

## **MARKET STUDY ON RETAIL MALL RENTAL SPACE IN SINGAPORE**

### **SUMMARY OF STUDY AND CCS' VIEWS**

**31 OCTOBER 2008**

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#### **WHY CONDUCT MARKET STUDIES?**

1. Market studies are a key avenue for the CCS to better understand how markets are working and to assess the state of competition in various segments of the economy.

#### **BACKGROUND TO THE RETAIL SPACE STUDY**

2. The CCS commissioned a market study on retail mall rental space in Singapore (“retail space study”) to better understand the state of competition in the retail mall rental market in Singapore. The CCS was also interested in studying the impact of retail Real Estate Investment Trusts (“REITs”) on the retail mall rental market, in light of the increasing number of REIT malls in recent years.

3. The CCS engaged DTZ Debenham Tie Leung (SEA) Pte Ltd (“DTZ”) as the consultant to conduct the study, which was completed in the third quarter of 2008. This paper summarises the relevant key findings and the CCS’ views on these key findings. As part of the study, DTZ conducted a series of interviews with major landlords (including developers, REITs, institutional funds etc), retailers and their related trade associations, as well as drew on information from its own databases and publicly available information from the Urban Redevelopment Authority (“URA”), the Association of Shopping Centres (Singapore)(“TASC”), REITs and developers.

## SUMMARY OF CONSULTANT'S KEY FINDINGS

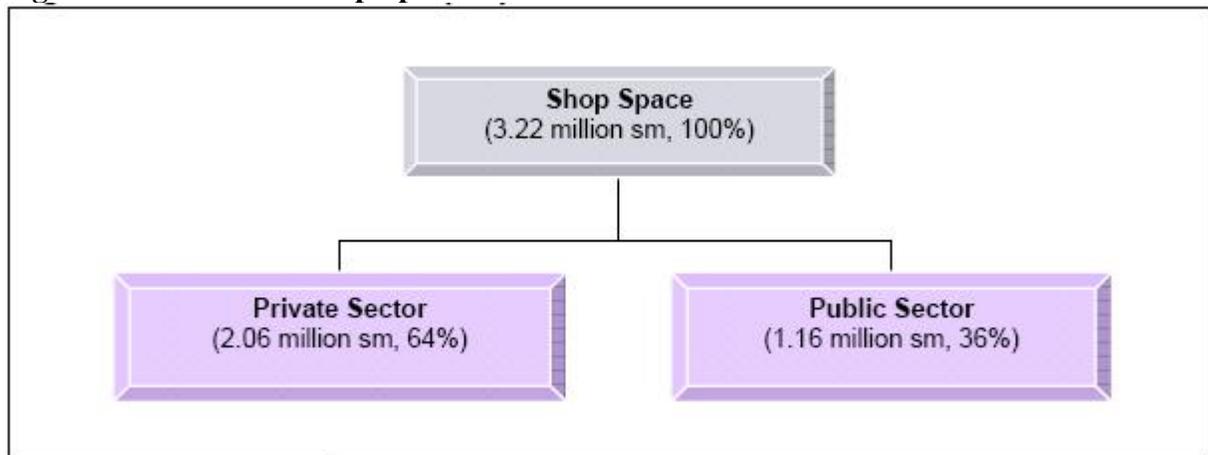
### **(I) Overview of Retail Property Market in Singapore**

4. Based on the consultant's report, retail space in Singapore can generally be classified as public or private space. Public space would predominantly comprise HDB-owned retail space (such as Toa Payoh Hub), HDB shop units and properties owned by government agencies, while private space can be sub-categorised into the following categories:

- (a) *REIT-owned retail space* such as Plaza Singapura, Northpoint;
- (b) *Property-fund-owned retail space*<sup>1</sup> such as Parkway Parade, Liang Court;
- (c) *Developer-owned retail space* such as The Paragon, United Square, Wheelock Place; and
- (d) *Strata-titled retail space*<sup>2</sup> such as Queensway Shopping Centre, Thomson Plaza.

5. Current Supply: As at end 2007, the consultant estimated that the total island-wide shop space<sup>3</sup> amounted to about **3.22 million square metres (mil sm)**. The share attributable to the private sector was about 2.06 mil sm (i.e. 64%)<sup>4</sup> (Figure 1).

**Figure 1: Island-wide Shop Space**



Source: URA, DTZ Consulting & Research, March 2008

<sup>1</sup> Property funds differ from REITs in that property funds are privately held investment trusts. In terms of operations and features, the consultant found that property funds tend to mirror that of REITs.

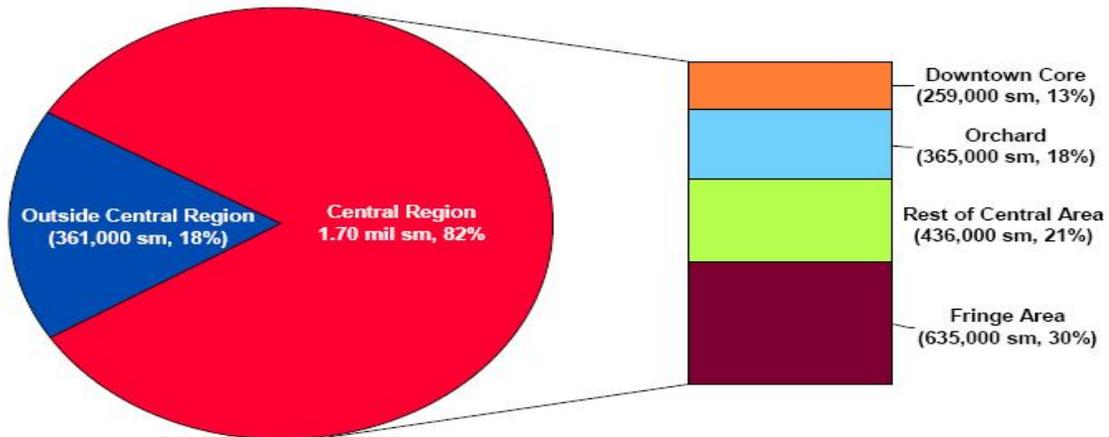
<sup>2</sup> Strata-titled retail space refers to shopping centres developed by private developers which is strata-titled for sale as individual shop units.

<sup>3</sup> This includes strata shop space but excludes all Food & Beverages (F&B) and entertainment space.

