

# Briefing Retail sector

August 2014



Image: Kallang Wave Mall, Stadium Place

## SUMMARY

Tougher times for retailers as the Great Singapore Sale performed below expectations.

- Retail sales remained dour despite the Great Singapore Sale.
- Online retailers added to the woes of traditional retailers.
- Vacancy rates on Orchard Road nevertheless fell to 7.4%, while those in the CBD rose to 8.8%.
- Prime Orchard Road and suburban rents remained flat at S\$34.6 and S\$31.1 per sq ft per month respectively in Q2/2014.
- Seletar Mall is expected to open in November 2014.

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 “With retailers bearing the brunt of slower sales and rising operating costs, landlords may have met their Waterloo in their drive to raise rents.” Alan Cheong, Savills Research  
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➔ **Macroeconomic overview**

Singapore's economy and tourist arrivals weakened in Q2/2014. The Republic's GDP growth dropped from 4.7% to 2.1% in the second quarter. International visitor arrivals also declined 1.7% year-on-year (YoY) to 6.3 million in the first five months of the year, mainly due to the recent woes stemming from the unresolved MH370 incident, Thailand's political uncertainties and China's legislation on overseas tour packages.

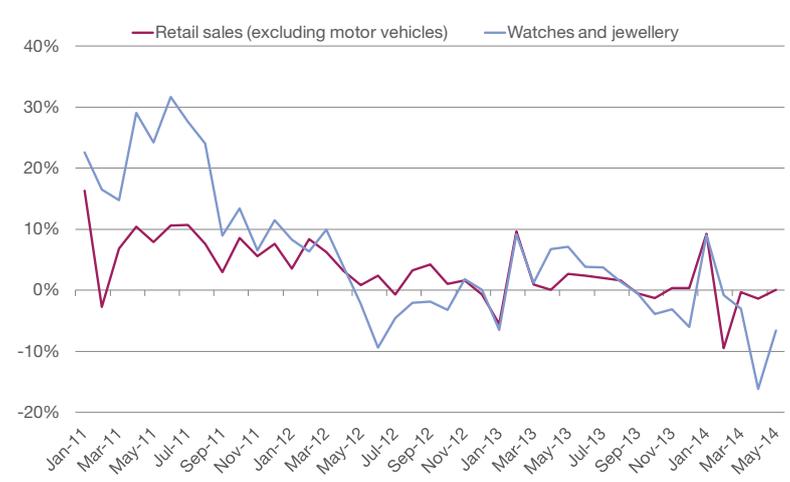
Retail sales in Q2/2014 have also been slower than the previous year. Excluding motor vehicles, retail sales grew by a marginal 0.1% YoY in May, after shedding 1.4% in April. Sales of watches and jewellery – an indicator of discretionary expenditure – continued its sluggish performance for the fourth consecutive month with a 6.6% YoY drop. Despite the Great Singapore Sale (GSS), held from 30 May to 27 July, retailers have reported that they do not expect their sales to surpass that of GSS 2013.

Another main factor that has affected retail sales of brick-and-mortar shops is the increasing popularity of online shopping. E-commerce retailers such as Qoo10, Taobao, Rakuten and one of the most recent entries, Lazada, have taken a significant share of the retail marketplace. The competitive prices, wider variety of items as well as the convenience of online shopping have enticed more and more local shoppers, leaving traditional retailers in prime shopping areas to cater mainly to tourists. Faced with lower sales, higher manpower cost and rents, some stores such as F J Benjamin, have chosen to downsize or close underperforming stores and to re-assign their employees to boost service levels in better performing locations.

**Orchard Road and the CBD**

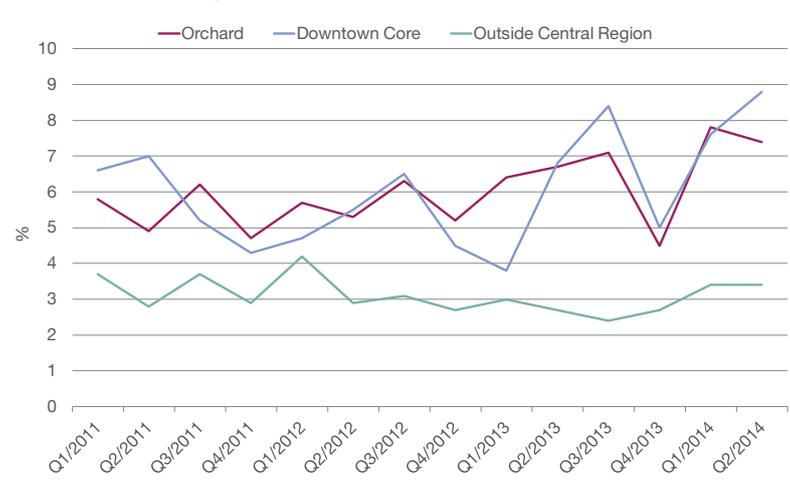
Notwithstanding tougher business conditions for retailers, the demand for retail space on Orchard Road remained strong in Q2/2014. With the take-up rate increasing faster than the net supply of space, vacancy rates for Orchard Road fell from 7.8%

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



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Retail vacancy rates, 2011–Q2/2014**



Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy

to 7.4%. New-to-market brands such as Pudu and Spanish Doughnuts have set up their first Singapore stores in the Somerset precinct, while Yves Rocher has opened its flagship store at Ngee Ann City. Sony has also recently opened a 10,000-sq ft flagship store, its largest in Southeast Asia, at 313 Somerset.

