Jones Lang LaSalle®

Real value in a changing world

New wave

Can Central London developers respond to this new wave of Government-induced demand?

Residential Eye

Central London Development Market / October 2013

Our view

Government initiatives have fuelled stronger UK consumer sentiment and bolstered housing demand. The Central London residential development market is reaping knock-on rewards. Domestic demand is resurgent, supplementing overseas appetite.

Developers are keen to respond to this new wave of heightened demand by readying themselves for action. They responded to the first wave last year, which is now bearing fruit as development starts have increased notably. But new permissions and applications have slowed, raising the question as to whether developers can rise to meet the demands of re-energised British and international buyers.

The outlook for the Central London residential development market has brightened significantly during 2013.

Developers are feeling more optimistic. Our confidence barometer has moved up between H2 2012 and H1 2013.

The number of new unit sales increased by 69% to 6,400 in H1 2013 compared with H2 2012.

Over 5,000 new units were started in the first half of the year. 17,300 units are now under construction, up notably from 14,200 just six months ago.

Prices continue to rise but growth is still reasonably modest at 5.8%.

We expect prices to rise by 6% in 2013 and by 4.5% in 2014.

The River sub-market is the most vibrant with over 3,000 units under construction. It also boasts an exciting pipeline of future schemes.

We have broadened our definition of prime by including the rapidly evolving South Bank from Nine Elms through to Tower Bridge.

We'd love to hear your views. Please follow Jones Lang LaSalle Residential Research on twitter and join the debate.

@Adam_challis

@JLLLondonresi

Redefining prime

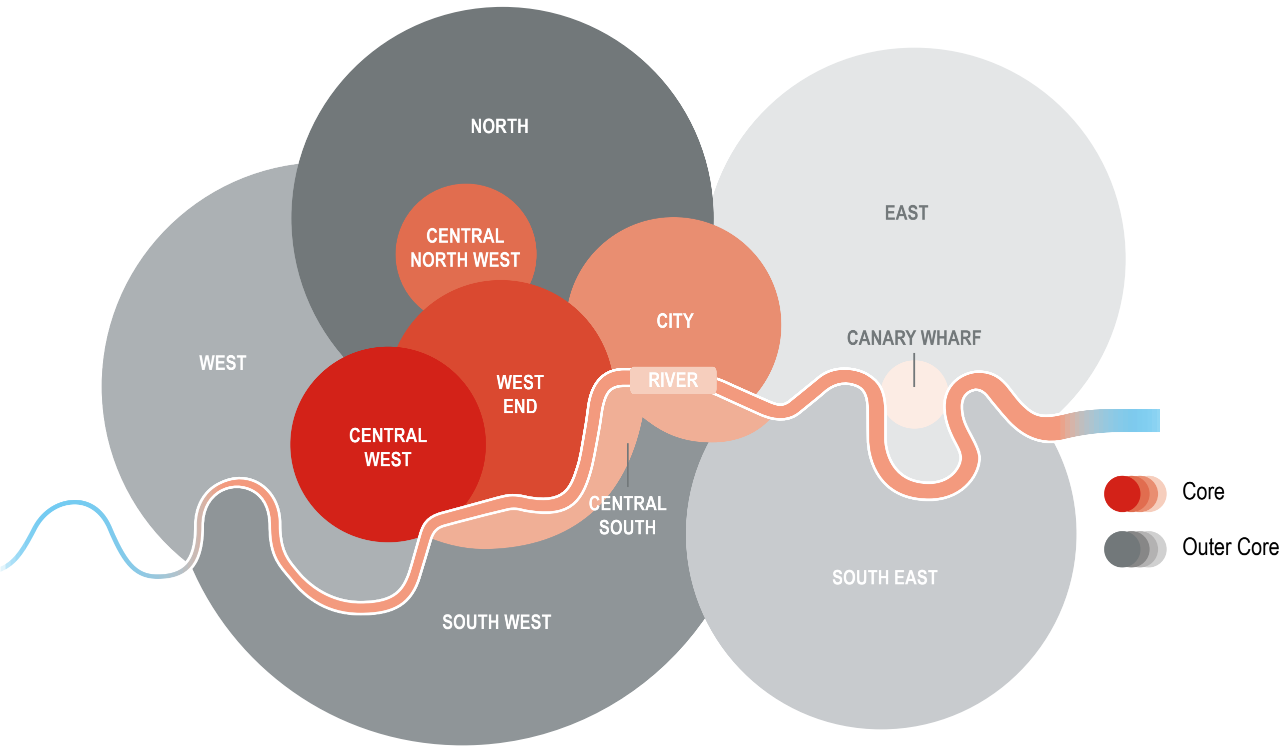
In recognition of the elevated profile and higher values being achieved on the evolving South Bank, we have extended our definition of Prime and created a new area, Central South, in our analysis of the Central London residential development market.

Central South will be part of our Core area and will encompass the emerging markets around Battersea Power Station and Nine Elms, moving up to include the likes of the Shell Centre, Elizabeth House, Doon Street Tower, One Blackfriars and One Tower Bridge. It will include developments both on and just set back from the River and will run from Battersea Bridge to just east of Tower Bridge.

