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# FINDING A FOOTING IN 2021

Retail property market expected to stabilize and recover gradually after Covid-19.


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## *Insights & Recommendations*

Average Orchard Road and Regional Centre rents declined 2.5% in H2 2020, bringing the full year decline to 7.2% as net absorption hit a record low. We expect demand in 2021 to turn positive as the economy reopens.

However, even as foot traffic and tenant sales have recovered to 60-97% of pre-pandemic levels by end-2020, we expect an uneven recovery among trades. Hence rents could remain flat in 2021, as landlords rejig their tenant mix and future supply is benign.

Retail transaction volumes fell 29.5%, while capital values on Orchard Road slid 5% in 2020 due to disrupted rental income.

We recommend resilient retailers upgrade to prime locations and leverage online channels; landlords should digitalise while providing safe shopping experiences.

| | | H2 2020 | Full Year 2021 | 2021–25 Annual Average |
|---|---|---|---|---|
| Demand | > Islandwide net absorption in 2020 fell to a record low of -1.7 million sq ft from the impact of Covid-19. We expect net demand to turn positive in 2021 as the economy reopens while supply remains muted. | ▲ -280,000 sq ft | ▲ 600,000 sq ft | ▲ 519,000 sq ft |
| Supply | > 2020 saw a net withdrawal of 1.0 million sq ft of stock as some malls undergo refurbishments. New annual supply over 2021-2025 is benign at 0.8% of stock versus the past 10-year average of 1.1%. | ▼ -850,000 sq ft | ▲ 723,000 sq ft | ▲ 537,000 sq ft |
| | | **HOH/ End H2** | **YOY / End 2021** | **Annual Average Growth 2021–25/ End 2025** |
| Rent* | > Ground-floor rents were down 8.4% and 5.7% at Orchard Road and suburban Regional Centres, respectively, in 2020. As tenant mixes are rejigged, we expect overall average retail rents to stay flat in 2021. | -2.6% ▼ SGD37.24 | 0% ◀ ▶ SGD37.24 | 1.4% ▲ SGD39.91 |
| Vacancy | > Island-wide vacancy rose 1.3 ppt in 2020 as lockdowns and safe distancing measures hurt retail sales. Vacancy should improve gradually to 8.6% in 2025 as the economy recovers. | +0.7pp ▲ 8.8% | +0.1pp ▲ 8.9% | -0.04pp ▼ 8.6% |
| Capital Values/ Yields | > Retail transactions fell 29.5% YOY in 2020, while capital values declined 5% given disrupted income. We expect capital values to remain flat in 2021. | 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 SGD1.3221 as at 31 December 2020. 1 sq m = 10.764 sq ft. “pp” refers to percentage point.

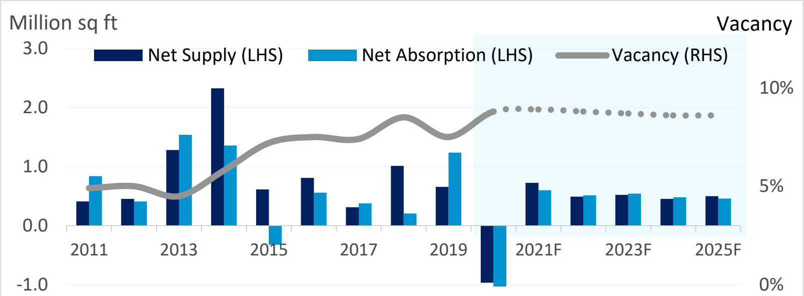
# LEASING MARKET AND RENTS

## Prime floor rents fell 7.2% in 2020 amid deep retail crisis

Based on Colliers' research, ground-floor rent on Orchard Road declined 2.6% HOH in H2 2020 to SGD37.24 (USD28.17) per sq foot per month, while that of Regional Centres declined 2.3% HOH to SGD31.68 (USD23.96) per sq foot per month. This brings the full year average retail rental decline to 7.2% YOY (Orchard -8.4% YOY, Regional Centres -5.7% YOY), the worst in our record since 2009. At the worst point during lockdowns (April 17 to June 18), retail sales (excl. motor vehicles) plummeted 45.2% YOY in May, reflecting the biggest drop since 1986.

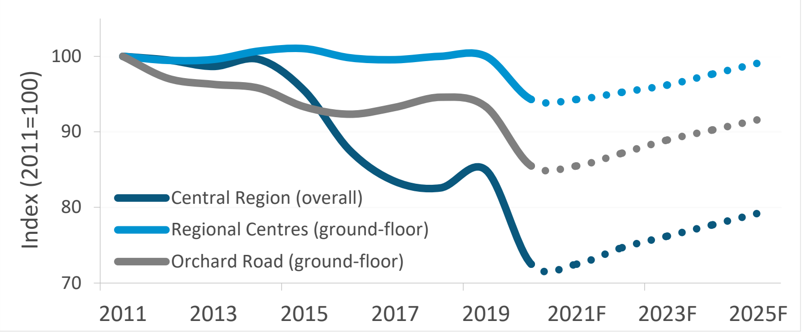
There were several high-profile retail brand closures including Robinsons, Esprit, Sportlink, Topshop, Kidzania, and several F&B brands, although not all these were strictly related to Covid-19. However, some resilient brands quickly backfilled these vacated space with new concepts. BHG took over part of the space formerly occupied by Robinsons at Raffles City Shopping Centre and partnered CapitaLand to launch One Assembly, which will focus on premium products and service offerings. Decathlon also took over space previously occupied by Metro at Centrepoint, with the new store having a range of "immersive and activity-based" features and concepts. Further, Courts will open a new flagship store at The Heeren by Q1 2022, taking over the space to be vacated by department store Robinson.

