

# [Olympic games effect on the east london property market](https://assignbuster.com/olympic-games-effect-on-the-east-london-property-market/)

## ABSTRACT

The purpose of this thesis is to examine the 2012 London’s Olympic Games and implication it caused on the property market within East London area. The paper delivers an area and infrastructure development overview, economical and ecological analysis, and shows both the advantages and disadvantages of hosting the games.

“ Economic Impacts of Olympic Games” report 2009 by PWC stated that national and international recognition of the host city through extensive media exposure; community benefits including job creation, training and education programs; funding for community economic development projects and cultural programs; infrastructure benefits; new company investment in the city, and increased trade; and housing impacts is immense are expected to be achieved after the end of the Olympics. Additional plans for regeneration of East London include creation of green spaces and a new energy centre in the west of the Olympic Park to support London 2012 commitment to use renewable and energy-efficient technology, and affordable housing. The benefit from extensive investments in transport infrastructure will make it ideally connected both internationally and locally.

The arrival of DLR and the Jubilee Line has made a huge impact on revitalizing East London. Further, Crossrail – Stratford to Heathrow, Eurostar International Station at Stratford, City financial developments and Canary Wharf office space expansion will make a substantial contribution. With its excellent transport links, the area is a regeneration hotspot and has positive impact, which the London Olympics help creating. A location that sees a regeneration and development for the better is likely to attract strong demand and see prices rising substantially. The money started moving in and prices have rocketed and still expect a potential growth after a residential and commercial development emerging until 2020. The extent of impact on house prices appears to be dependent upon the size of the housing market in the city.

The Olympic legacy is that after the games, East London will receive facelift; a large park and the athletes’ village will become at least 5000 homes. Many of the key investment areas within once bleak East London are likely to be positively impacted by new infrastructure developments in the years to follow. Despite the recent global financial recession a rapid recovery is soon expected with property price increase in East London starting 2010 and onwards. (PropertyInvesting. net team, 2009) London is likely to stay a significant global financial centre that provides relatively high paid employment.

## CHAPTER I

## INTRODUCTION

“ The ‘ legacy’ of the Olympic Games will be manifold. Many areas of London and other parts of the UK and the lives of thousands of individuals will be touched by the Games. There will be many intangible benefits, and a significant effect on the reputation of London lasting for decades”. (Going for Gold: Transport for London’s 2012 Olympic Games, 2006)

The primary and secondary research of East London (Newham) regeneration arrangements was conducted, and the findings provided valuable information for the context of this study project. For the purpose of the paper a case of Barcelona Games and their influence on property market and area profile was used, demonstrating the correlation between Olympics and the property market in Barcelona in 1992 and will draw likelihood parallel. The case aimed to provide the experience and implications of hosting of major world event. The study examines anticipated benefits for the real estate perspective. It also profiles the impact of hosting the Games on the office, retail and residential sectors.

## 1. 1 Background

The planning and preparations for the 2012 Olympic and Paralympic Games in London have already generated a significant activity. The coming years expect even more intense action towards the delivery of the 2012 Games – the regeneration plans for a large number of urban green spaces and upgrading of amenities in the area. The Olympic legacy is that after the games, Stratford high street will receive a 10 million pound facelift; a large park and the athletes’ village will become at least 5, 000 privately owned and affordable homes. This research project was set up to develop an analytical framework for investigating and reporting the impacts from the Games, concentrating on East London property market, both now and in the future – post Olympic period. One of the key objectives is to be able to demonstrate and understand the impacts on people, communities, the economy and environment.

## 1. 2 Rationale

The existing studies have explored the relationship between Olympic Games, the planned regeneration of the area and property values. However, few have looked at the relationship between Olympic Games and desire for people to invest and relocate to this part of the city. It is hoped, therefore, that, at a higher level, this paper shall make a contribution to a field of research, which has been little studied, but which undoubtedly has implications for planners, businesses, investors and the local population. It should, however, be noted that Olympics are never held in the same country twice, thus constructing predictions based on the previous case studies should be made with care, and take into account that all views are merely speculative as Olympic development is yet to be completed in London.

