Jones Lang LaSalle

Real value in a changing world

Koreans move from interested parties to active buyers in 2013

Global Capital Markets Research, June 2013

South Korea deploys US$7 billion, as push into real estate continues

International investment from South Korea is not a new trend within the commercial real estate market. The global financial crisis triggered a wave of capital from the East Asian nation that highlighted the growing capital base that was being built up not just within South Korea but across the region. The investment by the National Pension Service of Korea into two of the world's landmark office towers in London and Sydney towards the end of 2009 and beginning of 2010 brought the attention of the world to the potential of the institutional capital being diverted towards commercial property investment by Asian and in particular South Korean pension and insurance companies.

While the flow of money has been consistent over the last five years, the first half of 2013 has seen a significant uplift in the number of acquisitions made by South Korean groups. According to Jones Lang LaSalle research the South Koreans have purchased over US$5 billion worth of commercial property outside of Korea since the beginning of the year. With the investments stretching from a shopping centre in Australia to a CBD office tower in Chicago their purchasing activity has been spread across all the major property markets worldwide. They also have several buildings currently in due diligence and under offer, meaning that total purchasing activity could top US$7 billion by the end of June.

Peninsula tensions encourage transactions

This allocation to commercial property over such a short period of time is unprecedented for the South Koreans. Previous annual allocations to offshore investment have ranged between US$1 and US$2 billion (Figure 1). Prior to 2009 the majority of the acquisitions undertaken by South Koreans had been on the corporate side, however the purchase of the HSBC tower in London for US$1.2 billion and the acquisition of Aurora Place in Sydney for US$620 million marked the arrival of the South Koreans as serious cross-border investors. The reasons for the move offshore by the pension and insurance groups are relatively straightforward; a small domestic market to which they are overexposed and large inflows of pension contributions which need to be invested to match liabilities.

While the inflows continue the economic and political environment has changed over the last six to nine months. Tensions with the North Koreans have certainly aided the 'capital flight' and the significant change in Japanese monetary policy is starting to have an effect on other economies within the region. This is most obviously being illustrated by the weakening of the Korean Won (Figure 2) as Japanese exports become more competitive following the devaluation of the Yen. This changing monetary position may also have contributed to the increase in purchasing activity offshore in the first half of the year.

Figure 1: Historic South Korean Cross-Border Investment, 2006-2013

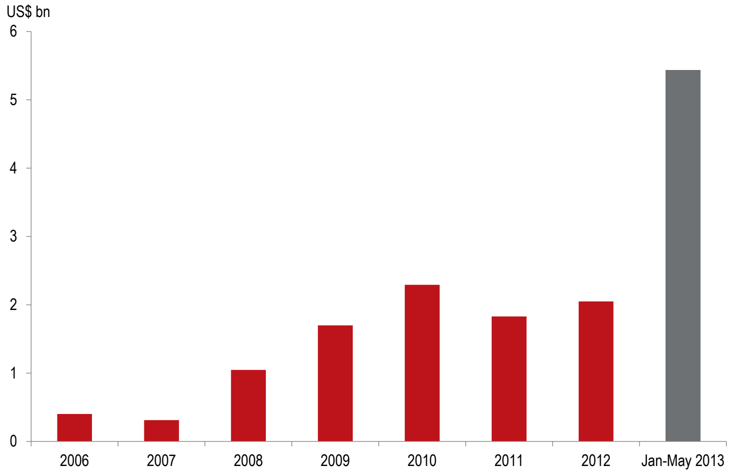
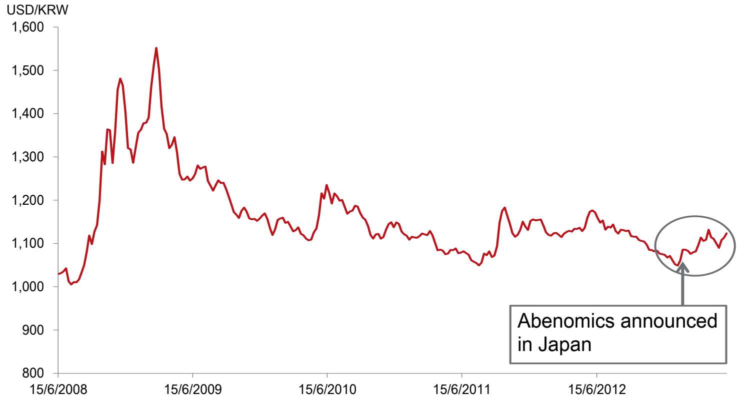


