

Mapo Office Market

November 2010



Mapo 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
46,900	88,700	1.4%	2.2%	↗

Source: Savills Korea

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Supply

Over the past decade, the Mapo office market has seen little in terms of new office supply. However, this changed with the completion of Janghak Building in November 2010. In 2011, KPX Building, S-Oil's office building and the Police Mutual Aid Association Building will be completed, adding a total GFA of 115,695 sqm to the Mapo office market. Together, these buildings will have a significant impact on the leasing market, resulting in an increase equal to 17 per cent of the current total office stock and 40 per cent of surveyed space.

New Buildings and Planned Office Supply in Mapo, 2010 – 2011

Completion	Building Name	Address	Floors	GFA (sqm)	Remarks
Nov 2010	Janghak Building	18-2 Dohwa-dong, Mapo-gu	B6F/18F	21,277	100% for lease
Apr 2011	S-Oil HQ Building	437-30 Gondeok-dong, Mapo-gu	B7F/23F	40,175	100% owner occupied
Jun 2011	Police Mutual Aid Association Building	180-4 Dohwa-dong Mapo-gu	B8F/20F	34,474	85% for lease
Jul 2011	KPX Building	380-1 Gongdeok-dong Mapogu	B4F/18F	19,769	100% for lease

Source: Savills Korea

Demand and Vacancy Rate

While the vacancy rate of the Mapo office market rose from 2.7 per cent in Q4/2009 to 5.1 per cent in Q1/2010, plateauing at 5.0 per cent in the following quarter, demand for office space has since improved, finally settling at 2.2 per cent in Q3.

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

	Q4/2009	Q1/2010	Q2/2010	Q3/2010
Vacancy Rate	2.7%	5.1%	5.0%	2.2%

Source: Savills Korea

The vacancy spike earlier this year was primarily from tenants leaving the area, such as the relocation of Woongjin Chemical from the Association of Special Post Offices Building to Keukdong Building in Chungmuro (to integrate affiliate offices) at the end of 2009. Life insurance companies in Iljin Building that downsized their lease areas also contributed to the vacancy hike.

Although the vacancy rate in Mapo soared to record highs in Q1 and Q2/2010 from the 3.3 per cent posted in Q4/2005, the 2010 rate is lower than the 6.2 per cent and 7.1 per cent recorded respectively in Q1/2010 and Q2/2010, in Seoul's major office districts.

Major Tenancy Changes, Q1/2010 – Q3/2010

Tenant	From	To	Area (sqm)	Remarks
Q1				
Woongjin Chemical	Association of Special Post Offices Building	Keukdong Building in Euljiro	3,500	
LIG Life Insurance	Iljin Building		1,920	Office downsizing
Q3				
KDB Life Insurance	Daenong Mapo	Cheongan Building in Chungmuro	570	
Hansol Education	Taeyeong Building	Hansol Education Building at Sangam DMC	240	
Meritz Fire & Marine Insurance Building	Association of Special Post Offices Building		3,530	New lease
MSD Korea	Mirae Asset Life Insurance Building		1,600	Office expansion
Hyosung Ebara Engineering	Association of Special Post Offices Building		1,325	Office expansion

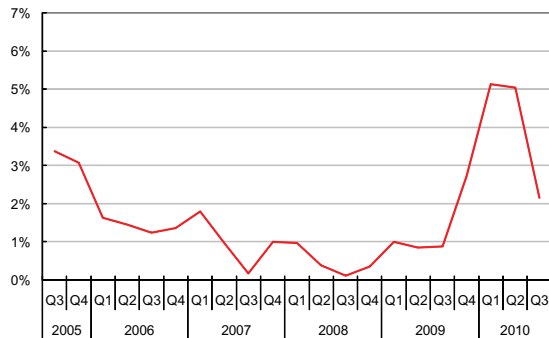
Source: Savills Korea

A closer look at the Mapo area reveals that in Q3 more demand came from tenants increasing their space requirements than from those moving into the area. The expansions, which played a major role in surpressing the vacancy rate in Mapo, was the result of life insurance companies experiencing improved performance in line with the wider economic recovery.

No significant tenant movement is planned for Q4/2010 in the Mapo office market, with new lease contracts totalling about 1,700 sqm expected to be signed in three buildings. Despite such positive signs, the short-term forecast for Mapo looks poor. The new Janghak Building has not found any tenants through pre-leasing and the three buildings to be completed next year are expected to elevate Mapo's vacancy rate.

