Rhiannon Bury / Property Week

A nation on the edge – 6th March 2015

Flying to Greece to take stock of the impact of the currency crisis on the commercial property market was a gamble: I had no contacts, no idea where I was going, and only a few days to pull a feature together lest the situation change again.

But with a bit of determination and not a little luck, I landed an interview with the head of the National Bank of Greece's property division. It was a huge coup: Aristotelis Karytinos was unaccustomed to media interviews, and had a unique insight that no other publication had thought to exploit.

He explained the impact of Syriza's plans on the investment market and, along with other interviews with property agents working on the ground, provided perfect material for an article which captured the situation from an angle that I knew would appeal to our readership. It became the cover feature for our International issue.

A Labour of love? – 17th April 2015

Securing a high-profile interview is always a challenge, but none so than with man-of-the-moment Chuka Umunna, who I spoke to just weeks before May's general election.

At the time, I knew that he was going to be a key figure in the Labour party's ongoing evolution, and his rise up the party ranks had made him stand out as someone to interview in order to show our readers that we had the best coverage of the election, and that we were truly able to pull in the big names.

As the polls closed on election night, the article looked more prescient than ever: for all Umunna's confidence in the interview, the plans that Labour had put forward had not been received well by the industry. It was a sign of things to come.

Barrelling into trouble? – 6th February 2015

The crash in oil price was the biggest story of the beginning of the year: everyone was talking about it, and yet no one really knew what impact it would have on the property industry here in the UK.

I believe that trade magazines are at their best when they tackle big business issues and apply them to property – giving readers a sense of where their own sector fits into the wider global business dynamic.

Through interviews and analysing previous cycles, I produced a comprehensive and authoritative piece exploring how the oil price drop could affect the UK. It was essential reading for property professionals who had followed the general headlines, but needed to know whether to panic or not.

A nation on

Investors watch and wait as the new Syriza government negotiates with Europe. **Rhiannon Bury** reports

The mood in Athens is sombre. It is just weeks after the radical left-wing political party Syriza stormed to victory in the Greek election and new prime minister Alexis Tsipras is locked in talks with European Union leaders about the next steps for the country's economy.

You don't have to go far to find someone with an opinion about what Tsipras and his finance minister Yanis Varoufakis will do next.

George, a 43-year-old taxi driver who is Athens born and bred, is concerned about Greece's ability to keep itself afloat. "There's no industry in Greece now – there's nothing except tourism and that's only really from March to October," he explains, as he drives through Athens' congested roads. "I didn't vote for Syriza and I don't know if anything will change now."

Elsa, a waitress in Athens' buzzing downtown area, is equally unsure. "They're pink communists: that's what everyone's saying," she says. "I don't know if they will actually make any difference though."

It's a nervous time among property professionals, too. The new administration – and, more importantly a potential new fiscal policy – could fundamentally change the market. Even though a four-month extension to Greece's bailout has been agreed, there are still a number of unknowns.

In the short term, the situation creates uncertainty in a country that is only just recovering from the worst financial crash in decades. In the long term though, there may be glimmers of hope.

Greece has called for a debt write-off and while agreeing a deal with the European Union is a step forward, the EU has already expressed doubts that it can meet the basic objectives of the deal. Syriza's plans are radical: it wants to end the painful austerity measures Greece has endured since the height of the financial crisis and to boost public spending.

Can Syriza attract investment?

The property market has been one of the casualties of Greece's recessionary troubles. Development in Athens is limited at best – many schemes have stalled or been totally mothballed in recent years, with development linked to tourism the only real activity.

The real test of Syriza's first few months will be its ability to attract inward investment to the country. One of the more significant deals of last year was US fund Sankaty Advisors' investment in Credit Agricole's Greek leasing subsidiary, Credit Agricole Leasing Hellas. The deal, which was worth around €500m (£364m), included 150 properties spread across Athens and Thessaloniki.

