Colliers Quarterly

SINGAPORE | RETAIL
Q2 2017

31 July 2017

Accelerating success.

Signs of stabilisation

Tricia Song Director and Head | Research
Jiemei Tan (JM) Senior Analyst | Research

While there are early signs of stabilising retail sales, leasing volumes and rents, we believe it is still too early to declare an upturn. We see retailers and landlords continue adapting to structural challenges in the industry, with strategic revamps, adoption of omni-channel retailing and new product offerings. Given elevated new supply in 2017-2018, we expect rents across all locations to continue to fluctuate and find its footing in 2017.

Forecast at a glance

Demand
We continue to see higher demand in locations with consistent footfall and less existing supply

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

Vacancy rate
Islandwide vacancy rate should continue to rise over the rest of 2017-2018, from 8.1% as of Q2 2017

Rent
Orchard Road: Prime rents up 0.4% YTD. To stabilise in 2017, and rise 3% YOY in 2018
Regional Centres: Prime rents down 0.4% YTD. To fall by 1.0-1.5% over 2017, and stabilise in 2018

Price
Orchard Road: SGD6,651 (USD4,829) psf, i.e. up 1% QOQ in Q2 2017
Regional Centres: SGD4,489 (USD3,259) psf, i.e. up 2% QOQ in Q2 2017

Finding its footing

We are starting to see signs of stabilisation in the retail property market. Retail leasing volumes registered the first YOY growth in two years, albeit by a slight margin. Retail sales (excluding motor vehicles) have picked up since February 2017, climbing 5.1% YOY in April and 0.7% YOY in May. Retail sales in April were mainly bolstered by a 7.3% YOY rise in department store revenues, which bode well for malls.

Based on Colliers International's research, prime retail rents appear to be stabilising, rising marginally sequentially in Orchard Road (0.6% QOQ) and the Regional Centres (0.2% QOQ).

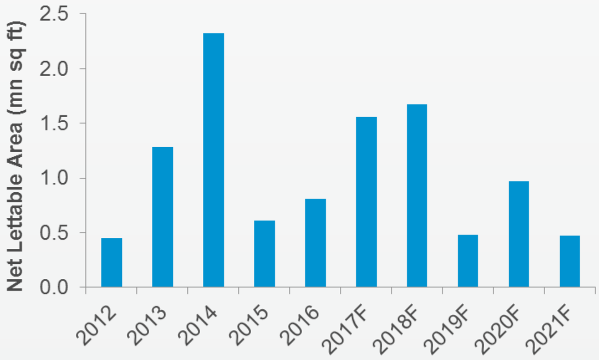
We observed a number of strategic retrofits, makeovers and inclusion of experiential offerings especially amongst prime Orchard Road retailers, lining up well with the launch of the Great Singapore Sale which runs from 9 June to 13 August 2017.

Notably, better-performing retailers are leveraging the soft rental environment for new store openings and expansion plans. Meanwhile, retailers have embraced the "omni-channel" concept further as more successful e-commerce retailers set up physical stores to bring their products closer to consumers.

Nonetheless, with elevated supply still expected to come through over the rest of 2017-2018, we foresee the retail property sector should continue to adjust and find its footing in 2017 across all locations.

Meanwhile, capital values are generally rising as cap rates decline further due to investor demand and a low interest rate environment which looks set to persist.

Islandwide Retail Space Supply (2012-2021F)



