

# Seoul Prime Office



## Vacancy rises across all three major districts

Seoul's prime office vacancy rate in Q3 rose by 1.5 ppts QoQ to 3.4%.

- Vacancy increased across all three major districts for the first time since Q1/2021.
- The CBD vacancy rate, which rose after the relocation of Bank of Korea, will decline in Q4/2023 with the move-in of Samsung C&T.
- Despite weaker demand, average rental growth registered 7.1% year-on-year, marking a fourth consecutive quarter of growth exceeding 7%.
- Year-to-date transaction volume reached KRW7.3 trillion, 55% of the KRW13.4 trillion transacted in 2022.
- Considering ongoing deals expected to close by year-end, total annual volume is estimated to approach 70% of the record-breaking deal volume of KRW14.9 trillion recorded in 2021.

“The vacancy rate increased in all three major districts for the first time since Q1/2021 but is expected to drop in the coming months as pre-secured tenants move in this year.”

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  
 Office Advisory &  
 Marketing  
 +82 2 2124 4253  
 seunghanlee@savills.co.kr

#### RESEARCH

##### JoAnn Hong

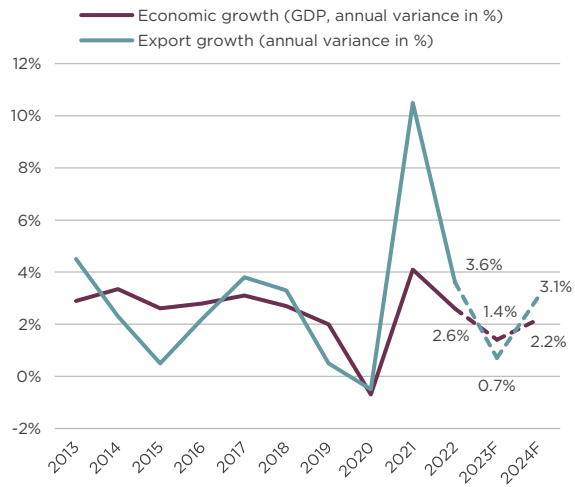
Senior Director  
 Korea  
 +82 2 2124 4182  
 jhong@savills.co.kr

##### Simon Smith

Regional Head of  
 Research & Consultancy  
 Asia Pacific  
 +852 2842 4573  
 ssmith@savills.asia

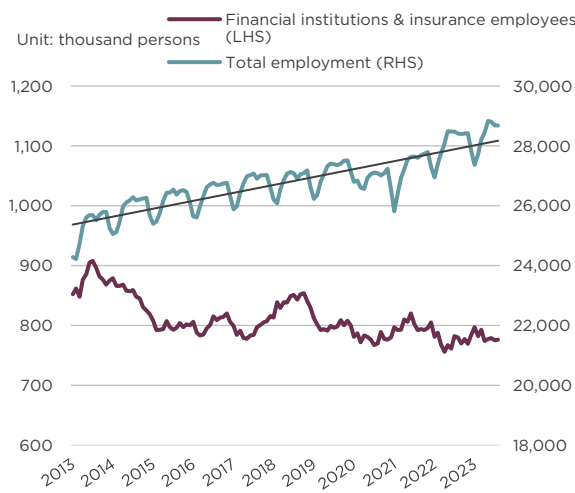
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**GRAPH 1: Growth Rate of Real GDP and Real Exports, 2013 to 2024(F)**



Source Bank of Korea (Economic Outlook, August 2023)

**GRAPH 2: Number of Employees in Finance and Insurance Sectors, January 2013 to August 2023**



Source Statistics Korea

**SUPPLY**

Anchor One Building (Office GFA 48,200 sq m) in YBD, as part of the Brighten Yeouido complex, was completed during Q3/2023. Known pre-leasing activity has included Yuanta Securities on the upper floors (22-32F) and several financial companies on the mid-level floors (15-21F). While YBD’s vacancy rate increased due to the completion of Anchor One Building, it will likely drop again from pre-committed tenant activity.

There are no new supply plans until the end of the year, but the market remains anxious ahead of upcoming projects in 1H/2024, such as Bongraedong Meritz Fire & Marine Insurance HQ (office GFA 38,300 sq m) in CBD and Teacher’s Pension Tower (office GFA 123,900 sq m) in YBD.

