

SINGAPORE RESEARCH RETAIL



Q1 2018 RETAIL MARKET SNAPSHOT

Upcoming New Supply (2018 - 2022):

5.9 million sq ft GFA
(6.2% of total current stock)

Average Prime Retail Rents (Island-wide):

S\$30.70 psf pm

▼ 0.4% decrease q-o-q



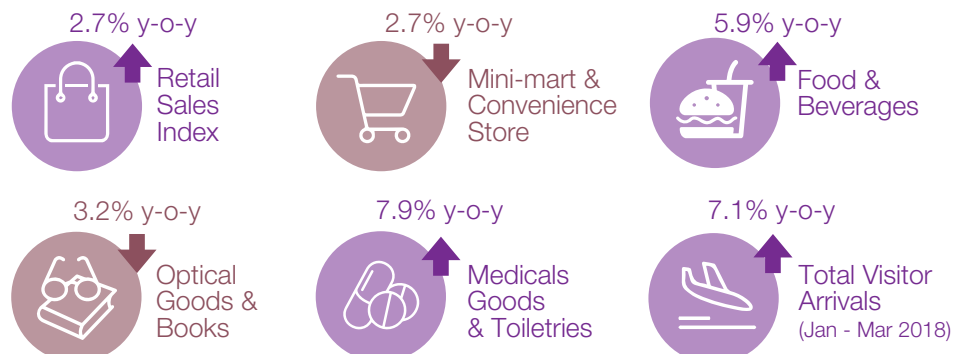
WENDY LOW
Executive Director & Head,
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“With the new wave of consumer preferences, change is the new constant. Retailers and landlords are seen to be stepping up their game to refresh their concepts to keep up with consumers’ needs and wants, and keeping costs within limits as they manage this new change.”

CONSUMERS TO BENEFIT FROM NEW CONCEPTS AND STRATEGIES UNVEILED BY RETAILERS AND LANDLORDS IN THE WAVE OF CHANGE

Consumers are set to benefit from the dynamic shift in the retail market as retailers step up to develop differentiated concepts and landlords adopt various strategies to distinguish themselves. With prime retail rents declining at a slower pace in Q1 2018, island-wide occupancy is expected to remain fairly healthy through 2018.

On the back of improved retail sales and higher visitor arrivals, retailers have stepped up in hiring during the last quarter of 2017



Source: Singstat as at March 2018, Knight Frank Research

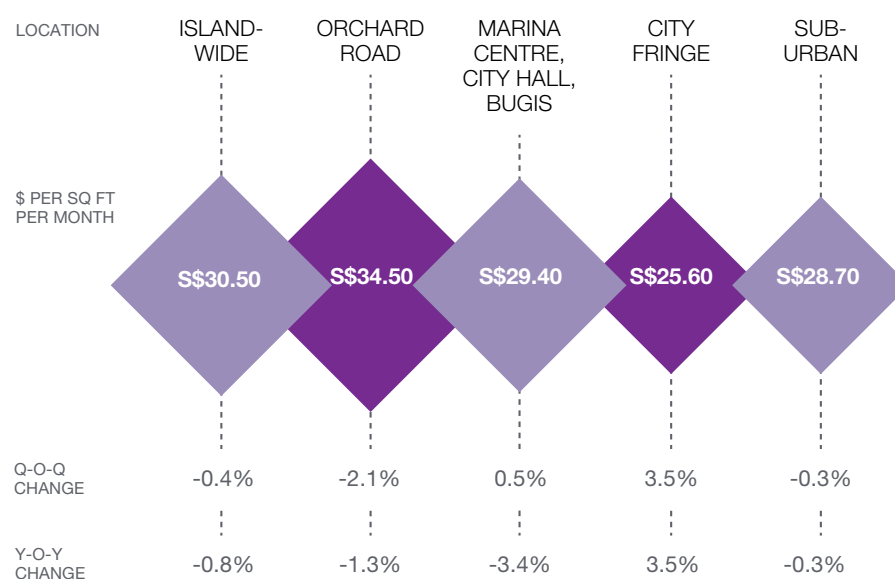
- **The overall Retail Sales Index (excluding motor vehicles; non-seasonally adjusted, at constant prices) declined to 99.3 in January 2018, before rising to 100.9 in February 2018 and 101.9 in March 2018.** Of the 13 retail trade categories tracked by Singstat, only Supermarkets, Provision & Sundry Shops, Food & Beverages and Petrol Service Stations declined in March 2018 compared to January 2018. Watches & Jewellery, Recreation Goods, and Furniture & Household grew by between 8.3% and 17.1% in March 2018 compared to Jan 2018.
- **Employment in the wholesale and retail trade expanded in Q4 2017** by 5,200 headcounts. This expansion of headcount is faster than Q4 2016 (3,600), as retailers stepped on hiring to manage the busy festive season.
- **Total international visitor arrivals to Singapore reached a new high of 17.4 million in 2017.** Compared to 2016 (16.4 million), total visitor arrivals grew 6.2% year-on-year (y-o-y). The top three largest markets contributing to the strong visitor arrival growth were from China, Indonesia and India. At the same time, total tourism receipts rose 3.9% y-o-y to S\$26.8 billion in 2017. For the whole of 2018, the Singapore Tourism Board forecasts tourism receipts to increase between 1% and 3% be in the range of S\$27.1 to S\$27.6 billion, and international visitor arrivals could reach the range of 17.6 to 18.1 million.

