

MARKET OVERVIEW

1.0 ECONOMIC OVERVIEW

1.1 GDP GROWTH

GDP growth is expected to improve slightly in 2017 compared to that in 2016

Singapore's GDP grew by 2% in 2016, compared to 1.9% in 2015 (the weakest growth since 2009). The Ministry of Trade & Industry expects the economy to grow by a higher 2.0% to 3.0% in 2017, reflecting optimism in the global economic outlook.

1.2 RETAIL SALES MARKET

The weak employment market led to a slowdown in retail sales in 2016

Retail sales in 2016 was affected by the weak employment market. Retrenchment increased by 23% and the unemployment rate increased from 1.9% in 2015 to 2.1%. Consumers were more cautious in their spending. Although Private Consumption Expenditure⁽¹⁾ rose marginally by 0.6% in 2016, it is 4.0%-point less than the growth in 2015 at 4.6%.

Medical goods & toiletries was one of the best performing retail trade sectors in 2016

One of the best performing retail trade sectors in 2016 was medical goods & toiletries. The aging and increasingly health conscious population was the main driver for this growing sector, supporting its growth of 5.0% YOY. On the other hand, the more cautious spending led to a fall in spending on discretionary items, e.g. computer & telecommunications equipment (-16.2%) and watches & jewellery (-9.5%). The food and beverages (F&B) services sector also saw a decline of 1.9% in 2016, with restaurants declining the most by 7.5%.

While retail sales improved marginally in H1 2017, the cautious labour market outlook in 2017 will affect the growth in retail sales

Retail sales index excluding motor vehicles for the Q2 period (April to June) 2017 grew by 3.2% YOY. The retail market for medical goods and toiletries continued to improve in H1 2017, growing by 7.1% YOY in Q2. Supported by an improvement in the tourism market, retail sales for watches & jewellery grew 13.8% YOY in Q2.

However, although the retrenchment rate improved slightly in H1 2017, the performance in the labour market remained mixed. Unemployment rate increased to 2.2% as at June 2017. With the elevated unemployment rate, the government has introduced programmes to encourage workers to re-skill and embrace life-long learning to remain employable due to the increase in the unemployment rate. These programmes are expected to support the employment market in the longer term.

2.0 TOURISM MARKET

2.1 INTERNATIONAL VISITORS ARRIVALS

International Visitors Arrivals (IVA) increased in 2016 and is expected to increase further in 2017

International Visitor Arrivals (IVA) increased by 7.7% to 16.4 million in 2016, compared to the 0.9% in 2015. Mainland Chinese and Indonesian visitors remained the two largest groups in 2016, accounting for 17.5% and 17.6% of total arrivals, and registering growths of 36.0% and 5.9% respectively.

The tourism market continued to perform well in H1 (January to June) 2017. IVA grew by 4.5% YOY for

H1 2017 to reach 8.5 million. Top international visitor generating markets continued to be from Mainland China (1.6 million), Indonesia (1.5 million), India (660,000), Malaysia (562,000) and Australia (523,000). Together, they contributed to more than half of the total IVA.

The Singapore Tourism Board (STB) forecasts growth in visitor arrivals to range from 0% to 2% in 2017, reflecting around 16.4 million to 16.7 million visitors. The forecasts are underpinned by growing tourism in Asia Pacific, greater air connectivity, and increase in pipeline for Meetings, Incentives, Conferences, and Events (MICE) events.

2.2 TOURISM SPENDING

Tourism Receipts increased by 13% in 2016 and is expected to improve further by 1-4% in 2017

Overall Tourism Receipts (TR) increased by 13% in 2016 to \$24.6 billion. TR in 2017 is forecast to be in the range of \$25.1 to \$25.8 billion⁽²⁾, increasing by 1% to 4%.

Shopping spend by tourists enjoyed the most significant increase in 2016, with visitors from Mainland China and Indonesia spending the most on shopping

TR from shopping has enjoyed significant improvement in 2016, increasing by 51% to \$5.9 billion, contributing 24% of total TR. TR per visitor from shopping also increased by 40% to \$361. Visitors are generally spending more on shopping than on F&B.

Amongst the top five visitor markets, visitors from Mainland China continued to spend the most on shopping. They spent a total of \$1.5 billion on shopping in 2016, translating to about \$529 per person. Shopping spend

(1) According to Department of Statistics (DOS), PCE is the final purchases of goods and services by resident households including non-profit institutions.

