

# GAINING INSIGHT ON THE CHALLENGES FOR SINGAPORE'S RETAIL SECTOR

With labour woes and business costs gripping many retailers, a remedy is of paramount importance for the continued sustainability of the retail business.



“For the sector to see leaps in productivity gains, there must be greater dialogue and collaboration among stakeholders... Landlords must take an interest in sustainability and longevity of their tenants and provide support to retailers in their battle for increased sales and productivity.”

**ALICE TAN**  
Director and Head  
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Singapore's retail industry is one of the most-watched sectors by the government, business and consumer communities, given its multiplier effect on various segments of the economy and its importance to the tourism industry. The factors that impact the vibrancy of our retail landscape transcend top-line consumer sales volume and retail space rentals, and also largely depends on the supply and growth of retailers – the key creators of shopping and dining offerings that contributes to our retail showcase at the marketplace.

As Singapore reaches a mature phase in economic growth, how is our retail industry performing? Zooming into physical retail spaces and public headline statistics tracked by the Urban Redevelopment Authority, one would view, prima facie, that Singapore's retail property market is relatively stable, as healthy rental growth rates and occupancy levels of retail spaces island-wide demonstrate. Overall URA Retail Rental Index posted 0.1% and 0.5% increases quarter-on-quarter (q-o-q) in Q3 2014 and Q4 2014 respectively. Island-wide retail occupancy rate improved to 94.2% in Q4 2014 compared with 93.5% in the preceding quarter. Overall occupancy rate remain healthy at 94.0% for 2014.

## A Retailer's Challenge

However, Singapore's retail landscape is facing stronger headwinds than before. The health of the retail property market is inherently dependent on physical space demand from the tenants, many of whom are under pressure on many fronts in an increasingly difficult environment.

Challenges include a small domestic consumer market, constrained revenue growth, high rental and operating costs and more so, existing labour woes as a result of government policy, and Singaporean's resistance to work in retail sector.

“I want to do business but it's so hard to find workers” is a common statement echoed by many retail businessmen nowadays. Since the government's implementation of a reduction in Dependency Ratio Ceiling (DRC) in 1 July 2013, the employment market in the services sector has been exceptionally stiff as employers particularly in the retail, food & beverage (F&B), hospitality segments vie for a shrinking pool of workers. Many retailers struggled with the new DRC requirement, which is a reduction of the maximum permitted ratio of foreign workers to the total workforce that a company in the stipulated sector is allowed to hire, from 45% for overall Services DRC to 40% from 1 July 2013 onwards. The Services S Pass Sub-DRC is also lowered from 20% to 15%. Tighter policy on foreign work permit issuance resulted in moderated foreign workforce growth of 0.1% in June 2014 compared to December 2013, significantly lower than the peak growth of 3.5% year-on-year (y-o-y) in 2011. The government's intentions to moderate demand for foreign manpower and increase productivity are aimed to restructure the economy to move up the value chain and generate better job opportunities for Singaporeans. Yet, the manpower policy measures are seen to have curtailed the growth of the retail sector. Given the demanding work conditions of the retail and F&B business, attracting the Singaporean workforce to join and stay in the retail sector is a ‘major headache’ for most retail employers, as they have to compete

with other industries for local workers amidst a tight labour market.

The labour squeeze has invariably increased labour costs for retail businesses in Singapore, compounding margin compressions as rentals creep higher and top-line revenues are constrained by moderating consumer demand and lower visitor arrivals. The rise of e-commerce and growing migration of consumers to online retail channels have exacerbated the woes of Singapore-based retailers. Imminence of such threats may spell tougher conditions to increase profitability for retailers in a competitive Singapore marketplace sooner than expected. A number of international retailers, pulled out of Singapore in 2014, namely Lowrys Farm, Parco, Francfranc, River Island, Aussino Group and Fancil. Other established retailers are consolidating their operations such as Isetan, which is halting one of its locations along Orchard Road from Q2 2015. For now, total retail sales value maintained in the first 11 months of 2014, compared to the same period a year ago amid a lower-than-expected 15.1 million visitor arrivals in 2014.

These various challenges, if left unchecked and unresolved, would hurt the sustainability and growth of the retail business in Singapore, consequently impacting future demand for retail property space.

## Market Pulse: Understanding Retailers' Sentiments

Knight Frank conducted a survey to investigate the sentiments of Singapore-based retailers and their business plans for 2015. The internet survey covered close to fifty retailers from various sectors such as F&B, Beauty & Wellness, and Fashion & Accessories.

When asked about their concerns on various aspects of doing business, retailers expect to face the highest challenge in hiring & retaining staff, followed by the cost of rentals, and sales performance (see Exhibit 1).

