Savills World Research
Singapore

Briefing
Retail sector

June 2016

Image: ION Orchard, 2 Orchard Turn

SUMMARY

A mindset change is needed, from old school retail planning to new school tenant thinking.

- In constant dollar terms, the retail sales index (excluding motor vehicles) in March 2016 fell 4.3% year-on-year (YoY), extending the 5.2% YoY decline in February.

- In Q1/2016, prime retail rents in the Orchard and Suburban markets contracted by 5.0% quarter-on-quarter (QoQ) to S$29.9 per sq ft per month and S$28.5 per sq ft per month, respectively.

- The vacancy rate of Orchard Road shops is at a five-year high of 8.8%. While suburban market vacancies improved 1.1 percentage points (ppts) QoQ to 4.4%, Downtown Core and island-wide vacancies increased by 0.4 ppts and 0.1 ppt QoQ respectively.

- Between Q2/2016 and end-2020, approximately 8.2 million sq ft of new retail space is expected to be completed. This works out to an average annual new supply of 1.7 million sq ft.

- This coming age will be ruled by those who have the creativity and ingenuity to get their ideas across fast. Landlords will have to add to their repertoire of old school considerations in mall planning their ability to spot new school retail trends and even consider taking stakes in their tenants' businesses.

"Singapore's retail market will continue to face disruptive forces on multiple fronts – from economic uncertainties and labour restrictions to curbs on credit cards."
Alan Cheong, Savills Research

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Macroeconomic overview

For the first quarter of 2016, the Singapore economy grew at a sedentary pace of 1.8% YoY. This was marginally below the 2.0% YoY full-year growth rate in 2015 which was already lower than the 3.3% recorded in 2014. On the employment front, the preliminary figure for the seasonally-adjusted total unemployment rate in March remained low and unchanged from December 2015, at 1.9%.

In constant dollar terms, the retail sales index (excluding motor vehicles) in March 2016 fell 4.3% YoY, extending February's 5.2% YoY decline. In the same month, the food & beverage (F&B) sector recorded its sixth month of double digit declines (-13.0% YoY). The watches & jewellery sector also recorded a similar pattern of decline, falling 15.1% YoY.

However, for the first three months of 2016, there are signs that the tourism industry could be improving, with total arrivals increasing 13.8% YoY. Over this period, the number of Chinese tourists increased 46.5% YoY with 746,100 visitors – making it Singapore's largest inbound market. When ranked by growth rates, arrivals from Indonesia were second behind China, followed by India, Australia and Malaysia with overall YoY growth rates of 11.3%, 10.2%, 2.3% and -0.2%, respectively.

Market snapshot

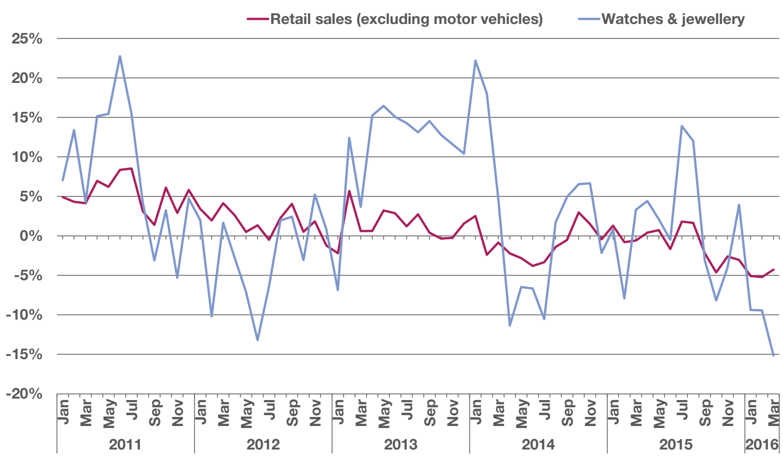
Retailers are still feeling the effects of weak consumer spending, high overheads from staffing and rental costs, as well as competition from the online space.

The challenges which the retail industry is facing have not spared the larger establishments either. For example, the Dubai-based Al-Futtaim Group, which operates an expansive portfolio of fashion brands in Singapore like Zara, Massimo Dutti and Ted Baker, as well as sports brands Reebok and Lacoste, is taking action to streamline operations. The group shuttered several of its stores last year and thereafter announced in March 2016, plans to close at least ten of its remaining 125 stores across Singapore.

Another established retailer, Jay Gee Melwani Group – a privately-held company headquartered in Singapore – will be closing eight stores carrying fashion brands New Look and Celio in 2H/2016. Nonetheless, it is still business as usual for Jay Gee's other brands, which include Aldo, Levi's and Aigner.

