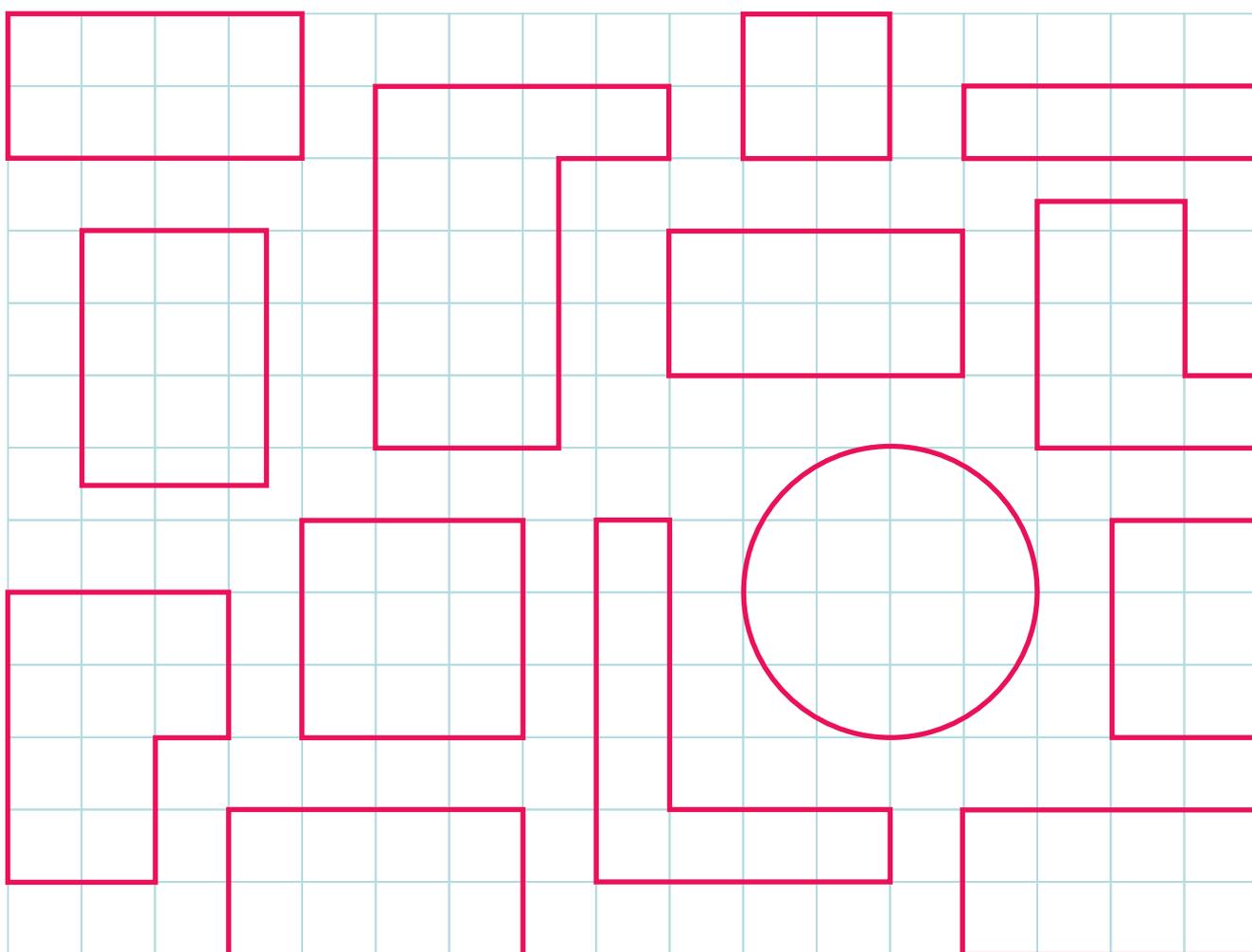


HONG KONG PLANNING
STANDARDS AND GUIDELINES

Chapter

6

Retail
Facilities



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Appendix 1 Quantitative Approaches to Estimate the Demand for Retail Facilities

