

Briefing Retail sector

March 2016



Image: Suntec City, Temasek Boulevard

SUMMARY

With existing and new-to-market retailers continuing to take up new space selectively, there is some positive news even if business conditions remain challenging.

- Retail sales (excluding motor vehicles) in October, November and December came up short against comparable monthly figures in 2014, with declines of 4.5%, 2.1% and 3.6% respectively.

- Prime retail rents in Orchard inched down 0.2% quarter-on-quarter (QoQ) to S\$31.5 per sq ft per month, while rents in the suburban market fell 0.6% QoQ to S\$30.0 per sq ft per month.

- Island-wide vacancy levels worsened by 0.2 percentage points

(ppts) to 7.2% in Q4/2015, brought about by a 1.2 ppt increase in suburban vacancy to 5.5%. On a brighter note, Downtown Core and Orchard Road vacancies improved by 1.3 ppts and 0.3 ppts QoQ respectively.

- Between 2016 and end-2020, an estimated 8.9 million sq ft of retail space is in the pipeline, with the majority of such space coming up in the suburban market.

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 “When tenants are still signing up for additional space despite business in general not faring well, some opportunities clearly exist for the right price.”
 Alan Cheong, Savills Research

➔ **Macroeconomic overview**

Amid the challenging global economic environment, 2015 came to a close with little fanfare. Singapore's gross domestic product (GDP) posted a 1.8% year-on-year (YoY) increase in Q4/2015. The full-year growth came in at 2.0% YoY, down from the 3.3% recorded in 2014. However, preliminary figures for the seasonally-adjusted total unemployment rate was low at 1.9% in December, an improvement of 0.1 of a ppt from the previous month.

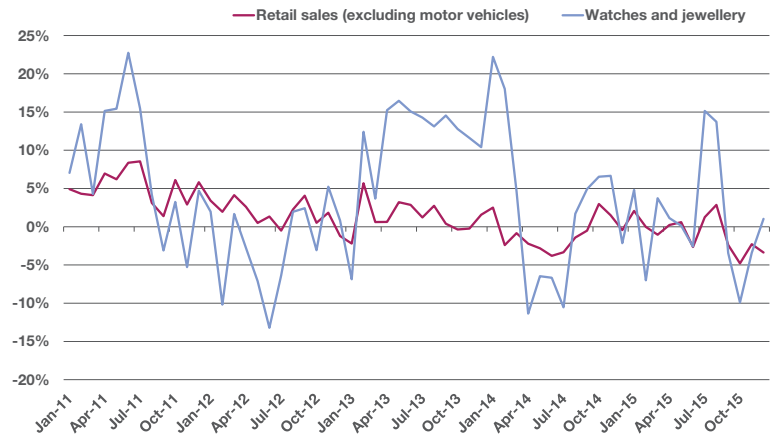
The last three months of the year have traditionally been the busiest for retailers. However, in 2015, business activity was subdued. Retail sales (excluding motor vehicles) in October, November and December came up short against comparable month figures in 2014, with declines of 4.5%, 2.1% and 3.6% respectively. Further weakness was seen in December when, in constant dollar terms, the food & beverage (F&B) sector saw the third month of double digit YoY declines (10.3%), highlighting that even the perceived resilience in this sector is losing its shine.

Singapore received a total of 3.9 million tourists in Q4/2015, bringing the full-year total to 15.2 million tourists, a 0.9% YoY increase from 2014. Owing to relatively weaker exchange rates, visitors from Indonesia and Malaysia fell in 2015, whereas visitors from China returned with a vengeance – recording a steep 22.3% YoY increase. Nonetheless, the overall tourism industry remains relatively weak, raking S\$22.0 billion in tourism receipts for the whole of 2015, down from S\$23.6 billion in 2014.

Market snapshot

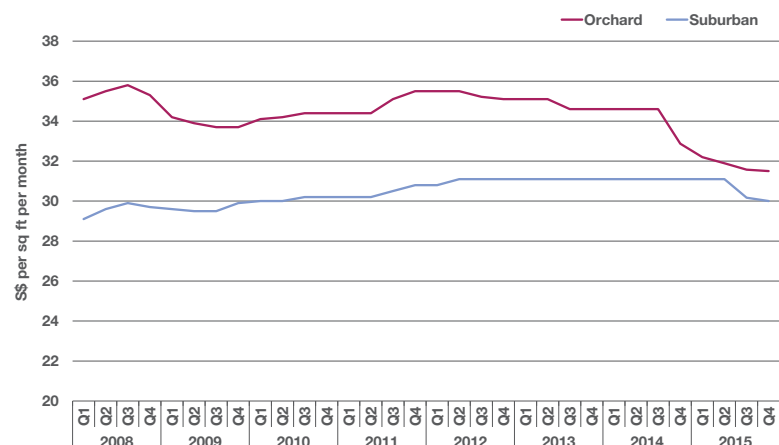
On 27 November 2015, Black Friday – modelled after an American 'tradition' – kicked-off the year-end holiday shopping season, with between one and four days of steep discounts and promotions. Together with its online cousin, Cyber Monday, compared to the previous year, Black Friday saw an increase in the

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



Source: Singapore Department of Statistics, Savills Research & Consultancy

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



Source: Savills Research & Consultancy

number of participating retailers and shoppers. The bulk of the sales were offered and transacted online via e-commerce retailers such as Zalora and Lazada.

