

Intelligent Investment

MAY 2024

APAC Hotels & Hospitality Market Update Korea

BRIEF

CBRE RESEARCH





Contents

- 01 **Executive Summary & Outlook**
- 02 **Tourism**
- 03 **Key Tourism Infrastructure Development**
- 04 **Performance**
- 05 **Supply**
- 06 **Investment**
- 07 **Key Trends**
- 08 **Investment & Taxation Guide**
- 09 **Strategy Map**



01 Executive Summary & Outlook

Robust domestic and international demand have cemented Korea's status as one of the top performing hotel markets in Asia Pacific over the past two years.

STR data show Average Daily Rates (ADRs) in Korea reached KRW 214,177 in Q1 2024, an increase of 43% over Q1 2019, with overall RevPAR 49% above the same period. Whilst occupancy has yet to demonstrate a complete recovery over a full year, occupancy as of Q1 2024 was 2% above the same period of 2019.

Recent years' strong hotel performance will be further boosted by several long-term growth drivers including the Korean Wave/Hallyu experience alongside a growing medical tourism industry. According to the Korea Tourism Organization, almost 37% of all travellers to Korea in 2023 stated that the Hallyu wave was a main driver behind them choosing to visit the country, while medical tourism arrivals reached an all-time high of 616,000 in 2023.

The luxury and upscale segments are expected to outperform once again over the next six to 12 months, led by assets located in key tourist destinations such as downtown Seoul, Haeundae in Busan, and Jeju Island. With the supply pipeline extremely limited over the next four years, CBRE expects hotel performance to continue to improve over the period.

Despite the significant improvement in hotel performance over the past 12 months, investment activity remains subdued. However, expectations are that borrowing costs will begin to decline in H2 2024 in tandem with interest rate cuts in the U.S., which should spur an increase in purchasing activity. Some distressed opportunities may arise through Korean capital potentially being overexposed in the U.S. and Europe, which may result in liquidity requirements onshore.

Both private and institutional investors will continue to drive acquisitions in 2024, with value-add opportunities being their primary focus. Whilst still a nascent market, co-living operators will continue to add to their footprint by capitalising on the overall shortage of living sector assets.



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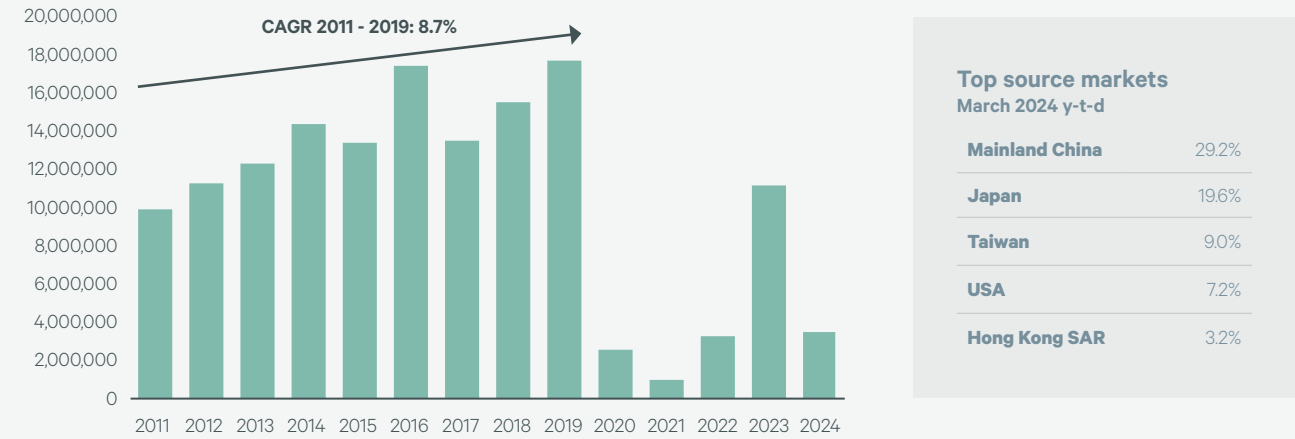
Tourism



Inbound tourism on course to surpass 13 million in 2024, 78% of 2019 levels; mainland Chinese arrivals comprise almost 30% of all arrivals in March 2024 y-t-d

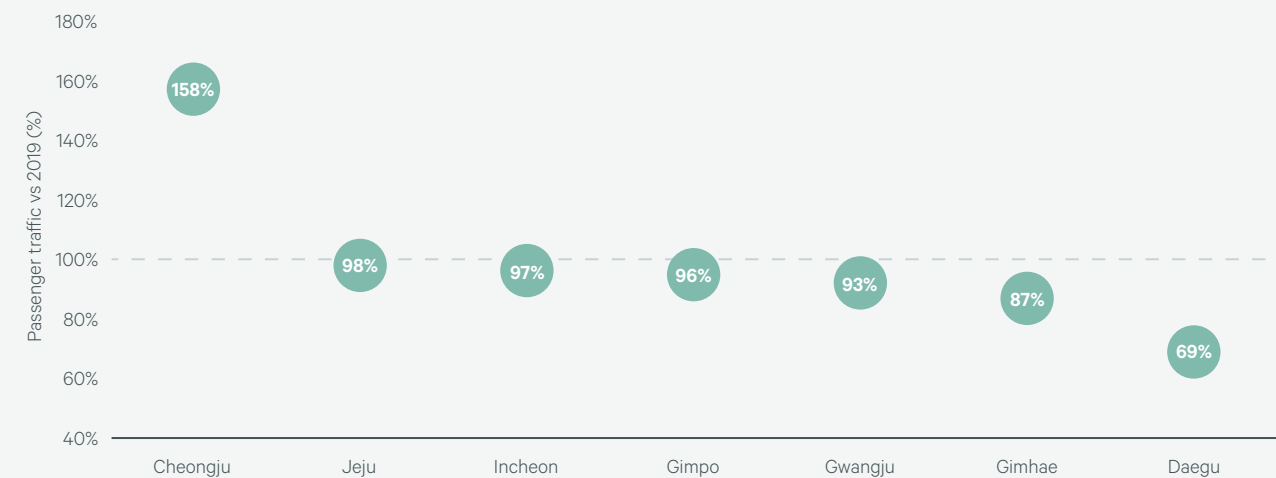
- Korea welcomed 11,030,000 international tourist arrivals in 2023, a 245% increase from the previous year. Japanese tourists accounted for the largest portion of foreign arrivals last year at 2.32 million, followed by mainland Chinese (2.02 million), Americans (1.09 million), Taiwanese (960,000) and Vietnamese (420,000).
- Korean tourism authorities are rolling out an array of measures to attract more foreign tourists to the country with the aim of reaching 20 million tourist arrivals and generating US\$24.5 billion in tourism revenue by the end of 2024. Steps include extending e-visa fee waivers for tour groups – which currently only cover mainland Chinese - to Vietnamese, Filipinos and Indonesians and extending the programmes’ validity until next year. Accessibility to immediate refunds at duty-free stores will be enhanced, increasing the share to 40% of all post-tax outlets. From January 1, 2024, the limit for such refunds has been doubled from KRW 500,000 to KRW 1 million per payment and the cumulative cap from KRW 2.5 million to KRW 5 million. Additionally, planned partnerships with 1.8 million zero-pay merchants including Alipay, WeChat and UnionPay of China, TrueMoney of Thailand and OCBC Bank of Singapore will allow foreign tourists to pay using apps from their respective countries.

