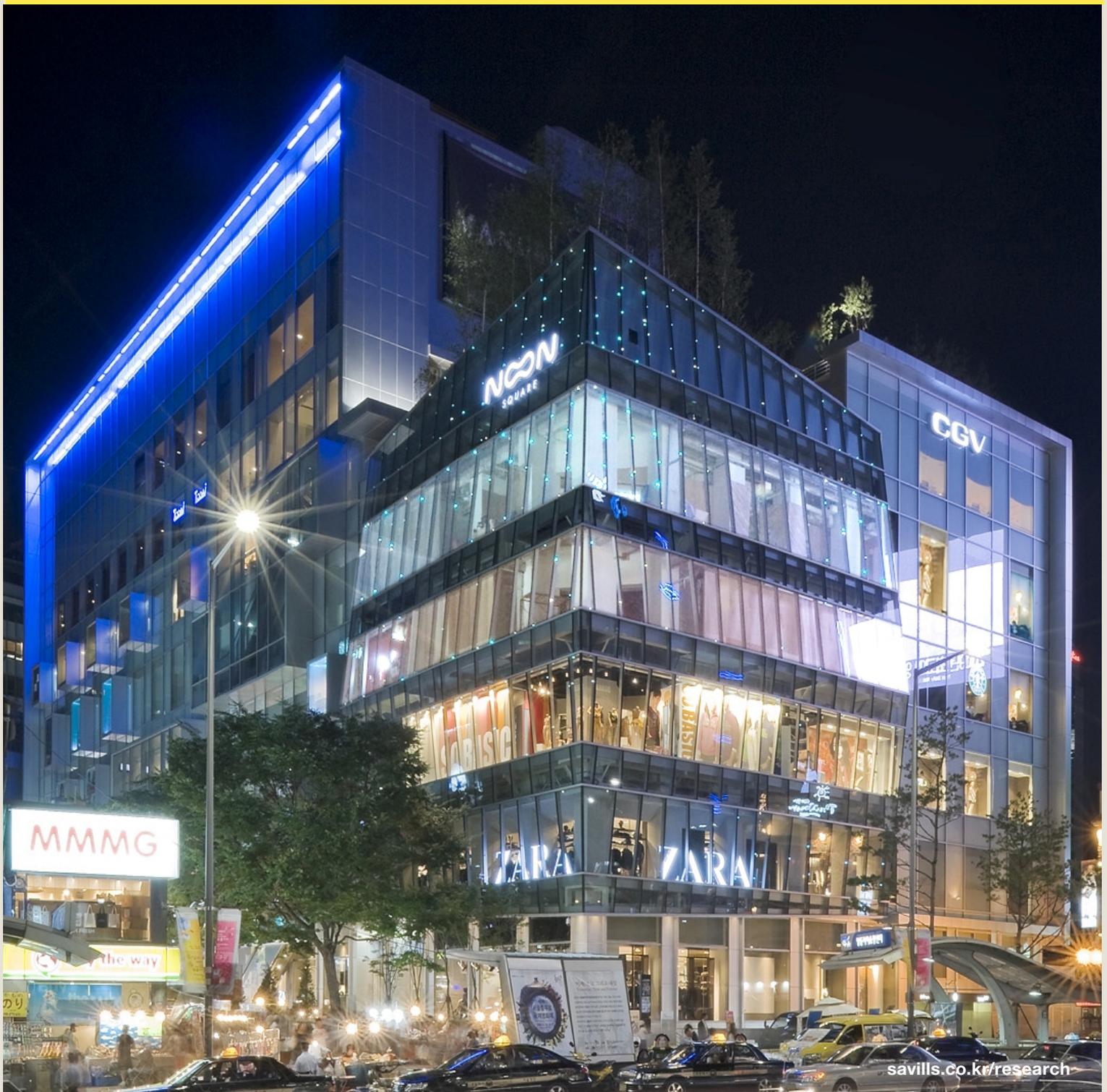




Spotlight Seoul Retail Market

2H 2013



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As the proportion of one- and two-person households grows steadily, convenience store and non-store retailer sales are rapidly increasing. Meanwhile, street shops and SPA brand shops are now expanding throughout Seoul due to improvements in the consumer confidence index.

→ Consumer trends

The 2010 national census shows that there are 700,000 more one- to two-person households than three- to four-person households country-wide. In Seoul, the number of one- to two-person households was 1,630,000 in 2010 – 30,000 more than the number of three- to four-person households.

According to Statistics Korea, the proportion of one- to two-person households is rising steadily and is expected to account for 68% of all households in 2035, while households with more than three family members will represent 32%. Such a trend in the household

composition is likely to influence the retail market, as explained in the following section.

