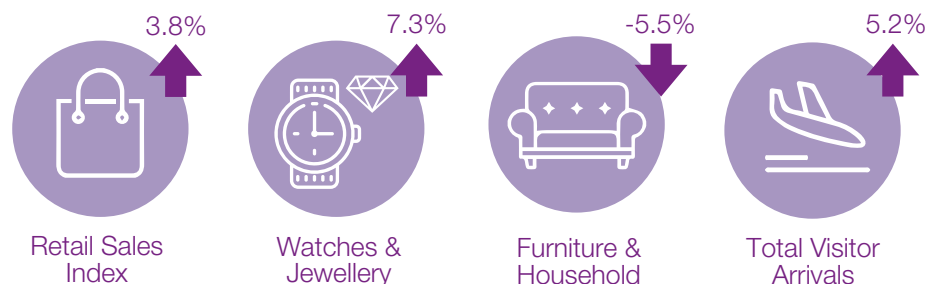


## PROACTIVE ENGAGEMENT AND CUSTOMER SERVICE EMERGE AS A KEY STRATEGY FOR LANDLORDS AND RETAILERS TO TACKLE CHANGING CONSUMER EXPECTATIONS

Rising business cost and manpower shortage continue to plague the Singapore retail market. However, with an improvement in overall retail sales and increasing visitor arrivals, retailers would be able to tackle these challenges with optimism. Island-wide occupancy is expected to maintain within 91.0% to 92.0% as retailers remain prudent in their expansionary plans.

Improvement in overall retail sales brings tentative optimism amid the fast-changing retail landscape of Singapore, buoyed by an increase in tourism.



**WENDY LOW**  
Executive Director & Head, Retail

“With the increasingly higher expectations from the modern consumer, retailers and landlords should leverage on technology to create new retail concepts and strengthen its customer service to win and retain customers.”

- **The overall Retail Sales Index (excluding motor vehicles; non-seasonally adjusted, at constant prices) rose by 3.8% y-o-y in August 2017, the highest increase since April 2017.** Of the 13 retail trade categories tracked by Singstat, Watches & Jewellery continued its eighth consecutive monthly increase on a y-o-y basis. On the contrary, Furniture & Household suffered the biggest decline, with a 5.5% y-o-y decrease in sales performance.
- **Total visitor arrivals for August 2017 rose by 5.2% y-o-y.** The significant increase was brought about by spikes in Chinese, Indian, and Malaysian visitors the same month, with their arrivals increasing 13.2%, 13.1% and 11.6% y-o-y respectively. The cumulative visitor arrivals to Singapore from January to August 2017 are at 11.7 million, more than 11.3 million visitors recorded for the same period last year.

### Labour crunch a pronounced bugbear for retail industry as retail stock grew.

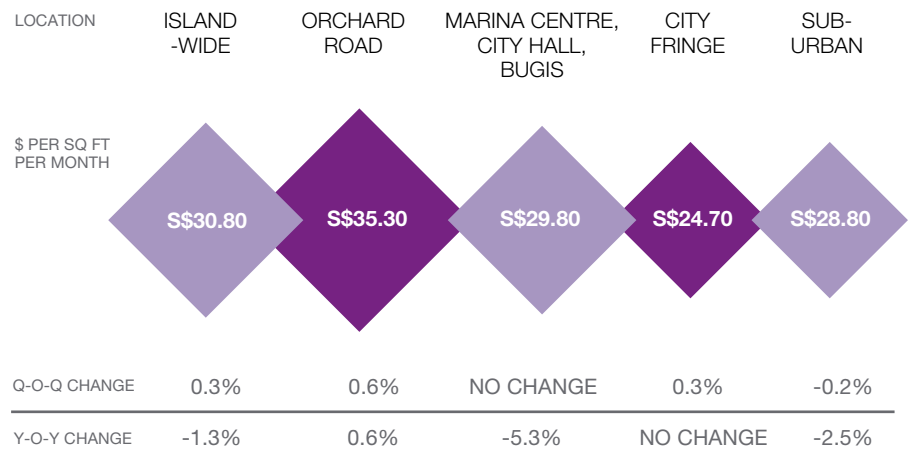
- **Employment in the wholesale and retail trade fell in Q2 2017** by 1,500 headcounts, continuing its consecutive quarterly decline from the start of this year as retailers face increasing labour and operating costs and difficulty in hiring new staff.
- **Retailers more selective in store locations with labour as a key consideration:** Faced with both moderating turnover performance and manpower shortage, retailers are increasingly selective in their choice of store locations, opting for locations with captive resident catchment, direct connectivity to transport networks and high footfall yielding spaces.
- **Influx of new retail space island-wide:** Retailers are presented with more choices with 3.6 million sq ft of upcoming retail spaces by the end of 2018.