(2) All currencies are in Singapore Dollars (SGD) unless otherwise stated. MAS Currency Exchange Rate as of 31 July 2017 of USD1.0 to SGD1.3579 is used for this report.

comprised 43% of the Mainland Chinese total spend. While Mainland Chinese's shopping spend per capita fell by 2% in 2016, the 36% increase in visitorship from Mainland China supported the overall growth of TR from shopping.

TR from shopping by Indonesians increased by 40% to \$944 million in 2016. Visitors from Indonesia are the second highest spenders on shopping, spending on average \$326 per person in 2016, and contributing 16% of total visitors' shopping spend. The Indonesians' increased spending was likely supported by the strengthening of the Rupiah in 2016.

Shopping spend by tourists is expected to further increase in 2017

TR from shopping continued to increase in the first three months of 2017⁽³⁾, increasing by 38% YOY. TR from shopping per visitor also increased, reaching about \$370 in Q1 2017, 3% higher compared to the average in 2016. With the expected increase in IVA in 2017, and increase in shopping spend per visitor, the tourism market is likely to be the key driver for the retail market going forward, especially in key tourist shopping destinations like Orchard Road.

2.3 SOCIAL MEDIA IMPACT

Mainland Chinese and Indonesian visitors are influenced by social media when making travel plans and spending on F&B and shopping

STB's recent partnerships with online travel agents tuniu.com and Ctrip, as well as proliferation of content on digital channels like WeChat, Tencent, dianping.com and mafengwo.cn have generated increased visitorship to Singapore. An increase of 52% in tuniu.com and Ctrip bookings for mono-SIN tour packages in 2016,

and over 120,000 downloads for Singapore attraction audio guides via WeChat were noted.

More than 80 million Indonesians use social media, with Facebook, Instagram, Twitter, Line, Whatsapp and Path being the more popular platforms⁽⁴⁾. These social media platforms are part of the advertising and promotion strategies of Singapore F&B operators and retailers who intend to reach out to potential Indonesian visitors.

3.0 RETAIL PROPERTY MARKET

3.1 RETAIL TRENDS

The retail real estate market faces various challenges, such as a tightening in consumer spend, the emergence of e-commerce, declining mall occupancy and rents. Landlord and tenants are taking measures to mitigate or overcome these challenges.

Introduction of multi-label and pop-up stores to improve mall occupancy

Amidst the traditional single-brand shops along the Orchard/Scotts/Tanglin Road area, multi-label stores that offer a wide variety of items such as fashion, lifestyle and even furniture have arose. Multi-label stores are popular with consumers as they offer unique products and personalised services.

Pop-up stores with flexible tenure, compared to traditional leases, are gaining popularity with both tenants and landlords. Pop-up stores are developed to create flexibility for tenants who prefer shorter tenures. Landlords can improve occupancy with pop-up stores and try new concepts while injecting an element of surprise in the malls.

While the e-commerce market continues to grow, brick-and-mortar shops are still relevant

Some 2.9 million people in Singapore have purchased through e-commerce sites in 2016⁽⁵⁾. The rise of e-commerce websites e.g. Zalora and Lazada poses increasing competition for malls due to their product range and price point. Riding on this trend, some malls are collaborating with e-commerce sites and utilizing social media to create awareness of their events and experiential offerings. However, while e-commerce websites provide the convenience of 24-hours shopping and delivery, the disadvantages of online shopping, such as the risk of counterfeit goods, non-or late delivery of items and the delivery of wrong items are likely to be the deterrent for it to completely replace brick-and-mortar shops.

Malls are embracing omni-channel strategies and activity-based tenants to increase traffic

In order to provide shoppers with a seamless integrated experience, malls are utilizing omni-channel strategies to increase traffic and tenant sales. Brick-and-mortar retailers are also embracing e-commerce by integrating technology and creating unique experiences in-store that consumers are not able to find online.

The trend of *offline going online* (physical store retailers offering e-commerce platforms) and *online going offline* (online e-commerce platforms or websites setting up physical stores) is likely to stay.

To attract more visitors and encourage spending, malls are increasingly introducing activity-based tenants and facilities. Some have doubled the space for F&B tenants to as much as 40%, even though it is costly to

(3) Source: STB (July 2017), Tourism Sector Performance for Quarter 1 2017.

