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Savills World Research
Singapore

Briefing
Retail sector

February 2017

Image: Eu Tong Sen Street, Chinatown

SUMMARY

While some international retailers strengthened their physical presence over the past year, a few major players have withdrawn or downsized to pop-up stores.

- For the last quarter of 2016, retail sales (excluding motor vehicles) slipped 1.0%, 3.5% and 1.0% year-on-year (YoY) respectively each month. However, retail sales recorded a 0.8% month-on-month (MoM) improvement in December after four months of sales decline.

- With challenging economic conditions and tepid retail space demand growth, prime monthly rents for Orchard Road and suburbs remained flat at S$29.90 per sq ft and S$28.00 per sq ft respectively.

- Island-wide vacancy levels improved 0.9 of a percentage point (ppt) quarter-on-quarter (QoQ) to 7.5% in Q4/2016. The vacancy in the Downtown Core and Orchard Road area fell 2.6 ppts QoQ to 10.7% and 1.2 ppts QoQ to 6.8% respectively, bringing them to the lowest level of the year. However, the vacancy rate of the suburban area inched up 0.1 of a ppt QoQ to 7.1%.

- Although the economy had been slow moving and job uncertainties linger in the market place, island-wide demand in 2016 still inched up to 560,000 sq ft. Therefore, despite the gloomy retail scene, demand is actually latent and can easily be tapped if landlords lower rent and/or move towards a Gross Turnover Rent (GTO) model.

"Beneath all the challenges retailers face, the fact is that demand for space is still increasing." Alan Cheong, Savills Research

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Macroeconomic overview

Based on the advanced estimates released by the Ministry of Trade and Industry (MTI), the Singapore economy expanded 2.9% YoY in the last quarter of 2016, outperforming the 1.2% YoY expansion in the preceding quarter. On a quarterly basis, the economy made a 1.7% rebound from the 1.2% contraction in Q3/2016. For the whole of 2016, Singapore's Gross Domestic Product (GDP) grew 2.0%, higher than MTI's forecast of 1.0% to 1.5%.

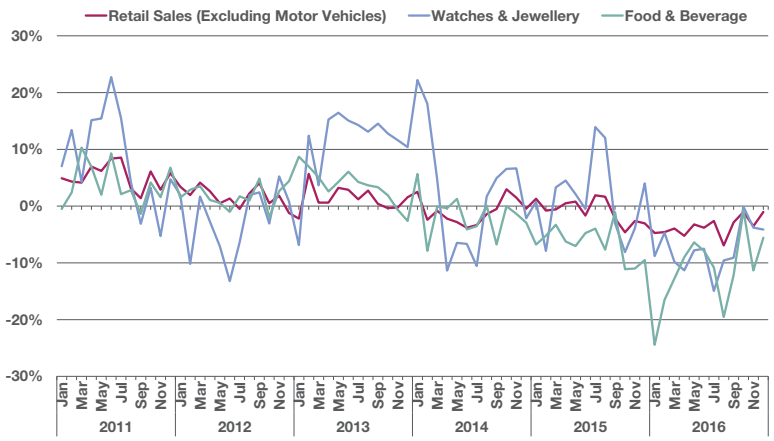
According to the Ministry of Manpower (MOM), the total employment in 2016 moderated though the Singapore economy avoided a technical recession in the last quarter. In Q4/2016, the overall employment continued to soften in terms of jobs and hiring. As such, retail sales recorded a fall in Q4/2016, even though the last quarter is the seasonally stronger period for retail sales.

Retail sales (excluding motor vehicles) slipped 1.0%, 3.5% and 1.0% YoY respectively in the last three months of 2016. The pace of decline in food & beverage (F&B) segment slowed down to 0.7% YoY in October but fell sharper at 3.8% and 4.1% YoY in the last two months. On the other hand, for the watches and jewellery sector, the drop in retail sales slowed down to 5.6% YoY in December after plunging 11.3% YoY in November.

The slight improvement in retail spending in December could be partly due to the 21.8% MoM increase in tourist arrivals to 1.5 million. This was mainly driven by the influx of tourists travelling from Indonesia, China and Australia. Even so, the continuing fall in retail sales on a YoY basis is probably due to the overall poor consumer sentiments brought about by a weak labor market.