Figure 1: International tourism arrivals (millions) – as of March 2024



Source: CEIC, CBRE Research, March 2024

Figure 2: Airport passenger traffic – Q1 2019 vs Q1 2024



Source: CEIC, CBRE Research, March 2024

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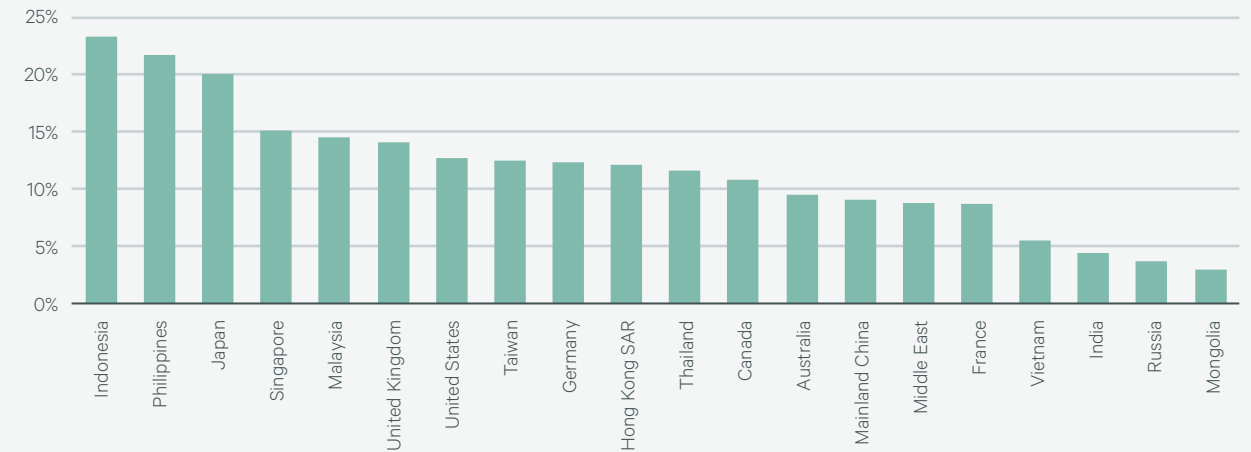
Tourism (cont.)



Hallyu/Korean Wave and Medical Tourism rank as some of the most popular visitation reasons for travellers coming into Korea

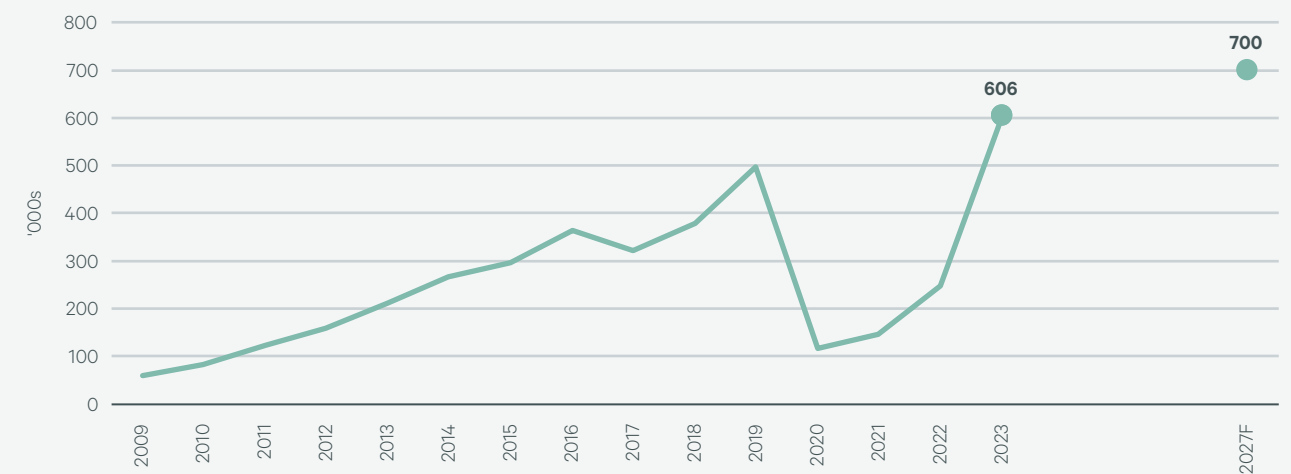
- A 2019 study conducted by the Korea Tourism Organisation (KTO) found that approximately 23% of tourists to Korea stated their main purpose for travel was for K-pop and Hallyu experiences. The KTO continues to pursue a strategy of attracting Hallyu fans from across the world, with the latest marketing push focusing on India.
- Alongside the Hallyu wave, the KTO has promoted a greater emphasis on medical tourism. More than 600,000 foreigners travelled to Korea last year for medical procedures, a record high. Seoul was the most visited city, attracting 78.1% of total arrivals. The Korean government has set a modest goal of 700,000 medical tourism arrivals by 2027, focusing on luring visitors from key markets such as Japan, mainland China and the U.S.

