REAL ESTATE AS AN INVESTMENT VEHICLE – THE LONDON STORY

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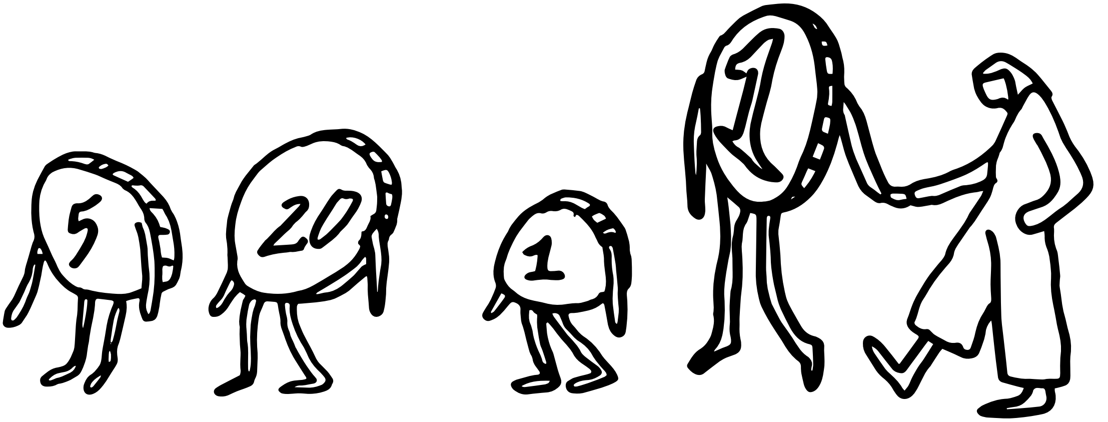
ULTRA HIGH-NET-WORTH INDIVIDUALS (UHNWI)

In 2017 the UK was home to some 4 589 individuals with a net worth of over $ 50 million (a decline over 2016 levels) and some 220 demi-billionaires. Globally the number of super rich is growing and 129 730 people each own over $ 50 million in assets, according to the Knight Frank 2018 wealth report. This represents an increase of 10% from 2017 and a total value of $ 26.4 trillion. That money is moving globally, and London is a popular destination for investment. Ultra High-Net-Worth Individuals (UHNWI) i.e. those with $ 50 million in assets and demi-billionaires, those with over $ 500 million in assets, are displacing multi-millionaires, those with over $ 5 million in assets, and High-Net-Worth Individuals (HNWI), those with $ 1 million in assets, in London's prime real estate market, which sees properties listed above the £ 10 million mark.

In 2016 some of London's wealthy elite, under pressure from UHNWI sold their property and moved out of exclusive, desirable areas like Mayfair, Chelsea, Hampstead, South Kensington, Highgate and relocated to areas in South or East London – Battersea, Clapham, Acton, Aldgate, or abandoned the capital altogether in favour of the suburbs of Surrey or the Chilterns. The displacement of the monied classes pushed house prices up in the areas they relocated to and caused gentrification. There is still activity in the super prime £ 10+ million property market, even though the number of purchasers has decreased, and sales have slowed due to increased taxation, with properties in that price range now attracting over £ 1.4+ million in taxes. Uncertainty over Brexit and the weakening in the value of the pound has meant that British properties are good value for foreign investors, with strong currencies, offering some 30% discounts even with the high property taxes.



REAL ESTATE AS AN INVESTMENT VEHICLE

According to RCA and Knight Frank, some 56% of UHNWI invest in real estate, the second most popular choice after equities which 62% of UHNWI invest in. Property investments in central London in 2017 amounted to $ 20.8 billion, the second top city after Los Angeles for investment, including the office market. The trend for investing in property is influenced by many factors and depends on the person's age, nationality and occupation. Some UHNWI choose to invest in residences in countries where their business operates or where they relax, where their children are enrolled in school (like Monaco, for example, or other prestigious locations), in solid markets where they can make a return on their investment, or for tax purposes. A significant number of UHNWI are globally mobile with houses all over the world. Residency by investment programmes could be a determining factor. The Henley passport index ranks the UK passport in third place in terms of value, offering visa free access to 175 countries. A minimum investment of $ 2.7 million will buy a UK residency. According to Knight Frank, some 34% of UHNWI already hold a second passport and a further 29% are planning to purchase one.

The UK, and London in particular, is a popular market for first-time foreign investors from Africa, Asia, Europe, the Middle East and Russia accounting for a third of investment purchases. In the £ 10+ million residential sector Chinese buyers account for 8% of purchases, Middle Eastern buyers 17% of purchases, Russian investors 12% of all sales and British buyers account for 38% of all purchases. London remains an expensive market though not as expensive as it once was dropping some 1,8% between June 2017 and June 2018 according to Frank Knight.

