Savills World Research
UK Residential

# Spotlight
# **East of City Residential Market**

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# Market history
# THE RISE OF EAST LONDON

Destroyed in the Blitz, the east of City is now a thriving business centre and prime residential area

As a leading global financial centre, London has historically housed the headquarters of many of its financial institutions in the City. However, in the 1980s a modern high rise business district in east London started to appear. Called Canary Wharf, it tempted many of these companies to relocate away from the City centre to some of the UK's newest and tallest buildings in the east.

## A history lesson

From the 19th century, the east of City was home to the world's busiest port. Its fortunes changed dramatically in World War II when the Blitz, from September 1940 to May 1941, saw mass bombings destroy one million homes and kill 40,000 civilians throughout London, many of these in and around London ports.

After the war, the area became run down, and by the 1970s new technology and increasing competition made many of the warehouses and industrial buildings in Canary Wharf surplus to requirements. The area became vacant and buildings fell into decay.

To overcome this, a new initiative was founded by the British government in 1981. The London Docklands Development Corporation set out to find a new purpose for the 5,190 acres of disused docks.

In Wapping, the derelict warehouses began to be redeveloped to create luxury flats for residential use. Yet in Canary Wharf it took until 1988 for construction to begin. The first tower was completed in 1991 and for a short time One Canada Square was the tallest building in the UK, standing at 235 metres.

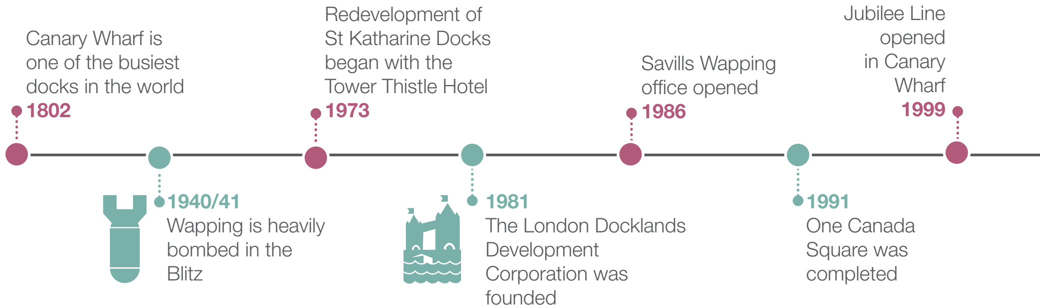
However, more than this impressive tower was needed to attract British companies to relocate to what was still perceived as a remote site. With poor transport links and no leisure amenities, the 1992 recession and subsequent property collapse made many think that the redevelopment project had been a failure.

## All was not lost

In fact, the 1992 recession was not the fatal blow for the area that many had thought. The end of the 1990s saw the property market spring back into life and the Docklands Development project was revived. The new Jubilee Line extension was critical to the evolution of the area, making it accessible from central London, and attracting financial institutions which would not previously have considered relocating.

The recent Census highlights how far gentrification of the area has come, indicating a quarter of employees in Canary Wharf are employed in higher managerial,

TABLE 1
### East of City timeline: history in the making




Source: Savills Research

administrative and professional occupations, compared to 14% across all of London.

As Canary Wharf evolved, it was only natural it would become an attractive place to live. The number of privately owned residential dwellings in Tower Hamlets has risen from just under 2,500 in 1981 to nearly 27,000 in 2011, an increase of 1004%.

Over the same period, the number of private rented households has increased by 645% to 34,000.

## Residential market

Geographically, the prime east of City market is made up of two districts, Canary Wharf, at the former West India Docks on the Isle of Dogs, and the Docklands, comprising Wapping and St Katharine Dock.

Canary Wharf and Wapping have very different styles of housing stock – new build towers dominate Canary Wharf while converted warehouses characterise Wapping. This period conversion and redevelopment have allowed these once thriving industrial locations to embrace their architectural roots and take advantage of the proximity of the river to develop into new prime areas.

Property prices vary across the region. In the second half of 2013, the average value of all property sold in the ward of St Katharine and Wapping was £627,000. This is 62% more than Canary Wharf and the Isle of Dogs where the average sale price was £414,000.

Across the entire east of City market, there is a significant premium for a residence on the waterfront. Flats within 100 metres of the river command an average premium of 29.1% when compared to the surrounding area, up to 1km away.

