2022 Market Outlook

South Korea Insights

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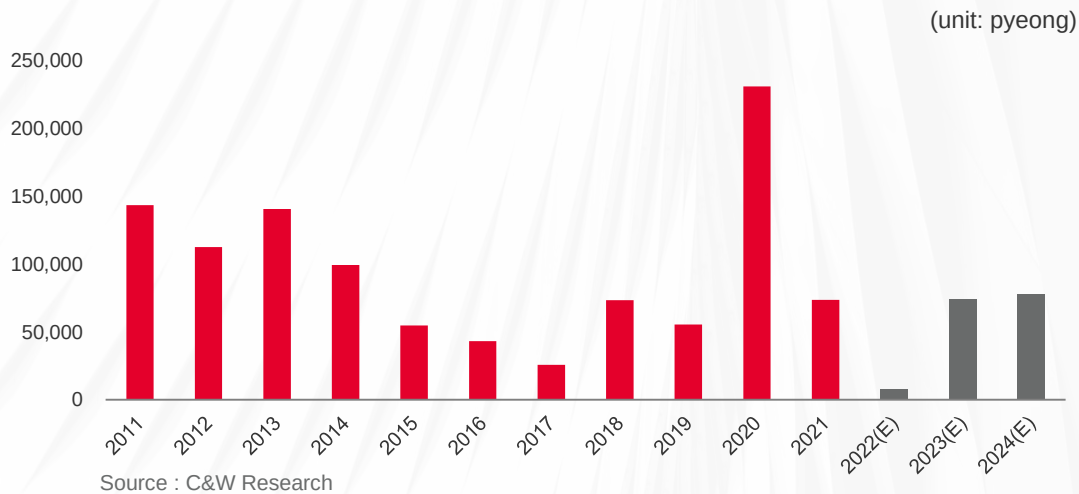
According to Cushman & Wakefield's latest report titled Catch '22 — Asia Pacific Commercial Real Estate Outlook 2022, the Asia Pacific office market has shown remarkable resilience, being the only region to record consecutive quarters of positive net absorption since the onset of the pandemic. Although regional vacancy has edged upwards, the increase is marginal and primarily driven by supply exceeding demand. Looking to 2022, demand is expected to grow — reflective of a stronger recovery across the entire region — before returning to pre-pandemic levels in 2023. Rents are expected to rebound from the beginning of 2022, having been falling slightly since the emergence of COVID-19.

The Korean office market has been very active in 2021, recording a high absorption rate. In turn, vacancies in major Seoul districts have declined sharply. In particular, the drop in vacancy has been very significant in the GBD submarket, where many technology companies are located, as they have aggressively expanded their office space needs on the back of rapid growth during the pandemic period.

The Centerfield project, completed early this year, filled most of its vacancy within six months of launch, even though the project brought large-scale new supply into the market, with a total floor area of more than 230,000 sqm. This demonstrated a rapid occupancy pace compared to the average time of two to three years for a new Grade A building to achieve full occupancy. Demand is on the rise as companies gradually put return-to-work plans in motion, and tenants who have been considering relocation become more active.

Looking ahead to 2022, new office supply in major districts is expected to hit the lowest level since 2010. A few new projects are scheduled to be completed in GBD, but the volume of new space will be significantly less than that needed to meet recent demand. As a result, the vacancy rate is forecast to continue trending down next year, and this trajectory is likely to last into the next two to three years. Rents are also forecast to recover due to falling vacancy rates. Rent-free periods are likely to be cut, leading to the rise of effective rents.

