

Creating Resilience

Omnichannel Retail and its Impact on Korea Real Estate

REPORT

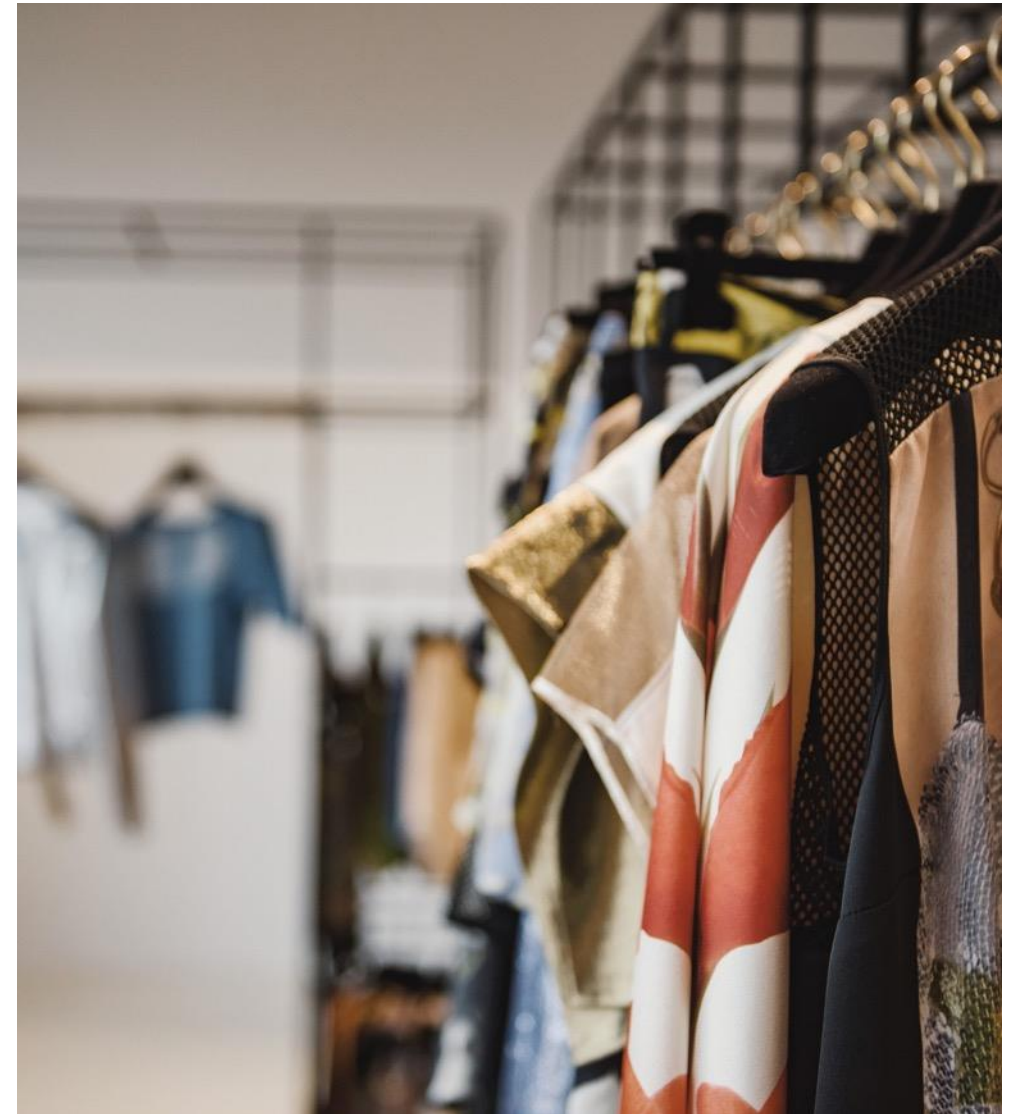
CBRE RESEARCH
JANUARY 2023



Contents

- 01 **E-commerce: Now and in the future**

- 02 **Impact on Commercial Real Estate and Suggestions for Landlords and Occupiers**
 - 2.1 **Retail**
 - 2.2 **Logistics**
 - 2.3 **Office**



01

E-commerce:

Now and in the future

Shift in consumer behaviour drives boom in online shopping

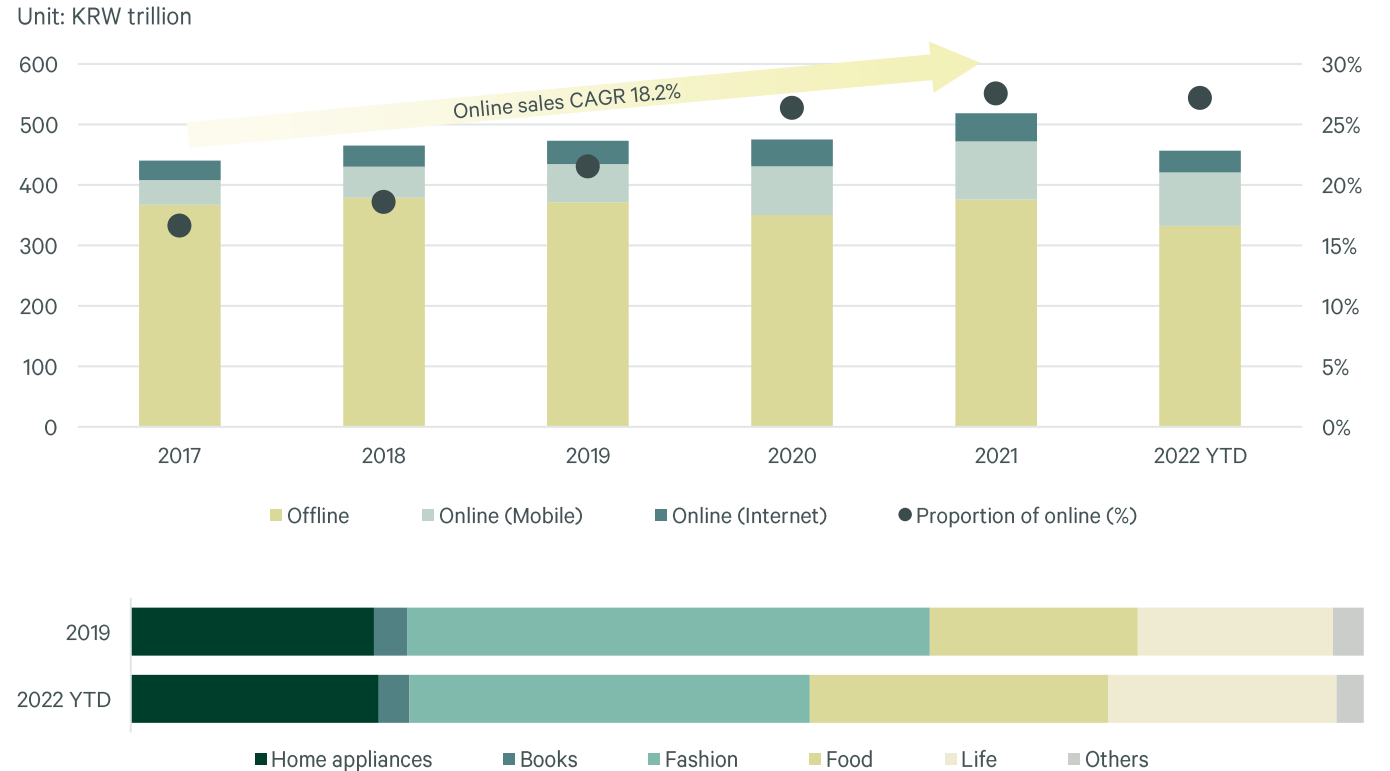
Recent years have seen the development of mobile and IT-based industries drive the growth of the Korean online retail market, along with structural changes to society such as the increase in single-person households. The emergence of COVID-19 in 2020 led to a surge in non-face-to-face consumption, resulting in more consumers embracing the convenience and speed offered by online shopping.

