

The logo for PERE Network, featuring the word "PERE" in a large, bold, white sans-serif font above the word "Network" in a smaller, white sans-serif font. A vertical red bar is positioned to the left of the text.

PERE
Network

Japan Korea Week

10-12 September
Tokyo & Seoul

A growing wave of capital: Japanese & South Korean institutional investor appetite for global real estate

The impact of Japanese and South Korean investment in global real estate has been felt over the past decade, as some of the world's largest investors have broadened their real estate interests. LPs from both countries have become important sources of capital for global real estate and cannot be ignored by real estate investors and managers around the world.

The logo for PEI, consisting of the letters "PEI" in a bold, white, sans-serif font. The letters are set against a dark red background that forms a triangular shape in the bottom right corner of the page.

PEI

The emergence of key real estate players

Japanese and South Korean institutional investors have become key players in global real estate over the past decade or so, making them important targets for investment managers looking for capital.

This white paper explores the dynamics of South Korean and Japanese institutional investment in global real estate, examining their investment preferences and the growth potential of these important groups.

Japanese and South Korean institutional investment in real estate is significant. PERE holds data on 182 Japanese and South Korean LPs, 165 of which each have more than \$1 billion of real estate assets under management (AUM).

The largest player from either country, South Korea's National Pensions Service (NPS), has nearly \$37 billion of real estate investments. The largest Japanese investor, Japan Post Bank, has close to \$27 billion of real estate investments.

Japanese and South Korean investors have hit the headlines with some large and successful overseas investments in real estate. For example, NPS made

more than £300 million (\$381 million) profit when it sold HSBC's UK headquarters to Qatar Investment Authority for £1.1 billion (\$1.29 billion) in 2014.

Many real estate investment managers have set up shop in Seoul and Tokyo in order to both invest foreign capital locally and to secure South Korean and Japanese capital for funds investing elsewhere. Managers without Asia Pacific businesses have been regular visitors or even set up offices to tap South Korean and Japanese capital.

The importance of these investors is demonstrated by the success of the PERE Japan Korea Week conference, which last year attracted 400 participants from all over the world.

The growth potential for both investor groups is substantial. For example, Japan's Government Pension Investment Fund (GPIF) has \$1.43 trillion of assets under management, the largest pool of institutional capital in the world, of which less than one percent is allocated to private real estate. If GPIF moved to the average real estate allocation for Japanese institutions, it would mean an extra \$52 billion invested in global real estate.

Putting Japanese and Korean investors in context

Both Japan and South Korea have developed and sophisticated institutional investment markets, with a range of pension funds, insurance companies, banks and investment managers in the market.

They are also amongst the largest economies in the world; manufacturing giants with instantly recognizable brands such as Kia, Samsung, Sony and Toyota. Both nations also major on soft power. Japan has become one of the world's most popular holiday destinations, while South Korean culture - via films, TV and pop music - has become one of its biggest exports.

In both cases, the institutional investment market is dominated by a single large player, the nations' respective national pensions groups, which have a combined AUM of more than \$2.1 trillion. Behind the giants of GPIF and NPS is a host of organizations which, while smaller, are still significant investors in real estate and other asset classes.

South Korean and Japanese investors have turned to global real estate as a way to diversify

their large domestic investment portfolios and also to generate higher returns, as overseas real estate investment is typically higher yielding than domestic assets. For example, Tokyo prime office yields are 3.25 percent, according to CBRE research.

While investment strategies vary by country and institution, Japanese and South Korean investors have demonstrated a preference for partnering with real estate investment managers to access international markets. Building long-term relationships is crucial for doing business in both Japan and South Korea, where personal connections lead to significant business collaborations.

One of the early examples of this was a partnership between NPS and European real estate investment manager Rockspring (now Patrizia), which began in 2009. Developing on that initial foray overseas, NPS has committed more than \$5 billion to 10 managers for fund investments and separate account mandates in the past decade, including a \$1.15 billion commitment to Allianz Real Estate's

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Asia Pacific Core 1 vehicle. Meanwhile, Samsung Life Insurance took a minority stake in Savills Investment Management in 2021 and committed to invest \$1 billion in the London-based manager's funds.

