



Retail



Slow and steady improvement

Retailers are gaining confidence as retail sales and visitor arrivals continue to increase, and prime rents rise steadily.

- Retail sales (excluding motor vehicles) and food & beverage (F&B) revenue continued to improve in Q4/2022, albeit at a slower pace.
- The continual increase in retail sales, higher footfall to shopping malls, as well as improve in visitor arrivals led to greater confidence amongst retailers, which led to the island-wide retail vacancy rate falling further for the third consecutive quarter to 7.1% in Q4.
- The Savills basket of monthly prime rents in Orchard Area and Suburban Area rose by 0.9% and 0.5% quarter-on-quarter (QoQ) to S\$21.50 psf and S\$23.30 psf respectively in Q4.
- For 2023, we forecast prime Orchard Road Mall rents to rise 1% to 2% year-on-year (YoY) and prime Suburban Mall rents to increase 2% to 3% YoY. Notwithstanding that

economic challenges and tourism numbers are still a far cry from 2019 levels, inflation should buttress gross rents. Landlords may be able to pass the cost push pressures to tenants as confidence builds.

“With the darkest days behind them, retailers and F&B operators’ confidence is improving and this may overcome the economic challenges expected this year.”

ALAN CHEONG, SAVILLS RESEARCH

Savills team

Please contact us for further information

SINGAPORE

Marcus Loo
CEO, Singapore
+65 6415 3893
marcus.loo@savills.com.sg

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

RESEARCH

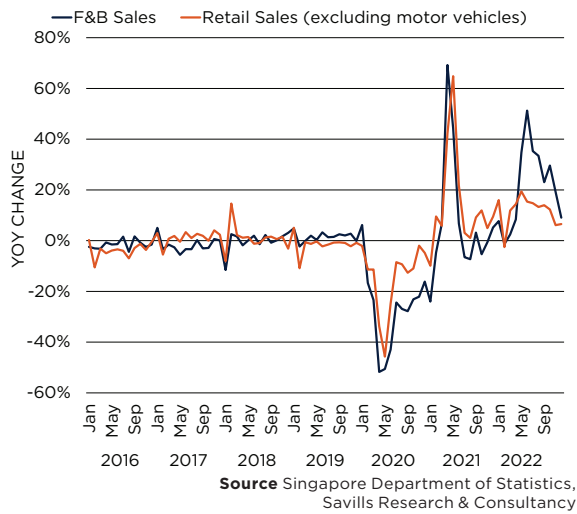
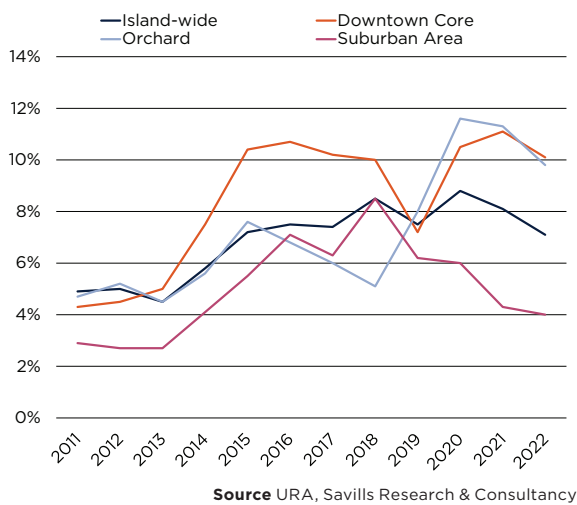
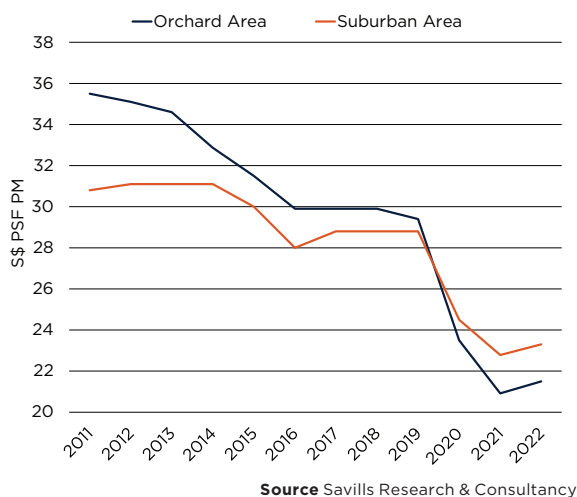
Alan Cheong
Executive Director
Singapore
+65 6415 3641
alan.cheong@savills.com.sg

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

MCI (P) No. 040/08/2020
Company Reg No. 198703410D

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.



GRAPH 1: Retail Sales and F&B Sales Growth, January 2016 to December 2022**GRAPH 2: Vacancy Rate, 2011 to 2022****GRAPH 3: Prime Retail Rents, 2011 to 2022****MACROECONOMIC OVERVIEW**

The Singapore economy expanded by 2.1% YoY in Q4/2022, a climb down from the 4.0% YoY growth in Q3/2022. The retail trade and F&B services sectors registered strong growth in the quarter, rising 5.1% and 19.6% YoY respectively. For 2022, the Singapore economy expanded by 3.6%, moderating from the 8.9% growth in 2021 when the city had just emerged from the harshest of the COVID-19 pandemic measures. Out of the various sectors, the F&B services sector recorded the largest growth in the year, of 18.2%, which was attributed to the lifting of the safe management measures, particularly those which were vaccination-differentiated. Similarly, the retail trade continued to expand by 8.4% on a YoY basis with higher footfall in shopping malls as people began to acclimatize to COVID.

