

# Briefing Retail sector

April 2012



Image: JCube, Jurong East

## SUMMARY

Prime Orchard Road and suburban rents held firm at S\$35.5 and S\$30.8 psf pm in Q1 respectively.

- The luxury goods segment dominated the retail scene, driven by robust income growth. New and upcoming luxury labels include Coach's first principal-run store, Goyard, Pierre Balmain and Tory Burch.
- Interest from international retailers remained strong although a strict due diligence on new entrants, coupled with tight supply of prime space, lengthened the leasing process.
- Approximately 2 million sq ft of suburban retail space is in the pipeline,

mostly located in areas with high population growth.

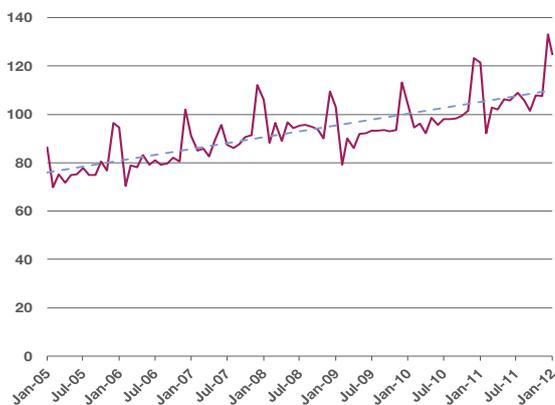
- Based on Census of Population data 2000 and 2010, the highest resident population growth was recorded in Sengkang (+106,000), Jurong West (+64,000), Punggol (+59,000), Woodlands (+58,000) and Sembawang (+41,000).
- Analysis of Urban Redevelopment Authority (URA) data shows that net take-up of suburban retail space averaged 248,000 sq ft annually in the past five years, exceeding annual net supply of 181,000 sq ft by 37%.

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 "More international retailers are expected to touchdown in Singapore. In Europe, retailers are bracing for a hard landing as the eurozone economy is projected to shrink and the unemployment rate now stands at 10.7%. In comparison, Asia is the centre of growth."  
 Alan Cheong, Savills Research  
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➔ **Macroeconomic overview**

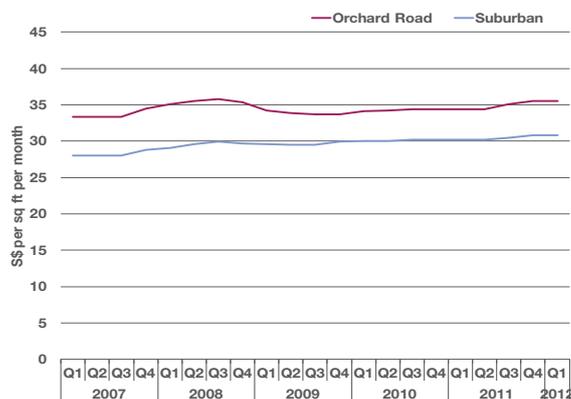
Despite lingering uncertainties, Singapore's economic fundamentals remained healthy. Latest data show that the unemployment rate slipped to a 14-year low of 2% in 2011, while the median monthly household income jumped 11% to S\$7,040, with the top 10% bracket increasing the most. On the tourism front, the 1.2 million visitors in January 2012 represented a 13.4% year-on-year (YoY) growth, the fastest in five months. The Singapore Tourism Board (STB) is aiming for 13.5 million to 14.5 million visitors this year, some 2.5% to 10% higher than in 2011. By enhancing Singapore's lifestyle destinations, the STB plans to draw more free and independent travellers who tend to be bigger spenders. Tourism receipts are projected to increase by 3.5% to 8% from 2011 to reach S\$23 billion to S\$24 billion.

GRAPH 1 **Retail sales (excluding motor vehicles), Jan 2005–Jan 2012**



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, 2007–Q1/2012**



Source: Savills Research & Consultancy

January's retail sales index (excluding motor vehicles) edged up 2.8% YoY, a strong showing considering it rose from a high base as the index was up 16.0% in January last year. Top drivers were F&B (+15.6%), petrol service stations (+9.4%), supermarkets (+8.4%), watches and jewellery (+6.5%) and telecommunication apparatus and computers (+6.1%).

**Orchard Road**

Luxury and fast-fashion retailers continued to dominate the retail scene in Q1. On the back of robust income growth and evolving consumer preference, the future looks promising, particularly for the high-end and luxury segments. Sales of watches and jewellery, an indicator of luxury-buying sentiment, recorded a 6.5% to 32.9% YoY growth between January 2011 and January 2012. Pierre Balmain, the latest high-end label to enter Singapore, recently launched its store in Scotts Square. It will be joined by Tory Burch and Coach, whose first principal-run store will be one of the highlights for Wisma Atria when its phase one asset enhancement is completed in Q3/2012. French luggage brand Goyard will open its flagship store in Ngee Ann City by Q4/2013, while another high-end mall, 268 Orchard Road, is slated to come on-stream next year.

More international retailers are expected to set foot in Singapore and across Asia due to push and pull factors. In Europe, retailers are bracing for a hard landing with the eurozone economy projected to shrink by 0.5%<sup>1</sup> this year, while the unemployment rate rose to a decade high of 10.7%<sup>2</sup> in January. In comparison, the advanced and developing Asian economies are projected to expand by 3.3% and 7.3% respectively<sup>3</sup>. Savills noted that although interest from international retailers remained strong in Q1/2012, the strict due diligence conducted on new entrants arising from the tight supply of prime space has lengthened the leasing process.

