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Colliers INTERNATIONAL

Accelerating success.

Lacklustre start to 2017

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Even as the economy picked up since Q4 2016, brick-and-mortar retail still faces structural challenges. Consolidation, omni-channel retailing, new product offerings and retailing concepts are expected to be recurring themes in 2017. We expect prime retail rents to ease in 2017, with those in Orchard Road faring better on limited new supply and upgrading demand, compared to the Regional Centres which may face more competition.

Forecast at a glance

Demand
We expect to see polarisation in demand of spaces. Prime spaces in Orchard Road is expected to see higher demand while the less popular malls will experience higher vacancies

Supply
We expect most of the new supply in 2017-18 to be in Downtown Core and Regional Centres

Vacancy rate
Islandwide vacancy rate will continue to rise in 2017, from 7.7% as of Q1 2017

Rent
Orchard Road: fall by 0.5 – 1.0% for the whole of 2017
Regional Centres: fall by 1.0-1.5% for the whole of 2017

Price
Orchard Road: SGD6,585 (USD4,705) psf, i.e. flat QOQ in Q1 2017
Regional Centres: SGD4,401 (USD3,145) psf, i.e. down 2% QOQ in Q1 2017

Still finding its footing

The retail leasing market in Q1 2017 was relatively quiet as any expansion would have concluded in Q4 2016 in time for the Christmas and Lunar New Year festivities.

The improved economic performance since Q4 2016, where GDP surprised on the upside with 12.3% QOQ SAAR and 2.9% YOY, had yet to translate into positive retail sentiment. Retail sales (excluding motor sales) have declined consecutively for three years in 2014-2016, and continued to be weak YTD.

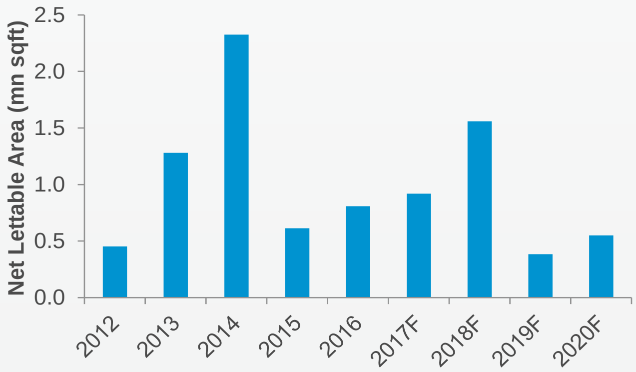
Structural shift in consumer spending patterns, coupled with a combination of an increased supply and reduced demand for retail spaces, will continue to cast downward pressure on retail rents.

For retailers, consolidation, omni-channel retailing, the creation of multi-sensory shopping experiences, new product offerings and retailing concepts are expected to be recurring themes in 2017. Foreign and local brands, whether small SMEs or big chains, need to reinvent themselves to stay relevant to consumers' needs.

We foresee the retail property sector will continue to soften in 2017 across all locations albeit at a slower rate than in 2016. Orchard Road prime rents eased 0.2% QOQ in Q1 2017. We forecast a rental decline of 0.5% to 1.0% for the whole year of 2017, supported by limited new supply and upgrading demand from retailers.

Regional Centres prime rents fell 0.6% QOQ in Q1 2017. We forecast rents in Regional Centres to fall 1.0-1.5% in 2017.

Islandwide Retail Space Supply (2012-2020F)



Source: Colliers International Singapore Research, URA

Leasing market and rental values

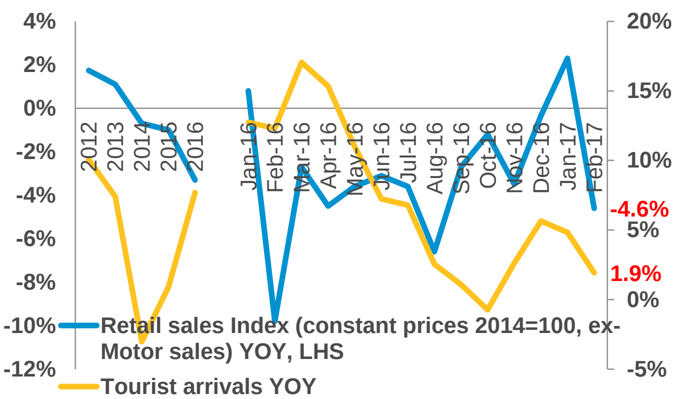
Fewer leasing deals; still-weak retail sales

Based on rental records captured by the Urban Redevelopment Authority's Real Estate Information System as at 23 January 2017, there were a total of 1,890 leasing deals in Q1 2017, down 27.8% quarter-on-quarter (QOQ) and -6.0% year-on-year (YOY). This was worse compared to the revised 1.6% QOQ increase in leasing volume in Q4 2016. This underscores the weak sentiment in the retail sector. URA's latest data showed the islandwide vacancy rate for retail space climbed to 7.7% in Q1 from 7.5% in Q4 2016.

