2019 Middle East Real Estate Investment into the United Kingdom

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Outward bound ME investment into the UK

An under supply of housing, a weak pound and the rising cost of buying and renting a property have propelled real estate opportunities for Middle East investors across the United Kingdom.

It's been a tumultuous few years for the UK, and while there has been a dispirited climate, experts advise: there's no reason to panic. The UK, still a behemoth, remains one of the most sought-after investment destinations in the world and its impending exit from the European Union won't do much to diminish its well-earned status. Middle East investors are testament to this.

With Britain hitting a record high for foreign direct investment (FDI) in 2016 – the year of the Brexit vote – the country had net flows jumping to GBP 145.6B, up from GBP 25.3B in 2015. In the first half of 2017, the U.K. made up 14% of global commercial property investment transactions, second only to the U.S., according to Forbes.

Real estate experts admit that there are many areas across the country that are now gaining traction from foreign investors since the Brexit vote where low interest rates and cheaper pound sterling are driving Middle East investors to snap up property.

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> ***Knight Frank***

Undeterred by Brexit

GCC Investor are continuing to look at opportunities in the United Kingdom despite the impending Brexit.

Trends

- The UK is the preferred destination for GCC investors, according to Cluttons.
- Real estate consultancy, Knight Frank reveals that private wealth data shows that of the USD 6.3 billion of private capital being targeted at commercial real estate the vast majority is focused towards Continental Europe, the United Kingdom and the United States. Despite concerns raised by Brexit, over two thirds of the capital tracked from GCC countries is actively seeking opportunities in UK real estate.
- London remains the top city destination for Middle Eastern property investment, CBRE.
- USD 3.3bn from Middle East investors into UK property market in 2018, Knight Frank.
- Investors purchasing commercial property in London appear to have been largely undeterred by the Brexit vote.
- Middle Eastern investors spent GBP 1.28 billion (USD 1.68 billion) on commercial London property between Q2 2016 and Q2 2017, according to CBRE's Middle East In and Out 2017 report.

30% have property in Dubai

21% have property in the UK

Source: Cluttons' 2018 Middle East Private Capital Survey

UK: An investment beacon for GCC investors

The Middle East is home to 642, 800 high-net-worth individuals, according to the World Wealth Report for 2017 by Capgemini. In 2017, the wealth held by these investors rose by 5% to USD 2.42 trillion, with Kuwait and Saudi Arabia representing the highest concentration of USD millionaires.

"The UK has historically been a beacon for Middle Eastern investors, with the region's strong political and trading links with the UK underpinning the healthy cross border investment activity. London in particular is a key investment hotspot for the Middle East's wealthy, who account for 15-20% of all international residential property transactions in the capital," reveals Cluttons' 2018 Middle East Private Capital Survey.

The survey looked at 250 Middle East based investors, from across the GCC, covering Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.

The report notes that the London office market saw Middle Eastern investors commit almost USD 1.8 billion in purchases during 2017, "making them the third biggest investors behind those from the Far East (USD 9.1 billion), and Europe (USD 3.1 billion)".

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London: Titans at the gate

In 2018, London featured on the top 10 cities by investment volume according to real estate consultancy Savills. For the Middle East, the city has historically been a real estate investment magnate for GCC capital.

According to Cluttons' 2018 Middle East Private Capital Survey, locations in London are the most preferred property investment destination, with the British capital being selected by the majority of investors surveyed by Cluttons, followed by Manchester and Birmingham.

"Despite Brexit, London's position as an investment magnet appears to be unchallenged. The city is perhaps more Brexit proof than we give it credit for." says Cluttons. Savills notes that Middle Eastern investment in London topped GBP 1.38 billion in 2018 (USD 1.75 billion), up 30% from 2017 activity.

Commenting on Middle Eastern investor appetite for London, Hassan Farran, Director in the cross-border investment team at Savills, says: "There has been a notable uptick in transactional activity by Middle Eastern investors in London in 2018 when compared to the 18 months that immediately followed the EU referendum. These investors, many of whom are active in the UK and mainland Europe, are attracted to London's liquidity and comparative value, and the resilience London's investment market continues to demonstrate."

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Appeal for commercial & hospitality asset classes

Savills notes that offices and hotels in the UK remain by far the most attractive asset classes for Middle Eastern investors with recent deals including the Bank of London and the Middle East's purchase of Moorfield's MREFII Fund's 1 Atlantic Quay building in Glasgow for GBP 55 million, along with Dubai-based investor, SRG Holding Limited, acquiring the freehold interest in Victoria Beckham's global headquarters in Hammersmith Road for GBP 16.8 million.

Knight Frank maintains that UK has been the top destination for cross-border capital for six of the past 10-years, with London emerging as the top global city for office investment.

"For Middle Eastern investors the attraction to UK real estate remains strong, despite current political uncertainty. This trend is aided by the range of benefits that investors can take advantage of in the UK commercial market, from the size of the commercial market, large and high-quality assets and good levels of transparency," says Taimur Khan, Research Manager at Knight Frank in their recent report on Active Capital 2018

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> ***Savills***

Beyond London

Manchester and the Northern Powerhouse attracted some of the highest levels of foreign direct investment of any UK region outside of London, according to research from Ernst & Young.

"According to a YouGov survey commissioned by Select Property Group, 77% of GCC investors agree that the UK is one of the top overseas property investment destinations, mainly due to the UK's strong capital growth and high yields. In addition, over 60% of GCC investors agreed that despite London being the most popular city in the UK for investing, higher rental yields could be achieved in Manchester," states Select Property Group.

UK set to remain a favourite destination for 2019. JLL predicts that overall investments into UK commercial property will be around GBP 55 billion, with international investors continuing to target prime real estate.

"Whilst a substantial proportion still show a preference for London, over the course of the last cycle we have witnessed more and more investors moving into the regional cities across the UK, searching for more attractive returns," says Khan of Knight Frank.

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According to Experience Invest Business Development and Acquisitions Director, Jerald Solis, markets outside of London currently offer the best growth potential and highest rental returns. Popular Northern Powerhouse cities like Liverpool and Newcastle have emerged as market leaders, offering some of the most exciting capital growth potential on the market.

And Middle East investors are taking notice. "Buyers in the Middle East who wish to secure the strongest capital growth potential should look towards markets like Liverpool.

"It's not just the UK's residential market where overseas investors can see strong returns from their property investment. Locations with a vibrant student population have emerged as some of the leading markets for buy-to-let returns.

Alternative assets like the purpose-built student accommodation market now present investors with higher rental returns, a lower entry level and a zero% Stamp Duty rate. Again, Northern Powerhouse cities like Liverpool and Newcastle present investors with viable options to generate an assured income from property," says Solis.

Solis reveals that the popular Bedfordshire town Luton has also become a viable option for investors and renters. "Just 22 minutes by train from Central London, the town was voted the number one place for city workers commuting into the capital in 2018. For investors, Luton offers some of the strongest capital growth potential in the south of England and rental yields much higher than what's currently achievable in London."

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> ***Experience Invest***

Spotlight: The case for investing in the alternative asset: Student Accommodation

- Middle East investors are increasingly looking at student accommodation.
- Student numbers are increasing across the UK and higher education providers across the country are struggling to meet the growing demand for student housing.
- With more than 1.7 million students in full-time higher education in the UK, only 1 in 3 are currently able to reside in purpose-built student housing.

Source: Experience Invest