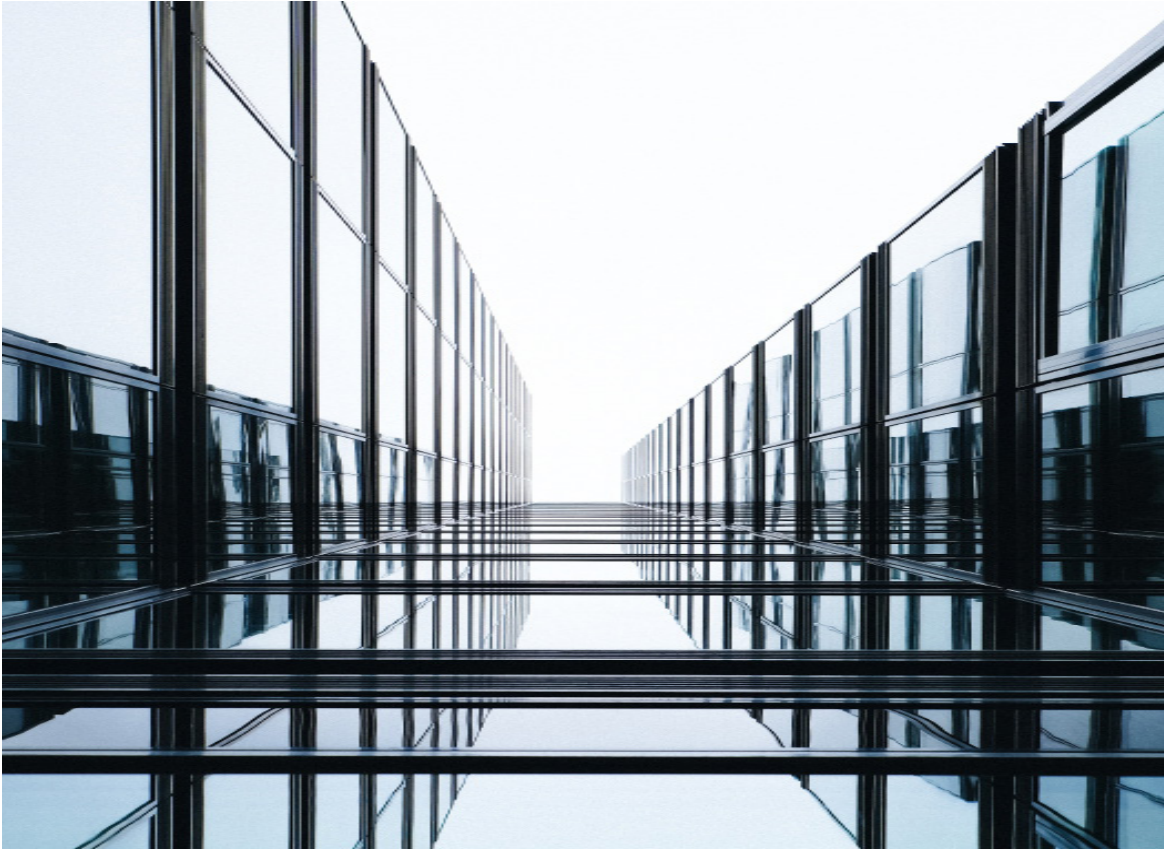


Seoul Prime Office



YBD vacancy rate drops to lowest since 2014

Growing demand from the financial sector was the driving factor for YBD's vacancy rate to slide to a five-year low.

- The Bank of Korea slightly adjusted its economic growth outlook to 2.5% for 2019 from the 2.6% estimate made in January as exports and facility investment struggled in Q1.
- The Seoul prime office vacancy rate for Q1/2019 stood at 11.7%, down 0.7 of a percentage point (ppt) compared to the last quarter. While the CBD vacancy rate rose due to several conglomerates downsizing their offices, the downward trend in GBD and YBD continued.
- As the end of March 2019, the CBD average prime office rent had risen 1.7% year-on-year (YoY). As the vacancy rates for prime office buildings are distributed unevenly, average monthly rental increases can also vary building-by-building.
- Although no prime office buildings entered the market in Q1, there are two projects due for completion in CBD, one each in Q2 and Q3.

