Diamonds in the rough
How to find the gems in the London and Dubai property markets

Roundtable Synopsis
26 March 2018
Introduction to the Roundtable

On Monday 26 March 2018, Standard Chartered in Jersey hosted a roundtable event to discuss the current and potential future economic and geo-political state of affairs in the UAE region, the implications for the Dubai property market, and considerations for investment into London property. Cormac Sheedy, GCC Business Development Director at Jersey Finance Limited, chaired the dinner event that took place at the Jumeriah Emirates Towers in Dubai. Open discussions were encouraged around the economic and market conditions with commentary provided by the Guest Speakers listed below. Combined with intelligent dialogue from the wider audience in response to the commentary provided, the event made for a dynamic and enlightening evening. This paper shares the key insights.

Guest Speakers and Subject

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<th>Economic update</th>
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<td>Trevor McFarlane CEO - EMIR</td>
<td>Taimur Khan, Senior Analyst Knight Frank</td>
<td>Scott Le Flour, Head of Retail Banking Standard Chartered in Jersey</td>
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<td>Trevor provided a business outlook which considered global, regional and local scenarios as well as their implications for local businesses, and offered insights on:</td>
<td>Covering the global, as well as the Dubai and London property markets, Taimur discussed:</td>
<td>Scott focussed the discussion on the London property market, covering:</td>
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<td>• The key global scenarios that could impact – Middle East and North Africa</td>
<td>• The trends we have seen across global property markets and how the prime markets have fared</td>
<td>• The fundamentals, how now might be the right time to invest in residential property</td>
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<td>• How the Middle East might perform relative to other key geographies</td>
<td>• Dubai’s mainstream property and prime markets, transactions, pricing and prime neighbourhoods</td>
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<td>• The outlook for oil, real estate, talent and employment</td>
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The big picture considerations for the Gulf Cooperation Council (GCC)

Global growth is expected to be more positive in 2018, perhaps the most promising in a decade, anticipated to be 3.9% compared to the 2.4% average that was witnessed between 2014 and 2016. Driven by the US, the Eurozone and China, markets that reflect over 50% of global GDP, a rising tide should lift all boats. The forecasting of such macro trends is hardly ever that simple when extrapolating for specific regions however. This is especially true for markets such as the GCC, whereby its natural-resource-derived wealth puts it in the middle between key economic powers; there are many geo-political and micro economic forces that could play spoiler to the positive sentiment. A couple of major potential spanners in the works are the typically referenced hazards of Trump and Brexit. The dust from the latter being a little more settled, but Trump’s foreign policies and unpredictable stance on international trade, not to mention the president’s America First Agenda and NAFTA developments, perhaps being of greater concern to the GCC, the navigation and reaction to which will require a great deal of care.

The U.S. Shale Revolution is also presenting itself as a direct threat to the national wealth of the GCC states, greatly undermining the value of the GCC’s main revenue stream. This potential energy production of 10 million barrels a day for the U.S. will likely outpace Saudi Arabia and perhaps even Russia this year, and is a significant step forward towards the U.S. being fully energy independent. Carefully placed strategic alliances within OPEC will hopefully mitigate this threat in part. Relationships will have to be broadened beyond that of just the GCC’s traditional western allies, investing efforts in growing transactional and potentially even deeper long-term ties with Russia, and the development of trade with China in order for the GCC to position itself as being a key part of the One Belt One Road Initiative. Going forward, more active management of the market, and relationships, are essential. It is worth noting here that strengthening ties with these regions will result in two-way flow, with the potential for increased competition for the domestic private sector.

Sentiment is still moderately positive amongst the GCC business community, a community that has historically leant upon Keynesian Economics, funded by government oil receipts, to stimulate the economy. The private sector double-digit growth that the region had become accustomed to pre Arab Spring may be an unrealistic bar to set going forward however, with more conservative, single digit aspirations of growth being advised, largely because the region’s practiced business model of infrastructure investment backed by the former high oil price is now proving less viable. Mohammed bin Salman’s recognition of this and the resulting drastic Saudi Arabia reforms are, for the most part, being received with enthusiasm by the business community. With regards to more tangible economic indicators, it is being suggested that the success of the coming Aramco IPO should be closely watched as it will provide for a strong tell as to market sentiment for the region, whereas its logistical delivery, notably any timeline delays, where it is listed or whether private placement (and with whom) is the chosen vessel, will provide insight into the attitude and willingness of the key players for true reform, as well as the geo-political direction of future strategic alliances. Market rumblings do suggest that the current estimate of US 2 trillion for the IPO may be a little over-inflated however, a figure derived from the volume (266 billion barrels) of the national reserve multiplied by $8 dollars. Such a means of valuation is unprecedented in the market place. A much more conservative price of US 1 trillion would still be promising for the region however, where the significant cash injection would be instrumental in Saudi Arabia’s market diversification away from its reliance on oil alone.
With regards to the coming Expo 2020, a similar degree of caution should be exercised with regard to growth expectations. Although a degree of stimulus is expected, the business community should look ahead to a more gradual but stable ‘U’ shaped recovery rather than the dramatic ‘V’ that some still have high hopes for.

