Views from the top: expert views on the financing market for London real estate

As the Founder and Managing Director of Mutual Finance, one of the UK's largest property finance intermediaries, Raed Hanna sits at the centre of the UK property finance market. *Arab Banker* asked Raed to assemble some of his friends and business associates from the real estate world and ask them about current trends that they are seeing.

In response, Raed brought together Vincent Tchenguiz, one of London's most successful property investors; David Irwin, a Partner at Teacher Stern Solicitors; Alice Myers, Head of Real Estate at Bank of London and the Middle East; and Faisal Alshowaikh, Head of Islamic Financial Services at Bank ABC. Here is what they said:

RAED HANNA: Over the last year, have you seen conventional borrowers using, or thinking about using, Shari'a-compliant financing to assist with their property financing requirements?

ALICE MYERS: We have seen Shari'a-compliant finance used by both Muslim and non-Muslim clients over the last five years. Our offering has always competed directly with both Shari'a-compliant and conventional finance. Understanding of, and familiarity with, Islamic finance structures in the UK has grown rapidly and is now well accepted across the market.

FAISAL ALSHOWAIKH: Yes, we are seeing conventional borrowers more readily considering Shari'a-compliant financing packages, driven by the need to widen their financing sources as well as the needs of the investors.

VINCENT TCHENGUIZ: I am not aware of an increase in borrowers using Shari'a-compliant debt to assist with real estate acquisitions. However, I am now seeing clients using all sorts of debt, both conventional and unconventional. Because debt is less readily available now, I think borrowers are now open to many more solutions to meet their requirements. So I think people will consider Shari'a-compliant options going forward.

DAVID IRWIN: I still believe that the desire for Shari'a-compliant products is driven by the need and preference of the investor group. While all borrowers may consider the option, I think that typically it is a religious motivation that leads to this choice.

What do you think about the sentiment in the real estate market following the British election in May? Have people become more confident?

VINCENT TCHENGUIZ: We have seen a more positive sentiment from real estate investors. People expect the new Government to be generally positive towards commercial real estate. However, clients have been affected by wider

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political issues and continue to be pre-occupied by events across the Eurozone, including events in Greece.

FAISAL ALSHOWAIKH: Most definitely. Lending and new enquiries were at a virtual standstill prior to the election. The uncertainty and lack of confidence prevented borrowers from bidding and in some cases progressing with transactions. After the election, sentiment has improved and investors were relaxed about making decisions as some certainty was restored.

ALICE MYERS: The general reaction within the real estate market to the election result has been positive. There appears to be more activity in the market since the election, and that is encouraging. Sentiment in the commercial space has been more preoccupied with European political and economic developments than the domestic election results.

DAVID IRWIN: During the pre-election period I think I should have gone on holiday! The confidence was sucked from the real estate market and it was virtually put on hold. Since the election, delayed transactions have started moving again. I do believe that now the political uncertainty has moved away, we will see deal flow.

However, since the election there have been some changes to the residential property market arising from changes in the recent budget to the treatment of non-domiciled residents. This has given us some food for thought and time will tell how these will impact the market.

With the political unrest in the Middle East continuing, have you seen any significant change in the attitude to real estate investment from Middle Eastern investors?

VINCENT TCHENGUIZ: I don't think that there has been a real change in attitude recently. London is still very much perceived as a safe haven and a politically stable environment in which to invest. Prior to the recent problems in the Middle East, the UK and London specifically were always popular locations for investors. I think this will continue for the foreseeable future with London at the forefront of people's thoughts.

ALICE MYERS: Investors in the Middle East have always been particularly open to outward investment and actively seek to deploy capital internationally. London real estate is viewed as a safe haven for investors because of the strong support from its supply and demand characteristics, and this looks set to continue.

DAVID IRWIN: London has always been considered a safe haven in times of political uncertainty, as have pockets of Germany and the Eurozone. However, there have been changes to residential holdings from a tax perspective, and this might encourage investors to consider more commercial assets, given the tax attraction.

FAISAL ALSHOWAIKH: Middle East investors are always seeking to diversify their risk profiles and typically look to invest in robust stable locations like London, Germany and the US. I don't really see any change in this and would expect clients to maintain their investment patterns.

As you look at the UK lending market, have you seen terms improving or have you seen more flexibility from lenders across the capital structure?

FAISAL ALSHOWAIKH: Generally the appetite towards property lending has improved. If you look back three or four years, there was a very limited desire to lend into the sector. However, one has to be mindful of regulatory and compliance requirements.

VINCENT TCHENGUIZ: Personally I have not witnessed any significant change in the lending policy or terms offered in the commercial real estate arena. There appears to be no major variance in the terms and pricing offered by lenders over the past 12 months.

