Real Estate Investment Structures*

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1. Overview-"History & Trend of Foreign Investment"

▌ History & Trend

- 1997: Fully open to foreign investment
- 2001: Mainly commercial buildings in downtown & Yoido area
- 2004: Expanded to other areas such as Gangnam area; other type of real estate such as retail, industrial, housing, warehouse/logistics facilities, golf courses, etc.
- From 2005 - : Development projects
  - · Seoul Area for Multi-Purpose Building (Residential + Retail)
  - · FEZ (Inchon: Songdo, Chongra & Youngjong; Busan)

2. Investment Structures

▌ ABS

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** KIM & CHANG, Lawyer

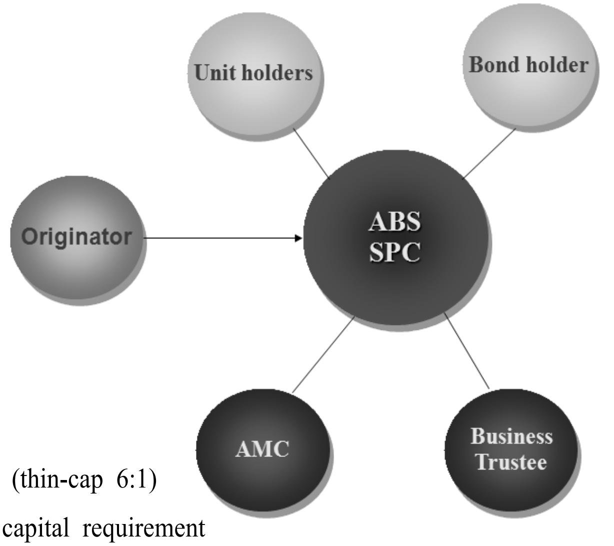
■ REITs
- K-REIT
- CR-REIT
- Paper REIT & Paper REIT for Development

■ Real Estate Fund
- Trust Type
- Corporate Type

■ Direct Investment

■ Project Finance Investment Company

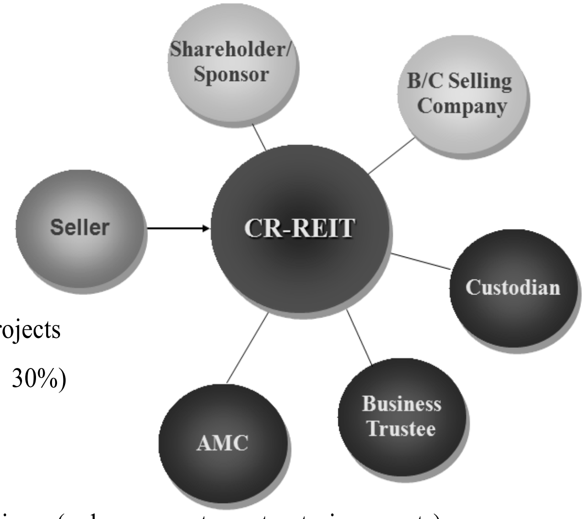
3. ABS



■ Merits
- Tax benefits
- Debt-financing (thin-cap 6:1)
- Small paid-in capital requirement

■ Demerits
- Strict "Originator" qualifications
- Limited business scope (development projects prohibited)

4. CR-REIT



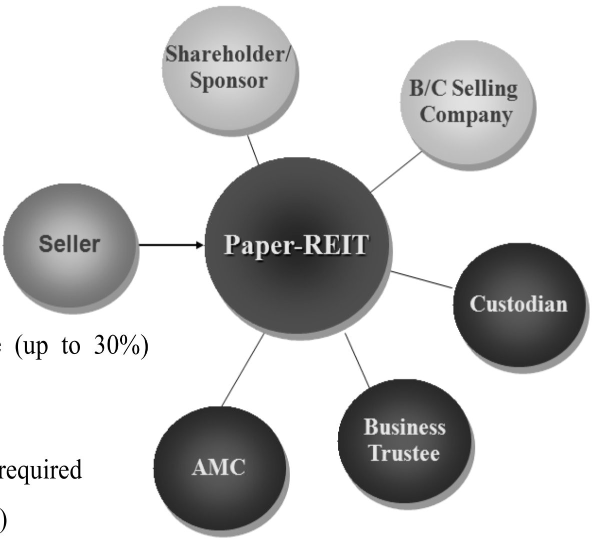
▮ Merits

- Tax benefits
- Investments in development projects possible (up to 30%)

▮ Demerits

- Asset qualifications (only corporate restructuring assets)
- Limited duration (usually 5 years)

5. Paper-REIT



▮ Merits

- Tax benefits
- Investments in development projects possible (up to 30%)

▮ Demerits

- Public offering required (NPC Exception)
- Limit of shareholding ratio (NPC Exception)

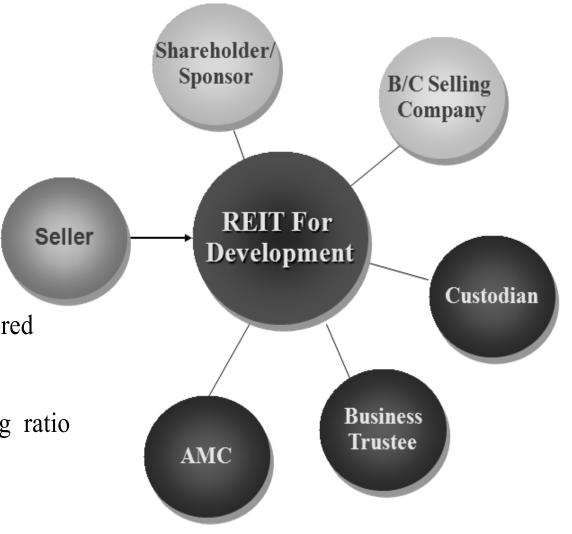
6. REIT for Development

▌ Merits

- Tax benefits
- Up to 100% for Development project

▌ Demerits

- Public offering required (NPC Exception)
- Limit of shareholding ratio (NPC exception)



