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Bank of London & The Middle East

Opening the Door

Is the UK's property sector about to get an influx of investment from the Gulf?

Foreword

Investment into UK real estate by Gulf Corporation Council (GCC) investors is expected to grow over the next 12 months, following an extended period of uncertainty when capital was kept on the sidelines. We anticipate investors from the GCC will be looking at how and where to diversify their portfolios. Many will be exploring overseas investment opportunities in the next 12 months – with UK real estate a favoured investment option.

After a period where investors maintained a ‘wait and see’ approach, Gulf capital is set to be deployed, and the UK’s real estate market is primed for an investment injection. The door to this opportunity is now opening. Press commentary published earlier this year suggests the 10-year average annual GCC investment into UK commercial property stands at around $3.4 billion.

Based on the expectation of improving market conditions and an uptick in inquiries we expect GCC investment in UK commercial property could quickly grow to over $4bn annually.

This report will explore the factors which BLME believe will drive this anticipated inflow of GCC capital into UK real estate, which include:

1. **A once-in-a-decade economic alignment.** There is a market consensus that the long-anticipated fall in the Bank of England base rate will commence later this year. Falling inflation means a cut to interest rates is likely, with some in the market anticipating a reduction at the next meeting of the Bank of England’s Monetary Policy Committee meeting in August and if not then, shortly after.[1] Residential mortgage providers in particular have already started to cut their fixed rates, boosting sentiment. By using providers who can meet their unique requirements, investors will have a strong opportunity to take advantage of the alignment of cheaper financing and property finance, and deploy the capital they’ve been holding, before property prices increase in line with demand.
2. **The opportunity to realise a lucrative ‘Green premium’.** With the right advisers in place, investors can purchase assets which do not comply with the UK’s new environmental requirements,[2] and bring them up to spec to be sold at a profit. Our research shows that there is increasing awareness of this opportunity among GCC investors. They will be looking to capitalise on this opportunity, particularly if they have intermediaries with the local expertise to find discounted assets.
3. **UK living sector.** 70% of the experts we interviewed report that GCC investors are focused on asset classes in the living sector. These include retirement living, private rental schemes, co-living and purpose-built student accommodation (PBSA) – which our research finds are now one of the most popular asset classes among Gulf nationals. The UK’s ageing population points to a reliable level of long-term demand for retirement living assets. The country’s longstanding undersupply of residential properties shows that appetite for private rental schemes will be similarly enduring. The living sector is therefore likely to become even more popular with GCC investors in the future.

While these key drivers paint a positive picture for GCC investment over the next year, there are also potential future trends and risks which could soon begin to impact. Issues such as potential tax changes and appetite for regeneration are on the minds of GCC investors, and so we’ll take a look at what that might mean for the coming years.

BLME has been tracking sentiment in the market and reporting on it for the past three years. Based on our experience, and looking at all the factors outlined in this year’s report, we anticipate that the next 12 months will be strong for GCC investment, and we look forward to continuing to work with our partners on a range of exciting deals.

Rashid Khan Gandapur

Rashid Khan Gandapur, Director, Real Estate Finance, BLME

Andy Thomson

Andy Thomson, Head of Real Estate Finance and Private Banking

[1] UK inflation hits Bank of England’s 2% target in May (ft.com)
[2] Understanding Commercial EPC: The Ultimate Guide to EPC for Commercial Properties (cim.io)

The Economic Opportunity

A large amount of GCC capital has been on the sidelines and is set to enter the UK property market. Political uncertainty on the lead up to the general election, pandemic-induced demand shocks and supply-chain shortages – along with surging costs and interest rates following the Ukraine crisis – prompted a prolonged period of 'wait and see' from GCC investors.

However, UK interest rates are likely to be cut at least once this year. This will spark an uptick in transactional activity, as the return on cash deposits becomes less attractive and the cost of investing in property drops. There will be tangible benefits for both those buying and selling real estate assets, because liquidity will increase. Scott McKinnon, Director, Mutual Finance comments: "There was a lot of sitting on hands last year due to difficulties in deploying capital. This led to a level of frustration and pent-up equity which could be released this year."

