

INVESTMENT MARKETBEAT

SOUTH KOREA

A Cushman & Wakefield Research Publication



Q4 2013



EXECUTIVE SUMMARY

In the fourth quarter of 2013, the total office transaction volume amounted to KRW1,462 billion (US\$1,379 million), an increase of about 17% from the previous quarter. The average capital value for office buildings in the fourth quarter was about KRW5,050,571 per square meter (/sq.m.). The transactions mainly involved buildings in the CBD. A total of seven properties changed hands. These transactions include Ganghwamoon State Tower, N Tower, Center Point Ganghwamoon, PCA Tower and Samwhan Building.

Foreign insurance companies were major buyers and real estate fund and construction companies actively sold their properties to improve their financial status.

Looking forward, it is anticipated that the market will continue its upward trend in 2014, benefiting from liquid conditions in the investment sector. Domestic investors are still enjoying abundant liquidity and are likely to remain the dominant players in the market. Investors' preference for buildings with low operating risk will likely continue beyond 2014. Investors will be more active in looking for properties which guarantee secure tenancy. Thus, we anticipate that a steady increase in sale-and-leaseback or master leasing transactions.

MARKET SNAPSHOT

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ECONOMIC OVERVIEW

The Bank of Korea has frozen the key interest rate at 2.5%, amid signs that the country's economy is maintaining its moderate recovery. The bank also remained its earlier growth outlook on the 2014 GDP growth at 3.8% and predicted that the economy would expand 4% in 2015. The Korean economy will experience a steady growth in 2014, alongside the global economic recovery. However, the weakness of the Japanese Yen and the US monetary cuts remain as risks.

OFFICE TRANSACTIONS OVERVIEW

Foreign insurance companies have been active, investing in office buildings in Korea. LINA Life insurance recently acquired the State Tower in Ganghwamoon for KRW 242 billion (KRW19.5 million per pyeong) for its use as the company's headquarters. AIA Life Insurance also purchased the N-Tower in Junggu, downtown Seoul to be used as its headquarters for approximately KRW252 billion (KRW17.8 million per pyeong). The N Tower, which is located in Sunhwa-dong, Junggu, Seoul, is a 27-storey modern office building completed in May 2013. The firm plans to move into the new building, which will be renamed the AIA Tower.

Many construction companies sold their headquarter buildings or assets. Samwhan Corporation sold its headquarters, Samwhan building, located at Seoul Jong-ro, to Hana Asset Management for approximately KRW137 billion (KRW14 million per pyeong), under a two-year master lease option. Dongbu Construction sold the Asterium Office (KRW16 million per pyeong) located in Yongsan-gu for KRW353 billion. Dong Ah Construction sold Yongsan the prime office to Koramco Reits & Trust, for KRW125 billion.

In addition, the registration of Center Point Gwanghwamun was transferred from New City Dorum PFV to Mastern Asset Management's Mastern Real Estate Investment Trust No.2. Mastern Asset Management purchased PCA tower from Mirae Asset Management for KRW130 billion (KRW22 million per pyeong).

Numerous properties are currently being negotiated for sale or being put on the market. Some major transactions, including Euljiro Mirae Asset Tower (Pine Avenue A building), LG U Plus's building and YTN building near Seoul station, are anticipated to be sold in the first quarter of 2014. Recently, the National Pension Service purchased KI Reit building in Chungjungro for approximately KRW170 billion. Daeshin Securities is selling its headquarters building located in Yeouido, Seoul to Shinyoung Securities for US\$80 million. SK Networks plans to sell its new headquarters building in Daechi-dong, Seoul. The building is currently under construction and is scheduled to be completed by January 2014.

Doosan Heavy Industries & Construction sold the Baroseum building to M Plus Asset Management for approximately KRW168 billion, under a 10 year master lease option. The purchase of Baroseum building was delayed after its construction was completed in 2011, due to an ownership dispute.

