



- The Korean Property Rental System -

Search, rent and furnish an office and commercial space in Korea

by

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Before the first concrete steps to establish a branch in Korea are made, consideration should be given to the selection of a suitable location, and especially to the Korean rental system.

The Korean rental system differs in several ways from rental systems that are common in Europe. Specifically, a higher demand for liquidity in the financial plan needs to be considered. Furthermore, a current lease agreement is required to establish a branch in Korea, without which the registration in the commercial register and tax office log is not possible. Even though this may seem illogical from the European business perspective, this system helps the authorities to prevent the establishment of shell companies, or at least impede their establishment.



임대 (for rent)

The Korean rental system is generally divided into two groups, “Jeonse (전세)” and “Wolse (월세)”. The monthly rental system which is used in Europe is typically only used for special property types such as single rooms and student accommodations in Korea, and is not given further consideration in this report.

Jeonse

In its present form, Jeonse is a rental system that is only found in Korea. In the Jeonse system, the tenancy begins with the initial security deposit of a single amount which is usually about 40 % to 60 % of the market value of the property. Due to the particular market situation within the private sector in early 2013, this Jeonse security deposit can even be as much as 80 % of the current market value of a property. This is mostly due to falling interest rates on savings and the currently sluggish market situation, in which many market participants expect declining real estate prices.

Unlike in most of Europe, the interest yield on the deposit will not be paid to the tenant, but the landlord can keep this as income. No additional monthly rent is paid. On expiry of the contract period, the original deposit will be refunded in full.

For Europeans it may be easier to understand this private sector rental system, knowing that for a long time it used to be impossible in Korea for individuals to purchase real estate with a bank mortgage. Only within the last two decades or so, the Korean government started to allow this. In the past, acceptable housing had been scarce, therefore the landlords needed to use the tenants' Jeonse deposits to finance their property purchases.

Wolse is a split system in which usually one to three "annual rents" are deposited for security and an additional monthly rent is paid. The interest income from the Wolse deposit is also kept by the landlord. The Wolse system is commonly used in the commercial sector.

Rental Fees in Seoul (as of: 02/2019)

| Office | | | |
|-------------|--------------------|-----------------|---------------------|
| Location | Size | Deposit | Monthly rental fee* |
| Premium | 100 m ² | 70.000.000 KRW | 7.000.000 KRW |
| Premium | 250 m ² | 100.000.000 KRW | 7.000.000 KRW |
| 2nd Grade | 100 m ² | 30.000.000 KRW | 3.000.000 KRW |
| 2nd Grade | 250 m ² | 50.000.000 KRW | 4.500.000 KRW |
| Fringe Area | 100 m ² | 20.000.000 KRW | 2.000.000 KRW |
| Fringe Area | 250 m ² | 60.000.000 KRW | 6.000.000 KRW |

*excluding VAT

| Apartment | | | | |
|-------------|------------------------|-------------------|-----------------|----------------------------|
| Location | Size | Jeonse (Deposit) | Wolse (Deposit) | Wolse (Monthly rental fee) |
| Premium | 84 m ² | 700 000 000 KRW | 550 000 000 KRW | 600 000 KRW |
| Premium | 112-114 m ² | 1 000 000 000 KRW | 300 000 000 KRW | 1 300 000 KRW |
| 2nd Grade | 84 m ² | 650 000 000 KRW | 300 000 000 KRW | 1 200 000 KRW |
| 2nd Grade | 112-114 m ² | 800 000 000 KRW | 100 000 000 KRW | 1 600 000 KRW |
| Fringe Area | 84 m ² | 550 000 000 KRW | 200 000 000 KRW | 800 000 KRW |
| Fringe Area | 112-114 m ² | 850 000 000 KRW | 500 000 000 KRW | 1 200 000 KRW |

Source: Naver Budongsang (02/2019)

EX: 1 € = 1.250 KRW (as of 02/2019)

The Pyeong (평)

In Korea, by law, the metric system is used. However, Koreans still prefer to use the old Korean unit area “Pyeong (평)”. One Pyeong is 3.3058m². Many properties are often referred to by the gross area, known as “Gong-geub Myeon-joek (공급 면적)” in Korean, which can differ considerably from the useable space (net area), known as “Joen-yong Myeon-jeok (전용 면적)” in Korean, due to the different calculation methods of construction law. This net area is often known colloquially as “Sil-Pyeong (실평)”. Both attributes are equally important, because the maintenance service costs are calculated based on the gross area. In the ensuing rental contract, only the metric system is used because by law, the use of the old Pyeong unit in the contract or relevant correspondence can now even be subject to a financial penalty or a fine.