Prime retail rents in the City Fringe precinct reported strong recovery after 11 quarters of negative to flat growth

- Impacted by cautious retailer sentiment despite a modest improvement in retail sales growth, island-wide prime retail rents fell by 0.8% y-o-y to average \$30.50 per square feet per month (psf pm) in Q1 2018. This is the 15th consecutive quarter of decline for island-wide prime retail rents. The city fringe precinct rebounded with a strong recovery (3.5% y-o-y) in prime rents for the first time after 11 quarters of decline.
- Average prime retail rents in the Marina Centre, City Hall and Bugis precinct recorded the steepest decline (-3.4% y-o-y) compared to all the precincts, as landlords in the Downtown Core Planning Area continued to offer attractive rental packages to manage falling occupancy.

EXHIBIT 1

Average Gross Rents of Prime Retail Spaces as of Q1 2018



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.

A number of retailers have taken the opportunity to refresh their stores amid the softer market

- Zara reopened its flagship store in VivoCity, after a revamp to double its footprint to about 29,000 square feet (sq ft) in May 2018. Subway has also opened its new concept, the Fresh Forward Restaurant at The Clementi Mall, which features a modern look with added technology features. Other retailers such as Tong Heng (Food retailer), MontBlanc (Accessories) and Uomo Collezioni (Men's fashion), have also reopened after refurbishment of their stores.

Malls are moving away from cookie cutter concepts as mall managers shape up their strategic positioning

- Malls located in the suburban precincts are moving away from the conventional trade mix which typically comprised a higher proportion of fashion retailers. Located within residential enclaves, these malls place higher emphasis on retail services, and food & beverage (F&B) operators to draw shoppers. Apart from this strategy, their mall managers are also stepping up on their Advertising and Promotions strategy by including more communal activities in their calendar of events.
- While some landlords shift to make their malls more lifestyle and experiential-focused, established malls along Orchard Road continue to house a larger proportion of fashion retailers, and are focused on introducing more new-to-market concepts to ensure freshness in their retail offering.

F&B establishments in industrial developments are gaining their presence with new concepts and offerings

- Following the positive responses from the opening of Timbre+ and Saviourworld, a number of new F&B establishments popped up in the industrial precincts in the recent years. As such developments are typically located in far-flung areas, some entrepreneurs have taken advantage of the attractive rents and opened new F&B concepts, testing their concept appeal and garnering new and regular customers. For instance, District 20 which operates at M38 @ Jalan Pemimpin is an upmarket food establishment that offers international cuisine at affordable prices. The Third Place, which has four outlets in the West Region, holds three concepts within the same roof; an Eating House, a Café and a Bar.

MARKET OUTLOOK

Occupancy set to moderate or stabilise in 2018, as retail rents could soften further albeit with lower declines

- **Average rents in the Central Region are envisaged to fall by up to 2.0% y-o-y by Q4 2018**, while prime rents are likely to moderate downwards by up to 2.0% y-o-y.
- **Island-wide occupancy performance is expected to hover between 91.0% and 93.0% by Q4 2018**. Overall, most retailers are still seen to be taking a prudent approach towards their physical store expansion plans, amid uncertain consumer sentiment trends and persistently high business costs. Island-wide occupancy will likely be mainly supported by the steady occupancy performances in established malls. Malls in the Central Area could gain from stronger tourism performance and the positive economic sentiments in 2018.

EXHIBIT 2

Notable new store openings

Retailers	Location	Category	Nature of Brand in Singapore
The Ranch Steakhouse & Bar	Clarke Quay The Foundry	Food & Beverage	New concept
Fendi	ION Orchard	Fashion and Accessories	New opening
Sephora	Westgate	Beauty and Wellness	New opening
Timezone	VivoCity	Entertainment	Flagship store

Source: Various web sources, Knight Frank Research

EXHIBIT 3

Key events in retail landscape

SINGAPORE	
Century Square to re-open in June 2018	Century Square underwent a \$60 million asset enhancement initiative and will open in June 2018. When open, Century Square will offer more F&B options and new concepts. Singapore label M) phosis will also reopen at Century Square, after its closure in 2015.
Great World City undergoes AEI	Great World City started its AEI in April 2018 to leverage on the opening of the Great World MRT station on Thomson-East Coast Line in 2021. The AEI is estimated to cost more than \$50 million and will take place over the next two years. A link in the basement will provide access between the mall and the upcoming MRT station. The mall remains open during this period.
ASIA	
Japan: MUJI opens fresh store	MUJI has opened a new store concept, spanning over 46,000 sq ft, in Osaka that features a fresh food section. Moving from its typical furniture line, MUJI desires to venture in the fresh food segment to ensure higher repeated patronage to their store.
Hong Kong: Improved market sentiments could support pick up in retail rents and improvement in occupancy in Q2 2018	Knight Frank Hong Kong Research reported that the street shop leasing market in April 2018 was more active than in the previous month, with more transactions recorded in core areas. Apart from core areas, a series of street shop leasing transactions were recorded in non-core areas like Sheung Shui. Pre-letting activities in retail shops reflects improved market confidence in the Hong Kong retail outlook. Some retailers are starting to figure out a balance between online sales and physical retail shops to expand their business.

Source: Various web sources, Knight Frank Research

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