Nearly 70% of the experts interviewed said investment volumes in UK real estate from the GCC would be higher in the next 12 months. Falling interest rates was selected by 87% of our panel as the most important reason why. Johan Eriksson, Managing Partner, Oryx Real Estate Partners adds: "The prospect of interest rate cuts along with a more appealing entry point and continued rental growth will attract GCC investors to the UK market."

What are the key factors driving GCC investor appetite for UK real estate right now and over the next 12 months?

87%	Falling interest rates
75%	Improved affordability to acquire assets
68%	Improved outlook for increased investment returns
56%	Portfolio diversification
50%	Increasing geopolitical tensions

Respondents were asked to select up to five options

Prices, too, will be crucial in driving this once in a generation environment for investors from the GCC. Rising interest rates in 2022 and 2023 contributed to a reduction in property prices, with residential valuations growing at their slowest pace in nearly a decade, and commercial ones declining sharply. Many market commentators consider these reductions have largely run their course.[3] In 2024 and beyond, GCC nationals will be looking to take advantage of the lower prices.

The UK government elections saw the Labour Party achieve a landslide majority in July, which has given them a clear mandate to lead and arguably a clearer policy direction for the UK economy. Typically, UK general elections have been followed by an increase in housing market activity in the aftermath.[4] The 2024 election result drove UK housebuilding stock prices to rally,[5] reflecting the Government's commitment to pass legislation that would support the delivery of 1.5m new homes over the next five years.

The combination of attractive valuations, more affordable financing, and a more stable political outlook will create a unique economic opportunity for the UK's real estate sector to attract pent-up GCC capital over the next 12 months. BLME anticipates this will lead to one of the biggest influxes of GCC investment in recent years.

"Investors from the Gulf, and further afield, needed a good reason to deploy capital into UK real estate over the past couple of years, rather than leaving cash on relatively high yielding fixed deposits. They now have that reason, with good buying opportunities in the UK following the recent downturn, coupled with the prospect of interest rates starting to come down soon. Particularly in London, yields just weren't where investors wanted them to be a few years ago, but there's now opportunities to buy prime retail, hospitality, and offices at far more attractive yields."

Michael Ferris, Director, JR Capital

"UK property prices are stabilising, and overseas clients are looking to invest in the market. Britain's real estate sector is primed for a rebound and investors from the GCC are keen to deploy capital at an attractive entry point now."

Tareq Hisham Hawasli, Co-Founder, Darin Partners

[3] Why commercial property values have hit the floor (thetimes.com)
[4] What does the election mean for the housing market? | Property news (rightmove.co.uk)
[5] Housebuilders rally as investors bet on Starmer's new homes pledge | Stock markets | The Guardian

GCC Investors' Evolving Appetite - A New Green Premium

GCC investment volumes are set to grow over the next 12 months. Yet the demands of investors from the Gulf have shifted. Money is about to be deployed, but where will it be going? There is growing appreciation of the need to optimise assets' quality, flexibility, and ESG credentials, as market and regulatory pressures ramp up the value of well-designed, sustainable buildings.

The new Labour Government has announced that they intend to require landlords to get their properties up to an Energy Performance Certificate (EPC) rating of C or above by 2030.[6] Poorly designed buildings with a low EPC rating have experienced significant price drops. Many market commentators take the view that these price reductions against a changing and better economic outlook are creating new opportunity for investment returns by retrofitting and improving the quality and flexibility of older building stock and increasing its EPC rating.

Scott McKinnon, Director, Mutual Finance, says there has been a "seismic shift" in GCC investor awareness of the environmental credentials required for UK buildings. He anticipates that in five years, GCC clients are unlikely to rent a property with an Energy Performance Certificate rating of less than C.

Henry Faun, Partner, Private Office Middle East, Knight Frank, points out that GCC clients with multi-national advisers are beginning to feel the commercial benefit this can offer, noting the "strong opportunity to add value by refurbishing buildings' ESG credentials." Today, there is a sales price premium of between 8-18% for green-rated buildings compared to equivalent buildings without a BREEAM rating.[7]

Do you think that there will be an increase in GCC investor interest in redeveloping existing real estate and optimising ESG credentials over the next 12 months?

