

Intelligent Investment

# Korea's Logistics Hub:

## Busan Grade A Logistics Market Overview and Outlook

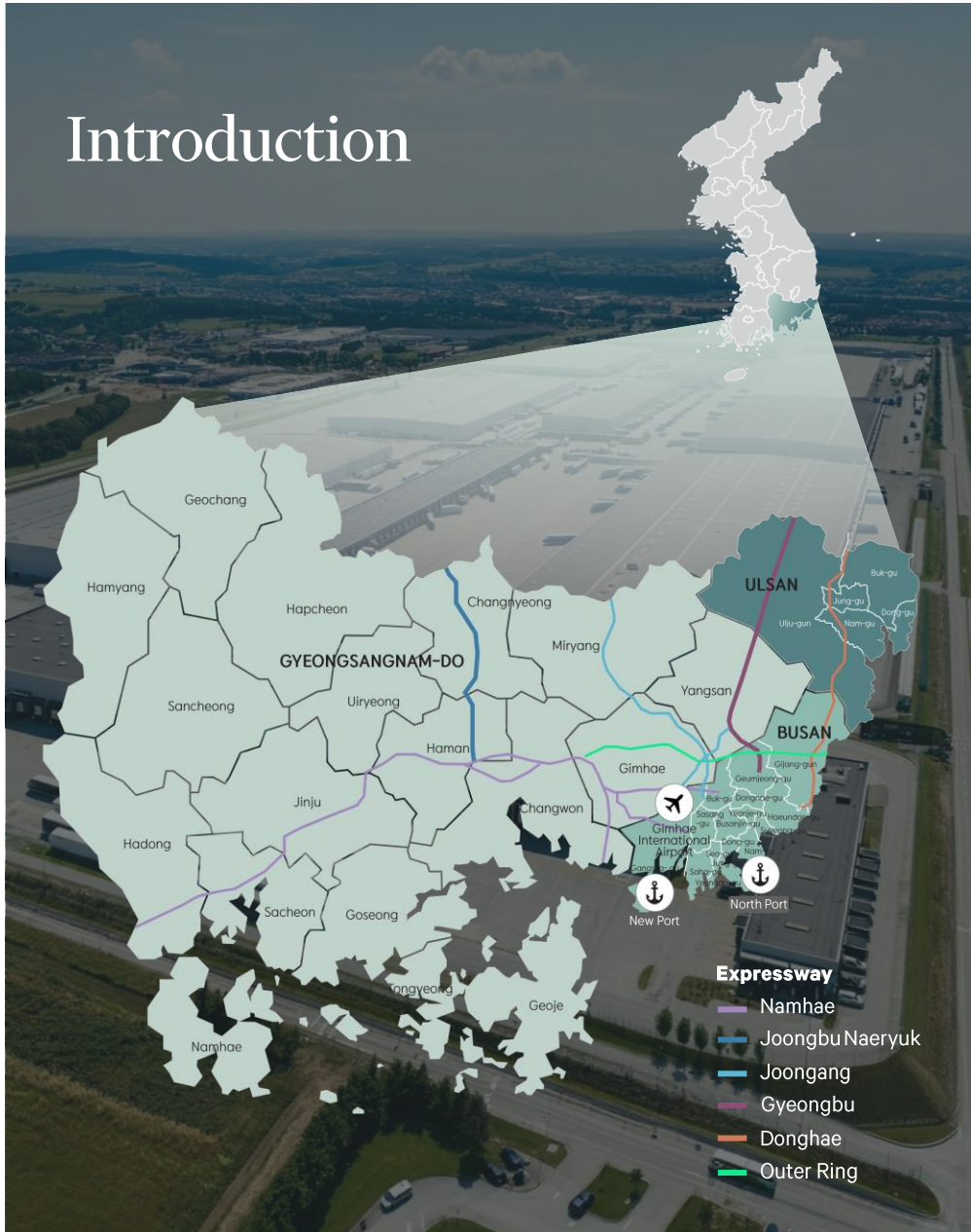
REPORT

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CBRE RESEARCH  
DECEMBER 2024



# Introduction

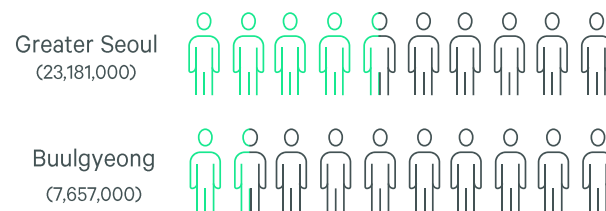


Located on the southernmost tip of the Korean peninsula, Busan is Korea's second largest city and the country's largest port city. Busan plays a pivotal role in the country's import and export economy. With its enormous logistics capacity, Busan Port underscores the city's accessibility and efficiency as a logistics hub.

Busan is adjacent to Gyeongsangnam-do (Gyeongnam) and Ulsan, which together comprise the Buulgyeong region, the largest single living area in Korea after Greater Seoul. Buulgyeong is home to a strong consumer market and solid industrial base, making it an extremely competitive logistics centre. The area boasts excellent connectivity between its cities, maximising the efficiency of logistics transportation networks.

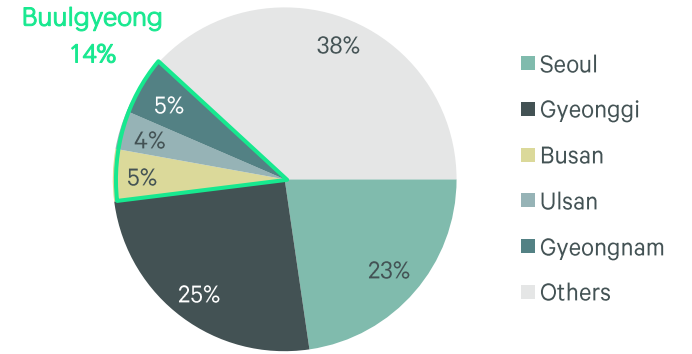
Changwon, Gimhae, and Yangsan in Gyeongsangnam-do are major manufacturing centres in Korea. Together with Busan, they form a major logistics hub. This report by CBRE features an in-depth study of the Busan logistics market, analysing its current status and future growth potential.

## Buulgyeong is home to 15% of Korea's population



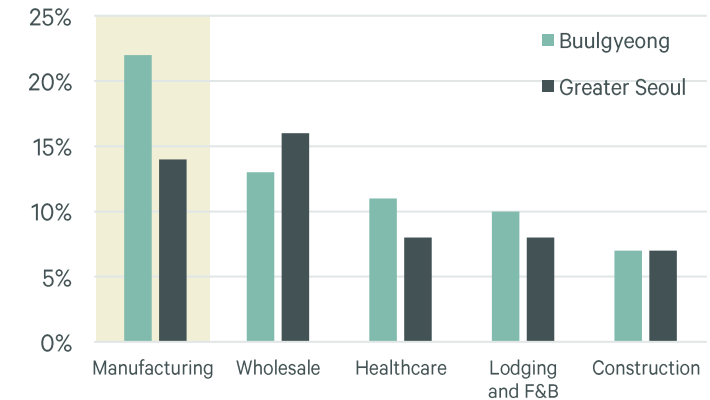
## Buulgyeong accounts for about 14% of Korea's GDP

Gyeongnam and Busan rank 2<sup>nd</sup> and 4<sup>th</sup> in Regional GDP (excluding Seoul and Gyeonggi)



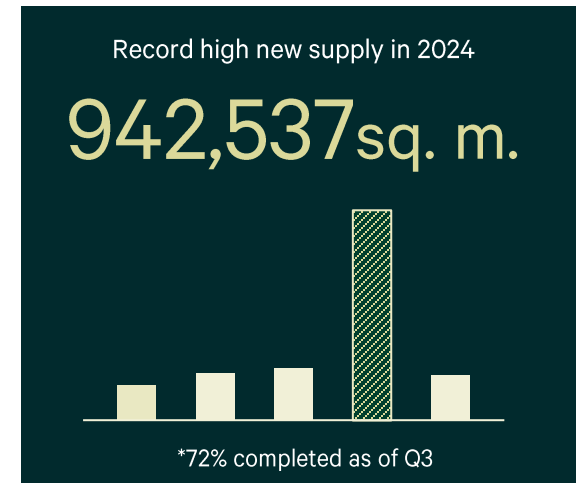
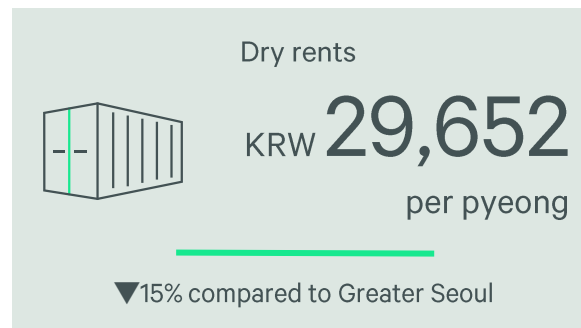
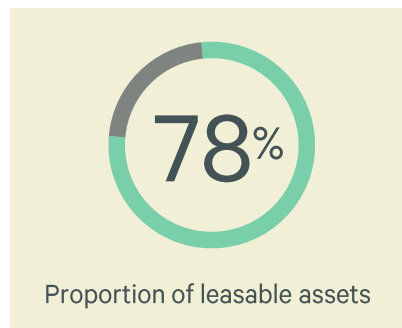
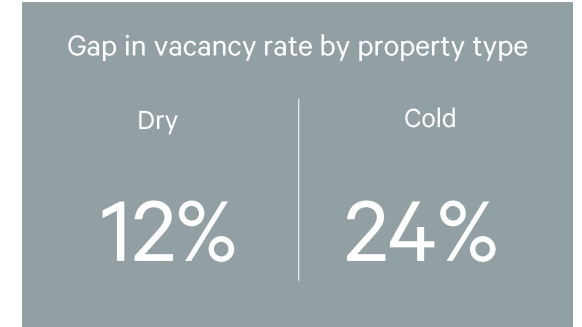
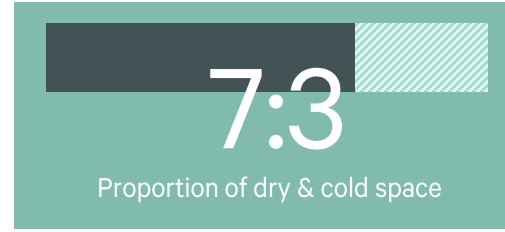
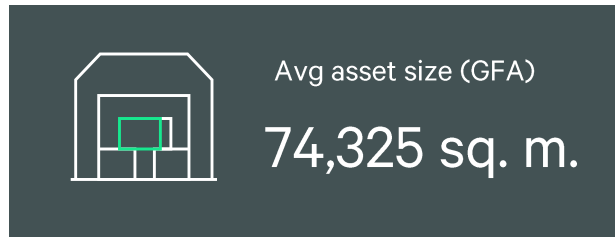
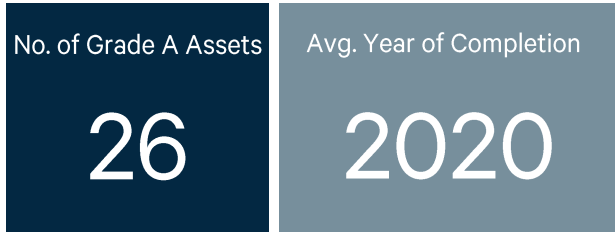
Note: Based on 2022

