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# RETAIL THERAPY

Firming retail market fundamentals provide optimism for 2019

## Summary & Recommendations

Singapore's retail rents may have bottomed, even as near-term vacancies remain elevated as brand new malls complete and compete.

- > The government-backed remaking of Orchard Road may herald brighter prospects for retailers and landlords in 2019-2023.
- > Landlords should adopt a digital-ready strategy, diversified tenant mix, and have adaptability for both consumer and tenant needs.
- > Investors should seek strata-titled retail assets with an astute central management, and/or malls with significant catchment for long-term investment.

	H2 2018	Full Year 2019	2018-23 Annual Average
 <b>Demand</b> <ul style="list-style-type: none"> <li>&gt; Any demand recovery is likely to be two-tiered, with higher demand for malls with sizable catchments and for ground-floor retail space.</li> </ul>	-22,000 sq ft	1.56mn sq ft	669,000 sq ft
 <b>Supply</b> <ul style="list-style-type: none"> <li>&gt; Elevated new supply in 2018-2019 (est. 3.5% of stock) is well distributed across Singapore. Island-wide supply pipelines should taper off over 2020-2023.</li> </ul>	786,000 sq ft	1.35mn sq ft	569,000 sq ft
	<b>HOH/ End H2</b>	<b>YOY / End 2019</b>	<b>Annual Average Growth 2018-23 / End 2023</b>
 <b>Rent</b> <ul style="list-style-type: none"> <li>&gt; We only cover ground floor rents. Ground-floor rents at Orchard Road and Regional Centres rose 1.4% and 0.4% respectively in 2018. We expect ground-floor rents to lead recovery over 2018-2023.</li> </ul>	2.0% SGD41.20*	0.8% SGD41.55*	1.0% SGD43.20*
 <b>Vacancy</b> <ul style="list-style-type: none"> <li>&gt; Island-wide vacancy to improve in 2019-2023 as front-loaded supply gets absorbed. Vacancy should trend towards 7.0% as retail landlords continue to optimize their tenant mix and rents.</li> </ul>	1.2pp 8.5%	-0.5pp 8.0%	-0.3pp 7.2%
 <b>Capital Values/ Yields</b> <ul style="list-style-type: none"> <li>&gt; We expect yields to remain largely flat from 2018 through 2023, with increased investment volumes likely to compress yields further.</li> </ul>	- 4.7%	-0.1pp 4.6%	- 4.6%

Source: Colliers International

\*Refers to ground-floor rents in prime shopping malls within the Orchard Road district.

Note: USD1 to SGD1.365 as at 31 December 2018. 1 sq m = 10.764 sq ft. "pp" refers to percentage point.

## LEASING MARKET AND RENTS

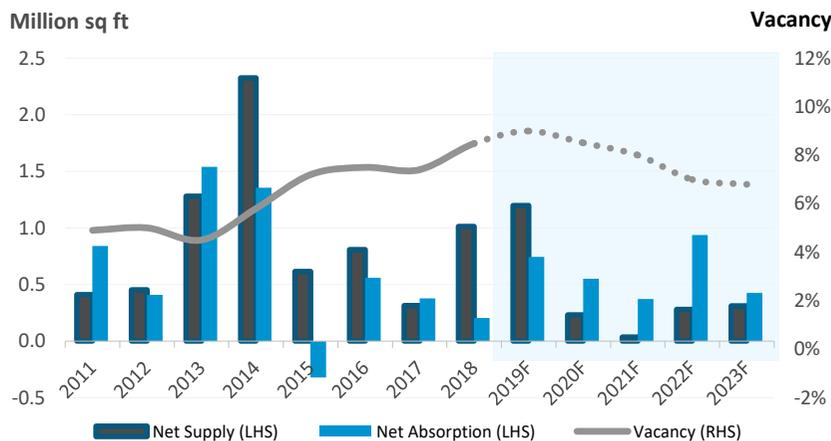
### 2018 rents bottoming as ground floor rents lead

The retail rental market firmed up towards the end of 2018. Based on the Urban Redevelopment Authority's (URA) data, overall Central Region rents showed an uptick of 1.2% qoq for Q4 2018. This means H2 was flat compared to H1 2018, and rents fell by just 1.0% for the full year 2018. The rate of decline slowed down considerably from the 4.7% and 8.3% declines for 2017 and 2016 respectively. This could signal the bottoming of the long-running decline starting in Q1 2015.

