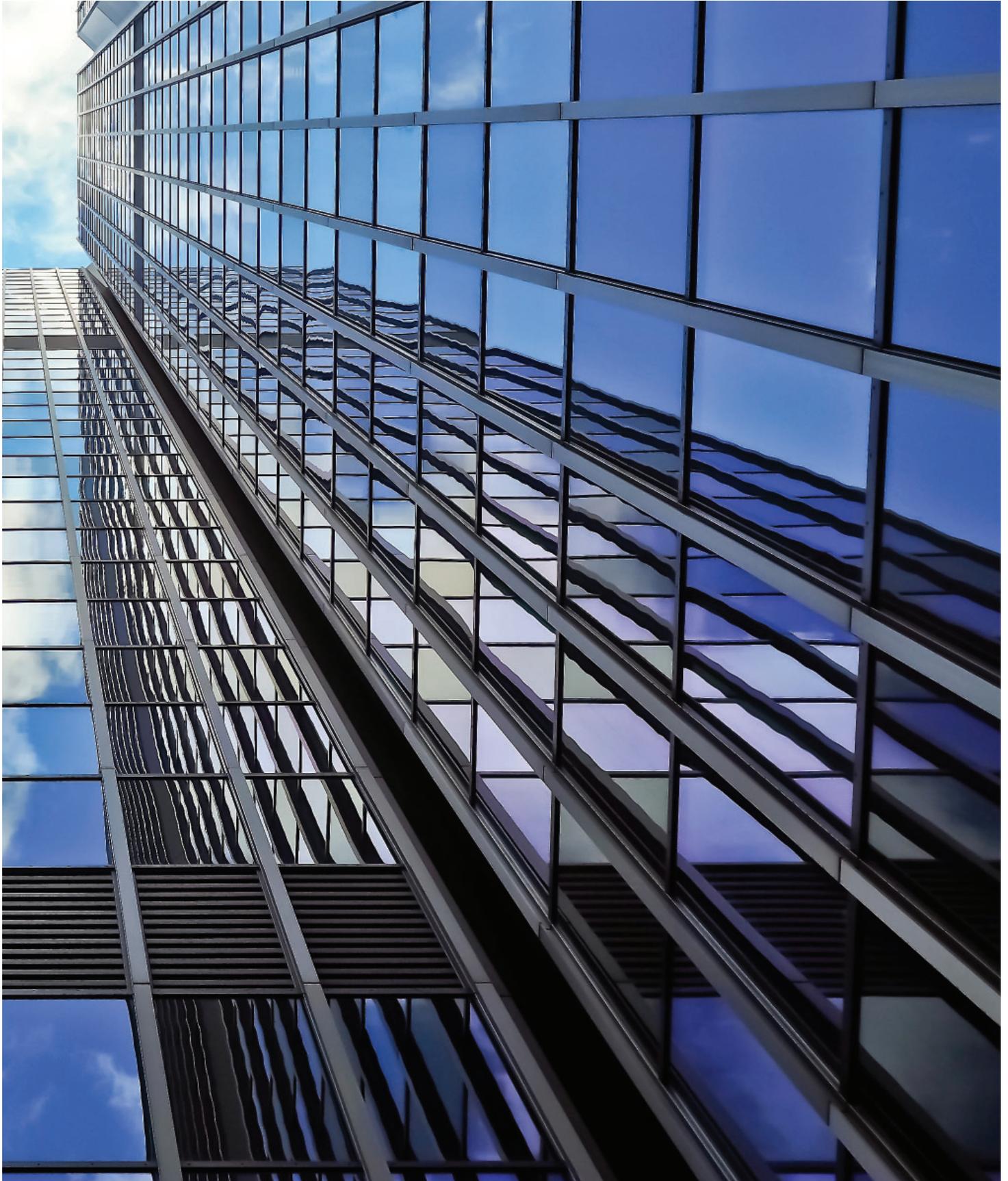


Asian Cities Report - 1H 2019

  
**REPORT**  
*Savills Research*

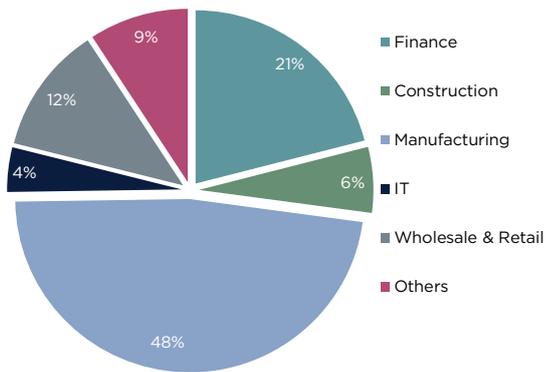
# Seoul Office

  
savills



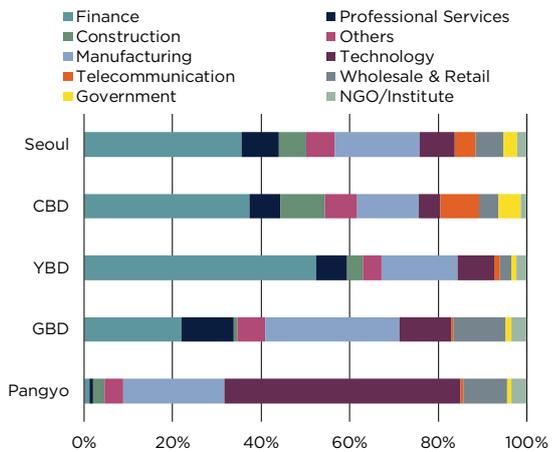
# Prime office net absorption doubled in 2018

**GRAPH 1: Sales Contribution By Industry, 2017**



Source Statistics Korea

**GRAPH 2: Tenant Profile By Business District, 1H/2018**



Source Savills Korea

## SEOUL PRIME OFFICE DEMAND

In Korea, a wide range of industrial sectors such as finance, construction, manufacturing and information technology among others, lead to diversification of demand for prime office space. Analysing prime office tenant types as of 1H/2018, most demand for Seoul's prime office buildings stemmed from the finance sector (the sector taking the most space with 36%) and manufacturing industries (19%).

Financial institutions are the major occupiers of prime office space in the CBD (with 37%) and YBD (53%). Headquarters of major banks excluding KB Kookmin Bank (YBD), and foreign bank branches are mostly situated in the CBD where major government agencies and the Bank of Korea are located. On the other hand, YBD has a high proportion of securities, asset management and related financial investment firms, as the Financial Supervisory Service and Korea Exchange are located there. Recently, leasing demand increased in the YBD from fintech firms, financial service providers based on technology, and crypto-currency exchanges.

In GBD, manufacturing (30%) is the largest sector, followed by finance (22%) and technology (12%). GBD is a preferred district for multinational companies compared to the other major districts. Before Pangyo Techno Valley developed, IT-related tenants accounted for up to 15% in the GBD, but that figure has dropped to 12%, since development of Pangyo IT Venture Valley was initiated by the government after 2011. Sales and marketing organisations of major global technology firms (IT, Bio Technology, game) are