

Cushman & Wakefield Research

# 2022 Seoul Office Tenants Profile

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DECEMBER 2022





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# I . The Seoul Office Market Before and After the COVID-19 Pandemic

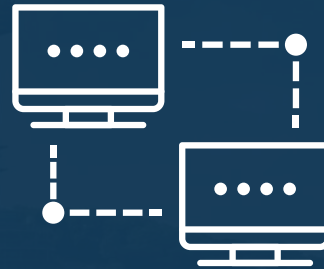




## I. The Seoul Office Market Before and After the COVID-19 Pandemic



Strong demand has been driving down vacancy rates despite abundant supply



Fast-growing tech companies have benefited from the effects of COVID-19

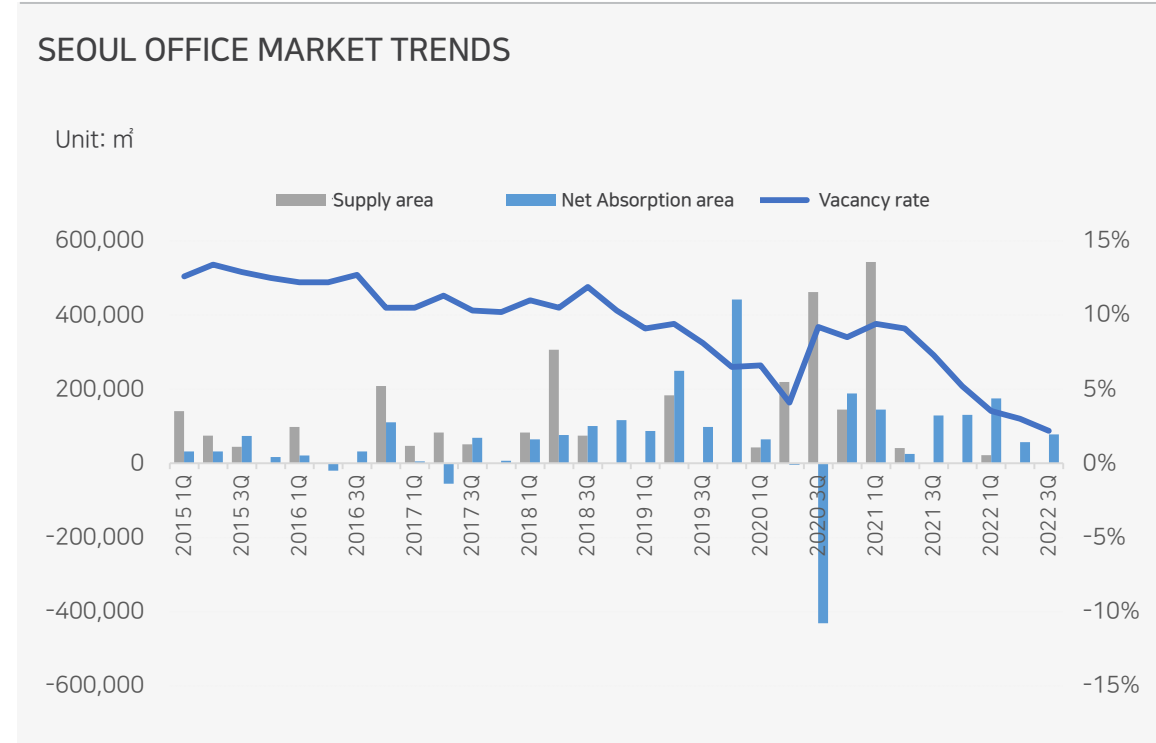


Domestic companies are now more likely to expand than foreign companies

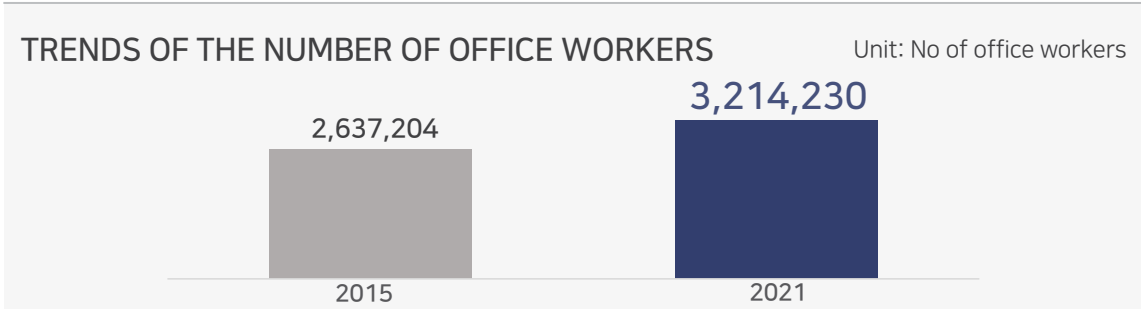
# I. The Seoul Office Market Before and After the COVID-19 Pandemic

## Strong demand has been driving down vacancy rates despite sizeable office supply

- Despite the negative impacts of COVID-19, the domestic office market has shown the lowest vacancy rates among CRE markets as companies have continued to expand total occupancy.
- While there has been sizeable new prime office supply in 2020 and 2021, including the Parc1 and Centerfield projects, active leasing and strong demand for office space has resulted in relatively short-term vacancies.



Source : Cushman and Wakefield Research



Source : Statistics Korea

NEW MAJOR SUPPLY OFFICE BUILDING

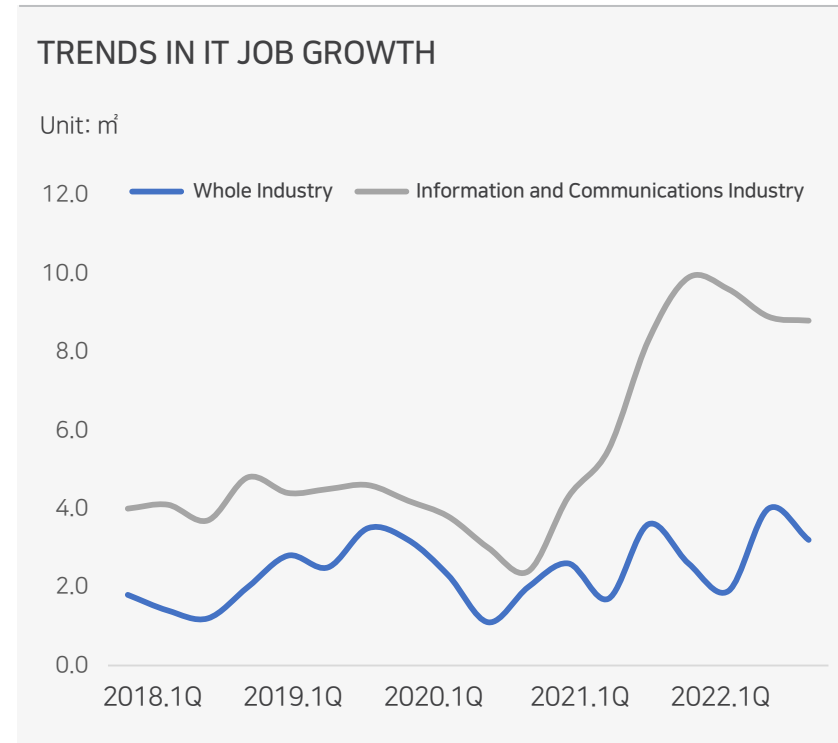
Built Year	Building Name	Districts	Total sqm
2020	Grand Central	CBD	125,372m <sup>2</sup>
2020	Parc1	YBD	627,412m <sup>2</sup>
2021	Centerfield	GBD	239,252m <sup>2</sup>
2021	Alpha Dome City 6-1	PBD	162,795m <sup>2</sup>
2021	Alpha Dome City 6-2	PBD	197,236m <sup>2</sup>

