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Savills World Research
Singapore

Briefing
Retail sector

May 2017

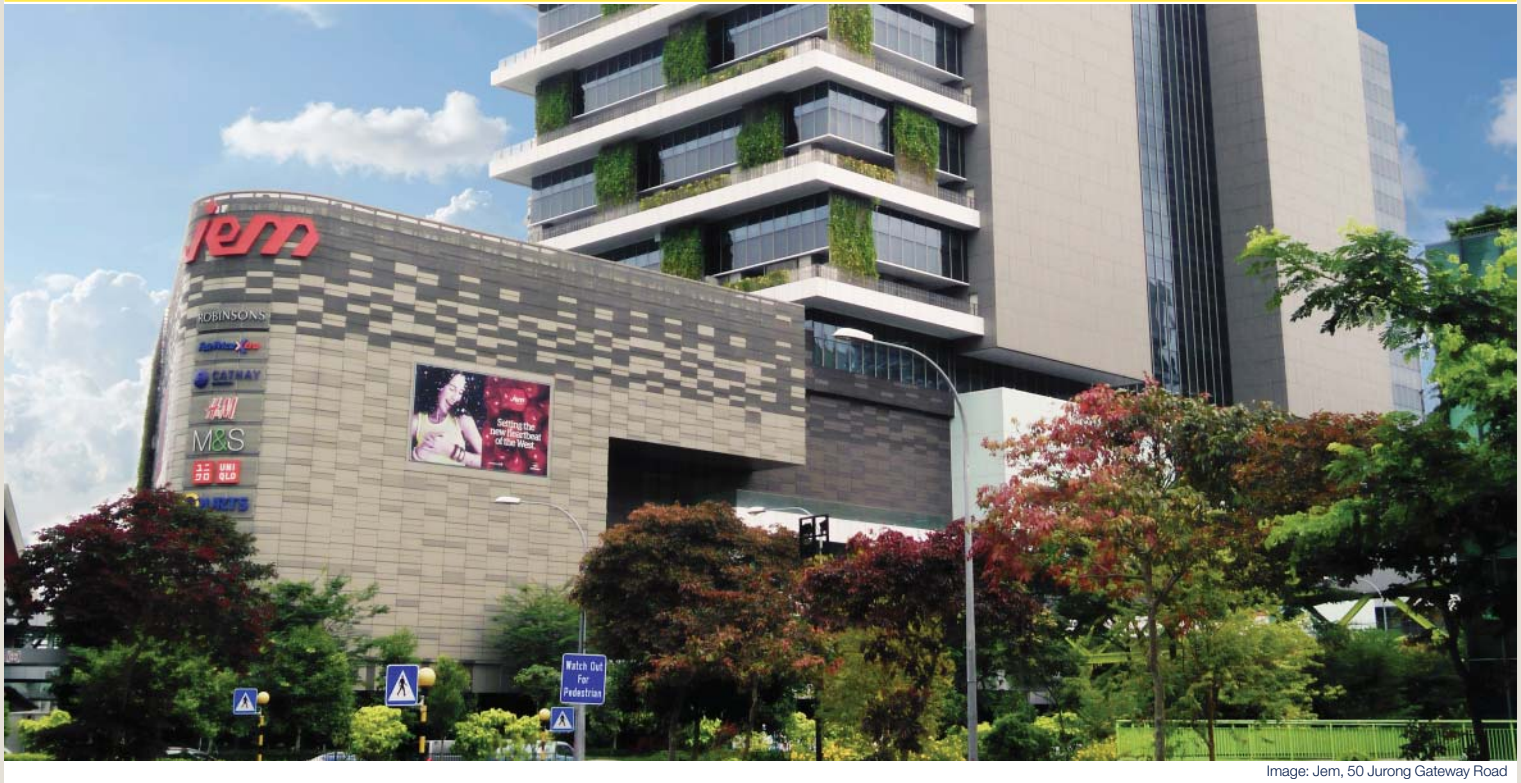

Image: Jem, 50 Jurong Gateway Road

SUMMARY

Demand for retail space could prove resilient amid the challenging retail climate as physical stores still have a critical role to play.

