Prime high-street rent to decline further by 16% YOY through end-2020.

We advise core-area retail landlords to focus on attracting international F&B brands as they are popular with both locals and tourists, making them tend to be more stable businesses.

Clouded by global economic uncertainties and prolonged social protests, visitor arrivals recorded a sharp drop of 49.8%* YOY, meanwhile a -24%* YOY drop was recorded in total retail sales.

Among the four prime retail areas, Central was the most affected as it was the original focus of protests and has a major cluster of luxury stores, for which tourists are their primary customer base.
Rent to decline in 2020 before picking up

During 2020, we expect to see reduced visitor arrivals, uncertainty in the global economy, and local tension to continue to pressure the retail market, leading to an overall high street rent decline of 16% for the year.

We foresee a gradual rent pick-up from 2021 to 2024 at a single digit annual growth rate, as social stability is gradually restored. We anticipate rising social stability to allow a recovery in tourist arrivals and retail sales.

Landlords are recommended to closely monitor international F&B brands and new supermarket entrants due to their relatively more stable business performance and tend to be well-supported by local consumption demand.

Outlook

Key transactions

<table>
<thead>
<tr>
<th>Client</th>
<th>Building</th>
<th>Area (sq ft)</th>
<th>Key location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don Don Donki</td>
<td>Pearl City Mansion</td>
<td>41,074</td>
<td>Causeway Bay</td>
</tr>
<tr>
<td>Frites Belgium on Tap</td>
<td>218 Electric Road</td>
<td>2,800</td>
<td>Fortress Hill</td>
</tr>
<tr>
<td>Sushi Raku</td>
<td>Yip Fung Building</td>
<td>2,490</td>
<td>Central</td>
</tr>
<tr>
<td>Goji Studios</td>
<td>V. Heun Building</td>
<td>22,430</td>
<td>Central</td>
</tr>
<tr>
<td>Kikanbo Ramen</td>
<td>Mangan Building</td>
<td>1,700</td>
<td>Tsim Sha Tsui</td>
</tr>
</tbody>
</table>

Narrowing gap in rental expectations between landlords and tenants

Landlords showed flexibility on rent negotiations as market rents declined.

As the gap in rental expectations between tenants and landlords narrowed, the market still recorded some closed deals despite the impact of local unrest on overall retail sentiment in Q4.

The market witnessed active expansion among new-entrant supermarket chains, lifestyle stores and international F&B brands.
Colliers International (NASDAQ, TSX: CIGI) is a leading global real estate services and investment management company. With operations in 68 countries, our 14,000 enterprising people work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 20 years, our experienced leadership team, owning approximately 40% of our equity, have delivered industry-leading investment returns for shareholders. In 2018, corporate revenues were $2.8 billion ($3.3 billion including affiliates), with more than $26 billion of assets under management.

For the latest news from Colliers, visit our website or follow us on LinkedIn, Twitter and Instagram.

Copyright © 2020 Colliers International
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.