

London Development

Building opportunities

East of City

Autumn 2014



SUMMARY

New developments in eastern boroughs are boosting housing supply in the London market

■ Almost a third of all new homes in London are set to emerge in the boroughs of Newham, Tower Hamlets, Greenwich and Barking and Dagenham over the next five years, according to Savills analysis of the pipeline. p.2/3

■ Many will be in high rises. Within E14, which includes Canary Wharf and Poplar, 62% of homes with planning permission will be on schemes which include towers over 20 storeys. p.2/3

■ Across the wider East of City area (Tower Hamlets, Hackney, Greenwich, Newham, Lewisham) a total of 43 sites with planning permission for a total of 55,325 homes, include towers over 20 storeys. p.2/3

■ Price growth in Hackney, Tower Hamlets, Lewisham, Greenwich and Newham has outperformed the more expensive boroughs of Westminster and Kensington and Chelsea over the past year. p.2/3

■ Market strength has pushed the average price of a new build home in Canary Wharf to £700-£1,200 psf which takes many new schemes into prime territory.

However, as more developers compete at the top of the market, we would question whether some new schemes are sufficiently differentiated to justify their premiums. p.4/5

■ Transport improvements, such as the East London Line, have been key in driving demand in previously overlooked parts of London. The opening of Crossrail from 2018 will bring forward further opportunities. p.6/7

■ We forecast that price growth in London will slow as a result of growing affordability pressures, potential tightening in the mortgage market and a future rise in interest rates. p.8

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 “Almost a third of all new homes are set to emerge in the East of City” Susan Emmett

Market dynamics

LONDON DEVELOPMENT SPREADS TO THE EAST

As demand for housing grows, four boroughs east of the City of London are set to deliver one in three new homes in the capital

London's centre of gravity is shifting to the east, with almost a third of all future homes in the capital set to emerge in the boroughs of Newham, Tower Hamlets, Greenwich and Barking and Dagenham over the next five years.

Based on our analysis of planning consents as well as market knowledge, Savills Research estimate that over 130,000 new homes should be built in London between 2014 and 2018, 29% of which will be based in just

four boroughs East of the City. This includes many major schemes such as the recently permitted Wood Wharf (Canary Wharf Group) with 4,500 homes. Add to this Royal Wharf (Oxley Holdings) and Greenwich Peninsula over the river, and that's a total of 17,885 homes with planning permission.

Transport improvements have been key in driving demand in previously overlooked parts of London. There is a discernible pattern of emerging development hugging the East London Line portion of the new London Overground. The extension of the network to Barking Riverside as well as the completion of Crossrail will provide a further boost. (see p.6/7 for more detail).

Prices rises

Demand for homes in eastern postcodes is changing the shape of the London property market. While central boroughs such as Westminster and Kensington and Chelsea remain the most expensive, the areas which have experienced the biggest rise in value most recently are no longer at the core. Over the past year, the boroughs of Hackney, Tower Hamlets, Lewisham, Greenwich and Newham, have seen the biggest rises in house prices as buyers look further out for better value.

These boroughs have also recorded a dramatic increase in the number of transactions. The number of homes swapping hands in Tower Hamlets is now double its pre-peak

TOWERING ACHIEVEMENT

Tall buildings are springing up across the east

Development is spreading not only outwards but also upwards. Within E14, which includes Canary Wharf and Poplar, 62% of homes with planning permission (just under 4,000 flats) will be on schemes which include towers over 20 storeys according to Molior. Landmark North, a 75 storey skyscraper with permission for 822 homes on Westferry Road, is among the tallest.

Across the wider East of city area (Tower Hamlets, Hackney, Greenwich, Newham, Lewisham) a total of 43 sites with planning permission for a total of 55,325 homes, include towers over 20 storeys. While tall

buildings are springing up across the east, Canary Wharf has the highest concentration of towers, particularly in the most prime locations close to the core Canary Wharf estate. There is fierce competition to be the best in class and to top the quality and specification of Pan Peninsula (completed 2009) with its private cinema, 50th floor cocktail bar and grand foyer.

