

Briefing Retail sector

November 2014



Image: Capitol Plaza, Stamford Road

SUMMARY

Weaker retail sales and labour constraints continue to take their toll on business expansion.

- Retail sales (excluding motor vehicles) to remain tepid, in tandem with the current economic growth
- Coach opens its first Southeast Asia (SEA) new concept store at The Shoppes at Marina Bay Sands
- Shaw Centre completes its revamp while One KM has obtained partial Temporary Occupation Permit (TOP)
- Prime rents in Orchard Road and suburban malls stayed firm at S\$34.6 and S\$31.1 per sq ft per month respectively in Q3/2014
- Big Box, Seletar Mall and One KM are the newcomers in the suburban mall scene

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 “A host of demand and supply factors continue to hamper the retail industry, with retailers needing to ride a storm which may last for several more quarters.”
 Alan Cheong, Savills Research

➔ **Macroeconomic overview**

The global economic slowdown has affected Singapore, as borne out in the Q3/2014 GDP growth of 2.4% YoY¹ – unchanged from the previous quarter, but significantly lower than the 4.8% growth in Q1/2014. Preliminary figures on the seasonally-adjusted unemployment rate for September were at 1.9%, marginally lower than the 2.0% recorded in June.

International tourist arrivals for Q3 are expected to remain weak relative to the same period last year. July and August recorded approximately 2,768,000 tourist arrivals, 32.1% short of the Q3/2013 figure. Lower F1 ticket sales, high hotel room rates expected in the run up to the year-end festive season and the strong Singapore dollar are all factors affecting the growth in tourist arrivals.

Retail sales (excluding motor vehicles) posted a negative YoY growth of 1.6% in August, making that six out of the past seven months showing tepid sales. Sales of watches and jewellery – a gauge for discretionary expenditure – continued to fall by 1.7% YoY, while the F&B segment performed well with 4.7% YoY growth. The watches and jewellery sector is expected to show a spike in business during September with the influx of overseas visitors attending the Singapore F1 event.

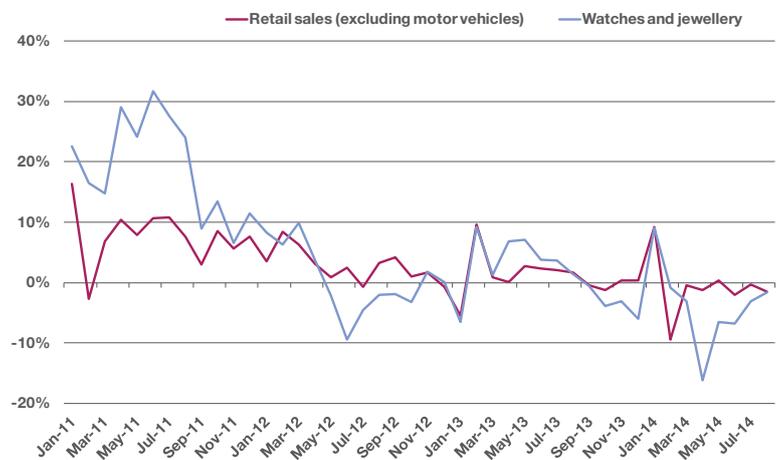
Orchard Road and the CBD

The reviewed quarter saw entries of new brands as well as the opening of flagship stores along Orchard Road and in the CBD. Over at Orchard, lifestyle brand Moleskine launched its first standalone store in Asia at ION Orchard, while Michelin-starred chef Yasuji Morizumi opened Singapore's first Chabuton at 313 @ Somerset. The Shoppes at Marina Bay Sands was the choice of Roberto Cavalli and Coach to open their respective flagship stores. Coach's 2,422 sq ft store is its first flagship store in Southeast Asia. Chyra also launched its first flagship store at Suntec City Tower 3.

The revamp of Shaw Centre and part of Shaw House at Scotts Road (to

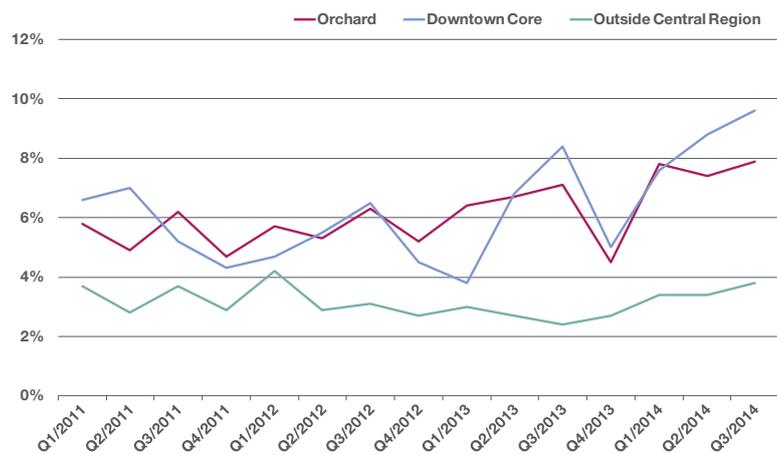
¹ Flash estimates

GRAPH 1 **Growth of retail sales (excluding motor vehicles), YoY at current prices, Jan 2011–Aug 2014**



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Retail vacancy rates, 2011–Q3/2014**



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

improve the integration of the two developments) was completed in Q3/2014. Shaw Centre has retained its major tenants, such as Mango, and restaurants from the Les Amis Group, and has also attracted newcomers including Polo Ralph Lauren and SK-II Boutique Spa. The mall is expecting tenants to complete their fit-out works by early November.

