

Briefing Retail sector

November 2013



Image: Suntec City, Temasek Boulevard

SUMMARY

Demand for space was hindered by the labour crunch during the quarter.

- The retail industry remained resilient, pacing economic growth.
- The eurozone recovery boosted the expansion of European brands into prime Orchard Road space.
- Luxury Swiss watchmaker Parmigiani Fleurier debuted in Southeast Asia at The Shoppes at Marina Bay Sands, while UK fashion brand Religion entered Isetan at Wisma Atria.
- Suntec City Mall officially reopened in time for the Formula 1 event.
- The implementation of the new productivity-focused manpower framework slowed business expansion plans, causing prime Orchard Road rents to slip 1.5% quarter-on-quarter (QoQ).
- Prime suburban rents will maintain its footing as international brands expand further into Singapore's heartlands.

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 “The retail industry would have grown even more if it hadn’t been fettered by labour constraints.”

Alan Cheong, Savills Research

➔ **Macroeconomic overview**

Singapore's economy performed fairly well in Q3/2013, with GDP registered a strong 5.1% year-on-year (YoY) increase despite the economic woes in Europe and the US. The seasonally-adjusted unemployment rate for September fell to 1.8%, the lowest level since December 2012. International tourist arrivals for Q3 are likely to exceed Q2/2013 levels, as July and August recorded 2,857,000 visitor arrivals, 75.8% of the previous quarter. With September's Formula 1 event, which caused a spike of 12.6% in advance flight bookings as well as an expected surge in last-minute bookings, the Q3/2013 tourist arrival volume could potentially break the high of 3,881,407 set in Q1/2013.

Retail sales (excluding motor vehicles) grew by 2.1% and 1.4% YoY in July and August respectively with the F&B services sector being one of the stronger performers. Watches and jewellery – an indicator of discretionary expenditure – recorded slower growth of 0.5% YoY. Given September's strong tourist arrivals data (both in terms of number and length of stay), retail sales for the month should be more robust than in the previous two months.

Despite the stronger economic outlook, retailers were still concerned about the recent amendments to the foreign manpower framework implemented on 1 July 2013. The changes essentially lowered the quota for relatively cheaper foreign labour and increased their hiring levy. Retailers' business and expansion plans have been affected as manpower is less affordable and labour matching becomes more complex.

Meanwhile, Suntec City Mall officially reopened Towers One, Two and Five in September after the completion of the first phase of renovation. This was just in time to cash-in on the Formula 1 crowd. The completed phase managed to sign on high-street fashion labels such as Uniqlo and H&M as anchor tenants and megastore Cotton On. The committed occupancy rate was 99.6% for the first phase while Phase Two achieved a pre-committed occupancy of 83.7%. Phases Two and Three are expected to be completed by Q1/2014 and Q4/2014 respectively, with the second phase featuring an 11-screen cinema complex by Golden Village, its second largest in Singapore.

Suburban

Two CapitaMalls projects are on track to open in Q4/2013. Westgate and Bedok Mall are about 85% and nearly 100% leased respectively. The seven-level Westgate, with an NLA of 410,000 sq ft, is targeted at middle to upper-middle income families. There will be a wide selection of well-known restaurants and eateries such as Tim Ho Wan, Brotzeit, Paradise Dynasty, Café Crema, Menya Musashi and Food Republic. Coach will also make its debut in the suburban retail scene through Westgate.

Rents

Prime Orchard Road rents slipped by 1.5% QoQ from S\$35.1 to S\$34.6 per sq ft per month in Q3/2013. Savills Singapore believes that the decline was due to the new foreign labour restrictions which stalled expansion plans for most retailers. In addition to the slight decline in rental rates, the vacancy rate in the Orchard area also adjusted slightly up from 7.3% to 7.7% this quarter. The figures are, however, less likely to rise further as retail sales are expected to continue growing in line with the economy. This optimism is borne out by the upcoming opening of European brand Roger Vivier's first Southeast Asia store next quarter at Ngee Ann City, Repetto's first flagship store at ION Orchard in November and Orchardgateway's high pre-commitment of about 95%.

