

# MARKETBEATS

**36**

NUMBER OF DEALS

**4.02**

INVESTMENT VOLUME (TRILLION WON)

**7.9**

CAPITAL VALUE (MILLION KRW/SQM)

## WHAT'S NEXT

### KEY TAKEAWAYS

- In 2Q 2019, about KRW 4.0 trillion(36 total) of office building transactions occurred in Seoul and Bundang. This brings total deals transacted in the first half of the year to about KRW 5.9 trillion worth, went beyond the KRW 5.6 trillion achieved in the same period of 2018, which was a record setting year in terms of investment volumes.
- The State Tower Namsan in the CBD changed hands for KRW 8.8 million per sq.m., rewriting a benchmark that was set by the sale of The K-Twin Tower (KRW 8.5 million/ sq.m.) in 2018.
- The sale of financial companies' offices has been accelerating since last year.

### MARKET OVERVIEW

- Completion of several deals for Grade A office buildings has resulted in a record setting in investment volumes in terms of first half of the year.
- Transaction volumes in non-core districts reached over KRW 1 trillion.

In the 2Q of 2019, deals for a total of 36 office buildings changed reached about KRW 4.0 trillion. Nine transactions were completed, including State Tower Namsan and Samsung SDS Tower West Building, which began last year, accounted for two-third of total transaction value. In the first half of the year, investment volumes reached KRW 5.9 trillion, which went beyond the record of first half of 2018 (KRW 5.6 trillion), which was a record-setting year in terms of transaction volumes. This is mainly due to investors' preference for core stabilized assets and the limited availability of such assets in the market.

Transaction for assets in CBD, GBD, and Others district accounted for more than KRW1 trillion in 2Q. Notably, transactions in the Others district surpassed KRW 1 trillion, which is evidence of the widening interest in office buildings outside major districts due to the abundant market liquidity amid strong investors' demand for office assets, which remain sustained from last year.

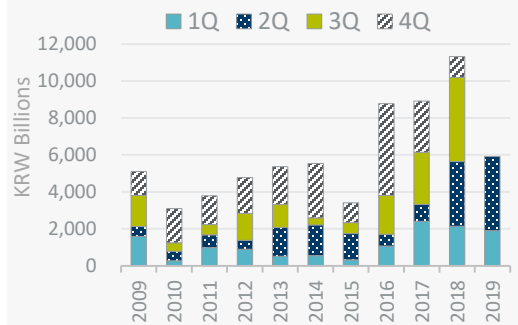
In addition, capital from Singapore (Keppel Asset Management) invested about KRW 680 billion from the purchase of four buildings including three buildings from the Samsung SRA Fund and T Tower. The investment appeal of Seoul's office buildings remain buoyed by the high interest rate spreads as compared to major Asian cities and the recent security risk reduction. In addition, the divestment of buildings owned by financial companies continued.

### ECONOMIC INDICATORS

	2018 4Q	2019 1Q	6-Month Forecast
GDP Growth	2.9%	1.7%	▲
CPI Growth	1.3%	0.4%	▲
Unemployment	3.4%	4.5%	▼

Source: Bank of Korea

### OFFICE INVESTMENT VOLUME TRK



	18.2Q	18.3Q	18.4Q	19.1Q	19.2Q
No. of Transactions	14	15	19	20	36
Transaction Volume (Trillion KRW)	3.48	4.60	1.13	1.90	4.02

Source: Cushman & Wakefield Research



## CBD

### State Tower Namsan sold at highest unit price recorded

Six buildings were transacted in CBD for a total of KRW 1.63 trillion in 1Q. This brought total transactions in the first half of the year to KRW 2.63 trillion. Transaction deals of Grade A office buildings include Seoul Square led the transactions market. Seoul Square was sold at about KRW 988 billion in 1Q. State Tower Namsan transacted at KRW 8.8 million per sq.m. in 2Q, exceeding the previous record set by The K-Twin Tower(KRW 8.5 million/sq.m.). The building boasts excellent specifications as well as the convenience of facilities provided by Shinsegae Chosun Hotel and occupied by MIX, which possess a good credit rating. Despite the departure of law firm Shin & Kim (38% of GFA), the deal was closed successfully.