The residential values already achieved at Battersea Power Station suggest that this area, as well as the remainder of our Central South region, fully justify now being classified as Prime or Core. Indeed there is a strong argument to recommend that the new stations in Nine Elms should be classified as Zone 1 on the Underground.

Jones Lang LaSalle Central London residential development research covers the areas shown in the map below. Broadly speaking this covers Underground Zones 1 and 2. Within this area we define two main sub-groups; Core and Outer Core. The various shades of red in the map show the Core areas, while the grey regions are Outer Core. The map also shows the range of typical values within each area.

RESEARCH AREAS AND PRICE RANGES (£psf)



	Central West	West End	Central North West	City	Central South	River	Canary Wharf
Max	£6,000	£3,500	£2,500	£2,250	£3,000	£3,000	£1,100
Ave	£1,600	£1,500	£1,200	£1,200	£1,100	£1,100	£700
Min	£900	£850	£750	£750	£800	£500	£550

	North	South West	West	South East	East
Max	£1,200	£1,200	£1,000	£850	£750
Ave	£700	£650	£625	£600	£550
Min	£500	£450	£450	£400	£400

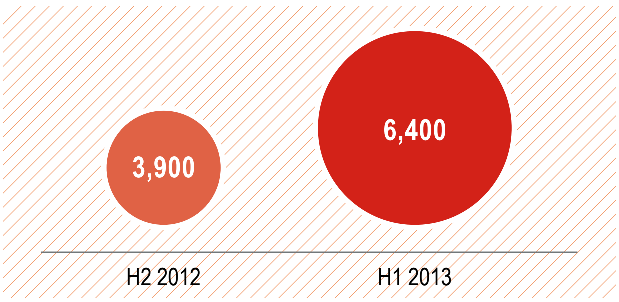
Source: Jones Lang LaSalle

Sales surge as demand rises

The Central London residential development market has strengthened this year with sales rates and demand levels notably higher. Prices have been forced up by this post-crisis sales peak.

Central London sales activity has moved to a new level during 2013. There were an incredible 6,400 new unit sales during the first half of 2013. This was a 69% increase from the 3,900 sales in H2 2012 and the strongest showing since the credit crisis. The 6,400 sales in the first half of this year alone is not far short of the 7,500 sales during the whole of last year. There were 2,800 sales in Core markets in H1 2013, a 92% rise from H2 2012, and 3,600 in the Outer Core where the increase was 48%.

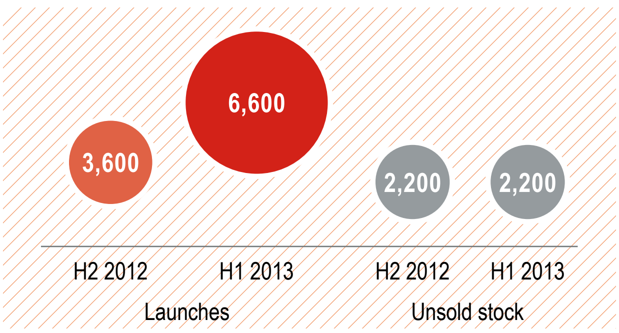
SALES MOVE UP IN 2013
Number of new unit sales in half year



Source: Jones Lang LaSalle

The number of units being marketed has increased markedly during the first half of this year but, importantly, there has not been problem in selling this new quantum of supply. 6,600 units were brought to the market during H1 2013, an 83% rise from the 3,600 in H2 2012. The strength and vibrancy of the market, however, is evidenced by the fact that the number of unsold units has remained the same, at circa 2,200 units, in both H2 2012 and H1 2013.

LAUNCHES RISE, BUT UNSOLD STOCK STAYS SAME
Number of units

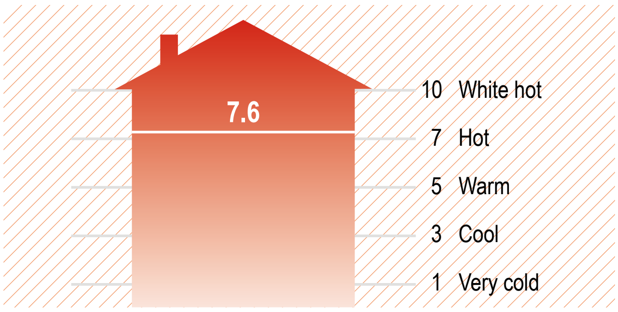


Source: Jones Lang LaSalle

The fact that 66% of all units currently under construction are already sold is further testament to the very strong market environment. This figure is even more remarkable given that 30% of these units only started on site this year.

Central London developers agree that market conditions are not only strong but they are improving. In our half-yearly survey developers rate the current market as very hot. The average rating for the first half of this year was 7.6 out of 10, marginally higher than the 7.1 rating at the end of 2012.

HOW HOT IS THE CURRENT SALES MARKET?
Average rating by active developers



Source: Jones Lang LaSalle

Central London demand has accelerated during the past six months but has also broadened. A key feature this year has been the re-emergence of UK buyers. There have been more owner-occupiers both in Core and Outer Core locations and also a rise in the volume of UK investors. Both factions are now confident that house price falls are over and want to reap full reward from the strong price growth which is now anticipated especially given the brighter UK and global economic outlooks.

