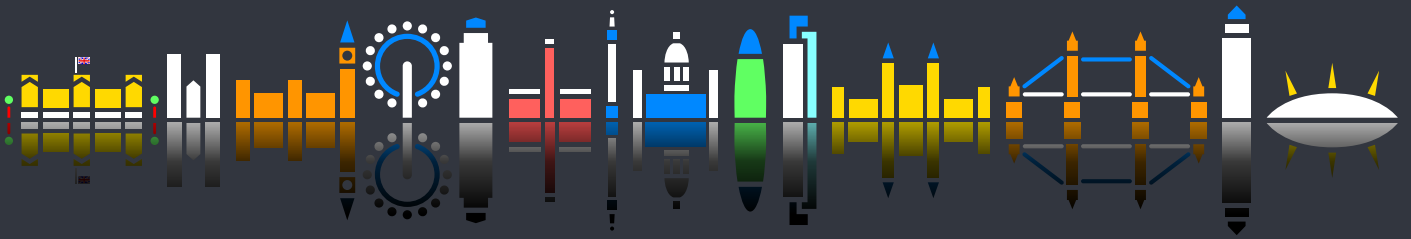


# LONDON PRIME RESIDENTIAL DEVELOPMENT PIPELINE REPORT: **A CALL FOR A CAUTIOUS APPROACH**

Our research shows some startling statistics; a potential 9,000 new prime residential development units are due to be delivered in London over the next nine years with a value in excess of £21 billion, with probably even more to come.



The research indicates that the ‘peak’ appears to be occurring in 2014/2015 with nearly 4,000 units possibly coming to market worth £8 billion in those years alone;

PROJECT NAME	YEAR OF UNIT DELIVERY									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEO Bankside, SE1										
Grosvenor Waterside (Bramah) SW1										
One Hyde Park, SW1										
Lancaster Gate, W2										
Park House, W1										
3-10 Grosvenor Crescent, SW1										
Cornwall Terrace, NW1										
Montpelier Hall, SW7										
St James' Square, SW1										
16 De Vere Gardens										
The Heron										
Piccadilly Estate (non hotel)										
Covent Garden Estate - various										
Wellington House										
Lancer Square, Kensington										
Lots Road Power Station, SW6										
The Middlesex										
Holland Park School, W8										
Kensington Odeon, W8										
190 Strand										
Alpha Place, SW3										
Chelsea College of Arts, SW3										
Kings Road Fire Station										
Heron Plaza										
Shard, SE1										
The Tower, One St George Wharf										
Tideway Wharf										
Chelsea Barracks, SW1										
375 Kensington High St										
St John's Wood Barracks, NW8										
259 City Road										
20 Grosvenor Square, W1A										
Abell & Cleland House, Westminster										
Marconi House, Strand										
South Audley Street, W1										
Arundel Great Court										
66 Chiltern St, W1										
Adelphi Building, Strand										
5-9 Buckingham Gate										
158 Brompton Road, SW3										
Marble Arch House										
Glebe School										
Battersea Power Station (Ph 1 Riverside)										
182-188 Kensington Church Street										
Earls Court & Seagrave Rd Redevelopment										
Vicarage Gate										
Bulgari Hotel, SW7										
Hampton House, Albert Embankment										
Victoria Transport Interchange 2										
American Embassy, W1										
LFB HQ, Albert Embankment (front site)										
Clearings Site, SW3										
Shell Building, Waterloo										
10 Trinity Square										
Commonwealth Institute, Kensington										
Central St Giles										
One Tower Bridge										
Moxon Street										
Johnson House, Belgravia										
Chelsea Apartments, Hortensia Road										
Chelsea Creek										
55-73 Duke Street										
30 North Audley Street										
Lords Redevelopment										
30 Old Burlington Street, W1										
Merchant Square, W2										
<b>Total sales value (£ million)</b>	<b>2,750</b>	<b>1,722</b>	<b>1,854</b>	<b>4,320</b>	<b>3,816</b>	<b>2,536</b>	<b>1,540</b>	<b>796</b>	<b>1,079</b>	<b>1,079</b>
<b>Total sales value: £21,607,688,750</b>										
<b>Total Units</b>	<b>388</b>	<b>534</b>	<b>728</b>	<b>1840</b>	<b>1956</b>	<b>1436</b>	<b>876</b>	<b>401</b>	<b>316</b>	<b>316</b>
<b>Total Units: 9074</b>										
<b>YEAR</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>

**This wall of development is a reflection of extensive planning activity. The reality of this pipeline being achieved is invariably a function of the planning process and project funding being in place. What were previously ‘paper only’ opportunities are now translating to site activity, and we fully expect this to accelerate over the next few years. Many of these schemes are three to four years away from completion and the 2014 / 2015 peak corresponds with this current backlog of development opportunity.**

### Success calls for a cautious approach

The current international market for London prime residential product has benefitted from sterling depreciation against key overseas currencies. More recently geopolitical unrest in the Middle East and North Africa has created increased demand for safe haven investments. All of these conditions are volatile and are susceptible to rapid change and could impact demand before the planned pipeline of new prime residential property is available.

There are a number of factors that call for a cautious approach as we continue to see this surge of new development. There is clear evidence of a ‘feeding frenzy’ for prime London residential sites which have led to a spate of land deals failing to complete or coming back to market, due to a fundamental misalignment of land prices relative to achievable sales value and cost to deliver. High profile examples of this include the former In & Out Club, Piccadilly, 10 Trinity Square, Alpha Place and 20 Grosvenor Square.

