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Savills World Research
Singapore

Briefing
Retail sector

August 2018

Image: Century Square, 2 Tampines Central

SUMMARY

Retail vacancies moderated while rents weakened.

- Despite the festive spending prior to Hari Raya Aidilfitri, which lifted retail sales (excluding motor vehicles) in May, the overall sales growth for both April and May was restrained by sluggish sales of discretionary goods.

- The island-wide vacancy level was down by 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to 7.3% in Q2/2018, marking the lowest quarter since 2016.

- The retail rental index in the central region slipped 1.1% QoQ in Q2/2018, reversing the slight recovery of 0.1% in the preceding quarter.

- Savills prime monthly rents in Orchard Road and the suburban area stayed flat at S$29.90 and S$28.80 per sq ft respectively in Q2/2018.

- Although the retail industry remains very challenged, rents may be trying to find a base at current levels. For the past few years, household income and tourism expenditure have been rising consistently and it seems counterintuitive that the retail sales index should remain subdued for so long. Could new electronic payment means be causing the under-reading?

"The advent of the electronic wallet could already be fuelling greater retail expenditure but may not be captured by traditional retail performance measures."
Alan Cheong, Savills Research

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Macroeconomic overview

Based on Ministry of Trade and Industry (MTI) advance estimates, due to the slower pace of expansion in the manufacturing and services sectors, Singapore's economic growth moderated to 3.8% year-on-year (YoY) in Q2/2018. Although continued economic expansion attracted more people to rejoin the work force, there are those that still could not find jobs due to a mismatch of skill sets. As a result, the unemployment rate inched up to 2.1% in June. Retrenchments also went up in the quarter, causing consumers to stay cautious in their spending.

As consumers cut down on their lifestyle expenditures, sales growth was mainly supported by essential expenses such as medical goods, toiletries and fast food dining. Although a sales jump in furniture and household equipment as well as apparel and footwear prior to the Hari Raya Aidilfitri festive period lifted retail sales (excluding motor vehicles)[1] in May, the overall sales growth in April and May was restrained by sluggish sales in discretionary goods such as computer and telecommunications equipment.

After slipping into negative territory at -2.1% YoY in April, food and beverage (F&B) sales[2] returned to positive growth of 0.2% YoY in May. The change in spending behaviour was also in line with tourism receipts. While tourist spending on shopping and F&B dipped by 10.0% YoY and 4.0% YoY respectively in Q4/2017, other components including medical and education surged by 17.0% YoY.

Occupancy improves while rental market softens

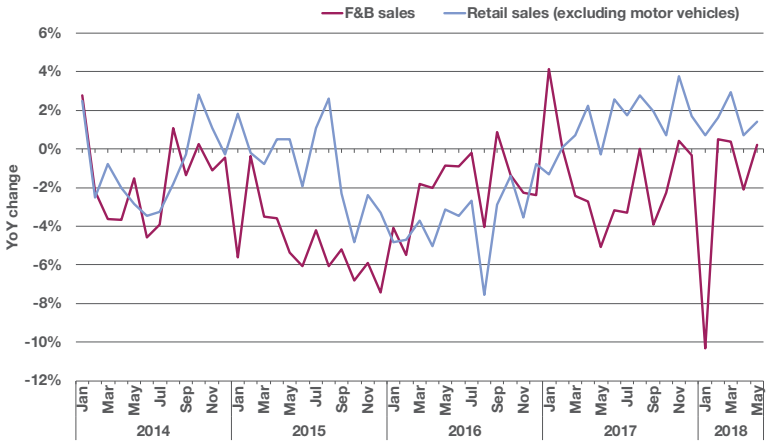
After inching up by 0.1 of a ppt in Q1/2018, the island-wide vacancy level fell 0.2 of a ppt to 7.3% in Q2/2018, the lowest rate since 2016. Other than for the rest of the central area where vacancy rates rose by 1.0 ppt QoQ to 7.6% due to a decrease in demand, vacancy rates fell across the board in Q2/2018. The rise in occupancy came from some retail expansion in the reviewed quarter.

For example, at VivoCity, fast-fashion retailer ZARA took over the space vacated by Forever21 and also divided the store into two sections, occupying a total of 29,000 sq ft at level one. Japanese discount chain Don Don Donki opened its second branch in Singapore across two levels at 100 AM mall, and within the next five years, plans to open at least ten stores here. Co-working operator JustCo launched its sixth and largest facility, spanning 60,000 sq ft, at Marina Square.

Even though these moves lent some support to occupancy levels, overall retail rents have been restrained by low rental rates for anchor tenants. According to the Urban Redevelopment Authority's (URA) retail rental index, in the central region the rate slipped 1.1% QoQ in Q2/2018, reversing the slight recovery of 0.1% in the preceding quarter. Notwithstanding that, prime rents remained resilient due to the central region's better frontage and higher foot traffic. As such, Savills prime monthly rents in Orchard Road and the suburban area stayed flat at S$29.90 and S$28.80 per sq ft respectively in Q2/2018.

