



international building press

CHAIRMAN'S CATEGORY COMMENTS

HOUSING AND RESIDENTIAL JOURNALIST – Alasdair Reisner

As in previous years it was extremely difficult to separate entries because of high standards of contributors.

Winner: Hannah Brenton, Property Week

Many pieces have been written about the Pros and Cons of housing aimed at foreign investors – including those by Hannah – but she goes a step further by investigating the prospect of what could happen if the tap is turned off.

She raises a warning flag about a potential danger already emerging, as investors are “flipping” flats before they are even finished, pocketing profits as prices soar.

IBP Awards

Hannah Brenton – Housing and Residential Property Journalist

I am currently deputy news editor at Property Week, where I cover residential property across the UK. I write in-depth interviews, features and investigations, while consistently pulling in exclusive front-page news for the magazine. I have included a hard-hitting feature, a front page scoop and data-driven investigative story to show the breadth of my reporting across the key topics in residential property this year.

The feature 'Storms gather over London residential' explored how selling flats off-plan overseas has reshaped the London residential new-build market. The feature asked hard questions about where the market for £1,000+/sq ft flats is heading and the implications for developers. Many other articles have been written about whether new-build schemes aimed at foreign investors are good or bad for London as a city. However, this piece sought to ask whether the model itself is sustainable – why it came about in the first place, and what could happen if the tap is turned off.

The front page scoop on Legal & General entering the private rented sector market for the first time ended years of speculation about the pension fund manager's intentions. One of the most-watched companies in the sector, I revealed that L&G would pursue the development on its own balance sheet unlike its rivals. I had been asking contacts for months about where L&G's first PRS scheme was and received a tip that L&G was buying the Walthamstow site for that purpose. I was able to confirm this off the record and have since also reported a follow-up piece on L&G's first PRS scheme in the regions at a development in Manchester. Both deals have been confirmed and widely reported. I have been at the forefront of covering the development of the PRS in the UK over the last year with other stories including US giant Greystar's first scheme in the Docklands.

The investigative front page news on a 'Flat flipping frenzy' in Nine Elms highlighted concerns about a bubble in the residential market. I examined the latest listings on Zoopla and conducted a data analysis to see how many flats were being flipped prior to completion and the value of the property on the market. I have been highlighting the potential implications of investment speculation in the new-build market and this story revealed the wave of flipping had led investors to compete with developers selling later stages of developments. The Financial Times has since picked up on the story to conduct a similar analysis using data from Rightmove.

Property Week

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Flat flipping frenzy

■ Almost £190m of unbuilt prime residential property on the banks of the Thames hit the market last month

BY HANNAH BRENTON

More than 100 flats in Nine Elms worth £1m and above were listed for resale last month on property portal Zoopla before they have even been built, research by *Property Week* reveals.

Intensifying fears luxury residential is approaching the top of the market, the 112 flats – worth £189m in total – were originally bought off-plan from developers and have yet to complete.

The sudden surge in the number of flats being flipped in the Nine Elms area comes amid growing concerns of an oversupply of high-end flats in the London market, particularly at the £1m+ mark, fuelled by overseas buyers purchasing off-plan.

Mark Farmer, head of residential at EC Harris, said the resales could be a sign investors were starting to “call” the market, but dismissed talk of a bubble.

“The fact people are starting to trade is probably a sign of market sentiment that the level of capital-value growth going forward is going to be a lot less than we’ve seen to date,” he said.

“There’s a bit of risk management going on around people who have reservations and are wanting to crystallise a profit.”

The flats that have been put up for sale on Zoopla include properties in schemes such as Ballymore’s Embassy Gardens, St James’s Riverlight, Dalian Wanda’s One Nine Elms, Berkeley Group’s Vista, Fraser Properties’ Sky Gardens and the Battersea Power Station development.

Flipping flats before they have been built is seen as contentious because it allows investors to net a profit without ever actually owning the entire flat – potentially fuelling investment speculation.

Buyers who purchase a flat off-plan are required to

pay a deposit, but do not pay the full price until the construction is completed and keys change hands. If prices grow during that period prior to completion, the investor can effectively pocket the increase in value if they sell the flat on at a higher price.

