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## Summary & Recommendations

In February, despite a strong growth in visitor arrivals, provisional figures show that Hong Kong's retail sales value fell for the first time since February 2017, recording a decline of 1.6% YOY<sup>1</sup> for the first two months of 2019. US-China trade tensions and the relatively weak Chinese renminbi constrained consumption.

Landlords in prime locations continued subdividing shops into smaller sizes, which offer a greater brand diversity and operational efficiency, but limited core high-street rental growth.

Retailers should remain cautious in 2019. However, we expect the performing sectors, including the non-traditional luxury accessories, sports and lifestyle, F&B and light refreshment, skincare & cosmetics, to continue to take opportunities to expand.

# A MIX OF CAUTIOUS OPTIMISM AND UNCERTAINTY



### Rent

- > Central continued to struggle due to vacancies in large shops. Mong Kok stood out by retaining a positive momentum.
- > We expect an uptick of 1.0% YOY for core retail districts in 2019, and steady growth of 2.5% over 2020 to 2023.

QOQ/  
End Q1

-0.3%

HKD388  
psf per month

YOY/  
End 2019

+1.0%

HKD393  
psf per month

Annual Average  
Growth 2018-23/  
End 2023

+2.2%

HKD433  
psf per month



### Sales

- > Retail sales value declined 1.6% YOY in Q1\* 2019. However, the figure was partly affected by festive sales during Lunar New Year.
- > Retail sales growth is likely to stay positive despite a slower economic outlook, given the strong labour market and tourism.

YOY

-1.6%

YOY

+6%

Annual Average  
Growth 2018-23/  
End 2023

+5.5%



### Supply

- > For 2019, we expect a total of 1.3 million sq ft (120,775 sq m) of major new retail space to be completed in core retail districts.
- > The upcoming opening of the K11 Musea mall in Tsim Sha Tsui is scheduled to be the major new supply in 2019.

Q1 2019



0 sq ft

Full Year 2019



1.3 mil sq ft

2018-23  
Annual Average

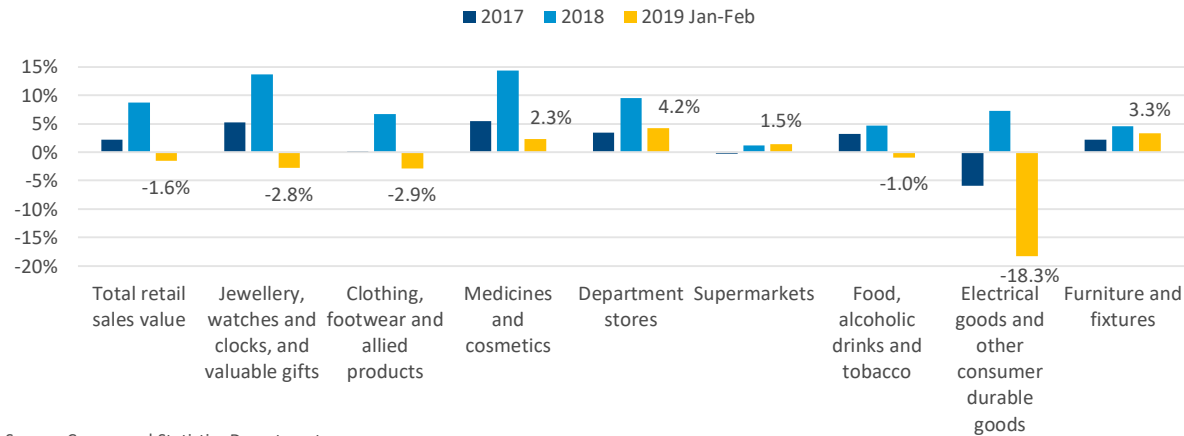


466,200 sq ft

Source: Colliers International.

Note: USD1 to HKD7.8 at the end of Q1 2019. 1 sq m = 10.76 sq ft. \*Combined January and February 2019 value. <sup>1</sup> [Census and Statistic Department](#), 2 February 2019

## Retail sales growth (YOY, in %)



Source: Census and Statistics Department

## A RETAIL SALES FALL AT THE START OF 2019

According to the Hong Kong Tourism Board, Hong Kong's tourism remained strong with total and mainland Chinese visitor arrivals increasing 16.6% YOY and 18.7% YOY, respectively, in the first two months of 2019. However, the strong growth of visitor arrivals failed to translate into retail sales.

According to the Census and Statistics Department, the combined retail sales value for January and February declined by 1.6% YOY, with February 2019 down by 10% YOY, the first decline since February 2017. The growth of F&B receipts slowed to 2.2% YOY in Q4 2018, the lowest since Q1 2016.

It is likely that the slower Chinese economic growth and the relatively weak Chinese renminbi (RMB) have affected mainland visitors' shopping appetite, which was reflected in slower growth in retail sales in H2 2018.

As the RMB has appreciated gradually since the end of October 2018, mainland tourists should have regained some purchasing power. With the growing number of Chinese tourists and the strong local labour market, Hong Kong's retail sales growth should stay positive in 2019 despite a deceleration of global economic growth.