“Vitality in the investment market continues as lending rates dipped slightly compared to the previous quarter, down to 3.2%. Large transactions—measuring approximately 100,000 sq m and including Seoul Square and Samsung SDS—helped volumes catch up to volume size of Q1/2018 levels.”

SAVILLS RESEARCH

Savills team

Please contact us for further information

SOUTH KOREA

Crystal Lee
 CEO
 +82 2 2124 4163
 csjlee@savills.co.kr

Kookhee Han
 Senior Director
 Investment Advisory
 +82 2 2124 4181
 khhan@savills.co.kr

Seunghan Lee
 Senior Director
 Leasing & Marketing
 +82 2 2124 4253
 seunghanlee@savills.co.kr

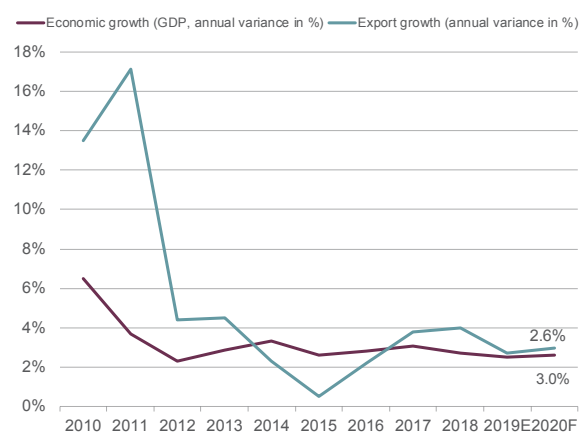
RESEARCH

JoAnn Hong
 Director
 Korea
 +82 2 2124 4182
 jhong@savills.co.kr

Simon Smith
 Senior Director
 Asia Pacific
 +852 2842 4573
 ssmith@savills.com.hk

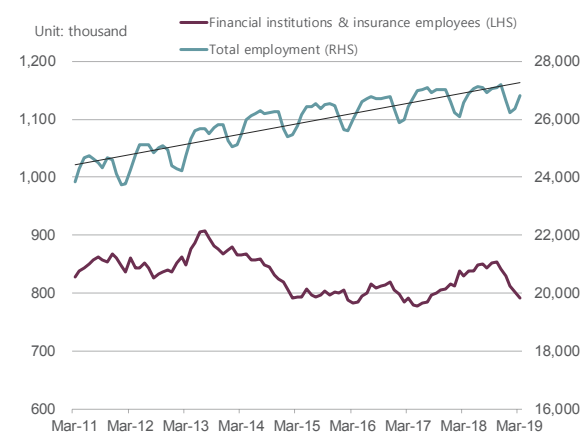
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GRAPH 1: Growth Rate Of Real GDP And Real Exports, 2010 to 2020(F)



Source Bank of Korea

GRAPH 2: Number Of Employees In Finance And Insurance Sectors, March 2011 to March 2019



Source Korean Statistical Information Service

SUPPLY

Later in 2019, two prime office buildings are scheduled to deliver in CBD. Summit Tower (146,600sq m, B8F/20F) will be delivered in the next quarter, and will be the new home for Daewoo E&C’s headquarters. The new building’s opening could affect the vacancy rate of the relevant region if existing tenants in prime buildings move out, since Summit Tower is located in a non-core area of CBD. In Q3, the Seosomun 5 project (38,250sq m, B7F/20F) is expected to be completed.

ECONOMIC OUTLOOK

The BOK slightly lowered its economic growth outlook for 2019 from 2.6% estimated in January to 2.5%. The BOK’s revision was due to the weakness in export and investment levels in the first quarter of this year. The consumer price inflation figure was also revised down, to 1.1% from 1.4%, due to lower prices of agricultural products and petroleum. The Korean economy is projected to expand at its potential growth rate amid expansionary fiscal policies and the expected moderate growth of private consumption. Both exports and facilities investment will gradually rebound during the second half of this year. At its monetary policy meeting in April, the BOK left its benchmark rate unchanged at 1.75% and said it will maintain its accommodative monetary policy stance.

