

Real Estate Strategic Outlook: South Korea

Short-term challenges, longer-term opportunity

The base rate remains 3.5%, with a potential cut in 4Q 2024. The macroeconomic trend in South Korea indicates muted GDP growth of 1.8% in 2024, primarily due to the slowdown of the Chinese economy and global trade activities.

Along with the price growth of energy and service products, the country's CPI significantly moderated from 6.3% in July 2022 to 2.9% in April 2024, while the weakening Korean won could exert upside pressure on domestic inflation in the near term. Since January 2023, The Bank of Korea has cautiously kept the base rate unchanged at 3.5%, and will likely take time to observe domestic and global economic developments before kicking off their easing cycle, presumably in the fourth quarter of 2024.

CRE capital value correction could continue in 2024, though near the bottom, before recovering in 2025.

Narrowing down bid-ask spreads is quicker in the logistics sector.

The price correction of the office and logistics sectors in South Korea is expected to continue in 2024, though capital values may be close to the bottom before an anticipated recovery from 2025. Having said that, there are some discrepancies between the two sectors, especially in terms of pricing bid-ask spreads. The logistics sector saw bid-ask spreads narrowing in favor of buyers, while office sellers remained less flexible given the strong leasing market fundamentals of the sector. Investors should take it as a promising market phase to reconsider the logistics opportunities from the distressed sellers with decent price discounts of up to 10-20% from their previous peak while waiting for further narrowing of office bid-ask spreads in the coming quarters.

In the meantime, office investors might want to consider structured deals, including preferred equity or debt, to enjoy the short-term investment window from the muted transaction and lending markets. However, structured deals require more consideration than standard equity transactions, including asset control power and exit strategy.

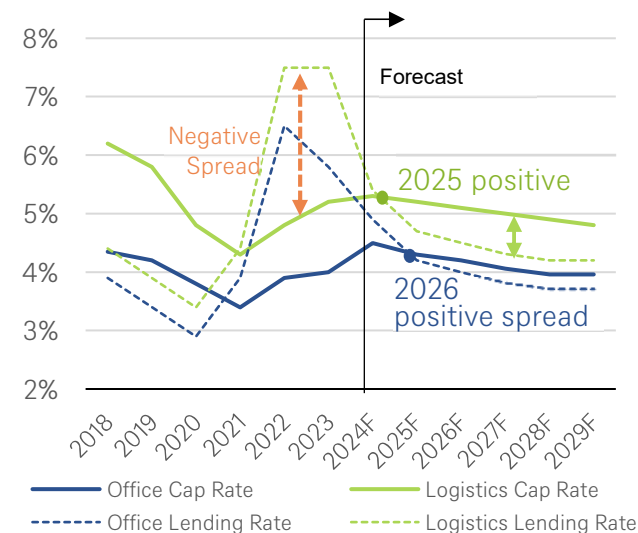
Logistics: Short-term market disruption and limited future supply

During the record supply wave in the Seoul logistics market between 2022 and 2024, the average modern logistics vacancy rate in Greater Seoul increased from 3% in 2022 to 8% in 2023 and will likely remain loose in 2024. However, surging financing and construction costs have become critical stumbling blocks for logistics developments, which could bring a shortfall in logistics supply from 2025 onwards.

Office: Healthy fundamentals with limited supply.

The Seoul office market stood out as the world's most vibrant office leasing market, with a tight vacancy rate of 3.6% in the first quarter of 2024. Given the limited supply and healthy space expansion by IT and tech office tenants, office vacancy rates in major office districts should remain tight in the foreseeable future, while the strong leasing momentum could slightly moderate with looming concerns over the potential economic downturn in the coming quarters.

Cap Rates and Lending Rates in Office and Logistics Sectors



Source: DWS, JLL, June 2024

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Real Estate Research Team

Office Locations

Frankfurt

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London

45 Cannon Street
London, EC4m 5SB
United Kingdom
Tel: +44 20 754 58000

New York

875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco

101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore

One Raffles Quay
South Tower
15th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo

Sanno Park Tower
2-11-1 Nagata-cho
Chiyoda-Ku
18th Floor
Tokyo
Japan
Tel: +81 3 5156 6000

Sydney

Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA

Global Co-Head of Real Estate Research

Simon Wallace

Global Co-Head of Real Estate Research

Americas

Brooks Wells

Head of Research, Americas

Liliana Diaconu, CFA

Office & Retail Research

Ross Adams

Industrial Research

Sharim Sohail

Self-Storage Research

Europe

Ruben Bos, CFA

Head of Real Estate Investment Strategy, Europe

Tom Francis

Property Market Research

Rosie Hunt

Property Market Research

Martin Lippmann

Head of Real Estate Research, Europe

Carsten Lieser

Property Market Research

Asia Pacific

Koichiro Obu

Head of Real Estate Research, Asia Pacific

Seng-Hong Teng

Property Market Research

Hyunwoo Kim

Property Market Research

Matthew Persson

Property Market Research

AUTHORS



Koichiro Obu
Head of Real Estate Research, Asia Pacific



Hyunwoo Kim
Property Market Research

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