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KOREAN GOVERNMENTAL POLICY FOR COVID-19 CRISIS

Insight & Recommendations

Government policies to overcome economic uncertainty caused by COVID-19 have put strong focus on stabilizing the financial markets. Occupiers should develop strategies to monitor new policies and overcome the current crisis.

- > Tenants of government-owned offices should check for eligibility for rental relief.
- > Tenants are advised in all situations to seek more favorable rental terms while demand is suppressed.
- > We recommend landlords to develop a strategy for rent cuts, considering that more tenants are facing liquidity challenges.
- > Investors need to recognize, be patient, and adjust for potential financing difficulties, and delays in closing ongoing deals.

Investment program to support corporates (KRW58.3 trillion)

The Korean government is giving support of KRW29.2 trillion for SMEs and KRW29.1 trillion for large enterprises. Recently, the Korean government increased the size of ultra-low 1.5% interest rate loans to KRW12 trillion to support small business owners.

Bond market stabilization support (total KRW30.8 trillion)

The Korean government created a KRW20 trillion bond market stabilization fund with investment from 84 financial companies, including Korea Development Bank. By buying corporate bonds or other debt instruments on behalf of the market, the bond market stabilization fund provides liquidity to companies that suffer temporary financial difficulties due to debt market stagnation.

According to the financial market stabilization plan announced by the government on March 24, the Korean government is to invest KRW100 trillion (USD 81 billion) to supply liquidity to companies and financial markets struggling with the spread of COVID-19. Within the KRW100 trillion total, the Bank of Korea plans to supply KRW40 to 50 trillion (USD32 to 40 billion). A combined total of KRW41.8 trillion (USD 33.9 billion) is planned to be invested for the bond market stabilization fund, securities market stabilization fund, and short-term fund market stabilization. The Korean Financial Investment Association says KRW6.6 trillion (USD 5.3 billion) of corporate debt will mature before end of April out of a total of KRW50.8 trillion (USD 47 billion) of domestic corporate bonds that will mature within a year. The Bank of Korea is taking steps to overcome a liquidity crisis among Korean companies by repurchasing conditional bonds (RPs) through securities companies.

We expect that funding for real estate loans and execution of investments will be postponed until the COVID-19 crisis stabilizes, as the government is focused on securing liquidity and stabilizing the financial market.

Note: 1 USD = 1,232 KRW as of 23 April 2020.

Measures to support small businesses via rent reduction

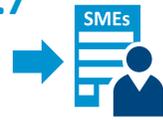
If landlords reduce rent, the government plans to allow 50% of that reduction to be tax-deductible by landlords for income tax and corporate tax purposes. The government also plans to significantly lower rents for small business tenants in government-owned properties.

Securities market stabilization fund (KRW10.7 trillion)

The Korean government raised a securities market stabilization fund of KRW10.7 trillion to support and expand the stock market demand base. The securities market stabilization fund invests in index products that represent the entire stock market, not individual stocks.

GOVERNMENTAL STIMULUS POLICY

KRW11.7 trillion
(USD9.12 billion)



Governmental extra budget

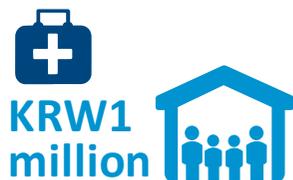
In order to cope with the challenges from COVID-19, the government created a KRW11.7 trillion (USD9.12 billion) budget to support several key areas: advancing an infectious disease prevention system, stabilizing livelihoods and employment, supporting SMEs and commerce, and supporting the Daegu Gyeongbuk area, which had a concentration of Covid-19 patients.



Interest rate
↓ **0.75%**

The Bank of Korea liquidity support

The central bank cut the key interest rate by 50 basis points to a record low of 0.75 percent and introduced the RP repurchase system for securities credit and securities companies. RP describes a bond that is sold with a buy-back condition that lasts a certain period of time. The Bank of Korea is, for the first time ever, supplying liquidity after purchasing bonds held by financial institutions using the repurchase (RP) method. Target institutions for open-market RP sales included 13 domestic banks, four foreign banks, and 16 securities companies, as the BOK's intention is to work with securities companies at the bank level to guarantee loans or payments. In addition, the Bank of Korea also announced plans to support non-bank financial companies directly, as anxiety on the corporate bond crisis has not yet been resolved. An unlimited liquidity supply program was never used even during 1997 Asian Financial Crisis and the 2008 Global Financial Crisis.



KRW1 million

Emergency Disaster Aid Fund

The government has established an emergency disaster aid fund that pays KRW1 million to households in the bottom 70% of household income, a total of about 14 million households. We expect the government to spend KRW9.1 trillion in total, including KRW7 trillion from the central government and KRW2.1 trillion from local governments.



