

LANDLORDS AND RETAILERS ADOPT TECHNOLOGY TO TACKLE LABOUR AND E-COMMERCE CHALLENGES

The Singapore retail market reported mixed performances in the second quarter, as it continues to be plagued by rising business cost, manpower shortage, technology disruption and slower retail sales. Landlords and retailers are adopting multi-prong solutions to manage these challenges, which are expected to continue into the medium term. Island-wide occupancy is expected to decline at a slower rate for H2 2017, largely supported by steady demand in suburban malls backed by captive resident catchment.

With slight improvement of overall retail sales amidst the tepid market sentiment and an evolving retail landscape, both landlords and retailers held caution in their business plans

- **The overall Retail Sales Index (excluding motor vehicles; non-seasonally adjusted, at constant prices) rose by 4.0% y-o-y in June 2017.** Of the 13 retail trade categories tracked by Singstat, Food & Beverages continue to suffer the most in sales performance, declining for the fifth consecutive month. On the contrary, Watches & Jewellery reported the biggest improvement in June 2017, with a 16.6% y-o-y increase in sales performance.
- **Employment in the wholesale and retail trade declined in Q2 2017** by 4,000 headcounts, posting steeper falls compared to the decrease in headcounts registered in the same period last year (1,100). Retailers are curbing their labour deployment with increasing operating costs and difficulty in hiring new staff.
- **Total visitor arrivals for May 2017 rose by 3.6% y-o-y.** The cumulative international visitor arrivals to Singapore since January 2017 has been at 7.2 million, more than 6.9 million visitor arrivals recorded for the same period last year. This is mainly attributed to the higher number of Chinese visitors, which increased by 6.6% y-o-y during the first five months of 2017.



WENDY LOW
Executive Director & Head, Retail

“Retail landlords would need to innovate and change current retail spaces to retain and attract retailers in an increasingly digitised shopping landscape.”

Island-wide prime retail rents saw 0.3% q-o-q decline, attributed mainly to the rental fall in the Marina Centre, City Hall and Bugis precincts

- Retail prime spaces in malls tracked by Knight Frank Research saw a mixed bag of rental performance. While Marina Centre, City Hall, Bugis and the City Fringe precincts saw rental declines, both Orchard Road and the Suburban precincts experienced slight improvement.
- While the average rents of prime retail spaces in the Orchard Road precinct saw a 0.2% q-o-q increase, a 0.5% decline was reported on a y-o-y basis.
- Average rents of prime retail spaces in the Marina Centre, City Hall and Bugis precinct fell the most by 2.0% q-o-q and 5.3% y-o-y as landlords continue to offer attractive rental packages to manage falling occupancy.
- While average rents of prime spaces in suburban malls rose 0.2% q-o-q in Q2 2017, this translated to a 2.2% decline y-o-y.

EXHIBIT 1

Average Gross Rents of Prime Retail Spaces, Q2 2017

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\$30.70	-0.3%	-1.8%
Orchard Road	S\$35.10	0.2%	-0.5%
Marina Centre, City Hall, Bugis	S\$29.80	-2.0%	-5.3%
City Fringe	S\$24.60	-0.3%	-0.3%
Suburban	S\$28.90	0.2%	-2.2%

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.

Retailers turned to technology such as in 2017 Great Singapore Sale in the hope of attracting tech-savvy shoppers

- **The Singapore Retailers Association (SRA) launched the GoSpree mobile app alongside the Great Singapore Sale (GSS) this year to help retailers.** The app allows users to download eCoupons and redeem them at participating retailers for discounts. Users may shortlist the eCoupons and download them in their mobile phones before redeeming them at designated stores.
- **Retailers are exploring ways to increase footfall traffic at brick and mortar stores.** Apart from the GoSpree app, each retailer was assigned a QR code at their brick and mortar stores, where users can scan and unlock special flash deals. This is to reward shoppers who patronize the brick-and-mortar stores.

Food services Industry Transformation Map aims to address manpower shortages through innovative formats and technology

- **F&B operators are encouraged to leverage technology to tackle the problems of manpower shortage.** All-vending machine cafe operator VendCafes expanded its operations with the opening of two more self-service cafes at Ang Mo Kio and Lakeside MRT stations. The cafes also feature an array of technology system that shortens the waiting time for a meal to be dispensed from 4 minutes to 30 seconds. With more F&B operators experiencing a manpower crunch, such technology could help alleviate the problem.

