

A mixed market

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Rental corrections appear to be tapering off in the prime Orchard belt, although the overall retail market recovery is more gradual. This tallies with the retail sales index, which signalled a slight uptick in consumer sentiment on the back of selectively strengthening discretionary spending. We expect the overall retail property market to stabilise in the next 12-18 months. Prime retail rents in the Orchard precinct should lead the recovery, rising 1-3% YOY in 2018. Many mall operators are exploring reconfiguration of existing mall layouts. Alternative usage of retail floor area is also on the rise, particularly coworking and events spaces.

Forecast at a glance



Demand

We continue to see higher demand for prime floors with the highest foot traffic.



Supply

Elevated new supply in 2018 (equivalent to 3% of current stock). Supply should taper off significantly over 2019-2021.



Vacancy rate

Island-wide vacancy is still climbing, albeit at a decelerating pace. Vacancy should continue to rise over the rest of 2017-2018, from 8.2% as of Q3 2017.



Rent (for prime floor only)

Orchard Road: Prime rents up 0.7% YTD. We expect rents to rise 1-3% p.a. over 2018-2021F.

Regional Centres: Prime rents down 0.4% YTD. To fall by 1.0-1.5% in 2018 and stabilise in 2019-2021F.



Price (for strata prime floor only)

Orchard Road : SGD6,651 (USD4,896) psf, i.e. flat QOQ in Q3 2017.

Regional Centres: SGD4,489 (USD3,305) psf, i.e. flat QOQ in Q3 2017.

Recovering sentiment in Orchard prime retail belt

In Q3 2017, average retail rents of prime ground floor spaces along Orchard Road rose slightly (0.3% QOQ and 1.6% YOY) to SGD40.50 (USD29.81) per sq ft. This marks the second consecutive QOQ growth over the past five years. Conversely, prime retail rents in Regional Centres held stable at SGD33.38 (USD24.57) per sq ft.

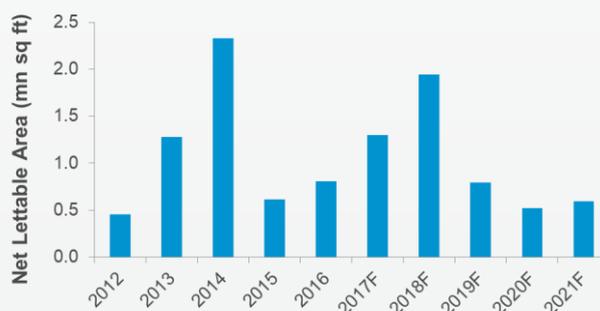
While leasing volumes are being sustained, it is also matched with moderately rising vacancy, reflecting a still fluctuating retail market. According to Colliers International's research, rents at city fringe malls and non-prime floors of the Orchard Road malls and Regional Centres have remained weak.

This mixed market sentiment tallies with the retail sales index. Consumer sentiment appears to be on a slight mend, but a deeper analysis shows we are still some way from a broad-based recovery. Nevertheless, improving tourist arrivals augurs well for the Orchard prime retail belt's recovery.

Rental corrections are likely tapering off in the prime Orchard belt, though the overall market stabilisation should take place progressively over 2018. Prime retail rents in the Orchard precinct should lead the recovery, rising 1-3% YOY in 2018.

Many mall operators are exploring better usage of space and reconfiguration of existing mall layouts. Instead of adding more F&B concepts, alternative usage of retail floor area is also on the rise, particularly coworking and events spaces.

Island-wide Retail Space New Supply (2012-2021F)



Source: Colliers International Singapore Research, URA

Leasing market and rental values

Attrition remains a concern

Based on rental records captured by the Urban Redevelopment Authority's Real Estate Information System (URA REALIS) as at 24 October 2017, there were a total of 2,778 leasing deals in Q3 2017, down 5.8% QOQ, but up 7.8% YOY. However, the island-wide retail vacancy rate climbed to 8.2% in Q3 from 8.1% in the preceding quarter.

This high leasing activity combined with a high attrition rate of retail tenants reflects a still fluctuating retail market.

