

# MARKET RECOVERY TO HINGE ON THE BORDER REOPENING TIMELINE

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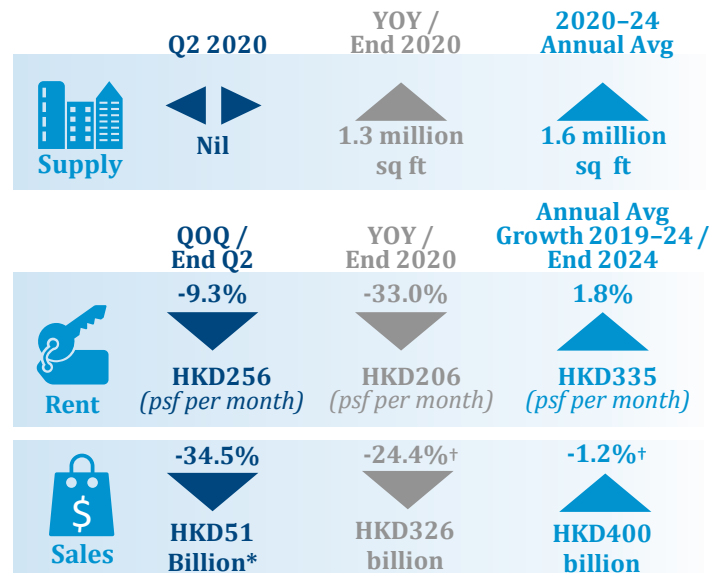
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## Insights/recommendations

- > We expect H2 2020 retail sales to remain subdued, as the COVID-19 uncertainty may trigger the local government to retighten social distancing rules and other precautionary measures.
- > Online-to-offline strategies remain important for retailers to better support the shopping experience in their physical stores, while landlords should focus on the more resilient trades like supermarkets, home living and light refreshment.

## Q2 2020 highlights

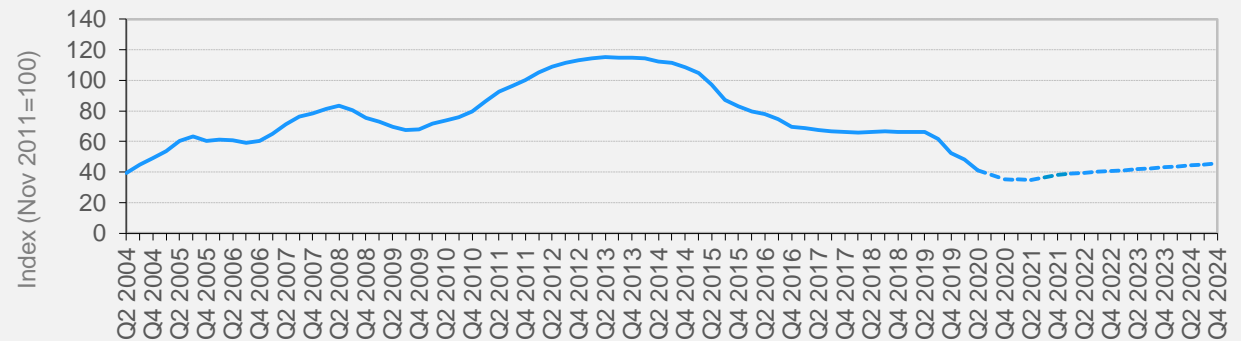
- > Retail sales dropped 34.5% YOY in Q2\*, as the lockdown has paused tourist spending.
- > Retail trades in international F&B and lifestyle department stores continue to be key demand drivers, supported by local consumers amid travel restrictions remaining in place



## Q2 2020 High-street retail rents

District	QOQ
Overall Rental Index**	-9.3%
Central	-14.0%
Causeway Bay	-8.6%
Tsim Sha Tsui	-8.4%
Mong Kok	-7.7%

## Hong Kong high-street retail rent index



Source: Colliers International Note: 1 sq metre = 10.76 sq feet. USD1 to HKD7.8 at the end of Q4 2019. \*Combined April and May 2020 value. \*\*Street level shops on key shopping streets. +Forecast from Oxford Economics. This report covers the Hong Kong Special Administrative Region of the People's Republic of China.



