

Retail



More retail repositioning expected

Retail prime rents continue to trend up.

- With increased spending across most product segments, especially for fashion apparel as well as watches and jewellery, retail sales (excluding motor vehicles) logged in double-digit growth in Q2.
- As the maximum group sizes for dining-in had been lifted on 26th April, food & beverage (F&B) revenue in May and June rose strongly as patrons returned in force on an eating out binge.
- The islandwide retail vacancy remained relatively stable at 8.2% in Q2/2022, compared to 8.3% in Q1/2022.
- Savills monthly prime rents in Orchard Area and Suburban Area increased by 0.4% quarter-on-quarter (QoQ) to S\$21.1 psf and 0.5% QoQ to S\$23.0 psf respectively.
- The multitude of disruptions arising from the pandemic measures taken have upset the retail ecosystem and bringing about an epochal change in the retail and F&B market. This affects not only operators but also landlords with two

malls JCube and Bedok Point coming off the market for redevelopment to new higher order uses.

- While revenues are rising for tenants, it is largely due to cost push pressures and the pass through to profitability is not proportional. We forecast Prime Orchard retail rents to increase up to 3% YoY and for Prime Suburban to go up by 2% YoY in 2022.

“The pass through from rising costs is only partial, with the result that margins are thinning.”

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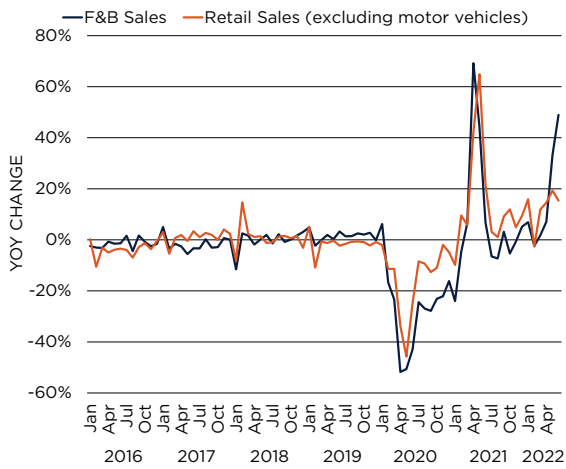
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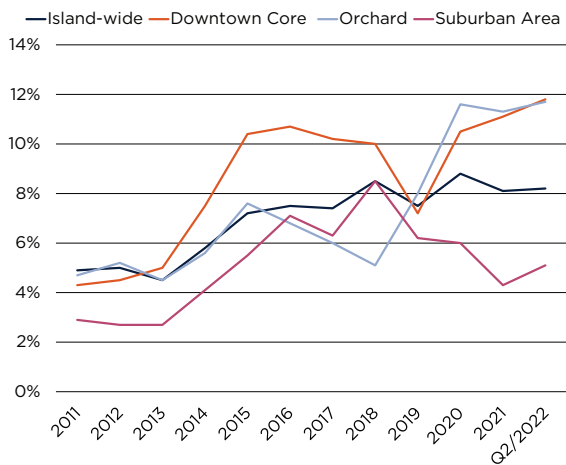
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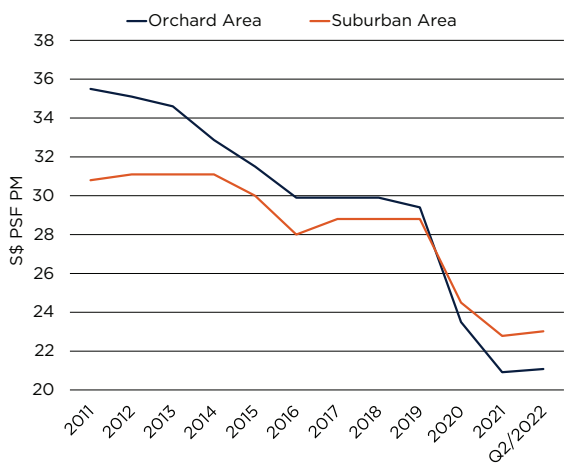


GRAPH 1: Retail Sales and F&B Sales Growth, January 2016 to June 2022

Source Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2: Vacancy Rate, 2011 to Q2/2022

Source URA, Savills Research & Consultancy

GRAPH 3: Prime Retail Rents, 2011 to Q2/2022

Source Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded by 4.4% in Q2/2022, surpassing the 3.8% YoY growth in the previous quarter. Compared with the previous quarter, retail trade and F&B services saw a faster pace of growth due to the low base in the same period last year when Phase 2 Heightened Alert restrictions were implemented. Furthermore, F&B sales were also lifted by the easing of domestic restrictions such as dine-in group size limits since late-April.

