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Abstract
While other major cities in the global real estate market experienced a stiff downturn after the Global Financial Crisis in 2008, the Seoul office market remained very stable. Focusing on steady rent growth, this paper examines the characteristics of seventy-three office buildings in the city. The result shows three distinct features: (1) the office market, especially the manufacturing sector, is more diversified than that in other global cities, (2) the office space is chiefly occupied by local companies with a small number of foreign financial firms concentrated in the city center, and (3) Chaebols, the large family-based industrial conglomerates, constitute the most notable portion of major office buildings.

Keywords
Global Financial Crisis, office buildings, real estate investments, global cities, Yeouido Business District, tenant analysis, Chaebol

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Seoul Office Market: Occupancy characteristics and their impact on market stability at a global level

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ABSTRACT

While other major cities in the global real estate market experienced a stiff downturn after the Global Financial Crisis in 2008, the Seoul office market remained very stable. Focusing on steady rent growth, this paper examines the characteristics of seventy-three office buildings in the city. The result shows three distinct features: (1) the office market, especially the manufacturing sector, is more diversified than that in other global cities, (2) the office space is chiefly occupied by local companies with a small number of foreign financial firms concentrated in the city center, and (3) Chaebols, the large family-based industrial conglomerates, constitute the most notable portion of major office buildings.

1. INTRODUCTION: THE SYSTEMATIC RISK OF REAL ESTATE INVESTMENT IN GLOBAL CITIES

The ‘Global City’ theory, first suggested by John Friedmann in 1986, has since been widely developed in academia as well as in the business world. The core concept of the global city, established by Saskia Sassen in 2001, is that, as a result of globalization, high-level financial and producer services are concentrated in certain large cities to benefit agglomeration economies. Consequently, the head offices of many multinational corporations and qualified producer services locate in New York, London, Tokyo, and a few other global cities. There have been attempts made by research agencies to rank these cities in terms of their level of global influence. Although there is a considerable amount of debate in how to measure the influence of a city, several cities are always near the top of the list.

Global cities also attract much of the international real estate capital because of their economic volume and influence in the world economy. According to Jones Lang Lasalle (2014, 2015, and 2016), many of the top-ranked global cities are also the largest recipients of cross-border real estate investments and, consequently, are the most active cities in the global real estate market. New York, London, Tokyo, and Paris draw most of the cross-border real estate investment capital, though Asian cities such as Shanghai, Hong Kong, and Seoul are beginning to gain some traction.

Office markets in global cities are primarily occupied by multinational finance firms and producer service providers. An example of this are the skyscrapers on Wall Street, dominated by the headquarters of various multinational corporations, global banks, and other financial service firms. While these high-rise office buildings are dominated by global financial companies that pay higher rent, there is a systemic risk in these markets. Lizeri (1998, 2009) demonstrated the relationship between development and investment in office markets in international financial centers and the pattern of risk and return in the movement of the financial markets themselves. As part of the world economy, the success and viability of these firms is highly impacted by the condition of the world market, thereby affecting the office markets as well. The plunge of the world’s preeminent office markets during the global financial crisis supports this, as real estate investors in major cities such as New York and London experienced critical losses in returns as well as a decline in property values.

Not all global city office markets, however, reflected this external shock in the same way. While Tokyo, Hong Kong, and Singapore experienced sharp downturns in average rents for their prime office space, the rents in Sydney, Shanghai, and Seoul did not change dramatically. In those office markets, the average rent values represent the actual demand for space. According to DiPasquale and Wheaton (1996), rents are determined in the short-term as compared to property value and the cap rate. So, can we assume that there were dramatic decreases in the demand for office space in Hong Kong and Singapore, while in Shanghai and Seoul firms maintained a steady need for working space?

If we compare the rent values of Seoul with other cities such as Hong Kong, the stability of the real estate market in the Korean city is noticeable. If we focus on the rate of annual change of real rent value, the contrast is even more dramatic. While Hong Kong’s prime office real rent dropped 40% in the second quarter of 2009 compared with the previous year, Seoul office rent values increased in 2009.

What makes the Seoul office market so stable? In the short term, as mentioned, the rental value of office property is directly influenced by its users. So, investigating office tenants can be key to understanding this issue. This paper focuses on the occupancy characteristics of the office market and an explanation of the rent levels of its submarkets. Using data from offices that are grade A or above in Seoul, this article addresses the factors that might affect the future stability of this office market.
2. SEOUL OFFICE MARKET AND OCCUPANCY CHARACTERISTICS

Today there are about eighty prime office buildings in Seoul. The data used in this paper involves information from seventy-three offices in 2014. There are three major business districts in Seoul. The Central Business District (CBD) is the largest. The central government offices and major financial institutions are located in this area, as well as most of the domestic and global company headquarters and foreign embassies. In 2014, there were thirty offices of grade A or above in this district.

