

The Rich Seam of Asian Wealth

May 2011



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Residential Sales Moving East

Asian Investors are Filling the Development Funding Void

Noughties residential development funding in London was predicated on a high proportion of off-plan sales. Pre-downturn, the senior debt provider typically required between 25 percent and one-third of sales to be confirmed before releasing development funding.

Development lending in today's market is tough and for many there is little if any traditional money on offer. For those

with strong covenants and viable plans, pre-sales still remain one of the key routes to access development funding and get construction underway.

Cue buy-to-let investors. Burned by the downturn, many disappeared in 2008 and have yet to reappear in significant volumes. This was also true for Asian investors, but due in large part to a significant currency arbitrage and the long-term belief in London property for its investment potential, this group has returned. Asian investors now represent one of the most important purchaser groups for London developments.

For example, 35 percent of the developments currently on our books were launched in Hong Kong and Singapore.

Given this importance attached to overseas Asian investors, Hamptons International recently conducted a survey to a group of Asian buyers that has purchased or plans to buy in the near future, overseas property. It was conducted during February and March 2011, in conjunction with www.proppoluxury.com. This report summarizes the salient results of that survey. ■

Location Preferences



Source: Hamptons International

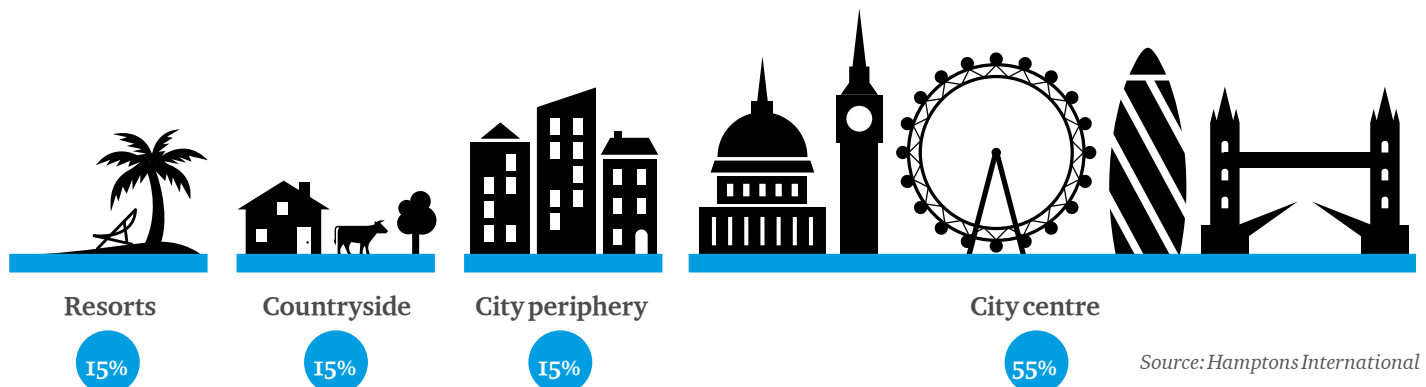
Location Preferences

The UK is the most preferred location in the world for Asian purchasers – even ahead of their own domestic market. This is due to the transparency and security of UK property law and the opportunity to take advantage of the

particularly strong long-term capital growth prospects of London property. The vast majority of capital ends up in London rather than other areas of the United Kingdom.

70 percent of purchasers would prefer to buy in the city centre or periphery. For

London, there is a distinct difference between demand for properties within Zone 2 and properties located elsewhere, even when that property is well-connected to public transport. Proximity to London landmarks is also a real asset, as this helps to place the development in context for a foreign investor. ■



Source: Hamptons International

Property Type

Traditionally, overseas buyers have been highly active off-plan purchasers. This was in part due to the opportunity for significant discounts as an inducement to bulk purchases. However, as is the case the world over, many investors lost significant amounts of money in the downturn. As a result, we have more

