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London's future residential hotspots

Identifying the pockets in the UK capital's new-build market that look likely to outperform

PRIME WATCH Aerial view of the city of London

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OVER the past five to six years, the London residential market has been a key destination for Singaporean investors. Attracted by the clear and transparent title, a favourable currency position and strong returns, apartments across the UK's capital have increasingly become part of Singaporeans' investment portfolios. The various rounds of cooling measures in Singapore are a push factor as well, for capital trying to find a home in overseas bricks-and-mortar.

The London market however is changing. After some years of strong performance, overall price growth is showing signs of easing. This is partly due to political uncertainty, as the recent tightly fought general election slowed the market in the first half of the year. The introduction in April of a capital gains tax for non-resident foreign buyers will likely have some impact on foreign demand, although the chances of any sort of "mansion tax" being introduced have receded given the Conservative-led government.

Despite a general slowdown, we expect the London market to continue to attract foreign buyers due to its status as a key global city. We also think that specific areas are well positioned to deliver strong price performance, especially in the new-build residential market. In our latest *London Hotspots* report, we have identified 17 areas where market fundamentals, from regeneration to transport links, suggest that new-build property prices have the propensity to outperform the wider market.

A holistic methodology

In our analysis, we consider demographic and economic forecasts, but the critical elements in our assessment have been the factors which are likely to lead to changes in the dynamics of a particular market area over time. So we have looked closely at new and proposed transport infrastructure, the spread of gentrification, current and potential pricing. Critically, we have concentrated on areas where there is a real opportunity – either through refurbishment or redevelopment – for residential developers to enter the market and undertake significant schemes over the next five years. Working with our London Residential Development team, we have determined a final shortlist of hot spots across London where we believe there is (a) scope for development activity; (b) where the underlying market is undergoing improvements due to infrastructure investment or socio-demographic shifts; and (c) where there is real potential for price growth over the next few years.

Looking beyond prime central London

A significant number of our hotspots are outside prime central London, the area that saw such strong price performance in the six years following the global financial crisis. This reflects the "ripple-out" effect of prices from central London, which we expect to continue in the short term. But it also highlights some of the large-scale place-making which is already underway or which is planned.

Some of our hotspots, identified by our analysis alongside the views of our residential development consultancy teams, are not traditional prime areas and this will be reflected in capital values. But they are included as the factors mentioned suggest that they will outperform the wider market. By the end of 2018, Crossrail will be opened, dramatically cutting travel times across the capital, and making some of our new hotspots even more attractive. While some short-term headwinds remain in the London market, our analysis shows that at the current time, the areas identified are poised to deliver growth that outperforms the wider market. W

A few choice picks

IN OUR FULL LONDON HOTSPOTS REPORT, WE HIGHLIGHT 17 HOTSPOTS. HERE ARE FOUR OF OUR TOP TIPS FOR THE MARKET, LOOKING AT CURRENT AND FUTURE VALUES FOR PRIME NEW-BUILD PRODUCT AND ALSO ANY POTENTIAL ISSUES.

Old Oak Common
CURRENT VALUE: £600 - £650 PSF
2018 FORECAST: £950 - £1,000 PSF

Plans to create a "superhub" for both Crossrail and HS2 (High Speed rail) have the potential to transform this 2,300 acre industrial area in west London into one of the capital's biggest regeneration projects since the Olympics.

The regeneration includes plans to build two new overground rail stations which, taken as a whole, will be roughly the size of Waterloo and expected to handle 250,000 passengers daily. Development plans are being drawn up for retail property and hotels, as well as up to 24,000 new homes.

Issues: Depends on approval of HS2 & Crossrail 'spur'

Earls Court
CURRENT VALUE: £1,500 - £1,600 PSF
2018 FORECAST: £2,000+ PSF

Planning permission for the Earls Court project was granted in 2013. Under the proposals, the large-scale regeneration of the area will create 7,500 homes spread across four villages and green spaces. Improvements to the public realm, including a new high street, are likely to further increase the desirability of the area. Buyers will also benefit from being within walking distance of three existing underground stations and one overground station. New-build prices have risen by 20 per cent since 2011. We now expect that prices will reach £2,000+ psf in 2018. The long-term nature of the regeneration taking place in this area – some developments will not be completed until 2032 – means that growth is likely to continue in the medium term.

Tottenham Hale
CURRENT VALUE: £450 PSF
2018 FORECAST: £750 PSF

With over 30 hectares of development and investment opportunities, Tottenham Hale has notable potential. The area forms part of the Upper Lea Valley regeneration plans – a joint initiative between the GLA, TfL and four London boroughs to deliver thousands of new homes and jobs. Already transport infrastructure is being improved with a £110 million investment in a new tube, rail and bus station, as well as road network improvements and public realm works due to complete in 2017.

Tottenham Hale is also on the preferred route for Crossrail 2, which could serve to increase buyer demand close to the station if final permission is granted.

Issues: Crossrail 2 not yet confirmed

Royal Docks
CURRENT VALUE: £600 - £700 PSF
2018 FORECAST: £900 - £1,000 PSF

Plans are in place, backed by the Mayor of London and the Mayor of Newham, to turn the Royal Docks into the capital's next "business district". The regeneration aims to create a centre for global trade, with thousands of jobs and new homes. Already over 6,000 new homes are being built or have had planning permission granted.

Population projections by the GLA suggest that in the Royal Docks area there will be a 103 per cent increase in population by 2028. Work is progressing on Crossrail which, when complete, will stop at Custom House station in the Royal Docks making the area more accessible and reducing journey times to and from Heathrow, Canary Wharf and the City of London.

Issues: Pricing could be determined by timing of delivery of schemes and amenities

For the full description of the 17 hotspots, see Knight Frank's London Hotspots report at **http://www.knightfrank.com/research**