MARKET IN MINUTES

Savills Research

Retail

Retail vacancies climb to record high of 8.7%

Activity-based and multi-concept retailers continue to expand their retail footprint.

- On the back of improved hiring levels and Chinese New Year festive spending, retail sales (excluding motor vehicles) improved 4.9% year-on-year (YoY) in January, but were down 10.9% YoY in February from their sales peak a year ago.
- Other than Orchard and Fringe Areas, net take-up of retail space declined across the board, pushing up the island-wide vacancy level to a high of 8.7% in Q1/2019.
- In Orchard Area, the limited new supply along the shopping belt held prime monthly rents unchanged at S$29.90 per sq ft in the first quarter.
- Given the accessibility and ready catchment of shoppers, the prime monthly rent in Suburban Area also stayed flat at S$28.80 per sq ft.
- Squeezed by shrinking sales and rising costs from varying fronts, retailers are likely to focus on consolidating loss-making stores while expanding with caution.
- Although multi-faceted challenges confront retailers, the relative lack of supply in Orchard Area will keep rents stable while prime suburban malls should experience slightly better prospects arising from their pull within their respective catchment areas.

"The lower tourist spend on retail and F&B will goad more Core Orchard Road and CBD malls to convert space to flexi-users and target local consumers."

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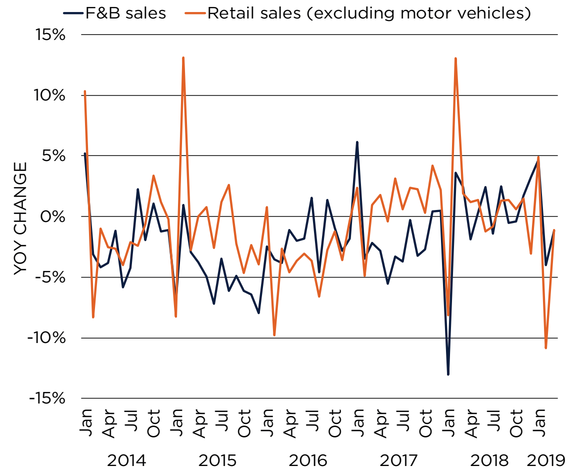
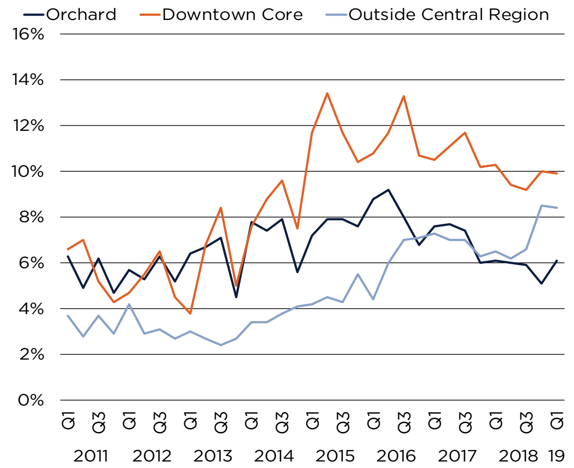
GRAPH 1: Growth In Retail Sales And F&B Sales, January 2014 to March 2019



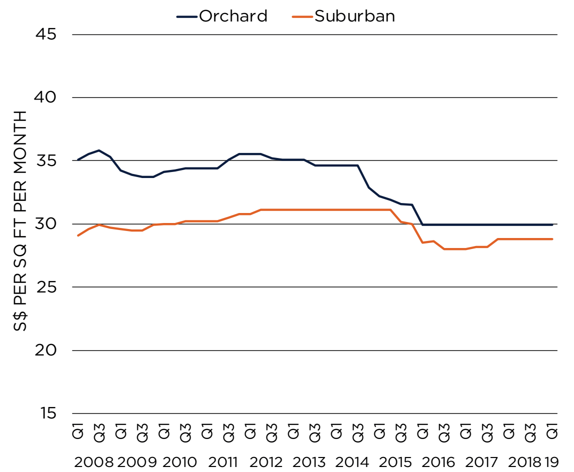
Source Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2: Vacancy Rates, 2011 to Q1/2019



Source URA, Savills Research & Consultancy

GRAPH 3: Prime Retail Rents, 2008 to Q1/2019



Source Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advance estimates released by the Ministry of Trade and Industry (MTI), Singapore's economic growth came in at 1.2% YoY in Q1/2019, easing slightly from 1.3% in Q4/2018. Despite subdued economic growth, the labour market stood firm in Q1/2019 with higher employment and a steady unemployment rate.

The improved hiring levels and Chinese New Year festive period boosted consumer spending in the beginning of the year. The increase of 4.9% YoY in retail sales (excluding motor vehicles)[1] in January was bolstered by higher sales on toiletries and apparel. The record high of over 1.6 million visitor arrivals in January also supported the sales recovery. However, compared to the Chinese New Year festive sales peak of a year ago, retail sales in February shrunk by 10.9% YoY. Retail sales experienced another broad-based weakening in March, albeit at a slower rate. The weaker performance could be attributed to March's first YoY decline in tourist arrivals after rising every month for almost four consecutive years.

