

RETAIL RESEARCH



KNIGHT FRANK SINGAPORE
RETAILERS' SENTIMENT SURVEY 2018

Uncovering Retailers' Thoughts and Sentiment

A RESPITE FOR SINGAPORE'S RETAIL SECTOR IN 2017

Singapore's retail scene has been under the spotlight as structural shifts in consumer demand, competition and mode of retailing has evolved faster than before. The health of Singapore retail also hinges on consumer sentiments and economic performance, which saw improvements in 2017. After witnessing negative retail sales growth since 2014, the retail landscape finally saw a modest respite, recording a 1.3% overall yearly increase in Retail Sales Index (RSI) for 2017.

The uptick in retail sales is a reprieve for retailers, as they contend with stronger headwinds in a competitive landscape which has yet to lift demand for retail space. According to the Urban Redevelopment Authority (URA), the average annual occupancy for island-wide retail slipped from the high of 94.9% in 2013 to 92.2% in 2017. Retail rents in the Central Region also fell for the third consecutive year and recorded negative growth of 15.9% between Q1 2015 and Q4 2017. Despite the sharp decline in retail rents, island-wide prime retail rents tracked by Knight Frank Research held relatively firm, falling only 1.3% per cent y-o-y to S\$30.70 per square foot per month (psf pm) in 2017. Compared to its last peak in 2013 (\$32.60 psf pm), island-wide prime retail rents declined by 5.9%. Average yearly rents across different areas in Singapore for 2017 saw varying extents of annual decline, with the Marina Centre, City Hall and Bugis areas facing the greatest downward pressure (-5.0%), followed by the suburban areas (-1.7%).

Come 2018, an estimated 2.1 million square feet (Nett Lettable Area) of potential new retail space will come onstream, bringing total island-wide retail space to 67.4 million square feet for the entire year ahead. This onslaught of retail space could further exert downward pressure on retail rents and occupancy.

Faced with a mixed bag of performance indicators and the wave of structural change in consumer demand that is to come, what are some of the key business considerations and strategies that local retailers are likely to adopt in 2018?



Knight Frank Retailers' Sentiment Survey 2018

Uncovering retailers' thoughts and sentiment

While many retailers have jumped on the bandwagon and developed an online presence alongside physical stores, retailers are gradually recognising the importance of seamless integration between the physical and online realm.

01.
Business outlook improves; Challenges continue to stem from cost and labour

03.
Strengthening the physical store experience

02.
The importance of physical store presence

04.
Relevance of bricks to stay and evolve to new experience

BUSINESS OUTLOOK IMPROVES; CHALLENGES CONTINUE TO STEM FROM COST AND LABOUR

Knight Frank Singapore carried out its annual Retailers' Sentiment Survey in 2018, its third instalment since 2015, with 55 Singapore-based retailers with an Asia-Pacific (APAC) presence.

The top three countries outside of Singapore which retailers have handpicked to establish a retail presence within APAC are Malaysia, Indonesia and Australia.

EXHIBIT 1

TOP THREE OVERSEAS MARKETS WITH RETAIL OUTLET PRESENCE

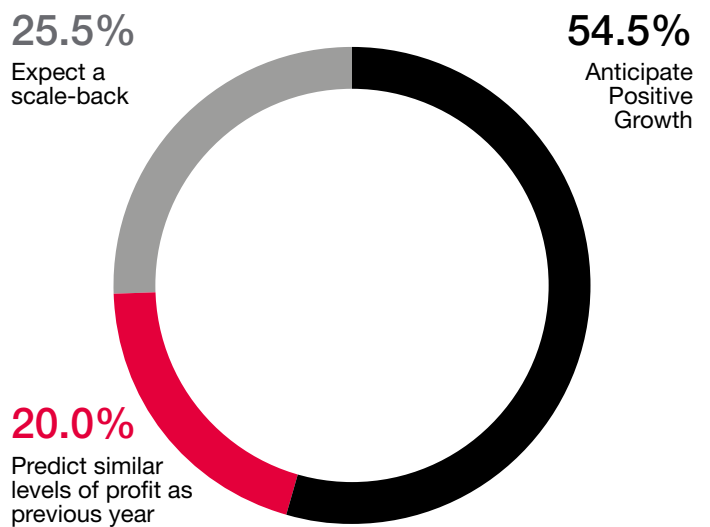


Source : Knight Frank Retailers' Sentiment Survey 2018

54.5% of respondents anticipated positive growth in business profitability in 2018, while 25.5% expect a scale-back. The remaining 20.0% predict similar levels of profits as the year before. In contrast, business sentiments were bleaker in 2017, where only 48.1% of retailers anticipated a positive growth in business profitability, while a higher proportion of 36.5% expected a dip in the same year. Retailers from the Food and Beverage service-line (i.e. restaurants, cafes, kiosks, bar, pubs, etc.) reflected

