

PERE

# Investor Forum Seoul 2019

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## Why South Korean investors are choosing Europe over US CRE

Hedging costs and the overall late-cycle environment is making US a less appealing investment market for many South Korean institutional investors.

by Hans Poulsen | 4 December 2018

South Korean institutional investors are looking to ramp up investments in Europe, with the US falling out of favor because of the relatively lower post-hedging returns on equity investments.



*Eoh: taking ABL Life Insurance into second-tier Europe.*

According to Andrew Shin, Korea head of investments at the London-based advisory firm Willis Towers Watson, Europe will be a key investment destination for South Korean investors in 2019. Speaking at the PERE Seoul Forum last week, he explained that the late-cycle environment and cap rate compression is making investors cautious on investing in the US.

"For equity, the consensus I see from our clients is that they are looking to do more equity [investments] in Europe versus US, and if you compare UK versus continental Europe, [it is] the latter," he said. "Part of the

preference for Europe comes from the foreign exchange hedging costs that mean it is getting hard to find deals in US with the right returns after these costs."

According to many investors present at the conference, there is a 150 basis points hedging cost currently incurred by Korean investors when acquiring US dollar-denominated assets.

A manager for global real estate investments at a Korean insurance company told PERE that the insurer would pivot away from making equity investments in the US to debt investments as well as pursue investments in other markets like Europe and Australia.

The insurer, with more than 33 trillion won (\$30 billion; €26 billion) in assets under management, looks for yearly total returns after hedging costs and management fees of 6.5 percent from its real estate equity investments and 4.5 percent from real estate debt investments.



The insurer expects to maintain its current real estate investment allocation for next year and invest around \$200 million through ten commingled funds. But given the current currency hedging cost in the US for South Korean investors, the insurer is looking to commit more capital to Europe and enter Australia via local managers.

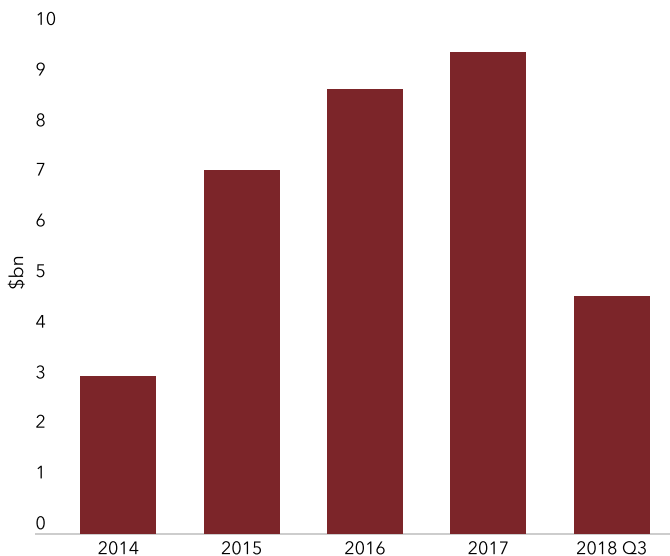
Meanwhile, Seoul-based ABL Life Insurance, with 17.6 trillion won (\$16 billion; €14 billion) in assets under management, is eyeing expanding into Eastern European markets for both equity and debt investments. Jiroo Eoh, team head of the infrastructure and real assets investment team at the Seoul-based insurance company, said in the opening panel of the conference that the plan is to pick countries with a good credit rating, stable government, and reasonable hedging costs against the Korean won.

“We [will] look at European markets such as Norway, Austria, Czech Republic, and Sweden among targets for investments for next year,” Eoh said. “We think Western Europe has already been saturated and cap rates compressed enough to not offer the right returns.”

Data from Real Capital Analytics shows that South Korean outbound direct investments for global real estate has been on the rise since 2014 and touched around \$9.5 billion in 2017. Of that amount, nearly 60 percent was invested within Europe. The 2017 and 2018 data shows direct investments in second-tier markets such as Poland, Austria, and Finland becoming more popular.

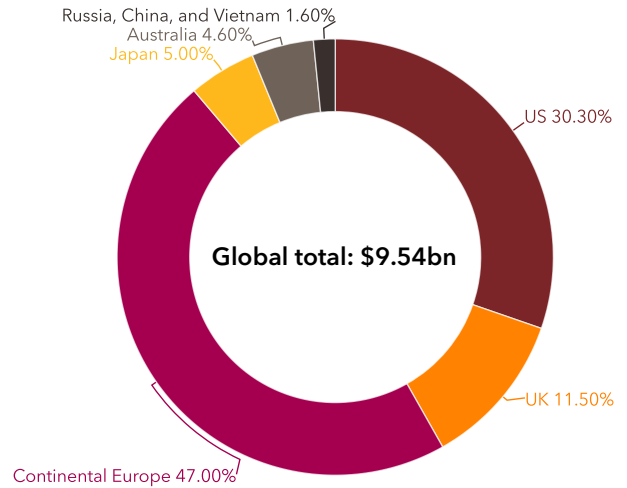
## KOREAN INVESTORS MAP GLOBAL FOOTPRINT

South Korean outbound direct investments for global real estate rose 8.3% year-on-year from 2016 to 2017

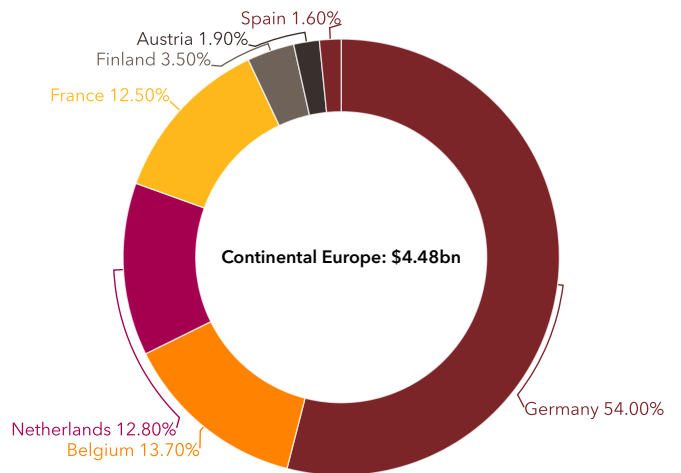


## Continental Europe took up close to half of all directly invested capital in 2017

Global total: \$9.54bn



## Continental Europe: \$4.48bn



Source: Real Capital Analytics