

RENTAL TREND

Grade A Office Rental

Although concerns over the recession have grown, the drop in rents has not been witnessed within Seoul Grade A office market while other Asia countries have experienced the rental drops. Overall rental in Grade A office properties climbed marginally by 0.36% m-o-m during October 2008. The rent is unlikely to be changed until next year since not many owners are planning to raise the rent in the next two months. Due to no new supplies in 2009, the rent in 2009 is expected to climb albeit the gloomy economy outlook.

VACANCY TREND

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

The average vacancy rate for Grade A office properties located within three major districts recorded 0.31% with the biggest surge of 0.10% point m-o-m since 2007 Q4. As the global financial turmoil swept YBD which is the epicenter of financial sector in Korea, the vacancy rate in YBD, having stayed below 0.1% since 2007 Q2, surged remarkably to 0.75% during October 2008. Otherwise, the vacancy rate in CBD and GBD decreased marginally to 0.22% and 0.17% respectively. The vacancy rate in overall Grade A offices is expected to climb as a result of the gloomy outlook for Korea economy.

CAPITAL VALUE

Grade A Office Capital Value

No transaction of Grade A office building occurred during the reviewed period. The investment market sentiment remained bleak along with the recession fear, and the gap between asking prices and purchasing prices continued to widen. Likewise, the capital values of Grade A office properties has slid since it peaked in the second quarter of 2008. Although the capital values are unlikely to plummet due to the stable nature of Grade A office market in Korea, the downward tendency is expected to continue.

LEASING ACTIVITY

Grade A Office Leasing Market

Due to the gloomy economy outlook, potential tenants were withdrawing their expansionary plans and taking wait-and-see mode. Therefore, leasing activities were sluggish during October 2008. Bandai Korea and Creative B Works leased 1,058 m² (320 pyung) and 338 m² (102 pyung) of Gangnam Finance Center respectively. Sojitz Korea contracted renewal of 1,038 m² (314 pyung) in Premier Place. In GBD, Tyco Healthcare Korea leased 3,338 m² (1010 pyung) of Premier Place.

	Change in October 2008	Change in September 2008
Grade A Rents	↑	↑
Vacancy Rates	↑	↓

* Source: CBRE Research

Capital Value (Grade A)

	October 2008	6 mths Trend
CBD	5.7 Mil	→
Gangnam	5.7 Mil	→
Yeouido	4.5 Mil	→

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

Key Issues of the Month

- According to BOK, the Korean Banks' total loan amount related to the real estate Project Financing has grown by KRW 22 trillion over the past one and half years. Likewise, the Banks' real estate loans have grown from KRW 4.8 trillion in 2000 to KRW 76.3 trillion in 2008, which is a 1489% growth, reflecting biased loan toward the real estate sector with regards to the 91% growth of total loan amount for manufacturers. (Kyunghyang Newspaper, 2008-10-21)
- Seoul City conditionally sanctioned the proposal of Yangjae PiCITY project, which is a development project of 35-storey structure above and 6-storey basement with total GFA of 87,426 sqm at Yangjae-dong 225, Seocho-gu. And, it is composed of a freight terminal, retail properties, and office premises. PiCITY project is planning to commence the construction in March 2009 after receiving necessary permissions and be completed by March 2012. (Maeil Business Newspaper 2008-10-30)
- Due to the ripple effects of financial turmoil in US, overseas real estate investments in September plunged. Total numbers of investments fell to 56 from 288 the same period last year. Total amount of investments fell to USD 9.2 million from USD 25 million the same period last year, recording a decrease of 73%. Furthermore, total amount of investments plunged to USD 141 million in the third quarter of 2008 from 312 million in the third quarter of 2007. (Kukmin Ilbo 2008-10-23)

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	54.84	444.12	65,342	0.18 %	1.67 %	5.87 %	→
Gangnam	55.32	447.96	65,898	0.04 %	1.57 %	7.19 %	→
Yeouido	47.88	387	56,937	0.92 %	4.76 %	8.05 %	→

Source : CBRE Research

Note: Net Occupancy Cost: $\{(Deposit*interest\ rate)/12+(Monthly\ Rent + Maintenance\ Fee)\} / Efficiency\ Rate$

1 square meter=10.76 square feet

** New additions to and deletions from the list of office buildings were made

CBRE Index – Grade A Vacancy Trend

	October 2008	% Change**	6 mths Trend
CBD	0.22%	▼ 0.04%	→
Gangnam	0.17%	▼ 0.07 %	→
Yeouido	0.75 %	▲ 0.69 %	→

