

NUS Real Estate Nurturing Young Leaders Lecture Series 2018

The NUS Real Estate ‘Nurturing Young Leaders’ Lectures are organized in part to facilitate the growth and development of our next generation of industry captains. Aside from the sharing of knowledge, these Lectures also provide a common interaction space for students and young industry leaders to exchange insights and debate issues.

The Retail Market is Imploding! or is it?

Date/Time: 20 September 2018, 12pm – 1pm

Venue: NUS School of Design & Environment, Lecture Room LR425

The great thing about the retail market is that it impacts everyone. Almost everyone buys things, whether online, or in malls, or at your local hawker centre. And as a result, everyone has a view on what is going on in the market! If I was to believe everything I was told, I would be convinced that the Singapore retail market has essentially imploded with too much supply, everyone shopping online and malls that are far too boring and expensive. [Read More ...](#)

Speaker:



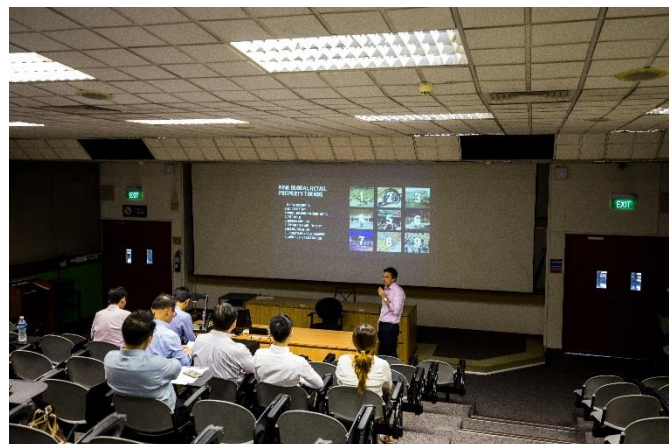
Mr. Jack Backen

Jack Backen specialises in the economics behind property performance. He is one of the founding directors of Urbis Australia’s newly established Singapore entity, Cistri. While Jack’s expertise lies in the retail sector, he also has wide experience across the office, residential and hospitality property sectors. He’s worked on projects throughout Asia and the Middle East including Singapore, Hong Kong, Malaysia, China, Japan, Indonesia, Pakistan, New Zealand and Qatar. [Read More ...](#)

Key Messages

9 Global Retail Property Trends

1. Digital disruption
2. Globalization
3. Consolidation and securitisation
4. ‘Over build’
5. New anchors
6. Experience and authenticity
7. Retail/mixed use
8. Understanding the consumer
9. Working the asset harder



Retail Floor Space in Singapore - How much is too much?



- While Singapore has less retail floor space per capita than many other developed countries and cities such as the United States, Australia and Kuala Lumpur, these numbers on its own do not represent the full context of the “right amount” of floor space. But the data does suggest that Singapore does not have too much floorspace; most markets have significantly more on a per capita basis.

Shopping Scene in Singapore

- Singapore has traditionally had a dense core retail area in ‘Orchard’ and surrounds. The scale and density of retail core in Singapore is higher than many other places globally.
- In recent years, additional regional and sub-regional shopping centres have been added in suburban areas. This increase and improvement in the suburban retail offer have impacted the central region, impacting the sales performance of the central malls.
- Singapore lags behind cities such as Dubai or Beijing in terms of large scale shopping mall scale (i.e. more than 1 million square feet). In many markets, these larger malls are often the ones that trade at the strongest levels as they have the strongest pulling power for shoppers.

Happenings in the Market

The retail market has underperformed in recent years:

Macro-economic factors that affected the market

- **Inflation:** Factors such as the shifting capacity of goods production to countries with lowers costs (e.g. manufacturing bases in China which have been moving into Bangladesh in recent years) have slowed the rate of inflation in retail. The lack of price inflation has put pressure on retailers, particularly those that have increasing rents built into their leases.
- **Population:** Growth through immigration can be an important driver of population growth and in the context of Singapore, there has been significant moderation in immigration in recent years.
- **Rising household income** is another factor that correlates with sales growth, and in recent years income growth has been quite flat.

What are some of the underlying drivers?

- The change in asset (house) prices causes people to alter their purchasing habits.
- Naturally, changes on the employment front affect spending habits as well.
- Collectively, these factors exert an influence on consumer confidence and, ultimately, sales.
- E-commerce has been gaining traction.
An example (Australia):

Online sales expected to account for 17% of the non-food retail market by 2025, representing a growing impact on shopping centre sales.

- In Singapore, the impact of e-commerce has been relatively muted. By international standards, the use of e-commerce in Singapore is low compared to UK, US and Australia. Just 6% of retail sales go online, well below many



Equally important to the retail market has been the fall in consumer confidence and expenditure, as well as the fact that Singaporeans are spending more overseas now than they have historically. Retail owners now understand that as long as they remain relevant to their shoppers, continue to provide non-shopping reasons to visit, there is still a role for shopping centres.

How are Shops Performing?

- URA rent index: both 'Orchard' and suburban rents have fallen sharply over the past 5 years.
- Realistically, retailers are only able to spend a certain percentage of their sales on rent; pushing rents too high makes stores unprofitable. When rent exceeds a certain percentage of sales (occupancy cost ratio), the retailers are at risk of leaving.
- As a result, rent and sales growth are highly correlated. If sales productivity continues to increase, rental growth will follow.

Summary

- Singapore could support more retail floorspace, but this would have flow on effects to the sales productivity, rents and therefore land values.
- While sales growth has been anemic, in our view the trend is more cyclical than structural.
- It is easy to place the blame regarding the decrease in sales squarely on e-commerce. However, that is only part of the issue.
- Moderated global inflation is also another important factor in impacting the retail market.



- Rising rents amidst stagnant sales has placed pressure on retailers, whose sales have not been growing.
- What is the outlook?
 - ❖ Rental growth cannot return until sales growth does
 - ❖ Economy is showing signs of recovery, but is expected to be bumpy
 - ❖ Broadly optimistic outlook for the market