

Briefing Retail sector

August 2017



Image: Downtown Gallery, 6A Shenton Way

SUMMARY

The retail industry is being reshaped by mega-trends like retailtainment, concept stores and omni-channelling.

- Retail sales (excluding motor vehicles) continued growing in June, with a 2.7% year-on-year (YoY) growth, mainly fuelled by the sales of watches and jewellery which surged 15.2% YoY.

- The island-wide vacancy rate of retail space increased, rising 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) to 8.1% in Q2/2017, marking the second highest vacancy level, after the 8.4% in Q3/2016.

- As suburban retail occupancy improves, suburbs' prime monthly

rents recovered 0.7% QoQ to S\$28.20 per sq ft, the largest increment since 2012. Monthly rents for shops at Orchard Road continued to show resilience and held firm at S\$29.90 per sq ft, as falling demand for retail space in that location is beginning to show signs of stabilisation.

- With brick-and-mortar retail exploring different avenues, including retailtainment and concept stores, and e-retailers venturing into phygital expansion and opening more points of collection, this is likely to result in

some demand for physical retail space despite closures of the non-performing stores.

.....
 "After a prolonged spell of under performance, the retail market is starting to find its footing in the new digital norm."
 Alan Cheong, Savills Research

➔ **Macroeconomic overview**

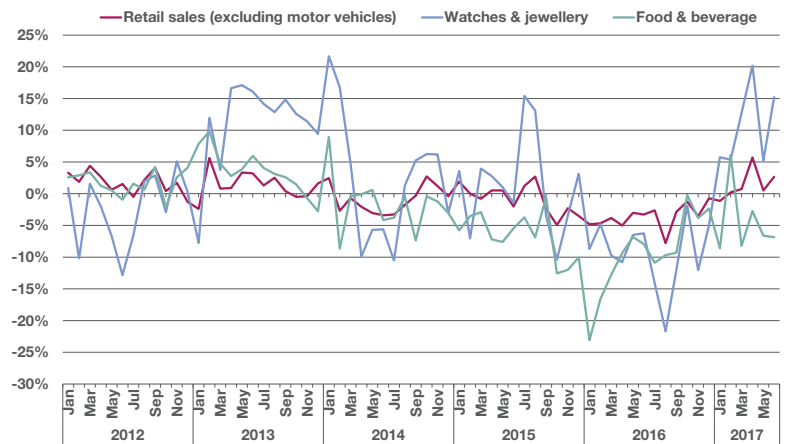
According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded 2.9% YoY in Q2/2017, exceeding the economists' expectations of a 2.7% growth. Apart from services, which grew 2.4% YoY, the expansion was mainly led by the 8.1% YoY increase in the manufacturing sector.

However, the pick-up did not translate into stronger employment numbers. Although retrenchment and resident unemployment came in lower than the preceding quarter, the numbers of employed workers continued to drop, and layoffs remained high due to business consolidation and reorganisation, as well as the decrease in work permit holders in the construction and manufacturing sectors.

Despite the sustained weak consumer spending amid the sluggish growth environment, retail sales (excluding motor vehicles) surged 5.7% YoY in April, recording the highest record of improvement since the previous peak in 2011. It was mainly contributed to by the sales of watches and jewellery, which saw the biggest increase of 20.2% compared to April 2016. The food & beverage (F&B) segment continued to fall 2.7% YoY in April, as people are less inclined to visit restaurants; turnover of fast food outlets did better, probably because of budget tightening among consumers. Retail sales rose for four straight months in May, but at a slower rate of 0.6% YoY. Alongside the 6.6% and 7.2% YoY drop in sales performance of the F&B and wearing apparel & footwear segments, respectively, the sales of watches and jewellery grew 5.2% YoY in May. For the month of June, retail sales growth continued at 2.7% YoY, largely fuelled again by the sales of watches and jewellery, which surged 15.2% YoY.

Retail expenditure for the months of April and May coincided with a 5.5% YoY growth in tourist arrivals in April and a 0.4% YoY increase in May. This could imply that the jump in sales was driven by tourist expenditure, rather than local spending. Given the slow economy, weak employment market and the rise of e-commerce platforms,

GRAPH 1 **Growth of retail sales (excluding motor vehicles), YoY at constant prices, Jan 2012–Jun 2017**



Source: Singapore Department of Statistics, Savills Research & Consultancy

domestic consumption is unlikely to be able to grow retail sales on its own.

