

# MARKET OVERVIEW

## 1. SINGAPORE MACROECONOMIC OVERVIEW

### 1.1. Economic Performance and Outlook

#### Economic downturn caused by the COVID-19 pandemic, on the road to recovery

As a result of the COVID-19 pandemic and the ensuing global economic slowdown, Singapore's export-dependent economy has been adversely impacted. In 2020, GDP contracted by 5.4% year-on-year. MTI's 2021 GDP growth forecast (Aug 2021) is projected to be between 6.0% to 7.0%.

In 2020, the total overall unemployment rate increased to 3.0%. Since the start of 2021, the labour market has been in recovery mode, with the unemployment decreasing to 2.7% in 2Q 2021.

The average household income (including CPF) stood at S\$110,268 in 2020, down 2.5% year-on-year from 2019.

### 1.2. Retail Sales Index

#### Signs of optimism and recovery with rebounding retail sales

The Retail Sales Index fell 5.68% in 2020 with most retail categories recording a decline in sales. Supermarkets, furniture and household, and computer and telecommunications have recorded stronger sales in 1H 2021, showing signs of recovery.

### 1.3. Tourism and International Visitor Arrivals

#### Upcoming Vaccinated Travel Lane ("VTL") and measures to boost domestic tourism

According to Singapore Tourism Board ("STB"), international visitor arrivals declined 85.7% year-on-year in 2020 to 2.7 million visitors and tourism receipts similarly dropped 82.6% year-on-year to S\$4.8 billion in 2020 amid COVID-19 related

border closures and strict quarantine requirements for incoming visitors.

The Singapore Government has announced intentions to gradually reopen borders from certain countries. As a first step, quarantine-free travel from Germany and Brunei for fully vaccinated travellers will be possible from 8 September 2021 under the newly created VTL scheme.

In the absence of international tourism, STB launched the SingapoRediscoverers initiative aimed at boosting domestic tourism and retail spending, providing a S\$100 tourism voucher to adult Singapore citizens.

## 2. SINGAPORE RETAIL MARKET OVERVIEW

### 2.1. Overview of Singapore Retail Sector

#### Lower supply per capita as compared to other developed countries

Singapore has a much lower shopping mall stock per capita than other developed countries at 5.80 square feet ("sf") per capita. Given the city's high population density and limited land base, this translates to a higher retail productivity rate per sf of leasable space.

| Singapore vs Other Developed Countries | Shopping Mall Floor Space per capita (sf NLA) |
|--|---|
| USA                                    | 23.10   |
| Canada                                 | 16.80   |
| Australia                              | 11.40   |
| Singapore                              | 5.80  |
| Japan                                  | 4.40  |

Source: REALIS/Colliers International Singapore Research

### 2.2. Future Retail Supply

#### Limited upcoming supply in Orchard

Singapore's total existing island-wide retail stock stood at 61.7 million sf as of 2Q 2021, with most located in suburban areas.

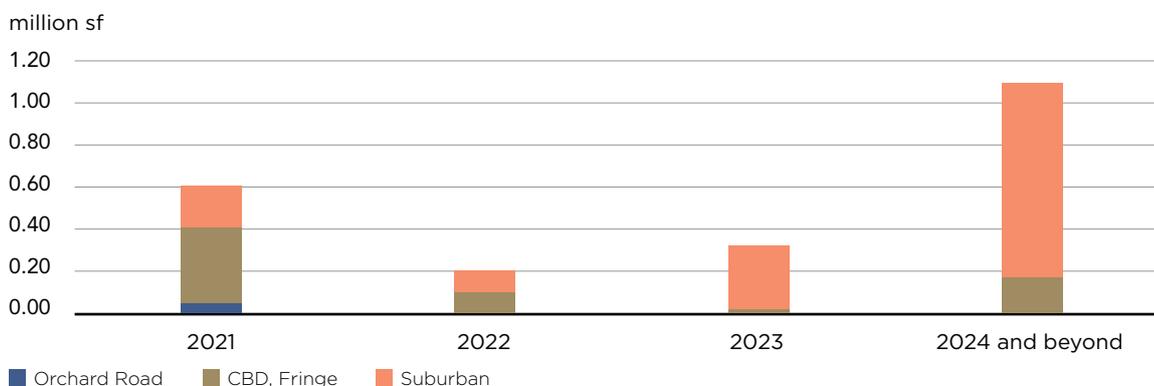
The average net retail supply over the past five years (2016 to 2020) stood at about 400,000 sf per year in the suburban submarket<sup>1</sup> and 52,000 sf per year in the Orchard submarket<sup>2</sup>.