Having said that, when completing transactions, 'compliance' is far more intense now and lenders are far more focused on this when closing transactions. This causes the whole process to be slowed down and frequently can cause delays.

ALICE MYERS: We have certainly seen new investors emerge over the last few years. As many of these lenders have not been from the more traditional banking space, this has created more variety in terms of transaction structure and this can offer clients additional flexibility in putting together the funding structure.

DAVID IRWIN: Banks have hugely altered their attitude towards compliance and this in turn has created a level of bureaucracy that has greatly increased the time it takes to close a transaction. Banks are often not willing to take decisions that in the past would have been seen as commercial decisions. They are now rigid on compliance issues.

Clients that have strong relationships with existing lenders are frequently in the best position when a deal is not quite standard. These longstanding relationships continue to deliver the greatest flexibility.

The UK property market now has more 'alternative' lenders, such as hedge funds, insurance companies, and private equity firms. How are these 'alternative' lenders affecting the market?

VINCENT TCHENGUIZ: We are now seeing greater choice and more alternatives. One is no longer pigeon-holed and limited to approaching only the obvious lenders. The 'one size fits all' attitude has changed and a number of the new entrants are specialising in differing sectors. This is helpful for the market.

The range of lenders is good for the market as it creates competition, although we have not yet seen this competitive tension have an effect on pricing which remains similar across the varying lending platforms.

ALICE MYERS: With this increased variety and flexibility in approach come some additional challenges when putting together groups of lenders, and there are fewer common elements to structure and pricing that can be taken for granted.

DAVID IRWIN: The common theme across all of the new entrants to the market place is the attitude towards compliance. Each lender still has the same rigorous and thorough approach. Pricing is slowly becoming more competitive where the lender has a genuine desire to be active in the sector or to on-board a specific client.

One area of lending that seems to be progressing well is the bridging/short term debt market. These lenders are flourishing on the back of the slow pace of drawdowns from the traditional lenders. We have to ask, 'Why can bridge lenders act so fast, when banks can't?'

FAISAL ALSHOWAIKH: There have been a number of new entrants to the market who are trying to establish themselves, as this is a good asset class to invest in. They are competitive but some are more restrictive in their funding requirements.

Do you believe that prices on prime and good London residential real estate will continue to rise?

DAVID IRWIN: I think that generally the prime residential market will continue to rise but the pace will be slower than we have seen of late. However, the recent attacks on the 'non-dom' regime will obviously have an impact.

VINCENT TCHENGUIZ: Genuinely, I have no idea. The prices we see being achieved in and around the prime London market continue to astound me and, quite frankly, I think these are astronomical. That being said the increased stock on the market will inevitably have an impact on prices. I certainly don't expect to see any sudden dips, but I feel that a slowing of the pace of increase will occur.

ALICE MYERS: There has been a clear split in growth performance between the established and new prime London residential markets over the last 12 months. In the short to medium term, rapid capital growth seems unlikely, but long-term value and outlook remain strong. We continue to focus on quality of product – in any market a higher quality finish or a preferred location will offer additional value protection.

FAISAL ALSHOWAIKH: This end of the market is very much priced on a supply and demand basis. I think the rates of increase will vary and will be driven by locations and the availability of new stock. ■

Vincent Tchenguiz, Chairman, Consensus Business Group.
Consensus provides advice to a family office on a real estate portfolio that included approximately £4.5 billion in commercial assets and residential freeholds, along with significant other investments in areas as varied as clean technology, health care and holdings in funds.

Alice Myers, Director, Head of Real Estate, Bank of London and the MIddle East PLC.
Alice joined BLME in April 2008 and has since grown the real estate business encompassing investment and development finance together with private client property services. She leads the overall strategy and manages transactions from inception to repayment. The bank provides facilities in relation to both commercial and residential properties. Alice graduated from Oxford University and has over 14 years' banking experience working in internationally facing roles. She started her career at the Bank of England, followed by Mitsubishi UFJ Trust International and Morgan Stanley.

David Irwin, Partner – Commercial Property, Teacher Stern Solicitors.
David joined Teacher Stern as a trainee in 1990. He is a commercial property lawyer involved in all types of investment acquisitions and disposals, including large portfolio transactions and major shopping centres. His broad commercial property experience extends to property finance, acting for both borrowers and lenders, and to tax-related property transactions, with a particular emphasis on stamp duty land tax mitigation schemes.

Faisal Alshowaikh, Head of Islamic Financial Services, Bank ABC – London.
Mr. Alshowaikh is the Head of Islamic Financial Services at Bank ABC, London, which he joined in April 2009. He has over 30 years' experience in Banking and Finance in the Middle East, South Asia and the United Kingdom. He has held important positions in the past, including as CEO of Asian Finance Bank (a subsidiary of Qatar Islamic Bank) which he set up in Malaysia in 2006.