RETAIL TRANSACTIONS OVERVIEW

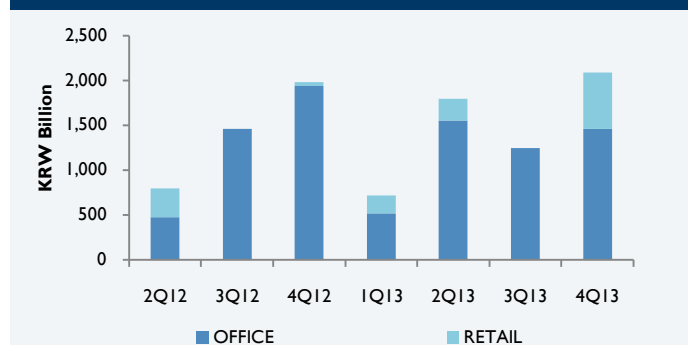
Homeplus disposed of their four Homeplus discount stores including Bucheon, Suwon, Incheon and Daegu to Samsung SRA Investment. As a sale-and-leaseback transaction, the buildings will be leased to HomePlus for 15 years. The total sales price is approximately KRW630 billion and each property's cap rate is 5-6%. Possible candidates for future transactions are Ulsan Upsquare and Dongtan Metapolis Mall, which are located in Suwan City. The retail sector will have a healthy growth as investors' sentiment towards retail property is increasing.

STATS ON THE GO

	LOCAL CURRENCY (KRW)	US\$ EQUIVALENT	Y-O-Y CHANGE LOCAL CURRENCY
OFFICE			
Investment Volume	1,462 billion	1,379 million	-32%
KRW/sq.m.	5,050,571	4,765	36%
RETAIL			
Investment Volume	630 billion	NA	NA
KRW/sq.m.	NA	NA	NA
YIELD			
	Q4 2013	Q-O-Q CHANGE	Y-O-Y CHANGE
Office	5~6%	NA	NA
Retail	6~8%	NA	NA

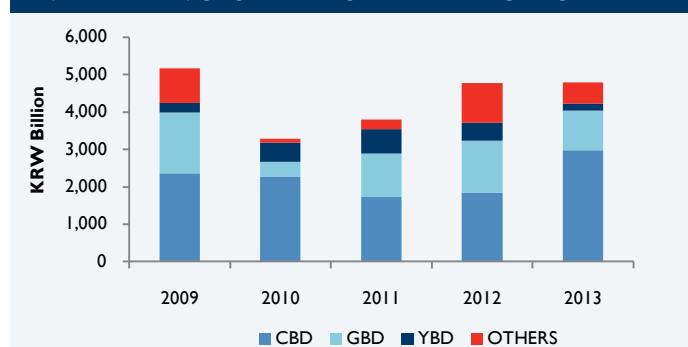
Exchange Rate: 1USD = KRW 1,060

INVESTMENT VOLUME BY SECTOR



Office: Deals over 3,300 sq.m. in Seoul Retail : Major shopping mall & outlet

INVESTMENT VOLUME BY SUBMARKET - OFFICE



Source: Cushman & Wakefield, RCA

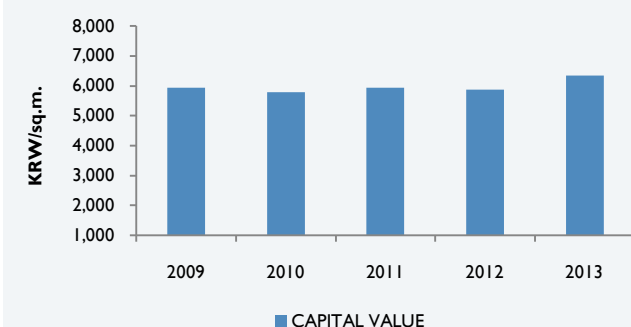
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OUTLOOK

In 2013, core investment grade office buildings on the market triggered the interest of multiple potential investors. Most of the interested parties were local institutional investors. However, we do notice an increasing number of overseas investors waiting on the sideline for core Seoul office investment opportunities. In 2014, we anticipate that the competition among local and overseas investors will continue to increase. Demand for stabilized assets in core locations from institutional investors and asset management companies are expected to continue. Some investors holding core office assets may decide to put the assets for sale earlier than planned to benefit from the increased competition.

CAPITAL VALUE – CBD A OFFICE



Sales Price: KRW/sq.m. ; Unit : KRW Thousands

MAJOR TRANSACTIONS

PROPERTY NAME	PROPERTY TYPE	DISTRICT / SUBMARKET	PURCHASER	AREA / GFA SQ.M.	CONSIDERATION / PURCHASE PRICE		UNIT PRICE KRW/SQ.M.
					KRW BILLION	US\$ MILLION	
Gwanghwamun State Tower	Office	CBD	Lina Life Insurance	40,911	242	227	5,915,280
Asterium Seoul	Office	CBD	Cansus Asset management	72,796	361	340	4,967,306
Center Point	Office	CBD	Mastern Investment management	38,925	214	201	5,497,770
N Tower (AIA Tower)	Office	CBD	AIA Life Insurance	46,780	252	237	5,386,874

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