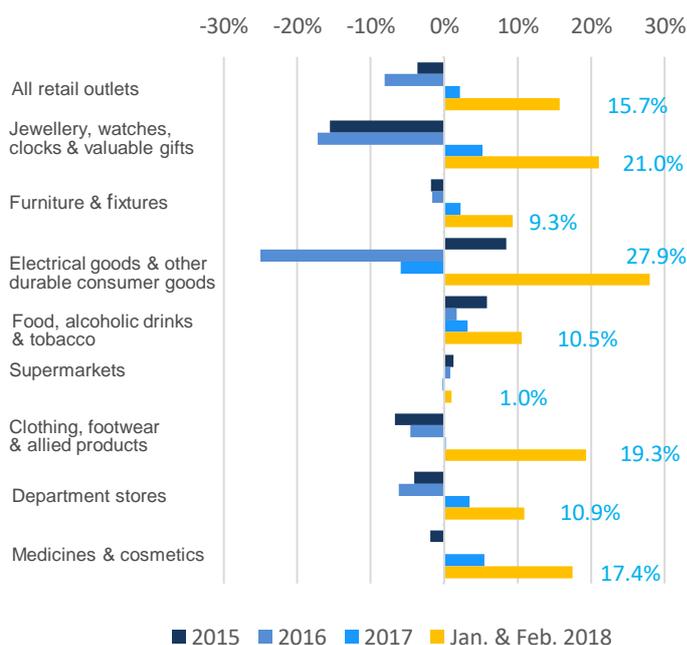
Major jewellery and watch brands remain cautiously optimistic as consumption continues to pick up, with sales jumping 21% YOY in the first two months of 2018. Aiming to attract more middle-class consumers, jewellery brands including Chow Tai Fook and Emperor are broadening the range of affordable products.

Rental stratification between prime and non-prime retail streets

The decline of overall high-street retail rents in major districts continued to slow, with average rents edging down 0.3% QOQ in Q1. While some first-tier high-street retail rents, except in Central, have started to regain momentum due to robust demand for prime spots, rents outside first-tier high-streets in popular shopping areas have remained soft. Mong Kok, led by further rental improvements on first-tier Sai Yeung Choi Street South, could continue its positive direction, with overall high-street rents growing 0.9% QOQ.

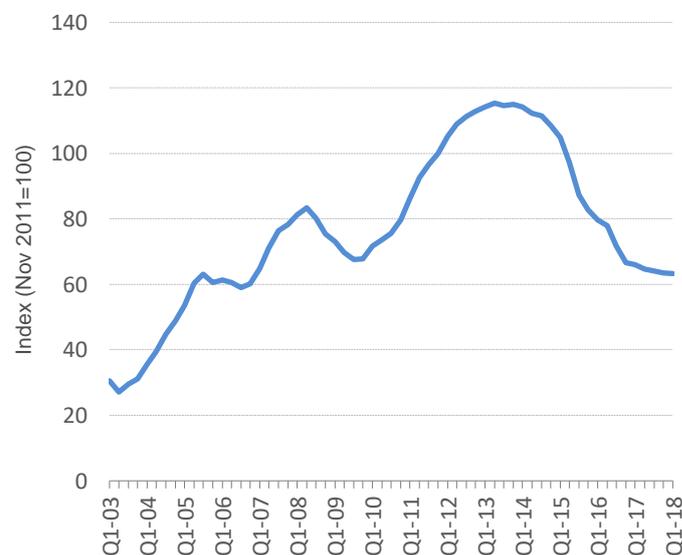
In contrast, overall high-street retail rents in Central dropped by another 1.4% QOQ in Q1, as rental adjustments, particularly on second and third-tier high-streets, continue. The reasons include large size shop configurations in the area. Accelerating retail sales and robust demand for prime locations should support a mild overall high-street rental increase of 1-3% YOY in 2018, while we expect second and third-tier high-streets to remain under pressure in H1.

Hong Kong's Retail Sales Growth by Subsector



Source: Census and Statistics Department, Colliers

Hong Kong High-street Retail Rental Index



Source: Colliers

Leasing activity reflects improving market confidence

The activity in the leasing market in Q1 reflects the positive market signals such as rebounding sales figures across retail sectors, driven by improved consumer confidence, and a further positive outlook for tourist arrivals.

International young fashionable brands continue to increase their coverage. After successfully opening its first stand-alone high-street store in Mong Kok last quarter, MLB has expanded its footprint to Hong Kong Island. The leading lifestyle brand recently soft opened its ground floor duplex flagship store at H Queen's in Central. Apart from stylish retail brands, Henderson's H Queen's houses seven leading international and local galleries, as well as international restaurants with Écriture, Le Comptoir's newest addition, officially opening mid-April. Top culinary concepts from around the world including arbor, Estiatorio KEIA, ICHU Peru and La Petite Maison will open their doors in Q2, while Vive Cake Boutique launched at the end of January.

Watsons has leased a new branch on Nathan Road in Mong Kok and renewed its flagship store on Yun Ping Road in Causeway Bay, and Bonjour has committed to

leasing a new outlet on Sai Yeung Choi Street South, Mong Kok's prime location.

Equipped with enhanced operating leverage due to prior consolidations, several jewellery and watch brands have started to open new shops. Apart from more targeted location strategies, some jewellery and watch brands are seeking opportunities to widen their coverage in selected neighbourhoods with resilient foot traffic, to capture rising potential from emerging domestic shoppers.

Smaller sized shops not exceeding 3,000 - 5,000 sq ft (279 - 465 sq m) in prime locations continue to be favoured; allowing for more operational efficiency and new store concepts that pique shoppers' curiosity and appeal to the desire for new experiences. Due to these requirements, together with favourable rental conditions in first-tier locations, we continue to see several vacancies on second and third-tier retail streets across districts.

Driven by ongoing strategic adjustments into lifestyle hubs, prime shopping centres should be able to capture the benefits of the retail market upturn. As retail sales growth is being spurred by strong market fundamentals and rising tourist arrivals, we expect leasing activity to pick up.

Selected Lease Transactions in Q1 2018

District	Tenant	Address	Floor/ Unit	GFA (sq ft)	Lease Type
Central	MLB	H Queen's, 80 Queen's Rd C	G/F & M/F	5,700	New Lease
Central	Swatch Group	China Building, 29 Queen's Rd C	G/F	1,093	New Lease
Central	Calzedonia	Melbourne Plaza, 33 Queen's Rd C	G/F	1,307	New Lease
Causeway Bay	Twist	Excelsior Plaza, 24-26 East Point Rd	G/F & 1/F	6,223	New Lease
Causeway Bay	Le Creuset	Excelsior Plaza, 24-26 East Point Rd	G/F	915	New Lease
Tsim Sha Tsui	Chow Tai Fook	Cheong Hing Building, 72 Nathan Rd	G/F & B/F	1,800	New Lease
Mong Kok	Watsons	Wing Lung Bank Centre, 636 Nathan Rd	G/F	9,084	New Lease

Source: EPRC, Colliers

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