DEMAND AND VACANCY RATES

In Q1/2019, Seoul prime office demand continued its steady increase which began last year. Despite the low net absorption in CBD, Seoul’s overall prime office net absorption rose 37,200 sq m as demand in GBD and YBD increased significantly. GBD saw the highest increase in net absorption (41,000

sq m) since 2012, aided by the continuous upgrade and expansion demands within the district. YBD recorded 14,800 sq m of net absorption owing to an increase in demand from financial tenants and proactive marketing by landlords. On the other hand, net absorption for CBD decreased by 18,600 sq m due to several large conglomerates downsizing/relocating and TF teams’ dissolution.

The Seoul prime office vacancy rate decreased to 11.7%, down 0.7 of a ppt from the previous quarter. GBD recorded 5.6%, down 2.1 ppts from the previous quarter, and YBD recorded 10.6%, which is the lowest vacancy rate since 2014. This was due to 3,400 sq m–5,400 sq m of space being leased across Two IFC, Three IFC, 63 Hanwha Financial Center, and KT Yeouido Building. In CBD, Concordian (former_Kumho Asiana Main Tower) faced a massive increase in vacant space which resulted in a slight increase of CBD’s vacancy rate to 16.4%, up 0.7 of a ppt from the last quarter. But, the fall of vacancy rates in GBD and YBD contributed to an overall decline in the Seoul prime office vacancy rate, compared to the previous quarter.

Traditionally, Korean conglomerates and insurance companies have driven the demand for office space in the CBD. The increase in the vacancy rate this quarter was due largely to several lead tenants downsizing their offices. Kumho Asiana Group sold off Concordian (former_Kumho Asiana Main Tower) and relocated its subsidiaries to Centropolis, downsizing its office to 20,000 sq m. Daelim Plant Works also downsized within D Tower. In addition, Hyundai Engineering’s Task Force Team, which previously occupied 4,500 sq m in Twin Tree Tower, disbanded. Meanwhile, Kyobo Life Insurance and TRC (Trade Risk

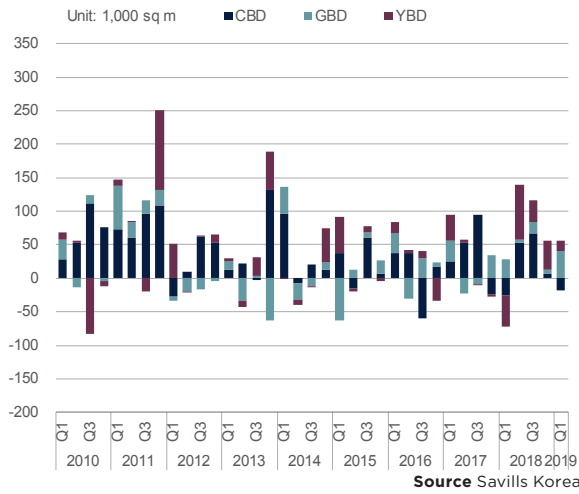
TABLE 1: Monthly Rents, Maintenance Fees And Vacancy Rates By District, Q1/2019

(Unit: KRW/3.3058 sq m, GLA)

