

# Briefing Retail sector

October 2012



Image: The Star Vista

## SUMMARY

A soft patch for prime retail but suburban malls rest on firm ground.

- Retail sales eased 0.7% year-on-year (YoY) in July, marking the first contraction since February 2011.
- Anchor tenants and big-format stores have taken centre stage again, creating spin-off demands under a challenging retail climate, while the Southeast Asian growth story remained a pull factor for international retailers.
- Malls in Jurong Gateway exhibited innovative asset enhancements to stay ahead of competition; while JCube is a hotspot for new retail brands and concepts, IMM will be Singapore's largest outlet destination.
- Monthly prime suburban rents held firm at S\$31.1 per sq ft while those on Orchard Road softened 0.8% to S\$35.2 per sq ft.
- Several negotiations involving international retailers are ongoing and some landlords on Orchard Road are prepared to offer competitive terms amid stiff rivalry and waning sentiment.
- The renewal of the Formula 1 race for another five years is expected to cushion the adverse impact of any external shocks on prime malls.

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 “The slowdown in the China and India economies has added a new twist to the eurozone debt saga, increasing our risk of a technical recession. Against the backdrop of an ailing world economy, the pre-commitment levels of new malls will set the mood for 2013.”  
 Alan Cheong, Savills Research  
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→ **Macroeconomic overview**

The prolonged eurozone crisis, deceleration of the China and India economies, and strengthening of the Singapore dollar have taken a toll on the retail market. Despite the Great Singapore Sales, retail sales (excluding motor vehicles) failed to take-off, having eased 0.7% YoY in July, the first contraction since February 2011. The watch and jewellery segment has been in a slump since May, although necessities expenditure, such as supermarkets, remained healthy, which could partly be attributed to Singapore's expanding population.

Southeast Asia continued to be a bright spot, bucking the deceleration trend that plagues many nations. According to the International Monetary Fund, the ASEAN-5<sup>1</sup> economy is projected to grow 5.4%

<sup>1</sup> Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

this year, up from 2011's 4.5%. The Singapore brand as an investment destination<sup>2</sup> makes it well-positioned to ride on this growth. Meanwhile, hefty government spending in areas such as housing, tourism and transport have sustained employment and helped to avert a hard landing. In its latest forecast, the Ministry of Trade and Industry estimated that the Singapore economy will expand by 1.5% to 2.5% this year.

**Orchard Road**

Anchor tenants and big-format stores have taken centre stage again, creating spin-off demands under a challenging retail climate, while the Southeast Asian growth story remained a pull factor for international retailers. ION Orchard, which is revamping its Basement 3, has strengthened its big-format store offerings. H&M has

<sup>2</sup> "Top city brand in Asia" – PublicAffairsAsia and Ogilvy Public Relations. "Most competitive economy in Asia" – World Economic Forum.

pre-leased a two-storey, 20,000-sq ft space in the mall, to open around year's end. On the third storey, DKNY has launched its largest store in Singapore spanning more than 4,000 sq ft. The revamp has drawn new-to-market brands including fashion labels Carven and Vivienne Westwood Anglomania, hailing from France and the UK respectively, as well as Yves Saint Laurent Beaute's first boutique in Southeast Asia.

Over in Somerset, orchardgateway is said to be more than 50% pre-committed ahead of its expected completion next year. Further down Orchard Road, the asset enhancement for the Atrium@Orchard is slated to be completed by year's end. It boasts GAP's largest store in Singapore and Sephora's sixth outlet here. The project will be integrated with the adjacent Plaza Singapura to form an enlarged mall with a combined space of 625,000 sq ft.

Rents for ultra-prime space held firm but those for off-pitch space have come down slightly. Overall prime rents on Orchard Road softened by around 0.8% to S\$35.2 per sq ft per month in Q3.

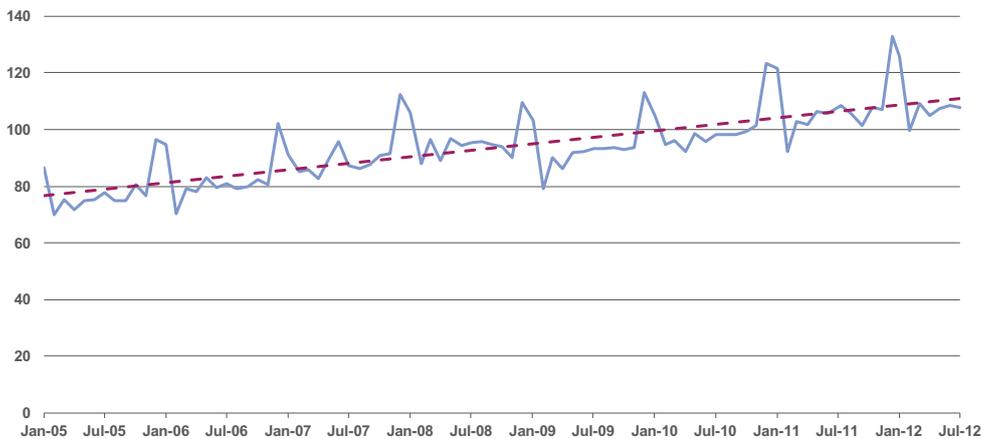
**Suburban**

Jurong Gateway continued to perform well in Q3. Innovative asset enhancement is key in staying ahead of the race, where four malls with a total potential NLA exceeding 1.6 million sq ft stand in close proximity. JCube has distinguished itself from the typical suburban malls by offering a range of new retail brands and concepts. Baby Phat joined other international labels to launch its first Singapore store in the mall in July this year. Nearby, the IMM mall is undergoing a makeover that will transform it into Singapore's largest outlet destination. It will have 40 to 50 outlet stores, including adidas, Billabong and Converse, where merchandise will be sold at discounted prices.