Following a three-month increase through January, food and beverage (F&B) revenue[2] fell by 4.0% YoY in February as food caterers and restaurants recorded a decline in receipts from last year's festive period. The decline in F&B revenue eased to 1.2% YoY in March when sales at other eating places such as cafés picked up from the same period last year.

RENTAL MARKET STAYS FLAT

Singapore's retail supply tightened slightly by 22,000 sq ft in Q1/2019. The quarter's new supply, which came mainly from the revamped retail podium at TripleOne Somerset, was more than offset by an overall removal of stock.

Other than Orchard and Fringe Areas where net demand remained the same, net take-up of retail space declined across the board, pushing up the island-wide vacancy level by 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to a record high of 8.7% in Q1/2019 . The softer demand could be attributed to F&B closures as some restaurants and take-away stores were battered by retail headwinds. Earlier this year, F&B brands such as Chili's , Jpot and Pablo Cheese Tart shuttered all their stores in Singapore.

The retail rental recovery in Q4/2018 did not extend beyond 2018. The rental index in Central Region was down by 0.2 of a ppt QoQ in Q1/2019, ending a short-lived uptick in the preceding quarter. In Orchard Area, the limited new supply along the shopping belt held prime monthly rents[3] unchanged at an average of S$29.90 per sq ft in the first quarter.

1 Retail Sales Index at Constant Prices, Monthly. Updated as at 13 May 2019.
2 Food & Beverage Services Index at Constant Prices, Monthly. Updated as at 13 May 2019.
3 Refers to Savills prime monthly rents for ground-floor retail units with good frontage and footfall.

Given the accessibility and ready catchment of shoppers, the prime monthly rent in Suburban Area also stayed flat at S$28.80 per sq ft. Even though prime units in both areas are highly sought-after due to still-healthy footfall, retailers' continued resistance to higher rents has put a cap on rental increases.

JEWEL: THE ATTRACTION FOR LOCAL AND INTERNATIONAL VISITORS

With the opening of a new lifestyle destination, which is attempting to capture both domestic residents and air passenger traffic, Jewel Changi Airport (Jewel) has become the choice for international brands keen to open their largest stores and expand their retail footprint in Singapore. Brands including Nike, Muji, Starbucks, Tokyu Hands and Skechers all launched duplex stores in Jewel. After the grand opening of its global flagship store at Orchard Central last year, Uniqlo opened its second-largest branch in Southeast Asia at Jewel before launching another new outlet at Paya Lebar Quarter (PLQ) mall and expanding its existing outlet at VivoCity. Apple, which is opening a new store at Marina Bay Sands (MBS), will also set up its new flagship store at Jewel.

FITNESS & EXPERIENCE-DRIVEN RETAIL DOMINATES

Some fitness retailers continue to tap into the emerging wellness trend to spur growth. UFC Gym, which is planning to expand to 15 gyms over the next decade, unveiled its first branch at CityLink Mall in March. Barry's Bootcamp, the US workout operator, is setting up its first location in Asia in May at the redeveloped Robinson Tower. True Fitness is also undertaking a massive expansion, opening the largest fitness centre in Singapore which spans 41,700 sq ft at Millenia Walk. The first phase comprises the 23,000-sq ft premise which TripleFit will be vacating by end-May, and the rest of the expansion will complete by Q3/2019. Pure Group will then take over True's current 30,000-sq ft gym centre at Suntec City, launching its eighth facility later this year or early-2020.

Nightclub chain Marquee Singapore made its debut in Asia with a three-storey mega-club, taking up 24,757 sq ft at The Shoppes in MBS. Singapore's first smart spa, Porcelain Origins, introduced a multi-concept spa comprising cafe, retail space and beauty services with added digital technologies at Orchard Paragon.

SUPPLY IN THE PIPELINE

Approximately 1.9 million sq ft of retail space[4] is expected to come onstream in 2019, equivalent to about 2.9% of the total current supply. Owing to major completions from projects such as Funan and PLQ mall, 2019's upcoming supply should far exceed—by

4 Estimated retail net lettable area.

TABLE 1: Major Projects In The Pipeline, Q2/2019 to 2023

DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)	ESTIMATED COMPLETION
Funan	North Bridge Road	324,000	2019
Paya Lebar Quarter (PLQ) Mall	Paya Lebar Road/Sims Avenue	340,000	2019
Tekka Place	Serangoon Road	70,000	2019
Northshore Plaza I	Northshore Drive	62,200*	2020
Le Quest	Bukit Batok Street 41	60,000	2021
The Woodleigh Mall	Bidadari Park Drive	96,800*	2022
Punggol Digital District	Punggol Way	146,600*	2023

Source Company announcements, The Straits Times, URA, Savills Research & Consultancy
*Savills estimation, based on an efficiency rate of between 70% and 75%

42.4%—the annual level of new supply that came on the market over the last three years. The redevelopment of The Verge, now called Tekka Place, is another major project in the pipeline. Slated to open by end-2019, nearly half of the 70,000 sq ft of net lettable retail space at the new hospitality and retail integrated project has been or is about to be committed[5]. The upcoming development will offer 80 retail stores and an outdoor rooftop deck catered by numerous F&B outlets. One of the largest tenants is XinTekka, a new food hall concept which will take up 10,000 sq ft with about 26 stalls offering a variety of local cuisines.

