

Spotlight

London Infrastructure: Connecting Opportunities

Autumn 2014



SUMMARY

London needs to expand its infrastructure to boost housing numbers

■ **Opening up** new parts of the city by investing in new infrastructure is essential if we are to deliver the homes London needs. Savills believes we need to be building 50,000 new homes a year and that 82% should cost no more than £700 psf with the bulk of that requirement under £450 psf. (p.2/3)

■ **Costs:** To deliver the transport infrastructure needed by 2050, London is facing a bill of at least £95 billion. This includes two Crossrail lines, extensions to the Bakerloo line, DLR and Overground as well as some HS2 cost, road improvements, a new bridge and a new tunnel. (p.2/3)

■ **Crossrail uplift:** Our analysis shows that growth in property values in some of the areas immediately surrounding the new stations have already outperformed the rest of the borough ahead of the line's opening in 2018. But this is by no means uniform. (p.4/5)

■ **Value uplift potential:** Opening a new station alone, is not enough. Reduction in journey times must be accompanied by place improvement to achieve value uplift potential. We've identified the area around a cluster of stations in the north east part of the line as having the greatest potential for future price growth. (p.4/5)

■ **Importance of placemaking:** Features homeowners value most about their home are not necessarily associated with the building itself, but more with the environment in which it is located. Delivering mixed use and creating high quality public space is essential in creating new neighbourhoods. (p.6/7)

.....
 "To deliver the transport infrastructure needed by 2050, London is facing a bill of at least £95 billion"
 Susan Emmett, Savills Research

Infrastructure

INFRASTRUCTURE IS KEY TO BOOSTING HOUSING NUMBERS

New rail and tube lines are essential to open up more parts of London for regeneration and homebuilding

Words: Susan Emmett
 Twitter: @saemmett

London is facing a series of major challenges. Yet among the long to-do list sitting on the Mayor's desk, two items are particularly pressing if the capital is to maintain its position as a leading world city – boosting housing numbers and improving the city's ageing infrastructure. These two are inexorably linked as the city's head count grows.

While the regeneration triggered by the Olympics has played a huge part in bringing investment into the area, there is potential for further growth with the arrival of the new Crossrail line from 2018 which will open up new parts of East London.

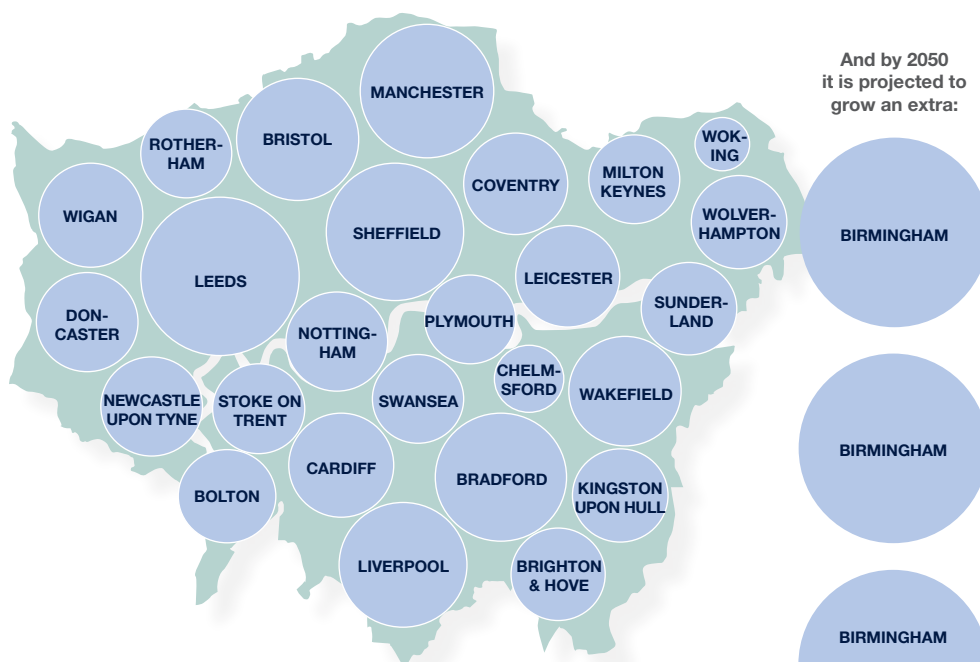
The Greater London Authority (GLA) expects London's population

to surpass its previous 1939 peak of 8.9 million within the next few months and continue climbing to 11.3 million by 2050. The further 31% increase is the equivalent of adding 2.5 Birminghams to the city's population. This rate of growth will place additional pressure on London's limited housing stock and its overburdened transport system.

