savills

Savills World Research
Singapore

Briefing
Retail sector

November 2017

Image: SingPost Centre, 10 Eunos Road 8

SUMMARY

There are signs of stabilisation but overall, the retail climate remains soft.

- Largely led by the sales increase in department stores as well as watches and jewellery, retail sales (excluding motor vehicles) recorded a year-on-year (YoY) positive growth for all three months.

- As retail space saw an improved take-up of 161,000 sq ft in Q3/2017, island-wide vacancy levels rose at a slower pace of 0.1 of a ppt, down from the 0.4 ppt increase in Q2/2017.

- The vacancy level in the suburban area remained stable at 7.0% with Savills prime monthly rents holding firm at S$28.20 per sq ft. Despite the slight recovery in Orchard occupancy levels, there are still pockets of vacant units, which may have prevented landlords from raising rents. Hence, Orchard prime monthly rents remained at S$29.90 per sq ft.

- Given the shift towards online spending by Singaporeans and the extended potential to cater to international buyers, retail space in tourist shopping destinations like Orchard Road and MBS could be in higher demand than that of suburban malls.

"Landlords can no longer rely on cyclical effects to lift rents but have to actively work on best in class retail concepts."
Alan Cheong, Savills Research

MCI (P) 142/07/2016
Company Reg No. 198703410D

Macroeconomic overview

According to advanced estimates released by the Ministry of Trade and Industry (MTI), the Singapore economy grew by 4.6% YoY in Q3/2017, recording the fastest pace of expansion in more than three years. On some sectorial fronts, the services industry continued to strengthen, growing 2.6% YoY while the manufacturing sector remained as the main economic driver with an expansion of 15.5% YoY.

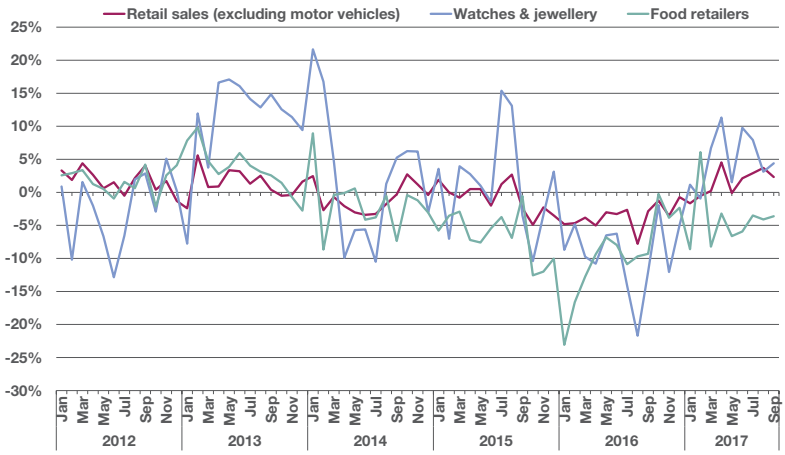
With a more optimistic economy outlook, the labour market is beginning to show signs of improvement with a falling unemployment rate and no rise in retrenchments rates. As more employers are looking to hire, overall job vacancies also increased. However, local consumers were still cautious in their expenditure, yet retail sales were boosted by increased tourist numbers, which grew 0.6% and 5.2% YoY, in July and August respectively. It coincided with the 2.9% and 3.7% YoY increase in the respective monthly retail sales (excluding motor vehicles)[1]. Retail sales (excluding motor vehicles) increased at a slower pace at 2.3% YoY in September.

While furniture & household equipment sales caused a slight surge in August's sales, the overall positive sales growth was largely led by the increase in departmental stores, as well as watches and jewellery sales. The healthy level of sales growth for watches and jewellery this year shows that the Singapore watch market is showing modest signs of recovery after a full-year decline in 2016. The rise in demand is likely to be driven by the main luxury brands, such as Cartier, IWC and Omega, which introduced new product ranges at lower prices. This suggests that the jump in sales was not due to higher purchasing power or better economy, but because luxury retailers came up with new affordable ranges which enticed shoppers.

1 Retail sales index at constant prices, monthly (SA) updated as at 13 November 2017.

GRAPH 1

Growth of retail sales (excluding motor vehicles), YoY at constant prices, Jan 2012–Sep 2017



Source: Singapore Department of Statistics, Savills Research & Consultancy

Market snapshot

According to Zebra Technologies' 2017 Retail Vision Study (RVS), over 80.0% of respondents dislike the process of waiting for a delivery. As such, providing customers a choice of collection from stores or pick-up points, forms a critical part of the overall omni-channel experience. These experiences lead to a retail transformation, entitled "New Retail", which involves shopping online, experiencing in stores, making purchase and finally delivering at shoppers' convenience.

