



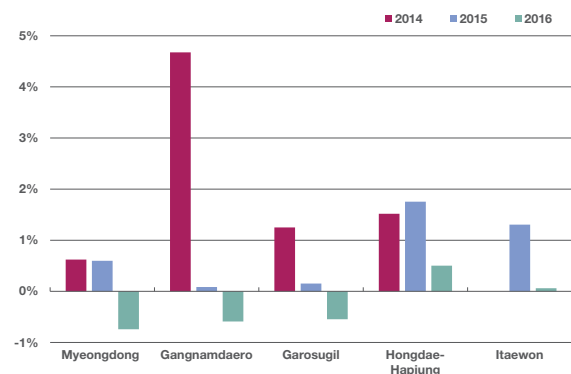
# Asian Cities Report

## Seoul Retail

2H 2017

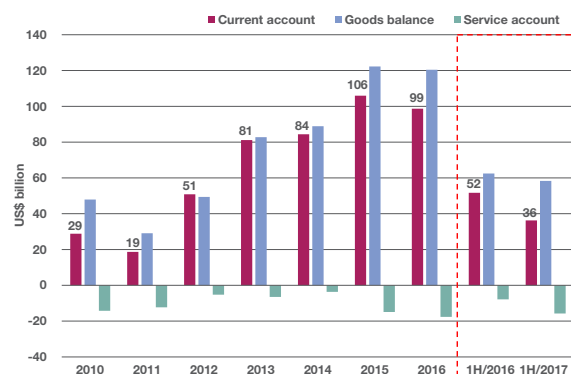


**GRAPH 1**  
**First floor rental increases in major Seoul retail districts, 2014–2016**



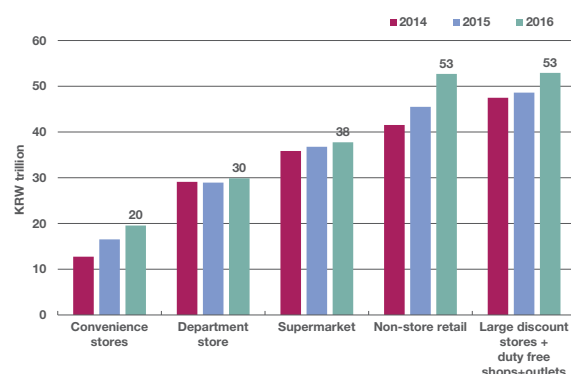
Source: Korea Appraisal Board (KAB)

**GRAPH 2**  
**Balance of payments, 2010–1H/2017**



Source: Bank of Korea (BOK)

**GRAPH 3**  
**Retail sales by channel, 2014–2016**



Source: Statistics Korea

### First floor retail rents

Based on the Korea Appraisal Board (KAB) data in June 2017, 1/F rents in the top five retail areas for mid-size buildings have shown a divergent performance. Retail rents in Myeongdong and Gangnamdaero recorded steady growth from 2014 to mid 2016, but have recorded slight downward movement since 2016. Meanwhile retail rents for Hongdae-Hapjung increased due to new recreational facilities and improved infrastructure.

Average contracted rents in Myeongdong at the end of June were the highest in the city, according to KAB. Myeongdong is an extremely popular foreign tourist destination and attracts significant foot traffic, due to the co-location of apparel and cosmetics flagship stores. Retail rents in Myeongdong have steadily increased from 2013. However, the area has seen a drop in visitors from China since Q4/2016, due to the political environment between the two countries and as a result, retail rents have been negatively affected. Since the Chinese government restricted Chinese travel agencies from providing group tours to Korea on 15 March 2017, the number of Chinese tourists has declined and rents have fallen 0.4% compared to the previous quarter.

### Macro indicators

According to balance of payments data released by the Bank of Korea (BOK), the current account stood at US\$36 billion in 1H/2017, but the surplus was reduced by 30% from the previous year as a deficit in the services segment rose sharply. This was also attributable to the reduction in Chinese tourists and increased spending overseas.

The expenditure-to-income ratio declined from 78% in 2010 to 71% in 2016, showing a conservative spending pattern given the household economy directly affects consumption patterns which are becoming more cost effective.

