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## NEWS

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How to hide your property's defects (or spot them while house hunting)



(international) features

# Safer houses

\* Many in the UAE have had their fingers burnt by the property sector but in the UK there are less risky ways to invest in bricks and mortar.

words: Vernon Baxter



**I**n sport there is a saying that form is temporary, while class is permanent – the same could be applied to property sectors around the world, some might argue. Indeed, one fund in London is pinning its future and its investors' cash on the belief that residential properties in central London offer one of the most durable asset classes in the world.

It would have been a hard sell 12 months ago. At the epicentre of the financial meltdown, even the more well-off in London felt the force of the credit crunch and property was not the best place to have your money. Due to the extreme cost of owning property in prestigious areas of London, though, most owners were wealthy enough to avoid distressed sales. So while prices stalled, they didn't plummet.

"London will never grow at the same rate that Dubai did, but it is a tried and tested market," says Joe McTaggart, managing director of property fund Walls and Futures. "And despite the downturn, people still want to invest in property because it's a tangible asset."

People may want to invest in property but, as Joe notes, prices haven't dropped significantly in central London – meaning it is no less affordable than before the downturn. In fact, it is arguably less so, considering banks have tightened lending conditions. Investing through a property fund offers people a chance to expose themselves to the London residential sector without meeting the same level of upfront costs, he explains. "Investors overseas have a lot of interest in the UK market, especially the expatriate market in the UAE," he says. "Lots of people like the look of the UK market but they don't want the hassle of finding tenants, working out what the right property is to buy and so on. It is also very time consuming for expats to own property in the UK; you don't want to have to waste your holiday dealing with property issues."

**fact.** Most property funds ask for 2 to 5 per cent of your investment as an upfront fee.

#### Return on investment?

It may be more convenient to enter a property market through a property fund, but is there room for both the investor and the fund manager to make a return on the investment? You don't have to cough up for estate agent fees, but most property funds will still want about 2 to 5 per cent of your investment as an upfront fee. By buying into

Many funds focus on London's Central and South West areas

investment as an upfront fee. By buying into a fund, though, investors pool capital so that the fund managers can buy larger properties directly – the theory being you can get better returns through economies



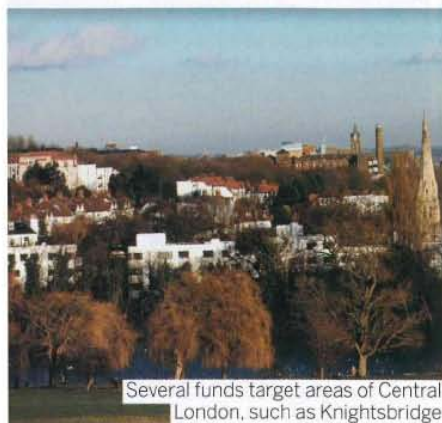
## (international) features



Walls and Futures invests in housing units in prime areas like Chelsea



Hampstead is another high-end area of London that some funds invest in



Several funds target areas of Central London, such as Knightsbridge



of scale. The rental income for the property will then provide an annual yield to the investor. Then, when a buyer wants to exit the investment, they will receive the initial investment sum plus any capital growth obtained by the properties held in the fund. Walls and Futures is a five-year £10 million (about Dh60 million) fund targeting an internal rate of return of 10.49 per cent. The minimum investment for the fund is £25,000 (about Dh150,000) and the company is targeting freehold houses and leasehold apartments in selected locations within the Royal Borough of Kensington and Chelsea, Hammersmith, Fulham, Wandsworth and Merton.

### UAE investors

The plan has convinced John, an Abu Dhabi-based investor, to sign on the dotted line. "I plan on staying in the UAE for a few more years and really want to have a foothold in the London property market," he says. "It's one of the top cities in the world and a magnet for investors globally, so prices should bounce back quicker and higher. I invested through the fund because I couldn't afford to do so on my own." John doesn't own a property in the UAE and does not rule out buying here. "I am considering investing

in Abu Dhabi as I spend my working week there. There's a lot going on and I feel that prices are almost at the point for me to enter the market."

