PEI Alternative Insight
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PUBLISHED: 22 SEPTEMBER 2017
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Seoul remains popular despite Trump's 'biblical' rhetoric

Tensions in the Korean peninsula continued to intensify this week, but real estate investors are unperturbed.

International saber-rattling surrounding North Korea's nuclear expansion reached a new high this week when President Donald Trump told the UN General Assembly that the US would "totally destroy" North Korea if forced to defend itself or its allies.

The rhetoric, described as "biblical," comes after a month of increasing political volatility in the Korean peninsula. During this time, North Korea has expanded its nuclear weapons program and conducted missile tests over Japan, while the US and South too have flexed their military muscle with exercises near Korean borders.

All this was enough to spook Blackstone chief executive Stephen Schwarzman, who told a CNBC conference that he would not be buying office buildings in Seoul. He may well then consider his firm's failed attempt to buy Seoul IFC, a mixed-use complex in the South Korean capital, last year as a $2.3 billion bullet missed. Blackstone's bid for the 5.4 million-square-foot property was bettered by one of its North American rivals, Brookfield Asset Management.

And while 44 percent of 755 institutional investors surveyed by Allianz Global Investors, the asset management arm of the German insurance giant, said geopolitics represents the major risk to investment performance – ahead of a global economic slowdown (41 percent) and rising interest rates (32 percent) – investment in at-risk markets such as Seoul has not slowed during the political chaos.

Indeed, investment activity in Seoul surged to 1.7 trillion won ($1.5 billion; €1.26 billion) in Q2, nearly a 100 percent increase quarter-on-quarter and more than 50 percent year-on-year, according to data from broker CBRE. And this comes off Seoul's record high transaction volumes in 2016.

This is in part because, despite having to concern itself with the actions of its neighbor, the new South Korean government's economic stimulus policy is cause for optimism, according to Korean asset management firm IGIS Asset Management. The primary focus is on job growth, which IGIS suggests will lead to increased office space demand. Interest rates are low and expected to remain that way for some time, while GDP growth in the country is stable and well above the OECD average at low-to-mid 2 percent.

Another big part of the growing transaction volumes is an increased supply of properties as corporations, which still own the majority of their office space, are now offloading holdings in order to boost their balance sheets. Or, in the case of insurance companies, meeting risk-based capital ratios, which has seen real estate put up for sale.

Investment is not expected to slow, either. According to a CBRE market view, private equity firm KKR and investment bank JPMorgan both have live plans to invest in the South Korean real estate market. JPMorgan has already invested 90 billion won in a shared deal for City Plaza in Seoul, formerly owned by property investment manager AEW, and is said to be exploring other opportunities. KKR, meanwhile, has reportedly partnered with a local asset manager to explore opportunities in logistics property.

Political rhetoric might be dramatizing, but in the face of this risk real estate investors are focusing more on positive economics and property fundamentals when forming their views about investment decisions in markets at risk from the trouble in the Korean peninsula.