

2017 HEADWINDS TO DRIVE RETAILERS TOWARD 'SMART' RETAILING, INCREASED BUSINESS EFFICIENCY AND THE ADOPTION OF MULTI-LIFESTYLE CONCEPTS

The Singapore retail market continued to be weighed down by the soft global and local economic conditions, weak retail spending, rising business cost and labour crunch in 2016. As retailers continued to consolidate, demand for retail space remained soft, imposing downward pressure on retail rents. Moving forward, landlords and retailers are expected to drive greater innovation and creativity in their business strategies to attract shoppers in 2017.

This report also expounds on three rising retail trends in 2017.

Notwithstanding improvement in retail sales amid the festive season, the retail market continued to remain weak

- **The overall Retail Sales Index (excluding motor vehicles; non-seasonally adjusted, at constant prices) fell for the tenth consecutive month by 3.1% year-on-year (y-o-y) in November 2016.** Of the 13 retail trade categories, only two expanded on a y-o-y basis, namely Medical Goods & Toiletries (4.4% y-o-y) and Recreation Goods (0.1% y-o-y). All other trade categories contracted, with Telecommunications Apparatus & Computers suffering the largest decline (-12.1% y-o-y), followed by Watches & Jewellery (-11.0% y-o-y) and Wearing Apparel & Footwear (-4.8% y-o-y).
- **Employment in the wholesale and retail trade fell for the third consecutive quarter in Q3 2016** by 900 headcounts, a smaller margin of decline compared to the preceding year which saw 2,300 cutbacks in the sector. This could be attributed to the weak retail sales which caused retailers to be cautious in their undertaking of manpower deployment.
- **Total visitor arrivals for the period of January to October 2016 increased by 8.3%, compared to the same period last year, to reach 13.7 million.** While visitors from China and Indonesia rose by 37.3% y-o-y and 5.5% y-o-y respectively in the first ten months of 2016 compared to the same period in 2015, visitors from Malaysia declined by 1.5% y-o-y, possibly a result of weakened Ringgit against Singapore Dollar.



WENDY LOW
Executive Director & Head, Retail

"Both landlords and retailers have to brace themselves for a bumpy ride in 2017. Given the tough market competition, it is important for both parties to take on collaborative efforts in advertisement and promotion initiatives to reach out to a wider pool of shoppers."

EXHIBIT 1

Average Gross Rents of Prime Retail Spaces, Q4 2016

Location	Average Gross Rents for Prime Spaces (\$\$ per sq ft / month)	Quarter-on-Quarter Change (q-o-q)	Year-on-Year Change (y-o-y)
Island-wide	S\$30.90	-0.7%	-2.0%
Orchard Road	S\$35.00	-0.2%	-0.7%
Marina Centre, City Hall, Bugis	S\$30.90	-1.6%	-2.5%
City Fringe	S\$24.70	No change	-3.3%
Suburban	S\$29.00	-1.8%	-3.3%

Source: Knight Frank Research

* 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.

Island-wide prime retail rents continue to moderate in Q4 2016

- On a quarter-on-quarter (q-o-q) basis, prime rents for all locations, except City Fringe, fell in Q4 2016.

Rents of prime spaces across the island remain weaker than a year ago. This was largely due to the softened global and local economic performance which contributed to the weakened retail spending among shoppers and consequently, caution in expansionary plans among retailers.

Notwithstanding the challenging retail scene, drop in prime rents for retail space along Orchard Road was marginal as the prime shopping district remains highly

- valued by international retailers to establish the presence of their brands, products and services.

Average rents of prime space in suburban malls saw the largest decline among the various locations tracked. With a significant supply of suburban mall space, there is an increasing division between the well-established and well-managed malls from

- the weaker and less well-located ones, leading to a divergence in the performance. While the strong malls continue to see rent hold firm, weaker malls weighed on the overall performance of the basket.

Overall, the retail market proved to be challenging for both retailers and landlords in 2016

- **Retailers continued to face strong headwinds in 2016** with growing competition from the e-commerce sector and regional markets, increasing business cost, downsides arising from weak economy, and labour crunch. Technological disruption, in particular those which offer delivery services, gained further traction in the year, with those not latching on finding themselves losing market share.
- **In view of economic uncertainty, retailers took on a cautious stance towards business expansion**, and leaned towards consolidation strategies to focus their resources on key outlets.
- **Both landlords and retailers face continuous pressure to inject creativity and innovation** in their business strategies, product and service offerings, and shopping experiences to attract customers amid the intense competition from the market.
- Several interesting concepts are expected to become key trends in 2017, as they are adopted by more landlords and retailers in the coming year.

THREE RISING RETAIL TRENDS IN 2017

Trend One : Given the fast-paced adoption of technology in Singapore, more retailers will go 'smart' in 2017 to meet consumers' expectations

- According to a 2015 survey by Deloitte's Global Technology, Media and Telecommunications, Singapore has the highest smartphone penetration globally, indicating their high reliance on technology and mobile convenience.
- In order to keep up with the consumers' expectation, retailers are likely to offer a wide range of payment options that includes mobile wallet such as Apple, Samsung and Android Pay. This will expand retailers' outreach and brand recognition to a wider group of consumers through digital loyalty programs via these 'contactless' payment platform. Such initiatives can serve to improve shoppers' experiences by easing the payment process, and also a reduction in cashier queue times.

