Singapore – November 2024

MARKET IN MINUTES
Savills Research

Retail

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Near term rental momentum expected to ease

Tourism recovery boosts arrivals but spending remains weak.

- With weaker sales across the board, retail sales (excluding motor vehicles) fell again in July and August, extending the decline in Q2. Food & Beverage (F&B) sales also showed a similar trend, with only food catering services registering higher sales.

- Retail islandwide vacancy rate continued easing, falling marginally from 6.6% in Q2/2024 to 6.5% in Q3/2024, back to the level in Q4/2023 which is the lowest since 2014.

- Savills' retail rents continued rising in Q3, though at a slower pace. The average monthly rent in the Orchard Area was up by 0.5% quarter-on-quarter (QoQ) to S$23.10 per sq ft. The average retail passing rent in Savills' basket of retail properties in the Suburban Area fell marginally by 0.1% QoQ to S$14.70 per sq ft in Q3.

- Notwithstanding the tight supply pipeline over the next three years, overall rental growth is expected to generally head sideways in the next few quarters. Labour shortages and rising operating costs will continue to dog retail and F&B businesses capping rental growth as landlords prioritise getting their malls filled. However, prime shops may still experience healthy demand, and their rents may even rise. For 2024, we expect prime Orchard Road mall passing rents to rise by 3% to 4% YoY with suburban mall rents remaining unchanged.

> "The surge in new-to-market Asian F&B establishments is supporting rents and wages, compressing margins for established players."
>
> ALAN CHEONG, SAVILLS RESEARCH

Savills team

Please contact us for further information

SINGAPORE

Marcus Loo
CEO, Singapore
+65 6836 6888

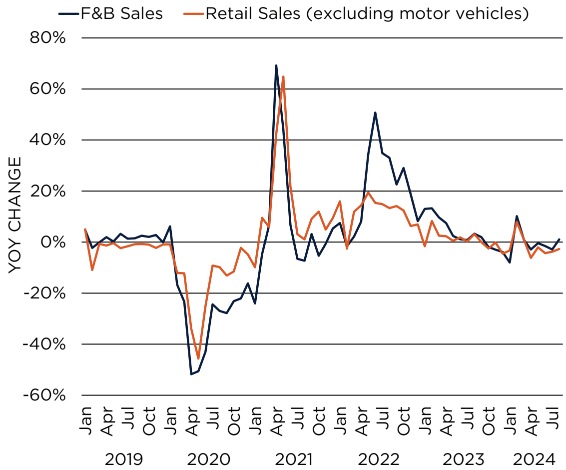
Sulian Tan-Wijaya
Executive Director
Retail & Lifestyle
+65 6415 3880
stwijaya@savills.com.sg

RESEARCH

Alan Cheong
Executive Director
Singapore
+65 6836 6888
alan.cheong@savills.com.sg

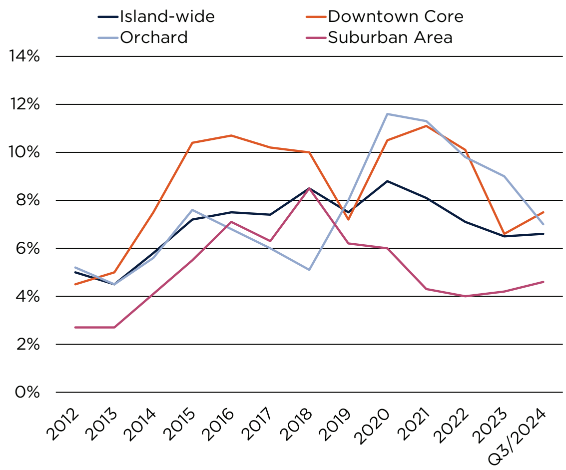
Simon Smith
Regional Head of Research & Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.asia

GRAPH 1: Retail Sales and F&B Services Index, 2019 to August 2024



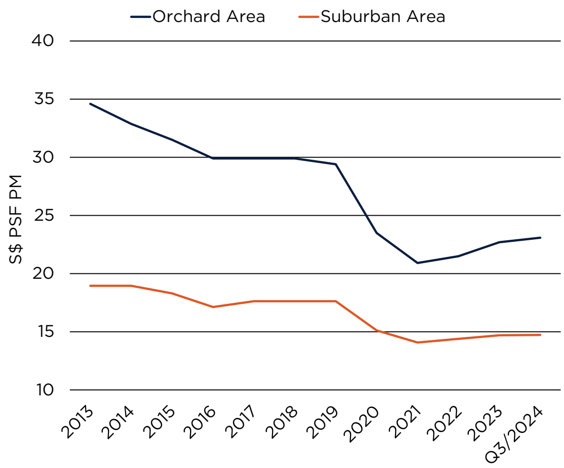
Source Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2: Vacancy Rate, 2012 to Q3/2024



Source URA, Savills Research & Consultancy

GRAPH 3: Average Retail Mall Passing Rents, 2013 to Q3/2024



Source Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advance estimates from the Ministry of Trade and Industry (MTI), Singapore's economic performance picked up momentum in Q3/2024 and expanded by 4.1% from the same period last year. Although wholesale & retail trade and transportation & storage sector sales collectively rose by 3.5% in Q3, the retail trade sector softened as sales for wearing apparel & footwear, watches & jewellery and department stores continued to weaken. While tourism recovery continues to support the accommodation sector, the food services sector remains sluggish.