The Gangnam Business District (GBD) was developed in the late 1980’s. Many manufacturing and IT companies chose to locate in this district. Near the Gungbu Highway, the main freeway in Korea provides excellent accessibility to the main transportation avenues to other cities. The area can also be characterized as a luxury retail district. Combined with a relatively cheap rent level, this area has been the preferred office market for young entrepreneurs.

The Yeouido Business District (YBD), where the Korean exchange market is located, specializes in accommodating the financial industry, even as government financial institutions remain located in the CBD. After the establishment of the Korean Exchange on this island, the finance and insurance companies began to locate here.

The three districts all have distinct occupancy characteristics, with the CBD being the most diversified. Though financial and insurance activities have the highest proportion of occupancy (27%), other industries including manufacturing, construction, accommodation, and food service activities, information and communications, and professional, scientific and technical activities comprise a significant amount of office space usage.

The presence of several headquarters of huge construction companies accounts for the high occupancy of the construction industry (12%). The GBD also has a diverse tenant profile. Due to the proximity of the major transportation avenues and the relatively cheap rent, manufacturing, wholesale and retail, trade companies use more than 40% of the prime office space in the area. Information and communications and professional, scientific and technical activities also comprise a large portion of office usage in GBD. Meanwhile, the YBD has the most homogenous tenant base due to the area’s specialized development focus. Almost 45% of the prime office space in the area is occupied by finance and insurance companies.

The Seoul office market differs from other global cities in terms of its tenant profile. While demand for office space in other international financial centers such as Hong Kong and Singapore comes from the financial, insurance, real estate, and professional producer services sectors, the

![Prime Office Rent ($ per sq ft per annum)](image-url)

Figure 1. Prime office rent in Asian cities. Source: CBRE (2008–2013).
demand for office space in Seoul comes from a more diverse cross-section of industries. In London, for example, the finance, insurance and real estate (FIRE) sectors and business and professional services occupied 84.7% of the office space in 2006, (Lizieri and Kutsch, 2006). Meanwhile these industries occupy only 37% of the Seoul prime office market. The tenant dataset for Seoul comprises only offices that are grade A or above, so this difference might increase if we look at all offices in the central city.

3. LOCALIZED MARKET
One of the features of the Seoul prime office market is that most of the occupants are Korean companies, so when analyzing and forecasting the behavior of this office market, it is important to investigate the growth of these major companies and the economy of the country.

An analysis of office tenants by nationality shows that almost 70% of office space is occupied by Korean companies. Of the 67 million square feet of office space, Korean companies use about 47.4 million. By district, the CBD is the most commonly used by foreign companies, which occupy 33%, 29%, and 25% of office space in the CBD, GBD, and YBD, respectively. Of the 20.3 million square-feet of office space used by foreign companies, over half (10.3 million square feet) are in the CBD.

One advantage of tenant analysis is that we can investigate the geographical distribution of specific tenant types. Given the low proportion of foreign companies in the Seoul prime office market, the actual location of foreign companies, especially within the FIRE industries, can provide important insights into the understanding of the Seoul office market as an international financial center.

Figure 6 illustrates the specific areas occupied by foreign FIRE companies within the seventy-three prime office buildings in Seoul in 2014. It shows those office properties that possess relatively high occupancy by foreign FIRE companies are located chiefly in the CBD. It also indicates that while foreign FIRE companies are mostly in the CBD,
there are only three office buildings within which foreign FIRE companies occupy more than 30%.

Of the six buildings that are more than 20% occupied by foreign FIRE companies, five are located in the CBD and one in the GBD. The red building shapes in the enlarged figure represent those five buildings. While about 45% of prime office space in the YBD is occupied by finance and insurance companies, there are only two buildings that are occupied by foreign FIRE companies in that area. This means that most of the finance and insurance companies in the YBD are local companies. Indeed, most of the prime office buildings in the YBD are the headquarters of Korean finance or insurance companies. Two buildings in the YBD are each occupied by only one tenant—both are local investment and securities companies.

According to Berkoz (2000), the two most important factors influencing the location of finance, insurance, and real estate companies are the physical condition of the buildings and their surroundings, and the desire for a centralized location. The geographical concentration of foreign FIRE companies in Seoul can be explained by the accessibility to Korean company headquarters, central and city government offices, and foreign embassies. Also, the quality of the buildings seems to be a factor. While there were nine “prime” grade buildings in Seoul in 2014, two of five buildings that were highly occupied by foreign FIRE companies were prime grade buildings.

The distribution of foreign FIRE companies demonstrates that the Seoul office market is not highly connected to the global market regarding occupancy. A small number of international firms reside in a few qualified office buildings in the limited geographical area. The leasing development of International Financial Center (IFC) Seoul at YBD addresses this matter well. Originally, the development project of three iconic skyscrapers was aimed at multinational financial companies. After the completion in 2011 and 2012, however, the developer had difficulty finding target tenants. While the complex is currently stabilized in terms of the occupancy, most of the tenants are local manufacturing and IT companies.

