

Retail



Retailers streamline their physical presence

Rental growth has not been broad-based across all regions.

- As domestic spending and tourism receipts continued to moderate, retail sales (excluding motor vehicles) marked a seventh month of decline since February.
- Food and beverage (F&B) sales growth held steady in July and August, supported by positive earnings from fast food outlets and restaurants.
- Owing to healthy take-up in some new malls, the island-wide retail vacancy rate continued to ease by 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to 7.5% in Q3/2019.
- The rental market generally remained suppressed as landlords tried to fill new completions.
- Savills prime monthly rents in Orchard Area slipped by 0.7% QoQ to S\$29.40 per sq ft while Suburban Area remained unchanged at S\$28.80 per sq ft, narrowing the rental gap between both areas.

- For 2019 and 2020, we expect softness for prime Orchard Road rents but suburban malls should hold firm.

“Although retailers are not faring well, there exist opportunities to improve passing rents in some malls.”

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

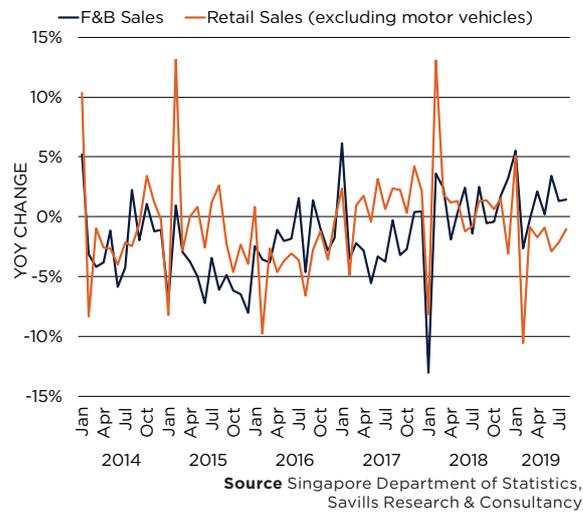
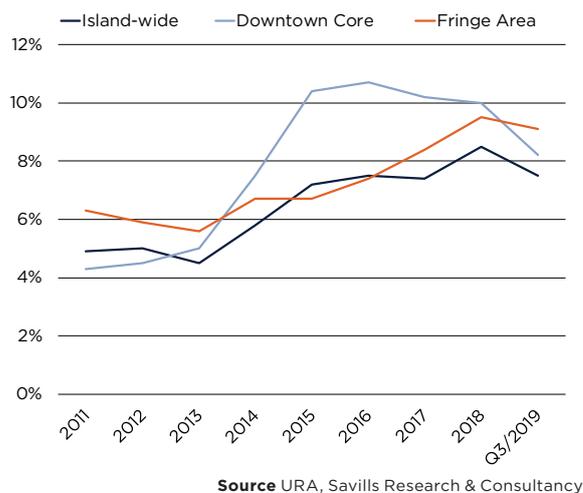
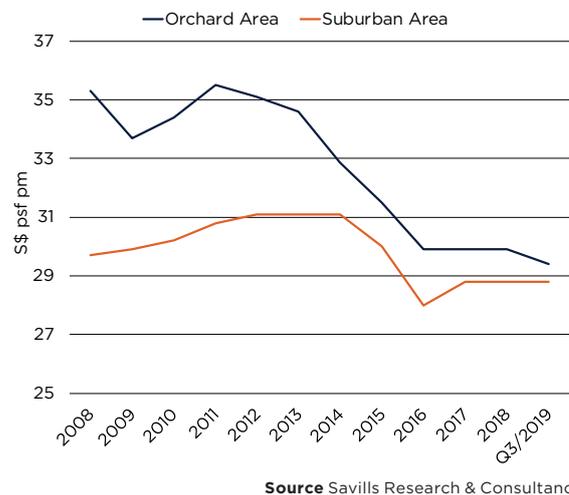
RESEARCH

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

Simon Smith
 Senior Director
 Asia Pacific
 +852 2842 4573
ssmith@savills.com.hk

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GRAPH 1: Growth In Retail Sales And F&B Sales, January 2014 to August 2019**GRAPH 2: Vacancy Rates, 2011 to Q3/2019****GRAPH 3: Prime Retail Rents, 2008 to Q3/2019****MACROECONOMIC OVERVIEW**

From advance estimates released by the Ministry of Trade and Industry's (MTI), Singapore's economy in Q3/2019 grew at the same pace as the preceding quarter at 0.1% year-on-year (YoY). The manufacturing sector remained a key drag on the economy as it contracted 3.5% YoY in Q3/2019, extending the 3.3% YoY decline in Q2/2019. Business sentiment was also subdued in Q3/2019. As the number of retrenchments and job seekers increased, the unemployment rate rose to 2.3% in Q3/2019, though this is still low by global standards.

