Colliers Quarterly

HONG KONG | RETAIL

Q3 2017
17 October 2017

Personalised digital customer engagement is the competitive edge

Melanie Kotschenreuther Analyst | Hong Kong

Hong Kong's retail market has continued its recovery path in Q3 2017, underpinned by robust local consumption due to stronger wealth effects and a further rebound in tourist numbers. Combined retail sales in July and August were up 3.3% YOY. As consumers are spending more time online, brands are increasingly developing digital engagement strategies with personalised content to achieve customer satisfaction. Further rental adjustments are driving wider brand diversity. Leasing activities, notably of premium jewellery and accessory brands and F&B, have increased amid strong confidence in the upturn of the retail market. Prime rental decline is narrowing in all major retail districts. Given the strong market sentiment and a further strengthening of inbound tourism, we expect leasing activity to pick up further and rents to start to recover in 2018.

Forecast at a glance

Demand

Mid-tier health and lifestyle brands are gaining popularity and new dining concepts continue to thrive, while luxury watches and jewellery demand starts to recover

Rent

We expect rental adjustments to continue in Q4 2017, with overall high-street rents decreasing by 5% in 2017, before picking up 3-5% in 2018

Supply

We expect 110,400 sq ft (10,257 sq m) of new retail space to come to the market by year-end and 1.085 million sq ft (100,800 sq m) in 2018 in core retail districts

Retail Sales

Retail sales grew 3.3% in July and August YOY combined, with the jewellery and watches sector as the main growth driver. We expect 1-2% retail sales growth in 2017 and a further 3-4% rise in 2018

2017 High-Street Retail Rental Index Projection

District	Rental Index Q3 2017	2017F
Overall Rental Index*	64	-5%
Central	74	-7%
Causeway Bay	59	-5%
Tsim Sha Tsui	66	-6%
Mong Kok	59	-5%

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

Increasingly connected consumers set the tone for retailing

With a robust economic environment, underpinned by likely real GDP growth of at least 3.5% in 2017, we expect local consumer sentiment to remain positive. Overall visitor arrivals and overnight Chinese tourist numbers have recovered further. However, the average per capita spending of overnight visitors has continued its downward trend, falling by 3.7% to HKD6,250 (USD799) in H1 2017 YOY (Hong Kong Tourism Board). Accounting for 64.7% of overnight visitors in H1, Chinese tourists are the main drivers behind the persistent downward trend. Reasons include switching to other holiday destinations and increased spending on luxury goods in their home market. As the largest e-commerce market in the world, expected to grow further by 92% and reach USD956 bn in 2022[1], Chinese consumers are the frontrunners of a hyper-connected lifestyle and set the benchmark for future retailing. The market is driven by a mobile-first consumer behaviour, supported by an innovative social commerce model.[2]

Similarly, Hong Kong's customers are more connected than ever before. While, according to the consultancy Nielsen[3] ten years ago 57% of people in Hong Kong spent on average 2.7 hours online every day, today 9 out of 10 people spend on average 4.7 hours online daily (including mobile devices). Consequently, digital tools are at the centre of customer engagement. Thanks to this development e-commerce revenue in Hong Kong is picking up. Statista projects e-commerce revenue to reach USD3.7 billion this year, up from USD2.9 billion in 2015. Forecasted to grow at an annual rate of 9.5%, it will reach USD5.9 billion by 2022. Food and personal care are expected to be at the forefront of growth.

[1] Statista 2017, average annual growth rate for 2017-2022,
[2] PwC 2017; [3] "What's Next" Nielsen Forum September 2017

Customer satisfaction via personalised digital engagement

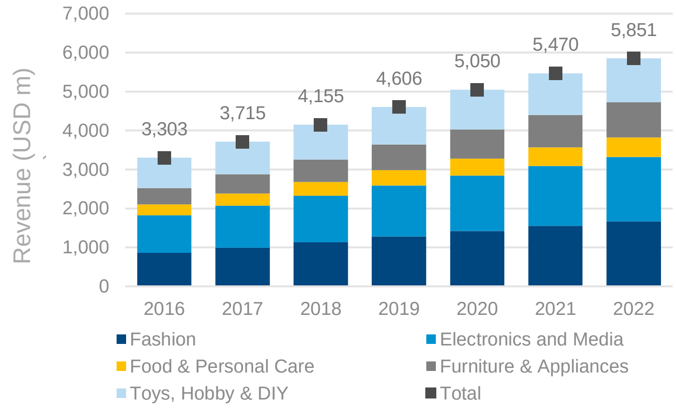
To exploit the opportunity that increasingly connected consumers present, customer satisfaction can be achieved through a personalised and seamlessly connected digital and in-store shopping experience. According to the recent Smarter Digital City whitepaper[4], Hong Kong's retailers are gradually embracing new digital technologies to analyse customer behaviour, which is crucial in developing personalised engagement strategies that can promptly respond to customer needs. However, a disconnection between the recognition of digital as essential for retail success and actual implementation of latest technologies has been found.

