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2022 Seoul High Street Retail

Cushman & Wakefield Research



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I. Retail Markets Through the Pandemic

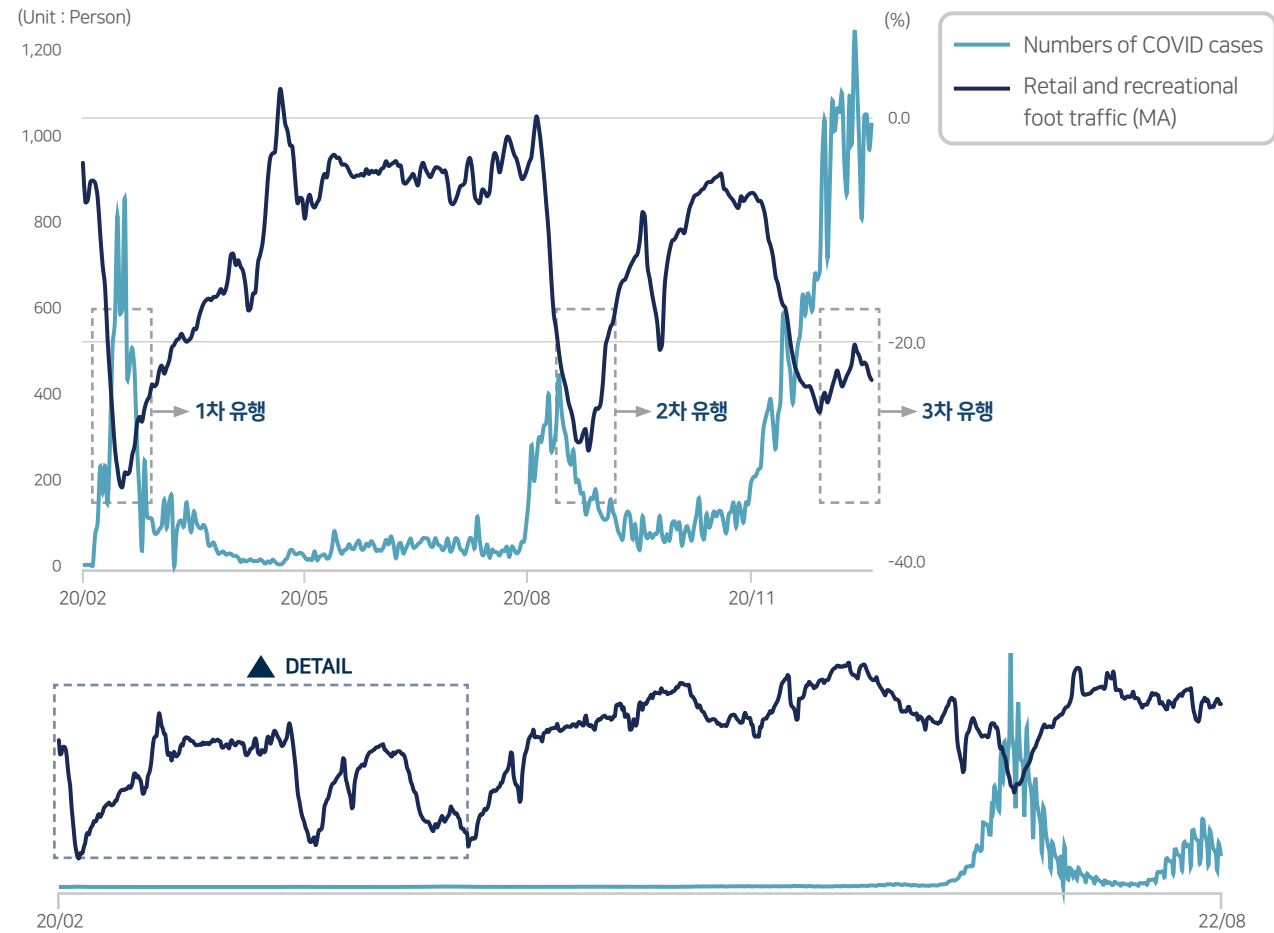
1. Economic Overview

COVID-19 Spread and Population Movements

With the onset of the COVID-19 pandemic in 2020, the retail industry faced an unprecedented period of change. As social distancing measures reduced foot traffic and "going virtual" became the new norm for consumers, brick-and-mortar stores took a hit. According to Google's Community Mobility Report, foot traffic in retail and leisure centers declined as the number of COVID cases increased. The first, second, and third waves of the 2020 pandemic saw a significant decrease in travel as cases grew, but as the pandemic

progressed, the contraction in travel slowed somewhat even as infections expanded. This is likely due to the fact that consumers' responses to the COVID threat moderated somewhat from the early stages of the pandemic, which may be due to fatigue from prolonged containment measures. According to Statistics Korea's Mobile Population Movement Survey, population movement as of August 2022 was about 99% of the level in August 2019, or very close to the level before the arrival of the pandemic.

Trends between numbers of COVID cases and retail and recreational foot traffic



Source: Ministry of Health and Welfare

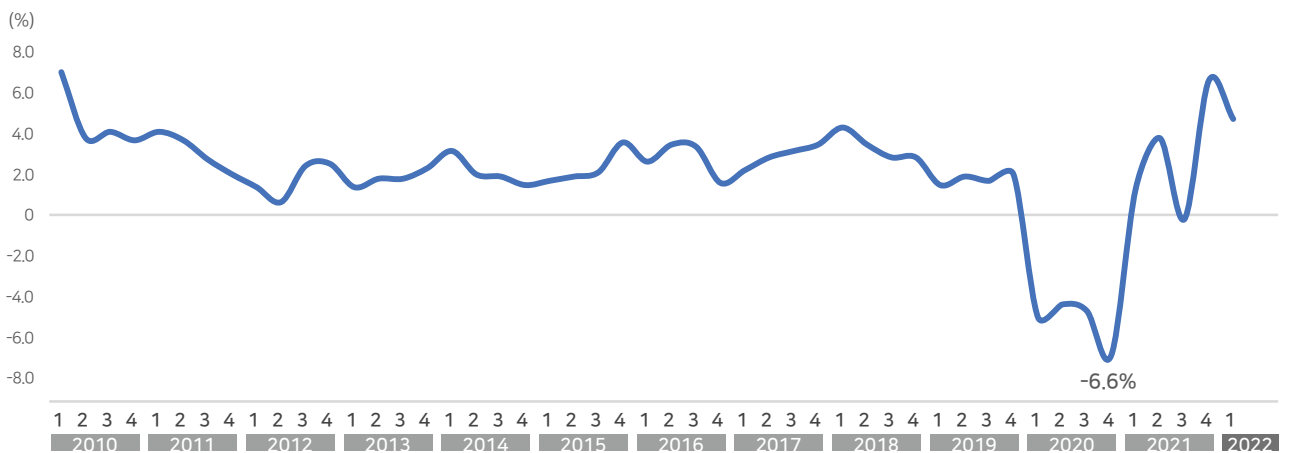


Curtailed Private Consumption Due to COVID-19

Domestic private consumption in Korea fell sharply since the start of the pandemic, with growth of -4.8% y-o-y in Q1 2020. This is the lowest rate for Korea since the IMF's inception and lower than during the 2008 global financial crisis. Within private consumption, the largest falls were seen in clothing and footwear, entertainment, sports and culture, and food

and accommodation services, as the pandemic limited in-person and travel-related economic activity. Private consumption has been gradually recovering, turning positive in 2021 after posting negative growth in all quarters of 2020. However, the recent rise in inflationary pressures, which could affect the recovery in private consumption, is a cause for concern.

