How the GFC made our cities unaffordable

Synchronicity After 2008, global cities have acted more alike.

Nathan Brooker

In the stormy spring of 2008, the United Kingdom's worsening property downturn was yet to hit Sloane Street in central London. A full year after the start of the credit crunch and the run on Northern Rock — which started a slide that would see more than 20 per cent chalked off the average house price — the local Savills office was still processing bumper sales.

"We had a fantastic, booming year in 2007," says Jonathan Hewlett, head of their London region. "At the uber end values continued rising into 2008." Receipts came in for £50 million, £60 million, even £70 million homes. "Then Lehman Brothers crashed and everything changed," he says. "The banking system appeared to be in meltdown." He remembers taking calls from worried clients wanting to slash 35 per cent from their asking price.

"It was bleak," says Liam Bailey, global head of research at Knight Frank. "From October 2008, the market pretty much stopped."

When it picked up again about six months later, the prime London market — and other prime markets around the world — started behaving differently to the way they had before.

"The idea of the global city had been around in the 1990s and 2000s, but what happened after 2008 is that these cities synchronised," says Yolande Barnes, head of World Research at Savills. "They started acting much more like each other, much more like independent city states, than they did their home markets."

Based on its annual Wealth Report index, the research team at Knight Frank has collected data from eight global cities, showing how their prime property markets have performed in the 10 years since the financial crisi.

"The first thing that happened after the financial crisis was a flight to safety," says Tony Key, professor of real estate economics at Cass Business School. "Everyone decided that they weren't going to do Kazakhstan and Vietnam after all, so they reverted to the prime properties in prime cities."

London was among their primary targets. From 2009, the combination of low interest rates, a weakened pound and falling house prices attracted money from sovereign wealth funds, institutional investors and private buyers. Between 2010 and 2013, London had the fastest-growing prime property market in the world. By Q3 2013, its prime homes were the most expensive in the world — a single square foot was priced at $3,995, compared with $3,917 in Hong Kong and $3,101 in Manhattan.

"When you drill down into the data around this time, the picture is often more nuanced than it first appears," says Kate Everett-Allen, a partner in Knight Frank's research team.

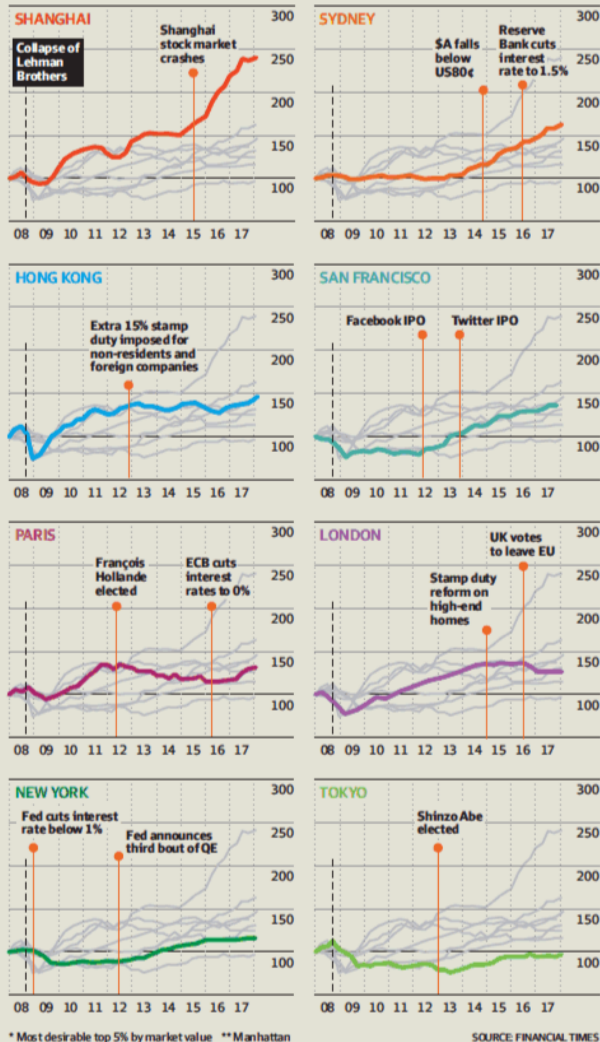
As the eurozone crisis intensified in 2010 and 2011, she says, the data show capital flight from the southern European economies to the north, in particular Germany.

After the initial rush from the Arab Spring in 2011 the sovereign wealth money from the Middle East started to get replaced by money from China, says Simon Mallinson of Real Capital Analytics.

"In a lot of buildings — not just in London, but in Sydney and Manhattan — a lot of new apartments have been bought up by Asian investors."

The city welcomed the international super-rich with open arms. In 2014, then London mayor Boris Johnson announced on the Freakonomics podcast that the UK capital had become to the billionaire "what the jungles of Sumatra are to the orang-utan. It is their natural habitat".

But a consequence of London's new prime city status is that the property market becomes increasingly hostile to its own ordinary citizens. "There isn't a global city I've come across where unaffordability isn't coming up in some shape or form," says Barnes.



For most of the 1970s, '80s and '90s, housing affordability in London remained relatively flat — the median house price ranged between two and three times the median earnings, according to the ONS. By 2014, it was more than 10 times. In 2015, in Sydney, it was 12 times, according to Missouri-based consultancy Demographia. In Hong Kong last year, the median house price was 19.4 times median income, making Hong Kong the most unaffordable city on the planet.

Local economies have sometimes failed to keep pace. Wage growth has slowed in London, New York, Sydney and Hong Kong in the past 10 years — which limits the ability of people to get mortgages and squeezes rental yields.

Last year in London, more than half of the 1,900 high-end apartments that were built failed to sell, according to research from Molior.

In the UK, agents tend to blame the decline of London's prime market on changes made to stamp duty in 2014, which increased the tax bill on more expensive homes. But there are other factors at play.

The second half of 2014 coincides with a drop in oil price of more than 50 per cent; and the imposition of sanctions on Russia following military action in Crimea.

Yet another change came in November 2014, when the UK government increased the amount of money needed to get a Tier One "golden visa" from £1 million to £2 million, and then in April 2015 applied tougher anti-money laundering rules on applicants' source of wealth.

Whether they were priced out, or didn't want their finances combed through, in the 12 months to March 2016, the number of foreign investors moving to Britain dropped more than 80 per cent on the year before, according to Home Office figures. From China alone, successful applicants fell from 488 to 35.

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Yet perhaps the most likely reason the prime London market started to decline is that London just started to look too expensive.

Over the past 10 years, the life-cycles of global cities such as London, New York and Sydney start to look very similar. They begin with central banks cutting rates; then foreign buyers are welcomed in, prices go up, high-end homes are built, capital appreciation drops and then cities are left with a lot of stock which is too expensive to sell.

Chinese buyers have been active abroad and at home but there are signs they are beginning to tire

There are signs they're interested in Paris. Of the eight cities covered in the data, prime house prices in Paris grew the fastest in 2017, up 12 per cent in the year.

The UK's vote to leave the EU doesn't seem to have affected the prime property markets in Knight Frank's data at all — or it hasn't yet.

But, according to Lucian Cook, director of Savills research, there may be troubling signs for London's prime homeowners. "Overseas buyers are just more reticent about entering the market at this time," he says.

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