

# SEOUL MARKET OVERVIEW

C&W KOREA CAPITAL MARKETS GROUP





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# CONTENTS

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**01** INVESTMENT ENVIRONMENT IN KOREA 3

**02** OFFICE MARKET 10

**03** INDUSTRIAL MARKET 16



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# CONTENTS

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## 01

### **INVESTMENT ENVIRONMENT** <sub>3</sub>

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- CAPITAL MARKET OVERVIEW
- REAL ESTATE TRANSACTION VOLUME
- REAL ESTATE INDIRECT INVESTMENT

# 1.1 INVESTMENT ENVIRONMENT IN KOREA

## CAPITAL MARKET OVERVIEW

### MARKET TRENDS IN YR 2021

#### — GDP GROWTH OF SOUTH KOREA AND USA

	2018	2019	2020	2021(E)	2022(E)
<b>SOUTH KOREA</b>	2.9%	2.2%	-0.9%	<b>4.0%</b>	3.0%
<b>USA</b>	3.0%	2.2%	-3.5%	<b>2.0%</b>	3.8%
<b>OECD AVERAGE</b>	2.3%	1.7%	-4.6%	<b>5.6%</b>	4.5%

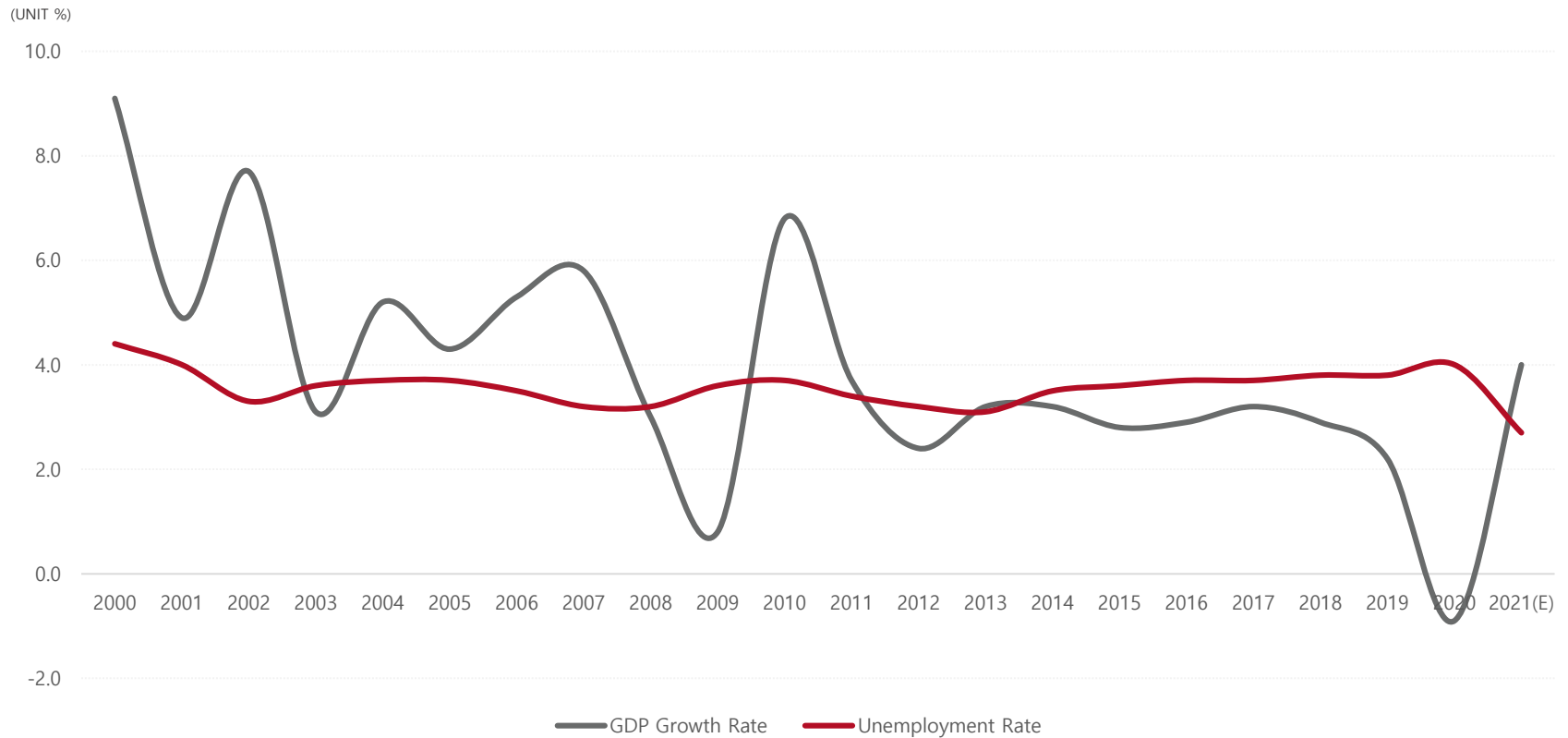
SOURCE: BANK OF KOREA, WORLD BANK, GOLDMAN SACHS, OECD STATISTICS (AS OF 2021 3Q)

- Downward shift in the cap rate due to long-term low interest rate and abundant liquidity in the market.  
→ The base interest rate will gradually escalate back to pre-COVID level in line with projected economic recovery and healthy level of inflation.
- Vacancy rate in the office market continues to fall due to solid economic growth, especially in IT-based startups and shared office business.  
→ New supplies in the office market will be limited after YR 2022
- Increasing demand for the logistics centers due to increased volume in delivery and revitalization of online business
- Increasing demand for state-of-the-art data centers mainly due to ever-fast increasing demand for the data and respective usage & storage

