

Intelligent Investment

Understanding Korea real estate liquidity flows and cap rates

REPORT FIGURES

CBRE RESEARCH
OCTOBER 2023

Introduction

Korea's commercial real estate market has experienced mixed fortunes in the first half of 2023, with a range of challenges and opportunities arising. The opening months of 2023 saw investment volume fall sharply as the impact of last year's rate hikes finally kicked in. This was followed by a slight uptick in purchasing activity in the second quarter due to the easing of monetary tightening measures and an increase in properties made available for sale.

As of October 2023, Korea's commercial real estate investment market remains subdued, however, with signs of recovery remaining elusive. Any improvement to investment sentiment will depend on whether limited liquidity and the gap in price expectations between sellers and buyers brings about an adjustment in asset values and yields.

Headwinds including pressure on borrowing costs exceeding the rate of return; concerns about low economic growth; poor overseas real estate investment performance; and changes in government policy ahead of next year's by-elections will continue to weigh on short-term decision-making.

This report is based on CBRE's recent Cap Rate Survey and examines the risk factors currently impacting the Korean commercial real estate investment market. It also presents an integrated outlook for future changes in asset values and yields.



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Executive Summary

High rates and slow growth cause concern



Risk appetite remains low

Investment sentiment remained subdued with 67% of respondents expressing a lower risk appetite.



New developments still limited

Developers are encountering difficulty in proceeding with new projects due to high construction costs and obtaining project financing, causing them to display stronger intentions to sell.



Investment risks persist

High interest rates and expectations of slower economic growth are investors' major concerns.

Waiting for the end of the tunnel



Interest rate hikes on pause

While most major Asia Pacific markets have put further interest rate hikes on hold since July, rates remain elevated.



Market uncertainty prompts new approaches to investment

Amid the sustained high interest rate environment, investors are utilising strategies such as leverage reduction and value add to achieve returns.



Expected price gap projected to narrow

As the expected price gap between sellers and buyers gradually narrows, transaction volume is forecasted to rise in the second half of the year.

Investment activity set to recover after 2024

Nearly **66%** of CBRE professionals expect investment activity to pick up after 2024

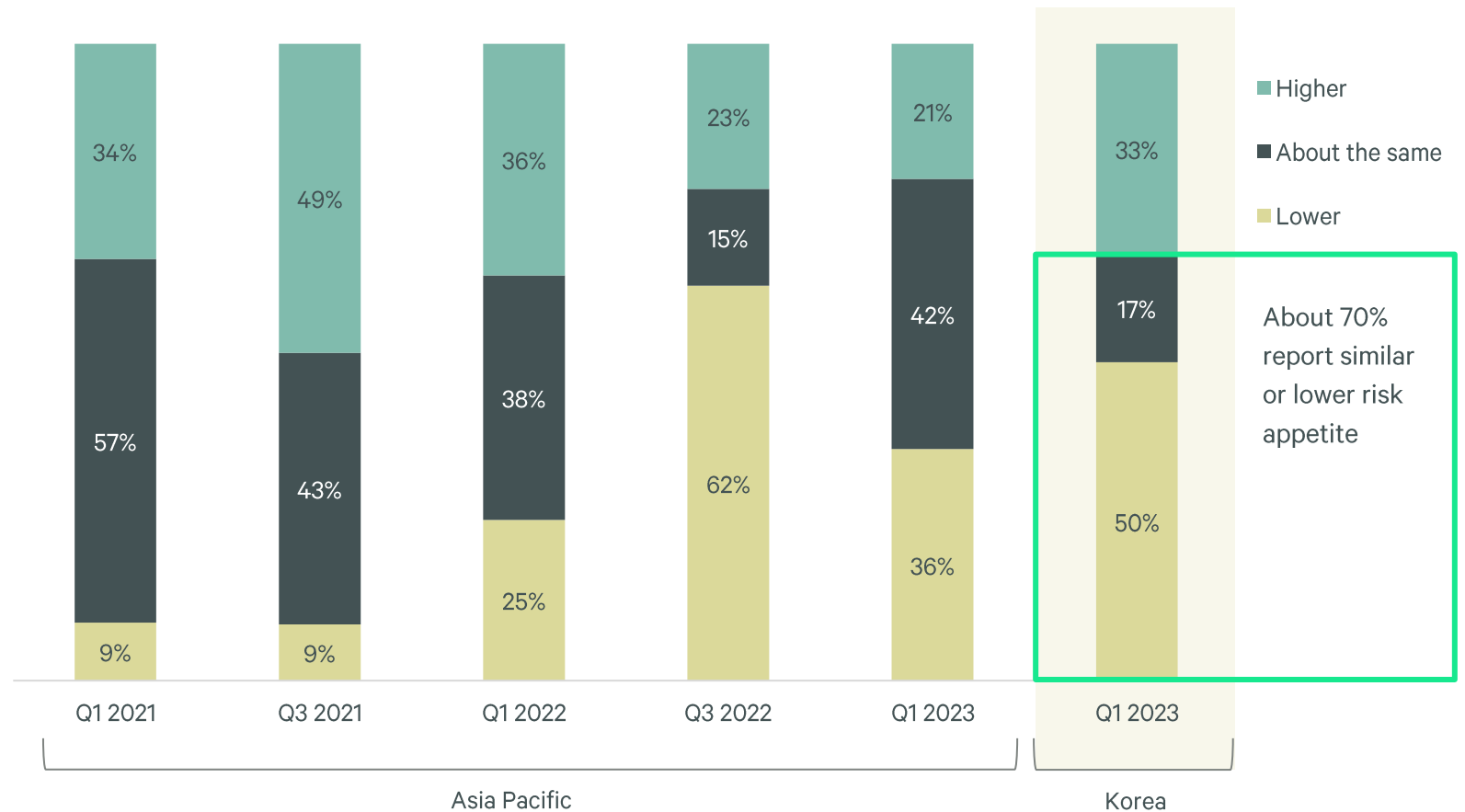
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Risk appetite remains low

Investment sentiment weakens due to low growth and high interest rates

- Commercial real estate investment sentiment has weakened significantly across Asia Pacific, including Korea, due to rapid interest rate increases since the second half of 2022.
- According to CBRE's Q1 2023 Asia Pacific Cap Rate Survey, which polled CBRE's capital markets and valuation professionals, about 70% of Korea-based respondents stated that investment sentiment in the market in the first half of this year was lower or at a similar level compared to the end of the previous year.
- At the same time, however, the proportion of domestic respondents expecting investment to recover in the second half of the year was more than 30%, above that of several major Asia Pacific markets including Hong Kong, Singapore, and Australia.

Figure 1: Change in investors' risk appetite

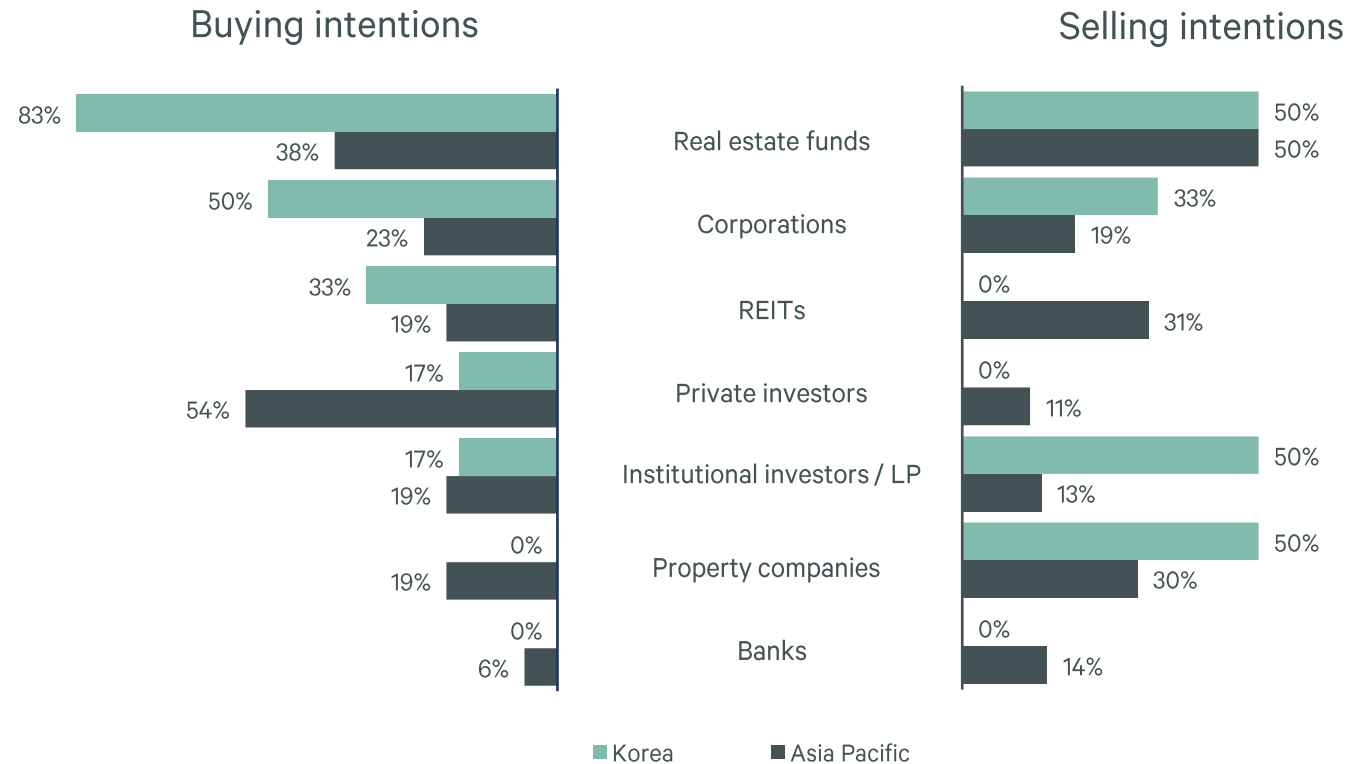


Source: Cap Rate Survey, CBRE Research, Q3 2023.

Net purchase demand driven by funds and companies

- Despite the overall decline in investment sentiment in Korea, CBRE’s analysis of investment intentions by buyer type reveals that real estate funds and corporations retain a strong willingness to buy, followed by REITs.
- CBRE has observed several recent cases of domestic companies with high rental burdens and a need to secure office space purchasing assets directly. In H1 2023, Nexon purchased a 50% share in Autoway Tower, while Hyundai Motor Company acquired a 50% share in Scale Tower, both in GBD. These firms intend to utilise the properties as their headquarters.
- This year has also seen several domestic institutions, which have been experiencing stress in their overseas real estate portfolios, start to realise profits by selling domestic assets. Korean developers are exhibiting a strong willingness to sell due to high interest rates and increased development costs.

Figure 2: Buying and selling intentions by investor type



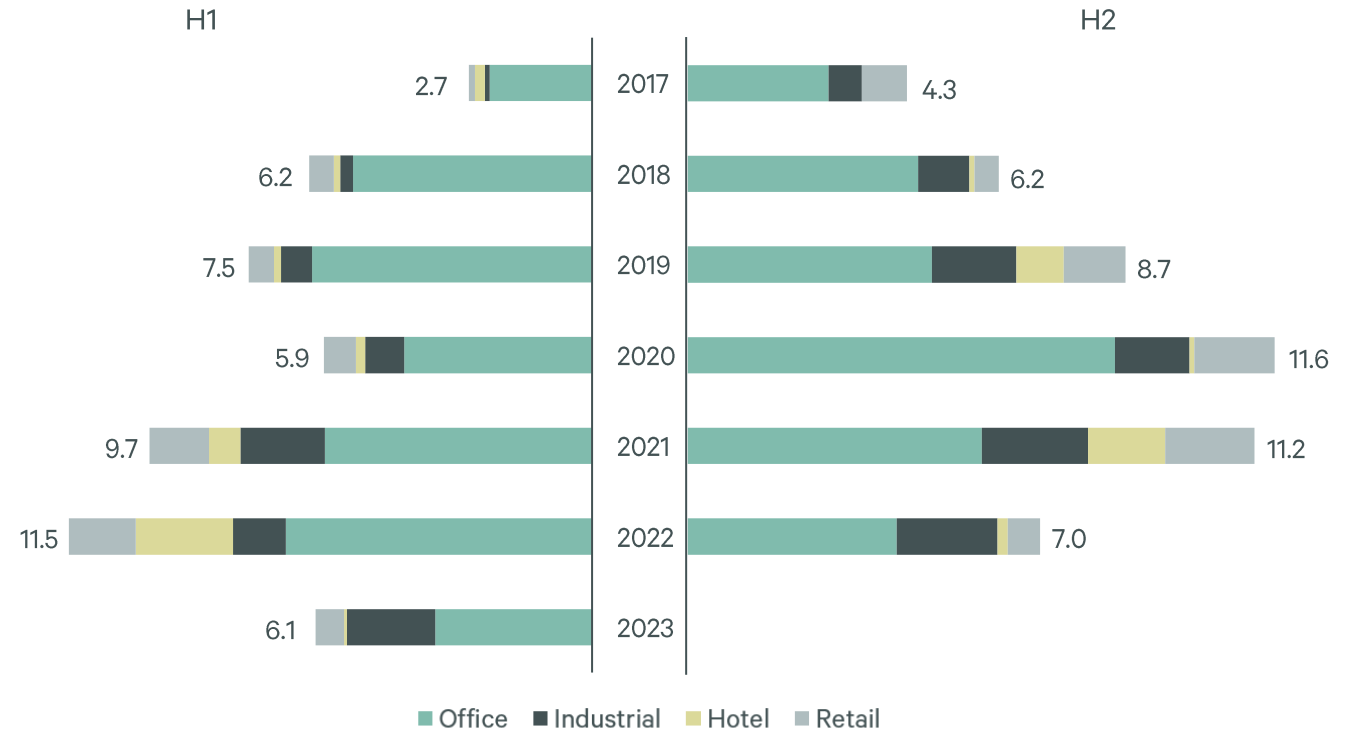
Note: Change in investor intention as of Q1 2023 compared to the end of 2022.
 Source: Cap Rate Survey, CBRE Research Q3 2023.

