Business as usual?

■ Following the murder of journalist Jamal Khashoggi, **Emanuele Midolo** asks whether international outcry could stem the flow of Saudi money into UK property

Almost a year ago to the day, on 4 November 2017, around 200 Saudi Arabian citizens – including princes, serving government ministers and some of the nation's richest tycoons – were rounded up, arrested and taken to the Ritz-Carlton hotel in Riyadh, where they were held for weeks and even months.

They were allegedly only allowed to leave once they had paid a hefty sum and pledged allegiance to Saudi Arabia's de facto ruler, the crown prince Mohammed bin Salman, aka 'MBS'. The 'crackdown on corruption' is rumoured to have swelled the kingdom's coffers by £70bn to £100bn. It also prompted scores of wealthy Saudis to try to get their money out of the country.

Over the past 24 months, Saudi investment in the UK has "quadrupled", according to Raed Hanna, managing director at Mutual Finance and an expert on the Middle East. "If before we were talking about investments in the order of hundreds of millions, now we are talking about billions," he says.

Following the barbaric murder of dissident journalist Jamal Khashoggi at the Saudi consulate in Istanbul last month, the question is: will it remain business as usual for Saudi investors or will they be blocked from buying more UK property? If not, should they be?

Many countries have already threatened to impose sanctions on the kingdom, which has now admitted the murder was 'premeditated' but maintains that it was orchestrated by a rogue group unconnected to MBS. Until the truth emerges, potential deals may not be shelved but they are likely to be more closely scrutinised and a serious amount of investment is at stake.

Under-the-radar deals

Although investors from Saudi Arabia aren't the biggest spenders on UK property, Real Capital Analytics (RCA) figures show that £463m worth of assets have been bought by Saudis in the past 18 months, compared with £135m in 2015 and £211m in 2016.

Tom Leahy, senior director at RCA, says these numbers could be significantly lower than the actual amount invested because RCA is only able to track direct transactions. Those that are done off the market or through third parties – which account for the majority of transactions – fly under the radar.

"Saudis tend to be a little bit more low key," says Tareq Hisham Hawasli, founding partner at Darin Partners, a UK advisory firm that acts on behalf of Middle Eastern investors. "They don't publicise what they buy as much as buyers from other countries. Either they buy off market or, when they buy directly, they keep it quiet. They also like to set up joint ventures and partnerships with local businesses."

A good example is the deal Darin struck earlier this year with the Saudi co-owner of Sheffield United Football Club, Prince Abdullah Bin Mosaad Bin Abdul Aziz, who became a major shareholder in the firm and pledged to spend millions in the UK.

Saudi institutions have also completed a number of deals recently. A few weeks ago, SEDCO Capital acquired a $180m (£137.5m) portfolio across the UK and France, while Sidra Capital bought Mishcon de Reya's London HQ for £97m and the Travelodge hotel at Heathrow Airport Terminal 5 for £40m.

Sidra now owns 20 UK assets and has spent around £300m in less than 10 months as part of a £1bn investment programme announced last year.

"A lot of first-time family offices who have never invested outside the Middle East and North Africa or Gulf Cooperation Council regions before have started getting out and commercial property in the UK is probably their number-one destination," adds Hawasli.

Although Hanna believes the Ritz-Carlton incident forced some Saudi families to "invest elsewhere, particularly in Europe", he says there are other reasons Saudi investors have been targeting the UK property market.

"They can make an immediate profit now, because of the current exchange with sterling," Hanna says. "Saudi capital has been dormant. They used to be the sleeping partners of many UK developers, but they've become increasingly active because they see an opportunity."

Hawasli adds that there has also been a generation shift in Saudi Arabia. "[This new generation] are taking over from their parents; they're western educated and more sophisticated, so their investments are more sophisticated too."

This is underlined by Saudi Arabia's sovereign wealth fund backing of SoftBank's London-based Vision Fund, which is the largest single investor in co-working giant WeWork. Saudi money accounts for almost half ($45bn) of Vision's $100bn war chest. A second Vision Fund was announced in May and MBS had already pledged to invest another $45bn, but it is rumoured that he might pull the plug on the deal in the wake of the Khashoggi scandal.

SoftBank chief executive Masayoshi Son pulled out of the Future Investment Initiative conference – known as 'Davos in the desert' – held earlier this month at the Ritz-Carlton.

He wasn't the only big-name absentee. Senior executives from the City of London Corporation, BlackRock, Google, HSBC, JPMorgan and 40 other firms boycotted the event.

So far, no deals are known to have fallen out of bed as a result of the scandal. However, questions have been raised over whether the £2.9bn bid for shopping centre giant intu lodged by the consortium between Peel Group, Brookfield Property and Olayan, one of the largest Saudi conglomerates in the world, could be scuppered (p23, 26.10.18).

When *Property Week* recently interviewed intu chief executive David Fischel about the deal (p4, 26.10.18), he declined to comment on whether Olayan's participation could compromise a potential takeover.

Rejecting Saudi money

Most UK property figures are reluctant to speculate on the record what the fallout might be.

Off the record, opinions are sharply divided. One senior agency source warns that "some people will just decide that they don't want Saudi money – full stop". Another agent says: "Would you like to be associated with such a horrendous crime? I certainly wouldn't. There are other buyers out there. You have the choice [if you're selling]."

Others, however, believe the Khashoggi scandal will have no impact on Saudi investment. "I think it's highly unlikely to, but I can appreciate why some people might put two and two together," says James Hammond, CBRE executive director for London investments.

Hammond says he is not aware of any Saudi transactions in the pipeline, but "if you're a vendor and your buyer has passed all the know-your-customer and anti-money laundering checks, I can't see why you'd have an issue, just because there is evidence of wrongdoing at a country level".

It is a view shared by Hawasli, who answers the question of whether business activity will be affected with a resounding 'no'. "I don't get into politics or religion, but I think that the way people deploy their money in the global markets [won't be affected]," he elaborates.

"Saudi Arabia is such an easy country to bad-mouth, but the honest truth is that it has different colours and shades, and a lot of people that are not all the same are looking to invest outward. What the Saudi government does or does not do is none of their business."

It is too early to say if Saudi investment in the UK will be adversely affected by the fallout from the Khashoggi incident, but the prevailing view in the property industry appears to be that it will be business as usual.

As one agent bluntly puts it: "You might not like Donald Trump, but you'll still deal with Blackstone."

The companies that signed more than $50bn of deals on the first day of 'Davos in the desert' clearly agree. ■

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