Respondents were also asked about the possible solutions they may employ to tackle the above business concerns. More than 50% of the retailers indicated that downsizing their stores or moving out to cheaper locations could be one of their solutions (see Exhibit 2). They also feel that increasing their brand awareness via

websites and social media platform can bring up their sales performance. To manage manpower issues, many retailers would consider offering higher wages or other benefits to their staff. Notably, the survey results reveal that retailers are considering employing an average of three strategies to deal with the challenges in 2015, reflecting the severity of the issue and the multiple efforts retailers are undertaking in grappling with the new normal of a more challenging environment. Despite the tougher market landscape, 40% of the respondents think their overall business profitability will remain the same this year compared to 2014. About 80% of the retailers are still looking to open new outlets within the year. Many cited their preference for an established retail mall well-served by major transport nodes and situated within a large residential enclave (see Exhibit 3 and 4).

In response to a question on their level of awareness of the recent Fair Tenancy Consideration Framework launched by Singapore Business Federation, only 16% of respondents were fully aware of the framework. 39% of them have heard of it but were not sure about its details. 45% of respondents were unaware of the new framework, an indication that more may need to be done to raise awareness among retailers (see Exhibit 5).

## The right antidote

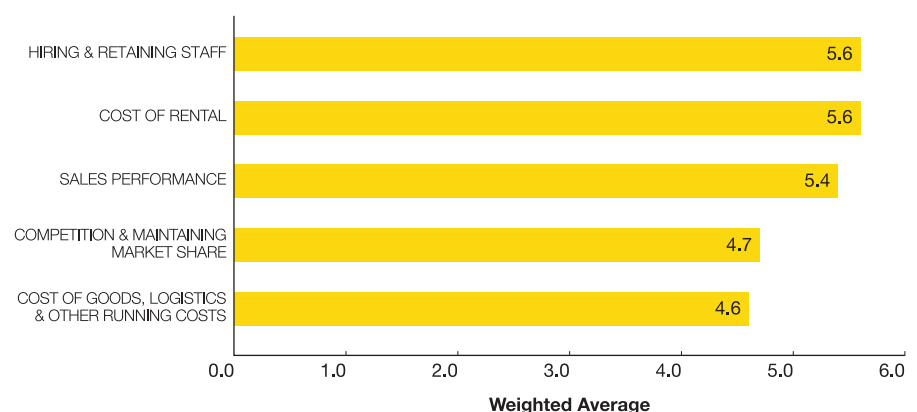
How can productivity be increased on the services front? Many have suggested a temporary easing of the foreign manpower policies, believing that there are limited solutions that the retail and F&B sector can develop in the short term.

Nevertheless, there are retailers and F&B operators looking into various productivity solutions. Fast food joint BurgerUp and 363 Katong Laksa are among others who have installed self-service kiosks for diners to order their food. Timbre will soon employ Infinium-Serve, flying drone waiters, to transport food from the kitchen to the main serving area, to reduce the time spent on walking around and more on customer services.

Such possibilities were made available by the growth in number of companies offering various productivity solutions. Examples include Infinium Robotics which developed the Infinium-Serve, AMAS HUB that creates innovative mobile applications for restaurants having functions such as e-menus and electronic order systems. In addition, Appic Technologies acquired by Chope, developed the application Tick-Tock which helps restaurants better manage their queuing systems.

EXHIBIT 1

Retailers' level of concerns regarding the following aspects of business



Source: Knight Frank Research

Respondents were asked to rate their level of concern about each aspect of running their business. A score of 1 indicates that they are not concerned about that aspect of business and 6 indicates they are extremely concerned. The rating of each factor shown on the graph is an average of the scores given by all the respondents.

The Government has played a significant role in spurring such innovation and creative activity in the market, offering grants to start-ups which seek to offer such solutions, and Productivity and Innovation Credits to retailers and operators to invest in these productivity solutions. For example, the Capability Development Grant (CDG) helps to defray up to 70% of the qualifying project cost and retailers can take advantage of it to help increase productivity and training amongst their staff. These measures and policies have also been further enhanced over time. At the Budget Speech 2015 in February 2015, it was announced that small medium enterprises (SMEs) would see simplified grant application process to fund projects below \$30,000.

Despite these efforts, some retailers remain fairly resistant to develop more innovative solutions to tackle the issues. While bureaucratic processes like application of various licenses for use of these new technologies could be one hindrance, there is also a deep-set inertia in the market, although the desire to succeed amid a challenging market will gradually change it.