Increased spending was observed across most product segments especially for fashion apparel as well as watches and jewellery. Retail sales (excluding motor vehicles)¹ logged in double-digit growth in Q2. As there are no maximum group sizes for dining-in since 26th April, F&B revenue² in May (+33.2% YoY) and June (+48.9% YoY) rose strongly on the back of a wave of eating out experiences by patrons.

PRIME RENTS CONTINUED TRENDING UP

Despite the gradual return to a pre-pandemic shopping and dining experience, market players have mixed views on whether the retail market will revert to its previous structure. While the vacancy rate in Central Region eased on the back of higher take-up in the Fringe Area and Rest of Central Area, those in the Outside Central Region rose due to a negative net absorption in suburban malls. As a result, the islandwide retail vacancy remained relatively stable at 8.2% in Q2/2022, compared to 8.3% in Q1/2022 (Graph 2). Although the demand for retail space in suburban malls fell in the first half of the year, it is likely to be due to the reshuffling of tenants as landlords of popular malls started raising rents and this displaced some of the existing tenants who are unable to afford new rents while new ones signed on in the hope of succeeding.

The mixed views given by retail players is showing up in terms of how rents performed in Q2. According to the Urban Redevelopment Authority's (URA), retail rental index for the Central Region fell by 0.5% QoQ in Q2, registering two consecutive quarters of decline. On the other hand, prime retail rents continued to edge up as some tenants who are more confident with the recovery of tourism and office workers returning to the CBD are willing to match up to landlords' higher rental expectations. This raised Savills monthly prime rents³ in Orchard Area and Suburban Area by 0.4% QoQ to S\$21.1 psf and 0.5% QoQ to S\$23.0 psf respectively in Q2/2022 (Graph 3).

¹ Retail Sales Index in Chained Volume Terms, Monthly (excludes any online orders which are sent from foreign addresses). Updated 17 August 2022.

² Food & Beverage Services Index in Chained Volume Terms, Monthly. Updated 17 August 2022.

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

SHIFT OF RETAIL LANDSCAPE AMID STIFF COMPETITION

The competition in Singapore's retail market is expected to remain intense in the near term, with escalating operating costs pressuring margin profit, as well as changing consumers' shopping preferences. These have fundamentally shifted the retail landscape and landlords' strategies. While Raffles City and CQ @ Clarke Quay embarked on asset enhancement works to reconfigure their retail spaces, others such as Bedok Point is making way for a residential-commercial development as the highest and best use of the property changed due to the pandemic.

As part of the landlord's plan to reposition the mall in anticipation of the transformation of the Jurong Lake District, JCube is in the midst of a redevelopment application process to redevelop it into a mixed-use residential development. Although suburban malls generally remained strong with their essential retail offerings for the nearby residential catchment, the landlord may have considered changing its use due to the intense competition among other malls within the vicinity. For JCube, with no new private housing launches in the area for years, it could have enticed the landlord to redevelop it primarily into a residential development with ancillary commercial spaces on the ground floor.

RETAIL REJUVENATION ALONG ORCHARD

Following on the footsteps of several department stores that left Orchard Road, OG Orchard Point is also exiting the Orchard shopping scene in October. As part of creating a place for youth and entertainment, the vacated premise will be taken over by a local fresh food grocer as their mega-mart flagship store. It will be designed to be a landmark experiential space with live seafood, differentiated F&B offerings and exclusive merchandise. As more retail stalwarts are slowly becoming passe, the shopping belt along Orchard Road may see more rounds of retail rejuvenation.

SUPPLY IN THE PIPELINE

According to Savills estimates, the island-wide supply pipeline⁴ in the next few years remains low with the five-year annual average (549,000 sq ft) coming in at only about half the historical five-year annual average of 1.0 million sq ft. With a minimal of completions (9,000 sq ft) recorded in 1H/2022, most of the upcoming supply (392,000 sq ft) for 2022 is expected to be in the second half.

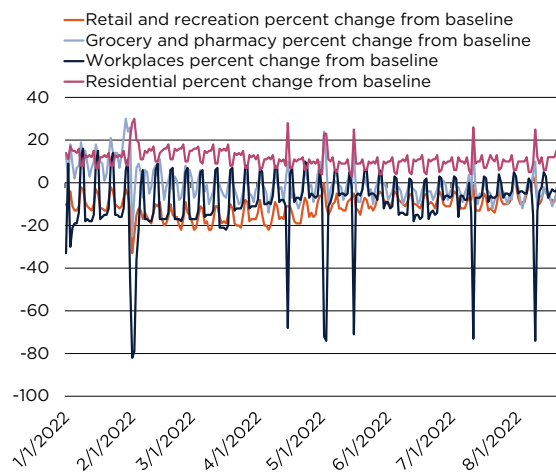
⁴ Savills estimated net floor area based on an efficiency rate of 70%.