Retail Facilities

1. INTRODUCTION

- 1.1 Retailing can be defined as the selling of goods in small quantities direct to consumers, being distinct from wholesale trading where goods are sold or bought in bulk to or from warehouses, godowns or bulk carriers to businesses. Today, retailing also includes non-traditional forms of shopping such as ‘tele-shopping’, ‘e-shopping’ and the direct purchase of goods from retail warehouses and factory outlets which serve both consumers and businesses. Moreover, it includes the provision of services direct to customers, including personal services, services related to leisure and entertainment, as well as dining services.
- 1.2 The purpose of this chapter is to provide an overview of the current provision of retail facilities in Hong Kong, the shopping preferences of Hong Kong people, and the latest trends in retailing as they are useful reference information that should be taken into account in the process of retail planning. The broad approach for estimating the demand for retail facilities and the main considerations of retailers and developers in the development of retail facilities are also included for reference.
- 1.3 It must however be stressed that retail development is primarily market-driven and that planning intervention from the Government should be kept to the minimum. Flexibility should be exercised in the application of the broad approach to enable retail provision to adapt to possible changes in demographic characteristics, people’s aspirations, incomes and lifestyles and also to respond to changes in the geographical distribution of population and economic activities.

2. RETAILING IN HONG KONG

- 2.1 Retailing is a major economic activity in Hong Kong. In 2005, retailing and restaurant sales amounted to HK\$260 billion or about 19% of the total Gross Domestic Product. Employment in the related sector was estimated at about 413 000 persons, or 11% of total employment. The total stock of retail property in Hong Kong stood at 10.8 million m² internal floor area (IFA) in 2005, out of which over 97% is in the private sector (including those under the Link Management Limited) and the

remainder is owned by the Hong Kong Housing Authority (HKHA) and the Hong Kong Housing Society.

2.2 The retail industry in Hong Kong is characterized by the presence of a large number of very small retail businesses and a small number of large retailers. Nevertheless, there has been an increasing number of well-established chain groups entering the market, adding a new dimension to the retail sector.

2.3 Basically, retailing is concerned with the sales or provision of the following kinds of goods and services:

- (a) **convenience goods** -- goods for daily consumption such as foodstuffs, drinks, newspapers and medicines;
- (b) **comparison goods** -- goods such as clothing, jewellery, electrical and household goods, etc., for which customers tend to compare for quality, variety and price;
- (c) **retail services** -- these include personal services such as banks, hairdressers, and clinics, as well as services related to leisure and entertainment such as cinemas, karaoke lounges, discos, fitness centres, family entertainment centres and video games centres; and
- (d) **dining services** -- these include eateries providing food and drinks for on-site consumption such as restaurants, noodle shops, fast-food shops, bars and cafes.

2.4 In Hong Kong, these retailing activities are accommodated in different types of retail facilities, including:

- (a) Shopping Malls

These are indoor, air-conditioned and usually centrally-managed shopping centres, which are either free standing or on the lower floors of residential or commercial developments. Shopping malls typically provide the whole range of retailing activities including the sales of convenience and comparison goods as well as the provision of retail services and dining services, creating a self-sustaining and one-stop shopping environment. Their size in terms of total gross floor area (GFA) can vary tremendously from mega shopping malls such as Harbour City in Tsim Sha Tsui (about 186 000 m² GFA) to shopping malls provided on the lower

floors of single commercial or residential buildings, taking up a few hundred square metres. Large shopping malls tend to become the major activity node of a district, especially for the newly developed/redeveloped areas such as Sunshine City Plaza in Ma On Shan and Langham Place in Mong Kok.

(b) Street-front Shops

These are mostly ground floor shops within tenement buildings with a street frontage and are commonly found in the older parts of the urban area. These shops are usually small in size as they are restricted by the size of the building lot, but the range of retailing activities accommodated in these shops are similar to that provided in shopping malls. Most of these shops typically extend along the entire street to become shopping streets, with some developing into themed shopping streets such as Des Voeux Road West in Sheung Wan selling dried seafood and Fa Yuen Street in Mong Kok selling sportswear.