### Sales by retail channel

Total retail sales increased by 6% in 2016 and 4% in 1H/2017, compared to the previous year. Convenience store sales soared 18%, while non-store retail sales increased 16% due to the

continuing growth of e-commerce. Supported by the Korea Sale Fiesta (a nationwide government-sponsored bargain sales period) and other events, the sales of large discount stores, including duty-free shops and outlets, rose by 9%. In 1H/2017, convenience store and non-store retail sales continued their double digit growth.

### Non-store retail

Non-store retail volumes rose by 16% year-on-year (YoY) in 2016 and 13% in 1H/2017. Sales increases in food, electronics and apparel contributed to the growth. The sales volumes of online shopping malls operated by offline based retailers such as Shinsegae and Lotte group grew far more rapidly than pure online shopping malls.

### Department stores

The national volume of department store sales rose by 3% to total KRW29.8 trillion in 2016, as operators launched new branches and attracted foot traffic via big discount events. Regionally, the volume of Gyeonggi Province sales increased by 11% YoY, supported by the Hyundai department store in Pangyo and the Shinsegae department store in Hanam. However, sales in Ulsan province fell by 6% due to a sluggish shipbuilding industry. Hyundai Premium Outlet launched in Songdo in April 2016, contributed to a 6% decline in department sales in Incheon. The total national volume of sales in 1H/2017 declined by 3% from the previous year.

### Duty free shops

Sales revenues from duty free shops, which depend on foreign tourists (especially from China), rose 30% from the previous year to US\$10.6 billion in 2016. Sales posted a compound annual growth rate (CAGR) of 17% from 2011 to 2016.

Despite the concerns surrounding economic retaliation from China, sales at duty free stores rose by over 19% in 1H/2017. One possible explanation for the unexpected outcome is the increase of daigou, or personal shoppers, who purchase commodities overseas and resell them to customers in China. However, operators' profit margins have dropped as the commissions for daigou can be expensive, and the market has seen new entrants/license holders enter

the field. Hanwha Galleria, a duty free operator, requested the removal of their operating license from Jeju Airport.

### Hypermarkets

The sales growth of major hypermarkets (E-mart, Lotte Mart, Homeplus) declined slightly by 1% YoY to KRW52.9 trillion in 2016. The dominant trend of online shopping and the rise in single person households had a negative impact on hypermarket sales. In 1H/2017, the total sales volume remained the same as 1H/2016.

Three major hypermarket operators are attempting to find alternative strategies to regain ground. E-mart, which has the largest market share, has been restructuring low-profit stores. They have converted their Jang-an branch into a 'No-Brand' store which carries only E-mart's private labeled products. They will also focus on their Traders brand, a warehouse discount centre, and launch Gimpo, Goyang and Koonpo branches this year. Existing Traders branch sales increased 15% in 1H/2017, while existing hypermarket performance has decreased 0.6%. Lotte Mart are increasing their footprint to improve competitiveness, whilst offering new customer experiences. Their recent opening in Seocho adopted the "grocerant" (grocery and restaurant) service, which cooks and serves the food immediately after buying it, in order to eat in the market. Homeplus, which recovered into profitability in 2016, will not launch any new stores and is focused on improving their existing operations.

### Convenience stores

The sales volume of convenience stores recorded the most rapid growth among other retail channels, soaring 18% to KRW19.5 trillion in 2016. These stores have turned their attention to the sale of fresh foods, such as lunchboxes for single households. Fresh food sales increased by 47% from the previous year. In addition, the number of stores increased (13%) and the price rise of cigarettes also helped sales growth. In 1H/2017, sales were up 14%.