Source : Cushman and Wakefield Research

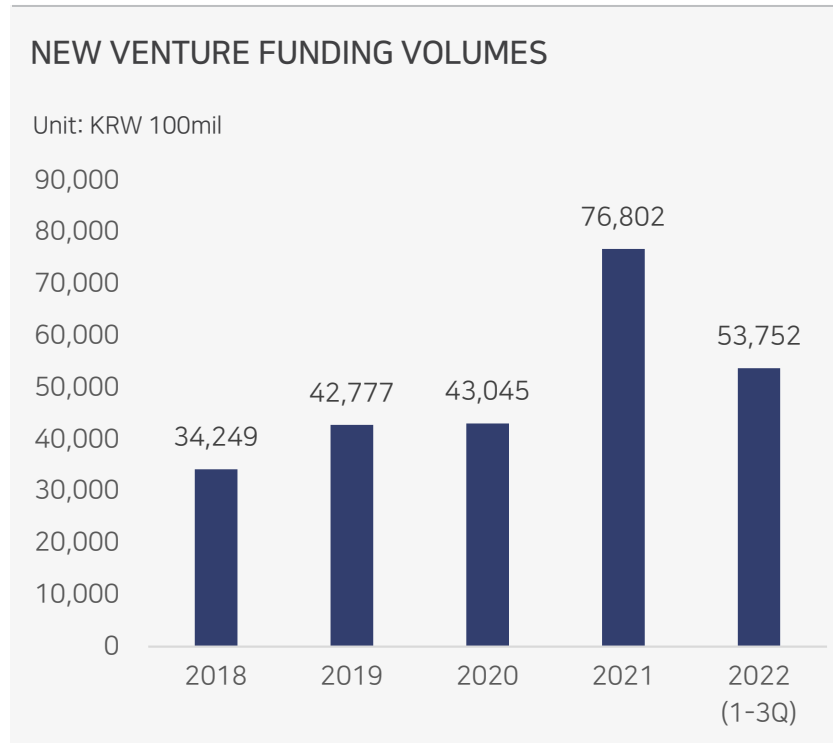
# I. The Seoul Office Market Before and After the COVID-19 Pandemic

## Fast-growing tech companies have benefited from COVID-19 effects

- The coronavirus accelerated digitization and virtualization in the workplace, resulting in a significant increase in labor demand, especially for IT skills.
- The abundance of liquidity has led to an increase in venture capital investment, and startup companies have been rapidly scaling their businesses.
- However, the economic downturn and recent interest rate hikes mean that growth in the IT industry is now expected to slow.



Source : Statistics Korea



Source : Statistics Korea

### WORKFORCE REDUCTION FOR GLOBAL IT COMPANIES

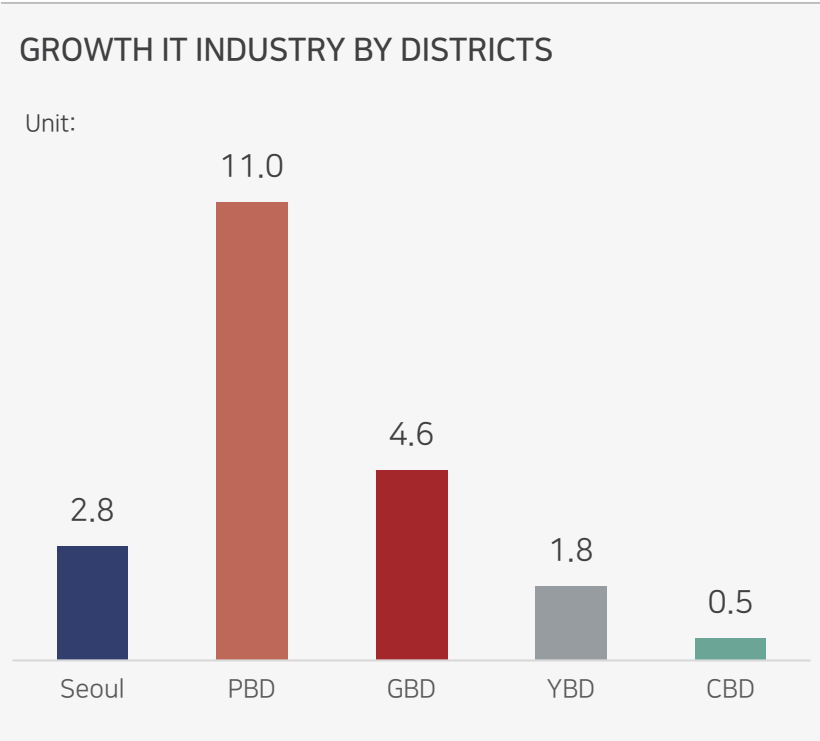
Company Name	Reduction Size
Amazon	10,000
Twitter	3,500 (50%)
Meta	11,000 (13%)
Lyft	1,100 (13%)
Stripe	1,200 (14%)
Netflix	500

Source : Foreign Newspapers

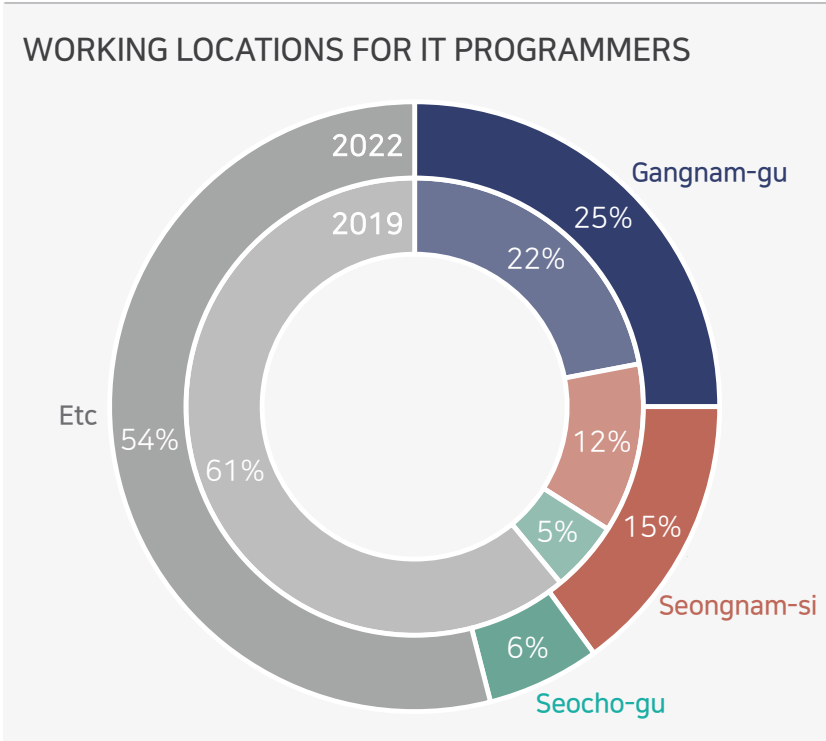
# I. The Seoul Office Market Before and After the COVID-19 Pandemic

## Fast-growing tech companies have benefited from COVID-19 effects

- The expansion of the IT industry is more focused on the GBD and PBD submarkets, which are more favored by IT companies.
- Despite low vacancy rates and high rents, IT companies still prefer the GBD and PBD districts for talent recruitment.



