

# Seoul (OFFICE)



## Market Facts

### VACANCY RATE

AvisonYoung Korea announces two types of vacancy rates which are vacancy rate excluding new office and vacancy rate including new office as we take into account the time taken to affect the actual office market. New offices are offices under 24 months of completion based at the time of research.

### CLASS

class A : GFA above 33,058 m<sup>2</sup>  
class B : GFA  
from 9,917-33,058 m<sup>2</sup>  
class C : GFA below 9,917 m<sup>2</sup>

### DISTRICT

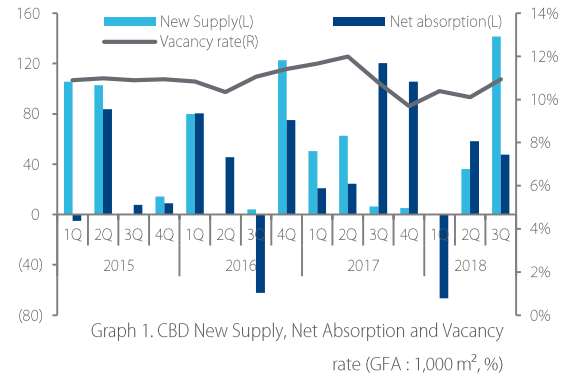
CBD : Central Business District  
GBD : Gangnam Business District  
YBD : Yeouido Business District  
Others : Other Business District

## Market Overview

The third quarter of 2018 Seoul office market vacancy rate amounted to 10.3%, not much different to the previous quarter. However the actual vacancy rate can be considered as decreased, since there was the supply of two class A offices, Centro Polis(GFA:145,000 m<sup>2</sup>) and Gangnam N Tower(GFA:50,000 m<sup>2</sup>). Vacancy rate excluding new offices dropped by 0.7%, resulting in 7.8%. It's first time in 4 years of the vacancy rate reaching under 8%.

### Supply and Vacancy

In the third quarter of CBD, a relatively rare prime office, Centro Polis was built and it was purchased by LB Asset Management and M&G Real Estate. Kumho Asiana Group is known to move into the building and the building's vacancy rate is expected to decrease gradually.



CBD offices' vacancy rate increased in every class resulting in 10.9%, which is 0.8%p higher than the previous quarter. The rise in the total vacancy rate was mainly influenced by the class A offices' vacancy rate since there was the supply of Centro Polis. However, with WeWork, FastFive and SK Affiliates filling Jongno Tower, Signature Tower, Gran Seoul and Seoul Square, the vacancy rate excluding new buildings dropped by 1.5%p compare to last quarter, amounting to 8.9%.

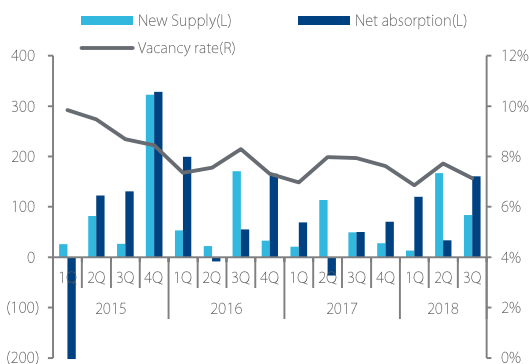


CENTROPOLICE 2018, CBD, SEOUL

**Table 1. CBD Vacancy Rate by class and q-o-q**

	Vacancy rate excluding new office	Vacancy rate including new office
CBD Total	8.7% ▼ 1.0%p	10.9% ▲ 0.8%p
Class A	8.9% ▼ 1.5%p	11.3% ▲ 1.0%p
Class B	7.5% ▲ 0.3%p	9.7% ▲ 0.2%p
Class C	13.2% ▲ 0.4%p	13.2% ▲ 0.4%p

**Graph 2. GBD New Supply, Net Absorption and Vacancy rate (GFA : 1,000 m<sup>2</sup>, %)**



**Table 2. GBD Vacancy Rate by class and q-o-q**

	Vacancy rate excluding new office	Vacancy rate including new office
GBD Total	5.3% ▼ 1.0%p	7.7% 0.0%p
Class A	5.2% ▼ 0.8%p	8.6% ▲ 0.2%p
Class B	5.5% ▼ 1.1%p	7.0% ▲ 0.1%p
Class C	5.6% ▼ 1.2%p	5.6% ▼ 1.2%p

In the second quarter of 2017, the vacancy rate excluding new buildings for class A was 13.4% and it was 9.8% for class C. However the tendency swapped with 8.9% for class A and 13.2% for class C in the third quarter of 2018. This can be interpreted as a Filtering Effect. In the case of the class B, the vacancy rate increased due to Heesung Group moving into Magok, and Samhwan Corporation and other main companies downsizing their offices.