Source : CBRE Research

** Month-on-Month percentage change

CBRE Index – Grade A Capital Value*

	October 2008	6 mths Trend
CBD	5.7 Mil	→
Gangnam	5.7 Mil	→
Yeouido	4.5 Mil	→

Source : CBRE Research

* Note: In KRW, per sq m GFA

Economic Indicator – October 2008

	Latest Release	2005	2006	2007	
Real GDP Growth	2008 Q3	3.9 %	4.2 %	5.0 %	4.9 %
Unemployment	October 2008	3.0 %	3.7 %	3.5 %	3.2 %
Consumer Price Index	October 2008	4.8 %	2.8 %	2.2 %	2.5 %
Exchange Rate (KRW/USD)	October 2008	1326.92	1,024.31	955.51	929.20

Source : Bank of Korea

*Same period of previous year % change

KEY LEASING TRANSACTION

- Hibrand (GBD)
 - Kolon Bldg (CBD)
 - Kolon Bldg (CBD)
 - Premier Place (CBD)
- Tyco Healthcare Korea** Leased approx. 3,338 m² (1,010 pyung)
Bandai Korea Leased approx. 1,058 m² (320 pyung)
Creative B Works Leased approx. 338 m² (102 pyung)
Sojitz Korea Leased approx. 1,038 m² (314 pyung)

KEY INVESTMENT TRANSACTION

No Transaction of Grade A Office Building



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 (YEUIDO 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.

ASIA OFFICES

Hong Kong

34/F Central Plaza
18 Harbour Road, Wanchai
Hong Kong
Telephone: (852) 2820 2800
Facsimile: (852) 2810 0830
Suite 2109-12, 21/F
Sun Life Tower, The Gateway
15 Canton Road, Tsimshatsui
Kowloon, Hong Kong
Telephone: (852) 2820 8100
Facsimile: (852) 2521 9517

Beijing

Suite 1203-1205, 12/F, Tower A
Beijing Fortune Plaza
7 Dong San Huan Middle Road
Chaoyang District
Beijing 100020
People's Republic of China
Telephone: (86) 10 5820 9288
Facsimile: (86) 10 5820 9088/9188

Shanghai

Suite 3201, 3203-3206
32/F, K. Wah Center
1010 Huai Hai Middle Road
Shanghai, 200031
People's Republic of China
Telephone: (86) 21 2401 1200
Facsimile: (86) 21 5403 7519
Unit 1004, 10/F
Asia Center
1233 Lu Jia Zui Ring Road
Shanghai, 200120
People's Republic of China
Telephone: (86) 21 2401 1200
Facsimile: (86) 21 5047 1171

Guangzhou

Suite 1401-1402, Guangzhou
International Electronics Tower
403 Huan Shi East Road
Guangzhou 510095
People's Republic of China
Telephone: (86) 20 2883 9200
Facsimile: (86) 20 2883 9248

Shenzhen

Suite 2404-05
Excellence Times Square Building
Yitian Road, Futian District
Shenzhen 518048
People's Republic of China
Telephone: (86) 755 3395 3700
Facsimile: (86) 755 2399 5370

Hangzhou

Suite 1201, 12/F, North Tower
Anno Domini Plaza, 8 Qiu Shi Road
Hangzhou 310007
People's Republic of China
Telephone: (86) 571 2880 6818
Facsimile: (86) 571 2880 8018

Chengdu

Suite 704A-706, Office Tower at
Shangri-La Centre Chengdu, Block B
9 Bin Jiang East Road, Chengdu 610021
People's Republic of China
Telephone: (86) 28 8447 0022
Facsimile: (86) 28 8447 3311

Tianjin

Suite 903, Tower A, The Exchange
189 Nan Jing Road, Heping District
Tianjin 300051
People's Republic of China
Telephone: (86) 22 8319 2178
Facsimile: (86) 22 8319 2180

Dalian

Suite 2104, 21/F, Tian An International Tower
88 Zhong Shan Road
Zhongshan District, Dalian 116001
People's Republic of China
Telephone: (86) 411 3980 5855
Facsimile: (86) 411 3980 5866

Qingdao

Suite 401-404, Crowne Plaza
76 Hong Kong Middle Road
Shinan District, Qingdao 266071
People's Republic of China
Telephone: (86) 532 8077 7286
Facsimile: (86) 532 8077 7267

Wuhan

Suite 3915, 39/F, Wuhan New World
International Trade Centre, Tower 1
568 Jian She Avenue, Wuhan 430022
People's Republic of China
Telephone: (86) 27 8555 8277
Facsimile: (86) 27 6885 0506

Taipei

15F/A, Hung Tai Center
170 Tun Hua North Road
Taipei 105, Taiwan
Telephone: (886) 2 2713 2266
Facsimile: (886) 2 2712 3065

