

Asian Real Estate Investment: Data Utilization for the Decision Making Process

by

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Submitted to the Department of Urban Studies and Planning in partial fulfillment of the requirements
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ABSTRACT:

Many investors in developed countries believe the Asian emerging market to be highly risky due to numerous uncertainties including limited market information to make sound investment decisions. However, still successful investment deals were completed by many investors who are already in such markets, and how those investors make sound investment decisions is in need on explanation. Therefore, this thesis explores institutional real estate investors' behavior on entrance to Asian emerging markets, their investment decision making process, and data utilization within each process. Through 14 qualitative in-depth interviews with key institutional investors in the U.S. and Korea, investment decision making processes and data utilization behaviors are examined and summarized in a generalized format. Interview results indicate that an initial entrance to Asian emerging markets occurs rather through a passive introduction of a potential deal by third party than an active search for a target deal by the investor. Also, the general decision-making process for real estate investment starts from sourcing and sorting, followed by review of a potential deal, primary investment committee meeting, due diligence, secondary investment committee meeting, and close of the deal. Each stage of the decision-making process is highly interconnected with simultaneous communication among responsible teams and the investment committee. The Korean real estate market, at least for the office sector, has such abundant market information available that it is rather perceived as "emerged." Investors also have extensive experience in the market and use their market knowledge and third party information as a reference point to verify the deal information. However, they also physically collect market data and use their own internal transaction record when necessary. Furthermore, data utilization in Korea is found to be easy and convenient especially when combined with extensive market experience and a wide professional network in the industry.

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1. Introduction

Perceived as relatively less mature and more risky than the U.S. real estate market, emerging markets, particularly the Asian real estate market, has been believed by many investors and researchers to have a relatively limited range of market data available for investors to perform proper systematic analysis for their investment activities. However, under the limited set of information and knowledge on the market, continuous successful real estate investment activities are performed even at this time. Thus, how investors in such a market analyze the market and make their investment decisions is of interest, but not yet adequately answered in concretely summarized structure.

This study, therefore, explores what makes the institutional real estate investor enter into the Asian emerging market, and how those investors in such markets make their real estate investment decisions, which types of data are available, prioritized, and utilized in their decision making process, and finally what type of data is still needed to make sound investment decisions. In order to sufficiently address the issues raised, this study aims to answer the following questions:

1. What is the main cause for investors to enter the Asian emerging market?
2. Through what process do institutional real estate investors make their investment decisions?
3. What are the detailed steps for each process when making a real estate investment decision?
4. What type of information/data do they acquire and analyze for each step?
5. How do they prioritize and evaluate such data (source, quality, reference check)?
6. What are the data necessary but not available to make sound decisions?

This study starts by identifying what an “emerging market” is, which countries it includes, and how much investment capital flow has been poured into emerging market countries. Due to a large number of countries being included in the emerging market, this study then narrows down the scope to the “Asian emerging market” and introduces overall investment capital flow trends, followed by the real estate investment capital flow in the Asian emerging market. For a further detailed understanding of investors’ behavior in the market, in this study, two countries, the United States of America and Korea are selected for the primary research study with qualitative in-depth interviews. The qualitative research study in the United States assesses how institutional investor views Asian emerging markets, and what drives them to expand their business into those countries. The research study in Korea then explores how institutional real estate investors who have already entered such markets to make their investments.

Through analyzing specific decision making processes for real estate investment in Korea, this study provides both researchers and potential investors an opportunity to understand on a broader scale how thought processes work during real estate investment deals and what type of information is valuable in the Asian emerging market when a potential opportunity is found.

2. Literature Review and Synthesis

2.1 Identification: “Emerging Market”

Originally mentioned by the 1980’s World Bank economist, Antoine van Agtmael, the term “emerging market” has been including various countries according to different institutions. As shown on the Figure 1, Wikipedia, a web-based encyclopedia, defines the term “commonly used to describe business and market activity in industrializing or emerging regions of the world” and recommends “neutral and well-informed” sources for this definition as The Economist and Morgan Stanley Emerging Markets Index (MSEMI). As of July 2006, The Economist and MSEMI included the following countries as “emerging markets”: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan (ROC), Thailand, Turkey, Hong Kong, Singapore and Saudi Arabia.

Figure 1: Morgan Stanley Emerging Market Index (MSEMI)



2.2 Overview: Investment Capital Flow to Emerging Market

Expansion, Globalization, Going abroad: As developed countries such as the United States of America, the United Kingdom, Germany, and France, have built their success in local markets, they have been looking in broader perspective to find if there are any other business opportunities elsewhere around the world. As emerging markets, which are sometimes referred to as developing countries, have reformed their economic, political, and legal structure to attract more foreign investment in order to boost their economic well-being, many developed nations have found opportunities and started to invest in those emerging markets for higher investment returns than from their own countries. According to a report from the International Monetary Fund, “FOREIGN DIRECT INVESTMENT IN EMERGING MARKET COUNTRIES: Report of the Working Group of the Capital Markets Consultative Group,” a surge of foreign direct investment (FDI) to emerging market countries (EMCs) occurred during the 1990s, after the emerging market experienced major events such as the end of communism in Russia, the opening of China to the world market, and the Latin American economic crisis. The report indicates that the capital inflow from the developed countries to emerging market was so large that **“FDI is by far the single largest component of net capital inflows to EMCs.** Estimates suggest that at end-2000, almost one-quarter of the global stock of FDI—estimated to be \$6.8 trillion in book value—was located in EMCs.” Another article in 2003 by one of the international business news publishers, Investoroffshore (<http://www.investoroffshore.com>), called EMCs “stars” among well performing countries in terms of the equity market. The article said, “The real star performer in terms of growth and returns was the emerging market sector, which outperformed even the previously untouchable returns of the burgeoning hedge fund sector... Emerging market equities soared by 52% in 2003 according to the MCSI emerging markets index, when a record \$12.5 billion was poured into the 961 funds tracked by the index. This growth was sustained into 2004, with emerging equities recording an additional 8.1% growth...”

Figure 2: Private Flows to Emerging Market Economies (1990-2002)

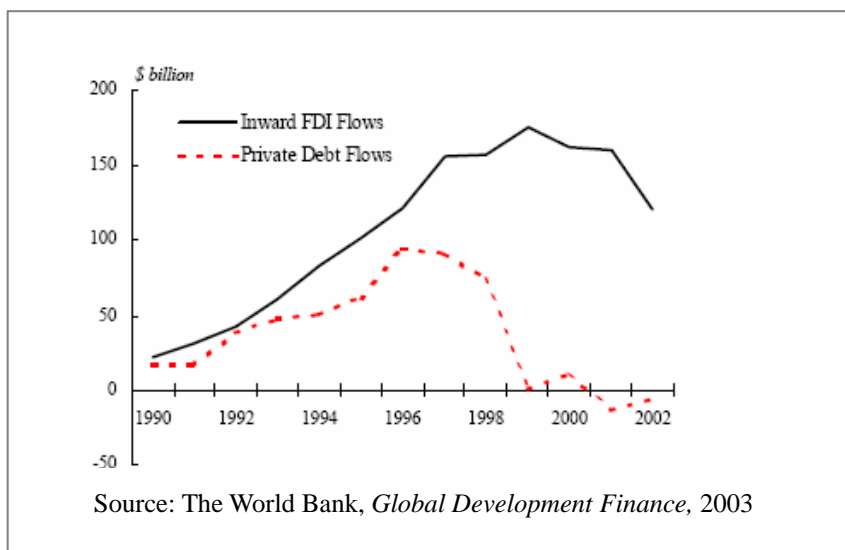


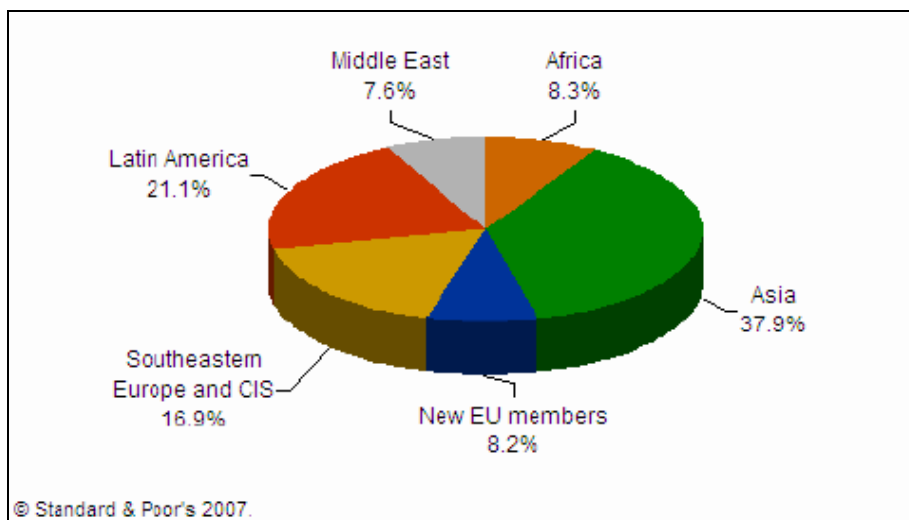
Figure 2, from the report by the International Monetary Fund, shows how private investment flow to EMC increased during the 1990s. As the report describes, the downturn of the FDI inflow was due to “the appetite of banks for engaging in cross-border lending declined, while other investors became more discerning toward investment in EMCs, more generally. On the other hand, authorities in a number of EMCs tried to limit their exposure to debt financing by reducing existing liabilities and shifting their capital-seeking policies toward more stable forms of capital, such as FDI.” Therefore, it may be concluded that FDI inflow to EMCs has not necessarily decreased due to the uncertainty risk factor, but due to preference of investors and EMCs’ policy shift.

