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Savills World Research
Singapore

Briefing
Retail sector

September 2016

Image: The Heeren, 260 Orchard Road

SUMMARY

Survival for mall landlords in the current retail industry requires a combined effort to create a total new shopping experience which the competition cannot offer.

- Despite having the Great Singapore Sale (GSS), retail sales (excluding motor vehicles) in May and June continued to fall by 3.2% and 4.4% year-on-year (YoY) respectively, marking the 10th consecutive month of decline.
- Prime rents on Orchard Road inched down by 0.1% quarter-on-quarter (QoQ) to S$29.90 per sq ft in Q2/2016. The gap between prime retail rents in the Orchard and Suburban areas closed even more as the latter recorded a marginal increase of 0.3% QoQ to S$28.60 per sq ft per month in the suburbs.
- The island-wide vacancy level worsened by 0.5 percentage points (ppts) QoQ to 7.8% in Q2/2016 while that in the suburbs rose 1.6 ppts QoQ to 6.0%. The vacancy rate in the Downtown Core planning area also rose to 11.7% while vacancy at Orchard broke a new 5-year record at 9.2%.
- Owing to the rapid rise in e-commerce and also budget air travel bringing regional cities within competitive access (especially for comparison goods and F&B), it is essential for landlords and retailers to be creative in engaging shoppers with an integrated shopping experience and evolve along with their shopping preferences.
- While e-commerce and budget air travel have added new competitive dimensions to the retail scene, a sometimes overlooked reason behind the retail sales fall is the slow moving state of the local economy which is affecting disposable incomes.

> "Although e-commerce and regional competition are negatives, the major drag on the sector is the slow local economy."
> Alan Cheong, Savills Research

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Macroeconomic overview

Following a few quarters of marginal rise, the Singapore economy reported a growth of 2.1% year-on-year (YoY) in Q2/2016, unchanged from the preceding quarter. In the job market, uncertainties continued to linger as the seasonally-adjusted total unemployment rate worsened by 0.2 percentage points (ppts) quarter-on-quarter (QoQ) to 2.1%.

After showing some improvements in March, retail sales (excluding motor vehicles) in April dipped by 5.2% YoY. For the months of May and June, despite the Great Singapore Sale (GSS), retail sales continued to fall by 3.2% and 4.4% YoY respectively as shoppers no longer feel the hype for GSS given that there are plenty of online promotions available all year round. Although the retail sales drop in both months was lower during the GSS period, this still marks the 10th consecutive month of decline.

Likewise for the food & beverage (F&B) segment which in June saw sales fall by 7.4% YoY, accelerating from the 6.3% YoY decrease in May. This makes seven quarters of negative YoY F&B sales growth. The watches & jewellery sector also recorded the same downtrend since the beginning of the year and fell 7.4% YoY in both May and June.

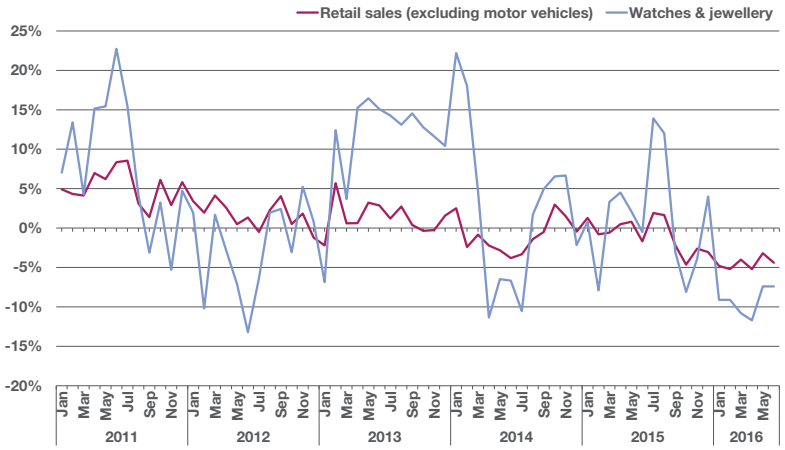
Apart from the slow growing local economy and a tight labour market, Brexit also played a minor part in exacerbating the local retail performance though it has had only a limited immediate impact on Singapore. Not only were consumer sentiment and retail spending hit, but Singapore also tends to lose out to the UK as an attractive shopping destination given the depreciating pound. In Q2/2016, although tourist arrivals increased 11.1% YoY, this did not translate into better retail sales. As a result of poor consumer sentiment arising from economic uncertainty and job insecurity, it became a greater challenge for the retail trade in Singapore to perform well.

