

# Briefing Retail sector

February 2015

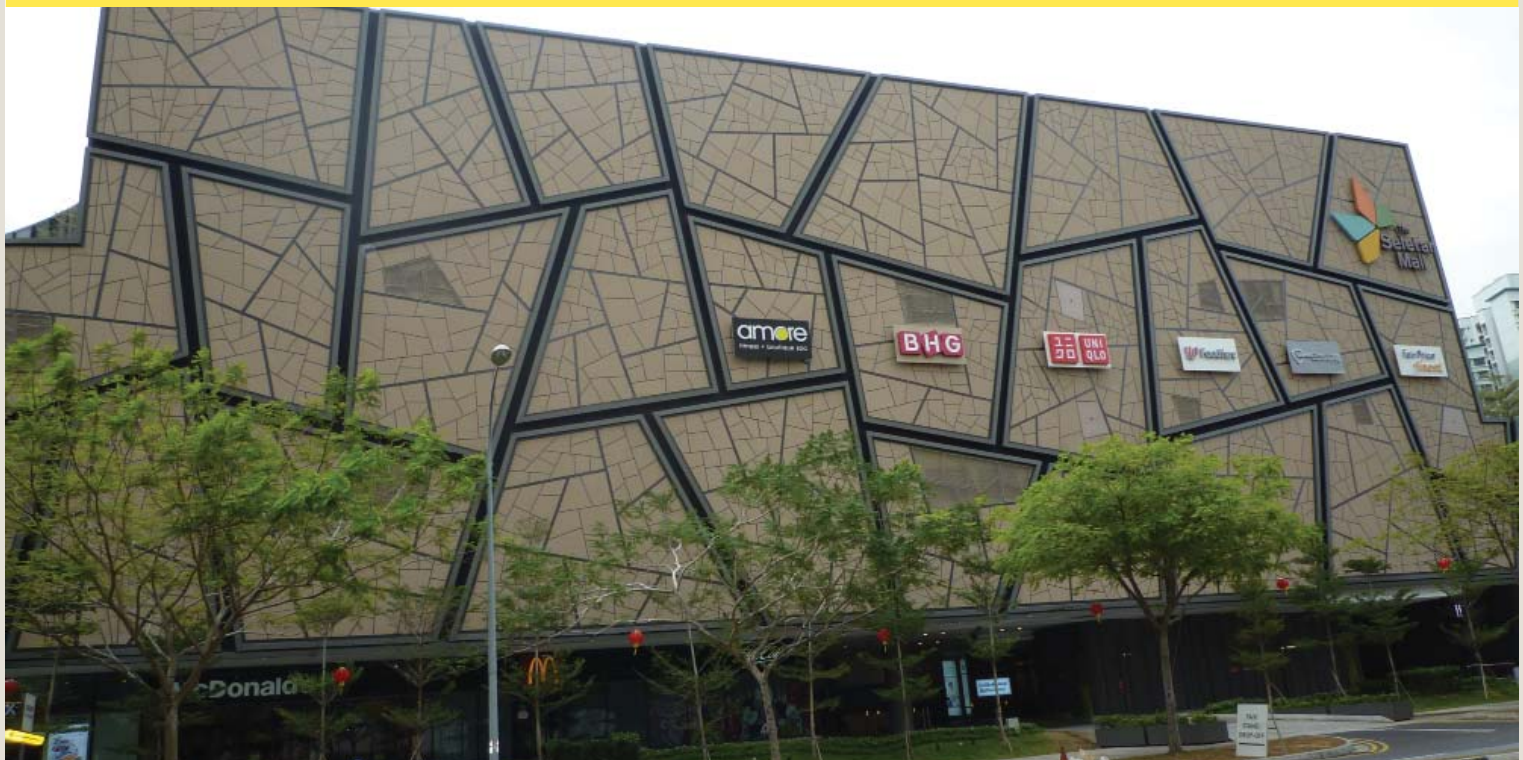


Image: The Seletar Mall, Sengkang West Avenue

## SUMMARY

Demand for retail space is being given a boost by landlords' flexibility.

- Retail sales (excluding motor vehicles) saw no uplift in Q4 as tourist arrivals have been weak.
- A 5.0% quarter-on-quarter (QoQ) easing in prime rents on Orchard Road to S\$32.9 per month triggered a rise in demand leading to lower vacancy in the area.
- Crate & Barrel has opened a five-storey megastore at orchardgateway@emerald.
- Supply of new retail space in 2014 came mainly from the suburban area, while 2015 will see more new completions in the central area such as Capitol Piazza and 268 Orchard Road.
- Rents in 2015 are expected to face downward pressure, with prime rents on Orchard Road forecast to recede by between 3.0% and 5.0% and suburban malls by up to 3.0%. However, vacancy rates are still likely to remain low because any easing of rents would see revived interest from potential tenants.