EXHIBIT 2

SENTIMENT ON BUSINESS PROFITABILITY



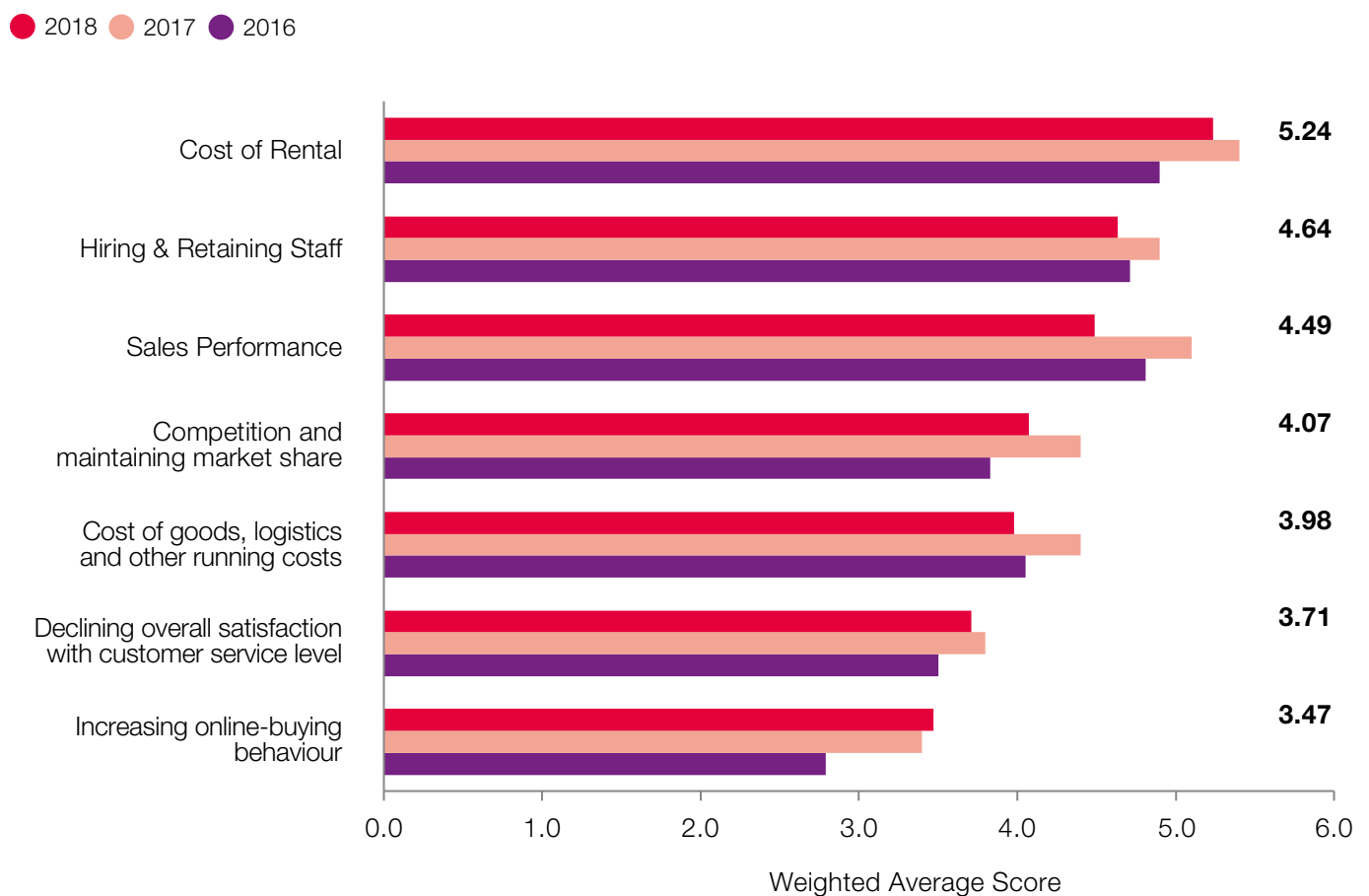
Source : Knight Frank Retailers' Sentiment Survey 2018

similar sentiments last year and were the most optimistic, with 35.3% envisaging at least a 10% growth margin in business profitability in 2018. The other key trades of Education and Enrichment, Fashion and Accessories, and Health, Fitness and Wellness saw a mixed-bag of growth expectations. This optimism by retailers dovetails with improving consumer confidence levels seen in the region. The Mastercard Index of Consumer Confidence showed that consumers in Singapore, Malaysia, Indonesia and Australia reported an upward shift in their levels of optimism in H1 2017.

Notwithstanding the improved sentiment, retailers have to grapple with key issues of business cost and labour. The survey revealed the key business challenges for retailers (Exhibit 3). Cost of rental, in particular, remains the chief challenge for the respondents. Notably, retailers demonstrated growing concerns over consumers' online-buying behaviour over the last three years, though it is still ranked as the business challenge they are least concerned about for now.



EXHIBIT 3
KEY BUSINESS CHALLENGES FOR RETAILERS, 2016 TO 2018



Source : Knight Frank Retailers' Sentiment Survey 2018

1: Sample size of survey was 55 retail operators, some of which may operate more than one line of retail business and/or brands.

2: A score of 1 indicates a low level of concern, while a score of 6 indicates the highest level of concern. The higher the average score, the higher the retailers' level of concern towards the particular business challenge.

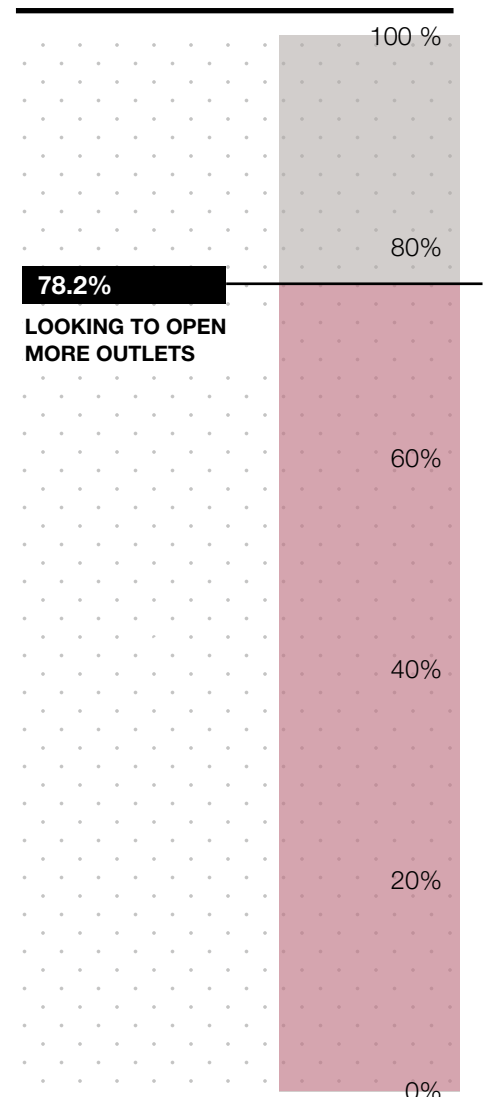
02.

