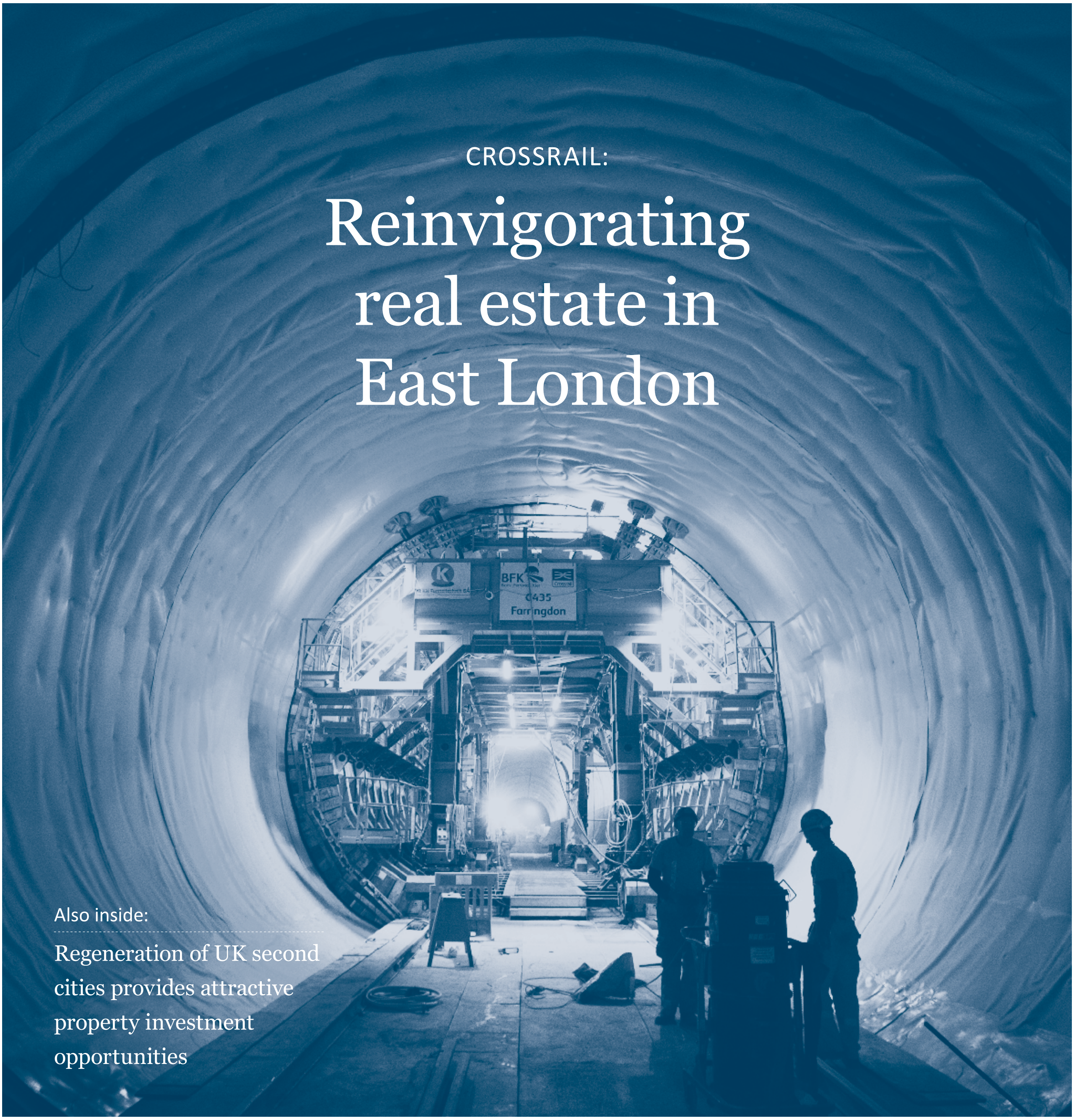
Property Viewpoint

ISSUE 10 | Summer 2015



CROSSRAIL:

Reinvigorating real estate in East London

Also inside:

Regeneration of UK second cities provides attractive property investment opportunities

Aerial view of 'TCR Goslett Yard', © Crossrail Ltd

Crossrail project expected to reinvigorate real estate in East London and other upcoming areas of the City

London property developers are hoping investors will jump on board schemes marketing new flats close to the route of the capital's next big investment opportunity – an east-west rail link set for completion in three years' time.

