

SINGAPORE RESEARCH RETAIL



Q4 2018 RETAIL MARKET SNAPSHOT

Upcoming New Supply (2019 - 2023):
4.9 million sq ft GFA
(7.3% of total current stock)

Average Prime Retail Rents (Island-wide):
S\$30.50 psf pm
No Change q-o-q



RETAIL SECTOR CONTINUED TO EVOLVE AMID HEADWINDS

In 2018, landlords and retailers were exploring new concepts to improve shoppers' experience amid headwinds in the market. To create personalised shopping experiences for the shoppers, more malls introduced experiential spaces and offered lifestyle concepts and amenities within the mall to increase footfall. Likewise, retailers collaborated with technology companies to better understand their consumers through data analytics, thereby offering enhanced shopping environments and experiences.

Despite such efforts, falling tourism spending and subdued Singapore consumer confidence, together with higher labour costs, capped any improvement in rents in Q4 2018. Based on Nielson's Singapore Consumer Confidence Index released in December 2018, consumer confidence remained in the pessimistic territory.

Given the challenging retail landscape, intensified regional and global competition, and from online retailers coming offline, Knight Frank projects that average rents in the Central Region will decrease up to 3.0% in 2019.

Growth in total International Visitor Arrivals (IVA) remained robust in Q4 2018, supported by increased visitor arrivals from Asia and Europe.

EXHIBIT 2

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

Total Visitor Arrivals
(January to November 2018)



16.9 million
6.6% y-o-y

Total Tourism Receipts
for Q2 2018



S\$6.6 billion
1.7% y-o-y

Source: Singapore Tourism Board, Knight Frank Research.
Latest available data updated as at 31 December 2018



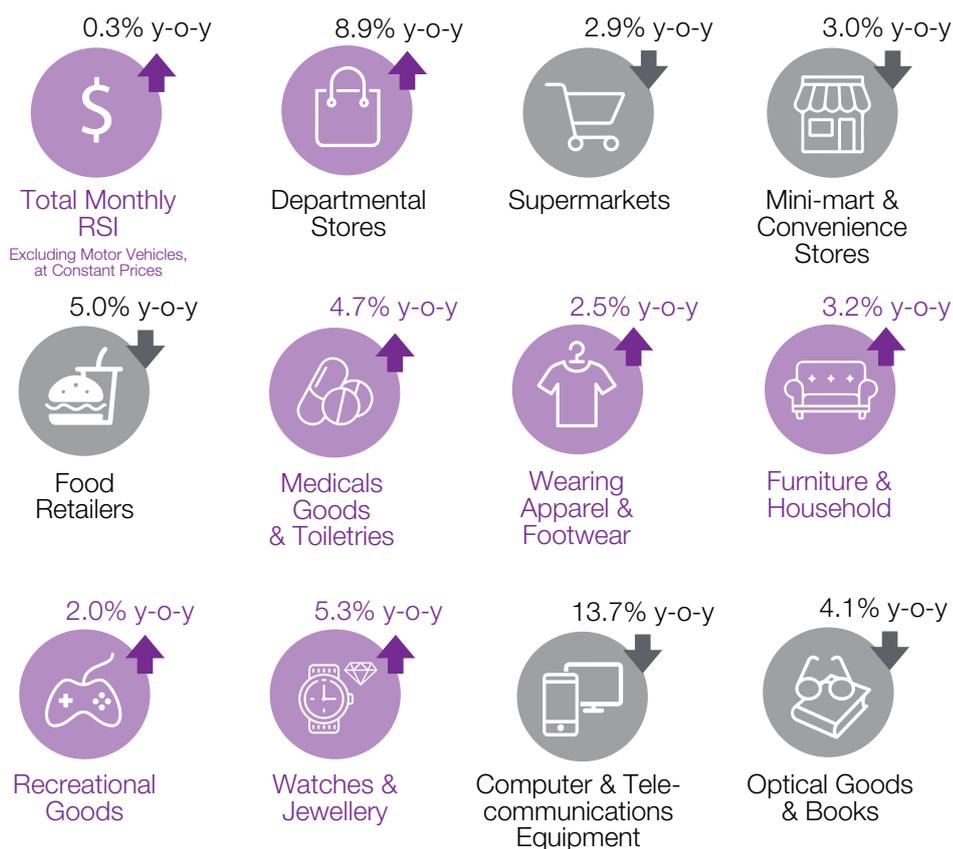
WENDY LOW
Executive Director & Head,
Retail

"There is a growing emphasis among retailers to provide activity-based unique experiences to the shoppers, and for malls to become destinations for people to entertain and be entertained."