When looking into more recent data to see the most updated trend in FDI inflow to EMCs, International Finance Corporation’s web-based “Fact Sheet: IFC and Emerging Markets at a Glance” cites the report from The Institute of International Finance Inc. “Capital Flows to Emerging Market Economies” by saying, “foreign direct investment in the emerging markets is projected to post its second strong consecutive year of growth by the end of 2005, reaching \$149 billion—the highest level since 1999. This level is projected to remain nearly unchanged during 2006, at \$146 billion.” This report indicates that the capital inflow to emerging market countries has returned to an increasing trend in recent years despite the mild decrease from 2000 to 2003. However, this information still leaves a question of whether this surge of investment capital to EMC is only related to EMCs as a whole or to the Asian market as well.

The article by Investoroffshore, described above, further discussed capital inflow to Asian market,

saying, “Asian markets performed particularly well. Thailand's stock market experienced 85% growth during 2003 (in sterling terms) with Indonesia posting similarly impressive gains, posting a return of 79.3%. Other significant performers included Taiwan's bourse which underwent growth of 31.3%.” As we can see from this article, not only is investment capital flowing into all EMCs, but also Asian EMCs are considered the leading region attracting foreign investment capital. Moreover, The Washington Post released an article, “Flow of Capital Soars To 'Emerging' Nations” citing the report from The Institute of International Finance Inc. and said, “the flow of private money to 29 emerging market nations reached \$279 billion last year. That is more than double the 2002 level, and close to the \$287 billion posted in 1997, the year that Thailand's currency collapsed, sparking a flight of capital from Asia. The record was in 1996, when \$322 billion flowed into emerging markets.” The article further discusses the Asian markets, expressing that they are “the biggest recipient of private investment, with \$146 billion in net capital flow. Next were the emerging markets of Europe, at \$97 billion, followed by Latin America at \$26 billion and Africa and the Middle East at \$9.2 billion.” The previously discussed report by the World Bank mentioned that the Asian countries “will lead the geographic regions,” and the breakdown of FDI into different regions in EMC is also depicted in “Recent and Expected FDI Trend in Emerging Market Economies” by Standard & Poor’s in Figure 3, indicating that Asian emerging economies are the greatest recipient of FDI inflow among emerging market economies.

Figure 3: FDI Inflows in Emerging Market Economies, By Region 2006



We do understand that there is much investment capital pouring from the developed countries to EMCs led by Asian EMCs. However, this discussion includes such broader industries, such as manufacturing, services, infrastructure, finance, real estate, etc. Therefore, we need to focus more on how real estate investment capital has been flowing into the emerging market countries.

2.3 Narrowing Down: RE Investment Capital Flow to Asian Emerging Market

The real estate industry was not an exception to the surge of foreign capital investment to the emerging market countries. As indicated in the report, “\$900bn Invested in Global Real Estate during 2006” by Jones Lang LaSalle, the real estate industry is also a target for global investment capital. This figure was a record increase and indicated a 40% improvement from the previous year. The news mentioned that “Globalization of the asset class continues relentlessly, with cross border transactions now representing 42% of total investment volumes (up from 34% in 2005), and inter-regional investment reaching 29% (up from 23% in 2005).” Although this may seem like much capital was invested in real estate in developed countries, the article further says, and quotes from a conversation with Pdraig Brown, Global Strategy and Research Director at Jones Lang LaSalle, “Emerging market growth was also strong.... Emerging markets had a strong year with over \$40bn of transactions recorded (up 74%)... Many of these markets have appeared on investors’ radars only recently and are exhibiting exhilarating rates of growth, with the Russian market expanding by over 700% during 2006 and strong deal flow in China, Turkey, Mexico and Brazil.”

In terms of the different regions, the article mentions the Asian market, saying, “Asia: \$94bn in 2006, up 41 %... Cross-border investment represented 32 % of total investment (up from 29 % in 2005) and inter-regional investment was 22 % of total investment (18 % in 2005).” Due to the current economic recovery of Japan, with a very low interest rate for borrowing, the Asian market is reported as dominated by Japanese market transactions, “where transaction volumes surged 128% to US\$52bn – 55% of total investment in the region.” However, capital flow is not only concentrated in Japan, but also in another Asian EMC: China. According to Bloomberg News, released on February 21, 2007, Citibank, one of the largest U.S. banks, “raised \$1.29 billion for its first fund to invest in real estate and related assets in the Asia-Pacific region, with a focus on China and India.” Moreover, a report by PricewaterhouseCoopers LLP, “Global real estate funds – trends and issues,” indicated that “It is truly exponential over the last several years. In addition, growth of public equity real estate markets has yet to emerge in countries such as India, China and South Korea. If the forecasted growth in Asia Pacific public equity markets reaches a comparable benchmark level as real estate investment trusts (REITs) in the US, then there is a reasonable probability that the Asia Pacific public real estate equity markets will surpass the US REIT in terms of market capitalizations over the next five years based on recent trends.” Now we understand that the real estate industry in emerging market countries including Asia is also facing the surge of investment capital inflow. Therefore, we need to zoom in more to look at real estate investments in South Korea, and explore the trend.

2.4 Pin Point: RE Investments in South Korean Market

Similar to other Asian developing countries, South Korea has experienced one of the fastest economic growths since the Korean War. Korean citizens, just like other citizens of developing nations, worked very hard to recreate their country as well as their families. After 40 years of drastic improvement in economy, Korea joined the Organization for Economic Co-operation and Development (OECD) in 1996, and the World Trade Organization (WTO) in 1995 when the country signed the agreement on Uruguay Round of Multinational Trade Negotiation (UR).

“Real estate market in South Korea: identification and responsibilities of professionals,” by Appraisals Journal describes South Korea’s recent history as follows: “The Korean War destroyed the country more completely than any other war in the history of Korea. However, since that time Korea has transformed itself into a completely new country and is becoming a world-class economy. Evidence of this can be found in the construction of large steel plants, shipbuilding yards, and automobile factories; the creation of a large number of universities; the building of a network of roads throughout the country; the establishment of prominent, cutting-edge electronic industrial complexes; the development of the service industry; the advancement of better housing; and most importantly, the presence of knowledgeable workers, managers, and professionals.”

Partly due to the drastic improvement in its economy in such a short period of time, the real estate industry in Korea was unsystematic and needed restructuring prior to mid 1990. Many real estate transactions were done through brokers without proper licenses, and under the table due to tax issues. Many real estate deals often had dual sales contracts, an actual contract and a contract with lower sales value for tax reporting purposes. Therefore, the market did not provide accurate data for real estate transaction, and real estate professionals were not considered creditworthy by the public, and therefore, many real estate transactions needed transparency in the system. However, when Korea became a member of WTO, and signed the UR agreement in 1995, conditions in such agreements forced Korea to restructure its industry standard, and such effort to make the market transparent started to attract foreign investment as well as service firms into Korea. The report issued by the International Monetary Fund described above stated that enormous capital inflow to emerging markets, particularly to the Asian market was due “largely to the adoption of macroeconomic and structural reforms by a number of countries and the associated strengthening of growth prospects... Reflecting both the push of investors seeking high-return opportunities and the pull from EMCs seeking needed investment and technology,

net FDI flows to EMCs grew at a remarkable average annual rate of 40 percent during 1990–94, and a slower, but still impressive, rate of 15 percent during 1995–99.”

