

Briefing Retail sector

December 2012



Image: Plaza Singapura

SUMMARY

A sector battling economic headwinds.

- Growth of retail sales decelerated to between -0.6% and 4.1% year-on-year (YoY) since April, while sales of watches and jewellery contracted for the sixth consecutive month in October.

- Retailers were cautious on store expansion plans. Those who expanded were offered attractive rents in good locations.

- Most store expansions involved internationally renowned brands such as H&M, Isetan, Lowrys Farm, Sephora, Toys”R”Us and Uniqlo, largely targeting the mass market.

- Landlords were more receptive to big-format stores, although their rents could be in the low teens, even in prime locations.

- orchardgateway is more than 65% pre-committed. US furniture store Crate & Barrel has taken-up the entire 20,000 sq ft of space at orchardgateway @ Emerald.

- Westgate has also pre-committed half of its retail space to tenants such as Food Republic, Isetan, My First Skool childcare, My Gym and Yamaha.

- Average monthly prime rents on Orchard Road inched down to S\$35.1

per sq ft in Q4 from S\$35.2 per sq ft in Q3. Prime suburban rents held firm.

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 “In the absence of extreme shocks, such as the 2009 supply onslaught of nearly 1.3 million sq ft on Orchard Road and negative GDP growth, we expect just a mild rental correction of up to 3% in the main shopping belt.”

Alan Cheong, Savills Research

➔ **Macroeconomic overview**

The approaching festive season brought little cheer as the market battled sluggish economic growth and continued appreciation of the Singapore dollar. Retail sales (excluding motor vehicles) recorded a positive growth of 1.3% YoY in October. However, since April, growth has decelerated to between -0.6% and 4.1% YoY, while sales of watches and jewellery, an indicator of discretionary spending, contracted for the sixth consecutive month in October.

The Monetary Authority of Singapore (MAS) announced in October that it will allow the Singapore dollar to appreciate at its existing pace to combat inflation. Economists had earlier predicted that the MAS would

ease its monetary stance to encourage spending and spur economic growth. According to preliminary estimates, the Singapore economy grew by a mere 0.3% YoY in Q3 but shrank 5.9% quarter-on-quarter (QoQ). Meanwhile, the contraction in the manufacturing sector for the fifth consecutive month in November raised fresh fears of a technical recession.

Retailers cautious on expansion plans

Retailers were generally cautious on their store expansion plans in the second half of this year, with some planning to consolidate their businesses. However, new entrants and existing retailers who increased their footprint were offered attractive rents in good locations.

Most store expansions involved internationally renowned brands such as H&M, Isetan, Lowrys Farm, Sephora, Toys”R”Us and Uniqlo, largely targeting the mass market. H&M, for example, has opened its second store in ION Orchard and will have its third one in Jem in Jurong East. Toys”R”Us and Babies”R”Us opened two adjoining stores in City Square Mall with a combined area of 25,000 sq ft. This is the maiden foray into Southeast Asia for Babies”R”Us.

The brands’ big-store formats fit well in the current economic climate, contributing significantly to the commitment levels at new malls as well as drawing other tenants to the projects. orchardgateway is more than 65% leased while Westgate in Jurong East is more than 50% pre-committed ahead of their target opening in the second half of next year. US furniture store Crate & Barrel has taken up the entire 20,000 sq ft of space at orchardgateway @ Emerald.

Over in Jurong East, Isetan will have its first supermarket outside Orchard Road in Westgate. Together with a department store, Isetan will occupy some 59,700 sq ft of space spanning three storeys. Westgate will also house Fitness First Platinum, Food Republic, My First Skool childcare, children’s fitness centre My Gym and music school Yamaha. Meanwhile, Jem benefited from early pre-marketing activities, having pre-leased more than 90% of its space less than one year before its target opening.

New supply

Two malls – Plaza Singapura’s new wing and Chinatown Point – welcomed shoppers in November, in time for the year-end festivities. Formerly The Atrium@Orchard, the new wing brings the total NLA of Plaza Singapura from 498,150 sq ft to 629,000 sq ft. Major tenants in the new wing include new-to-market players such as buffet restaurant 1 Market (11,000 sq ft) and multi-label Japanese store JRUNWAY (3,600 sq ft), as well as leading retailers GAP, Lowrys Farm, Uniqlo and Sephora.

November also saw the reopening of Chinatown Point, following a year of renovation, with a total retail GFA of 311,725 sq ft. Targeting the PMEBs (professionals, managers, executives and businesspeople), the mall has been carpeted and houses over 200 shops such as Cortina Watch, Eat at Taipei, Rays Hair Salon, Samsung, Sunglass Hut and The Coffee Bean & Tea Leaf.

