Asian Capital into London Property

In March 2017, the 610,000 sqft Leadenhall Building, known colloquially as 'The Cheesegrater', was sold by British Land and Oxford Properties to Hong Kong-based investor CC Land for £1.15bn

- This transaction is significant not only for the amount paid, but also because the building is the tallest in the City of London
- In addition, CC Land (controlled by Chinese tycoon Cheung Chung-kiu) made a separate purchase of One Kingdom Street for £292m a couple of months prior

The Asian capital has been pouring into the London property market for some time now. Since CC Land's acquisition of the Leadenhall building, Asian investors have continued to acquire London's trophy buildings. While the major players historically have been investors based in Hong Kong and China, Korean investors have also started to make their presence known. In 2018, South Korean groups invested £2.3bn in London property, accounting for 12% of total property investment volumes in the UK, lagging only Hong Kong's £2.5bn invested in London property in 2018. The largest property deal made last year was done by South Korea's state-run National Pension Service (NPS), in which it paid £1.2bn for the acquisition of Goldman Sachs' new London HQ.

Why exactly are Asian property investors so attracted to London? One reason is the depreciation of the Pound following the Brexit referendum. This has allowed Asian Investors to get more Pounds for their Yuan, Dollar or Won. Secondly, UK property is still seen as a reliable asset class. The market in the UK is viewed as far more stable than others, and while prices will of course fluctuate and change according to market sentiment, investors see the UK as a place where gains can be made on long term investments. This is especially true of the capital city, which has been for decades one of the most transparent and liquid property markets in the world. In 2018, London saw greater volumes of commercial real estate investment than any other global city at £16bn. Add to this the fact that rental yields in London exceed yields in Hong Kong, Shanghai and Singapore. Knight Frank reported that in December of 2018, the average yield of central London property was around 3.35%, which is considered low by UK investors. But investors in Hong Kong, for example, see it as an attractive investment since yields in Hong Kong hover around the 2% mark.

There are also softer arguments for why investors are not shying away from investing in London's property market. They point to London having weathered many crises before Brexit and it has remained an attractive investment. London also acts as a hub for many industries, such as Banking, Insurance, Private Equity, Technology, Law, and Advertising. The clustering of these industries is not easily replicable, but Brexit has triggered many cities and governments to engage in extraordinary efforts to build a "London" elsewhere in the EU; however, the number of relocations from London to the EU has been far fewer than expected.

This does not mean there are not challenges facing the city, and there are explicit concerns regarding Asian investment into London's property market. Firstly, due to the allure of lower costs and higher growth, there could very well be a shift from investing in London to investing in cities further North, such as Manchester. According to Carrie Law, CEO of Juwai.com, Chinese property enquiries in Manchester rose by over 250% in the first half of 2018; in comparison, enquiries in London were down by 48.5%. This drop in interest is also reflected in the steep drop in investment. According to property consultants Cushman & Wakefield, buyers from Hong Kong and China bought £482m of London commercial buildings in the first three months of 2018, a steep drop from the £7bn invested in 2017. There is evidence to suggest that this slowdown has continued into 2019.

South Korean investment into London property in the second quarter of 2018 was at £541m, and currently investors are on track to end the second quarter of 2019 without a single London office purchase, according to analysis done by Knight Frank. Many point the finger at the political uncertainty caused by Brexit for the slowdown.

Director of London City Capital Markets at Colliers International James Nicholls has said that "the current political uncertainty in the UK, alongside a lack of stock, has resulted in a slowdown in transaction levels from this region in 2019. However, with London's position as a global gateway, continued Sterling weakness, and demand for London commercial property in the short and long term, we expect buying activity from this region to significantly increase once there is clarity on the UK political situation."

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William Dong, formerly Managing Director, Real Estate Group at CITIC Capital in Shanghai echoes Mr Nicholls sentiment, stating "while investment from mainland China has declined significantly due to policy control, investors from Singapore, Hong Kong, and South Korea continue to be enthusiastic about London property market, snapping up a series of trophy assets, mostly office buildings. While the uncertainty from Brexit may hinder some investors, London's core commercial properties may well retain its attractiveness to overseas investors."

Essentially, Brexit seems the brakes have been put on what Mr. Nicholls had described as "unprecedented levels of capital inflows from Asian investors into London Commercial property over the past five years." It stands to reason that many investors are not only waiting for clarity, but they could also be betting on a Hard Brexit, something that would depreciate the pound further and allow them to buy cheaper.

No one expects Brexit and its surrounding toxicity to dissipate any time soon, so it is essential that asset managers, investors and brokers recruit the exemplary talent needed to succeed in the current environment.

If there are any doubts over whether or not hiring top talent genuinely makes a difference, a 2017 study by Herman Aguinis and Ernst Boyle analyzed the performance of 600,000 employees including researchers, entertainers, politicians, and athletes, and found that found that high performers are 400% more productive than average ones, and that gap widens as the complexity of the job increases. This shows that making the right hiring decisions can have significant impact on performance .

Uncertainty, by nature, is difficult to navigate, but the firms that make the best hiring decisions will be in a far better position to do so than the ones that don't. Turkish playwright Mehmet Murat İldan offered, "with a good captain, a rough ocean turns into a calm lake; with a bad captain, a calm lake turns into a rough ocean."

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