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# Vacancy rates remain low as demand for GBD office outweighs the increased vacant space in the CBD

## Insight & Recommendations

Average vacancy across Seoul in Q2 2023 was 2.1% which is similar level to the previous quarter. While major anchor tenants' relocation led a small increase of CBD vacancy, quick absorption of newly supplied Grade A space in the GBD led to an overall decrease.

Newly supplied Grade A office building, Scale Tower (formerly known as Tiger 318), was fully leased by Hyundai Motor Group in Q2 2023. There is no large available office space in GBD these days despite slowing down of rapid expansion of tech companies.

- Several tech tenants and general companies that expanded their office spaces in CBD and YBD have decided to relocate which led to an increase of available office space in both the CBD and YBD.
- This year's overall absorption rate is expected to decrease. Tech companies who have rapidly expanded throughout the low interest rate era, are expected to reduce their footprint this year as they turn to tightening their budgets adjusting to the unfavorable market environment.

	Q2 2023	2023	2023-27 Annual Avg.
 <p><b>Demand</b></p> <p>As tenants moved out due to renovation, CBD recorded negative absorption rate. Meanwhile, GBD recorded positive absorption rate as Scale Tower was leased to Hyundai Motors Group.</p>	 21,070 sq m	 77,500 sq m	 225,382 sq m
 <p><b>Supply</b></p> <p>Integrated BoK Building was completed and will be used as BoK's HQ. Meritz office building in CBD, Anchor One and TP Tower in YBD are scheduled to be supplied in Q4 2023.</p>	 -	 415,980 sq m	 291,059 sq m
	<b>QOQ/ End Q2</b>	<b>YOY/ End 2023</b>	<b>Year AVG. Growth 2022-27/ End 2027</b>
 <p><b>Rent</b></p> <p>Rent levels continued to increase with slower pace in Q2 2023. Rent growth rate was more significant in GBD area compared to CBD and YBD.</p>	 1.3% KRW 33,434	 7.7% KRW 34,477	 4.4% KRW 39,687
 <p><b>Vacancy</b></p> <p>Average vacancy rate in Seoul decreased to 2.1%, which is by 0.2% QoQ, mainly due to occupation in GBD Grade A office.</p>	 0.2pp 2.1%	 1.2pp 2.8%	 2.8pp 3.1%

Source: Colliers.

Note: USD1 to KRW 1,291 at the end of Q2 2023. 1 sq m = 10.76 sq ft. This table shows aggregate figures for the Seoul CBD, GBD (Gangnam Business District) and YBD (Yeouido Business District).

# Slower business expansion of Tech companies

Tech companies who used to actively expand their businesses by leveraging low interest are now slowing down on expansion. Several tech companies decided to relocate from prime buildings in major business districts to other affordable areas in Q2 2023.

In the future, the number of tech companies that are seeking office spaces outside of major business districts or reducing office spaces are likely to increase. However, Korea's office leasing market is expected to remain stable as there is limited new office supply with solid fundamentals.

## Q2 2023 Market Review

### Office renovation plans in CBD led to an increase of vacancy rate

The CBD vacancy rate increased as anchor tenants in Buyoung Taepyeong Building and Pine Avenue A Building moved out. Moreover, both Seoul City Tower and Seoulo Tower are planning for renovations which will focus the majority of available space in the CBD.

### Solid demand for Grade A offices in GBD

As Nexon made an announcement to use Autoway Tower that they purchased in Q1 2023, it stirred up existing tenants to look for other offices space which affected overall GBD leasing market. Because of this, Nokia relocated from Autoway Tower to SI Tower. Hyundai Motor Group also purchased Scale Tower (Tiger 318) as they had to move out from Autoway Tower as they had to secure office space before Hyundai Motor Group building in the GBD is completed in a few years.

The vacancy rate in GBD fell further QoQ to 0.9% as Hyundai Motor Group decided to lease entire area of Scale Tower (Tiger 318) which was supplied in Q1 2023.

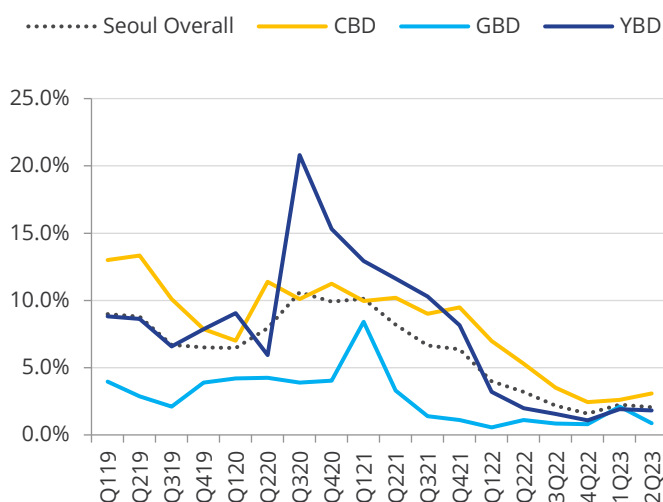
### Major relocation case in YBD

YBD vacancy rate fell by 0.1% QoQ to 1.8% due to relocations of several tenants in IFC and Parc 1 Tower 1.

