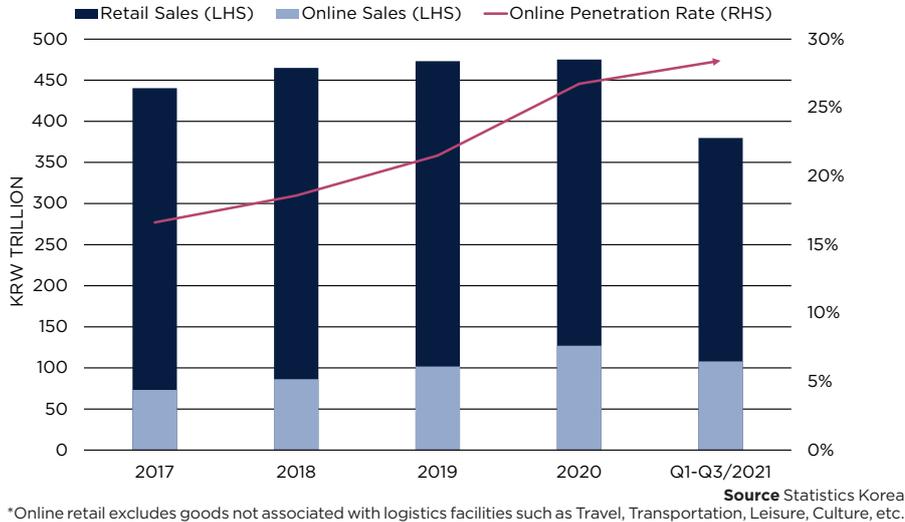


# Korea Logistics



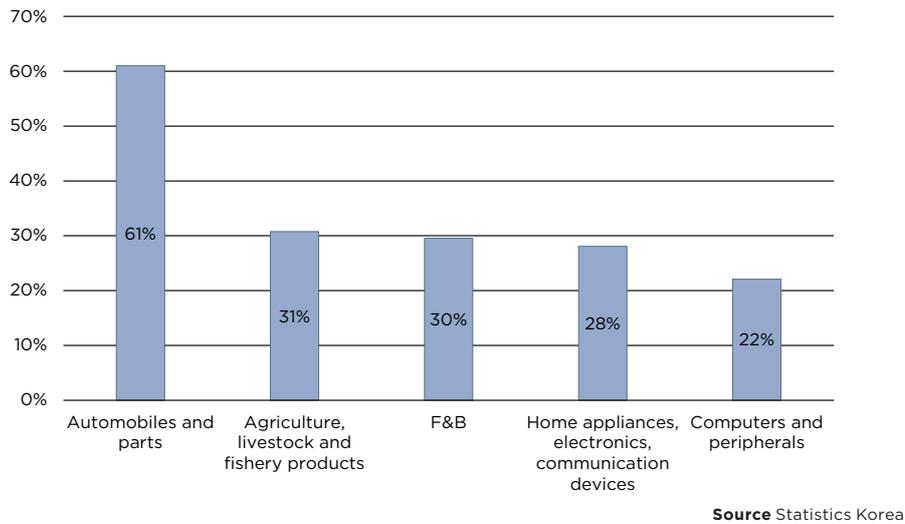
# Total stock will increase by 83%, adding 3.6 million pyeong over the next two years

