Savills World Research
Korea

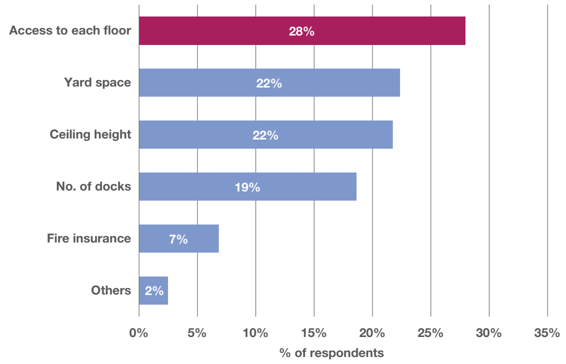
Asian Cities Report
Seoul Logistics

2H 2016

savills.com.hk/research

GRAPH 1

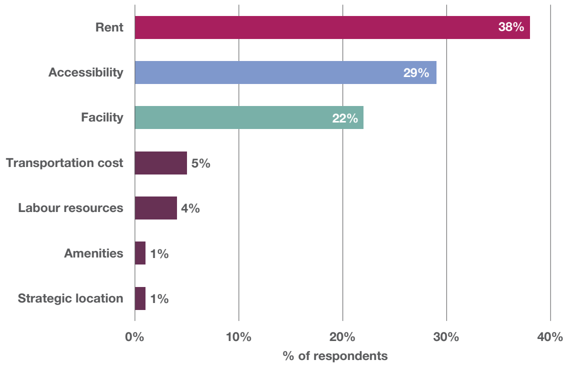
Facility preferences



Source: Savills Korea Research & Consultancy

GRAPH 2

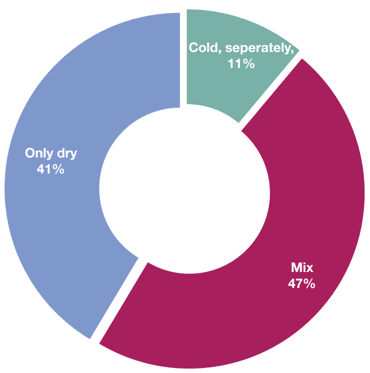
Top consideration when choosing a logistics centre



Source: Savills Korea Research & Consultancy

GRAPH 3

Demand per type of facility, % of respondents



Source: Savills Korea Research & Consultancy

Survey overview

This survey was conducted to better understand tenants' logistics centre preferences. With the survey results, Savills subsequently analysed key considerations and requirements for occupiers.

Logistics tenants can be broadly categorised into either 3PL, manufacturing or retail. According to our survey, companies with a yearly sales volume exceeding KRW1 trillion, including Hyundai Logistics, CJ Korea Express and Hanjin Express, owned or leased more than 50 logistics centres each, whereas the other 90% of companies owned or leased less than 10.

67% of survey respondents answered that they had invested in equipment such as conveyers. Both the 3PL and retail groups invested more heavily in equipment than the manufacturing sector.

Since a major cold storage fire incident at Korea 2000 in Icheon in 2009, tightened legislation and greater industry safety awareness has led to insurance becoming commonplace. Our survey showed 97% of respondents now have insurance on facilities; 20% benefit from both landlord and tenant insurance.

With regard to rent increases, a typically sensitive topic for landlords and tenants alike, 60% of our sample responded. 39% of tenants answered that they had seen no increases in rent during their lease-term; 5% confirmed no increase despite such provisions in lease contracts. Where escalation does apply, the typical annual increase rate ranges between 1-5%.

Approximately half of the surveyed tenants confirmed future plans for either expansion or relocation; 37% expansion, 11% relocation, with 2% considering both options. Consistent leasing demand is therefore expected to continue in the coming years.

Survey results and analysis

Facility preferences

As enlarged and modernised new logistics centres are steadily supplied, tenant preferences, requirements and expectations are evolving. Approximately 30% of surveyed tenants answered that direct access to each floor is of primary importance. Though the number of logistics centres which were delivered within the last two to three years with direct access to each floor has increased, others still use vertical conveyors or freight elevators to get to the upper floors. Considering current trends, the necessity for direct access to each floor should be incorporated into new logistics centre designs.

The vast majority of tenants require an element of yard area, with 50% of survey respondents requiring areas of 3,300 sq m or more. In terms of optimum floor heights, respondents showed the strongest preference for 5-10m.

Amenity preferences

In terms of amenity preferences, the overwhelming tenant favourite, with 45% of respondents, was 'shuttle bus transportation' for employees. This result reflects the unique characteristics of the logistics industry, which is especially labour sensitive due to most logistics centres locations lying outside of Seoul, with limited or inconvenient public transport.