As of the end of 2021, the proportion of online retail sales in Korea was slightly less than 30% of total retail sales. Mobile shopping sales doubled from 2018-2020 and are expected to exceed KRW 100 trillion in 2022.

The proportion of online consumption increased by 7%p in 2021 compared to 2019, led by gains in the food and beverage and agricultural, livestock and fisheries categories. The sharpest decrease was observed in the fashion sector, including cosmetics, clothing and accessories, with sales yet to recover to pre-pandemic levels.

Despite concerns about a short-term slowdown in the wider retail market due to weakening growth momentum and global economic uncertainty, the share of Korea's e-commerce market is expected to continue to expand, driven by large and specialised online platforms.

Figure 1: Growth of the online retail market and proportion of online shopping by product



Note: Online retail sales excludes online services (travel and transportation, culture and leisure, e-coupon, food service, and other services)

Source: KOSIS, CBRE Research, October 2022

Key growth drivers

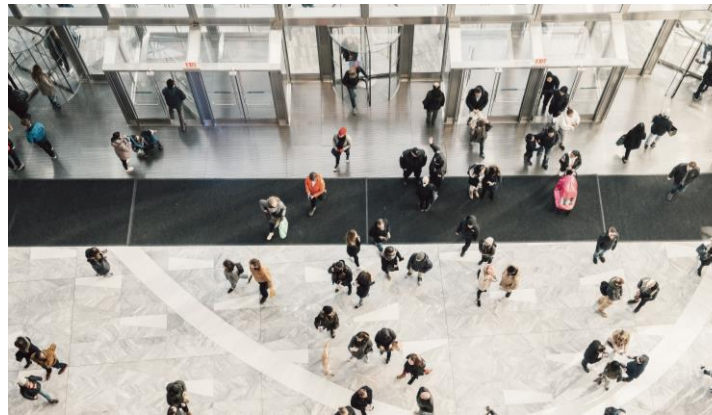
Well-equipped IT infrastructure



KOSIS data show that Korea's internet usage rate reached 98% in 2021, ranking among the top five worldwide. Recent years have also seen the rapid adoption of digital wallets such as Samsung Pay and Naver Pay, aided by the introduction and development of new technologies such as augmented reality (AR), artificial intelligence (AI), and Internet of Things.

Samsung Pay possesses an 80% share of the digital payment market and had around 20 million subscribers as of the end of 2021. With Apple Pay set to be launched in Korea shortly, mobile payment services are expected to become more widely used.

Easily reachable populations in urban centres



Korean cities' high population density in a relatively small area makes it possible to provide fast and efficient delivery services.

This geographical advantage has facilitated the rapid growth of platforms specialising in delivery and e-commerce, enabling consumers to quickly and conveniently purchase a wider range of products through online shopping.

Social structural change



E-commerce growth has accelerated as the number of single-person households rises and the country's digitally-native millennial generation begins to form the main consumption axis.

As Korea's elderly population increases and the influx of middle-aged shoppers using e-commerce platforms gains momentum, the number of brands and services catering to this demographic is expanding.

Key growth drivers

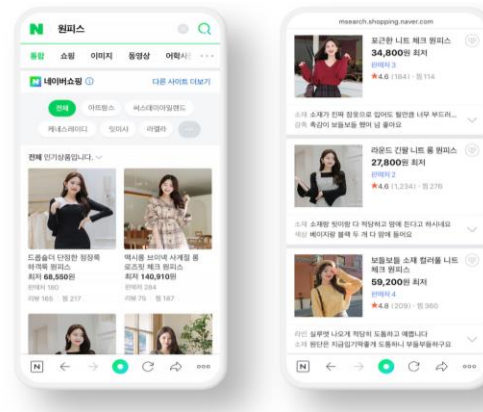
Growth in non-face-to-face retail and online sales



Social distancing and the public's preference to stay at home during the pandemic have led to an increase in demand for non-face-to-face services, driving change in consumer consumption patterns and sales channels.

The growth of omnichannel retailing has seen several companies such as offline-based retail and manufacturing firms enter the online realm, accelerating the growth of the e-commerce market.

Domestic e-commerce platform-led growth



The entry of IT-based portal sites to the retail sector has boosted Korea's e-commerce market. Benefitting from their ability to identify trends through analysis of search terms, these platforms provide management, marketing, and delivery strategy solutions to sellers to promote mutual growth.

Leader domestic portal site Naver first launched its Naver Shopping service in 2001, followed in later years by its Smart Store and Shopping Live platforms. Sites such as these are re-organising Korea's retail market around online platform companies.

Introduction of subscription models



Many e-commerce companies have introduced a regular subscription model to attract and retain customers and create a stable profit-generating model. Examples include Coupang's Wow Membership and Naver's Naver Plus Membership.

The usage of subscription services for regular delivery increased by 34% y-o-y in 2021.* SK Telecom predicts that the domestic subscription economy market will double from 2020's figure to reach KRW 100 trillion by 2025, underpinning strong e-commerce demand in future.

*Hankook Research, Public Opinion within Public Opinion

E-commerce platform performance

Data from a recent retail industry survey show that Naver, Coupang, and SSG.COM were the most used online shopping platforms in Korea in 2021.

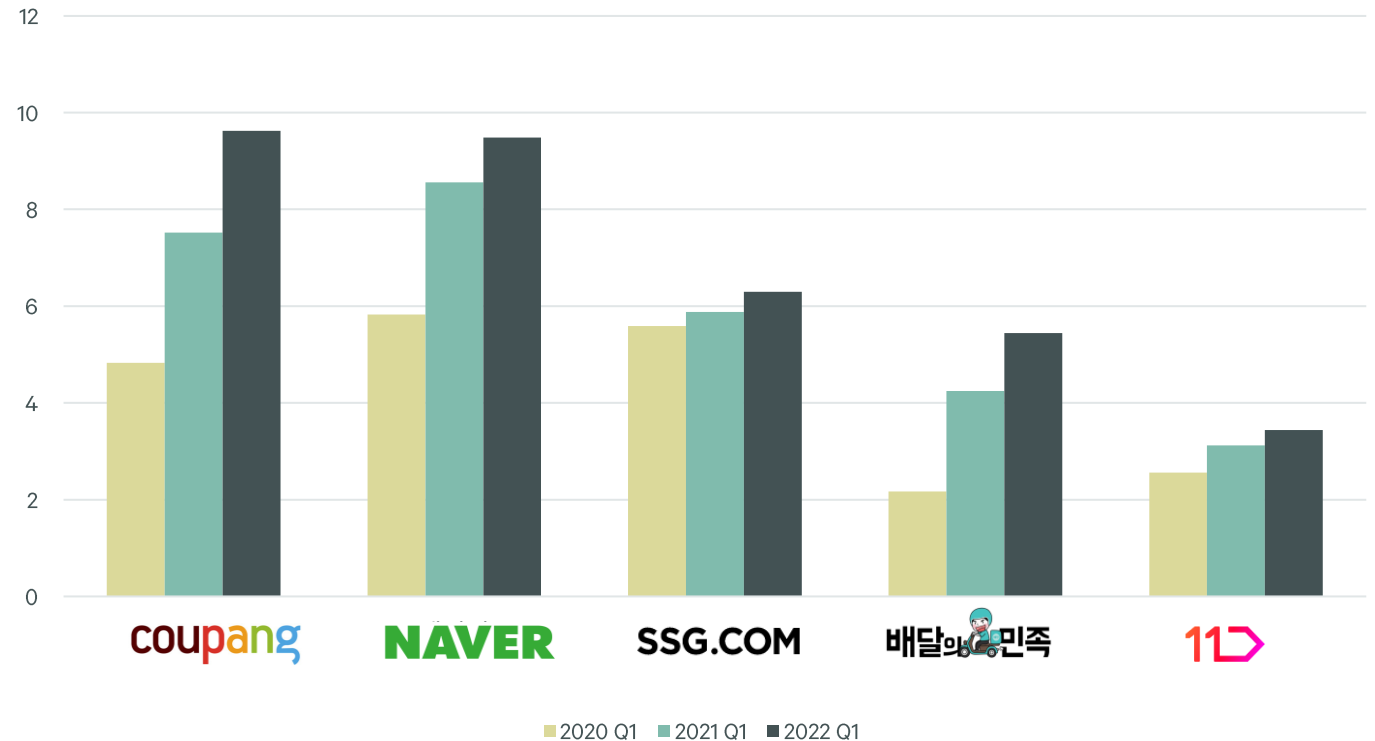
Naver maintained its leading market share on the back of the expansion of its smart stores and Naver Pay businesses. However, the platform faces strong competition from Coupang, which logged a 28% y-o-y increase in transaction volume, driven by its Coupang Eats and Rocket Fresh services.