Source: Colliers International Singapore Research, URA

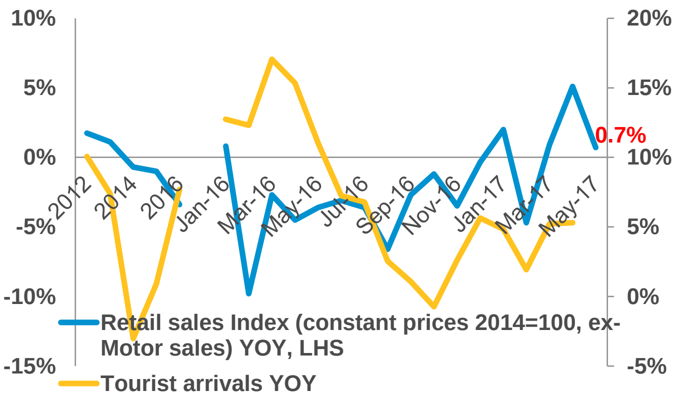
Leasing market and rental values

More leasing deals, but occupancy continues to fall on new supply

Based on rental records captured by the Urban Redevelopment Authority's Real Estate Information System (URA REALIS) as at 27 July 2017, there were a total of 2,898 leasing deals in Q2 2017, up 51.0% QOQ and 1.9% YOY, marking the first YOY growth since Q2 2015. However, the islandwide retail vacancy rate continued climbing to 8.1% in Q2 from 7.7% in the preceding quarter, due to a surge in net new supply.

According to data from Singapore Department of Statistics, the retail sales index (excluding motor vehicles) at constant prices has also picked up since February, climbing 5.1% YOY in April and 0.7% YOY in May. The boost in April came from a 7.3% YOY jump in department stores' sales, followed by a smaller 1.4% YOY gain in May. On the other hand, the food and beverage services index at constant prices fell 4.7% YOY in May, after falling 3.9% YOY in April. Meanwhile, tourist arrivals grew 5.3% YOY in April to 1.47 million, bringing Jan-Apr 2017 total visitor arrivals to 5.79 million, a 4.3% increase YOY.

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



Source: Colliers International Singapore Research, STB, DOS

Prime rents show signs of stabilising

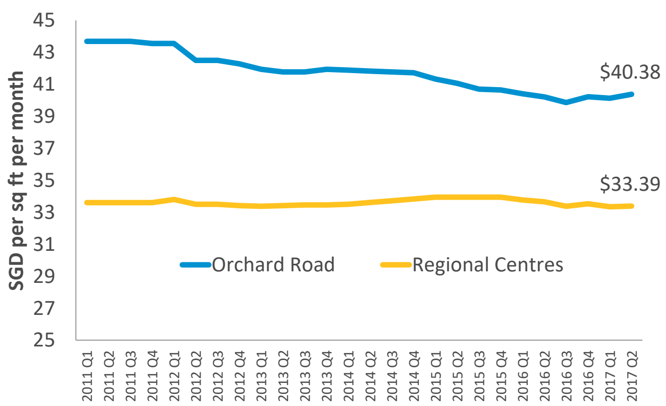
Q2 2017 saw retail rents of prime ground floor spaces in prominent shopping malls along Orchard Road and in Regional Centres pick up marginally, signalling some stabilisation.

Colliers International's research shows average monthly gross retail rent for the prime ground floor shopping mall space in the Orchard Road micro-market rose 0.6% QOQ to SGD40.38 (USD29.32) per sq ft in Q2 2017, compared to SGD40.13 in Q1 2017.

Along Orchard Road, selected premium malls have managed positive rent reversions as tenants upgrade to better locations. Some landlords also achieved higher rents by subdivision of units and/or tenant remixing. Some of the non-performing retail stores have also been replaced by F&B concepts. Prime ground floor rents for most of these malls appear to have stabilised.

In the Regional Centres, average monthly gross rent for prime ground floor shopping mall space rose 0.2% QOQ to SGD33.39 (USD24.24) per sq ft. Among the Regional Centres, performances were mixed as the larger malls in established residential towns locked in higher rents, while the smaller malls in more competitive localities continue to see tenant turnover.

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

Orchard prime rents finds firmer ground than the Regional Centres

On an annual basis, average monthly gross rents for prime ground floor shopping mall space in Orchard Road micro-market has risen 0.4%, compared to Q2 2016.

This reverses the cumulative 10 quarters of YOY rental decline for Orchard Road, and signals that rents in the micro-market may be finding adequate support. They are now 7.6% below the peak in Q3 2011.

