



Contents

02 Institute News

Joining Forces to Promote High-quality Real Estate Management and Professional Services

ISCM and five professional organisations in property management have jointly established the Hong Kong Real Estate Management and Service Alliance.

Extending Our Care to the Needy

Kee Wah Bakery donated 200 boxes of yolk custard mooncakes for our CSR event.

Webinar Reviews

Two webinars were organised in the last quarter, and each had over 100 participants.

04 Feature Stories

Local Eateries Plan for Expansion in the Time of COVID-19

Retailers have been hit hard by the COVID-19 pandemic and the resulting containment measures implemented by the Hong Kong Government. In addition, the outbreak followed months of social movements, which kept big-spending mainland Chinese tourists away, further hurting the retail sector. Our reporter has talked to some local eateries to learn their strategies and plans.

How COVID-19 Is Reshaping Hong Kong's Retail Landscape?

Bruised and battered by the double whammy of social unrest last year and the COVID-19 pandemic this year, Hong Kong's retail sector is experiencing unprecedented challenges that are likely to result in long-lasting changes to the market landscape. Kevin Lam, Executive Director, Head of Retail Services – Agency of Cushman & Wakefield, shares his views with us.

09 Membership

Message from the Institute

Dear ISCM members and friends,

Stepping into Q4 of the year, the impact of COVID-19 has been with us for a consecutive 9 months, and it is unknown when this health crisis will end. Similar to all other business sectors in Hong Kong, shopping malls and retail businesses were greatly affected by the third wave of COVID-19 in Q3 2020.

Measures including social distancing regulations imposed on restaurants, as well as the temporary closure of fitness centres, beauty parlours and entertainment centres, have put pressure on different business operators. On the other hand, the prolonged health issue has changed our lifestyle. There is more need and demand for health-related products, appliances, and grocery goods for consumption at home. Behavioural changes include more speedy adaptation to online shopping and skewing towards more outdoor activities. All of this happened within just a few months, and shopping centre professionals also need to adjust and adapt promptly to meet all these rapid changes.

Despite the pressure and negative impacts throughout the year, it is of vital importance for us to curate new ideas to turn this crisis into future opportunity. We need to keep our positive attitudes, gear up our capabilities, and put new operations into action with detailed plans.

Things to look forward to post-COVID-19

ISCM has been proactively working on numerous aspects to cope with the ever-changing environment. In addition to several webinars covering new topics, there have been the CSR initiatives to render assistance to vulnerable groups in society—the past few months has seen the Mid-Autumn Festival gift sharing to underprivileged families, a joint effort of Kee Wah Bakery and Runner Foods.

In August 2020, ISCM joined forces with other professional institutes to form the Hong Kong Real Estate Management & Services Alliance (HKREMSA), with the aim of promoting high-quality real estate management and professional services in Hong Kong. Our Chairman, Mr Baldwin Ko, will have more to say about this strategic alliance in this issue.

Those industrial counterparts who have seen the ISCM newsletter before will certainly discover that our content and design has been revamped in this issue. This is another new initiative that we are bringing to our professional members and friends, and we wish to establish more collaboration within the industry via our newsletter. Special thanks to Mr Kevin Lam of Cushman & Wakefield, Mr Louie Chung of Lubuds Group and Mr Kent Wong of Taste Gourmet Group, who have contributed to share their views and outlooks on the coming future of the industry.

I hope you enjoy reading this issue—and seeing our fresh new look.

Sincerely,

Michelle Lee
Vice Chairman





ISCM and five professional organisations in property industry have jointly established the Hong Kong Real Estate Management and Service Alliance

Joining Forces to Promote High-quality Real Estate Management and Professional Services

The Hong Kong Real Estate Management & Services Alliance (HKREMSA) was officially launched on 24 August, with our institute one of the members of the strategic alliance. The memorandum was signed in the presence of the Guest of Honour, Sr Tony TSE Wai-chuen, BBS and member of the Legislative Council for Architecture, Surveying, Planning and Landscape—along with other honourable guests.

In an interview, our chairman Mr Baldwin Ko expected that joining the HKREMSA could expand the membership base of the Institute on one hand, and extend the scope of ISCM services to the other five professional institutes.

More than 4,000 professional members will be joining HKREMSA, which aims to promote high-quality real estate management and professional services in Hong Kong. “We plan to organise an annual meeting, very likely a cocktail party for all 4,000 members. This is one of the ways we hope to encourage professional networking,” Mr Ko said.

