AL RAYAN BANK

2023 UK Property Profile

The GCC Investment Opportunity

Contents

Foreword

The enduring appeal of UK real estate

Giles Cunningham
CEO at Al Rayan Bank

Welcome to the first ever Al Rayan Bank Gulf Cooperation Council (GCC) UK Property Profile.

It's designed to provide an authoritative voice that will cut through the noise around one of the most enduringly popular investment targets for GCC investors.

We know that this is an auspicious time for those with assets to deploy in the UK property sector, with a number of positive indicators coming into alignment.

The Gulf states have been enjoying a period of particular prosperity, with economic growth rapidly accelerating during 2022, and its currencies among the strongest in the world, making exchange rates particularly favourable.

That said, at the time of writing, elevated inflation and the highest Bank of England base rate since 2008 have contributed to four consecutive months of house price falls in the UK.

Though asking prices are currently under pressure, there are indicators that a rebound could be on the cards; wages are increasing and home finance rates are falling, both likely to boost demand.

And there is still a dearth of homes coming onto the market, with the number of available properties still lower than before the pandemic[1].

We also know that GCC investors are well-informed and make their investment decisions only after considering all the available evidence.

We wanted to support their decision making by providing a unique overview of the investment potential in the UK's property market.

As such, the intelligence in this report is based on the views of 151 experienced investors with an average net worth of $208m operating from Qatar, Saudi Arabia and the United Arab Emirates.

I hope you find its contents informative, and if you would like to discuss any of its findings in greater detail, please reach out to us.

The enduring appeal of the UK

Property in the UK, and London in particular, isn't just a target for GCC investors; capital is deployed here from all around the world, including Asia, the Americas, India, Russia and Europe.

For investors, the appeal of the UK capital is easy to understand; it's politically stable, with a strong economy, transparent legal system, demand for housing is high and the supply is limited, so there is potential for both capital appreciation and attractive rental income.

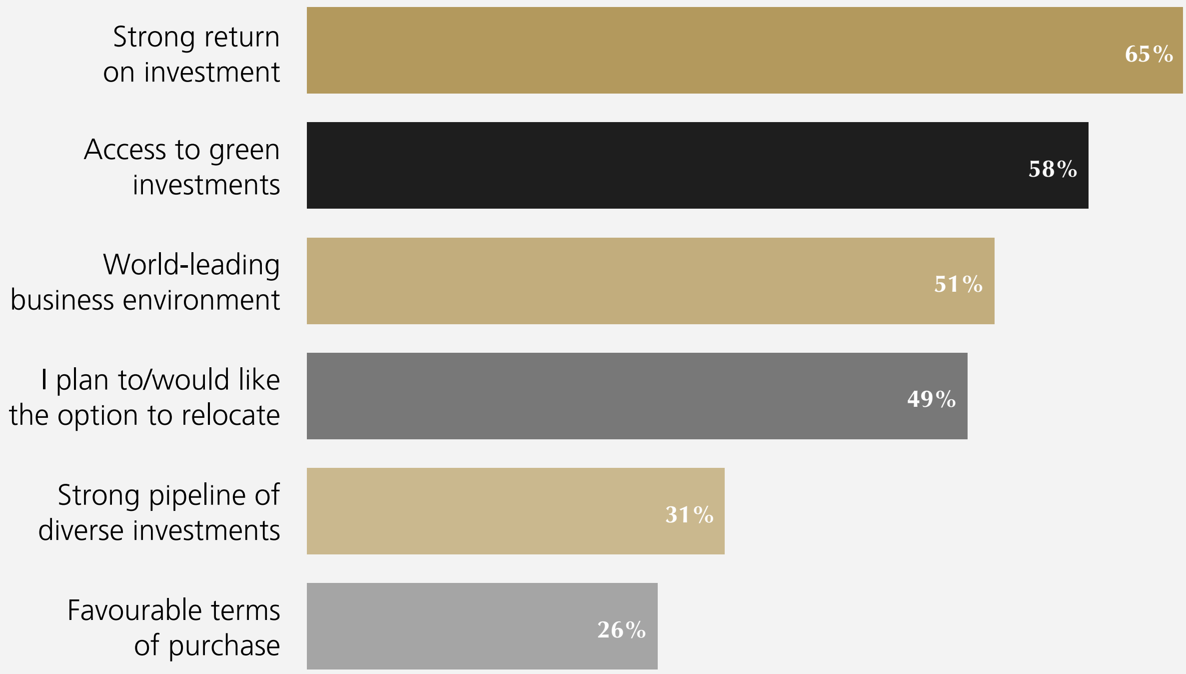
As a result, investing in UK property has proven to be consistently reliable.