- In tandem with subdued economic growth, retail sales (excluding motor vehicles) were lacklustre as well, falling 1.2% year-on-year (YoY) in January before posting a slight recovery of 0.2% YoY in February.

- In Q1/2017, the island-wide vacancy rate went up 0.2 percentage points (ppts) quarter-on-quarter (QoQ) to 7.7% after a slight recovery of 0.9 ppts QoQ in Q4/2016. The vacancy level in the Suburban Area inched up 0.2 ppts QoQ to 7.3%, while Orchard Planning Area and Rest of Central Area rose 0.8 ppts QoQ to 7.6% and 7.7% respectively.

- Retail rents may have already hit bottom as Savills Orchard monthly rents held firm at S$29.90 per sq ft for the past five quarters. Suburban monthly rents have remained at S$28.00 per sq ft for the last three quarters.

- Online retailers are increasingly finding it necessarily to have an offline presence and this alleviates the fear that disruptive technology in the retailing industry will cause demand to fizzle. Consequently, the forecast rent decline for 2017 has been revised from 7.5% and 10.0% for prime Orchard Road and suburban malls respectively to 0.0% and 3.0%.

"With online retailers finding complementarity in having an offline presence, the prospects for retail space demand has improved and rents with them."
Alan Cheong, Savills Research

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Macroeconomic Overview

According to the advanced estimates released by the Ministry of Trade and Industry (MTI), the Singapore economy expanded 2.5% YoY in Q1/2017, down from the 2.9% YoY growth in the preceding quarter.

In tandem with subdued economic growth, retail sales (excluding motor vehicles) were volatile, first falling at 1.2% YoY in January before recovering by a slight 0.2% YoY in February. Likewise for the food and beverage (F&B) segment, retail sales also recorded a sharper sales decline of 8.0% YoY in January. However, supermarket retail sales rebounded in January due to the buying spree induced by the Chinese New Year festivities. As expected, after this period was over, supermarket retail sales dipped 3.7% YoY in the following month. Overall, viewing supermarket retail sales as a proxy to measure consumer sentiment suggests weakness since the start of the year.

After more than a year of decline, in February sales in the F&B as well as the watches and jewellery sector saw a rebound of 5.8% and 5.4% YoY respectively. The higher spending is likely to result from festival season-related sentiment that tied in with the 4.8% and 1.9% YoY rise in tourism arrivals in January and February.

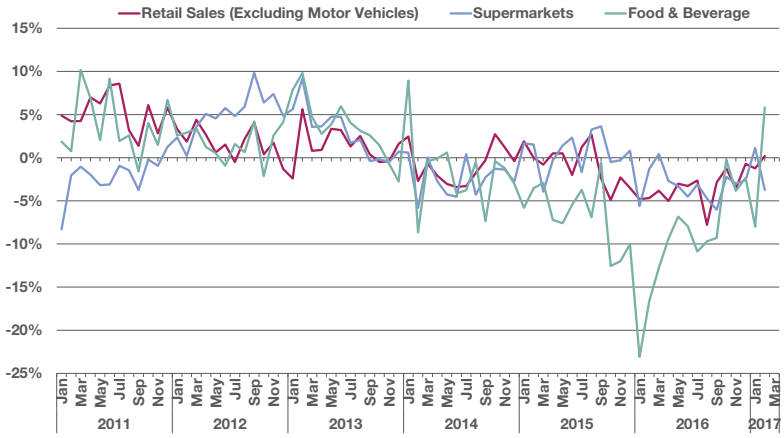
The latest Mastercard Index of Consumer Confidence in H2/2016 showed that overall consumer confidence in Singapore dropped 3.6 ppts to 30.0 index points. Key components that fell by more than 5.0 ppts include regular income (-6.5 ppts), the economy (-6.1 ppts) and employment (-5.2 ppts), indicating overhanging pessimism towards the local economy and labour market.

Market snapshot

The latest Paypal survey predicted a 42.0% YoY surge in Singapore mobile shopping sales to more than S$1.2 billion in 2017, accounting for almost a third of total online expenditures of S$3.5 billion. The survey indicates that more than one-third of shoppers in Singapore believe that their spending will be higher in 2017 due to the convenience of shopping online and especially the ease of access to mobile phones.