Members of HKREMSA include Chartered Association of Building Engineers Hong Kong Chapter (CABE-HK), Hong Kong Institution of Building and Services Engineers (HKIBSE), Hong Kong Institute of Certified Property Managers (HKCPM), Hong Kong Institute of Real Estate Administrators (HIREA), Institute of Shopping Centre Management (ISCM) and International Dispute Resolution and Risk Management Institute (IDRRMI).

Since its inception in 2003, our institute has had the mission of creating a platform to exchange best practices in the art and science of shopping centre management within the Asia-Pacific region. “As well as mall management, we expect to broaden our members’ horizons and enhance their professionalism in wider industries including real estate management, building services and arbitration,” said Mr Ko, adding that study tours of real estate in the Greater Bay Area of Mainland China are expected.



Our Chairman Mr Baldwin Ko was the signing representative on behalf of ISCM



Our CSR Committee joined together with members and their families to distribute the mooncakes to the needy

Extending Our Care to the Needy

Since the outbreak of the novel coronavirus (COVID-19), our institute has been taking various measures. In addressing the needs of vulnerable groups in the society, we were delighted to have the support from Kee Wah Bakery, which pledged to donate 200 boxes of yolk custard mooncakes to underprivileged families via the help of Runners' Foods. On 26 September, our CSR Committee joined together with our members and their families to distribute the mooncakes along with food vouchers and hand sanitisers to the needy in Yau Ma Tei.



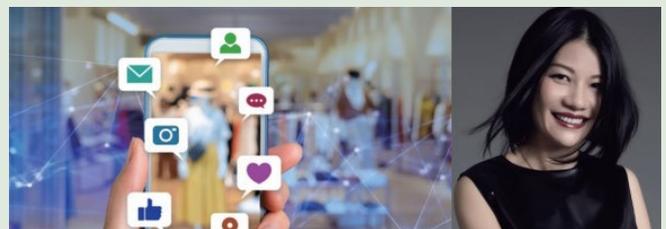
Kee Wah Bakery donated 200 boxes of yolk custard mooncakes for our CSR event

Webinar Reviews



Two webinars were organised in the last quarter, and each had over 100 participants.

On 26 August, we were honoured to invite Mr Darryl Custer, Senior Vice President & Asia Pacific Leader of Callison RTKL Asia Limited, to speak on the topic of "Asia Retail Mixed Use Design Trends" with our members. Keynotes of his speech included (1) Today's consumer; (2) Trends – challenges and design solutions; (3) Digital Shift; (4) Inclusion of SMART; and (5) Global Pandemics and the new normal.



The other webinar was presented by Ms Ivy Wong, Founder & CEO of VS Media, with the topic "Key Trends that will Shape Influencer Marketing for Retail Post-COVID-19." This took place on 23 September. She shared with our members three main trends that could influence how retail companies will alter their marketing strategies to meet the new challenges ahead, including: (1) Validating influencers beyond "likes": ROI is critical to the future of influencer marketing; (2) Humanising a brand; and (3) Becoming more audience-centric.



BaseHall, located at Jardine House, Central, claims itself the first premium food hall in Hong Kong

Local Eateries Plan for Expansion in the Time of COVID-19

Retailers have been hit hard by the COVID-19 pandemic and the resulting containment measures implemented by the Hong Kong government. In addition, the outbreak followed months of social movements, which kept big-spending mainland Chinese tourists away, further hurting the retail sector.

Leaving key tourist destinations

Hong Kong retail sales have fallen 19 months in a row, as COVID-19 infections continue to pummel the struggling sector. Several international luxury brands have closed stores in the past few months, leading to a sharp drop in rental prices in major shopping areas in the city. However, new brands have been attracted, especially eateries targeting the local market.

Well-known brands that have left or will close their stores in Central include sportswear chain Nike, fashion brand Esprit, German leather brand MCM, and fashion brand Topshop. Following a sharp correction in rental prices in prime locations such as Central and Causeway Bay, it is a good time for new overseas and mass-market players looking to expand in Hong Kong, as new leases could be 30% to 50% cheaper than previously.

Top luxury brands Tiffany & Co and Italian fashion label Valentino have closed their stores in the key tourist destination of Canton Road in Tsim Sha Tsui, whereas the Canadian healthy lifestyle brand Lululemon opened its largest flagship store in June. In addition, luxury brand Hermes has expanded its store in Harbour City, while US menswear brand Thom Browne and perfume

retailer Kilian Paris have opened their first stand-alone stores in Hong Kong.

A time for bargain and expansion

Japanese lifestyle retailer Muji opened a flagship store spanning over 20,000 square feet, and largely dedicated to food, at Telford Plaza in Kowloon Bay. This is the retailer's first coffee bar and bakery in Hong Kong—a major selling point.