(4) Source: JakPut (2017), Indonesia Social Media Trend Q1 2017.

(5) Source: We Are Social and Hootsuite (2017), Digital in 2017 Global Overview Report.

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retrofit units for the change of use from retail to F&B. This trend is not only unique to Singapore but also markets like Hong Kong where e-commerce is prevalent.

The improvements in IVA, especially from Mainland China, as well as unique product lines, will support the luxury market

The luxury market will remain the focus of global tourism spend, with almost half of luxury purchases made by consumers when travelling, either in a foreign market (31%), which includes purchasing in luxury malls, or at the airport (16%)⁽⁶⁾. Mainland Chinese consumers buy more luxury products than any other country, accounting for about one-third of luxury global sales in 2016. This is followed by United States (23%) and Europe (19%).

Singapore continues to be a key destination for luxury goods purchases in the region, supported by the growing tourism market. It is also the preferred destination for international retailers due to its strategic location and attractive business climate. There is strong domestic purchasing power, a large community of expatriates and a growing influx of Asian shopping tourists that are appealing to international retailers. In addition, luxury retailers are also introducing unique limited-edition product lines in their Singapore stores to attract shoppers.

3.2 EXISTING AND POTENTIAL SUPPLY

There is no potential supply in Orchard/ Scotts / Tanglin Road and Clementi Planning Area in H2 2017

There is no new retail supply in the Orchard/ Scotts / Tanglin Road area in H2 2017. All the pipeline retail developments completing in H2 2017

TABLE 3.2 EXISTING AND POTENTIAL SUPPLY OF RETAIL STOCK (2017) (NLA)

Location	Existing stock H1 2017 (sq ft ⁽⁷⁾)	Estimated Potential Supply H2 2017 (sq ft)	Estimated Total stock 2017 (sq ft)
Orchard/Scotts/Tanglin Road area	7,427,000	–	7,427,000
Other City areas	17,190,000	228,000	17,418,000
Suburban areas	40,343,000	509,000	40,852,000
Total	64,960,000	737,000	65,697,000

Source: Edmund Tie & Company, August 2017

e.g. Northpoint City (GFA 420,868 sq ft; estimated NLA 317,614 sq ft) are in Suburban areas (Table 3.2).

Supply beyond 2017 in the Orchard/ Scotts/ Tanglin Road area is not along prime Orchard Road

There is limited potential supply in the Orchard/Scotts/Tanglin Road area beyond 2017. TripleOne Somerset is undergoing asset enhancement, which includes enhancing the retail offerings and incorporating medical suites of about 32,000 sq ft. It is scheduled to complete in 2018. The redevelopment of Park Mall is expected to complete in 2019. However, unlike Paragon, these developments are not along prime Orchard Road.

New supply in the Suburban area may impact on malls in the East and North regions

Jewel Changi Airport is one of the key pipeline suburban mixed-use development (GFA 1.4 million sq ft) expected to complete in 2019. The development features retail (GFA 975,532 sq ft; NLA 579,098 sq ft), hotel (130 keys), airport facilities,

indoor gardens and other attractions (233,577 sq ft). The large supply of retail space in Jewel Changi Airport is expected to have some impact on suburban malls, especially those in the East and North regions. Its strategic airport location may also attract some shoppers, including tourists, away from Orchard Road.

3.3 DEMAND AND OCCUPANCY

Occupancy in Orchard/Scotts/Tanglin Road and Suburban areas remained healthy

Notwithstanding challenges in the retail market, supported by the improvement in visitor arrivals and TR on shopping, malls in Orchard/Scotts/Tanglin Road area continued to attract established global brands and other retailers due to its prestigious location. Retailers continued to set up flagship stores along Orchard Road and some existing retailers have capitalised on lower rents to expand their footprint. For instance, Uniqlo opened its three-level regional flagship store in Orchard Central in September 2016. Other flagship stores that opened in 2016 & 2017

(6) Source: Bain & Co (2016), Luxury goods worldwide market study.

(7) All stock/supply are in Net Lettable Area (NLA).

include Apple Store (Knightsbridge) and Under Armour (Orchard Central), Sony (313 @ Somerset) and Muji (Singapore’s largest store at 17,650 sq ft) (Plaza Singapura).

