

Briefing Retail sector

May 2014



Image: Orchard Gateway

SUMMARY

Occupancy rates and rents have remained firm, while a variety of malls prepare to enter the market this year.

- Retail sales slowed at the start of the year, increasing worries for retailers.
- Metro replaced Robinsons at The Centrepoint.
- Vacancy rates on Orchard remain healthy despite rising to 7.8%.
- Prime Orchard Road and suburban rents remained the same at S\$34.6 and S\$31.1 per sq ft per month in Q1/2014.
- Six upcoming malls in 2014 will provide a wider shopping experience in Singapore.

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 “There are more interesting times ahead for this sector, but as yet, landlords have not been affected.”
 Alan Cheong, Savills Research

➔ **Macroeconomic overview**

Retail sales (excluding motor vehicles) in Singapore saw a slower start to the year, as seen from the negative 0.4% year-on-year (YoY) growth in March 2014. In addition, retail sales of watches and jewellery – an indicator for discretionary expenditure – also fell 3.0% YoY, while the F&B sector only grew 0.4% YoY in the same month. The cooler retail sales have definitely increased the burden on retailers, who are already facing difficulties in the rising cost of operations as well as the labour crunch.

On a brighter side, the economic fundamentals of the nation still look healthy, as seen from the low estimated unemployment rate of 2.1% in Q1/2014. In 2013, the median monthly resident employed household income increased 4.0% YoY to S\$7,870 while inflation averaged 2.4%. International tourist arrivals grew 7.4% to a record-breaking 15.6 million visitors at the same time as tourism receipts registered a 2.2% increase from 2012 at S\$23.5 billion.

Orchard Road and the CBD

Singapore’s shopping belt on Orchard Road remains the focal point for new brands as well as names looking for stronger branding. In Q1/2014, we saw retailers such as Sandro, Dior Backstage Studio and Alice & Olivia setting up their first stores in Singapore at Ion Orchard, with the latter being its first flagship store in Southeast Asia. Miss Paris & Dandy House also set

up its first Singapore store at Ngee Ann City, while Oasis opened its first 1,500-sq ft standalone flagship store at Wisma Atria.

Robinsons ended its operation at The Centrepoint at the end of March 2014. The 130,000-sq ft space spread over six floors will be taken up by another departmental store, Metro, making it the second store on the prime shopping belt after Paragon. Renovations will begin in May and it is expected to be ready for business by Christmas this year.

Vacancy rates on Orchard Road rose from 4.5% to 7.8% quarter-on-quarter in Q1/2014. This is largely due to the combined effect of the increase in supply from Orchard Gateway and a decline in occupied retail space by almost 140,000 sq ft. However, the vacancy rate does not take into account the new mall’s pre-committed occupancy rate of 97.4% or about 133,000 sq ft of net lettable area. With the addition of these occupied units, vacant stock for Orchard Road will be less than 452,000 sq ft, slightly higher than the past three years’ quarterly average of 424,000 sq ft. This also means that retail space on Orchard Road is still in healthy demand and suitable space for new retailers may be limited.

Over in the Central Business District,

The Shoppes at Marina Bay Sands continues to attract luxury retailers into the market, such as G factory Premium, Proenza Schouler and 3.1 Phillip Lim. The first two names opened their first stores in Singapore while the latter was its second outlet. Suntec City also managed to attract Delsey, a travel and lifestyle brand, to open its flagship store.

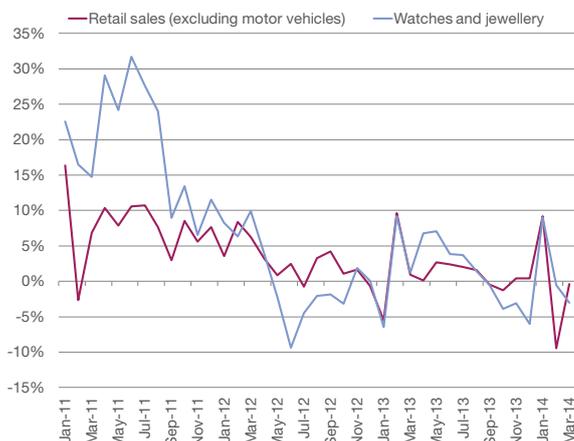
Rents

Rents for prime retail space in both Orchard Road and suburban malls remained unchanged at S\$34.6 and S\$31.1 per sq ft per month in Q1/2014 respectively.

