

Q3 2018 RETAIL MARKET SNAPSHOT

Upcoming New Supply (Q4 2018 - 2022):

6.3 million sq ft GFA
(9.6% of total current stock)

Average Prime Retail Rents (Island-wide):

S\$30.50 psf pm

No Change q-o-q



RETAILERS LEVERAGE ON TECHNOLOGY AMID CHALLENGING RETAIL LANDSCAPE

The retail sector continued to face headwinds because of cautious spending by consumers amid uncertain external environment. As consumers become more discerning, retailers seek solutions through technology to curate a seamless and hassle-free shopping experience.

While retailers place more emphasis on technology and shopper experience, prime shopping spaces are still valued, especially in the Central Region. Hence, average prime rental rates in the Central Region stayed flat in Q3 2018.

Total International Visitor Arrivals (IVA) continued to increase and we expect Singapore Tourism Board (STB) forecast to be achieved.

EXHIBIT 2

International Visitor Arrivals (IVA) and Total Tourism Receipts (TR)

Total Visitor Arrivals
(January to August 2018)



12.6 million
7.5% y-o-y

Total Tourism Receipts
for Q1 2018



S\$6.7 billion
0.5% y-o-y



WENDY LOW
Executive Director & Head,
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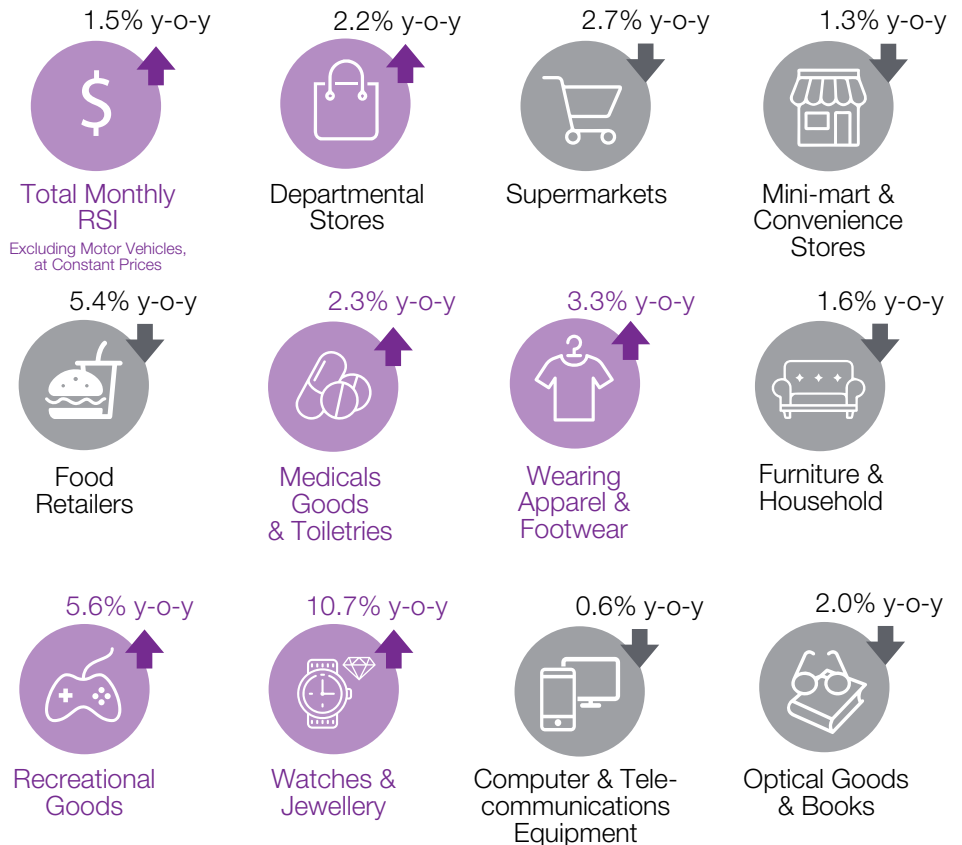
“Technology is an enabler for retailers, improving their consumers’ browsing experience and smoothening the transaction process. However, it is not an end itself as utilising the right concept to appeal to the retailer’s target catchment remains a key factor.”

