**Summary**

Retail sales growth failed to translate into rising rents or falling vacancy rates.

- Along with an increase of tourist arrivals, retail sales (excluding motor vehicles) rose by 1.3% year-on-year (YoY), boosted by higher discretionary spending in August.

- The retail vacancy rate rose to a record high of 7.6% due to the rise in vacancies in suburban and fringe areas.

- Savills prime monthly rents in Orchard Road and the suburban area held firm at S$29.90 and S$28.80 per sq ft respectively in Q3/2018.

- Given the substantial amount of retail stock from two new projects and the disruption caused by e-commerce, annual rental growth is likely to be capped at 2.0% in 2019.

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“In a disrupted retail landscape, only F&B was a bright spot while some mall landlords responded with a more activity-based offering.”

Alan Cheong, Savills Research
SG 02  savills.com.sg/research

Briefing | Singapore retail sector November 2018

Macroeconomic overview
According to Ministry of Trade and Industry (MTI) advance estimates, Singapore’s economy expanded 2.6% YoY in Q3/2018, down from the 4.1% YoY recorded in the preceding quarter. The overall job market showed signs of improvement with higher employment growth and lower retrenchments in the third quarter even though the unemployment rate saw a marginal increase due to the rising number of job-seekers.

Along with higher job growth numbers, retail expenditure ended a two-month decline with higher discretionary spending on watches and jewellery in August and September. This helped to offset the sales drop in other sectors and boost overall retail sales (excluding motor vehicles)1 up by 1.3% and 2.1% YoY respectively. Food and beverage (F&B) sales2 returned to positive growth of 1.8% YoY in August due to high turnover from fast food outlets, but was down 0.7% YoY in September because of a significant drop in food caterers’ sales.

Retail sector remains lacklustre
In Q3/2018, the vacancy rate for retail space rose to 7.6%, the highest since the beginning of the year. This was because of the rise in vacancy levels in the suburban and fringe areas. Net supply in the suburban area was greater than net demand due to the addition of retail stock at Wisteria Mall, leading to a 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) increase in vacancy levels to 6.6% in Q3/2018. Notwithstanding the increase in the vacancy level, suburban malls were generally performing well with a constant flow of shopper traffic and an improvement in tenant sales. Consequently, rents held firm with Savills prime rents in the suburban area staying flat at S$28.80 per sq ft per month.

In the fringe area, as the net absorption of retail space fell into negative territory, it pushed the vacancy rate up to a record high of 8.9% in Q3/2018. This corresponded with the quarterly decline of 0.9% in the Urban Redevelopment Authority’s (URA) retail rental index for the fringe area. The Orchard Road area performed well with vacancy falling 0.1 of a ppt QoQ to 5.9%, the lowest since 2014. Even though asking rents in the Orchard area are relatively higher, it is still a choice destination for flagship stores. Also, supply is tight as this area is already densely developed. Furniture retailer Molecule relocated its flagship store from Great World City to The Centrepoint on Orchard Road, in a space spanning 10,000 sq ft. Japanese confectionery brand Yoku Moku also launched its new flagship store at ION Orchard.

Notwithstanding improved occupancy levels, rents in the Orchard area remained flatish in Q3/2018. We believe that this is largely due to tenants’ resistance to major rental increments. Savills prime monthly rents for Orchard Road stayed flat at S$29.90 per sq ft in the reviewed quarter.

More closures amid sales slump
Early this year, following the consecutive exits of long-established brands such as Gap and Banana Republic, more retailers, especially anchor tenants, began leaving the market. Earlier in September, Emporium Shokuhin at Marina Square closed after the landlord took back possession of the unit. As part of business restructuring efforts, hypermarket chain Giant will also shut its outlet at VivoCity in early 2019 after closing two branches at Junction 10 and Jalan Tenteram. Coffee chain Costa Coffee has also wound down its operations in Singapore after a massive closure of all eight outlets since May.

Activity-based retail remains buoyant
In the age of e-commerce, the sea change turning shopping centres into multi-experiential retail destinations continues. Malls are filling up vacant spaces with more activity and entertainment-oriented tenant mixes. This not only keeps occupancy levels up but also leads to greater footfall traffic. 313Somerset recently introduced Singapore’s first cosmic bowling alley by K Bowling Club, creating a multi-activity bar and kitchen concept with an array of entertainment offerings such as bowling, darts, karaoke and a games arcade.