## The largest share of the Buulgyeong population works in manufacturing (22%)



Note: Based on number of employees; Healthcare industry includes social services  
Source: KOSIS, December 2024

# Busan Grade A Logistics Market



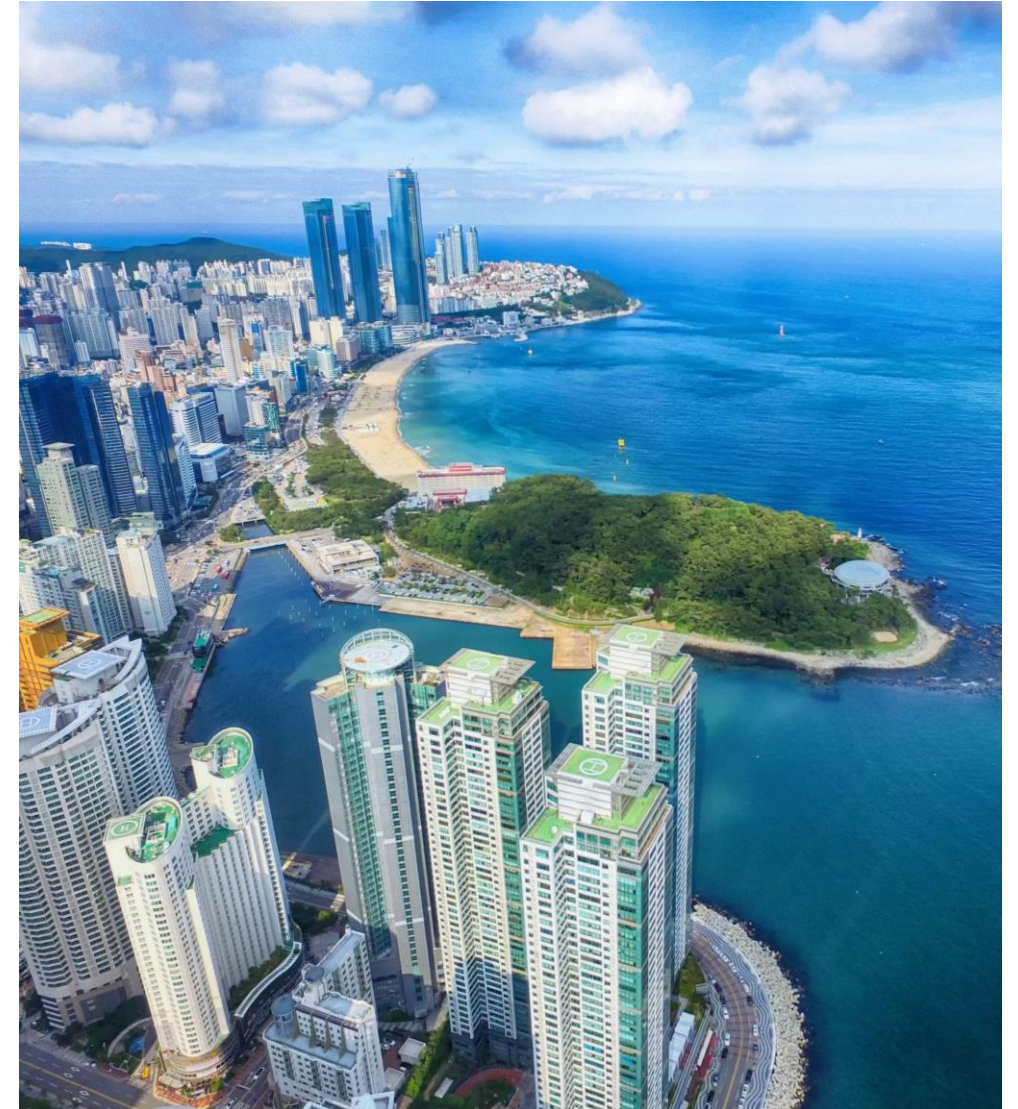
Note: GFA larger than 33,000 sq. m. based on Q3 2024

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01

# Background

## Busan's logistics market grows on solid port hinterland demand

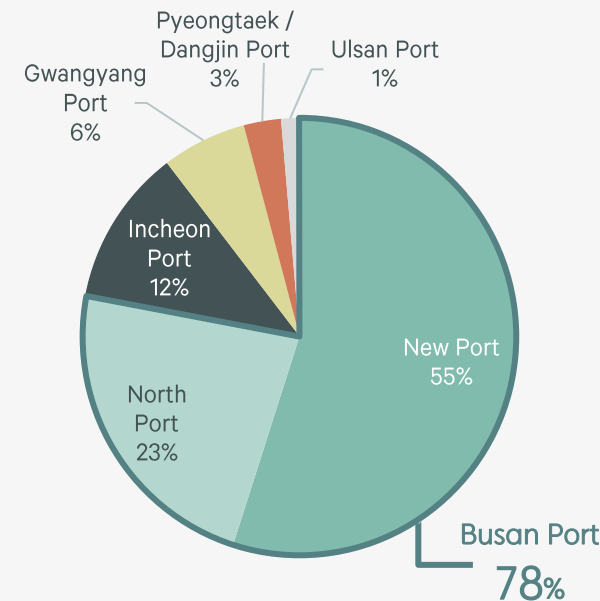
Busan Port, the largest port in Korea, is the world's second-largest transshipment port and seventh-largest container port in the world. It is responsible for 78% of Korea's total cargo volume and serves as the centre of maritime trade in Northeast Asia.

The Port of Busan consists of North Port, South Port, Gamcheon Port, Dadaepo Port, and New Port. While the existing North Port has played a pivotal role as an international trade port, it has become saturated with increasing cargo volumes, leading to the development of the New Port in 1997. Since the opening of Busan New Port in 2006, the volume of cargo from the North Port has been gradually transferred to the New Port, with 70% of Busan Port's total cargo now handled at the New Port<sup>1)</sup>.

The growth of Busan Port has spurred infrastructure investment and the expansion of logistics facilities to increase the efficiency of port logistics operations. Busan Port is further strengthening its position as a domestic logistics hub by providing a variety of logistics services such as transshipment, customs, container handling, and transportation.

Exports comprise the largest proportion of cargo handled at Busan Port. As Gyeongnam and Ulsan are home to large-scale manufacturing industries such as metal, machinery, and automobiles, there is a high level of export activity involving raw materials and finished products related to these industries. The large volume of products created by these manufacturing-based industries has served as the main underlying source demand for the Busan logistics market.

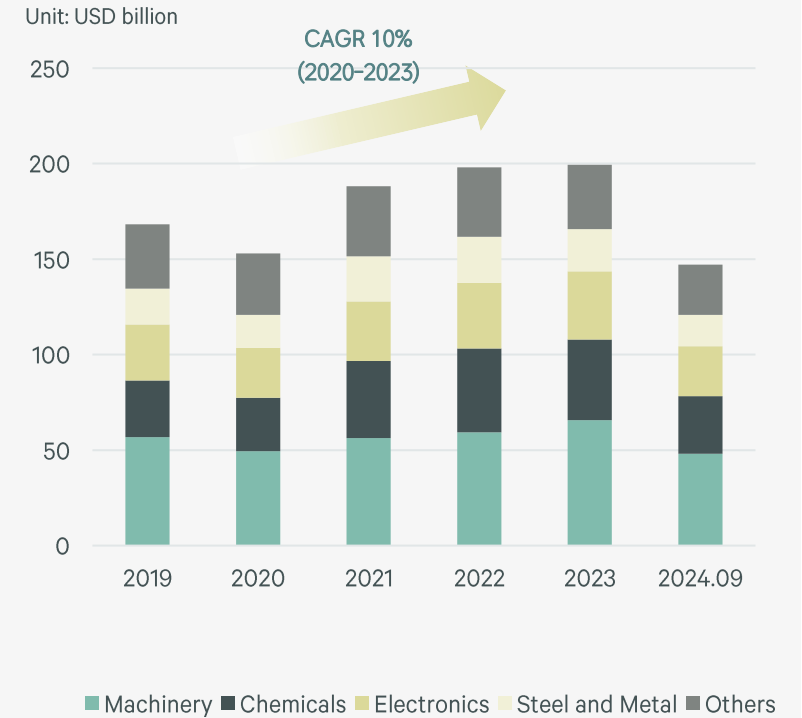
Figure 1: Container Cargo Throughput by Port



Source: Korea International Trade Association, 2023

<sup>1)</sup> based on 2023 levels

Figure 2: Busan Port cargo volume by category



Note: Others include plastic, rubber and leather, fiber, agriculture, etc.