The retail pipeline supply is expected to taper off to less than 0.8 million sq ft of net lettable area per annum from 2020 to 2023.

OUTLOOK

According to MTI's latest estimates, Singapore's gross domestic product growth forecast is narrowed down to 1.5% to 2.5% YoY. This means that growth this year should be lower than the 3.2% recorded last year. Even though the employment market remains steady, it may not necessarily lead to improved consumer sentiment and expenditure as global economic uncertainty places a lid on consumer optimism. Since last November, Singapore's tourist arrivals have shown signs of moderation and even dipped into negative territory in March. Retail sales are likely to stay muted as tourism receipts and local spending remain depressed. That sluggishness combined with mounting costs will continue to put pressure on retailers.

With a reduction in the permitted ratio of foreign to local workers in the services sector, labour-intensive segments such as retail and F&B may face further margin pressures due to higher manpower and operating costs. The closing of a 108-year-old local F&B establishment gives testament to the labour woes faced by those in both the physical retail and F&B trades here. Squeezed by rising costs and shrinking sales, some retailers are likely to focus on consolidating loss-making stores while expanding with caution. For example, Japanese department store operator Isetan, which has a presence in Orchard Area and various suburban locations, will not be renewing the lease for its branch at Westgate due to poor sales. On the other hand, the current manpower challenges and weaker sales have not hindered the expansion plans of some retailers such as Muji, which continued to expand its store footprint on the back of strong sales. Crowd-puller Don Don Donki plans to hit a total of ten stores by 2020, partly because landlords are willing to offer attractive rents to drive footfall to the malls. While landlords lower rents for anchor tenants and crowd-pullers, they tend to maintain relatively higher rents for other smaller tenants to make up for the formers' rental discounts.

In the near term, tapering retail supply may create some friction against the significant rental decline. Particularly in Orchard Area where there is a lack of new completions, for some strategically located units, the annual prime rental growth could still go up 2.0% YoY this year. Coupled with Orchard Area's upcoming introduction of new retail concepts, events and entertainment to strengthen its position as a lifestyle destination, the district's rental level may strengthen over time as footfall starts to pick up. Nonetheless, rental growth generally could still stay flat or slip slightly from last year due to sluggish tourism figures and even more challenging tourism expenditures. In fact, the tourism front is showing worrying signs because even though tourism arrivals went up 7.5% YoY for the first three quarters of 2018, tourism expenditures rose by a meagre 1.1% YoY over the same period.

What is worth noticing is that tourists' F&B spend fell 4.0% YoY while accommodation and shopping billings dropped 5.0% and 14.0% YoY, respectively. If we assume that there's been little change in the profile of visitors to Singapore, then for the first three quarters of 2018, something else has changed. Given that tourist arrivals rose 7.5% YoY, the drop in expenditures for F&B, accommodation and shopping must mean they ate less per capita, stayed fewer days, were charged lower hotel room rates compared to 2017, and they shopped or bought fewer items here. While it's reasonable that tourists might shop or buy less while in Singapore, the other reasons are unlikely. With arrivals at a 7.5% YoY increase, the scenario of tourists eating and drinking 4.0% less seems irrational. The same can be said of hotel expenditures, which fell 5.0% YoY for the period January to September 2018 even though Average Room Rates rose 1.2% YoY.

In all, what we can opine is that the tourism dollar is something retailers, especially those in the tourism belt, can no longer count on to grow their topline. That leaves two options for mall owners. One is that they work on increasing their domestic consumption content. The other is to convert retail space to flexi-space users e.g. co-working space. Nevertheless, in the near term, although retailers in Orchard Area and peripheral tourist shopping districts continue to face headwinds, the relatively limited supply of new, undifferentiated retail space (excluding Funan which is positioned as a digital lifestyle mall) should help landlords.

For that very reason, the rental market in suburban malls is expected to remain supported by the constant local shopper traffic mainly within their catchment area, and for that we should expect less volatility on the downside. Prime retail rents in Suburban Area are projected to stabilise or gain up to 2.0% from last year.

TABLE 2: Expected Retail Rental Changes for 2019

PERIOD	PRIME ORCHARD ROAD RENTS YOY CHANGE	PRIME SUBURBAN MALL RENTS YOY CHANGE
2019	-1.0% to 2.0%	0.0% to 2.0%

Source Savills Research & Consultancy

5 Information accurate as of 1 March 2019.