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OFFICE RENT STABLE

IT demand and headquarters relocation helped keep the market stable despite the sluggish economy

Summary & Recommendations

We expect that the vacancy rate probably will increase by 2.5 pps YOY in 2020 due to large-scale new supply in the YBD*. After peaking in 2020, new supply should decline in 2021, providing an opportunity for tenants to secure the benefit of long-term lease contracts of five years or more before market conditions change.

Tenants should use increased new supply in 2020 to relocate their offices. Tenants should be able to get rent free benefits in 2020, the year in which new supply is concentrated.

Amid investors' active appetite for office acquisitions, the number of transactions in the YBD area probably will increase due to the concern about the huge office supply in YBD in 2020.

If ongoing deals close successfully in this year, the total transaction volume for 2019 probably will be similar YOY.

		Q3 2019	Full Year 2019	2018-23 Annual Average
Demand	<ul style="list-style-type: none"> > Demand for Seoul's offices continued due to fintech firms, and technology driven internet bank service providers. > However, through 2020 the manufacturing industry's demand will probably not be strong, amid sluggish economy. 	166,210 sq m	275,630 sq m	211,000 sq m
	Supply	0 sq m	184,880 sq m	248,000 sq m
Rent	<ul style="list-style-type: none"> > We expect rental growth over the next few years to be marginal, at about 1% per annum on average. Tenant incentives such as rent-free periods and fit-out periods probably will be sustained. 	QOQ / End Q3 0.1%	YOY / End 2019 1.0%	Annual Average Growth 2018-23 / End 2023 1.0%
		KRW 29,071	KRW 29,040	KRW 29,000
Vacancy	<ul style="list-style-type: none"> > We forecast vacancy rates to decrease with no new prime offices scheduled in Q4 2019. However, We expect the vacancy to rise again in 2020 due to heavy new supply in the YBD, before falling by the end of 2023. 	-2.1pp 6.7%	-1.4pp 8.1%	0.1pp 9.6%
	Total Investment Sales	-37% KRW2.0tn	3% KRW11tn	N/A KRW7.0tn

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 1,157 at the end of Q3 2019. 1 sq m = 10.76 sq ft. pp/ pps = percentage point(s).

LEASING MARKET



CBD: decreased vacancy due to major headquarters' relocation

The Central Business District (CBD) submarket vacancy rate decreased to 10.1%, down 3.2 pps QOQ, due to the shrinkage of huge vacant spaces in City Square (formerly Seosomun 5 District) and Concordian (formerly Kumho Asiana Main Building). City Square, which was completed in Q2 2019, probably will be fully occupied by the Seoul Metropolitan Government. In addition, Hyundai Engineering & Construction leased six floors in Concordian Building. Meanwhile, Kakao Bank and Google Korea expanded their service centers in KDB Life Building. STX corporation, previously located in LG Seoul Station building, relocated to Signiture Tower. Although the CBD vacancy rate was decreased on the back of those companies' moves, the CBD vacancy rate probably will increase due to several projects, such as Gate Tower (84,820 sq metres or 913,030 sq feet) and SG Tower (125,370 sq metres or 1,349,440 sq feet), scheduled to be delivered in 2020.

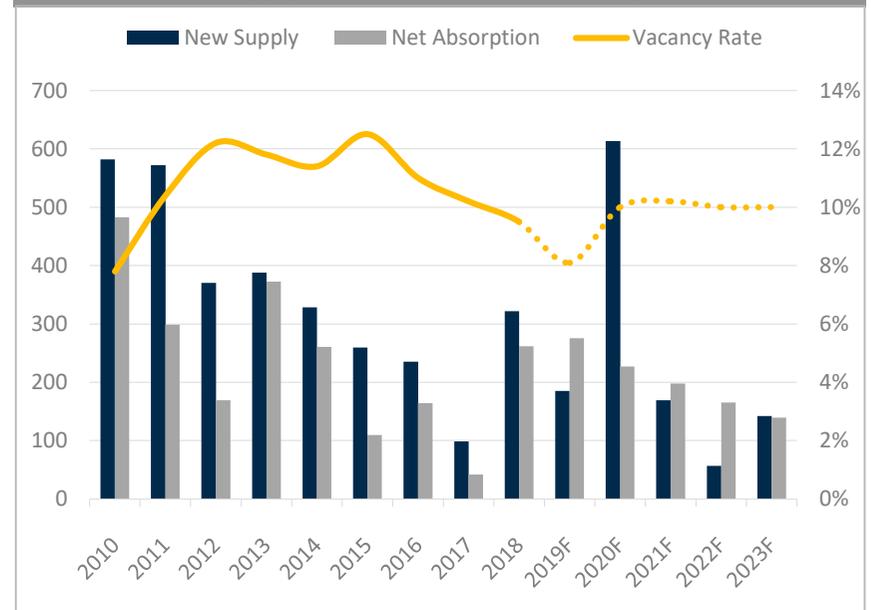
GBD: continued demand of IT industry

The Gangnam Business District (GBD)'s vacancy rate decreased to 2.1% as occupier demand continues to rise among IT firms. Gangnam N Tower leased out an additional two floors to Naver. More over, Google Korea expanded its headquarters area in Gangnam Finance Center building. NC Tower 1 also solved the all vacant area as Tapco leased the remaining area. We expect that the vacancy rate of GBD probably will be stable, driven by the growth of the IT Industry and the lack of new supply.

