

# Office leasing stays cautious ahead of Q2 completions; investment falls due to high base and interest rate shift



Note: Arrows indicate change from previous period.

## Hot Topics

- With two major CBD office developments—G1 Seoul and Rene Square—scheduled for completion in Q2 2026, office pre-leasing is emerging as a critical variable shaping the market outlook.
- As global brands including Loewe Perfumes and UVU debut their world-first flagships in Seongsu, and premium labels such as AMI and On continue to open in Hannam, Seoul is cementing its position as the preferred Asian beachhead for global retail expansion.
- In the logistics sector, e-commerce and retail giants including Coupang and BGF Retail are expanding large-scale logistics hubs, intensifying competition to secure prime assets amid a supply contraction cycle.
- Following a record-breaking 2025, the market has entered its first period of investment consolidation, with geopolitical risks emerging late in the quarter combining with shifts in the interest rate environment to introduce new uncertainty into investment sentiment.

## OFFICE

Average Grade A office vacancy across Seoul’s three major business districts declined to 2.8%, stabilizing the market. However, new leasing volume fell q-o-q and y-o-y amid a wait-and-see stance. Leasing in YBD improved the most but the CBD faces vacancy pressure from new supply in Q2 2026.

## RETAIL

Rising inbound tourist arrivals and KRW weakness drove vacancy down by 5–6 ppts across Seoul’s major high-street corridors, alongside continued rental growth. Brands in Bukchon and Seochon are increasingly purchasing buildings to secure long-term bases and hedge against rent increases.

## LOGISTICS

With 2026 supply forecast at a decade low, vacancy has continued to decline from its 2024 peak, with dry storage vacancy falling below 10%. 3PL and e-commerce tenants accounted for 65% of new take-up, with competition for prime assets expected to intensify alongside rising rental pressure.

## INVESTMENT

Overall investment volume declined 17% y-o-y but strategic investor-led office acquisitions and selective transactions in prime logistics assets continued. Given record-high investment intentions, a rebound in pent-up demand is expected once uncertainty eases.

## Office

Average Grade A office vacancy across Seoul's three major business districts declined by 0.5 ppts q-o-q to 2.8% in Q1 2026, with absorption observed across all three submarkets in the absence of new supply. Net absorption totaled 43,991 sq. m., while new leasing volume reached 63,336 sq. m., falling short of both the prior quarter (99,018 sq. m.) and the same period last year (93,756 sq. m.), reflecting more cautious leasing sentiment. With G1 Seoul and René Square due for completion in Q2 2026, CBD vacancy may face upward pressure depending on pre-leasing.

Headline rents edged up 0.4% q-o-q to KRW 40,941 per sq. m., but growth has essentially slowed to a flat level. Effective rents stood at KRW 38,487 per sq. m., up 5.5% y-o-y, with rent-free periods showing limited further movement.

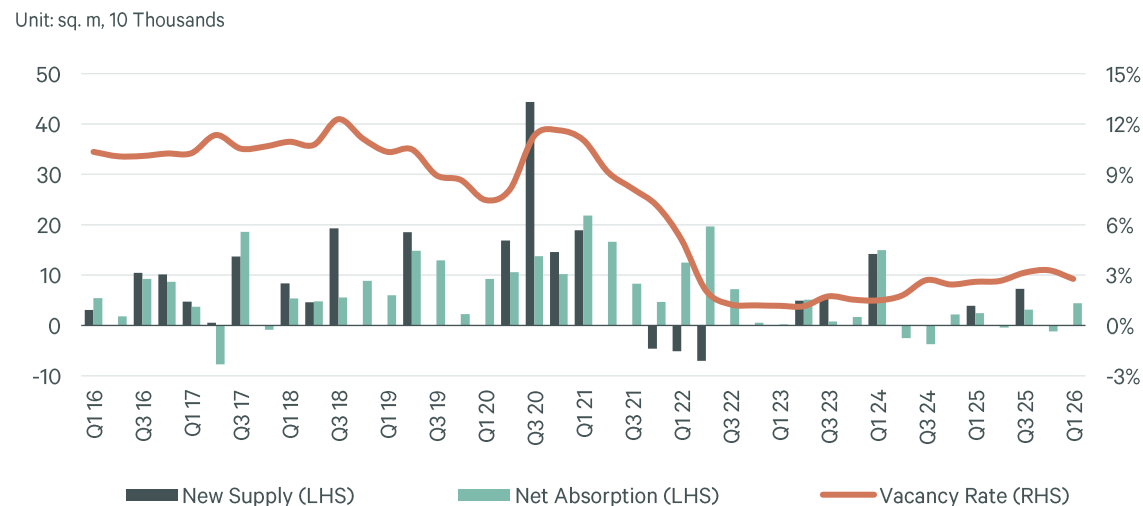
CBD vacancy fell 0.4 ppts q-o-q to 3.7%, supported by residual vacancy absorption at stabilized prime assets including Tower 107, Gran Seoul, and Center One. Pre-leasing in Q2 2026 completions is gradually picking up and should support a recovery in CBD leasing activity.