For investors:
to manage
speed in
finding and
closing deals

Insight

The government's stimulus policy focuses on stabilizing the financial market. Investment from insurance companies and securities firms, which are major investors in commercial real estate, is limited due to instability in the financial markets. As major banks prioritize SME loans and corporate liquidity support, we expect loan underwriting for commercial real estate to encounter delays. For multiple investment deals, we have observed repeated delays to the closing date. Therefore, we view it is necessary for investors to manage speed in finding and closing deals, as they need to consider both funding availability and market conditions.

GOVERNMENTAL SUPPORT FOR RENT RELIEF

Tax reduction for landlords who cut rent

In H1 2020, the government plans to provide a 50% tax deduction to landlords who decrease rent, regardless of the amount of income or size of the reduction. This applies to income tax and corporate tax.

According to Paxnet News, Sinsong Group lowered rent by about 50% for the next three months for small business tenants who leased space in the basement of Yeouido buildings owned by its affiliates Shinsong Food and Shinsong Industries. As a result, a total of 16 SMEs in three buildings, including Sinsong Center Building in Yeouido, benefitted from rental reductions.

One-third rent reduction for SME tenants in government-owned property

Usually, rental revenue in government owned properties is about 3% of the total property value. In response to the COVID-19 pandemic, and with the risk of an economic downturn, the government plans to lower rents in state-owned properties to a level which is about 1% of the total value property value. The cut period extends from May to the end of 2020. The main target is small business owners who have submitted confirmation issued by the Minister of SMEs and Startups.

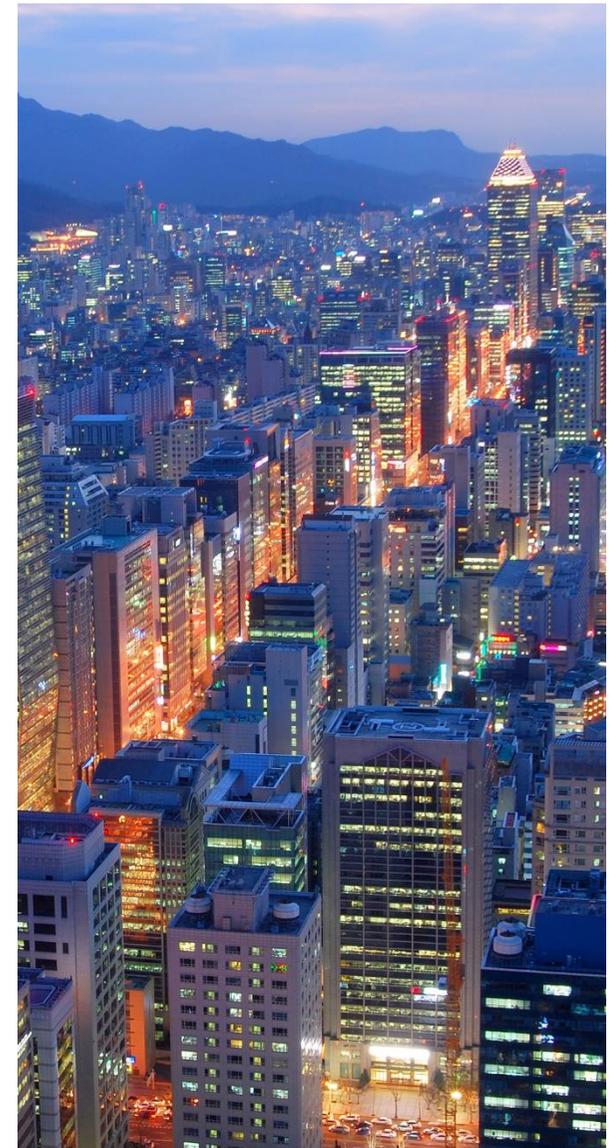
Benefits for tenants in buildings owned by public institutions

Rent in facilities owned by 103 public institutions, such as KORAIL, Incheon International Airport Corporation, and Korea Land and Housing Corporation (LH), are planned to be reduced by at least 20%, to at most 35%, for six months following negotiation with tenants.

According to Chosun Biz, Korea Asset Management Corporation (KAMCO) is planning to cut rent by 25% until end of August for companies and for small business tenants under a *sale and leaseback* support program.

Insight

Korea's rental-related policy support system is still limited to small business owners who rent space in government-owned buildings. However, most commercial building owners are real estate funds. Tenants in government-owned buildings need to check the availability of government-supported tenant discounts. In the case of small business owners who own their buildings and the main occupiers are in a shopping arcade, owners have an opportunity to improve the perception of their property by reducing rents. This should boost occupancy and help improve operating income for the building.



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