According to the Nationwide house price index, the cost of the average UK home has increased by 63% over the last decade and 129% over the last 20 years[2].

And Statista data shows that in London that growth has been magnified; yearly average house prices – excluding first time buyers – are up 72% in a decade and 268% in the last 20 years[3].

Combined with the fact that the capital is also a popular location for people from GCC countries to live and visit, that helps explain why overseas buyers account for around five per cent of London's property ownership, but less than one per cent across the UK[4].

What makes London an attractive property market to invest in?



London calling

Of the investors we surveyed for this report, a third (33%) had invested in property in London in the last 12 months, more than any other global property market.

Those that invested in London over the last 12 months invested an average of $90.79m.

That's higher than any other city in the survey, with the closest competitors being Tokyo at $90.42m and Zurich at $89.69m

Looking a little further back, over the last five years almost all (95%) of the investors we surveyed have invested in the UK property market, at an average value of $81.9m.

Focusing on the future, more than 9 in 10 (93%) of the investors we spoke to told us they are planning on making new investments, or increasing their existing investment, in the UK property market over the next five years, with respondents planning to spend an average of $69.14m.

It's striking that 85% say their confidence in the market as an investment opportunity has increased over the last 12 months, with nine in ten (89%) investors now seeing the UK property market as an attractive proposition.

9 in 10

planning on new investment

85%

increase in market confidence

A prestige destination

That likely reflects the passing of a short-lived period of political instability seen in the second half of 2022, as well as the return of greater economic stability as inflation begins to fall and we near the end of a period of rapid Bank of England base rate rises.

At the same time, house prices have declined by around 5% since reaching record highs in 2022[5], so those with funds to invest are seeing some very attractive opportunities.

Accordingly, when we asked investors what had changed in the last year to influence their decision to invest in UK property, two of the top three answers were the availability of diverse property assets (69%) and the prospect of a reliable return on their investment (68%).

But the most popular answer, cited by nearly three quarters (72%), was that they planned to relocate to the UK or would like to have the option to live here.

So, it seems clear that London is still a prestige destination for visitors from the GCC.

The two locations share historical links and visitors from the Gulf can enjoy a great lifestyle in the city, which is a safe place to live with excellent hospitality and retail facilities, no language barrier, easy connectivity, an agreeable climate and favourable tax laws for non-resident investors.

With all these positive factors, it seems the love affair between the GCC and London (and vice versa) is only set to endure.

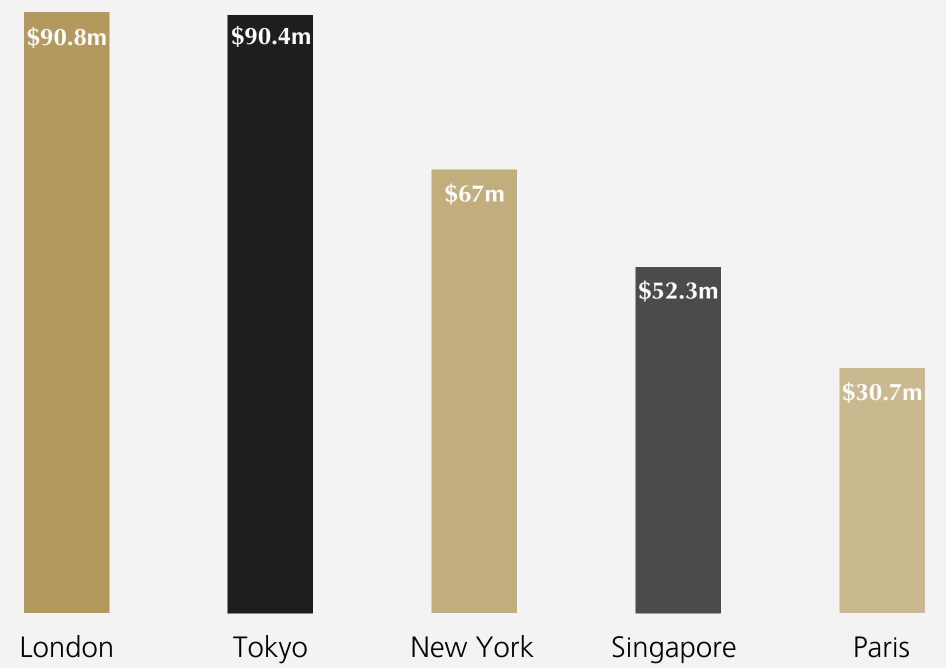
Aneel Mussarat
Founder of MCR Property Group

"There is undoubtedly a bias towards the UK among GCC investors. And that's not just because of the consistently strong returns the UK property market has delivered on their investments, but because of the long-standing relationships that exist with developers and agents across the market, the absence of any language barriers and the surplus demand and strong rental growth that we continue to see.

