PERE

Investor Forum
Seoul 2019

20 November | The Westin Chosun
11월20일 | 웨스틴조선호텔

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

In the second transaction in just five months, the Seoulbased steward of institutional money has acquired an office building entirely leased to WeWork for 20 years. Last week, 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.

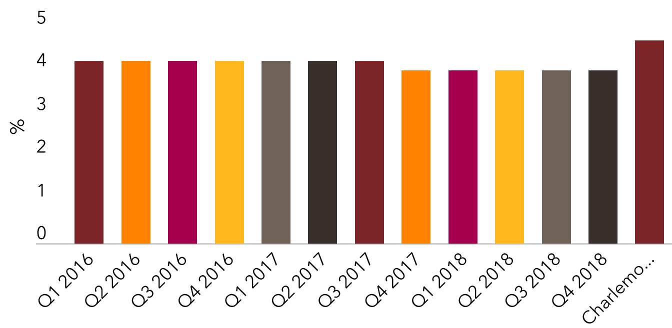
Kiran Patel, chief investment officer at Savills IM, tells PERE how Vestas brought the deal to the table: "We clearly highlighted the risks. That particular tenant is rated poorly. But we felt there was some compensation in the pricing to reflect that." PERE understands Vestas-Savills IM is buying Charlemont 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.

Patel: Savills IM discussed risks with Vestas but agreed pricing reflected these

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."

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*

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.