Moreover, The Appraisals Journal report mentioned above described this event as follows:

“The service agreement, one of the Uruguay Round Agreements, produced the country-specific schedule that promised to open the service markets of individual countries, including the real estate market. Since then, the scale of real estate transactions by foreigners in Korea has dramatically increased. Prominent foreign real estate consulting firms have begun to transact business using advanced techniques. Among them are foreign franchise agencies, such as Century 21 and ERA, and large international consulting firms such as Prudential, Jones Lang LaSalle, and Lone Star. Multiple-listing services are fully in place, and the exclusive-agency listing system was introduced in an effort to improve the real estate agency system. These developments have helped to make the Korean market more open and transparent. Real estate administration continues to become more objective and information-based. Agency operations have opened to include wider areas. Sales and lease information keep moving toward more standardization, professionalism, and information sharing. In the past only foreign real estate companies whose foreign capital investment was less than 50% of the total investment could engage in building lease and real estate development projects, and no foreign firms were allowed in other industries in Korea. On April 1, 1998, the Korean government fully opened the business of building lease and real estate development, and on May 8, 1998, the business of land lease and development followed. Accordingly, areas such as real estate finance, real estate investment, and analytical methods are being researched in Korea. In September 1998, the Mortgage Backed Securities (MBS) system and the Assets Backed Securities (ABS) system were introduced, and interest increased in incentives that can stimulate real estate investment, such as the real estate investment tax reduction system (accelerated cost recovery system) that was implemented in the United States in the early 1980s.”

Another reason for the surge of foreign investment capital to Korean real estate market was due to the Asian Financial Crisis in 1997. Asian Financial Crisis, called the “IMF era” in Korea, pushed many South Korean firms to declare bankruptcy or join the “workout program” with the Korean government. The country was literally in “clearance sales” for distressed firms, and seriously in need of help from international monetary funds to recover its previous economic situation. When many foreign investment capital sources, such as opportunity funds and hedge funds, viewed those companies, some of them, or some of their real estate assets were undervalued based on the assumption of the companies’ potential to overcome their operational and financial situation. Therefore, the “IMF era” was the

“goldrush” season for foreign capital to invest in the Korean real estate market. From 1998 to 2001, many commercial real estate properties in the center of Seoul, previously owned by well known Korean companies, were acquired by foreign investment firms or funds, including Lone Star, New Bridge Capital, Merrill Lynch, Morgan Stanley, Goldman Sachs, and GE Capital. As the report by the International Monetary Fund mentioned, “Following the Asian crisis, the acquisition of distressed banking and corporate assets surged in several Asian economies, because of which the value of cross border M&A activity in Asia more than doubled in 1998 relative to 1996. This enhanced the importance of M&A activity as a form of FDI in EMCs during the 1990s.” Many of real estate acquisition transactions were through corporate M&A deals, and multinational financial advisory firms, such as PricewaterhouseCoopers LLP and Arthur Andersen Global Corporate Finance LLC, were in the middle of many corporate M&A deals in which many of them were acquired by foreign investment firms, and some of the deals were due to highly undervalued real estate assets the selling company owned.

Although the Korean real estate market is now slowing down in the surge of foreign investment capital, the market has become more transparent, and many international and local firms successfully have completed their investments, thanks to the more professional real estate transaction system. There are now more real estate investment players in the market, and the trend is becoming more favorable to local players with sufficient capital to acquire highly priced real estate properties. According to a Korean local news article, one of the largest local real estate investment companies, Mirae Asset, has signed a development contract with Glostar Inc., a local developer for US\$400 million value mixed-use office building project in downtown Seoul. Therefore, it is necessary not only to look for how multinational investment capital sources are doing in the Asian emerging market, but also how local players are performing well in order to find successful points of operation in such markets.

2.5 Conclusion: Needs for Investors’ Decision Making Process

As we have discussed previously, investment capital has been pouring into emerging market countries including those in Asia and of course to the real estate industry. Much capital entered those countries during the Asian Financial Crisis looking for higher opportunistic return with higher risk, and some experienced huge success in Asian emerging markets. However, from what incident they start reviewing a possibility to enter the Asian emerging market, through what process they make real estate investment decisions, and upon what data they utilize and make decision are still unanswered.

Therefore, in order to further investigate how investors end up entering into those markets, how they make their investment decisions, and what type of data they use to create sound decision making, 14 structured interviews have been conducted in the United States and Korea with firms who either look for opportunity in the Asian emerging market, or who already have an office in the Asian merging market.

This research aims to answer the following main question of this study:

1. What makes them enter the Asian emerging market?
2. What is their investment decision making process?
3. What data do they use in order to make sound investment decisions in the Asian emerging market?

3. Research Design

3.1 Research Methodology

In order to obtain in-depth understanding of the decision making process and data utilization behavior, qualitative research methodology, specifically In-depth interviews with structured interview guidelines, was applied for this study. The United States interviews were conducted by phone and Korean interviews through face-to-face methods. The structured interview guideline for this study was based on the main questions addressed in Chapter 1 and was finalized through numerous discussions with thesis advisor, Professor David Geltner and various professionals from Property Portfolio Research, MIT Center for Real Estate's partner firm and the sponsor of this study.

3.2 Interview Sources and Schedule

U.S. Interviews

A list of U.S. institutional real estate investors was provided by Property Portfolio Research. Out of 8 total potential interviewees, 5 interviews were completed. The schedule for the U.S. interviews was from June 20 2007 to June 26^t, 2007.

Korea Interviews

A pool of institutional real estate investors in Korea was collected through the author's personal and professional network. Among 12 potential interviewees contacted, 9 interviews were completed. The schedule for Korea interview was from June 11^t, 2007 to June 14^t, 2007.

3.3 Interview Questions

U.S. Interviews

Below are the topics of questions to which each of the 5 interviewees from the U.S.A. responded. For detailed specific interview questions, please refer to the Appendix Structured Interview Guideline.

1. Entrance to Asian Emerging Market
 - A. Overview of how they entered into Asian emerging market (broad story telling)
 - B. Reason why they chose a certain country as a start point in Asian market (detailed probing)
2. The role of research in the decision making process for the entrance
 - A. Specific process where third party data/research is needed
 - B. Source of information utilized during decision making process
 - C. Reason for using information source
 - D. Importance of the third party information source

Korea Interviews

For detailed specific interview questions, please refer to the Appendix Structured Interview Guideline. Below are the topics of questions to which each of the 9 interviewees from Korea responded:

1. Company introduction (Survey question with probing, provided on respondents profile)
 - A. Company overview: size of CRE equity portfolio, target return (IRR), investment horizon (LT vs. ST opp), typical ownership structure
 - B. Composition of CRE investments in terms of: global regions, property types
 - A. Current goal of CRE investments: income yield vs. capital appreciation
 - B. Current investment methods: direct acquisition, development, repositioning, etc.
 - C. Source of leverage: equity capital vs. debt capital
2. Overall decision making process for real estate investment
 - A. General overview of decision making process mechanism
 - B. Activities done during each decision making process (detailed probing)
 - C. Importance and concentration of work among the decision making process
3. The role of research in the decision making process
 - A. Specific process where third party data/ research is needed
 - B. Source of information utilized during decision making process
 - C. Reason for using information source
 - D. Importance of the third party information source
4. Expected future trend of real estate market in Korea

- A. Real estate investment
- B. Third party information/research services

3.4 Analysis of Responses to Questions

For the U.S. interviews, the main focus was to explore how investors first entered into the Asian emerging market. Each interviewee was asked to describe a storyline on how they entered a particular Asian emerging market as a starting point. Specific reasoning and decision processes were then probed with further questions. For the interviews in Korea, the main focus was to explore the investment decision making process and data utilization for each process. Each interviewee was asked to briefly describe the whole process without interruption, and then the moderator probed for detailed steps and procedures for activities and data utilization behavior.

3.5 General Information on Research Respondents

U.S. Interviews

Below are descriptions of respondents for the U.S. Interview.

Figure 4: Respondent Profiles for U.S. Interviews

Investor #	Industry sector	Asian country invested	Investment type
1	Real Estate Development	China (Beijing)	Development / Acquisition
2	Real Estate Investment	Australia, Japan, Singapore	Real Estate Capital Market
3	Real Estate Fund (Investment Bank)	China, India, Korea, Japan,	Acquisition
4	Private Equity Fund	China (Shanghai)	Development
5	Pension Fund	Multiple Countries	Co-mingle Fund

Korea Interviews

Below are descriptions of respondents for the Korean Interview.

Figure 5: Respondent Profiles for Korea Interviews

Investor #	Industry sector	Years in Korea	Current Investment Method
1	Multinational Asset Management	3	Industrial Development
2	Korean Asset Management	10 +	Acquisition
3	Multinational Private Equity	5+	Acquisition
4	Multinational Investment Bank	5+	Acquisition
5	Multinational Insurance	4+	Development
6	Multinational Real Estate Investment	10+	Acquisition
7	Multinational Bank	5+	Loan
8	Multinational Investment Bank	10+	Acquisition
9	Multinational Real Estate Investment	3+	Development/Acquisition

4 Research Finding – U.S. Interviews

4.1 Entrance into Asian Emerging Market

All 5 interviewees were from large renowned institutional real estate investors, not only on the U.S domestic but also on the international scale. However, experience in the Asian emerging market varied among all respondents. Three respondents were relatively new in the Asian emerging market compared to two others, one of which has been in various Asian emerging markets since decades ago. Out of five respondents, two had experience in Chinese investment deals, one in Australia, one in various Asian countries, and one in various countries through an indirect co-mingled fund.