The latest available figures showed tourist arrivals grew 1.9% YOY in February to 1.36 million, bringing Jan-Feb 2017 total visitor arrivals to 2.84 million, a 3.4% increase YOY. However, the retail sales index (excluding motor vehicles) at constant prices, declined 4.6% YOY, possibly due to the Chinese New Year falling in January in 2017 compared to February in 2016. On a seasonally adjusted basis, the retail sales index (excluding motor vehicles) was up 0.2% MOM.

During the Budget 2017 in February, the Finance Minister had said that the government is studying the imposition of Goods and Services Tax (GST) on digital transactions and cross border trade. We believe this could level the playing field for local GST-registered businesses and the foreign ones, ie brick-and-mortar retailers and online retailers.

Retail sales (excluding motor vehicles) and tourist arrivals YOY change



Source: Colliers International Singapore Research, STB, DOS

Prime rents in Orchard and Regional Centres resumed decline

Q1 2017 saw retail rents of prime, ground floor spaces in prominent shopping malls along Orchard Road and in Regional Centres resume their downtrend.

Colliers International Research shows average monthly gross retail rent for the prime ground floor shopping mall space in the Orchard Road micro-market fell 0.2% QOQ to SGD40.13 (USD28.66) per sq ft in Q1 2017, compared to SGD40.22 in Q4 2016. Average monthly gross rent for prime ground floor shopping mall space fell 0.6% QOQ to SGD33.34 (USD23.79) per sq ft.

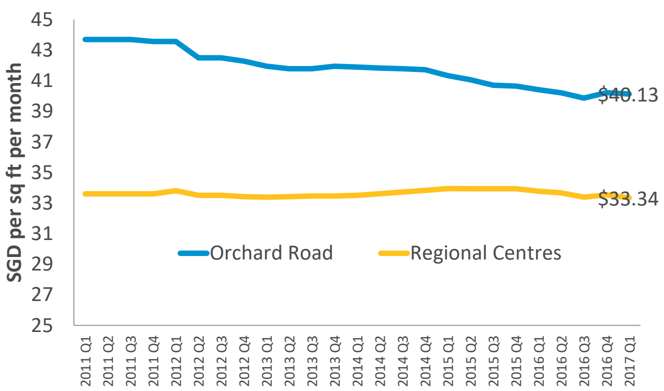
At the prime shopping malls along Orchard Road, while there were still pockets of vacancy, some tenants took this opportunity to upgrade to better locations or larger space and mall operators rejuvenate their tenant mix.

Among the Regional Centres, those that had non-renewals saw quick replacements. Mall operators are also quick to augment occupancy and revenue with an increase in the number of pop-up stores.

On an annual basis, average monthly gross rents for prime ground floor shopping mall space in Orchard Road micro-market fell 0.7%, compared to Q1 2016. They are now 8.1% below the peak in Q3 2011.

Average prime retail rents in Regional Centre fell 1.3%, compared to Q1 2016. They are now 1.8% below the peak as of end-2015.

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

New supply in Q1 2017 and upcoming supply

The Hillion Mall, just next to Bukit Panjang MRT (Downtown Line Stage 1) in Northwestern Singapore, opened to much fanfare on 24 February 2017, after obtaining Temporary Occupation Permit (TOP) on 30 December 2016. Based on a company announcement on 10 January 2017, it is more than 90% committed with over 100 outlets across 174,730 sf Net Lettable Area (NLA). 30% of the mall is dedicated to food and beverage, and almost 45% of the retail space is allocated to lifestyle stores. Anchor brands include supermarket chain NTUC FairPrice which will be open 24 hours, and foodcourt operator Kopitiam.

The Hillion Mall adds 69% to the existing stock of retail mall space in the Bukit Panjang locality namely the Bukit Panjang Plaza (NLA 163,650 sq ft or 15,205 sq m) and Junction 10 (NLA 90,879 sq ft or 8,445 sq m), increasing the vibrancy but no doubt increasing the competition for the retail dollar in the neighbourhood.

Colliers estimates that the expected average annual supply in 2017-2018F of 1.2 million sqft (115,000 sqm) exceeds the average annual supply of 1.1 million sqft (102,000sqm) achieved in 2011-2016. Large projects we expect to complete in 2017 include OUE Downtown, Marina One, Singapore Post Centre. In 2018, substantial retail space at Project Jewel at Changi Airport, Paya Lebar Quarters and North Point City will weigh in.

China brands opening in Singapore

After a number of global retail brands opening flagship stores in Singapore in 2016, including Michael Kors, Uniqlo, Victoria's Secrets, Valentino, Braun Buffel etc., Chloe, the French luxury house has just opened its very own standalone boutique at Marina Bay Sands, after a brief absence from Singapore, on 22 April 2017.