**ECONOMIC OUTLOOK**

At the Monetary Policy Board meeting held in August, the Bank of Korea (“BoK”) decided to hold the Base Rate at 3.50%, unmoved since January. Similarly, the U.S. Federal Reserve (“Fed”) kept its benchmark interest rate steady in September following a 0.25% increase in July. This reflects a stable state of economic growth in the U.S., even though recent months have seen a slower pace of expansion. The Fed acknowledged persistent high inflation but expressed a long-term goal to return it to 2%, hinting at the possibility of another benchmark interest rate increase later in the year.

In August, the YoY Consumer Price Index (CPI) stood at 3.4%, a 1% increase from the previous month. It is anticipated that the CPI will gradually slow down, at a level slightly higher than the earlier forecast. According to its August Economic Outlook, the BoK expects

GDP growth of 1.4% for this year, consistent with the May forecast. The projected growth rate for 2024 is 2.2%, a slight decrease from the prior estimate of 2.3%. The BoK also suggests that economic challenges are expected to recover in Q2/2024 and steadily improve in the second half of the year.

**DEMAND AND VACANCY RATES**

For Q3/2023, total net absorption recorded across the three major districts of Seoul prime offices was -62,500 sq m, marking the first decline in five and a half years since Q1/2018. Seoul average vacancy rate stood at 3.4%, up 1.5ppt QoQ. YBD showed the highest vacancy rate at 4.6%, primarily due to the completion of Anchor One Bldg. Other districts also witnessed higher vacancy rates, with CBD at 3.5% (1.5%p QoQ) and GBD at 2.4% (0.2%p QoQ).

CBD saw a record-low net absorption of -56,100 sq m witnessed in the last five years. Samsung Main HQ recorded the highest change, primarily because of Bank of Korea’s relocation during the completion of the BOK Main Building Remodeling and Annex Reconstruction. However, this vacant area will be backfilled by tenants such as Samsung C&T until year-end, limiting pressure on vacancy. KG Steel relocated from Seoul Square to Seodaemun KG Tower, and blockchain technology company Para (former Iconloop) from Signature Tower to a shared office. These relocations exhibit the downgrade trend from prime to secondary offices.

There were also cases of upgrade and expansion demand, including Daerun Law Firm’s move to KDB Life Bldg. and SK Hynix in Center One. Seoul City Tower is also undergoing a full renovation, but any vacancies are anticipated to be resolved

**TABLE 1: New Supply Office, Q3/2023**

<b>BUILDING NAME</b>	Anchor One Building (YBD)	
<b>ADDRESS</b>	31, Yeouido-dong, Yeongdeungpo-gu, Seoul	
<b>GFA (SQ M)</b>	48,200	
<b>COMPLETION</b>	2023. 08. 21	
<b>DISTRICT</b>	32F/B6	

Source Savills Korea

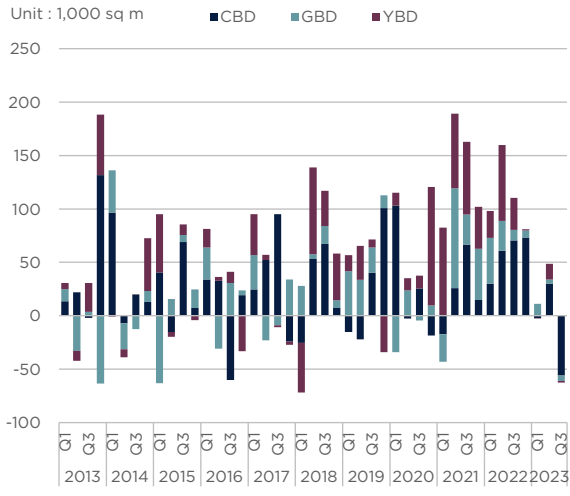
**TABLE 2: Monthly Rents, Maintenance Fees and Vacancy Rates by District, Q3/2023**

(Unit: KRW/3.3058 sq m, GLA)

DISTRICT	RENT		MAINTENANCE FEE		NET ABSORPTION (SQ M)	VACANCY RATE(%) (PREV. Q)
	AVERAGE	YOY INCREASE (%)	AVERAGE	YOY INCREASE (%)		
CBD	121,000	6.2%	47,700	5.6%	-56,100	3.5% (2.0%)
GBD	118,000	7.8%	43,500	1.8%	-5,200	2.4% (2.2%)
YBD	99,900	7.7%	43,800	5.5%	-1,200	4.6% (1.3%)
Overall Seoul Average	115,700	7.1%	45,500	4.3%	-62,500	3.4% (1.9%)