However, as more developers seek to shift their product from mainstream markets (sub £1,000psf) to prime, we would question whether some are sufficiently differentiated to justify their premiums.



Value of new build properties in eastern postcodes is reaching new highs

“The relatively affordable prices of East London have been a draw to young professionals”
 Nick Gregori

average while deals in Newham have increased by almost 50% over the last 12 months.

A combination of these market trends and the higher specification of developments being delivered, means the value of new build properties in eastern postcodes is reaching new highs.

Savills figures show that a new apartment in Canary Wharf can now command prices of between £700 and £1,200 psf. Values for new build in Stratford now lie between £550 and £750 psf while in Canning Town/Royal Docks prices are only slightly less at £500 to £700 psf.

Rentysomethings

The relatively affordable prices of East London has been a draw to young professionals as well as those working in the media industry. Our analysis of the Census shows boroughs to the east have shown the greatest increase in the number of people working in culture, media and sports between 2001 and 2011. Hackney tops the list but more affordable boroughs further east have also seen large increases.

This trend is reflected in the growing number of ‘rentysomethings’ in the area and represents a good opportunity for investors. The most notable example is East Village, the country’s largest professionally managed Private Rented Sector Scheme. It comprises of 1,439 rental homes with asking rents ranging from £380 for a one bed to £615 per week for a three bed. ■

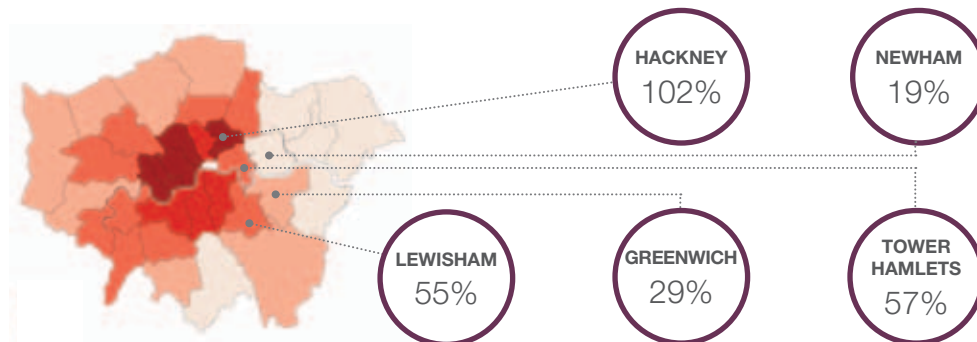


Transport improvements have been key in driving demand in previously overlooked areas

EASTERN PROMISE

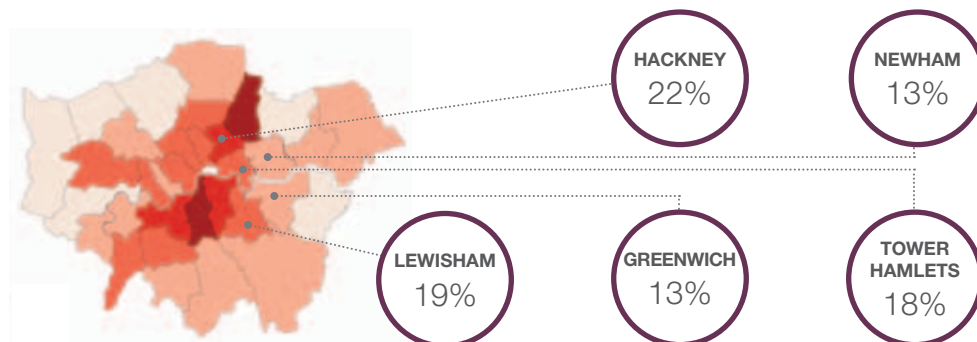
House price growth: since June 2005

Price growth: since July 2005 ■ Over 100% ■ 75% to 100% ■ 50% to 75% ■ 25% to 50% ■ Up to 25%



