PERE

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# Global private real estate fundraising report H1 2019

## Korean outbound investment market trends



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# Why some Korean investors are taking risks others wouldn't

Korean institutions are making prominent and bold cross-border real estate bets. The recent prevalence of securities firms has become one major reason for that.

By Arshiya Khullar | 13 September 2019

Korean capital has just greenlit its single largest international real estate deal ever.

Mirae Asset Global Investments, the investment manager of Seoul-based financial services firm Mirae Asset Financial Group, said this week it had agreed to acquire Chinese conglomerate Anbang Insurance Group's luxury hotel portfolio in the US. The deal was struck reportedly for approximately $5.8 billion, some $300 million more than Anbang originally paid to Blackstone in 2016. The sale is Mirae's most aggressive global property bet yet.

The deal is attention-grabbing in of itself, but the fact the firm has pursued it at the peak of the real estate cycle, and in the hotel sector – which is projected to face decelerating performance amid a slowing US economy – cannot be ignored, either. Arguably, it illustrates a bigger picture of increased risk-taking by the country's investor base.

In its hotels research report published last month, global property broker CBRE downgraded its performance forecast for US hotels for 2019 and 2020. It estimates the pace of demand growth in the US lodging industry will slow to 1.4 percent in H2 2019, after rising 2.1 percent in the first six months of the year.

Mirae's latest overseas purchase is the latest standout transaction amid a surge in cross-border dealing by Korean institutions. Indeed, as of H1 2019, Korean investors had essentially doubled their purchasing activity in just two years to $6.8 billion, CBRE says.

Their appetite for risk has increased in tandem too, whether it comes to paying top-dollar for highly prized assets, moving into less institutional markets or even investing in low-growth property sectors.

In Mirae's case, the risk may be justified given how marquee and diversified the Anbang portfolio is – even if it is buying from a distressed seller at a premium to its previous purchase price. Short-term market uncertainty should also have limited impact if Mirae ultimately holds the portfolio for a long duration.

But other overseas pursuits by Korean institutional capital keep questions about acceptable risk-taking on the table. The favored return on cash for Korean institutional capital is 7-8 percent, but with assets in international gateway cities increasingly unable to accommodate such a target, Korean investors are also taking market and sector risks others might not, in pursuit of higher returns.

Korean capital, for example, entered the Slovakian real estate market in June and also has been willing to take on tenant risk, as seen in Seoul-based manager Vestas Investment Management's €400 million-plus investments in offices in London and Dublin entirely let to controversial shared workspace provider WeWork earlier this year.

Beyond the typical drivers of Korean outbound capital – with greater domestic competition for assets and tightening regulation among the push factors, and attractive interest rates and hedging costs as pull factors –overseas investing by Korean securities firms has also been a major contributor as of late.

Korean securities firms like Meritz Securities and NH Investment & Securities, are increasingly playing the part of broker for the country's institutional money. In fact, one Seoul-based broker told PERE securities firms nowadays participate in more than 90 percent of all international property deals, although it is unclear whether they were involved in Mirae's recent hotel deal.

These securities firms typically invest through a 'bridge equity' model: buying from their balance sheets, then syndicating to underlying institutional investors, often charging fees ranging from 1-3 percent along the way. The profit potential from such a business is a key incentive, resulting in securities firms regularly competing with one another in international auctions. But this trend poses several risks as well. For one, many of these securities firms have limited, if not zero, experience in alternatives investing. Additionally, these firms may not unable to quickly offload the assets to institutional investors at their premium asking price, forcing them to incur losses or keep assets on their books, according to PERE's conversations with Korean capital market experts.

Korean capital has been active on the global stage for decades. But the extra dynamic that securities firms bring could prove dangerous for Korean investments made outside of super core arenas such as the Anbang assets purchased by Mirae. As such, the country's institutions would do well to include the use of securities firms among the risks attached to their outlays, alongside the other risks they appear to be engaging. ■


# For Korean investors, Amazon makes safer bets out of riskier deals

The e-commerce giant is the common link between two recent property deals executed by this capital source in non-core European markets.