Source : Cushman and Wakefield Research



Source : Programmers

NEW LEASING ACTIVITIES OF IT

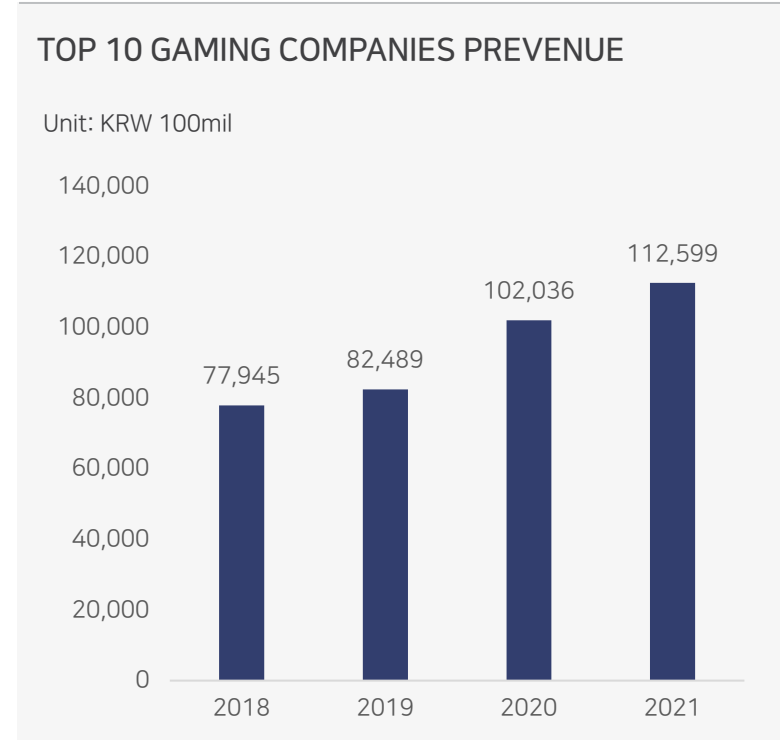
Company Name	Category	Building Name	Size
Coupang	E-Commerce	HJ Tower	10,000
Krafton	Game	Centerfield	8,000
Line Games	Game	The Pinnacle Yeoksam	4,000
Carrot Market	E-Commerce	Kyobotower Gangnam	3,000
Kurly	E-Commerce	HKSquare	3,000
Class101	Edutech	Wework Tower	3,000
MOLOCO	Edutech	Centerfield	2,200

Source : Cushman and Wakefield Research

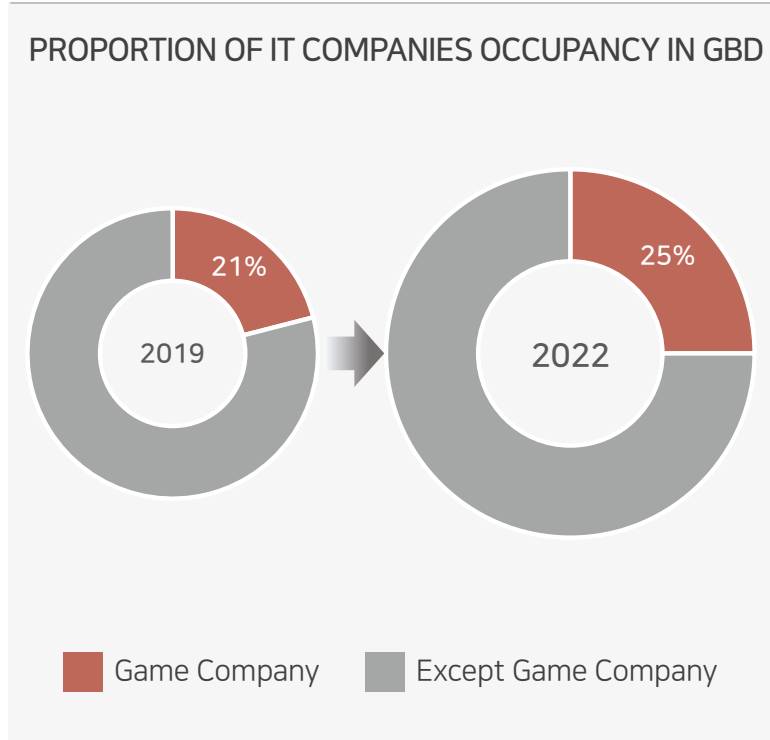
# I. The Seoul Office Market Before and After the COVID-19 Pandemic

## Fast-growing tech companies have benefited from COVID-19 effects

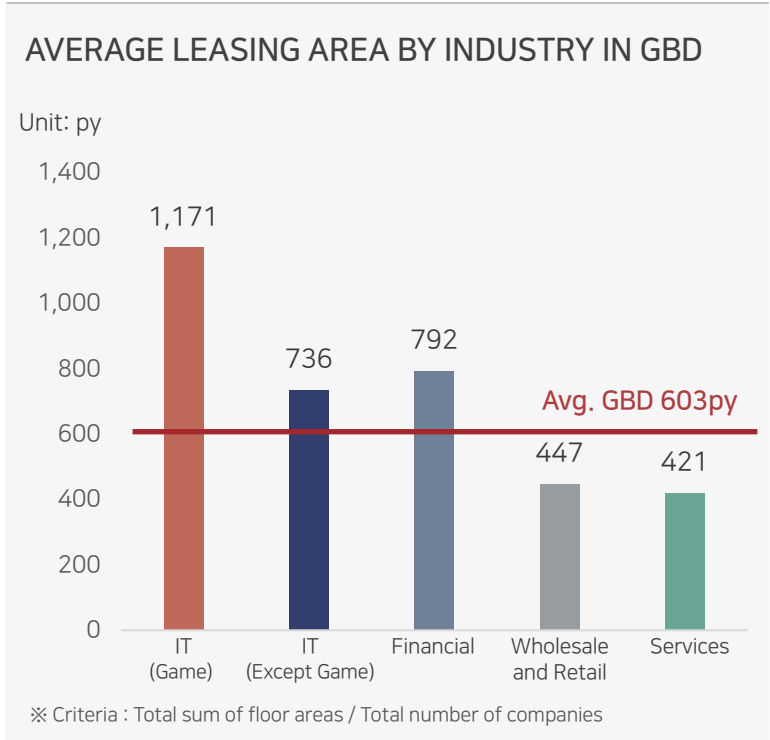
- The gaming industry has also seen strong growth stemming from greater indoor activity during the pandemic period.
- The relocation and expansion of game companies such as Krafton, N Pixel, and Line Games has pushed up game companies' share of total tenant occupancy in the GBD submarket.
- The gaming industry has taken a relatively large floor area in GBD compared to other sectors.



