

Briefing Retail sector

January 2012



112 KATONG

SUMMARY

Rents on Orchard Road are projected to slip by 3% in 2012 while suburban rents are to hold firm

- Successful malls of the future could be located in areas with strong attributes instead of the traditional transit-oriented malls in heavily populated housing estates.
- International retailers Abercrombie & Fitch, Leonard Paris and Michael Kors launched their maiden stores in Singapore in Q4/2011.
- Several international retailers are still on the hunt for prime space along Orchard Road.
- Suntec City will undergo a S\$410-million asset enhancement initiative.
- The Orchard Road occupancy rate strengthened from 92.8% in Q3/2011 to 94.7% in Q4/2011, while suburban occupancy rates climbed from 96.8% to 97.6%.
- Prime Orchard and suburban rents inched up 1% in Q4/2011, averaging S\$35.5 and S\$30.8 per sq ft per month respectively.

“Despite market uncertainties, Singapore continues to draw keen interest from international retailers seeking a presence in southeast Asia. Prime Orchard and suburban rents trended up slightly in Q4.”

Alan Cheong, Savills Research

➔ **Market commentary**

A few projects are steering away from the traditional formula of transit-oriented malls in heavily populated housing estates. Instead, they are located in areas with strong attributes, with 112 Katong, which held its soft opening in December 2011, being one such example. The 207,000-sq ft mall leverages the neighbourhood's strong Peranakan identity, the leisurely ambience associated with the east coast and the wealthy population catchment. Beyond the experience within, shoppers can continue their itinerary with a wide array of dining, entertainment and leisure options located around the mall. Another example would be Chinatown Point, which is undergoing refurbishment and is slated to be completed by the end of 2012, nestled in the heart of Chinatown amid its conserved shophouses and street hawkers. Over in downtown, the Capitol site is being redeveloped into a mixed-use

complex, which includes a four-storey mall comprising eight flagship stores and 30 dining outlets. At least 40% of the brands are said to be new to the market. The Capitol site is located in Singapore's Civic district which is dotted with historical landmarks including CHIJMES, Raffles Hotel and St. Andrew's Cathedral.

Signifying Singapore's rising affluence, Orchard Road saw the addition of another luxury mall, Scotts Square. The 75,000-sq ft mall features new-to-market international retailers such as Leonard Paris and Michael Kors. Joining the ranks of these retailers are Abercrombie & Fitch in Knightsbridge and American denim label Wrangler in ION Orchard. Singapore is the location of choice for international retailers looking for a presence in southeast Asia, and several retailers are understood to still be on the hunt for prime space on Orchard Road.

Meanwhile, strong competition from Orchard Road is siphoning shopper dollars from the Marina Centre cluster. Vacancy rates in the latter crept up and landlords are seen to be more flexible in lease negotiations. To stay ahead of the race, Suntec REIT announced a S\$410-million asset enhancement initiative for Suntec City to transform the development into an exciting shopping and meetings, incentives, conventions and exhibitions (MICE) destination. To be completed in mid-2015, works include increasing the retail net lettable area (NLA) from 855,000 sq ft to 980,000 sq ft and enhancing its facade, as well as incorporating new duplex stores, cineplex and dining outlets.

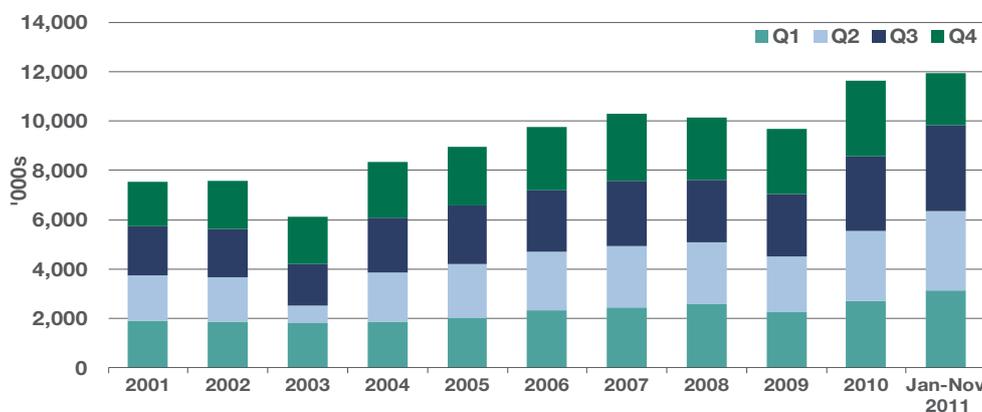
According to the Urban Redevelopment Authority (URA), some 127,000 sq ft of shop space was completed in Q4/2011, including Alexandra Retail Centre, Greenwich V and Junction 10. The absence of major new supply, coupled with healthy demand, resulted in the Orchard Road occupancy rate strengthening from 92.8% in Q3/2011 to 94.7% in Q4/2011. In outside central region, where the suburban malls are located, the occupancy rate climbed from 96.8% in Q3/2011 to 97.6% in Q4/2011.

