



Retail



A sustained recovery in retail rents

The retail sector is on the road to recovery despite rising operating costs and an outflow of domestic demand.

- Retail and F&B sales receipts continued to increase in Q2 but at a slower pace.
- Compared to 7.6% in Q1, the islandwide vacancy rate of retail space remained stable at 7.5% in Q2 with the Suburban Area and Rest of Central Area sporting lower vacancies.
- The Savills basket rents trended upwards in Q2, with those in the Orchard Area rising 1.4% quarter-on-quarter (QoQ) to S\$22.10 per sq ft. The average rents from Savills basket for the Suburban Area also rose by 0.7% QoQ to S\$14.50 per sq ft in Q2.
- Rents are expected to see sustained growth in view of the tourism rebound and a low base from last year. Consequently, rents in Orchard Road are forecast to rise

up to 6% YoY in 2023. For the Suburban Area, because a greater number of Singapore residents are travelling and therefore allocating more of their consumption expenditure overseas, we are forecasting a slower increase of 2% YoY.

“After waiting for two years, retail in the tourist districts is only now starting to show a more broad-based recovery”

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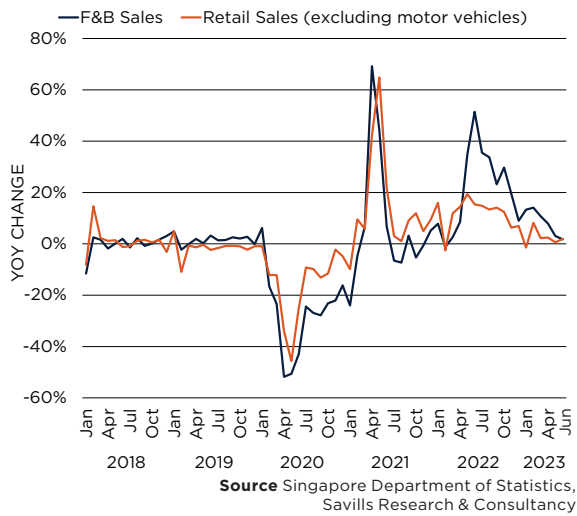
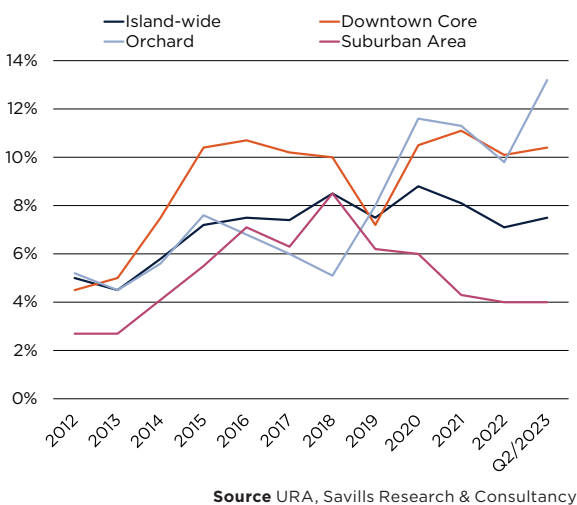
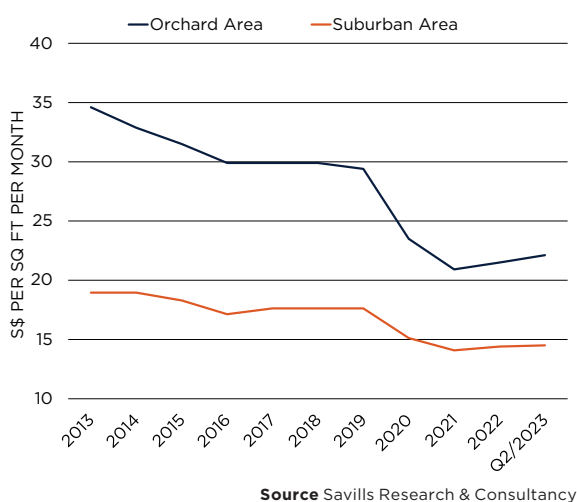
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GRAPH 1: Retail Sales and F&B Sales Growth, January 2018 to Q2/2023**GRAPH 2: Vacancy Rate, 2012 to Q2/2023****GRAPH 3: Prime Retail Rents, 2013 to Q2/2023****MACROECONOMIC OVERVIEW**

According to the Ministry of Trade and Industry (MTI), in Q2/2023, the Singapore economy expanded 0.5% year-on-year (YoY), an extension of the 0.4% growth in the previous quarter. Retail trade and F&B services continued to grow, albeit at a modest pace. Although visitor arrivals (nearly 3.4 million in Q2/2023) are approaching pre-pandemic levels (quarterly average of around 4 million in Q2), retail and F&B sales growth started to show signs of moderating as more locals travelled overseas.