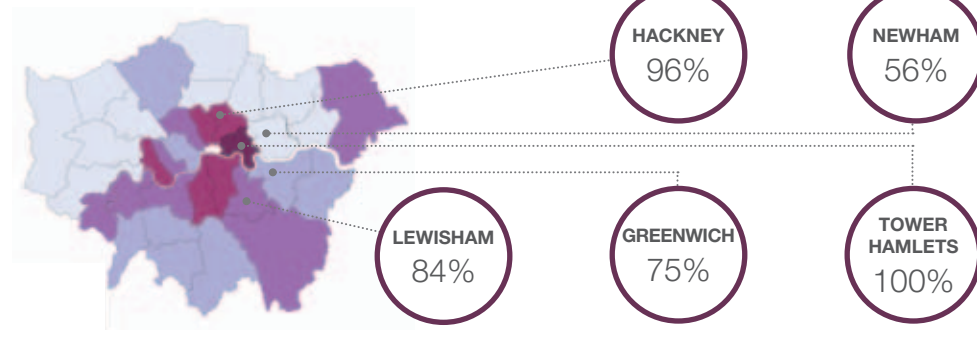
Price growth: last 12 months

Price growth: Annual ■ Over 25% ■ 20% to 25% ■ 15% to 20% ■ 10% to 15% ■ Up to 10%



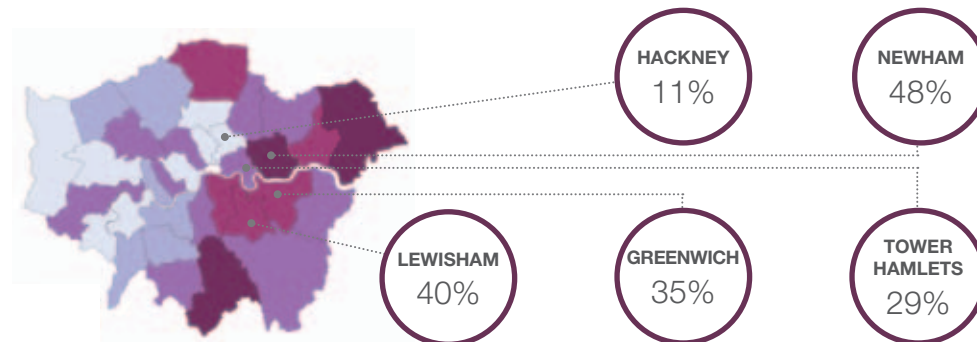
Transactions vs. pre-peak average

Transaction levels: year to March 2014 vs. 2002-07 ave ■ Over 100% ■ 90% to 100% ■ 80% to 90% ■ 70% to 80% ■ Up to 70%



Transactions increase: last 12 months

Transaction levels: year to March 2014 ■ Over 45% ■ 35% to 45% ■ 25% to 35% ■ 15% to 25% ■ Up to 15%



Source: Land Registry, May 2014

Case studies

MAPPING OUT FOUR NEW NEIGHBOURHOODS

The development pipeline East of City is active. We take a closer look at the key emerging residential areas that are changing the shape of London

1. STRATFORD

Average price of new build home
£550-750 psf

Development here is centred around the Olympic Park and Westfield shopping centre. In total this area has planning permission for 6,500 new homes including 2,800 in East Village, the former athletes village.

Major transport improvements are now in place, including extensions to the DLR and Jubilee line, plus an HS1 station. This will be further enhanced by the arrival of Crossrail late spring 2019.



2. CANNING TOWN / ROYAL DOCKS

Average price of new build home
£500-700 psf

This area at the western end of the Thames Gateway is undergoing a £3.7 billion regeneration project which includes a revitalised town centre.