## 1. 3 Objectives

The objectives of this dissertation are (1) to indentify and analyze influence of factors such as Olympics development, (2) difficult economic climate and exchange rates fluctuations, and (3) explore the effects of regeneration characteristics on property market in the area. In order to pursue these objectives, a detailed literature review of previous researches, including scholars, was carried out, as well as an analysis of the economic situation at the time the Games were announced and the present. Several case studies were looked at and supplementary secondary data was also used in order to understand the reasons behind London’s bid for the Olympics 2012.

## 1. 4 Research Questions

The following questions are to be answered:

Understand the residential market in East London and whether the development of the area with Olympic games being held in 2012 will make it possible to see likely trends?

Could the view on Olympic games as a “ catalyst for delivering sustainable communities and affordable homes transform East London” live up to expectations?

Is London’s plan to use the Olympic Games to re-urbanize its eastern suburbs realistic?

## 1. 5 Scope

The limited time frame of this project has necessitated a focus on specific area of East London. This research study is focusing on the property market of the primary location of Olympic Games. As the property industry is a vital component in the UK’s economy the scope of this paper is to analyze the East London borough in order to identify whether there is any evidence to suggest that the Olympic Games have an effect upon residential standards of living, desirability and property prices within the same locality.

## 1. 6 Structure

The report is structured in a way in which firstly, the ambition and desired legacy is briefly described. Aspects related to the property impact will not be considered at this stage, but rather, demographics can be portrayed in terms of population, education, employment and socio-political benefits as a base to what will fundament the primary research.

The study then moves on to the understanding of the property industry. This part covers an overview of recession and business interest in the future property market of East London. The analysis continues with an examination of the regeneration of the area and property figures as key enablers of the economic growth. Alongside, the analysis will include the views of economists, businesses and individuals’ main motivations for choosing previously economically deprived area for their investment and relocation.

All findings derived from literature research, analysis and summary of questionnaires are presented in the conclusion. Having an understanding of the current situation will allow investors and other interested parties to have the clear picture that will certainly help to make decisions whether investment/relocation will be the correct move for the future. The limitations and recommendations are to follow in the last section of this project.

## CHAPTER II

## METHODOLOGY AND RESEARCH

## 2. 1 Research Approach

Given that the subject requires observations, statistical numbers, and the expert’s opinion in the industry for conducting a thorough research and analysis, the methodologies used for this project were based on a qualitative research mostly based on the opinion of economists, property market analysts and journalists who can describe the Olympic events, its social environments and the impact on the property market.

In supporting this project the data collection involved the use of both primary and secondary data research. The primary data was collected in the form of questionnaires that were answered by east London property market professionals; these discussions were focused on the Olympic developments, explore the strategic pitfalls of regeneration form their experience and review of future market predictions. The primary research consisted in formal interviews to various individuals working as full-time employees in varied areas of property market, such as sales, research analysis, and developers, provided insightful views about the area of regeneration.

Furthermore, a case study approach was chosen as the research method, as it “ investigates a contemporary phenomenon within its real-life context and addresses situations in which the boundaries between phenomenon and content are not clearly evident”. (Meyer, 2001) This way the research benefited from combination of various levels of analysis: data collection methods such as observations, interviews, questionnaires and archives. (Eisenhardt, 1989) It also allowed producing answers to questions like “ why” and “ how”. (Saunders et al., 2009) The data collection was conducted in a form of open questions, however, due to the nature of the facts revealed, the participants identities were agreed to be confidential.

For the compilation of secondary data, extensive literature reviews of the real estate industry were done. For this purpose, various data was sourced from existing market analysis, such as: market and governmental bodies reports from various literature publications and online resources, including Google Scholars, related books, business and industry reports via the EBSCO database. The focus was made on overall market performance in the UK and consumer behavior patterns in previous Olympic hosts. Additionally, a variety of articles in the FT, Mintel and industry reports were reviewed to investigate the UK property market industry and its present and future trends. Other articles based on individual review of writers in newspapers and periodical journals were mentioned within the literature review.