To stay relevant in the rapidly evolving retail landscape, CapitaLand is launching an online mall on Lazada Singapore by end-2017. Shoppers will have the option to make their collection in CapitaLand malls after shopping at their official store on Lazada. CapitaLand will start with two unmanned 'click-and-collect' lounges at Plaza Singapura and Bugis+ for collection and return of parcels. To further improve on the overall service, the lounges will also include fitting rooms and a product testing bench. Retailers such as Uniqlo also introduced 'click-and-collect' services that allow shoppers to collect their online purchases at any stores.

Meanwhile, flagship stores continued to open especially in the prime shopping districts. The flagship stores of Brazilian footwear label Melissa and the cosmetics company Lush took up 1,700 sq ft at Raffles City shopping centre and 1,152 sq ft at VivoCity respectively. Coffee machine retailer Nespresso relaunched its 2,271-sq ft flagship store at ION Orchard after a massive facelift while luxury French perfume house Fragrance Du Bois relocated its flagship boutique from The Fullerton Hotel to Scotts Square, occupying 807 sq ft of space.

Orchard Road & the CBD

Singapore is one of the few countries that foreign retail brands tend to choose as their first entry point to the Southeast Asia market. Japanese discount chain Don Quijote is opening its first Southeast Asia outlet in Singapore by the end of November 2017 where it will occupy two levels at basement one and two of Orchard Central. Depending on the performance of the Orchard branch, there is also a possibility for another opening at Liang Court. American youth fashion label, Hardy Hardy Singapore, and Korean designer eyewear brand, Gentle Monster, have also set up their first flagship store for Southeast Asia at ION Orchard.

In July, Muji Singapore has launched its first flagship store for Southeast Asia at Plaza Singapura. Spanning 17,653 sq ft, it is the largest Muji

store in Singapore, where the third Cafe & Meal Muji is included within the premises. The diamond jeweller Nirav Modi and perfume house Henry Jacques also introduced their first boutique for Southeast Asia at The Shoppes at Marina Bay Sands (MBS). French luxury brand Balmain featured its first standalone store for Southeast Asia, taking up 1,647 sq ft at The Shoppes at MBS.

To attract customers in the highly competitive market, luxury brands resorted to sprucing up their store interior to enhance the overall shopping experience. French label, Longchamp Singapore, has reopened its largest store in Southeast Asia, a 2,960 sq ft unit at ION Orchard, after the renovation. Salvatore Ferragamo Singapore has launched its refreshed store, a 3,121-sq ft boutique, also at ION Orchard. Local luxury leather goods and accessories brand, Kwanpen, re launched their flagship boutique at The Shoppes at MBS. The new store, which opened in August, was extensively renovated and has tripled in size, now covering more than 2,500 sq ft. Besides luxury perfumery brand, Jo Malone, Chanel Fragrance & Beauty also launched its 1,141-sq ft renovated store, with a new private facial cabin, as well as personalised beauty and fragrance consultations.

Not only have high-end brands sought to upgrade the physical aspect of their shops, multi-brand sportswear retailer, Royal Sporting House Singapore, also reopened its 7,900-sq ft renovated flagship store at Tanglin Mall, featuring industrialised interior concept and shop-in-shop layout.

City Fringe & Suburban

Over the past few quarters, more malls undertook renovation works to enhance the overall shopping experience. Century Square, the oldest of three malls in Tampines, has closed on August 31 for a complete makeover before reopening in 2H/2018. The revamped mall will have interactive digital walls on every level as well as screens that allow shoppers to shop for retail offerings which are not physically in the mall.

Among the 30.0% of the net lettable space set aside for F&B use, Food Junction will introduce a new brand, "The Food Market by Food Junction", with different concepts and also digital payment. This space will also house hotpot restaurant operator Hai Di Lao's second outlet in Singapore. One of its new anchor tenants is lifestyle grocer Mahota Market, which will take up about a third of Basement 1 and will also include a restaurant for shoppers to have their purchased items cooked on the spot. The other new tenants include the cinema operator Filmgarde, childcare service operator Orange Academy, The Learning Lab enrichment centre and a 24-hour operating gym Gymmboxx.

