

Policies and Incentives

Promote Investment in Real Estate

To promote indirect investment in Korean real estate, the Ministry of Land, Infrastructure and Transport has lowered the bar for REIT (real estate investment trust) listings. The ministry has also lifted restrictions on REIT investments by financial institutions, and introduced new tax benefits to encourage private investment in REITs.

Key Policies to Promote Indirect Investment in Korean Real Estate

Policy	Details
Support for long-term (15 years) investment in New Stay housing projects	<ul style="list-style-type: none"> Corporate tax reductions for corporations that invest in REITs that lease their real estate for 15 years or longer
Tax Support	<ul style="list-style-type: none"> Leased Housing REIT Dividend Income Separation Project extended until the end of 2018 Income / corporate tax reduction for property leasing businesses extended until the end of 2019
Easing Regulations to Promote Investment	<ul style="list-style-type: none"> When 20% or more of the investment is from financial institutions, or 15% or more is from banks or insurance companies, reporting is required only after the investment is made. Credit risk coefficient lowered from 12% to 7.5% when calculating risk-based capital (RBC).
Lower Requirements for REIT Listings	<ul style="list-style-type: none"> Annual revenue requirement lowered to KRW 7 billion for non-development projects, to KRW 20 billion for New Stay developments. Equity share limits per person raised to 50% for commissioned management, to 40% for self-management.

Individual Notification of Commercial/Office Buildings

Starting in late 2017, a new system will be introduced that requires the prices of commercial, office, and other non-residential buildings (for commercial or business purposes) to be notified individually.

The government plans to select 17 cities (si), counties (gun), and/or districts (gu) in consideration of their administrative scale and location, and conduct surveys on how local individual real estate prices are being calculated.

Success Case

Starfield Hanam

In September 2016, Shinsegae Group opened Starfield Hanam, Korea's largest shopping center and the first of its kind, in the city of Hanam, Gyeonggi-do.

Shinsegae Property partnered with Taubman, a global retail developer, specifically to co-found the Hanam Union Square mall.

Less than half a year since its grand opening, Starfield Hanam has established itself as a competitive mega shopping facility with great potential for attracting consumers, not only for its convenient location, but also its distinguished tenants.

KOTRA WORLD WIDE

As Korea's Trade-Investment Promotion Agency, KOTRA has 127 overseas offices and 10 headquarters worldwide.

* Invest Korea(IK), Korea's national investment promotion agency, was established as part of KOTRA to support the foreign businesses in Korea.



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KOREA'S LEADING INDUSTRIES

REAL ESTATE





01

Korea's Real Estate Industry

Steady Growth in the Capital Area

In 2016, the Korean real estate industry suffered from a decrease in buyer confidence, caused by government actions to control household debts and the mounting oversupply of new properties.

By region, the real estate market of the capital area enjoyed a year of steady growth, as the Bank of Korea lowered the base interest rate, and reconstruction projects proliferated in affluent districts south of the Han River.

Outside the capital area, however, real estate markets experienced a downturn due to recession across different industries such as shipbuilding, and the oversupply of new residential properties.

By sector, while office buildings, shopping malls, and hotels are expected to increase in demand, housing properties move in the opposite direction. Under the government's policy to keep interest rates low, real estate funds will continue to grow as a promising alternative to direct investment in real estate.

Status of Korean Real Estate Markets

	Office Buildings	<ul style="list-style-type: none"> A steady demand for office buildings in major areas is expected in 2017 as foreign investors continue to aggressively invest in Korean office buildings.
	Shopping (Outlet) Malls	<ul style="list-style-type: none"> Major distributors in Korea have expanded their investments in shopping complexes.
	Hotels	<ul style="list-style-type: none"> The majority of new hotels are business hotels rather than premium hotels. Institutional investors have also started to invest in hotels.
	REITs and Funds	<ul style="list-style-type: none"> The government lowered the bar for the listing of real estate investment trusts (REITs) to encourage indirect investments in real estate. Investment in real estate funds is expected to grow as the return on investment continues to exceed interest earnings.
	Houses	<ul style="list-style-type: none"> The lack of growth drivers across all sectors of the Korean economy in 2017 is expected to negatively affect the domestic housing market.