Trend Two: Going 'smart' also ties in with omni-channel strategies, the continuing game-changer in the retail scene

- **As consumers are getting more tech-savvy, it is important to enable access to multiple retailing channels** for them to seek general product information, communicate with retailers, purchase, make payment, monitor the inventory stock and arrange delivery. This makes it imperative to have a well-integrated, consistent and seamless integration between physical store and online business mediums such as smartphone applications, online websites, and social media portals.
- **While this appears to be a retailer-level business strategy, there may be rising mall-level implementations to combat the rising inadequacy of today's brick-and-mortar retail market.** For instance, CapitaLand will be launching the reinvented Funan DigitaLife Mall by 2019 to pioneer the new experiential retailing concept that merges both online and offline shopping thrills under one roof. Shoppers will be able to either pick up their purchases at Funan's concierge after they are done with shopping, or to have it delivered to their doorsteps via the 'drive-through click-and-collect and hands-free shopping service provided by the mall. Although it remains to be seen how the new mall concept will fare, similar concepts are likely to be adopted by the other retail malls should this be well-received among shoppers.
- **Amid the challenging retail scene, the omni-channel strategy will also be able to help retailers better manage labour and occupancy cost.** This may be done through improved efficiency on their operational processes by reducing reliance on high manpower-operation model, and the amount of physical rental space required.

Trend Three: Reinvention and redefinition of physical retail space is vital to make it fun and valuable for shoppers to enhance their shopping experiences.

- **Consumers still crave for unique in-store experiences that online shopping is not able to provide them with.** This revolves about multi-lifestyle, curated and personalised concepts in the form of product and service offerings.
- **Multi-lifestyle retail concept could potentially be the next 'big thing'** where retailers think 'out of the box' and fuse complementing retail products and/or services together, allowing shoppers to indulge in an 'interesting-mix' of enjoyment.
- **While it may be possible for a single operator to take on multi-concepts, brand collaboration is increasingly being adopted.** One example would be a synergistic collaboration between GastroSmiths and HomesToLife where consumers are able to shop for high quality furniture and dine. Other examples include Pact, SUPERSPACE and The Assembly Store where multiple brands come together to create an experiential concept space for shoppers.

MARKET OUTLOOK

Retail outlook in 2017 is likely to continue as 'bumpy ride' for both landlords and retailers

- **Average rents in the Central Region are envisaged to fall by 5.0% to 8.0% by Q4 2017,** while the more resilient prime rents to moderate downwards by up to 3.0% y-o-y in the same period.
- Landlords are likely to take on a more proactive role to initiate more advertisement and promotion activities in a bid to attract shoppers into the mall. On the same note, retailers are also expected to explore innovative concepts that integrate both offline and online retailing platforms to enhance consumer engagement.
- The occupancy performance is expected to hover between 90.0% and 92.0% in 2017, after maintaining an average of 92.2% over the first three quarters in 2016. This is in consideration of the close to 2.0 million sq ft Gross Floor Area (GFA) of retail space slated for completion in 2017 amid the heightened level of caution among retailers towards their business strategies due to the uncertain global economic outlook.

EXHIBIT 2

Notable new store openings

Retailers	Location	Category	Nature of Brand in Singapore
Greyhound Cafe	Paragon	Food & Beverage	New-to-Market
Kiss The Tiramisu	Orchard Gateway	Food & Beverage	New-to-Market
Fried Chicken Master	Nex	Food & Beverage	New-to-Market
JAPAN RAIL CAFE	Tanjong Pagar Centre	Food & Beverage	New-to-Market

Source: Various web sources, Knight Frank Research

EXHIBIT 3

Key events in retail landscape

SINGAPORE	
M.A.C Singapore launched its flagship store at ION Orchard	M.A.C launched its flagship store at ION Orchard on 16 December 2016. It featured two of its limited edition collections that were launched exclusively in the store.
Cold Storage flagship reopened at The Centrepoin in Orchard Road	Cold Storage has reopened its flagship store at The Centrepoin after two years of renovation. Apart from a wider selection of ready-to-eat food items, it also includes a dine-in area for customers.
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.
PUMA launched its concept stores in Bugis + and Paragon	PUMA's concept stores in both locations will stock the brand's largest fashion and fitness collections, and offer enhanced shopping experiences to reflect its ethos of merging sports and lifestyle concepts together. While the Paragon store is already launched, the Bugis + outlet will open in January 2017.
ASIA	
CHINA: Chinese MINISO brand expects to open 6,000 stores worldwide by 2020	Chinese MINISO brand looking to store expansionary business strategy by building on to its powerful brand of 'high quality, creativity and low price.
JAPAN: Charles & Keith to close all of its branches in Japan	Charles & Keith is scheduled to close all of its branches in Japan to focus on its ecommerce and operations in other Asian markets closer to home.
HONG KONG: Ralph Lauren closed its flagship store in Hong Kong	Ralph Lauren closed its flagship store in Hong Kong and redeployed its assets to focus on new concept stores and transition away from unprofitable outlets.
HONG KONG: Abercrombie & Fitch (A&F) to close its four-storey flagship store at Peddar Street	In light of economic downturn and a drop in the number of shoppers from mainland China, A&F exercised a lease kick-out option and initiated an early exit (before the lease expiry in 2019) despite an approximated lease termination charge of US\$16 million.

Source: Various web sources, Knight Frank Research

FOR RETAIL LEASING ENQUIRIES, PLEASE CONTACT:

Wendy Low
Executive Director and Head
Retail
6228 7348
wendy.low@sg.knightfrank.com

FOR FURTHER INFORMATION, PLEASE CONTACT:

Alice Tan
Director and Head
Consultancy & Research
6228 6833
alice.tan@sg.knightfrank.com

Debbie Lam
Manager
Consultancy & Research
6228 6821
debbie.lam@sg.knightfrank.com

Gracecia Ching
Analyst
Consultancy & Research
6228 7312
gracecia.ching@sg.knightfrank.com



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