<sup>4</sup> The public sector accounted for the remaining 1.16 mil sm or 36% of retail space.

6. Based on URA’s planning regions, of the estimated 2.06 mil sm of private shop space, 82% (1.70 mil sm) was located in the Central Region, which is comprised of the Downtown Core, Orchard Planning Area, Rest of Central Area and Fringe Area (Figure 2 and Table 1).

**Figure 2: Distribution of Private Retail Supply**



Source: URA, DTZ Consulting & Research, March 2008

**Table 1: URA Planning Regions**

Central Region		Outside Central Region (West Region, North Region and East Region)
Central Area	Fringe Area	
<ul style="list-style-type: none"> <li>• Orchard</li> <li>• Downtown Core: <ul style="list-style-type: none"> <li>- Bugis</li> <li>- City Hall</li> <li>- Marina Centre</li> <li>- CBD (Part): Phillip, Raffles Place, Cecil, Maxwell, Tanjong Pagar, Anson</li> </ul> </li> <li>• Rest of Central Area: <ul style="list-style-type: none"> <li>- Outram</li> <li>- Museum</li> <li>- Newton</li> <li>- River Valley</li> <li>- Singapore River</li> <li>- Marina South</li> <li>- Marina East</li> <li>- Straits View</li> <li>- Rochor</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Bukit Merah</li> <li>• Bukit Timah</li> <li>• Queenstown</li> <li>• Kallang</li> <li>• Bishan</li> <li>• Marine Parade</li> <li>• Geylang</li> <li>• Toa Payoh</li> <li>• Tanglin</li> <li>• Novena</li> <li>• Southern Islands</li> </ul>	

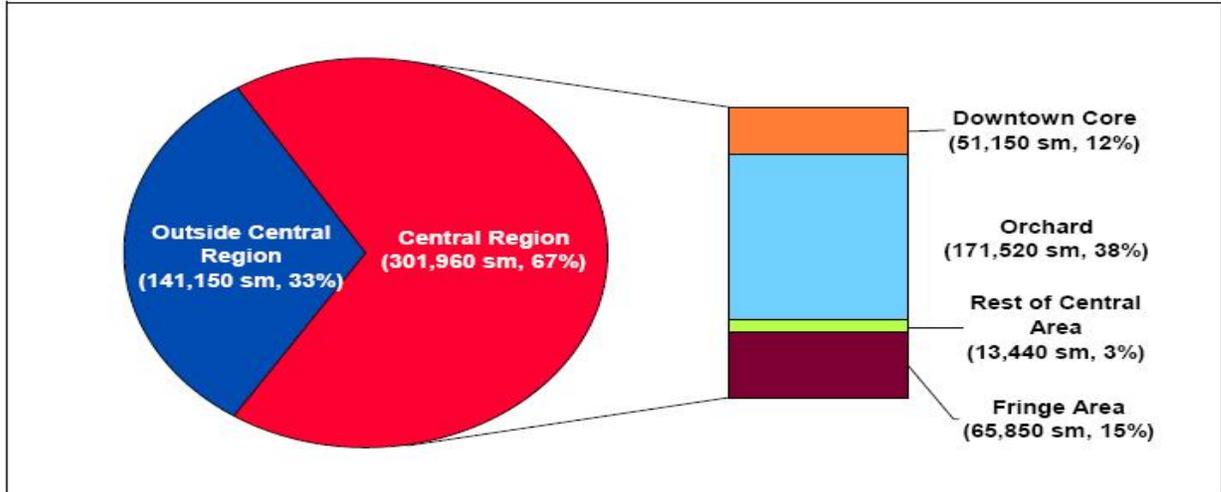
Source: URA, DTZ Consulting & Research, March 2008

7. Future Supply: Going forward, the consultant estimated that a total of approximately **0.44 mil sm** of known private shop space (Net Lettable Area)<sup>5</sup> will be added within the next four years, with the bulk of this located in the *Orchard Planning Area* (Figure 3). Upcoming new retail space in the *Orchard Planning Area* includes ION Orchard, Orchard Central and 313@Somerset amongst others. Other highly anticipated potential supply include Marina Bay Shoppes in the

<sup>5</sup> Excludes all Food & Beverages (F&B) and entertainment space.

Marina Bay Sands integrated resort and City Square Mall at Kitchener Link, which are likely to be completed in 2009.

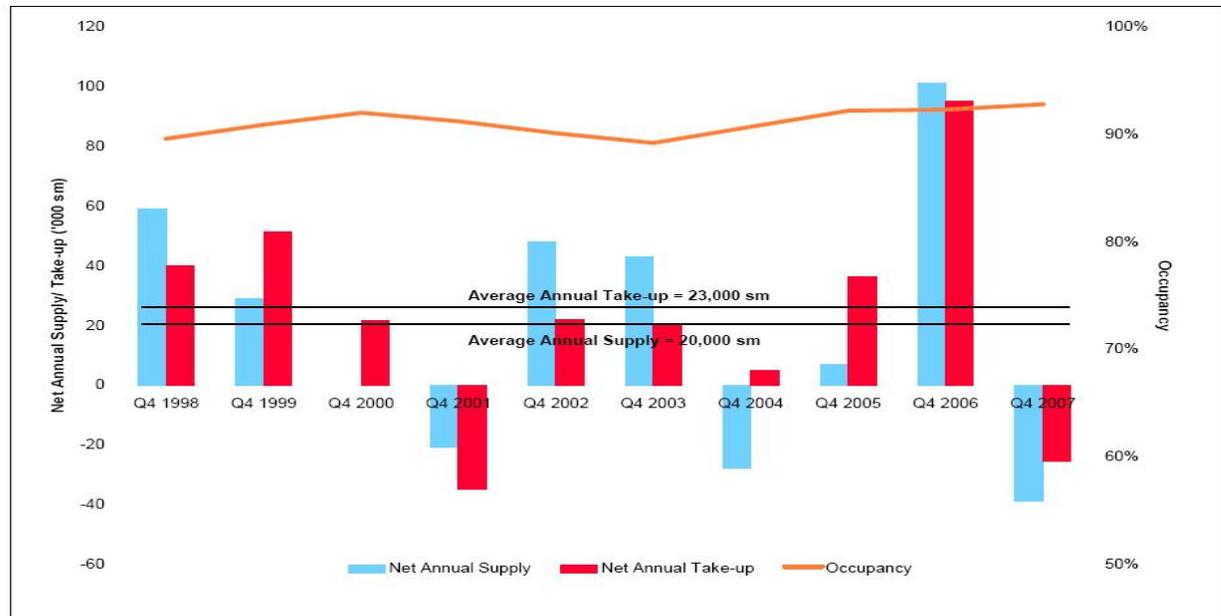
**Figure 3: Distribution of Known Potential Supply**



Source: URA, DTZ Consulting & Research, March 2008

8. Demand (Take-up) and Occupancy: Based on the consultant’s research, the take-up for private shop space was partly supply-led, as new malls with prospective catchment areas attracted retailers to test the ground and operate a business. The average net annual take-up of private shop space averaged 23,000 sm in the past decade, marginally higher than the average net annual supply of 20,000 sm (Figure 4).