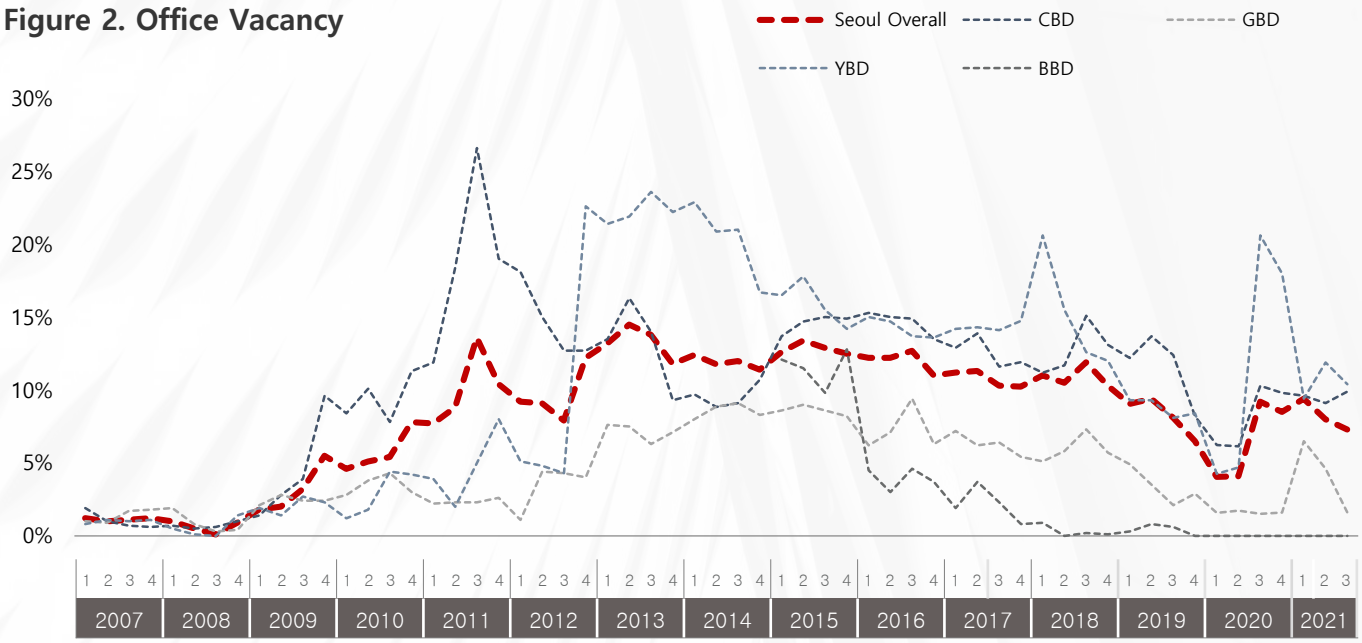
Figure 1. Office Supply



Source : C&W Research

Ⅰ. Office Market Outlook

Figure 2. Office Vacancy



Source : C&W Research

The Central Business District (CBD) area, hosting many sizable local and foreign companies, has experienced the most active new supply since 2010. ICON Chenonggye and K Square City entered the market in 2021, but a high rate of pre-leasing before the projects' completion limited the impact of the new supply on the market. Vacancy in CBD has been gradually stabilizing along with the recent expansion of large companies and relocations of major law firms.

Gangnam Business District (GBD) is home to large IT companies, startups, and co-working spaces. With the recent growth of the IT industry, the vacancy rate in GBD has fallen fell below the natural vacancy rate, despite the entry this year of notable office building projects such as Centerfield. As the shortage of office space continues, rental levels may rise more quickly at contract renewal time.

Yeouido Business District (YBD) is known as the "Korean Wall Street," with a number of securities firms and financial holding companies, together with a notable recent expansion of firms in the fintech space. Vacancy in YBD had been at a higher level, with the Parc1 Towers 1 & 2 projects launching last year, following the earlier completions of IFC and FKI, all of which are Grade A buildings. However, the YBD vacancy rate has fallen in-line with rising demand from the recent growth of securities firms and asset management companies. Most of the large vacancies have recently been taken up, and the vacancy rate is now expected to remain stable until the site development of the MBC office building is completed in 2023.

Ⅱ. Investment Market Outlook

The Asia Pacific investment market has been comparatively quick to rebound after the negative impacts of the pandemic. Investment volumes in 2022 are forecast to match the record levels seen in 2019, at around US$180 bn. Key drivers include: prevailing low interest rates despite modest increases in the past year, real estate as an inflation hedge, record amount of dry-powder capital, and an intensified focus on capital deployment by investors.

The Korean investment market has been seeing rapid growth over the past two years and the transaction volume of office projects and logistics centers have set new highs year-after-year. This growth has been due to stable returns and sufficient liquidity, and investor interest has sustained, especially in the office market, as the impact of the pandemic in the Korea market has been less severe when compared to other markets.