Source: KOSIS, December 2024

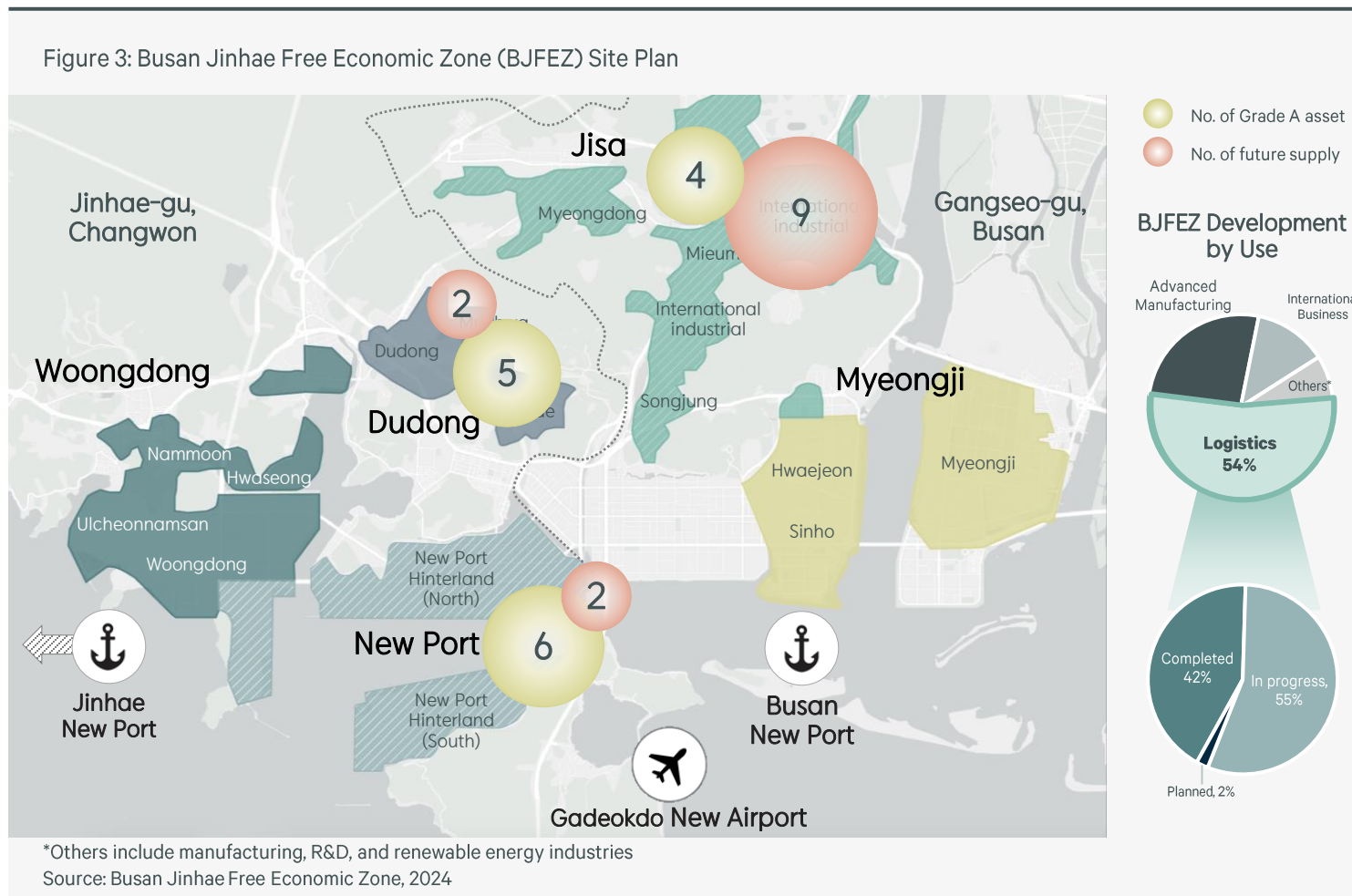
## Development of Busan Jinhae Free Economic Zone (BJFEZ) and other industrial parks led by government

In 2003, the Korean government established the Busan Jinhae Free Economic Zone (BJFEZ) comprised of five districts, with the aim of catering to growing demand from new ports and promoting regional economic development through foreign investment and creating industrial clusters.

The BJFEZ has contributed to the development of Busan's logistics market by creating a favourable environment for the development of logistics facilities through the provision of various benefits such as tax reductions, deregulation, and infrastructure support.

The expansion of the BJFEZ in the coming years is expected to further boost the development of the Busan logistics market. Gadeokdo New Airport and Jinhae New Port are planned to be completed in 2029 and 2040, respectively. Once open, the two schemes are expected to have a synergistic effect on the logistics hub by connecting to New Port. In response to growing demand, the government announced in July 2024 that the free economic zone in Gyeongnam would be expanded: a measure expected to further promote the expansion of the Busan logistics market.

The government continues to create industrial complexes to maximise the formation of industrial clusters and synergies created by the concentration of various manufacturing industries in the Busan area. As of November 2024, there are 25 and 64 industrial complexes in Busan and Gyeongnam, respectively. Approximately 61% of upcoming Grade A logistics supply will be developed in industrial parks.



## Logistics supply chain enhanced by new transportation infrastructure

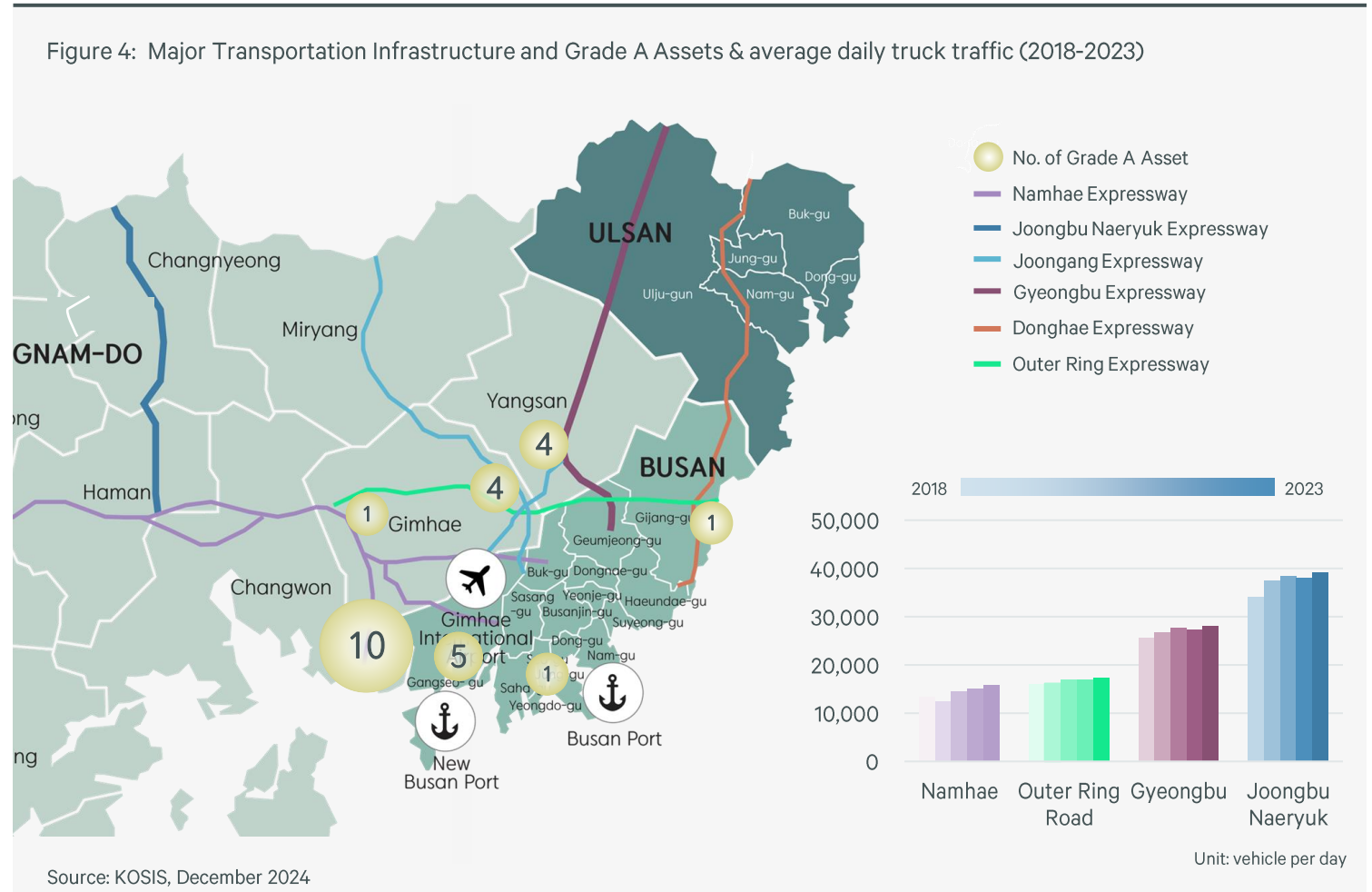
In addition to Busan Port's large cargo capacity and governmental policy support, the development of a major regional transportation network has augmented Busan's role as a logistics hub.

The Gyeongbu Expressway (—), also known as the “Artery of South Korea” connects Busan and Greater Seoul. The route has become an important component of an efficient logistics supply chain transporting import and export cargo to Seoul. The highway handles an average of 28,000 freight vehicles per day, the highest volume of any highway passing through the Busan area.

The Joongbu Naeryuk Expressway (—) is another major transportation network that runs from Busan to Greater Seoul and helps alleviate traffic on the Gyeongbu Expressway. With freight vehicles accounting for about 35% of its total traffic, the Expressway serves as the backbone of Korea's inland delivery network for import and export goods along with the Gyeongbu Expressway.

The Busan Outer Ring Expressway, which opened in 2017, connects with the Namhae, Jungang, Gyeongbu, and Donghae Expressways to facilitate movement between Busan and Gyeongnam and contributes to improving traffic flow by increasing connectivity between roads.

In September 2024, the Korean government announced it would invest KRW 15 trillion by 2030 to expand transportation infrastructure in the eastern region, further enhancing the efficiency of Busan's logistics supply chain.



