RESEARCH

EASTERN REVIEW

RESIDENTIAL DEVELOPMENT IN CANARY WHARF, ROYAL DOCKS AND QUEEN ELIZABETH OLYMPIC PARK

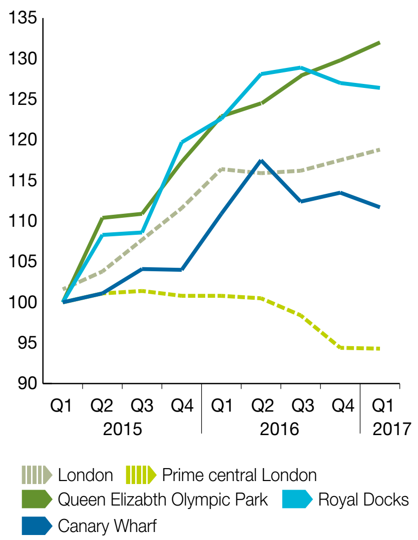
2017/18

MARKET UPDATE | DEVELOPMENT | TRANSPORT

EASTERN REVIEW

In our 2014 report "Eastern Opportunities", we identified three locations in East London as development opportunity areas, based on housing demand and regeneration activity.

FIGURE 1
Price growth compared
Indexed 100 = Q1 2015



Source: Knight Frank Research

The three areas we selected: Royal Docks, the Queen Elizabeth Olympic Park and Canary Wharf have delivered substantial numbers of new housing, with more than 6,000 new homes built over the last three years alone.

Delivery has been driven by strong demand for new housing. Thousands of new residents have already moved into these locations, or are set to do so in the coming years.

The population of Newham has risen by an estimated 20,000 since 2014, according to population models based on new housing data compiled by the Greater London Assembly (GLA). In Tower Hamlets, growth has been even greater, rising by an estimated 25,000 new residents over the same time.

However, supply has not kept pace with demand. In Canary Wharf, more than 2,900 units completed construction between 2015 and 2017, accounting for 52% of total new housing delivery in Tower Hamlets over that timeframe. Some 1,800 new homes have been built in Royal Docks and just over 1,300 have been built in the Olympic Park, together accounting for 87% of new housing delivery in Newham.

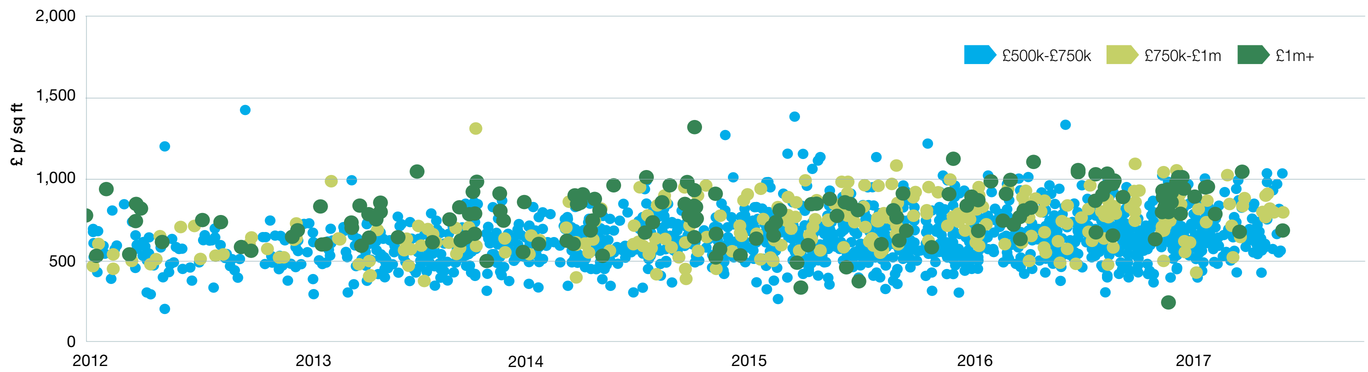
This imbalance between supply and demand has underpinned pricing in some respects, with all three areas outperforming the wider prime London market according to our analysis of Land Registry data. Growth of 12% has been seen in Canary Wharf, 26% in Royal Docks and 32% in the Olympic Park. This compares with a 5.7% fall in prime central London. Prices in Greater London rose by 17% over the same period.