Office investment falls to lowest in five years

- Korea commercial real estate investment volume reached KRW 6 trillion in H1 2023, about 30% of last year's total. This is a similar reduction in volume to that observed in H1 2020 at the onset of the COVID-19 pandemic.
- The decline in office investment activity has been especially noticeable. Although several office transactions were finalised in H1 2023, office investment during the period barely breached KRW 3 trillion, the lowest level in the past five years.
- In contrast, logistics investment volume totalled KRW 1.9 trillion, accounting for 32% of the total. While the sector is witnessing elevated vacancy risk due to large supply, the first six months of the year saw the completion of several pre-purchased assets.
- Hotel and retail investment volume declined along with the post-pandemic recovery in tourism and consumption.

Figure 3: Seoul commercial real estate investment volume

Unit: KRW trillion



Note: Including transactions larger than KRW 10 billion. Including Office/Hotel/Retail transactions within Seoul and Logistics transactions within Greater Seoul. Source: CBRE Research, July 2023

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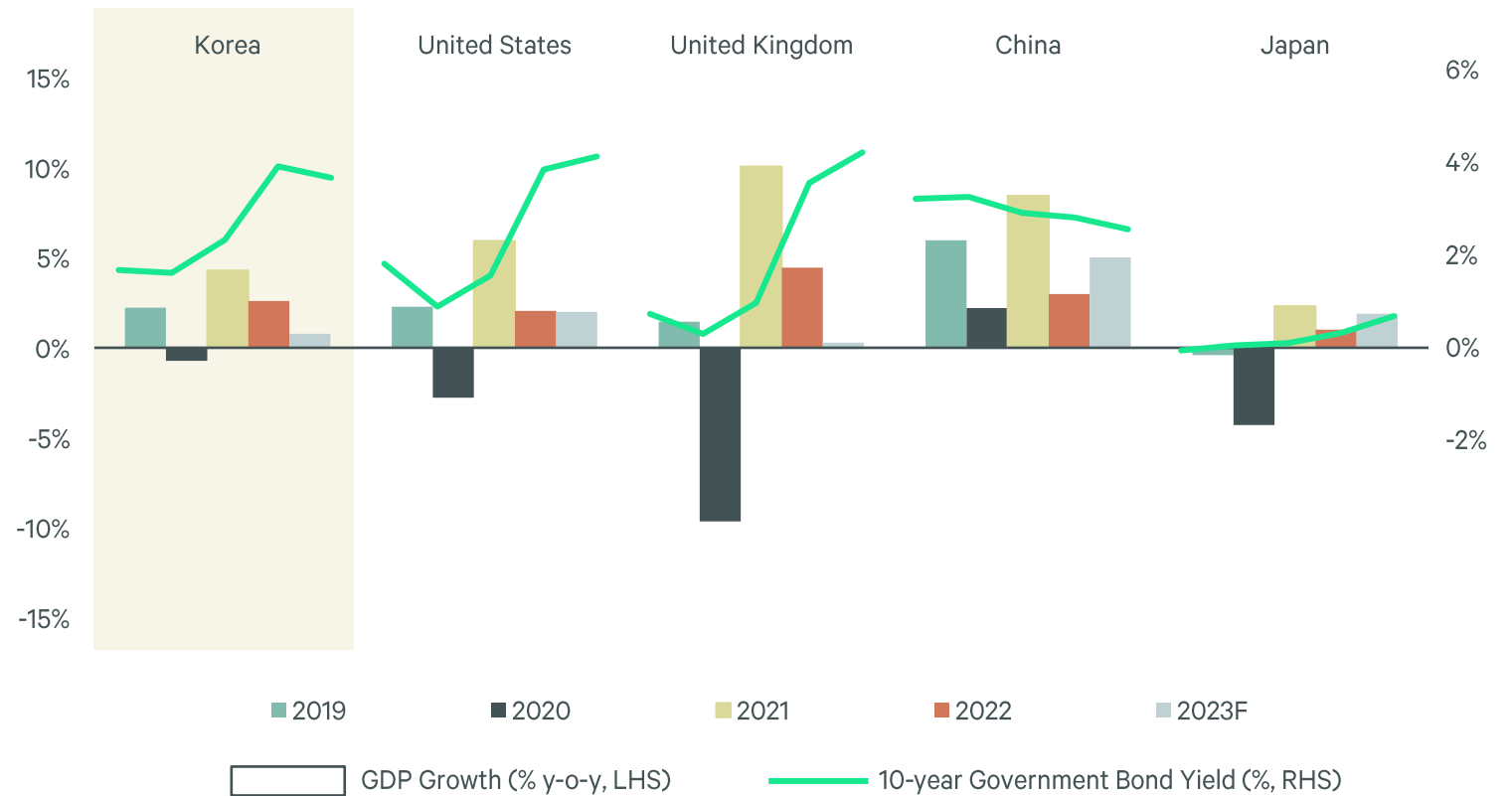
Investor concerns:

High rates, low growth, limited liquidity
and a widening price gap

Fears over low growth amid interest rates peak

- After the global economy fell into recession in 2020 due to the impact of measures to contain the spread of COVID-19, the introduction of various economic stimulus measures resulted in a record increase in consumer prices due to abundant liquidity.
- Starting last year, the U.S. began to rapidly hike its base interest rate to alleviate high inflation, with European and Asian countries following suit. The monetary policies have put downward pressure on the economy, and major countries expect 2023 economic growth to be lower than that of last year.
- In January 2023, Korea’s base interest rate hit 3.5%, the highest level since the 2008 Global Financial Crisis (GFC). Since then, the Bank of Korea (BoK) has frozen base interest rates several times, maintaining them at the same level.

Figure 4: GDP growth and government bond yields by country (2019-2023F)

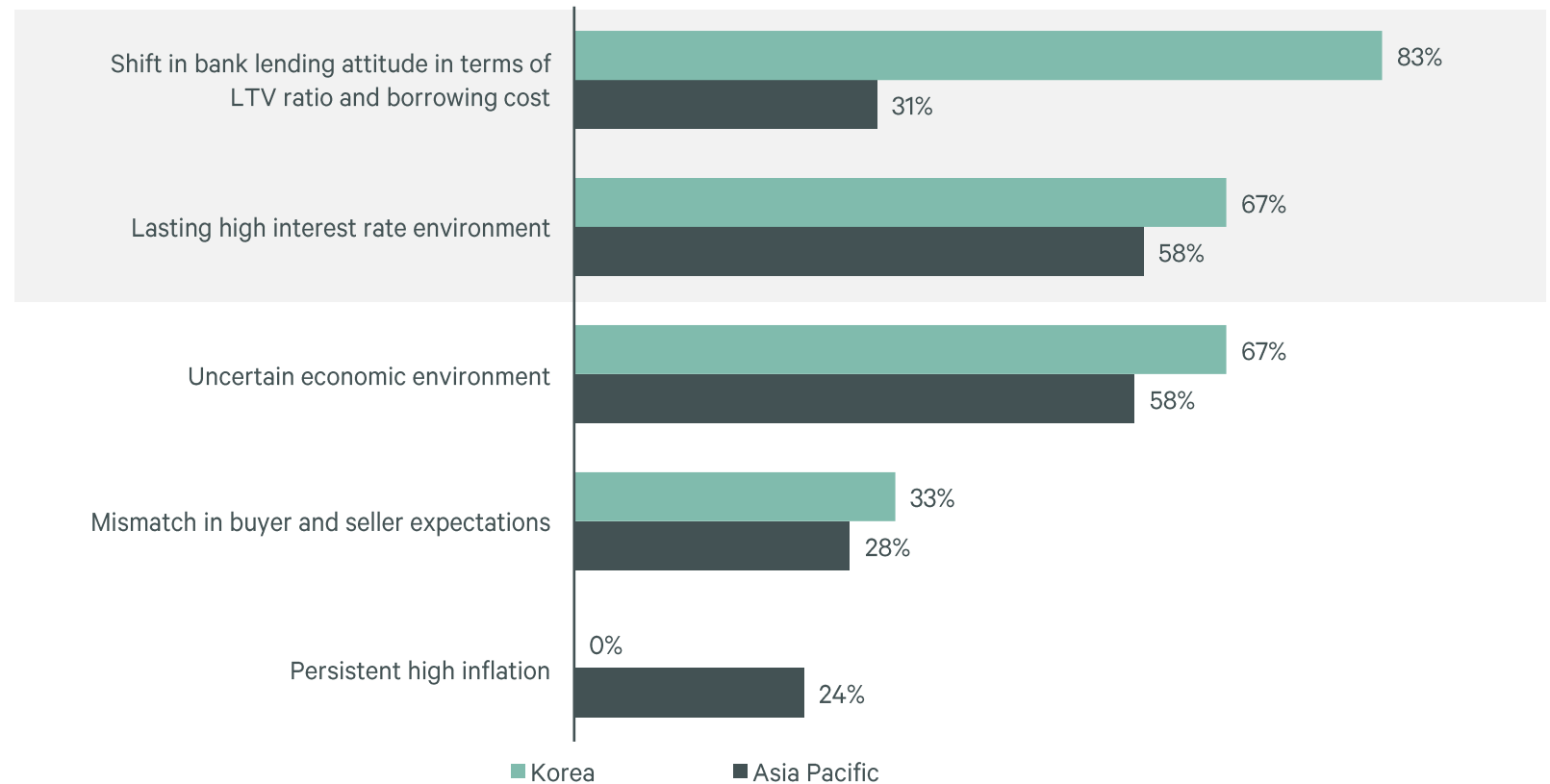


Note: 2023 is a forecast
 Source: CBRE Research, September 2023

High borrowing costs and availability of loans remain key

- More than half of CBRE experts polled in the Cap Rate Survey cited central banks' policies of maintaining high interest rates and economic uncertainty as risk factors for real estate investment in the second half of the year.
- Among Korean respondents, loan size and lenders' attitudes were selected as the risks most likely to negatively impact the real estate market in H2 2023. As market uncertainty increases, lenders are becoming more conservative and cautious, especially towards development projects.
- After financial instability caused by real estate project financing loans last year, the government and industry are preparing measures to mitigate future risks, such as extending PF loan maturity, expanding guarantees, and creating NPL funds. Looking beyond these steps, the government's future direction will depend on the outcome of by-elections scheduled for April next year.

Figure 5: Major challenges facing real estate investors in the coming six months

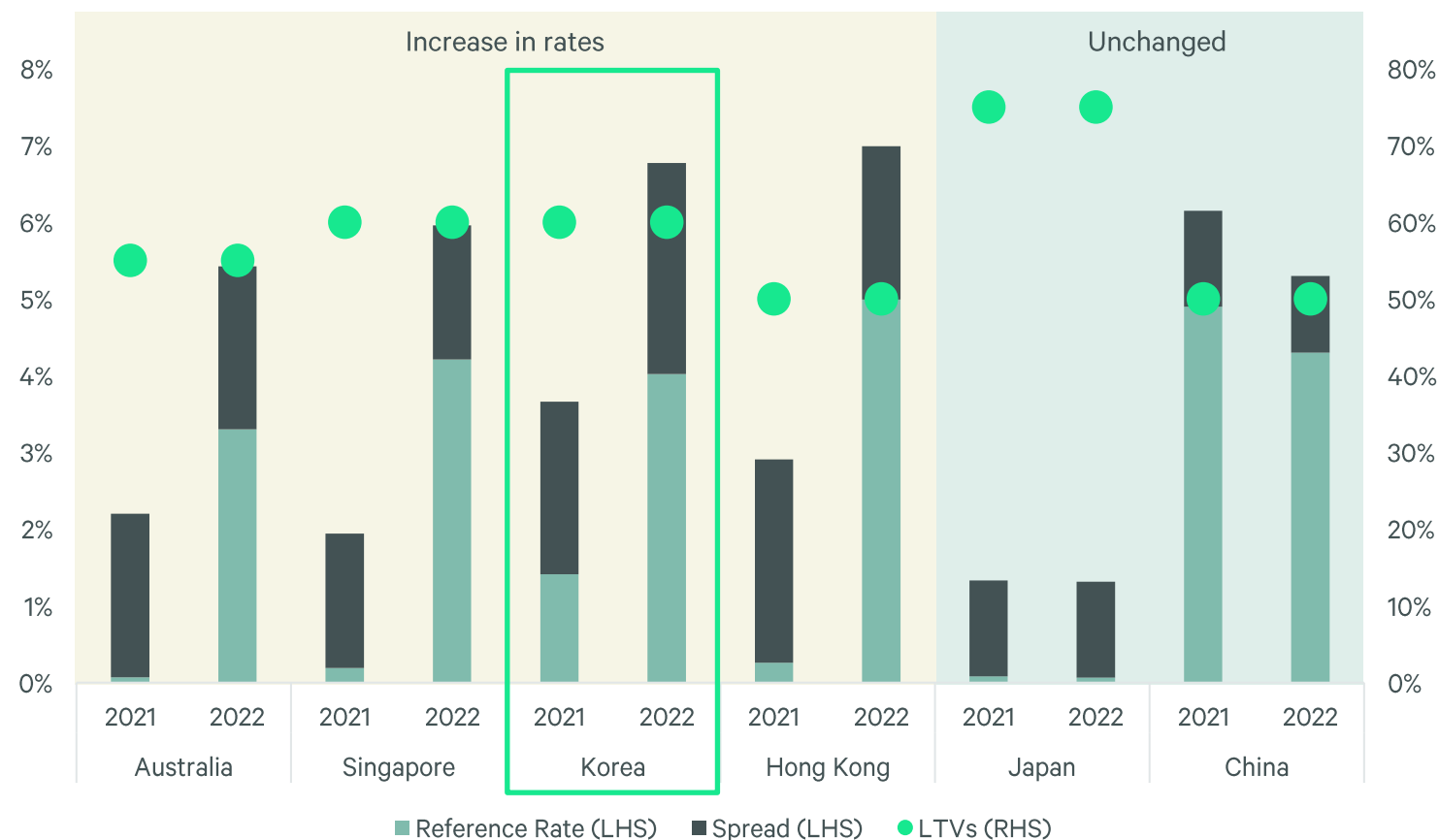


Note: Respondents can choose up to three options.
Source: Cap Rate Survey, CBRE Research, Q3 2023.

