

RENTS OF PRIME RETAIL SPACES TO REMAIN RESILIENT



“Leasing activities in 3Q 2014 remained quiet with flat rents across Singapore. While manpower and operating costs remains a bugbear, retailers are becoming more innovative in their solution to mitigate such issues.”

HEIDI YONG
Director, Head of Retail

Minimal changes were observed in island-wide prime retail rents in the third quarter due to limited availability of prime retail spaces in existing and upcoming major retail developments. As prime retail spaces remain highly sought after by retailers despite continuing labour crunch and high operating costs, island-wide prime retail rents are expected to remain resilient with a potential annual growth of up to 1 per cent in 2014 and 2 to 3 per cent in 2015.

Retail Space Rents

Retail rents of prime spaces remained flat amid quiet leasing activities

Singapore's retail property market saw flat movement in rents of prime retail spaces in the third quarter this year. Arising from the limited available prime spaces in existing malls and the high pre-commitment rates of key upcoming retail malls One KM and Seletar Mall, leasing activities for prime retail spaces remained largely quiet in 3Q 2014. With muted leasing movements, island-wide average gross rents of prime

retail spaces stayed flat in 3Q 2014 with minimal changes from 2Q 2014.

Compared to a year ago, island-wide gross retail rents of prime spaces increased 0.9 per cent in 3Q 2014. Prime retail rents in Suburban and City Fringe areas also grew by 0.7 per cent and 0.6 per cent year-on-year (y-o-y) respectively. Prime retail spaces in Marina Centre / City Hall / Bugis cluster enjoyed the largest y-o-y rental growth of 3.2 per cent, which is largely attributable to the Asset Enhancement Initiatives (AEI) carried out in Marina Square and Suntec City.

EXHIBIT 1

Monthly Gross Retail Rents for Prime Spaces, 3Q 2014

Location	Average Gross Rents for Prime Spaces (S\$ per sq ft / month)	Year-on-Year Change (y-o-y)
Island-wide	\$32.00	0.9%
Orchard Road (Central)	\$47.90	0.2%
Orchard Road (Fringe)	\$24.10	0.0%
Marina Centre, City Hall, Bugis	\$32.60	3.2%
City Fringe	\$23.00	0.6%
Suburban	\$32.20	0.7%

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) Average gross rents of prime retail spaces in City Fringe refers to prime spaces in shopping malls located in planning areas such as Novena, Singapore River, Bukit Merah and Tiong Bahru Planning Area
- (3) Quarter-on-quarter changes are not indicated herein as 3Q 2014 average gross rents for prime retail spaces across Singapore remains the same as the previous quarter.

Market Pulse

Innovative solutions to curb manpower crunch and high operating costs

While labour crunch and high operating costs continue to remain a bugbear in the retail market, more retailers are becoming innovative to create solutions.

To mitigate the manpower crunch, some Food & Beverage (F&B) operators have taken steps to enlarge the labour pool by recruiting older workers. These workers are given flexible working hours and typically work during peak periods. Other solution to the labour crunch by retailers includes situating various outlets in close proximity usually a few MRT stations apart, so that the allocation of manpower can be nimble and shifted between outlets more efficiently.

Against a backdrop of a highly competitive retail market, there is an increasing trend of retailers signing short-term leases with minimum capital outlay on fitting out to minimise risk. These short term leases typically last six months to a year, though some leases can be as short as three months. Such lease arrangements could be more beneficial especially to new retailers, as it serves as a test-bed and provides the flexibility to expand their business if needed.

Asset Enhancement Initiatives on retail malls amidst competitive retail market

With the surge of suburban retail spaces since early 2000s and the heightened competition for business, it is important and timely that suburban malls keep up with the changing needs and wants of shoppers. As such, several suburban malls such as JCube, Bukit Panjang Plaza, Tampines Mall, IMM, and White Sands deploy Asset Enhancement Initiatives (AEIs). The AEI works provide malls the opportunity to achieve a more efficient layout with enhanced trade mix to provide shoppers with a better shopping experience.

Recently, JCube underwent addition and alteration (A&A) works so the mall could continuously refresh its tenants within this zone, constantly offering shoppers with new retail concepts. Approximately 10,000 square feet (sq ft) of space were reallocated as a theme-focused zone known as

J.Avenue. This zone targets the younger crowd and provides shoppers with a hip street shopping experience.

Exhibit 2 shows some of the AEIs carried out in key retail malls.

More Japanese retailers setting foot in Singapore

While Japanese retailers show consistent interest in the retail market in Singapore, the growing presence of Japanese retailers in the last few years has been notable. Many Japanese brands that are keen to explore overseas markets consider Singapore as a favourable starting point due to the consumers' immense interest for Japanese food and merchandise, coupled with a high proportion of Japanese expatriates in Singapore.