(c) Hawker Permitted Places / Open Air Bazaars

These are designated places where hawkers with licenses are permitted to sell their products on the street during a specific time period each day. The retailing activities of these hawkers are mainly for the sale of convenience goods. Examples of these places include the “Ladies’ Market” in Mong Kok, the Temple Street Night Bazaar in Yau Ma Tei and Jardine’s Crescent in Causeway Bay.

(d) Markets and Cooked Food Stalls

Markets are purpose-built facilities where a wide range of commodities ranging from fresh produce to household items are offered while cooked food centres are also purpose-built facilities for stall lessees selling cooked food. Since the use of fresh produce is common in Chinese cooking, markets play an important role as an outlet for fresh provisions because some people often visit markets once or twice a day to purchase fresh commodities.

3. SHOPPING PREFERENCES AND LATEST TRENDS

3.1 In November 2005, the Planning Department completed a study called

the “Review on Shopping Habits” (the Study). As part of the Study, a household survey, a retailers’ survey and structured interviews with major stakeholders were conducted to identify the shopping habits of Hong Kong people and the perceived retail hierarchy. The Study also tried to ascertain people’s aspirations on the future retail provision as well as to assess the impact of the cross-boundary shopping activities and new shopping modes, such as e-shopping, on the provision of retail facilities.

- 3.2 The main findings of the Study, which provide useful reference for retail planning, are set out in this section.

Shopping Habits

- 3.3 The Study revealed that Hong Kong people tend to buy certain kinds of goods from specific types of shops. Moreover, they have a specific locational preference when shopping for different kinds of goods.

- 3.4 The preferences of consumers in Hong Kong on the type of shops are generally as follows:

- (a) About 74% of households buy food items from traditional markets while about 25% patronize supermarkets. This indicates that the traditional market still function as an important retail facility for the sales of convenience goods, although there is a rising trend for people to turn towards supermarkets and superstores for fresh food produce and daily necessities.
- (b) A majority of households (80%) patronize supermarkets for convenience goods other than food such as general household goods (i.e., cleansing products, kitchen utensils, etc.) and only 14% patronize ordinary shops such as drug stores for these goods.
- (c) For comparison goods like household durable goods, 84% of households buy such products as furniture and electrical household appliances from specialty shops, while only 7% and 6% respectively patronize department stores and bazaars.

- 3.5 Consumers’ locational preferences for shopping are as follows:

- (a) Most consumers patronize shops within 10 minutes’ walking distance from their place of residence (“shops near home”) for food items (68%) and general household goods (76%). A good proportion of consumers also patronize shops near home for

personal consumer goods (42%) and retail services (44%) such as hairdressing and medical/dental consultations.

- (b) A good proportion of consumers tend to patronize shops within the local area (i.e. more than 10 minutes' away from home but within their general district of residence) for household durable goods (43%), personal consumer goods (30%), personal durable goods such as mobile phones and photographic equipment (31%), clothing and footwear items (37%), leisure and entertainment services such as going to the cinema (32%), as well as dining services (37%). A smaller proportion of consumers also purchase food items (26%) and general household goods (20%) from shops in the local area.
- (c) Most consumers tend to patronize shops away from their general district of residence for personal durable goods (60%) and leisure and entertainment services such as going to the cinema (56%) and karaoke lounge (82%). A good proportion also shop for household durable goods (38%), clothing and footwear items (43%) and dining services (29%) from stores away from their general district of residence.
- (d) Three shopping locations are noted for their ability to attract a significant proportion of consumers shopping for comparison goods. The three shopping centres are Mong Kok, Causeway Bay and Tsim Sha Tsui.

