

Spotlight on...

Bundang Office Market

March 2010

Bundang, Korea



Bundang Office Market Summary Table, Q4/2009

Rent(KRW/ 3.3058sq.m. gross leasable area)	Rent(KRW/ 3.3058sq.m. net leasable area)	Increase compared with Q4/2008	Vacancy Rate	Short-term Vacancy Forecast
44,500	89,300	2.4%	15.5%	↑

Source: Savills Korea

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1. New Supply

In the second half of 2009, two buildings were completed in Bundang, pushing up the vacancy rate in the area. Bundang M Tower, completed at the end of June, recorded a 25 per cent occupancy rate at the end of December. As companies have moved in from the Yongin area, it is predicted the building will report upwards of 70 per cent occupancy by the end of March 2010. Meanwhile, Top Building, put on the market in November, had a 10 per cent occupancy rate at the end of February 2010.

Office Supply in 2009

Completion	Building Name	Floors	GFA (sq.m.)	Remarks
Jun. 2009	Bundang M Tower	B4/F to 8/F	46,125	Retail; B1/F to 2/F
Nov. 2009	Top Building	B4/F to 8/F	12,182	Retail; B1/F to 2/F

Source: Savills Korea

The NHN headquarters building is predicted to be fully occupied by May 2010. Although no exact information is available, this consolidation of NHN's offices is likely to substantially increase the overall vacancy rate in the market.

Office Supply Planned for 2010

Completion	Building Name	Floors	GFA (sq.m.)	Remarks
Feb. 2010	NHN's HQ Building	B7/F to 28/F	101,600	100% owner-occupied
Feb. 2010	Yemiji Building	B4/F to 12/F	13,577	100% leased

Source: Savills Korea

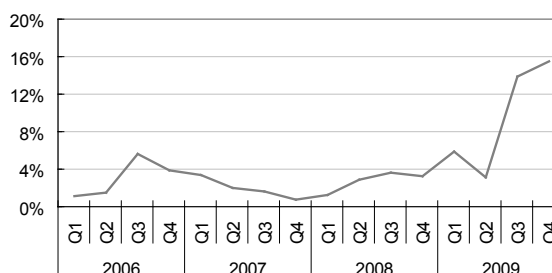
Next to Bundang, Pangyo's office market is projected to grow to 2.3million sq.m. by 2015. However, most of the new space is for corporate own-use and difficulties in project financing have delayed the overall supply schedule for two to three years. A growing economy and increased hiring rates will provide welcome relief to the office market, which needs an injection of new business growth to fill vacancies in both existing and newly-delivered product in both Bundang and Pangyo.

2. Vacancy Rate

Bundang M Tower and Top Building were completed in Q3/2009 and Q4/2009 respectively. As a result, the average vacancy rate shot up from 3.1 per cent in Q2 to 15.5 per cent in Q4. Except for these two buildings, which accounted for 80 per cent of the vacancies in Bundang in Q4, the overall Q4 vacancy in the area was 3.5 per cent, slightly up from the previous two quarters.

As new supply is concentrated in and around Gumi-dong and Yatap-dong, the vacancy rate in these areas is higher when compared to the more stable Seohyun-dong region.

Office Vacancy Rates, Q1/2006-Q4/2009



Source: Savills Korea

As of Q4, six of the total 18 Bundang buildings surveyed posted vacancy rates of over 10 per cent.

Major Tenancy Changes, Q3/2009 - Q4/2009

Time	Tenant	From	To	New leased area (sq.m.)
Q3	TmaxSoft (HQ Relocation)	Glass Tower in Samseong-dong	Bundang Square	3,117
Q3	ING Life Insurance	Chorim Building	Logit Building	N/A
Q4	Neowiz INS	Core Building in Samseong-dong	Bundang M Tower	5,726
Q4	Veeco Korea	Bundang Migok-dong	Bundang M Tower	638

Source: Savills Korea

Neowiz will relocate from ASEM Tower in Gangnam, Seoul into its own HQ building (formerly Onse Telecom's company building, acquired in 2009) in March 2010. Neowiz's HQ building comprises the main building (B1F-8F) and a wing (B1F-4F), providing a GFA of 15,941sq.m. The relocation will involve about 900 staff members working for Neowiz and its affiliates.

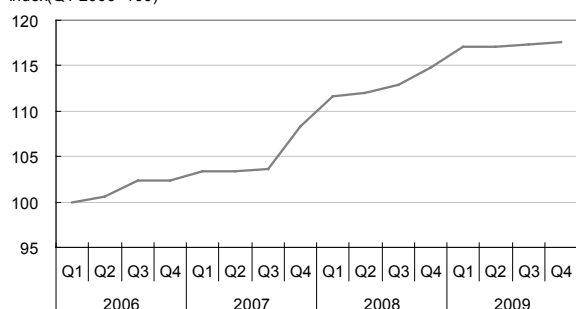
The Bundang office market is expected to see vacancy rates rise in 2010, with new buildings supplied in Bundang, and companies constructing their own office buildings in Pangyo. The vacancy created in SK U Tower as NHN relocates to its own HQ Building will be filled with SK C&C, which is currently leasing in Bundang Square. SK Telesys, with its company building slated to be completed in Pangyo in September 2010, is expected to vacate its current leased office in Chorim Building. CJ Media, which acquired OnMedia, will relocate OnMedia's offices to its DMC building in Sangam-dong, Seoul.

