

Seoul, Q3 2019

Investment market remains robust amid steady occupier demand

▲ Q2 2019 GDP
2.0% y-o-y

▼ CPI INFLATION
-0.1% q-o-q Q3.

▼ BSI
71 Sep.

▼ 3M KORIBOR
1.51% Sep.

▼ Q2 2019 FDI
-8.8% y-o-y

Quick Stats

Office	Q3 2019	q-o-q	y-o-y
Grade A Rent	21,681	↑	↑
Capital Value	6,822,730	→	↑
Effective Yield	4.71%	→	→

Retail	Q2 2019	q-o-q	y-o-y
CBD Rent	294,600	↓	↑
GBD Rent	125,400	↑	↓
Gross Yield	4.5%-5.5%	→	→

Investment	Q3 2019	q-o-q	y-o-y
Total Volume	3,664	↓	↑

Source: CBRE Research, Q3 2019

- *Grade A rent: Effective rent
- *All capital values and yields stated as prime
- *All rents: in KRW per sq. m.
- *Investment volume: in Korean Won (Bn)
- *Retail Rent (latest available – Q2 2019)

Hot Topics

- No additional Grade A office supply will be completed in Seoul in the second half of the year, but major new stock due in 2020 is likely to significantly impact the market.
- Several retailers are adopting omnichannel strategies and O2O business models to diversify sales channels and attract new customers.
- Year-to-date transaction volume stood at KRW 11 trillion as of the end of Q3 2019. CBRE expects full-year transaction volume to exceed last year's record-high of KRW 13 trillion.

OFFICE

Average effective rents in Seoul's three major districts were relatively stable at KRW 21,681 per sq. m.. Leasing demand was dominated by domestic firms across a range of industries.

RETAIL

Several hypermarts have opted to inject assets into REITs, with Lotte Shopping creating Lotte REIT which includes four Lotte Department Stores, four Lotte Marts and two Lotte Outlets.

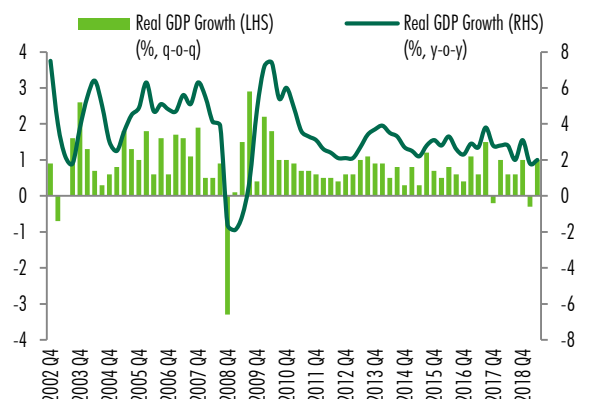
INDUSTRIAL

The completion of large new modern logistics facilities with advanced amenities is encouraging big-name tenants to consolidate multiple centres into a single location.

INVESTMENT

The Korean commercial property investment market remained upbeat in Q3 2019, with transaction volume totalling KRW 3.6 trillion, supported by several major office deals.

Chart 1: Real GDP Growth



Source: CBRE Research, Q3 2019

Grade A office vacancy in Seoul’s three major business districts fell by 1.5%pt to 8.9% in Q3 2019, marking the first single digit reading since 2014. Vacancy declined across all three major districts during the quarter amid the continued steady absorption of office space.

Leasing demand was dominated by domestic firms in industries including finance, manufacturing and services. Coworking also remained a major demand driver, with several operators leasing space in Grade B buildings in the GBD due to the lack of Grade A availability.

Activity in the CBD included BC Card’s relocation to a 33,000 sq. m. unit in Eulji Twin Tower, which was completed in Q2 2019, and another domestic company’s move to City Square, also completed last quarter. Also in the CBD, Signature Tower secured several new tenants, while Booyoung Eulji Building and Namsan Central Tower were acquired by new owners who intend to utilise the buildings for self-use (headquarters).