<sup>1</sup> The suburban submarket refers to the retail space in the suburban areas outside the Central Region as defined by the URA.

<sup>2</sup> The Orchard submarket refers to retail space in the Orchard Planning Area as defined by the URA.

## FUTURE SUPPLY OF RETAIL SPACE (2.2 MILLION sf)

By Area (2021 – 2024)



Source: URA, Colliers International

A total of 2.2 million sf of retail space is anticipated to be delivered island-wide from 2021 to 2025 with most located in the suburban areas.

### 2.3. Retail Demand and Occupancy

#### Occupancy shrunk marginally but remain above 90%

The island-wide net absorption for island-wide private retail stock stood at 130,000 sf while the island-wide retail occupancy stood at 90.5% in 2Q 2021, declining by 1.6% year-on-year.

#### Lack of new supply in Orchard

In the Orchard retail submarket where Paragon is located, the occupancy rate declined by 2.5 % year-on-year to 88.3% in 2Q 2021. With a total private retail stock of 7.3 million sf across 44 retail developments as of 2Q 2021, the Orchard submarket's retail stock has increased marginally by 0.3% year-on-year.

#### Occupancy and demand remain resilient in suburban retail market

The Clementi Planning Area is The Clementi Mall's primary catchment, while the neighbouring Bukit Timah and Queenstown Planning Areas serve as the secondary catchment. In total, there are approximately 264,000 residents from the three planning areas and approximately 91,630 residents from the primary catchment.

According to data from URA as of 2Q 2021, there are approximately 14,000 new residential units in the pipeline. Colliers expects the residential population to

increase by approximately 28,000 over the next three years.

The student population is estimated at 84,000 which also adds to The Clementi Mall's total catchment.

In the suburban retail submarket, occupancy rate remains resilient at 94.8% in 2Q 2021, improving by 5.5% year-on-year.

#### Newly completed rail corridor development & MRT accessibility boost mall attractiveness

The Rail Mall currently serves approximately 278,000 residents in the Bukit Batok and Bukit Panjang Planning Areas. In the vicinity of the mall, majority of the residents (80.1%) live in condominium/apartments and 18.4% in landed properties.

The 24-km Rail Corridor stretching across the island from the Woodlands Checkpoint to the Tanjong Pagar Railway station passes through the Central Rail Corridor section at the Bukit Timah Railway Station. The Rail Mall is favourably situated along this highly accessible stretch, anchored by the Downtown Line MRT stations.

With travel restrictions in place, Singapore has experienced a hiking boom. The 4-km stretch of the Rail Corridor between Hillview and King Albert Park has experienced peak visitation levels since its reopening in March 2021, as visitors thronged there on the weekends and public holidays. New features such as the restored bridges are a key draw, and the parking lots at The Rail Mall were noted to be often at maximum capacity.

# MARKET OVERVIEW

## 2.4. Prime Retail Rents

### Retail rents declined but are expected to be on the road to recovery

Based on Colliers' research, the ground-floor gross monthly rent in the Orchard submarket declined by 8.4% year-on-year to S\$37.24 psf per month in 2020, while that of the Suburban submarket (Regional Centres)<sup>3</sup> declined by 5.7% year-on-year to S\$31.68 psf per month in 2020.

In 2Q 2021, the ground-floor gross monthly rent fell in the Orchard submarket to S\$36.24 psf per month and declined to S\$31.05 psf per month in the Suburban submarket (Regional Centres).

## 2.5. Capital Values and Net Yield

### Yields to remain flat with sustained interest in retail assets

Despite the COVID-19 pandemic, retail capital values have stayed flat at an average of about S\$3,434 psf of NLA in the Orchard submarket and S\$2,753 psf of NLA in the Suburban submarket as of 2Q 2021.

Average island-wide retail cap rates remained unchanged in 1H 2021, ranging from 4.25% to 4.75%, but could compress by 25 b.p.s by the end of 2021 to reflect rental declines, while capital values hold up.

In the long run, investors should continue to favour retail assets due to their relative scarcity and increasing capital allocation to quality assets in Asian gateway cities.

## 2.6. Retail Industry Trends

### Experiential retail and omni-channel marketing to be the future of retail

Singapore retail malls are attracting activity-based tenants and activities to

entice repeat visitation and extend dwell time among patrons. Diverse lifestyle and experience-based operators are growing in popularity across Singapore. Post-COVID-19, experiential retail will likely continue.

