

# Retail



## Tourists continue to boost Orchard retail

Suburban retail faces pressure amid weaker spending and rising costs.

- Retail sales (excluding motor vehicles) rose on the back of higher sales takings in food & alcohol and watches & jewellery. Owing to the festive celebrations, food and beverage (F&B) sales recorded a significant growth in February due to higher demand for food catering services and dining-in at restaurants.
- Compared to 6.7% in Q4/2023, the islandwide vacancy rate for private retail space fell to 6.6% in Q1/2024, the lowest since Q4/2014.
- Savills basket of malls showed that the average monthly rent in the Orchard Area increased 0.7% quarter-on-quarter (QoQ) to S\$22.80 per sq ft in Q1. This has been on the rise for nine consecutive quarters. On the other hand, the average retail passing rent in Savills basket of retail properties in the Suburban Area remained unchanged at S\$14.70 per sq ft in Q1.
- While we are projecting Orchard Area rents to rise 3% to 5% this year, the recent closure of what began as a strong start for an F&B concept just eight months ago, reminds us of the fragility of the recovery. With operating costs

remaining persistently high and manpower constraints suppressing the margins of retail and F&B operators (for both Orchard Road and suburban outlets), they will be under pressure for the rest of the year. For suburban malls, we expect rents to remain flat as consumption power is drained by the continued recovery in outbound travel.

“Whilst the rental rebound in the Orchard Road area continues, recovery has been muted.”

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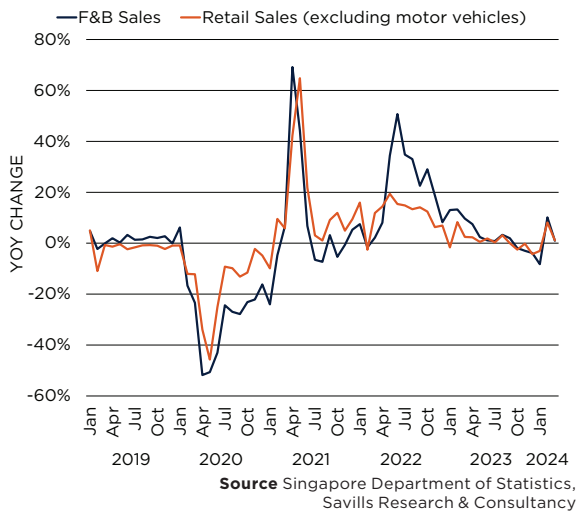
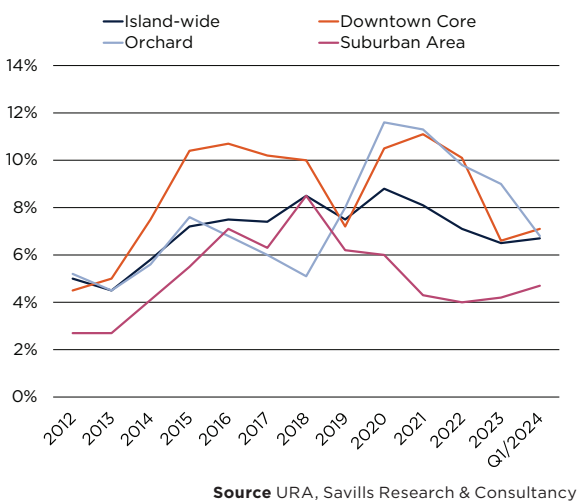
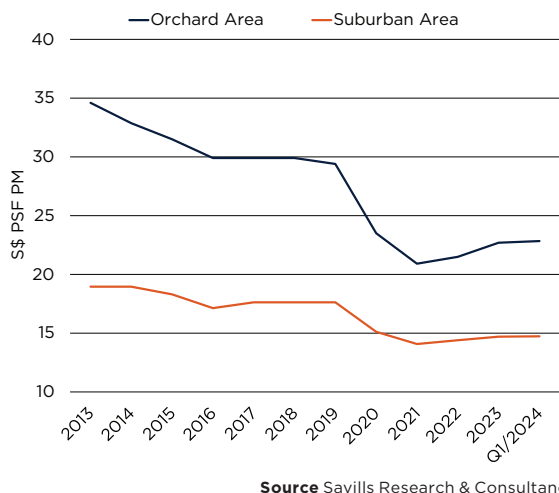
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**GRAPH 1: Retail Sales and F&B Services Index, 2019 to Q1/2024****GRAPH 2: Vacancy Rate, 2012 to Q1/2024****GRAPH 3: Average Retail Mall Passing Rents, 2013 to Q1/2024****MACROECONOMIC OVERVIEW**

According to advance estimates from the Ministry of Trade and Industry (MTI), Singapore's economy expanded at a faster pace of 2.7% year-on-year (YoY) in Q1/2024, compared with the 2.2% YoY growth in Q4/2023. It was lifted by the overall services growth which improved from 2.0% YoY to 1.7% YoY in Q1/2024. Owing to the slew of concerts held earlier this year, the consuming-facing sectors were boosted by a rebound in accommodation and food services, real estate, administrative and support services. The influx of tourists to these mega events boosted total visitor arrivals to nearly 4.4 million in Q1/2024, compared to 4.7 million in Q1/2023.