The GBD maintained the tightest vacancy of any district at 2.0%, with continued expansion by financial and IT tenants seen at The Pinnacle Yeoksam 2, Parnas Tower, and Bithumb Finance Tower, alongside growing demand from cosmetics firms driven by the rising global influence of K-content. This diversification of demand is expected to underpin a more stable demand base for the GBD over the medium term.

The YBD posted the largest improvement in vacancy among the three submarkets, falling 1.2 ppts q-o-q on the back of steady leasing at IFC and FKI Tower and further absorption at One Sentinel. With no new leasable supply due until at least 2027, YBD vacancy is forecast to remain stable, though potential tenant relocations at selected prime assets will introduce some near-term uncertainty. New supply post-2028, including the Meritz Fire Insurance and Kiwoom Securities redevelopments, will warrant ongoing monitoring.

Magok continues to cement its position as an emerging multi-use business hub, with One Grove attracting finance, aviation, and healthcare tenants. SK Rent-a-Car's relocation from Samil Building to One Grove this quarter further reinforced the submarket's concentration of transportation-sector occupiers. In Seongsu, IT firms including Deepdive and Mobirix took space at Musinsa S1, further cementing the district's identity as a tech-oriented office node.

FIGURE 1: Office Supply-Demand Dynamics



Source: CBRE Research, Q1 2026.

TABLE 1: Office Vacancy and Effective Rents

Q4 2025	Seoul	CBD	GBD	YBD
Vacancy rate (%)	<b>2.8</b>	<b>3.7</b>	<b>2.0</b>	<b>2.1</b>
Net Absorption (sq. m.)	43,991	15,446	4,549	23,996
Q-o-Q (%p)	-0.5	-0.4	-0.2	-1.2
Y-o-Y (%p)	+0.2	+1.0	-0.1	-1.0
Effective rent (KRW/sq. m./mth)	<b>38,487</b>	<b>37,903</b>	<b>44,220</b>	<b>33,530</b>
Q-o-Q (%)	+0.5	+0.3	+0.9	+0.2
Y-o-Y (%)	+5.5	+5.5	+7.6	+3.0

Source: CBRE Research, Q1 2026.

## Retail

Cumulative retail sales through February 2026 showed growth, led by department stores (+14%) and online channels (+6%), while hypermarkets continued to underperform (-4%). Surging inbound tourism drove department store sales, while online shopping transaction value reached a record KRW 23 trillion for February. March CPI rose 2.2% y-o-y, remaining broadly stable, though the CCSI edged down 5 points to 107—the sharpest monthly decline since the martial law episode in late 2024—signaling a mild setback to the domestic consumption recovery.

