

# Seoul



## Terms and Definitions

### Vacancy Rate

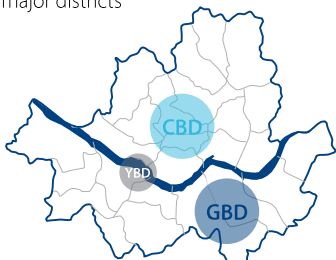
Avison Young Korea announces two types of vacancy rates which are vacancy rate excluding new office and vacancy rate including new office as we take into account the time taken to affect the actual office market. New offices are offices under 24 months of completion based at the time of research

### Class

Class A : GFA above 33,058㎡  
 Class B : GFA from 9,917㎡ to 33,058㎡  
 Class C : GFA below 9,917㎡

### District

CBD : Central Business District  
 GBD : Gangnam Business District  
 YBD : Yeouido Business District  
 Others : The rest district other than three major districts



## Market Overview

The vacancy rate of Seoul in the 4Q of 2018 declined 0.9%p Q-o-Q to 9.4% due to the lowering vacancy rate in all regions except CBD. Since July 2018, the total office vacancy rate in Seoul has been falling for six straight months. The vacancy rate in Seoul is expected to continue to decline as there is no new office supply scheduled for the 1Q 2019.

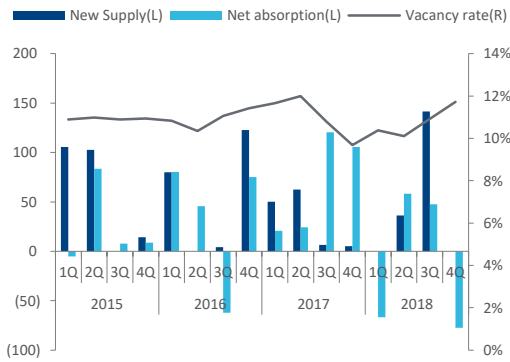
### Supply and Vacancy

Since the completion of the Centropolis (Grade A) office in the previous quarter, there has been no new supply of Grade B and Grade C in CBD in the 4Q 2018. Remodeling of CJ Building (Grade B) is scheduled to be completed in the 1Q 2019. However, there are no supply except for Grade B and C. Therefore, total stock in the 1Q 2019 is expected to be similar or slightly higher than total stock in the 4Q 2018.

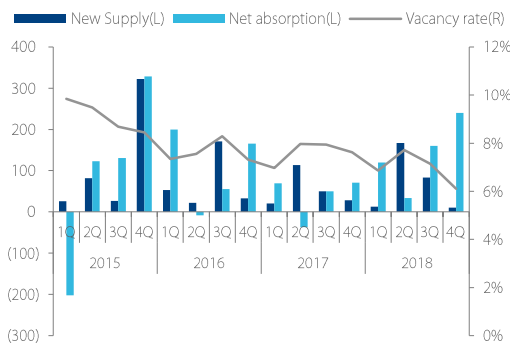
The CBD vacancy rate climbed 0.8%p Q-o-Q to 11.7% in the Grade A office despite declining vacancy rates in Grade B and C offices. Although the Kumho Asiana Group, Kumho Tire and McDonald's Korea moved to the same-sized office in the same district, Lotte Shopping, Novartis Korea and CRI moved to another district. In result, the overall vacancy

rate of Grade A (including new office) increased by 1.2%p. However, relocation from other regions was also active, including the transfer of Tiffany Korea and The loop to Signature Tower (Grade A) and S-Oil in HSBC Building.

In GBD, the new supply of Grade A and B was outstanding in the 2Q and 3Q 2018, but only the new supply of two Grade Cs in Teheran-ro were confirmed in the 4Q. Meanwhile, the Hoban Office Building, which was scheduled for supply in the 4Q, was delayed to the 1Q 2019 and the group affiliates and some partners are reportedly preparing to move in.

