Prime residential market outlook

UK Property "The Great Reopening"
Arab Bankers Association

14 Oct 2021, Liam Bailey

What happened?

Why did it happen?

What happens next?

THE KNIGHT FRANK GLOBAL HOUSE PRICE INDEX Q2 2021

Ranked by annual % change

	COUNTRY/ TERRITORY	12-MONTH % CHANGE (Q1 2020-Q2 2021)	6-MONTH % CHANGE (Q4 2020-Q2 2021)	3-MONTH % CHANGE (Q1 2020-Q2 2021)
1	Turkey	29.2%	16.3%	8.9%
2	New Zealand	25.9%	10.0%	4.5%
3	United States	18.6%	11.2%	6.9%
4	Slovakia	18.6%	10.8%	6.3%
5	Sweden*	17.2%	9.8%	6.0%
6	Luxembourg	17.0%	9.1%	4.2%
7	Australia	16.4%	10.6%	5.1%
8	Canada	16.0%	10.6%	8.1%
9	Netherlands	14.5%	10.5%	4.9%
10	Russia	14.4%	6.1%	4.4%
11	Denmark	13.3%	6.3%	2.9%
12	United Kingdom	13.2%	6.7%	4.0%

Covid threatened to crash economies and housing markets
Global prices soared Q2 2021 9.2%, Q1 2020 4.4%
London prices rose for the first time in six years
Rents crashed and then boomed

Record low interest rates
Bank competition for new lending
Search for space and upgrades, digi nomads
20% to move in 12-months, delayed second home purchases

London …

1 **Demand**: strong but beginning to slow

2 **Supply**: MAs up, new instructions slow, stock is low

3 **Sales**: running hot, but will slow

4 **Prices** and expectations: high and rising

5 Rental: huge shift to **landlords market** in the past six months (NY)

6 **Landlords**: sold in SDLT holiday

7 **Tenants**: offices re-opening has boosted upwards pressure on rents

8 **Investors**: rise in enquiries as rents rise

What next?

Travel:
- LHR Sep21 2.6m vs. Sep19 6.8m, 38% of normal

Positives:
  - Low unemployment, 4.5% in Aug (from 5.2% in Nov20)
  - Strong household savings, strong demand
  - Lending rates still ultra-low …

Negatives:
  - Labour shortage pushing wages (underlying +5% in Aug)
  - Scarcity of goods and energy cost pushing inflation
  - Base Rate rises
- Pound under pressure
  - But… IMF reduced UK forecast from 7% to 6.9%

Take away

London price rise this year and next

Demand strong, supply weak

~~Ultra~~ low rates

Economic expansion – despite rate rises

City reform and EU deals…

More cooling measures

UK Property: The Great Reopening

GCC real estate investors in a post-COVID world

Bassam Khazen

Commercial Real Estate Investments Manager

National Bank of Kuwait (International) Plc

14th October 2021

Overview

- Delivering strong cash-on-cash returns in a market transformed by the pandemic has become the new focus for many property investors in the Gulf region and beyond.

- Investors remain eager to deploy capital outside the GCC due to lingering concerns about political tension in the region, but are now re-evaluating their investment criteria and their decision-making process.

- Changes in the way we live and work, the way we shop and even in the way we study have had profound impacts on a variety of property sectors from offices and apartment blocks to high street retail and student housing.

- The cost of borrowing is still low with central bankers reluctant to increase interest rates in a global economy still recovering from the pandemic. Lenders, however, have taken a bearish attitude, placing renewed emphasis on property fundamentals such as location, build quality and covenant strength.

- How does London fare in comparison to Paris or New York as a post-pandemic investment market? Are there fewer restrictions, fewer barriers to operating under the “new normal”? Is the recovery likely to be quicker here? Let’s explore…

Sectoral Changes – Office & Retail

- The repurposing of property estates says much about the crisis gripping bricks and mortar retail, as stores grapple with the toxic combination of the pandemic and competition from online rivals. It also hints at the changing shape of the UK's high streets.

- John Lewis may be an icon of British retail but it is now planning to develop homes across 20 of its sites and recently got the greenlight to convert almost half of its flagship Oxford Street store into offices.

- According to the Local Data Company, the number of retail units in the UK fell 7% between 2015 and July this year, as 32,500 more stores closed than opened. The number of shops lost each year has grown steadily. Even so, 2020 stands out: there has been a net loss of 7,834 units in the first half of the year, ahead of every other full year on record and not far short of the 9,169 lost in 2019.