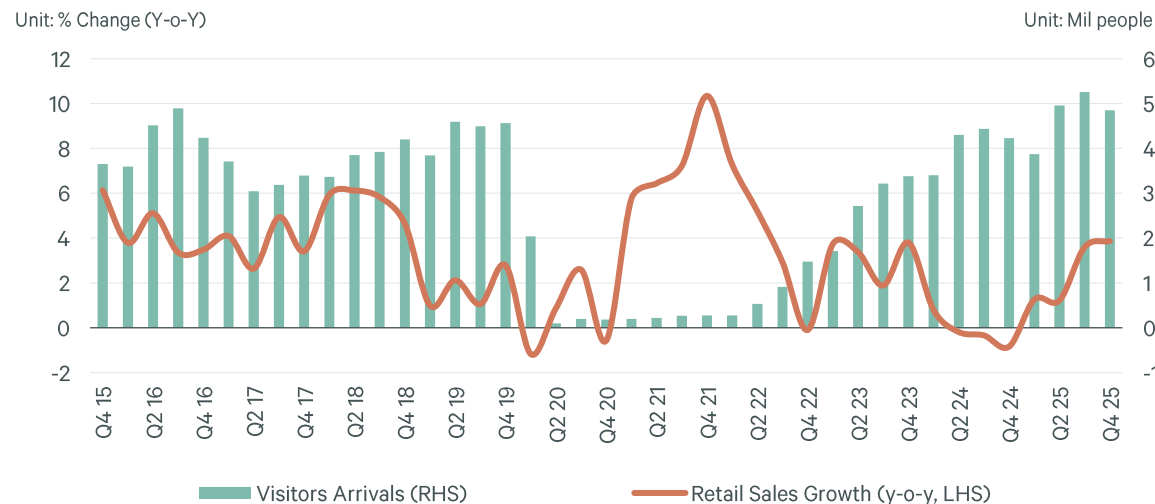
Inbound tourism combined with enhanced purchasing power amid KRW weakness continues to underpin Seoul's retail market. Cumulative foreign arrivals through February reached 2.7 million, up 20% y-o-y, led by Chinese tourists (920,000) boosted by the Lunar New Year and favorable exchange rates. They were followed by Japanese (460,000) and Taiwanese (350,000) visitors. High-street rents rose sharply y-o-y in Seongsu (+10%) and Gangnam (+9%), while vacancy in Gangnam (6%) and Myeongdong (7%) declined by 5–6 ppts y-o-y, affirming the resilient recovery of core retail corridors.

Seongsu and the Seoul Forest area further consolidated their status as the preferred test-bed for global brands entering Korea, with recent world-first flagship openings by UVU and Loewe Perfumes joining ABC Mart's Grand Stage flagship. As rising rents and premiums along Yeonmujang-gil raise entry barriers, demand is spilling over toward Seoul Forest, where Musinsa's district regeneration project is attracting emerging labels such as Freight and Lookcast, while transforming residential streets into commercial destinations.

Tenants in Myeongdong are responding to surging tourist footfall through store enlargement and specialization. During the quarter, Olive Young opened its 950-pyeong inbound-focused Central Myeongdong Town, while Musinsa and Kolon Sport reinforced their presence with multi-floor directly operated stores. In Hannam, AMI opened its largest store globally with a size of 128 pyeong, followed by Swiss premium running brand On launching its flagship, further cementing the area's positioning as a premium fashion and lifestyle destination.

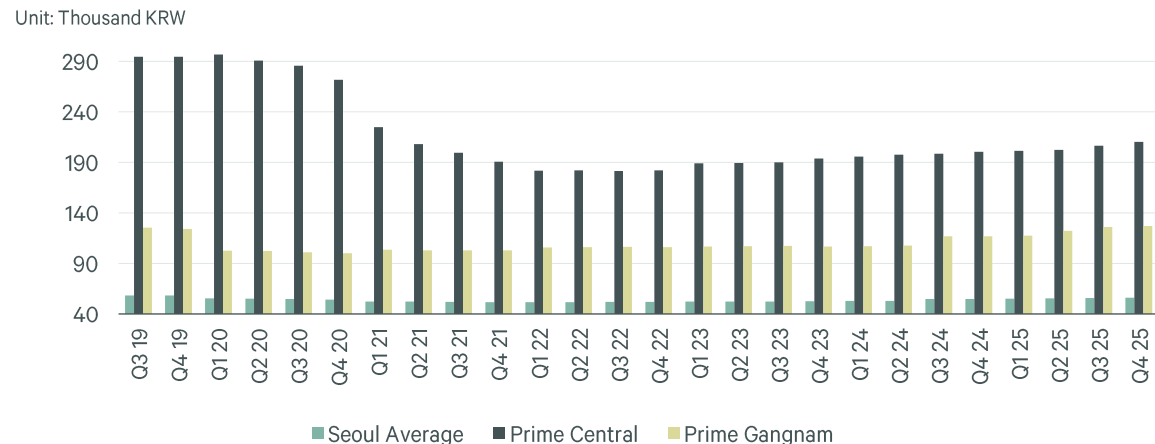
In traditional corridors such as Bukchon and Seochon, brands are increasingly opting to purchase buildings outright rather than lease, reflecting a strategic preference for long-term operational bases, rent escalation hedging, and embedding brand identity into owned assets. This trend of retailer-driven asset acquisition is expected to gain further traction.

