

## EXPANSION OF MAJOR E-TAILERS INTO SINGAPORE'S RETAIL SCENE URGES RETAILERS TO REVISIT THEIR BUSINESS PLANS TO MAINTAIN COMPETITIVENESS

The Singapore retail market is expected to remain challenging for both landlords and retailers amid the uncertain market sentiment, weak retail spending, rising business cost and manpower shortage. Retail rents are likely to face downward pressure for 2017 as demand remained soft with upcoming injection of new retail space. Going forward, landlords and retailers have to drive greater innovation in their business strategies to navigate the tough retail climate.

With the underperforming overall retail sales amid the uncertain market sentiment and onslaught of e-commerce, both landlords and retailers held caution in their business plans. Singapore's consumer confidence remained in the pessimistic range.

- **Based on Mastercard's bi-annual Index of Consumer Confidence, Singapore's index saw further drop by 3.6 points to 30.0 in H2 2016 compared to H1 2016.** While the index of consumer confidence in H2 2016 for China (80.8) and Indonesia (70.8) showed optimism and improved by 4.8 and 9.0 points respectively, Malaysia's confidence index deteriorated by 10.2 points to 31.2 and fell to the pessimistic range<sup>1</sup>.
- **The overall Retail Sales Index (excluding motor vehicles; non-seasonally adjusted, at constant prices) declined by 4.6% year-on-year (y-o-y) in February 2017.** Of the 13 retail trade categories, Food & Beverages, Supermarkets and Department Stores suffered the most in sales performance with falls by 18.3% y-o-y, 15.9% y-o-y and 14.9% y-o-y respectively in the same period. Conversely, Medical Goods & Toiletries (7.6% y-o-y), Watches & Jewellery (4.9% y-o-y) and Furniture & Household (4.8% y-o-y) saw the largest improvement in February 2017.
- **Employment in the wholesale and retail trade improved in Q4 2016** by 3,600 headcounts, lower than the increase in headcounts registered last year (4,400). Notwithstanding the increase in demand for manpower during the festive period, retailers are still cautious in their labour deployment due to the weak retail spending.
- **Total visitor arrivals in 2016 rose by 7.7% compared to 2015 to reach 16.4 million.** Entering the first month of 2017, total visitor arrivals increased by 4.8%, compared to the same period last year, to reach 1.48 million. While visitors from China and Indonesia expanded by 38.2% y-o-y and 1.9% y-o-y in January 2017, visitors from Malaysia fell by 3.1% y-o-y due to the weakened Ringgit against Singapore Dollar.



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"The expansion of major e-tailers into Singapore urges both local e-tailers and Singapore-based retailers to revisit their business strategies and spruce up their creativity to constantly engage, retain and attract consumers."

### Island-wide prime retail rents slipped by 0.4% q-o-q, largely due to lower rents in the Marina Centre, City Hall and Bugis precincts

- Notwithstanding the challenging retail scene, rents of prime spaces across the island, apart from the Marina Centre, City Hall and Bugis precincts, saw no change on a quarterly basis for Q1 2017.

<sup>1</sup> According to the Mastercard Index of Consumer Confidence, index that falls within 75 – 90 are considered very optimistic, 60 – 75 as optimistic, 40 – 60 as neutral and 25 – 40 as pessimistic.

- On a yearly basis, prime rents at the Orchard Road precinct reported a 0.7% y-o-y decline.
- Rents of prime spaces in Marina Centre, City Hall and Bugis precincts fell by 3.7% y-o-y as landlords continue to offer attractive rental packages to draw retailers.
- Average rents of prime space in suburban malls fell by 2.1% compared to one year ago. While well-established and well-managed malls generally report strong footfall trends, some other suburban malls still grapple with weakening patronage and having to achieve the right retail trade mix in a bid to improve attractiveness for consumers.

EXHIBIT 1

**Average Gross Rents of Prime Retail Spaces, Q1 2017**

Location	Average Gross Rents for Prime Spaces (S\$ per sq ft / month)	Quarter-on-Quarter Change (q-o-q)	Year-on-Year Change (y-o-y)
Island-wide	S\$30.80	-0.4%	-1.4%
Orchard Road	S\$35.00	No change	-0.7%
Marina Centre, City Hall, Bugis	S\$30.40	-1.8%	-3.7%
City Fringe	S\$24.70	No change	0.1%
Suburban	S\$28.80	No change	-2.1%

Source: Knight Frank Research

\* Prime spaces refer to rental-yielding units between 350 and 1,500 sq ft with the best frontage, connectivity, footfall and accessibility in a mall which are typically ground level of a retail mall and/or the basement level of a retail mall that is linked to a MRT or bus station.

**With elevated competition among operators, the fitness sector calls for greater concept differentiation and innovation**

- **Fitness operators faced intensifying challenges amid the increasingly saturated market.** With the population being more health-conscious, the rising demand for fitness facilities and classes has prompted the expansion of several gyms such as True Fitness, Virgin Active, Anytime Fitness and Pure Fitness, as well as the entry of new fitness players such as GuavaLabs, FaMA, The Yard and Triple Fit. However, with the intense competition among the fitness operators, some players lost their foothold in the market over time. For instance, following the bankruptcy of Vivafit in March 2016, California Fitness announced their closure in July 2016.
- **Fitness operators are exploring avenues to stay afloat and expand market share.** One prime example will be the merger of Fitness First Asia and Celebrity Fitness and rebranded as Evolution Wellness in February 2017. With the rising competition among operators, this merger will allow the brand to capitalise on the benefits of economies of scale and their extensive network to expand their outreach to a wider catchment pool. While a wave of alliance among the fitness operators to strengthen their foothold in the market may be one of the many aftermaths, the short to mid-term impact of the merger on the fitness sector is still tagged with much ambiguity.
- **Going forward, it is imperative for fitness operators to constantly innovate and differentiate themselves from their competitors.** This may be in the form of membership perks, interesting fitness concepts, curated range of services and specialised classes to keep consumers constantly engaged and motivated.