Yes	Unsure	No
81%	12%	6%

"Sophisticated investors are prepared to pay a premium to acquire ESG-compliant assets. There is growing awareness in the Gulf that EPC ratings are becoming stricter, creating an opportunity for advisers to identify assets where value can be added, bring them up to spec, and drive up the sale price."

Bassam Kameshki, Adviser to the Board - Middle East, Cordatus

More GCC investors are now entering joint ventures with UK advisory firms that can effectively source deals in the local market. These partnerships are increasingly purchasing existing poor quality buildings with low sustainability credentials, and improve or repurpose them to achieve an uplift in value.

Growing investment appetite for good quality and flexible assets with strong sustainability credentials is an emerging trend illustrated by BLME's own activity in the market. Over the last 12 months, the Bank has financed the development of a £23 million eco-friendly PBSA block in central Nottingham, and a £20 million sustainable office project in Richmond.

The tightening environmental regulations and prices falling, for example, by as much as 30% for poorer quality and less well invested office space is creating a significant opportunity to create good investment returns with proactive asset management. To take advantage of this opportunity, GCC investors are increasingly working with local professional advisers and intermediaries with an on-the-ground presence, to more quickly identify where these opportunities exist.

Nick Green, Cross-border Investment Partner, Towers and Hamlins, says GCC investors have growing appetite for 'brown to green' capital expenditure, bringing offices up to current sustainability standards. He adds: "ESG compliance requirements are increasing. With the level of scrutiny only going in one direction, the office asset class, in particular, is polarising. Fail to get it right, and you could be left with a stranded asset and / or a limited pool of potential tenants."

[6] Labour want more sanctions for rental sector (commercialtrust.co.uk)
[7] How does ESG impact commercial property valuations? - Knight Frank

Looking Ahead

Emerging Trends: The Living Sector's New Lease of Life

Demographic trends and supply shortages will make the living sector – properties which provide accommodation across all stages of life – a more popular option for investors in the future, particularly those from the GCC.

There is also strong growth in private rental sector schemes, including build to rent, co-living, purpose-built student accommodation (PBSA) and retirement living. When asked what Gulf nationals are currently focused on, 70% of the experts we spoke to said asset classes in the living sector.

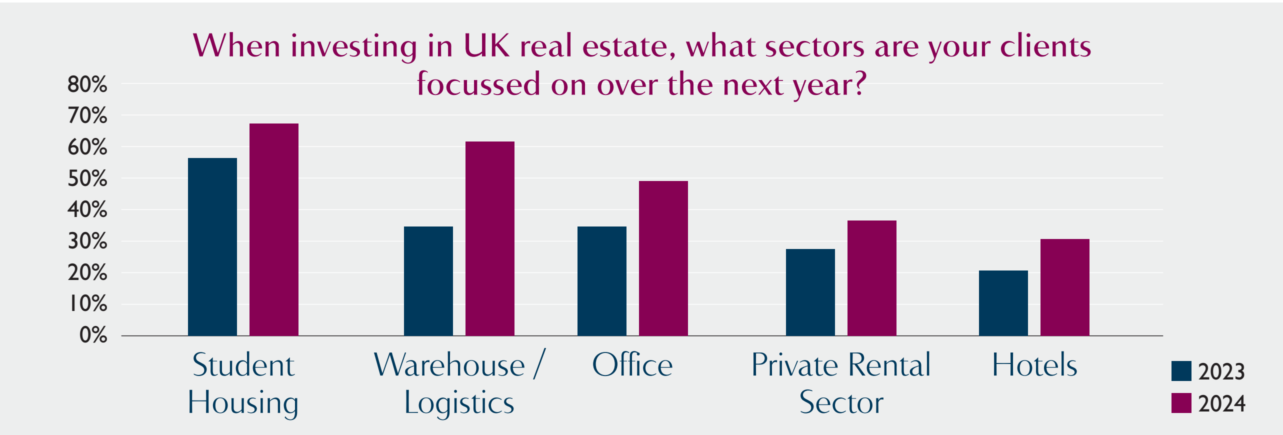
PBSA buildings, for example, have emerged as an attractive investment option for investors due to favourable demographic trends, occupancy levels, and low tenant default rates – with a consistent and reliable influx of students at the start of each academic year.