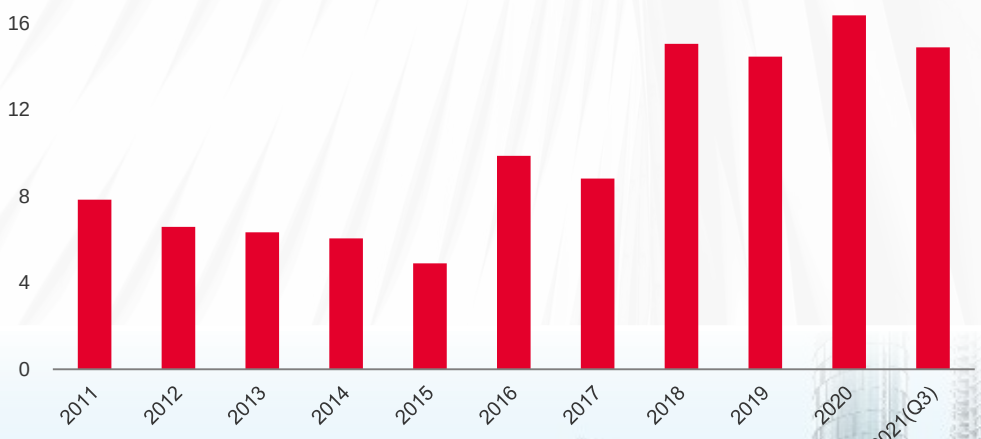
Looking at the transaction cases by district, the SK Seorin Building in the CBD was sold with a transaction price of approximately KRW1 trillion. It recorded nearly KRW39.5 million per pyeong, setting a new record for the CBD area, and the property was subsequently in the SK REIT.

In GBD, The Pinnacle Yeoksam (formerly Narae Building) was sold at a record high of KRW39.97 million per pyeong. Thanks to robust office demand in Gangnam district, the majority of the available space was pre-leased before the remodeling was completed, raising the value of the building.

O2 Tower, a successful value-add case in YBD, attracted attention with high market returns in a short time period. After being sold for KRW212 billion in 2018, remodeling of its retail area was carried out and it was then resold for KRW336 billion in 2021.

Figure 3. Office Transaction Volume

(unit: trillion KRW)



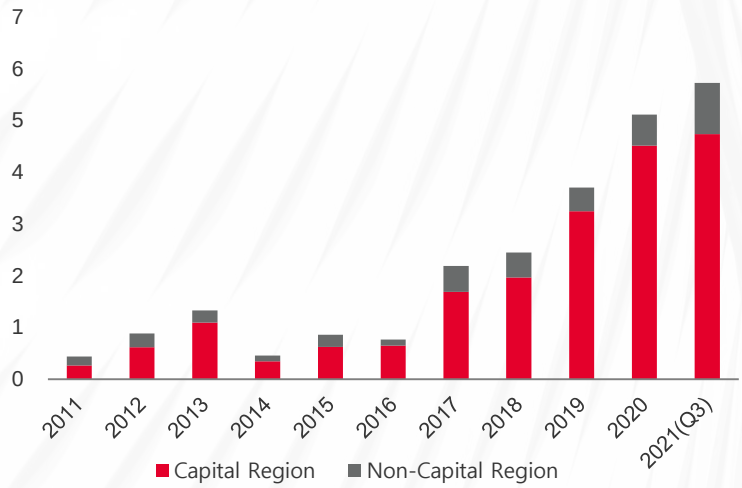
Source : C&W Research

Ⅱ. Investment Market Outlook

Looking to the year ahead, there are concerns about the negative impact of interest rate hikes on the investment market. However, an expected recovery of domestic GDP, strong exports, and the growth of high-momentum industries such as IT are likely to offset this by supporting demand. We see abundant liquidity and strong fundamentals keeping demand for domestic investment high, although total investment volume may hold steady somewhat due to the limited number of high-quality assets now remaining in the market.

Figure 4. Logistics Transaction Volume

(unit: trillion KRW)



Source : C&W Research

In the logistics market, as the pandemic has accelerated the expansion in e-commerce, the surge in demand has only highlighted the shortage of logistics infrastructure. As a result, logistics centers are expanding from the traditionally preferred locations of Yongin and Icheon, and into Anseong and Pyeongtaek.

Investment volume in the logistics sector has soared since 2017, breaking a new record every year, and further strengthening the sector's position as a major player in the investment market. It surpassed last year's total volume by recording approximately KRW6 trillion by the third quarter of 2021, and the boom in the logistics center sector is forecast to continue into the years ahead.

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