

Market Overview



1.0 ECONOMIC OVERVIEW

1.1 ECONOMIC INDICATORS

Firm economic growth expected in 2018

Singapore's economy grew by 3.6% in 2017, faster than 2016's growth of 2.4%. According to Oxford Economics, Singapore's economic growth is expected to remain firm at 3.0% in 2018, fuelled by growth in manufacturing, finance & insurance and transportation & storage sectors. Notably, growth is expected to broaden into domestically-oriented sectors like retail and food services, fuelled by improvements in consumer sentiments amidst the on-going recovery in the labour market.

Wage growth to accelerate amidst tight labour market

Amidst cautious business sentiments in 2016, wage growth has slowed from 4.9% in 2015 to 1.5% in 2017.

Singapore economic indicators

	2015	2016	2017	2018F
GDP Growth	2.2%	2.4%	3.6%	3.0%
Population Growth	1.2%	1.3%	0.1%	1.5%
Household Income Growth	4.9%	2.6%	1.5%	2.5%
Unemployment Rate	1.9%	2.1%	2.2%	2.0%
Retail Sales Growth	-1.0%	-3.4%	1.3%	1.5%

Source: Department of Statistics Singapore, Oxford Economics, Cushman & Wakefield Research

Nonetheless, wage growth could accelerate in 2018 to 2.5%, amidst low unemployment rates and strong economic prospects.

Population growth in 2018 is expected to return to 1.5% this year, after growing 0.1% in 2017, the lowest in a decade.

1.2 RETAIL SALES

Retail sales rebounds as consumer sentiments and tourism arrivals recover

Retail sales (excluding motor vehicles) rebounded 1.3% year-on-year ("y-o-y") in 2017, after 3 years of consecutive decline. Most retail trade sectors saw an increase in retail sales, fuelled by strong growth in medical goods & toiletries (+6.7%), supermarkets & hypermarkets (+3.0%) and watches & jewellery (+2.4%). In 2018, retail sales volume is expected to trend higher, underpinned by strong macroeconomic fundamentals, recovering labour market and tourism prospects.

International Tourist Arrivals (in million), by countries (Top 5 markets)

		2015	2016	2017	2017 Y-o-Y Change
Top 5 Markets	Total	15.2	16.4	17.4	6.2%
	China	2.1	2.9	3.2	12.7%
	Indonesia	2.7	2.9	3.0	2.1%
	India	1.0	1.1	1.3	15.9%
	Malaysia	1.2	1.2	1.2	1.5%
	Australia	1.0	1.0	1.1	5.3%

Source: STB, Cushman & Wakefield Research

2.0 TOURISM MARKET**2.1 TOURIST ARRIVALS & SPENDING****Tourism market continues to hit record highs**

According to Singapore Tourism Board ("STB"), Singapore's tourist arrivals and spending hit a record high for the second consecutive year¹. International visitor arrivals ("IVA") reached 17.4 million (m) in 2017, growing 6.2% y-o-y from 2016. Tourism receipts ("TR") grew 4% y-o-y to S\$26.8 billion (b) in 2017. Singapore's top three international visitor markets for 2017 were China (3.2 m visitors), Indonesia (3.0 m visitors) and India (1.3 m visitors) and contributed around 18.5%, 17.0%, and 7.3% of total international visitor arrivals respectively. Outside of the top five markets, Vietnam is shaping up to become an important tourism source market. Around 530,000 Vietnam visitors came to Singapore in 2017, achieving a double-digit growth rate for the second year running since 2016. According to

STB's official estimate, total tourist arrivals for 2018 would be between 17.6 m to 18.1 m.

Tourist shopping receipts fuelled by rising tourist arrivals

Though overall shopping spend per visitor fell slightly, the increase in international tourists brought total shopping spend to new heights. Total shopping spend saw a y-o-y

increase of 4% in 2017, reaching S\$6.2 b. Chinese and Indonesian visitors were the top contributors to shopping spend, representing 28.8% (S\$1.8 b) and 14.3% (S\$0.9 b) of total shopping spend respectively in 2017.

Chinese dominate shopping spend while Indonesian spend falls due to depreciation of Rupiah

The Chinese spent S\$548 per visitor on shopping in 2017, up 2.6% from 2016. Notably, China has overtaken Indonesia as the largest source of international tourist arrivals in Singapore in 2017 and remains the top spender for three consecutive years, highlighting rising Chinese dominance in the tourism industry.