A significant factor in investment decision-making for both South Korean and Japanese investors is currency. Both sets of investors prefer to hedge direct investments. For Japanese investors, the long-term relative weakness of the Yen means revenues from overseas investments have become more valuable.

Higher US interest rates relative to Europe during

the 2015-2018 period pushed South Korean investors into European direct investments and US debt. In today's environment, PERE data shows South Korean investors to prefer real estate debt ahead of other strategies.

One area where South Korean and Japanese investors may differ from their counterparts around the world is the office sector, a target for 74 percent of Japanese investors and 79 percent of South Koreans. This is partially due to the continued strength of the office market in both nations, where working from home is less prevalent, but they have also been prepared to invest in offices overseas.

The top 10 Japanese & South Korean investors in real estate

The 10 largest Japanese and South Korean LPs have a combined real estate AUM of around \$105 billion

Institution name	City	Institution type	Current allocation to private real estate (%)	Private real estate AUM (\$m)
National Pension Service of Korea	Jeonbuk	Public Pension Fund	4.75%	36,748.46
Japan Post Bank	Tokyo	Bank / Financial Services	1.86%	27,506.17
Samsung Life Insurance	Seoul	Insurance Company	8.04%	18,663.80
Nippon Life Insurance Company	Osaka	Insurance Company	2.20%	11,342.14
Korean Teachers' Credit Union	Seoul	Public Pension Fund	28.11%	10,181.10
Korea Investment Corporation	Seoul	Sovereign Wealth Fund	5.11%	9,693.67
NH Investment & Securities	Seoul	Investment Firm	20.00%	8,364.68
Resona Bank	Tokyo	Bank / Financial Services	3.00%	7,921.98
Dai-ichi Life Insurance Company	Tokyo	Insurance Company	3.50%	7,776.38
DB Insurance	Seoul	Insurance Company	21.10%	7,550.97

Comparative analysis: Japan and South Korea

While Japanese and South Korean real estate investors have much in common, they do not form a homogeneous group. There are differences in the composition of the institutional landscape, appetite for global real estate and preferred strategies.

PERE's data on South Korean LPs shows a preponderance of insurance companies and public pension funds, while Japanese LPs are more likely to be corporates or private pension companies. Financial services companies are a key LP in both nations.

Perhaps the most significant difference between Japanese and South Korean LPs is their overall commitment to real estate. PERE data show the average real estate allocation for South Korean LPs

is 10.88 percent, higher than the global average of 9.93 percent. Meanwhile, Japanese LPs allocate only 4.08 percent to real estate, although this allocation has risen by 42 percent since 2020, compared with 16 percent for South Korean LPs' average allocation.

Japan's economy has been steady since the pandemic, supported by low interest rates, while Korea saw rates rise sharply. This stability has supported Japanese investment overseas. MSCI data show Japanese investors (of all types) investing \$7.46 billion in overseas real estate in 2023, triple the 2021 total.

Meanwhile, in a recent PERE interview, Doyle Kim, managing director at Seoul-based private banking group Hana Financial Investment, said Korean

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investors were still battling the effects of high interest rates and would not be back in the market until the end of 2024.

While Japanese developers, such as Mitsubishi Estate and Mori Building have long track records of investing overseas, Japanese LPs have been more cautious. South Korea's NPS started investing overseas in 2009, while Japan's GPIF only awarded its first overseas real estate mandate in 2018. In both cases, the example of the nation's largest investor was followed by other LPs.

South Korean investors have also bought more direct assets, often via club deals. Typically a South Korean investment manager would assemble

capital from domestic insurance and pension groups, which it would use to buy overseas assets. In contrast, Japanese investors have tended to prefer multi-manager or fund investments.

The largest Korean investors have become extremely sophisticated. For example, NPS recently formed a dedicated team to invest in real estate platforms around the world.