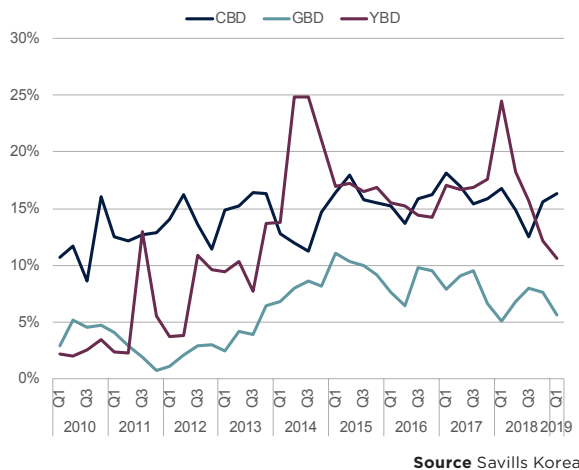
DISTRICT	RENT		MAINTENANCE FEE		NET ABSORPTION AREA (SQ M)	VACANCY RATE
	AVERAGE RENT	YoY INCREASE (%)	AVERAGE MAINTENANCE FEE	YoY INCREASE (%)		
CBD	109,000	1.7%	43,300	2.0%	-18,600	16.4% (15.7%)
GBD	94,800	1.4%	39,100	2.0%	41,000	5.6% (7.7%)
YBD	80,400	0.8%	38,600	2.5%	14,800	10.6% (12.1%)
Overall Seoul Average	98,800	1.4%	41,000	2.1%	37,200	11.7% (12.4%)

Source Savills Korea

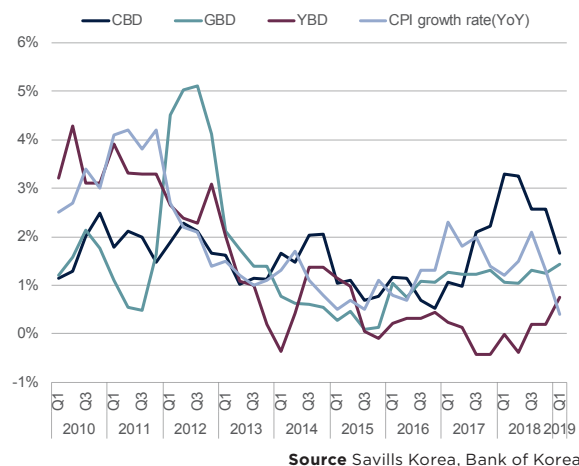
GRAPH 3: Net Absorption, Q1/2010 to Q1/2019



GRAPH 4: Seoul Prime Office Vacancy Rate, Q1/2010 to Q1/2019



GRAPH 5: YoY Rental Increase Rate By District, Q1/2010 to Q1/2019



Consulting) also downsized their offices in Seoul City Tower, while Samsung Fire & Marine Service relocated from Pine Avenue to Namsan Square Building.

In CBD, a new division of SKT moved into Centropolis, leasing 7,300 sq m, and firms such as Iconloop and Euler Hermes, which have rapidly grown their businesses and moved out of co-working spaces, set up their own private offices at Signature Tower and Seoul Finance Center, respectively. In addition, expanding businesses, Medicom and Shin & Kim relocated, from Signature Tower to SFC and from State Tower Namsan to D tower, respectively. However, CBD's net absorption decreased since the size of the newly created division fell short to downsizing and relocation.

GBD recorded a low vacancy rate, driven by the growth of the IT-related industry as well as large-scale tenants upgrading and relocating their offices. IT companies that have upgraded and relocated include: Hyperconnect, a mobile video communication technology developer, to Asem Tower; Qoo10, an e-commerce platform provider, to Gangnam N Tower; Wemakeprice, a similar service provider to Qoo10, to Luceen Tower; and Viva Republica, a fintech company, to Arc Place. Companies in the high-tech industry have also upgraded and relocated, namely Hyundai Mobis, which expanded its office in SI Tower, and Agilent Technologies Korea, which upgraded and relocated to A+ Asset Tower. In addition, several large tenants relocated during the quarter. Mirae Asset Life Insurance sales division took up four-and-a-half floors in GT Tower by merging its old offices which were dispersed at GT Daegak Building and Sunrider Building. Similarly, AstraZeneca relocated to Asem Tower from Korea Lutheran Hall.

