

# Briefing Retail sector

February 2014



Image: The Heeren, Orchard Road

## SUMMARY

Businesses are suffering from rising labour costs, while Orchard Road rents face downward pressure.

- Retail sales remained relatively stagnant as local economic growth eases.
- Retailers are attempting to automate their services, including the use of tablets to place food orders at Sakae Sushi and robots to assist in food preparation at Ruyi, in the face of labour shortage woes.
- Robinsons Orchard opened at The Heeren in time for the Christmas season.
- In Q4/2013, prime Orchard Road and suburban rents were flat at S\$34.6 and S\$31.1 per sq ft per month respectively.
- We have noted a growing demand for centrally located conservation shophouses.

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 “The big squeeze – tougher times for retailers.”  
 Alan Cheong, Savills Research  
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➔ **Macroeconomic overview**

The Christmas festive period lifted December retail sales (excluding motor vehicles) by 0.3% year-on-year (YoY). However, notwithstanding the Christmas period, discretionary expenditure slowed from September to December, with the latter recording a 6.3% YoY decline in watch and jewellery sales. The F&B sector remained strong for 11 months of the year before flattening in December.

The Republic's economy moderated slightly to a 5.5% YoY growth in the final quarter of 2013. Unemployment figures are expected to remain similar to Q3/2013's 1.8% as most companies offer bonus payouts in December, reducing the likelihood of employees changing jobs during this period. According to flash estimates, the number of international tourist arrivals for Q4/2013 stood at 3.7 million, similar to levels achieved in the same period last year.

From the retailers' perspective, increasing hiring costs due to tighter labour market conditions and higher workers' levies continued to be the main obstacle to expansion or even remaining in business. Retailers have therefore started to automate some services, including the use of tablets to place food orders at Sakae Sushi and robots to assist in food preparation at Ruyi, to reduce their reliance on labour. However, retail operations still require a high level of human involvement and the existing difficulties experienced

in the labour market are hindering retailers' expansion plans.

**Orchard Road and the CBD**

Orchard Road continues to hold centre stage for new brands entering the Singapore market. Ngee Ann City welcomed fashion brands Ash and Roger Vivier as they made their debuts in Singapore and Southeast Asia respectively, while Guardian Plus opened its biggest outlet worldwide in the same mall. Over at ION Orchard, new entrants such as Bécasse Bakery and Collection of Style also launched their first stores in Singapore and Southeast Asia respectively. The entry of brands occupying large retail spaces has played a big role in reducing the vacancy rate in Orchard Road to a five-year low of 4.4%.

Department store, Robinsons, opened its new flagship store, Robinsons Orchard, on 8 November at The Heeren. It offers 380 new fashion brands, 280 of which are exclusive to Robinsons. The S\$40 million store occupies 186,000 sq ft of retail space spanning six levels.

Over in the CBD, newcomer GISELLAblu made its first foray into Singapore at Raffles City. The flagship store spans 2,045 sq ft and features a

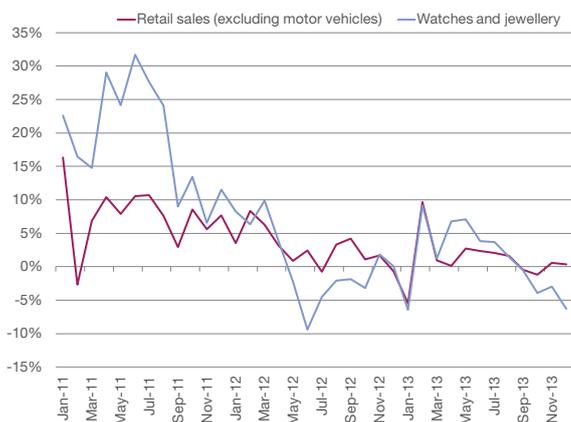
black and gold theme. The Shoppes at Marina Bay also saw new tenants, MCM (Mode Creation Munich) and Tudor. The latter occupies 1,023 sq ft of space, making it the largest standalone boutique for the brand in Southeast Asia.

**Rents**

Monthly rents for prime space in Orchard Road and suburban malls remained flat at S\$34.6 and S\$31.1 per sq ft respectively in Q4/2013. Over the past six years, retail rents tracked by Savills Singapore have been relatively stable.

