Briefing
Retail sector

August 2015

Image: One KM, Tanjong Katong Road

SUMMARY

A 47.1% rise in Chinese tourist arrivals in May could be the catalyst for improvement in the retail sector.

- Retail sales (excluding motor vehicles) increased marginally at 0.9% year-on-year (YoY) in May, due to the Great Singapore Sale (GSS) held from 29 May to 26 July. Tourist arrivals for April and May dipped 1.1% YoY.

- Prime retail rents in Orchard Road slipped another 1.0% quarter-on-quarter (QoQ) to S$31.9 per sq ft per month in Q2/2015. Rents in suburban malls remained stable at S$31.1 per sq ft per month.

- The island-wide vacancy rate crept up 0.4 percentage points (ppts) QoQ to 7.2% in Q2. Downtown Core vacancy continued to rise, up 1.4 ppts to 13.4%.

- Across the industry, retailers are generally downsizing their spaces in a bid to minimise operating costs. There is also a shift in retailers' interest from the Orchard shopping belt to the suburban malls.

- The recent sharp fall in Chinese stocks and the subsequent yuan devaluation may delay our earlier forecast that tourist arrivals could stabilise soon. However, should China's stock market start to show signs of stabilisation, 2016 may be the point of inflexion for tourist arrivals. Nevertheless, rising competition from regional shopping cities, online retailing and rising total occupancy costs continue to add pressure on retailers' bottom line.

"All eyes are on the return of Chinese visitors to bring cheer to the retail industry."
Alan Cheong, Savills Research

MCI (P) 002/07/2015
Company Reg No. 198703410D

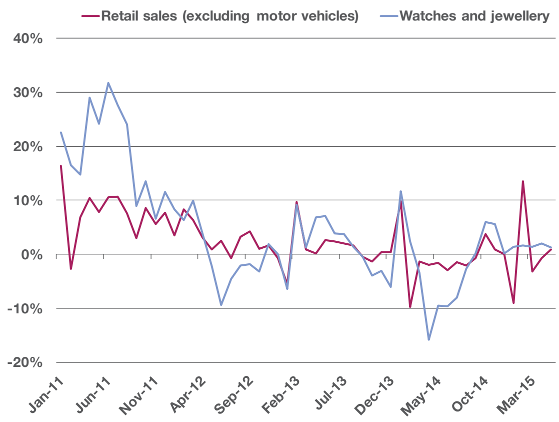
Macroeconomic overview

Singapore's gross domestic product (GDP) grew 1.8% YoY in Q2/2015, lower than the 2.8% growth in Q1. The overall unemployment rate declined from 1.9% in Q4/2014 to 1.8% in Q1/2015.

The slower economy had a mixed impact on the retailers. Retail sales (excluding motor vehicles) increased marginally at 0.9% YoY in May, with a seasonally-adjusted 1.8% rise over April due to the Great Singapore Sale (GSS) held from 29 May to 26 July. Sales for the watches and jewellery segment were up 1.3% YoY, indicating a slight increase in discretionary expenditure. However, the food and beverage (F&B) segment shrank 3.0% YoY.

GRAPH 1

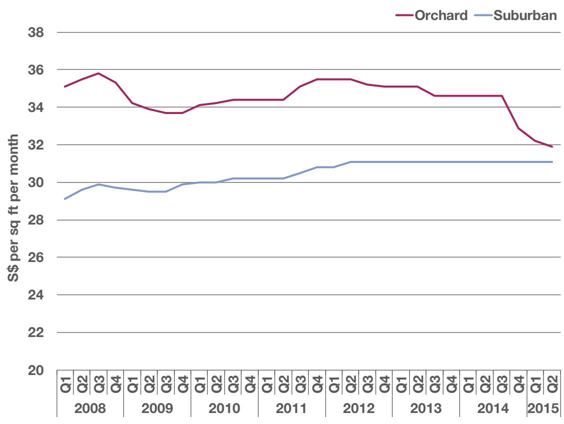
Growth of retail sales (excluding motor vehicles), YoY at current prices, Jan 2011–May 2015



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2

Prime retail rents, 2008–Q2/2015



Source: Savills Research & Consultancy

Tourist arrivals for April and May dipped 1.1% YoY, largely due to a drop in tourists from Southeast Asia, Europe, and Australia and New Zealand. This could be attributed to the stronger Singapore dollar against these currencies. However, tourists from China have risen 47.1% YoY in May, rebounding from previous months when Singapore faced a significant drop in the number of China tourists due to anti-graft measures and the unfortunate disappearance of MH370.

Market Snapshot

Taking the lead from department store chains Marks & Spencers and John Little, Metro announced the closure of their Compass Point department store in May, after twelve years of operation. At the same time, it launched its online shopping site as an additional channel for shoppers.

Luxury brand Tory Burch joined the recent trend of pop-up stores (short-term temporary stores), opening a 740-sq ft exclusive swimwear-themed store at the outdoor atrium of Wisma Atria for about three weeks in May. More retailers are expected to join in the pop-up store party due to their shorter tenure, which translates to lower risks. Across segments, retailers are generally downsizing their spaces in a bid to minimise operating costs. Also evident is a shift in retailers' interest from the Orchard shopping belt to the suburban malls.