Choosing the right location

The location search and selection should be made primarily from an economic point of view, where the rental cost is only one aspect among many. Consideration should be given to a good connection to the transportation infrastructure (subway, bus, highway and possibly an airport), as well as proximity to customers and access to qualified personnel.

In many, but not in all industries, a representative office (and a representative address) is important. Sometimes potential employees consider the prestige of the office location when deciding whether to accept an employment offer, and the company's area code can be one factor. An area code outside of Seoul (02) can be a reason not to apply. For companies which employ staff from European countries, especially if they come to Korea with their children, it may be advisable to select a location with proximity to suitable educational facilities and expatriate-style housing.

For the search of a non-commercial property, there are several Korean websites for an initial orientation. English websites are largely useless as the offers are usually overpriced and not representing the Korean reality. Commercial real estate is difficult to find via the internet, as offers are commonly outdated and without pictures. In this case, it is advisable to restrict the search area and to cooperate with local estate agents, as well as the physical inspection of the prospective properties in order to make an appropriate selection.

Industrial and manufacturing companies may also consider one of the many Free Economic Zones (FEZ). To be clear, most foreign investors are eligible for tax credits regardless of their location, so the main arguments for settling in a FEZ should not be based on tax incentives, but on the availability of developable land and possibly also access to suitable personnel. Due to the lack of available land, FEZs can be a good option for the construction of new manufacturing facilities and warehouses.

Renting

Renting is typically done via certified realtors, in Korean known as a “Boodongsan (부동산)”. This is not mandatory, but a common practice and advisable. These realtors are specially trained, have a broker's license and are registered at the district administration, known as “GooCheong (구청)” in Korean. The realtor's license sets a certain district where he is allowed to operate. He is not allowed to operate on a cross-district basis. It is highly recommended to check the registration of the realtor and to cross-check it with the district administration on the basis of his registration number and name. Furthermore, every realtor should have an insurance policy to the value of at least 100 million Korean won (approx. € 70,000), which should later be added to the contract. The commission rates are determined by the district administration and vary between commercial and residential properties.



부동산 (Broker)

Realty Fee in Seoul (as of: 02/2019)

| Category | Calculation Jeonse | Calculation Walse | B = Based on the real estate agency's calculation (KRW) | R = Rate | P = Provision | Limit (KRW) |
|-----------|--------------------|--------------------------|---|--------------|-------------------|---------------|
| Apartment | $D \times M = B$ | $D + (M \times 70) = B$ | Up to 50 Million | 0,50 % | $B \times R = MD$ | Up to 200.000 |
| | $D \times M = B$ | $D + (M \times 100) = B$ | From 50 to 100 Millionen | 0,40 % | $B \times R = MD$ | Up to 300.000 |
| | $D \times M = B$ | $D + (M \times 100) = B$ | From 100 to 300 Million | 0,30 % | $B \times R = MD$ | Not limited |
| | $D \times M = B$ | $D + (M \times 100) = B$ | From 300 to 600 Million | 0,40 % | $B \times R = MD$ | Not limited |
| | | | Over 600 Million | Max. 0,80 %* | | Not limited |
| Office | – | $D + (M \times 100) = B$ | Not limited | 0,90 %* | $B \times R = MD$ | Not limited |

D = Deposit, M = Monthly rental fee, B = Based on the real estate agency's calculation, R = Rate, P = Provision, *is negotiable

source: www.kar.or.kr/pinfo/brokerfee.asp (02/2019)

EX: 1 € = 1 250 KRW (as of 02/2019)

The contract period is negotiable, whereas a period of less than 6 months and more than 3 years is unusual. Two(2)-year contracts are common. The rental contracts are usually very simple, although a brief examination by a Korean lawyer is still recommended, not only to avoid

any misunderstandings, but also as a backup in consideration of the expectations from the HQ. When finalizing the contract, it is important to ensure that all the (Korean) parties' seal impression certificates are present, as these notarize the validity of the seal (we also have an article regarding the [usage of seals in Korea](#)). The rental agreement must be completed prior to the registration of the actual incorporation. At this point in time, the foreign investor will not have a seal. But the contract can be signed by signature and possibly even by fingerprint. The contract should be formulated in such a way that it automatically transfers from the investor to the company once the company has been set up.

Protection of Tenants

There is a comprehensive tenant protection system which applies for individuals. However, if there is a mortgage on the property it may be important to consider the proportional value of the mortgage as well as that the tenant's security deposit is not at risk by a potential claim on the collateral by the original lender. Nonetheless, if that is the case, careful consideration should be given regarding the economic risks. When renting commercial space, different protections apply depending on the region, which can be requested from the respective district administration.

When renting commercial space, there are differences in the scope of protection depending on the region, which can be requested from the district administration. The advice of a lawyer (not a tax adviser) on collateral is usually extremely useful and advisable. In addition, the lawyer can assist in the registration of a mortgage.

