Intelligent Investment

CBRE

2025 Lender Sentiment Survey

2025 Korea Lender Survey

De-Risking: Lenders' Choices and Strategies for 2026

CBRE Korea Research | December 2025

Introduction

The KRW 361 Trillion Era of Development Loans: The Expanding Scale of Korea's Real Estate Finance Market and the Growing Need for Risk Management

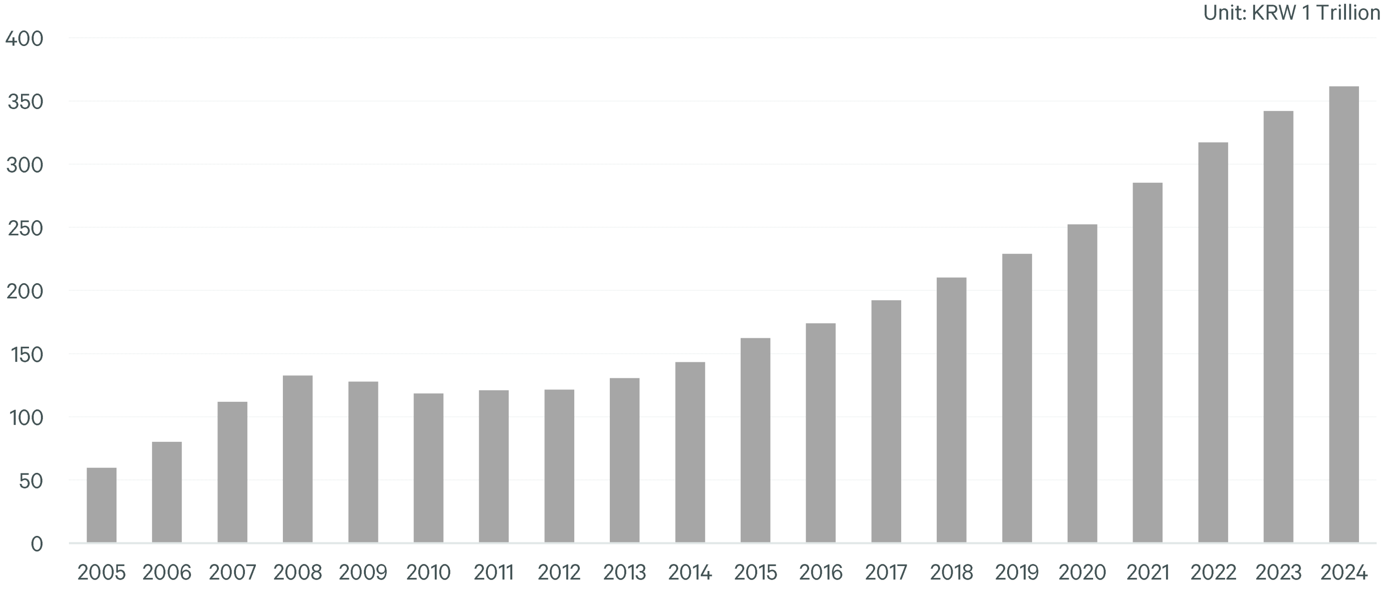
As of 2024, the combined loan balance for Korea's construction and real estate sectors totaled approximately KRW 361 trillion. This figure has repeatedly hit record highs in recent years and has more than doubled over the past decade, indicating a pronounced acceleration in growth.

This expansion has been driven by a convergence of several factors including a prolonged low-interest-rate environment; the growth of the domestic commercial real estate market; rising asset prices; increased market participation by corporates; and the escalation of construction costs associated with large-scale development projects. However, this long-term growth in the domestic real estate finance market has seen the concurrent emergence of a need for macro-level risk management.

Further interest rate cuts are widely anticipated before the end of 2025 and continuing into 2026. While rate reductions are expected to stimulate additional loan demand within Korea's commercial real estate sector, a prolonged period of subdued economic growth could elevate the risk of loan deterioration and defaults.

Against this backdrop, CBRE has undertaken Korea's first lender-focused real estate survey to gain a comprehensive understanding of the market. Featuring participation from 44 major domestic lenders, the survey explores topics including future lending attitudes; preferred asset classes; shifts in underwriting standards; and broader expectations for the lending landscape. Through these insights, CBRE provides a forward-looking perspective on the future of Korea's real estate finance market.

Figure 1: Trends in Construction and Real Estate Lending (Excluding Household Loans)



Source: Ministry of Data and Statistics, December 2025.

44 major lenders participated in this survey

Domestic banks	Pension funds and mutual aid associations	Capital companies	Savings banks
Foreign banks	insurance companies	Securities firms	Asset management companies

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Current Lending Market Conditions and Outlook

Trends in Key Macroeconomic Indicators (2005-2026F)

Over the past two decades, Korea's macroeconomic landscape has been characterized by a structural slowdown in GDP growth and heightened volatility in both policy interest rates and the exchange rate, driven by multiple global economic shocks.

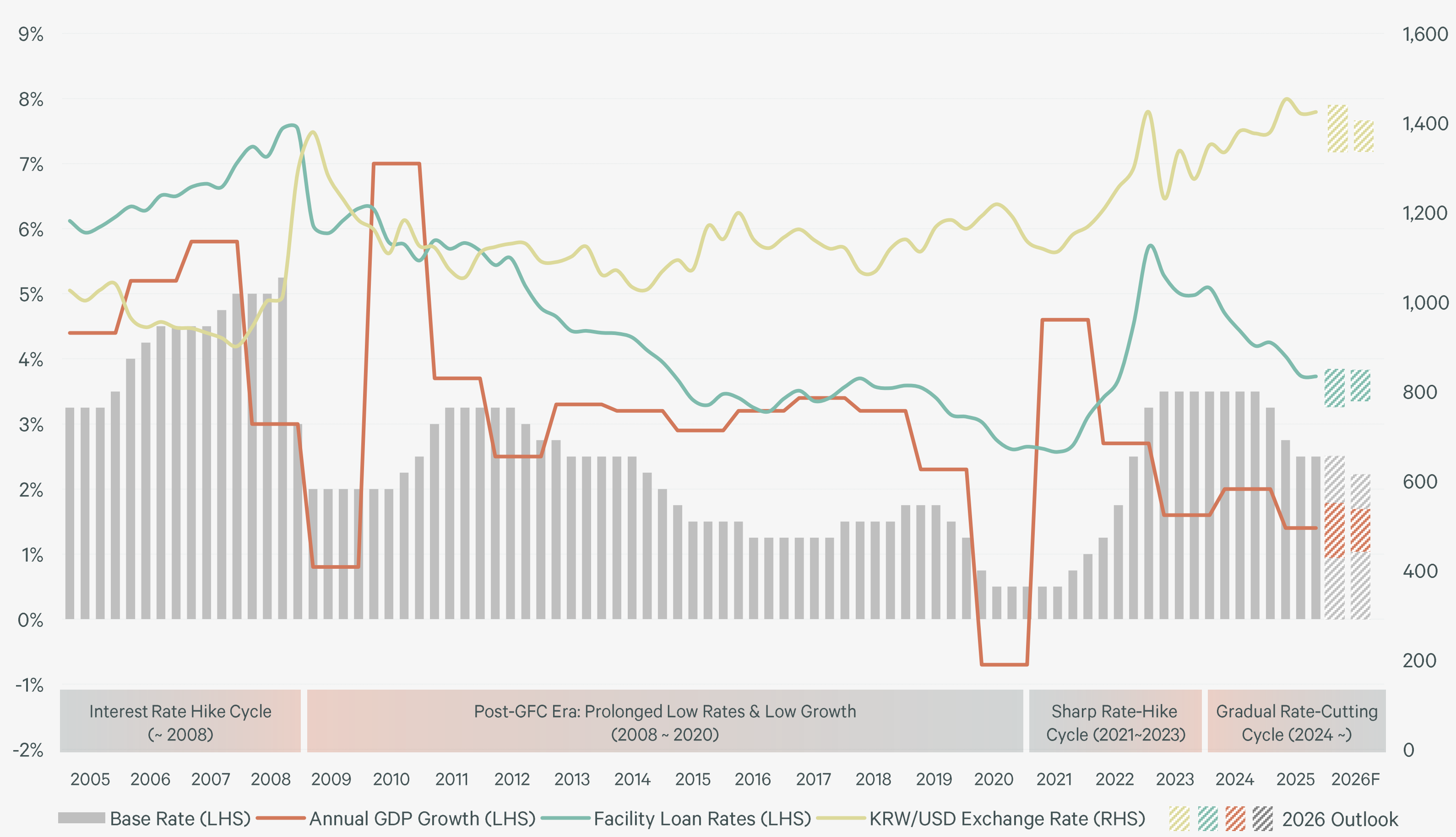
Following the Global Financial Crisis (GFC) in 2008, Korea's annual GDP growth rate declined from the 5% range to the 2% range, marking a transition into a prolonged low-growth environment. In response, the Bank of Korea (BoK) implemented a series of rate cuts, ushering in a prolonged period of low and ultra-low interest rates, with the base rate reaching a historic low of 0.5%. Although GDP growth rebounded in 2021 due to the base effect from the preceding year, it subsequently entered a phase of deceleration the following year.

In contrast, the period following the pandemic saw policy tightening accelerate at a record pace, with the base rate rising to 3.50% by early 2023 as authorities sought to curb inflationary pressures. While facility loan rates broadly tracked movements in the base rate, risk premiums widened significantly during periods of elevated macro uncertainty—such as the GFC and the pandemic—leading to an increased funding burden for corporates.

The KRW/USD exchange rate, which spiked sharply in 2008, subsequently stabilized over the long term. However, the recent cycle of aggressive rate hikes by the U.S. Federal Reserve and persistent dollar strength has once again placed upward pressure on the exchange rate, heightening concerns over external liquidity conditions and the potential for capital outflows.

From 2024 onwards, the BoK has shifted back towards a policy of rate cuts. With inflation stabilizing and downside risks to growth becoming more pronounced, the base rate is expected to decline gradually through 2026. Nevertheless, elevated KRW/USD levels, high household debt, rising housing prices and other structural constraints are likely to limit the extent of monetary easing.

Figure 2: Base Rate, Annual GDP Growth, Facility Loan Rates and KRW/USD Exchange Rate (2005–2026F)



Source: Oxford Economics, Ministry of Data and Statistics, November 2025.

Commercial Real Estate Investment Volume Trends (2015–2025F)

The strong upward growth trajectory of Seoul's commercial real estate investment market has become increasingly evident over the past decade, with transaction volumes showing strong correlation with the broader base-rate cycle. Following the GFC, office assets—particularly those sought by foreign capital targeting higher yields—dominated transaction activity. From 2017 onwards, however, the logistics sector emerged as an alternative to compressed office yields, gaining significant momentum, particularly in the post-pandemic period.

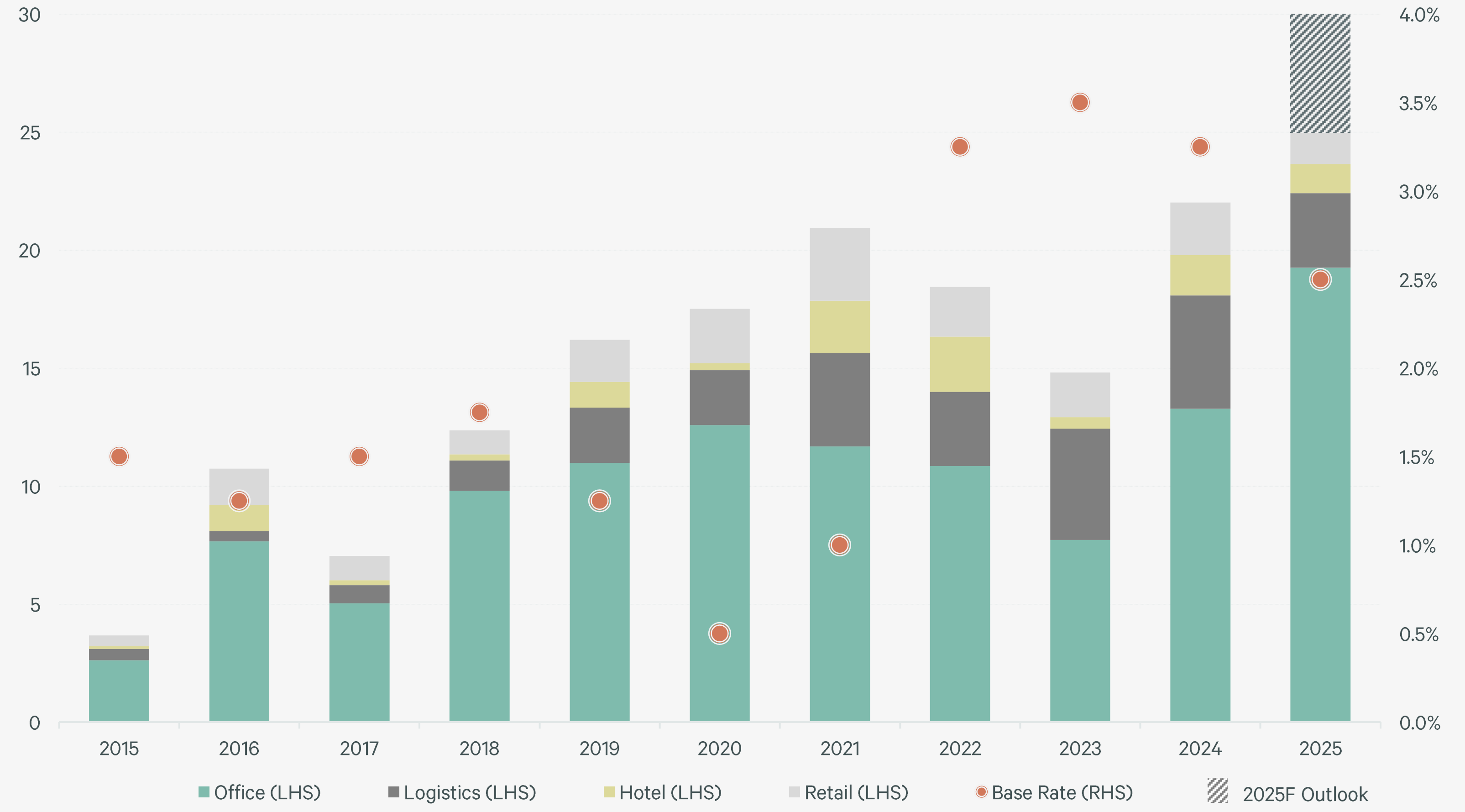
During the prolonged low-interest rate environment, Seoul's commercial real estate investment market reached a historic milestone in 2021, recording KRW 21 trillion of transactions, the highest annual investment volume on record. This was driven by a decade-long expansion of liquidity, with both domestic and international investors actively participating in the market on the back of exceptionally low financing costs.

By contrast, the sharp increase in the base rate from 2022 onwards substantially raised funding costs; amplified downside risks to asset pricing; and widened bid–ask spreads - resulting in a marked slowdown in transaction activity. Nevertheless, despite the rate-hike cycle, Seoul's Grade A office market maintained exceptionally low vacancy, demonstrating strong fundamentals. Supported by this resilience, Seoul's commercial real estate investment volume in 2024 registered an exceptional rebound, surpassing the record level previously set in 2021.

In 2025, large-scale transactions—particularly within the office sector—have been a defining feature of the market. Combined with a widespread market expectation of interest rate cuts, investor sentiment has strengthened significantly. As of Q3 2025, cumulative full-year investment volume has already exceeded KRW 25 trillion, outpacing the full-year 2024 total. Annual transactions are expected to surpass KRW 30 trillion, marking another record year. Investor sentiment surveys indicate that Korean respondents' acquisition appetite has reached an all-time high, underscoring the decisive impact of shifts in the interest rate environment on market activity.