## Emerging area

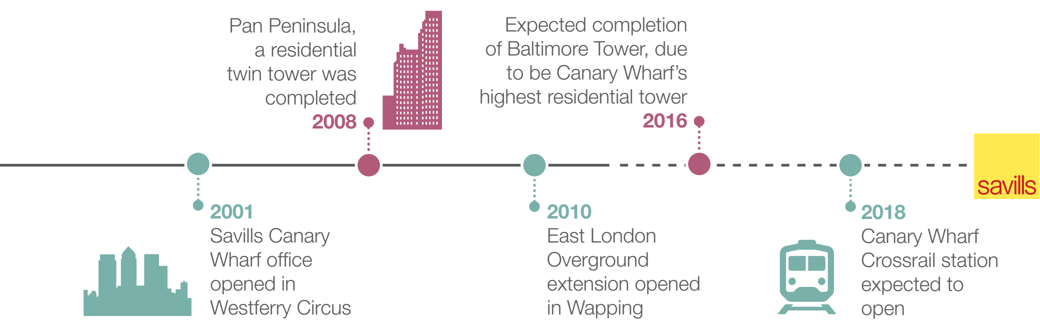
Over the past decade, Shoreditch has become a thriving area of London. Considerable gentrification has meant the average sale price has increased from £229,000 in 2003 to £485,874 in 2013.

In turn, new and innovative businesses have been attracted to the area and located here in the East London Tech City or Silicon Roundabout. Shoreditch has now become a significant and world renowned tech start up location.

While this fashionable area may sound a million miles away from the traditional financial institutions that dominate Canary Wharf, Piren, a security technology company has just secured a five year lease in the heart of Canary Wharf.

As such, the gap between the two locations seems to be narrowing as the area opens up to more diverse demand, a trend we have already begun to see in our buyer and tenant profiles.

> "There is a significant premium for a residence on the waterfront"
>
> Savills Research