Adjusted LTV ratio amid increase in borrowing costs

- At the end of 2021, interest rates on senior secured loans in the office sector stood at around the high 3% level. After the short-term funding market tightened due to the Legoland incident in October along with the continuous increase in the base interest rate last year, certificate of deposit (CD) interest rates surged by 250-300 bps, while the senior loan interest rate reached the high 6% by the end of last year.
- While LTV levels of domestic lending institutions have remained stable at 50-60%, rising borrowing costs have seen investors with the ability to increase equity proportions become more competitive.
- Seoicheon Logistics Centre and Mirae Asset's Bupal Logistics Centre A & C in Icheon, deals for which were completed in the first half of this year, both involved full equity purchases by Mapletree and LaSalle, respectively.

Figure 6: Stabilised senior lending debt rates (reference rate + spread) to Loan-to-Value (LTV) ratio

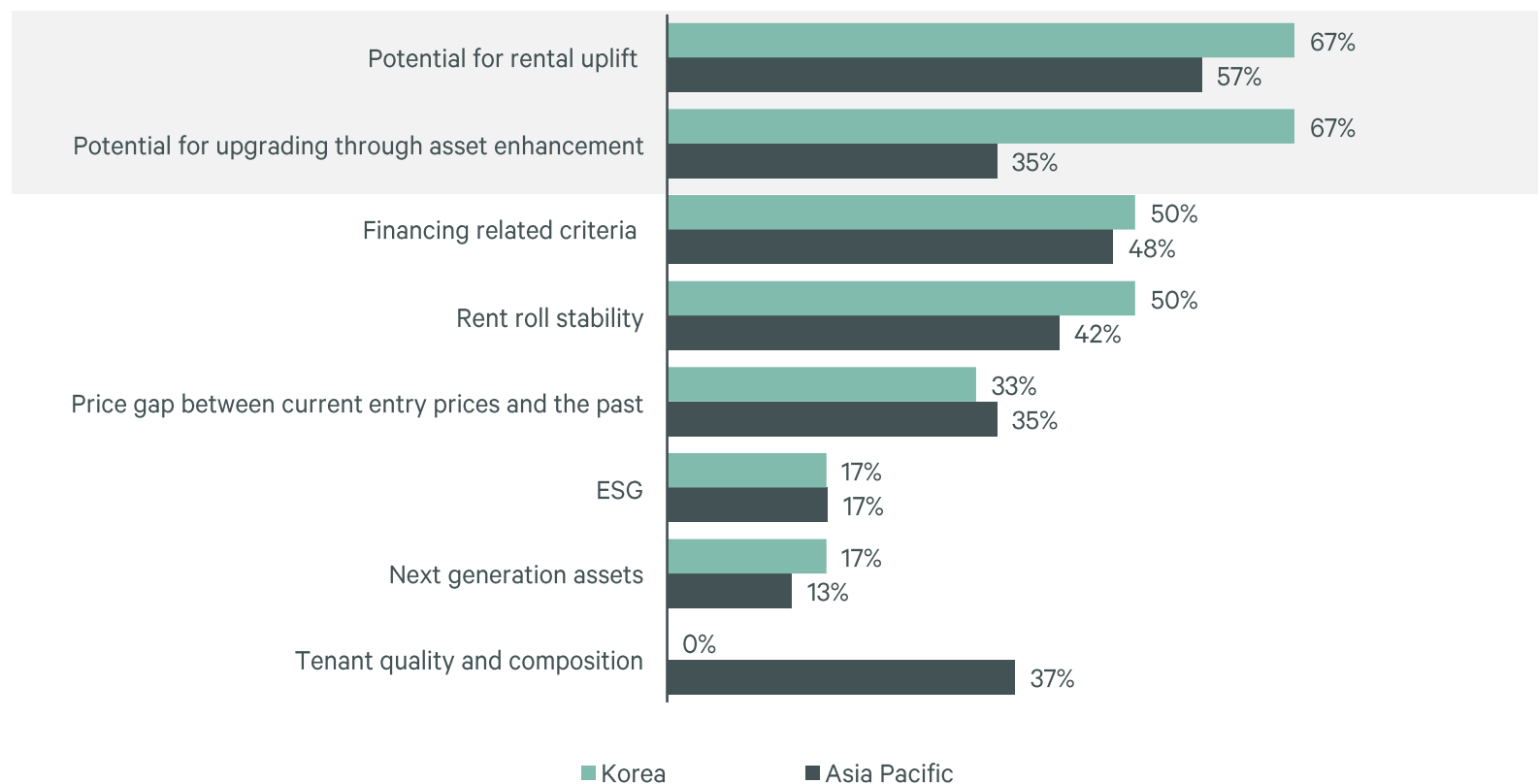


Note: Korea's reference rate indicates 3-month CD interest rate.
 Source: 2023 Asia Pacific Funding Gap Analysis CBRE Research, Q3 2023.

Maximising returns through value-add strategy

- Most survey respondents identified strategies to improve asset value, such as increasing rents and remodelling, as the most important factors in making investment decisions. Several transactions utilising such strategies has been observed this year.
- In Q2 2023, Keppel purchased the BoK’s Annex building, subsequently announcing plans to rebrand it as K Finance Tower through remodeling. Elsewhere, Seoicheon Logistics Centre, which was purchased by Mapletree, expects to implement a rental increase when its tenant renews its contract in 2025, and a stable rate of return in the 5% range is expected.
- In Asia Pacific, including Korea, financing-related standards and factors were found to have a greater impact on investment decisions this year compared to 2022.

Figure 7: Main factors that investors are currently considering when evaluating potential acquisitions

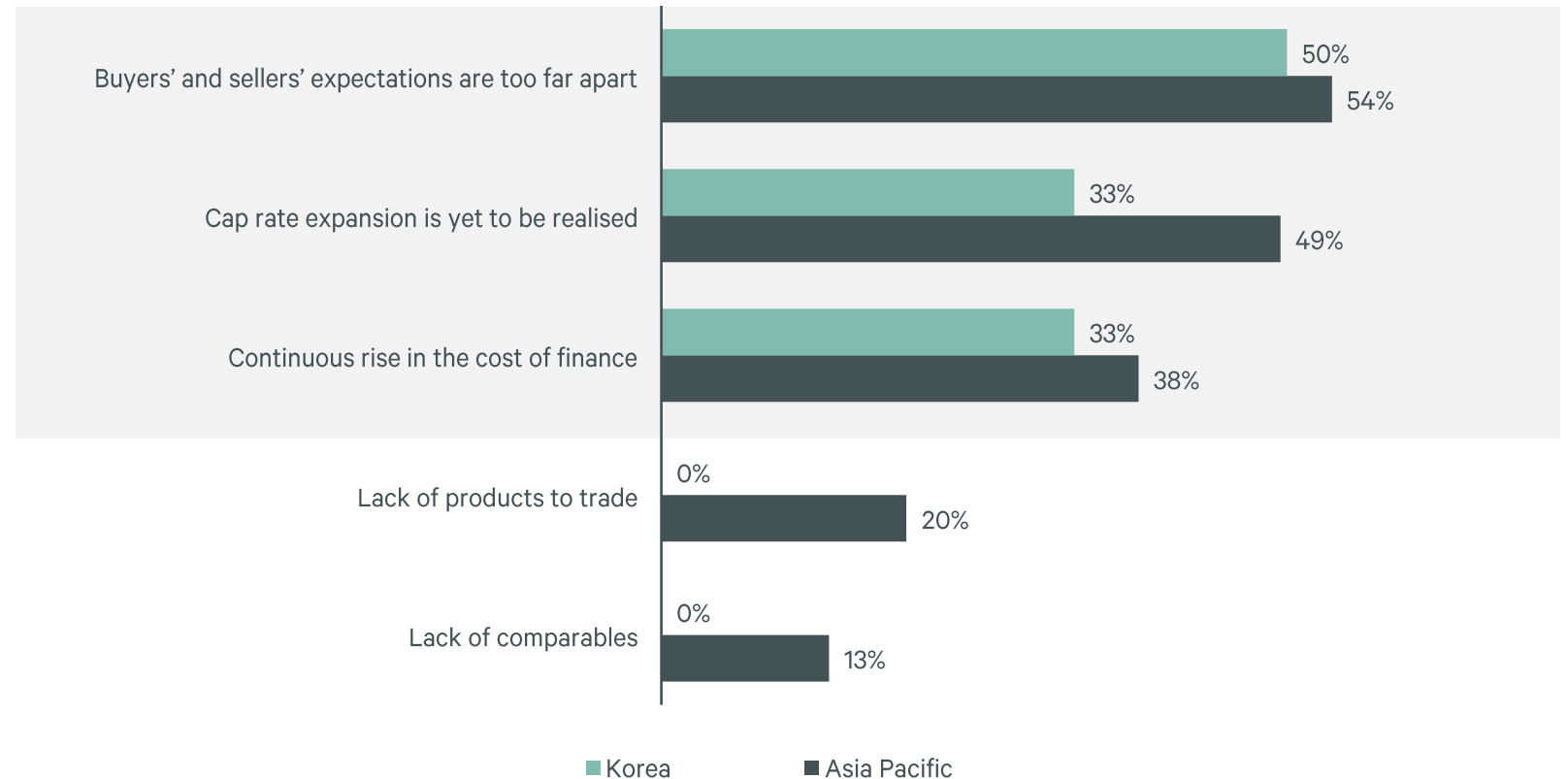


Note: Respondents can choose up to three options.
Source: Cap Rate Survey, CBRE Research, Q3 2023.

Expected price gap between buyers and sellers to remain wide

- The expected price gap between sellers and buyers along with low returns are expected to persist as major barriers to real estate investment in Asia Pacific, including Korea.
- Investors who have capitalised on large price corrections in the U.S. and Europe are seeking similar investment opportunities based on high returns in the domestic market. However, sellers' willingness to adjust prices remains weak, leading to an increase in cases where transactions were privately closed or eventually withdrawn after parties failed to reach an agreement.
- This phenomenon has been most prominent in the office sector, where rental growth was significant, and has also been observed in the logistics market, where vacancy risk has increased. Recent months have seen several cases involving the selection of preferred bidders followed by the withdrawal of assets from sale after sellers failed to agree on a price.

Figure 8: Major obstacles in the current investment market

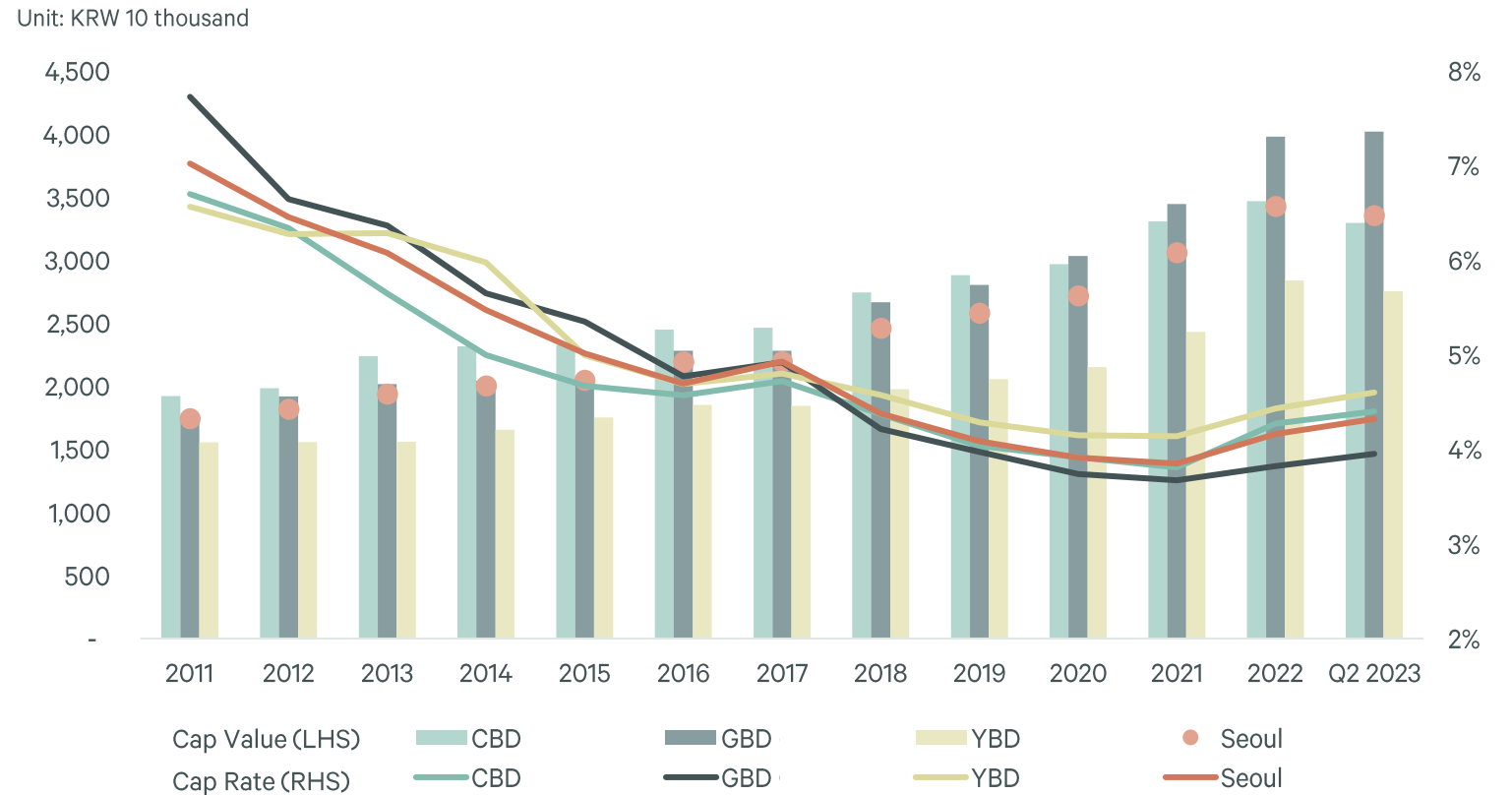


Note: Respondents can choose up to three options.
 Source: Cap Rate Survey, CBRE Research, Q3 2023.

Minimal change in asset value and rate of return

- Despite a significant increase in borrowing costs, sellers' high price expectations, which were previously mentioned as a major hurdle to investment activity, ensured the average unit price of Seoul Grade A offices in the first half of this year was similar to last year, resulting in a 15-20bps rise in cap rates.
- The CBD and YBD have both recently witnessed cases in which transactions were concluded with a small price adjustment. In Q2 2023, the GBD saw the sale of Scale Tower at an all-time high of approximately KRW 53 million per pyeong amid aggressive bidding by a strategic investor, leading to an increase in average asset value in the area.
- This contrasts with the trend of price adjustment in the global office market, including Asia Pacific. As of Q2 2023, the value of Seoul office assets had increased by approximately 30% compared to the end of 2019.