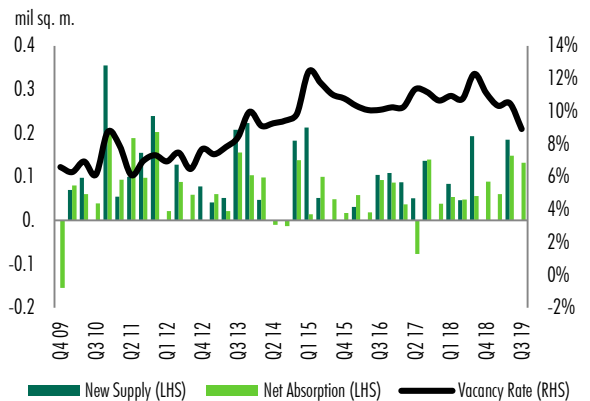
Vacancy in the GBD remained the lowest among the three major business districts. Leasing activity this quarter included a Hyundai Motors subsidiary and another local service firm moving into Luceen Tower.

Although vacancy in prime office buildings in the YBD continues to be absorbed by small to medium sized foreign companies and local financial firms, this situation could change following the recent departure of major tenants from the district and the forthcoming completion of new buildings including Parc 1.

Average effective rents in Seoul’s three major business districts were relatively stable at KRW 21,681 per sq. m. in Q3 2019. Incentives varied in the CBD and YBD but low vacancy in the GBD saw fewer incentives offered.

No additional Grade A office supply will be completed in Seoul in the second half of the year, but major new stock due in 2020 is likely to significantly impact the market.

Chart 2: Office Supply-Demand Dynamics



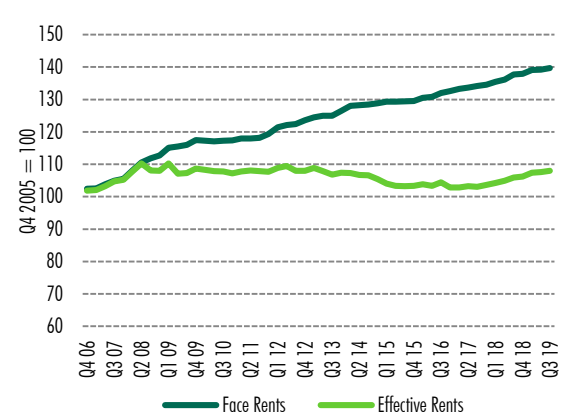
Source: CBRE Research, Q3 2019

Table 1: Office Vacancy Rates

	Q3 2019 (%)	q-o-q (%pt)	y-o-y (%pt)
Seoul	8.9%	-1.5%	-3.3%
CBD	12.6%	-1.9%	-0.7%
GBD	2.5%	-1.3%	-5.7%
YBD	10.9%	-0.9%	-5.7%

Source: CBRE Research, Q3 2019

Chart 3: Office Rental Index



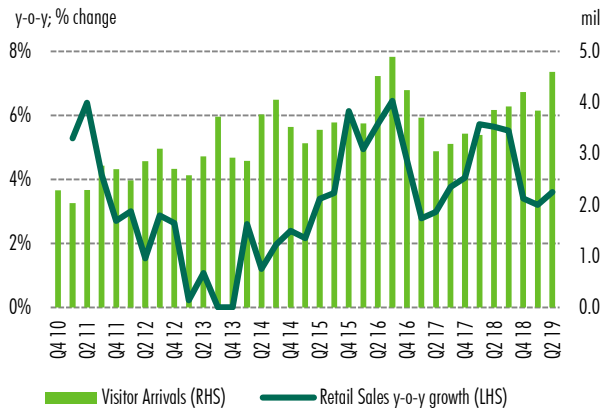
Source: CBRE Research, Q3 2019

Table 2: Seoul Office Effective Rents

Q3 2019	Rent (KRW m ² / mth)	q-o-q (%)	y-o-y (%)
Seoul	21,681	0.5%	2.0%
CBD	23,680	0.0%	1.1%
GBD	23,269	1.3%	3.4%
YBD	17,915	0.1%	1.5%

Source: CBRE Research, Q3 2019

Chart 4: Retail Sales Volume Growth Rate vs. Tourist Arrivals



Source: CBRE Research, Q3 2019

Table 3: Major Retail Development Pipeline

Year	Development	Location	Size m ²
2019	IKEA Giheung	Yongin	91,000
2020	Galleria Department Store	Gwanggyo	150,000
2020	Starfield Anseong	Anseong	234,600
2020	Parcl (Hyundai Dep.)	Yeouido	181,500

