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Smaller shopping centres drawing foreign investment

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Revamping and upgrading malls in residential areas can lift their value when later sold on

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Foreign investment funds are targeting smaller shopping centres in Hong Kong's more residential neighbourhoods, with the idea of repackaging undervalued properties and capitalising on a rebound in the city's commercial rental market.

Hong Kong private equity fund Gaw Capital Partners bought the Link Reit portfolio for US$2.9 billion in February 2018 in a joint venture with Goldman Sachs and China Great Wall Asset Management.

In a similar deal in December, Gaw Capital, Goldman and Blackstone bought a portfolio of 12 neighbourhood malls for US$1.5 billion.

"These funds are betting that the malls are undervalued with current maintenance and management," said Maggie Hu, an assistant professor of real estate and finance at the Chinese University of Hong Kong.

"With professional management and strategic upgrading, they can improve the exterior image and internal design with a better and innovative decoration and construction strategy, and then resell the malls at substantial profit after repositioning and rebranding," she said.

"Secondly, in the past few years, the commercial rental market in Hong Kong has been in a downturn trend and is likely to rebound in the future. So, in terms of market timing, now is the lowest point to enter the market, to buy," Hu said.

According to consultancy CBRE Hong Kong, full-year rents for retail spaces in Hong Kong rose 0.2 per cent in 2018, their first increase after four consecutive years of decline.

"Neighbourhood malls have far more potential – they are in the heart of local communities and enjoy stable sources of customers," said Lawrence Wan, head of advisory and transaction services for retail at CBRE.

Petra Blazkova, senior director for Asia-Pacific analytics at Real Capital Analytics, said that while foreign investment in Hong Kong property overall declined in 2018, investment in community malls was an exception.

"The sector has seen an influx of investment from both domestic and cross-border investors in the past 12 months," she said.

One example has been Provident Square, one of the largest malls in North Point with a gross floor area of about 210,000 sq ft split over three levels.

Real estate investment fund Pamfleet, which has offices in Hong Kong, Singapore and Shanghai, partnered London-based Chelsfield a year ago to invest in the centre. The fund plans to rebrand and reposition the mall after a phased renovation and improve its tenant mix.

The mall has been renamed Worfu, and Camille Walala, a London-based artist and graphic designer, has been commissioned to create a mural. Nicholas Loup, vice-chairman and chief executive of Chelsfield Asia, said the artwork "conveys Worfu as a multifaceted destination, which welcomes all demographics".

The mall's tenants were generally upbeat about the renovation but said rents had gone up. Pauline Cheng, who works at Parsons Music, said her employer had told her the rent for their shop had been increased.

Mural at the former Provident Square mall in North Point.

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>
> MAGGIE HU, CHINESE UNIVERSITY

"My boss told me it's more expensive, but our shop has been here for 20 years. We used to be in another part of the mall, but they closed it down for renovation, so we moved to our new shop three months ago," she said.

"There are more lights now. Before, it was a bit dark, but it's much better now. I see more shoppers coming here."

Mona Lau, the director of Eily Beauty and Health House, said her shop had seen a 20 per cent increase in customers since the renovation began. But this increase had come at a price – the mall's management fee has been raised by 50 per cent.

"People only used to go to the ParknShop, but after they started redeveloping the mall, there are more people coming in, even to my shop," said Lau, who opened the store a year ago.

But she was worried about whether an eventual increase in rents would force her to pass on the additional cost to customers.