## GBD

### Grade B/C office buildings transacted actively

GBD saw 20 transactions amounting to KRW 1.14 trillion in 2Q. Similar to 1Q, most were for Grade B and C buildings. GBD's Grade B and C buildings are attracting institutional investors due to its high office leasing demand and local premiums. Notably, the transaction for Grade B and C buildings where WeWork, the largest coworking brand, has taken entire tenancies have been continuing. In addition, transaction of Grade B and C buildings which are expected to generate stable rental income have been continuing such as PCA Life building from last year and Mita Tower in 2Q.

## YBD

### Gaining popularity for value-add strategies

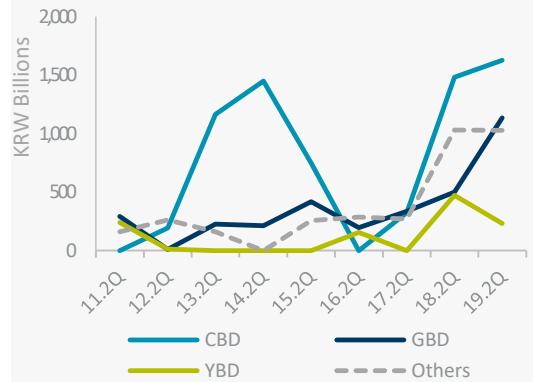
Since last year, YBD has been selling Grade A office buildings as value-add plays due to vacancy concerns of looming large-scale supply and rising office building prices. In 2Q, Yeouido Finance Tower was sold at over KRW 5.4 million per sq.m. The deal serves to show the popularity of value-add plays in YBD, being transacted at a higher than average unit price as compared to those from the previous year.

## Others

### Grade A office building transaction reached over KRW 1 trillion

A total of nine transactions, amounting to KRW 1.03 trillion, took place in Non-CBD districts. The level of investment activity is comparable to major Seoul districts, which indicates increased investor interest in office buildings outside the major districts, due to abundant market liquidity amid strong investors' demand for office assets. Major transactions were sealed for Bundang M Tower, SMT Building and Samsung SDS Tower West Building.

### 2019. 2Q OFFICE INVESTMENT VOLUME TRK BY SUBMARKET (Y-O-Y)



Source: Cushman & Wakefield Research

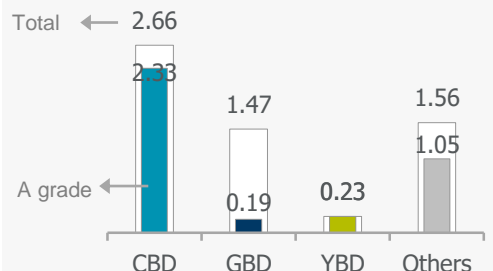
### 2019. 2Q OFFICE INVESTMENT VOLUME BY SUBMARKET

Submarket	No.	Trillion Won	%
CBD	6	1.63	40.5
GBD	20	1.14	28.2
YBD	1	0.23	5.8
Others	9	1.03	25.5

Source: Cushman & Wakefield Research

### 2019. 1st HALF OFFICE INVESTMENT VOLUME BY SUBMARKET

(Unit: KRW Trillion)



Source: Cushman & Wakefield Research

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## 2019.1st HALF TRANSACTION TREND

### Financial firms to continue divestment process

In the first half of this year, there were active transactional activity of office buildings owned by financial companies. Samsung Life, which is actively divesting its real estate holdings, sold Samsung Life's Samsung Dong Building at KRW233 billion in 2Q. In addition, Citibank Dadong Office in CBD was sold to Koramco Asset Trust. In addition, the number of buildings sold by financial firms is expected to increase further in the second half of the year, as the NH Investment & Securities Building and Meritz Fire Building, amongst others, have activated sales process. The motivation to sell is aimed at securing gains due to rising office building prices and securing liquidity or capital adequacy requirements ahead of the Basel III application in 2022 .

### Grade B/C office buildings with WeWork spaces continue to be transacted

This year, transactions of Grade B and C office buildings where WeWork, the largest coworking brand, has taken entire tenancies have been continuing. Since last year, the sale of office buildings in which WeWork is leasing a part of, has already been actively marketed. In the first half of this year, PCA Life Tower and Mita Tower were sold for KRW 7.6 million and KRW 8.0 million per sq.m. respectively. Sehan 889 Tower, which is also occupied by WeWork is currently on the market with an expected transaction price of about KRW 8.8 million per sq.m.

