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Savills World Research
UK Residential

Spotlight
East of City

Autumn 2015

Market overview
WELL CONNECTED

The East of City is thriving with strong demand for both sales and rental properties

Canary Wharf and Wapping have both undergone significant regeneration over the past 25 years, transforming from former working docks to buzzing residential and commercial hubs.

Wapping

Wapping was greatly damaged during the Blitz and remained run down until the 1980's when developers moved into the area. Warehouses were converted into luxury residential homes and land was cleared to house modern glass fronted developments.

Since then, Wapping has continued to grow into a thriving residential area. Its proximity to the river, Canary Wharf and the City, two of London's main business districts, together with improved transport links has continued to attract buyers to the area.

The prime residential market in Wapping generally consists of two property types: converted warehouses which feature exposed brickwork and beams and modern developments.

Canary Wharf

Canary Wharf has transformed from derelict docklands into a commercial centre which rivals the City. It is well connected to the rest of London by the Jubilee Line and the DLR and transport links will be improved further by the new Crossrail station due to open in 2018.

Canary Wharf's residential market is predominantly made up of modern towers. When development was at its peak in 2010, 56% of sales were new build properties, according to Land Registry. Since then, development activity has slowed and currently only 5% of sales are of new properties.

Property prices

Wapping is the more expensive of the two areas, with an average sale price over the past year of £617,000 whereas Canary Wharf is 23% cheaper at £475,000, according to Land Registry.

Since the financial crisis, house price growth in prime Wapping has outperformed the prime London average due to the limited supply of properties available. Prices currently sit 49.2% higher than their 2007/08 peak, whereas the all prime London average is 35.8%. Despite this, Wapping still offers good value for money with an average price per square foot of £1,022, compared to over £2,000 in prime central London.

Conversely, in Canary Wharf, the high levels of new build properties developed in the lead up to and since the credit crunch meant that price growth was slower. Prime property values have increased by just 20.2% since the 2007/08 peak of the market. However, once the new build properties had been absorbed into the market, Canary Wharf saw stronger house price growth with values increasing by 19.4% over the past two years.

Rental values

In contrast to their respective sales values, the rental values in the two East of City markets barely differ. The median rental values are £1,638 for Wapping and £1,535 for Canary Wharf, according to Rightmove, a variation of just 6%. The relatively lower capital values and therefore higher returns, makes Canary Wharf an attractive opportunity for buy to let investors.

Both areas have seen high demand from tenants resulting in strong rental growth. Average rents in Canary Wharf and Wapping have increased by 17.2% and 6.9% respectively since the peak of the market in 2007/08 compared to just 1.7% across all prime London.

Demand

The demand for prime property in the East of City comes from a number of sources. International residents are an important source of demand for the prime housing markets across London. This is especially true in the prime East of City, where overseas buyers have accounted for 60% of buyers in Canary Wharf and 40% in Wapping over the past 18 months.

The nearby employment opportunities also plays an essential part for the housing markets of Canary Wharf and Wapping, given the proximity

FIGURE 1

The housing market around Wapping and Canary Wharf (year to April 2015)

A look at where the sales happened and at what value

Source: Land Registry, Savills Research

to the City and Canary Wharf, two of the main business districts of London. The purchaser occupation profiles in prime Canary Wharf and Wapping are very similar and, unsurprisingly, the largest employment industry for people buying in both areas is the financial and insurance services sector, accounting for 68% of buyers over the past 18 months, an increase from 61% in 2013 and 56% in 2012.

Investment

Investment buyers are particularly attracted to the area for a number of reasons. The private rented sector is the most dominant tenure in the East of City's property market, with 45% and 37% of all households in Canary Wharf and Wapping respectively being occupied by private renters, according to the 2011 Census. This is higher than the average of 33% for the borough of Tower Hamlets and 25% for all of London.

The prime rental market of Canary Wharf and Wapping is dominated by international tenants, with those from overseas accounting for 54% of tenants during the past 18 months to June.

The majority of tenants renting here (53%) have been relocated for employment reasons and given the fact that Canary Wharf and the City itself are financial hubs, it is of no surprise that 62% of tenants are employed in the financial and insurance services sector.

Average yields in the East of City markets are significantly higher than other parts of prime London which makes the area appealing to investors. In Wapping, prime gross yields currently average 3.4% and those in Canary Wharf are averaging 4.4%, rising to 4.7% for a 1 bed property.