Source : Financial Statement



Source : Cushman and Wakefield Research



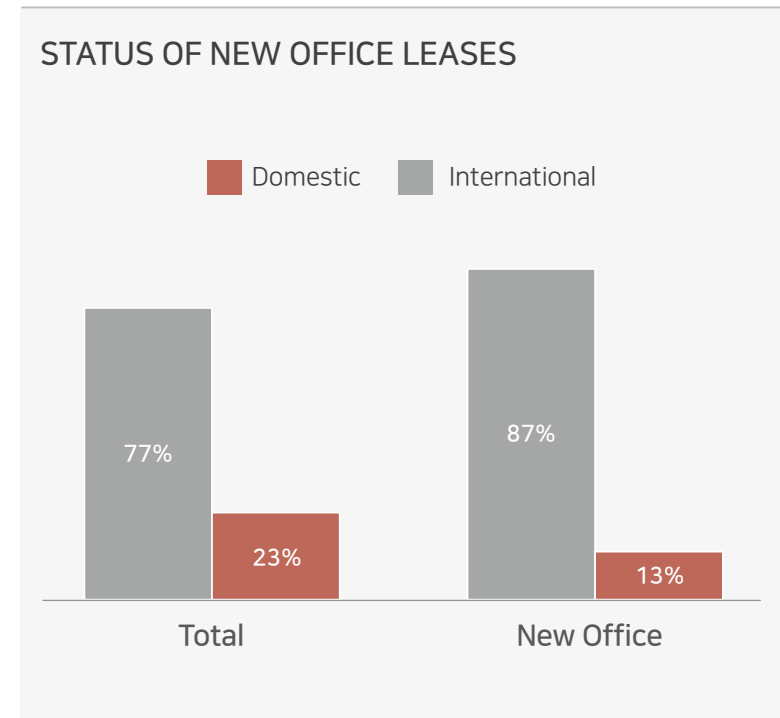
Source : Cushman and Wakefield Research



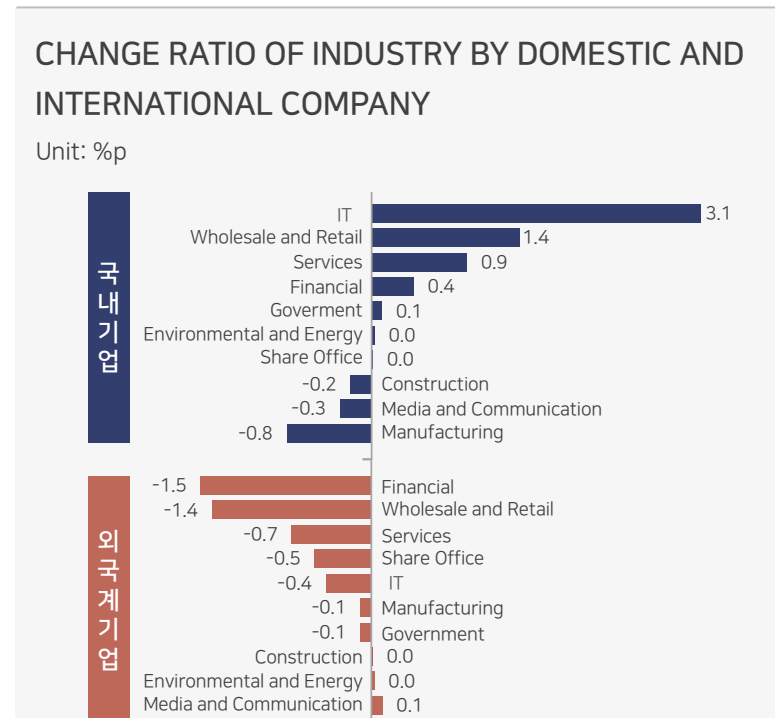
# I. The Seoul Office Market Before and After the COVID-19 Pandemic

## Expended domestic companies comapared with foreign companies

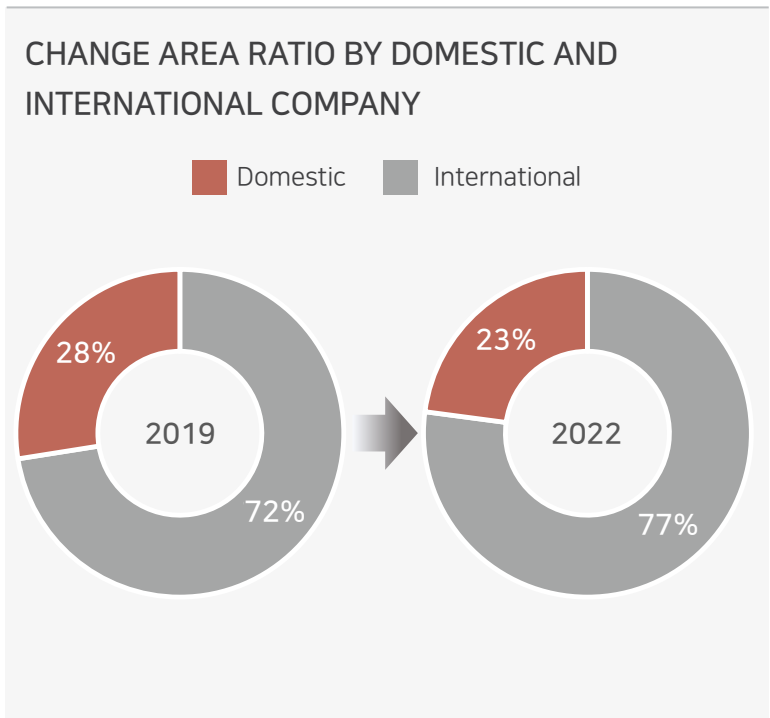
- Domestic companies have actively expanded their leased space since the outbreak of COVID-19, while foreign companies have generally reduced their leased space in response to greater employee remote working and the introduction of hot desking policies.
- Domestic companies leased 87% of new office building space supply in the 2020 to 2022 period.
- Among domestic companies, IT-related companies expanded most actively, while the share of tenant occupancy by foreign companies in the finance, wholesale and retail sectors shrank relatively significantly.



