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COVID-19'S IMPACT ON KOREAN REAL ESTATE

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Summary & Recommendations

We expect near-term negative impacts on the Korean economy and commercial property markets due to the COVID-19 outbreak.

- COVID-19 may result in a near-term hit to leasing demand in the Seoul office market at a time when new supply is due to rise. This creates an opportunity for tenants to seek space for relocation or expansion on favorable terms.
- Corporates should implement telecommuting and work from home policies.
- We expect the hotel industry to be sluggish due to COVID-19. However, the office sector should continue to attract investors' attention with abundant liquidity and low interest rates.
- Industrialists should focus on integrated logistics and distribution facilities.

Economic indicators decline

The OECD cut Korea's 2020 GDP forecast by 0.3 percentage points from 2.3% to 2.0%, however, the forecast for 2021 remains at 2.3%. The Korean government announced a KRW11.1 trillion stimulus plan to support the economy. The Bank of Korea will likely to cut rates by 0.25 percentage points from 1.25% to 1.0%.

Offline retail revenue falls 50% MOM in February

With consumers hesitant about shopping in the community, February's consumer offline credit card usage was KRW21.7 trillion (USD18.1billion), a 50% MOM, decrease from the KRW40.0 trillion (USD33 billion), recorded in January. February duty-free sales decreased 40% YOY, while department store and hypermarket sales declined 10% and 12% YOY, respectively.

Increased e-commerce volume

We expect an increase in revenue from online e-commerce channels. On January 28, Coupang, a major Korean e-commerce retailer, recorded its all-time highest sales of KRW3.3 million for its next-day rocket delivery service. Due to the increased demand, Coupang is working to meet the abrupt increase in demand, including increasing the number of couriers.

Contraction in the hotel market

According to PAXNET news[1], since the COVID-19 spread, hotel reservations rates in Korea have dropped to 10%. It is a 40-50 percentage point drop QOQ. The Chinese government's travel restrictions and other countries' travel restrictions on Koreans will likely cause a significant contraction in the hotel and travel market.

Korea has been working swiftly to combat the spread of COVID-19, going as far as to shut down department stores and offices where COVID-19 patients had travelled. Especially for duty-free shops, sales have plunged due to the significant decrease in the number of visitors from China, which accounts for a large portion of duty-free sales. As a result, there is a potential increase in retail vacancy due to poor sales.

According to the Ministry of Justice data, the number of foreign visitors on March 1 was 6,920, a decline of 80% compared to the 38,059 foreign visitors that arrived on February 1, 2020. In 2020, the largest number of Chinese visitors arriving on a single day was 18,743 on January 27, 2020, but this dropped by 94% to 1,093 by February 27, 2020. The COVID-19 crisis is affecting hotels and airlines the most, and this trickles down to the retail market. In 2020, with Korea's office market fundamentals reasonably stable, we expect office investment to continue to attract investors' attention with abundant liquidity and low interest rates.

Note: 1 USD = 1,204 KRW. [1]Paxnet news.

COVID19 RESPONSE

Response that companies have taken to COVID-19

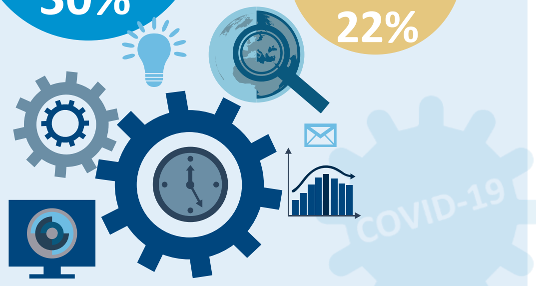
48% of respondents
Restrictions on travel to / from Korea

60% of respondents
Restrictions on travel to / from China

47% of respondents
Say their overall outlook on the Korean business environment in 2020 is "somewhat worse" compared to 2019

Respondents expecting the company to resume normal operations:

- Before the end of Mar: 30%
- Before the end of Apr: 30%
- May 1 or later: 22%



Source: AMCHAM Korea, via joins.com.

IMPACT ON OCCUPIER MARKETS

Concerns about the continued tenant-oriented market and increased vacancy

Through H1 2020, demand is likely to decline as companies delay their location strategy decisions as they digest the unfolding news regarding the COVID-19 crisis.

Decision-making may be delayed, but it is unlikely there will be any immediate drop in rental prices due to COVID-19.

We recommend tenants use this situation as an opportunity for office relocation or expansion, as we forecast increased vacancy due to the scheduled new supply coming online in H2 2020.