Regardless of how long the company has been in the market, the first incident for entering into Asian emerging market was unanimous: a potential deal introduction to the company. None of the 5 respondents mentioned that they reviewed a pool of target countries and looked for the most promising project in a range of countries. It was rather a deal introduction from an outer source that initiated the action to enter the market. Although some mentioned that they were continuously reviewing the Asian emerging market situation, it was more of “happening” of incoming deals which also suited the company’s global investment goal to expand outwards.

For a simple example, one respondent mentioned that one of their investors introduced a potential investment opportunity in China. When the potential opportunity was reviewed and analyzed, the result was sufficient to take the risk to enter. Other respondents mentioned similar incidents for their initial experience of entering into the Asian emerging market. A similar yet slightly different approach was also possible. One respondent from a renowned global investment bank mentioned that the real estate investment business in the Asian emerging market started when a potential deal was introduced by the industry network to their investment banking division of that country or nearby country. Since their investment banking offices are all around the world and the reputation of the company is superior in the industry, many different types of deals including real estate are easily introduced through the local investment banking division. Therefore, the country to enter is not chosen through a review of numerous target countries, but through the promising deal located and introduced to the investor.

4.2 The Role of Research in the Decision Making Process for the Entrance

Although it may sound very simple that the company reviewed and entered the market, the reviewing process was painstaking and rigorous. Most of the decision making was done in the U.S. office with close communication with internal teams, third party information providers both in U.S. and the target country, and the deal source. Multiple international trips were done for data collection, analysis and negotiation.

Depending on the country for investment, information related to the market and the deal was quite difficult to acquire and sometimes showed great discrepancies among different sources. Since many respondents described their initial experiences in the Asian emerging market as more than five years ago, market information that they could rely on was very limited due to the lower level of sophistication of market information at that time. Especially when the deal was in China, the research condition was more limited. Two respondents who had their initial experience in China mentioned that they not only reviewed the information and presentation material that the deal source provided, but also reviewed reputable intelligence data such as Bloomberg and Jones Lang LaSalle. However, real estate deal specific information was still difficult to acquire for Chinese deals, and thus they sent in-house team to do the research on their own. One respondent from a large global real estate development company mentioned that their in-house team went to China and physically counted every building around the site, and researched all information regarding rents, vacancies, and other market-related information in person.

In the case of Chinese real estate deals, observation through various meetings with multinational investment/development firms in China during the 2007 MIT Center for Real Estate China Trip showed that many investors in the earlier stage went out and physically collected the information by themselves if necessary. It was perceived more as a survivor technique to stay successful in real estate “wonderland.”

As mentioned earlier, many respondents relied on reputable intelligence to review the target country’s deal. Depending on the depth of information, some intelligence only provided macro-level information and others provided somewhat micro-level such as growth in a specific industry. However, deal-specific information was only possible through personal research methods at the site. Therefore, many respondents seemed to perform macro-level analysis through the reputable source data, and micro-level analysis could only be done with their own capability.

As a result, it is perceived that the success of such investment analysis and decision would heavily rely on the company’s capability to access various intelligence sources, but also to utilize superior quality human resources with a sufficient budget to spend.

5 Research Finding – the Korea Interviews

5.1 General Market Overview

According to most of respondents, the Korean institutional real estate market was highly concentrated in office sector. Most of the respondents were primarily investing in the office market except for one respondent who is specialized in industrial warehousing investment and development.

Since there is rarely any rental market in the residential sector, it is less likely that an institutional investor acquires residential property and expects stable cash flow for income generation from the residential property. Therefore, most investment for the residential sector, if there is any, would be for a development project where an investor becomes an equity partner with a developer and shares the profit from each residential unit’s pre-sales which bears sales risk to the development project.

In terms of the retail sector, an interesting structure of the Korean retail market where a number of large conglomerate companies, called “Chaebol groups,” dominates the retail distribution license creates

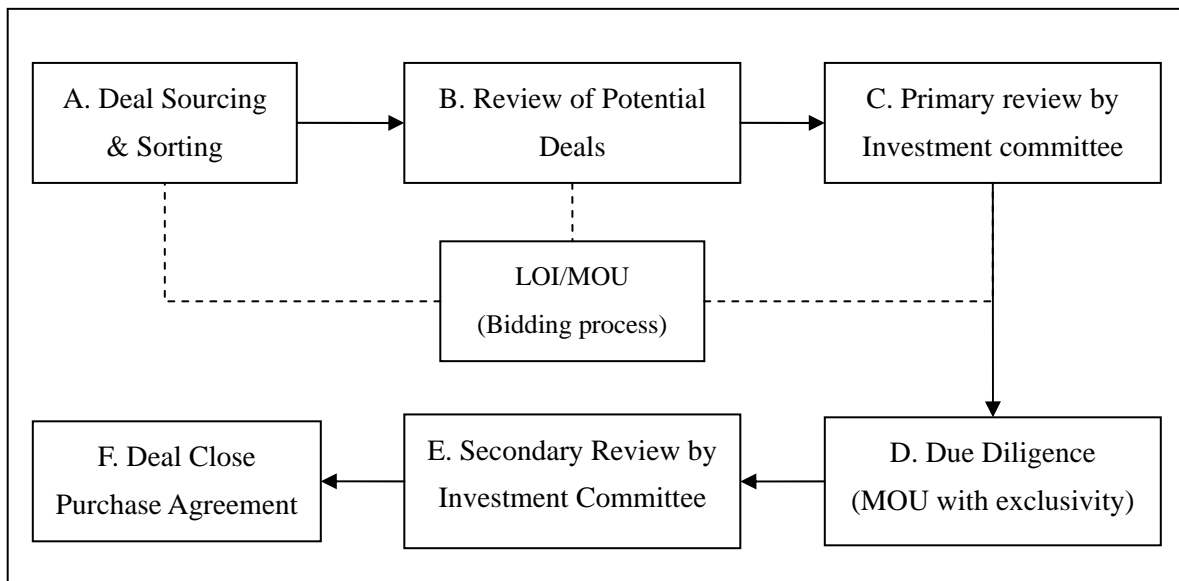
difficulty for investment. The Chaebol groups develop their own retail centers or department stores and allocate their own anchor stores such as Giorgio Armani, Gucci, and Louis Vuitton with great pulling power to attract other retail stores. In case of a retail project that is independently developed by a local developer, the project is then sold to individual retail shop owners through strata-sales. Therefore, an investor would have difficulty acquiring a retail project from each owner of an independently developed project.

Due to the interesting characteristics of Korean real estate market, most of respondents are engaging in the office sector. Although the investment decision making process is assumed to be very similar regardless of the property types, the main findings of this research are highly related to office sector investment procedures.

5.2 Overall Decision Making Activities for Real Estate Investment

The overall decision making process for real estate investment in Korea was very similar among the interviewees, regardless of their being domestic or multinational. Similar to most investment decision making processes of U.S. companies, mentioned by many interviewees, the process chart for investment decisions in Korea is described in Figure 6:

Figure 6: Real Estate Investment Decision Making Process – General Format



A. Deal Sourcing & Sorting

Most interviewees mentioned that deals are sourced through various routes, ranging from a formal bidding request from a seller to an informal investment proposal from an industry network and mutual acquaintances. Although the person who is in charge of deal sourcing sometimes reaches out to obtain potential deal information, most respondents said that the market is small enough for everyone to know and get access to most office investment deals.

“Korean office real estate market is quite small, and this market is not like consumer goods market where you see hundreds and thousands of products coming on line at the same time. So, the bottom line is that you know most of the office deals and who is doing what with a couple of phone calls (Investor 2).”

With a number of sourced deals on hand, the investment team sorts potential investment targets that require further review in the next step. The sorting process is done mostly through a brief review of investment proposals provided from the deal sources. Most of the review at this stage is a brief overview of the investment proposal, whether the deal makes realistic sense in terms of location, expectation in the market (i.e., demand and supply, rent growth, etc.), pricing per unit area, and reason for investment which are provided in the investment proposal by the deal source.

“We have been in this market with various experiences in office sector. So, it is a half experience base evaluation, and a half judgment call to decide whether we should drop or further review the deal. Of course, we do have decent idea about market price on popular locations because of our experience in the market, so we can tell whether a particular proposal sounds realistic or not (Investor 3).”

“When we receive an investment/development proposal, we do a very brief evaluation by doing a ‘quick valuation,’ which is based on Excel format. Since the proposal provides specific location and size of the project, and we do know rough but quite accurate market price information due our numerous deal exposures, it is not too difficult to see if the proposal sounds realistic (Investor 9).”

As described by most respondents, with some representative quotations, the sorting stage requires sufficient experience in the market to gauge the level of reality for the potential project.