Figure 9: Historical cap value (Price per pyeong) and cap rate of Seoul grade A office

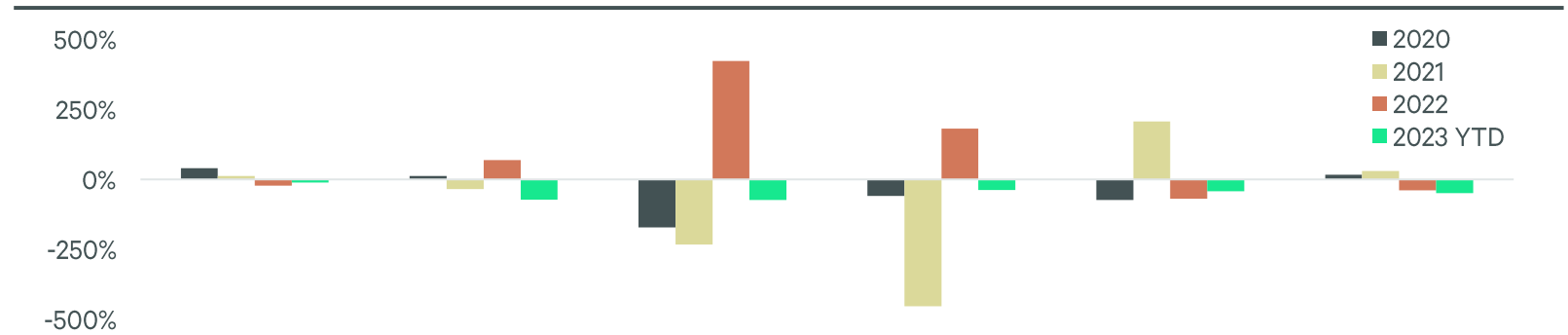


Source: CBRE Research, September 2023

Limited liquidity challenges ability to raise real estate funds

- The total volume of private real estate funds managed by major Asset Management Companies (AMCs) in Korea fell by 47% in the year to August 2023 compared to full-year 2022. Amid growing concerns about the state of the domestic real estate market and continued high interest rates, AMCs have adopted a conservative stance towards commercial real estate investment.
- Accordingly, the size of many institutional blind funds, which had supported market prices based on abundant liquidity over the past years, has fallen significantly. Although several new blind funds were set up in H1 2023, the committed amount was reported to be half that of the same period of last year¹⁾.
- Owing to a rise in vacancy risk for overseas real estate assets, no new Korean blind funds investing in global real estate were established this year.

Figure 10: Major AMCs' historical private real estate fund AUM and asset purchase transactions



Year of asset purchase	IGIS	Mastern	Mirae Asset	Samsung SRA	Kendall Square	Kiwoom
2019	<ul style="list-style-type: none"> • SK Myeongdong Bldg. • CJ Deokpyeong Logistics Center 	<ul style="list-style-type: none"> • Nonghyup I&S Building • E-Mart Susaek · Cheonho Branch 	<ul style="list-style-type: none"> • State Tower Namsan 	<ul style="list-style-type: none"> • Jeongan Building 	<ul style="list-style-type: none"> • Pyeongtaek Ilyang Logistics Center • OsanLotteLogisCenter 	<ul style="list-style-type: none"> • Anseong Evergain Logistics center
2020	<ul style="list-style-type: none"> • Namsan Square • WeWork Tower • CJ CheilJedang Center 	<ul style="list-style-type: none"> • Center Point Donuimun • GS Networks Logistics Center (SLX1) 	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Geumwon Logistics Center 	<ul style="list-style-type: none"> • N/A
2021	<ul style="list-style-type: none"> • Daewoo Foundation • The Pinnacle Yeoksam • TmarkHotelMyeongdong 	<ul style="list-style-type: none"> • Incheon Dohwa Logistics Center • Le Méridien Seoul 	<ul style="list-style-type: none"> • Four Points by Sheraton Seoul Guro 	<ul style="list-style-type: none"> • Pine Avenue Tower B • O2 Tower 	<ul style="list-style-type: none"> • Gimpo TJ Logistics Center 	<ul style="list-style-type: none"> • Hana Tour Building (1-6F)
2022	<ul style="list-style-type: none"> • Millennium Hilton • Shinhan I&S Tower 	<ul style="list-style-type: none"> • Sunhwa Tower • Alparium Tower • Bundang M Tower 	<ul style="list-style-type: none"> • E-Mart Seongsu Branch 	<ul style="list-style-type: none"> • Daechi Tower 	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Hana Tour Building (7-12F)
Q2 2023	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Concordian Building 	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Alpha Dome Tower 3 	<ul style="list-style-type: none"> • Icheon Team Fresh Logistics Center 	<ul style="list-style-type: none"> • N/A

Note: The graph represents the rate of change compared to the end of the previous year, excluding expired funds and including new funds.

Note: The AMCs are listed in order of original size of private real estate funds as of August 2023.

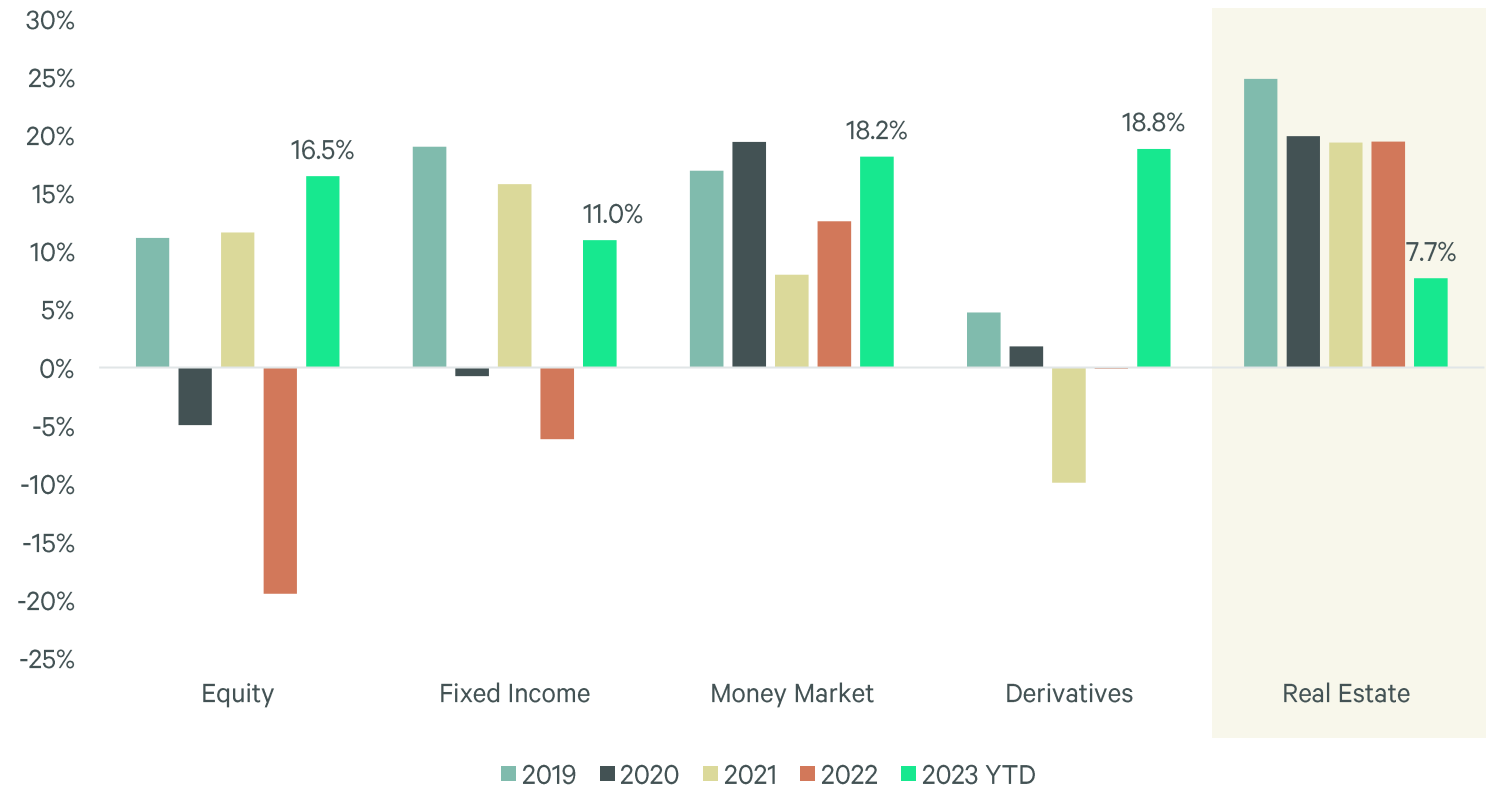
¹⁾ Only includes new blind funds with size of KRW 100 billion or more.

Source: Korea Financial Investment Association, various media, CBRE Research, September 2023.

Falling fund commitments to real asset investment

- Although the number of new funds launched for real estate investment decreased in H1 2023, the number of new debt funds rose significantly¹⁾. Higher bond interest rates may therefore lead to a relative decline in institutional investors' preference for real estate investment.
- Samsung SRA is known to have set up blind funds worth more than KRW 1 trillion to invest in real estate mortgage loans and PF loans in H1 2023, while the Korea Investment Corporation is considering a plan to manage private debt investment as a separate asset class. The creation of funds for NPL investment has also been active.
- With dry powder for real asset investment expected to be limited, there are concerns that it will be challenging to find suitable buyers for the large number of properties appearing on the market for sale in H2 2023.

Figure 11: Change in fund AUM by underlying asset



Note: The graph represents the rate of change compared to the end of the previous year.
¹⁾ Only includes new blind funds with size of KRW 100 billion or more.
 Source: Korea Financial Investment Association, CBRE Research, August 2023.

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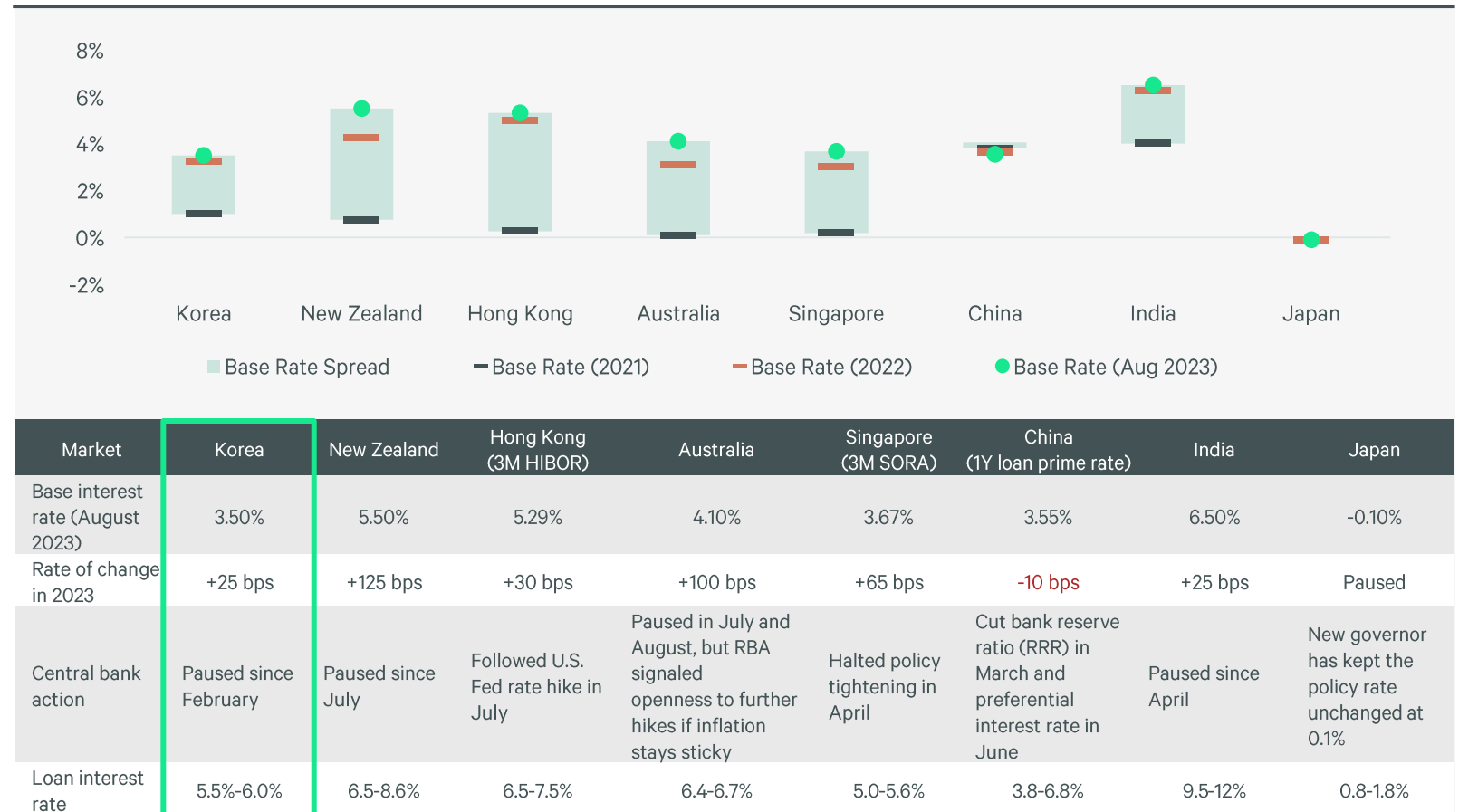
Investment market outlook

Where is the light at the end of the tunnel?

Interest rates remain high despite slower upward momentum

- With the exception of Japan, which retains a zero interest rate policy, most countries in major Asia Pacific markets have raised interest rates this year by at least 25bps and, in some cases, by up to 100bps or more. While interest rates remain elevated, most markets have kept further increases on hold since July.
- Although the interest rate gap between Korea and the U.S. now stands at an all-time high of 2%p, the prevailing view is that domestic interest rates increase have reached their peak, with the BoK having frozen base interest rates at 3.5% per annum on five consecutive occasions since February of this year.
- India has frozen its base interest rate at 6.5% since February and is expected to maintain the highest base rate among major Asia Pacific countries as it seeks to stabilise food prices. New Zealand also maintains a high annual interest rate of 5% to contain inflationary pressure.