For some tenants who believe that Orchard area rents are too high relative to the economics of their businesses/services, the focus has shifted to outside the Orchard area. Gym chain Fitness First opened its 20th branch, taking up 12,000 sq ft at SingPost Centre at Paya Lebar. Following the launch of Singapore’s first and only DIY baking studio – Funsiamo – SuperPark opened a 40,000-sq ft indoor activity park at Suntec City in November. The refurbished Funan mall will also be promoting more physically-engaging and interactive activities for customers and tenants, like a culinary school by ABC Cooking Studio and a rock

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1 Retail Sales Index at Constant Prices (Seasonally Adjusted), Monthly. Updated as of 30 October 2018.
2 Sales Index of Food & Beverage Services at Constant Prices (Seasonally Adjusted), Monthly. Updated as of 30 October 2018.
A climbing facility by Climb Central as well as facilities for street soccer and football games by Ark Futsal, and eSports tournaments organised by GamePro.

Similarly in the suburban area, Tayo Station opened the first character-based indoor playground in Southeast Asia, spanning over 10,000 sq ft on level three, at Downtown East’s E!Hub.

F&B sector stays active
In the subdued retail climate, the F&B sector, especially fast food operators, has been the key driver for tenant sales and shopper traffic.

When Raffles Hotel reopens in Q1/2019, it will house ten new restaurants and bars, such as Chef Anne-Sophie Pic’s 50-seat restaurant named La Dame de Pic, which marks her first venture in Asia. New York burger and milkshake chain Black Tap Craft Burgers & Beer recently made its Asian debut at The Shoppes at Marina Bay Sands, accommodating up to 133 diners. In mid-October, chef and restaurateur Violet Oon opened her fourth restaurant with a retail shop at ION Orchard.

KINEX, the former OneKM mall, will launch a newly refurbished food hall with new F&B choices like casual burger chain Fatburger, which recently opened its first branch at Velocity.

Graph 3
Prime retail rents, 2008 – Q3/2018

Table 1
Major projects in the pipeline, Q4/2018 – 2023

<table>
<thead>
<tr>
<th>Development</th>
<th>Location</th>
<th>Estimated NLA (sq ft)</th>
<th>Estimated completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paya Lebar Quarter</td>
<td>Paya Lebar Road/Sims Avenue</td>
<td>340,000</td>
<td>2018</td>
</tr>
<tr>
<td>Additions/alterations to existing Raffles Hotel and shopping arcade</td>
<td>Beach Road/North Bridge Road</td>
<td>85,000</td>
<td>2018</td>
</tr>
<tr>
<td>TripleOne Somerset Podium AEI</td>
<td>Somerset Road</td>
<td>74,000</td>
<td>2018</td>
</tr>
<tr>
<td>Project Jewel</td>
<td>Airport Boulevard</td>
<td>576,000</td>
<td>2019</td>
</tr>
<tr>
<td>Funan</td>
<td>North Bridge Road</td>
<td>324,000</td>
<td>2019</td>
</tr>
<tr>
<td>Punggol Digital District</td>
<td>Punggol Way</td>
<td>146,000*</td>
<td>2023</td>
</tr>
</tbody>
</table>

Source: Company announcements, URA, Savills Research & Consultancy

*Savills estimation, based on an efficiency rate of between 70% and 75%.
OUTLOOK

The prospects for the market

According to MTI’s latest Economic Survey of Singapore Q3/2018, the economy is expected to expand by 3.0-3.5% YoY in 2018, and grow at a slower rate of 1.5-3.5% YoY in 2019. Amid the ongoing restructuring of the economy, the unemployment rate could climb further due to changing demand in the job market. This could in turn lead to weaker domestic expenditure, hence the reliance on tourism expenditure increases. However, based on Singapore Tourism Board (STB) reports, tourism receipts in the last two quarters did not grow in tandem with tourist arrivals. Led mainly by spending reductions on shopping and F&B, overall tourism receipts saw a 1.7% YoY decline to S$6.6 million in Q2/2018. Retail space owners will therefore have to use more of their grey matter to bring in that domestic and tourist shopping and F&B dollar. Thus, instead of filling up malls with fashion boutiques, the latest trend towards more experiential retail offerings tends to benefit the overall tenant mix due to the positive spillover effect. However, although experiential retail helps keep mall occupancy levels high and increases or maintains footfall, overall rents will be weighed down by the lower-than-market rents that come from activity-based tenants. Hence, after taking into account the vacant space reoccupied by lower-paying tenants, retail rents are likely to remain flat in the Orchard area and increase only 1.0% YoY in the suburban area in 2018.

Rents are expected to see some uptrend in 2019 when Jewel and Funan are completed, as new malls generally benefit from the novelty factor in the short term. However, given the substantial amount of retail stock from both projects and the ongoing disruption caused by e-commerce, annual rental growth is likely to be capped at 2.0% in 2019.

The table below shows our expected retail rent changes for 2018 and 2019.

<table>
<thead>
<tr>
<th>Period</th>
<th>Prime Orchard Road rents YoY change</th>
<th>Prime suburban malls rents YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>0.0%</td>
<td>0.0% to 1.0%</td>
</tr>
<tr>
<td>2019</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy

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