THE IMPORTANCE OF PHYSICAL STORE PRESENCE



In terms of their strategies with regards to physical store development in 2018, 78.2% of respondents indicated that they were looking to open more outlets both locally and overseas. In the same vein, 92.7% of respondents indicated the importance of developing and maintaining a physical store presence. **Creating physical spaces is increasingly evident amongst global e-commerce giants** such as Alibaba and Amazon, where their aggressive entry into the brick-and-mortar realm included the setting up of Hema and Amazon GO supermarkets with sizable footprint. Back at home, local fashion retailer, Love Bonito, set up their first physical store right in the heart of Singapore's shopping belt, Orchard Road. Local online luxury e-tailer, Reebonz, followed suit, setting up pop-up stores in malls such as Suntec and VivoCity. They subsequently set up a showroom within their eight-storey e-commerce hub in Tampines in May 2017, with the hub established to ramp up its cross border operations and meet the evolving demands of their customers.

EXHIBIT 4
STRATEGY ON PHYSICAL STORE DEVELOPMENT



Source : Knight Frank Retailers' Sentiment Survey 2018



Clearly, the value proposition of having physical shops remains a key consideration for local retailers in their business strategy.

First

Physical stores allow e-commerce players to capture walk-in patrons, and double up as warehouse and fulfilment stations for the delivery of online purchases.

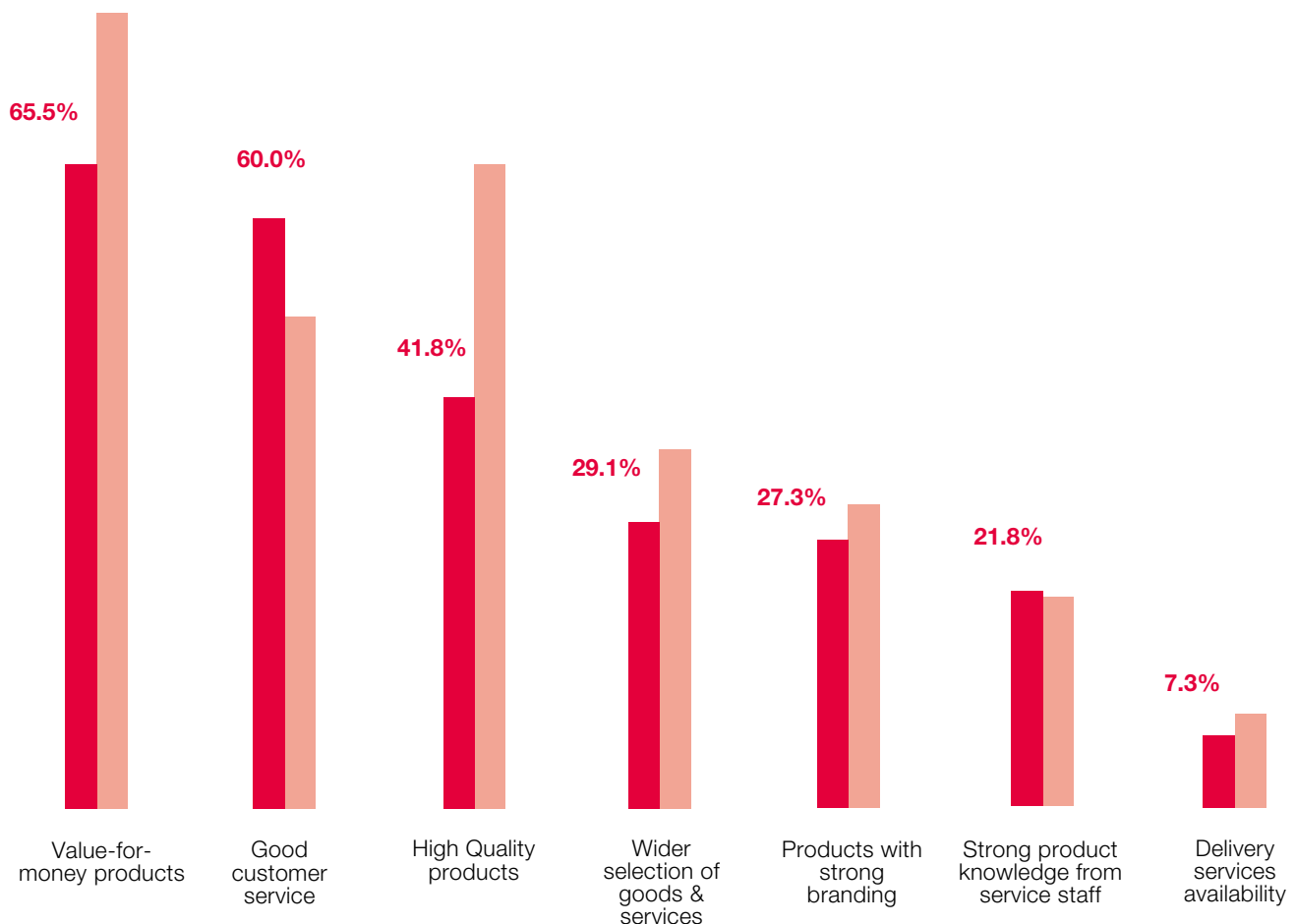
Second

E-commerce players have also realised the expansive value of occupying a physical space, as evidenced by the 2017 survey results from the International Council of Shopping Centres. The findings revealed that **81.0% of consumers who shopped online and visited the physical store to pick up their orders were likely to purchase additional items, during the collection of their online purchases.**

EXHIBIT 5

ATTRIBUTES OF SHOPPING EXPERIENCES AND PRODUCTS VALUED BY CUSTOMERS, 2017 vs 2018

● 2018 ● 2017



Source : Knight Frank Retailers' Sentiment Survey 2018



When surveyed on the attributes of shopping experiences and products that customers value, respondents picked value-for-money, good customer service and quality products as the top three values deemed most important for their customers. While these values and experiences can be addressed by an e-commerce platform, the 'human touch' aspect remains the crucial differentiating factor which is now fulfilled at the physical store.

