Real Estate – Optimising the Opportunity for Asian Investors in the Post-pandemic World

Mission: A behind closed doors discussion on how the private wealth advisory community in Asia, including family offices, private clients and independent asset managers, is today approaching real estate investments, with a special focus on opportunities in the UK residential rental property market.

Attendees: 15 selected wealth management experts, private wealth investors and family offices in Asia

Sandstone Speakers: Peter Grant, CEO and Simon Lints, Asian Advisor

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Hosts

Sandstone
UK Residential Asset Management

A Summary of the Key Observations and Insights from the Invited Guests

The hand-picked guests at the event included a variety of private wealth investors and family offices that focus on real estate investments in different markets around the globe. They first offered their views on the world of real estate opportunities, a selection of which we have summarised below.

The property universe is simply vast

An expert opened with comments on the different angles from which property can be approached, from a highly personal investment in a residential property to a far more dispassionate and democratised investment in a REIT – for which he noted Singapore is a well-diversified hub – and also to club deals amongst private investors in commercial or other developments, or even to the financing through mortgages and other asset-backed loans. Location, time horizon and quality are all key elements in any good real estate investment.

Landlord or passive exposure?

It is important to decide whether the investor prefers to be an investor at arms' length or more hands-on. As a landlord, there is a personal attachment to properties, but as an investor in real estate as an asset class, that is a different story or weighing up the risks and rewards. This particular investor reported their preference for the US, Australia, also selectively in Europe and Spain, with a core focus on the affordable housing segment, and multifamily homes, which has proven to be very stable in terms of capital and income over many years. As well as equity investments, loans to the sector and mortgages have been proven to produce robust returns over time.

Process, diversification, time and exit strategy

The same expert observed that the right processes for investment must be adopted and that it is advisable to build diversified portfolios. He also advised that capital should be deployed across the chosen time horizon for any investor, with their timeframe in the region of 3 to 5 years, not longer. The investor should have a clear investment exit strategy embedded from the outset.

Some investors are long-term holders for income and capital uplift

Another perspective came from a speaker who observed that another investment model, ideal for those with real holding power, is to buy and hold over many years, even passing properties on to other family members in the estate, in other words thinking from the multi-generational perspective, and perhaps placing such assets within a trust.

Family offices have great flexibility

The leader of a family office based in Singapore explained that they had first opened the office in 1998 after the Asian financial crisis as a means of sourcing new investments in a more systematic fashion, focusing across North America, Western Europe, and Asia. The approach has been to invest both in funds at arms' length and also directly in properties through some form of club deal or JV.

Private investors and family offices in Asia have plenty of cash

An expert highlighted how so many wealthy clients and family offices in Asia are sitting on large amounts of cash today and are seeking diversified real estate opportunities of all types and how they are increasingly receptive to new ideas and structures.

Private family wealth takes a long-term perspective

Where there is great wealth, there is also often great holding power. The wealthier the investor, the longer-term horizon they can take and that allows for the steady capital appreciation of properties in the medium- to longer-term and for the families to hold such assets with a multi-generational outlook, often structuring such real estate holdings in trusts and other vehicles for optimised estate and tax planning.

London – a prime time for investment in prime properties

The same family office head reported they had focused on the UK for more than a decade and believes there is an unprecedented opportunity to acquire prime real estate in London at appealing prices. However, he explained that a lot of detailed understanding is required.

Hospitality is potentially back in the frame

A family office leader from Hong Kong observed that as the world is showing encouraging signs of getting to grips with the pandemic, the hospitality property sector should be back in the targets zone.

UK city centres offer real value

The same family office investor observed that the UK is also currently offering some appealing pricing and opportunities for city centre investments, with solid upside potential for the foreseeable future.

Currency exposure also features large, and the outlook for the GBP looks positive

A guest commented that while the UK has its appeals, foreign investors such as those his firm represents from North Asia in particular must also factor in currency exposures. A headline figure of 28% annualised returns must be set against views on FX. At this time, he felt that the pound sterling looks relatively cheap, especially against the Singapore dollar.

Careful about whom you work with, look closely at structures and fees

An expert highlighted several key lessons in commercial property investments from his experience, the first of which is the need to choose trusted partners to work with and also take a rigorous look at structures and fee structures.

Keep an eye on rates

A guest commented that with rates so low, the next move once the economy in the US and reopening are both back on track would more likely be a rate rise by the Fed, and then it will be vital to see how the real estate markets react.

The importance of diversified, balanced portfolios

An expert pointed to the need to balance exposures across different asset classes and between purely financial assets and real estate assets, and also to diversify across geographies. Hard assets such as real estate have a vital role to play, and the markets in which such assets are located need solid fundamentals, as well as an established, transparent legal and regulatory infrastructure.

Sandstone: Opening the Door to Residential Property Market Opportunities in the UK, for both Income and Capital Appreciation

Speaking from his current home and base in Utah, Peter Grant explained to the guests that he had founded his property business, Grant Property, in 1997 to boost his family pension. The investments started out as a means to boost his future retirement pot, but then developed into a major business. Since its inception, the company has bought some 3,000 residential UK properties, all for student accommodation, with a net valuation of around GBP1 billion today, and has done so for investors in some 40 countries around the world.