Future supply

There will be six major malls coming onto the market in 2014, not inclusive of Orchard Gateway @ Emerald. Kallang Wave, the retail mall component at Singapore’s Sports Hub, is more than 80% occupied and will have its soft launch in June 2014. Over in the CBD, Capitol Piazza saw 40% of its retail space taken up and is positioning itself to serve upper-middle income patrons. The Big Box, which is the last of the four projects built under the Economic Development Board’s Warehouse Retail Scheme, is expected to open for business in the final quarter of the year and will feature the comeback of French furnishing retailer, Habitat. ■

GRAPH 1 **Growth of retail sales (excluding motor vehicles), YoY at current prices, Jan 2011–Mar 2014**



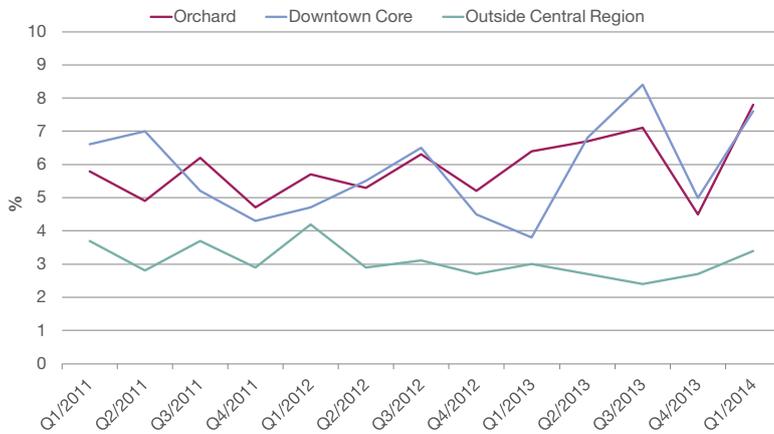
Source: Singapore Department of Statistics, Savills Research & Consultancy

TABLE 1 **Major projects in the pipeline, 2014–2017**

Development	Location	Estimated NLA (sq ft)	Estimated completion
Kallang Wave	Nicoll Highway	309,000*	Q2/2014
Capitol Piazza	North Bridge Street/ Stamford Road	133,000	Q3/2014
Big Box	Jurong East Street 11	230,000*	Q4/2014
The Seletar Mall	Sengkang West Avenue/ Fernvale Road	188,000	Q4/2014
268 Orchard Road	Orchard Road	96,000	2014
6 Shenton Way	Shenton Way	150,000	2014
Singapore Art Gallery	St Andrew’s Road	40,000	2015
Hillion Mall	Jelebu Road	168,000*	2015
South Beach	Beach Road	85,000	2015
Waterway Point	Punggol Central	370,000	2015
One KM	Tanjong Katong Road	210,000	2015
Marina One	Marina Way/Straits View	119,000	2017

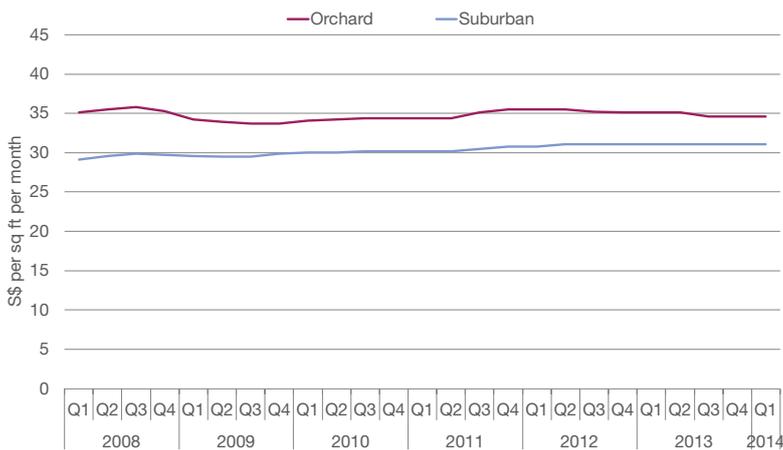
Source: Company announcements, Urban Redevelopment Authority (URA), Savills Research & Consultancy
*Savills estimation, based on an efficiency rate of between 65% and 70%.

GRAPH 2
Retail vacancy rate, 2011–Q1/2014



Source: URA, Savills Research & Consultancy

GRAPH 3
Prime retail rents, 2008–Q1/2014



Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

The global economic outlook appears to be strengthening, which can be seen in the surge in investments into the eurozone, as well as the positive outlook on the Japanese economy despite the recent tax hike. However, China, one of Singapore's main drivers for tourism retail sales, implemented new tourism laws last October, which reduced international visitor arrivals from the nation by 31.0% in Q4/2013 and may increase resistance for Singapore's retail sales growth.

We expect rents on Orchard Road to face difficulties in the near future, as inflation and the labour crunch further increase the currently high business costs in the prime shopping area. However, we foresee that retail space in suburban malls may hold opportunities for a rise in rents, as the larger population catchment could continue to provide relatively stronger retail sales than Singapore's main shopping belt and reduce operation cost woes experienced by retailers today.

Please contact us for further information

Savills Singapore



Christopher J Marriott
CEO, Southeast Asia
+65 6415 3888
cjmarriott@savills.asia



Sulian Tan-Wijaya
Senior Director, Retail & Lifestyle
+65 6415 3880
stwijaya@savills.com.sg



Alan Cheong
Senior Director, Singapore
+65 6415 3641
alan.cheong@savills.com.sg



Simon Smith
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

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