Major retailers like Hermes, Gucci and Apple have also developed 'showrooms' in their physical shops to showcase products under thematic formats that reflect the trends of the season, allowing customers to touch, feel, and experience their current range of items.

Rather than have both online and offline platforms running independently, how can retailers drive a more seamless transition between both platforms? Respondents believe that showrooming, exclusive in-store advertising and promotions and the adoption of social spaces in-store were strategies that could help drive traffic back to brick stores (Exhibit 3). Major retailers like Hermes, Gucci and Apple have also developed 'showrooms'

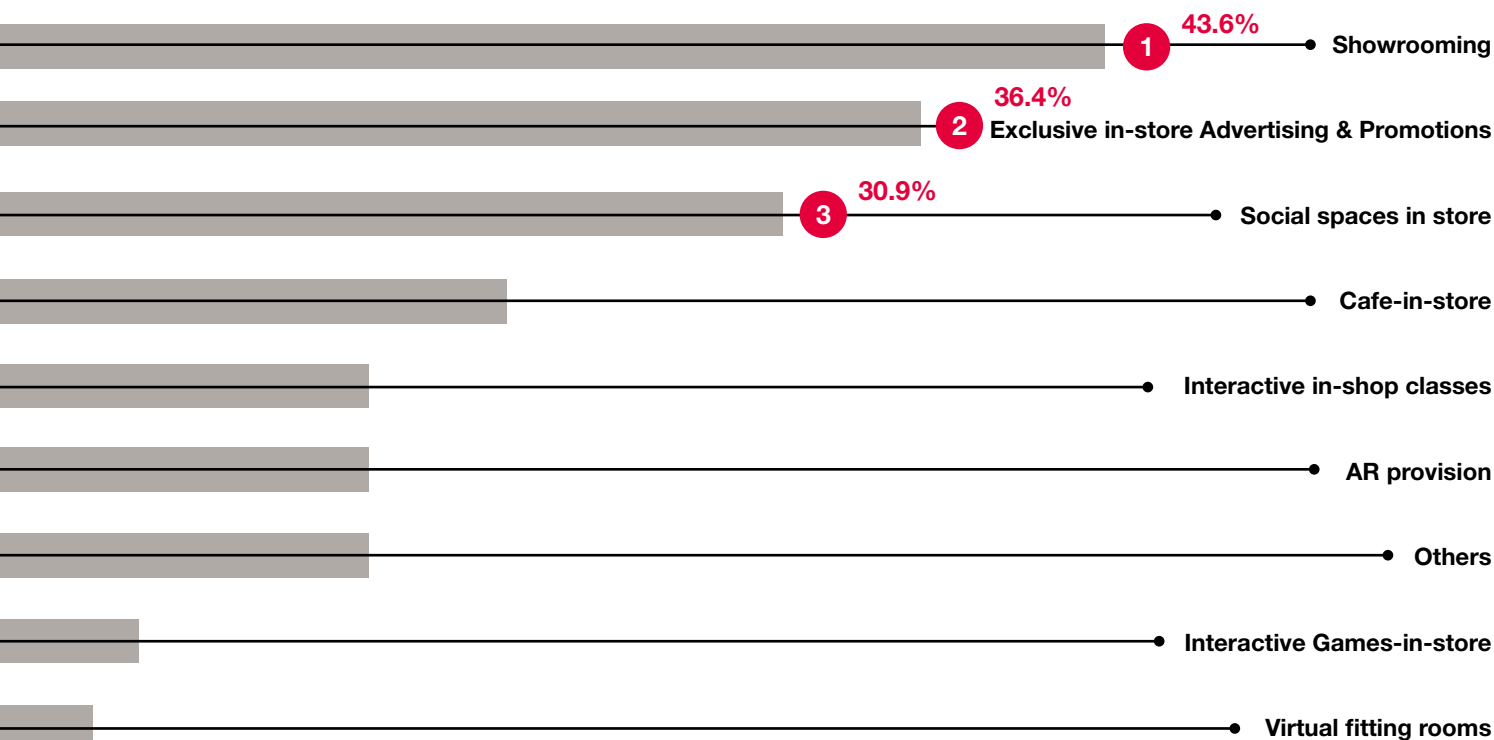
in their physical shops to showcase products under thematic formats that reflect the trends of the season, allowing customers to touch, feel, and experience their current range of items.

Amid the flurry of online retailing, the survey revealed the emerging trends of leveraging on incumbents, while moving away from the usual social media strategy. Interestingly, 20.0% of respondents now choose to market their products on established, multi-brand e-commerce platforms such as Lazada, Tmall and Qoo10, over developing their own online platforms to reach out to customers. Only 5.5% of respondents in the 2018 survey indicated an interest in building an interactive smartphone app, compared to 11.5% in the 2017 survey. Likewise, a lower proportion of 50.9% of retailers surveyed are keen to engage customers via social media portals in 2018, compared to 61.5% in 2017.