Market snapshot

The retail landscape, as well as the use of the space, is constantly evolving to adapt to shifting consumer behaviour and disruptive technologies. It no longer solely involves a purchase transaction, but also an experience. Instead of competing with online channels, which are likely to see further growth in the near term, retail players are integrating different kinds of offerings, to provide an experience which cannot be replicated online. This is the concept of 'retailtainment', which involves a fusion of the traditional retail offering with entertainment-driven and lifestyle add-ons to create a unique in-store experience, thereby raising footfall to the mall.

The upcoming new mall, Funan, emphasises experiential retail to entice consumers to stay longer in the mall. Besides entertainment elements such as a cinema and rock climbing facility, the new mall will also include a theatre company which will design and operate a 380-seat theatre. To further enhance the overall shopping experience, there will also be workshops and spaces for consumers to try out new technologies and products.

To keep pace with the market, the retailer Challenger opened its 14,000-sq ft flagship store at Bugis Junction in late-April. Rather than adopting the

typical product display, the new store presents them based on lifestyle lines, with experiential areas and displays within 15 concept zones.

In May, a multi-concept space for shopping, dining and art, Steamroom with the Pillar and Stones (SRPS), opened in Orchard Central. The 5,000-sq ft store is divided into three sections and includes a brewing area, fine dining restaurant, retail outlets and an art lab for classes, workshops and jamming sessions. Also in May, Apple launched its first official store in Singapore at Knightsbridge mall. While the first storey showcases their product range, a large section on the second storey is occupied by The Forum, where complimentary hands-on sessions are conducted.

This retailtainment concept is not only commonly seen in the main shopping districts; suburban malls are also doing the same to increase their footfall. In July, VivoCity is to open VivoCity Kids Club, which takes up two levels of the mall. Besides adding a new fun element to the mall, this new addition also helps to strengthen the mall's positioning as a family-friendly mall and encourage more visits from families with young children.

Orchard Road & the CBD

Although the economy and employment market may be tepid, some high-end brands are still doing well. In May, a number of

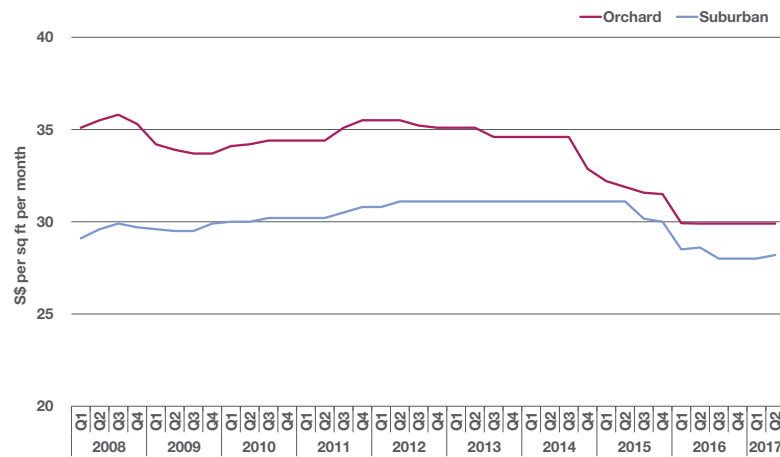
→ them expanded their retail footprint, especially at premier luxury shopping destinations.

For example, luxury Swiss watchmaker Breguet Singapore upgraded from a 1,237-sq ft store to a larger unit of 1,442 sq ft at The Shoppes at Marina Bay Sands (MBS). La Perla Singapore, an Italian luxury lifestyle brand which had its first local boutique at The Shoppes at MBS, launched its second branch in the Takashimaya Shopping Centre. The product range extends from lingerie to women’s wear, with the new store taking up 1,959 sq ft. The German luxury brand, Hugo Boss, has opened its first standalone boutique in Changi Airport Terminal 3. Taking up almost 1,023 sq ft of space, the new branch mainly targets long-haul business passengers, offering its classic menswear range Boss Black as well as sportswear. In June, French luxury retailer Chanel opened a new 3,000-sq ft standalone boutique, offering consumers a different shopping experience. Its branch at The Shoppes at MBS has been closed for fit-out for expansion.

Singapore remains a popular destination among brands which are expanding to Southeast Asia. A Japanese eyewear chain, Zoff, which is looking to expand into Southeast Asia, opened a flagship outlet at Orchard Central in April. As part of the plan to establish its presence in Asia, Paul & Shark Singapore also introduced its first outlet at MBS in May. In June, the Japanese luxury skincare brand, Cle de Peau Beaute opened a 1012-sq ft flagship store at Mandarin Gallery. As a showcase for the label in Asia, the new concept store is designed to provide consumers with experiential shopping. At the South Promenade of The Shoppes at MBS, The Bird Southern Table and Bar also launched its first international outlet, a two-storey restaurant, in July.

