

Briefing Retail sector

November 2015



Image: Marina Square, Raffles Boulevard

SUMMARY

In the battle of bricks versus clicks, e-commerce is carving out a bigger share of sales in the retail market.

- After a 2.7% year-on-year (YoY) decline in June, retail sales (excluding motor vehicles) resumed growth in the two months thereafter, rising by 0.7% in July and 1.3% in August.
- Prime retail rents on Orchard Road continued softening in Q3/2015 with a quarter-on-quarter (QoQ) decline of 1.0% to S\$31.6 per sq ft per month. After an extended period of stability, the suburban market eventually fell 3.0% from the previous quarter to S\$30.2 per sq ft per month.

- The increase in island-wide vacancy levels slowed in Q3/2015, inching up by only 0.2 percentage points (ppts) to 7.0%. The retardation was due to Downtown Core vacancy levels which improved from 13.4% in the previous quarter to 11.7% in the quarter under review.

- In anticipation of new supply coming onto the market, landlords and asset managers of mature suburban developments are undertaking Asset Enhancement Initiatives (AEIs) to stay competitive.

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 “Unless tenants’ sales improve significantly, with landlords trying to outdo each other on AEI expenditure, the law of diminishing returns may manifest itself soon.”
 Alan Cheong, Savills Research

➔ **Macroeconomic overview**

After two quarters of sustained growth, Singapore's gross domestic product (GDP) has succumbed to the weak global environment. The economy grew by 1.4% YoY in Q3/2015, sharply lower than the 2.0% growth in the preceding quarter. The preliminary seasonally-adjusted total unemployment rate was 2.0% in September, unchanged from the previous quarter.

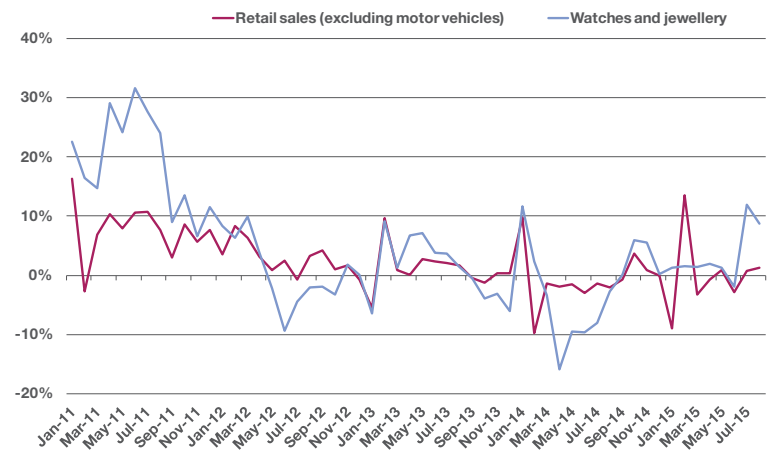
Following a 2.7% YoY decline in June, retail sales (excluding motor vehicles) resumed growth in the two following months, increasing 0.7% in July and 1.3% in August. With the SG50 long weekend, seasonally adjusted retail sales rose 3.7% month-on-month (MoM) in August. These figures coincided with higher tourist arrivals in July and August after a generally lacklustre performance in 1H/2015, increasing by 7.9% and 6.0% YoY respectively. However, tourists from Indonesia dipped 12.4% YoY in August – attributable to the steep depreciation of the Rupiah against the Singapore Dollar and the region's haze situation.

Market snapshot

Despite sluggish retail sales and tighter foreign labour supply, Singapore is still high on the list of Southeast Asia countries which international retailers want to set up a presence in. Higher end brands still beat a path towards the prime shopping districts of Orchard Road and Marina Bay Sands where the catchments of locals, foreigners and tourists are the highest, not to mention the prestige of being located in these prime shopping areas. Amongst them is the Apple store, which will be making its inaugural debut in the Republic in 2016 at Orchard's Knightsbridge.