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 "It appears that landlords in the prime shopping districts are beginning to hold out olive branches to retailers, many of whom are confronted with the twin woes of higher fixed costs and lower sales."  
 Alan Cheong, Savills Research  
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➔ **Macroeconomic overview**

Singapore's gross domestic product (GDP) growth in Q4/2014 is estimated to be a weak 1.5% YoY with the full-year growth expected at 2.8% YoY. The preliminary seasonally-adjusted unemployment rate was at 1.9% in December.

The retail market remained tepid in the final quarter of 2014 as retail sales (excluding motor vehicles) dipped 0.4% year-on-year (YoY) in November. This is largely due to the slower 1.9% YoY growth of international tourist arrivals in

October and November, in particular the number of Chinese tourists remained low, having slumped in the aftermath of the missing MH370 incident. The strong Singapore dollar also has a part to play in the declining tourism demand.

November saw the continued growth of the F&B segment with a 2.5% increase YoY. Although the watches and jewellery segment – the usual indicator for discretionary expenditure – grew 3.9% YoY, making November its third consecutive month of expansion, it should not be interpreted as a revival

of discretionary expenditure as the base for the growth was the lowest in the past three years. October and November experienced a burst of buying activity of watches in anticipation of a price hike due to the upcoming lifting of the currency cap between the Swiss franc and the Euro. We expect this strong growth in the sales of watches to continue into January.

**Rents**

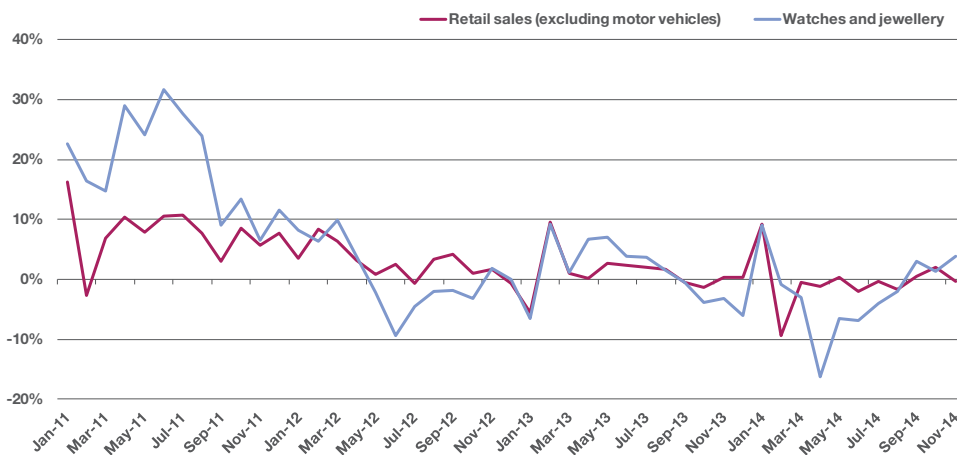
Landlords in the Orchard precinct have begun to hold out olive branches to retailers in the face of an increasingly difficult business environment. Consequently, prime retail rents on Orchard Road moderated by 5.0% to S\$32.9 per sq ft per month in Q4/2014. This is the first decline after four consecutive lull quarters. The lower rental level is a welcome move for retailers who have been facing high operation costs, lower retail sales and manpower constraints. On the other hand, prime suburban mall rents continued to hold firm at S\$31.1 per sq ft per month in the same quarter as businesses remain resilient in these malls that serve a large population catchment.

As the rental gap between the prime Orchard and suburban malls narrows, retailers are beginning to turn their interest to retail space in Orchard Road, where the easing of rents led to an increase in take-up as evidenced by the fall in vacancy rates by 2.3 percentage points (ppts) QoQ to 5.6% in Q4/2014. That said, this has not led to a decline in demand for suburban mall space as seen from the near full occupancy of Seletar Mall (99.6%) and OneKM (over 90.0%) which opened in November 2014. We observe that demand for suburban retail space continues to be led by supply and that retail space is becoming increasingly diversified.

**Orchard Road and the CBD**

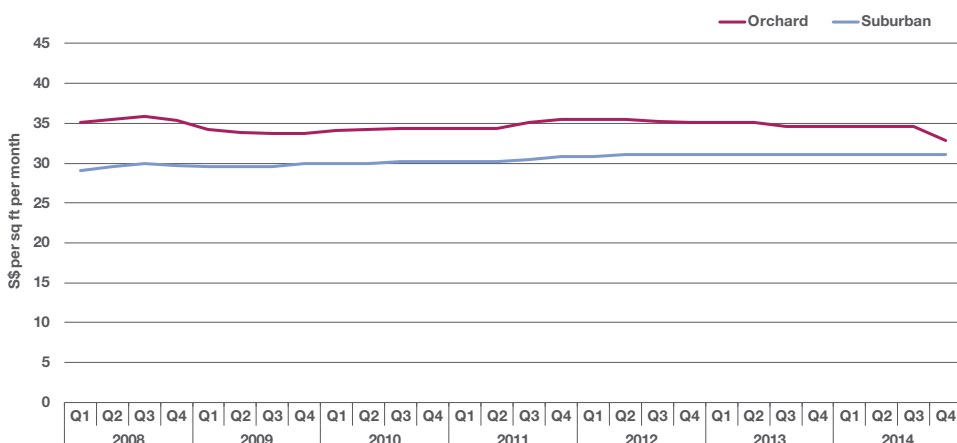
Several new brands entered the market and some existing retailers opened flagship stores in Orchard Road as well as in the CBD during the reviewed quarter. The largest store that opened on Orchard Road was the five-storey Crate & Barrel megastore at orchardgateway@