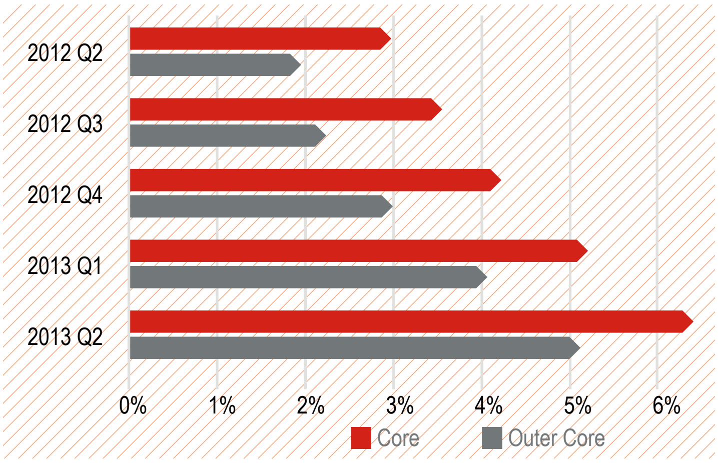
Although the renewed level of UK demand has been the main story of 2013, overseas demand has also nudged up. International demand, especially in Core locations, has been fervent but there have been some tentative signs of price sensitivity and caution not to overpay.

New development prices have risen once again during the first half of 2013. However, with the increase in available supply and the marginally more cautious attitude towards pricing, price growth was slightly lower in Q2 relative to Q1. Prices have increased by 3.6% during H1 but the 2.3% rise in Q1 was stronger than the 1.2% in Q2. In the year to H1 2013 average prices are 5.8% higher, the strongest rate of growth since 2010.

Price growth was higher in Core locations, as it has been now throughout this market recovery phase. Prices in Core markets are 6.4% higher over the past year and 5.2% higher in Outer Core locations.

PRICE GROWTH INCREASING

Prices are still rising faster in Core areas (% change pa)



Source: Jones Lang LaSalle

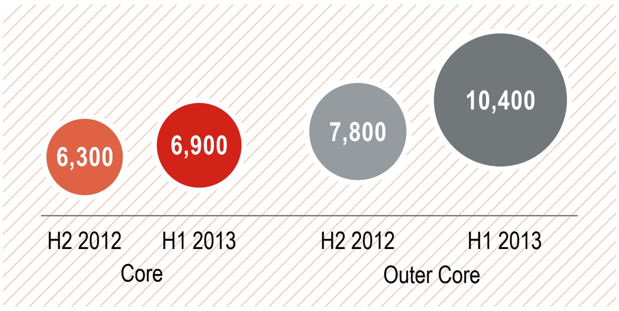
Developer response bears fruit

Construction activity has increased during 2013. Developers responded to the first wave of stronger buyer demand last year leading to more spades in the ground today. But will they ratchet up development a further notch given this new wave of Government-induced demand?

Developers have been quick to respond to improving market conditions. Heightened activity really began back in 2012 when they pushed schemes hard through planning and sought to ready sites for construction. We are now seeing the fruits of their labour.

The number of units started so far in 2013 is the highest since the credit crisis. In the first six months of the year almost 5,200 units have been started, notably higher than the 4,100 units in the last six months of 2012 and more than twice the rate in H2 2011.

CONSTRUCTION LEVELS HIGHEST SINCE CRISIS
Number of units under construction



Source: Jones Lang LaSalle

It is notable, however, that just 1,000 of the units started are in Core locations compared with 4,200 in Outer Core areas. This represents a marked change from six months earlier when 60% of new starts were in the Core.

The recent boost in building activity has pushed the total under construction above 17,000 units for the first time in over five years. The current 17,300 units now underway is significantly ahead of the 14,200 units at the end of 2012 and even further away from the 12,500 units that were under construction at the end of 2011.

Two interesting findings were drawn out in our developer survey. Firstly, developers were even more eager to progress their schemes through planning and onto site compared with six months ago. The average eagerness score was 8.2 out of 10 in H1 2013 as opposed to 8.0 at the end of last year.

Secondly, there was a notable decline in the impact that lending was having on development. Six months ago developers rated the constraining influence of finance at 7.0 out of 10, but this has reduced to an average score of just 6.2 in our latest survey, suggesting that the tight lending environment may now be easing a little.

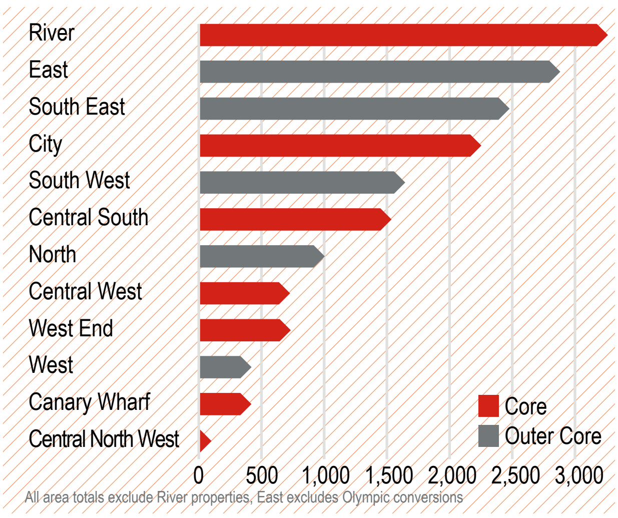
Development activity is highest in our River sub-market. There are more than 3,000 units currently under construction. A more detailed analysis of the River is provided later in this report.