Figure 3: Share of tourists visiting for Hallyu/Korean Wave experience, by origin (2019)



Source: Korea Tourism Organisation, CBRE Research May 2024

Figure 4: Medical tourism arrivals ('000s)



Source: Korea Tourism Organisation, CBRE Research May 2024

03

Key Tourism Infrastructure Development

2024

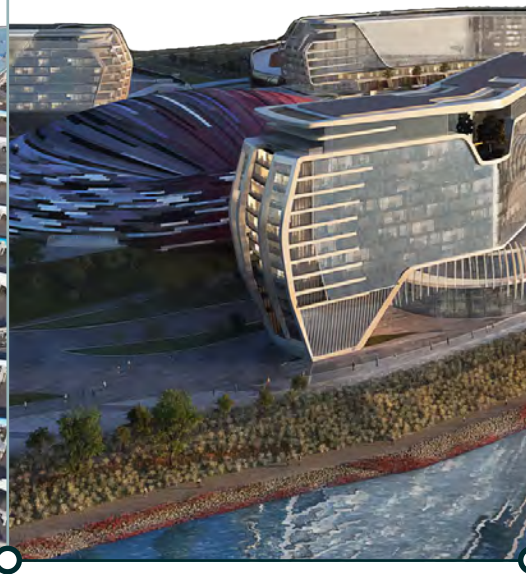
Incheon International Airport Terminal 2 Expansion

The current Terminal 2 spans over 388,000 sqm with an annual capacity of 23 million passengers. The ongoing expansion will allow the terminal to increase its capacity to 52 million passengers per year, bringing total capacity of both terminals to 106 million passengers per year. Scheduled to be completed by 2024, the US\$412 million-project will include large outdoor parks, and the indoor areas will be filled with various applications of new renewable energy, state-of-the-art ICT technology, etc.



Inspire Gaming Integrated Resort

Located on Yeongjong Island near Incheon International Airport, Mohegan INSPIRE Entertainment Resort, the 4.25 million square foot development boasts three 5-star hotel towers, offering a total of 1,275 keys suites and luxury villas, state-of-the-art gaming facilities, and immersive digital experiences. INSPIRE plans to open the entire resort in phases by the first half of 2024.



2025 & Beyond

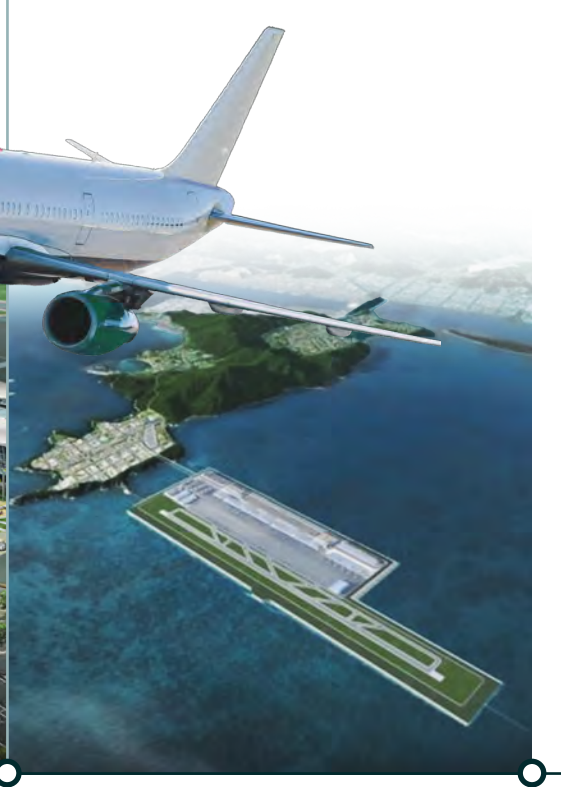
Second International Airport in Jeju

The Ministry of Land, Infrastructure and Transport previously announced its plan to build a second international airport in the southern island of Jeju.



First Floating Airport in Busan

The government has done a preliminary feasibility study to build the new airport on Gadeok Island, on a floating structure. The research indicated the project will require a budget of 13.7 trillion won (US\$10.97 billion), expected to begin in 2025 and open in 2035.



Note: Photo credit to incheon International Airport Corporation, Aedas, Space Group, Ministry of Land, Infrastructure and Transport

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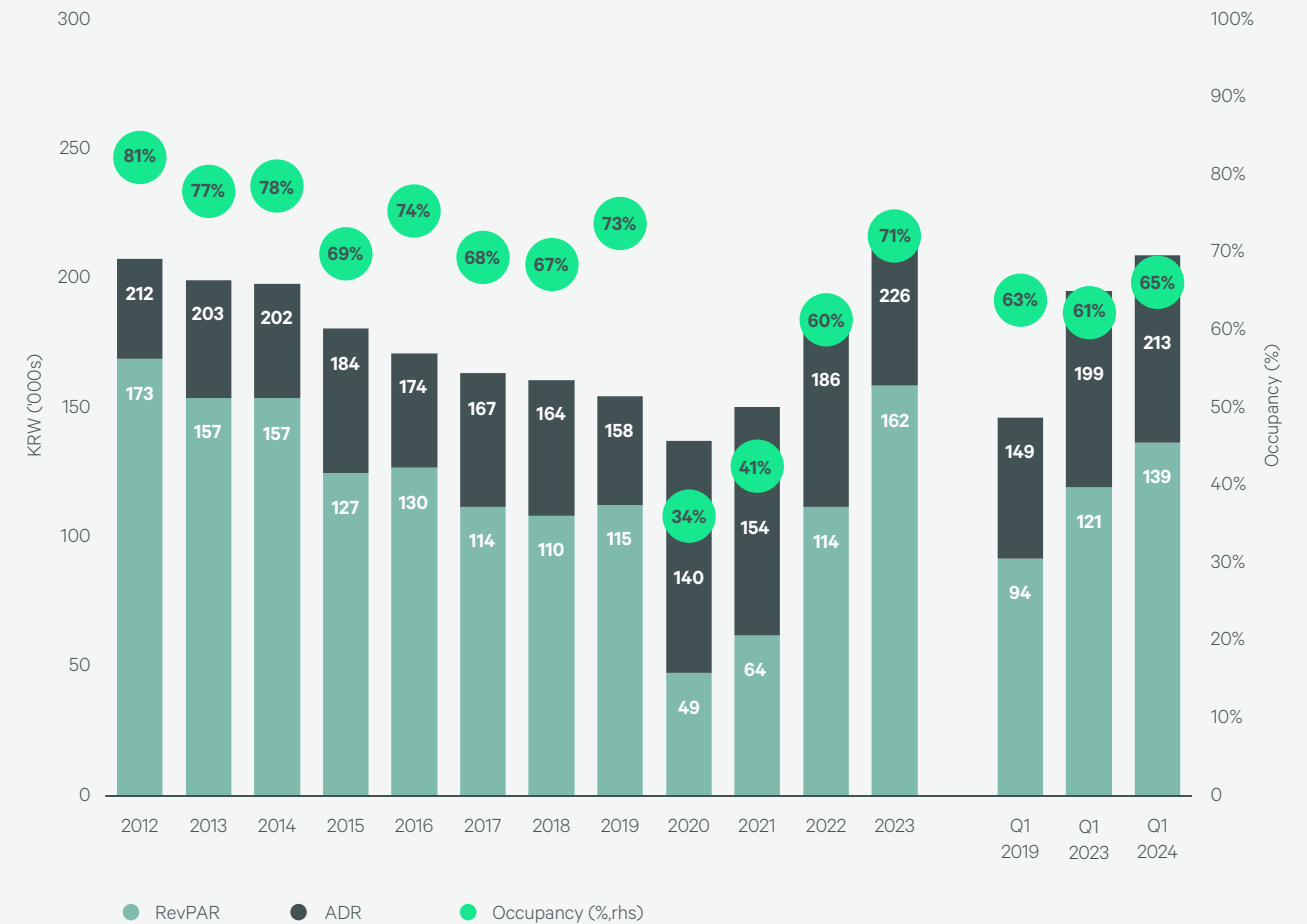
Performance



