Office Market Report / Fourth Quarter 2020

Office(Seoul)

Quick Stats

8.0%
Overall vacancy rate decreased by 0.2%p q-o-q

417,646 sqm
Gross floor area of buildings completed in the fourth quarter

₩23,220/sqm
Average rental rate increased by 1.5% in the past 12 months

₩4.1 trillion
Total office transaction volume decreased by 22% q-o-q

₩6.9 million /sqm
Average unit sale price increased by 4.7% q-o-q

Market Overview

The total office area newly supplied was 417,646 sq.m, down 21% q-o-q, but new supply occurred in all areas except CBD. In GBD, HJ Tower, Hae Am Building, and 3 other small (class C) buildings were newly supplied. In YBD, due to the reconstruction of Yeouido Post Office (Yeouido Post Tower), the total stock increased by about 70,000 sq.m. The Others District was supplied with prime offices such as G Valley G Square and Acro Seoul Forest D Tower.

Supply and Vacancy

The total GFA completed in 4Q was 417,646 sq.m, down 21% q-o-q, bringing new supply to all disticts but CBD. In GBD, HJ Tower, Hae Am Building, and 3 other small (class C) buildings were newly supplied. In YBD, due to the reconstruction of Yeouido Post Office (Yeouido Post Tower), the stock volume increased by about 70,000 sq.m. The Others District was supplied with prime offices such as G Valley G Square and Acro Seoul Forest D Tower. The overall vacancy rate in Seoul fell 0.2%p to 8.0%, down 0.2%p q-o-q due to the decrease in the vacancy rates in CBD and YBD, and the decrease in office supply q-o-q.

The CBD vacancy rate fell 0.8%p q-o-q to 9.9% thanks to the influence of DL (formerly Daelim) affiliates leasing up D Tower Donuimun. The CBD's vacancy rate excluding new completion fell to 7.9%, down for five consecutive quarters. In the case of prime office, Deutsche and Macquarie have moved into Centropolis.

GBD vacancy rate rose 0.3%p q-o-q to 4.2% due to the increase in the vacancy rate in Teheranro. HJ Tower was newly supplied this quarter. However, excluding new completions, the vacancy rate continued to decline to 3.6%. In particular, the move-in of Dongbu E&C and Korea Real Estate Investments & Trust in the KOREIT Tower, played a major role in resolving the GBD vacancy this quarter. The vacancy rate is expected to rise slightly in 1Q 2021, as the Center Field Tower will be newly supplied and Hyundai Glovis is scheduled to be relocated to other business district.

YBD recorded 14.4%, down 0.9%p q-o-q, thanks to the decrease in vacancy rates at prime offices such as Parc 1 and FKI Tower, despite the new supply of Yeouido Post Tower. The vacancy rate excluding new completion was 4.7%, the lowest ever since 2Q 2012. YBD's total stock has increased significantly due to the supply prime offices this year, but there is no supply in the pipeline in three years. In the case of prime offices, large tenants such as LG affiliates and information service companies leased Parc 1 Tower 1 and 2, which were newly supplied in the previous quarter.

The Others Disrict's vacancy rate rose 0.4%p q-o-q to 6.3% due to the new supply of Acro Seoul Forest D Tower, a prime office in Seongsu-dong. The vacancy rate excluding new completion fell 1.0%p q-o-q, recording the lowest vacancy rate since the 1Q of 2016. Except for prime offices affected by new supply, the vacancy rate has declined in all other grade, and there is a possibility that the vacancy rate will drop further future leasing contracts at D Tower has been confirmed. As the existing vacancies are steadily eliminated, in prime offices, such as the East Central Tower and the Hanssem Sangam office building, the absorption area reached a record high since the first quarter of 2016. In 1Q 2021, class B1 and class C offices will be supplied.

