

There's More to London Than the Olympic Games

A Property Investment Article from Pinnacle

The runners will crouch, muscles gleaming after over 4 years of preparation and hush will descend over the Olympic Stadium, London 2012. The gun will crack and a fraction under 10 seconds probably the most coveted prize in global athletics will be over.

In fact the London Olympics will realistically come down to a little under 4 minutes, which will be the maximum time taken for the "blue riband" events to take place - the 1,500m, 800m, 200m and 100m finals. None will last longer than this time.

So why is there so much hype surrounding the Olympics, London and what it means to London property. In this article we will uncover why the advertising is hype and the real fundamentals lie elsewhere.



Infrastructure development will be the longest lasting legacy of the 2012 London Olympics

Why London?

The timing is very attractive to invest in London.

London has been the investment area of choice for overseas property investors for many years, particularly those from the Far East. Current market conditions, favorable currency savings of more than 30% for many Asian based investors, low interest rates, coupled with the opportunities available, offer those with capital compelling investment opportunities today.

UK & London Property Outlook

The UK property market has proven to be a solid investment choice over the past 10 years, with the average property delivering a capital increase of 110% (Land Registry, 2009).

UK property is comprised of two distinct markets, London/South East and the rest of the UK.

London has traditionally been the investment area of choice, with higher average house prices underpinned by a strong world-class service-driven economy. London also boasts fantastic schools and universities and a vibrant and eclectic social scene of world leading shops, restaurants, shows and much more. It is a place everyone wants to visit to soak up the many attractions, Buckingham Palace, The Mall, Horse Guards Parade, The Tower of London, Tower Bridge, Piccadilly Circus, Trafalgar Square, Harrods, the Museums... the list seems endless.

Gross Disposable Household Income in London is 25% above the national average (ONS, 2009) illustrating the divide between London and the rest of the UK and proving that when it comes to property London is its own market and the most sophisticated on the planet.

In the 2009 Price Waterhouse Cooper's report on Emerging European Real Estate Trends, London is cited as one of the top 5 investment locations. Similarly, a recent Cushman & Wakefield report ranks London as the best city in Europe to do business, according to its European Cities Monitor. Belief in the London property market is strong, particularly in Asia, with numerous leading agents citing it as a safe medium term investment and predicting property prices will rise significantly in 2011. Their latest forecasts are depicted in the table below:

Property Price Forecasts - London

	2010	2011	2012	2013
Savills (Prime London)	-0.5%	8%	13.9%	-
Hamptons International (London)	0%	4%	7.5%	3.5%
Jones Lang LaSalle (London)	0%	8%	9%	8%

London to host the 2012 Olympic Games

Traditionally property prices in host cities have seen average increases of 66% in the period before the games, so that's why there's a lot of hype.

Despite the current economic background, the massive infrastructural improvements associated with hosting the Olympics will have a long lasting effect on London. Not the hosting of the Games themselves.

- Approx 7% of London's total economic output is focused on preparation work for the five years leading up to the event.
- 72% of the total £11bn budget will be invested in transport and infrastructure development, leaving a lasting legacy.

In conclusion, whilst hosting the Olympics will have a positive effect on property prices short term, it is London's massive housing shortage in the next few years which will have the greatest impact on capital growth.

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Housing Shortage

The Office of National Statistics predicts an increase in the London population of 10% by 2016. London councils maintain that London is growing at an even faster rate than predicted, creating further pressure on a market already struggling to cope with demand.

According to the Smith Institute and the Town & Country Planning Association, England is facing the lowest levels of home building for more than 80 years, with the shortage of homes to hit 1 million over the course of 2010. London will be one of the worst affected areas in the country primarily due to the building downturn.

There is always a lag between house building and renewed market activity. This was the case following the downturns of the early 1970's and early 1990's and with the severity of the current financial crisis it is expected to be even more protracted this time around.

This can be attributed to problems specific to London, such as the spiralling population growth, lack of land for large housing projects and tight planning regulations. In the current economic climate possibly the greatest barrier to housing supply is the current tightened lending climate.

Current Lending Climate

The current lending climate presents great opportunity for those with capital. The recent financial crisis has led to UK banks adopting a far more conservative approach to any form of lending. This has led to developers having to employ considerably more capital than previous years which has resulted in a slow-down of new developments, although we have seen a greater number of development arriving in town, as developers sitting on land banks and having marginally more liquidity can start to develop again.

Before the downturn, banks typically required an average deposit approaching 10-15% of the total costs of each project. Currently this requirement has increased to around 40%. The liquidity is expected to improve over the next 24 months for development lending as well as the personal mortgage markets, resulting in a more competitive market producing upward pressure on land and residential units and capital growth.

Boom and Bust

These last few years have been some of the toughest we (hopefully) are ever likely to see again.

It started in 2007.

So to see what we can expect for the future we should dwell on what happened in the past.

In 1997 (10 years earlier) we had the Asian Financial crisis. Through globalization all capital markets were affected and billions of dollars were lost.

The same happened in 1987 on Black Monday.

So what's the correlation? In between we have seen major growth and it all happens in a 10 year cycle of bust, to boom and bust. So where are we now? We're bouncing along the bottom and set for the next boom.

The key challenge is when to sell before the next bust, but if history is anything to go by (yeah we can have the past performance is not necessarily a guide to future performance etc) now is the time to be buying and holding as boom time approaches again.

A weak Pound

Perhaps the biggest attraction to buying property today is the weak pound. Not long ago the pound was at 16 to the HKD. Today it sits at around 11.5. Currency savings of up to 30% for Asian investors.

If you bought a couple of years ago a £300,000 property was costing around HK\$4,800,000. Today the same property is costing £3,450,000. Cash savings on the same price of HK\$1,350,000.

Enough to let you 'bolt' over to London to watch the 2012 Games and while you're there be sure to inspect the property that you bought in 2010!

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