Location preferences

In the case of location, we asked respondents to choose between proximity to customers, main ports and production sites. Among these, proximity to customers was considered to be the top priority. In the logistics industry, proximity to main ports was considered as important as that of customers, whereas in the distribution industry, proximity to customers was the principle concern. In the manufacturing industry, proximity to both customers and production site were critical factors.

Expressway preferences

70% of respondents selected the Gyeongbu expressway, passing through North and South Seoul, as their preferred expressway location from an accessibility perspective. This is because the Gyeongbu expressway is easy to access, thanks to its direct entry into Seoul, with exceptional connectivity to other major expressways. After the Gyeongbu expressway, 29% and 22% of respondents selected the Jungbu expressway and Outer-ring-road as their second-placed choice, as they offer good accessibility to production site and consumers, respectively.

Storage type preferences

The most noticeable result in the survey is the shift in demand for logistics centre type (dry / cold / mixed). Recent changes in lifestyle, such as the rise of one-person and dual-income households, have led to an explosion of fresh food purchases, such as HMR (home meal replacement) and online fresh food products. Consequently, the demand for cold and mixed logistics centres is growing.

60% of the respondents confirmed that some form of cold storage is favoured, including mixed type (providing both dry and cold storage facilities). 50% of respondents prefer mixed. Despite the enhanced demand for mixed storage facilities, there is currently a lack of supply due to higher development costs and operational challenges.

Lease term preferences
The results for lease duration emphasised an obvious disparity between investors' and tenants' desired lease periods. The largest share of tenants, 41%, replied that they would like a three to five year lease. 22% would instead prefer a shorter lease term of one year or less. On the other hand, any preference for longer lease terms of 10 years or more, as favoured by investors, was minimal.

The favoured tenant inducement in terms of total lease package was a reduced rent, with 44% of respondents opting for this. 16% of tenants preferred rent–free periods, whilst 10% desired financial support for relocating. As the above shows, tenants are becoming increasingly educated and aware of the variety of incentive options open to them.

Top considerations

Logistics costs can be broken down into rent, transportation, labour and other costs. The largest component is the transportation cost, at approximately 36%, followed by rent and labour costs, at 28% and 26% respectively. The cost elements are primarily divided into fixed and variable costs. The monthly rent is essentially a fixed element over the term of the lease contract period (any index-linked increases aside).

When asked to choose between accessibility and transportation costs, approximately 60% of respondents preferred better accessibility, even with the associated increased rental costs. The other 40% favoured lower rents, despite greater transportation cost stemming from poorer access or being located further away from major road interchanges. The results show accessibility to major expressways for faster delivery takes precedence over transportation costs when most tenants consider location.

When questioned on the most important factor impacting their selection of a logistics centre, rent, accessibility and facility quality were all selected frequently. Rent received 38% of the vote and was ultimately considered the overriding factor when selecting a logistics centre, followed by accessibility and then facility quality.

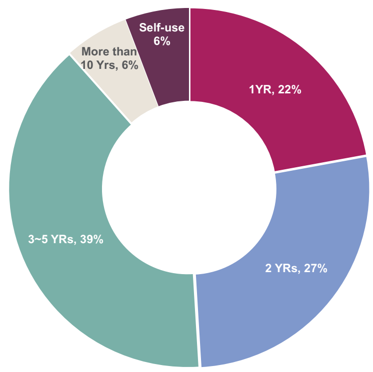
The results indicate a slight mismatch: 61% of respondents said that tenants give more weight to accessibility, even with higher rent costs; however, the most important consideration in decision making was ultimately rent. This result is related to the structure of total logistics costs. Rental cost is fixed and a long-term commitment under a lease contract, while labour costs and transportation costs are more variable. Our findings imply that rent, as a fixed cost, is a greater consideration than accessibility in the decision making process.

Conclusion

The main reason for tenant relocation or expansion is to maximise customer satisfaction and profit, whilst minimising logistics costs. Understanding tenants' various requirements, cost sensitivities, and correlations between preference and cost, is essential to forecast demand in the logistics market. Analysis shows that tenants adopt a holistic approach to logistics centre selection. When choosing a logistics centre, tenants place great importance on rent, accessibility and facilities. Labour availability in the location is another defining factor for selection.