While 79% of corporates surveyed are managing digital projects, their primary focus is on investments in basic digital tools such as e-commerce and content development. In the future, a larger share of companies is planning to invest in more relevant technologies like big data and machine learning, which are essential for personalising customer relationships. Recent digital engagement campaigns include: an AI-enabled cloud marketing platform deployed by L'Oreal, to provide highly personalised and automated marketing for millennials; an augmented reality app by IKEA to see how furniture will fit in a home; and a chatbot by adidas that is linked to Facebook, identifying customers' sports preferences to send personalised content. On YOHO Mall's social CRM programme which is running on the WeChat platform, customers can upload their spending history for points redemption. The app is analysing shopping behaviour, helping to drive traffic in certain stores through customised promotions. PwC[5] and Accenture[6] point out that customers, even the most tech-aware Gen Z, often want to experience products in a shop to test quality and seek personal advice they cannot get online. Physical stores should therefore remain an essential part of retail.

Strong rebound in jewellery and watch sector

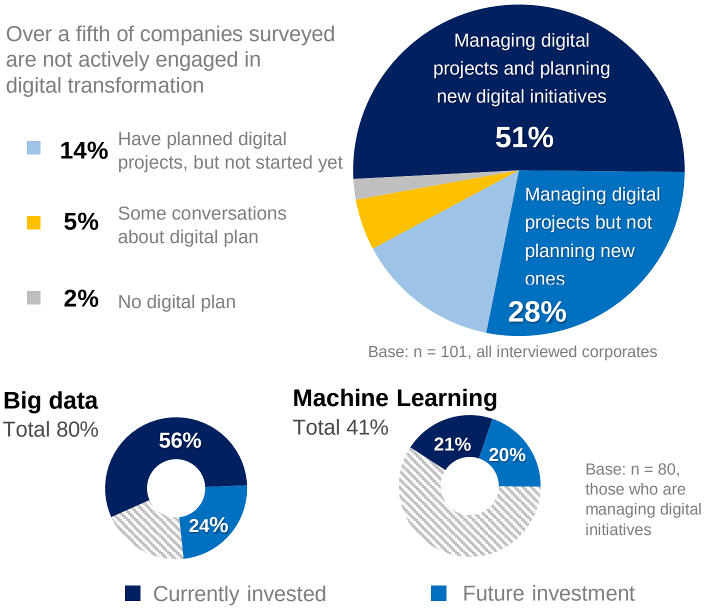
Most retail market sub-sectors in Hong Kong have returned to positive territory, reaching an overall growth of 3.3% YOY in July and August combined. The jewellery and watch sector jumped 10.2% YOY in the third quarter so far, following a further recovery of overnight mainland arrivals which rose 4.8% YOY in the same period. Richemont APAC for example, announced positive growth, after suffering expensive buy-backs of its luxury watches last year. Department store and medicine and cosmetics sales grew by 5.3% and 2.4% YOY, respectively. Despite a continued drop of 2.4% for electrical goods and 0.4% for apparel, the decline is narrowing. The positive results have been underpinned by strong local demand, supported by full employment.

E-commerce Revenue Projection Hong Kong



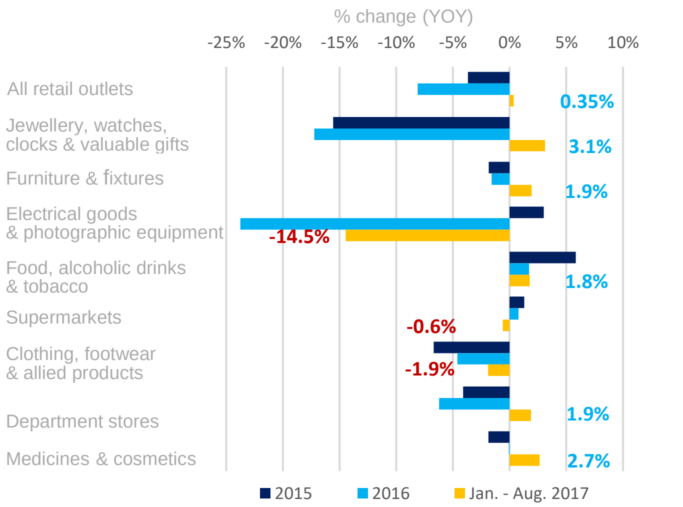
Source: Statista 2017

Hong Kong's Current Digital Engagement Level and Future Investments



Source: based on Google/ Nielsen 2017 (diagram and footnote [4])

