

PADDINGTON BEARING FRUIT

Paddington's roots are in transport and most crucially as a gateway into London. It has a rather chequered past, but is today 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.

UK Research, January 2017

[@JLLUKResi](#)

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.



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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 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

There has been a real shortage of new residential developments on the market in Paddington over the past year, which has led to a strong pool of pent up demand.

Only two new schemes have been selling units during the 12 months to Q3 2016. The first is European Land's 159 unit Merchant Square 3 scheme, which completed in 2014 and is now fully sold, and the second is Taylor Wimpey's 123 unit Paddington Exchange scheme, where almost all of the new unit sales during 2016 have been. This development is under construction, is due to complete in mid-2017 and had between 10 and 15 units still for sale at the end of Q3.

The low volume of new unit sales in recent years (see chart) is mainly a reflection of the lack of new build developments in Paddington. Strong underlying demand in the area, however, is evidenced by keen interest in the developments which have been marketed as well as the active resale market.

It is therefore good news that 2017 is likely to witness the marketing of two new schemes. The Berkeley Homes scheme West End Gate will come to market in early 2017 and it is possible that the Meritas Real Estate Paddington Gardens development will also be marketed soon. Both will be eagerly awaited and are set to test the pricing high water mark given the impending arrival of Crossrail.

Meanwhile, the resale market in 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 have fallen across most prime submarkets in Central London during the course of 2016, and whilst Paddington has proved more resilient than some other submarkets, average prices have still declined by 3.2% in the year to Q4 2016.

Lettings market

The new build lettings market has not been tested over the past two years as there have been no new developments completed. However, the rental market in the broader Paddington area and in recently completed developments has been 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 £800 and £1,050 per week.

Despite strong underlying rental demand in Paddington, the area, along

with the wider West End market, has had a surplus of rental stock over the past year. As a result rents in Paddington have fallen by an average 11.0% in the year to Q4 2016.

The lettings market is now eagerly waiting for Paddington Exchange to complete, which is expected to be in the middle of 2017. New schemes always attract a good deal of interest and we expect rental values at this scheme to set a new benchmark for the area.

The opening of Crossrail at the end of 2018 will add further to the rental appeal of Paddington and is likely to lead to further upward pressure on rents. Typical gross yields in Paddington are in the region of 4%.

The residential markets in Paddington are crying out for new supply. It is on its way, propelled by the upcoming opening of Crossrail, but buyers and renters are now lying in wait. We expect fervent demand when the new schemes come to market. The next few years promise to be exciting times for Paddington.