BLME has seen rising demand for this asset class in the market over the last 12 months. We are providing a growing number of clients with financing for prime PBSA schemes across the country, including in Oxford, Nottingham, Derby, and Aberdeen. Noting UCAS' projection that applications to enrol in a higher education course will grow from around 600,000 today to 1 million by 2030,[8] Nick Green, Trowers and Hamlins, points out that undersupply of PBSA even for current student numbers means demand for asset development should remain strong in this sector.

PBSA is an asset class Gulf investors are familiar with, as many attended the UK's educational institutions, and even more are sending their children to them. Today, the number of students at British universities from the Gulf region is continuing to grow,[9] suggesting that GCC nationals' affinity for Britain's renowned schools and universities will not only endure, but also increase.

That emotional connection, combined with the low rates of tenant failure and reliable occupancy it offers, means that PBSA will continue to be a popular asset class for GCC investors in the next 12 months. The sector will be a significant focus of the investment injection we expect investors to provide to the UK property market overall.

We also anticipate that in the coming years, investors will focus on other assets in the living sector, particularly as more co-living projects emerge, and the UK's ageing population necessitates an increase in the number of retirement properties.



[8] UK higher education applicants to rise to 1mn a year by 2030, warns UCAS (ft.com)
[9] Gulf students opt for UK, Australia over US, Canada (timeshighereducation.com)

Case Studies

The Croft

What did BLME do?

Provided Orka Investments Ltd (Orka) with a facility to refinance The Croft, a prime PBSA scheme located in Derby City Centre.

Why?

The Croft has a track record of 100% occupancy since being acquired in 2021 and is ideally located on the doorstep of the University of Derby's new business school, which will cater to 6,000 new students in addition to the University's 21,000 current students.

The Croft benefits from excellent environmental credentials and offers tenants a range of amenities that have helped deliver market-leading levels of tenant satisfaction and an exceptional letting track record.

Arcadian

What did BLME do?

Provided £23.1 million in financing to Urbium Capital to assist with their forward-funding development of a PBSA block in central Nottingham, the 'Arcadian'.

Why?

The 293-bed block will provide much-needed accommodation options for Nottingham and Nottingham Trent Universities, where there is currently a shortage of purpose-built student beds.

The development has recently been awarded WiredScore Platinum certification and targets an Energy Performance Certificate (EPC) rating of A and a BREEAM rating of Very Good.

Emerging Trends: GCC-led Regeneration

Looking at GCC equity investment in UK assets, one emerging trend we are beginning to see is a growing appetite for larger scale and regeneration projects, which often involves a change of planning consent for brownfield urban sites. Appetite for asset classes such as hotels is also continuing to grow following the post-pandemic recovery in the hospitality and travel sectors. BLME has already provided financing for the early phases of a major regeneration project in Salford and has plans in the pipeline for a similar development elsewhere in Manchester as well as a large development project in Edinburgh City Centre.

Large scale institutional investing in the regions means the number of GCC funded regeneration schemes in the UK is likely to increase. For example, Naseer Aka, Managing Partner, Lanesbrook Real Estate highlights: "Sovereign wealth funds and larger institutional investors are contemplating larger regenerative schemes, and we're seeing private investors follow this trend. While family offices aren't necessarily getting involved with large-scale traditional regeneration, they are looking for opportunities in development, and in adding value to existing assets, whether that's through office to residential conversions or improving the ESG credentials of offices and other commercial properties."

Premier League football is a leisure, hospitality and cultural export that has long-attracted Gulf investment to the UK, and the growing number of GCC club owners is providing a catalyst for regeneration of sport grounds and surrounding property and hospitality infrastructure.

