

CONCEPT INNOVATION AND GOOD CUSTOMER SERVICE WILL DIFFERENTIATE AND ENTICE SHOPPERS' LOYALTY AMID THE HIGHLY COMPETITIVE RETAIL SCENE

Against the softer global and local economic conditions and persistently weak retail spending, competition for the spending dollar has intensified. As retailers continue to consolidate outlets in order to streamline costs, demand for space has continued to soften and weighed down on retail rents in Q3 2016.

Overall retail scene remained muted in Q3 2016

- **Singapore's consumer confidence entered the pessimistic range.** According to the Mastercard Index of Consumer Confidence, Singapore saw a significant decline of 10.7 points in H1 2016 from H2 2015. The degree of decline lagged behind only Indonesia (-14.7 points) and Hong Kong (-12.4 points), of the 17 countries within the Asia Pacific region tracked by Mastercard.
- **The overall Retail Sales Index (excluding motor vehicles)(seasonally adjusted, at constant prices) improved by 3.5% m-o-m in July 2016 compared to the preceding month.** All retail trades saw improvement with the exception of Food & Beverages, which declined by 1.5% month-on-month (m-o-m) over the same period. However on a year-on-year (y-o-y) basis, the overall retail sales (at constant prices) declined by 3.7% in July 2016, with Computer & Telecommunication Equipment (-18.7% y-o-y), Watches & Jewellery (-16.6% y-o-y) and Food & Beverages (-9.7% y-o-y) trades seeing the steepest falls.
- **Employment in the wholesale and retail trade declined by 1.8% in H1 2016 compared to H2 2015.** This could be attributed to the weaker retail sales and greater caution in manpower deployment by retailers.
- **Total visitor arrivals for the period of January to July 2016 increased by 11.5%, compared to the same period last year, to reach 9.8 million.** While visitors from China and Indonesia rose by 49.2% y-o-y and 6.8% y-o-y respectively in the first seven months of 2016 compared to the same period in 2015, visitors from Malaysia dropped by 1.6% y-o-y.



WENDY LOW

Executive Director & Head, Retail

"To achieve service excellence that is a key fabric of retail business, a strong and committed culture has to be fostered and established, and echoed out with pride by all stakeholders - the frontline salespersons, management team, business associations and government agencies."

EXHIBIT 1

Average Gross Rents of Prime Retail Spaces, Q3 2016

Location	Average Gross Rents for Prime Spaces (S\$ per sq ft / month)	Quarter-on-Quarter Change (q-o-q)	Year-on-Year Change (y-o-y)
Island-wide	S\$31.20	-0.2%	-2.2%
Orchard Road	S\$35.10	-0.5%	-0.1%
Marina Centre, City Hall, Bugis	S\$31.40	0.0%	-4.7%
City Fringe	S\$24.70	0.0%	-2.1%
Suburban	S\$29.50	0.1%	-4.2%

Source: Knight Frank Research

(1) Knight Frank revised its basket of prime retail space in Q1 2016

(2) 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.

Average island-wide prime retail rents moderated in Q3 2016

- **Average Orchard Road prime rents fell for the first time since Q2 2015** on the back of the tougher retail climate.
- **Suburban prime rents improved marginally**, largely supported by the stable demand from the surrounding residential catchment.
- **Prime rents within Marina Centre, City Hall, Bugis, and City Fringe areas held steady** compared to the previous quarter.
- **On a y-o-y basis, prime rents across all locations declined.** This was largely weighed down by the weaker retail spending amid the softened global and local economic performance, which resulted in more tenants working towards downsizing and consolidation of their businesses.

Similar positioning and retail-mix calls for cutting-edge innovations for retail malls

- **It is important that landlords perform a critical review of their mall positioning and tenant mixes**, in face of rising competition from the e-commerce market, and pressure from more discerning shoppers.
- **Landlords have to be willing to think out-of-the-box and break through traditional norms.** The similar positioning and retail-mix among shopping malls today mandates for new and refreshing concepts to drive excitement among consumers. Landlords should look at incorporating multi-concepts. For example, a single retail unit could have more than one trade mix, while F&B operators could consider having one concept which operates up to lunch or dinner and introduce another concept thereafter.
- **Retail malls have to offer a differentiated and experiential shopping experience** in order to attract shoppers. Examples of such efforts needed include the exploration of innovative advertising and promotional (A&P) initiatives, and in-store concepts, to enhance engagement with shoppers.