FIGURE 2: Retail Sales Volume Growth Rate vs. Visitors Arrivals



Source: CBRE Research, Q1 2026.

FIGURE 3: Retail Rents



Source: CBRE Research, Q1 2026.  
Note: Based on medium to large sized shopping malls.

## Logistics

The Greater Seoul Grade A logistics market has entered a phase of pronounced supply contraction, with full-year 2026 completions forecast at 672,780 sq. m.. This marks the lowest level in a decade and is equivalent to approximately 32% of total net absorption recorded in 2025. The only new stock in Q1 2026 was Wide Creek's Yangju One Base Logistics Center (173,943 sq. m.), marking the introduction of the first prime-grade asset in the Yangju submarket.

Most assets scheduled for delivery in 2026 obtained permits during 2021–2022, with their extended development timelines reflecting the confluence of oversupply risk, rising construction costs, and successive policy rate hikes. While some stalled projects show signs of resuming, visibility into new pipeline supply is limited amid ongoing interest rate uncertainty.

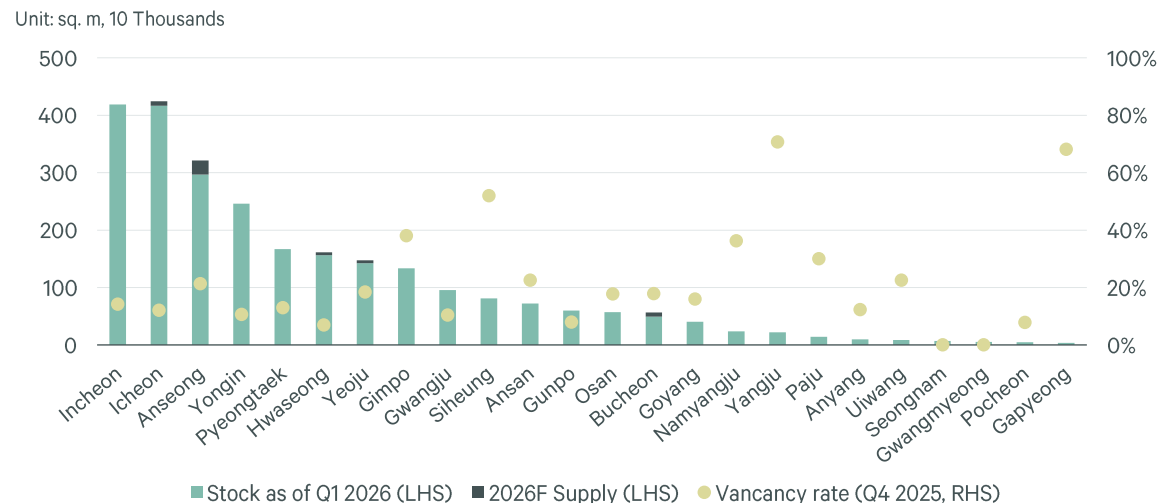
Leasing volume totaled 156,962 sq. m. in Q1 2026, with 3PL and e-commerce tenants accounting for approximately 65% of new take-up. BGF Retail's expansion of over 10,000 pyeong across dry and cold space in Incheon, alongside Coupang's securing of new hubs in Siheung and Hwaseong—including a single-floor space of over 6,000 pyeong in Hwaseong—underscored broad-based demand momentum across Greater Seoul. While pre-leasing for 2026 supply remains at an early stage, the record-low pipeline is expected to accelerate the market's recovery toward supply-demand equilibrium.

Cold storage accounted for approximately 25% of Q1 2026 leasing volume, driven by 3PL and F&B occupiers, with activity concentrated in western corridor submarkets such as Goyang, Gimpo, and Incheon. These areas offer proximity to key consumption centres and cold chain infrastructure suited to multi-hub network strategies.

Greater Seoul Grade A logistics vacancy has declined steadily from a peak of 23% in H2 2024 to 20% in H1 2025 and 17% in H2 2025. With dry storage vacancy now below 10%, competition for prime assets is expected to intensify as occupier expansion commitments solidify, with upward rental pressure becoming increasingly apparent.