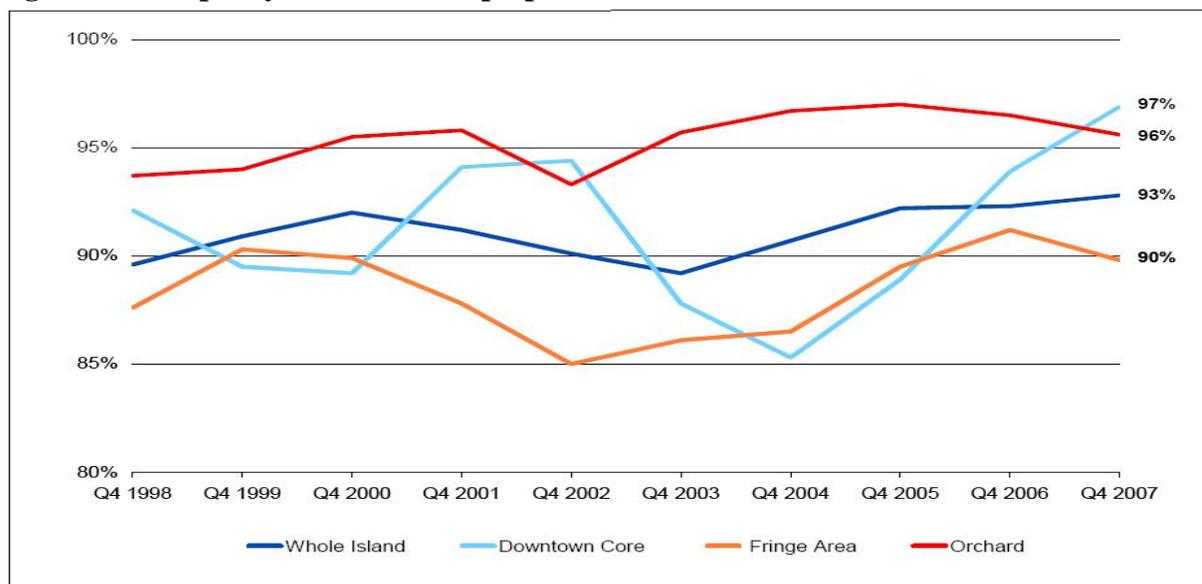
**Figure 4: Net Annual Take-up, Supply and Occupancy**



Source: URA, DTZ Consulting & Research, March 2008

9. The consultant also found that occupancy rates of private shop space generally stayed above 90%. REIT mall occupancy rates tended to outperform the island-wide average (93%), as well as the occupancy rates classified according to URA's specific planning areas – *Orchard* (96%), *Downtown Core* (97%), *Fringe Area* (90%) (Figure 5), with several REIT malls enjoying full occupancy. This was due to the active management undertaken by REITs to conduct strong advertising and promotional activities, as well as continuous asset enhancements which attracted high shopper traffic. In addition, Singapore's strong economic performance and improved consumer sentiment, along with renewed interests from retailers in anticipation of the integrated resorts and the remaking of Orchard Road, have underpinned the strong demand for shop space in recent years.

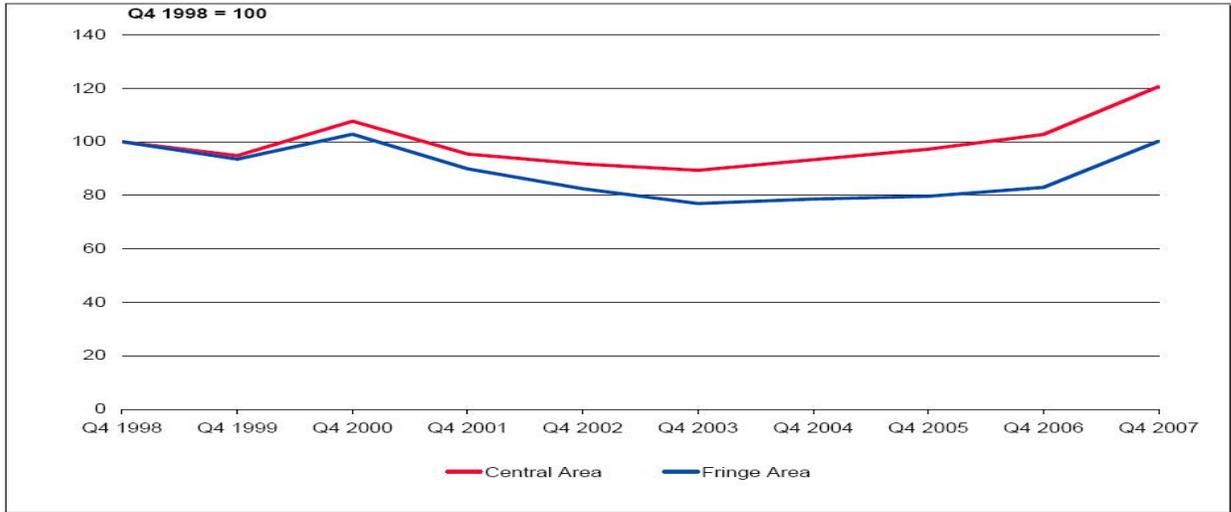
**Figure 5: Occupancy of Private Shop Space**



Source: URA, DTZ Consulting & Research, March 2008

10. **Rental:** Since the economic recovery in 2004, the consultant also found that rental growth for private shop space had accelerated. Between 2003 and 2006, both the *Central* and *Fringe Areas* posted single-digit growth in rents based on the URA Rental Index for Private Shop Space. **In 2007, rents for the *Central Area* rose by 17%, while rents in the *Fringe Area* increased by 21%** (Figure 6).