Shopping spend by Indonesians in 2017 fell to S\$298 per visitor, down 11.3% from 2016. The Indonesian Rupiah depreciated about 7.5% against the Singapore dollar in 2017, making shopping in Singapore less attractive for Indonesians.

Tourist shopping spend per capita (Top five markets)

		2015	2016	2017	2017 Y-o-Y Change
Top 5 Markets	Total	S\$257	S\$363	S\$353	-2.9%
	China	S\$544	S\$534	S\$548	2.6%
	Indonesia	S\$244	S\$336	S\$298	-11.3%
	India	S\$173	S\$268	S\$245	-8.7%
	Malaysia	S\$143	S\$221	S\$255	15.3%
	Australia	S\$134	S\$235	S\$216	-8.1%

Source: STB, Cushman & Wakefield Research

¹ Source: STB (May 2018), Tourism Sector Performance for 4Q2017.

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Continued growth for Singapore's tourism market

In 2018, Singapore's tourism market is expected to grow further, with IVA and TR forecasted to grow between 1.0-4.0% and 1.0-3.0% respectively, according to STB.

2.2 TOURISM TRENDS IN SINGAPORE & SINGAPORE GOVERNMENT INITIATIVES

Tapping on Chinese potential

STB has deepened their engagement efforts in 2nd tier China cities such as Chongqing. Tourist arrivals from Chongqing have risen threefold from 44,000 in 2015 to 146,000 in 2017². STB has also collaborated with Alipay to share content across their respective digital platforms to enable a more personalised and enriching Singapore experience for Chinese tourists.

Singapore Government committing S\$1.3m, 6-month study to rejuvenate Orchard Road

The Singapore government committed to a 6-month study in April 2018 that costs a total of S\$1.3 m to come up with ways to rejuvenate Orchard Road. Expected to conclude in 4Q2018, the study is a positive development for the iconic shopping belt to ensure Orchard Road remains relevant amidst increasing competition from global shopping destinations, local suburban malls and online retailers.

3.0 SINGAPORE RETAIL PROPERTY MARKET

Despite improving market fundamentals, the retail market remains pressured by

a high operating cost environment and the emergence of e-commerce. As such, retailers and landlords continue to reinvent themselves, investing in technology and focusing on lifestyle and activity-based experience to keep pace with the fast-changing retail landscape. For example, electronics, IT and furniture retailer Courts Singapore revamped its Tampines megastore in 2H2017. After a 2-month overhaul, the megastore now boasts memorable retail and experiential concepts such as a design studio, more dynamic showroom spaces, cooking demonstration stations and a new gaming zone to cater to the growing gaming segment.

3.1 RETAIL TRENDS

Retailers and malls investing in technology and embracing omni-channel strategies

In a world that is constantly connected, more and more user-behaviour data is captured by small devices and sensors. Landlords and retailers are investing in technology to analyse big data and gain insights to shoppers' behaviour. This will allow them to deliver personalised and localised experiences to attract customers. Some malls have partnered with leading e-payment service providers to launch holistic payment services. Besides smoothening the consumer transaction process, consumer insights and data can also be analysed over time.

Shoppers are now more sophisticated engaging in both online and offline channels to collect information and make purchasing decisions. As such, retailers are increasingly adopting an omni-channel strategy to meet

the needs of this new generation of shoppers. A study by Harvard Business Review revealed that omni-channel shoppers spent an average of 4.0% more on every shopping occasion in the store and 10.0% more online than single-channel shoppers.

Majority of retail sales still done offline

Though Singaporeans are expected to shop more online, the contribution of online retail sales is estimated to be around 3.9% to 4.1% of total retail sales, based on data from the Department of Statistics in 1Q2018. Total retail sales reached around S\$11.4 b in 1Q2018 with total online spend estimated at around S\$0.5 b. According to a study by Google and Temasek in 2016, total online spend is expected to exceed S\$7 b or form about 6.7% of retail sales in Singapore by 2025³.

A shift in tenant mix

Landlords are incorporating an increased focus on food and beverage (F&B), fitness, lifestyle and entertainment services, amidst a changing retail landscape and the disruption of e-commerce. F&B continues to be a main driver of retail demand. Besides having F&B offerings to boost footfall and occupancy, retail landlords have also tapped into new tenant pools such as co-working operators. For example, JustCo, a Singapore co-working operator has opened its sixth and largest co-working centre in Marina Square's retail premises.

Pop-up and multi-label stores to mitigate e-commerce impact

Once used as a stop-gap measure to increase mall occupancy, pop-up

² Source: STB, Tourism Industry Conference 2018.