The second most active marketplace is the East region. Almost 2,900 units, excluding the 1,700 Olympic conversions, are under construction.

The South East has around 2,400 units underway while the City has 2,200.

Despite the heightened level of development activity and interest from housebuilders, it is interesting to note that the number of planning

RIVER DOMINATES DEVELOPMENT ACTIVITY
Number of units under construction



Source: Jones Lang LaSalle

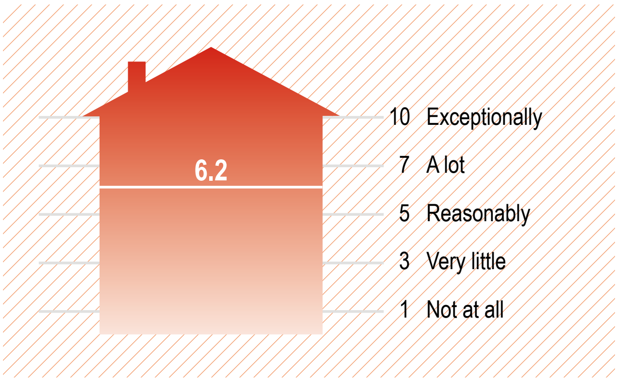
applications and the number of permissions has dropped sharply during the first half of this year.

Just 7,100 units were submitted for application during H1 2013, a noticeable fall back from the 13,000 sent to planning during H2 2012. There was a similar story with regard to successful applications with just 9,700 units gaining permission compared with 12,000 in H2 2012 and 17,100 units in H1 2012. In total there are now 86,100 units with permission and a further 13,800 at application stage.

Whether this recent lull in planning activity is cause for concern remains to be seen, but it is certainly an indicator to watch.

FUNDING STILL CONSTRAINING ACTIVITY

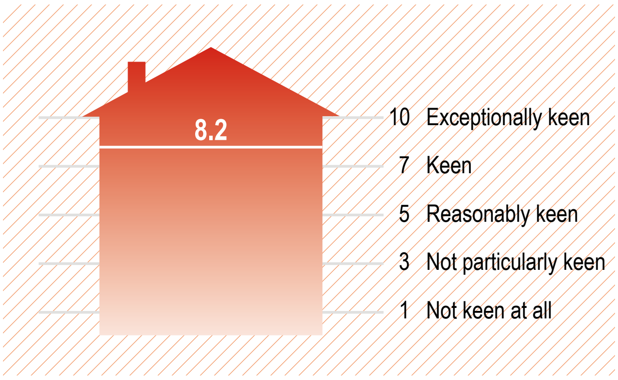
How much is funding restricting development?



Source: Jones Lang LaSalle

DEVELOPERS EAGER TO GET STARTED

How keen to progress planning / start building?



Source: Jones Lang LaSalle

3 Merchant Square, European Land

Outlook

The prospects for the Central London residential development market have moved up a few levels. Government initiatives have nurtured and fed increased consumer confidence and have helped lift short-term expectations for price growth and development activity. But the medium-term outlook has also brightened.

The outlook for the Central London residential development market has improved significantly during 2013. UK consumer confidence and housing sentiment have brightened, mainly driven by the Government housing initiatives Help-to-Buy and Funding for Lending, but also because of better economic conditions. Significantly, these have also boosted Central London residential prospects both in the near and medium terms.

Heightened levels of domestic housing interest so far this year have joined the already flourishing international contingent. UK residential investors have returned in force with many believing that the worst is behind us and that the economic recovery phase will also bring profitable housing conditions. Owner-occupier demand has also risen this year signalling the potential for broader and higher housing demand over the next few years as employment prospects, income growth and improved household finances feed greater prosperity and confidence.

Overseas demand for Central London development has also increased in 2013. Already pretty strong, the number of buyers and the geographical breadth of purchasers have escalated further in recent months. London remains a safe haven for international investment and continues to be a popular owner-occupier destination. The attraction of London has further improved as the pound has weakened during 2013 making London property relatively cheaper.

The outlook for the Central London development market has also been boosted by stronger economic forecasts. UK GDP growth, for example, is now forecast to be 2.2% in 2014, up from 1.8% in mid-2013.

We expect prices to rise by 4-6% pa over the next few years with a slight dip in growth in 2017 as some current Government initiatives end. However, the much stronger economy by then should be able to sustain most of the forward market momentum.

