

Briefing Retail sector

May 2015



Image: Capitol Piazza, Stamford Road

SUMMARY

Retailers are on overdrive to come up with new strategies to cope with a host of challenges.

- International tourist arrivals in January and February fell 5.5% year-on-year (YoY). Despite this, retail sales (excluding motor vehicles) increased 14.8% YoY in February. This is largely due to the seasonally-heightened domestic spending pre-Chinese New Year, which fell in February this year.
- Notwithstanding the positive retail sales performance in Q1/2015, prime retail rents in Orchard Road dipped 2.0% quarter-on-quarter (QoQ) to \$\$32.2 per sq ft per month, while suburban malls held firm at \$\$31.1 per sq ft per month.
- The end of this quarter saw the soft opening of Capitol Piazza in the

- City Hall area, bringing in many new-to-market brands.
- In the Orchard area and CBD, malls expected to complete this year are 268 Orchard Road, National Gallery Singapore and South Beach Tower. In the suburbs, Waterway Point at Punggol will be completed in Q4/2015.
- Due to scant new supply coming up, vacancy in the Orchard Road district is likely to remain low.
- Rents may stay flat due to pressures from rising labour costs and tepid tourist spending. Orchard rents are likely to hover at Q1/2015 levels, but with a slight downward bias, whilst suburban mall rents are likely to hold firm.

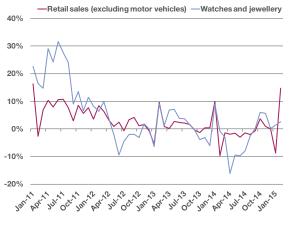
"Affected by externalities and policies which are beyond their control, established retailers who are flummoxed over how to curb the slide in retail sales in the Orchard Road shopping district are doing the next best thing, which is to go into suburban malls." Alan Cheong, Savills Research

Macroeconomic overview

Singapore's gross domestic product (GDP) growth in Q1/2015 is estimated to be 2.1% YoY. The preliminary seasonally-adjusted unemployment rate was at 1.8% in March.

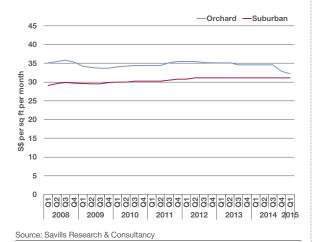
International tourist arrivals in January and February fell 5.5% YoY, as tourist numbers from Asia, Europe and Australia shrank. In February, it was reported that the Chinese government, in a move to crack down on corruption, was battling attempts by overseas casinos to lure Chinese abroad. As Singapore's casinos serve as one of its strongest tourist attractions, this has further crimped Chinese tourist numbers following last quarter's slump

Growth of retail sales (excluding motor vehicles), YoY at current prices, Jan 2011-Feb 2015



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 Prime retail rents, 2008–Q1/2015



in the aftermath of the missing MH370 incident and China's tourism law of late-2013 which banned zero- or negative-fare tours. The strength of the Singapore dollar against the currencies of Malaysia, Indonesia, Australia and Europe was also to blame for the falling tourist arrivals.

However, retail sales (excluding motor vehicles) increased 14.8% YoY in February, largely due to seasonallyheightened domestic spending in the run-up to the Chinese New Year. The food and beverage (F&B) segment continued its growth at 3.2% YoY, while sales for the watches and jewellery segment, usually an indicator for discretionary expenditure, was up 2.6% YoY. That said, the latter increase should not be interpreted as a revival of discretionary spending as the Chinese New Year festive period could have triggered the higher jewellery sales and hence caused a seasonal

Market snapshot

Annual job vacancies in Singapore's retail trade have been on an increasing trend YoY from 3.7% in 2011 to 5.1% in 2014, reflecting the labour conundrum that the retail and services industry is caught in. With declining margins and restrictions on foreign hiring still in place, retailers are finding it difficult to fill vacancies at salaries that would not put them in the red. It is not surprising then that straddled with these problems, retailers are increasingly resisting higher asking rents.

The recent closure of three outlets of Marks & Spencer and John Little's has brought to light the sluggish sales in the department store segment, largely due to the change in shoppers' habits and preferences. According to the Singapore Department of Statistics (SDOS), the annual retail sales growth for department stores has slowed significantly during the last three years from 2012 to 2014. This slowdown spurs department stores to seek new retailing strategies to differentiate themselves from both their traditional competitors and as well as online retailers. For example, following the announcement of the closure of some of its stores, the Al-Futtiam Group revealed its plans to invest in an online shopping platform for its Robinsons chain, establishing an omni-channel presence where customers can have a click-and-collect service or have

their in-store purchases delivered. Developing an additional online presence may therefore be the way forward for traditional retailers.

Rents & vacancy

Despite the positive retail sales performance in Q1/2015, prime retail rents in Orchard Road dipped 2.0% QoQ to S\$32.2 per sq ft per month. This could be attributed to the fall in tourist numbers as tourists form an important target segment for the Orchard shopping belt. On the other hand, suburban malls held firm at S\$31.1 per sq ft per month, as more retailers are seen moving out from the Orchard belt to the suburbs where the consistent and large catchment of shoppers throughout the week is the main draw. The chase for footfall will drive up the demand for suburban mall space and result in a decreased demand for Orchard Road retail space, thus gradually closing the gap between their respective rents. As retailers are currently not generating sufficient sales to overcome rising labour costs, overall retail rents are facing tenant resistance which will probably continue over the next few quarters.