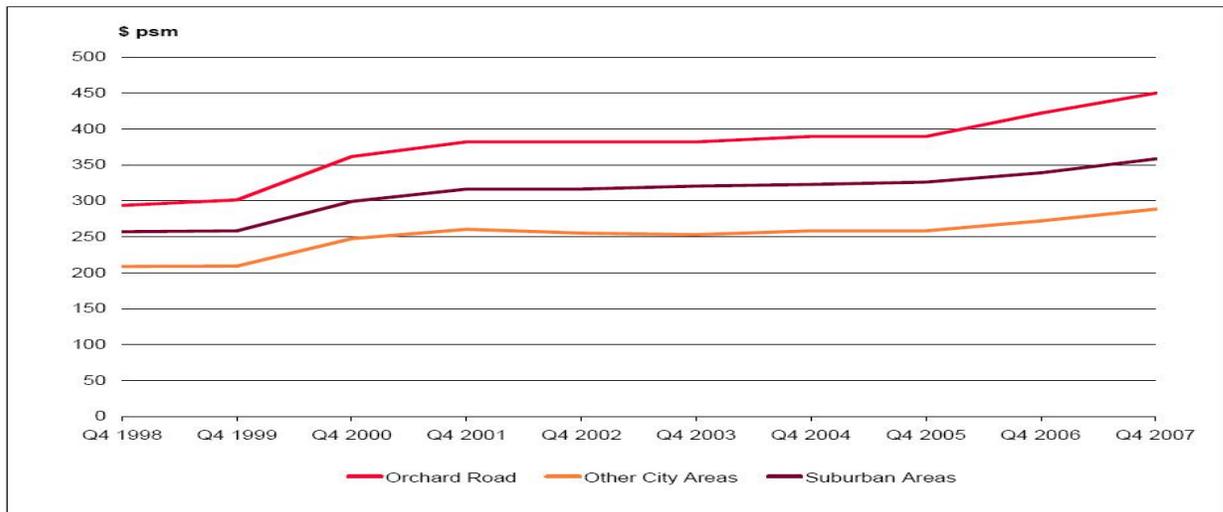
**Figure 6: URA Rental Index for Private Shop Space**



Source: URA, DTZ Consulting & Research, March 2008

11. Suburban rents also tended to outperform that in Other City Areas (Figure 7), as suburban malls received high pedestrian traffic by virtue of being located near high catchment areas such as major residential estates and MRT stations.

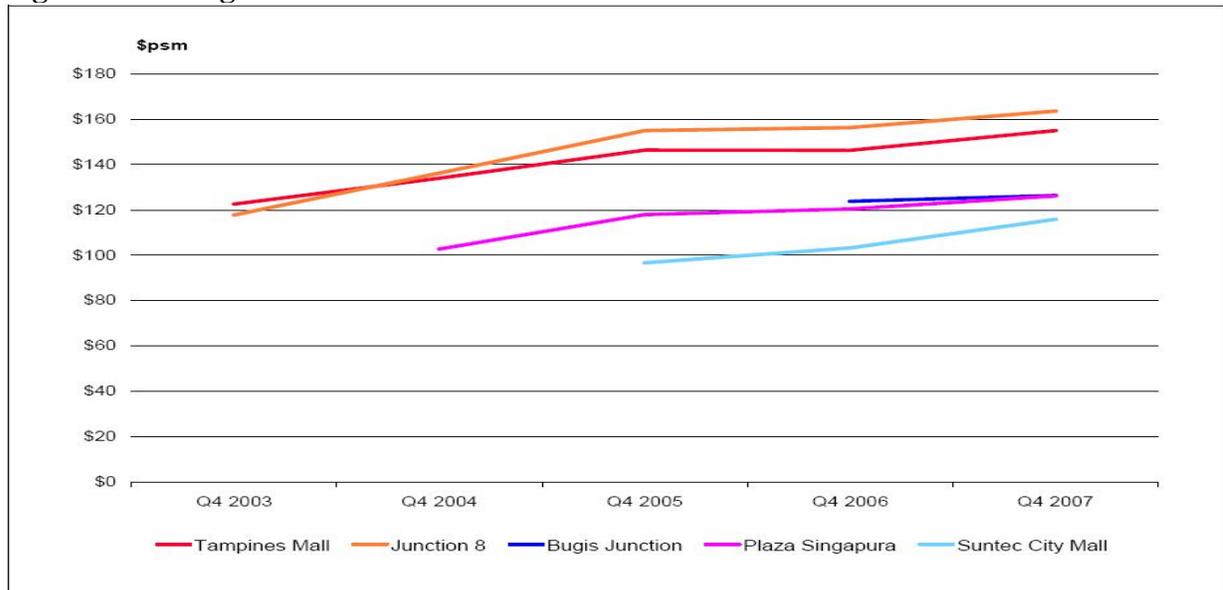
**Figure 7: Monthly Gross rents of Prime First-Storey Malls**



Source: DTZ Consulting & Research, March 2008

12. Rents of selected suburban REIT malls had also posted strong rental growth. For instance, Tampines Mall and Junction 8 (both under CapitaMall Trust or “CMT”) posted 26% and 39% growth in rentals respectively since 2003 – 2004 despite their suburban locations (Figure 8).

**Figure 8: Average Rent for Selected REIT Malls**



Source: CMT, Suntec REIT, DTZ Consulting & Research, March 2008

## (II) Market Segmentation

13. From the interviews conducted, the consultant found that landlords of organized retail space, i.e., malls that are primarily under a single ownership and management, generally do not consider strata-titled retail space, shophouses or retail space owned by public agencies as their competitors. Some reasons include: (i) the difference in size, as malls are able to offer a comprehensive cluster of retail, F&B and other services under one roof; (ii) the difference in mall ownership and management by specialist managers who are focused in the retail mall business and undertake active centre management, as well as advertising and promotional programs aimed at attracting the target market; and (iii) the overall shopping experience offered in organized retail space. The consultant found that retailers confirmed the above view.

14. Given the above, the consultant hence focused on private non-strata retail space for the purposes of this study<sup>6</sup>, and found that there was approximately 2.03 mil sm of private non-strata retail space in Singapore<sup>7</sup>.