More landlords introduce new-to-market brands and established e-commerce brands into their retail spaces to manage vacancy

- **Opportune time for new-to-market brands to enter the Singapore market with higher space availability island-wide.** A slew of popular overseas F&B brands, such as LeTao, BAKED Cheese Tart and Le Castella have established their presence in Singapore. Meanwhile, established sporting goods retailer Decathlon recently opened its third and largest store in Joo Koon. Love, Bonito has also announced the opening of its first flagship shop at 313@Somerset in October this year.
- **Multi-concept stores are also introducing specially curated brands into the market.** Stores like Monument Lifestyle and Choo Yilin Atelier have launched unique labels including Katin and Alex Mill into their selection to offer one-of-a-kind items that sets them apart from well-known international brands that are already established here.

MARKET OUTLOOK

Two-tier retail market performance expected to continue into H2 2017

- **Average rents in the Central Region are envisaged to fall by 5.0% to 8.0% y-o-y by Q4 2017**, while the more resilient prime rents are likely to moderate downwards by up to 3.0% y-o-y in the same period.
- **Average rents and occupancy in suburban malls are expected to remain steady through H2 2017.** Occupancy in suburban malls, which are supported by strong captive catchment size and located near major transport nodes, expects to maintain steady occupancy through H2 2017.
- **Island-wide occupancy performance is expected to hover between 90.0% and 92.0% by Q4 2017.** Overall, most retailers are seen taking a prudent approach towards their expansionary plans amid uncertain economic trends and high business cost. Island-wide occupancy will likely be mainly supported by the steady occupancy performances in major suburban malls with strong positive attributes of transport connectivity, large resident catchment and proactive mall management. Malls in the Central Area could face stronger headwinds with the seasonality factor in tourism performance, higher competition with the influx of new retail space and discretion in consumer spending towards higher-priced goods and services.

EXHIBIT 2

Notable new store openings

Retailers	Location	Category	Nature of Brand in Singapore
Apple store	Knightsbridge Mall	Electronics and Technology	New-to-Market
Challenger Flagship	Bugis Junction	Electronics and Technology	New opening
MUJI Flagship	Plaza Singapura	Home and Lifestyle	New opening

Source: Various web sources, Knight Frank Research

EXHIBIT 3

Key events in retail landscape

SINGAPORE	
RTG Holdings not to renew Gong Cha franchise in Singapore	RTG Holdings did not renew its Gong Cha's franchise after learning that Royal Tea Taiwan has been sold to Unison Capital without their prior knowledge. All Gong Cha outlets under RTG Holdings were revamped and renamed to LiHO from June 2017 onwards.
Local e-tailer, Love Bonito, to establish its first flagship shop in 313@Somerset	Local e-tailer, Love Bonito, is set to open its first flagship shop in 313@Somerset in October 2017. After a successful online presence, and a series of pop-up stores, the e-tailer is ready to venture into the brick and mortar retail segment.
Funan promises fun and creativity	CapitaLand Mall Trust has revealed some of the key tenants in the upcoming Funan shopping centre. In addition to established anchor tenants such as Golden Village and Kopitiam, the new mall will feature new tenants such as W!ldRice which will design, manage and program a 380-seat theatre. The revamped mall will have a strong emphasis on local creativity in technology, arts and design.
ASIA	
CHINA: Alibaba's Hema supermarket is centred on new retail experience	Alibaba has opened 13 Hema supermarkets since 2015. The Hema supermarkets promise to offer enhanced shopping experience through seamless integration from online to offline. Each of these stores will only serve a customer base within a three-kilometre radius.
VIETNAM: H&M to open its first Vietnam store in September in Ho Chi Minh City.	H&M will open its first store in Ho Chi Minh City come September 2017. The store will offer all H&M basic lines for women, men and children.
HONG KONG: Shanghai Tang sold to Alessandro Bastagli, Hong Kong private equity fund Cassia Investments and a British investment fund	Bastagli will be working to relaunch and consolidate Shanghai Tang, and focus on international expansion.

Source: Various web sources, Knight Frank Research

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