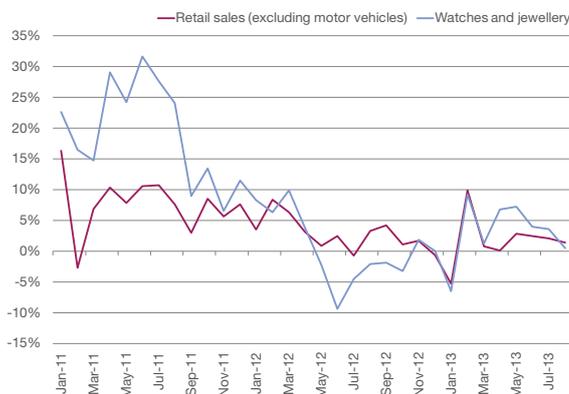
Prime suburban rents remained at S\$31.1 per sq ft per month for the sixth consecutive quarter. Vacancy rates for the malls should remain healthy as more international brands expand into suburban areas such as Topshop in JEM and Emporio Armani Watches & Jewellery at Vivocity. ■

Orchard Road and the CBD

Orchard Road maintained its status as one of the most desired locations for new brands to penetrate the Asian market. International fashion brands such as Cath Kidston, Ugg and Religion set up their first Singapore stores in the Orchard Road precinct. The first two brands opened standalone stores at Ngee Ann City and ION Orchard respectively, while Religion made its mark through Isetan at Wisma Atria. European brand Sisley also joined the bandwagon by opening its first beauty boutique at Paragon. In addition, Coach opened its first standalone boutique focusing on men's fashion at Ngee Ann City to further strengthen its position as a leading fashion brand in Singapore. Overall, European brands have expanded faster here relative to other brands. This could be due to their belief that in comparison to their home regions, Singapore, and also Asia, count as the fastest growing markets in the world.

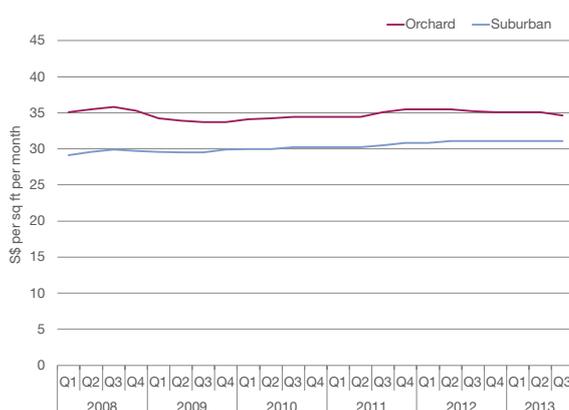
Over in the CBD, Swiss luxury watchmaker, Parmigiani Fleurier, opened its first standalone boutique in Southeast Asia at The Shoppes at Marina Bay Sands. The retail component of the integrated resort also tends to attract other luxury brands, including Mikimoto, which opened its third largest store in Southeast Asia here. Other luxury brands that have entered the retail scene here or have pre-committed to retail space include Anne Fontaine and Ermenegildo Zegna, with the latter taking up 3,540 sq ft for its fourth store in Singapore.

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



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, 2008–Q3/2013**



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 Street/ Stamford Road	160,000	2014
Retail at Sports Hub	Nicoll Highway	309,000*	2014
National Art Gallery	St Andrew's Road	40,000	2014
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%.

OUTLOOK

The prospects for the market

Higher income expectations, stronger consumer sentiment and healthy tourist arrivals will continue to boost retail sales (excluding motor vehicles) and subsequently business expansions in Singapore. In addition, the government's announcement of enhancing the competitiveness of Changi Airport to handle an extra 19 million passengers per year by 2018 is expected to attract more retailers to set up operations there. Going into Q4/2013, prime Orchard rents are expected to stay firm with F&B leading the growth.

Attention in the suburban retail segment will be focused on the upcoming Westgate and Bedok Mall. For Westgate, the strong agglomeration effect with its surrounding malls should increase the popularity of the western region as a regional shopping destination. We believe that suburban retail located in high population nodes will still remain a popular option in the expansion plans of existing retailers.

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