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Savills World Research
UK Residential

Spotlight
East of City

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Market overview

INVESTMENT OPPORTUNITIES

Proximity to the capital's main financial districts drives demand for prime property in the East of City markets

GLOSSARY
Prime: the prime market consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price.

Since the 1980s, Canary Wharf has transformed from what was once one of the busiest docks in the world to become an area well-known as one of London's leading financial districts.

It is only since the early 1990s, however, that it has also become a recognised prime residential area for people to live as well as just work, characterised by new build, high rise towers.

Wapping, on the other hand, began to be developed residentially from 1981. The founding of The London Docklands Development Corporation led to deserted warehouses in the area being transformed into luxury flats.

This trend has been seen again, more recently, with the conversion of previous industrial and office buildings. New developments in these markets will continue to have a positive impact on the surrounding housing stock already available in the area.

Property prices

In the year to July 2016, the average sale price in Wapping was £740k, 47% higher than nearby Canary Wharf at just over £500k, according to Land Registry. While Wapping commands a premium in comparison to the wider borough average, property prices in Canary Wharf are in line with those for Tower Hamlets as a whole.

In the prime markets, the average price per square foot values for second hand properties are £750 and £1,000 for Canary Wharf and Wapping respectively, both offering value when compared to the wider prime London average of £1,300.

As a result of strong levels of demand and limited stock available in the area, prices in the prime market of Wapping have increased by 45% in the period since the financial crisis, outperforming the 32% average growth seen in wider prime London.

Canary Wharf has seen more

▼ Prices have risen due to strong levels of demand and limited stock

FIGURE 1

Second hand market dynamics

58% proportion of international buyers in prime Canary Wharf

4.3% average gross yield in prime Canary Wharf

47% proportion of international tenants in prime Wapping

£1,000 average £/sq ft value of a prime property in Wapping

Source: Savills Research

subdued house price growth of 20% over the same period due to the high level of new build stock which was brought to the market in the run up to and immediately after the credit crunch.

More recently, as a result of stamp duty reforms introduced in late 2014, the introduction of a new stamp duty surcharge for additional homes in April 2016 and the uncertainty surrounding the EU referendum, price growth in both prime districts has been more subdued.

Over the period since the peak of September 2014, prices have fallen by -4.4% in Wapping whilst growth in Canary Wharf has been constrained to 1.8%. Both areas, however, have continued to outperform the prime central London market which has seen much more substantial falls over the same period. This is because values in the East of City markets in general are lower, so the higher rates of stamp duty have been less of a burden.

These figures mask some variation across different price bands. In the market for properties worth over £1m in both Canary Wharf and Wapping, prices have fallen by around -8.0%, in an adjustment to the new stamp duty rates, whilst properties worth less than £1m have experienced average price growth of 2.8% over the same period.

Rental market

Rental values in Wapping are only 11% higher than those in Canary Wharf, a stark contrast to the variation in their respective sales values. The median monthly rent is £2,000 in Wapping and £1,800 in Canary Wharf, according to Rightmove, both offering a significant discount in comparison to their neighbouring borough, the City of London, where monthly rental values are on average £2,200.

Prime rental growth in Canary Wharf and Wapping has outperformed the rest of prime London since the previous peak of the market in 2007/08, with growth totalling 12% in both areas compared to small falls across the capital.

This is partly due to shrinking corporate budgets over recent years which means these locations are more attractive for relocating employees.

More recently, rental growth in these two prime East of City markets has slowed with some falls in value being seen in Canary Wharf. This is a result of high levels of new build stock simultaneously being brought to the market.

Demand

The proximity of Canary Wharf and Wapping to London's two main financial districts (The City and Canary Wharf itself) drives demand for prime property across both areas, from owner occupiers and investors alike.

This is reflected by the fact that financial and insurance services employees have accounted for almost three quarters of all buyers and over half of all tenants in the prime markets over the past two years.

International residents form an important part of the prime markets of Canary Wharf with the majority of both buyers and tenants over the past two years coming from overseas. However, so far in 2016, there has been an increase in the proportion of domestic buyers, a trend which has also been seen across the wider prime London market.

> "Both areas have continued to outperform the prime central London market"
>
> **Frances Clacy, Savills Research**

The average gross yield for prime property in Canary Wharf is over 4.0%, as a result of comparatively low capital values but competitive rents, making it particularly popular for investors. Indeed, 39% of buyers in prime Canary Wharf over the past two years have bought for investment reasons.