B. Review of Potential Deal

After briefly sorting out unrealistic investment opportunities, the investment team reviews the potential deal proposal with more attentiveness to detail. The main activity at this stage is a higher level detailed review of the investment proposal and preparation of the initial investment memo to the internal investment committee. Some respondents mentioned that formal bidding in the form of Letter of Intent is sent out with investment team's sole discretion at this stage, and in such cases, the level of detailed review is relatively higher than for others who do not submit the bid at this stage.

While preparing the investment memo to the internal investment committee, the investment team reviews the investment proposal by the following items, which in turn are included in the investment memo to the committee:

- Project description:
Location, size of the land, deal structure, physical description of the proposed property type
- Figures and numbers:
Price, financing structure, Market demand and supply, cap rate, projection on vacancy, rent, and operating expense, and cash flow analysis, due diligence budget, etc.
- Surrounding issues:
Legal, Entitlement, Environmental, surrounding market condition, etc.

The above items are the “top of mind” items that most respondents mentioned by saying, “most usual and essential things that any of office investment/development deals in the world would be evaluated under (Investor 1).” “The obvious items when you look at investment proposal... the bottom line items that you must check before you communicate with investment committee (Investor 2).”

In some cases where the deal is located in an unfamiliar area, proposed as a product that the investment team has less experience on, or relatively larger size, the internal asset management teams and compliance teams are asked for advice.

Although the initial review of the potential deal sounds brief and simple, this stage seems to be the most important process which requires superior analysis skill, sufficient access to accurate market

information, and sound judgment call through various market experiences. Although many respondents mentioned that more detailed and rigorous investigation is done during the due diligence period, initial communication with the investment committee starts as the team prepares the first investment memo to the committee. Therefore, it would require sufficient understanding of the deal in order to initiate detailed evaluation of the potential investment target.

C. Primary Review by Investment Committee

After reviewing the potential proposal and verifying the information, the investment team prepares the investment memo for the primary investment committee. Since many investment deals are moving with time constraints, and some investors submit formal bids upon the approval from this meeting, simultaneous and close communication with the internal investment committee members is crucial at this stage.

Although the investment team prepares the investment memo, the head of the team continuously informs and communicates with each investment committee member to learn if any items require further evaluation or cannot be approved by the committee. For most respondents, the investment committee is formed regularly on a weekly or biweekly basis. When the investment committee is formed, the committee checks whether any changes were made from the previous communication process.

As most information about the potential deal was already communicated, this committee meeting is more of an informal presentation on the deal description and summarized evaluation on whether the company should spend money on the due diligence. Unless there are significant changes to the investment memo after the last communication that the committee and the investment team had, it is generally approved for due diligence stage.

One investor mentioned an interesting point about most cases brought to the investment committee getting approved: It is not only because well evaluated deals are brought to the committee, but also because poorly evaluated deals or any deals with a possibility of losing money and therefore wasting the committee's time and money would hurt the reputation of the person who brought the deal on the table.

D. Due Diligence

Upon approval by the primary investment committee, due diligence for the potential investment deal is executed. Most companies, at this stage, sign the Memorandum of Understanding (MOU) with the seller company and depending on the deal condition and both seller and buyer companies' agreements, the document can be legally binding.

This MOU in Korean real estate deal can vary widely from a non-binding document with a simple exclusivity right to purchase as a preferred bidder without specified price and penalties to a legally binding contract with specific conditions of purchase and price. In the latter case, the investor already has done rigorous review on the deal in the previous stage, and has negotiated specific terms in the contract with the seller. For such a case, this agreement is almost considered as purchase agreement contract only with a condition that due diligence process would add more conditions to the actual purchase agreement. Therefore, this MOU sometimes includes severe penalty amendments in case of breach of the agreement.

Since the buyer company now has exclusivity rights to purchase as a preferred bidder and has approved budget for due diligence, review of the potential deal becomes highly detailed and rigorous. Most respondents mentioned three due diligence categories: Legal, Physical (Engineering, Environment, Surrounding, etc.), and Financial. According to the responses from various interviewees, reviewing items for Korean real estate due diligence process did not seem to differ too much from those in the U.S. deals.

“It is quite straight forward, but detailed... Legal D.D. evaluates deal structure, entitlement responsibility and process, lien on the property, and any other legally effective issue about the deal... Physical D.D. which includes everything such as Engineering, Environmental, Survey of surrounding area, etc. will evaluate the property in and out (Investor 2).” Engineering Due Diligence evaluates whether there would be any significant defect on the property which would require substantial capital expenditure is required upon the purchase. In terms of Environmental Due Diligence, some companies have strict corporate guideline on specific hazardous material on the property. Therefore, there could be more rigorous environmental due diligence depending on the buyer company's internal policy on investment action. A survey among tenants would be miscellaneous review, but considered to be still important to understand whether there would be hidden issues about the property being evaluated.

Most companies seem to outsource legal and physical due diligence to specialized companies. The company's involvement on each type of due diligence varies depending on the size of the buyer company, the buyer company's policy on a certain area of due diligence, and its capability to source the manpower internally. If possible, all outsourced due diligence process is to be done by both the outsourced company and the buyer company with close communication with each other.

Market analysis and financial due diligence is done primarily by the internal underwriting team. This process is done through rigorous review on financial structure, market assumption and growth (macro-economic, supply and demand, etc.), cap rates, NOI audit, etc. in order to assess the financial condition of the project and to evaluate the deal based on the projected cash flow analysis performed by the underwriting team. Although many respondents mentioned that their team has enough access to various information, ranging from internal transaction data to third party provided information, they also communicate closely with internal asset management to verify the cash flow assumptions and other related data. After verifying the data with various sources, the analysis/underwriting team performs cash flow analysis with a projection normally up to 5~7 years depending on the expected investment horizon for each property deal they face. They also perform "what if" scenario tests to assess any potential market risk they may face in the future, not only as a part of the analysis, but also as a preparation for the investment committee meeting. How each investor performs cash flow projection and sensitivity analysis along with calculation of exit cap rate was not disclosed by the interviewees. However, the only information from many respondents who understand how U.S. investment firms perform such analysis is that their process is not too different. More information on how investors utilize other data such as macro economic, local supply and demand, and forecasts by third parties is discussed in Section 5.3.

Although each due diligence process may sound like a separate operation, each person who is responsible for each part of due diligence communicates with each other to make sure the deal is sound for investment. These results are also simultaneously communicated with key department heads to discuss whether there is any area for negotiation with the seller company throughout the due diligence process.

E & F. Secondary Review by the Investment Committee & Deal Close

When the internal decision is becoming concrete, negotiation of the purchase and sales contract starts

between the buyer and seller companies. During this process, investment committee members are continuously informed on how the deals are moving along and whether the due diligence process has revealed any significant issue about the deal. As the specific items of the Purchase and Sales Agreement are moving towards the consensus point, the Secondary and Final Investment Committee is formed. Most respondents replied that the process of the final investment committee meeting is the same as the first one, making sure that there is no significant condition change in the deal, and that, if there is change, sufficient risk mitigation plan is fully explained. Through the final meeting, most analysis results that investment/acquisition/underwriting team has performed are presented in a summarized format for the final and brief review and Q&A session. Moreover, Investor 5 mentioned that the investment team must make sure that they have sufficient mitigation plans for any potential risk that may arise during the actual investment, and they should be prepared for any possible question that the committee might ask.

“This is not a one or two hundred dollar deal... You are dealing with multi-million dollar projects. If you screw up, your job will be on the line. So they know you do enough review of the deal (Investor 9).”

Upon the final investment committee’s approval, the Sales and Purchase Agreement is signed by each party involved, and when the title of the property is transferred, the asset is handed to the asset management team.

5.3 The Role of Research in the Decision Making Process

Researched information seems to be used in every step of the investment decision making process, with the difference being the level of detail. Some processes require extensive research and market information, while others require simple verification of the market data. As briefly mentioned, during the overall decision making process, the extensive research data utilization seems to start at initial reviewing stage of the potential investment deal and peaks at the due diligence level.

Types of research data used to evaluate and support the investment decision seem to vary depending on the investor’s experience in the market, sufficient in-house manpower to create and manage the data base, width and depth of professional network, and the company’s attitude towards paid research data. The more experience the investor has in the market, the greater investment transaction and management

record it would accumulate.

“Since we have been active in the market for quite a long time, we could just refer to our own asset management team for more specific and accurate information on a certain type of property. We also have so many past sales transactions of our own; we could verify the outside data with our own comps (Investor 2).”

However, great experience would not be sufficient if there were less manpower to manage the track record. Although there was one investor with such great experience in the Korean real estate market, there was not enough manpower in-house to create organized and systematic database. In such a case, the investor’s width of network still holds the information accessibility.

“Korea seems to be a country where intellectual property is less protected than in a developed country (Anonymous investor, not from formal interviews, but from an informal discussion during Korea trip).”

