

# Capital gains?

## Olympic impacts on London's property market

**Guy Grantham**, Associate Director of Research and Forecasting at Colliers CRE, outlines the impacts that Olympic Games have had on construction in previous host cities, and considers the developments that are likely to be witnessed in London before and after 2012.

The awarding of the 2012 Olympics to London should ensure a raft of tangible benefits for one of the world's premier capital cities. While raising its profile yet further and encouraging significant rises in visitor numbers and footfall, the Games are likely to have a marked impact upon the real estate market in and around London itself.

We believe that the key impacts will be felt in the build-up to 2012. The current budget of London 2012 for capital investments, excluding operational expenditure, stands at £2.54 billion (sports venues £590 million, Olympic Village £650 million, Olympic infrastructure £1.3 billion). The gross value added (GVA) of the UK construction industry in 2004 was £67.6 billion. Given an even spread between 2006 and 2011,

the capital expenditure for the Games would constitute 0.7% of construction GVA per annum. This would translate to around 14,600 additional construction jobs.

Currently with around 160,000 construction jobs in London, the market place is reaching saturation point, indicating that the need for an expanded workforce will have to be met from outside the London area. Wage inflation is likely as skills shortages are already being reported within the industry. Construction costs in and around London are expected to rise as a result.

Additional public funding will certainly be necessary and tax rises will fall upon London tax payers, ultimately offsetting some of the rise in demand that the Games will bring.

While the most visible impact of the Games upon London will be the dramatic increase in visitor numbers, new residents and labour force growth, for key areas of the capital the influence will be more material. The Thames Gateway to the east of London will benefit explicitly from the regeneration projects already under way. Critical to the success of such schemes is their integration within the existing infrastructure



Stratford Bridge – Artists impression – courtesy of London 2012

and neighbouring communities. Olympic Parks like Barcelona have been regeneration projects in their own right. In that respect, their long-term worth has been assured.

Occupational price rises are inevitable in the immediate and surrounding areas but to what extent a ripple effect is likely to spread further afield is harder to say. The London market is vastly more complex than any of the recent Olympic venues, making it more resistant to the volatility seen elsewhere.

*'The real estate industry will face great business opportunities and huge challenges in Beijing and Shanghai. For example, in Beijing the land price has been escalating and there is now a deluge of luxurious apartments and commercial buildings. Vicious competition may be ahead.'*

Meng Xiaosu, Chairman of the China National Real Estate Development Group

In Beijing, property prices are in danger of creating a market bubble. In a developing market such as Beijing, over-supply is a clear danger. On the back of similar price rises, Barcelona suffered just such a problem through the excess of construction activity following the 1992 Games. Office take-up fell by 50% shortly afterward. In contrast, Atlanta, despite an unenthusiastic international response to the 1996 Games, has seen steady growth in the last decade, primarily driven by the military manufacturing sector.

## Regeneration

Stratford City, despite recent unwelcome publicity regarding squabbles between development partners, offers one of the major real estate impacts of the 2012 Olympics. One of the



Sydney Olympic Village

keys to success for London has been the desire to proceed with regeneration regardless of its bid's success. Stratford City will transform the local area, providing 1.25 million square metres of mixed-use development, including 500,000 square metres of commercial development, which itself will include many landmark buildings and 140,000 square metres of new shopping, leisure and social facilities.

*'Stratford City will transform this area of east London into a thriving new urban community.'*

Ken Livingstone, Mayor of London

Transport improvements will be critical going forward to both the London property market and a successful Olympics. The King's Cross station development is a huge part of that process. It is the largest regeneration project currently under way in any European city and will provide a key link to the Olympic site through its Javelin rail link – a mere seven minutes' journey time.

London has many key transport projects already underway that alone will impact upon property markets. The Channel Tunnel Rail Link, due to be completed in 2007, will provide international rail links, with the added benefit of enhancing access to east London and Kent. The new Terminal 5 at will provide capacity for 30 million passengers per annum. Additionally, the DLR extension to Lewisham is due to be completed by 2009.