Source : Cushman and Wakefield Research

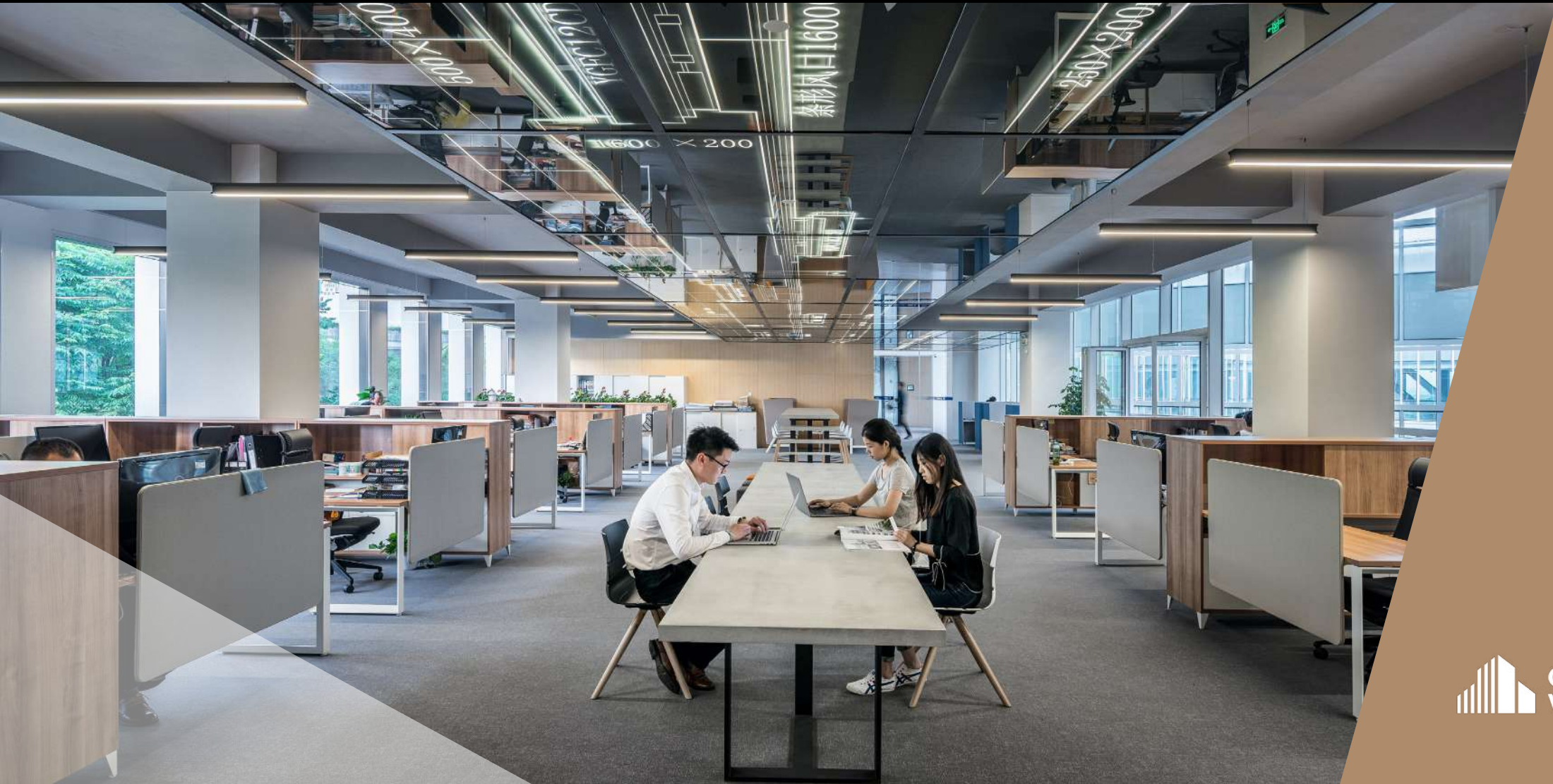


Source : Cushman and Wakefield Research



Source : Cushman and Wakefield Research

## II . Tenant Profile 2022



# II . Tenant Profile 2022

## Executive Summary

### CBD



Financial

31.7 %  
▼2.0%p



Services

22.2 %  
▲0.4%p



Manufacturing

11.2 %  
▲0.8%p

### YBD



Financial

53.6 %  
▼2.3%p



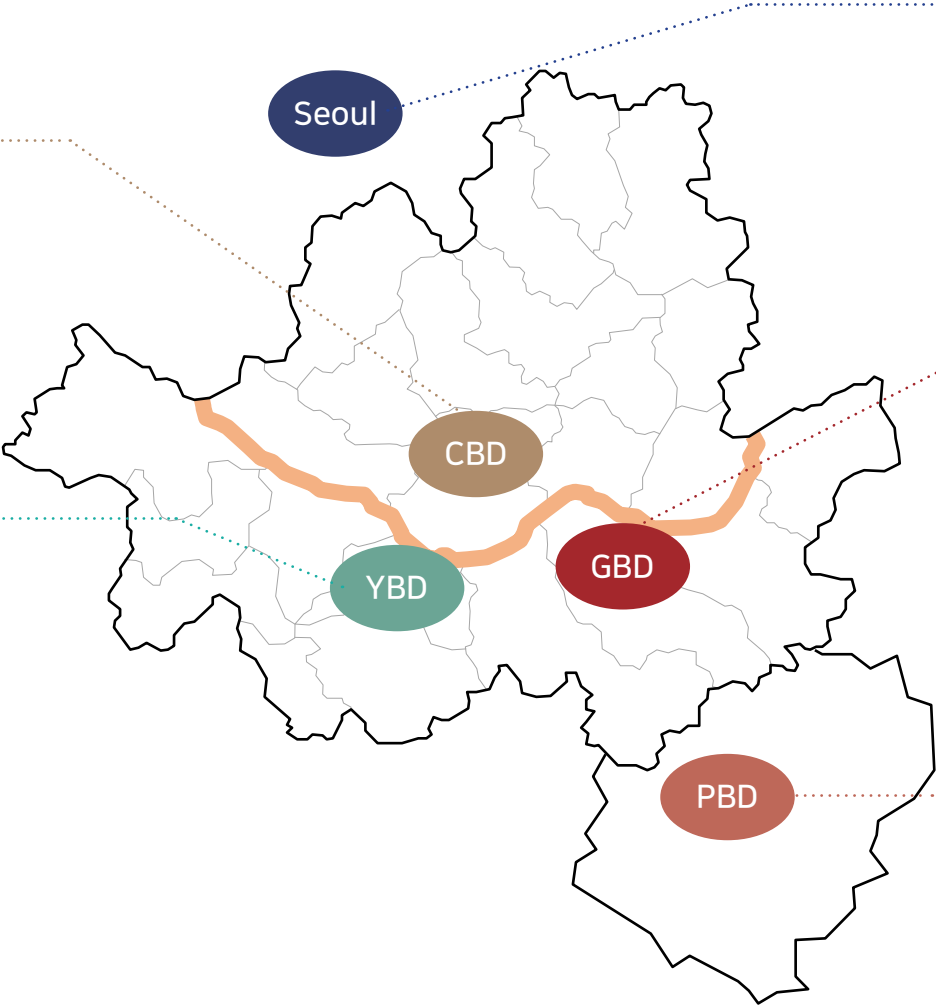
Services

14.0 %  
▲0.7%p



Manufacturing

8.9 %  
▲1.0%p



### Seoul



Financial

31.6 %  
▼1.0%p



Services

17.9 %  
▲0.1%p



IT

13.9 %  
▲2.7%p

### GBD



Financial

23.4 %  
▼1.8%p



Wholesale and Retail

19.0 %  
▲0.4%p



Services

17.4 %  
▲0.1%p

### PBD



IT

72.8 %  
▲11.0%p



Manufacturing

7.6 %  
▼8.9%p



Financial

7.6 %  
▼0.5%p



## II . Tenant Profile 2022

Seoul CBD GBD YBD PBD

### Seoul

The IT industry grew rapidly in 2022, while the finance and manufacturing industries have contracted

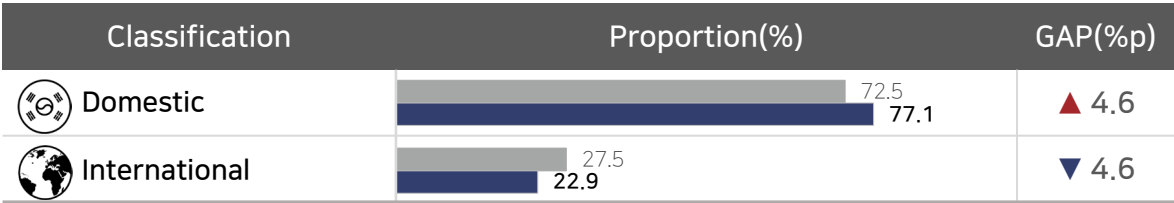
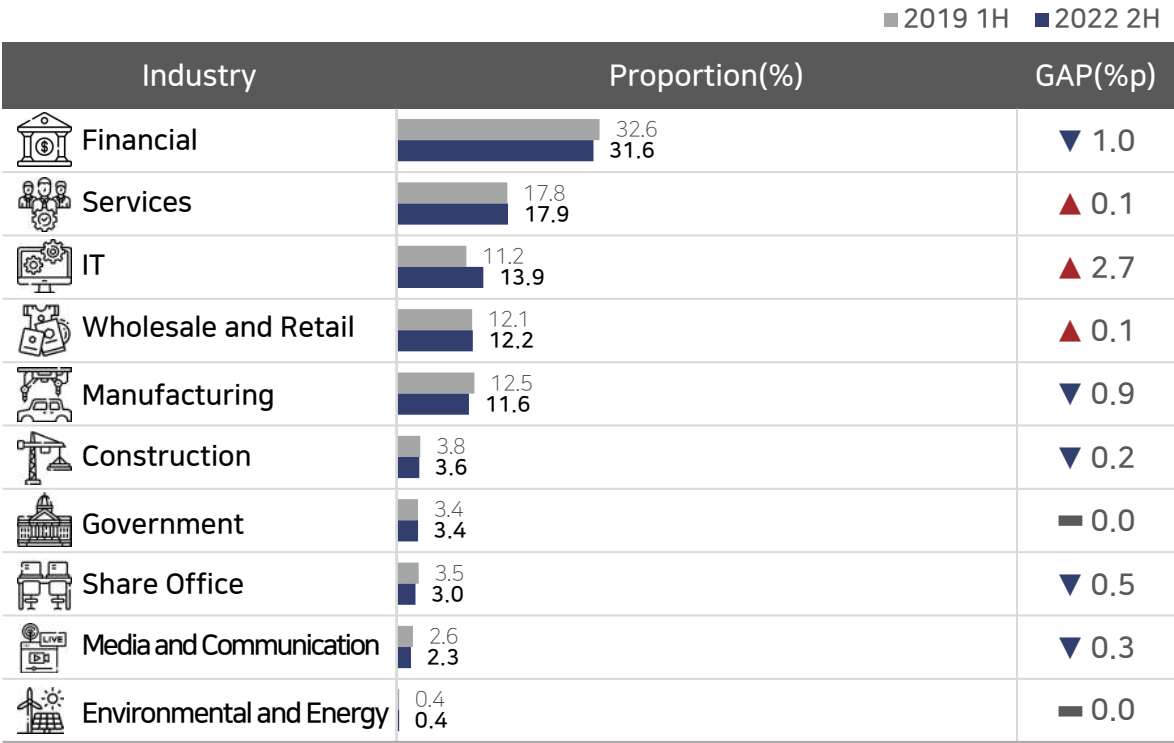
An analysis of office tenant occupancy in Seoul and Pangyo in 2022 shows that the finance, services, and IT industries are the most prevalent sectors.

In 2019, the finance, services, and wholesale and retail industries led the occupancy ranking, but the order has now changed due to the rapid expansion of the IT industry, while growth in the wholesale and retail industries has slowed.

