

**HONG KONG RETAIL MANAGEMENT ASSOCIATION**

**Submission on the Third Round of Anti-epidemic Fund**

**25 August 2020**

**I. Background**

1. The Hong Kong Retail Management Association (the Association) has submitted views and recommendations to the Government on measures under the two rounds of Anti-epidemic Fund since February 2020, namely the Retail Sector Subsidy Scheme and the Employment Support Scheme (ESS).
2. The Association would like to put forward recommendations on the third round of Anti-epidemic Fund in order to support the dwindling retail industry and safeguard employment as the Government intends to achieve.

**II. Deteriorating Retail Market Prospect**

3. The normal economic activities and the daily life of people around the world are disrupted by the pandemic, and Hong Kong is no exception. Due to the on-going pandemic, Hong Kong's overall economic conditions remain very weak.
4. Hong Kong's real GDP contracted by 9% in the second quarter of 2020. The overall unemployment rate stood at 6.1% for May to July 2020, which was the highest in more than 15 years, in particular, the retail sector's unemployment rate even soared to 8.1%.
5. With the outbreak of the third wave of pandemic in early July, the alarming surge in confirmed local cases has prompted the Government to drastically tightened social-distancing measures once again, which immediately affected the foot traffic and dampened consumer sentiment significantly, the retail sales performance is expected to be adversely impacted further.

6. The latest total Retail Sales Value (RSV) of June 2020 released by the Government registered a year-on-year drop of -24.8% to HK\$26.5 billion, marking the 17<sup>th</sup> month of consecutive decline. For the first six months of 2020, the RSV dropped by -33.3% overall.
7. The retail industry relies heavily on tourist spending. It is estimated that about 30% of the RSV are from tourist receipts. However, the visitor arrivals slumped by 90% to only 3.5 million in the first half of 2020. Furthermore, the duration of travel related restrictions are highly uncertain and cannot be projected.
8. With these pessimistic parameters, there is a high likelihood of massive shop closures and layoffs in the upcoming months. The Association's survey conducted in April 2020 projects that around 15,200 retail stores, which account for almost a quarter of Hong Kong's total retail shops, might collapse by the end of this year. In fact, a lot of vacant retail space especially in tourist districts such as Tsim Sha Tsui can be found nowadays.

### **III. Latest Conditions on Rental Concessions**

9. Hong Kong's retail rental charges are amongst the highest in the world. At present, most of the retail leases are committed based on the optimistic projection of tourist figures and foot traffic before the social unrest started in June 2019, not to mention the devastating impact of the global COVID-19 pandemic that was beyond comprehension. In fact, a vast majority of retailers are now paying at least twice or at an even higher multiples of the current market rent.
10. Although many landlords had given some short-term rent relief to some of their tenants in February and March 2020, most of them had tightened the relief since April and even cut their support after May 2020, as revealed by the Association's regular survey conducted among some of its members.
11. High rental is the top issue for all retailers in Hong Kong in a bid to survive and stay in business. However, there is a clear trend that the landlords have been cutting back their rental concessions even though the pandemic lingers on.

12. Many retailers were already struggling to afford the high rent even when the retail market was prosperous, but the rent level has not been reduced accordingly when the retailers' income shrunk dramatically in the face of the lingering pandemic.

#### **IV. Request for Government's Assistance on Rental Matters**

13. While the Association welcomes the Government's various measures under the Anti-epidemic Fund, including the Retail Sector Subsidy Scheme and the ESS, these measures are far from sufficient to keep the retail industry staying afloat as rent remains as the most critical lifeline in sustaining retail businesses.
14. Although the Chief Executive had made several public appeals to landlords, particularly major developers, urging for granting rent concessions, so as to keep their tenants afloat. However, the responses of most of the landlords are lukewarm and unsympathetic.
15. As such, the Association would like to urge the Government to implement rental-related measures, which are the most effective and direct way to help retailers survive at these difficult times.

#### Adopt Immediate Measure Proposed by the Retail & Wholesale Alliance

16. The Association has been joining forces with the Retail and Wholesale Alliance, under the leadership of Mr. Peter Shiu, Legislative Councillor (Wholesale & Retail).
17. The Association would like to reiterate the Alliance's request that the Government should subsidize two months' rental payment for tenants who suffered from business loss of 30% or above, and to require all commercial landlords to waive the same, making a total of 4-month rent-free period for all suffering retailers.

#### Impose Additional Undertakings upon Major Landlords Receiving the Government's ESS and/or Other Subsidies

18. Similar to the additional undertakings imposed upon major property companies and the two supermarkets, the Association urges the Government also to make it

mandatory that the major landlords receiving wage subsidies in the second tranche of the ESS would be obligated to offer rent reduction to their tenants.

19. Such additional undertakings should also be imposed upon the major landlords if they apply for any other government subsidy schemes.

#### Impose Temporary Legislation on Retail Rent

20. During the COVID-19 crisis, many overseas governments, including the United Kingdom, Australia and Singapore, has introduced temporary measures to help retail tenants who cannot afford paying rent.

21. For example, the UK Government has introduced a “Coronavirus Act 2020”, which has suspended landlords’ ability to take forfeiture action for business tenancies in England and Wales, so that business tenants who cannot pay their rent will be protected from legal action.

22. To benchmark similar measures from overseas governments, the Association urges the Government to take the following measures:

- (a) To take immediate actions to stop commercial landlords from taking legal measures against their tenants who could not pay rent;

- (b) To enforce the ruling that the landlords should charge turnover rent only without fixed rent;

- (c) The duration of the above two measures should be for a period of at least 9 months.

#### Introduce a Legal Framework on Commercial Rental Matters and Related Fees

23. The Government should take the current crisis as an opportune time to work on a legal framework that would provide commercial tenants with due and reasonable protection especially during adversity, not just over this period but for the long term.

## **V. Alleviate the Cost of Sustaining the Business**

24. Alike the previous two rounds of relief measures, the Association urges the Government to waive the government rates, registration fees, utility charges, and other costs of doing business, so as to address the immediate hardships faced by the retailers.

## **VI. Review on Overriding Principle on the Anti-epidemic Fund**

25. Since the degree of negative impact of the COVID-19 pandemic varies among different business sectors, the Government should carefully gauge the unique business impact of the pandemic on individual sectors, and to employ appropriate and timely subsidy schemes for those who have been continuously hit hard since the pandemic outbreak, for example, the retail industry.
26. As there is not an end of the pandemic in the near future, the Government should fine-tune its policy on the implementation of various relief measures under the Anti-epidemic Fund, and direct its financial reserves to swiftly achieve the key objective to safeguard businesses and protect employment.

## **VII. Prevent Further Pandemic Outbreak and Restore Normality**

27. The Association would like to alert that Hong Kong cannot afford the 4<sup>th</sup> wave of pandemic outbreak. If it happens, many industries including retail will collapse immediately, resulting in mass unemployment, economic instability, and loss of long term competitiveness of Hong Kong.
28. The Government should learn and prepare all precautionary measures to pre-empt further outbreak, especially over winter time, and to facilitate a gradual recovery to normal life and border opening. It is worth noting that Christmas and New Year holiday are the critical selling period of retail industry and any adverse happenings will definitely kill the industry.



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29. Looking ahead, the retail industry might take at least 2 years or more to recover, the Government should schedule another round of funding for business stimulation like consumption coupons, when the pandemic is under control.
30. Above all, the Government should formulate strategic plan with proactive and practical measures to rebuild Hong Kong's economy without delay.

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