We are seeing an increasing trend of existing malls undergoing asset enhancement initiatives (AEI) in order to stay relevant and competitive. In July, CapitaLand Mall Trust announced its S$38 million interior upgrading works for Plaza Singapura, to be carried out in Q3/2015 and slated for completion by Q4/2016. In the city fringe and suburbs, renovation works are ongoing at Tiong Bahru Plaza while AEI is planned for Compass Point in September.

Rents & Vacancy

Prime retail rents in Orchard Road slipped another 1.0% QoQ to S$31.9 per sq ft per month in Q2/2015, as retailers set their sights on suburban malls for expansion rather than on Orchard Road. Consequently, the refocus towards the suburbs kept rents stable at S$31.1 per sq ft per month, narrowing the gap between prime rents in Orchard Road and suburban malls even more.

The island-wide vacancy rate edged up by 0.4 percentage points (ppts) QoQ to 7.2% in Q2, while Downtown Core vacancy continued to rise, up 1.4 ppts to 13.4%, largely due to the completion of the new Capitol Piazza and the Suntec City Mall refurbishment. The former, which officially opened in May, has achieved more than 80.0% occupancy, 65.0% of which has been taken up by new-to-market brands.

Orchard Road and the CBD

On the Orchard Road belt, Centrepoint began its asset enhancement works in May, and in the process brought in traditional noodle house Mak's Noodle from Hong Kong, which opened in June. In the same month, celebrity chef Gordon Ramsay opened Bread Street Kitchen at Marina Bay Sands, his second restaurant after his Asian debut in Hong Kong.

In May, Millenia Walk completed its renovations, unveiling a new Nihon Food Street as well as new tenants such as elemen, a fusion vegetarian restaurant, and two modern lifestyle and furniture stores – Whitewoods Living and SCENE SHANG. One unique addition is Urban Ski, Singapore's first and only revolving indoor ski slope. Next-door at Suntec City Mall, marketplace-concept Pasarbella will be opening its second outlet in September, offering 15 F&B choices made up of existing artisanal local brands with new concepts. Meanwhile, Marina Square's new 200,000-sq ft retail wing was also completed in the reviewed quarter.

On Beach Road, four new F&B outlets are set to open in September at South Beach Quarter, a two-storey conserved building which is part of the South Beach integrated development. The outlets include: Vatos Urban Tacos, a famous Korean-Mexican restaurant from South Korea; Vanity, a cocktail bar; a gastropub named The Armoury; and a new boutique nightclub.

Spanish men's shoe label Carmina and Japanese fashion label 45R made their Singapore debut at Capitol Piazza in July. In the same month, Famous British toy company Hamleys opened a two-storey flagship store spanning 12,000 sq ft at Plaza Singapura, its first in Singapore, while its second will be a 6,300-sq ft outlet at Marina Bay Sands to open before Christmas.

GRAPH 3

Retail vacancy rate, 2011 – Q2/2015

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

City Fringe and Suburban

In the suburbs, the Seletar Mall at Sengkang officially opened in May. The four-storey shopping mall with two basement levels houses about 130 brands spread over 188,000 sq ft of net lettable area. Anchor tenants include a supermarket, a cineplex, a foodcourt, Uniqlo, fitness centre Amore Fitness & Boutique Spa and department store BHG.

Gain City has opened a retail/ warehouse at Sungei Kadut, a new addition to the warehouse retail sector.

Outlook

Cost pressures continue to plague the retail industry, especially in the area of labour supply and transportation. Although rents may have stabilised, revenues, as proxied by the retail sales index, have not increased fast enough to keep pace with rising occupancy costs. What ails the performance of retailers' top line is competition, both in terms of the physical and the ephemeral (on-line). Firstly, the ballooning of budget air travel has brought regional cities to within easy reach. In turn, they have become competitors to shops here that sell comparison goods such as fashion, shoes and jewellery. The competing pull exerted by cities like Bangkok, Hong Kong and Seoul are not just directed at tourists, but also locals who purchase such higher-value items on a periodic basis. Secondly, online shopping has added a further dimension to the challenges faced by retailers selling such goods. The span of online retailing is global as delivery time has now been largely shortened by effective supply chain management systems and product try-outs can be carried out at small domestic shoplets.

In the short term, the best shot in the arm for the retail industry is for tourism to grow again. With bated breath, all eyes will be on whether the 47.1% YoY rise of Chinese tourist arrivals in May can be sustained, especially after the sharp decline in their stock market a month later in June and the recent devaluation of the yuan. If the Chinese tourist numbers remain strong, the industry should still be on a net expansion phase and retail rents, being dependent on the fortunes of the retail sector as a whole, will perhaps still be able to manage an orderly readjustment to the new age posed by online shopping. On this basis, we expect retail rents in the prime Orchard Road area to soften by 3% to 5% YoY in 2015 and prime rents in suburban malls to be in the range of -3% to 0% YoY.

Please contact us for further information

Savills Singapore

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

Sulian Claire
Senior 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

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.