That particular deal was anomalous because of its size and is unlikely to be repeated in the current environment, believes Nicky Simbouras, managing director at Proprius, part of Cushman & Wakefield. "International funds have now started to adopt a 'wait and see' attitude and we expect this to continue until we have a clear picture of the situation," she says.

"Middle Eastern investors might keep coming here because they won't be affected as much – but their investment is in the tourism and residential markets. It's very limited in commercial real estate. Investors from Europe and the US will probably be impacted and that's where a lot of the commercial investment has come from."

Closer to home, Greek property investment vehicles Grivalia, formerly Eurobank Properties Real Estate Investment Company, and NBG Pangaea, the real estate investment arm of the National Bank of Greece, are still snapping up investments that come onto the market, especially the numerous non-performing loan portfolios that have emerged in recent years.

Aristotelis Karytinos, general manager of real estate at the National Bank of Greece, also heads up NBG Pangaea. He is optimistic about Greece's future and hopes the recovery the country was beginning to see at the end of last year will continue into this year, once the direction of financial policy is finalised.

"The financial market was practically frozen during the crash," he says. "But since 2013 and especially 2014, we've seen significant growth in the market. Amazingly enough, the investment deals that were done in 2013 and 2014 were higher [in value] than during the peak in 2006 and 2007. We also had a slight contraction in the yields, which is the first positive sign of a growing market for many years." »

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the edge

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« The election has caused a dip in an otherwise recovering market, however. "In October, things started to slow down," he says. "We will just wait and see what happens with this new deal the government is trying to cut with the rest of Europe. If we find a solution soon enough, then we believe we can start again from where we were in October."

NBG Pangaea has itself completed £350m of deals since 2013. It had planned to float on the Greek stock exchange but has delayed the plans while the political situation stabilises. Karytinos says the business now hopes to grow its portfolio value from £1.6bn currently to £3bn in the next three to five years and to become a "European REIT, not a Greek REIT".

He adds: "I hope the new government will be good for Greece – we hope that the recession is behind us and we have very positive prospects."

Regeneration hopes

Yannis Perrotis, managing director of CBRE in Greece, is less optimistic. "There hasn't been a slowdown – there's been a total freeze in money coming in," he argues, when it is suggested that the real estate market is simply taking a pause while the political situation levels out.

"The election had an effect before it even happened," he contends. "Since before the election process really started, there's been a freezing of all the investment activity, although there have been a few local transactions where people have sought to take advantage of the uncertainty in the market."

He is concerned about some of the proposals Syriza has mooted for property, including a tax on high-value assets, which aims to increase state revenues by targeting the wealthy. It would include real estate with values calculated annually, alongside bank deposits, luxury goods and works of art, with a tax-free threshold of €300,000.

The new combined tax would eliminate the hugely unpopular single property tax that currently applies to real estate transactions.

"There is no clarification as to whether that applies to investors as well as private owners," Perrotis says. "I hope [the new government] won't allow the situation to go on for too long. They have overpromised to win votes, but I think ultimately they will do what the German government wants and they will negotiate something in exchange."

One of the big real estate projects in Syriza's crosshairs will be the long-awaited Athens airport regeneration project. The former airport complex has been a wasteland since 2001, when it was replaced ahead of the 2004 Athens Olympics. Since then, numerous plans have emerged to transform it into one of Europe's biggest real estate projects.

Hellenikon – which if completed would be three times the size of Monaco – has come close to fruition several times. In 2013, the Qataris pulled out of a deal to build a financial district similar to Canary Wharf. In March 2014, Lamda Development, controlled by Greece's powerful Latsis family, backed by a consortium of Chinese and Abu Dhabi-based companies, signed a €915m deal for a 99-year lease of the site.

Street protests: ordinary citizens have been angered by the imposed austerity measures

> *"The problem is we don't have a lot of big buildings for investors to buy"*
> **Christos Kosmas, Deloitte**

The group's €7bn plan to transform the site into a luxury coastal resort could now be scrapped though. A commonly-held view among agents is that the consortium's exclusivity period will pass without development starting.