## 2. 2 Primary Data (Qualitative Research)

## 2. 2. 1 Data Collection

Qualitative primary research was undertaken through data collection from a number of in depth questionnaires given the exploratory nature of the project. The primary qualitative data approach was chosen as it provides more descriptive textual information of parties’ opinions and data collected this way generally is a better tool for describing and understanding a phenomenon. (Weston et al, 2001) The questionnaires allowed interviewed public for greater time in considering their answers and encouraged a free expression of views within respondents’ own frames of reference. The questionnaire (Appendix A) consisted of a standard number of questions for each respondent with the closing question: “ Would the interest for east London properties, in particular Stratford, increase after the 2012 Games?” – the question of the main interest of the research. It will demonstrate the professional view for relocation and investment desirability in East London.

Seven questionnaires contained 12 questions and were sent to the following parties:

Executive employees within real estate agencies

Property market analysts

Private Developers and entrepreneurs

Real estate industry consultant.

A range of respondents presented a well-rounded sample of views.

## 2. 2. 2 Data Analysis summary review

Based on the questionnaire the most frequently mentioned factors were drawn and the effects are discussed below summarizing the viewpoints of real estate professionals and property investors.

The demographic situation in East London area at present is low to mid income individuals and families, with a greater number of students based within the University of East London area. Since the games were announced in 2005 property prices rose by approx 10 per cent virtually overnight. Further they have ebbed and flowed with the rest of the London property market, with no significant uplift as yet. The situation has not stabilized, as recession influenced the buying ability of customers enormously. Large deposits require by lenders have stymied the market. Reasons for buying in the area at the moment, two years before the Olympics, is mainly investment, as in the mid to long term it should see a significant capital appreciation on the property. The predictions are based on the fact that in general ‘ Olympic effect’ has not yet taken place and, for instance, Stratford properties are one of the cheapest areas to buy in London. Post Games investments should see the rise through the ranks to become fairly sought after, thus in couple of years after the Games it is likely that people will be looking to live in the area for its amenities, lifestyle and what will be – superb facilities. Buy-to-live purchasers will choose the area because of shopping, bars, restaurants, sports facilities, parks, new schools etc. There are, however predictions, that East of London might experience the post Games slump in the property prices, especially for modern style flats, due to high supply of new properties onto the market.

Shoreditch and Hackney are closer to the city and have a higher proportion of large housing stock. The demand for large houses also increases the demand for better bars, restaurants, etc., which then further lead to the increased desirability of the area. Stratford has smaller properties and though the new infrastructure is being constructed, none of it is yet open or in use. Once it is, the prices will be likely to rise accordingly. Olympic effect on quality of east Londoners’ life should improve greatly, however it will take place only in the mid-long terms, when parks, shopping, schools, sporting facilities are transformed and complete in year 2014. That is the time when professionals predict the increase in interest in East London properties. Socio-political climate will potentially improve in the future. It is though unlikely in a short term to attract a higher income households, as they have more freedom to choose where they wish to live. A neighborhood, at the same time, will offer a range of dwelling types by size, configuration, tenure, design and price, accommodating households of lower incomes with a place to start and get into the property ladder. It is expected to have an enormous number of first-time buyer to be moving into the area and young families, and professionals, who will relocate for amities of the area with its bars, restaurants and shopping, and good transport connections.

## 2. 2. 3 Findings and Conclusion

To summarize the questionnaires it has to be said that house prices arguably influenced by the Olympics are expected to rise at least 5 per cent faster per annum than the UK market generally. Although many districts close to the Olympic Park have already seen 10 per cent house price growth, Stratford is the exception. It is predicted that the prices in E15 will likely to grow in the long term, because the area socio-political climate is unlikely to improve over night. Despite the slow rise in the prices, the area sees grown interest from investors. Further, most of the professionals who took part in the research agreed that the area is most likely to be popular among first-time buyers, as the prices near Olympic Village are still lowest in London.