Korean Fintech company Bank Salad, which was leasing two floors in Parc 1 Tower 1, has decided to move to Iljin Building in Mapo. Meanwhile, Salesforce will move into Parc 1 Tower 2.

Reduced office space in Hana Securities Building by 3M was filled by both shared office company TEC and German logistics company Kuehne + Nagel.

### Grade A vacancy rates



Source: Colliers

### Average rents and vacancy rates by submarket

	Q2 2023 Average rent (KRW/sq m/month)	QoQ rent change (%)	Q2 2023 vacancy rate (%)	QoQ vacancy change (pp)
CBD	35,638	0.2	3.1	0.5
GBD	33,795	3.0	0.9	-1.2
YBD	28,497	0.7	1.8	-0.1
Overall	33,434	1.3	2.1	-0.2

Source: Colliers  
Rents are face rents excluding management charges.

# Expectations for new office supply in Seoul

In the long run, various deregulation policies supporting urban redevelopment in Seoul are expected to affect the office development market as well. Delayed projects such as urban maintenance redevelopment project in Euljiro 3-ga and Sewoon districts are expected to get back on track.

A large-scale office town near Seoul Station and Seosomun 11 and 12 district is scheduled to be completed in 2027. Samsung Town and JB Financial Group HQ building will be constructed, but the office leasing market is expected to stabilize for the time being as the completion date is targeted for 2027.

## Market Outlook

### CBD Grade A Office Supply Outlook

Mirae Asset Global Investments is planning to construct Eulji Finance Center office near Euljiro 3-ga Station with a total floor area of 65,760 sq m by 2027. It is expected to be occupied by Mirae Asset Global Investments' affiliates.

IGIS Asset Management purchased Seoulro Tower and Metro Tower for an integrated development project by developing large-scale office town. It will be a new large-scale office town near Seoul Station.

Meanwhile, JB Financial Group is planning to build a new HQ building in Seosomun Donghwa Building to gather subsidiaries that are scattered around in both GBD and YBD.

### Seongsu-dong emerges as an Alternative to GBD Office Market

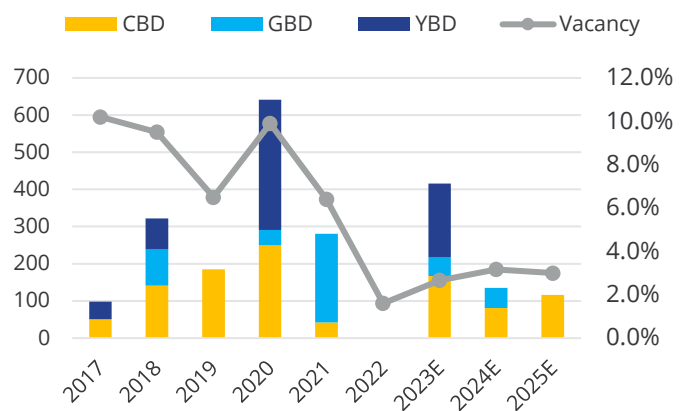
Seongsu-dong is expected to continue to expand as an alternative to the Gangnam office market. For instance, Korean game mogul, Krafton, is developing its office building in Seongsu-dong (Ex E-Mart area) which will be completed by 2027.

### YBD Prime Office Supply Plan

Anchor One and TP Tower will be supplied in 2H 2023. Vacancy rate impact is expected to be minimal as pre-leasing for both buildings was successful.

In addition, GIC and IGIS Asset Management are reportedly planning to renovate the Shinhan Financial Investment Building in YBD which they have acquired recently.

### Grade A supply forecast (unit: '000 sq m)



Source: Colliers

### Expected New supply of Grade A Buildings

Market	Property Name	Area (sq m)	Completion (Year)
CBD	Bongnae 1 District	40,711	2023
	KT Gwanghwamun (West)	68,856	2023
	Eulji-ro 3ga 12 District	41,984	2024
	Jung-gu Cho-dong	38,977	2024
	Eulji-ro 2ga District	116,020	2025
	Gongpyeong 15, 16 District	NA	NA
	Sewoon District	NA	2026
	Eulji Finance Center	64,989	2027
	Seosomun 10 District (JB)	39,759	2027
	Seosomun 11, 12 District (JoongAng)	121,997	2027
GBD	Seodaemun 1, 2 District (Hoam)	NA	2027
	Seoul Station (North)	NA	2027
	Baekam Building	27,051	2024
	Centrepoint Gangnam	27,024	2024
	Seocho Information Agency site Development	NA	2027
YBD	Hyundai Motor Co. Building	NA	2027
	Anchor one	57,716	2023
	TP Tower	141,669	2023

Source: Colliers

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