**Island-wide prime retail rents saw 0.3% q-o-q improvement, attributed mainly to the higher rents of prime retail space along Orchard Road.**

- Prime retail space rents in malls tracked by Knight Frank Research saw the biggest improvement in Orchard Road with a 0.6% increase both q-o-q and y-o-y.
- While average prime retail space rents in Marina Centre, City Hall and Bugis precinct remained unchanged q-o-q, a 5.3% decline y-o-y was reported as landlords continue to struggle with weakening occupancy.
- The performance of prime retail space rents in the City Fringe precinct saw modest improvement at 0.3% q-o-q, and remained the same y-o-y.
- The Suburban precinct was the only underperformer this quarter, with average prime retail space rents reporting a 0.2% decline q-o-q, and a 2.5% decline y-o-y.

EXHIBIT 1

**Average Gross Rents of Prime Retail Spaces, Q3 2017**



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.

**Utilising technology to improve customer service, from shopping to payments, making shopping a seamless experience for the customer.**

- **Retailers like Sephora are utilizing augmented reality technology to deliver a more powerful multi-dimensional experience to shoppers.** The Sephora Virtual Artist app allows users to test out new products and makeup techniques without having to try it physically. Users can also buy the products through the app and collect it in-store thereafter.
- **Traditional over-the-counter customer service could be replaced by innovative ways of interaction with the customer.** The Apple flagship store at Orchard Road feature payment terminals hidden in the tables across the store and appear only when payments are required at the wave of a hand. Other interactive areas with the staff in the shop enhance the customer experience.

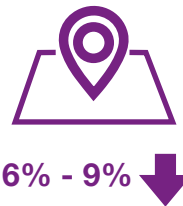
**Apart from customer service, new activity-based experiential retail concepts can help retailers to keep customers engaged.**

- **Retailers are encouraged to feature workshops and exhibitions to entice customers to spend more time in the store.** Muji opened its first Southeast Asian flagship store at Plaza Singapura, which features Open MUJI, a space for educational activities such as talks and workshops on their products. Local retailers like Choo Yilin Atelier too, hosts jewellery-making or jade appreciation classes in their shop.
- **Consumers are beginning to prefer higher engagement in the form of out-of-the-norm experiences.** City of Tomorrow at CityLink Mall created a retail space where consumers can discover thematic concepts and zones, with carefully curated brands that fit into each area through interactive displays and games. Also, Korean eyewear brand Gentle Monster's flagship store at Ion Orchard will play host to various art installations that help conceptualise its full eyewear collection to its customers.