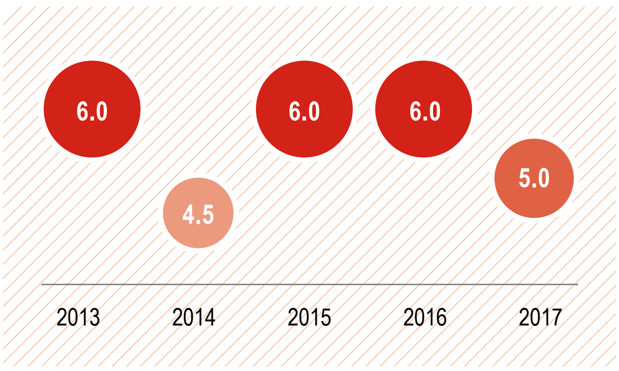
As well as increased prices, we also expect development activity and transaction volumes to increase. We already know that many developers are keen to progress their schemes to take advantage of heightened demand but this is likely to grow further over the next few years. Improved prospects may also begin to free up the lending market for developers and help boost construction levels.

Underlying all of these positive and improved market drivers is the fact that London is an undersupplied housing market. Despite more development, this shortfall will undoubtedly remain and will provide support for prices and developers over the next few years.

> "Thanks in part to Government initiatives such as Help-to-Buy, the London market is benefitting from the increasing availability of finance for customers which, as well as the more stable economic outlook, is encouraging more buyers into the London market. In response to this increased demand, we expect to deliver close to 1,600 new homes for London in 2014."
>
> **Gary Patrick, Barratt London**

PRICES EXPECTED TO RISE STRONGLY

New Central London development price growth (average %pa)



Source: Jones Lang LaSalle


The Heron, Heron International

Rising tide of riverside development

Residential development along the Thames is reaching a new high water line. Improving domestic and international economies leading to even more fervent housing sentiment are set to trigger further construction activity from major regeneration sites through to niche waterside opportunities.

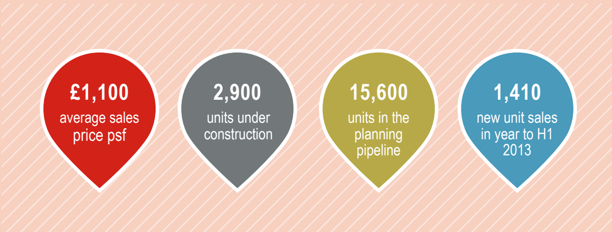
Our definition of the River sub-market runs from Hammersmith in the west to Greenwich in the east, meandering through the heart of London. Once dominated by shipping and wharves, residential development has gradually encroached onto the Thames riverbank over the past twenty years. However, with the Berkeley Group leading the way, development activity has increased further in recent years following a brief global-credit-crisis-induced lull. Increasingly, the attraction and close proximity of water have pushed residential to the top of the development value bidding tree, leading to even more opportunities both now and for years to come.

While several significant developments have already taken place, there remains an abundance of exciting and significant sites still to be realised. Amongst these are Battersea Power Station (and the wider riverside elements within the Nine Elms opportunity area), Greenwich Peninsula, Convoys Wharf and Royal Wharf. Each of these could deliver in excess of 2,000 units but there are over 15,000 units in the planning pipeline which will help transform London's shoreline over the next decade or so.

> “Our River Gardens development is in an exceptional location in an historical heartland of London, with wonderful views overlooking the widest part of the Thames as well as Canary Wharf. The waterside apartments, set within beautifully landscaped gardens, will possess the largest living spaces of any recent residential project in Greenwich.”
>
> **Leonard Sebastian, London & Regional**

> “The excellent sales rate and values being achieved at Paynes and Borthwick are testament to the perennial demand for good quality, well designed river stock. Our award winning scheme is appealing to both the domestic and international markets and we have achieved an impressive 94 sales in the last 6 months of marketing.”
>
> **Antony Crovella, United House**

THE RIVER IN NUMBERS



Source: Jones Lang LaSalle

Definition of our River sub-market – from Hammersmith in the west past Greenwich in the east, all developments of 25 units or more where at least 20% of units have river frontage/views. Where pricing is quoted for a development this covers units overlooking the river as well as those without river views.

River Gardens at Royal Greenwich, London & Regional

The number of new unit sales in our River sub-market has increased significantly during 2013. During the first half of this year there have been 1,410 sales which is markedly ahead of the 360 and 620 in H1 and H2 of 2012 respectively. It is true that the 2013 total has been swelled by the circa 850 sales at Circus West, Battersea Power Station, but even without this development the number of sales has been increasing. The 100-400 per half year in H1 2011, H2 2011 and H1 2012 has been replaced by closer to 600 unit sales in both H2 2012 and H1 2013.

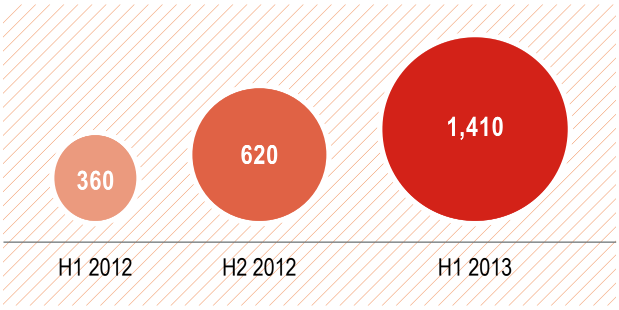
The most successful schemes in terms of units sold during H1 2013 behind Circus West, Battersea Power Station are Providence Tower, Paynes & Borthwick, Fulham Riverside and One Tower Bridge.