Following E-Mart’s takeover of eBay Korea in 2021, SSG.COM launched an integrated membership service among its subsidiaries such as G market and Auction, helping push up sales by 7% y-o-y in 2022. The firm is preparing for an IPO while strengthening its growth engines and is also planning to relocate its offices to GBD to improve synergy between online affiliates.

With online retail sales growth slowing, there are concerns that the e-commerce industry is peaking. This is likely to prompt a shift in strategy among e-commerce companies that have expanded aggressively in recent years. At the same time, as M&A activity gains momentum, the country’s leading e-commerce platforms are expected to strengthen their market dominance.

Figure 2: Transactions using major domestic e-commerce companies

Unit: KRW trillion



Note: Estimated payment amount for Koreans aged 20 and over, Coupang includes Coupang Eats, SSG.COM includes eBay Korea

Source: Wiseapp-Retail-Goods, CBRE Research, 2022

2-1

Impact on Retail Real Estate

Omnichannel -oriented consumption

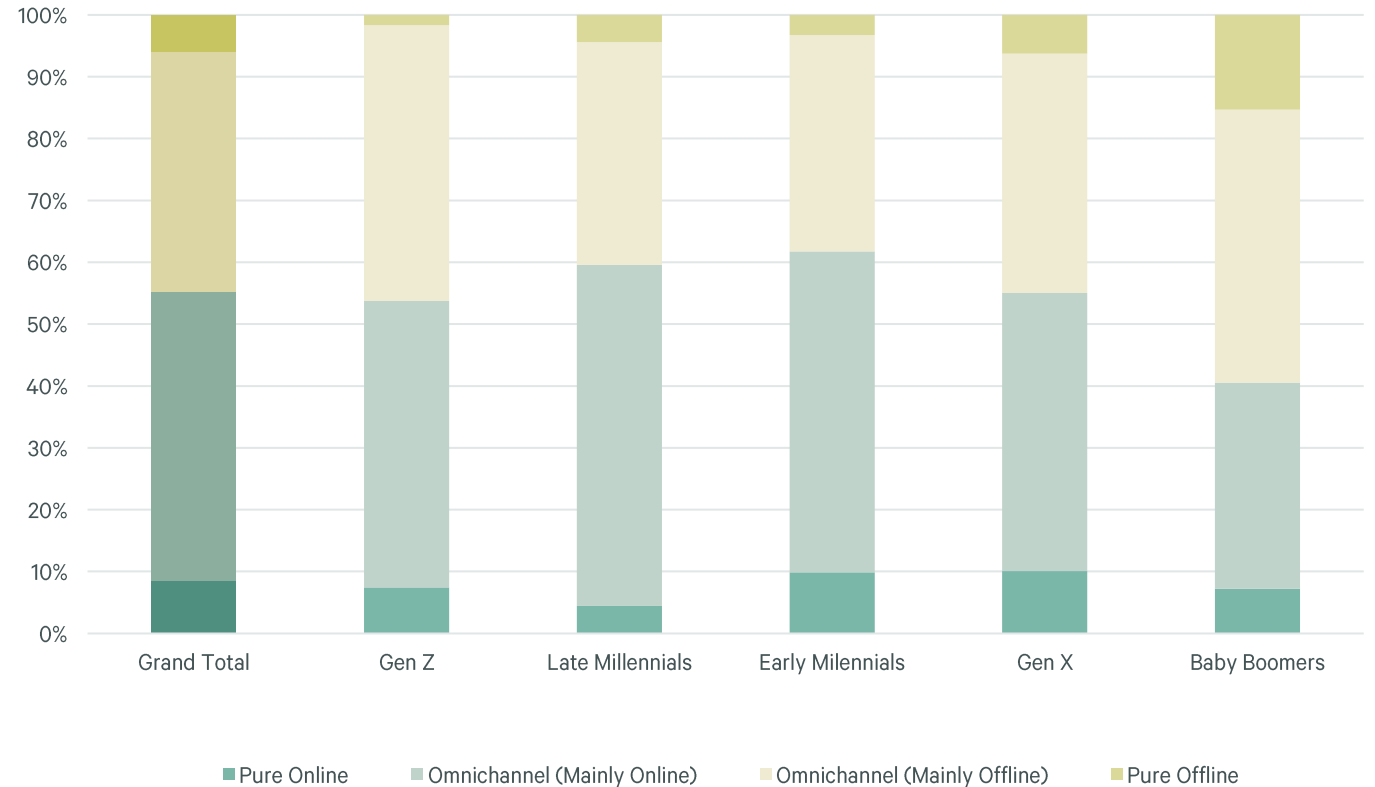
The COVID-19 pandemic and Korea’s approach to managing the spread of the virus have led to a structural change in the retail market. Consumer dependence on digital platforms has increased as purchasing activity shifts to online and other non-face-to-face formats. This has prompted numerous retailers to strengthen their investment in omnichannel platforms, which combine online characteristics with offline channels.

Omnichannel is an approach to shopping designed for consumers to search and purchase products through various channels while creating the sensation that they are using the same service.

CBRE’s recent Global Live-Work-Shop survey found that more than half of Korean consumers prefer to shop online, while 86% of all consumers in the country shop using omnichannel.

The proportion of omnichannel consumption activity was higher among the MZ generation*, while the dependence on offline shopping was most prominent among baby boomers. Despite being digitally native, the proportion of Gen Z using only online consumption channels was only 7%, with most preferring to use omnichannel.

Figure 3: Shopping channel preferences by customer age group



Note: MZ generation includes early-late millennials and Gen Z.
Source: CBRE Global Live-Work-Shop Report 2022, Korea result

Creating a virtuous cycle of consumption through omnichannel

Enhancing convenience and customer experience by providing a consistent purchasing experience across platforms

Offline purchasing via online



Order online



Pick up in store

- Omnichannel is a means of inducing customers to visit stores to encourage consumption and is an increasingly popular strategy among major offline-based retailers.
- This approach enables e-commerce companies to dramatically reduce last-mile delivery costs by providing in-store pickup services through collaboration with offline stores.

Logistics-based store



Online and in-store ordering



Home delivery

- Omnichannel strategies are beginning to be adopted by retailers of high-end appliances and large furniture.
- Retailers from various industries are partnering to encourage smooth online ordering from consumers and carry out direct delivery of products.
- This sales method reduces in-store inventory and enables consumers to shop hands-free.

Showrooming



Explore products



Online and in-store ordering

- Showrooms are displaying online-only goods to provide consumers with opportunities to use products before purchasing them.
- Showroom-type stores do not need to maintain high inventory levels and can help reduce the return rate of products sold online.
- By using offline stores as studios for live broadcasting, retailers can integrate their sales processes.

In-store returns



Order online



In-Store refunds and returns

- Logistics costs incurred when refunding and returning products sold online can be very high, placing a heavy burden on retailers.
- By using offline stores as return hubs for online shopping malls, costs and inventory delivery periods can be reduced drastically.