# 1.1 INVESTMENT ENVIRONMENT IN KOREA

## CAPITAL MARKET OVERVIEW

### TRENDS IN GDP GROWTH AND UNEMPLOYMENT RATE



SOURCE: BANK OF KOREA, KOSIS

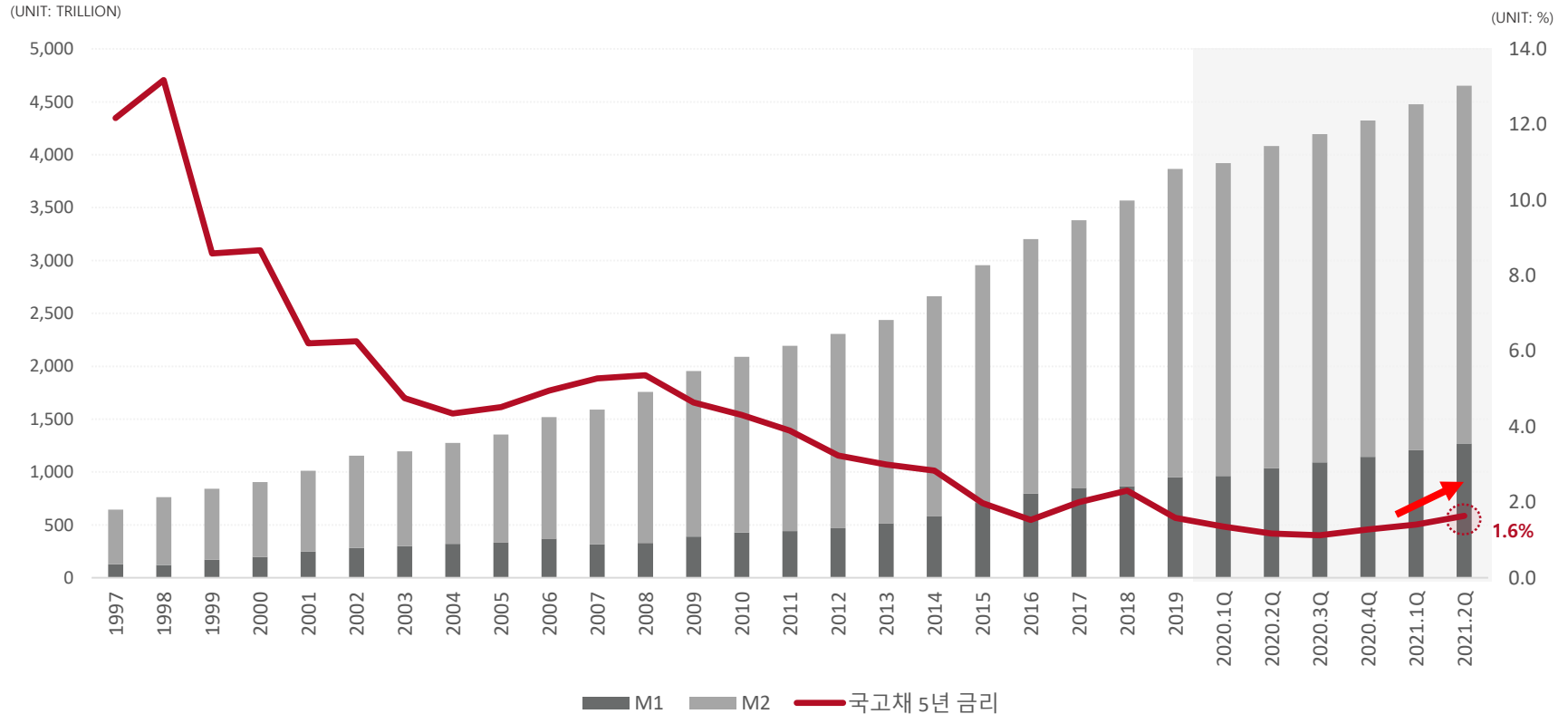
# 1.1 INVESTMENT ENVIRONMENT IN KOREA

## CAPITAL MARKET OVERVIEW

### MARKET LIQUIDITY(M1/M2) & INTEREST RATE

- ✓ Global quantitative easing and endorsements of Zero Interest Rate Policy (ZIRP) led to unforeseen liquidity in the market
- ✓ YR 2021 marked an end to ZIRP in Korea and the central bank aims to gradually escalate base interest rate back to pre-COVID level

#### MARKET TRENDS IN LIQUIDITY AND INTEREST RATE



SOURCE: BANK OF KOREA

# 1.2 INVESTMENT ENVIRONMENT IN KOREA REAL ESTATE TRANSACTION VOLUME

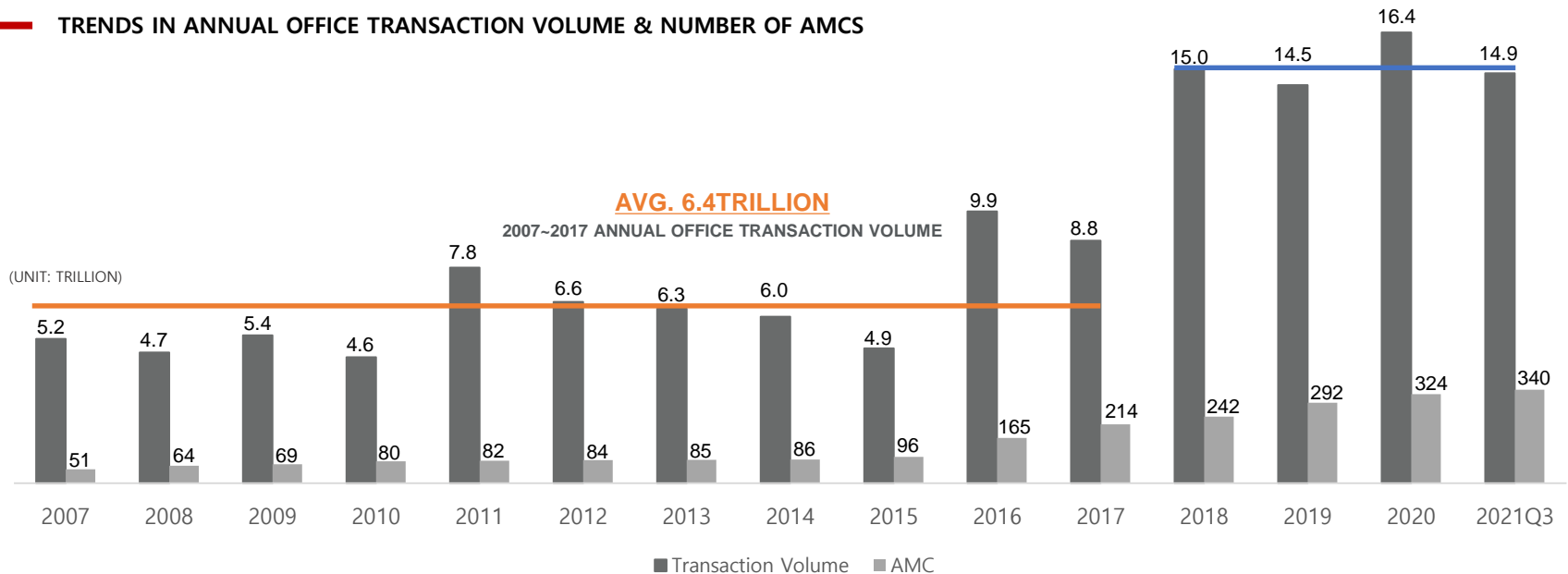


## TRENDS IN OFFICE TRANSACTIONS

- ✓ The volume of office transaction continues to increase with an abundant liquidity in the market
- ✓ Prior to 2017, an average of annual office transaction volume was approximately 6.4 trillion won. This figure doubled from 2018 to an average of approximately 15.2 trillion won. Key contributing factors include, but are not limited to:
  - Increase in new office supply
  - Rise in unit(nominal) price
  - The rise of RE indirect investment market driven by an abundant liquidity and low-interest rates
  - The number of AMC increasing from 96 in YR 2015 to 340 in YR 2021

**AVG. 15.2TRILLION**  
2018~2021 3Q ANNUAL OFFICE TRANSACTION VOLUME

### TRENDS IN ANNUAL OFFICE TRANSACTION VOLUME & NUMBER OF AMCS



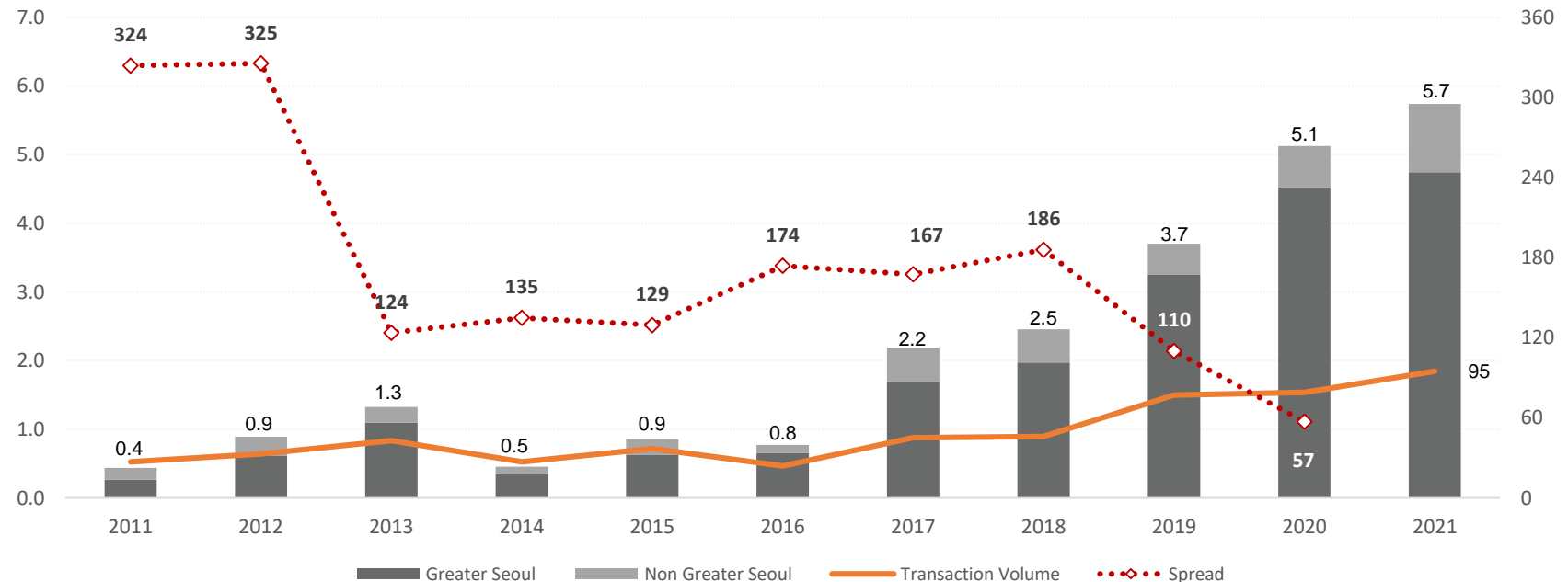
# 1.2 INVESTMENT ENVIRONMENT IN KOREA REAL ESTATE TRANSACTION VOLUME

