

Challenging times

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Landlords and tenants should work hand in hand to ride out the challenges in the retail industry. Retailers should look beyond omni-channel retailing and explore ways to provide in-store multi-sensory experiences that online retailers are unable to offer. Coupled with support from landlords to bring in newer and bolder retail concepts to their malls, this should help to add more colour and vibrancy to Singapore's cookie-cutter retail scene.

Forecast at a glance



Demand

We expect demand to lag behind supply in 2016. Some retailers could ride on the softening rents and higher vacancies to secure choice units.



Supply

We expect overall supply to rise in 2016. However, we do not anticipate any major new completion in Orchard Road.



Vacancy Rate

We expect the islandwide vacancy rate to rise in 2016. Underperforming malls with higher vacancies should feel greater pressure to upgrade.



Rent (ground level shopping mall rents)

Orchard Road:
Set to fall by 2.5-3.0% in 2016
Regional Centres:
Set to fall by 2.0-2.5% in 2016



Price

Orchard Road:
Set to fall by up to 2.0% in 2016
Regional Centres:
Likely to be stable or ease by up to 0.5% in 2016

Look beyond omni-channel retailing and think out of the box

Leasing activity slowed and the rental decline quickened in Q3 2016 due to continued headwinds from poor overall retail sales and online competition.

In the near term, the uncertain economic outlook and heightened unemployment risk will probably be dampening factors on consumer spending. However, we expect any negative impact on retail sales in Q4 2016 to be mitigated, to some extent, by the peak year-end holiday and festive sales season.

We are encouraged by the introduction of new retail brands and concepts, some of which were untested and new to the market, as well as more experimental retailing and the proliferation of pop-up stores in recent quarters. This should help to inject more variety to the local shopping scene, where retail malls were increasingly seen as being too similar in their tenant mix and offerings.

However, it will take time for the retail sector to evolve and for landlords to refresh their malls, be it a physical enhancement to the asset or a realignment of the mall's positioning strategy and tenant mix.

We expect retailers to remain cautious on costs and selective into Q4 2016, and landlords to remain flexible and realistic during rental negotiations. This could lead to a further softening in prime ground level shopping mall rents in Q4 2016, albeit at a slower pace.

In the face of easing rents, we forecast a slight quarterly decline of less than 1% in the average imputed capital values of prime retail space in Orchard Road in Q4 2016. Over the same quarter, we anticipate that the average imputed capital value of prime shopping mall space in the Regional Centres will be stable or register a very marginal decline of up to 0.5%.

Leasing market and rental values

Fewer leasing deals; rental decline accelerated

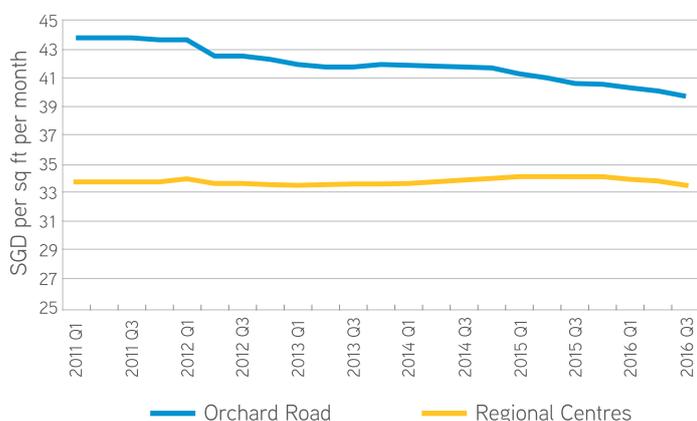
Based on rental records captured by the Urban Redevelopment Authority's Real Estate Information System (URA REALIS) as at 18 October 2016, there were a total of 2,460 leasing deals in Q3 2016, down 12.5% quarter on quarter (QOQ) and 14.7% year on year (YOY). This was a sharp contrast to the 41.4% QOQ jump in leasing volume in Q2 2016.

The fall in leasing transactions in Q3 2016 reflected the weak sentiment in the retail sector which continued to face numerous challenges including Singapore's weak economy, cost concerns, manpower shortages and intensifying competition from online retailers.

Moreover, although the latest available figures showed tourist arrivals stayed on the uptrend and rose 6.7% YOY in July, the retail sales index (excluding motor vehicles) contracted by 3.1% YOY and 6.5% YOY in July and August, respectively.

In light of the above, the decline in prime retail rents accelerated in Q3 2016, after slowing down in the second quarter.