Rental Rates

Rent and CAM fee increased by 0.1% from the previous quarter respectively. Most rental adjustments are expected to be completed in 1Q. Monthly rent in Seoul was 23,219 won sq.m, an increase of 0.1% from the previous quarter, up and 1.5% y-o-y. The CAM fee was 10,419 won per sq.m, an increase of 0.1% from the previous quarter, and up 1.6% y-o-y.

Investment

The transaction volume of Seoul office reached KRW 4.1 trillion, down KRW 1.1 trillion (22%↓) from the previous 3Q transaction volume (KRW 5.2 trillion), which was the largest transaction volume ever.

In total, 2 buildings in CBD, 7 from GBD, 7 from YBD, and 2 buildings from the Others District were transacted in the market. Transactions in CBD, which recorded the largest transaction volume in the past quarter, sharply declined, pushing down the overall transaction volume in Seoul. However, The transaction volume of YBD reached a record-high of KRW 2 trillion, thanks to the impact of prime office transactions such as the Hana Financial Investment Building, Parc.1 Tower 2 and the Eusu Holdings Building. In GBD, the Platinum tower, which was separately owned, was completely acquired by BNK Asset Management, and WeWork Tower (former PCA Life Tower) was sold to IGIS Asset Management.

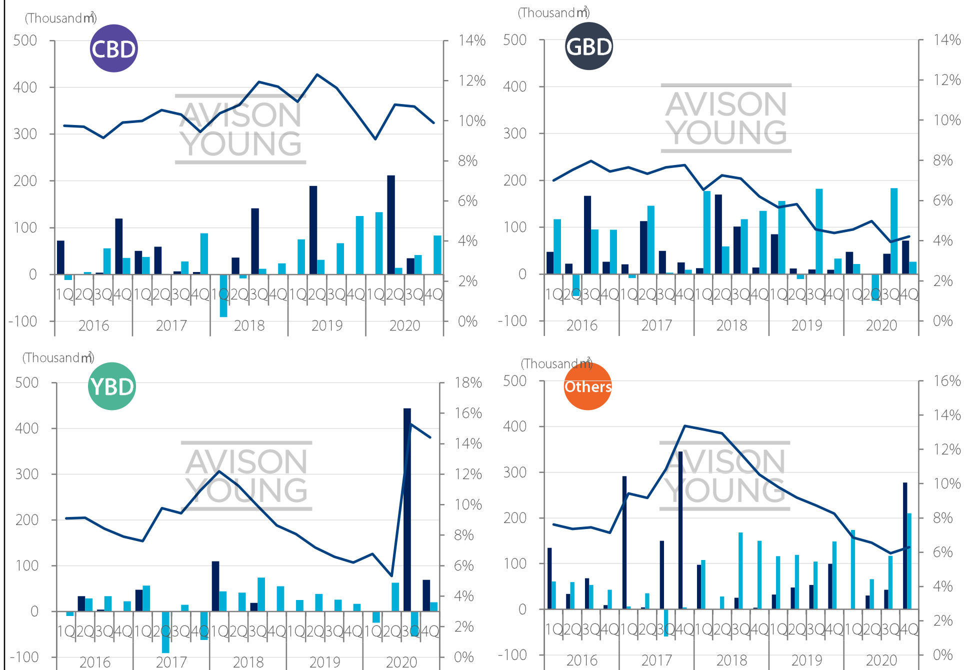
The transaction price per sq.m increased by KRW 309,759 (4.7%↑) from the previous quarter to KRW 6,852,220 thanks to the increase in the transaction price per sq.m in GBD and the Others District. In particular, the transactions of The Pinnacle Gangnam and Platinum Tower, which were transacted in GBD, increased in the overall unit price in Seoul.

In the case of CBD, Pfizer Tower was transacted at about KRW 7 million/sq.m, and in GBD, Platinum Tower and WeWork Tower were transacted at about KRW 9.1 million/sq.m. In YBD, which recorded the largest number of transactions, including prime offices or class A offices such as Hana Financial Investment Building, Eusu Holdings Building, and KB Financial Tower were transacted in the KRW 6-7 million range.

