MARKET IN MINUTES
Savills Research

Retail

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Resilience in the retail sector

The good news is that international brands continue to enter the scene while retail sales and international visitor arrivals numbers are steadily increasing.

- Retail sales (excluding motor vehicles) and food & beverage (F&B) revenues continued rising in the post pandemic era.

- After three quarters of consecutive decline, as new completions of retail malls outstripped the demand for retail space, the islandwide vacancy rate of retail space rose 0.5 of a percentage point (ppt) to 7.6% in Q1/2023. Nevertheless, on a year-on-year (YoY) basis, the overall retail vacancy rate in the quarter was still 0.7 of a ppt lower.

- As recovery in the retail sector continues, the Savills basket of monthly prime rents in Orchard Area rose further by a larger 1.5% QoQ to S$21.80 per sq ft in Q1/2023, compared to the 0.9% increase in the previous quarter. On the other hand, Savills monthly prime rents of retail malls in the Suburban Area remained unchanged at S$23.30 per sq ft after four consecutive quarters of increase.

- With the return of tourism, it is to be expected that the Orchard Road shopping district would be the main beneficiary while suburban malls, which had settled into a post pandemic equilibrium where fewer are now working from home, will continue to dance to the vicissitudes of the economy. Our YoY rental forecast for prime Orchard Road malls is 2% to 3% while for suburban malls, it is 1% to 2%.

> "With the strong rebound in tourism, Orchard Road rents are expected to rise more than those in the Suburbs."
>
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MCI (P) No. 040/08/2020
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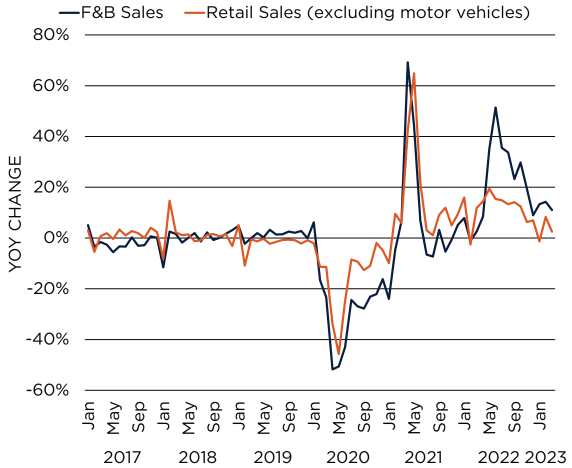
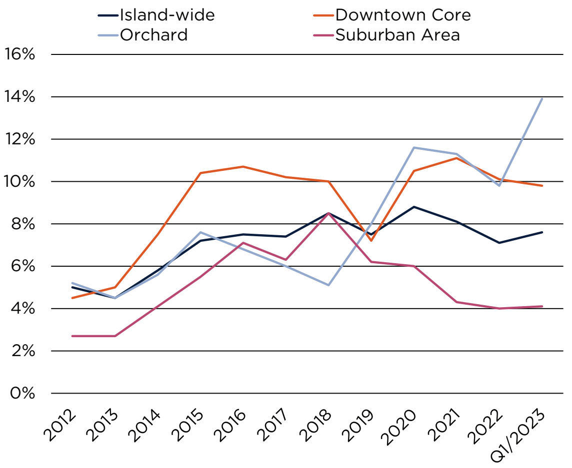
GRAPH 1: Retail Sales and F&B Sales Growth, January 2017 to Q1/2023



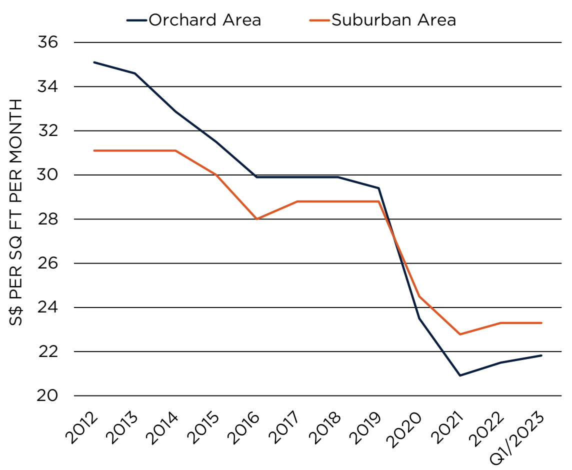
Source Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2: Vacancy Rate, 2012 to Q1/2023



