

## South Korea Real Estate Market Annual Report

With negative spreads between cap rates and borrowing costs remaining wide, CRE capital values could remain under further pressure before potentially bottoming out in 2024.

### IN A NUTSHELL

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- Since January 2023, the Bank of Korea has kept the base rate at 3.5%, with a potential rate cut expected in 2024.
  - Despite the rapid market growth, South Korean REIT prices fell steeper than other global peer REIT markets due to low liquidity and higher interest rates.
  - Spreads between real estate cap rates and lending rates in South Korea remained wide at negative 100-150 basis points in September 2023, while office capital values declined 7-13% from their previous peak and could bottom out in 2024.
  - The office, retail, and hotel sectors showed robust market momentum underpinned by solid market fundamentals. In contrast, the logistics sector saw rising vacancy rates due to the incoming supply wave.
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## 1 / Country Overview

### 1.1 Macro Economy

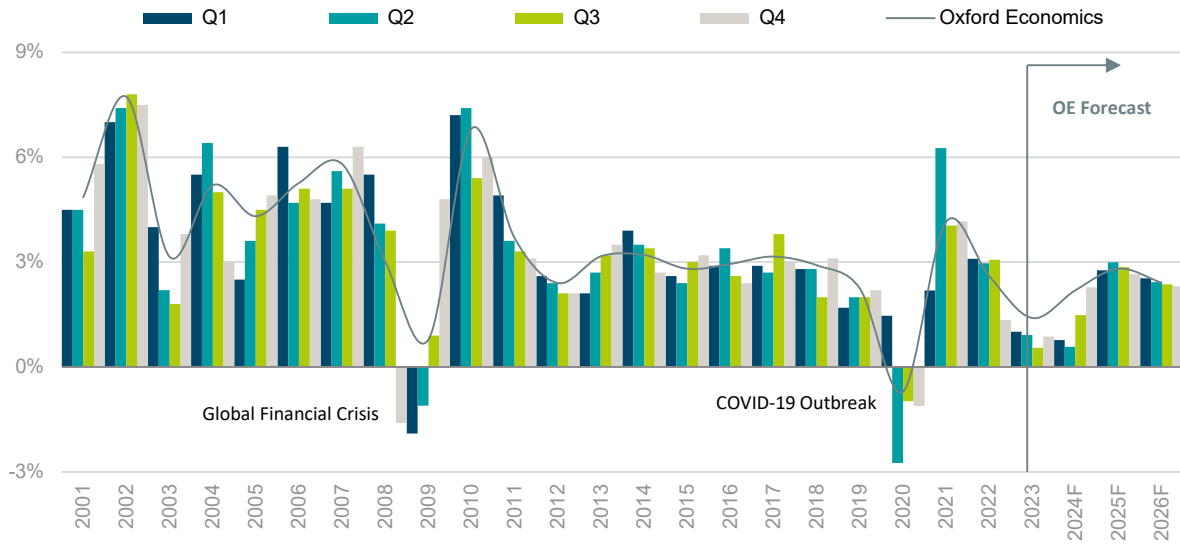
Amidst surging interest rates and weakening external demand, South Korea's economy has notably weakened since the start of 2023. The country's real GDP growth is expected to fall below 1% in 2023 before a higher growth recovery of 1.3% in 2024, as the earlier boost from reopening fades while exports shrink. Trade activity faces headwinds from weak growth in China, the country's largest trade partner, and its struggling semiconductor sector. On the other hand, private consumption continues to grow at a modest pace with inflation moderating, while labor market conditions remain resilient with pressures on real wages easing.

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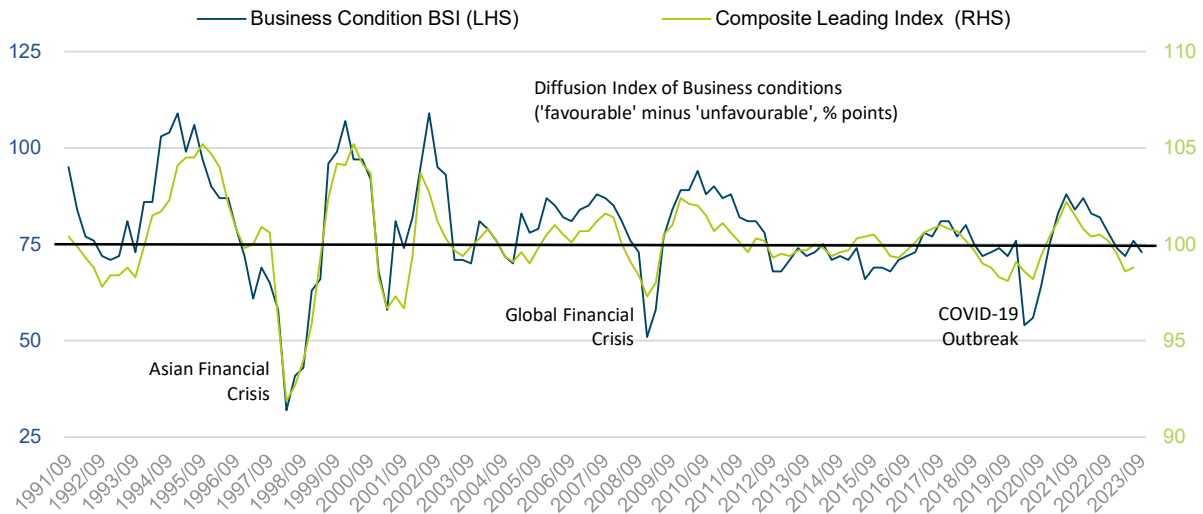
Exhibit 1: South Korea's GDP Growth Outlook



Notes: F = forecast, there is no guarantee forecast growth will materialise. Please refer to Important Notes (see end of report). Past growth is not a reliable indicator of future growth. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Sources: Bank of Korea, Korea Statistics Information Service, Oxford Economics, DWS. As of September 2023.

The latest Business Survey Index (BSI) showed the Business Conditions level at 73 in September 2023, a decrease from 84 two years ago, reflecting a more pessimistic outlook for corporate Korea. The business sentiment of manufacturing industries worsened severely from 90 to 69 in the same period, reflecting the prolonged chip downcycle and potential global economic slowdown. Sentiment for non-manufacturing industries declined to a lesser extent, with domestic consumption and the labor market being more resilient.

Exhibit 2: Diffusion Index of Business Conditions

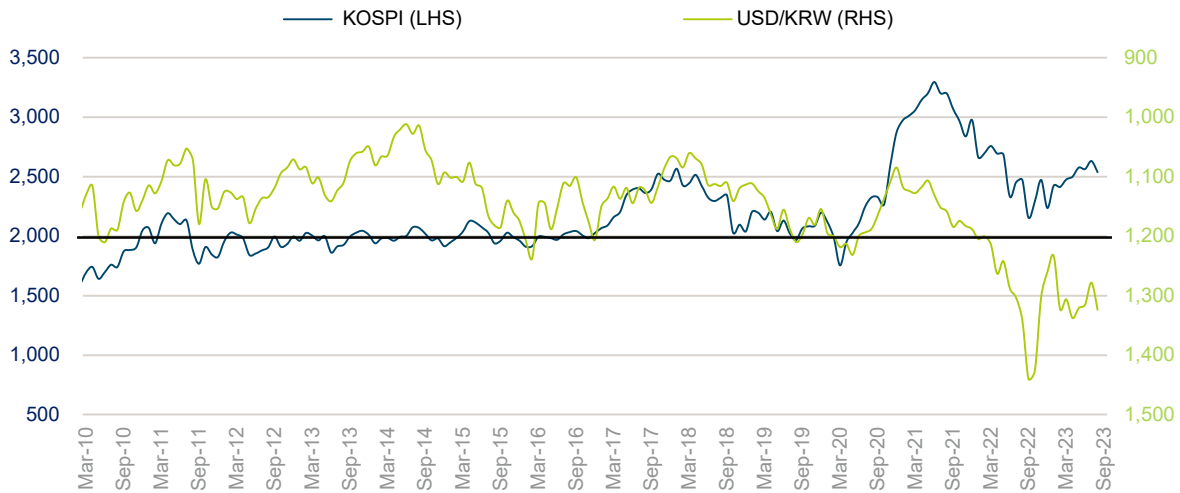


Past Performance is not a reliable indicator of future Performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. There is no guarantee the estimates shown will materialize. Sources: Bank of Korea, Korea Statistical Information Service, DWS. As of September 2023.