According to Colliers International's research tracking ground-floor rents, Orchard Road ground-floor rents moved up 1.4% yoy to SGD41.20 (USD30.18) per sq foot per month during H2 2018, while Regional Centres saw a marginal uptick of 0.4% yoy to SGD33.60 (USD24.62) per sq foot per month. This marked some recovery in ground-floor rents.

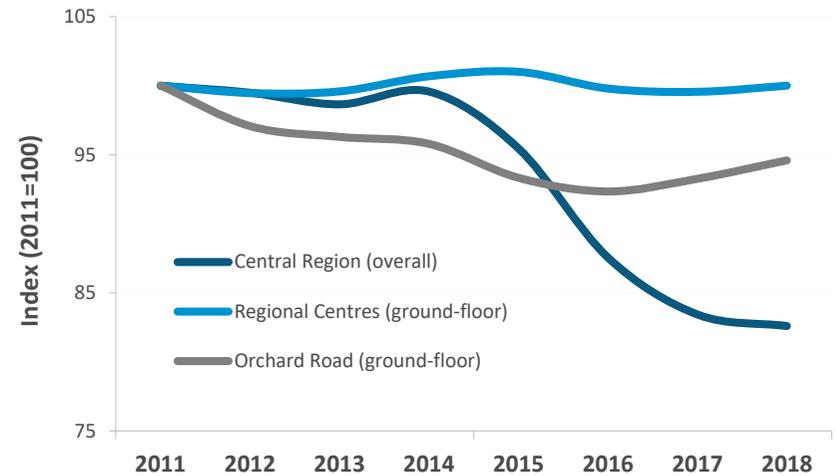
We expect ground-floor rents to lead the gradual recovery, but overall retail rents should continue flattening out in 2019-2020 before picking up sustainably on more favorable supply-demand dynamics.

### Singapore Retail | Net Supply, Absorption & Vacancy ( mn sq feet, %)



Source: Colliers International, URA

### Singapore Retail | Rental Indices



Source: Colliers International, URA

### Vacancies rose with progressive supply completions

Island-wide retail vacancy increased for a second consecutive quarter in Q4 2018 as more retail stock was progressively completed. Retail vacancy increased by 0.9ppt qoq to 8.5% as of end-December 2018. On a yoy basis, vacancy increased by 1.1 ppt since the end of December 2017. The increase in rents even as vacancy goes up could mark the end of the supply overhang in the next few quarters.

During H2 2018, the largest new supply injection came from Jewel Changi Airport with a planned Net Lettable Area (NLA) of 576,000 sq feet (53,500 sq metres). Coupled with the 200,000 sq feet (18,500 sq metres) redevelopment of Century Square in Tampines Central in Q2 2018 and various smaller islandwide additions, 2018 saw a net 1.0 million sq feet (94,000 sq metres) of net new completions.

We advise landlords to be flexible and practical about setting rents in order to support occupancy in the quarters ahead.

## Singapore | Retail Sales Index and Tourist Arrivals (yoy growth)



Source: Colliers International, Singapore Tourism Board, Department of Statistics.

## Retail sales staid, partly cushioned by tourist arrivals

Consumer spending has remained cautious. Based on figures released by the Singapore Department of Statistics, the retail sales index (constant prices, excluding motor vehicle sales) increased by 0.5% in 2018, slower than the 1.3% rise in 2017.

In 2018, Computer & Telecommunications Equipment fell 3.8% yoy amidst a dearth of new gadget launches, after rising 1.7% in 2017. However, there was sustained strength in the Medical Goods & Toiletries segment (+5.0% yoy) in 2018, which has risen for five straight years.

Tourist arrivals have risen steadily since 2015. In 2018, total tourist arrivals clocked in at 18.51 million, a healthy 6.2% yoy increase from 2017.