Hotel performance in Korea registered the strongest recovery in Asia Pacific since 2022, driven by significant increase in Average Daily Rates (ADR's)

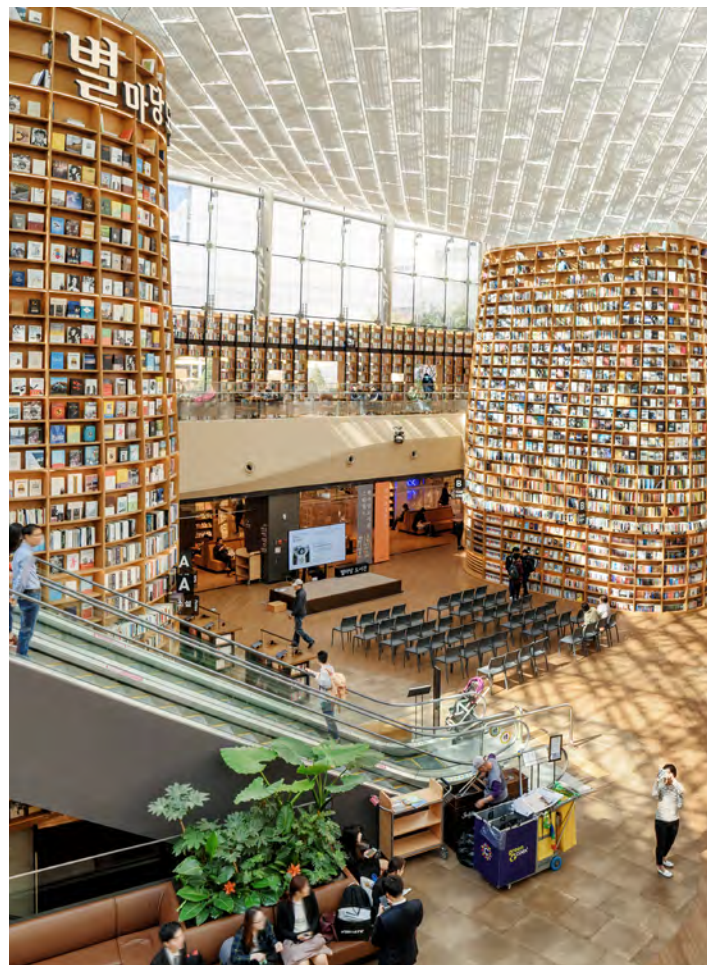
- Strong domestic demand has ensured that the Korean hotel market has consistently ranked as the top performer in Asia Pacific. STR data show Average Daily Rates (ADRs) in Korea reached KRW 214,177 in Q1 2024, an increase of 43% over Q1 2019, with overall RevPAR 49% above the same period. Whilst occupancy has yet to demonstrate a complete recovery over a full year, occupancy as of Q1 2024 was 2% above the same period of 2019.
- Despite persistent concerns about overall gross operating profits because of relatively higher labour costs, CBRE expects luxury and upscale assets located in key tourist destinations such as downtown Seoul, Haeundae in Busan, and Jeju Island to continue to outperform in 2024.

Figure 5: Hotel operating performance – Seoul (As of Q1 2024)