**GRAPH 1: Online Sales Penetration, 2017 to Q3/2021**

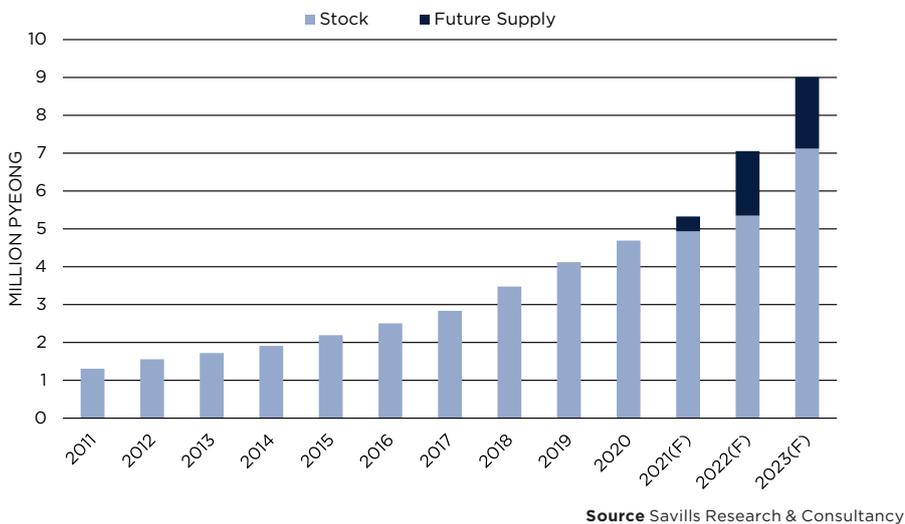


\*Online retail excludes goods not associated with logistics facilities such as Travel, Transportation, Leisure, Culture, etc.

**GRAPH 2: Top Five Growing Product Categories in Online Sales, Q1-Q3/2020 vs. Q1-Q3/2021**



**GRAPH 3: Total Stock and Future Supply in SMA, 2011 to 2023(F)**



## ONLINE RETAIL

Cumulative online sales up to Q3/2021 increased 18% YoY, while total retail sales increased 8% during the same period. Between 2017 and Q3/2021, the rapid shift to online retail channels has lifted the online sales penetration rate from 17% to 28%.

Online sales of automobiles and parts and F&B continued to increase in 2021 on the back of rapid growth in 2020. In the first three quarters of 2021, automobiles and parts increased 61% YoY as more people opted for private cars over public transportation amid social distancing. Meanwhile, online fresh food and F&B sales during the same period increased 31% YoY and 30% YoY, respectively, as more people ate at home and adopted overnight delivery services. With the increase in online fresh food sales, demand for not only dry storage but also cold storage has increased, spurring the development of more cold storage facilities.

## SUPPLY

As of Q3/2021, there were 337 logistics centers with a GFA over 5,000 pyeong (py) in the Seoul Metropolitan Area (Seoul, Incheon, Gyeonggi-do), amounting to 4.9 million py. Among this, 2 million py (41%) was concentrated in the Southeast District (Icheon, Yongin, Gwangju), and 1.2 million py (25%) was concentrated in the South Central District (Hwaseong, Pyeongtaek, Anseong). Total stock increased at a CAGR of 15% between 2011-2020 and is expected to accelerate from 2021-2023, increasing at a CAGR of 30% and adding 3.6 million py GFA to total supply.

Although civil complaints related to distribution center construction have increased permitting difficulties, facilities are continuing to be developed in existing logistics clusters and their environs. Logistics developments are likely to continue as e-commerce and 3PL companies show sustained demand with growth of the online market.

Permitted logistics centers in SMA with a GFA over 5,000 amounted to 1.7 million py in 2020 and 1.6 million py in the first nine months of 2021. A large proportion of the permitted properties was in Icheon and Yongin in the Southeast District and Anseong and Pyeongtaek in the South Central District given their excellent accessibility to Seoul. Icheon recorded the most permits in SMA in Q3/2021 YTD, although its total permitted space decreased YoY. Meanwhile in Yongin, permitted space

in Q3/2021 YTD was 3.5 times higher than in 2020 with Pogok Smart Logistics Complex (160,000 py GFA) and other projects. Incheon only had 40,000 py of permitted space in 2021 following 660,000 py of permitted space from logistics complexes such as Hangdong 7-ga (70,000 py) and Wonchang-dong (320,000 py) in 2020.

Logistics centers are becoming bigger to accommodate increasing fulfillment demand. As goods enter and exit centers simultaneously, larger space can help optimize transport routes, reducing delivery times. Correspondingly, 73% of logistics centers scheduled for completion in 2021-2023 in SMA will be over 10,000 py GFA.