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Competitiveness

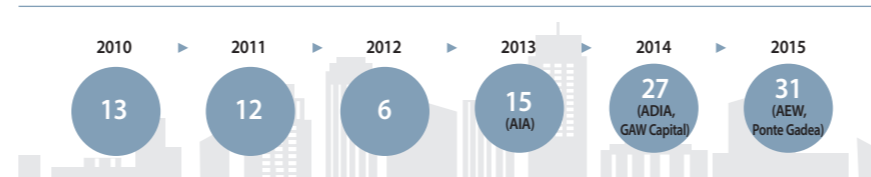
Market Stability

Amid global economic instability, Korean real estate is being recognized as a stable market to invest in.

Korean real estate markets offer relative stability and higher yields compared to other markets in the world heavily affected by uncertainties, such as Brexit and ultra-low interest rates.

Korea's real estate market is stable like that of Japan, and holds less risk than Southeast Asia, which makes it popular among foreign investors.

Share of Foreign Investment in Korean Real Estate



Source: Savills Korea, Seoul Economic Daily, Jul. 14, 2016
 Note: The companies in () are foreign investors that first invested in Korean real estates in that year.
 Data based on the transactions of large office/retail buildings typically traded among institutional investors.

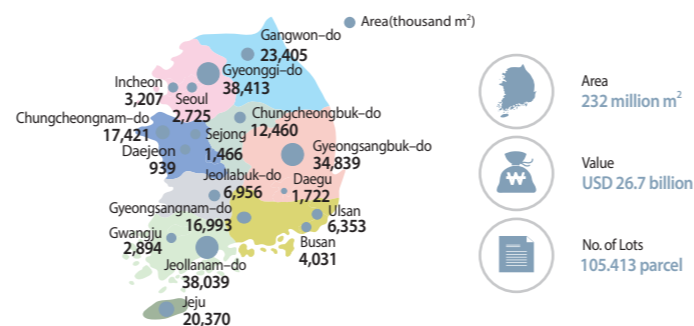
In the first half of 2016, foreigners owned 232 km² or 0.2%, of Korea's total land area. Based on official land prices, all foreign-owned land is worth USD 26.7 billion.

Foreign-Owned Land in 2015(Q3/Q4) and 2016(Q1/Q2)

Classification	2015 (Q3/Q4)		2016 (Q1/Q2)	
	Area (thousand m ²)	Value (USD million, %)	Area (thousand m ²)	Value (USD million, %)
No of lots	107,860	105,413 (2,447)	-2.3	
Area	228,269	232,233 (3,964)	1.7	
Value	325,703	322,608 (3,095)	-1.0	

Source: Ministry of Land, Infrastructure and Transport Press Release on Dec. 22, 2016

Foreign-Owned Land in 2016 Q1/Q2



Source: Ministry of Land, Infrastructure and Transport Press Release on Dec. 22, 2016

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Specific Markets

Office Buildings in Seoul

Following the 1997 Asian Financial Crisis, Korea witnessed a surge in investment in its office buildings, especially by foreigners.

In 2015, foreign investment accounted for 31% of the total investment in Korean commercial real estate, a vast increase from the 5% in 2012, and further growth is expected in consideration of ongoing transactions.

Office Building Transactions in Seoul

Classification	2015	2016
Total area	760,529 m ² (48 buildings)	1,301,776 m ² (51 buildings)
Transaction scale	USD 3.2 billion	USD 5 billion
Average price per 3.3 m ²	USD 13,458	USD 14,192
Capitalization rate	4.49%	4.86%
Key transactions	Downtown: Ferrum Tower, Tower 8 Yeoueido: Hana Daetoo Securities Building	Downtown: Centerpoint Gwanghwamun, Samsung Life Insurance HQ Gangnam: Sambu Office Building Other: Imgwang Building

Note: Based on transactions reported as of Nov. 30, 2016. However, the cap rate for 2016 was based on transactions as of 2016 Q3, due to lack of vacancy rate data for certain areas.

Shopping (Outlet) Malls

Major Korean retailers have shifted the focus of their investments to shopping complexes, which they see as new drivers of growth for the retail market. Lotte, Shinsegae and other major distributors are developing new shopping complexes in strategic locations across the country, leading to an expansion of investment opportunities.

Hotels

The global popularity of Korean shopping culture, K-Pop and K-Beauty, as well as surges in medical tourists, incentive tours, international conferences and sports events are all positive factors that boost the demand for hotel accommodation.

With the majority of hotels in Korea being owned by conglomerates, hotel transactions were few and far between until the past several years, as institutions started to expand their investments in hotels.