Source: STR, CBRE Research, May 2024

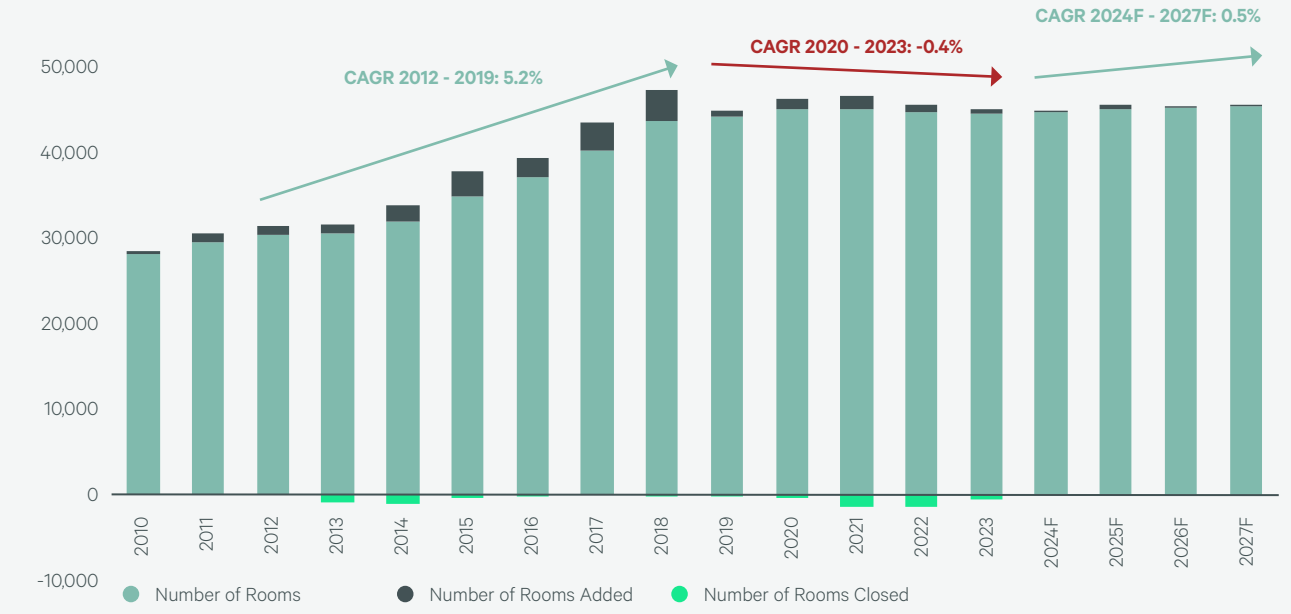
05 Supply



Adaptive reuse and conversions weigh on overall hotel supply in Seoul over past four years; limited developments in the pipeline

- Total room inventory in Seoul has decreased by a CAGR of 0.4% over the past four years owing to a steady increase in conversions of hotel assets into office and residential developments amid land price pressure and significant undersupply. At the same time, rising development costs, lack of available development financing and challenges in securing approvals have seen developers and construction companies face difficulties in executing construction of new hotels, despite securing sites.
- Amid reported distress experienced by some Korean developers overexposed to European and U.S. office assets, the hotel supply pipeline and further conversions will remain limited as domestic developers turn more cautious. While international operators will continue to seek opportunities to enter or expand into the Korean market, they will target existing assets with minimal CapEx needs in key locations.

Figure 6: Hotel supply - Seoul (As of May 2024)



Source: STR, CBRE Research, May 2024

Figure 7: List of key hotel openings – Seoul

Year	Property	Scale	Operator	Approx. Room Count	Class
2024	The Link Seoul a Tribute Portfolio Hotel	Upper Upscale	Marriott International	142	Upper Upscale
	Voco Myeongdong	Upscale	IHG	576	Upscale
2025	Mercure Hotel Ambassador Seoul Magok	Upper Midscale	Accor	400	Upper Midscale
2026	Maison Delano Seoul	Luxury	Accor	85	Luxury
2027	Pullman Ambassador Seoul Gwangjin	Upper Upscale	Accor	150	Upper Upscale
2027P	Rosewood Seoul	Luxury	Rosewood	250	Luxury

Source: CBRE Research, May 2024

05

Supply (cont.)

Influx of international operators has seen shift from master leases to hotel management agreements (HMAs) being more prominent

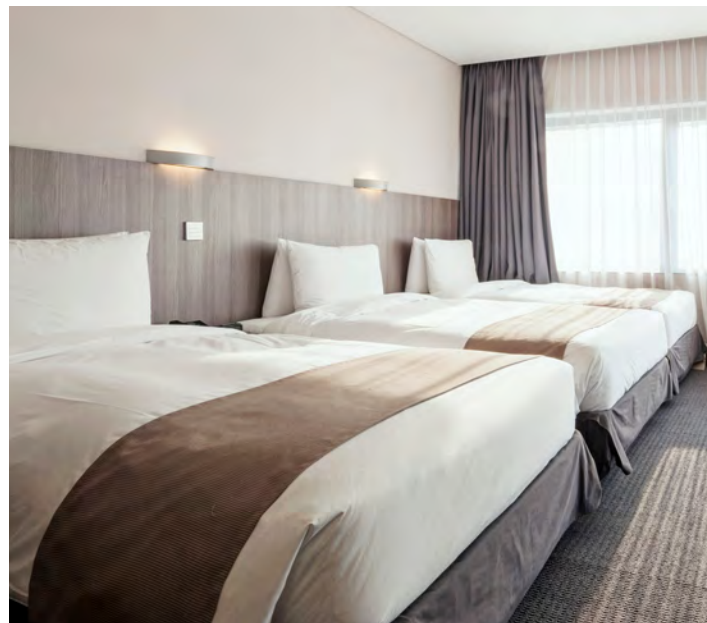


Figure 8: Existing Supply by Segment As at 2023

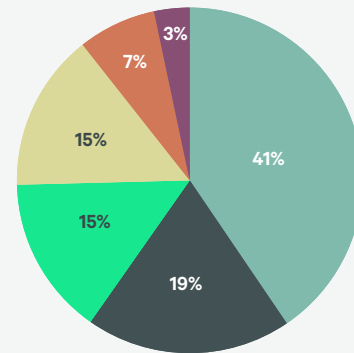
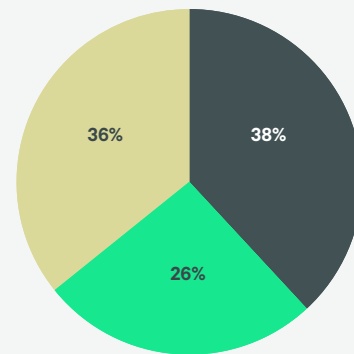