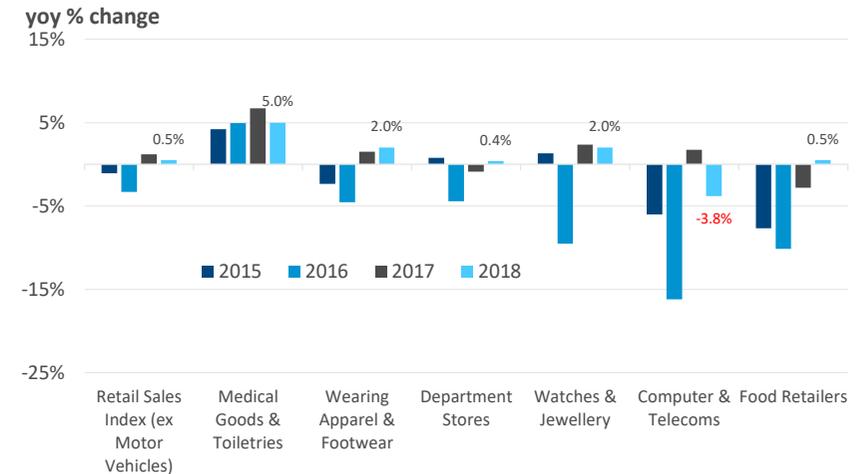
2018 tourism growth was driven by substantially increased arrivals from the American and European markets (+13.6% yoy and +11.3% yoy respectively). Nevertheless, Asia continued to make up the greatest proportion of tourists (76.9%) in 2018, with China, Indonesia and India remaining as the top three feeder markets. China makes up 18.5%, while Indonesia and India make up 16.3% and 7.8% of the share of arrivals respectively.

## Key retail trends of 2018: activity-based; clicks-to-bricks; duplexes

In 2018, we saw tenant profile mixes heading towards more big-format activity-based retail concepts such as game arcades, billiard rooms and gyms taking up anchor tenancies in malls.

2018 also saw more online retailers go offline or

## Singapore | Retail Sales Sub-Segments



Source: Colliers International, Department of Statistics.

to physical marketplaces to enhance their offerings. Taobao opened its first physical store in Singapore in Nomadx at Plaza Singapura. Retailer *Love, Bonito* set up its second fashion outlet after success with its first flagship in end-2017. Online grocer *honestbee* opened *habitat*, billed as “the world’s first tech-enabled grocery and dining concept”.

Global luxury brands continue to embrace the concept of duplexes, or dual-level shops, and expansion into children’s wear. The Business Times reported in February 2019 that Marina Bay Sands Shoppes now host 17 duplexes - the largest collection of duplexes under one roof in Singapore. In January 2019, Italian apparel manufacturer and lifestyle brand Moncler opened a flagship duplex at The Shoppes, its largest store in the Asia-Pacific region.

## Orchard Road 2.0 : “The Lifestyle Destination”

On 30 January, the Singapore Tourism Board (STB), the URA and the National Parks Board (NParks) unveiled a plan to revamp Orchard Road. New retail concepts, attractions, entertainment and events will likely be introduced to the Tanglin, Somerset, Orchard and Dhoby Ghaut sub-precincts to strengthen Orchard Road's position as a lifestyle destination.

We believe this government initiative is timely and a step in the right direction, as the dated Orchard Road shopping belt shapes up to compete with newer retail destinations.

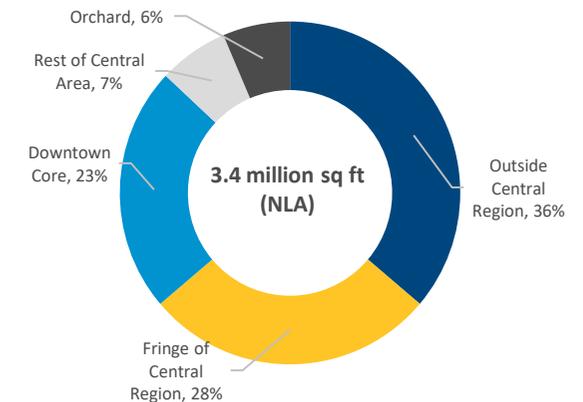
This plan came along as other global cities also step up to revitalize their retail and tourism

industries. Recently, London has unveiled a similar concept to revitalise a 200 metre stretch of the Strand (a popular shopping area), and should take it further with proposed full pedestrianisation and a multi-generational offerings. In our view, the key challenge to building an iconic and unique Orchard Road is to unite the fragmented stakeholders to innovate and act quickly towards a common goal.