Increase in the number of companies *working from home*

Compared to other countries, most Korean companies are at the early stages of implementing work from home and telecommuting policies. While digital technologies, including video conferencing, email, mobile work collaboration applications, and online meeting sites are commonplace in Korea, most Korean companies have not implemented these tools in a cohesive telecommuting policy.

The change of Seoul's public traffic compared to January

Subway use	Bus use by	Car traffic
37.4% ↓	32.5% ↓	8.9% ↓

Source: Newsis

According to Chosun Biz, major conglomerates in Korea, including SK Group, Hyundai Motor, and LG Group, which have been conservative about implementing work from home policies, are now planning to extend their work from home policies.

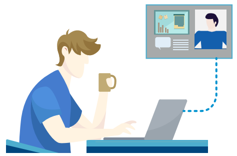
The number of SMEs implementing telecommuting has also surged. According to the Ministry of Employment and Labor, the number of people who applied for telecommuting work from 25 February to 5 March is up more than 10 times compared to the same period last year. The telecommuting support subsidy program is a project to support labor costs according to the number of times employees telecommute. According to the Ministry of Employment, 6,241 workers from 426 workplaces applied for subsidies for telecommuting from 25 February to 5 March 2020.

The COVID-19 crisis is forcing Korean companies to build the right work from home environment, despite already having the necessary technology.

Short-term decline in flexible workspace demand

According to E-daily news[2], WeWork Korea announced it has stopped providing breakfast and events to prevent the spread of COVID-19, as well as restricting visitors. Public facilities like gyms have also been closed for the time being. Other flexible workspace operators, such as SparkPlus, are distributing information to help prevent the spread of COVID-19 while conducting disease surveillance and quarantine activities.

Through H1 2020, we expect reduced demand for flexible workspace offices because of concerns over COVID-19. In the long run, as companies finalize and implement telecommuting policies, we expect flexible workspace demand will increase as companies need to plan for more employees working remotely including establishing flexible workspace sites, shared offices and work from home options.



IMPACT ON CAPITAL MARKETS

Expected office investment market stability

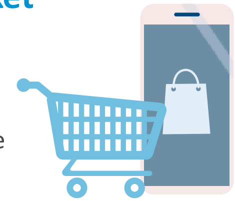
Despite the COVID-19 outbreak, we expect the office investment market to remain stable in 2020 due to abundant liquidity and low interest rates. Offices that offer stable returns compared to equities are still popular with investors.

However, if the COVID-19 situation is prolonged, the investment decision-making process may be slowed down, like the office leasing market. As investors seek stability, transactions that do close will likely be the result of well-capitalized buyers who emphasize deal closing ability.

There have been confirmed patients in the YBD submarket, which is home to securities and financial firms. These firms have activated their business continuity plans and limiting the number of employees required to report to the office each day.

In the short term, the number of office transactions may be reviewed due to the constraints of the work environment but given the large number of office sales on the market in 2020, we see little risk of a sharp drop in office investment.

Increasing the size of the logistics market



Recently, e-commerce has became fiercely competitive among online retailers such as Coupang , Market Kurly, and Oasis. We expect large retailers such as Lotte and Shinsegae to accelerate their shift from offline to online distribution following the COVID- 19 crisis.

According to Chosun Biz News, large online shopping malls such as Coupang and 11th Street were out of stock, and consumers are shifting to products from online food retailers that produce local products. The COVID- 19 crisis should change the existing food manufacturing and sales structure, with more direct-to-consumer sales as opposed to food companies making products and selling them through large retailers' online and offline channels.

As food products require a temperature-controlled supply chain to prevent spoilage, we expect logistics companies to increase their investments in cold chain refrigeration and freezing facilities.

Retail and hotel REITs decline

According to Korea Exchange, the closing price of the two KOSPI-listed REITs fell sharply on 2 February compared with their closing prices on 2 January. Particularly, E-REITs KOCREF and Lotte REITs, whose main assets are retail, suffered the worst declines. Lotte REITs owns four basic department stores, four marts, and two outlet malls. The KOCREF REIT is based on cash flows from top-tier stores in the New Core Outlet shopping centre that is operated by Eland Retail. If the COVID-19 outbreak extends into H2 2020, we expect a continuation of the decline in retail commercial facilities and REITs.

In addition, we expect slow improvement in hotels and hotel REITs as their share prices are correlated to rental income which will likely recover only after tourist arrivals rebound subsequent to the COVID-19 crisis.

[2] edaily.co.kr.

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