<sup>6</sup> However, the consultant acknowledged that there is a possibility that such public spaces may become viable alternatives in the future.

<sup>7</sup> This includes F&B and entertainment space. There is no publicly available data from URA on private non-strata retail space.

15. By broadly applying the *International Council of Shopping Centers*'<sup>8</sup> classification of shopping centres to Singapore's context, the consultant classified the majority of private non-strata retail space into 8 different types of malls. The classifications are – *Regional Malls, City Malls, Suburban Malls, Neighbourhood, Specialty Malls, Entertainment, Warehouse Retail Scheme*<sup>9</sup> (“WRS”) / Standalone and Others. Figure 9 shows the estimated market share of each classification of private non-strata retail space. Table 2 lists down the description of each classification and Table 3 lists down the examples of retail malls in each classification.

**Table 2: Classification of Malls**

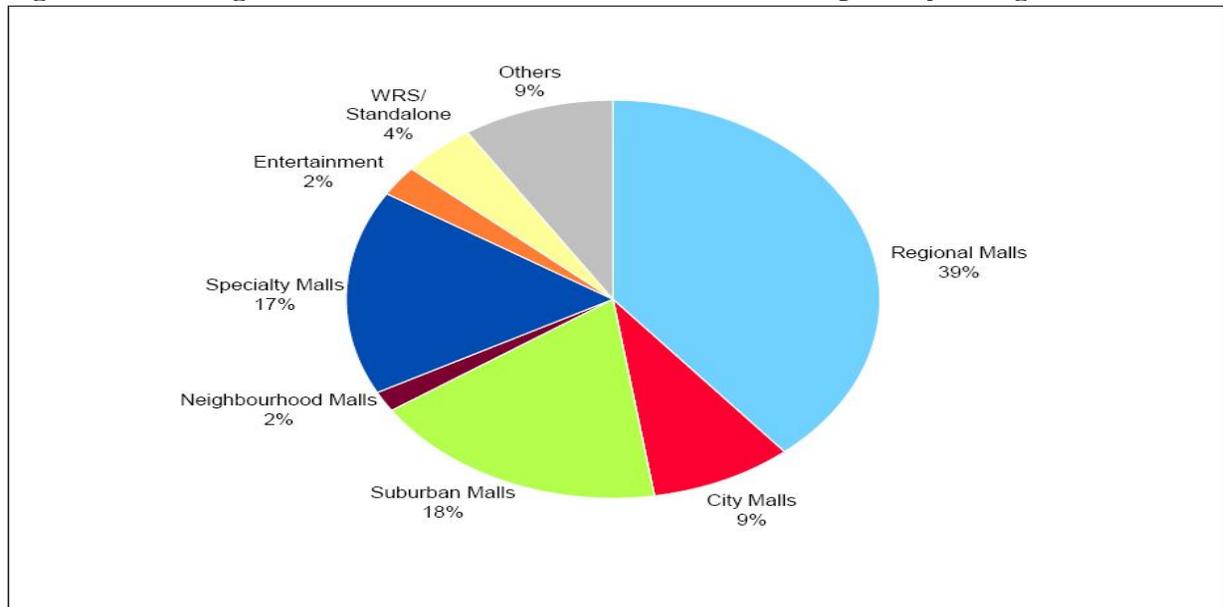
Type of Malls	Concept	Size (sm)	Anchor	Type of Anchor	Location
Regional Malls	General merchandise, fashion	Over 37,000	2 or more	Department store, supermarket, electronics, furniture, books	No specific locations
City Malls	General merchandise, fashion	9,000 – 28,000	Not necessary	Supermarket	Central Area, e.g. Raffles Place, Orchard and Marina Areas
Suburban Malls	General merchandise, fashion, convenience shopping	9,000 – 37,000	1 or more	Department store, supermarket, electronics, furniture, books	Suburban areas
Neighbourhood	General merchandise, convenience shopping	1,000 – 14,000	NA	NA	Neighbourhood areas
Specialty Malls	Specialty merchandise e.g. electronics, higher-end merchandise, fashion	4,600 – 23,000	NA	NA	No specific locations
Entertainment	Entertainment outlets	NA	NA	NA	NA

Source: DTZ Consulting & Research, March 2008

<sup>8</sup> The International Council of Shopping Centers is the global trade association of the shopping centre industry worldwide. Its members in the U.S., Canada and more than 80 other countries include shopping centre owners, developers, managers, marketing specialists, investors, lenders, retailers and other professionals as well as academics and public officials.

<sup>9</sup> The Warehouse Retail Scheme is a form of mixed-use retail development that enables companies to base their regional competencies in Singapore and leverage on Singapore's strong business development to service the region and the world. Giant, Courts Megastore and IKEA are the first three retailers to qualify under this scheme with their retail warehouses in Tampines. IKEA owns its own store while Ascendas REIT owns the other two.

**Figure 9: Existing Distribution of Private Non-Strata Retail Space by Categories**



Source: DTZ Consulting & Research, March 2008

**Table 3: Existing Distribution of Private Non-Strata Retail Space by Categories**

By Area	Examples of Malls	Estimated NLA (sm)	%
Regional Malls	Causeway Point, Ngee Ann City, Great World City, Jurong Point, Suntec City Mall, VivoCity	790,000	39%
City Malls	Central, Millenia Walk, The Heeren, Wheelock Place	176,000	9%
Suburban Malls	Compass Point, Sun Plaza, West Mall, Junction 8, Tampines Mall	364,000	18%
Neighbourhood	Bedok Market Place, Tampines Mart, Hougang Green Shopping Mall	34,000	2%
Specialty Malls	Delfi Orchard, Funan DigitaLife Mall, Pacific Plaza, Paradiz Centre, Tanglin Mall	342,000	17%
Entertainment	Clarke Quay, St. James Power Station	49,000	2%
WRS/ Standalone	IKEA, Tampines WRS	89,000	4%
Others	Eminent Plaza, Fortune Centre, The Majestic	189,000	9%
<b>Total</b>		<b>2,033,000</b>	<b>100%</b>

Source: DTZ Consulting & Research, March 2008

16. Going forward, the amount of private non-strata retail space is estimated to increase by 0.394 mil sm to 2.43 mil sm (Table 4)<sup>10</sup>.