Although on a smaller scale, investors still play an important role in the prime market of Wapping, accounting for a quarter of all buyers over the past two years. More recently, however, there has been an increase in the proportion of owner occupiers in the area

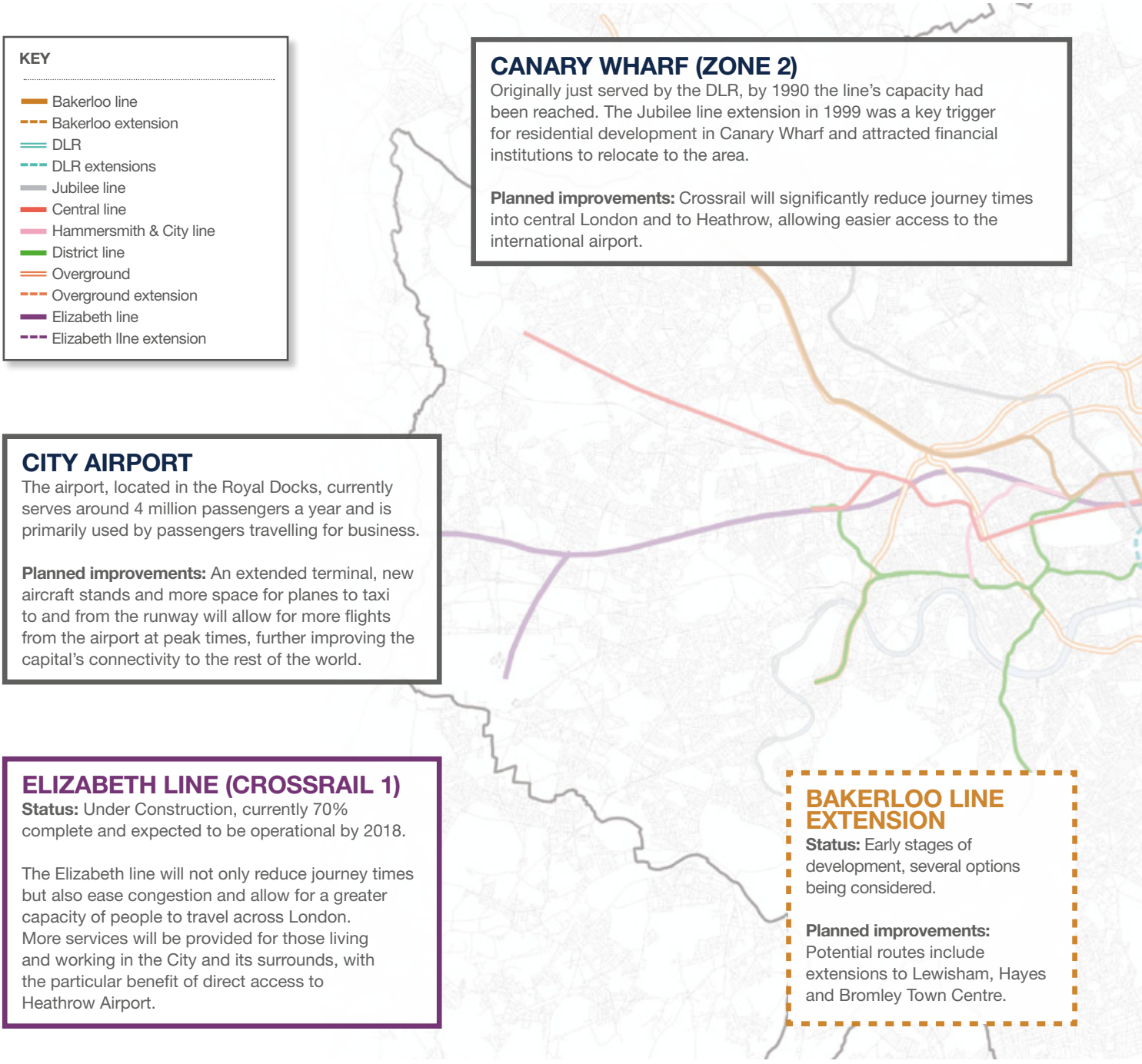
Canary Wharf also has a particular appeal to younger residents, partly due to the value on offer but also because the area is seen to provide a more contemporary lifestyle than other, more established prime London markets. As a result, almost half of all prime tenants and a fifth of prime buyers since 2014 have been aged below 30.

