

Retail



Retail occupancy lifted by major new malls

Orchard retail rents showed signs of weakness.

- As consumers reined in spending, retail sales (excluding motor vehicles) registered the fifth month of decline since February.
- Food and beverage (F&B) sales reversed course in April after a two-month dip, posting a modest recovery as F&B takings saw a rise across all segments.
- On the back of healthy take-up in Funan and parts of Suburban Area, the island-wide vacancy rate fell from its highest level at 8.7% in Q1/2019 to 7.7% in Q2/2019.
- As the retail rental index in Central Area extended its losing streak for two consecutive quarters, Savills prime monthly rents in Orchard Area ended nearly three years of stagnant quarterly growth with a 1.0% quarter-on-quarter (QoQ) decline to S\$29.60 per sq ft in Q2/2019.
- The prime monthly rents in Suburban Area, especially malls with sustainable high footfall, remained unchanged at S\$28.80 per sq ft in Q2/2019.
- The slowdown in the global economy, especially in China, will buffet tourism numbers and expenditures and may negatively affect Orchard rents while suburban ones should remain steady.

“Falling vacancies belie the point that retailers are engaged in trench warfare, battling disruptors and a strong local currency.”

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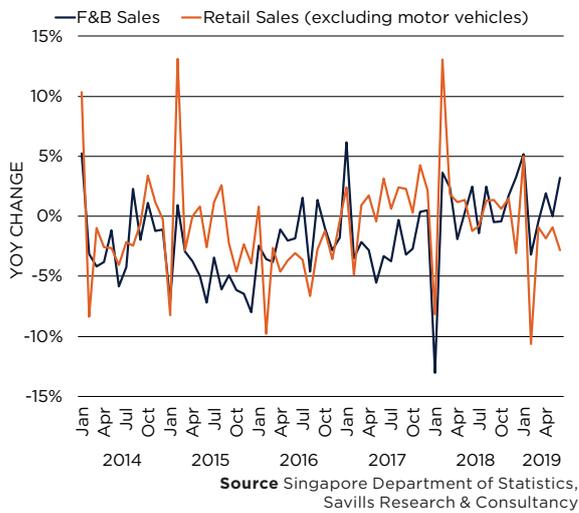
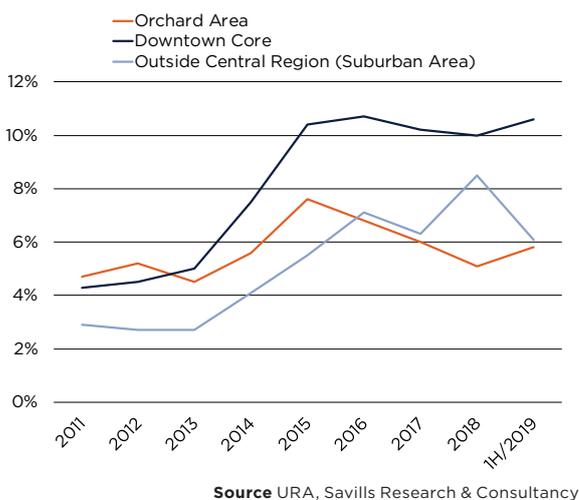
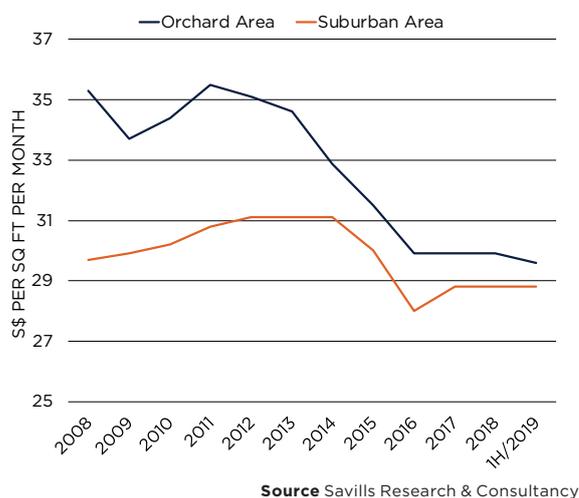
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GRAPH 1: Growth In Retail Sales And F&B Sales, January 2014 to June 2019**GRAPH 2: Vacancy Rates, 2011 to 1H/2019****GRAPH 3: Prime Retail Rents, 2008 to 1H/2019****MACROECONOMIC OVERVIEW**