Figure 3: Commercial Real Estate Investment Volume (2015–2025F)

Unit: KRW 1 Trillion



Source: CBRE Research, November 2025.

Analysis of Lending Attitudes in 2025: Concurrent Contraction of Supply and Demand / The Intersection of Interest Rate Cut Expectations and Conservative Lending Stance

In 2025, Korea's lending market displayed a generally cautious stance, shaped by a combination of positive influences from expected interest rate cuts and negative pressures arising from macroeconomic slowdown and intensified financial risk hedging.

According to data from the Korea Statistical Information Service (KOSIS), which surveys market participants on lending sentiment, both lenders (supply side) and borrowers (demand side) exhibited increasingly conservative attitudes toward lending as the year progressed.

While the first half of the year saw improving demand—supported by expectations of monetary easing—most lending institutions, excluding domestic banks, consistently recorded negative index readings throughout H1 2025, signaling their intention to maintain a tightening stance. Non-bank institutions were even more conservative, reflecting heightened concerns over borrowers' repayment capacity and an increased risk of loan deterioration.

This cautious posture appears to have been driven by proactive efforts to manage risks associated with project finance exposures and broader economic headwinds. Lenders have concentrated selectively on high-quality assets and financially sound borrowers to secure profitability, while concurrently reducing exposure to riskier segments and tightening underwriting standards to safeguard asset quality.

In the second half of the year, political and regulatory uncertainty following the presidential election—combined with rising concerns over economic recession—contributed to weakening borrower sentiment, further cooling loan demand.

Figure 4: Lending Demand in 2025 (Lenders' Assessment of Borrower Demand)

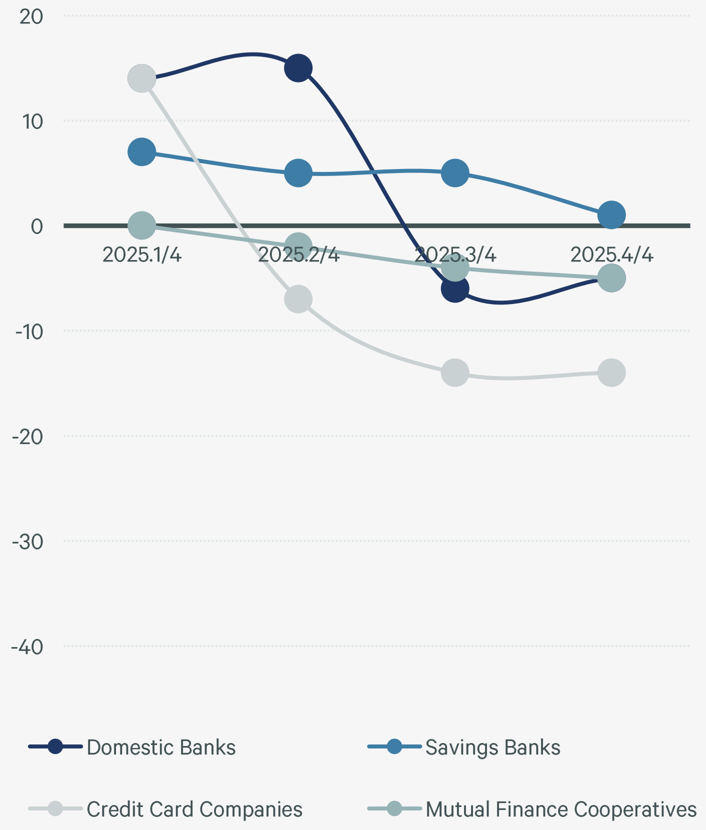
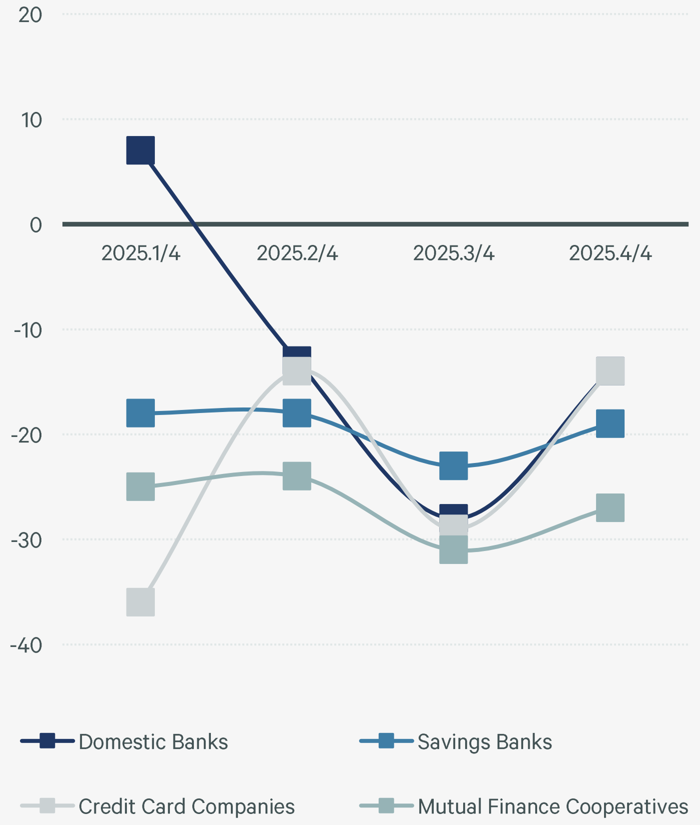


Figure 5: Lending Attitudes in 2025 (Lenders' Assessment of Loan Supply)



Source: Ministry of Data and Statistics, November 2025.

Investor Considerations and Lending Strategies

Every year, CBRE Korea conducts an annual investor intentions survey of key domestic investors.

Concerns over central bank policies and lending, which domestic investors cited as the biggest challenges in 2024, significantly declined year-on-year in the 2025 survey, primarily because the trend of interest rate cuts has become more visible. Furthermore, most investors said that they would increase or maintain their real estate investment allocation in 2025. Respondents cited the reduction in borrowing costs resulting from interest rate stabilization (or decline) as the primary premise for their planned expansion of investment activity. With the recovery of investment sentiment driven by liquidity expansion and the securing of positive leverage effects, the Seoul commercial real estate market is expected to record its largest ever investment volume in 2025.

Conversely, while there is a general expectation that the overall financing environment will improve in 2025 compared to 2024, concerns regarding stringent bank underwriting standards were the only factor to show an increase. The view of investors—that various elements such as asset quality, location, tenant presence and creditworthiness, and confirmed pre-acquisition commitments will become increasingly important for obtaining loans due to reinforced lending criteria—aligns directly with the conservative supply stance identified among lending institutions.

Figure 6: Barriers to Commercial Real Estate Investment

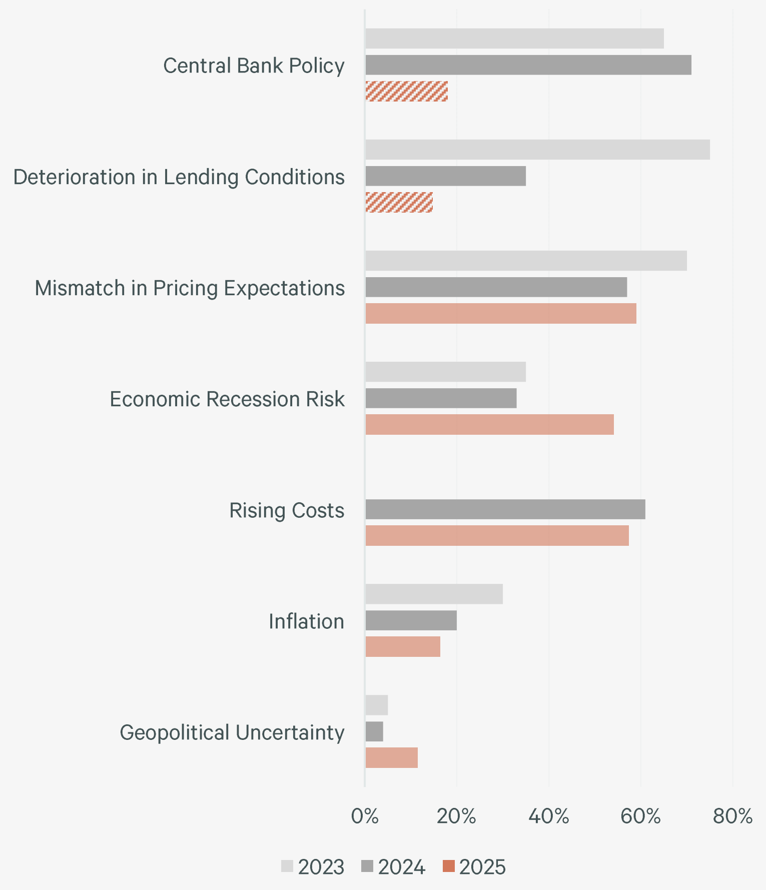


Figure 7: Drivers of Investment Expansion in 2025

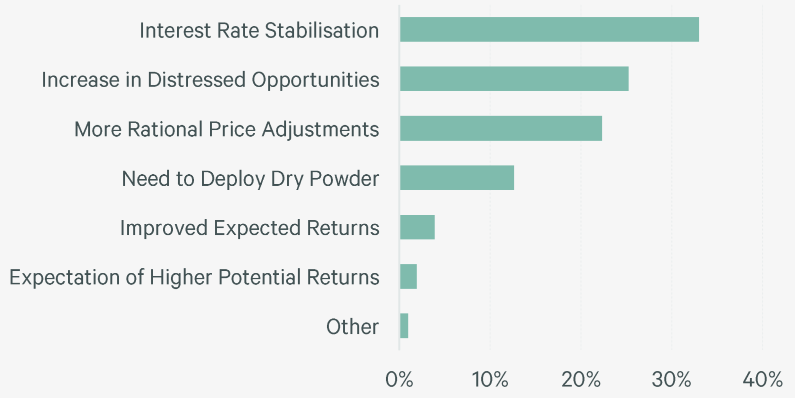
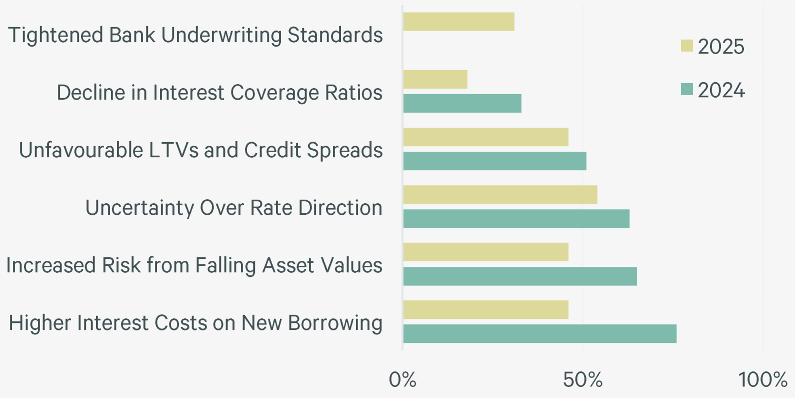


Figure 8: Key Challenges in Capital Raising



Source: 2025 Korea Investor Intentions Survey.

Investor Considerations and Lending Strategies

Loan investments, one of the principal strategies for investors during the high-interest rate period, have gradually decreased in preference following the trajectory of interest rate reductions. Investors are now seeking more sophisticated and stable income generation strategies, evidenced by a year-on-year increase in demand for equity investments through preferred shares or Real Estate Investment Trusts (REITs).

In the past, debt funds were an attractive alternative for investors pursuing mid-risk, mid-return, underpinned by high interest income and stability. However, the decline in interest rates has led to a reduction in the distribution yield of debt funds, thereby diminishing their appeal compared to equity investments where capital gains can be anticipated.

Conversely, investor preference for mezzanine financing (subordinate debt), which offers higher anticipated returns than senior debt investment while presenting relatively lower risk compared to equity investment, was more pronounced this year.

While there have been instances where some domestic institutions faced potential losses from mezzanine debt investments due to the sharp decline in asset values within overseas office markets, the low vacancy rate and limited asset value adjustment observed in the Seoul office market suggest that mezzanine debt investment targeting domestic assets remains a valid strategy. Among strategies involving equity investment, the domestic investors' preference for preferred share investment showed the most significant increase. This is due to a heightened preference for more stable cash flows, coinciding with the shift towards lower interest rates.

Figure 9: Key Investment Strategies

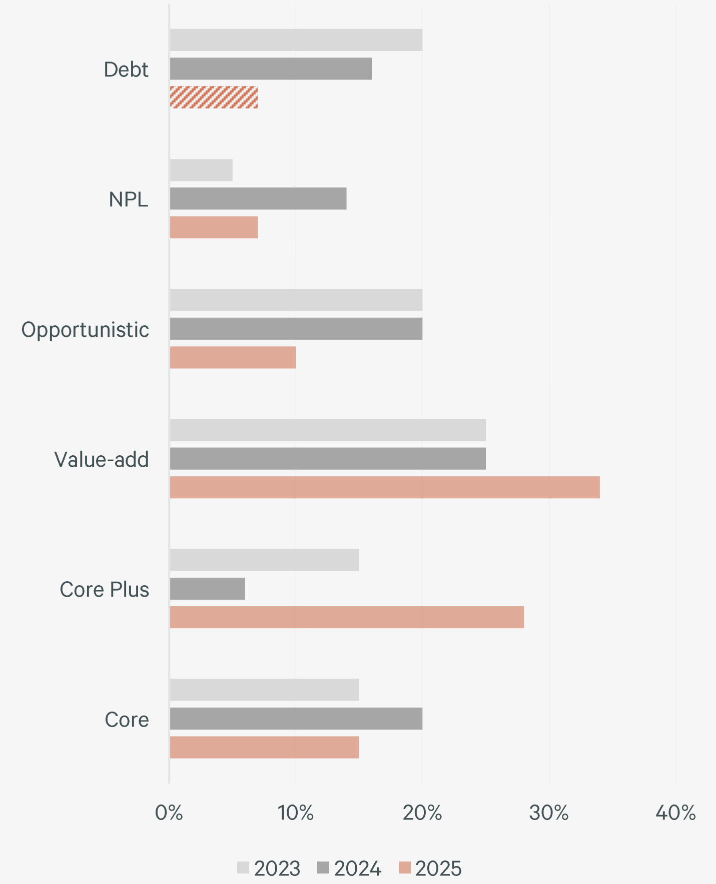
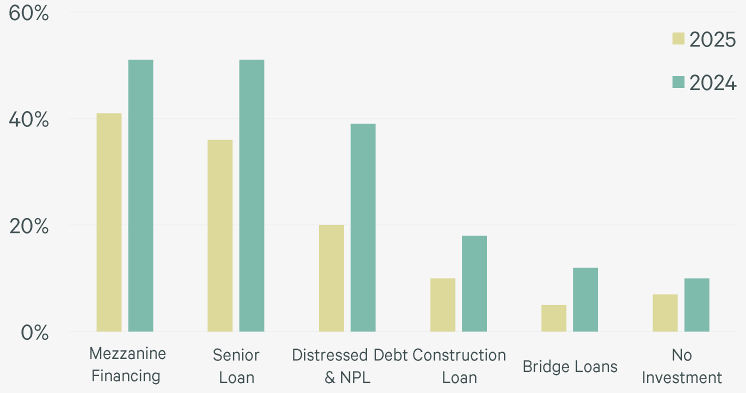


Figure 10: Preferred Strategies for Equity Investment

Figure 11: Preferred Strategies for Debt Investment



Source: 2025 Korea Investor Intentions Survey.

