2009

Prime Portfolio
Residential real estate for private clients

LONDON PROPERTY – 2009

A time to look... and buy?

In the last year the prices being asked in the London property market have declined by 15% -20%. However, this does not reflect fully the extent of this decline. A year ago buyers were being asked to pay a premium of 10% over offer prices, while now they are demanding discounts of a similar percentage.

For those living outside the United Kingdom, the fall in values has been even more dramatic, due to the recent sharp decline in sterling versus most established currencies.

A year ago, investors looked to achieve 4% gross yields on the properties they bought. Realistically this is the kind of gross yield that investors can achieve today. So rental returns have fallen with the values of property.

The question that many are asking is "whether it is now the time to start investing in London property again", in particular if one is an overseas investor.

There is one issue which currently dominates all investment markets and economies. This is the solvency of the banks and their willingness to lend. This will have a material affect on those` who wish to buy and gear up to do so. If the banks remain frozen, not willing to lend to each other and reluctant to lend to those who wish to buy property at these depressed levels, more likely than not we will see further easing in the London property market and asset values generally as the recession deepens. Whereas, if politicians take onboard that they cannot start to achieve stability without stabilising the banks and act accordingly , there is a very real chance that prices will start to stabilise and having done so, begin to edge their way upwards. This is a very real "if". Up to now governments have been reactive and have had various ineffectual attempts to apply surgery to the body of the world and individual economies, ignoring the fact that their actions will have no valid purpose, unless the heart (the banking system) is still pumping blood (money) round the system.

The measures announced by the British Government on 19th January are the closest that any government has come to accept this reality, for this reason it does offer grounds for optimism even if progress will be dismally slow.

Finally, so much money has been pumped into the system that it seems inevitable that within a year or two, this will unlock the forces of serious inflation. Traditionally property has been one of the best hedges against inflation.

For these reasons, accepting that one is very fortunate if one hits the bottom of the market with perfect timing and that property is a medium to long term asset, we take the view that the time has come to look seriously at once again investing in the London property market.

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