MARKET
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Retail

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Retail rents flatten amid stable occupancy

Retail growth rate in Orchard expected to moderate further.

- Following muted sales growth in March, retail sales (excluding motor vehicles) started to weaken in the subsequent two months as the numbers fell across almost all categories. Only food and alcohol registered higher sales compared to a year ago. Food and beverage (F&B) sales showed a similar trend, with only food catering services posting higher value.
- Compared to 6.7% in Q1, the islandwide vacancy rate for retail space dropped to 6.6% in Q2.
- Savills' retail rental growth showed further signs of moderating in Q2, with average monthly rents in the Orchard Area rising by 0.6% quarter-on-quarter (QoQ) to S$23.00 psf. The average retail passing rent in Savills' basket of retail properties in the Suburban Area remained unchanged at S$14.70 psf in Q2.
- Notwithstanding the tight supply pipeline in the near term and tourism recovery, rental growth is likely to continue to decelerate for the rest of the year. Labour supply issues and rising operating costs are returning to dog the industry. Owing to the slower rental growth in 1H/2024, the upper bound of our forecast for average rents for prime Orchard Area malls has been revised down for this year, from 3% - 5% to 3% - 4% YoY. The average rents for prime Suburban malls are projected to stay flat in 2024.

"The retail recovery, while intact, is facing challenges from rising overheads."

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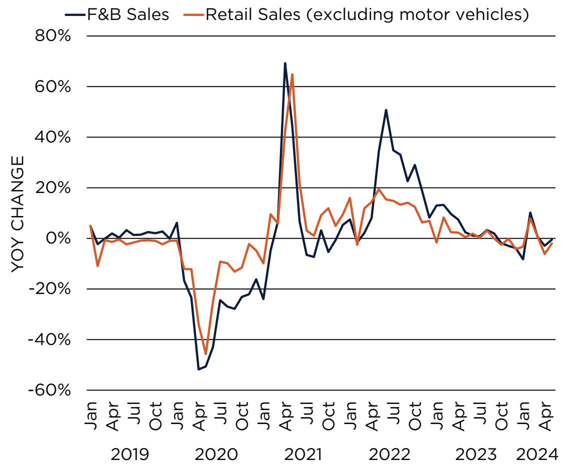
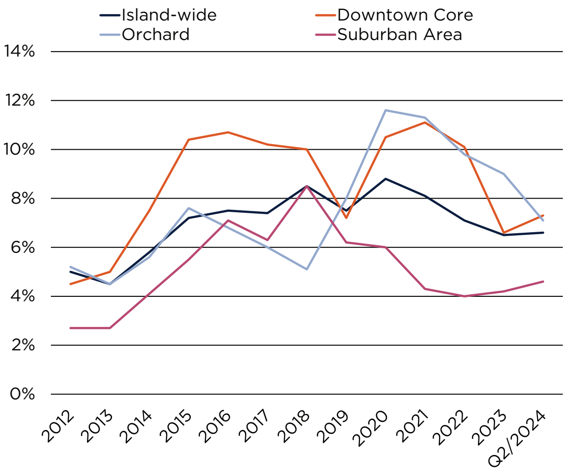
GRAPH 1: Retail Sales and F&B Services Index, 2019 to Q2/2024



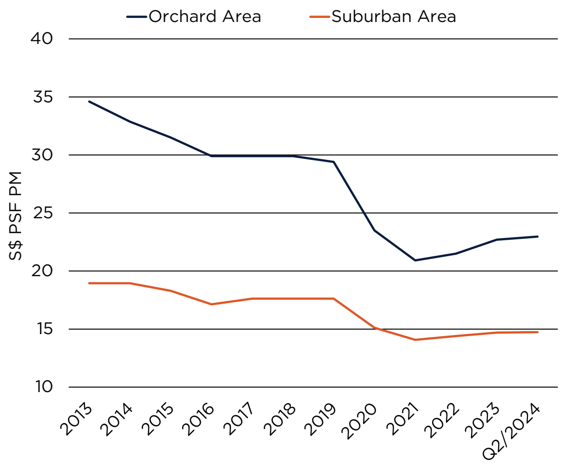
Source Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 2: Vacancy Rate, 2012 to Q2/2024



Source URA, Savills Research & Consultancy

GRAPH 3: Average Retail Mall Passing Rents, 2013 to Q2/2024



Source Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advance estimates from the Ministry of Trade and Industry (MTI), Singapore's economy grew by 2.9% year-on-year (YoY) in Q2/2024, extending the 3.0% YoY growth in the previous quarter. Among the wholesale & retail trade and transportation & storage sectors which collectively expanded by 2.5% in Q2, the retail trade sector shrank on the back of weaker sales for wearing apparel & footwear, watches & jewellery and optical goods & books. While the accommodation sector continues to benefit from the recovery in visitor arrivals, the food services sector contracted alongside lower sales revenue in restaurants and fast-food restaurants.

Following muted sales growth in March, retail sales (excluding motor vehicles)[1] started to weaken in the subsequent two months as sales fell across almost all categories, with only food & alcohol registering higher sales takings from a year ago. F&B sales[2] also showed similar trend, with only food catering services posting higher demand. (Graph 1) The weaker sales could be attributed to pricier goods and services, more people dining at home, as well as more local consumers spending overseas due to strong currency. For instance, more people are doing day or weekend trips to Johor Bahru to do their shopping and personal grooming because of the affordability. This has inevitably added pressure to the retail spending in Singapore.

