CBRE
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MarketView
Seoul Office

JULY 2008

RENTAL TREND

Grade A Office Rental

Overall rental growth of Grade A office properties recorded 0.87% during July 2008. The rental growth in CBD and GBD recorded marginal growths of 0.27% and 0.17%. Otherwise, the rental growth in YBD recorded relatively high growth of 2.12% in July as a result of substantial rental increases by a few office properties that were transacted recently with somewhat unexpected high prices. After all, the high acquisition cost resulted in the high rental growth since the purchasers passed along the high cost to the tenant in order to achieve target rate of return for investment. Furthermore, this phenomenon in YBD would have a ripple effect to other major office districts, triggering a rise in the rents due to high demand and a shortage of availabe office space.

VACANCY TREND

Supply, Take-up and Vacancy of Grade A Office Properties

The vacancy rate for overall Grade A office properties declined 0.01% point m-o-m to 0.21% in July, recording the all time lowest rate. Vacancy rate in CBD and YBD recorded 0.04% and 0.00%, remained unchanged from last month. GBD showed a decline of 0.04% point m-o-m to 0.47%. The overall vacancy rate change of 0.01%, being considered as no change with respect to the total leasable area, reflected a steady market based on current market conditions of high demand and a vicious lack of available Grade A office space. The vacancy rate is expected to be persistent in the record low level unless new supplies come into the market.

CAPITAL VALUE

Grade A Office Capital Value

Despite the fact that no transactions of grade A office buildings occurred during the reviewed period, investment market saw strong momentum as investors continued to seek investment opportunities in the office sector. Given the tight supply and high demand in the office market, capital values are expected to sustain their upbeat tendency.

LEASING ACTIVITY

Grade A Office Leasing Market

Due to a shortage of available Grade A office space in overall market, leasing activities were stagnant during July. The financial sector, specially the insurance companies, still dominated the leasing activities. Furthermore, the most leasing activities were witnessed in GBD where it had relatively many available office spaces compared to CBD and YBD. Korea Life Insurance and Kumho Life Insurance leased 1,213 ㎡ (367.06 pyung) and 2,310 ㎡ (698.76 pyung) of Gangnam Finance Center in GBD. Barclays Global Investors leased 347 ㎡ (105 pyung) of Seoul Finance Center in CBD.

Key Issues of the Month

- Seoul Government announced "Readjustment Plan for District no. 1 Unit Planning of Olympic-road" for reorganizing Jamsil area where amusement facilities are located in to office district including high-end retails. There will be special incentives on F.A.R and number of floors of office buildings to encourage office redevelopment on Jamsil area. (Jungang Ilbo, 2008-07-04)
- With the completion of old Namdaemun Tax Office building reconstruction, the first Consignment Development Business for Natianal Land, the property resurrected to KRW163 billion prime office building, which is a sextuple surge in the capital value. The property maximized the use of space with an increase in floor space index from the prior index of 57% to the legal limit of 599%, and the residual land was developed into a park, refreshment space for residents. With reference to this project, the government plans to develop other national land or property. (Hankyung, 2008-07-15)
- NPS poured KRW 700 billion to invest in the office premises located within the major office districts. NPS acquired KB Yeoksam building and Samhwa building in GBD. KOCREF NPS 1 in which NPS invested acquired Samhwa building for KRW 250 billion from Samhwa Development. NPS plans to expand its alternative investments in real estate, infrastructures, and M&A, which will total to KRW 7 trillion in June 2007. The total investment amount is expected to increase KRW 11 trillion by the end of 2009. Further, a brisk investment in the office premises by NPS is anticipated. (Moneytoday, 2008-07-21)
- Jongro-gu, the heart of Seoul is expected to construct the largest office district in Seoul through the urban renewal project in Cheongin-dong (Cheongjin Redevelopment Project), adding to the vast new office supplies coming on the stream. Lemierre Jongno Tower in section 6 and Samgong building in section 7 were already launched in Cheongjin Renewal District parcelled into 19 sections, and four 24-story office buildings will be developed with large scale G.F.A of 159,934 sqm each. (Seoul Newpapaer, 2008-07-29)

	Change in July 2008	Change in June 2008
Grade A Rents	↑	↑
Vacancy Rates	↓	↓

* Source: CBRE Research

Capital Value (Grade A)

