

South Korea's new-economy real estate opportunity

A confluence of global mega-themes is shaping the new-economy real estate opportunity in South Korea. An overhaul of international supply chains, kickstarted by COVID-19 and exacerbated by a rise in geopolitical tensions, is impacting logistics assets.

A growing focus on health and wellbeing, coupled with a determined effort to boost South Korea's life sciences industry, is driving demand for specialist facilities.

Meanwhile, the pressure to decarbonise buildings to meet net-zero commitments is mounting. Irrespective, in recent years, the digitalisation of global economies has had the most pronounced impact on South Korean new-economy real estate.

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Data centres

Digitalisation is one of the biggest demand drivers in this decade. The need for data infrastructure is surging, and while AI has dominated the headlines, broader digital transformation is the real game changer.

To capture this trend, Actis is investing in data centres, particularly in Asia. This region is ripe for investment by prioritising sovereign cloud solutions and investing heavily in infrastructure to support digital economies.

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South Korea is also home to several global digital leaders, including Samsung, SK and LG Corp, as well as tech-enabled financial services giants. Against this backdrop, demand for data centres is being driven by accelerated migration to the cloud. Indeed, the top three cloud service providers are all expanding their data centre presence in South Korea to cater to growing demand.

The advent of AI and the deployment of 5G networks are also exacerbating the need for hyperscale expansion.

Meanwhile, the South Korean government's Digital New Deal, part of a broader economic stimulus plan, includes initiatives to incentivise hyperscale data centre construction. In fact, the South Korean data centre market is expected to reach a value of US\$7.23 billion by 2029, up from US\$4.45 billion in 2023, growing at a CAGR of 8.4 percent.

Despite these strong foundations, South Korea has lagged regional peers, including Japan and Taiwan, when it comes to delivering hyperscale data centre capacity. The country is currently only the sixth-largest data centre market in Asia Pacific, although development pipelines suggest it may overtake Singapore in the next few years, following the enactment of Singapore's moratorium on data centre development in 2019.

Power constraints

There are several factors that have contributed to South Korea's data centre supply/demand mismatch, most notably power constraints. South Korea imports 97 percent of its power. A lack of land power interconnections also poses challenges for the grid. These power constraints are particularly acute in the densely populated metropolitan area of Seoul. As a result, the South Korean government is promoting the decentralisation of data centres, including plans for large data centre campuses outside of the capital.

The other headwind that South Korea's data centre market has faced involves inflated development costs, which have led to overrun issues, creating barriers to entry for latecomers. Indeed, this is a market where there has undoubtedly been a clear early-mover advantage.

Actis became involved in the South Korean data centre space back in 2020, developing assets before power

constraints intensified and before increased competition ramped up costs. Actis currently has four data centre projects totalling approximately 130 megawatts of IT capacity in South Korea.

Our data centre activity in South Korea led to Actis establishing Epoch Digital, a regional data centre platform with exposure to South Korea, as well as Taiwan and Malaysia. The platform has a current portfolio of approximately 200 megawatts of IT capacity and is designed to develop, own and operate data centres for hyperscalers across the region.

A significant part of the appeal for these customers is the data centre's power usage effectiveness, which aligns with their net-zero ambitions, providing the added benefit of associated cost efficiencies. Epoch Digital also focuses on using ecologically friendly construction materials. These measures ensure we meet all permitting requirements. Crucially, they also mean our data centres are in high demand.

Offices, life sciences and logistics

In addition to the data centre growth story, we are also seeing increased interest in the life sciences, logistics and prime office sectors in South Korea. South Korea's life sciences sector has been expanding rapidly during the past few years, after being designated a core industry in the wake of the pandemic. A highly educated workforce, significant healthcare spend per capita and an ageing domestic population are all making life sciences increasingly attractive.

Life sciences now represents one of South Korea's highest growth export segments. The goal is ultimately to capture 6 percent of the global pharmaceutical market and to reach US\$50 billion in pharmaceutical exports by 2030.

There is shortage of space, however, to facilitate the growth of life sciences, in terms of both labs and manufacturing premises. Clusters are expected to continue to develop around universities, supported by funding initiatives and favourable tax policies. We see this as an attractive opportunity in the years ahead.

We also see an opportunity to invest in logistics assets that have been negatively impacted by oversupply following the surge in ecommerce demand during the pandemic, compounded by a weakening export market, rising interest rates and inflation. There has been a surge in the number of logistics assets facing financial difficulties, opening up the possibility of securing well-located, high-quality warehouses at attractive valuations.

The work-from-home phenomenon has not gathered momentum to the same extent it has elsewhere in the world, which when coupled with strictly controlled new supply in key business districts, has led to strong rental growth and low vacancy rates in Seoul, in particular. These districts further benefit from a strong tenant base due to the concentration of major South Korean and multinational companies located in these areas. The current supply/demand imbalance is expected to persist during the next few years, creating an attractive opportunity to invest in the development of high-spec, sustainable prime office real estate.

A stable alternative

In short, we see an abundance of opportunity to invest across South Korea's new-economy real estate spectrum, given the underlying mega-themes that are affecting the space. Meanwhile, South Korea is increasingly being seen as a more stable and transparent alternative, further boosting its appeal.

CONTRIBUTORS



Brian Chinappi
Partner and Head
of Real Estate
Actis



Scott Choi
Partner, Head of
Korea, Real Estate
Actis

COMPANY CONTACT

Sarah Douglas
Director of Communications and Marketing
sdouglas@act.is
www.act.is



COMPANY OVERVIEW

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Actis believes the firm's decades of global experience, operational know-how and strong culture allow it to create global sustainability leaders at scale and deliver competitive returns for investors. Actis is one of the longest-standing energy investors globally and a signatory to the Principles for Responsible Investment (PRI), an investor initiative supported by the United Nations.

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