Singapore's economic growth in 2019 shrunk from 1.1% year-on-year (YoY) in Q1 to 0.1% YoY in Q2, marking its slowest pace since 2009, according to the Ministry of Trade and Industry (MTI). The manufacturing sector was the main drag on overall economic growth, extending its decline in Q1/2019 (-0.3% YoY) with another contraction of 3.1% in Q2/2019. While the economy continued to slow, business sentiments and total employment growth remained lacklustre in Q2/2019, even though retrenchment levels eased.

Although visitor arrivals hit a new record high of over 4.6 million in Q2/2019, tourism receipts did not keep pace. With consumers tightening their purse strings, spending growth stopped in Q2/2019, following a decline that started in February this year. Compared to the same period last year, retail sales (excluding motor vehicles)¹ in Q2/2019 fell on the back of weaker discretionary spending on furniture & household equipment as well as computer & telecommunications equipment.

On the bright side, F&B sales² reversed course in April after a two-month dip, posting a modest recovery as F&B takings saw a rise across all segments. Fast food outlet earnings saw strong growth in Q2/2019, which could be attributed to the variety of new F&B options introduced in Jewel Changi Airport (Jewel). Notably in June, there was a significant uptick in fast food outlets and restaurant takings, which could be due to higher consumption during school holidays.

SIGNS OF RENTAL SOFTENING IN ORCHARD

Singapore island-wide retail stock increased by 0.3% QoQ to almost 66.6 million sq ft in Q2/2019 due to new completions in Downtown Core Planning Area such as the redeveloped Funan.

On the back of healthy take-up in Funan and parts of Suburban Area, the island-wide demand for retail space rose by 797,000 sq ft in Q2/2019, which far surpassed the total net absorption of 581,000 sq ft for the last two years (2017 and 2018). This resulted in a decrease in the island-wide vacancy rate from its highest level at 8.7% in Q1/2019 to 7.7% in Q2/2019 (Graph 2). Notably, the vacancy level in East Region dipped to its lowest level in almost four years as the take-up in Jewel was only registered in Q2/2019 when tenants moved into their premises in April. Owing to strong daily traffic from the residential catchment, the demand for retail space in

¹ Retail Sales Index at Constant Prices, Monthly. Updated as at 15 August 2019
² Food & Beverage Services Index at Constant Prices, Monthly. Updated as at 15 August 2019

Tampines continued to rise, supporting the good overall occupancy level in East Region. However, demand for retail spaces softened in other parts of Suburban Area, such as Jurong Regional Centre where the vacancy rate hit a record high of 24.9%.

The other reason for the positive demand for retail space could be because some landlords are adjusting their rents to accommodate the persistent economic slowdown and weak consumer sentiment. In Q2/2019, the retail rental index in Central Region and Central Area fell 1.5% and 1.8% QoQ respectively, extending their losing streaks for two consecutive quarters. Savills prime monthly rents in Orchard Area ended nearly three years of stagnant quarterly growth with a 1.0% QoQ decline to S\$29.60 per sq ft in Q2/2019. The suburban retail market, with strong catchment areas, remained fairly resilient to the vicissitudes of the economic cycle. The prime monthly rent in Suburban Area, especially in malls with sustainable high footfall, remained unchanged at S\$28.80 per sq ft in Q2/2019 (Graph 3).

FUNAN: DIVERSIFIED RETAIL WITH DIGITAL ENGAGEMENT

In the increasingly competitive retail landscape, malls—including the newly opened Funan—are trying to redefine their retail offerings to entice shoppers. Funan refreshed its retail mix with around 30% of shops that are new to the market. Besides Dyson and Taobao, which opened its first standalone physical outlet in Singapore, various international brands, such as Brompton Junction, Nikon and Bernina, all unveiled their first flagship stores in Funan. Japanese dollar store chain Daiso also introduced the first Southeast Asian outlet of its premium brand, Threeppy, while Courts, an existing tenant prior to redevelopment, returned to Funan with its first Internet of Things store, which spans 12,000 sq ft.

