LONDON CALLING

As the UK struggles to strike a favourable deal for Brexit, is the property market still a sound option for investors?

BY SREEREMA BANOO

London has long been a magnet for property investors from Asia and Southeast Asia. Although the UK's divorce from the European Union (EU) has been anything but smooth, and while there are concerns over the potential economic ramifications of its departure from the EU, investors are not quitting the UK property market, say property consultants.

Knight Frank Malaysia Executive Director James Buckley says that despite the potential headwinds resulting from the UK's impending departure from the EU, London was the top city in 2017 globally for cross-border office investment, ahead of New York, Frankfurt, Berlin and Paris.

Buckley, who heads the firm's capital markets business which acts for institutional and private equities, sovereign wealth funds, real estate companies and high net worth investors, says that London's appeal, be it liquidity, transparency, high quality stock in large lot sizes or landlord-friendly leases, was clearly undiminished following the 2016 EU referendum.

"Eighty-three percent of all transactions were from overseas investors totalling over £14 billion in London last year," he says, adding that the city attracted capital from over 15 different nationalities, with Greater China and Hong Kong leading the pack at 39% of foreign purchases.

In the second quarter of 2018, there were seven transactions above £100 million in the City of London, he discloses, noting that five of these investors hailed from South Korea, Hong Kong and Singapore.

For Malaysians, the UK property market has always held an appeal, thanks in part to the strong historical links between the two countries. "Many Malaysians were educated in the UK, with a large number of their children following in their parents' footsteps to further their studies in the UK. They also consider the UK as one of the best and secure countries for property investment," says Taylors Properties Director Kingsley Goh. The UK-based property investment company which provides consultancy services to high net worth individuals and companies, adds that

Malaysian state funds' investment in the Battersea Power Station project has recently been criticised by the new government.

Malaysian companies and more experienced professional investors also invest in commercial properties (including hotels, retail premises, offices and casinos) and development sites.

According to a news report quoting data from Real Capital Analytics (a real estate data company), Malaysian sovereign and state-backed funds have invested £4.9 billion in UK real estate since 2007. In January this year, state fund Permodalan Nasional Bhd and the Employees Provident Fund announced a £1.6 billion deal to purchase the commercial assets being developed within phase two of the Battersea Power Station project in London. (The deal, which was widely criticised and has drawn particular scrutiny from Malaysia's new government, has not been completed at press time.)

For UK property developers, Malaysia and Southeast Asia remain important target markets for their projects. Last year, a report in *The Guardian* based on a survey by York University and the Land Registry found that foreign buyers, led by those from Hong Kong and Singapore, snapped up 3,600 of 28,000 of London's newly built homes between 2014 and 2016. The same report found that 61% of all overseas buyers were from four countries, namely Hong Kong (28%), Singapore (20.1%), Malaysia (7.5%) and China (5.4%).

Knight Frank Malaysia Associate Director for International Project Marketing (Residential) Dominic Heaton-Watson adds that developers have been keen to maintain sales momentum, in particular given the shortage of housing in London. New launches, he adds, continue to be offered to both global and domestic markets.

"Southeast Asia remains an important source of investors, particularly traditional high-volume markets such as Singapore and Hong Kong. Malaysia remains a key destination for any global marketing campaign with access to a broad investor base. New launches are brought to the Malaysian market through a variety of means, including exhibitions, educational seminars, private dinners, and repeat-buyer or early bird off-market events, and co-branding sponsorship or partnerships," he says.

HOT SPOTS

In terms of property hot spots, Goh says Prime Central London has made a comeback in the last year thanks to a slight retreat in pricing and developers offering discounts.

Heaton-Watson concurs, pointing out that "areas that have seen the highest price corrections over the past 18 months offer real value for money, for example, the golden postcode of Mayfair W1."

Areas with significant transport and regeneration upside also present medium and long term, low-risk opportunities.

Addresses like Kensington continue to beckon the wealthy.

These include Earl's Court, King's Cross and Royal Docks West, which are already attracting large companies to the area. In July, Facebook acquired 611,000 sq ft of office space across three buildings at King's Cross. These investments, says Goh, create a demand for accommodation. "The knock-on effect has meant many developers and investors taking an interest in the area," he says.

He points out that the traditionally wealthy addresses such as Mayfair, Knightsbridge, Kensington and Chelsea are still popular with the wealthier investors. "Bayswater, Westminster and Fitzrovia are extremely popular areas due to proximity to universities like the London School of Economics, King's College, University College London and other established institutions. These locations have large Malaysian communities and are close to shopping hot spots like Oxford Street, Carnaby Street and Covent Garden," he says.

Investors are also looking beyond Zones 1 and 2, for more competitively priced properties that are still easily accessible to central London and the rest of the UK.

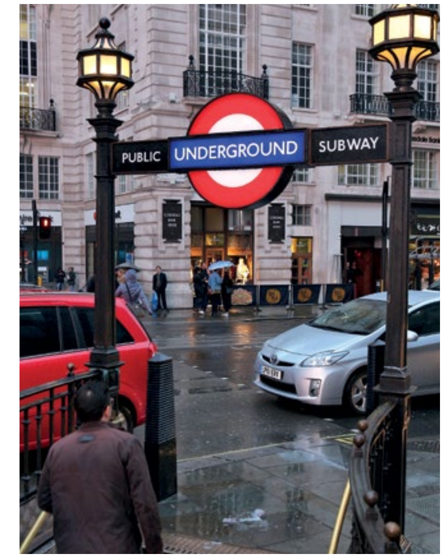
Heaton-Watson points to City Fringe and Canary Wharf (East London) as locations that have proven to be very popular and successful. "In fact, these are two of the top performing micro-markets for capital growth and yield profile – due in part to the large amount of regeneration and inward investment following London's successful bid to host the Olympics, and infrastructure projects such as Crossrail," he says.