Japanese discount retailer Don Don Donki is set to double its number of Hong Kong outlets to six by early 2021, with Queen's Road Central opened in October, followed by one in the Monterey Place residential complex in suburban Tseung Kwan O, and another in Siu Sai Wan next February.

U.S. coffee brand Blue Bottle debuted in Hong Kong in April and joined the highly competitive coffee landscape in Central, which is already home to well-received coffeehouses including Knockbox, Coco Espresso, NOC, Fineprint, Nodi, and Double Shot by Cupping Room. Despite serving only takeaway coffee whilst social distancing rules are in place, coffee lovers are lining up for a taste of the roaster's single-origin brews.

Diversification is key

Local F&B group Lubuds currently owns 32 outlets in total, expected to keep up its current pace of opening 7 new eateries a year. "As well as opening physical outlets, both the social movement campaigns and the pandemic have inspired us to focus more on diversification in terms of store locations and offerings," said Louie Chung, Founder & Chief Executive Officer of Lubuds Group, in an interview with ISCM. "While we now have 180,000 to 200,000 customers every month, in the future we will have 2 million a year. We could leverage this number to further expand our business and do cross-marketing," he said.

"At the end of May we finally confirmed the launching of our own mooncake labels," Mr Chung mentioned. "How about cakes and desserts? These are all in our own menus, under different outlets which can be spun off," he said, adding that opening individual outlets or online platforms are some options to be considered.

Mr Chung admitted that his group's business has been hard hit by the pandemic measures launched by the government. Among the cuisines, Chinese suffered the worst losses with an average of 40% to 50%, whereas Japanese cuisine recovered the quickest and is currently back to 90% compared to the pre-COVID-19 period.

"Our group has always aimed at local markets, and therefore was not impacted by the sharp shrinking of the tourist market. Most importantly, delivering the best quality is always the way to success. Customers have been threatened by the lockdown and becoming picky now. They will look for the best options," Mr Chung concluded.



Louie Chung, Founder & Chief Executive Officer of Lubuds Group, confirmed that delivering the best quality is the key to success



Lubuds currently owns 32 outlets with a wide range of cuisine offerings



Taste Gourmet Group has been struggling since the outbreak of COVID-19

Quality is the top priority

Landlords of shopping malls and mixed-use projects in the city are allocating more space to F&B tenants, notably with the opening of several food halls like Foodeli at Telford Plaza in Kowloon Bay, Eaton Hotel's Food Hall in Jordan, and Basehall at Jardine House in Central.

Oliver Tong, JLL's head of retail for Hong Kong and Macau, told local media that an increasing shift to targeting local consumers in Hong Kong is expected. "Hong Kong remains an important market for international and local F&B retailers, especially midmarket ones, which are now taking advantage of softening rents to build a presence in the city," he confirmed. Japanese restaurant chains Sushiro and Sukiya, for instance, known for their affordable sushi and beef rice bowls, have their opened outlets in Whampoa, Lai Chi Kok, Wong Tai Sin, and Yau Ma Tei, outside the major shopping districts. It is believed that opening shops in residential areas has the benefit of ensuring a steady flow of foot traffic, compared to traditional commercial areas.



Don Don Donki has its new store opened at Queen's Road Central

Hong Kong-listed Taste Gourmet Group operates a chain of over 30 restaurants offering French, Japanese, Chinese Asian and Western cuisines under 14 brand names, including Tirpse French Cuisine, Vietnamese Cuisine, Nabe Urawa and Yamaichi Japanese Restaurant and Takano Ramen. "We've definitely been hit hard by COVID-19, and especially because we couldn't easily turn to takeaway or delivery business like some other operators did," says Kent Wong, Chairman and Executive Director of Taste Gourmet Group Ltd., in an interview with ISCM.

Mr Wong expresses his gratitude to the landlords who have been offering a temporary rental discount for his restaurants, and to his frontline staff who have taken voluntary unpaid leave to help reduce operating costs. "Despite our overall business being slashed, our group retains our corporate responsibility to maintain sustainable development on the one hand and keep our staff on the other. Layoffs are never on our agenda," he stresses.

While the overall business has returned to 70% of its previous level, Mr Wong believes challenges are ahead. "Value for money is key for the food & beverage business, and we will focus on offering the best quality we can and retaining existing customers," he concludes.



Taste Gourmet Group Limited's Chairman Kent Wong emphasised that taking care of their employees is part of the group's corporate responsibility

How COVID-19 is Reshaping Hong Kong's Retail Landscape?

Bruised and battered by the double whammy of social unrest last year and the COVID-19 pandemic this year, Hong Kong's retail sector is experiencing unprecedented challenges that are likely to result in long-lasting changes to the market landscape.



