



UK real estate investment: the Korean perspective

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True to form, 2022 has seen another tumultuous year for UK real estate investors. Since our [briefing in January 2022](#), the UK has seen seven interest rate hikes, five housing ministers, three prime ministers, two monarchs and one war in Europe ... and we still have a month to go.

Korean based investors have looked on in similar bewilderment to the rest of the market and are trying to take stock while assessing what the coming months may bring.

So, let's sum up where we are and the immediate challenges investors face.

The current position

To begin, we have the rising cost of debt driven by an ongoing surge in UK base rates, which shows little sign of abating.

This rising cost of debt is directly impacting investors' available cash, translating into lower deal volumes and falling property valuations.

But, the kicker for investors is that the rising cost of debt coupled with falling values means that loan-to-value and interest covenant ratios are tightening. In turn, this results in less borrowing power.

So, what are the blessings for Korean investors?

In context to other market participants, some may feel Korean investors have a few reasons to be cheerful (relatively speaking).

The GBP has strengthened against the KRW over the past five years, coinciding with a period where Korean investors have placed significant capital in GBP assets. While KRW based investors, like the rest of the market, will feel the significant headwinds presented by the UK market, the relative strength of sterling based investments somewhat cushions the impact.

Since the surge of Korean investment into UK real estate began in earnest in 2017, we have seen

Korean investors focus on high quality assets with long term income, good tenant covenants and inflation linked income. These underlying fundamentals are holding Korean investors in relatively good stead, particularly for investors with an eye on looming loan maturity dates.

No landlord has been immune from the impact of Covid-19 and the resulting aftershocks. Many will have experienced vastly reduced rent rolls during the height of the pandemic and tenants handing back keys, particularly in the retail sector. Korean investors have been relatively sheltered from this due to a heavy weighting towards offices and logistics. Where tenants have returned keys, Korean landlords have generally been prudent in their approach and secured the support of top tier UK advisors to lead proactive asset management initiatives, ensuring green shoots emerge from the ashes.

In terms of existing finance arrangements, leveraged investors will closely watch potential covenant breaches in light of falling values and increased borrowing costs. Lenders will be aware that this is a challenge faced by all borrowers. As such, an element of pragmatism should be the order of the day, especially where the risk of valuations significantly falling is low. As already mentioned, Korean investors based predominantly in high quality / secured income assets should be well positioned to work constructively with lenders to agree covenant waivers or cure solutions where required. Korean investors' unblemished reputation and lenders' reluctance to disrupt an already shaky market provide further support for these conversations.

Taking a moment to reflect on what's happening at an asset level, Andrew Thomas, Collier's head of international capital markets London offices, said: "there is positive data coming through".

"Both occupancy and footfall levels are up year on year, almost returning to levels not seen since 2019", he added. "London office take-up figures for 2022 to date continue to confound wider market pressures with leasing transaction levels in Q3 above the 10-year quarterly average for the second successive period."

Looking ahead

The above may represent small mercies in the context of the bigger picture for Korean investors, but there is no doubt that further choppy waters are ahead. However, the sophisticated and risk-adjusted investment approach taken by Koreans over the past five years should hold them in comparatively good stead as we consider what lies around the corner.

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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