Meanwhile, over in the CBD, One Raffles Place reopened for business on 29 May 2014 after a major refurbishment exercise. With a net lettable area of about 98,500 sq ft

spread over six storeys, the shopping mall has a committed occupancy of over 90.0%, featuring brands such as H&M, Uniqlo, Victoria's Secret and others. Despite the high occupancy rate of the mall, the Downtown Core's vacancy rate continued to climb to 8.8% in Q2/2014, higher than the 7.6% recorded in the previous quarter.

**Suburban**

There are retailers which have chosen suburban malls as their entry point to Singapore's retail scene or

→ to set up their second stores. Tokyu Hands Inc, a Japanese lifestyle brand, has announced they will be opening their second overseas store after Shanghai at Westgate in September. The 7,500-sq ft store will carry 20,000 products out of the brand's 150,000-strong inventory. Another interesting entry into the suburban market scene is Kate Spade Saturday, which opened its second store in Singapore also at Westgate.

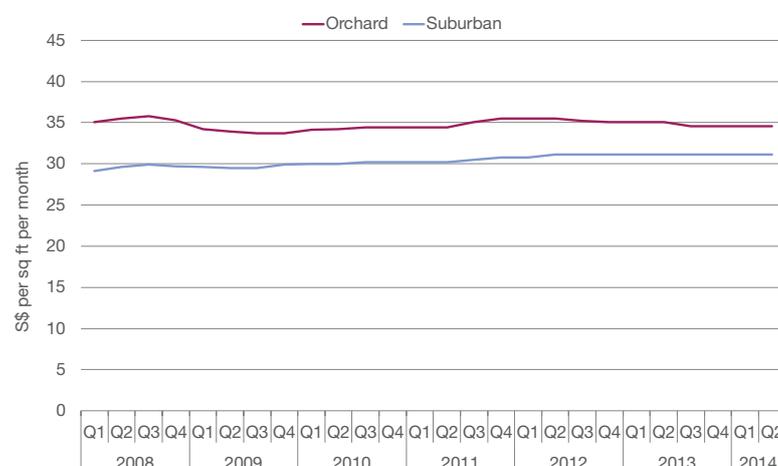
### Rents

In Q2/2014, rents remained flat with prime retail rents on Orchard Road commanding S\$34.6 per sq ft per month and S\$31.1 per sq ft per month for suburban malls.

### Future supply

For the remainder of 2014, supply will be boosted by two major completions. The suburban mall scene will see the opening of Seletar Mall scheduled in November. This mall will bring Shaw Theatres, the first cinema to the vicinity, while other anchors include FairPrice Finest and Foodfare. The concept of the mall is to cater to young families with tenants such as Mothercare, Lamkins, 1010 Mother and Child

GRAPH 3 Prime retail rents, 2008–Q2/2014



Source: Savills Research & Consultancy

Essentials, and an indoor playground. The other major supply will be in the CBD where Capitol Piazza, a 133,000-sq ft mall, is scheduled for completion in Q3/2014. The mall is positioning itself with mid- to high-end international brands as well as retailers making their foray into the market.

Meanwhile, Fraser Centerpoint Limited has announced its new

mixed development project named Northpoint City at Yishun. The project is an extension of the existing Northpoint mall and will feature an additional residential component. The development will also be integrated with the bus interchange and Yishun MRT Station, which will increase footfall. The retail component will add another 300 shops to the existing 170, totalling a retail GFA of 850,000 sq ft. ■

TABLE 1 Major projects in the pipeline, 2014–2018

Development	Location	Estimated NLA (sq ft)	Estimated completion
Capitol Piazza	Stamford Road	133,000	Q3/2014
Big Box	Jurong East Street 11	260,000*	Q4/2014
The Seletar Mall	Sengkang West Avenue	188,000	Q4/2014
268 Orchard Road	Orchard Road	96,000	2014
6 Shenton Way	Shenton Way	150,000	2015
National Gallery Singapore	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
Northpoint City	Yishun Central 1	315,000	2018

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

# OUTLOOK

## The prospects for the market

Notwithstanding slower retail sales, Singapore continues to attract new retail brands including mid-priced fashion retailers. However, without strong support from the tourism sector, retailers in the local scene will face greater challenges in coping with rising rental and operation

costs. That said, healthy employment figures and stability in the economy will continue to prop up sales for retailers in suburban malls.

We foresee retailers applying downward pressure on rents on Orchard Road, while rents in suburban malls, being less affected,

may possibly inch up as sales figures have thus far, been fairly stable. Demand for space is likely to come from F&B and lifestyle brands, whereas some fashion retailers may put their expansion plans on hold.

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