High Expectations of a Rate Cut in H1 2026: Lenders Adopt Gradual and Prudent Rate Cut Stance

CBRE's survey found the majority of respondents expect the BoK to maintain a gradual and cautious monetary easing stance over the coming quarters.

Around 90% of lenders anticipate either one additional rate cut of 25 bps within this year or a hold at the current level of 2.50%. Looking ahead to H1 2026, 84% of respondents forecast the base rate to fall within the 2.00–2.25% range, indicating broad consensus that the BoK will deliver at least one rate cut during H1 2026.

This reflects a conservative outlook, signaling that lenders do not expect cuts to be as rapid or as sizeable as market expectations, nor comparable to the aggressive tightening cycle seen between 2021 and 2023.

Lenders cite several macroeconomic constraints that are likely to limit the scale of monetary easing. Elevated exchange-rate volatility continues to heighten concerns over potential foreign capital outflows, making it difficult for the BoK to narrow the interest rate gap with the U.S. too quickly. In addition, historically high household debt levels raise the risk that excessive monetary loosening could reignite overheating in the property market. The recent short-term rate rebound observed in the market further substantiates the residual uncertainty that persists.

Given these factors, the base rate is widely expected to exhibit downward rigidity over the medium term, suggesting that a return to the ultra-low-interest rate environment seen in the past is unlikely any time soon.

Figure 12: Base Rate Expectations for December 2025

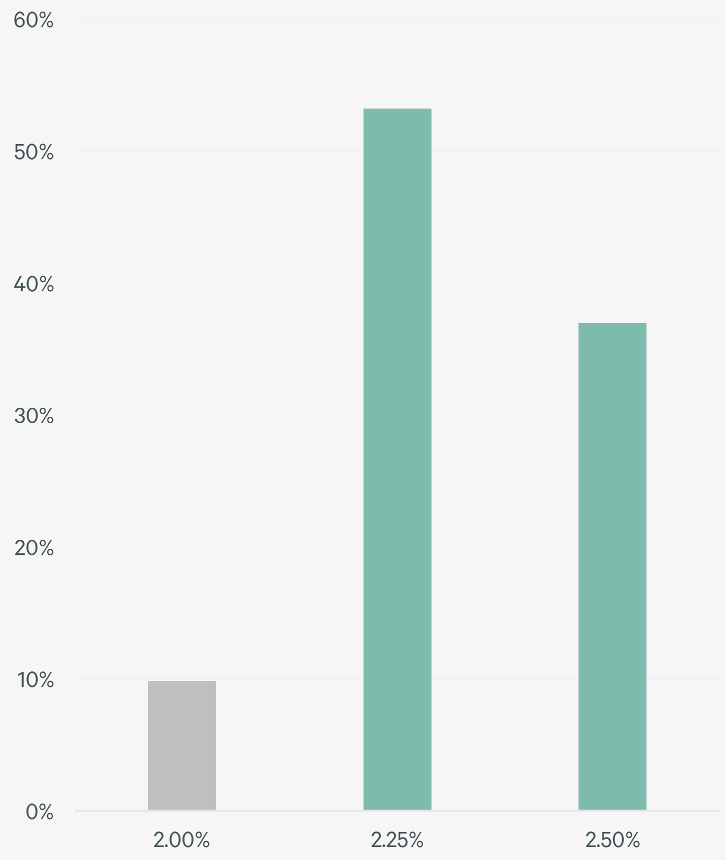
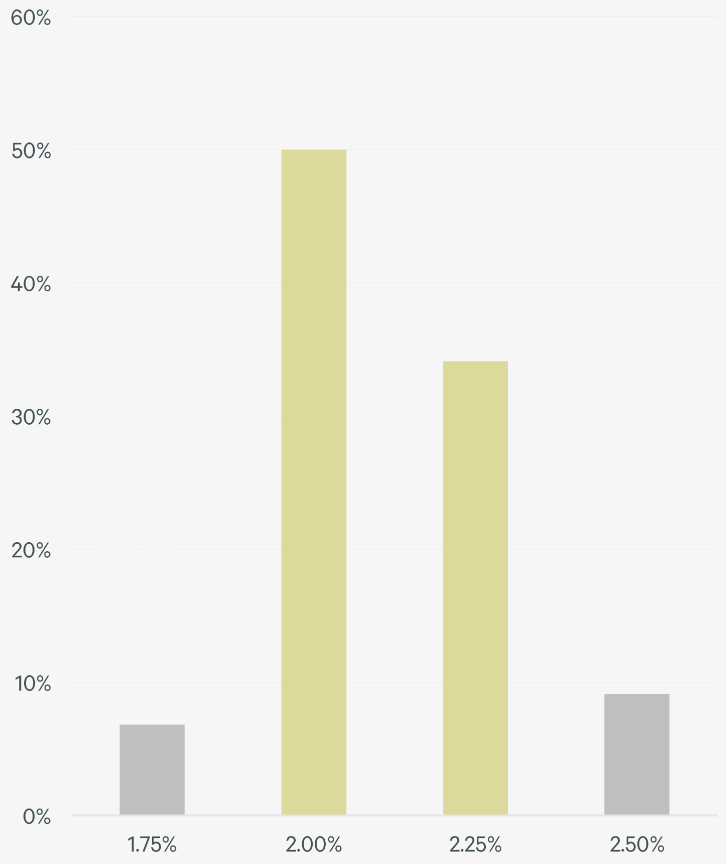


Figure 13: Base Rate Expectations for June 2026



Source: CBRE Research, November 2025.

Outlook for Lenders' Loan Activity in 2026: Selective Expansion under Prudent Solvency Presumptions and the Securitization of Prime Loan Portfolios

Lenders are expected to increase their loan activity in 2026, marking a notable improvement from the more restrained stance seen throughout 2025. According to CBRE's survey, 62% of respondents indicated that they intend to lend more aggressively in 2026 compared with the previous year.

This shift indicates lenders' willingness to transition beyond the current somewhat conservative and defensive 'wait-and-see' phase regarding loan supply. This is driven by the recent reduction in opportunities to participate in prime loan portfolios, suggesting a strategic move towards proactive opportunity capture, such as selecting high-quality debt, with the aim of securing market superiority.

Expectations surrounding loan delinquency also point to a more optimistic direction. Most respondents anticipate that delinquency rates will either remain stable or decline, suggesting that lenders view current risk-management measures as broadly effective and do not foresee a rapid deterioration in asset quality in the near term.

This outlook appears to reflect a combination of factors: growing confidence that further interest rate cuts will improve liquidity conditions; an expectation that borrowers' interest-servicing burdens will ease; and the belief that more prudent, risk-sensitive origination practices during the recent tightening cycle have strengthened the credit quality of newly issued loans. Continued efforts to resolve non-performing exposures have further supported this assessment.

Despite this shift, underwriting standards for overall lending are expected to remain stringent. It is anticipated that major lenders will attempt selective loan expansion, whilst simultaneously offering flexible terms limited to prime assets and borrowers. This approach acknowledges persistent macro-level risks, such as instability within the PF market, and is premised upon maintaining stringent lending solvency.

Figure 14: Expected Changes in Underwriting Standards for 2026

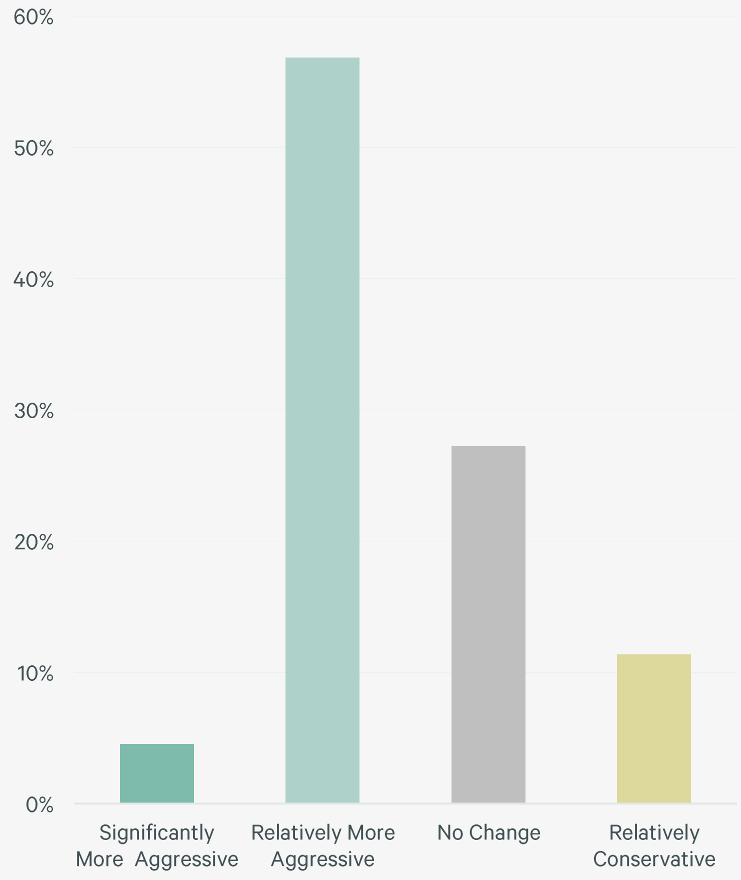
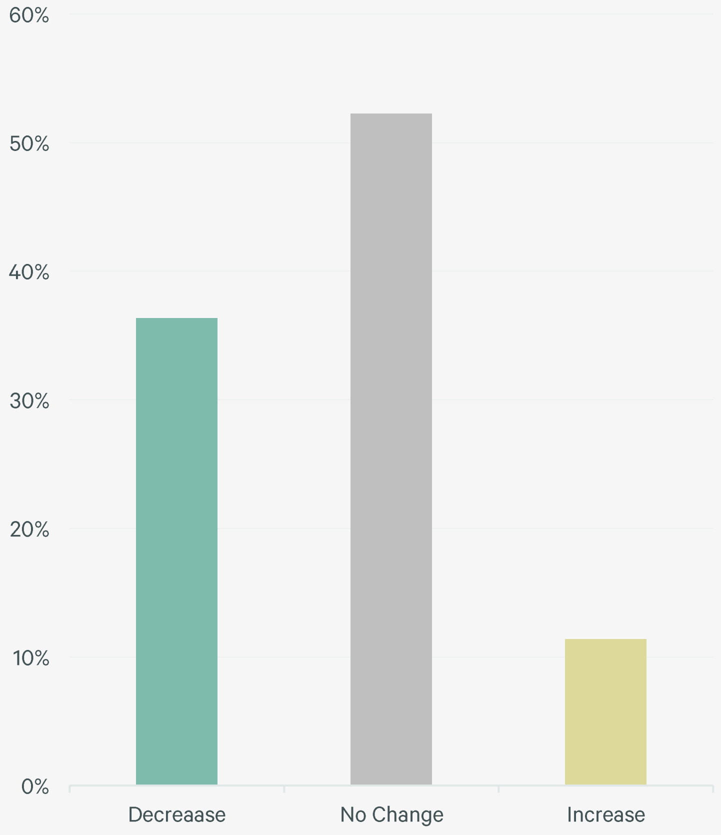


Figure 15: Outlook for Loan Delinquency Rates in 2026



Source: CBRE Research, November 2025.

Risk Factors for Korea's Real Estate Finance Market in 2026

Over the next year, the most significant risk factor that could hinder the expansion and stability of Korea's real estate finance market is concern over an economic downturn; a factor identified by a majority (52%) of survey respondents.

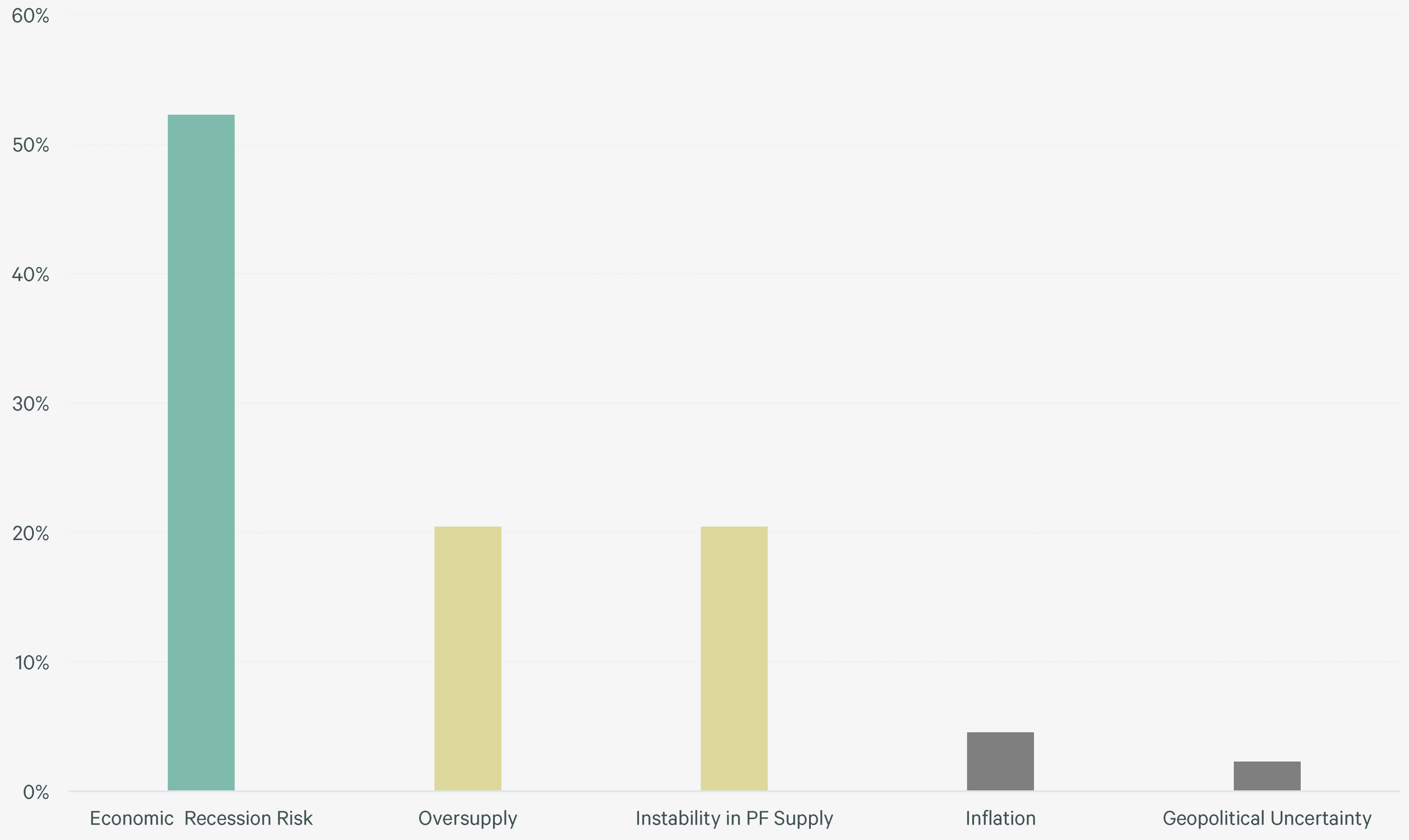
A broad-based slowdown in economic activity could weaken real estate fundamentals by reducing corporate leasing demand; increasing vacancy rates; and exerting downward pressure on asset values. Ultimately, such conditions may dampen investment sentiment and impair borrowers' repayment capacity.

Oversupply and instability in the project finance market ranked jointly in second place, with 20% each. In fact, supply volume remains one of the most influential variables affecting the Seoul commercial real estate market. In the Greater Seoul Grade A logistics sector, where record levels of new supply were delivered between 2023 and 2024, vacancy rates rose sharply and new PF originations were largely halted—illustrating the extent to which lenders perceive a fundamental imbalance in supply–demand conditions as a major systemic threat.

