

Retail

10 October 2011

"The threat of an economic slowdown is expected to put a lid on rental growth in the short term. However, Singapore's rising population and robust tourist arrivals will continue to underpin retail sales, with suburban malls benefiting particularly from the population growth."



Image: H&M at Orchard Building

- Big-format stores are increasingly dominating the local retail scene.
- H&M held a debut opening for its 33,000 sq ft store in Orchard Building, while Louis Vuitton opened its flagship store at Marina Bay Sands.
- More malls are embarking on repositioning exercises to stay ahead of the competition.
- Retail space per capita has shrunk from 8 sq ft to 7 sq ft over the past decade due to population growth, without taking into account the spike in visitor arrivals.
- Visitor arrivals hit 1.3 million in July, the highest number ever recorded for a single month.
- Defying recession fears, retail sales (excluding motor vehicles) posted a robust 10.7% year-on-year growth in July.
- Prime rents on Orchard Road inched up by 2% to S\$35.1 per sq ft per month in Q3, while prime suburban rents rose marginally by 1% to S\$30.5 per sq ft per month.

Market commentary

From luxury to high-street labels, big is in when it comes to fashion. Singapore's retail scene is seeing a proliferation of big-format stores this year and rents do not come any cheaper for some of them. Recently, Forever 21 launched its largest flagship store (22,000 sq ft) in Orchard Exchange, while Swedish fast-fashion retailer H&M held a debut opening for its 33,000 sq ft store in Orchard Building, drawing an overnight queue. In time to welcome the Formula 1 crowd, Louis Vuitton opened a flagship store housed in a floating crystal pavilion at Marina Bay Sands. Fashion enthusiasts are also looking forward to the inaugural opening of Abercrombie & Fitch (A&F) in December which will have a 21,000 sq ft flagship store in Knightsbridge. Notably, rents are not much cheaper for many of these big-format stores, particularly those located in prime malls.

More international labels are being drawn to Asia as the region becomes the centre of global economic growth. Singapore has made its international presence felt through its integrated resorts and staging of mega events, such as the Formula 1 Grand Prix, and local developers with projects overseas, as well as foreign developers, are also bringing in new retailers. Aeropostale, Penhaligon's and Silvian Imberg are among the renowned brands that have made their debut in Singapore, with Aeropostale recently launching a 22,000 sq ft store in ION Orchard.

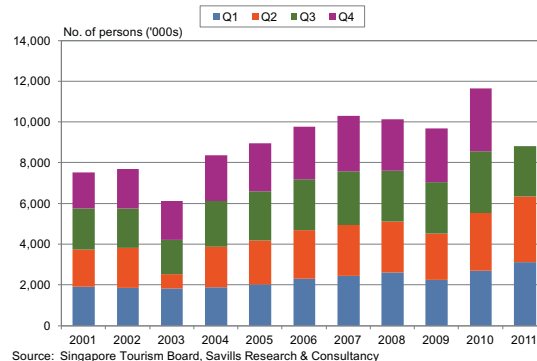
Existing malls are bracing themselves for stiffer competition. CityLink mall will undergo a S\$10 million makeover and has secured Aeropostale as one of its key tenants. In the meantime, Coach is said to be setting up a flagship store in Wisma Atria, which is also undergoing asset enhancement works. PoMo mall will refurbish its interiors and strengthen its tenant mix, positioning itself as a youthful, trendy, eclectic mall to attract the area's vibrant student community.

Visitor arrivals and retail sales

Visitor arrivals hit 1.3 million in July, the highest number ever recorded for a single month. This could be attributed to the Great Singapore Sale which lasted until 24 July, coinciding with the school holidays in some countries. In August, visitor arrivals remained strong at 1.2 million. Some 8.8 million visitors have made their way to Singapore between January and August this year, 16% higher than the corresponding period last year.

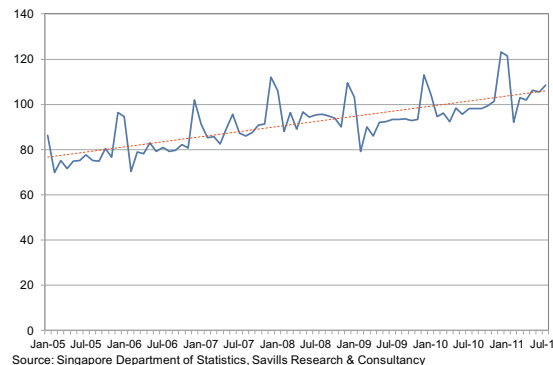
Visitor arrivals are expected to remain robust in September as Singapore hosted the Formula 1 Grand Prix. Smaller events, such as the Pan Asian Regulatory Summit, Russia-Singapore Business Forum, and concerts and fashion shows, were timed to coincide with the high-profile race. The Singapore Tourism Board expects this year's race to reap tourism receipts of about S\$100 million.

