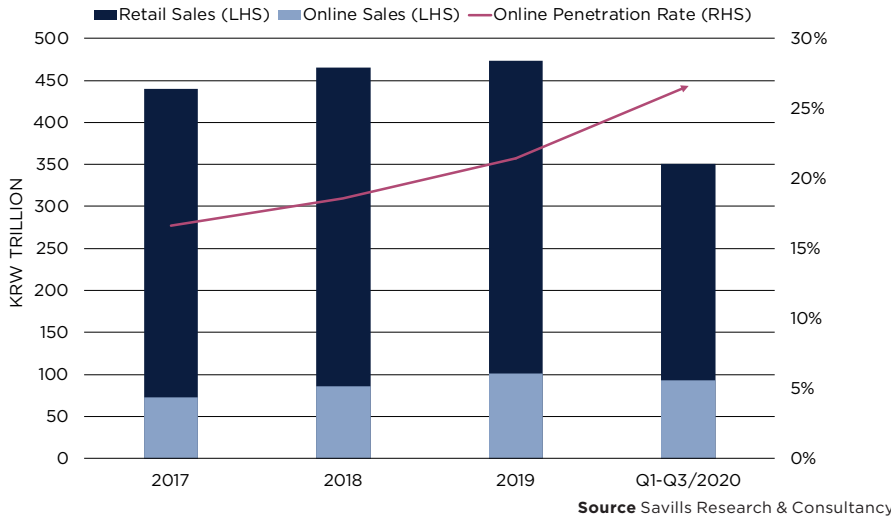


Korea Logistics



Online retail sales, which represented 17% of total sales in 2017, rose to 27% in Q1-Q3/2020

GRAPH 1: Online Retail Sales As A Proportion Of Total Retail Sales, 2017 to Q3/2020



ONLINE SALES GROWTH

Online retail sales grew a remarkable 7% YoY in 2020-YTD, while total retail sales increased 1% during the same period. The shift from offline to online retail is rapidly materializing, as online retail sales, only 17% of the total in 2017, rose to 27% in Q1-Q3/2020.

By product category, Food & Beverages exhibited the most significant growth in sales. On the effects of the pandemic-related lockdown, online sales of Food & Beverages rose 48% YoY, and Agricultural & Livestock Products by 71% YoY. As a result, high demand for cold storage has fostered more investment interest in cold storage developments in 2020.

SUPPLY

In Q3/2020, total stock of logistics centers exceeding 5,000 pyeong GFA in the Seoul Metropolitan Area (“SMA”, comprising of Seoul, Gyeonggi and Incheon) is estimated at 4.8 million pyeong. The pace of new supply additions, averaging 19% annually 2017-2019, is projected to slow to 14% during 2020-2022.

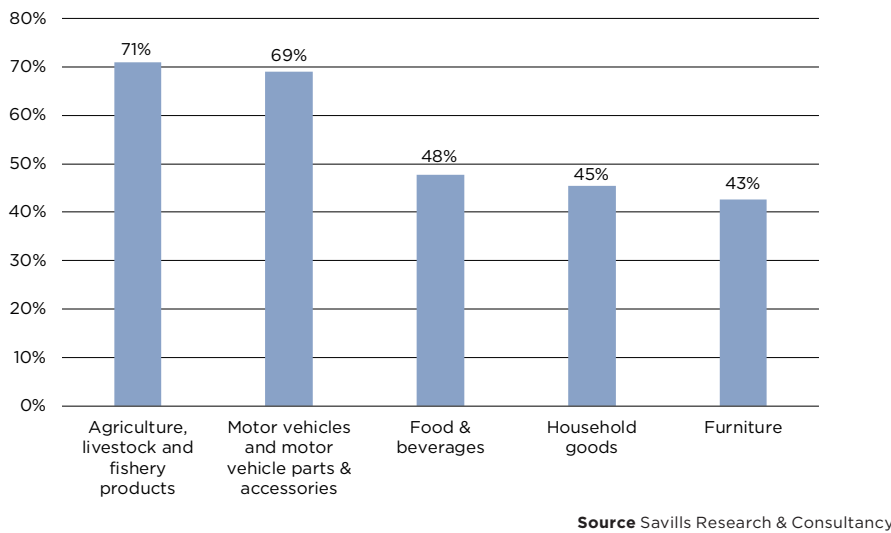
While current supply is concentrated in Icheon/Yongin/Gwangju, districts that are preferred by occupiers due to their proximity to Seoul, expected future supply is dispersing to other districts due to difficulties in obtaining new approvals in the traditional three districts. Heightened demand from E-commerce and 3PL occupiers is driving the rise in the number of new approvals.

