

# Briefing Retail sector

July 2012



Image: Bugis+

## SUMMARY

Luxury and high-street fashion continued to dominate the local retail scene

- More international retailers set-up a presence in Singapore this quarter. Maiden store openings in Q2 included Alexander Wang in the Hilton Singapore, J. Lindeberg in Mandarin Gallery, Tory Burch in Wisma Atria and Vince Camuto in Ngee Ann City.
- Some, such as Shana and TALLY WEIJL, chose to launch their first stores in suburban malls, usually in regional centres or locations with an affluent demographic profile.
- Prime rents on Orchard Road stayed flat at S\$35.5 per sq ft per month while those in suburban malls inched up 1% to S\$31.1 per sq ft per month.
- The central business district (CBD) is fast becoming one of Singapore's trendiest lifestyle and entertainment hotspots.
- Its affluent live-in population is estimated to increase from the current 17,000 to 23,300 over the next five years.
- Retail rents in the CBD range from single digits for conservation shophouses to over S\$20 per sq ft per month for street-level units in Grade AAA office buildings.

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“International retailers often view Singapore as an avenue to create brand awareness in Southeast Asia. As long as the Southeast Asian economies sustain their growth momentum, Singapore will remain a key market for international retailers in their global growth strategies.”

Alan Cheong, Savills Research

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➔ **Macroeconomic overview**

Downside risks have mounted again, with Greece's potential exit from the eurozone and China's slowing economy sparking fresh fears of a global recession. Nevertheless, the Ministry of Trade and Industry recently maintained its positive growth forecast of 1% to 3% for the Singapore economy this year as economic fundamentals are still healthy. The latest data show that the unemployment rate stood at just 2.1% in March. Meanwhile, tourist arrivals hit 4.8 million in the first four months of this year, representing a 13.2% year-on-year (YoY) growth and translating to an average of 1.2 million visitors per month.

April's retail sales index (excluding motor vehicles) edged up 2.9% YoY, a healthy showing considering it rose

from a high base, as the index was up 10.4% in April last year. Watch and jewellery, and telecommunication apparatus and computer sales were up 3.7% and 9.4% YoY respectively, indicating that discretionary spending is still strong.

**Orchard Road and suburban malls**

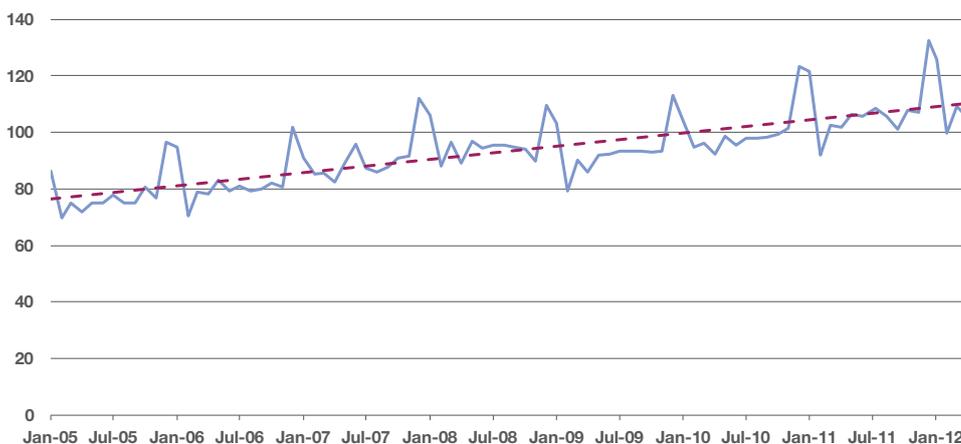
More international retailers set-up a presence in Singapore with luxury and high-street fashion continuing to dominate the retail scene. Q2 marked the inaugural store openings of designer labels Alexander Wang, J. Lindeberg and Tory Burch at Hilton Singapore, Mandarin Gallery and Wisma Atria respectively, as well as American footwear brand Vince Camuto in Ngee Ann City. Several retailers were in an expansion mode, including Fendi which launched a bigger and revamped flagship

boutique in Ngee Ann City. In the meantime, Robinsons unveiled its plan for a new flagship store at The Heeren which will span 150,000 sq ft, likely to open in mid-2013.

Available space in existing suburban malls remained tight while new and upcoming malls attracted healthy interest. Some international retailers choosing to launch their first stores outside the Orchard Road area include Spanish high-street fashion brand Shana and Swiss clothing label TALLY WEIJL in JCube. The choice malls are usually in regional centres, namely Tampines and Jurong, which have a good mix of office and residential developments or locations with an affluent demographic profile.