Average Monthly Gross Rents of Prime Retail Space (by Micro-market)



Note: A re-basketing exercise was conducted in Q1 2016 to update Colliers International's basket of properties that are used to compute retail rents.

Source: Colliers International Singapore Research

In the Orchard Road sub-market, the average monthly gross rent for prime ground floor shopping mall space contracted by 0.9% QOQ from SGD40.21 per sq ft in Q2 2016 to SGD39.86 per sq ft in Q3 2016. This is faster than the 0.5% QOQ slide in Q2 2016.

Likewise, the rate of rental decline picked up pace in the Regional Centres. The average monthly gross rent for prime ground floor shopping mall space reached SGD33.38 per sq ft, after falling by 0.8% QOQ in Q3 2016. In comparison, rents fell by 0.3% QOQ in Q2 2016.

Retailers adopt multiple strategies

Depending on their business plans, retailers adopted varying strategies in Q3 2016. This included expanding their business footprint, committing themselves to new flagship stores, venturing into omni-channel retailing, launching multi-concept stores and creating more memorable experiences for shoppers.

For example, Challenger Technologies announced in September the lease confirmation of its new flagship store in Bugis Junction. This is even though the retailer has an existing store on level three of the same mall. Expected to open by Q2 2017, the new store located at basement one will span over 14,000 sq ft.

In the same quarter, Scotts Square welcomed the opening of K+, a multi-concept shop of about 4,000 sq ft. The outlet carries six home-grown design and retail brands including BooksActually, GoodStuph, Pomelo, Supermama, Tofu Design and Kinetic Singapore, and features a gallery space and seating areas with free Wi-Fi to encourage shoppers to linger. There were also plans to host workshops and talks in the store.

We also observed some musical chairs within malls as retailers either took the opportunity to move to a better located outlet or were relocated by landlords as part of their mall repositioning strategy. An example was Sephora's relocation from a 14,500 sq ft outlet on level one of ION Orchard to a smaller 10,000 sq ft outfit on basement one within the same mall. The new outlet opened in Q3 2016.

At the same time, the trend of foreign retailers setting up shop in the republic continued into Q3 2016, with some opening or planning their first outlets in Southeast Asia (SEA). Looking forward, we think Singapore will remain attractive to foreign retailers looking to diversify or expand their global footprint.

For instance, Q3 2016 saw the opening of New York designer Michael Kors' first SEA flagship store in Mandarin Gallery, UK bag and accessories designer Anya Hindmarch's first stand-alone store in Takashimaya Singapore and Milan-based high-end streetwear brand Off-White's first SEA store at 268 Orchard Road.

Other examples included the opening of American label Marc Jacobs' new boutique store at The Paragon in August, with distributor FJ Benjamin planning four more stores in Singapore over the next two years. Over at The Shoppes at Marina Bay Sands, Gucci Kids, Kenzo Kids, Paul Smith Kids and Stella McCartney Kids are slated to open stand-alone stores in H1 2017.

Examples of New and Upcoming Store Openings by Foreign Retailers

| Retailer (Origin) | Store Location | Est. Size (sq ft) | Opening |
|--------------------------------------|---------------------------------|-------------------|---------|
| New Openings in Q3 2016 | | | |
| Sephora (France) | ION Orchard | 10,000 | Jul |
| Sennheiser (Germany) | Marina Square | N.A. | Aug |
| Marc Jacobs (America) | Paragon | N.A. | Aug |
| Michael Kors (New York) | Mandarin Gallery | 7,000 | Sep |
| Anya Hindmarch (UK) | Takashimaya Department Store | 538 | Sep |
| Off-White (Milan) | 268 Orchard Road | 1,722 | Sep |
| Uniqlo (Japan) | Orchard Central | 29,000 | Sep |
| Upcoming Stores | | | |
| Victoria's Secret (America) | Mandarin Gallery | 12,000 | Nov |
| Anglomania by Vivienne Westwood (UK) | Scotts Square | N.A. | Q4 2016 |
| Agent Provocateur (UK) | The Shoppes at Marina Bay Sands | N.A. | Q4 2016 |
| Chloe (France) | The Shoppes at Marina Bay Sands | N.A. | Q1 2017 |

N.A. denotes not available.

Source: Media Sources / Colliers International Singapore Research

F&B scene being refreshed with new offerings and concepts

In the food and beverage (F&B) segment, we observed retailers branching into the F&B scene to offer shoppers a more multi-faceted experience, continued expansion of successful chains and the debut of new-to-market brands and concepts in Q3 2016.

For example, the Japanese lifestyle brand Muji opened its second Cafe&Meal Muji in Raffles City, while the British clothing and food retailer Marks & Spencer opened a cafe in its Wheelock Place flagship store.