In Q1/2015, the island-wide vacancy rate inched up 1.0 percentage point (ppt) to 6.8%. With the completion of Capitol Piazza and phases of Suntec City Mall's additions and alterations (A&A) works, the vacancy rate in the Downtown Core planning area increased by 4.2 ppts to 11.7% while that in the Orchard planning area was marginally up 1.6 ppts to 7.2%.

Orchard Road and the CBD

The end of this quarter saw the soft opening of Capitol Piazza in the City Hall area. The new mall brings many new-to-market retailers such as: Italian premium casual-wear brand Napapijri which is opening its first Southeast Asian boutique; Julie-Nicole, a multi-label European luxury shoes and accessories boutique; and Joli, a luxury fashion and accessories store that brings in brands from France, Italy, Japan, UK and Australia. Finnish design label Marimekko will also open its first standalone store in Singapore. Among the many new gourmet offerings in Capitol Piazza, famed roast duck specialist Four Seasons from Bayswater London and Parisian tea room Angelina, famous for its desserts, are slated to open by June. Another

to note would be Kanda-Shinpachi, a Japanese omakase concept restaurant, where the selection of the dishes is left entirely to the chef.

Over at Orchard Road, following the departure of several tenants from Scotts Square, new F&B concepts such as Hong Kong-style restaurant London Fat Duck and Time & Flow Champagne, a wine-and-champagne bar, are slated to open in May. The third quarter will see the opening of the flagship boutiques of British luxury fashion house Alexander McQueen and leather brand Delvaux from Brussels, their first in Singapore. The Pedder Group will house a variety of concepts such as Market Place, New Generation and Cool Kids as well as On Pedder Men's Store in a 20,000-sq ft space on the second level.

City Fringe and Suburban

On the city fringe, the completion of Vivocity's asset enhancement initiative has added 15,000 sq ft of retail space at its Basement 1 which will open for business progressively from mid-April onwards. Of the nine tenants, two are new-to-market retailers, namely American Eagle Outfitters, a US apparel brand, and Weekends, a multibrand lifestyle retailer.

In the suburbs, the 321 Clementi mall owned and managed by Eng Wah

GRAPH 3

Retail vacancy rate, 2011-Q1/2015 - Downtown Core Outside Central Region 10%

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

Global officially opened in mid-March. Its anchors include WE Cinemas who are operating a 10-hall Cineplex, and gym operator Fitness First.

Meanwhile, Courts, a furniture, electrical and IT products retailer, will be launching a shop-in-shop concept with two international retailers -Ace Hardware, a US-based tool and hardware brand, and JYSK, a Danish chain that sells furniture and accessories. The new concept stores are expected to open by October 2015. The first Ace Hardware store will be an 8,000-sq ft concept store

in Courts' flagship megastore at Tampines, while the first JYSK store will occupy 9,000 sq ft in its new Bukit Timah outlet.

Future supply

268 Orchard Road is expected to be completed in 2H/2015, while other malls slated to open within this year are National Gallery Singapore and South Beach Tower, both in the CBD, and the suburban mall, Waterway Point, at Punggol.

Major projects in the pipeline, 2015–2018

Development	Location	Estimated NLA (sq ft)	Estimated completion
Capitol Piazza	Stamford Road	132,000	Q1/2015
National Gallery Singapore	St Andrew's Road	40,000	Q4/2015
South Beach Tower	Beach Road	60,000	Q4/2015
Waterway Point	Punggol Central	370,000	Q4/2015
268 Orchard Road	Orchard Road	96,000	2H/2015
Downtown Gallery	Shenton Way	160,000	Q1/2016
Tanjong Pagar Centre	Wallich Street	100,000	Q2/2016
Hillion Mall	Jelebu Road	168,000*	1H/2016
Marina One	Marina Way/Straits View	119,000	2017
Northpoint City	Yishun Central 1	315,000*	2018

Source: Company announcements, URA, Savills Research & Consultancy *Savills estimation, based on an efficiency rate of between 65% and 70%

OUTLOOK

The prospects for the market

In a bid to boost tourist arrivals, the Singapore Tourism Board (STB) will be launching a S\$20.0 million global marketing campaign in May to target markets in Indonesia, China, India, Korea and Japan. In line with Singapore's Golden Jubilee year, the campaign will offer airline and hotel promotions, retail and F&B deals, as well as special inbound tour itineraries. One of the activities under the campaign is the Pedestrian Night on Orchard Road, where the

Orchard shopping street is closed off to traffic every first Saturday of the month for street bazaars and activities. Having attracted more than 50,000 people per night during its six-month trial, which started in November last year, it will be extended until the end of this year. Shopping is no longer simply purchasing a product, but the "sensory experience", through activities and events, is also an important draw factor for shoppers.

In the meantime, due to scant new supply coming up, vacancy in the

Orchard Road district is likely to remain low. However, rents may still remain slightly under pressure from rising labour costs and tepid tourist spending. Orchard rents are likely to hover at Q1/2015 levels, but with a slight downward bias, whilst suburban mall rents are expected to hold firm.

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