Regardless of the importance of having e-platforms, physical stores still remain crucial to providing the shopping experience that cannot be achieved in e-stores. Therefore, retailers have started to focus on ‘phygital’ expansion – expanding their online and offline customer outreach. Online fast-fashion brand Pomelo opened a pop-up store at Tangs department store on Orchard Road, to create a tactile experience for the customers.

GRAPH 2 Prime retail rents, 2008–Q2/2017



Source: Savills Research & Consultancy

In the new mall Downtown Gallery, which had its soft opening in May, an online kidswear label, Le Petit Society, established its first brick-and-mortar store in June.

City Fringe & Suburban

Following on from the concept of developing Singapore Post Centre as a smart mall with e-commerce logistics services, sporting goods retailer Decathlon Singapore also launched a new 43,056-sq ft e-commerce hub at the FairPrice Hub at Joo Koon. Besides the usual retailing, the new hub will also provide same-day deliveries from June for orders made on the new website. Physical stores also serve as a point of collection for shoppers to collect their online purchases.

The F&B industry in Singapore has been encountering issues such as rising operating costs and weaker consumer spending. Owing to soaring of prices and weakening of economy, fast-food outlets and food caterers, with their economies of scale, are performing slightly better, while cafes and especially restaurants have been experiencing a significant decline in sales, thus dragging down the overall F&B retail sales.

Nonetheless, there are some F&B restaurants which still see potential in the local market. In addition to the outlets at 313@Somerset, Clarke Quay, IMM and Vivocity, Chinese hot-pot restaurant Hai Di Lao Singapore opened its fifth branch in another

suburban mall, Bedok Mall, in May. Gokoku Japanese Bakery also set up its new store at the end of May in the basement of Jurong Point shopping centre. A new Mediterranean restaurant and delicatessen call Bakalaki Greek Taverna also started operations in Tiong Bahru.

Rents & vacancy

The retail market did not fare well in Q2/2017, due to factors such as cautious consumer sentiments, declining retail sales and rising business costs. According to the latest figures released by the Urban Redevelopment Authority (URA), the island-wide vacancy rate of retail space rose by 0.4 of a ppt QoQ to 8.1% in Q2/2017. This marks the second highest recorded vacancy level, after the 8.4% in Q3/2016, since the new URA time series was constituted in 2011.

After a full-year decline, the increase of 151,000 sq ft in suburban retail demand far exceeds the net new supply of 86,000 sq ft, hence easing the vacancies of suburban retail spaces by 0.3 of a ppt QoQ to 7.0%. However, the improvement was largely outweighed by the 1.1 ppts QoQ rise in retail vacancy rates in the Fringe Area to 8.4%, which is merely 0.1 of a ppt below the highest vacancy level recorded in Q1/2016. This was largely due to the 172,000 sq ft of net new supply of retail space, as the Singapore Post Centre received its Temporary Occupation Permit (TOP) in the quarter.

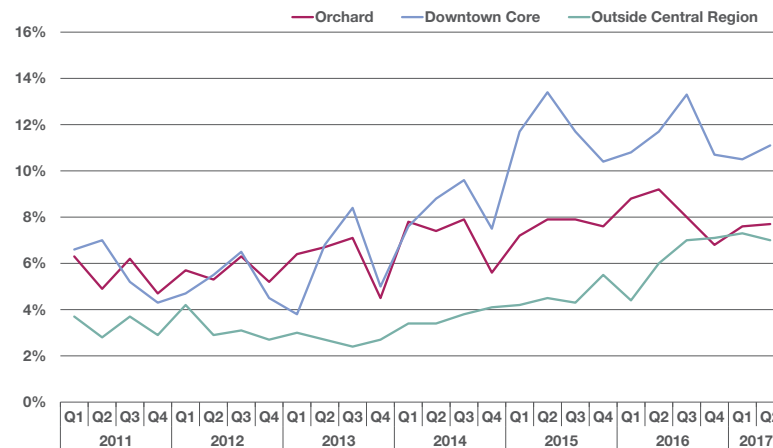
➔ Likewise for the Downtown Core Planning Area, the vacancy level increased to 11.1% after some mild recovery for the past two quarters. The rise was caused by the 11,000 sq ft of newly-completed retail space, which was met with net retail demand falling by 32,000 sq ft. On the bright side, retail space in Orchard Road saw a healthier take-up of 22,000 sq ft in Q2/2017, thus resulting in a marginal quarterly improvement of 0.1 of a ppt in the vacancy level, at 7.7%.