GRAPH 1

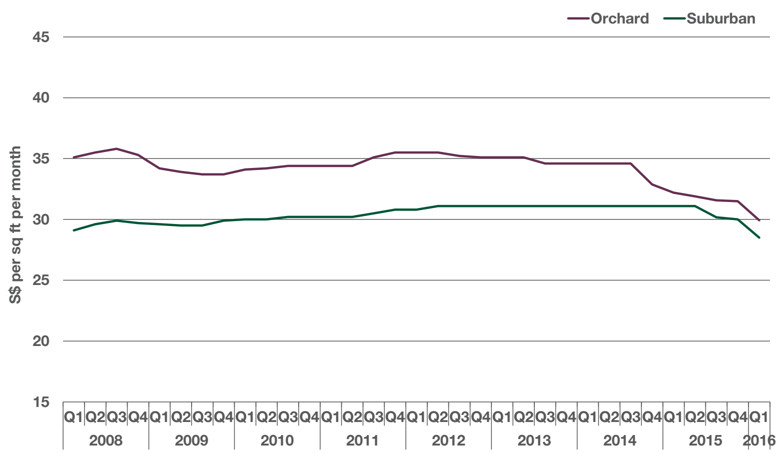
Growth of retail sales (excluding motor vehicles), YoY at constant prices, Jan 2011–Mar 2016



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2

Prime retail rents, 2008–Q1/2016



Source: Savills Research & Consultancy

In the F&B sector, after closing all of their seven stores, American food chain Smoothie King has exited from the physical scene here.

Rents & vacancy

As a sign of lean times, prime retail rents in the Orchard and Suburban markets contracted by 5.0% QoQ in Q1/2016 – an even deeper contraction from declines of 0.2% and 0.6% respectively in the previous quarter. Orchard rents now stand at S$29.9 per sq ft per month, with its suburban counterpart at S$28.5 per sq ft per month.

In Q1/2016, the vacancy rate in Orchard Road hit a five-year high of 8.8%. This was a further deterioration from the 7.6% recorded in the previous quarter. In terms of supply, as of Q1/2016, there were no new completions or major retail developments coming up on Orchard Road. Notwithstanding supply-side constrains, shops in the prime shopping district are still finding the going difficult as decreased shopper traffic and increasing business cost pressures continue to mount. At the same time, landlords are faced with slower lease renewals and more fit-out periods as tenants transition and adjust to this challenging retail environment.

The performance of the retail space market on Orchard Road is also mirrored in the Downtown Core area where vacancy levels went up 0.4 ppts QoQ to 10.8%. Although the suburban market fared better with vacancy levels improving 1.1 ppts QoQ to 4.4%, it was not enough to turn-around the 0.1

ppt increase in island-wide vacancy to 7.3% in Q1/2016.

Orchard Road & the CBD

In this highly competitive retail location, it is important to execute tenant-mix and placement well so as to establish mall branding and mall loyalty. For instance, the strategic placement of fashion tenants as a cluster can create a draw to that part of the mall, while restaurants on the other hand, generally benefit from locations with a view. Bearing these micro factors in mind, some landlords have been undeterred by the generally unfavourable retail conditions and have shifted into high gear to take advantage of the softer market to retrofit their properties.

In keeping up with fashion's obsession with newness and ever-changing trends, orchardgateway at Somerset has reformatted its list of fashion tenants. Taiwanese 'Celebrity Fashion' has set up at Level Two where STAGE Hyaline of World by Show Luo and Southeast Asia's first PHANTACi by Jay Chou have also opened. These celebrity fashion labels are able to capitalize on pre-established fan bases to drive sales and lure shoppers to the mall. Orchardgateway has also expanded its F&B offerings on Level One, which includes new entrants – Dazzling Cafe, Kanshoku Ramen Bar and 4 Fingers Crispy Chicken.

In the realm of luxury goods, Audemars Piguet takes centre stage this reviewed quarter. After a 10-month renovation, the Swiss fine-watch maker reopened in February at a 2,109-sq ft duplex flagship at Liat Towers – the world's largest standalone Audemars Piguet boutique. At ION Orchard, Tiffany & Co. has set up a street-front duplex boutique decked in its iconic Tiffany Blue. The store spans over 5,000 sq ft, with private viewing spaces and bridal salons.

City Fringe & Suburban

Despite losing several tenants such as gadget store Nubox, Ding Tai Fung and TGI Fridays, 112 Katong, with a refreshed mall design and skylight installation, is hopeful of regaining its shine. For that, the existing rooftop water playground will be converted into an F&B space, complete with double-volume ceiling height. 112 Katong has also welcomed new tenants, including online retailer Megafash, furniture store HomesToLife and popular Chinese restaurant Tim Ho Wan.