Other notable live schemes (see map) are St James' Riverlight, Galliard's New Capital Quay, St George's Fulham Reach and London & Regional's River Gardens at Royal Greenwich.

The diversity of residential development along the River is evidenced by the range of pricing possible. Schemes such as The Tower at St George Wharf and One Tower Bridge have sold units in excess of £2,500 psf. The higher value schemes tend to be more central or in the west while developments towards Greenwich are generally more modestly priced.

RISING TIDE, RIVERS SALES INCREASING

Number new unit sales in the River sub-market



Source: Jones Lang LaSalle

> "We have a number of developments either along or close to the Thames which are selling well and generating a great deal of interest. Innovative design is key to the success of these developments and will always pay dividends."
>
> **David Conway, Galliard Homes**

River – current schemes

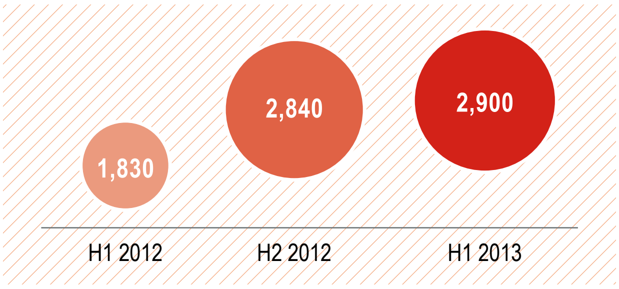
The map and table presented here give details of all the live schemes and developments under construction in our River sub-market. The threshold is 25 or more private units.

Development activity has stepped up a gear over the past twelve months. In mid-2012 1,830 units were under construction, but a swathe of recent starts has ballooned the total to 2,900 today.

Notable starts in the past year have been at Ballymore's Providence Tower, St James's Riverlight and Barratt's Fulham Riverside.

The under construction total is set to increase further this year once the 866 units at Circus West, Battersea Power Station get underway.

