

HONG KONG

Retail Q2 2020

CUSHMAN & WAKEFIELD

27,300

Median HH Income (HKD)

YoY
Chg12-Mo.
Forecast

5.9%*

Unemployment Rate

-99.9%*

Tourist Arrival Growth

Source: Hong Kong Census and Statistics Department,
Hong Kong Tourism Board, Oxford Economics

* The figure refers to the first two months of Q2 2020

HONG KONG ECONOMIC INDICATORS
Q1 2020

-8.9%

GDP Growth

-34.4%

Retail Sales Growth

-7.6%

Private Consumption
Expenditure Growth

2.3%

CPI Growth

Source: Hong Kong Census and Statistics Department,
Oxford Economics

Retail Sales Tumbled as Tourist Arrivals Sank to an All-Time Low

The coronavirus pandemic continued to weigh heavily on Hong Kong's retail sector in the second quarter. Since introducing in late March an entry restriction on all non-Hong Kong residents from overseas and enforcing a 14-day quarantine for all other arrivals, tourism has been brought to a virtual halt. Mainland tourist arrivals plunged 99.9% y-o-y in May to just 5,670, following a similar level drop in April. All in all, total visitor arrivals fell to 4,125 in April and 8,139 in May, the lowest levels on record. Total retail sales slumped 32.8% y-o-y in May, in the 16th consecutive month of decline. The jewelry and watch and medicine and cosmetics sectors, which both rely heavily on mainland tourists, continued to be the hardest hit, sinking 69.7% and 62.0% y-o-y respectively in May.

Rental Decline in Causeway Bay Accelerated Amid Shop Closures

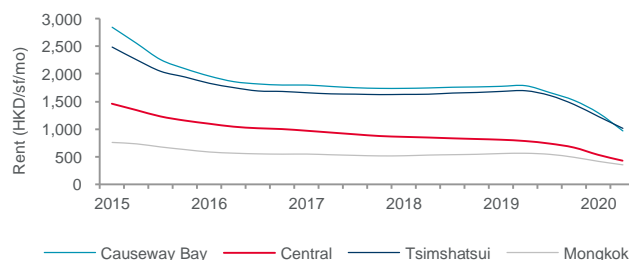
Retail rentals continued to come under severe pressure in the second quarter amid the increasing number of shop closures across the city, with average rents in core districts retreating by 15-25% q-o-q. Among districts, Causeway Bay saw the steepest decline as rentals in the area contracted by 25% q-o-q. The area, which has long stood as the city's premier high-end retail hub, has been hard hit by a growing number of flagship store closures around Russell Street. In a recent example, Victoria's Secret shuttered its 50,000 sq ft flagship store in the area in late June, after having been open just two years. While rentals across other core districts also fell, the declines were not as severe, and for the first time ever, average rentals in Tsimshatsui eclipsed those of Causeway Bay.

Retail Rentals to Remain on Downward Trend Over the Near Term

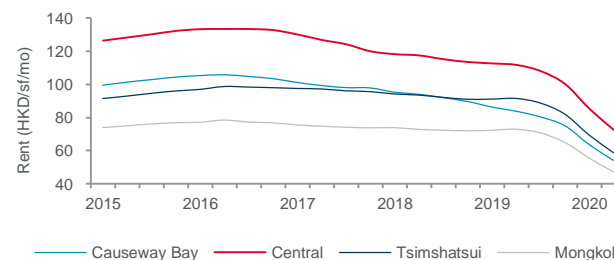
The city's retail sector is expected to continue to suffer in the near-term in the absence of any clear indication when borders may be re-opened and tourists begin to return. However, even as more retailers are expected to close shops in the coming months, rentals are forecast to begin to stabilize in the second half of the year as the market finds a floor following a steep decline over the past year. Meanwhile, as vacancies climb, landlords have become more flexible, showing a willingness to entertain shorter lease terms, ranging from a few months to one year, leading to a rising number of pop-up shops across the city. While offering a near-term lifeline to landlords, however, the growing trend risks the positioning of some areas as luxury shops are replaced by pop-ups selling lower end products.

While traditional retail is expected to remain under pressure, the outlook for the F&B sector is somewhat more positive, as the easing of social distancing measures in May and June has seen restaurants beginning to fill again. With improving sentiment among operators and a gradual recovery in demand expected in coming months, rentals in core markets in the sector are forecast to edge higher by up to 5% in the second half.

HIGH STREET AVERAGE RENT



F&B AVERAGE RENT



HIGH STREET RENTS Q2 2020

	EFFECTIVE RENT			Q-O-Q CHANGE	12-MONTH OUTLOOK
	HKD/SF/MO	US\$/SF/MO	EUR/SF/MO		
Causeway Bay	969	125	112	-25.0%	▼
Central	428	55	50	-19.8%	▼
Tsimshatsui	1,018	131	118	-17.3%	▼
Mongkok	354	46	41	-15.1%	▼
HONG KONG AVERAGE	692	89	80	-20.3%	▼

Exchange Rate: 1USD = 0.8983 EUR = 7.1278 RMB = 7.7512 HKD = 29.9062 TWD (as of June 1, 2020)

HIGH STREET VACANCY RATE

	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Causeway Bay	0.0%	2.6%	5.3%	7.9%
Central	10.0%	10.0%	14.2%	12.7%
Tsimshatsui	2.4%	3.6%	4.8%	11.9%
Mongkok	9.1%	12.7%	20.0%	23.6%

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SECTOR	SF (SALEABLE)
LG/F & B/F, 100QRC, 100 Queen's Road Central	Central	Don Don Donki	Supermarket	6,942
Shop on G/F, 101 Sai Yeung Choi Street South	Mongkok	Wan Kwai Heung Noodles	Food & Beverage	1,219
G/F, 47 Haiphong Road	Tsimshatsui	Vita Green	Healthcare	660
Shop 15-18, G/F, Causeway Bay Plaza Phase 1, 489 Hennessy Road	Causeway Bay	Chow Tai Fook	Watch & Jewelry	1,221
G/F, 31 Haiphong Road	Tsimshatsui	Cheapy	Entertainment	960

Notes: Due to the continued impact of Covid-19, there is very limited new lettings recorded in Q2. The leases in the above table refer to either renewal cases or short-term leases. The first three deals are renewals while the last two deals are 1-year short leases.

Reed Hatcher

Head of Research, Hong Kong

16/F, Jardine House,
1 Connaught Place, Central

Tel: +852 2956 7054 / reed.hatcher@cushwake.com

cushmanwakefield.com

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