In 2017, $ 1 million purchased 29 m2 of space in London. As a comparison $ 1 million bought 16 m2 in Monaco and 137 m2 in Dubai. However, there are still investors willing to bank money in property with the expectation that their investment will grow overtime as others invest in premium real estate creating scarcity and increasing high values buoyed up by demand.

The wealthy value privacy and exclusivity. Participating in public and civic life is a security risk, or a potential opportunity for privacy invasion. UHNWI do not feel a need or a strong inclination to shop local or support local businesses. Small businesses close, replaced by international luxury brands; property values and rents increase; the poor and middle class are displaced, sometimes forcibly; and the gated and fenced enclaves required by the wealthy, heavily secured and fortified, serve to divide the city between the 'haves' and the 'have nots'. What the wealthy require can be brought to them when they are in residence and many spend their time across multiple homes in different countries, sometimes without utilising an investment property at all. They leave expensive houses empty, typically guarded by high-end security companies. Hence, there is little to no contribution towards increasing vitality, diversity or inclusion in the places UHNWI acquire for investment purposes. These behaviours are not new or unique, as the UK has a history of landed gentry and their modern counterparts, however the impact on the places that UHNWI acquire for profit, is more keenly felt with today's global challenges of population growth, housing crisis, growing inequality, declining health, education, economic prospects, civic disenfranchisement, and the challenges of sustainable stewardship of natural and environmental resources.

The desirability of a prestigious address has led to income sorting within cities like London. There are notable physical differences across neighbourhoods including: form, character, variety, neighbourhood amenities, access to green space, access to quality food, jobs, education, quality housing, infrastructure and services. This growing inequality has real consequences. For example, health inequality from neighbourhood to neighbourhood has meant shorter lifespans for London residents the further east one goes in the city. There are marked health improvements just north of the River Thames compared to life spans just south of the same river. According to 'Lives On The Tube' research done by Dr James Cheshire, residents born in Lancaster Gate can expect to live 6 years longer than those born in Mile End. UCL professor Michael Marmot ascribes the difference in lifespan to factors like: early child development, environment, proclivity to smoking, alcohol consumption, obesity, diet, education, employment, working conditions, and inadequate income to live a healthy life. Governments' reliance on the GDP as a measure of economic growth and success of its people belies the fact that the average can be pulled upwards by outliers like a few wealthy individuals amassing and accruing great personal wealth, while simultaneously more people at the bottom end of the spectrum (poor and lower middle class) struggle to survive, sign on to government aid programmes, and need services, increasing governments' expenditure. The number of those at the bottom of the pyramid can increase year upon year requiring greater budgetary allocations for social services like food, housing, mental health services and healthcare while on the surface the country's GDP grows.

More reliable signs of a healthy economy should include wage growth, low cost of living, people's happiness and well-being, educational attainment levels, employment, health (mental and physical), overall fitness and longevity, overall satisfaction levels with the places people live and work. All of these measures are significantly influenced by access to jobs, education, quality housing, quality food, clean air, reduced stress, access to nature and green space, amenities, exercise, vibrant social networks, recreation, spending power, and the shape and form of the built environment. In the long term it costs government less to keep families in adequate housing and to foster an environment that supports social inclusion, health, and equity rather than pay the attendant far-reaching costs of social services resulting from inequality.

BUSINESS AS USUAL

Scarcity at the top and bottom of the residential market increases house prices for everyone across the board, wealthy, middle class and poor. This might explain why private sector developers are so reluctant to build affordable housing as increasing housing supply to meet pent-up demand will reduce house prices and impact their bottom line and returns on investment. In super-inflated and constrained markets like London, house prices are many times the national average and even affordable housing at 80% of market price is beyond reach for many civil servants, especially as wage growth has stagnated for the last ten years. According to the Land Registry UK price Index for May 2018 the "average property value in the capital is £ 478 853". The National Statistics Office value is £ 460 000. Even with housing prices falling in London that average sales price is unattainable for many people. The 'average' first time house buyer in the UK is 30 years old and earns £ 42 000 per annum qualifying for a loan of £ 142 452 at a loan to value of 85%. The price of the house is 11.4 times the 'average salary'.