- **Total International Visitor Arrivals (IVA) from January to November 2018 grew 6.6% year-on-year (y-o-y) to 16.9 million.** Visitor arrivals increased as there was greater awareness of Singapore as a tourist destination, partly due to the Trump-Kim Summit and the well-received romance comedy film “Crazy Rich Asians”.
- **In addition, a higher number of major global and regional Meetings, Incentive travels, Conferencing, and Exhibitions (MICE) drew more visitors to Singapore.** Notable events Singapore hosted in 2018 included the 32nd ASEAN Summit in April and the 39th ASEAN Inter-Parliamentary Assembly in September.
- **Despite robust growth in IVA, total Tourism Receipts (TR) in Q2 2018 declined 1.7% y-o-y to S\$6.6 billion.** Visitors spent less in shopping (-22% y-o-y) and food & beverage (-15% y-o-y). According to STB Quarterly Tourism Focus, spending declined the most by visitors from Philippines (-30% y-o-y), South Korea (-21% y-o-y) and Malaysia (-15% y-o-y).

Overall monthly Retail Sales Index (RSI) (excluding Motor Vehicles, non-seasonally adjusted at constant prices) improved marginally by 0.3% on the back of cautious consumer sentiments.

EXHIBIT 1

Monthly Retail Sales Index (RSI), November 2018

Source: Singstats, Knight Frank Research.
Monthly Retail Sales Index updated from Singstats

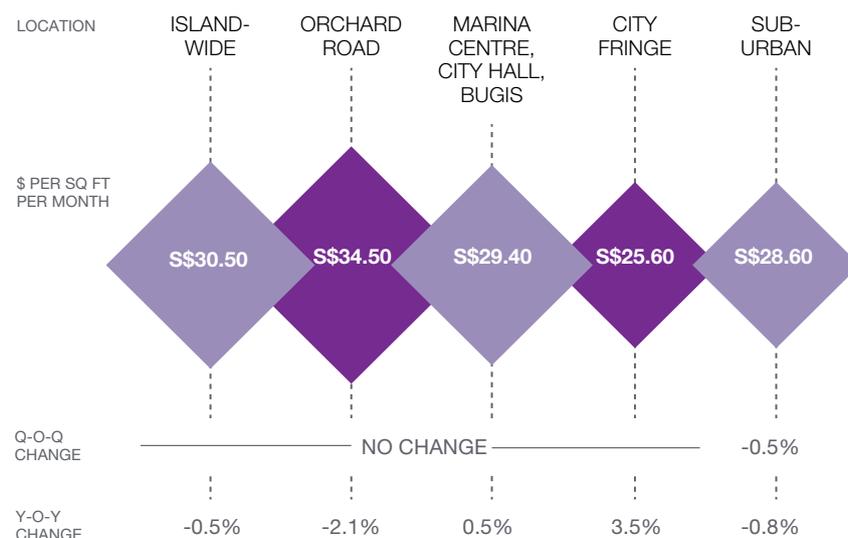
- **Growth in Monthly Retail Sales Index (excluding motor sales) moderated to 0.3% y-o-y in November from a 1.8% y-o-y increase in September.** Out of the various sectors, sales from Departmental Stores grew the most at 8.9% y-o-y in November 2018, largely attributable to a prolonged sales period and higher number of retailers joining the Black Friday, Single’s Day, and Cyber Monday sales bandwagon. Retailers from Computer & Telecommunications Equipment recorded the largest y-o-y decline in retail sales possibly due to an absence in major mobile phone launches.