In previous documents, we argued that we need to be building at least 50,000 new homes a year across all tenures and that 82% of these homes should cost no more than £700 psf with the bulk of the requirement for homes under £450 psf.

We must open up more affordable parts of London in the outer boroughs to deliver these aims. As a starting point, this requires improved journey times and new stations in neighbourhoods that have been so far overlooked for development.

FIGURE 1
London's population is equal to these 26 cities



Source: Savills Research

How much?

To deliver the transport infrastructure needed by 2050, London is facing a bill of at least £95 billion.

The cost of Crossrail 1 (running West to East) is expected to come in at £14.8 billion. Proposals for a second Crossrail running diagonally from South West to North East and cutting through Chelsea have been costed at £12 billion.

Smaller projects are no less crucial. There are proposals for a £3 billion extension of the Bakerloo line and a £1.7 billion extension of the DLR between Bank and Victoria. Extending the new Overground line to Barking Riverside should cost about £200 million. This would add up to £32 billion.

However, figures by Arup for the GLA (July 2014), list a further £63 billion for road improvements including a Hammersmith "fly-under", Silvertown tunnel, Gallions Reach bridge and a portion of the cost for HS2. It also mentions the possibility of a third Crossrail line.

Northern Line

The announcement of Government support for the extension of the Northern Line into Battersea via Nine Elms in 2012, provided a significant boost to development in that area. Construction is expected to start next spring and complete in 2020, subject to permission.

This new neighbourhood has already secured its place on the prime property map not least because of Rafael Viñoly's vision for the power station and the US government's decision to relocate their embassy to the area.

Away from the limelight, upgrades to the rest of the line are to deliver 20% more capacity, allowing an additional 11,000 passengers at peak hours. Work is underway and expected to be complete later in 2014.

Value uplift potential

However, opening new stations must go hand in hand with place improvement if we are to see the full potential value uplift come to fruition.

Our analysis of price changes along the Crossrail line shows that property prices in the areas immediately around the four stations in the "centre west" part of the line, which includes Hanwell, West Ealing, Ealing Broadway and Acton, have outperformed the rest of the borough by almost 23% over the last five years.

This outperformance is not a clear trend throughout the line. Growth in property values in the areas immediately surrounding the cluster of stations in the "north east" tranche of the line continue to lag behind the borough average.

However, we calculated that it is around these stations (Manor Park, Ilford, Seven Kings, Goodmayes and Chadwell Heath) that the greatest value uplift could be delivered within London tranche of Crossrail, provided the station opening is combined with place improvement.

Crossrail has a significant part to play in boosting housing numbers.

.....
 "Opening new stations must go hand in hand with place improvement"
 Susan Emmett

Almost 61,000 new homes (22% affordable) are set to emerge along the new Crossrail line which is due to open from 2018.

However, we believe that with bolder planning, particularly building at greater densities around transport nodes, there is potential for many more. ■



Almost 61,000 new homes are set to emerge along the new Crossrail line

BUILDING ABOVE THE STATION

Opportunities for new residential, retail and office space

One of the key ways of delivering higher densities is by building over and around transport nodes. Areas around stations deliver opportunities not only for retail and leisure development but increasingly housing.

Crossrail is the first scheme of its kind to be part funded by the revenue generated from above station property development at its own sites. The contribution to Crossrail's core funding from the sale of development opportunities is £545 million.

This must be raised from 12 key over-station developments spanning 3 million square feet of residential, retail and office space.