Consumption preference by channel

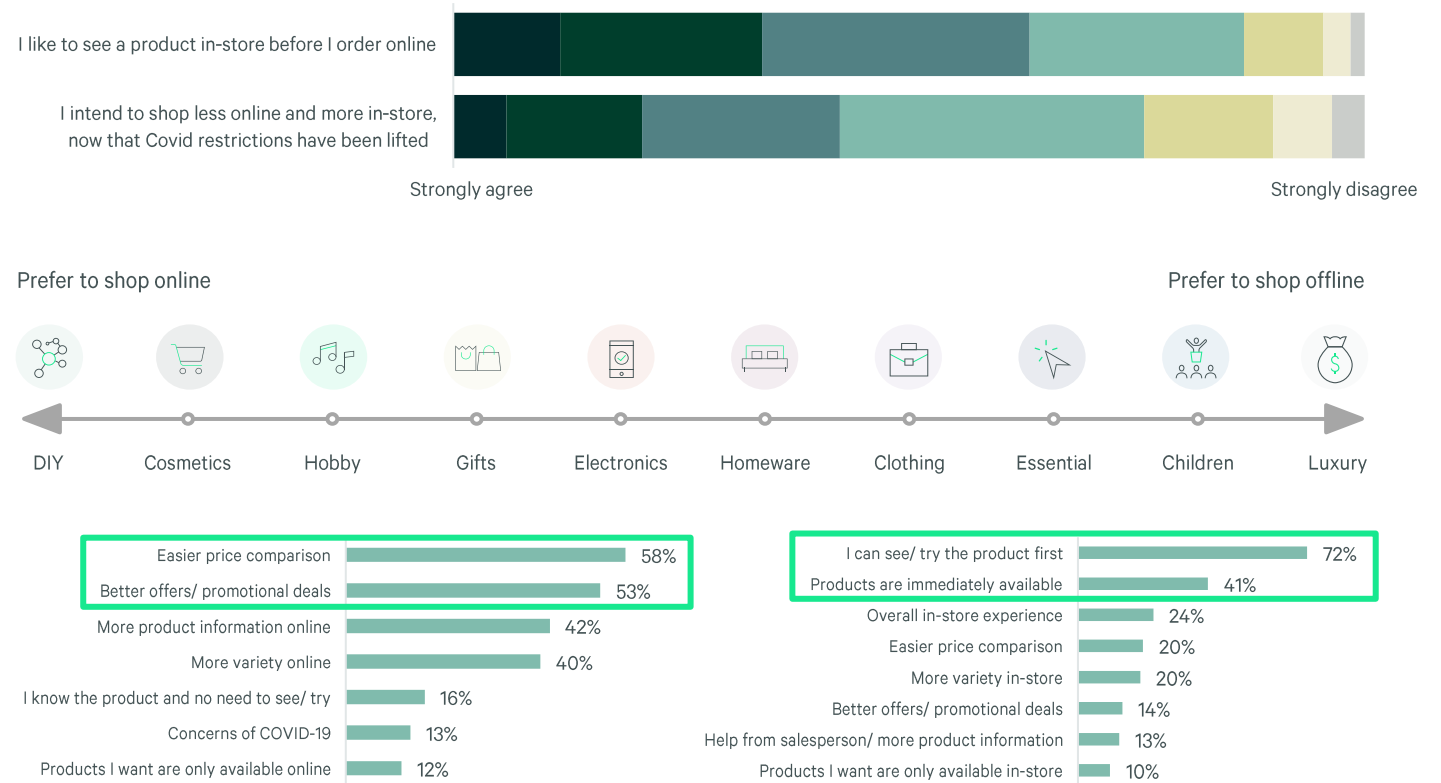
Although most consumers continue to use omnichannel, the reasons why consumers use online or offline shopping channels differ depending on the type of consumption and their personal needs.

CBRE's Global Live-Work-Shop survey data show that the main reasons for shopping online include the ease of price comparison and lower purchase prices. Information such as promotions and discounts provided in real time through mobile devices are also factors influencing consumers' preference to shop online.

Consumption via offline channels is driven by direct product experience, product availability immediately after purchase, and the in-store shopping experience. Preference for offline purchases is relatively high for expensive products such as luxury goods, home appliances, and furniture, underlining the fact that there are many aspects of non-face-to-face consumption that cannot be replicated online.

63% of all respondents said they prefer to view a product in-store before ordering it online, while 42% are planning to return to brick-and-mortar stores now that the pandemic has entered the endemic phase. The role of offline stores as a key sales channel is therefore expected to remain prominent in the coming years.

Figure 4: Necessity of physical stores and consumption items and preference factors by channel



Source: CBRE Global Live-Work-Shop Report 2022, Korea result

Improving store efficiency and expanding functions

Brick-and-mortar stores' focus has traditionally been on providing a location for consumers to buy products. Other elements include facilitating a smooth shopping experience and maximising sales by displaying products and providing high quality face-to-face service.

Due to the rise of omnichannel, the role of brick-and-mortar stores is broadening into providing a customer experience beyond a simple sales space. Store functions are diversifying, with more shops now providing a consumption experience that can only be conducted offline or using offline stores as outposts for online shopping.

CBRE expects the offline store of the future to be used as a showroom where consumers can experience products while gaining a more thorough understanding of a brand's identity. Other uses will be as pop-up spaces for events and exhibitions and places where products purchased online can be picked up offline. They will also serve as studios for live broadcasting and hybrid spaces capable of performing as logistics warehouses for storing and delivering products.

Retailers' store strategies will focus more on maximising the customer experience and raising store efficiency through selecting the appropriate size, composition and design.

Figure 5: The changing role of physical stores

Selling products



- Although offline stores are no longer recognised as the lone sales channel due to digital innovation and the expansion of online consumption, strategies for physical channels are still needed to drive sales.
- To facilitate consumption, retailers will need to expand store staff recruitment, strategically display products, and set up dedicated zones where products can be tried and tested.
- Some retailers are also targeting consumers by allocating space in their stores as studios for live broadcasts.

Customer experience



- Retailers are advised to enhance brand awareness by redesigning stores, especially flagships, to include storytelling elements.
- In addition to offering consumers the opportunity to use products, retailers can enhance the in-store experience by providing food and beverage services, adding interior design elements, and holding events.
- Physical stores can also take on a role as showrooms to host flagship products, venues for art exhibitions and pop-up stores.

Delivery



- An increasing number of retailers are introducing click-and-collect (online order followed by in-store pickup) services to enhance customer convenience.
- With many brick-and-mortar stores now possessing this function, customers have another reason to visit, while the process of product refunds and returns is carried out more efficiently.
- In the case of large stores, delivery can also be made possible for online orders by using the space as a storage warehouse and utilizing real-time inventory information.

Source: CBRE Research, January 2023

Change in offline store strategies









Retailers in Korea are utilising a range of strategies for their brick-and-mortar operations. These include integrating large flagship stores through careful selection and concentration; expanding customer contact points by adding more stores and diversifying the categories of goods they stock; launching pop-up stores to enhance marketing; and strengthening entertainment and experiential elements through collaboration and brand renewal.

Fashion brands have been among those pursuing store expansion and consolidation. These include Nike, which opened its national digital flagship store in Korea at a 800 pyeong unit in Myeong-dong. The store features digital elements, product experience and customisation, online pickup systems and a real-time live broadcasting space.

Other retailers, especially those in the luxury sector, have increased market penetration and extended physical accessibility for customers by featuring a more carefully selected product mix.

In response to changing consumption trends, retailers are utilising pop-up stores before a full promotional campaign begins. Storytelling through collaboration with new industries or renewing brand image using brick-and-mortar stores have also been prominent.