	July 2008	6 mths Trend
CBD	6.4 Mil	↗
Gangnam	6.1 Mil	↗
Yeouido	5.1 Mil	↗

* Note: In KRW, per sq m GFA
* Source: CBRE Research

SUMMARY OF SEOUL OFFICE MARKET TREND

CBRE Index – Grade A Office Rents

District	Net Occupancy Cost			% Change From (In KRW)			
	US$/Sq-F/Yr	Euro/Sq m/Yr	KRW /Sq m /Mth	Last month	6 month	12 month	6 mths Trend
CBD	71.04	485.14	64,959	0.34 %	1.77 %	6.12 %	↗
Gangnam	71.40	487.35	65,254	0.55 %	2.77 %	6.96 %	↗
Yeouido	61.20	418.10	55,981	2.97 %	4.15 %	6.92 %**	↗

Source : CBRE Research
*Note: Net Occupancy Cost: {(Deposit*interest rate)/12+(Monthly Rent + Maintenanace Fee)} / Efficiency Rate*
1 square meter=10.76 square fee
*** New additions to and deletions from the list of office buildings were made*

CBRE Index – Grade A Vacancy Trend

	JULY 2008	% Change**	6 mths Trend
CBD	0.04%	- 0.00 %	→
Gangnam	0.47%	▼ 0.04 %	→
Yeouido	0.00%	- 0.00 %	→

Source : CBRE Research
*** Month-on-Month percentage change*

CBRE Index – Grade A Capital Value*

	JULY 2008	6 mths Trend
CBD	6.4 Mil	↗
Gangnam	6.1 Mil	↗
Yeouido	5.1 Mil	↗

Source : CBRE Research
** Note: In KRW, per sq m GFA*

Economic Indicator – JULY 2008

	Latest Release		2005	2006	2007
Real GDP Growth	Q2 2008	4.7 %	4.2 %	5.0 %	4.9 %
Unemployment	July 2008	3.1 %	3.7 %	3.5 %	3.2 %
Consumer Price Index	July 2008	5.9 %*	2.8 %	2.2 %	2.5 %
Exchange Rate (KRW/USD)	July 2008	1019.12	1,024.31	955.51	929.20

Source : Bank of Korea
**Same period of previous year % change*

KEY LEASING TRANSACTION

- Seoul Finance Center (CBD) — **Barclays Global Investors** Leased approx. 347 m^2 (105 pyung)
- Gangnam Finance Center (Gangnam) — **Pan Asian Mortgage Company** Leased approx. 309 m^2 (93.57 pyung)
- Gangnam Finance Center (Gangnam) — **Korea Life Insurance** Leased approx. 1,213 m^2 (367.06 pyung)
- Gangnam Finance Center (Gangnam) — **Kumho Life Insurance** Leased approx. 2,310 m^2 (698.76 pyung)
- M Tower (Gangnam) — **KB Life Insurance** Leased approx. 1,088 m^2 (329 pyung)

KEY INVESTMENT TRANSACTION

PRIME OFFICE DISTRICTS IN SEOUL

CBD (CENTRAL BUSINESS DISTRICT -CBD)

CBD is the oldest and the largest business district developed in the 1960's, followed by GBD, and YBD. The CBD is still the most preferred location for MNCs and Chaebols because of tradition and well-established supporting facilities. Foreign banks, securities houses, embassies, and consulting companies dominate the CBD.

GBD (GANGNAM BUSINESS DISTRICT - GBD)

The Central Government designated GBD, formerly an agricultural area, as the second business district of Seoul. In the middle 1990's, GBD was gaining popularity centering around Gangnam Rd and Teheran Rd as the IT valley of Seoul and the "Teheran Valley." After IMF, GBD showed rapid rent hike and followed the rent level up with CBD's.

YBD (YEOUIDO BUSINESS DISTRICT – YBD)

In the late 1970's through early 1980's, YBD was encouraged to be developed as the 'Manhattan of Seoul.' YBD remains as the center of securities trading and broadcasting activities. Local securities, media, and IT companies dominate the district due to its close proximity to Korea Stock Exchange, broadcasting stations, and Yongsan Electronic Market.

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TERMINOLOGY

GRADE A OFFICE (Including Prime)

Modern facility with high quality finishes; flexible layout; large floor plates; spacious lobbies and circulation areas; effective central air-conditioning; good lift services zoned for passengers and goods deliveries; good management and parking facilities are normally available.

NEW SUPPLY

The total GFA of buildings completed (including redevelopment) in a period.

TAKE-UP

The net absorption of office space let, or sold to the acquirer for occupation.

VACANCY RATE

The amount of vacant space divided by the total stock.

RENT

Rents are quoted in KRW per square meter per month, unless otherwise specified.

CAPITAL VALUE

Capital values are presented in KRW on a gross basis, unless otherwise specified.

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