

EASTERN OPPORTUNITIES

2019



AREAS TO WATCH

The Eastern Opportunities report seeks to identify markets in East London and the eastern Home Counties where unique or time-sensitive factors may enable new build property pricing and activity levels to outperform comparable markets.

Residential developers in east London and beyond face a challenging business environment. The United Kingdom's impending exit from the European Union is weighing on sentiment, while politics at a local level presents its own hurdles, with 270 local councils across the UK scheduled to go to the polls in May 2019.

Housing is also in a state of flux. Developers are digesting a new National Planning Policy Framework and the new London Plan, still in draft form, is given weight by council planners. The Mayor's new, stricter policies on Affordable Housing are already exerting pressure on land values and the delivery of new homes.

Meanwhile house price growth has paused, with resales prices in Greater London falling by nearly 2% during the 12 months to October. The upward momentum in

residential construction that had continued unabated since 2012-13, reversed in 2017-18, with the number of additional dwellings in the capital falling 20% to 31,723, some way behind the Mayor's 66,000 annual target (see fig 1).

Uncertainty over the UK's future relationship with the EU has subdued sales in some markets, but there are signs of pent-up demand which may come forward once clarity emerges. Knight Frank forecasts resale prices in Greater London will decline 2% in 2019, before returning to growth from 2020, with 9.2% growth forecast between 2019 and 2023. In the South East, Knight Frank forecasts a 1% decline in resale prices during 2019, returning to growth in 2020, and also seeing 9.2% growth over the next five years.

The challenging environment also presents opportunities, particularly while the

fundamentals that have long underpinned investment in the London housing market remain robust. Average UK weekly earnings climbed 3.3% in November, the biggest increase since 2008, and the London employment rate during the three months to October stood at 75.5%, an all-time high.

Meanwhile, several major infrastructure projects, including the 2020 opening of the Elizabeth Line and the extension of the Northern Line to Battersea and Nine Elms, are approaching fruition. More are planned and proposed, including Crossrail 2, for which the Mayor has submitted a Strategic Outline Business Case to central government championing the scheme. Other proposals include mooted extensions to the Bakerloo and DLR lines.

Policy support remains key, and the government's extension of the Help to Buy

equity loan scheme to 2023, albeit restricted to first time buyers with price caps, was welcome. More than 15,000 equity loans have been issued in the capital since the program's 2013 inception to the tune of almost £2.3 billion.

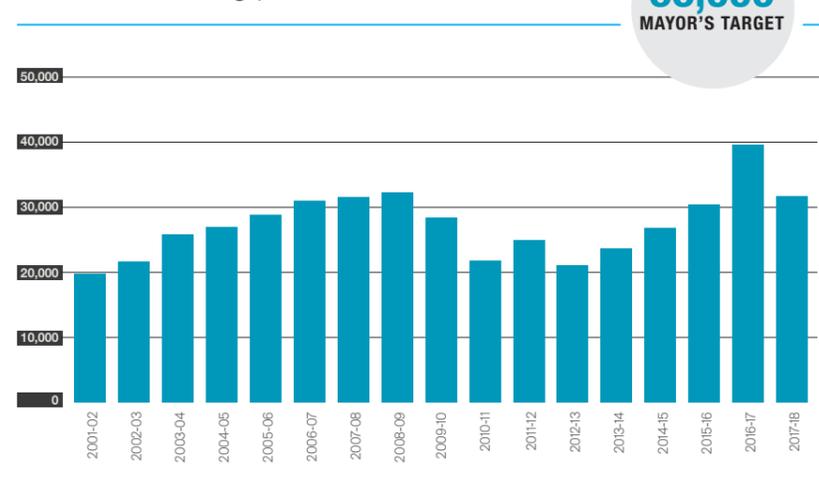
As outlined in this report, Help to Buy, along with the scheduled opening of the Elizabeth Line, has provided certainty in locations previously overlooked, and has primed investment to spread to London's satellite towns and into the Home Counties.

