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Investors battle nerves to keep calm and carry on

The initial panic is over, but it is too soon to assess the full impact of the Brexit vote, says *Judith Evans*

When UK voters made the historic decision on June 23 to leave the EU, London's property market rapidly felt the aftershocks.

Investors called their agents to abandon advanced deal negotiations on the purchases of prime office buildings. Wealth managers in Mayfair and the City requested transfers of investors' money out of property funds. Financial services companies hunting for new office space pulled back, developers across London put planned new projects on ice and house-hunters reconsidered whether they really needed to move.

Within days, property funds holding £15bn of assets had closed the gate to redemptions after investors rushed for the exit, bringing back memories of the property crash that accompanied the credit crunch of 2008.

Within a month it became clear that there would inevitably be an immediate downturn in London property after three strong years of surging prices and returns — with vulnerable sectors including offices and luxury housing. But the aftermath of the Brexit vote looks as if it is playing out very differently from the crisis of 2008-09 which still looms large in memory.

"We have seen prices on some transactions falling and a few transactions cancelled as a result of Brexit, but transactions are still happening and financing is still available to buy good assets," says Adam Bogdanor, a partner at Berwin Leighton Paisner, a law firm specialising in real estate.

Voters at the crossroads: London's Oxford Street in June — Odd Andersen/AFP/Getty Images

The Brexit vote derailed about a third of commercial property investment deals under way at the time, according to Cushman & Wakefield, the property advisers. But the rate of deals completing as planned was slightly higher in London than in other UK regions.

Unlike in 2008, when the property market ground to a halt for parts of the year, central London assets have continued to change hands, including at least one — the Debenhams building on Oxford Street — sold at a price equivalent with pre-referendum transaction values.

Another retail building on the same street, home to the chemist Boots, sold at about a 15 per cent discount to the asking price, but this was a deal carried out at high speed by Aberdeen's property fund to raise cash to meet investor redemptions. Even so the property, which was sold to Norway's sovereign wealth fund, fetched a price 63 per cent higher than it was bought for in 2011.

> 'Long-term investors are not going to go away. They'll take a breath and see what happens'

Simon Price, a real estate partner at the law firm Linklaters, calls the market since the referendum "surprisingly normal", while Tony Gibbon, a veteran dealmaker at the property advisory firm GM Real Estate, says: "Long-term investors are not going to go away. They'll take a breath and see what happens." Demand is strongest for "assets with long income from quality tenants", says Walter Boettcher, director of research at property advisers Colliers.

Lending against property is set to contract, according to the Bank of England, but existing lending risk is much lower than in the last crash: "Gearing is generally lower on commercial property, so

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Inside

Residential History does not always repeat itself in house price downturns, reports *James Pickford*

Too soon to tell if what has gone up must come down

That sinking feeling: shoppers in front of a new housing development
Danial Leal Olivas/AFP/ Getty Images

After reaching vertiginous highs in the past decade, the pace of London house price growth has slowed in recent months — but the broad figures conceal a great deal of difference between hot and cold spots.

Data available for the period since the Brexit vote remain limited, so hard conclusions about the impact of the referendum are hard to draw. But estate agents believe prices in some parts of the capital appear more resilient to economic and political turmoil than others.

London has continued to lead the ranking of UK regions by house price growth, even as some were calling time on its predominance.

In the year to June, average prices across the capital climbed 12.6 per cent, according to the Office for National Statistics house price index, eclipsed only by the east of England, where growth ran to 14.3 per cent annually. But Savills, the estate agent, says prices for the most expensive properties — found in prime central London — have fallen by 8 per cent since their last peak in 2014.

Over the past 20 years, housing wealth has radiated out from the prime central areas of Kensington & Chelsea and Westminster, bringing higher prices to places like Fulham, Wandsworth and Battersea in the south-west, and Islington and Hackney in the north and east. The influx of cash-rich overseas buyers that took place in the years following the financial crisis of 2008 pushed up prices to stratospheric levels in central areas, sending more domestic purchasers out to these high-end commuter zones.

But their strong performance may not persist. In previous economic turbulence, says Ed Mead, director at agent Douglas & Gordon, the areas that experienced the steepest price rises had a greater propensity to fall harder as the housing market cycle turned down.

"There's no doubt that the areas that always get hit the hardest are always the ones that have just seen the most growth. If you look around the emerging prime areas of London, the areas that jumped the most and have suffered most recently are places such as Battersea Park," he says.

The formula is not foolproof. Hackney, which has seen sharp house price growth, might appear one of the riskiest areas. But Lucian Cook, research director at Savills, warns: "You need to distinguish between late-cycle house price growth and a shift in the character of the place. Where you've seen a change in the nature of the people living in those areas — and that's become quite entrenched — that would support prices. It's something more fundamental."

> 'The areas most insulated are rock solid, established housing markets with family housing'

Richard Donnell, research director at housing market analyst Hometrack, says the strongest-growth markets remain the cheapest, such as Barking & Dagenham and Newham, where growth is running at 16-18 per cent, compared with central areas where year-on-year growth is just 2.5 per cent (and therein concealing falls of 2.5 per cent over the past quarter).

"Momentum is already falling out of the London market on affordability pressures, tax changes for investors and concerns on value for money and Brexit," he says.

Mr Donnell also says the zones most exposed when the market cools tend to be emerging market areas with unsustainable pricing levels. This often applied to new-build or regeneration schemes in their early stages and "value for money" markets that did not have the services in place to support the pricing. "The areas that are most insulated are rock solid, established housing markets with family housing that is always in demand — this is much of London to all intents and purposes."

Inner and outer London show further evidence of a different market dynamic. The high-end prime central market is more often characterised by cash buyers; mortgages are more common in the "doughnut" of outer boroughs, making those areas more vulnerable to a rise in interest rates. Though the likelihood of an interest rate rise has receded even further since August's interest rate cut by the Bank of England, a return of inflation could speedily alter that picture should it prompt evasive action by the central bank.

Interest rates also illustrate another difference in today's conditions versus previous moments of turmoil, since their record low levels are limiting repossessions among mortgaged homeowners in the mid-range to lower-prime areas. Mortgages are cheap, but affordability rules mean there are tighter limits on the amount of debt buyers can take on, Mr Cook says. These constraints on the amount people can borrow should also limit the number of forced sellers that might emerge in a downturn. "That suggests you don't get the same levels of house price falls as in the past." he adds.

