

DMC Office Market

November 2010



DMC Office Market Summary, Q3/2010

Average Rent (KRW/3.3058 sqm, based on GLA)	Average Rent (KRW/3.3058 sqm, based on NLA)	YoY Increase Rate	Vacancy Rate	Projected Short-term Vacancies
43,000	81,100	-2.2%	19.7%	→

Source: Savills Korea

DMC Office Market

Supply

Since the completion of the Woori Sangam Financial Center and CJ E&M Center in 2H/2009, no new office supply has been delivered in DMC. While no additional office stock is planned for 2011, four new buildings currently under construction will be placed on the market in 2012.

The relocation of Woori Financial Group's data centre and business process reengineering centre into Woori Sangam Financial Center was completed in September 2009. CJ Entertainment and Media Center, which was completed in November 2009, has been occupied by eight CJ Group affiliates.

Earlier this year, the relocation of Woori Bank's call centre from Seoul's Olive Tower caused the vacancy rate to increase in the CBD. Around 23,000 sqm of Woori Bank's call centre office space was moved to DMC from the CBD, in line with the current office relocation trend of moving call centres to peripheral areas of the city. This could prove to be the start of a trend to move back-office operations out of prime locations to other areas such as DMC, Bundang and Pangyo.

Demand and Vacancy Rate

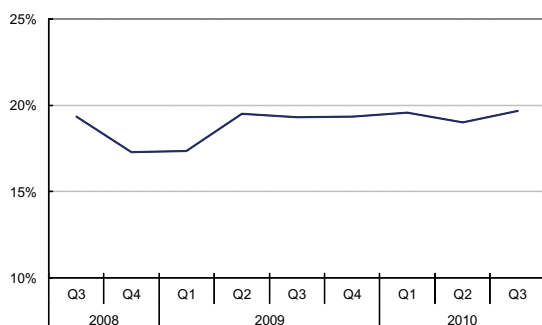
The vacancy rate, which was at 19 per cent as of the end of 2009, remained steady in 2010, seeing a slight increase to 19.7 per cent in Q3.

Changes in Vacancy Rates, Q4/2009 – Q3/2010

	Q4/2009	Q1/2010	Q2/2010	Q3/2010
Vacancy Rate	19.3%	19.6%	19.0%	19.7%

Source: Savills Korea

DMC Office Vacancy Rates, Q3/2008 – Q3/2010



Source: Savills Korea

Of the ten leased buildings surveyed, all of them have a 15 per cent vacancy rate except for Pantech R&D Center and KBS Media Center, which are being used partly by the owners.

The completion of LG U Plus Tower in Seoul's CBD in September is thought to have contributed to the move of some LG affiliates to the DMC area. Kookmin Bank also moved out of NuriTcum Square's R&D Center to a different office district. Meanwhile, Hansol Education chose to consolidate its scattered offices, which were originally in Mapo Taeyeong building and KGIT1 building in DMC, into its Hansol Education Headquarters building (previously KGIT3). As a result of this reorganisation and expansion, in addition to that of current tenants, Hansol Education Headquarters building's vacancy rate was posted at 16 per cent.

Major Tenancy Changes, Q2/2010 – Q3/2010

Tenant	From	To	New Lease Area (sqm)	Remarks
Q2				
Kookmin Bank	NuriTcum Square R&D Center	Headquarters building outside DMC	10,077	Office integration into headquarters building
Hansol Education	KGIT1	Hansol Education Headquarters (KGIT3)	12,408	Relocation and expansion
Q3				
LG Telecom	DMC Korea Electronics Association Building	LG U+ office building (DMC)	2,975	-
Hansol Education	Mapo Taeyeong Building	Hansol Education Headquarters (KGIT3)	1,797	-
C.I.C Group	Woori Technology Building	Headquarters building in Dongducheon	1,521	Relocation for business efficiency
CJ Media	Sangam IT Center	CJ E&M	1,441	-
LG International	DMC Korea Electronics Association Building	Office building LG U+ (DMC)	562	-
Mirae Asset Securities	Sangam IT Center		1,304	Expansion
E-Commerce Tech	DMC Korea Electronics Association Building		797	New lease

Source: Savills Korea

DMC Office Market

DMC began offering office space in 2007 but has been unable to stabilise its high vacancy rate. This is mainly due to the area's poor accessibility to public transportation due to the delay in the completion of the Korail Airport Railroad and the Gyeong-eui Railway, as well as the strict government restrictions on tenant type.

The first section of Korail Airport Railroad (from Incheon International Airport to Gimpo Airport) has been in operation since March 2007 and the second phase (from Gimpo Airport to Seoul Railway Station) will come into service in December 2010. The opening of the second section is expected to improve accessibility to the DMC area, which should have a positive effect on office demand, placing downward pressure on the vacancy rate.