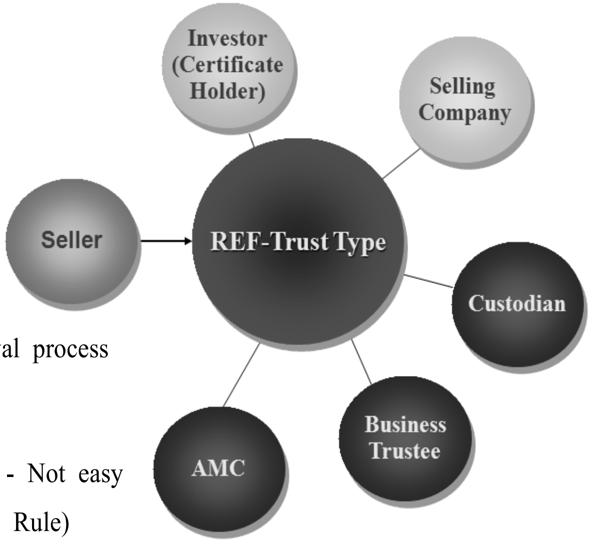
7. Real Estate Fund–Trust Type

▌ Merits

- Tax benefits
- Investments in development projects possible (up to 30%)
- Simplified approval process

▌ Demerits

- Investor's control - Not easy
- OEM Fund (80% Rule)



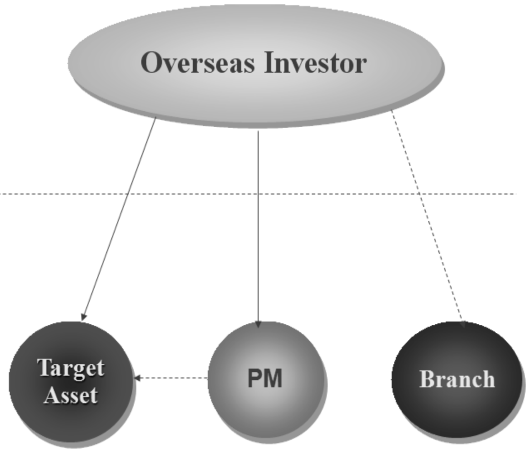
8. Direct Investment

▌ Merits

- Avoid triple registration taxation

▌ Demerits

- No tax benefits (as other structures)
- Potential liability to parent
- Remittance restriction



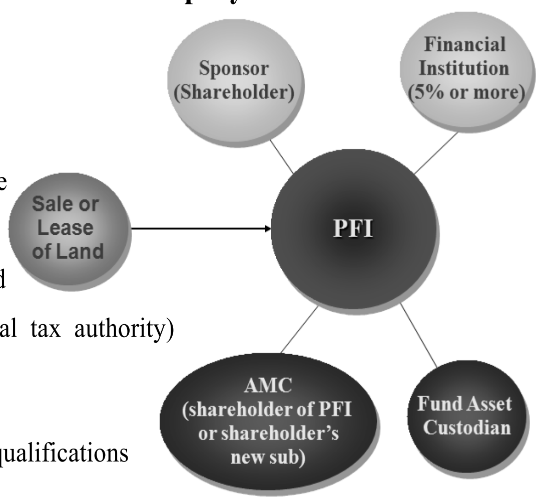
9. Project Finance Investment Company

▌ Merits

- Tax benefits
- Development Purpose
- Investor Control
- No approval required (only filing with local tax authority)

▌ Demerits

- Uncertainty in PFI qualifications
- Limited duration



10. Substantial Tax Benefits

	No Vehicle Scenario	***Investment Vehicle Structuring Scenario***
Real Estate <u>Acquisition</u> Stage	• Registration Tax (2.4% or 7.2†%) • Acquisition Tax (2.2% or 6.6†%; if no development of property, then 2.2%)	• 50% reduction in Registration Tax‡ • 50% reduction in Acquisition Tax
Real Estate <u>Operations</u> Stage	• Income from operations at entity level taxed at 27.5% • Dividend income at investor level taxed at 27.5% (but may be reduced by tax treaty	• Income deduction available to entity level if 90% or more of distributable income is distributed (no tax for REF-Trust Type) • Same as left
Real Estate (or Shares) <u>Disposition</u> Stage	• Capital gains from sale of real estate at entity level taxed at 27.5% • Capital gains from the sale of shares at investor level taxed at 27.5% (but may be exempt by tax treaty)	• Income deduction available to entity level if 90% or more of distributable income is distributed (no tax for REF-Trust Type) • Same as left

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Key Words : Asset-Backed Securitization Act, ABS Act, Real Estate Investment Company Act, REITs Act, Indirect Investment Asset Management Business Act, IIAMBA,

† Acquisition in Seoul Metropolitan Area.

‡ No heavy registration tax of 7.2%.