Visitor arrivals and retail sales

Tourist arrivals hovered above 1 million in both October and November 2011. This takes the tally from January to November last year to almost 12 million, a 13.7% jump compared with the same period in 2010. According to the latest data from the Singapore Tourism Board (STB), tourism receipts in Q3/2011 hit S\$6 billion, reflecting a 12% increase year-on-year. Shopping and F&B accounted for a majority 30% of tourism receipts.

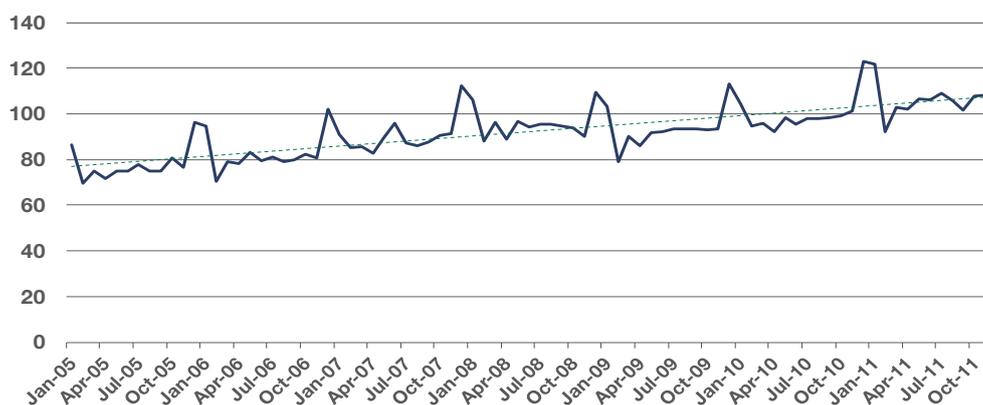
Retail sales (excluding motor vehicles) surged 8.4% year-on-year in October and 6.7% in November, driven mainly by watches and jewellery, as well as telecommunications apparatus and computers. The strong employment market and tourist arrivals were instrumental in the increase in retail sales. Singapore's

GRAPH 1
Visitor arrivals, 2001–Nov 2011



Source: STB, Savills Research & Consultancy

GRAPH 2
Retail sales (excluding motor vehicles), Jan 2005–Nov 2011



Source: Singapore Department of Statistics, Savills Research & Consultancy

→ unemployment rate fell to a 14-year low of 2% in 2011 while the median monthly income of residents in full-time employment grew 8.3%.

Rental values

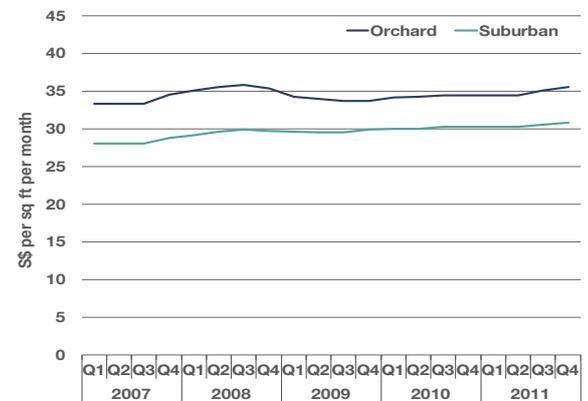
As prime space on Orchard Road continued to draw keen interest from international retailers, prime rents climbed in Q4/2011, albeit at a modest pace of 1%, averaging S\$35.5 per sq ft per month. Meanwhile, local retailers looking to relocate some of their operations into suburban malls amid stiffer competition on Orchard Road were also faced with a tight supply situation. In turn, prime suburban rents also inched up marginally by around

1% to an average of S\$30.8 per sq ft per month in Q4/2011.

Future supply

Major projects expected to come on-stream this year are JCube, The Atrium@Orchard and the refurbished Chinatown Point. The bulk of the future supply is expected to enter the market in 2013, including 268 Orchard Road, Jem, Orchard Gateway and Westgate. Orchard Gateway sits on the sites of the former Specialists' Shopping Centre, Hotel Phoenix and Orchard Emerald, and will be an integrated development comprising retail, office, hotel, the Visitor Centre and National Library. ■

GRAPH 3 Prime retail rents, 2007–2011



Source: Savills Research & Consultancy

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	131,000	2013
Jem	Jurong Gateway Road	573,000	2013
Orchard Gateway	Orchard Road	144,000	2013
Westgate	Boon Lay Way	426,000	2013
Retail at Capitol site	Stamford Road/North Bridge Road	109,000	2014
Shopping/residential development	Bedok North Drive/New Upper Changi Road	240,000	2014
South Beach	Beach Road	111,000	2015

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

Market uncertainties continue to shroud the retail market. However, downside risk is partially mitigated by a positive economic growth projection, rising population and healthy tourist arrivals. Barring external shocks, tourist arrivals are expected to hold firm, with upcoming attractions such as Gardens by the Bay as well as a slew of new fashion offerings. Rents of prime space on Orchard Road are projected to stabilise in 2012, although off-pitch space may dip 5%, leading to an average decline of 3%. Prime suburban rents, on the other hand, have proven to be more resilient in the past and we expect them to continue to hold up.

Please contact us for further information

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