During the seven months to September 2013, the average consumer sentiment index rose to 103.44, up from 2012. The index, which fell below 80 in 2008 after the sub-prime mortgage crisis, bounced back to around 120 in 2009 and then remained at around 100 from 2010 onwards. However, consumer sentiment has been improving since the end of 2012.

Retail market trends

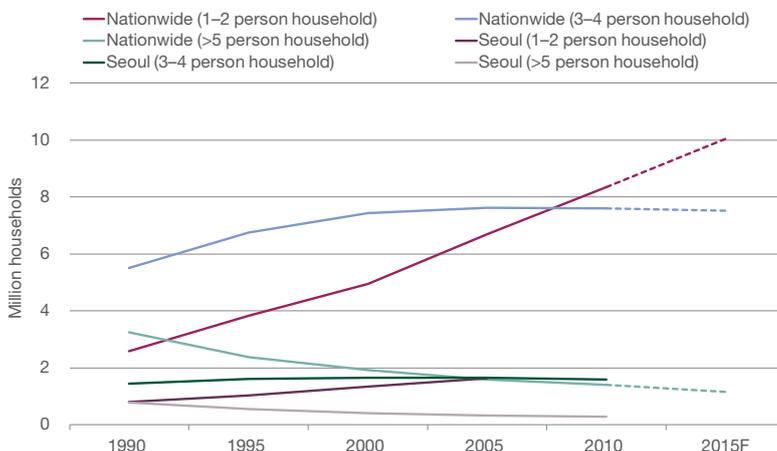
In 2012, department stores posted a 1.8% increase in sales, down from the 7.7% growth in 2011. This

TABLE 1
Major shopping mall supply, 2013–2014

Location	Name	Year of opening	GFA (sq m)
Seoul	Mecenatpolis Mall	2013	73,696
Busan	Shinsegae Simon Premium Outlet	2013	N/A
Ilsan	Onemount	2013	161,602
Daegu	Lotte Outlet Esiapolis	2013	86,474
Pangyo	Avenuefrance	2013	70,509
Songdo	NC CUBE	2013	54,726
Seoul	Coex Mall (under remodelling)	2014	83,000 E
Seoul	Lotte Jamsil Shopping Mall	2014	114,678
Busan	BIFC Mall	2014 E	N/A

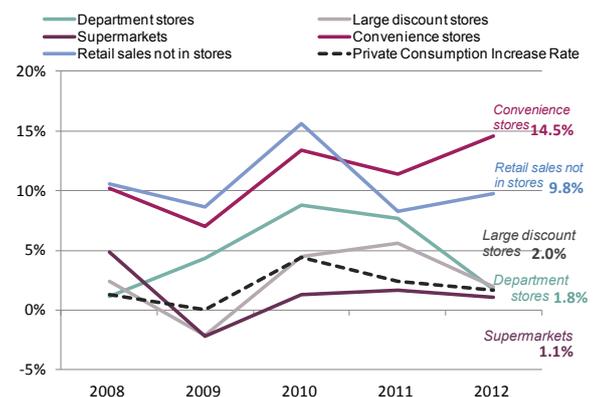
Source: Savills Korea Research & Consultancy, Retail Team

GRAPH 1
Trends in household composition and projections, 1990–2015F



Source: Statistics Korea

GRAPH 2
Retail sales increase rates and comparison of private consumption increase rate, 2008–2012



Source: Statistics Korea

MAP 1 Major retail areas



Source: Savills Korea Research & Consultancy, Retail Team

Garosugil is a street spanning from Sinsa Station on Line 3 to Hyundai High School in Apgujeong, where conglomerates and SPA brands are actively leasing of late, which has translated into a sharp increase in rental rates.

The Hongdae retail trade area, centered on Hongik University, is located between Hongdae Station on Line 2, Gyeongui Railway and the Airport Railway, and Sangsu Station on Line 6 and has daily foot traffic of 110,000. The Hongdae trade area is mainly composed of stores on side streets rather than on the main road. The buildings on the corners of the main road and side streets fetch high rental rates.

→ is attributed to the strong Korean won and the decreasing number of tourists. As the regulations on operating hours and the days of mandated closure took full effect in June 2012, large discount stores posted a mere 2.0% expansion, down from the 5.6% recorded in 2011. Conversely, convenience stores and non-store retailers fared better than department stores and large discount stores, posting 14.5% and 9.8% growth rates respectively. This is due to the increase in the proportion of oneperson households; convenience stores, found on every street corner, offer small-sized products, while this demographic also prefer ordering goods through delivery services and shopping online in the comfort of home.