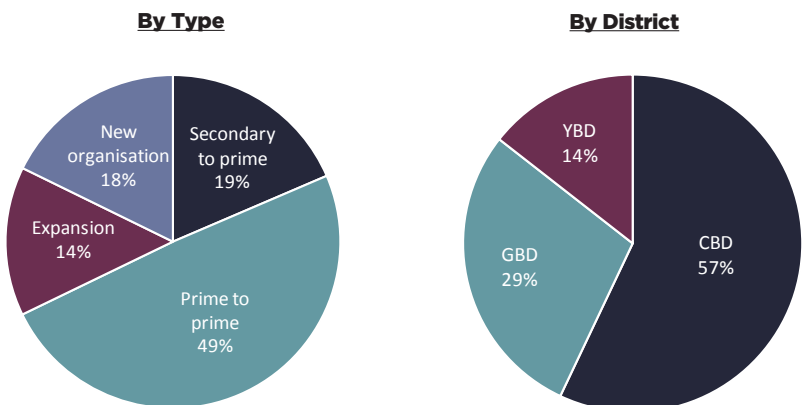
In YBD, financial industry companies drove down the vacancy rate by 1.5 ppts to 10.6%. KDB KIAMCO relocated to FKI Tower while VOGO Investment Fund upsized and relocated from CBD to Three IFC. Hanwha Life and Hanwha AMC took up an additional 3,900 sq m in 63 Hanwha Financial Center, clearing out the huge remaining vacant spaces. Financial institutions at the Korea Teachers Pension Building continued to relocate to other prime buildings in the neighborhood as the reconstruction of that building is set to begin later in 2019. Prudential Life Insurance Yeouido office and Taurus Investment Management, both previously located in the Korea Teachers Pension Building, have relocated to Yeouido Finance Tower and KT Yeouido Building, respectively.

Owing to aggressive marketing efforts in YBD, relocation demand from tenants across the non-financial sectors was also strong. Procter & Gamble Korea, a consumer goods producer, relocated from SI Tower to Three IFC while Carrier (CLK Co. & CRK Co.), a manufacturer of air-conditioners and refrigerators, moved out of the Electric Contractors Financial Cooperative Building to Two IFC taking up 6,800 sq m.

RENT

At the end of March 2019, the average face rent for Seoul prime office was KRW98,800/3.3 sq m, up 1.4% from the same period last year. By district, CBD recorded the highest increase of 1.7%, but with the highest vacancy rate among the three main districts, while GBD and YBD showed 1.4% and 0.8% increases, respectively. As the vacancy rates for prime office buildings are distributed unevenly, the monthly rental increases also vary building-by-building. The average monthly maintenance fee for Seoul

GRAPH 6: Take-up, Q1/2019



prime office was KRW41,000/3.3 sq m, which was an increase of 2.1% YoY, higher than the increase rate of 2018 CPI (1.5%).

OUTLOOK

In Q2/2019, face rents and maintenance fees are expected to maintain similar levels to Q1. However, vacancy rates are forecast to drop compared to the current quarter. Vacant spaces are expected to decrease as there aren't any new prime offices to be delivered to the three main business districts in Q2 and there are pre-committed tenants waiting to move in.

CBD's vacancy rate will drop in Q2 as large occupiers are scheduled to move in. Co-working space operators will continue their expansions, with Singaporean co-working space company, JustCo, expected to launch its first two branches at Seoul Finance Center and Ferrum Tower, and SparkPlus, a Korean co-working space operator, taking up four floors at Center Place for its new branch. Other than that, Boram Mutual Aid and CJ Logistics Corporation are scheduled to relocate to Taepyeongno Building, taking up a huge amount of remaining space. Although the opening of large-scale vacant space (54,700 sq m) is inevitable following Daewoo E&C's move to Summit Tower (located in non-core area of Euljiro 4-ga) from Daewoo E&C Shinmunno Building, the impact on vacancy rate is expected to be minimal, offset by Kim & Chang's supposed relocation. However, an increase of the vacancy rate within narrow limits is unavoidable in Q3 when the Seosomun 5 district project enters the CBD prime office market.

