

OPENING OF FLAGSHIP MALLS BRINGS NEW RETAIL VIBES DESPITE NEAR TERM MARKET TURBULENCE

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Summary & Recommendations

Total tourist arrivals dropped 22.6% YOY in July-August combined, leading the retail sales to fall by 17.2% YOY, attributed to the prolonged US-China trade dispute and the continuing demonstrations in Hong Kong*.

We saw the opening of three new shopping malls by key developers in strategic locations such as Tsim Sha Tsui, Tung Chung and Nam Cheong, bringing new retail vibes such as *retail+art* and *retailtainment* to the market, counterbalancing the cautious sentiment.

We believe Hong Kong will remain a top destination for overseas brands if recent continuing demonstrations do not continue to drag on sentiment. We recommend retailers take advantage of this time to expand in or re-enter the first-tier core high streets.



Rent

- > Affected by the continuing demonstrations and US-China trade tension, all core districts witnessed rental correction.
- > We expect a more significant rental drop, likely a double-digit percentage decline in 2020, given the deferred impact of retail sales decline on retailers' footprints.

QOQ/
End Q3

-7.0%

HKD361
psf per month

YOY/
End 2019

-13.0%

HKD338
psf per month

Annual Average
Growth 2018-23/
End 2023

-0.3%

HKD335
psf per month



Sales

- > The continuing demonstrations turned off tourists and shoppers. Some retail shops were forced to close their doors, leading to a significant decline in retail sales value.
- > We expect the retail market to stay weak in 2020 despite the nascent recovery in 2019.

YOY/
End Q3**

-17.2%

HKD64 billion

YOY/
End 2019

-6.6%†

HKD453 billion

Annual Average
Growth 2018-23/
End 2023

+0.1%†

HKD488 billion



Supply

- > For 2019, we expect projects larger than 100,000 sq ft to add a total of 2.7 million sq ft (230,425 sq m) to supply.
- > V Walk, K11 Musea, and the extension of Citygate were opened in Q3 2019, providing a total of 1.7 million sq ft (154,780 sq m).

Q3 2019

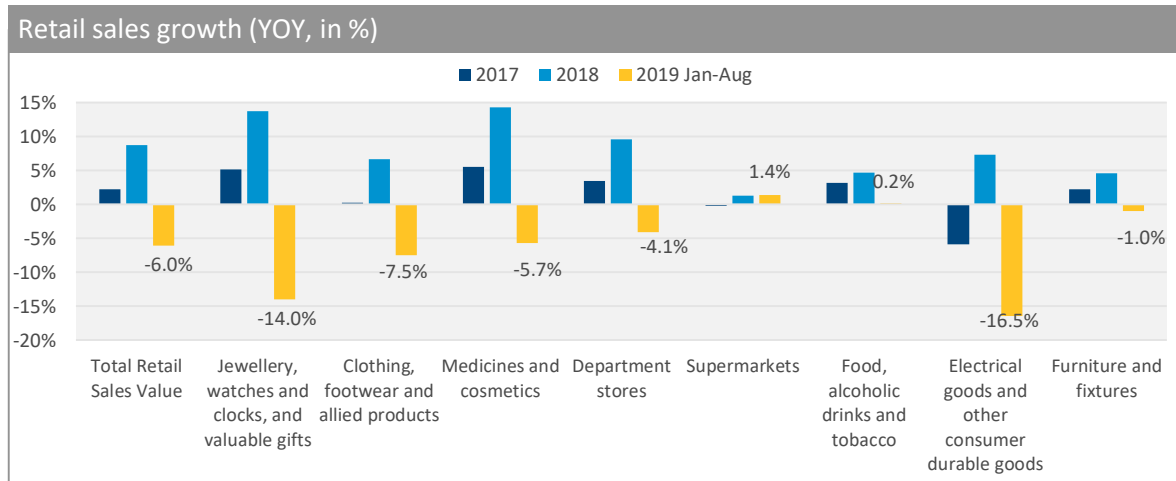
1.7 mil sq ft

Full Year 2019

2.7 mil sq ft

2019-23
Annual Average

1.6 mil sq ft



Source: Census and Statistics Department

High-street retail rents

District	QOQ
Overall Rental Index*	-7.1%
Central	-7.2%
Causeway Bay	-8.9%
Tsim Sha Tsui	-4.3%
Mong Kok	-8.4%

Source: Colliers International. *Street level shops on key shopping streets.