With around 90.0% of the retail space already pre-committed, Northpoint City is going to have its soft opening in Q4/2017. The new 1.33 million-sq ft mall will have over 400 retail and F&B choices, spread across both the north and south wings. The lettable area in the mall is an amalgamation of the space from the new government land sales site with that from the older Northpoint Shopping Centre and Nee Soon Central Community Centre respectively. F&B remains to be an essential component in the new mall's offering, taking up almost 30.0% of the total retail space or over 100 stores. In addition to the existing Kopitiam and 15,000-sq ft Cold Storage, new anchor tenants would include FairPrice which spans over 33,000 sq ft and Harvey Norman which upgraded its footprint from an 8,000-sq ft unit to a new 34,000-sq ft duplex unit. The new mall will be connected to Yishun MRT station and bus interchange via an air-conditioned underground retail link which will offer more than 30 retail and F&B takeaway concepts.

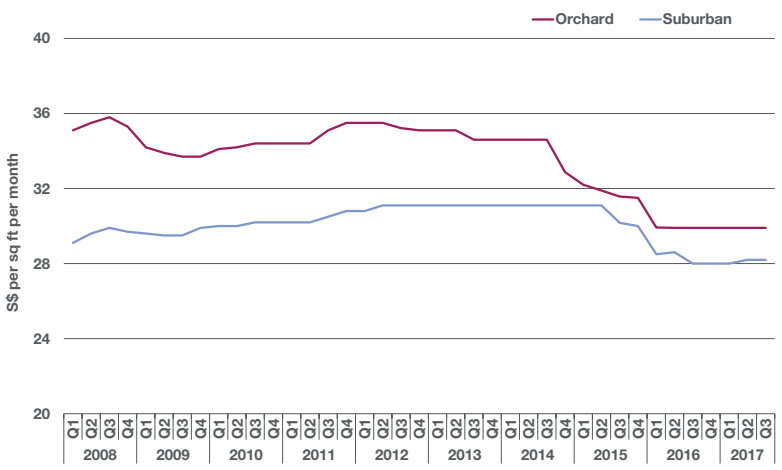
Rents & vacancy

After a continuous decline for almost three years, from 2015, the rental decline for retail space showed signs of moderation in Q3/2107. Although the market did not show a significant recovery, the latest figures released by the Urban Redevelopment Authority (URA) showed that the quarterly rental decline has slowed down to 0.2 of a ppt from 1.2 ppts in the preceding quarter.

As compared to the 0.4 ppt rise in the previous quarter, the island-wide vacancy level rose slightly by 0.1 ppt, in the reviewed quarter. This was because the island-wide retail space saw an improved take-up of 161,000 sq ft in Q3/2017, as compared to a 441,000 sq ft and 32,000 sq ft dip in retail net absorption in the last two quarters respectively. This was driven by the healthier net take-up rate across the Central Region, particularly in Rest of Central Area, which had an 118,000 sq ft increase of occupied retail space and a 0.6

GRAPH 2

Prime retail rents, 2008–Q3/2017



Source: Savills Research & Consultancy

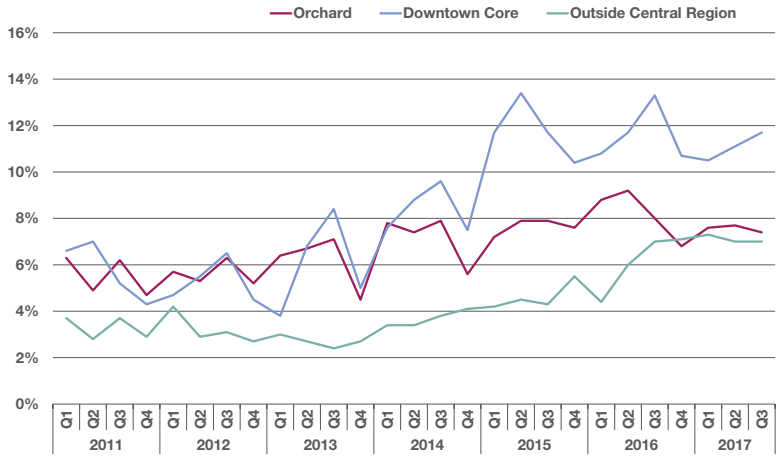
ppt QoQ drop in vacancy rate to 7.4%.

Owing to the new retail completions – The Heart at Marina One (193,750 sq ft) and Tanjong Pagar Centre (17,220 sq ft) - the vacancy rate in the Downtown Core Planning Area increased by 0.6 ppt, QoQ, to 11.7%. The vacancy level in the Fringe Area also inched up by 0.4 ppt to 8.8%, the highest record since the new URA time series was constituted in 2011. Nonetheless, its net absorption rate has improved to 65,000 sq ft from a -43,000 sq ft in Q2/2017. The rise in vacancies largely resulted from newly completed projects such as the commercial development at Stevens Road (59,200 sq ft) and Royal Square at Novena (55,970 sq ft).