Market snapshot

In Q2/2016, the retail sector remains challenged, reflected by the stagnant QoQ growth in consumer confidence. Based on the MasterCard Index of Consumer Confidence, Singapore scored 33.6 points for 1H/2016, the lowest level since 2009. As Singaporeans become more concerned over job security, spending on items such as clothes and home decor has fallen.

GRAPH 1

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



Source: Singapore Department of Statistics, Savills Research & Consultancy

This could explain the number of larger retailers exiting with no intention of renewing their leases upon expiry. In May, the furniture seller, iwannagohome, shut down its shops at Tanglin Mall and Great World City. In the same month, CB2, the sister store of US furniture and home ware brand Crate & Barrel, also wound up its store at Peranaken Place after three years of underperformance. However, the Group did say that it is looking at opening another new store in a better location which matches its branding more closely.

With the closure of non-performing retailers, space has been freed for brands such as Christian Dada which took the opportunity to boost brand presence and awareness when rents are relatively lower in the down market. The Japanese label had a grand opening of its first Singapore flagship store in May at 268 Orchard Road. A home grown tea brand, The 1872 Clipper Tea Co., also launched its 743-sq ft flagship retail store at ION Orchard in April after introducing its first standalone store in Raffles City earlier this year. As the market softens, there are also brands which have once exited the local scene, trying to make a comeback. In early April, Fancl, which shuttered all of its 13 stores in 2014, opened a counter at level one of Isetan Scotts on Orchard Road. Aiming to open up to 25 shops and counters, Fancl is well prepared with a comprehensive website and app to better launch its marketing promotions.

Orchard Road & the CBD

Although there are still a lot of F&B players left on the scene, confidence in this segment remains high. This is possibly because F&B is a complete experience which cannot yet be achieved online, unlike other retail segments which can be replaced by e-commerce. Therefore, malls have been making an effort to strengthen their F&B appeal to consumers.

After two months of renovation works, Food Opera at ION Orchard reopened with a wider food range in June. Rather than just being a shopping destination, ION Orchard is working on the variety and exclusivity of its dining choices to satisfy the cravings of locals and tourists.

There are also malls like the upcoming Downtown Gallery which

has come up with unique selling points. Instead of overcrowding the mall with F&B stalls, only 29% of the space has been allocated for F&B tenants. However, the mall will optimise this smaller allocation of space to F&B use with new concepts such as cooking in a common kitchen and serving lunch from lockers. Known as an integration of lifestyle, wellness and technology mall, Downtown Gallery will have a 4,000-sq ft shared kitchen on the third floor which consumers can book online or via an app to cook and dine. Furthermore, consumers can also place their orders with their mobile and collect their food, which is prepared in a central kitchen, from the designated locker.

