

Creating Resilience

Korea Retail Leasing Sentiment H1 2024

REPORT

CBRE RESEARCH
MAY 2024

CBRE



Executive Summary

CBRE conducts a bi-annual survey of its leasing professionals across key sectors of commercial real estate to understand recent leasing trends and the market outlook.

For the retail sector, a total of 124 CBRE leasing professionals in Asia Pacific, including nine respondents from Korea, participated in the survey for H1 2024.

Overview

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Survey Period

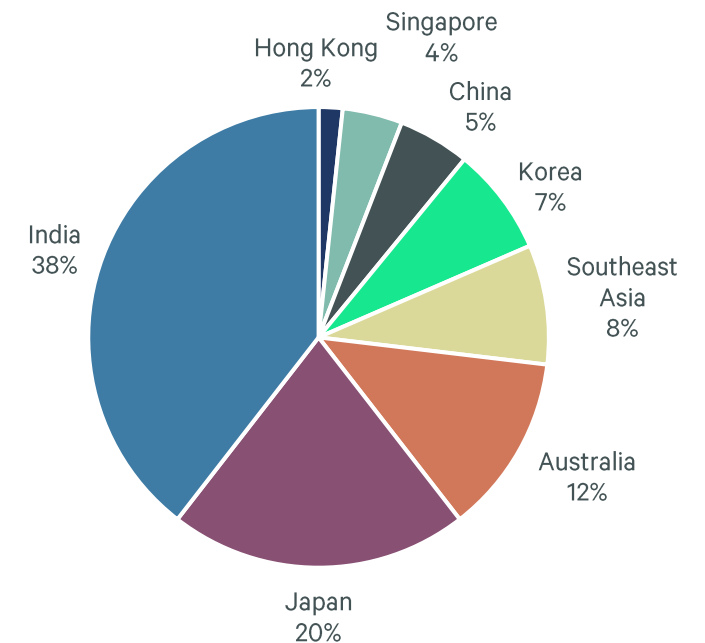
Late Feb – Early Mar 2024

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Survey Sample

A total of 124 CBRE Asia Pacific retail leasing brokers

Respondent Profile



Retailers remain in expansionary mode

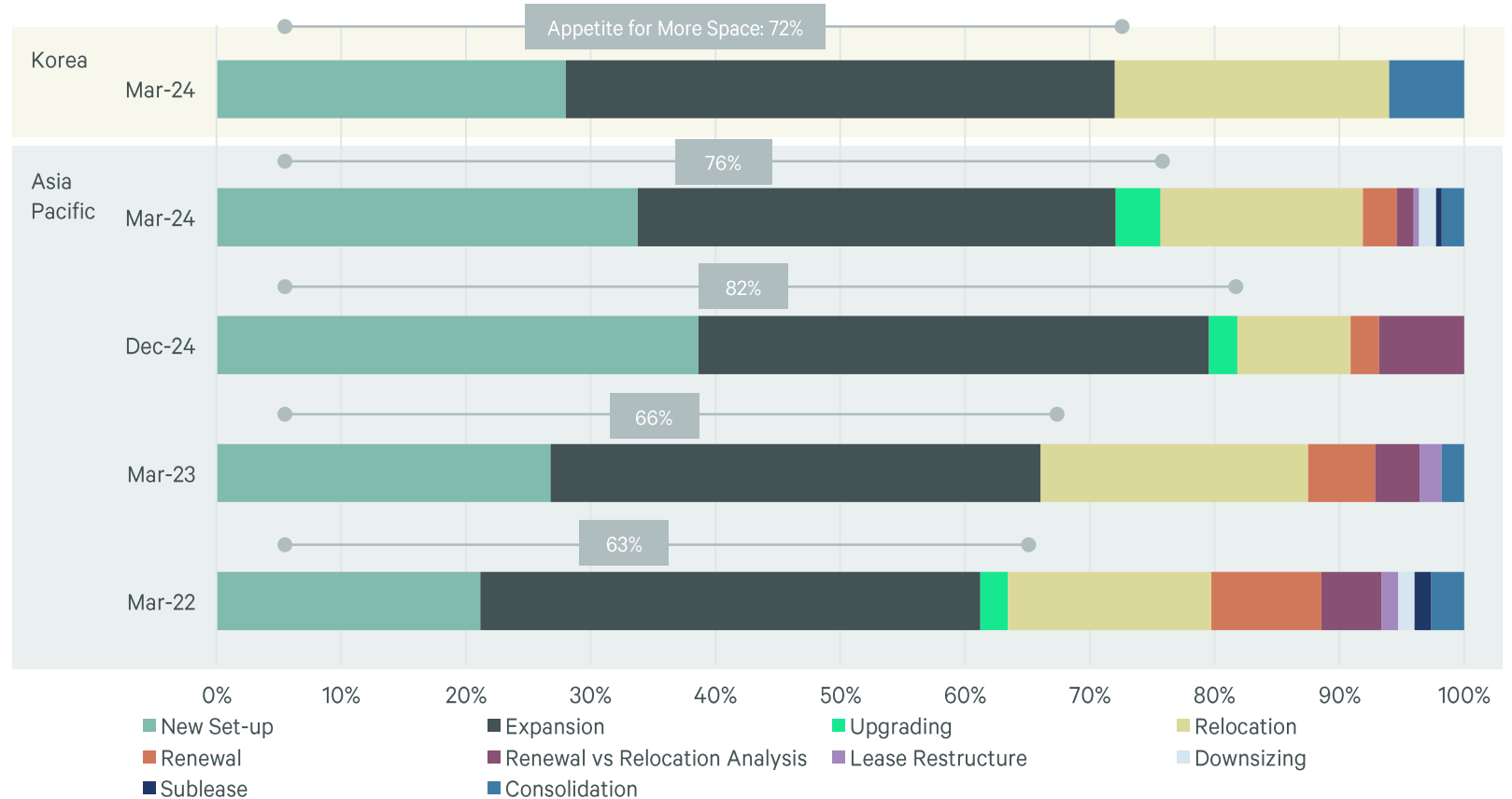
Most retail brokers reported an increase in leasing enquiries and site inspections in Asia Pacific in the opening quarter of this year. Retail leasing enquiries in the region, including those in Korea, continue to be dominated by expansion, backed by the steady recovery of the tourism sector.

Solid expansionary demand from retailers seeking to rejuvenate their store networks in the aftermath of the pandemic ensured retail vacancy trended down over the course of 2023. Half of respondents expressed the view that retail leasing market dynamics are shifting in favour of landlords.

While demand is set to normalise in 2024, as reflected by weaker appetite for more space, interest in upgrading and relocation picked up over the course of Q1 2024.

CBRE expects incentive levels to stabilise in most locations this year, except in mainland China, where secondary retail space continues to attract weak demand.

Figure 1: Retail leasing enquiries in Asia Pacific



Source: Asia Pacific Leasing Sentiment Index, CBRE Research, March 2024.