In the 4Q 2020, the Seoul office cap rate declined for 9 consecutive quarters, reaching 3.9%, entering 3% level for the first time.

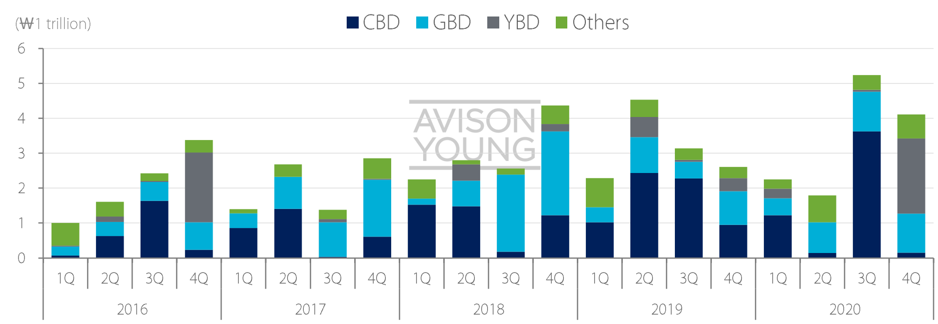
Some of the assets currently up for sale in the market are major offices as SK Seorin Building, Pine Avenue B, and Lotte Insurance Building. However, the volume of transaction in 1Q 2021 is expected to decline slightly q-o-q.