**Graph 1. CBD New Supply, Net Absorption (1,000m<sup>2</sup>) and Vacancy Rate(%)****Table 1. CBD Vacancy Rate(%) by Class and Changes Q-o-Q(%p)**

	Vacancy Rate excluding new office	Change Q-o-Q	Vacancy Rate including new office	Change Q-o-Q
<b>Total</b>	9.6%	▲ 1.0%p	11.7%	▲ 0.8%p
<b>Class A</b>	10.4%	▲ 1.5%p	12.5%	▲ 1.2%p
<b>Class B</b>	7.4%	▼ 0.1%p	9.2%	▼ 0.5%p
<b>Class C</b>	12.2%	▼ 1.0%p	12.2%	▼ 1.0%p

**Graph 2. GBD New Supply, Net Absorption (1,000m<sup>2</sup>) and Vacancy Rate(%)****Table 2. GBD Vacancy Rate(%) by Class and Changes Q-o-Q(%p)**

	Vacancy Rate excluding new office	Change Q-o-Q	Vacancy Rate including new office	Change Q-o-Q
<b>Total</b>	4.2%	▼ 1.1%p	6.1%	▼ 1.6%p
<b>Class A</b>	3.6%	▼ 1.6%p	5.7%	▼ 2.8%p
<b>Class B</b>	4.5%	▼ 0.9%p	6.7%	▼ 0.3%p
<b>Class C</b>	5.9%	▲ 0.3%p	5.9%	▲ 0.3%p

GBD's vacancy rate fell by 1.6%p Q-o-Q reaching 6.1% due to the abundant rental demand of various industries and limited new supply. The vacancy rate (excluding new office) fell 1.1%p Q-o-Q reaching 4.2%.

After the completion of the newly supplied Gangnam N Tower in the previous quarter, KB Real Estate Trust, Workflex and EA Korea moved in and contracted. Gangnam N Tower achieved a vacancy rate of 30% within six months. The Fiber Center, which has been remodeled in the first half of 2018, is also occupied by Samsung Life Insurance. Thus, the vacancy issue has been solved.

Vacancy rates dropped by 1.7%p Q-o-Q recording at 5.5% due to new tenants moving to Delivery Hero Korea in Majesta City Tower 2, KORA in Bangbae Building and Mirae Asset Life Insurance in The Finnacle Gangnam which is located outside the major Gangnam area. This shows the lease demand among the GBD.

The Grade A vacancy rate fell by 2.8%p Q-o-Q recording at 5.7%. This is because Becton Dickinson Korea in Arc Place, Tera Fintech (expansion) in SI Tower, and Orange Life Insurance in Keungil Tower are occupied. Also, demands for traditional GBD leases such as Global Companies, IT Companies, and Financial Companies are continuously growing.

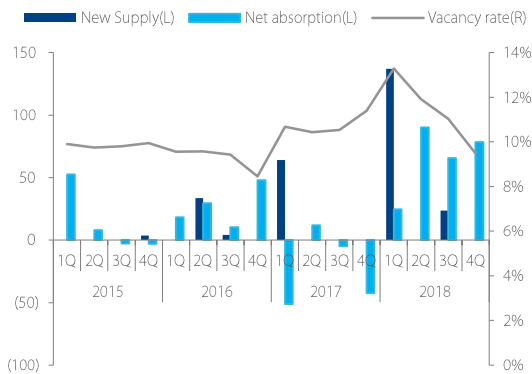
The Korea Liberation Association (KLA) Building, which is expected to be completed in the 4Q in YBD, was delayed to the 1Q 2019 because there apparently was no new supply. The KLA Building is reported to lease only a small area after using KLA building space by itself. Except for the KLA Building, in 2019 there is no new supply of Grade A and B, which is expected to have a positive impact on the YBD vacancy rate.