Instability in the PF market has been compounded by high interest rates; rising construction costs; and delays in development projects - all of which have contributed to an accumulation of default risk. Although Korea's Financial Supervisory Service (FSS) is currently preparing a set of structural reforms aimed at improving PF asset quality, questions are currently being raised regarding the efficacy of this approach. This is primarily due to the deterioration of real estate market conditions and the conflict of interest among respective project stakeholders.

Concerns regarding inflation and geopolitical risk were comparatively limited. This suggests that lenders, in forming their short-term market outlook, place greater emphasis on macroeconomic conditions and the stability of real estate fundamentals than on external financial variables such as interest rates, inflation, or global political developments.

Figure 16: Risk Factors for Korea's Real Estate Finance Market in 2026



Source: CBRE Research, November 2025.

02

Real Estate–backed Lending Strategies

Pursuit of Stability: Capital Concentration in Offices and Logistics; Selective Interest in Co-living and Data Centers

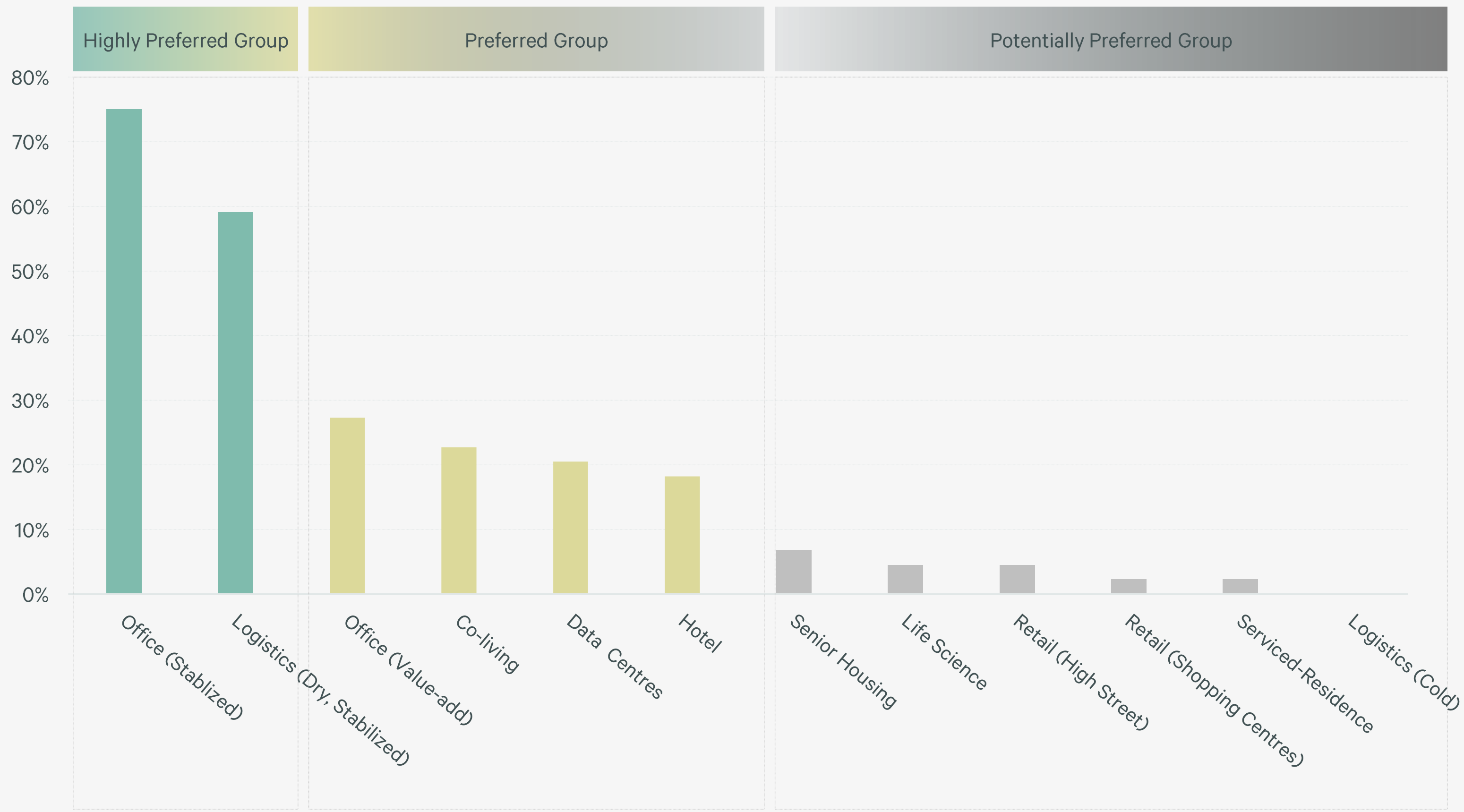
In 2026, lenders' most preferred categories for real estate lending were stabilized office assets, selected by 75% of respondents, followed by stabilized dry-storage logistics facilities, with 59%. Both categories were favored specifically on the condition that the assets are already stabilized, underscoring lenders' overarching prioritization of stability and their strong preference for core assets with proven cash flow amid an uncertain economic environment.

Seoul's prime office districts continue to exhibit resilient demand and exceptionally low vacancy levels, reinforcing their position as the safest and most reliable lending targets for financial institutions. In the logistics market, where certain vacancy risks persist, a selective approach was observed. Respondents showed a high preference exclusively for dry logistics centers that guarantee stable operating income through tenant occupancy. Consequently, a highly selective investment strategy was evident.

At the same time, certain alternative asset classes with strong growth potential—namely co-living and data centers—recorded meaningful interest at levels exceeding 20%. Co-living has gained attractiveness as shifting residential preferences and continued growth in single-person households support rising demand, particularly among younger demographics. Data centers are increasingly recognised as future-proof infrastructure assets, supported by rapid expansion in artificial intelligence and cloud computing—prompting lenders to consider them as viable targets for future capital deployment.

By contrast, traditional retail assets and those with elevated regulatory or market risks were viewed far less favorably. Products such as serviced residence-type accommodation, which face regulatory uncertainty, as well as cold-storage logistics facilities in oversupplied submarkets with persistently high vacancy, have been effectively excluded from lenders' investment considerations.

Figure 17: Preferred Real Estate Lending Asset Types (2026)



Source: CBRE Research, November 2025.

2026 Investor Intention Survey: Evidence of a Shifting Investment Paradigm

To compare the findings with lenders' preferred lending categories outlined earlier, CBRE reviewed the interim results of its ongoing 2026 Korea Investor Intention Survey. The results indicate that investors' preferred asset types largely mirror lenders' conservative lending preferences, suggesting a broader alignment across market participants in an uncertain economic environment.

Analysis of preferred investment sectors reveals a clear diversification away from the historically office-centric investment paradigm. Investor preference for offices—long regarded as the most desirable asset class—declined from 65% in 2023 to 24% in 2026. Nevertheless, office assets remain a core product class, underpinned by sustained value appreciation and a strong track record of successful transactions. Selective acquisitions of high-quality office assets are therefore expected to continue.

By contrast, logistics maintained stable preference levels in the mid-20% range (24%), now matching offices for the first time. This shift aligns with lenders' strong preference for stabilized dry-storage logistics assets, while excluding cold-storage logistics assets with elevated vacancy. Together, these trends point to greater polarization within the logistics investment market, with capital flowing selectively toward assets with demonstrably stable demand. Meanwhile, rising interest in data centers (16%) and residential development (16%) highlights investors' increasing focus on future-oriented asset classes and the scarcity value of development opportunities, echoing lender sentiment toward sectors with long-term structural growth drivers.

From a strategy perspective, value-add (33%) and core plus (33%) strategies accounted for 66% of responses, reflecting a balanced approach aimed at both enhancing asset value and securing stable income improvement. Notably, preference for debt strategies declined sharply—from 20% in 2023 to just 4% in 2026—demonstrating investors' clear tendency to avoid uncertainties in the PF market and focus instead on equity-driven upside through asset value appreciation.

Figure 18: Preferred Investment Sectors Among Domestic Investors

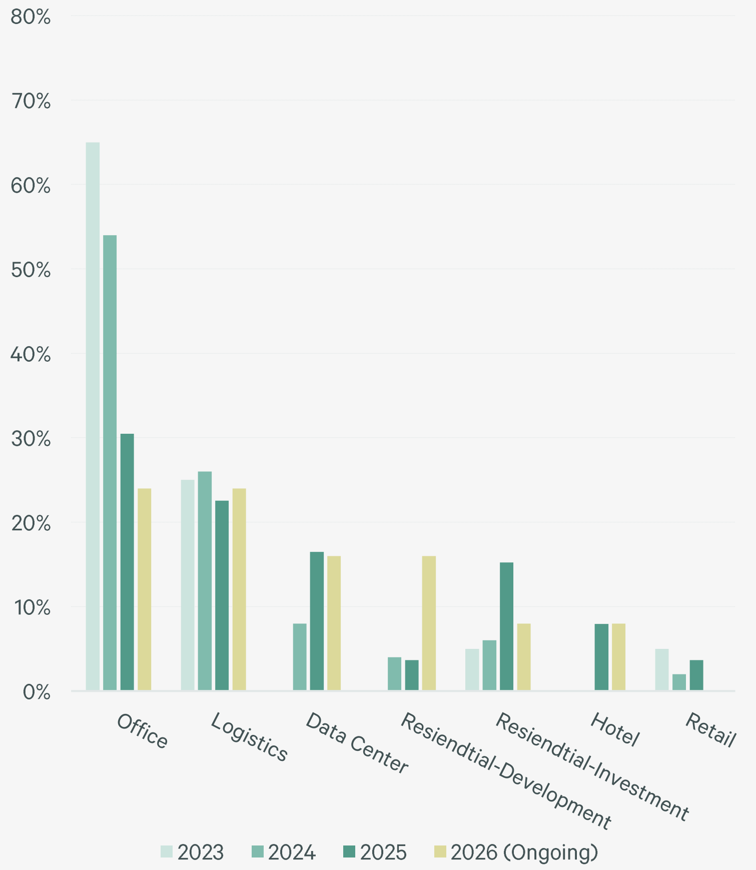
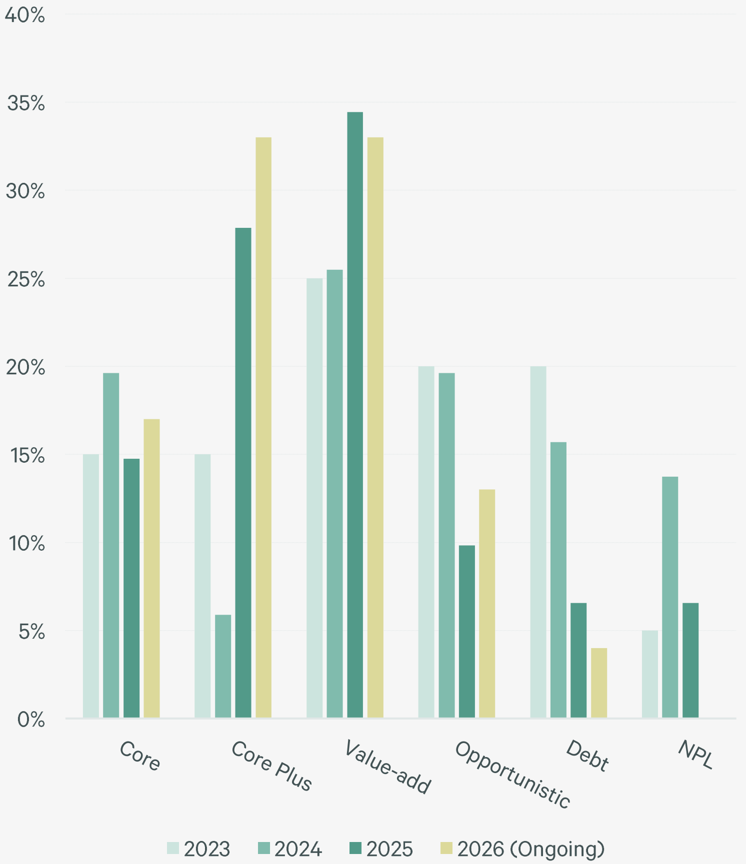


Figure 19: Preferred Investment Sectors Among Domestic Investors



Source: 2026 Korea Investor Intentions Survey, CBRE Research, December 2025.

LTV and DSCR Requirements for New Real Estate-backed Lending

Across major lenders, underwriting standards for new real estate–backed loans remain generally conservative. However, specific thresholds for Loan-to-Value (LTV) and Debt-Service Coverage Ratio (DSCR) vary by institution. Survey results indicate that lenders most commonly prefer LTV levels within the 51–60% and 61–70% ranges, each selected by 36% of respondents. This distribution reflects the cautious stance of traditional banking institutions, while capital companies and savings banks showed a willingness to consider loans at the upper end of the range, with an LTV of up to 70%.

Compared with the mid-to-late 2010s, when intensified liquidity competition in an ultra-low-interest rate environment led some lenders to underwrite premium assets at LTV ratios in the mid-70% range, the current environment is markedly different. With elevated interest rates and heightened uncertainty, lenders are now requiring more substantial equity buffers, signaling a strengthened commitment to risk and loan-quality management.

For DSCR, the preferred range among lenders was 1.3x to 1.4x, indicating that the collateral asset must generate Net Operating Income (NOI) equivalent to at least 1.3x the debt service requirement. This represents a clear shift from the previous common tolerance of 1.1x–1.2x, demonstrating lenders' demand for greater cash-flow safety margins and a more resilient repayment profile from borrowers.

The shift away from liquidity-driven lending decisions toward underwriting practices centered on cash-flow stability and collateral protection suggests that selective and disciplined credit standards are likely to remain a defining characteristic of Korea's real estate finance market over the longer term.