Increased supply in recent years has resulted in a two-tier market. New and well-located malls remained highly sought-after with a parade of retailers on their waiting list. Prime rents held firm this quarter at S\$35.5 per sq ft

1 Source: International Monetary Fund  
2 Source: Eurostat (seasonally-adjusted)  
3 Source: International Monetary Fund

per month. On the other hand, rents for older and less prime spaces have eased slightly.

**Suburban**

Approximately 2 million sq ft of suburban retail space will be completed between 2012 and 2015. Major projects include Jem (573,000 sq ft) and Westgate (426,000 sq ft) in Jurong, Waterway Point in Punggol (370,000 sq ft) and the retail podium at Bedok Residences (240,000 sq ft). In January, the Singapore Press Holdings and United Engineers collaboration clinched a commercial site in Sengkang and plans to develop a retail mall with an estimated NLA of 199,000 sq ft.

While there are concerns for an oversupply situation, Savills has noted that most of the upcoming malls are located in areas with high population growth. Comparing census information from 2000 with 2010, the highest resident population growth was seen in Sengkang (+106,000), Jurong West (+64,000), Punggol (+59,000), Woodlands (+58,000) and Sembawang (+41,000).

Analysis of URA data showed that take-up of suburban retail space exceeded supply in the past decade, with net take-up averaging 129,000 sq ft annually, 18% higher than the annual net supply which averaged 110,000 sq ft. The surplus in demand was more obvious in the past five years when annual net take-up of 248,000 sq ft exceeded annual net supply of 181,000 sq ft by 37% resulting in the strengthening of occupancy rates at suburban malls.

Prime suburban rents remained unchanged this quarter at S\$30.8 per sq ft per month. Supply is still tight at this juncture with many malls enjoying close to full occupancy.

**New hotspots**

An increasing number of smallish lifestyle malls is adding diversity to the local retail scene. In Bukit Timah, the former Turf City is being refurbished and renamed The Grandstand. TungLok Group, which has made a commitment to lease more than 10,000 sq ft of space, will launch two new-to-market concepts in the mall. Ristorante Da Valentino will also occupy more than 10,000 sq ft of space. With the

→ revamp, around 40% of the tenant mix will be F&B, 20% retail, 15% children-related businesses, 10% sports, 10% hypermarket and the rest will be health and wellness concepts. In the vicinity, there are plans to transform the former Bukit Timah Fire Station into a lifestyle hub housing enrichment schools, retail stores and F&B outlets.

The newly-completed Greenwich V is another example. The 45,000-sq ft village-like mall at Seletar Hills

houses an array of F&B outlets with generous alfresco space, as well as lifestyle stores. Separately, Far East Organization is planning a 55,500-sq ft mall in Upper Bukit Timah called HillV2, to be integrated with its residential project The Hillier. The project's architecture will be styled to evoke the feel of New York and London, while the mall's F&B and retail offerings will cater to the wealthy residents of Bukit Timah. Among its tenants will be upscale grocery chain Dean & DeLuca. ■

TABLE 1 Major projects in the pipeline, 2012–2015

| Development                     | Location                                    | Estimated NLA (sq ft) | Estimated completion |
|---------------------------------|---|-----------------------|----------------------|
| The Atrium@Orchard              | Orchard Road                                | 127,000               | 2012                 |
| Chinatown Point (refurbishment) | New Bridge Road                             | 205,000               | 2012                 |
| 268 Orchard Road                | Orchard Road                                | 86,800                | 2013                 |
| Jem                             | Jurong Gateway Road/<br>Boon Lay Way        | 573,000               | 2013                 |
| orchardgateway                  | Orchard Road                                | 144,000               | 2013                 |
| Westgate                        | Boon Lay Way                                | 426,000               | 2013                 |
| Retail at Capitol site          | Stamford Road/<br>North Bridge Road         | 109,000               | 2014                 |
| Retail at Bedok Residences      | Bedok North Drive/<br>New Upper Changi Road | 240,000               | 2014                 |
| South Beach                     | Beach Road                                  | 111,000               | 2015                 |
| Waterway Point                  | Punggol Central/<br>Punggol Walk            | 370,000               | 2015                 |

Source: Savills Research & Consultancy

## OUTLOOK

### The prospects for the market

As shoppers become more affluent and well-travelled, buying preferences could skew towards high-quality purchases and value-for-money merchandise. Demand from luxury labels, and fast-fashion and high-street brands, is therefore expected to stay healthy. Notwithstanding the continuing healthy demand situation, rents on Orchard Road are projected to stay flat as the outlook within the eurozone remains overcast.

Prime suburban rents have been resilient during the last downturn, slipping by less than 3% between the peak in Q3/2008 and the trough in Q2/2009. Besides having a stable flow of pedestrian traffic, suburban malls also benefit from a more flexible tenant mix and can cater to trades such as DIY, electronics or outlet stores. In the more densely populated areas, some landlords are seen to have upped their asking rents. With the Singapore economy projected to stay in positive territory, we expect prime suburban rents to hold firm in 2012.

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