MARKET IN MINUTES
*Savills Research*

# Retail

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## Retailers meet higher rental expectations

Retail occupancy has improved on the back of higher take-up in Central Region.

- Retail sales (excluding motor vehicles) and food & beverage (F&B) revenue continued recovering in Q3, albeit at a slower pace.
- In conjunction with the increase in shopper traffic, retail vacancy eased to a three-year low of 7.8% in Q3.
- The Savills basket of monthly prime rents in Orchard Area and Suburban Area rose by 1.0% QoQ to S$21.30 psf and 0.7% QoQ to S$23.20 per sq ft respectively in Q3.
- Retail mix in the market could potentially be altered further as reshuffling of tenants continues, attracting different kinds of retailers.
- Notwithstanding global economic challenges and the upward revision of the GST, after the pandemic reset, tourism numbers are rebuilding from a low base, and this will boost retail rents for prime Orchard Road sites which we expect to rise 1% YoY in 2023. Prime suburban mall rents are expected to rise by 2% to 3% YoY driven by cost push inflation on conservancy and advertising charges.

"The low base effect coupled with inflation-driven increases in sales revenues and mall service charges should spill over to rents."

ALAN CHEONG, SAVILLS RESEARCH

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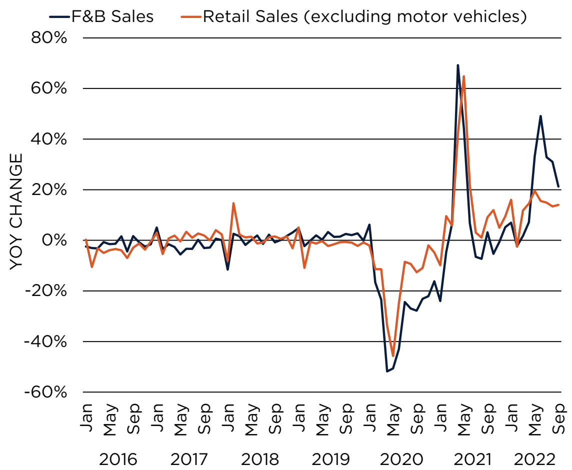
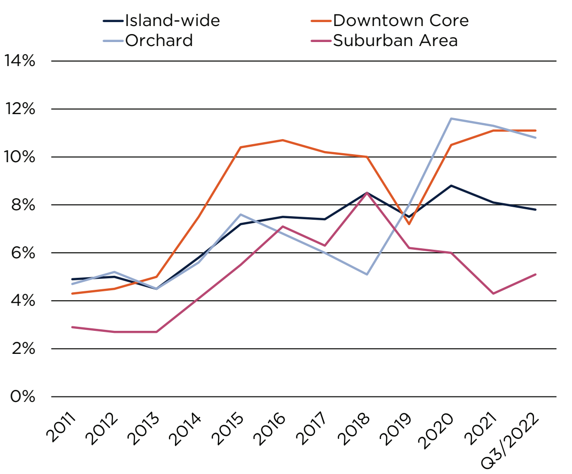
**GRAPH 1: Retail Sales and F&B Sales Growth, January 2016 to September 2022**



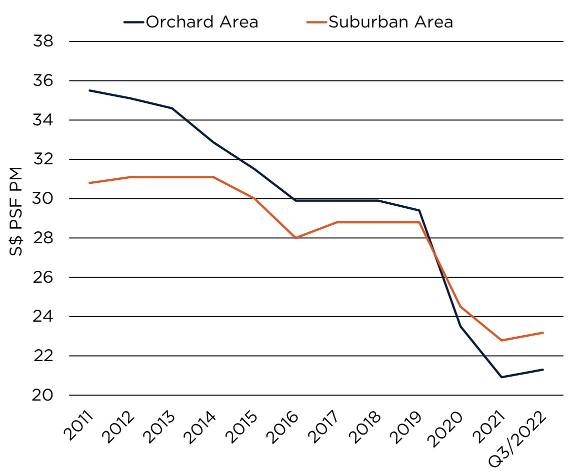

**Source** Singapore Department of Statistics, Savills Research & Consultancy

**GRAPH 2: Vacancy Rate, 2011 to Q3/2022**




**Source** URA, Savills Research & Consultancy

**GRAPH 3: Prime Retail Rents, 2011 to Q3/2022**




**Source** Savills Research & Consultancy

## MACROECONOMIC OVERVIEW

The Singapore economy expanded by 4.4% YoY in Q3/2022, moderating slightly from the 4.5% YoY growth in Q2/2022. Alongside the gradual recovery in tourism numbers and relaxation of restrictions, both retail trade and food services sectors recorded an expansion in Q3. This was partly supported by the low base effect as activity in these sectors was dampened by domestic and travel restrictions in the same quarter last year.

Retail sales (excluding motor vehicles)[1] and F&B revenue[2] continued recovering in Q3, albeit at a slower pace. Nonetheless, strong sales in wearing apparel & footwear as well as food & alcohol helped to lift overall retail sales in Q3. F&B sales were also supported by a strong recovery in food catering as more restrictions were lifted. As there is no more limit in maximum group sizes for dining-in, F&B revenue continued to rise as a new slate of menus which came to market this year are piquing the taste buds of consumers.

## IMPROVED TAKE-UP IN CENTRAL REGION

As Singapore's retail scene sees more traffic in physical stores, the sense of a gradual return to normalcy is giving retailers confidence. As a result, retail vacancy eased to a three-year low at 7.8% in Q3/2022 (Graph 2). The occupancy rate in Central Region improved on the back of an increase in appetite for taking up retail space across all areas, particularly in Rest of Central Area and Fringe Area. The take-up rate in Downtown Core Planning Area and Orchard Planning Area also improved as tourism numbers continue to increase. While retail vacancy in Central Region fell 0.5 of a percentage point (ppt) QoQ to 9.3%, that in the Outside Central Region remained unchanged at 5.1% in Q3. The latter's performance could be due to the subdued take-up in the newly revamped Grantral Mall @ Macpherson (retail component of the former Citimac Industrial Complex).