Figure 6: Examples of major store operations

| Focusing on strengths | Expansion of contact points | Operating pop-up stores | Renewal of space and branding |
|---|---|--|--|
| <p>NIKE</p>  <p>To increase store size and sales while reducing the number of stores, retailers are refraining from opening stores of less than 100 pyeong, while closing stores with low efficiency.</p> | <p>CHRISTIAN DIOR</p>  <p>Christian Dior, which used to be exclusively located in luxury streets and department stores, recently modified its store strategy by opening a flagship in newly emerging Seongsu.</p> | <p>MAISON MARGIELA</p>  <p>This retailer showcases its seasonal lineup for a limited time only and is also offering eye-catching desserts to promote its brand's identity.</p> | <p>CASAMIA</p>  <p>Furniture brand Casamia and espresso bar Ouya have collaborated to convert the store into a specialised cafe-type furniture showroom.</p> |
| <p>ZARA</p>  <p>Zara is optimising its operations by renewing leases with high foot traffic and closing small and medium-sized stores in commercial districts where footfall remains sluggish.</p> | <p>GUCCI</p>  <p>Gucci recently opened a new flagship store in Gangbuk targeting the MZ generation, which values culture and experience.</p> | <p>COCA-COLA</p>  <p>The store includes an immersive media display to enhance consumers' experience of newly launched products.</p> | <p>KODAK</p>  <p>Camera company Kodak recently launched a fashion line and is also attracting customers through a collaboration with FilmLog, a film development centre.</p> |

Source: CBRE Research, January 2023

Offline entry of online platforms

The rapid growth of the Korean online retail market has brought about significant structural change such as the embrace of omnichannel by traditional brick-and-mortar retailers along with the opening of offline stores by online platforms seeking to gain a competitive edge.

The offline entry of online retailers has been led by fashion and luxury reselling platforms, with Musinsa among the leading examples. Following the opening of its first Musinsa Standard store in 2021, the company opened a second brick-and-mortar store on Gangnam-daero. Hago L&F also made its debut in the offline market by opening several select shops.

Among luxury retail platforms, Must It opened a showroom-type store in Apgujeong in 2021, while Balaan launched a store in IFC Mall in Yeouido in July last year. Companies in the food industry, mainly those specialising in early morning delivery, are also joining the offline market. These include Market Kurly, which recently opened an experiential store, Off-Kurly, focusing on gastronomy, the humanities, and art.

CBRE expects more online retailers to seek offline opportunities to provide consumers with experiences and increase customer contact points, while continuing building trust and loyalty in their brands.

Figure 7: Offline entry by online platforms by industry



Source: CBRE Research, January 2023

Strategies for resilience

“ E-commerce market growth and the emergence of omnichannel is driving the need for a new approach to offline store strategy ”

Recommendations for landlords

01

Refresh performance evaluation indicators

Formulate lease contract structures according to the business type of the tenant. Indexes that measure store productivity should reflect not only in-store consumption but also omnichannel sales.

02

Strengthen emphasis on entertainment

Improve the shopping experience and increase visit rates and dwell time through providing a wider range of tenants such as gastronomy, beauty, healthcare, and exhibitions.

03

Boost consumer engagement

Provide customised shopping information and subscription services by utilising online and offline systems such as SNS and mobile applications

04

Create a supportive environment for tenants

Boost rental income and asset value by creating an environment that can improve tenants' long-term operational capability, such as internal design reconfiguration and the provision of delivery and parking bases for tenants.

Recommendations for tenants

01

Establish an omnichannel strategy encompassing online and offline elements

Retailers should open offline stores after a test phase using pop-up stores. Offline retailers are recommended to provide a consistent consumption experience across both channels by introducing new technologies such as terminals linked to mobile devices in stores.

02

Focus on space redesign

Retailers are advised to create stores to expand staff recruitment, strategically display products, and provide dedicated areas for consumers to try on products and pick up and return online orders.

03

Credit rating management

Meet the needs of various stakeholders by guaranteeing sustainability to the landlord through tenant credit management.

04

Focus on Demand

In-store play-and-rest facilities should be provided to enhance community-based services

2-2

Impact on Logistics Real Estate

Accelerated expansion of logistics market

Structural changes to society wrought by COVID-19 and the rapid growth of the domestic e-commerce market have led to an increase in logistics demand and supply. As of H1 2022, 36% of Grade A logistics space in Greater Seoul was occupied by e-commerce companies, a three-fold increase from 2019.

E-commerce companies have traditionally displayed a stronger preference for leasing logistics property in western areas relatively close to Seoul. Greater Seoul's 2020 Logistics Tenant Profile found that 65% of logistics properties in western areas were occupied by e-commerce platforms. However, CBRE's most recent survey found that this share had fallen to 48%, as e-commerce firms have expanded to locations outside the western region, including Gwangju and Hwaseong. E-commerce tenants' presence in areas of the southern region, such as Icheon and Yongin, remains relatively low at 20-30%.

In Incheon, more than half of the total space of Grade A logistics centres was occupied by e-commerce companies as of H1 2022, with major tenants including Coupang, Market Kurly, and SSG.com. In Goyang, Osan, and Siheung, which have relatively smaller market sizes, e-commerce firms account for 70%-100% of logistics space. Siheung is home to a single Grade A logistics centre used by Coupang as a fulfillment centre.

Figure 8: Grade A existing and new supply, e-commerce sector's occupied space and proportion

Unit: 100 thousand, sq. m.

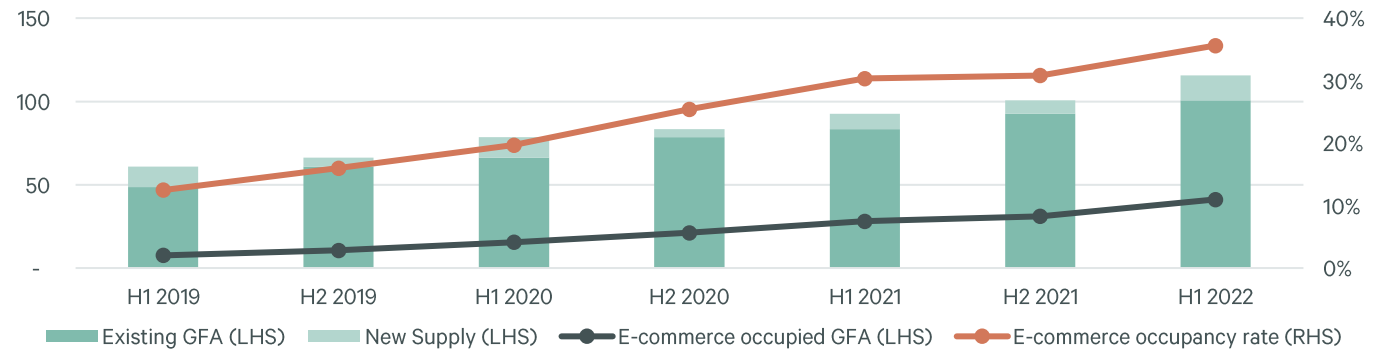


Figure 9: E-commerce sector's occupied space and proportion by city

Unit: 100 thousand, sq. m.



Note: Greater Seoul's western areas include Incheon, Goyang, Gimpo and Bucheon

Source: 2020 Greater Seoul Logistics Tenant Profile, CBRE Research, H1 2022

Logistics investment market driven by institutions and REITs

Investment in logistics assets has increased steadily in recent years as investors are attracted by solid leasing demand and higher yields than those available in the office sector.

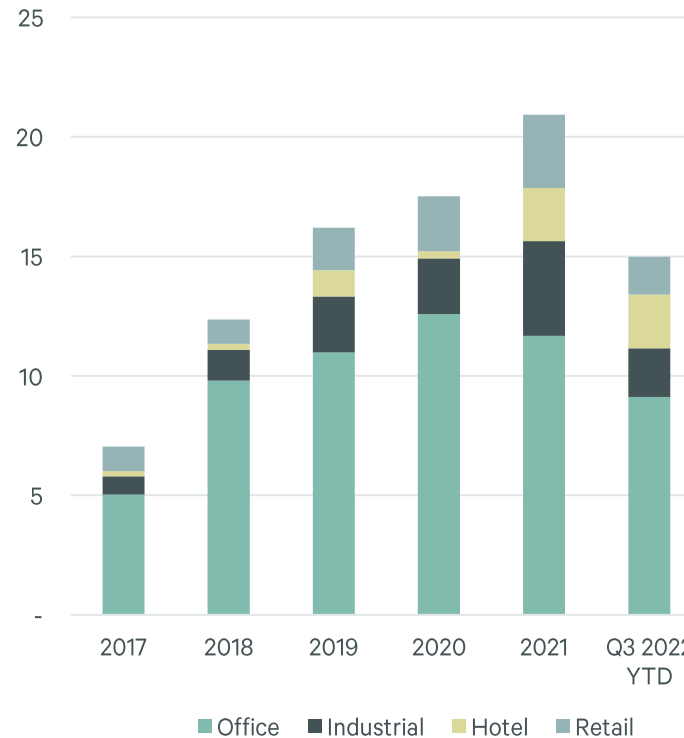
Logistics investment was initially led by institutional investors acquiring development assets, as well as developers seeking development opportunities.

