

Retail



Market Facts

93.2

2020 1Q Consumer Sentiment Index decreased by 5.9% y-o-y

2 trillion KRW

2020 1Q retail transaction volume increased by 28% y-o-y

7.95 million KRW

2020 1Q retail store transaction price(per 3.3 sqm) increased by 14% y-o-y

4.86%

2020 1Q retail store cap rate decreased by 31bps y-o-y

1 completion

2020 1Q retail store completion decreased by 4 cases y-o-y

Domestic Consumption

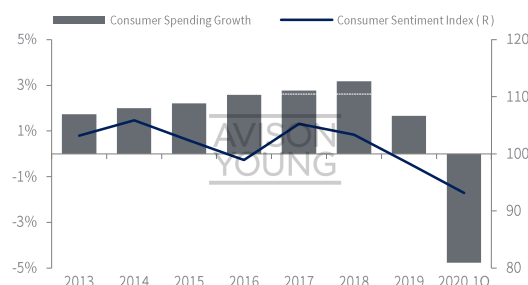
The Korean government has undertaken an expansionary fiscal policy to induce spending in 2019, but consumer spending slowed down due to rising unemployment and declining consumer sentiment, and as a result, economic growth slumped to 2.0%, down 0.7%p y-o-y. By the industrial sector, the growth rates of the construction industry and the service industry have been decreasing. The service industry's growth rate suffered particularly due to the poor performance of retail and hotel business last year.

As COVID-19 hit 2020 1Q, the Bank of Korea lowered the benchmark interest rate and promoted an aggressive monetary policy to shore up the economy. Despite such efforts, domestic spending shrunk due to social-distancing rules and virus-induced store closures, which led the real GDP to drop 1.3% q-o-q.

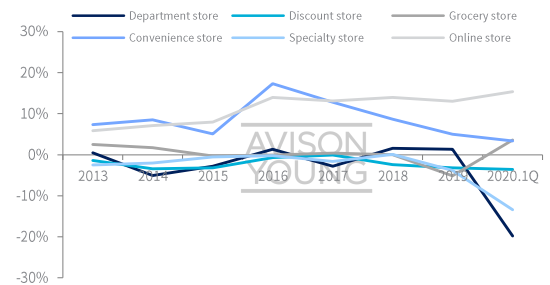
Among the retail sector, department stores have been

hit the hardest by the virus. In 2018 and 2019, department stores enjoyed a high growth rate from sales revenue of foreign luxury goods and expensive home appliances. However, closures and void of visitors caused duty-free shop sales to suffer, leading to a 19.8% drop in growth rate y-o-y. On the other hand, grocery store which slumped 5.1% in growth rate in 2019, recorded a 3.6% surge during the 2020 1Q. This rise is attributed to an increase in grocery shopping at near-home retail stores due to the expanding practice of cooking and eating at home.

The Bank of Korea forecasted the economy in 1H of 2020 to be sluggish due to the massive damage caused by COVID-19 in March and April. However, if the virus does not restart in 2H, the consumer sentiment index will improve, drive consumer spending, and the overall yearly economic growth rate in such case is forecasted at -0.2%.



▲ Consumer Spending & Consumer Sentiment Index



▲ Growth rate by retail business

Source: KOSTAT, Bank of Korea

Transaction & Investment

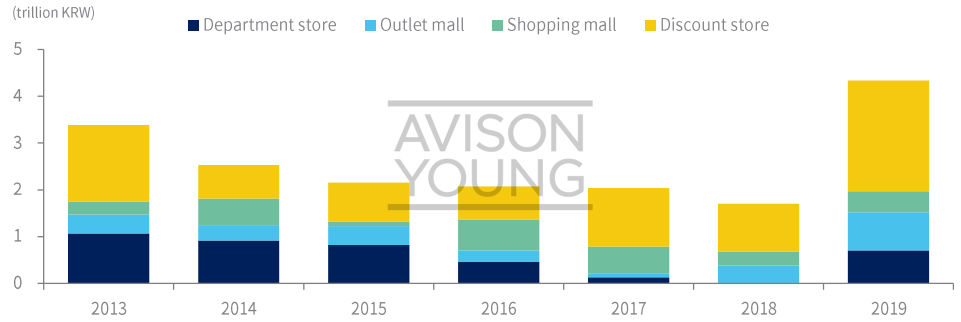
In 2019, the retail transaction market reached 4.3 trillion KRW, with 47 individual transactions of large retail stores including discount store retails. Homeplus, one of South Korea's top discount store retail chain, has been selling existing locations. In a similar vein, major retail chains such as Lotte Shopping and E-mart has also liquidated its brick-and-mortar stores by selling their assets in packages to Lotte AMC and Mastern Investment Management respectively, adding 2 trillion KRW to total retail transaction volume in 2019. Therefore, discount store retail chains have begun liquidating assets to invest in their e-commerce platforms.