By Evelyn Lee | 20 June 2019

In June this year, *PERE* reported on Korean capital being brought into Slovakian real estate for the first time, via the acquisition of a newly built office tower, Twin City Tower, in Bratislava. The transaction, orchestrated by London based manager Valesco Group and Seoul-headquartered manager AIP Asset Management, is the latest example of Korean capital stepping up the risk curve.

The Asian country was the third-largest source of overseas real estate capital into Europe in 2018, representing €5.4 billion of investment, according to a March report from real estate services provider Savills. While Korean investors are still buying office properties in core CBD locations in the region, they also have expanded into "non-core countries" in recent times, notably Belgium, Poland, Italy, Ireland, Denmark, Czech Republic and Spain, given the yield compression in Europe's traditional core markets, the report said.

Slovakia is arguably more 'non-core' than those 'non-core' countries cited above, all but one of which placed in the upper half of a ranking of the top 40 cross-border investment targets, according to Cushman & Wakefield's Global Investment Atlas 2019. Slovakia placed #34.

Indeed, the greater risk of investing in Slovakia is reflected in the yield. Twin City Tower traded for €120 million, reflecting an acquisition yield of 5.75 percent. By comparison, prime office yields were 4.5 percent and 4.75 percent in the fellow Central and Eastern Europe cities of Prague and Warsaw, respectively, according to property services firm JLL.

But there is a key factor that would de-risk such a deal for Korean investors: having Amazon as the main tenant. Among the bluest of blue-chip occupiers, the e-commerce giant is taking most of the space at Twin City Tower on a long-term lease and that qualifies the asset as viable for Korean capital.

The office property is situated in a prime location in Bratislava's new commercial business district and is 100 percent occupied. Of further note, Slovakia is one of the fastest growing economies in Europe, with 4.5 percent GDP growth expected this year, up from 4 percent last year, according to the deal announcement. It also has seen an uptick in foreign direct investment, particularly in the technology, electronics and automotive sectors.

Still, we would argue that the Amazon factor has as much, if not more, sway than any economic data points in convincing Koreans to take on a potentially risky investment. Look at the purchase in April by Vestas Investment Management, another Seoul-based manager, and London's Savills Investment Management of Charlemont Exchange in Dublin on behalf of Korean investors. The office property is 100 percent leased to money-losing co-working giant WeWork for 20 years, but at least some of the tenant risk was mitigated by the fact the property was sub-leased on a short-term basis to Amazon.

But what if the Amazon factor is not enough to offset the risks of investing in a fringe market late in the real estate cycle? It would be hard to argue against tenant and exit risks being significant. If a global economic slowdown was to occur in the next year – which a growing number of forecasts are suggesting – then retaining Amazon as a tenant at Twin City Tower is not a given, nor will it necessarily be easy to find other corporate tenants to replace the retailer or secure a buyer when it is time to sell the property.

In that light, Korea's institutions should ask whether 100 basis points of extra yield on the entry is a sufficient enough premium. In these rapidly changing times, it is best not to expect things will stay the same for long. ■


Amazon is the anchor tenant at the new office tower.

# Korean consortium makes debut real estate deal in Slovakia

South Korean investors are looking further into Eastern Europe after making investments last year in Poland and the Czech Republic.

By Christie Ou | 18 June 2019

A group of Korean institutional investors has made its first real estate acquisition in Slovakia, driven by strong fundamentals in one of Europe's fastest growing economies.

The group, led by London-based real estate investment manager Valesco and Seoul-headquartered asset manager AIP Asset Management, has bought Twin City Tower, a new commercial building in the capital Bratislava, from international workspace provider HB Reavis for €121m ($135.7m). According to a press release, the acquisition yield is estimated to be 5.75 percent.