**Major e-tailers' expansion into Singapore urges both local e-tailers and Singapore-based retailers to revisit their business strategies and inject more creativity to engage, retain and attract consumers.**

- **Major e-tailers are looking to expand their online presence in Singapore.** For instance, China's Alibaba Group collaborated with online retailer Lazada to bring forth the popular Taobao shopping site to Singapore in March 2017. Amazon is also expected to launch their e-commerce presence in Singapore by end 2017. With an enhanced ease to shop via these popular international shopping sites, it could lead to far-reaching implications on both the local e-tailers and Singapore-based physical retailers.

- On the back of snow-balling e-commerce threats, it is necessary for both online and offline retailers to revisit their business strategies to remain competitive.** Courts, for instance, has seen their online sales grow notably since it embarked on its omni-channel business strategy. Apart from transforming its physical stores to 'experiential centres' for consumers to test out the products, seek advice from sales professionals, and to collect their online products via 'Click and Collect' mode, it is also looking to further beef up its effort to create an integrated shopping journey for its consumers by establishing a new industry standard of mobile-first and user-centric experience. Other retailers such as Zara, Challenger, Watson, Giant and Sheng Shiong have also built up their online presence in Singapore as a critical point of interaction with consumers, providing assistance for enquiries in the areas of product and service information, purchases, delivery modes and to deploy better after-sales service.

## MARKET OUTLOOK

### Retail outlook is likely to remain challenging for both landlords and retailers

- Average rents in the Central Region are envisaged to fall by 5.0% to 8.0% y-o-y by Q4 2017**, while the more resilient prime rents are likely to moderate downwards by up to 3.0% y-o-y in the same period.
- Apart from enhancing consumer's in-store shopping experience, retailers are also expected to spruce up their online presence.** With the growing threats from major e-tailers as they venture into Singapore's retail scene, omni-channeling is no longer an option, but a necessary one, for retailers to stay relevant.
- With the ever-changing lifestyle needs and aspirations, as well as the onslaught of new retail developments in recent years, it is imperative for landlords to revisit their mall concepts and trade mix to remain relevant and competitive.** It is also critical for landlords to take on a supporting role for tenants such as through initiating more advertisement and promotion activities to create awareness and attract shoppers.
- Island-wide occupancy performance is expected to hover between 90.0% and 92.0% by Q4 2017**, after maintaining an average of 92.2% in 2016. This is in consideration of the close to 1.9 million sq ft Gross Floor Area (GFA) of retail space slated for completion in the whole of 2017, coupled with the prudent approach taken by most retailers towards their business strategies in view of the uncertain economic trends and business conditions.

#### EXHIBIT 2

#### Notable new store openings

Retailers	Location	Category	Nature of Brand in Singapore
Platform 1094	Serangoon Road	Food & Beverage	New-to-Market
Labmade	Westgate Mall	Food & Beverage	New-to-Market
Dover Street Market	Dempsey Hill	Fashion	New-to-Market
Zoff	Orchard Central	Eyewear	New-to-Market
Urban Revivo	Raffles City	Fashion	New-to-Market

Source: Various web sources, Knight Frank Research

EXHIBIT 3

Key events in retail landscape

SINGAPORE	
CapitaLand Mall Asia to manage the new SingPost Centre	CapitaLand Mall Asia has signed its first third-party shopping centre-management contract in Singapore to manage the new SingPost Centre (25,000 sqm), which is slated for completion in early 2019.
Ippudo launched its first Kuro-Obi takeaway concept in Asia at Marina Bay Sands	Ippudo launched its first Kuro-Obi takeaway concept in Asia at Marina Bay Sands that served quick-service ramen.
NARS launched its first standalone boutique in Singapore at Ngee Ann City	NARS launched its first standalone boutique store with sleek minimalist design in Singapore at Ngee Ann City. The flagship store will showcase exclusive NARS's makeup and curated-range of products.
L'Occitane Singapore launched its first spa at Four Seasons Hotel	The French fragrance brand, L'Occitane Singapore launched its first spa at Four Seasons Hotel. It provides a wide range of beauty and wellness services such as facial and massage treatment, and the provision of amenities such as sauna, steam room and pool.
ASIA	
CHINA: Zara to close its giant three-storey flagship store in Chengdu	As part of Zara's 'fine-tuning' of its store network strategy, it closed down its giant three-storey Chengdu flagship store (3,000 sqm). With Zara being an established brand in China, it will be less reliant on flagship stores to maintain their brand.
VIETNAM: CapitaLand Vietnam opened 'The Oxygen Mall' in Ho Chi Minh City	CapitaLand Vietnam has launched 'The Oxygen Mall' in Ho Chi Minh City's District 2. As part of mixed residential and retail integrated development, the 8,000 sqm mall is targeted to serve the residents.
MALAYSIA: Huawei Malaysia opened its largest flagship store in Kuala Lumpur	Huawei Malaysia opened its largest flagship store at the Pavilion KL in Kuala Lumpur. Located on the fifth floor, the store serves as a one-stop centre for on-site, repair and product consultation services.
MALAYSIA: Marks & Spencer (M&S) launched its boutique concept in Kuala Lumpur	M&S launched its premium boutique concept in Kuala Lumpur at Sunway Velocity Mall. With a large store size of 10,600 sq ft, it will feature large mirrors and seasonal imagery to showcase its range of style and outfit ideas available.

Source: Various sources, Knight Frank Research

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