- Fortunate areas may have seen cafés replace stores, but many "secondary" high streets have simply atrophied. Both office providers and residential developers are looking to fill the gaps left behind. IWG, the flexible working company, is betting that office demand in coming years will be on suburban high streets rather than city centres.


Sorry
WE'RE
CLOSED

Sectoral Changes – Residential & Student

- COVID-19 has done little to dampen investor appetite for quality build-to-rent residential schemes (“PRS”) and Purpose Built Student Accommodation (“PBSA”). It is one of the fastest growing sectors in the UK with no clear sign of decelerating, especially in London where supply struggles to meet the constant demand.

- PRS was relatively resilient during the 2020 slump with a smaller drop in investment volumes than most other mainstream sectors such as office and retail. Cap rates did not soften significantly and comparatively strong performance was marked by good rates of rent collection and low vacancy rates.

- Student Housing also came under pressure during the pandemic as online learning briefly supplanted classic lecture halls. Although this was short-lived, it served to underscore the need for quality accommodation within walking distance of campus. Older stock outside of city centres has witnessed a drop in value. Cap rates for PBSA remain largely unchanged.

- Despite supply shortages, private landlords are struggling to rent older residential stock to increasingly discerning students who favour more modern, fit-for-purpose accommodation with social space and amenities. This has resulted in sustained demand for PBSA which has, in turn, supported asset pricing.


Purpose Built Student Accommodation


HUSTLE
BUT FIRST,
BRAIN FOOD
Time to
MATCH
FISH
ME
BISCUIT
CHICKEN


FOR SALE
© Caters News Agency

What does this mean for GCC investors?

- Gulf investors continue to respond to structural changes across real estate sectors while central banks have kept rates low to stimulate growth and an economic recovery. Borrowing costs must remain competitive to encourage private investors to seek out deals and institutional investors to extract value from existing stock.

- While Brexit first, then COVID-19, have both contributed to unprecedented levels of economic disruption in the UK, it is important to understand that cash-on-cash investors from the GCC take a long term view and look towards local market fundamentals, rather than country level economics. Still, there are concerns…

- Concerns over the future of the office market – lease commitments, occupancy, floor space needed, staff who could always be working from home versus employees who need to be on the premises – are but a few of the issues investors are nervous about. We are already witnessing a supply glut of secondary stock, increasing competition for grade-A office space.

- Student housing, a historically defensive sector, has performed well but the sector is also facing structural change. Will students need to attend all lectures? Or will they favour online learning? How are exams to be conducted in future? And how will this affect rents and, in turn, capital values of student blocks in major cities?

GCC investors (continued…)

- Hotel investors from the GCC and beyond have seen the sector bounce back to a degree but will occupancy ever recover to pre-pandemic levels? Do ADR’s need to be rebased? And will the price per key be impacted by such a change?

- The retail sector, which was under pressure long before the pandemic, is still in a state of flux. With retailers placing greater emphasis on visibility and brand awareness and less emphasis on turnover, high street multi-nationals are reshaping their estates. Established occupiers, historically considered strong covenants by investors, have changed their mid term plans and may not require as much space.

- Residential investors may be in a better position:
    - Central government has offered some support with stamp duty relief. This resulted in a spike of new mortgage applications and, for a time, LTV’s were reduced by banks to temper this surge in applications. The market has since seen the return of 90% products, though additional SDLT on rental properties is keeping prices cooler.
    - From an investment perspective, the fundamentals have not changed. The London housing market is still undersupplied. While the repurposing of commercial buildings and the simplification of the planning process may free up stock for development in the medium-to-long term, PRS investors are in a good position. Rents have been impacted but demand remains in tact, not as adversely affected as other sectors.

What does this mean for GCC lenders?

- Lending against commercial real estate is increasingly challenging:
  - What type of security can offer lenders peace of mind?
  - Which sectors are safe? Will interest payments be met? Can cash flows service the debt?
  - How can lenders satisfy their interest cover ratios? How are terms really changing?
  - How can lenders reconcile getting comfortable with leaner cash flows while meeting their return on capital? Will loan tenors be reduced? Will interest hedges disappear?