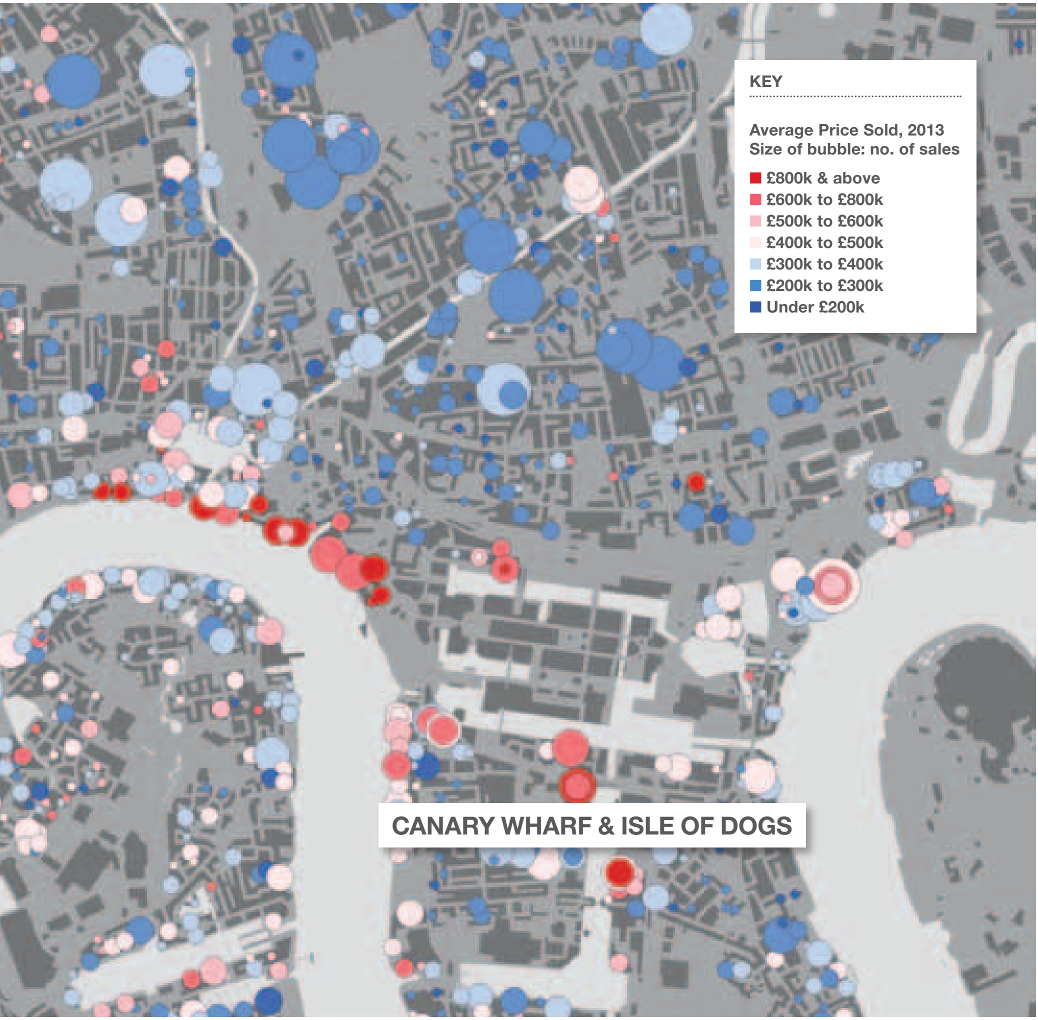


# Property values
# THE EAST OF CITY MARKET IN 2013


| SHOREDITCH | |
|---|---|
| Average value sold | £485,874 |
| % new build | 56% |
| % £500k+ sales | 37% |

| CITY OF LONDON | |
|---|---|
| Average value sold | £734,042 |
| % new build | 6% |
| % £500k+ sales | 68% |

A closer look at the residential sales which took place in 2013. The colour indicates the value and the size indicates the number of sales at that location




| WAPPING | |
|---|---|
| Average value sold | £604,525 |
| % new build | 19% |
| % £500k+ sales | 43% |

| CANARY WHARF & ISLE OF DOGS | |
|---|---|
| Average value sold | £409,441 |
| % new build | 7% |
| % £500k+ sales | 18% |

# Prime markets **PREMIER PERFORMANCE**

East of City prime housing and rental markets are both demonstrating a clear upwards trend

Across the prime housing markets of Canary Wharf and Wapping, average values increased by 4.4% over the first quarter of 2014, bringing the total growth in the past year to 17.2%. This is higher than the 13.1% annual growth recorded across the wider prime London markets.

However, since the credit crunch, price growth in the east of City has not been as strong as other areas of prime London, tending to track the wider London average. Average values are 28.5% above their 2007 peak, compared to 36.2% across all prime London.

Yet these figures mask a significant divergence between the housing markets in Canary Wharf and Wapping. In Canary Wharf, high levels of new supply in the years following the credit crunch kept price growth low until 2013 when the supply of completed stock dried up. Now average values remain just 11.6% above their 2007 peak, although there is significant variation between the developments. Conversely, in Wapping the converted warehouses are in limited supply and strong demand has meant that prices are now 41.4% above their 2007 peak.

In the prime rental market, the east of City saw the strongest rental growth across all prime London over the past year due to uncharacteristically low levels of stock. In contrast to the sales market, Canary Wharf, where student and sharer demand is more dominant, has seen stronger prime rental growth since the peak of the market than Wapping.

## Increased demand

During the downturn, the east of City markets were heavily dependent on a relatively small pool of domestic buyers who were buying properties as their main residence. This occurred at a time when employment and earnings in the financial centre were under pressure.

While buyers purchasing their main residence remain the dominant buyer group, since 2010 investors have been returning to the area both from overseas and the UK. However, they tend to focus on Canary Wharf, accounting for 27% of buyers in 2013/14 compared to 21% in Wapping due to the nature of stock and familiarity of the area.

Investor behaviour in the east of City markets is different to that in the core areas of prime central London (PCL). Buyers have been

concentrating on lower value stock predominantly for income yield as much as a store of wealth. In the east of City, gross yields currently average 4.5% compared to PCL where they average 3.0% and rarely exceed 4.0%.

Canary Wharf attracts more international buyers than Wapping, accounting for 41% of all sales in 2013. However, this is much less than in 2012 when overseas buyers accounted for 74%. This is not due to a significant fall in international interest but an increase in domestic activity which has been rising steadily with the economy.

Over the first quarter of 2014, the number of international buyers has increased from 2013 levels, and is broadly on par with levels seen in 2012. This changing trend between the dominance of international or domestic buyers continues to highlight the attraction of the area to many different nationalities.

International tenants in the east of City consistently account for over half the rental market. The majority of tenants renting here have been relocated for employment reasons. Given Canary Wharf is a key financial hub, it is no surprise that the 62% of tenants are employed in the financial and insurance sector.

