Singaporean investments into the UK property market

Total Direct Investment from Singapore to the UK

Singapore has a highly developed trade-orientated economy and at the end of 2015, the stock of direct investment abroad by the corporate sector totalled S$637 billion\(^1\). The United Kingdom was the seventh most popular recipient country for direct investment at S$35.5 billion but the UK’s share of overall investment from Singapore has decreased over the past couple of years from 9.2 per cent in 2013 to 5.6 per cent in 2015. The opening up of the Chinese market has attracted the interest of Singaporean investors with the share of their investment into China increasing from 4.4 per cent, S$16 million in 1994 to 18.7 per cent, S$118.85 billion, in 2015.

Fig 1. Total Direct Investment from Singapore to the UK, 1994 to 2015

Source: Singapore Ministry of Trade – Department of Statistics, Survey of Singapore’s Investment Abroad
Real Estate Investments

Levels of investment specifically into the real estate sector from Singapore to the UK has varied substantially over the past decade from a low of S$0.14 billion in 2006 to a peak of S$2.8 billion in 2013. Investment from Singapore was strong in the first half of 2016 at S$1.78 billion but slowed substantially in the second half of the year at S$0.72 billion. However, in terms of share of total investment into the UK real estate investment from overseas, Singapore accounted for 5.68, its highest share over the past decade.

Figure 2. Total Direct Commercial Real Estate Investment into the UK from Singapore, 2006 to 2016

![Graph showing total direct commercial real estate investment into the UK from Singapore, 2006 to 2016.](source)

Source: Real Capital Analytics, converted from US dollars to Singapore dollars using end of year exchange rates as given by the Federal Reserve.

Singaporean investors

One of Singapore's largest overseas investors is the sovereign wealth fund Government Investment Corporation (GIC), established in 1981 to manage the country's foreign reserves. GIC chooses to invest in real estate as it offers diversification benefits and can provide contractually secure income streams over the long term with potential for capital growth. Real estate also offers inflation hedging characteristics as rental agreements are often pegged to inflation measures and because real estate values are linked to replacement costs. As GIC is a long-term investor the illiquidity of real estate enables them to manage short-term volatility and market cycles.

GIC invests across all major property sectors including office, retail, residential, industrial and student accommodation. About 7 per cent of GIC’s portfolio is based in UK assets and the UK is its third largest geographical exposure outside of Asia. In the last year, GIC investments into the UK have included a further development of their existing partnership with GSA, the global student accommodation leader. Their latest joint venture acquired a 7,150 bed student accommodation portfolio. Half of the beds are already operational within purpose-built student blocks located in six top university cities: London, Liverpool, Bristol, Edinburgh, Cardiff and Southampton. The remainder of the beds based in Birmingham, Bournemouth, Cambridge, Portsmouth and Plymouth are being rapidly developed with the intention for these to be operational by 2019.
“As a long-term value investor, we believe student accommodation will be a sector that continues to deliver steady rental growth and resilient income returns amidst a challenging, low-yield environment.”

Ms Madeleine Cosgrave, Regional Head, Europe, GIC Real Estate

Also active in the UK student accommodation sector is Mapletree investments, the real estate arm of Singapore state investment fund Temasek Holdings who acquired a portfolio of 25 student accommodation properties in the UK for £417 million in 2016. The 6,000 units are spread across 12 major cities and are strategically located close to higher education institutions. The units are modern having been built or refurbished within the last six years and are managed by Homes for Students, an associate of Mapletree.

Mapletree first entered the UK real estate market in 2015 and have since acquired assets worth S$1.7 billion with a focus on business parks and office properties in addition to student housing. They have also acquired office space in Manchester, Ealing, Aberdeen and Bristol. In May 2016, Mapletree purchased Green Park in Reading. Green Park is a freehold business park that has approval to provide about 2.1 million sq ft of lettable space. Of the existing 1.4 million square feet of grade A offices space, 93% is already occupied and provides a home to global brands such as PepsiCo, Huawei, Quintiles, Veritas and Cisco.

“Mapletree’s acquisition of Green Park is aligned with our current five-year business plan to acquire quality, income-producing assets with long weighted average leases to expiry which are anchored by a strong tenant base, to give us stable and growing yields. We also like the property’s planning and build quality, as well as its development potential.”

Mr Hiew Yoon Khong, Mapletree’s Group Chief Executive Officer

Further strengthening their presence in the UK retail and leisure market, GIC have invested £48.5 million to acquire 50 per cent of Watermark from Hammerson. This newly-opened 17,000 sq m development, located in Southampton, is dedicated to leisure and dining. Watermark is adjacent to West Quay shopping centre a joint venture between Hammerson and GIC that opened in 2000. Together Watermark and West Quay provide 93,500 sq m of retail and leisure space and when fully leased the scheme will provide an income of £5.5 million. It is currently 95 per cent let and includes over 20 restaurants, a Hollywood Bowl and a 10-screen Showcase Cinema de Lux.