In addition to international retailers, more than 60% of Funan's stores are made up of local brands. One major home-grown label, Love, Bonito, opened its third and largest store in the revamped mall. Some local retailers, like Kopitiam and FairPrice Finest, embraced high-tech and incorporated technology in their new branches in Funan to enrich the in-store experience.

RISE IN F&B FOOTPRINT AMID SALES PICK-UP

Despite the closure of some major F&B establishments such as Chili's, Dome Café and Pablo Cheese Tart, the sector has

TABLE 1: Major Projects In The Pipeline, Q3/2019 to 2023

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)
2019	Paya Lebar Quarter (PLQ) Mall	Paya Lebar Road/Sims Avenue	340,000
2019	Tekka Place	Serangoon Road	70,000
2020	Northshore Plaza I	Northshore Drive	62,200*
2021	Le Quest	Bukit Batok Street 41	60,000
2022	The Woodleigh Mall	Bidadari Park Drive	96,800*
2022	Retail Development (in a mixed-use project)	Sengkang Central	64,000*
2023	Punggol Digital District	Punggol Way	146,600*

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

welcomed a slew of new openings since the beginning of the year, showing the resiliency of F&B in the face of an economic slowdown and ongoing business disruption.

Several Japanese restaurants and cafés were among the new entrants joining the local F&B scene in Q2/2019. Japanese-based Gram Cafe & Pancakes, Pronto Caffe & Bar and Emma dessert made their Singapore debuts in VivoCity, Capital Square and Plaza Singapura, respectively. Ramen chain Afuri opened its first Singapore's outlet in Funan while Man Man Unagi and Tendon Kohaku opened their first collaborated outlet at Clarke Quay.

Tapping into the strong fast food segment in Singapore, A&W opened a larger outlet spanning 2,812 sq ft at Ang Mo Kio Hub, after a successful comeback in Jewel. Later in the year, American burger joint Five Guys is slated to set up its first branch at Plaza Singapura.

Some existing restaurant operators also expanded to gain a bigger foothold in Singapore. While Tim Ho Wan launched its 11th branch at Punggol Waterway Point, Tsui Wah will be opening its second outlet at Robinsons The Heeren. During the first six months of 2019, Paradise restaurant group set up ten outlets in Singapore. As the group focuses on Singapore this year, the openings form part of its massive worldwide expansion plan to open its 150th branch by 2021.

SUPPLY IN THE PIPELINE

There is a total estimated supply of 610,300 sq ft (nett) of retail space from projects in the pipeline in 2H/2019, compared to over 1.0 million sq ft (nett) completed over the same period last year (2H/2018). The upcoming supply in 2H/2019 will mainly come from the completion of Paya Lebar Quarter (PLQ) Mall and Tekka Place (Table 1). Scheduled to open in October, PLQ Mall is around 90% committed with the rest under final negotiations³. Over 200 stores are ready for opening, including anchor tenants such as Shaw Theatres, FairPrice Finest and KopiTime, as well as international retailers like Uniqlo, Tokyu Hands and Haidilao Hot Pot.

The island-wide retail supply in the pipeline is set to moderate from next year on with an annual average release of around 506,700 sq ft (nett) from 2020 to 2023. This is even lower than the 663,000 sq ft (nett) of new retail space completed in 1H/2019.

OUTLOOK

As sluggish growth of the global economy persists, Singapore's economic growth is expected to soften, with MTT's latest gross domestic product

growth forecast downgraded to 0% to 1% YoY for 2019. The downturn in the manufacturing sector is likely to spill over into other sectors like services, which could hit the job market and crimp consumer spending. Apart from the domestic market, the 4.8% decline in tourism receipts draws some consternation. It is not the decline per se that's raising eyebrows, but that the decline more than countervailed the 1% increase in tourist arrivals. Furthermore, a look at the components making up tourism receipts reveals that spending on accommodation, shopping and F&B fell 12%, 7% and 7%, respectively. This warrants analysis. For this quarter, we shall look at the exchange rate factor and its impact on tourism.