Growing emphasis on customer service to earn shoppers' loyalty

- There is growing emphasis on the quality of customer service to engage and maintain customer loyalty amid the competitive business climate.
- **To achieve service excellence, a strong and committed culture has to be established**, and echoed with pride in the services delivered by the salespersons standing at the frontline, that goes beyond adherence to the mottos and policies. The effort of fostering and propagating service excellence ought to be closely implemented by the management team of retailers, and supported by both business associations and government agencies.
- **The unrivalled services of Hai Di Lao Hot Pot, the crowd-drawing restaurant chain, stood out in the highly competitive F&B industry.** Since its entry into Singapore in 2012, the well-aligned business and operation model provides superior dining experience to its customers where they are willing to queue for hours.
- **Amore Pacific, a South Korea's cosmetic company that manages popular brands such as Laneige, Etude House and Innisfree, runs on consumer-centered principles.** It acquired 'Consumer Centered Management Certificate' from Fair Trade Commission in 2012, and strategised to bridge the interaction between consumers and the brands by educating staff on ways to engage and manage their customers, such as to treat their dissatisfaction and complaints seriously.

EXHIBIT 2

Notable new store openings

Retailers	Location	Category	Nature of Brand in Singapore
Aloddy by Aldo Lipari	The Centrepoint	Footwear	New-to-Market
Sennheiser	Marina Square	Electronics	New-to-Market; First fully-owned brand store in Singapore
Chicco	Tanglin Mall	Kids apparel	New-to-Market
Off-White	268 Orchard Road	High-end street wear	New-to-Market

Source: Various web sources, Knight Frank Research

Market Outlook

Challenging retail landscape to moderate rents further

- Average rents in the Central Region are envisaged to fall by 6.0% to 8.0% y-o-y by Q4 2016, while the more resilient prime rents to moderate downwards by up to 3.0% y-o-y in the same period.
- The expected fall in rents takes into account not only the projected weakened demand from retailers, but also the likelihood of landlords re-adjusting the rental structures to help their tenants tide over down cycles of the market in order to maintain healthy occupancy status.
- An estimated 1,072,000 sq ft of net lettable major retail space is slated for completion in the whole of 2016. Out of this, 38.2% (409,000 sq ft) was ready in the first half of 2016, with the remaining 663,000 sq ft to be completed in H2 2016. In addition to this is the cautious stance taken by retailers towards business expansion, and island-wide occupancy is likely to fall from 92.8% in Q4 2015 to between 90.0% and 92.0% in Q4 2016.

EXHIBIT 3

Key events in retail landscape

SINGAPORE	
Uniqlo's first Singapore and Southeast Asia Global flagship store opens at Orchard Central	Uniqlo launched their three-storey flagship at Orchard Central on 2 September 2016. It occupies 29,000 sq ft of retail space, and features 286 digital displays that bring retail experience to a whole new level.
Victoria's Secret to open first South-east Asia flagship store at Mandarin Gallery	Victoria's Secret is slated to open its flagship store at Mandarin Gallery in November 2016. It will feature the full range of lingerie collections.
Marks & Spencer launches table-service restaurant at Wheelock Place	M&S Singapore launched a table-service restaurant at Wheelock Place. This marks the first Asian outlet outside of Hong Kong to offer the range of more than 600 products.
Seed Heritage to launch its women's wear line in Singapore	The Australian retailer, Seed Heritage, expanded its product range at the Wisma Atria store, to include women's wear, in addition to its current teen and child collections.
ASIA	
CHINA: Wal-Mart expanding its business in Southern Chinese province	Optimistic about its development in Yunnan province, the world's leading supermarket retailer is looking to open four new outlets in Southern Chinese province.
CHINA: 8 Seconds, launched its first overseas flagship in Shanghai	Korean fast-fashion brand launched its first overseas flagship in downtown Shanghai on 30 September 2016. Since its brand launch in 2012, it has expanded to 30 stores in Korea and opened an online store for China with Tmall in May 2016.
SOUTH KOREA: Moynat ventured into South Korea	The luxury bag and luggage brand, owned by Louis Vuitton Moët-Hennessy, launched its first store in Korea. It is the fourth boutique launched in the whole of Asia, after Beijing, Hong Kong and Tokyo.
VIETNAM: Zara opened up its first store in Vietnam	Zara established its first store in Vietnam at Ho Chi Minh City's Vincom Center. It occupies a total space of close to 26,000 sq ft spread across two levels.

Source: Various web sources, Knight Frank Research

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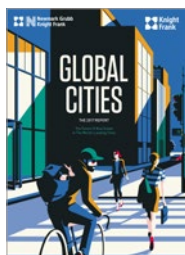
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