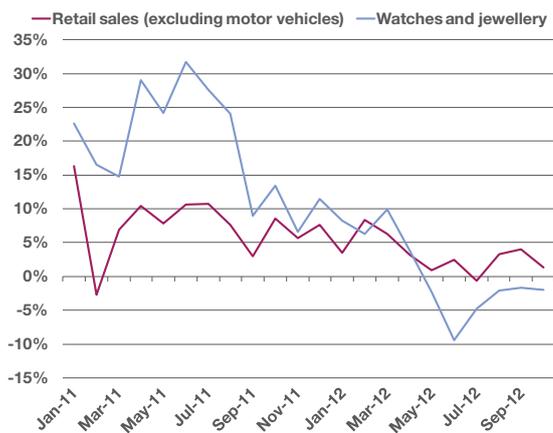
North and South Grandstands, a 350,000-sq ft lifestyle destination on the site of the former Singapore Turf Club in Bukit Timah, is now around 80% occupied. Monthly rents were said to range from S\$9 to S\$12 per sq ft on the ground floor and S\$4 to S\$6 per sq ft on upper floors. Master tenant Cogent Land Capital designated 30% of the space to retail and services, 30% to F&B, 30% to children’s enrichment centres and 10% for sports activities. Among the project’s anchor tenants are Hansang Korean Kitchen & Market (13,000 sq ft), PasarBella (30,000 sq ft), Ristorante Da Valentino (10,000 sq ft) and TungLok-Xihe Peking Duck (15,000 sq ft).

Separately, the asset enhancement of ION Orchard culminated with the opening of H&M’s second store and Crate & Barrel’s inaugural store in Asia.

Rents

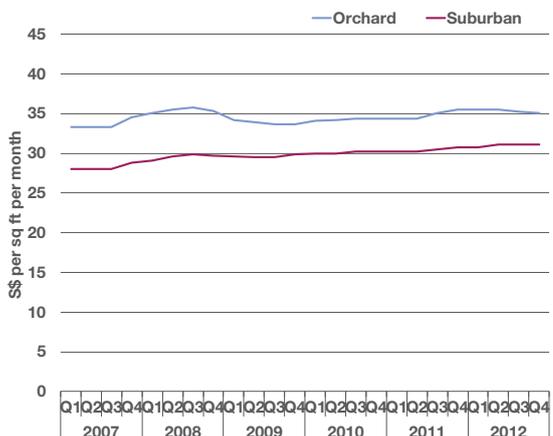
Average monthly prime rents on Orchard Road inched down to S\$35.1 per sq ft in Q4 from S\$35.2 per sq ft in Q3. Rents for units on street level held firm, but those on the second storey weakened. Landlords were also more receptive to big-format stores, although their rents could be in the low teens, even in prime locations. Prime suburban rents remained firm at S\$31.1 per sq ft per month. ■

GRAPH 1 **Growth of retail sales, YoY at current prices, Jan 2011–Oct 2012**



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, Q1/2007–Q4/2012**



Source: Savills Research & Consultancy

TABLE 1
Major projects in the pipeline, 2013–2017

Development	Location	Estimated NLA (sq ft)	Estimated completion
Jem	Jurong East Street 13	573,000*	2013
orchardgateway/ orchardgateway @ Emerald	Orchard Road	180,000	2013
Westgate	Boon Lay Way	416,000	2013
Bedok Mall	Bedok North Drive	220,000	2013
268 Orchard Road	Orchard Road	95,900*	2014
6 Shenton Way	Shenton Way	148,000	2014
The Seletar Mall	Sengkang West Avenue/ Fernvale Road	188,000	2014
Big Box	Jurong East Street 11	230,000*	2014
Retail at Capitol site	North Bridge Road/ Stamford Road	200,000	2014
Retail at Sports Hub	Nicoll Highway	271,000*	2014
South Beach	Beach Road	85,000	2015
Waterway Point	Punggool Central	370,000	2015
Marina One	Marina Way/Street View	119,000*	2017

Source: Company announcements, Urban Redevelopment Authority, Savills Research & Consultancy
*Savills estimation of the retail GFA and applying an efficiency rate of between 65% and 70%.

OUTLOOK

The prospects for the market

In the absence of extreme shocks, like that in 2009 when the economy contracted by 1% and nearly 1.3 million sq ft of retail space hit Orchard Road, we expect prime rents on the main shopping belt to stay resilient. A mild correction of up to 3% is possible as retail sales continue to take a beating from the strengthening of the Singapore dollar and subdued economic growth. The Ministry of Trade and Industry projected the Singapore economy to grow at a modest pace of between 1% and 3% next year, in view of external headwinds, including fears of a US fiscal cliff. We remain positive on suburban rents as most of the future retail projects are located in areas with high population growth. With Jem being more than 90% pre-committed, all eyes will be on Westgate which has secured a strong force of anchors and big-format stores.

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