Change in private consumption growth

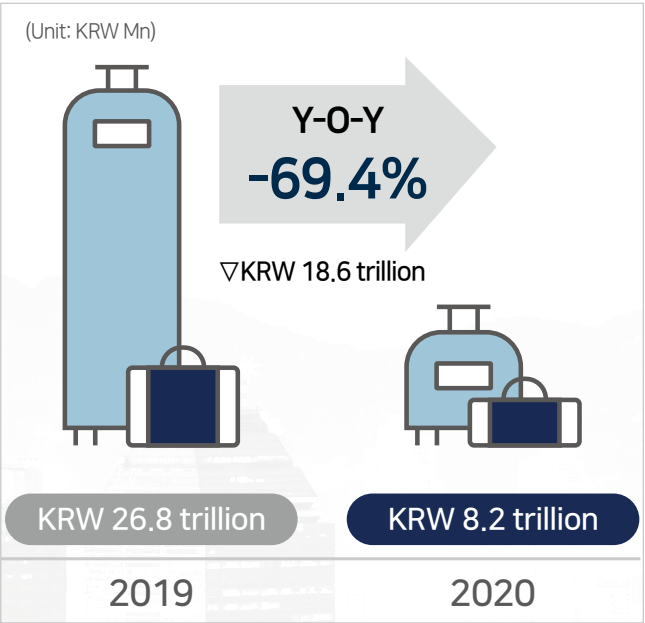


Source : Statistics Korea

Impact of Cross-Border Restrictions

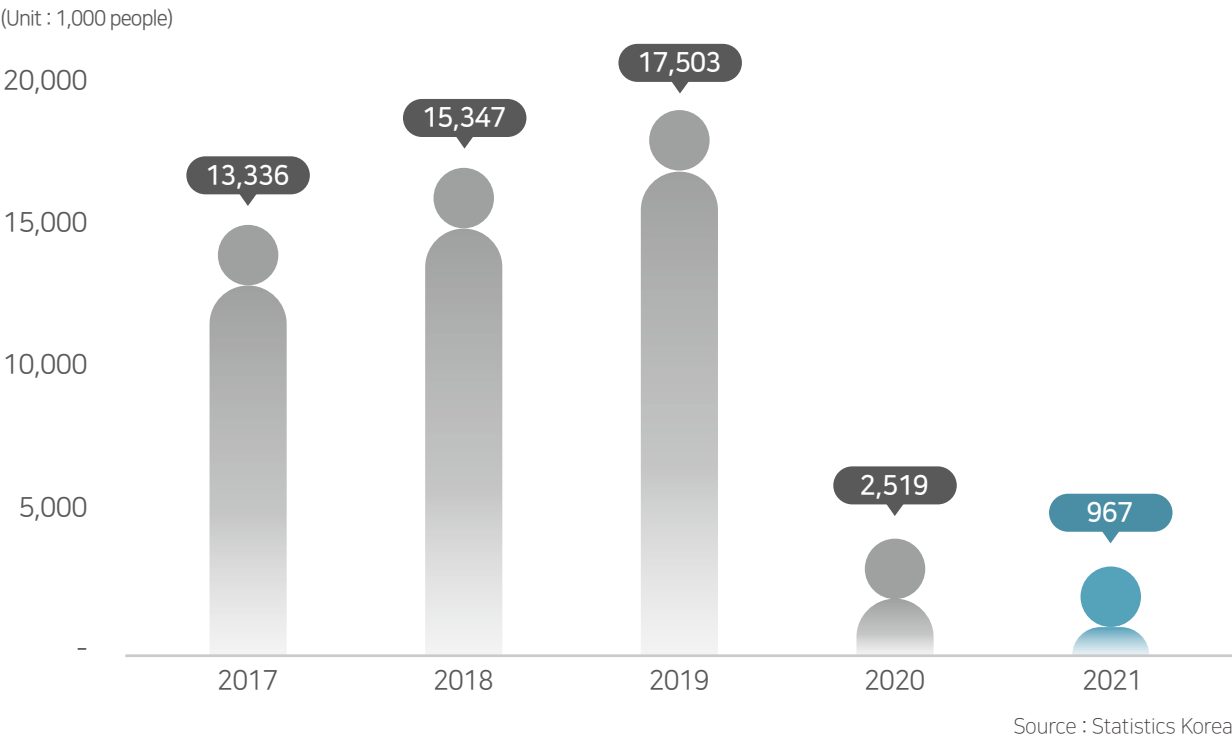
Tourism business revenue

Since April 2020, the number of international arrivals has plummeted due to the mandatory quarantine of overseas arrivals coupled with control measures in various countries. As a result, the entire retail industry, including travel, hotels, airlines, and duty-free shops that cater to foreigners, was severely affected. Consequently, tourism business revenue in 2020 was only about 30% of the 2019 figure. However, in 2022, the number of outbound arrivals has been showing a noticeable rise, and with the exemption of quarantine for all international arrivals, regardless of vaccination status, from June, the retail industry centered on foreign tourists is expected to recover faster.



2. Retail Trend Changes Arising From the Pandemic

Number of foreign tourist



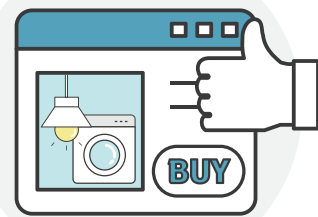
Increased Flagship and Pop-Up Store Openings



Online Brands' Migration to Offline



Expanded Near-Field Consumption Concepts



Pandemic Winners Emerge as Consumption Shifts



Increased Flagship and Pop-Up Store Openings

Even as retail vacancies climbed due to COVID-19 and retail brands held off on opening new locations or were cautious about expanding their footprint, demand for quality Grade A space remained robust. Where brands have been opening new stores, their strong preference has been for high street locations with excellent access and visibility and for properties in superior condition. Recent tenant activity has been centered around the opening of large flagship stores in Grade A spaces, such as Apple's new Apple Store opening in a new building along Myeongdong Boulevard.

During the pandemic, brands have been less willing to open brick-and-mortar stores, but more willing to launch pop-ups. Pop-up stores act as testbeds for new brands and products, and especially so when targeting the MZ generation. In recent years, collaboration between brands have also become more active, utilizing a range of engaging content to convey the brand's identity to consumers, over and above the product range. Bedding brand Simmons opened the Simmons Grocery Store in Cheongdam, which attracted attention as a "pop-up store without a bed."



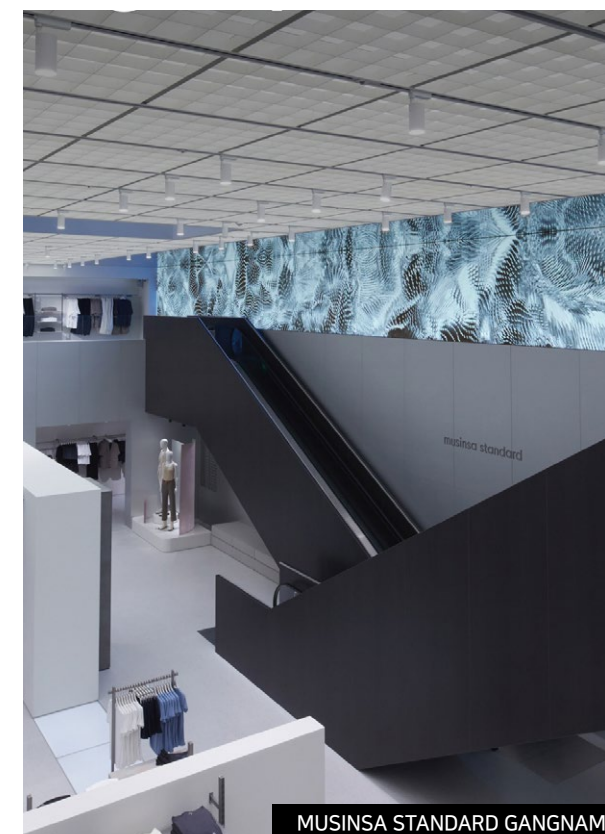
Online Brands' Migration to Offline

Online-based brands are rapidly moving to encompass offline. While this shift was underway before COVID-19, the pandemic has spurred online companies to accelerate their offline expansion. They are increasing their touchpoints with consumers to capture growing offline demand after reopening in earnest. Musinsa, for example, opened its first store, Musinsa Standard, in Hongdae, and has since opened a second store in Gangnam.

Traditional retail brands are also changing the way they operate. Whereas they used to be centered around a nationwide network of stores, they are now opening experiential stores where online is part of the sales channel and offline is where they project their brand values and image. Even as digital transformation accelerates, brands are moving to offer differentiated in-store experiences that are difficult to replicate or not available online.

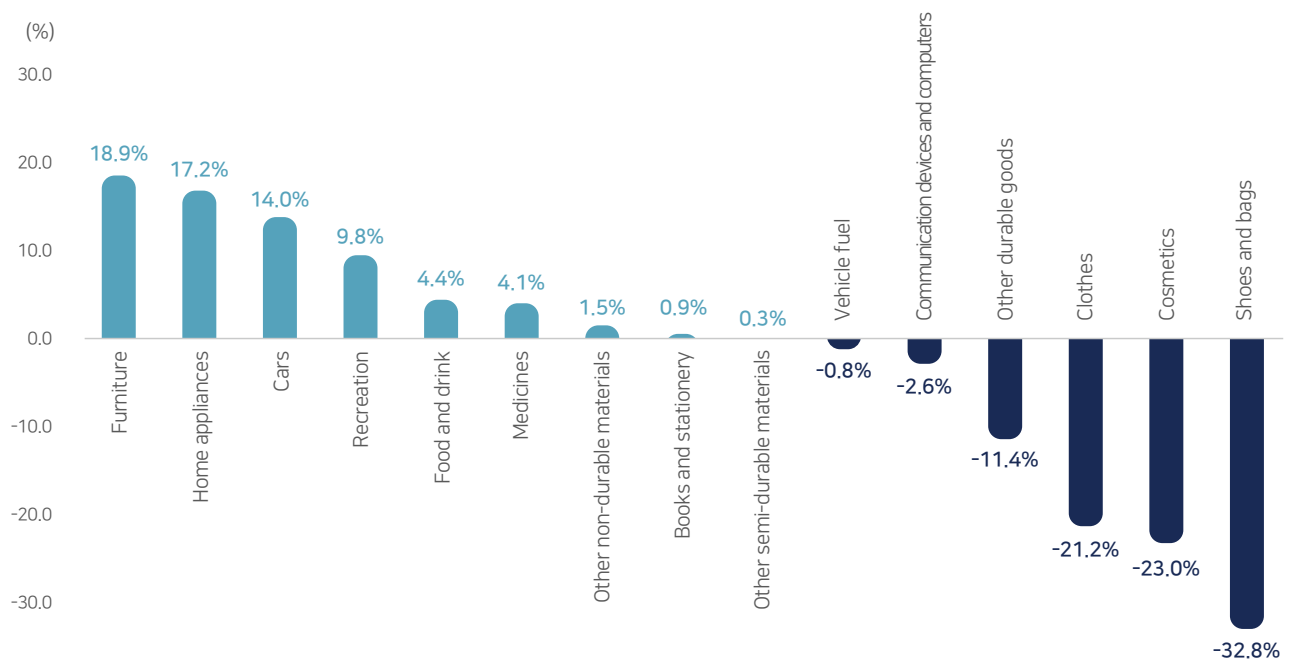


Expanded Near-Field Consumption Concepts



As social distancing restrictions and greater remote working limited living radiuses, the "hyperlocal" trend of commercial centers centered on residential areas strengthened. Recently, the growth of hyperlocal businesses centered on IT platforms, such as Carrot Market in Korea and Nextdoor internationally, has been prominent, and a new phrase, "Seul-se-gwon," has emerged, referring to residential shopping districts within walkable distance. With the increase in shopping within walking distance, neighborhood shopping districts that allow for short-distance consumption are booming, and local specialist stores and multicultural spaces that provide content reflecting local identities are thriving.