4. THE INFLUENCE OF THE CHAEBOL ON KOREA’S ECONOMY AND REAL ESTATE MARKET

Another important factor that influences the Seoul office market is the existence of the “chaebol” in Korea. These groups are defined as large business enterprises that are composed of many corporations (Chang, 1988). They comprise a significant portion of the Korean economy and have businesses in almost all sectors. They benefit from the exchange of knowledge and information between group-affiliated firms. They often use internal trade for the

![Figure 5. Occupying area local vs foreign. Source: CBRE (2008–2013).](image)

![Figure 4. Seoul prime office occupying area by industry. Source: CBRE (2008–2013).](image)
reinforcement of their economic power in Korea and the global economy (Chang and Hong, 2000).

Considering the importance of the chaebol in the Korean economy, their influence on the real estate market might be critical. In fact, a large portion of the office space examined in this paper is used by these groups and their affiliates. The chaebol and their affiliates occupy 13,638,122 square feet of office space, about 35% of all of the occupied space. Non-chaebol private companies and public companies use 61% and 4%, respectively.

When investigating the distribution of the chaebol at the property level, their power in their real estate market seems more noticeable. Twenty-six office buildings dominated by these tenants comprise more than 40% of the total space. Nine are in the CBD, eleven in the GBD, and six in the YBD. This corresponds to 30%, 40%, and 37.5% of office buildings in each respective district.

The ownership structure of the prime office buildings by the chaebol is quite complicated. In some cases, an affiliate owns an office building and uses most of the space. In other cases, the affiliate just owns an office building and leases the

![Figure 6. Proportion of Area Used by Foreign FIRE Company. Source: CBRE (2008~2013).](image)

![Figure 7. Five Buildings Occupied by Foreign FIRE Companies more than 20% in CBD. Source: CBRE (2008~2013).](image)
space to other chaebol or non-chaebol companies. In the former case, the rent they are paying might be meaningless because there are affecting internal transactions within the groups.

The high occupancy rate of the manufacturing sector in the Seoul office market can be explained by the existence of the chaebol. Historically, these groups improved their economic power because of their dominance of the manufacturing, trade, and IT sectors. While other developed countries have been experiencing de-industrialization, manufacturing in Korea is still increasing. Based on their economic importance, the chaebols can afford the cost of occupying prime offices in core locations. There are seven buildings dominated by chaebols in the GBD, in manufacturing and trade. The economic power of the chaebol also explains the high occupancy of the construction sector in the CBD (12%). There are four buildings that are mostly occupied by chaebol construction companies. Based on their size and financial influence, these companies occupy core offices in the CBD.

According to Ministry of Knowledge Economy (2009), countries widely backed by the manufacturing sector like Taiwan and Korea showed higher resilience than service-oriented countries. After the financial crisis, Korea’s manufacturing sector reported a $27.7 billion US trade surplus due to the price competitiveness caused by the depreciation of the Korean Won currency. The United Kingdom, largely relying on the tertiary industry, had a 33% decrease in exports and a 60.3 billion dollar deficit in the trade balance (Ministry of Knowledge Economy, 2009). Thanks to the considerable proportion of the manufacturing sector in their business, Korean chaebols avoided a critical recession even in 2008. The overall employment rate in Korea recovered fast to 60.2% in 2014 after experiencing the decrease to 58.7% in 2009. The office absorption area also turned positive in 2010 and maintained a stiff increase until 2011 (Savills, 2015). While chaebol-dominated economic structures has several problems, such as the concentration of economic power, the structure played a crucial role in preventing the sharp downturn during the global recession.

5. CONCLUSION: OCCUPANCY CHARACTERISTICS THAT AFFECT THE STABILITY OF THE MARKET

The micro-level tenant analysis of the Seoul office market has several implications for explaining the stability of the market at a global level. First, it is shown that, unlike other international financial centers such as London, tenants in the Seoul office market are more diversified in terms of industry sectors, especially workers in manufacturing and construction sectors. Second, tracking the nationality of firms reveals that spaces are mostly occupied by domestic companies. This feature is one of the most important factors that differentiate the Seoul market from other global cities in Asia, especially Hong Kong and Singapore. The analysis of the number and location of foreign FIRE companies justifies this difference. Finally, the large portion of the office space used by chaebols’ employees demonstrates the office market’s resilience during the recession. Supported by the manufacturing sector, Korean chaebols managed to maintain their financial capability during the recession. Combining these features, the Seoul office market has performed in a stabilized manner. Given that global real estate investment in Seoul is sharply increasing, a detailed analysis of major real estate markets could provide further implications for the real estate practitioners.

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