Singapore

6 Battery Road #32-01
Singapore 049909
Telephone: (65) 6224 8181
Facsimile: (65) 6225 1987

Tokyo, Japan

5/F Shuva Daiichi Hamamatsucho Building
2-2-12 Hamamatsucho, Minato-ku
Tokyo 105-0013, Japan
Telephone: (81) 3 5470 8711
Facsimile: (81) 3 5470 8715

1/F Shuva Daiichi Hamamatsucho Building
2-2-12 Hamamatsucho, Minato-ku
Tokyo 105-0013, Japan
Telephone: (81) 3 5470 8800
Facsimile: (81) 3 5470 8801

*18 offices throughout Japan

Seoul, Korea

12/F SC First Bank Building
100 Gongsyong-dong, Jongno-gu
Seoul, Korea 110-702
Telephone: (822) 2170 5800
Facsimile: (822) 2170 5899

New Delhi, India

4 Parliament Street
New Delhi 110 001, India
Telephone: (91) 22 4069 0100
Facsimile: (91) 11 2331 7670

Mumbai, India

#5, 3/F Tower C, Laxmi Towers
G-block, Bandra Kurla Complex
Bandra (E), Mumbai 400 051, India
Telephone: (91) 22 2652 7655
Facsimile: (91) 22 2652 7655

Bangalore, India

Hulkal Brigade Centre
G/F, No. 82 Lavelle Road
Bangalore 560 001, India
Telephone: (91) 80 4074 0000
Facsimile: (91) 80 4112 1239

Chennai (Madras), India

2H, 2/F Gee Gee Emerald 2C & 2D
151 Village Road, Nungambakkam
Chennai 600 034, India
Telephone: (91) 44 2821 4599/4571
Facsimile: (91) 44 2821 4607

Hyderabad, India

211, Maximus 2B, Mindspace Cyberabad
Survey No: 64 (Part),
APLIC Software Layout, Madhapur
Hyderabad 500 081, India
Telephone: (91) 40 4033 5000
Facsimile: (91) 40 4033 5050

Pune, India

705-706, 7/F Nucleus
Church Road
Pune 411 001, India
Telephone: (91) 20 2605 5437/5367
Facsimile: (91) 20 2605 5405

Jakarta, Indonesia

7/F Permata Bank Tower I
Jalan Jenderal Sudirman Kav. 27
Jakarta 12920, Indonesia
Telephone: (62) 21 523 7337
Facsimile: (62) 21 523 7227

Manila, Philippines

Suite 1002-1005, 10/F
Ayala Tower One & Exchange Plaza
Ayala Avenue, Makati City
Metro Manila 1226, Philippines
Telephone: (632) 752 5980
Facsimile: (632) 752 2571

Cebu, Philippines

3/F, 12 Building
Asiatown I.T. Park, Lahug
Cebu City, Philippines 6000
Telephone: (632) 238 4211

Bangkok, Thailand

46/E, CRC Tower, All Seasons Place
87/2 Wireless Road, Lumpini
Pathumwan, Bangkok 10330, Thailand
Telephone: (66) 2 654 1111
Facsimile: (66) 2 685 3300-1

Phuket, Thailand

12/9 Moo 4, Theprasattri Road
Kohkaew, Muang, Phuket 83000,
Thailand
Telephone: (66) 76 239 967
Facsimile: (66) 76 239 970

Samui, Thailand

3/6 Moo 1, Baan Bophut - Plaikeam Road
Bophut, Koh Samui
Surat Thani 84320, Thailand
Telephone: (66) 77 430 737
Facsimile: (66) 77 430 740

Pattaya, Thailand

306/96-97 Moo12, Thapraya Road
Nongprue, Banglamung
Chonaburi 20150, Thailand
Telephone: (66) 38 364 969
Facsimile: (66) 38 364 963

Ho Chi Minh City, Vietnam

Suite 1301, Me Linh Point Tower
2 Ngo Duc Ke Street, District 1
Ho Chi Minh City, Vietnam
Telephone: (848) 824 6125
Facsimile: (848) 823 8418

Hanoi, Vietnam

Floor 12A, Vincom City Tower B
191 Ba Trieu Street
Hanoi, Vietnam
Telephone: (844) 220 0220
Facsimile: (844) 220 0210

CBRE
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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.

For Investment Inquiries, please contact:
Steve Y.K. Kim, Managing Director

CB Richard Ellis Korea
12/F, SC First Bank Building
100, Gongsyong-dong
Jongno-gu, Seoul
Korea, 110-702
T. (02) 2170-5800
F. (02) 2170-5899
steve.kim@cbrekorea.com

For Leasing Inquiries, please contact:
Byung U. Yoon, Senior Vice President

CB Richard Ellis Korea
12/F, SC First Bank Building
100, Gongsyong-dong
Jongno-gu, Seoul
Korea, 110-702
T. (02) 2170-5800
F. (02) 2170-5899
byung.yoon@cbrekorea.com