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.”

ALAN CHEONG, SAVILLS RESEARCH

Savills Research
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) 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 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 when sales at other eating places such as cafés 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.

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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 last three years. The redevelopment of The Verge, now called Tekka Place, 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 lifestyle mall (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 1: Major Projects In The Pipeline, Q2/2019 to 2023**

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

Source: Company announcements, The Straits Times, URA, Savills Research & Consultancy

*Estimate based on an efficiency rate of between 70% and 75%.

**TABLE 2: Expected Retail Rental Changes for 2019**

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>PRIME ORCHARD ROAD RENTS YOY CHANGE</th>
<th>PRIME SUBURBAN MALL RENTS YOY CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>-1.0% to 2.0%</td>
<td>0.0% to 2.0%</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy