

Residential update

Paddington

UK Residential Research | September 2017

Paddington's roots are in transport and most crucially as a gateway into London. But today it is being transformed into a new, vibrant business and residential community while the Heathrow Express and Crossrail are enhancing Paddington as a highly-connected transport hub. New development, both commercial and residential, is playing a pivotal role in this transformation.



Neil Chegwidan
Residential Research

Steeped in history

Paddington has a rich, varied and colourful history. It originally evolved as a transport hub, firstly through canals and latterly by rail. Paddington is also famous, of course, for Michael Bond's marmalade-loving bear.

Over the years, the area has undergone numerous transformations and another is presently underway. The current revamp is focussed on creating a vibrant residential and business community which is within touching distance of the West End.

Transport at its heart

The Paddington spur of the Grand Union Canal opened in 1801 with the creation of Paddington Basin. Known as the Grand Junction Canal until 1929, it joined the Regent's Canal on the latter's completion in 1820 with the formation of Browning's Pool at Little Venice. Paddington then quickly evolved as the principal gateway into London from north and west England.

In 1838 Paddington railway station opened as the west London terminus for Isambard Kingdom Brunel's Great Western Railway with Paddington soon cementing itself as an even more crucial conduit connecting London with the South West, Wales and the Midlands.

Royal connections

Paddington also has royal links. Queen Victoria took her first train journey from Windsor to Paddington in 1842 while St Mary's Hospital, which opened in 1845, is also the birthplace of Prince William, Prince Harry, Prince George and Princess Charlotte, as well as being home to the Sir Alexander Fleming Museum where the Nobel Prize winner discovered penicillin.

A new lease of life

Although Paddington has always remained a vital cog in the connectivity of London, a lack of investment and a rise in prominence of other parts of London gradually led to some deterioration and neglect until the 1990s.

Importantly, however, a new fast rail link to Heathrow Airport was then commissioned, to run from Paddington, and this led to a new and significant revitalisation of Paddington Station. The Heathrow Express launched in 1998 and was the catalyst for yet another reincarnation of Paddington.

At the same time, the Paddington Partnership was set up to promote and evolve the locale, and today includes key businesses such as European Land, Network Rail, British Land, Crossrail, Derwent London and M&S.

Indeed it is testament to the improving profile of Paddington that large corporates such as M&S, Vodafone and Prudential have relocated here. Perhaps more importantly, however, the expanding business element helps to create a more dynamic, energetic and thriving community in Paddington.

Designing the future

New office, residential and retail space has been developed steadily over the past 20 years, but the pace of regeneration now seems to be at its zenith. The infrastructure changes, and in particular the enhancements induced by Crossrail, are making a huge difference.

What does seem certain is that this new Paddington will become a residential location of choice, with its rich provision of amenities and new development combining to create a vibrant and welcoming homestead while retaining its connectivity core.

Paddington

Sales & lettings markets

Sales market

Until Berkeley Homes' West End Gate and Meritas Real Estate's Paddington Gardens launched in Q1 2017, there had been a real shortage of new residential developments on the market in Paddington in the preceding two years.

During the course of 2015 and 2016 only 53 new units in two schemes had been for sale. The first development was European Land's 159 unit Merchant Square 3 scheme, which completed in 2014 and sold out in Q3 2016. The second was Taylor Wimpey's 123 unit Paddington Exchange development, where less than five units remain unsold as at end Q2 2017.

However, during Q1 this year both West End Gate and Paddington Gardens launched units. The first release of West End Gate has sold particularly well.

Meanwhile, the resale market in recently completed developments such as Waterline House, the first phase of European Land's Merchant Square development as well as at Merchant Square 3, is proving strong and active.

Sales prices

New build pricing in Paddington can typically range between £1,300 and £1,800 psf with £1,500 psf the average. However, the best apartments in the most prestigious developments command prices in excess of £2,000 psf.

A new one bedroom apartment of 500 sq ft is typically priced between £650,000 and £900,000 with a 750 sq ft two bedroom flat usually priced between £1.0m and £1.4m.

Prices in most prime submarkets in Central London have held steady during the first half of 2017 following a period of decline. Paddington has proved slightly more resilient than some other submarkets but average prices still declined by 3.2% in the year to Q4 2016 before the latest stabilisation.

