Prime Position

Inherent wealth and the great foreign exchange gamble.

By Jeremy McGivern

The US is purposefully devaluing the dollar. The UK has tried quantitative easing and Charlie Bean, Deputy Governor of The Bank of England has said that he wants consumers to take on even more debt: "What we're trying to do with our policy (of keeping the bank rate low) is encourage more spending ... we want to see households not saving more, but spending more."

In the meantime, the European stress test of the banks has been proven to be the farce that everyone knew it was. Not one Irish bank was judged to have been in trouble and now the whole country has had to be bailed out - the general consensus is that the ECB will have to start printing money otherwise the whole euro venture may well disintegrate.

Meanwhile vast wealth is being created in the exciting (rather than emerging) economies of the BRIC's, but also in Vietnam, Indonesia, Qatar and elsewhere. However, the money printing antics of the western economies has fuelled talk of currency wars and is a continuing source of friction, especially between China and Brazil on one side and the US on the other.

In this environment of continually shifting goalposts and fear of potential monetary collapse, it is becoming a lottery as to where one should invest and how one can even preserve one's capital. As ever, the wealthy are one step ahead.

What Represents Wealth?

For the purpose of this article we will look at wealth in purely financial terms. In this context it is becoming very clear that fiat money is not regarded as a very safe store of wealth - especially if that money happens to be dollars, pounds or euros. The dollar still has reserve status, so still has an incredible advantage. However, moves by China, Russia and Brazil to trade amongst themselves using their own currencies rather than dollars highlight their views on the dollar and the challenge to its reserve currency status. China, the world's largest creditor to the US has also voiced its concern about its dollar holdings and is spending vast sums to secure assets - they have cornered the rare earths' market owning 97 per cent of available supply. They are also huge buyers of gold, land in Africa, off shore drilling rights and any commodity they deem vital to their future. This policy of buying tangible assets is also being pursued by the global elite in what Richard Russell of 'Dow Theory Letters' calls a flight to "inherent wealth".

Fortunately, there are certain items that will always represent wealth. The obvious example is gold, but silver and other precious metals are soaring in value. So are diamonds and other high quality gemstones. A Picasso sold for a record sum earlier this year and rare watches, stamps and even comic books are also being sold for record prices. Quite simply, the wealthy are buying items that will always represent wealth and, in many cases, have the advantage of being relatively easy to transport.

How has this Affected Prime Central London Property?

Property owners in Belgravia, Knightsbridge, Mayfair and other areas of prime central London have benefitted from this rush to assets, which, combined with sterling weakness, has forced up prices rapidly.

It has been a source of surprise to many, including myself, how quickly and strongly the prime market has rebounded. The market was obviously helped by the Bank of England reducing interest rates to historical lows. This protected many owners who would normally have been forced to sell. However, the other effect was that sterling plummeted, especially against the dollar and the euro.

Consequently, the top end of the London market is now driven by overseas' buyers. Historically, just over 50 per cent of properties over £5m were bought by overseas' buyers. That figure has now jumped to over 70 per cent according to Knight Frank and even 80 per cent in some areas. In fact, the last year has seen a new record for London: the highest number of different nationalities acquiring property in London - 51 and counting.

But why is London so Popular and can it Last?

The highest concentration of overseas' buyers come from Europe. This is unsurprising considering the geographical location. However, there has been a noticeable increase in the number of wealthy French and Italian buyers who have wanted to move money to London, in no small reason due to concerns over the euro and the fact that the euro is still relatively strong compared to sterling. In fact although prices in sterling are nearly as high as they were before the financial crisis - and in some areas considerably higher - overseas buyers are still benefitting from a 25 per cent discount due to the foreign exchange move.

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This is one reason for the resurgence in prices. However, there are numerous other factors that make London attractive and why buyers view prime London property as a form of inherent wealth:

- London is effectively a tax haven if you are a non-resident, non-domicile.
- It is a genuinely international market and city.
- Addresses such as Eaton Square, Grosvenor Square, The Knightsbridge are internationally renowned and have been for centuries.
- London is one of the world's most important financial centres and has the advantage of being open before Asia closes and when New York opens.
- It is a transport hub for the world, so it is easy to access.
- London is a fantastically fun place to live.
- Politically stable. London is the power house for the whole country. The government cannot afford to alienate businesses.
- London was voted the best place in Europe to do business in October 2010.
- The strict planning laws mean that there will not be a huge increase in the number of properties.

Prime London Property is not a One Way Bet

Although, there are numerous reasons why property in prime central London makes a great purchase and will serve as great protection against further currency debasement, it is essential to realise that no market is invincible. 2008 should have proven this. Unfortunately, our memories are often short and the huge rise in sterling terms since then does not tell the full story.

There are dangers and those who buy indiscriminately and who have not taken the necessary precautions will suffer. It is vital to remember that the prime market is comprised of numerous small markets, all with their own idiosyncrasies. Different markets and price ranges within London will be more vulnerable than others to financial shocks, stagflation, changes in taxation and other potential issues.

One key problem is that many buyers are acquiring properties that will not hold their values as well as they anticipate, despite short term gains. Every week we see buyers acquire poor or average properties on inflated terms when there is literally a better property just around the corner for the same price or less. Unfortunately, the prime London property market is opaque and it is also biased in favour of sellers ■

This is too big a subject to cover here. However, we have compiled a free report for readers of **Bahrain Confidential**, *which will help you avoid the seven most expensive mistakes London property buyers make. If you are planning to acquire a property in London, please email jeremy@mercuryhomesearch.com mentioning* **Bahrain Confidential** *and we will send you your complimentary copy of the report immediately.*