currently the major occupiers of prime offices in GBD. Pangyo, with its improved accessibility to Gangnam, created a huge IT cluster with around 1,300 IT companies, and technology-related business represented 53% of Pangyo occupiers. In Pangyo, most occupants of office space were research and development organisations working at their own R&D centers or research institutes.

## 2018'S MAIN DEMAND DRIVERS FOR PRIME OFFICE SPACE

The annual net absorption for 2018, driven by expansion of co-working operators and upgrade demand from high-growth industries, was recorded at 270,000 sq m, a level 1.8 times greater than the five-year average net absorption of 150,000 sq m. The main demand drivers for prime offices in 2018 were co-working operators, IT, bio-tech, e-commerce businesses and customer service providers.

Over the last two-to-three years, co-working spaces rapidly increased in a number of office locations in prime buildings to increase brand awareness. At year-end 2018 they accounted for 25% of prime office net absorption, whilst previously most had been located in GBD secondary buildings. As a result, co-working operators became major new tenants of prime offices as they leased out large areas, usually about three-to-four floors in a building at once. As the co-working market undergoes rapid growth, not only the two major operators, WeWork and Fast Five, but also brands such as Dreamplus and Workflex (operated by Korean conglomerates) expanded their presence in prime offices. The property management arms of these large conglomerates started to open

**TABLE 1: Economic Growth Forecast, 2018 to 2019E**

		2018	2019E
GDP (USD Billion)		1638	-
GDP Growth (YoY%)		2.7	2.6
Trade Dependence	Export (%)	36.9	-
	Import (%)	32.7	-
Goods	Export (YoY%)	3.9	3.1
	Import (YoY%)	1.7	2.3
Unemployment Rate (YoY%)		3.8	3.8
CPI (YoY%)		1.5	1.4

Source Bank of Korea, Korea Customs Service

their co-working offices in leasable buildings, as well as within their owner occupied buildings.