GRAPH 1

Growth of retail sales (excluding motor vehicles), YoY at constant prices, Jan 2011–Dec 2016



Source: Singapore Department of Statistics, Savills Research & Consultancy

Market snapshot

The weakening local economic growth and softening labour market continues as a drag on private consumption and retail spending, putting pressure on the retailers as business cost rises. Following the business consolidation plans by the Al-Futtaim Group and the Jay Gee Melwani Group early last year, as part of its business consolidation efforts, the Robinsons Group, which manages the oldest department store in Singapore, John Little, shut down its last outlet in Plaza Singapura in late December. After evaluating the relevancy and sustainability of the John Little bricks-and-mortar business, Robinsons Group decided to reintroduce the brand in a pop-up concept to be in line with the current global trend for retail business.

After John Little vacated the two levels at Jurong Point earlier last year, another department store, BHG, went against the softening retail market with expansion plans and took over the vacated space in November. In addition to the two floors which were previously occupied by John Little, BHG also took up another unit on the third level, vacated by furniture and electronics retailer Harvey Norman. With this new space being signed on, the 49,000-sq ft store at Jurong Point is now BHG's largest outlet in the western part of Singapore. Aside from this new store layout, the new BHG store is also regularly refreshing its visual and merchandising concepts on each level.

Orchard Road & the CBD

Even though challenging times confront the local retail environment, there were still store openings from new and existing international brands in the last quarter of the year. In late October, contemporary South Korean fashion brand H:Connect officially opened its first South-east Asian store at Bugis Junction. Unfazed by the current retail scene, Australian swim-wear brand Seafolly showcased its fourth store in Singapore in November. The latest outlet is a 950-sq ft unit on the second level in Raffles City, making it the latest addition to its existing three stores in Wisma Atria, Takashimaya and Great World City.

Following the trend of flagship stores since the beginning of the year, American lingerie brand Victoria's Secret opened its first South-east Asian flagship store in mid-November, occupying 12,000 sq ft of retail space at Mandarin Gallery. Apart from fashion retailers, F&B players were also active in bringing in new concepts to the local market in Q4/2016.

In November, Picnic, a new 270-seat communal dining restaurant, opened a 10,000-sq ft unit on the third floor of Wisma Atria. Later in the same month, at Orchard, Greyhound Cafe, a popular cafe chain in Bangkok, Thailand, opened an outlet on the ground floor at Orchard Paragon where Cedele was previously located.

As more Michelin-starred restaurants expand their operations, some chose to establish their presence at

Orchard Road, mainly concentrating at Pacific Plaza. In early November, Tsuta, the world's only Michelin-starred ramen restaurant, set up its first overseas branch in Singapore. After the opening of the 18-seater ramen restaurant, Michelin-starred dim sum restaurant Tim Ho Wan and Hong Kong's Kam's Roast followed suit, also setting up shop at Pacific Plaza later in the same month.

At the end of November, the 2,300-sq ft Gudetama Café, which seats 112 people, opened at Suntec City. In addition to Gudetama's water fountain, there is a separate 600 sq ft of garden-themed dining space for desserts and drinks. At the end of the year, Cold Storage, Singapore's oldest supermarket, reopened both outlets at The Centrepoint. After the mall had undergone nearly two years of refurbishment works, the newly-opened flagship store for the supermarket chain includes more ready-to-eat food selections and a dine-in area. After four months of revamp, Cold Storage's other outlet at Takashimaya was reopened with more variety of Japanese products.

City Fringe & Suburban

In the recent past, unlike in Orchard Road, where tenant turnover was higher, city fringe and suburb malls have been registering higher occupancy levels. However, come Q4/2016, a reversal took place and these areas recorded a higher vacancy rate than Orchard Road. Amongst malls located in this geography, retailers have gravitated to new suburban malls rather than setting up shop in existing malls with a high footfall.

At the new Katong Square mall, which opened earlier in the year, the Starker Group opened its latest 200-seat Starker Bistro. This is their fourth eatery in Singapore, with other outlets at Zhongshan Park, Holland Village and HillV2 at Hill View Rise.