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Following the rapid expansion of bond yield spreads between the US and South Korea, the Korean won fell 21% against the US dollar year-on-year in September 2022, trading at 1,426 per US dollar, the lowest level since March 2009. Since then, the Korean Won regained some ground to reach 1,324 in September 2023, though still down by 12% compared to two years ago. Weighed by the weak currency and high inflation, the benchmark KOSPI index hovered around 2,500 over the last 12 months after plummeting from a record high of 3,300 in June 2021.

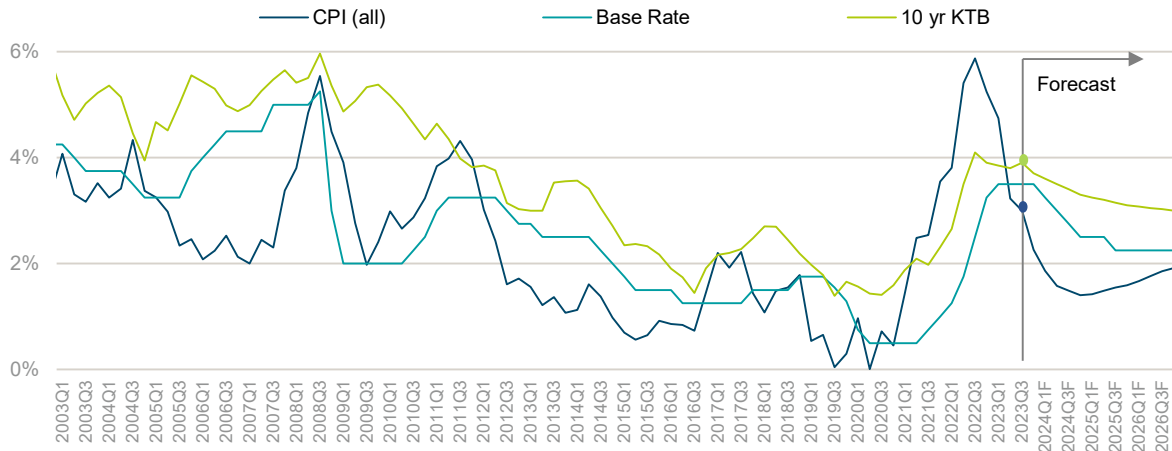
**Exhibit 3: Stock Index (KOSPI) and Korean Won Currency Trends**



Notes: Past Performance is not a reliable indicator of future Performance.  
Sources: Bank of Korea, DWS. As of September 2023.

Along with the price growth of energy and service products, South Korea's CPI decreased from 6.3% in July 2022 to 3.4% in August 2023, significantly relieving the pressure for further interest rate hikes. Since January 2023, The Bank of Korea has cautiously kept the base rate unchanged at 3.5%, while current market expectations are for rate cuts as early as 2024, with looming concerns over an economic slowdown and high domestic household debt levels.

**Exhibit 4: Interest Rates and CPI**



Notes: F = forecast, there is no guarantee rates forecasted will materialise. CPI = Consumer Price Index. KTB = Korea Treasury Bond. Please refer to Important Notes (see end of report).  
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Sources: Bank of Korea, DWS. As of September 2023.

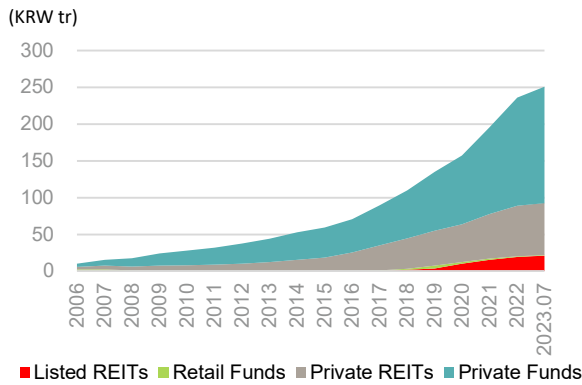
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### 1.2 Funds and REITs

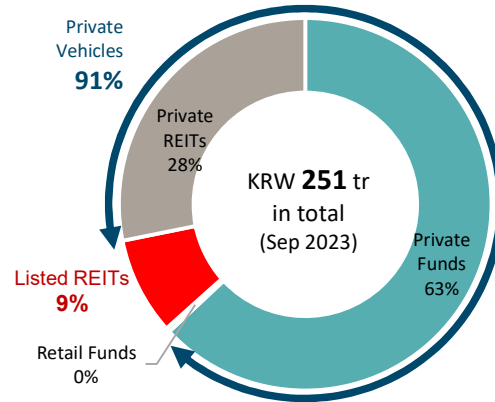
Exhibit 5 shows the aggregate size of real estate assets held by REITs and real estate funds in South Korea. As of July 2023, these securitized assets' gross asset value (GAV) totaled KRW 251 trillion, an increase of 28% from the end of 2021. Notably, most of these vehicles\* remain accessible only to large institutions via closed-end private funds and private REITs, while listed REITs accounted for only 9% of these assets.

**Exhibit 5: Domestic Real Estate Asset Value held by Funds and REITs**

**Domestic Asset Value By Vehicle (GAV)**



**Share of Securitized Asset By Vehicle and Investor Type**

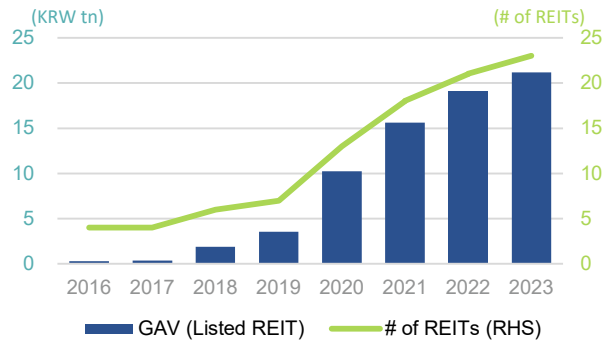


\*Private REITs account for unlisted closed-end private investment vehicle owned by a handful of institutional investors  
 Notes: Past Performance is not a reliable indicator of future Performance.  
 Sources: Korea Financial Investment Association, REITs Information System, DWS. As of September 2023.

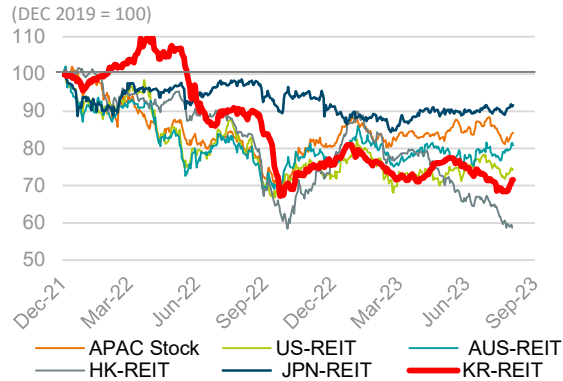
Having grown more than ten-fold in the last five years, the listed REIT market in South Korea is one of the fastest growing real estate markets globally, with 23 REITs managing more than KRW 21 trillion GAV in total as of September 2023. However, the sector's limited investability remains challenging for global REIT investors. From the institutionalization perspective, Korean REITs represent less than 0.1% of the global real estate benchmark, with the low market cap and narrow liquidity hindering cross-border investors from entering the market. From the market-cycle perspective, South Korean REITs have underperformed other global peer REIT markets, with prices down 30% from the end of 2021, making it challenging to execute capital raising for new REITs listing or conduct accretive new investments due to the high implied cap rates and elevated interest rates.