³ Google and Temasek Holdings, E-economy SEA: Unlocking the \$200 billion digital opportunity in Southeast Asia, May 2016.

Historical Retail Supply



Source: Cushman & Wakefield Research

stores and multi-label outlets are now the new norm for many landlords who want to curate exciting and new concepts to draw shopper traffic and entrench shopper loyalty. The pop-up model has grown beyond e-retailers to include established fashion labels and luxury brands. In April 2018, french fashion house Chanel launched its third pop-up concept in Singapore – the Coco Game Centre. Inspired by the arcade halls of Japan, the pop-up aims to attract beauty aficionados and millennials through uniquely designed games and Instagram-friendly spaces.

In the same vein, multi-label outlets boost the experiential factor in shopping and offer customers a holistic retail experience, allowing them to eat, shop and attend workshops all in one space. It has also become a popular way for e-retailers to establish their physical presence in premier locations. E-retailers are mostly attracted to the pop-up concept’s flexible lease structure and compact space, which would

reduce their capital outlay when they start their new businesses and test new products.

3.2 RETAIL SUPPLY

Annual retail net supply reached a 6-year low in 2017, with only 0.3 million square feet (msf) of retail space entering the market, according to URA REALIS data made available since 2012. New supply in 2017 was concentrated in the suburban areas with the opening of Singapore Post Centre in Paya Lebar and Northpoint City in Yishun. For 1H2018, island-wide net retail space increased by around 0.2 msf. The increase in supply can be mainly attributed to the suburban areas, with the bulk of supply coming from the completion of asset enhancement initiatives (“AEI”) at Century Square and the retail component at Oasis Terraces, a Housing Development Board (“HDB”) development.

Moving forward, another 2.2 msf of retail net lettable area (“NLA”) is

expected to be introduced into the market from 2H2018 to 2022, the bulk (63.0%) of which will be located within the suburban areas. One major contributor to new retail supply would be Jewel Changi Airport, a new mixed-use development, which will introduce around 0.6 msf of retail NLA in 2019. The large injection of retail space would likely have some impact on suburban malls located in the East and North-East regions of Singapore. Due to its strategic airport location, a portion of tourist spending might be drawn away from Orchard Road. Other major malls in the pipeline include PLQ Mall (0.3 msf) and Funan (0.3 msf), which are expected to complete in 2H2018 and 2H2019 respectively. We see limited impact on Paragon and Clementi Mall given their strong positioning in their respective vicinities coupled with little or no new retail supply in the Orchard or Clementi areas over the next few years.

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Incoming retail supply (2H2018 to 2022)



Source: Cushman & Wakefield Research

3.3 RETAIL DEMAND AT ORCHARD ROAD AND CLEMENTI

Retail demand remains high for main shopping street Orchard Road and vibrant heartland areas like Clementi. The rebound in tourism is expected to boost retail demand for Orchard Road. The trend of setting up flagship stores is expected to continue, which could help fill up the void left by departure or downsizing of large retailers and department stores. As such, average occupancy rates for retail spaces in the Orchard planning

area remains healthy at 94.0% as of 2Q2018, a marked improvement from 92.3% in 2Q2017. Despite competition from Marina Bay Sands and suburban shopping centres, Orchard Road will remain the first landing point for established brands due to its prestigious location and position as a gateway to the Southeast Asian market.

Well-connected suburban malls like Clementi Mall continue to benefit from a large residential catchment and high pedestrian footfalls due to their accessibility and proximity to homes. Suburban occupancy rates

remain high at 92.8%, with major malls connected to MRT stations leading the pack at full or almost full occupancy rates.

3.4 RETAIL RENTS FOR ORCHARD ROAD AND SUBURBAN AREAS

Amidst improving retail sales and tourist arrivals, average prime rents for Orchard have started to recover with rents edging up 0.5% in 1H2018, based on prime retail rents tracked by Cushman & Wakefield Research. Prime suburban rents extended their upward trajectory by rising 1.0% in 1H2018, as retailers remain keen on taking up space at suburban malls due to their large residential catchments and easy accessibility.

Going forward, prime retail rents in Orchard are expected to stay resilient, or even experience mild increases in 2018-2019 on the back of encouraging economic growth and growing tourism figures. Suburban prime rents will continue to be supported by a growing residential catchment with a high shopping frequency.