Figure 9: Future Supply by Segment 2024F and beyond



- Upscale
- Upper Upscale
- Midscale
- Luxury
- Upper Midscale
- Economy

Note: Percentage value equals market share
Source: STR, CBRE Research, May 2024

Figure 10: Hotel Supply by Operating Model As at 2023

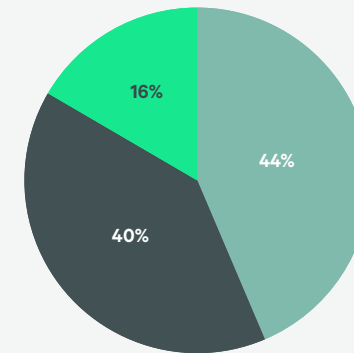
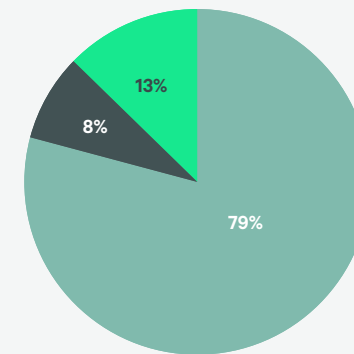
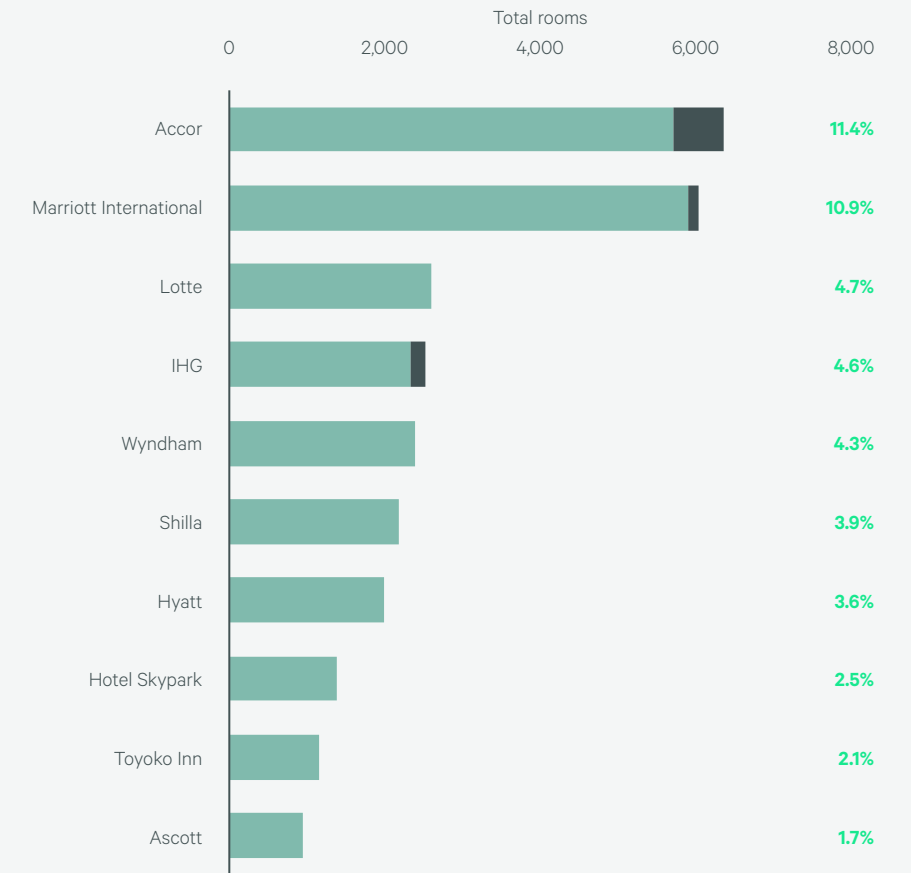


Figure 11: Future Supply by Operating Model 2024F and beyond



- Chain Management
- Independent
- Franchise

Figure 12: Top 10 operators - Seoul As at May 2024



- Current
- Pipeline

06

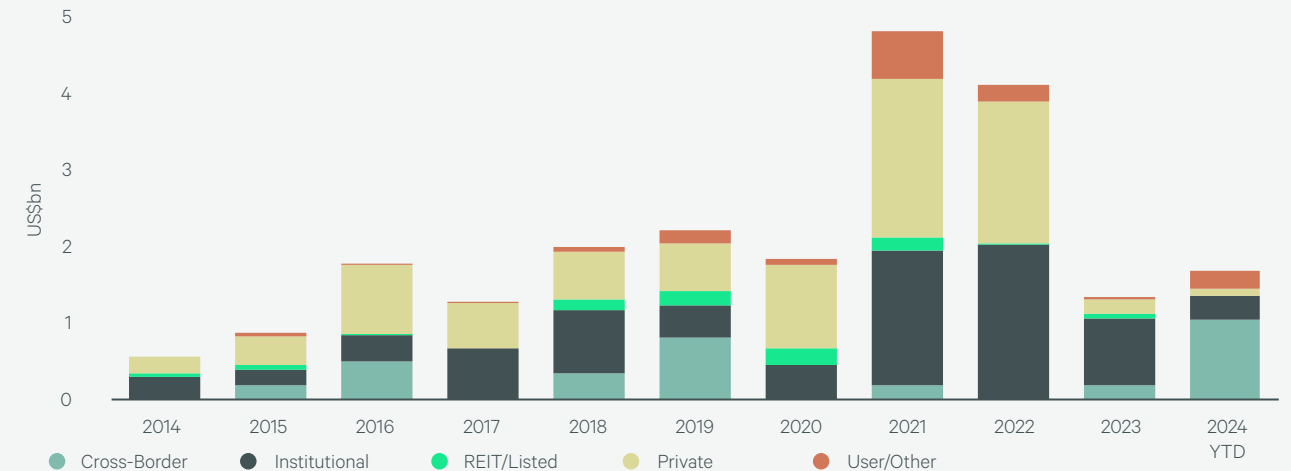
Investment



Interest rate hikes weigh on hotel investment following record volumes in 2021 and 2022, however Q1 2024 saw strong transactional activity