Figure 12: Central bank policies and base interest rate spreads in major Asia Pacific countries

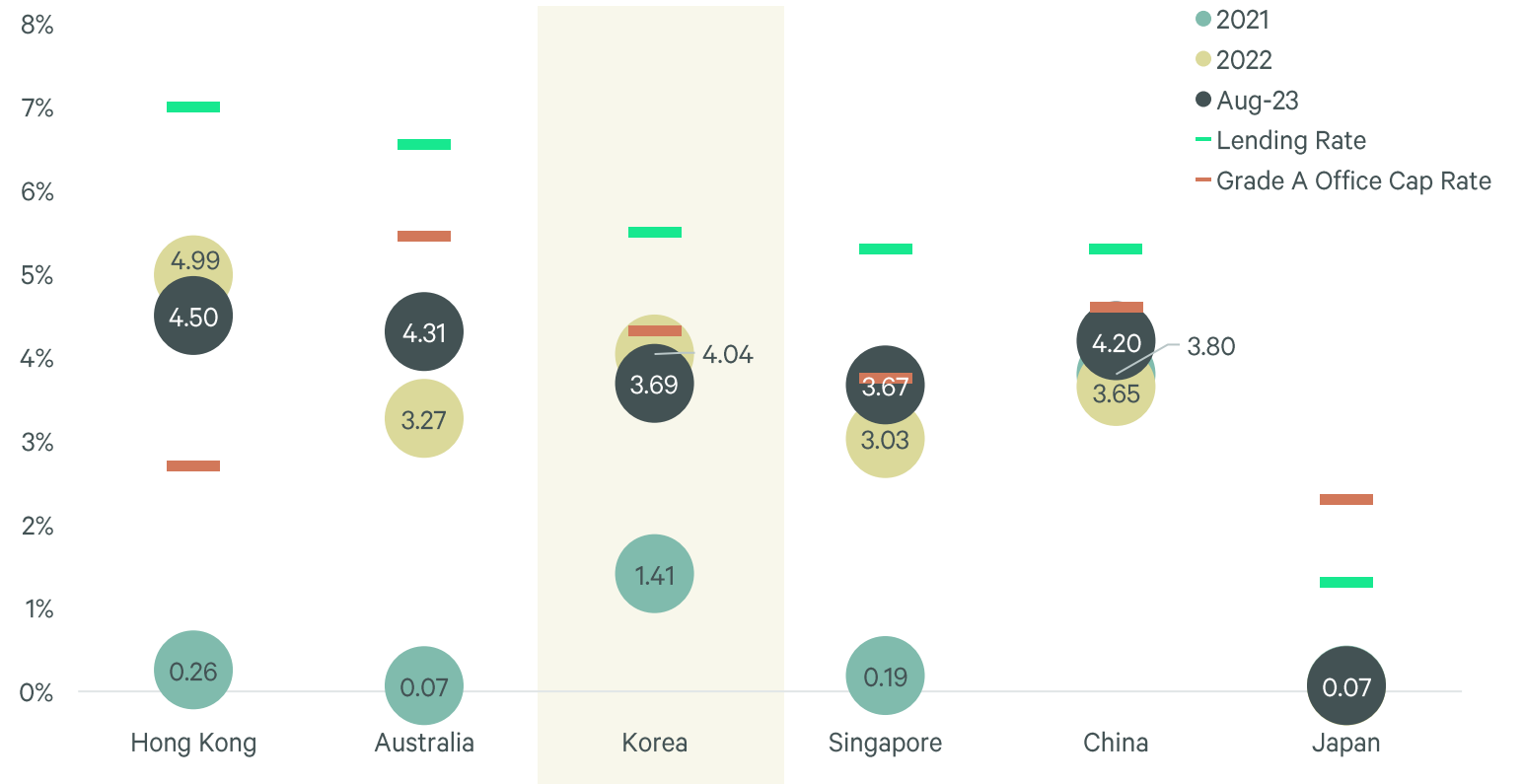


Source: Central banks, Macrobond, Cap Rate Survey, CBRE Research, Q3 2023.

Loan interest rate trends in the first half of 2023

- Due to tightening measures implemented since last year by the U.S. Federal Reserve and the BoK, interest rates on Korea's core office senior loans soared to about 7% early this year. However, as the base interest rate freeze continued and the CD interest rate fell to the 3% range in early April, there were cases in which senior loan interest rates were formed at the upper 4% range.
- CD interest rates are showing signs of rebounding again as expectations of a base interest rate cut within the year have recently receded. However, the senior interest rate is currently at the mid to high 5% level, a fall of around 100-150bps from the end of last year.
- In major Asia Pacific markets such as Australia and Singapore, loan interest rates have risen compared to the end of last year, along with additional interest rate increases in the first half of this year, leading to concerns over weakening investment appetite.

Figure 13: Reference rates by country

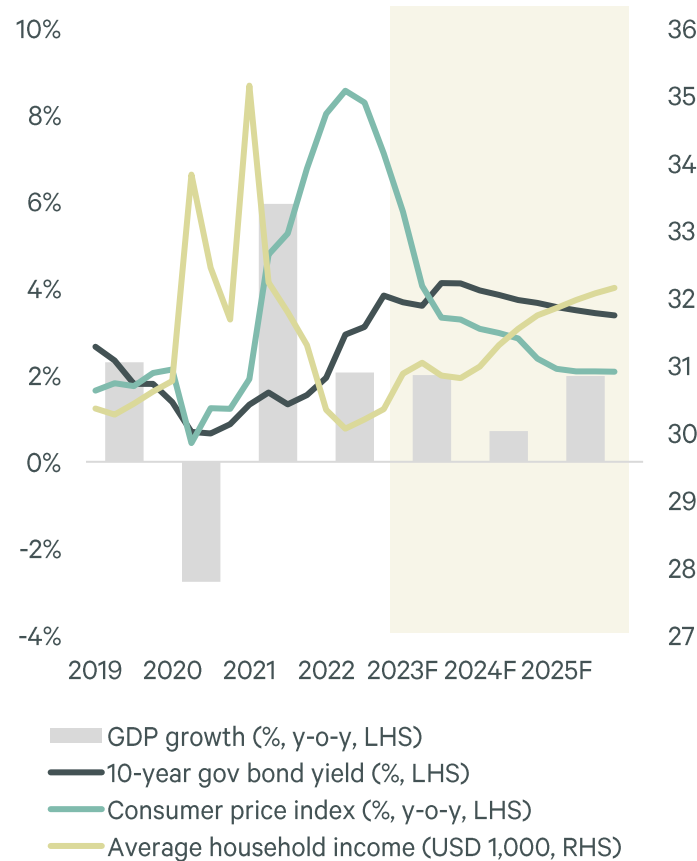


Note: Korea's reference rate indicates 3-month CD interest rate.
 Source: 2023 Asia Pacific Funding Gap Analysis, CBRE Research, Q3 2023.

Easing inflation and a soft economic landing will help stabilize rates

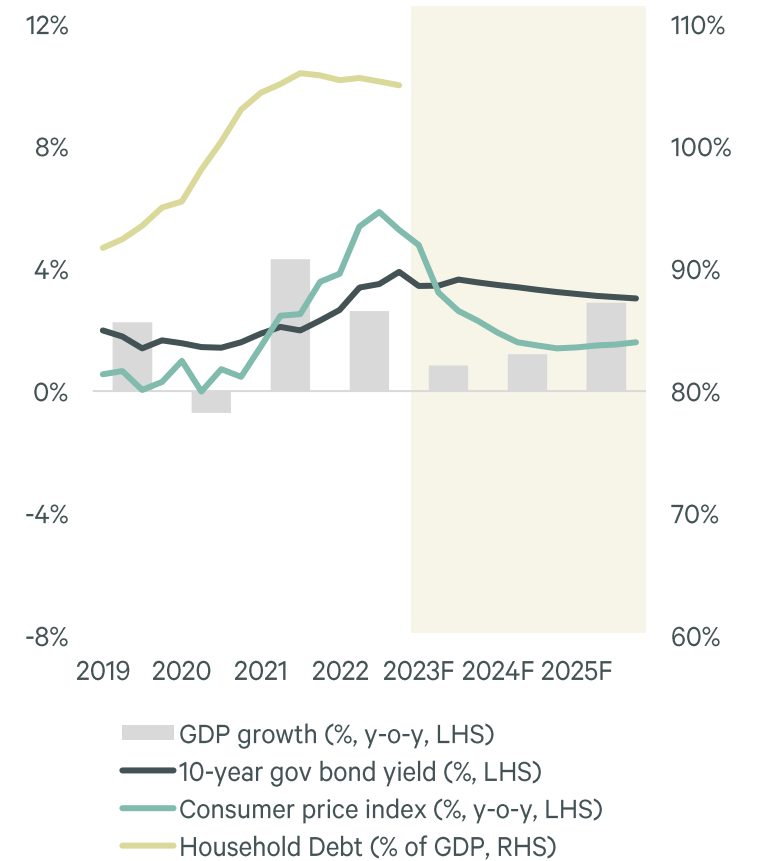
- Major markets are expected to loosen monetary policy as they look to engineer a soft economic landing.
- With inflation in the U.S. now weakening due to aggressive interest rate hikes and consumption improving, further interest rate hikes are likely to have a negative impact on economic activity and employment. CBRE therefore expects U.S. interest rates to peak this year and stabilise starting next year.
- The Korean economy will continue to be impacted by uncertainty in internal and external conditions, such as China's economic recession and sluggish exports. Despite rapid monetary tightening since last year, Korea has the highest household debt relative to GDP of any major market in Asia Pacific. Considering these headwinds, interest rate cuts are expected to be delayed until the second half of 2024.

Figure 14: Economic indicators in United States



Source: CBRE Research, Oxford Economics, Q3 2023

Figure 15: Economic indicators in Korea



Source: BIS, CBRE Research, Q3 2023

High interest rates are expected to lead to changes in cap rates



Figure 16: Cap rate changes in the past six months and outlook for the coming six months

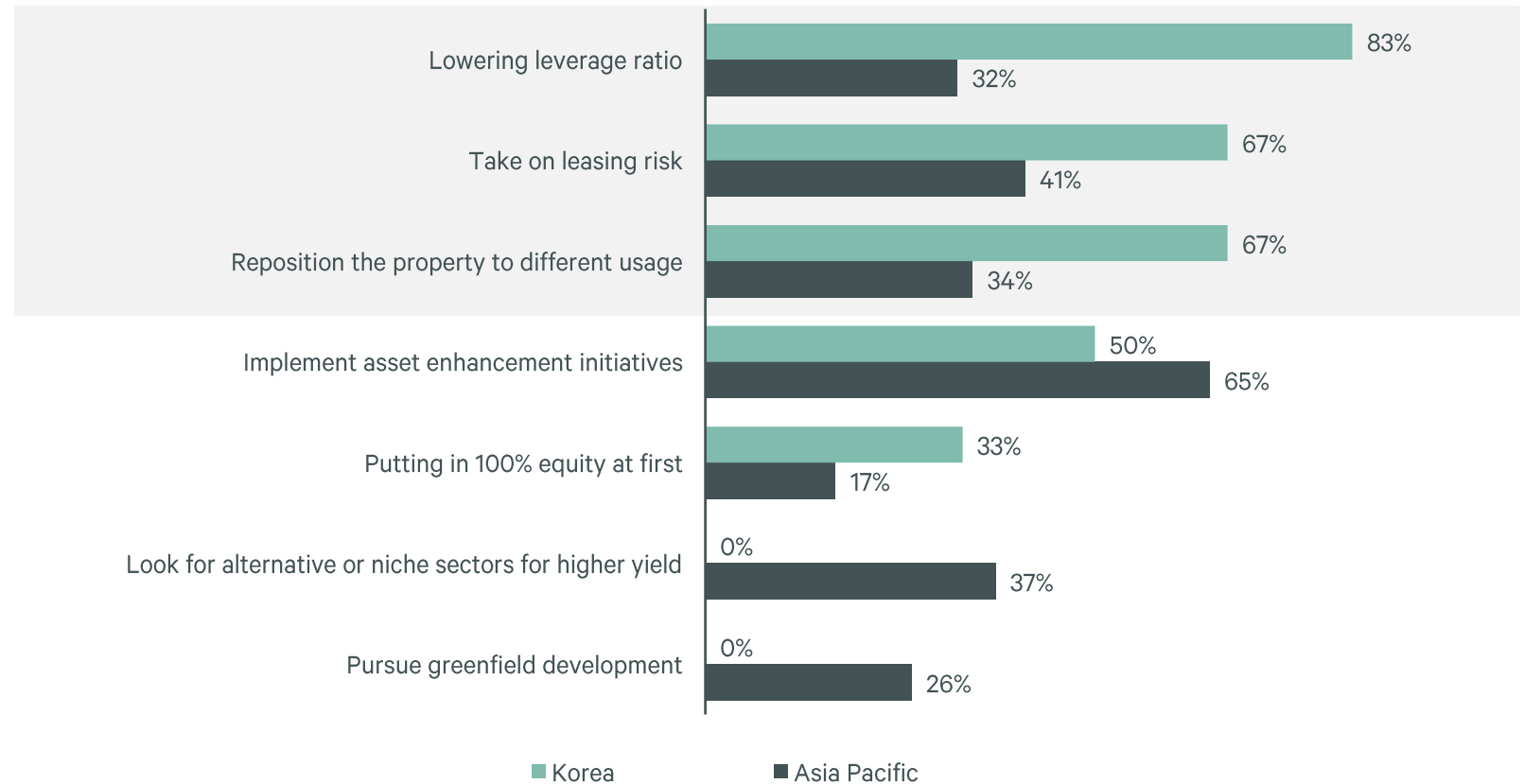
	Grade A office		Shopping mall		Grade A logistics	
	6m change	6m outlook	6m change	6m outlook	6m change	6m outlook
Korea	▲ 20 – 30 bps	▲	▲ 25-100 bps	▲	▲ 20 – 50 bps	▲
Japan	▼ 25 – 50 bps	◀▶	▼ 0 – 20 bps	◀▶	▼ 0 – 25 bps	◀▶
China	▲ 0 – 25 bps	◀▶	▲ 0 – 25 bps	◀▶	▲ 0 – 25 bps	◀▶
Taiwan	▲ 0 – 10 bps	◀▶	No change	◀▶	No change	◀▶
Hong Kong	▲ 20 – 50 bps	▲	▲ 0 – 50 bps	▲	▲ 15 – 25 bps	◀▶
Singapore	▲ 15 – 25 bps	▲	▲ 0 – 25 bps	▲	▲ 25 – 75 bps	▲
India	▲ 0 – 50 bps	◀▶	▲ 0 – 25 bps	◀▶	▲ 0 – 25 bps	◀▶
Australia	▲ 25 – 75 bps	▲	▲ 0 – 25 bps	▲	▲ 50 – 125 bps	▲
New Zealand	▲ 50 – 125 bps	▲	▲ 75 – 100 bps	▲	▲ 50 – 100 bps	▲

Source: Cap Rate Survey, CBRE Research, Q3 2023.