Lettings market

The only new development to complete in the past two years has been the 123 unit Paddington Exchange, so until this scheme completed in Q1 this year, there had been no new build lettings activity since the end of 2014.

The purchasers of the units in Paddington Exchange are a mix of owner-occupiers and investors with several of the apartments being rented out since completion. Rental levels at the scheme are commanding a new build premium over nearly-new and second-hand stock with one bedroom apartments typically in the region of £550 per week.

Meanwhile, the rental market in the broader Paddington area and in nearly-new developments remains very active. A standard nearly-new one bedroom apartment of 500 sq ft is typically letting for between £475 and £675 per week with a 750 sq ft two bedroom flat usually priced between £750 and £1,050 per week.

Rental values have been declining in most Central London locations over the past 18 months and Paddington has not been immune from this trend. Rents have fallen by 0.9% on average in the year to Q2 2017, but this is only in-line with many other submarkets.



Paddington average new build pricing and price growth

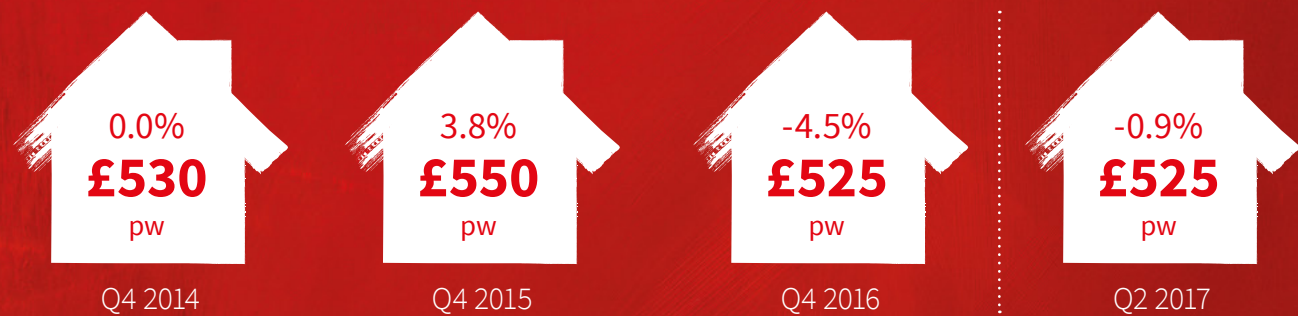
Average % change pa, average £psf



Source: JLL

Paddington average new build rents and rental growth

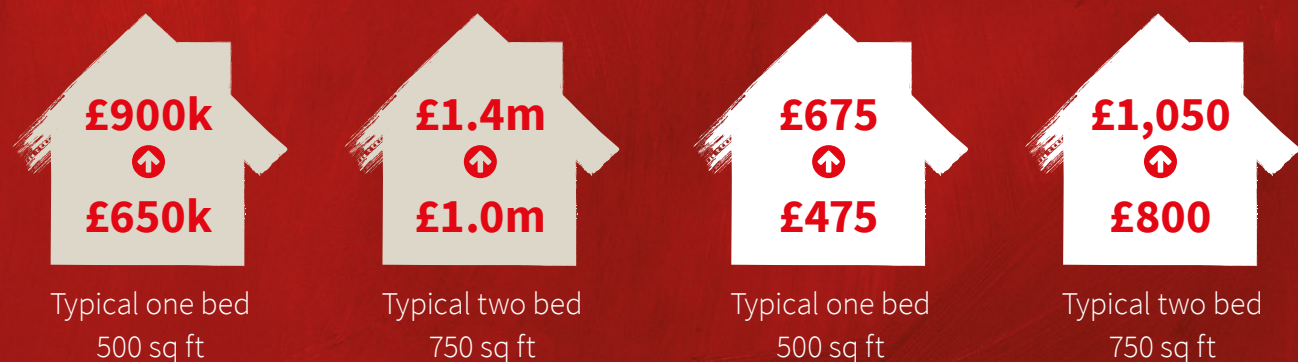
Average % change pa, average £ per week, one bedroom flat



Source: JLL

Paddington sales prices Q2 2017

Paddington rental prices Q2 2017 (per week)



Source: JLL

Paddington

Development market

Developments underway

Paddington could easily be branded 'under construction' at present given the volume of schemes underway. Not all are residential as this London submarket endeavours to morph itself into a mixed use community of choice.