Figure 2: USD vs. KRW Exchange Rate, 2008-2013



Source: Jones Lang LaSalle

Partnering and JVs favoured approach

Although significant the US$5 billion allocated by the South Koreans doesn't quite push them to the top of the league table. Over the first five months global funds, those that raise money internationally, spent almost double the amount. However, the South Koreans did outdo other serial cross-border investors such as the Canadians, Singaporeans and Norwegians (Figure 3).

All these nationalities do have one thing in common and that is an increasing desire to work with partners and establish joint venture arrangements, a matching of equity with expertise. This is partly due to the way the South Korean institutions group together to form larger amounts of capital typically managed by an asset manager in these club style deals. The institutions also like to use specific managers to allocate capital on their behalf, the most well-known being the relationships the National Pension Service has with Heitman, Carlyle and Invesco.

The sale of 225 West Wacker Drive, handled by JLL, is a good example of a number of Korean groups coming together to purchase a large asset, fronted by Mirae Asset Management and partnering with Hines who will provide the asset management and local market expertise in Chicago (Figure 4).

What investment metrics do they use?

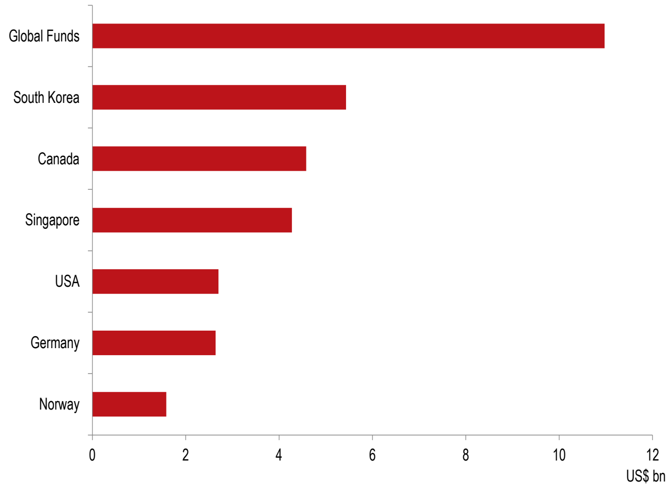
Given the nature of the pension and insurance industry in South Korea, the groups investing outside of their country have very particular requirements, ensuring their investments match their distribution requirements. Typically they look for:-

- Net cash on cash yield of 6-7%
- Preferred equity, LTV of circa 50%
- Core assets in prime locations
- Little additional capital expenditure
- Good covenant long term tenants
- A holding period of circa five years

Don't expect them to go away

While the surge in investment activity we have recorded in the first half of the year from South Korean investors is unprecedented and may not be repeated in the second half, we see no slowdown in the long term trend of South Koreans being increasingly active on the global stage. The dynamics of large capital inflows and a small domestic market means that they have little option but to seek opportunities outside their home market. The interest over the next five years will be which markets they target following this period of investment into the largest cities globally.

Figure 3: Major Cross-Border Purchasers, 2013



Source: Jones Lang LaSalle

Figure 4: Noteworthy Cross-Border Deals in 2013

Property Name	Location	Sector	Sale Price ($ US m)	Purchaser
225 West Wacker Drive*	Chicago	Office	218	Mirae Asset Management
Erina Fair*	Sydney	Retail	412	National Pension Service of Korea (50%)
30Crown Place*	London	Office	215	Samsung SRA Asset Management
BG Group Place	Houston	Office	480	Invesco/National Pension Service
Central Plaza*	Shanghai	Office	267	Carlyle/National Pension Service
Ropemaker Place*	London	Office	716	AXA/Hanwha Group/China SWF (33% each)

Source: Jones Lang LaSalle
*Jones Lang LaSalle Advised

225 West Wacker Drive, Chicago, bought for US$218 million

Source: Jones Lang LaSalle

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