## Residential

A great deal of emphasis has been placed on the importance of the 2012 Olympics with regard to transforming the area to the east of London, but the Games alone will not regenerate the whole of the Thames Gateway area. According to Eric Sorensen, Chief Executive of the Thames Gateway London Partnership, Crossrail is likely to be the true catalyst for change but the future of this key project remains uncertain.

In spite of the growth so far, hosting the 2012 Games will undoubtedly provide a further boost to house prices over the coming years. Previous host cities have experienced a significant increase in residential property values in the five-year run-up to the Games, which is over and above the national average (see Table 1). Barcelona's housing market, in particular, performed well with prices rising by 131% in the five years leading up to the 1992 Olympics, compared to 83% for house prices across Spain as a whole.

The relationship between sporting events and property values does not only apply to the Olympics and is not just an overseas phenomenon, as exemplified by a similar trend in

**Table 1:** House price changes in Olympic cities in the 5 years leading up to the games

	5 year % increase Host City	5 year % increase Host Nation	5 year % increase Difference
1992 Barcelona	131%	83%	49%
1996 Atlanta	19%	13%	7%
2000 Sydney	50%	39%	11%
2004 Athens	63%	55%	8%
<b>Average</b>	<b>66%</b>	<b>47%</b>	<b>18%</b>

Source: HBOS

**Table 2:** Athens hotel performance – August 2004

	Occupancy %	Occupancy % change	Average Room Rate €	Average Room Rate % change	RevPAR €	RevPAR %change
Athens	84.4	51.86	398	261	335	489

Source: Hotel Benchmark Service, Deloitte

the five years leading up to the Commonwealth Games in Manchester. Between 1997 and 2002, house prices in central Manchester grew by 102%, well above the 52% increase for the North West and still notably higher than the 83% rise for the UK as a whole.

In terms of the legacy of the Olympics, over 9,000 new homes are planned for the Olympic Zone, the majority of which will be located in Newham, due to the zone's layout and structure.

### Leisure

Unreasonably high accommodation costs clearly had a significant impact upon visitor numbers in Athens (see Table 2). The overall RevPAR or revenue per available room, calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate, more than quadrupled in the month of the Games. In contrast, the current hotel room capacity in London is already well in excess of the IOC's requirements. There are around 100,000 hotel rooms currently available in the capital, together with an estimated 30,000 extra non-serviced rooms. Crucially, London 2012 has already negotiated fixed price contracts with a significant number of hotels, while Londoners would also be invited to host athletes' families in a 'homestay' programme.

London's established commercial base coupled with spin-off business generated directly by the Games should ensure that occupancy rates do not tail off too dramatically. Securing convention business should be a key goal for any host city.

According to its local tourist board, Sydney has won 34% more events than would have been the case if it had not been selected to host the Games. Moreover, Barcelona has recorded a 64% increase in convention business since 1996, and now hosts some 700 large conferences a year.

The key component of any Olympic development programme is the infrastructure. Barcelona estimated that it built 50 years' worth of infrastructure in just eight years, including waterfront developments, improved sewage systems, a new airport and telecommunications system. The impact of the current transport improvements upon commerce in London will not only be invaluable, but is essential in any scenario. Major regeneration sites at King's Cross and Stratford City have every chance of becoming key commercial hubs to attract major occupiers seeking expansion space or looking to centralise operations.

Undoubtedly, occupational costs in the areas around the main Olympic site will be elevated above inflation levels in the coming years. Indeed, key units and sites have already seen bids over four times in excess of offer price. This will not remain the norm, though, as prices stabilise. Critically, London has a clear strategy in place from day one, with aspects that are likely to enhance commercial property interests across the city both directly and indirectly.

**Guy Grantham, Colliers CRE**



Olympic Village – Artists impression – courtesy of London 2012

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