

RETAIL RESEARCH



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HONG KONG RETAIL

INSIGHT AND COMMENTARY ON THE WORLD'S MOST DYNAMIC RETAIL MARKET

Knight Frank 萊坊



DEMAND GROWS FOR NON-CORE SHOPS

In recent months, rocketing prices and sliding yields of prime street shops pushed investors to retail properties in non-core areas. A 500-sq-ft, ground-floor unit in Yan On Mansion, Kwun Tong was reportedly sold for HK\$56 million or HK\$112,000 per sq ft, comparable to prices in core areas.

Headlines

There were a number of major sales transactions involving shopping centres last month: Swire Pacific (0019.HK) sold Festival Walk, a 1.2 million-sq-ft retail and office complex in Kowloon Tong, for HK\$18.8 billion; Chinachem Group sold its 44,628-sq-ft third floor of its Tropicana Garden Arcade in Wong Tai Sin for HK\$191.55 million, or HK\$4,292 per sq ft and over 90% of shops on the first floor of Kingswood Richly Plaza in Tin Shui Wai were sold for HK\$17,000–30,000 per sq ft.

Shopping malls in Hong Kong strived to capture the increase in business arising from Shenzhen's seven-day public holiday (11–14 and 22–24 August), when the city hosted the Universiade 2011. New Town Plaza in Shatin offered discount packages for Shenzhen residents, while Plaza Hollywood in Diamond Hill organised shopping tours from Shenzhen to the mall over the holiday period.

Hopewell Holdings (0054.HK) plans to spend more than HK\$10 million renovating its Panda Place shopping mall in Tsuen Wan, to make it the first Japanese-style retail centre in the district. Over half the existing tenants will need to move out. After the mall reopens in the fourth quarter of 2012, the developer expects it to achieve double-digit rental growth, with rents reaching HK\$60–100 per sq ft. Meanwhile, Henderson Land (0012.HK) plans to renovate its Metro City Plaza in Tseung Kwan O in phases, where fashion brands Zara, Bershka and Pull & Bear have already committed to leasing a total of 62,000 sq ft of space after the renovation.

British luxury fashion-brand Burberry plans to further expand its presence in Hong Kong by opening a two-storey flagship store in Pacific Place, Admiralty. The 21,000-sq-ft shop, currently occupied by Lane Crawford, is expected to open in the second half of 2012. It would be Burberry's biggest outlet in Hong Kong and its second largest in the world.

While international brands have been competing for shops in Hong Kong's prime locations by paying high rents, other retailers have been forced to move to more affordable spaces in non-core areas. HMV, for example, has relocated its Tsim Sha Shui and Causeway Bay shops to the fringe areas of the districts and closed its Central store. We expect this trend of relocation and decentralisation to continue and push up non-core retail rents by another 2–3% over the rest of 2011.

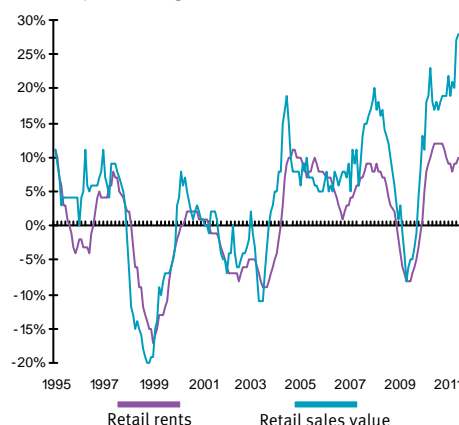
Retail sales

In June 2011, Hong Kong's retail sales value increased for the 22nd consecutive month, rising 28.8% year on year to HK\$31.3 billion. In the first half of 2011, the total retail sales value grew 8.9% compared with the same period in the previous year.

Visitor arrivals

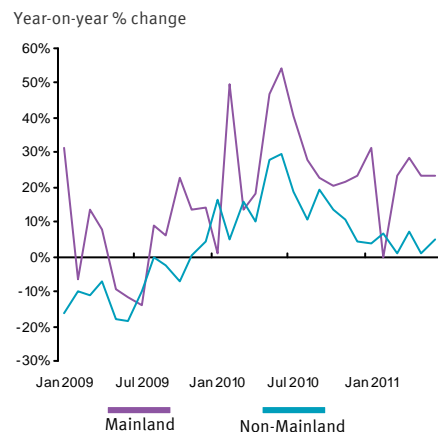
In June 2011, the number of visitor arrivals to Hong Kong grew 15.9% year on year to reach 3.0 million. Mainland visitors remained the dominant visitor group and comprised 63.4% of total arrivals. The number of Mainland visitors surged 23.1% to 1.9 million, while visitors from other parts of the world rose 5.2% to 1.1 million.

Figure 1
Retail rents and retail sales value
Year-on-year % change



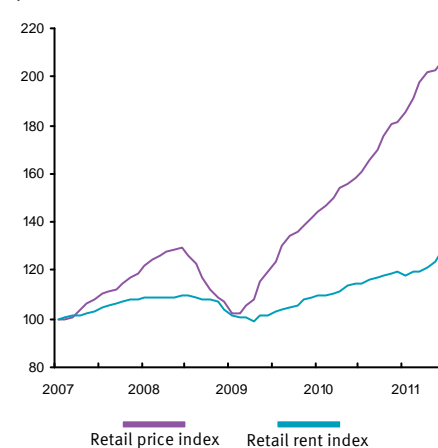
Source: Census and Statistics Department / Rating and Valuation Department / Knight Frank
Note: three-month moving average of year-on-year growth

Figure 2
Visitor arrivals
Year-on-year % change



Source: Hong Kong Tourism Board / Knight Frank

Figure 3
Retail property prices and rents
Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



A number of major retail property sales transactions were concluded in North Point.

Table 1 Selected sales transactions in non-core areas					
District	Building	Floor / unit	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Yuen Long	Hop Yick Plaza	Ground floor / unit B35	91	\$5.53	\$60,769
North Point	Wah Hai Mansion	Ground floor / unit 2	109	\$6.2	\$56,881
North Point	Wellborne Commercial Centre	Ground floor / unit 7	330	\$18	\$54,545
Sham Shui Po	Yau Nam Mansion	Ground floor / unit 3	132	\$6.06	\$45,909
North Point	Po Wing Building	Ground floor / unit 1	283	\$11.8	\$41,696
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Prime shops in non-core retail districts were sought after, given the limited supply and high rents of shops in core areas.

Table 2 Selected leasing transactions in non-core areas					
District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$ per sq ft)
Kwun Tong	Wah On House	Ground floor / unit 49	490	\$152,000	\$310.2
Sham Shui Po	Golden Building Arcade	Ground floor / unit 32	100	\$30,000	\$300
North Point	State Theatre Building	Ground floor / unit 2	217	\$65,000	\$299.5
Tsuen Wan	Tin Po Building	Ground floor / unit F	555	\$85,000	\$153.2
Tai Kok Tsui	Charming Garden Arcade	Ground floor / unit 7	192	\$25,000	\$130.2
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

All major retail districts saw month-on-month rental growth in July 2011.

Table 3 Movement of prime-street shop rents in July 2011 (compared with June 2011)				
	Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
Rent movement				

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Americas

Bermuda
Brazil
Canada
Caribbean
Chile
USA

Australasia

Australia
New Zealand

Europe

Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
The Netherlands
UK
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

Bahrain
Cambodia
China
Hong Kong
India
Indonesia
Korea
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