**RENT & VACANCY**

In Q3/2021, average rents increased QoQ, and vacancy decreased. Dry storage rents in Seoul were KRW45,000/py and KRW70,000/py for cold. Rents in the Southeast District,

where the largest number of centers are located, ranged from KRW20,000-48,000/py for dry and KRW37,000-70,000/py for cold. Centers with lower rents were mostly old, lacked all-floor ramp access, and located farther away from main expressways, and cold storage rents were typically twice that of dry rents.

**Cap rates of transacted centers in good locations have fallen to the high-3% to low-4% range. However, the decline is expected to slow on base rate hikes in the future.**

**TRANSACTIONS AND INVESTMENT MARKET**

The cumulative transaction volume of logistics hard assets in Q3/2021 was KRW2.5 trillion and included eight large-scale transactions over KRW100 billion. Forward purchases also increased on more new supply and competition among investors.

K Logisfield Logistics Center in Gimpo, completed in September 2019 with a dry-cold storage ratio of 65:35, and was acquired by KORAMCO REITs & Trust for KRW162.0 billion. Its main tenants are Hyundai Glovis and CJ Logistics, which are reported to have leased 100% of the property within three months of construction.

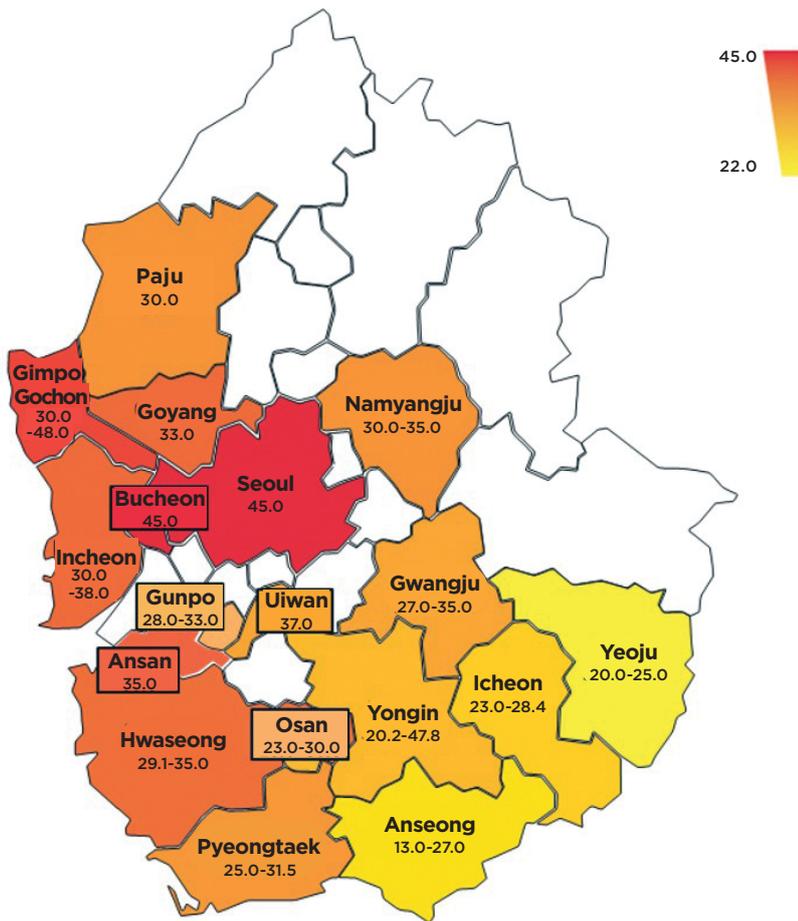
Pacific AMC purchased BRIC Logistics Center in western Icheon for KRW112.2 billion. The mix center completed in June this year has a long-term lease with Team Fresh, a food logistics service company. Many investors are known to have participated in the bidding given the asset's sought-after location in Icheon.

In Incheon, Dohwa GS Logistics Center, which has a 15-year master lease with GS Networks since completion in November 2017, was bought by Mastern IMC for KRW111.5 billion.