The financial industry accounted for 31.6% of total tenant occupancy in 2022. The share of the financial industry has been gradually declining, down 1.3 percentage points from 2019, due to the expansion of mobile business applications in the banking and insurance industry and contraction by some foreign banks.

The IT industry benefited from the COVID-19 effects and has grown rapidly, jumping to third place in 2022 from fifth place in 2019, with its share of total tenant occupancy increasing by 2.7 percentage points to 13.9%.

Occupancy by the services and wholesale and retail sector remained stable, while manufacturing shrank, down 0.9 percentage points from 2019. Foreign companies were relatively cautious, with a 4.6 percentage point decline in their leasing share, while domestic companies expanded to occupy 77.1% of all office space.



Source : Cushman and Wakefield Research

## II . Tenant Profile 2022

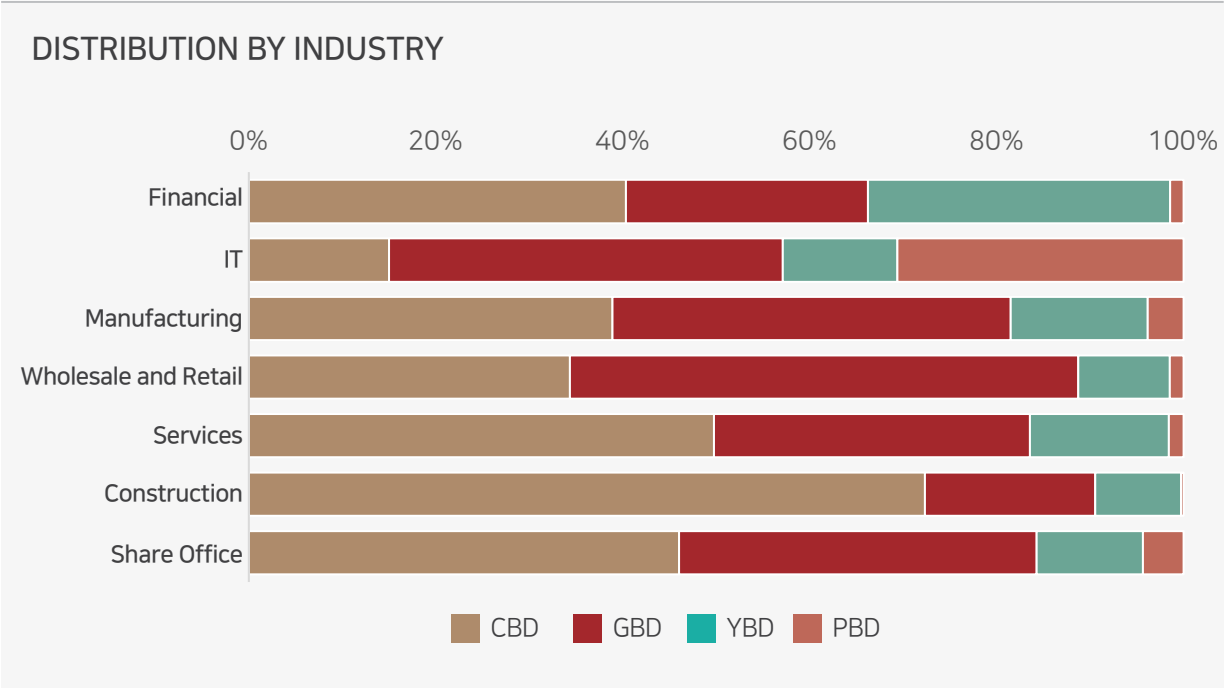
### Seoul

#### Distribution by industry and district

Companies make headquarters location decisions based on work efficiency, talent recruitment, and agglomeration effects, and the distribution of areas by industry illustrates the preferred locations for each industry.

The financial industry has 40.8% of its headquarters in the CBD submarket, the center of Seoul, and 32.7% in Yeouido (YBD), the international financial district. The IT industry is highly concentrated in GBD, with 42.1% located in Teheran-ro, the center of the IT industry, and 30.6% in Pangyo Techno Valley. In addition, the wholesale and retail sectors are most prevalent in GBD, while services and construction and development dominate in the CBD.

There are also cases of corporate headquarters relocating from one area to another. This has been most notable in the financial sector, where Sangsangin Securities moved from GBD to YBD. In the IT industry, Crafton moved its headquarters from PBD to GBD. Finally, manufacturing company Able C&C, and wholesale and retail group Valentino Korea, moved from GBD to CBD.



## II . Tenant Profile 2022

Seoul CBD GBD YBD PBD

### CBD

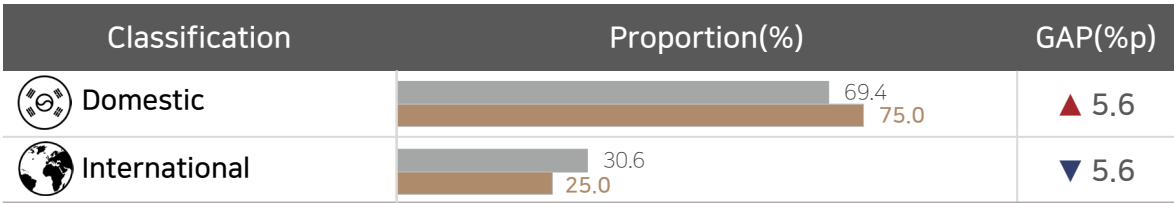
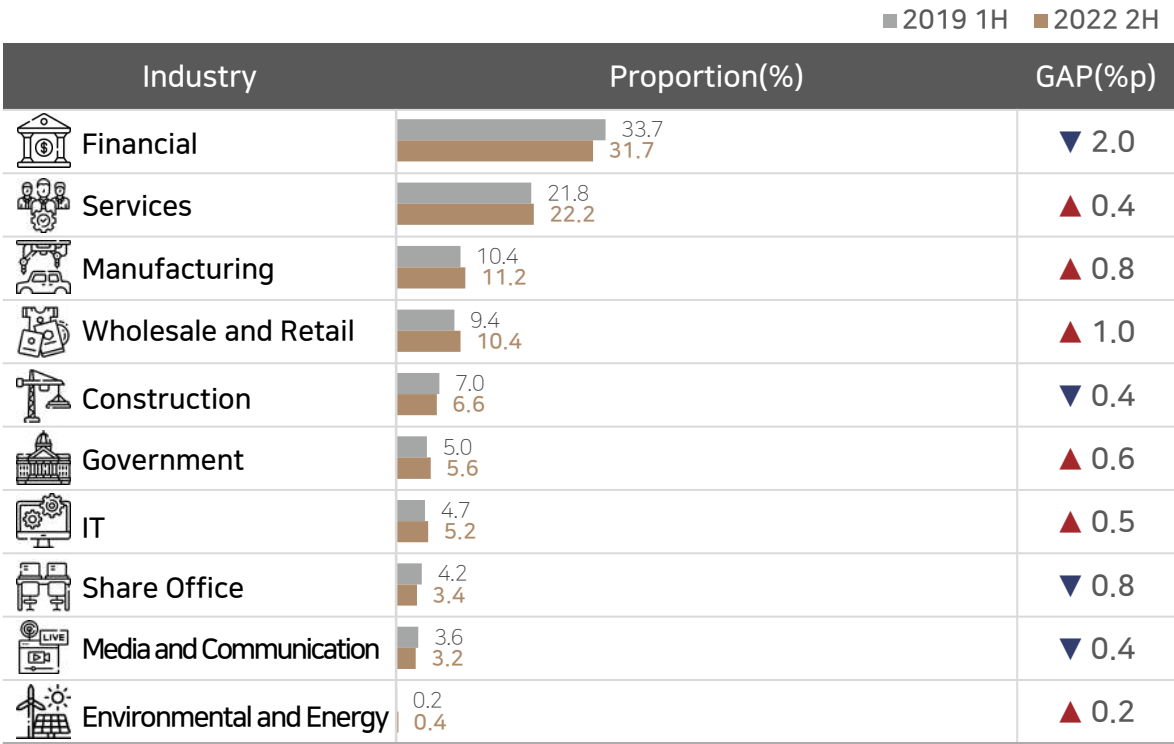
The financial industry and international firms contracted, while manufacturing and wholesale and retail grew rapidly

In the CBD submarket, demand for expansion and consolidation from conglomerates in the manufacturing, wholesale and retail industries grew, while the occupancy share of the financial industry dropped. In the wholesale and retail industry, CJ Olive Young and SSG.com expanded, while the share of manufacturing companies also rose due to the combined inflow of Daesang Group, DSME, and SK affiliates.