02

# Supply and Outlook

# Busan Grade A Logistics Market

CBRE's definition of the Busan Grade A logistics market includes facilities with a GFA of 10,000 pyeong or larger and located in five districts: West, North, Northwest, Central and East.

1

## West Gangseo-gu, Busan | Jinhae-gu, Changwon

- The largest and most active market, adjacent to Busan New Port
- Grade A logistics assets are located in Dudong, New Port, and Jisa districts in BJFEZ

2

## North Yangsan | Daedong-myeon, Sangdong-myeon, Gimhae

- As a transportation hub where the Gyeongbu, Jungang, and Busan Outer Ring Expressway intersect, the North possesses an excellent geographical advantage for transporting goods to Seoul

3

## Northwest Jinrae-myeon, Joochon-myeon, Jinyoung-eup, Gimhae

- The district boasts excellent access to the Busan Outer Ring Expressway and Namhae Expressway
- Future supply will be centred around industrial parks close to Jinrye Station which connects to the New Port

4

## Central Seo-gu, Saha-gu, Sasang-gu, Nam-gu, etc., Busan

- Ideal for securing manpower and serving as a last-mile base due to its proximity to downtown Busan
- Logistics sites are difficult to secure owing to the limited availability of industrial parks compared to other regions

5

## East Gijang-gun, Busan

- Offers easy access to Ulsan via the Donghae Expressway, yet supply in pipeline is limited



District	No. of Assets	Market Size (GFA)
West	15	52%
North	8	35%
Northwest	1	7%
Central	1	4%
East	1	2%

## A nascent logistics market that started to expand in 2019

While Busan was home to numerous small and medium-sized logistics assets for some time, the supply of Grade A logistics facility was notable starting in 2019. The expansion of transportation networks and the creation of industrial parks have been major factors supporting the growth of Busan's Grade A logistics market.

The West is currently the largest Grade A logistics district, with a large volume of stock focused on the BJFEZ. The opening of the Busan Outer Ring Expressway in 2017 spurred the expansion of supply to new areas, such as the Northwest and Central region. New supply in the North, the second largest market, has been particularly strong in 2024.

Recent years have seen an evolution in the use of Grade A logistics facilities, with the market previously dominated by end-users utilising properties for self-use. More recently, the city's Grade A logistics market has come to be comprised of leasable assets owned by asset management companies: a trend that has boosted the investment appeal of the Busan logistics market.

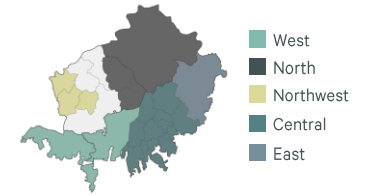
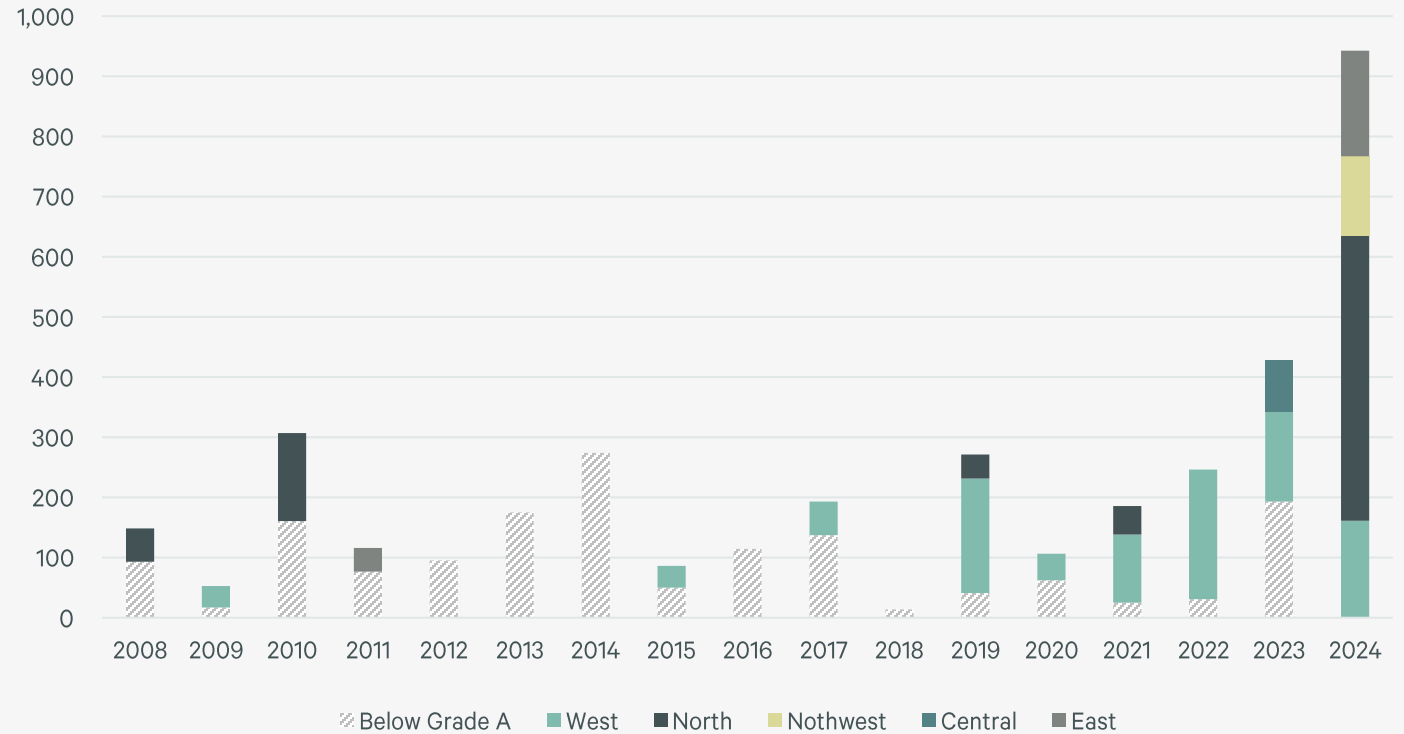


Figure 5: Grade A Logistics Supply by Year and District

Unit: 1,000 sq. m.



Note: Assets below Grade A includes GFA greater than 10,000 sq. m. but less than 33,000 sq. m.

Source: CBRE Research, December 2024

<sup>1)</sup>Based on Q3 2024

## New supply sets record high in 2024; average asset size continues to grow

The Busan Grade A logistics market comprises 26 assets totaling 1.9 million sq. m. (580,000 pyeong)<sup>1)</sup>. This is about 9% of the total Grade A logistics market in Greater Seoul, and less than half the size of the Icheon logistics market, which is the largest submarket in Greater Seoul.

Seven new Grade A logistics facilities providing a total of 678,175 sq. m. of space have been completed so far in 2024. Two additional assets are scheduled for completion in Q4 2024, one in the East and the other in the North, providing a total of 264,361 sq. m. This will ensure new supply for 2024 grows by 75% y-o-y, reaching the highest annual volume on record.

A major factor contributing to the steady growth of Busan's Grade A logistics market has been the development of large-sized assets. With the supply of large assets with a gross floor area of 30,000 sq. m. or more becoming increasingly prominent, the average GFA of a single asset has increased by about 62%, rising from 60,000 sq. m. in 2021-2023 to 97,000 sq. m. in 2024.

One new logistics property currently being developed in the Eastern region by a domestic asset manager is expected to be around 176,000 sq. m. This would make it the largest prime asset in the Busan logistics market, surpassing the current largest property, Daiso Busan Hub Centre, upon its completion at the end of this year. However, new supply is expected to decline in 2025.

<sup>1)</sup>Based on Q3 2024

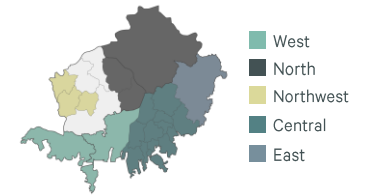
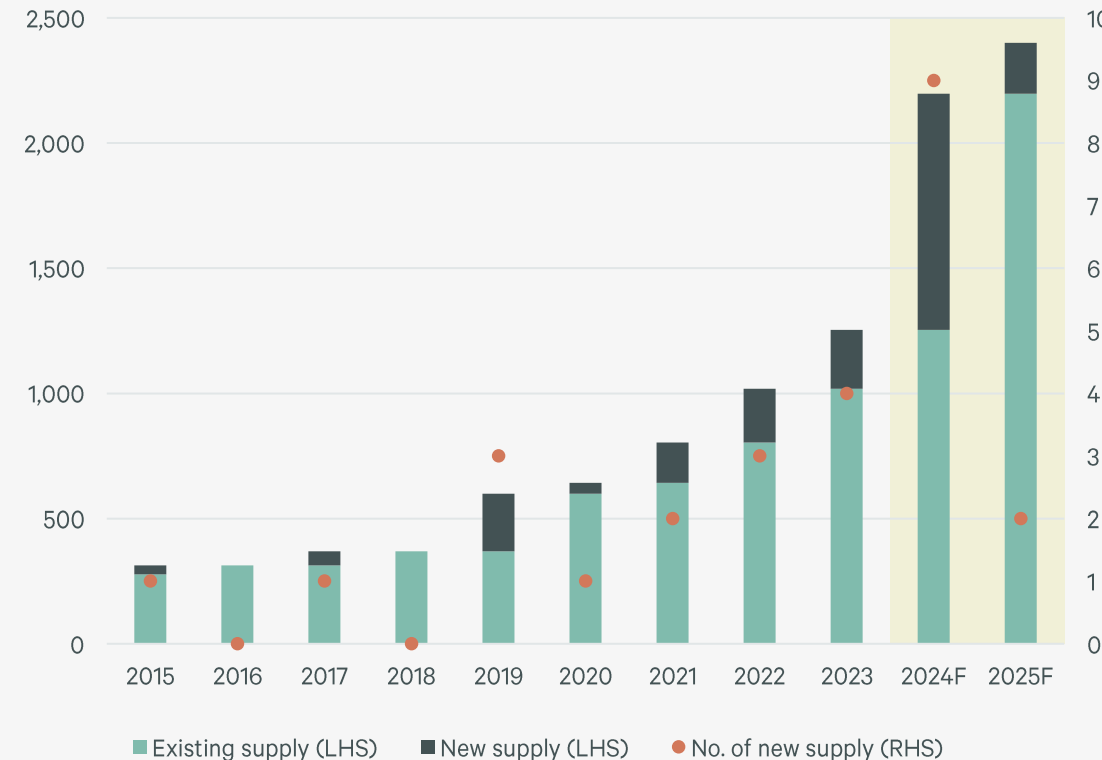


Figure 6: Busan Grade A Logistics Supply

Unit: 1,000 sq. m.