GRAPH 1

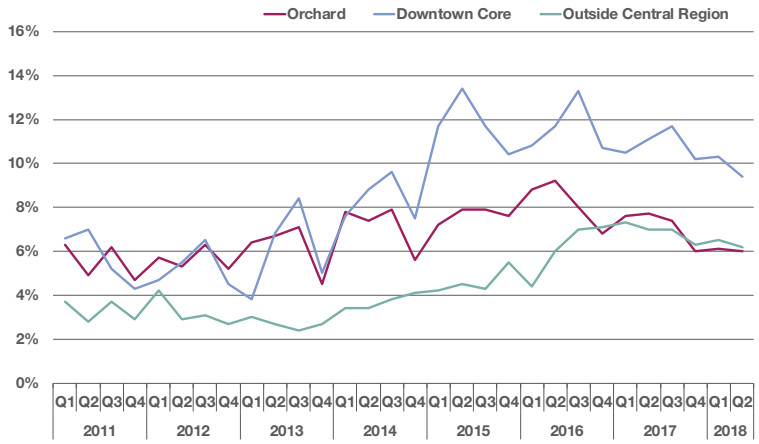
Growth in retail sales and F&B sales, Jan 2014 – May 2018



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2

Vacancy rate, 2011 – Q2/2018



Source: URA, Savills Research & Consultancy

1 Retail Sales Index at Constant Prices (Seasonally Adjusted), Monthly. Updated as at 13 July 2018.
2 Sales Index of Food & Beverage Services at Constant Prices (Seasonally Adjusted), Monthly. Updated as at 13 July 2018.

Foreign brands are still optimistic

Despite the woes afflicting the industry, foreign brands are nevertheless still confident of the local retail market. French fashion and lingerie label 6ixty8ight opened its first store in Southeast Asia, taking up over 2,000 sq ft at VivoCity. Israel-based bath and body brand Sabon launched its first Southeast Asia flagship boutique at Ngee Ann City. Expanding its presence out of Takashimaya, Italian fashion label Maryling opened its first boutique in Singapore, spanning over 1,270 sq ft at The Shoppes at Marina Bay Sands. Following the opening of its first retail store (2,900 sq ft) in Singapore at Jurong Point Shopping Centre, UK sports fashion retailer JD Sports introduced a 7,200-sq ft flagship store at ION Orchard in August.

Physical retail is essential for high-end brands

Research[3] conducted by Google revealed that most luxury purchases are transacted offline even though e-stores are an important sales channel. Physical stores are particularly important to high-end brands as they help to establish brand awareness and legitimacy. To stay competitive, these brands constantly update their physical retail strategy with new concepts. Men's luxury brand Montblanc Singapore opened its newly revamped boutique store at Raffles City Shopping Centre, offering an immersive store experience. Luggage firm Samsonite launched its first women's concept store at Paragon with omni-channel retailing which enables shoppers to browse on interactive tablets in-store and request free delivery.

Likewise, luxury e-retailers are also moving into the physical retail space. High-end handbag e-reseller LuxLexicon set up its first flagship store at The Centrepoint where shoppers can assess the physical product.

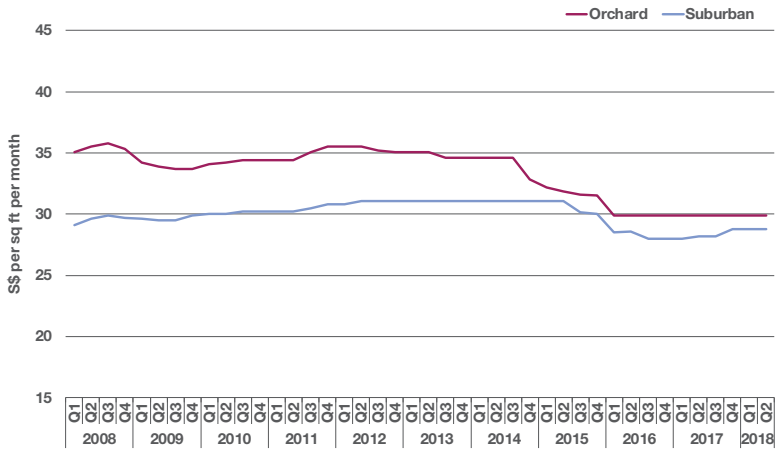
Embarking on AEI

Malls have been embarking on Asset Enhancement Initiatives (AEI) to improve their attractiveness and connectivity to shoppers. Great World City started its two-year massive makeover in mid-April to create three new access links to the upcoming Great World MRT station. Upon completion of the AEI works in Q3/2020, the mall's F&B component will be expanded from the current 20.0% to 30.0% of net lettable area (NLA).