Source Savills Korea

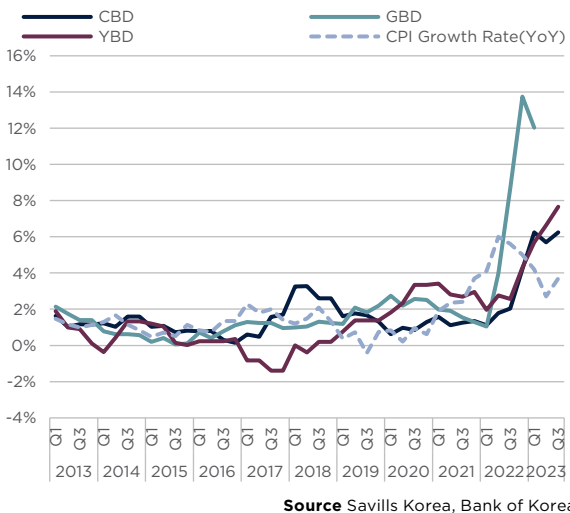
**GRAPH 3: Net Absorption, Q1/2013 to Q3/2023**



**GRAPH 4: Prime Office Vacancy Rate, Q1/2013 to Q3/2023**



**GRAPH 5: YoY Rental Increase Rate by District, Q1/2013 to Q3/2023**



via existing and new tenant leases. Overall, as most new vacancies are scheduled to occur in Q1/2024, the vacancy rate in the CBD is likely to decrease slightly next quarter.

Net absorption for GBD came in at -5,200 sq m. Heart Scan Healthcare relocated from Kyobo Asset Trust's Samseong-dong Office Building to Dong-il Tower, resulting in a 3,000 sq m vacancy, while Leaders Technology Investment moved out from Centerfield, resulting in a 2,200 sq m vacancy. Nexon, with a 50% stake in Autoway Tower, filled vacancies by accommodating its affiliates after Nokia's relocation. Existing tenants also expanded in Samsung Life Daechi Tower and KT&G Tower. In the upcoming quarter, GBD is likely to see increased vacancies on top of early termination requests, driving the vacancy rate due to early termination requests.

The figure was -1,200 sq m for YBD. While ConnectWave moved out from Parc.1 Tower 1, Kering Eyewear Korea's relocation to Three IFC contributed to demand. The uptick in vacancy during Q3/2023 of 3.3%ppt is mostly owing to the new supply. Overall vacancy rate for YBD in Q4/2023 is anticipated to tighten on pre-lettings in newly-completed Anchor One Building, as well as expansionary movement and the scheduled move-in of an accounting firm into Parc.1.

**RENT**

Seoul prime office face rents surged by 7.1% YoY, with the CBD seeing a 6.2% increase driven by K-Square City (25%) and Shinhan L-Tower (15%). GBD experienced a 7.8% growth, with KT&G Tower, Meritz Tower, and Samseong-dong Office each showing rental growth of 50%, 36%, and 19% YoY, respectively. In the YBD,

where rental growth was 7.7% YoY, Taeyoung Bldg. recorded an increase of 29%. Reversionary rental growth was much higher for buildings that were leased before 2020 when market vacancy rates were high. As a result, average face rents for Seoul prime offices for the quarter stood at KRW115,700 per pyeong, with YBD lowest at KRW99,900 per pyeong.

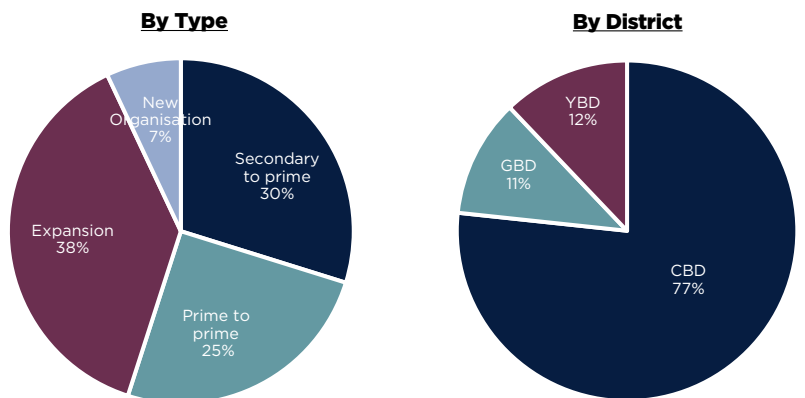
On average, Seoul prime office maintenance fees were up 4.3% YoY, which is 5.6% for CBD, 1.8% for GBD and 5.5% for YBD. Particularly in the GBD in which significant growth had been observed since 2H/2022, the upward trajectory has eased. By district, average maintenance fees were KRW47,700 per pyeong in CBD, KRW43,500 per pyeong in GBD, and KRW43,800 per pyeong in YBD.