There are a host of new entrants moving into this market including traditional volume house builders and commercial office and retail developers. The new players will be faced with steep learning curves and need to ensure they transfer the appropriate skills from their core businesses but also bolt on new expertise as appropriate to deliver what is a very unique product.

London prime residential developers need to have a robust and realistic business plan. They should consider very carefully that the properties being developed are differentiated and have real attraction that will suit the unique requirements of an increasingly discerning future market faced with more and more new development choices. They also need to understand the unique challenges of developing in central London, such as the complex planning and affordable housing system imposed by the Mayor, as well as other multiple site constraints. It is crucial that prospective developers and investors seek the right early commercial advice and engage design and construction expertise with a proven track record in this niche market.

### London will continue to offer opportunities

The increase of development activity and the high levels of international demand for prime residential property in London, has led many to assume that market demand will be insatiable, indiscriminate and unchanged three years from now. In reality, strategies for successfully selling units into a crowded London residential market, and for managing the unique challenges of developing in central London, need to be in place before a potential site is even acquired. London will continue to offer opportunities for appropriately organised and experienced developers and those new entrants who seek the right specialist advice and adopt a considered approach. Those that try and simply ‘jump on the band wagon’ thinking there are guaranteed returns to be had may get burnt.

Our analysis shows that despite this note of caution there are still clear opportunities in this market, and broadly trended sales value growth is expected to return to a healthy 6-8% pa beyond 2012. This is likely to exceed background levels of construction price inflation for the foreseeable future. (see below)

**Prime London Sales Value & Build cost Forecast Comparison**



\*EC Harris research

\*\*King Sturge ‘UK Residential Price Forecasts’ – Prime Central London Section (January 2011)

\*\*\*Savills, ‘Residential Property Focus - Q2 2011’ - Prime Markets: Five year forecast values (Page 9), and as updated by Savills press statement 27th June 2011

## What are the top tips for developers to be successful in this market?

This market will continue to offer many opportunities against the context of what is still a very fragile UK wide housing market. It is vital to adopt a robust approach to the development process from inception and land acquisition through to handover. We have identified five key areas of how we are helping our clients to beat the current and future market by creating certainty, confidence and control in relation to their developments:

### 1. Don't overbid for the site!

The point at which most mistakes are made is at the site acquisition stage. The scramble to access the very limited prime land opportunities that exist in London make it a very busy market and the commercial strategy for securing sites is invariably a combination of outright residual land offer, cash flow structure and possible joint land owner participation provisions. Whilst there is a need to be brave and innovative (this is what development is about after all!) this does not necessarily equate to gambling on an assumed high growth sales market to create an additional return or development contingency at day one. Pragmatic assumptions on cost, value, programme and risk, fully sensitivity tested, will enable access to finance and should be a basis of sound development in any market.

### 2. Understand the unique characteristics of the purchaser

The nature of the high net worth individuals and investors who make up a large proportion of this market, is one of increasingly discerning demand expectations. Cultural and geographic factors for the purchaser are in part an influence on interior design and product choices. The seemingly endless pursuit of technology and 'gadgets' may have had its day, with many developers now considering that 'less may be more', at least at the point of sale, to avoid over complexity of use being a physical detraction from a potential purchase or indeed not representing value for money.

The diversity of client type is also a key factor. Many purchasers see London as an occasional address only or a pure capital investment play. The potential for many developments to be under occupied post completion is a concern if you are trying to sell units at completion to longer term owner occupiers who, despite a common desire for privacy and security at this end of the market, may sense the finished development lacks vibrancy. There is also the question of cultural diversity and the potential consideration to avoid creating a 'prime enclave' linked to a particular type or nationality of buyer. Ultimately, when selling residual units, this will limit your audience.

### 3. Adopt a 'day in the life' approach to driving desirability

A more scientific approach to the quantification of saleability and desirability can increasingly help optimise your design approach. A structured consideration of how your prospective purchaser will use and experience the development from initial arrival, journey to front door, internal functionality, perceived value of space created and the impact of adjoining environmental and place making factors, all play a key role in attracting someone to your development. As always there is one desirability factor that takes precedence - location, location, location! The fundamentals don't change they just become more important, even within the Prime London residential market!

### 4. Protect value throughout the entire development process

Often the research carried out to understand value drivers and influence early design concepts slowly erodes through the planning, design, procurement and construction process. The initial brief is in many instances compromised through the persuasion or absolute requirement of multiple stakeholders in a complex development process. A more disciplined approach to continually testing the compliance with the brief and the monitoring of cost, value and product desirability at vital gateways is a key benefit. This approach will reduce the risk of misalignment of the final product with the target market.

### 5. Get your timing right!

Speed to market is now crucial for shorter term developments over the next 3-4 year window, bearing in mind there appears to be significant increase in new build prime residential supply coming on stream. Inherently this will be a function of site acquisition complexity, the planning and stakeholder consultation process and most importantly, securing a robust business plan and funding position. Embarking now on complex or longer term development should perhaps be seen as an opportunity to deliver past the possible 2014 / 2015 peak, playing to the basic principle that a niche market will always create opportunities if you do the basics well.

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\* This research excludes the value of transactions in the existing properties market and only counts the top slice by value of development in prime central London locations. The research is based on a 'snapshot' analysis of new private residential development projects currently being built or planned for delivery in central London through to 2020. It uses an estimation of development programme, total unit numbers, saleable area and sales values to assess the total number and value of units being delivered per annum in this market segment for the next 9 years. It only includes projects with a sales value of greater than circa £1,000/ft<sup>2</sup>, it also excludes affordable housing unit numbers as well as one off personal residence and smaller projects. It is not an exhaustive analysis of all schemes in the public domain but illustrates the clear profile of the future development pipeline