The prime rental market is dominated by international tenants

"Average yields are significantly higher than other parts of prime London"

Frances Clacy, Savills Research

FIGURE 2

What would the same property sell/rent for on our featured roads?

WAPPING
1,000 SQUARE FOOT 2 BED 2 BATH FLAT WITH PARKING

Location	Postcode	Sale Value	Rental Value (p.w)	Yield
City Quay	E1W 1	£1,300,000	£825	3.3%
Cinnabar Wharf	E1W 1	£1,150,000	£750	3.4%
Dundee Court	E1W 2	£725,000	£550	3.9%
New Crane Wharf	E1W 3	£800,000	£650	4.2%
Hermitage Court	E1W 1	£680,000	£525	4.0%

CANARY WHARF
1,000 SQUARE FOOT 2 BED 2 BATH FLAT WITH PARKING

Location	Postcode	Sale Value	Rental Value (p.w)	Yield
Canary Riverside	E14 8	£800,000	£725	4.7%
West India Quay	E14 4	£750,000	£725	5.0%
Boardwalk Place	E14 5	£625,000	£550	4.6%
Dunbar Wharf	E14 8	£725,000	£650	4.7%
Ocean Wharf	E14 8	£625,000	£550	4.6%

Source: Savills Research

Infrastructure
THE IMPACT OF CROSSRAIL

The East of City market has benefited from improved transport links over the past 15 years. The Jubilee line extension to Canary Wharf in 1999 was critical to the area, making it accessible from central London, and attracting financial institutions which would not previously have considered relocating. In Wapping, the extension of the London Overground in 2010 has meant the area is now well connected to the rest of the city.

Crossrail is the next big transport improvement project for the capital and will be particularly beneficial to Canary Wharf. When operational in 2018, the travel time to much of central London will be significantly shorter, for example the journey between Canary Wharf and Liverpool Street will fall from 20 minutes to just 6 minutes. It will also change the historic lack of access to international airports with journey times from Canary Wharf to Heathrow taking just 39 minutes, something which will appeal to a number of international executives.

It is not just improved connectivity that Crossrail brings, the station's retail and park space above has already had a big impact since opening in May 2015. The huge six storey development contains new shops, restaurants and a roof top park which attracts visitors from all over London and the UK.

These infrastructure and public realm improvements over the past few years continue to enhance the lifestyle of those living in Canary Wharf, transforming it from somewhere to just live and work to a vibrant community and a destination for many.

Canary Wharf to Heathrow in 39 minutes when Crossrail is operational

FIGURE 3

Crossrail: Central Section

Source: www.crossrail.co.uk

Outlook
THE SALES MARKET

The outlook for Canary Wharf and Wapping needs to be considered in the context of the wider prime London market.

Across prime London, since the election some of the pent up demand is beginning to flow back into the market, although the new stamp duty rates are still keenly felt by buyers. This has restricted any significant increases in both prices and transaction numbers and we expect the prime London housing market to remain relatively subdued over the rest of 2015 and into 2016.

In Canary Wharf and Wapping, prime property values are not as high as other prime areas of London meaning the new stamp duty burden has not been felt as strongly by buyers and prices have not seen any falls. However, the lower end of the prime market across London, including Canary Wharf and Wapping, has been affected by the increased mortgage regulation which restricts the amount people can borrow and therefore limits house price growth.

In both areas, particularly in Canary Wharf, there is a large number of new build properties due to come to the market over the next five years. Still, supply is being met by strong demand for new build properties, demonstrated by the strong off-plan sales seen in some key developments.

The rental market

Over the next five years the London economy is forecast to continue strengthening, which will underpin demand for prime rental property over the medium term as more people move to London for employment opportunities. The City of London and Canary Wharf combined are forecast to see a 6.3% increase in the number of employees by 2020, taking the total workforce to 770,000 which we believe will result in an increase in demand for rental properties in close proximity to these employment centres.

In the prime East of City market, 31% of buyers over the past 18 months were investors, a significantly higher number than across prime London as a whole. Currently, the demand for rental properties in the area is outstripping supply, but there is a potential risk that if high levels of new build properties enter the rental market simultaneously then rents could come under pressure. This is more likely at the top end of the rental market as there is a larger number of luxury flats being built. However, over the long term, we believe that as the supply of rental properties increases, it will be met with demand resulting in a buoyant rental market.

Research

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