## High-street retail rents

District	QOQ	2019F
Overall Rental Index*	-0.3%	1%
Central	-1.1%	-2%
Causeway Bay	-0.2%	+1%
Tsim Sha Tsui	-0.2%	+1%
Mong Kok	0.4%	+3%

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

## RETAIL RENTS REMAIN STABLE

The overall high-street rents edged down by 0.3% QOQ, compared to the decline of 0.1% QOQ in Q4 2018.

High-street rents in Central continued to weaken, dropping by another 1.1% QOQ. Given that the vacancies of larger shops remained, Central's rent will likely stay under pressure over H1 2019.

In Tsim Sha Tsui, retail rents edged down by 0.2% QOQ over the quarter. Key leasing transactions in the district included the Japanese discount chain Don Quijote, which has committed to lease a 15,000-sq foot (1,394 sq metres) shop in the basement floor of Mira Place Two.

Rents in Causeway Bay also saw a downward adjustment of 0.2% QOQ. With smaller shops gaining popularity, the previous location of Michael Kors in Fashion Walk (2,800 sq feet or 260 sq metres) is planned to be sub-divided into four smaller shops, which should be occupied by L'Oréal groups SkinCeuticals and Kérastase, together with two other skincare labels.

Mong Kok has stood out by retaining a positive momentum, edging up 0.4% QOQ in Q1 2019. The increase was mainly driven by the 0.9% QOQ increase in Sai Yeung Choi Street South, being well supported by a diverse set of retailers given its more balanced tenant mix.

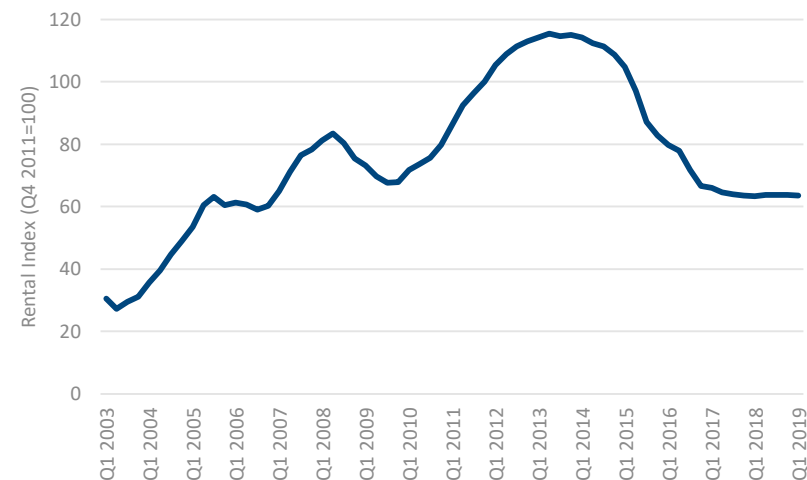
## OUTLOOK DIFFERS BY SUBMARKET

In Central, despite the ongoing shop reconfiguration with tenants demanding smaller shops, which may put slight pressure on the overall rents in the district, rents should hold up well in the prime locations in Central. Meanwhile, we saw that Queen's Road Central, a first-tier high-street in CBD attached to prestige offices and malls portfolios, in particular remained attractive to new brands from overseas.

Landlords in Causeway Bay and Tsim Sha Tsui have been more flexible to negotiate for lower rents due to higher vacancy levels. Tsim Sha Tsui should continue to benefit from the increased foot traffic thanks to the Express Rail Link and the West Kowloon Cultural District. Rental growth in Mong Kok should be sustainable, as the district has been popular amongst younger and local shoppers rather than tourists alone.

Overall, we expect to see retailers being more cautious in their expansions during 2019, while landlords are already becoming more flexible during rental negotiations. Tenants with higher budgets should take this opportunity to upgrade to locations with better footfall.

Hong Kong high-street retail index



Source: Colliers International

### Selected lease transactions in Q1 2019

District	Tenant	Address	Unit/ Floor	GFA (sq ft)	Lease Type
Central	Black Sheep Restaurants	Car Po Commercial Building, 37-43 Pottinger Street	Shop 1-7 on UG/F	4,043	New Lease
Central	China Mobile	SBI Centre, 54-58 Des Voeux Road Central	G/F & 1/F	5,205	New Lease
Causeway Bay	SkinCeuticals and KÉRASTASE (L'Oréal Group)	Fashion Walk, 11-19 Great George Street	Shop 3-5, 18-19 on G/F & Shop F-2 on 1/F	1,600	New Lease
Tsim Sha Tsui	Sa Sa	Star House, 3 Salisbury Road	Portion of G/F & 1/F	4,000	New Lease
Mong Kok	Fila	Hollywood Plaza, 610 Nathan Road	Shop 1-6 on G/F, Shop C on UG/F	2,600	New Lease
Mong Kok	Nike (by Wan Kee)	6-12A Sai Yeung Choi Street South	G/F – 3/F	13,758	New Lease

Source: EPRC, Colliers International

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