Since 2017, the retail transaction market included deals that focus on long-term potential and investors looked into sites that could be developed into residential assets. Ryukyung PSG Asset Management Inc sold E-mart Deogi branch and Lotte Mart Yongin Suji branch to developers who plan to build apartments. JR Asset Management also purchased five retail stores including 2001 Outlet Suwon branch and Donga Outlet Daegu branch which the company plans to develop into apartments from 2020.

The average transaction price per 3.3 sqm was 7.95 million KRW, a slight decrease from last year because some non-core assets were included in package deals. The cap rate decreased by 0.13%p y-o-y and landed at 4.92%. The 3-year government bond rate also fell 0.13%p, resulting in cap spread at 2.24%p.

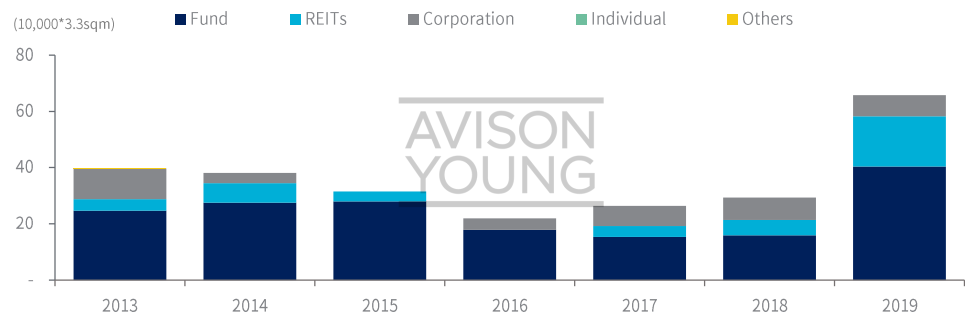
In 1Q 2020, transaction volume reached just under 1.1 trillion KRW, as eight large retail stores were traded in the market. In 2019, Lotte Shopping and E-mart used sale-and-leaseback method to liquidate underperforming stores. Hanwha Galleria department store also sold off its Busan Cheonan Center City branch and Suwon branch and secured 400 billion KRW in cash. In early 2019, Homeplus failed in liquidating 51 branches in one package but sold a package deal grouping 3 retail assets in a sale-and-leaseback method this quarter. Going forward, sale-and-leaseback method is forecasted to be the prime method to sell assets for retail chains to cut costs.

Transaction volume by retail business



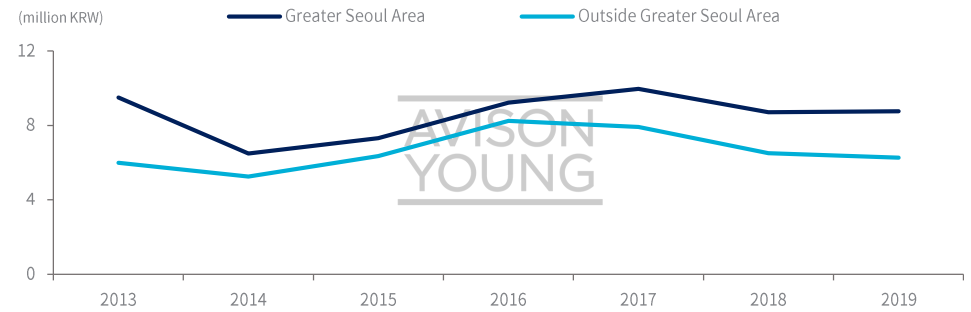
Source: Avison Young Korea Research Center

Transaction area by buyer type



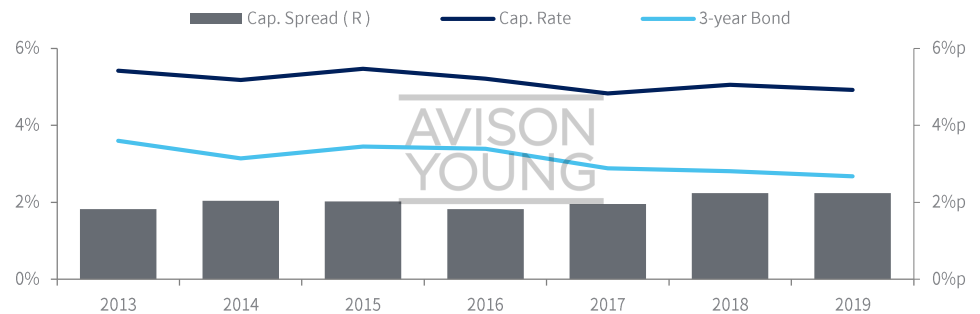
Source: Avison Young Korea Research Center