Note: Numbers above bars represent number of new assets.  
Source: CBRE Research, Q3 2024

**Avg. GFA**

**2024**

96,882 sq. m.

↑ **62%**

**2021-2023**

61,083 sq. m.

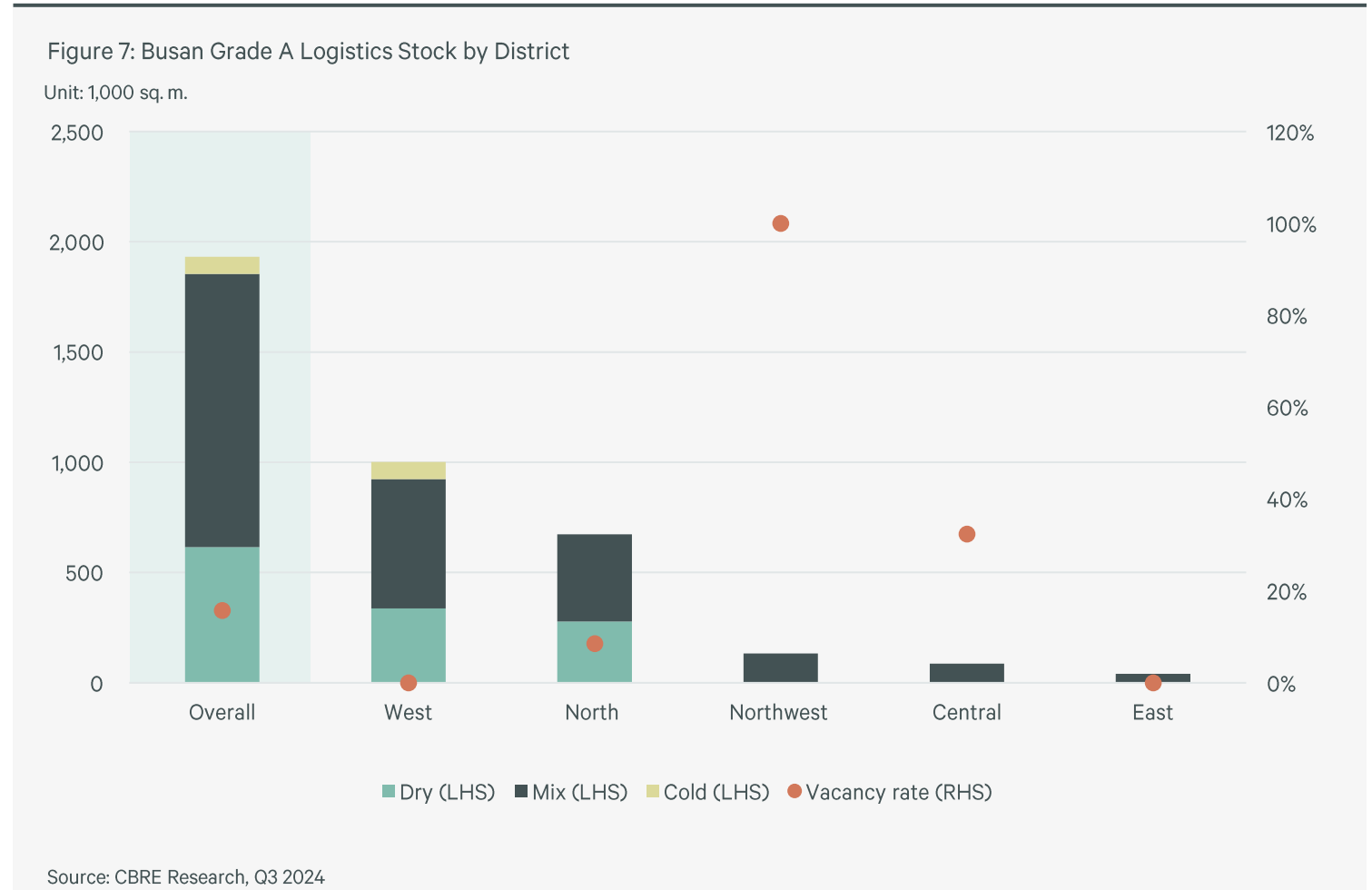
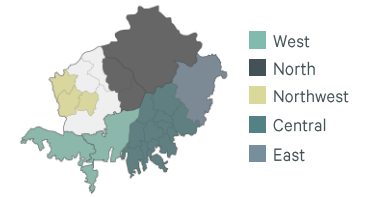
## Logistics market concentrated in west and north; vacancy rate reaches 16%

By total supply, the size of the Busan Grade A logistics market by region in Busan is as follows: West, North, Northwest, Central, and East. Owing to solid port-related demand, about 87% of Grade A assets in Busan are concentrated in the West and North areas adjacent to Busan New Port. The Northwestern and Central areas are smaller markets that have only just started to expand.

As of H1 2024, the average vacancy rate in Busan's Grade A logistics market was around 16%. The West has seen solid demand, with all assets reporting 100% occupancy, while the North has seen rapid stabilisation, registering a vacancy rate of 9% despite the addition of significant new supply in 2024.

Vacancy remains high in the Northwest and Central regions, particularly in the cold segment. While newly supplied assets have been negotiating with potential tenants, elevated vacancy appears to be a temporary phenomenon.

By asset type, mixed and cold type properties are the most prevalent at around 65%, while pure dry and cold facilities account for 31% and 4%, respectively. CJ Logistics' Busan Starbucks Centre, built in 2022, is the only pure Grade A cold storage facility in Busan. With more than 90% Korea's imported coffee beans flowing through Busan, this asset has quickly stabilized by securing CJ Logistics as a tenant. The centre plays an important role in maintaining the freshness and quality of Starbucks products.



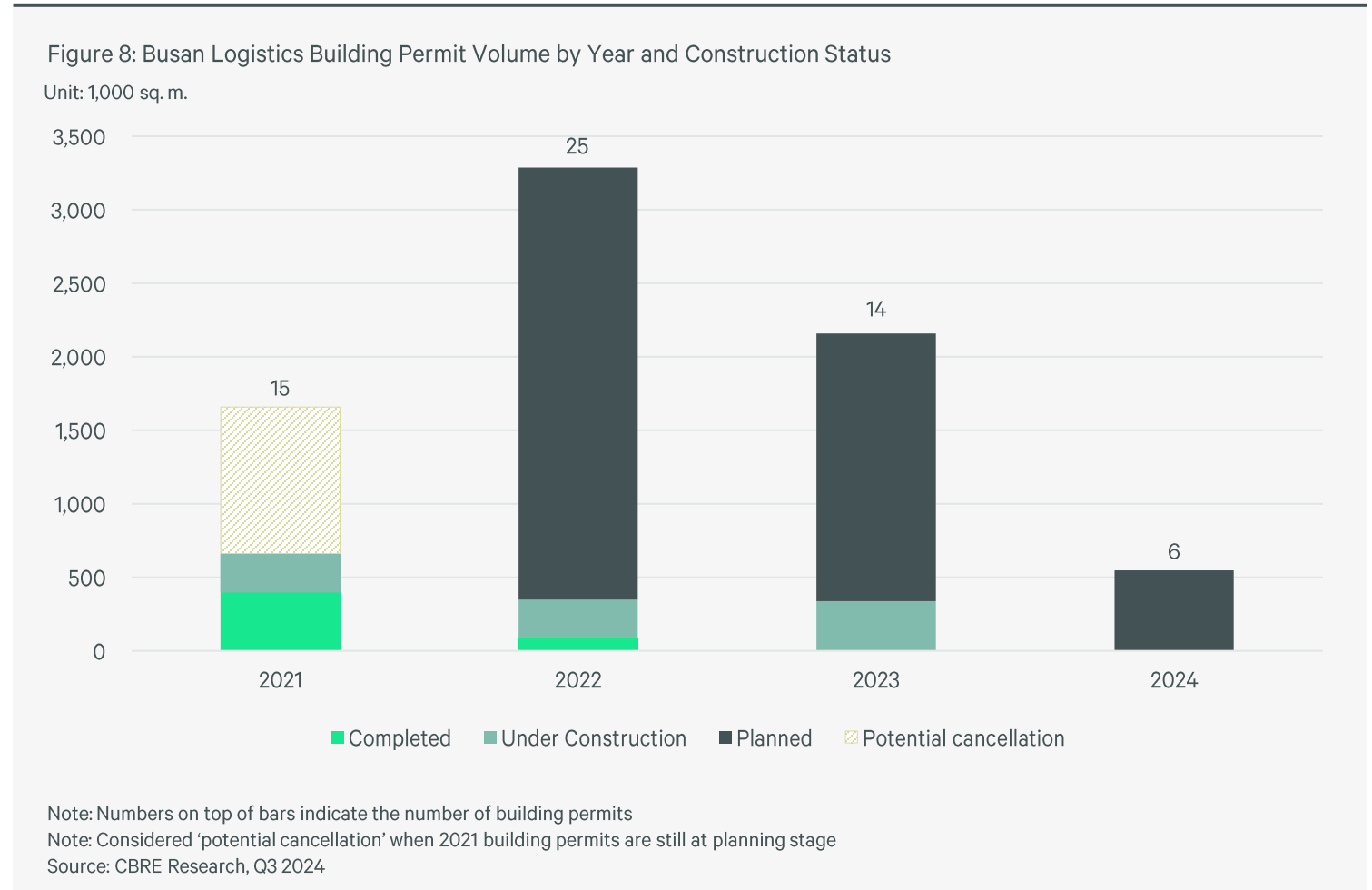
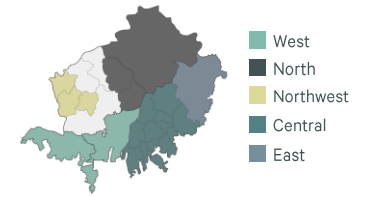
## Large backlog of future supply but slow rate of completions expected

After supply peaked in 2023, the vacancy rate in the Greater Seoul reached double digits and has recently risen to 21%. However, supply is expected to decline significantly in 2025 due to accumulated delays in the construction of new logistics facilities and a slowdown in demand for new developments.