## East of City buying trends

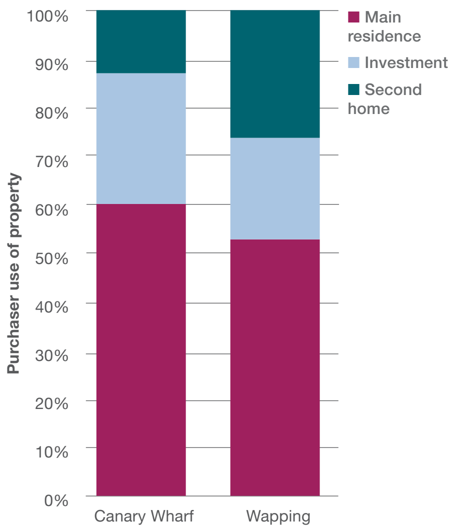
### A increasing number of younger buyers

Prime properties in the east of City are increasingly attracting younger buyers, particularly when compared to other prime locations. In 2013, 18% of buyers in these markets were under 30 years old, three times that of prime central London.

This highlights the increasing numbers of first time buyers in the east. Wapping saw the highest proportion of first time buyers across all prime London, joint with Clapham at 24% of buyers, Canary Wharf followed in a close second place.

GRAPH 1

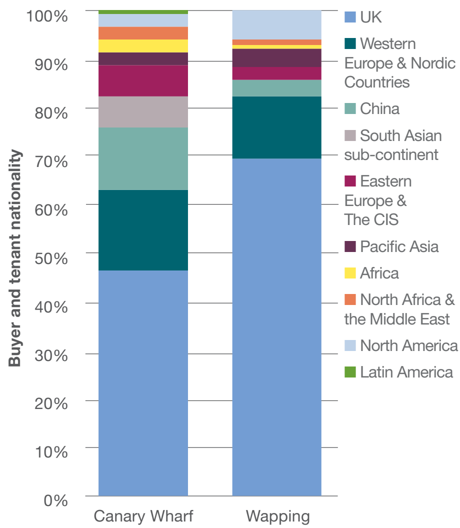
**Purchaser use of property 2013/14**




Source: Savills Research

GRAPH 2

**Buyer & tenant nationality 2013/14**




Source: Savills Research

# Outlook
# POSITIVE MOMENTUM

A diversifying employment base will bring a wider pool of buyers and tenants to the east of City market

The five year outlook for London is positive. The markets show clear signs of sustained recovery, with mortgage transactions and approvals up from a year ago.

In the east of City, while the financial sector remains the dominant industry, employees working in the professional, scientific and tech industry have increased by a third over the past five years to be the second biggest employment group. The momentum in this industry is forecast to continue to grow by a further 22.6% over the next five years compared to just 2.4% in the financial industry, according to Oxford Economics.

As employment in Canary Wharf becomes more varied, we expect a similar trend in our buyers and tenants, resulting in demand for properties coming from a wider pool.

## Development pipeline

The supply of new homes across London is falling significantly short of overall requirements. In the east of City markets, this has been an important driver of growth in the past year as the supply pipeline of completed stock in Canary Wharf dried up, but demand for new build properties has been strong, as demonstrated by the strong off-plan sales seen in some key developments.

We expect this supply and demand imbalance to continue to push prices up in the medium term. Yet even with the large pipeline in east London, the shortfall of homes across London will remain, perhaps encouraging buyers who wouldn't have previously considered the east of City markets to move to the area.

## The rental market

Across the UK, the private rented sector grew by some two million households in the decade to 2011. Over the past few years, the government has introduced several initiatives to support home ownership, most notably the Help to Buy scheme.

Despite this, we expect the private rented sector to grow by a further one million households in the next five years to 5.8 million households.

This increase in demand in the private rented sector has not been met with a similar increase in the supply of rental properties. In the east of City markets, the lower value rental supply is likely to remain constrained, but less so in the more valuable markets which is where new activity is concentrated. As this supply increases, we believe it will be met with demand resulting in an active rental market.

TABLE 2
### London five year forecasts

| | 2014 | 2015 | 2016 | 2017 | 2018 | 5-year total |
|---|---|---|---|---|---|---|
| London mainstream sales | 8.5% | 6.0% | 4.0% | 2.0% | 2.0% | 24.4% |
| London mainstream rents | 3.5% | 3.5% | 4.5% | 6.0% | 6.0% | 25.8% |

Source: Savills Research


## Research

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