- **Total International Visitor Arrivals (IVA) from January to August 2018 reached 12.6 million**, a 7.5% y-o-y increase from the 11.7 million recorded over the same period in 2017. Assuming the visitor arrivals continue to increase at the current pace, we expect STB forecast of 17.6 million to 18.1 million visitors in 2018 to be achieved.
- **Chinese visitors continued to contribute to the growth of IVA**, with a 9.4% y-o-y increase to 2.5 million visitors from January to August 2018. Visitors from Indonesia (2.0 million) and India (1.0 million) made up the second and third largest group of IVA from January till August 2018 respectively.
- **While the increase in visitor arrivals from January to August 2018 was encouraging**, the decline in total tourism receipts in Q1 2018 continues to weigh on sales of retailers in the Central Area is likely to cap any recovery in rents.
- **Total Tourism Receipts (TR) fell 0.5% y-o-y to S\$6.7 billion in Q1 2018**. The decline was attributable to lower spending on Shopping (8.9% y-o-y decrease), Accommodation (12.5% y-o-y decrease), and Food & Beverage (F&B) (15.9% y-o-y decrease). Chinese visitors continued to be the top spenders in Singapore, albeit spending less on Accommodation, and F&B. Indonesian visitors and Indian visitors were the other two notable spenders in Singapore.

Overall monthly Retail Sales Index (RSI) (excluding Motor Vehicles, non-seasonally adjusted at constant prices) improved marginally in August 2018, a reflection of cautious consumer sentiments amid uncertain global outlook

EXHIBIT 1

Monthly Retail Sales Index (RSI), as at August 2018

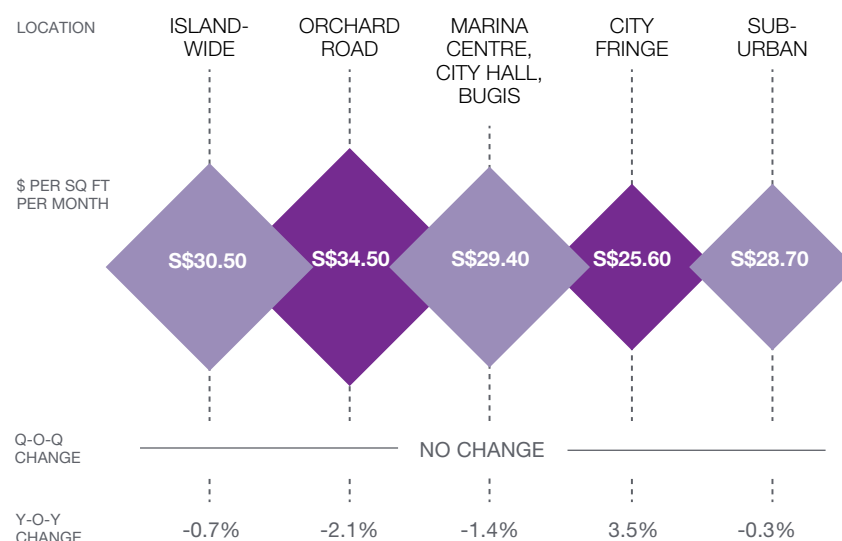


Source: Singstats, Knight Frank Research. Monthly Retail Sales Index updated from Singstats as at 23 October 2018

- **Monthly Retail Sales Index (excluding motor sales) inched up by 1.5% y-o-y in August 2018** to 99.9, a comparable level to Q3 2017.
- **Watches and Jewellery recorded the highest y-o-y growth in sales, increasing by 10.7% y-o-y in August 2018, largely due to an increase in sales of Jewellery.** In contrast, the largest decline in sales emanated from Food Retailers, declining by 5.4% y-o-y.
- **According to the Q4 2018 Business Expectations (Services Sector) survey released by the Department of Statistics, retailers and F&B services were more optimistic of the outlook from October to December 2018, with sales likely to be supported by year-end festive and sales seasons.**

Island-wide prime retail rents* remained flat quarter-on-quarter (q-o-q) in Q3 2018, signalling resilience in prime retail rents despite a challenging retail landscape.

