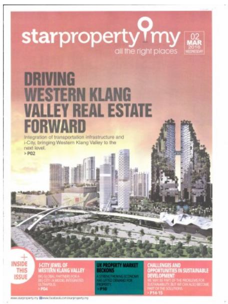
Headline	UK PROPERTY MARKET BECKONS		
MediaTitle	The Star		
Date	02 Mar 2016	Color	Full Color
Section	Supplement	Circulation	338,368
Page No	S1,S10	Readership	1,032,000
Language	English	ArticleSize	887 cm²
Journalist	By ANGIENG angie® lhestar.com.my Ar\gie	AdValue	RM 29,473
Frequency	Daily	PR Value	RM 88,419



UK PROPERTY MARKET BECKONS

A STRENGTHENING ECONOMY HAS LIFTED DEMAND FOR PROPERTY.

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A strengthening economy has lifted demand for property.

By ANGIE NG
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THE UK is well known as one of the world's leading business and trade centres, and its capital city, London is an important financial center and a vibrant global city.

It is not surprising that the UK's property market has attracted many foreign interest and participation, including Malaysian individuals, institutional funds and developers.

Its property market, notably in London, is well known as an investment haven for foreign investors. Malaysia's institutional funds, including the Employees Provident Fund (EPF), Retirement Fund Inc (KWAP) and Lembaga Tabung Haji, have diversified their investment portfolio to the UK to take advantage of the good investment yields.

The EPF has invested more than £1bil in the UK's offices, logistics and hospital assets. It also has a 20% stake in the Battersea Power Station mixed-use development project.

Lembaga Tabung Haji owns at least three prime commercial properties in London while KWAP's asset portfolio in the UK include office buildings in London and a retail complex in Uxbridge.

In property development, a Malaysian consortium comprising SP Setia Bhd, Sime Darby Bhd and the EPF is undertaking the redevelopment of the Battersea Power Station in London into apartments, offices, shops and retail units, with a gross development value of £8.7bil.

Another developer, Eastern & Oriental Bhd's (E&O) UK-based unit, E&O PLC will be redeveloping three real estate properties in London - Landmark House, Thames Tower and ESCA House - into residential and mixed-use developments.

Industry observers said London's property market is seen as a high-yield safe haven, which explains why foreign and domestic buyers have poured money into the market. There is an acute housing shortage in London due to tight planning laws, including green belt restrictions and other building guidelines, that developers are required to adhere to.

House prices have soared in recent years, especially in London and the south-east of England, fuelled by a shortage of supply and intensifying demand.

According to Knight Frank Malaysia senior manager for international project marketing, Dominic Heaton-Watson, one of the trends characterising the Greater London market at present is a lack of supply with stock of second-hand homes for sale at near record lows.

He said this is because the supply of new-build housing is not keeping up with the growing population, and the shortage is unlikely to unwind any time soon.

The UK Government, under the Help to Buy Programme, is seeking to address the issue by freeing up public land for development and helping first-time buyers climb onto the property ladder that has contributed to house-building activities having picked up in recent years.

The programme has encouraged more housing development across the UK, helping to boost the number of much needed new-build homes, and an extension of the more generous scheme to London could further increase development in the capital also.

Heaton-Watson said despite the Government's initiative, the supply of new-build dwellings is still far below the target and the situation will continue to underpin pricing in some parts of the market.

"The UK Government has stated clearly that it would like to help more people in terms of home ownership, but around one in five dwellings in the UK is in the private rented sector (PRS). The PRS is becoming a more firmly established tenure in the UK and this is unlikely to change.

"What we are likely to see is a move towards a rising proportion of rented accommodation being provided by institutions rather than individuals, providing a more professional and transparent rental market. However this will remain a relatively modest slice of the market in the short to medium term," he added.

Savills Malaysia deputy managing director Paul Khong said the two main issues that will impact the UK's property market this year will be mortgage regulations and a potential rise in interest rates that will affect people's ability to access the housing market.