The Retail Hierarchy

3.6 Based on the shopping preferences of consumers identified from the Study, retail facilities in Hong Kong can be classified into a three-tier retail hierarchy as follows:

- (a) Territorial Shopping Centres

These shopping areas serve the territory as a whole and provide the greatest variety of high order comparison goods and dining, leisure and entertainment services. Mong Kok, Causeway Bay and Tsim Sha Tsui are considered to be shopping areas with territorial significance as they are most popular among consumers and they attract consumers from all over the territory, according to survey results. These three centres are located within well-developed urban areas and are served by convenient public transport with other districts in Hong Kong. They also

provide a high concentration of shopping malls of various sizes, streets with quality shop frontages, as well as supporting commercial facilities such as offices and hotels which help create a vibrant shopping ambience. The significance of these three territorial centres is expected to be further enhanced by the continual increase in Mainland tourists who have a particular preference for shopping in these traditional tourist shopping centres.

(b) District Shopping Centres

These are medium-sized shopping areas with a district-wide significance, such as Kwun Tong Town Centre, Tuen Mun Town Centre, Tai Koo Shing and Tung Chung Town Centre. They mainly serve the population within the district providing a variety of household durable goods, personal consumer goods, personal durable goods, leisure and entertainment facilities as well as dining services. They are usually located next to the public transport nodes in the district such as an MTR station, or a bus terminal, making it convenient for commuters to shop when they interchange between public transport modes at these nodes.

(c) Neighbourhood Shopping Centres

Neighbourhood shopping centres are usually located within walking distance from residential neighbourhoods such as public and private housing estates and predominantly residential areas. They mainly provide convenience goods, household retail services, personal retail services and dining services to the local population. Examples include the shopping centres in both public and private housing estates, and shops along main roads such as King's Road in Eastern District and Castle Peak Road in Cheung Sha Wan.

Cross-boundary Shopping Activities

3.7 Although there was a trend in the late 1990's for Hong Kong people to cross over to Mainland China to shop, the flow of people has already declined and this type of shopping activity does not have a significant impact on Hong Kong's shopping environment. Most of these shoppers are looking for certain types of retail services including entertainment, dining and massage services which can be provided at much lower prices in the Mainland than in Hong Kong. Nevertheless, the majority of Hong Kong people still prefer to shop in Hong Kong as

there is a wider choice of products, a better guarantee of quality and better after-sales services and maintenance.

- 3.8 On the other hand, the inflow of Mainland tourists is expected to continue to bring a positive impact to Hong Kong's retail environment, particularly with the extension of the Individual Visit Scheme to more cities and regions in Mainland China. It is noted that Mainland tourists have a tendency to shop for quality and trendy products from large chain retailers and brand name shops and they tend to visit the traditional tourist areas including Mong Kok, Causeway Bay and Tsim Sha Tsui.

Potential of New Shopping Modes

- 3.9 Online shopping is currently insignificant in Hong Kong except for some standard retail services such as online banking. It is also not expected that online shopping would play any greater role in the future in Hong Kong. One important reason is that there is little need for consumers to shop online as shops are very conveniently located in such a compact city as Hong Kong. Besides, Hong Kong people take shopping as a kind of leisure activity. Indeed, most Hong Kong people enjoy shopping and would prefer shopping outside to shopping online.
- 3.10 The potential for such new shopping modes as retail warehouses and factory outlets which have spread rapidly in Europe and North America is also quite restricted in Hong Kong. These shopping facilities require sites with a large developable floor space, cheap rental costs, good accessibility, and a pleasant environment to give a leisurely and shopping feel. Given that few sites could meet such requirements in Hong Kong, their development potential is constrained. There is also comparatively not much incentive for suppliers to set up these types of shopping facilities in Hong Kong as they do not have production lines here so that there is little locational or cost advantages for doing so.

Public Markets and Cooked Food Centres

- 3.11 In the past, public markets were built by Government to resite hawkers on street so as to improve environmental hygiene and to serve the daily needs of the local population.
- 3.12 The Director of Audit recommended in his Report No. 29 published in October 1997 that viability should be the overriding consideration in planning markets and every new market should be justified by a comprehensive review of the demand for such market facilities.

