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Business as usual?

■ Following the scandal over the murder of journalist Jamal Khashoggi, **Emanuele Midolo** looks at whether international outcry could stem the previously rising flow of Saudi money into UK property

On 4 November last year, around 200 Saudi Arabian citizens were rounded up, arrested and taken to the Ritz-Carlton hotel in Riyadh.

Princes, serving government ministers and some of the nation's richest tycoons were held in this luxurious compound for weeks - some spent months in the improvised prison.

It is alleged that captives were only allowed to leave if they paid a hefty financial sum and pledged allegiance to Saudia Arabia's new ruler, the crown prince Mohammed bin Salman, who is often referred to by the acronym 'MBS'. This 'crackdown on corruption' is rumoured to have swelled the kingdom's coffers by an estimated £70bn to £100bn.

In the aftermath of the purge, wealthy Saudi citizens - including members of the royal family who are opposed to MBS - have been desperately trying to get their money out of the country. This has resulted in a sizeable increase in investment in UK property from Saudi Arabia.

Over the past 24 months, Saudi investment in the UK has "quadrupled," according to Raed Hanna, managing director at Mutual Finance and an expert on the Middle East. Hanna doesn't have exact figures, but he is convinced that the inflow has accelerated dramatically.

"If before we were talking about investments in the order of hundreds of millions, now we are talking about billions," he says.

However, in light of the international outcry over the murder of dissident journalist Jamal Khashoggi at the Saudi consulate in Istanbul earlier this month, which has led to the prospect of some countries imposing sanctions on Saudi Arabia, is there a danger that this activity could start to dry up?

Although investors from Saudi Arabia aren't the biggest spenders on UK property, data confirms Hanna's assessment. Real Capital Analytics (RCA) figures show that £463m worth of assets were purchased by Saudi investors over the past 18 months, compared to £135m invested in 2015 and £211m in 2016.

Under-the-radar deals

Tom Leahy, senior director at RCA, says these numbers could be significantly lower than the actual amount invested because RCA is only able to track direct transactions; those that are done off the market or through third parties - which account for the majority of transactions, according to its sources - go under the radar.

"Saudis tend to be a little bit more low key," says Tareq Hisham Hawasli, founding partner at Darin Partners, a UK advisory firm that acts on behalf of Middle Eastern investors. "They don't publicise what they buy as much as buyers from other countries. Either they buy off-market or, when they buy directly, they keep it quiet. They also like to set up joint ventures partnerships and with local businesses."

A good example of the latter was the deal Darin struck earlier this year with the Saudi co-owner of Sheffield United Football Club, Prince Abdullah Bin Mosaad Bin Abdul Aziz, who has pledged to spend millions in the UK. The firm adds that the investment is not related to the current struggles within the Saudi royal family.

Saudi institutions have also completed a number of deals for UK property recently. A few weeks ago, SEDCO Capital acquired a $180m (£137.5m) portfolio across the UK and France, while Sidra Capital bought Mishcon de Reya's London HQ for £97m and the Travelodge hotel at Heathrow Airport Terminal 5 for £40m.

Sidra now owns 20 UK assets and has spent around £300m in less than 10 months, as part of a £1bn investment programme announced last year.

"A lot of first-time family offices who have never invested outside the Middle East and North Africa or Gulf Cooperation Council regions before have started getting out and commercial property in the UK is probably their number one destination," adds Hawasli.

Although Hanna believes the Ritz-Carlton incident forced some Saudi families to "invest elsewhere, particularly in Europe," he says there are other reasons Saudi investors have been targeting the UK property market.

"They can make an immediate profit now, because of the current exchange with the sterling," Hanna says. "Saudi capital has been dormant, they used to be the sleeping partners of many UK developers, but they've become increasingly active because they see an opportunity."

Hawasli adds that there has also been a generation shift in Saudi Arabia. "[This new generation] are taking over from their parents, they're western educated and more sophisticated, so their investments are more sophisticated too."

This is underlined by Saudi Arabia's sovereign wealth fund backing SoftBank's London-based Vision Fund - the latter is the largest single investor in co-working giant WeWork. Saudi money accounts for almost half ($45bn) of Vision's $100bn war chest. A second Vision Fund was announced in May and MBS had already pledged to invest another $45bn, but it is rumoured that he might pull the plug on the deal un wake of the Khashoggi scandal.

At the last minute, SoftBank chief executive Masayoshi Son pulled out of the Future Investment Initiative conference - known as 'Davos in the desert' - held earlier this month at the aforementioned Ritz-Carlton.

He wasn't the only big-name absentee. The City of London Corporation, BlackRock, Google, HSBC, JPMorgan and 40 other firms deserted the event.

The Khashoggi affair has also raised questions about other Saudi investment deals outside of the kingdom, such as the £2.9bn bid for shopping centre giant intu lodged by the Peel Group, Brookfield Property and Olayan consortium. When intu chief executive David Fischel was interviewed by Property Week about the deal he declined to comment on whether Olayan's participation could compromise a potential takeover.

Other senior UK property figures declined to speculate on the record about what the fallout from the recent negative publicity surrounding Saudi Arabia might be.

Rejecting Saudi money

One senior agency source says he doesn't know what impact it might have, but he assumes "some people will just decide that they don't want Saudi money - full stop." Another agent says: "Would you like to be associated with such a horrendous crime? I certainly wouldn't. There are other buyers out there. You have the choice [if you're selling]."

But some people think the Khashoggi scandal will make no difference to Saudi investment. "I think it's highly unlikely to, but I can appreciate why some people might put two and two together," says James Hammond, CBRE executive director for London investments.

Hammond says he is not aware of any Saudi transactions in the pipeline, but "if you're a vendor and your buyer has passed all the know your customer and anti money laundering checks, I can't see why you'd have an issue, because there is no evidence of wrongdoing at a country level".

It is a view shared by Hawasli, who gives a resounding "no" in response to the question of whether business activity will be affected. "I don't get into politics or religion, but I think that the way people deploy their money in the global markets [won't be affected].

"Saudi Arabia is such an easy country to bad mouth, but the honest truth is that it has different colours and shades, and a lot of people that are not the same are looking to invest outward. What the Saudi government does or does not do is none of their business."

It is too early to say if Saudi investment activity in the UK will be adversely affected by the fallout from the Khashoggi incident, but the general consensus in the property industry appears to be that it will business as usual.

As one agent bluntly puts it "You might not like Donald Trump, but you'll still deal with Blackstone". The companies that signed more than $50bn of deals on day one of 'Davos in the desert' clearly agree with this sentiment. ■