

RISE IN F&B CONCEPTS AND SHRINKING SHOP FOOTPRINT SEEN AS RETAILERS GRAPPLE WITH COSTS AND SUSTAINABILITY

Food and Beverage trade has been viewed as one of the outperformers as the rise of e-commerce impact many retail trades. While retailers face stronger headwinds amid rising operating costs and intense competition for customers, F&B operators are seeking refreshing concepts to draw consumers and keeping the shop sizes tight. More malls are slated to undergo Asset Enhancement Initiatives in the coming year.



“With competition heating up, more F&B concepts were developed over the recent years to lure consumers. Even well-established F&B operators are seen upping their ante to keep up with changing consumer preference.”

SARA CHING
Senior Manager,
Retail

Market Pulse

Food & Beverage (F&B) operators are developing new concepts to lure consumers as more players join the retail scene

With the relative resilience of the F&B trade despite the threat from e-commerce, competition in the F&B scene has intensified in recent years. Between 2013 and 2015, 3,193 new Accommodation and Food Services businesses were formed on average annually, while there were 2,431 business cessations each year. This translates to an average increase of 864 new businesses each year. In comparison, there were 3,055 such business formations per year between 2010 and 2012, and 2,425 cessations in the period, bringing the average number of new businesses per year at 630. However, despite the increase in new businesses, two out of three businesses formed for Accommodation and Food Services Activities closed shop in 2015.

Well-established F&B outlets were also not spared from the heat. Breadtalk recently unveiled more than 50 new varieties and cakes developed by its international masterchefs after its net

profit (on Group level) fell 22.7% to S\$6.5 million between January and September 2015. Swissbake launched the new café concept, Kraftwich, at their existing space in One Raffles Place, complete with significant increase in the seating space and refreshed interior design. In early 2015, Häagen-Dazs opened their new concept outlet at ION Orchard, featuring a specially crafted menu. Pastamania have adopted healthier pasta options and a wider array of desserts & drinks into their menu.

More F&B outlets were also observed to have reduced their shop footprint by between 10% and 15% in the last three years. These smaller shops enable retailers to be nimble in their manpower allocation and also translated to rental savings on a longer term. For instance, the revamped Spinelli at One Raffles Quay offers a niche range of product offers, focusing on coffee and take-aways.

More malls are undergoing redevelopment to better adapt to the changing consumer preferences

Amid the softer retail market, older shopping malls are embarking on

Asset Enhancement Initiatives (AEIs). In Q4 2015, CapitaLand Mall Trust Management announced the closure of Funan DigitaLife mall in Q3 2016 for redevelopment. At the same time, Far East Organization shared that Orchard Central will undergo revamp and reconfiguration beginning in Q4 2015.

Prime Retail Space Rents

Prime retail rents in City Fringe remained resilient for now

Island-wide retail rents prime spaces weakened further to \$32.40 per sq ft (psf) in Q4 2015, down from \$32.60 psf in Q3 2015 as retailers turned cautious against the backdrop of weakening consumer market sentiment. Prime retail rents in Orchard Road and the City Fringe remained fairly stable for now, as prime spaces in these areas continued to be sought after by retailers despite the weaker market. Meanwhile, prime retail rents in the Marina Centre, City Hall and Bugis precinct softened 2.7% y-o-y to S\$31.80 in Q4 2015 due to a 7.5% y-o-y increase in retail space within the Downtown Core planning area in the same period.

Suburban mall rents came under pressure in Q4 2015, dragged lower by malls with weaker mall positioning and trade mixes. It was the first quarter in which suburban malls have shown some weakness since five quarters of gradual rental growth.

Market Outlook

Estimated annual supply of 950,000 sq ft of key malls coming on-stream till 2020

In Q4 2015, an estimated of 435,000 sq ft of retail space was completed, bringing the estimated total completed space to 1.0 million sq ft for the full year of 2015. An estimated 1.3 million sq ft of retail space is expected to be completed in 2016, 29.3% higher than 2015. Some of the major malls slated for completion in 2016 include Downtown Gallery and Tanjong Pagar Centre.

EXHIBIT 1

Notable new store openings in Q4 2015

Retailers	Location	Category	Nature of Brand in Singapore
Monica Vinader	ION Orchard	Fashion & Accessories	New-to-Market
Jenny Bakery	Ang Mo Kio	Food & Beverage	New-to-Market
Harvey Norman	Millenia Walk	Electronics	Expansion
ACE Hardware	Tampines Courts	Homeware and Home	New-to-Market
Juicy Couture Outlet	IMM	Fashion & Accessories	Expansion
Julie Nicole	Capitol Piazza	Fashion & Accessories	New-to-Market