- Prime offices with strong covenants are among the safest bets for lenders but pricing will be competitive. Structural changes in the office market have put strain on secondary office stock which is no longer seen as good quality security for lenders. The cost of capital will determine which lenders can secure new business.

- Lending against purpose built student housing is not without issues. Rental levels have come under pressure. ICR’s are still relatively comfortable for lenders but demand from the Eurozone has dried up and with the rise of remote learning, only very well located schemes are considered bulletproof security.

- Hotels are recovering. And London remains in demand, despite the decline in hotel performance. But with so much pressure on operating performance lenders are still bearish and only the strongest hotel groups are likely to attract competitive debt.

Outlook

- Unlike global institutions, Gulf investors can take a selective, even opportunistic approach. There is no pressing need to recycle cash or redeploy capital. This is competitive advantage and will stand these investors in good stead.

- The structural changes across the various real estate sectors are not homogenous in nature and will not come into effect over night. Each sector, as we have seen, is undergoing its own changes and the real impact will be seen and felt over the next five to ten years.

- At this stage, there is no doubt that the worst of the pandemic is behind us. But the saga continues and the ever-changing nature of the virus means it is here to stay. Investors have reassessed the landscape, revised their criteria and adjusted to these new market conditions.

- Going forward, lenders and investors from the GCC will operate in the same way as they have in the past – by demonstrating patience and poise, and exercising good judgement in evaluating new deals.

END

UK real estate – topical tax update

Andrew Sneddon – Head of Tax

14 October 2021

Agenda

- This talk will give an oversight on:

    - Recent SDLT changes for residential property
    - Remaining opportunities to mitigate SDLT relating to residential property
    - Issues arising on current deals and how to deal with them
    - Tax inflation and changes coming down the road

Residential SDLT

- Non-UK resident surcharge:
  - From 1 April 2021
  - Additional 2% on standard or additional rates of SDLT
  - Can apply **to UK companies** with non-UK resident shareholders as well as to non-UK resident purchasers
  - Potential top rate of 17% for companies acquiring residential property in excess of £500,000

Residential SDLT

- Issues and opportunities
  - Residential rates are much higher (up to 17%) than non-residential rates (up to 5%)
  - Remember the non-residential rates apply if you are buying 6 or more dwellings as part of the same transaction **<u>or</u>** if you have a mixed use property (eg a commercial element)
  - If there are multiple dwellings consider multiple dwellings relief
  - Investigate anything which could be used as self-contained living accommodation
  - Beware the 3% surcharge for "*additional*" dwellings but
  - Subsidiary dwellings can allow an MDR claim without the 3% surcharge applying
  - Remember that HMRC accept it does not apply for mixed use purchases (eg commercial properties with flats above) BUT the 2% surcharge would
  - Investigate early
  - Lots of recent cases, and HMRC victories, on additional dwellings and "gardens and grounds"

Issues in practice

- Share sales will continue to be popular due to the SDLT saving, but some buyers are asking for a discount for latent gains where a property has increased in value. Sellers should clarify their position upfront in the Heads of Terms and even when marketing
- Bear in mind that increasing the net asset value of the company (or unit trust etc) will likely increase the taxable gain on sale. For this reason avoid paying off shareholder or bank debt using rental income and do not accrue large cash reserves. Loans should be refinanced and/or capitalised rather than paid off– beware amortising loans.
- When rebasing shareholdings as at April 2019 confirm with the valuer whether the shares should have an uplift in value due to the SDLT saving which is inherent on share acquisitions
- For asset purchases buyers should remember to cover capital allowances for qualifying plant and machinery in the Heads of Terms (buyers will want unclaimed allowances to pass with the property). Not available for items inside dwellings

Share sales and latent gains - example

- Diana Price (non-resident non-domiciled) sets up WW LTD with £2 share capital. DP has a base cost of £2 in her shares
- WW Ltd borrows £1million to acquire an investment property in a freeport for £1million (at 100% LTV, claiming relief from SDLT and with no transaction costs)
- Over time all the net rental income is used to pay down £400,000 of debt but the property value remains flat
- DP receives an offer to sell WW Ltd for £425,000 (being NAV plus part of the SDLT saving for the buyer). She will pay UK her on her gain (notionally £424,998)
- Could the £400,000 have been used more productively?
- Compare to an asset sale for £1million (no taxable gain in WW Ltd and potential to repatriate to DP without UK tax). Share sales do not always produce the best economic return

Other tax changes

- Corporation tax
  - Currently 19%
  - Will increase to 25%, from 1 April 2023, for profits over £250,000
  - Will remain at 19%, from 1 April 2023, for profits up to £50,000 (the small profits rate)
  - Will be charged at 25% but subject to reduction by a marginal relief for companies with profits between £50,000 and £250,000, also from 1 April 2023
  - Will there be a recovery which enables the increase to be reduced or delayed?