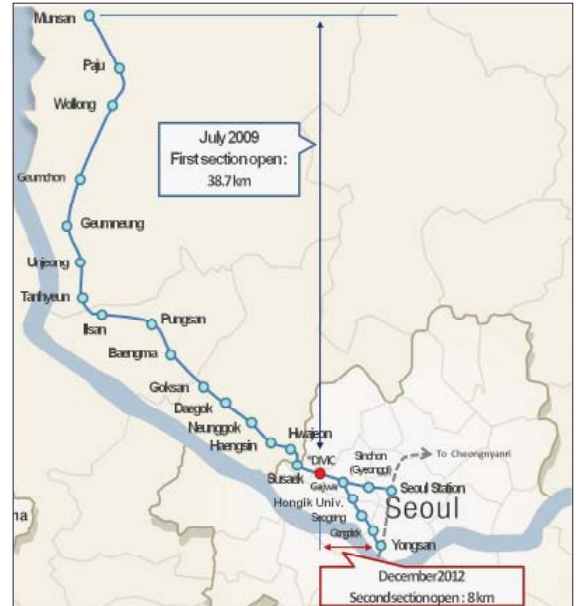
The first double-track section of Gyeongui Railway, running from Munsan to DMC (Seongsan) in the southern Seoul area, opened in July 2009 and has helped improve accessibility to DMC. However, the impact of the double-track section has been limited as the DMC (Seongsan) to Seoul Station section is still single track. Nevertheless, the second double-track section stretching from Seongsan to Yongsan, set for completion at the end of 2012, will significantly enhance accessibility to DMC, greatly shortening the travel time from DMC to the CBD and Gimpo Airport to less than 20 minutes and DMC to Incheon International Airport to 50 minutes. Furthermore, when the new railway line between Yongsan and DMC comes into full service, it will improve connection times between the city centre and DMC.

Development Schedule for Korail Airport Railroad



Source: Savills Korea

Development Schedule for Gyeongui Railway



Source: Savills Korea

Duration from DMC to Major Stations

Transport Type	Major Stations	Distance from DMC	Travel Time
Korail Airport Railroad	Seoul Station	9 km	8 minutes
	Gimpo Airport	11.4 km	12 minutes
	Incheon International Airport	49 km	45 minutes
Gyeongui Railway (Double-track sections)	Seoul Station	7.5 km	15 minutes
	Yongsan	8 km	17 minutes
	Ilsan	17.6 km	24 minutes

Source: Savills Korea

In addition to accessibility problems, which are expected to improve in the foreseeable future, DMC holds limited attraction for prospective tenants. Due to government restrictions, only certain types of businesses can lease office space in DMC buildings. These restrictions are imposed for five years after building completion, and extended to 10 years for those buildings whose development started after February 2008.

Companies relocating from major office districts, have been the main drivers of demand for DMC office space. Although DMC is currently maintaining its competitiveness by keeping rents low, the increased supply expected in 2011 is likely to push down rents in the major office districts, diminishing DMC's price advantage. This will diminish the value benefit for tenants moving to DMC, although DMC is unlikely to lose its existing tenants since its rents are still considerably lower than the major office districts.

DMC Office Market

Rent

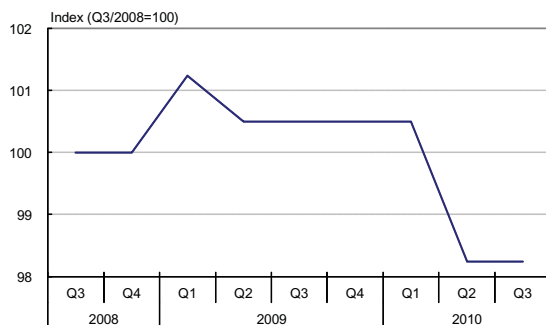
In Q3/2010, rents in DMC dropped 2.2 per cent from the previous year, based on NLA. The actual fall in rent, however, is believed to have exceeded 2.2 per cent as many buildings are providing rent-free periods to their tenants. DMC has suffered vacancy rates of more than 20 per cent since Q2/2009, and this has played a major role in bringing down rents. The two buildings which saw vacancy hikes in Q2/2010 lowered their face rent by 11 per cent, leading to lower average rents in DMC.