Although sentiment has greatly improved from 2021, the overall rental growth is hinting that on a locational basis, the market remains mixed. According to the Urban Redevelopment Authority's (URA), retail rental index for the Central Region fell again by 0.4% QoQ in Q3, extending the 0.5% QoQ decline in Q2. On the other hand, prime retail rents continued to rise as more foreign brands enter the local market when prime spaces are freed up. This could have helped to match up to landlords' higher rental expectations. As a result, Savills monthly prime rents[3] in Orchard Area and Suburban Area by 1.0% QoQ to S$21.30 psf and 0.7% QoQ to S$23.20 psf respectively in Q3 (Graph 3).

## CBD PRIME RENTS HOLD UP AS OFFICE CROWD RETURNS

Clifford Centre at Raffles Place will close in end-2022, to be redeveloped into 492,000 sq ft of gross floor area (GFA) of office and 52,000 sq ft of retail space. Combined, this works out to about 36% more area than its existing GFA. While the existing tenants tried to find suitable space nearby to continue their businesses, many of them are forced to cease their operation because of higher rental costs within the vicinity. With the return of the office crowd, retail rents at Raffles Place are firming and some businesses which continued their operations around the area have now to commit to higher rents. The tightening of supply due to redevelopment of Clifford Centre could further drive retail rental growth at Raffles Place as the development is a popular destination for workers and has a wide selection of F&B outlets, clinics and service providers.

## MORE NEW INTERNATIONAL BRANDS ALONG ORCHARD

Following the opening of Kydra's first flagship store and Claude's first store in Ngee Ann City, other overseas brands also followed suit, making their Singapore debut along Orchard Road. Examples include Japan's sneaker and streetwear platform SNKRDunk which set up its first international flagship store across two levels at Singapore's Mandarin Gallery. Another is the Swedish apparel brand & Other Stories opened its first Southeast Asian boutique at ION Orchard. The Swedish label also planned to open its second store at Raffles City in 2023.

## SUPPLY IN THE PIPELINE

According to Savills estimates, the island-wide supply pipeline[4] in the next few years remains low with the five-year annual average coming in at 515,000 sq ft (2022 to 2026), compared with the historical five-year annual average of 732,000 sq ft (2017 to 2021). Nonetheless, the potential supply is expected to more than double to over 700,000 sq ft in the next two years, compared with an annual average of less than 300,000 sq ft of newly completed retail space from 2020 to 2022.

1 Retail Sales Index in Chained Volume Terms, Monthly (exclude any online orders which are sent from foreign addresses). Updated on 9th November 2022.
2 Food & Beverage Services Index in Chained Volume Terms, Monthly. Updated on 9th November 2022.

3 Savills estimated rent for a 1,000-sq ft prime ground floor unit let to a fashion retailer.
4 Savills estimated net floor area based on an efficiency rate of 70%.

TABLE 1: Major Projects in the Pipeline, 2024 to 2030

| ESTIMATED COMPLETION | DEVELOPMENT | LOCATION | ESTIMATED NLA (SQ FT)* |
|---|---|---|---|
| 2024 | The Woodleigh Mall | Bidadari Park Drive | 94,000 |
| >2024 | Canninghill Square | River Valley Road | 90,000 |
| 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 |
| 2026 | The Reserve Residences/Bukit V | Jalan Anak Bukit | 92,000 |
| 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%.

## OUTLOOK

Going forward, because of the pandemic induced reset, the travel and consumer sectors are expected to continue recovering. This is despite the slowing global economy. However, growth may slow for the rest of the year and also in 2023 due to challenges on the economic and inflation fronts. In the face of rising inflation and interest rate hikes, consumer spending growth is expected to be inhibited. Although the continuing increase in visitor arrivals and resumption of business events could help to support retail sales levels, both local and foreign consumers are likely to cut back on discretionary spending amid the effects of increased inflation. Moreover, the possible effects of the GST increase from 2023 could also likely keep private consumption growth low next year. However, retail sales in Q4/2022 could be lifted by consumers buying forward, ahead of the revised GST rate.

As landlords' rental expectations rise, tenants operating at thin margins amid escalating operating costs could either be forced to cease their business or relocate to less prime locations. The vacated space will be backfilled by well-performing retailers or new entrants who are willing to match up to the new rental expectations. This could potentially alter retail mix in the market as reshuffling of tenants continues, attracting different kind of retailers. Following the opening of the Mercedes-EQ showroom at Great World City earlier this year, Porsche will set up a new showroom next year at the upcoming Guoco Midtown. Instead of operating from its existing centre at Leng Kee Road which will close by this year, the luxury carmaker is moving to a more accessible and greater visibility city-centre location. In their new city showroom, it will also create a new experience with an integrated F&B, co-working and community exhibition space.

With the above, we forecast Prime Orchard retail rents to increase up to 3% YoY and for Prime Suburban by 2% YoY in 2022. For 2023, inflationary pressures will drive up retail sales revenues and raise conservancy and advertising costs. All this is expected to override the softer economic conditions and ultimately lift rents marginally.

TABLE 2: Prime Rental Changes, 2022F to 2023F

| PERIOD | PRIME ORCHARD ROAD (YOY CHANGE) | PRIME SUBURBAN (YOY CHANGE) |
|---|---|---|
| 2022F | +3% | +2% |
| 2023F | +1% to 2% | +2% to 3% |

**Source** Savills Research & Consultancy