## 2. 3 Secondary Research (Case-Study)

## 2. 3. 1 Urban Transformation of Barcelona

Prior to 1992 Barcelona’s coastline was one of the least desirable districts of the city, full of disused warehouses and dilapidated industrial land. A prime reason for the bid to host the Olympics in 1992 for Barcelona was the need for a catalyst to boost the local economy of the Catalonia. The region was in desperate need of a major urban regeneration. The greatest legacy achieved in Barcelona was the total makeover of area leaving Olympic Village seafront – one of the most desired property locations. All these factors significantly affected superior property price growth in house prices – with more than a three times increase in house prices during the six years prior to 1992. The Mayor of Barcelona: “ The Olympics was the big excuse to change Barcelona’s position in the world…before, it was an industrial city. Now it is a city of knowledge, a global city.” (Slot, 2008)

Funding: Barcelona adopted a mixed public/private sector model with the government financed approximately 65 per cent of the total cost (5. 3 billion US Dollars) of the Games. (Brunet, 1995)

Economic Impact: The Games are estimated to have generated the greatest economic benefit, adding 16. 6 billion US Dollars to the Spanish economy in seven years, between 1986 and 1993. (Sànchez, Plandiura, Valiño, 2007) Investment in the area helped reduce Barcelona’s unemployment rate from 18. 4 to 9. 6per cent in 1986 and 1992 respectively. (Autonomous University of Barcelona, 2007)

Urban impact: The revitalization of increasingly run-down urban areas was an explicit aim of the Barcelona Games. The development of Olympic Villages was a key part of the regeneration – urban centers were constructed, including not only housing, but also supporting retail, other community facilities. While largely utilizing existing infrastructure, some additional facilities were built, e. g. shopping mall. (Brunet, 1995)

Infrastructure: Another major benefit is the chance it offers to develop new infrastructure projects from which the host city benefits long after the Games have moved on. The most obvious additions are new stadium and other facilities built specifically for the Olympics, and generate ongoing income for cities through the attraction of subsequent major sporting events. (Slot, 2008)

Real estate: Construction activity that upgraded the housing stock, occupancy rates, rentals and prices had the major impacts on real estate markets. Barcelona experienced rapid increases in housing prices and rentals in their respective Olympic years. The impact on the residential market was pronounced – the Olympics cited as a major contributor to increases in residential values of between 250 and 300 per cent over the period 1986-1993. The residential construction increased by 23 per cent between 1988 and 1991, compared to increases of 5 per cent in the hotel and 12 per cent in the office markets. (Reaching Beyond the Gold, 2001)

The supply of housing: Between 1986 and 1991 a significant amount of residential construction took place in Barcelona, although this increase was not constant. The amount of housing for sale decreased, even though the building sector was in expansion. The supply of newly-constructed houses during the period experienced a cumulative increase of 101. 5 per cent. From 1993 onwards, the economic recession had a harsh effect on the building sector with reduction of 34 per cent in the amount of housing for sale. (Reaching Beyond the Gold, 2001)

The prices of houses for sale and to rent: From 1986 to1993, there was a 139 per cent cumulative increase and increases in housing prices were more restrained (2 per cent increase in 1993). Between 1986 and 1993, there was also a 144. 5 per cent increase in rent, which remained high in successive years until 1993, when rents started to decrease. (Sànchez, Plandiura, Valiño, 2007)

Office Market: The Olympic inspired economic boom of 1986-1990 led to a major increase in construction of office space – approximately 850 thousand square meters was built. However, the office market peaked in 1991, with rentals declining by almost 50 per cent influenced by increasing supply, but by 1994 the market once again reached equilibrium. (Sànchez, Plandiura, Valiño, 2007)

## 2. 3. 2 Conclusion

The Olympics represented the beginning of a new city Barcelona, with the expansion of its geographical borders and the massive development of infrastructure. The new roads contributed to the increase of employment, retail and residential mobility and due to the nature and the size of regeneration of the project between 1986 and 1993, Barcelona carried out the most important urban change in Europe at the time.

