

CUSHMAN & WAKEFIELD RESEARCH

2020 SEOUL High Street Retail





CONTENTS

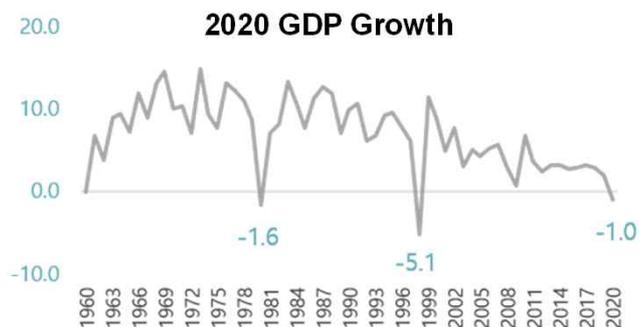
- 01 Economic Overview
- 02 Executive Summary
- 03 Six Major High Streets in Seoul
- 04 Post Pandemic Strategies

Bank of Korea

reported that the GDP of Korea has declined 1.0% in 2020.

Economic Review

The Bank of Korea recently announced that the GDP growth rate in 2020 was -1.0%. It is the third decline since the second oil shock (-1.6%) in 1980 and the IMF financial crisis (-5.1%) in 1998 after economic development in the 1960s. The main cause of this contraction counts to be the increased pessimistic consumer sentiment due to the rising impact of Covid-19.

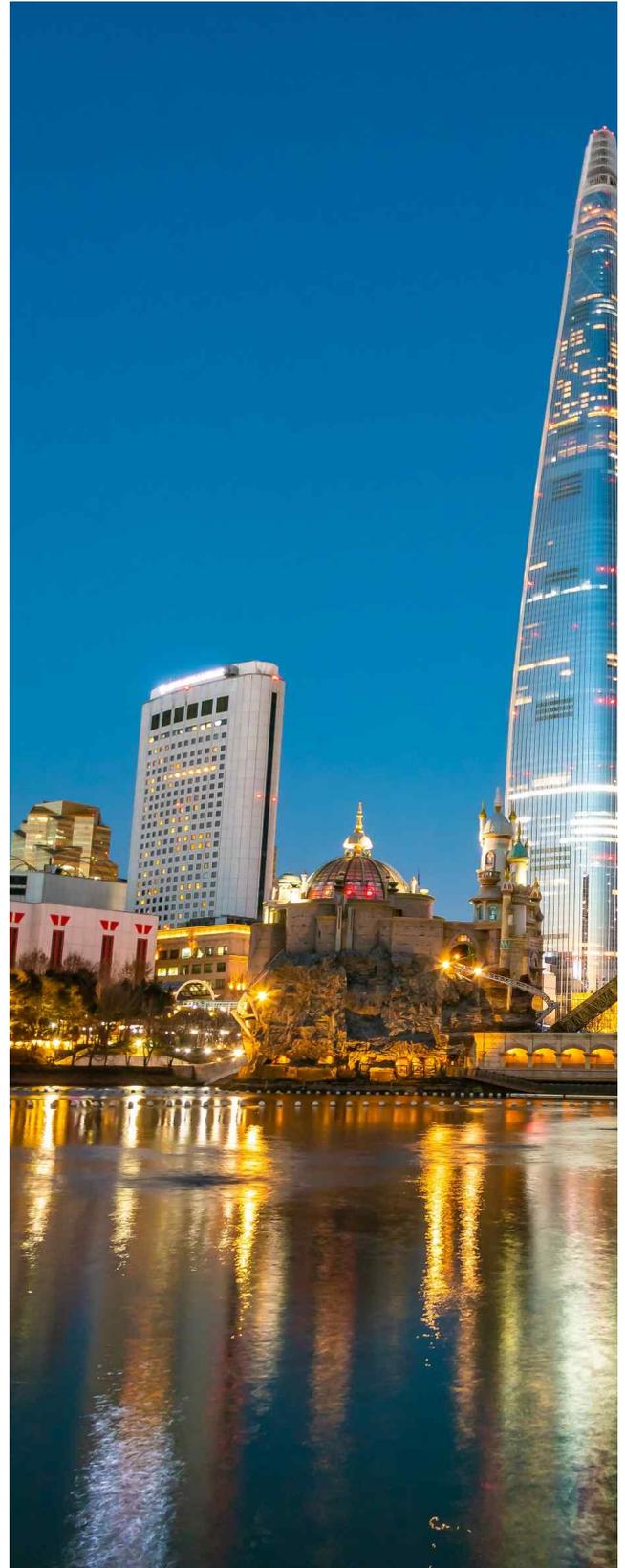


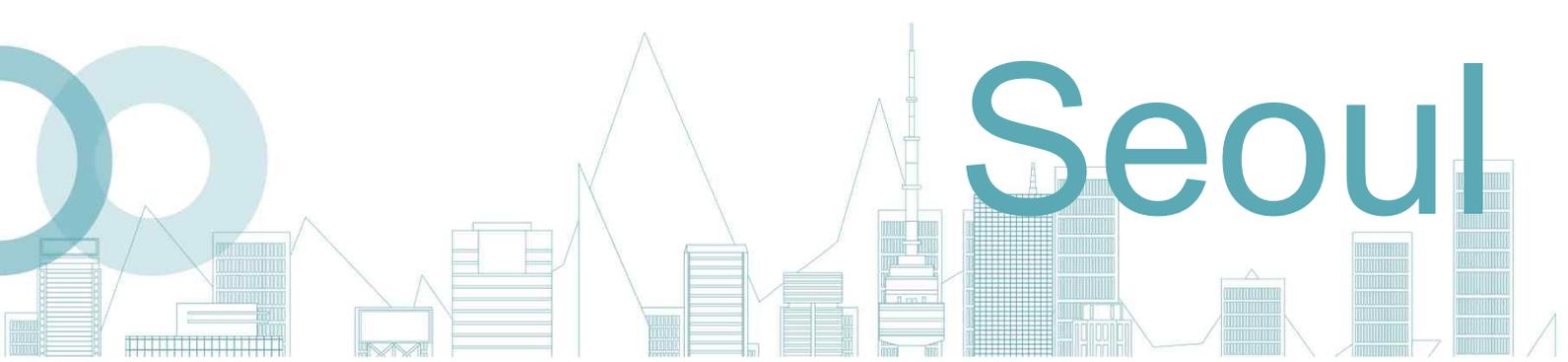
Source: Bank of Korea

The Composite Consumer Sentiment Index (CCSI) in 2020 continued to fluctuate. In March, during the severe surge of Covid-19, the consumer sentiment index decreased 18.5 points from the previous month recording 78.4, and even reaching 70.8 in April. Since then, the consumer sentiment index showed gradual increase, but experienced a sharp decline whenever Covid-19 resurged nationwide.