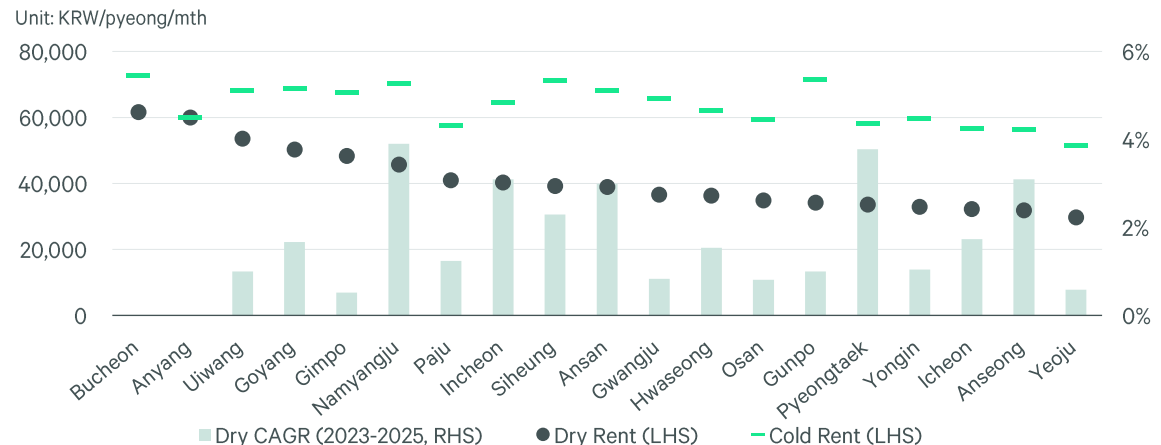
The direct impact of geopolitical uncertainty on the logistics leasing and investment market remains limited. That said, a sustained rise in oil prices and prolonged KRW weakness could increase logistics costs and weigh on occupier margins, potentially influencing leasing demand and space expansion strategies on an indirect basis.

FIGURE 4: Greater Seoul Logistics Supply and Vacancy



Source: CBRE Research, Q1 2026.

FIGURE 5: Greater Seoul Logistics Rents



Source: CBRE Research, Q1 2026.

## Investment

Seoul's commercial real estate investment volume totaled KRW 6.2536 trillion in Q1 2026, down approximately 35% q-o-q and 17% y-o-y, reflecting both the high base effect following a record-breaking 2025 and shifts in the interest rate environment. The emergence of geopolitical uncertainty late in the quarter has added variability to ongoing deal processes and could weigh on investment sentiment should it translate into direct pressure on the rate outlook.

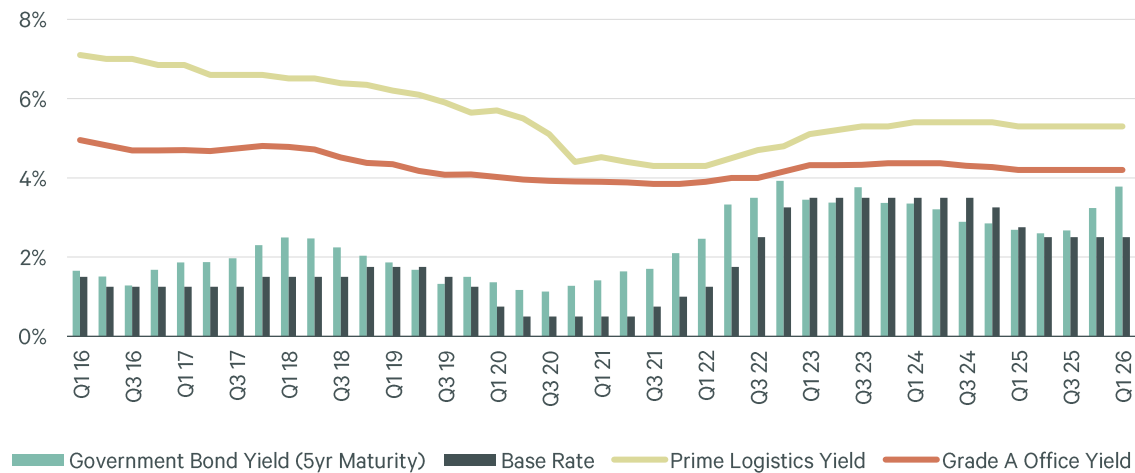
Office transactions totaled KRW 4.1513 trillion, accounting for 66% of total volume. The largest deal was Korea Investment Real Asset Management's acquisition of Seoul Square in the CBD for KRW 1.2855 trillion, followed by Hanwell Group's (Daiso) purchase of K-Square Gangnam 2 and Koramco Asset Trust's closing of the Ativerse Tower transaction. Strategic investor demand—which absorbed roughly one-third of record office transaction volume in 2025—continued into Q1 2026, with owner-occupation-driven buying expected to persist as a key support for transaction volumes and prime asset valuations.

