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London hot-bed for investors

KWAP, Tabung Haji latest from Malaysia to join in UK property game

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PETALING JAYA: Malaysian funds and private sector have invested close to £3bil in prime central London since September 2009, according to sources.

The latest three purchases are said to be by Malaysian public services sector Kumpulan Wang Persaraan (KWAP) and pilgrims fund Lembaga Tabung Haji. Sources said this would be the first foray into London for both of them.

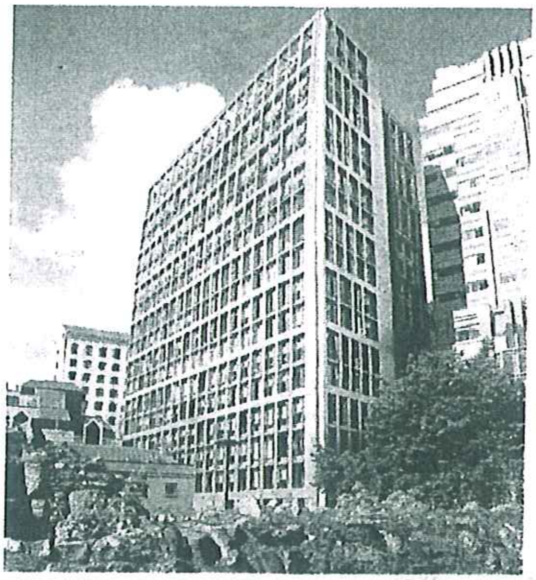
If negotiations are successful, KWAP's recent outing will result in its first two London assets. It bought two Australian properties in the last two years.

KWAP's interest is in 5 Aldermanbury Square, which was put on sale in July, and 10 Gresham Street, both prime central London office buildings. The two London properties were targeted within the span of a week.

A KWAP source said the negotiations were still pending.

Sources in London said last week that KWAP was in advanced stages of negotiations to buy 5 Aldermanbury Square from Teachers Insurance and Annuity Association of America (TIAA) and Scottish Widows Investment Partnership (SWIP) for £225mil, which would provide it with an annual yield of 5.3%.

Aldermanbury Square comprises several office buildings and No 5 is one of them. This block of asset is within walking distance of The Museum of London and St Paul's Cathederal and is accessible via three underground stations – Banks, Moorgate and St Paul. The main tenant for this building is international property consultancy BNP Paribas Real Estate which occupies 60% of the 270,000 sq ft building and it has a lease of between 12 and 15 years. It moved into that building in 2010. RREEF is acting on behalf of KWAP while Jones Lang LaSalle is acting for the sellers.



Prime property: 5 Aldermanbury Square, the building that KWAP is in advanced stages of negotiations to buy, should provide an annual yield of 5.3%.

KWAP was also buying 10 Gresham Street, another office building, from Canadian Pension Plan Investment Board and Hammerson plc for £200mil, which would reflect a yield of 5.2% annually, the sources said. CBRE is acting on behalf of the vendors.

Tabung Haji is considering Queen Steet Place, also in London, for £155mil from Jaguar Capital which, if successful, will generate an annual yield of 5.5%. The purchase will be via syariah-compliant bank Gatehouse Bank and Savills. The 221,200 sq ft block is tenanted to international law firm SJ Berwin. The lease expires in December 2025.

The recent interest by KWAP and Tabung Haji has send property consultancies there aflutter as to the financial muscle of Malaysian pensions and retirement funds.

Separately, in an interview, BNP Paribas Real Estate chief executive office John Slade said: "We have been seeing a lot of Middle Eastern investors (buying into London properties) but the Far Eastern investors are the largest and the Middle Eastern investors are not far behind.

"If the euro were to collapse, it will have an effect on the London property market. London will be as attractive, probably more so because whatever recession issues (we have) do pale in comparison. But, having said that, European politicians will not allow the euro to collapse. They will stumble through and (issues with) Portugal and Spain would have been factored into."

Slade said if the eurozone were to stabilise, Far Eastern Asian funds might go into Europe.

"You will get better yields but that is because it is very risky," Slade said.

BNP Paribas Real Estate senior director Andrew Cruickshank said: "The big story in current London property market are the South Koreans and the Malaysians. The question is: what happens when London becomes too expensive? Will these investors go to Birmingham, Manchester?

"Asian investors prefer new build developments and they are extremely knowledgeable and discerning on their requirements from their investment assets.

"Long leases mean these yields can be generated as leases cannot be broken. As rents generally only rise, yields will further benefit."

Cruickshank said currently London would continue to be a safe haven for foreign funds.

Savills London office said the deteriorating situation in the eurozone the last six months had resulted in investors flocking to buy into prime central London properties.

Savills director Edward Lewis said: "For the past six months, everybody have been coming into London. The people who can afford to leave their countries are only the very very rich. If the eurozone does fragmentise, it will not be good news for the United Kingdom. It will be damaged but prime central London will not be.

"The property market in prime central London is not representative of the overall UK situation."

Savills' director of research Mat Oakley said the commercial sector was characterised by long leases that ccould go up for up to 15 years and were dominated by globally-recognised businesses.

"It is such factors which make the commercial office sector so attractive to pension funds who want secured long-term income."