## TRENDS IN LOGISTICS TRANSACTIONS

- ✓ As of the third quarter in 2021, the total transaction amount for the logistics assets reached nearly 6 trillion won and has emerged as a major investment sector in the real estate market.
- ✓ The total logistics volume surged by 140% in 2020 when compared to 2012; this trend will continue due to heightened demand from prolonged COVID-19.

### TRENDS IN LOGISTICS CENTER TRANSACTIONS AND SPREADS (OFFICE & LOGISTICS)

(UNIT: TRILLION, BPS)





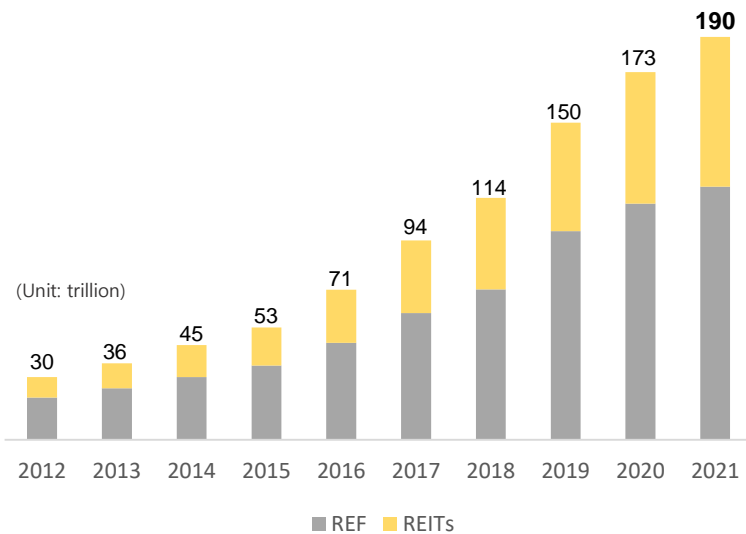
# 1.3 INVESTMENT ENVIRONMENT IN KOREA

## REAL ESTATE INDIRECT INVESTMENT

### TRENDS IN RE INDIRECT INVESTMENTS

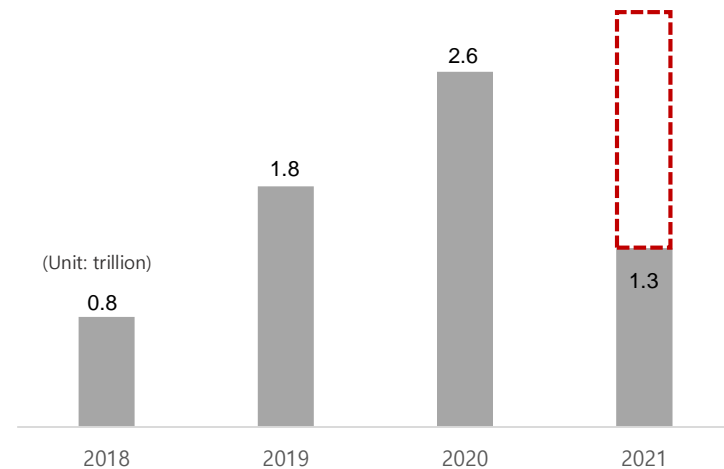
- ✓ REITs and RE Funds emerged as a leading indirect investments as both vehicles secure stable returns and diversified portfolio of real estate assets
- ✓ The rise of Private Equity with an implementation of blind funds
- ✓ Growth in the number and AUM of listed REITs AND REFs

— AUM OF REITS AND RE FUNDS



SOURCE: MOLIT, KOFIA (2021 3Q)

— AUM OF LISTED REITS



SOURCE: MOLIT MONTHLY REITS REPORT (15 OCT 2021)



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# CONTENTS

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## 02

### **OFFICE MARKET** 10

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- OFFICE MARKET OVERVIEW
  - OFFICE LEASING
  - SUPPLY & DEMAND
  - TRANSACTION
- COMPARISON OF LEADING APAC CITIES