The Select Group opened a restaurant at Resorts World Sentosa – the 500th international location for the US chicken chain Cajun Global, while a new 20,000 sq ft Japan Food Town opened in Wisma Atria, offering 16 different concepts. A new 4,002-sq ft multi-concept outlet called Plentyfull also opened at Millenia Walk with a restaurant, bakery, gourmet grocer and food laboratory.

A number of F&B players were also expanding their footprint, signalling their mid-to-long term confidence in Singapore's dining scene.

For instance, after opening two Royal London Duck restaurants at the Mandarin Gallery and Compass One in Sengkang in Q3 2016, Fei Siong planned to open another three outlets at Millenia Walk, The Centrepoint and West Mall in Bukit Batok before the end of 2016. Homegrown restaurant chain the Soup Restaurant also announced in August plans to open five new outlets by October.

In November, newcomer Greyhound Cafe is slated to open on the ground level of Paragon and Picnic (10,000 sq ft) is expected to debut on level three of Wisma Atria, offering an "immersive outdoor experience".

Continued asset rejuvenations

Meanwhile, efforts by landlords to rejuvenate their aging malls continued in Q3 2016.

Apart from rolling out asset enhancement initiatives and tweaking their tenant mixes, landlords also withdrew some of their older malls for redevelopment.

Following the closure of Funan DigitalLife Mall on 30 June 2016, CapitaLand Mall Trust (CMT) unveiled its redevelopment plans for the mall during the quarter. Expected to be ready in Q4 2019, the new mall to be called "Funan" will be an integrated development consisting of retail, office and serviced apartments.

In September, the former Compass Point in Sengkang officially reopened as Compass One after an 11-month facelift. It reopened with a committed retail space occupancy of 95% and a wider range of shops and services, including more than 50 new retailers, and a focus on younger families.

The quarter also saw the closure of Park Mall in September for redevelopment into a commercial development with two office blocks and an ancillary retail component which should be ready in 2019.

Strata sales and capital values

Sales of strata-titled shops stayed subdued

With investors staying cautious amid the challenging economic and retail operating environment and the need to comply with the Total Debt Servicing Ratio requirement which limits the maximum loan quantum (including mortgage, credit cards, car loans and personal loans) at 60% of monthly income, overall sales of strata-titled retail properties stayed muted in Q3 2016.

According to preliminary caveat records downloaded from URA REALIS as at 18 October 2016, 49 caveats were lodged in Q3 2016, slightly lower than the 51 caveats in Q2 2016. With no significant adjustments anticipated to the final caveat tally for Q3 2016, and taking into account the slower Q4 period, we do not expect the number of caveats lodged in 2016 to cross 2015's level of 238 caveats.

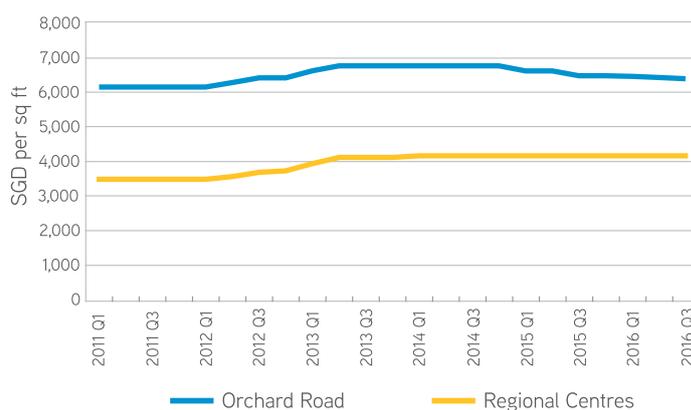
Average capital values more resilient than rents

Although the rate of rental decline gathered pace in Q3 2016, the imputed average capital values showed more resistance towards downward pressure.

According to Colliers International's research, the imputed average capital values for prime shopping mall space in Orchard Road eased by 0.5% QOQ to SGD6,585 per sq ft in Q3 2016, after falling by a similar margin in Q2 2016. This was on the back of investors' willingness to accept a slightly lower yield due to the quality and rarity of such assets.

In the Regional Centres where rents were more resilient and malls enjoyed a large ready catchment population, the imputed average capital values for prime retail mall space remained constant for the tenth straight quarter at SGD4,491 per sq ft in Q3 2016.

Average Capital Values of Prime Retail Space (by Micro-market)*



Source: Colliers International Singapore Research

* A valuation-based methodology is used to derive the average capital values.

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