Transactions involving developers have fallen in recent years, while the involvement of REITs and corporations has increased significantly. As public interest in the e-commerce market grows, private investors are entering the market. This has seen 39% of logistics investment volume in Greater Seoul transact through REITs as of Q3 2022, the highest proportion of any investor type. The number of domestic logistics REITs has nearly tripled in the last two years to about 40 as of Q3 2022, well above the increase seen in other sectors. Logistics investment by transportation or manufacturing-based companies has also risen substantially.

As of Q3 2022, annual logistics investment volume had exceeded KRW 2 trillion. Full-year investment volume is expected to decrease compared to last year as interest rate hikes and economic uncertainty have led to the cancellation of several deals.

Figure 10: Seoul commercial real estate investment volume

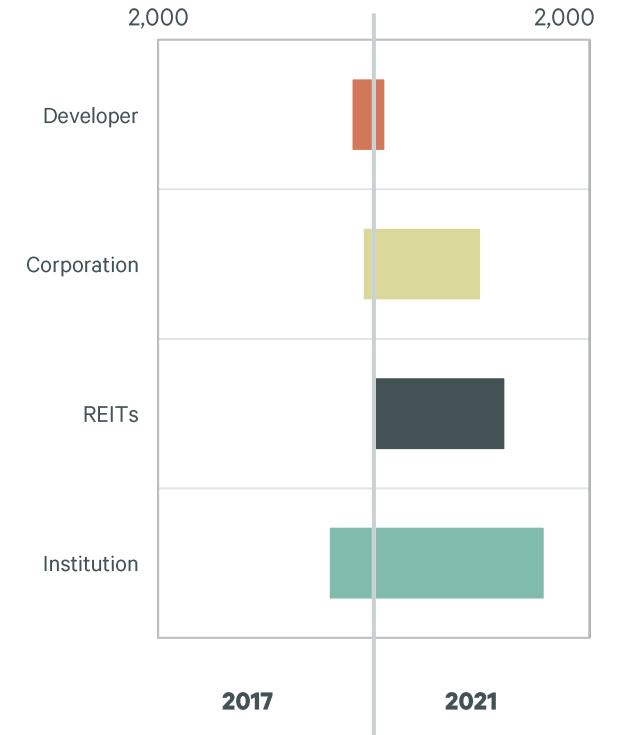
Unit: KRW trillion



Source: CBRE Research, Q3 2022

Figure 11: Logistics transaction volume by buyer types

Unit: KRW billion



Logistics demand forecasted to grow

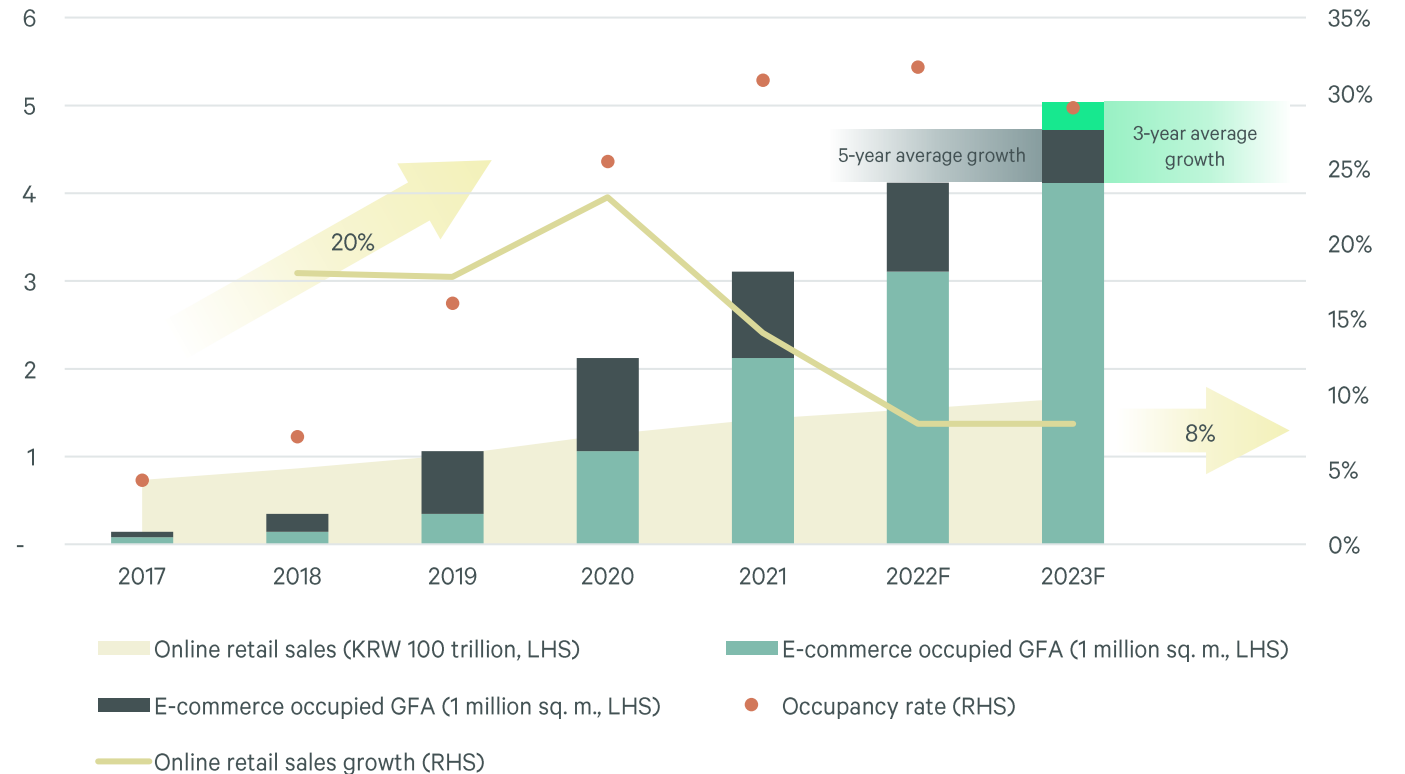
While online retail sales increased by about 20% y-o-y from 2017 to the end of 2020, growth momentum slowed significantly entering 2021 as the pandemic transitioned into the endemic stage. Despite the slowdown in online retail sales growth, e-commerce leasing volume has continued to grow.

Average annual net absorption by e-commerce firms over the past five years (2017-2021) is approximately 600,000 sq. m. Growth has risen substantially in the past three years, with the e-commerce sector expanding by 920,000 sq. m. every year between 2019 and 2021. In 2022, new occupied space by e-commerce firms reached 1 million sq. m. in the first six months of the year.

CBRE expects online retail sales to grow by around 8% y-o-y over the next five years*. Assuming annual logistics demand from e-commerce firms reaches the level of average net absorption over the past three to five years, e-commerce companies are forecasted to absorb between 17 to 25% of new supply in 2023.

The occupancy rate of e-commerce tenants has been increasing steadily, accounting for about 31% of the overall market as of the end of 2021. However, this rate may fluctuate in the coming years due to large-scale new supply due to come on stream in Greater Seoul along with the slowdown of e-commerce growth.

Figure 12: E-commerce firms' logistics demand and forecast based on yearly growth of online retail market



Source: CBRE Research, January 2023

*Appendix (Page 21): CBRE Global E-commerce Outlook 2022 Update (June 2022)

Case study: Coupang

Coupang is Korea's leading e-commerce company and a major source of Grade A logistics demand. The company has aggressively expanded its logistics footprint in recent years, supported by an annual average increase in sales revenue of about 64% since 2017.