"London remains the primary focus, but investors are increasingly willing to look further afield. The regeneration that continues apace across the UK's regions is creating more attractive investment opportunities for GCC investors, and we're seeing this reflected in our own portfolio, which includes commercial, industrial, and residential (primarily the Student and Build to Rent) assets in many of the UK's cities. We're also seeing strong demand for sites, particularly residential, that have good connectivity to major conurbations and are delivering strengthening house-price-to-income ratios.

"Despite the challenges that the UK property market has faced and continues to face, we expect investment appetite among GCC investors will only continue to strengthen."

Top five most popular locations for property investment in the last 12 months in order and the average amount invested



Investment intentions: Where and why?

Now that we've seen that the UK is such an attractive proposition for GCC investors and we understand the reasons behind that judgement, let's look more closely at the investment opportunities they are pursuing.

Unsurprisingly, over half (56%) are planning to invest in London.

Central London is their prime target in the capital (55%), followed by East London (32%), West London and Greater London (both 31%), North London (28%) and South London (24%).

While the central area may not have posted the strongest growth in the recent past, it remains a very desirable place to live, for the reasons already discussed.

What is perhaps more surprising is that investors are also increasingly considering destinations across the UK, including Scotland, Wales and Northern Ireland.

The type of property respondents are planning to invest in is mixed, with 59% targeting residential apartments, 52% commercial office space,49% residential housing and 40% mixed-use developments.

Looking beyond London

Cities like Manchester, Liverpool and Birmingham have undergone significant regeneration in recent decades and local property markets are thriving.

JLL reports that Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester all posted record growth in prices and rents during 2022, with rents up by an average 15.8% and house prices up by an average 8%[6].

Many cities have benefited from the booming London property market, because the cost of living is much more affordable than the capital.

This has made them popular with graduates and young professionals seeking lower rents and the opportunity to get on the property ladder, while still benefitting from all the cultural and employment opportunities that exist in a thriving city.

And future growth expectations reflect the ongoing potential of regional cities; the same JLL report forecasts average growth in sale prices of 17% and rental growth of 18% over the next five years, with Manchester and Birmingham leading the field.

Top 10 UK property investment targets

1	London	56%
2	Liverpool	34%
=	Manchester	34%
3	Birmingham	26%
4	Brighton	23%
5	Bristol	19%
=	Newcastle	19%
6	Cardiff	17%
=	Leeds	17%
7	Edinburgh	15%
=	Glasgow	15%
8	Plymouth	14%
9	Belfast	11%
10	Norwich	10%

Overcoming concerns

But there are those harbouring concerns about the UK property market as a target for investment, with 55% saying they are waiting for evidence of a recovery in the housing market, while 45% cite access to capital and 36% saying the potential for high-growth returns is not what it was.

Fewer than one in ten (9%) raised concerns about the impact of Bank of England base rate rises, with the same proportion noting complexities in the legal and planning systems.

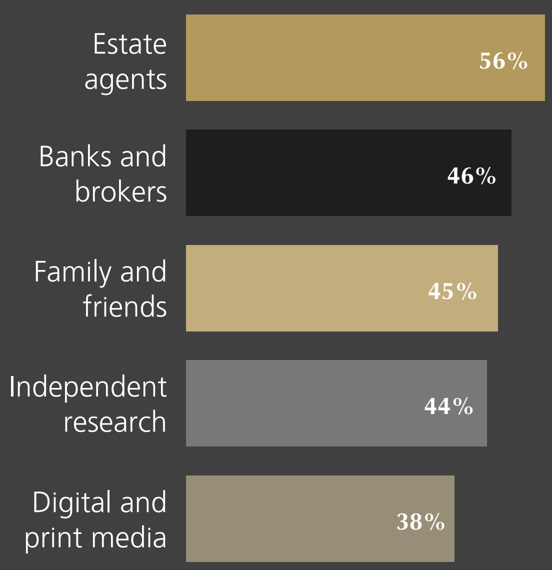
This all emphasises the importance of taking advice.

And it's reassuring to see that the vast majority of investors are clearly doing that; just 3% don't do any due diligence before investing.

Instead, they research their investments thoroughly, sourcing information from estate agents (56%), banks, finance partners and brokers (46%), family and friends (45%), independent online research (44%), and digital and print media (38%).