The net supply and demand of retail space in the Suburban Area decreased due to the closure of Century Square in August, but the vacancy level remained stable at 7.0% in the quarter. For the quarter in review, the Savills prime monthly rents in the Suburban Area stood firm at S$28.20 per sq ft. Although the occupancy level in the Orchard Planning Area improved marginally to 7.4% after a 0.9 ppt increase in 1H/2017, there are still pockets of vacant units, which probably held landlords back from raising rents. Hence, our Orchard prime monthly rents remained unchanged at S$29.90 per sq ft.

GRAPH 3

Vacancy rate, 2011–Q3/2017



Source: URA, Savills Research & Consultancy

Future supply

The URA estimated 840,000 sq ft of new retail space to be completed by Q4/ 2017. This is mainly from Northpoint City at Yishun, making up more than 70.0% of the upcoming retail supply, and from the amenities centre in JTC Space @ Tuas. The new completions in 2018 are mostly located in the Central Region and they include Paya Lebar Quarter and the revamp of Raffles Hotel shopping arcade. The other major retail development planned to complete by 2018, is refurbishment of Century Square in the East Region. Together with other retail projects, the total new supply of retail space in 2018 is nearly 2.8 million sq ft.

From 2019 to 2021, over 2.7 million sq ft of new retail stock is expected to enter the market. Major completions in 2019 include Project Jewel in the East Region and Funan in the Central Region.

TABLE 1

Major projects in the pipeline, Q4/2017–2020

Development	Location	Estimated NLA (sq ft)	Estimated completion
Northpoint City	Yishun Central 1	330,000	2017
Paya Lebar Quarter	Paya Lebar Road/Sims Avenue	340,000	2018
Additions/alterations to existing Raffles Hotel and shopping arcade	Beach Road/North Bridge Road	234,000*	2018
Additions/alterations to existing Century Square shopping complex	Tampines Central 5	200,000	2018
TripleOne Somerset Podium AEI	Somerset Road	88,500	2018/2019
Project Jewel	Airport Boulevard	576,000	2019
Funan	North Bridge Road	324,000	2019

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

OUTLOOK

The prospects for the market

According to the Monetary Authority of Singapore (MAS), Singapore's economy is expected to expand at the upper end of the range between 2.0% to 3.0% this year. Although the local economic recovery is largely supported by trade-related sectors, industry segments such as retail could also benefit from the improvement in the overall business climate.

Nonetheless, the retail sector remains soft with more retail sales are shifting from offline to online. E-retail has been gaining larger share of the local retail spending, thus dampening on retail space absorption in Singapore – the third largest e-commerce market in South-east Asia. Even though Worldpay's annual global payments report showed that further online shopping growth may face constraints due to Singapore's small population size, the local retail sector still remains challenging due to the m-commerce (mobile commerce) boom which is expected to grow 33.0% in the coming five years. The latest Mastercard Mobile Shopping Survey shows 46.4% of the consumers are making purchases on mobile, as preference for in-store shopping in Asia is showing a gradual decline.

While local shoppers tend to spend more online, tourists make the main contribution to the local retail sales. The study Asia-Pacific City Travel & Tourism Impact highlighted that 68.0% of tourism spending in Singapore is contributed by international visitors. The World Travel & Tourism Council (WTTC) predicts that Singapore's revenue from tourism will rise by 3.0% annually from 2017 to 2027. Given the shift to online spending among the locals and the growth potential to cater to the international spenders, the demand for retail space in tourist shopping destinations like Orchard Road and MBS could be more sought after than neighborhood districts with suburban malls.

For Q3/2017, feedback from retail specialists range from flat to moderately declining rents be it for shops along Orchard Road to the suburban malls. Most expect the situation to remain in this state for at least the rest of 2017. We would not differ on these views but looking further into 2018, we believe that rents would begin to find support for the Orchard Road area first and then followed by the suburban malls.

Going forward, we do not believe that landlords can purely rely on cyclical effects to lift rents. Although there has been an increase in retail sales, market feedback suggests that there is still a lack of spending power by locals and tourists. Therefore for rents to be maintained, landlords will have to think ahead to the next trend and for rents to be raised, landlords will have to be creative and astute with retail and F&B concepts at the right price point. Asset management working hand in hand with market research and data analysis therefore takes on an even greater importance than just pure cost cutting measures.

Please contact us for further information

Savills Singapore

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

Sulian Claire
Executive Director, Retail & Lifestyle
+65 6415 3880
stwijaya@savills.com.sg

Savills Research

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