

LUXURY GOODS SEGMENT TO STAY STABLE AMID A CHALLENGING RETAIL SECTOR



“The onslaught of new retail space this year could push island-wide rentals of prime retail spaces down by 1 to 2 per cent in 2015.

Vacancy rates will also inch up towards the second half of the year, particular within Marina Centre, City Hall, Bugis precincts.”

HEIDI YONG
Director, Head of Retail

Prime retail rents remained flat in 1Q 2015 albeit a tougher outlook this year. While luxury brands are seen gearing up on their expansionary plans, most retailers seemed to make little headway with their ongoing challenges.

Market Pulse

Luxury brands remain confident about the Singapore market

Demand for luxury goods from Singaporean consumers remains high. Evidently, price differential for luxury goods worldwide has caused many to divert their purchases to other medium apart from the traditional retail store. Conventionally, many local followers of luxury brands would flock to Europe for their purchases largely due to price difference, particularly with the weakening Euro currency. Others may buy from third party, parallel import, second hand stores, websites, or get a friend on a holiday in Europe to buy an item or two for them. Hence, with Chanel's recent announcement of a progressive standardisation of prices worldwide, its local boutiques saw queues build up in the following days. Such move by some luxury brands to synchronise prices worldwide could spur Asia's luxury brand market.

The local luxury goods demand continues to be supported by positive economic growth, low unemployment rates, and healthy tourism spending. Tourists from China, Indonesia and Australia topped the list of visitors to Singapore in terms of total arrivals in 2014. Total tourism spending held steady in 2014 at \$23.5 million, despite a 3.1 per cent y-o-y decline in tourism arrival numbers to 15.1 million.

Notably, Chinese tourist per capita expenditure in Singapore went up by 29 per cent in 2014, propped by the Chinese Yuan strengthening

against the Singapore dollar. The Singapore Tourism Board (STB) projects visitor arrivals to reach between 15.1 to 15.5 million in 2015, and tourism receipt is forecasted to range between \$23.5 billion and \$24.0 billion.

According to Knight Frank's 2015 Wealth Report, Singapore is slated to see 54 per cent growth in the number of ultra-high-net-worth-individuals (UHNWIs) over the next 10 years from 3,227 in 2014. Viewed as the fourth most important city to the UHNWIs in 2015, Singapore is seeing a string of luxury brand retailers either expanding their local footprint or entering the Singapore retail scene. For example, Mikimoto and Moschino expanded in 1Q 2015, while British fashion label Alexander McQueen and luxury leather goods company Delvaus will open their local boutiques in 2Q 2015. Likewise, luxury shoemaker Carmina and fashion retailer Marimekko will be opening their first stores in Singapore at Capitol Piazza this year.

Increased efforts from government to boost tourism

Nationwide events and celebrations planned throughout the year to celebrate Singapore's 50th birthday bash could boost tourism numbers this year. Furthermore, Changi Airport Group (CAG) and STB announced intentions to collaborate, with plans to invest \$35 million to boost awareness and visitorship to Singapore over the next two years through various co-curated activities. Similarly, Pedestrian Night will also continue for the next six months in view of positive feedback received.

Prime Retail Space Rents

Static prime retail rents in 1Q 2015

Island-wide retail rents for prime spaces stayed flat for past four quarters despite a softer market, affirming continued firm demand from retailers. Prime space rents stand at \$32.00 per sq ft per month, reflecting a decelerated growth rate of 0.1 per cent year-on-year (y-o-y) compared to 0.9 per cent y-o-y growth recorded last quarter. Orchard Road (Central) saw prime retail rents adjust upwards by 0.2 per cent y-o-y to \$47.90 per sq ft per month, while both Orchard Road (Fringe) as well as Marina Centre, City Hall and Bugis precincts registered no change in rents in 1Q 2015.

The gradual influx of retail space in suburban area over the last year seemingly dented prime retail rents in the region, driving it down by 0.3 per cent y-o-y in 1Q 2015 to \$32.20 per sq ft per month. City Fringe prime retail rents maintained at \$23.00 per sq ft per month in 1Q 2015.

Market Outlook

Approximately 0.7 million sq ft upcoming supply per year till 2019

Between 2015 and 2019, approximately 3.7 million sq ft of net lettable retail space from major projects will come onstream, averaging 0.7 million sq ft of new major retail space per year.

Particularly, 1.1 million sq ft of net lettable retail space will be completed in 2018. Approximately 75.3 per cent of the this upcoming supply, or 0.8 million sq ft of net lettable area, is located in Outside Central Region. Some key projects in this region are Project Jewel at Airport Boulevard and Northpoint City at Yishun. Other upcoming suburban retail spaces over the next four years include Hillion Mall, Waterway Point, and Changi Airport Terminal 4. In 2014, an estimated of 1.6 million sq ft of retail space was completed and retail space in suburban area accounted for 41.2 per cent.