There are currently eight sites where permission has been granted including Woolwich station (where Greenwich council recently gave approval to plans for 400 homes), and Paddington where permission has been obtained for a 305,000 sq ft office building.



Travel times

TRACKING CROSSRAIL'S VALUE UPLIFT POTENTIAL

By reducing travel times, Crossrail has the potential to increase the demand for homes and the viability of further development in a number of locations across the capital

Travel time to central locations is one of the key drivers of value for London property. Crossrail will provide a step-change in commute time for certain locations, increasing both the demand for homes and the viability of development.

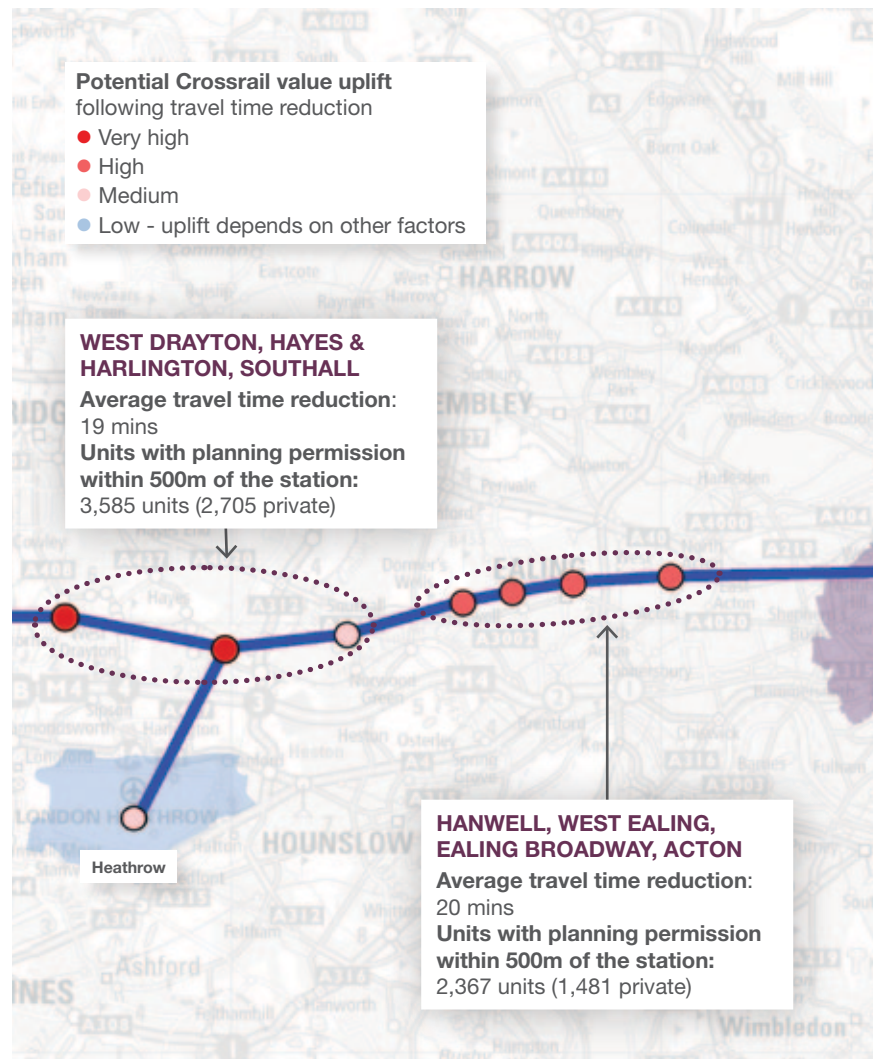
By opening up new sites and improving access to outer boroughs, the new line can play a significant part in increasing London's housing numbers, particularly if these new stations are accompanied by bold plans for place improvement.

Our analysis reveals that the areas immediately surrounding the stations (500 metres) have not consistently outperformed the wider borough over the last five years since construction started on the line. The promise of a station alone is clearly not enough to push up house prices.