An analysis of listings data for the three areas also highlights a longer term shift in pricing, with 123% more properties offered for sale with a value above £1m in 2016 compared with 2012, led by new developments.

In this report, we assess how each location has evolved, as well looking to the future, focusing on the delivery of new homes, population growth, the creation of new commercial and retail amenities and upgrades to transport infrastructure.

From the end of next year, the Elizabeth Line, London's new high-speed network, will serve both Canary Wharf and Royal Docks – via Custom House station. Services at Stratford, next to the Olympic Park, will follow in 2019. This

FIGURE 2
A maturing market
Sales in E14, E15, E16 and E20: 2012-2017



Source: Knight Frank Research

enhancement to transport connectivity comes in addition to the 24-hour services now running at weekends, serving both the Jubilee line (Canary Wharf and Royal Docks) and the Central Line (Stratford).

All three locations have emerged as hubs for culture and entertainment as London's 'cultural centre of gravity' is enhanced by activity in the East. There is a popular arts and events programme already hosted on the Canary Wharf Estate, with live music shows, outdoor dance performances, sporting events, open-air theatre and exhibitions.

The English National Ballet (ENB) has announced plans to relocate from its existing home in Kensington to London City Island. In Newham, there are plans for a new education and cultural district at the Queen Elizabeth Olympic Park, with the Victoria and Albert Museum, the Smithsonian Museum and Sadler's Wells theatre potentially opening spaces in the area, as well as a London College of Fashion campus.

Canary Wharf

Already a leading financial district in Europe, Canary Wharf is also a prime residential address within London. Household analysis by Mosaic provides an insight into the type of residents living in and around Canary Wharf, many of whom are high-earning homeowners and professionals in their 20s and 30s.

The scale and quality of residential development taking place in the area is likely to reinforce this position. New workplaces and retail and leisure amenities are also planned, as well as improvements to the public realm and the creation of green spaces, which will have a knock-on impact on demand for housing.

CROSSRAIL

In 2018, the Elizabeth Line (the operational name for Crossrail) will start running from Canary Wharf and Custom House stations through to central London. By the end of 2019, the line will be fully operational, reducing journey times throughout the Capital.

Canary Wharf and Stratford are already well connected to the City of London and the West End but, even so, will benefit from faster journey times. Custom House station in Royal Docks will see an even more noticeable reduction in travel times.

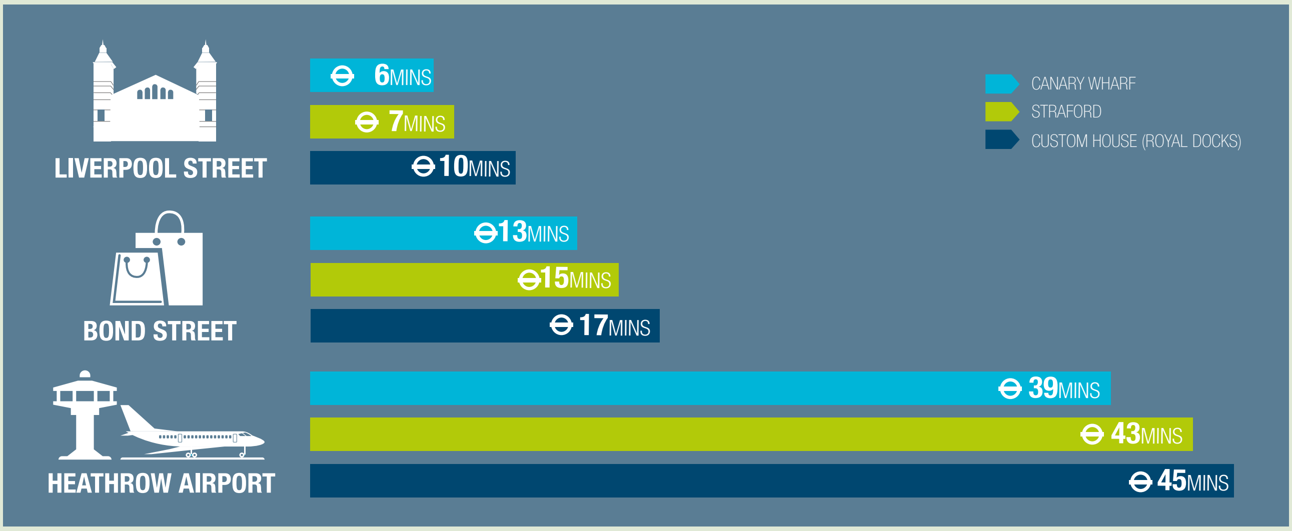
The journey from Custom House to Liverpool Street, for example, will take just 10 minutes on the Elizabeth Line with no changes, significantly quicker than the current journey time of over 30 minutes, with changes.