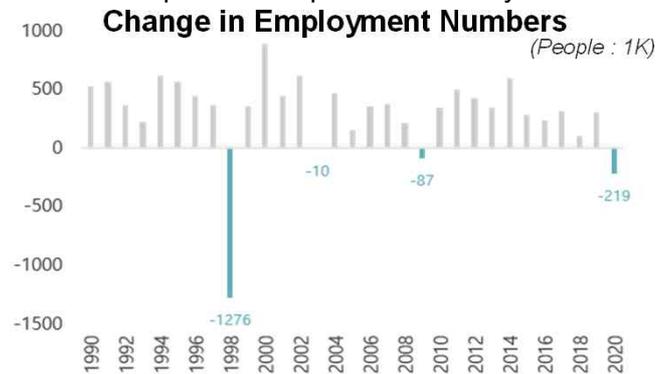
Source: Bank of Korea





The employment rate, closely associated with the level of private consumption, has also shown a drastic decrease. Recording persistent downhill during the ten consecutive months since March when the pandemic hit, only 26.94 million were newly employed in 2020, which is 218,000 less than the previous year.

This marks the fourth time the numbers dropped from the previous year since 1990 following the IMF in 1998 (-1,276 K), the credit card crisis in 2003 (-10 K), and in 2009 immediately after the financial crisis (-87 K). Furthermore, this recent decline is recorded as the second largest drop after the 1998 financial crisis, proving the severity of Covid-19 impact on the private economy.



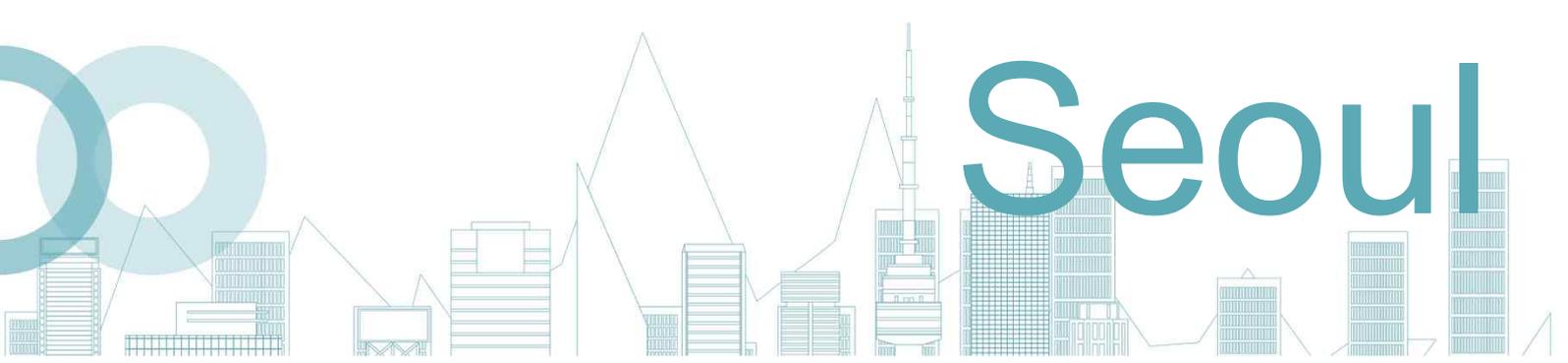
According to the Bank of Korea, the corporate financing trend in Dec. '20 shows loans from large and small enterprises (including private businesses) fell by KRW 5 trillion and KRW 600 billion, respectively, compared to the previous month. However, loans from private businesses increased by KRW 1.9 trillion. The cause of this increase may stem from the low sales performance from social distancing, ultimately also causing business owners to struggle in paying their rent.

Corporate Funding Status

(Difference measured in KRW 1T)

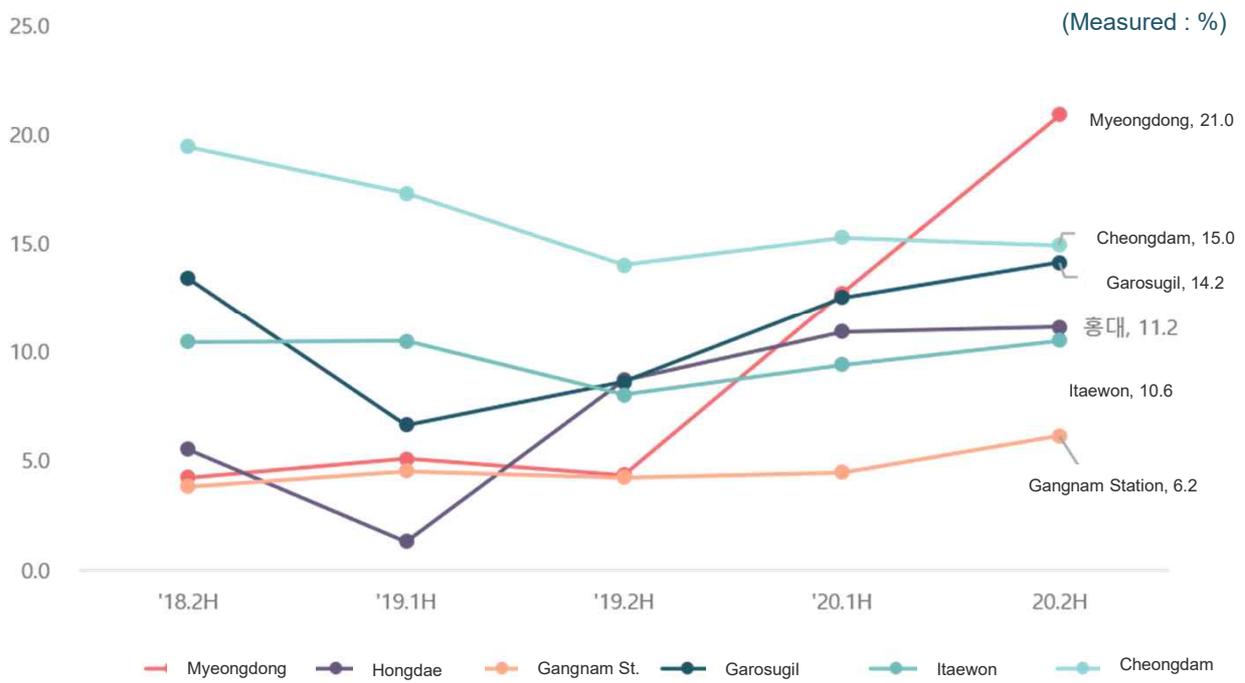
	2019		2020		Dec.20 Balance
	Year Round	Dec.	Year Round	Dec.	
Bank Loan	44.9	-6.2	107.4	-5.6	976.4
Large Enterprises	-2.4	-2.2	19.5	-5.0	171.8
Small & Medium Enterprises	47.3	-3.9	87.9	-0.6	804.6
Private Business	24.7	0.8	47.5	1.9	386.0

Source: Bank of Korea



EXECUTIVE SUMMARY

**Seoul's Six Major High Streets
Main Road Vacancy Rate**



Source: C&W Research

**The First Year of Covid-19,
High Vacancy Rate in 2020
Seoul Major Retail High Streets**

- Significant increase in vacancy rate especially in retail areas that had high tourist foot traffic.