**Exhibit 6: GAV of Listed REITs in South Korea and Global REIT Price Index**

**GAV of Listed REITs in South Korea**



**APAC REIT Price Index Trends**



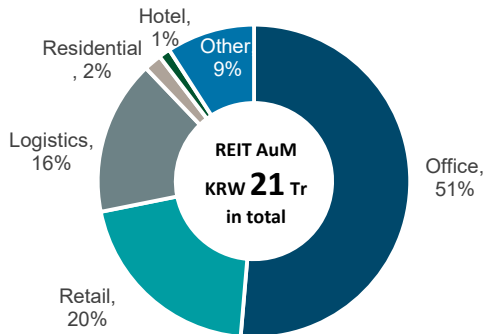
Note: APAC Stock = MSCI AC APAC Index, US-REIT = FTSE EPRA/NAREIT United States, AUS-REIT = S&P/ASX 200 REIT, SIG-REIT = FTSE ST REIT Index, HK-REIT = Hang-Seng REIT Index, JPN-REIT = TSE REIT Index, KOR-REIT = Synthetic Index based on the weighted average of stock price change of all the listed REITs in South Korea  
 Note: Past Performance is not a reliable indicator of future Performance.  
 Source: Korea REITs Information System, Korean Association of REITs, DWS. As of September 2023,

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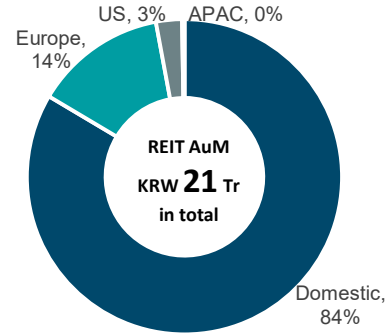
Amidst ongoing sectoral diversification, the share of retail and logistics sectors grew to 20% and 16%, respectively, while the residential and hotel sectors remain small, around 1-2%. With overseas assets accounting for as high as 17%, further cross-border investments are becoming more complex, with looming concerns over the management capability of existing assets during the market downturn. For further diversification and market growth, the divestment of domestic corporate real estate owned by non-real estate companies remains the primary source for REITs to grow their pipeline.

**Exhibit 7: Asset Diversification of Listed REITs in South Korea**

**By Sector**



**By Location**



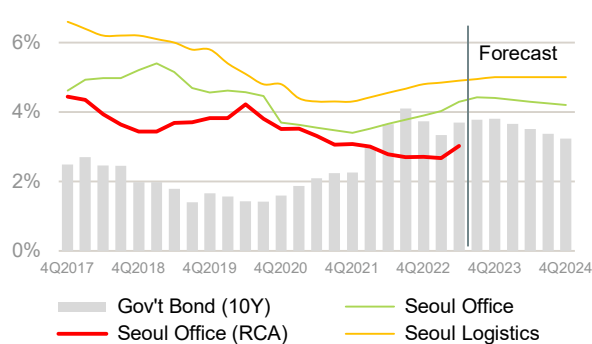
Note: Past Performance is not a reliable indicator of future Performance.  
Source: DWS. As of September 2023.

### 1.3 Cap Rates and Performance

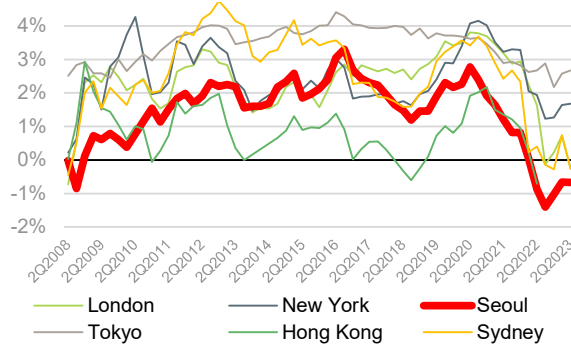
Spreads between real estate cap rates and lending rates in South Korea remained wide by negative 100-150 basis points in September 2023, creating a significant pricing gap between wishful sellers and hesitant buyers, leading to limited commercial real estate transactions. Based on a few successful office transactions since the second half of 2022, capital values is estimated to have fallen by 7-14% from the previous peak in the fourth quarter of 2021 and could bottom out in 2024 <sup>1</sup>. Among sectors, Grade A office cap rates rose from 3.3% two years ago to 4.3% in the third quarter of 2023, while logistics cap rates also increased from 4.3% to 5.0% in the same period. The average office yield spread in Seoul has remained negative since the second quarter of 2022, the lowest level among key global markets.

**Exhibit 8: Cap Rates and Yield Spreads**

**Transaction Cap Rates (Stabilized)**



**Grade A Office Yield Spreads (Average Transacted)**



Notes: Past Performance is not a reliable indicator of future Performance.  
Sources: Avison Young, Cushman & Wakefield, DTZ, Real Capital Analytics, DWS. As of September 2023.

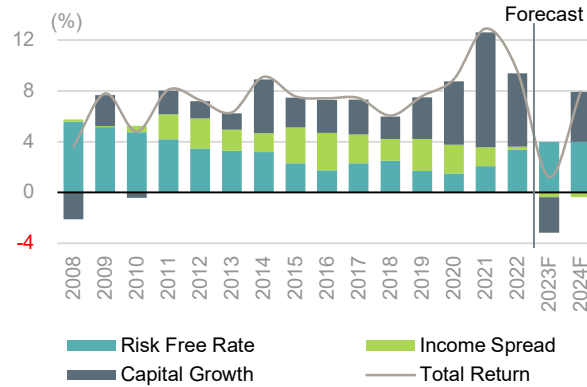
<sup>1</sup> Please refer to "Asia Pacific Real Estate Strategic Outlook July 2023" report for DWS house-view forecasts.

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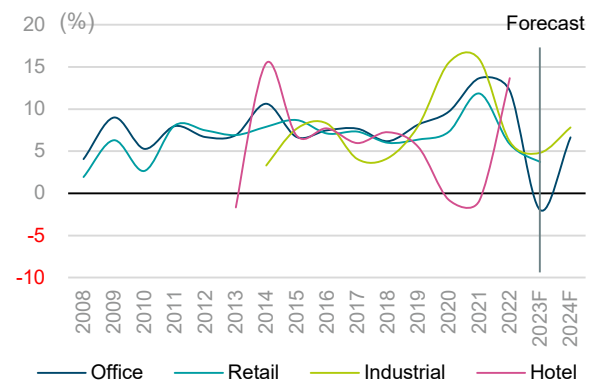
Despite lower transacted pricing, the impact was not yet reflected in appraisal valuations in 2022. Average unlevered total returns of commercial real estate investment (valuation-based) in South Korea remained high at 9.6% in 2022, but this is expected to decrease to near 0% in 2023 reflecting the lagged effect of capital value declines. Among sectors, the office sector is likely to deliver negative total returns in 2023 before seeing a solid rebound in 2024, while we expect logistics and retail to deliver less volatile returns at 3-4% in 2023 and 6-7% in 2024.

**Exhibit 9: Real Estate Total Return in South Korea (Unlevered)**

**Total Return by Component**



**Total Return by Sector**

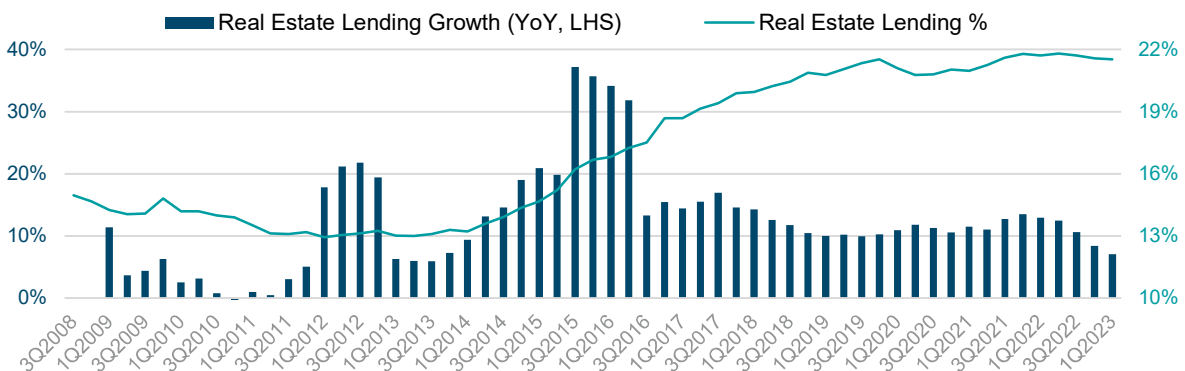


Notes: There is a time lag because of raw data being collected through semi-annual reports. Past Performance is not indicative of future results. Forecasts are not a reliable indicator of future Performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Sources: MSCI Real Estate - IPD, DWS. As of September 2023.

### 1.4 Lending and Transactions

Amidst rapid interest rate hikes, fears of further rate increases and potential declines in asset valuations forced existing South Korean lenders to turn negative towards new commercial real estate lending, even for stabilized core assets, in the second half of 2022. Senior lending for existing assets has gradually stabilized in 2023, with the return of traditional lenders anticipating the end of the interest rate hike cycle. However, the majority still struggled with potential loan write-offs and remained cautious about new construction loan financing. As a result, this offers an unprecedented window of opportunity for foreign lenders to step in.