Recent trends and developments have also affected the planning of public markets. First, the proliferation of supermarkets and fresh provisions shops in recent years has provided alternative sources of fresh provisions to the public. The longer operating hours of these establishments have changed peoples' shopping habits, rendering public markets no longer the only affordable or preferred choice. These changes have seriously affected the viability of some public market facilities. In response to growing public support for culture and heritage preservation, there is also an increasing demand for Government to maintain and improve existing hawker permitted places/open air bazaars rather than considering resiting. The need for provision of new public markets is therefore diminished further.

- 3.13 In view of the above development, a recent policy review conducted in 2007 by the Food and Health Bureau and the Food and Environmental Hygiene Department concluded that the future provision of new public markets should be considered on a case-by-case basis to ensure the efficient use of public resources. Apart from the population of the area, other relevant factors that should also be considered include the demographic mix, community needs, provision of both public and private market facilities nearby, number of fresh provision retail outlets in the vicinity, and public sentiment towards preservation of the hawker areas in the particular locality.
- 3.14 Cooked food centres were originally provided by the Government to resite on-street licensed cooked food hawkers to improve environmental hygiene, and to meet demands for such facilities, in industrial areas. With the abundance of licensed restaurants, catering facilities, factory canteens and other food premises nowadays, cooked food centres are no longer essential in serving their original purpose. Given the changes in circumstances which affect the role played by cooked food centres, the Administration will embark on a review of the provision of cooked food centres. Pending the outcome of the review, the provision will be considered on a case-by-case basis subject to relevant factors as in the case for public markets.

Pedestrianized and Themed Shopping Streets

- 3.15 From the consumers' perspective, there is a general consensus among the community in support of the development of more pedestrianized shopping streets and themed shopping streets as they help to create a vibrant shopping environment, a new focal point and provide new business opportunities. A pleasant environment for on-street shopping can be provided through urban design and landscaping measures, such

as providing integrated and continuous pedestrian networks, wide pavements, high quality street furniture, suitable greening, hard and soft landscaping, and clear signages.

- 3.16 Notwithstanding, the community is concerned that pedestrianization may generate problems such as the provision of sufficient supporting facilities (such as food and beverage outlets and entertainment activities), convenient transport access to retain vibrancy, as well as proper management to prevent the proliferation of inappropriate activities such as the setting up of temporary booths, advertisement signboards and illegal hawking activities.

4. DEMAND ASSESSMENT AND SUPPLY CONSIDERATIONS

- 4.1 For forward planning purposes, an assessment of the demand for retail facilities may be necessary at different levels of planning, including the territorial, district or local level. Nevertheless, as these demand assessments require specialist input, they are normally conducted as part of a special study in the planning process. For reference purposes, two commonly used approaches to estimate the demand for retail facilities are explained below. A brief introduction of the model structure and the main steps for building the two types of models are given in **Appendix 1**.
- 4.2 At the strategic planning level, the approach frequently used to assess retail demand is the econometric model which combines economic theory with trend modeling to derive a set of equations or models which best fits the historical data for the economic entity under concern. The main drawback of this approach, however, is that the construction of the model requires the input of a tremendous amount of raw data which is time-consuming and requires a lot of resources. Moreover, as the model is trend-based, it becomes out-of-date and needs re-construction once new economic data on the variables are available.
- 4.3 At the district or local planning level, the approach commonly used is the expenditure-based model. This approach attempts to calculate the available expenditure within a defined catchment area and converts the estimated expenditure into estimates of retail floorspace demand. The limitation of this approach is that it relies heavily on the use of professional judgement to define the catchment area and the market share of the different retail items, hence different parties can use the same data but obtain a diverse forecasting result due to differences in the assumptions used.