Figure 20: Preferred LTV Ratios for New Lending

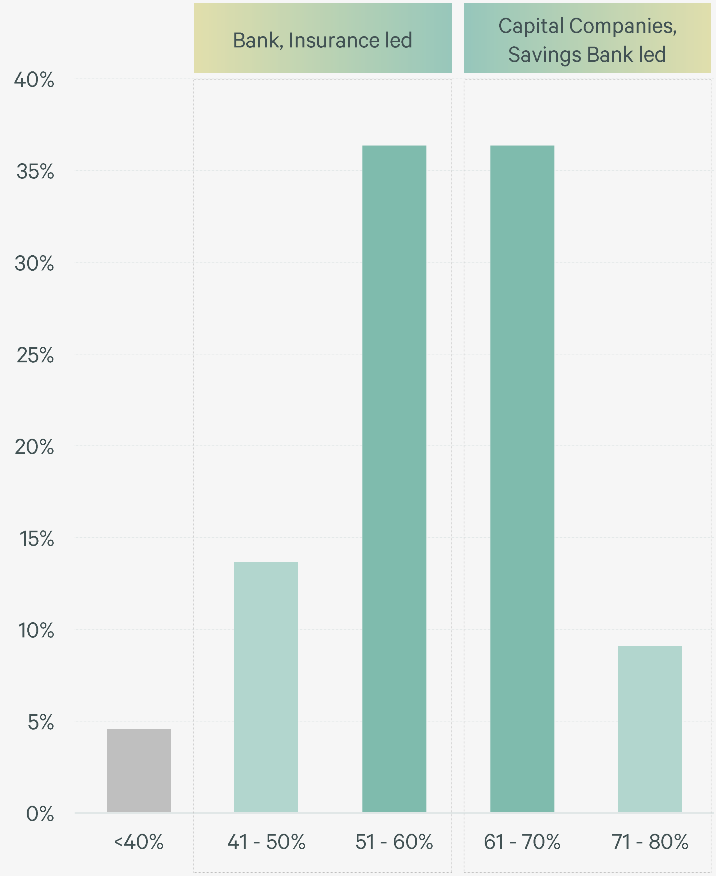
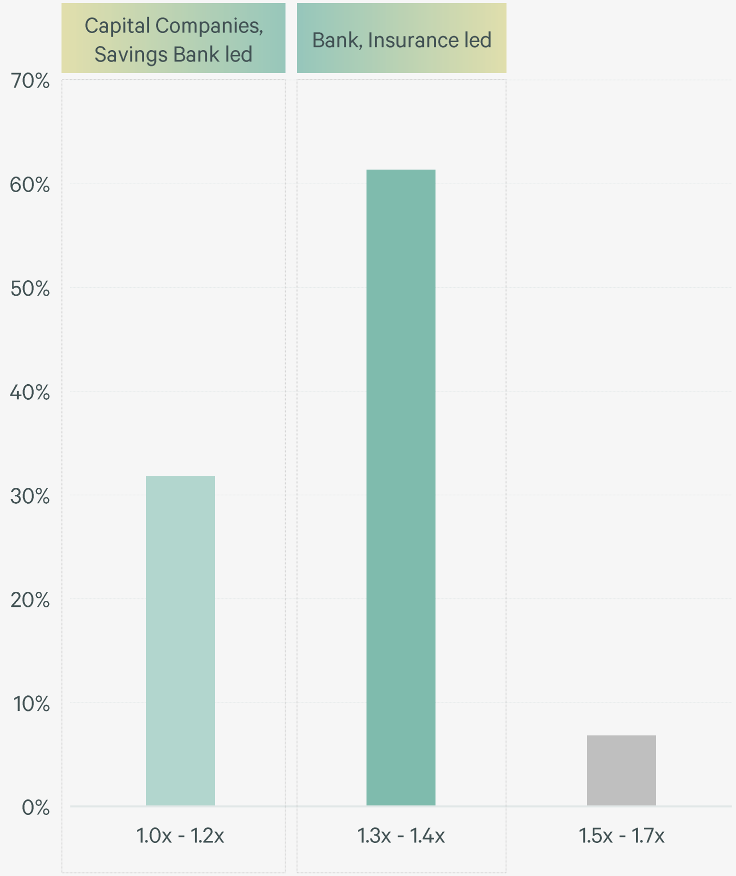


Figure 21: Preferred DSCR for New Lending



Source: CBRE Research, November 2025.

Outlook for New Loan Spreads

Changes in the spread for new loans serve as an indicator of how financial institutions assess the risk levels of the lending market and/or individual borrowers. They are utilized as a more micro-level barometer in addition to macroeconomic base rate shifts. Furthermore, spreads incorporate the bank's processing and management costs for handling loans, as well as margins, alongside the risk premium.

As of the end of November 2025, the base rate has been reduced twice this year, totaling 50bps. However, the decline in overall lending rates has been relatively limited due to the widening of spreads, driven by factors such as the risk of PF insolvency and increased bank processing costs resulting from tightened real estate lending standards.

Notably, cases were observed where spreads increased in high-risk lending segments, particularly among certain non-bank institutions, compared to the previous period. This demonstrates that financial institutions are adopting a more conservative stance towards high-risk loans, correlating with the previously identified decline in the lending attitude index. Ultimately, the effect of this year's base rate cuts appears to have contributed more to market stabilization than to a significant reduction in funding costs.

Conversely, approximately half of survey respondents stated that they expected spreads for new loans would decrease over the next year. Among these, the largest proportion anticipated a marginal reduction of 0-25bps, forecasting that borrowing costs will adjust downwards through future market risk reduction and liquidity improvements. In contrast, only 29% of respondents expected an increase, and 25% predicted no change.

In fact, office-backed loan spreads have demonstrated a downward trend since 2023. This, combined with general expectations of rate cuts, suggests that major lenders will prioritize securing financial soundness over high profitability, conducting investments primarily focused on prime assets.

Figure 22: Expected Changes in Lending Spreads for 2026

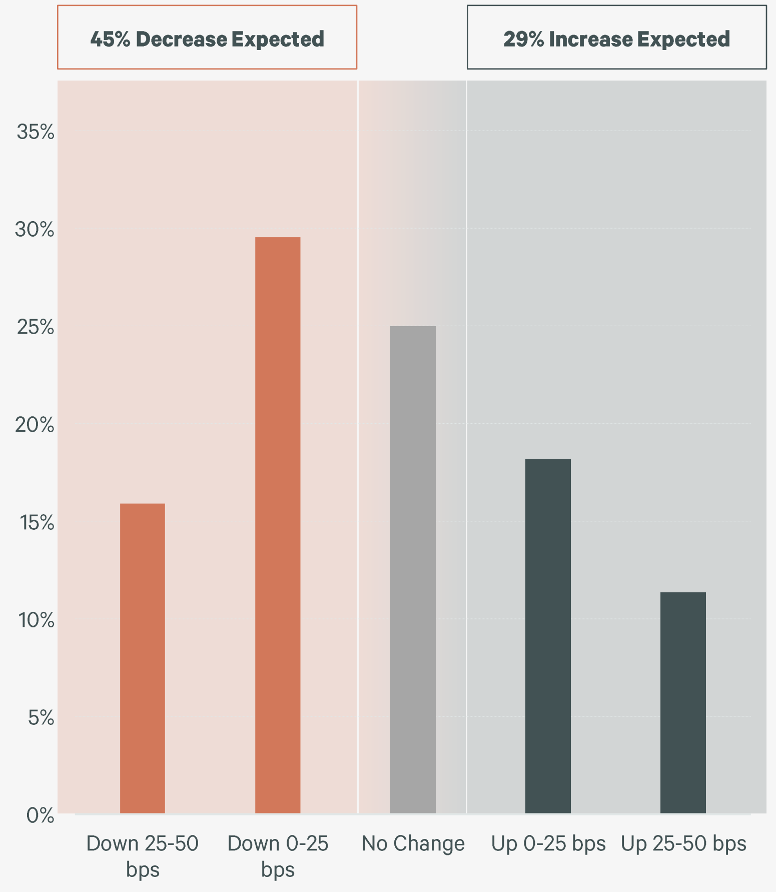
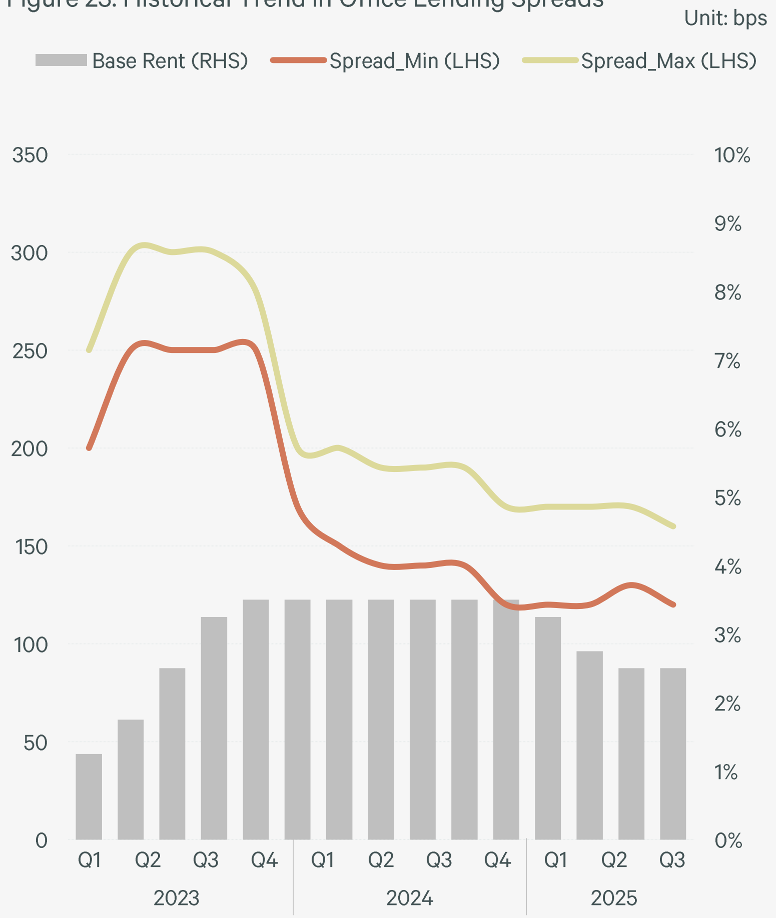


Figure 23: Historical Trend in Office Lending Spreads



Source: CBRE Research, November 2025.

All-in Cost of Senior and Mezzanine Lending for Office and Logistics Assets

Loans can be segmented into senior and mezzanine tranches, corresponding to different levels of risk. Generally, a differentiated structure is observed across tranches: the senior tranche is defined by competition for stability, while the pursuit of profitability is evident from the mezzanine tranche onwards.

The financing environment (all-in cost*) for physical assets in the two major sectors of the Seoul commercial real estate market—office and logistics—was observed to be somewhat distinct. While the interest rate spread between the two sectors is generally observed to average around 100bps, the logistics sector showed a greater dispersion of spreads across the senior and mezzanine tranches.

The office market demonstrated stability, with the creditor consensus for senior loan rates consolidating at the 5% level. In particular, the fact that 70% of total responses were concentrated in the sub-5% band signifies that the expected return for senior lenders on prime assets has entered a relatively stable phase.

However, in the mezzanine lending market, a divergence in perspective existed among lenders, with two groups emerging: one group anticipating low rates in the 6% range (38%) and another demanding high rates of 8% or more (37%). This wide spread can be understood as an expanded application of the risk premium based on the LTV tranche, reflecting recent market volatility.

Conversely, for logistics assets, the senior loan rate level was evenly distributed from 5% to 8%, indicating a perceived difference in sector-specific risk among lenders. Lenders are strictly segmenting individual asset risks—such as cargo owner creditworthiness, tenant stability, and the cold/ambient storage ratio—rather than relying solely on asset grade, which has resulted in the observed dispersion of interest rate spreads. mezzanine loan rates were confirmed to be high, generally situated around the 7-8% range.

Figure 24: All-in Costs for Senior-Mezzanine Office Loans

	Details	Notes
Location	Major Office Districts in Central Seoul	CBD, GBD
Completion	Within 5 years	Based on Grade A Office
Size	GFA >33,000㎡	GFA >10,000pyeong

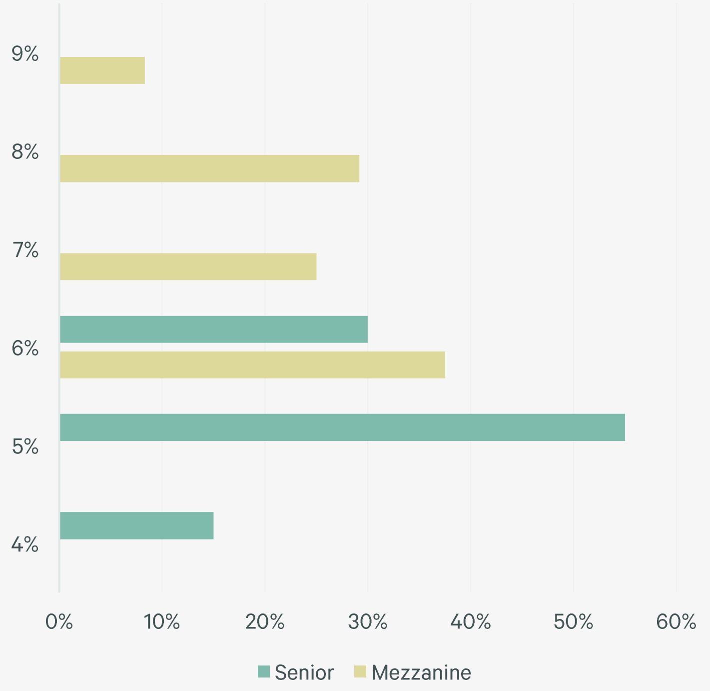
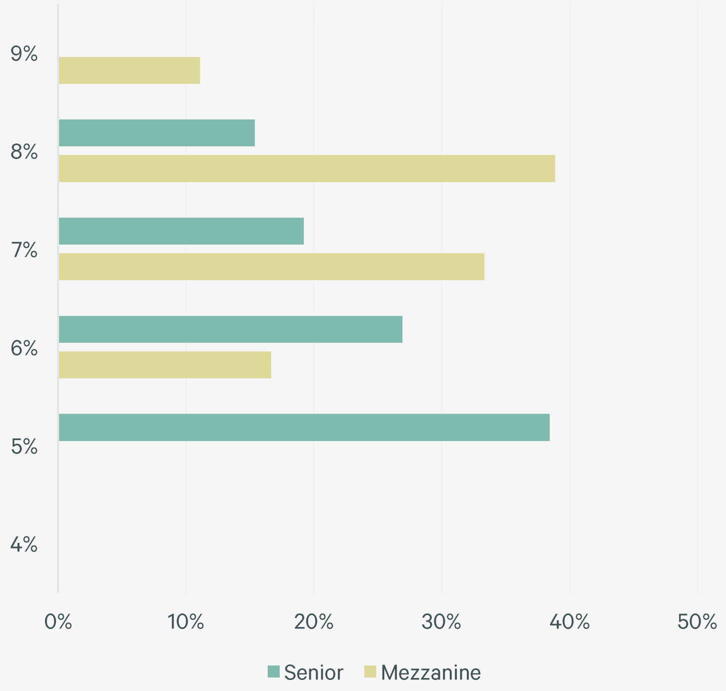


Figure 25: All-in Costs for Senior-Mezzanine Logistics Loans

	Details	Notes
Location	Major Submarkets in Greater Seoul	Excellent IC Accessibility
Completion	Within 5 years	Based on Grade A Logistics
Size	GFA >33,000㎡	GFA >10,000pyeong



Source: CBRE Research, November 2025.

*All-in cost: The total financing expenditure borne by the borrower, represented as an annualized interest rate, including the 'Base Rate + Handling Fee' (e.g., origination fees).
(For the purposes of this report, the all-in cost specifically excludes arrangement fees, agency bank fees, and other miscellaneous associated costs.)

Trends in Sector-Specific Cap Rates

The cap rate, defined as the ratio of a property's NOI to its acquisition price, reflects both the return expected by investors and the risk premium embedded within the market.

CBRE conducts a quarterly internal survey of investment and valuation professionals to assess perceived cap rates for Grade A commercial real estate in Seoul and to gauge short-term directional expectations. Recent findings indicate that, alongside the shift towards an interest rate downcycle, cap rates across all sectors have begun to edge downward, implying a corresponding increase in asset values.

Within the office sector, cap rate adjustments have remained the most limited, and offices continue to exhibit the lowest yield levels among major asset classes. Much like the stabilized consensus among lenders that senior loan pricing for prime office assets sits within the 5% range, investors similarly view high-quality office buildings as the safest core assets and expect tighter, more stable spreads.

While logistics and hotels continue to command higher yields relative to office, their upper boundaries have compressed, signaling a clear reduction in perceived market risk. In particular, hotel cap rates have tightened significantly over the past year, reflecting notable asset revaluation. Even so, yield compression in both logistics and hotels is expected to remain highly selective, concentrated in assets with strong fundamentals, secure tenancy structures, and credible operators.

Although transactional evidence for data centers remains limited, several major assets were traded at the low-to-mid-5% range even at last year's peak interest rate levels, reinforcing their status as defensive, infrastructure-like investment assets.

Looking ahead to the next six months, survey respondents broadly anticipate cap rates to remain stable across all sectors except logistics, where further moderate adjustment may still occur.

