Cook, work, play in malls. But whither the retail property recovery?

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RETAIL rents this year could stay flat or marginally increase for malls along the Orchard Road belt and in prime suburban areas, although a continued influx of supply and broader economic issues could continue to be overhanging concerns.

This comes after the sector continued to slide from long-standing issues like competition from online shopping, labour shortages and leakage of shopper dollars overseas, prompting retail landlords to take action with creative tenancy rejigs.

Retail rents in Singapore's central region as of the third quarter in 2018 were 18.1 per cent below their most recent peak in the fourth quarter of 2014.

Christine Li, senior director and head of research at Cushman & wakefield, said rents could bottom out in 2019, thanks to a slew of factors including an expected increase in tourist arrivals and better consumer sentiment,

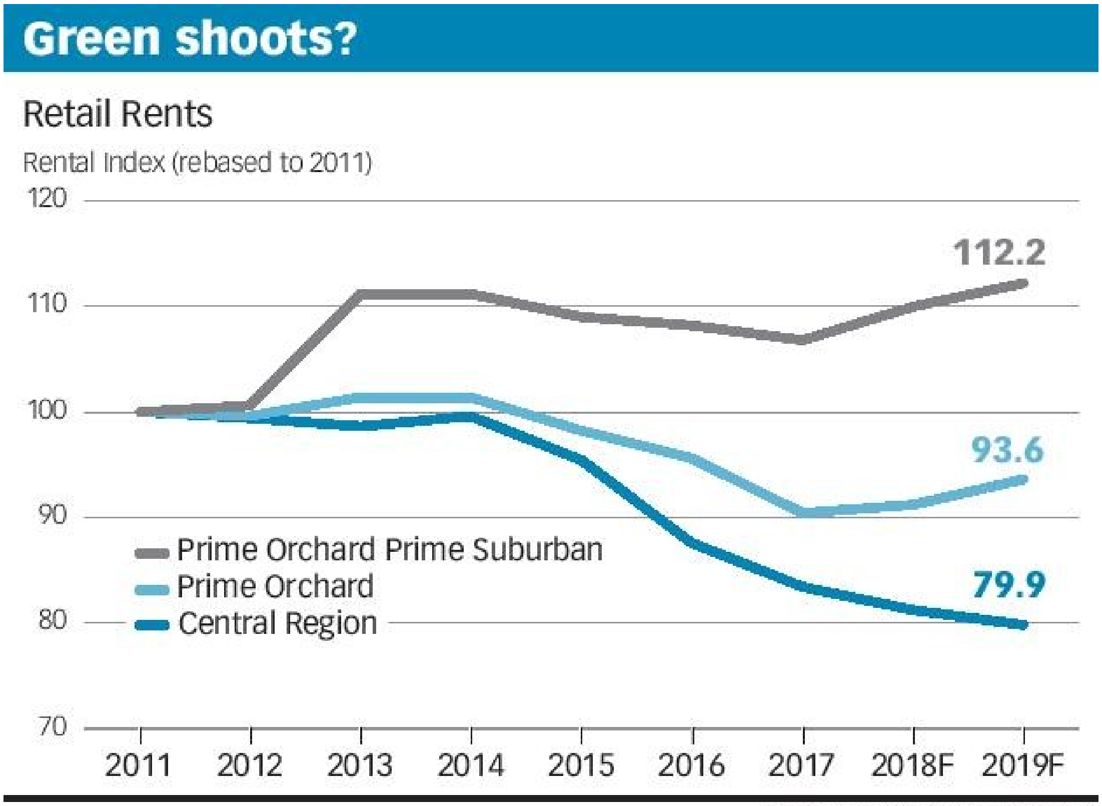
She said: "Positive sentiment in the economy and the job market could have a positive spill-over effect to consumer confidence and spending."

There may already be signs of stabilisation: In the first nine months of 2018, prime rents tracked by Cushman & Wakefield in major Orchard malls rose by 0.9 per cent.