However, our map shows that there is potential for further value uplift in many areas along the Crossrail line. Outer locations offer the greatest value uplift potential but the timescale is likely to be longer, as there are additional barriers to achieving the higher price levels. In central locations value uplift is likely to be driven by improved retail and leisure amenities.

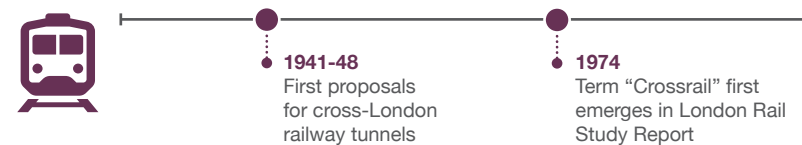
Where development has already occurred, new build schemes have achieved a significant premium to existing stock, but one that can be supported by the new travel time and the place improvement brought about by large-scale regeneration.

For example, in Woolwich at the Royal Arsenal scheme, which is near the station, the current average asking price is £630 psf according to Molior. Meanwhile, the average asking price at the Glasshouse Gardens in Stratford has reached £760 psf. ■



Source: Savills Research

FIGURE 2
A brief history of Crossrail



Source: Savills Research



Crossrail will transform rail transport in London, increasing its capacity by 10%



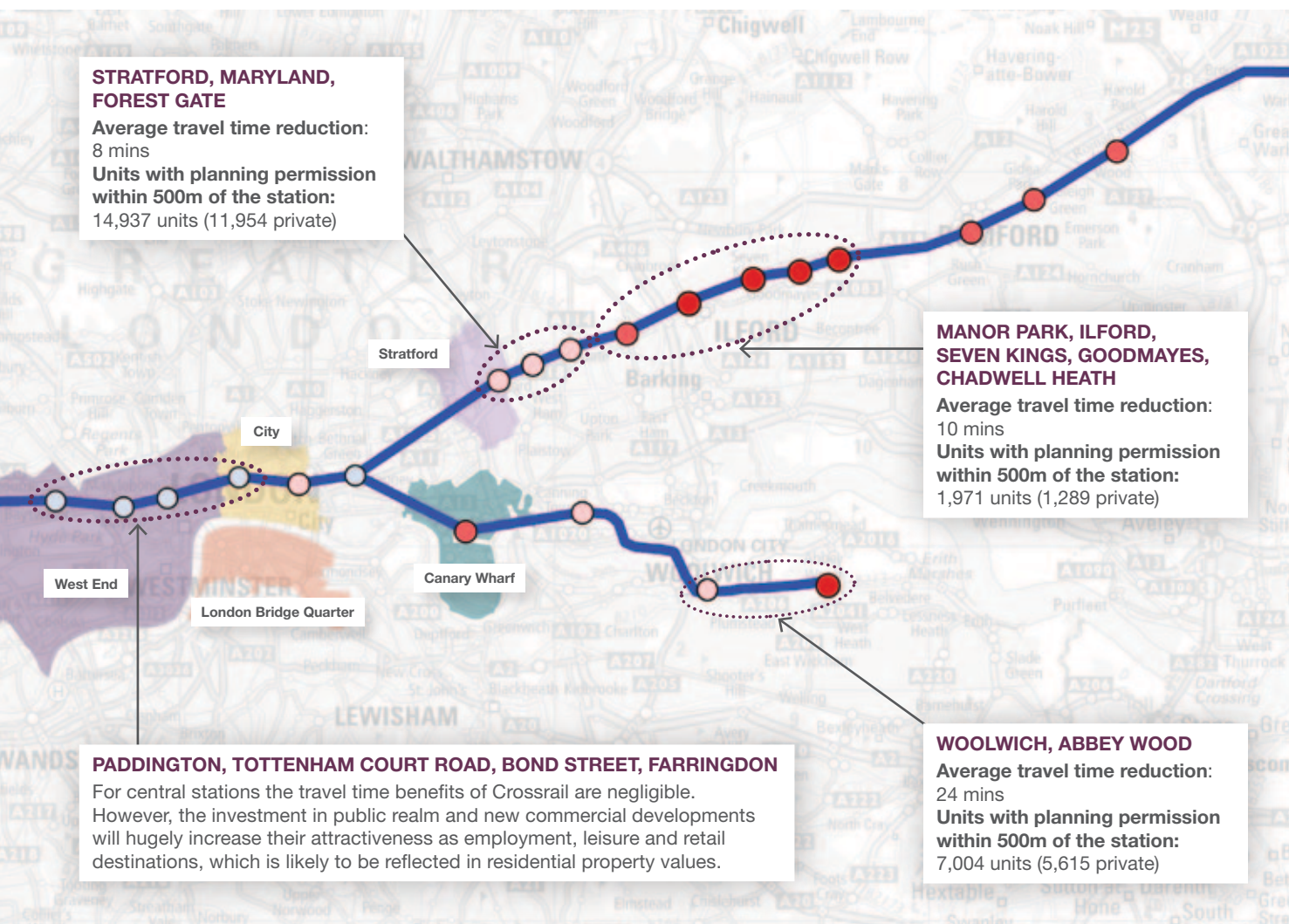
Crossrail will bring an extra 1.5 million people to within 45 minutes of central London