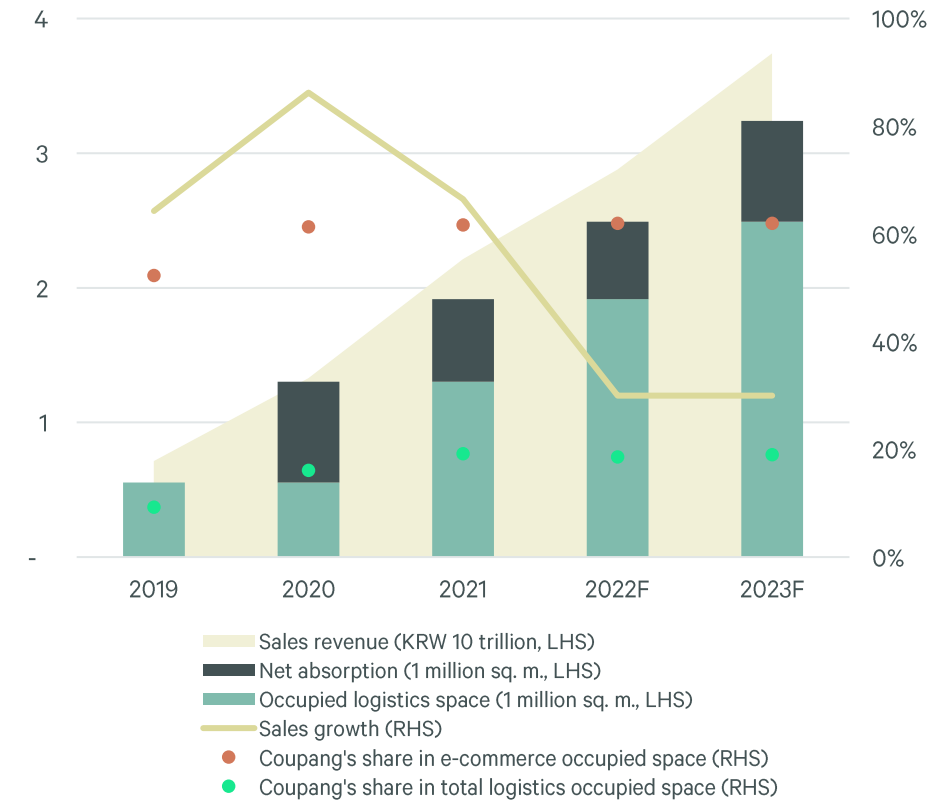
As of 2021, Coupang occupied 1.9 million sq. m of Grade A logistics space in Greater Seoul, accounting for 19% of the overall total. Considering Coupang's large market share and announcement that it had achieved its first ever operating profit, the company is expected to continue to account for more than half of the Grade A logistics space in Greater Seoul leased by e-commerce firms.

With Coupang projecting sales growth of 30% every year by 2026*, the firm's demand for logistics space will be closely correlated. CBRE's study found that over the past three years, for every KRW 10 million Coupang achieved in sales, its leased logistics space increased by 0.87 sq. m.

This suggests that the company will require 1.3 million sq. m of additional logistics space by 2023. Considering Coupang added 0.9 million sq. m. in H1 2022 alone, this is a relatively conservative estimate.

Coupang's expansion will vary by region and is dependent upon the efficiency of new logistics facilities and the company's future business strategy. Due to the growth of the firm's merchandise volume and market penetration, CBRE expects Coupang to display steady demand for new logistics space in the coming years.

Figure 13: Logistics demand forecast based on Coupang's sales growth



Source: CBRE Research, January 2023

*Bailey Gifford, an investor in Coupang, owns about 7% of the company's shares.

Appendix

As previously mentioned, CBRE’s forecast for Korean e-commerce growth is partially based on CBRE’s Global E-commerce Outlook 2022, published in June last year. The report presents online sales and logistics demand forecasts for global and national e-commerce markets by country between 2021 to 2026.

In the case of Korea, online retail sales are expected to increase by KRW 90 trillion from 2021, with the e-commerce market size set to reach KRW 230 trillion by 2026. This would equate to annual growth of 8%, a sharp decline from the five-year historical online growth rate of 18% (2017-2021).

The report also projected that for every KRW 1.3 trillion of e-commerce sales, an additional 93,000 sq. m. of new logistics space is required. Based on this assumption, there will be demand for 4-5.5 million sq. m. of new logistics space by 2026*.

Figure 14:
Estimated logistics space requirements due to the growth of e-commerce between 2021 – 2026F



Increase in e-commerce sales



Additional logistics space needed to support e-commerce growth over five years



Source: CBRE Global E-commerce Outlook 2022 Update

*Note: H1 2022’s net absorption of 101 sq. m . Is excluded.



Logistics real estate strategies

Recommendations for landlords

01

Understand different types of logistics centres

Meet tenants' requirements by carefully selecting the appropriate type of logistics centre, such as TC (Transfer Centre), DC (Distribution Centre) and FC(Fulfillment Centre).

02

Develop customised logistics centres (BTS)

Maximise efficiency by developing built-to-suit logistics centres based on tenants' product and delivery strategy.

03

Form strategic partnerships with tenants

Help real estate funds achieve stable returns on investment in collaboration with tenant companies.

Recommendations for tenants

01

Establish smart logistics centre

Improve efficiency and safety by establishing smart facilities featuring equipment and systems utilising advanced technologies such as artificial intelligence (AI) and robots.

02

Seek new markets and leasing opportunities

Review leasing opportunities to secure space in key locations and enhance delivery efficiency and competitiveness.

03

Form strategic partnerships with landlords

Reduce financial burden and investment risk by leveraging real estate funds in collaboration with asset management companies.

2-3

Impact on Office Real Estate

Growing e-commerce demand centered on GBD

The growth of e-commerce and the expansion of related companies since the onset of the COVID-19 pandemic have driven new demand for offices in major business districts in Seoul.

The frequency of large office relocations by e-commerce companies has risen since the pandemic, supported by robust hiring, which has exceeded that in many other industries. As a result, the proportion of leasing volume by e-commerce-based IT and retail companies in the Seoul Grade A office market increased from 3% in 2019 to 10% in 2021.

With online shopping having been re-organised into an IT developer-focused industry, recent quarters have seen an increase in e-commerce platforms relocating offices to Grade A offices in the GBD. Companies in the sector are seeking high-quality office space in GBD in order to secure space and to attract and retain talent, and typically pay relatively higher rents compared to the market average.

While there are some short-term concerns about the performance of IT-based firms such as venture capital companies, startups, and e-commerce platforms due to the decline in corporate investment and domestic demand as economic growth slows, the fact that the bulk of demand is concentrated in the GBD where supply is limited means the risk of rising vacancy is not expected to be significant.