GRAPH 1

Growth of retail sales (excluding motor vehicles), YoY at constant prices, Jan 2011–Feb 2017



Source: Singapore Department of Statistics, Savills Research & Consultancy

To keep up with current trends in the industry, retailers continued to grow their omni-channels to improve their reach to both online and offline customers. Local technology retailer Challenger adopted a multi-channel approach that enables online customers to choose between home delivery and store collection. Instead of shutting its stores, Challenger took advantage of the e-commerce boom whilst maintaining its network of 43 physical stores across Singapore.

On the other hand, some retailers have been hit by the effects of a sluggish economy, competition and rising costs. Sakae Holdings, operator of the Sakae Sushi restaurant chain, closed 10 of its 46 outlets in recent months. In view of rising operating costs, the restaurant chain will shut six more outlets by 1H/2017.

Meanwhile, e-retailers see a silver lining within the gloom. E-commerce store PickJunction has opened an experiential centre in Singapore, taking up three floors over 10,000 sq ft in the Singapore Handicrafts Building in Eunos. The store features mainly 12 brands such as handcrafted furniture company Excelsius, Singapore leather goods label Stone For Gold, and Italic & Bold, which provides a range of independent international labels.

Orchard Road and the CBD

Despite the sluggish economy and tepid retail environment, some e-retailers established a physical presence in Orchard Road. In January, online furniture retailer HipVan set up a permanent flagship store, taking up 11,000 sq ft at The Cathay in Dhoby Ghaut. Some other fashion e-retailers such as Reebonz, Love Bonito and Ohvola took up shorter-term leases, opening stores in Suntec City Mall and Orchard Gateway, enabling shoppers to see, feel and try out products.

In addition to e-retailers, some new overseas and local brands also set up stores in the prime shopping belt. Chinese fashion brand Urban Revivo opened its first international store, a 7,330-sq ft unit, at Raffles City Shopping Centre in January. In the same month, a US self-serve frozen yogurt pioneer, Yogurtland, set up its first store in Singapore at Suntec City Mall. Luxury labels also expanded, with Tod's opening a 1,776-sq ft boutique at The Shoppes at Marina Bay Sands.

Although the local retail market may still appear soft in the near-term, the new Funan Mall is already 25.0% pre-committed, well ahead of its scheduled completion in 2019. The pre-committed space is mainly

taken up by grocery and technology retailers. The redeveloped mall will be anchored by Newstead Technologies, which will introduce multiple concept stores in its 15,000-sq ft unit. Other former tenants include AddOn Systems and TK Foto, which will launch Singapore's Lenovo flagship and service centre as well as a dedicated test zone for drone videography and photography.

To keep in line with the branding of the mall, FairPrice will introduce its FairPrice Finest concept while Kopitiam will have a food court that showcases greater technology content. Local brands like Carrie K, an artisanal jewellery label, and Keepers, a collection of Singapore designers, will have their flagship stores in the mall. New entertainment elements such as a 380-seat theatre, a 50-lane climbing facility and a multi-dimensional cinema will be introduced to the mall.

City Fringe & Suburban

Probably due to the strong footfall, suburban and city fringe malls are still the choice for some retailers when deciding on the location for their first store. In January, the nitrogen ice-cream chain Lab Made, from Hong Kong, opened its first overseas branch in Singapore, taking up a 450-sq ft kiosk at Westgate. Later in March, Lacoste opened its first pop-up store in Singapore at VivoCity for a two-week period. Subsequently, in April, Wolf Burgers at Suntec Pasarbella introduced a stand-alone stall at Changi City Point.

To better meet shopping needs in the West, the new Hillion Mall, located in suburban Bukit Panjang town, opened in February 2017, soon after it obtained its Temporary Occupation Permit (TOP) on 30 December 2016. Given the mall's seamless links with the bus interchange and MRT and LRT stations, as well as the large footfall that more than 220,000 residents and 760,000 commuters provide, over 100 units, or 90.0% of the mall, already is occupied.