Improving returns by reducing leverage

- 83% of CBRE experts who participated in the Cap Rate Survey suggested reducing leverage as a strategy to achieve investors' target returns.
- As mentioned previously, two logistics transactions completed in Korea in the first half of this year involved 100% equity investment. The overseas investors who carried out the transactions competitively purchased high-quality assets through utilising this strategy.
- In addition, more aggressive strategies were suggested, such as maximising returns through a change of use or remodeling and taking on vacancy risk.
- As upward rental potential is expected to be an important factor in investors' purchasing decisions, the importance of potential tenant credit ratings and tenant mix restructuring strategies is also expected to increase.

Figure 17: Strategies to achieve target returns amid the tight yield environment and rising interest rates



Note: Respondents can choose up to three options.
Source: Cap Rate Survey, CBRE Research, Q3 2023.

Price expectation gap expected to narrow

- Sellers' and buyers' expected price gap, which has been identified as a major impediment to domestic real estate investment, appears to have narrowed somewhat in the first half of 2023 compared to the second half of last year.
- In Q3 2023, Tower 8 in the CBD, the original deal for which fell apart due to the wide price differential, successfully reached a close after a new buyer came to agreement on a price. Elsewhere, Yongsan The Prime Tower, the sale of which was cancelled due to the rise in interest rates, was promoted for resale in April this year, with a deal eventually concluded in Q3 2023.
- CBRE expects these price differences to narrow further across all sectors in the coming months, propping up transaction volume in H2 2023. As a result, asset values are expected to be adjusted slightly downward.

Figure 18: Price gap between buyer and seller expectations by sector

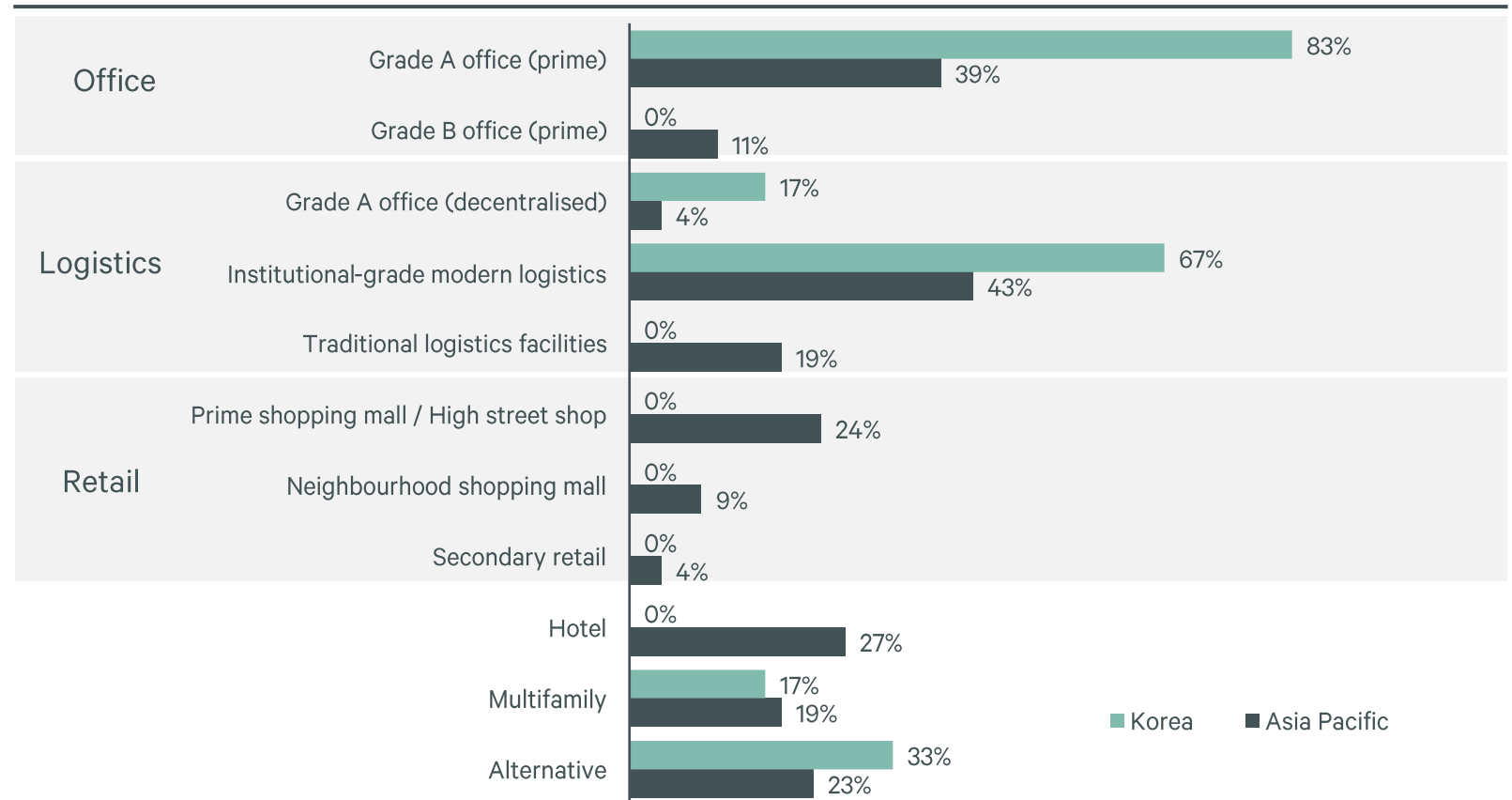


Source: Cap Rate Survey, CBRE Research, Q3 2023.

Preference for prime assets remains strong

- Survey participants stated that their clients' preferred asset in the domestic investment market was Grade A offices, followed by Grade A logistics centres, confirming strong demand for prime assets. These findings matched the results of CBRE's 2023 Korea Investor Intentions Survey conducted at the beginning of the year.
- With the office market set to remain in favour of landlords as the supply shortage continues, it has emerged as the most preferred investment sector this year, retaining its status from last year. In contrast, interest in logistics assets will be relatively low due to large-scale supply and slowing e-commerce growth.
- The survey also uncovered a clear preference for exploring alternative investment opportunities such as data centres, senior housing, and loans.

Figure 19: Investor preference by asset type compared to Q4 2022

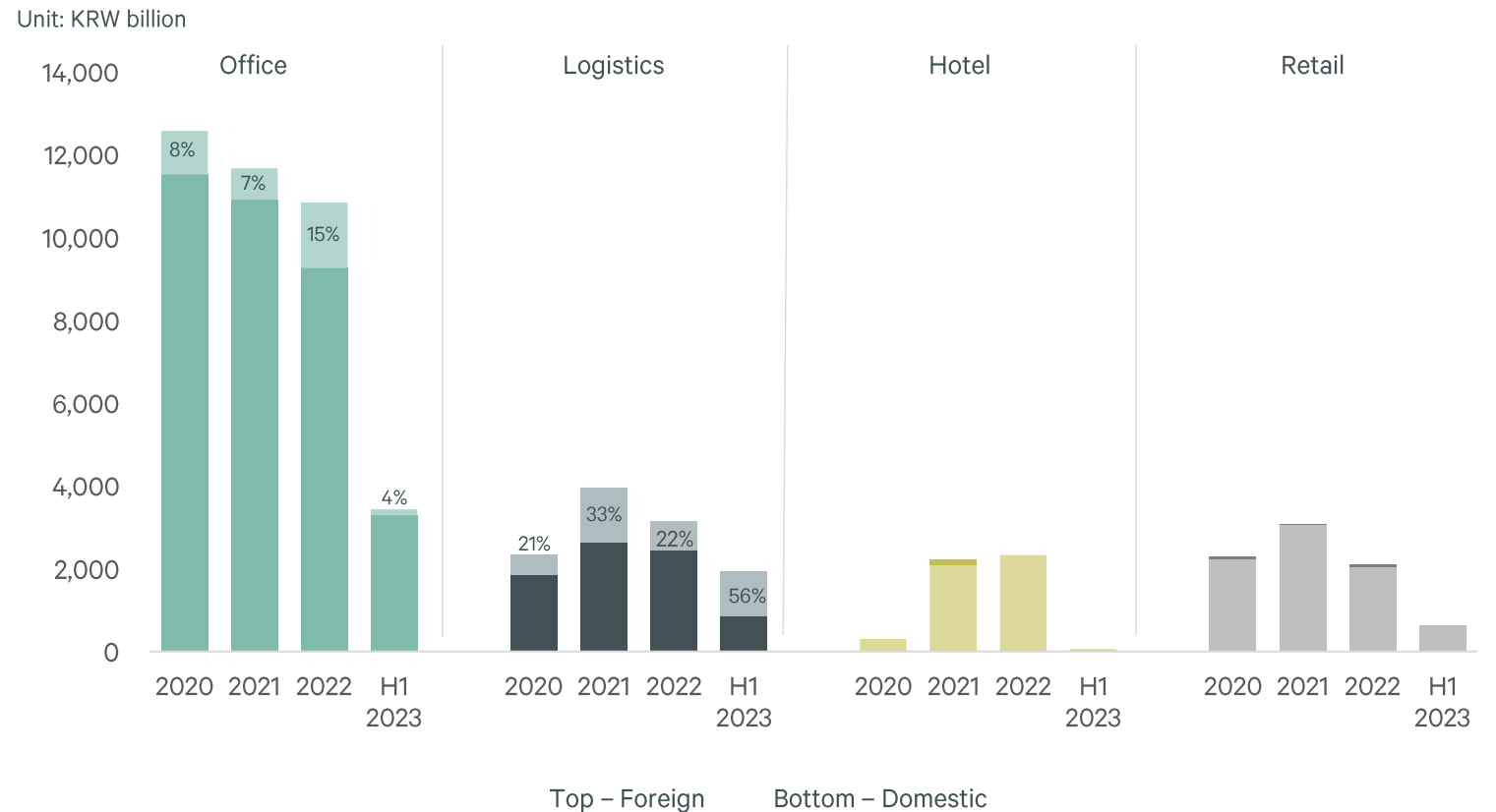


Note: Respondents can choose up to three options.
 Source: Cap Rate Survey, CBRE Research, Q3 2023.

Inbound investment to recover with competitiveness

- Overseas capital accounted for about 28% of Korea commercial real estate investment volume in H1 2023, an increase of about 24%p compared to the same period of last year.
- Overseas buyers, particularly those from North America and Singapore, are displaying strong demand for domestic prime logistics assets, with foreign capital accounting for more than half of investment in the sector. Canada-based Brookfield Asset Management pre-purchased the largest domestic logistics asset in the first half of the year.
- Value add investment by foreign investors has been prominent in the office sector. U.S.-based KKR and Singapore-based Keppel contributed about 18% of overseas investment volume in the sector through their acquisitions of SK Namsan Green Building and Bank of Korea Annex building, respectively. Both properties are due to be remodelled.