Syriza has always vehemently opposed the sell-off of the site, with Syriza lawmaker Nadia Valavani calling the sale of public assets "scandalous" in media interviews. It seems likely it could cancel the project altogether or break it up, meaning a potentially huge swathe of inward investment could be lost.

Waiting for space

The investment market currently looks shaky at best as Syriza debates its position. Meanwhile, the occupier market is relying on development to continue.

"We have a 21,500 sq ft requirement that we can't find space for because it's going so fast and construction has ceased," says Katerina Dimou, director of investment and office services for Colliers International in Athens.

"We've been to the bottom of the market, so even if the situation declines now, I expect it to last for maximum of a year and then it will get better. There have been some office moves in the past year that give us confidence that companies do want to look for better space as the market improves."

The three strands are inextricably tied together: as development happens and tenants sign up to better space, investors will buy office buildings with strong rental covenants. Greek REITs such as NBG Pangaea can invest in residential properties, but need the bulk of their investment to be commercial to comply with Greek lending rules.

"There is foreign money behind NBG Pangaea and Grivalia, which is a good sign," says Christos Kosmas, Deloitte's principal of financial advisory services in Athens. "Grivalia has €500m to be invested and another €1bn they can get from [Canadian investor] Fairfax Financial Holdings and other funds that back them.

"The problem is we don't have a lot of big buildings for them to buy, which is why development needs to happen."

The general consensus among property professionals is that Syriza needs to act quickly in order to maintain the cautious recovery that began in the middle of last year. A left-wing government, intent on taxing the rich to help the poor, is not the traditional bedfellow of the property industry, but there is a certain amount of confidence that if the new administration gets it right, this year could signal Greece's turning point. ■

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A Labour of love?

■ In the latest in our series of special features ahead of one of the most hotly contested general elections ever, **Rhiannon Bury** asks shadow business secretary Chuka Umunna what policies Labour would introduce if it wins

With less than three weeks to go until the most nail-biting election in decades, to say Chuka Umunna is busy is an understatement. Hoping to make the transition from the shadow benches to the Cabinet on 7 May, the shadow business secretary is grafting on the campaign trail when *Property Week* manages to snatch 10 minutes with him while he's on a train on his way back to London.

The outcome of the election could go in so many ways that the property industry is keenly watching moves from all parties, not least Labour. So what does Umunna have to say about his party's plans for businesses? And what policies does he think will make the biggest difference to the property industry if a Labour government gets into power?

Umunna is fresh from launching Labour's business manifesto in which, among other things, the party promises to reverse the government's planned corporation tax cut to fund a reduction in small business rates.

The proposals were given a lukewarm reception by the industry, which felt that Labour's changes amounted to little more than tinkering around the edges of what is essentially an outdated system. More drastic action was required, argued many, with the British Property Federation going so far as to suggest that small businesses should be exempt from business rates entirely.

Unsurprisingly, Umunna is adamant that Labour's plans would have a positive impact. "We are going to cut business rates this financial year and then freeze them in the next financial year," he argues. "This means that 1.5 million businesses will save £400 a year on their rates bill, which will make a difference."

System not working

Indeed, claims Labour, cutting business rates would benefit 17 small firms for every one large business helped by the fall in corporation tax. Umunna nevertheless acknowledges that the system needs an overhaul. "I am aware that there's a lot of disquiet and discontentment around the current business rates system," he says.

"Ed Balls, Hilary Benn and I realise that the current system is not working, and we are committed to carrying on the review started by the Treasury. We recognise that there needs to be an overall review of how business rates work."

Another subject that has got the property sector fired up is, of course, Labour's plans to introduce a mansion tax. Many are concerned it would hit investment in high-value residential properties.

But Umunna questions whether that is really what is bothering people. "I do wonder whether some of the commentary people give [around the mansion tax] is driven by their own personal interests," he says, clearly riled by the suggestion that opposition to the tax could come from anyone other than those with large homes who fear they might be financially disadvantaged.

Labour contends that the tax, which would be levied on homes worth more than £2m, would help fund the NHS and raise an estimated £1.2bn. "It will impact on a very small number of properties and will ensure that we can put more money into an NHS that is currently in crisis," adds Umunna.