2018 has the capacity to be better than 2017, but downside risks remain, so investors should continue to develop capabilities for contingency planning while monitoring events and markets. All things considered, the long-term outlook is tentatively bullish for the GCC states.

The Dubai property market

Knight Frank’s Prime International Residential Index, which covers 100 of the world’s prime markets, saw prices increase on average by 2.1% in 2017, an increase from the 1.6% growth recorded in the previous year, with 66% of the markets reporting a rise in value. Although the underlying sentiment is positive, there is considerable range being observed around this average: Cape Town and Sydney experienced the greatest growth (19.9% and 10.7% respectively) due to shortages of supply; San Francisco benefitted from 5.9% growth due to the influx of skilled work force attracted by its status as an emerging tech hub; the U.K.’s stamp duty tax has continued to subdue the London prime market to slightly negative growth (-0.7%), whereas oversupply in Dubai has meant prices have softened by 5% over the course of 2017.

For Dubai the picture is not as bleak as what the regional snapshot stats suggest. The market has always been relatively volatile, with textbook market cycles seemingly fast-forwarded within a very short timeline. Such behaviour can be expected in growing markets, with each significant price movement resulting in a slightly more measured response. The market does appear to be maturing somewhat. Performance has not been as poor as what it has been in previous years, and the tide of sentiment is changing towards the positive, with the market pains caused by the caps on borrowing, the caps on loan payments and the falling oil price, starting to numb. Supply side issues do appear to be tetherring this early-stage positivity however, although exploring a little deeper, it is clear that some neighbourhoods are suffering from this aliment a little more than others.

Significant over supply in Downtown is greatly skewing the data downward, whereas the positive market sentiment is being permitted a stronger foothold in Emirates Hills, The Lakes and the Palm Jumeirah, where an abundance of amenities, high-quality properties and good transport links continue to attract demand. Considering demographics, Dubai remains one of the most diverse markets in the world with over 200 nationalities investing in Dubai property in the 18 months to June 2017. Chinese investment is one of the biggest movers and shakers in this regard, and the country now ranks sixth-highest for inbound property investment, having been eighth-highest as recently as May last year. The policy shift to granting Chinese nationals visas on arrival has been reported as a key driver for this, as well as the increased connectivity permitted by Emirates’ direct flights to 13 Chinese cities. Similarly, with direct access now available from 12 U.S. cities, the increase in tourism should result in an increase in investment from U.S. nationals. The current weakness of the dollar, against which the Dirham is pegged, does present buying opportunities for other international investors. Individuals denominated in GBP and the Euro are still benefitting from a relative discount, whilst those purchasing in Russian roubles can buy property 12.5% cheaper than they could a year ago.

In the context of UAE’s position in the GCC, it does still carry safe haven status whilst offering access to over three billion individuals in the MEASA region. Considering that Dubai International Finance Centre has now reached top ten global IFC status, an impressive feat given that it was only created in 2004, this position is most likely to solidify, providing long-term security to Dubai’s international proposition.

It is important to appreciate that the GCC states do still benefit from huge net foreign asset positions and well-stocked sovereign wealth funds that are geared towards inward investment. The Dubai government, for example, is further committed to stimulating the local economy, with 43% of its 2018 budget allocated to the continued development of the economy through important sectors such as infrastructure and transport, and although a fair chunk of this will be targeted towards Expo 2020, the government hopes to greater sophisticate its general public services and knowledge based economy. Private sector, consumption, and then property market benefits growth will be the probable result. That said, the viability of potential international property investment into Dubai should be appreciated amidst other global opportunities. As a direct contrast to Dubai’s emerging market, exploring one of the world’s most mature markets, the U.K., or more specifically, the London property market, will make for a useful comparison.

The London property market

Consumer sentiment has recovered to pre-2008 levels, however property transactions have not followed suit. Over the last five years there have been over 21 tax and policy changes directly related to the property market. Depending on the how the data is sourced, reports vary on the current health of the U.K. property market. The Office for
National Statistics, for example, has reported steady negative growth since mid 2016, whilst Knight Frank have report an increase of 3.2% between January 2017 and January 2018. Again however, what this is hiding is the multispeed regional markets. At the upper end, the West and the South West have experienced 5% growth, whereas prime London prices, as previously mentioned, have fallen by -0.7%. It is important to caveat here that there is considerable disparity between the capital values of the average property prices between these areas. As an example, the average value of a London property is £480,000, whereas in the North East the average purchase price is £124,000. With such variance in underlying property values, it is no surprise that regional markets within the U.K. will move at differing speeds.

Historically speaking, London has outperformed other U.K. regions. If you were to have invested £100 into London property 20 years ago it would now be worth about £1,200. That same £100 would be worth £720 if you had invested in the South East, £650 in Wales, £450 if you had invested in the FTSE 100, £350 in gold, and just £240 if you had kept it as cash in the bank. Considering the risk-adjusted returns of these asset classes, one could argue that London property has been the best performing.