Figure 15: Examples of retail and online services companies relocating and expanding to Grade A offices



| No. | Company | Industry | Submarket | Building | Relocation Period | Face Rent |
|-----|-----------------|-----------|-----------|-------------------------|-------------------|-----------|
| 1 | E-Mart | Wholesale | CBD | Orange Center | 2023 Q4 | n/a |
| 2 | Bungae-jangter | IT | GBD | Majestar City Tower Two | 2022 2Q | 140,000 |
| 3 | SSG.com | Wholesale | GBD | Centerfield | 2022 2Q | 158,875 |
| 4 | W Concept | Wholesale | GBD | Centerfield | 2022 2Q | 158,875 |
| 5 | Shopee | Wholesale | GBD | Centerfield | 2021 3Q | 155,000 |
| 6 | Danggeun Market | IT | GBD | Kyobo Tower | 2021 2Q | 111,000 |
| 7 | Aibly | Wholesale | GBD | Kyobo Tower | 2021 2Q | 111,000 |
| 8 | Krafton | IT | GBD | Centerfield | 2021 2Q | 155,000 |
| 9 | Zigzag | Wholesale | GBD | Parnas Tower | 2020 3Q | 144,000 |
| 10 | Alibaba | IT | CBD | State Tower Namsan | 2020 1Q | 140,000 |
| 11 | JD.com | Wholesale | GBD | Gangnam Finance Center | 2018 3Q | 120,000 |
| 12 | 11st | Wholesale | CBD | Seoul Square | 2017 3Q | 123,000 |
| 13 | Interpark | Wholesale | GBD | Samsungdong Building | 2014 3Q | 75,000 |

Note: Nominal rent is the monthly rent per pyeong of the base floor of the building at the time of relocation (KRW)

Source: CBRE Research, January 2023

CASE STUDY



Case study: Shinsegae Group’s online affiliate office relocation

“Pivoting digitally is the key!”
 Chung Yong-jin
 Vice Chairman of Shinsegae Group

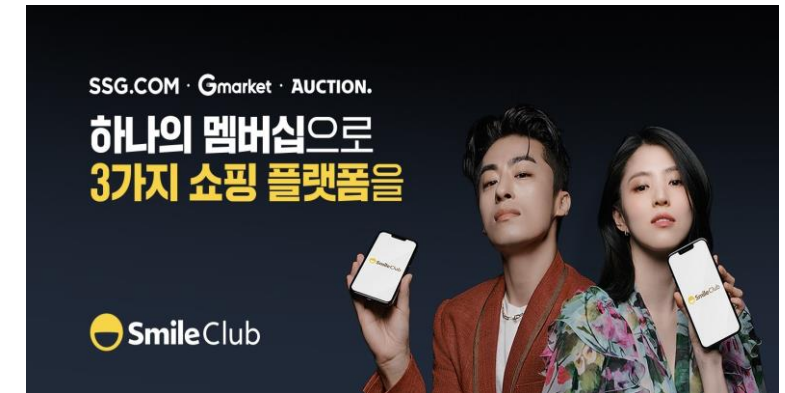
| Relocation of major online affiliates | |
|---------------------------------------|---|
| Location | GBD Yeoksam-dong |
| Building | Centerfield, Gangnam Finance Center |
| Resident company | SSG.com, W Concept, E-Mart digital business division, eBay Korea (Gmarket, Auction) |
| Reason for relocation | Strengthen synergies among online subsidiaries and enhance corporate value |

Gangnam identified as optimal location

Since launching as an independent corporation in 2019, SSG.com has used Centropolis, a prime asset located in the CBD, as its headquarters building. However, the company’s online subsidiaries, including Gmarket, recently moved to Centerfield, a prime building in the GBD, where skilled IT development personnel are located and many leading IT companies are concentrated. The objective behind this move is to strengthen synergy through organic collaboration between affiliate companies online and offline to grow its e-commerce business.

Improving productivity by creating an employee-friendly work environment

SSG.com’s new building features a ‘smart office’ that provides a working environment capable of accommodating a variety of working styles and personal preferences. In addition to introducing an autonomous seating system, the office features several small and medium-sized conference rooms for video conferencing to enhance collaboration. Other dedicated communication spaces and amenities are included to improve work efficiency and satisfaction.



Already possessing strong offline sales channels, Shinsegae Group is now focusing on creating an online and offline ecosystem among its subsidiaries through initiatives, such as a comprehensive membership scheme that integrates the core benefits of affiliate platforms.

Omnichannel retailers accelerate search for offices

As office vacancy in Seoul’s major business areas is limited, major retail and e-commerce companies continue to relocate and expand through various means other than leasing, such as by directly developing or purchasing office buildings. Companies have also been leasing space in emerging business areas.

Recent years have seen fashion and gaming companies purchasing land and directly developing office buildings, with the likes of Must It, Krafton, Musinsa, and Gentle Monster pursuing the development of office buildings in retail districts such as Sinsa and Seongsu.

Although most firms prefer to locate themselves in the GBD, several companies have secured space in the nearby area of Teheran-ro and in districts such as Sinsa and Nonhyeon. Seongsu, which provides access to the Gangnam area, has also seen several relocations.

Amid the rapid growth of e-commerce and online service companies since the pandemic, restructuring and expansion have been the major drivers of headquarter relocations.

As e-commerce and online retail companies continue to grow, office demand will increase further in the years ahead. CBRE also expects to see a focus on improving space efficiency in future office buildings.

Figure 16: Examples of retail company relocation and development

| Company | Industry | Sub-market | Building | GFA (m ²) | Relocation/Expansion Period | Relocation Method | Remarks |
|--------------------------|----------------------|------------|---------------------------------------|-----------------------|--|-------------------------|---|
| Hyundai Department Store | Wholesale | Samseong | Hyundai Department Store Headquarters | 28,715 | Relocated in April 2020 | Direct development | Acquired land to construct new building |
| Smilegate | IT | Yeoksam | Orange Planet | 18,167 | Relocated in June 2021 | Acquisition of building | Acquired building and relocated affiliate companies |
| Must It | Wholesale | Sinsa | Must It Building | 2,032 | Relocated in October 2021 | Direct development | Acquired and expanded building for relocation |
| CreaS F&C | Manufacturing | Nonhyeon | Hyungji Building | 1,951 * | Acquired in April 2022 | Direct development | Acquired building to expand online shopping business |
| Krafton | IT | Seongsu | n/a | 19,000 * | Begin construction in H2 2023 | Direct development | Planning to relocate headquarters building through acquisition and reconstruction |
| Musinsa | Wholesale | Seongsu | n/a | 1,343 * | Construction to be completed in March 2024 | Direct development | Acquired land to construct a new building |
| Gentle Monster | Professional Service | Seongsu | n/a | 18,000 * | Construction to be completed in April 2024 | Direct development | Acquired land to construct a new building |
| Tmon | Wholesale | Sinsa | Ariji Building | n/a | Relocated in July 2022 | Lease | Relocated headquarters building |
| Musinsa | Wholesale | Seongsu | Musinsa Campus N1 | n/a | Relocated in September 2022 | Lease | Relocated headquarters prior to the completion of new office building being constructed |

- Note: Refers to land area as currently at the site purchase stage
- Source: CBRE Research, January 2023

Formulate office strategies through opportunity analysis

“ Strategies must increase asset value despite macroeconomic concerns ”

Recommendations for landlords

01

Adopt a pre-emptive market response

Minimise the impact of interest rate hikes through low-interest refinancing and adopt a prudent approach to the timing of investments in the face of rising exchange rates and prices.

02

Seek new growth opportunities

Review the acquisition of new assets with growth potential while seeking to maximise rental income and increase asset value through the remodeling and expansion of existing assets.

03

Re-formulate tenant strategies

Secure reliable tenants by strategically mixing tenant industries less impacted by economic disruption and introducing flexible leasing strategies.

Recommendations for tenants

01

Make efficient use of assets

Improve space utilisation and efficiency by restructuring existing space in accordance with changing business needs.

02

Relocate to more competitive assets

Review relocation opportunities before leases expire and assess the viability of relocation to other areas when renewing lease agreements.

03

Consider new space

With Grade A office space in Seoul's major business districts very limited, consider directly developing an office building or relocating to a new district.

Contacts

Korea Research

Claire Choi

Head of Research, Korea
claire.choi@cbre.com

Hyunah Choi

Senior Manager
hyunah.choi@cbre.com

Sophie Park

Assistant Manager
sophie.park1@cbre.com

Asia Pacific Research

Dr. Henry Chin

Global Head of Investors Thought Leadership
Head of Research, Asia Pacific
henry.chin@cbre.com.hk

Ada Choi, CFA

Head of Occupier Research,
Head of Data Intelligence and Management, Asia Pacific
ada.choi@cbre.com.hk

Liz Hung

Director, Asia Pacific
liz.hung@cbre.com.hk

Capital Markets

Sean Choi

Head of Capital Markets, Korea
sean.choi@cbre.com

Advisory & Transaction

Andy Park

Head of Advisory & Transactions, Korea
andy.park@cbrekorea.com