Sales index growth by product sector in 2020



Source: Statistics Korea

Pandemic Winners Emerge as Consumption Shifts

The domestic appliance and furniture sectors have been among those that have benefited the most from the pandemic, with appliances sales up 17.2% and furniture sales up 18.9% in 2020. As social distancing restrictions mandated more time spent at home, consumers increased their investment into the “Homeconomy,” and sales of related products to improve the home working environment rose. In addition, avoidance of public transportation led to an rise in automobile sales, together with consumption of entertainment, hobby, and sporting goods related to indoor activities.

The luxury goods market has also recorded explosive growth, as pent-up spending habits have been released due to the overseas travel restrictions enforced by COVID-19. In addition, as the “flex culture” has spread

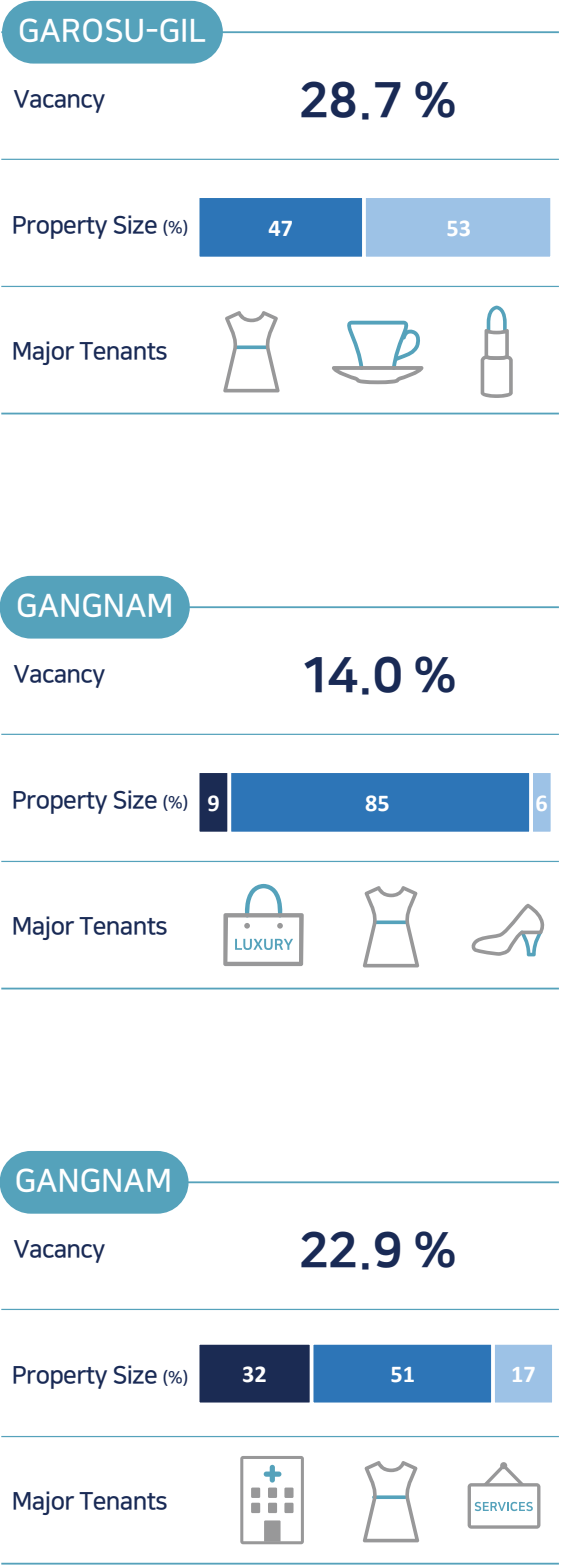
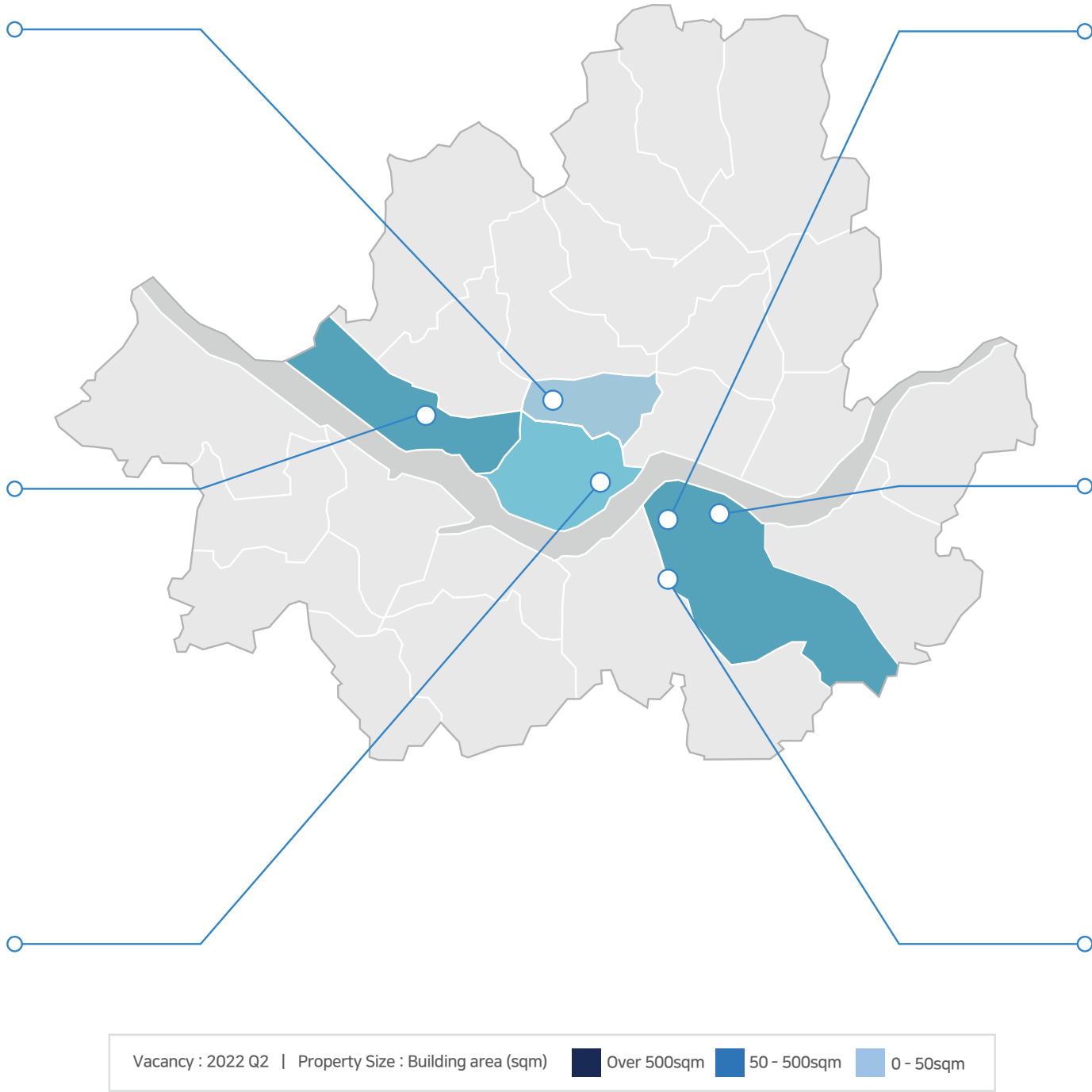
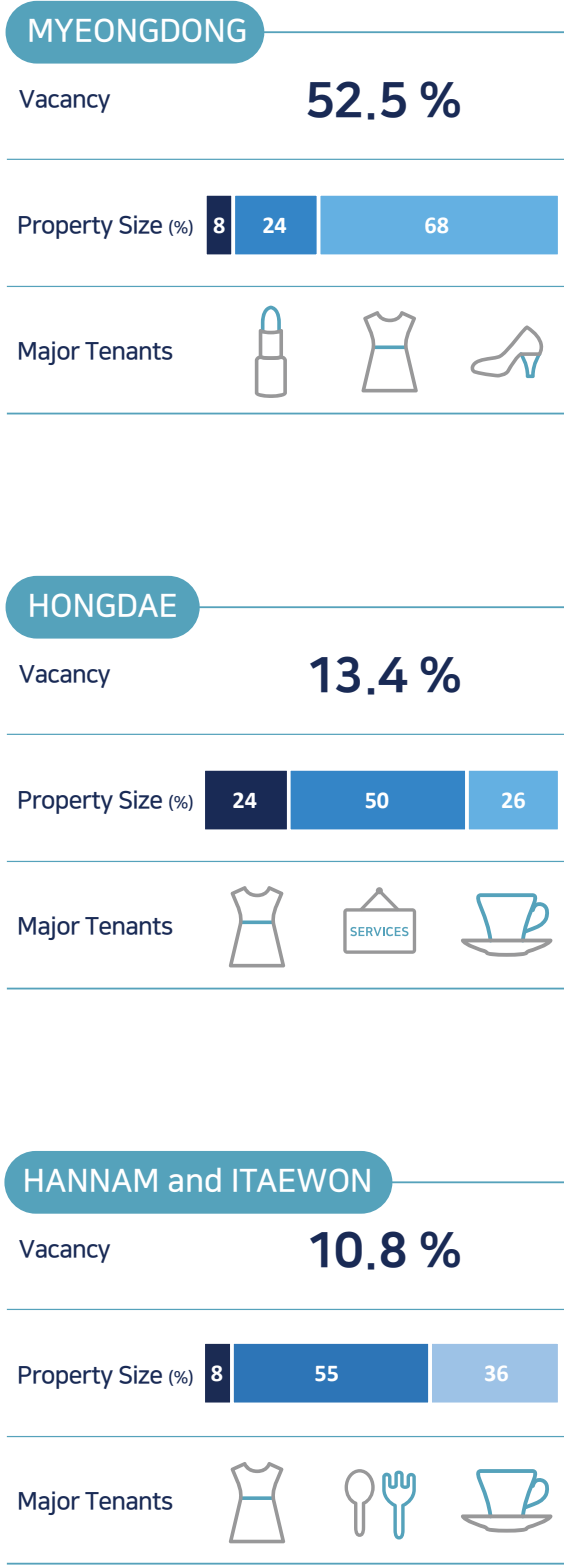
among the MZ generation, the younger generation has become the main consumer group in the luxury goods market, alongside the middle-aged and seniors. According to the Ministry of Trade, sales of international luxury brands reached 29.1% as of July 2022, up from 18.8% in 2021 and 32.5% in 2020.