Twin City Tower is located in Bratislava's new central business district. Amazon is the principal tenant of the fully leased building, in which other multinational companies have also taken space. According to a source familiar with the transaction, the asset is expected to generate a double-digit IRR for the consortium. The source said that Korean institutions typically expect minimum cash-on-cash net returns of 6-7 percent when investing in Europe.

London-headquartered real estate investment manager The Valesco Group is responsible for originating and underwriting the investment.

### KEY DEALS IN SLOVAKIA – H2 2018

**The country had total investment volumes of around €326m in the second half of the year**

| Property name | City | Approximate sale price (€m) | Vendor | Purchaser |
|---|---|---|---|---|
| Trencin Industrial Park | Trencin | 90 (circa) | AUO | Redside |
| KLM Retail Parks portfolio | Various | Confidential | KLM Real Estate Fund/ Post Bank | TAM |
| Forum Poprad | Poprad | Confidential | Multi Corporation | ZFP Investments |
| Falcon Hall | Senec | 21 (circa) | Falcon | Palmira |
| Steinerka Business Center | Bratislava | Confidential | AMW Development | IAD Investments |
| BBC V | Bratislava | 52 (estimate) | Heitman | WOOD & Company |

Source: JLL

Shiraz Jiwa, founder and chief executive of Valesco, said: "Having agreed the deal at the end of last year, we were able to agree on a price before the wave of international capital came in, which, in turn, is compressing yields."

According to a JLL report, real estate transaction volumes in Slovakia touched $820 million in 2018.

PERE understands from the source close to the deal that Twin City Tower's yields are likely to have contracted by around 25 basis points since December because of growing investor demand.

Until recently, most investors only eyed Prague and Warsaw while investing in Central Europe. However, Jiwa says some European and US investors are now interested in Slovakia, given the strong fundamentals of its real estate market and a quality tenant base. The country is one of Europe's fastest growing economies and posted GDP growth of four percent in 2018.

"In Europe, yields are tight," said Jiwa. "We spend a significant amount of time trying to unearth those compelling opportunities and pricing dislocations where, to be frank, either the capital hasn't got there yet or the capital doesn't fully understand the opportunities as yet."

The source believes there is scope for the yield on Twin City Tower to compress over the five-year holding period to below five percent. Prime office yields are currently estimated to be 4.5 percent in Prague and 4.75 percent in Warsaw. According to another JLL report, the figures for Frankfurt and Munich are much tighter, at 3.25 percent and 3.2 percent respectively.

Korean investors have been active across Europe, including in countries across the eastern half of the continent. JLL believes this interest is driven by Korean investors' current preference for investing in Europe over the US from a currency perspective. Given the higher competition in other major European cities, it is a natural move for Korean investors to look into the less institutionalized markets in the east.

According to JLL's report, asset manager Shinhan Investment bought an office building in central Prague for $58 million, making it the first deal by a South Korean institution in the Czech Republic last year. South Korea's Fire & Marine Insurance and Kiwoom Securities jointly invested $162 million in an office property in Warsaw in the same year. ■

# POBA re-ups with CalSTRS amid push towards more RE partnerships

A year after making its first investment via joint venture partnerships in the US, the Korean pension is on the lookout for more co-investment deals in both the US and Japan.

By Christie Ou | 15 May 2019

Korea's Public Officials Benefit Association (POBA) has re-upped $200 million into its US real estate debt joint venture with the US pension California State Teachers' Retirement System (CalSTRS), taking its total commitment in the partnership to $400 million.

The Korean investor's latest commitment is part of its broader goal of increasing the number of joint venture partnerships, a preferred investment approach.

"With limited LPs in a joint venture, we can have more control and ownership in investments," a source within POBA told PERE. "Especially when the market turns or when the market is not favourable for us, we can make a quick decision."

PERE understands both POBA and CalSTRS entered into an official agreement in early May, whereby each party committed an additional $200 million into JV. POBA had initially invested $200 million alongside CalSTRS to create a $400 million investment partnership in 2018.

