



Offices

Seoul, Korea



The Seoul Office Market

The Seoul office market continues to perform well, with ongoing increases in demand for prime office space and limited new supply leading to continuing robust growth in capital values and upward pressure on rents. Given South Korea's relatively solid economic outlook and with no significant new supply coming on stream until 2010, strong market conditions are expected to persist for at least the next two years.

The development of Seoul's central business district (CBD) began in the 1960s and picked up in earnest during the 1970s. Development of the Yeouido (YBD) and Gangnam (TBD) districts began in the early 1980s. Although the 1997 Asian Financial Crisis inflicted considerable damage on the market, South Korea's economy recovered rapidly and the commercial real estate market has shown stable growth since 2001.

Among 226 large (30,000 sq.m. or more) office buildings in Seoul, 120 buildings can be classified as prime buildings. The CBD accounts for the largest share of prime stock at 45 per cent, with TBD at 33 per cent and 22 per cent in YBD.

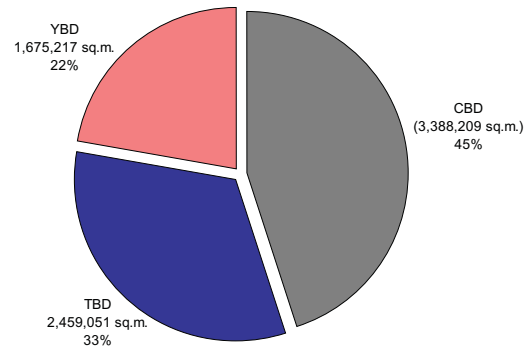
In terms of tenant mix, the finance and insurance industries take up nearly a third of total office space, followed by manufacturing at around 20 per cent. The passage of the Capital Market Consolidation Act, which will be effective from 2009, is likely to further increase the finance and insurance industry's market share, with these firms already expanding operations in anticipation of a more relaxed regulatory environment.

Vacancy Rates

The first quarter of 2008 saw Grade 'A' and 'B' office vacancy rates remain near record lows at an average of 1.1 per cent across Seoul. Vacancy rates have been driven down in recent years as limited increases in new supply have been unable to keep up with growing demand for premium office space. The shortage in office space is most extreme in YBD, with no recorded vacancy across the 17 buildings surveyed.

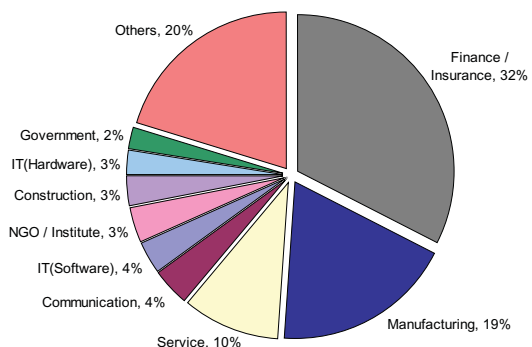
Many recent pre-leases reflect the low vacancy situation in the Seoul office market. In 2007, 380,000 sq.m. of prime space including Seoul Central Post Office Tower, STX Namsan Tower, ING Center Building, Samsung Life Insurance Seocho Tower, Samsung C&T Corporation Building and Taeyeong Building, were supplied in the major areas. All of these buildings, except for Samsung Life Insurance Seocho Tower, were fully leased before completion. As for Samsung Life Insurance Seocho Tower, the original plan was to have all the office space used by Samsung affiliates. However, the plan is now to lease out 30 per cent of the office space, for which the building is known to have located potential tenants. Samsung C&T Corporation Building is complete and 100 per cent occupied by Samsung affiliates, as Samsung Corporation has relocated, from offices in Bundang, adjacent to Seoul.

Prime Office Stock by District, Q1/2008



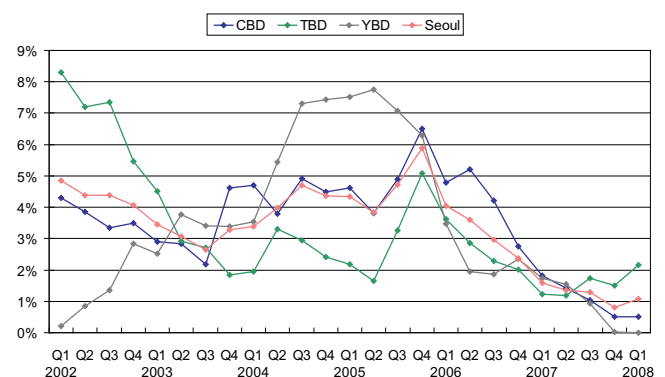
Source: Savills BHP Korea Market Research

Distribution by Tenant Mix in Seoul, 1H/2007



Source: Savills BHP Korea Market Research

Prime Office Vacancy Rates by District, Q1/2002 - Q1/2008



Source: Savills BHP Korea Market Research

Rent

The lack of new Grade 'A' office supply has led to a pickup in historically subdued rental growth. In the first quarter of 2008 average rents rose by 7.1 per cent in TBD compared with a year earlier, while annual growth in YBD and CBD was 5.5 per cent and 5.0 per cent respectively. These rates are roughly double the average rate of increase recorded over 2003-2007. It would appear that shortages in supply are encouraging landlords to abandon traditional pre-set annual rent adjustments in favor of more rapid hikes in rent.

