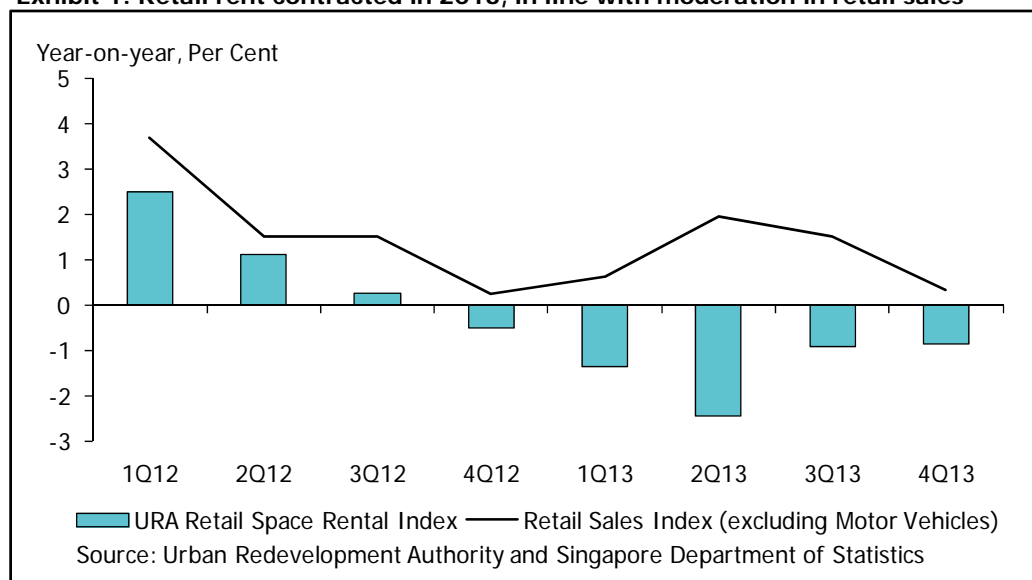


### Box 2.1: An Analysis of Retail Rental Renewal Trends Using Micro Data

In 2013, URA's retail rental index declined by 0.8 per cent, extending the 0.5 per cent decline in 2012. The decline in retail rent was in line with the weak performance of retail sales over this period. In particular, the increase in the Retail Sales Index (excluding motor vehicles) moderated to 1.1 per cent in 2013, from 1.7 per cent in the previous year ([Exhibit 1](#)).

**Exhibit 1: Retail rent contracted in 2013, in line with moderation in retail sales**



Notwithstanding the decline in the retail rental index, some retailers have expressed concerns about the steep rental increases that they face when renewing their leases. This box article analyses the trends in rental renewals, which would more closely approximate the experience of retailers on the ground.

Using anonymised retail rental transaction data from the Inland Revenue Authority of Singapore (IRAS)<sup>1</sup>, we identify cases of rental renewals among all the transactions recorded over the period 2000 to 2013. We then analyse the cumulative increase in monthly rent per square metre faced by retail companies at the point of lease renewal (i.e., difference between the rent in the new rental contract and the rent in the previous contract).<sup>2</sup> Finally, we focus on rental renewal trends in the last two years, including by the type of ownership of the retail space.