Managed by the Los Angeles-headquartered real estate firm PCCP, the joint venture is being invested in US commercial real estate debt deals, targeting returns of up to eight percent, according to the POBA source. One of the investments include a $64 million senior loan on a prime office development in Atlanta this year, according to a report in Korean Investors.

PERE has also learned that POBA is in talks with another US pension plan, Teacher Retirement System of Texas

(TRS) to commit additional equity in their existing joint venture partnership, which is being managed by the Texas-headquartered real estate firm USAA Real Estate. POBA is understood to have first committed $200 million into the joint venture, which is being invested in US real estate debt, in 2018.

POBA has traditionally invested only in discretionary funds in the US for real estate. It took its first step in forming joint ventures to invest in US real estate debt last year, committing a total of $400 million in these partnerships with CalSTRS and TRS.

The 12.2 trillion won ($10.3 billion; €9.1 billion) pension fund has allocated 4.05 trillion won, or 33.1 percent of its investment portfolio to real estate. POBA's real estate investments are almost split evenly between domestic and overseas markets, with an allocation of 53 percent and 47 percent respectively.

The US is POBA's biggest overseas market in terms of its real estate exposure. The investor has also gradually been changing the composition of its US portfolio by investing more capital in debt versus equity. The pension's real estate equity to debt portfolio breakdown has evolved from 10-0 to 7-3 in the past three years, according an interview conducted by PERE's sister publication *Private Debt Investor* with POBA's chief investment officer Dong Hun Jang in early May.

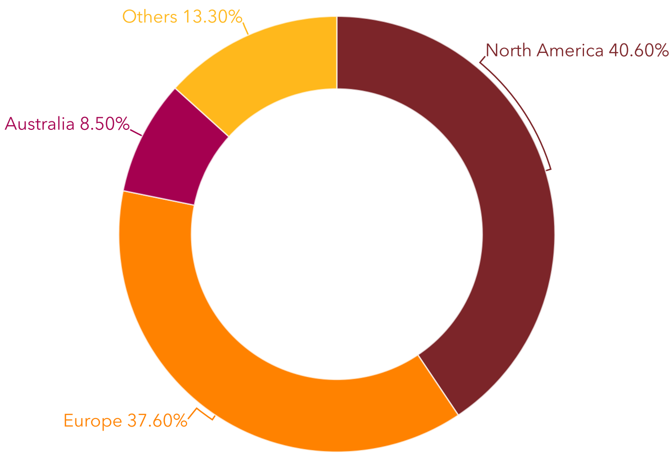
"If we invest in equity now, we will worry that asset prices, and therefore the return rates, may fall. I think the debt side is safer as long as we focus on loan-to-value ratios and who the [existing] lenders are," Jang said in the interview.

In addition to pushing into the US real estate debt space further, POBA is also pursuing an expansion in Japanese real estate. The source at POBA told PERE the investor is looking to increase its exposure in Japan's multifamily sector with more joint venture partnerships. Currently, the pension fund has less than 5 percent of its real estate portfolio allocated to Japan.

"First thing we are thinking about is diversification," the source said. "Japanese multifamily sector provides very safe and stable return and they have less exposure to market cycle." ■

**NORTH AMERICA STILL DOMINATES POBA'S OVERSEAS ALLOCATION**

**More money will potentially go from equity to debt in POBA's overseas real estate portfolio**




*Source: POBA*

# How Korean investors priced WeWork risk in Dublin

Korean institutional investors have decided the co-working giant's 20-year tenancy at Dublin's Charlemont Exchange is worth another 70bps on the city's prime yield average.

By Jonathan Brasse | 23 April 2019

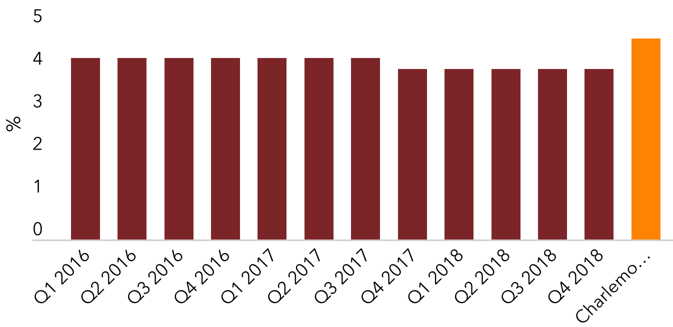
While the debate about WeWork's commercial viability rages on, one buyer comfortable with the shared workspace heavyweight as a tenant is Korean investment manager Vestas Investment Management.