Garton Jones owner Kieran Chalker, whose company is involved in many of the resales, said: “There’s no question that where people have seen big money being made on those resales they’ve jumped on the bandwagon, which is why you are seeing so many properties being listed.”

Prices had slowed in the past six months due to the increased competition for buyers in the area and that resellers could undercut developers, he added.

“All of a sudden the resales start looking very attractive because these are people who bought earlier on, can afford to undercut the developers, and offer better deals to buyers.”

The morning after the night before...



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Qatari Wharf

The Qatar Investment Authority and Brookfield Property Partners' battle to take control of the Canary Wharf estate reached a spectacular climax this week when Songbird Estates' major shareholders all backed the pair's £2.6bn bid. The board of Songbird Estates subsequently recommended its minority shareholders also accept the bid, despite claiming that the 350p-a-share deal still undervalued the company.

>>For full analysis see **p32** and for the latest news go online



L&G moves into PRS

■ Pension provider to kickstart major push into the private rented sector with purchase of north London site

BY HANNAH BRENTON

Legal & General (L&G) is making its first major foray into the private rented sector (PRS).

Property Week understands that an L&G residential vehicle is the preferred bidder to buy a site on Ferry Lane near Blackhorse Road, north London, to create a major build-to-rent scheme.

The move represents a significant boost for the PRS, which has struggled to attract institutional investment of any scale, particularly from UK pension funds in the last 30 years. It is thought L&G is also negotiating on other PRS sites that will be announced in the coming weeks, which underscores the seriousness of its intent.

The site was put on the market by the L&G Industrial Property Investment Fund at the end

of last year for around £20m, with outline planning consent for up to 310 homes.

It is understood L&G's residential business competed openly in the market, with the site attracting significant interest from other developers for both PRS and for-sale schemes.

Ferry Lane is a 3.95-acre former industrial estate, located close to Blackhorse Road tube station on the Victoria line. The outline scheme has consent for buildings of up to nine storeys in height, overlooking a reservoir. L&G would need to seek detailed planning consent for a PRS scheme.

Bill Hughes, managing director of L&G Property, has long made plain his desire to own PRS stock as part of L&G's investment drive into areas of Britain's undersupplied housing market.

The pension fund made significant investments in social housing, care homes and

student accommodation last year. It is also participating in residential projects across the country through the English Cities Fund and has a stake in housebuilder Cala.

However, of the UK institutions, only M&G Real Estate has made any real strides into the PRS to date. Last year it completed the forward purchase of a scheme in Acton, west London, and bought a portfolio of standing stock from Berkeley Homes in 2013.

Foreign institutions have also entered the market, with Invesco Real Estate, APG, Realstar and Qatari Diar involved in projects in London. Abu Dhabi Investment Authority is a backer of Fizzy Living and US fund manager M3 Capital Partners backs Essential Living.

JLL advised the vendor. CBRE advised L&G. All parties declined to comment.

Storms gather over London residential

■ Protesters argue that foreign investors are forcing the locals out of London. Developers counter that without overseas money no housing would be built. **Hannah Brenton** looks at both sides of the argument



It is a dreary Saturday morning and 66-year-old Jill is protesting about the lack of affordable homes at Capital & Counties and Transport for London's redevelopment of Earls Court. "The people who will be buying are land bankers. They're not going to live here or provide anything for the local economy," says Jill, who has lived in Kensington & Chelsea since she was born.

"I don't blame the people buying what's there," – the "buy-to-leave" investors, as she calls them – "I do blame the developers; I do blame the local planning authorities."

The debate over foreign investors buying London's new-build housing stock is deeply polarised. On the one hand, people like Jill argue that developers have built over-priced luxury homes simply to cater to overseas buyers who just want somewhere to stash their cash in a tough global economy, forcing low-paid workers out of London – and leaving shiny new flats sitting empty.

On the other hand, developers contend that foreign investors acted as saviours during the recession and were willing to buy off-plan when the UK market fell away and banks simultaneously asked for more security. Without this money flooding into the market, far fewer homes would have been built in the past five years, resulting in fewer jobs and less affordable housing.