As tourism from mainland China, long a cornerstone of local retail demand, at first plummeted and then came to a virtual halt this year as borders were closed, retail sales have fallen to a decade low. As a result, recent quarters have seen vacancy rates in the traditional core shopping districts such as Causeway Bay, Central, Tsim Sha Tsui, and Mong Kok climb to record highs, driving rents sharply lower. Rents in the core areas are likely to sink by 40% to 50% this year alone, to levels not seen since 2006-2007, and the market has yet hit rock bottom.

Prime streets such as Russell Street in Causeway Bay and Canton Road in Tsim Sha Tsui, once the world's priciest shopping strips, have lost their luster as shops that once housed luxury boutiques and high-end cosmetic brands now sit empty. Most luxury retailers have no immediate plans to leave Hong Kong, focused instead on cautiously evaluating their physical presence in the city over the long

run. But, as the increasing number of vacancies show, many have suffered enormously from the loss of tourist dollars over the past year and see an economy (both locally and globally) that is unlikely to hit bottom in the next 6 to 12 months.

Changing Tracks : High Street Landlords Getting Worried

It is not just retailers that have been pummeled by the pandemic. High street landlords are also in turmoil, facing increasing vacancies and lost rent as retailers close stores. While the easy solution to fill the revenue void would seem to be to quickly re-lease the property at a steep rental discount, that can present another problem as a lower rental can adversely impact the property's mortgage valuation.

Hence, many landlords who have lost tenants in recent months have instead turned to the prospect of leasing to pop-up shops on a short-term basis. This allows them to generate some rental income without depreciating their property. In order to lease their shops even more quickly, some landlords have also become more flexible as to the types of tenants they are willing to accept. Many pop-up shops along high streets are being occupied by mass-market retailers, such as convenience stores, those selling mobile phone accessories, and even supermarkets. The longer-term implications of this is that it may slowly transform the trade mix of high streets, both making it more likely that remaining luxury retailers in the area will leave and making it harder in the future to lure them back.

Looking Forward : Retailers Increasingly Seek Safety in Shopping Malls

Retailers are taking lessons from the challenges of the past year, and seeking to curb losses and minimise future risks, many are consolidating the number of locations in Hong Kong. And in the shifting retail landscape, shopping malls are benefiting, seen by many retailers to offer the relative safety of well-curated tenant mixes, strong marketing campaigns, and sophisticated leasing packages.

The support of strong marketing campaigns aimed at stimulating foot traffic has a major advantage of shopping malls over street front shops, particularly during the pandemic. In recent months, for example, several major shopping mall operators have worked closely with their tenants in aggressively rolling out promotions. Featuring enticements such as shopping vouchers and free parking, such campaigns are proving successful at boosting sales and generating repeat purchases.

Many mall landlords have also been more proactive in offering flexible lease renewal terms, including shorter lease durations and longer rent-free periods, as well as timely and customised rental adjustments based on each tenant's sales performance. Such measures have been able to help them better retain tenants.

Some well-managed mall landlords are going even further, in introducing pandemic clauses into lease contracts, what is viewed as a pragmatic approach to safeguard the interests of both sides in the eventuality of future outbreaks. Such mechanism shall provide clear guidelines as to deal with the situation with tenants in the event of business disruptions and address gaps in existing insurance policies which may not cover pandemic-related losses.

By comparison, high street landlords have much fewer resources in terms of management and marketing with which to support retailers through these challenging times. It is therefore not surprising that in these challenging and uncertain times that retailers are gravitating towards shopping malls.

It is clear that the combined impacts of the social unrest last year and COVID-19 have caused major disruptions for both landlords and retailers in Hong Kong. And the current shifts being seen between high streets and shopping malls may alter the city's retail landscape in ways that long outlive the pandemic.



Kevin Lam

Executive Director,
Head of Retail Services – Agency
Cushman & Wakefield

New Members

All Board members and Honourable members Mr Raymond Kwok, Mr Michael Tien, Dr. Roger C.K. Chan, Professor Rebecca L.H. Chiu, Professor Eddie C.M. Hui, Professor Sin Yat Ming and Dr. T.M. Kwong welcome the following new members:

Full Member

Ho Pui Ting Iris

Associate Member

Yeung Yin Chun

Membership Application

Our Membership is open to any individual person who is a practitioner in shopping centre industry. Students who have enrolled in the course of shopping centre management at HKU School of Professional and Continuing Education (HKU Space) or other relevant courses will also be considered.

Grade of Membership	Annual Fee
Fellow Member	HK \$1650
Full Member	HK \$1100
Associate Member	HK \$ 720
Student Member	HK \$ 280

Online application can be completed at the following link:

www.iscm.org.hk



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