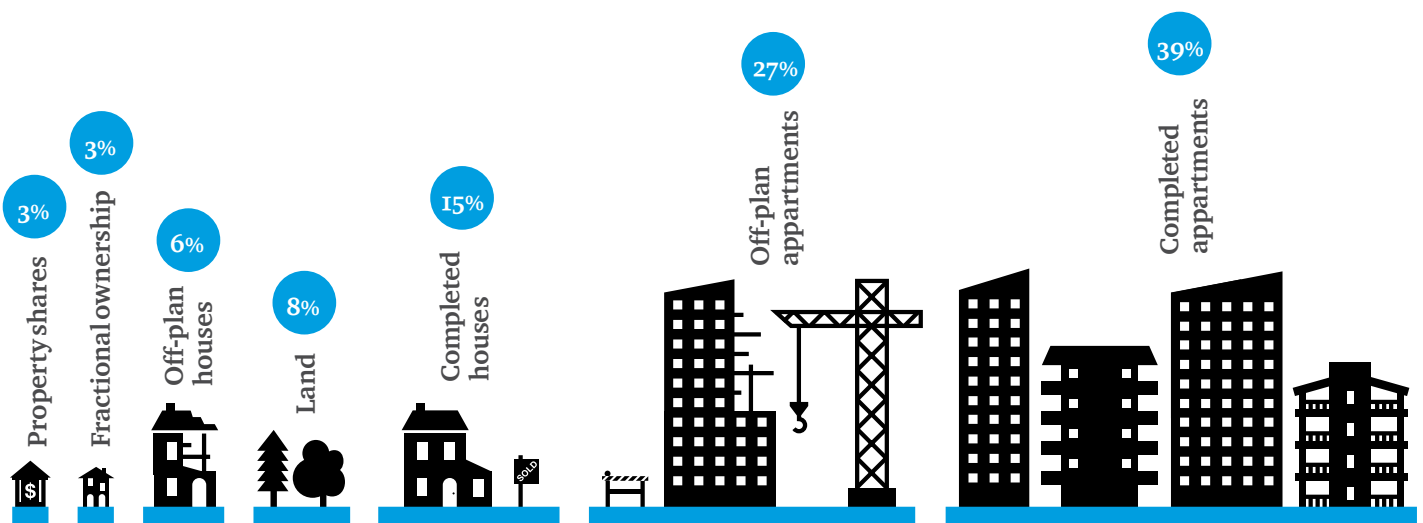
recently observed a stronger preference for completed stock (54 percent) compared with off-plan (33 percent).

This preference also reflects the desire for simplicity in the deal process. Land deals and fractional ownership require much more rigour by the purchaser. Most investors prefer to have an easy buying process and generally do not

want to undertake significant and onerous due diligence.

The sway towards completed properties has also been encouraged by current favourable foreign currency exchange, the availability of low interest rate mortgages and the ability for investors to generate immediate income returns. ■