Japanese investors have also been more cautious regarding where they invest. While more than one third of South Korean LPs are interested in either the US or Europe, the proportion of Japanese investors looking at these markets is smaller.

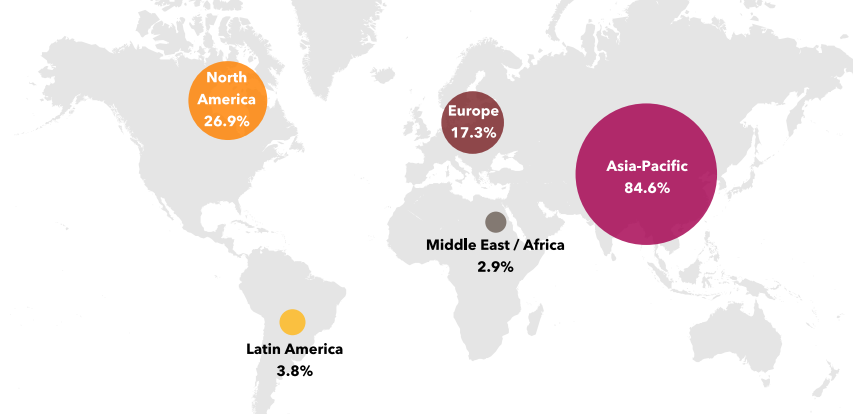
Where are Japanese and South Korean LPs investing?

More Korean LPs are interested in investing outside their home region, while more than eight in 10 Japanese investors prefer Asia Pacific. North America is the most popular overseas region with both groups.

Japanese LPs: where are they investing?

Outside of Asia-Pacific, North America is the most sought region, with more than a quarter of Japanese profiled LPs having exposure to investments in this part of the world. Just under a fifth of investors have appetite for Europe.

Investment appetite: regions

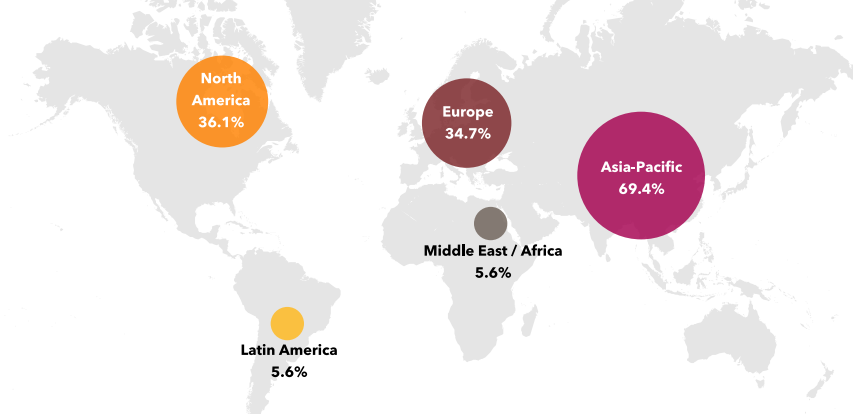


Note: totals will not add up to 100% as any one LP can have an appetite to multiple regions

South Korean LPs: where are they investing?

Outside of Asia-Pacific, North America is the most sought region, with more than a third of South Korean profiled LPs having exposure to investments in this part of the world. Just over a third of investors also have appetite for Europe.

Investment appetite: regions



Note: totals will not add up to 100% as any one LP can have an appetite to multiple regions



Where, what, how: Japanese investment trends

Japanese investors are overwhelmingly in favor of domestic and other Asia Pacific real estate investments, however a significant minority express interest in North America (26.9 percent) and Europe (17.3 percent). However, interest in other regions is minimal.

Value-add strategies are preferred by Japanese investors, with 70 percent expressing a preference for this style. This is in line with other LPs around the world; the INREV/ANREV/PREA Investment Intentions Survey 2024 also shows value add as the most popular strategy.