Logistics investment totaled KRW 774.4 billion, down approximately 67% q-o-q and well below the 2025 quarterly average of KRW 1.37 trillion, as capital was increasingly concentrated in proven core assets. Key transactions included Capstone Asset Management's acquisition of Arenas Yeongjong for KRW 432.0 billion—backed by NPS blind fund capital—and Koramco Asset Management's purchase of Logis Point Hobeop A for KRW 79.0 billion alongside a foreign investor. With multiple deals in progress, a gradual recovery in logistics investment volume is anticipated from Q2 2026 onwards.

In the hotel sector, NH NongHyup REIT Management acquired Shilla Stay Seodaemun for KRW 146.0 billion (c. KRW 460 million per key), while Koramco Asset Management completed the acquisition of Hotel U5 for KRW 145.0 billion (c. KRW 480 million per key) with a value-add strategy involving expansion to 336 keys and a four-star reflagging. Constrained downtown supply and recovering tourism demand are expected to sustain investor interest in the sector.

Average yields held flat at 4.2% for Seoul Grade A offices and 5.3% for Greater Seoul Grade A logistics. Renewed tightening concerns following the Bank of Korea's rate hold in late February have raised negative carry risk, though an easing of uncertainty is expected to unlock pent-up demand and re-accelerate activity. The risk of abrupt cap rate widening remains limited given the selective and prime-focused nature of current deal flow.

FIGURE 6: Office, Logistics, Government Bond Yield Spread



Source: CBRE Research, Q1 2026.

TABLE 2: Major Transactions, Q1 2026

Sector	Property	Price (KRW bln)	Buyer	Seller
Office	Seoul Square	1,286	Korea Investment Real AMC	ARA Korea AMC
Office	K-Square Gangnam 2	355	Hanwell Group	Koramco Asset Trust
Office	Etibus Tower	268	Koramco Asset Trust	Capstone AMC
Logistics	Arenas Yeongjong	432	Capstone AMC	IGIS Asset Management
Logistics	Logisport Hobeop A	79	Koramco AMC	Mastern Investment Mngt
Hotel	Shilla Stay Seodaemun	146	NH Nonghyup REITs Mngt	IGIS Asset Management
Hotel	Hotel U5	145	Koramco AMC	Gyesan Industry

Source: CBRE Research, Q1 2026.

## Survey Criteria

### Office

- Grade A Office: Located in one of the three major business districts in Seoul (CBD, GBD, and YBD) with a gross floor area of 33,000 sq. m. or more.
- Defined by quantitative and qualitative factors such as completion date, tenant, and rent level.

District	Location	No. of assets	Avg. GFA (sq. m.)	Avg. completion year
CBD	Jongno-gu, Jung-gu	53	70,779	2004
GBD	Gangnam-gu, Seocho-gu	38	69,147	2004
YBD	Yeongdeungpo-gu, Yeouido-dong	23	88,311	2006

- Effective Rent: Reflect rent-free incentives of each asset to face rent

### Retail

- Retail market sales: based on data from Korea Statistics, exclude passenger vehicle and fuel sales.
- Online shopping sales: exclude online service sales from overall online shopping sales

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### Logistics

- Grade A Logistics: Located in Greater Seoul (Gyeonggi-do and Incheon) with a gross floor area of 33,000 sq. m. or more.
- Defined by quantitative and qualitative factors such as completion date, floor height, distance from IC, and rent level.

No. of submarkets	No. of assets	Avg. GFA (sq. m.)	Avg. completion year
24	328	74,612	2020

- Data updates: conduct research on quarterly (supply) and bi-annually (vacancy, rents, tenants)

### Investment

- Transaction volume: Among office, retail, and hotel assets located in Seoul and logistics assets (logistics centre and factory) located in Greater Seoul, transactions worth more than KRW 10 billion are included.
- Transacted date: application date of registry information
- Office yield (Cap Rate) : calculated based on NOI and other qualitative factors and opinions from Capital Markets team are also taken into consideration.

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