The scaling-up trend continues in the market, with centers greater than 10,000 pyeong in size representing over half of all future supply due to the tightening for new approvals. This is mainly due to a rise in land prices and heightened preference for modern centers from institutional investors.

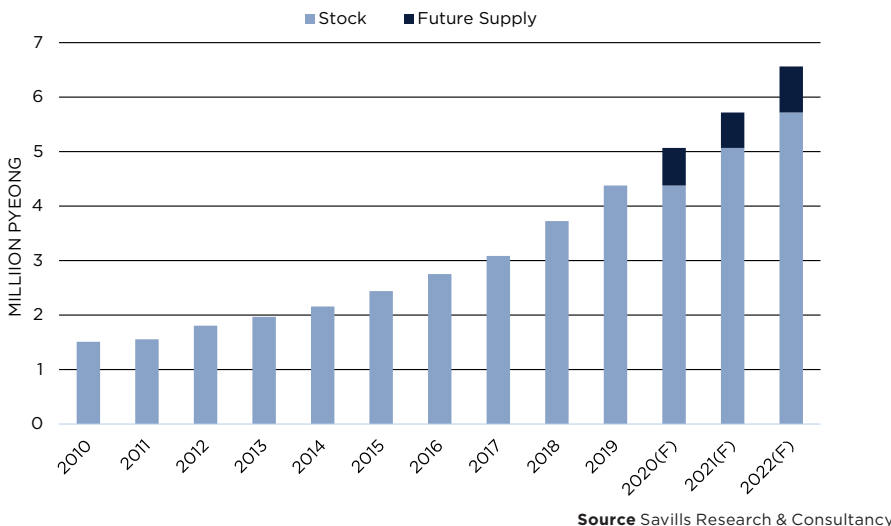
RENT & VACANCY

As of Q3/2020, while rents were largely unchanged QoQ, overall vacancy rates recorded a notable decline. For Seoul, rents for dry storage stood at KRW45,000 per pyeong, while ranging between KRW23,000 and 25,000 per pyeong in Anseong and between KRW19,000 and 26,000 per pyeong in Pyeongtaek. Cold storage was marketed at approximately twice the rate of dry storage.

GRAPH 2: Top Five Growing Product Categories In Online Sales, Q1-Q3/2019 vs. Q1-Q3/2020



GRAPH 3: Total Stock And Future Supply In SMA, 2010 to 2022(F)



TRANSACTIONS AND INVESTMENT MARKET

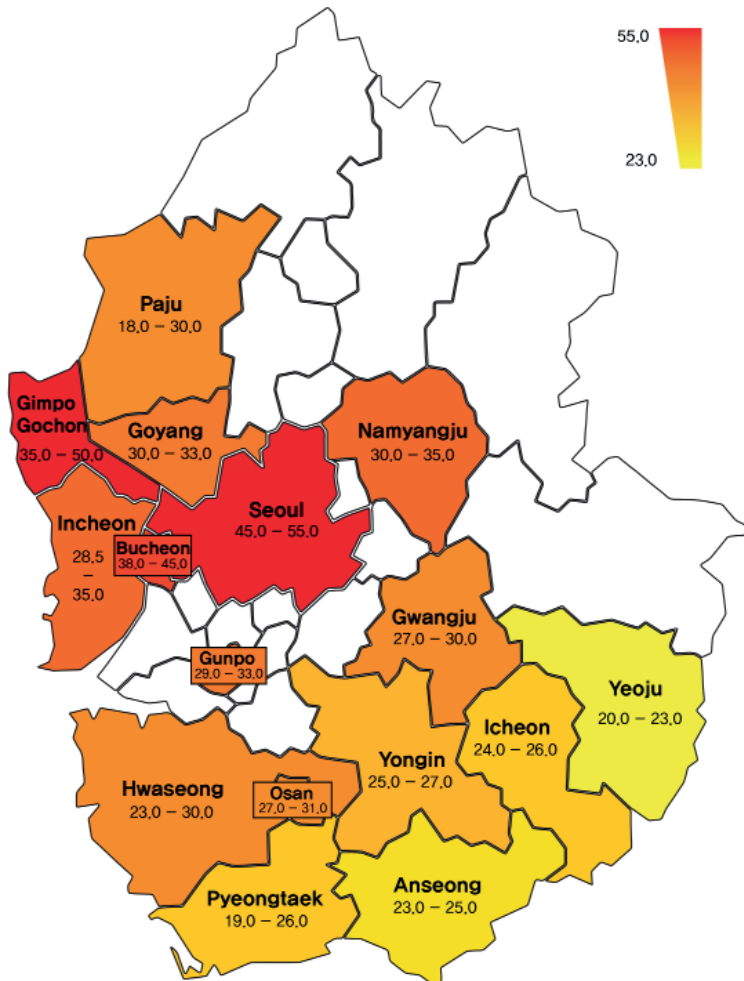
The transaction volume for hard assets during the first three quarters of 2020 fell YoY to record a total of KRW1.3 trillion, as opposed to the growing volume of Development and Forward Sales transactions.