Recently, the trend in the local retail market is the growth in convenience stores and specialty retailers of private-label apparel (SPA) sector. Zara, since its launch in 2008, has posted an average annual sales growth of 56%, while H&M has posted 55%. Of all the SPA brands, Uniqlo has been the most successful, enjoying an average annual sales growth of 71%. Following the success of international SPA brands, Korean companies have entered the sector, including Cheil Worldwide's brand '8 seconds' and E-Land Retail's 'Mixxo'.

There is at least one SPA store in all major retail trade areas and retail properties. SPA brands, operating

stores larger in size than other types of retailer, are giving the retail real estate market a boost. As of September 2013, Zara is operating approximately 40 stores (20 in Seoul) across the country, while H&M has 16 (seven in Seoul) and Uniqlo has 105 (39 in Seoul). SPA brands are expanding at a fast rate thanks to the high inventory turnover rate and the inexpensive goods on offer. Conversely, existing apparel brands are losing market share.

Street shops

We have defined in five major retail trade areas in Seoul: Myeongdong, Gangnam, Sinsa (Garosugil), Hongdae and Itaewon.

The Myeongdong trade area is situated between Euljiro 1-ga Station on Line 2 and Myeongdong Station on Line 4 which have daily pedestrian traffic of 100,000 and 89,000 respectively. This area commands the highest rental rates of all the five retail trade areas.

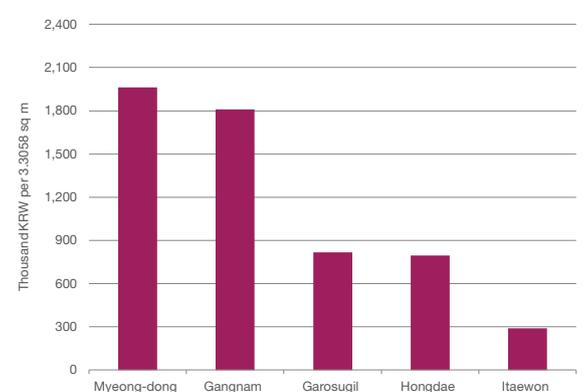
The Gangnam trade area, with daily pedestrian traffic of 200,000, is situated along Gangnamdaero and stretches from Gangnam Station on Line 2 to Sinnonhyeon Station on Line 9. With Samsung Town created at the end of 2007 and the extension of the Sinbundang Line which opened at Gangnam Station in 2013, this trade area now reaches south to Yangjae Station.

GRAPH 3 Growth rate of major SPA brands, 2006–2012



Source: Financial Supervisory Service, Savills Korea

GRAPH 4 Major shopping street rental ranges, 2H/2013



Source: Savills Korea Research & Consultancy, Retail Team

*For rents of street shops, the proportion of security deposit and cheonsei conversion ratio varies depending on the store. As such, in this report, for consistency in figures and easy understanding, the converted cheonsei amounts were first calculated. Then 20% of such amounts were counted as security deposit and for the rest (80%), the converted monthly rent amount was applied as the standard price (An annual interest rate of 12% was applied for the conversion).

MAP 2

Major shopping malls



Source: Savills Korea Research & Consultancy, Retail Team

→ The trade area in Itaewon has enjoyed rising rents due to the recent acquisition and leasing of buildings by the retail sectors of conglomerates. This trade area, which was traditionally located in the area from Noksapyeong Station to Itaewon Station, has spread out to include the Comme des Garçons Road which stretches from Itaewon Station to Hangangjin Station.

Floor efficiency may differ depending on the trade area. However, for the calculation and comparison of rental rates of different trade areas, first-floor rents were used as the baseline. Rents of first basement floors were set at 30% of first floor rents, rents of second floors at 50%, third floors at 30%, fourth floors at 20% and fifth floors at 15%, assuming that rental rates vary for different floors.

When calculated based on this assumption, according to our survey, the average monthly rent is KRW2 million per 3.3058 sq m in the Myeongdong and Gangnam trade areas, KRW1 million in the Garosugil and Hongdae areas, and KRW300,000 in Itaewon.

Shopping malls

There are nine major shopping malls in Seoul and its surrounding areas: Noon Square and M Plaza in Myeongdong, D Cube City in Sindorim, Time Square

in Yeongdeungpo, Podomol and IFC Mall in Yeouido, Tra Palace in Mokdong, and Coex Mall and Gimpo Mall. These malls are located in areas with large neighbouring populations and heavy traffic instead of traditional retail trade areas.

Overall, fashion and SPA retailers account for 45% of tenants in shopping malls. Lifestyle retailers, selling items such as toys for children and organic food, represent 21% of the retail tenants. F&B, including restaurants and coffee shops, take up 19%, other retail stores such as convenience stores and small supermarkets make up 12%, and service businesses including banks and travel agencies account for 3% of tenants.