Crossrail, a 117-kilometre railway line, will run from Reading and Heathrow Airport in the west of the capital to Shenfield and Abbey Wood in the east, and is already pushing up real estate prices along the route. Furthermore, agents predict even bigger investment gains when the mega-scheme completes.

One of Europe's largest railway and infrastructure construction projects, Crossrail has been on the drawing board in London since 1948 in an attempt to better connect east and west London. Similar projects were also touted in the 1970s, '80s and '90s.

But in December 2008 Transport for London and the Department for Transport finally signed an agreement committing to financing the project to the tune of £15.9bn with construction work starting in 2009.

As a measure of how big the construction project is, there are at least 40 construction sites for the line across the capital.

Passenger numbers on the new lines are expected to be in the region of 200 million a year, a 10 per cent increase in London's transport capacity.

Crossrail will serve 37 stations. Work began in 2010 and is now moving in to the peak construction phase, but will not be completed until 2018 to 2019.

When finished, Crossrail will provide essential new links and additional transport capacity, allowing an extra 1.5 million people to reach Oxford Street, the retail and tourist heart of London, within 45 minutes.

Developers are already beginning to invest and develop in anticipation of the line's opening and Crossrail itself is set to develop about 3 million square feet of commercial space next to and above central London stations.

And, for real estate investors – especially those from the GCC – searching for projects likely to increase swiftly in value, agents say the new train line is likely to act as a catalyst for price rises by open up new areas for development, both commercial and residential with its faster travelling times across the capital.

Jones Lang LaSalle, the specialised real estate services provider, predicts houses near stations will increase by up to a staggering 53 per cent by the end of 2020 as more and more investors pile in.

"Crossrail has already had an impact on property prices around the central stations we have examined, and we expect this outperformance to continue," says Grainne Gilmore, the head of UK residential research at Knight Frank.

According to analysis from Savills, house prices in most areas within a 500-metre radius of the planned new stations along the route have been rising faster than those farther away. Many of these lie in previously poorly connected parts of London which investors hope will quickly become new investment hotspots.

East London is one such area. Traditionally cut off from much of London's public transport network, despite major attempts at regeneration in the 1980s and 1990s, pockets of the area have in recent years struggled to capitalise on their proximity to Europe's largest capital city.

When the line opens, the Docklands major transport hub Canary Wharf will be about 45 minutes from Heathrow Terminal 4, with 12 trains an hour in each direction at peak times. It will also be just eight minutes from Liverpool Street.

Crossrail in numbers:

117km
Length of rail track

£15.9bn
Cost of project

45mins
Journey time between Heathrow T4 and Canary Wharf

53%
Predicted price increase of houses near stations by end of 2020.

200m
Passengers a year

3m sq. ft
Commercial space created

1.5m
Extra people to visit Oxford Street

37
Stations served

Work at Crossrail's Canary Wharf station started first and is more advanced than anywhere else along the line. A new development built over the station, based on a four-storey box, provides more than 115,000 sq ft of retail and leisure use space. It is set to open in 2018.

Now, touted as London's next big thing, Royal Wharf – a redevelopment of the capital's nearby 250-acre Royal Docks – being marketed at GCC investors.

The plans, recently showcased by Singaporean developer Oxley and Irish developer Ballymore in both Dubai and Abu Dhabi, are for a new town centre of 3,385 new riverside properties on what were the city's principal docks during the first half of the twentieth century.

added that Middle Eastern sales had "outperformed all other markets globally".

Samuel Warren, Chesterton director for international residential developments, said: "The turnout confirms that the Middle East is a global centre that is serious about investing into London real estate as an investment class.

"The GCC is our strongest global market. As a region the GCC understands the strong capital returns from London real estate combined with a safe and secure place to invest their capital globally. London is a nearby destination, compared to other global cities, that has a tolerant society and an exciting city to visit."

"The turnout confirms that the Middle East is a global centre that is serious about investing into London real estate as an investment class."

Matthew Green,
Head of research for CBRE's Dubai office

Designed by Ballymore, the Royal Wharf scheme will eventually comprise a mixture of town houses, maisonettes, studios and one- and two-bedroom apartments.

Prices for these properties, the second phase of the overall project, will start from Dh1.6m and the entire scheme will have an end value of Dh8.8bn.

The project will include two new parks and three pocket parks, a high street with nearly 5,000 square metres of shops, bars and restaurants and a school.

Chesterton, the project's selling agent, said it was "unable to release sales figures" from the event but

Eventually providing homes for about 10,000 people, the first residents will move into Royal Wharf in mid-2016 and the development will be completed by 2020, according to Chesterton.