Just like the Dubai market, the U.K. market is highly localised, but variance is also considerable between neighbouring boroughs within the London market.

Demand is now starting to expand into lesser-known areas such as Shoreditch, Peckham, Stratford, Brixton, Shepherd’s Bush and Putney. This is thanks to investment from developers as well as improvements in infrastructure and travel connections such as Crossrail – the east-west railway currently in development – that will cut journey times by about half and bring an additional 1.5 million people within 45 minutes of the city centre. Demand in such areas is likely to be further underpinned by the continued and forecasted considerable net influx of skilled professionals into London. Accordingly, investment potential exists in the £500,000 to £1 million market for these increasingly fashionable locations. Looking at the top performers in terms of yields over 2017, King’s Cross at 4.1% has fared best, followed by Canary Wharf at 3.05%, Chiswick at 3.05% and Belsize Park at 3.02%.

Brexit remains a risk to the property market, however purchasing during periods of a weaker pound has proven prudent over the last couple of years. The strong fundamentals remain true - such as a stable system of government, the certainty of the U.K. legal system and a well-established, highly regulated supporting finance system. With regards to lifestyle choices, the U.K.’s strength in its education system has been recognised by international investors, many of whom see value in investing in student accommodation; marrying investment opportunities with the desire to support their children through their higher education.

There are contradicting forecasts for the mid-term with some sources stating the market may take a hit over the next three years and others saying Prime Central London is likely to still perform well. These contradicting views in the market are most likely due to the uncertainty regarding Brexit. According to Knight Frank however, the U.K. should expect 14.2% growth over the next five years. Focussing on Prime Central London, it is anticipated that East will perform the strongest at 13.1%, followed by West at 12.6%, and outer London at 12.5%.

**Conclusion**

The global economy is showing promising signs of growth despite the uncertainty around Brexit and the unpredictability of the Trump administration. For the GCC states, acute threats exist in the form of U.S. energy independence and the potential further drop in oil price, and so carefully placed, strategic, geo-political relationships and the diversification away from reliance on the oil industry will be crucial for the future success of the region. The seeds of positive sentiment have now been sown, with the coming Aramco IPO and Expo 2020 acting as both catalysts and litmus tests for the region’s mid-term prospects. The impacts of the anticipated increased consumption will be evident in the maturing Dubai property market, and there are signposts towards increased international inbound investment, however location is key when it comes to exploiting the most promising opportunities.

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Standard Chartered in Jersey will guide you through the entire process. We consider each application on its own merits, so get in touch to talk through your individual needs.
Cormac Sheedy
Business Development Director - GCC
Jersey Finance
Roundtable Chairman

Cormac has over 25 years’ financial service experience in The GCC, Jersey and Ireland and has lived in the UAE for the past fourteen years.

Cormac opened an office for Invesco Asset Management in the DIFC in 2004, then joined Fidelity and subsequently Royal Bank of Canada, where he held senior posts, covering GCC institutions and Sovereign Wealth Funds. Prior to this he worked for five years for Bank of Ireland Asset management, based in Jersey.

Trevor McFarlane
CEO – EMIR
Emerging Markets Intelligence & Research

Before founding EMIR, Trevor was Senior Contributing Editor for the Gulf at The Economist Group after covering the Middle East & Africa at The Economist Intelligence Unit. With over a decade of experience in the Middle East, he and EMIR’s analysts have become trusted advisors to multinationals and family trading companies.

Trevor regularly speaks and moderates at conferences, presents at board and ministerial level and formerly co-hosted Dubai Eye’s Business Breakfast Radio Show. He frequently offers commentary on current affairs for international media, including the BBC, CNN, CNBC Arabia and the Financial Times.
Taimur Khan
Senior Analyst
Knight Frank

Taimur works as part of the Development Consultancy and Research team based in Dubai focusing on commercial and residential market research across the GCC region.

Taimur joined Knight Frank as a Senior Analyst in June 2015, then based at the firm’s London head office. Within the international research team, Taimur focused on the construction and analysis of Knight Frank’s key global markets, including the company’s international indices which are regarded as the industry’s benchmark for measuring performance of housing markets, both mainstream and prime.

Scott Le Flour
Head of Retail Banking
Standard Chartered in Jersey

Scott is responsible for building the unique utility of the Jersey business into Standard Chartered’s global footprint across Asia, Africa and Middle East. Prior to this, Scott was the Head of Client Experience, Process and Governance at Standard Chartered where he implemented model setting, service delivery optimisation and execution of transformational and continuous client experience improvement initiatives, whilst ensuring governance over key risks within the Retail business.

Scott has over 16 years financial industry experience across Private Banking and Retail Banking. Prior to joining Standard Chartered, Scott was Associate Director of Wealth Management at Coutts & Co. Scott also held roles at Royal Bank of Scotland International and SG Hambros.
Get in touch

If you’d like to discuss how we might be the right mortgage partner for you, contact: Ian Raymond, Head of Mortgage Solutions, Standard Chartered in Jersey.

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