Since June 2018, the YBD vacancy rate dropped every month. Thus, the vacancy rate (including new office) was 9.5% and vacancy rate (excluding new office) was 9.7%. The vacancy rate in East-Yeouido Securities and Yeouido ETC, which previously recorded a high vacancy rate, fell by 3.2%p and 4.1%p, respectively.

The vacancy rate has been greatly relieved as Novartis Korea, Marsh Korea, and Rutter Associate Korea moved to Three IFC in East-Yeouido Securities area. The Korea Value Asset Management was transferred to Shinhan Investment Tower in the Korea Investment Finance Building, and the vacancy rate dropped only in Yeouido.

In Yeouido ETC of Mapo-Gongdeok, Pollexzone moved into the Mapo Post Tower whereas Hanil Networks and other call-center companies moved into Hyosung Harington Square A which lowered the vacancy rate.

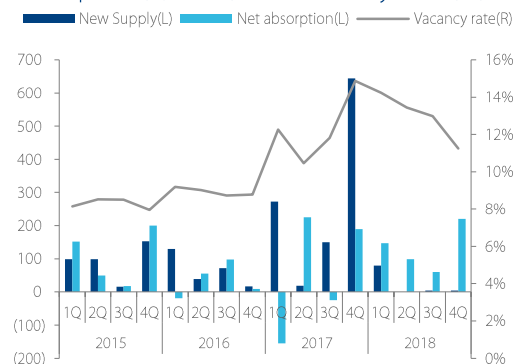
**Graph 3. YBD New Supply, Net Absorption (1,000m<sup>2</sup>) and Vacancy Rate(%)**



**Table 3. YBD Vacancy Rate(%) by Class and Changes Q-o-Q(%p)**

	Vacancy Rate excluding new office	Changes	Vacancy Rate including new office	Changes
<b>Total</b>	9.7%	▼ 1.3%p	9.5%	▼ 1.5%p
<b>Class A</b>	13.0%	▼ 1.9%p	12.3%	▼ 2.2%p
<b>Class B</b>	3.7%	▼ 0.5%p	4.4%	▼ 0.6%p
<b>Class C</b>	11.4%	▲ 1.8%p	11.4%	▲ 1.8%p

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



**Table 4. Others Vacancy Rate(%) by Class and Changes Q-o-Q(%p)**

	Vacancy Rate excluding new office	Changes	Vacancy Rate including new office	Changes
<b>Total</b>	7.2%	▼ 0.6%p	11.3%	▼ 1.7%p
<b>Class A</b>	8.8%	▲ 0.2%p	14.3%	▼ 0.6%p
<b>Class B</b>	4.6%	▼ 1.7%p	7.1%	▲ 0.9%p
<b>Class C</b>	7.6%	▼ 0.6%p	7.6%	▼ 2.6%p

In Others, the Grade A supply was outstanding in the 4Q 2017. On the other hand in the 4Q 2018, only the supply of Grade C was confirmed and the stock slightly increased when compared to the previous quarter.

In the 1Q 2019, the supply of three Grade A and B contracts, (including one for the Grade B office) is scheduled to be made. So, the total stock is expected to increase. Vacancy rates are expected to be similar to the current quarter as it is said that all three buildings are mainly used for the company's head office.

The vacancy rate dropped by 1.7%p Q-o-Q, recording at 11.3% as tenants moved into the new Grade A building. The vacancy rate decrease is especially noticeable when it comes to the Lotte World Tower (Lotte Culture Works), Songpa Nonghyup Building (KEPCO, Wellmarker Bio), located in Jamsil-Songpa and Young City N Tower (AZ Financial Service (expansion), Young City S Tower(CITI Bank, KB Insurance) in Yeongdeungpo .