Shopping malls are now leveraging on integrated "Click-and-Collect" options, omni-channel marketing strategies and digital marketplaces to complement in-store offerings to drive sales. As the retail sector transitions toward a 'phygital' model, retail malls will play a greater role in bridging the gap between the physical and digital realms.

## 2.7. Singapore Retail Market Outlook

### Economic recovery on the back of strong fundamentals

Colliers expects overall retail demand in Singapore to prevail in the long term, given Singapore's high household disposable income, consumer expenditure levels and strong economic fundamentals.

In the short term, retail sales growth is expected to turn positive in 2021 as the economy gradually reopens.

Due to limited new retail supply in 2021-2024, representing just 0.8% of total stock per annum compared to the 10-year historical average of 1.1%, vacancy rates should improve gradually as the economy recovers and retailer demand for new space returns.

In addition, the new supply is mostly concentrated in suburban and fringe areas, where there are well-defined population catchments which will help in improving vacancy rates.

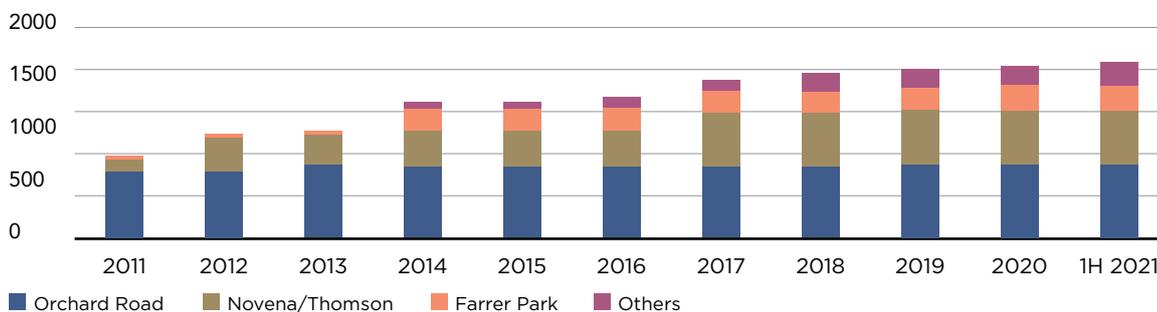
Rental rates are expected to edge up in tandem with a decrease in vacancy.

Capital values will continue to appreciate, amid strong investors' appetite for quality retail assets, that rarely come up for sale.

<sup>3</sup> Regional centres refer to suburban malls in key regional centres such as the North (Woodlands), East (Tampines) and West (Jurong East).

## EXISTING MEDICAL SUITE STOCK IN SINGAPORE (2,096 UNITS)

Number of Medical Suites



Source: Colliers International Singapore

### 3. SINGAPORE MEDICAL SUITE MARKET

#### 3.1. Medical Industry Trends

##### Singapore's favourable environment boosts its attractiveness to adopt digital health solutions

Singapore's three-pronged strategy aims to use technology in healthcare to digitise, connect and analyse through the use of telehealth, remote monitoring and tele-consultations.

Singapore remains an attractive place for the adoption of digital health solutions due to low barriers to adoption, high receptivity, trust in government solutions, inclination to share data and ease of access to insurance.

##### COVID-19 impacted medical tourism in Singapore

With border restrictions in place, the Singapore medical tourism market has been affected as medical clinics have to apply for a restriction waiver with Ministry of Health for their patients to seek medical treatment in Singapore. Foreign patients are only allowed into Singapore for medical treatment if they are existing patients or the medical treatment is unavailable in their home countries.

#### 3.2. Medical Suite Stock

##### Demand for medical suites continues to remain competitive with limited new supply

As of 1H 2021, the total island-wide medical suite stock stands at approximately 2,096 units. The bulk of the medical suite supply comes from the Orchard precinct at 41.6% followed by 30.7% from Novena/Thomson.

SBF centre will add another 48 units to the total supply in 2021. There is no new supply of medical suites in the pipeline over the next few years.

#### 3.3. Medical Suite Rents

##### Orchard, as prime location, continues to enjoy highest rental rate

As at 1H 2021, the asking monthly gross rents for medical suites in all precincts has declined due to the drop in international medical tourism visitors and poor business sentiments. The Orchard precinct has the highest asking monthly gross rents at approximately S\$12.8 psf pm, followed by Novena/Thomson precinct at S\$9.2 psf pm and Farrer Park at S\$4.9 psf pm. The Orchard precinct enjoys the highest rental rates because of its prime location with a wide range of hospitality, retail and F&B offerings, an established medical cluster and a top private hospital with a steady network of medical specialists.