Retail sales receipts continued to grow in Q2, albeit at a slower pace. Retail sales (excluding motor vehicles)' growth weakened across most segments in Q2. Notably, wearing apparel & footwear saw a slowdown in sales increase from double-digit to a single-digit growth. Although food & alcohol registered a spike in sales, it was likely to be due to higher demand for alcoholic products at duty-free shops amid the return of tourism. Similarly for F&B segment², sales growth slowed from an average of 12.7% YoY in Q1 to 4.2% YoY in Q2. While restaurants continued to struggle with softer demand, food caterers saw a significant moderation in sales growth in Q2. (Graph 1)

VACANCY RATES STABILISED IN Q2

The islandwide vacancy rate for retail space remained stable at 7.5% in Q2. In Q1/2023, it was 7.6% in Q1. (Graph 2) Despite new completions such as The Woodleigh Mall (133,500 sq ft retail GFA), healthy take-up rate in suburban malls helped keep the vacancy rate in Outside Central Region (Suburban Area) flat at 4.0% in Q2 (4.1% in Q1). The Orchard Planning area saw a 0.7% decline in vacancy rate, improving from the 13.9% recorded in Q1/2023. In the Central Region, vacancies eased slightly by 0.2 of a ppt QoQ to 9.2% in Q2.

Market sentiments in the retail sector has been improving on the back of the tourism recovery. The Urban Redevelopment Authority's (URA) retail rental index rose 0.3% QoQ in Q2, reversing a five-quarter decline. While rents in the Fringe Area registered a marginal 0.1% QoQ increase, the Central Area saw a bigger improvement of 0.4% QoQ. The latter is likely to be driven by the recovery in tourism and this often benefits the popular tourist destinations

1 Retail Sales Index in Chained Volume Terms, Monthly (excludes any online orders which are sent from foreign addresses). Updated 20 July 2023.
2 Food & Beverage Services Index in Chained Volume Terms, Monthly. Updated 20 July 2023.

such as Orchard Area and Marina Bay Area. As such, the average rent in Savills basket of prime malls³ trended upwards in Q2, with rents in Orchard Area rising 1.4% QoQ to S\$22.10 per sq ft. For the Suburban Area, the average rent in the Savills basket rose by 0.7% QoQ to S\$14.50 per sq ft in Q2. (Graph 3)

HIGH-END F&B SEGMENT NAVIGATES THE DOWNSWING

While some retailers benefit from tourist inflows, others are still struggling with slower sales as their target clientele are diluting their spend here because of the return of overseas vacation. Besides revenge vacation, the weakening of foreign currencies and the mid-year school holidays, had restaurants and high-end dining concepts feeling the reduction in patronage. Meanwhile, more diners are attracted to private dining settings which offer a unique experience. As a result, some high-end restaurants such as Kappo Kaji at Orchard and Cuisson at Tanjong Pagar have ceased operations.

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 2.7 million sq ft, working out to an annual average of 547,000 sq ft. This is about half the pre-pandemic (2015-2019) five-year annual average of 1.1 million sq ft. The bulk of the upcoming supply is slated for completion in 2023 (693,000 sq ft) and 2025 (791,000 sq ft). Following the completions in 1H/2023 (Sengkang Grand Mall and The Woodleigh Mall), the upcoming projects opening for business include the mixed-use development at Tanah Merah Coast Road and Pasir Ris Mall. The projects which were just added into the pipeline are the redevelopment of Harbourfront Centre and mixed-use project at Unity Street.

OUTLOOK

As the tourism sector continues recovering, the services sector in the Central Area should benefit from more business from overseas visitors in 2H/2023. The coming Formula 1 race and the festive season in Q4 will likely see an even greater influx of foreign visitors. Nonetheless, businesses which are more reliant on the local customer base could continue to see slower sales as more of them are expected to travel. This is very likely the case during this year-end holiday season and school holidays. The list of recent closures of brands such as Crate & Barrel, UFC Gym,

3 Savills estimated average obtainable rents in the area.

TABLE 1: Major Projects in the Pipeline

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)*
2023	One Holland Village	Holland Road	81,000
2024	Pasir Ris Mall	Pasir Ris Central	270,000
2025	Punggol Digital District	Punggol Way	173,000
2025	Canninghill Square	River Valley Road	90,000
N/A	Office/retail development (redevelopment of HarbourFront Centre)	Maritime Square	316,000
N/A	Office/retail development	Tanah Merah Coast Road	108,000
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%.

Haus Athletics and Fenix Fitness, have been those targeted at the local market. Going forward, it might be more challenging for some retailers if people continue to travel more and spend less domestically.

Nonetheless, demand for retail space, especially for prime units with a stable footfall and good accessibility, is likely to hold up amid limited new supply in the near term. Retail space at tourist destinations and major shopping belts, such as Orchard Road and Marina Bay Sands, is expected to benefit from the return of tourism. Rents are expected to see sustained growth in view of the tourism rebound and a low base from last year. With that, rents in Orchard Road are forecast to rise up to 6% YoY in 2023, while in

TABLE 2: Average Obtainable Retail Rents , 2023F

PERIOD	ORCHARD ROAD (YOY CHANGE)	SUBURBAN (YOY CHANGE)
2023F	+5% to 6%	+1% to 2%

Source Savills Research & Consultancy

Suburban Area they are likely to increase up to 2% YoY.

However, the recovery could be uneven as challenges abound and overall growth may ease next year with the slow global economy beginning to impact domestic spending and also visitor

arrivals. Challenges such as rising operating costs and a labour crunch will also put further pressure on retailers, reigning in their ability to accede to higher asking rents.