Transaction Price by regional area (/3.3㎡)



Source: Avison Young Korea Research Center

Capitalization rate



Source: Avison Young Korea Research Center

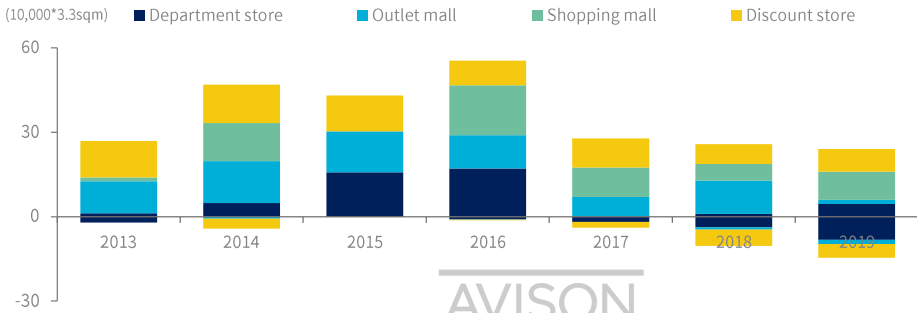
Major transaction cases(2019~2020 1Q)

Chain & Location	Market	Address	GFA(3.3㎡)	Price (100 million KRW)	Date	Seller	Buyer
Lotte Department Store · Young Plaza Changwon branch	Yeongnam Area	Gyeongnam Changwon-si	42,600	2,468	2019	Lotte Shopping	Lotte AMC
Lotte Mart Yongin Suji branch	Greater Seoul Area	Gyeonggi Yongin-si	13,300	2,000	2019	Ryukyung PSG AMC	The synergy1
Donga outlet Daegu branch	Yeongnam Area	Daegu Jung-gu	4,100	302	2019	Eland Retail	JRAMC
Galleria Department Store Center City branch	Jungbu Area	Chungcheong Cheonan-si	33,400	3,000	2020	Hanwha Galleria	Koramco AMC

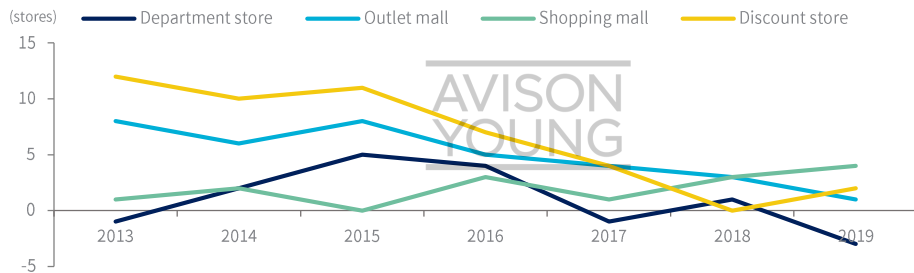
Source: Avison Young Korea Research Center