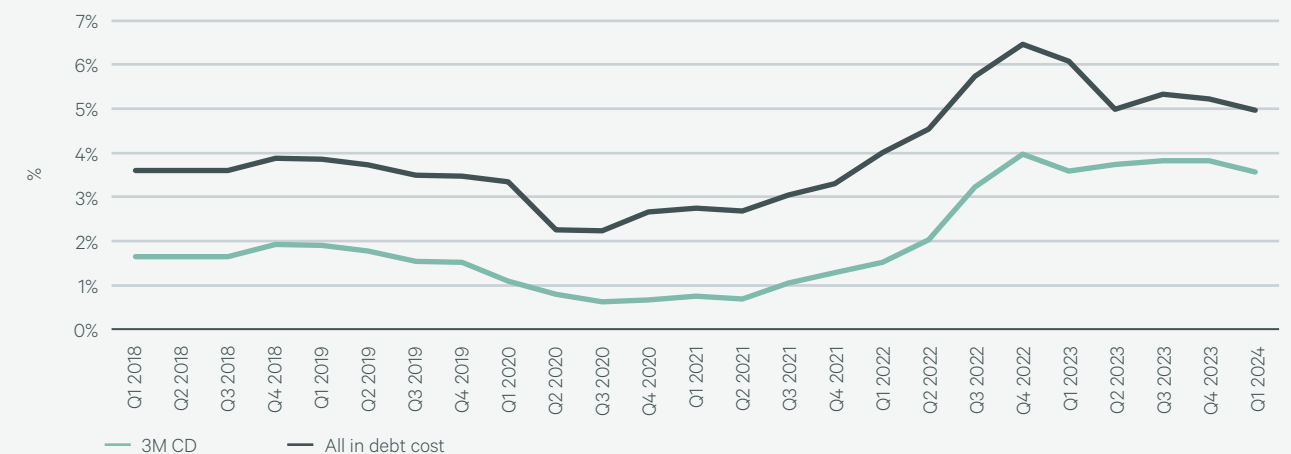
- Korean hotel investment volume reached US\$1.34 billion in 2023, down from US\$4.14 billion in 2022 as rising interest rates and development costs constrained purchasing activity. Amid an increase in investors looking to increase their exposure to the office market, recent developmental challenges and subsequent slowdown in hotel-to-office conversions were the major reasons for falling investment levels. However, while appetite for conversion-ready assets has weakened, investors are demonstrating elevated levels of interest for luxury and upscale properties in key tourist locations, both for internationally branded hotels and tier I domestic operators.
- Whilst the debt environment remains challenging, overall debt costs in Korea have fallen by almost 150bps over the past 24 months. With the start of the interest rate cycle in the U.S. having been pushed back to later in 2024, CBRE expects the Bank of Korea (BoK) to follow suit, meaning that substantial rate cuts in Korea will not commence until H2 2024.

Figure 13: Hotel investment volumes – Korea (As of Q1 2024)



Source: MSCI, CBRE Research, May 2024

Figure 14: Commercial real estate debt costs – Korea



Note: Current as of Q1 2024. The chart represents a general cost of debt for a stabilised CRE asset.
Source: CBRE Research, Q1 2024

06 Investment (cont.)



	Hotel Crown Itaewon	Millennium Seoul Hilton	Hotel Prime Seoul	Marigold Hotel	Hilltop Hotel	Novotel Ambassador Seoul Doksan	Grand Hyatt Seoul	Ninetree Premier Hotel Myeongdong 2	Nine Tree Hotel Dongdaemun	Tmark Grand Hotel Myeongdong
Location	Itaewon-Dong	Namdaemunno	Cheongdam-Dong	Seogyo-Dong	Nonhyeon-Dong	Doksan-Dong	Hannam-Dong	Myeongdong	Dongdaemun	Myeongdong
Date	Jan-22	Feb-22	Mar-22	Jun-22	Aug-22	Sep-22	May-23	Jun-23	Sep-23	Apr-24
Redevelopment	Yes	Yes	Yes	No	Yes	Yes	No	No	No	No
Price (USD)	214,500,000	912,766,509	341,100,000	88,537,470	84,800,000	82,710,614	522,500,000	106,000,000	40,900,000	170,947,023
GFA (approx. Sf)	146,756	891,867	219,285	149,112	68,599	331,992	788,700	275,646	95,495	296,783
Number of Rooms	176	680	120	186	57	230	615	408	219	576
USD / Key (approx)	1,218,698	1,342,304	2,842,244	476,008	1,488,005	359,611	849,521	259,817	188,682	296,783
Passing Yield	-	-	-	-	-	-	-	5.10%	6.40%	-
Vendor	Crown Hotel Co	CDL	Private Investor	Private Investor	WC Holdings Co	Ambatel Co Ltd	Inmark AM	Shinhan BNP Paribas	Kyobo Aim Asset Management	Hana Alternative AM
Purchaser	Hyundai E&C / Hana Alternative AM / Kitrust	IGIS / Hyundai E&C	Miraein / Hoju Construction Co	Pacific Asset Management	Shinyoung	IRDV Corp	BlueCove Investment	CDL	Shinhan Seobu T&D REITs	Gravity Asset Management (Angelo Gordon)

○ Redevelopment

Note: Photo credit to Traveloka, courtesy of MMCA Art Research Center, priceline, Tripadvisor, momondo, Accor, Hyatt Corporation, Parnas Hotel, Trip.com, Booking.com

07 Key Trends

Significant investment in MICE travel recovery support

- Seoul’s reputation as a top MICE city has continually grown each year. The city was recently **selected as the “Best MICE City”** at the GT Tested Reader Survey Awards for the 9th straight year.
- The Seoul Metropolitan Government plans to provide intensive support and investment to achieve “1.2 million MICE tourists this year.” This will be supplanted by a KRW 9 Billion investment to attract events, tourists and bleisure tourism in 2024.

Medical tourism a priority for future tourism demand

- South Korea aims to attract **700,000 foreign patients by 2027** through various policies such as easing immigration procedures.
- Through a medical tourism project, the country will **create clusters where visitors can enjoy hot springs and explore tourist spots after receiving health care services.**

‘Hallyu’ wave will be a key driver of inbound demand

- A 2019 study conducted by Korea Tourism Organisation (KTO) demonstrated that approximately **23% of tourists to South Korea said their main purpose for travel was for K-pop and Hallyu experiences.**
- The same study conducted in 2023 found that number had **increased to 37%.**



08

Investment & Taxation Guide

Property ownership

Property ownership in Korea is a separate entity from land ownership. Subdivision ownership in a building for residential or commercial purpose can be registered individually. However, most major commercial properties are under single ownership. Strata-title is common in the residential sector only.

Foreign Investment

Foreign ownership restrictions

There are no restrictions on foreign ownership of completed properties. However, when foreign investors acquire land in military installation reservations, cultural property protection zones and ecosystem preservation districts, they are required to obtain prior permission from the government.

Incentives to foreign investors

The Korean government allows foreign companies engaged in a business involving high technology, industrial support services or located in free economic zones to receive various tax incentives, such as the exemption of acquisition tax, registration tax and property tax by 50% or 100% based on the standard tax to the property possessed or acquired for operation, according to the Tax Incentive Limitation Law.