The demand for luxury goods has expanded beyond fashion to include F&B, and the fine dining sector is booming. Consumers' willingness to pay for upscale food has also risen with the desire to enjoy the experience of a high-end dining establishment. Food is also seen as a key target for retaliatory consumption, with the Seoul Institute's "Seoul Consumer Experience and Retaliatory Consumption" survey showing that food was the highest target for retaliatory consumption, accounting for 44%.



II. Seoul's Six Primary

1. Executive Summary



Changes in Business Districts Before and After COVID-19

Seoul's retail market faced a crisis when the COVID-19 pandemic arrived. As commercial districts stagnated and store closures continued, the average vacancy rate in Seoul's six primary shopping districts rose steadily, from an average of 7.5% in 2019 to a high of 25.8% in the fourth quarter of 2021. However, in 2022 the pandemic situation eased somewhat, and this was reflected in the retail market, with the vacancy rate dropping back to 23.7% as of Q2. Tenants who had been reluctant to open new stores during the height of the pandemic are now showing signs of expansion activity, and commercial districts are growing more optimistic about further recovery.

The extent of the impact of COVID-19 has varied depending on the characteristics of the commercial district, with those centered on local consumers and the MZ demographic generally faring better. Cheongdam district, which is home to luxury brands and high-end restaurants, was

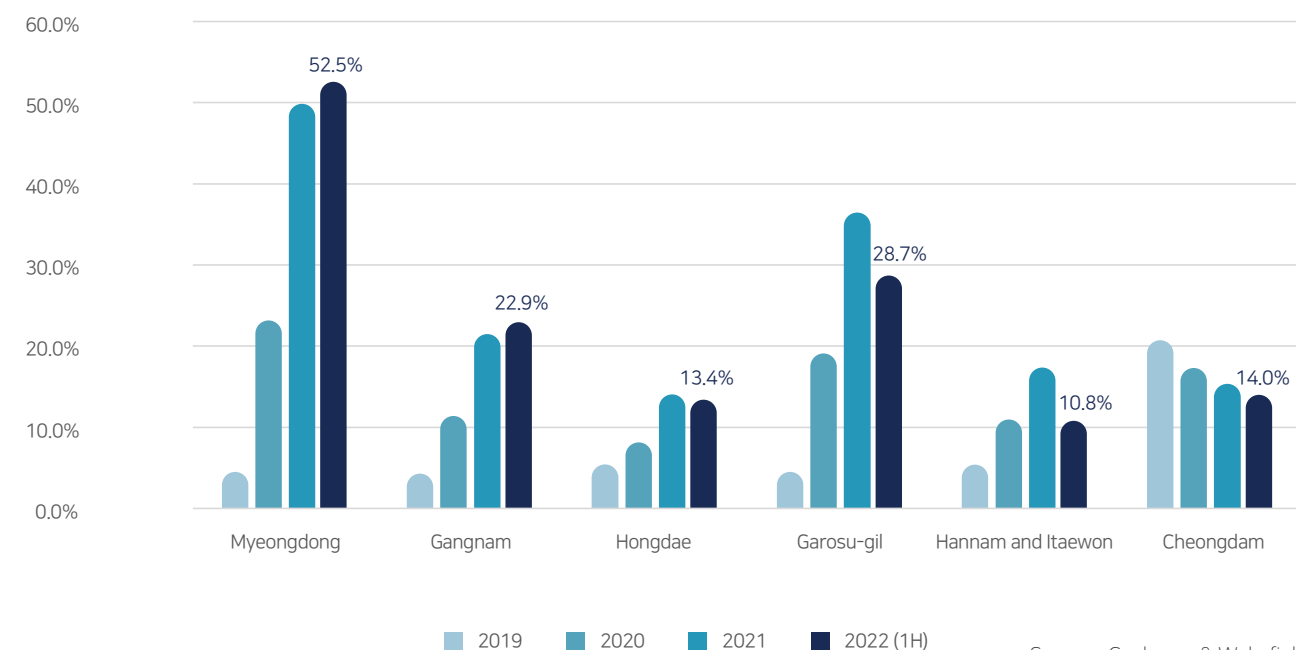


the only core retail area to show a fall in vacancy rates during the pandemic, while Hongdae district, centered on younger consumers, was also relatively less affected by COVID-19.

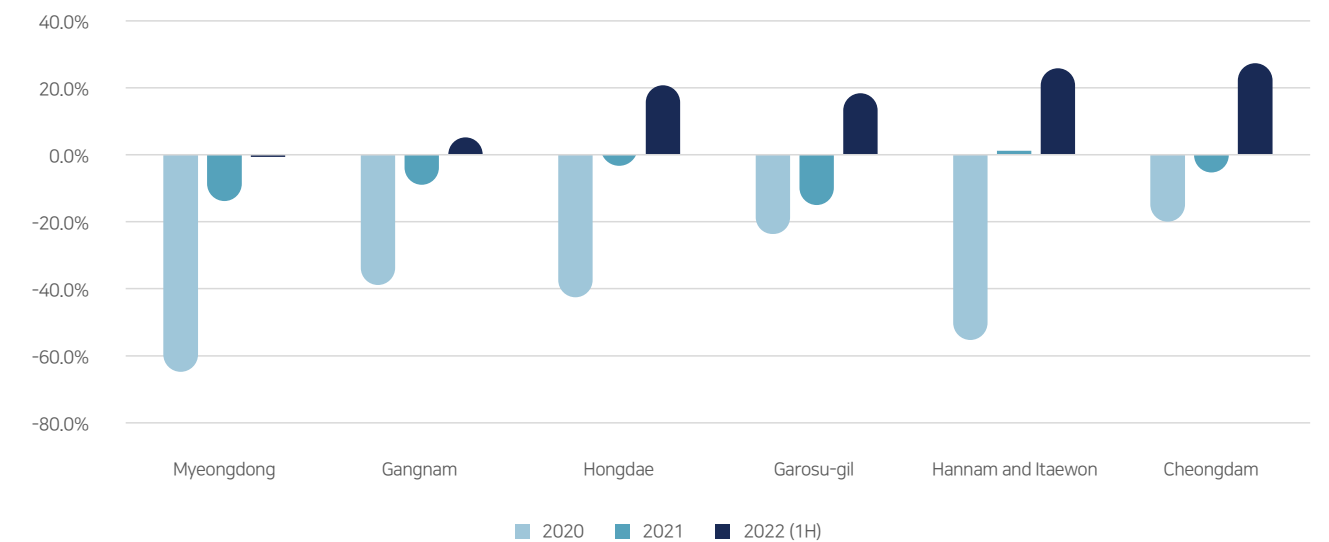
In the Hannam and Itaewon district, vacancies rose steeply in the area between Itaewon and Noksapyeong Station. However, interest in the Itaewon Station-Hangangjin Station area, where high-end brands have been expanding, remained steadily high. On the other hand, Myeongdong and Garosu-gil, which are strongly dependent on foreign tourists, saw a surge in vacancies as stores that were unable to survive the impact of the pandemic moved out. In Gangnam, vacancy rates continued to rise due to delays in securing tenants for large vacancies.



Vacancy rates in six major commercial

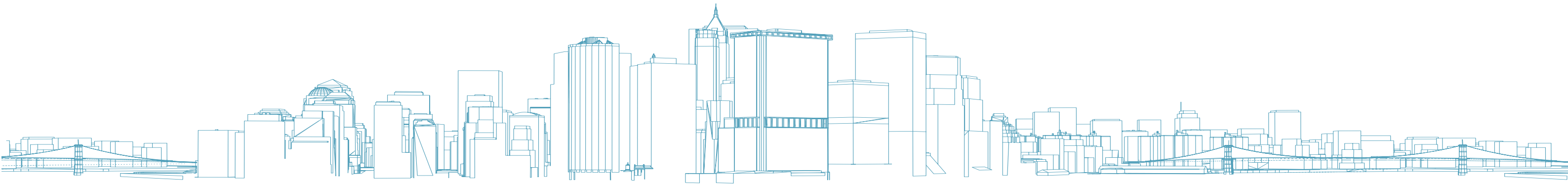


Vacancy rates in six major



Cushman & Wakefield Korea Research analyzed credit card sales data across six major commercial districts in Seoul. The results show that total sales across the six districts plummeted in 2020 and continued to decline in 2021 as social distancing restriction policies continued, although at a less severe rate. After a prolonged downturn, the first half of 2022 saw year-on-year sales growth in all commercial centers except Myeongdong. The gradual restoration of normal daily life at the end of 2021 and the complete lifting of social distancing from April 2022 are known to have revitalized retail districts.

The hardest-hit district during the pandemic was Myeongdong. With fewer visitors, sales dropped by more than 60% year-on-year in 2020, but sales are likely to recover in the second half of 2022 and beyond as foreign tourist arrivals increase. Cheongdam, which survived the pandemic, experienced the smallest sales decline in 2020 among all districts, and is expected to showcase its strength with the highest sales growth in the first half of 2022.