Despite facing harsh retail market conditions and the onslaught from e-commerce, the first retail mall by Sim Lian Group, Hillion Mall, managed to attain a 90.0% level of commitment before its official opening in February 2017. Other than the anchor tenant, NTUC FairPrice supermarket, the other tenants include PCF Sparkletots Preschool, Amore Fitness & Boutique Spa, Kopitiam and Best Denki.

The probable reason for the healthy take-up rate could be due to the limited new retail supply of suburban malls. This is especially so for malls that have a seamless connection to the public transport network, which has been shown to record high daily footfall traffic; they are likely to attract higher demand and achieve better occupancy in the long run.

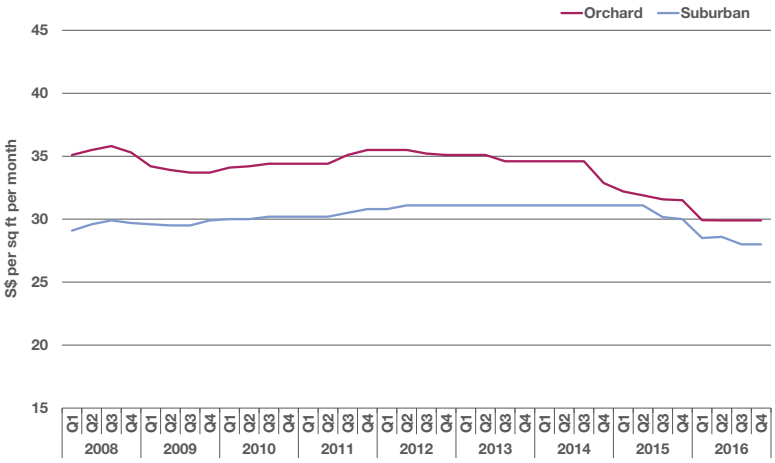
Rents & vacancy

For Q4/2016, prime monthly rents for Orchard Road and suburbs remained at S$29.90 per sq ft and S$28.00 per sq ft respectively, similar to their Q3/2016 levels. On a YoY basis, for Q4/2016, both Orchard and suburban rents fell 0.1%. The factor sustaining rental levels in the fourth quarter was the healthy demand for space.

After registering four consecutive quarters of deterioration, the vacancy level in Q3/2016 reached 8.4%, the highest since the new Urban Redevelopment Authority's (URA) time series was constituted in 2011. For Q4/2016, vacancy levels fell, with island-wide levels improving 0.9 of a ppt to 7.5%. In the same quarter, the occupancy

GRAPH 2

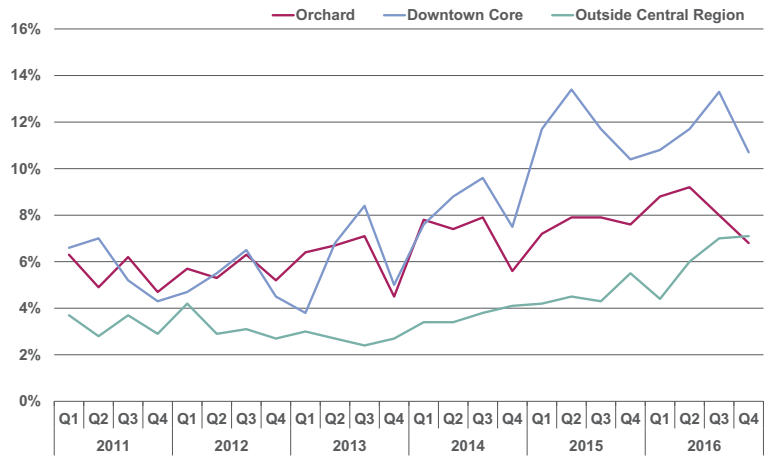
Prime retail rents, 2008–2016



Source: Savills Research & Consultancy

GRAPH 3

Vacancy rate, 2011–2016



Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy

levels across the Central Region also improved. For the Downtown Core and Orchard Road area, the vacancy levels eased 2.6 ppts QoQ to 10.7% and 1.2 ppts QoQ to 6.8% respectively, bringing them to the lowest level of the year. These improvements were largely due to the healthier level of demand for retail space in both areas in the quarter.