Given the residential, commercial and retail development taking place in all of these locations, the addition of the new transport link will further enhance the sense of placemaking already taking place in Canary Wharf, the Queen Elizabeth Olympic Park and Royal Docks.

Knight Frank's recent Crossrail report, published in 2017, found that house prices along the route had outperformed the wider local markets by an average of 7% since Royal Assent was granted in 2008.

With the Elizabeth Line now less than two years from being fully operational, there is likely to be increased demand from buyers and renters for property along the line which may help underpin price growth and development going forward.

FIGURE 3
Crossrail: Travel times



Source: Crossrail/TfL

The area's economic impact continues to rise, with Knight Frank data showing that over 1.5 million sq ft of office space has completed since the start of 2015, with a further 7.4 million sq ft due for completion by the end of 2021.

Employment in Canary Wharf almost quadrupled in the 10 years to 2012, with the number of workers rising from 27,000 to over 100,000, according to figures from the Office for National Statistics (ONS). The majority of jobs in the area are in financial services but there has been notable business growth in emerging tech industries.

Some 125,000 additional jobs are predicted to be created across the boroughs of Tower Hamlets, in which Canary Wharf is located, and Hackney and Newham in the next 12 years, according to a report by Oxford Economics.

Meanwhile, the current residential development pipeline in Canary Wharf is around 17,000 units, with 8,220 under construction and just over 8,700 units with planning permission. Of those under construction, nearly two thirds have already been sold.

The planned development also includes a new school for 420 pupils, a first for the immediate area which will enhance its appeal to growing families. The opening of the Elizabeth Line will also make top-tier schools across London even more accessible.

GLA population estimates suggest that 30,000 new residents could potentially move to Canary Wharf over the next 10 years.

The focus is not just on the delivery of new housing and workspaces. Canary Wharf's retail provision is of a high quality and is due for expansion.

Research by Property Market Analysis (PMA) profiling Canary Wharf's retail market shows there is currently some 740,000 sq ft of retail space. This is due to increase by around 50% once 377,000 sq ft of retail space at Canary Wharf's New District, formerly known as Wood Wharf, is completed in the coming years.

The overall retail provision in Canary Wharf is ranked, for quality, higher than Kensington High Street by PMA. Higher-end retailers score better on this measure. The new retail and leisure offer in New District will include concept stores, health clubs, brand showrooms, independent stores, cafes and restaurants, including street food markets.

Queen Elizabeth Olympic Park

Many of the structures built for the 2012 Olympic Games have been converted for residential or commercial use. The former Athletes Village is one of London's largest build-to-rent developments, the Olympic Stadium is home to West Ham Football Club and the former media centre has been converted into Here:East, a 1.2 million sq ft office complex which is home to BT Sport and vehicle manufacturer Ford. Other tenants include a mix of tech firms, fashion retailers, design agencies as well as both UCL and Loughborough University.

The Here:East complex is also home to Plexal, the UK's largest innovation centre and workspace designed for startups and growing corporations.