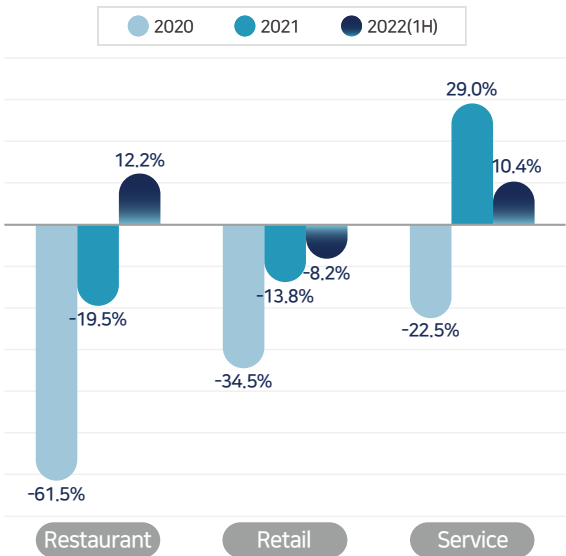
MYEONGDONG

Myeongdong is one of South Korea’s leading commercial districts and is centered on foreign tourists. The vacancy rate was 52.5% as of Q2 2022, up about 48.0 pp from 2019, the year before COVID-19. The restaurant industry was heavily impacted in the early stages of the pandemic, but has since recovered in 2022, while other retail sales have been sluggish through the first half of 2022.

When looking at the main types of businesses in Myeongdong, cosmetics are the most common, followed by clothing stores and fashion goods. Since 2020, about 56% of vacancies in Myeongdong have been in the cosmetics sector, which has been highly dependent on Chinese tourists.

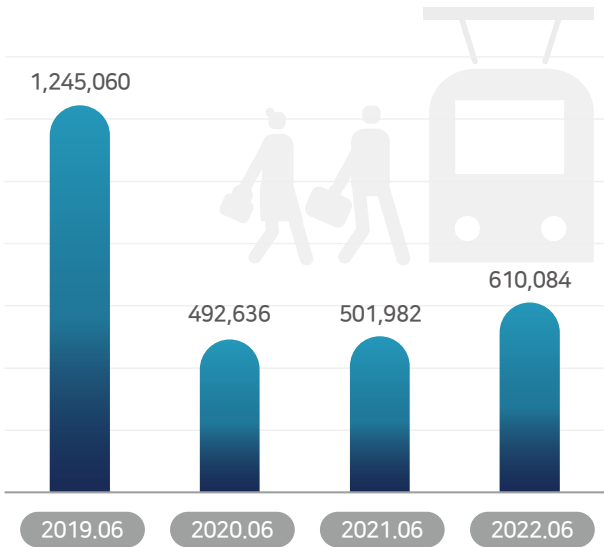


Sales percentage changes by sectors in Myeongdong ...



Source : Credit card revenue data

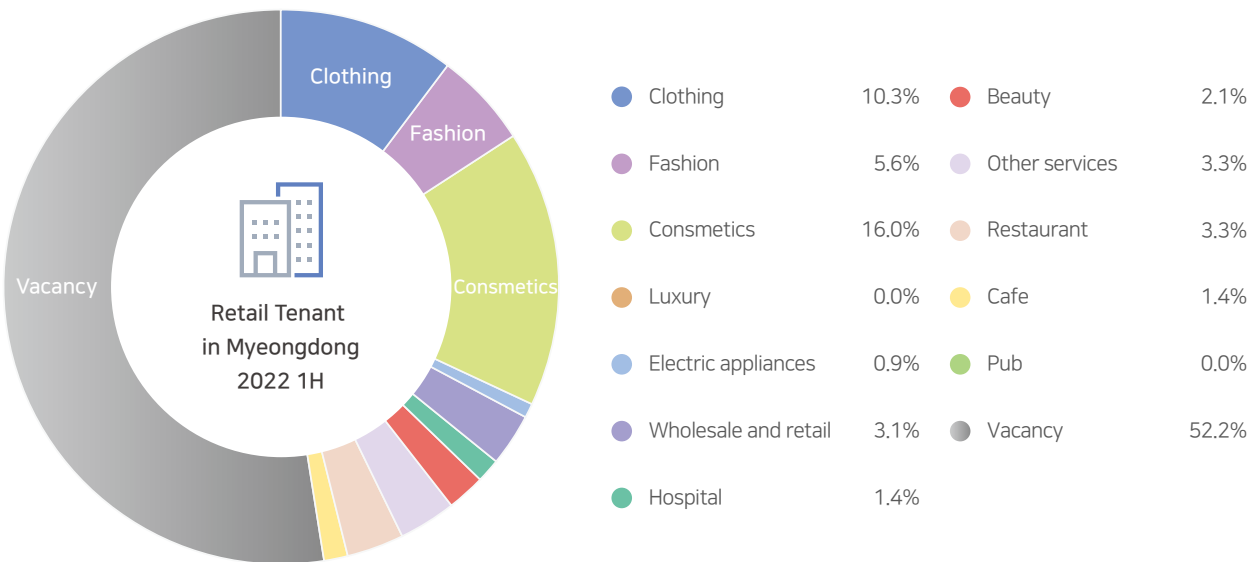
Passenger numbers alighting at Myeongdong station ...



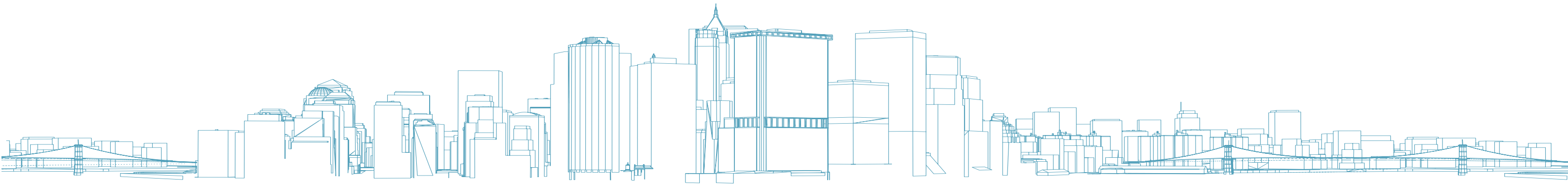
Source : Seoul public data

Myeongdong has been experiencing severe challenges as the number of tourists from China fell in the aftermath of THAAD. The COVID-19 outbreak then led to a further contraction in cosmetics brands that were unable to withstand the decline in sales.

Retail Tenant in Myeongdong



Source : Cushman & Wakefield

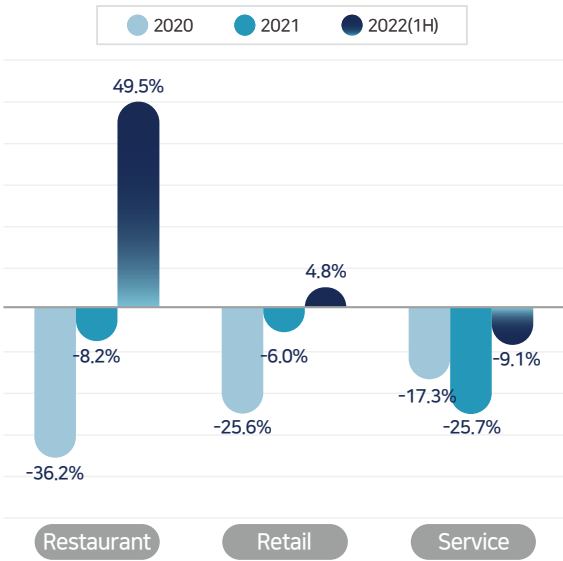


GANGNAM

Gangnam's commercial district is home to a wide range of business, including fashion, healthcare, and F&B, with a large population of people across age group. The vacancy rate stood at 22.9% as of Q2 2022, up about 18.6 pp from 2019. While the entire retail industry has been impacted by COVID-19, strong growth in restaurant sales in the first half of 2022 has led to a recovery in overall sales in the district.

The most common types of businesses in Gangnam are medical and beauty clinics, clothing stores, and other wholesale and retail stores. In particular, Gangnam is one of the leading commercial districts in the K-medical industry, with a large number of clinics including dermatology and plastic surgery providers. Clinics accounted

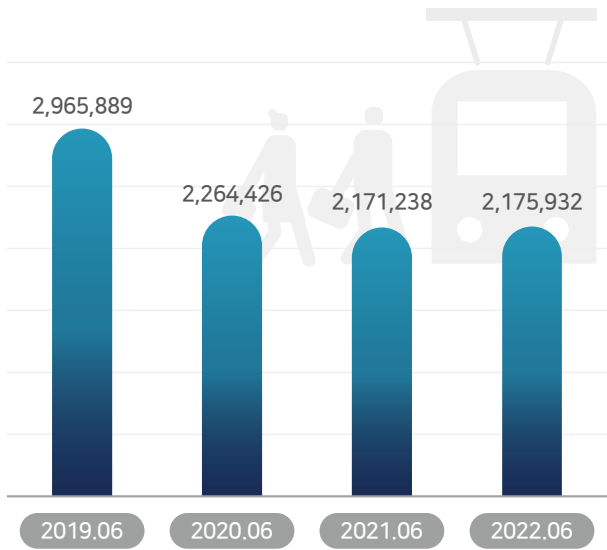
·Sales percentage changes by sectors in Gangnam ·····



Source : Credit card revenue data, Cushman & Wakefield

for about 13.7% of Gangnam’s overall retail business. Since the year of the peak pandemic in 2020, medical-related sales in Gangnam increased by 14.0% year-on-year, likely due to an increase in beauty-related procedures as people wore masks and refrained from going out.