In late 2020, the average vacancy rate of the six major retail high streets in Seoul resulted in 12.4% increase, which is 3.8 pp more than last year. Compared to the first half of 2020, when the pandemic was on full swing in Daegu/Gyeongbuk, the vacancy rate in the second half of the year significantly increase as the pandemic hit Seoul in the later of 2020.

Granted, the big cause was the strict social distancing regulations that retailers were forced to comply to. Retail High Streets heavily dependent on foreign visitors like Myeongdong, Garosugil, continue to show a higher vacancy rate compared to other retail high streets due to the prolonged restrictions on traveling.

**MZ Generation's Liberation
during COVID-19,
Cheongdam (Apgujeong)**

The vacancy rate of Cheongdam Luxury Street recorded 15.0% in late 2020 and remains particularly higher than other major retail high streets. However, its increase is only 0.6%p higher than that of last year while other major high streets experienced a drastic change. The attention is drawn to its rather minimal change.

The growing 'influencer-able' culture, and its synergy with major luxury brands and trendy F&B/bars in Cheongdam prompts consumers into 'flex consumption' thus leading more foot traffic in this area.

EXECUTIVE SUMMARY

A significant increase is found in the number of vacancies of F&Bs that can serve their customer via delivery and online services. However, F&B's that mainly serve to provide an entertaining and socializing atmosphere, like pubs and bars, were less prone to vacate.

'Itaewon,' 'Hongdae,' and 'Gangnam Station,' well-known for their heavy F&B areas, showed an exceptional record of vacancies in late 2020. Korean, Japanese, and general dining F&B's in particular have experienced more vacancies than that of clubs and pubs. The strict social-distancing regulations have surged vacancies of F&B businesses as they transition to delivery and online channels.

Clubs and pubs, on the other hand, showed less vacancies as younger generations continue to prioritize demand in the socializing culture which is unlikely to be replaced by an online channel.



Comparison of Vacancy Rate: Major Tenants in Late 2020

(measured: %, based on no. of stores)



Source: Research

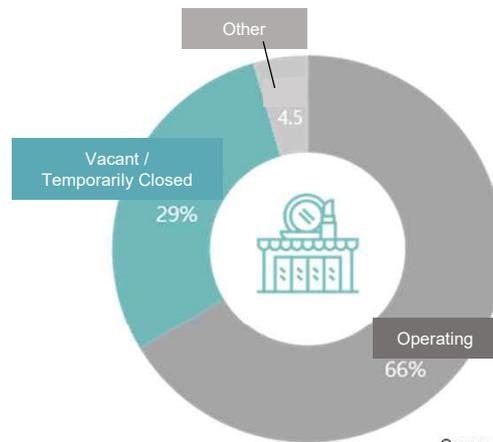
*general f&b: general restaurants + café/dessert shop + fastfood
*pubs & bars

Myeongdong

The vacancy rate of Main Street Myeongdong reached 21.0% in the second half of 2020. In the same period last year, the vacancy rate was only 4.8%, making the 2020 vacancy rate about 4.5 time higher.

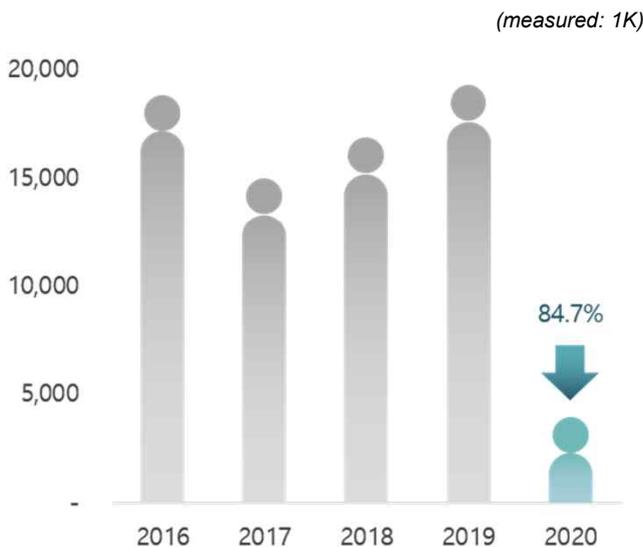
The main reason for the surge in vacancy rates in Myeongdong was the drastic drop in the number of foreign visitors as the severe pandemic situation limited overseas traveling. In November 2020, the cumulative number of foreign visitors was 2,456,774, which is 84.7% less than that of 2019.

**Myeongdong Main street
Cosmetic Store Operation in Late 2020**



Source: C&W Research

Foreign Visitors Entering Korea



Source: Korea Tourism Organization (Jan. ~ Nov. 2020)

Cosmetic retail stores in Myeongdong especially had a critical hit. As the number of foreign visitors plunged, cosmetics stores, which used to be a major retail sector in Myeongdong, experienced severe damage in sales. As a result, in late 2020, almost 30% of cosmetic stores are closed or temporarily closed compared to that of early 2020.

Amidst the severity, "Lanez Flagship Store" have renewed and opened in Myeongdong to attract local consumers. It is analyzed that the brand decided to rather focus on local customers than to wait for a revive in the number foreign visitors. In line with the retail store trend focused in physical 'experience,' Amore Pacific aims to showcase this renewed flagship as a 'brand experience space'.

The multi-cosmetics shop, 'LU42', has also newly opened in Myeongdong. This brand also meets the current offline retail trend that focus on customer experience and provides a wide variety of cosmetic options to customers. Similarly, these retail experience stores are anticipated to expand not only in Myeongdong but also in other major street retail high streets. This change in trend is accelerating to differentiate physical stores from online platforms.

Subsequently, it is anticipated that the price drop of real estate in Myeongdong will be inevitable. And no acquisitions have been made in the main and back streets buildings in Myeongdong since the last transaction of a corner building between Chungmu-gil and Jungang-gil, which was traded at about KRW 950 billion land price per pyeong in February 2020. The drastic increase in vacancies is studied to diminish the level of expectations on yield.

Hongdae

The vacancy rate of main street Hongdae in late 2020 resulted in 11.2%, which is about 0.2pp more than that of early 2020.

Late 2020 Vacancy Rate of Major Retail Categories

(measured: %, based on no. of stores)



Source: C&W Research

In the second half of the year, 48.3% of new vacant stores in Hongdae were in the restaurant business. As 'untact' businesses like delivery services arise, severely impacting F&B businesses. According to the Nov. 2020 KOSTAT report on online shopping trend, the amount of food service transactions rose 60.6% year-on-year, resulting in a total amount of KRW 1.63 trillion.