Meanwhile, extensive landscaping has created one of the largest urban parks in Western Europe, covering 560 acres, including 6.5 km of waterways and 15 acres of woodland.

The London Legacy Development Corporation (LLDC) is focused on positioning the Queen Elizabeth Olympic Park as a leading destination and community within London. Development is already underway on a large-scale, with 1,212 units across all tenures completed between the start of 2015 and Q2 2017.

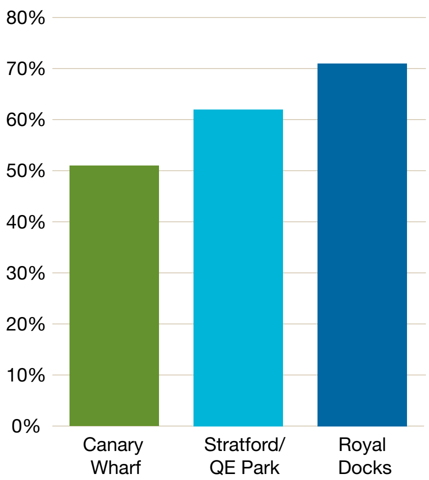
Hackney Wick, situated on the edge of the Olympic Park, is also benefitting from public sector-led regeneration, overseen by the LLDC. Plans are in place to create a new neighbourhood with thousands of new homes, live-work dwellings, workshops and small business premises, building on its status as a cultural hub.

The area is one of the leading locations in the capital for the growing live-work space trend. To enhance east London's arts scene and cluster of existing universities, LLDC is aiming to create a global hub for innovation and creativity on Queen Elizabeth Olympic Park.

By 2022, the cultural and education district is expected to provide new facilities for Sadler's Wells, University of the Arts London: London College of Fashion, University College London (UCL), the Victoria and Albert Museum and the Smithsonian Institution, potentially attracting millions of visitors each year and supporting the the local and national economy.

FIGURE 4

Forecast population growth 2017-27



Canary Wharf = Millwall, Blackwall & Cubitt
Royal Docks = Royal Docks
Stratford/QE Park = Stratford New Town, Bow East

Source: GLA

The majority of these facilities will be located on Stratford Waterfront (with the exception of UCL) and includes around 500 new homes and a range of cafes and restaurants. LLDC also has plans to bring forward another development site at Pudding Mill, to deliver around 1,500 new homes and 40,000 sq m of workspace.

Mosaic data indicates the majority of residents within the Olympic Park are higher-earners in their 20s and 30s. As private developments complete in the coming years, we anticipate a significant rise in homeowners moving to the Olympic Park.

While the park is becoming more established as a new community, much of the residential development is still to come. Around 2,000 units are currently under construction, with 60% of these pre-sold. A further 10,000 units have planning permission. Demand is expected to remain high as developments complete, with GLA population estimates suggesting that 28,000 new residents could move into the

Olympic Park over the next decade.

Away from the residential market, one of Europe's largest office hubs is under construction on the edge of the Park. The International Quarter is due to be completed next year, and will provide 4 million sq ft of office space and support some 25,000 jobs. Transport for London, Cancer Research, the Financial Conduct Authority (FCA) and the British Council have already signed up as tenants, with more to follow.

The main retail offering for the Olympic Park is at Westfield Stratford. Providing over 1.8 million sq ft of retail space, Westfield Stratford ranks third in the PMA top 100 shopping centre rankings, and has a higher retail score than the West End's key retail hubs of Bond Street, Oxford Street and Regent Street.

In the pipeline is a further 150,000 sq ft retail expansion at Westfield Stratford City. A number of residential developments under construction also include ground floor retail units, enhancing the overall quality of the Olympic Park's retail offering.

Royal Docks

Royal Docks is one of London's largest development areas, tipped to become the capital's third financial district, creating a new employment hub served by Crossrail and DLR services as well as international travel from London City Airport.

The creation of a new business district is centred on Royal Albert Docks and Silvertown, both of which are within close proximity to Crossrail and the airport.