Although Singapore's tourism sector continued its growth with record high visitor arrivals of over 12.8 million for the first eight months in 2019 (compared with 12.6 million over the same period in 2018), tourism receipts declined 3.0% YoY in 1H/2019. While receipts and arrivals from business travel and meetings, incentives, conferences, and exhibitions fell as companies cut back on travel and trip budgets, spending by the leisure segment also fell as tourists were more cautious about spending.

Amid the continued weakness in domestic demand, consumer demand moderated further. Since February, retail sales have been falling for seven consecutive months (Graph 1). Compared to the same period last year, retail sales (excluding motor vehicles)¹ in July and August fell on the back of weaker spending on watches & jewellery as well as furniture & household equipment. On the other hand, the growth in F&B sales² held steady in July and August, supported by positive earnings from fast food outlets and restaurants.

RETAIL RENTAL MARKET REMAINS LACKLUSTRE

In Q3/2019, the newly opened Paya Lebar Quarter (PLQ) Mall was the major reason for the net increase of 151,000 sq ft of retail stock in Fringe Area. As a result, approximately 172,000 sq ft of net retail space was supplied to the market, pushing island-wide retail supply up to over 66.7 million sq ft.

Despite the additional new supply, island-wide retail vacancy rate continued to fall for the second quarter, coming off 0.2 of a ppt QoQ to 7.5% in Q3/2019 (Graph 2). As new spaces at Funan and PLQ Mall were eventually taken up, the overall vacancy rate in Central Region eased by 0.4 of a ppt QoQ to 8.2%. For Orchard Area, vacancy level inched up by 0.1 of a ppt QoQ to 5.9%, while for Suburban Area it remained unchanged at 6.1%, its lowest since 2016.

After two quarters of rental correction, the Urban Redevelopment Authority's (URA) retail rental index in Central Region picked up 2.3% QoQ in Q3/2019. The rental increase

of 2.0% QoQ in Fringe Area is likely to be due to completion of PLQ Mall. As the rental level within the vicinity was relatively lower due to lack of large-scale malls, PLQ Mall may have lifted the overall rents in Geylang Planning Area in Q3/2019. Central Area also recorded a quarterly rental growth of 2.3%. This could be because retailers' willingness to pay more is boosted knowing that the new mall effect is likely to draw in shopper traffic. The latest addition of F&B kiosks after the revamp at Suntec City to accommodate a new F&B cluster may have also helped to drive up overall rents as smaller F&B units usually command higher unit rents. Nonetheless, rental market generally remained suppressed as landlords were trying to fill spaces amid influx of new completions. Thus, the rental increase in Central Region may not be representative of the effective rental in the market.

Even though rising visitor arrivals and shortage of new supply may have helped to support demand in Orchard Area, retailers were seeking rent reductions as shoppers pulled back spending. As some major retailers vacated their spaces in Orchard Area, landlords could have relented on rents to fill up the vacancies. Hence, Savills monthly prime rents in Orchard Area slipped by 0.7% QoQ, albeit at a slower rate than 1.0% QoQ in Q2/2019, to S\$29.40 per sq ft in Q3/2019. In Suburban Area, despite a more stable non-discretionary spending and footfall, monthly prime rents stayed flat at S\$28.80 per sq ft in Q3/2019 as retailers grapple with higher operating costs and manpower constraints (Graph 3).

STREAMLINE REAL ESTATE RETAIL MODEL

As consumer behaviour evolves in reaction to new technology and operating costs rise, retailers have started to scale back their physical presence to streamline efficiency. While bookstore chains such as Kinokuniya and Times downsized their retail operations in Singapore, MPH also closed its last two remaining stores this year due to high rental costs and its plans to re-channel focus to its new outlet at SingPost Centre opening in November. Compared with the former 6,500-sq ft store at Raffles City, MPH new strategy will be to migrate towards smaller concept stores, with its first branch at SingPost Centre taking up 1,900 sq ft.