Japanese retailers that recently launched their first outlet in Singapore include Tokyu Hands, Chabuton, On-Yasai and Soup Stock Tokyo. Tokyu Hands, offering household and lifestyle merchandises, opened their first store in Singapore occupying 7,500 sq ft of space at WestGate. Chabuton, a ramen restaurant, launched their first outlet in July 2014 at 313@Somerset and they are opening another outlet at Tampines 1 in October 2014. On-Yasai, a Japanese restaurant, commenced their first store at Chijmes in

July 2014 and they will be opening another outlet soon at newly completed One KM. Another Japanese F&B establishment that was introduced in Singapore this year is Soup Stock Tokyo. The F&B business now has two outlets situated at Asia Square and 100AM. A new outlet is set to start operation in October 2014 at 313@Somerset.

Market Outlook

Majority of upcoming supply in Outside Central Region

From 2014 to 2018, approximately 4.6 million sq ft of net lettable retail space from major projects will be in the pipeline which averaged to about 927,000 sq ft of new retail supply per year. This is 4.9 per cent higher compared to the historical average annual new supply of 884,000 sq ft in the previous 3-year period from 2Q 2011 to 2Q 2014.

Approximately 58.4 per cent of total upcoming supply, which amounts to about 2.7 million sq ft of net lettable area, is situated in the Outside Central Region. Notably in 2018, 79.3 per cent of the total retail space supply in that year is situated in the Outside Central Region. This sizeable supply of retail space is mainly attributable to two key projects, Project Jewel at Airport Boulevard and Northpoint City at Yishun.

EXHIBIT 2

AEIs on Key Retail Malls Retail Malls

Retail Malls	Year of Commencement for AEIs work	Targeted Year of Completion for AEIs work	Proposed AEI work
Bukit Panjang Plaza	3Q 2014	2Q 2015	- New food and beverage section on Level 2 - Expansion of space for community and sports use on Level 4 - Relocation of its roof garden - Facade improvements
Tampines Mall	1Q 2014	4Q 2014	- Conversion of its roof into leasable spaces for educational and enrichment purposes - Reconfiguration of its Level 2 and Level 3 spaces to provide better fashion trades and revitalization works to its facade
White Sands	2Q 2014	3Q 2015	- New escalators to be installed to all floors - Reconfiguration on B1, L1 to L3
IMM	2Q 2013	4Q 2015	Mall is undergoing second phase of AEIs, comprising reconfiguration works to make space for more outlet stores

Source: Media press releases, Knight Frank Research

Other upcoming suburban retail spaces over the next four years include Big Box, The Seletar Mall, Eastpoint Mall, Hillion Mall, Waterway Point, and Changi Airport Terminal 4.

Average retail rents could face downward pressure by mid-2015

Moving forward, average rents of total retail spaces in Singapore are likely to face downward pressure over the next two to three quarters, in view of the large upcoming retail supply by end-2014 and retailers are presented with more options.

As shown from 3Q 2014 URA Retail Rental Index in Central Region, the q-o-q rental increase in the index has slowed from 0.6 per cent q-o-q increase in 2Q 2014 to 0.1 per cent increase in 3Q 2014.

Overall, retailers still show greater preference towards the limited supply of prime retail spaces with direct connection to the MRT stations. As such, this could translate to lower demand and subsequently stagnant rental growth for less-prime spaces. Furthermore, with the tight labour market and high operating costs, retailers remained cautious and selective in their expansionary plans.

Retail rents for the Central Region could trend in the range of 0.2 per cent decline to 0.3 per cent increase for 4Q 2014.

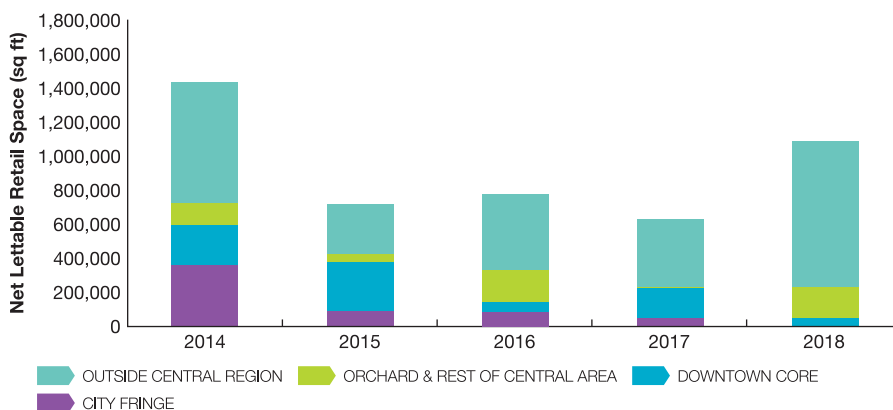
Rents of prime retail spaces expected to improve y-o-y by 2 to 3 per cent

With escalating labour and other operating costs, the need to ensure higher sales revenue on a 'per sq ft basis' from each store remains increasingly important to retailers. They are more selective in positioning their stores in tried-and-tested locations with immediate captive and stable catchment population, close proximity to strong anchor tenants and in malls offering active advertising and promotions initiatives.

As such, prime retail spaces are still highly in demand despite the higher rents. Island-wide prime retail spaces are expected to remain firm with a potential of an annual rental growth of up to 1 per cent in 2014 and about 2 to 3 per cent in 2015.

EXHIBIT 3

Upcoming Net Lettable Retail Space by Year and Region



Source: Knight Frank Research

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