Sentiment stays positive

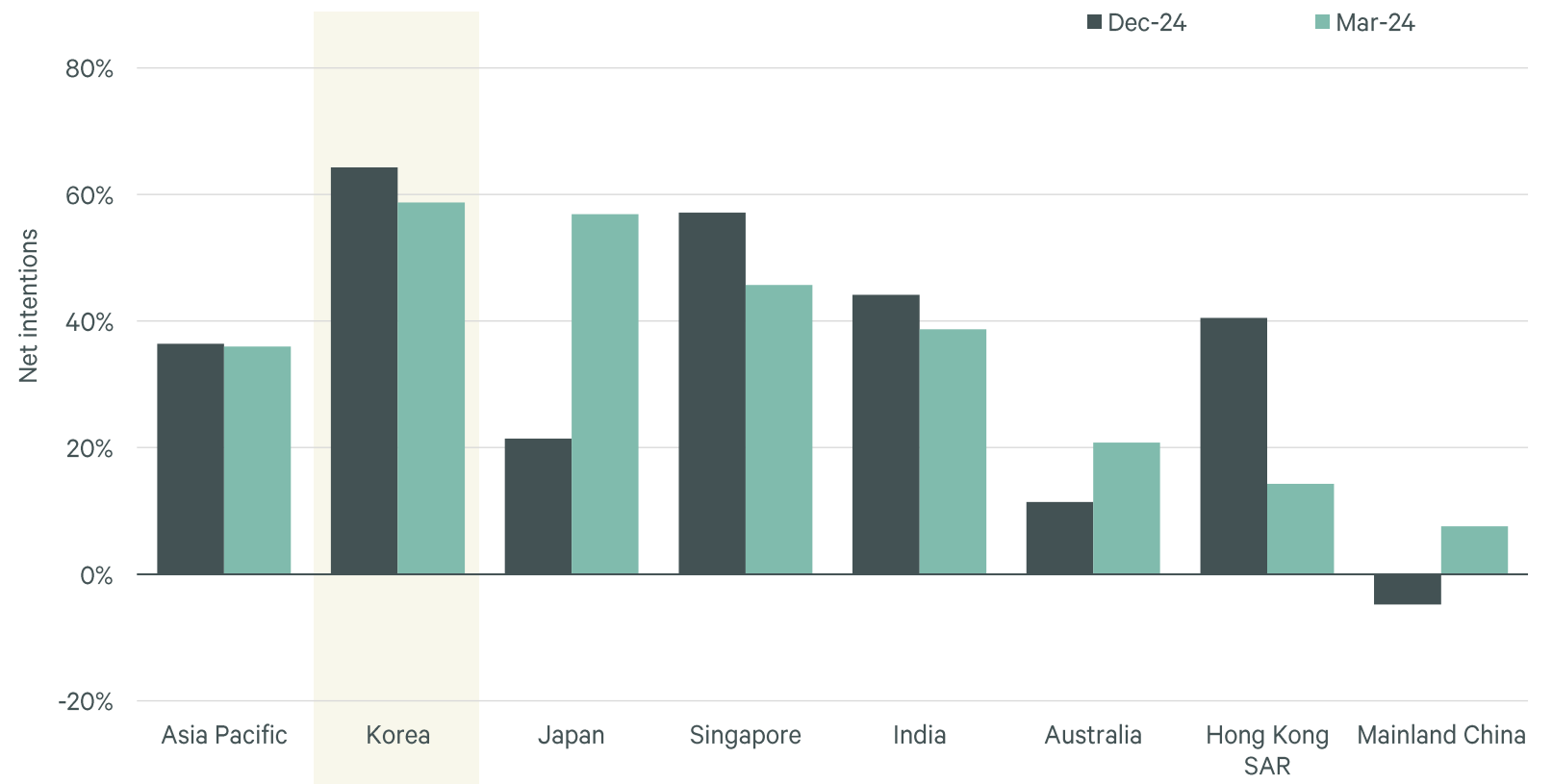
The survey indicated positive retail leasing sentiment in all Asia Pacific markets. The strongest improvement was observed in Japan, where more retailers are resuming expansion on the back of rising profitability and record-breaking tourist spending.

While net leasing intentions in Korea weakened slightly from last year, they remained the strongest of any Asia Pacific market. As of February 2024, cumulative domestic retail sales were up 2.3% compared to the same period of the previous year. The consumer sentiment index has remained above 100 for the duration of this year, meaning that the economic outlook is expected to gradually improve.

Among other major markets, sentiment in mainland China returned to positive territory as retail sales growth stabilised over the Lunar New Year holidays. However, CBRE expects to see a certain degree of consolidation in Greater China as economic uncertainty persists, meaning that retailers in this region will stay cautious.

While retail leasing sentiment remains solid in Singapore and India, tight availability of prime retail space constrained leasing activity.