**Exhibit 10: Commercial Real Estate Lending by Domestic Lenders\***

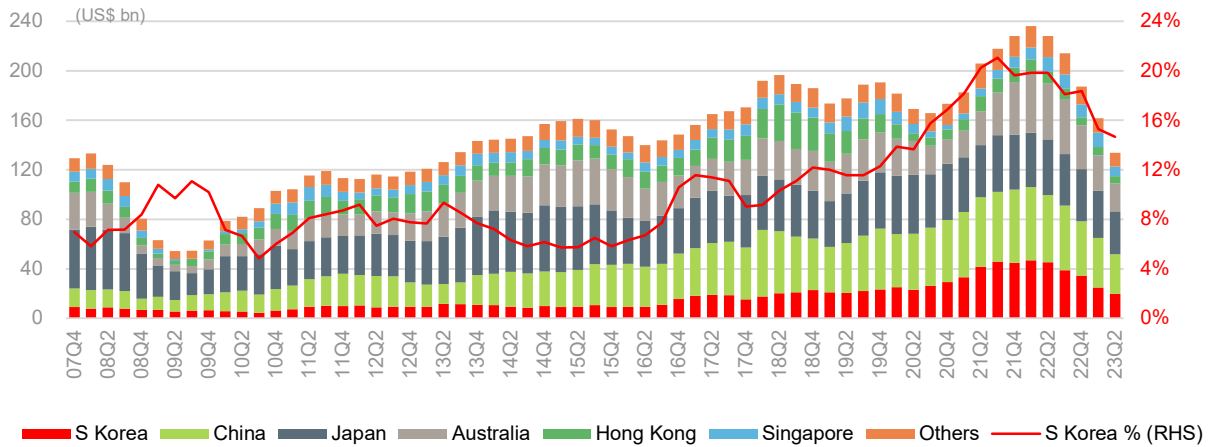


\*Banks, insurance companies and fire & marine insurance companies, Notes: Past Performance is not a reliable indicator of future Performance Sources: Bank of Korea, Financial Statistics Information System, DWS. As of September 2023.

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Commercial real estate transaction volume across the Asia Pacific region significantly decreased to US\$ 139 billion on a 12-month rolling basis in the third quarter of 2023, down approximately 41% from a year ago. Japan regained its position as the largest real estate market, followed by China and Australia. At the same time, South Korea ranked fourth with the sharpest decline of 57% in transaction volume during the same period. South Korea's regional share also shrank from 20.3% in the second quarter of 2022 to 14.7% in the second quarter of 2023.

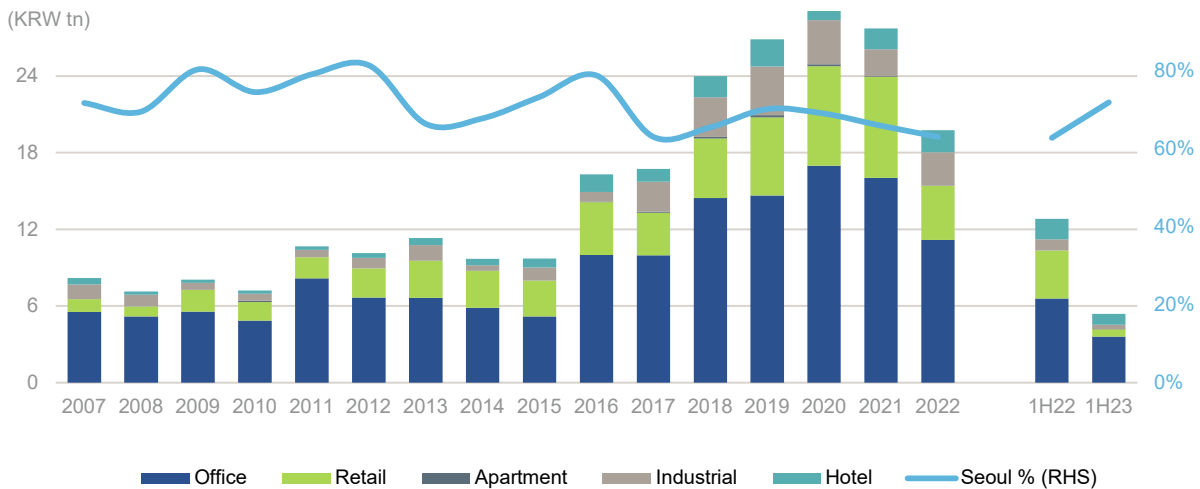
**Exhibit 11: APAC Transaction Volume and Share of South Korea (12 Months Rolling)**



Notes: Past Performance is not a reliable indicator of future Performance  
Sources: Real Capital Analytics, DWS. As of September 2023.

South Korea's transaction volume fell 29% to KRW 19.7 trillion in 2022, falling below the KRW 20 trillion level for the first time in the last five years. Moreover, transaction activity slowed further in the first half of 2023, with preliminary volumes down 58% year-on-year. Domestic institutional investors were predominantly active in acquiring assets, while cross-border investors struggled from severe competition with local capital and rising hedging losses. By sector, office occupied the largest share at 56%, followed by retail (22%), industrial (13%), and hotel (9%), with limited residential transactions.

**Exhibit 12: Real Estate Transaction Volume by Sector in Korea and Share of Seoul**

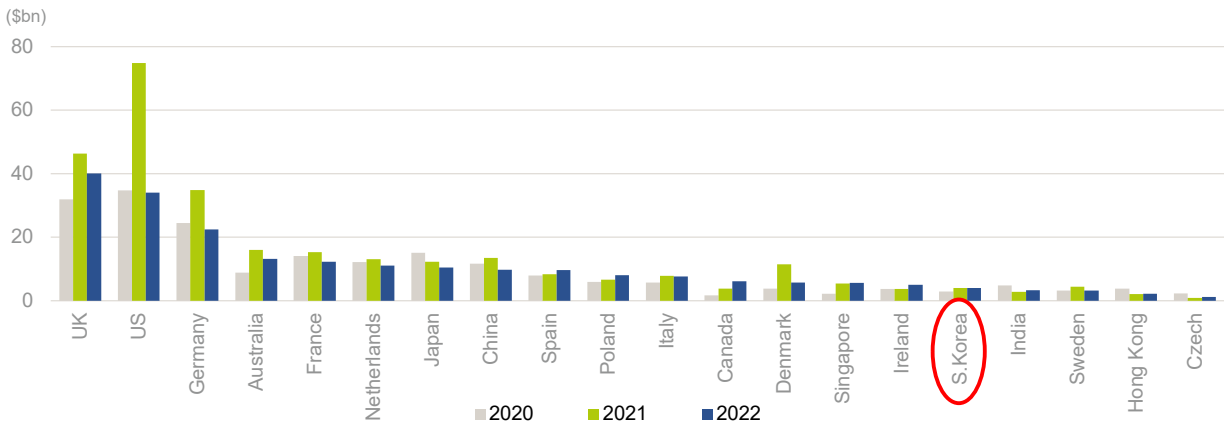


Notes: Past Performance is not indicative of future results.  
Sources: Real Capital Analytics, DWS. As of September 2023.

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In 2022, the United Kingdom became the largest investment destination for cross-border investment, amounting to US\$40 billion, surpassing the US for the first time in the last eight years. South Korea ranked 16th globally with US\$4 billion of inbound investment, lower than its APAC peer markets such as Australia (4<sup>th</sup>), Japan (7<sup>th</sup>), China (8<sup>th</sup>), and Singapore (14<sup>th</sup>).

**Exhibit 13: Cross-Border Real Estate Investments by Destination**



Notes: Past Performance is not indicative of future results.  
Sources: Real Capital Analytics, DWS. As of September 2023.

Exhibit 14 shows major real estate transactions announced since September 2022. The largest deal was GIC's 45% acquisition of Pangyo Tech One Tower for KRW 800 billion, followed by the sale of Grand Hyatt Seoul hotel for KRW 700 billion, and AlphaDom Tower 3 purchased by Samsung Fire & Marine Insurance and Samsung SRA for KRW 629 billion. Notably, owner-occupiers or strategic investors were critical in closing some of Prime and Grade A office transactions, while yield investors remain relatively cautious on new acquisitions. The top two office transactions were in the Pangyo/BBD area, signifying strong investment demand for the IT industry hub.