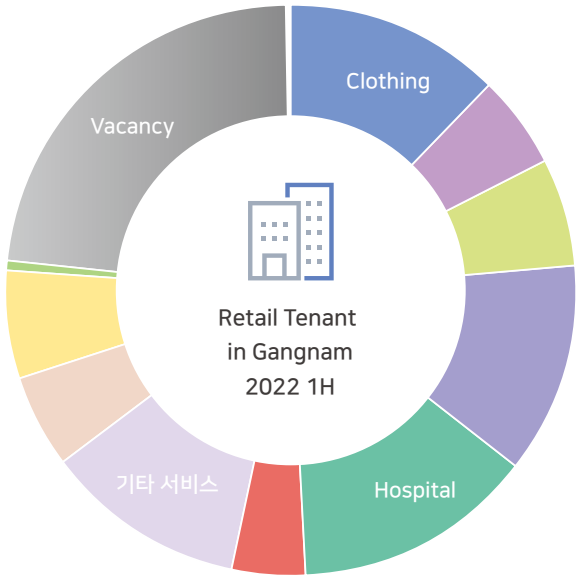
Passenger numbers alighting at Gangnam station ·····



Source : Seoul public data

Since the pandemic, the rental market in Gangnam has been somewhat sluggish, as large occupiers have moved out of the major properties along Gangnam main street and new tenant inflows have been delayed for a considerable time. In July 2022, fashion label Musinsa Standard opened in Gangnam, attracting much attention. There is an expectation that online-based brands will be able to expand their customer base as a result of the high foot traffic in Gangnam. Gangnam is also home to a number of pop-up stores that have utilized vacant storefronts, with brands such as Netflix, Hitejinro, Ottogi, and LEGO all having successfully completed operations.

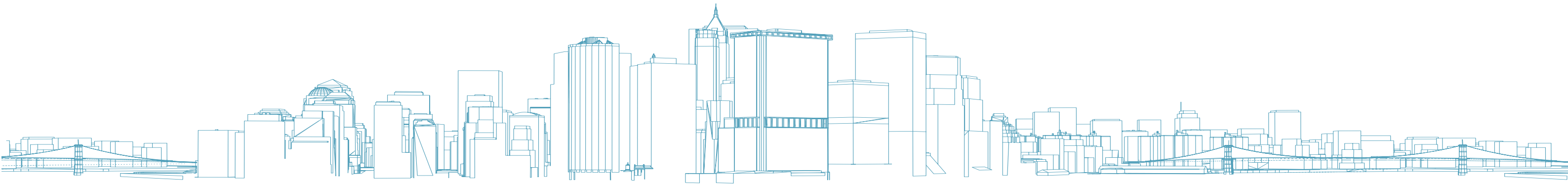
Retail Tenant in Gangnam ·····



Clothing	12.2%	Beauty	4.1%
Fashion	5.1%	Other services	11.2%
Consmetics	6.1%	Restaurant	5.1%
Luxury	0.0%	Cafe	6.1%
Electric appliances	0.0%	Pub	0.5%
Wholesale and retail	11.7%	Vacancy	22.9%
Hospital	13.7%		

Source: Cushman & Wakefield





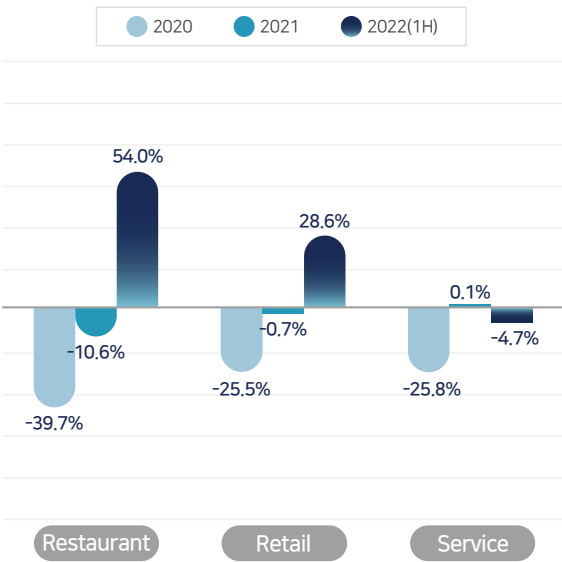
HONGDAE

Hongdae is a commercial district centered on the younger consumer demographic and has been relatively resilient through the COVID-19 period. The vacancy rate in Q2 2022 was 13.4%, up about 8.0 pp from 2019. Hongdae has been active in attracting new brands even after the pandemic began, and retail sales growth in the first half of 2022 was relatively high compared to other commercial districts.

The main types of retail business in Hongdae are clothing stores, personal services, and F&B outlets. Hongdae has seen a recent trend of fewer franchise-based restaurants and greater numbers of fashion brands opening large flagship stores. In 2020, global brand Footlocker opened its first store in Hongdae. Musinsa

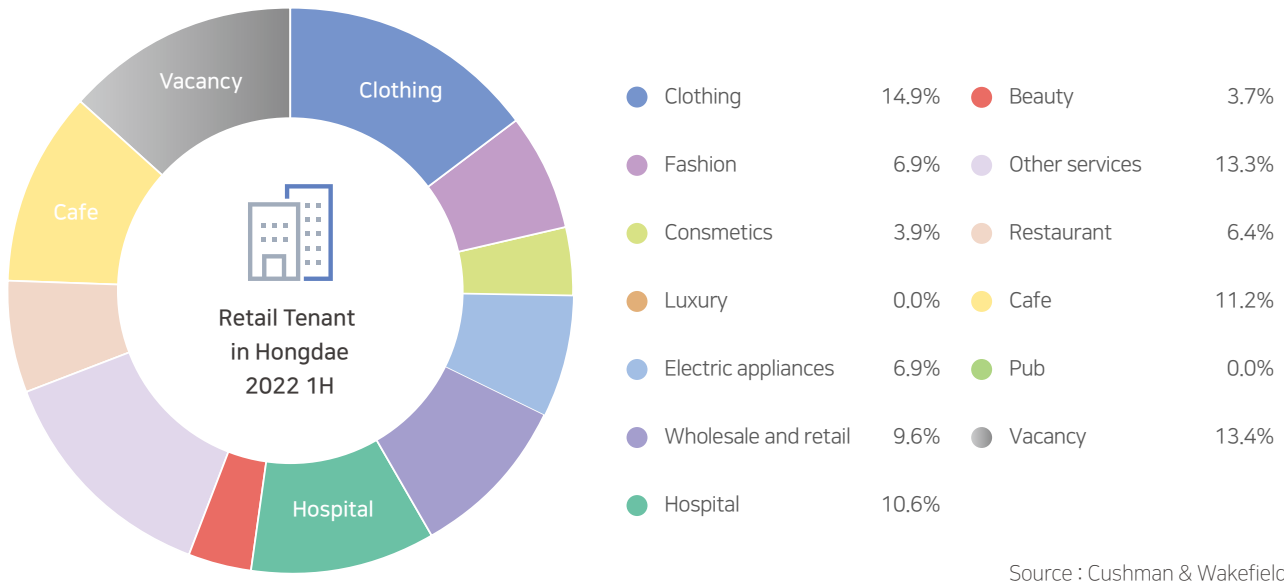


Sales percentage changes by sectors in Hongdae



Source : Credit card revenue data, Cushman & Wakefield

Retail Tenant in Hongdae

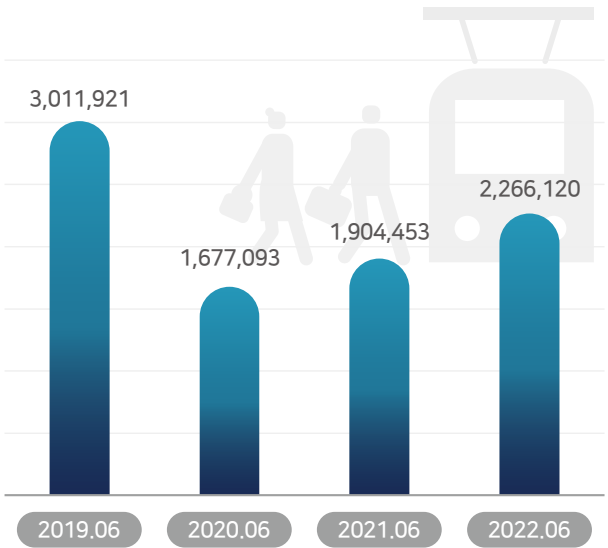


Source : Cushman & Wakefield

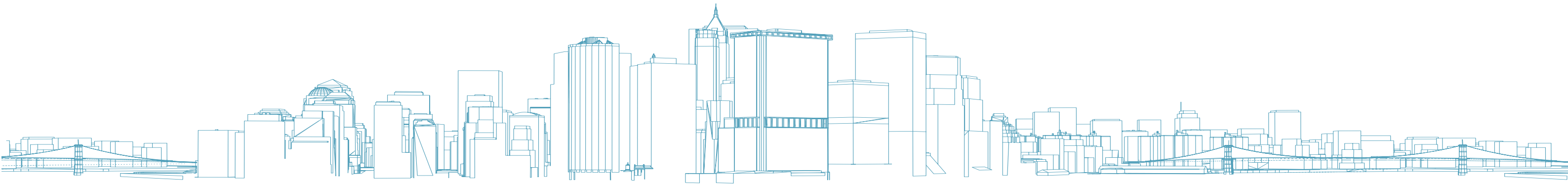
also chose Hongdae as the location for its first offline store, while Nike and Topten also opened new stores. The supply of new buildings along the boulevards of the Hongdae Entrance Area has also encouraged large tenants to enter the area.

Brands opening stores in Hongdae recently have one thing in common: they are targeting the MZ generation. As Hongdae has a large number of trend-conscious visitors in their teens and twenties, the number of stores with experiential spaces has grown. The need to provide experiences that are not available online has led brands to open large-scale stores along the boulevard, and this has helped Hongdae remain relatively active despite the pandemic.

Passenger numbers alighting at Hongik Univ. station ..