We have also observed that as shopping mall rents are at an elevated level, many retailers, especially those in the F&B sector, are moving into shophouses located in or near the fringe of the Central Area. This is due to the lower rents, the positive agglomeration effect where many neighbouring businesses are in the same trade and the central location. Some international brands which have moved into conservation shophouses include Lululemon Athletica on Club Street and Joo Chiat Road, The Redundant Shop at Everton Park and Konzep on Tyrwhitt Road. Prominent F&B brand, Wolf by Prive Group, has also set up its first store on Club Street. ■

GRAPH 1 **Growth of retail sales (excluding motor vehicles), YoY at current prices, Jan 2011–Dec 2013**



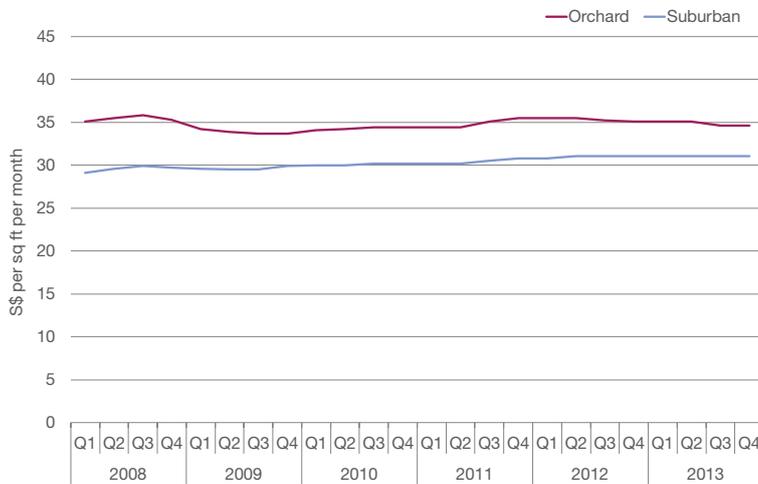
Source: Singapore Department of Statistics, Savills Research & Consultancy

TABLE 1 **Major projects in the pipeline, 2014–2017**

Development	Location	Estimated NLA (sq ft)	Estimated completion
Orchardgateway/ Orchardgateway @ Emerald	Orchard Road	172,000	Q2/2014
Retail at Sports Hub	Nicoll Highway	309,000*	Q2/2014
Big Box	Jurong East Street 11	230,000*	Q3/2014
The Seletar Mall	Sengkang West Avenue/ Fernvale Road	188,000	Q4/2014
Capitol Piazza	North Bridge Street/ Stamford Road	160,000	2H/2014
268 Orchard Road	Orchard Road	96,000	2014
6 Shenton Way	Shenton Way	150,000	2014
National Art Gallery	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

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

**GRAPH 2**  
**Prime retail rents, 2008–2013**



Source: Savills Research & Consultancy

**TABLE 2**  
**Rental growth forecast, 2014F–2015F**

Year	Prime Orchard (%)	Prime suburban (%)
2014	-2.0	1.5
2015	0.0	1.5

Source: Savills Research & Consultancy

## OUTLOOK

### The prospects for the market

Tourism spending is expected to increase at a faster rate in 2014 compared with the previous year. Consumer confidence remains stable despite locals feeling less positive about future prospects. According to Nielsen, a firm specialising in consumer behaviour research, 54% of Singaporean consumers surveyed consider their personal finances to be strong, while 49% reported having high intentions to spend on travel (the highest globally). Hence, we believe that optimism in personal finances as well as a willingness to spend on travel indicates strong consumer confidence.

Despite stronger demand for retail products, businesses are still coping with high rents amid rising operating costs. This, to a certain extent, has caused some retailers, such as gourmet burger restaurant Relish at Cluny Court and Japanese-inspired cake shop Kki at Ann Siang Hill, to move their businesses to relatively cheaper locations or to cease operations until affordable premises can be found. Therefore, we expect prime Orchard Road rents to dip slightly in 2014. Rents in prime suburban malls on the other hand, may remain strong, as businesses in these malls tend to be more profitable.

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### Savills Research

#### Savills plc

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