There were also some changing of tenants in parts of Orchard Area as some retailers rescoped their operations. In mid-September, department store Metro closed its flagship outlet which has occupied six levels at Centrepoint for the last five years, leaving it with only two stores at Paragon and Causeway Point. Even for the more resilient F&B sector, many reduced their store footprints, with Crystal Jade Kitchen, Ministry of Food, Roost and ChickenUp vacating their units

1 Retail Sales Index at Constant Prices, Monthly. Updated as at 4 November 2019.
2 Food & Beverage Services Index at Constant Prices, Monthly. Updated as at 4 November 2019.

TABLE 1: Major Projects In The Pipeline, Q4/2019 to 2023

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)
2019	Tekka Place	Serangoon Road	70,000
2020	Northshore Plaza I	Northshore Drive	62,200*
2020	30 Raffles Place	Raffles Place	51,400
2020	IMall	Marine Parade Central	50,300*
2021	A&A to existing Shaw Plaza	Balestier Road	63,600*
2022	The Woodleigh Mall	Bidadari Park Drive	96,800*
2023	Punggol Digital District	Punggol Way	146,600*
2023	Sengkang Grand Mall	Sengkang Central	52,800*

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

at Centrepoin in recent months. American furniture and houseware retailer Crate and Barrel will shut its five-storey flagship store at Orchard Gateway @ Emerald in November. The retailer still has another store at ION Orchard.

RECALIBRATE WITH NEW APPEAL

While some retailers remodel their physical retail, those who expanded have adopted new concepts to excite shoppers. The space vacated by Giant early this year was replaced by FairPrice's largest store with dining areas and a hydroponic farm, occupying 90,000 sq ft across two floors at VivoCity. Later in 1H/2020, sports retailer Decathlon will become the new anchor tenant at Centrepoin, taking up part of the space vacated by Metro. Its new activity-based concept store, also its first branch in Orchard, will be aligned with the mall's strategy to bring in more experiential and lifestyle elements. American rotisserie chain Kenny Rogers will also return with more outlets in Singapore, featuring a new fast casual dining concept in its first branch at JEM in October.

SUPPLY IN THE PIPELINE

Savills estimated that around 218,500 sq ft of retail net lettable space should come on stream in Q4/2019, bringing the total completed retail space to almost 1.3 million sq ft (nett) in 2019. The new supply in the last quarter will mainly come from redevelopment projects such as Tekka Place and 9 Penang Road (Table 1).

Island-wide retail pipeline supply is expected to taper off to an average of 568,900 sq ft of net lettable area per annum over 2020 to 2023. This is a significant decline compared with an annual average of 1.4 million sq ft from 2016 to 2019. As most of the mega malls, like Jewel and Funan, were completed, the upcoming supply will largely be supported by retail component in integrated projects including The Woodleigh Mall, Northshore Plaza I and Sengkang Grand Mall, which are comparatively smaller in scale. Some future supply will come from older developments, such as Shaw Centre and Wilkie Edge, which have recently closed for improvement works.

OUTLOOK

As global economic activity remains subdued, MTI has downgraded its latest economic forecast to 0% to 1% YoY in 2019. In contrast, 2018 registered growth of 3.2%. The Monetary Authority of Singapore's baseline view is that the current cycle is likely to bottom out towards end-2019 and into 2020, assuming that the slowdown will not spill over into other parts of the economy. However, the on-going market uncertainty could further crimp consumer spending, especially on discretionary items.

Apart from muted domestic spending, tourism receipts slipped for a third quarter in Q2/2019, dragging down retail sales. Even though shopper traffic and visitor arrivals stayed strong, the strain of falling tourism receipts and sluggish consumer spending combined with mounting operational costs will continue to put pressure on retailers' margins. This might in turn exert downward pressure on overall retail rents, especially in tourist areas like Orchard Area. Although demand for retail space may stay firm due to limited new supply, retail rents of prime units in Orchard are likely to soften this year (Table 2).

Meanwhile, the rental market in Suburban Area is more resilient to fluctuations in discretionary spending as suburban malls cater to necessity shopping. As such, rents of prime retail units are forecast to remain flat for the year (Table 2).

Although headline rents appear soft, the fact of the matter is that in some retail malls, there could still be opportunities for the passing rent to increase. The reason is firstly, not all tenants on the same frontage are paying similar rents with some paying way below what their neighbors are paying. Secondly, some tenants are doing extremely well compared to the norm for their peers in the same trade in the mall. These two points simply point to the potential for increasing the yield of the mall. Therefore, even though the retail industry in general is not faring well, the total rental performance of each mall varies, and for some malls, they can find ways to improve their performance. This means that looking ahead to end-2020 investment opportunities will still exist.

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