Though the area is already well connected (DLR, Jubilee line), the opening of new Crossrail station at Custom House late 2018 will boost capacity. Proposals for upgrades to London City airport would allow increased passenger numbers.

The recently approved 4.7 million sq ft (35 acres) Asian Business Port (ABP) at Royal Albert Docks will create a trading hub with Asia, generate local employment and act as a catalyst for further development.

Other developments include:

- £2.5 billion mixed-use scheme at Silvertown Quays, with permission for 3,000 homes
- 3,400 homes plus office, new school and retail space at Royal Wharf
- Over 1,600 homes plus 200,000 sq ft of offices at the £700m City Island scheme adjacent to Canning Town station



3. CANARY WHARF

Average price of new build home
£700-1,200 psf

This major business district is increasingly becoming a prime residential location. Beneath the shiny towers, Canary Wharf is also a place to shop, eat and be entertained. The opening of the Crossrail station towards the end of 2018 will connect the area to Bond Street in 13 minutes.

Pan Peninsula, among the earlier top end residential towers, being the first to achieve £1,000 psf.

Other large emerging developments include 4,500 homes at Wood Wharf and 850 homes at Asda Crossharbour.

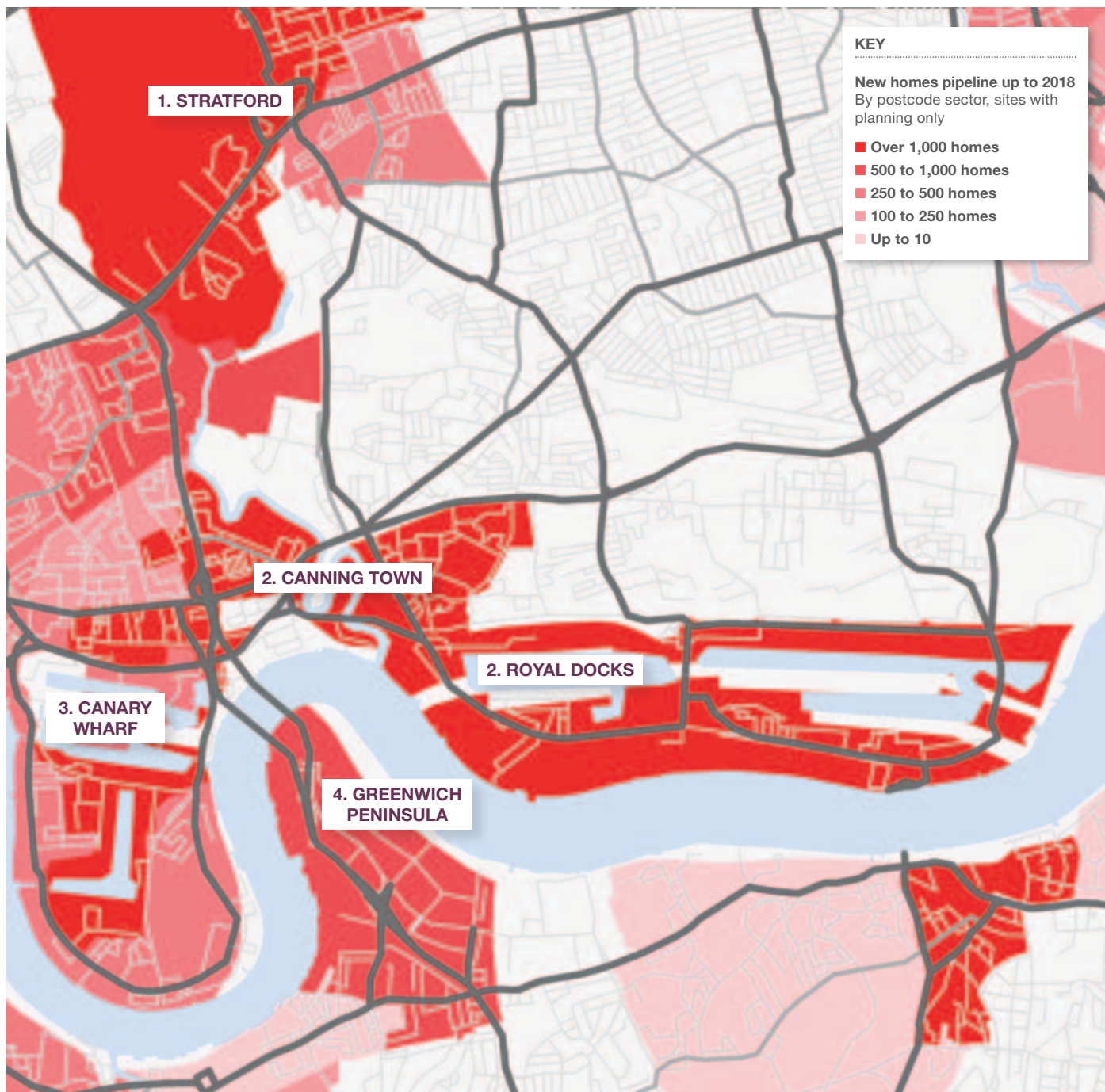


4. GREENWICH PENINSULA

Average price of new build home £550-850 psf

The home of the O2, further regeneration of the surrounding area will include up to 10,000 homes (with many in waterfront towers), 48 acres of green space and 3.5 million sq ft of shops, hotels, schools and public facilities.

A new road bridge over the Thames has been proposed to reduce pressure on the Blackwall Tunnel, joining West Silvertown to the Greenwich Peninsula.



Development

NEW INFRASTRUCTURE DRIVING OPPORTUNITIES

Better connections to the east are opening up neighbourhoods and new opportunities for developers to build the homes London needs

Lower average capital values in the east of London provide developers with the opportunity to build homes that are affordable for those living and working in the capital. Areas that were previously disused, industrial wasteland are becoming increasingly residential through a recovery of land values, improvements to infrastructure and large scale regeneration.