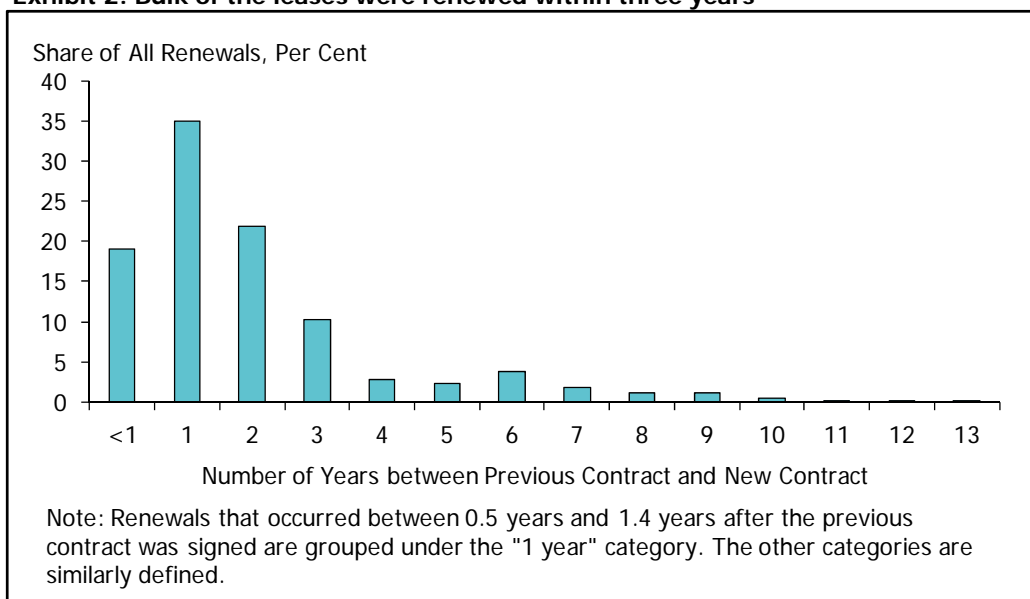
#### *Most of the retail rental transactions were renewals...*

Of the 51,000 retail rental transactions recorded over the 2000 to 2013 period, 64 per cent were lease renewals. Out of these lease renewal cases, 86 per cent of the leases were renewed within three years of the signing of the previous rental contract ([Exhibit 2](#)).

<sup>1</sup> The dataset includes the monthly rent and floor area of individual retail units. The monthly rent, as declared by the retail company, is the average rent that it expects to pay the landlord over the tenure of the contract, and would encompass both the base rent and the expected gross turnover rent (i.e., the rent that is tied to the revenue of the retailer).

<sup>2</sup> From the data, lease renewals are identified based on repeated transactions of the same retail unit across time. As company details are not captured in the dataset, the lease renewals cannot be comprehensively separated into renewal by the same retail company or "renewal" (i.e., new lease) by a different retail company.

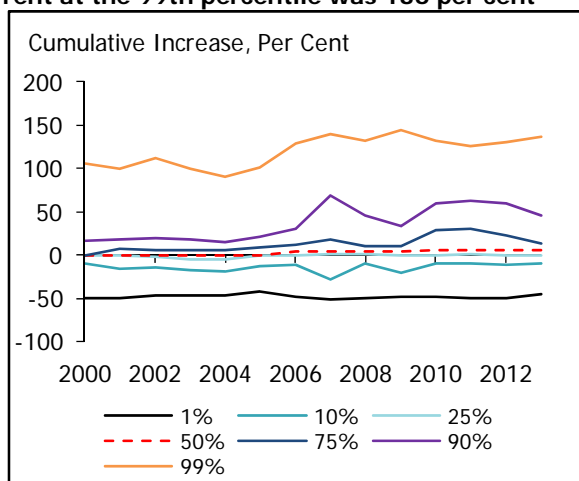
**Exhibit 2: Bulk of the leases were renewed within three years**



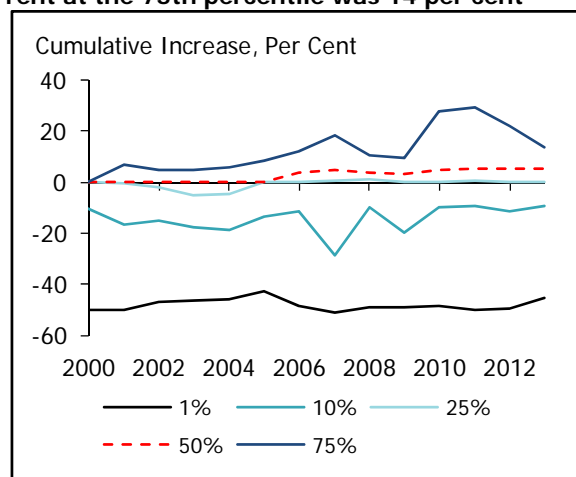
*...and the cumulative increase in rent upon renewal was highly skewed<sup>3</sup>*