Online Food Service Transaction

(measured: KRW 100M)



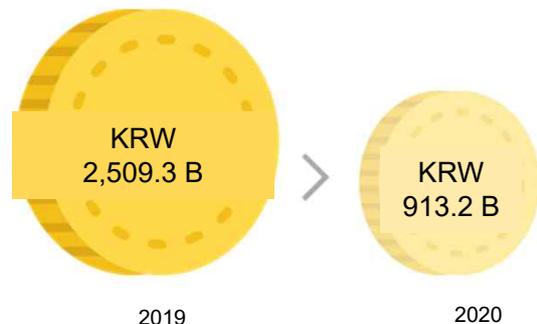
Source: KOSTAT

One of the big causes of the negative impact is the government's restriction on business hours. With the limited business hours from 5 a.m. to 9 p.m, many business experience big loss in their dinner time slots. Sales have naturally declined, and many stores have closed down as a result.

Furthermore, the art and performance events that used to spotlight Hongdae have gradually been disappearing as social distancing rise. It has been surveyed that about 20 of the 80 performance venues have closed down.

Estimated Sales of Motion Pictures in 2020

(measured: KRW 100M)



Source: KOFIC

The impact of the pandemic was not only detrimental to performing centers and theaters but also to movie theaters. According the Korean Film Council (KOFIC), the major portion of the movie industry was approx. KRW 913.2 billion, which is about 63.6% lower than that of 2019. And the number of audience marked about six million people, which is 73.7% lower than the record in 2019.

One of the major players, CJ CGV, recorded a sales of approximately KRW 123.2 billion in 2019, which was 58.6% more than 2018. However, they have reached a deficit as their sales in 3Q 2020 was only around KRW 96.8 billion. As a result, their rent has been overdue since Nov.2020, and is now on the verge of being embroiled in a lawsuit with a related asset management firm.

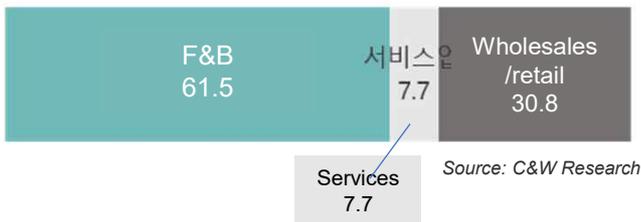
Itaewon

The vacancy rate in late 2020 recorded 10.6% in the main street of Itaewon.

Similar to Hongdae, the F&B's in Itaewon experienced decline in revenue ultimately resulting in 61.5% of the recent vacancies in Itaewon. The impact of the social distancing regulations and the transfer to online/delivery platforms have critically impacted the F&B industry.

Ratio of Vacancies of Major Categories in Late 2020 (compared to early 2020)

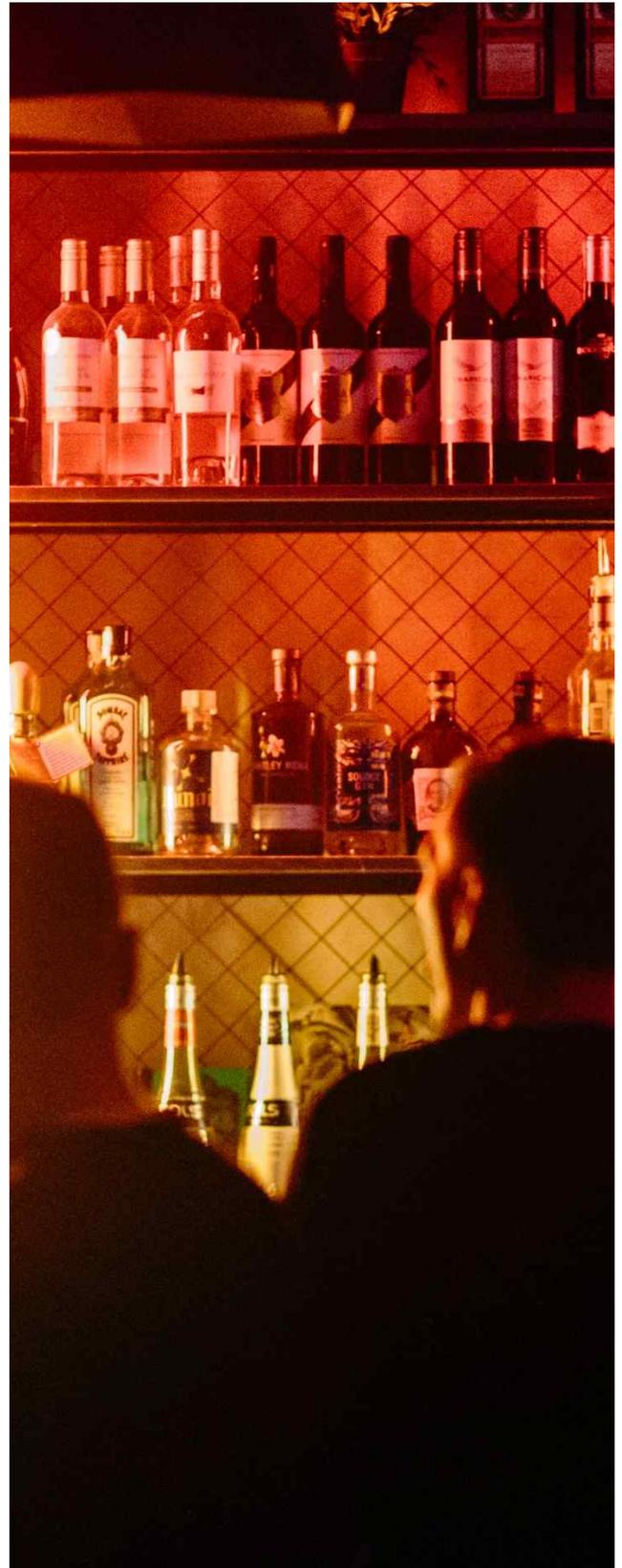
(measured: %, based on no. of stores)



General restaurants were found to be relatively more impacted by COVID 19 than pubs and bars. According to a detailed analysis of the F&B business that closed in late 2020, the closing rate of general restaurants and cafes recorded 87.5%, far higher than the closing rate of pubs and bars. The biggest cause of this difference is the type of food and purpose of the experience because it is relatively easy to enjoy food from general restaurants at home through delivery and online orders whereas experience at bars and pubs cannot be replaced.

Ratio of Vacancies of F&B Categories in Late 2020 (compared to early 2020)

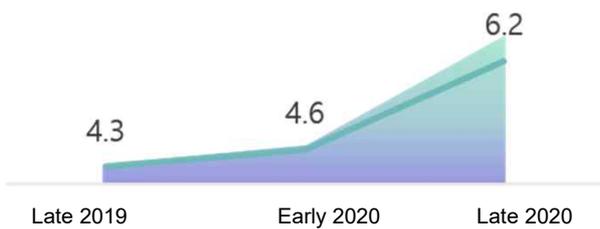
(measured: %, based on no. of stores)



Gangnam Station

In late 2020, the vacancy rate in main street Gangnam Station recorded 6.2%, which is approximately 1.2pp higher than that of early 2020. The vacancy increase rate in early 2020 was 0.3pp, but in late 2020, the vacancy increase rate has multiplied four times. This result is suspected to be the impact of the government's additional quarantine measures.