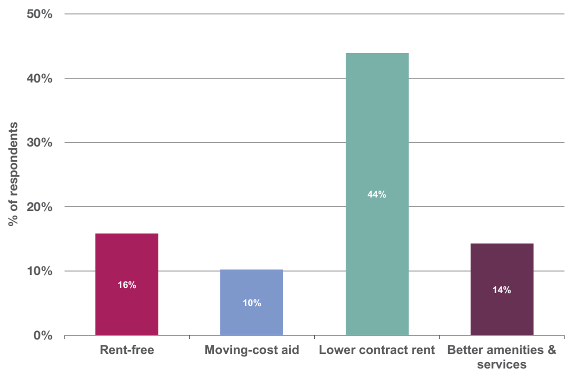
Among these important considerations, rent affordability remains the top priority. We anticipate pre-leasing newly-developed logistics centres will be challenging if targeted rents significantly exceed surrounding rents, regardless of facility quality. Rent affordability should be studied at an initial stage and in detail, for both development and investment decisions. This will help ensure required operating income and returns can be achieved and sustained.

GRAPH 4
Lease term preferences, % of respondents



Source: Savills Korea Research & Consultancy

GRAPH 5
Incentive preferences



Source: Savills Korea Research & Consultancy

TABLE 1
Logistics survey outline

Classification	Details
Contents	Preferences and key factors when selecting logistics centres
Period	Jun to Sep 2016
Respondents	Tenants of logistics centre
Number of respondents	101
Method	Survey and interview
Classification by industry type	
3PL	60%
Retail	22%
Manufacturing	18%

Source: Savills Korea Research & Consultancy

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

savills

savills.com

HONG KONG SAR

Savills (Hong Kong) Limited
23/F Two Exchange Square , Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited
28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited
8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1628 Fax: (852) 2508 1883
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk
EA Co. Licence: C-002955

Savills Guardian (Holdings) Limited
7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-004089

MACAU SAR

Savills - Macau
Savills (Macau) Limited
Suite 1309-10, 13/F Macau Landmark, 555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai
25/F Two ICC, 288 South Shaanxi Road, Shanghai 200031, PRC
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: Albert.Lau@savills.com.cn

Savills - Beijing
2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: Billy.Chau@savills.com.cn

Savills - Guangzhou
Room 906, R & F Centre, 10 Hua Xia Road, Zhu Jiang New Town
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn

Savills - Shenzhen
Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Xi'an, Zhuhai

ASIA

Savills - Indonesia
PT Savills Consultants Indonesia
Panin Tower – Senayan City
16th Floor, Unit C
Jl. Asia Afrika Lot. 19
Jakarta 10270, Indonesia
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81
Contact: Jeffrey Hong Email: jeffrey.hong@savills.co.id

Savills - Japan
Savills Japan Co., Ltd
15/F Yurakucho ITOCiA
2-7-1 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan
Tel: (81) 03 6777-5150 Fax: (81) 3-6777-5105
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea
Savills Korea
13/F Seoul Finance Center, 84 Taepyungro-1-ga
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

Savills - Malaysia
Savills (Malaysia) Sdn Bhd
Level 9, Menara Milenium, Jalan Damanlela, Bukit Damansara
50490 Kuala Lumpur, Malaysia
Tel:+603 2092 5955
Contact: Christopher Boyd Email: chris.boyd@savills.com.my

Savills - Philippines
KMC MAG Group
8/F Floor Sun Life Centre, 5th Ave
Bonifacio Global City 1634, Philippines
Tel: (632) 403-5519
Contact: Michael McCullough Email: michael@kmcmaggroup.com

Savills - Singapore
Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan
Savills (Taiwan) Limited
21/F Cathay Landmark, No.68, Sec. 5, Zhongxiao E. Road
Xinyi District, Taipei City 110, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw
Office in Taichung

Savills - Thailand
Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: rcollins@savills.co.th
Office in Pattaya

Savills - Vietnam
Savills Vietnam Ltd. Co.
18/F, Fideco Tower, 81-85 Ham Nghi Street
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Neil MacGregor E-mail: nmacgregor@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia
Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul Craig E-mail: pcraig@savills.com.au
Offices throughout Sydney, Parramatta, Canberra, Melbourne, Notting Hill, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast.

NEW ZEALAND

Savills - New Zealand
Level 8, 33 Shortland Street, Auckland NZ 1010
Tel: (64) 9 951 5911
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz

NORTH AMERICA

Savills - New York
Savills Studley
399 Park Avenue, 11th Floor, New York, NY 10022
Tel: (1) 212 326 8610 Fax: (1) 212 326 1034
Contact: Mitchell Steir E-mail: msteir@savills-studley.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe
33 Margaret Street, London W1G 0JD
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Mark Ridley E-mail: mridley@savills.com
Offices throughout the United Kingdom, Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.

Savills, the international real estate advisor established in the UK since 1855 with a network of over 700 offices and associates globally.