Source: Various web sources, Knight Frank Research

EXHIBIT 2

Key events in retail scene

SINGAPORE	
Funan DigitaLife Mall to close for redevelopment	CapitaLand Mall Trust Management announced the closure of Funan DigitaLife Mall for redevelopment. The mall, which is closing in Q3 2016, will become an “experiential creative hub” when it reopens. The redevelopment works is estimated to complete in three years.
Orchard Central to undergo revamp	Orchard Central is undergoing revamp in Q4 2015 and renovations are expected to be completed by Q3 2016. The mall will feature new escalators, reconfigured walkways, and will welcome a major international brand which will be setting their Southeast Asia flagship. Affected tenants were offered alternative locations within Orchard Central or other malls managed by Far East Organization.
CapitaLand Mall Trust sells Rivervale Mall for S\$190.5 million	CapitaLand Mall Trust sold Rivervale Mall to a private equity fund managed by AEW Asia for S\$190.5 million. Rivervale Mall is a three-storey shopping mall completed in 2001 with a net lettable area of 81,159 sq ft.
Victoria's Secret Singapore flagship to open end 2016	Victoria's Secret will open its first Southeast Asia flagship by end 2016 at Mandarin Gallery. Spanning 12,000 sq ft of space, the flagship store of the brand will take over the retail units currently occupied by Mont Blanc, Bimba Y Lola, and Bathing Ape. Currently, Victoria's Secret stores in Singapore only carry fragrances, accessories and a limited range of women's lingerie.
ASIA	
CHINA: Dior China opens largest flagship	Dior opened its largest flagship store in China in December 2015, despite a slowdown in the China economy and the luxury goods sector. Located in Beijing, the Dior store spans two levels and had its interiors designed by renowned US architect Peter Marino.
CHINA: First Marks and Spencer Beijing store open	Marks and Spencer (M&S) opened its first store in Beijing in December, selling clothing and food. M&S is currently operating ten stores in Shanghai.

Source: Various web sources, Knight Frank Research

Between 2016 and 2020, approximately 4.8 million sq ft of net lettable retail space will come on-stream in Singapore, averaging 950,000 sq ft of new major retail space per year. This is lower compared to the average new major completed space of 1.2 million sq ft seen between 2011 and 2015.

Woes of the retail market to persist in 2016

The retail property market is expected to weaken further this year with the persistent manpower crunch in Singapore and the bleak global and local economic outlook.

Major retailers are also expected to continue the process of improving operational efficiency and consolidating their operations, which could lead to rising vacancies in some malls. Mall owners are encouraged to look ahead on reinventing their concept and positioning and work closely with retailers to promote sustainability on a longer term basis. The expected upcoming supply of new retail space is also likely to put a lid on the growth of prime retail rents island-wide in the medium term.

Island-wide average rents are expected to see negative growth of up to 5% y-o-y by Q4 2016, while prime rents could soften further by up to 3% in 2016. Overall occupancy rate could also slip by up to 2.8 percentage points for the full year to between 90% and 92% by Q4 2016, as more retailers are turning more cautious in their expansionary plans against a backdrop of weakening market conditions in 2016.

EXHIBIT 4

Average Gross Rents of Prime Retail Spaces, Q4 2015

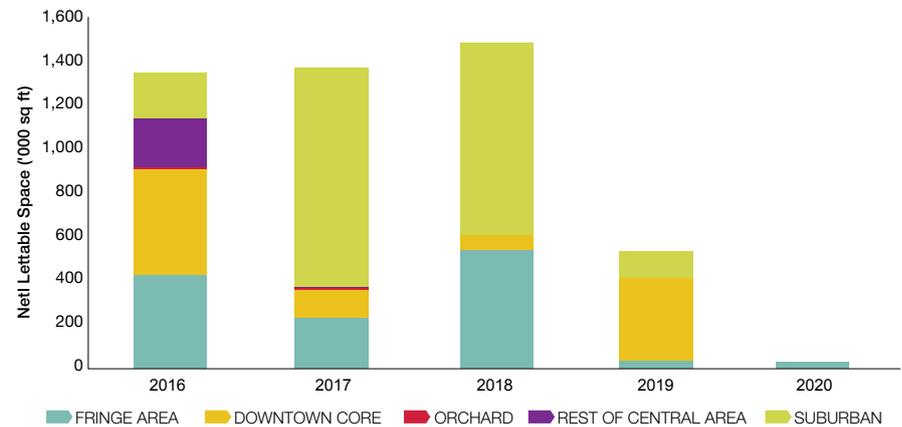
Location	Average Gross Rents for Prime Spaces (\$\$ per sq ft / month)	Year-on-Year Change (y-o-y)	Quarter-on-Quarter Change (q-o-q)
Island-wide	S\$32.40	1.3%	-0.8%
Orchard Road	S\$36.90	2.5%	-0.1%
Marina Centre, City Hall, Bugis	S\$31.80	-2.7%	-2.9%
City Fringe	S\$23.70	2.9%	0.7%
Suburban	S\$32.60	1.3%	-1.4%

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.

EXHIBIT 5

Upcoming Major Retail Space by Year and Region



Source: REALIS, Knight Frank Research

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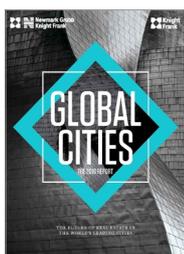
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