In the same period, prime suburban mall rents rose 2.9 per cent.

She said: "(This indicates that) well-managed malls with superior locations have already been out of the woods and are able to attract the bulk of the footfall."

In 2019, prime rents in Orchard could rise by 1.5 per cent, while that of prime suburban malls could rise by 2 per cent, she said.



Source: URA, Cushman & Wakefield

Tay Huey Ying, head of research at JLL Singapore, said that prime floor Orchard rents could rise marginally both in 2018 and 2019, supported by the lack of incoming supply for the area.

Meanwhile, for prime suburban malls, rents would likely hold stable in 2018 before rising slightly in 2019, she said.

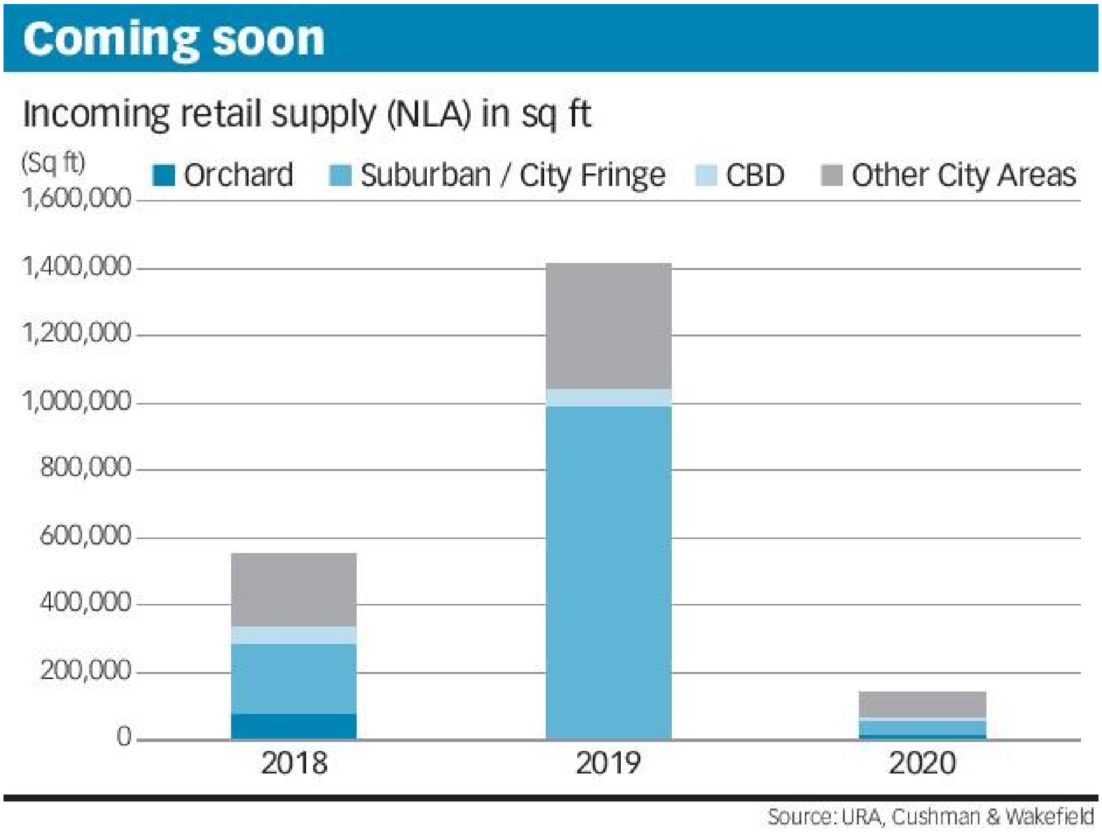
Savills pointed to the ongoing restructuring of the economy, projected slower economic growth in 2019 and 1.7 per cent decline in overall tourism receipts for Q2 2018 as reasons for concern.

