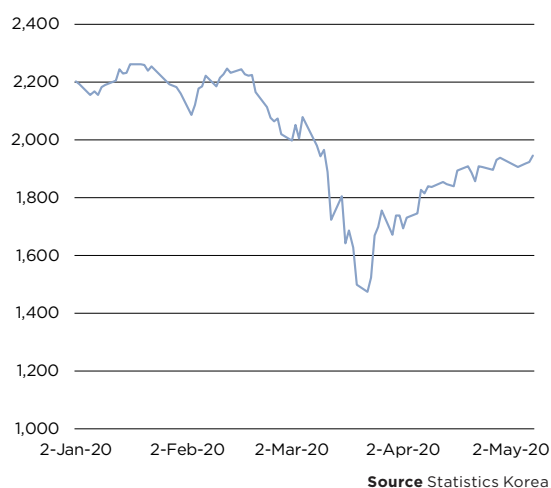


Korea REITs

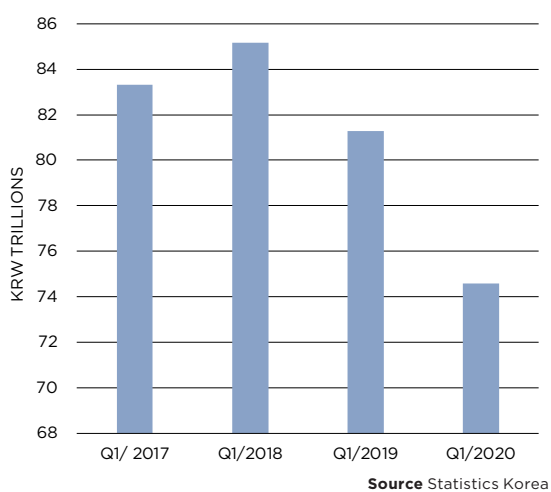


Diversification of listed REITs to accelerate after COVID-19

GRAPH 1: KOSPI Composite Index



GRAPH 2: Total Offline Retail Sales, Q1/2017 to Q1/2020



OVERVIEW

On 11th May 2020, NH Prime REIT, Lotte REIT, Shinhan Alpha REIT, E-REITs-KOCREF, Mode Tour REIT, K Top REIT, and A REIT comprise the total of seven REITs listed on the Korean stock exchange. In contrast to the average YTD return lingering at -17% for the six stocks excluding A REIT, the KOSPI index has already recovered most of its losses from its peak of 2,200 at the beginning of the year to a low of 1,400 recorded in mid-March to close at 1,935 on 11th May.

Concerns over the slowing real economy have had a greater negative effect on listed REITs than the overall market. Total footfall has dramatically fallen due to social distancing restrictions, 'untact' culture, school closures, and remote working, and consumers have turned away from large hypermarkets, department stores, and shopping malls in favour of online channels. While there is no immediate impact on the office sector, it seems that deteriorating corporate earnings especially for those in international trade are being reflected in the prices of the office REITs. Most domestic listed REITs are exposed to retail and office assets and have thus suffered sharper price declines.

Three of seven listed REITs are office REITs and they have all plummeted YTD. NH Prime REIT, owner of a portfolio of core office buildings in Seoul, marked a loss of -19.8% YTD, and Shinhan Alpha REIT, owner of office buildings in the Seoul Metropolitan Area, a loss of -19.2% YTD.

There are two REITs that invest in retail properties, Lotte REIT and E-REITs-KOCREF. Lotte REIT is invested in Lotte Group's hypermarkets and department stores, while E-REITs-KOCREF invests in stores operated by ELAND Retail. These two stocks have been impacted directly by the downturn in offline retail, and posted returns of -14.4% and -21.2%, respectively. On the other hand, REITs focusing on sectors other than office or retail performed better relatively. A REIT, which develops and leases residential space, fell by only 0.9% during the same period.

Lotte REIT and NH Prime REIT, both of which had successfully drawn public interest with subscription rates of over 65x and 317x, are comparatively more sensitive to the economic cycles with retail stores, shopping malls and office buildings as underlying investments. The number of investment products in these sectors is likely to fall as companies continue to operate under the current challenging market conditions, while new investment products with exposure to the logistics sector will be launched.

TABLE 1: Overview Of Publicly Listed REITs

NAME	INITIAL LISTING DATE	PUBLIC OFFERING PRICE (KRW)	CLOSE PRICE (KRW)			YTD RETURN
			LISTING DATE	2ND JAN 2020	11TH MAY 2020	
NH Prime REIT	5th Dec 2019	5,000	6,500	6,100	4,890	-19.8%
Lotte REIT	30th Oct 2019	5,000	6,500	6,130	5,250	-14.4%
Shinhan Alpha	8th Aug 2018	5,000	5,200	7,860	6,350	-19.2%
E-REITs-KOCREF	27th Jun 2018	5,000	4,600	6,730	5,300	-21.2%
Mode Tour REIT	22nd Sep 2016	6,000	5,230	3,120	2,715	-13.0%
K Top REIT	31st Jan 2012	5,500	5,130	951	789	-17.0%
A REIT	14th Jul 2011	5,500	6,320	6,440	6,380	-0.9%

