

Mobile commerce on the rise in Hong Kong

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The introduction of mobile payment apps has fuelled the popularity of m-commerce in Hong Kong. Using a mobile phone to undertake banking or paying bills, or buying goods and services online, have been made convenient through the Near Field Communication (NFC) technology and smart phones. On the other hand, on-line shops are discovering the benefits of having physical presence in order to gain market exposure and brand development rapidly. Increasing tourist arrivals failed to boost Hong Kong's retail sales, which were down by 3.6% over the first two months of 2017.

Forecast at a glance



Supply

We estimate a total of 410,000 sq ft (38,090 sq m) of new retail space at prime shopping districts in 2017 with a strong focus on lifestyle and novel dining experience



Rent

We expect high-street rent to further decline moderately by 5% in 2017. A moderate increase in PRC tourists should not have a significant impact on rent.



Retail Sales

Overall retail sales for January and February 2017 fell by 3.6% YOY, led by a 23.6% decline for electronic goods and photographic equipment. However, jewellery, watches, clocks and valuable gifts recorded a marginal drop of 1.2%. We expect the total sales for 2017 to be flat when compared to 2016.

2017 Prime Street Rental Projection

Year	Current	2017F
Overall Rental Index*	67	-5%
Central	77	-7%
Causeway Bay	61	-4%
Tsim Sha Tsui	68	-6%
Mong Kok	62	-5%

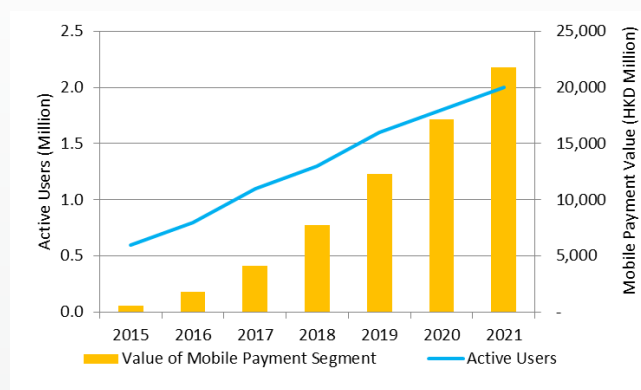
Index: Nov 2011 = 100

*Street level shops on key street segments

M-commerce taking off

Mobile commerce (m-commerce) refers to the use of mobile phones for undertaking banking or paying bills, or buying goods and services online. Given increasing adoption of smartphones equipped with large screens, internet search facilities and Near Field Communication (NFC) technology, m-commerce has taken e-commerce to the next level. M-commerce has led retailers to operate a mobile-optimised website or an app that facilitates mobile shopping. Since the popularity of smartphones continues to grow, m-commerce should account for a high percentage of e-commerce transactions in the future.

Mobile payment gains popularity



Source: Statista

Mobile payment has been a key part of the spread of m-commerce. While Hong Kong has lagged behind China in the adoption of contactless payment technology, the introduction of Apple Pay, Alipay, O!epay and other mobile payment apps has increased the options available for local customers.

According to Statista, a global statistics database, the transaction value in the "Mobile Payments" segment in Hong Kong amounted to HKD622 million (USD80.2 million) in 2015 and HKD1,789 million (USD230.5 million) in 2016 respectively. For the next five years, Statista predicts that the trend will continue with an annual compound growth rate of 52%, and that total transactions will reach HKD21.8 billion (USD2.81 billion) by 2021.

However, security risk has been the main factor that has stopped mobile payment from spreading more rapidly. According to a survey undertaken by Mastercard Intelligence, Hong Kong people have the least confidence in the security of electronic payment in the Greater China region.

More online shops are going offline

While retailers rush to build up presence in the digital world, physical shops still serve an important role. More online shops are seeing the benefits of physical shops: for example, Snaptee in Hong Kong, a personalised T-shirt design company, is opening pop-up stores to gain more market exposure. For online operators, having a physical presence provides a new channel to connect with potential customers, allowing customers to "see and touch" their products, participate in tailor-made experience, and gain confidence on the brand.

From the perspective of customers, shopping has become part of the local culture and, while on-line shopping has become more popular, many customers are still looking for new shopping experiences in physical stores. While the convergence of the online/offline shopping experience is important for on-line retailers, the latter need to clear about the purpose of setting up a physical presence, since doing so will increase their operating costs substantially in Hong Kong.