The route runs from Reading and Heathrow in the west, to Shenfield and Abbey Wood in the east



It will link key employment, leisure and business districts; Heathrow, West End, the City, Docklands



1989-94

Liverpool Street to Paddington route put forward and private Bill submitted to Parliament. Bill rejected but route safeguarded to add protection against future competing schemes.

2001

Cross London Rail Links set up by TfL and DfT to promote the scheme.

2005

Crossrail Bill first put before Parliament.

2008 (July)

The Crossrail Act 2008 receives Royal Assent and financing commitments are made.

2009 (May)

Construction starts

Placemaking

THE IMPORTANCE OF PLACEMAKING

New communities require a mix of employment, shops, schools and services to thrive

Words: Katy Warrick
 Twitter: @katywarrick

Our research has shown that the features homeowners value most about their home are not necessarily associated with the building itself, but more with the environment in which it is located. Factors such as neighbourhood, safety, greenery and access to amenities are cited as more important than simply building attractive buildings. These must be created by focussing on the relationship between individual developments and the wider area or in other words ‘placemaking’.

While the planning system often requires some form of mixed use

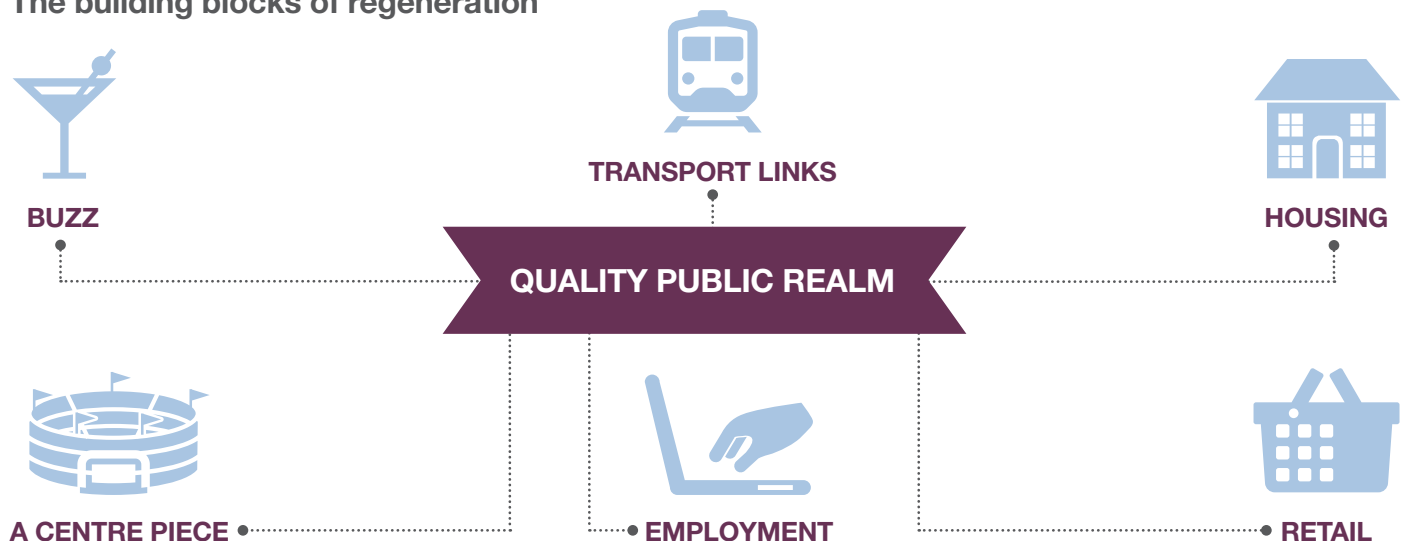
development in large scale schemes, ‘placemaking’ is paramount in regeneration schemes which can’t rely on the services and amenities of established neighbourhoods.