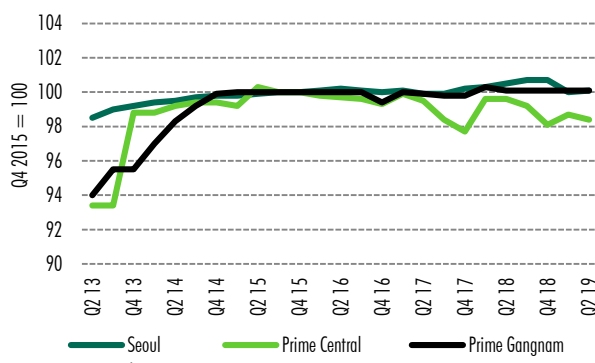
Source: CBRE Research, Q3 2019

Table 4: Seoul Retail Rents

Q2 2019	Rent (KRW m ² /mth)	q-o-q	y-o-y
Prime Central	294,600	↓	↑
Prime Gangnam	125,400	↑	↓

Source: Korea Appraisal Board, CBRE Research, Q3 2019
*Retail Rent (latest available – Q2 2019)

Chart 5: Retail Rental Index



Source: Korea Appraisal Board, CBRE Research, Q3 2019

Retail sales volume stood at KRW 93.1 trillion in Q2 2019, representing growth of 3.6% y-o-y (3.2% q-o-q). As in Q1 2019, growth was driven by duty-free sales and non-store retailing. September's CPI index shrank by -0.4% y-o-y, the first negative growth ever recorded.

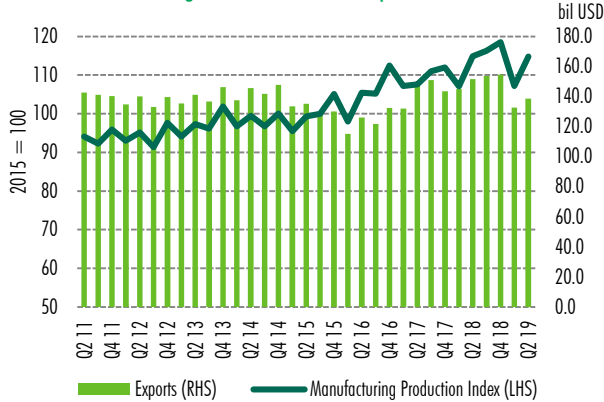
The sluggish domestic economy has prompted many large retail groups to embark upon a shift in strategy. Several hypermarkets have opted to inject assets into REITs, with Lotte Shopping recently creating Lotte REIT which includes four Lotte Department Stores, four Lotte Marts and two Lotte Outlets. Homeplus is also in the process of forming Homeplus REIT, containing 51 stores nationwide. Elsewhere, E-mart is selling ten of its self-owned assets as part of a sale-and-leaseback strategy.

Several retailers are adopting omnichannel strategies and O2O business models to diversify sales channels and attract new customers. Hyundai Department Store recently enhanced its online channels by establishing a presence on e-commerce platform Coupang after a disappointing response to its own online store. At the same time, some online fashion retailers are opening offline stores. These include Musinsa, which has opened Musinsa Terrace in Mapo; and Andar, which is planning to launch its first flagship store in Samcheong-dong.

The Korean luxury sector continues to perform well, reaching KRW 13.8 trillion last year (5-year CAGR 6.5%), making it the eighth largest luxury market worldwide. Recent quarters have seen several luxury brands end their partnerships with local vendors in favour of direct entry. Recent examples of this trend include Mulberry, Givenchy, Dolce & Gabbana and Rimowa. Department stores are renovating luxury brands' shops, focused towards rapidly growing men's luxury.

New retail supply completed in Q3 2019 included Lotte Mall Suji (146,000 sq. m. GFA), Starfield City Bucheon (100,000 sq. m. GFA), and Enter 6 Anyang (89,100 sq. m. GFA).

Chart 6: Manufacturing Production Index vs. Exports



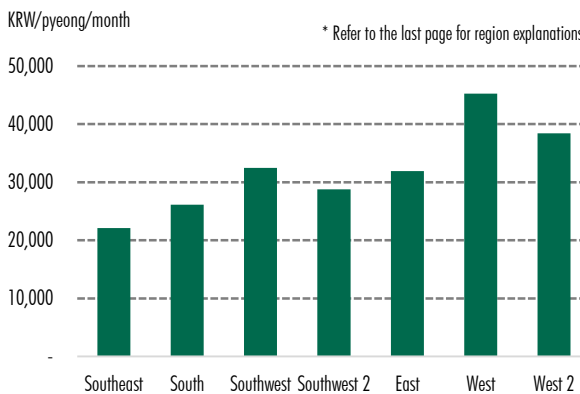
Source: CBRE Research, Q3 2019

Table 5: Future Logistics Development

City	Name	GFA (m ²)	Expected Completion
Pyeongtaek	Jinwee Logistics Center	149,600	H2 2019
Namyangju	MQ Logistics Center	50,300	H2 2019
Gimpo	Kendall Square Gimpo	137,000	H1 2020