- Residential Property Developer Tax (**RPDT**)
  - New time limited tax, from April 2022, on the profits of the largest corporate residential property developers
  - Draft legislation is incomplete - no update on rate of tax
  - An additional corporation tax on profits above a certain, currently unconfirmed, level
  - Not intended to apply to build to rent

Please remember

- Tax is very fact specific and constantly changing
- The above is an overview of a few issues - not advice
- Take advice sooner rather than later

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THE

OWO


THE OWO

The OWO Residences by Raffles - Overview

- A new and exclusive destination in Central London – [Whitehall, SW1A]
- A world leading ultra-luxury 5-star Raffles Hotel – 120 suites
- 9 new on-site restaurants and bars
- 85 Private residences
- Neighboring Horse Guards Parade, 57 acres of St James's Park, Westminster Abbey, Downing Street
- The Old War Office - Grade II* Listed Building; made famous by the likes of Sir Winston Churchill and Ian Fleming author of James Bond 007
- Exceptional ceiling heights, from 3m up to 4.4m
- Approx. 30,000 sq ft of leisure and amenities
- 24/7 Concierge and Security, including CCTV to all public areas + secure underground valet parking
- https://vimeo.com/520026261/57ea2ecc9c

The OWO Residences by Raffles – The Team

Owners

The multinational Hinduja Group has over 150,000 employees in sectors such as oil, automotive, media and real estate.

Raffles

The world-famous hotel brand, epitomizing luxury since 1887 when Raffles Singapore set the standard in hospitality. Introducing the world to private butlers, the Singapore Sling and its enduring and legendary service, which it will now be bringing to Raffles London at The OWO and The OWO Residences by Raffles.

Architects

EPR is an internationally awarded firm known for residential and hotel projects. Past projects include The Royal Academy of Arts, House of Lords, Westminster Palace and The NED.

1508 is a British design studio, specialising in private residential, hospitality and multi-unit developments. Past projects include Four Seasons Goa; The Carlton Tower Jumeirah and The Lanesborough Club both in Knightsbridge London.

Thierry Despont

A world-renowned visionary in design and architecture, based in New York specialising in unique and high-end hotels, museum and historical renovations. His work includes the Statue of Liberty, Claridge's, Ritz Paris and Cartier's Mansion. The Office of Thierry Despont has designed the hotel, Raffles London at The OWO.