<sup>10</sup> Net Lettable Area of known potential supply, includes F&B and entertainment space in private non-strata malls.

**Table 4: Expected Distribution of Private Non-Strata Retail Space by Categories by 2010**

By Area	Developments	Estimated NLA (sm)	%
Regional Malls	City Square Mall , ION Orchard, Marina Bay Shoppes	949,000	39%
City Malls	Orchard Central, 313@Somerset, Redevelopment of Hotel Phoenix/ Specialists' Shopping Centre/ Orchard Emerald	250,000	10%
Suburban Malls	Centris, Nortpoint 2, Tampines 1,	410,000	17%
Neighbourhood	Bedok Mall, Sembawang Shopping Centre, West Coast Plaza, Yew Tee Point	62,000	3%
Specialty Malls	Funan DigitalLife Mall extension, Wilkie Edge	381,000	16%
Entertainment	Iluma at Bugis	56,000	2%
WRS/ Standalone	WRS at Jurong East	124,000	5%
Others	Retail at The Biltmore, Retail at VisionCrest	195,000	8%
<b>Total</b>		<b>2,427,000</b>	<b>100%</b>

Source: URA, DTZ Consulting & Research, March 2008

### (III) Key Retail Mall Players

17. Market Shares: Out of the total estimated 2.03 mil sm of private non-strata retail space, the consultant estimated that **the share owned by developers was about 64% while REITs owned about 29%**. The remaining 7% was held by private equity funds. Apart from CMT and Mapletree Investments which held an estimated market share of 14% and 6% respectively, no other developer, REIT or fund held more than 5% of the market share (Table 5).

**Table 5: Ownership of Private Non-Strata Retail Space by Net Lettable Area**

<b>Developers</b>	<b>Major Developments</b>	<b>Estimated Market Share</b>
Mapletree Investments	VivoCity, HarbourFront Centre	6%
Far East Organization	Albert Court, Central, Far East Square, Icon Village, Kingston Terrace, Lucky Chinatown, One Fullerton, Riverside Point, Siglap Centre, Sin Ming Plaza, Square 2	4%
Singapore Land and Others	Marina Square	3%
Frasers Centrepoint	Centrepoint Shopping Centre, Compass Point, Robertson Walk, Valley Point	3%
City Development	Chinatown Plaza, Chinatown Point, Clementi Arcade, Delfi Orchard, The Palais Renaissance	3%
Singapore Press Holdings	The Paragon	3%
Aligreen Properties	Great World City, Tanglin Mall, Tanglin Place	3%
Shaw Organisation	Oriental Plaza, Shaw Centre, Shaw House, Shaw Plaza, Shaw Leisure Gallery	3%
Ngee Ann Development	Ngee Ann City	2%
CapitaLand	Clarke Quay	2%
Guthrie & Lim Kee Tah	Jurong Point	2%
United Overseas Land	United Square, Velocity@Novena Square	2%
Singapore Agro Agricultural	Turf City	2%
Hotel Properties	Forum The Shopping Mall	2%
OG	OG Albert, OG Building, OG Orchard Point	1%
Cathay Organisation	Cineleisure Orchard, The Cathay, The Majestic	1%
Pontiac Marina	Millenia Walk	1%
Ikano	IKEA, Warehouse Retail Scheme	1%
Others	Kallang Leisure Park, Mustafa Centre, OUB Centre, The Amara Shopping Centre,	20%
<b>Subtotal</b>		<b>64%</b>
<b>REIT</b>	<b>Major Developments</b>	<b>Estimated Market Share</b>
CapitaMall Trust	Bugis Junction, Bukit Panjang Plaza, Funan DigitalLife Mall, Hougang Plaza, IMM, Junction 8, Lot 1 Shoppers' Mall, Plaza Singapura, Raffles City Shopping Centre, Rivervale Mall, Tampines Mall	14%
Suntec REIT	CHIJMES, Park Mall, Suntec City Mall	5%
Frasers Centrepoint Trust	Anchorpoint, Causeway Point, Northpoint	3%
A-REIT	WRS Courts, WRS Giant	3%
Macquarie MEAG Prime REIT	Ngee Ann City, Wisma Atria <sup>1</sup>	2%
Allico Commercial Trust	China Square Central	1%
CapitaComercial Trust	Bugis Village, Retail at Starhub Centre	1%
<b>Subtotal</b>		<b>29%</b>
<b>Fund</b>	<b>Major Developments</b>	<b>Estimated Market Share</b>
Asia Retail Mall Fund	Century Square, Liang Court, NTUC Hougang Mall, Tiong Bahru Plaza, White Sands	4%
Asia Pacific Investment Company	Parkway Parade	3%
<b>Subtotal</b>		<b>7%</b>
<b>Total</b>		<b>100%</b>

Source: DTZ Consulting & Research, March 2008

18. Amongst *Regional Malls*, the consultant found that developers, REITs and funds accounted for about 54%, 39% and 7% of this market segment respectively. CMT was estimated to have the highest market share at 19%, followed by Mapletree Investments with 11% and Suntec REIT with 10%.

19. For *City Malls*, the consultant found that developers accounted for about the entire 100% within this market segment. OG, Pontiac Marina and Cathay Organisation had about the largest market share at 16% each, while Far East

Organization had about 11%. The other developers each held less than 10% in this segment.

20. Amongst *Suburban Malls*, the consultant found that developers, REITs and funds accounted for about 53%, 29% and 18% of this market segment respectively. CMT was estimated to have the highest market share at 23%, followed by Asia Retail Mall Fund with 18% and United Overseas Land with 10%.

21. For *Specialty Malls*, the consultant found that developers, REITs and funds accounted for about 75%, 17% and 8% of this market segment respectively. City Development was estimated to have the highest ownership of 11%, followed by CMT and Shaw Organisation with 10% each.

#### *Landlords' Criteria for Tenant Selection*

22. The consultant also found that once the vision statement and target market of a mall is established to support its positioning, a tenant mix is then determined by the landlord with areas allocated for specific trades. Tenants are then short-listed to ensure that their trade and concept are in alignment with the mall positioning and overall trade mix. Thereafter, retailers will compete on track record and terms. Rent is often the over-riding factor in malls owned by REITs and property funds. The highest offer normally secures, although a new-to-market retailer or concept will have an advantage.