But is this model of selling London's new-build homes off-plan to overseas investors starting to look a little risky? And with a huge stack of properties coming on the market now aimed at the foreign investor's sweet spot – the £1,000-£2,000/sq ft mark – is there a risk of oversupply?

Off-plan sales fund future builds

The practice of selling London's new-build properties to overseas investors has a long history. Agents and developers have been popping up in Singapore and Hong Kong to market their wares since at least the 1990s.

Following the 2008 crash, however, banks became more stringent in asking for pre-sales before construction begins, pushing many to dive deeper into the overseas market.

"The financial model dictates that developments of any scale have to be sold off-plan to make the 'money-go-round' work," says Dominic Grace, head of London residential development at Savills. "Quite often that pressure can come from their funding provider and it was very acute six or seven years ago when there were big wobbles in the market post-Lehmans."

Developers are very rarely able to fund schemes from their own pocket, he says, and the banks, having been firmly reprimanded during the crisis for risky lending practices, started wanting more guarantees on their repayments post 2008.

"The big moment in terms of cash flow for any development is what happens when you complete the scheme, how many units you will have sold, and therefore how much money you will have coming in the day after the contractor hands the keys over to you," says Grace.

"That is one of the big seminal moments – so a lot of focus has been on how much you will have sold by practical completion of the project."

It's a focus that Tony Pidgley, chairman of Berkeley Group, is only too aware of. He says that since his company began building in London 25 years ago, it has always sold around a third of its properties to foreign investors.

"The investors, wrong, right or indifferent, do pay us the deposits, do give the developers the confidence, and give bankers the assurance to lend us the money," he says, arguing that the major infrastructure works often involved in big developments could not go ahead without these early sales.

This pressure on developers to 'de-risk' their schemes through off-plan sales has increased the focus on the Asian market, where buyers are culturally happier to buy off-plan. Mark Farmer, head of residential at consultancy EC Harris, says the toughened stance of lenders in the years following the market collapse in 2008 coincided with London's rise as a world city and sterling's general decline versus Asian currencies. This made the London property market particularly attractive to Asia's emerging middle classes.

These investors are not looking to spend millions on property, unlike the ultra-rich high net worth buyers in Knightsbridge or Mayfair, but are instead seeking an investment for substantial savings without the size becoming prohibitive.

"That then starts to push the fringes of prime areas, which have become very popular with the mass Asian wealth markets, so Vauxhall, Nine Elms, Battersea, Earls Court, Greenwich, the City fringe, all

fit the profile in terms of lot size of investment and also the perception that they are still good value," says Farmer.

Charles Leigh, head of international sales at CBRE, adds that foreign investors are primarily looking for location, security, access to transportation and local amenities. He says developers are marketing schemes simultaneously in the UK, where demand is now strong, and overseas, following London Mayor Boris Johnson's concordat at MIPIM last year. But he says the number of trips agents take abroad remains the same as supply increases: "Schemes, instead of going out three, four or five times, will probably go out once or twice."

Premium market

The surge of overseas money flooding into the market is supported by figures from Savills, which show that 70% of all new-build properties in the £1,000-£2,000/sq ft bracket were sold to foreign investors in 2013/14, with Chinese and Pacific Asian buyers accounting for more than 30%. However, the number of foreign buyers drops to 50% in the more affordable £450-£1,000/sq ft section of the capital's new-build housing market. And across all sales and resales in prime London it stands at 39%.

Developers have clearly taken this information on board as there is now a huge amount of supply coming forward in the prime London areas aimed at the £1,000-plus bracket that the overseas buyers dominate – particularly along the banks of the Thames. Recent research by Lonres, Dataloft and buying agents PropertyVision found that 54,000 homes were either planned or under construction in the priciest areas of the capital, mostly around the

“Developments of any scale have to be sold off-plan to make the 'money-go-round' work”
Dominic Grace,
Savills



Future visions: how the Earls Court redevelopment is expected to look



Fitzroy Place: of the 235 available apartments, 232 were sold to 29 different nationalities

£1m mark or above. Yet just 3,900 homes worth more than £1m were sold in these areas, which include Earls Court, Regent's Park and the South Bank, in 2014.