EXHIBIT 6

RETAILING STRATEGIES TO REACH OUT TO CUSTOMERS

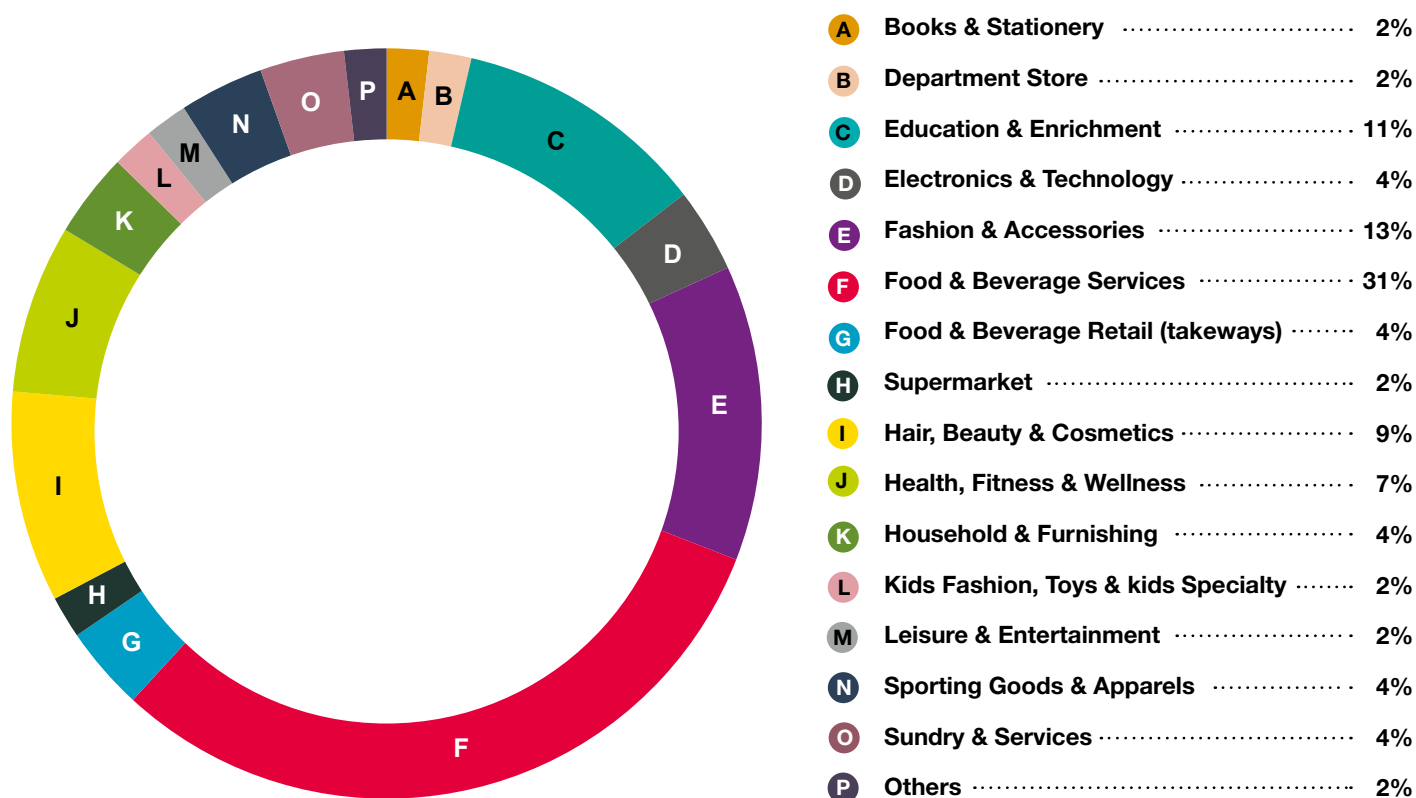
Proportion of Respondents (%)



Source : Knight Frank Retailers' Sentiment Survey 2018

EXHIBIT 7

RESPONDENTS BY TRADE CATEGORIES



Source : Knight Frank Retailers' Sentiment Survey 2018

EXHIBIT 8

WHAT IS YOUR STRATEGY WITH REGARDS TO PHYSICAL STORE DEVELOPMENT FOR YOUR BUSINESS IN 2018?