Even though the company has a large enough budget to spend on the paid information, some respondents mention that people simply refer to close acquaintances for the information via “friendly e-mail.” A wide industry network is also useful when the investor needs information that cannot be found among general market information.

“This market is too small and everyone knows each other. If you can connect two or three people you know in Korean market. You can get a pretty decent idea about what you need to know about a specific location and type of property by calling some people within the industry (Investor 2).”

The company’s attitude towards paid research data is interesting. Although there were some companies which still need more budget allocated to creating a detailed and systematic database, other companies just didn’t feel the need for paid research information and let the investment team evaluate based on their own ability to acquire necessary information. According to informal discussions with confidential sources in Korea, much research information was acquired from publicly available data on the Internet, and if the research information is definitely required for such a deal, it is purchased as a

special case during the due diligence process, but in most cases is sourced through professional networks. The confidential source mentioned that it is more local investment companies than multinationals. On the other hand, one of renowned domestic real estate investors mentioned that they do subscribe to information from third party information providers and have a systematic information database established according to different sources. Therefore, it cannot be concluded that local firms tend to buy information less often, but it can be assumed that there still are some real estate investors who acquire necessary market information through professional networks.

With regards to information service providers that investors use, frequently mentioned firms were SAMS, CB Richard Ellis, BHP Korea, Korea Asset Advisors, Jones Lang LaSalle, R2 Korea, Shin Young Asset, and Cushman & Wakefield. Among the listed information providers, the first five companies were quite frequently mentioned by most respondents. Although investors' preferences on each information provider were different, SAMS was the most frequently mentioned source, possibly because SAMS is an open source to the public. Many other firms, such as BHP Korea and KAA, release periodic market information to public, and they seem to be widely used by investors for market information updates.

When respondents were asked how many sources they review, many of them replied as more than three sources. The primary reason for reviewing various sources was different sampling methods and various widths and depths of market information. "One source only scratches one part of my itchy back, but the other scratches other parts, so I need to see various sources (Investor 2)." According to some respondents, JLL only provides information based on the representative sample of 25 prime office buildings (equivalent to AAA quality office building in U.S.) in Seoul Central, Kangnam, and Yoido Business District (CBD, KBD, YBD, respectively), whereas R2 Korea provides information based on total office stock including a full range from prime to small 5- to 10-story office buildings. Therefore, there would be different needs for different data sources.

When respondents were asked about accuracy and reliability of the data from information providers, SAMS was perceived to have a vast amount of property data and considered to be reliable partly due to its affiliation with Samsung Group, which is generally perceived as a company with great intelligence. Although R2 Korea collects data for the total office stock in Seoul, and thus has a vast amount of data, some respondents mentioned that SAMS is perceived to be more accurate on information because it provides data based on numerous properties that Samsung Life Insurance Company has acquired for its

own investment purposes. As SAMS is one example where the data provider has an affiliation with a company that acquires or manages different properties, some other respondents mentioned that information provider in such a situation is more reliable than a pure market research firm. The observations from the interviews show that investors in Korea tend to see the Korean real estate market still in a somewhat cloudy situation and research professionals lack experience in property management to provide true and realistic figures of the market. The investors seem to think that the information provider with its affiliation of property management firm has better access to verify market data with its managed property and therefore has a better competitive edge to provide more accurate and realistic data than information collected simply through surveys.

The attitude towards broker firms by Korean real estate investors was unanimously similar. Since most respondents have had sufficient experience with brokerage based information providers to trust the information, most mentioned that an investor must take careful consideration that the information has been provided within at least a slight intention to close the deal.

“We do get information from various routes: research companies, internal asset management team, and also brokerage firms. For the brokerage firm’s information, you have to see them with careful eyes sometimes. There might be a chance that some information especially those in a particular deal proposal could sound pretty rosy. After all, they are brokers and they do want to see the deal closed. But for general market information, you just have to filter if the information is slightly upward trend than other information source (Investor 2).”

Therefore, many respondents tend to utilize brokerage firms’ research information as reference material to compare with other data for any significant discrepancies. Since most respondents mentioned that periodic market reports on the general market situation are quite similar among various information providers, they do rely on brokerage firms’ data, but in a more limited scope than other sources.

With regards to specific data used during an investment decision making process, market level information such as market rents, demand and supply, cap rate, value of the property in certain locations, and historical data are checked with various sources including third party released market reports, internal transaction databases, and publicly available market information. However, deal specific information such as rent, rent growth, NOI, operating expense, etc. would be referenced by deal source

and third party information but still specifically and closely checked with the internal asset management team to double check with what investment, acquisition, or underwriting team has analyzed.

Moreover, many respondents mentioned that they continuously update and refer to macro-economic data through various reputable international and domestic economy research institutes, such as Morgan Stanley, Goldman Sachs, SERI (Samsung Economic Research Institute), LGERI (LG Economic Research Institute), reports released by domestic securities companies, and even economy overview report by Bank of Korea, regardless of investment activities. Since most of respondents' companies have been in Korea for a long time, macro-economic data is reviewed mostly for the purpose of updating their knowledge base on the economic situation of the country. Therefore, this information does not play a crucial part in investment decisions unless a substantial economic downturn is expected in the near future or the deal is the first one in the country.

Attitude towards forecasting by third party service providers is similar to that towards macro-economic data. Most respondents mentioned that any available forecasting service could be a reference material and maybe interesting. Since all investment decisions must be made through sound assumptions made and agreed on by internal decision making authorities, investors cannot rely on third party generated forecast data if they do not understand what type of database they used and how the forecasting calculation is done. When respondents were asked about real estate market forecasting with market index data, most responses were skeptical mainly due to the reason mentioned above.

Consolidating the data utilization behavior on different information sources, third party information including research companies, brokerage firms, and personal network are used as primary data to either update overall market information on a routine basis. They are also used as an initial point to reference when reviewing a potential investment deal which either leads to a more detailed and customized information request to information provider or to a hands-on primary research of the investment team for the particular investment deal. This process differs mainly depending on the company's size of manpower and its ability to flexibly utilize human resources. However, this type of hands-on research, where some companies send out their underwriting team to even smaller "mom and pop" brokerage shops to collect information on a specific deal, seems to be executed mainly during the due diligence process for most respondents, and sometimes for a smaller deal .

“Overall market information is plenty and quite easy to get access to. If you are investing in prime or sub-prime office buildings, information for those markets is quite detailed, systematic and maybe enough to say that it is as transparent as other developed countries (Investor 3).”

“People in developed countries tend to believe that Korea is still an emerging market still requiring transparency in market information. I don’t know about other sectors of the real estate market, but for the office market, especially related to class A’s, there is plenty of information you can get access to execute investment deal even if you are a first timer here (Investor 9).”

Although observations from the interviews show that sufficient experience in the Korean real estate market, extensive industry network for information resource, and keen insight on overall market situation are required to be successful in the Korean real estate investment market, most respondents believed that information in the Korean office market so abundant for newcomers to play easily that the market has reached an “emerged market” level at least in terms of availability of market information.

5.4 Expected Future Trends of Real Estate Market in Korea

Many respondents believed that competition in real estate investment in Korea is going to be even more severe. During numerous interviews, it was perceived that the office market in Korea is becoming quite competitive. Although investors used to see many deals that gave them a 20%+ return on their investment during the Asian Financial Crisis, such deals in Korea are now considered sweet old dreams. Although most investors refused to disclose their own investment return, they mentioned that the industry players would now expect low teens for a levered asset acquisition deal. Of course some investors were still investing in Korea with opportunistic schemes, but the number of actual deal closings for such schemes was perceived to be somewhat lower than that for core or core plus assets deal schemes.

Since most investors viewed the Korean office real estate market with more severe competition, ideas of future investment trends were related to change in investment behavior rather than expansion of the market. Some of the expectations from respondents were as follows:

- Expansion of investment scope to overseas:
“Many Korea based investment funds are already investing overseas for higher return and more opportunities. I don’t think it would be next trend, but it is already happening due to various

reasons, partly because there aren't enough assets to acquire these days (Investor 1).”

- Investment trend shifting to development deals:

“It is very difficult for an investment firm to engage in the development sector. Currently deals are done as a ‘forward contract’ where the buyer company agrees to purchase the property upon the completion of construction by the developer. We put a part of our equity/purchase money into an escrow account until the building is completed (Investor 9).”

- Establishment of real estate derivatives market:

It was only mentioned by two respondents, and comments were divided into one being very skeptical due to the respondent's not trusting the data source for real estate index, the other being optimistic in the long run, hoping that the market would establish a stable data source and credible service provider.

Expectations and needs for information providers were quite difficult for respondents to think of during the interview process. The main reason was perceived to be the current situation of abundant market information and easy access to necessary information at least for the office market in Korea. However, those who mentioned the improvement needs believed that information or service providers need “localization” and “assistance on global expansion of investment”.