Absorption, Completions & Vacancy

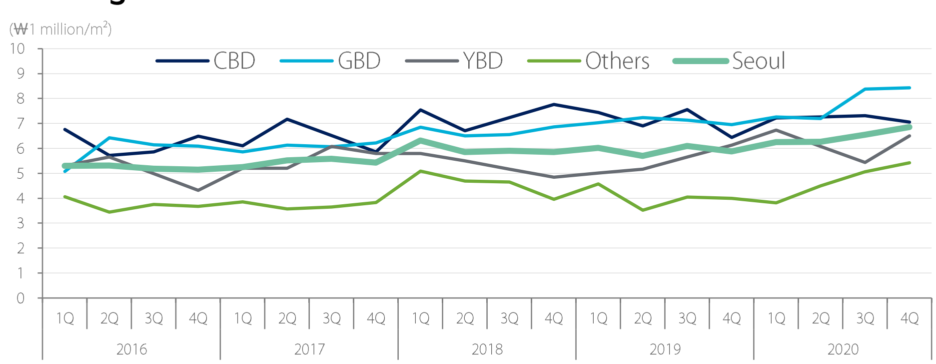


Quarterly Rent and CAM

Transaction Volume



Average Sale Prices



Market by the numbers

	Vacancy Rate				Monthly Rent(₩/sqm)				CAM(₩/sqm)				
BY SUBMARKET	Total	Prime	Class A	Class B1	Total	Prime	Class A	Class B1	Total	Prime	Class A	Class B1	Quarterly New Completion (sqm)
Gwanghwamun-Sinmunro	8.6%	11.7%	6.4%	5.7%	25,455	26,305	29,492	18,515	10,266	9,914	11,565	8,118	
Namdaemun	13.7%	18.4%	8.7%	13.2%	28,190	31,116	27,240	23,055	12,157	12,781	11,987	11,324	
Eulgiro	6.9%	7.6%	6.1%	5.1%	29,427	33,114	32,327	25,497	12,422	13,274	13,659	11,663	
Jongno	10.6%	9.6%	17.4%	5.5%	34,595	41,818	32,465	21,038	13,345	14,821	13,281	10,283	
The rest of CBD	8.0%	0.0%	15.8%	4.2%	22,206	29,226	24,505	16,897	10,650	12,237	11,420	9,822	
CBD	**9.9%**	**11.3%**	**10.0%**	**6.6%**	**28,748**	**34,372**	**29,219**	**21,776**	**12,035**	**13,299**	**12,390**	**10,523**	
Teheranro	5.2%	2.3%	4.4%	7.4%	27,040	32,790	27,045	24,325	11,207	12,453	11,300	10,766	41,706
Gangnamdaero	1.7%	0.4%	2.5%	1.4%	24,490	32,741	25,207	23,982	10,489	13,694	10,349	10,609	10,816
The rest of GBD	4.3%	0.2%	3.1%	7.9%	18,529	16,564	20,837	18,902	8,963	9,042	9,806	9,170	18,577
GBD	**4.2%**	**1.6%**	**3.6%**	**6.7%**	**23,927**	**30,004**	**24,821**	**22,258**	**10,378**	**12,038**	**10,661**	**10,149**	**71,099**
West Yeouido	9.9%	1.0%	0.3%	18.3%	13,820	18,800	17,555	13,759	7,277	6,050	9,569	7,544	
Stock Exchange District	5.7%	3.6%	8.3%		27,220	32,100	22,692		12,297	13,402	11,367		
East Yeouido	19.8%	28.2%	20.2%	2.9%	21,250	27,322	18,343	17,376	10,109	12,242	8,946	8,806	69,110
YBD	**14.4%**	**19.6%**	**12.3%**	**8.6%**	**21,737**	**28,495**	**20,699**	**16,037**	**10,268**	**12,233**	**10,359**	**8,339**	**69,110**
Mapo	3.0%		0.8%	3.5%	14,157		14,683	14,247	8,165		9,217	8,219	
Yongsan	1.3%	0.3%	0.0%	3.8%	23,932	30,664	16,063	15,909	10,044	11,075	8,606	8,660	
Jamsil-Songpa	2.2%	2.3%	1.3%	1.6%	20,923	25,062	16,814	18,149	9,649	10,787	8,719	9,349	
Sangam	8.3%	5.7%	10.1%	8.8%	12,603	13,581	12,069	11,892	7,818	8,238	7,516	7,829	
The rest of Others	8.9%	21.0%	3.9%	7.9%	15,315	14,971	17,071	15,809	8,326	8,894	9,384	8,505	277,437
Others	**6.3%**	**8.0%**	**4.9%**	**6.1%**	**16,607**	**21,173**	**15,409**	**15,461**	**8,633**	**9,822**	**8,706**	**8,498**	**277,437**
Total Market	**8.0%**	**10.5%**	**7.1%**	**6.7%**	**23,219**	**29,328**	**23,617**	**19,299**	**10,419**	**12,037**	**10,747**	**9,526**	**417,646**