The distribution of the cumulative increase in rent upon renewal was highly skewed at the top (Exhibit 3A). On average, of the 2,100 rental renewals every year, only 1 per cent (or 21 rental renewals) experienced a cumulative increase in rent of 100 per cent or more. By and large, most of the cumulative increases in rent experienced by retailers were much lower. For renewals in 2013, the median cumulative increase was 5.5 per cent. The cumulative increase was 136 per cent at the 99th percentile, dropping to 45 per cent at the 90th percentile and 14 per cent at the 75th percentile. In general, the retailers that saw higher cumulative increases were renewing their leases after longer periods or had units in more attractive locations. Interestingly too, in every year, including 2013, up to 25 per cent of the retailers would either see no increase or a decline in rent upon lease renewal (Exhibit 3B).

**Exhibit 3A: In 2013, the cumulative increase in rent at the 99th percentile was 136 per cent**



**Exhibit 3B: ...while the cumulative increase in rent at the 75th percentile was 14 per cent**



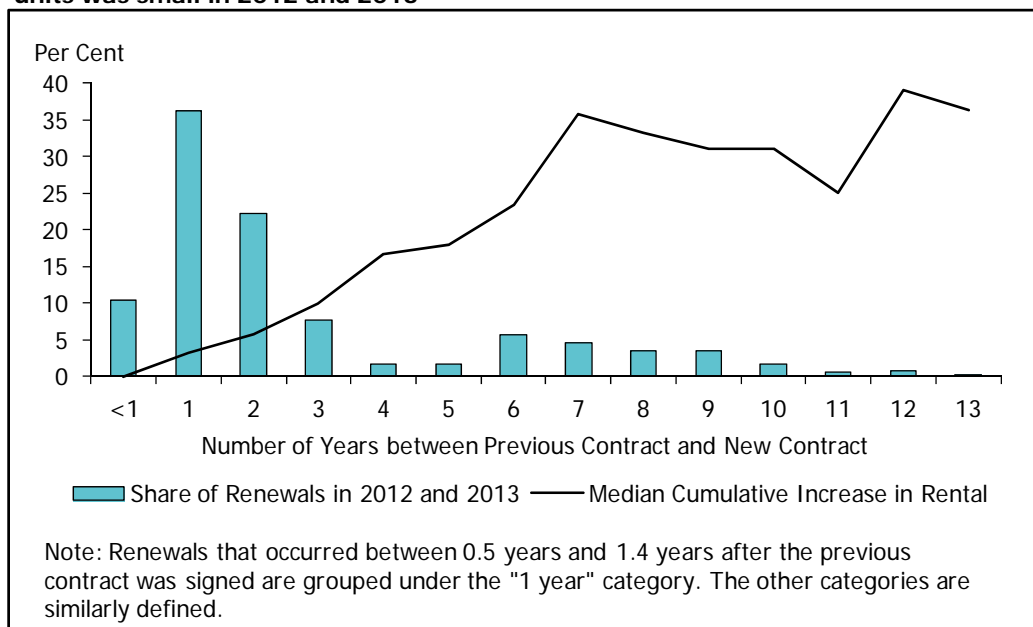
<sup>3</sup> For this analysis, we computed the cumulative increase in rent for all the lease renewal cases, removed the outlier observations at both the top and bottom, and then ranked the rest in order of magnitude.

*For most of the renewals in 2012 and 2013, the effective increase in rent per annum was in line with inflation ...*

Focusing on rental renewals in the last two years, we find that 76 per cent of the renewals were made within three years of the signing of the previous rental contract. In particular, 36 per cent of the renewals were made around a year after the earlier contract was signed, and 22 per cent around two years after the earlier contract was signed (Exhibit 4). The median cumulative rental increase faced by these two groups of retailers was 3.3 per cent and 5.8 per cent respectively. On a per annum basis, the effective increase in rent, at 3.3 per cent and 2.9 per cent respectively, is similar to the rate of inflation of 3.5 per cent per annum from 2011 to 2013.

