

LIGHT AT THE END OF THE TUNNEL

Retail rents and capital values weaker on the impact of COVID-19

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Insights & Recommendations

Retail rents declined 4.7% on average for Orchard Road and Regional Centres in H1 2020, reflecting the impact of COVID-19 circuit breaker measures. Exiting the lockdown, most shops have reopened, though the sector remains fragile. We expect 2020 rents to fall 5.0% to 8.0%.

Island-wide vacancy jumped 2.1ppt to 9.6% in H1 2020 as negative net absorption hit a record 1.46 million sq ft. We expect vacancy to improve from 2021 as supply remains benign.

Transaction volumes declined. Imputed capital values slid 5% HOH due to disrupted income but cap rates have largely remained flat.

We recommend resilient retailers upgrade to prime locations, and landlords help retailers digitalise and boost their online strategies.

		H1 2020	Full Year 2020	2020-24 Annual Average	
	Demand	> Net demand in H1 2020 fell to a record low due to the impact of COVID-19. Despite limited new supply in 2020, we expect new demand to stay muted.	-1,460,000 sq ft	-927,000 sq ft	532,000 sq ft
	Supply	> New annual supply is tight through 2020-2024 at 0.7% of stock versus past 10-year average of 1.4%. Future supply is mainly in suburban and fringe areas, where there are well-defined population catchments.	-118,000 sq ft	437,000 sq ft	496,000 sq ft
	Rent*	> Ground-floor rents were down 5.9% and 3.5% at Orchard Road and Regional Centres respectively in H1 2020. The rental market remains fragile and we expect overall average retail rents to decline 6.5% in 2020.	HOH/ End H2 -5.9%	YOY / End 2020 -8.0%	Annual Average Growth 2020-24 / End 2024 -0.3%
	Vacancy	> We expect Island-wide vacancy to rise to 9.5% in 2020 as more retailers pull out. Vacancy should subsequently trend to 7% towards 2024 as the economy recovers.	+2.1pp 9.6%	+2.0pp 9.5%	-0.1pp 7.0%
	Capital Values/ Yields	> Transactions plunged 86% HOH in H1 2020 as investors stay on sidelines. Capital values will soften in 2020, to reflect disrupted income, but cap rates should remain flat in the low interest rate environment.	0pp 4.5%	0pp 4.5%	0pp 4.5%

Source: Colliers International. *Refers to ground-floor rents in prime shopping malls within the Orchard Road district. Note: USD1 to SGD1.3932 as at 30 June 2020. 1 sq m = 10.764 sq ft. "pp" refers to percentage point.