TABLE 1: Major Projects in the Pipeline, 2H/2022 to 2030

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)*
2024	The Woodleigh Mall	Bidadari Park Drive	97,000
2025	Punggol Digital District	Punggol Way	173,000
2027	Pasir Ris Mall	Pasir Ris Central	269,000
N/A	Office/retail development	Tanah Merah Coast Road	108,000
N/A	Residential/service apartments/ Retail development	Jalan Anak Bukit	92,000
2030	Changi Airport Terminal 5	Tanah Merah Coast Road	435,000

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

GRAPH 4: Google Mobility Report Percentages



Source Savills Research & Consultancy

TABLE 2: Prime Rental Changes, 2022F

PERIOD	PRIME ORCHARD ROAD (YOY CHANGE)	PRIME SUBURBAN (YOY CHANGE)
2022F	+3%	+2%

Source Savills Research & Consultancy

OUTLOOK

As Singapore progressively eased almost all its domestic and border restrictions, the recovery in local and tourism spending is likely to continue and thus lend support to the local retail and F&B scene. The resumption of large-scale events and Meetings, Incentive travel, Conferences & Exhibitions (MICE) events, including the upcoming Formula One race, the Singapore Food Festival, as well as trade events are also expected to have some positive spillover effects on consumption which benefit the retail and F&B sectors. Nonetheless, sales and tourism numbers will take some time to rebound to the pre-pandemic levels due to factors such as protracted travel restrictions in China and more Singaporeans travelling overseas, which are expected to dilute domestic consumption.

In the face of rising manpower costs, cost of goods, utility charges, as well as rental costs, we are expecting a greater turnover amongst the tenant base. In this regard, the rise in retail sales for the rest of this year and next is likely to come from a mix of tourism expenditure and inflation. The google mobility numbers for retail and recreation are now returning to their 3rd January to 6th February 2020 limits. As of 20th August 2022, they show just a 2% deficit from the latter (Graph 4). However, we do not believe we can adopt a straightforward interpretation to argue the case that the market heading back to its previous normality. While the numbers going back to the office are at the early stages of rising beyond the baseline, those staying home are still higher. This could imply that more are adopting the hybrid work arrangement not only within a week but also in a day (working a few hours in the office and at home). Unfortunately, the mix between working from home and office has some drawbacks. It dilutes the spending power to both the suburban and the central areas, resulting in lower aggregate spend for establishments in the two areas. Also, with overheads rising, margins will be further

squeezed. Feedback from some retailers and F&B operators that have operations islandwide are pointing to rising revenues. Nevertheless, the increase is not in step up with rising inflation that is jacking up their labour and cost of goods. For some, their total revenues are still significantly below pre-pandemic levels.

On a grand scale, the pandemic has also speeded up the retail and F&B evolution. It has decimated the weaker ones and those unable to adapt rapidly to changing consumer behaviour. This change is epochal and has expanded to affect even malls such as Bedok Point and JCube, both making way for residential use. Also, with consumers greater acceptance of food delivery services, the location factor for F&B can be partially overcome by F&B operators that are savvy in reaching out to customers using social media. Therefore, the interpretation of the Google mobility numbers will become more convoluted and changes over time.

With the return of landlords raising rents, it would push tenants with thin margins either out from the industry or seek alternative locations. The vacated space will be backfilled by retailers that have done well in the past two years or those new to that area. For example, notwithstanding the high rents at suburban malls, well-located malls with high shopper traffic and good connectivity such as Jurong Point and Northpoint City continue to attract new retail chains such as Don Don Donki, which will unveil its these new outlets by the end of this year. Popular hotspot chain Haidilao is also expanding at Jurong Point in September, taking up a prime unit next to the drop-off entrance at level one. Meanwhile, the Indonesian fashion label, Claude, has also recently opened its first boutique in Singapore at Ngee Ann City. These are showing that some retailers are getting confident and, despite the rising rents, they are supporting the occupancy rate in prime malls.

With the above-mentioned, we forecast Prime Orchard retail rents to increase up to 3% YoY and for Prime Suburban to go up by 2% YoY in 2022.