Source URA, Savills Research & Consultancy

GRAPH 3: Prime Retail Rents, 2012 to Q1/2023



Source Savills Research & Consultancy

MACROECONOMIC OVERVIEW

In Q1/2023, the Singapore economy expanded by a marginal 0.4% YoY, moderating from the 2.1% expansion in the previous quarter. While the manufacturing sector contracted in the quarter, this was outweighed by growth in the construction and services sectors. Among the services sector, the retail trade expanded 2.5% YoY, extending the 5.1% growth recorded in Q4/2022. This was supported by an increase in non-motor vehicle sales volume. Similarly, the F&B services sector expanded 12.2% YoY in Q1/2023, after a 19.6% surge in the previous quarter. The significant increase in these sectors came with the relaxation of social distancing measures and people have learnt to live with the pandemic.

Retail sales (excluding motor vehicles)[1] and F&B revenue[2] continued rising in the first quarter of the year. For non-motor vehicle retail sales volume, the robust sales were brought about by growth in the discretionary segments of the consumer market such as food & alcohol (+39.1%), wearing apparel & footwear (+20.9%), optical goods & books (+9.2%), department stores (+8.8%) and computer & telecommunication equipment (+8.5%). The increase in overall F&B sales volume was broad-based, largely led by the food caterers' segment. Sales for this segment skyrocketed 81.4%, due to higher demand for both event and in-flight catering with the easing of restrictions on large-scale events, international travel, and social gatherings. This was followed by the restaurants (+9.5%), cafes, food courts & other eating places (+5.9%) and fast-food outlets (+4.1%) segments.

VACANCY RATES INCREASED AFTER THREE QUARTERS OF DECLINE

As new completions of retail space outstripped demand for retail space, the islandwide vacancy rate of retail space increased 0.5 of a ppt QoQ to 7.6% in Q1/2023. This came after three consecutive quarters of decline. Nevertheless, on a YoY basis, overall retail vacancy was still 0.7 of a ppt lower (Graph 2). Vacancy rates in both Central and Outside Central Regions recorded QoQ increases, with a larger quarterly growth for Central Region of 0.7 of a ppt to 9.4%, compared to the marginal increase of 0.1 of a ppt for Outside Central Region to 4.1%. For the Central Region, the larger growth in vacancy rate was largely attributed to a significant increase of 4.1 ppts in vacancy rate in the Orchard Planning Area from 9.8% in Q4/2022 to 13.9% in Q1/2023.

1 Retail Sales Index in Chained Volume Terms, Monthly (exclude any online orders which are sent from foreign addresses). Updated as at 16 May 2023.
2 Food & Beverage Services Index in Chained Volume Terms, Monthly. Updated as at 16 May 2023.

Similarly, there was also an increase of 0.8 of a ppt in vacancy rate in Rest of Central Area. However, vacancy rates in Downtown Core Planning Area and Fringe Area declined in the quarter. For Downtown Core, the decrease in vacancy rate was the fourth consecutive quarter of decline, to 9.8%, the lowest since Q1/2020 when vacancy rate reached 8.7%.

With retail sales showing significant improvements from the COVID period and higher domestic consumption on discretionary goods, the retail sector appears to be on the route to recovery. While the Urban Redevelopment Authority's (URA) retail rental index registered five consecutive quarters of decline, the contraction moderated in Q1/2023. Retail rents in the Central Region fell by a marginal 0.3% QoQ in the quarter, compared to the 1.1% decrease in the previous quarter. Retail rents in Central Area inched down slightly by a mere 0.1% QoQ, while that in Fringe Area declined by a larger 0.6% on a QoQ basis. As demand for prime retail malls remain strong, landlords of such malls remain firm on their rental expectations. Hence, the Savills monthly prime rents[3] in Orchard Area continued rising for the fifth consecutive quarter with a larger 1.5% QoQ increase to S$21.80 per sq ft in Q1/2023. In Q4/2022, the increase was 0.9% (Graph 3). On the other hand, Savills monthly prime rents of retail space in the Suburban Area stayed firm at S$23.30 per sq ft in the quarter. It had previously risen for four consecutive quarters.