**Exhibit 14: Major Real Estate Transactions Announced Since September 2022**

Type	Asset	Price (KRW bn)	Unit price (KRW m)		Location	Month	Asset Manager / Investor	Invest. Origin
			/GFA py*	Est. Cap rate*				
Office	45% of Pangyo Tech One Tower (Alpha Dome 6-2)	800	26.8		Pangyo	May-23	GIC	Singapore
	AlphaDom Tower 3 (Alpha Dome 6-3)	629	23.7	3.9%	Pangyo	Apr-23	Samsung Fire & Marine Insur, Samsung SRA	Korea
	Concordian	629	34.5		CBD	Apr-23	Mastern, KTCU Samsung Securities,	Korea
	Jongno Tower	621	33.8	3.0%	CBD	Oct-22	SK REITs	K-REIT
	Twin Trees	557	32.9		CBD	Dec-22	IGIS Value Plus REIT	K-REIT
	Tower 8	549	37.2		CBD	Aug-23	NACUFOK, Mirae Asset	Korea
	SK Namsan Green Building	479	27.5	4.0%	CBD	May-23	KKR	US
	POSCO Tower Yeoksam	279	42.5		Gangnam	Mar-23	POSCO	Korea
	Scale Tower	253	42.1		Gangnam	Jun-23	Hyundai Motor	Korea
Retail	Munjeong Plaza	285	12.6	5.0%	Seoul	May-23	Donghoon	Korea

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	HomePlus Pyeongchon	113	13.0	4.2%	Greater Seoul	May-23	Daehan RE Trust, Mastern Premier REIT	K-REIT
	Taurus Shopping Tower	100	38.1		Seoul	Jul-23	Night Bridge Partners Co	Korea
	Incheon Seoknam Innovation Logistics Center	600	6.6		Greater Seoul	Ongoing	IGIS	Korea
	Siheung MTV Logistics 2BL Logistics Center	510	6.4		Greater Seoul	Sep-22	Unknown	Korea
Logistics	Coupang Yangji 5 Logistics Center	467	7.5		Greater Seoul	Jul-23	Mirae Asset	Korea
	Hwaseong Yanggam Logistics Center	250	7.2		Greater Seoul	Nov-22	Stic Investments	Korea
	BLK Pyeongtaek Logistics Center	225	6.0	4.5%	Greater Seoul	Nov-22	AEW Capital	US
Residential	73% of Muk-dong Youth Housing	183	253/unit		Seoul	Mar-23	Daehan RE Trust, MLIT	Korea
Hotel	Grand Hyatt Seoul	700	1,138/rm		Seoul	May-23	BlueCove Investment	Korea
	Ninetree Premier Hotel Myeongdong 2	140	343/rm		Seoul	Jun-23	CDL	Singapore

py\* (=Pyeong) is a Korean unit of area. It is equivalent to 3.3 square metres (35.6 square feet).

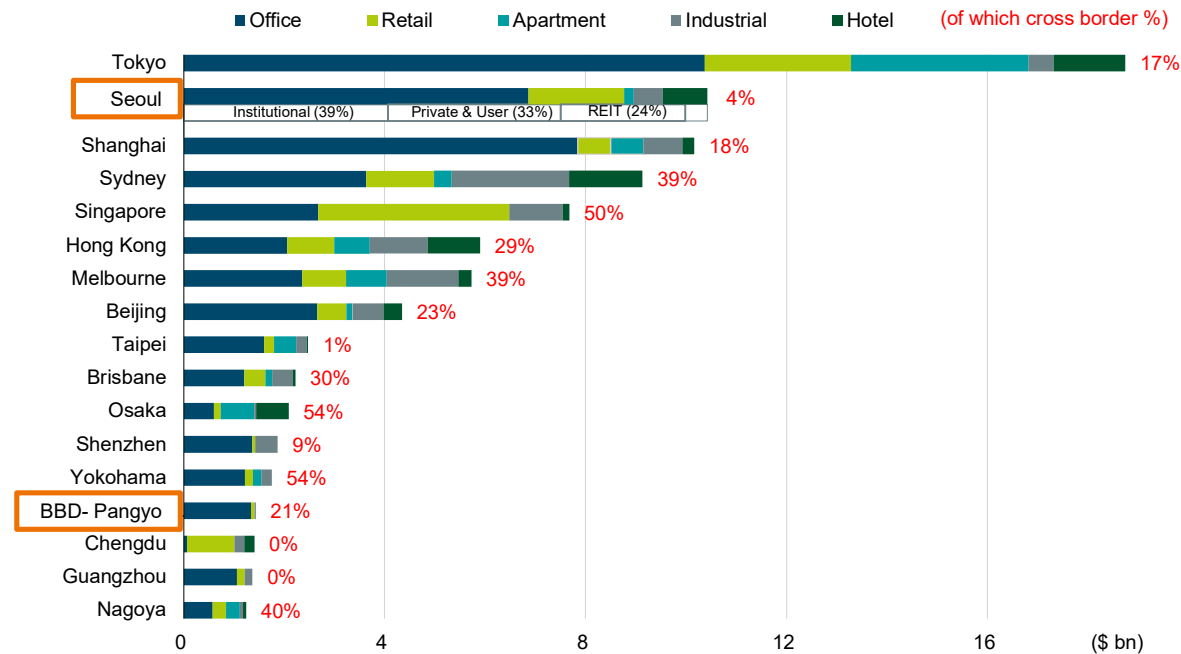
Estimated cap rate\*: Even though all the cap rates are based on an estimated basis and obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such.

Notes: Acquisitions by foreign managers are highlighted in grey and listed REIT-related acquisitions in Green This table is prepared solely for information purposes and not intended to recommend or endorse any specific company's shares or other products.

Source: Avison Young, Real Capital Analytics, DWS. As of September 2023.

Preliminary CRE transaction volume in Seoul for the rolling 12 months till June 2023 increased 53% year-on-year to US\$ 10.4 billion. It ranked second amongst Asia Pacific cities after Tokyo, followed by Shanghai and Sydney. Cross-border investment activity remained significantly weak, accounting for only 4% of total volume in Seoul, compared to the historical average of 19% in the last fifteen years. BBD-Pangyo ranked 14th with US\$ 1.4 billion in volume in the same period, larger than Chengdu and Guangzhou, emerging as another institutional investment market in South Korea.

Exhibit 15: Real Estate Transaction Volume by City (12 Months Rolling till June 2023)



Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions. Past Performance is not indicative of future results. Sources: Real Capital Analytics, DWS. As of September 2023.

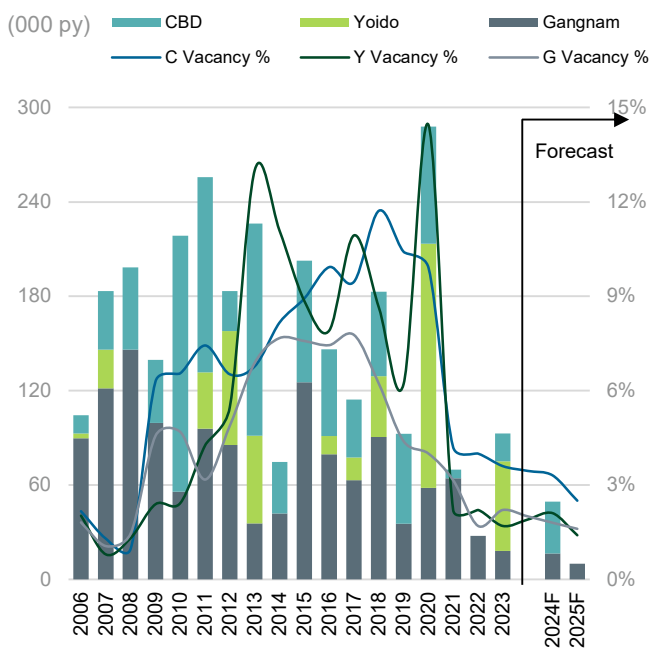
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## 2 / Real Estate Market Fundamentals

### 2.1 Office

Amid widespread global office woes with permanent working-from-home arrangements, the Seoul office market stood out as the world's most vibrant office leasing market. Average office vacancy rates in the CBD and Yoido significantly decreased to 3.6% and 1.7% in the second quarter of 2023, compared to 9.1% and 15.3%, respectively, three years ago, while vacancy in Gangnam remained extremely tight at 2.2%. Given the limited supply and healthy leasing expansion of 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 weaken with looming concerns over the potential economic downturn in the coming quarters. <sup>2</sup>

Exhibit 16: Office Vacancy Rates in Seoul by Submarket



Major Supply Planned in Seoul			
Area	Building	Date	GFA(py)
CBD	Bank of Korea Bldg.	1Q 23	17,766
GBD	SCALE Tower	1Q23	14,943
YBD	Brighten Yeouido	3Q23	13,853
YBD	Teachers' Pension Bldg.	4Q23	42,980
CBD	Bongrae District	1Q24	12,224
CBD	KT Gwanghwamun Bldg.	3Q24	20,829

\*py (=pyeong) is a Korean unit of area. It is equivalent to 3.3 square metres (35.6 square feet).  
 Notes: GFA = gross floor area. sqm = square metres. Past Performance is not indicative of future results. There is no guarantee the supply pipeline will materialize. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.  
 Sources: Avison Young, DWS. As of September 2023.