Selectively strengthening consumption

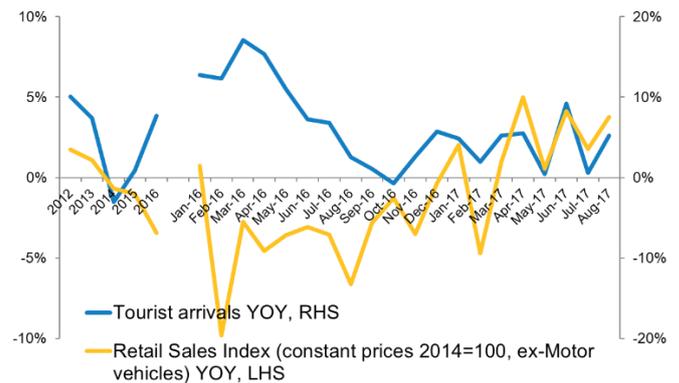
Based on the latest data from the Singapore Department of Statistics, the retail sales index (excluding motor vehicles) at constant prices has continued climbing slowly, but steadily since February. Retail sales grew 1.8% and 3.8% YOY in July and August respectively.

The food and beverage services index fell 1.7% YOY in July, before increasing 2.8% in August. However, we note that the increase was from a low base given the steep decline totalling 24.9% since January 2017.

Consumer sentiment appears to be on a slight mend, on the back of selectively strengthening discretionary spending. This stabilisation is being led by retailers in the Medical Goods & Toiletries segment, as well as the Jewellery and Watches segment, both of which recorded at least six consecutive months of YOY sales growth. However, this means that only two out of the 13 retail segments tracked by the Department of Statistics are registering this uplift sentiment, and indicates that we are still some way off from a broad-based recovery.

Meanwhile, tourist arrivals in July and August rose to 1.63 million (+9.2% YOY) and 1.56 million (+0.6% YOY) respectively. This brings January-August 2017 total visitor arrivals to 11.73 million, a 4.0% increase from the same period last year. We believe the improving tourist arrivals should provide a boost to the prime Orchard shopping belt.

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



Source: Colliers International Singapore Research, STB, DOS

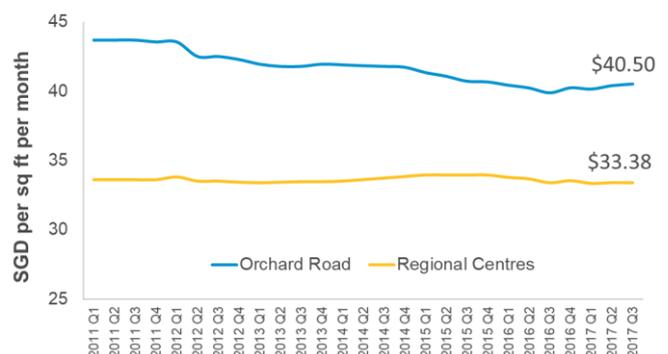
Mixed rental market

In Q3 2017, average retail rents of prime ground floor spaces along Orchard Road rose 0.3% QOQ (+1.6% YOY) to SGD40.50 (USD 29.81) per sq ft. This marks the second consecutive QOQ growth over the past five years. Conversely, prime retail rents in Regional Centres held stable at SGD33.38 (USD 24.57) per sq ft.

Looking at the year-to-date numbers, prime retail rents in Orchard Road appear better supported than in the Regional Centres, with the former up 0.7% YTD, while the latter are still down 0.4% YTD.

Prime rental corrections are likely to be tapering off in the Orchard belt, although the overall market recovery should take place progressively over 2018.

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

Regional Centres rents appear stable, albeit continuously subdued. Prime rents in this basket have remained around the SGD33 (USD24) level for a remarkably prolonged 32 consecutive quarters.

This mixed market sentiment tallies with the retail sales index, which signalled a slight uptick in consumer sentiment on the back of selectively strengthening discretionary spending.

We expect the overall retail property market to stabilise in the next 12-18 months. Prime retail rents in the Orchard precinct should lead the recovery, rising 1-3% YOY in 2018.

More creative use of retail space

Occupier demand in Q3 2017 comprised a continuation of renewals and new leases on the back of the persistently soft rental environment. Niche lifestyle brands, new-to-market concepts, and resilient retail segments such as children's wear were the primary drivers.

New-to-market brands include Italian luxury footwear brand Giuseppe Zanotti, which opened a new 1,160 sq ft (108 sq m) boutique at ION Orchard in July. Japanese confectionary chain PABLO also opened its first cheese tart store in Singapore during the quarter, occupying a 1,400 sq ft (130 sq m) space at Wisma Atria.

In July, Muji opened its biggest outlet in Singapore, spanning some 17,650 sq ft (1,640 sq m). The new Plaza Singapura location brings its tally to a total of eleven stores in the city-state. The minimalist product retailer has incorporated various experiential elements, including a bespoke embroidery station, to draw more shopper traffic.

In the same vein, Magnum opened its first flagship shop, the Magnum Pleasure Store at ION Orchard. The outlet allows customers to customise their own Magnum ice cream and enjoy a cup of coffee along with it.