#### *Retailers' Bargaining Power*

23. The consultant found that currently, tenants usually do not have much bargaining power in terms of leasing terms and conditions. Many retailers also reflected that maintaining their presence in a particular mall or maintaining a harmonious long-term relationship with the landlords are key considerations as they may have stores in other malls belonging to the same landlord or they may be the landlord's future business partners. For new entrants, some were willing to risk their investment to secure a place in the mall. On the other hand, bargaining power for retailers tended to be stronger in non REIT/property fund malls. However, the market is rapidly evolving with business practices of REITs and property funds being accepted by retailers as the market practice.

#### **(IV) Review of Business Practices**

24. The consultant found that while the business practices of most landlords were similar, those of REITs and property funds were more structured and revenue

focused. The lease terms helped to reinforce the mall concept, positioning, centre management and provide flexibility for asset enhancement works.

25. Changing rental structures: Rental structures are now evolving from fixed rents to incorporate a variable component based on the business volume achieved by the retailer. It is also increasingly common for malls owned by REITs and property funds to stagger their base rents upwards on an annual basis, so that the tenant can begin with more ‘concessionary’ terms, but base rents will continue to rise during the tenancy period.

26. Redevelopment & relocation rights: Gaining popularity in lease agreements are terms which give landlords the right to redevelop the building and relocate the tenant without the obligation to compensate, the right to revise the boundaries of the premise leased by the tenant, and the right to change locations of common areas. The landlords’ justification is that such changes lead to an improvement in the mall which should benefit all tenants, including those affected by the works.

27. Exclusivity: With increasing competition amongst landlords, some REITs and property funds have incorporated an exclusivity clause whereby the tenant has to pay a higher base rent should he commence a business or trade which is the same or similar to an existing one he has opened in the vicinity (with the exception of malls owned by the same landlord). It was found that the landlord’s rationale for this is that an additional store in close proximity would result in trade cannibalism, which would affect the sales turnover at the demised premise<sup>11</sup>, and hence the variable rent the landlord receives. As the exclusivity clause was only introduced recently, its impact and enforcement has yet to be established. Introduction of such a clause would encourage retailers to select their store locations carefully.

28. The current practices, especially those of REITs and property funds, foster a much closer relationship between landlords and tenants to work together for the common good of the mall and ultimately, the tenants’ own businesses. Many retailers have acknowledged the benefits of these leasing practices.

## **(V) Consultant’s Assessment of the Impact of REITs and Property Funds on Retail Malls and Competition**

### *Impact on Retail Malls*

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<sup>11</sup> Referred in a lease document as the property, e.g. shop units, that is subject to the lease.

29. The consultant found that the emergence of REITs and property funds since 2002 has raised the level of professionalism and practice in the industry.

30. Asset Enhancement: REITs and property funds typically derive their gains mainly from acquisition and asset enhancement (Table 6). This enables REITs and property funds to extract value from every opportunity, e.g. by driving shopper traffic to upper floors by increasing accessibility and relocating anchors, decanting lower use office space to retail space, re-tenanting, conversion of non-revenue generating space to revenue generating retail space and utilizing unused Gross Floor Area.

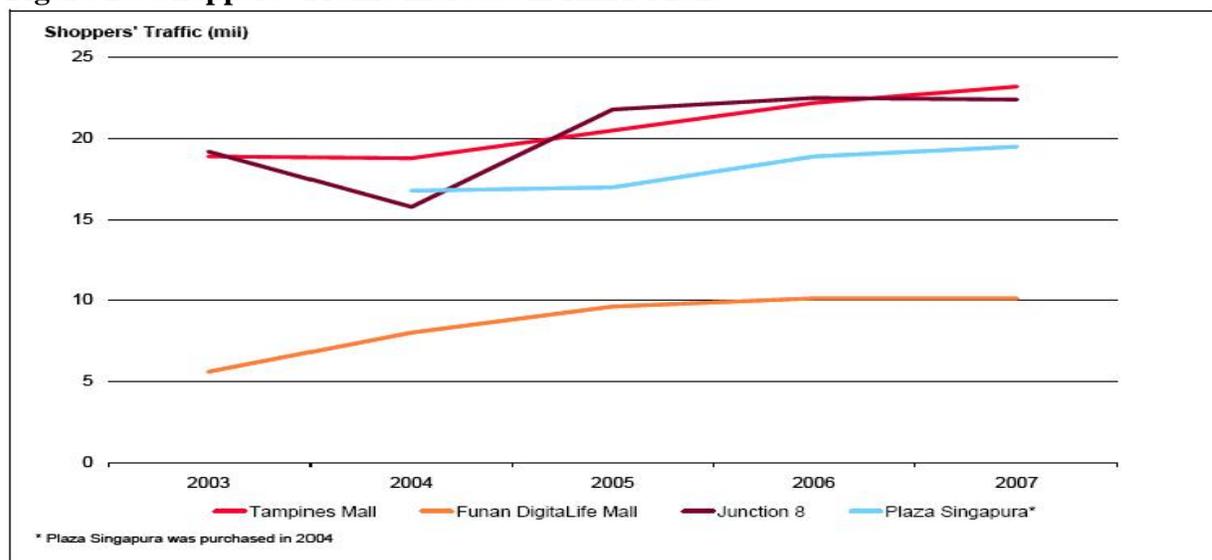
**Table 6: Examples of Asset Enhancement Projects**