King’s Cross is a clear success story. Despite it only being part way through the delivery period, it already feels vibrant. Stratford has also been transformed over the past decade. The Olympics brought with it the centre piece of the sports stadium, certainty of delivery within a strict deadline and significant investment in infrastructure, retail and public realm up front.

Its success is reflected in the high demand for rental property at East Village that has brought a critical

.....
 “Placemaking is paramount in regeneration schemes which can’t rely on the amenities and services of established neighbourhoods”
 Katy Warrick, Savills Research

FIGURE 3
The building blocks of regeneration



Source: Savills Research

mass of people to the area. The addition of Crossrail is the icing on the cake.

By comparison, the regeneration of Paddington worked less well at the beginning as a result of little early investment in the wider environment. Large blocks were delivered in isolation with little design interaction with the surrounding Georgian townhouses. Installation of high quality public realm and a greater mix of uses only came in later phases.

Old Oak Common

With little in the area other than light industry, there is a great opportunity to give Old Oak Common the King's Cross treatment.

It has been proposed by TFL that Old Oak Common station should become a super-hub, with an interchange between HS2, Crossrail and the Overground. Savills believes that this is a crucial element in the improvement of the transport network, and would have significant impact on the scope of development and potential for successful placemaking at Old Oak Common.

The area, which has been proposed as a new Opportunity Area, comprises 155 hectares of developable land, much of which is within public ownership, which should facilitate delivery.

In "Old Oak – a vision for the future", the Mayor argues that the area, with its new transport interchange, would have the capacity to deliver a potential 24,000 new homes and 55,000 jobs over the next 30 years.

The Mayor's vision also considers a sports stadium, as an early phase of development. Given that Queens Park Rangers have recently announced plans to relocate there, creating an event space could be the key to putting Old Oak Common on the map by giving it an early identity. This would create momentum and attract other components of successful 'placemaking'.

Other uses will include education (Imperial and University College are looking to expand), an industrial area, waste facilities, retail, schools, healthcare and other community and sports facilities required to support a growing neighbourhood.

Barking Riverside

Barking Riverside has planning permission for up to 10,800 new homes, as well as healthcare,

shopping, community and leisure facilities. With property values under £300 psf, most Londoners should be able to afford to buy or rent a home here.

However, significant transport infrastructure must be built to support the currently poorly connected development. TFL is currently consulting on the extension of the

Overground to Barking Riverside, where a new station would be built.

We estimate that the resulting reduction in travel time to main employment centres combined with place improvement could result in a 67% uplift in local property values whilst still maintaining a significant discount to prices at competitor locations. ■

CASE STUDY: KING'S CROSS

A revamped district built around a major transport hub

At the end of the last century, King's Cross was a 67 acre semi derelict, impenetrable and partially contaminated urban piece of land. It has become a major transport hub, including six Underground lines, two mainline train stations and a high speed rail line to Paris, Brussels and Lille.

The detailed planning process took eight years. One of the catalysts for the project was the scale of infrastructure investment at King's Cross and St Pancras that had to be delivered to underwrite the UK's Olympic bid, which was won in July 2005.

The completion of HS1 in November 2007, gave the project a further boost. Construction began in 2008 and by the time the final works are delivered in 2020, it will have taken 12 years to complete 55 buildings.

