

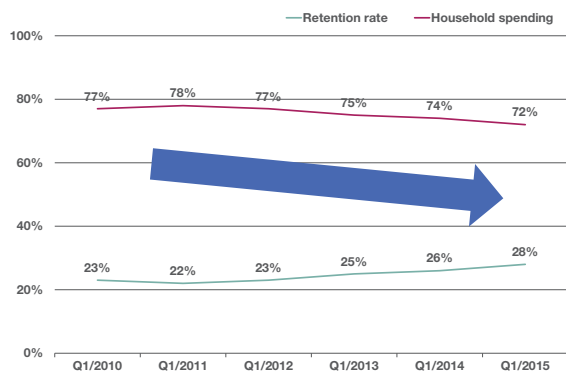
Asian Cities Report

Seoul Retail

1H 2016

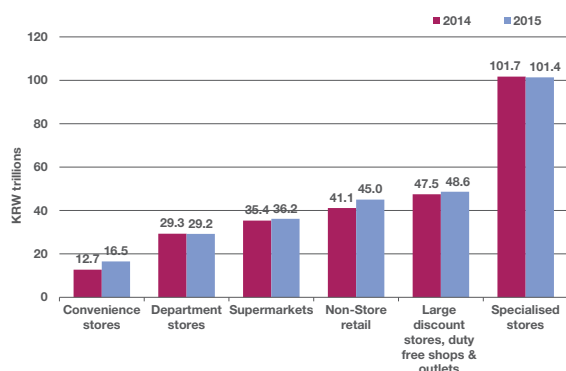


GRAPH 1
Household spending and retention rate, Q1/2010–Q1/2015



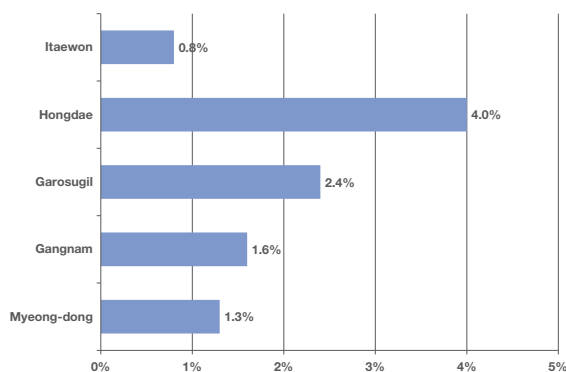
Source: Ministry of Strategy and Finance

GRAPH 2
Retail sales by retailer type, 2014 vs 2015



Source: Statistics Korea

GRAPH 3
Rental growth (YoY) of street shops, 2015 vs 2014



Source: Korea Appraisal Board

Consumption trend

The consumer sentiment index, which fell below 100 in the wake of the MERS outbreak, recovered to 100 in January 2016. However, household consumption has remained sluggish amidst slow economic growth, the high level of household debt which reached KRW 1,200 trillion (84% of GDP), and the increase in pension and insurance premiums and taxes, as well as rising unemployment for those in their 20s and early 30s. The expenditure-to-income ratio declined from 77% in 2010 to 72% in 2015, showing a conservative spending pattern as the household economy directly affects consumption patterns.

Sales by retail channel

Department stores

Department store sales have decreased but the average purchase amount of VIP customers increased, revealing a polarisation in consumption. The factors behind this decrease in department store sales are economic recession, change in consumption patterns, increase in direct purchases from overseas Internet sites, market saturation and competition with outlet stores. Department stores have strived to improve their drawing power through premium grocery section launches and the expansion of trendy F&B brands and multi-brand fashion shops. In addition, to offer further convenience to customers, department stores have reinforced omni-channel systems, which integrate online and offline stores for shopping.

Large discount stores

Large discount stores are facing a limit on sales growth due to the increasing number of small-sized households, resulting in a rise in short-distance shopping and smaller purchases. They are also affected by restrictions on store operation on weekends as well as competition with social commerce/online marketplaces. However, they are seeking measures to enhance competitiveness and differentiate themselves through the development of private brand (PB) products and the expansion of product sourcing from overseas. In addition, in consideration of the competition

coming from social commerce providers, efforts are being made to provide fast and convenient delivery services by establishing an online shopping system.

Duty free shops

Domestic duty free shops, which depend on foreign tourists (especially from China) for 66% of their sales, posted a compound annual sales growth rate of 16% between 2010 and 2015. With the expiry of Seoul duty free store licenses in 2015, conglomerate retailers aggressively bid for licenses in the fast-growing duty free store business. The new license winners included HDC Shilla Duty Free, Hanwha Galleria Timeworld, Shinsegae DF, Doosan Duty Free and SM Duty Free. The areas where these new duty free shops are located are expected to see some change in the surrounding retail areas, with an increased inflow of tourists. Meanwhile, the Chinese government announced that it would lower tariffs on imported necessities from 2016 to boost domestic consumption and expand duty free shops at Chinese airports.

Non-store retailers

The volume of online shopping has continued to grow due to the development of IT technologies, expansion of the online shopping system by distributors and the introduction of social commerce. In 2015, the total sales of online shopping rose by 19% from the previous year. PC shopping accounted for 55% of all online shopping sales, and mobile shopping 45%. In terms of sales growth rate, PC shopping decreased by 3% from the previous year, while mobile shopping rose by 64%. With the simplification of the payment system, the volume of mobile shopping is likely to continue to grow. The three major social commerce providers, which have led the expansion of mobile shopping, are engaged in a competition to secure customers and are focusing on enhancing competitiveness by using their own logistics facilities and improving delivery services. Social commerce, which deals in daily necessities, clothing and home appliances, is equipped with low-price and fast-delivery systems, directly competing with not only online marketplaces but

also existing distribution channels, such as large discount stores.