**OUTLOOK**

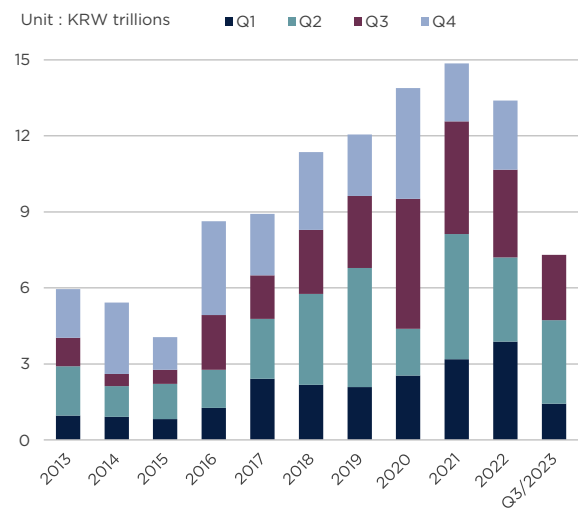
In the August Economic Outlook report, the Bank of Korea predicted that the Korean economy will grow by 2.2% in 2024, a downward revision of -0.1%ppt from its May Economic Outlook. This marks growth in the 2%-range, consistent since 4.1% in 2021. The growth forecast from the International Monetary Fund (IMF) for Korea is on par at 2.1%, indicating that the current phase of low growth will likely persist.

Q4/2023 will be quiet from the supply side, and the vacancy rate will likely come back down, considering tenants who have signed new leases or for expansions in current areas. Additionally, a recent trend is the downgrade movement of small and medium-sized technology-based companies from prime to secondary offices, mostly caused by cost reduction needs due to significant rental hikes.

**GRAPH 6: Take-up, Q3/2023**



**GRAPH 7: Prime Office Transaction Volumes, Q1/2013 to Q3/2023**



Source Savills Korea

Despite upcoming supply additions in the CBD and YBD adding pressure in the first half of 2024, the impact is expected to be partially mitigated by pre-lease agreements and owner-occupier areas. Demand for prime offices, which has been strong robust for the past two years, seems to be gradually weakening in light of the weakening domestic economy and office market conditions. Regardless, the limited available space for move-in will continue to favor landlords, and the imbalance between planned vacancies and lettings will likely keep vacancy rates low in the short-to-mid-term.

**TRANSACTIONS AND THE INVESTMENT MARKET**

Transaction volume for Q3/2023 came to KRW2.6 trillion, with year-to-date volume reaching KRW7.3 trillion, equivalent to 55% of

the KRW13.4 trillion transacted in 2022.

Unlike many global cities facing increased office vacancy rates due to remote work and reduced workforces during the pandemic, Seoul prime office maintains low vacancy rates as most employees have returned to the office post-social distancing restrictions. The leasing market is largely landlord-dominated, although domestic institutional investors are cautious due to rising interest rates and liquidity concerns, while foreign investors have speculative outlooks due to market divergence from overseas conditions.

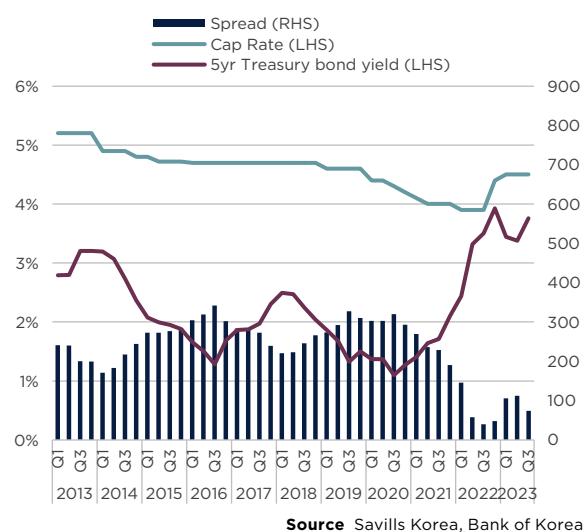
Institutional investors are generally less optimistic, leading to longer funding periods and delays in closing of transactions due to higher expected returns. Changes in preferred bidders and price adjustments are becoming more common, with the market more selective for prime, well-located properties. This has driven