In the second transaction in just five months, the Seoul based steward of institutional money has acquired an office building entirely leased to WeWork for 20 years. Earlier in April, in partnership with London-based investment manager Savills Investment Management, Vestas announced it purchased Charlemont Exchange in Dublin for approximately €145 million. The deal follows the pair's £267 million ($348 million; €307 million) acquisition in December of 125 Shaftesbury Avenue, a predominantly office asset also subject to a two-decade lease from WeWork in London's West End.

Kiran Patel, chief investment officer at Savills IM, tells PERE how Vestas brought the deal to the table: "We clearly highlighted the risks. That particular tenant is rated poorly. But we felt there was some compensation in the pricing to reflect that." PERE understands Vestas-Savills IM is buying Charlemont Exchange at a yield of 4.7 percent, some 70 basis points higher than the average prime central business district office average yield at Q4 2018, according to broker Savills.

### WEWORK'S RISK PREMIUM

**Charlemont Exchange's 20-year lease to WeWork was sold to Korea's Vestas at a 70 bps higher yield than Ireland's CBD prime office average**




Source: Savills, *PERE*

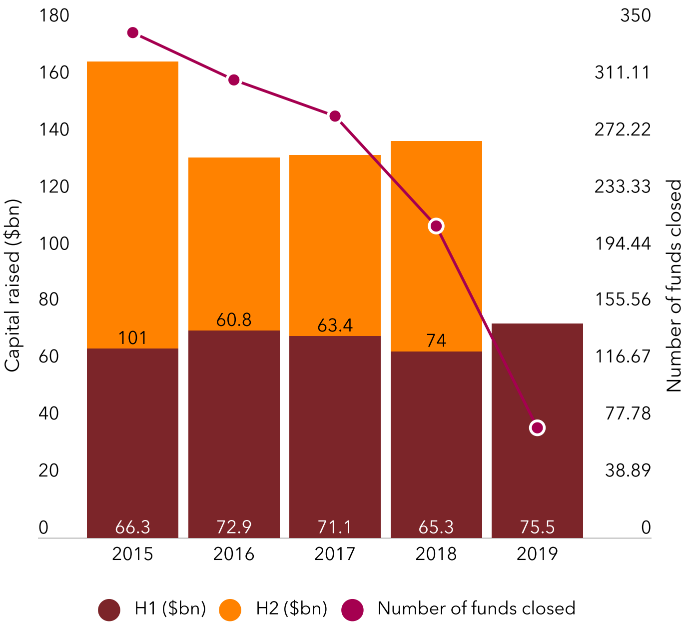
Patel would not comment on the yield, but says Savills IM and Vestas agreed the pricing reflected the additional risks associated with WeWork, which, despite its global reach, has yet to become profitable and saw its main investor, Japan's SoftBank, reduce its future funding in January. "It comes down to pricing," Patel says. "When you take a long contract with someone with a poor covenant, you have to understand what you're underwriting. You're discounting the possibility they could leave."

In the case of Charlemont Exchange, WeWork has mitigated the risk associated with its own tenancy by sub-letting the 90,000-square-foot office property to Amazon – a tenant with significant covenant strength – on a short-term lease, as the e-tailing giant waits for a bigger office under development at the adjacent Charlemont Square. By Patel's reckoning, that should also bring future office demand from companies seeking to service Amazon, even if replacement tenancies are not certain. "Other service providers will want to be around the area and if you have WeWork able to make space available in all shapes and sizes, there's merit in that."