Property Type



Source: Hamptons International



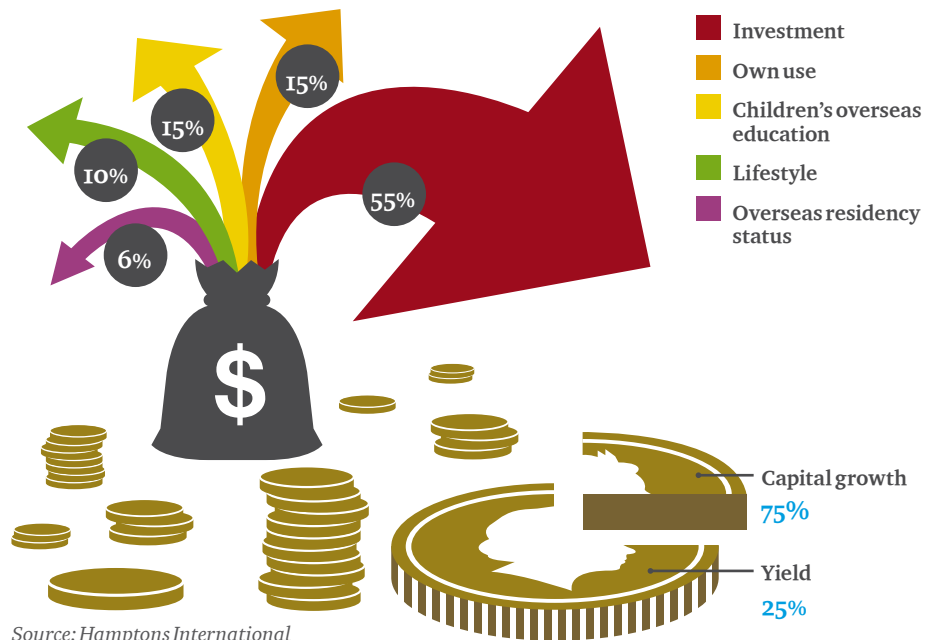
Purchaser Rationale

Although purchasers have a range of motivations, including planned second home usage for themselves or their children, the majority (55 percent) seek to purchase a London property for investment purposes. Further, it is our experience that investor-motivated purchasers tend to take a very passive approach to this investment (ie. there is strong preference to avoid property management, with many investors having little appetite to ever actually visit their property).

Investors generally look to their London property for its capital growth potential; only 25 percent have a primary focus on yield. To our surprise, the property investor in the current climate is still thinking primarily about the total return, with none of our survey respondents suggesting that their primary interest in making the purchase is to benefit from currency arbitrage. This suggests that while primary motives are based on property fundamentals, the weight of demand has recognized the foreign exchange opportunities in the current market. ■



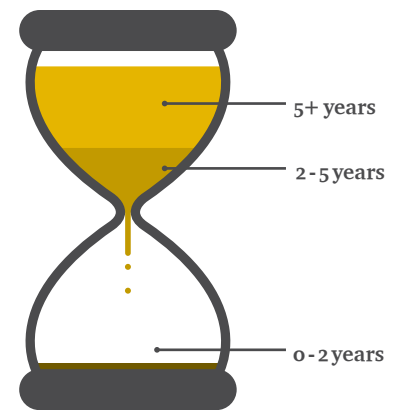
Purchaser Rationale



Investment Horizon

In line with the 75 percent of survey respondents that are primarily chasing capital growth, the majority of investors (nearly two-thirds) are taking a longer-term view of their property purchase. This is counter to the reputation that many perceive to be the case for residential investors that seek to 'flip' off-plan purchases; often before completion. While undoubtedly this practice does exist, the vast majority of investors in the current market are likely to provide stability within the local resale market. ■