In addition to foreign tourist spending, locals' festive spending during Chinese New Year lifted overall retail and F&B sales in Q1. Retail sales (excluding motor vehicles)<sup>1</sup> rose on the back of higher sales takings in food & alcohol and watches & jewellery. Owing to the festive celebrations, F&B sales<sup>2</sup> recorded a significant growth (+10.1% YoY) in February due to higher demand for food catering services and dining-in at restaurants. (Graph 1)

**PRIVATE VACANCY RATES EASED AMID IMPROVED DEMAND AT ORCHARD ROAD**

The islandwide vacancy rate for retail space inched up 0.2 of a percentage point (ppt) QoQ to 6.7% in Q1. This is a reversal after three quarters of consecutive falls. (Graph 2) Nonetheless, it was largely due to muted demand in the public sector. Compared to 6.7% in Q4/2023, the islandwide vacancy rate for private retail space decreased to 6.6% in Q1/2024, the lowest since Q4/2014. As the market sentiments improved alongside the recovery in tourism numbers, demand for retail space at tourist-dependent submarkets such as Orchard Road increased, easing the private vacancy rate in Orchard Area by 2.3 ppts QoQ to 6.4% in Q1. On the contrary, retail vacancy rate in Suburban Area is under pressure as spending in suburban malls weakened with more people returning to office and travelling overseas. Compared with 3.9% in Q4/2023, the vacancy for private retail space in Suburban Area went up to 4.4% in Q1/2024.

The Urban Redevelopment Authority's (URA) retail rental index in Central Region slipped by 0.4% QoQ in Q1, extending the 0.1% decline in the preceding quarter. While

some areas saw modest demand for retail space, prime and well-managed malls with healthy footfall continued to see strong interest. Coupled with the tourism recovery, popular tourist destinations such as Orchard Area continued to see further rental growth. Savills basket of malls<sup>3</sup> showed that the average monthly rents in Orchard Area increased 0.7% QoQ to S\$22.80 per sq ft in Q1, a rise for nine consecutive quarters. On the other hand, the average retail passing rent in Savills basket of retail properties in Suburban Area remained unchanged at S\$14.70 per sq ft in Q1. (Graph 3)

**SOME RETAILERS REMAIN UNDER COST PRESSURE**

Taiwan Night Markets, which received overwhelming response during its opening at Orchard Cineleisure in July 2023, shuttered its doors in March this year. Spanning over 8,000 sq ft with 300 seats, the eatery started with 24 food stalls offering a wide variety of popular Taiwanese street foods. However, owing to escalating operational costs, issues of getting authentic supplies from Taiwan at reasonable prices, as well as decline in consumer spending, the eatery was closed for good within a short span of eight months. Although leasing interest along Orchard Road has improved since the gradual return of tourists, this has been a reminder that the retail recovery in Orchard Area is still fragile.

**SUPPLY IN THE PIPELINE**

According to Savills estimates, less than 656,000 sq ft of retail space (NLA) is expected come online in the next three quarters. Inclusive of the completions in Q1, 816,000 sq ft (NLA) of retail space is expected to be added to the market this year. This is below the annual average supply of 1.1 million sq ft (NLA) before the pandemic (2015 to 2019). The major supply in the pipeline includes the redevelopment of Marina Square, Harbourfront Centre and Forum Mall. Notably, projects such as Pasir Ris Mall and the retail component of Punggol Digital District are slated to complete this year. Another large insertion of supply is expected to complete from 2028, with the bulk of 2.7 million sq ft of new retail space (NLA) coming onto the market.

1 Retail Sales Index in Chained Volume Terms, Monthly (excludes any online orders which are sent from foreign addresses). Updated 6 May 2024.

2 Food & Beverage Services Index in Chained Volume Terms, Monthly. Updated 6 May 2024.

3 Savills estimated average obtainable rents in the area.

TABLE 1: Major Projects in the Pipeline

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)*
2024	Pasir Ris Mall	Pasir Ris Central	264,000
2024	Punggol Digital District	Punggol Way	202,000
N/A	Office/retail development (partial redevelopment of Marina Square)	Raffles Boulevard	660,000
N/A	Office/retail development (redevelopment of HarbourFront Centre)	Maritime Square	316,000
N/A	Office/retail/hotel development (redevelopment of Forum The Shopping Mall, the voco Orchard Singapore hotel, and office development HPL House)	Cuscaden Road/Orchard Road	202,000
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%.

TABLE 2: Retail Rental Forecast , 2024F

PERIOD	ORCHARD ROAD (YOY CHANGE)	SUBURBAN AREA (YOY CHANGE)
2024F	+3% to +5%	0%

Source Savills Research & Consultancy

## OUTLOOK

The momentum behind the tourism recovery is expected to extend to 2024, with both visitor arrivals and tourism receipts improving further from last year. In view of the trend of longer stays than pre-pandemic, tourist spending is projected to be between S\$27.5 billion to S\$29.0 billion this year, compared with the total receipts of S\$27.2 billion in 2023. Coupled with improved global flight connectivity and capacity, the mutual 30-day visa exemption between Singapore and China, as well as a strong pipeline of leisure and business events for the rest of the year, market optimism is likely to improve along with higher visitor arrivals numbers and tourist spending.

While more retailers could be attracted to popular tourist destinations, some retailers

may exit the challenging retail market as they struggle with manpower shortages and higher operating costs. Retailers who have been around for a long time such as Times Book Store, has vacated their premises at Plaza Singapura and Waterway Point, while Zara at Marina Square made way for pop-up outlet store by BHG. Nonetheless, with limited supply coming onstream, prime retail space is expected to continue to see strong interest and rental growth. Going forward, average rents in the Orchard Area are expected to rise by around 3% to 5% YoY in 2024. As occupancy and rental growth for retail space in the outskirts or less prime areas may remain under pressure, average rents in the Suburban Area are projected to stay flat this year.