Retail Market

In spite of the buzz in the leasing market that is supported by the continued growth in Singapore’s tourism industry, retailers’ tentative sentiment amid a persistently challenging operating environment and Singapore’s downbeat economic outlook resulted in prime retail rents slipping marginally in the last three months of the year.

Tourist arrivals to Singapore have been strong in 2012. The latest data from the Singapore Tourism Board (STB) showed that Singapore welcomed some 7.1 million visitors in the first six months of 2012, an 11.4% increase from the same period a year ago.

Taking into consideration the major events in the second half of the year, such as the Formula One night race in September, the opening of new attractions such as the Gardens by the Bay in late June, the Giant Panda Forest (the first attraction at the upcoming River Safari) in the Singapore Zoological Gardens and the Marine Life Park in Resorts World Sentosa (RWS) in November as well as the year-end school holiday and festive season, the total tourist arrivals should be just as robust in the second half of the year, if not more so. The total visitor arrivals should be on track to meet the STB’s projection of 13.5 to 14.5 million in 2012.

Underpinned by Singapore’s growing popularity among tourists, the retail scene stayed abuzz with the openings of new stores, food and beverage (F&B) outlets and retail malls.

In Singapore’s prime Orchard Road shopping belt, Mulberry opened its first Asian flagship store in Mandarin Gallery in October. Besides its popular bags, the 3,983-sq ft duplex will also stock the British brand’s ready-to-wear clothes, shoes and accessories for women. At around the same time, Paul Smith, another British brand opened its Singapore flagship next to the Mulberry store in Mandarin Gallery. French menswear label Celio opened its third store in Plaza Singapura and

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Source: Singapore Tourism Board/Colliers International Singapore Research

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its fourth in Ngee Ann City during the quarter.

The influx of stores did not only include fashion brands, as retailers with themed novelty products also set up shop. About 30 leading Japanese apparel and cosmetics brands are now located on the ground floor of Plaza Singapura’s new extension. Called JRunway, the 3,600-sq ft store is the first Japanese multi-label boutique in Southeast Asia.

On the F&B front, at least five new diners and restaurants offering American-style fare have entered the local market. Modern diner and ribs restaurant Morganfield’s and seafood diner Boston Seafood Shack both started operating at the new Star Vista mall in Buona Vista. Suprette, a whimsical diner opened at boutique hotel Kam Leng in Jalan Besar. There is also the casual Cajun seafood eatery, The Cajun Kings, in Jalan Riang in Braddell Heights Estate. In the upmarket arena, Ruth’s Chris Steak House opened at the Marina Mandarin.

There has also been a wave of Korean barbecue restaurants, with three well-known Korean barbecue chains launching in Singapore. These are Boss BarBBQ at Clarke Quay, Klongdon BBQ at Marina Square and Bornqa at The Star Vista. There are now no fewer than 150 Korean restaurants island wide feeding a community of about 30,000 Koreans in Singapore.

Renown United States and Canadian chain Krispy Kreme doughnuts also announced that it will bring its doughnut shops to Singapore. 15 Krispy Kreme franchise locations will be set up around the island over the next five years.

To add to the buzz, several shopping centres reopened during the last three months of the year, in time to capitalise on the year-end holiday and shopping season. The refurbished former Amara Shopping Centre at Tras Street in Tanjong Pagar reopened as 100AM, with at least 40% filled with dining options that include Skinny Pizza, The Oyster & Crab Restaurant and Cedele among others. The target markets for 100AM are the corporate diners in the Central Business District (CBD).

Also catering to the population in the CBD is the once-quiet Chinatown Point. Reopened at the end of November after a renovation period that cost more than $90 million, the 311,725-sq ft mall located at the junction of New Bridge Road and Upper Cross Street targets professionals, managers, executives and businessmen, followed by families and tourists. The mall’s occupants include a National Library branch, as well as FairPrice, a home-grown supermarket chain and Daiso, a Japanese budget chain retailing household and novelty products.

At the Dhoby Ghaut end of Orchard Road, Plaza Singapura is now integrated with the adjacent The Atrium@Orchard’s retail podium, boasting an additional 100 stores in the new extension, bringing the mall’s total number of stores to 320. The $150-million facelift took almost 18 months to complete.

Yet, despite the increasing array of shopping and dining options afforded by these openings, consumer spending was restrained by the prospects of slow and stagnant economic growth foreseen for Singapore in 2013.

Singapore’s retail sales index (excluding motor vehicles) only rose by a very slight 0.7% year-on-year (YoY) in October 2012. For items that were not necessities, declines over the previous year were registered in October. Sales of optical goods and books dropped by 3.6% YoY. At the same time, sales receipts at department stores, watches and jewellery, recreational
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Looking ahead, with Singapore consolidating its status as a cosmopolitan international city and a gateway to Southeast Asia, more retail brands in fashion, F&B and novelty stores can be expected to make inroads into the city-state.