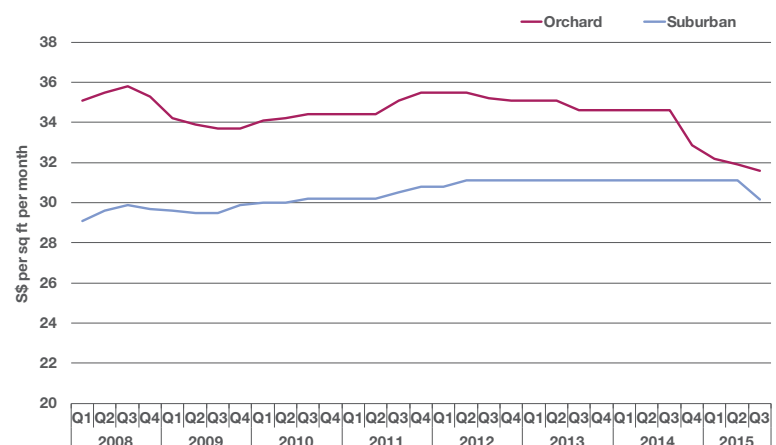
Nevertheless, some retailers have succumbed to the challenging retail environment. Club 21 and Wing Tai Asia were reported to be consolidating their businesses and reducing store count, with the former adjusting their product pricing to meet market expectations. Underscoring this is the spate of department store closures in 1H/2015. Where they once serve as "magnets" to draw crowds to different parts of the mall, these large mono-brand stores are being challenged in today's retail market.

GRAPH 1 **Growth of retail sales (excluding motor vehicles), YoY at current prices, Jan 2011–Aug 2015**



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, 2008–Q3/2015**



Source: Savills Research & Consultancy

On the upside, changing consumer trends also present opportunities for retail differentiation. Harnessing the rise of café culture in Singapore, retail stores are expanding their core offerings by building in-store cafes. Muji, the Japanese lifestyle brand known for their cult offering of minimalist products, revamped its flagship store at Paragon in September to include an in-store deli, Café&Meal Muji. The new Pedder on Scotts occupies the entire second floor of Scotts Square and features a café amidst its collection of luxury footwear and accessories.

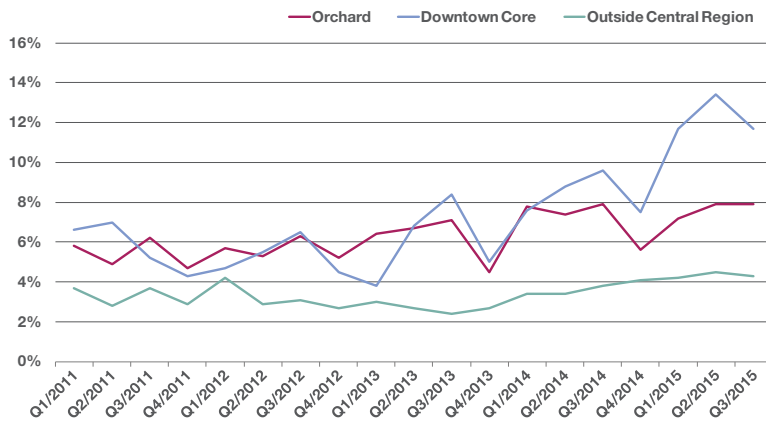
Rents & vacancy

Prime retail rents on Orchard Road continued to moderate in Q3/2015

with a decline of 1.0% QoQ to S\$31.6 per sq ft per month. After an extended period of stability, the suburban market eventually fell 3.0% from the previous quarter to S\$30.2 per sq ft per month, effectively widening the rental differential with its Orchard counterpart.

In Q3/2015, the increase in island-wide vacancy levels slowed to 0.2 ppts QoQ to 7.0%. The retardation in the increase in vacancy levels was due to a significant improvement in Downtown Core vacancy which improved from 13.4% in Q2/2015 to 11.7% in the quarter in review. Meanwhile, demand for retail space on Orchard Road continued to hold firm with the vacancy rate unchanged at 7.9%.

