

# Property Predictions for 2011

A Property Investment Article from Pinnacle

*This month we look at the year of 2011 and highlight some predictions for what the year holds for property investors.*

*As banks remain nervous about European bad debts and the only way that seems apparent in the medium term for interest rates is up, things look a little hard for the UK, with the exception of the market in London.*

## Supply and Demand

There is a big difference between property prices dropping because of the economic climate and when they drop because there is too much stock on the market. Early in the year is a time for both to combine, making the situation worse.



Keep an eye on long-term returns

After Christmas many people are ready to put their property on the market in the hope of selling as they have the festive season out of the way - time for a new start. This addition to the stock available creates a natural dip in prices because demand is not so high. However, in solid places such as London where other drivers exist, there is still strong demand for property in the right areas.

The flip side of this situation is that the rental demand is higher as more people are looking for rental properties.

## Recessionary Pressures

The most influencing factor in prices rising is inflation, and that is set to increase during the first part of the year. The target in the UK is 2% but at the beginning of January it was already at 3.3%. In mid-January the figure quoted was 3.7%.

As inflation rises primarily due to fuel price and energy price increases, as well as rising costs of other commodities, naturally those building properties or renovating will have to pay more for the build and will naturally drive prices up. This is good if you bought last year, and good if you are buying off plan now at 2010 prices.

Interest rates look set to rise during the year, but one would not expect them to rise above 2% at the most, which means that mortgage payments will remain low for most borrowers.

If headlines are to be believed, then up to 11 million people are currently paying their mortgage on their credit cards. This is a worrying figure as it is clearly not sustainable and at some point lenders will be chasing this money. Mortgage lenders are not in a position to be too lenient on those who struggle to pay their mortgage payments, and when this bubble bursts repossession figures will rise again.

## Repossessions

As repossessions increase, lending will tighten again, meaning that even investors will struggle to buy up the excess stock. Unless, of course, you have cash - and in this part of the world there is more liquidity.

Cash is king. If you have or can raise the finance for deposits, then you will always stand a better chance of securing lending. Investors are typically needing to finance up to 40% of the purchase price as deposits.

## Capital Growth

Don't expect massive capital growth this year except in a few areas that still seem to remain exempt from the usual price fluctuations, namely areas of London that are experiencing benefits of regeneration associated with such things as the Olympic Games, namely Stratford and general regeneration such as the new "Silicone valley" and very trendy area of London - Shoreditch, as examples.

The main way to secure capital growth is by ensuring that the property agent you are buying from does not have to build costs in for advertising, exhibitions, flights for developers, and so on. It's also wise to buy properties in areas such as the ones above that are benefitting from investment and regeneration.

It's worth noting the influx of foreign investors in to London will continue to have the effect of driving prices up generating capital growth. Many Chinese, Arabs and Russians are all buying in London, taking advantage of cheap currency and low interest rates.

Start building your property portfolio now:

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## Other Influences

VAT rises won't make much difference to spending overall, and businesses generally absorb this through their off-setting of VAT charged. What will make a big difference to spending is that there will be less money injected into new products and technologies

Steve Jobs of Apple has announced a 6 month time out from the company on the grounds of ill health, and shares are plummeting. It will be a real test of Apple's strength as to how they whether the storm and continue to produce high demand products to the same high standards as when Steve Jobs is in control. He has famously been the epicentre of design and progress in the company, so we'll have to watch this space and see.

This is just one example of high technology being in high demand, and many of these technology companies will come under further pressure as lending is tight, and research and development struggles for funding.

With less new technology to tempt people to spend and upgrade, we may see a downturn in spending even amongst younger people.

## The Good News for Investors

The number of people requiring Social Housing is rising steadily due to the lack of housing stock being provided by the Government and builders who are struggling to finance large developments. The need for private landlords to supply housing to support the usual providers is increasing due to the number of immigrants which is also rising rapidly. This all bodes very well for rentals, and we are already seeing rental yields increasing.

## The Best Way Forward

If you want to ensure that despite the potential of lower property prices for the next few years, the low interest rates during 2011 and beyond, then choose great rental areas - places where the local people don't expect to be able to buy their own property, and keep looking for the right type of property.

You could argue that the best way to bag a discount is to negotiate with the sellers directly, and buy from those who are desperate to sell, but for the international investor this is easier said than done. That's where your property broker will become invaluable, not to mention ensuring that legal support is wrapped in, as well as financing, furnishings, lettings and management. Dealing direct for price may backfire when you need to follow through on all the ancillary aspects of property purchases.

Focus on creating cash-flow and making sure rental incomes cover lending, and eventually the capital growth will follow. It's going to be a few years before we see significant growth in prices, but in the right areas, they will come again, so don't put off buying today in the right place.

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