In general, at shopping malls in Seoul, the proportion of turnover-based rent of F&B outlets is 12% to 20% and fashion stores 15% to 20%.

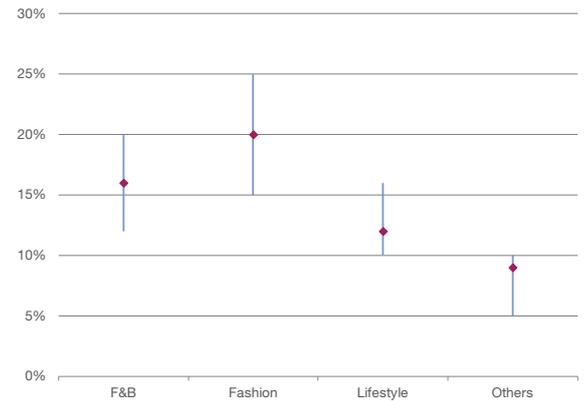
Retail investment market

Retail transaction volumes have grown continuously and amounted to KRW2 trillion in early October 2013, which is double that recorded in 2012.

Of the eight retail properties that changed hands, one was sold to an overseas investor and the other seven to local investors.

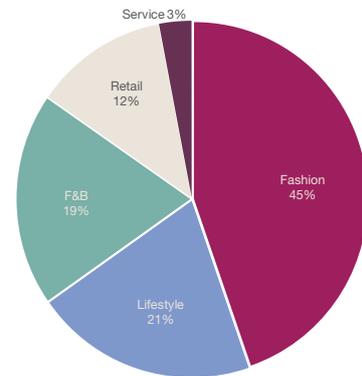
Lotte Incheon Development acquired the Incheon Terminal Complex from Incheon Metropolitan City for KRW900 billion, the largest transaction concluded in 2013. RREEF bought Podo Mall situated in Seoul for KRW199.9 billion with a cap rate in the low 6% range. Igis AMC and Hana Daol AMC each acquired three Homeplus outlets from GE Real Estate. Hana Daol AMC also added Jinju Galleria Department Store and the parking tower to its property portfolio. Moreover, KT AMC purchased Lotte Mart in Munjengdong, Seoul from GS E&C, indicating active transactions of large discount stores.

GRAPH 5 Proportion of turnover-based rental ranges at shopping malls, 2H/2013



Source: Savills Korea Research & Consultancy, Retail Team

GRAPH 6 Tenant composition of shopping malls, 2H/2013



Source: Savills Korea Research & Consultancy, Retail Team
 *Coex Mall, currently under remodelling, was excluded from the analysis data.
 *Exceptional tenants such as marts and movie theaters which occupy large spaces in certain shopping malls were excluded from the lease area calculation.

→ Korea Asset Investment Trust bought Taurus Shopping Tower, while Korea Real Estate Investment Trust acquired two retail buildings at Mokdong TraPalace. The volume of REIT investment in retail buildings has grown significantly. As of June 2013, 17% (KRW1.6 trillion) of the total assets of REITs (KRW9.5 trillion, excluding self-managed REITs), was invested in retail REITs.

New shopping mall supply

In Seoul and other major cities, many new large-scale shopping malls are being developed. Last year, IFC Mall opened in Yeouido, while in 2013 alone, six large-scale shopping malls opened in Seoul, Busan, Incheon, Daegu, Pangyo and Songdo, including Mecenatpolis Mall, Incheon SQUARE1 and Daegu Esiapolis, in which there is a Lotte Outlet. Coex Mall is currently being remodelled and is slated to re-open in December 2014, while Busan International Finance Center Mall is scheduled to open in 2014. ■

TABLE 2 Major retail transactions, 2H/2013

Name	Incheon Terminal Complex	Podo Mall	Homeplus	Homeplus	Mokdong TraPalace
					
Location	Incheon	Seoul	Jinju/Pohang/Sacheon	Miryang/Gamman/Samcheok	Seoul
Transaction date	Jan 2013	Feb 2013	Feb 2013	Mar 2013	Aug 2013
Purchase price (KRW billion)	900	199.9	228	158.5	98
Seller	Incheon Metropolitan City	Igis AMC	GE Real Estate	GE Real Estate	e-STARCO.CO, LTD, STARCONET. The association for residential site development in District 1 of the core Mokdong area.
Buyer	Lotte Incheon Development Co, Ltd	Deutsche AMC	Igis AMC	Hana Daol AMC	Korea Real Estate Investment & Trust AMC

Source: Savills Korea Research & Consultancy, Retail Team

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