Property consultants also point out that investors are casting their nets beyond London, with Birmingham catching their attention, thanks to the entry price, yield profile and capital growth forecast. Savills (M) Sdn Bhd managing director Datuk Paul Khong points out that there has been a major movement of office take-up in the UK's second largest city totalling some 1.08 million sq ft in 2017.

"This has caused house prices to move up faster than any other UK region over the last year at 8.6%," he says, adding that a 17% rental growth is forecast for Birmingham by 2021 with 38,000 more new jobs to be created within the next decade and two high-speed stations to be delivered by 2026.

Canary Wharf has proven to be very popular to investors.

*NAMES HAVE BEEN CHANGED



Transport is an important consideration for potential investors.

BETTER DEALS WITH BREXIT?

Brexit negotiations aside, property consultants say sentiment towards London as a key global hub is unwavering. "Political uncertainty in the UK is a relative concept. Although Brexit and politics have dampened demand to some degree, events in other parts of the world put this into perspective," says Heaton-Watson.

Investors too share this opinion. Michael* and his wife who have been investing in the UK property market since 2011 say that although Brexit did give them a moment of pause, after more research they decided to continue buying properties in the UK – concluding two purchases in Liverpool at the end of last year. "We felt that the UK market is a mature market and the fundamentals of the country are still sound… after all, our initial reasons for buying were never based on the fact that the UK is part of the EU," adds Michael.

For speculative investors like Ken*, Brexit has certainly dampened investing sentiment. Having entered the London property market just after the global financial crisis, Ken made tidy profits from a few of his investments, including one at Canary Wharf. "But after Brexit, it's been harder to sell the properties and one property just barely broke even," he says, adding that he's decided to put further investments on hold.

This wait-and-see approach is palpable. Heaton-Watson says sales volume in Prime Central London retreated in 2016 and 2017 ahead of Brexit, before recovering earlier this year. Although the uncertainty surrounding the final stages of Brexit talks is having an impact on the market, he reckons that this is a short-term trend that may reverse once the outcome of the talks is determined.

Generally, property consultants say that the market uncertainty has increased the discounts available. "This is a good time to buy property in the UK, especially properties in central London around the £1-3 million range. New builds are where some of the largest discounts are available, with some developers considering discounts of up to 25%, as well as currency fluctuations potentially offering discounts of up to 10%," says Goh.

Khong adds that Savills Research in July this year found that house prices in all prime London locations have seen a dip of 0.9% in the second quarter of 2018, and about 10% retreat since the peak in 2014.

Apart from the residential segment, property consultants also point to opportunities in non-traditional property investing segments, for example student housing. "The long-term structural undersupply of student accommodation has resulted in a rapid growth in capital values and increased investment interest and the sector is now considered a mainstream investment class with total transactions of £4.1 billion in 2017," says Buckley, adding that international investors are increasingly attracted to the segment. These include institutional investors such as Kumpulan Wang Persaraan (KWAP), which bought two purpose-built student accommodation buildings in Birmingham and Edinburgh for a total of £39.75 million in August.

Looking ahead, property consultants remain confident of the UK property market. Heaton-Watson points to positive developments that bode well for the property market such as Starbucks choosing London as the city to consolidate its European headquarters, and Unilever's reversal on its decision to move the company's headquarters to Amsterdam.

"It's a cliché, but education and culture play a hugely important role for London buyers. With everything else going on, it's easy to forget that people still want to study in UK, live in UK and enjoy the social scene such as Wimbledon, Royal Ascot and the West End theatres," says Heaton-Watson.

Goh believes that political happenings will mean that the property market will be an interesting one in the year ahead. "But as history has shown, investors with the appetite and willingness to take risks are generally the ones who are rewarded, so uncertainty brings opportunity." UN

LOOKING ACROSS THE CHANNEL

Although Malaysians generally favour the UK over continental Europe, Knight Frank Malaysia Associate Director for International Project Marketing (Residential) Dominic Heaton-Watson has seen increased appetite for properties in Germany, in particular, Berlin and Frankfurt.

"Germany for me, represents a truly exciting alternative investment destination for our clients today. It has been the most stable European economy in recent times and offers a lower entry price point," he says, pointing to Berlin's manufacturing expertise and education strength. "This capital city offers investors capital growth and strong rental income in a stable currency."

He adds that France, Spain, Italy and Portugal also remain on the radar for savvy investors from Malaysia, especially those on the lookout for holiday homes. But these investments have differing taxation, purchasing costs, education, regulations, language, citizenship and payment timelines, all of which present a different set of considerations compared to UK, he adds.

Taylors Properties Director Kingsley Goh concurs, adding that investors from Malaysia who look at continental Europe are usually experienced investors and institutions. "Commercial properties such as hotels, offices and logistic hubs are usually of interest to these investors," he says. – SREEREMA BANOO