Investment Horizon



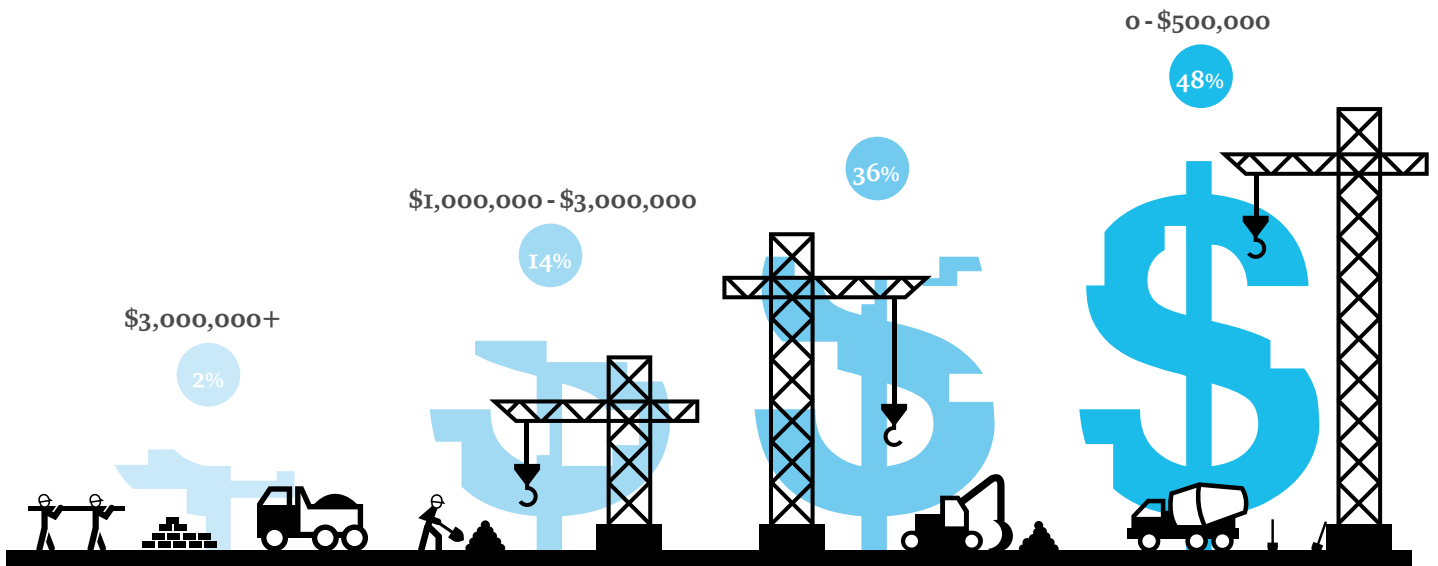
Budget

Most purchasers have a budget that would only allow them to consider a small number of units for investment purchase in most London developments, with 84 percent of purchasers having less than \$1,000,000 US dollars (£612,000 as of April 2011). In addition, these budgets represent allocations for a single property purchase and many investors will look at acquiring multiple properties within these price ranges. Typically, we are seeing the

majority of interest being for 1 and 2 bedroom properties, particularly for buyers seeking investment property. As might be expected, our clients with large budgets represent a disproportionately high volume of all purchases.

Just over one quarter (26 percent) of purchasers are cash buyers. Of the remaining group, the average loan-to-value ratio is between 50 percent and 60 percent. These relatively low leverage requirements allow purchasers to take advantage of favourable mortgage rates. ■

Budget



Source: Hamptons International

Summary Thoughts

Nearly two-thirds of purchasers expect to buy at least one property within the next three years; one in five is planning a purchase immediately. This reinforces the importance of this buyer group going forward; Asian buyers will continue to represent an important part of the off-plan sales process in the UK.

With currency arbitrage offering between 20 and 33 percent discount from peak prices (due to the devalued pound sterling), house prices in Central London are still attractive to this group despite having now returned, and in some cases exceeded the early 2008 levels. Although our survey clearly shows that currency arbitrage is not the primary motive for investment in UK residential property itself, it has increased the relative attractiveness of UK property to other overseas markets. It is anticipated that the UK economy will show clearer growth signals throughout 2011. As this new economic cycle becomes entrenched, interest rates will correspondingly increase and we should anticipate some appreciation of the pound sterling against other major currencies. The extent to which this closes the window of opportunity for overseas purchasers will determine, to

some extent, the continued demand for London property from overseas buyers.

One possible outcome, given the broader demand for the UK as a jurisdiction in which to invest, may be some outmigration from London to consider more peripheral locations in the UK. These locations can offer a more attractive yield than London and will be priced to reflect the regional 'delay' in joining this new economic cycle. Put simply, there may be great deals in these locations once London prices begin to look expensive and yields disappointing.

However, domestic investors are likely to grow in volume and appetite over the intervening period. Although some markets will remain depressed for several years yet, stronger regional economies such as Manchester and Bristol, and the commuter towns of the South East, may experience broad-based demand for new investment stock. There is no doubt that the demand drivers for private rented stock are likely to support this investment for some time. ■



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