Data from previous crises lend weight to arguments that, when the storms hit, London owners prefer to batten down the hatches. Mr Donnell says experience suggests market shocks typically affect transaction levels much harder than prices, especially in central London.

Investors battle nerves to keep calm and carry on

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few are forced to sell," notes Guy Grainger, UK chief executive at the property advisers JLL.

Still, property agents are acutely aware that the market has not yet settled. One, who asked not to be named, believes commercial property prices have already fallen by 15-20 per cent since last summer, but that this has not appeared in formal valuations since vendors have removed properties from sale rather than concede on price.

According to the IPD property index, capital values in UK commercial property showed their second month of decline in July, falling 2.8 per cent — its largest drop since 2009.

"No one believes the valuations at the moment," the agent says. "Last summer was the top of the market — all Brexit has done is take people back to reality."

In the housing market, reality had already begun to set in at the top end, where prices have been falling since 2014. In London's prime markets, the referendum was followed by a wave of discounting.

Clusters of new luxury apartment towers are being built, especially on the south bank of the Thames, but there too prices are softening. Average prices per square foot for resales in new developments have dropped 12 per cent since 2014, according to LonRes, a data provider. Countrywide, the estate agency chain, predicts a 6 per cent fall in the prices for prime London homes in 2016.

Across the capital it foresees 3.5 per cent price growth, but then a fall of 1.25 per cent in 2017. Analysts at Capital Economics predict a "very steep fall in transactions" in London for the remainder of the year.

One mitigating factor has been the drop in sterling against other currencies since the referendum outcome became clear, which has made UK assets look cheaper for dollar-linked buyers. "Once the immediate surprise of the Brexit result dissipated, it became clear that the weaker pound sterling was also creating buying opportunities in some markets," says Adam Challis, head of UK residential research at JLL. "Latent demand remains strong, but buyers are patient and will only buy when they perceive good value." In residential property, as in commercial, the traditionally busy autumn season will offer much stronger evidence of the direction of the market, he adds.

Investors are keenly aware that the longer-term impact on property, as for other sectors, depends ultimately on the nature of the Brexit deal that the UK strikes with its EU neighbours, and the economic effects of that deal.

A JLL survey of 67 investors in UK property found that 86 per cent intended to keep their UK holdings at the same level as before the vote. But this was tied in with optimistic assumptions about the Brexit agreement: only about 15 per cent believe the UK would reach a "'hard' settlement in which the UK does not have access to the single market".

Other concerns include the future immigration status of workers from the EU. In the construction industry, for example — which is already suffering from a skills shortage — more than half of workers in London are foreign-born, according to the National Institute of Economic and Social Research. This compares with single-digit percentages throughout the rest of the UK, highlighting the capital's greater reliance on workers from overseas. Across the country, about half of overseas construction workers are from Europe.

London's new mayor Sadiq Khan, elected in May, has been seeking to shore up confidence, insisting the capital will retain its cosmopolitan character even post-Brexit. "London is open," read posters dotted around the city. The capital's property sector — worth £280bn before housing is included — also wants to spread that message. Mr Price of Linklaters says there is a "determination to keep business as usual, and a general lack of panic".

But he adds: "The danger now is for a series of major 'bad news' incidents that will rock the optimism of investors, such as more bad economic data, a few high-profile relocations out of London for investment banks or perhaps a realisation that the government isn't going to get any kind of good deal for London's financial services industry in its negotiations with Europe."

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Vote to leave the EU puts break on office boom

Commercial Blue-chip clients are reining back on new schemes until clarity emerges on the shape of a post-EU future, says *Judith Evans*

If the health of central London's office market is to be measured by the number of cranes, it is doing well. Construction sites are dotted across the Square Mile, Canary Wharf and the West End. A Deloitte survey released in March found that more new offices had broken ground in central London in the past six months than at any point in the previous two decades.

Boosted by strong demand for office space — occupancy is at a 15-year high — and rapid growth in capital values, property developers have had little hesitation in beginning construction on new office schemes.

But the vote to leave the EU delivered a major blow to that confidence, bringing into question the capital's future as a global financial centre and casting a shadow over its economic prospects.

Within a week of the vote, Axa, the French insurance company, put plans for a 62-storey City skyscraper under review, saying that it was "considering all our options" for 22 Bishopsgate, a 1.4m sq ft tower it is due to build with the developers Lipton Rogers.

Germany's Union Investment, meanwhile, pulled out of talks to buy a £465m City office building as it rethought its UK investment strategy after the unexpected vote for Brexit.

The City of London and Canary Wharf are the focus of particular worries because of concerns about a potential loss of so-called European "passporting" rights that give UK-based financial services companies access to the single market. The fear is that the loss of such privileges could prompt those companies to relocate parts of their businesses to continental Europe. Capital values for City of London offices dropped 6.1 per cent in the month of July after the vote, according to CBRE data.

Walk on by: pedestrians passing a construction site in the City of London — Niklas Halle'n/AFP/Getty Images

While companies in the financial services sector still account for the lion's share of new office take-up, property advisers Cushman & Wakefield point out a growing proportion of new offices have been occupied by technology and media companies over the past decade. These lack the financial sector's worries on passporting but are said to be concerned about their future prospects for hiring from within the EU, given fierce competition for skilled workers.

> The office development bubble has met the Brexit demand shock

Derwent London, the property developer known for its office buildings in London's tech belt, has lowered its expectations for rental growth to 1-5 per cent in 2016 since the vote, down from its previous prediction of 5-8 per cent.

This reflects a more general fear that businesses will hold off making decisions such as moving to new offices until the picture surrounding the shape of future trading agreements with the EU following the Brexit vote are clearer, causing a knock to demand and hence to growth in rents. This is a prospect long flagged by Rob Noel, chief executive of the UK's largest listed property company, Land Securities.

While some financial groups, notably the Swiss asset manager GAM, have pulled back from plans to move to new London offices, the US bank Wells Fargo cheered the property market in July by opting to spend £300m on a new European headquarters under development in the City of London.

Amazon, meanwhile, agreed to increase its occupation of its London headquarters, Principal Place, by 80,000 sq ft in July.

Simon Price, a partner at the law firm Linklaters, says: "There's no particular sign of deals in the occupation market going on hold, although it will be interesting to see whether some of the more substantial occupation requirements in the City are put on a 'go slow' later in the year."

Levels of investment into London office buildings have fallen since the start of the year, but that is partly down to vendors holding back until pricing and the nature of Brexit become clearer.