"Ultimately, this is very important for businesses because if we don't have a functioning health system it has a detrimental impact on businesses that need a healthy workforce."

When asked about the impact such a tax would have on investors putting their money into UK real estate, Umunna asserts: "I don't believe it will have a detrimental impact in the way that's been claimed."

So how does Labour plan to sustain the current volume of investment from overseas? "One of the most important aspects of maintaining foreign investment into the UK is maintaining our membership of the European Union," he contends.

Umunna feels strongly that the UK's place is within the EU and argues that outside the union, the UK would represent not only a less attractive place to invest, but also a less attractive place for companies to be based.

"We have talked to many very different multinational investors and companies and they choose to situate their headquarters in the UK because we are in the European Union. You only have to look at other politicians in the coalition government to realise that they are increasingly relaxed at the prospect of leaving, and I simply don't think that is right."

More devolution

Closer to home, a Labour government would push forward with further devolution to the UK's regions, Umunna adds. "We've been leading the charge on devolution for a while now," he says. "We

- To cut and then freeze business rates, abolish non-domicile tax status and introduce a mansion tax
- Ensure that by 2020, at least 200,000 new homes a year are being built, with first priority for local first-time buyers
- Give councils the power to require particular types of shops to apply for planning permission, allowing them to restrict some retailers
- Make a swift decision on the Airports Commission investment and improve long-term infrastructure planning

PW+ You can download all the major political party manifestos from www.propertyweek.com/news/election

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want to move that forward and take it further by devolving power down to more of the towns and cities in the UK."

He is particularly keen on the idea of having more elected mayors as figures with extended powers over certain areas and points out they will have access to a large shared fund.

"There's a £30bn pot to be spent by cities that could be devolved down, but that is currently determined centrally," he explains. "Areas would come together to form partnerships and then working with their Local Enterprise Partnership would bid to get their share of this £30bn pot."

As part of the devolved powers, combined authorities would be allowed to keep the business rates that they generate, he adds.

One important local issue is housebuilding and although this is not his area of responsibility per se, Umunna delivers Labour's party line – a promise to build more than 200,000 homes a year by the end of the next parliament. He says the party wants to offer people a "fair deal" in the private-rented sector and to crack down on rogue landlords, but does not offer any tangible solutions to how the homes could be funded.

> **One of the most important aspects of maintaining foreign investment is maintaining our EU membership**

He also waxes lyrical about more general policies to help businesses, such as increasing the number of apprenticeships: "Across the board, we want to ensure that people have a workforce coming to them with the right skills. We're going to boost the number of apprenticeships."

It will come as no surprise to many in the industry that Labour's policies for businesses are focused on pushing more power out to the regions, while maintaining the UK's position in the EU. And the UK that the party is promising to build could be good for businesses what with more apprenticeships, more housebuilding and a better business rates system.

But there's still a long way to go for Umunna and his colleagues, and as he dashes off to his next appointment, it's clear he knows that too.

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Barrelling into trouble?

The fall in the price of oil is set to have a dramatic impact on the property industry, both good and bad. **Rhiannon Bury** looks at the winners and losers and asks what the long-term prospects are for investment

The collapse in oil prices has fundamentally reshaped the world's economy. With prices sinking past $50 (£33) a barrel, one of the key commodity markets is reaching a low not seen since the depths of the recession in 2009.

There are inevitable winners and losers. Consumers, weary after years of soaring petrol costs, are enjoying far lower prices at the pump. The price crash is also expected to boost spending power and with it house purchases.

The drop has already resulted in a sharp reduction in the rate of UK inflation, which is likely to have a knock-on effect for economic growth. This could make real estate more attractive thanks to its good cashflow potential, but there are fears that investors whose wealth derives from oil-based income could pull back from spending in the UK and, of course, there are mounting concerns over how the UK's own oil industry will fare, not to mention the towns and cities that depend upon it, notably Aberdeen.