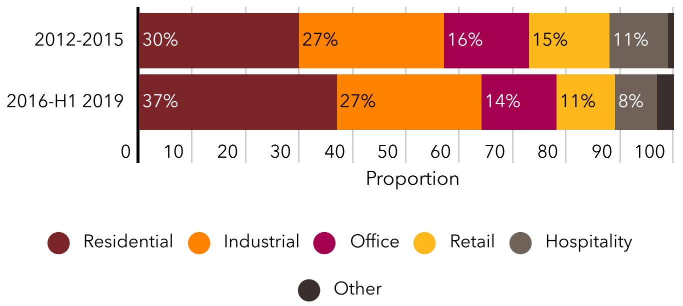
Terence Tang, managing director of capital markets & investment services, Asia, at broker Colliers International, also believes Korean outbound capital is being rewarded by favorable currency conditions. "Koreans are quite big on EU because there's a positive hedge when investing in one of its countries and through the currency. They might be going in at 4.7 percent but would likely receive an additional 50-100 basis points more in returns. That makes it more attractive," he says. Patel said Savills IM and Vestas agreed to classify the Charlemont Exchange investment as core or core-plus. "Could I classify it that in three to four years? I think we'd have to come back to what form of letting it has." In any event, Patel said the expectation on its total return was commensurate with the asset's current risk profile ■

# Global private real estate fundraising report H1 2019

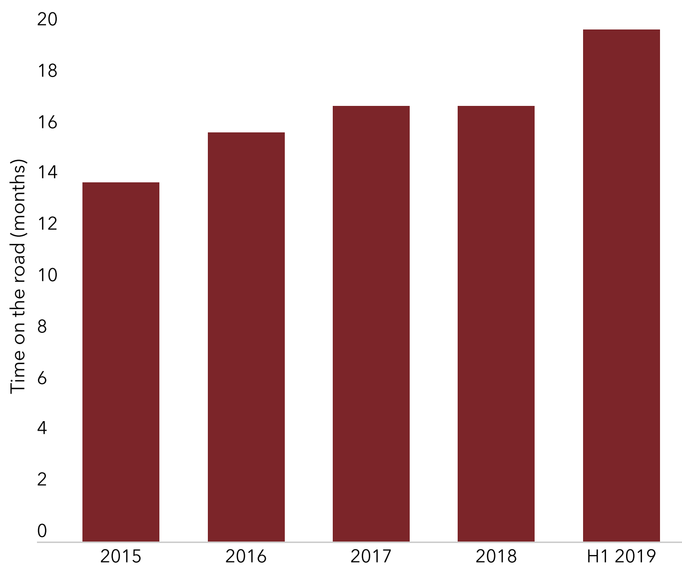
## GLOBAL PRIVATE REAL ESTATE FUNDRAISING 2015- H1 2019