HINDUJA

RAFFLES
LONDON

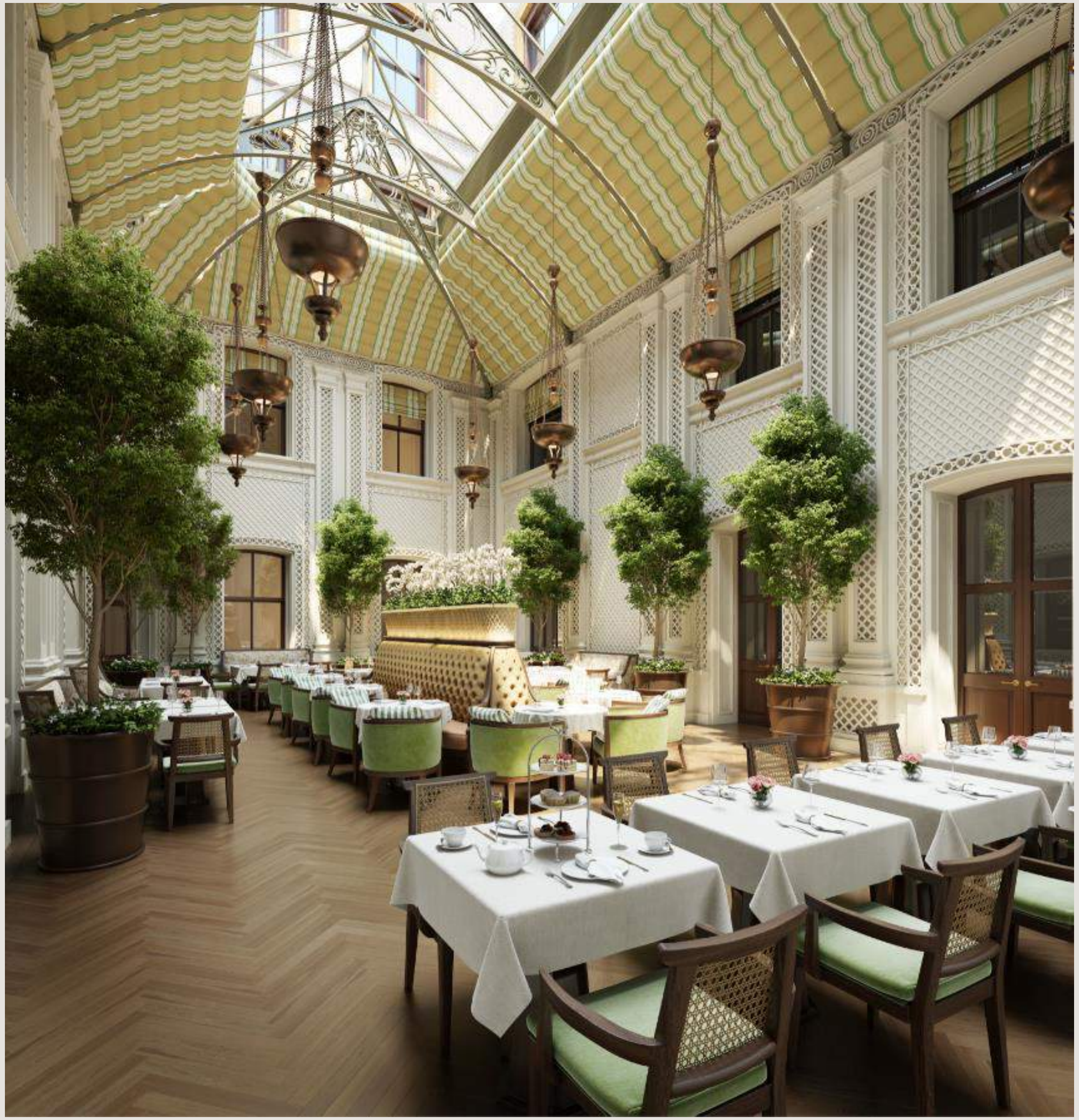
EPR Architects

1508
LONDON

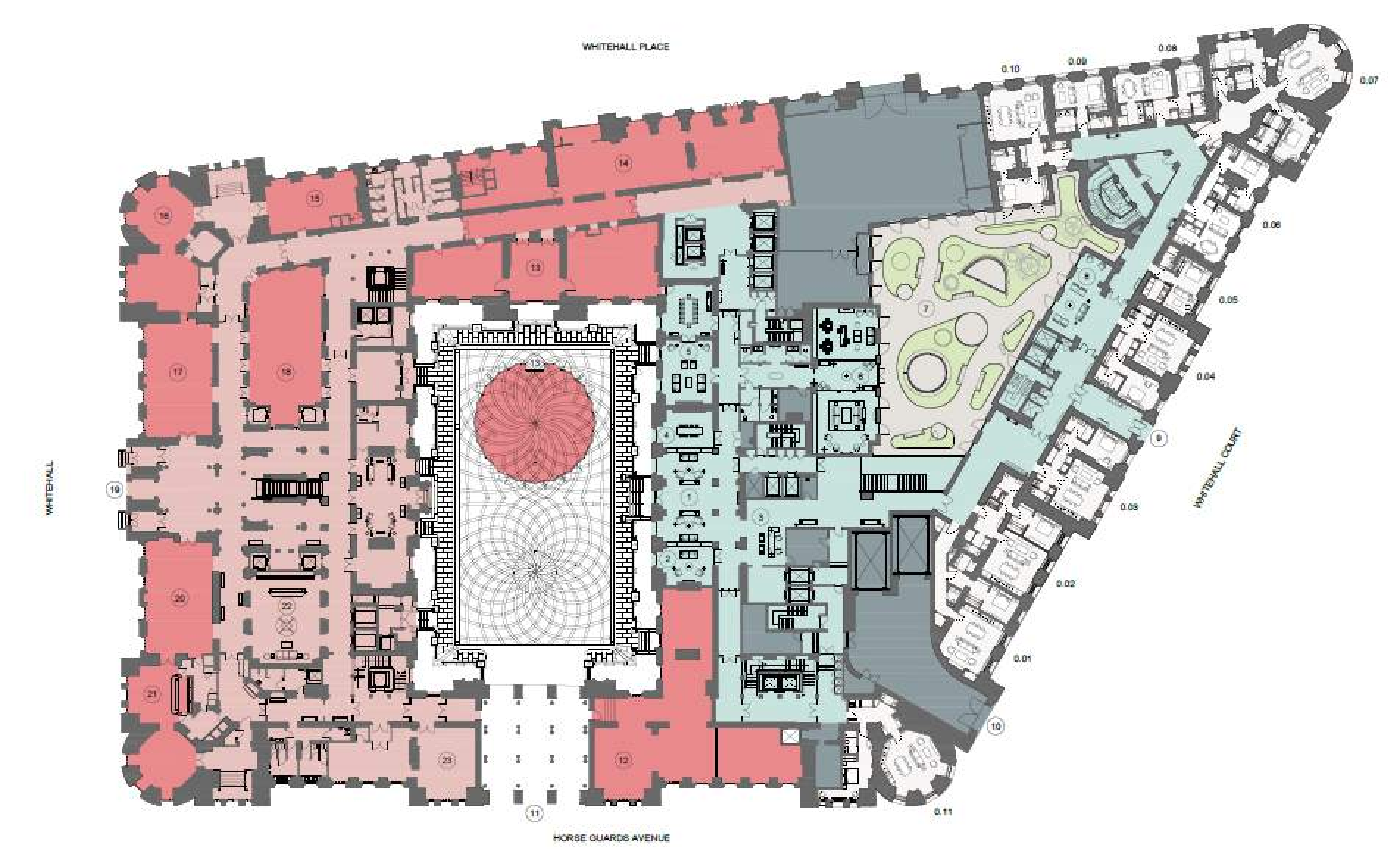
THIERRY W. DESPONT

The OWO Residences by Raffles – Food & Beverage

The OWO Residences by Raffles – Food & Beverage



The OWO Residences by Raffles - Ground Floor



The OWO Residences by Raffles – Amenities

The OWO Residences by Raffles – Amenities

The OWO Residences by Raffles – Amenities

30,000 sq ft of leisure and amenity space:

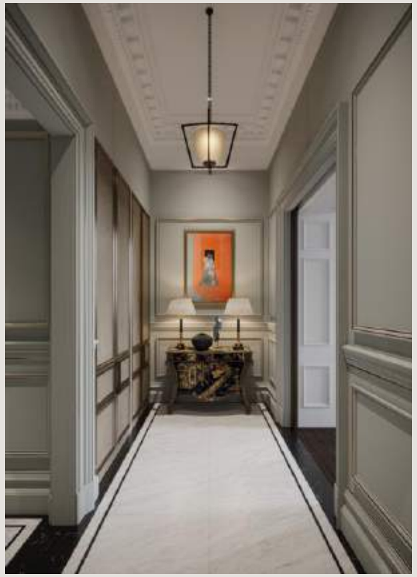
- Club lounges
- Dining room
- Gym
- Swimming Pool*
- Vitality Pool*
- Treatment suite
- Sauna & Steam rooms
- Yoga studio
- Private training studio
- Active & Performance studios
- Relaxation Lounge
- 16-seater cinema
- Games room
- Residents' Garden
- Secure underground parking with valet and EV charging
- Storage Units

* Residents will have permitted use of the Hotel Pool

The OWO Residences by Raffles – Amenities

The OWO Residences by Raffles – Amenities

The OWO Residences by Raffles – The Residences



The OWO Residences by Raffles – Keys Sales Information

- 85 Private Residences complete with bespoke Smallbone Kitchens:
  - 1 Beds – (705sqft – 1212sqft) from £3.5m
  - 2 Beds – (1419sqft – 2949sqft) from £5.8m
  - 3 Beds – (1930sqft – 3691sqft) from £9.75m
  - 8 x 4 & 5 Beds – (3118sqft – 8000sqft) from £17.4m