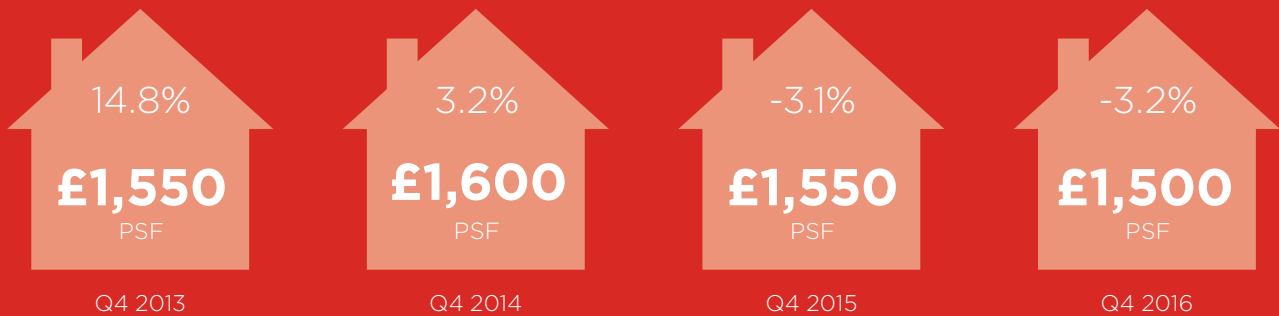
JLL RESIDENTIAL SALES
DIANA ALAM

PADDINGTON

SALES & LETTINGS MARKETS

PADDINGTON AVERAGE NEW BUILD PRICING AND PRICE GROWTH

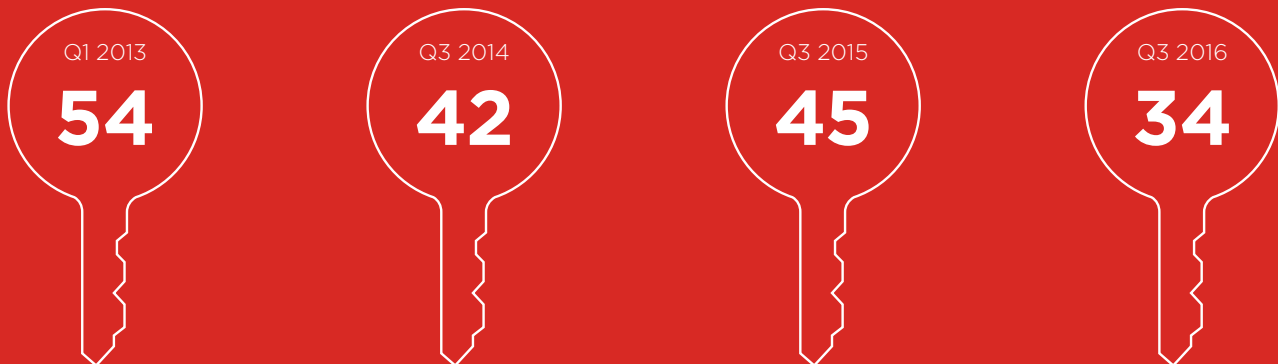
Average % change pa, average £psf



Source: JLL

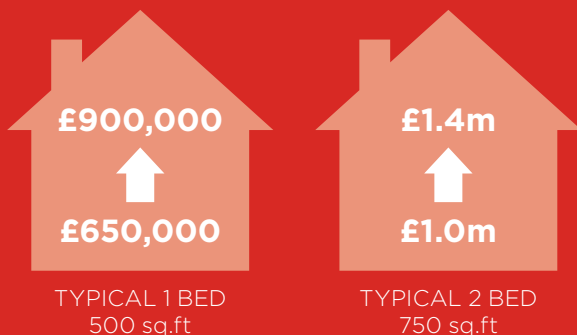
PADDINGTON NEW DEVELOPMENT SALES

Number of private units pa

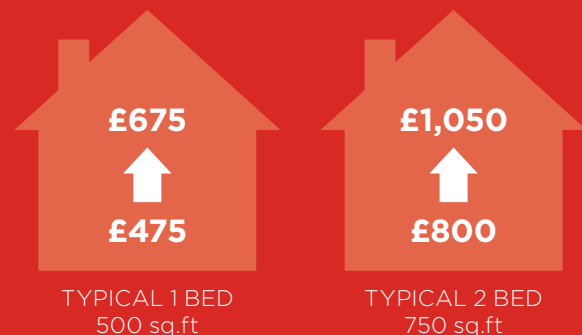


Source: JLL, Molior

PADDINGTON SALES PRICES Q4 2016



PADDINGTON RENTAL PRICES Q4 2016 (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 year to Q3 2016 only the 271 private unit Paddington Gardens development has started construction.

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.

As well as Paddington Gardens, the only other development under construction is Taylor Wimpey’s Paddington Exchange, which is also part of the original North Wharf Gardens site on North Wharf Road. This scheme has 123 private units.

In total there are 394 units under construction in Paddington as at Q3 2016 which is notably higher than a year earlier (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 920 units in the Paddington development pipeline, all of which have planning permission.

The largest scheme in planning is the Berkeley Homes West End Gate development on the western side of Edgware Road. A total of 652 residential units are planned, 526 of which will be private.

The scheme will consist of several mansion blocks and a 30 storey tower as well as ground floor retail, some office space and significant public realm improvements. Construction is expected to begin later in 2017 with completion likely in 2020.

In addition to this, The Cucumber, which is European Land’s next phase of Merchant Square has planning for 209 private units in a tall 42 storey tower and the same developer also has a 100 private unit scheme at Bridge House on North Wharf Road also with planning.

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 nicknamed the Paddington Cube.

The new development, which secured planning permission in Q4 2016, will now be an office-led scheme with no residential units. The whole development will create around 4,000 jobs which will add further to the vibrancy of the business and residential community.

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.

West End Gate will be an exciting and much needed new residential offering in a unique location neighbouring Paddington, Marylebone and Little Venice.

Demand, from buyers and renters, for good quality new apartments in this location is high given the lack of supply and will only surge further the closer Crossrail comes to opening.