The occupancy share of the financial industry dropped by 2.0 percentage points compared to 2019. While other industries actively expanded in newly supplied buildings, the financial industry saw relatively slow leasing activity. The rise in contact-free commerce has led to a reduction in the number of physical branches in the financial industry, and some organizations such as KB Bank and Hanwha Life Insurance have moved out of the CBD, whereas some foreign financial firms have reduced their space as part of a flight to quality.

The share of the services industry rose slightly, primarily due to an influx of law firms such as Pacific and Jipyeong Law Firm into the district. The closure of WeWork at Jongno Tower contributed to a fall in the share of coworking and flexspace offices by 0.8 percentage points.

The CBD had the highest proportion of foreign companies across all regions, although actual representation by foreign companies dropped by 5.6 percentage points from 2019 to 2022, losing the top spot to GBD.



Source : Cushman and Wakefield Research



## II . Tenant Profile 2022

Seoul CBD GBD YBD PBD

### GBD

#### Overwhelming growth of IT companies following COVID-19











The proportion of occupancy by IT companies grew strongly by 4.6 percentage points in GBD. IT companies have flocked to GBD to recruit talent and work more efficiently. In addition, the growing demand for upgrades to improve work environments at large-scale startups has led to an increase in the share of the IT industry in GBD. International IT companies moved into the Center Field project, while domestic IT outfits such as Coupang, Carrot Market, and Kurly also expanded in the district.



There have also been cases of businesses relocating to the CBD and YBD areas to avoid the high rents and fierce competition for vacancies in GBD. Start-ups are also moving to Seongsu, which is adjacent to GBD.

The proportion of financial and manufacturing industries has fallen in GBD. Some insurance companies, including Samsung Fire & Marine Insurance, reduced their leasing space. As well, Doosan Enerbility, a major tenant of Gangnam Kyobo Tower, moved to a new office in Bundang, leading to a decline in the occupancy share from the manufacturing sector.

The share of coworking spaces fell by 0.5 percentage points. This is likely due to the fact that the co-working industry, which has been boosted by the COVID-19 effect, is now aggressively opening branches in areas with relatively low rents in order to boost profitability.

■ 2019 1H ■ 2022 2H

Industry	Proportion(%)	GAP(%p)
 Financial	25.2 23.4	▼ 1.8
 Wholesale and Retail	18.6 19.0	▲ 0.4
 Services	17.3 17.4	▲ 0.1
 IT	12.2 16.8	▲ 4.6
 Manufacturing	16.1 14.2	▼ 1.9
 Share Office	3.7 3.2	▼ 0.5
 Government	3.4 2.7	▼ 0.7
 Construction	1.2 1.9	▲ 0.7
 Environmental and Energy	0.7 0.7	■ 0.0
 Media and Communication	1.6 0.7	▲ 0.9

Classification	Proportion(%)	GAP(%p)
 Domestic	69.8 72.7	▲ 2.9
 International	30.2 27.3	▼ 2.9

Source : Cushman and Wakefield Research

## II . Tenant Profile 2022

Seoul

CBD

GBD

YBD

PBD

### YBD

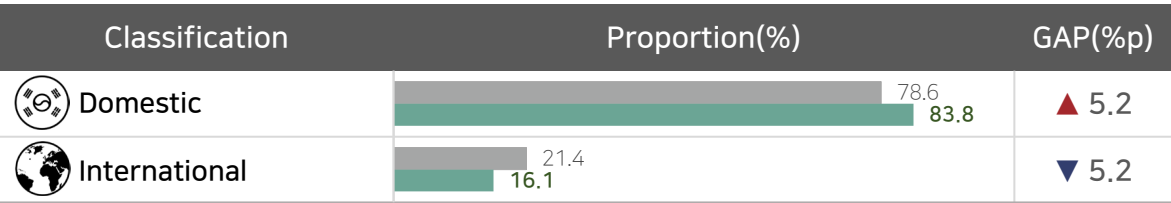
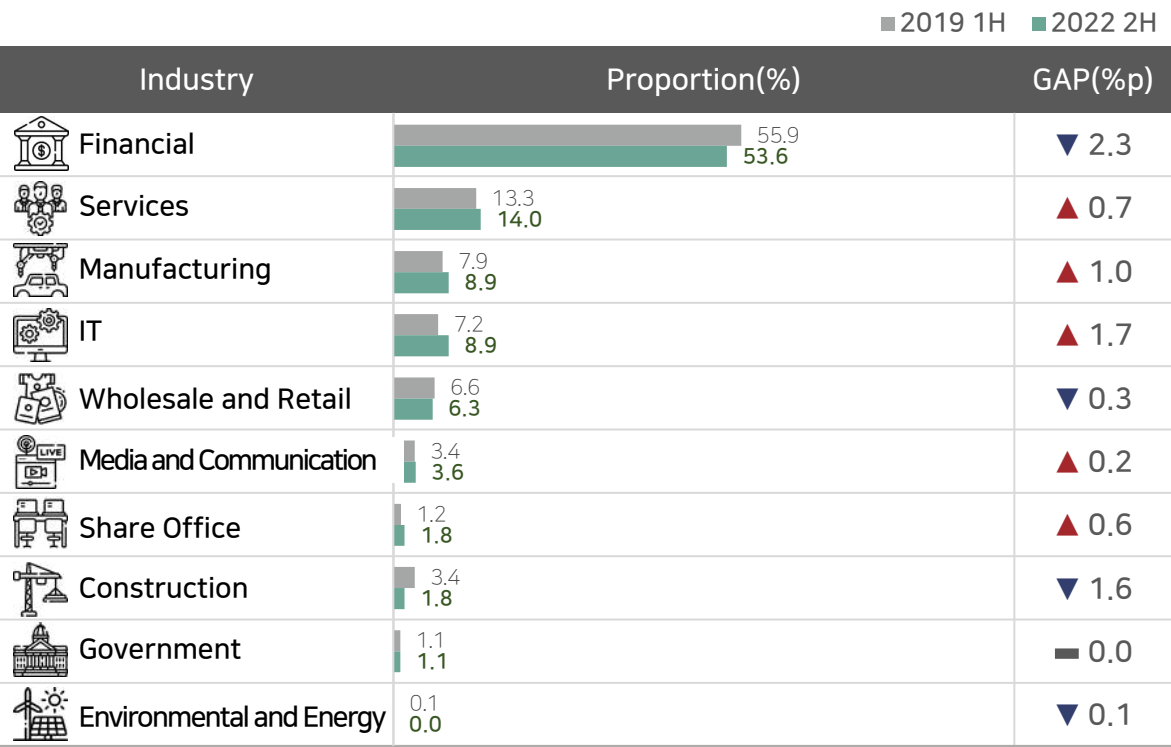
#### From the center of the financial industry to industry diversification with the growth of the IT and manufacturing sectors

YBD is a traditional center for the financial industry. The sector remained at the top of the occupancy list in 2022, with a 53.6% share, although this was down 2.3 percentage points from 2019. This is due to the recent influx of companies from the IT, manufacturing, and service industries into YBD, resulting in a more diverse tenant mix.