Many investors who have bought UK real estate in the past couple of years have come from oil-rich nations – Middle Eastern buyers in particular have dominated the commercial and residential investment market as London's status as a safe financial haven continues to attract money from all corners of the world.

> **The oil market like any other commodities market has periods of volatility. It's nothing new**

But that wave of inward investment could be about to recede. Last week, Standard & Poor's lowered its economic growth forecast for Malaysia, another active investor in UK real estate, to 4.6% for 2015 and 5.0% for 2016 as oil prices continue to slide. The previous estimates had been 5.5% and 5.4%, respectively.

The south-east Asian country has been hit hard by the collapse in crude prices. It is the world's second largest exporter of liquefied natural gas and also a net oil exporter. Sources working in the UK property industry suggested that, seeing the escalating problems, some Malaysian investors worked hard to complete investment deals at the end of last year, anticipating that the Malaysian government would try and encourage investment in the country itself, rather than outwardly.

Investment strategies are also being rethought closer to home. Norges, Norway's sovereign wealth fund and a much-lauded example of an investment vehicle in an oil-rich nation, was one of the most high-profile investors of 2014 after buying London's Pollen Estate, alongside the Crown Estate.

However, in December, Norway's central bank delivered a surprise rate cut, triggered by plunging crude prices, along with a warning of a 50-50 chance of another cut this year. Norges' allocation for real estate investment currently stands at 5%, but if oil prices continue to fall, it could well be drafted in to prop up other parts of Norway's economy and have to revisit its real estate exposure.

There is a counter argument - that oil prices will rise again before funds have to make such decisions. However, a report from Starwood European Real Estate Finance is in no doubt over the potential impact on inward investment. "Oil-rich sovereign wealth funds are often large-scale buyers of real estate using surplus funds generated from oil revenues," it notes. "Without such large surpluses (Saudi is running a deficit at the moment) their capacity for further acquisition may be tempered over the short-to -medium term."

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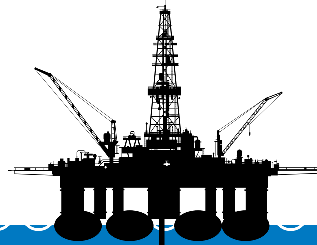


4.6%

The 2015 economic growth forecast for Malaysia, an active investor in UK real estate – lowered from 5.5% – according to Standard & Poor's

5.0%

Malaysia's economic growth forecast for 2016, lowered from 5.4%, according to Standard & Poor's

50:50

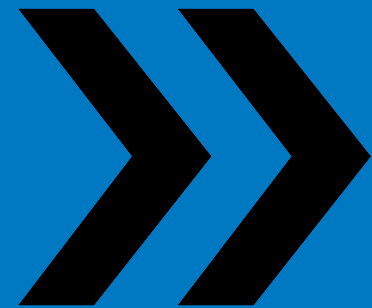
The chance of Norway's central bank delivering a rate cut this year after the surprise cut in December

£14bn

The collective turnover of five of Scotland's top 10 businesses, located in Aberdeen, yielding combined profits in excess of £2.4bn

40bn

The barrels of oil extracted by Aberdeen's oil industry since the discovery of deposits in the North Sea in the mid-20th century



Aberdeen's position

And what of that oil-producing centre closer to home, Aberdeen, which is widely acknowledged as Britain's oil capital? Aberdeen's oil industry was born in the mid-20th century when significant oil deposits were found in the North Sea. Since then, it has extracted around 40 billion barrels of oil, and has provided jobs for around half a million people in the city and surrounding area.

Even with declining North Sea reserves, the city continues to be viewed as a centre of excellence for oil research and commerce – it is home to five of Scotland's top 10 businesses, which have a collective turnover of £14bn, yielding combined profits in excess of £2.4bn.

But reports have circulated in the past few weeks suggesting that oil companies could look to lay off members of staff if the price of oil continues to fall. And there are also rumours they will soon be reviewing their property occupation too.

If nothing else, the uncertainty in the market could lead to some companies rethinking their position, or delaying activity until prices pick up again.