During research for this report Knight Frank has weighed locations throughout east London and commuting locations in Kent, Essex and Suffolk to find markets that have the foundations to outperform. The report splits them into three categories: established, emerging and future, each with their own risk and reward profile (see box definitions).

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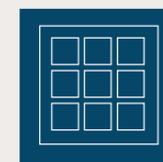
“ Average UK weekly earnings climbed 3.3% in November, the biggest increase since 2008, and the London employment rate during the three months to October stood at 75.5%, an all-time high.

Net additional dwellings, Greater London



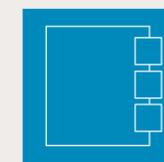
Source: MHCLG

KEY DEFINITIONS



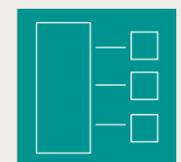
Established markets

Locations where large-scale regeneration is taking place alongside significant investment in infrastructure.



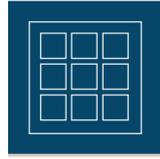
Emerging markets

Locations where regeneration is planned or in its early stages with opportunities to acquire sites and room for capital values to grow.



Future markets

Locations primed for regeneration with opportunities to acquire sites, but with a greater element of risk. This may be because upgrades to infrastructure have been mooted but are yet to be confirmed, or developers are yet to commit in numbers great enough have established momentum.



ESTABLISHED MARKETS

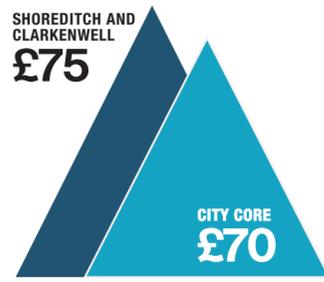
City of London and City Fringe

The City and City Fringe, once a weekday place of work and an opportunistic former industrial zone, have enjoyed more than a decade of change into 7-day blended residential, shopping and professional destinations.

The transformation has been underpinned by a more liberal approach to residential development from City of London planners, the utilisation of former industrial sites for residential development, and widespread high quality office development on the City Fringe, which hit a watershed moment in the third quarter of 2018 when grade A office rents in Clerkenwell and Shoreditch hit £75 per square foot – surpassing those in the City Core, where office rents are also at a record, for the first time.

A second wave of residential projects is now underway. In the City Fringe, 16 schemes of more than 100 units are in progress. Stretching from Clerkenwell and Temple in

Office rents per sq ft Q3 2018



Source: knight Frank Research

the West to Shoreditch, Whitechapel and Wapping in the East, these projects total close to 6,000 units, and are likely to be delivered over the next five to ten years. They will entail further investment in infrastructure, place-making and amenity that could underpin further residential development.

Canary Wharf, The Isle of Dogs

Canary Wharf now forms a central plank in City Hall's strategy to progress a series of interconnected villages and town centres across the Capital.

In the draft London Plan, Canary Wharf is elevated from classification as a 'major' town centre to 'metropolitan', due to increased levels of retail, leisure, entertainment and transport accessibility since the previous London Plan was published in 2015. City Hall is seeking to promote high density residential development throughout the new town centre network.

To the south, the extent of new residential development at Wood Wharf has given Canary Wharf and the Isle of Dogs the scale of a city within a city, complete with its own airport, business and shopping district. The project comprises 3,300 new homes and almost 500,000 square feet of shops and restaurants across a 23-acre site. Construction of phase 2, due to start in 2019, includes 235,000 square feet of retail and leisure facilities.

Royal Docks and Canning Town

The Royal Docks Opportunity Area is one of the largest regeneration opportunities in

London, according to the draft London Plan.

Its strategic position at the centre of the Thames Gateway, close to City Airport and the Excel Centre, will be enhanced in 2020 when an Elizabeth Line station opens at Custom House, cutting journey times to Liverpool St to ten minutes and Bond Street to 17 minutes.