INTERNATIONAL BRANDS ENTERING SINGAPORE

Although it was reported that an established brand such as H&M is closing its Ion Orchard shop on March 12th this year, the good news is that new-to-market international brands are still entering Singapore. This confidence counterbalances the negative feeling which prevails in some parts of Singapore's retail scene. For instance, Kave Home, a Spanish furniture manufacturer, opened its first Southeast Asian flagship store at Raffles City Shopping Centre, occupying 8,000 sq ft. Apart from the physical space, it has also introduced an online e-commerce platform across multiple categories of offerings, catered to local consumers' requirements and preferences. In addition, Hong Kong's beauty chain Sasa, which previously shut down all its stores in Singapore in 2020, is reported to be making a comeback, starting off with one or two stores this year. This shows the resilience of the retail industry here, where new-to-market-brands enter and those who left

3 Savills estimated rent for a 1,000-sq ft prime ground floor unit let to a fashion retailer.

TABLE 1: Major Projects in the Pipeline

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)*
2023	One Holland Village	Holland Road	81,000
2023	The Woodleigh Mall	Bidadari Park Drive	94,000
2025	Canninghill Square	River Valley Road	90,000
2025	Punggol Digital District	Punggol Way	173,000
2025	Pasir Ris Mall	Pasir Ris Central	270,000
N/A	Office/retail development	Tanah Merah Coast Road	108,000
2026	The Reserve Residences/Bukit V	Jalan Anak Bukit	75,000
mid-2030s	Changi Airport Terminal 5	Tanah Merah Coast Road	435,000

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

re-enter the scene after a hiatus. The situation may improve further, as more international travellers visit for leisure purposes with the relaxation of travel restrictions worldwide.

SUPPLY IN THE PIPELINE

According to Savills estimates, the island-wide new retail supply in the next five years from 2023 to 2027 is about 3.0 million sq ft, working out to an annual average of 606,000 sq ft. This is about half the pre-pandemic (2015-2019) five-year annual average of 1.1 million sq ft. However, it is close to being on par with the five-year (2018 to 2022) annual average 588,000 sq ft. The bulk of the upcoming supply will be slated for completion in 2023 (724,000 sq ft) and 2025 (821,000 sq ft) respectively. Bulk of the completions in 2023 will come from Sengkang Grand Mall (completed in Q1/2023) and The Woodleigh Mall (completing in Q2/2023).

OUTLOOK

Coming on the heels of the pandemic, inflation, and a slowing economy, which may possibly tip into a technical recession this year, shopping complexes are seeing a revolving door phenomenon regarding the staying power of their tenants. This could be a feature of the market over the next 12 months as the market is still trying to find its footing in the new environment.

For the first four months of 2023, tourist arrivals rose 646.3% YoY to 4.04 million. Therefore, it is to be expected that the Orchard Road shopping district will be the main beneficiary of this growth while suburban malls, which had settled down to a post pandemic equilibrium where fewer people are now working from home, will continue dancing in harmony with the vicissitudes of the economy. We have therefore revised our YoY rental forecast for prime Orchard Road malls to 2% to 3% from 1% to 2%. For prime suburban malls, rents are now expected to rise by 1% to 2%, previously 2% to 3%.

TABLE 2: Prime Rental Changes, 2023F

PERIOD	PRIME ORCHARD ROAD (YOY CHANGE)	PRIME SUBURBAN (YOY CHANGE)
2023F	+2% to 3%	+1% to 2%

Source Savills Research & Consultancy