## Retail supply surge in 2018-2019

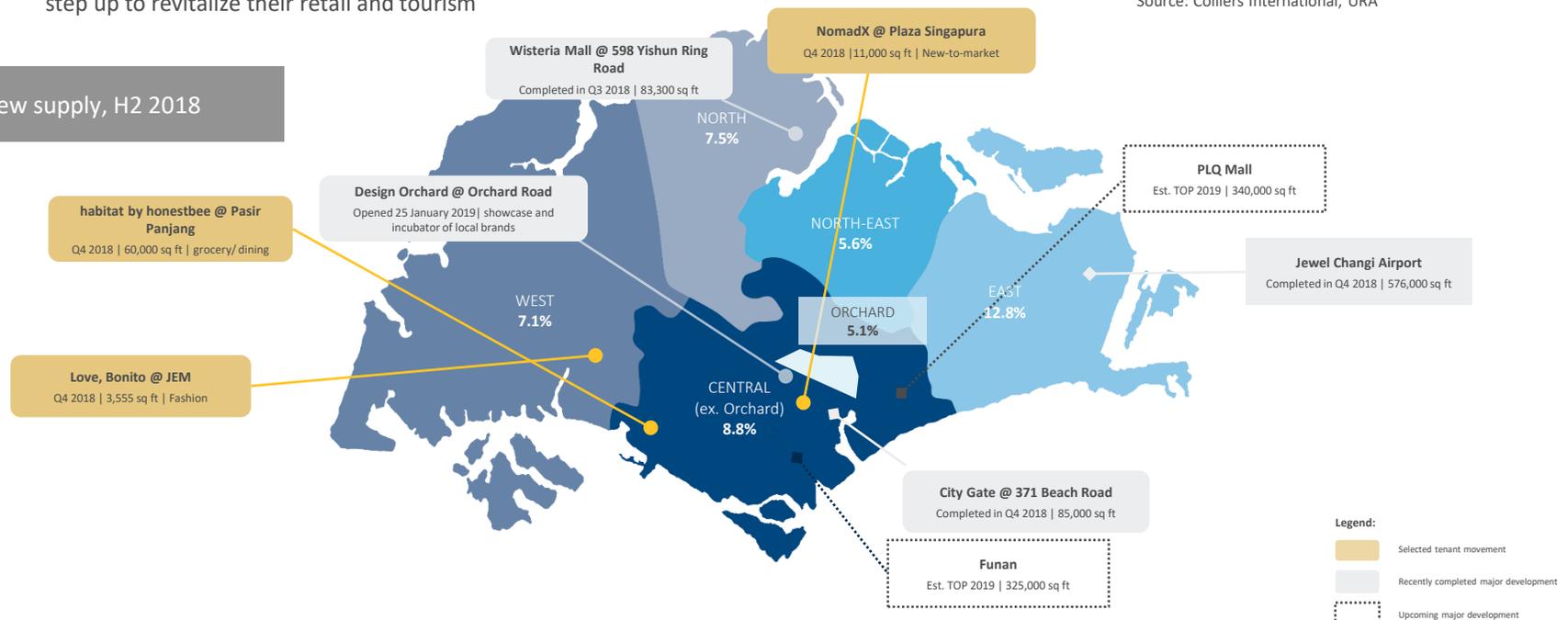
Retail stock is scheduled to increase by 2.36 million sq feet (219,000 sq metres) or 3.5% of stock over 2018-2019 due to several large projects, in particular Jewel Changi Airport, PLQ Mall and Funan. Supply should ease to less than 500,000 sq feet per annum from 2020-2023.