In comparison, average prime retail rents in Regional Centres fell 0.8%, compared to Q2 2016, in a continuation of YOY declines. They are now 1.6% below the peak as of end-2015. We note selected malls in Regional Centres are still facing higher vacancies and negative rent reversions, due to higher base rents or stiffer competition in their localities.

Rejuvenating the Orchard prime retail belt

In tandem with the launch of the Great Singapore Sale on 9 June, we observed a number of strategic retrofits, makeovers and inclusion of experiential offerings, especially amongst retailers in the prime shopping belt.

Nespresso Singapore, a coffee machine retailer, recently renovated its 2,270 sq ft (211 sq m) flagship store at Ion Orchard. The in-store café rounds off the shopping experience by letting customers enjoy a cup of coffee and desserts. The Longchamp boutique, also located at Ion Orchard, recently re-opened its 2,960 sq ft (275 sq m) space after an overhaul. The store features VIP fitting rooms and the unveiling of a new Made-to-Measure Atelier service, its first in Singapore.

Challenger's new 14,000 sq ft (1,300 sq m) flagship at Bugis Junction features experiential counters for customers to try out drones and VR gaming.

Complementing these retail revamps, Q2 2017 also marked the unveiling of the 30,000 sq ft (2,787 sq m) Apple Store at Knightsbridge Mall in Orchard. The store is the first official retail outlet by the tech giant in Singapore and also in Southeast Asia. The minimalist 2-storey retail space showcases a wide range of devices on the first level, and hosts events and hands-on workshops on the second level. Hundreds of Apple iPads, iPhones and MacBooks are freely available for customers to interact with in-store, assisted by more than 200 on-site staff ("Geniuses").

The interactive and friendly atmosphere, infused with natural design elements, is a key reason for the high foot traffic typically observed across Apple stores worldwide. Similarly, the Apple Store in Singapore is expected to draw consistent foot traffic and liven up the Orchard prime retail market.

Tenants capitalising on soft rentals

Some retail brands targeting niche segments have continued to expand and leverage the soft rental environment to open in choice locations. An example is Owndays, a Japanese eyewear retailer, which opened its 23rd store in Singapore.

Retailers continue embracing the "omni-channel" concept. Local e-commerce retailers are venturing into the brick-and-mortar space in a bid to establish an offline presence which offers a "personal touch" and more interactive, experiential shopping experience. Local multi-label boutique, SocietyA, opened its first physical outlet at Ngee Ann City earlier this year.

The soft rental environment is also a draw to foreign brands looking to set up shop in Singapore. Don Quijote, a new-to-market Japanese discount chain, is also reportedly looking to set up shop in the Orchard retail area.

Examples of New and Upcoming Store Openings by Foreign Retailers in Q2 2017

Retailer (origin)	Store Location	Est. Size (sq ft)	Opening
New Openings in Q2 2017			
Apple (U.S.)	Knightsbridge Mall	30,000	May 2017
Gucci Kids (Italy)	The Shoppes at Marina Bay Sands	N.A.	May 2017
Upcoming Stores			
Balmain (France)	The Shoppes at Marina Bay Sands	1,647	Jul 2017
Lumine (Japan)	Clarke Quay Central	10,000	Nov 2017

N.A. denotes not available
Source: Media / Colliers International Singapore Research

Upcoming supply and revamps

On 19 May, Downtown Gallery opened in Singapore's CBD as part of the integrated development OUE Downtown. The new mall comes with a bevy of technological and experiential elements. For instance, it has a social kitchen where the public can book a cooking station and prepare a "home cooked" meal with their own ingredients. Additionally, a deli area offers a unique dining experience in which food is delivered via lockers lining the space, rather than through food vendors.

