



Hong Kong: Lower Retail Rentals Presents Opportunities For U.S. Retailers

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According to real estate agencies in Hong Kong, rental rates of some prime retail space have dropped 15 to 20% from their peak in the early part of 2008. For secondary retail space, the drop in rentals is as much as 30%. Existing retailers with strong financial position are taking advantage of the falling rentals and reduced competition for prime retail space to either expand their number of outlets or take up larger shop space to create flagship stores. H & M (Swedish,) Zara (Spanish,) Guess (American,) Muji (Japanese,) Chaumet (French,) Maison Martin Margiela (Belgian,) La Maison Du Chocolat , and DFS (Duty Free Shoppers, French) are opening additional stores or enlarging their existing stores.

Hong Kong continued to be an attractive location in Asia for foreign retailers looking for overseas expansion outside of Europe and the U.S. and in countries less severely hit by the financial crisis. Foreign retailers that opened outlets in Hong Kong in recent months includes the German audio-visual equipment retailer, Loewe.Galerie, the Italian Caffe Pascucci, the American restaurant BLT Steak, and several Japanese clothing brands, such as Sly and Jeanasis. Canadian's largest footwear retailer, Aldo is also planning their foray into Hong Kong with the opening of a shop in April 2009.

American retailers should also seriously consider taking advantage of the lower retail rentals to establish their presence in Hong Kong. After the last major economic downturn in Hong Kong (the 1997-98 Asian Financial Crisis, followed by the 2003 SARS epidemic,) when the territory's rental market declined by an even greater margin, savvy tenants were able to lock in appreciable savings, Hong Kong has other advantages for retailers to locate here:

- Hong Kong's tax-free status means shopping is cheaper here than in neighboring markets, like mainland China or Japan. 29.5 million tourists visited Hong Kong in 2008, almost three-quarters of whom were relatively high-spending mainland Chinese.
- Hong Kong's vibrant music, movie, television and print media continue to influence fashion trends throughout Asia. Hong Kong often serves as a trend-setter or it is the showcase for consumers from China.
- Hong Kong is a launch pad into China and for a retailer with plans to enter China; Hong Kong presents an additional avenue for brand building among Chinese consumers visiting Hong Kong on shopping trips. 16.8 million Chinese visited Hong Kong in 2008 and while in Hong Kong, they shop, shop, and shop!!! Starting from April 1st, 2009, the Chinese government will allow residents from Shenzhen in the Guangdong Province, just across the border from Hong Kong to apply for year-round multiple entry visas to Hong Kong and will further relax the Individual Travel Scheme to include the whole of Guangdong Province. This relaxation in travel will boost visitor numbers from China by as much as an estimated 10 million from Shenzhen in the next few months and will help to

boost retail sales. In tourist districts, sales to Chinese visitors comprise about 40% of total transactions.

- Hong Kong's domestic population of 7 million has one of the highest average disposable incomes in the region.

Retail sales in Hong Kong valued at US\$35 billion at the end of 2008 were up 10.5% compared with the previous year, boosted by domestic expenditures and tourist spending. Shopping is definitely considered to be a 'must-do' by most Chinese travelers visiting Hong Kong. Fashion goods (purchased by 53% of the Chinese travelers, cosmetics (50%), and confectionery (50%) were ranked among the top three shopping purchases for the Chinese visitors. The 16.8 million Mainland Chinese tourists that visited Hong Kong in 2008 spent an estimated average of US\$600 per person.

A few American fashion brands have established stand alone stores in Hong Kong in the past two years, such as "Seven For All Mankind," "Ed Hardy," "Juicy Couture," "True Religion," "John Hardy," and "David Yurman."

Formats for market entry for retailers include finding a local distributor /licensee, setting up an office to run the stores (and leveraging Asia sourcing offices) or franchising. The U.S. Commercial Service in Hong Kong can help American companies identify possible partners/licensees, and investors, and provide customized research information for all market entry needs: information on local tastes and spending patterns, logistics and supply chain support services, retail real estate services, and marketing and advertising strategies.

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