However, Japanese investors also show broad interest in other investment styles, while favoring

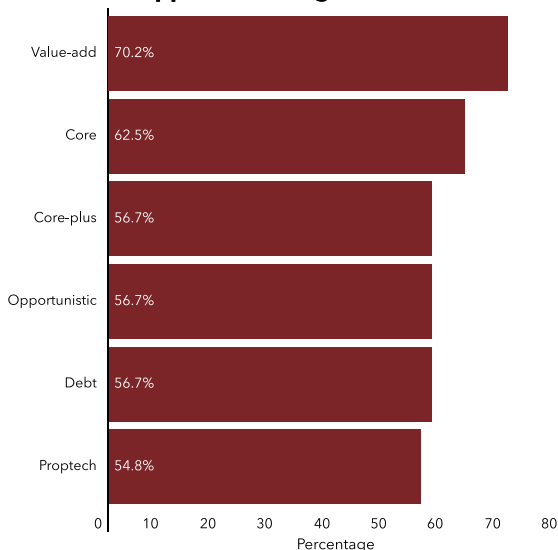
core strategies over opportunistic, suggesting an overall lower appetite for risk. Perhaps contradicting this somewhat, more than half would be interested in investing in proptech.

There is also broad interest in a range of real estate sectors, with more than 70 percent of investors looking to invest in industrial, offices, hospitality and residential. Industrial is the most popular sector, in line with global investors. However, nearly two-thirds would still invest in retail, which contrasts with only 11 percent in the INREV/ANREV/PREA research.

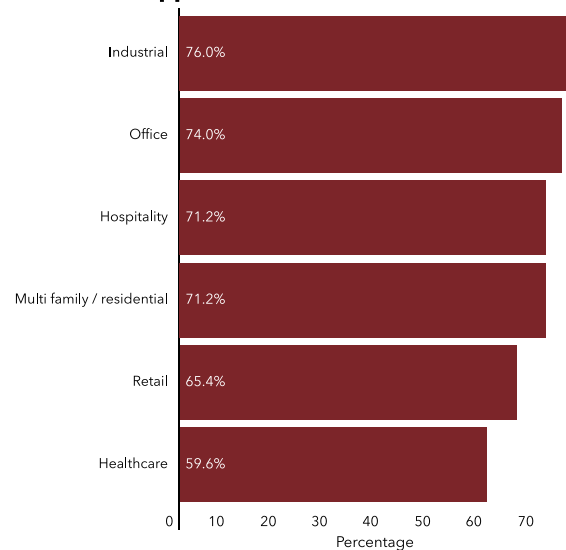
Japanese LPs: sectors and strategies

Japanese investors have a strong appetite for value-add strategies as well as the industrial and office sectors, but are somewhat less interest in real estate debt. They are far keener on retail than their global peers.

Investment appetite: strategies



Investment appetite sectors



Note: totals will not add up to 100% as any one LP can have an appetite to multiple strategies and sectors



Where, what, how: South Korean investment trends

South Korean investors are at home in global real estate markets, with more than one third of LPs keen to invest in North America and Europe. There is even a reasonable level of interest in Latin America and the Middle East and Africa.

One of the key areas where South Korean LPs have been investing heavily is real estate debt, the most popular single strategy, according to PERE’s research. A CBRE survey of Korean investors showed a preference for senior loan and mezzanine investments within the debt sphere.

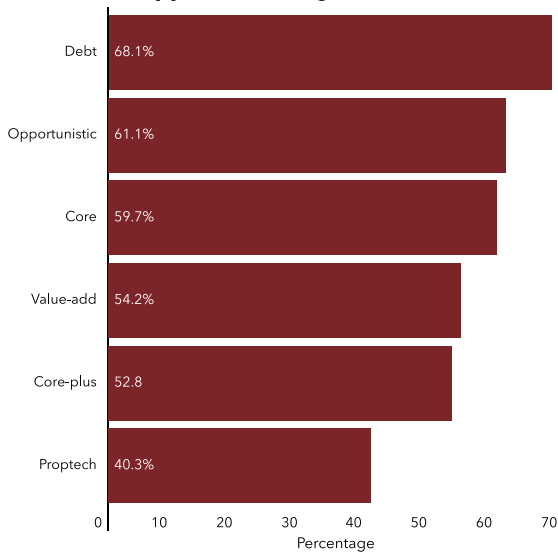
The next most popular strategy, PERE research shows, is opportunistic investments, showing South Korean LPs to be less risk-averse than either Japanese or global investors. CBRE’s research shows private equity funds are the most popular form of real estate equity investment amongst South Korean investors.