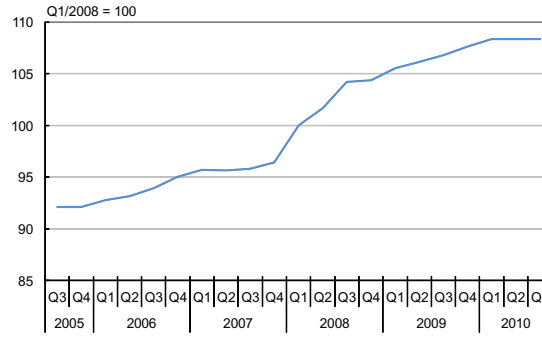
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Mapo Office Vacancy Rates, Q3/2005 – Q3/2010



Source: Savills Korea

Mapo Office Rental Index, Q3/2005 – Q3/2010



Source: Savills Korea

Rent

In general, most Mapo buildings revised their rents at the beginning of the year. A quarter-on-quarter increase of 0.66 per cent was posted in Q1/2010 and -0.02 per cent fall in Q2, while there was no change for Q3. Year-on-year Q3/2010 rental growth in the Mapo area was a meagre 1.4 per cent.

Changes in Rents in 2010

		Q4/09	Q1/10	Q2/10	Q3/10
Rent (KRW/3,3058sqm)	Based on GLA	46,600	46,900	46,900	46,900
	Based on NLA	88,200	88,600	88,600	88,600
Rent increase (QoQ), based on NLA		0.8%	0.7%	0.0%	0.0%
Rent increase (YoY), based on NLA		3.1%	2.7%	2.1%	1.4%

Source: Savills Korea

It is believed that the high vacancy rate in 1H/2010 and concerns over the scheduled new office supply will put pressure on rent increases in the area. Rental growth is predicted to stagnate at around 1 per cent in 2011 as new office supply continues to affect rent setting behaviour.

Transactions and Investment Market

No buildings changed hands during the first three quarters of 2010.

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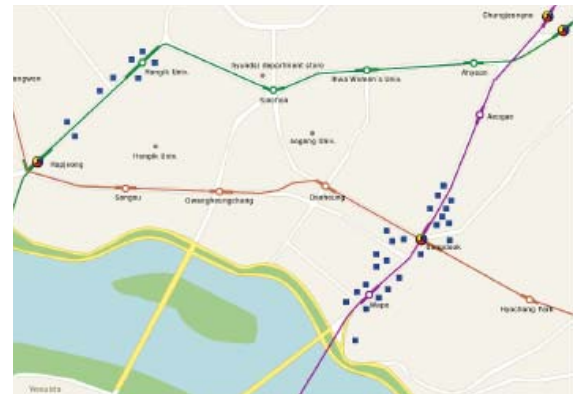
Appendix

Overview of Mapo Office Market

As of December 2009, there were a total of 35 office buildings with a GFA of over 3,305.8 sqm (1,000py) giving a combined GFA of 668,850 sqm (202,326py). Of these buildings, 71.4 per cent are concentrated in areas near Gongdeok and Mapo stations, with the remaining 28.6 per cent near Hongdae and Hapjeong stations.

The Mapo area saw office building development start in earnest in the mid 1980s. The Mapo office district continued to expand until the early 2000s, posting an average annual office space growth of 10.7 per cent between 1985 and 2008. There has been no additional supply in the area since Q1/2005 but the buildings currently in the pipeline in Mapo are scheduled to be completed between 2010 and 2011. As such, a bigger and more vibrant market is expected in the area and three more buildings will be added to the Savills survey of the Mapo office market.

Current Status of the Office Market



The size of the Mapo office market is equal to 37 per cent of the prime buildings in the CBD, with its average rental rate being around 53 per cent of that of CBD prime buildings.

Overview of Buildings Surveyed

Of the 35 buildings in Mapo, lease-only buildings leased out based on a security deposit (normally equal to 10 month's rent) and subject to monthly rent payment, were selected for market analysis. Officetels (studio apartment buildings), government offices, neighbourhood amenities, strata-owned and 100 per cent owner-occupied buildings were excluded from the survey.

Mapo Office Building Surveyed

	Overall Stock	Buildings Surveyed
No. of buildings	35	13
Average no. of floors	15	16
Average year of completion	1991	1993
Average GFA (sqm)	19,110	22,369
Total GFA (sqm)	668,850	290,801

Source: Savills Korea