Growth of Vacancy Rate in Gangnam Station
(measured: %)

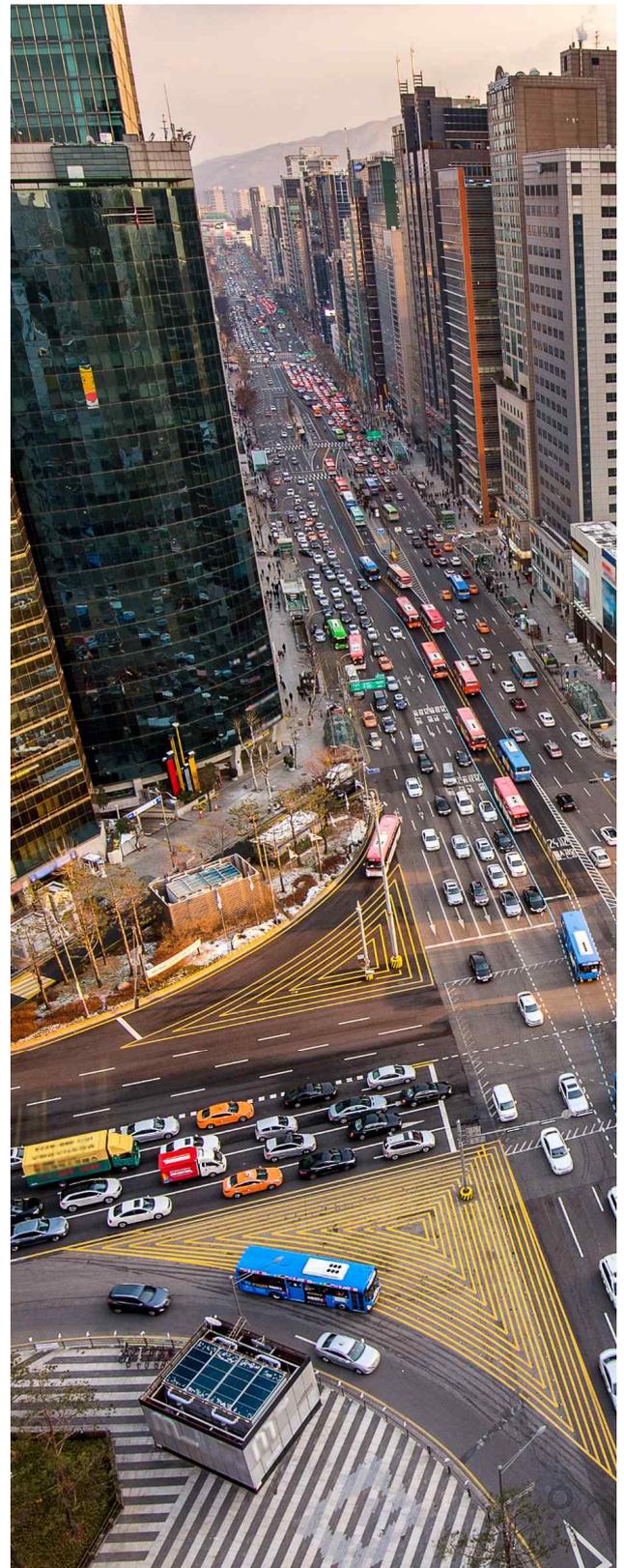
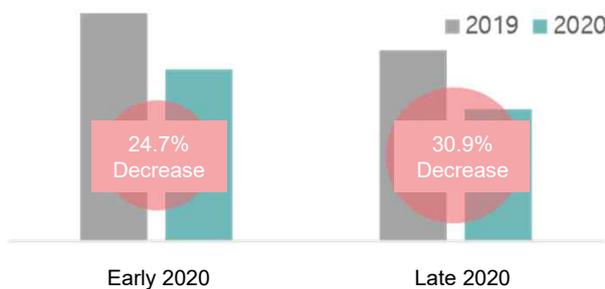


Source: C&W Research

Although outdoor activities and the overall floating population decreased due to the impacts of COVID-19, the foot traffic in Gangnam Station remained quite steady because of the cluster of offices and secondary academies. The foot traffic in late 2020, however, drastically decreased as the government enforced more social distancing regulations in efforts to curb the ongoing spread of COVID-19. In reference to the subway ridership data, the ridership in early 2020 recorded 24.7% less than that of 2019, whereas the ridership in late 2020 (Jul. ~ Nov.) recorded 30.9% less than that of 2019.

Gangnam Station Ridership Data

(measured: personnel)



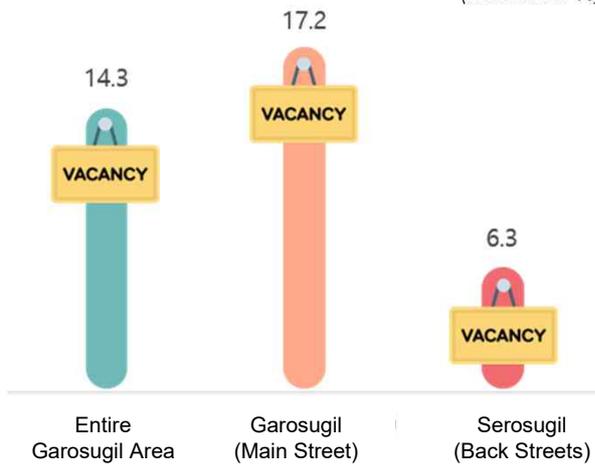
Garosugil

In late 2020, the vacancy rate in Garosugil recorded 14.2%, which is approximately 1.6pp higher than that of early 2020. High rent and the impact of COVID-19 are the main reasons of the increased vacancies.

For so long, Garosugil was considered one of the top tier expansion options for global retailers due to its high footfall of 20-30s age groups and foreign visitors. Renown global tenants like 'Apple', 'Zara Home', and 'Tommy Hilfiger' even chose Garosugil for their first flagship store location. In effect, the rent in Garosugil Main Street surged. However, with the pandemic situation, the disadvantages escalated as the foot traffic decreased, sales dropped, and gradually more tenants vacated their premise. Escalated rents were not appealing to the tenants especially during the pandemic, thus led to increase in vacancies.