Retail sales (excluding motor vehicles)¹ and F&B revenue² continued to improve in Q4, as well as for the whole of 2022 (Graph 1). The non-motor vehicle sales volume was supported by strong growth in the food & alcohol, wearing apparel & footwear, watches & jewellery, department stores, as well as cosmetics, toiletries & medical goods sectors. These segments performed consistently throughout the year. In Q4/2022, F&B sales rose on a YoY basis due to the relaxation of dine-in restrictions compared to a year ago when the Stabilisation Phase was still in force. The rise in the final quarter was largely led by the food caterers segment, skyrocketing 118%, attributable to the lifting of restrictions on events, which brought about a strong recovery in leisure, business and MICE events. Due to the lifting of restrictions in 2022, F&B sector revenue surged 19.5% YoY, a much faster pace than the 2.7% recorded in 2021.

VACANCY RATES CONTINUED TO FALL

The continual improvement in retail sales is correlated to increased consumption and higher footfall in shopping malls. Apart from local consumers, as people worldwide move beyond the pandemic, the easing of travel restrictions will also lead to greater tourist arrivals to Singapore. Retailers are now seeing the light at the end of the tunnel after enduring the past three years in the most difficult of circumstances. The gradual improvement in the retail scene gave tenants greater reason to start expanding their operations once again. Consequently, the island-wide retail vacancy fell further for the third consecutive quarter to 7.1% in

Q4/2022. This was the lowest since Q3/2015 when the vacancy rate was 7.0% (Graph 2). Vacancy rates in both Central and Outside Central Regions recorded QoQ declines, with a larger decrease for Outside Central Region of 1.1 ppts to 4.0%, while the vacancy for the Central Region fell 0.6 of a ppt to 8.7%. In the Central Region, vacancy rates in the Downtown Core and the Orchard Planning Areas continued to improve as visitor arrivals to Singapore increased. Vacancy rates in the Rest of Central Area also fell in the quarter, while in the Fringe Area they inched up marginally by 0.1 of a ppt after three consecutive quarters of decline.

The improvement in vacancy rates may imply that landlords are now focusing on improving occupancy of malls rather than holding higher rental expectations. As such, the Urban Redevelopment Authority's (URA) retail rental index for the Central Region declined for a fourth consecutive quarter by a larger 1.1% QoQ in Q4/2022, significantly more than the 0.4% decrease in Q3/2022. For the whole of 2022 though, retail rents in the Central Region contracted by 2.4%. While this was the third consecutive year of decrease, the magnitude of decline was much lower than the 6.8% in 2021 and 14.7% in 2020. Nevertheless, prime retail space is still widely coveted by retailers and rental expectations of landlords are higher for such spaces. This is seen from the Savills monthly prime rents³ in Orchard Area and Suburban Area which increased for a second consecutive quarter by 0.9% and 0.5% QoQ to S\$21.50 psf and S\$23.30 psf respectively in Q4/2022 (Graph 3). For the whole of 2022, Savills monthly prime rents in Orchard Area and Suburban Area recorded growth of 2.8% and 2.3% YoY respectively, a reversal from the decline in past years.

MORE NEW-TO-MARKET BRANDS OPENING IN SINGAPORE

As international visitors return, more retail brands are starting operations in Singapore. Cinnabon, the renowned American cinnamon roll brand, has opened its first flagship store at Raffles City Shopping Centre. In addition, Tim Hortons has also announced the opening of its stores from April 2023 onwards. Apart from F&B operators, international fashion brands are also setting up shop here. These include Swedish fashion brand Acne Studios which has opened its first physical store at The Shoppes at Marina Bay Sands, as well as Grand Seiko which has also opened its first store in Asia outside Japan at the same shopping mall. In the suburban area, Korean convenience store chain Emart24 has also

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

TABLE 1: Major Projects in the Pipeline

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)*
2023	Sengkang Grand Mall	Compassvale Bow/Sengkang Central	109,000
2024	The Woodleigh Mall	Bidadari Park Drive	94,000
2025	Canninghill Square	River Valley Road	90,000
2025	Punggol Digital District	Punggol Way	173,000
2025	Pasir Ris Mall	Pasir Ris Central	270,000
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%.

opened stores in Jurong Point and Nex Mall, making it the first Korean convenience store chain to operate in Singapore.

SUPPLY IN THE PIPELINE

According to Savills estimates, the island-wide supply pipeline⁴ over the next few years is comparable to that of the past few years. The coming five-year annual average (2023 to 2027) and historical five-year annual average (2018 to 2022) are at 588,000 sq ft. The bulk of the upcoming supply will be slated to complete over the next two years, with over 700,000 sq ft projected to complete in each of 2023 and 2024, tapering off thereafter.

OUTLOOK

Although the retail sector has moved past the worst of days in 2020 and 2021, this period of heightened inflation and economic slowdown could affect consumption power amongst both locals and foreigners. The re-opening of borders in China may over time lead to a greater flow of Chinese tourists

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

TABLE 2: Prime Rental Changes, 2023F

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

Source Savills Research & Consultancy

here but any reversion to levels seen in 2019, which saw 3.69 million mainland tourists, is still some way off. In the month of February 2023, the number of Chinese tourists was just 35,300. For the same month in 2019, that number totalled 339,550.

Although tourism numbers may take another two years to revert to pre-pandemic levels and economic challenges lie ahead, we may still see retail sales improve due to inflation. Gross rents will find support from cost push pressures too as landlords pass these on to tenants. They can do so because the supply of retail space here is not only low for 2023, it is also confined to suburban locations that attract footfall from the vicinity

rather than islandwide. Ultimately, we still believe that retail rents have found a floor and will begin their arduous journey to recovery. For 2023, we forecast prime Orchard Road Mall and prime Suburban Mall rents to rise by 1% to 2% and 2% to 3% respectively.