While there were instances of higher cumulative rental increases upon lease renewals (>20 per cent), these cases only accounted for 20 per cent of all lease renewals in 2012 and 2013, and were generally for leases that were being renewed after more than five years. For instance, the median cumulative increase in rent for units renewed around six years after the previous contract date was 23 per cent. This works out to be an increase of around 3.6 per cent on an annual basis, in line with the rate of inflation from 2007 to 2013.

**Exhibit 4: The median cumulative increase in rent upon renewal for the bulk of the units was small in 2012 and 2013**



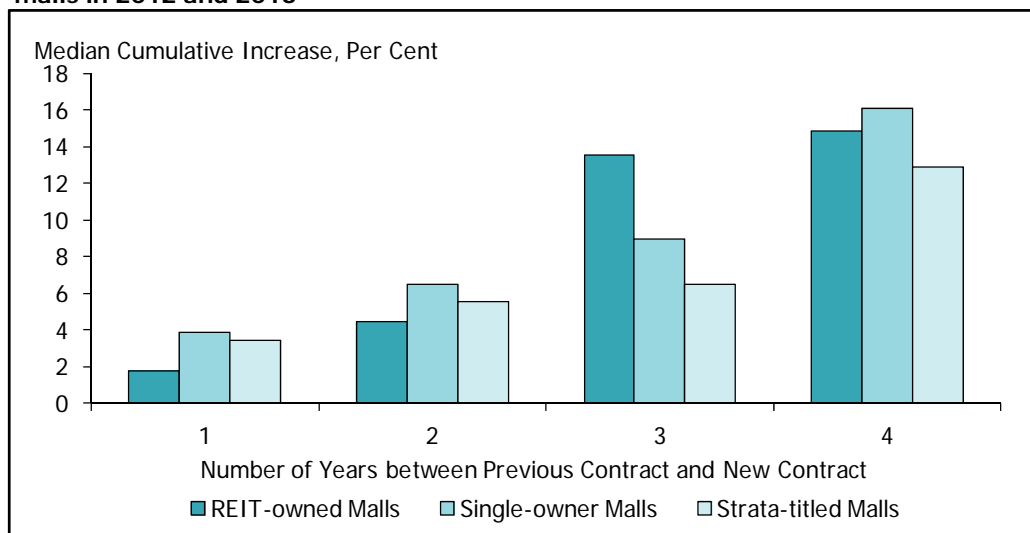
*...and there is also no evidence to suggest that the cumulative rental increase in REIT-owned malls is systematically higher than that in other malls*

In terms of ownership type<sup>4</sup>, the median cumulative increase in rent upon renewal for units in Strata-titled and Single-owner malls tended to be higher than that in REIT-owned malls, for renewals taking place around one to two years after the previous contract was signed (Exhibit 5). Specifically, in 2012 and 2013, such renewals accounted for 43 per cent, 39 per cent, 30 per cent of all renewals in REIT-owned malls, Single-owner malls and Strata-titled malls respectively. For retailers renewing around one year after the previous contract date – which is the most common category of renewal in all three types of malls – the median cumulative increase in rent experienced was 1.8 per cent, 3.9 per cent and 3.4 per cent respectively.

<sup>4</sup> The retail units are categorised into those situated in REIT-owned malls and non-REIT malls. The non-REIT malls are in turn classified as Single-owner or Strata-titled malls. A Single-owner mall has one management operating the building. For Strata-titled malls, each unit in the mall is typically owned by an individual. REIT-owned malls and Single-owner malls were identified based on company annual reports as of 2 May 2014.

However, for the small number of renewals taking place beyond three years, there is mixed evidence as to whether the cumulative increase in rent in REIT-owned malls was higher than that for the other types of malls.