As at Q2 2017, occupancy at Orchard/Scotts/Tanglin Road area was 92.3%. The high occupancy is underpinned by the limited supply of well positioned malls with good accessibility e.g. Paragon and ION Orchard. On the other hand, older and strata-titled retail malls that are not centrally located continued to experience poor performance.

Suburban malls enjoyed healthy occupancy at 92.4% as at Q2 2017. Benefitting from the large catchment population and active mall management, many suburban malls under REITs, e.g., The Clementi Mall, as well as those connected to public transport, remained fully occupied or experienced an increase in occupancy.

3.4 RENT

Rents in the Orchard/Scotts/Tanglin Road and Suburban areas are more resilient than Other City areas

Despite healthy occupancy for prime

retail space, the challenges from the slowdown in retail sales, lack of manpower to competition from e-commerce has led to a decline in retail rents in the past few years. However, supported by healthy demand, coupled with improvements in the tourism market, rental decline in 2016 for the Orchard/ Scotts/ Tanglin Road and Suburban areas slowed. Rents in the Orchard/Scotts/Tanglin Road and Suburban areas also tend to be more resilient compared to the rents in Other City areas, due to their attractiveness as a shopping destination and large catchment respectively (Figure 3.1).

3.5 OUTLOOK

Rents along the Orchard/Scotts/Tanglin Road area is expected to remain stable or moderate slightly by 3%, while that in the Suburban areas may ease by up to 4%

The retail market remains challenging. However, as the tourism market improves, and with the government’s plans to transform Orchard/Scotts/Tanglin Road area into a distinctive and vibrant shopping lifestyle destination, we expect retail rents in the premier shopping belt to be resilient. Malls located in prime locations with good

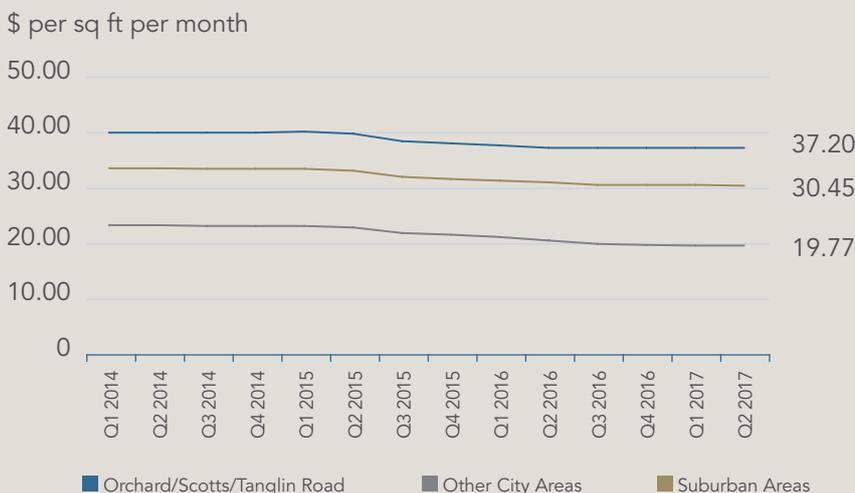
visibility are expected to enjoy higher occupancy rates. As such, we expect average prime first-storey fixed gross rents for Orchard/Scotts/Tanglin Road area to remain stable or moderate slightly by up to 3% between Q3 2017 and Q2 2018.

On the other hand, rents in the Suburban areas is anticipated to be under pressure. Although supported by a large catchment population, the weak retail sales market and cautious spending is likely to affect the performance of suburban malls. We expect prime first-storey rents in suburban malls to ease by 2% - 4% between Q3 2017 and Q2 2018.

Number of new concepts are expected to grow

Increasingly, retailers are re-strategizing and evaluating their physical space needs, and landlords are responding by offering flexible tenure and attractive rents to improve the mall’s occupancy. Landlords and retailers are embracing this change through pop-up and multi-label stores. We expect to see an increase in new concepts with experiential shopping and dining gaining popularity. These may include combining F&B and retail, offering bespoke and individualized services to customers as well as brick-and-click/ click-and-brick concepts.

FIGURE 3.1 AVERAGE PRIME FIRST-STOREY FIXED GROSS RENTS FOR PRIVATE RETAIL SPACE



Source: Edmund Tie & Company, August 2017

3.6 IMPLICATIONS ON PARAGON

Paragon is supported by a large tourism market

With more than 14,400 hotel rooms and serviced apartments, the Orchard/Scotts/Tanglin Road area is supported by a large tourism market. The catchment population will increase further with the additional 456 serviced apartments expected to complete in the area between 2018 and 2019.