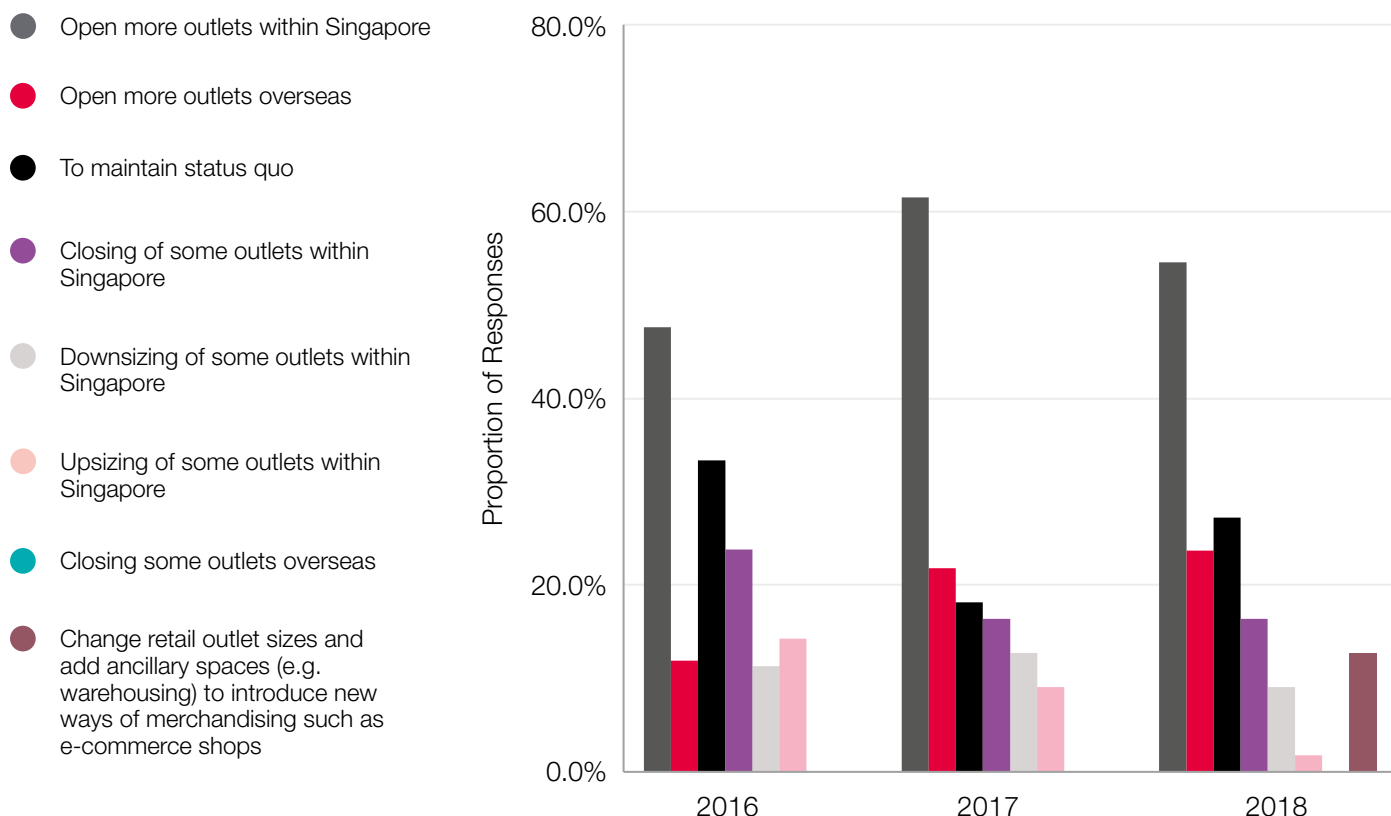


EXHIBIT 9

WHAT WILL BE YOUR TOP CONSIDERATION WHEN PICKING A