As for the third quarter, just like the second quarter, the stock in GBD increased due to the supply of a class A building, Gangnam N Tower and a class B building, Seonreung 889 Building. However the vacancy rate is expected to go down since the Korbit and Lotte Premium Share Office moved in right after the completion of Gangnam N Tower in August, and KB Real Estate Trust and EA Korea is about to fill up the building.

Despite the supply of new buildings such as Gangnam N Tower and Seonreung 889 Building, GBD maintained the vacancy rate as 7.7% with abundant leasing demand. Also the vacancy rate excluding new buildings recorded 5.3% which is a 1%p drop from the previous quarter.

Viva Republica expanded its office in Arc Place, a class A building and there were several demands from start-ups and IT companies such as MegaLab moving into Platinum Tower and GenoPlan filling up Kyobo Gangnam Tower.

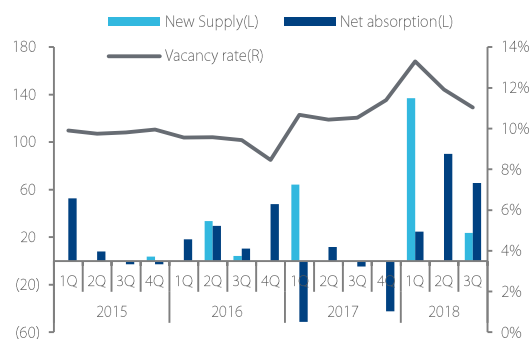
There were also continuous demand by the major companies in GBD dropping the vacancy rate. Hyundai AutoEver moved into Autoway Tower.

In the case of class B, WeWork moved into WeWork Tower(PCA Life Tower before) and for Icon Yeoksam, which was built in the third quarter of 2017, recorded 0% vacancy rate in just a year. This was mainly due to the move in of the game and contents industry companies such as Actoz Soft, Dorama Korea. Through these examples it's predominant that the GBD market is booming.

In YBD, there was a supply of a new building, Mapo Post Tower in Mapo area. Here, Dongsuh Foods filled up the leasing area except the Korea Post area. Since there are no new class A building supply plans in the fourth quarter of 2018 and 2019, the vacancy rate in YBD will have positive effect by it.

FKI Tower and IFC, which are both class A buildings, are solving the vacancy problem through active leasing marketing. The competitive leasing marketing will be carried out to fill up the vacant offices, before the new building, Parc 1 Tower A and B(GFA:364,000m<sup>2</sup>)'s are completed.

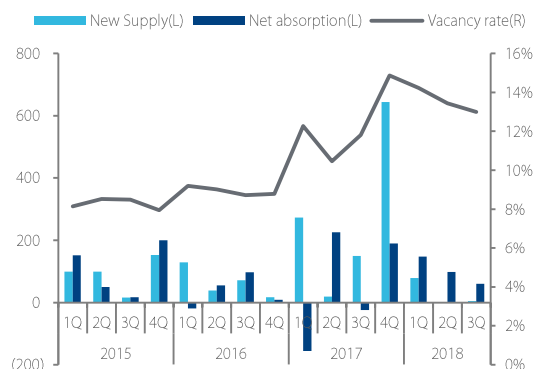
**Graph 3. YBD New Supply, Net Absorption and Vacancy rate (GFA : 1,000 m<sup>2</sup>, %)**



**Table 3. YBD Vacancy Rate by class and q-o-q**

	Vacancy rate excluding new office	Vacancy rate including new office
YBD Total	11.0% ▼0.6%p	11.0% ▼0.9%p
Class A	15.0% ▼1.4%p	14.5% ▼1.9%p
Class B	4.2% ▲0.8%p	5.0% ▲1.3%p
Class C	9.6% ▼1.3%p	9.6% ▼1.5%p

**Graph 4. Others New Supply, Net Absorption and Vacancy rate (GFA : 1,000 m<sup>2</sup>, %)**



**Table 4. Others Vacancy Rate by class and q-o-q**

	Vacancy rate excluding new office	Vacancy rate including new office
Others Total	7.8% ▲0.1%p	13.0% ▼0.4%p
Class A	8.6% ▼0.1%p	16.9% ▼1.0%p
Class B	6.2% 0.0%p	6.2% ▼0.2%p
Class C	8.1% ▲0.6%p	8.1% ▲0.6%p

In the case of class B, despite the move-in of Will & Vision to Hyosung Harington Square, the vacancy rate increased due to the completion of Mapo Post Tower and the move-out of the North Korea Human Rights Foundation and Liberty Korea Party for political issues.