Figure 20: Investment volume by sector

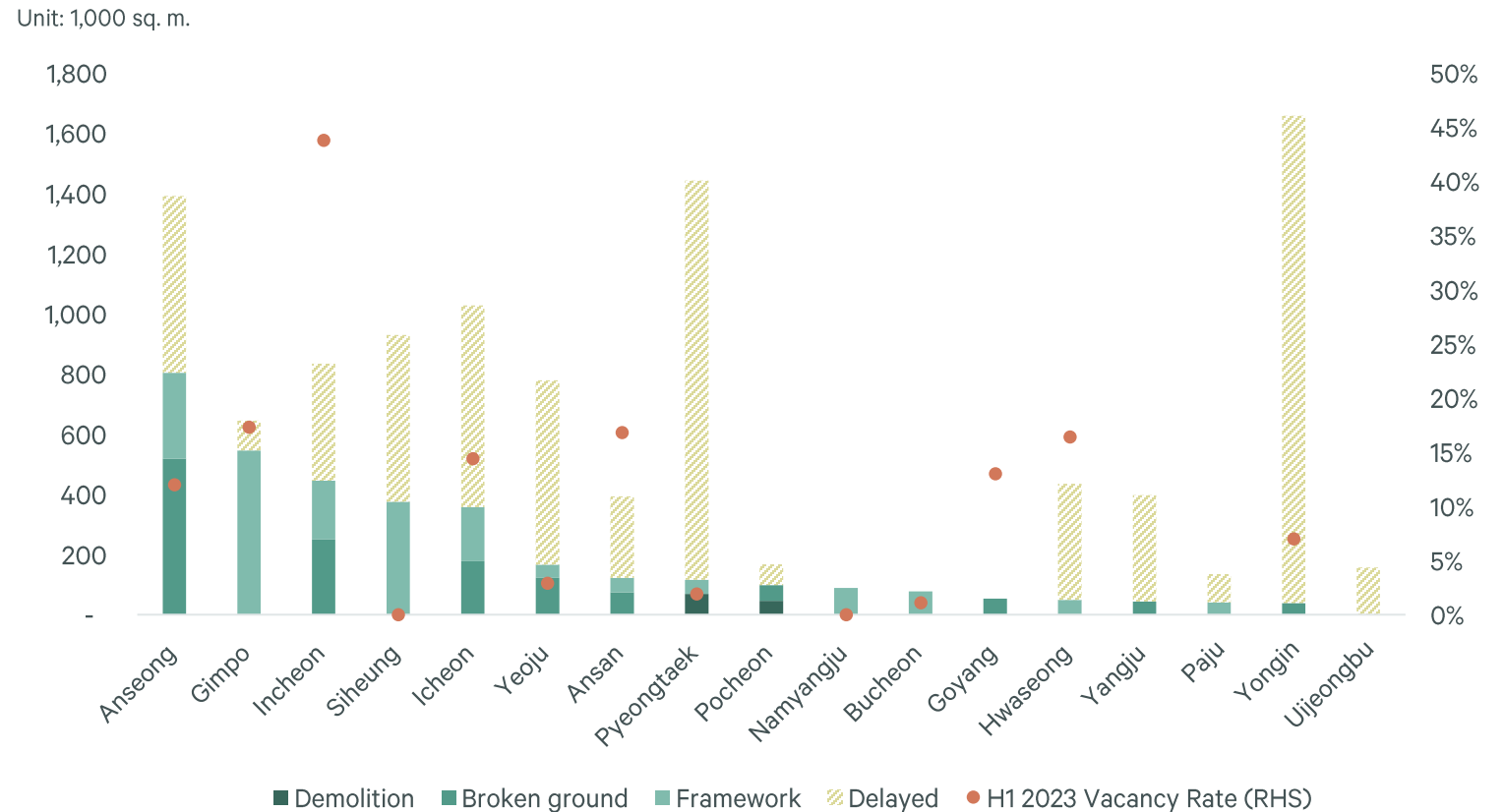


Source: CBRE Research, September 2023

Logistics supply expected to peak this year

- Greater Seoul Grade A logistics vacancy soared to 17% as of the end of H1 2023, primarily due to the addition of 3 million sq. m. of new logistics stock, a figure similar to last year's total. With an additional 3 million sq. m. of new supply expected to be completed in the second half of the year, investors are increasingly concerned about oversupply.
- However, the pipeline will thin out significantly after this year. CBRE data show that just 30%, or 3.4 million sq. m., of the Grade A logistics properties scheduled to be completed in Greater Seoul in 2024 have commenced construction.
- Anseong accounts for the largest share of new supply due in 2024, at about 25%, followed by Gimpo and Incheon. Areas that were originally scheduled to witness the addition of new supply in 2024, but have since been delayed to 2025 or later, include Yongin and Pyeongtaek.

Figure 21: 2024 grade A logistics supply outlook by submarket



Source: CBRE Research, September 2023

Funding gap risk in Korea appears to be limited

- CBRE defines the funding gap²⁾ as the difference between the amount of existing debt and the amount of financing required in the future. As this gap grows, investors require more liquidity at the time of future refinancing.
- Based on the analysis of investment transactions between 2019 and 2021, CBRE has projected the amount of liquidity required through 2026. While the LTV ratio is likely to remain stable, Korea is forecasted to face lower funding risk compared to other Asia Pacific markets due to continued asset value appreciation, which results in capital gains.
- Increased investment liquidity, along with stabilizing interest rates, are expected to have a positive impact on the real estate market, with the office sector expected to be among the main beneficiaries.

Figure 22: Debt-funding gap by maturity and country (2024-2026)

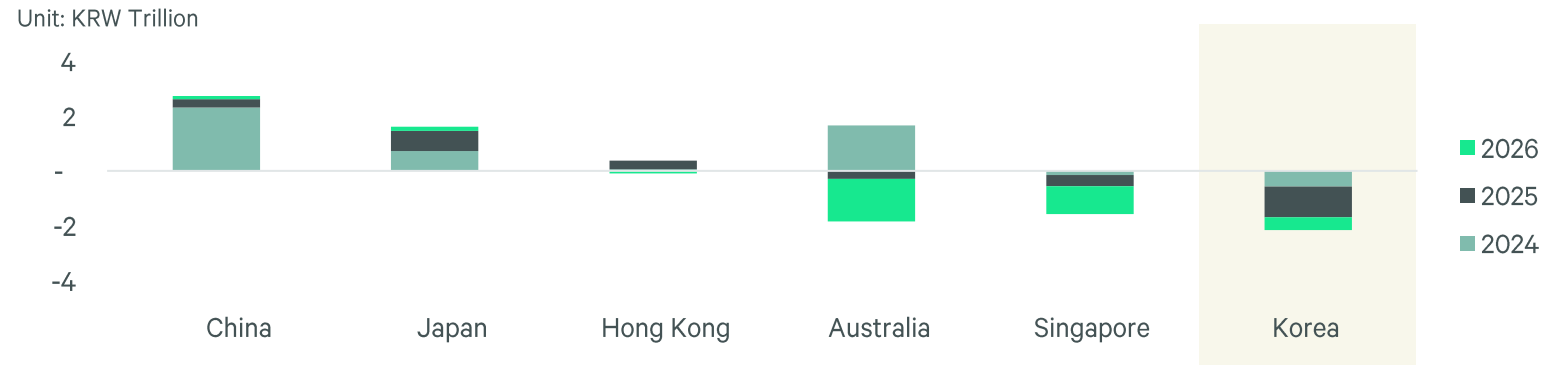
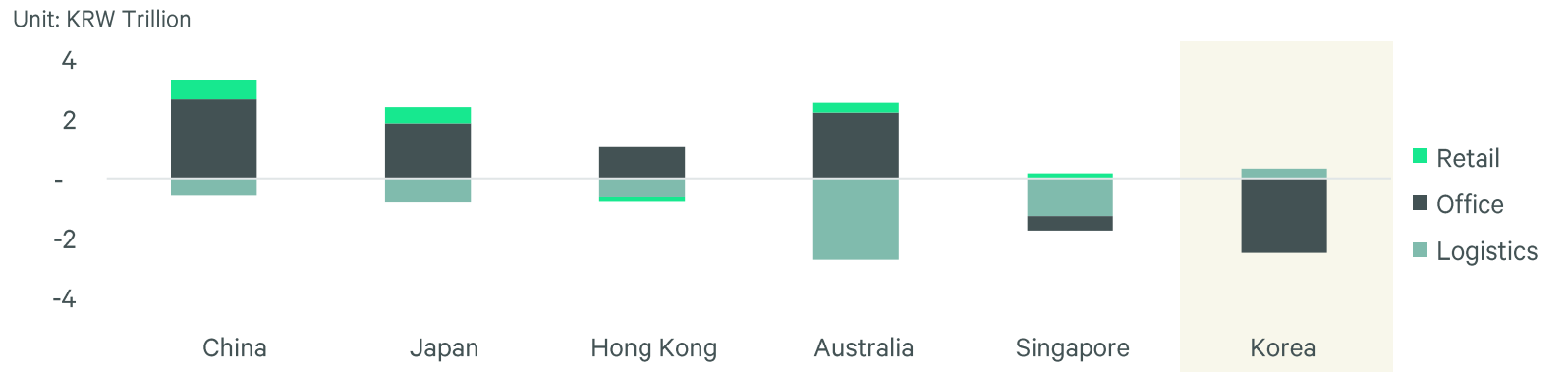


Figure 23: Debt-funding gap by sector and country (2024-2026)



2) Additional capital required for refinancing at maturity assuming an LTV of 60% and a fund maturity of 5 years.

Source: 2023 Asia Pacific Funding Gap Analysis, CBRE Research, Q2 2023

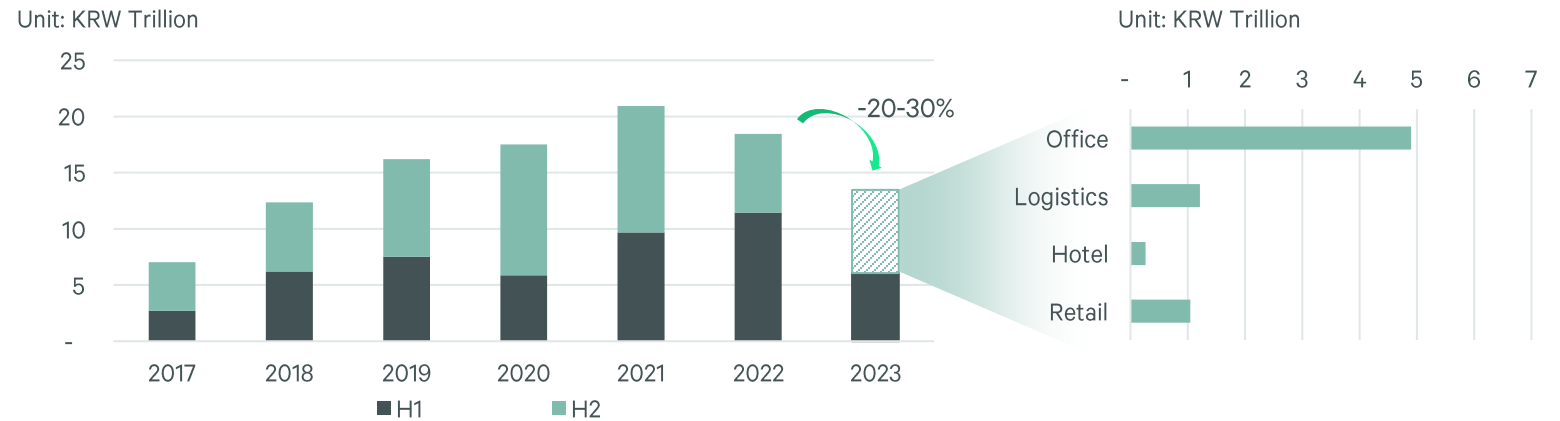
04

Investment activity
expected to resume in 2024

Full-year investment volume forecasted to decline

- After a slow start to the year, the number of office transactions undergoing processing has picked up substantially in the opening months of H2 2023. Around KRW 6 trillion worth of assets are expected to change hands in the back-half of this year, a figure on par with total investment volume in Seoul in H1 2023.
- However, the ongoing price gap and limited investment capacity are expected to remain major headwinds. In the office sector, the risk of financing increases in proportion to deal size, meaning that small and medium-sized transactions are likely to dominate.
- With several logistics deals having been postponed or withdrawn from sale in H2 2023, investors are expected to turn more selective towards the sector.
- CBRE predicts full-year commercial real estate investment volume to fall by 20-30% compared to last year.

Figure 24: Historical investment transaction volume



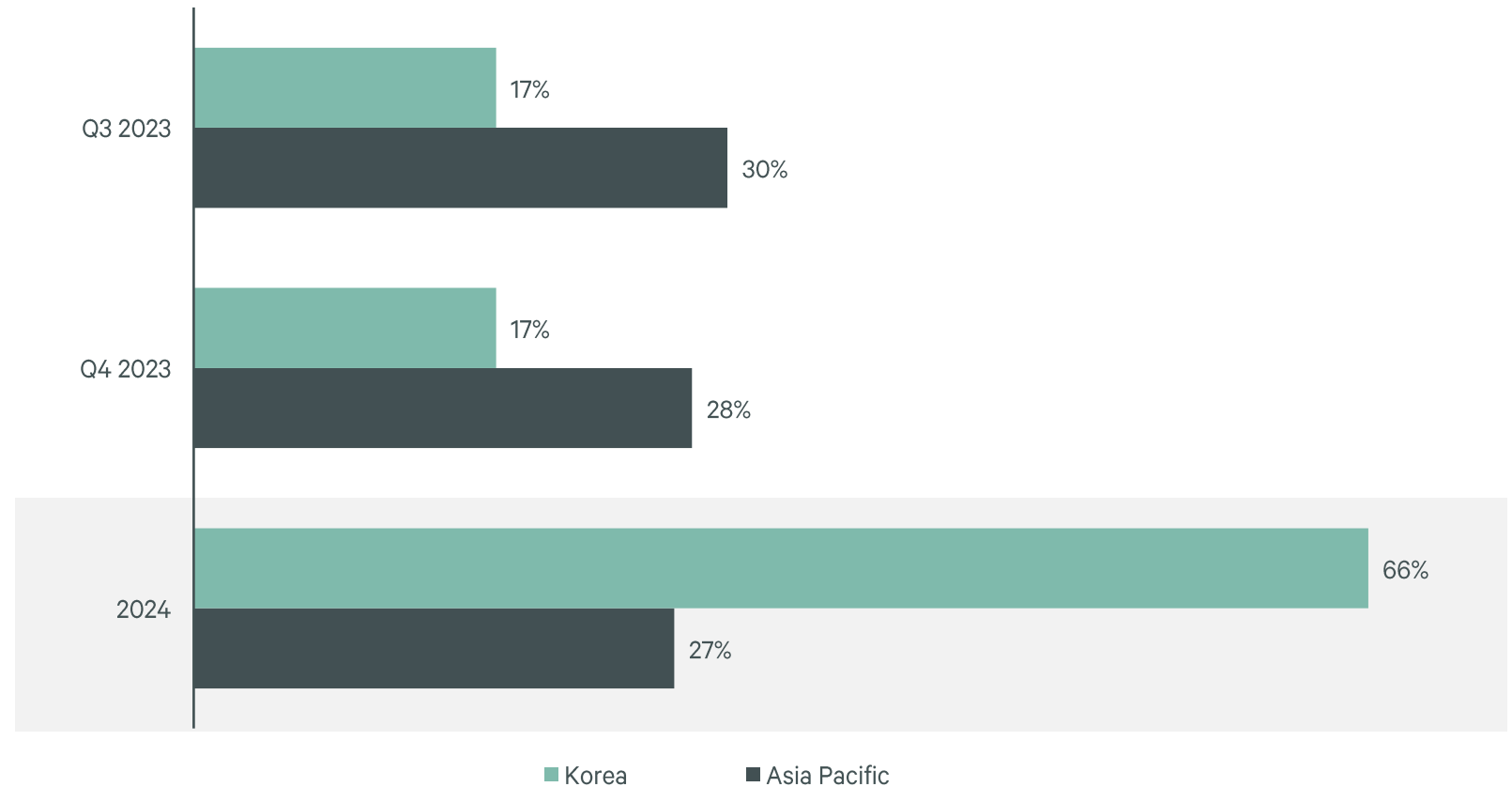
Office			Logistics	Hotel	Retail
GBD	CBD	ETC	Greater Seoul	Seoul	Seoul
<ul style="list-style-type: none"> • Majestar City Tower I • Samsung SDS Tower • KG Tower • Arc Place • Tower 730 • Gangnam Finance Plaza • K-Square Gangnam II • Golden Tower • Centerpoint Gangnam • Anam Tower • Sigma Tower 	<ul style="list-style-type: none"> • Tower 8 • Seoulo Tower • Metro Tower • HSBC Building • City Bank Centre • Daeshin 343 • Hanjin KAL Building • K-Square City • Ganghwamun G Tower 	<ul style="list-style-type: none"> • Yongsan The Prime Tower • Magok Le West • Magok One West 	<ul style="list-style-type: none"> • Anseong Seongeun-ri Logistics Centre • Kendall Square Ilsan DC • Namyangju Byeolnaewon Logistics Center • Logisco Yangi • Logiport Osan • Carrier Logistics Centre 	<ul style="list-style-type: none"> • Ninetree Dongdaemun • Tmark Grand Hotel Myeongdong • Conrad Seoul 	<ul style="list-style-type: none"> • Megabox Square Seongsu • E-mart Myeongil branch

Note: Includes all transactions with size over KRW 10 billion. H2 2023 investment volume includes transactions to be completed.
 Source: CBRE Research, September 2023

Purchasing activity expected to recover from 2024

- With U.S. monetary policy having succeeded in taming high inflation, global interest rates will remain elevated.
- In Korea, CBRE expects the recovery of the domestic real estate investment market to accelerate in H2 2024, as 1% low economic growth persists into next year.
- Decision-making is expected to become easier as external uncertainties, such as upcoming by-elections, are resolved, and potential insolvency risks and price adjustments for some assets become a reality.
- Next year’s transaction activity is to be driven by ongoing office deals rather than new assets. Despite the presence of sizable assets in the market, CBRE forecasts a slight decrease in the overall investment volume compared to this year as potential buyers face challenges in securing funds.

