RISK INSIGHTS Property Management

Crendon Insurance Brokers

Challenges Facing the UK Property Market

Purchasing property can be a shrewd—but not fool proof—investment. The property market is influenced by supply and demand, availability of credit, and the health of the UK economy—all of which are constantly fluctuating.

While some of these challenges can change yearly or even monthly, others have a more sustained effect. According to industry experts, the three main challenges that will affect the market over the course of the next several years are the EU referendum, China's slumping market and the stagnation in London, which is encouraging growth in smaller markets. However, with a closer examination of these challenges, you—as an employer, owner or general investor—can successfully navigate the market.

EU Referendum

Prime Minister David Cameron has promised to hold a referendum on June 23rd 2016 on whether the United Kingdom should remain a part of the EU. The outcome of the referendum remains uncertain. However, experts predict that if the United Kingdom were to leave the EU, the property market may experience the following consequences:

- Difficulty exporting goods and services to not only the 28 EU countries, but to the rest of the world as well. This may encourage companies to relocate their headquarters outside of the United Kingdom in order to conduct business with fewer obstacles.
- A negative impact on international investments in the UK property market—specifically in London. In fact, 66 per cent of property experts polled by professional services firm KPMG in 2015 believe that Britain leaving the EU would have a negative impact on international investment in London property.
- A reduction in the value of all residential and commercial UK properties, since, in the immediate aftermath of a vote to leave the EU, house prices could dip due to reduced immigration, weaker incomes, and the loss of the United Kingdom's 'financial hub' status, according to a recent Credit Suisse report.

Over the next four years, the cost of the average UK home will rise by an estimated 23 per cent, according to JLL, a property and investment firm.

While it is not guaranteed that these potential consequences would develop if the United Kingdom were to leave the EU, such possibilities and uncertainties still have a direct and tangible effect upon current market decisions.

China's Slumping Market

In 2014, China's economy grew by 7.3 per cent, its slowest rate in 24 years, according to the country's National Bureau of Statistics. Then, in June 2015, its stock market began to decline, and, by January 2016, it had fallen by an estimated 40 per cent. To compensate for these financial deficits, the Chinese government has been forced to rely on its cash reserves. However, these reserves are not abundant enough to support the economy indefinitely during this 'recession'.

The United Kingdom and China have what could be described as an interdependent relationship. This is because the United Kingdom is the largest European investor in China's economy and infrastructure. And, in return, the United Kingdom has benefitted more than any other European nation from Chinese investments. For that reason, the United Kingdom is expected to experience repercussions as a result of China's current economic state. The following are examples of the anticipated effects of China's economic slowdown on the UK property market:

- It may weaken the ability of Chinese investors to successfully expand business operations or develop new businesses in the United Kingdom—particularly in London. This could profoundly weaken UK property prices, since, according to the Financial Times, Chinese buyers are now the biggest force in the UK property market.
- It may reduce the number of potential investors interested in and capable of purchasing available residential properties—particularly in London, where Chinese property investors seeking foreign havens for their wealth have helped drive up property prices to almost-unattainable levels.
- It may expose the United Kingdom to a Chinese property market crash, which could lower the value of UK residential and commercial properties.

The health of the UK economy is inextricably tied to that of China's, and, with China's economy currently experiencing a downturn, the United Kingdom will be exposed and may have to endure negative repercussions.

London Stagnation, Smaller Market Growth

At the end of 2014, Chancellor George Osborne increased the stamp duty—a 10 per cent tax rate on properties worth between £925,000 and £1.5 million, and 12 per cent for properties worth more than £1.5 million. Then, beginning in 2015, Osborne had additionally increased the stamp duty on second home purchases and introduced a levy on properties owned by offshore companies and additional property market taxes.

In conjunction with the higher property taxes, over the course of 2015, the average cost of a home in London rose to £537,000—an increase of nearly 10 per cent, according to the Office for National Statistics. This inflation helped contribute to a stagnation in the London housing market. Because the rate at which homes were being developed significantly slowed, demand for housing has outpaced availability in a majority of London boroughs.

As a result of the current ill health of the London housing market, experts expect the following repercussions to ripple throughout the UK housing market:

- Property developers and investors may look for more beneficial opportunities in other smaller, less-developed markets surrounding London or in other UK cities.
- Potential investors of buy-to-let properties may be dissuaded from purchasing certain properties after some of the 2015 budget proposals severely reduced the associated benefits.
- Businesses may choose to establish their headquarters outside of London in more affordable markets.

Space is at a premium in London, but with steep property costs, potential investors may look for more affordable options. This could result in robust growth in other areas of the country while the London market remains stagnant.

Purchase, Invest and Protect with Confidence

As purchasing a piece of property—regardless of size or location—is a substantial investment, it is important to understand the current challenges affecting the market. In addition, it is essential that you protect your investment with the appropriate cover. Contact **Crendon Insurance Brokers Ltd** today to receive beneficial guidance on the recommended and necessary covers as well as tips on how to effectively navigate the perilous property market.