In addition to the development of new malls, existing malls also made way for new commercial redevelopment. In February, the 65,000-sq ft Serangoon Plaza branch of 24-hour mall Mustafa shut its doors for redevelopment into the 19-storey Centrium Square – an integrated project for office, medical and retail uses. Slated for completion in 2019, the retail space in Centrium Square's first two floors has been acquired for S$70.1 million by Canali Logistics, a Singapore-incorporated vehicle of Mohammed Saiful Alam, who controls Bangaldeshi conglomerate S Alam Group.

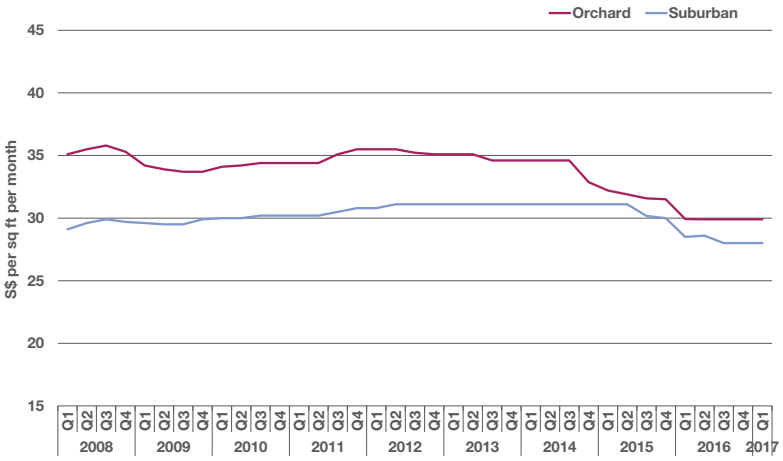
Rents and vacancy

After recovering slightly by 0.9 ppts (QoQ) in Q4/2016, the island-wide vacancy rate in Q1/2017 went up 0.2 ppts QoQ to 7.7%. The vacancy level in Suburban Area inched up 0.2 ppts QoQ to 7.3%, reaching its highest level since the new Urban Redevelopment Authority's (URA) time series was constituted in 2011. Following a rebound in the previous quarter, the vacancy rate in Orchard Planning Area and Rest of Central Area worsened by 0.8 ppts QoQ to 7.6% and 7.7% respectively in Q1/2017.

Slight improvements in occupancy levels of the Downtown Core Planning Area and Fringe Area were not due to healthy demand but rather to the fall of 280,000 sq ft in retail space supply, which was greater than the net retail demand. Apart from the Suburban Area where demand was supported by the take-up in the new Hillion Mall, net demand for retail

GRAPH 2

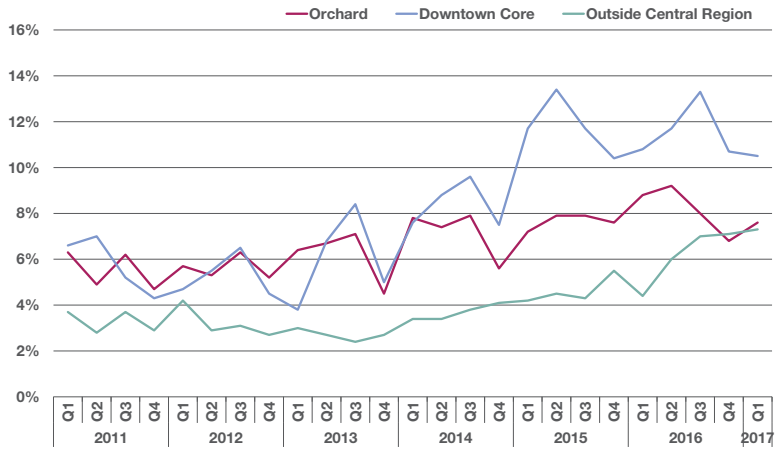
Prime retail rents, 2008 – Q1/2017



Source: Savills Research & Consultancy

GRAPH 3

Vacancy rate, 2011 – Q1/2017



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

space fell across the board in all other areas of the Central Region. As such, island-wide net retail demand decreased by 441,000 sq ft.