Service-oriented segments such as education and entertainment are well-positioned to draw shopper interest. The School of Music and the Arts (SOMA) opened a new 3,500 sq ft (325 sq m) location at Marina Square.

While many non-performing retail stores were previously replaced by F&B concepts, any further addition of these concepts may lead to saturation of F&B outlets. In turn, this may lead to an eventual turnover of struggling F&B tenants a few quarters down the road.

As such, many mall operators are exploring better usage of space and reconfiguration of existing mall layouts. Alternative usage of retail floor area is also on the rise, particularly coworking and events spaces. For instance, MOX, a coworking and resource space for creatives and entrepreneurs, leased three floors at Katong Point - formerly Katong Junction - totalling some 40,000 sq ft (3,716 sq m).

The Dover Street Market boutique is another example of this with an array of exhibition spaces, instead of being a pure retail space. The multi-label fashion store opened in July, occupying a 12,325 sq ft (1,140 sq m) space at Tanglin Village.

Examples of New Retail Stores in Q3 2017

Retailer (origin)	Store Location	Est. Size (sq ft)	Opening
New Openings in Q3 2017			
Muji (Japan)	Plaza Singapura	17,650	Jul 2017
Giuseppe Zanotti (Italy)	ION Orchard	1,160	Jul 2017
PABLO (Japan)	Wisma Atria	1,400	Aug 2017
Lush (U.K.)	VivoCity	1,150	Sep 2017

N.A. denotes not available

Source: Media / Colliers International Singapore Research

Upcoming supply and revamps

The quarter saw a spate of withdrawals and new supply in the regional neighbourhoods outside of the prime Orchard shopping district. The 200,000 sq ft (18,600 sq m) Century Square mall in Tampines closed for a year-long revamp.

In the Paya Lebar precinct, the 176,500 sq ft (16,400 sq m) SingPost Centre officially opened for business in October. SingPost Centre offers a glimpse into the mall of the future with a Smart Mall, offering a one-stop lifestyle destination, complete with tech-enabled experiences in its unique General Post Office, Singapore's first all-laser cineplex by Golden Village, and NTUC FairPrice supermarket. It also offers a myriad of lifestyle and leisure options. We will look forward to what the integrated development Paya Lebar Quarter next door may have to offer when it is completed one year down the road.

Looking ahead, the new retail extension at Northpoint City located in Yishun is slated to contribute another 300,000 sq ft (27,900 sq m) of space in Q4 2017.

In 2018, substantial retail space at Project Jewel at Changi Airport and Paya Lebar Quarter will weigh in.

Colliers estimates approximately 1.9 million sq ft NLA (148,600 sq m) of new retail space to come on-stream in 2018, equivalent to an expansion of 3.0% of existing stock. While this is higher than the average annual supply of 1.1 million sq ft (102,200 sq m) achieved over 2012-2016, the supply pipeline significantly tapers down between 2019-2021.

Strata sales and capital values

Moderate strata sales volumes

Transaction rates are still below the triple-digit average monthly strata sales volumes between 2009 and 2013.

According to caveat records downloaded from URA REALIS as at 24 October 2017, 57 caveats were lodged in Q3 2017, the same volume as in Q2 2017 and 9.6% higher YOY.

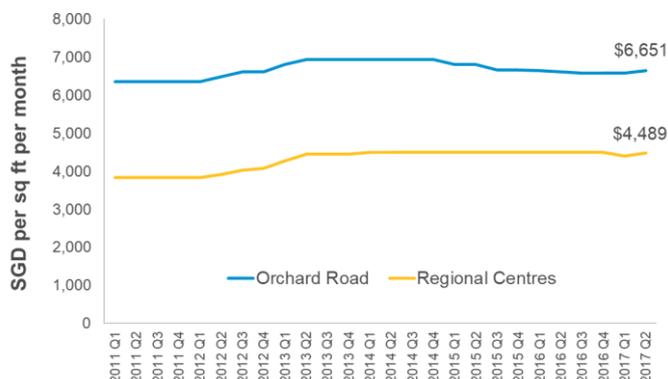
The two-tier retail property sector, coupled with the absence of new strata-titled launches, may weigh on sales of strata-titled retail properties. As a result, the retail strata market should remain modest in the short- and medium-term.

Based on Colliers International's research, capital values of prime retail space held stable across the board in Q3 2017.

Imputed average capital values for prime retail mall space along the Orchard Road shopping belt stayed flat at SGD6,651 (USD4,896) per sq ft.

Similarly, average prime retail valuations in the Regional Centres held stable at SGD4,489 (USD3,305) 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

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