LOCATION FOR A NEW OUTLET?

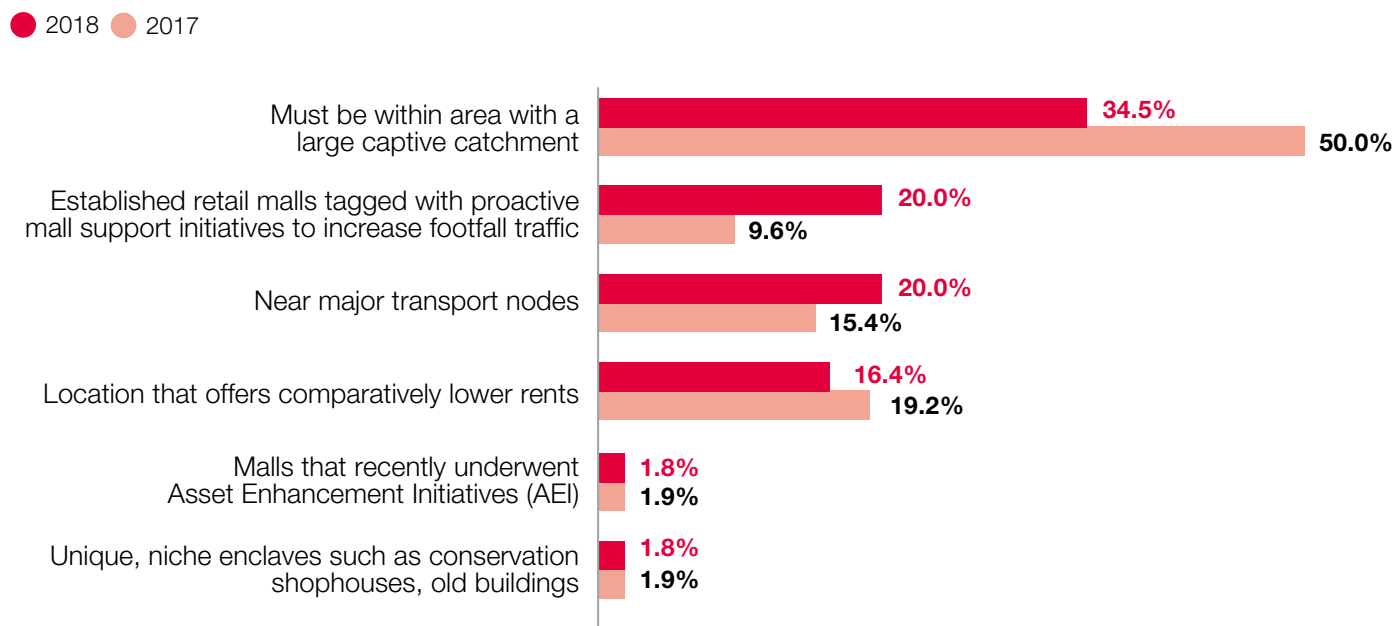
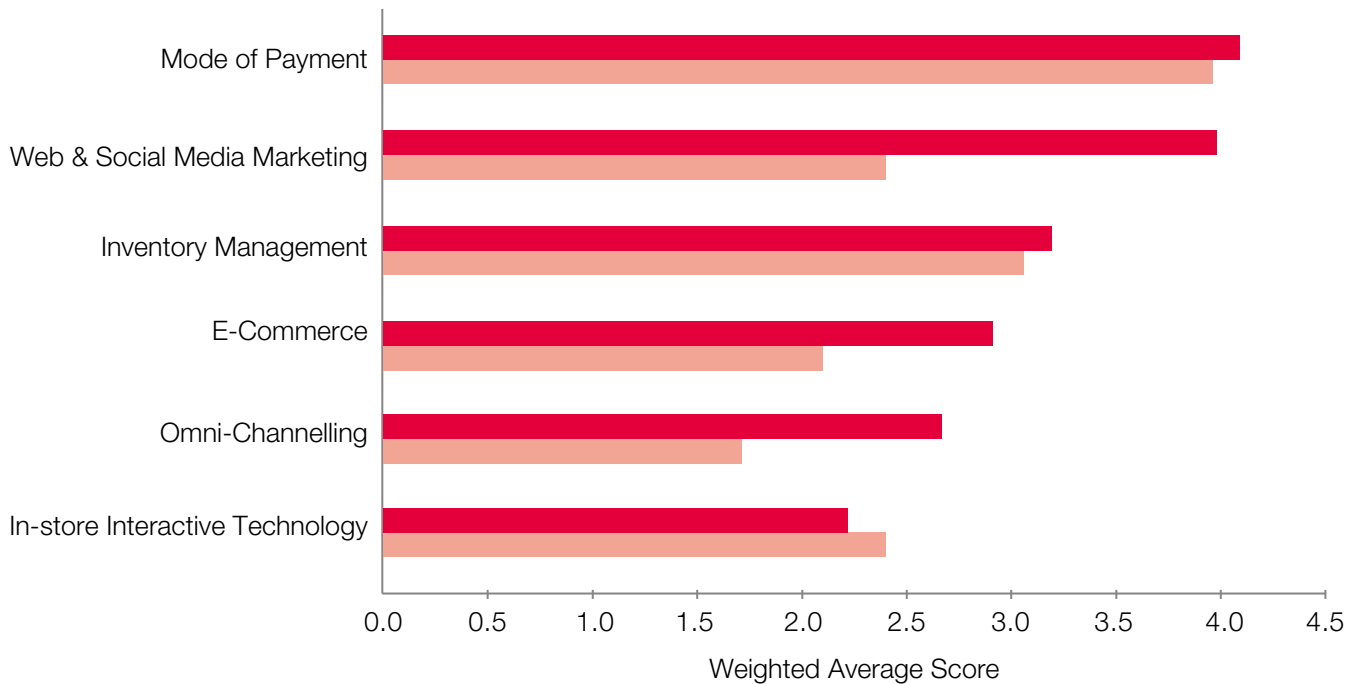