Prime retail rents



Source: Cushman & Wakefield Research

3.5 IMPLICATION ON PARAGON

Robust tourism market positive for Paragon

Paragon's prominent location on Orchard Road and premier positioning will benefit from the rebound in Singapore's tourism market. Given its best-in-class upscale image, Paragon continues to be popular with Chinese and Indonesian tourists which are the key tourism markets in Singapore. Orchard Road remains one of the choice destinations for tourists in Singapore and continues to evolve to meet the changing needs of shoppers. The recent S\$1.3m study on Orchard Road is a testament to the government's continuous efforts to make Orchard Road one of the leading main streets in the world.

Orchard/Scotts Road, the most popular shopping and free-access attraction in Singapore, with a total of 7.4 msf⁴ of retail space and 44 shopping malls⁵, is supported by over 13,000 hotel rooms and serviced apartments⁶ in the vicinity.

3.6 IMPLICATION ON THE CLEMENTI MALL

Strong residential catchment and proximity to regional centres bodes well for The Clementi Mall

Residential catchment at the Clementi Planning Area is expected to grow further, driven by the completion of private and public housing projects over the next few years. The area will see around 2,000 Build-To-Order flats and 1,800 private residential

units being completed over the next four years. Given its close proximity to the Clementi MRT station and bus interchange and being the only major shopping mall in the area, The Clementi Mall is positioned to capture a large market share of this growing catchment.

The Clementi Mall is strategically located at the heart of the Clementi Planning Area and enjoys a strong catchment. Apart from serving about 93,000 residents in the Clementi Planning Area and about 174,000 residents in the neighbouring Bukit Timah and Queenstown Planning Areas, The Clementi Mall also serves more than 88,000 students from tertiary institutions in the area.

3.7 IMPLICATION ON THE RAIL MALL

Potential to enlarge catchment through experiential retail

The tenant mix at the The Rail Mall is geared towards the F&B, lifestyle and health trades, which are fairly insulated from the disruption of e-commerce. The Rail Mall can tap on its proximity to the Rail Corridor to deliver memorable experiential retail concepts, which is the current trend in today's retail market.

Located in a rustic part of Upper Bukit Timah, The Rail Mall offers a prominent main-road frontage for shops and restaurants. The Rail Mall serves about 280,000 residents in the Bukit Panjang and Bukit Batok Planning Areas. It enjoys pedestrian

traffic from hiking enthusiasts due to its proximity to the Rail Corridor which is a popular hiking route.

4.0 MEDICAL SUITE PROPERTY MARKET

4.1 HEALTHCARE SERVICES INDUSTRY TRENDS

Rising local demand for private medical services

Singapore's ageing population, rising affluence, increasing prevalence of chronic diseases and rising health awareness is expected to drive demand for local private medical services. The number of Singapore residents aged 65 and above have continued to grow at around 6.4% annually over the last 5 years and is expected to rise to more than 0.9 m residents by 2030, from 0.5 m in 2017. As a testament to growing local demand, Parkway Pantai Singapore hospital's inpatient admissions grew 2.7% y-o-y in 1Q2018, driven predominantly by local patients⁷.

Singapore's medical tourism faces stiff competition

According to Frost & Sullivan, medical tourism in Asia Pacific is expected to grow by more than 15% in 2018⁸. Though Singapore's medical tourism market remains under threat from lower cost alternatives such as Thailand and Malaysia, Singapore remains one of the top-ranked destinations for medical tourism in the world. According to the International Healthcare Research Center's 2016

4 Urban Redevelopment Authority (URA): REALIS.

5 Orchard Road Business Association (ORBA) website.

6 Singapore Tourism Board, Serviced Apartments Association, Cushman & Wakefield Research.

7 IHH Healthcare Berhad: Q12018 Financial results press release, 25th May 2018.

8 Frost & Sullivan: Double digit growth rates will propel APAC to form 28% of US\$2 trillion global healthcare market in 2018, 19th January 2018.

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medical tourism index, Singapore is ranked 4th globally. The index assesses a country’s medical tourism attractiveness across three main dimensions; environment, medical tourism industry and quality of facilities and services. Nonetheless, medical tourism receipts have remained muted in Singapore at around S\$800m in 2017⁹, compared to its peak in 2012 at S\$1.1 b¹⁰.

Medical tourism in Singapore is predominantly driven by Indonesia, followed by Malaysia and China patients. Indonesian patients make up the bulk of medical tourism patients in Singapore and are estimated to take up more than half of the total market share¹¹. Notably, Frost & Sullivan predicts that outbound medical tourism from China and India will grow to over 170 m travellers by 2018¹². Given its advanced medical infrastructure, multi-lingual society

and reputation for high quality care, Singapore is positioned to capture a portion of this emerging market share.