### Shopping malls

Large domestic operators are focused on shopping mall investment, which is regarded as a future growth engine

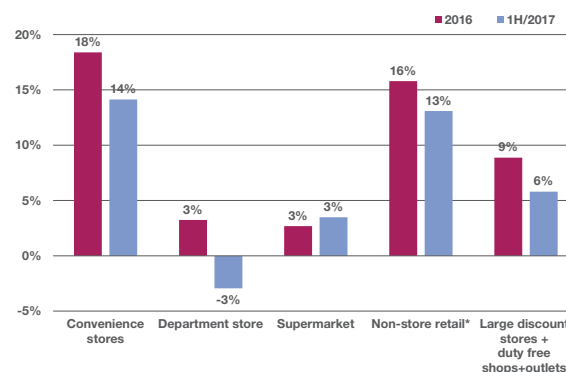
in an evolving retail marketplace. A joint venture by Shinsegae Group's real estate development unit and Taubman Asia and partners, invested KRW1 trillion to make Starfield Hanam the first and largest entertainment shopping mall in South Korea. Starfield Hanam combined their own brands, including Shinsegae Department Store, Traders, Electro Mart, PK Mart, Aqua Field and Sports Monster, and then built the property as an entertainment, multi-complex shopping mall. Shinsegae launched Starfield Goyang in August 2017, which includes an extra 20% of non-shopping area space compared to Starfield Hanam.

### Retail investment market

In 2016, total investment trading increased from the previous year, as a large number of assets were sold. NPS and GIC were the major investors in G Square in Pyeongchon. G Square has a remaining 16-year master lease, and includes a Lotte Cinema, Lotte Department Store and Lotte Mart. NPS also invested in Starfield Goyang, owning a 49% stake. This is the second time NPS has invested in a retail development project managed by a domestic corporation. KB AMC bought Lotte Mall in Eunpyeong, structured as a sale and lease-back, with Lotte taking a 15-year minimum lease term. Ulsan Upsquare, which is multi-let to large SPAs, a cinema and extensive F&B retailers was purchased by M&G Real Estate.

Hypermarket transactions by individual investors also saw an increase in 2016. Ryukyung PSG AMC, purchased the Homeplus portfolio (Seoul Dongdaemoon, Incheon Kaja, Gyunggi Gimpo, Northern Suwon and Kyungnam Kimhae branches) from MBK. In 2017, Richmond AMC purchased the Icheon Premium Outlet "Fashion & Kids Mall". IGIS AMC purchased Homeplus Jeonju and Hyoja branches, which are let for more than 14 years. Vestas AMC acquired the Homeplus Pyeongchon branch, which has a 12-year remaining lease period. ■

GRAPH 4 **Retail sales growth by retailer type, 2016–1H/2017, YoY**



Source: Statistics Korea

\* The sales of non-store retail excludes online shopping sales by offline based retailers.

TABLE 1 **New shopping mall and outlet development plans, 2017–2018**

Year	Brand	New shopping mall
2017	Shinsegae	Starfield Goyang Samsung
	Lotte	Incheon Terminal Shopping Mall
		Goyang Wonheung Shopping Mall
2018	Lotte	Lotte Outlet Gunsan
		Lotte Premium Outlet Ulsan
		Lotte Premium Outlet Yongin

Source: Savills Korea Research & Consultancy, Public information

TABLE 2 **Major retail transactions, 2016–2017**

Year	Building name	Amount (KRW bil)	Seller	Buyer
2016	Lotte Mall Eunpyeong	430	Eunpyeong PFV	KB AMC
	MBK Homeplus Portfolio (5 properties)	644	Homeplus (MBK)	Ryukyung PSG AMC
	G-Square City Retail Complex	Approx. 750	Koramco (GS Retail)	IGIS AMC (GIC, NPS, NHUF)
	Upsquare	149	Upsquare PFV (Angelo Gordon)	IGIS AMC (M&G)
	Starfield Goyang	770	Shinsegae	IGIS AMC(NPS) +Shinsegae Group
2017	Homeplus Pyeongchon	93	Alpha Asset Management	Vestas Investment Management
	Homeplus Hyoja	170	Koreit AMC (GIC)	IGIS AMC
	Lotte Premium Outlet Icheon (Fashion & Kids Mall part only)	76	A.R.D.O.	Richmond AMC
	Homeplus Gangseo	215	Homeplus (MBK)	JR AMC

Source: Savills Korea Research & Consultancy, Public information, RCA



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