It predicts retail rents are likely to remain flat in the Orchard area and increase 1 per cent year-on-year in the suburban area in 2018, and for both areas, for annual rental growth to be 2 per cent in 2019.

Another issue that will continue to affect the retail market is that of a continued divergence between those malls with better locations and those without, particularly in the suburban segment.

Colliers International's head of research for Singapore, Tricia Song, said: "This is because of the change in consumers' shopping behaviour where convenience - a "one-stop" shop - becomes more important. And as more malls are like cookie-cutters, the differentiating factors would thus be location and having the critical mass to provide variety to cater to the family."

The market will also receive a deluge of supply, to the tune of about 4.4 million sq ft or an annual average of 0.85 million sq ft of net lettable space between 2018 and 2022, which is similar to the 0.89 million sq ft annual average net supply over 2011 to 2017, according to Colliers.



In the next 15 months, major incoming supply includes the 340,000 sq ft Paya Lebar Quarter, 580,000 sq ft Jewel at Changi Airport and 325,000 sq ft Funan mall.

The lack of incoming supply to Orchard could lend support to rents there, but could result in an occupancy dip next year for the suburban segment before tightening again in 2020, Ms Tay of JLL said.

The new supply incoming also offers new lessons and possibilities in the future of retail.

Desmond Sim, head of research for Singapore and South-east Asia at CBRE, said one example is Funan, where CapitaLand has partnered Lazada to allow shoppers to self-collect their purchases with a QR code or through a 24-hour drive-through.

"We are seeing that with the pressure for disruption through e-commerce, more landlords are working with tenants to come in terms with it," he said.

He says another space to watch is Design Orchard, a two-and-a-half- storey mall that will open in January this year.

"It's a chance to showcase and curate and deliver Singaporean-esque products," Mr Sim said.

The year ahead could also see landlords continuing to get creative with their tenant mix to keep their spaces filled and shoppers coming, and for landlords to see the effects of those efforts.

In 2018, landlords welcomed lifestyle and experiential retailers, many of which have been termed loosely as "activity-based tenants."

Now, one can play arcade games at a 12,000 sq ft Timezone at Vivocity, play in a 40,000 sq ft Finnish indoor activity park at Suntec City and learn to make Japanese food at Westgate Mall's ABC Cooking Studio.

Landlords also absorbed large amounts of vacant space using co-working spaces - as an example, Marina

Square became home to JustCo in July.

Wendy Low, executive director and head of retail for Knight Frank, said: "In terms of moving away from cookie-cutter malls in Singapore, landlords are more progressive and proactive today . . . They will continue to show more collaborative and lifestyle concepts as malls take on a new persona as a place where people get together."

She added: "You will see more F&B, activity-based, entertainment, lifestyle and collaborative concepts."

Such non-traditional tenants helped prop up occupancy and footfall, in a year when big-name retailers like Gap, Banana Republic and Costa Coffee exited the market.

The average occupancy rate in Downtown Core has risen to 90.8 per cent as of the third quarter of 2018 from its recent low of 86.7 per cent in the same quarter two years ago, while that for Orchard rose to a three-year high of 94.1 per cent from its recent low of 90.8 per cent in the second quarter of 2016.

Meanwhile, in suburban locations, occupancy rate crept up marginally to 93.4 per cent in the third quarter of 2018, from its recent low of 92.7 per cent in the first quarter of 2017.

But the inclusion of such tenants may come at the cost of rents.

Tay Huey Ying of JLL Singapore said: "While the inclusion of more entertainment and lifestyle retailers in the tenant mix has underpinned occupancy and generated more foot traffic in malls, rents have softened as these retailers are typically rent-sensitive."

Such tenants may also prefer expanding outside the Orchard area if rents on the prime shopping belt are "too high relative to the economics of their businesses or services," a Savills report in November said.

Likewise, co-working spaces can fill non-prime floors but generally command much lower rents than prime floor retail rents, said Colliers International's Ms Song.