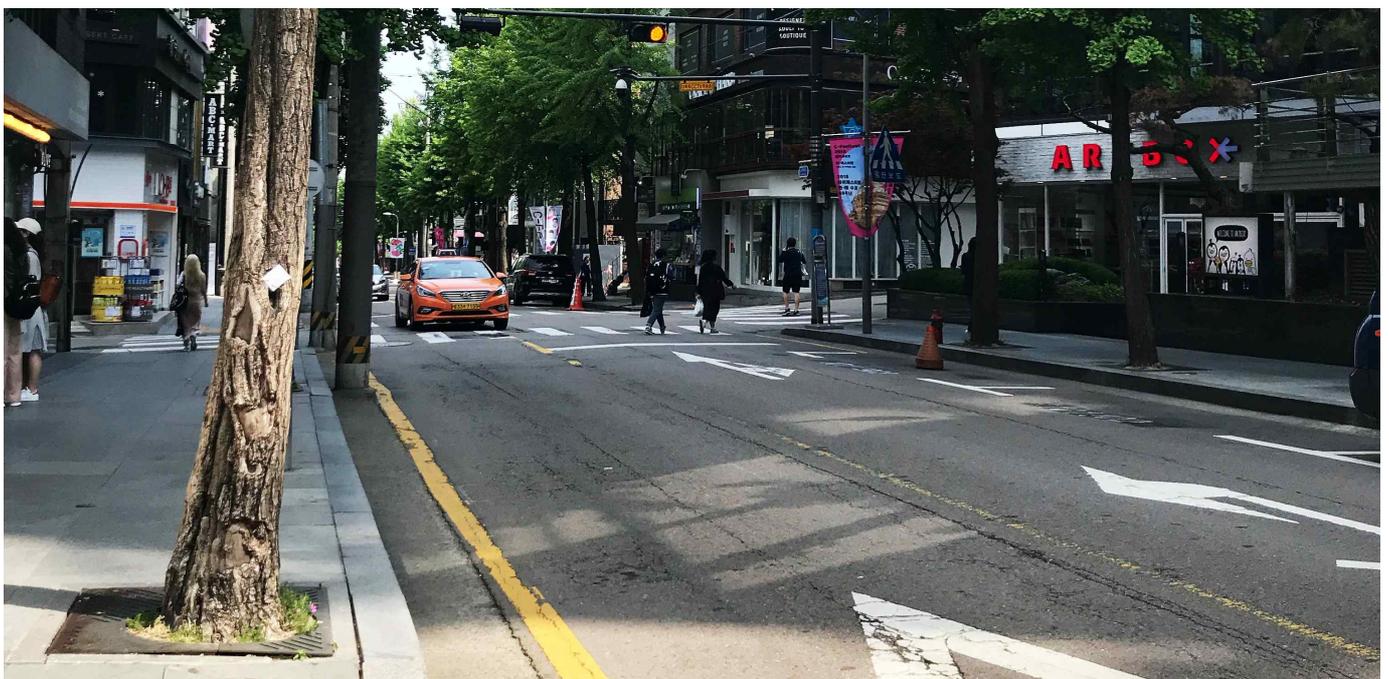
Vacancy Rate in Garosugil Area

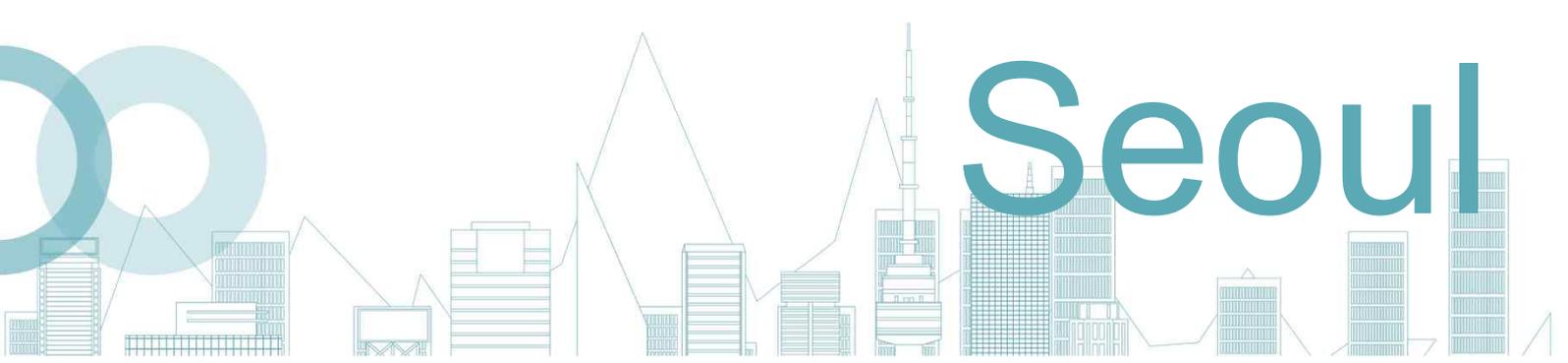
(measured: %)



Source: C&W Research

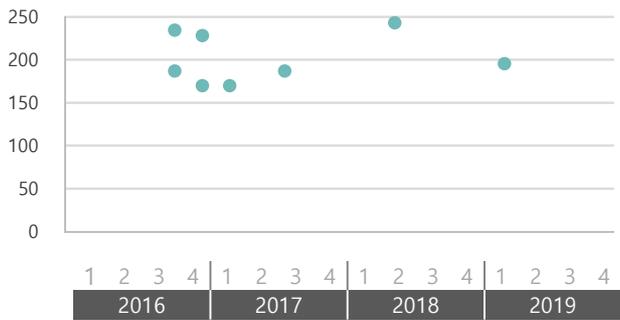
Serosugil and the back streets of Garosugil, on the other hand, have recorded a 6.3% vacancy rate. A notable reason to this rather steady rate is because many tenants have moved away from the main street and into the side and back streets of Garosugil. The recent opening of 'Bering' and 'Smith&Leather' flagship in the back street of Garosugil are great examples to provide. As such, major retailers have been continuing to open stores in the side/back streets, gradually expanding the retail market in Garosugil as a whole.





Garosugil Main Street Building Transaction Land Price Per Pyeong

(measured: KRW 1M/py)



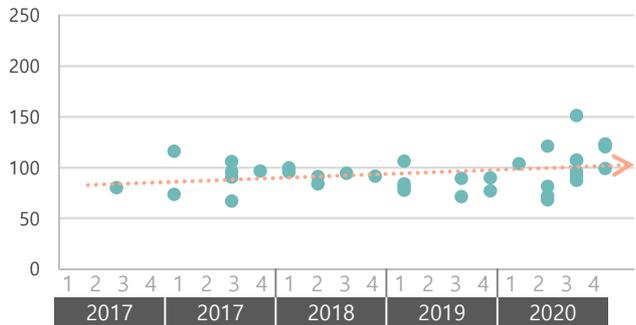
Garosugil Side Street Building Transaction Land Price Per Pyeong

(measured: KRW 1M/py)



Serosugil Building Transaction Land Price Per Pyeong

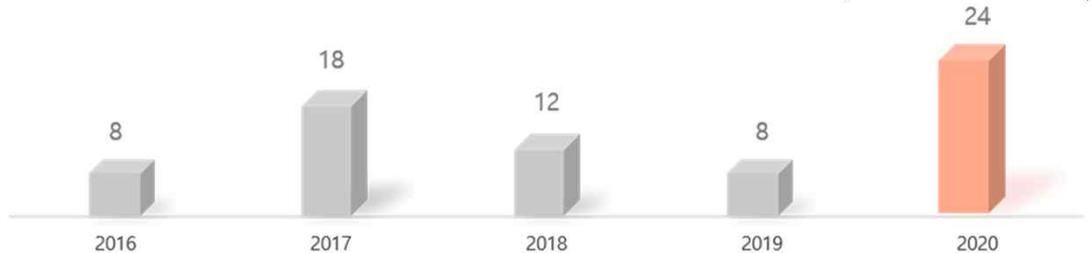
(measured: KRW 1M/py)



Due to the expansion of Serosugil, the prices for buildings (based on land price per pyeong) within Serosugil has increase approx. 20% in the last year. Serosugil, which used to be worth KRW 100 million land price per pyeong, is now gradually growing in price as more retail stores are opening and big development projects like the 'New Bundang Line (Yongsan-gangnam, expected 2022)', 'Wirey Sinsa Line (Wirye Central Plaza ~ Songpa~ Gangnam ~ Sinsa, expected 2027) and 'Kyeongbu Express Underground (Yangjae IC ~ Hanam IC Underground Tunnel) are all taking place.