Figure 2: Retail leasing sentiment in Asia Pacific by market



Source: Asia Pacific Leasing Market Sentiment Index, March 2024

Strong upgrading demand

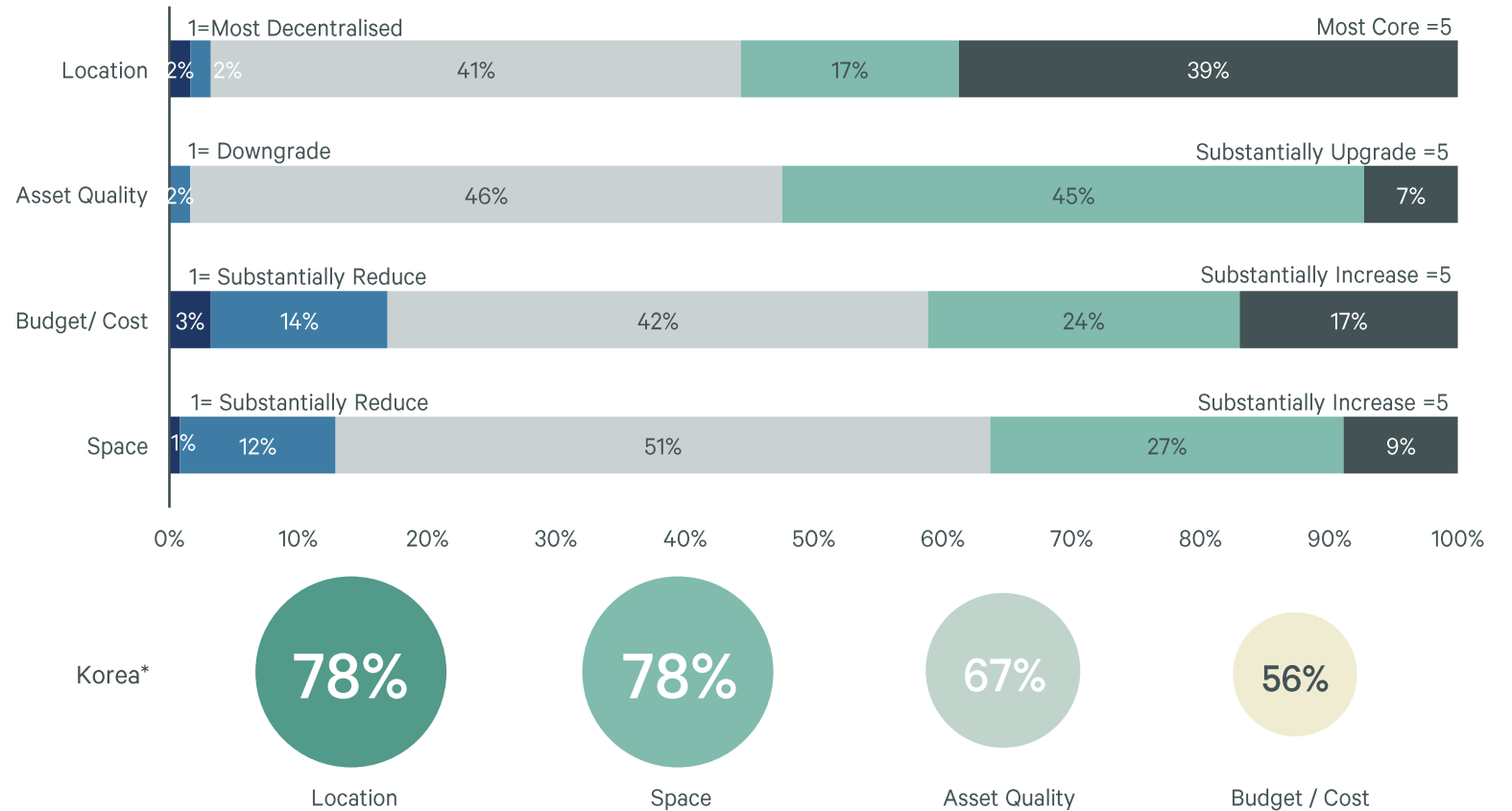
Retailers across Asia Pacific are displaying a very strong preference for prime core retail space. This is due to rents in core locations becoming more affordable in the wake of COVID-19 and now want to boost their presence in core locations.

Korea reported the strongest retailer demand of any market for large space and core locations, with traditional areas such as Myeongdong and Gangnam continuing to see robust enquiry levels as these markets continue to recover.

