UK Property and the Olympic Effect

By Mark Taylor, SIOR, MRICS, and Walter Boettcher

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Since the downturn in 2008 and 2009 the United Kingdom (UK) property market has struggled to return to previous levels of activity. In 2006, prior to the credit crunch, the collapse of Lehman Brothers and the Great Recession, annual direct property investment transactions reached £62bn ($100bn). After five years in a veritable unrelenting wilderness of uncertainty, UK property investment agents are still struggling to reach 50 percent of that 2006 total. Leasing agents are equally daunted with leasing decisions referred back routinely to board committees in an endless circle of indecision that is mirrored throughout many other countries and regions. Economic and consumer sentiment continues to offer the greatest impediment to economic recovery in the UK and worldwide.

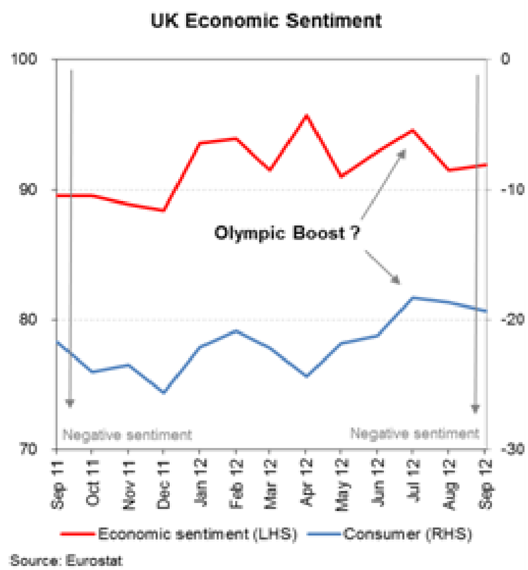
The Short-Term Boost

While the UK Olympics were never expected to offer a panacea for all UK economic and property ills, there were hopes of a short-term boost in activity and sentiment that would strengthen UK businesses and thereby the resolve of UK occupier markets. At the least, tourism and retail spending would receive a decisive boost. Unfortunately, euphoria in the build-up to the Olympics was dampened by a deeply unsettling and untimely report at the end of July that UK GDP had contracted by 0.7 percent q/q in Q2 12. The figure has since been revised up to -0.4 percent q/q, but worries about the Eurozone also had a substantial and lasting impact.

Credit card records suggest that after a shaky start, London restaurants and nightclubs saw a 20 percent and 24 percent boost in turnover, while theatres saw an 114 percent boost. John Lewis (the bellwether of UK retail) reported that food and drink sales rose 12 percent at its Waitrose outlets, champagne sales were up 35 percent and sparkling wine up 78 percent. Sporting goods sales led the charge with a 178 percent boost, while Halfords reported a 15 percent rise in bicycle sales.

These positive figures for individual market segments belie the overall impact which was much more limited. The UK Office of National Statistics reported weak retail sales over the summer as people seemed more absorbed in watching the Olympics than spending either on-foot or on-line. Footfall was reportedly up nationwide by five percent, but nobody was spending. Retail sales fell by 0.2 percent m/m in August with online sales down 6.7 percent, the largest monthly fall in almost five years. In annual terms, the 2012 summer results look better, but this reflects in large measure the summer wash out in 2011 when retail sales were falling. Tourist numbers were also down by 5.4 percent y/y in August, although overseas tourist spending was up 9.4 percent compared to 2011. Visits to London attractions were also down 15 percent between end-May to end-August 2012. In short, the short-term impact, was, at best, mixed. The uplift in economic sentiment was modest and very short-lived.

Certainly landlords who were hoping to see a short term economic boost for their tenants will have been generally disappointed. More retail failures have been reported including, paradoxically, JJB Sports, which failed at the end of September and is expected to result in the closing of some 90 stores. The better news is that Olympic ticket sales in their entirety will be included in Q3 12 GDP and is expected to provide a significant boost of 0.2 percent to GDP when the figures are released in the last week of October. Given a few other positive signs, this may buoy confidence in the run-up to Christmas.



The Long-Term Boost

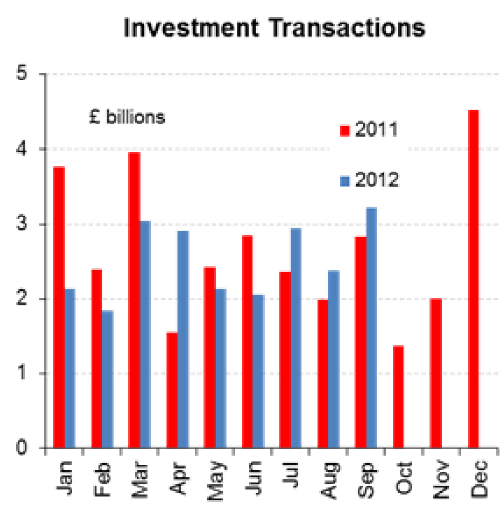
The Olympics were never merely about promoting a short-term boost in spending; instead, the Olympic project was a chance to showcase the UK and demonstrate that the UK had the confidence and experience to promote and organize a world class event in a world class city. There are few that question its success in this respect. More importantly though, it is estimated that some 3,000 to 4,000 international business figures came to London for the games, including CEOs from the likes of Cisco Systems, Google, Mitsubishi, and Samsung not to mention new entrepreneurs from South Asia and China. All business sectors and regions were represented. The UK Department of Trade and Industry hosted a Global Investor Conference and received these visitors at Lancaster House in Central London in an event that has been favourably compared to the annual World Economic Forum in Davos. Some 17 sector specific sub conferences were also organized.

The results were interesting and suggest that the Olympics will leave a substantial legacy aside from the new infrastructure that was built in East London to support it. It is true that the London Legacy Development Corporation already has plans for five new neighborhoods and 8,000 new homes with supporting infrastructure as well as private proposals for redeploying the Olympic Stadium — work on the new Press and Broadcast Centre has already begun. However, the Greater London Authority reports that the Global Investor Conference and subsequent meetings resulted in at least 55 new foreign direct investment project agreements that are likely to generate, at least, a £13bn boost to the UK economy over the next four years. This investment alone will cover the costs of the Olympics estimated at around £11bn, but the longer term benefit is substantial, if non-quantifiable.

Property Investment Boost?

There is also evidence to suggest that many of these investors may have taken the opportunity to buy a bit of prime real estate while in town and in doing so have given a bit of an Olympic boost to the UK property market. After a very slow start to 2012, with direct UK property investment volumes down by around 17 percent in the first six months of 2012, foreign property investors drove the market forward in July, August and September with investment volumes up by over 20 percent in the same period of 2011.

Foreign property investors have accounted for an increasing share of the UK direct property investment market rising from 50 percent in the early part of the year to 65 percent in the last few months. Regional centres outside of London also saw increased foreign interest from a wide range of investors including those that do not normally look at non-London assets. Is all of this an Olympic effect?



Source: Property Data, 2012

The difficulty in persuading Olympics detractors is that while the costs of the games are fairly easy to quantify, the long-term benefits and impacts are not. What is certain though is that the UK has very successfully staged a large-scale multinational event in a safe and secure environment for all. This will prove a lasting testament to the UK's ability to push forward its own political and economic agenda for the benefit of its people and businesses. While this increased confidence in the UK may not be visible yet in the official surveys of economic sentiment, there is little doubt that over the long term it will have a positive effect on the UK economy and UK property.