Besides One Raffles Place Shopping Mall, which is currently undergoing AEI to enhance its space visibility and shopper circulation, VivoCity mall recently opened its new 32,300-sq ft basement extension with improved access to the MRT station. In June, Paragon launched the first phase of its new 16,000-sq ft retail zone offering open-store and multi-brand concepts. In addition to greater accessibility, refurbishment works also allow malls to increase their NLA in order to enhance attractiveness by bringing in new and greater retail and F&B mixes.

GRAPH 3

Prime retail rents, 2008 – Q2/2018



Source: Savills Research & Consultancy

Future supply

URA estimated around 2.4 million sq ft of new retail supply completing in 2H/2018. Even though it is substantially more than the average annual net new supply of 1.1 million sq ft for the last five years, the upcoming new retail supply is mainly from mixed developments such as Paya Lebar Quarter (PLQ). As these have office and/or residential uses intermixed with them, they increase organic retail footfall.

For instance, F&B and service providers may be interested in locating to mixed developments because of the ready catchment of workers in the office blocks. As of March this year, PLQ mall was more than 50.0% pre-committed with tenants such as Fairprice Finest supermarket, Kopitiam food court and Shaw Theatres.

Although the project Jewel at Changi may appear to be a pure retail development, it is actually not because it is integrated with the airport. This upcoming project has also seen strong pre-leasing interest from tenants like Shaw Theatres, American fast-food chain A&W, New York burger chain Shake Shack and local seafood restaurant Jumbo. ■

3 How Affluent Shoppers Buy Luxury Goods: A Global View

TABLE 1

Major projects in the pipeline, 2H/2018 – 2023

Development	Location	Estimated NLA (sq ft)	Estimated completion
Paya Lebar Quarter	Paya Lebar Road/Sims Avenue	340,000	2018
Additions/alterations to existing Raffles Hotel and shopping arcade	Beach Road/North Bridge Road	85,000	2018
TripleOne Somerset Podium AEI	Somerset Road	74,000	2018
Project Jewel	Airport Boulevard	576,000	2019
Funan	North Bridge Road	324,000	2019
Punggol Digital District	Punggol Way	146,000*	2023

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

The outlook for Singapore's economy remains sanguine with the MTI expecting economic growth to come in at between 2.5% and 3.5%. Nonetheless, uncertainties and downside risks in the economy have been rising throughout the year. What could slow things down might be an event like an escalating US-China trade war. Owing to structural changes in the labor market, retrenchments and thus unemployment figures are likely to stay elevated. These could dampen shoppers' confidence and cause them to tighten their purse strings.

The rise in e-commerce has inevitably affected the retail industry. However, online retail sales contributed a mere 4.3% of total retail sales in May. Instead, the experiential element of the mall has thus far turned out to be a more crucial factor for the industry. According to Kibo's 2018 Consumer Trends report, shoppers appreciate the tactile experiences in stores. This suggests opportunities for new entrants and further expansions as long as retailers offer refreshing concepts that keep abreast of changing shopping preferences. It is important for landlords and retailers to adapt to emerging trends and come up with new and interesting concepts to bring shoppers back into malls.

Given the significant upcoming supply, retail vacancy may be on the rise. Retail occupancy may find some support from expansion plans such as the opening early next year of a new 35,000-sq ft facility at One Raffles Place Shopping Mall by the co-working operator, Spaces. UFC Gym also plans to open 15 branches in Singapore over the next ten years. Even though these new entrants may help to lift occupancy rates, the overall rental level may be dampened by the low rents for these anchor tenants. In conclusion, much has been written about the plight of retailers and "proof" is shown by the languishing performance of our retail sales index.

We believe that while the retail industry remains challenged, it may not be as bad as it appears. Much has not been revealed about the effect of another retail payment method, that of the electronic wallet. Anecdotally, the amount of retail and F&B purchases made through electronic wallets has been growing exponentially and this payment gateway could be gradually supplanting traditional cash and credit card payment means. The reason why we mention this point is that it is now starting to look very counterintuitive that, on the one hand, we've seen retail sales figures stuck in neutral gear for a few years while during that same period, both household income and tourist expenditures have risen significantly. Although some may attribute this to the competition from online shopping, if online competition has caused retail sales to remain lackluster over the past few years, retail vacancy rates should also be increasing. After all, not only has the retail sales index not headed anywhere since 2014, there has been an increase in retail supply. The

OUTLOOK

The prospects for the market

combined effects should dilute retail sales per square foot and turn retailers' fortunes further south. Instead, since 2016, we have seen improving retail vacancy rates. All of this hints at a possible hidden variable(s) that is causing retail sales to remain in the doldrums. We shall be looking closely at this possibility over the next few quarters to try to uncover the causality that is dampening the retail sales index.

TABLE 2

Expected retail rental changes for 2018 and 2019

Period	Prime Orchard Road rents YoY change	Prime suburban malls rents YoY change
2018	0.0%	2.0 to 5.0%
2019	2.0%	2.0%

Source: Savills Research & Consultancy

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