Preference to lease rather than purchase

Anecdotally, there is an increasing preference for private doctors to lease medical suites rather than to purchase. Based on caveats data from the Singapore Institute of Surveyors and Valuers, there were 35 medical suites sale transactions in 2017, down from the previous peak in 2013, when 161 units were sold. Though the fall in volume could be partially attributed to the dearth of new medical suites, the heightened prices of medical suites in central regions and tight loan curbs could also make medical suites relatively unaffordable. Median prices for medical suites in Orchard reached around S\$8,805 psf in 2017, 34.1% higher as compared to around S\$6,564 psf in 2013. Nonetheless,

the total number of private doctors in Singapore has continued to rise steadily, at around 3.2% per annum over the last 5 years. As such, the steady increase in private doctors and the relative unaffordability of medical suites in prime areas should translate into increased leasing demand for medical suites.

4.2 MEDICAL SUITE SUPPLY

Based on Cushman & Wakefield’s estimates, there are around 1,900 completed medical suites island wide as of 1H2018. The Orchard (717 units) and Novena (665 units) medical precincts have the largest concentration of medical suites, with around 72.9% of all medical suites located in these two precincts. In 2017, 266 medical suites were completed, predominantly located at Royal Square (171 units) in Novena.

Medical suite supply



Source: Cushman & Wakefield Research

9 South China Morning Post: Medical Tourism Looks Healthy in Malaysia, But in Singapore?, 19th November 2017.

10 Singapore Tourism Board: Annual Tourism Stats 2014, November 2015.

11 iGATE RESEARCH: Singapore Medical Tourism Market and Forecast to 2022, 5th June 2017.

12 Frost & Sullivan: Double digit growth rates will propel APAC to form 28% of US\$2 trillion global healthcare market in 2018, 19th January 2018.

Incoming medical suite supply (2H2018 – 2023)

Medical precinct	No. of units	
	Existing supply	Incoming supply
Orchard	717	31
Novena	665	0
Farrer Park	231	0
Others	282	50
Total	1,895	81

Source: Cushman & Wakefield Research

Moving forward, the supply of medical suites is expected to remain tight, with only 81 units in the foreseeable pipeline (2H2018-2023). These upcoming medical suites are not in close proximity to major hospitals and are unlikely to impact established medical suites like Paragon Medical, which is supported by a nearby major hospital.

4.3 IMPLICATION ON PARAGON MEDICAL

Though Singapore's medical tourism market continues to face competition from the region, we believe that the high-end demand pool remains largely intact. Medical tourists looking for best-in-class medical treatments and good hospitality will continue to visit Singapore for treatment. Furthermore, the expected increase in Chinese and Indian medical tourists could bode well for medical suites in Orchard Road, given their familiarity with the area and the surrounding amenities.

There is a strong preference for medical suites which are near private hospitals, as reflected in the price

premium at Gleneagles Medical Centre and Mount Elizabeth Medical Centre as compared to other medical suites in Orchard. Due to their proximities to hospitals, such medical suites can cater for a wide range of medical procedures and promote cross-referrals and services, thereby enhancing patients' experience.

Despite the growth of the Novena and Farrer Park medical precincts, the Orchard medical precinct continues to be the top destination for private medical care. This is underpinned by the surrounding high-end housing

districts and the numerous amenities and hospitality options in the Orchard shopping belt.

As such, Paragon Medical, which is just a stone's throw away from Mount Elizabeth hospital and in the heart of Singapore's main shopping street, will continue to see strong leasing demand from doctors.

4.4 MEDICAL SUITE RENTS

Asking rents for medical suites in the Orchard precinct continue to hold firm at around S\$14.0 psf pm, presenting a premium as compared to Novena and Farrer Park medical precincts, which are going for around S\$10.0 psf pm and S\$4.80 psf pm respectively. Rents are supported by strong structural growth factors, which include a limited supply of new medical suites, firm economic growth and rising demand for private medical services. Against this backdrop, medical suite rents could see growth of around 3.0%-5.0% over the next 12 months.

Asking monthly gross rents for medical suites (1H2018)

Area	Asking monthly gross rents (SPSF)		
	Low	Average	High
Orchard	11.5	14.0	17.7
Novena	9.0	10.0	11.0
Farrer Park	4.2	4.8	6.0

Source: Cushman & Wakefield Research

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