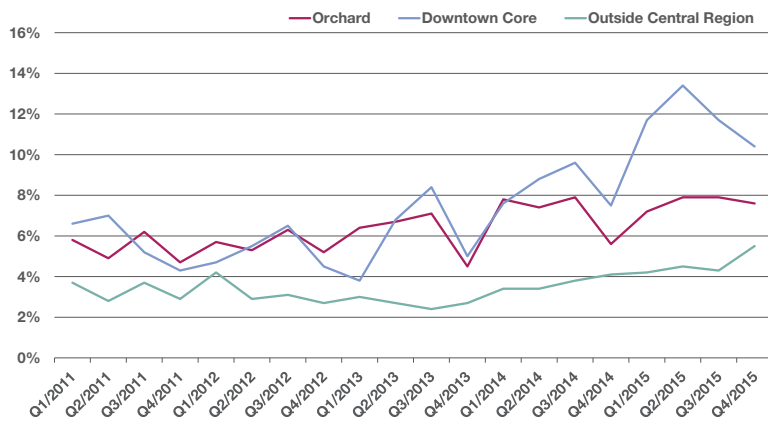
Besides online platforms, mobile devices and applications are also increasingly becoming common amongst Singaporean shoppers. A 2014 Deloitte survey puts smartphone penetration in Singapore as the highest globally, with online purchases being one of the most common mobile payment activities. With the Apple Pay digital wallet service extending its reach to Singapore in 2016,

contactless payments will soon be the new-normal and this changes the way consumers spend. For both traditional and E-tailers, it is therefore important to create seamless online and mobile shopping experiences for their customers in order to grow their e-commerce revenue. This can include mobile applications with user-friendly interfaces that also support secured mobile payment systems.

Rents & vacancy

The rate of rental decline slowed in Q4/2015. Prime retail rents in Orchard inched down 0.2% QoQ to S\$31.5 per sq ft per month, while rents in the suburban market fell 0.6% QoQ

GRAPH 3
Retail vacancy rate, 2011–2015



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

→ to S\$30.0 per sq ft per month. On a YoY basis, for Q4/2015, Orchard and suburban rents fell 4.2% and 3.5% respectively. With regards to occupancy, island-wide vacancy levels inched up by 0.2 of a ppt to 7.2% in Q4/2015, with vacancy in the suburban area rising 1.2 ppts to 5.5%. However, for the Downtown Core and Orchard Road area, vacancies improved by 1.3 ppts and 0.3 of a ppt QoQ respectively.

Amid economic uncertainties and challenges wrought on the retail market from e-commerce, landlords are restructuring their leasing strategies to forge win-win partnerships with tenants. On top of the standard three-year lease term, landlords are also offering leases in the range of three to six-months or one to one-and-a-half years, with the former mostly targeted at pop-up stores. Shorter-term leases bode well with retailers who need a ‘test-bed’ space for their products and should their ideas fall through, be able to make an early exit without being bogged down by rental liabilities. For landlords, it means not being saddled with rental arrears or stale tenants that compromise its mall positioning.

At the other end of the spectrum, some tenants are taking advantage of softer rents in the retail market to position for the long-haul. Victoria’s Secret and Michael Kors are opening their first flagship stores

in Singapore at Mandarin Gallery after signing ten- and seven-year leases respectively. French sporting goods retailer Decathlon took on an exceptionally long lease term of more than 15 years for its 35,000-sq ft outlet at Viva Business Park in Chai Chee. Such signage carries certain advantages in that apart from rental stability and higher footfall, landlords can also leverage on these marquee brands to draw other big-name retailers to their malls.

Orchard Road and the CBD

In October, the S\$410 million worth of asset enhancement initiative (AEI) works at Suntec City’s North Wing was officially unveiled. The AEI had been three years in the making and included the conversion of spaces into retail use which effectively increased its retail footprint by 105,000 sq ft to approximately 960,000 sq ft. The rejuvenated Suntec City also boasts new tenants, amongst them, Mporium – a multi-label boutique that exclusively carries Asian labels – and concepts like the new Sky Garden at the North Wing which houses 13 restaurants offering both indoor and al fresco dining options.

In other news, flagship stores continue to sprout around the island and retailers are upping the ante by curating unique experiences for their customers. Offering in-store

customisation services, outdoor lifestyle brand Timberland opened their first Southeast Asia concept boutique at Raffles City Shopping Centre. In December, Australian electronics retailer Harvey Norman opened its three-storey, 100,000-sq ft flagship outlet at Millenia Walk – making it the largest electronic and household appliance department store in the CBD. Following suit, luxury fashion house Valentino opened its largest boutique in Singapore. This is a 3,700-sq ft store at The Shoppes at Marina Bay Sands.