While the regeneration triggered by the Olympics has played a huge part in bringing investment into the area, there is potential for further growth with the arrival of the new Crossrail line from 2018 which will open up new parts of East London.

Construction is well underway and stations in the area will include Canary Wharf, Stratford, Custom House and Woolwich. The new train

line has already sparked strong interest from investors and driven strong sales and price growth.

Land buying is up

There has been a considerable increase in land buying activity in the Canary Wharf area over the past 18 months, and plenty more in the pipeline. Over this period there have been 12 significant land deals with potential to deliver a range from over 100 units to almost a thousand each, totalling 5,866 units.

Two significant schemes make up the bulk of these units. Canary Wharf Group (CWG) is due to launch Newfoundland and Wood Wharf, which together have the potential to deliver 5,066 new homes (of which 3,493 will be private).

Over to the east of the Canary Wharf estate, Wood Wharf will consist of 4,500 new homes, together with office

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“Areas that were previously disused, industrial wasteland are becoming increasingly residential” Katy Warrick
.....



and retail space. The masterplan by Terry Farrell, which makes the most of the waterfront, has paid particular attention to public realm and spaces between the buildings by including parks, public squares, retail and event space.

In order to capitalise on the growth of the TMT sector in London, diversify their commercial offering and nurture new talent, the developer intends to create a technology accelerator space where members can mix with other entrepreneurs, industry experts and investors in a similar vein to their Level 39 concept in One Canada Place.

Strong sales rates

Along with the rest of London over the past two years, Canary Wharf has experienced strong sales rates. According to Moliar, 330 homes at Baltimore Tower sold in approximately nine months. Prices ranged from £900 to £1,200 psf, with the higher level floors achieving above that.

Schemes at Royal Docks have also been in demand. At Royal Gateway by Galliard Homes, 271 out of 336 homes sold in one weekend according to Moliar. Oxley Holdings' Royal Wharf also saw high volumes of sales.

