

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Commercial Properties Committee

Financial Performance of Shopping Centres Completed in 1997/98

PURPOSE

To inform Members of the financial performance of new shopping centres completed in 1997/98.

BACKGROUND

2. According to the Report of the Commercial Properties Viability Working Group annexed to Paper No. CPC 29/97, Commercial Properties Committee (CPC) should be informed of the financial viability of new shopping centres one year after completion of the centres for monitoring the financial performance.

SHOPPING CENTRES COMPLETED IN 1997/98

3. In the year 1997/98, four shopping centres were completed with a total retail space of 30,585m² Internal Floor Area (IFA) generating a total annual income of about \$ 99.403M. Details of the four shopping centres are as per **Annex A**.

4. Brief descriptions of the retail facilities and letting position of these shopping centres are given below –

**(a) Tin Tsz Shopping Centre, Tin Shui Wai
(Completed in 4/97)**

- (i) The shopping centre is designed as a Small Neighbourhood Centre (Type D) with a retail space of 2,972m² IFA to serve a total population of about 12,500 in Tin Tsz Estate and Tin Lai Court. It is situated along Tin Shing Road of Tin Shui Wai New Town and is linked up to Tin Yiu Estate by a footbridge.
- (ii) Retail facilities in this two-storey shopping centre without central air-conditioning consist of a supermarket-cum-market, a Chinese restaurant, 2 fast food/small restaurants, a convenience store, a bank and some general shops to cater for local residents' daily needs. Due to the presence of a large market in Tin Yiu Estate in the vicinity, only a supermarket-cum-market is planned for this shopping centre. The anchor tenants include Wellcome Supermarket, Cafe' de Coral Fast Food Restaurant, Rendezvous Cafe, Congee & Noodle Shop, 7-Eleven Convenience Store and Liu Chong Hing Bank Ltd. The current letting rate of this shopping centre is about 94.5%.
- (iii) The provisional final contract sum is \$47.610M. Based on the rental income and projected future growth, the investment for this shopping centre generates an internal rate of return of 9.7% with a payback period of 11 years.
- (iv) Location plan and master layout plan are at **Annexes B & C**.

**(b) Fu Tung Shopping Centre, Tung Chung
(Completed in 7/97)**

- (i) The shopping centre is designed as a Greenfield Centre (Type B) with a retail space of 4,805m² IFA to serve a total population of about 14,200 in Fu Tung Estate and Yu Tung Court, the first public rental housing estate and Home Ownership Scheme (HOS) court in the Tung Chung New Town. A footbridge is built by the Mass Transit Railway Corporation (MTRC) to link up the shopping centre to the Tung Chung Station.

- (ii) Retail facilities in this centrally air-conditioned two-storey shopping centre consist of a supermarket, a Chinese restaurant, 2 fast food/small restaurants, a convenience store, a bank and some general shops. The anchor tenants include Holly Restaurant, Cafe' de Coral Fast Food Restaurant, Rendezvous Cafe, Congee & Noodle Shop, Wellcome Supermarket, 7-Eleven Convenience Store and Bank of East Asia while the single operator market was let to Majorluck Limited.
- (iii) The current letting rate of the shopping centre is about 98.0%. The shopping centre is the first generation shopping centre in the developing Tung Chung New Town. Due to the absence of competition, business is observed to be good after the full intake of residents in both the rental and HOS estates by mid 1998. However, with the opening of modern commercial centres in neighbouring private developments such as the City Gate with a retail space of 48,500m² Gross Floor Area (GFA), part of MTRC's development of Tung Chung Station by the end of 1999, business in this shopping centre will face strong competition. In general, the design and service provisions of the shopping centre meet the retailers' requirements and are welcomed by local residents.
- (iv) The provisional final contract sum is \$73M. Based on the rental income and projected future growth, the investment for this shopping centre generates an internal rate of return of 10.4% with a payback period of 12 years.
- (v) Location plan and master layout plan are at **Annexes D & E.**

(c) **Tsz Wan Shan Shopping Centre, Tsz Wan Shan
(Completed in 8/97)**

- (i) The shopping centre is designed as a District Centre (Type A) with a retail space of 19,869m² IFA to serve a total population of over 80,000 in the public housing estates, home ownership courts as well as the private tenements in the vicinity in the Tsz Wan Shan Area.

- (ii) Retail facilities in this centrally air-conditioned eight-storey shopping centre consist of a department store, a supermarket, two Chinese restaurants, six specialty restaurants, three fast food shops, bakeries, a personal store, convenience stores, banks and a wide range of general shops. The anchor tenants include Jusco Department Store, Park' N Shop Supermarket, McDonald's Fast Food Restaurant, Cafe' de Coral Fast Food Restaurant, Fairwood Fast Food Restaurant, Kentucky Fried Chicken, Ocean Empire Congee Shop, Maxim's Bakery, Watsons Personal Store, 7-Eleven Convenience Store and Chiyu Banking Corporation. The shopping centre also includes two air-conditioned markets, one of which is a single operator market let to Well Sighted Limited and the other managed by the Department's in-house staff.
- (iii) The current letting rate of this shopping centre is about 98.5%. The overall business potential of the centre will be improved upon the moving in of about 35,000 residents when the entire Tsz Wan Shan Redevelopment Programme is completed by 2002. The design of the shopping centre meets the retailers' requirements and offers them excellent opportunity for business operation.
- (iv) The provisional final contract sum is \$398.832M. Based on the rental income and projected future growth, the investment for this shopping centre generates an internal rate of return of 8.5% with a payback period of 13 years.
- (v) Location plan and master layout plan are at **Annexes F & G**.

**(d) Tin Wan Shopping Centre, Aberdeen
(Completed in 1/98)**

- (i) The shopping centre is designed as a Small Neighbourhood Centre (Type D) with a retail space of 2,939m² IFA to serve a total population of about 12,270 in Tin Wan Estate and Hung Fuk Court.

- (ii) Retail facilities in this centrally air-conditioned five-storey shopping centre consist of a supermarket, a Chinese restaurant, 2 fast food/small restaurants and some general shops to cater for local residents' daily needs. The anchor tenants include Park' N Shop Supermarket, Fairwood Fast Food Restaurant, Holi-Trend Congee Shop, 7-Eleven Convenience Store and Cherkoff Bakery. The current letting rate of this shopping centre is about 96.4%. Due to the high topography of Tin Wan Estate and the wide variety of goods offered in Aberdeen downtown, there is little prospect of attracting outside patronage.
- (iii) The provisional final contract sum is \$88.740M. Based on the rental income and projected future growth, the investment for this shopping centre generates an internal rate of return of 8.7% with a payback period of 17 years.
- (iv) Location plan and master layout plan are at **Annexes H & I**.

VIABILITY

5. Before the rental re-assessment exercise, the total gross annual income for the above four shopping centres was about \$144.432M. Due to the economic downturn as a result of the financial turmoil in the past two years, rent re-assessment of commercial tenancies was approved vide CPC Paper Nos. 42/98 and 68/98. There is a reduction of the income amounting to \$45.029M in the total gross annual income received from the above four shopping centres. Nevertheless, based on the rental income and projected future growth, the investments for the above four shopping centres generate internal rates of return ranging from 8.5% to 10.4% with payback periods of 11 to 17 years which are considered acceptable. The details of internal rates of return and payback periods together with key data and assumptions of the viability test are shown at **Annex J**.

INFORMATION

6. This paper is issued for Members' information but if Members so wish, may be discussed at the Commercial Properties Committee meeting on 6 July 1999.

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