The average office vacancy rate in Seoul tightened to 2.7% in the second quarter of 2023, the lowest level in the last 15 years, from 7.4% three years ago. Prime, Grade A, and Grade B office vacancy rates all fell from the 6-8% to 2-4% ranges in the same period, which stands out from other key APAC office markets witnessing a flight-to-quality divergence in leasing performance by building grade. Despite fluctuations in vacancy rates, office face rents have grown by 2-3% per annum over the last ten years, while rental growth has recently accelerated as office vacancy rates tightened further. Average monthly gross rent in CBD rose to KRW 145,000 per pyeong in the second quarter of 2023, a 4.4% increase on a year-on-year basis, followed by GBD (KRW 133,000) and YBD (KRW 125,000), reflecting an increase of 8-10% in the same period.

<sup>2</sup> Please refer to "Asia Pacific Real Estate Strategic Outlook July 2023" report for DWS house-view forecasts.

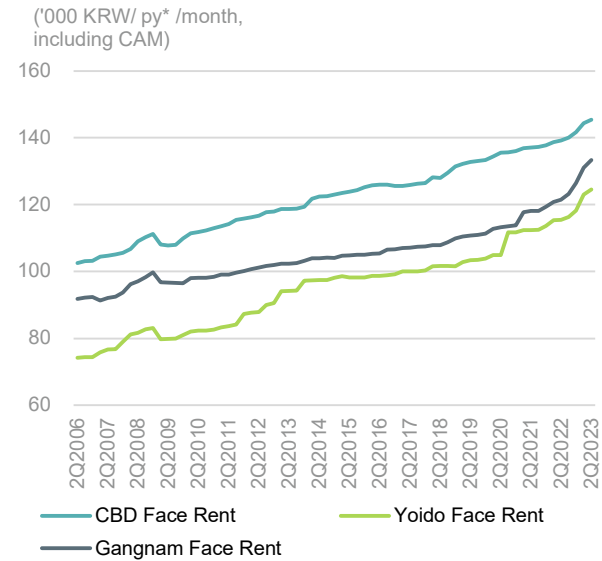
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**Exhibit 17: Office Vacancy Rates and Face Rent in Seoul**

**Office Vacancy Rates By Building Grade**



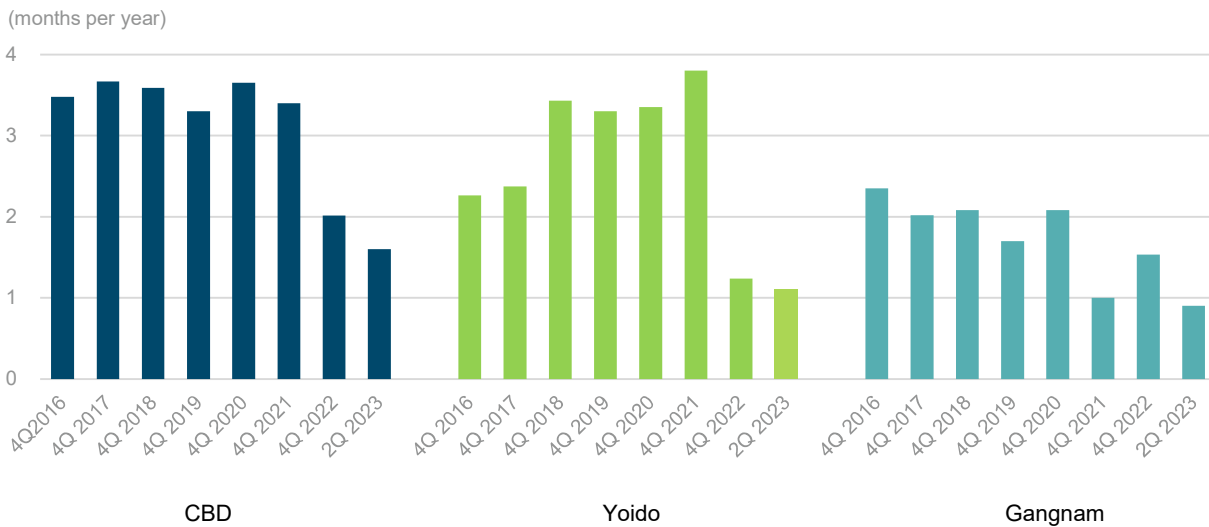
**Office Face Rent by Submarket**



Py\* (=pyeong) is a Korean unit of area. It is equivalent to 3.3 square meters (35.6 square feet).  
 Notes: Past Performance is not indicative of future results.  
 Sources: Avison Young, DWS. As of September 2023.

Along with falling vacancy rates, average concessions granted to tenants also fell considerably in all key submarkets. The average rent-free period in the CBD decreased from 3.4 months per year in the fourth quarter of 2021 to 1.6 months per year in the second quarter of 2023, with similar declines in Yoido (1.1 months) and Gangnam (0.9 months). With reductions in other incentives, such as tenant improvements and fit-out periods, landlords can achieve substantial net effective rental growth during new lease contracts or lease renewals.

**Exhibit 18: Typical Office Rent-Free Period by Submarket in Seoul**



Note: Past Performance is not indicative of future results.  
 Sources: Avison Young, DWS. As of September 2023.

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## 2.2 Industrial

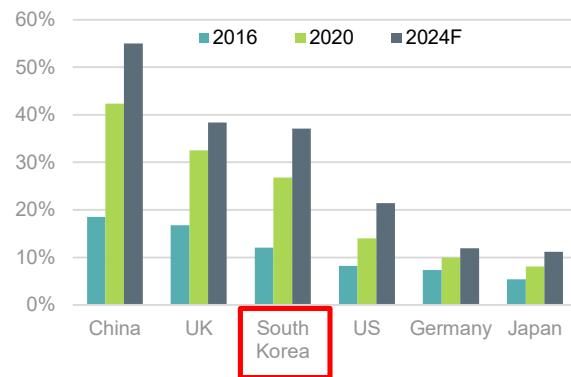
With heightened social distancing during the COVID-19 pandemic, e-commerce retail and fresh food delivery sales accelerated to 24% and 46% in 2021, though growth slowed to 6% and 16% in 2022 as economic activities normalized. Still, the country's e-commerce retail industry presents ample room for further growth with product category diversification and ongoing business expansion in regional cities, with e-commerce penetration expected to rise to 34% in 2024.

**Exhibit 19: Retail E-Commerce Sales and 3PL Industry Revenue in Korea**

**Retail e-Commerce Sales Growth**



**e-Commerce % of Total Retail Sales by Country**

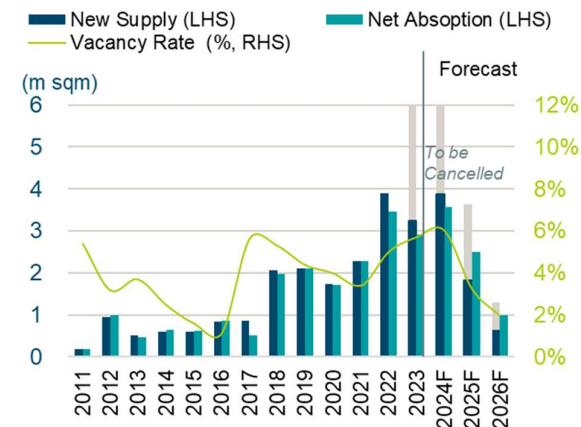


Notes: Past Performance is not indicative of future results.  
Sources: Korea Statistical Information Service, eMarketer, DWS. As of September 2023.