## 19. 2Q STAT ON THE GO

	LOCAL CURRENCY (KRW)	US\$ EQUIVALENT	Q-O-Q CHANGE LOCAL CURRENCY
Investment volume	4.02 trillion	3.42 billion	85.0%
Price/sq.m.	6,127,569	5,204	
YIELD	2Q 2019	Q-O-Q CHANGE	Y-O-Y CHANGE
Office	4.5~5.0%	N/A	N/A

Exchange Rate as at July 2019: 1USD = KRW1,178

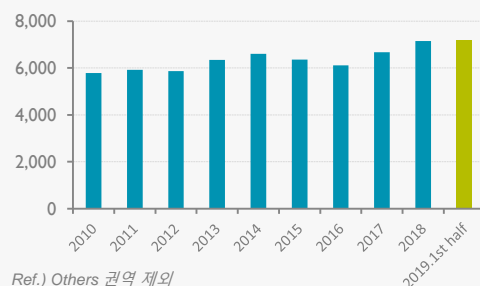
## 19. 2Q CAPITAL VALUE

(Unit: Thousand KRW/Sqm)

	CBD	GBD	YBD	OTHERS
Total	6,361	8,578	5,483	4,845
GRADE A	7,714	-	5,483	6,665

## CAPITAL VALUE TRK - Grade A

(Unit: Thousand KRW/Sqm)



Ref.) Others 권역 제외

Source: Cushman & Wakefield Research

## 2019.2Q MAJOR TRANSACTION LIST

PROPERTY	SUBMARKET	PURCHASER	SQM	PRICE (KRW BILLION)
State Tower Namsan	CBD	Mirae Asset Management	66,799	588.6
Jongro Tower	CBD	KB Asset Management	60,652	500.0
T Tower	CBD	Keppel Asset Management (Keppel Reit)	41,500	252.6
City Bank Da-dong HQ	CBD	Koramco Reits&Trust	39,624	194.0
Hannuri Building	CBD	Keppel Asset Management	13,007	77.2
Rosedail Building	GBD (Fringe)	Intrus Investment & Management	55,463	188.0
WeWork Tower(Mita Tower)	GBD	Shinhan Reits Management	15,074	120.1
Nonhyeon Building	GBD	Keppel Asset Management	18,606	122.5
Yeouido Finance Tower	YBD	Keppel Asset Management	42,346	232.2
Bundang M Tower	BBD	JS Asset Management	46,125	137.0

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This popularity is reflected in the elevated price as well as the fact that it is a building that reflects the brand value of WeWork within the exclusive Gangnam area. An investor can also expect stable rental income through the long-term lease of over than 10 years.

## OUTLOOK

**YBD to drive transactions market with transaction volume expected to be similar to or just below previous year's level due to a lack of prime office assets for sale**

With the weight of capital targeting alternative investment and the presence of motivated sellers, the office transactions market this year is expected to remain active. However, the sale of prime-grade assets, which had been underway since last year, is unlikely to be maintained at similar levels. As such, the total number of transactions is not expected to surpass the previous year's. YBD is expected to lead the transactions market in 2H. This is because prices of office buildings in Yeouido area have been rising since last year, which sellers are keen to capitalize on before vacancy risks, due to the massive supply cycle which will begin with the delivery of Parc One building next year, start rising. In addition, there remains a possibility of selling at the market's peak. Major deals currently underway include those for NH Investment & Securities Building and Meritz Fire building.

## ON-GOING / EXPECTED TRANSACTION

PROPERTY	SUBMARKET	SQM
NH Investment & Securities Yeouido Company Building	YBD	45,499
Samsung Life Insurance Yeouido Building	YBD	39,646
Meritz Fire Building	YBD	18,039
KB Kookmin Bank Yeouido HQ annex	YBD	20,425
Jongro Tower	CBD	60,652
Centerplace	CBD	32,718
HSBC Building	CBD	37,706
Twin City Namsan	CBD	36,300
Anam Tower	GBD	15,002
D-CUBE CITY Office	Others	30,656
Time Square Office	Others	20,970
Taeyoung Building	Others	33,079

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