Singapore retail sales returning to pre-pandemic levels, but challenges persist

Retail sales index clocks 93.2 in Q1 2022, up sharply from 54.9 in Q2 2020

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SINGAPORE'S retail sector is showing signs of picking up, although retailers face looming headwinds in the form of inflation and a potential recession, according to the National University of Singapore's Institute of Real Estate and Urban Studies (IREUS).

The easing of border curbs and the loosening of safe-distancing measures are fostering a recovery in the retail sector, with Singapore's retail sales index clocking 93.2 in Q1 2022, up sharply from 54.9 in Q2 2020 as the pandemic spread across the globe. The Q1 print is not far off from the 98.3 chalked up pre-pandemic in Q1 2019.

However, some segments of the retail market have underperformed others and have yet to bounce back entirely. The retail sales index score for department stores, for instance, was languishing at 74.6 in Q1 2022, well below the 98.7 registered in Q1 2019, as the pandemic accelerated e-commerce's reach.

More consumers now let their fingers do the shopping, with the proportion of online retail sales having risen to – and remained – above 10 per cent since April 2020, roughly doubling from 5.4 per cent in April 2019, going by government data.

Even as e-commerce has flourished during the pandemic, brick-and-mortar stores that rely heavily on the tourist dollar have come under pressure. While Singapore has reopened its borders, visitor arrivals are still below that of pre-pandemic times. Over 713,400 visitors made their way to the Republic's shores in Q2 2022, but this is a small fraction of the 4.6 million visitors who did so in Q2 2019. This is partly due to the meagre number of arrivals from Singapore's largest source market China, where the government is still doggedly pursuing a zero-Covid policy.

With tourist volumes still below pre-pandemic levels, the vacancy rates for retail space in the Downtown Core Planning Area and Orchard Planning Area remain elevated. PHOTO: ST FILE

IREUS deputy director Lee Nai Jia noted that malls which have traditionally depended on cinemas for footfall are also not doing as well as their counterparts, given the rise in the popularity of streaming websites such as Netflix.

The Cathay Cineplex at Handy Road, for instance, shut down last month, while Filmgarde Cineplexes shuttered 2 of its cinemas earlier this year.

"The cinema may not be as effective as an anchor tenant as before in attracting domestic shoppers in the Orchard area," he added. "Boutique malls that rely on shops that target tourists will also face a challenging time."

With tourist volumes still below pre-pandemic levels, the vacancy rates for retail space in the Downtown Core Planning Area and Orchard Planning Area remain elevated.

The vacancy rate for the Downtown Core stood at 12.8 per cent in Q1 2022, 2.9 percentage points higher than the 9.9 per cent clocked in Q1 2019. And the vacancy rate for the Orchard Planning Area was 11.3 per cent in Q1 2022, 5.2 percentage points above the 6.1 per cent registered in Q1 2019.

According to Edmund Tie Research, the islandwide occupancy rate in Q1 2022 dipped 0.2 percentage point to 91.7 per cent in Q1 as islandwide net absorption reversed from 269,000 square feet (sq ft) in Q4 2021 to -129,000 sq ft in Q1 2022.

Dr Lee said: "Unless Chinese visitors return, retail rents in the Central Region, especially those in the Downtown Core and Orchard Planning Areas, will face significant headwinds if Singapore cannot avoid a recession."

Shop rents in the Central Region, which comprises the Core Central Region and Rest of Central Region, remained depressed in Q1 2022, and were nearly 17 per cent below the rents commanded in Q1 2019.

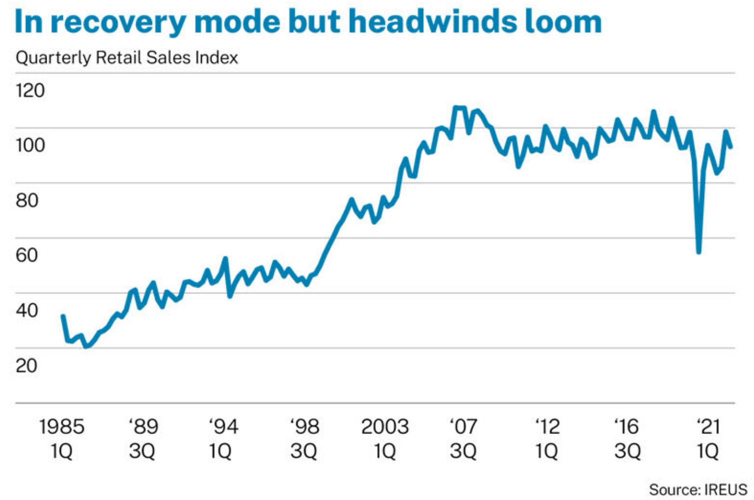
In Q2 2022, prime retail rents in Orchard Road were flat quarter on quarter but 1 per cent lower year on year at S$34.20 per square foot (psf) per month, real estate consultancy CBRE estimates, while the suburban market performed better due to tight availability, edging up 0.2 per cent quarter on quarter and 1.3 per cent year on year to S$30.20 psf per month. Islandwide retail rents were estimated at S$24.75 psf per month, on par with Q1 2022 but down 0.6 per cent year on year.

CBRE projects a "more meaningful rent recovery after H2 2022" on the back of lower-than-average new retail supply over the next few years.

At the same time, operational challenges, such as rising costs and a labour shortage, persist for retailers, analysts say. Stubbornly high inflation is eating into profit margins, while retailers are also facing the prospect of a possible recession as interest rates head north.

A recession could prompt consumers to tighten their purse-strings, in addition to putting rents under pressure should tourist arrivals wane.

Dr Lee added: "Given the recessionary pressures and uncertain geopolitical situation, it is likely that retailers will focus on attracting consumers in suburban malls. While demand gets decanted to the heartlands, this implies that rents in certain strata-titled malls in the Central Region may be set at lower levels to appeal to the retailers."



Edmund Tie's senior director of research and consulting, Lam Chern Woon, reckons that geopolitical tensions, along with rising inflation, will ultimately cap consumer spending, even as the prime Orchard/Scotts Road shopping belt should reap the benefits of a steady recovery of tourist arrivals and spending.

Lam said: "With firming leasing demand, we expect suburban retail rents to grow 8 per cent in 2022, and other segments seeing between 3 and 5 per cent rental growth."

Research from IREUS also found that sales of strata-titled assets have returned to pre-pandemic levels, based on caveats lodged. IREUS' Dr Lee suggested that some investors may be attracted by the potential upside after the loosening of border curbs and safe-distancing measures, while others may be banking on an eventual collective sale of the mall.

Cushman & Wakefield's head of research Wong Xian Yang said: "Strata retail sales volumes stayed relatively healthy during the first half of this year, registering around S$222 million worth of sales and comprising around 43 per cent of total transaction values clocked last year. Investors remain interested as retail strata prices have fallen since pre-Covid and commercial units are not encumbered by cooling measures."

Citing data from the Urban Redevelopment Authority, Wong added that Central Region retail prices have slid 9.8 per cent between Q4 2019 and Q1 2022.

This comes even as strata-titled and older malls recover at a slower pace vis-a-vis more modern assets run by the likes of experienced players such as the retail Reits, highlighted Lam, adding that the fragmented ownership of strata-retail could mean such malls lack a distinct positioning.

He added: "Leasing risk is higher in the retail sector but investors are generally compensated with a higher expected yield.

"As the retail climate brightens, most asset owners are looking to hold or increase their rents, but rents at strata-titled properties could be more negotiable."