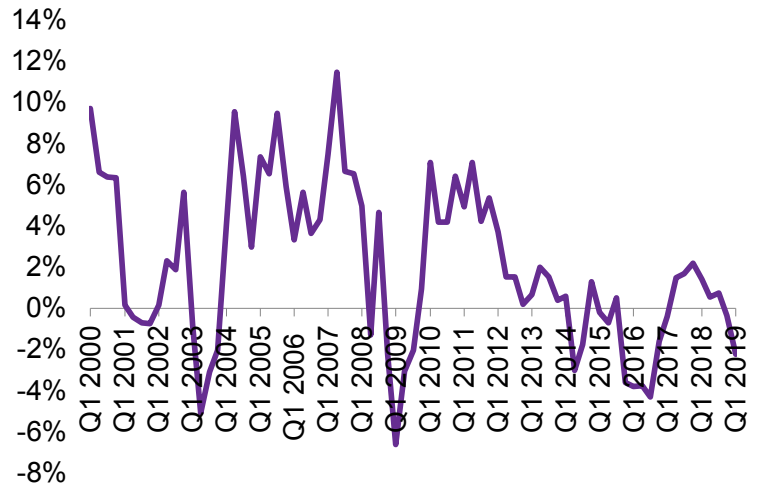


Market commentary

Key economic indicators

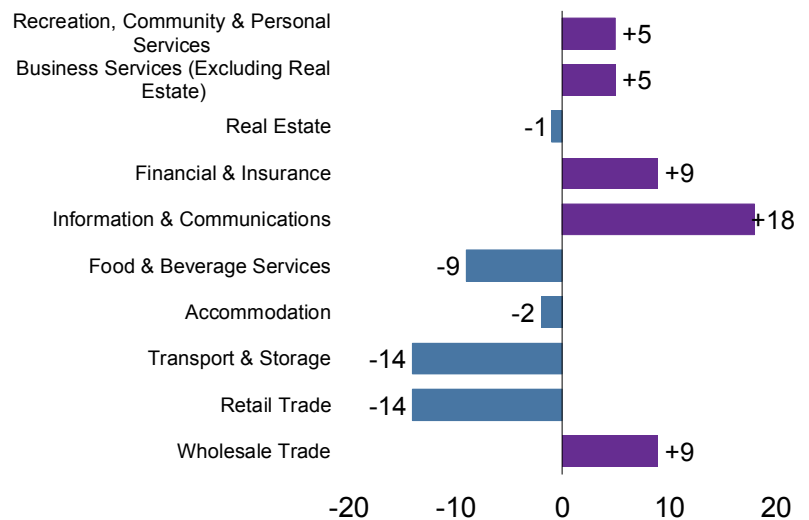
- Retail sales index (excluding motor vehicles) fell 2.3 per cent year-on-year (y-o-y) in Q1 2019, larger than 0.4 per cent contraction in Q4 2018 (Figure 1). In March 2019, retail sales in most segments fell y-o-y, with optical goods & books, food retailers, and computer and telecommunications equipment amongst the worst performers declining by 4.9 to 6.4 per cent y-o-y. Only sectors such as medical goods and toiletries saw some modest gains. Online sales accounted for 5.3 per cent of total sales.
- Based on the recent business expectations of the services sector for the period of April to September 2019, the outlook for retail trade and food and beverage (F&B) segments are less optimistic, especially so for department stores and supermarkets industries (Figure 2).
- International visitor arrivals increased by 4.7 per cent quarter-on-quarter (q-o-q) and 1.0 per cent year-on-year (y-o-y) in Q1 2019, with the top three countries being China (20.5 per cent), Indonesia (15.5 per cent) and India (6.4 per cent). This was in line with the Singapore Tourism Board's forecast of 1.0 to 3.0 per cent growth for 2019.

Figure 1: Retail Sales Index (excluding motor vehicles)



Source: Department of Statistics Singapore

Figure 2: General business outlook



Source: Department of Statistics Singapore

Investment market

- While there were no transactions valued above \$100m in Q4 2018, there were two retail transactions in Q1 2019 totalling \$630m. This comprised the sale of Liang Court to CapitaLand and City Developments Ltd for \$400m or \$894 per square foot (psf) net lettable area (NLA) and Rivervale Mall to SC Capital Partners for \$230m or \$2,833 psf NLA.

Private demand, occupancy and supply

Islandwide net absorption fell by more than 98.0 per cent q-o-q to just 5,000 sq ft in Q1 2019. Likewise, net supply fell by about 78.0 per cent q-o-q as there were lesser completions in Q1 2019.

Orchard/Scotts Road (OSR)

- Occupancy rate declined by 1.0 percentage point q-o-q to 93.9 per cent in Q1 2019 (Table 1).
- As the F&B segment was highly competitive, several brands closed their operations in Q1 2019 including Pablo Cheese Tart (Wisma Atria) and Chili's (Tanglin Mall).

Other City Areas (OCA)

- Net absorption contracted by 16,000 sq ft in Q1 2019 vis-à-vis 102,000 sq ft in Q4 2018.
- Retail remains challenging, especially during after working hours and weekends when foot traffic drops significantly vis-à-vis during working hours.
- In Q1 2019, vacancy rates in the downtown and Singapore River areas remained above double digits at 10.2 per cent and 13.6 per cent respectively. Bookstore retailer, Kinokuniya, will be closing its 13,000 sq ft store in Liang Court in April 2019.