During the 18 months to Q2 2017 two residential schemes have started construction. The first to get underway was the 271 private unit Paddington Gardens development. This scheme is part of the original North Wharf Gardens site owned by Meritas Real Estate. Construction started in Q1 2016 and is due to complete in 2019.

The other development to begin on site recently has been the 526 private unit West End Gate. This got underway in Q1 2017 with first completions due in 2020.

In total there are 797 units under construction in Paddington as at Q2 2017 which is notably higher than at the end of 2015 and 2016 (see chart). The current under construction total is the highest for more than five years.

Development pipeline

As well as those schemes under construction, there are 541 units in the Paddington development pipeline.

Of particular note is European Land's first venture since Merchant Square 3. It's new scheme, 3 Canalside Walk on North Wharf Road will comprise 79 private units and will come to market during Q3 2017.

The largest scheme in planning is The Cucumber, which is European Land's next phase of Merchant Square, and has planning for 209 private units. As part of the same phase of construction, European Land also has consent for 56 private units adjacent to The Cucumber.

The other schemes in planning are the second element of Berkeley's West End Gate development which has a separate planning consent for 168 private units, while the smallest consented scheme is the 29 private units at Almacantar's Lyons Place on Edgware Road.

Cube or pole

There has been much public debate about the proposals for the Royal Mail site at Paddington Station. Originally, Renzo Piano designed a 72 storey tower called the Paddington Pole on behalf of the Sellar Group. But following much public scathing this has now been replaced by a revised scheme named the Paddington Cube, but this is still awaiting final approval from Westminster Council.

Diminishing development opportunities

All in all, there is plenty of development activity in and around Paddington. Some of this is commercial space but a combination of residential and other uses over the next five years will undoubtedly contribute to this latest transformation of Paddington.

Importantly, the current planning pipeline is set to exhaust the main development sites in Paddington so development activity after the next few years looks as though it will be highly constrained.

"The Paddington residential market is set to benefit from a number of exciting new developments.

Development and marketing activity will be spearheaded by schemes from European Land and Berkeley Homes but other housebuilders as well as commercial developers are also helping to expand the offer and raise the profile of Paddington.

We are already seeing strong demand in the area from buyers and renters and we expect this to grow further as Crossrail gets closer to opening. The lack of residential development in recent years has certainly contributed to the current level of demand and interest we are witnessing."

Alex Finch

Development Consultancy

3 Canalside Walk



Paddington

Development market

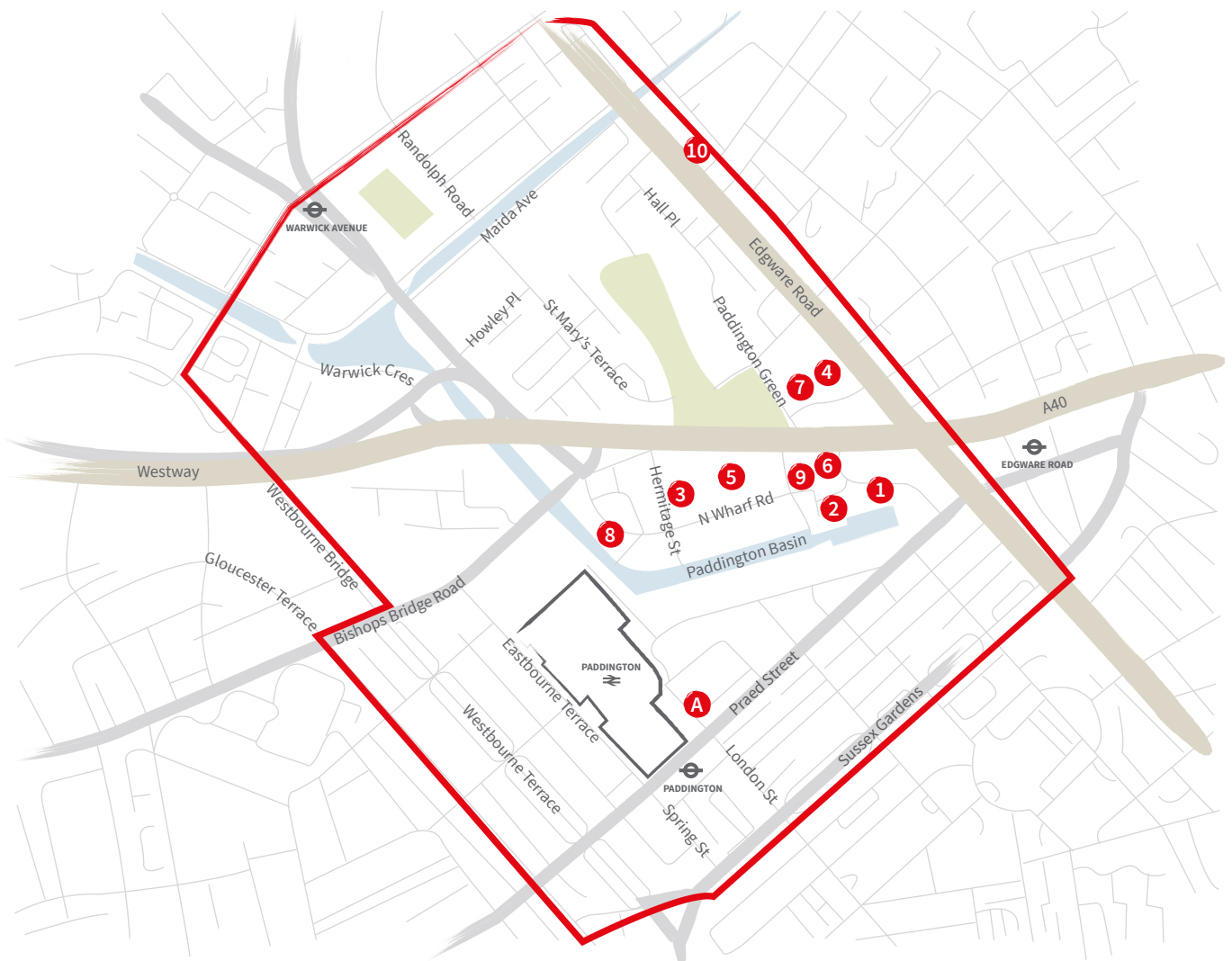
Paddington developments under construction