Hong Kong's Retail Sales Growth by Subsector



Source: Census and Statistics Department, Colliers

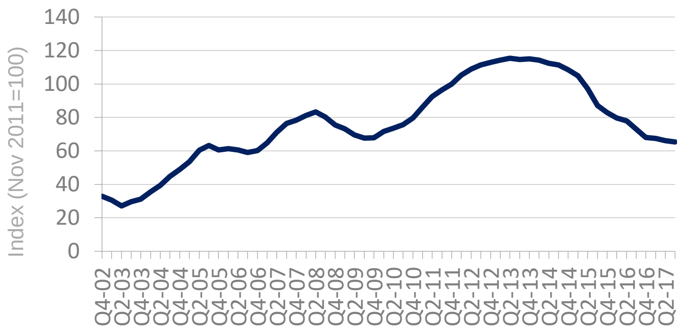
High-street rental decline is shrinking noticeably

In Q3 2017, overall high-street rents of major retail districts fell 10.6% YOY, compared to a drop of 12.6% over the first nine months. Apart from second and third-tier high-streets, all key retail districts showed a continued trend of narrowing rental decreases. Prime-rents in Mong Kok and Causeway Bay dropped 10.9% and 10.8% YOY, significantly less than in Q2. The two districts also had the smallest QOQ decline which amounted to 0.5% and 0.4%, respectively. Central and Tsim Sha Tsui experienced a similar decrease of 9.9% and 10.8% YOY, respectively.

F&B sector continues strong expansion course

Numerous international labels are taking advantage of adjusted rents to enter the market or to expand their footprints as market sentiment is strong. Health and lifestyle brands continue to be on the rise. Further rental adjustments have led to a wider brand diversity, especially on first-tier high-streets. Amid the continued rise of total restaurant receipt values which grew by 4% YOY in Q2, F&B has sustained its rapid expansion course as new light refreshment shops, restaurants, speciality groceries, and cafes have opened their doors. Notably, the Hong Kong-based Pirata Group and Black Sheep Restaurants have continuously expanded their branch network throughout this year.

Hong Kong High-street Retail Rental Index



Source: Colliers

In the recently opened Ocean Terminal Extension in Tsim Sha Tsui several leading international F&B groups have opened their restaurants, while in Central many F&B tenants are currently taking possession of their spaces in the new Ginza-style H Queen's, scheduled to open at end-2017. Vacancy is decreasing in first-tier high-streets across all four key retail districts. However, space remains available on second and third-tier high-streets. The number of shops available for leasing is higher than is visible, especially in Central, as some spaces are taken up by pop up shops and tenants with short-term tenures. Given the strong market sentiment backed by a favourable income and employment situation, and a further stabilisation of tourist arrivals, we expect leasing activity to pick up further and a more widespread rent recovery to start from 2018.

[5] PwC 2017, [6] Accenture 2017

Selected Lease Transactions in O3 2017

District	Tenant	Address	Floor/ Unit	GFA (sq ft)	Lease Type
Mong Kok	Fashion Apparel	52-54 Sai Yeung Choi St S	G/F & 1/F	3,600	New Lease
Tsim Sha Tsui	Sa Sa Cosmetics	Grandmark, 10 Granville Rd	G/F & 1/F	6,760	New Lease
Causeway Bay	Optical 88	57 Percival St	G/F	900	New Lease
Central	Vive Cake Boutique	H Queen's, 80 Queen's Rd C	G/F	656	New Lease
Central	Nike	Nexxus Building, 41 Des Voeux Rd C	G/F & 1/F	5,941	Renewal
Central	The Body Shop	Lansing House, 47 Queen's Rd C	G/F & C/F	900	New Lease

Source: EPRC, Colliers

For more information:

Nigel Smith
Managing Director | Hong Kong
+852 2822 0508
nigel.smith@colliers.com

Individual License: E-111570

Cynthia Ng
Director | Retail Services
+852 2822 0580
cynthia.h.ng@colliers.com

Individual License: S-349099

Daniel Shih
Director | Research
+852 2822 0654
daniel.shih@colliers.com