# 2.1 OFFICE MARKET OVERVIEW

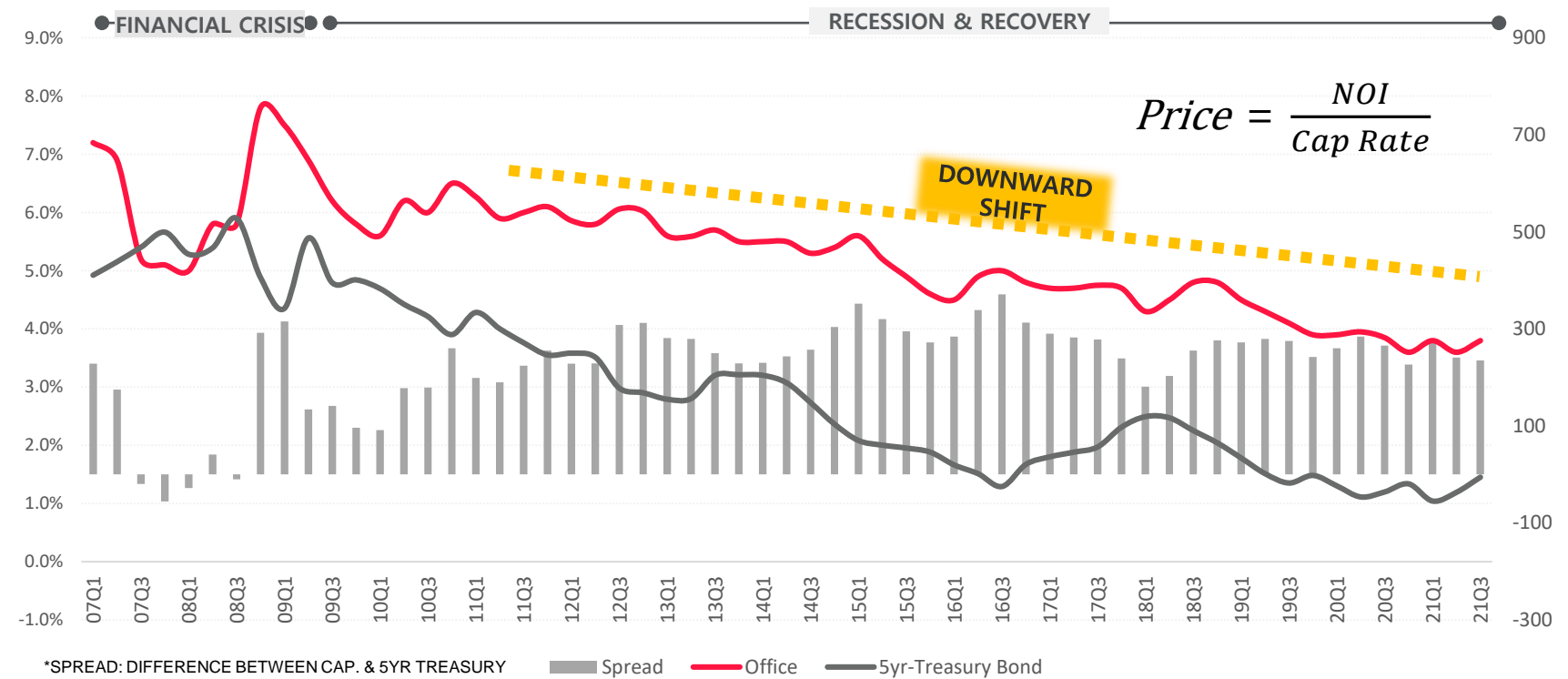
## CAP. RATE



### MARKET TRENDS IN OFFICE MARKET

PERIOD	AFC – GFC (1997-2008)	GFC – COVID19 (2009-2021)	After COVID19 (2021-2023E)
PRICE	↗	↘	↗
NOI	↗	↔	↗
CAP. RATE	↘	↘	↘

— OFFICE CAP. RATE & 5YR TREASURY



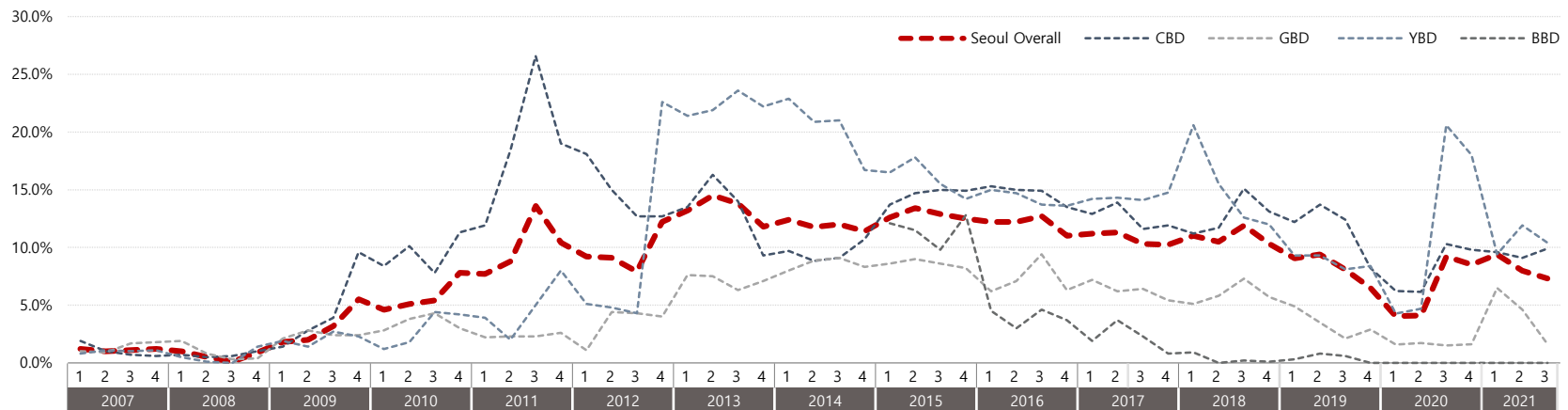
\*SPREAD: DIFFERENCE BETWEEN CAP. & 5YR TREASURY    ■ Spread    — Office    — 5yr-Treasury Bond

SOURCE: REAL CAPITAL ANALYTICS, CUSHMAN & WAKEFIELD RESEARCH

## OFFICE MARKET STATISTICS

- ✓ Limited new supply, coupled with increasing demand continues to drive vacancy rate downwards across all business districts; this trend is likely to continue with strictly limited supply in near future
- ✓ There are strong demands for office across all major business districts; GBD recorded vacancy rate of 1.6% which is far lower than what is perceived as a natural vacancy rate

### VACANCIES OF MAJOR BUSINESS DISTRICTS



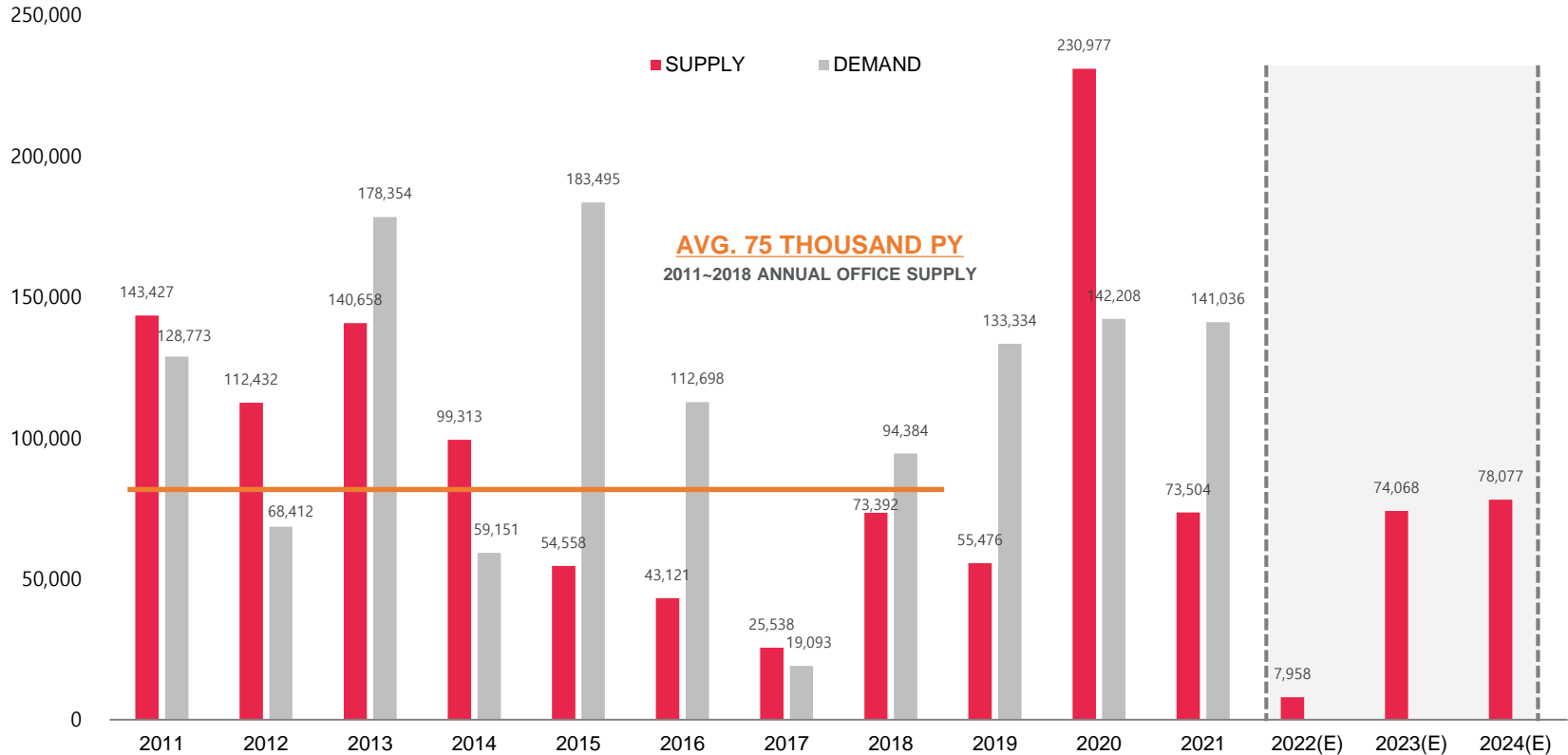
DISTRICT	3Q '21	QoQ	SUMMARY
OVERALL	7.3%	0.7%p ▼	▪ Net absorption in prime office assets increased in all major business districts, especially in GBD
<b>GBD</b>	<b>1.6%</b>	<b>3.0%p ▼</b>	▪ GBD observed the lowest vacancy rate of all major business districts mainly due to strong demands from IT and start-ups
CBD	9.9%	0.8%p ▲	▪ CBD recorded a slight increase in vacancy due to lease termination from Woongjin Corporation
YBD	10.4%	1.5%p ▼	▪ YBD witnessed a sharp drop in vacancy due to strong tenant absorption in Parc.1 and FKI
BBD	0.0%	0.0%p -	▪ BBD continues to record zero percent vacancy rate driven by strong demands for office expansions from IT companies