RIVERSIDE DEVELOPMENT SET TO RISE FURTHER
Number of units under construction

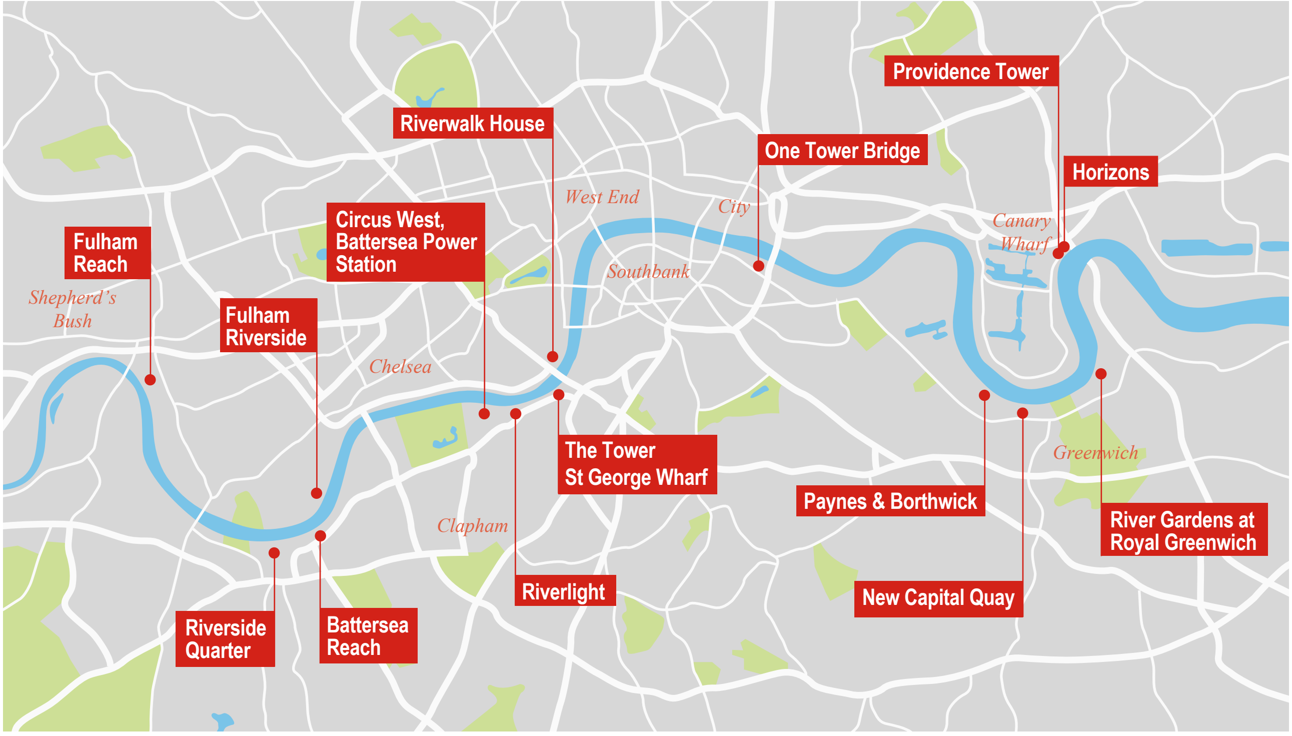


Source: Jones Lang LaSalle

Providence Tower, Ballymore

Battersea Power Station, BPSDC

MAP OF CURRENT SCHEMES



Scheme	Developer / owner	Private units	Status	Typical pricing (£psf)	Comments
Circus West, Battersea Power Station	BPSDC	866	Permission - for sale	£800 - £1,200	850 units sold during 2013, 16 penthouses recently released are now only units for sale. Construction start due later this year.
Riverlight	St James	699	Under construction - for sale	£900 - £1,200	All 392 units in the first 3 towers, which are under construction, are sold. Fourth tower, of 250 units, not yet started but all units already sold.
New Capital Quay	Galliard	636	Under construction – for sale	£500 - £800	First 75 units now complete, remaining units due to be finished mid-2014. Over 450 units are sold.
Fulham Reach	St George Central London	558	Under construction – for sale	£800 - £1,300	132 of the 138 units in phase 1, which is due to complete later this year, are sold. Phase 2 construction to start imminently.
River Gardens at Royal Greenwich	London & Regional	484	Under construction – for sale	£500 - £600	Greenwich Wharf has been renamed. 29 unit phase 1 complete and sold. 125 unit phase 2 is under construction and launched in September.
Fulham Riverside	Barratt / L&Q	397	Under construction – for sale	£900 - £1,300	Phase 1, compring 215 units, is underway with around 65 units sold.
Providence Tower	Ballymore	368	Under construction – for sale	£600 - £1,000	The entire scheme is under construction with around 320 units already sold. Completion is due mid-2015.
One Tower Bridge	Berkeley	356	Under construction – for sale	£1,200 - £2,000	315 units in 7 blocks are under construction. Around 200 apartments are sold.
Riverside Quarter	Frasers Property	308	Under construction – for sale	£700 - £900	One Riverside and Three Riverside are under construction, 49 and 72 units respectively, with around 70 sold.
Battersea Reach, latest phases	St George Central London	274	Under construction – for sale	£650 - £1,500	Trafalgar House launched in Q2, units also available in Quarter House. Jasmine House all sold and due to complete mid-2014.
The Tower, St George Wharf	St George Central London	223	Under construction – for sale	£1,500 - £3,000	Almost fully sold, due for completion in first half of 2014.
Paynes & Borthwick	United House	213	Under construction – for sale	£500 - £700	Completion is due later this year, around half the units are sold.
Horizons	Telford Homes	131	Under construction – marketing on hold	£500 - £800	Marketed in UK and Asia, 80% sold.
Riverwalk House	Heron Corporation	116	Under construction – for sale	£2,000 - £3,000	Construction commenced Q2 2013, completion due end-2015, around 50 sales to date.

Source: Jones Lang LaSalle, Molior. Schemes with 25 or more private units. Whilst every effort has been made to verify this information we cannot guarantee complete accuracy.

River – planning pipeline

The River sub-market has a total pipeline of over 18,000 units. Just over 3,000 are at application stage, a further 12,610 have planning permission while almost 2,500 are unbuilt within existing developments.

But this total spans a wide area of the Thames with several schemes likely to be delivered over 10+ year timelines.

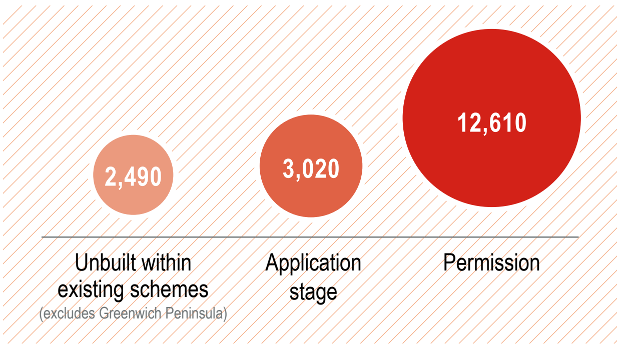
In west London, Battersea Power Station is the highest profile development but there are several other potential schemes such as CIT's One Nine Elms and Hutchison Whampoa's Lots Road Power Station.

In the central part of the River, Candy & Candy have grand plans for Sugar Quay in the City.

The eastern stretch of the River boasts several of the larger regeneration areas. These include Greenwich Peninsula, Convoys Wharf and Enderby's Wharf south of the river and Royal Wharf to the north.

The table and map opposite provide details of all the River schemes with 25 or more private units which have planning permission or have outstanding applications.