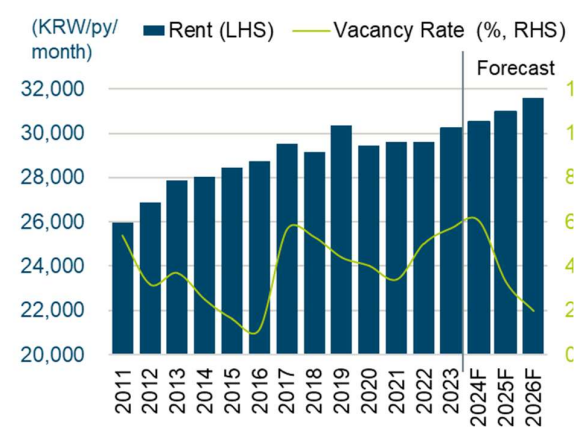
Average modern logistics vacancy rate in Greater Seoul increased from 3.0% in 2019 to 5.7% in the second quarter of 2023, and will likely rise to nearly 6% in 2024 due to strong supply between 2022 and 2024. Surging financing and construction costs have become critical stumbling blocks for logistics developments, resulting in approximately 50-60% of planned projects being cancelled or put on hold, which should relieve concerns over oversupply in the coming years. Average rents for modern logistics assets is expected to grow at 2% per annum in the coming years, underpinned by healthy upgrading demand away from obsolete assets.

**Exhibit 20: Logistics Supply and Vacancy Rate in Greater Seoul**

**Logistics Supply and Vacancy Rate in Greater Seoul**



**Logistics Rent and Vacancy Rate in Greater Seoul**



\*py(=Pyeong) is a Korean unit of area. It is equivalent to 3.3 square metres (35.6 square feet).  
Notes: Past Performance is not indicative of future results. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.  
Sources: DTZ, CBRE, WeFunding, DWS. As of September 2023.

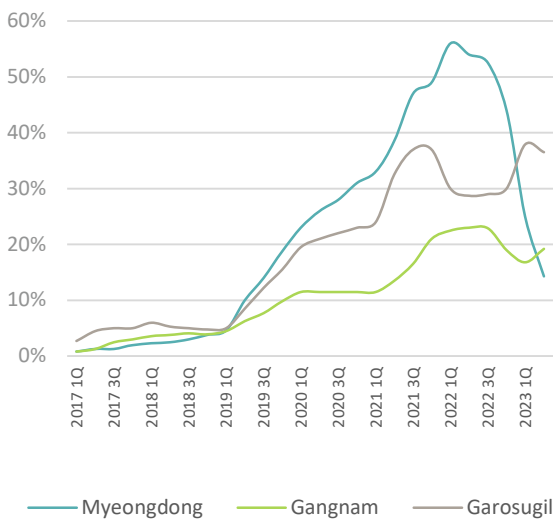
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### 2.3 Retail

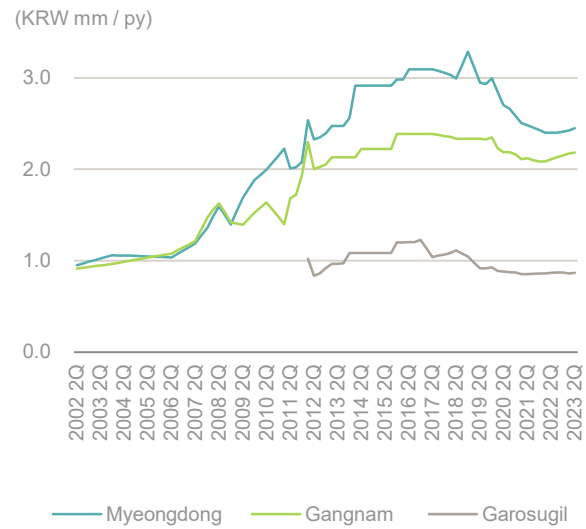
During the COVID-19 pandemic, overseas tourist destinations suffered severely from strict border controls and cold-shouldered domestic visitors, causing the retail vacancy rate in Myeongdong to skyrocket above 50% in the first half of 2022. Subsequently, as border controls eased since the start of 2023, overseas tourist arrivals to South Korea recovered rapidly to roughly 70% of pre-COVID levels in July 2023, up from 20% a year ago, boosting the tourist destinations with cosmetics and duty-free shops outperforming. Accordingly, average retail ground floor rents slightly recovered 2-3% yearly to KRW 2.5 million per pyeong in Myeongdong and KRW 2.2 million per pyeong in Gangnam in the second quarter of 2023, though rents remain 7-18% below 2019 levels.

**Exhibit 21: Vacancy Rate and Average Rent of Ground Floor by Retail Area**

**High Street Retail Vacancy Rates**



**Average Ground Floor Rent of High Street Retail**



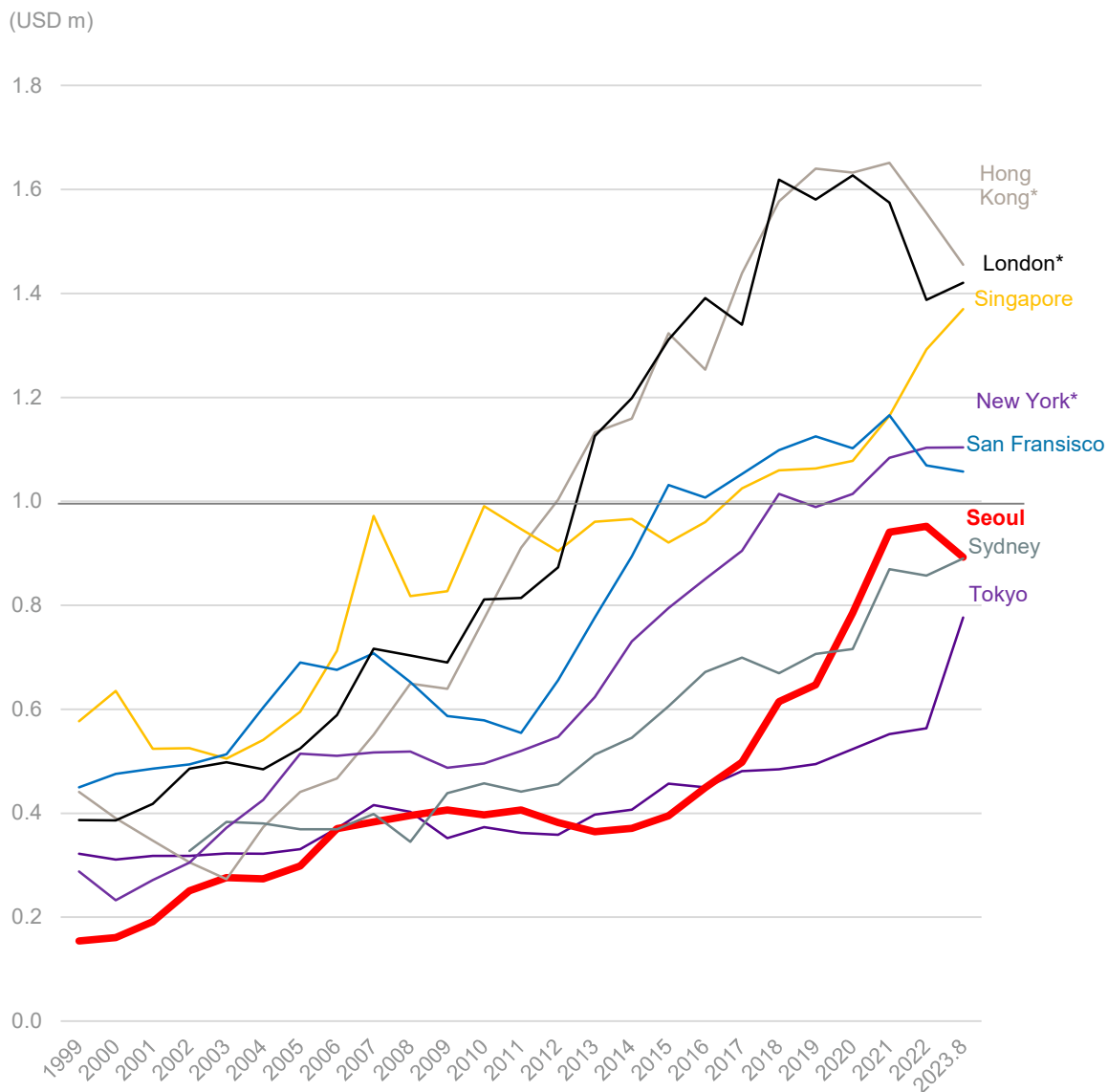
\*Py (=Pyeong) is a Korean unit of area. It is equivalent to 3.3 square metres (35.6 square feet).  
 Notes: Past Performance is not indicative of future results.  
 Sources: Korea Appraisal Board, Cushman & Wakefield, DWS. As of September 2023.