The 'average salary' quoted for a mortgage when compared to the average salary across all occupations equates to the average salary earned by engineering professionals in the UK – a specialist field requiring an expensive university degree and professional certification. The average salary in 2017 for teaching and other education professionals n.e.c. was £ 18 236. In the same year, health and social care associate professionals earned an average of £ 22 011; police community support officers earned on average £ 25 948; administrative and secretarial occupations earned on average £ 20 560 (National Statistics Office). At that salary the 'average house' is 23.3 times a civil servant's salary. A 20% discount to make the average house price 'affordable' does not make home ownership attainable for this segment of society and many other segments of London's population. Women, People of Colour (PoC), immigrant residents and those at the intersection of these groups are paid less than their Caucasian male age cohorts, employed in the same occupation. These people are equally challenged by London's housing market.

According to researchers David Albouy and Mike Zabek (2016), "since construction costs vary little within cities, much of the growing inequalities in housing value seems to be due to the inequality in land value, or the right to build on such land." Albouy and Zabek also suggest that "constraints may play a role within cities as new housing in the most desirable neighbourhoods may be the most constrained". Constrained here is taken to mean: legal, political and institutional barriers, financial and budgetary restrictions, lack of political or public acceptance of new housing and cultural attributes, practical and technological barriers to land use and transport policies including barriers to land acquisition and lack of technical expertise (regarding community engagement, community-led design, co-design, community capacity building, etc).

A WAY FORWARD

It is critical that models to provide housing move away from the segregation by income norm that has been spreading in London and other global cities. This requires a shift away from the business as usual model, which relies on short term financial analysis for single uses, and toward a mixed-income, mixed-use, compact human scale development model where the sale of enough diverse housing and commercial units pays for the provision and maintenance of green and open space as well as community amenities.

Housing makes up the bulk of cities so if we improve its quality and our ability to deliver mixed-income housing, we improve the city and make it more accessible to all. An urban designer trained to provide a financial feasibility spreadsheet to explore residential valuation, can deliver a mix of housing types, sizes and price points, in addition to mixed uses, community amenities and green space in a quality, highly desirable, walkable environment that is financially viable and even highly profitable.

Unless this fundamental principle of mixed-income housing and mixed-use development for an inclusive city is grasped and replicated, we will continue to see housing inequality and displacement when our goal should be a city of 'complete neighbourhoods'[1] where people can 'age in place' and everyone, babies, women, girls, boys, men, the elderly and the disabled have equal right to the city and can access and participate fully in public life. The Greater London Authority is one of the largest public sector landowners in London and as such is well-placed to deliver 'complete neighbourhoods', using the land resources it already owns, in addition to acquiring derelict, rundown, abandoned and vacant properties, and recycling and repurposing suitable brownfield and light industrial sites. There could be a concerted effort to acquire a land bank that could be used to develop 'complete neighbourhoods'. London has a unique advantage in that its Mayor chairs Transport for London (TfL) which is responsible for all transit in the city. This means that there is the potential to ideally locate housing near exiting transit via TfL land or alternatively take transit to land earmarked for a 'complete neighbourhood' for optimum connectivity and walkability. The former is preferable and capitalises on existing synergies reducing expensive outlays on capital infrastructure.

Singapore is an example where the city owns the land. Some 85% of residents live in social housing delivered through the Housing and Development Board. This model ensures not only stability in the housing market but also affordability and the elimination of the stigma of 'social housing'. The above is not the only model. Developers also have a role to play and can fulfil section 106 agreements by integrating truly affordable housing into the built fabric of market-rate housing on opportunity sites. This ensures there is no difference in the material quality of the built structure and eliminates the 'poor door' syndrome associated with affordable housing.

The diversity of tenure in a mixed-income development in conjunction with mixed use brings vitality, patronage, opportunities for inclusion and access to green space and community services, amenities and infrastructure that are usually excluded from single-use affordable housing development. Implicit in improving the city is the access to: jobs, quality food, shopping, recreation, entertainment, culture, leisure, worship, healthcare, education, civic and public institutions, public green and open space, public transport and all the components that make up 'complete neighbourhoods'. The integrated mixed-use mixed-income model avoids social segregation and the built-in inequality seen in some London neighbourhoods, often in close geographic proximity. It is time to rewrite the tale of two cities and transform London into a universally healthy, active, vital, and equitable city for all.

1. 'complete neighbourhood' refers to a neighbourhood where one has safe and convenient access to the goods and services needed in daily life. This includes a variety of housing options, grocery stores and other commercial services, quality public schools, open public spaces and recreational facilities, affordable active transportation options and civic amenities. An important element of a complete neighbourhood is that it is built at a walkable and bikeable human scale and meets the needs of people of all ages and abilities.

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