With regards to “localization”, some respondents viewed the international information providers as “bossy” companies, not service-oriented companies. When sometimes customization of information analysis is required for a certain deal, international players tended to provide only what they have been providing and not to extend their creativity to analyze in different ways how better to serve their clients. However, due to higher competition in the office market, the attitudes are changing, and the respondents hoped the change would be sufficient for them to work in an easier and better environment with the information providers.

For assistance on global expansion of investment, one respondent who is now actively investing in overseas deals felt that multinational service providers lack communication and network ability with their overseas offices. Therefore, there is a strong need for a multinational service provider to have close network system among different offices so that Korea-based investment companies could utilize not only the market information but also systematic networks with overseas offices to successfully execute investment deals overseas.

6. Conclusion

As described in the introduction, this research study was initiated from the situation where many investors in developed countries believed the Asian emerging market to be highly risky due to numerous uncertainties including limited market information to make sound investment decisions. However, still successful investment deals were completed by many investors who are already in such markets, and therefore, how those players in the Asian emerging market first entered the market and through what process and data utilization they make sound investment decision were in need of explanation. As such, the focus of this research was to explore real estate investment decision making process in the Asian emerging market through qualitative interviews in Korea and the data utilization behavior of investors during those processes.

According to the interviews conducted in the U.S., where the respondents explained their initial experience of entering into the Asian emerging market, it is interesting to find all of respondents' first experience for such a market is through introduction of a possible investment deal from outer deal sources. Although one can assume that investors prepare their entrance into such a market by reviewing a pool of countries, then moving down to a pool of potential deals, it was rather an investment opportunity introduced by another party.

Evaluation for initial entrance to the Asian emerging market was done through reviewing market information from deal source, internationally credible research institutions, and personal research at the site. Depending on the type of local partner, and ability for the firm to utilize its human resource, different actions were taken to evaluate the potential deal. However, many mentioned that market research on their own was critical at the time of investment. Therefore, the investment decision process for initial deals in the Asian emerging market was perceived as complicated, energy consuming, and cautious.

However, when a company sets up a local office for further investment and accumulates market insight, the decision-making process becomes more systematic. As described through various interviews in Korea, which was selected as a representative example of an Asian emerging market, real estate investment decision making process is summarized in Figure 7 below.

Figure 7: Matrix of Real Estate Investment Decision Process

Process	Decisional Question(s)	Communication	Data Utilization
A. Deal Sourcing & Sorting	Is the deal realistic?	Within the team (Investment/acquisition team)	Market experience/rough estimates from third party information
B. Review of Potential Deals	Does this deal have potential to go further (LOI or Due Diligence)?	Communication with Investment committee members start (Global or regional office communication starts)	Proposal review, verification with market comps from internal data base & third party information
C. Primary review by Investment committee	Is this deal worth spending money on Due Diligence?	Actual investment committee meeting for verifying deal potential	Most assumptions and analysis made by investment team is trusted due to local expertise. For Multinational firm, regional office may have its own market data for local economy.
D. Due Diligence (MOU with exclusivity)	Does this deal have any substantial risk for investment? What would be the adequate deal structure and price for this deal? Any changes needed in Purchase Agreement Contract?	Close communication among internal teams (i.e., compliance, asset management, underwriting, acquisition, etc.) along with investment committee	Peak of the data utilization: Survey, outsourced research on the deal, third party information, market experience, etc.
E. Secondary Review by Investment Committee	Does this deal have enough potential for our investment? Any final needs for negotiation for Purchase agreement contract?	Actual investment committee meeting for verifying any substantial changes from the primary review session	Most assumption and analysis made by investment team is trusted due to local expertise
F. Deal Close Purchase Agreement	N/A	N/A	N/A

Many respondents mentioned that their investment decision process is straightforward and similar to any kind of real estate investment decision in the world. Since the focus of this research was not a comparison of investment decision processes between the U.S. and the Asian emerging market, this research cannot conclude that there were specific differences or similarities among the processes in those markets. As such, there is a need of a further study, which compares similarities and differences in investment decision-making process between developed countries and Asian emerging markets.

An interesting finding about activities during the decision making processes is that each process is not an independent step, but there is continuous and simultaneous communication among responsible teams throughout the process. Teams involved throughout the processes include acquisition/ investment, underwriting, compliances, asset management teams and investment committee members. For multinational investment companies, simultaneous communication is continuously done with Asian regional and global headquarter offices via e-mail and telephone.

During the communication and review by the investment committee, most information and analysis submitted by the local investment/acquisition team are viewed as reliable by the investment committee members, mainly due to the local expertise of the team and their track record of investment activities in the market.

With regards to data utilization behavior, many respondents believed that the Korean office market has sufficient market information especially regarding class A type office information, and thus the Korean office market is more an “emerged” rather than “emerging” market. Many mentioned that third party information is very useful, and easily accessible for free, subscription, or through professional networks. Although many responded that they do have compiled market databases depending on the size and capability of the firm, and they trust more their own data, comparables, and their experience in the market, they find third party information useful for updating the market knowledge as well as referencing and verifying their insights on the market situation.

Based on the findings from numerous interviews, the Korean real estate market is considered emerged due to current market competition and availability of data. However, this finding seems to apply only to the office market and there is still room for the retail and residential sector, assuming that those

sectors would develop to more favorable condition for potential investment opportunity.

Moreover, it can be concluded that some countries in the Asian emerging market, like Korea, are more stable than investors in developed countries think, and are not as risky as they may seem. Of course, a further study is required to see if any other countries in the Asian emerging market has situation similar to Korea's.

Due to this study's exploratory nature, there are some areas that require further study in the future. This study was not designed to compare the specific decision making process between developed countries and the Asian emerging market, and therefore it is unable to see specific similarities and differences in the investment decision process between the developed countries and emerging markets. Therefore, a further comparative study of such processes would be helpful for investors in both markets. Moreover, this study only reviews the process and data utilization behavior in Korea as an example of an Asian emerging market, and is unable to see whether there are discrepancies among other Asian emerging countries. Therefore, a comparative study within the Asian emerging market would be informative for investors and researchers.

Despite the need for further study, the Asian emerging market is continuously receiving huge investment capital inflow and many local and international investors are succeeding with deals with sound returns through systematic investment decision processes and careful data utilization. Although data utilization behaviors can be slightly different depending on the capability of each investor, an important similarity among their behavior is that they go out and physically acquire the data if necessary. Most importantly, keen market insights through numerous market experiences, ability to access necessary information, and active attitude to successfully complete the investment deal seem to be the key points to survive at least in the Asian real estate investment market.

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Appendix – Interview Guidelines

Note: Due to time constraints for each interview, some questions were skipped to focus on exploring main research objective.

In-Depth Interview Guideline – The U.S.A.

June 2007

I. Warm-Up and Introduction----- 10 Min

1. Interviewer introduction with the purpose of the interview
2. Discuss CONSENT TO PARTICIPATE IN INTERVIEW (MIT required Document)
3. Ask the respondent to introduce himself/herself
 - 3-1. Occupation introduction
(years of experience in the industry/at the company, job/role description)
 - 3-2. Company introduction
 - 3-2.1. Company history (size of CRE equity portfolio, target return (IRR), investment horizon (LT vs. ST opp), typical ownership structure etc.)
 - 3-2.2. Composition of CRE investments, in terms of
 - o Global regions, Property types, Size of individual investments
 - 3-2.3. What is your reason for entering this market (emerging market)?
 - o Higher yield vs. Higher appreciation
 - 3-2.4. What is your investment goal? – Why invest in CRE?
 - o CRE as a diversifier in a mixed-asset portfolio. If so, % of CRE
 - o Pure play CRE equity shop
 - o Stable income to match asset-liability
 - 3-2.5. What is the ideal investment vehicle or method?
 - o Direct acquisition
 - o Development
 - o Repositioning
 - o Public securities
 - o Open-end funds
 - 1-3.1.1. How much leverage do you use? Do they vary by global regions?

- Capital flows on equity side: domestic vs. cross-border
- Sources and availability of debt capital
- 1-3.1.2. Acquisition strategy and exit strategy? Domestic vs. international.
- 1-3.1.3. What is your risk tolerance?
 - Would you be able to express in quantitative terms?
 - How do you compare sector/property risk vs. overall portfolio risk?
- 1-3.1.4. **(Only for international firms)** How long have you been thinking about investing in emerging markets?

II. Entrance into Asian Emerging Market----- 15 min

- [Story telling]
 Could you explain to me how you first entered into Asian the emerging market from beginning to the point you actually invested?
→ Have them explain the whole process without interruption.
- [Probing for specific steps – Choice of country]
 Could you elaborate on how you first chose that country to enter?
→ Probe for any incident or decision criteria for choosing such country for first investment
 Why was that country so important among all countries in the Asian emerging market?
- Probe for uniqueness in the reason vs. logical/general reason
- [Probing for specific steps – Choice of product type]
 How about the choice of investment property type?
 Could you elaborate on the deal that you decided to invest in?
 What made you think that such a deal would have potential for investment?
 Could you explain to me the process of how you made investment decisions on that particular deal?
- [Probing for specific steps – Communication and remote investment decision]
 How did you manage controlling the deal process and communication with local people?
 What was the difficult point of remotely investing from the U.S.?