GBD's vacancy rate will likely drop following Q1, driven by tenants' high demands for relocations. Hyundai AutoEver will take up eight stories in Luceen Tower, which has had a huge vacancy since its completion. Gangnam N Tower is scheduled to lease out an additional four floors to EA Korea, a game developing company, and three floors to biopharmaceutical company, Syneos Health.

The YBD vacancy rate will show a significant decrease as well in Q2, which will mean three consecutive quarters of decline. Contributing to the shrinking of vacant space in YBD, Meritz Securities will relocate to six floors of Three IFC from its two main headquarters in Yeouido. Meritz Securities is reported to be selling off its two main headquarters and integrating its dispersed organizations as it relocates to new offices. Teachers' Pension and Thermos, a tumbler manufacturing company, will move into FKI Tower, from Korea Teachers Pension Building and Standard Chartered Bank (HQ) Building, respectively. While the flow of tenants out of the Korea Teachers' Pension Building continues ahead of its reconstruction, the tendency of diversification beyond the financial industry also persists. YBD's vacancy rate could also be affected by a new co-working space, operated by IFC, which is predicted to launch in Q2.

TRANSACTIONS AND INVESTMENT MARKET

Total transaction volumes for the Seoul Office Market in Q1/2019 stood at KRW2.04 trillion, a comparable level to the same period last year (KRW2.2 trillion in Q1/2018). In 2018, transactions for large core assets in prime locations were prevalent, and included such deals as Centropolis (CBD), Yeouido SK Securities Building (YBD), and Samsung C&T Seocho (GBD). On the other hand, there has also been a recent increase in the number of transactions involving assets with high-quality covenants, that are conversely located outside of Seoul's three major business districts, in locations such as Jamsil, Yongsan, DMC and Mapo etc.

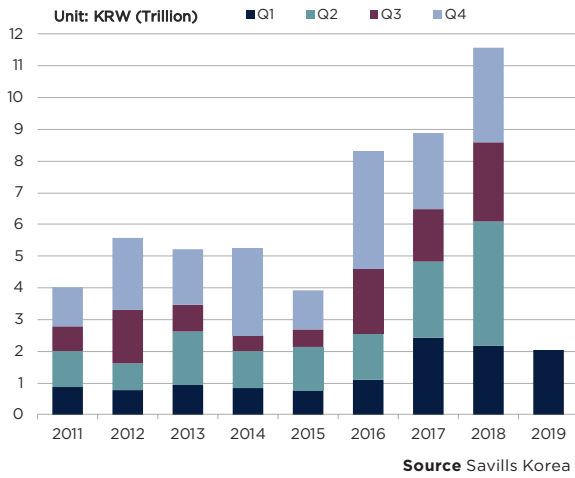
In Q1/2019 ARA Korea AMC acquired Seoul Square from Alpha Investment Partners for KRW988.3 billion (KRW24.6 mil/3.3 sqm). NH Securities & Investments together with ARA Korea AMC are the principal investors in Seoul Square, with NH Securities & Investments expected to sell down its shares to investors. Previously, major occupiers such as LG affiliates