A similar trend has been witnessed in Busan, where the volume of building permits for new Grade A logistics properties has been declining since 2022, and only a limited number of logistics facilities have commenced construction due to the impact of rising project financing risks and development costs. Of a total of 45 Grade A logistics facilities in the Busan development pipeline<sup>1</sup>, only seven projects had started construction as of H1 2024.

Given that construction is required to commence within a maximum of three years after the issuance of a building permit, some permits issued in 2021 are likely to be cancelled.

New Grade A logistics supply is expected to be 203,761 sq. m. in 2025. While marking a 70% drop from 2024, it is a level similar to average annual supply over the past three years (2021-2023). The 2026 development pipeline stands at approximately 390,414 sq. m., indicating that Busan logistics supply will continue to expand.



<sup>1</sup>Number excluding projects that are completed and potentially cancelled

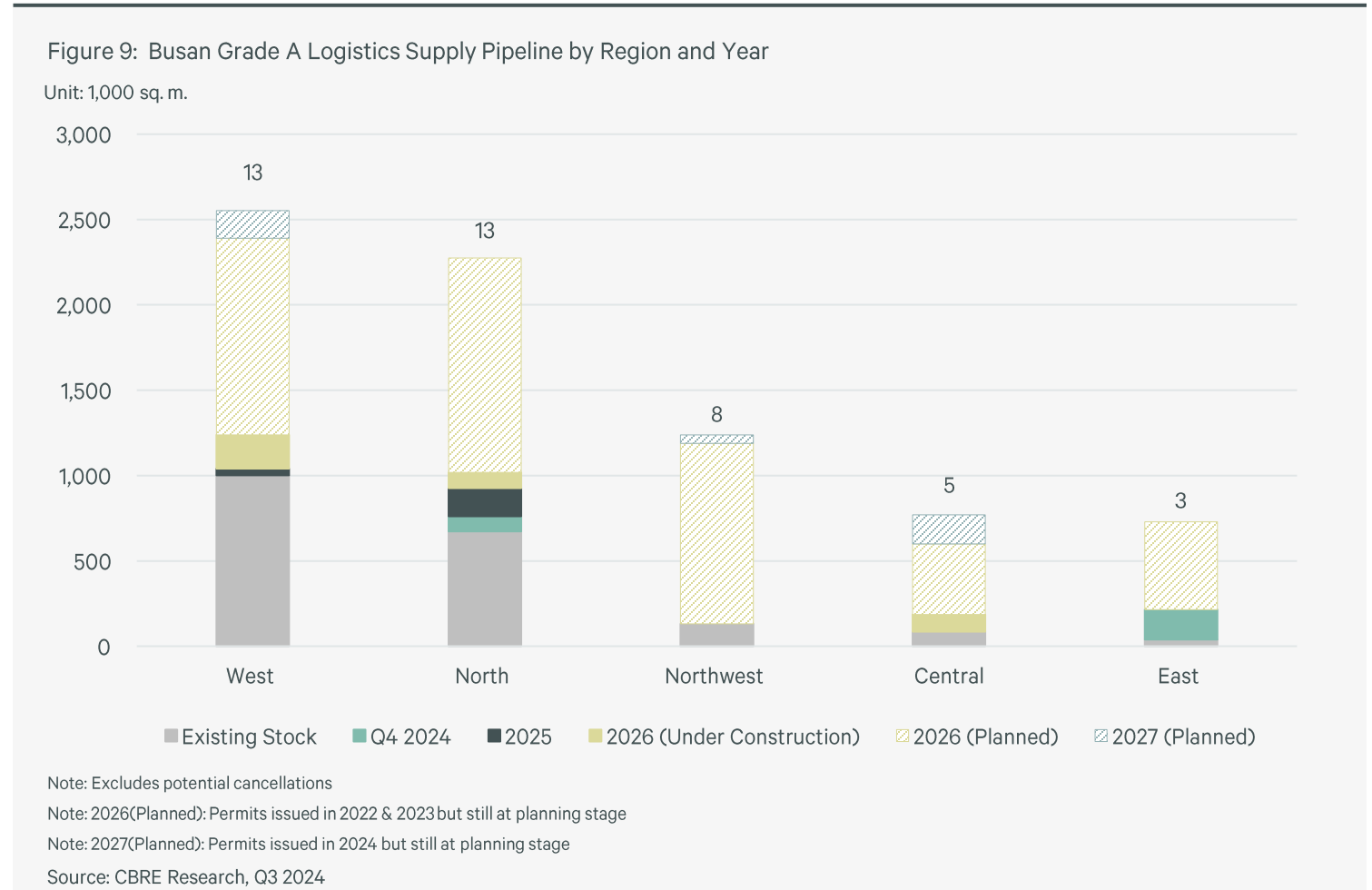
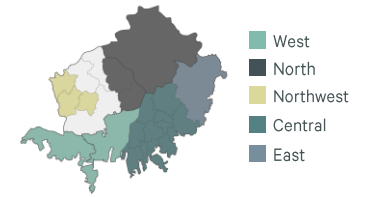
## New supply polarised by area; stock in East and Central regions expected to grow

Two more leasable assets will be completed before the end of 2024, one each in the East and North regions. Should these properties come on stream on schedule, the East will become the third-largest logistics market in Busan, after the West and North.

Only two properties are scheduled for completion in 2025, one a project by Singapore-based CapitaLand in the North (Yongsan), and the other a Lotte Shopping project in West (Gangseo-gu, Busan). New supply in 2025 is therefore expected to fall significantly from 2024.

Several other development projects are at the early stages of construction, with groundbreaking targeted for completion in 2026. These include Coupang's development project in the West, which will serve as a mega fulfillment centre for regional last-mile demand. Other major schemes include the Kendall Square project in the Central district, which will be the first Grade A logistics facility in Nam-gu.

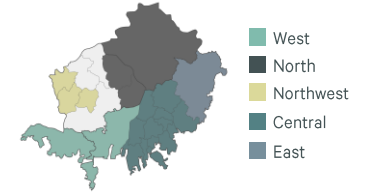
While no major new logistics schemes are expected to come on stream in the Northwest region in the near term, new stock will increase gradually in the coming years.



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# Leasing and investment trends

## 3PLs drive demand in the West; e-commerce dominates in the North



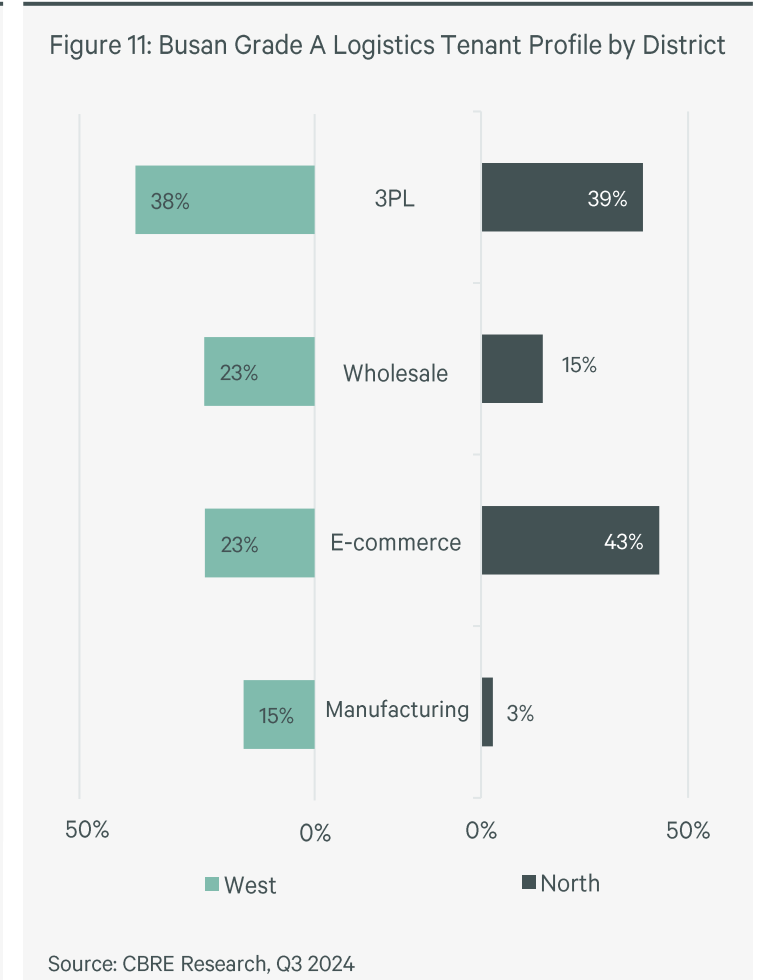
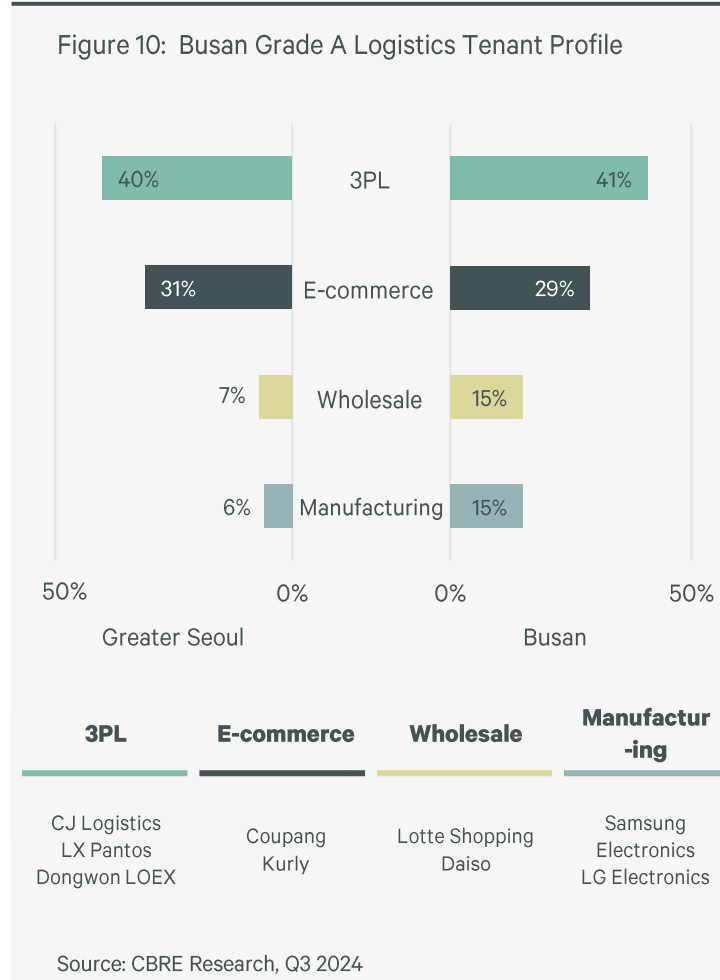
3PLs and e-commerce are the main drivers of leasing demand in the Greater Seoul Grade A logistics market and occupy a similar position in Busan, accounting for about 70% of total leased space.

