

Briefing Retail sector

July 2013



Image: Jem, Jurong East

SUMMARY

Eating and drinking out of the doldrums – F&B demand comes into its own.

- Prime space on Orchard Road continued to be a springboard for new-to-market retailers seeking to venture to other Southeast Asian capitals.
- Italian watch brand Vabene launched its maiden boutique in Mandarin Gallery while the newly revamped Wisma Atria will be home to Italian fashion label Liu.Jo and Hong Kong's i.t multi-brand boutique.
- In the suburbs, pre-commitments at upcoming suburban malls were dominated by F&B, services and fast-fashion while specialty retailers remained cautious.
- High occupancy costs and a labour crunch have also prompted retailers to set up online stores.
- Asset enhancements, limited supply and interest from international retailers shored up prime Orchard Road rents which held firm at S\$35.1 per sq ft per month in Q2.
- In addition, pipeline retail space saw healthy absorption with orchardgateway having pre-let over 90% of its retail space.
- Prime suburban rents remained at S\$31.1 per sq ft per month. Despite looming supply in the suburbs, landlords maintained their asking rents.

.....
 “With soft retail sales, landlords are turning to F&B usage to fill up their space.”
 Alan Cheong, Savills Research

➔ **Buoyant interest from F&B operators while specialty retailers showed caution**

Prime space on Orchard Road continued to be a springboard for new-to-market retailers seeking a strong impact and visibility before venturing to the heartlands or other Southeast Asian capitals. This quarter, Italian watch brand Vabene launched its maiden boutique in Mandarin Gallery while the newly revamped Wisma Atria will be home to Italian fashion label Liu.Jo and Hong Kong's i.t multi-brand boutique.

In the suburbs, pre-commitments at upcoming malls were dominated by F&B, services and fast-fashion.

Specialty retailers were generally cautious on their expansion plans and were slow in signing on the dotted line, given the large pipeline supply and challenging business climate. High occupancy costs and a labour crunch have also prompted retailers to set up online stores, relieving some leasing demand from brick and mortar space. The flight to virtual space has caught on even with major retailers such as Adidas and Tangs.

On a brighter note, F&B operators are still relatively optimistic on expansion, encouraged by population growth and the rising trend of dining out. Savills also noted increased enquiries from beauty and wellness services. The setback is that space let to such tenants tends to fetch less rent per sq ft than that occupied by fashion retailers.

Meanwhile, fast-fashion retailer H&M now has three new stores in Jem, Suntec City and VivoCity. The highly-anticipated Jem opened its doors in June, offering around 584,000 sq ft of retail NLA which was fully committed prior to its completion. Other big-format tenants such as Challenger, Courts, Kinokuniya, Marks & Spencer, Muji, Uniqlo and Robinsons, anchor all four corners of the mall on every level, ensuring an optimal shopper circulation. Separately, Suntec City completed its Phase 1 asset enhancement which comprises some 193,000 sq ft of retail NLA which we understand is almost fully taken up. Phase 2 works have commenced and are estimated to be completed by the end of this year.

Retail sales (excluding motor vehicles) continued with a tepid performance, inching up 0.2% year-on-year (YoY) in April. Watches and jewellery took a surprising upswing which could be due to falling metal prices. Other segments which contributed to April's growth were supermarkets and F&B. It remains to be seen whether the ongoing Great Singapore Sales will generate enough lift for retail sales to take off, especially with the severe haze conditions which hit Singapore recently.

Rents

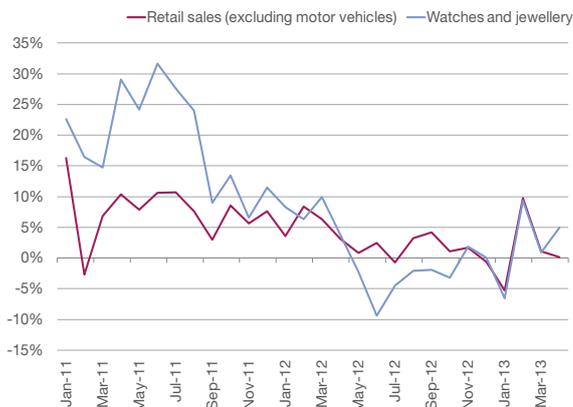
Asset enhancements, limited supply and interest from international retailers shored up prime Orchard Road rents which held firm at S\$35.1 per sq ft per month in Q2. In addition, retail space in the pipeline saw healthy absorption with orchardgateway having pre-let over 90% of its retail space. Prime suburban rents have likewise remained at S\$31.1 per sq ft per month. Despite looming supply in the suburbs, landlords still maintained their asking rents but pre-commitment rates had slowed, except for the brisk take-up by F&B operators and beauty and wellness services.