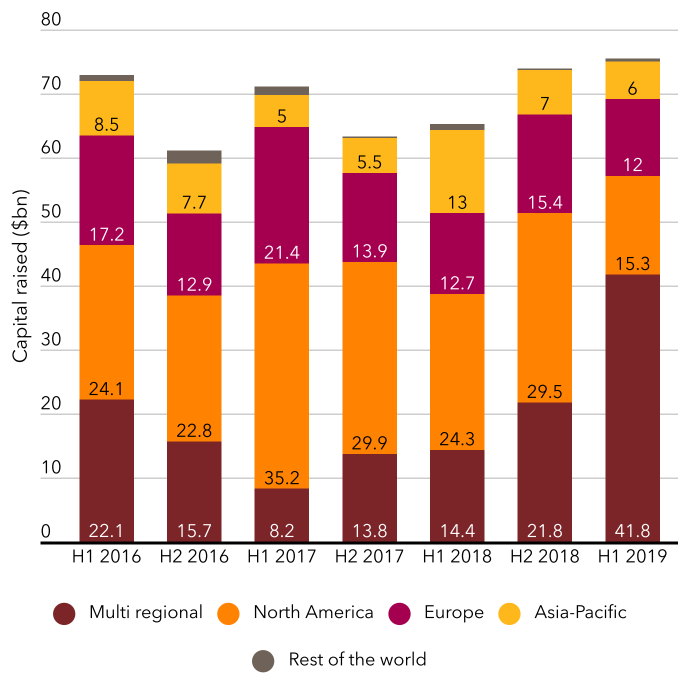

## GLOBAL CLOSE-ENDED PRIVATE REAL ESTATE FUNDRAISING – SECTOR BREAKDOWNS 2012-2015 VS 2016-H1 2019 VER.3



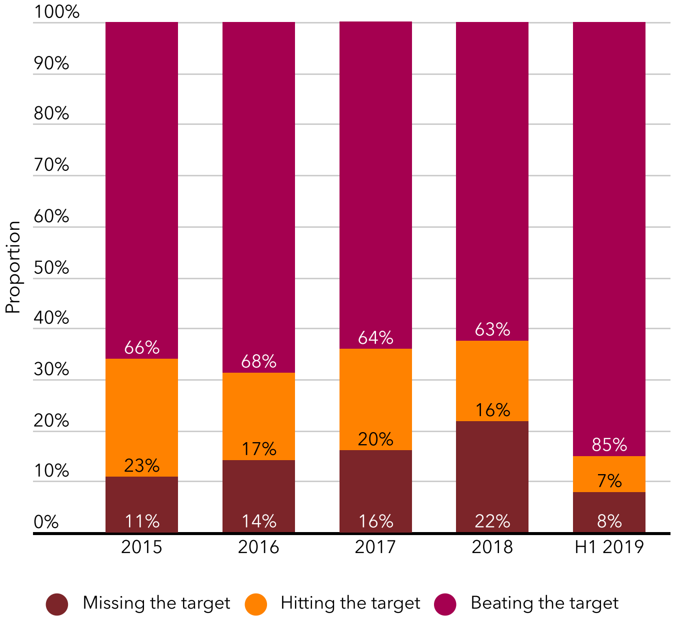

## GLOBAL CLOSE-ENDED PRIVATE REAL ESTATE FUNDRAISING – AVERAGE TIME ON THE ROAD




## GLOBAL PRIVATE REAL ESTATE FUNDRAISING 2016- H1 2019 – GEOGRAPHIC REGION BREAKDOWNS



## GLOBAL PRIVATE REAL ESTATE FUNDRAISING 2015- H1 2019 – FUNDRAISING TARGET

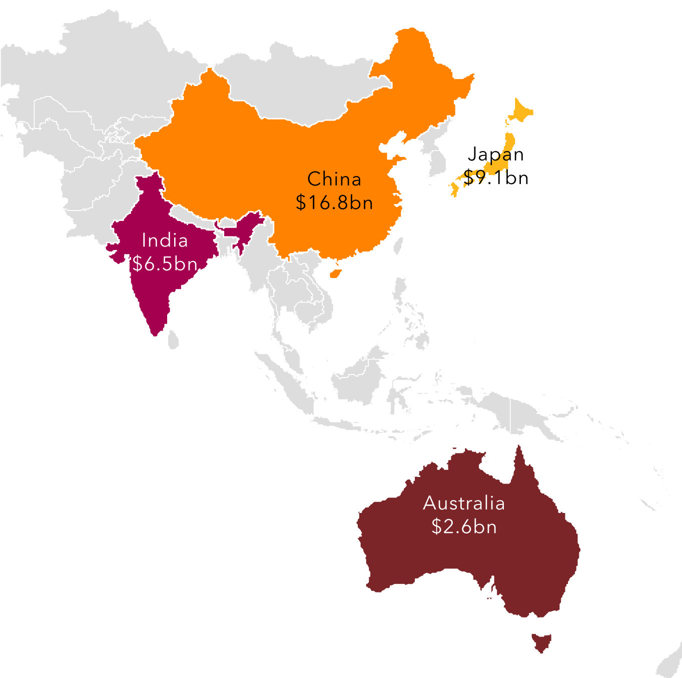



## ASIA PACIFIC REAL ESTATE FUNDRAISING 2015- H1 2019 – GEOGRAPHIC REGION BREAKDOWNS

**Aggregate capital raised 2015-H1 2019**

### Pan Asia

**$32.5bn**



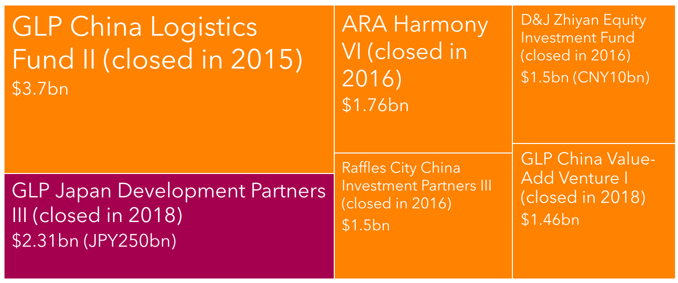

**Largest fund closed for the region 2015–H1 2019**

| Country | Largest fund closed |
|---|---|
| **Pan Asia** | Blackstone Real Estate Partners Asia II<br>USD7.07bn |
| Australia | Lendlease Sub-Regional Retail Fund<br>A$614.7m |
| China | GLP China Logistics Fund II<br>USD3.7bn |