YBD: active relocation due to reconstruction plan

The YBD vacancy rate decreased with further take-up by finance companies relocating. As the Teachers' Pension building is scheduled to start reconstruction this year, existing tenants including the Teachers' Pension and Prudential life Insurance relocated their headquarters. YBD's stable vacancy rate probably will be stable in anticipation of the new supply. However, as new office buildings including KB Finance Town, Parc.1 and the Yeouido Post Office are scheduled in 2020, the vacancy rate probably will be increased again. Moreover, In 2020, Hanwha Engineering & Construction plans to leave the FKI building.

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



Source: Colliers International

Average rents and vacancy rates by submarket

	Q3 2019 Average rents (KRW psm pm)	QOQ change (%)	Q3 2019 Vacancy rate (%)	QOQ change (pp)
CBD	32,277	0.1	10.1	-3.2
GBD	27,889	0.1	2.1	-0.8
YBD	23,657	0.3	6.6	-2.0
Overall	29,071	0.1	6.7	-2.1

Source: Colliers International

INVESTMENT MARKET

New buildings likely to transact in 2020



Some transactions are scheduled to be finalized in Q4, including Booyoung building, a prime building in the CBD, as well as many headquarters buildings in YBD. Douzone Bizon, Korea's leading enterprise resource planning (ERP) solution provider, purchased the Booyoung building in the CBD for KRW450 billion (USD414 million) for its headquarters.

As new office buildings, including KB Finance Town, Parc1 and Yeouido Post Office, are scheduled to come online in 2020, the number of transactions in YBD will probably grow as these huge developments are completed. We project sales of NH Investment & Securities HQ, Samsung Life Insurance Yeouido Building and Meritz Fire & Marine Yeouido Building to close in YBD in 2020. Meanwhile, some investors plan to sell their properties in YBD area before the completion of Parc1, which was put on the market in this quarter.

Q3 2019 estimated transaction value of KRW2 trillion

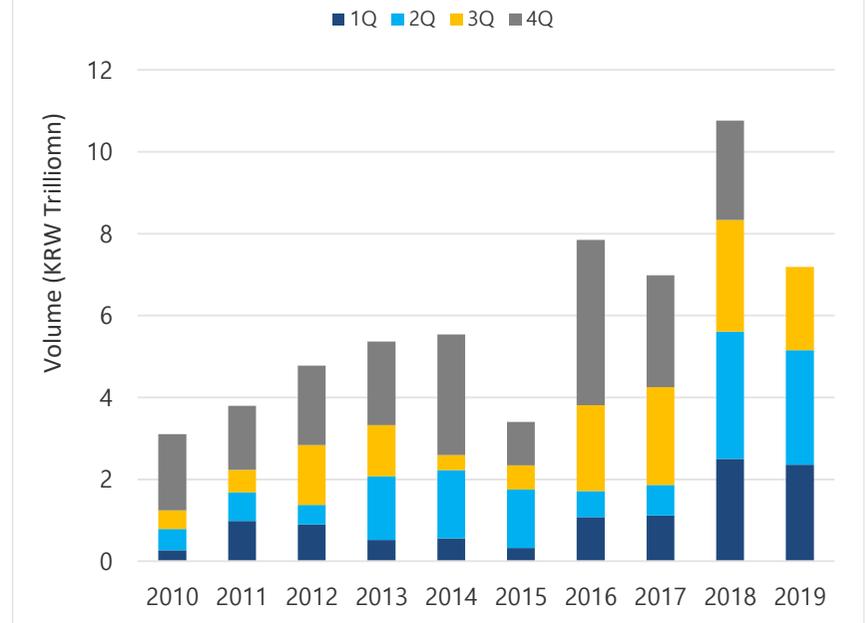
In Q3 2019, a total of 11 office properties transacted with a combined value we estimate at KRW2 trillion (USD1.8 billion). The 2019 investment market has been active, similar to 2018, due to abundant liquidity and low interest rates. If the likely transactions of prime buildings are successfully closed by year-end, the aggregate office transaction size will likely exceed KRW10 trillion (USD8.5 billion) in 2019.

IGIS AMC sells Jongro Tower, occupied by WeWork

Jongro Tower, which is located near Joggak Station and rented to WeWork, sold to KB Asset Management for KRW450 billion (USD388 million). IGIS AMC disposed of Jongro Tower after securing WeWork. The deal was completed through the public real estate fund established by KB Asset Management.

In Q3, some deals including forward sales and development sites have been closed after completion. As the City Square building (formerly Seosomun 5 District) was completed in Q2 2019, Hangang Asset Management acquired it, which was presold, from Orion Partners for KRW293 billion (USD253 million). Saengbo Real Estate Trust acquired Samsung Life Insurance Samseong-dong Building from Samsung SRA AMC for KRW233 billion (USD201 million) through a REIT.

Office investment volume



Source: Colliers International

Major transaction details

Property	Submarket	Area (sqm)	Price (KRW Bill)	Price (USD Mill)	Buyer
Jongro Tower	CBD	60,730	450	388	KB Asset Management
City Square building (formerly Seosomun 5 district)	CBD	38,400	293	253	Hangang Asset Management
Samsung Life Insurance Samseong-dong Building	CBD	30,650	233	201	Saengbo Real Estate Trust

Source: Colliers International

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