EXHIBIT 10

TO WHAT EXTENT HAVE YOU ADOPTED TECHNOLOGIES IN THE FOLLOWING ASPECTS OF CONDUCTING YOUR RETAIL BUSINESS?

● 2018 ● 2017

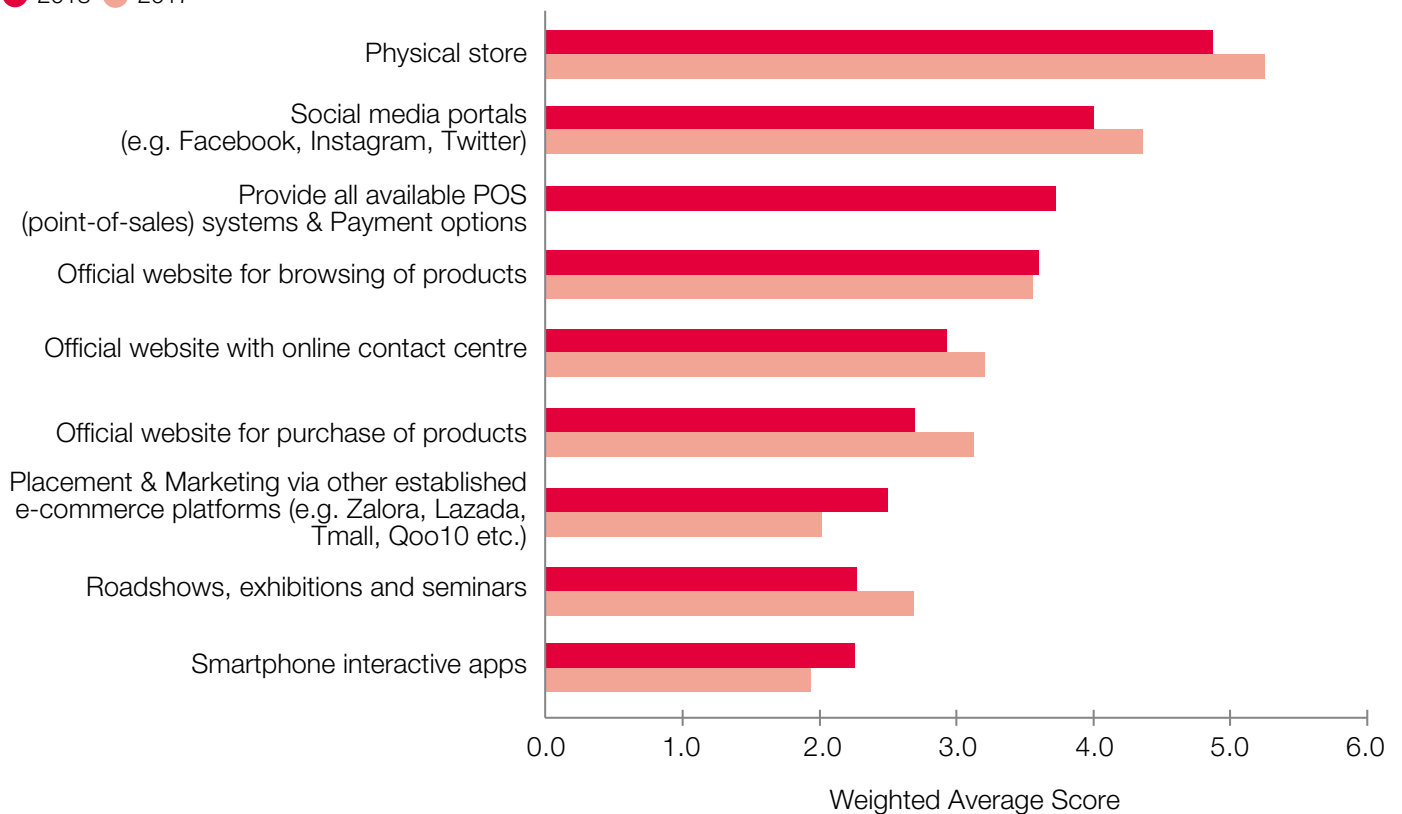


Source : Knight Frank Retailers' Sentiment Survey 2018

EXHIBIT 11

MORE RETAILERS ACTIVE IN MARKETING CHANNELS VIA ESTABLISHED E-COMMERCE PLATFORMS IN 2018

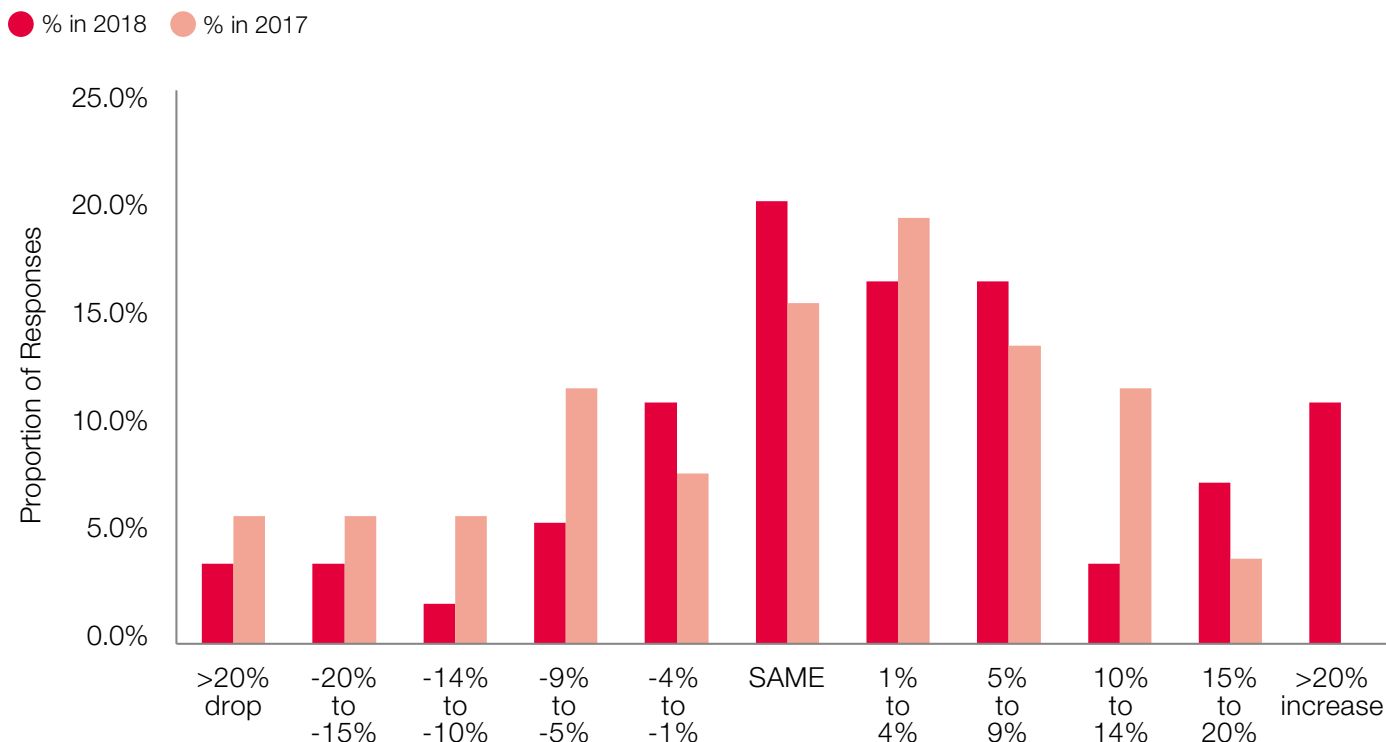
● 2018 ● 2017



Source : Knight Frank Retailers' Sentiment Survey 2018

EXHIBIT 12

HOW WOULD YOU SEE YOUR OVERALL BUSINESS PROFITABILITY CHANGE IN 2018, COMPARED TO 2017?



Source : Knight Frank Retailers' Sentiment Survey 2018

04.

RELEVANCE OF BRICKS TO STAY AND EVOLVE TO NEW EXPERIENCE

Looking ahead, conventional retailers can explore **integrating click-and-collect services in their existing physical stores**, which may help reduce warehousing and additional manpower costs over the long term. E-commerce players can seek to partner existing “brick-and-mortar” owners, to allow customers to collect their merchandise at their partner’s physical stores. An example of such a partnership is the tie up between e-commerce player Lazada and real estate giant CapitaLand, where Lazada leverages CapitaLand’s existing mall infrastructures by setting up item collection lounges. There, e-shoppers can collect, test, and even return defective items on the spot. Such partnerships not only create an ecosystem to **drive traffic to both the online and offline stores, but also offer added convenience to customers**. This seamless online-offline relationship, with the added emphasis of convenience to customers’ shopping experiences, will set the stage for the future of Singapore retail at least for 2018.

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