Source : Seoul public data



GAROSU-GIL

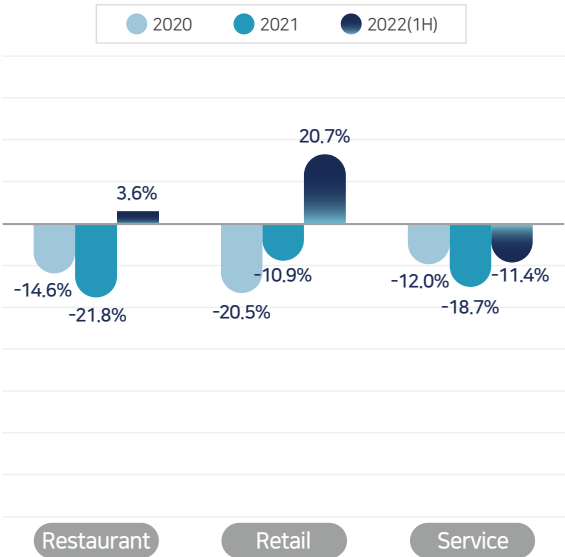
Garosu-gil Shopping District is a commercial area with various fashion brands and sophisticated F&B outlets. In the second quarter of 2022, the vacancy rate was 28.7%, up about 24.2 pp from 2019. In contrast to the significant increase in vacancy rates, the drop off in overall retail sales was relatively small despite the impacts of COVID-19.

As at the first half of 2022, about 31.4% of Garosu-gil's commercial space was occupied by clothing stores. In addition, there are many F&B and cosmetics businesses. Garosu-gil's commercial district has developed around unique specialist stores, and as the district has matured, rental levels have risen and representation by larger firms and global brands has increased. Foreign tourists were the main customer base of Garosu-gil, and the

area was hit hard by the sharp drop in international arrivals due to COVID-19 measures. The fashion and beauty brands that were present on Garosu-gil exited one by one, causing a steep rise in vacancy rates. In contrast to the main street, the backstreet, Serosu-gil, has been revitalized by the influx of small and medium-sized brands and domestic consumers seeking F&B.

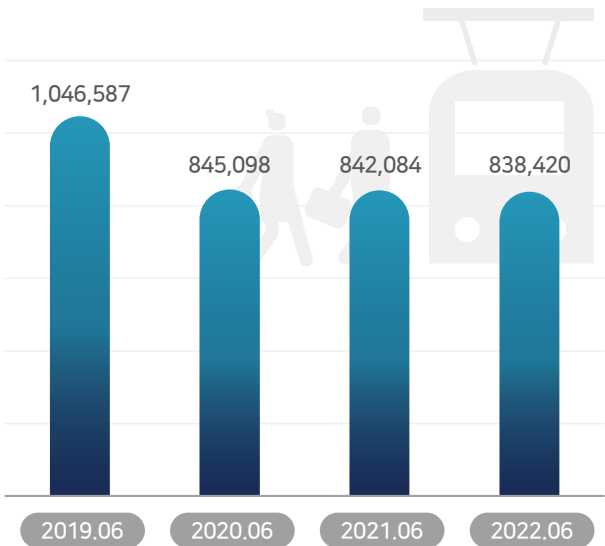
Even though the growth of the Garosu-gil commercial district has slowed in recent years, international brands continue to set up shop in Garosu-gil due to the area's iconic status as a fashion-orientated center. Armani opened its first store in Asia in 2021, while Diptyque and Allbirds also have world-class flagship stores in Garosu-gil.

Sales percentage changes by sectors in Garosu-gil



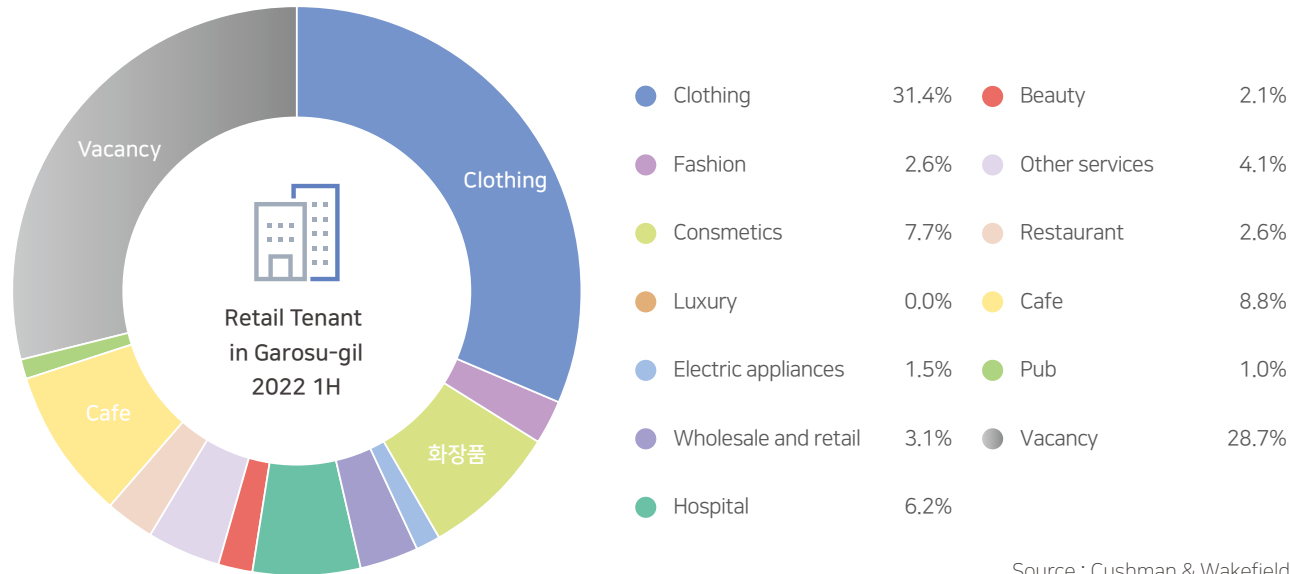
Source : Credit card revenue data, Cushman & Wakefield

Passenger numbers alighting at Sinsa station



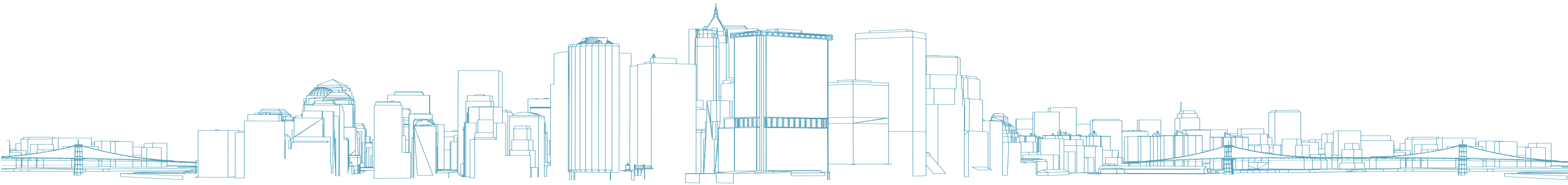
Source : Seoul public data

Retail Tenant in Garosu-gil



Source : Cushman & Wakefield



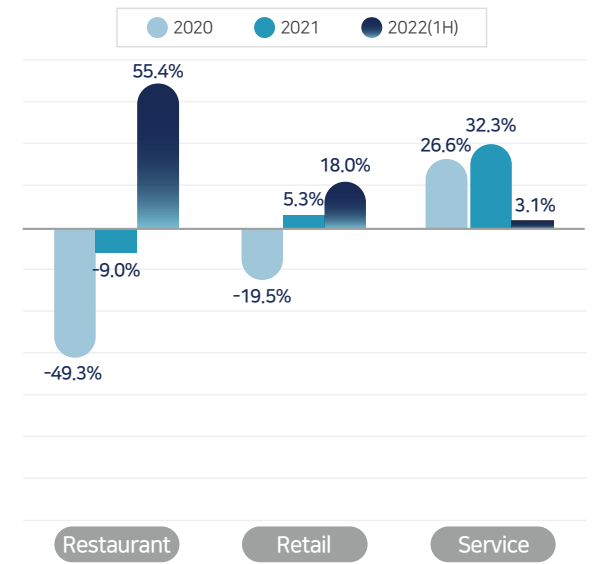


HANNAM and ITAEWON



Hannam and Itaewon are commercial districts where fashion, F&B, and culture-related stores with individuality and luxury are gathered along the so-called "Commede-gil" boulevard. In the second quarter of 2022, the vacancy rate was 10.8%, about 5.4 pp higher than in 2019. Vacancy rates have been declining in 2022, indicating a rapid recovery from the effects of the pandemic. The Hannam and Itaewon commercial districts are home to a large number of clothing stores, restaurants, and cafes. In particular, the share of clothing stores increased from 11.2% in Q1 2022 to 18.7% in Q1 2022, an increase of about 7.5 pp.