Five million sq ft of commercial space and up to 21,000 jobs could be delivered at Silvertown in addition to some 3,000 new homes, while a further 30,000 jobs are anticipated in Royal Albert Docks, driven by the creation of a new Asian Business Port (ABP). ABP will include 3.5m sq ft of office space, across some 40 buildings. Construction of the first phase has already started.

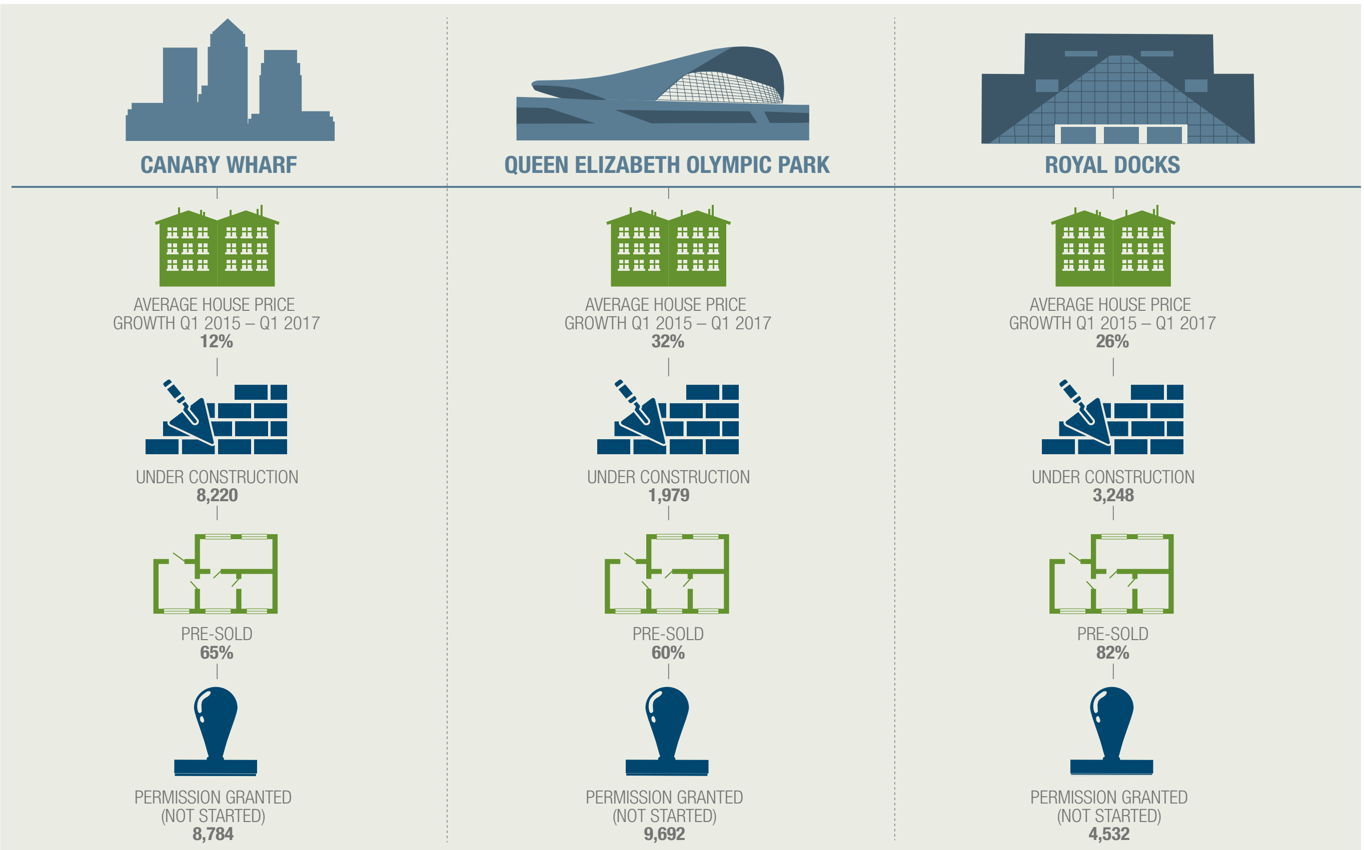
London City Airport received £344m of funding in 2016, allowing it to provide a further 32,000 flights by 2025, a new 260-bedroom hotel, as well as tripling the floor space of the terminal to almost 600,000 sq ft, with works expected to complete in 2023. Once completed, passenger capacity could reach 6.5 million by 2025, up sharply from 4.5 million in 2016.