# 2.3 SUPPLY & DEMAND

## OFFICE SUPPLY & DEMAND

### OFFICE SUPPLY & DEMAND

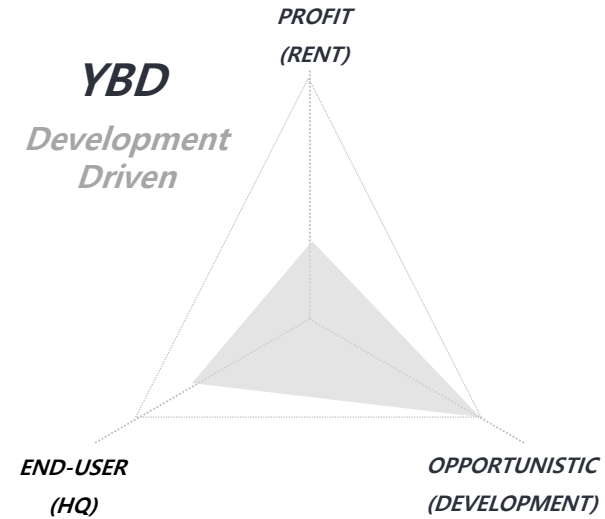
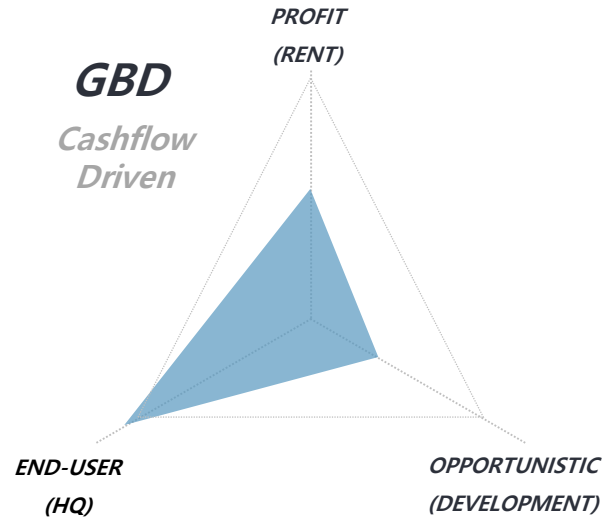
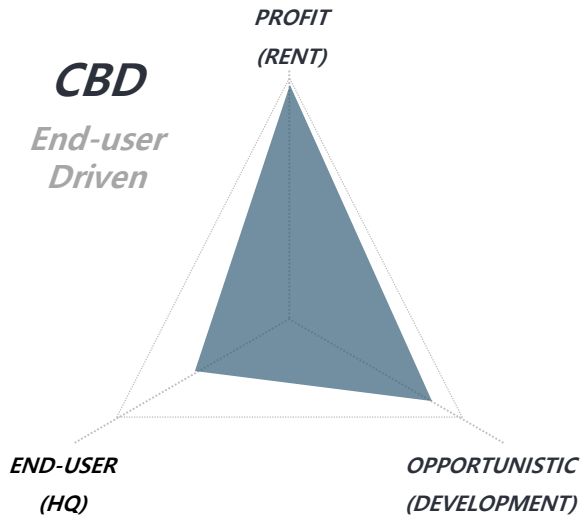
(UNIT: 1 PYUNG = 3.3m<sup>2</sup>)



SOURCE: CUSHMAN & WAKEFIELD RESEARCH

# 2.4 TRANSACTION OFFICE TRANSACTION

## OFFICE TRANSACTION



CATEGORY	AASSET	UNIT PRICE (UNIT: 10,000krw)	CAP. RATE
DEVELOPMENT	KB MYEONGDONG	3,466	-
	NAMSAN SQUARE	2,196	4.0%
PROFIT	SHINHAN L TOWER	3,041	3.8%
	SAMIL B/D	3,700	3.3%
	SK SEORIN B/D	3,900	3.9%
	PINE AVENUE B	3,133	3.5%
	STATE TOWER NAMSAN	2,913	4.6%
HQ	THE ZONE	2,789	4.1%

CATEGORY	AASSET	UNIT PRICE (UNIT: 10,000krw)	CAP. RATE
DEVELOPMENT	CENTER FIELD	2,717	-
PROFIT	SAMSUNG LIFE SEOCHO	3,050	4.80%
	THE PINNACLE GNM	3,350	3.8%
HQ	THE PINNACLE YSM	3,997	3.7%
	HYUNDAI LIFE GNM	3,406	3.2%
	N TOWER	2,926	4.5%
	SAMSUNG LIFE	2,512	-
	DONGGOON RICHWELL	3,800	-

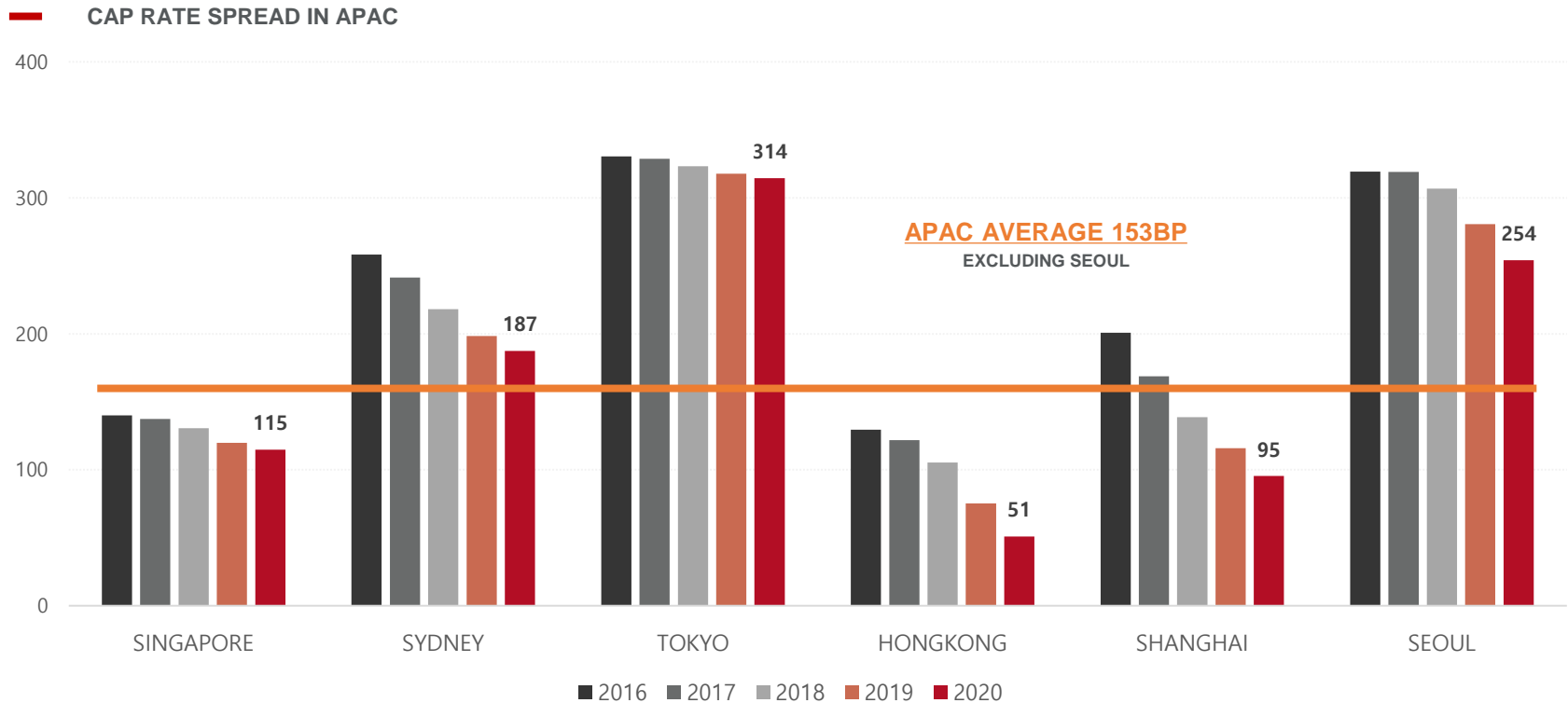
CATEGORY	AASSET	UNIT PRICE (UNIT: 10,000krw)	CAP. RATE
DEVELOPMENT	NH SECURITIES	1,852	3.2%
	MERITZ INSURANCE	2,199	-
	NH CAPITAL	1,870	4.6%
	YEQUIDO FINANCE	1,813	3.9%
	EUSOO HOLDINGS	2,200	-
PROFIT	O2 B/D	2,470	3.0%
HQ	BNK TOWER	2,300	-
	SK SECURITIES	2,060	-