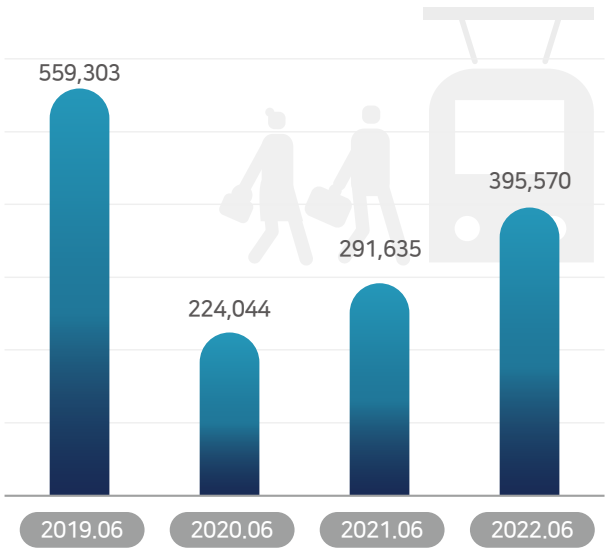
Sales percentage changes by sectors in Hannam and Itaewon



Source : Credit card revenue data, Cushman & Wakefield

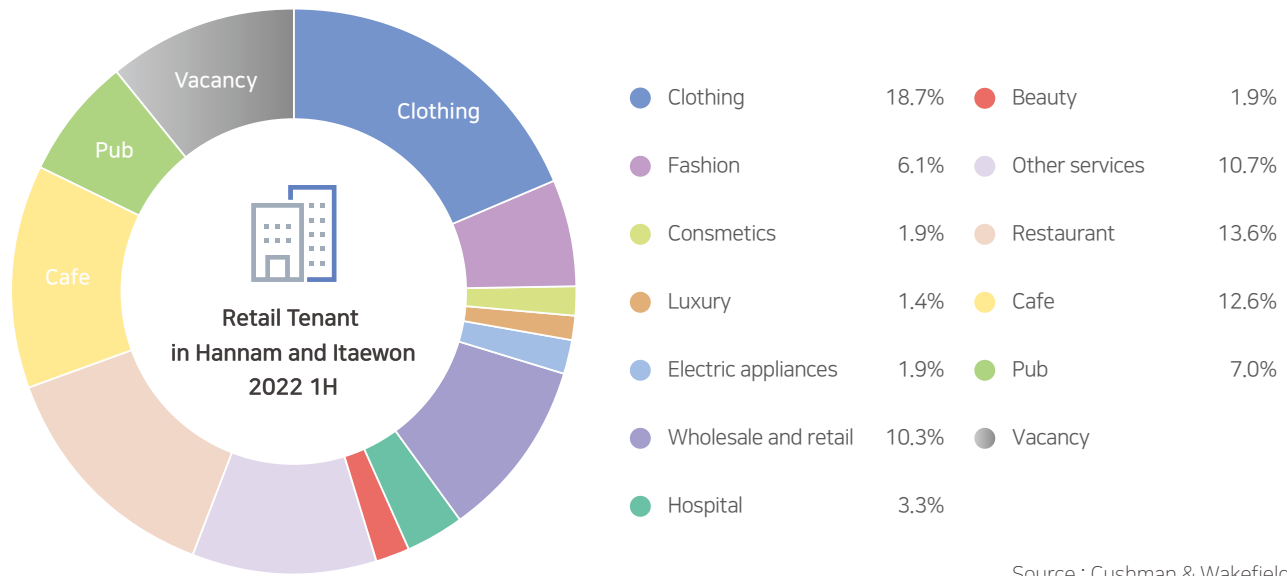
The area is also home to high-end and on-trend brands favored by MZ Generation, and the opening of Gucci House in 2021 brought the area into the spotlight. Gucci chose Hannam-dong as its first standalone store outside of Cheongdam, which was likely influenced by the high purchasing power supported by the high concentration of luxury homes in the neighborhood.

Passenger numbers alighting at Itaewon station

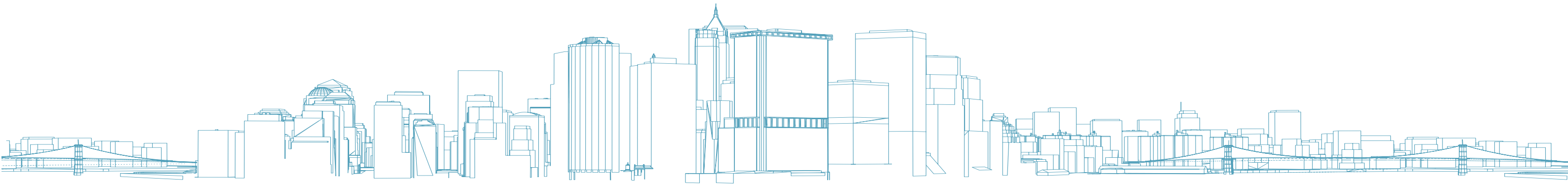


Source : Seoul public data

Retail Tenant in Hannam and Itaewon



Source : Cushman & Wakefield



Cheongdam

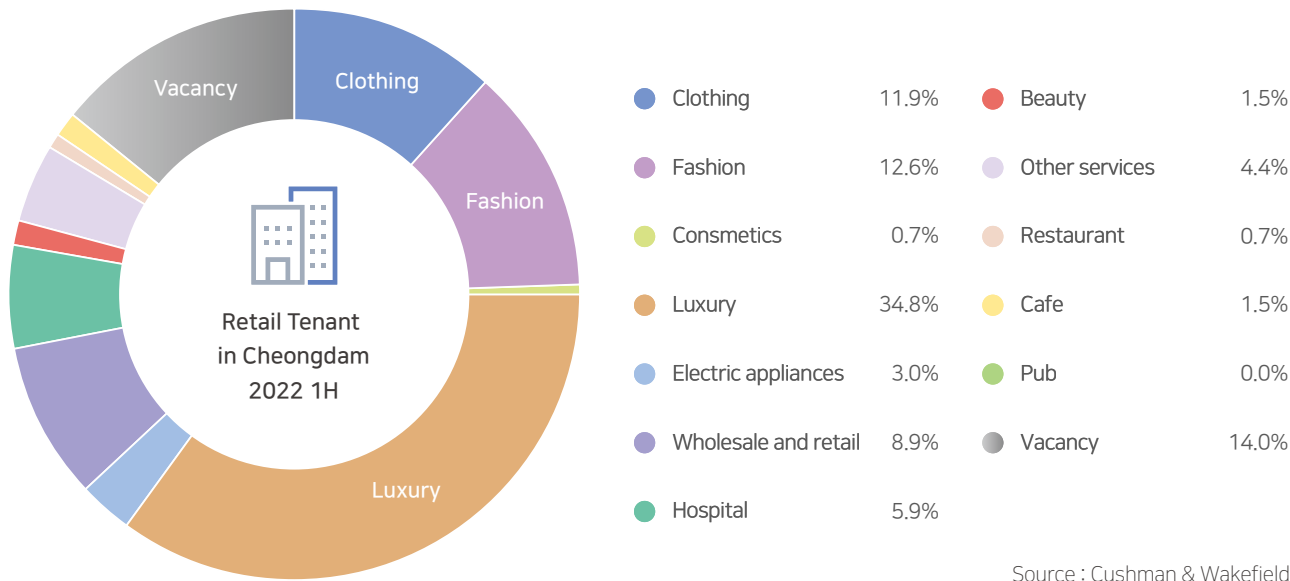
South Korea's premier high-end shopping district, has maintained its position as a thriving neighborhood throughout the pandemic period thanks to the sustained growth of the luxury goods market. In 2019, the vacancy rate in Cheongdam rose to 20.8% due to a relative slowdown in the luxury goods business, but by the second quarter of 2022, it had fallen back to 14.0%. Cheongdam is the only one of Seoul's six major commercial districts to see a fall in vacancy rates since COVID-19. In the first half of 2022, retail sales in Cheongdam increased significantly, with luxury goods sales growing by more than 30% in both 2020 and 2021.

Cheongdam is overwhelmingly dominated

by the luxury goods sector at around 35%, coupled with other fashion goods and clothing stores. One of the characteristics that has been observed in Cheongdam since the pandemic is the entry of the electronics industry, which has increased its share to about 3.0%. As people spent more time at home due to COVID-19, demand for home appliances expanded. At the same time, international home appliance brands such as Smeg and Electrolux opened flagship stores in Cheongdam during this period.

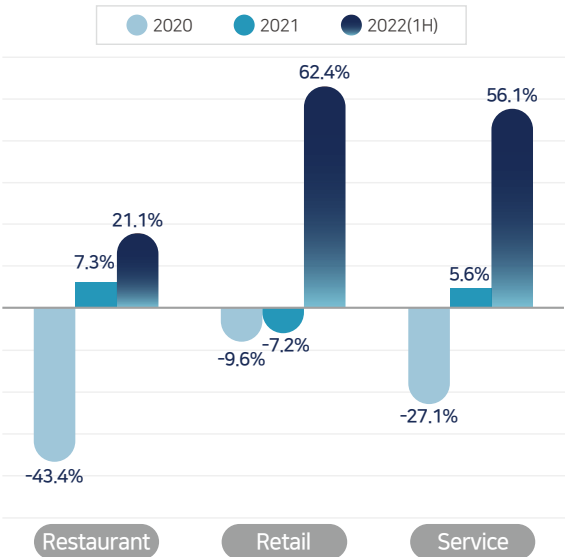
Despite paying higher rents than at department stores, many brands are opening stores in Cheongdam Luxury Street for its branding benefits. Saint Laurent in 2021 and Van Cleef & Arpels in 2022 opened their first flagship stores in Cheongdam, and Fendi is expected to follow suit.

Retail Tenant in Cheongdam



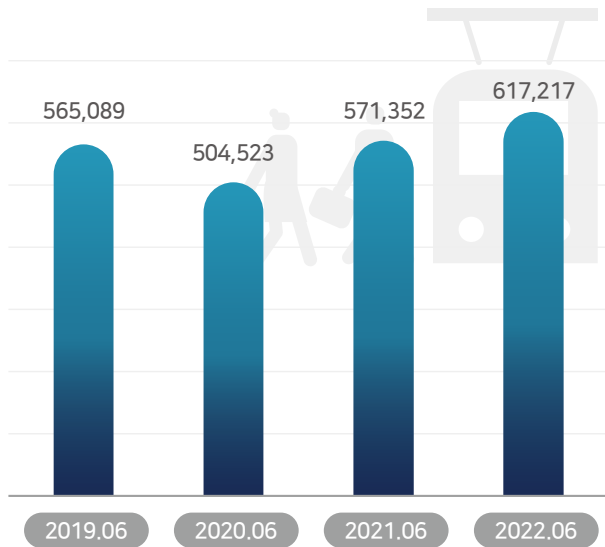
Source : Cushman & Wakefield

Sales percentage changes by sectors in Cheongdam



Source : Credit card revenue data, Cushman & Wakefield

Passenger numbers alighting at Apgujeongrodeo station



Source : Seoul public data





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