Figure 26: Office Cap Rate Trends

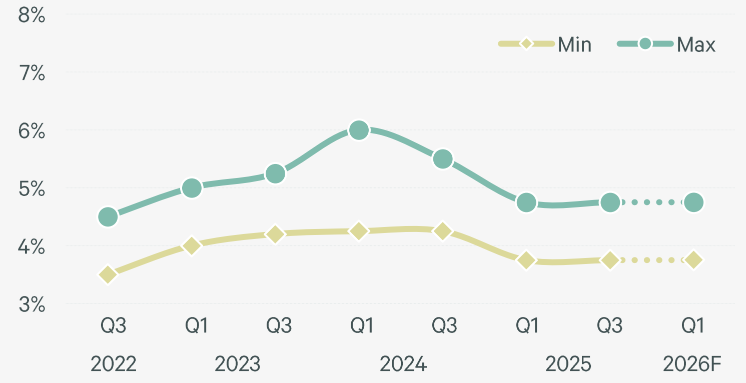


Figure 27: Logistics Cap Rate Trends

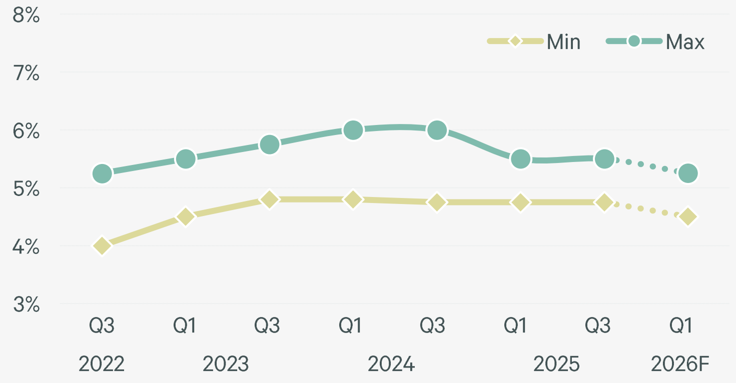


Figure 28: Hotel Cap Rate Trends

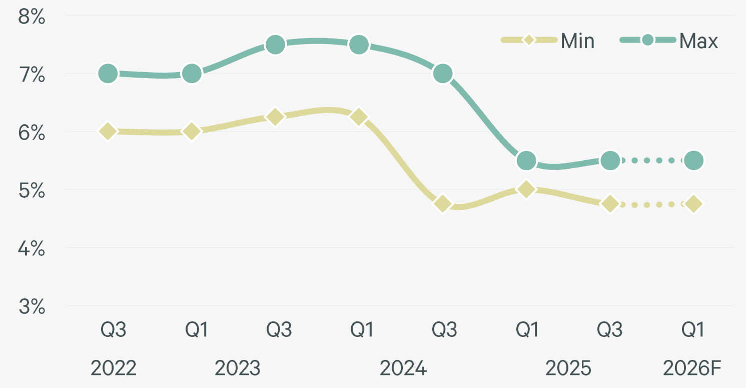
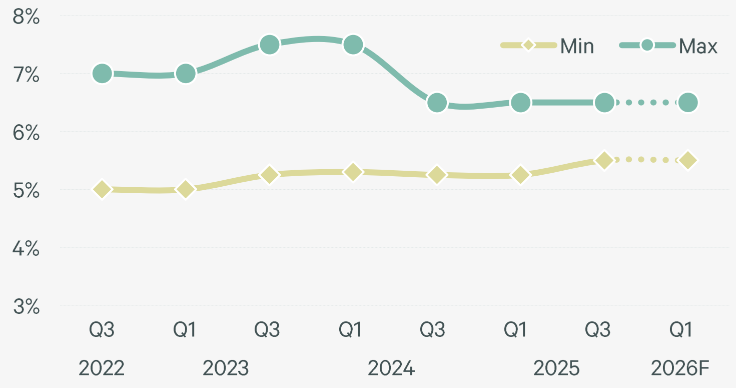


Figure 29: Data Center Cap Rate Trends



Source: CBRE Research, November 2025.

Trends in Grade A Office and Logistics Cap Rates

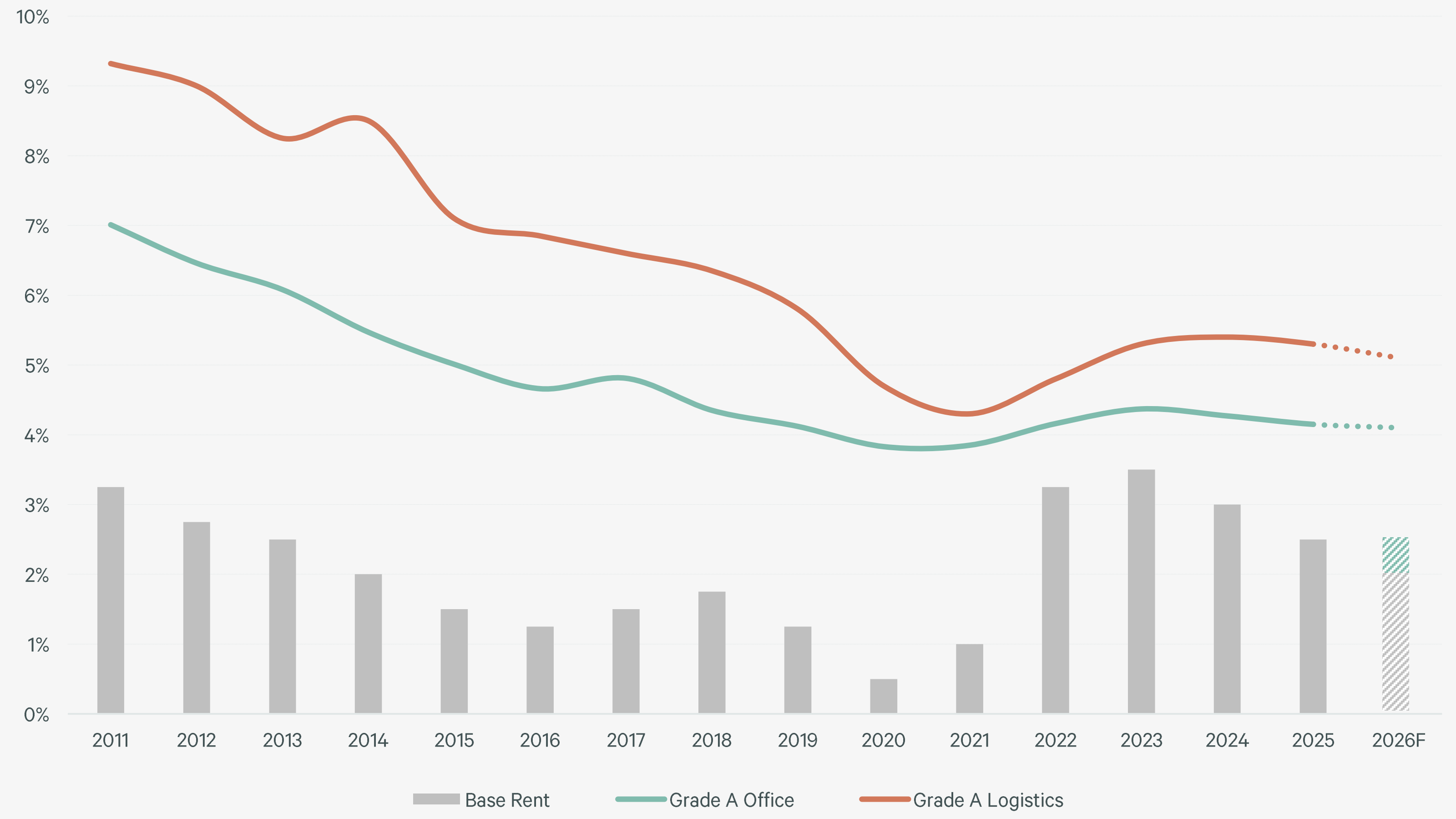
As noted earlier, cap rates, interest rates and asset pricing are closely interlinked. In particular, the spread between the base rate and cap rates remains one of the most critical indicators used to assess the relative attractiveness of real estate investment.

Over the long term, cap rates in the Seoul commercial real estate market have followed a downward trajectory. Office yields stabilized at below 5% from around 2015, while logistics—previously viewed as a nascent and higher-risk sector—saw yields fall dramatically from around 10% to the low-4% range as vacancy approached near-zero levels in 2021 during the post-pandemic market surge.

During the sharp rate-hike cycle in 2023, lending rates exceeded property cap rates, resulting in a period of negative carry, which significantly curtailed transaction activity. With the cost of capital exceeding investment yields, asset acquisitions became economically unviable. Nonetheless, strategic office acquisitions continued, driven by investors' conviction in the sector's fundamentals: historically low supply; record-breaking rental growth; expectations of stabilized cap rate improvements over the long term; and potential for capital gains once the rate environment reversed.

Although negative carry dissipated following the shift toward monetary easing from late 2024 onwards, the impact on cap rates has remained modest due to the market having already priced in anticipated policy changes. Despite two base-rate cuts in 2025, political and macroeconomic uncertainty kept Grade A office and logistics cap rates broadly stable. Looking ahead, yield compression is expected primarily among high-quality, stabilized assets with strong cash flow, although movements in the overall market average are likely to remain limited.

Figure 30: Grade A Office and Logistics Cap Rate Trends (2021–2026F)



Source: CBRE Research, November 2025.

Determinants of Successful Refinancing

The survey findings indicate that vacancy levels and asset type are the two most influential factors determining the success of refinancing for commercial real estate assets. This underscores lenders' clear emphasis on a property's inherent cash-flow generation capacity and its fundamental market positioning when assessing refinancing risk.

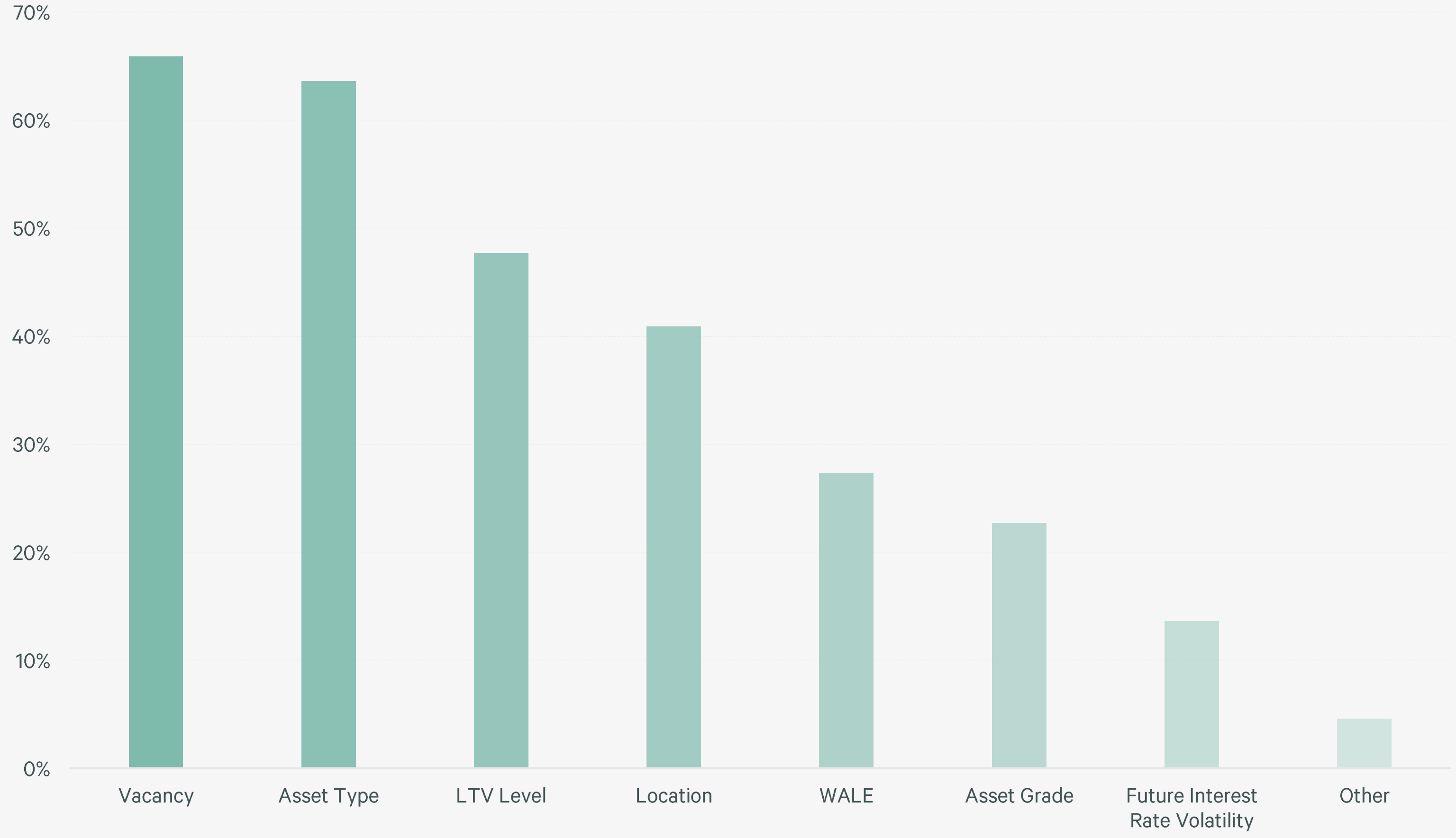
High vacancy directly weakens an asset's NOI, resulting in unstable cash flow and elevated operational risk. This, in turn, adversely affects the DSCR—one of the core criteria for refinancing approval—making it significantly more difficult for borrowers to meet lenders' minimum underwriting thresholds. Lenders also evaluate sector-specific risk characteristics and therefore maintain distinct preferences across asset classes.

The next most important determinants were LTV levels and location. LTV serves as a key buffer that defines the lender's safety margin and is one of the primary defensive mechanisms used to mitigate risk through conservative underwriting. Location, meanwhile, remains critical for lenders because it reflects both an asset's long-term ability to preserve value and its disposability in stress scenarios, thereby heavily influencing refinancing decisions.

Other notable considerations include Weighted Average Lease Expiry (WALE), which provides visibility on lease-term certainty and is essential for assessing the long-term stability of cash flow. Asset grade also plays a greater role in today's environment, where the leasing market has become increasingly polarized and uncertainty remains elevated.

Interestingly, interest rate volatility ranked lowest among refinancing decision factors. This suggests that, from the lender's perspective, demonstrating the intrinsic competitiveness of the asset itself is far more critical to securing refinancing than broader macroeconomic fluctuations.

Figure 31: Key Factors Considered in Refinancing Decisions



Source: CBRE Research, November 2025.

ESG: A Gradually Increasing Priority

Survey findings indicate that Environmental, Social and Governance (ESG) considerations are not yet treated as core underwriting criteria when lenders evaluate new real estate loans. When asked about the extent to which ESG factors influence loan approvals, 52% of respondents answered that ESG has "some influence but is not important," representing an absolute majority.

This outcome suggests that the fundamental credit risks associated with a loan remain far more influential in underwriting decisions than ESG principles. While lenders recognize the growing importance of ESG at a conceptual level, their actual approval processes continue to prioritize traditional financial metrics—such as vacancy rates, LTV ratios and cash-flow stability—over ESG-related attributes.

At the same time, around 20% of lenders reported that ESG is becoming "increasingly influential." This reflects a gradual shift in perception as institutions begin to recognize the potential long-term implications of tighter ESG regulation, carbon-neutrality targets and the possibility that non-ESG-compliant assets may face value impairment or refinancing challenges in the future. These lenders are beginning to incorporate ESG considerations into underwriting as a forward-looking risk management measure.