TABLE 2: Major Tenant Relocations, Q1/2019

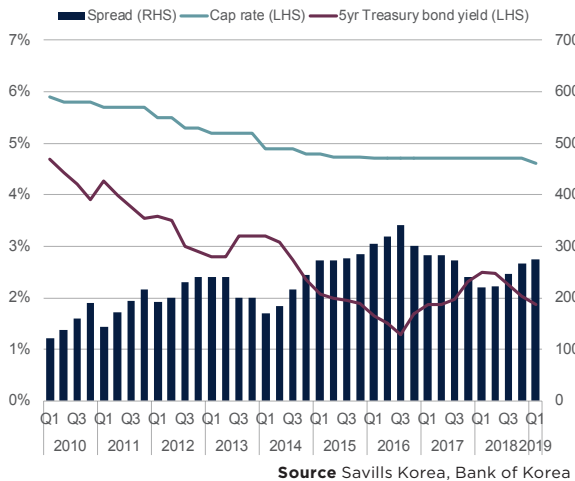
TO				FROM	
DISTRICT	BUILDING	TENANT	AREA (SQ M)	DISTRICT	BUILDING
CBD	D Tower (Tower 2)	SHIN & KIM	29,600	CBD	State Tower Namsan
	Centropolis	Kumho T&I	20,200	CBD	Concordian Building (former_Kumho Asiana Main Tower)
	D Tower (Tower 1)	Daelim	17,700	CBD	D Tower (Tower 2)
	Centropolis	SKT	7,300	New	
	Signature Tower	Iconloop	4,200	New	
	Seoul Square	Medicom	3,400	CBD	Signature Tower
	Centropolis	Yeochun NCC	2,400	CBD	KCCI
GBD	GT Tower	Mirae Asset Life Insurance	9,300	GBD	GT Daegak Building, Sunrider Building
	A+ Asset Tower	Agilent Technologies Korea	7,600	Others	Ilshin Building (Yongsan-gu)
	Gangnam N Tower	Workflex	5,400	New	
	SI Tower	Hyundai Mobis	3,700	Expansion	
	Asem Tower	Hyperconnect	3,100	GBD	GT Daegak Building, A+ Asset Tower
	Asem Tower	AstraZeneca Korea	3,100	Others	Korea Lutheran Hall
YBD	Three IFC	Procter & Gamble Korea	3,800	GBD	SI Tower
	Two IFC	Carrier(CLK Co. and CRK Co.)	3,000	Others	Electric Contractors Financial Cooperative Building
	63 Hanwha Financial Center	Hanwha Life	2,800	Expansion	
	FKI Tower	KDB KIAMCO	2,500	YBD	Taeyoung Building

Source Savills Korea

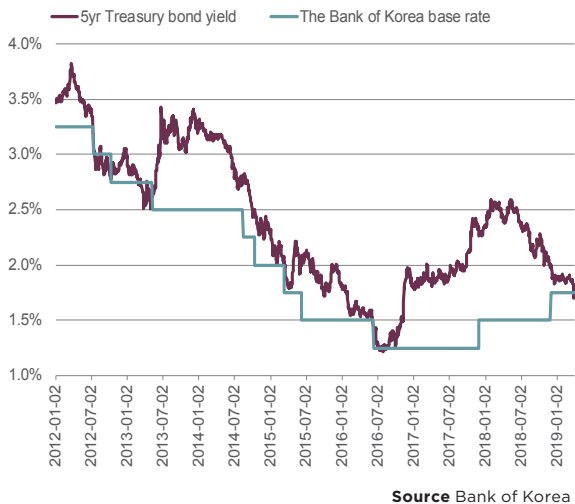
GRAPH 7: Office Transaction Volumes, Q1/2011 to Q1/2019



GRAPH 8: Seoul Prime Office Building Cap Rate Trend, Q1/2010 to Q1/2019



GRAPH 9: Five-year Treasury Bond Yield And The BOK Base Rate Trend, January 2012 to March 2019



relocated to nearby HQs from Seoul Square, causing the vacancy rate to rise to about 50% for almost a year. However, recent moves by WeWork, SK Planet and other tenants to the building lowered the vacancy rate to below 5%. As a result, the occupancy rate at the time of the sale was understood to be around 97%, with multiple tenants including government institutions, international companies and co-working providers.

NH Investment & Securities, in cooperation with Ryukyung PSG AMC, purchased Samsung SDS Tower, located near Jamsil Station, from Samsung SRA AMC for KRW628 billion (KRW20.9 mil/3.3 sqm). Reports suggest that NH Investment & Securities has agreed to sell-down to its affiliates and other institutional investors. Currently, the building is 100% occupied by Samsung SDS and acts as their headquarters, with the lease due to expire after six years.