RENTS UNDER PRESSURE AMID SLOWER LEASING MOMENTUM

The current market situation pushed Q3 2019 overall high-street rents down by 7.1% QOQ. Among the core retail areas, Mong Kok and Causeway Bay recorded the highest drop of rent of -8.4% and -8.9% QOQ, respectively. In Tsim Sha Tsui, retail rents were least affected, declining by -4.3% QOQ in Q3. Meanwhile, rents in Central were inline with the overall market, declining by -7.2% QOQ.

Looking ahead, we forecast rents to drop further in core retail districts of Hong Kong in Q4 2019 and through to next year. In the short term, external and local market uncertainties will likely continue to weigh on Hong Kong tourism and retail sales performance, leading retailers and brands to take longer to finalise their expansion or relocation plans. However, in the long run, after bottoming out in 2020, rent should recover in a modest speed after 2021 as international brands still see Hong Kong as one of the most popular global gateway cities to enter the market.

RETAIL SALES DAMPENED BY THE CONTINUING DEMONSTRATIONS

Trade war also taking a toll

According to the Hong Kong Tourism Board, total visitor arrivals recorded a 17.2% YOY drop in July-August combined. Affected by the prolonged US-China trade conflicts and recent local social tension, Chinese tourist arrivals dropped by 24.8% YOY over the same two-month period. This is particularly the case for mainland overnight tourists, which was down 29.3% YOY.

The slowdown of tourist arrivals coupled with the continuing demonstrations have significantly weighed on retail sales performance. Total retail sales dropped 11.5% YOY and 23.0% YOY respectively in July and August, bringing the year-to-date retail sales growth to -6.0% YOY. In August, sales of luxury items like jewellery, watches and valuable gifts also recorded a significant 47.4% drop YOY. Meanwhile, retail trades which are popular among mainland tourists were highly affected, like medicines and cosmetics (-30% YOY), and clothing, footwear and allied products (-32.1% YOY).

DEMAND FROM INTERNATIONAL BRANDS REMAIN SOLID

Despite the cautious market sentiment, international brands still see Hong Kong as one of the most important retail locations in which to have a presence. New brands announcing their entrance to the Hong Kong market in Q3 include American seafood restaurant Red Lobster opening in Causeway Bay. In Central, activewear brand Sweaty Betty from the UK opened their first shop in Hong Kong. In Tsim Sha Tsui, Blue Box Café by Tiffany, the American jewelry retailer, opened, as well as Tokyo Lifestyle, a Japanese cosmetics chain.

RETAILTAINMENT IN NEW MALLS

New malls in Q3 brought the opening of new cinemas. Apart from cinemas in V Walk and the Citygate extension, K11 Musea in Tsim Sha Tsui is home to UA Cinema of 12 theatres with a laser projection system and six-star VIP theatre. Kids edutainment is also developing with Donut Playhouse taking three floors in K11 Musea, while LegoLand Discovery Centre and Victoria Playpark are in preparation to open, also in K11 Musea.



Source: Colliers International

Selected lease transactions in Q3 2019

District	Tenant	Retail Sector	Address	Unit/ Floor	GFA (sq ft)	Lease Type
Causeway Bay	Dyson	Consumer Durable Goods	Emperor Watch and Jewellery Centre, 8 Russell Street	Shop 3 & 5, G/F	3,068	New Lease
Causeway Bay	Asia Beauty Concept	Beauty	Henry House, 42 Yun Ping Road	13/F	1,901	New Lease*
Causeway Bay	Red MR	Entertainment	Cigna Tower, 482 Jaffe Road	G/F Entrance & 1/F-3/F	20,661	New Lease
Central	Five Guys	F&B	Manning House, 48 Queen's Road Central	Whole of B/F	9,681	New Lease
Tsim Sha Tsui	The Sweet Dynasty	Fashion	Hong Kong Pacific Centre, 28 Hankow Road	Shop A, G/F & B/F	15,780	Renewal
Tsim Sha Tsui	Gap	Fashion	Albion Plaza, 2-6 Granville Road	Shop 101, 1/F & 2/F	10,500	New Lease
Kowloon Bay	LY Bakery	F&B	The Eastmark, 21 Sheung Yuet Street	Shop 3, G/F	1,307	New Lease*
Mong Kok	Dr. Plant	Beauty	132 Sai Yeung Choi Street South	G/F, C/L & 1/F-5/F	3,750	New Lease

Source: EPRC, Colliers International *Concluded by Colliers

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