Suburban Areas (SA)

- Net demand and supply for retail spaces slowed in Q1 2019 with the occupancy rate down marginally.
- Malls located in prime locations with the right tenant mix and near transportation nodes, continued to perform relatively well.
- This was evident with Singapore's largest retail REIT, CapitaLand Mall Trust's Q1 2019 results which reported 2.0 per cent increase in shopper traffic, 1.2 per cent rental reversions, and 0.4 per cent decline of tenants' sales psf. Malls that were well-connected to MRT stations and have diverse retail offerings reported higher gross revenues of 2.0 to 5.0 per cent. For e.g., Bedok Mall, Tampines Mall and Junction 8.
- Other notable expansions included Japanese discount chain Don Don Donki, which opened its third and largest outlet in City Square Mall in Q1 2019.

Table 1: Private retail demand, occupancy and supply in Q1 2019

Region	Q4 2018			Q1 2019			Q-o-Q %tage point change (Occupancy)
	Net absorption* ('000 sq ft)	Occupancy rate (%)	Net supply* ('000 sq ft)	Net supply* ('000 sq ft)	Occupancy rate (%)	Net supply** ('000 sq ft)	
OSR	47	94.8	0	12	93.9	97	-1.0 ▼
OCA	102	91.1	158	-16	90.6	58	-0.6 ▼
SA	174	88.8	695	9	88.7	35	-0.1 ▼
Islandwide	323	90.4	854	5	90.1	189	-0.4 ▼

Source: Source: URA, Edmund Tie & Company Research

Rental rates

While the average gross rental rates in the OSR remained largely stable, rents in the OCA and SA were mixed (Table 2). Well-located malls with the right tenant mix have performed relatively well compared to some strata malls, as well as older and less accessible malls, which are likely to continue struggling with falling foot traffic and sales.

Table 2: Average monthly gross rents in Q1 2019 (\$ psf)

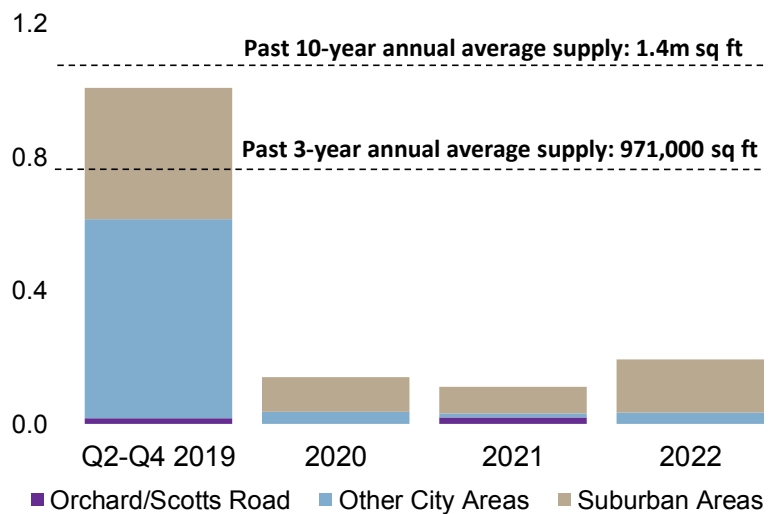
Region	Q4 2018	Q1 2019	Q-o-Q change
OSR	First storey - 35.80 to 38.80	36.00 to 39.00	0.5%
	Upper storey - 15.10 to 18.10	15.00 to 18.00	-0.5%
OCA	First storey - 16.00 to 21.00	16.10 to 21.10	0.5%
	Upper storey - 8.10 to 12.10	8.00 to 12.00	-0.5%
SA (prime malls)	First storey - 25.00 to 31.00	25.20 to 31.20	0.5%
	Upper storey - 15.00 to 20.00	15.00 to 20.00	0.0%

Source: Edmund Tie & Company Research

Supply pipeline

From Q2 2019 to 2022, some 1.5m sq ft of retail NLA is expected to come on stream, with more than 65.0 per cent or 1.0m sq ft expected to complete from Q2 to Q4 2019. Funan (OCA) (325,000 sq ft NLA) will be the largest retail development which is expected to open in mid-2019 followed by Paya Lebar Quarter Mall (SA) (313,000 sq ft NLA) by late 2019 (Figure 3).

Figure 3: Retail development pipeline (Q2 2019-2022)



Source: URA, Edmund Tie & Company Research

Outlook

With continuing local and global economic headwinds and consumer confidence remaining pessimistic, the retail sector is expected to remain challenging and susceptible to a fast-changing economic and consumer environment. While rents are expected to remain stable for the prime retail space, there remain significant risks for the sector in terms of tightening labour market (with the recent revised foreign workers quota), rising costs and weak sales. Additionally, the official opening of Jewel Changi Airport in April 2019 with over 280 shops and eateries (where 25.0 per cent are new-to-market brands and new-concept stores), may have some impact on footfall and sales of neighbourhood malls in the East Region.

However, well-managed and well-located malls are expected to perform relatively well, with the limited supply pipeline from 2020 onwards likely to provide some support to rental levels. Hence, rental growth is expected to be tepid and likely to range from -2.0 to 2.0 per cent in 2019.



Photo by Rita Chou on Unsplash

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