- Leasehold – 250 years (Freeholder – The Ministry of Defence)
- Service Charge – c.£16.77 per foot, per annum
- Ground Rents - £1000 per annum, per residence
- Completion Q1 / Q2 2023
- Allianz – 10 year building warranty
- Reservation fees:
  - Less than £5m - £10,000
  - £5m - £15m - £20,000
  - £15m+ - £50,000
- Payment Structure
  - 10% upon exchange
  - 2nd 10% due 3 months from exchange
  - 3rd 10% due 6 months from exchange
  - 70% due on completion

The OWO Residences by Raffles – Services

Core Services

It is proposed that all residents enjoy access to the following Core Services, to be funded by the Property Service Charge:

- 24-hour on-site concierge
- Bell/doormen
- Exclusive residential fitness facilities
- Membership at hotel pool
- Residence lounge staff
- General storage operated by concierge staff
- General and administrative services
- Security (Public Areas and Access Points)
- Common area maintenance
- Common area housekeeping
- Common area utilities
- Waste removal by housekeeping on call from door
- Property Insurance (base building/common areas)
- Valet parking (for residences which have parking included)

Raffles A La Carte Services

The following Raffles A La Carte items are optional services for which additional charges apply. Raffles A La Carte Services are delivered directly by the Hotel and/or the Raffles Owner Services Team), and include:

- Private transportation and chauffeur services
- 24h in-residence dining
- In-residence catering (including the support of dedicated butlers to support private events)
- Butler services
- Personal trainer, yoga and fitness instruction
- Spa, bath and personal care products
- Private chef (to create bespoke private dining experience in Residence)
- Business center services
- In-residence housekeeping (from light cleaning and turn down service to deep cleans, carpet cleaning, interior window cleaning)
- Florist services
- Laundry services
- In-residence maintenance
- Shoeshine service
- Technology assistance
- Sports equipment storage
- Newspaper and magazine delivery services to door
- Annual Ownership Benefits Fee (commencing at outset of 4th year following handover)
- "While Your Away" Maintenance Package
- Turnkey in-residence maintenance solution for Residents who frequently reside elsewhere or go on extended travels (including plant care, dehumidification)

Curated A La Carte Services

The following Curated A La Carte services are provided by third party suppliers who have been carefully selected by Raffles. They are optional services for which additional charges apply and include:

- Sommelier and wine cellaring
- Nutritionist, health and wellness consultation
- Dry cleaning
- Cable television or satellite services
- Internet services
- In-residence spa treatments & treatments at the Raffles Spa
- Private chef (to prepare meal in Residence)
- Personal assistant, secretarial & shopping services
- Pre-arrival shopping (grocery shopping and re-provisioning), shopping services
- Pet minding, pet walking and related services
- Translation services
- Car detailing, re-fueling and storage services
- 24-hour emergency repair
- In-Residence utilities
- After hours emergency repair, and non-routine or specialized repair and maintenance

RAFFLES
LONDON

The OWO Residences by Raffles – Hotel Privileges and VVIP Recognition

Hotel Privileges

- Preferred Resident pricing and billing privileges
- Preferred Resident pricing and Spa & Fitness Membership, discreet access
- Reserved seating for Residents at rooftop bar
- Discount for
    - Spa
    - F&B
    - In-residence dining
    - In-residence catering
    - Dry cleaning & laundry
    - Private transportation
    - Room rates for out-of-town guests

RAFFLES
HOTELS & RESORTS

Global VVIP Recognition

Raffles Residents are eligible to participate in the Accor Ownership Benefits Program*, affording them VVIP status on a global basis. Raffles Residences ownership benefits include:

- Invitation to join Accor Live Limitless (“All), our global loyalty program, as a Diamond Status member*.
- VIP reservation desk to support travel planning across Accor’s global network of hotels, resorts and related hospitality offerings
- Automatic upgrades on arrival across more than 4000 hotels and resorts worldwide**
- 20% off of best available rate at more than 4000 hotels and resorts worldwide**, including the Raffles portfolio
- On-site benefits and privileges (specifics to be agreed with Owner/WDS)

SINGAPORE SHENZHEN HAINAN SIEM REAP PHNOM PENH JAKARTA MAKATI MALDIVES
SEYCHELLES ISTANBUL MAKKAH DUBAI WARSAW PARIS
UPCOMING : BALI UDAIPUR BOSTON LONDON

THE OWO

Thank You