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UK Residential

Spotlight **The World in New London**

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Spotlight The World in New London

The amount of international equity flowing into prime London's newly built market continues to increase, with UK buyers a minority

In Spring 2011, we analysed who was buying in the prime second-hand markets, where they came from and what they were spending. We estimated that £3.7 billion of new equity had flowed into the prime London residential market during 2010 and that a significant proportion of this had landed in the new homes market.

We have now updated and revised our analysis which suggests that the rate that overseas equity flowed into newly built London property was larger than originally estimated and that it has accelerated. Last year (2011), £1.4 billion of net new equity will have flowed into the newly built prime market alone.

By putting cash in the pockets of London's developers, often prior to the physical completion of a scheme, this overseas equity is an important source of funding. This document seeks to understand where it is coming from and why; and to examine how this has changed and is likely to change in future.

Buyer types in the new build market are heavily influenced by developer's marketing strategies and are reflective of what has been sold in different parts of the world.

The enormous success experienced by UK developers in recent years in selling units in Asia Pacific is clearly illustrated in Graph 1. Chinese and Pacific Asian buyers now constitute 33% of all new build buyers, up from just 4% in 2009.

Overall, overseas buyers have become much more important than UK buyers in prime London over this time. In 2011, UK buyers were a minority in the market – constituting just over a third of buyers.

Accessible, safe market

In 2011 social unrest in the world coupled with political uncertainty, has meant that London living has become increasingly attractive, demonstrated by a rise in the proportion of Middle east and North African buyers in this time.

Overseas currency

The more central the market and the more expensive the property, the more likely it is to be purchased by an overseas buyer or foreign national. The wealthiest markets are dominated by the greatest range of nationalities.

Buyers from Russia and other Commonwealth of Independent States (CIS), as well as the Middle East and North Africa (MENA) are more likely to buy in the £5 million+ range, (see Graph 2) and especially prominent in the £10 million+ market. Here, address kudos combined with proximity to high-end amenities, shopping, and international restaurants and bars, leads to a 'clustering' of the global wealthy.

In the new build market, the range of services and amenities offered at high-

SUMMARY

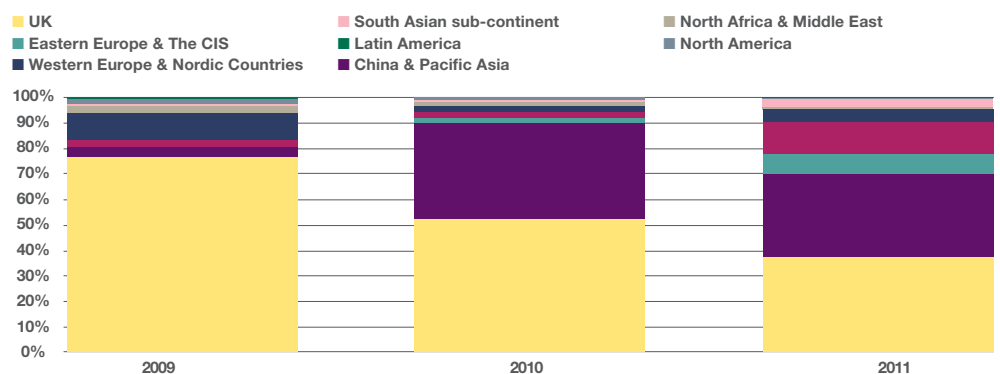
Overseas buyers drive market

- The prime London residential market is currently being driven by international buyers.
- The new build market in London has a higher proportion of international buyers than the second-hand market. This means its dynamics have more in common with Hong Kong and Singapore real estate than with average UK property.
- UK buyers were three-quarters of the market for newly built London properties in 2009, but in 2011 formed little over a third.
- Overseas buyers in the new build sector, especially in the east of City (Docklands) markets are dominated by Pacific Asians and Chinese, reflecting concentrated marketing efforts in these regions.

end and branded schemes appeals to the global billionaire lifestyle. Both CIS and MENA buyers, who spend more per property in London on average, also spend more on new build than second hand houses, demonstrating the premium which can be generated by this product.

With demand generated from across the globe, limited supply supports →

GRAPH 1 Buyers in new prime London development



Graph source: Savills Research

→ capital values. Prime central London property is therefore seen as an attractive asset for cash-rich investors.

East of City market

In the second hand market, western Europeans (10%) are second to UK buyers (73%) as the most dominant source of demand. They are less active in the new build market (4%).

In contrast, it is Chinese and Asia Pacific buyers who are most active (26%) among foreign purchasers in the new build market. They dominate the apartment market, but at lower price points than most other overseas buyers. Asians tend to be more investment orientated and benefit from weak sterling. The exchange rate has made prices look even cheaper to them since 2008 (see Graph 3).

Buyers' decision-making processes appear to be influenced by their experiences of residential investment in their home markets, affecting the type of product and location chosen in London.

More than any other nationality, the Chinese and Pacific Asian market is attracted to the East of City area of London. Primarily from Singapore, Hong Kong, China and Malaysia, these buyers are particularly accustomed to investing in new build regeneration schemes at home and understand that they can benefit from long term capital growth here.

Good access and communication links to the financial district are key factors motivating choice among both investors and owner-occupiers from China and Pacific Asia.