International Quarter

As well as Westfield and East Village, the former Athletes Village, Stratford is also home to The International Quarter (TIQ), a mixed use scheme by Lend Lease on the site of the Olympic Park, with 4 million sq ft of new workplace, 25,000 new jobs and three acres of open space in the centre.

Approximately 20% of the development has already been pre-let as a result of attracting two big commercial tenants – Transport for London and the Financial Conduct Authority (FCA), which will move from its current headquarters in Canary Wharf. ■



Canary Wharf has witnessed 12 major land deals over the last 18 months

NEW INVESTMENT COMES TO LONDON

Demand for more homes attracts overseas interest

We estimate that London needs to build 50,000 new homes a year to cope with the growing demand of an expanding population. The scale and urgency of the challenge needs huge, long term investment and Asian investors are playing a vital role in opening up new parts of the capital and contributing large numbers of new homes to the mix. Many are attracted by the vitality and accessibility

of London's property market which many view as stronger than their weakening domestic ones. By teaming up with local development partners, the Mayor of London and local boroughs, these players are adding a significant number of new homes to the London market. Over the past year, the Asian developers below have gained permission for just over 8,000 units:

KNIGHT DRAGON, a Hong Kong developer, took sole ownership of **Greenwich Peninsula** (master consent for **10,000** 🏠, of which **2,708** 🏠 have detailed permission), having already acquired a **60% stake** in the development in 2012

ABP, another Chinese developer, investing in **Royal Albert Dock** (permission for **845** 🏠), with Stanhope (a UK developer) on board as development managers

OXLEY HOLDINGS, a Singaporean developer, bought **Royal Wharf** (permission for **3,385** 🏠), with **BALLYMORE** (a UK developer) as development managers

GREENLAND, a Chinese developer, bought the **Ram Brewery** site in Wandsworth (permission for **661** 🏠) as well as Hertsmere Tower in Canary Wharf (pre application, estimated potential for **900** 🏠)

UOL, a Singaporean Property Group bought a mixed use prime scheme in the **City of London** called **Heron Plaza**. This scheme has planning permission for **120** 🏠 alongside a **luxury hotel and retail**

DALIAN WANDA, a Chinese commercial property developer, bought **One Nine Elms/Market Towers** (permission for **487** 🏠)

Source: Savills Research

OUTLOOK

■ **House price growth** in London has been outperforming the rest of the country since 2008, with rises over the past year being particularly strong. However, with affordability constraints biting, we expect the level of growth to slow. According to our forecasts for the London mainstream market, house prices will rise by 24.4% in the five years to 2018. Our forecasts apply to the second hand market, new build values may not move at the same rate.

■ **Prime London:** Up to now, the strongest growth in prime London has been recorded in Islington, Canary Wharf and Wapping,

reflecting confidence among young financial sector employees and investor buyers targeting these professionals. This buoyancy has enticed more developers to pitch their schemes higher up the market.











■ **Mortgage constraints** brought about by rigorous stress testing requirements by the Bank of England on top of the Mortgage Market Review, will have the biggest impact in London where lending multiples are higher than in other parts of the country.

■ **Help to Buy 1:** The impact of the Government backed equity loan scheme

has been relatively low in London, supporting an average 11% of new development. However, it has played a significant part in delivering sales in lower value boroughs.

■ **Future Connections:** Additional transport links to open up areas further east would stimulate the development of more mainstream housing. The latest version of the London Plan states improvements to the DLR are required to increase capacity alongside large scale development at Canning Town, Royal Albert and Gallions Reach.

TABLE 1 **Mainstream markets** Five year forecast value, 2014-2018*

	2014	2015	2016	2017	2018	5-year
UK	 9.5%	 4.0%	 3.5%	 3.5%	 3.0%	25.7%
London	 15.0%	 5.0%	 0.0%	 1.0%	 2.0%	24.4%

Source: Savills Research

*These forecasts apply to average prices in the second hand market. New Build values may not move at the same rate

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