Mapletree acquired five logistics centers, previously invested in by Blackstone through Mirae Asset AMC, for KRW280.0 billion. Although the size of the assets excluding Dongsan Logistics Center is rather small, competition is known to have been high given 100% leases.

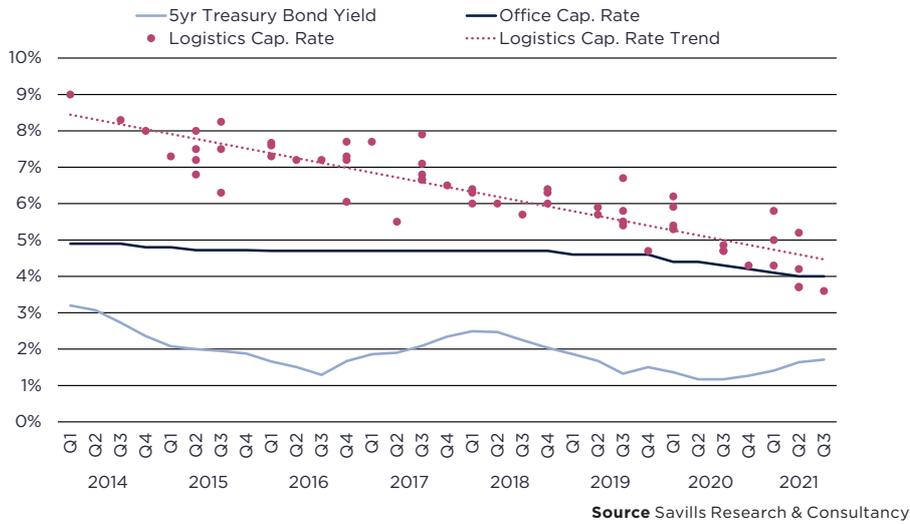
Since 2H/2020, NH REITs Management, Shinhan REITs Management, and Hana Asset Trust have enlarged their logistics portfolios, while Kendall Square AMC listed a REIT worth KRW1.2 trillion, comprising 10 distribution centers. In 2021, Kendall Square REIT has expanded further with the acquisition of Anseong Juksan Logistics Park (KRW160 billion) and Yongin BRIC Logistics Center (KRW104 billion). Since Q1/2020, the total value of listed logistics REITs has grown from KRW905.5 billion to

**MAP 1: Rents For Dry Storage By District, Q3/2021**



Source Savills Research & Consultancy

**GRAPH 4: Cap Rate Trend, 2014 to Q3/2021**



exceed demand, creating fierce competition to secure tenants. Falling cap rates have also led to more development projects and cold storage conversions to maximize returns. Given cold centers are more sensitive to location than dry centers, securing optimal locations should become a key concern for not only supply chain operators but also investors.

Lastly, the logistics market stands to evolve from the reorganization of Korea's national road network. The Ministry of Land, Infrastructure and Transport plans to bolster the current national grid network of seven vertical and nine horizontal highway corridors to 10 vertical and 10 horizontal roads by 2030. In addition, six radial roads around the nation's five major cities (Seoul, Busan, Daegu, Daejeon, Gwangju) are planned to improve connectivity between city roads, potentially improving access for logistics centers to core markets.

KRW2.96 trillion in Q2/2021.

Logistics investment activity, which has rapidly increased since 2016, is likely to speed up with considerable new supply in the next two years. Cap rates continue to decline on strong investment demand and rising transaction prices. Recently cap rates of transacted centers in good locations had fallen in the high-3% to low-4% range. However, the decline is expected to slow on base rate hikes in the future.

**OUTLOOK**

Investor appetite for logistics assets is likely to persist given the steady rise of online retail. Logistics leasing demand should also be supported by Korea's growing online sales penetration rate which reached 28% in Q3/2021, short of rapidly developing logistics markets such as China which had a rate of 35-40%.

Despite this, new supply of 3.6 million py during the next two years in SMA will likely



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