In Myeongdong, CJ Olive Young opened a global specialty store in 2023 and plans to open a new flagship store in Seongsu-dong this year, which will be the largest in the country. Musinsa Standard has opened a new 300-pyeong offline store, leading to a significant decline in vacancy in the district. Gangnam witnessed several new openings by international F&B brands such as Superduper and Five Guys.

The survey found that most retailers, including those in Korea, plan to retain or increase their real estate budget and store footprint in 2024.

Figure 3: Using a five-point scale, how would you assess retailers' relocation preferences?



*Proportion of Korean respondent who chose 4 & 5

Source: Asia Pacific Leasing Sentiment Index, CBRE Research, March 2024.

Growth of emerging districts

While Korea's high street retail market continues to recover, vacancy rates in traditional retail districts, including Myeongdong and Gangnam, remain high compared to pre-pandemic levels.

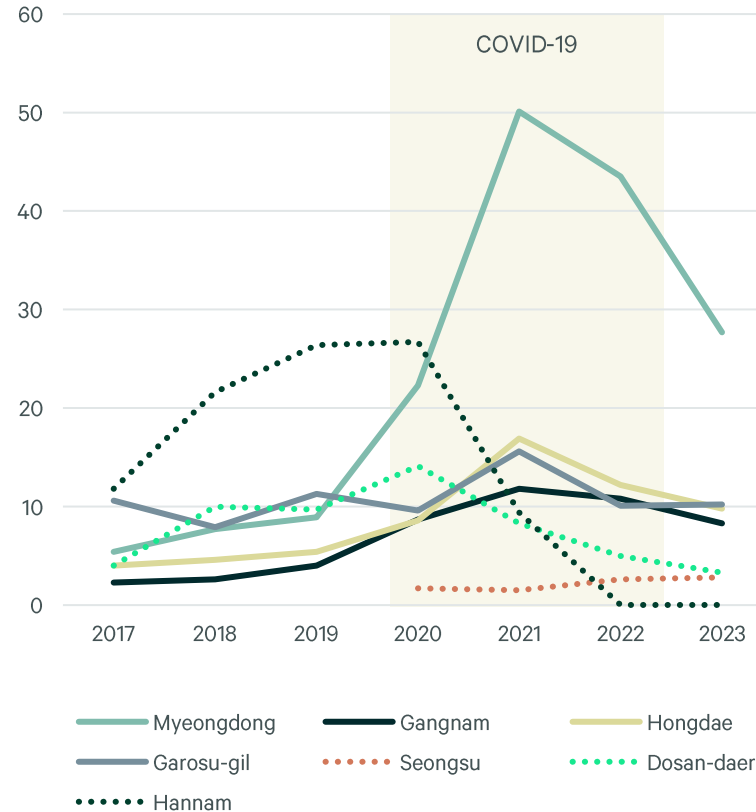
In Myeongdong, which was hit hardest by the pandemic, vacancy stood at 28% as of the end of Q4 2023, the highest among major districts. Garosu-gil and Hongdae's vacancy rates also remained high, standing at around 10%.

Hannam, Seongsu, and Dosan-daero, which reported the lowest vacancy at end-2023 will drive the retail market recovery as they attract demand from retailers catering to the MZ generation.

In Hannam-dong, where strong leasing demand from fashion brands has been observed, Musinsa Standard's new store of about 815 pyeong is scheduled to open in H2 2024. The district has also recently attracted new openings by local and foreign designer brands such as Citybreeze, Gelato Pique, and Amomento.