Selected Transactions in Q1 2017

Tenant	Building	District	NFA (sq ft)	Transaction Type
ONTHELIST	Printing House	Central	7,035	New Lease
Wolfgang's Steakhouse	Printing House	Central	4,890	New Lease
Tom Dixon	Shama Hollywood	Central	3,090	New Lease
BoConcept	Lee Garden Three	Causeway Bay	2,152	New Lease
Italian Fashion	No.4 Kai Chiu Road	Causeway Bay	1,500	New Lease
Car Showroom	Hang Tak Building	Star Street, Wan Chai	11,200	New Lease

Source: Colliers

New platforms to promote off-season inventories

OnTheList, an offline platform for luxury merchandises, has opened its first flagship shop on the ground and basement floor of Printing House at 6 Duddell Street in Central in late March. Brands can now take advantage of OnTheList platform to put excess stock and last season inventories on sale in a controlled environment. The prime retail location coupled with a unique pricing strategy of OnTheList will cater for the white collars, millennials and local consumers' appetite for "affordable-luxury" amid the current downturn in the luxury sector.

RDM Asia, which runs three luxury discount Florentia Village malls in Mainland China, has opened its first outlet in Hong Kong. The 60,000 sq ft (5,574 sq m) outlet store features 20 international luxury brands, such as Kenzo, Prada, Salvatore Ferragamo and Versace. RDM is the first anchor tenant in the KC100 complex near Kwai Hing MTR station, a newly revitalised building with a total 222,000 sq ft (20,625 sq m) of office space, in addition to the 61,000 sq ft (5,665 sq m) of retail space.

New lifestyle destinations in primary districts

We expect a total of 410,000 sq ft (38,090 sq m) of new shopping space to be completed in 2017 with a strong focus on lifestyle and F&B concepts. New projects include:

- The Forest in Mongkok will focus on healthy, sporty, and trendy lifestyles
- H Queen's in Central will house a mix of art galleries, lifestyle retail and fine dining space
- The new annex at Ocean Terminal in Tsim Sha Tsui will offer new F&B space
- Lee Garden Three in Causeway Bay will also have a strong lifestyle and F&B element

20th Anniversary celebration of HKSAR to boost tourist arrivals

Following two months of positive growth in total tourist arrivals and Mainland Chinese tourist arrivals, both groups recorded negative growth in February 2017. However, after taking into account the Lunar New Year effect, total tourist arrivals and Mainland Chinese tourist arrivals still grew 1.4% and 1.1% YOY respectively in January and February 2017. According to the Commerce & Economics Development Bureau, tourist arrival numbers rose by 5.5% during the first half of March, with Mainland Chinese tourists increasing by 7.5%.

To celebrate the 20th Anniversary of the establishment of Hong Kong SAR, the Tourism Commission and the Hong Kong Tourism Board are jointly rolling out a promotion campaign targeting visitors to Hong Kong, including 800,000 coupon booklets for tourists to enjoy an array of smart deals and special offers.

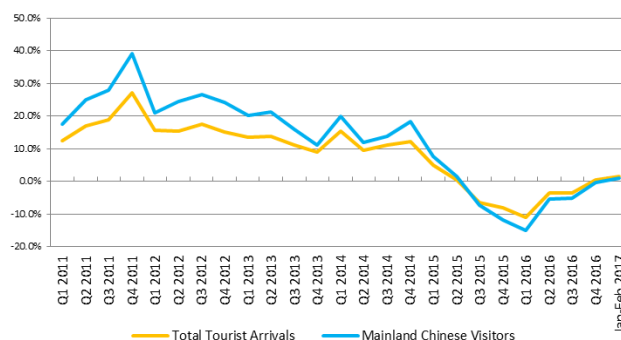
Retail sales

Despite improved tourist arrival numbers, total retail sales declined by 3.6% during the first two months of 2017, led by a sharp drop of 23.6% in electrical goods and photographic equipment. Sales for jewellery, watches and luxury items stabilised with a marginal decrease of 1.2%. On the other hand, the value of sales of medicines and cosmetics increased by 2.7%. With lower spending power by Mainland Chinese tourists, we expect retail sales to remain subdued in 2017.

Prime street rent

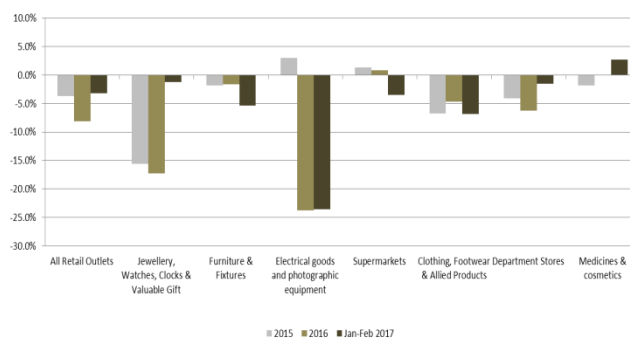
During the first quarter of 2017, retail rent for high street shops decreased by 0.9% QOQ. With the total sales yet to turnaround, we expect rent for prime-street shops will continue to be under pressure, with an average -5% drops in 2017.

YoY Quarterly Tourists Growth Rate



Source: Tourism Board

Annual Sales Growth Rate by Retail Sectors (%)



Source: Census & Statistics Department

Hong Kong Retail Rental Index



Source: Colliers

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