The company focuses only on 'traditional' residential properties in selected prime university cities and towns in Scotland and England, with students as the tenants. The 10 locations in which Sandstone invests are Bristol, Birmingham, Dundee, Edinburgh, Glasgow, Liverpool, Manchester, Nottingham, Salford and Stirling.

Ready and fully able to service private wealth in Asia

In 2020, Grant Property created a sister company, Sandstone UK, to work directly with Family Offices, Fund Managers and Charities around the world to help them access the UK residential market more easily.

Although Grant operates from his current home in Utah in the US, he has a team in the UK to operate the business. Chris Gauld leads Sandstone and looks after Family office, Fund Manager and Institutional Investors' needs. Anna Renton is Managing Director of sister company Grant Property, her team working with clients in the UK, Europe, Middle East and Asia. And Simon Lints acts as a strategic advisor to Sandstone, focusing on international investor and APAC growth.

Sandstone can therefore work efficiently on behalf of private investors to build portfolios of high-performing traditional properties in university cities for its clients, taking care of sourcing, financing, renovations, furnishing and management on behalf of ultra-high-net-worth individuals, family offices and funds.

Grant explained that the firm works closely with highly reputable firms such as Deloitte, Grant Thornton and boutique Scottish law firm Dickson Minto to provide tailored, tax-efficient structuring for larger private clients around the world, with clients typically investing an initial GBP10 million to start building a portfolio.

28% annualised returns over more than two decades

Since its inception, Grant said the company had achieved an average annual return of 28%, based on 75% loan-to-value gearing.

He offered the example of a Dubai based investor who first bought into the concept through Grant Property in 2016 and that today holds 25 properties in a portfolio that has achieved a total 26.8% annualised rise based on income and capital uplift and also on 75% LTV gearing. Another example is a US-based investor who first

bought in 1997 and that has 17 properties that have achieved a 38% annual return, also based on a 75% LTV.

Grant reported that clients love the model because they do not need to do anything at all really; they simply need to put up the funds, and that the firm had achieved historical returns for its investors of 28% per annum since 1997, based on 75% leverage, and all with low volatility, resulting in a proven track record of high returns and low risk.

Asia's private wealth market – deep and cash-rich

Simon Lints added that his background in wealth management in Asia, including at Credit Suisse and also as CEO for Schroders Wealth Management, offered an ideal platform for his strategic role in building out family office and other private wealth investors in the region, helping them build what can often end up as very significant portfolios. He explained that family offices and other private investors are generally cashed up, and they can invest at scale to leverage Sandstone's professionalism and experience in this segment of the UK property market.

He explained that the firm presents clients with a one-stop solution for clients, wherever they might be located, and explained that a mission now is to further build the clientele in Asia, where they already have a good number of investors from Singapore, Hong Kong and China. He noted that the typical investment is in the region of GBP10 from a significant family office, but that investments of all sizes from? can be accommodated.

A robust market and a robust outlook

Sandstone recently produced a White Paper on their history and their market segment, which states that this sector offers high and stable returns, driven by rising demand and constrained city centre or prime location supply.

The White Paper highlights the UK's limited supply of housing stock, history of 7% annual price rises since 1983, and points out that another 350,000 university places will be required nationwide by 2035.

Student rentals – highly resilient

The report explains that students like to live communally in pleasant, well-located houses, so the firm invests largely in Victorian and even older buildings that are extremely well built and will endure for long into the future. While the expected lifespan of a new build is typically 30 to 50 years, the average expected lifespan of Victorian and Georgian properties is more than 200 years, underscoring their attractions as long-term investments.

Moreover, the student accommodation market is highly resilient. In fact, Sandstone's experience during the pandemic bears this out: occupancy in the portfolio has been above 94%, and rents rose by 12% in 2020.

Traditional properties, not new build or off-plan

The proven investment model that Sandstone promotes, and which the business has refined over nearly a quarter of a century, centres on buying traditional housing stock, not new builds, and the focus is only on one-to-

five-bedroom houses in the ten selected university city centres.

The firm also steers well clear of new build or off-the-plan investments, preferring to stick to solid properties that were extremely well built and that lend themselves to refurbishment.

The company not only handles all aspects of the purchases but also renovates the properties, obtains the necessary licenses, locates the tenants and then manage the properties. Each property is professionally revalued annually, so the clients have updated asset valuations, and the clients often then decide to put more funds in to expand their portfolios.

Fast out of the gates

Grant and Lints explained that the time horizon from the initial decision on the investment sum to receiving income from the assets and starting to build capital gains is fairly compressed. They also reported that ownership via Sandstone offers the most advantageous approach from a tax and regulatory perspective.

Grant reported that clients can soon be up and running and obtain running yields of around 4% net of costs, but that, of course, the capital appreciation of roughly 7% a year historically is a major appeal. Moreover, if the investors leverage the assets to the 75% LTV level, that is how they can significantly boost the overall returns to the roughly 28% per annum he had highlighted earlier in the conversation.