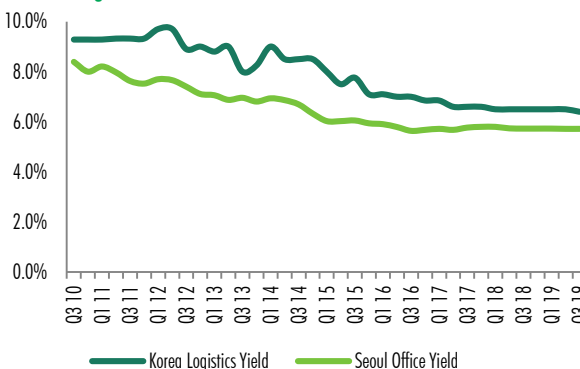
Source: CBRE Research, Q3 2019

Chart 7: Greater Seoul Logistics Rents (H1 2019)



Source: CBRE Research, Q3 2019

Chart 8: Logistics vs. Office Yield



Source: CBRE Research, Q3 2019

Two new Grade A logistics properties were completed in the Greater Seoul area this quarter. These were Kendall Square Bucheon Cold-chain Logistics Center (58,072 sq. m. GFA) in Bucheon and K-Logis Sangdo Logistics Center (43,531 sq. m. GFA) in Gimpo.

Recent quarters have seen an increase in consolidation demand, most notably from major e-commerce platforms such as Coupang, as the completion of large new modern facilities with advanced amenities encourages big-name tenants to consolidate multiple logistics centres into a single location. The trend of constructing very large new logistics centres is therefore expected to continue as developers seek to match leasing demand.

The increase in new supply has prompted more landlords to provide incentives such as rent-free periods, a relatively new trend in the logistics market. Several properties owned and operated by asset-management companies have been observed offering rent-free periods to secure anchor tenants.

Newly completed logistics properties are taking longer to secure tenants. Whereas three to six months was considered sufficient to stabilise a new property, several recently completed assets have taken in excess of six months to fill. However, this has been due to the very large size of new properties and not because of weaker demand.

Industrial and logistics transaction volume totaled KRW 287.2 billion in Q3 2019, with four major assets changing hands. Highlights included ADF AMC acquiring JWL Dochuk Logistics Center in Gwangju for KRW 100.7 billion and Nuveen Real Estate purchasing Core Logis Namyangju for KRW 42.5 billion.

Average gross yield for prime logistics assets fell slightly to 6.4% this quarter. The NOI cap for prime assets usually stands at around 6% but can be lower in some cases for assets in good locations and during periods of solid leasing demand.

The Korean commercial property investment market remained robust in Q3 2019, with transaction volume totalling KRW 3.6 trillion. Office deals accounted for KRW 2.3 trillion worth of deals as several major CBD assets including Booyoung Eulji Tower, Namsan Central Tower and City Square changed hands. A few hotel transactions were also completed during the quarter.

Major assets transacted in Q3 2019 included Booyoung Eulji Building (55,300 sq. m. GFA) which was acquired by local IT firm Douzone for KRW 456 billion. Douzone plans to consolidate multiple offices into the building and use it as its headquarters.

Elsewhere, Pebblestone AMC completed its sale of Namsan Central Tower (33,000 sq. m. GFA) to Woori Bank for around KRW 219.8 billion. Woori will also use the building as its new headquarters. Pebblestone originally bought the asset in 2016 for KRW 171.1 billion with AEW as the main source of capital.

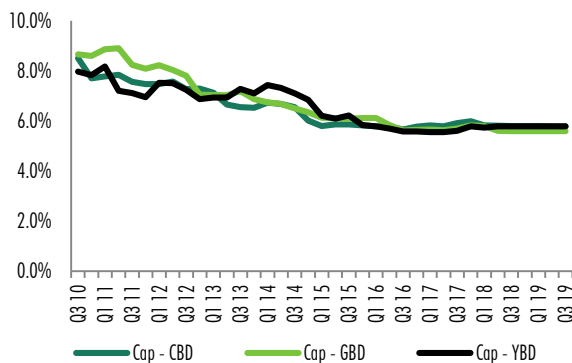
Other major deals included City Square (38,000 sq. m. GFA), which is a new Grade A office asset supplied last quarter. Hangang AMC bought the property for KRW 293 billion and plans to lease out the building to tenants.