As sales across the board remained weak, retail sales (excluding motor vehicles)[1] fell again in July and August, extending the decline in Q2. Retail sales posted lower takings in most categories, other than food & alcohol and supermarkets & hypermarkets. The overall sales of F&B[2] also fell, with only food catering services registering growth. (Graph 1) Coupled with high prices in Singapore, consumers could still be incentivised by a strong currency to divert their spending overseas, contributing to the sluggish sales domestically.

STABLE OCCUPANCY AMID MODERATED RENTAL GROWTH

The retail islandwide vacancy rate has continued to ease marginally from 6.6% in Q2/2024 to 6.5% in Q3/2024, back to the level in Q4/2023 which is the lowest since 2014. (Graph 2) The net take-up was evenly distributed across the Central Region, other than the Downtown Core Planning Area where occupancy remained unchanged. Although the Orchard vacancy rate in Q3 (7.0%) was still slightly higher than Q1 (6.8%), it is the lowest in the last five years. Notably, it is also near the pre-COVID five-year average of 6.7% from 2015 to 2019. This shows improved overall market sentiment in the Orchard retail scene, albeit amid generally muted retail sales. The vacancy rate in Suburban Area remained stable (4.6%) on the back of full pre-commitment of the newly revamped spaces at Tampines 1 in Q3.

As the demand for prime retail units remains healthy, rents for such shops rose. This has caused overall retail rents to register a little growth in Q3. The Urban Redevelopment Authority's (URA) retail rental index in the Central Region inched up by 0.3% QoQ, while Central Area and Fringe Area rose by 0.1% QoQ. Savills' retail rents also rose in Q3, but at a slower pace. The average monthly rent in the Orchard Area was up by 0.5% QoQ to S$23.10 psf. The average retail passing rent in Savills' basket of retail properties in the Suburban Area fell marginally by 0.1% QoQ to S$14.70 psf in Q3. (Graph 3)

1 Retail Sales Index in Chained Volume Terms, Monthly (excludes any online orders which are sent from foreign addresses). Updated 24 October 2024.
2 Food & Beverage Services Index in Chained Volume Terms, Monthly. Updated 24 October 2024.

LOCAL F&B SCENE ADAPTS AS INFLUX OF FOREIGN F&B BRANDS DRIVES PRIME RENTS

Despite increasing margin pressures on dining establishments in Singapore, more foreign F&B brands continue to flood the local scene. Chinese brands in particular, are unfazed by the slowing economy and cautious spending, embarking on massive expansion plans in Singapore. The intense competition drove prime rents up, resulting in some homegrown F&B businesses relocating to less prime locations or consolidating their operations. Apart from local F&B operators which shuttered, overseas F&B chains like American pizza joint Little Caesars, having been here for six years, also closed all their outlets.

SUPPLY IN THE PIPELINE

According to Savills' estimates, around 219,000 sq ft of retail space (NLA) is expected to come online in the last quarter of the year. This adds up to a total of over 800,000 sq ft (NLA) of retail space for the year. The annual new completions for the next three years are projected to remain below the total completions of 2024, averaging 527,000 sq ft (NLA) per year from 2025 to 2027. Nonetheless, there will be a major insertion of 1.3 million sq ft (NLA) in 2028, which is on par with the five-year annual average from 2014 to 2018. Notably, most of the major projects involve redevelopment works, suggesting that developers are also revamping to keep their buildings relevant.

OUTLOOK

Singapore's tourism sector has shown significant recovery, and total tourist arrivals are likely to exceed the annual forecast amid the return of Chinese visitors. Nonetheless, tourist arrival numbers for the first three quarters are still 12% lower than the same period in 2019, and tourist spending remains weaker than pre-COVID levels. Meanwhile, domestic spending is projected to remain muted due to inflationary pressure and economic uncertainties.

TABLE 1: Major Projects in the Pipeline

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)*
N/A	Office/retail development (partial redevelopment of Marina Square)	Raffles Boulevard	942,000
mid-2030s	Changi Airport Terminal 5	Tanah Merah Coast Road	622,000
N/A	Office/retail development (redevelopment of HarbourFront Centre)	Maritime Square	452,000
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	289,000
N/A	Hotel/retail development (expansion of RWS integrated resort)	Sentosa Gateway	229,000

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 4%	0%

Source Savills Research & Consultancy

While intense competition from new market entrants is helping to lift prime retail rents, overall average rents are projected to see moderate growth for the rest of the year. Given margin compressions that retailers and F&B operators face, rents should have started falling a quarter or two ago but because of the entry of foreign F&B operators, they held up rents, thereby aggravating the situation of the existing operators. However, we believe that this may not persist because falling or negative margins may pervade across the retail and F&B landscape causing more to exit than foreigners entering. Therefore, despite the tight supply pipeline in the next three years, overall rental growth is expected to generally head sideways in the next few quarters. Labour shortages and rising operating costs will continue to dog retail and F&B businesses capping rental growth as landlords prioritise getting their malls filled. However, prime shops may still experience healthy demand, and their rents may even rise.