## CHAPTER III

## LITERATURE REVIEW

The hosting of an Olympic Games has a significant impact on the Host City however, publication “ The environment and sustainable development update ” asks a valid question: “ to what extent, with what results and with what benefits “. (International Olympic Committee, 2009) Most of the publications on Olympics and other major events that were researched are relevant in order to answer the main question of this project paper, whether the regeneration of East London will make it attractive for people to relocate to, and will the likely trends follow. The main subjects covered in the literature are the economic impact of the Games on the city and its implication of consumer spending behavior, improvements in infrastructure and transport that makes the area more desirable for people to live in.

The literature review was conducted through research of academic journals, mainly found through Google Scholars, on-line database including Bloomberg, FT, Business week and other reliable sources. Number of books and publications were used to help explain the situation of the property market and the factors that have significant influence on the demand and prices of the real estate. Furthermore, the publications of the Governmental bodies: the International Olympic Committee, the British Olympic Association, the Olympic Delivery Authority and the Commission for a Sustainable London among others, as well as, Internet research, mainly the EBSCO database, were accessed several times in order to find any relevant and up to date information to form a basis for the solid argumentative analysis of the project.

The economic downturn has affected every aspect of business market in one way or another, and property market is not an exception. This notion drove a release of an immense amount of different information formats, including: articles, columns, blogs, websites and printed publications. Only some of this information is relevant to the research project, thus it is extremely vital to extract the relevant points of information required for the purpose of this paper without moving too far away from the set aims and objectives. After extensive research two relevant publications were selected. The views of PWC and Halifax estate agency were used within this paper as to express the professional opinion on the property situation at the time of the recession, present and in post Olympic period.

Moreover, the PWC report examined several categories of impact in London: the socio-economic health impact, which takes into account how potential socio-economic development affect public health through levels of income and job security, and on social cohesion, access to housing and education. Further, Olympics 2012 are believed to inspire children to “ choose Olympic sports”, promoting better social environment, less teenage crime. (Price, Dayan, 2008) The above factors are crucial for the successful area regeneration and creation a family oriented climate, however these effects will only be visible in the long run.

Research focused around the Olympics 2012 housing market and the regeneration. A key article that links strongly to the title of the project is: “ Olympic Games Impact Study” (OGIS). (PWC, 2005) The material has proven to be extremely useful, containing a substantial amount of information about the bid and benefits of hosting the Olympics in London 2012. It defines the scope of the potential impacts on social, economic and environmental life. Section four of the paper that has mainly been used and believed to have high credibility, concentrates on the analysis of the environmental impact. It concludes: “ the overall environmental impact is expected to be significantly positive in the Lower Lea Valley during and after hosting the Olympics although there are some negative environmental impacts to be managed during the construction process.”

Academic study “ Reaching beyond the gold: the impact of global events on urban development” (Vrijaldenhoven, 2007) deals with three types of global events, one of which is Olympic Games. “ Global events are used for numerous city problems. These problems can fall into various categories. Cities could, for example, be dealing with rapid expansion, a decrease in the number of inhabitants, a lack of tourist visits, or major infrastructural disorder. Many city governments believe that these problems can be solved by organising a global even in the city”. (Vrijaldenhoven, 2007)

Indeed, “ The Mayor of London, through the London Development Agency, is investing in new infrastructure and in the remediation, release and development of land for new industry and housing. Through creative masterplanning and urban strategies, we will ensure that regeneration will be sustained”. (Bishop, 2010) In fact, London’s five legacy commitments that were set out by then Mayor Livingstone and after re-election since 2005; validated by Mayor Johnson are, as follows (A 2012 legacy for London and Londoners, 2010):

increase opportunities for Londoners to become involved in sport

ensure Londoners benefit from new jobs, businesses and

volunteering opportunities

transform the heart of east London

deliver a sustainable Games and developing sustainable communities

showcase London as a diverse, creative and welcoming city.