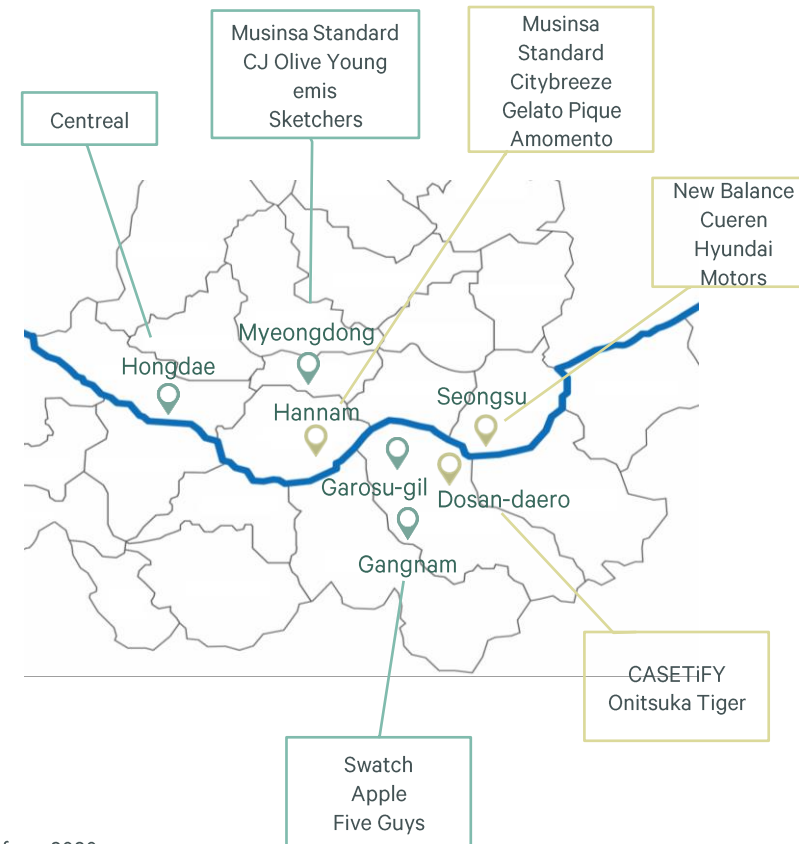
Seongsu district, which has emerged as a hub for pop-up stores, is seeing steady growth in tourist foot traffic following the relocation of major entertainment agencies promoting the Korean Wave.

Figure 4: Vacancy rates of major commercial districts



Note: Based on mid- to large-sized commercial properties, data for Seongsu is collected from 2020
 Note: Solid line – Traditional districts / Dotted line – Emerging districts
 Source: Korea Real Estate Board, Asia Pacific Leasing Sentiment Index, CBRE Research, March 2024.

Figure 5: Major retail leasing transactions (2023-Q1 2024)