“As a long-term investor, we focus on ensuring that income streams from our investments are stable and resilient. To remain competitive in an age of e-commerce, retail destinations need to offer attractive consumer leisure experiences to boost footfall and customer retention. We believe Watermark’s diverse tenant mix and offerings will provide these experiences and enable Westquay, which is already a prime regional mall, to continue generating good returns over the long term.”

Ms Madeleine Cosgrave, Regional Head, Europe, GIC Real Estate

Other recent notable Singapore company deals include a first foray into the UK property market by Fragrance Group who have set up a wholly owned subsidiary in the UK and are the preferred bidders for Liverpool Municipal Buildings on Dale Street. Fragrance Group intend to develop the historical building into a hotel. Fragrance Group have also agreed to purchase the Imperial Hotel in Blackpool for £12.8 million.

CDL Hospitality Trust is also active in the UK hotel industry, building on its principal investment strategy of investing in a portfolio of hospitality and related real estate assets globally. The company marked its first investment into the European market in October 2015 when it purchased the Hilton Cambridge City Centre hotel for £61.5 million. Hilton UK Manage Limited continue to operate the hotel under contract to December 2027.

Partnering with local developers

There is a growing number of partnerships between UK and Singapore based developers. For example, Oxley Holdings Ltd, a Singaporean developer established in 2010 has been developing partnerships with overseas businesses since 2013. In 2015, they acquired a 20 per cent share of Galliard Group Ltd in the UK at the cost of £50 million. The partnership with Galliard will enable Oxley to capitalise and leverage Galliard’s construction and property development expertise and network in the UK in its ongoing business. Galliard will also provide greater capacity and flexibility to market Oxley’s London properties, manage property construction and provide Oxley’s buyers with an added after-sales service in leasing their units.
Oxley’s is developing the Royal Wharf site, a 363,000 square metre mixed used development of 3,400 residential units, office space, food and beverage spaces and retail units located in the Royal Docks Enterprise Zone.

GuocoLand has announced its intention to buy a 27 per cent share of Ecoworld International when the company launches its IPO next year. GuocoLand, a property company headquartered in Singapore, has operations in Singapore, Malaysia, China and Vietnam and manages total assets of S$7.9 billion. Its venture with EcoWorld International will provide access to real estate in the UK and Australia and bring geographical diversity to their current income streams. EcoWorld are currently active in London as part of a joint venture with Ballymore developing out three prime riverside locations: Wardian at Canary Wharf, Embassy Gardens at Nine Elms and Island City Garden located at Leamouth in East London.

Residential investment: Cooling measures in Singapore boost demand for UK residential properties

In the early part of this decade, there were fears that the private housing market in Singapore was becoming unsustainable with house price growth of 62 per cent between Q2 2009 and Q3 2013. Concerned with the negative impacts this was having on the ability of Singaporean citizens to buy a house, as a place to live rather than just an investment, the Singaporean Government introduced a variety of property cooling measures. The polices include tightening mortgage lending criteria, increasing real estate taxes for overseas investors and people with more than one property and introducing a seller’s stamp duty on industrial properties with the stated aim of preventing a housing bubble and reducing speculative activity in the industrial property market. The policies in combination with slowing economic growth had their intended effect: the latest data shows that average private residential property prices have dropped by around 11 per cent from their peak in Q3 of 2013. Despite calls from industry to lift or change the focus of the policies, it is likely that the cooling measures will remain in place during 2017.

The higher costs of buying a second property in Singapore has increased interest from wealthier Singaporeans in properties overseas and the falling value of Sterling after the Brexit announcement has meant that the UK has been attracting attention from new investors. Developers such as Stanhope, who are creating a mixed use development at Television House, the former headquarters of the BBC, began marketing in Singapore for the first time last year and of the 45 apartments sold in the Asian region, 15 were purchased by Singapore-based buyers.

There are growing numbers of students from Singapore choosing to study in Higher Education Institutes in the UK with numbers nearly doubling between 2010 and 2015 from 3,780 to 7,300. Many Singaporean buyers are interested in purchasing properties near to where their children are studying or because of potential business links. With Brexit comes the opportunity for stronger trade relationships between the UK and non-European countries which may offer more opportunities for Singaporeans going forward.

Margarethe Theseira

The material is provided by Dr Margarethe Theseira. She is a leading independent consultant with extensive experience in researching and developing policy and strategy work with clients spanning the private, public and charity sectors. Margarethe spent over a decade managing the economics and intelligence functions for the Mayor of London and Greater London Authority Group. She is an Associate of the Centre for London, an Honorary Senior Research Fellow at University College London and holds a PhD in modelling awarded by Cranfield University.