

What's next for Korean investment in European real estate?

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It doesn't seem all that long ago that Korean investors were dominating the European real estate market representing the largest single group of foreign investors in 2019, allocating US\$12.5 billion. Roll forward to 2021, and it is clear that Korean investors' insatiable thirst for European assets has waned somewhat, and their attentions have increasingly turned to American shores.

So, what has caused the change in sentiment? And when might the European real estate market expect to once again enjoy the attention of Korean investors?

Undoubtedly, travel restrictions have tempered cross border investment activity since 2020, with many investors reluctant to deploy capital without first having the opportunity to kick the bricks. However, this doesn't account for Korean investors' weighting away from Europe and towards the United States. To understand the reasons for this, we need to take a closer look at the market fundamentals.

Firstly, there is the cost of currency hedging. Due to US fiscal policy in recent years, this has become increasingly attractive to Korean investors when compared to Sterling and Euro hedging.

Secondly, the European real estate market continues to be highly competitive with limited supply, compressed yields and institutional investors willing to attack deals with 100% equity to secure the best deals quickly and worry about financing at a later date.

Thirdly, the US market offers attractive finance costs and healthy deal flows, with many perceived undervalued investment opportunities in second-tier cities, with which Korean Investors have quickly familiarised themselves.

Whilst US property market fundamentals are hard to argue with, it does seem that the same cannot be said of the currency markets. Recent forecasts point towards a quicker than expected

hike in US interest rates, perhaps as soon as September 2022. Conversely, the European Central Bank continues to give clear indications that there are no such plans to increase rates in 2022 and the Bank of England appears to have already made its move with a rate hike in December 2021 (although analysts are not discounting further hikes in 2022).

Undoubtedly, 2022 will bring yet further challenges and uncertainty as we find our way out of this pandemic. But with rising global inflation and systemic supply shortages in key sectors, such as residential, warehouses and digital infrastructure, opportunities will abound, and well-adjusted investors will capitalise.

Ogier works closely with some of the most reputable Korean based investment managers and has advised on many of the highest profile deals by Korean investors into European and UK real estate.

With offices across all the major international finance centres, including Jersey and Luxembourg, and a specialist Korean real estate desk, Ogier understands the needs of our Korean clients and can guide them through the complexities of cross border investment, ensuring deals are done quickly and efficiently.

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