F&B continues to expand

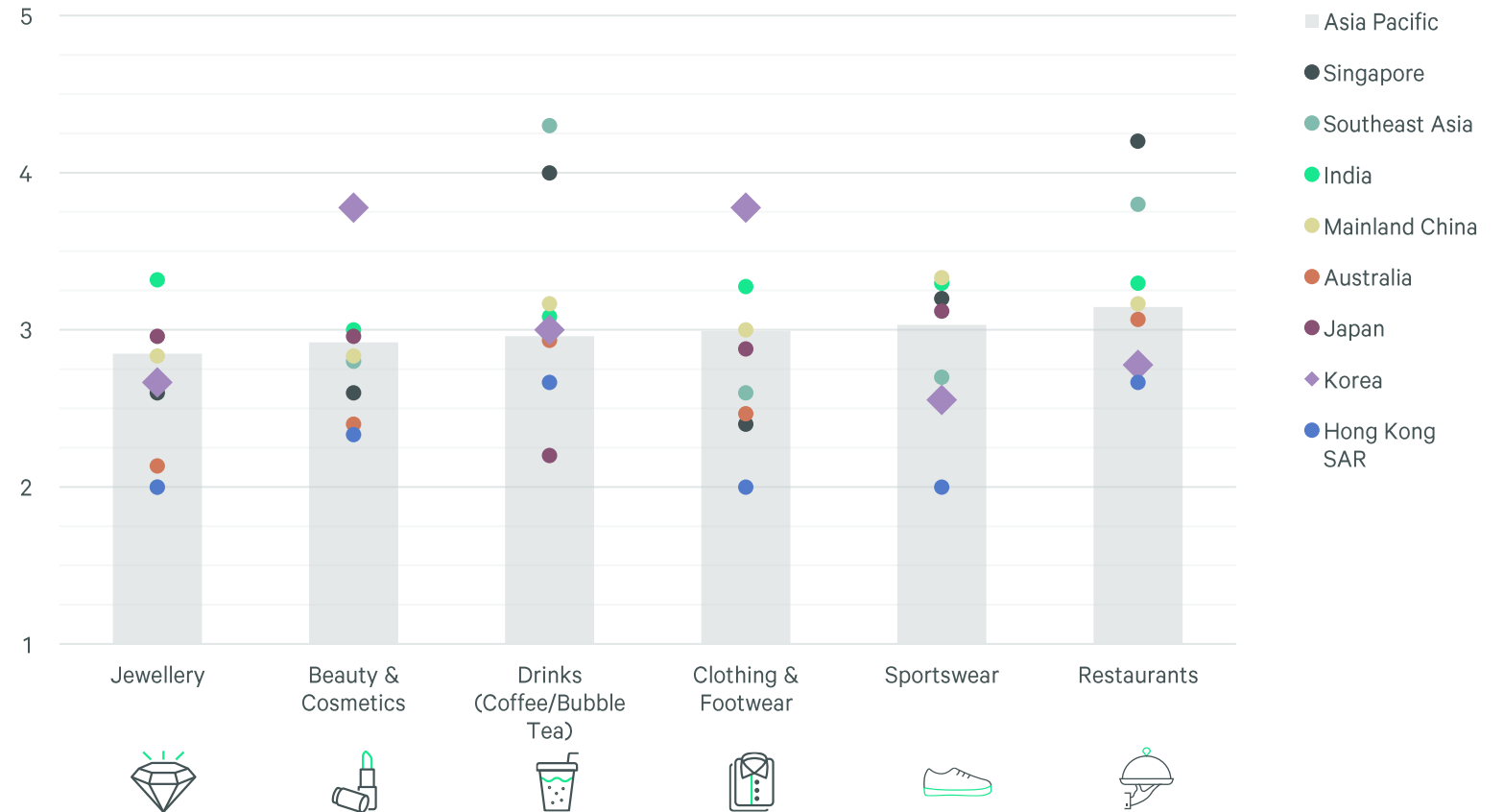
Amid a global shift in consumer spending towards eating out and experiences, F&B remains the most active retail category in Asia Pacific, with demand from this sector at its strongest in Singapore and Southeast Asia.

Global F&B brands such as Five Guys, Basha Coffee, and Tim Hortons recently opened their first stores in Korea and are expected to continue expanding in major commercial districts and new office arcades in business districts.

Sportswear and apparel are the second and third most active trades, respectively. Among the former, demand is focused on mainland China and India, where more overseas sports brands are looking to tap into growing consumer spending on health and wellness.

Korea is the most popular market in Asia Pacific for expansion by international beauty and fashion brands. With “Hallyu” culture spreading rapidly, Korean brands across a range of categories are seeking opportunities to target younger consumers interested in the latest trends.

Figure 6: Using a five-point scale, how strong is interest in cross-border expansion into different markets by trade?



Note: 1 = Not Interested; 2 = Somewhat interested but have not started planning; 3 = Interested, with planning in progress; 4 = Interested, with expansionary plans in place; 5 = Very interested and intend to accelerate expansion

Source: Asia Pacific Leasing Sentiment Index, CBRE Research, March 2024.