**TABLE 3: Major Tenant Relocations, Q3/2023**

TO				FROM	
DISTRICT	BUILDING NAME	TENANT	AREA (SQ M)	DISTRICT	BUILDING NAME
CBD	T Tower	Korea Medical Dispute Mediation & Arbitration Agency	4,900	CBD	Seoul City Tower
	KCCI	DHOLIC	2,900	Others	Dahong Building
	KDB Life Building	Law Firm Daeryun	2,700	CBD	Jeokseon Hyundai Building
	Center1	SK Hynix	1,500	Expansion	
	Taepyeongno Building	YIDO	1,500	Expansion	
		Boram Funeral Service Company	1,500	Expansion	
	Yonsei Foudation Severance Building	SK Corporation	1,300	New	
	KCCI	Shinsegae I&C	1,100	Expansion	
SFC	Lockton Companies	1,000	CBD	Korean Re Building	
GBD	Autoway Tower	Nexon	3,000	Others	Pangyo Nexon Building
	Samsung Life Insurance Daechi Building	Samsung Life Insurance	400	Expansion	
YBD	Three IFC	Kering Eyewear Korea	1,200	GBD	Baekyeong Cheongdam Building
	Yeouido Finance Center	Iwill Media	500	Others	Hapjeong-dong
	One IFC	Duhamji Development Company	400	GBD	SeoulGangnam Building
	Two IFC	Blitz Asset Management	400	Expansion	

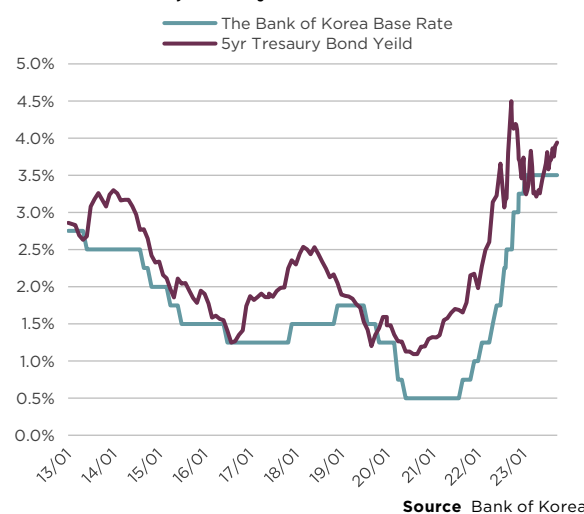
Source Savills Korea

**GRAPH 8: Prime Office Building Cap Rate Trend, Q1/2013 to Q3/2023**



Source Savills Korea, Bank of Korea

**GRAPH 9: Five-year Treasury Bond Yield and the BOK Base Rate Trend, January 2013 to October 2023**



Source Bank of Korea

the demand for share deals, a structure in which relatively lower debt rates of the existing real estate funds are retained, and only the fund's main beneficiaries are replaced. During the 1H/2023, 31% of KRW4.7 trillion of transaction volume is estimated to have been carried out as share deals, and this figure has since increased to 39% (KRW1.0 trillion) in Q3/2023.

Mirae Asset AMC acquired Tower 8 in the CBD for KRW549.0 billion (KRW37.2 million per pyeong) from DWS AMC. Originally intended for sale in Q3/2022, DWS AMC withdrew from the market due to a sharp rise in interest rates at the end of the year. Among many potential buyers, Mirae Asset AMC successfully closed the deal, securing Korea Credit Union as a strategic investor. Tower 8, completed in 2015, is leased to high-credit tenants, including CJ Logistics and Harim Group's Pan Ocean, and is situated in a prime office location alongside D Tower Gwanghwamun and Gran Seoul.