Infrastructure

LOOKING EAST FOR EXCEPTIONAL CONNECTIONS

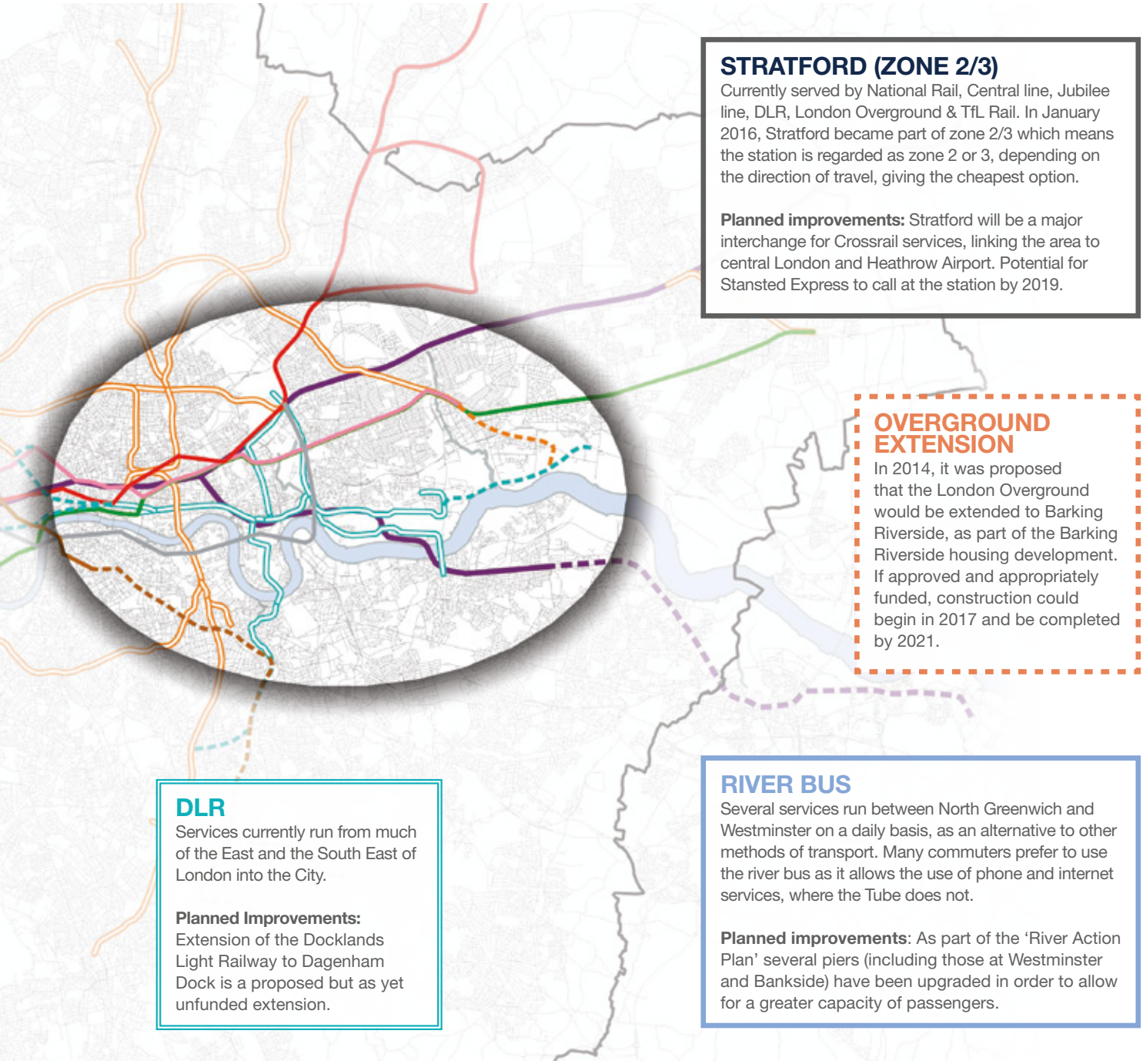
FIGURE 2

East of City infrastructure*



Source: Savills Research

For more than 15 years, infrastructure has been vital in shaping the East of City markets into the desirable locations they are today. This is set to continue as further improvements will increase the area's accessibility as well as enhancing the public realm and opening up new locations, further to the east



*Please note: This map only shows train lines relevant to the East of City markets and is not exhaustive of London's network

Development
NEW OPPORTUNITIES

The eastern boroughs form a major cluster of new developments and present opportunities for buyers

London needs more homes. Woefully undersupplied, there are few places remaining in London able to deliver the required quantity of new homes in areas with excellent transport links and attractive amenities.

We examine a handful of selected areas in the East where new development is likely to provide the greatest opportunity to buyers. This includes areas where there has been little historical supply such as Hackney Wick & Barking, as well as better known and more popular areas like City Fringe, Stratford, Greenwich, Royal Docks, and Canary Wharf where development and regeneration are already well underway and schemes are achieving strong sales rates.