Figure 25: Expected time to resume investment activity



Source: Cap Rate Survey, CBRE Research, Q3 2023.

Summary table of indicative cap rates – Grade A Office

Country	City	Grade A Office					
		Core Locations			Decentralised		
		September 2022	March 2023	Six-month Outlook	September 2022	March 2023	Six-month Outlook
Australia	Sydney	4.50 – 5.75	5.00 – 6.50	▲	5.00 – 6.25	6.00 – 7.25	▲
	Melbourne	4.50 – 5.75	5.00 – 6.25	▲	5.00 – 6.25	5.50 – 7.00	▲
	Brisbane	5.50 – 6.50	5.75 – 7.00	▲	5.75 – 6.50	6.00 – 7.25	▲
	Perth	5.50 – 7.00	5.75 – 7.50	▲	6.00 – 7.50	6.50 – 7.75	▲
New Zealand	Auckland	5.00 – 6.25	5.50 – 7.50	▲	5.50 – 7.00	6.50 – 7.75	▲
Greater China	Beijing	3.75 – 4.75	4.00 – 5.00	◄►	4.00 – 5.00	4.25 – 5.25	◄►
	Shanghai	3.75 – 5.00	4.00 – 5.25	◄►	4.00 – 5.00	4.25 – 5.25	◄►
	Guangzhou	4.00 – 5.25	4.00 – 5.35	◄►	5.00 – 5.75	5.00 – 5.75	◄►
	Shenzhen	4.00 – 5.25	4.00 – 5.35	◄►	5.00 – 5.75	5.00 – 5.75	◄►
	Hong Kong SAR	2.30 – 4.00	2.50 – 4.50	▲	2.30 – 4.00	2.50 – 4.50	▲
	Taipei	2.00 – 2.70	2.10 – 2.70	◄►	2.30 – 2.70	2.30 – 3.00	◄►
Japan	Tokyo	2.50 – 3.50	2.00 – 3.25	◄►	3.10 – 4.00	3.00 – 4.00	◄►
	Osaka	3.00 – 4.00	2.75 – 3.50	◄►	3.50 – 4.50	3.25 – 4.25	◄►
Korea	Seoul	3.50 – 4.00	3.80 – 4.20	▲	4.00 – 5.50	4.20 – 6.00	▲
Singapore	Singapore	3.10 – 3.75	3.15 – 3.80	▲	3.50 – 4.25	3.60 – 4.35	▲
India	Gurgaon	6.50 – 8.00	6.50 – 8.50	◄►	6.75 – 8.00	7.00 – 8.25	◄►
	Mumbai	8.00 – 8.50	8.00 – 9.00	◄►	8.25 – 9.00	8.25 – 9.25	◄►
	Bangalore	8.00 – 8.50	8.00 – 9.00	◄►	7.50 – 9.00	7.50 – 9.00	◄►

Source: Cap Rate Survey, CBRE Research, Q3 2023.

Summary table of indicative cap rates – Shopping Mall

Country	City	Shopping Mall					
		Core Locations			Neighbourhood		
		September 2022	March 2023	Six-month Outlook	September 2022	March 2023	Six-month Outlook
Australia	Sydney	5.00 - 7.00	5.25 - 7.25	▲	5.75 - 7.00	5.75 - 7.25	▲
	Melbourne	5.00 - 7.00	5.25 - 7.25	▲	5.75 - 7.00	5.75 - 7.25	▲
	Brisbane	5.50 - 7.00	5.50 - 7.25	▲	5.75 - 7.00	5.75 - 7.25	▲
	Perth	5.50 - 7.50	5.50 - 7.75	▲	5.75 - 7.00	5.75 - 7.25	▲
New Zealand	Auckland	5.75 - 7.50	6.50 - 8.50	▲	6.75 - 9.25	7.00 - 9.50	▲
Greater China	Beijing	4.30 - 5.50	4.30 - 5.75	◄►	4.75 - 5.75	5.00 - 6.00	◄►
	Shanghai	4.30 - 5.50	4.30 - 5.75	◄►	4.50 - 5.00	4.50 - 6.00	◄►
	Guangzhou	4.25 - 5.25	4.35 - 5.35	◄►	4.75 - 6.00	4.75 - 6.00	◄►
	Shenzhen	4.25 - 5.25	4.50 - 5.25	◄►	5.00 - 6.00	5.00 - 6.00	◄►
	Hong Kong SAR	2.80 - 4.25	2.80 - 4.75	▲	3.30 - 5.00	3.50 - 5.50	▲
	Taipei	2.30 - 3.75	2.30 - 3.75	◄►	2.80 - 4.00	2.80 - 4.00	▲
Japan	Tokyo	2.80 - 4.00	2.60 - 4.00	◄►	4.00 - 5.50	4.00 - 5.50	◄►
	Osaka	3.00 - 4.00	3.00 - 4.00	◄►	4.00 - 5.50	4.00 - 5.50	◄►
Korea	Seoul	4.75 - 6.00	5.00 - 7.00	▲	5.00 - 7.00	6.00 - 8.00	▲
Singapore	Singapore	4.50 - 5.00	4.50 - 5.25	▲	4.75 - 5.25	4.75 - 5.25	▲
India	Gurgaon	7.75 - 8.50	7.75 - 8.75	◄►	7.75 - 9.00	8.00 - 9.00	◄►
	Mumbai	7.75 - 8.50	7.75 - 8.75	◄►	7.75 - 9.00	8.00 - 9.00	◄►
	Bangalore	7.75 - 8.50	7.75 - 8.75	◄►	7.75 - 9.00	8.00 - 9.00	◄►

Source: Cap Rate Survey, CBRE Research, Q3 2023.

Summary table of indicative cap rates – Logistics

Country	City	Logistics					
		Institutional Grade Logistics (Citywide)			Traditional Logistics Facilities (Citywide)		
		September 2022	March 2023	Six-month Outlook	September 2022	March 2023	Six-month Outlook
Australia	Sydney	3.50 – 5.00	4.50 – 6.00	▲	4.50 – 5.25	4.75 – 6.00	▲
	Melbourne	3.75 – 5.00	4.75 – 6.00	▲	4.50 – 5.25	4.75 – 6.00	▲
	Brisbane	4.00 – 5.00	4.75 – 6.25	▲	4.75 – 5.75	5.25 – 6.25	▲
	Perth	4.50 – 5.50	5.00 – 6.50	▲	5.00 – 6.00	5.50 – 6.50	▲
New Zealand	Auckland	4.25 – 5.00	4.75 – 6.00	▲	4.50 – 6.00	5.50 – 7.00	▲
Greater China	Beijing	4.25 – 5.00	4.50 – 5.25	◄►	4.50 – 5.50	4.75 – 5.75	◄►
	Shanghai	4.25 – 5.00	4.50 – 5.25	◄►	4.50 – 5.50	4.75 – 5.75	◄►
	Guangzhou	4.75 – 5.50	4.75 – 5.50	◄►	5.00 – 6.00	5.00 – 6.00	◄►
	Shenzhen	4.50 – 5.50	4.50 – 5.50	◄►	4.70 – 6.00	4.70 – 6.00	◄►
	Hong Kong SAR	3.00 – 3.70	3.25 – 3.85	◄►	3.00 – 4.25	3.00 – 4.50	◄►
	Taipei	2.70 – 4.00	2.70 – 4.00	◄►	3.50 – 4.00	3.50 – 4.00	◄►
Japan	Tokyo	2.80 – 4.00	2.80 – 3.80	◄►	3.50 – 4.50	3.50 – 4.50	◄►
	Osaka	3.00 – 4.25	3.00 – 4.00	◄►	3.50 – 5.00	3.50 – 5.00	◄►
Korea	Seoul	4.00 – 5.25	4.50 – 5.50	▲	4.00 – 5.75	5.00 – 6.50	▲
Singapore	Singapore	5.50 – 6.75	5.75 – 7.50	▲	5.75 – 7.25	6.25 – 7.50	◄►
India	Gurgaon	7.75 – 8.50	7.75 – 8.75	◄►	8.00 – 9.00	8.00 – 9.25	◄►
	Mumbai	7.75 – 8.50	7.75 – 8.75	◄►	8.00 – 9.00	8.00 – 9.25	◄►
	Bangalore	7.50 – 8.50	7.50 – 8.50	◄►	8.00 – 9.00	8.00 – 9.00	◄►

Source: Cap Rate Survey, CBRE Research, Q3 2023.

Summary table of indicative cap rates – Data Centre

Country	City	Data Centre					
		Hyperscale Data Centre			Operational Colocation Data Centre		
		September 2022	March 2023	Six-month Outlook	September 2022	March 2023	Six-month Outlook
Australia	Sydney	4.00 - 5.00	5.00 - 6.00	▲	4.50 - 5.50	5.50 - 6.50	▲
	Melbourne	4.50 - 5.50	5.00 - 6.00	▲	5.00 - 6.00	5.50 - 6.50	▲
Greater China	Beijing	6.00 - 9.00	6.00 - 9.00	◀▶	6.00 - 9.00	6.00 - 9.00	◀▶
	Satellite cities near Beijing	8.00 - 10.50	8.00 - 10.50	◀▶	8.00 - 10.50	8.00 - 10.50	◀▶
	Shanghai	6.00 - 8.50	6.00 - 8.50	◀▶	6.00 - 8.50	6.00 - 8.50	◀▶
	Satellite cities near Shanghai	8.00 - 10.50	8.00 - 10.50	◀▶	8.00 - 10.50	8.00 - 10.50	◀▶
	Hong Kong SAR	2.50 - 5.00	2.80 - 5.50	◀▶	2.50 - 6.00	3.00 - 6.25	◀▶
Japan	Tokyo	3.50 - 5.50	3.50 - 5.50	◀▶	3.50 - 5.70	3.50 - 5.70	◀▶
	Osaka	3.50 - 5.70	3.50 - 5.70	◀▶	3.50 - 5.90	3.50 - 5.90	◀▶
Korea	Seoul	5.00 - 7.00	5.00 - 7.00	▲	5.50 - 7.00	5.50 - 7.00	▲
Singapore	Singapore	5.00 - 6.25	5.75 - 7.00	▲	5.25 - 6.75	5.75 - 7.25	▲
India	Gurgaon	8.50 - 9.50	8.50 - 9.50	◀▶	9.00 - 9.75	9.00 - 9.75	◀▶
	Mumbai	8.25 - 9.25	8.25 - 9.50	◀▶	8.75 - 9.50	8.75 - 9.75	◀▶
	Bangalore	8.50 - 9.50	8.50 - 9.50	◀▶	9.00 - 9.75	9.00 - 9.75	◀▶

Source: Cap Rate Survey, CBRE Research, Q3 2023.

Summary table of indicative cap rates – Hotel

Country	City	Hotel		
		September 2022	March 2023	Six-month Outlook
Australia	Sydney	4.50 – 5.50	4.50 – 5.50	◀▶
	Melbourne	4.50 – 6.00	4.50 – 6.00	◀▶
New Zealand	Auckland	7.00 – 8.50	7.00 – 8.50	◀▶
Greater China	Beijing	5.00 - 6.00	5.00 - 6.00	◀▶
	Shanghai	5.00 - 6.00	5.00 - 6.00	◀▶
	Hong Kong SAR	4.00 - 5.00	4.00 - 5.00	◀▶
Japan	Tokyo	3.50 – 4.50	3.25 – 4.25	◀▶
	Osaka	4.50 - 5.50	4.00 - 5.00	◀▶
Korea	Seoul	6.00 – 7.00	6.00 – 7.50	◀▶
Singapore	Singapore	4.00 - 5.00	4.00 - 5.00	◀▶
Thailand	Bangkok	6.00 - 8.00	6.00 - 8.00	◀▶
	Phuket	7.00 - 8.00	7.00 - 8.50	◀▶
Vietnam	Hanoi	7.00 - 8.00	7.00 - 9.00	◀▶
	Ho Chi Minh City	7.00 - 8.00	7.00 - 9.00	◀▶
	Da Nang	8.00 - 9.00	8.00 - 9.00	◀▶

Source: Cap Rate Survey, CBRE Research, Q3 2023.

Definitions

- Cap rate ranges are best estimates provided by CBRE professionals based on recent trades in their respective markets, as well as communications with investors. The ranges represent the cap rates at which a given asset is likely to trade in the current market. Cap rates within each subtype will vary, occasionally falling outside the stated ranges, based on asset location, quality and property-specific opportunities for NOI enhancement.
- The cap rate assumes no leverage is used. It is the ratio of the net operating income (NOI) to the acquisition price of the asset (NOI divided by acquisition price). The NOI calculation is based on net income less operating expenses.
- Capital markets respondents provide net operating income (NOI) yield without leverage while Valuation & Advisory Services respondents provide the capitalisation rate (net).

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