Structures available to mitigate or defer future obligations

As to capital gains tax (CGT), Grant told the guests that most clients are long or very long-term holders. Sellers have to wear the 28% CGT. Another consideration is inheritance tax, which is 40% of any asset above a fairly low threshold of GBP 325000, but that can be mitigated compliantly using vehicles such as a discretionary family trust, or other possible structures, with tax and other specialists required to help the investors decide the best structures.

Risk-averse, rising rental returns

As to risks, Grant added that the regional cities such as those Sandstone targets have been remarkably robust, even through tough times of stock market volatility and terrorism crises. He reported that the firm had, for example, raised rents by an average 12% for the last three consecutive years, which he said is quite phenomenal.

Grant explained that in the UK, traditional properties such as they buy have considerable advantages over new builds, as they can be bought for a lower price per square meter than new builds, the room sizes are larger, the ceilings taller, and they have architectural value as well.

Grant joked that his two gurus from early on were his surveyor and his tax adviser. He said how it was important to get the right professionals to support and the right structures from the outset. He explained that he and his colleagues help clients to sell tax efficiently if they so choose or to keep their money in the portfolio and build further over time, likening it to a snowball effect.

Later on in the event, the guests were invited to pose some questions, a selection of which are set out below, along with the answers provided by Sandstone:

WHAT LEVELS OF LEVERAGE DO YOU ADVISE AS OPTIMAL FOR THESE TYPES OF PROPERTY PORTFOLIOS, AND CAN YOU HELP WITH THE SOURCING OF FUNDING?

» It depends on the client, but we typically help clients obtain 75% gearing, interest-only, similar to the UK buy-to-let type funding. With the right leverage, investors can build significant portfolios, for example an investment of GBP10 million today at 75% leverage means a portfolio of GBP40 million, and depending on the types of cities from within our chosen 10 cities, that means a portfolio of some 50 to 100 properties.

There are specialist banks that finance such investments, but there are considerably fewer than before the 2007-8 financial crisis, so one needs to be on top of who provides what, as we are. Although we are not a mortgage broker, we do know who is highly skilled in this sphere.

The private banks will also offer some excellent funding alternatives for important private clients. For example, we heard of a wealthy Singapore client who can fund such investments through his broader investment portfolio, with up to 80% LTV and at 1.5% or below. There are, therefore, alternatives available to sophisticated investors with broad portfolios.

HAS THERE BEEN ANY NOTICEABLE VALUE EROSION IN THE PAST YEAR SINCE THE PANDEMIC HIT, AND ALTHOUGH YOU ROSE RENTS LAST YEAR, HAVE RENTS WEAKENED IN 2021, AND DO YOU FORESEE A WEAKENING OF RENTALS AHEAD AND THEREFORE ANY POTENTIAL RISK OF EROSION IN THE PROPERTY VALUATIONS?

» I can answer this by setting the scene more clearly. UK student housing divides into two portions. One, which is not our market at all, is the halls of residence, which are either operated by the universities themselves or more likely these days by a private operator. You tend to find that first-year students go into halls of residence in all the different university cities, in order to build their social connections. Then in their second, third and sometimes further years, depending on how long their courses are, they tend to go as group of friends into flats or houses of differing sizes, and these are residential houses that can either be sold later as student accommodation, as individual rental type properties, or to owner-occupiers.

We steer well clear of the halls of residence type properties, which are commercial property investments, so we adhere entirely to private residential property assets, for which the market is currently very buoyant indeed, with price rises since early 2020 began of 7% or more already and with strong liquidity.

Our segment is also highly robust. In the past 25 years we have seen numerous market and geopolitical ups and downs and residential just carries on as normal in the UK, because it is firmly underpinned by a shortage of supply.

UK universities like foreign students because they pay higher tuition fees, but the shortfall in foreign students due to travel and quarantine restrictions since the pandemic hit has been made up by the universities offering more places to UK students.

That in turn has meant, for example, that some of those local students who had places at secondary universities have been able to upgrade, for example to Edinburgh, Bristol or one of the other more prestigious universities.

Numbers in the cities in which we operate have remained robust, and as I explained, we have increased rentals by 12% in each of the past three ye ars through 2020, and we see a positive outlook ahead for income and capital appreciation.

HAS BREXIT BEEN A POSITIVE OR A NEGATIVE?

» The underlying asset class remains unaffected; the fundamentals of supply and demand remain strong. But from a currency perspective, there appears to be more of a positive climate for the pound, but we say that with the caveat that we are not currency experts. Moreover, we have no currency exposures ourselves, as the assets and liabilities are of course matched.

YOU MENTIONED A REIT IN YOUR PLANS. CAN YOU ELABORATE ON THAT?

» In late May, or June, we plan to launch a REIT that would be listed on the Guernsey Stock Exchange. There are some considerable tax advantages of a REIT, as well as liquidity advantages, and we are planning to sell this to top-end institutional investors, family offices and also private clients. The scale of investment can run from only a few thousand up to perhaps GBP50 million. ■