- **Consumer sentiments across Asia were more cautious** as governments of major economies such as China, Hong Kong, and Japan reported slower retail growth figures in November 2018 possibly from uncertain trade conditions and a slowing Chinese economy.
- **The total retail sales value in November 2018 was about S\$3.8 billion.**

Island-wide prime retail rents eased 0.5% y-o-y in 2018, due to challenges faced by the retailers and the increasingly uncertain economy.

EXHIBIT 3

Average Gross Rents of Prime Retail Spaces*, Q4 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 quarter-on-quarter (q-o-q) in Q4 2018.** On a y-o-y, retail rents continued to face downward pressure in 2018 amid the uncertain external environment and structural challenges faced by retailers.
- **Prime rents in Orchard Road precinct remain unchanged q-o-q in Q4 2018 at S\$34.50 per sq ft pm.** On a y-o-y basis, prime rents declined 2.1%, with the decline occurring in Q1 2018. The drop in tourism receipts, lower Singapore consumer confidence and higher cost of labour offset any upside brought by the limited pipeline supply of prime retail space.
- **As at Q4 2018, prime rents in Marina Centre, City Hall, Bugis precinct stayed flat q-o-q at S\$ 29.40 per sq ft pm.** On a y-o-y basis, prime rents in the precinct increased 0.5%.
- **Prime rents in City Fringe precinct remained flat q-o-q in Q4 2018 at S\$25.60 per sq ft pm.** Overall, the prime rents in City Fringe increased by 3.5% y-o-y, with prime rents of malls at choice locations within the City Fringe recording an improvement.
- **Suburban malls recorded a decline in prime rents by 0.5% q-o-q and 0.8% y-o-y in Q4 2018 on the back of a challenging retail market.** Higher operating costs, coupled with diversion of domestic demand to online platforms and overseas as traveling becomes more affordable, affect demand for retail space and corresponding rents.

EMERGING TRENDS IN SINGAPORE AND INTERNATIONAL RETAIL MARKETS

Landlords source for activity-based tenants in shopping malls to create a collaborative and innovative retail ecosystem.

- Landlords are exploring to rebrand shopping malls into a destination for shoppers to entertain and be entertained by introducing lifestyle components via activity-based tenants. This strategy will help increase footfall and raise sales for other tenants.

- A number of malls included new activity-based concepts to draw crowds. Notable examples included State Swim swimming school and Super Park at Suntec City, as well as Absolute Cycle at OUE Downtown. The newly B1 extension at VivoCity also introduced 'atheisure' brands such as Adidas, Fila, New ERA and Nike to draw shoppers who are increasingly active and health conscious.
- Apart from introducing activity-based concepts, landlords are also bringing in co-working tenants within shopping malls. The amenities in the mall increases the appeal of its co-working spaces, while retailers can collaborate with users of these co-working spaces to create new products or offer new opportunities for collaboration for A&P efforts. Some shopping malls that brought in coworking space include Marina Square (JustCo), One Raffles Place (Spaces), and China Square Central (JustCo).
- At the same time, some entertainment and amusement retailers are making a come-back into shopping malls. These retailers offer classic entertainment activities to leverage old-time shoppers' nostalgia while adding new design and activity offerings to appeal to newer and younger shoppers. Timezone's arcade in VivoCity, the largest arcade in Singapore, lets shoppers relive their childhood with LED-lit bumper cars, 4-D roller coasters, and a Mini Bowling alley, while K-Bowling at 313@Somerset offers a bar, an arcade, KTV booths, and pool tables. Not only do the activity offerings let shoppers be fully engaged and entertained, the carefully curated atmosphere through lighting and music also enhances shopper experience.

Landlords ramp up corporate social responsibility initiatives as a form of branding, targeting shoppers who are increasingly more conscious in their purchasing decisions.