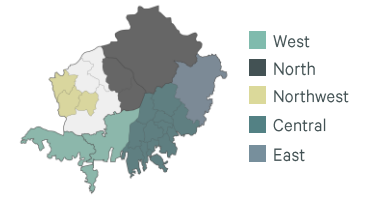
The recently completed Pacific Gimhae Complex Logistics Centre in the North has been fully leased by Coupang. Another prime asset to be completed in Q4 2024 in the East has already secured a pre-lease contract with BGF Retail.

Along with the increase in online penetration, the expansion of the e-commerce supply chain in Gyeongnam is spurring investment in logistics supply chain improvement and infrastructure construction. Coupang especially continues to aggressively expand its logistics network, with plans to invest a further KRW 3 trillion by 2026 to build logistics facilities in regional areas, including Busan.

The composition of logistics tenants in Busan varies by region. In the West, the 3PL industry accounts for more than half of tenants. Manufacturers, many of which moved to Busan to avail of BJFEZ benefits, account for 15%, higher than Greater Seoul.

The North is dominated by large e-commerce players including Coupang, as well as major 3PLs such as CJ Logistics and Lotte Global Logistics, along with several small and medium-sized bonded 3PLs.





## Vacancy rises due to new supply

The Busan Grade A logistics market has witnessed solid leasing demand from 3PLs and e-commerce platforms in 2024. Despite the addition of a large volume of new supply, 60% of new stock completed in H1 2024 secured tenants, leaving overall vacancy at around 16%.

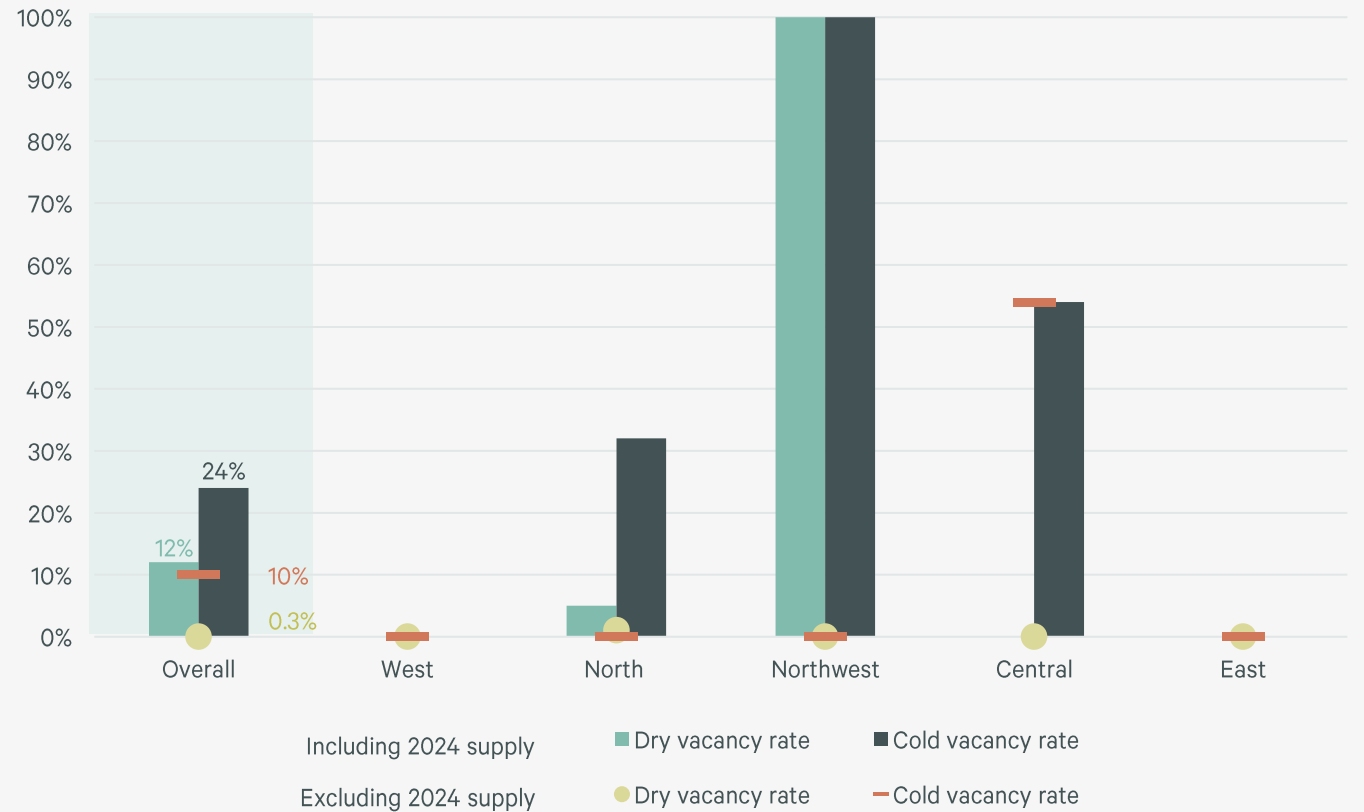
Compared to 12% for dry facilities, the vacancy rate for cold space stood at 24%, reflecting relatively high vacancy risk for cold facilities: a trend similar to Greater Seoul.

Cold space in Logispoint Amnam, which was completed in Q3 2023, and Northwest's MQ Logis Cube Jucheon, which was supplied in Q2 2024, remains vacant. These two projects account for the majority of total cold vacant space in the Busan Grade A logistics market.

If this year's new supply were to be excluded from calculations, the Busan Grade A logistics vacancy rate was just 3%. The vacancy rate for dry facilities was 0.3%, suggesting that the rise in vacancy rates this year is largely a short-term consequence of recent new supply.

Despite the upcoming supply pipeline, the impact on the vacancy rate is expected to be limited given the current pace of individual development projects and range of different uses.

Figure 12: Dry and Cold Vacancy Rate by Region



Source: CBRE Research, Q3 2024

## Newer properties command higher rents

As of Q3 2024, average Busan Grade A logistics rents for dry and cold facilities were KRW 29,652 and KRW 59,812 per sq. m., respectively. These were similar to the average rent level in Anseong’s Grade A logistics market in Greater Seoul.

While rents varied slightly by region, most Grade A logistics submarkets, except for the North, reported a rental premium gap of around 20%. This is limited compared to Greater Seoul, where the gap was observed to be greater than 200%.

The Central and Eastern regions, which are close to last-delivery areas such as Busan, reported the highest rents on the back of strong demand and limited supply, with rents even higher than the Greater Seoul average.

Rents in the North were the lowest among all regions due to the concentration of older logistics properties in Yangsan, with dry rents commanding rates in the low KRW 20,000 per pyeong range. However, new supply recently completed in the region is commanding rents in the mid KRW 30,000s per pyeong range. The completion of large prime assets scheduled for this year and next in the North is expected to drive rental growth in the region and narrow the rental gap between regions.

Limited new supply in the Northwest and Central regions should ensure rents in these areas remain largely stable. Overall Busan Grade A logistics rents are therefore expected to level off.