On the other side of London, British Land's decision to pay £184 million in February 2013 for a retail portfolio that included the 300,000 sq ft Ealing Broadway Shopping Centre, was attributed in part on the impact of Crossrail.

Charles Maudsley, the head of retail at British Land, says there are "significant opportunities to grow and develop the shopping centre, as the area benefits from residential development and the completion of Crossrail".

Yet perhaps the biggest London beneficiary is likely to be Tottenham Court Road. The area around the Underground station is set to be transformed by the new developments planned by Crossrail, giving the junction with Oxford Street a much needed facelift.

A report by GVA on behalf of the New West End Company predicts a 36 per cent increase in passengers – about 200,000 people a day – using Tottenham Court Road station once Crossrail opens.

The area is attracting a number of new real estate schemes. Most ironically perhaps is Centre Point tower, a somewhat grotty 1960s office block at the junction between Tottenham Court Road and Oxford Street which is currently being converted into 82 one to five bedroom luxury apartments which were being heavily marketed in Dubai in April.

The 117 meter tower block became a byword for Britain's homelessness crisis in the 1960s when the offices were left empty for more than a decade as then developer Harry Hyams waited for a high paying tenant.

Current developer Almacantar bought the grade II listed tower in 2013 and construction work started at the beginning of the year.

Just a short walk away, Great Portland Estates is one of the developers already working on plans to convert a central site along the route, a former post office sorting office in Fitzrovia – an area north of Oxford Street often inhabited by companies that would prefer to base themselves in neighbouring Mayfair but can't afford it.

Although often considered an upmarket neighbourhood and one-time

Artists impression of 'Canary Wharf Station', © Crossrail Ltd

home to celebrities including Ian McEwan, Griff Rhys Jones and Guy Ritchie, Fitzrovia also includes some areas of high deprivation. It means that the Office of National Statistics classifies the area as "environmentally deprived".

At the end of last year construction work began to convert the £500 million (Dh2.87 billion) former Rathbone Place sorting office into 142 luxury apartments – 129 have already been sold, including a handful to buyers from Bahrain and the Middle East, fetching the developer £220.2m.

The controversial Make-designed development will also comprise 5,700 square metres of shops and offices as well as a semi-private garden square which members of the public will be able to use during the day time. Prices start from £2.97m for a two-bedroom flat.

"In part thanks to Crossrail Fitzrovia is moving ahead and becoming the destination neighbourhood it deserves to be," says Charlie Walsh, director of residential development sales at Savills, one of the agents on the scheme.

Great Portland Estates bought the 2.3-acre Rathbone Place sorting office for £120m in 2011 (before the former owner Royal Mail was privatised). Westminster council granted planning permission to convert the site into flats, which is expected to generate the developer £97.5m in profit.

The often overlooked City fringe locale of Farringdon too is emerging as another Crossrail property hotspot.

Farringdon will become one of the biggest transport hubs in London, linking the east/west Crossrail route to the north/south Thameslink service and making it a very attractive destination for homebuyers who want to be able to reach most corners of the capital quickly.

The station is expected to reinvigorate Smithfield Market and Hatton Garden, an area that is already proving popular with the buoyant technology sector.

And of course for anyone who is worried that the Crossrail scheme is now too far down the track to make serious money, Crossrail is just the beginning. The London Underground chief Mike Brown and Boris Johnson, the mayor of London, have unveiled plans for Crossrail 2 – a new north to south railway which they say will run between Hertfordshire and Surrey.

Regeneration of UK second cities provides attractive property investment opportunities

As the Premier League football season drew to a close, one of the UAE's largest English language radio stations was offering a glittering prize to listeners – the chance to fly to an exotic destination, watch a glamorous football match and stay in a top class hotel.

'Etihad Stadium'

"For investors looking to diversify away from somewhere such as London while taking advantage of the buying power a relatively weak sterling gives you, Manchester provides a more affordable entry level and the benefit of higher yields."

Richard Bradstock,
IP Global director

As the Premier League football season drew to a close, one of the UAE's largest English language radio stations was offering a glittering prize to listeners – the chance to fly to an exotic destination, watch a glamorous football match and stay in a top class hotel.

But the choice of destination and game being offered may have surprised many Brits – a trip to Manchester to watch Manchester City play West Ham United.

Even a few years ago few GCC residents would have been keen to visit the gritty Northern city famous for its cotton mills and Coronation Street brusqueness.

But with the rise in popularity of the beautiful game, the Abu Dhabi United Group for Development and Investment's takeover of Manchester City in 2008, Manchester and its regional neighbours are high on the radar of GCC tourists and investors.