OCCUPANCY REMAINS STABLE AS RENTAL GROWTH SOFTENS

Compared to 6.7% in Q1, the islandwide vacancy rate for retail space slipped to 6.6% in Q2. (Graph 2) This was due to a 495,000-sq ft increase in occupied space, which outpaced the net supply of 463,000 sq ft in Q2. Notably, the net demand in Q2 was significantly higher than in Q1 (86,000 sq ft), as the absorption rate improved across all regions except in the Orchard Area (no net absorption in Q2). Owing to a healthy pre-commitment rate in the newly opened Paris Ris Mall, the Suburban Area posted the highest net demand over the last five quarters and saw a marginal decrease (-0.1 percentage points (ppt) QoQ) to 4.6%.

The Urban Redevelopment Authority's (URA) retail rental index in the Central Region remained flat in Q2, ending the two-quarter decline. In the face of economic uncertainty and weak retail sales, landlords continue to focus on occupancy rates while keeping their rental expectations realistic. Savills' retail rental growth showed further signs of moderating in Q2, with average monthly rents in the Orchard Area rising by 0.6% QoQ to S$23.00 psf. The average retail passing rent in Savills' basket of retail properties in the Suburban Area remained unchanged at S$14.70 psf in Q2. (Graph 3)

SINGAPORE BECAME THE GATEWAY TO THE SOUTHEAST ASIAN MARKET

In recent years, there has been a growing number of Chinese brands, particularly in F&B, making their debut in the local market as they hope to make Singapore a key base outside China. Owing to the high spending power and a growing Chinese community, many have chosen Singapore as their testing ground for expanding overseas. Singapore has, in turn, become an important stopover for establishing and building their international presence. The rate of expansion by F&B brands from China picked up in 2022 when the market started to recover from the pandemic-led slowdown. Following the series of expansions by Chinese hotpot chains, mala xiang guo and mala tang brands made their mark in Singapore's F&B scene. While the local scene sees a new wave of restaurants specialising in Chinese-style grilled fish and sauerkraut fish, Chinese brands are also adding vibrancy to Singapore's saturated beverage market. Several coffee and tea brands from China, such as Heytea, Mixue, ChaGee, and Luckin Coffee, have entered Singapore and expanded rapidly.

SUPPLY IN THE PIPELINE

According to Savills' estimates, around 384,000 sq ft of retail space (NLA) is expected to come online in the second half of the year. Including the completions in the first half of 2024, a total of 783,000 sq ft (NLA) of retail space is expected to be added to the market this year. The annual new completions for the next three years are projected to remain below the total completions of 2024, averaging 578,000 sq ft (NLA) per year from 2025 to 2027. This is almost half the annual average supply of 1.1 million sq ft (NLA) before the pandemic (2015 to 2019). The next major insertion of supply is expected to be completed from 2028, with a bulk of 2.9 million sq ft (NLA) of new retail space coming onto the market.

1 Retail Sales Index in Chained Volume Terms, Monthly (excludes any online orders which are sent from foreign addresses). Updated 31 July 2024.
2 Food & Beverage Services Index in Chained Volume Terms, Monthly. Updated 31 July 2024.

TABLE 1: Major Projects in the Pipeline

ESTIMATED COMPLETION	DEVELOPMENT	LOCATION	ESTIMATED NLA (SQ FT)*
N/A	Office/retail development (partial redevelopment of Marina Square)	Raffles Boulevard	942,000
mid-2030s	Changi Airport Terminal 5	Tanah Merah Coast Road	623,000
N/A	Office/retail development (redevelopment of HarbourFront Centre)	Maritime Square	452,000
2025	Punggol Digital District (Punggol Coast Mall)	Punggol Way	289,000
N/A	Office/retail/hotel development (redevelopment of Forum The Shopping Mall, the voco Orchard Singapore hotel, and office development HPL House)	Cuscaden Road/Orchard Road	289,000

Source Company announcements, URA, Savills Research & Consultancy
* Savills estimates based on an efficiency rate of between 70% and 75%.

TABLE 2: Retail Rental Forecast , 2024F

PERIOD	ORCHARD ROAD (YOY CHANGE)	SUBURBAN AREA (YOY CHANGE)
2024F	+3% to 4%	0%

Source Savills Research & Consultancy

OUTLOOK

The tourism recovery is likely to continue till end of the year, with higher visitor arrivals and tourism receipts from last year. Although visitors from our largest market are still below pre-pandemic levels, arrivals from China in 1H/2024 have recovered to 80% of 1H/2019. Despite the optimistic projection of tourism numbers, majority of consumption in Singapore is still driven by domestic spending. Coupled with competition from neighbouring countries and more cautious spending trend amid economic uncertainty, consumer spending in Singapore is expected to remain muted.

While many Chinese F&B chains are bringing their brand to Singapore and looking to expand here due to intense competition in the mainland market, the local F&B scene remains challenging. Alongside rising manpower and operating costs, some existing F&B players struggle to stay afloat, while some chains shrink their physical footprint. For instance, Prive restaurant which has presence across Singapore, has recently shut their outlets at Katong and Robertson Quay.

Notwithstanding the tight supply pipeline in the near term and tourism recovery, rental growth is likely to continue to decelerate for the rest of the year. Labour supply issues and rising operating costs are returning to dog the industry. Owing to the slower rental growth in 1H/2024, the upper bound of our rental forecast for Orchard Area is revised down for this year, from 3% - 5% to 3% - 4% YoY in 2024. Although the healthy take-up in the new Pasir Ris Mall shows the resilience of Suburban Area, average rents in Suburban Area are projected to stay flat in 2024.