### 2.4 Residential

Between 2017 and 2022, Seoul saw housing prices increase significantly by 1.9x, compared to the 1x to 1.3x for most other global cities, driven by a shortage of quality residential unit supply. However, since 2022, global house prices have been increasingly under downward pressure from elevated mortgage rates, though the magnitude varies by different cycle timings and market fundamentals. Average condominium prices per unit in Seoul also fell by 6.3% year-to-date in August 2023 from end -2022 levels, a decrease for the first time in the last ten years, though price trend is mixed across districts and development grade. With current market expectations of "higher for longer" interest rates driven by hawkish U.S. monetary policies, housing market sentiment is expected to remain pessimistic towards 2024.

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Exhibit 22: Average For-Sale Condominium Price in Global Cities



\*Average price of central residential areas in the city

Notes: Past Performance is not indicative of future results.

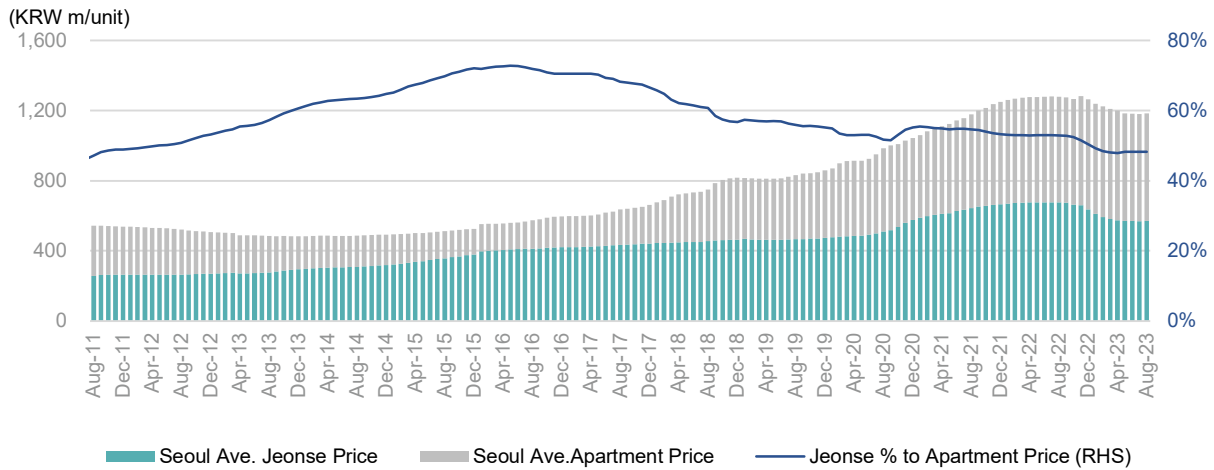
Sources: Australian Bureau of Statistics, Case-Shiller, Nationwide, Rating and Valuation, URA, IPD-Recruit, KB Kookmin Bank, DWS. As of September 2023.

Exhibit 23 shows the historical price of Jeonse<sup>3</sup> and its ratio to the entire purchase price. The average Jeonse price for Seoul apartments declined by more than KRW 100 million or approximately 15% year-on-year in August 2023, with the Jeonse ratio falling below 50% for the first time in the last 11 years. Declining Jeonse ratios means landlords must inject additional equity to fill the Jeonse gap in renewing the tenants. This is similar to the refinancing gap in the CRE markets, putting extra downward pressure on condominium prices.

<sup>3</sup> Due to a lack of established institutional rental house businesses in the country, South Koreans invented their own way of running rental houses, namely “Jeonse,” or deposit-only contracts. These unique Korean leasing contracts require tenants to place the lump sum of returnable deposits amounting to 40~80% of the house value, instead of paying monthly rents, giving landlords the flexibility of using it as leverage or taking the interest revenue with it.

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**Exhibit 23: Average Price of Seoul Condominium & Jeonse Ratio**



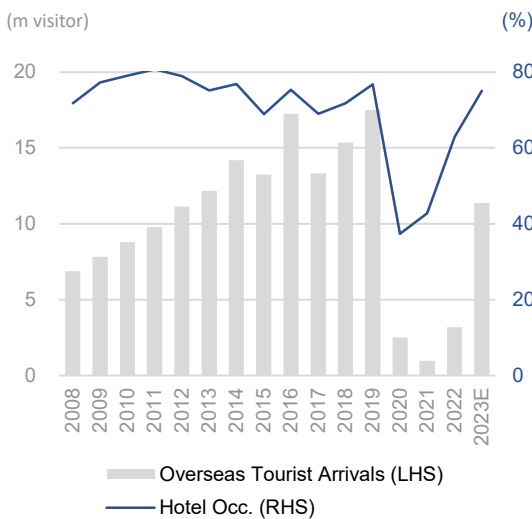
Notes: Past Performance is not indicative of future results.  
Sources: KB Kookmin Bank, DWS. As of September 2023.

## 2.5 Hotel

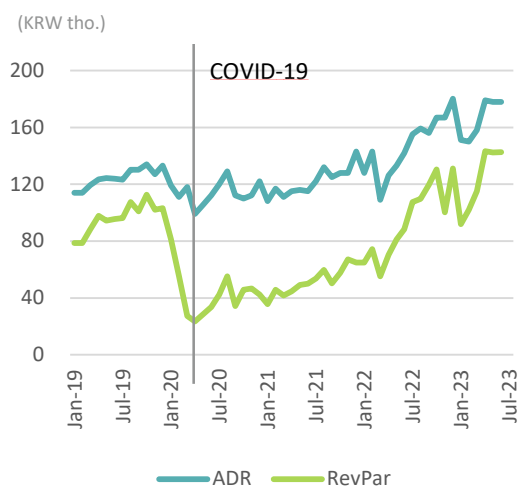
Driven by a rapid recovery of overseas tourist arrivals to South Korea, Seoul's average hotel occupancy rate increased to 80% in June 2023 from 62% a year before, and since stabilized. Average RevPAR once sank below 30% of pre-COVID-19 levels in mid-2020 but has already surpassed the pre-COVID level from the second half of 2022, and currently stands at around 50% higher than the 2019 level. Given the further easing of visa stamps and the extended Chinese Autumn Festival this year, South Korea's hospitality market is expected to benefit from further recovery of inbound tourism in the coming quarters, supported by high tourism competitiveness and rising interest in the country's K-Pop or K-Drama culture.

**Exhibit 24: Hotel Market Performances in Seoul**

**Overseas Tourist and Hotel Occupancy Rate in Seoul**



**Hotel Performances in Seoul**



Notes: Past growth is not a reliable indicator of future growth. Forecasts are not a reliable indicator of future Performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.  
Sources: Korea Hotel Association, Styleloft, DWS. As of September 2023.

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## 3 / Conclusion

Since the start of 2023, spreads between commercial real estate cap rates and borrowing costs have shown some declines, though the gap remains wide at around negative 100-150 basis points in September 2023, creating a significant pricing gap between the seller and potential buyers, leading to subdued transaction volumes. While we expect the risk-free rate and lending yield to decrease gradually in the coming years, the negative spread environment could persist till at least 2025.

Given the above, core investors should look out for repricing opportunities in real estate equity investments, with the price gap between sellers and buyers eventually leading to price corrections and more reasonable entry points. Once the repricing phase is over, South Korea will become an attractive investment destination underpinned by a higher entry yield, strong market fundamentals, and the potential for yield compression when inflation wanes, especially in the Seoul office market and regional logistics markets with active management schemes.

Investors with more strategic flexibility may also look out for CRE debt, as asset-based lending yields have reached attractive levels. Junior debt yields for standing assets have reached at 7%-11%, while construction financing debt yields have reached 7%-13% (senior tranche) and 11%-17% (junior) in South Korea. With debt investments increasingly appealing to private investors seeking higher risk-adjusted returns, the current shortage of construction financing availability provides a window of opportunity over the next 6 to 12 months for investors to step in amid less competition for junior debt lending (standing assets) and construction financing (senior/junior debt) in the country.



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