Number of Building Transactions in Garosugil (Recent 5 Years)

(measured: no. of buildings)



Category	2016	2017	2018	2019	2020
Garosugil (Main Street)	3	4	1	1	0
Garosugil (Main Street)	0	6	1	2	6
Serosugil (Back Streets)	5	8	10	5	18

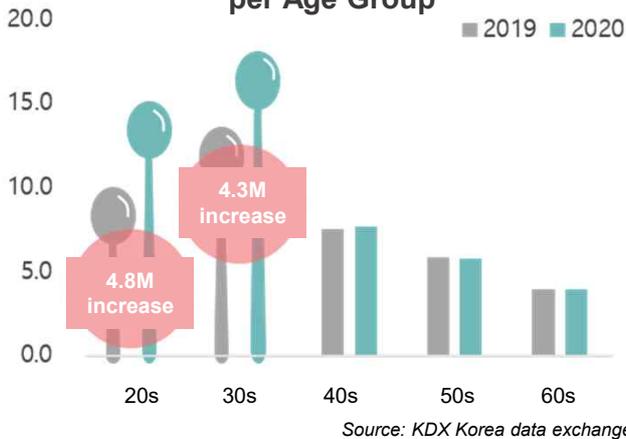
Source: C&W Research

Cheongdam

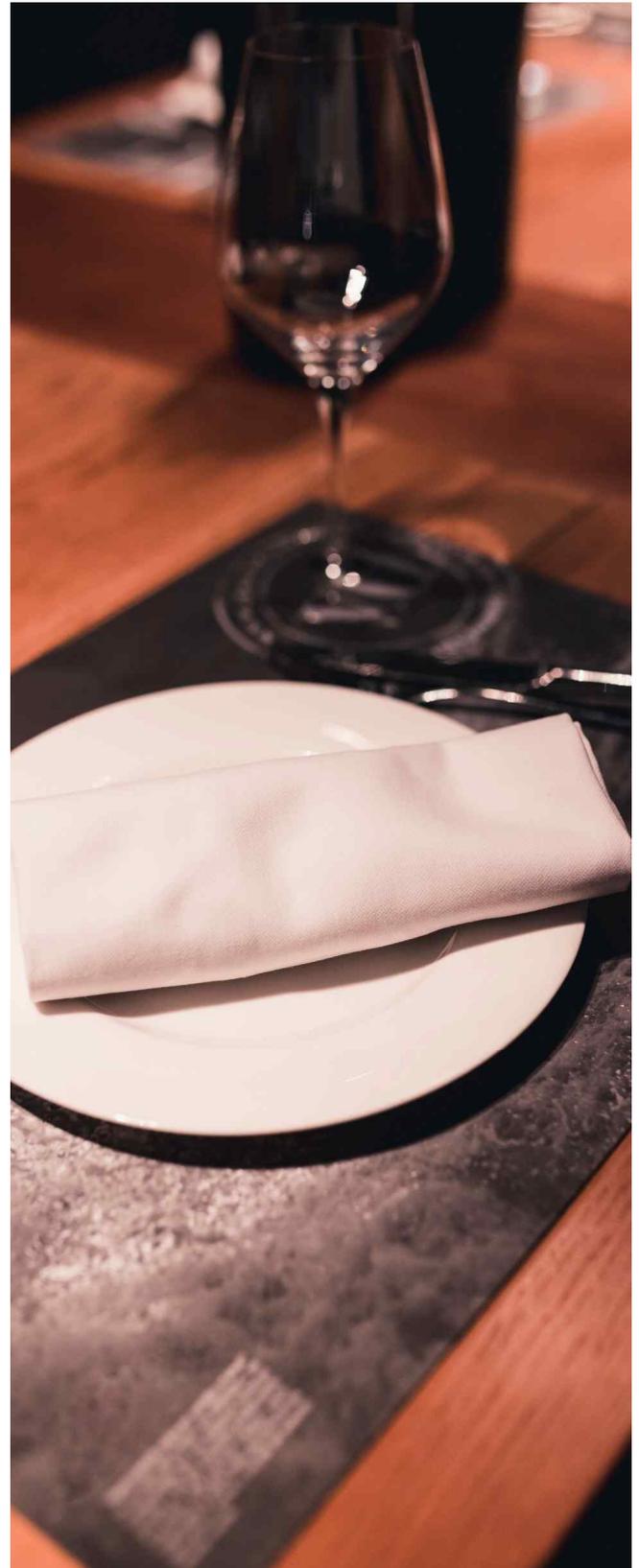
In late 2020, the vacancy rate in Cheongdam recorded 15.0%, which is approximately 0.4pp lower than that of early 2020. Out of the 6 major retail markets, Cheongdam is the only market that experienced a down surge.

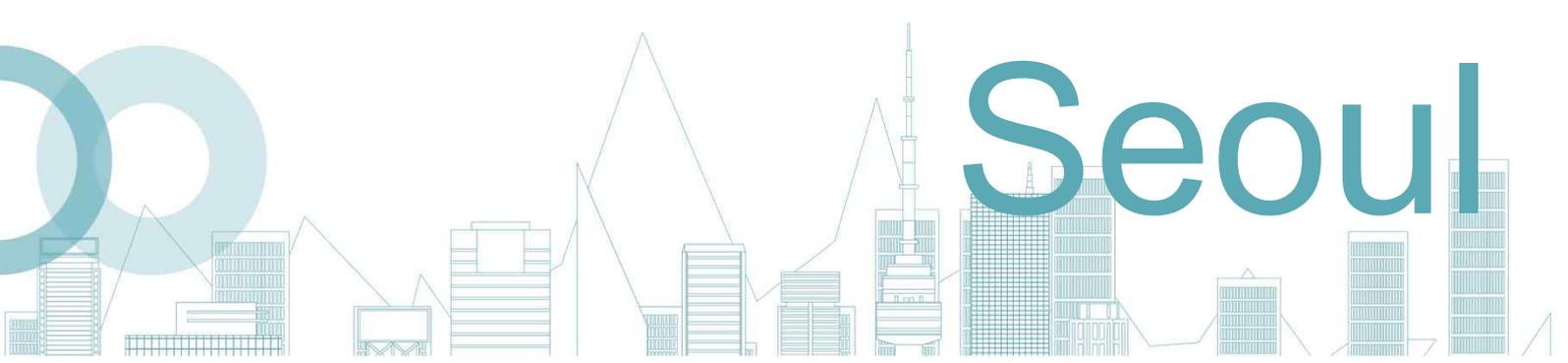
The vast change in consumer trends between the 20-30s age group seems to have outgrown the potential impacts of COVID-19, thus resulting in less vacancies in the area. The consumer habits of MZ generations have been changing from 'YOLO' to 'FLEX,' meaning that these consumers are more prone to excessive spending as a way of showing off wealth regardless of their financial status. Retail in Cheongdam (Apgujeong) with the cluster of luxuries and fine-dining restaurants, is the perfect place to satisfy this need.