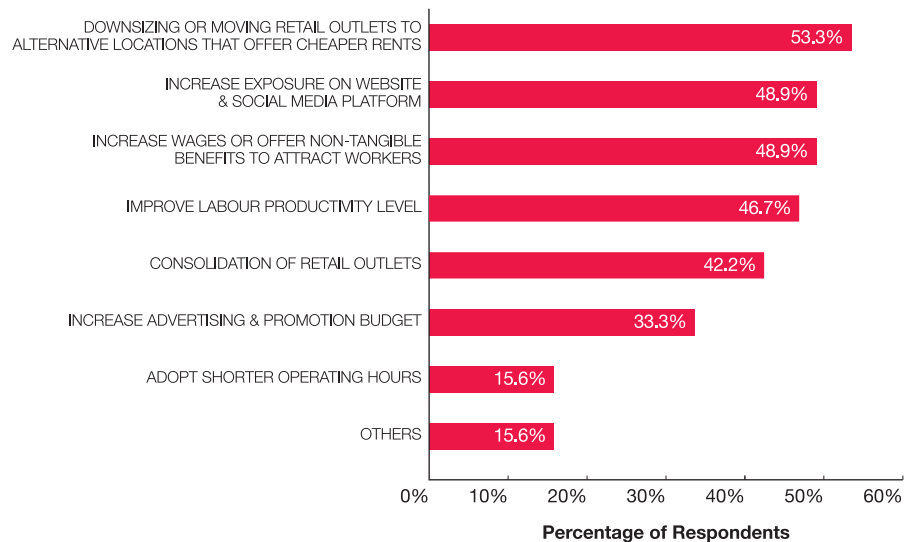
This is, still, a long way to go. For the sector to see leaps in productivity gains, there must be greater dialogue and collaboration among stakeholders. Retailers and operators with similar issues can crowd-fund the development of new ideas and apps to reduce their individual investment costs. More interaction with the innovation sector will help more start-ups and companies get to the heart of the issue and develop more relevant and significant products. Eventually, such technologies must lead to real gains in revenue and fall in operating costs, while maintaining service standards and shopper experience.

On a positive note, factors such as returning Chinese tourists, a weaker eurozone, and moderating Singapore Dollar could continue to support Singapore's retail scene and its position as a tourist destination. In 2014, Singapore saw retailers like MM6 Maison Martin Margiela, Jaeger-LeCoultre, and Lululemon opening new outlets, affirming the continued appeal of our local retail scene. Although retailers remain somewhat positive amid challenges, the new breed of retailers is seen treading cautiously in their expansion plans.

More can still be done to encourage new retail start-ups. Our government

EXHIBIT 2

## Possible solutions to address retailers' business concern



Source: Knight Frank Research

Respondents may pick as many solutions that were applicable to them.

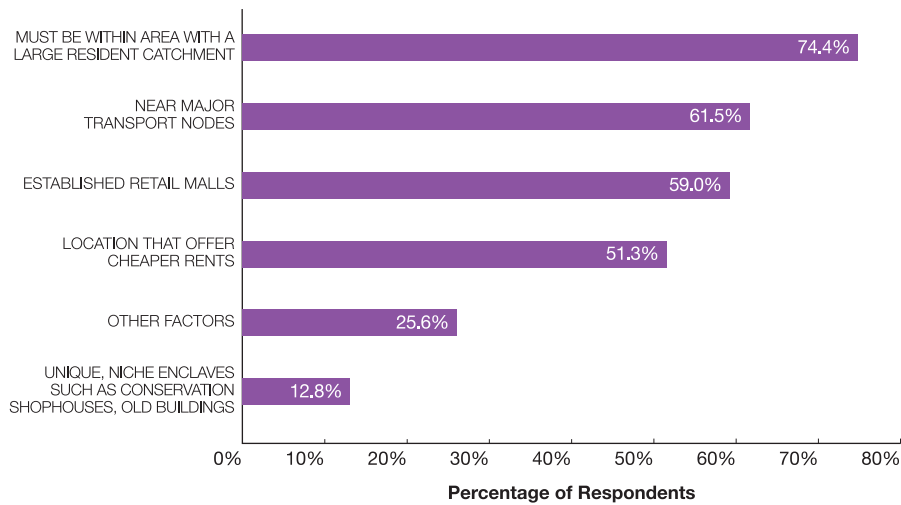
can consider similar initiatives to help retail start-ups with winning concepts to increase their market exposure in an environment of lower rents. In all, the Government can take a lead role to provide affordable rents and to promote entrepreneurship.

Additionally, the newly minted fair tenancy framework allows a better understanding of tenancy agreement terms and practices, helping them to balance their negotiation power with mall owners as retailers seek to manage their cost. Lastly, landlords must also take interest in the sustainability and longevity of their tenants and provide some level of support to retailers in their battle for increase sales and productivity. Weaker malls should look to intensify advertising and promotion efforts and improving transport connectivity to increase footfall.

*Extracts of this House View were published in The Business Times Property Supplement, titled "Working together to tackle retail challenges" dated 19 March 2015.*

## EXHIBIT 3

## Considerations when picking a location for new outlets



Source: Knight Frank Research

Respondents may pick as many considerations that were applicable to them.

## EXHIBIT 4

## Retailers' sentiments towards business expansion in 2015



YES

79.5%

NO

20.5%

Source: Knight Frank Research

## EXHIBIT 5

## Retailers' awareness of Fair Tenancy Consideration Framework launched by Singapore Business Federation



YES, I AM FULLY AWARE OF IT

15.9%

YES, BUT I AM NOT SURE ABOUT THE DETAILS

38.6%

NO, I AM NOT AWARE

45.5%

Source: Knight Frank Research

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