EXHIBIT 3

Average Gross Rents of Prime Retail Spaces*, Q3 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.

- **Overall island-wide prime retail rents remained flat q-o-q in Q3 2018 at S\$30.50 per sq ft per month (pm).** Retail rents of prime units in retail malls stayed resilient because these units appeal to retailers amid the challenging landscape. Notwithstanding, there was little scope for rents to increase further even in the main shopping belt at Orchard Road. Retail rents at Orchard Road kept flat q-o-q at S\$34.50 per sq ft pm, as higher rents would have pushed away tenants due to pressure from lower retail sales. Shoppers were more cautious in their spending due to concerns of the uncertain external environment.
- **Retail rents for prime units in suburban areas and City Fringe also stayed flat q-o-q.** Notwithstanding, we expect the rents for the less prime units to decline as some malls reported lower sales and footfalls in Q2.
- **Retail rents of prime units in Marina Centre, City Hall and Bugis stayed unchanged q-o-q in Q3.**

EMERGING TRENDS IN SINGAPORE AND INTERNATIONAL RETAIL MARKETS

The Monetary Authority of Singapore has launched a unified payment system to consolidate the fragmented mobile payment market.

- This will help smoothen the transaction process. Under this system, retailers will display a single Singapore Quick Response Code (SGQR) label to replace existing QR codes of the 27 participating payment schemes.
- Additionally, Enterprise Singapore, Housing and Development Board, National Environment Agency, and Jurong Town Corporation plan to roll out the first batch of unified payment system at 245 public eating spaces such as coffee shops, hawker centres, and industrial canteens. The scheme will take place in two phases where only ten payment schemes will be made available with SGQR. Subsequently, some 20 e-payment modes will be made available with the SGQR.
- Meanwhile, the QR payment market remains relatively fragmented. Some existing independent payment systems includes Apple Pay, Alipay, GrabPay, and FavePay. With the consolidation of the payment systems, the government hopes to encourage less reliance on cash.

Cashier-free stores, kiosks, and vending machines becoming popular globally

- Witnessing the success of unmanned convenience stores such as Amazon Go, and Alibaba's Hema, more retailers and e-commerce players are collaborating to bring this concept to their markets.
- There were more openings of unmanned convenience stores across the globe in Q3 2018. Some notable examples include Zippin's cashier-less store in San Francisco, 7-Eleven's fully automated convenience store in South Korea, Okashi Land's self-service convenience store in Hong Kong, as well as JD.ID X-mart unmanned store in Indonesia.
- A spin off from automated convenience stores, smart vending machines are also taking form in Asia. Driven by technology to provide seamless and hassle-free retail experiences while keeping business costs in check, retailers in Asia and Singapore have been rolling out smart vending machines in the past one to two years. Smart vending machines can also automatically track and manage the inventories of the retailers. The benefits of such smart systems have encouraged 30 more companies to plan to install such machines by 2019. August 2016 saw the first VendCafé opening in Anchorvale, selling 3-minute hot meals to customers. In November 2017, SPH Buzz partnered Mastercard® to roll out a hybrid convenience store, featuring self-service vending machines that sell an extensive range of goods from canned drinks to Fitbit activity tracker. Just in April 2018, No Signboard Seafood unveiled it's the Ma2 Shop, a cluster of vending machines to replace traditional convenience stores. A total of 6 such outlets has been launched since.

MARKET OUTLOOK

We maintain our forecasts that average rents in the Central Region will decline by up to 2.0% y-o-y for whole of 2018 while island-wide occupancy rates are envisaged to remain stable through 2018.

