

Shop rents hit all-time high

Big-name brands able to pay HK\$2,000 a square foot a month take over prime street-level sites as locals are priced out of market. And rents are still rising

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Street-level shop rents in Hong Kong rose to record levels in the second quarter, far surpassing their peaks in 2008 and forcing out local retailers and restaurants, according to a new report on the market.

The average rent for street-level shops in Hong Kong's four traditional shopping districts - Causeway Bay, Central, Mong Kok and Tsim Sha Tsui - rose 7.4 per cent in just three months, breaking the record levels of mid-2008 by 11 per cent on average, according to Colliers International.

"Since Hong Kong acts as a stepping stone to the mainland, big, bloated international retailers continued to outbid existing tenants to secure shops in prime locations in an effort to have a piece of the Hong Kong retail sales pie," said Simon Lo, executive director of research and advisory services at Colliers International Asia.

On some streets, the rent increases far exceeded the average. With the fierce competition, the average rent for street-level shops has now exceeded the 2008 peak level by 44.1 per cent in Canton Road, Tsim Sha Tsui, 38.6 per cent in Queen's Road Central, and 30.1 per cent in Russell Street, Causeway Bay, the Colliers report said.

Property consultants said international brands paid rents of between HK\$800 and HK\$2,000 per square foot for ground-level shops in these and other pricey Hong Kong locations.

Lo said rising food prices, along with higher rents, put even more pressure on the profit margins of food and beverage operators.

"Inflationary pressures are likely to act as a potential dampener on leasing demand from food and beverage retailers in the short to medium term," he said. "But despite surging inflation, leasing demand from brand-name retailers and jewellers, which are less cost sensitive, will remain strong."

A case in point is the Gourmet Coffee shop in Hysan (SEHK: [0014](#)) Avenue, Causeway Bay,

which was edged out by a fashion boutique last month after the landlord raised the rent by 50 per cent.

Gourmet Coffee co-owner Robert Chan, who opened the sandwich and coffee shop 13 years ago, is busy looking for new premises nearby.

"I just got outbid by an international coffee chain in the next street," said Chan. "Retail rents for small shops in side streets have doubled to HK\$60,000 a month. It is hard for us to survive with such crazy high rents."

Supported by continued growth in retail sales, as well as a limited supply of shop space in prime locations, overall retail rents in core shopping areas will grow another 15 per cent in the next 12 months, Colliers International predicts.

Escalating retail rents have also drawn investors, with the number of sales transactions of HK\$10 million or above jumping 40 per cent in the second quarter compared with the first quarter.

"Investors have shifted to the retail property market since the sector is exempt from the special stamp duty [imposed on quick resales of residential property] and because the continuing rise in rents will provide an attractive return," said Jeannette Chan, a regional director of the retail department at property agents Jones Lang LaSalle.

In November, the government announced an additional stamp duty of between 5 per cent and 15 per cent on flats resold within two years in order to crack down on rampant speculation in the residential market.

The number of "confirmor" sales of retail shops - in which properties are resold before the original transaction is completed - climbed to 922, the highest since 2005, said Centaline Property Agency. The total value of shops changing hands amounted to HK\$7.15 billion.