In the E16 postcode, which straddles The Royal Docks, Canning Town and Silvertown, 11 residential projects of more than 100 units have full permission that together total more than 8,500 private units.

The Lower Lea Valley

The banks of the River Lea and the Olympic Park are set to provide a notable proportion of London's new housing over the coming decade and beyond.

More than sixty projects of 80 private units or more have consent or are under construction. Together they comprise more than 20,000 private homes, to be delivered over the coming two decades.

The Lower Lea Valley's suitability for large-scale residential development is underpinned by its proximity to London's main employment hubs in the City of London and Canary Wharf, along with its relative value compared to other locations so close to central London, and its connectivity to the rest of the UK and beyond by rail and air.

High speed trains run from Stratford International Station to St Pancras International in seven minutes, where travellers can connect to Eurostar services to mainland Europe. The Elizabeth Line will cut journey times to Heathrow to 48 minutes, and Bond St to 15 minutes.

Ilford

The planned opening of the Elizabeth Line at Ilford has generated considerable interest among developers and an initial wave of new projects are currently underway or close to completion.

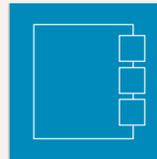
High quality new housing has helped underpin pricing in the wider London Borough of Redbridge, with resale prices climbing 3.9% during the 12 months through October, according to the Land Registry, compared to a 0.3% fall across London.

Confidence has been further underpinned by mayoral funding support in the form of Ilford's designation as one of 30 Housing Zones, supported by £600 million in funding, £400 million of which takes the form of loans for developers and housing associations for infrastructure and land. Activity will help bridge a gap between housing need and delivery in the borough, where 2,981 new homes are required annually to meet need, according to official estimates. Just 3,035 homes have been delivered in the borough since 2010-11.

Tottenham Hale

Tottenham Hale is already one of north London's key transport interchanges, with tube and overground links that include a Victoria Line connection that reaches Oxford Circus in 15 minutes and Stansted Express trains reaching the airport in 35 minutes.

Should Crossrail 2 be approved, Tottenham Hale would become an integral station on the route. The Mayor has submitted a Strategic Outline Business Case to central government championing the scheme.



EMERGING MARKETS

Tottenham and Walthamstow contain clusters of creative industries that are to be protected and supported through new development, according to the draft London Plan. Redundant former commercial districts sit among these clusters are likely to be brought forward as residential investment opportunities over the coming years.

Dagenham and Rainham

Approximately 3,000 homes are planned at Beam Park, which straddles Dagenham and Rainham. A proposed new Beam Park station will provide accessibility to the centre of the regeneration area on the line running between Fenchurch Street and Southend in Essex.

The project will form the core of the wider regeneration of Dagenham and Rainham, which itself sits central in the London Riverside Opportunity Area. The Riverside OA is earmarked in the current London plan for a minimum of 26,500 new homes.

Housing delivery in Dagenham and Rainham has fallen behind estimated need during the past decade, though residential construction has surged as the borough has become a Help to Buy focal point. Some 1196 homes were bought with equity loans in Dagenham and Rainham since the program began in 2013, the 8th most popular borough in the capital for the scheme.

1,196

HOMES BOUGHT WITH HELP TO BUY EQUITY LOANS IN DAGENHAM AND RAINHAM SINCE 2013

The subsequent uplift in values has made large-scale residential construction more viable in a location with widespread availability of sites.

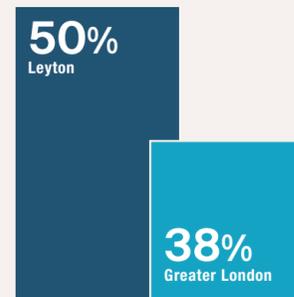
Leyton

Located to the north of Stratford, Leyton is likely to benefit from the widespread investment in infrastructure and housing across the Olympic Park, alongside the emergence of Stratford as a major commercial employment location.

Leyton currently has connections to Bond Street and Liverpool Street via Central Line services, and journey times will be cut further when the Elizabeth Line station at Stratford opens in 2020.