- **Retailers and landlords are likely to continue seeking new strategies to increase sales and footfall** using technology amid the uncertain external environment.
- **While the labour market conditions remain tight, higher interest rates and volatile stock markets may put pressure on retail sales** as buyers become more cautious. Notwithstanding, the demand for spaces with good catchment and visibility is likely to remain strong.
- **Island-wide occupancy will continue to remain stable for Q4 2018.** By end 2018, it is expected that about 340,000 sq ft of retail floor area will be injected into the market with the completion of Paya Lebar Quarter. Despite the upcoming supply, the major upcoming malls have achieved healthy pre-commitment rates, given its large residential catchment. Hence, we expect occupancy rates to remain steady for the rest of 2018.

EXHIBIT 4

Notable New Store Openings in Singapore

Retailers	Location	Category	Nature of Brand in Singapore
6IXTY8IGHT	VivoCity	Fashion	First South East Asian Store
Liang Sandwich Bar	VivoCity	Food & Beverage	First Store in Singapore
Rising Fashion	Paragon Mall	Fashion	First Pop-up Store in Singapore consolidating Indonesian-Singapore designers
JD Flagship	ION Orchard	Sports Apparels	New flagship store opening
PUMA	United Square	Sports Apparels	Southeast Asian debut for new market segment
Isaac Toast	Plaza Singapura	Food & Beverage	First Store in Singapore
Fat Burger	Velocity at Novena Square, and KINEX (Formerly One KM)	Food & Beverage	First two stores by the American Chain in Singapore

Source: Various web sources, Knight Frank Research

EXHIBIT 5

Key Events in the Retail Landscape

SINGAPORE	
NTUC Enterprise to buy Kopitiam Investment and subsidiaries by end 2018.	NTUC Enterprise is set to acquire Kopitiam Investment and its subsidiaries by end of the year. This move is set to consolidate both parties' strengths and seek out common opportunities to create better experiences for stakeholders in the food court sub-segment. The two will continue to operate as separate entities and retain existing customer loyalty schemes after the deal completes by end 2018.
Ez-link launched mobile wallet initiative to stay relevant to commuters.	Ez-Link Pte Ltd., You Technologies Group, and Mastercard® officially launched YouTrip, a multi-currency mobile wallet that allows users make payments while overseas without any currency conversion and transaction fees. This initiative is in-line with Ez-Link's push for digitalisation to stay relevant to consumers who demands convenience and multifunctionality.
Costa Coffee closed its last store in September 2018.	Costa Coffee made its exit from the Singapore market after closing all its 8 stores.
OneKM Mall in Katong rebranded to KINEX	UOL Group Limited announced its plans to rebrand OneKM mall located at Katong into a lifestyle and community-centric mall, KINEX. The repositioned mall boasts a first-of-its kind indoor retail theme park envisaged to open by Q1 2019, experiential offerings such as Instagram-able walls, and permanent pop-up retail concepts. Additionally, The Green Collective, Singapore's first green lifestyle and concept store cum social space, will open in KINEX.
Marina Square's Emporium Shokuhin ceased operations due to mounting debt.	As at September, landlord United Industrial Corporations Limited has ceased the 34,000 sq ft of retail premise occupied by the Emporium.
ASIA	
Starbucks and Alibaba launch food delivery and virtual stores in China	As part of an extended partnership with Alibaba in China, Starbucks announced plans to establish a delivery kitchen and launch its delivery services to consumers through its virtual stores. The service will leverage on Alibaba's food delivery platform, Ele.me, to provide delivery services to 150 stores located in Beijing and Shanghai.
Walmart Scan & go boasts 10 million users in China.	Launched only in last April, Walmart Scan & Go is the first to break through 10 million userbase within the retail industry in China. The mini-application enhances shoppers' experience as the shoppers can immediately locate a desired product through its mini-map and smoothen the self-checkout process, making shopping more seamless and convenient.
Central Phuket flagship mall formally opened for business.	Central Pattana formally opened a new flagship mall in Central Phuket. Named as 'Central Phuket', the new mall features almost 2.0 million sq ft of leasable space across two buildings. The two buildings targets two different consumer segments to capture maximum shopper traffic. The first building, Floresta, appeals to shoppers and tourists who seek luxurious consumer goods while the tenant mix of the other building, Festival, caters to families and residents within its catchment.

Source: Various web sources, Knight Frank Research

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