Mall	Estimated Capital Expenditure	Description	Estimated Additional GFA (sm)
<b>CapitaMall Trust</b>			
Bugis Junction	\$31.4 million	<ul style="list-style-type: none"> <li>• Additional retail area</li> <li>• Increase specialty shops and food concept outlets</li> <li>• New façade</li> <li>• Balconies on Level 2</li> </ul>	770
Funan DigitalLife Mall	\$5.0 million	<ul style="list-style-type: none"> <li>• Enhance of tenancy mix with more F&amp;B and established tenants</li> <li>• Improve connectivity to upper levels</li> <li>• New glass façade</li> </ul>	N.A.
IMM	\$137.5 million	<ul style="list-style-type: none"> <li>• Two-storey extension</li> <li>• Reconfiguration of space</li> <li>• Create stronger circulation aisle</li> <li>• Improve linkages to carpark</li> <li>• Rooftop garden</li> <li>• Carpark guidance system</li> </ul>	1,230
Junction 8	\$27.7 million	<ul style="list-style-type: none"> <li>• Conversion of carpark to leasable area</li> <li>• Conversion of office into retail</li> <li>• Relocation of AHU</li> </ul>	6,670
Jurong Entertainment Centre	\$138.2 million	<ul style="list-style-type: none"> <li>• Additional GFA from URA</li> <li>• Reconfiguration of space</li> <li>• Rooftop garden</li> </ul>	9,170
Lot One Shopper's Mall	\$51.7 million	<ul style="list-style-type: none"> <li>• Extension block</li> <li>• Reconfiguration of space</li> <li>• Wet playground on Level 5</li> <li>• Rooftop plaza</li> <li>• New facade</li> </ul>	1,530
Plaza Singapura	N.A.	<ul style="list-style-type: none"> <li>• Reconfiguration of space</li> <li>• Relocation of AHU</li> </ul>	1,120
Sembawang Shopping Centre	\$68.4 million	<ul style="list-style-type: none"> <li>• Redevelopment</li> <li>• Decant residential and Level 4 for retail</li> </ul>	2,910
Tampines Mall	\$18.7 million	<ul style="list-style-type: none"> <li>• Reconfiguration of common space and anchor space</li> <li>• Conversion of common corridor to leasable area</li> <li>• Travelators from B3 to B1</li> <li>• Two escalators</li> <li>• Covered walkway</li> <li>• Outdoor terrace with landscape gardens and water features</li> <li>• Carpark guidance system</li> </ul>	810
<b>Frasers Centrepoint Trust</b>			
Anchorpoint	\$12.6 million	<ul style="list-style-type: none"> <li>• Repositioning as "Village Mall"</li> <li>• New tenant mix including factory outlet concept</li> </ul>	40
Northpoint	\$30.0 million	<ul style="list-style-type: none"> <li>• Reconfiguration of space</li> <li>• Improve tenant mix</li> <li>• Increase visibility of shops</li> <li>• Rooftop garden with children playground</li> </ul>	200
Northpoint 2	N.A.	<ul style="list-style-type: none"> <li>• Extension of existing Northpoint</li> </ul>	7,710

Source: CMT, FCT, DTZ Consulting & Research, March 2008

31. Shopper Traffic: REITs have successfully increased shopper traffic through active asset management. Increased offerings within the mall and better mall positioning also made the malls more attractive to shoppers (Figure 10).

**Figure 10: Shoppers' Traffic Increase in REIT Malls**



Source: CMT Annual Reports, DTZ Consulting & Research, March 2008

32. Revenue Targets: Assets owned by REITs and property funds have very specific revenue targets set quarterly and annually, e.g., 3-4% annual rental growth<sup>12</sup>. One of the likely consequences of optimizing revenue targets is that the percentage of space occupied by anchor tenants, who typically pay lower rents, has been significantly reduced.

33. New Concepts: As REITs and property funds are generally more global in their outlook, they have the opportunity to bring many of their experiences and new concepts they have come across, to their malls in Singapore.

34. Market Transparency: REITs have also increased transparency in the market as information on gross revenue, operating expenses, net property income, debt capital information, footfall<sup>13</sup>, valuation, yields, summary of renewals and new leases, occupancy rates, trade-mix, gross turnover rent and other income as well as asset enhancement plans and business strategies are now publicly available in order to attract investors.

<sup>12</sup> Rental growth is only one of the areas of revenue growth for REITs and property funds. Many have a multi-prong revenue growth strategy arising from: (i) yield accretive acquisitions; (ii) asset enhancements to improve income and asset values; (iii) non-traditional sources of revenue e.g. advertisements; (iv) organic growth through efficient property operations and performance; and (v) development profit.

<sup>13</sup> Footfall refers to the amount of pedestrian traffic.

### *Impact on Competition*

35. Less Room for Large Space Users and Start-ups: The drive towards the more productive usage of space with higher rents has led to the difficulty of large space users and start-ups/entrepreneurs leasing space in major malls as they are unable to meet the landlords' rental expectations.

36. Two-tier Market: The efficient capital structure and pro-active management style of REITs and property funds has led to a two-tier market comprising of REITs and property funds in the top tier, versus that of other mall owners. Retailers tend to prefer retail space in these top tier malls as these malls are actively managed and promoted.

37. Converging Business Practices: Notwithstanding the two-tier market, many mall owners have been quick to adopt the business practices used by REITs and property funds, including introducing turnover rents for their leases. Nevertheless, there are some landlords who exercise greater flexibility and are prepared to deviate from converging market practices.

## **CCS' VIEWS ON THE STUDY FINDINGS**

### **No Competition Concerns in Retail Mall Market**

38. Based on the consultant's findings, the CCS is of the view that there are unlikely to be competition concerns in the retail mall rental market at this juncture, for the following reasons:

- (a) No landlord is likely to hold a dominant position in retail malls: Retailers are able to negotiate and choose between different malls, in accordance with their own business strategies.
- (b) Bargaining positions a function of demand and supply for retail mall rental space: While limited supply and rising demand may have conferred greater bargaining power to landlords and resulted in rising retail mall rentals, this situation might be easing given the uncertain global economic outlook. CCS notes that URA's 3rd Quarter 2008 real estate statistics have shown a 0.6% decrease in the rentals of shop properties.
- (c) Expected increase in supply over the next few years: The supply of Net Lettable Area is expected to increase by about an estimated 0.39

mil sm<sup>14</sup> in the next few years. This is an increase of 19% over the relevant retail space currently available, which may help to ease the current situation.

- (d) Entry of REITs and property funds and their benefits to retailers and shoppers: The entry of REITs and property funds into retail space and their business practices have led to an overall improvement in retail mall management. This has benefited both retailers and shoppers in improving shoppers' experience through a wider tenant mix, mall-wide promotions and more frequent upgrades in mall facilities.

**Disclaimer:**

CCS' current views on the market studied shall not in any way restrict or confine the CCS' ability to carry out its duties and functions as set out in the Competition Act (Cap. 50B). In particular, the CCS reserves the right, when examining any alleged anti-competitive activity that may come to its attention, to carry out its own market definition exercise or competition assessment, which may deviate or differ from those views or findings expressed by the consultants or the CCS in relation to this study.

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<sup>14</sup> Net Lettable Area of known supply, includes F&B and entertainment space in private non-strata malls.