The ambition to create a new business community is matched by large-scale residential development. Over 1,100 new homes have been built in Royal Docks since the start of 2015. Much like Canary Wharf and the Queen Elizabeth Olympic Park, demand is driven by upwardly mobile workers in London in their 20s and 30s, either looking to rent or buy within the area.

Much of the development in Royal Docks will come to fruition over the next five to

FIGURE 5

Development pipeline and market performance of Canary Wharf, Queen Elizabeth Olympic Park and Royal Docks



Source: Knight Frank Research/Molior ten years. Over 3,248 units are currently underway, with 82% pre-sold. A further 4,500 units have planning permission.

The scale of development is reflected by population growth estimates, with the GLA forecasting a 71% increase in Royal Dock's population over the next decade. This exceeds the growth anticipated in both the Olympic Park and Canary Wharf, although the total resident population will remain lower.

In addition to new homes, emphasis is being placed on public realm improvements. Given the geography of Royal Docks, opening up access to waterfront walkways and open spaces is a key element of the placemaking taking place.

To support the growing working and resident population, greater retail and leisure space is required. Gallions Reach Shopping Park opened in 2003, providing some 300,000 sq ft of retail space, but new development is also in the pipeline. London City Island features a mix of residential, leisure and retail spaces, while 300,000 sq ft of leisure and retail premises will be built at Hallsville Quarter.

MARKET COMMENT

Charlie Hart, Head of City and East Residential Development

The past few years have seen some big changes in market conditions which have had implications on land supply, scheme gestation periods and the sale of end product. 2015 saw ground-breaking achievements and sales volumes for some of the standout schemes in East London, notably Royal Wharf. There was momentum in the market from both UK and overseas developers and the prospects for supply looked strong.

However, in more recent times we have had a number of disruptors in the form of Brexit and Government cooling measures. We have also had recent changes in planning policy direction with a new Mayor in City Hall. The combination of these measures has been significant and as a corollary, developers have been forced to review many of their business plans to cope with not only the shifting conditions and funding environments, but also new "tax" regimes which will change the balance of their risk /reward returns.

The uncertainty within the macroeconomic world has also impacted upon purchasers with many now worried about the future direction of pricing. Accordingly, rates of sale have been lowered as buyers are adopting a wait and see strategy. This is particularly relevant to the UK buyer. To compensate, developers have been proactive in the overseas market, particularly in China where there is still reasonable demand for good schemes. This is driven by many factors not least currency.

The above scenario presents politicians with a dichotomy. They want UK homes for UK buyers, they want increased levels of supply and more direct marketing, they want more affordable housing with schemes. This requires more developers to build more product at a time when the economics are being severely tested, and production chain and build costs are becoming increasingly hard to control. This does not make for an easy situation.

We absolutely support the drive for the provision of more affordable housing and the industry, working alongside all levels of government, need to become more creative. Currently there is little give in the system with all stakeholders looking to over capitalise their position at all stages of the delivery chain. We need to see more inclusive thinking and a move to longer term partnership arrangements with land owners (ie. the government) contributing by treating the sale process as a long-term investment and not a short-term capital play. Similarly, government needs to realise that development is not like producing widgets, scheme characteristics need to be reflected into design and concept. Adopting an overly binary approach will not yield desired increases in supply that the academic modelling forecasts

Whilst this will be message the statisticians don't want to see, unless we see more inclusive and sophisticated thinking, the prospects for the supply chain do not look encouraging and the people who will suffer will be those looking to get into the housing market.

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Note: Unless otherwise specified, Canary Wharf refers to E14, QEOP to E15 and E20 and Royal Docks to E16

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