The Emirati royal family's acquisition of Manchester City FC, the current champions, marked the start of a major new phase of regeneration. The club's Abu Dhabi-based owners recently obtained planning permission for a $384 million project to expand and upgrade its stadium, adding a 400-bed hotel and a 4,000 sq. m co-working space for local businesses.[10]

In November, the former Manchester United and England footballer Gary Neville revealed that one in five properties in his luxury residential development have been purchased by UAE investors.[11]

But examples of this emerging trend are not confined to North West England. Saudi Arabia's sovereign wealth fund purchased Newcastle United, and will redevelop large parts of the city centre in partnership with the Reuben Brothers.[12]

These examples provide a potential indication of a trend towards GCC investment in the UK. BLME has supported a GCC investment firm with development finance for a £40m studio apartment scheme in Newcastle City Centre, which reflects the vibrancy and younger demographic in the city and strong expected tenant demand. The bank also supports investors from outside of the GCC and provided a £20.74 million facility to Barwood Capital's Regional Property Growth Fund IV for the refurbishment of an office building in Richmond, South West London.

This appetite for larger scale projects, is a future trend to look out for when assessing GCC investment sentiment towards UK property. By hiring local advisers who can identify the right projects, investors can take advantage of both. A recent study[13] on regeneration by the law firm Trowers and Hamlins found that residential living sector build-to-rent schemes themselves can be a catalyst for regeneration as they provide much-needed housing, but also ensure the future of the area is prioritised where landlords are invested in the long-term and want tenants to have quality local amenities.

Future Risks: Safety and Security

The UK's real estate sector is likely to benefit from a fresh injection of capital from the Gulf in the next 12 months. However, there are potential risks on the horizon that could dampen some GCC investors' appetite.

"Street-level security in London has been perceived to be at a lower level in recent years. It is positive that the Metropolitan Police have taken significant steps to increase security in recent months. London's walkability is a key draw for clients from the GCC, where cars are the default mode of transport."

Henry Faun, Knight Frank

Today, reported street crime is becoming more prevalent in London. "Theft from a person" — a category of offence that includes stealing watches, handbags and mobile phones — rose last year compared to 2022.[14]

Mayfair has long been a favoured destination for GCC nationals visiting and buying properties in the UK. But the Borough of Westminster, where Mayfair is located, has seen an especially large spike in this type of crime. Police are of course clamping down on this type of theft in the area and most incidences can be avoided by taking modest and sensible precautions.

Future Risks: Could Tax Changes Dampen Investment Appetite?

A potential concern to future GCC investment in UK real estate is the proposed tax changes system, including for non-UK domiciled individuals — known as non-doms. Currently, non-doms can pay tax only on what they earn in the UK, but under changes introduced by Jeremy Hunt as Chancellor, after four years they would pay tax on income earned worldwide. The Labour government has committed to taking a crackdown on non-doms even further.[15] But this typically only impacts GCC national that stay over three months in any tax year, and many don't.

[10] UAE buyers help Gary Neville hit Manchester property goals | AGBI
[11] UAE buyers help Gary Neville hit Manchester property goals | AGBI
[12] How the Saudi Arabian takeover changed Newcastle United | Newcastle United | The Guardian
[13] Rethinking regeneration -Trowers & Hamlins
[14] India's business elite sounds alarm over Rolex thefts in London's Mayfair
[15] Labour's non-dom crackdown will bring in 'just £8,000 per person' (telegraph.co.uk)

"The recent non-dom announcement could have some impact on GCC investor interest; however, many of our clients visit at various points throughout the year for short periods and therefore, foreseeably, may not be affected at all"

Henry Faun, Knight Frank

Most of the UK's non-doms live in London or the South East.[16] This includes some investors from the GCC – such as UAE President Sheikh Mohammed bin Zayed Al Nahyan, who recently bought a £65 million mansion in Chelsea.[17]

Prime central London (PCL) property prices are now projected to be largely stable this year, instead of the rise predicted in January. The revision to forecasts reflects a slowdown in demand for the capital's most expensive homes over the past few months. There are anecdotal stories of some homeowners in PCL and other prime London areas cutting asking prices as a result.[18]

However, this needs to be balanced against a period of rapidly rising demand and price growth following the covid pandemic.