Investment Market

While growth in the number of long-term property holders has reduced the number of blue-chip office buildings being put out to market, ongoing appetite for South Korea office property investments among both foreign and domestic institutional investors has led to double digit sales price growth in each of the last four years. The average office building sale price rose by 12.1 per cent during the first 6 months of 2007 and the overall annual increase for 2007 is expected to exceed 20 per cent. This would be the fastest recorded rate of increase since the inception of the Savills BHP Korea market survey in 1999.

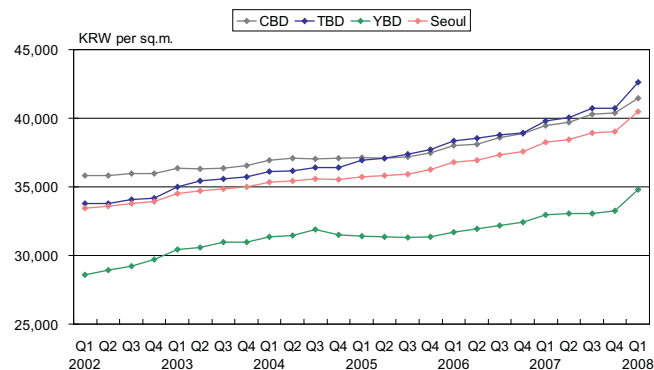
Both domestic and foreign investors are proving to be aggressive in the current competitive market. REITs and RE funds which entered the market in 2002 and 2004 respectively, have been gearing up. In Q2/2007, Morgan Stanley purchased the Daewoo Building for a record price of US\$1 billion under the REITs scheme which was the biggest office deal in Korea. Investors are looking not only for completed offices but also for development projects, especially in the CBD where 15 to 20 new buildings are in the pipeline.

Outlook

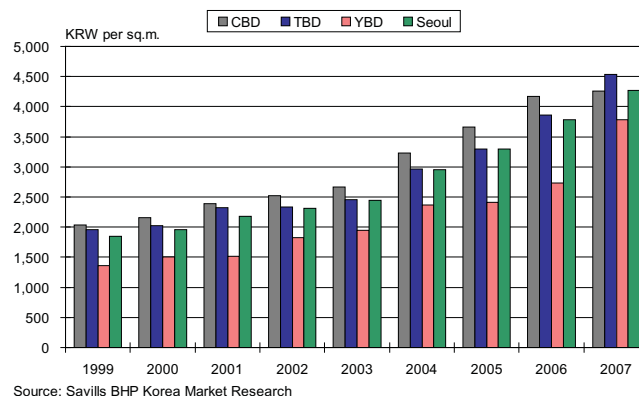
Growth in demand will continue to be supported by solid economic growth and expansion in the finance and insurance industry. However, the flow of new office supply will be the major influence in the market for the next few years. In the near term, currently tight market conditions will be exacerbated by limited new supply, with the annual volume of new office space projected to be lower than the average annual absorption rate over the last 10 years. As a result, vacancy rates are expected to hover around zero while rent increases could rise to as high as 15 per cent in some areas.

However, 2011 and 2012 will see a substantial increase in new Grade 'A' office space totaling around 1.7 million sq.m. – more than the total quantum of new supply completed during in the previous 6 years. Although much of this new space is likely to be absorbed by pent-up demand, an increase in vacancy rates and reduced rental pressure will be inevitable.

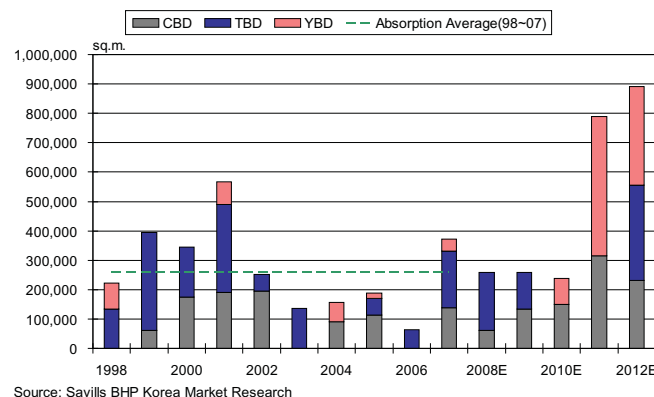
Prime Office Rents by District, Q1/2002 - Q1/2008



Capital Value by District, 1999 - 2007



Office Supply, 1998 - 2012E





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