- As consumers become increasingly educated on global environmental and ethical issues, they are demanding transparency, honesty, and authenticity from retail brands. A study by KPMG published in 2018 revealed that 72% of consumers are willing to pay a premium for products they believe to be procured sustainably.
- Brands that deploy environment-friendly practices not only enjoy enhanced brand image, Nielson's latest global sustainability report found that innovation, authenticity, and efficiency also improved within the firm.
- Major sports apparel brand Adidas announced in March 2018 that it will only use recycled plastics for its products by 2024. Earlier in February, luxury group Kering hoped to spearhead industry standards for supply chain visibility through its new supply chain transparency innovation initiative. In December this year, the National Retail Association of Australia announced an 80% drop in plastic bag consumption after Woolworths and Coles implemented self-imposed bans on single-use plastic carry bags.
- Closer to home, The Social Space, a lifestyle concept store, hopes to encourage eco-consciousness in shoppers through selling reusable products. It also dedicates a specific section of its shop for The Refillery where shoppers can refill household items such as soaps, detergents, and shampoo. Another retailer, Unpakt, that sells grocery items, encourages shoppers to bring their own packaging and containers for grocery items such as rice, dried foods, and soya beans.

New Retail - the retail format that is set to revolutionize shopper experience

- The concept describes the integration of online and offline shopping to offer shoppers a seamless and unique experience.
- First introduced in 2017 by Jack Ma, the concept of new retail has been crystallized into Alibaba's 'Hema' stores that revolutionized the supermarket experience in China. Every stage of the retail cycle is digitalized and carefully curated to enhance shopper experience.
- The concept became widely popular amongst Chinese consumers so much so that shopper data reveals higher average monthly spending when shoppers shop both online and offline as compared to when only one channel is used. According to Hema's official site as at end 2018, a total of 107 stores were opened across 16 cities in China.

MARKET OUTLOOK

Economic growth is projected to slow down in 2019 while challenges faced by retailers are expected to persist. Moving forward, Knight Frank envisages average rents in the Central Region to ease further in 2019, declining between 0.0% to 3.0% y-o-y.

- **In 2019, the pace of economic expansion across most major advanced and regional economies is expected to moderate** due to ongoing trade conflicts between US and its trading partners, declining oil prices, tightening of capital, and geo-political tension. The Ministry of Trade and Industry forecasts Singapore's economy is likely to grow by 1.5% to 3.5% in 2019. According to the poll of economists by Monetary of Singapore, Singapore's private consumption growth is expected to moderate from 3.4% in 2018 to 3.1% in 2019.
- Given the tight labour market, labour costs are likely to remain high, reducing the margins of the retailers. It is anticipated that the retail sector will be more competitive, with online retailers coming offline to create a seamless shopping experience. The growth of sale of pre-owned goods on online platforms will exert additional pressure on sales, especially for electronics and furniture.
- Island-wide occupancy rates are likely to remain stable, hovering between 91.0% to 93.0% as rents become more affordable for retailers. While approximately 1.8 million sq ft of retail NLA is expected to be injected in 2019, most of these upcoming developments have achieved healthy pre-commitment rates. Notable expected new openings include Jewel Changi Airport, Funan, Tekka Place, and Buangkok Square.

EXHIBIT 4

Notable New Store Openings in Singapore

| Retailers | Location | Category | Type of opening in Singapore |
|----------------------------|---------------------------|--|--|
| Holey Moley Golf Club | Clarke Quay | Lifestyle | Singapore's first mini-golf course and bar |
| Habitat by Honestbee | 34 Boon Leat Terrace | Integrated Supermarket and Food & Beverage | First tech-enabled multi-sensory grocery and dining destination in Singapore |
| V (by V-ZUG) | Scotts Square | Food & Beverage | New fine dining concept store in Singapore by the kitchen appliance retailer |
| Marks & Spencer | VivoCity | Departmental Store | New concept store with its own produce |
| Nayuki | VivoCity | Food & Beverage | First international store opening by the Chinese brand |
| Churreria La Lola | Clarke Quay Central | Food & Beverage | New entry to Singapore |
| HUGO | ION Orchard | Fashion | New standalone flagship store |
| Clarks | ION Orchard | Fashion | First 'Pure' ¹ concept store in ASEAN |
| Tiger Sugar | Capitol Piazza | Food & Beverage | First ASEAN store |
| Marcelo Burlon | Orchard Road | Fashion | First store in Southeast Asia |
| Superpark United | Suntec City | Leisure and Entertainment | First store in Southeast Asia |
| State Swim Swimming School | Suntec City | Fitness and Wellness | New entry to Singapore |
| Moncler | Changi Airport Terminal 1 | Fashion | New boutique luxury DFS concept |

Source: Various web sources, Knight Frank Research

¹Pure concept refers to Clark's strategy to provide a new personality to the brand through modern, clean, and uncluttered store design for an elevated experience

EXHIBIT 5

Key Events in the Retail Landscape

SINGAPORE

New public library to open at VivoCity next January

library@habourbourfront is a new public library slated to open on 12 January at VivoCity. This is a part of Mapletree Commercial Trust's plans for the ongoing asset enhancement initiative at VivoCity. The new public library will likely draw over 1.5 million visitors a year given its size and prime connectivity to the HarbourFront station.