"I don't think anyone is pretending that there isn't an extraordinary amount of supply in the £1,000-£2,500/sq ft band," Grace says. "There's lots of product in Nine Elms that is going to be looking to find buyers and, frankly, we don't know the depth of that market because the amount coming through in a relatively narrow price band is unprecedented."

Not such a safe haven

This pipeline of new stock comes at a point where price growth in the prime market is cooling, with most forecasts predicting minimal growth or even a decline. Nina Skero of the Centre for Economics Business Research, is predicting a 3.35% drop in London prices this year, which she says will be partly due to the knock-on effect of prime residential on the rest of the market.

"London's safe haven status in terms of property investing has had a tough year," she argues, pointing to the stamp duty changes announced in the Autumn Statement and the possibility of a mansion tax being introduced after the election. "We're not saying at all that the bottom is going to fall out of foreign buying in London, but we are expecting a more subdued year than the last few."

The crunch in supply and tax measures are already having an impact on the sales market, according to Farmer, with investor demand outside the UK softening. He says that over the past few years, investors have been keen to take advantage of capital growth, but with the prospects now looking glummer, many are more focused on rental yield. As a result, he predicts foreign investor attention will shift to a more mid-market point, where there is a greater rental demand for apartments.

"It's all about a moment in time," Farmer argues. "What was perceived as good for Vauxhall and Battersea four or five years ago has now got to a

point where it's so much driven by speculation that it's created a lack of affordability - and there's always a risk that you'll get that feeding frenzy spreading out across London.

"But at a certain stage, and I think we're at that point in time at the moment, the interest in perhaps investing further afield in London is a good thing because it can be the difference between a scheme that's sat there stalled for five to 10 years and one that starts."

The risk of speculation is becoming particularly apparent at the moment in Nine Elms. Flats in Battersea Power Station are coming back to the market and netting their owners a tidy profit only two years after purchase and before they are even delivered. One flat reportedly was put up for sale at £865,000, from the original price tag of £722,000 in 2013. This 20% jump effectively doubles the investor's capital if they put down a 20% deposit themselves, as they will never have to pay the full price.

But on top of the risks of speculation, Farmer argues there is a "perfect storm" looming for developers as construction prices spiral upwards, which could see schemes stall in the next year.

"As a developer, if your sales values are potentially static or potentially at risk of decline and you've got upwards construction costs, it doesn't take much for some schemes to become very much less profitable or actually unviable in some instances," he says. "It would not surprise me at all if in the next six to nine months, one or two significant schemes in London are put on hold as developers assess viability."

Peter Rees, former City planning chief and now professor of places and city planning at UCL Bartlett, is despondent about the wave of foreign capital buying London housing, but does not think there is a risk of a bubble or a slowdown in sales because of the almost infinite amount of demand.

We're building a product that is unsuitable. We're building the slums of the future
Peter Rees, UCL Bartlett

"The amount of money trying to escape from Russia, the Far East and the Middle East is just so great and there are so few top-notch targets like London that unless we do something to stem the flow it won't stop of its own accord," says Rees.

He argues that there is a need for more high-density low-rise buildings in place of the glitzy towers springing up along the South Bank. "We're building a product that is unsuitable for our market and suitable only for investment. We're building the slums of the future. Derelict land is better than what's happening at Battersea because derelict land has potential. Those developments have no potential because they're locked in for 100-year leases to multiple owners."

Back at the Earls Court protest, Liberal Democrat councillor Linda Wade, who has been fighting against the scheme, says developers are now playing havoc with the planning system and that the huge number of high-end schemes risk creating "theme-park London".

"The problem is we've got to a point where development has got out of hand, where urban planning is being dictated by developers rather than by local need."

Gary Yardley, investment director at Capital & Counties, disagrees: "Schemes such as the Earls Court Masterplan deliver much-needed investment which provides more homes for our growing population and supports London's continued success as a global city. We have also signed up to the Mayor's concordat to prioritise offering homes to Londoners first."

Capital & Counties has already announced that 95% of the flats in Lillie Square at Earls Court have been sold off-plan, with prices hitting up to £1,885/sq ft. This may be excellent for the developer's cash flow, but it will do little to dispel protester fears that the new flats will stand apart from the local community and from London itself. ■