In particular, new prime office supply such as the Parc1 Tower 1 and 2 projects absorbed some of the excess demand from GBD and CBD. The prevalence of financial services in YBD is more than 50%, while the share of financial services in Parc1 is around 33%. Manufacturing companies such as LG Energy Solution and HMM, and IT companies such as Bank Salad, Coinone and LG CNS, have also moved into YBD, driving the diversification of the YBD industry.

The financial sector in YBD has also been actively moving within the submarket. Ebest Investment & Securities and Daol Investment & Securities moved into the newly supplied Yeouido Post Tower, while Hi Investment & Securities moved its headquarters to the Hi Investment & Securities Building (formerly KTB Tower). Fintech companies such as Quantit, Lendit, and Craft Technologies have relocated their headquarters to YBD.

The construction industry occupancy share fell 1.6 percentage points, largely due to Hanwha E&C's move to the CBD. The co-working industry grew slightly, with SparkPlus opening new branches.



Source : Cushman and Wakefield Research

## II . Tenant Profile 2022

Seoul CBD GBD YBD **PBD**

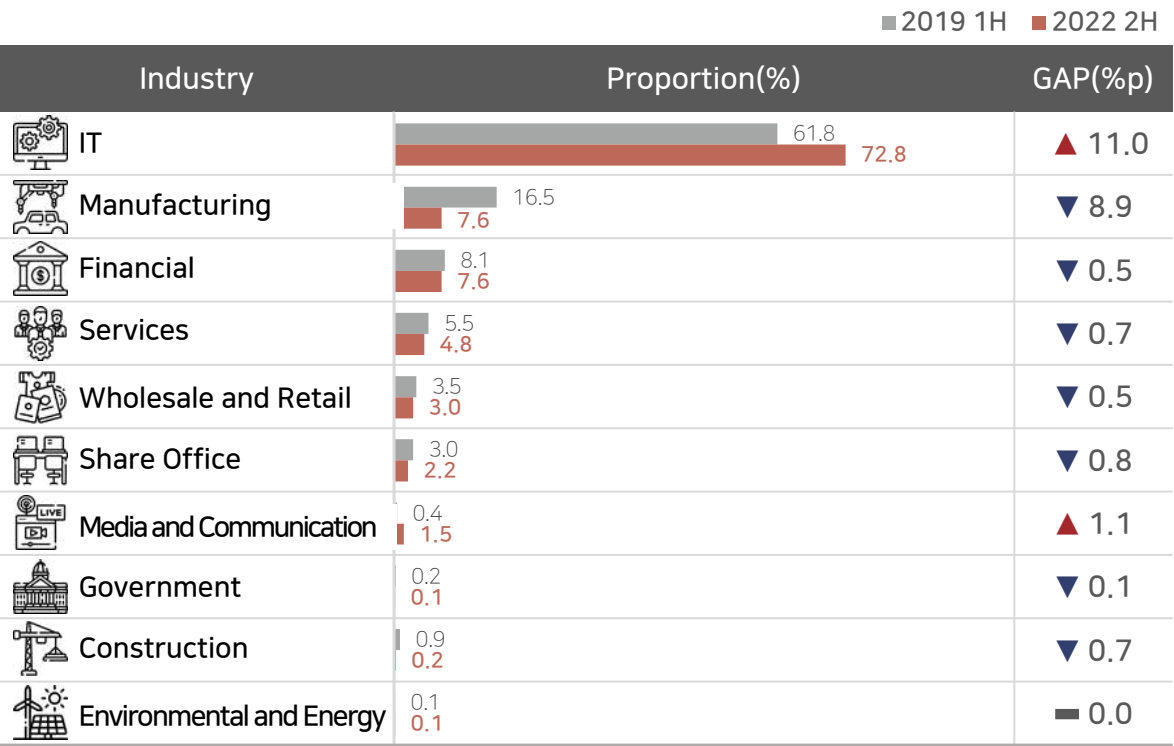
### PBD

The IT industry has taken a 70%+ occupancy share due to aggressive expansion of domestic IT firms

As the IT industry has grown rapidly since COVID-19, there has been an increase in demand for offices for business expansion and talent recruitment, mainly from big tech and game companies such as Naver and Kakao.

HP Printing Korea's move to a new building in the district led to a drop in the occupancy share of the manufacturing sector. The vacant space was leased by Kakao, further strengthening the IT industry's share. However, manufacturing's occupancy share is expected to rebound slightly as Hyundai Steel is set to relocate to Greits Pangyo (formerly Crafton Tower).

The remaining large development projects in PBD such as Alpha Dome City 6-1 and Alpha Dome City 6-2 (Tech1 Tower), were completed in 2021, but local stalwarts Kakao and Naver affiliates leased most of the space, boosting the IT weighting. With limited new supply, Pangyo's IT industry dominance is unlikely to change much in the near future as demand from IT firms continues to rise.



Source : Cushman and Wakefield Research



# III. Outlook 2023





### III. Outlook 2023

The OECD forecasts South Korea's economic growth to be 1.8% in 2023, lower than the OECD average. Contributing factors include uncertain global economic conditions caused by the impact of the conflict in Ukraine, high inflation, rising interest rates, and currency exchange movements. Heightened uncertainty in the domestic economy will likely slow the recent trend of expansion by domestic companies in the coming year.

Looking ahead, the imbalance between supply and demand for office space is likely to persist, as construction costs are expected to rise and completions are likely to be delayed. Some firms, fearing a deeper downturn, may seek to relocate to areas offering lower valuations or rents, although we expect the impact on the market from such movements to be limited.

In terms of the key districts, CBD is expected to remain stable due to the many large vacancies resolved recently and the large number of conglomerate firms.

In GBD, leasing activity is likely to decline as the recent economic downturn has made it more difficult for start-ups to secure funding. However, IT companies with solid growth are still demonstrating strong demand in GBD, and limited future supply is expected to keep vacancy rates low for the foreseeable future.

In YBD, some new office supply is planned, but demand from the financial industry remains high. Overall, the YBD leasing market is expected to remain in the current situation for the foreseeable future, as tenants who have recently moved into large spaces have remaining lease terms.

The vacancy rate has remained at 0% for a considerable period in the PBD submarket. With no new supply planned, we expect no significant market changes ahead.



# APPENDIX

In 2H 2022, Cushman and Wakefield Research Korea surveyed the tenant profiles in Seoul’s three major business districts and Pangyo districts, breaking down tenant occupancy by industries, domestic and foreign companies.

In this survey, the sample was expanded by 18% compared to the 2019 survey, with a total of 166 Grade A offices surveyed with a door-to-door model.

Each floor of the building area was calculated by referring to the building ledgers issued by the government, and only floor space used for leasable area was used.

The calculated building space also does not include spaces for non-leasable such as basement floors, control rooms, parking lots and retail floors.

The tenant industry categorization was based on the sector classifications by the 10th Korea Standard Industry Code from Statistics Korea, and Cushman and Wakefield Korea research have re-categorized ten categories.

Cushman and Wakefield Criteria		
Cushman & Wakefield Code	Korea Standard Industry Code(10th)	1 <sup>st</sup> Class
Environmental and Energy	A	Agriculture, forestry, and fishing
	B	Mining and quarrying
	D	Electricity, gas, steam, and water supply
	E	Sewerage, waste management, materials recovery and remediation activities
Manufacturing	C	Manufacturing
Construction	F	Construction
	L6812	Development and subdividing of real estate
Wholesale and Retail	G	Wholesale and retail trade
Services	H	Transportation
	I	Accommodation and food service activities
	L6812 excluded	Real estate activities and renting and leasing
	M	Professional, scientific, and technical activities
	N	Business facilities management and business support services
	P	Education
	Q	Human health and social work activities
	R	Arts, sports, and recreation related services
	S95, S96	Maintenance and repair services
IT	J582, J62, J63	Software development and supply, computer programming, consultancy and related activities, and Information service activities
Media and Communication	J (IT excluded)	Information and communications
Financial	K	Financial and insurance activities
Government and Membership organization	O	Public administration and defence
	U	Activities of extraterritorial organizations and bodies
	S94	Membership organizations
Share Office	-	Share office





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