"We speak to a number of major investors around the world who are telling us that they are now more likely to acquire properties in London because the heat has been taken out of what they considered an over-competitive market," says Mr Price.

"In a world where it's difficult to get any sort of decent yield from fixed income products, London real estate looks good value."

Yet with so many Brexit unknowns, plans for about 25m sq ft of new office space in London — according to an estimate by analysts at Jefferies — may now be curtailed. If the hiatus in approvals for new development continues beyond the summer, that could help to support rent levels, benefiting investors in existing properties.

"The London office development bubble has met the Brexit demand shock," says Mike Prew, an analyst at the Jefferies who called time on the commercial property market a year ago.

The City of London is taking a bullish stance: its planners are forging ahead with a consultation on expanding the Square Mile's cluster of skyscrapers to deliver another increase in prime office space. It would be a sign, they say, that the district remains "open for business".

Their ability to attract developers and financiers to build those skyscrapers may be a key test of London's post-Brexit allure.

Housing shortage puts squeeze on workers

Politics London's new mayor faces thorny task of reversing collapse in rate of new affordable housing starts, says *Conor Sullivan*

Bridge over troubled waters: a protest march against housing shortages and high rents crosses Tower Bridge
Andrea Baldo/LightRocket via Getty Images

Demands to tackle the capital's housing shortage emerged as the most pressing issue in this May's election campaign for mayor of London, thrust to the top of the agenda by soaring prices and rents.

For the first time, housing policy replaced transport and crime at the top of voters' list of concerns, according to polls. Yet Sadiq Khan, the new mayor, will not find it easy to grapple with a problem that business groups say threatens London's prosperity.

House prices in London are now so high that it has become difficult for many well-paid people to own their home. The average price is £530,000, while for a semi-detached home it is £600,000, according to estate agents Savills and the Land Registry. The median inner London salary is just £34,000 a year.

Those that do manage to buy are highly paid, receive substantial help from their families, or both. First-time buyers in London put down an average deposit of £96,000 compared with a national average of £34,000, according to a survey published by Halifax in July.

The housing shortage is a byproduct of London's economic success and booming population. For most of the late 20th century, London's population was in decline. But after hitting 6.7m in 1988 it recovered to reach a new record of 8.6m at the start of 2015 and is forecast to reach 10m by the mid-2030s. Despite promises from local politicians over the years to increase housebuilding, homes are only being built at about half the rate needed to deal with this growth.

Mr Khan accepts the need to build more. But he places more emphasis on what proportion of new housing stock is "genuinely affordable" for people on average incomes.

Across England a proportion of new homes in developments is supposed to be "affordable", but the exact level is determined through negotiations between developers and local councils. This process has become controversial as developers succeeded in negotiating lower and lower levels of affordable housing. Mr Khan accuses them of hiring expensive consultants to outsmart cash-strapped local authorities.

This motivated a key election pledge, that half of homes built in London are "affordable". However since the vote this has become a "long-term strategic target" and the mayor has warned that "it will take time to turn things around".

A key moment will come in October when Mr Khan is expected to update planning rules with a stricter definition of affordable housing and revised rules for how much developers need to include in their schemes.

Mr Khan is starting from a low base — in 2015-16 in London 6,759 affordable homes were built. This was the lowest figure for at least eight years and a 66 per cent fall on the previous year. One City Hall official said that during negotiations between developers and former mayor Boris Johnson's administration, "when something needed to give, affordable housing would give".

Mr Khan signalled his approach by installing James Murray as his deputy mayor for housing. He had demonstrated a strict approach to development in his previous job in charge of housing policy at Islington council. Last year Mr Murray wrote: "At the moment, landowners know they can pitch for a huge windfall on their land; and the developer who buys it can be confident they will meet this cost and still make their profit by aggressively squeezing affordable housing out." He added: "We're going to have to be clear what homes we want, clear how we're going to get them — and clear when to stare our opponents down."

Alongside this more demanding approach to private development is a desire to get the state more involved in housebuilding. Tom Copley, a leading voice on housing in the London Labour party, says that the roots of the current situation can be traced back to the 1980s when large parts of public housing stock were sold to their tenants.

Once councils stopped building houses "nothing ever filled the gap", Mr Copley says, creating a supply deficit that has led to today what many describe as a crisis.

He says building 50,000 homes a year, double the current level and the consensus estimate of what is needed to meet demand, "will require a big public sector intervention, because we haven't done that before without a big public sector intervention".

> Building 50,000 homes a year, double the current level, is needed to meet demand

City Hall is in talks with government over how much it will get from a £4.7bn national fund for affordable housing, talks that were disrupted by the rapid change in government post-Brexit.

Mr Copley says the mayor is well positioned "to attract investment from pension funds and other institutional investors" to build housing and "channel that money away from off-plan luxury flats towards more productive uses".

New solutions might also be needed — he gave the example of Pocket Homes, which builds small, well designed flats sold at a discount to people on lower salaries. "What they provide is a really good product," says Mr Copley. "I would like to see the mayor working with them to be one of the main affordable-to-buy housing products that we support."

High rise projects struggle to win public affection

Architecture

The economic imperative to build housing higher in the capital divides opinion, says *Barney Thompson*

Building upwards has been regarded as the answer to the UK's housing problems before, yet the high-rise estates of the 1950s and 1960s quickly turned into symbols of poor planning, inequality and urban blight. But even as Britain grapples with the legacy of those experiments, high-rise living is back in vogue — this time marketed towards a very different demographic.

Once again, however, it is attracting criticism. Glass-encased towers are only for the rich, say their opponents; they largely lie empty — walk past them at night and they are mostly dark — because they are viewed as investments rather than places to live; and they clash with their surroundings and cast them in shadow. All this, critics declare, fails to deal with the needs of Londoners who do not enjoy large pay packets, drives up prices and forces people further out of the centre.

Yet the boom continues, with scores more high-rise buildings planned. Is this merely greed, with developers thinking only of rich, and often foreign, buyers, or can high-rise living be part of the solution to the capital's housing crisis?

"Since the appreciation in [property] prices we have come to see our homes as investments rather than as shelters, and that is a mistake," says Hank Dittmar, who advises government and business on planning. "One of the strange characteristics of the property market is that people seem to rush to one solution, betting on an imperfect knowledge about the future and assuming that what they do is what everyone else wants."

But Peter Murray, chairman of the think-tank New London Architecture, says London's housing would be in a "dire state" without overseas investment.