"For the residential sector, a rise in interest rates will reduce affordability and limit property price growth. The mortgage regulation suppresses the housing bubble but also increases private renting demand.

"Even with Government policies implemented to further drive house-building and home-ownership, there is still rising demand for private rented sector accommodation and an upward pressure on private rents," he observed.

However, for the commercial property market, a change in interest rate will have only nominal impact on commercial property yields as commercial rents are still rising.

"On March 4 and 5, Knight Frank Malaysia will be unveiling in Kuala Lumpur the Landmark Place at Tower Bridge project that is located in London EC3, comprising 165 apartments in a high-growth location with excellent transport connectivity."
– Dominic Heaton-Watson

Knight Frank Malaysia senior manager for international project marketing Dominic Heaton-Watson.

Savills Malaysia deputy managing director Paul Khong.

> Artist's impression of the Battersea Power Station mixed-use development project by a Malaysian consortium.

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Promoting home ownership

Khong pointed out that for 2016, the UK market is expected to continue to focus on properties with investment fundamentals.

"Income-producing potential of various asset classes and the ability to unlock the latent value of individual assets through management action would be paramount.

"The current trend in London is that property prices are no longer dictated by actual affordability based on average salary earnings but instead of what wealthy investors and richer local buyers on good dual income are willing to pay," he said.

A recent report by Savills Research (UK) revealed that a large number of house buyers are unable to take advantage of the housing market, showing an interlink with the low inflation and high-debt economy.

Although the "starter homes" are contributing to higher new build supply, house prices still remain high relative to income, and first-time buyers will continue to struggle with deposit requirements.

Given the low local house ownership, the private rented dwellings will have high demand and pressure on private rents will continue to grow.

An analysis of house ownership by age cohort shows that while 64% of households born in either 1960 or 1970 owned their own home by the age of 35, the figure dropped to 44% for those born in 1980.

Savills Research predicted that only 39% of those born in 1990 will own their home when they reach 35, and that the estimated number of local house owners has also dwindled by the generation.

On the challenges ahead, Heaton-Watson said the theme of higher transaction costs may place some pressure on overall activities and price growth in the year ahead as the market absorbs the new rates. After April 1, the Stamp Duty Land Tax (SDLT) will apply on additional residential properties purchased in England, Wales and Northern Ireland at 3% points above current SDLT residential rates. They will be charged on the portion of the property value that fall under each band.

The forecast average Prime Central London price growth for 2016 is a 2% increase while for Prime Outer London, the forecast is at 3.5% in 2016, with potential for some areas to outperform this growth.

He said a slow but steady economic growth is expected for the UK this year, and the UK central bank has given a strong indication that interest rate rise is off the agenda until the last quarter of the 2016. Some economists forecast no change until 2017.

As a result, mortgage rates in the UK are at record lows. The flip-side of this trend, however, is that the best mortgage rates are generally only available to those who have access to sizeable deposits or equity.

Heaton-Watson said a combination of the new mortgage rules which came into force in 2014, and the EU Mortgage Credit Directive, which will come into force in April this year, also mean that getting a mortgage has become more onerous for some borrowers, and it will continue to be the case.

Meanwhile, the bearish oil market will have a bearing on the market with two significant implications on the property markets.

Firstly, a lower oil price will keep inflation in check, which will delay the moment the Bank of England raises interest rates, thus supporting demand for mortgages. However, the lower oil price is also having an impact on the global economy, which could have a knock-on impact on the UK economy.

Secondly, while some institutional capital is returning to or remaining in the Middle East to support the local economies, private individuals may seek to invest in assets outside the region due to longer-term concerns about what the falling oil price may mean.

Another looming issue is the potential impact of a Brexit or a UK exit from the European Union .

He said the impact on the UK property market of a Brexit will depend on the level of impact on the UK economy as a whole.

"There are plenty of speculators trying to predict any potential impact – but it is difficult to predict with any degree of certainty. The property market has proved that it can absorb policy changes, but the uncertainty around such a decision can take its own toll on market activity," he said.