Even though it is unlikely to see significant signs of rebound in the retail market anytime soon, some bright spots are starting to emerge as retailers try to restructure and adapt to the new landscape. As retail occupancy in suburban areas improved in the reviewed quarter, after two consecutive quarters of stagnant growth, the Savills prime monthly rents in the suburban areas are finally seeing a slight recovery. Suburban monthly rents increased 0.7% QoQ to S\$28.20 per sq ft, marking the largest increment since 2012. On the other hand, Orchard monthly rents continued to show resilience, holding firm at S\$29.90 per sq ft, as demand for Orchard retail space is showing signs of stabilisation.

Future supply

According to the latest data released by the URA as of Q2/2017, an estimated 1.4 million sq ft of new retail

GRAPH 3
Vacancy rate, 2011–Q2/2017



Source: URA, Savills Research & Consultancy

space will be completed by this year. The main retail supply comes from a suburban megamall at Yishun, Northpoint City, which has its soft opening in Q4/2017. The remaining new suburban retail supply is from the amenities centre in JTC Space @ Tuas. Other than the two suburban developments, the rest of the projects due for completion this year are located in the Central Region. The main supply of new stock in the Central Region will be the retail component of the integrated building Marina One – The Heart. The rest are made up of the hotel development at Stevens Road, which received its

Temporary Occupation Permit (TOP) in August, as well as another mixed-use development, Royal Square at Novena.

From 2018 to 2021, over 5.1 million sq ft of new retail stock is expected to enter the market. While the majority (82.2%) will be developed by the private sector, the public sector will contribute to the remaining 915,000 sq ft of new stock (17.8%). For 2018 and 2019, the new completions mainly consist of mixed-use developments with relatively substantial retail components. They include Paya Lebar Quarter, Project Jewel, and Funan. ■

TABLE 1
Major projects in the pipeline, Q3/2017 – 2020

Development	Location	Estimated NLA (sq ft)	Estimated completion
Northpoint City	Yishun Central 1	330,000	2017
Marina One (The Heart)	Marina Way/Straits View	140,000	2017
Paya Lebar Quarter	Paya Lebar Road/Sims Avenue	340,000	2018
Additions/alterations to existing Raffles Hotel and shopping arcade	Beach Road/North Bridge Road	234,000*	2018
TripleOne Somerset Podium AEI	Somerset Road	88,500	2018/2019
Project Jewel	Airport Boulevard	576,000	2019
Funan	North Bridge Road	324,000	2019

Source: Company announcements, URA, Savills Research & Consultancy
*Savills estimation, based on an efficiency rate of between 70% and 75%.

OUTLOOK

The prospects for the market

For the second half of the year, the MTI expects the manufacturing sector to continue to add its support to the local economy. MTI's view for Singapore economic growth this year is likely to come in at around 2.5%. This is at the mid-point of their latest 2.0% to 3.0% forecast range of growth for 2017.

Although economic growth is likely to be above 2.0% for the year, weak consumer sentiment resulting from a sluggish labour market will probably affect food services and retail spending,

causing uneven performances across sectors. The government has also announced its plans for the Retail Industry Transformation Map, to drive e-commerce spending from the current 3.0% of total retail receipts to 10.0% by 2020. This could ruffle physical stores who are already being impacted by the online competition.

Even so, brick-and-mortar retail is unlikely to be doomed just yet, as some players are gradually evolving and exploring different ways to attract customers. Following the latest digital technologies and shopping habits, malls and retailers

are integrating new elements of entertainment and technology to create an additional level of consumer engagement. This move has led to new retail trends, namely retailtainment and concept stores, which help to make the in-store shopping experience memorable, personalised and exciting. Likewise for e-retailers, they are also venturing into phygital expansion and opening more points of collection to deliver a seamless shopping experience. In all, these are likely to result in some demand for physical retail space despite closures of non-performing stores.

Please contact us for further information

Savills Singapore



Christopher J Marriott
CEO, Southeast Asia
+65 6415 3888
cjmarrriott@savills.asia



Sulian Claire
Executive Director, Retail & Lifestyle
+65 6415 3880
stwijaya@savills.com.sg

Savills Research



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

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.