| India | IndoSpace Logistics Parks III<br>USD580m |
| Japan | GLP Japan Development Partners III<br>JPY250bn |

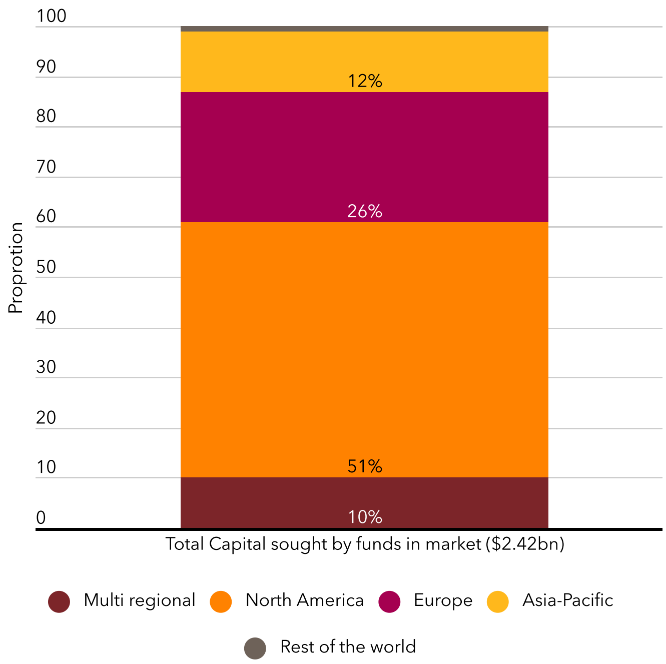
## ASIA PACIFIC REAL ESTATE FUNDRAISING –10 BIGGEST APAC-FOCUSED FUNDS CLOSED IN 2015-H1 2019

### Pan-Asia


### China and Japan focused



## GLOBAL PRIVATE REAL ESTATE FUNDS IN MARKET – TARGET CAPITAL BREAKDOWN BY REGION & SIGNIFICANT FIM




### Largest funds in market in the region

| Region | Largest funds in market in the region | Focus | Target capital |
|---|---|---|---|
| Muiti regional | Nuveen Global Cities | Residential-focused | $2bn |
| North America | CIM Opportunity Zone Fund | Multi-sector focused | $5bn |
| Europe | Blackstone Real Estate Partners Europe VI | Multi-sector focused | €10bn |
| Asia-Pacific | PAG Real Estate Partners II | Office & residential focused | $2bn |

## GLOBAL PRIVATE REAL ESTATE FUNDS IN MARKET – CAPITAL SOUGHT BY SECTOR

### Capital sought by sector-specific funds $64.1bn