Shinhan REITs Management sold Yongsan The Prime Tower to IGIS AMC for KRW 238.4 billion (KRW20.2 million per pyeong). Yongsan The Prime Tower, located near Namyong Station, was initially included as an underlying asset along with Krafon Tower (currently Greats Pangyo) at the time of Shinhan Alpha REITs' listing. With the addition of seven more office buildings, Shinhan Alpha REITs solidified its position as a major office REIT. Although this asset was initially put on the market for sale in 2022, the deal faced funding challenges, resulting in the selection of a new preferred bidder more than a year later. This marks the REITs' first asset sale, with Shinhan REIT Management reportedly earning approximately KRW73 billion.

The Singapore Investment Corporation (GIC) acquired 45.08% of the proceeds from the real estate fund of Pangyo Tech One (Alpha Dome City Block 6-2), previously owned by Naver, for approximately KRW350.0 billion. Pangyo Tech One stands at a GFA of 197,300 sq m, generating stable rental income from tenants Naver and Kakao. GIC has continued their presence as an active investor in the Korean office market, since concluding the acquisition of Shinhan Investment & Securities Building in 2022. For Naver, the estimated capital gain from the sale is reported to be around KRW160 billion.

Seoul's prime office gross cap. rate as of Q3/2023, assuming face rents, is estimated to be in the mid-4% range. As the modest rise in vacancy rate is mostly attributable to temporary office relocations for HQs and the sizable supply in YBD, rental growth remains resilient and generally offsets the minor adjustment in pricing when estimating cap rates. The rent-frees are reported to be around 0 to 2 months per year, resulting in an effective cap. rate in the early-4% range.

Early this quarter, it appeared that robust leasing market conditions and the stabilization of interest rates were helping to improve investor sentiment. However, investors are exercising caution, and there are many market assets up for sale, with more institutions seeking to sell than there are buyers. Despite the growing number of sellers eager to introduce new deals to market, driven by challenges in refinancing due to rising capital costs and global portfolio mandates aiming to reduce office holdings, there is a limited pool of institutions with readily available capital. Until year-end, ongoing transactions such as Seocho Majestar City Tower One and Jamsil Samsung SDS Tower, add to total annual investment volume.

**TABLE 4: Major Investment Transactions, Q3/2023**

DISTRICT	BUILDING NAME	SELLER	BUYER	TRANSACTION PRICE (KRW BIL)
CBD	Tower 8	DWS AMC	Mirae Asset AMC	549.0
CBD	Yongsan The Prime Tower	Shinhan REITs Management	IGIS AMC	238.4
CBD	KAL Building	Hanjin KAL	Korean Air	264.2
Pangyo	Pangyo Tech One (Alphabom City 6-2 Block)	Mirae Asset AMC (Naver)	Mirae Asset AMC (GIC)	350.0 (Share Deal)
Others	Lotte Home Shopping Seoul HQ	Lotte Corporation, Lotte Wellfood	Lotte Home Shopping	203.9

Source Savills Korea

## Overview of the Seoul Office Market and Savills Korea Office Survey

TABLE 5: Summary Of Surveyed Buildings, September 2023

		CBD	GBD	YBD	Total
A	Number of buildings	25	14	13	52
	Average GFA (sq m)	89,000	107,000	109,000	99,000
	Average year of completion	2004	2005	2008	2005
B	Number of buildings	25	23	9	57
	Average GFA (sq m)	51,000	47,000	48,000	49,000
	Average year of completion	2000	2003	1999	2001
Total number of buildings		50	37	22	109
Total area (sq m)		3,490,000	2,580,000	1,850,000	7,910,000

Source Savills Korea Research & Consultancy

Close to 59% of large office buildings (30,000 sq m or more) in Seoul are located in three major business districts – the CBD (28%), GBD (18%) and YBD (14%). 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 of 109 among 135 buildings in Seoul classified as “prime” buildings.

Prime buildings: Buildings with a GFA greater than 30,000 sq m with good accessibility and facilities, 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:  $(\text{income from interest on security deposit (5\%)} + \text{face rent of a standard floor} + \text{residual income from maintenance fee}) \times \text{occupancy rate (95\%)} \times 12 / \text{transaction amount}$ .

For comparison of cap rates of each transaction case, a 5% interest rate on security deposit and 90% occupancy rate were uniformly applied. The applied occupancy rate was revised from 95% to 90% in 2014 due to higher natural vacancy rates, until 2022 since which 95% is re-applied.