

Q2 2024

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Challenging operating environment after swift boom in earlier quarter

► “Although the retail sector in Singapore remains attractive, retailers are increasingly cautious about rising costs, labour crunch and economic uncertainties, which may cast a shadow on expansion plans.”

ETHAN HSU, HEAD, RETAIL

STEADYING VISITOR ARRIVALS AND RENTS

As of June 2024, the Singapore Tourism Board (STB) reported a total of 8.2 million visitor arrivals, with numbers peaking in March to almost 1.5 million. The Taylor Swift and Coldplay concerts which took place in Singapore in March and January respectively, boosted tourism numbers as many concertgoers arrived from overseas to attend the concerts. However, the impact of these concerts was temporary in nature, as visitor arrivals fell to 1.4 million in April and about 1.3 million in both May and June, subsiding to stabilised levels after the “concert-induced boom” in the first quarter of 2024.

Average gross rent of prime retail spaces island-wide in the second quarter of 2024 increased 0.9% q-o-q and 3.8% y-o-y to S\$27.40 psf pm (Exhibit 1). In the first half of 2024, prime rents island-wide increased 1.5% as the post pandemic recovery was

held in check by the challenges of increased operating costs due to inflation. Prime retail rents in the City Fringe micromarket increased the most at 1.3% on a quarterly basis to S\$23.70 psf pm. At the same time, the Suburban micromarket reflected the highest growth of 4.6% on a yearly basis to reach S\$26.50 psf pm. Although rents remained on the path of improvement supported by new openings from both local and foreign brands drawn to Singapore’s location as a central hub for recreation and entertainment, the high cost of retail and food and beverage (F&B) business, as well as the strong Singapore dollar tempered growth.

RETAIL SALES PERFORMANCE

Following the swift rise in Q1 2024, total retail sales (excluding motor vehicles) decreased from S\$3.5 billion in March to S\$3.3 billion in April but quickly rebounded to S\$3.6 billion in May, driven by spending particularly

S\$30.70

 PSF PM

Orchard Prime Retail Rent

S\$26.50

 PSF PM

Suburban Prime Retail Rent

5.3

 MILLION SF GFA

Upcoming Supply (Q2 2024 to 2028)

in food and alcohol. Online retail sales fell 0.5 percentage points (pp), from 14.2% in March to 13.7% in April, and a further fall of 0.3 pp to 13.4% in May. Despite the decline in visitor arrivals following the concert heavy months, retail activity appeared to have readjusted to sustainable levels in the second quarter of 2024. However, the remaining months of the year will give a better picture of whether the international acts have ingrained permanent benefits in the retail space.

BUILDING MALL IDENTITY BECOMING INCREASINGLY CRUCIAL

Singapore continues to be a good location for international brands to set up shop and expand. Established international retailers who are new-to-Singapore brands have made their way into the domestic retail scene in the past few months. This included names such as Hunter, a British footwear retailer that opened its first store in Singapore at Plaza Singapura and Hoka, a French sportswear brand located in ION Orchard. Other new entrants include food and beverage (F&B) names, such as Ipoh Town, a traditional coffee shop from Malaysia at Jewel Changi Airport and Kebuke, a Taiwanese bubble tea chain at Taste Orchard.

However, operating conditions for retailers in Singapore have been and are becoming more challenging, to the point that many retailers and F&B establishments have been observed to

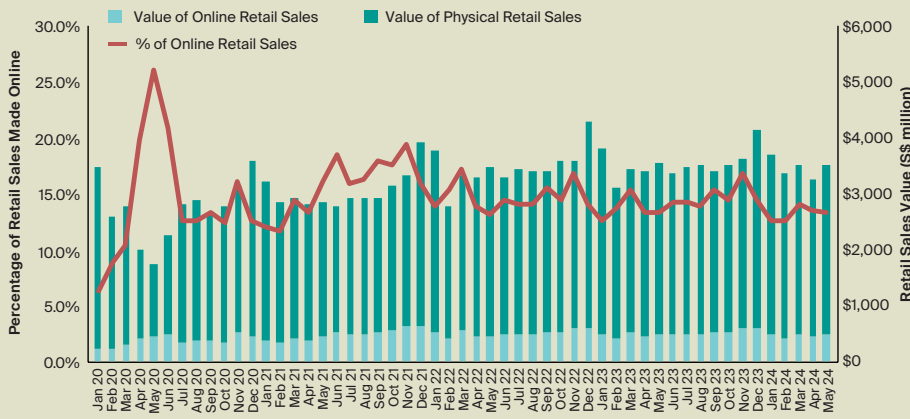
Exhibit 1: Average Gross Rents of Prime Retail Spaces*, Q2 2024