Downtown Gallery adds 145,000 sq ft (13,470 sq m) of prime retail area to the Tanjong Pagar precinct, complementing the 100,000 sq ft (9,290 sq m) of retail space at Tanjong Pagar Centre (TPC) which recently opened in October 2016. Downtown Gallery is positioned as a lifestyle, wellness and technology mall. In contrast, TPC's tenant mix comprises mainly F&B offerings. It will be interesting to see how the two integrated developments with different retail strategies can help to shape the quieter side of the CBD and the effect they will have on average rentals in the vicinity, which is still lagging behind the core CBD.

Century Square mall in Tampines will close for a 12-month overhaul this September.

SingPost Centre received its Temporary Occupation Permit (TOP) in Q2 2017. The development, which offers 176,500 sq ft (16,400 sq m) of retail space, will open for business in the second half of the year.

Northpoint City, which is slated to complete in Q4 2017, is already 90% committed for its c.300,000 sq ft (27,900 sq m) retail mall. In 2018, substantial retail space at Project Jewel at Changi Airport and Paya Lebar Quarter will weigh in.

Colliers estimates an average annual islandwide supply of 1.6 million sq ft NLA (148,600 sq m) of retail space coming on-stream between 2017-2018, equivalent to a yearly increase of 2.5% of the existing stock. This pace exceeds the average annual supply of 1.1 million sq ft (102,200 sq m) achieved over 2012-2016. The pipeline should however taper off between 2019-2021.

Strata sales and capital values

Still subdued strata-titled retail shop sales

Given the subdued retail property market and absence of new strata-titled launches, overall sales of strata-titled retail properties stayed muted in Q2 2017 and H1 2017.

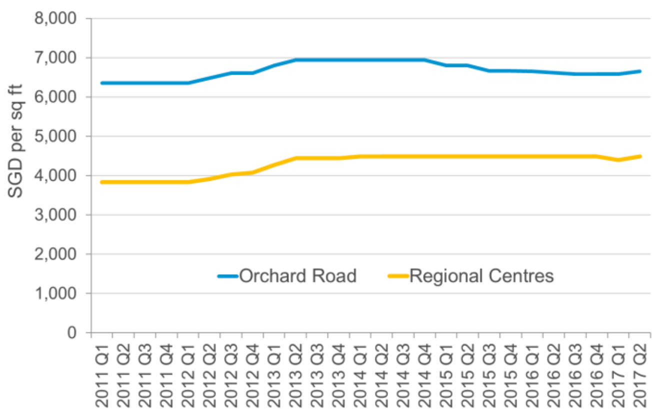
According to caveat records downloaded from URA REALIS as at 28 July 2017, 57 caveats were lodged in Q2 2017, 33% more than the revised 43 caveats in Q1 2017, but 43% lower YOY.

Based on Colliers International's research, capital values generally rose in Q2 as cap rates declined further due to investor demand and a benign interest rate environment which looks likely to persist. The strong investor demand could be seen in the sale of Jurong Point, the largest suburban mall in Singapore, during Q2. The deal was concluded at a landmark price of SGD2.2 billion (USD1.6 billion) or SGD3,342 (USD2,390) psf per 658,000 sq ft NLA, translating to a net property yield of 4.2%. CapitaLand Mall Trust has in its H1 2017 results saw its portfolio asset values appreciate 2.0% as cap rates compress 40-50bps for the pure retail malls.

As a result, imputed average capital values for prime retail mall space at the Regional Centres gained 2.0% QOQ to SGD4,489 (USD3,259) per sq ft, largely negating the decline during the previous quarter.

Imputed average capital values for prime retail space in Orchard Road rose marginally by 1.0% QOQ to SGD6,651 (USD4,829) per sq ft.

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

For more information:

Diane Aw
Associate Director
Retail Services
diane.aw@colliers.com

Tricia Song
Director and Head
Research
tricia.song@colliers.com

Stephanie Sun
Director and Head
Consulting
stephanie.sun@colliers.com

Colliers International | Singapore
1 Raffles Place, #45-00
One Raffles Place
Singapore 048616
Tel: +65 6223 2323
Fax: +65 6222 4901
RCB No. : 198901352R
CEA Licence No: L3004691J

Copyright © 2017 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Accelerating success.