For accommodation, the sharp 12% decline does not appear to tie in with the 0.3% rise in Revenue Per Available Room (RevPAR) and the marginal decline in Average Occupancy Rate (AOR). With gazetted hotel room revenue rising 4.3% YoY, the overall fall in accommodation spending appears to suggest that tourists are spending less in non-gazetted hotels. If so, the hotel industry is running on two speeds, with gazetted hotels performing strongly whilst its non-gazetted counterparts languish. Could this ultimately be linked to the changing profile of tourists from our tourist exporting countries? For instance, could the broad-based decline in the components that make up tourist expenditures mean a shift towards more budget conscious tourists or those who withhold spending here during their multi-Asian city tours?

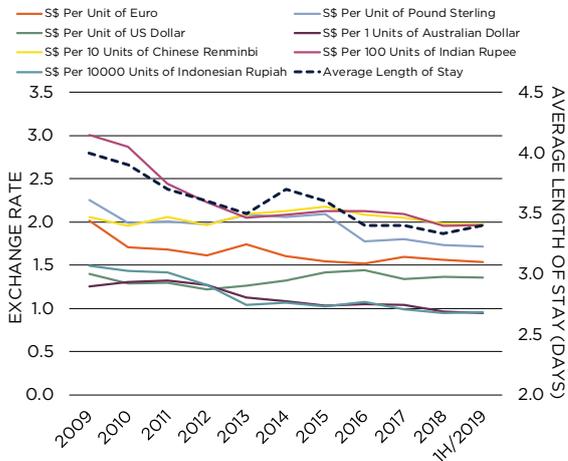
If tourists are withholding spending on accommodation, the impact on retail and F&B spending should mirror that; the data certainly seems to point in that direction. This spending trend has probably been in existence for a while, and we believe that it could be due to the strength of the Singapore dollar not being able to offset the import cost of goods and services. Consequently, hotel accommodation and other expenses incurred while staying here could be deterring any attempts to stay longer in Singapore. Graph 4 shows that the average length of stay by international tourists has been declining. Optically, this decline correlates with the strength of the Singapore dollar against our major tourist exporting countries.

Without having to construct and correlate the equivalent of a Nominal Effective Exchange Rate for tourism to the average length of stay, we believe that this correlation is not spurious as it does not contradict the combined feedback on the ground from retailers, hotel operators and medical professionals.

Since little can be done on the exchange rate front, retailers may have to depend less on tourists and double their efforts to rake in on domestic

³ Information accurate as of 19 August 2019, according to the developer Lendlease.

GRAPH 4: Major Tourism Exporting Countries Exchange Rates vs Average Length Of Stay



Source STB, MAS, Savills Research & Consultancy

TABLE 2: Prime Rental Changes for 2019 And 2020

PERIOD	PRIME ORCHARD ROAD RENTS YOY CHANGE	PRIME SUBURBAN MALL RENTS YOY CHANGE
2019F	-3.0% to -1.0%	0.0%
2020F	-1.0% to +1.0%	0.0%

Source Savills Research & Consultancy

consumption. Tourist arrivals may continue to increase, only because Singapore is a high priority country to visit, albeit within a touch-and-go time frame.

As malls in Orchard Area target foreign visitors, a two-speed market emerges within a mall. We believe that units with prime street frontage will in the foreseeable future continue to be 100% let out and at rental levels that resist increasing economic and tourism challenges. Still, rents may soften marginally by between -3% to -1% this year (Table 2). It will be asking rents for units located within malls and/or on upper levels that we believe will be affected more. However, we should make it clear that it is not that the contracted rents for these units will come off significantly, but that asking rents, which in the past have been quoted at much higher levels than when the rents were finally inked, will flex. Especially with the long-term supply constraints in Orchard Area, overall passing rents for well-managed and located malls should remain relatively resilient. Orchard Area will still be an iconic destination for international retailers—such as Thailand-based fashion label Pomelo, which made its Singapore debut with a flagship store at 313@Somerset in June—and will continue to draw both local and overseas crowds.

The rents of prime retail units in Suburban Area are expected to stay firm in the near term, supported in part by the cutback in future retail supply over the next few years (Table 2). However, we believe the softness in economic underpinnings is likely to manifest itself in lower consumption. Units in off-prime locations within a mall are expected to see rents soften slightly, with passing rents in 2019 hovering at levels -1% to +1% to those in 2018.