JS AMC acquired WeWork Tower (former PCA Life Tower), located in Yeoksam-dong, for KRW140.5 billion (KRW23.6 mil/3.3 sqm) via a share deal. In Q4/2017, following the merger of PCA Life with Mirae Asset Life Insurance, the amalgamated organization relocated to Yeouido, causing the vacancy rate of the building to soar to 55%. However, after WeWork took over 13 floors in Q2/2018 and the remaining vacant space was leased, the building was aptly rebranded as WeWork Tower.

A major transaction that is expected to close imminently, is the State Tower Namsan; current owner, CBRE GI (ADIA), selected Mirae Asset Global Investments as the preferred bidder, while Korea Investment Corporation (KIC) is reported to also be investing in the deal. Other asset sales that have either closed or are projected to close

in the first half of the year are; T Tower (CBD), Citibank Dadong HQ (CBD), the Meritz Securities Head Office Building and Annex Building (YBD) and the SMT Building (Mok-dong).

In Q1/2019, the average prime office cap rate stood at mid-4%, calculated using face rent and 90% occupancy. However, considering leasing concessions (such as rent-free periods and tenant-improvement incentives) and actual occupancy rates, the effective cap rate is at low 4%. The average five-year treasury yield in Q1/2019 decreased to 1.9%, meaning a prime office cap-rate spread of approximately 270 bps. The borrowing rate on core assets declined this quarter to 3.2%, compared to 3.5-3.6% in the previous quarter, and the average LTV remains 55%.

TABLE 3: Major Investment Transactions, Q1/2019

DISTRICT	BUILDING NAME	SELLER	BUYER	TRANSACTION AREA (SQ M)	TRANSACTION PRICE (KRW BIL)
CBD	Seoul Square	Alpha Investment	ARA Korea AMC (NH Investment & Securities)	132,806	988.3
GBD	WeWork Tower (former_PCA Life Tower)	Mastern AMC	JS AMC	19,646	Approx. 140.5 (Share deal)
Jamsil	Samsung SDS Tower	Samsung SRA AMC(CPPIB)	Ryukyung PSG AMC (NH Investment & Securities)	99,537	628
Yongsan	Hanjin I&C Seoul HQ	Vestas AMC	Koramco REITs & Trust	31,787	161.8

Source Savills Korea

Overview Of The Seoul Office Market And Savills Korea Office Survey

Table 5: Summary Of Surveyed Buildings, March 2019

		CBD	GBD	YBD	Total
A	Number of buildings	24	12	10	46
	Average GFA (sq m)	87,000	99,000	99,000	93,000
	Average year of completion	2003	2004	2005	2004
B	Number of buildings	23	20	8	51
	Average GFA (sq m)	54,000	48,000	46,000	50,000
	Average year of completion	2000	2001	1996	2000
Total number of buildings		47	32	18	97
Total area (sq m)		3,340,000	2,140,000	1,350,000	6,830,000

Source Savills Korea Research & Consultancy

Close to 55% of large office buildings (30,000 sq m or more) in Seoul are located in three major business districts – the CBD (25%), GBD (19%) and YBD (11%). The CBD is the largest of these districts and is home to major government and multinational institutions. The GBD also houses many multinational companies and is an information technology centre, while YBD, the “Wall Street” of South Korea, includes the headquarters of major securities firms and broadcasting companies.

The Savills Korea Quarterly Office survey is the longest running survey of prime office stock in Seoul. Established in 1997, it currently comprises 97 of the 122 buildings in Seoul classified as “prime” buildings.

Prime buildings: Buildings with a GFA greater than 30,000 sq m with good accessibility and facilities, a high level of finish, and creditworthy blue-chip

tenants.

Monthly rent: Surveyed rents are “face rents”, the asking rents reported by landlords for mid-level floors. These rents are standardised by Savills Korea to account for variations in the security deposits required by different landlords to produce an effective rental figure for NLA.

Cap Rate Calculation Method

Cap rate: (income from interest on security deposit (5%) + face rent of a standard floor + residual income from maintenance fee) × occupancy rate (90%) × 12 / transaction amount.

For comparison of cap rates of each transaction case, a 5% interest rate on security deposit and 90% occupancy rate were uniformly applied.