## Outlook

### H2 performance hinging on the reopening of border

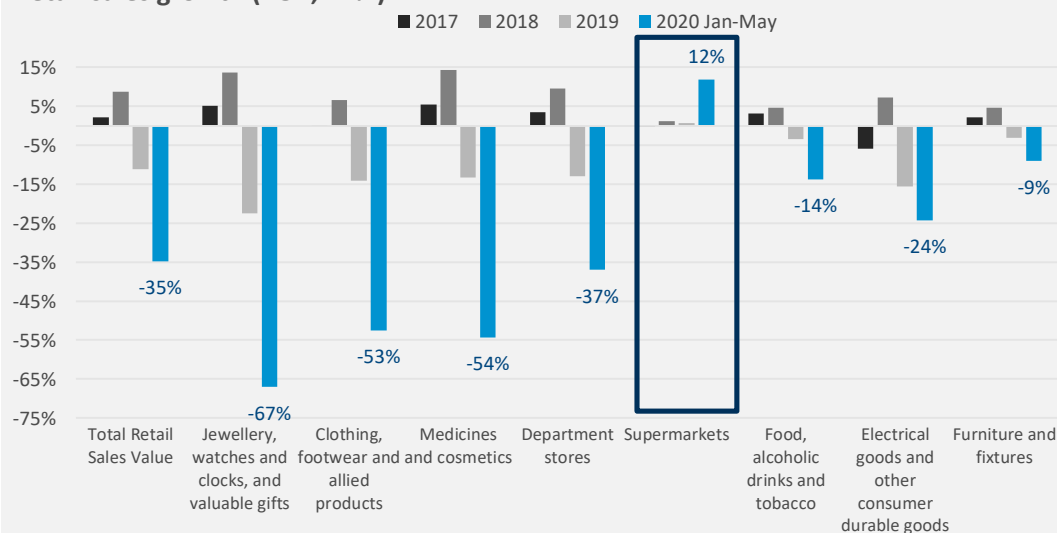
- > Overall, the H2 business outlook for retail sector will likely remain challenging amidst the weakening economy and labour market, while the global travel restrictions are still in place.
- > New COVID-19 cases have appeared and imposed uncertainty for the remaining of H2. We continue to witness changing consumers' behavior and purchasing habits, making retailtainment an important element to create in-store branding experiences for shoppers.
- > The higher requirement of hygiene standards from the public will urge landlords to further strengthen sanitation schemes in their malls to ensure a clean and safe shopping environment during and post-COVID.
- > We forecast high-street retail rents to drop by 33% YOY in 2020, before the gradual recovery from later half of 2021 onwards.

### Key leasing transactions

Client	Building	Area (sq ft)	Key location	Lease Type
Don Don Donki*	100 Queen's Road Central (QRC)	19,005	Central	New lease
Don Don Donki*	Monterey Place	27,000	Tseung Kwan O	New lease
El Gaucho	The Centrium	3,800	Central	New lease
Wellcome	Malahon Apartments	7,500	Causeway Bay	Renewal
Sofamark	Greatmany Centre	6,570	Wan Chai	New lease
Pure Fitness*	One Hennessy	23,750	Wan Chai	New lease
Sukiya	Grand Place	2,650	Mong Kok	New lease

\*Transactions concluded by Colliers

### Retail sales growth (YOY, in %)



Source: Census and Statistics Department



## Q2 2020

### Resilience in supermarket sales

- > Retail sales in supermarkets demonstrated resilience, by growing 12%YOY in the first five months of 2020. The sector was also the key leasing demand driver in Q2. For instance, Don Don Donki has expanded with two new key retail premises over the flagship address of 100 QRC, and the entire first floor of Monterey in O'South. Meanwhile, traditional luxury brands and fast fashion retailers are downsizing and consolidating their footprint amid the market disruption. Rents in Central corrected the most in Q2 2020, given the high proportion of large size shops over three or four storeys high that are not developer-owned and international retailers are very hesitant to sign new leases with a big lump sum rental amid the city lockdown and travel restrictions.

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