The Legacy Masterplan Framework publication, 2009, highlighted that quality of life is fundamental to the well-being of Londoners and to attract capital.

All contemporary cities need to address:

the way they house their citizens

the relationship between transport and development

the quality and attractiveness of their physical spaces and

the way they meet the challenges posed by climate change.

Vrijaldenhoven, further in his work, discusses in details the increased interest of different countries to be chosen to hold such event. It illustrates a perspective on the urban strategies cities use when dealing with global events, insight into the character of global events and their impact on city development, and past cases, such as Barcelona, that has proven to be a useful example for this research. “ The similarities are clear. London, like Barcelona, has in mind an Olympics that will transform a large area of industrial wasteland”. (Slot, 2008) “ The Olympics was the big excuse to change Barcelona’s position in the world…before, it was an industrial city. Now it is a city of knowledge, a global city.” (Hereu, 2010)

London Olympics bid for the Games 2012 highlighted the plan to provide affordable housing for people; in fact, the goal of the government was to provide 50 per cent of affordable houses for people in East London area – the center of Olympic Village and the biggest regeneration in London ever taken. Although, the improvements already taking place show the likelihood of people to change their perception and outlook on the area and its surroundings, thus, boosting demand, this is likely to push the prices to rise. Another issue with affordable housing target is that it might be extremely tough, almost impossible to achieve as the cost of the land in London area is expensive, especially taking into account the current economic climate. If anything, number of constructions has been dramatically reduced in an economic downturn. Many developers slow or stop their rate of building completely as the margin they are trying to achieve is squeezed by increasing land values, as a result, less affordable housing being built.

Although the argument above looks valid, the publication by Greater London Authority of 2008 states: “ the weakening market is likely to cause a fall in the number of affordable homes being built. However, as development slows down throughout the industry the proportion of affordable units being built in London may increase.” Furthermore, because the population of Greater London is forecasted to expand by 2015, most experts predict building requirements to keep up with this demand. (Propertyinvesting. net team, 2009) “ The combination of the market slowdown and the credit crunch will affect some of the regeneration schemes taking place across London more than others…Well established, desirable and/or prime residential areas are less likely to be affected by the softening market and the credit squeeze due to the underlying strong demand in these locations…Areas associated with the 2012 Olympics will also be less affected by the current market conditions, particularly the area around Stratford and the Lower Lee Valley. This is because these areas will be the focus of the global media in four years time and will offer developers the opportunity to show case what they can do.” (Greater London Authority, 2008)

Many literature sources on East London and its regeneration show a drawn buyer’s interest. The area is increasingly considered for residential property investment, as it is still a lower priced region that is in a close proximity to central London and city East commercial borders. Most of the biggest developments usually take place in the degenerated and deprived urban areas, where land is usually cheaper and the planning regulations are not so tight and easier to follow, thus more attractive for investors and developers. Therefore, relaxed government policies attract public or private development funding, intending to re-generate areas with the aim to create a new environment, provide employment and improve quality of life. The Olympic village will bring to the market a large amount of new-built properties that are mainly attractive for first-time buyers, investors, young families and city professionals. Obviously, the changes will in the long run and do bring valuable alteration to the infrastructure of the area, but the literature fails to reflect on how socio-political situation of the area is changing and how much effect it will have on housing market, if any. Thus it could have been helpful to see the analysis and comparison to similar cases to enable to make predictions and to reflect on them in this paper.

Google Scholar proved to be a useful tool for finding academic journals on the subject of this research paper. One of the extremely useful publications by Adam Blake helped to draw the fuller picture about the economic impact of the Games. Blake’s work not only concentrate on demonstration of the positive influences, that are increasingly discussed by the media prior the bid for the Games, but gives negative past examples that needed to be acknowledged. “ Hosting the Olympics has not always brought financial reward. The 1