In Others, there were few new class C offices in third quarter, just like second quarter, increasing the stock. The vacancy rate amounted to 13.0% with a 0.4%p drop from the last quarter, thanks to the new tenants moving into class A buildings that were newly supplied last year and this year.

In the Yongsan area, the vacancy rate increased only because the move out of the PwC was reflected on to this quarter, when the actual movement was in the second quarter. However in Sangam, the vacancy rate decreased by Broadcasting, Communication and Contents industry companies filling up the Digital Cube, Dream Tower, KEA Building.

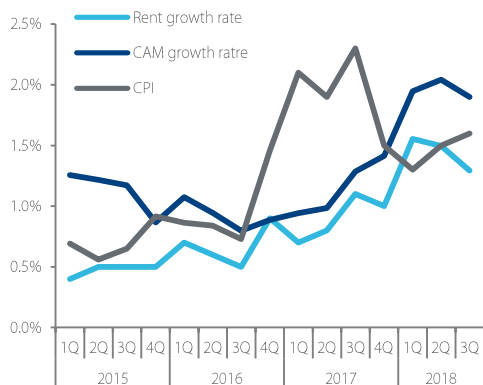
Other than that, AZ Financial Service filling Young City N Tower, Seoul Finance Corporation moving into Ire New Building and National Health Insurance Service taking up Center Point West resulted in solving the vacancy issue in Yeongdeungpo-Guro.

**Rent and CAM**

As shown in the below Table 5 and 6, the average office rent of Seoul reached 23,255 won/m<sup>2</sup> and CAM is 10,139 won/m<sup>2</sup>. The rent increased by 1.3% and the CAM increased by 1.9% compare to last year. Also, as shown in the Graph 5, the CPI increased by 1.6%.

The office rent per month in the CBD amounted to 28,226 KRW/m<sup>2</sup> and the CAM reached 11,648 KRW/m<sup>2</sup>. The class A's rent and CAM both increased by 0.3%, leading the total CBD's rent and CAM rise. The office rent per month and the CAM in the GBD amounted to 24,065 KRW/m<sup>2</sup> and 9,965 KRW/m<sup>2</sup> respectively, showing the similar level as last quarter. YBD's rent per month and CAM also stayed similar to the last quarter with 19,470 KRW/m<sup>2</sup> and 9,702 KRW/m<sup>2</sup>. In the Others, the rent per month was similar to the previous quarter with 16,737 KRW/m<sup>2</sup> but the CAM increased by 0.4% compared to last quarter due to the rise of the CAM in 3 class A buildings.

**Graph 5. Rent growth rate (%) and Consumer Price Index (CPI) growth rate (%)**



**Table 5. Average Monthly Rents per m<sup>2</sup> (KRW/m<sup>2</sup>) and quarterly changes (%)**

	Average Monthly Rent	Change	
		QOQ	YOY
Seoul	23,255	▲ 0.1%	▲ 1.3%
CBD	28,226	▲ 0.2%	▲ 1.9%
GBD	24,065	0.0%	▲ 1.5%
YBD	19,470	▼ 0.1%	▲ 0.4%
Others	16,737	0.0%	▲ 0.6%

**Table 6. Average Monthly CAM per m<sup>2</sup> (KRW/m<sup>2</sup>) and quarterly changes (%)**

	Average Monthly CAM	Change	
		QOQ	YOY
Seoul	10,139	▲ 0.1%	▲ 1.9%
CBD	11,648	▲ 0.1%	▲ 2.3%
GBD	9,965	0.0%	▲ 1.7%
YBD	9,702	0.0%	▲ 2.0%
Others	8,269	▲ 0.4%	▲ 1.3%

**Table 6. Major Leasing Deals in 2018 3Q**

District	Property Name	Tenant	GFA(m <sup>2</sup> )
CBD	Gran Seoul	SK Lubricants, SK E&S, SK Global Chemical	14,000
	Ace Tower	KG Group	8,000
	Signature Tower	FastFive	8,000
	Jongno Tower	WeWork	7,000
	Center Place	Hana Card	7,000
	Lotte Insurance Building	Lotte Insurance	6,000
	Seoul Square	SK Shipping	5,000
GBD	WeWork Tower	WeWork	11,000
	Icon Yeoksam	Actoz Soft	8,000
	Gangnam N Tower	Korbit	5,000
		Lotte Co-Office	5,000
YBD	FKI Tower	KB Kookmin Bank	16,000
	Three IFC	KB Asset Management	7,000
	Building 8	Keumyang International	5,000
Others	Lotte World Tower	Lotte Co-Office	7,000
	Young City N Tower	AZ Financial Service	4,000



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