Convenience stores

In 2015, convenience stores posted a 30% year-on-year (YoY) sales growth. Such growth is mainly attributable to the increase in cigarette prices, which represent 48% of convenience store sales (domestic cigarette prices rose from KRW2,500 to KRW4,500 on January 1, 2015). Apart from this, short-distance shopping by small households and quick-meal products have contributed to the increase in sales. The convenience store sector is seeking to diversify store formats, increase store efficiency and widen the range of PB products.

Street shops

Myeongdong, Gangnamdaero, Garosugil, Hongdae and Itaewon are the major retail areas in Seoul, with Myeongdong and Gangnamdaero commanding the highest rents. Myeongdong attracts the most foreign tourists as this area houses the flagship stores, duty free shops and a cluster of shops representing most Korean apparel/cosmetics brands. As of 2015, the Hongdae area showed the fastest year-on-year (YoY) rent increase. Located close to Hongik University and packed with F&B facilities, bars and clubs, this area enjoys a large traffic of young people and is full of bustle both during the day and at night. Recently, as more and more apparel/cosmetics brands open stand-alone stores, existing old retail buildings are being remodelled or leased for stores using consecutive floors. In such cases, corporate entity tenants tend to pay higher than the current rental rate as a strategy to occupy the area in advance, leading to rent hikes in the area. Such a trend is also being seen in Garosugil.

Shopping malls

Large domestic distributors are focusing their investment on shopping complexes, which are regarded as a future growth engine in the stagnant distribution market. In 2016, Lotte and Shinsegae department stores plan to open new shopping complexes to secure footholds in major areas outside Seoul. Shopping complexes, offering entertainment features in addition to

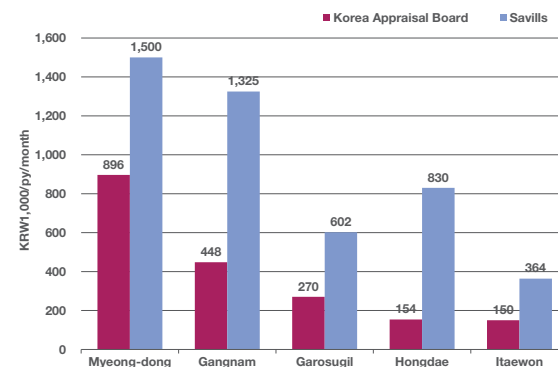
shopping facilities, have substantial drawing power. Table 1 below shows new shopping complexes planned for development.

Retail investment market

In 2015, the volume of retail property investment amounted to KRW1.5 trillion. Three portfolios of large discount stores changed hands in the year. Two of those transactions involved properties owned by institutional investors and one was the property sold by E-land Retail for asset liquidation on condition of master lease. Other transaction cases included the Sindorim D-cube shopping mall which had been developed and operated by Daesung E&C. The shopping mall changed hands to JR AMC and is currently operated by Hyundai Department Store through a master lease. Also, AK S&D sold Bundang AK Department Store and its carpark building to Capstone Asset Management with the condition of a 20-year master lease. Ssamzgil, a retail facility situated in Insadong and M Plaza, a mixed-use building composed of a hotel and retail facility located in Myeongdong, concluded sales transactions in Q1/2016.

Institutional investors show continued interest in retail properties. The National Pension Service selected two asset management companies to entrust with investment of approximately KRW70 billion each to invest in small- and medium-sized retail properties in October 2015. With limited stock of retail properties available for investment, there are a growing number of cases where the lower floors of existing office buildings are converted to retail facilities to enhance property value. Such cases can be found in small- and medium-sized office buildings located in excellent retail areas or where there is high demand for F&B. ■

GRAPH 4 Rents of street shops, Q3/2015



Source: Savills Korea Research & Consultancy, Korea Appraisal Board

TABLE 1 New shopping mall development plans, 2016-2019

Year	Brand	New shopping mall
2016	Lotte	Seoul Enpyoung Shopping Mall
		Starfield Hanam
	Shinsegae	Busan Centum Lifestyle Shopping Mall
		East Daegu Shopping Mall
2017	Lotte	Gimhae Shopping Mall
		Paju Seven Festa
		Incheon Terminal Shopping Mall
		Uiwang Shopping Mall
	Shinsegae	DMC Shopping Mall
		Starfield Incheon Cheongna
		Starfield Goyang Samsong
2018	Lotte	Daegu Shopping Mall
	Shinsegae	Songdo Shopping Mall
		Ansung Shopping Mall
2019	Shinsegae	Incheon Lifestyle Shopping Mall
		Daejeon Lifestyle Shopping Mall

Source: Savills Korea Research & Consultancy, Open source

TABLE 2 Major retail transactions, 2015-Q1/2016

Building name	Transaction Date	Amount (KRW bil)	Seller	Buyer
D-cube Shopping Mall	Q1/2015	265.0	Daesung Industrial	JR AMC
E-Land Portfolio (4 properties)	Q2/2015	299.1	E-Land Retail	Korea Investment Management
Lotte Mart Portfolio (3 properties)	Q3/2015	261.0	KTB Asset Management	IGIS Asset Management
Lotte Mart Portfolio (4 properties)	Q3/2015	436.4	CBRE GI	Ryukyung PSG Asset Management
AK Bundang Department Stores and Parking Lot Building	Q4/2015	420.0	AK S&D	Capstone Asset Management
Ssamzgil	Q1/2016	82.0	Capstone Asset Management	IGIS Asset Management
M Plaza	Q1/2016	450.0	Invesco	Ponte Gadea

Source: Savills Korea Research & Consultancy, Public Information

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