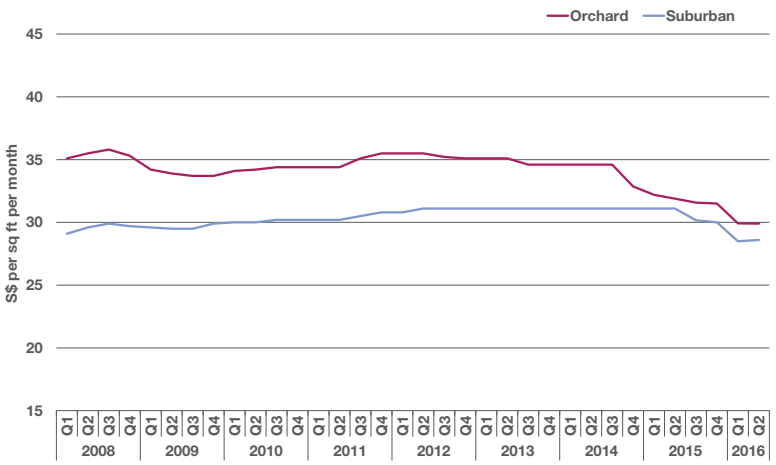
The upgrading plans for Funan DigitaLife Mall show that developers are responding to the market challenges with clear unique selling propositions to help the new malls to stay competitive. As consumers are always looking for novelty and surprises, the revamp is to transform the current mall into a "Mall of the Future" with experiential retail concepts.

City Fringe & Suburban

While many retailers are working hard to tide over the hard times, Sheng Siong is aggressively expanding their stores to more mature neighbourhood estates. The company has opened three new branches in Q2/2016 and an upcoming outlet at Yishun Junction 9 by the following quarter. While more retailers shift to digital retail space, owing to the cost of vehicle ownership, car-parking issues and the restriction of food industries to relatively far flung parts of Singapore, e-commerce for now does not seem to be working for groceries and fresh produce. It is only in the retailing of non-fresh products that online competition takes root and profit margins are maintained. Sheng Siong, rather putting everything behind online, they are focused on store expansion plans while maintaining their online channel to serve a different set of shopping needs.

GRAPH 2

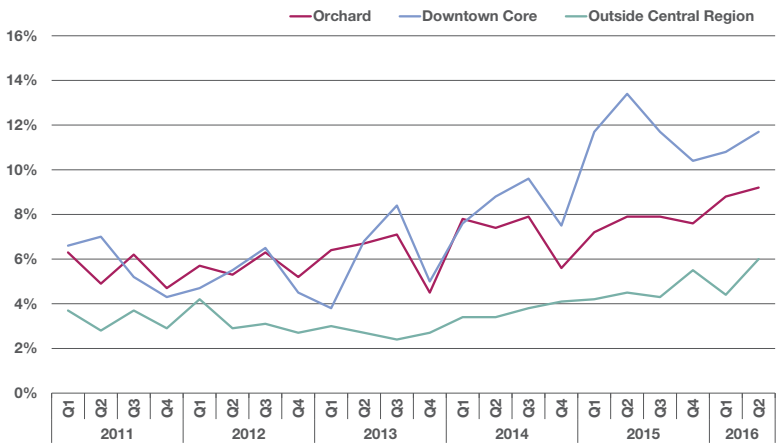
Prime retail rents, 2008–Q2/2016



Source: Savills Research & Consultancy

GRAPH 3

Vacancy rate, 2011–Q2/2016



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

In the ailing market with lower rents, there are brands which are taking advantage of market conditions and venturing into suburban malls. The premium menswear label, Benjamin Barker, which used to only appear in the Central and Fringe areas, has seized the opportunity and opened its first suburban branch at Tampines in June and the next at Jurong East in August.

Rents & vacancy

Prime rents on Orchard Road inched down by 0.1% QoQ to S$29.90 per sq ft per month in Q2/2016, possibly due to the refusal of landlords to lower rents further. The gap between prime retail rents in the Orchard and Suburban areas closed even more as the latter recorded a marginal increase of 0.3% QoQ to S$28.60 per sq ft per month. Suburban rents will probably stay firm or see gradual growth as demand for suburban space is still on the rise.

