

FULCRUM INSIGHTS

Fulcrum Global x Investment Consultant Tommy Ong Impact of the Global Economy and Sustainable Initiatives on UK Pre-Owned Residential Properties

The U.S. Federal Reserve hiked interest rates by 0.75% in June to a target range of 1.5% to 1.75%. In the press conference following the Federal Open Market Committee meeting, Fed Chairman Jerome Powell said the Fed is likely to hike rates by a similar magnitude in July if inflation still remains stubbornly high. The increase of 0.75% in June was higher than the Fed's widely publicized projected hike of 0.5% in early June due mainly to the May consumer price index figure of 8.6, which was a 40-year high. An energy price increase of 106.7% and rental hike of 5.5% on a year-to-year basis were cited as the main reasons for the larger-than-expected rate hike.



1 UK house prices increased by 70 times over a 52-year period

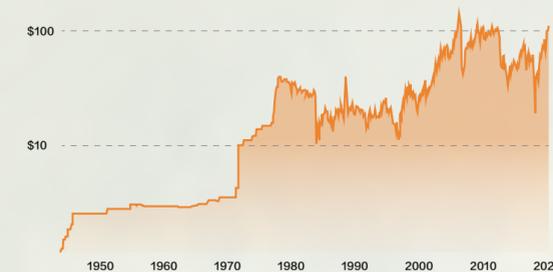
Global inflation has sped up due to following reasons:

- 1) Global central banks have been supplying too much liquidity in the three crises in the past 14 years, namely the Global Financial Crisis in 2008, the European Debt Crisis in 2012 and the Covid-19 health crisis since 2020. There were too few quality assets with too much liquidity;
- 2) The pandemic led to broken supply chains, causing sharp rises in the prices of chips, car parts and necessities;
- 3) The Russia-Ukraine war has led to disruptions in food production and distribution, and sanctions on Russia have led to a sharp rise in oil and gas prices around the world.

Global equity and bond prices sank after the Fed's decision to hike rates aggressively. Investors worried that the stagflation situation would cause a repeat of the similar hyperinflation period during the 1970s. However, with decreasing household debt levels and healthy corporate balance sheets, the chance of a financial crisis is not high today, particularly with the three major central banks still holding assets of close to US\$24 trillion.

The Arab oil embargo after the Israeli-Arab War resulted in an increase of the crude oil price from US\$3.3 to US\$32 per barrel throughout the 1970s, with US inflation hitting a high of 13.5%. During the high inflation era, prices of gold and real estate outperformed that of financial assets by a large margin. Gold rose from US\$35 to US\$600 per troy ounce and the average house price in the UK rose from £3,920 in 1970 to £19,273 in 1980. The average UK house price rose further over the next 42 years to a historic high of £278,436 by the end of March 2022, representing an increase of 70 times over a 52-year period.

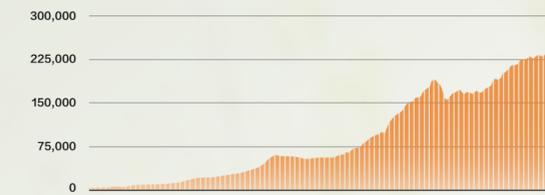
U.S. West Texas Intermediate crude oil price¹



2 Pre-owned properties have greater liquidity and higher price visibility

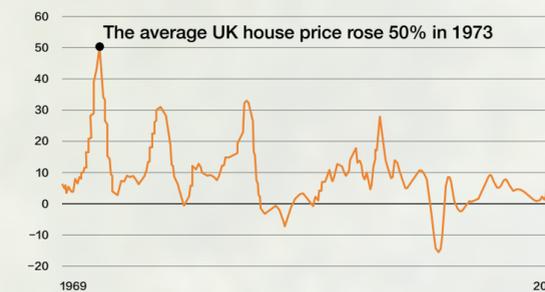
I mentioned in my previous article that investors are likely to worry about recession during eras of aggressive global interest rate hikes designed to tame inflation pressure. Hence, investors may choose to invest in pre-owned properties, which have greater liquidity and higher price visibility. The higher rental yield of small to medium-sized apartments also serves as an inflation hedge.

The average UK house price rose 3.9 times from 1970 to 1980, and rose 70 times from 1970 to 2022²



In light of the sharp increase of gas and oil prices, the UK energy regulator Ofgem allowed energy suppliers to raise the energy price cap by 12% in November and 54% in April. The price cap is expected to increase again in October to close to £3,000 per year. UK property investors have become very eager to make their properties more sustainable with regard to energy savings to increase the competitiveness of their apartments in the rental market. Additionally, the government will require rental properties in England and Wales to obtain an energy performance certificate of C grade or above in 2025, an upgrade from the current level of E grade.

The average UK house price from from 1969 to 2022³



3 Sustainable initiatives trend to increase competitiveness



Prospective buyers and investors may visit the UK Government's website to view the energy certificate (and the accompanying grades and scores) of their target apartment: <https://www.gov.uk/find-energy-certificate>

If the buyer of the apartment wants to raise the grades and scores of their target apartment, they can install smart appliances to achieve this goal. For instance, the grade can be raised to C from D and the score can be raised from 55 to 74 after installing fan-assisted storage heaters, which can help lower energy costs by £256 per year. I recommend that prospective buyers seek the advice from the seller or an energy consultant if they are interested in learning more.



FGP x Tommy Ong
Analysis of Property Investment in the United Kingdom

【About Tommy Ong】 Tommy Ong is the founder and Managing Director of T.O. & Associates Consultancy Limited, a financial consultancy firm. Previously, Tommy was the Managing Director (Greater China), Head of Wealth Management Solution in Treasury & Markets of DBS Bank, responsible for investment strategies and the distribution of investment products in the Greater China region. He also spent several years at Citigroup Private Bank, where he led the investment advisory team for the mega-wealth segment in North Asia. Prior to this he was Vice President in Global Markets at Citibank and JP Morgan Bank, where he amasses 17 years of experience in foreign exchange and options trading.

【About Fulcrum Global】 FULCRUM INSIGHTS is published by Fulcrum Global, a leading international real estate development and investment firm. Headquartered in Hong Kong with regional offices in Shanghai, Bangkok and Manchester, Fulcrum Global was established in 2008 and boasts an investment portfolio comprising projects in key cities across the United Kingdom, Thailand, Singapore, Japan and China. To create long-term value for investors, Fulcrum Global offers a comprehensive range of services, including real estate development, strategic investment and asset management, combining its global expertise and unrivalled distribution network to create added value and ensure high-quality deliverables.

Source: 1-3 UK Office of National Statistics