- 4.4 Turning to the supply side, it is also useful in the planning process for planners to understand how retailers and property developers make decisions on the amount of retail floor space to be provided and where to locate their new shops and shopping malls. Although quantitative techniques such as cluster analysis, factor analysis, and geographic information systems are available to help them in their assessment, most retailers and developers still depend on their “commercial judgement” when making decisions on the provision of retail facilities.
- 4.5 Broadly speaking, retailers and developers would take into account economic indicators of their concern when making their “commercial judgement”. These include purchasing power in the catchment area (reflected by household income and expenditure patterns), profitability (indicated by rental/sale value of retail properties and future supply in the vicinity), vibrancy and accessibility, as well as the degree of competition (such as the presence of competitors) in the area.
- 4.6 In the case of Housing Authority’s projects, the level of retail provision is determined by the Housing Department based on their own assessment, experience in retail business and prevailing policies.

5. GOVERNMENT’S ROLE IN RETAIL PLANNING

- 5.1 It has always been clear to the Government that retail development should be market-led and that intervention from the Government should be kept to the minimum, so as to allow the private sector to respond to the market efficiently.
- 5.2 The Study also showed that there is a community consensus on the Government’s role in the planning of retail facilities. The relevant zonings on the statutory town plans can regulate retail developments and direct such uses to the appropriate land use zones, whilst adequate flexibility is already provided in the planning application system to allow for change in uses to meet the changing needs of the market. Instead of active planning and stipulation of rigid provision standards, the Government should only play a supporting role by carrying out improvements to the quality of the shopping environment such as improving the streetscape, encouraging entertainment activities and facilitating the establishment of food and beverage businesses in shopping areas.

6 CONCLUSION

- 6.1 The main purpose of this chapter is to provide the necessary background and reference information to facilitate the planning and assessment of retail facilities. These retail guidelines are not intended to direct retail development as Government upholds the view that retail development should be market-led and that planning intervention from the Government should be kept to the minimum.