As an experienced provider of Sharia compliant real estate financing, we're sharing this research with investors to help you make your investment decisions with confidence and our experts stand ready to answer any questions it may raise.

Research sources investors use before making decisions



Embracing sustainable investing

Wherever in the world you are considering investing in property, sustainability has to be a key consideration.

We know that investors want to make a return, but they also want to do that in a responsible, sustainable way that doesn't negatively impact the environment or communities.

Over half (58%) of respondents in this survey said it was the access to green investments that made London such an attractive investment target, for example, second only to the strong returns that are achievable (65%).

And they want to work with a finance partner that shares their values; nine out of ten (91%) of the investors we surveyed said environmental concerns were important when choosing a finance partner for their investments.

At the same time, 96% said that a specific green finance offer would make them more likely to choose a finance partner.

How important or unimportant are environmental concerns when choosing a finance partner for your investments?

We're happy to see investors adopting these values, and they align closely with our own strategy at Al Rayan bank; we're already a carbon neutral business and will be announcing our net zero strategy soon.

As a Sharia compliant bank, we also work to very high ethical standards.

The green premium

But sustainability isn't just a moral issue, it's a commercial opportunity too; there is a body of evidence showing both renters and buyers favour properties that are energy efficient, and that they are prepared to pay a premium for greener homes.

In turn, investors are willing to pay more for such properties as they look to create more sustainable portfolios; research by CBRE found a third (32%) of European investors are prepared to pay extra for ESG-friendly assets, for example .

And research by economic consultant Deepki found the value of sustainably built property can be as much as 25% higher than unsustainably built alternatives, for example , demonstrating the opportunities available to those prepared to acquire non-compliant property and then bring it up to standard.

While sustainability is also an increasingly regulated area in the UK, the UK government has now scrapped some of its policies to make rented homes more energy efficient by 2025.

Key for landlords is that regulations that said from 2025 new tenancies would only be possible on rental properties that had band C Energy Performance Certificate have now been abandoned.

From 2028, this would have applied to existing tenancies as well, but this policy has also been scrapped.

It remains to be seen whether this would change if there were to be a change in government.

Still, according to data from Savills, currently 62% of residential properties in the City of London already have an EPC rating of C or above, rising to 73% in the popular East London borough of Tower Hamlets.

So, it seems clear that London can fulfil GCC investors' ambitions to act in the best interests of the environment.

> There is a body of evidence showing both renters and buyers favour properties that are energy efficient, and that they are prepared to pay a premium for greener homes.

The Best of Britain

Maisam Fazal
Chief Commercial Officer
Al Rayan Bank

London is a special place.

It has always held the status as a world leading financial hub, but it is also a byword for culture, style and sophistication.

History shows us that investing in property here is reliable, which is why it attracts foreign direct investment from around the world.

Investors know they can rely on the UK's stable currency, transparent legal system and its established network of skilled property professionals, which come together to make buying and owning property here a headache-free experience.

It has consistently delivered an attractive return on investment, despite the slings and arrows of global political and economic instability.

Not only that, but if you have experienced London, you'll also know that the city also has that indefinable 'vibe' that makes it such a joy to visit.

The city is vibrant, multicultural and modern, yet it retains that traditional Englishness that is so appealing.

That's what keeps people coming back year after year and why so many from the GCC consider it a kind of second home.

But investors are also becoming more aware of the real estate opportunities elsewhere in the UK, particularly in its regional cities, which are proving increasingly attractive.

Al Rayan Bank has huge experience arranging Sharia-compliant finance for real estate investors, and we stand ready to support investors with the right real estate financing solutions.

We look forward to working with investors to help support their residential property investments in London and throughout the rest of the country.

References

1. https://www.rightmove.co.uk/press-centre/1-9-summer-price-drop-as-stretched-affordability-begins-to-improve/
2. https://www.propertyinvestmentproject.co.uk/property-statistics/nationwide-average-house-price/
3. https://www.statista.com/statistics/286051/dwellings-simple-average-house-price-in-london-by-buyer/
4. https://www.cityam.com/global-travel-and-weak-pound-fuels-london-prime-property-markets-recovery/
5. https://www.bbc.co.uk/news/explainers-63147101
6. https://storymaps.arcgis.com/stories/072ba74106a34067a2a7d51e096286f1/

Methodology

151 individuals with an average net worth of $208 million operating from Qatar, Saudi Arabia, and the United Arab Emirates, were asked 18 questions to provide an overview of the property investment appetite of the GCC market and what opportunities are being considered across UK plc. This research was undertaken by Census Wide between 17 -31 July 2023. All data was captured anonymously.

Contacts

www.alrayanbank.co.uk

AL RAYAN BANK