MARKET OUTLOOK

**Retail market performance is expected to maintain its downward trend until end-2017 and 2018.**

Average rents in  
Central Region



Island-wide occupancy  
performance



- **Malls in the Central Area could face stronger headwinds**, with higher competition from the influx of new retail space such as OUE Downtown and Singapore Post Centre, and discretion in local consumer spending towards higher-priced goods and services against the backdrop of modest economic and employment outlook.
- **Average rents in the Central Region are envisaged to fall by 6.0% to 9.0% 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 in malls are expected to remain steady until Q4 2017**, buoyed by better performance from well-located malls with strong transport connectivity and the influx of new-to-market retailers.
- **Overall retail rents in the Central Region could trend lower in 2018 by 3.0% to 5.0% year-on-year by Q4 2018.** With an estimated upcoming supply of over 2 million sq ft of major mall retail spaces until 2019 and assuming a modest economic outlook for Singapore, overall retail rents in the Central Region are forecast to trend lower next year by 3.0% to 5.0% year-on-year in Q4 2018.
- **Suburban retail prime spaces could face similar rental pressure** with projected downward rental adjustment by 3.0% to 5.0% year-on-year in Q4 2018. This is in view of an estimated 1.2 million sq ft of major mall retail spaces coming onstream over the same period and potentially higher competition from various landlords as they plan to ramp up Asset Enhancement Initiatives and Advertising & Promotion efforts.
- **Island-wide occupancy performance is expected to hover between 91.0% and 92.0% by Q4 2017.** This is forecast against the backdrop of 483,000 sq ft of new major mall retail space in 2017; generally, most retailers are seen to continue taking a prudent approach towards their expansionary plans in Q3 2017. Suburban malls, which are supported by strong captive resident catchment size and located near major transport nodes like Jurong East, Tampines and Woodlands, are expected to maintain steady occupancy in the short term.

EXHIBIT 2

**Notable new store openings**

Retailers	Location	Category	Nature of Brand in Singapore
Gentle Monster Flagship	Ion Orchard	Fashion	New-to-Market
Pablo Cheese Tarts	Wisma Atria	Food & Beverage	New-to-Market
Lush Flagship	VivoCity	Skincare & Cosmetics	New opening

Source: Various web sources, Knight Frank Research

EXHIBIT 3

**Key events in retail landscape**

SINGAPORE	
Gong Cha returns to Singapore after appointing new master franchisee	Customers can expect the first outlet to be opened in December this year, six months after its exit from Singapore. Gong Cha is also planning for its stores to sport a fresh look and have new offerings alongside original favourites.
Advent of co-cooking space with OUE Social Kitchen	Launched in September 2017, OUE Social Kitchen allows people to get together and cook. Customers are to bring their own ingredients with chilled lockers for rental, which caters mainly to workers and residents in the Central Business District area.
Giuseppe Zanotti expands into Singapore	Giuseppe Zanotti announced the intention of the opening of a new boutique in Singapore. The new Giuseppe Zanotti boutique will be located in ION Orchard, taking up 1,200 sq ft of retail space.
ASIA	
INDIA: Bally expands into India	The Swiss luxury fashion brand Bally has brought its luxury offerings to India, opening its debut location in New Delhi in partnership with local licensee Reliance Brands. The launch of Bally's brick and mortar store comes after 12 months' worth of talks with Reliance Brands, part of Reliance Retail and the Reliance Group.
INDONESIA: Aeon Indonesia shifts focus to entertainment	Aeon Indonesia is putting the accent on entertainment in its new mall, Jakarta Garden City. It will house Indonesia's first skating rink to meet international standards, a movie complex and Fanpekka, a Scandinavian-style educational center for children.
HONG KONG: OOKONN pop-up store at T Galleria in Hong Kong with exclusive prints	Being an exclusively online retail store, the new-generation travel lifestyle brand OOKONN partners with DFS for a pop-up store at the T Galleria store in Canton Road for the first time.

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

**Wong Shanting**  
Assistant Manager Consultancy & Research  
6228 7339  
shanting.wong@sg.knightfrank.com

**Caleb Hong**  
Analyst Consultancy & Research  
6228 7317  
caleb.hong@sg.knightfrank.com



© Knight Frank Singapore 2017

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Pte Ltd and its subsidiaries for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Pte Ltd and its subsidiaries in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Pte Ltd to the form and content within which it appears. Knight Frank Pte Ltd is a private limited company which is incorporated in Singapore with company registration number 198205243Z and CEA licence number L3005536J. Our registered office is at 10 Collyer Quay #08-01 Ocean Financial Centre Singapore 049315.