On the other hand, the occupancy rate of the suburban area inched down 0.1 of a ppt QoQ to 7.1%. This could be due to the additional 312,000 sq ft of suburban retail space that outweighed the net retail demand of 258,000 sq ft.

Future supply

According to the latest data released by URA as of Q4/2016, there is an estimated retail supply of 1.8 million sq ft in 2017. Other than Singapore Post Centre (SPC), the upcoming retail supply for the year is mainly derived from mixed-use developments in the Central Region. The other main retail supply in 2017 is the retail component of Marina One, The Heart. The rest of the supply is made up by other upcoming developments such as Vision Exchange, Royal Square at Novena, JTC Space @ Tuas, DUO Galleria, additions/ alterations to Bayview Hotel and GSH Plaza, as well as Farrer Square.

Between 2018 and 2021, there will be an approximately 4.6 million sq ft of retail space in the pipeline. Within this supply, Northpoint City is the only new suburban retail mall; the rest are largely integrated projects in the Central Region such as Paya Lebar Quarter, Asset Enhancement Initiatives (AEI) works on existing podium of Tripleone Somerset, Frasers Tower and ARC 380.

TABLE 1

Major projects in the pipeline, 2017–2020

Development	Location	Estimated NLA (sq ft)	Estimated completion
Singapore Post Centre AEI	Eunos Road 8	269,100	2017
Marina One (The Heart)	Marina Way/Straits View	140,000	2017
Paya Lebar Quarter	Paya Lebar Road/Sims Avenue	340,000	2018
Northpoint City	Yishun Central 1	330,000	2018
TripleOne Somerset Podium AEI	Somerset Road	70,360	2018/2019
Jewel Changi Airport	Airport Boulevard	576,000	2019
Funan	North Bridge Road	324,000	2019
City Gate	Beach Road	76,290*	2019
Sky Tower (Former Tower Fifiteen)	Hoe Chiang Road	90,180*	na

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

The recent retail performance indicators have been showing a downtrend, reflecting a slowing economy. Together with the negativities and impact of global uncertainties on macroeconomic factors in Singapore, it is set to continue dampening consumers' confidence level and spenders' purchasing power.

The resultant slow pace of economic growth, coupled with a more uncertain employment market, has affected consumers' sentiment and spending. This has led to lower retail expenditures, which then increases pressure on retailers' ability to maintain a long-term lease for a physical shop. In response to this, retailers like John Little are turning to alternatives such as pop-up stores, in order to at least keep a physical presence. At the same time, online retailers like MegaFash have also seized the opportunity to introduce concept stores with shorter leases to render a seamless shopping experience and build their brand. International brands also tapped into softer rents to expand into flagship stores for greater brand enhancement.

Although retailers have been, and are continuing to, face extreme challenges ahead, rather than contracting, the surprising and counterintuitive development is that that on a net basis, they are still taking up more space. The two consecutive quarters of improving

OUTLOOK

The prospects for the market

vacancy levels for the Orchard and Downtown Core areas is a testimony to this fact. Even in the suburban areas, although vacancies have risen, net demand is still on the increase. Therefore, it is perhaps not appropriate to say that the retail space market is facing a contraction in demand due to the triple effects of a slow growing economy, fears of structural unemployment and the influence of disruptive technology (like online shopping).

Although the economy had been slow moving and job uncertainties linger in the market place, island-wide demand in 2016 still inched up to 560,000 sq ft. For the quarters ahead, well-run malls with high footfall will continue to register high occupancy levels. The only difference is that unlike the past where, upon rental reversions, rents were expected to increase, this time round they could either remain flat or come off marginally. For malls or shops that face locational constraints, like being located away from public transport access nodes, if landlords are willing to go the extreme by charging nominal or no fixed rents and commit more skin into the tenants' games by charging a higher GTO, vacancy levels will ultimately be low too. Taken in this context, we maintain our view that rents for both prime Orchard Road and suburban retail malls should come off by 7.5% to 10.0% YoY for 2017, but continue to maintain almost full occupancy levels.

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