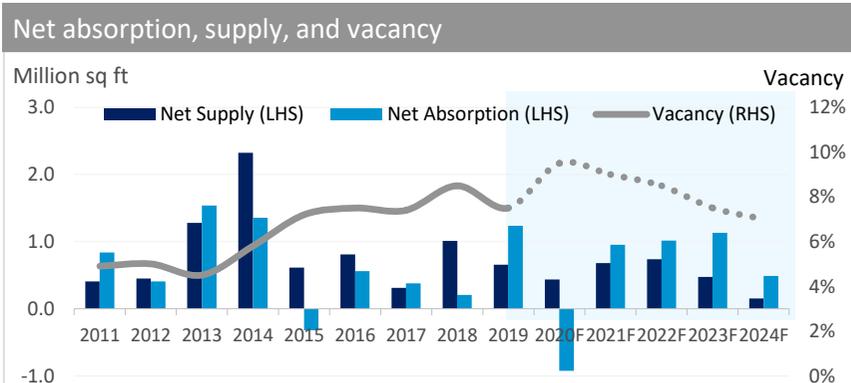
LEASING MARKET AND RENTS

Rents weakened as malls shuttered in H1

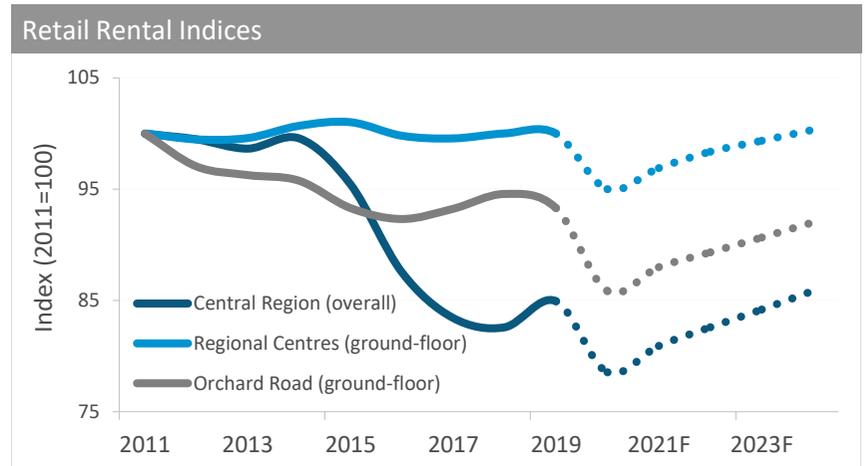
Based on Colliers' research, ground-floor rent on Orchard Road declined 5.9% HOH in H1 2020 to SGD38.24 (USD27.45) per sq foot per month, while that of Regional Centres declined 3.5% HOH to SGD32.43 (USD23.28) per sq foot per month. Retail sales (excl. motor vehicles) plummeted 45.2% YOY in May (following a 32.8% YOY decline in April), reflecting the biggest drop since 1986, as Covid-19 lockdowns over April 7 to June 18 shuttered malls.

H1 2020 saw a flurry of retail closures including indoor family attraction Kidzania Singapore, fashion brand Esprit which shut 12 outlets islandwide and homegrown sports retail chain Sportslink. Others downsized such as department store operators Isetan and Robinsons which are pulling out from Westgate and JEM respectively. Many more F&B outlets folded.

Retail sales (excl. motor vehicles) saw a rebound in June, up 43.1% month-on-month (seasonally-adjusted) and -24.2% YOY, as malls reopened on 19 June (under the Phase 2 easing), indicating the worst is over. That said, we believe recovery of the overall retail market is likely to be slow on Covid-19 headwinds and structural challenges such as increasing competition from e-commerce and high occupancy costs. Online sales as a proportion of total retail sales more than doubled from 8.5% in March to 18.1% in June, versus 5.8% in Jan 2020. As such, we expect average retail rents to decline 6.5% for the full year in 2020 and rebound 2.3% in 2021 with limited new supply.



Source: Colliers International, URA.



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Government and landlords offered rental rebates

The government has put in place several measures to support retail tenants. These measures include: four months' worth of rental rebates (shared equally by the government and landlords) for qualifying tenants, a job support scheme with the government co-funding up to 75% of workers' pay, foreign worker levy rebates, debt and rent payment moratoriums and easier access to loans. Major landlords such as Capitaland also provide flexible rental payment schemes such as offsetting rents with security deposits, and help their tenants accelerate their digitalisation to sell online. Nonetheless, while uncertainties still abound, vacancies could remain high and rents are likely to remain weak. Post Covid-19, landlords may also look at lease and rent restructurings such as adopting Gross Turnover Rent (GTO) rent.

Limited new retail stock in next five years

We expect negative net absorption in 2020 with several retail closures and downsizing of operations, driving vacancy up to 9.5%. That said, we find reprieve in relatively contained supply in 2020 (0.7% of total stock versus 10-year historical average of 1.4%) and throughout 2020-2024 (0.7% of total stock). In addition, the new supply is mostly concentrated in suburban and fringe areas, where there are well-defined population catchments. This should allow vacancy to improve and trend towards 7% in 2024.

INVESTMENT MARKET AND CAPITAL VALUES

Retail property transactions to be supported by REITs' M&A activity in H2 2020

Retail property transactions fell 86% HOH in H1 2020

In H1 2020, total retail property transaction volumes contracted 85.7% HOH to SGD283 million (USD203 million), as investors turned more cautious amid COVID-19. There was only one major enbloc transaction: the sale of the retail units at 30 Raffles Place in June 2020, valued at SGD193 (USD138) million, which translates to SGD3,756 per sq ft (USD2,696 per sq ft). A strata unit at People's Park Centre was sold for SGD12.3 (USD8.8) million in February.