In addition, more retail brands from China are making their way to Singapore, viewing Singapore as a launchpad to other South-east Asian nations such as Malaysia, Thailand and Indonesia. Streetwear brand Hotwind opened at 313@Somerset last November, while fashion label Urban Revivo opened in Raffles City in January this year. These are their first stores outside of China.

Hotwind aims to have three to five stores here by the end of the year. Urban Revivo, which has more than 150 stores across more than 60 cities in China, plans to open a new store, almost twice as big as the one in Raffles City, in Orchard Road in the third quarter of 2017. It plans to open at least 10 more outlets in Singapore and 400 stores globally by 2020.

We expect more Chinese brands to open here in the next 12 months. These brands are looking to expand overseas, and Singapore's strategic location and international audience provide the optimal platform for them to showcase their brands and build brand awareness.

Expansion of physical stores

Some retailers have continued to expand both physical presence and online platforms. Toys"R"Us, the American toy retailer, has expanded its foothold in Singapore, opening two stores at the new Waterway Point in Punggol and Parkway Parade at the East Coast during Q1 2017 to bring its Singapore presence to 11 outlets. At the physical stores, it has stepped up its game by rejuvenating its store experiences with interactive setups and attention-grabbing displays.

Its stores at VivoCity and Paragon have an interactive wall which allows customers to browse through product catalogues or take a photo with. At the revamped VivoCity store, an experiential area comes with three digital screens showing videos about the latest toys. The LEGO section, which is the largest across all Toys “R” Us stores in Southeast Asia, has multiple tables for children to play around.

Meanwhile, it is also actively engaging its fans via social media such as Facebook and Twitter, and by promoting special events. It has an e-shopping platform and offers delivery services for online purchases. It even offers a 6% discount for its online purchases every Wednesday.

Examples of New and Upcoming Store Openings by Foreign Retailers in Q1 2017

Retailer (origin)	Store Location	Est. Size (sq ft)	Opening
New Openings in Q1 2017			
Christian Louboutin (France)	Scotts Square (relocated from Ngee Ann City)	1,668	Jan 2017
Urban Revivo (China)	First international outlet at Raffles City	7,330	Jan 2017
ToysRus (America)	10th and 11th outlet at Waterway Point & Parkway Parade	N.A.	March 2017
Upcoming Stores			
Chloe (France)	The Shoppes at Marina Bay Sands	1,981	April 2017

N.A. denotes not available

Source: Media / Colliers International Singapore Research

Strata sales and capital values

Fewer strata-titled retail shop sales

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 amount (including mortgage, credit cards, car loans and personal loans) to 60% of monthly income, overall sales of strata-titled retail properties stayed muted in Q1 2017.

According to preliminary caveat records downloaded from URA REALIS as at 21 April 2017, 39 caveats were lodged in Q1 2017, 15% more than the revised 34 caveats in Q4 2016, but 28% lower YOY. 2016 also saw the lowest strata-titled sales transactions in the last 20 years.

Average capital values of Regional Centres softening

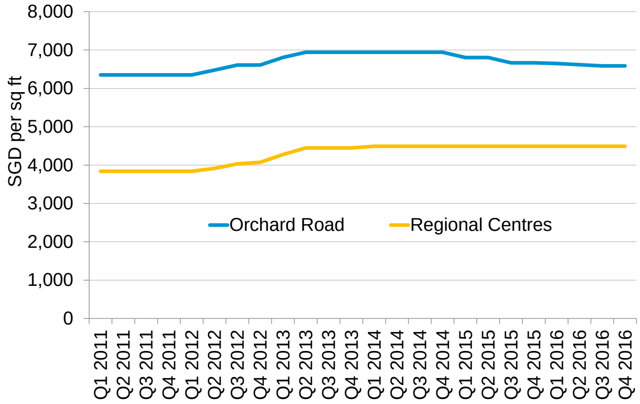
According to Colliers International's research, the imputed average capital values for prime shopping mall space in Orchard Road was flat QOQ at SGD6,585 (USD4,705) per sq ft in Q1 2017.

In the Regional Centres where some malls have started to experience higher vacancies and negative rent reversions, the imputed average capital values for prime retail mall space declined 2.0%, after holding stable for eleven quarters at SGD4,401 (USD3,145) per sq ft in Q1 2017.

This is notwithstanding the impending sale of Jurong Point. Mercatus Co-operative, an NTUC social enterprise, was reportedly close to sealing a deal to buy Jurong Point for SGD2.2 billion or USD1.6 billion (SGD3,343 or USD2,390 per sqft per 658,000 sqft NLA). The price reflects a net yield of about 4.2%. This compares to the typical 5.0-5.5% cap rates used for suburban retail malls reported by REITs as of Aug-Dec 2016.

We expect some weakness in some Regional Centres malls given the higher competition. In general, we expect prime retail capital values to stay relatively defensive in 2017 given continued investor interest, the holding power of owners and rarity of good quality retail assets.

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



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

Source: Colliers International Singapore Research

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