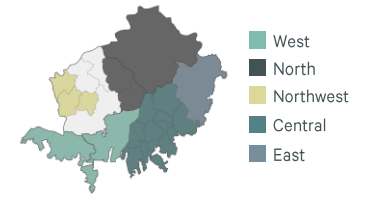
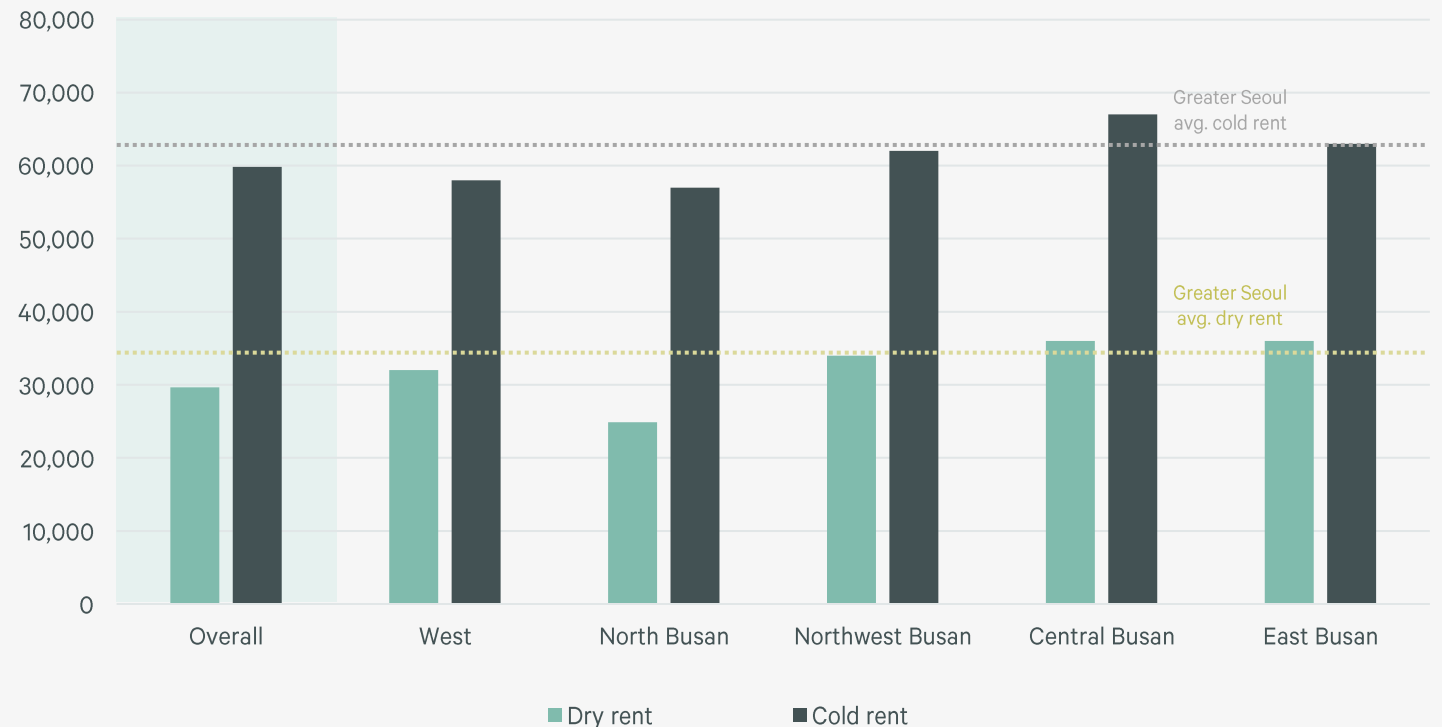


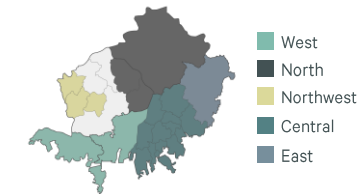
Figure 13: Face Rents by District

Unit: KRW/pyeong/month



Note: Data based on Q2 2024  
Source: CBRE Research, Q3 2024

## Investment activity remains limited despite Busan being Korea’s second-largest logistics market after Greater Seoul



With modern Grade A logistics facilities having emerged as an investment asset preferred by institutional investors, the saturation of the logistics investment market in Greater Seoul has led to interest in Busan as a secondary market.

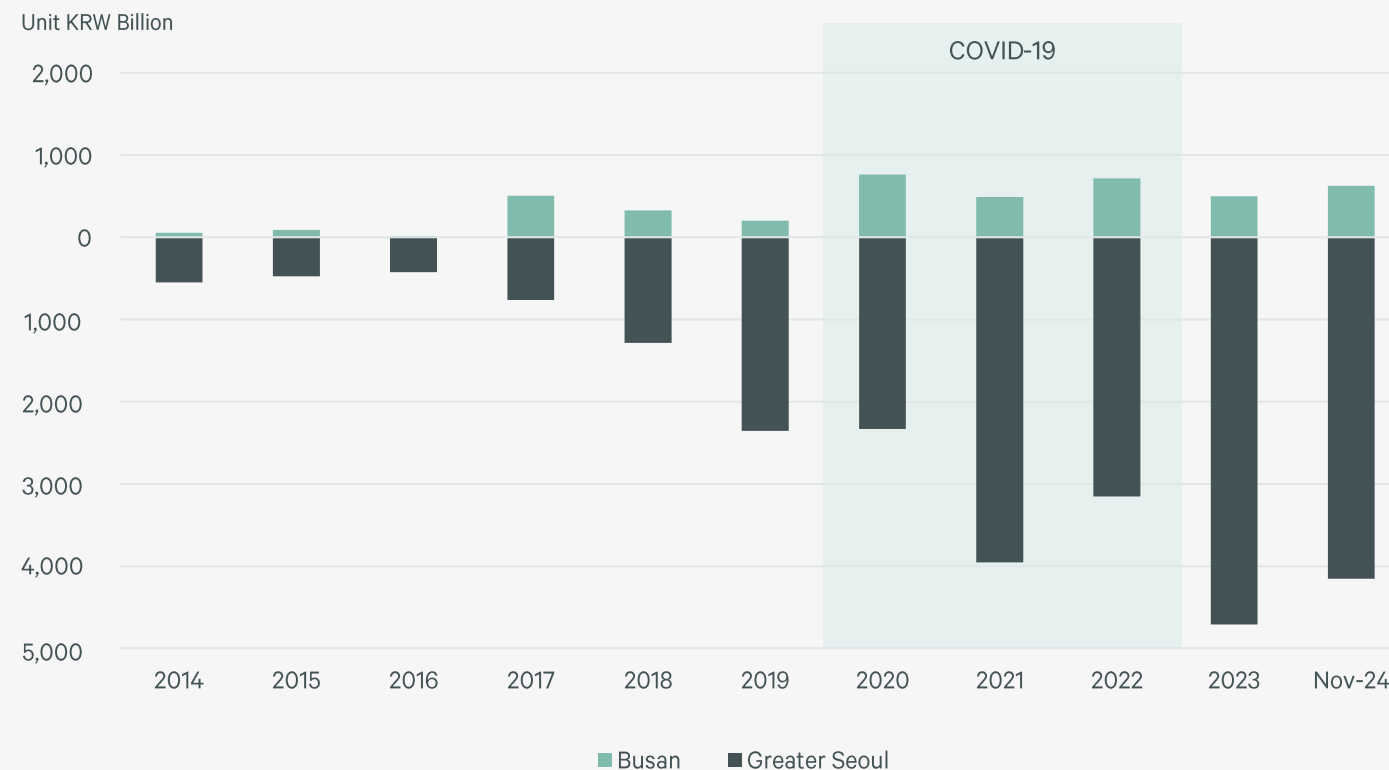
In 2017-2019, logistics investment activity was concentrated in Greater Seoul, while the volume of transactions in Busan declined.

However, after the onset of the pandemic, Busan experienced an expansion in transaction activity in 2020 along with Greater Seoul, with investment volume reaching a record high KRW 762 billion that year.

Busan has since reported steady investment activity, with average annual transaction volume reaching around KRW 620 billion over the past five years (2020-2024). However, this is only about 17% of the total registered in Greater Seoul during the same period. As of November 2024, year-to-date investment volume had reached KRW 627 billion<sup>1</sup>, although pure logistics facility transactions accounted for only one-fifth of the total. No deals for Grade A assets were reported, with most transactions involving factories and small and medium-sized distribution facilities traded between corporations.

Despite growing interest in the Busan logistics market, the limited availability of Grade A assets suitable for institutional investors has constrained investment activity. However, this year's strong Grade A supply pipeline is expected to create more opportunities for buyers.

Figure 14: Busan Grade A Logistics Investment Volume



Note: Transactions over USD 10 million, including logistics facilities and factories.

Source: RCA, December 2024

<sup>1</sup> November YTD volume

## Improved investment activity predicated on recovery of Greater Seoul market

Recent Grade A logistics investment activity in Busan has been led by major domestic managers and international investors, including GIC and Kendall Square, which are helping to revitalise the market.

Major transactions have mostly been completed in the West and North. Kendall Square currently owns three Grade A assets in Busan, including Gimhae LP2 which was added to a REIT in 2021 (Figure 15), and has one development project underway.

Over the past two years, the Greater Seoul logistics market has seen a decline in transactions and a rise in the number of distressed properties due to increased project financing risks stemming from interest rate adjustments and rising construction costs. With the number of NPL assets having risen due to the increase in auctions and short sales, investment opportunities are primarily occurring near Seoul, with those in Busan relatively less sought after.

However, Busan continues to offer significant growth potential. Considering robust demand from the port hinterland, the presence of major transportation networks making the city a logistics hub in the Southeast, and e-commerce companies' expansion to boost nationwide delivery capacity, CBRE expects to see a continuation of solid leasing and development demand in the Busan area.

However, as Busan is considered a secondary market after the Greater Seoul area, the revival of its investment market is likely to be predicated on the recovery of purchasing activity in Greater Seoul.

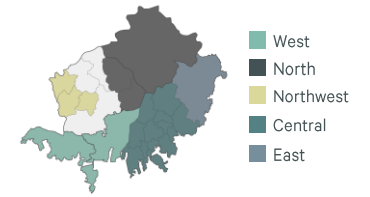





Figure 15: Recent Major Grade A Logistics Transactions in Busan

					
	Fashion Group Hyeongji Yangsan Logistics Centre	LG Electronics Dudong Logistics Centre	Dudong 1883 Logistics Centre	Kendall Square Gimhae LP2	CJ Freshway East Logistics Centre
District	North	West	West	North	North
Administrative region	Yangsan	Changwon	Changwon	Gimhae	Yangsan
Seller	Mplus AMC	Mastern AMC	Dudong Logistics Development PFV	Kendall Square AMC	LogisONE
Buyer	DHG AMC	IGIS AMC (GIC)	KOREIT AMC	ESR Kendall Square REIT	ADF AMC
Transaction price (KRW bil)	55	109	140	71	70
GFA (py)	9,581	16,520	16,563	12,082	8,641
Price per py (KRW mil)	5.7	6.6	8.4	5.9	8.1
Cap. Rate	7.0%	5.5%	4.8%	4.9%	4.2%
Transaction Yr	Q2 2024	Q1 2023	Q2 2022	Q4 2021	Q1 2021

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