Retail property market in 2015

2015 kicked off on a tough start, with announcements by several major retailers to consolidate their operations as well as the decision by some foreign brands to exit the market. As retailers make little headway in mitigating the ongoing market challenges, particularly manpower shortages, many are expected to focus

on their best performing stores, preferring well-managed malls in prime locations with significant catchment populations.

The expected upcoming supply of new retail space this year could put pressure on prime retail rents island-wide by 1 to 2 per cent in 2015. Vacancy rates could also inch up temporarily in the second half of the year, particular within the Marina Centre, City Hall, Bugis precincts.

EXHIBIT 1

Notable new store openings in 1Q 2015

Retailers	Location	Category	Type
Moschino	Marina Bay Sands	Fashion	Expansion
Gieves & Hawkes	Paragon	Fashion	New-to-market
Berlin	Chijmes	Food & Beverage	New-to-market
Adrift	Marina Bay Sands	Food & Beverage	New-to-market
Mikimoto	Ion Orchard	Jewellery	Expansion

Source: Various websites, Knight Frank Research

EXHIBIT 2

Initiatives to boost Singapore Tourism

Parties involved	Key Events
SG50	Singapore is celebrating the 50th anniversary of its independence and a variety of national and community programmes will be part of the year-long celebrations. Key events include: - National Day Parade 2015 in August - Jubilee Walk in November
CAG & STB	To invest a combined S\$35 million to boost both awareness and visitorship to Singapore over the next two years through the following activities: - Inject more local flavour to the in-airport experience - Continue overseas joint marketing campaigns - Connecting emotionally with a global audience through a myriad of co-curated content
SEA Games Steering Committee, ASEAN Para Games Steering Committee	SEA Games Steering Committee and ASEAN Para Games Steering Committee will be hosting the following regional events: - 28th SEA Games 2015 from 5 to 16 June - 8th ASEAN Para Games 2015 from 3-9 December
Orchard Road Business Association	Orchard Road's pedestrian night will continue running for another six months from July to December 2015

Source: STB, SG50celebrates, Knight Frank Research

EXHIBIT 3

Average Gross Rents of Prime Retail Spaces, 1Q 2015

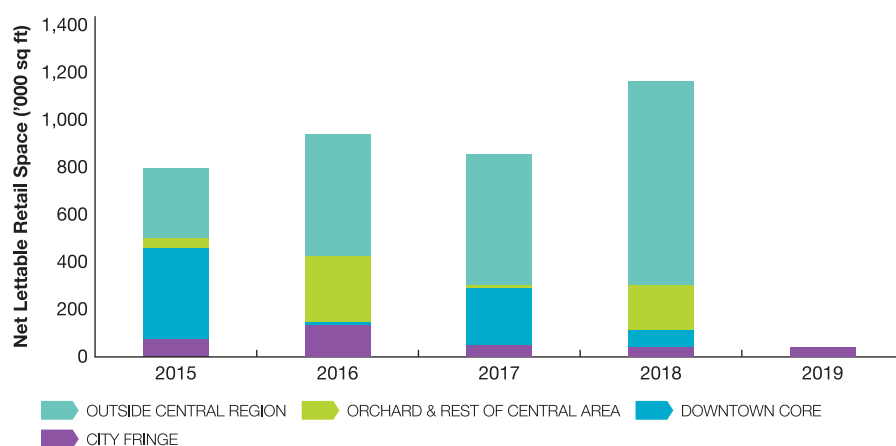
Location	Average Gross Rents for Prime Spaces (\$\$ per sq ft / month)	Year-on-Year Change (y-o-y)
Island-wide	\$32.00	0.1%
Orchard Road (Central)	\$47.90	0.2%
Orchard Road (Fringe)	\$24.10	0.0%
Marina Centre, City Hall, Bugis	\$32.60	0.0%
City Fringe	\$23.00	0.6%
Suburban	\$32.20	-0.3%

Source: Knight Frank Research

(1) Prime spaces refer to rental-yielding units between 350 and 1,500 sq ft with the best frontage, connectivity, footfall and accessibility in a mall which are typically ground level of a retail mall and/or the basement level of a retail mall that is linked to a MRT or bus station.
 (2) The quarter-on-quarter changes is not indicated herein as 1Q 2015 average gross rents for prime retail spaces across Singapore remains the same as previous quarter.

EXHIBIT 4

Upcoming Major Retail Space by Year and Region



Source: REALIS, Knight Frank Research

EXHIBIT 5

Major Malls Opening in 2014

Malls	Developer	Estimated Net Lettable Area (sq ft)
Fairprice Hub	NTUC Fairprice Co-operative Ltd	88,000
Paya Lebar Square	Paya Lebar Development Pte Ltd	95,000
Orchard Gateway (@ Emerald)	United Engineer Ltd & Great Eastern Holdings Ltd	167,000
The Seletar Mall	Singapore Press Holdings & United Engineers Ltd	188,000
One KM	UOL Property Investments Pte Ltd & UOL Residential Development Pte Ltd	211,000
Big Box	TT International Ltd	272,000
Kallang Wave Mall	Singapore Sports Council & Singapore Sportshub Consortium	296,000

Source: Various websites, Knight Frank Research

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