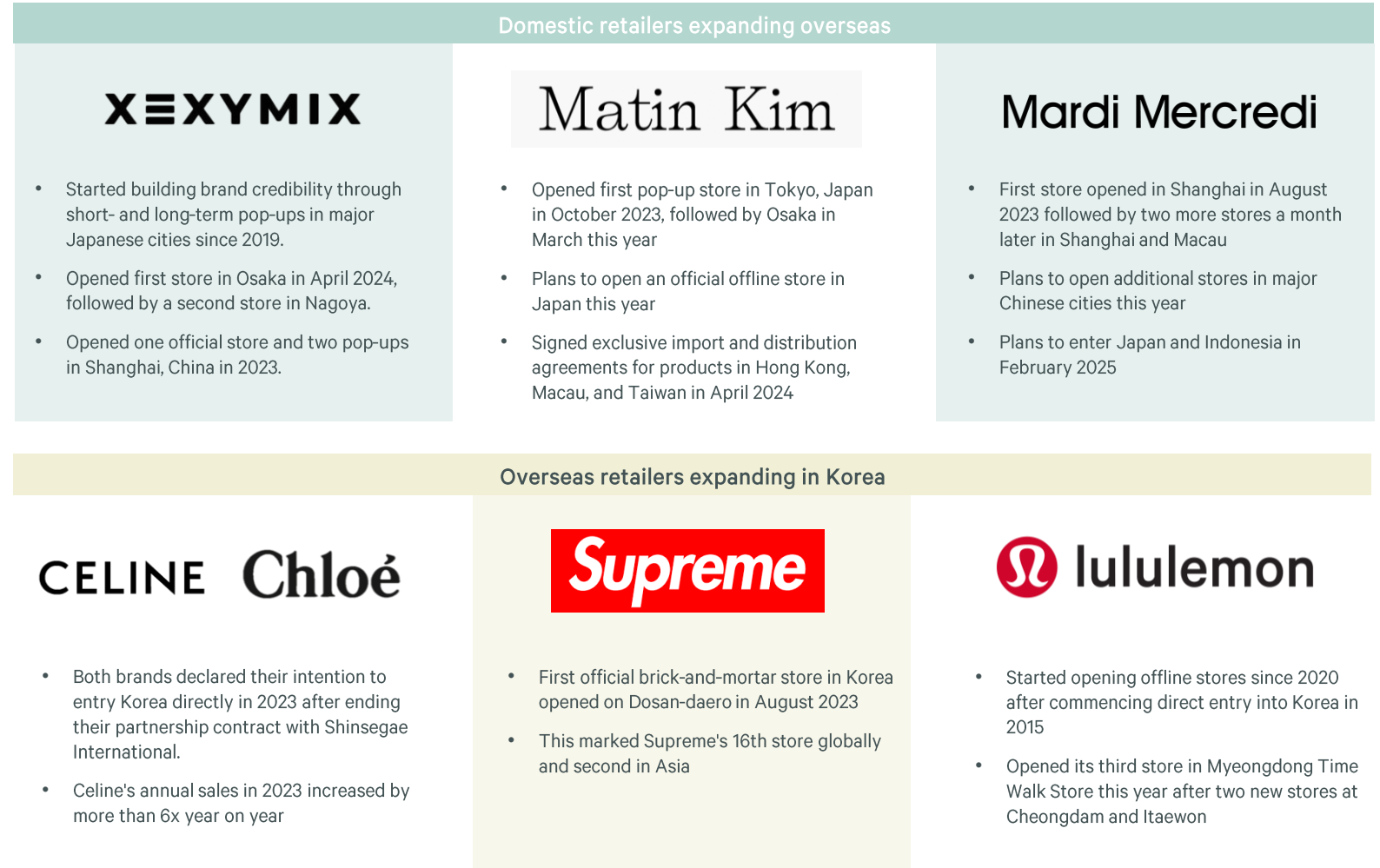
Domestic fashion and beauty drive cross border expansion

Global fashion and beauty brands are displaying strong expansionary demand in Korea. Retailers such as Supreme and Noah opened their first stores in the country last year, while several international luxury brands such as Celine and Chloé directly entered the market in 2023.

The entry of domestic brands to overseas markets is expected to gain momentum, with the growth of K-fashion in Japan and China set to be especially prominent. Korean athleisure brand Xexymix, which first entered Japan in 2019, opened its official offline stores in Osaka and Nagoya in April 2024, while Korean designer brand Mardi Mercredi, which opened its first store in Shanghai last year, is planning to open additional stores in other cities this year.

The beauty industry, which been recovering following the lifting of the mask mandate in 2023, is expected to continue to grow, backed by an increase in tourists and the Hallyu trend. Major Korean cosmetics companies such as CJ Olive Young and Amore Pacific will focus on expanding overseas but will prioritise collaborating with local distribution channels and online malls rather than opening offline stores.

Figure 7: Examples of international and domestic fashion retailers' cross-border expansion



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