Average Spending on Fine Dining Restaurants per Age Group

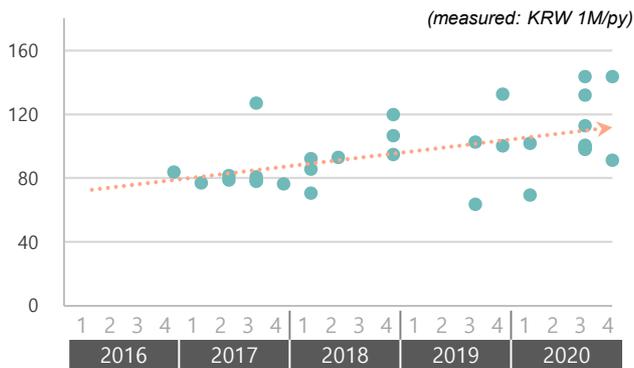


The sales record of high-end restaurants that average a minimum of KRW 50,000 per person can demonstrate this change in consumer habits. The increase of sales from 2019 to 2020 between the age group 30-60 is minimal. On the contrary, the age group 20-30 recorded an increased spending of approx. KRW 4.5 million. In support of this 'FLEX' culture, trendier and more luxurious F&B are continuing to open near Dosan Park. Some examples of successful retailers in this area are 'Golden Goose' 'Foresta Black' 'Andersson Bell.' And 'Bonte' and 'Trattoria Sam Kim' are examples of F&B famous for their chef. To this effect, a large number of the 20-30s age group have turned their attention to Cheongdam.

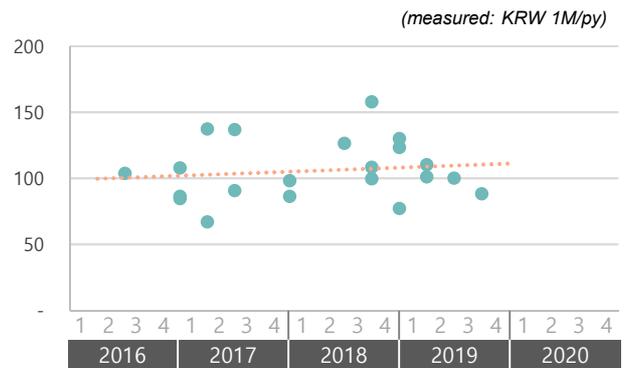




Land Price per Pyeong for Buildings in Dosan Park (New Luxury Street/Cafe Street)

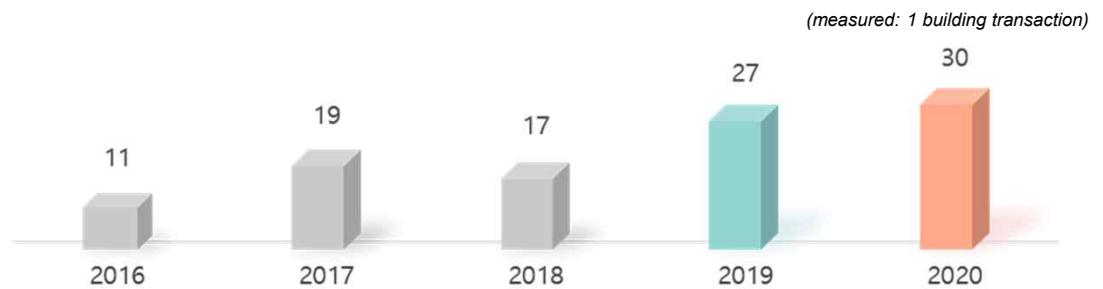


Land Price per Pyeong for Buildings in Cheongdam



The retail area around Dosan Park experienced a revival as well as increased transactions of buildings. The market price of buildings have also increased as more fine dining restaurants and luxury brands opened in this area. Compared to Dosan Park area, Cheongdam had a limited number of transactions due to the government's Regulation System for Land Transaction.

Summary of Building Transactions in Cheongdam/Apgujeong (recent five years)



Area	2016	2017	2018	2019	2020
Apgujeong Rodeo	3	6	2	14	12
Apgujeong Café Area	1	3	3	0	7
Doosan Park	2	5	4	4	4
Cheongdam	5	5	8	9	7

Source: C&W Research

High Street Retail Post COVID-19 Strategy

The keyword during this pandemic era would be 'untact culture'. The word 'untact' was used to describe the shy and passive group of younger generations. Now it has now become a social trend. With more time spent at home, people are more prone to online consumption; furthermore, the working environment of companies and individuals have significantly changed. The 'untact culture' was awkward to all in the beginning but is now the norm.

As a side-effect, offline sales have been experiencing a severe drop while online sales have increased. According to data from the Ministry of Trade, Industry and Energy, online sales have increased 17.0% year-on-year in November, while offline sales fell 2.4%. In response to this change, offline stores are actively strategizing and coming up with creative ideas to incorporate an "experience" content that cannot be replaced online. Dyson, for example, opened its experience store in IFC Mall even amidst the limited situation. The store focuses on customer experience, allowing customers to personally try out the products.

As such, the market forecasts a trend of offline experience stores that mainly allows customers to have an 'experience' before making a purchase. Therefore, current retailers in main streets may need to actively incorporate contents for an 'experience' at the store rather than focusing on selling products.

The advancement of technology and digital platforms are also bringing a change in consumer channels. Delivery, pick-up, and even normal food orders have been incorporating digital platforms and technologies like kiosks, and apps on phones. Thus, retailers are highly recommended to incorporate digital channels. A small kimbap restaurant in Hongdae, called 'Olbareun Kimbap', is a great example because their sales have spiked up 20% higher amidst the pandemic by incorporating their online service on 'Naver Smart Orders'. 30% of their sales were found to be via 'Naver Smart Orders', and their pick-up orders resulted 59% higher than that of the previous month (September).

It is projected that the 'untact consumer habits' will become a norm. As a result, retail stores are expected incorporate technologies like online delivery and wireless payment to prepare for the post pandemic era.

Source: The Digital Times



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