



Judy Jang

Associate Director | Research | Korea

+822 6325 1918

judy.jang@colliers.com

SEOUL OFFICE MARKET

Flexible workspace operators' expansion generated ample demand, but vacancy rates will likely rise due to new supply in 2020.

Summary & Recommendations

Flexible workspace represented 2% of total occupied office space in Seoul at the end of 2018.

Demand for flexible workspace is increasing, and we believe this factor will drive net absorption over the next five years.

Landlords should choose flexible workspace operators and plan their strategies to reduce vacancy.

In this tenants' market, we recommend occupiers take advantage of rent free periods and reimbursements for fit-out costs when negotiating new leases.

A lack of office investment opportunities may lead investors to focus on retail and industrial properties. In addition, a number of domestic institutional investors will probably continue to seek to invest overseas as they pursue higher returns.

		Q1 2019	Full Year 2019	2018-23 Annual Average
Demand	> In 2019, we do not expect a demand recovery in the traditional industries like manufacturing due to a slower economy. Meanwhile, demand from flexible workspace operators will probably increase.	81,100 sq m	286,900 sq m	208,000 sq m
		Supply	0 sq m	203,200 sq m
Rent	> We expect rental growth over the next few years to be marginal, increasing about 1% per annum on average, as most office buildings will likely adjust their rates in line with inflation.	QOQ / End Q1 0.6%	YOY / End 2019 1.4%	Annual Average Growth 2018-23 / End 2023 1.0%
		KRW 28,904	KRW 29,300	KRW 30,272
Vacancy	> The overall Grade A vacancy rate will probably continue to increase due to new supply. We expect the vacancy to rise and peak in 2020 due to heavy new supply in the YBD, before falling by the end of 2023.	-0.5pp	0.4pp	0.3pp
		9.0%	9.9%	11.0%
Total Investment Sales	> Although we expect lower transaction volume in 2019, due to the limited number of sales listings, positive sentiment will probably persist among investors due to abundant liquidity.	-3%	-35%	-
		KRW 2.3tn	KRW 6tn	KRW 7tn

Source: Colliers International

Note: This table shows aggregate figures for the Seoul CBD, GBD (Gangnam Business District) and YBD (Yeouido Business District).

USD1 to KRW 1,135 at the end of Q1 2019. 1 sq m = 10.76 sq ft

LEASING MARKET

CBD sees rapid expansion of flexible workspace

The demand for flexible workspaces continues to increase. For example, Justco leased additional space in Seoul Finance Center, which is located in the heart of the CBD. In addition, Spark Plus plans to open its sixth location in Center Place Tower in the CBD area. We expect competition between flexible workspace operators to intensify.

In Q1 2019, the Concordian Building became available after Kumho Asiana Group left the building. The Summit Tower, which is directly connected to the Euljiro 4-Ga Station and located in a non-core area of the CBD, probably will be completed in Q2 2019. Upon completion, Daewoo E&C leased 60% of the total area, with the balance being used by BC Card. Meanwhile, the entire Daewoo E&C building probably will be used by Law firm Kim & Chang after Daewoo E&C's relocates.

Despite flexible workspace operators leasing significant space within the CBD, vacancy rates will likely rise with the addition of new supply and newly vacant space coming on the market.

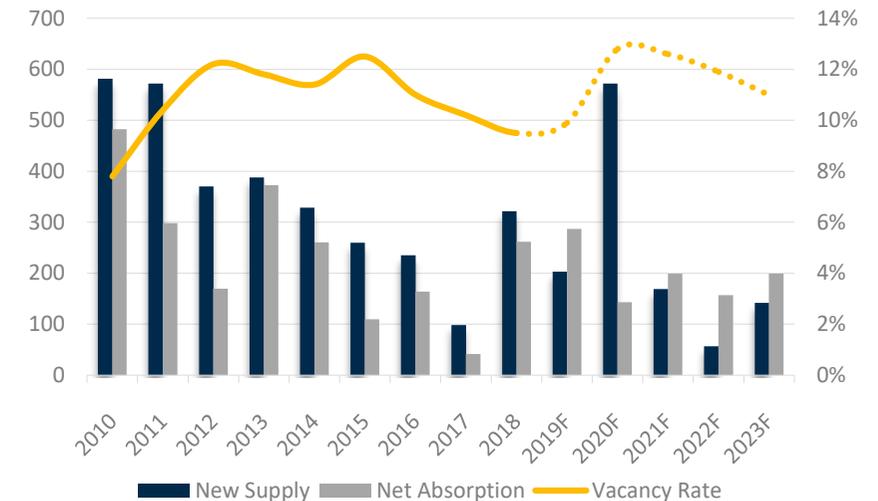
GBD: strong tenant preference and limited supply

The GBD vacancy rate saw a drop as a number of major contracts for prime office space were signed. Wemape, a social commerce platform, is planning to move to Luceen Tower from their headquarters near Samsung Station. In addition, Mirae Asset Life Insurance decided to occupy the vacant space of GT Tower to consolidate its dispersed departments. The GBD will probably be the most active leasing market of all the three major districts, with limited future supply and the IT industry's strongly preference for this area.