**Exhibit 5: The median cumulative increase in rent for renewals taking place around one to two years after previous contract date tended to be higher in Single-owner malls in 2012 and 2013<sup>5</sup>**



*Going forward, upward pressure on retail rent is expected to ease as the supply of retail space increases...*

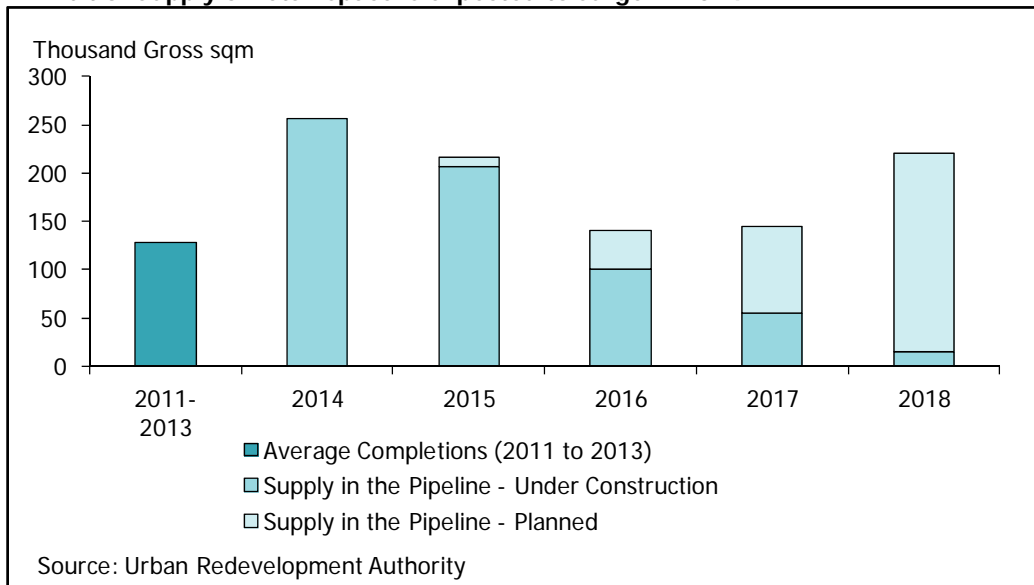
Based on the above analysis, the cumulative increase in rent faced by retailers upon lease renewal is highly skewed. In 2013, while one in ten retailers saw a cumulative increase in rent of more than 45 per cent, a quarter of the retailers saw far smaller increases of 5.5 per cent or less, and another quarter saw no change or a drop in their rent. After normalising by the number of years between rental contracts, the effective increase in rent per annum for most retailers tended to be in line with the rate of inflation. There is also no evidence to suggest that retailers in REIT-owned malls consistently faced larger rental increases than retailers in other types of malls.

Going forward, we expect upward pressure on retail rent to continue to ease. In the first quarter of 2014, URA's retail rental index registered flat growth on a year-on-year basis. Overall vacancy rate also increased to 5.8 per cent from 4.5 per cent in the previous quarter. Upward pressure on retail rent is expected to ease for the rest of 2014, given the strong supply of retail space coming on-stream ([Exhibit 6](#)). Specifically, from 2014 to 2016, an average of 204,000 gross sqm of retail space is estimated to come on-stream annually. For each year, this is around 1.6 times the average annual completions from 2011 to 2013.<sup>6</sup> On the demand side, the continued popularity of on-line shopping and tighter labour market could also further cap the demand for retail space.

<sup>5</sup> For renewals within a year, the cumulative increase in rent was zero for all types of malls.

<sup>6</sup> Completions consist of the construction of new buildings. Additions and alternations to existing buildings, temporary structures and minor works are excluded as the floor areas generated from these works are not significant.

**Exhibit 6: Supply of retail space is expected to surge in 2014**



Given plans by the government to release more comprehensive retail rental data, existing retail companies looking to renew their leases or new retail companies looking to set up shops will be better placed to make more informed decisions on where to locate their shops to enjoy more competitive rents in the future.

*Contributed by:*  
 Bali Kaur Sodhi  
 Economist  
 Economics Division  
 Ministry of Trade and Industry