Hence, notwithstanding the buoyant leasing activity, subdued consumer sentiment tempered retailers’ confidence causing rents to slip in 4Q 2012. Monthly prime ground floor gross rents in Orchard Road as of the end of December fell by 0.9% from the previous quarter to $37.25 per sq ft. In the Regional Centres, the average monthly gross rent of prime space decreased to $33.42 per sq ft, after dropping by 0.2% from the previous quarter.

For the whole of 2012, rents of prime retail space in the premier shopping belt of Orchard Road fell by 2.8%, keeping to within the 3.0% decline projected at the beginning of the year. While prime retail space in the Regional Centres did not decline as much as in Orchard Road, there was a marginal dip of 0.5% for the entire year, highlighting the resilience of suburban shopping malls.

In fact, the rental premium that prime retail space in Orchard Road commands over similar space in the Regional Centres has narrowed from 31.0% in 2007 to 14.0% as of the end of 2011, and to 11.5% as of the end of 2012, demonstrating the ever-increasing level of competition between the two micro-market locations for tenants.

While the leasing market remained active in 4Q 2012, sales slowed in the last quarter of the year when compared to the preceding nine months due to lack of new launches. As a result, capital values stayed flat during the October to December period. As of the end of 4Q 2012, the average capital values for prime Orchard Road space was unchanged at 3Q 2012’s level of $6,608 per sq ft while those for prime Regional Centres space saw a marginal improvement of 1.0% QoQ to $4,072 per sq ft from the $4,032 per sq ft recorded in 3Q 2012.

Nonetheless, the 121 caveats lodged in the final three months of the year for strata-titled retail premises according to the Urban Redevelopment Authority’s Real Estate Information System (REALIS) brought the year’s total to 1,239 transactions. This is some 95.1% more than the 635 caveats registered for the whole of 2011. Around 56.0%, translating into 694 deals were new sales bought directly from developers of yet-to-be built properties.

As the market for strata-titled shop space surged with buoyant interest in 2012, capital values have risen in tandem during the year. The average capital value for prime Orchard Road shop space saw a rise of 4.0% for the whole of 2012. As the interest in strata-titled shops was perhaps more evident in the suburban areas, often in mixed developments, the average capital value for prime retail space in the Regional Centres strengthened at a faster clip of 6.1% throughout 2012.

Looking ahead, with Singapore consolidating its status as a cosmopolitan international city and a gateway to Southeast Asia, more retail brands in fashion, F&B and novelty stores can be expected to make inroads into the city-state. Skin care and beauty retailers, organic restaurants and diverse foreign F&B outlets offering cuisines from exotic locations are also foreseen to enter Singapore’s retail scene in 2013.
In 2013, retail sales are expected to be augmented by fairly healthy tourist arrivals on the back of new and reinvented visitor attractions in Singapore. Yet, discretionary spending by local residents may continue to slide given the uncertain and bearish economic outlook. The prevailing problems of manpower shortages and the increasing resistance against further rental increases from tenants will all have a bearing on demand, and consequently retail rents.

Additionally, with the explosion of Korean pop culture in the Asian entertainment industry, Korean retailers and eateries will continue to look to establish themselves in Singapore, tapping on the mounting acceptance of its fashion, beauty and food products. Retailers in the United Kingdom have also been known to be eyeing the Far East. In all likelihood, a few international department stores new to Singapore could set up in the next year, as there have been some initial inquires on the availability of suitable retail space.

This incoming stream of retail and F&B outlets will not be limited only to the premier shopping belt of Orchard Road. With the growing mass transit rail network, shopping malls in the CBD and city fringe as well as more locations in suburban residential towns will be accessible by public transport and these locations will increasingly be able to command rents closer to that of Orchard Road. Suburban malls cater to a resident population on a daily basis offering necessities, household goods and the convenience of nearby F&B outlets. Over the years, the advent of the suburban mall has made Orchard Road a less regular destination, where locals do not visit on a daily basis if similar products or services can be obtained in a suburban mall. While Orchard Road still caters to the tourist crowd, there is less impetus for Singaporeans living in the heartlands to commute to town, unless it is to shop for a unique product or service or for a special occasion.

The main obstacle to these exciting drivers of growth, however, is a manpower shortage. The government’s tightening of the foreign worker policy has resulted in many F&B establishments and retailers unwilling and/or unable to expand. This might have severe follow-on effects for the entire retail property market in the next one or two years as the inability of retailers to expand will curtail the growth in demand for retail space.

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Additionally, some 1.9 million sq ft of retail space is expected to materialise in 2013, of which, about 17.9% or 340,000 sq ft would be completed on Orchard Road. Hence, rents of prime ground floor retail space in the Orchard Road district are forecast to come under further downward pressure to the tune of 3% to 5% in 2013.

While the bulk or 1.2 million sq ft of 2013’s new supply will be located in suburban areas, these are distributed over a wide geographic region instead of concentrated over the 2-km stretch as in the case of those coming on stream in Orchard Road. Coupled with the resilience towards any economic downturn due to their popularity with the ready and immediate catchment population, prime ground floor rents in the good-quality malls in the Suburban Areas/Regional Centres are forecast to see milder downsides of 1% to 3% in 2013.