Supply Pipeline as of 31 December 2018 (Planned & Under Construction)



Source: Colliers International, URA

Vacancy, selected leases & new supply, H2 2018



Source: Colliers International, URA

## INVESTMENT MARKET AND CAPITAL VALUES

### Central Region price index saw first annual uptick since 2014

#### Improved retail investment sales volumes in H2 2018

In H2 2018, total retail investment sales transactions jumped 73.2% from H1 2018 to reach SGD897.8 million (USD658 million). This brings full year 2018 retail investment sales transactions to SGD1.42 billion (USD1.0) billion, down 43.3% from a robust 2017 which was boosted by the SGD2.2 billion (USD 1.6 billion) Jurong Point sale in Q2 2017.

Recent punitive measures on the residential sector, such as the hike in the Additional Buyer's Stamp Duty, may continue to fuel a rise in investor interest towards the commercial sector, including retail properties.

Notably, H2 2018 featured majority stake sales of major suburban malls, including I12 Katong and Westgate, as reported by the Business Times. Prime Orchard Road retail transactions remained confined to strata unit sales, which are typically strategically located and thus commanding high per square foot prices.

#### Capital values and yields stabilised, well-located retail assets remain defensive and highly prized

According to the URA, the central region retail space price index rose 1.8% in 2018, the first rise since 2014. With rents declining more slowly, retail yields appear to be stabilising. Average yields for prime shopping malls island-wide currently range between 4.4% and 4.9%.

We expect retail yields to remain largely flat, as landlords continue to innovate and evolve with consumer shifts. We should see growing retail or mixed-use development deal volumes as a result of increasing allocations to real estate amidst rising global volatility in traditional asset classes.

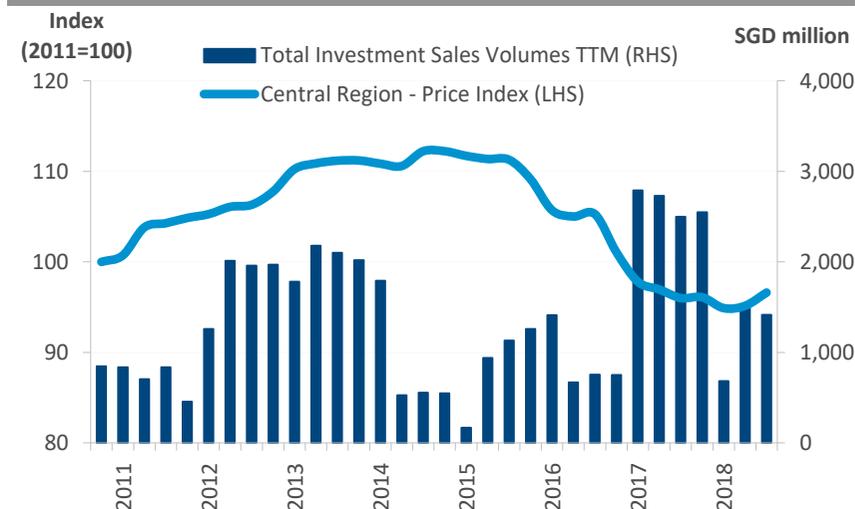
We view retail properties with a sizable market catchment, well-differentiated tenant mix, or potential for future catchment growth as attractive investment opportunities.

#### Notable Retail Transactions | H2 2018

Property	Transacted Price (SGD million)	Price PSF NLA (SGD)	Planning Region
I12 Katong (77.6% stake)	56.6	n/a	Outside Central Region (East)
Lucky Plaza (ground floor strata unit)	5.1	13,935	Orchard Road
Orchard Tower (third floor strata unit)	13.2	4,380	Orchard Road
Westgate retail component (70% stake)	789.6	2,746	Outside Central Region (West)

Source: Colliers International

#### Singapore Retail | Price Index & Total Investment Sales Volumes (SGD million)



\*Investment sales only include transactions over SGD5 million. "TTM" refers to trailing 12 months.  
Source: Colliers International, URA

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