III. Data Utilization Behavior----- 15 min

- [Overall data utilization during decision making process]

During the investment decision making process we just discussed, do you use any data or information to support your decision?

Could you explain to me what specific data or information you use following the decision-making process you mentioned and how they play their role in such a process?

- Vacancy?
- Demand and supply?
- Rents?
- Operating expense and NOI?
- Cap rate and value?
- Macro-economic picture: GDP growth? Infrastructure improvement? Political stability?
- Who is who → players and relationship
- Local business practice
- Is that data or information critical or supplementary to your decision-making?
- How much of an impact does that data have towards your decision-making? Why?

- [Necessary but not available data] Is there enough information in foreign markets regarding the elements we discussed so far?
Is there any type of data, you believe necessary, but not available in the market? What is it? How do you get access to it?
- [Data source/ access] When you use and analyze those data you mentioned, where do you get those data or information?

Are those data or information available by paid subscription?

Could you explain how you access your data?

If you need data available in the market, but not in your company, how does it work?

→ Mainly focus on different type of data source and access and how the data is deliver to them, and who the major data suppliers are

👉 Moderator: Politely thank the respondents and ask for business card for future interview update.

In-Depth Interview Guideline - KOREA

June 2007

I. Warm-Up and Introduction----- 10 Min

1. **(목적설명)** Interviewer introduction with the purpose of the interview
2. Hand in the **CONSENT TO PARTICIPATE IN INTERVIEW (MIT required Document)**
3. Ask the respondent to introduce himself/herself then probe for **the following items**
 - 4-1. **(자기소개)** Occupation introduction (분야 및 현 회사 경력, 하시는 일)
(years of experience in the industry/at the company, job/role description)
 - 4-2. Company introduction – **회사소개**
 - Company history – **연혁**
 - Size of CRE equity portfolio – **CRE 구성**
 - Target return(**IRR**),
 - Investment **horizon** (LT vs. ST opp),
 - Typical ownership **structure**
 - Composition of CRE investments, in terms of
 - Global regions
 - Property types
 - Size of individual investments
 - 4-3. **(한국진출 이유/목적)** What is your reason for entering this market (emerging market)?
 - Higher yield vs. Higher appreciation
 - Sounds cool. Everyone else is doing it. We cannot be left behind?
 - 4-4. **(CRE 투자목적)** What is your investment **goal**? – **Why invest in CRE**
 - CRE as a diversifier in a mixed-asset portfolio. If so, % of CRE
 - Pure play CRE equity shop
 - Stable income to match asset-liability

- 4-5. **(주 투자형태)** What is the ideal investment vehicle or method?
- Direct acquisition
 - Development
 - Repositioning
 - Public securities
 - Open-end funds
- 4-6. How much **leverage** do you use? Do they vary by global regions?
- Capital flows on equity side: domestic vs. cross-border
 - Sources and availability of debt capital
- 4-7. **Acquisition strategy and exit strategy? Domestic vs. international.**
- 4-8. **What is your risk tolerance?**
- **Would you be able to express it in quantitative terms?**
 - **How do you compare sector/property risk vs. overall portfolio risk?**
- 4-9. **(Only for international firms) How long have you been thinking about investing in emerging markets?**

II. Entrance to Asian Emerging Market----- 15 min

- [Overall story of entering into the Asian emerging market]

Could you explain your company's story on how you entered Asian Emerging market?

→ Have them explain the whole process without interruption.

- [Items of Evaluation upon their entrance to the market]

What did you evaluate when looking at the opportunities in the market?

What were the risk factors when entering the market? And how did you plan to mitigate that risk?

→ Probe for the following items

- Unstable economy (high growth with high volatility)
- Political uncertainty
- Currency risk
- Capital flow (in & out of the country)
- Development risk (quality, process, timeline)
-

- [Source of data when evaluating]

Who provided the information during your evaluation stage?

What did you learn from those data providers?

→ Focus on the evaluation process and what and how they used to evaluate their opportunity in the Asian emerging market

III. Investment Decision Making Process----- 15 min

- [투자결정 **process** – Overall decision making process]

What process do you follow when considering real estate investment?

Could you explain the general procedure?

→ *Have them explain the whole process without interruption.*

- *Probe whether different process occurs in different situation (product, region, etc)*

→ *If respondents mentions different process for macro and micro scale, probe for both.*

- [Overall **important factors** during investment decision making process]

What are **important factors** when making the decision?

And what do you do to **evaluate** the factor?

→ *If the respondents mention data analysis, remind him/her that this will be discussed soon*

Why are they important for making the decision?

- *Probe for uniqueness in the reason vs. logical/general reason (Country, region, product)*

- [Specific processes and important factors]

중요요소들이 큰 그림으로 중요요소가 있는지 아니면 각 **process** 들 별로 다른지?

Are the important factors you just mentioned differ according to each decision making process?

If different, why and what are they?

- [The **role of research** in the decision-making process]

What role does research play during the decision making process?

- **Macro view** and strategy: Where are we in the cycle? How much to invest?

- **Market selection**: Paris vs. Seoul, high-barrier markets vs secondary markets

- **Micro tactics** and property investing

- Quantitative research vs gut feel and business intuition research

III. Data Utilization Behavior----- 20 min

- **[투자결정시 정보이용 현황 Overall data utilization during decision making process]**
투자결정 Process 중 사용하는 정보/데이터는 무엇이고, 어떤 형식으로 사용되는지?
During the investment decision making process we just discussed, do you use any data or information to support your decision?

Could you explain to me what specific data or information you use following the decision making process you mentioned and how they play their role in such process?

- Vacancy?
- Demand and supply?
- Rents?
- Operating expense and NOI?
- Cap rate and value?
- Macro economic picture: GDP growth? Infrastructure improvement? Political stability?
- Who is who → players and relationship
- Local business practice

→ *List the data being used/analyzed for each decision making and probe for the following:*

→ *probe for role of the data*

Why do you use such data or information at that stage?

Is that data or information critical or supplementary to your decision making?

How much of impact does that data have towards your decision making? Why?

- **[RANKING & REASON – Usefulness of data being used]**
Among the data or information you mentioned, can you rank them in the order of importance? Why?
→ *probe for reason of importance & whether they align with important factors for dec. making*

Could you tell me any available data that you believe very useful for your investment decision? Why are those data so helpful that it came to your mind?

- **[Necessary but not available data]**
Is there enough information in foreign markets regarding the elements we discussed?
Is there any type of data, you believe necessary, but not available in the market?
What are those? **How do you get an access** to it?
Could you explain to me **why** that information could be useful to your investment decision?
→ *Focus on satisfaction level of currently available data and look for the potential needs*

- **[Data source/ access]**
→ *Mainly focus on different type of data source and access and how the data is deliver to them, and who the major data suppliers are*

When you use and analyze those data you mentioned, where do you get those data or information?

Could you explain how you access your data source?

Are those data or information available in **paid subscription**?

If you need data available in the market, but not in your company, how does it work?

If means of access to data source are different according to different data set, how different are they? (Sole vs. various sources)

IV. Expected Future Trend----- 15 min

- **[Forecasting 에 대한 질문 – Future Investment Trend]**

Investment is all about buy tomorrow's cashflow and value appreciation, do you do any forecasting?

- In-house vs third party: would you ever use third party and willing to pay? Why?
- Implicit vs explicit
- Forecasting methodology
- Forecasting horizon
- Ways to capture uncertainty

향후 한국에 대한 부동산 투자형태의 변화가 예상 되는지?

Do you expect any change in investment style in real estate market? Why do you think so?

어떤 것이 있으며 어떤 식으로 준비 해 나가는지?

What should institutional investor do to be best prepared for such change in investment behavior?

- **[향후 투자결정 시 Process의 변화 – Future Expected change in investment decision making process]** How about decision making process? Do you think that the process will evolve? How? And Why?

- **[Future Data or Information Service Trend]** Do you see any improvement necessary for data sources or information services in near future?

Is that improvement already being applied in the market? or necessary but not yet implemented?

- **[Potential investors into the market]** Do you believe that **this market still bares high risk for new investors to come into play**? Or would it be less risky than general expectation? Why do you think so?

- **[For those in U.S. – not limited to the below question, and will need to form separate guideline]** Do you have a concrete next step and enough cash to invest in emerging markets? Where and why?

If there is no cash immediately available, how long is the approval and capital-raising period?

How does the legal structure come into play? Taxation a factor? Other economic structural factors?

What about currency risk?

To summarize, what is the single most important risk factor in each of the foreign destinations?

☞ Moderator: Politely thank the respondents and ask for business card for future interview update