# 2.5 COMPARISON OF LEADING APAC CITIES

## CAP. RATE SPREAD

### CAP. SPREAD COMPARISON IN APAC

- ✓ The average cap. rate spread (difference between average cap. rate and treasury) is 153bp in leading APAC cities
- ✓ The higher spread compensates for the lower risk and hence may attract more investors





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# CONTENTS

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## 03

### **INDUSTRIAL MARKET**

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16

- LOGISTICS MARKET OVERVIEW
  - SUPPLY AND DEMAND
  - TRANSACTION TRENDS
- LOGISTICS CLUSTERS NEAR GREATER SEOUL



# 3.1 LOGISTICS MARKET OVERVIEW

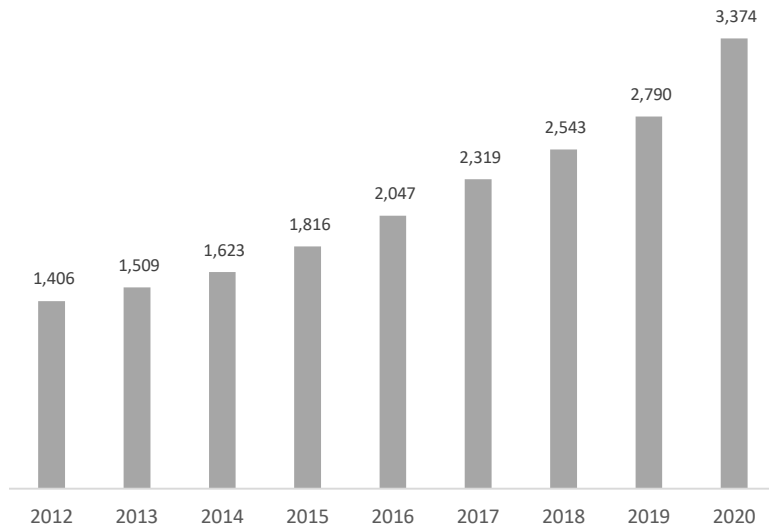
## DEMAND FOR LOGISTICS BUSINESS

### LIMITED CAPACITY AND INFRASTRUCTURE TO COPE WITH SURGING SHIPMENT VOLUME

- ✓ The demand for logistics warehouses is rapidly increasing mainly due to changes in lifestyles from COVID-19
- ✓ As for CJ Logistics, the largest parcel company in Korea, the volume of shipments increased by staggering 26% from 360 million boxes in the 4Q 2019 to 460 million boxes in the 4Q 2020
- ✓ The shortage in logistics capacity and infrastructure to cope with ever-fast increasing demand is evident, especially near greater Seoul

#### GROWTH IN VOLUME OF SHIPMENTS

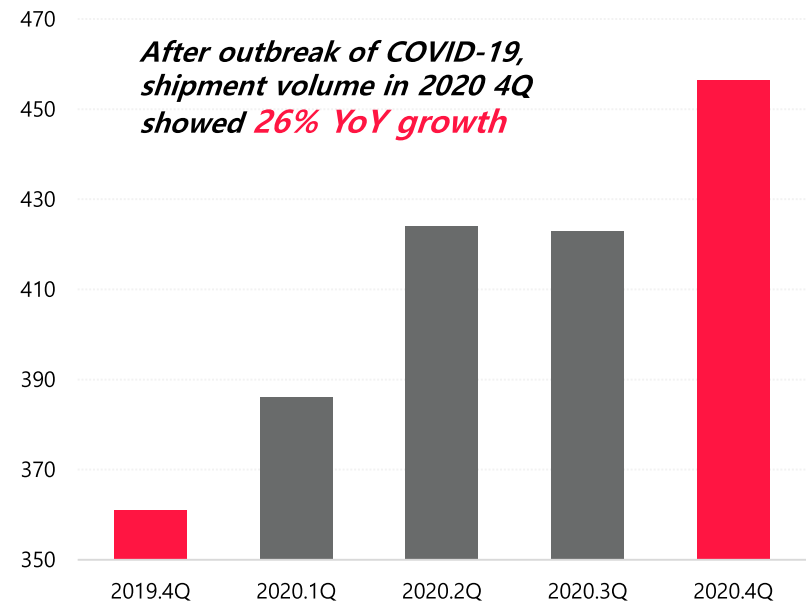
(UNIT: MILLION BOXES)



SOURCE: NLIC

#### A SHARP INCREASE OF SHIPMENT VOLUME

(UNIT: MILLION BOXES)