# MARKET OVERVIEW

## 3.4. Impact of COVID-19 and Implications on Paragon Medical

### Favourable outlook in the long term due to prime location

In the midst of the ongoing COVID-19 pandemic, uncertainty prevails in the medical tourism sector as a result of border restrictions around the world. However, the efficient progress in vaccination rates in Singapore has been a source of optimism, with 80% of the population fully vaccinated as of 29 August 2021, meeting the ambitious national vaccination target.

In the short term, border closures will provide a substitution effect in Singapore's domestic medical demand providing some relief to the local medical market, including Paragon Medical. The return of established travel corridors could gradually bring about the return of medical tourism to the APAC region.

In the long term, Singapore's prime medical cluster, which includes Paragon Medical, will remain a top destination for high-end medical tourism visitors in the context of rapidly increasing demand and spending on top quality medical services globally.

## 4. AUSTRALIA

### 4.1. Australia Macro-economic and Retail Market Overview

#### Post-COVID-19 economic recovery well underway despite lockdowns

Australia was less impacted than other developed economies by the COVID-19 pandemic as its GDP contracted by only 1.47% in nominal terms in 2020 (relative to 2019). The Reserve Bank of Australia announced in August 2021 that it expects the Australian economy to grow by 4.8% in 2021.

As of June 2021, the unemployment rate stood at just 4.9% and population growth is

expected to return to its pre-COVID-19 level once international borders reopen.

Recent outbreaks of the Delta variant across Australia, and the resulting lockdowns, have resulted in uncertain outlook in 2nd half of 2021. Towards the end of this year, the economy is forecast to rebound from this setback as restrictions ease, as it has from previous lockdowns.

#### COVID-19 Impact on Australian retail better than expected with increased sales

Over the last year, the Australian retail sector has been buoyed by the effective management of the pandemic and a beneficiary of the largest government stimulus package in Australian history.

Most shopping centres are reporting higher foot traffic than pre-COVID-19 levels and rent collections are almost on par to levels recorded prior to the pandemic. This is mainly due to proximity of these shopping centres to residential areas and work from home arrangements. Preliminary monthly retail trade data shows retail sales year-on-year growth of 25.1% in April, 7.7% in May, 2.9% in June, and -3.1 in July 2021. The decline in July 2021 was due to the Delta variant outbreak, and the resultant lockdowns.

#### Lockdown in New South Wales to last till October, while South Australia's borders remain closed

To manage the Delta variant outbreak, New South Wales has been under lockdown since late June 2021, and expected to last until October 2021 where 70% double-vaccination target is reached.

Despite South Australia's state borders remain closed, it has limited local cases and slowly eased its restriction since the 1-week lockdown in July 2021.

#### National Leasing Code for SMEs

The Australia government introduced the National Leasing Codes for SMEs (the "Code") in April 2020 to mandate rent relief for eligible tenants impacted by COVID-19. It requires landlords to renegotiate rent adhering to the Code and provide rent

relief in proportion to the tenant's decline in turnover. This Code ended in January 2021 for South Australia and was extended to January 2022 for New South Wales in view of the latest lockdown; providing some relief for tenants as it will likely extend a lifeline, preventing business closures otherwise.

#### **Adelaide's 2021 GDP growth expected to exceed 2019**

Greater Adelaide has a population of 1.4 million. There are approximately 700,000 people employed in the city, generating a GDP of A\$86.8 billion, equivalent to 5.2% of the Australian total respectively. According to Oxford Economics estimates, Adelaide's economy contracted by just 1.5% in 2020 - better than the national economy - and the city's GDP is expected to grow by 3.9% in 2021, leading to output recovering beyond 2019 levels.

Over the period 2020-25, Oxford Economics forecasts that GDP growth will average 1.7% per year. Adelaide has fared relatively well through the pandemic. Nevertheless, the short-term outlook remains linked to containment of the coronavirus and vaccine rollout.

#### **Wollongong experienced growth in 2020 despite COVID-19**

Wollongong is located in the Illawarra Region of New South Wales, about 80 kilometres south of the Sydney CBD. Wollongong has a population of approximately 220,000 residents and generates a gross regional product of about A\$13 billion. The city has become a popular residential community and a popular week-end tourism destination at the doorstep of the Greater Sydney Metro Region. According to the National Institute of Economic and Industry Research (NIEIR), the Wollongong economy is one of the few urban areas in Australia that experienced growth in 2020, with an increase of 0.69% year-on-year in its gross regional product.