YBD: stable vacancy for the time being

Kiwoom Securities leased 950 sq metres (10,204 sq feet) in the YBD's SK Securities Tower. The vacancy rate in the YBD was stable, as the large vacant space in IFC and the FKI have been leased and new supply is slower in 2019. Vacancy in the YBD will probably stable until the next anticipated supply hike in 2020.

Overall Grade A, supply & demand forecast ('000 sq metres)



Source: Colliers International

Average rents and vacancy rates by submarket

	Q1 2019 Average rents (KRW psm pm)	QOQ change (%)	Q1 2019 Vacancy rate (%)	QOQ change (pp)
CBD	32,274	0.7	13	0.7
GBD	27,780	0.7	4.0	-2.0
YBD	23,561	0.3	8.8	-0.7
Overall	28,904	0.6	9.0	-0.5

Source: Colliers International

INVESTMENT MARKET

Summary

Based on Colliers' figures, in the first quarter of 2019, a total of eight office properties were transacted with an estimated combined value of KRW2.3 trillion (USD2.1 billion). The office investment market continued its strong momentum. Competition is strong among domestic and overseas investors, due to the high demand for core assets. However, there is still a lack of core buildings which guarantee secure tenancy by preleasing or tenants taking a master lease.

Major transaction highlights

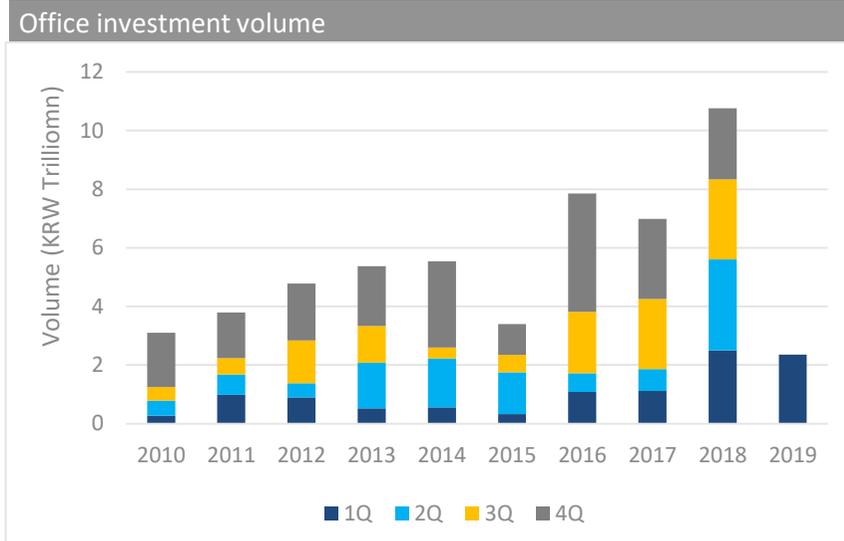
A consortium of NH Investment Securities and ARA Asset Management acquired the Seoul Square building for about KRW970 billion (USD858 million) from KR1 CR REIT, a locally-listed trust whose largest shareholder is a division of Singapore's Keppel Capital.

NH Investment Securities and Ryukyung PSG Management acquired the Samsung SDS Tower West Campus, currently being leased by Samsung SDS, for about KRW628 billion (USD555 million).

Mastern Asset Management sold WeWork Tower (PCA life Tower) to JS Asset Management for about KRW150 billion (USD132 million).

Investment forecast

Some prime buildings including Jongro Tower and Namsan State Tower are currently being put on the market. However, transaction volume will probably decrease in 2019 compared to 2018, which saw the highest transaction volume in Korean capital markets history. Although we expect lower transaction volume in 2019, due to the limited number of sales listings in core locations, positive sentiment will probably persist among investors due to abundant liquidity in the market as investors continue to look for core buildings which guarantee secure tenancy by preleasing or master leasing. Thus, competition between domestic and foreign investors probably will continue.



Source: Colliers International

Major transaction details

Property	Submarket	Area (sqm)	Price (KRW Bill)	Price (USD Mill)	Buyer
Seoul Square Building	CBD	132,806	988	870	ARA AMC
Samsung SDS Tower West Campus	Other	99,660	628	555	Ryukyung PSG
WeWork Tower	GBD	19,643	150	132	JS AMC

Source: Colliers International

Primary Authors:

Judy Jang

Associate Director | Research | Korea
+82 2 6325 1918
judy.jang@colliers.com

For further information, please contact:

Kichoon Jung

Managing Director | Korea
+82 2 6325 1901
kichoon.jung@colliers.com

Andrew Haskins

Executive Director | Research | Asia
+852 2822 0511
andrew.haskins@colliers.com

Jaehyon Pyon

Senior Director | Valuation & Advisory | Korea
+82 2 6325 1903
jaehyon.pyon@colliers.com

Joon Lee

Senior Director | CMIS | Korea
+82 2 6325 1907
joon.lee@colliers.com

Jay Cho

Senior Director | Office Services | Korea
+82 2 6325 1905
jay.cho@colliers.com

Moohwan Shin

Associate Director | Project Management | Korea
+82 2 6325 1909
moohwan.shin@colliers.com

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