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Good visibility, accessibility and reputation are key to malls that perform well

Well positioned premier malls, including Paragon, that are situated in prime locations with good visibility and active centre management will perform better than others, as they work towards keeping up with retail trends and tap on the e-commerce market, embracing omni-channel marketing and new concepts. The government's efforts in trying to rejuvenate the Orchard/Scotts/Tanglin Road area is also expected to bring in more visitors and benefit malls in the area.

3.7 IMPLICATIONS ON THE CLEMENTI MALL

The Clementi Mall enjoys a large catchment population of residents, working adults and students

Connected to the Clementi MRT Station and bus interchange, The Clementi Mall has excellent connectivity. Apart from serving about 92,000 residents in the Clementi Planning Area and about 175,000 residents in the neighbouring Bukit Timah and Queenstown Planning Areas, The Clementi Mall is supported by more than 79,000 students from tertiary institutions in the area, as well as the more than 40,000 working adults in the business parks nearby.

With its accessibility and variety of offerings, The Clementi Mall is well positioned to serve a growing catchment

Resident population in the Clementi Planning Area is expected to further increase to 100,000 with the estimated 2,210 additional residential units completing in the next three years. This is from the new Housing Development Board (HDB) flats being built under the new Build-To-Order (BTO) and Selective En bloc Redevelopment Scheme (SERS) programs. The Clementi Mall

is well-positioned to cater to this growing catchment, given its variety of offerings, and town centre and transport hub location.

4.0 MEDICAL SUITES MARKET OVERVIEW

4.1 PRIVATE MEDICAL HEALTHCARE TRENDS

Singapore remains an attractive location for medical tourists seeking complex medical treatment

Singapore's healthcare system has gained an international repute of impeccable standards, with state-of-the-art medical facilities. Medical tourists to Singapore seek highly complex medical treatments related to neurology, cardiology, assisted reproductive technologies, and organ transplant. This gives Singapore a strong competitive advantage over growing competition in the region. Medical tourists who visit Singapore are mainly from Indonesia, followed by Malaysia and Mainland China.

Ageing baby boomers expected to drive demand for wellness and quality healthcare services

Private healthcare expenditure in Singapore is expected to rise as the

resident population ages rapidly. The number of Singaporeans aged 65 years and above is projected to nearly double from 0.5 million to 0.9 million by 2030. Baby boomers being recipients of an evolving education system and contributors to Singapore's economic expansion and progression are expected to be healthier, better educated and more affluent. Against this backdrop, private medical practitioners expect an increase in demand for wellness and quality healthcare services.

4.2 MEDICAL SUITES MARKET

Medical suites are predominantly clustered in three major locations – Orchard/Scotts/Tanglin Road, Novena/Thomson and Farrer/Serangoon areas

There are 1,935 medical suites in Singapore as at August 2017, an increase of 16.7% from August 2016 (Table 4.1).

Majority (70%) of the private medical suites are strata-titled for sale. 35.4% of the medical suites are located in medical centres that are part of an integrated development with a retail component.

TABLE 4.1: BREAKDOWN OF MEDICAL SUITE STOCK (BY CLUSTER)

Medical Cluster	No. of Units (Distribution)		
	2016	2017	Increase
Orchard/Scotts/Tanglin	741 (44.7%)	741 (38.3%)	0%
Novena/Thomson	493 (29.7%)	664 (34.3%)	34.7%
Farrer Park	189 (11.4%)	231 (11.9%)	22.2%
Other Areas	235 (14.2%)	299 (15.5%)	27.2%
Total	1,658 (100%)	1,935 (100%)	16.7%

Source: Edmund Tie & Company, August 2017

The cluster of medical suites at the Orchard/Scotts/Tanglin area is the largest. Orchard Road being the premier shopping district in Singapore, coupled with the presence of the established Mount Elizabeth Orchard Hospital, led the Orchard/Scotts/Tanglin area to command the highest rental among the three medical clusters.

The Orchard/Scotts/Tanglin area being an established medical cluster, continues to be the most popular medical destination in Singapore. Although the medical suites cluster in the Novena/Thomson area is growing, demand for medical suites in that cluster is somewhat slow.