King Albert Park Residences Mall to welcome new cinema

Tenants of strata-titled King Albert Park Residences mall agreed to collaborate to attract tenants to the mall. Led by EagleWings Group, the refurbished mall will house a new boutique cinema, gourmet cafes as well as other entertainment, lifestyle, and healthcare retailers. These include EagleWing Cinematics, Eagle Eye Centre, CAMACA, Carl's Junior, and Jomachi.

20 restaurants and hospitality groups signed a plant-based option programme to offer plant-based pork

CEO of Green Monday, David Yeung launched the social venture food, to promote plant-based diets and sustainability in Singapore. The plant-based option programme run by Green Monday already has about 20 restaurants and hospitality groups with over 80 outlets in Singapore signed on including Grand Hyatt Singapore, The Fullerton Hotel, Cedele, SaladStop!, and Wolf Burgers. The offerings will also be made available to the mass market at retail points island wide early next year.

The first 'phygital' store – NomadX – opened at Plaza Singapura in November 2018

NomadX is a multi-label concept store featuring physical stores of e-commerce sites. The essence of physical and digital retail – "Phygital" – was used as the space's key branding. The store is envisaged to curate customized physical shopping experience through the use of data from mobile shopping application and e-commerce websites.

Resembling the operating model of a market place, stores are leased on a mixture of short- and long- term leases. To allow for such versatility, spaces are made flexible where each store can be deconstructed and reassembled.

Current tenants include Taobao, Mamonde, SkinCeuticals, Style Theory, teapasar, and By Peapods

Shaw Tower to be redeveloped and envisaged to complete by 2023

Shaw Tower Realty Private Limited issued advance notices to its tenants as it evaluates plans for redevelopment of Shaw Towers. The management of Shaw Tower intends to ride the upside of the rejuvenation efforts along Beach Road which is likely to attract interests amongst developers and enhance the value of the entire district. The new Shaw Tower is envisaged to be a 35-storey mixed commercial building with 400,000 sq ft of Grade A office space with 30,000 sq ft of retail space subject to planning approval.

ASIA

Hong Kong listed Link REIT acquired Beijing Jintong Roosevelt Plaza for RMB2.56 billion

Link Asset Management Limited, the manager of Link REIT, announced on 27 November 2018 its acquisition of Beijing Jintong Roosevelt Plaza for RMB2.56 billion from ARA Asset Management Limited. Located in Liyuan Business Circle of Tongzhou District, the plaza has approximately 727,059 sq ft of retail Gross Floors area with an occupancy of 96.2% as at end-October. Link REIT expressed their intentions to hold the Roosevelt Plaza as an investment asset as the mall is well poised to leverage on its excellent connectivity and increasing catchment from nearby residential projects under development and the decentralisation of government administrative office into the district. The acquisition is expected to be completed on 23 Jan 2019.

Hong Leong City Centre in Suzhou opened in November 2018

The mixed used development in Suzhou Industrial Park comprises hospitality, office, retail, and serviced apartments segments. The architectural concept of this building was inspired by Suzhou's famous terraced tea plantations horizontal organic lines on its façade melds seamlessly into the city's landscape.

Indoor Stadiums to anchor New Mall Group Bangkok Properties

Thailand's The Mall Group will partner US-live entertainment company AEG to develop two integrated lifestyle malls – Em Live and Bangkok Arena. Both malls are envisaged to open in Q4 2022.

This move is targeted a rapidly urbanising and changing local consumption pattern driving by expanding middle-class. These shoppers have higher spending power and demand more sophisticated and premium form of entertainment.

Source: Various web sources, Knight Frank Research

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