"High-rise blocks are not the answer to London's housing problems but they are a part of the answer," he says. "We need a mix of different sorts of development to suit particular locations and particular sorts of occupiers."

Although it is true London has plenty of luxury flats, he says, "as you get out of the centre and some of the 'hotter' areas like Battersea and Nine Elms you are seeing more affordable taller buildings". He cites the White City development in west London involving Japanese developer Mitsui Fudosan, Alberta Investment Management of Canada and London-based manager Stanhope, as an example of a development that was delivering cheaper homes alongside luxury properties.

"That would not be happening if you had no foreign investment, so we need it . . . or we would have virtually no construction industry in London. If we accept we are part of a global economy, it would be tough to say to the fellow countrymen of those investors that they cannot buy any of those flats — 'we are happy to take your money but don't want you living here'."

> Six in 10 Londoners favour controls on the height of new developments

Yet the local opposition to high-rise developments has become vociferous — and effective. In July, the Paddington Pole, a planned 254m residential tower by Renzo Piano, the architect, and Irvine Sellar, the property developer — the team behind the London Shard — was redesigned and turned into a 14-floor cube after an outcry in the area.

A recent Ipsos Mori poll for the Skyline Campaign — which says it wants to stop the "devastation of London by badly designed tall buildings in the wrong location" — found almost six out of 10 Londoners favoured controls on the height of new developments.

Respondents were split on whether the 270 buildings over 20 storeys being planned or under construction were too many, with 47 per cent happy with the proposed numbers and 39 per cent believing it was too many. But far fewer — only 8 per cent — thought tall buildings were the best answer to the capital's housing needs, with terraced houses and low-to-medium-rise the preferred solutions. More than half said tall buildings should be limited to particular areas such as the City or Canary Wharf.

Construction near London's Shard

Part of the problem in winning support, says Mr Murray, is that it is hard for both developers and the public to get a clear understanding of how a new tall building can change the area around it. According to New London Architecture, which began researching the proliferation of tall buildings three years ago: "It is difficult to understand in detail what the implications of a new tower are going to be . . . the impact on every street, view, vista and walking route."

Experts agree that a mixture of sizes and densities, with close attention paid to the use of public space, is important to the look and feel of the city as well as to the need for more housing. Not everyone agrees this ideal is being met.

Even among the much-maligned developments of the 1950s and 1960s, says Mr Dittmar, there were examples of a mix of "different people, price points and lifestyles with substantial public space . . . well-designed, roomy flats that could accommodate people through various stages of their lives".

But as London becomes a 24-hour city, well-designed tall buildings with good transport links are an important part of the housing mix, says Mr Sellar.

Land costs mean providing affordable housing in the centre of the city is difficult, he adds. "But there are 32 boroughs . . . and in the right locations, particularly close to transport hubs, tall buildings can be part of the solution."

Social housing is too often an afterthought for city leaders

OPINION

Edwin Heathcote

For many years after the second world war, the centres of most of the biggest cities from Los Angeles to London were left to the poor as the wealthy left for big houses in the sprawling suburbs. Now everything has changed. City centres are fashionable again, high-rise living — the modernist dream — is back and lofts, condominiums, penthouses and duplexes in tall towers represent the pinnacle of urban aspiration.

In the UK, when London was rebuilt after the blitz, social housing was deliberately interspersed with the city's established affluent neighbourhoods. The idea was to create a more equitable city in which the served and their servants could live together.

But as Margaret Thatcher's right-to-buy programme in the 1980s encouraged those on lower incomes in local authority-owned properties to buy and then sell their properties, the city's social housing stock was depleted. This transfer of assets from the public to the private sector has resulted in a more segregated city.

Across the channel in Paris, social housing was built beyond the Périphérique ring-road that runs outside the city, creating a ring of social exclusion and resentment in which the edges felt excluded from the centre.

New York was closer to the London model, with big municipal blocks right at the heart of the city. This system of subsidised housing still works, although is increasingly inadequate.

The socialism and central planning of the former Soviet bloc countries certainly led to supply — endless landscapes of towers providing decent housing — but the grim estates hardly represent an ideal model.

A city needs social housing to work. Even the wealthiest cities need to be able to accommodate their workers as well as their bankers, and near enough the centre that they can live a decent life. A city that exiles its poor to the outskirts begins to die. Its centre becomes a tourist attraction — a mall with walls. Social housing is too often an afterthought, yet it is, in fact, at the heart of what make a city liveable.

Before stepping down as UK prime minister, David Cameron announced an initiative to "transform" sink estates — council homes characterised as being poor and deprived.

The plan, as set out in January and backed by £140m of government money, is to knock down the country's worst council estates and rebuild them in a way to tackle exclusion.

The suspicion among critics is that this is code for gentrification, demolition and decanting of the original residents.

Few cities have found a real solution to the problem of how a successful metropolis manages to house all of its citizens, but there are dozens of individual developments that might point the way to better futures. Using young architects and striking architectural features, these have become distinctive places in which people are proud to live.

Adaptable: Alejandro Aravena's Quinta Monroy —

In Paris, for example, the Tour Bois-le-Prêtre was an unprepossessing slab block on the edge of the Périphérique. Architects Lacaton & Vassal aided by Frédéric Druot transformed it into an ethereally beautiful minimalist tower. The architects "wrapped" the tower in a lightweight, superstructure layer of slender white steel. This added an indoor/outdoor zone of terraces and winter-gardens, expanding the apartments. The result is hauntingly beautiful.

Very different is Quinta Monroy, on the edge of Chile's Atacama Desert. Here architect Alejandro Aravena created designs for "half a good house". The idea was to build a low-budget basic house with plumbing and serviceable spaces, habitable but with room to grow. It was good enough to win Mr Aravena this year's Pritzker Prize, one of architecture's biggest awards. The effect is of a terrace of houses with gaps. As occupants' circumstances improve those gaps are filled in to accommodate workshops, garages, shops or extra space for growing families.

The result is a visually and socially mixed community. People do not need to leave their homes as they get richer, they can simply expand and the community stays stable. It also means the architecture changes and adapts, becoming richer and more personal while within a predetermined framework.

It is a brilliant idea and, although aimed at the poor, it is applicable to anyone and any city.

Recently the US, which had long appeared to have abandoned new public housing projects, has been home to some interesting developments. The Harvest Commons in Chicago and The Savoy in Oakland, California, are long-derelict historic hotels that have been brilliantly repurposed as housing for transitional and very-low-income residents.