If expatriate housing is rented via the company (which is advisable for tax reasons, as the company can book rent and charges as expenses), the security deposit should be registered in the Land Registry, as no special protections apply to private residential space, which has been rented by a company.

Lastly, when the lease contract expires or is terminated, the lessee is usually obliged to recover the premises to the original conditions of when the lease contract started. In this regard, we have seen many cases where the lease contract ends and the landlord and lessee have different memories regarding the original condition of the premise, turning the whole situation thus into a legal dispute. In order to reduce such a risk, it is advisable to take detailed photos or videos of the overall premises and keep it as a record. Such material can be effectively used in case of a legal dispute, but moreover it can be used to avoid such a legal dispute to begin with.

Furniture and setup

In Korea, there is often no proper handover of properties like an office or a home. It can even happen that you merely receive the PIN code for the entrance door and are then left to your own devices. A clean office cannot always be reckoned with and it is not uncommon that you have to dispose of old office furniture or the old carpet from the previous tenant yourself. In

many cases, it may also be that previous tenants have improperly modified the electrical systems and that you have to take care of these changes along with your own network cabling and air conditioning system. Often, the offices had been fitted with a custom interior, which can show considerable wear after a few years, especially if low quality materials were used. Therefore, an appropriate budget for the cleaning and restoration should be scheduled.

The quality of Korean craftsmen can be described as moderate, although price and quality often don't go hand in hand. In order to achieve 'western' quality standards, it is advisable to pay close attention while the work is being done, so that corrections can be addressed in time and any misunderstandings can be resolved immediately. The payment terms for the artisans should be setup in a way that the majority of the money is only paid after the work has been completed. The daily rates of artisans are about 150,000 to 300,000 Korean won per day, plus materials. The general rule is that even if artisans require less than a full day to do the work, a full day is billed nevertheless.

For the subsequent furnishing and interior decoration, there are various Korean online stores and designated places in Seoul (known as furniture streets) with numerous furniture stores, the actual selection however is rather limited (as most vendors have about the same product range). Yet the price-performance ratio is usually good.

The availability of common furniture and IT equipment is generally very good and delivery times of 1 to 2 days are not unusual. However, the availability of specific components, such as a custom server or workstation PC, often require a lead time of 2 to 4 weeks from the supplier. For telephone and internet services there are various providers available, all of which usually activate the line within 24 hours. For some time now, telecommunications such as VoIP (Voice over Internet Protocol) with the SIP protocol (Session Initiation Protocol) have been popular in Europe. Korean vendors are also mainly using the SIP protocol, although they often don't allow appropriate access to freely configure the system, which can make linking the Korean branch office to the system at the HQ somewhat difficult. Small internet service providers are often more flexible than the big vendors and allow the integration into the company's own corporate network.

Extending or terminating the contract

A rental contract extension is typically done between one and six months prior to the expiry of the contract period and should be discussed with the landlord at least one month before the end of the current contract, or earlier. If the landlord misses the deadline, then the contract is extended by one year, whereby a three-month notice period applies for the tenant. In Korea, there is practically no fixed rental price, as the leases are set at the end of each period and it rarely happens that an existing contract is extended without changes; particularly regarding the rental charges.

If a termination by the tenant is required within the contract period, then this is almost always associated with increased costs for the tenant. Generally, the tenant pays the cost of the estate

agent and possibly also the loss of rent. Early consultation with both the owner and the broker is advisable in order to minimize these costs.

It is also very important to notice that in case the company moves, all company documents (e.g. the commercial register and the tax certificate) need to be updated to the new address within 14 days. Of course, customers and business partners should also be informed of the new details.

Registering changes appropriately

If a foreign manager changes his private address in Korea, then it is mandatory to inform the commercial register and the tax authorities within 14 days, to update the identity card (Alien Registration Card) in the local district administration and at the immigration office, and to update the Korean driver's license with the relevant driving license authority or at the principal police office. Since many of these changes are made automatically for Korean citizens, thanks to the digital networking of the authorities, it is therefore believed (and claimed) that this also works automatically with foreigners. However, this is an unfortunate misconception, as incorrectly registered foreigners can be subject to fines about which they only become aware when the bailiff knocks at the door.

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Please note that for topics relevant to the currently effective Korean law; we are not liable for the accuracy, completeness or timeliness of any information.

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We offer project management support across a wide range of areas, where commercial common sense, Korea expertise, and our reliability are winning factors. For established companies in Korea, we are a reliable ally for succeeding at difficult and unusual tasks. We provide locally adapted solutions and provide you with everything you need to make your business operations and market entry to Korea a remarkable success.

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