Also this quarter, IGIS AMC acquired SK Myeongdong Building, a mixed-use office/hotel property. The buyer reportedly plans to use a value-add strategy on its new acquisition and enhance a retail component maximizing its locational advantage.

Other major transactions in Q3 2019 included Hangang Hotel in Gwangjin-gu, which was purchased by MDM for KRW 182.5 billion. MDM plans to rebuild the property, which is located in an attractive location near the Han River, into a high-end condominium building.

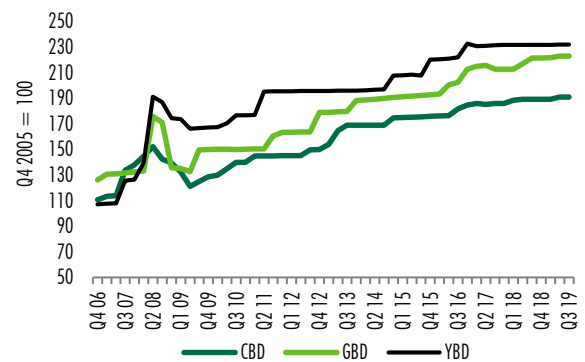
Year-to-date transaction volume stood at KRW 11 trillion as of the end of Q3 2019. CBRE expects full-year transaction volume to exceed last year's record-high of KRW 13 trillion. Yield has been relatively stable over the course of 2019.

Chart 9: Yield Trends



Source: CBRE Research, Q3 2019

Chart 10: Capital Value Index



Source: CBRE Research, Q3 2019

Table 6: Major Transactions, Q3 2019

Sector	Property	Price (KRW bn)	Buyer
Office	KEB Hana Bank HQ	901	Booyoung
Office	Booyoung Eulji Building	456	Douzone
Office	City Square (Seosomun #5)	293	Hangang AMC
Logistics	JWL Dochuk Logistics Center	101	ADF AMC

Source: CBRE Research, Q3 2019

DEFINITIONS

- **Grade A Rents**
Average value derived from a basket of Grade A properties located in the major business districts (CBD, GBD, YBD).
- **Net Absorption**
The change in occupied stock (in m2) over the recorded period for all existing properties.
- **Vacancy Rate**
Vacant space as a percentage of the base inventory or building m2.
- **Gross Floor Area**
Gross Area is the sum of the common area and net area. Common Area is the space for common use of tenants. Lobby, elevators, elevator hall, and restrooms are all included in the common area (most buildings include parking space as common area, and provide tenants with free parking according to the amount of office space that tenants occupy).
- **Net Floor Area**
Net Floor Area shall exclude all common areas such as common corridors, stairs, lift lobbies, toilets and plant room. It shall be measured from the centre of the enclosing external and /or party walls.

MAJOR BUSINESS DISTRICTS IN SEOUL

- **CBD (Central Business District)**
CBD is the oldest and the largest business district developed in the 1960's, followed by GBD, and YBD. The CBD is still the most preferred location for MNCs and Chaebols because of tradition and well-established supporting facilities. Foreign banks, securities houses, embassies, and consulting companies dominate the CBD.
- **GBD (Gangnam Business District)**
The Central Government designated GBD, formerly an agricultural area, as the second business district of Seoul. In the middle 1990's, GBD was gaining popularity centering around Gangnam Rd and Teheran Rd as the IT valley of Seoul and the "Teheran Valley." After IMF, GBD showed rapid rent hike and followed the rent level up with CBD's.
- **YBD (Yeouido Business District)**
In the late 1970's through early 1980's, YBD was encouraged to be developed as the 'Manhattan of Seoul.' YBD remains as the center of securities trading and broadcasting activities. Local securities, media, and IT companies dominate the district due to its close proximity to Korea Stock Exchange, broadcasting stations, and Yongsan Electronic Market

MAJOR LOGISTICS REGIONS

- **East** : Gwangju, Namyangju
- **Southeast** : Anseong, Yeosu
- **South** : Icheon, Yongin
- **Southwest** : Ansan, Gunpo, Hwaseong
- **Southwest 2** : Osan, Pyeongtaek
- **West** : Gimpo, Bucheon
- **West 2** : Goyang, Incheon

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