Visitor arrivals, 2001–Aug 2011



Defying recession fears, retail sales (excluding motor vehicles) posted a robust 10.7% year-on-year growth in July, with discretionary items continuing to dominate spending. Watches and jewellery led growth with an almost 30% jump in sales. Trailing closely were telecommunication equipment and computers with a 25% growth in sales. Other items with double-digit growth were apparel and footwear, and petrol service stations. A stable employment market and strong tourist arrivals continue to lend support to retail spending. Meanwhile, data from MasterCard shows that cardholders spent US\$1.32 billion from 27 May to 24 July at the 2011 Great Singapore Sale, 48% higher than last year.

Retail sales (excluding motor vehicles), Jan 2005–Jul 2011



Supply and demand of retail space

Apart from H&M, there were no major retail launches in Q3. Upcoming retail projects this year are likely to time their opening dates to coincide with the year-end festive season. Despite a surge in supply in recent years, retail space per capita is estimated to have shrunk from 8 sq ft to 7 sq ft over the past decade, and this is without taking into account the spike in visitor arrivals. While retail stock has increased at a compounding rate of 0.9% in the last ten years, Singapore's population has expanded at a corresponding rate of 2.3%.

The next quarter will see the opening of Scotts Square which will be home to luxury labels like Hermes, as well as Michael Kors' first store in Singapore.

There are several major projects in the pipeline:

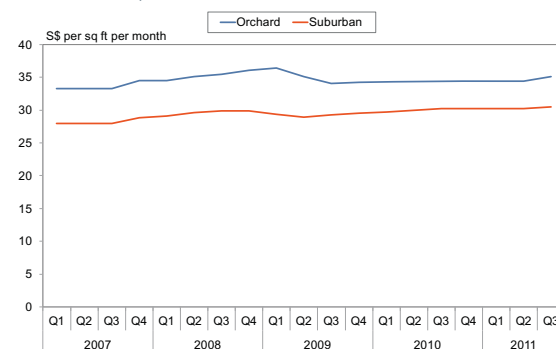
Development	Location	Estimated NLA (sq ft)	Estimated completion
Scotts Square	Scotts Road	75,000	2011
112 Katong	East Coast Road	207,000	2011
Changi City Point	Changi Business Park Central 1	207,000	2011
JCube	Jurong East Street 13	204,000	2011
The Atrium@ Orchard	Orchard Road	127,000	2012
Jem	Jurong Gateway Road	654,000	2013
Former Specialists' Shopping Centre and Hotel Phoenix Orchard Emerald	Orchard Road	144,000	2013
Shopping/office development	Boon Lay Way	460,000	2013
Shopping/residential development	Bedok North Drive/New Upper Changi Road	230,000	2014
South Beach	Beach Road	126,000	2015

Source: Savills Research & Consultancy

Rental values

Prime rents on Orchard Road inched up by 2% to S\$35.1 per sq ft per month in Q3, while prime suburban rents rose marginally by 1% to S\$30.5 per sq ft per month. While first storey rents on Orchard Road hover in the region of S\$50 to S\$60 per sq ft per month, upper storey rents usually tend to be more than 50% lower. However, the gap between first and upper storey rents in suburban malls tends to be smaller.

Retail rents, 2007–Q3/2011



Source: Savills Research & Consultancy

Outlook

The threat of an economic slowdown is expected to put a lid on rental growth in the short term. However, Singapore's rising population and robust tourist arrivals will continue to underpin retail sales. Singapore's population, which hit 5.18 million at the end of June, will particularly benefit the suburban malls, and as such, rents for suburban malls are likely to stay resilient despite large supply in the pipeline.

Rents on Orchard Road are also expected to hold firm with retail sales continuing with an upward trajectory ahead of the year-end festive season. However, the rental gap between Orchard Road and suburban malls is anticipated to narrow again on the back of deteriorating economic conditions, with some retailers expected to consolidate their operations amid stiffer competition.

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