Source: Korea Exchange

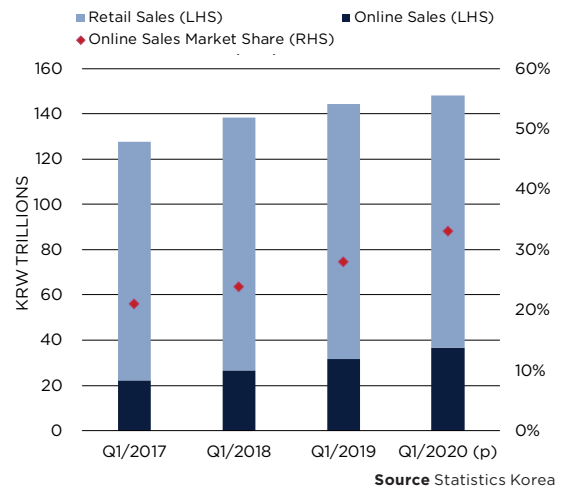
PLANNED PUBLIC REITS

While exact listing dates are unknown, REITs preparing for public listings in the second half of the year operate a wider range of underlying assets. The market will welcome the first logistics REITs, such as Kendall Square REIT (Tentative), and KB Anseong Logistics REIT (Tentative) invested in the Homeplus Anseong Fresh Logistics Center. Also upcoming are Koramco Energy Plus REIT based on gas stations, and Mastern Investment Western Europe REIT (Tentative) that manage overseas commercial real estate. Other asset managers which have announced plans to list publicly include ADF AMC, IGIS AMC, and JR Investment.

BOOMING E-COMMERCE

The booming E-commerce market continues to attract new investors seeking stable rents and rising asset values. Though fierce competition has kept most E-commerce platforms from generating profits despite revenues in units of KRW trillions, few dominant companies have demonstrated double-digit sales each month since the outbreak. Notably, the market leader Coupang posted sales of KRW1.63 trillion in February, a jump of 13% in one month from KRW1.44 trillion in January. Market Kurly, the market leader in fresh food delivery, recently raised US\$160 million (approx. KRW200 billion) in new investments and is accelerating the development of its new logistics center in Gimpo. The outlook is dim for tenants handling B2B goods due to weaker demand for various production, distribution, and manufacturing industries. On the contrary, demand for space from B2C tenants is at unprecedented highs.

GRAPH 3: Online Sales As A Proportion Of Total Retail Sales, Q1/2017 to Q1/2020



“As ‘untact’ services have risen in importance, the public listing of logistics REITs is expected to take off on heightened interest in e-commerce and the logistics sector.”

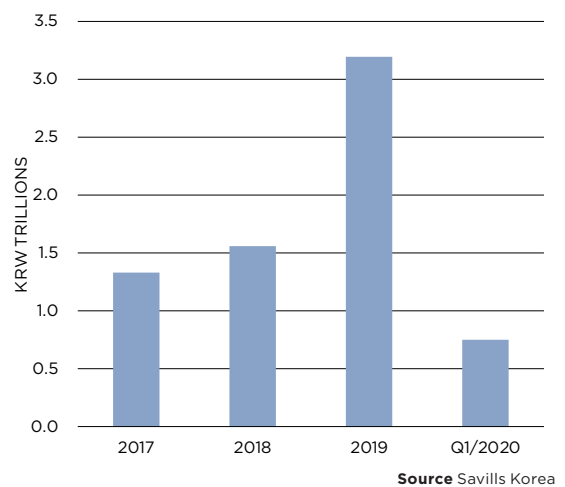
Demand from companies to shift from offline to online retail is also surging. Lotte Shopping declared that it will boost its profitability by re-organizing 30% of its stores (200 of approximately 700 in total), including department stores, hypermarkets, supermarkets, and drugstores, within the next three years. The news of branch closures by Lotte Shopping, the industry leader, clearly illustrates the shift from offline to online.

In 2019, Shinsegae Group succeeded in locking in KRW1 trillion of new capital from Affinity and BRV Capital by incorporating SSG.COM as an independent online shopping platform, and chose to focus investment on delivery, the core competitive advantage of online shopping. As part of its measures to improve delivery efficiency, the company will increase the number of its dedicated online logistics centers from three to six. It announced its plans to grow its business from its previous sales revenue of KRW3 trillion in 2019 to KRW10 trillion by 2023.

AGAIN LOGISTICS

In addition to publicly offered vehicles, there is ample capital inflow to the logistics sector from foreign investors. Canada Pension Plan Investment Board (“CPPIB”), Dutch pension manager APG, and developer ESR have established a new joint venture to deploy US\$1 billion (approx. KRW1.2 trillion) in logistics assets near Seoul and Busan. For the consortium, this follows a prior investment in a new development located in Bucheon in 2018. The property is currently leased to high-quality tenants such as Cheil Industries, Chanel and Sisley.

GRAPH 4: Logistics Investment Volumes, 2017 to Q1/2020



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