DMC Mapo Office Market

		Q4/09	Q1/10	Q2/10	Q3/10
Rent (KRW/3,3058sqm)	Based on GLA	43,900	43,900	43,000	43,000
	Based on NLA	83,000	83,000	81,100	81,100
Rent increase (QoQ), based on NLA		0.0%	0.0%	-2.2%	0.0%
Rent increase (YoY), based on NLA		0.5%	-0.7%	-2.2%	-2.2%

Source: Savills Korea

DMC Office Rents, Q3/2008 – Q3/2010



Source: Savills Korea

For the time being, the vacancy rate in DMC is expected to remain at the current level as no significant changes in rents are anticipated in Q4/2010. Despite no new supply in 2011, lack of demand and take-up will suppress rent increases.

Transaction and Investment Market

In Q4/2009 and Q2/2010 the office floors of Sangam IT Center (floors 3 to 12) and Hansol Education Headquarters building (floors 3 to 29) changed hands. Hansol Education Headquarters building (formerly KGIT3) was acquired through C9 CRREITs VI, established by Intrust Investment & Trust (previously C9 Asset Management), with joint equity investment by Hansol Education and Daewoo Motor Sales Corporation. The building's office floors, which are occupied by Hansol on a master lease basis, are estimated to have fetched a cap rate of 7.5 per cent.

Major Office Transactions in Q4/2009 and Q2/2010

Time of Transaction	Building Name	Seller	Buyer	Area (sqm)	Transaction Amount (KRW bil)
Oct 2009	Floors 3 to 12, Sangam IT Center	Sangam IT Consortium	M Plus Private Real Estate Investment Trust #2	35,283	67
Apr 2010	Floors 3 to 29, Hansol Education HQ	KGIT	C9 CRREITs VI	23,739	4.6

Source: Savills Korea

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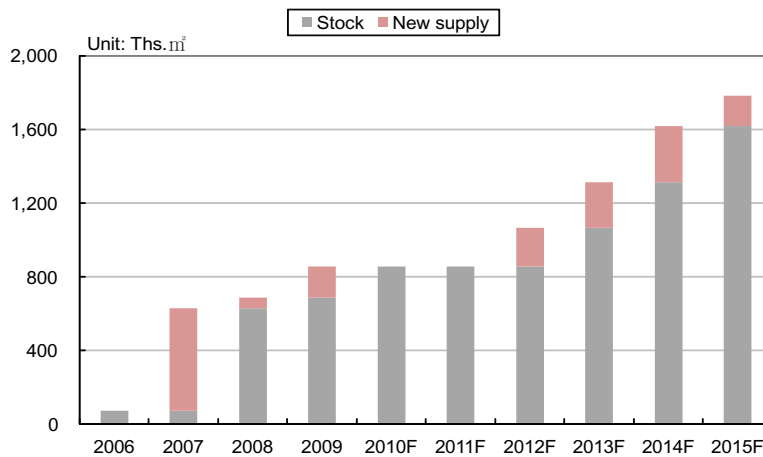
Appendix

Overview of DMC Office Market

DMC (Digital Media City) has been developed as a digital media cluster in the housing development project zone within Sangam New Millennium City, located in a new sub-centre of Seoul. Land plots for development first came on offer in May 2002. DMC takes up 560,000 sqm or around 10 per cent of the entire New Millennium City area of around 6,610,000. Of the 33 land plots (around 200,000 sqm) available for office building development, 30 have been sold. According to the Seoul Metropolitan Government, two of the three unsold plots are scheduled to be sold in 2011 and the CMU CJ Consortium has been selected as the developer for the remaining plot and a transaction agreement is being entered into. The planned building, which is scheduled for completion in 2014, is projected to house four research centres of the Carnegie Mellon University.

Up until October 2010, office areas of a total GFA of 860,000 sqm have been supplied on 16 development sites in DMC. Between 2012 and 2015, additional office buildings with a combined GFA of 1,100,000 sqm will be erected on 17 other land plots. In terms of GFA, DMC will develop into the fourth largest office market in Seoul by 2015.

Trends in the DMC Office Building Supply (2006 – 2015F)



Source: Savills Korea

DMC Office Buildings Surveyed

Savills Korea survey and analyse 10 out of a total of 17 DMC buildings leased out on a monthly basis with security deposits. Office areas that are 100 per cent owner-occupied or used by supporting facilities were excluded from the survey. For organisations operating as auxiliary facilities, such as the Academy-Industry Cooperation Center as well as the Digital Space and Culture and Contents Center, have rents that tend to be lower.

DMC Office Buildings Surveyed

	Overall	Buildings Surveyed
Number of buildings	17	10
Average above-ground floors	17	19
Typical floor area (sqm)	2,215	1,792
Average GFA (sqm)	49,341	48,075
Total GFA (sqm)	789,462	432,679

Savills Korea, as of November 2010
Survey period: March, June and September 2010