SOURCE: CJ KOREA EXPRESS

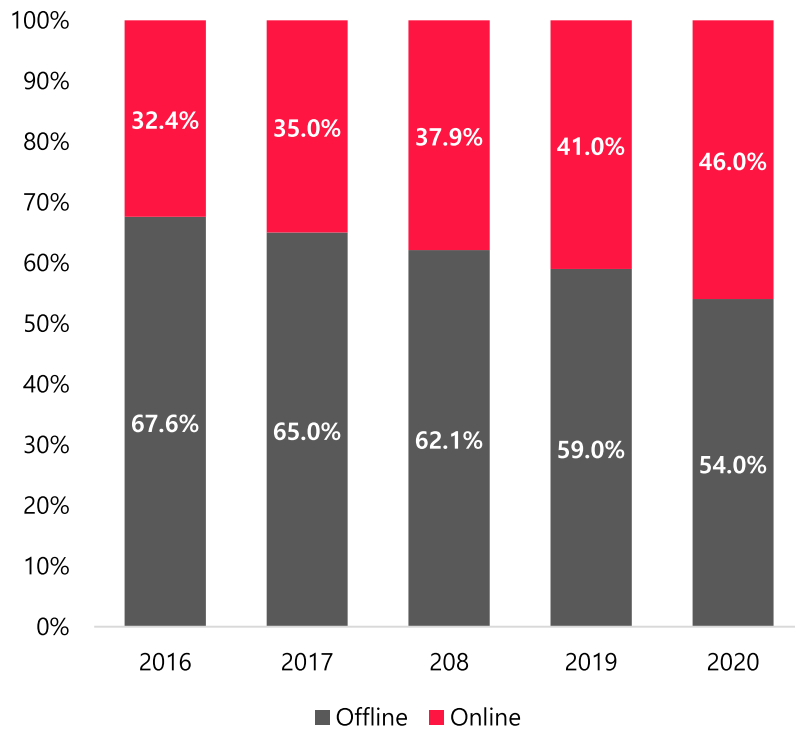
# 3.1 LOGISTICS MARKET OVERVIEW

## DEMAND FOR LOGISTICS BUSINESS

### RECORD HIGH LOGISTICS BUSINESS PERFORMANCE DRIVEN BY SURGING E-BUSINESS

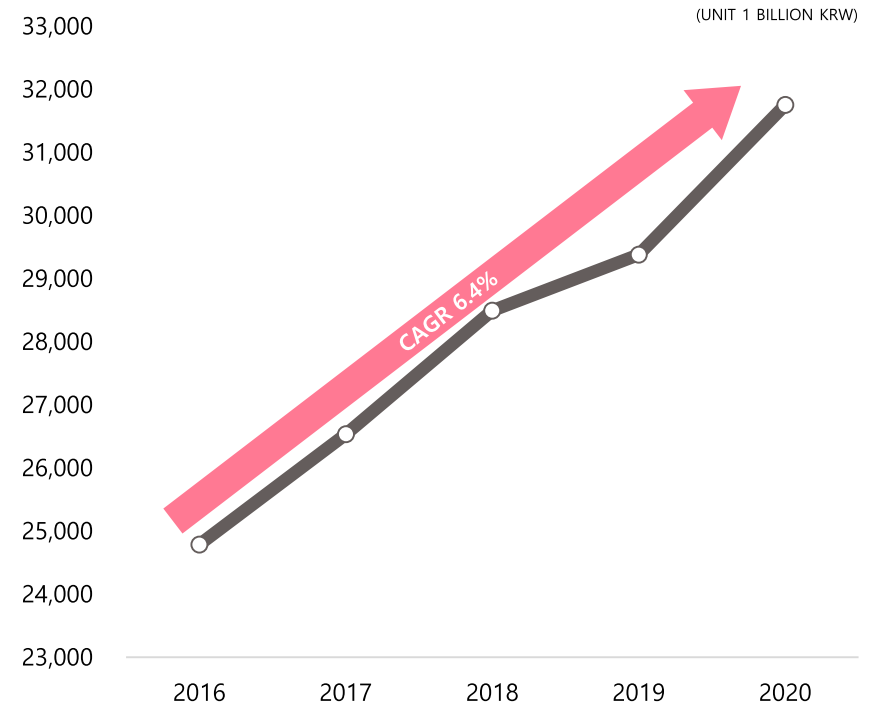
- ✓ The share of online sales increased sharply from 32% in 2016 to 46% in 2020
- ✓ Sales of market leading logistics companies has grown by an annual average of 6.4% over the past five years (2016-2020) driven by the growth of the online consumption market. Similar, if not higher, growth is expected in the future

**TREND IN RATIO OF ON-/OFF-LINE SALES**



SOURCE: MINISTRY OF TRADE, INDUSTRY AND ENERGY

**TOP 12 LOGISTICS COMPANIES ANNUAL REVENUE TREND**

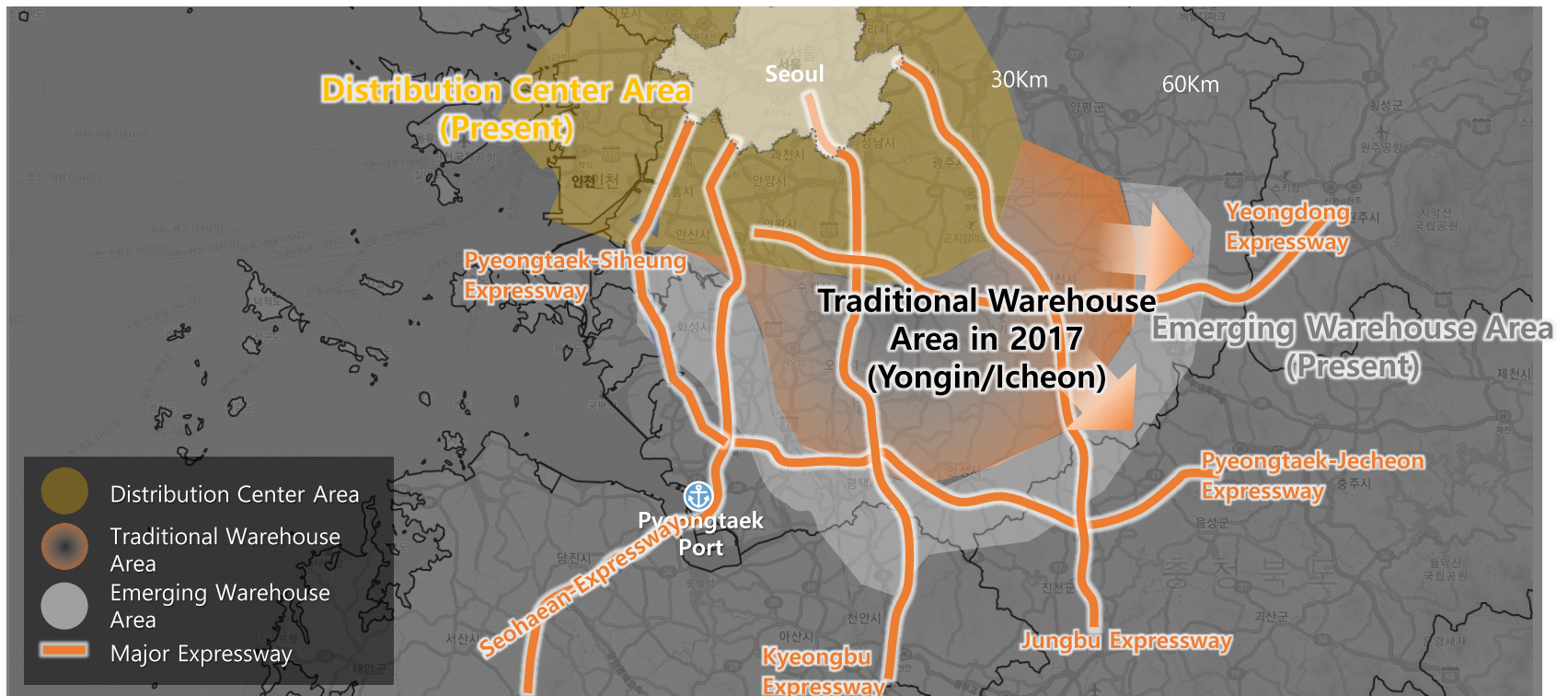


SOURCE: DART

# 3.2 SUPPLY AND DEMAND EXPANSION OF LOGISTICS SUPPLY AND NETWORK

## REGIONAL EXPANSION OF LOGISTICS CENTERS

- ✓ The greater Seoul is saturated with the recent growth and developments of logistics centers
- ✓ Traditional warehouse area, which is concentrated in Yongin/Icheon, is expanding to South-Pyeongtaek/North-Cheonan due to lack of developable lands