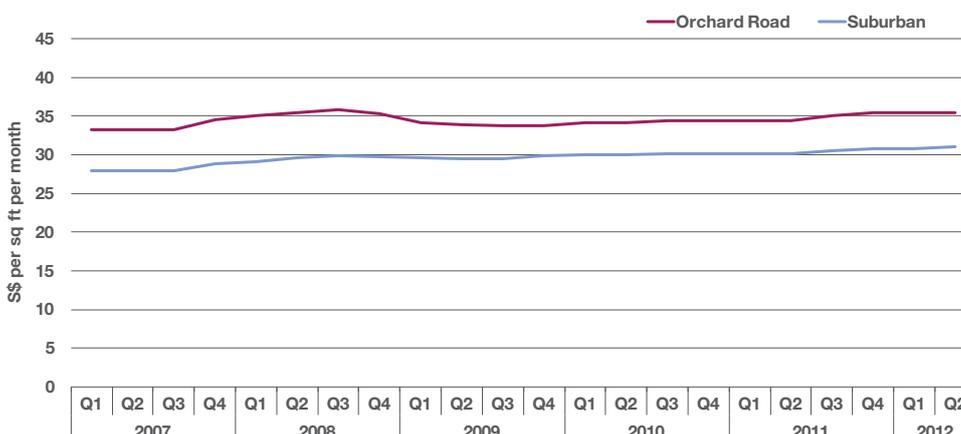
Prime rents on Orchard Road stayed flat in Q2/2012 at S\$35.5 per sq ft per month while those in suburban malls inched up 1% to S\$31.1 per sq ft per month.

GRAPH 1 **Retail sales (excluding motor vehicles), Jan 2005–Apr 2012**



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, 2007–Q2/2012**



Source: Savills Research & Consultancy

**Central business district**

The CBD is fast becoming one of Singapore's trendiest lifestyle and entertainment hotspots. Not only has the integrated resort transformed the area into a posh business and residential address, but the injection of a greater live-in population from several residential and hotel projects completed in recent years has been pivotal in breathing life into the CBD after office hours.

According to the Singapore Department of Statistics, some 3,700 residents are currently living in the CBD. Taking into account hotel guests<sup>1</sup>, Savills estimates the current live-in population in the CBD to be 17,000. With an additional 3,700 homes and 2,000 hotel rooms in the pipeline, this affluent population could increase to 23,300 over the next five years.

The rental proposition is also attractive. The highest rental tier is fetched by podium spaces in Grade AAA office buildings, which are occupied mostly by banks, financial institutions and professional firms. Such spaces could command over S\$20 per sq ft per month.

Some mixed-use developments, such as EON Shenton and V on Shenton, will have a retail element. Depending on their locations, monthly rents could

<sup>1</sup> Estimated based on hotel stock, occupancy and average number of guests per room.

→ hover between S\$8 and S\$15 per sq ft. F&B operators and other industry players may also opt for conservation shophouses where monthly rents are in the mid to high single-digit range.

Elsewhere in the city area, most of the tenants at the refurbished Iluma,

renamed Bugis+, have commenced trading. Bugis+ features the city's largest UNIQLO store and Singapore's first outlets for Japanese fashion label Lowrys Farm and the South Korean F&B chain BonChon Chicken. Together with Bugis Junction, it offers over 600,000 sq ft of retail space. ■

TABLE 1 Major projects in the pipeline, 2012–2015

Development	Location	Estimated NLA (sq ft)	Estimated completion
The Atrium@Orchard	Orchard Road	127,000	2012
Chinatown Point (refurbishment)	New Bridge Road	205,000	2012
268 Orchard Road	Orchard Road	86,800	2013
Jem	Jurong Gateway Road/ Boon Lay Way	573,000	2013
orchardgateway	Orchard Road	144,000	2013
Westgate	Boon Lay Way	426,000	2013
Retail at Capitol site	Stamford Road/ North Bridge Road	109,000	2014
Retail at Bedok Residences	Bedok North Drive/ New Upper Changi Road	240,000	2014
Retail development	Sengkang West Avenue/ Fernvale Road	199,000	2015
South Beach	Beach Road	111,000	2015
Waterway Point	Punggol Central/ Punggol Walk	370,000	2015

Source: Savills Research & Consultancy

## OUTLOOK

### The prospects for the market

International retailers often view Singapore as an avenue to create brand awareness in Southeast Asia. As such, Singapore's retail industry stands to benefit if Southeast Asian economies continue to grow. The International Monetary Fund projected the ASEAN-5 economies, comprising Indonesia, Malaysia, Philippines, Thailand and Viet Nam, to expand by 5.4% this year and 6.2% in 2013. They will be among the emerging economies worldwide to drive growth in the next few years, while western Europe and North America grapple with uncertainties. We therefore expect Singapore to remain a key market for international retailers in their global growth strategies. Notwithstanding this, prime Orchard Road rents are expected to stay flat as constant fears of a recession dampen consumer spending.

In the meantime, prime suburban retail space could be particularly attractive in times of economic uncertainties. Having a stable flow of pedestrian traffic, suburban retailers are less dependent on tourist spending, while the range of merchandise offered could be less elastic to income levels compared with their Orchard Road counterparts. During the last downturn, prime suburban rents proved resilient, slipping by only 1% to 2%.

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