

NPS gets creative to seal Korea's largest 2017 property deal

With Korean investors deploying record amounts domestically, NPS and IGIS took unusual steps to bag the Seoul office asset.

In the first half 2017, investment volumes in Korea's office sector crossed KRW \$4.2 trillion (\$3.7 billion; €3.1 billion), surpassing the 2015 and 2016 totals for the same period, according to research by property services firm Savills.

In part due to stable benchmark interest rates and commercial leasing, much of this increased investment appetite is coming from local asset management companies investing on behalf of institutional investors.

One such company is IGIS Asset Management, which invested in July on behalf of a club of investors led by the National Pension Service of Korea in the \$635 million purchase of Signature Towers – the largest hard asset office sale in Seoul in a decade.

In a rare first for NPS, the Korean pension fund submitted a letter of intent as part of the bid process, cementing its equity commitment to IGIS to purchase the 17-story twin towers, according one person directly involved in the sales process.

Typically, NPS does not make such a commitment until the asset management company is in exclusivity on an asset, the person commented. "This equity guarantee put IGIS in a strong position in a process that saw over 10 bids."

A quarter of the capital for the deal came from IGIS's KRW 220 billion commingled core fund, which counts NPS among its LPs, while the remainder was co-investment capital.

However, Signature Towers' pending vacancy risk – Amorepacific Group is set to vacate the premises early next year – made it hard for IGIS to justify acquiring it via its core fund. In a unique financial structuring initiative, IGIS arranged a securities company to provide a rental guarantee for the vacant space for the next five years, ensuring stabilized occupancy. This also gave comfort to the Korean investors about the net yield, and paved the way for IGIS to put its signature on the deal.