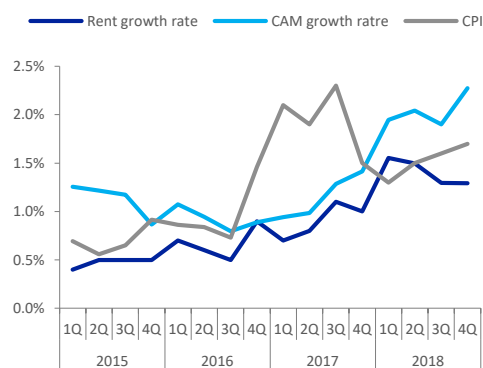
The vacancy rate for Yongsan also fell by 0.2%p recording at 5.4%, which means that LS Group affiliates (including LS IS) gathered at LS Yongsan Tower.

In the case of Sangam, the vacancy rate rose due to the departure of broadcasters and contents tenants.

## Rent and CAM

As shown in the table 5, the average office rent fee of Seoul reached 23,198 won/m<sup>2</sup>, a 0.4% increase from the previous quarter and 1.2% increase from the previous year. The CPI Rate amounted to 1.7% as shown in Graph 5.

The office rent per month in the CBD amounted to KRW 28,245/m<sup>2</sup>, which is slightly higher than the last quarter by 0.2%. Also, the CAM is KRW 11,653 /m<sup>2</sup> higher than the last quarter by 0.3%. The GBD's office rent per month reached KRW 23,930/m<sup>2</sup>, a 1.2% increase from the previous quarter. The CAM amounted to KRW 9,974/m<sup>2</sup>. YBD's rent per month is lower than the previous quarter by 0.3% with KRW 19,268/m<sup>2</sup>, and Others' rent fees stayed similar to the previous quarter with KRW 16,773/m<sup>2</sup> respectively.

**Graph 5.** Rent Growth Rate(%) and Consumer Price Index Growth Rate(%)**Table 5.** Average Monthly Rent and CAM(KRW/㎡) and Changes(%)

	Rent (KRW/㎡)	Change(%)		CAM (KRW/㎡)	Change(%)	
		Q-o-Q	Y-o-Y		Q-o-Q	Y-o-Y
<b>Seoul</b>	23,198	▲ 0.4%	▲ 1.2%	10,146	▲ 0.8%	▲ 2.3%
<b>CBD</b>	28,245	▲ 0.2%	▲ 1.6%	11,653	▲ 0.3%	▲ 2.1%
<b>GBD</b>	23,930	▲ 1.2%	▲ 2.8%	9,974	▲ 0.6%	▲ 2.4%
<b>YBD</b>	19,268	▼ 0.3%	▼ 0.6%	9,622	▲ 0.2%	▲ 1.0%
<b>Others</b>	16,773	▲ 0.2%	▼ 0.1%	8,380	▲ 2.3%	▼ 1.4%

**Table 6.** Major Leasing Deals

District	Property Name	Tenant	GFA(㎡)
CBD	<b>Centropolis</b>	Kumho Asiana	21,000
	<b>Heungkuk Life Insurance Sinmunro Building</b>	Kumho Tire	7,000
	<b>Namsan Central Tower</b>	Woori Bank	4,000
	<b>Signature Tower</b>	The loop	4,000
GBD	<b>Majesta City Tower 2</b>	Delivery Hero Korea	17,000
	<b>Fiber Centre</b>	WeWork	14,000
	<b>Daeryung Seocho Tower</b>	Spark Plus	8,000
	<b>Gangnam N Tower</b>	EA Korea	7,000
	<b>ARC Place</b>	BD Korea	6,000
	<b>Gangnam N Tower</b>	Work Flex KB Real Estate Trust	5,000 5,000
YBD	<b>Hyosung Harrington Square Tower A</b>	Hanil Networks	7,000
	<b>Three IFC</b>	Novartis Korea	6,000
		Marsh Korea	5,000
Others	<b>Young City S Tower</b>	City Bank	10,000
	<b>Samsung Life Insurance Jamsil Building</b>	Lotte Shopping	8,000
	<b>Lotte World Tower</b>	Lotte Culture Works	7,000



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