The improved infrastructure will augment the opportunity for developers presented by an area of the capital with high proportions of pre-1930 period housing, which at 50% of total stock far outstrips the London average of 38%, and is more akin to locations in prime outer London, such as Clapham, which also has 50% period housing.

Pre-1930s period housing % of total stock



Basildon

Resale prices in Basildon and many comparable commuter towns in Kent and Essex have outperformed the wider London market as affordability has become increasingly stretched. In Basildon, prices have climbed 8% during the two years to October, compared to 0.5% in Greater London.

Meanwhile, just 341 additional homes were delivered in Basildon during 2017-18, with 412 delivered the preceding year. Annual housing need is 1,024 additional dwellings, according to official estimates. Basildon, and towns with similar market dynamics, are able to accommodate medium density development in town centre locations, close to transport infrastructure servicing London.

"Many district councils have a much more open for business attitude than some of the London boroughs which are caught in complex political struggles," says Charlie Hart, head of City and East Residential Development at Knight Frank. "This ability to act in a more entrepreneurial way is attractive to developers."



East Anglian Commuter Hubs

East Anglian commuter hubs including Colchester and Ipswich are undergoing significant regeneration and will gain from infrastructure improvements set to cut journey times to central London.

Growth in residential investment and development that is already underway in Chelmsford, currently 30 minutes from London Liverpool Street, is likely to filter further along the line in the coming five to ten years as shortened journey times bring relatively more affordable homes within reach of increasing numbers of commuters.

In Ipswich, for example, the average price of a home reached £201,000 during the year to October, up from £195,500 the previous year. That's less than half the cost of the average home in the capital, where affordability has become stretched.

Upgrades to rolling stock on the train line to Liverpool Street and the opening of the Elizabeth Line will cut journey times to Bond Street by 14 minutes to one hour and 11 minutes. This may be enough to coax increasing numbers of commuters to Ipswich, where housing is already undersupplied. Assessment of housing need indicates Ipswich needs 442 homes every year to meet need. Just 141 were delivered in 2017-18 and 256 were delivered the preceding year.

The first wave large-scale regeneration at Ipswich Waterfront is well underway, and continued during 2018 with approvals for

more than 100 new homes. A second wave is coming on the outskirts of the town, where the council has approved thousands of homes in "garden suburbs". Since the beginning of 2017, almost 5,000 homes have been granted approval including a new 1,100 home neighbourhood at Henley Gate, and a new 2,700 home 'Orwell Green Garden Village'.