**QUANTITATIVE APPROACHES TO ESTIMATE
THE DEMAND FOR RETAIL FACILITIES**

ECONOMETRIC MODEL

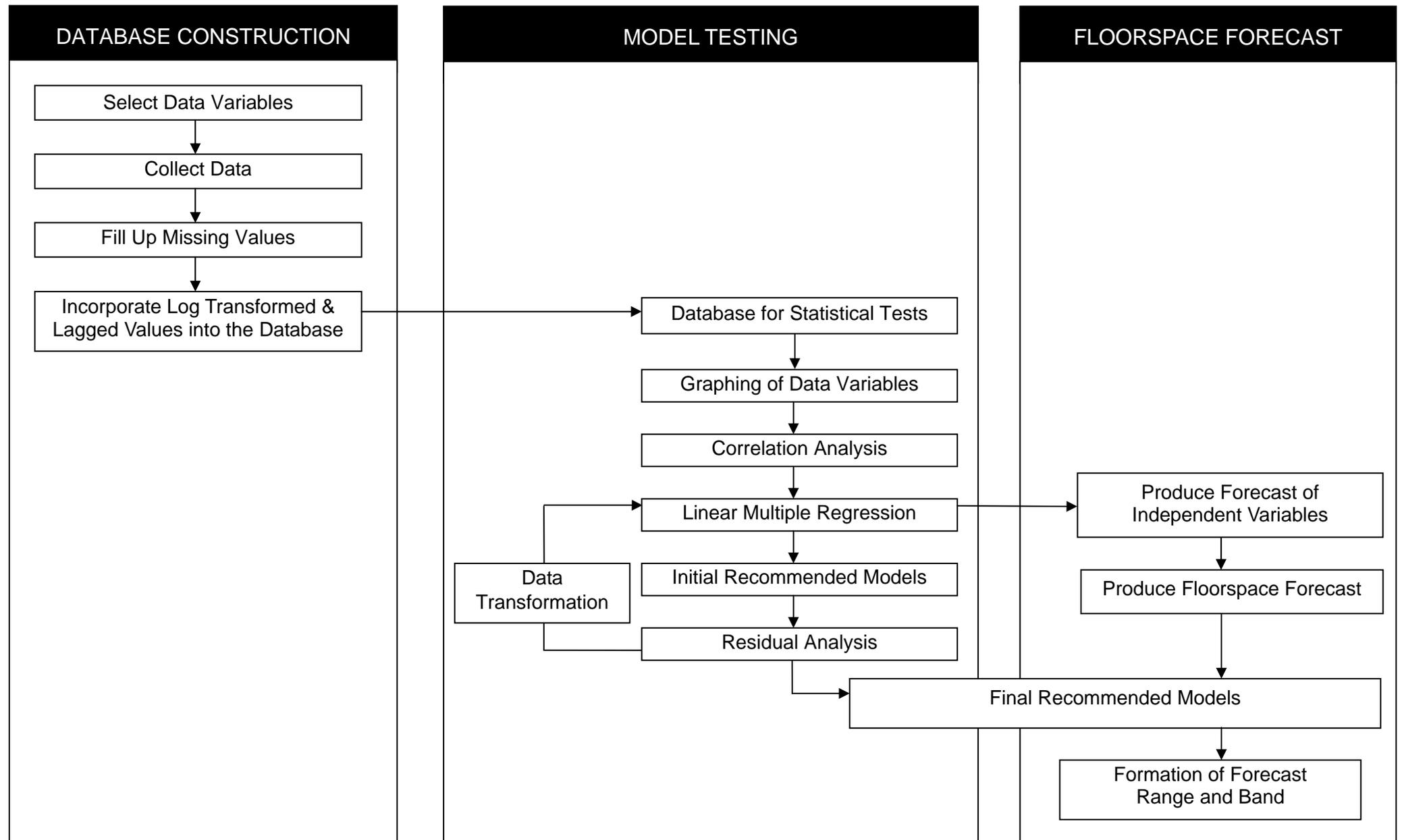
1. An econometric model is basically a mathematical function which makes use of regression analysis to determine the statistical relationship between retail floorspace demand and a basket of independent variables which were identified based on certain economic theories. One commonly used economic theory is that the level of consumer expenditure is directly related to the quantity of retail space. Another theory is that the supply or demand for retail floorspace in the proceeding year together with rent/price of the floorspace directly affects the demand for retail floorspace.
2. The major independent variables normally used to develop the econometric model for retail floorspace demand include:
 - (i) local population;
 - (ii) working population;
 - (iii) visitor arrivals;
 - (iv) visitor retail expenditure;
 - (v) retail sales;
 - (vi) retail and restaurant employment; and
 - (vii) retail premises price index.
3. The model is developed by a deductive process and ends up with a mathematical equation which best describes past trends on the demand for retail facilities. The basic steps for developing the econometric model are shown in **Figure A1**.

EXPENDITURE-BASED METHODOLOGY

4. The expenditure-based methodology attempts to calculate the level of retail expenditure that can be generated within a catchment area and to convert the expenditure level into estimates of retail floorspace demand. The overall approach of the methodology is shown in **Figure A2**.

5. The exercise requires data on the retail system in the base year, calibrating the retail model for the base year, projecting the relevant variables for the design year, and estimating the required retail floorspace to serve the retail system in the design year.
6. The data normally required to carry out the forecasting include:
 - (i) population, number of household and number of visitors;
 - (ii) consumer expenditure;
 - (iii) shopping habits;
 - (iv) existing retail floorspace and its commitments; and
 - (v) retail turnover.
7. However, it should be noted that the retail floorspace estimated from this method normally excludes retail services as there is no direct correlation between the expenditure on retail services and floorspace requirement. To overcome this deficiency, the standard practice is to make a simple additional allowance for retail service floorspace at a level of between 10% and 20% of the estimated retail floorspace demand.

FIGURE A1: BASIC STEPS OF ECONOMETRIC MODEL



**FIGURE A2: OVERALL APPROACH OF
EXPENDITURE-BASED METHODOLOGY**