Retail

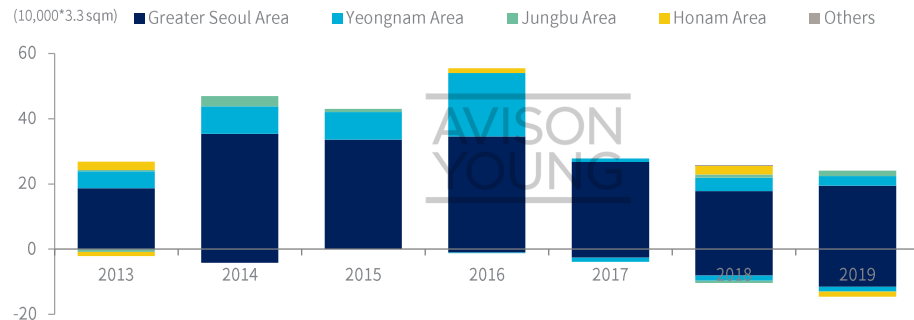
New supply by retail business



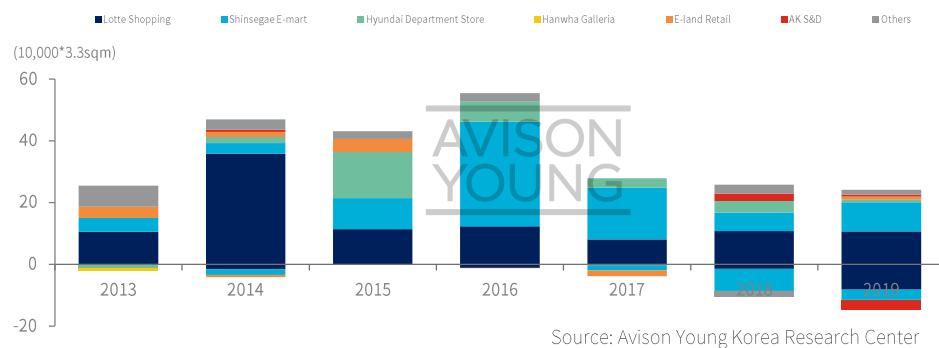
New net supply by retail business



New supply by market region



New supply by company



New Completions and Demolitions (2019~2020 1Q)

Chain & Location	Retail business	Market	Address	GFA(3.3㎡)	Management company	Open date	Closed date
Starfield City · E-mart Traders Bucheon branch	Shopping mall · Discount store	Greater Seoul Area	Gyeonggi Bucheon-si	48,000	Shinsegae	2019	-
AK&Sejong branch	Shopping mall	Jung-bu Area	Sejong-si	6,057	AK S&D	2019	-
Galleria Department Store Gwanggyo branch	Department Store	Greater Seoul Area	Gyeonggi Suwon-si	45,000	Hanwha Galleria	2020	-
Donga Outlet Daegu branch	Outlet mall	Yeongnam Area	Daegu Jung-gu	4,117	Eland Retail	2010	2020