The office sector is the most popular with South Korean LPs, a target for almost 80 percent, while industrials, residential and retail have broad support, with more than two-thirds of LPs interested.

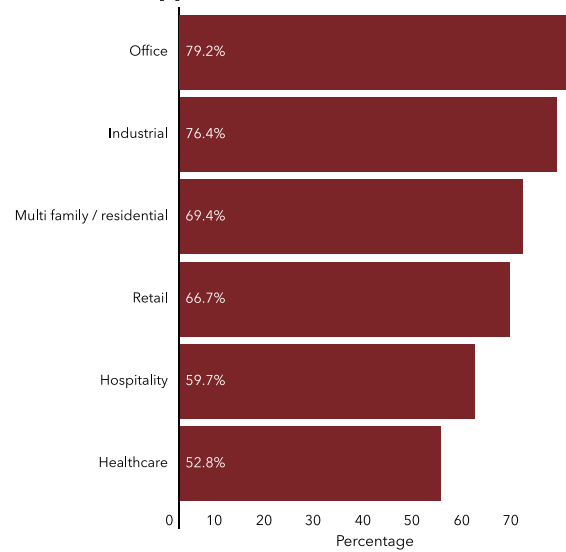
South Korean LPs: sectors and strategies

South Korean investors have a strong appetite for debt strategies and are far more interested in offices than their global peers. They are also more comfortable with opportunistic investments.

Investment appetite: strategies



Investment appetite sectors



Note: totals will not add up to 100% as any one LP can have an appetite to multiple strategies and sectors



Key takeaways

South Korean and Japanese investment in global real estate is already significant and it is set for growth, as institutions in both countries are growing and increasing their allocation to real estate. Real estate players looking for capital should consider:

- Size: the Japanese and South Korean economies are the fourth and 14th largest respectively and their institutions have commensurate capital to allocate.

Get involved

Anyone who seeks to do business with Japanese and South Korean investment needs to build relationships with them, based on face-to-face interactions: Zoom and email won't cut it.

PERE Japan Korea Week takes place on 10th September 2024 at the Fairmont Ambassador Seoul and on 12th September at the Shangri-La Tokyo. More than 200 LPs and 400 attendees overall are expected.

Each conference day will have a full schedule of content, bringing mission-critical information and giving the opportunity to hear direct from South Korean and Japanese investors. This year, both conferences will see senior executives from GPIF, NPS, Kokkyoren, Oriz Life, Shinhan Life and more take to the stage and provide insights on their ambitions, strategies and concerns.

As well as market-leading content, the conference also offers plenty of opportunities for making contacts and to arrange meetings, as well as the opportunity to explore two of Asia's largest and most vibrant cities.

- Growth: Japanese and South Korean LPs' real estate allocations have grown 42 percent and 16 percent respectively over the past four years.
- Experience: South Korean LPs have been investing overseas for 15 years, while Japanese LPs are growing their commitments
- Preferences: South Korean LPs are keen on real estate debt, while both sets of investors remain committed to the office sector

PERE Japan Korea Week is just the beginning though, as attendees to both events will automatically join the PERE Network, a year-round program of networking and content that connects over 1,200 of the world's most influential investors, fund managers, developers and strategic partners.

The PERE Network hosts annual in-person meetings, events and online content sessions, as well as providing a network directory so members can effortlessly liaise with their peers in between meetings.

For more details and to join the PERE Network to attend *PERE Japan Korea Week*, see the [event website \(https://www.peievents.com/en/event/per-e-japan-korea-week/\)](https://www.peievents.com/en/event/per-e-japan-korea-week/) or contact PERE Conference Producer Rida Shaikh at rida.s@pei.group.

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