Thamesmead

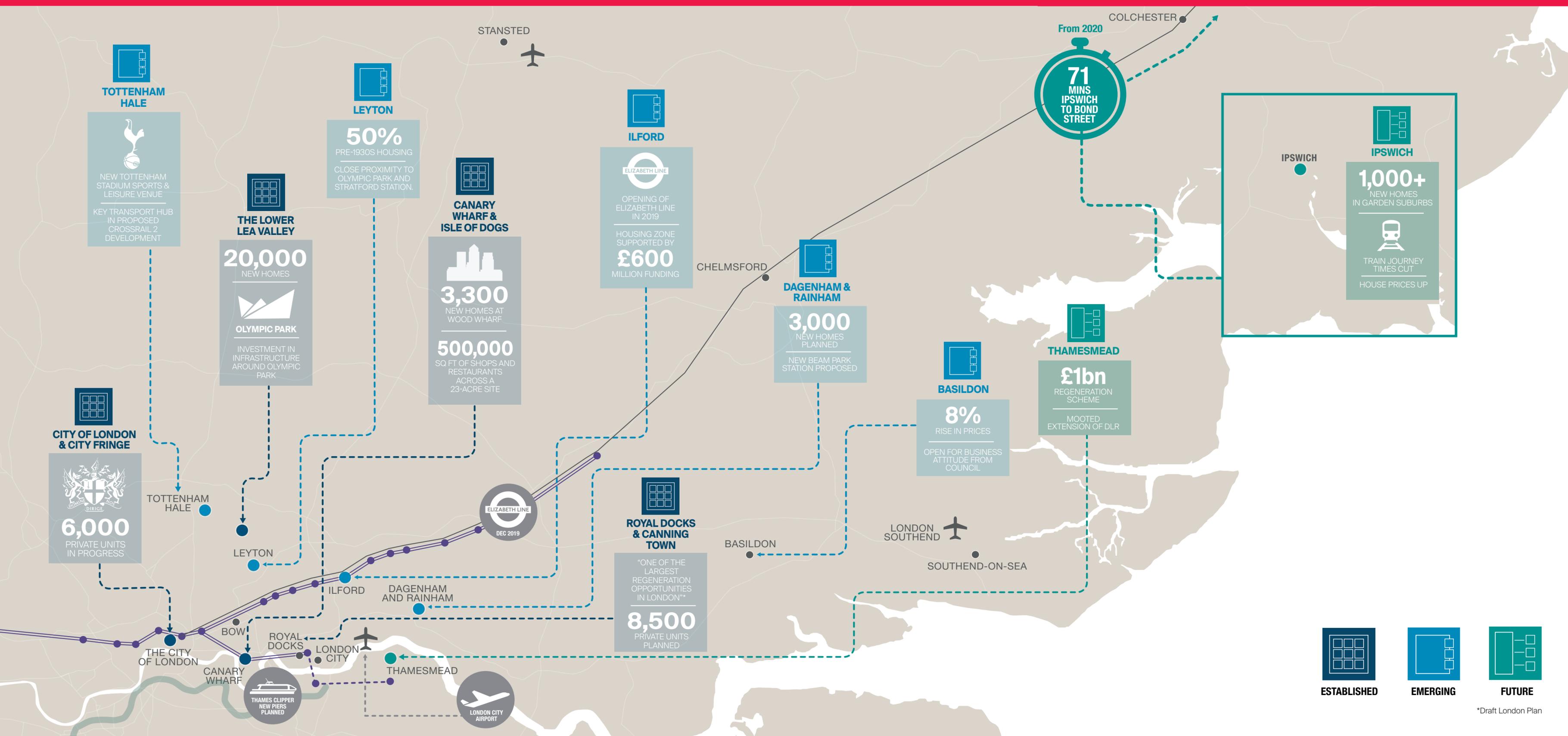
Registered provider Peabody in February chose Lendlease as its preferred development partner for its £8 billion regeneration of Thamesmead. The project is likely to create further opportunities for developers in a location with widespread availability of land in the form of infill sites.

Thamesmead is a riverside location in close proximity to London City Airport, with a new Elizabeth Line station at Abbey Wood opening in 2020 and large-scale residential development in Woolwich to the west attracting new amenity and infrastructure improvements.

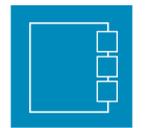
A new wave of development interest could be unlocked by the extension of the DLR. The draft London plan states that the Mayor "has prioritised or is exploring" options to resolve a lack of river crossings which is holding back growth and development. Options being considered include an extension of the DLR across the river from Gallions Reach to Thamesmead and beyond.

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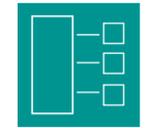
Charlie Hart, Head of City and East Residential Development, Knight Frank



ESTABLISHED



EMERGING



FUTURE

*Draft London Plan

“THE CHALLENGING ENVIRONMENT ALSO PRESENTS OPPORTUNITIES, PARTICULARLY WHILE THE FUNDAMENTALS THAT HAVE LONG UNDERPINNED INVESTMENT IN THE LONDON HOUSING MARKET REMAIN ROBUST.”

Patrick Gower, Residential Research
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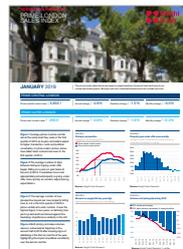
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