TABLE 1

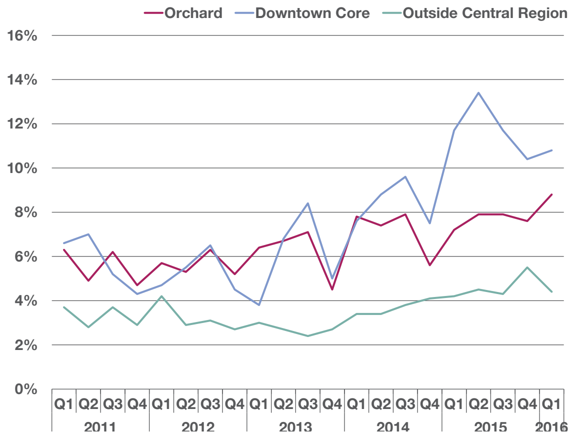
Major projects in the pipeline, Q2/2016–2020

Development	Location	Estimated NLA (sq ft)	Estimated completion
Compass One AEI	Sengkang Square	282,000*	2016
Downtown Gallery	Shenton Way	160,000	2016
Tanjong Pagar Centre	Wallich Street	100,000	2016
Our Tampines Hub	Tampines Avenue 4	87,500*	2016
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
Paya Lebar Central	Paya Lebar Road/Sims Avenue	329,600*	2018
Northpoint City	Yishun Central 1	330,000	2018
Project Jewel	Airport Boulevard	576,000	2018
Funan DigitaLife 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%.

GRAPH 3

Retail vacancy rate, 2011–Q1/2016



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

Meanwhile, VivoCity's newly created retail space at Basement 1 has proven successful in enhancing the mall's appeal. As per the landlords' active asset management strategy, the next phase of VivoCity's Asset Enhancement Initiative (AEI) is presently underway. When completed in Q3/2016, the layout and space utilization at Basement 2 and the upper levels will be improved, along with F&B offerings at the former.

Future supply

Between Q2/2016 and end-2020, approximately 8.2 million sq ft gross floor area (GFA) of new retail space is expected to be completed. This works out to an average annual new supply of 1.7 million sq ft.

Scheduled for completion in 2016, Tanjong Pagar Centre is on track to be Singapore's tallest building at 290 metres high. Within this 1.7 million-sq ft GFA integrated development are Grade A offices, retail space, luxury residences and hotel rooms. An estimated 60.0% of its retail space has already been committed, with anchor tenant Virgin Active operating a 31,000-sq ft fitness facility.

Another upcoming large-scale development is Paya Lebar Central, which is well-positioned within the Paya Lebar commercial hub. The 1.8 million-sq ft integrated development comprises three Grade A office towers, a shopping mall, residential apartments, as well as direct linkages to the Paya Lebar Mass Rapid Transit (MRT) interchange.

OUTLOOK

The prospects for the market

After close to two decades since internet sales first appeared, they are finding traction and rapidly changing the way consumers interact with the retail world. While this may be a cause for concern for some retailers, it has energised others. As fashion retailers continue to struggle and shutter, new stores – offering a destination appeal, as well as products or services which cannot be experienced online – are taking their places in malls. For example, sneakerheads are now more than pleased with the opening of The Social Foot – a new multi-label sneaker and lifestyle store in Orchard Central. As its name may (or may not) suggest, The Social Foot is also a unique social-media-friendly store with a GIF-file production machine that allows shoppers to create their own GIFs and have them projected on the storefront window.

Looking ahead, Singapore's retail market will continue to face disruptive forces on multiple fronts – from economic uncertainties and labour restrictions to curbs on credit cards. However, there are other ways for retailers to design a shopping environment to galvanize the consumer to purchase. This calls for ingenuity and creativeness from both retailers and landlords. However, the payoff is asymmetrical. For retailers, those who fail to adapt will likely suffer an end-game soon. For landlords, their suffering will be in the form of collecting lower and lower rents just to keep occupancy high. As far as tenant-mix and placement are concerned, the responsibility lies with the landlord to generate maximally distributed foot-traffic for all tenants, not just for those who can afford premium locations in the mall.

There is no one size fits all solution for the retail space market. Grouses about our strong currency, lacklustre tourism expenditure growth and high supply chain costs cannot be directly addressed by retailers and landlords as these are factors over which they have no control. Nevertheless, there are some things that landlords can do to protect or mitigate against the ill winds buffeting the industry. One thing that they can do is to reboot their rental model from a high base-low Gross Turnover (GTO) rent mix to a high-GTO-low base rent one. This way, landlords will have more 'skin in the game' and will strive to help each tenant succeed. The old school way of believing that architectural layouts and AEIs may bring about a revival of the mall may need to be supplemented by their ability to think like a new school tenant and work for their success.

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