Meanwhile, the Star Apartments in Los Angeles' Skid Row, redeveloped by Michael Maltzan Architects, saw the conversion of an old industrial unit transformed into a piece of avant-garde, sculptural architecture containing low-income housing and social facilities.


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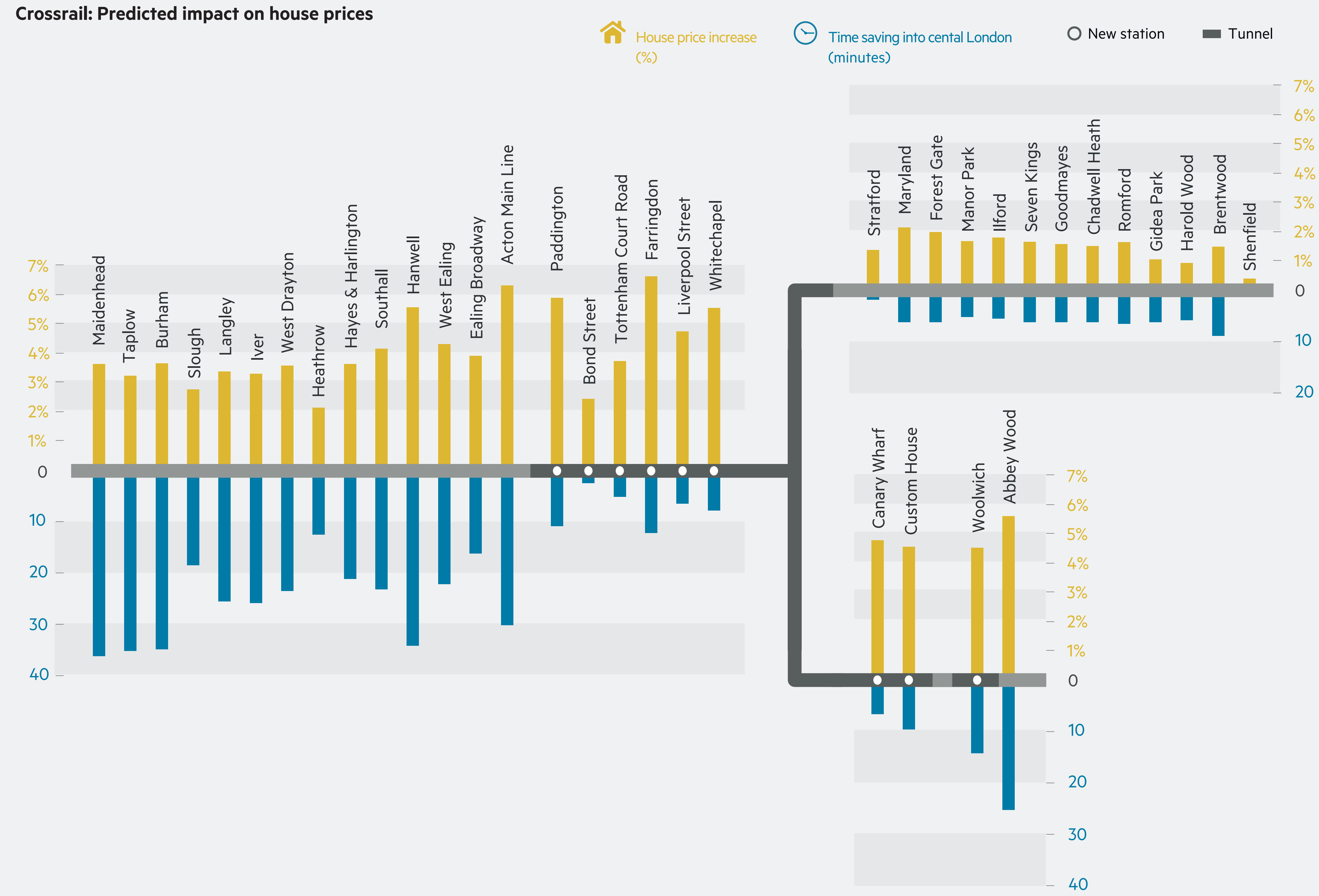
Crossrail: Predicted impact on house prices



Source: CBRE

All aboard The Crossrail line stretching from Maidenhead through central London to Essex promises to save time and money for those living on the route

Forty years since it was first proposed, the Crossrail train line that will link the east and west of London's outskirts is nearing completion and is reshaping the property market along its route.

Crossrail, which has been renamed the Elizabeth Line, will open in stages, stretching from Shenfield in Essex to Paddington in central London by May 2019 and later extending to Heathrow airport and Reading. It will offer a 29-minute journey from Bond Street in the capital's West End to Heathrow airport, shaving 20 minutes off that trip.

The benefits of cut journey times will not just be enjoyed by rail passengers. According to CBRE, the property consultancy, a 10 per cent reduction in commuting times can in general cause house prices to increase by as much as 6 per cent, all other things being equal. Prices have already risen by around 31 per cent in hotspots near the new stations since Crossrail received the go-ahead, it says.

Despite economic uncertainty in the wake of the UK's decision to leave the EU, CBRE, the property consultancy, expects average prices along the line to increase a further 3.3 per cent per year above local house price growth until the line launches in 2018/19.

This amounts to an average £133,000 price increase within Crossrail's catchment area between now and when the first trains run. By the time Crossrail is operational in 2018, it will have added up to £35bn on to the residential property sector around the 37 stations.

"We don't think Brexit will have a significant impact on the forecasts for property in the immediate proximity to Crossrail, nor will it affect Crossrail's success as a major infrastructure initiative," says Jennet Siebrits, head of residential research at CBRE. "Our research on Crossrail suggests that demand for property close to these stations has been so strong that we expect prices to continue to remain buoyant."

The biggest beneficiaries are investors along the line in the central part of London that stretches from Paddington to Canary Wharf. CBRE expects these to increase by an average 4.8 per cent per annum over and above wider price inflation until it opens in 2018.

Development around the central stations will transform these areas, particularly at Tottenham Court Road where Derwent London, the property group, is in charge of a significant regeneration project. This will include a new theatre, the redevelopment of the totemic Centrepoint building and the arrival of new shops including Zara, New Look and Primark.

The CBRE research is backed by a London School of Economics report into offices. It analysed property deals for signs of an uplift from the Crossrail project and found that between 2005 and 2013 central London office properties within half a mile of new stations saw a 15 per cent rise in values beyond a rising price trend.