The East of London has the potential to deliver thousands of homes over the next few years, alongside exceptional transport links, including various Tube lines, the Overground, the DLR, and the forthcoming Elizabeth line (Crossrail 1).

CITY FRINGE: NEW BUILD PUSHING THE BOUNDARIES

On the doorstep of London's historical finance and business centre, the City Fringe is a sought-after residential area for professionals from various industries. With the expansion of Silicon Roundabout, the area also benefits from a high-skilled labour force and investment into digital-creative businesses. Due to its central location, the City Fringe area is incredibly well connected to both the West End and the East with Overground and Underground facilities.

There are currently 10 sites under construction delivering a total of 2,785 private units, including anticipated schemes such as Landmark Place by Barratt and 10 Trinity Square by Reignwood, due to complete between Q1 2017 and Q2 2018. With over 1,300 private units, London Dock by St George will be the largest scheme in the area. An additional seven sites have planning permission, with the potential to provide 574 new private homes.

HACKNEY WICK: UP AND COMING

Hackney Wick is a cultural and artistic hub, with one of the highest concentrations of artists in Europe. Its Overground station is located only three minutes from Stratford Station, giving commuters access to two Underground lines, the DLR, National Rail, and the forthcoming Elizabeth line. It is ideally located and is currently experiencing a growth in residential sales as purchasers realise its potential.

Having seen little development in the past, this area now has two developments under construction with a total of 130 private homes, expected to complete between late 2017 and 2018. This includes the Weston Homes scheme The Foundry, which will launch in spring 2017 and provide 91 private homes. There are an additional eleven schemes which have planning consents showing the long-term appeal for the area.

The most significant consented scheme is Fish Island Village by Peabody (Neptune Wharf), providing over 500 private homes for rent and sale and 5,300sqm of commercial space, with expected first completions in early 2018. Well-designed mixed-use schemes such as these have the potential to act as a catalyst for local business growth, whilst simultaneously preserving the area's unique artistic culture and identity.

BARKING: LONDON'S LAST AFFORDABLE BOROUGH

Located approximately 30 minutes from Liverpool Street Station Barking is not only well connected, but it also sits within the most affordable borough in London, with an average property price of £276,000.

Whilst there are ten sites with planning permission in the town centre, only one is under construction, indicating that redefining this local area is a medium-term project. The redevelopment of the Gascoigne Estate, (1,575 new homes, 669 of which will be private) is the most significant change occurring in the area, due to the scale of the project. Phase 1 (51 private homes) is underway and due to complete in 2019.

The largest development in the area is Barking Riverside, potentially providing up to 10,800 new homes, 3,000 of which are earmarked for the rental market. As at Q3 2016, Bellway completed phases 1, 2, 3, 4 and 5, and all 306 new homes sold out. Phase 6 (200 new homes) was launched in August 2016 and a total of 80 homes were sold by the end of September. L&Q is expected to replace Bellway as lead developer on future phases. Crucial to the success of the overall development is the new railway line and a new station which will vastly improve connectivity, but funding has not yet been secured.

Sources: Molior, Savills Research

STRATFORD: FEELING THE OLYMPIC EFFECT

The 2012 Olympic Games put Stratford firmly on the map, transforming the area into a centre for retail (with Westfield shopping centre), business, and leisure. The area continues to thrive, with plans to create a cultural and education district on the Olympic Park which will include a university campus for UCL and major new spaces for the Victoria & Albert Museum and Sadler's Wells. Stratford Station – soon also to be served by the Elizabeth line – makes the area undoubtedly one of the best connected in London, with travel times of less than 15 minutes to Bank Station.

There are currently nine schemes under construction, including phases of Chobham Farm, East Village and Chobham Manor due to complete in August 2016, summer 2018 and early 2017, respectively (1,095 new private homes). In April 2016, it was announced that Qatari Diar, Delancey and APG created a £1.4bn rental business, encompassing East Village, the former Olympic athletes' village.

GREENWICH : WATERFRONT LIVING

Greenwich has seen strong sales rates over the past months, with delivery of new homes concentrated in both Greenwich town centre and Greenwich Peninsula. The town centre has six schemes under construction, providing 629 new private homes. Another three sites have planning permission (198 private homes).

The Greenwich Peninsula development by Knight Dragon Developments, has permission for over 15,720 new homes, of which 1,889 are currently under construction (completing between autumn 2016 and late 2018). Strong sales rates achieved over the last two years have primarily been driven by realistic pricing across a variety of product, as well as extensive placemaking and attractive amenities, including a 5km running track, 2.5km of river frontage, 48 acres of parkland, film studios and two new schools. The wider scheme also benefits from a wide range of different transport links, including the Jubilee line at North Greenwich station, the Elizabeth line at Canary Wharf station, and river boat services.