### Net absorption, supply, and vacancy




Source: Colliers International, URA.

### Retail Rental Indices




Source: Colliers International, URA

To support retail tenants, the government, together with the landlords, has put in place several measures, including up to four months of rent waivers. With the easing of restrictions, retail sales (excl. motor vehicles) saw an improvement to -4.5% YOY in December, as supermarkets, IT products, furniture/household products and sporting goods record double digit sales growth. Capitaland Integrated Commercial Trust, the largest mall owner in Singapore, reported that shoppers' traffic and tenant sales at their malls in Q4 2020 achieved 67.9% and 94.5% of Q4 2019's levels, respectively.

The recovery is, however, uneven among different trades. Entertainment activities are still restricted while F&B continues to be impacted by safe distancing measures. The Cosmetics, Toiletries & Medical Goods, Department Stores and Wearing Apparel & Footwear industries recorded declines in sales of between 22.8% and 35.4% YOY in December 2020, as they continue to remain affected by low visitor arrivals.

As landlords rejig their tenant mix and pivot their strategies, we expect average retail rents to stay flat in 2021. Rents could improve thereafter with widespread virus containment and resumption of tourism. A saving grace is the limited 2021-2025 islandwide supply at 0.8% of total stock p.a. vs the 10-year historical average of 1.1%. In addition, the new supply is mostly concentrated in suburban and fringe areas, where there are well-defined population catchments.

The pandemic has accelerated the growth of ecommerce, both by retailers and consumers. Online sales as a proportion of total retail sales (excl. motor vehicles) quadrupled from an average of 6.8% in 2019 to 26.3% in May 2020 and has normalised to 12.6% in December 2020. We recommend retailers leverage online channels to expand their outreach, and landlords to digitalise, innovate and provide a memorable shopping environment and experiences in a safe manner.

# INVESTMENT MARKET AND CAPITAL VALUES

## Retail property transactions boosted by REIT M&A activities in 2020

### Transaction volumes jumped 820% HOH in H2 2020 on REIT M&As

In H2 2020, total retail transaction volumes jumped 820% HOH to SGD2.6 billion (USD2.0 billion). This was mainly attributed to Frasers Centrepoint Trust (FCT)'s purchase of the remaining 63.1% stake in the Asia Retail Fund which owns five suburban retail malls in Singapore as part of its portfolio – Century Square, White Sands, Tampines 1, Hougang Mall and Tiong Bahru Plaza. In turn, FCT divested Bedok Point with the aim of redeveloping into residential use. This brings 2020 full year transaction volumes to SGD2.9 billion (USD2.2 billion), reflecting a 29.5% YOY decline. This, despite one of the worst retail crisis in history, reflected strong investor confidence in the retail property market in Singapore.

### Capital values were flat in H2, having declined 5.0% HOH in H1 2020

Prime floor capital values in the Orchard area stayed flat HOH in H2 2020 at SGD6,473 (USD4,895) per sq foot. This brings the total decline in capital values to 5% for the full year. According to Colliers International Valuation and Advisory Services (CIVAS) team, cap rates for shopping malls island-wide remain unchanged in 2020, ranging between 4.25%-4.75%.

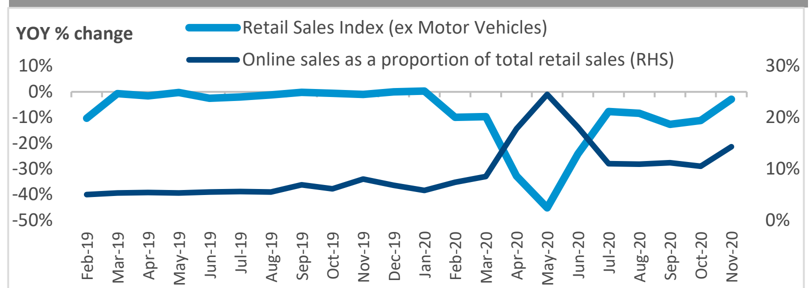
We expect capital values to remain flat in 2021, tracking rental values. As the pandemic subsides, we expect increased foreign investor interest. In the long run, investors should continue to favour the retail mall asset class due to its relative scarcity and stability, as well as the increasing capital allocation to quality assets in Asia gateway cities.

Notable retail transactions | H2 2020

| Property | Transacted Price (SGD million) | Price PSF NLA (SGD) | Planning Region |
|---|---|---|---|
| Century Square | 362 | 2,835 | Outside Central Region |
| White Sands | 270 | 3,327 | Outside Central Region |
| Tampines 1 | 481 | 2,837 | Outside Central Region |
| Hougang Mall | 273 | 2,869 | Outside Central Region |
| Tiong Bahru Plaza | 413 | 3,046 | Rest of Central Region |
| Bedok Point | 108 | 1,306 | Outside Central Region |

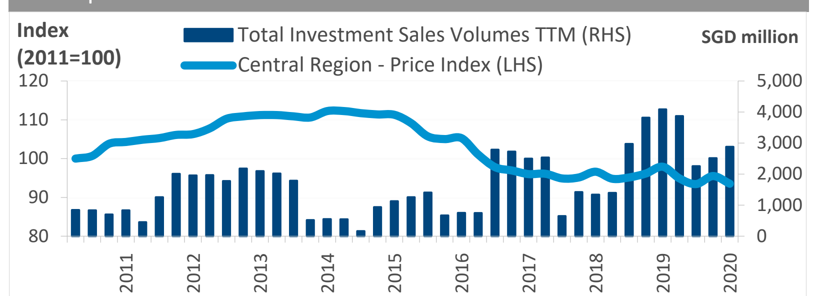
Source: Colliers International

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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