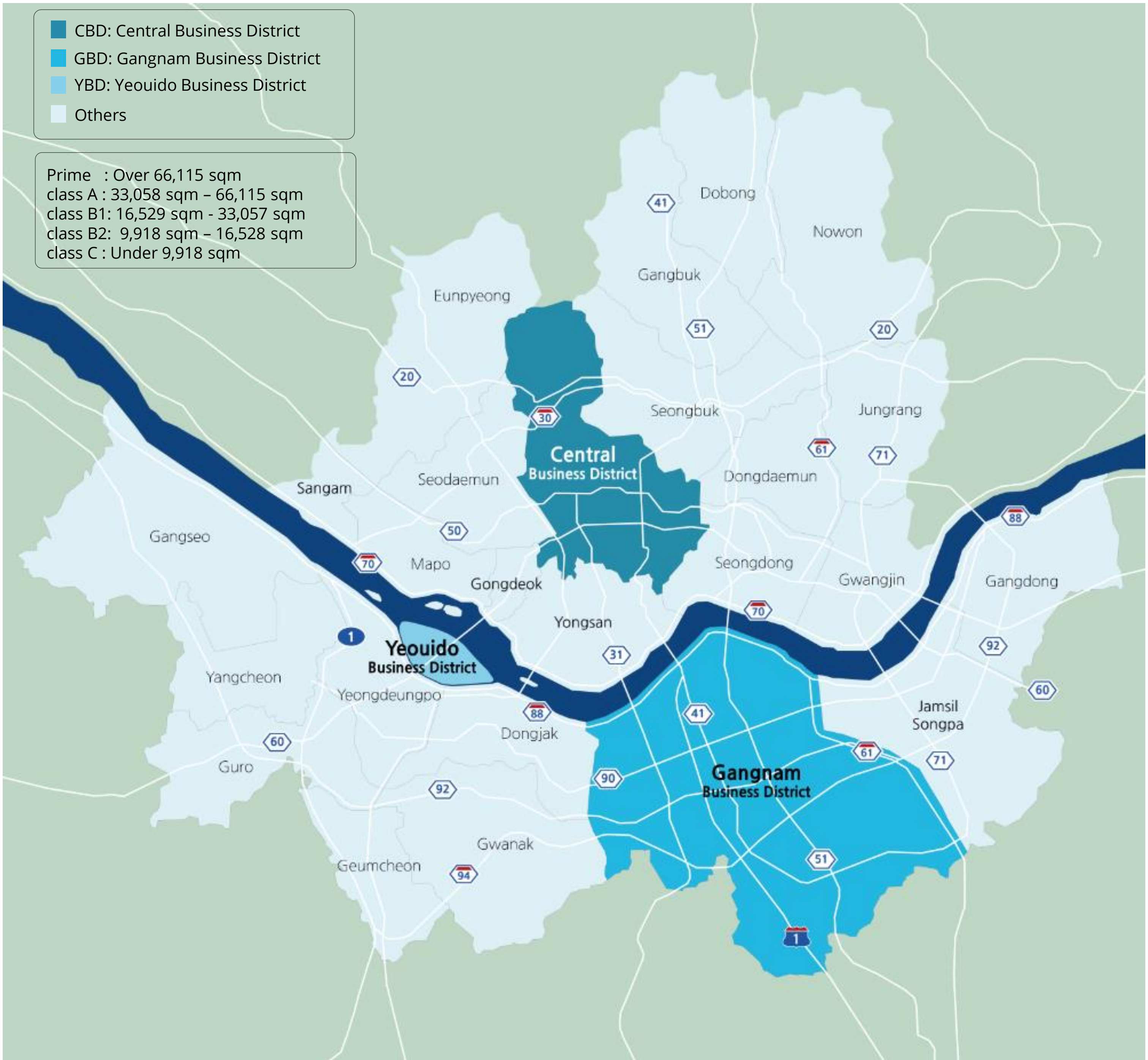
Major Leases in 4Q

Tenant	Property	Type	Submarket	Rent Area(sqm)
DL (formerly Daelim)	D Tower Donuimun	New Lease	CBD	57,000
LG Energy Solution	Parc.1 Tower 1	New Lease	YBD	40,000
Samsung Medison	East Central Tower	New Lease	Others	23,000
GC Green Cross Wellbeing	Parc.1 Tower 2	New Lease	YBD	14,000
SK C&C	Centropolis	New Lease	CBD	9,000

Major Transactions in 4Q

Property	Market	Buyer	Seller	Area(sqm)	Transaction Volume (KRW)	Price/sqm
Pfizer Tower	CBD	GRE Partners Asset Management	Pfizer Korea	15,868	111.2 billion	7.1 million
KT Gangdong Branch	Others	DS Networks	KT AMC	13,299	152.1 billion	11.4million
ACRO Seoul Forest D Tower	Others	LB Asset Management	DL E&C	98,430	533.7 billion	5.4 million
Platinum Tower	GBD	BNK Investment Management	Mirae Asset Global Investments	37,184	348.7 billion	9.4 million
WeWork Tower	GBD	IGIS AMC	Mastern Investment Management	19,646	172.3 billion	8.8 million
Parc.1 Tower 2*	YBD	ARA Korea Asset Mangement	Y22 PFV	162,222	950.0 billion	5.9 million

* Transaction advised by Avison Young



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