



# Commercial Drive

A Hong Kong retail market overview. – By Kevin Lam

On 28 March, Kevin Lam, Cushman & Wakefield's Head of Business Space in Hong Kong, and Karim Azar, General Manager, ifc Management Co. Limited, presented the latest retails trends at a breakfast with the Chamber.

They noted, that over the past ten years, retail performances in Hong Kong have been relying heavily on tourists from Mainland China. In the past two years, there was a major downturn in Chinese tourist arrivals, followed by a mild rebound in January 2017 with 7.7% increase year-on-year.

Food and beverage has been the only sector that records steady growth each year. The tourist-focused watch and jewellery dropped 17.3% in sales in 2016 year on year, while electronic goods fell almost 24%. Interestingly, the cosmetic and medicine sector climbed from the previous few years and mid-tier

Korean, Japanese and European brands are expanding in Hong Kong.

## Rents on the high street

Contraction in prime retail districts, namely Causeway Bay, Tsim Sha Tsui, Central and Mong Kok, has been slowing down since Q4 last year, while there has been a slight 0.2% increase in rent in Mong Kok. High-street rents have recovered to levels seen in 2009-2010. Decentralised retail locations like Yuen Long and Tuen Mun also recorded single digit growth in rent in the past quarters, as retailers refocused on domestic consumers.

Cushman & Wakefield has worked with and tracked the trends of various trades, including cosmetics, watch and jewellery, shoes and accessories, sportswear goods and F&B

operators. We believe stabilisation on overall rental level is on the cards for the coming six months.

### Trade transformation

The over-expanded watch and jewellery shops in Causeway Bay and Tsim Sha Tsui have been gradually re-occupied by a variety of trades, including cosmetic and fashion accessories. In Mong Kok, rental levels have recovered faster than other districts, with an active number of new take-ups. There have been 14 such transactions in the past 12 months, compared to central, which had only three.

The number of transactions in Central remains off track; despite the presence of sitting tenants preparing to subsidise new tenant's rental packages, the tight budgets on CAPEX expenditures have dampened retailers' interest in taking on the expensive stores.

### Value of restaurant receipts

The food and beverage sector recorded positive business growth in the last quarter but considering the shortage of low-skilled labour and increasing food costs, large scale Chinese restaurants have been reluctant to expand since mid-2016. Business in fast food, coffee shops, and specialty restaurants, however, are keeping a steady growth rate due to their comparatively low set-up costs.

Decentralised locations, such as Tseung Kwan O, Ma On Shan and Tsuen Wan, have witnessed strong demand for new take-ups due to strong local consumption and larger supply of low-skilled labour.

Looking forward, Cushman & Wakefield expects buoyant demand from new operators setting up small- to medium-sized concept restaurants.



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### Fast moving: pop-ups, sportswear goods and cinemas

Both existing market players and newcomers are now gaining a foothold on the high street in the form of temporary retail outlets ("pop-up" shops) as a means to test market sentiment and drive brand awareness. Short-term leases like these usually last for one-to-three months, and the rental level can be 50% to 75% lower than average leases.

The sportswear goods sector has been a key market driver in 2016, with Adidas and Under Amour as two of the most active brands opening new stores in Central, Causeway Bay, Mong Kok and Kwun Tong. Nike and Decathlon are also expanding more rapidly than other fast fashion retailers in the territory.

Cinema operators, especially those backed by mainland capital, have rolled out an aggressive plan intended

to set up cinemas in each district. At least five operators have joined the market in the past three quarters, with some 15 new cinemas committed to open a Cineplex in both centralised and decentralised neighbourhoods, including Central, Tsim Sha Tsui, Sham Shui Po, Fanling, Yuen Long, Tsuen Wan, Shatin, Chai Wan, Shau Kei Wan and Ap Lei Chau. Entertainment and customer experience are the keys to lure consumers. **B**

*The Chamber would like to thank the Luxury & Retail Committee for organising the event.*

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