In July, Frasers Property sold a 50% stake in Northpoint City (South Wing) to TCC Prosperity, valuing the property at SGD1.1 billion. The pending merger of Capitaland Commercial Trust and Capitaland Mall Trust could also result in a transaction value of more than SGD10.1 billion (USD7.3 billion).

Capital values declined 5.0% HOH in H1 2020

H1 2020 prime floor capital values in the Orchard area fell 5.0% to SGD6,473 per sq foot (USD50,000 per sq metre). According to Colliers International Valuation and Advisory Services (CIVAS) team, cap rates for shopping malls island-wide remain unchanged, ranging between 4.25%-4.75%.

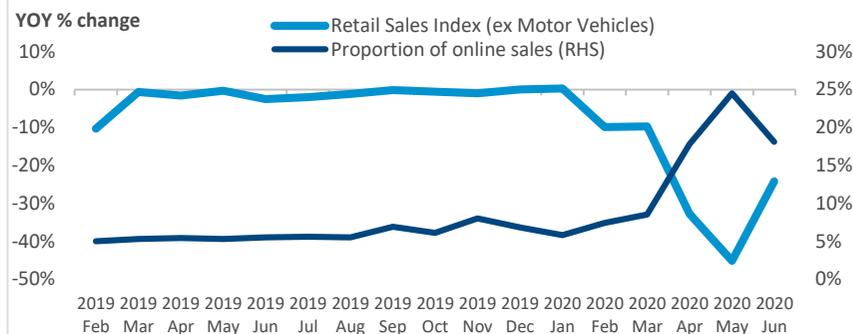
We note mall valuations at the largest retail mall REIT, Capitaland Mall Trust (CMT) declined 0.6-4.8% as of June 2020, compared to December 2019. Its portfolio valuation declined 2.7%, due mainly to the declines in rental income during the pandemic in H1 2020 as cap rates were held constant. We expect capital values to improve over the next few years as investors continue to favour the retail mall asset class due to its relative scarcity and stability.

Notable retail transactions | H1 2020

Property	Transacted Price (SGD million)	Price PSF NLA (SGD)	Planning Region
People's Park Centre (strata)	12.3	3,798	Central Region
Retail units at 30 Raffles Place	192.7	3,756	Core Central Region

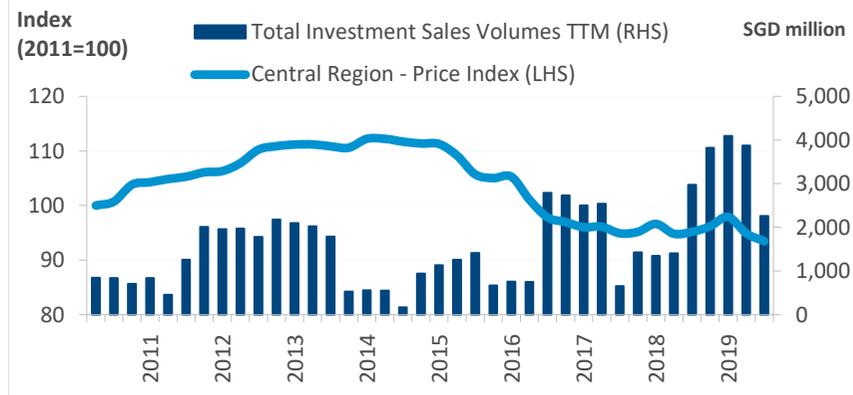
Source: Colliers International

Retail sales index and proportion of online sales (YOY growth)



Source: Colliers International, Singapore Tourism Board, Department of Statistics.

Retail price index and total investment sales volumes



Source: Colliers International, URA. *Investment sales only include transactions over SGD10 million. "TTM" refers to trailing 12 months.

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