4.3 POTENTIAL SUPPLY

New medical suite supply in the next three years are strata-titled

A total supply of 85,500 sq ft of strata-titled medical suites are

expected to complete by 2020. These are likely to have limited impact on non-strata medical suites such as Paragon Medical as they are not close to a hospital and are in buildings predominantly for office use and not medical suites.

**4.4 RENTS
Rents in Orchard/Scotts/Tanglin area are improving**

Office rents (a proxy for medical suites rent) in the Orchard Road Planning area experienced an uplift of 3.8% from \$7.90 per sq ft in Q4 2016 to \$8.20 per sq ft in Q2 2017. The range of asking monthly gross rents for standalone medical suites located in medical centres in the Orchard/Scotts/Tanglin area are \$10.70- \$15.00 per sq ft per month as at August 2017, higher than that in the Novena/Thomson and Farrer Park areas (Figure 4.1). Given its proximity to Mount Elizabeth Orchard

Hospital, a premier private hospital, Paragon Medical and Mount Elizabeth Medical Centre’s medical suites are in higher demand as compared to other medical centres.

4.5 OUTLOOK

Rents for medical suites in the Orchard/Scotts/Tanglin area is expected to continue to grow by up to 3%

Given the limited new supply of medical suites islandwide, high occupancy rates for the Orchard/Scotts/Tanglin medical cluster versus other medical clusters and that rents for medical suites⁽⁸⁾ have increased for three consecutive quarters (Q4 2016 to Q2 2017), rents for medical suites in the Orchard/Scotts/Tanglin area are expected to remain relatively stable, potentially increasing by up to 3% YOY by Q2 2018.

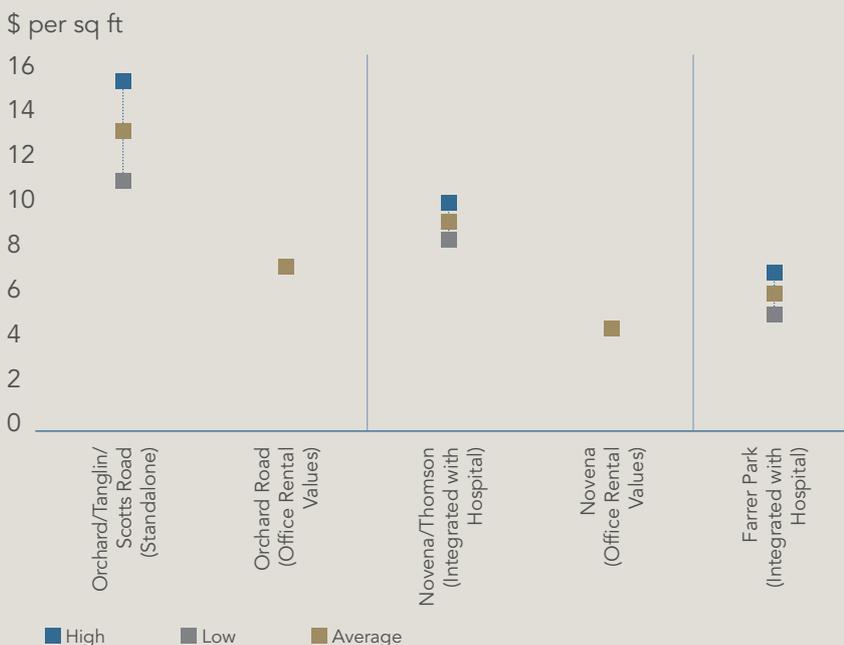
4.6 IMPLICATIONS ON PARAGON MEDICAL

Paragon Medical is expected to continue to lead in the private medical sector

Being close to Mount Elizabeth Orchard Hospital, upscale hotels and serviced apartments, Paragon Medical remains a top choice for medical tourists who seek treatment for medical conditions. It is also the largest standalone medical centre (75 units) in the Orchard/Scotts/Tanglin area, offering a comprehensive variety of medical services. Medical tourists can also enjoy the comfort of a holistic experience at Singapore’s premier shopping and entertainment street, Orchard Road, giving Paragon medical a strong competitive edge.

**BY EDMUND TIE & COMPANY (SEA) PTE LTD
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FIGURE 4.1: ASKING MONTHLY GROSS RENTS FOR MEDICAL SUITES (AUGUST 2017)



Source: Edmund Tie & Company, August 2017

(8) 75th percentile of Orchard Road office rental rates as a proxy.