3. Rental Trends

Despite the rise in vacancy in the 2nd half of 2009, rents rose 0.1 per cent in Q3 and 0.3 per cent in Q4. The annual rent increase was 2.4 per cent in 2009, down from 5.9 per cent in 2008 but higher than the 1.4 per cent posted for Seoul prime buildings. Buildings with high vacancies are offering rent-free periods for new tenants, with effective rents believed to be 8 per cent to 16 per cent lower than market rents.

Office Rental Index (Market Rents), Q1/2006 - Q4/2009

Index(Q1 2006=100)



Source: Savills Korea

Savills surveys show that most landlords have no intention of raising rents in 2010. Even though the general consensus among economic research institutes is that the Korean economy will maintain its momentum for recovery in 2010, the lingering uncertainty in the market and concerns over continued increases in vacancy are hindering rent increases.

4. Transactions and Investment Market

While there were no transactions in the first half of 2009, four buildings sold in the second half.

Excluding building transactions between affiliates of the same group, or acquisition for owner's own use, there were only two buildings that changed hands for investment purposes.

Seohyeon Building was the first foreign institutional investor acquired in Bundang since Lehman Brothers went bankrupt.

Currently, the cap rates for Bundang office buildings are estimated to be at 7.0 to 7.5 per cent. Cap rates of non-core areas are higher by 50 to 100 bps than core areas. Between 2007 and 2008, the cap rates were between 5.0 and 6.0 per cent.

Major Office Transactions in 2H/2009

Time of transaction	Building Name	Seller	Buyer	Area Transacted (sq.m.)	Transaction Amount (Bil. KRW)
Jul. 2009	Bundang Seohyeon	HSB Property1 Investment ABS Specialty, L.L.C (AON)	Hyundai You First Private Real Estate Investment Trust 2 (Doran Capital)	17,438	46
Jul. 2009	Bundang IDC Center/ Former Hostway	Bundang KPI (ING KPI)	KB Wise Star CR-REIT1	14,188	32
Aug. 2009	Neowiz HQ / Former Onse telecom	Morgan Stanley	Neowiz (80%)+ Neowiz games (20%)	15,941	65

Source: Savills Korea

Appendix

1. Overview of Bundang Office Market

There were 73 office buildings in the Bundang area, at the end of 2009, Their combined GFA is known to be 1,271,863sq.m. In terms of total GFA, the Seohyeon and Migeum-Ori sub districts account for 30.6 per cent and 23.7 per cent respectively of the entire Bundang market.

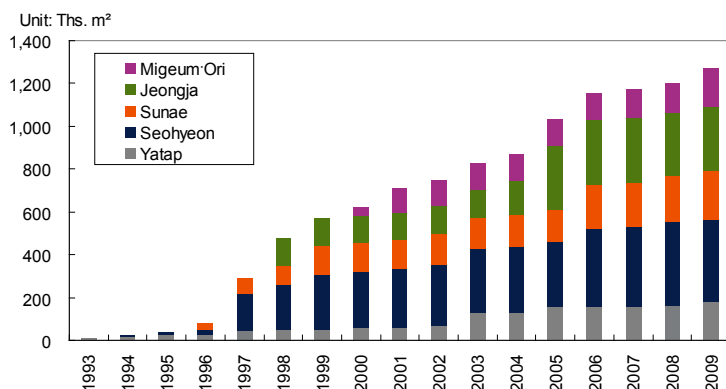
Bundang Office Market Size , Q4/2009

	Yatap	Seohyeon	Sunae	Jeongja	Migeum-Ori	Total
Number of buildings	14	34	15	3	7	73
Average of GFA(sq.m.)	25,728	11,459	14,954	12,618	100,394	17,423
Total GFA (sq.m.)	180,098	389,611	224,317	176,655	301,183	1,271,863
Proportion	14.2%	30.6%	17.6%	13.9%	23.7%	100.0%

The figures in the table reflect only the buildings used for office purposes. buildings such as government buildings, officetels (studio apartment buildings) and mixed use buildings are not included. They may change based on regular data adjustment and correction.

Source: Savills Korea

Trends in Bundang Office Supply, 1993 - 2009



Source: Savills Korea

The Bundang area developed into an office market in earnest, with a large number of well-established companies building their own office buildings in the area in the early 2000s, following the relocation of government agencies and state-run companies into the Bundang area in the mid 1990s¹.

Since 2000, with the development of neighbouring Yongin, this area has been recognized as the commercial and business centre of the southern Seoul metropolitan area. The Bundang market is entering a mature stage, due to growing office lease demand from businesses, expanded supply, and increased investment since the mid-2000s.

2. Sample Basket

Savills Korea has selected 18 buildings in Bundang, which are leased on a security deposit and monthly rent basis, for office market trend analysis.

*Survey period: September 1 to 30 2009 and December 1 to 31, 2009

¹ If buildings of state-run companies are included, there were a total of 80 buildings, with their combined GFA of 1,547,916m² as of the end of 2009.

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