King's Place was completed in 2008, a mixed use development with leisure and office space working side by side, incorporating a concert hall, conference and event space, as well as offices. Regent Quarter and St Pancras Chambers were subsequently completed, including residential, office space and a hotel.

Attracting the University of the Arts early on was key. The students brought the creative tone and helped draw in Google which has commissioned the firm's largest office outside its Googleplex headquarters in California.

There are 1,700 homes planned for the area and residential sales have been incredibly strong. In the first phase, The Arthouse building, achieved c. £800 psf. The latest phase, The Plimsoll Building, is currently averaging £1,570 psf (Source: Molior).



OUTLOOK

■ **Raising the funds** will require innovative approaches. The strength of the London property market and its acute housing crisis is supporting arguments for fiscal devolution to large cities. Retaining property revenue streams such as stamp duty, land tax and business rates could make a significant difference to London. Last year London provided 42% of the total £6.5bn receipts from Stamp Duty Land Tax. Reform would result in a shift away from ad hoc financing for specific projects and provide sustained investment for a full range of future infrastructure.

■ **London Mayoral CIL** (Community Infrastructure Levy) has contributed 94% of the total £57 million raised by the tax to date (see CIL – Is It Delivering?). The success of the London scheme is largely the result of its uniquely straightforward approach to CIL in which London’s 32 boroughs are charged one of three flat rates (£20, £35 or £50 per sq m). This has allowed the burden of infrastructure to be

spread across all development. Yet despite its success, it is anticipated to provide only 2% of the funding required for Crossrail.

■ **Integrating infrastructure** delivery is key. Although this report did not have the scope to cover the full range of infrastructure improvements listed in the Mayor’s first ever strategic infrastructure plan, it is essential that plans for more new homes go hand-in-hand with improvements to the city’s utilities, sewerage, drainage, waste disposal, recycling and flood defences.

■ **The airport extension** debate remains one of the UK’s most significant and contentious infrastructure issues. The current system cannot keep pace with the level of aviation demand, which is set to grow. Heathrow has been running at 98.5% capacity for over a decade due to its physical constraints on growth. Gatwick, Luton and London City are all forecast to be full by 2030. After the Airports Commission rejected The Mayor’s

four runway Thames estuary proposal in September this year, three options remain: a 3,500 metre third runway at Heathrow, lengthening one of the existing runways and a second runway at Gatwick.

■ **Regional powerhouses beyond London:** One of the effects of the Scottish Independence referendum was to instigate debate about regional devolution throughout the rest of the country. As the election approaches, George Osborne talks of plans for a “northern powerhouse”, Ed Miliband promises to create “regional economic powerhouses” and Nick Clegg has outlined his vision for greater decentralisation in the “Northern Futures” project. Many of these ideas are based around the “One North” plan, developed by key northern cities to boost transport links between key centres and maximise economic growth. We are expecting to hear more about the Coalition Government’s plans for this in the Autumn Statement.

Savills team

Research



Susan Emmett
UK Residential
020 3107 5460
semmett@savills.com
Twitter: @saemmett



Nick Gregori
UK Residential
020 7409 5907
ngregori@savills.com



Chris Buckle
Development
Consultancy
020 7016 3881
cbuckle@savills.com



Katy Warrick
London Residential
020 7016 3884
kwarrick@savills.com
Twitter: @katywarrick



Emily Donovan
London Residential
020 7409 5903
edonovan@savills.com



Ed Green
London Residential
020 7409 5902
egreen@savills.com

London Research

Development and Planning



Richard Rees
Head of Development
Services
020 7016 3726
rees@savills.com



Paul McGowan
London Development
& Regeneration
020 7016 3844
paulmcgowan@savills.com



David Williams
Development
020 7409 8709
dwilliams@savills.com



Jeremy Bates
Head of Office and
Industrial Agency
jbates@savills.com
020 7409 8813



Katherine Norton
Development
knorton@savills.com
020 7409 5926



Roger Hepher
Planning
07807 999 230
rhepher@savills.com