Chijmes at Victoria Street has been opening in phases from Q2/2014. The first phase saw the Asian Gourmet and Bistro sections starting up, while the final phase, featuring European and American cuisines such as Applebee's and

Carnivore, is expected in Q4/2014. With a generous total net lettable area (NLA) of approximately 114,000 sq ft, there will also be an Arena for Live Entertainment at the basement level, spanning some 24,000 sq ft.

Suburban

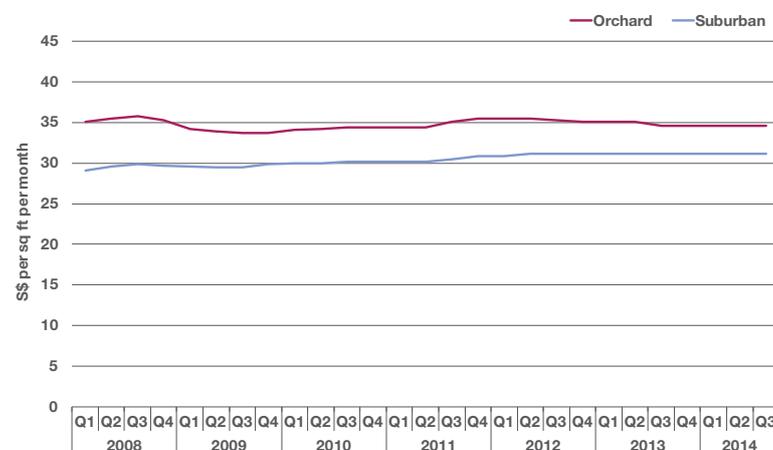
One KM mall at Tanjong Katong Road has obtained partial Temporary Occupation Permit (TOP) in Q3/2014 and is expected to be ready for business in Q1/2015. The three-storey shopping mall comprises about 200 shops with a total NLA of approximately 210,000 sq ft. Anchors include Cold Storage and Uniqlo.

➔ **Rents**

Prime retail rents on Orchard Road continued to stay flat at S\$34.6 per sq ft per month in Q3/2014. Even though the vacancy rate in the Orchard precinct has increased by 0.5 of a percentage point to 7.9% in the said quarter, demand for prime retail space continues to be healthy. This being said, rents are less likely to increase as slower retail sales and high operation costs cap rental growth.

Prime suburban rents have also languished at S\$31.1 per sq ft per month. Major suburban malls are enjoying high occupancy. However, the entrance of malls such as One KM, Seletar Mall, and Big Box into the market will undoubtedly create greater competition in the near future. ■

GRAPH 3 Prime retail rents, 2008–Q3/2014



Source: Savills Research & Consultancy

TABLE 1 Major projects in the pipeline, Q4/2014–2018

Development	Location	Estimated NLA (sq ft)	Estimated completion
Capitol Piazza	Stamford Road	132,000	Q4/2014
Big Box	Jurong East Street 11	260,000*	Q4/2014
The Seletar Mall	Sengkang West Avenue	188,000	Q4/2014
One KM	Tanjong Katong Road	210,000	Q4/2014**
268 Orchard Road	Orchard Road	96,000	2015
OUE Downtown Gallery	Shenton Way	150,000	2015
National Gallery Singapore	St Andrew's Road	40,000	2015
Hillion Mall	Jelebu Road	168,000*	2015
South Beach	Beach Road	60,000	2015
Waterway Point	Punggol Central	370,000	2015
Marina One	Marina Way/Straits View	119,000	2017
Northpoint City	Yishun Central 1	315,000	2018

Source: Company announcements, URA, Savills Research & Consultancy

*Savills estimation, based on an efficiency rate of between 65% and 70%.

**Achieved partial TOP in Q3/2014.

OUTLOOK

The prospects for the market

Factors such as a slower economy, lower levels of tourist arrivals, labour constraints and tepid retail sales (excluding motor vehicles) are expected to persist and quell the business expansion plans of retailers. However, recent announcements by Prime Minister Lee Hsien Loong, stating that further drastic measures to tighten foreign worker numbers are

not expected, may mean that the pain threshold of retailers in terms of manpower shortage have been reached. Going into the final quarter of the year, prime Orchard rents are expected to hold firm as the importance of branding via Orchard Road outweighs lukewarm retail sales.

Over in the suburbs, upcoming malls such as Big Box will enhance

the Jurong Lake District as one of Singapore's regional centres. Seletar Mall is also highly anticipated by its large population catchment. All in all, strong competition for retail space in suburban malls is expected, especially among retailers who are shifting their revenue generators from tourism sales to local consumption.

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