GRAPH 3
Retail vacancy rate, 2011 – Q3/2015



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

➔ **Orchard Road and the CBD**

Over in the CBD, following the opening of more food and beverage (F&B) outlets and advertising and promotion (A&P) initiatives, the newly-minted Capitol Piazza is finally seeing higher footfall. For the quarter under review, the mall saw the opening of a list of upscale flagship stores such as Dr. Martens, Korean skincare brand Sulwhasoo and British designer label Joseph. With the adjoining Eden Residences and The Patina Hotel coming up early next year, Capitol Singapore is shaping up to its full potential as a historical landmark.

At Orchard Road, fresh entrants to ION Orchard include French-Italian

apparel Moncler and homegrown lifestyle brand In Good Company. These entities are opening their first standalone stores in Southeast Asia and Singapore, respectively. At Takashimaya Shopping Centre, Italian designer label MSGM makes its Southeast Asian debut, while Mango unveiled its 12,900-sq ft store in Wisma Atria - the region's largest - in September.

Emporium Shokuhin was a new entrant to Marina Square in September and features eight Japanese dining options plus an adjoining supermarket. Similarly feeding off Singapore's obsession with Japanese cuisine, Suntec City unveiled Eat at Seven, a multi-concept agglomeration of seven Japanese restaurants.

City Fringe and Suburban

Department store closures have hit the city fringe in Q3/2015. Metro ceased operations at Compass Point in Sengkang in August and will be closing its other store at City Square Mall in Farrer Park in December.

In the suburban market, IMM at Jurong continues to attract upscale brands into its tenant-mix of outlet stores. Outlet by Club 21 opened its doors in September, carrying the multi-brand retailer's designer wear at discounted prices.

Future supply

From Q3/2015 to 2019, an estimated 5.1 million sq ft of retail space is in the pipeline, 74% of which will be located in suburban areas. As a hedge against recently completed or upcoming malls, landlords of mature suburban developments are embarking on AEI to stay competitive. For example, Tiong Bahru Plaza has embarked on a S\$90.0 million refurbishment to expand its retail footprint by 25,000 sq ft and rejuvenate its tenant-mix for a younger catchment. IMM is on the second phase of its AEI to convert space into outlet stores, which upon completion at year-end will bring the total to over 80. Meanwhile, Bukit Panjang Plaza has AEI works scheduled for Q4/2015 to give it a fresh façade and free up 18,000 sq ft of commercial GFA. ■

OUTLOOK

The prospects for the market

The retail leasing landscape is evolving in tandem with consumer trends, which are increasingly driven by technology. In the battle of bricks versus clicks, e-commerce has in recent years been carving out an increasing share of sales in the retail market - the Senior Minister of State of the Ministry of Trade and Industry and Ministry of National Development at the Singapore Retail Industry Conference in September said that on-line spending rose from

S\$1.08 billion in 2014 to S\$1.22 billion in 2015, a growth of 13%. Traditional brick-and-mortar retailers need to move beyond the limitations of their shop fronts and craft new business strategies to remain relevant in today's retail scene. For mall landlords, this entails having to adapt their tenant-mix to customer catchment and consolidating mall positioning to boost repeat visits by patrons. While AEIs and A&Ps may be the way forward, landlords also have to be sensitive to their tenants' financial status in this

period of weak retail performance. Thus far, this has not happened because after each AEI, the higher rental revenue collected justified the capital expenditure. However, this time round, it could be different because if little is done to improve tenants' sales and profit margins, the race for more expensive AEIs may yield diminishing returns.

On the issue of both landlord and tenants trying to develop an e-commerce wing to their business,

OUTLOOK

The prospects for the market

it must be said that blindly committing to an online presence may be futile. This is because the online competition is global and no matter how one tries to compete in the area of product pricing, there is a high chance that someone somewhere can deliver it more cheaply. Instead, retailers should focus on brand loyalty to create an established community of patrons who may look beyond price point and commit to the purchase.

For the next two quarters, the traditional retail sales drivers are expected to look up. The tourism industry is on the path to recovery and retail sales are expected to spike during the festive December period. Leveraging on these factors, the retail market has opportunities for improvement in the near-term.

Please contact us for further information

Savills Singapore

Savills Research



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



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

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