Although there does not appear to be a pause in sight for the storm that is whipping through the retail industry, current retail rents have probably reached a level such that, at least for the next couple of quarters, landlords can be expected to put up strong resistance to further cuts. Retail rents may have hit bottom, at least for the foreseeable future, as Savills prime monthly rents remained unchanged for the past few quarters. While Orchard monthly rents held firm at S$29.90 per sq ft for the past five quarters, Suburban monthly rents remained at S$28.00 per sq ft for the last three quarters.

Future supply

According to the latest data released by the URA as of Q1/2017, an estimated 1.55 million sq ft of new retail space will enter the market in the next three quarters of 2017. Apart from JTC Space@Tuas, which is the only retail project under the public sector domain, the rest of the new retail supply coming up in 2017 is located in the Central Region. Major retail developments due for completion this year include the new five-storey SingPost Centre and Marina One's retail podium, The Heart.

From 2018 to 2021, nearly 5.0 million sq ft of additional retail supply is slated for completion. The private sector will develop 4.2 million sq ft (83.6%) of the new retail stock whilst the remaining 818,000 sq ft (16.4%) is from the public sector. For this forecast period, much of the new supply is concentrated in the Central and North Region. For 2018, the new supply is largely from the retail component in the integrated developments, namely Paya Lebar Quarter at Paya Lebar and Northpoint City at Yishun.

TABLE 1

Major Projects in the Pipeline, Q2/2017 – 2020

Development	Location	Estimated NLA (sq ft)	Estimated completion
Singapore Post Centre AEI	Eunos Road 8	176,500	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
Jewel Changi Airport	Airport Boulevard	576,000	2019
Funan	North Bridge Road	324,000	2019
City Gate	Beach Road	76,290*	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

Traditional retail is still in the throes of testing its relevance in this new world of commerce and is not helped by a slow economy, disruptive technology and cheap air travel to neighbouring shopping cities. On the economic front, the Monetary Authority of Singapore (MAS) expects a slight increase in the overall unemployment rate in 2017, which should continue to weigh down consumer sentiments and spending. Nonetheless, occupancy levels of the better-managed malls could be sustained, and retail rents are likely to remain firm for the next few quarters.

Considering the question of how disruptive technologies may play out on the retail space scene, according to Euclid Analytics' Evolution of Retail 2017 Generation Z shopper survey, 66.0% of generation Z, also known as post-millennials (aged under 22), prefer shopping in stores before making their final purchase. Even though this younger generation usually conducts advance online product research, they like to visit a store to look at actual products prior to deciding on their purchase. These findings support the thesis that retail malls still have relevance in the digital economy.

To better serve the future generation of shoppers, it appears that both online and offline stores are crucial to creating a complete unique shopping experience. This experience begins

OUTLOOK

The prospects for the market

at e-stores where consumers conduct their initial search for the desired products and progresses to physical retail stores that enable consumers to see, feel and try on a product before committing to its purchase. Therefore, online and offline stores are complementary in nature and the commutative nature of this relationship may actually augment retail space demand rather than undermining spatial needs, the conventional view.

The explosion of budget air travel has made regional cities even more accessible than ever before, so the retail industry in Singapore now comes under the gravitational influence of cities such as Bangkok and Hong Kong. Therefore consumption of comparison goods will likely flow towards cities that offer the same product at a lower cost.

In the immediate future, whilst retail sales numbers make for sober reading, the fact of the matter is that the malaise afflicting the retailer-retail space nexus is asymmetric. On the whole, retailers face strong frontal and flanking assaults from online competitors, shopping destinations within a four-hour flight time from Singapore and lower consumer confidence; yet landlords, despite already having had to lower rents, are still able to retain confidence. Well-located and well-managed malls are still sporting close to full occupancy with a waiting list of potential tenants wishing to take up space, reflecting the scarcity of well-located malls. Thus, any such shopping malls put into the market should easily find investors both locally and from abroad, albeit with compressed yields.

For rents, we are revising our previous forecast for prime Orchard and suburban mall rents to decline 7.5% and 10.0% YoY for 2017. Owing to the complementary need for online stores to also have an offline presence, demand for retail space may turn out to be stronger than earlier expected. Therefore, rents are likely to have found support levels for the next few quarters. The rate of rental decline is now expected to slow to a crawl of between 0.0% to 3.0% YoY for 2017.

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