LOCATION	AVERAGE GROSS RENT OF PRIME SPACES (\$\$ PSF PM)	Q-O-Q CHANGE (%)	Y-O-Y CHANGE (%)
Island-wide	\$27.40	0.9%	3.8%
Orchard	\$30.70	0.6%	3.3%
Marina Centre, City Hall, Bugis	\$25.50	1.0%	4.0%
City Fringe	\$23.70	1.3%	3.9%
Suburban	\$26.50	1.2%	4.6%

Source: Knight Frank Research

*Prime retail spaces refer to rental-yielding units between 350 sf and 1,500 sf with the best frontage, connectivity, footfall and accessibility in a mall, typically located on the ground level and/or the basement level of a retail mall that is linked to an MRT station or bus interchange. Average gross rents of prime retail spaces are rounded to the nearest S\$0.10.

Exhibit 2: Monthly Retail Sales as at May 2024



Source: Department of Statistics Singapore (as released on 5 July 2024), Knight Frank Research
 Note: Monthly retail sales exclude motor vehicles.

be stifled by increasing rents and operating costs (i.e., labour, cost of supplies, etc.) that erode much of their profit margins. According to the Accounting and Corporate Regulatory Authority (ACRA), there was a total of 2,502 retail and F&B businesses formed against 2,631 businesses that ceased in Q2 2024. Compared to the previous quarter, the number of business cessations have now exceeded the number of businesses formed with a net decline of 129 entities. This was a turnaround from a position of growth in Q1 2024 where there was a net increase of 295 new retail and F&B enterprises. Even though new retailers continued set up shop, the retail scene might be approaching an inflection point where the number of retailers winding up could start trending upwards, derailing the gains made by the sector in post pandemic recovery.

Shopping malls have developed and evolved in Singapore with many having similar concepts and trade-mixes. Perhaps the cookie-cutter resemblance has been due to a proliferation of typical retailers that have the strongest financial muscle being able to set up branches in multiple mall locations. This has created a homogeneous shopping experience for shoppers as malls are filled with the usual suspects of F&B and fast fashion names. However, with the steadily growing affluence of Singapore consumers who are increasingly well-travelled and frequently exposed to retail diversity around the world, landlords would increasingly need to create variety and a shopper experience that uniquely characterises their individual mall(s). Sometimes, maximising financial returns might not be the highest-and-best-use for consumers, for entrepreneurial retailers, and for retail diversity in Singapore. Distinctive concepts such as the new One Holland Village benefit from having a differentiating identity as one of the few pet-friendly shopping malls in Singapore, sustainably designed to minimise energy usage. With a unique identity and tenant-mix, shopping malls can step beyond the ordinary and attract shoppers and footfall from a wider geographical radius than its own immediate catchment, especially if other competing nearby malls are almost indistinguishable from each other.

MARKET OUTLOOK

Prime retail rents remain on track to increase between 2% and 4% for the whole year. However, despite retail rents and occupancy levels being stable and that are expected to continue growing with more international brands locating and/or expanding operations in Singapore, the growth will be measured and likely at a slower pace for the rest of 2024. As it stands, rising rents and operating costs have begun to deter some retailers from expansions, and might soon threaten to compel others into consolidation instead.

For Retail Leasing enquiries, please contact:



Ethan Hsu
 Head
 Retail

+65 6228 6832
 ethan.hsu@sg.knightfrank.com

For further information on the report, please contact:



Leonard Tay
 Head
 Research

+65 6228 6854
 leonard.tay@sg.knightfrank.com



Sim Li Wei
 Analyst
 Research

+65 6228 6856
 liwei.sim@sg.knightfrank.com

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