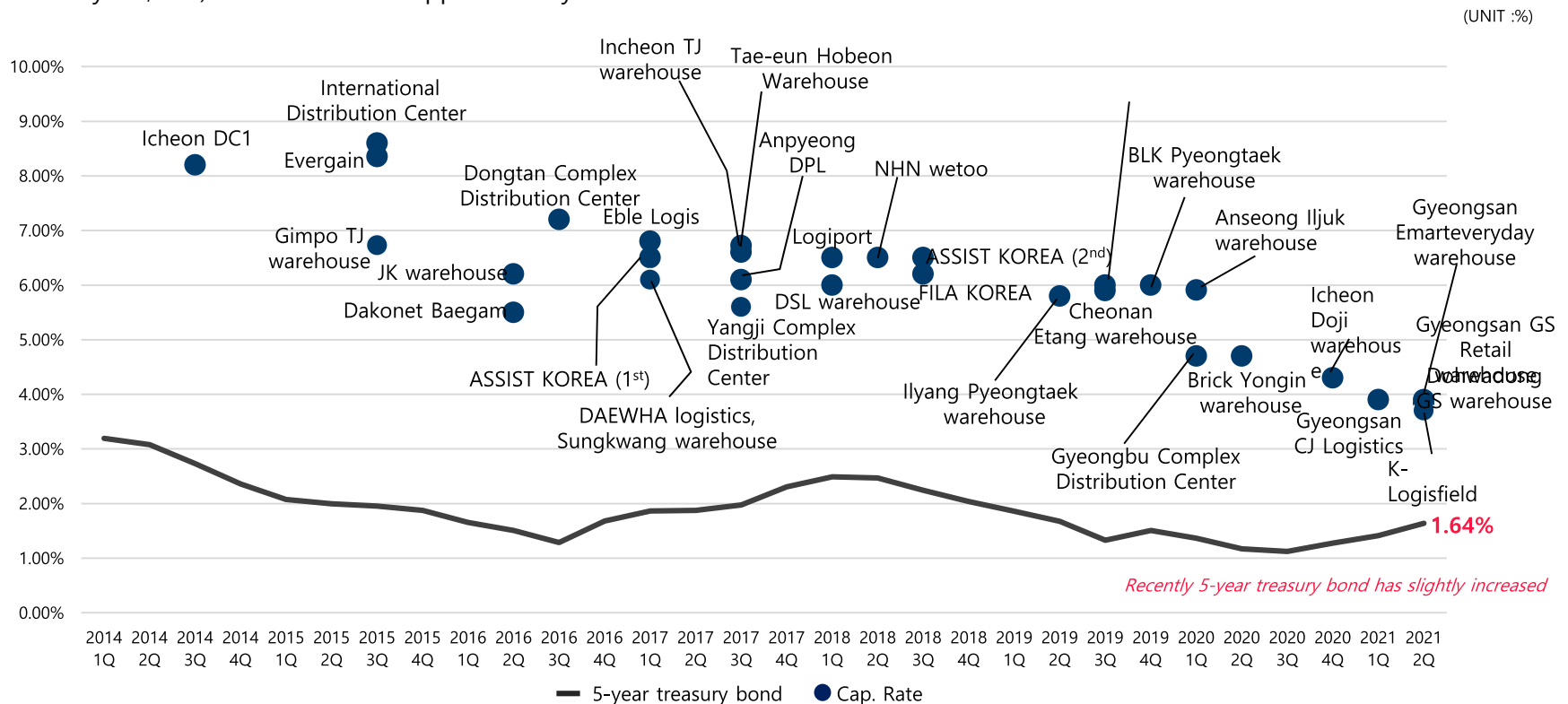


# 3.3 TRANSACTION TRENDS

## TRANSACTION TREND ANALYSIS

### DOWNWARD TREND WITNESSED IN THE CAP. RATE FOR LOGISTICS ASSETS

- ✓ Cap. rate for the logistics asset has been steadily decreasing for past 5 years. The recent transaction in 2020 recorded 4.2%, highly valuing 1) long-term lease by a credit tenant; 2) high demand led by COVID-19; and 3) high liquidity in the capital market.
- ✓ The cap. rate for prime assets in prime location with credit tenants (K-Logisfield, GS Retail Dohwa-dong warehouse, Greybox, etc.) records lower at approximately 3.7~3.8%



SOURCE: CUSHMAN & WAKEFIELD RESEARCH

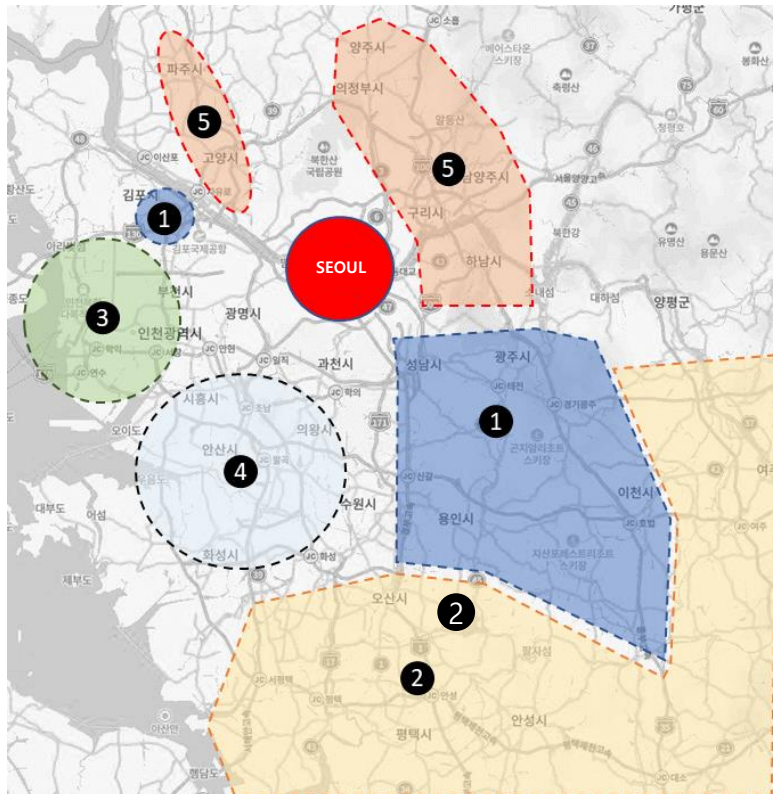
# 3.4 LOGISTICS CLUSTERS NEAR GREATER SEOUL

## PROJECTED SUPPLIES AND DEVELOPMENTS

### EXPANDING NETWORKS OF LOGISTICS CLUSTERS

- ✓ Since 2014, logistics clusters were developed sequentially from areas 1 to 5 to cope with increasing demand
- ✓ The prospects for each zones and assets vary in line with the key success-contributing factors (location, accessibility, scale, infrastructure, cost effectiveness, etc.); The logistics sector will certainly witness more competition ahead, especially with the new large supply in 2022

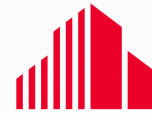
#### LOGISTICS MAP NEAR GREATER SEOUL



SOURCE: CUSHMAN & WAKEFIELD RESEARCH

#### CURRENT STATUS AND PROSPECTS

	CITY	CURRENT STATUS AND PROSPECTS
1	Gwangju Yongin Icheon	<ul style="list-style-type: none"> <li>Gyeongbu Expressway Line / Excellent Accessibility / <b>Traditional First-Class Region</b></li> <li>Current Status: Highest-Priced Region / Abundant Demand / Scarce Supply</li> <li>Prospects: Continued High Demand / Increased Capacity by Reconstructing Current Facilities</li> </ul>
2	Yeoju Osan Ansong Pyungtaek	<ul style="list-style-type: none"> <li>Gyeongbu Expressway Line + Jungbu Line with <b>Relatively Poor Accessibility</b></li> <li>Current Status: Redevelopments of Old Warehouse into Large Logistics Complex</li> <li>Prospects: Tiered by 1) Accessibility; 2) Scale; and 3) Infrastructure</li> </ul>
3	Incheon	<ul style="list-style-type: none"> <li>Large Demand from Incheon Port / Large-Scale Supply in Existing Industrial Complexes / <b>Near Greater Seoul Region</b></li> <li>Current Status: Accelerated Supply of Large-Scale Logistics Centers; New Supply estimated to be 2.3 million sqm by 2022.</li> <li>Prospects: Tiered by 1) Timing of Supply (dominate market share early on); 2) Scale; and 3) Infrastructure</li> </ul>
4	Ansan Siheung Hwasung	<ul style="list-style-type: none"> <li>Existing National Industrial Complex / Excellent Infrastructure / <b>Large-Scale Parcel Supply Available</b></li> <li>Current Status: Redeveloping Existing Manufacturing Sites to Logistics Centers</li> <li>Prospects: Tiered by 1) Use; and 2) Scale</li> </ul>
5	Namyangju Yangju Euijungbu Goyang	<ul style="list-style-type: none"> <li><b>Limited Supply</b> Due to Greenbelt and Non-Developable Land</li> <li>Current Status: Increasing Demand for Logistics with the Development/Growth of New Cities</li> <li>Prospects: Tiered by 1) Timing of Supply (dominate market share early on); 2) Scale; and 3) Infrastructure</li> </ul>



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