A number of successful urban regeneration programmes and the arrival of the BBC in nearby Salford have also done much to revive Manchester's once gritty image.

And all this comes at a time when there has been a growing keenness from GCC real estate investors to look beyond the traditional heartland of prime central London in search of cheaper lot sizes, higher yields and greater potential for capital growth.

Real estate advisory firm IP Global which advises expatriates about buying both commercial and residential property around the world has recently launched its own Manchester division due to a marked increase in demand from the GCC.

"For investors looking to diversify away from somewhere such as London while taking advantage of the buying power a relatively weak sterling gives you, Manchester provides a more affordable entry level and the benefit of higher yields," says Richard Bradstock, IP Global director. "We feel that Manchester has an exceedingly good outlook over the next five years or so."

According to a survey of the prices of homes around football grounds by the British mortgage lender Halifax, house prices in the area around Manchester City's Etihad stadium rose by 259 per cent from 2003 to 2013 – the highest in the league over the past decade.

The increase in average property values in Manchester's M11 postcode area, from £34,550 in 2003 to £89,489 (Dh509,687) this year, driven mainly by the urban regeneration surrounding the 2002 Commonwealth Games, is the highest in the Premier League and nearly double the average 135 per cent increase recorded.

"The areas surrounding many of the country's top football clubs have seen house prices rise considerably during the past 10 years, with some of the best performers being those clubs with new grounds," said Craig McKinlay, Halifax's mortgage director.

"The boost to property prices in these areas partly reflects the local regeneration that typically takes place alongside the building of modern sporting arenas, including improved transport links."

Manchester City moved to the City of Manchester Stadium from their traditional Maine Road ground in 2003. This formed part of a wider council-led masterplan to revamp the run-down area of East Manchester by hosting the Commonwealth Games and redeveloping industrial land, much of which had been part of the Bradford Colliery.

Property developers have built hundreds of houses and flats in the area, increasing the housing supply and pushing up average prices. However, some traditional terraced houses in the area are currently being put up for auction for around £30,000.

"In 1999 the housing market in East Manchester was in a state of collapse, typified by wide-scale abandonment and private houses being sold for less than £2,000

“Five years ago the Middle Eastern investors that we were dealing with only wanted to buy homes that were located in the golden postcodes of Knightsbridge, Mayfair, Belgravia, Kensington and Chelsea,”

Rory Cramer,
Senior director for central London residential at CBRE

each,” a spokesman for Countryside Properties, one of the property developers active in the area, said.

“It was essential that the new homes not only successfully regenerated East Manchester’s residential housing market, but provided a new high quality environment at the heart of the regeneration area.”

And it is not just Manchester which is starting to lure more adventurous investors. Property brokers in a number of UK towns and cities away from the golden triangle are reporting an pick-up in GCC investment.

Berkeley Homes has been heavily promoting its Saffron Square scheme in Guildford, Surrey across the Middle East and brokers representing projects as diverse as hotels in Nottingham and student housing in Portsmouth were represented at the recent Cityscape Abu Dhabi property exhibition.

“Five years ago the Middle Eastern investors that we were dealing with only wanted to buy homes that were located in the golden postcodes of Knightsbridge, Mayfair, Belgravia, Kensington and Chelsea,” says Rory Cramer, the senior director for central London residential at CBRE.

“But what we are seeing now is the next generation who went to university in the UK and are used to living in high-rise apartments, whereas their parents lived in villas. The next generation don’t want to stay in Dad’s house in Belgravia, they want to live in their own apartments in trendier places with better access to facilities and great views,” he adds.

Savills too is keen to point towards the benefits of the UK’s second cities as potential investment hot spots.

“As prime real estate in many premier cities has become more fully valued, emboldened investors are now spreading their wings and looking for high yielding secondary properties in those cities as well as starting to consider the value of second-tier cities in counties with strengthening economies,” says Yolande Barnes, director, Savills World Research.

“This more adventurous approach is likely not only to provide higher income returns but also the opportunity for significant capital growth. Real estate values will grow as new cities all over the globe rise on fortune’s wheel. Property rents and values will rise in line with new and growing economic strength.”

Bank of London and The Middle East plc

Sherborne House
119 Cannon Street
London EC4N 5AT

Tel: +44 (0)20 7618 0000
Fax: +44 (0)20 7618 0001
Email: info@blme.com
Website: www.blme.com

Front cover image: ‘Secondary lining works within the Farringdon station platform tunnels’, © Crossrail Ltd