

## Real Estate Strategic Outlook: South Korea

### Tailwinds from tariff war dragging economic growth

The base rate decreased to 2.5%, with more cuts expected in 2025.

South Korea's real GDP growth is projected to slow to 0.7% in 2025 and 1.8% in 2026<sup>1</sup>. "Reciprocal" tariffs introduced after President Trump's inauguration have raised concerns over South Korea's high reliance on global trade and exports to the U.S. While tensions eased with a 90-day negotiation pause and a U.S. court ruling the tariffs illegal, short-term uncertainty remains until a clear policy reversal occurs. A chain of political turbulence including a brief martial law, the incumbent president's impeachment, and a new presidential election on June 2025 have drawn high global attention, though the immediate macroeconomic impact has been limited, supported by resilient capital markets and steady industrial activity.

Amid these concerns and signs of a potential economic slowdown ahead, the Bank of Korea has responded by cutting the base interest rate from 3.0% to 2.5% in the first half of 2025. Further easing is anticipated, with two additional rate cuts expected to bring the rate down to 2.1% by the end of the year<sup>1</sup>.

### Falling interest rates helped drive the recovery in yield spreads back to positive levels.

Pricing recovery with increasing risk taking appetite by domestic institutional investors.

Despite relatively low levels of transaction closings, commercial real estate pricing saw a modest pricing recovery for the first time in three years. Prices for Grade A office and logistics assets have yet to return to their 2022 peak, while recent transactions of core stabilized assets showed healthy gains of approximately 5–10% from recent market lows.

Institutional investors, who have largely refrained from equity investments over the past 3-4 years, are now showing a greater risk appetite in pursuit of attractive market entry points, as evidenced by the growing number of new domestic investment mandates launched this year. The negative yield spreads between cap rates and borrowing costs seen in previous years has largely normalized, faster than anticipated, thanks to a

sharp decline in borrowing costs from 6.5% at the end of 2022 to below 4% in the first half of 2025. This trend could serve as a further catalyst for mid- to long-term price recovery.

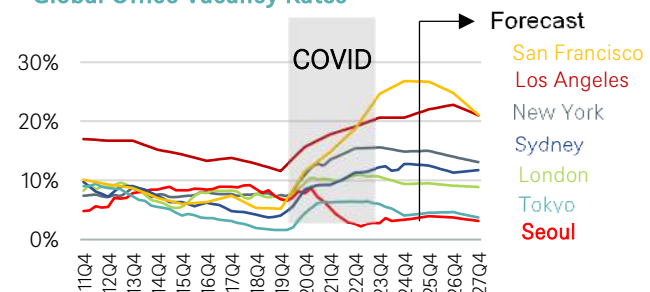
### Logistics: Construction cost rises to limit new supply from late 2025

Rising construction costs and tighter construction loan requirements have emerged as major headwinds for logistics developments, driving breakeven rents for new projects to levels approximately 30% higher than current market rents. As a result, new supply is expected to be constrained from the second half of 2025 onward. Should the logistics vacancy rate in Greater Seoul stabilize from its elevated level of over 10% in 2024, robust rental growth is anticipated beyond 2026.

### Office: Healthy fundamentals with limited supply.

Seoul continues to stand out as one of the world's most dynamic office markets, despite a modest rise in the vacancy rate from 3.2% in 1Q 2024 to 4.2% in Q1 2025. Leasing momentum has slightly softened, driven by corporate relocations to decentralized areas and reduced hiring by major firms amid concerns over an economic slowdown. Despite some new supply concentrated in the fringe areas of the CBD, future additions to central office stock are expected to remain limited. This supply constraint is likely to support continued healthy rental growth in the core office market.

### Global Office Vacancy Rates



Source: DWS, Genstar Mate, Miki Shoji, Colliers, CBRE, PMA. As of June 2025.

<sup>1</sup> Oxford Economics Data, as of May 2025

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