Currency controls

All exchange controls were abolished by the Foreign Exchange Transaction Act in 1998. There are no restrictions on currency trading and the repatriation of funds.

Property Taxes (1/2)

Taxation on owners

Government Rates

Property tax for buildings is levied on the property value assessed by the government.

For commercial buildings, the tax rate currently ranges from 0.25% to 0.5%. Properties that fall under the following criteria are exempted from property tax.

- Properties owned by foreign governments and international organisations in South Korea
- Occupied properties that are used for public purposes by the central government, local government offices and associations for more than one year
- Properties used for non-profit businesses and public purposes, owned by the local community occupied temporarily (less than one year) and others

Property Tax for Land

Property tax for land ranges from 0.2% to 0.5% of the land value assessed by the government.

Regional Educational Tax

Regional educational tax is 20% of Property Tax.

Comprehensive Real Estate Holding Tax

Comprehensive real estate holding tax is applicable to residential property and land which fall under one of the following criteria:

- Residential property that exceeds KRW 600 million
- Vacant land that exceeds KRW 500 million
- Land attached to a retail or office building that exceeds KRW 8 billion

It is levied when the property value exceeds the above limit. Tax rates vary depending on the asset type and the excess value.

Special Tax for Rural Development

The government enacted the tax in July 1994 in order to support the rural community and the agricultural and fisheries industry. It is 20% of the comprehensive real estate holding tax.



08

Investment & Taxation Guide (cont.)

Property Taxes (2/2)

Taxation on transfer

For the acquisition of real estate, the following taxes are involved.

Stamp Duty and Legal Fees

Stamp duty and legal fees are levied on the preparation of documents and account books that certify the building, transfer, change of property rights or the forfeiture of property rights. The tax ranges from KRW 20,000 to KRW 350,000 depending on the property transaction price.

Acquisition Tax

Acquisition tax is payable by the buyer at 4% of the property transaction price.

Special Tax for Rural Development

Special tax for rural development is payable by the buyer at 10% of the Acquisition Tax for property development in rural areas.

Education Tax

Education tax is payable by the buyer at 20% of the Property Tax.

Value-added Tax

Value-added tax is payable by the buyer at 10% of the building acquisition price. Houses smaller than the national housing size (85 sq. m.) are exempted.

For the disposition of real estate, the following taxes are applied

Capital Gains Tax

For Individuals

Capital Gains Tax is levied and payable by the seller at rates ranging from 6% to 42% of the capital gains.

Taxable income (KRW)	Tax Rate
Up to 12 million	6%
12 million - 46 million	15% on band over KRW 12 million
46 million - 88 million	24% on band over KRW 46 million
88 million - 150 million	35% on band over KRW 88 million
150 million - 300 million	38% on band over KRW 150 million
300 million - 500 million	40% on band over KRW 300 million
Over 500 million	42% on all income over KRW 500 million

Inhabitant Tax is also levied and payable by the seller at 10% of Income Tax.

Meanwhile, a surcharge of Capital Gains Tax shall be charged on the capital gains from the disposal depending on the holding period of the property.

Holding Period	Surcharge on Capital Gains
Unregistered assets	70%
Less than 1 year after registration	50%; 40% for houses
1-2 years after registration	40%, basic tax rate (6% - 42% for houses)
More than 2 years after registration	6% - 42%

For Corporates

Capital gains realised from the sale of property or the transfer of property by a corporation are included in non-operating profits. The tax rate ranges from 10% to 25%.

Taxable Income (KRW)	Corporate Tax Rate
Up to 200 million	10%
200 million to 20 billion	20% on band over 200 million
20 billion to 300 billion	22% on all income over 20 billion
Over 300 billion	25% on all income over 300 billion

Inhabitant Tax is also levied and payable by the seller at 10% of the Corporate Tax.



09

Strategy Map



1

Jong-no (Gwanghwamun – CBD)

Gwanghwamun is home to historical landmarks like Gyeongbokgung Palace and government buildings. Hotels here cater to both leisure and business travellers seeking a cultural immersion.

Demand Drivers: Proximity to royal palaces, museums, and historical sites.

Clientele: Cultural tourists, history enthusiasts, and business travellers seeking a convenient location.

2

Jung-gu (Myeongdong)

Myeongdong is a bustling commercial district known for its street food, fashion boutiques, and youthful energy. Hotels here cater to budget-conscious tourists and those seeking a central location for exploring the city.

Demand Drivers: Easy access to public transportation, proximity to iconic landmarks like Myeongdong Cathedral, and a vibrant street food scene.

Clientele: Young international travellers, backpackers, and budget-minded tourists.

3

Yongsan (Itaewon & Namsan)

Yongsan offers a mix of historical sites, modern business districts, and Itaewon, a popular international neighbourhood

Demand Drivers: Transformation into a business hub, proximity to historical sites like Yongsan Garrison, and the energetic international atmosphere of Itaewon

Clientele: Business travellers, culture enthusiasts, and international visitors seeking a vibrant atmosphere.

4

Yeouido (New CBD)

Yeouido known as the YBD, is situated on a western peninsula known for its concentration of government buildings, financial institutions, and broadcasting companies. Hotels here cater primarily to business travellers and those seeking a modern, riverside location.

Demand Drivers: Proximity to the National Assembly, major Korean corporations, and scenic riverside views.

Clientele: Business executives, government officials, and travellers seeking a modern and convenient location for business purposes.

5

Gangnam

Gangnam is characterised by opulence and modern skyscrapers. It is a business and entertainment hub, offering a number of high-end hotels catering to affluent business travellers and those seeking a luxurious stay.

Demand Drivers: Proximity to corporate headquarters, upscale shopping districts like Rodeo Street, and vibrant nightlife.

Clientele: Business executives, high-spending tourists, and celebrities.

6

Songpa (Jamsil)

Songpa is a district known for its sports complex, convention centres, and large department stores. Hotels here cater to a mix of business travellers, convention attendees, and families seeking entertainment options.

Demand Drivers: COEX Convention & Exhibition Centre, Lotte World amusement park, and large arenas, e.g. Jamsil Olympic Stadium.

Clientele: Business travellers attending conventions, families with children.

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