Joe understands why individuals who lost money in property investments made before the recent recession could be wary of buying into a fund – no matter the location. "People are cautious, full stop. Dubai has

**75%**  
of investors surveyed by the Young Group felt London prices will stabilise or rise.

been at the cutting edge of a rapidly escalating property market. You didn't have to be astute to make money in that market, but now people are in trouble and they are facing negative equity." Buying through a fund reduces the danger of losing huge figures on a property investment, he argues.

So how promising is London as a relatively short-term investment? News is encouraging. Mortgage approvals data from the Bank of England has shown that net mortgage lending was up to £1 billion (Dh5.97 billion) in August, the highest level since February. Mortgage lending rates are one of the surer signs of confidence returning to a market and the number

of secured loans granted by lenders have doubled since the low point in November, 2008. A report by property portfolio management firm Young Group found that 75 per cent of investors surveyed believe the price of London property will remain the same as the current levels, or will rise by Q3 2010. It's not remarkable, but better than estimates of realty elsewhere in the UK.

### Solid fundamentals

Obtaining confidence of the investor market is obviously vital for a return to health for the London property sector, but the most encouraging thing about the London market is its fundamentals, argues Joe. Unlike other property bubbles, London's prices are built on the rules of supply and demand, as well as confidence. And while recessions are cyclical, the London market is underpinned by consistent long-term demand, which should protect it for years to come.

Joe thinks the London market will trade flat in 2010 due to an increased amount of stock coming into the market. "We feel it is the perfect time to re-enter the market. We say this with a note of caution as not every property on the market equals a good deal. We would also caution investors to think carefully about where in London they invest



## The London property market has established fundamentals with limited supply and global demand.

**JOE MAC TAGGART**  
managing director, Walls and Futures

as many might be attracted to East London because of the Olympic halo. Our research, which included the demographic data from the census and data relating to property pipelines being delivered over the next 24 to 36 months indicates Central and South West London as safer places to invest in.

"The London property market is literally hundreds of years old and has established fundamentals with limited supply and global demand. This is why despite a global financial meltdown the London property market only fell by 19.5 per cent (according to the Land Registry) from peak to trough compared to Dubai's 50 per cent fall (according to Colliers). UK property prices have doubled every seven to ten years since the end of the Second World War, which

includes the last property crash in the late 1980s early 1990s and I'm confident this metric will continue. We have already seen a 6.7 per cent increase in prices due to the lack of supply in the market. I think investors are now coming back to basics and looking for sound investments that will deliver medium- to long-term returns rather than get rich quick investments. While past performance doesn't guarantee future returns, I think there is too much history to ignore."

Whether or not London proves to yield the sort of returns Joe and his firm are banking on, investing through a property fund may well prove to be a shrewd move for investors in the UAE. One of the main benefits for an overseas investor in pooling money and handing over responsibility to a fund manager is the ability to make the investment, move on and concentrate on concerns that are closer to home. Renting accommodation in another country, even through an agent, can be a stressful process – and is often littered with hidden costs and potential legal pitfalls. So if you are convinced that the appeal of London's property market is permanent, not temporary, then perhaps property funds deserve a sporting chance. 🏆

### FUNDS, FUNDS, FUNDS

Walls and Futures is not the only London residential property fund; here are three more UAE investors can investigate.

#### Prime London Capital Fund

A prime Central London fund, this boasts a better total return than the FTSE All-Share. Investors can access the fund with as little as £10,000 (Dh 60,000).

#### London Central Residential Recovery Fund

This fund will stock-pick properties, renovate them and let them out, aiming to capture the bottom of the market. There is a minimum subscription of £50,000 (Dh 300,000).

#### Nice Residential III IC fund

With a minimum investment of £50,000 (Dh 300,000), it focuses on emerging London areas. The fund will purchase below market value properties and returns will be generated through conversions and multi-letting them. It aims to generate a return of 15 per cent for investors.