Between 2008 and 2013, more than 40 per cent of planning applications within a kilometre of stations also cited the new route as a justification for new construction, according to research commissioned by Crossrail.

Gill Plimmer

'Last mile' puzzle drives demand for warehousing hubs

Logistics

Growth in online shopping and just-in-time delivery is transforming industrial estates, says *Claer Barrett*

The Park Royal area of west London has always been known for food, explains Segro's chief operating officer Andy Gulliford. For years, he says, it was called "London's bread basket" because such a high percentage of sandwiches consumed in London were made on site. As the capital's eating habits have changed, so have the occupiers.

Segro, the biggest industrial landlord in the South East, is leading the trend. The FTSE 250-listed company has just completed the development of Origin, near Heathrow airport, and it has all the ingredients needed for an urban logistics park — including giant mushrooms.

For the crucial "last mile" of delivery into major cities, particularly London, changes in the way we consume have transformed the way retailers and restaurants need to occupy space.

The lesser known story is how it has also changed industrial estates, as urban logistics parks are being hailed as the solution to new retailing needs.

Basing supplies in a central warehouse "hub" then using smaller "spokes" located close to where people live is how retailers are able to satisfy time-sensitive shopping demands, be it orders from a smartphone, top-up shopping in a convenience store, or even a freshly prepared takeaway.

One of the first to move into Segro's Origin was Charlie Mash, which supplies speciality vegetables — including mushrooms the size of dinner plates — to high-end restaurants and hotels in the capital. Proximity to its customers means small and frequent deliveries to congested areas are possible. The same philosophy is employed by neighbouring Ocado, whose electric delivery vans loaded with grocery orders swarm in and out of its mini-hub next door.

"Lots of people want lots of little things frequently and quickly — it completely changes the structure of the supply chain," Mr Gulliford says. This has resulted in a model where the biggest UK retailers — be it Amazon, John Lewis or Marks and Spencer — have "massive" warehouses sitting in the middle of the country which can deliver goods by the lorry-load to their store networks, and also decant inventory to smaller hubs close to conurbations, he says. "These locations are able to break down goods and make home deliveries in smaller vehicles to suburban streets," he explains.

Wasabi, the fast-growing Japanese takeaway chain founded by Dong Hyun Kim, is in the process of relocating its head office and food production centre to Origin. Large kitchens are being installed inside its unit, where enough chicken katsu curry to supply its 50 London outlets can be prepared and chilled before being shipped to restaurants to be reheated and sold within hours. Similarly, tons of fresh fish will be prepared and filleted here, then shipped while still chilled to stores to be made into sushi. These time-saving steps make it possible for Wasabi to deliver fresh food at scale.

Growing numbers of consumer "clicks" are altering the "last mile" strategies of online suppliers as the retail sector adapts to changing consumer habits — but the need to control costs is also shaping the trend. "What is driving demand for 'last mile' depots is the UK consumer's increasing expectation for next-day or same-day delivery," says Andrew Jones, chief executive of London Metric, the FTSE 250 property developer. "The retailer has to have facilities closer to where people live to make good on these promises."

> 'The retailer has to have facilities closer to where people live'

Just in time: a Wasabi customer snacks in a shop window — Corbis via Getty Images

Some established chains are able to use surplus store space on existing high streets to fulfil increasing online demand. "Argos is using its central London stores as a last-mile stock depot for online orders, and I've also heard of retailers using self-storage units to fulfil orders," Mr Jones adds. "It's not unique to London. We have also got a warehouse in Reading let to Bibendum Wines doing next-day delivery, and similar examples in Leicester and Bristol. The UK is already one of the most sophisticated internet shopping nations in the world. As we move through the generations, that can only go one way."

Retailers such as John Lewis offer free delivery to customers who "click and collect" from its network of stores which includes Waitrose supermarkets. This reduces the volume of individual home drops and has the added bonus that customers might buy something else when they come to collect goods.

The supermarkets have also had to rethink their supply chain, as Britons move away from a big weekly shop to several "top-up shops" in convenience stores. "Convenience stores require much more frequent replenishment, and there's no storage capacity, plus when you're delivering to congested areas like high streets, big trucks just won't make it," Mr Gulliford says.

And parcel carriers such as DPD have invested in technology to ensure online purchases arrive when customers are at home, by texting live updates to avoid the chance of missed deliveries.

In Greater London, land used for industrial and warehousing has reduced by 50 per cent over the past 30 years, and the Greater London Authority predicts it will reduce by a further 25 per cent over the next 15 years.

Yet every £1bn increase in online sales triggers a corresponding requirement for nearly 1m sq ft of warehousing space, according to a separate study by property consultants Gerald Eve.

With predictions that online shopping could grow from 12 to 20 per cent of UK retail spending, a supply crunch would be the likely result.

Prime capital sites dodge retail gloom

Shopping outlets

High vacancy rates on many UK high streets mask buoyant demand for key locations, says *Paul McClean*

A UK-wide slowdown in consumer spending and high street footfall has killed off some of the high street's biggest names. Even so, analysts remain sanguine over the general prospects for retail property in the capital, though they are warning of a widening gap between London and the rest of the UK.

A flurry of high street failures, most notably the collapse of department store BHS and men's clothings chain Austin Reed, raises the prospect that empty stores could lead to falls in property values as the market struggles to absorb vacant shopping space.

Dozens of BHS's landlords could struggle to fill properties following the retailer's collapse, as the portfolio is largely made up of large, old-fashioned stores that predate online shopping.

Nationally, the position is stark. Across the UK, the proportion of retail units without a tenant for between one and two years has jumped from 15 per cent to 24 per cent says Colliers, the commercial property advisers. Investment into retail property fell 54 per cent year on year to £1.6bn in the first quarter of 2016, the weakest quarter in four years, according to CoStar, another research group.

Hammerson, the FTSE 100 retail property group, recently wrote down the value of its UK portfolio by £51m. Earlier this year Lord Wolfson, chief executive of Next, described today's retail environment as "like walking up a down escalator".

Retail property at a glance looks precarious at best. But London is the exception. Since 2008, retail property rents in the capital have risen 60 per cent. Across the rest of the UK, stripping out London, they have fallen 22 per cent in the same period, according to Colliers. Yet London prime rents rose by an average of 7.8 per cent in the year to the end of April.