Source: Avison Young Korea Research Center

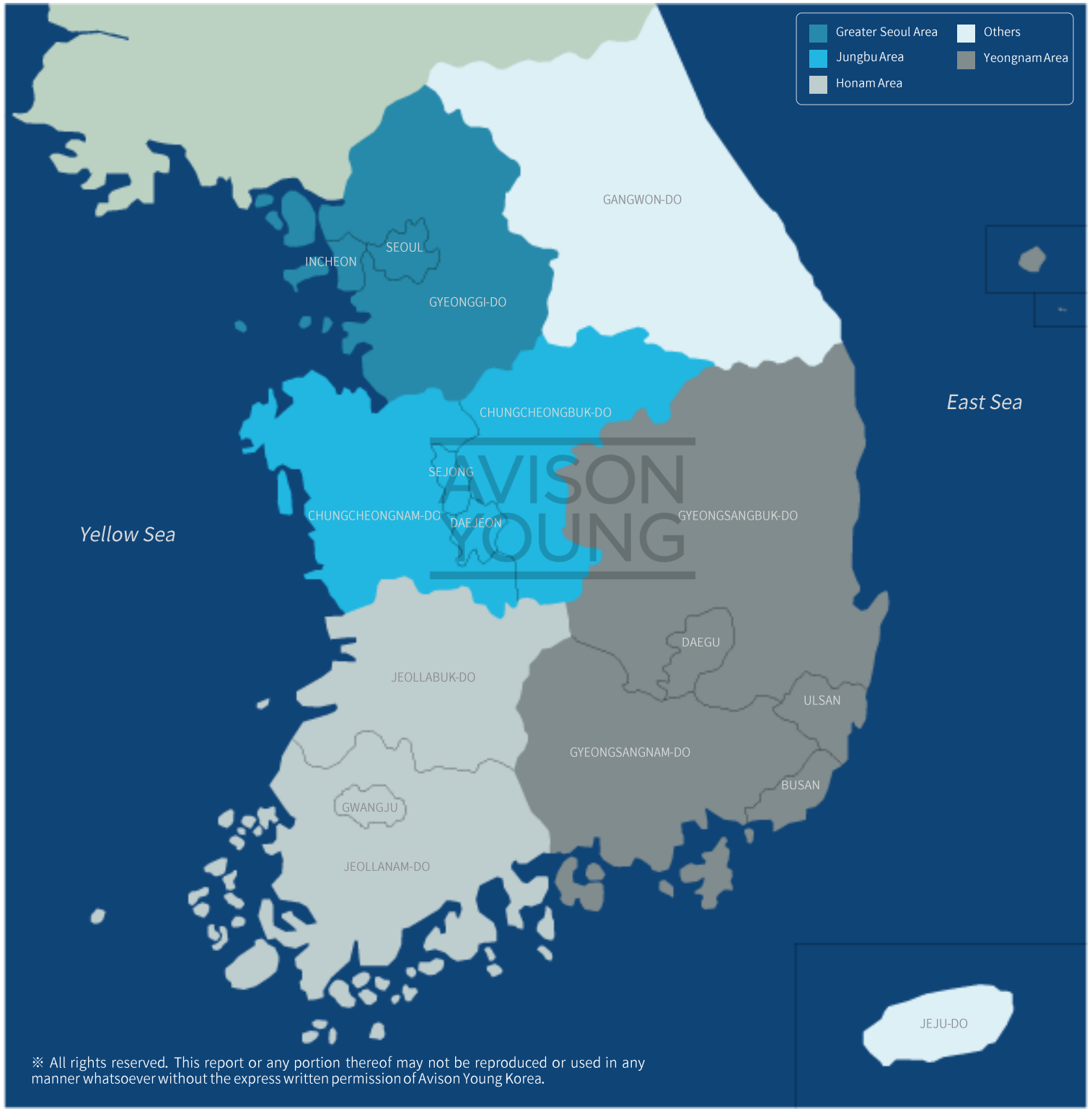
New supply

The total completed GFA of large retail stores last year was 793,000 sqm, down 6.6% y-o-y. This number is less than half of the completions in 2016. From 2014 to 2016, completions peaked as large shopping malls and suburban outlets were completed in the Greater Seoul Area. However, the exponential growth of e-commerce stalled such new completions. To this, retail companies are focusing on completing small to medium-sized shopping complexes such as Starfield City and AK& in new towns and new housing sites outside of Seoul.

Lotte Shopping opened Lotte Department store Incheon Terminal branch, and also closed six of its locations including department stores and outlets that are not profitable or are crowded in a limited commercial location. Lotte Mart has also closed Jeonjudeokjin branch in Jeolla province. Lotte Mart has been cautious not to open new stores as individual store type, but instead open within its affiliate shopping mall or affiliate apartment commercial retail space.

Shinsegae Group, which is the parent company of E-mart, E-mart Traders, and Costco is also avoiding single store opening and instead choosing to open new retail stores within Starfield, which is its own mega shopping complex brand. The company has opened warehouse-style E-mart Traders within Starfield instead of standard E-mart stores due to its relatively high growth rate. Unlike most other brands that choose to close down branches, Shinsegae has continuously opened two Costco branches on average per year.

Hanwha Galleria has closed down its Suwon branch that opened 25 years ago which had recently suffered from poor performance and opened a new branch in Suwon's new housing development area called Gwanggyo. Jungbu Area, represented by Daejeon and Sejong districts is expecting new completions such as Hyundai outlet and Shinsegae department store. This is a much-needed retail supply to Jungbu Area, which had increasing domestic migration but comparatively insufficient retail stores.



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Avison Young Korea Contact us:

Injoon Choi
 Managing Director
 82.2.3775.7204
 injoon.choi@avisonyoung.com

Hyounggoo Lee
 Head of Research
 82.2.3775.7290
 hg.lee@avisonyoung.com

Rita Kim 82.2.3775.7252
 rita.kim@avisonyoung.com
YH Shin 82.2.3775.7248
 yh.shin@avisonyoung.com
JY Sohn 82.2.3775.7259
 jy.sohn@avisonyoung.com



TY Kim 82.2.3775.7271
 ty.kim@avisonyoung.com

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SW Cho 82.2.3775.7222
 Domestic Capital Markets
 sungwook.cho@avisonyoung.com
CY Lee 82.2.3775.7230
 Retail Marketing and TR
 changyk.lee@avisonyoung.com

Jin Seo 82.2.3775.7260
 Overseas Capital Markets
 jin.seo@avisonyoung.com
Wook Kim 82.2.3775.7230
 Value-add Service
 michael.kim@avisonyoung.com

JM Kim 82.2.3775.7370
 Valuation and Advisory
 jasmine.kim@avisonyoung.com
Anthony Ahn 82.2.3775.7352
 TR Service
 a.ahn@avisonyoung.com

JH Yoon 82.2.3775.7351
 Retail and TR
 jay.yun@avisonyoung.com
SH Choi 82.2.3775.7263
 Strategic Consulting
 sh.choi@avisonyoung.com