Joining the ranks of new entrants to the republic in the quarter in review are multi-label brands L’armoire at Raffles Hotel Shopping Arcade, Bao Bao Issey Miyake at ION Orchard and Latvian beauty brand Stenders which opened its flagship store at Plaza Singapura in October.

City Fringe and Suburban

A number of mixed-use government land sales sites located in the suburban areas and sold in the last three years are now about to be completed. In Q4/2015, there were three such completions, namely, Waterway Point (342,300 sq ft) in Punggol; The Promenade@Pelikat (84,000 sq ft) in Kovan; and Junction Nine (79,700 sq ft) in Yishun. Prior to its official opening in January 2016, Waterway Point managed to secure a 90.0% take-up of its retail space, with anchor tenants such as FairPrice Finest supermarket, Shaw Theatres and Times Bookstore. White Sands, a mall completed in the 1990s and located in Pasir Ris, opened after its 18-month long, S\$40-million transformation with a fresh façade and 57 new shops.

Upscale brands are uprooting themselves from prime shopping districts and moving closer to their customers in the suburban markets. In December, luxury watch retailer The Hour Glass opened its first outlet at Parkway Parade in Marine Parade – the first suburban store to carry Rolex watches. In the same

TABLE 1
Major projects in the pipeline, 2016–2020

Development	Location	Estimated NLA (sq ft)	Estimated completion
Downtown Gallery	Shenton Way	160,000	2016
Tanjong Pagar Centre	Wallich Street	100,000	2016
Our Tampines Hub	Tampines Avenue 4	87,500*	2016
1 Sengkang Mall AEI	Sengkang Square	289,900*	2017
Singapore Post Centre AEI	Eunos Road 8	188,400*	2017
Hillion Mall	Jelebu Road	154,400*	2017
Marina One	Marina Way/Straits View	140,000	2017
Project Jewel	Airport Boulevard	576,000	2018
Northpoint City	Yishun Central 1	330,000	2018
Funan DigitalLife Mall AEI	North Bridge Road	375,800*	2019
Northshore Plaza	Punggol Way	63,900*	2020

Source: Company announcements, URA, Savills Research & Consultancy
*Savills estimation, based on an efficiency rate of between 65% and 70%.

month, luxury brand Chanel opened its beauty and fragrance store at Jem in Jurong East.

Elsewhere, popular fashion brand H&M moved into its first outlet in the east in October – a 19,500-sq ft duplex space at Tampines Mall, where AEI works are still on-going until Q1/2017. Adding to the stock of outlet stores at Jurong East's IMM in this reviewed quarter are fashion brands Onitsuka Tiger, British India and Juicy Couture.

Future supply

From the numerous malls adding capital expenditures to enact a transformation, the buzz word

among mall owners these days is AEI works. For example, Orchard Central is set to undergo a major revamp to introduce new escalators and reconfigured walkways by Q3/2016, with Uniqlo reportedly taking up a three-storey space at the mall. Then, Funan DigitalLife Mall along North Bridge Road will cease operations in Q3/2016 for a three-year redevelopment to add another 388,000 sq ft of GFA. Over at the Centrepoint and Plaza Singapura, AEI works are still on-going with completions set for 2H/2016 and Q4/2016 respectively. In the suburban area, Compass Point in Sengkang has closed for AEI works and will re-open in 2017 with a new name – 1 Sengkang Mall.

Between 2016 and end-2020, an estimated 8.9 million sq ft of retail space is in the pipeline, with the majority of such space going to the suburban markets. In the CBD there is approximately 1.7 million sq ft of retail space under construction, mostly in developments that also have a substantial office component. ■

OUTLOOK

The prospects for the market

Although business conditions for Singapore's retail market may be generally challenging, retailers, particularly international and established brands, still find the sector attractive. Consumers in Singapore are known for their strong product knowledge and affinity for product quality, making the country an ideal launchpad to Southeast Asia. Nonetheless, despite the weak performance in 2015, the F&B sector should on paper be less affected by e-commerce and will most likely be the key driver to shore up retail space demand.

For 2016, the Singapore Tourism Board (STB) forecasts 15.2 million to 15.7 million visitor arrivals, or a growth of between zero and 3.0%. Correspondingly, tourism receipts are expected to come in at between S\$22.0

billion and S\$22.4 billion for 2016, or an annual growth rate of about zero to 2.0%. Coupled with STB's continued commitment towards generating awareness of Singapore as an attractive holiday and meetings, incentives, conventions and exhibition (MICE) destination, the industry is poised to remain relevant amid intensifying competition from regional destinations.

Looking ahead, the retail space market is expected to hold up, even as extraneous factors such as economic uncertainties and the relatively strong Singapore dollar continue to weigh on the tourism and retail industries. While occupancy in the CBD may trend down from the increase in supply, there may be spillover demand from the Orchard area where there is a limited stock of retail space. Judging from the expansion plans of some established

retailers here, an encouraging slew of new-to-market entrants coming through in the final quarter of 2015, and hope of better footfall for malls completing the AEI works, for 2016, Singapore's retail space scene may still be able to ride out the rough patch that retailers in general are facing, with only a mild downside of 3-5% in rents for both Orchard Road and suburban malls.

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