Briefing
Retail sector

November 2018

Image: KINEX, 11 Tanjong Katong Road

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.

"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

MCI (P) 090/08/2018
Company Reg No. 198703410D

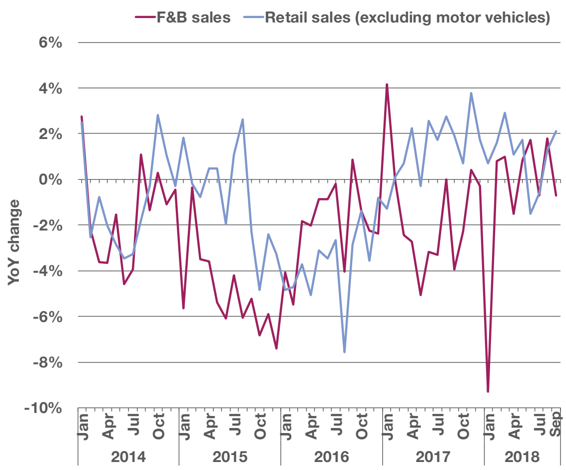
Macroeconomic overview

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) sales[2] 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.

GRAPH 1

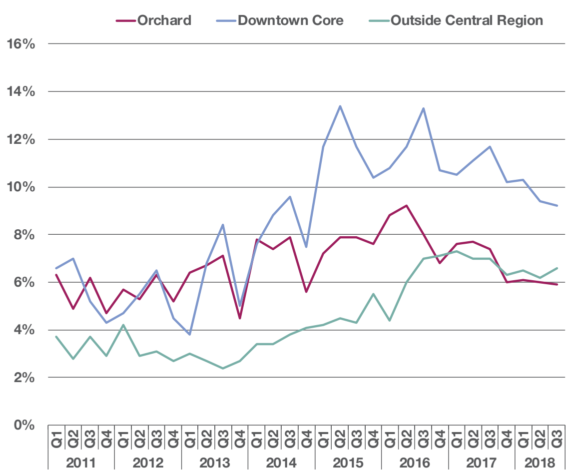
Growth in retail sales and F&B sales, Jan 2014 – Sep 2018



Source: Singapore Department of Statistics, Singapore Tourism Board, Savills Research & Consultancy

GRAPH 2

Vacancy rate, 2011 – Q3/2018



Source: URA, Savills Research & Consultancy

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 flattish 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.

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.

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. 313@Somerset 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 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

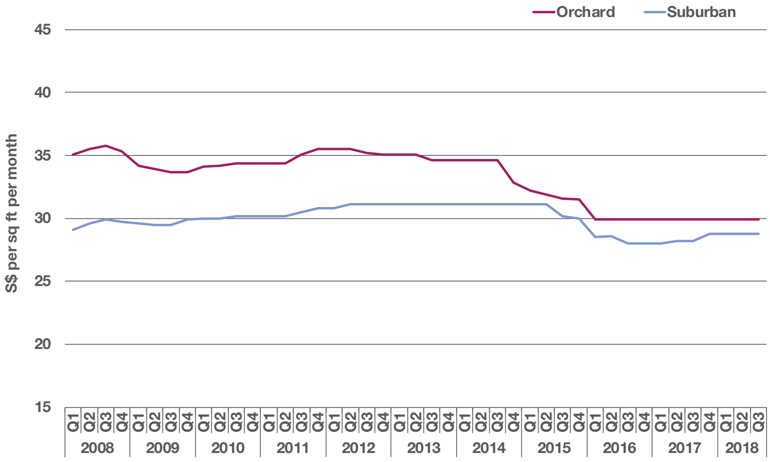
In the subdued retail climate, the F&B sector, especially fast food operators, has been the key driver for tenant sales and shopper traffic.

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



Source: Savills Research & Consultancy

Future supply

URA's data show that almost 2.2 million sq ft of new retail supply is due to be completed by year-end 2018. The supply is mainly made up of retail components in mixed-use developments such as Paya Lebar Quarter (PLQ), Raffles Hotel and TripleOne Somerset.

Major projects slated for completion in 2019 include Project Jewel (Jewel), Funan and The Verge. Prior to its expected launch in March next year, Project Jewel witnessed strong pre-commitments with almost 90.0% of the space now allocated. Part of the reason for the strong pre-commitment is the large take-up from flagship stores. For example, sportswear brand Nike will be occupying over 10,760 sq ft in Project Jewel. Many new retailers, like Pokemon Centre, Shake Shack and A&W, are also planning to make their Singapore debut in Project Jewel.

Another upcoming integrated project, Tekka Place, is expected to complete in late-2019. This is a partially redeveloped building on the site of the former The Verge. In addition to Citadines Rochor's 320-unit serviced residence on the upper levels, the project offers 70,000 sq ft of retail space across 80 shops on the retail podium.

TABLE 1

Major projects in the pipeline, Q4/2018 – 2023

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

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 2

Expected retail rental changes for 2018 and 2019

Period	Prime Orchard Road rents YoY change	Prime suburban malls rents YoY change
2018	0.0%	0.0% to 1.0%
2019	2.0%	2.0%

Source: Savills Research & Consultancy

Please contact us for further information

Savills Singapore

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

Sulian Claire
Executive Director, Retail & Lifestyle
+65 6415 3880
stwijaya@savills.com.sg

Savills Research

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