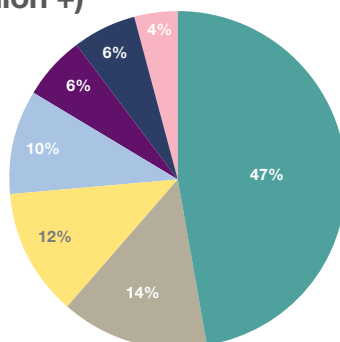
Through concentrated marketing

GRAPH 2

Prime Central London (£5 million +)

New home buyer nationality

- UK
- Africa
- China & Pacific Asia
- Western Europe & Nordic Countries
- South Asian sub-continent
- Eastern Europe & The CIS
- North Africa & Middle East



Graph source: Savills Research

MAP 1 Prime Central London



Graph source: Savills Research

efforts, Chinese and Pacific Asian buyers pioneered overseas investment in areas such as Canary Wharf, and have proved particularly attracted to new-build structures with iconic architecture. They are often an important source of forward-funding when buying 'off-plan'.

Developers have consequently sought to target the Chinese and Pacific Asians by tailoring product to their preferences in terms of configuration, layout and design features.

For buy-to-let investors, those living and working in London, or those who have bought for their children studying here, the long term capital growth

prospect and opportunity to generate rental income is key.

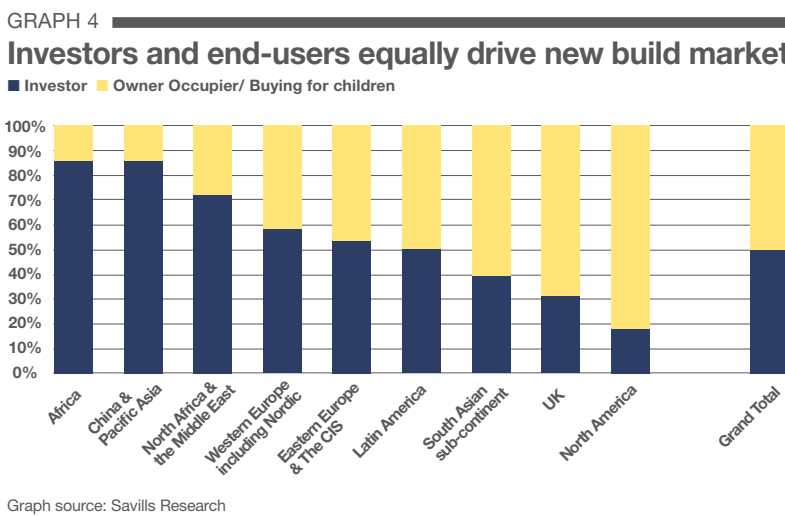
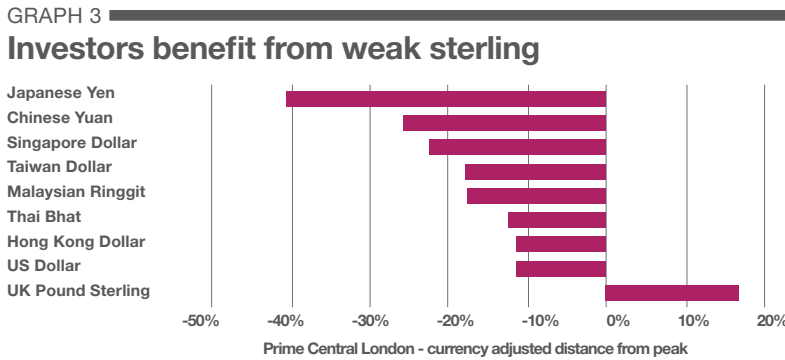
Investors and end-users

Culture, communities, friends and family all influence purchaser location preferences. South Asian – mainly Indian and Pakistani – buyers (who are more likely to use a property themselves rather than buying for investment) often settle in areas to the north and west of London, including Wembley and Southall, or East Ham, Manor Park and Upton Park in the east, where there are established South Asian communities.

Indian High Net Worth investment in prime central areas also demonstrates the increasing buying power of this market. A pied-à-terre in London is a lifestyle choice for many South Asian entrepreneurs, favouring properties with concierge services enabling them to confidently lock-up and leave at their convenience.

Overall, buyers in the new build London market (both prime and mainstream) are equally motivated by the prospect of investment as well as their own-use of the property.

The UK, US and South Asian markets are more likely to be owner- →



→ occupiers, living and working in London, while investors are mostly from Africa, China and Pacific Asia, and the Middle East (see Graph 4).

Investment motives

For buyers from emerging or newly industrialised economies, putting their money overseas and particularly in London property is an important part of diversifying investments and safeguarding their cash.

The absence of barriers, compared to other markets, on entering or exiting the London new build residential market supports inward investment from overseas.

London's cosmopolitan appeal together with its perception of safety and security are important factors to international purchasers.

Trust in the UK legal system as

well as familiarity with its process among buyers, particularly from Commonwealth countries, facilitates property purchasing.

New build property also appeals to overseas investors as an asset that can be managed from afar. With property management options and product warranties it is possible to administer their investment from home, no matter the distance. ■

OUTLOOK

The market in 2012

■ With prolonged social unrest, economic uncertainty and political tension across the globe, London property markets will display some counter-cyclicality. Wealthy individuals are likely to continue investing in overseas assets, such as London property, to safeguard their cash and provide themselves with an alternative living option.

■ The flow from the 'New World' - Russia and other Eurasian countries, Middle East and Africa into 'Old World', prime £5 million+ London is likely to remain strong.

■ In the long term, the status and kudos of property ownership in the most sought-after addresses will continue to be important among individuals from emerging / newly industrialised economies.

■ Chinese and Pacific Asian investment will continue, though probably at a lower level than recently. Strongest markets for this group will be where there is good access to the City or Canary Wharf financial districts, and where there is robust rental demand.

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