Future supply

Three malls – orchardgateway, Westgate and Bedok Mall – are scheduled to come on-stream by the end of this year. CapitaMalls Asia announced that Bedok Mall is more than 85% pre-leased as of May. Targeting families, tenants will include Best Denki, FairPrice Finest, Kiddy Palace and Popular. There will be ample eateries including Canton Paradise, Crystal Jade Hong Kong Café, Din Tai Fung, Itacho Sushi, McDonald's, Menya Musashi, Old Town White Coffee, Poulet, Ramen Play, Swensen's and Thai Express.

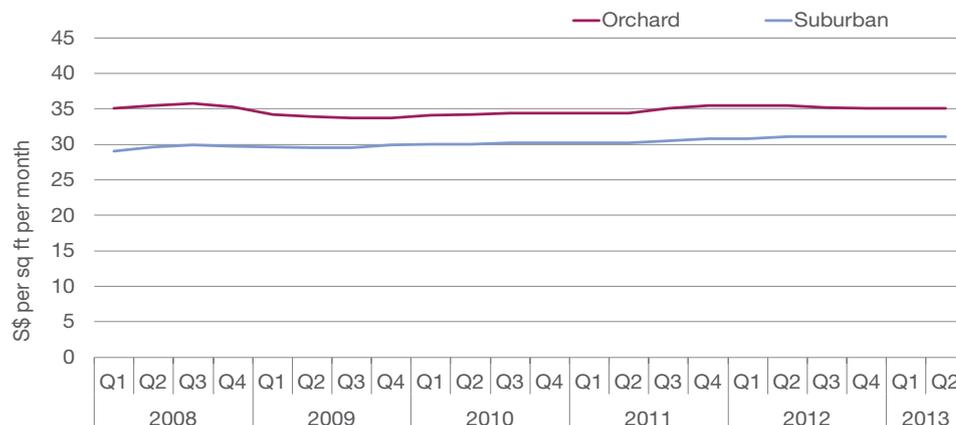
Capitol Piazza, a luxury mall on the site of the former Capitol Building and Stamford House, has also commenced marketing. The mall is part of an integrated Capitol Development comprising Eden Residences, six-star hotel The Patina Singapore and Capitol Theatre. ■

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



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, 2008–Q2/2013**



Source: Savills Research & Consultancy

TABLE 1
Major projects in the pipeline, 2013–2017

Development	Location	Estimated NLA (sq ft)	Estimated completion
orchardgateway/orchardgateway @ Emerald	Orchard Road	172,000	2013
Westgate	Boon Lay Way	416,000	2013
Bedok Mall	New Upper Changi Road	220,000	2013
268 Orchard Road	Orchard Road	96,000	2014
6 Shenton Way	Shenton Way	150,000	2014
The Seletar Mall	Sengkang West Avenue/ Fernvale Road	188,000	2014
Big Box	Jurong East Street 11	230,000*	2014
Capitol Piazza	North Bridge Road/ Stamford Road	160,000	2014
Retail at Sports Hub	Nicoll Highway	309,000*	2014
Hillion Mall	Jelebu Road	168,000*	2015
South Beach	Beach Road	85,000	2015
Waterway Point	Punggol Central	370,000	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%.

OUTLOOK

The prospects for the market

Prime space on Orchard Road will continue to be highly sought-after as Southeast Asia becomes the go-to destination for international retailers. The International Monetary Fund tipped the developing ASEAN economies to grow by 5.9% this year and 5.5% in 2014, supported by domestic demand and government spending. Together with the limited supply remaining this year, we expect prime rents on Orchard Road to stay firm. All eyes will be on the take-up rate of new supply to be released next year, including 268 Orchard Road and Robinsons' space in Centrepoint. Over in the suburbs, a looming pipeline supply could shift the retail mix towards more F&B and anchor tenants, which might yield lower returns overall. However, we do not expect a material adjustment in suburban rents at this juncture as the local economic fundamentals are still strong and we maintain that the pipeline supply is located in towns with large population bases.

Please contact us for further information

Savills Singapore

Savills Research



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



Sulian Tan-Wijaya
Senior Director, Retail & Lifestyle
+65 6415 3880
stwijaya@savills.com.sg



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

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.