EXCITING PIPELINE ENSURES BRIGHT FUTURE
Number of units as at H2 2013



Source: Jones Lang LaSalle

The Corniche, St James

New Capital Quay, Galliard

MAP OF PLANNING PIPELINE

Scheme	Developer / owner	Private units	Status	Comments
Royal Wharf	Ballymore	2,809	Permission	Royal Wharf is the new name for Minoco and Manhattan Wharves. Ballymore are selling the site.
Enderby's Wharf	Barratt / Morgan Stanley	615	Permission	Barratt have recently entered into a joint venture with Morgan Stanley Real Estate Investing and will start on site later this year.
Lots Road Power Station	Hutchison Whampoa	441	Permission	Groundworks have recently begun at this mixed use development.
One Nine Elms	Dalian Wanda	436	Permission	Chinese conglomerate Dalian Wanda have recently bought this site. Two towers are planned for this mixed use scheme.
Chambers Wharf	St James	407	Permission	Construction on the affordable element of this scheme begun in Q2 2013. The private element is on hold as this is a potential river crossing site.
Fulham Riverside West	Thames Water	394	Permission	Thames Water bought the three parts of this site in Q2 2013.
Hurlingham Retail Park	London & Newcastle	217	Application	London & Newcastle submitted a planning application in July 2013 for a mixed use scheme.
Greenwich Peninsula – Crest Nicholson	Crest Nicholson	213	Permission	Development is currently on hold although a late-2013 start is possible.
The Corniche	St James	168	Permission	St James was granted planning permission in June 2013 for this 253, 168 private, unit scheme. Demolition start is imminent.
Sugar Quay	Candy & Candy	165	Permission	Resolution to grant was given in March 2013 for the wholly private scheme.
New Union Wharf Estate	East Thames Group	157	Permission	Permission to redevelop the existing housing to provide a mixed affordable and private development was granted in Q2 2013. A Q3 2013 start is possible.
Greenwich Peninsula – Bellway	Bellway	156	Permission	Permission was granted in March this year, Bellway hope to begin on site this year.
Arundel Great Court	PCP Partners	151	Permission	New planning is being worked up.
Queens Wharf	A2 Dominion	73	Permission	A2 Dominion secured planning permission in June 2013.
Broken Wharf House	Hermes Property Unit Trust	36	Permission	Hermes own this commercial building which is tenanted until 2015. Approval for residential conversion was approved in March 2012.

Source: Jones Lang LaSalle, Molior. Schemes with 25 or more private units. Whilst every effort has been made to verify this information we cannot guarantee complete accuracy.

Jones Lang LaSalle Residential

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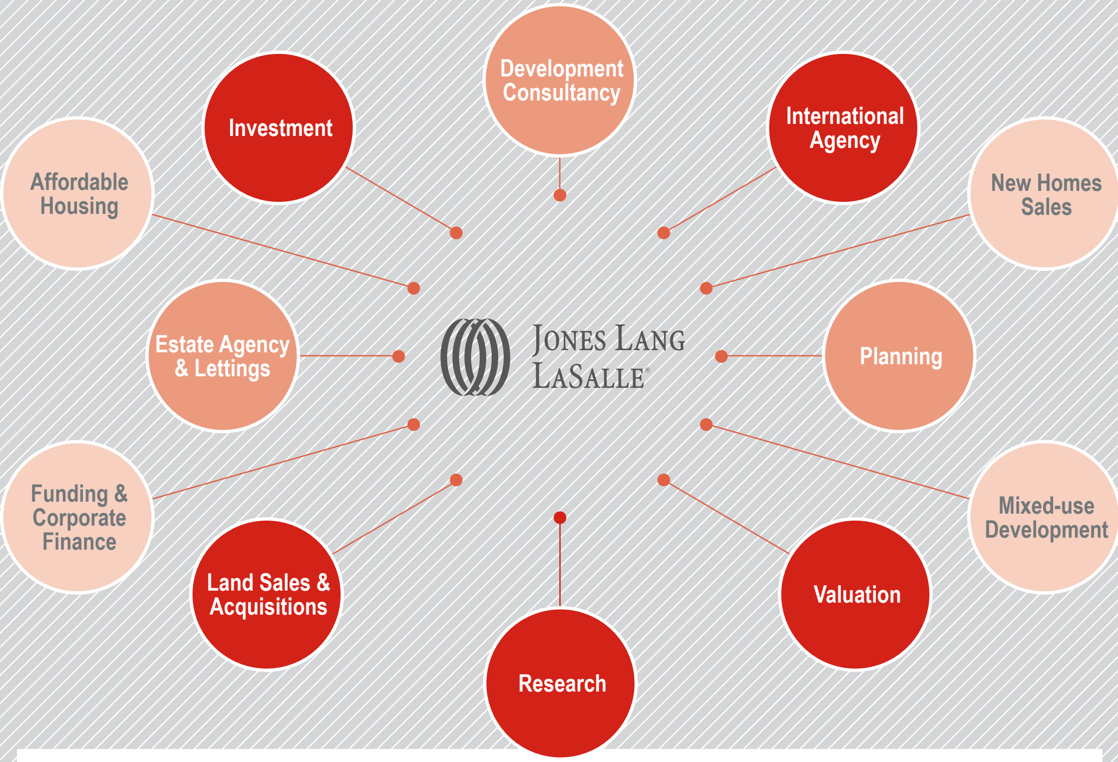

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