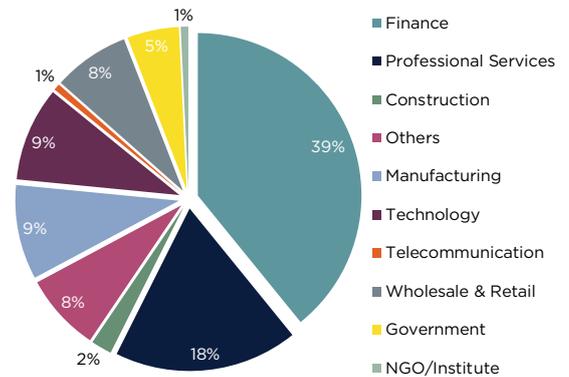
With advances in technology and development in technology-driven services, prime office demand from customer service providers increased from a variety of sectors, not just financial sectors. Existing call centres and online-only customer service providers relocated to prime office space for better working environments, and newly established customer service organisations moved into prime offices. Financial service-related companies earlier had been the principal occupants of prime offices, but the growth in online channels, e-commerce companies, travel agencies, booking companies and other service sector companies created new entities to offer customer service and support that began to occupy the prime offices.

**2019 OUTLOOK**

In 2019, a weak economic outlook is forecast both domestically and internationally, and we expect an incremental net decline in leasing demand for prime office space compared with the previous year. With labour costs hiked due to the minimum wage increase, it is expected that expanded demand from the manufacturing sector, a traditional prime office industry sector, will not be enough to match last year's demand.

If the difference between the prime and secondary buildings' net occupancy costs is not that huge, relocation and upgrade demand with tenant incentives

**GRAPH 3: Prime Office Take-up, 2018**



Source Savills Korea

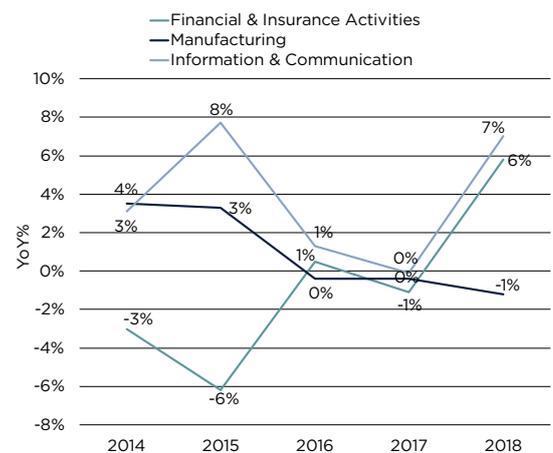
“Occupier demand continues to rise among IT and bio-tech companies and through M&As and upgrade requirements.”

such as rent-frees and fit-out periods is expected to be sustained. In addition, leasing demand from emerging companies in the information technology and bio technology sectors will continue in 2019.

Co-working spaces are expected to continue to expand their presence in prime locations, but their growth will slow in 2019. New players in the co-working space market, Singapore-based JustCo and Korean conglomerate brand Workflex, leased out areas in prime offices and plan to open further new branches. However, leading co-working operators (WeWork and Fast Five) who built brand awareness with their locations in prime offices, will lease not only prime offices but also secondary buildings as a single tenant to occupy at relatively low cost. This will result in a decrease in the leasing demand for co-working spaces in prime offices compared to 2018.

Relocation demands from M&A-driven reorganisation or consolidation of organisations scattered across several buildings to enhance efficiency is expected to continue this year. As a number of M&A deals are in the market compared to the previous year so headquarter relocation demand is expected to increase. Those tenants who undergo renovation or reconstruction projects in existing office space will also boost demand. For example, the Teachers' Pension building is scheduled to start reconstruction this year, with existing tenants relocated to surrounding prime offices. Besides this, Meritz Securities, which sold its headquarters to secure liquidity, plans to consolidate its related organisations scattered across two separate headquarters and move into prime office space.

**GRAPH 4: Percentage Change In The Number Of Jobs By Industry, YoY, 2014 to 2018**



Source Statistics Korea

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