"There's been strong demand from international retailers for prime pitches of Oxford Street, Bond Street and Regent Street in recent years, sending vacancy rates across central London down to historic lows," says Mark Stansfield, analyst at CoStar. "Covent Garden has also really emerged as retail destination," he adds. "While many retailers will probably continue to look to exit underperforming stores elsewhere in the UK, on the big prime pitches in London that is unlikely to happen, and rents should keep increasing."

London has not finished expanding yet. About 2.5m sq ft of retail space will be added to the capital by 2018, through developments such as Coal Drops Yard at King's Cross, Battersea Power Station and a 740, 000 sq ft extension of west London's Westfield centre, one of Europe's largest shopping venues.

Retail spending benefits from millions of tourists each year — foreigners can account for close to 60 per cent of shoppers in some parts of the West End, according to Savills. But there are other reasons for its success. Analysts say good retailers seek property next to cinemas, restaurants and other food and drink outlets, underlining the importance of shopping as an experience rather than simply a transaction.

Business failures such as BHS are adding to the number of retail units without a long-term tenant

The relationship between landlord and retailer has also become more pragmatic. In the 1980s, most retailers were forced into 25-year leases with upward-only rent reviews. But the online revolution helped hasten the demise of some of the high street's most famous names such as Blockbuster and Woolworths. Today the average retail lease is around eight years, meaning retailers have far more power if they can find more favourable terms elsewhere.

"Traditionally, landlords and retailers didn't need to have relationships because long leases were the norm . . . landlords didn't care much about the retailer as long as they survived," says James Gulliford of Savills. "Now, landlords view them as customers, and the value of property is intrinsically linked with performance of the retailer."

Capital's status as Treasury cash cow is under threat

Property tax Revenue growth is slowing in the highest priced areas, reports *Vanessa Houlder*

When the tax paid by London's property buyers broke new records three years ago, it showed how far the capital's booming market had pulled away from the rest of the country.

In the six years since the financial crisis, residential stamp duty land tax (SDLT) receipts from London more than tripled, growing more than twice as fast as most English regions. By March 2015, the capital was still the only part of Britain where annual stamp duty revenues outstripped the last market peak.

The strength of the London market — coupled with a series of tax increases on expensive property — has made London property an increasingly valuable source of revenue for the Treasury.

Just two boroughs — Westminster and Kensington & Chelsea — together collected £938m of SDLT for the 2014-15 tax year. This meant that more than twice as much tax was paid by property buyers in 13 square miles of central London last year than in all of Scotland, Wales and Northern Ireland.

Some of the gloss has now been rubbed off London's high-end property market: the growth in its SDLT revenues was 11 per cent in 2014-15, compared with 16 per cent for the UK as a whole. Even so, residential transactions in London contributed £3.03bn of residential SDLT, about 43 per cent of the UK total in 2014-15. The importance of the London property market for tax revenues has grown significantly since 2007-08, when it accounted for only 28 per cent of total UK residential SDLT.

Tax revenues from south-east England have also risen sharply since 2008, accounting for around 22 per cent of the UK's total residential SDLT revenue of £7.5bn in the year to 2015.

The growth in stamp duty revenues reflects both the appeal of the London property market to wealthy buyers and a series of tax rises. Before 1997, stamp duty was charged at 1 per cent for all properties purchased over the value of £60,000. But since then the Treasury has introduced additional bands and higher rates, culminating in reforms announced by George Osborne, then chancellor, in December 2014.

They replaced the "slab" system of stamp duty — under which homebuyers paid stamp duty at a single rate on the entire property price — with a banded system, reducing the cost of buying property for many buyers but raising it for others. The effect of this measure was to raise rates for properties worth more than £937,000, focusing the impact of the tax more closely on high value properties in London and the south-east. Rates on the portion of property above £1.5m rose to 12 per cent.

The former chancellor went further in last December's Autumn Statement, saying that, from April 2016, anyone buying a second home would have to pay an additional 3 per cent stamp duty surcharge. However, the long lead-up to the rule change prompted aspiring buy-to-let landlords and holiday homeowners to accelerate their plans to avoid paying higher taxes.

The rising value of London property has also contributed to a growth in inheritance tax and capital gains tax receipts — the latter helped by the imposition in April 2015 of capital gains tax on the disposal of property by non-resident owners.

The capital gains tax levy was one of a number of ways in which the Treasury has chipped away at the tax advantages for foreigners of owning property through an offshore company. In 2012, it introduced a 15 per cent SDLT rate for property worth more than £2m that was bought by a company; in 2014, the threshold fell to £500,000. The last remaining tax advantage of holding property through offshore companies — an exemption from inheritance tax — will be scrapped next April.

The Treasury has also imposed a hefty annual charge — now as much as £218,200 a year for properties worth more than £20m — in an attempt to persuade people to scrap the companies and hold the property directly.

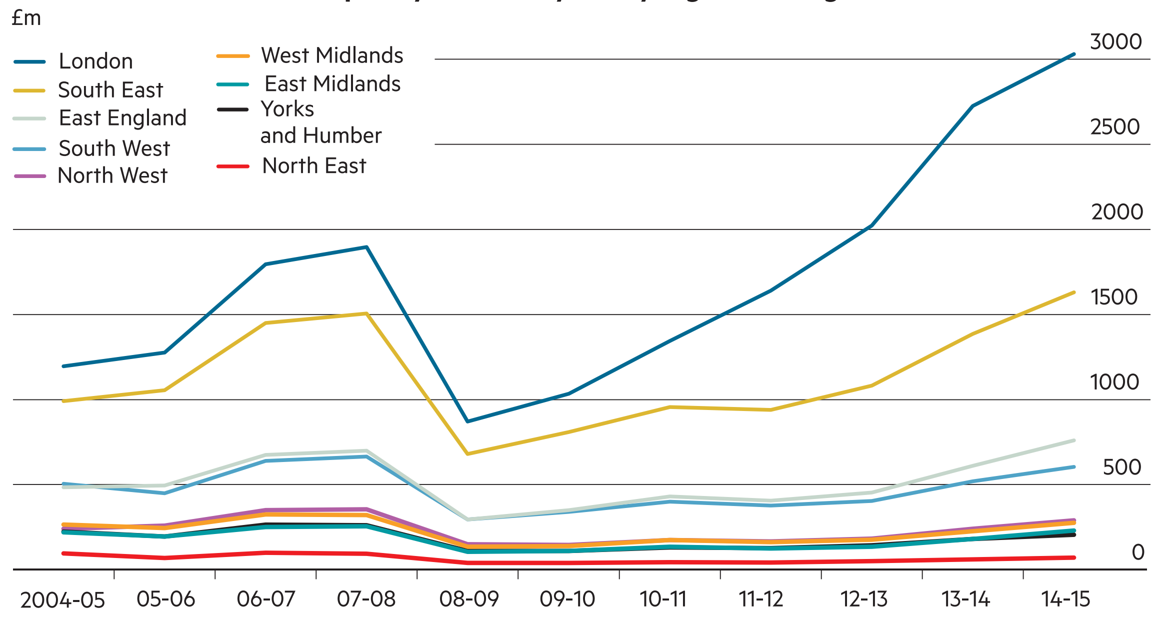
On top of this, the annual tax on enveloped dwellings (Ated) rose by 50 per cent to £174m last year.