# MARKET OVERVIEW



“Dark stores” are retail outlets catering exclusively to online shopping, and deal with shipping ordered products to customers and offering a click-and-collect service. With the rapid rise in online retail demand for food retailers, there is an increasing demand for dark stores, especially among the supermarket and specialty food category.

#### Landlords providing increased incentives to maintain occupancy

To incentivise existing tenants to renew their leases and new tenants amidst COVID-19, retail landlords are providing rent-free periods (which were uncommon before COVID-19) and increased incentives to maintain occupancy and cashflow. The rent-free period range is between 6-months to 1-year for a 5-year lease term. Incentives have increased to be in the range of 15% to 25% of total gross rent for the lease term. This is in addition to government subsidies provided to weather the retail sector from the crisis. It is expected that landlords will continue to do so as priority is to maintain a healthy level of occupancy to be well positioned for recovery.

## 4.2. Emerging Retail Trends in Australia

### Online retail, dark stores fast tracked by the COVID-19 pandemic

The impacts of COVID-19 last year fast-tracked online spending in Australia. According to Australia Post’s eCommerce Industry report, 82% of all households in Australia made at least one online purchase in 2020, which was 1.3 million households more than the year prior. Changes in consumer behaviour driven by the effects of COVID-19 stimulated online sales to 16.3% of total retail sales, from about 12% in 2019.

While online sales will undoubtedly continue to trend higher than pre-pandemic levels, consumers remain eager to return in-store to make purchases.

## 4.3. Australia Asset Market Environment

### Figtree Grove catchment has growth upside

Figtree Grove: Figtree Grove’s total trade population stands at approximately 221,000 as of 2021, with an estimated annual population growth rate of 1.3% to reach an estimated population of 278,744 in 2041.

The median weekly household income is estimated at A\$1,340 in 2020, which is higher than the New South Wales state average by 2.4%.

#### **High Household income provide favourable retail landscape**

Westfield Marion: The total trade area population of Westfield Marion is estimated at 650,000 in 2021 and 164,800 in the immediate 10-minute drive radius.

The City of Marion's population growth rate is 1.2% in 2020, which is higher than the 1.0% growth in the Greater Adelaide region.

Within a 10-minute drive radius, expenditure per capita on household goods is 2.1% higher than the rest of Adelaide in 2020.

The City of Marion also has a median household income which is 1.0% higher than the rest of Adelaide at A\$1,278 per week in 2020.

#### **4.4. Retail Supply and Rents**

##### **New supply mainly in large format retail, which doesn't directly compete with Westfield Marion**

The Greater Adelaide region will see some 600,000 sf and 780,000 sf of new retail supply in 2021 and 2022 respectively. The bulk of this supply will come from new large format retail developments, which will not materially impact Westfield Marion due to its unique positioning as the leading shopping destination in the Adelaide retail market.

##### **No major new retail supply in Wollongong**

There is currently no major new retail development in the pipeline in Wollongong other than a small podium and street-level ancillary retail spaces located in downtown mixed-use buildings. New supply in Wollongong is expected to remain limited in years to come, which will ensure the dominance of the Figtree Grove Shopping Centre.

##### **Rents are declining with higher incentives**

As of 2H 2020, the gross face rent for regional shopping centre in Adelaide declined by 3.5% year-on-year from 2019 to 2020. Rental incentives have risen to 22% in 2020, up from 20% in 2019.

Similarly, the gross face rent for sub-regional shopping centres in New South Wales declined by 11.8% year-on-year from 2019 to 2020. Rental incentives have risen to 20% in 2020, up from 17.5% in 2019.

#### **4.5. Australia Retail Market Outlook**

##### **Recovery expected for malls anchored by supermarkets located in residential areas**

Malls anchored by supermarkets and located close to residential areas are expected to continue to outperform CBD retail centres till majority of the population is vaccinated and international borders reopen.

Shopping mall operators embracing digital marketplaces and phygital strategies are also expected to benefit from the transition as they grow their share of the e-commerce market.

Place-making and unique experiential retail offering will continue to be a key success factor for shopping centres and precincts, particularly once the pandemic is over, as customers will want to maximise face to face interaction and live entertainment after nearly two years of pandemic life.

Colliers  
AUGUST 2021