Heitman made its first break into Korea's commercial real estate investment market via two acquisitions of logistics centers. Both properties are known to enjoy high accessibility to Seoul with direct access to a main national expressway and were bought for KRW53.0 billion and KRW50.9 billion with reported cap. rates of mid/high 5%.

Shinhan REIT's Management purchased Icheon Dancheon-li Logistics Center for KRW60.0 billion. The reported cap rate is high-4%, based on its master-lease contract with 3PL industry leader Taeun Logistics

Korea's E-commerce market landscape is forecast to experience changes in 2021. Amazon, previously reluctant to enter on intense competition, has recently announced a partnership with a domestic market leader, and other major companies have announced growth plans through M&A and strategic alliances. These market changes are expected to drive up total logistics transaction volumes.

MAP 1: Rents For Dry Storage By District, Q3/2020



Source Savills Research & Consultancy

and a central location in Icheon.

In Cheonan, Hana Trust became the new owner of LG Hausys Logistics Center at a purchase price of KRW65.1 billion, a cap. rate of high-4%. The property is currently master-leased to furnishing company LG Hausys.

The COVID-19 impact contributed to the current compression of cap. rates, with recent transactions of high-quality dry-storage centers closing in the high-4% to low-5% range. Assuming no change in interest rates, the current downtrend of transaction cap. rates for high-quality properties is forecast to continue for the near future.

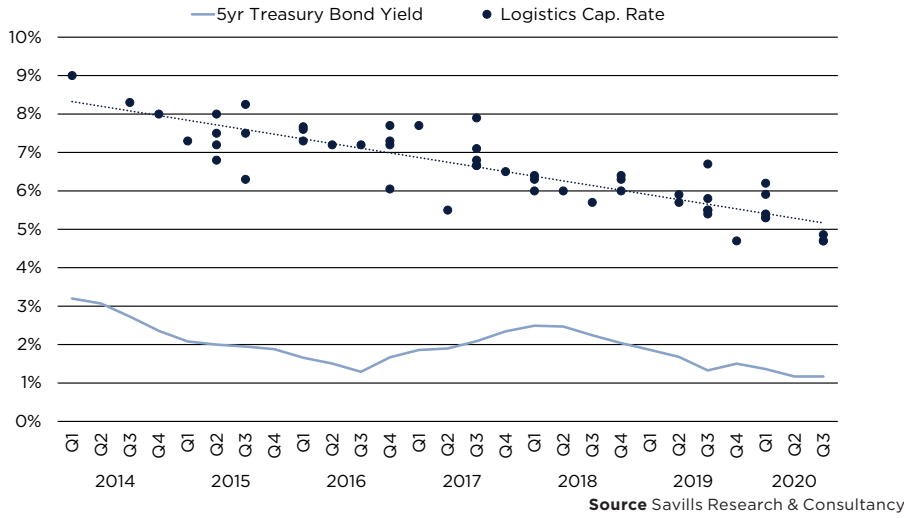
OUTLOOK

The online retail industry is expected to continue its upward trend, resulting in related companies introducing new growth strategies such as M&A and strategic partnerships.

Amazon, a global leader in online retail, has partnered with domestic telecommunications services provider SK Telecom to ship products directly to Korea. A subsidiary of SK Telecom, 11Street, will store selected products most purchased by Koreans in its own storage facilities to allow for direct shipping. While Amazon has been reluctant to enter Korea due to intense competition from local E-commerce platforms, it will indirectly establish a new base through the partnership.

Corporations are expected to reshuffle their logistics portfolios in response to

GRAPH 4: Cap Rate Trend, 2014 to Q3/2020



shifting market trends. Any redundant centers will be put up for sale, while pursuing new development projects or signing long-term leases in core strategic locations. Higher activity levels in the leasing and investment markets are expected to continue for the foreseeable future.



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