A report published last week by GVA, working

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« with Santander, reinforces this point: "Quite how North Sea oil companies (and other companies in the wider oil business) will react to the fall in oil prices in terms of production, investment and employment decisions is yet to be seen. This therefore adds a degree of uncertainty to the economic outlook for both Scotland and the UK that market participants were not anticipating six months ago."

However, Graeme Bone, managing director of Drum Property Group, is confident the price will rise again and that a price drop is simply a facet of the fluctuating market. "The oil market like any other commodities market has periods of volatility. It's nothing new," says Bone.

"The oil price remains higher than it was in June 2009. Periods of pricing change are nothing new for Aberdeen. Oil companies tend to take a fairly long-term view and while I can't predict where transactional activity will go this year, it's not all stopped."

Indeed, last week *Property Week* revealed that Drum had secured a 100,000 sq ft prelet to energy giant Lloyd's Register at its Prime Four development in the city.

"If you take a medium to long-term view, it's business as usual and we're not seeing any major issues on the horizon," Bone adds.

Buoyant market

Mark Glatman, chief executive of Abstract, which is currently developing the 1m sq ft Aberdeen International Business Park, is optimistic about the market's prospects even if there is a short-term dip.

"We're quite relaxed," he says. "I think in a year or 18 months the market will turn round again. In some ways, a slight lull might give Aberdeen Council the chance to do things like put link roads in and improve infrastructure, which will work in their favour."

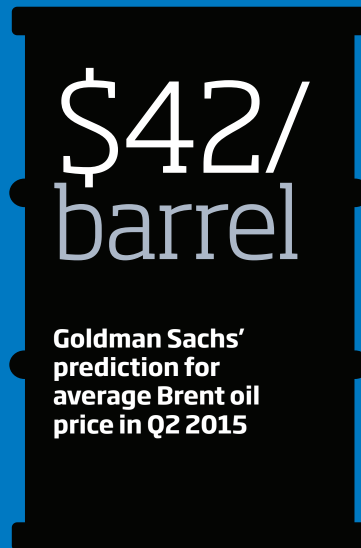
Keith Aitken, regional senior director and head of GVA in Scotland, adds that the market will need to stay agile in order to remain afloat. "The sentiment for continued improvement and growth in Scotland is quite clear," he says. "However, Aberdeen markets will need to adjust quickly to the dramatic fall in oil prices and the impact this will have on the previous 18 months' growth in the oil and gas sector."

In London too, oil-based occupiers are reviewing their plans. Noble Oil was due to move into a new office in Park House in Mayfair, but sources say the deal has been put on hold.

There will no doubt be further short-term fallout. However, Aberdeen is likely to remain a centre of excellence for the industry, at least in the medium term, and investors will continue to view London as a good investment option. Whether they will continue to hail so heavily from countries dependent on black gold is another matter. ■

World oil prices are searching for a bottom in a landscape characterised by excess supply. Severe capital spending cuts under way globally, in tandem with natural declines, are laying the groundwork for an oil price recovery to take shape during the second half of 2015 and into 2016"

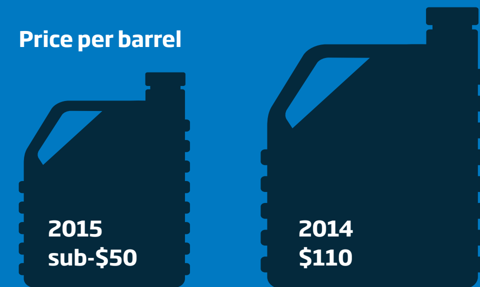
Canadian investment bank RBC Capital Markets



50%

Drop in oil prices since June 2014

Price per barrel



Everyone will be getting a bit edgy and looking at their costs, but we've got to see this in perspective – over the last three years, there have been lots of jobs and wages have been maybe 50%-100% higher than in previous years. So if they drop by 10%-20%, that doesn't necessarily show the whole picture. Will the oil industry still be in Aberdeen in five years' time? Of course it will" Bill Duguid, managing partner, Ryden Aberdeen