▲ The Greenwich Peninsula development

ROYAL DOCKS: MORE THAN JUST BUSINESS

Similar to Greenwich, Royal Docks and Canning Town have had high rates of off-plan sales over the past two years. The area will also benefit from the arrival of the Elizabeth line at Custom House, the recently approved expansion of London City Airport, and the progress of the ABP development which aims to transform Royal Albert Dock into a new business centre.

ABP is set to start the first phase of its flagship development in late 2016. The wider development will stretch over 440,000sqm – with 20% dedicated to residential – and is expected to cost up to £1.7bn. Works on Phase 1 are due to commence by the end of 2016 with first completions expected in 2018.

There are currently nine sites under construction in this area, with a further seven with planning permission. One of the most notable schemes is Royal Albert Wharf by Notting Hill Housing (providing over 800 new homes). Phase 1 of the development – due to complete by the end of 2016 – will deliver 123 private and 73 rental homes.

CANARY WHARF: TECH-CENTRAL

Home to one of Europe's major business and finance districts, Canary Wharf has been an epicentre for new development in London, with strong sales rates throughout 2015. Canary Wharf boasts a vibrant tech and start-up scene, with Level39, Europe's largest technology accelerator, paving the way for new fintech innovators.

There are currently 17 sites under construction with a total of over 6,800 private homes. This includes three phases of Wood Wharf, with the first residential phase due to complete in late 2019, and Maine Tower which is expected to complete the same year.

Despite a strong pipeline, it is possible developers may decide to delay launches or construction starts in light of uncertainty around the Referendum vote. Developers and house builders could also add supply to the rental and serviced accommodation markets, as an option to diversify and de-risk their exit routes across their delivery pipelines.

OUTLOOK

Sales Market

Since mid 2014, the prime housing markets of London have faced a number of difficulties. Substantial changes to stamp duty, including the introduction of a 3% surcharge for 'additional homes', as well as economic and political uncertainty, have shaped the market over this period.

The relative value offered by the prime markets of Canary Wharf and Wapping, in comparison to other prime London locations, means the stamp duty impact has been less severe. However, the surcharge on additional properties presents a further burden for investment buyers who have traditionally been a key buyer group in these markets. This is likely to mean the market remains price sensitive in the short to medium term as the additional costs are absorbed into the market.

The referendum in June, which resulted in the UK's vote to leave the EU, is expected to cause added caution in the prime residential markets of London, in the short term. The weakness of sterling, however, will present an opportunity for international buyers.

Whether or not the decision to leave the EU will affect London's standing as a world city and global financial centre is currently the most significant economic factor for the capital. There are still many questions surrounding the extent to which banks will relocate to be within the EU.

This is dependent on the Government's ability to protect the passporting rights needed for The City and Canary Wharf to provide a full range of banking and financial services across the EU and, if so, how quickly they can do this. The Government will be highly motivated to protect the capital's financial districts in its negotiations and there are proposed EU regulations, due to come into force in January 2018, which would uphold London's position, provided it offers an equivalent regulatory environment to the EU.

Overall, we believe London will hold on to its position as the main European global financial centre without substantial loss of jobs or the need to relocate a significant amount of banking activities. It remains clear there is no other European city which has the infrastructure to match London as a financial centre.

Rental Market

As a result of the uncertainty regarding London's economic outlook, the strength of demand for rental property in the capital will be difficult to determine in the short and medium term.

Caution in the sales market is expected to create additional demand in the prime rental markets, particularly in the short term, as those who aren't willing to commit to a purchase look to renting instead.

However, there may also be an increase in the number of accidental landlords bringing more stock to the market. In this case, landlords will need to remain competitive on asking rents, flexible on their terms and ensure that properties are presented in a good condition so that they continue to attract tenants.

Savills team

Please contact us for further information

Frances Clacy
Research Analyst
Residential Research
0207 409 5905
fclacy@savills.com

Katy Warrick
Director
Residential Research
0207 016 3884
kwarrick@savills.com

Emil Fischer
Research Analyst
Residential Research
0207 409 5907
efischer@savills.com

Laura Laws
Head of Sales
Wapping
0207 456 6812
llaws@savills.com

Dawn Shepperson
Head of Lettings
Wapping
0207 456 6809
dshepperson
@savills.com

Josh Olive
Head of Sales
Canary Wharf
0207 531 2509
josh.olive@savills.com

David Baldock
Head of Lettings
Canary Wharf
0207 531 2507
dbaldock@savills.com

Jason Margetts
Head of East London
Residential Development
0207 531 2510
jmargetts@savills.com