In fact, as of the end of 2023, the outstanding balance of ESG financing by domestic financial institutions surpassed KRW 1,882 trillion*, marking an increase of approximately 213% compared to 2019. Furthermore, major domestic banks have established specific targets and lending limits for ESG-related loans and are understood to be proactively seeking opportunities for market participation.

At present, ESG remains a supplementary evaluation factor in the lending market rather than a decisive one. However, as global sustainability trends accelerate and lenders increasingly acknowledge the potential long-term impact of ESG risks on asset values, ESG criteria may, over time, evolve into a standard element of the lending approval framework.

*2023 South Korea ESG Finance White Paper

Figure 32: Influence of ESG on New Real Estate Lending Decisions

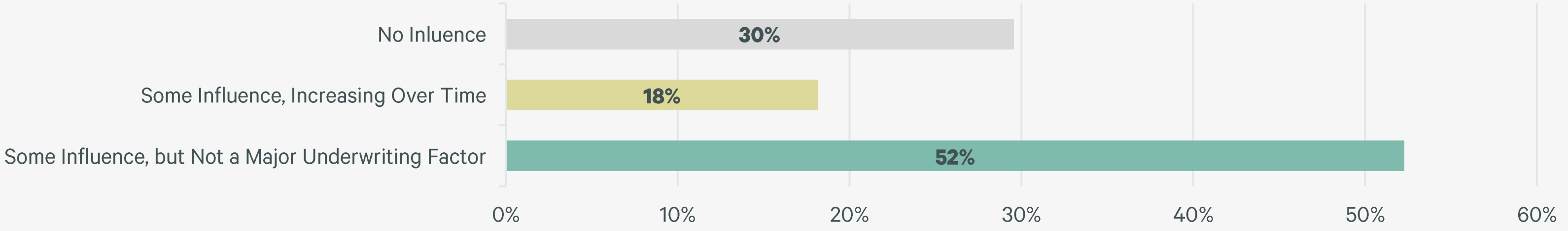


Figure 33: ESG Initiatives of Korea's Four Major Financial Groups (2025)

Category	**E**	**S**	**G**	
Sub-category	Greenhouse Gas Management	Consumer Protection	Executive Evaluation & Compensation	Board Governance
Shinhan	ESG Strategy Committee: reviews, targets, risk oversight	ESG Committee: policy oversight; external director (consumer studies)nts, monitoring, prevention	KPI: 60% financial / 40% non-financial; integrated evaluation	82% external directors; internal + external evaluations
KB	ESG / Risk Committee: quarterly reporting	ESG Committee: policy oversight; external director (consumer studies)	40% long-term, performance-linked equity rewards	Regular board & committee performance checks
Hana	Sustainability Committee: quantitative data, disclosure accuracy	Consumer Risk Committee: Risk indicators, board reporting	Performance–risk aligned compensation; succession oversight	Majority external directors; dual evaluation system
Woori	ESG Management Committee: carbon targets, Net Zero 2040	ESG Management Committee: policy, redress, data protection	ESG metrics included in executive incentives	Integrated oversight across risk, compensation, succession, audit

Source: CBRE Research, November 2025.

03

Project Finance (PF) Lending Strategies

Trends in Loan Balances and Delinquency Rates by Financial Institutions (2023-2025)

In the PF lending market, a clear deterioration in asset quality has emerged over the past two years, as delinquency rates have continued to rise across the board. The increase has been particularly pronounced in bridge loans and land-secured loans, signaling heightened vulnerability within subordinated and early-stage lending exposures.

While the overall balance of PF loans recorded a slight contraction, the delinquency rate rose sharply from 0.96% in June 2023 to 2.60% in June 2025, representing a threefold increase. Despite the recent shift towards a lower interest rate environment, weaker pre-sales activity, rising construction costs and softening demand have led to growing signs of distress even among projects that had already secured initial financing.

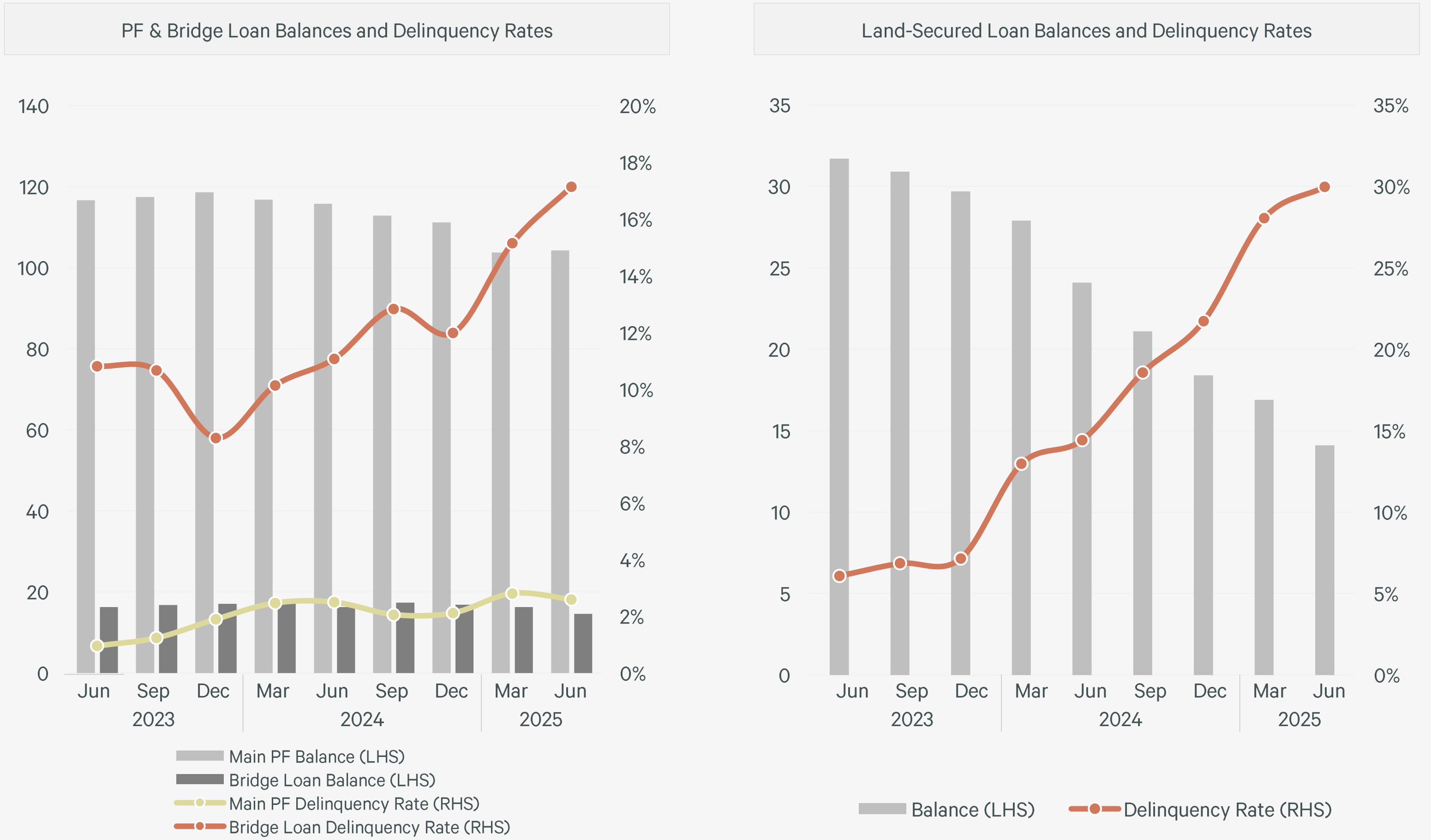
As of H1 2025, the delinquency rate for bridge loans reached 17%, marking a 7 percentage point increase compared with two years prior. This reflects a growing number of projects that have struggled to transition into main PF loans, with delays in approvals and worsening project feasibility underscoring the materialization of early-stage development risks.

The most severe deterioration occurred in land-secured loans, where both risk concentrations and deleveraging pressures were most evident. Land values have declined and development feasibility has eroded, pushing delinquency rates from 6% to 30% over the same period, while outstanding balances have simultaneously fallen by half. Lenders appear to be prioritizing securing financial health and recovering capital on illiquid, non-prime assets concentrated with major defaults. This is being achieved through actions such as asset sales and the disposal of claims.

Meanwhile, the government and financial institutions have been actively pursuing industry-wide deleveraging to stabilize PF-related risks. Regulatory pressure for restructuring, coupled with stricter viability assessments for PF projects, appears to have contributed to the recent decline in outstanding PF balances. As a result, lenders are now applying significantly more stringent credit standards to PF exposures that lack demonstrable project viability.

Figure 34: Loan Balances and Delinquency Rates by Financial Institutions

Unit: KRW 1 Trillion



Source: Financial Services Commission, November 2025.

Key Characteristics of the PF Market in 2025

CBRE's analysis of lenders' PF activity in 2025 reveals a distinctly conservative stance, with lenders focusing primarily on risk management and the stabilization of existing loans, rather than pursuing aggressive new originations. This reflects a broader effort to minimize exposure to interest rate volatility while strengthening portfolio resilience.

Half of the survey respondents indicated that new lending accounted for 30% or less of their total PF disbursements in 2025, illustrating a notable contraction in financing support for new development schemes. Only a small subset of lenders maintained a comparatively higher share of new PF originations, suggesting that the appetite for fresh exposure was largely limited to a minority of institutions.

A further 42% of lenders reported managing new loan origination at 31–70% of total PF disbursements. This implies that some lenders continued to pursue selective investment opportunities or maintained a modest level of new lending activity to facilitate portfolio rotation, while still operating within a cautious risk framework.

Regarding the interest rate structure, more than half (64%) of respondents indicated that they restrict the floating rate portion to 30% or less. With the prevailing outlook for future rate cuts, this suggests a defensive strategy focused on maintaining a low exposure to floating rates within their portfolios.

Some 21% of lenders maintained a floating rate share of 71% or more. This is likely attributable to the unavoidable application of existing floating rate terms during the extension process of legacy loans that were executed during the previous interest rate hike cycle.

Figure 35: Proportion of New PF Originations in Total PF Disbursements (2025)

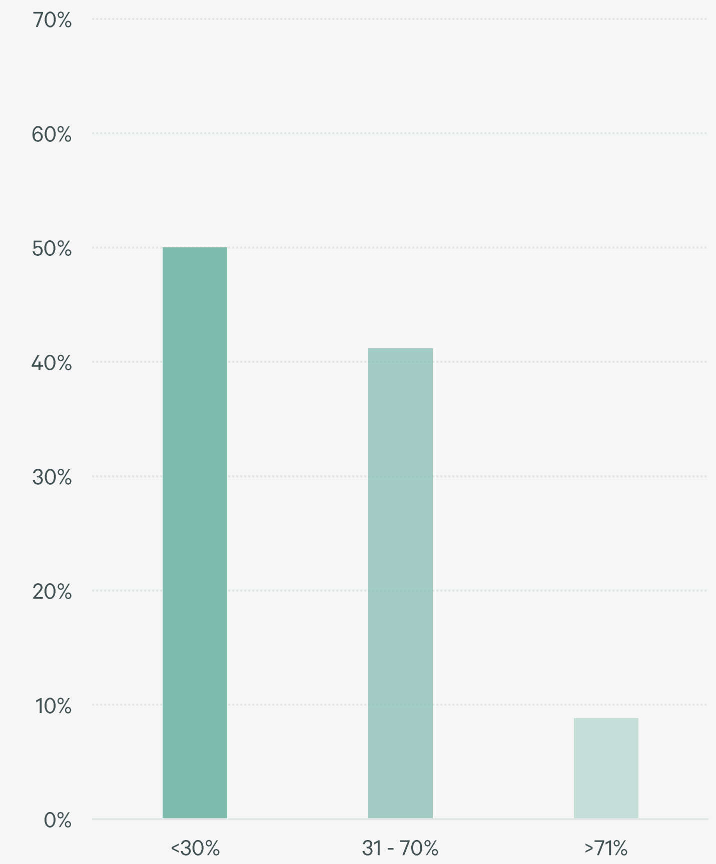
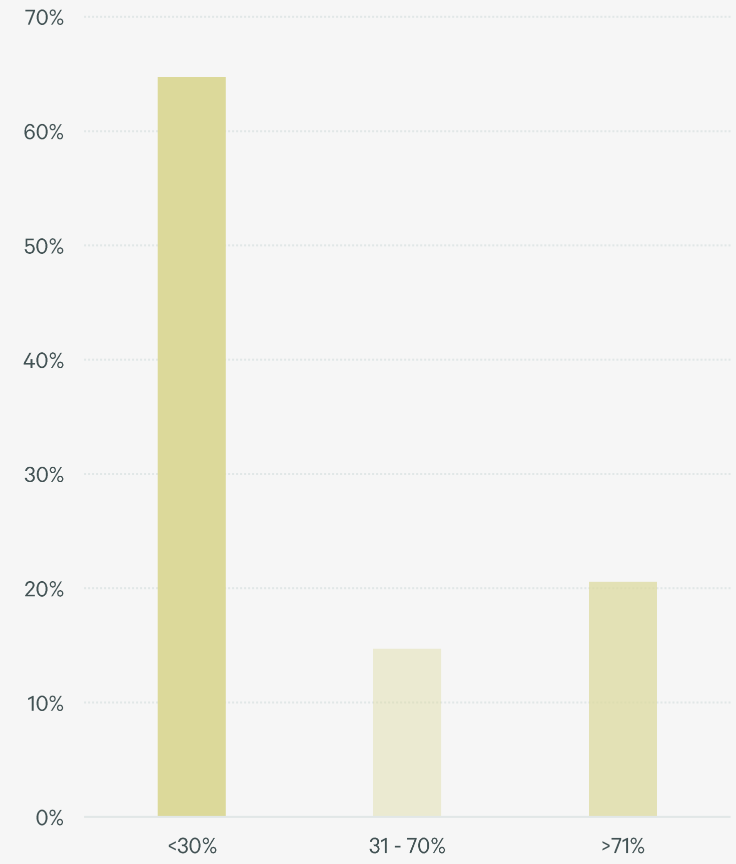


Figure 36: Proportion of Floating-rate Loans in PF Originations (2025)



Source: CBRE Research, November 2025.

Rising Prominence of Data Centers Within PF Portfolios Previously Dominated by Office and Logistics

Lenders engaged in PF continue to place the greatest weight on cash-flow stability post-completion and the certainty of end-user demand when evaluating new developments. Their underwriting approach remains cautious, with a clear preference for assets that offer well-defined exit strategies capable of mitigating the higher risks inherent at the point of loan origination.