However, vacancy levels worsened due to rising pre-terminations and business consolidations. In Q2/2016, island-wide vacancy level worsened by 0.5 ppts QoQ to a record high of 7.8% while suburban vacancies rose 1.6 ppts QoQ to 6.0%. The vacancy rate in the Downtown Core planning area also

TABLE 1

Major projects in the pipeline, Q3/2016–2020

Development	Location	Estimated NLA (sq ft)	Estimated completion
Downtown Gallery	Shenton Way	160,000	2016
Tanjong Pagar Centre	Wallich Street	100,000	2016
Singapore Post Centre AEI	Eunos Road 8	188,400*	2017
Changi Airport Terminal 4	Airport Boulevard	148,500*	2017
Marina One	Marina Way/Straits View	140,000	2017
Northpoint City	Yishun Central 1	294,200*	2018
Hillion Mall	Jelebu Road	154,400*	2018
Jewel Changi Airport	Airport Boulevard	576,000	2019
Paya Lebar Quarter	Paya Lebar Road/Sims Avenue	340,000	2019
Funan DigitaLife Mall AEI	North Bridge Road	375,800*	2019

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

rose to 11.7% while Orchard broke a new 5-year record with a vacancy of 9.2%. On a brighter note, demand for retail space in the Fringe Area seemed to move up with minor improvements in its vacancy rate to 7.7%.

Future supply

According to the latest data released by the Urban Redevelopment Authority (URA) as of Q2/2016, there is an estimated retail supply of 1.4 million sq ft in the second half of this year. From 2017 to 2020, approximately 6.2 million sq ft of new retail space will be added.

The redevelopment of the former DBS building into Downtown Gallery is a mixed-use project comprising office, serviced apartment and retail components. With mainly dance and fitness studios such as Upside Motion and GuavaLabs occupying the basement level, the ground floor will be taken up by an 11,000-sq ft 'trend gallery' featuring retail booths and pop-up stores. Almost 60.0% of its retail space has been pre-committed, with anchor tenants including Mulberry and a co-working space provider. The former will be opening an 8,600 sq ft pre-school while the latter will be opening a 20,000 sq ft co-working facility.

Future developments like the new retail mall at Singapore Post Centre are designed to meet the evolving needs of consumers. Positioned as the first retail mall providing a complete eCommerce logistics solution, the new retail mall will have both online e-merchants as well as offline physical stores available in this single stopover so that shoppers can get their purchased items delivered, and retailers no longer require large retail units to store merchandise.

OUTLOOK

The prospects for the market

In recent years, the addition of e-commerce has been putting pressure on the local retail scene. According to business consultants Frost & Sullivan, the e-commerce market in Asia may expand by at least 30.0% from US$730 billion in 2015 and 2016 to an average of US$960 billion annually by 2017 and 2018. The ease of internet access is likely to further encourage the trend of online shopping in Singapore. In order for retailers to stay competitive, they have to go beyond their usual brick-and-mortar stores and provide multiple sales channels – Omni-channel retailing.

In the coming quarters, we are likely to see more retailers bringing their wares online. For example, Sephora has sought to maximise both online and offline sales with the latter serving both virtual and experiential shopping needs. Meanwhile e-commerce brands like Decathlon have also established a physical presence in Singapore to create a tactile shopping experience. As such, landlords could be actively looking for online brands rather than restraining themselves within the current pool of retailers.

An overly bearish stance is unwarranted because as rents soften, there will be greater latitude for brands to expand their presence here. Particularly in the Orchard area, there could be an increasing interest among big brands to take up larger stores as rents fall. With that, vacancy levels will then start to stabilise.

In the meantime, F&B retailers could be good at driving higher footfall and keeping the malls thriving when new food concepts are first introduced. However, this may not be a viable solution in the long run because if the major international fashion brands leave the market, locals and tourists may quickly find Singapore a less attractive place to shop, especially Orchard Road. This could start a downward spiral of declining tourist numbers and falling retail spending. Ultimately, malls must still try to nurture the fashion component to contribute to shaping Singapore as a shopping destination.

In the immediate term though, the slow economy has proved to be a major drag on retail sales. Even when tourist arrivals for the first two quarters rose by double digit percentages YoY, retail sales continued to drop. More telling is the seven quarters of negative F&B sales growth which is quite immune to e-commerce and regional competition.

Please contact us for further information

Savills Singapore

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

Sulian Claire
Executive 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