The impact the proposed changes will have on overall investment volumes, however, remains uncertain. Michael Ferris, Director, JR Capital says: "The impact of tax changes depends on what specific changes are on the horizon. For example, when stamp duty went up on commercial property by 100 basis points it did not have a significant impact on values, as was the case when capital gains taxes were introduced for non-resident companies owning UK commercial property. That said, when stamp duty increased into the double digits on residential property valued above £1m it brought the market to an almost standstill overnight."

Will announced or anticipated tax regime changes reduce total GCC investor interest in the UK as an investment location in the next 12 months?

Yes	Unsure	No
25%	50%	25%

"The impact of potential tax changes on investment volumes remains to be seen. The level of investment capital from the GCC to the UK over the next twelve months will be more dependent on the macroeconomic environment – and particularly interest rates."

Hassan Farran, CEO, Kamco Invest - London

More fundamental considerations about the UK's macro-economy, particularly declining interest rates and low prices, will play a more important role – and the signs are pointing towards a period of growth and opportunity for Gulf investment in British properties.

[16] Non-doms: Overseas investors 'wait and see' as Knight Frank revises prime property forecast down | Evening Standard
[17] Sheikh Mohammed bin Zayed Al Nahyan buys £65 million Chelsea mansion | Evening Standard
[18] London's mega-mansion fire sale: huge discounts on the capital's trophy homes | Evening Standard

Conclusion and recommendations

The volume of GCC capital in UK real estate is about to increase. In 2023, Gulf nationals and family offices were cautious of the state of the UK's economy and concerned about growth at home. But the market consensus is that interest rates will drop this year, causing GCC capital that was previously on the sidelines to finally enter the market.

To take advantage of the opportunities the UK's real estate market will offer, investors from the Gulf must:

1. **Adopt an active asset management strategy.** The strongest returns will be achieved by creating value – working alongside UK advisers with the local expertise to bring assets up to spec. And the moment for action is coming: with some property prices looking attractive in the market, and the cost of financing set to drop, investors who get it right could be set up for success.

2. **Use on-the-ground advisers.** Our research shows that awareness among Gulf investors of EPC ratings (environmental requirements for UK buildings) and the returns available from improving older building stock is increasing. There is growing awareness of the commercial opportunity this creates: To buy assets when interest rates decrease - but before prices go back up - then elevate their EPC rating and fit out and sell-on. However, in order to realise this lucrative opportunity, investors must continue to use intermediaries with the local knowledge necessary to identify those assets.

3. **Invest in the living sector now for medium and long-term gains.** More than two-thirds of our expert panel said GCC investors are now focussed on asset classes in the living space, such as purpose-built student accommodation, co-living, private rental schemes, and retirement living. Chronic supply shortages and demographic trends such as the UK's ageing population will make the living sector even more popular in the future. The market is about to get crowded: To stay ahead of the curve, investors must enter it before the competition heats up.

Interviewees and respondents

We would like to extend our thanks to the following individuals, who contributed to this report:

- **Bassam Kameshki,** Adviser to the Board - Middle East, Cordatus
- **Hassan Farran,** CEO, Kamco Invest - London
- **Henry Faun,** Partner, Private Office Middle East, Knight Frank
- **Johan Eriksson,** Managing Partner, Oryx Real Estate Partners
- **Rupert Sheldon,** Head of Product Development & Co-Head Transactions, UK, Fiera Real Estate
- **Michael Ferris,** Director and Head of Investment, JR Capital
- **Naseer Aka,** Managing Partner, Lanesbrook Real Estate
- **Nick Green,** Cross-border Investment Partner, Trowers and Hamlins
- **Scott McKinnon,** Property Finance Director, Mutual Finance
- **Tareq Hisham Hawasli,** Co-Founder, Darin Partners
- **Matthew Seston,** Principal, Arcapita
- **Andrew Dawson,** Founding Partner, Ailon

Methodology

Between April 26th and June 5th, we conducted an online survey among a panel of 16 GCC investment experts working in commercial and residential real estate, who are BLME contacts.

We also conducted in-depth virtual interviews with 9 of those contacts between May 24th and June 7th.

If you're keen to explore the opportunities in UK real estate investment, then please email the team at BLME:

propertyfin@blme.com