Leasing demand for suburban malls island-wide remained firm in Q3 and prime rents held steady at S\$31.1 per sq ft per month.

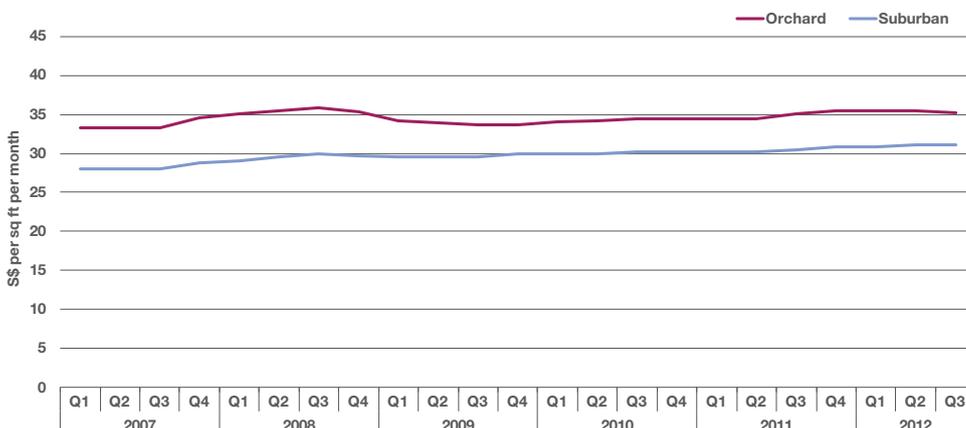
More lifestyle malls entered the market in Q3. Nestled in affluent, less densely populated neighbourhoods, they serve as destination malls mainly featuring dining outlets and lifestyle shops.

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



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, Q1/2007–Q3/2012**



Source: Savills Research & Consultancy

→ Compared with a big-scale suburban mall, these malls tend to offer attractive rents and provide tenants with more generous shop lots.

One such mall is Star Vista, a 164,000-sq ft mall next to Buona Vista MRT Station. It welcomed shoppers in September, dedicating more than half of its NLA to F&B. Over in Bukit Timah, some outlets at The Grandstand, formerly known as Turf City, have also commenced operation after about half a year of upgrading. The project, which

has an estimated NLA of 350,000 sq ft, has seen strong take-up from F&B, sports and lifestyle tenants.

A number of smallish lifestyle malls are in the pipeline. HillV2, a 55,500-sq ft, upcoming mall in Upper Bukit Timah by Far East Organization, is expected to be completed by the end of 2013. Along Alexandra Road, CEL Development is planning a retail-cum-hotel development, set to be ready in 2015. The retail component will occupy three levels spanning around

67,100 sq ft. In the northeastern suburb, sprawled amid the landed homes of Charlton Park Estate, The Promenade@Pelikat is a mixed development comprising 270 shops and 164 residential units, slated for completion in 2016. ■

TABLE 1 Major projects in the pipeline, 2012–2015

Development	Location	Estimated NLA (sq ft)	Estimated completion
The Atrium@Orchard (refurbishment)	Orchard Road	127,000	2012
Chinatown Point (refurbishment)	New Bridge Road	218,000	2012
268 Orchard Road	Orchard Road	86,800	2013
Jem	Jurong Gateway Road/ Boon Lay Way	573,000	2013
orchardgateway	Orchard Road	180,000	2013
Westgate	Boon Lay Way	426,000	2013
Bedok Mall	Bedok North Drive/ New Upper Changi Road	220,000	2013
The Seletar Mall	Sengkang West Avenue/ Fernvale Road	188,000	2014
Waterway Point	Punggol Central/ Punggol Walk	370,000	2015

Source: Savills Research & Consultancy

## OUTLOOK

### The prospects for the market

The slowdown in the China and India economies has added a new twist to the eurozone debt saga, increasing our risk of a technical recession. Against the backdrop of an ailing world economy, the pre-commitment levels of new malls will set the mood for 2013. Several negotiations involving international retailers are ongoing and some landlords on Orchard Road are prepared to offer competitive terms to strengthen their tenancy mix amid fierce rivalry and waning sentiment. While rents of ultra-prime space are expected to hold strong, overall rents on Orchard Road could see a mild softening over the next six months. However, the renewal of the Formula 1 race for another five years is expected to cushion the adverse impact of any external shocks on prime malls. We are still optimistic on suburban malls, as supply in most town centres is still tight and such malls will continue to benefit from the rising population. Prime suburban rents are therefore projected to remain resilient.

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### Savills Research

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