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



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2 **Prime retail rents, 2008–Q4/2014**



Source: Savills Research & Consultancy

→ emerald. Ermenegildo Zegna set up its 3,681-sq ft South-East Asia flagship store at Paragon. Italian leather goods brand Giudi and Spanish fashion retailer Bimba Y Lola have each opened a flagship store at Mandarin Gallery, which also secured new-to-market beauty brand Elevatione. While newcomer Pie Face made its foray via 313@Somerset, ION Orchard was the choice of Vacheron Constantin for its first Singapore flagship store, and Chow Tai Fook for its only standalone jewellery store in Singapore.

Over in the CBD, The Shoppes at Marina Bay Sands saw men's fashion brand Boggi Milano opening its first Singapore store. Other flagship stores have also opened at Raffles City such as fashion brands Agnès b and Jack Wills, the latter marking its entry into the Singapore retail scene. Smartphone manufacturer, OPPO, established its first flagship store, spanning approximately 2,200 sq ft at Suntec City Mall.

### Future Supply

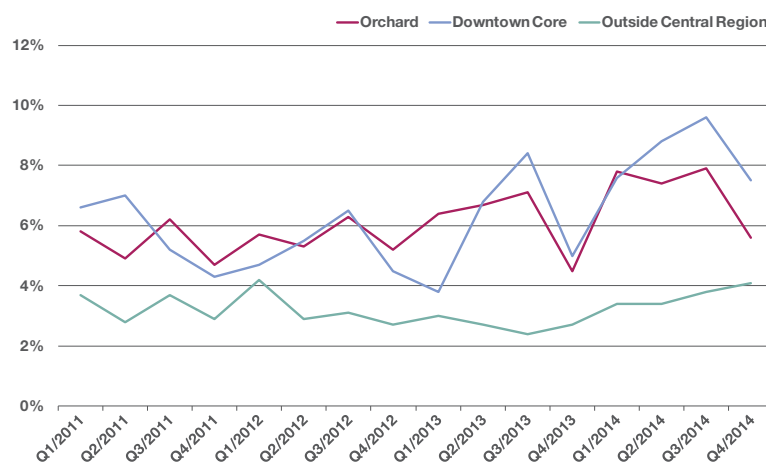
2014 has been a year of burgeoning new supply in the suburban area, with locations such as Big Box, Seletar Mall, One KM and Kallang Wave Mall, while the central area has

only orchardgateway to boast about. In 2015, attention will focus again on the Orchard Road area and CBD where the retail scene will see the debut of 268 Orchard Road, Capitol Piazza and the National Gallery Singapore.

The increased competition among the malls located in the heart of Singapore is expected to provide a more varied shopping experience.

Landlords who are able to attract reputable new-to-market retailers/tenants can expect higher visitorship from shoppers. However, any upward rental expectations may have to be re-evaluated in the light of retailers' multi challenges of weak tourist arrivals, slow retail sales and high fixed overheads. Landlords will also have to be mindful of the increasing supply of new retail space in 2015. ■

GRAPH 3 Retail vacancy Rate, 2011–Q4/2014



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

TABLE 1 Major projects in the pipeline, 2015–2018

Development	Location	Estimated NLA (sq ft)	Estimated completion
Capitol Piazza	Stamford Road	132,000	Q1/2015
National Gallery Singapore	St Andrew's Road	40,000	Q4/2015
South Beach	Beach Road	60,000	Q4/2015
Waterway Point	Punggol Central	370,000	Q4/2015
268 Orchard Road	Orchard Road	96,000	2H/2015
Downtown Gallery	Shenton Way	160,000	Q1/2016
Hillion Mall	Jelebu Road	168,000*	1H/2016
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%.

# OUTLOOK

## The prospects for the market

Singapore's economic growth is forecasted to be at a moderate pace, ranging between 2.0% and 4.0% in 2015, while the International Monetary Fund (IMF) has lowered its global economic growth projections to 3.5%. Hence, slower retail sales (excluding motor vehicles) may continue to loom due to weaker tourism and economic development.

Rents in the prime Orchard Road area are expected to face

downward pressure in 2015 due to cost pressures, labour matching difficulties and slower sales. These lower rents may have a domino effect on prime suburban rents as suburban malls strive to remain sufficiently competitive in order to attract/retain tenants. Hence, we forecast rents in prime Orchard to recede between 3.0% and 5.0% and prime suburban malls to fall by up to 3.0%.

TABLE 2 **Rental growth forecast, 2015F-2016F**

Year	Growth (%)	
	Prime Orchard	Prime Suburban
2015	-3% to -5%	0% to -3%
2016	0%	0%

Source: Savills Research & Consultancy

## 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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