Number of private units



Paddington development pipeline

Number of private units



Map Ref	Scheme	Developer	Private units	Status
1	Merchant Square 4 - Waterline House	European Land	152	Completed 2010, all sold
2	Merchant Square 3	European Land	159	Completed 2014, all sold
3	Paddington Exchange	Taylor Wimpey	123	Completed Q1 2017, for sale
4	West End Gate	Berkeley Homes	526	Under construction, for sale
5	Paddington Gardens	Meritas Real Estate	271	Under construction, for sale
6	Merchant Square 1 - The Cucumber	European Land	209	Permission, not launched
7	West End Gate - 14-17 Paddington Green	Berkeley Homes	168	Permission, not launched
8	3 Canalside Walk	European Land	79	Permission, for sale
9	Merchant Square 6	European Land	56	Permission, not launched
10	Lyons Place	Almacantar	29	Permission, not launched
A	Great Western Developments and Sellar Property Group scheme the Paddington Cube			

Source: JLL, Molior. Data correct as at September 2017.

Outlook

The prospects for the Paddington residential market are very positive. Crossrail, or the new Elizabeth Line, will open here in late-2018 and will immediately elevate Paddington's profile as well as footfall. The key benefit from Crossrail will be an easier and quicker commute to many parts of the West End, the City and Canary Wharf.

This in itself will make Paddington a more appealing place to live, for owner-occupiers and for renters. But it is the escalation in development activity delivering residential space alongside office, retail and leisure uses that is helping to transform Paddington. The business occupiers, in Sheldon Square and to the west of the station in particular, together with the retail and leisure uses which accompany both business and residential occupiers,

are all combining to create a truly mixed use and vibrant environment. And with new development opportunities likely to be few and far between following the building out of the current pipeline, the final pieces of the Paddington jigsaw are now falling into place.

We expect residential sales prices, and most particularly rents, to increase faster than the Central London average over the next few years, largely as a result of Crossrail.

House price growth forecasts (% pa)	2017	2018	2019	2020	2021	2017-21
Paddington	1	4	5	5	3	19
Central London Developments	0	1	2½	6½	5	16
Greater London	1	2	3	5	7	19

Rental growth forecasts (% pa)	2017	2018	2019	2020	2021	2017- 21
Paddington	2	6	4	3½	3	20
Central London Developments	1	1	3	3½	4	13
Greater London	2½	3½	4	4	4½	20

Source: JLL

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