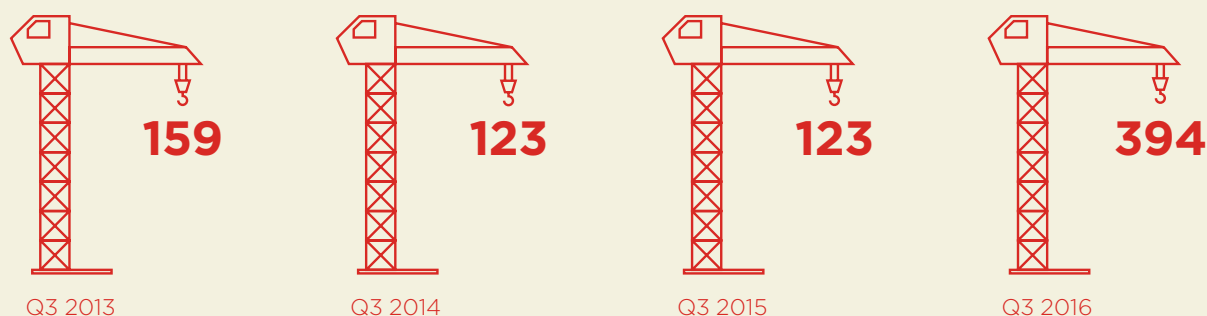
Berkeley is delighted to be part of this established Zone 1 location which is evolving even further as high end residential developments sit alongside corporate occupiers to deliver a true mixed use location between Hyde Park and Regent’s Park.

BERKELEY CENTRAL LONDON
SIMON HOWARD

PADDINGTON DEVELOPMENT MARKET

PADDINGTON DEVELOPMENTS UNDER CONSTRUCTION

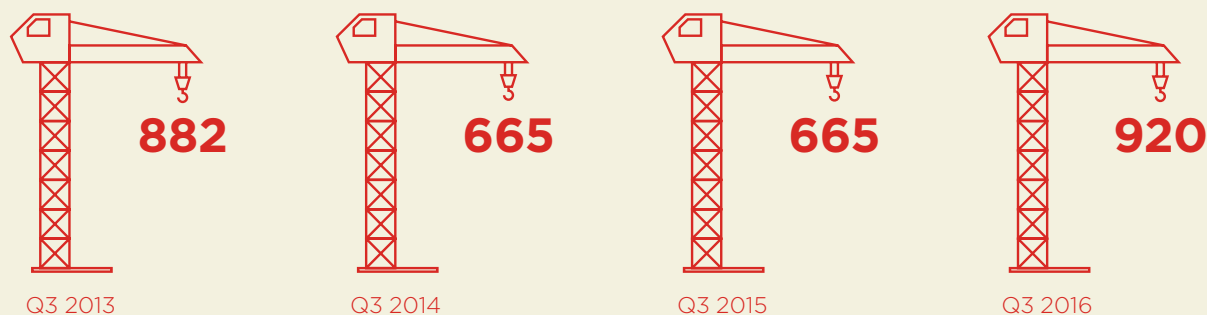
Number of private units



Source: JLL, Molior

PADDINGTON DEVELOPMENT PIPELINE

Number of private units at planning application stage, with planning permission or unbuilt in existing schemes



Source: JLL, Molior

PADDINGTON KEY DEVELOPMENTS

| SCHEME | DEVELOPER | PRIVATE UNITS | STATUS |
|-------------------------------------|-------------------------|---------------|----------------------------------|
| Merchant Square 4 - Waterline House | European Land | 152 | Completed 2010, all sold |
| Merchant Square 3 | European Land | 159 | Completed 2014, all sold |
| Paddington Exchange | Taylor Wimpey | 123 | Under construction, for sale |
| Paddington Gardens | Meritas Real Estate | 271 | Under construction, not launched |
| Merchant Square 1 - The Cucumber | European Land | 209 | Permission, not launched |
| Bridge House | European Land | 100 | Permission, not launched |
| Merchant Square 6 | European Land | 56 | Permission, not launched |
| 466-490 Edgware Road | Almacantar | 29 | Permission, not launched |
| West End Gate | Berkeley Central London | 526 | Permission, not launched |

Source: JLL, Molior

THE FINAL WORD

“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.”

Neil Chegwidan
JLL Residential Research

| SALES PRICE GROWTH FORECASTS (% PA) | 2017 | 2018 | 2019 | 2020 | 2021 | 2017-21* |
|-------------------------------------|------|------|------|------|------|----------|
| Paddington | 1 | 4 | 5 | 5 | 3 | 19 |
| West End | 0 | ½ | 2 | 6 | 5 | 14 |
| Central London | 0 | 1 | 2 ½ | 6 ½ | 5 | 16 |
| Greater London | 1 | 2 | 3 | 5 | 7 | 19 |

| RENTAL PRICE GROWTH FORECASTS (% PA) | 2017 | 2018 | 2019 | 2020 | 2021 | 2017-21* |
|--------------------------------------|------|------|------|------|------|----------|
| Paddington | 2 | 6 | 4 | 3 ½ | 3 | 20 |
| West End | ½ | 1 | 3 | 3 | 3 | 11 |
| Central London | 1 | 1 | 3 | 3 ½ | 4 | 13 |
| Greater London | 2 ½ | 3 ½ | 4 | 4 | 4 ½ | 20 |

Source: JLL, Molior. * cumulative growth



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