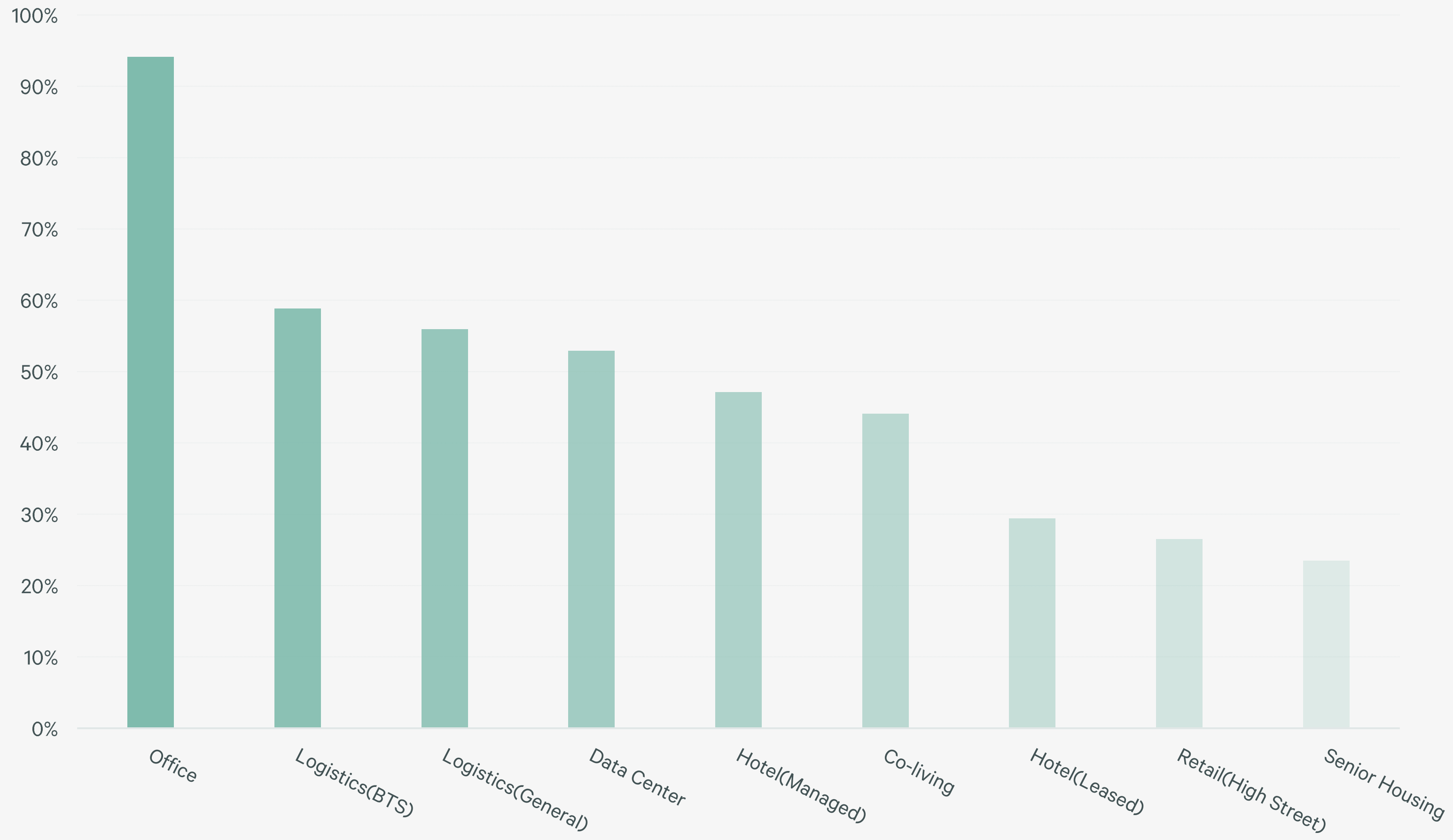
Office assets and Build-to-Suit (BTS) logistics facilities—particularly those supported by pre-sale or pre-lease commitments—were identified as the most preferred PF targets, owing to the high predictability of demand and cash flow once completed. Prime office properties in Seoul's core business districts are perceived as the lowest-risk collateral, effectively serving as the strongest safeguard within PF portfolios.

While general logistics centers remain highly preferred, the existing risks associated with market oversupply mean that PF for logistics centers is still being conducted selectively, primarily due to cumulative supply and vacancy risk over the past few years.

In contrast, data centers have rapidly risen in prominence, surpassing traditional hotel and retail assets in lender preference and recording interest from a majority of respondents. Given the stability of future-oriented demand and direct/indirect government support (such as the National Growth Fund), opportunities for development-stage financing, including PF loans, are expected to gradually expand.

Furthermore, operational assets like hotels and co-living also showed a meaningful share as targets for PF loans. A notable shift was observed: lenders, who previously preferred the stable master lease model, now show a preference for the delegated management operation model to disperse operational risk. Consequently, securing a credible operator capable of delivering expected returns is anticipated to become an even more critical factor in lending assessments.

Figure 37: Asset Types Financed Through PF Lending



Source: CBRE Research, November 2025.

Office vs. Logistics PF Development: Lenders' Views on Appropriate Equity Levels and Expected Post-Completion LTVs

The appropriate level of equity for a development project, along with the expected LTV ratio upon completion, provides a quantitative indication of the risk premium assigned by lenders and their confidence in the stability of the underlying asset class.

Survey results show that lenders require higher equity contributions and anticipate lower LTVs for logistics developments compared with office projects, reflecting a more conservative risk perception toward logistics assets.

For office developments, lenders remain strict in managing early-stage risks but demonstrate strong confidence in the stability and liquidity of completed assets. Half of all respondents considered 20% equity to be an appropriate minimum level—sufficient to secure project stability—while nearly two-thirds expected post-completion LTVs to fall within the 60–70% range. This concentration suggests that, in the refinancing market, lenders anticipate stable repayment capacity at around the 60% LTV level, while also recognizing that the resilient value of prime office assets could support higher leverage refinancing of up to 70%.

In contrast, logistics developments were associated with higher perceived risk, with a majority of lenders indicating that 30% equity is the appropriate level for ensuring project viability. Expectations for post-completion LTVs were not only lower than those for office assets but also far more dispersed, signaling greater uncertainty. Notably, more than 30% of respondents indicated that 50% LTV would be the appropriate refinancing level, reflecting concerns that elevated vacancy risk at completion may necessitate more conservative leverage.

These divergences highlight lenders' increasingly selective approach to development financing, with office assets maintaining a clear advantage in terms of perceived stability and refinancing liquidity, while logistics developments continue to face heightened scrutiny due to ongoing supply-side risks.

Figure 38: Appropriate Equity Levels for Office and Logistics Developments

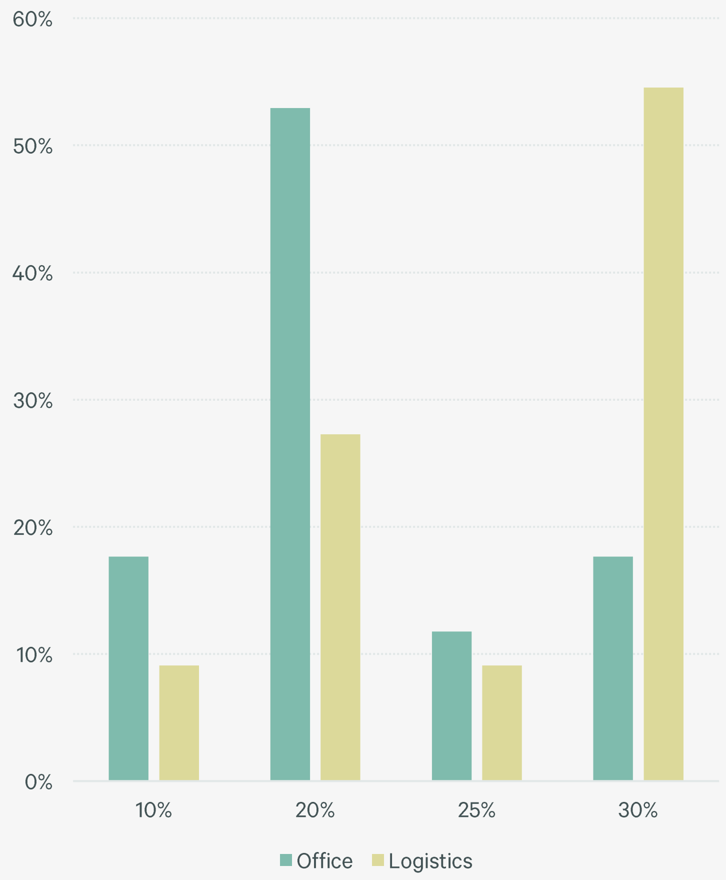
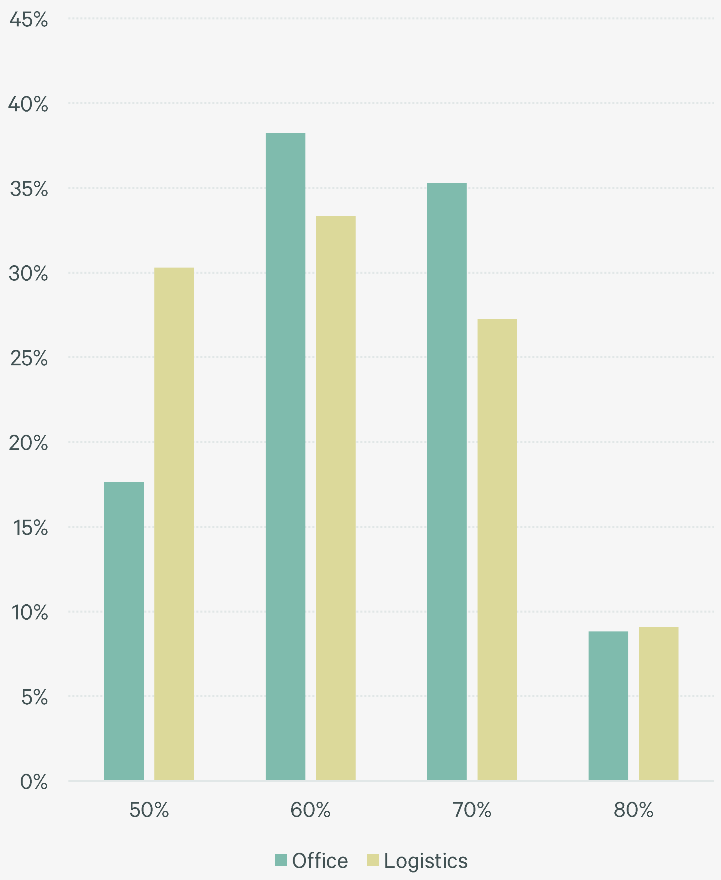


Figure 39: Expected Post-completion LTVs for Office and Logistics Developments



Source: CBRE Research, November 2025.

Office vs. Logistics PF Development: Lenders' Views on Appropriate All-in Cost Levels

CBRE's analysis of lenders' opinions regarding the senior tranche cost (all-in cost*) for development PF revealed that while a clear interest rate consensus has been formed for the office sector, indicating stability, responses for logistics were dispersed at high-rate levels, confirming the high uncertainty and risk perceived in that sector.

The senior loan interest rate for office development located in the Seoul city center was concentrated at the 6% level, highlighting aggressive competition among lenders to secure prime collateral.

Conversely, the appropriate senior loan rate for logistics sector development was confirmed to be higher and more evenly dispersed than office, exhibiting a pattern similar to the results for physical loan costs (p.18). The senior loan rate for logistics development was formed at least 1 percentage point higher (7% or more) than office, with the most responses concentrated in the high-rate bracket of 10% or more, signifying that the high risk of the logistics development stage is being reflected from the senior tranche.

In the mezzanine tranche, the loan cost for office assets converged within the 7–8% range (selected by 79% of all respondents), indicating that this is recognized as a stable development position capable of securing reliable financing.

On the other hand, in the logistics sector, where a significant number of responses were concentrated at 10% or higher even in the senior tranche, the mezzanine threshold was firmly established at 10% or higher, further widening the mezzanine rate gap between office and logistics. The logistics PF market directly incorporates vacancy risk due to oversupply into the lending rate, leading to a conservative and strict risk premium setting across all tranches.

Figure 40: Total All-in Costs for Office & Logistics Developments: Senior Tranche

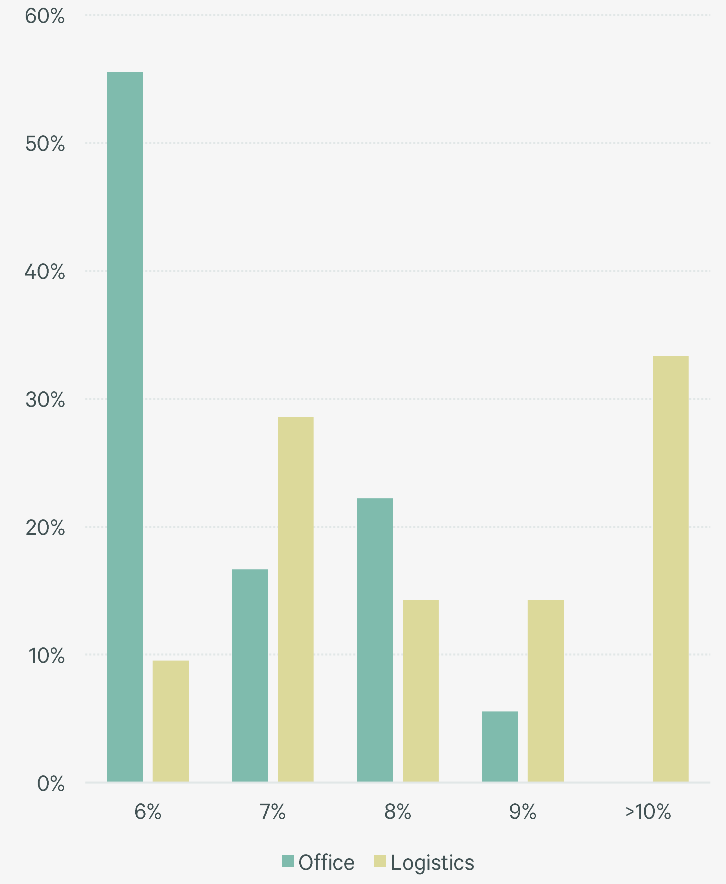
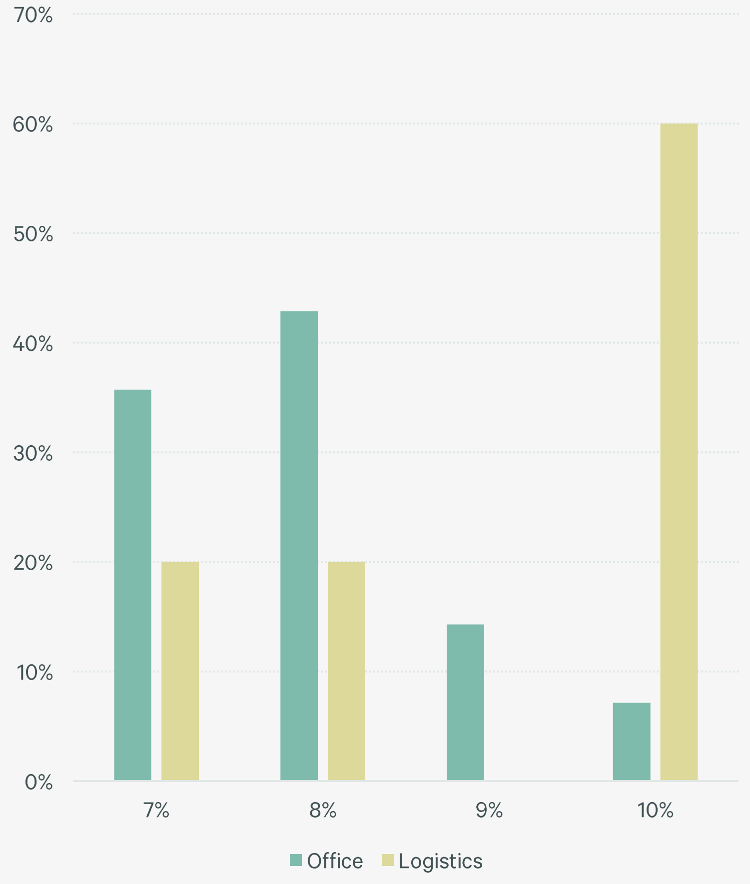


Figure 41: All-in Costs for Office & Logistics Developments: Mezzanine Tranche



Source: CBRE Research, November 2025.

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