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Korea's Hana sees Europe as a more favorable debt market than the US

Jaewook Kang, managing director of Hana Financial Investment, speaks with Real Estate Capital about investment opportunities and debt liquidity across Europe.

by Alicia Villegas | 18 March 2019

South Korean investment firm Hana Financial Group has been busy in recent months buying European commercial real estate assets and sourcing debt from the region's lenders to support its activities, *PERE* sister publication *Real Estate Capital* has reported.

The company has been particularly active in the UK. Last December, it sourced a £104 million (€119.7 million) loan from Bank of Ireland for the purchase of London's One Poultry mixed-use building, and in January, a £180 million facility from Rothesay Life for the Sanctuary Buildings office property in the UK capital's Victoria area.

In Germany, Hana signed a €74.3 million loan with Münchener Hypothekenbank in January for the Helix office building in Eschborn. These core acquisitions show the firm's appetite for European real estate – a market which offers liquidity as well as favorable lending terms, Jaewook Kang, managing director of subsidiary Hana Financial Investment, tells *Real Estate Capital*.

Real Estate Capital: *Why are you looking to invest in Europe?*

Jaewook Kang: We have been investing in the overseas real estate market since the early years of this decade. In the beginning, the US was our main market, but we changed our focus to Europe less than three years ago. One of the reasons for this change of direction was the debt finance market, as we have found better terms in the European market than in the US, where we see higher capital costs due to increases in the 10-year Treasury, which influences long-term, fixed-rate debt. If we were to buy a property in the US, senior debt can be priced at 4 percent, while for the same type of property, debt in the UK can be priced at less than 3 percent and in Germany significantly less than 2 percent.

Europe is a stable market for real estate and it also allows us to diversify our investments from our domestic market. In South Korea, generally speaking, local investors are targeting yields ranging from 6 percent to 7 percent for core or core-plus assets, while in Europe yields typically range from 3.5 percent to 6 percent. Although yields are lower in Europe, the Korean property market is not as liquid as the European market.

REC: *Which type of properties are you seeking in Europe and what's your debt approach for these investments?*

JK: We are core, core-plus investors, and are actively looking for this type of asset in Europe. Through Hana Financial Investment, for instance, we have already invested in offices and retail through the acquisition of the Trianon Tower in Frankfurt and the Gallagher Shopping Park in the UK's West Midlands. We are also currently working on a pipeline of European investments including logistics and data centers.

For our acquisitions, we appoint offshore asset management companies and we approach debt advisors to source the debt. The typical loan terms we seek for office assets are conservative, from 50 to 60 percent loan-to-value. We also prefer a fixed, five-year term, which we consider safer than longer-term financing. We will also hedge the currency exposure over the same financing window.

REC: *Is there debt liquidity for your investments in Europe?*

JK: So far, we haven't had any difficulties in sourcing loans in Europe; we don't require high LTVs, and lenders tend to be conservative, so they haven't had an issue with our LTV over senior financing.

There's debt liquidity. Even though we could approach Korean banks to finance our investments, we see European banks providing the best financing terms. In Germany, we have sourced debt priced at less than 2 percent, which is very competitive. In the UK, on the other hand, debt spreads are higher, which, in part, is because of Brexit uncertainty.

REC: *When investing in the UK, are you concerned about Brexit?*

JK: We always look for the best assets for our investors: if the asset is in the UK, why not invest there? Despite the uncertainty created by Brexit, we think the UK property market is suitable for Korean investors. Last year, for instance, we bought the Gallagher Shopping Park and sourced a £107 million loan at over 60 percent LTV from German bank pbb Deutsche Pfandbriefbank for the acquisition. We believe this purchase was a good opportunity for us where the asset is extremely well located in arguably the UK's second city of Birmingham. The income profile is well diversified with an attractive WALT [Weighted Average Lease Term] of circa 10 years.