Some property experts have warned that continued tax rises might become counterproductive in terms of raising revenue — arguments which the newly appointed chancellor Philip Hammond will have to consider as he prepares for his first Autumn Statement. Sales of expensive London property have been slowing — with a potentially big impact on SDLT receipts. Between July and November last year, the Office for Budget Responsibility downgraded its forecast for residential SDLT revenues for 2020-21 by a sixth.

But the tax costs of buying London property are in the middle of the range of 15 big cities around the world examined by Knight Frank, the property consultancy, and EY, the professional services group.

The report calculated that an individual buying a London property in August 2015 and selling it five years later after capital growth of 5 per cent a year would pay 9.7 per cent of its sale value for a $1m investment and 20.7 per cent for a $10m investment. It said that on tax, London "very much remains in the middle of the pack".

UK residential SDLT (stamp duty land tax) yield by regions in England



FT graphic Sources: HM Revenue & Customs; FT research

- Between 2008-09 and 2014-15, residential SDLT receipts from London grew by 248 per cent
- Of the £7.5bn of residential SDLT revenue collected in 2014-15, around 43 per cent accrued from London
- South-east England is the next biggest SDLT contributor, generating around 22 per cent of the tax yield in 2014-2015
- The yield from non-residential SDLT covering commercial buildings increased by 14 per cent to £3.2bn in 2014-15
- A single London borough – Westminster – generated 8.4 per cent, or £273m, of the UK's non-residential SDLT yield in 2014-15


Taxing times: Philip Hammond

Greenbelt buckles under strain

Rural protection

A main tenet of postwar planning – aimed at avoiding urban sprawl – divides opinion, writes *Kate Allen*

This green and pleasant land: an aerial short of London's greenbelt boundary — Dan Kitwood/Getty Images

When the residents of the well-heeled town of Ascot in London's commuter belt backed plans to rejuvenate their high street, they faced a challenge: to be allowed to build on protected land.

London is surrounded by a ring of undeveloped countryside known as the greenbelt. It was created after the second world war in a bid to stop the capital sprawling into the kind of low-density ribbon development that has marred the outskirts of many American cities.

For those who live in and near commuter-belt towns and villages such as Ascot, the greenbelt is widely seen as a precious amenity that should be protected from avaricious developers.

But some communities have also come to see it as a constraint.

Ascot residents felt that their town needed an economic boost and backed a scheme to build on vacant land on one side of the high street, which would create more shops, homes and facilities. Over 90 per cent of respondents to a consultation supported the plan to get the high street site de-designated so that it could be built on.

Ascot is just one of many examples of how London's greenbelt is gradually being eroded. Councils across England have approved plans for 275,000 homes on greenbelt land, including 117,000 in the area around London, according to research carried out earlier this year by the Campaign to Protect Rural England, a lobby group.

That figure rose by a quarter in a year, CPRE found. Greenbelt construction has been growing steadily for more than half a decade as cash-strapped public bodies sell off land and demand for housing soars.

Not everyone regards this as a bad thing: most economists agree that the greenbelt acts as a significant constraint on the supply of new housing and fuels rising house prices, particularly in areas of high demand such as London.

Andrew Jones, a director at Aecom, a planning consultancy, says that many sites within the greenbelt already have good road and rail connections. Given that "we've already invested in the infrastructure", it would make sense to "look at whether those sites are better used for urban growth", he says.

The loss of greenbelt land could be offset by giving additional protection to areas of countryside that are not currently covered by greenbelt rules, he suggests.

Many economists and housing campaigners want the government to carry out a strategic reassessment of all greenbelt areas, to avoid their gradual depletion and to create a proper plan for how best to go about developing those areas, when permission is granted.

But Paul Miner, planning campaign manager at CPRE, says building on the greenbelt was "not the solution".

"Young people should have access to jobs, amenities and affordable housing. Developers want to go into the greenbelt to build executive homes, which will not provide for this need," he says. Instead, Mr Miner argues, London should focus on building on brownfield land — it has enough to create 300,000 homes, according to the CPRE.

The government had planned to give councils greater discretion over whether local greenbelt areas should be built on, but that could be reined in after new prime minister Theresa May pledged to protect the countryside.

During her leadership campaign this summer Mrs May said that councils should "avoid development on the greenbelt as far as is possible". New communities secretary Sajid Javid reinforced that shortly after his appointment in July when he told MPs that the greenbelt was "absolutely sacrosanct".

Despite this, the residents of Ascot might get their way: their local council is now considering de-designating the high street site and a swath of other greenbelt areas around the town to accommodate the 1,600 homes that it says must be built there over the next two decades.

The residents, however, are less supportive of the plan than they were when they backed de-designation by an overwhelming majority two years ago.

They fear that developers will not deliver all the facilities and infrastructure that residents had hoped for.

Margaret Morgan, a spokeswoman for Ascot's neighbourhood plan delivery group, says: "We have deep concerns. We fear that what the community signed up for won't be delivered."

"If you ask me whether I am in favour of releasing greenbelt land for development, I would now have to say the answer is no."

Provincial cities profit from capital spillover

Nearshoring

London's high prices are boosting the appeal of other UK cities, writes *Andrew Bounds*

Four years ago One St Peter's Square in Manchester was lauded as the first speculative office development outside London since the financial crash of 2008. This August it was sold, with its 288,000 sq ft fully let, to a German buyer for £164m. The property cycle is once more on an upturn outside the capital.

Part of the reason is the booming market in London, agents say. Some investors have been priced out while yields tend to be higher in regional cities, even if capital growth is more subdued. And companies are increasingly looking to shift jobs to cheaper centres.

It is not just that their own costs are lower: their workers might be able to afford somewhere to live. Average house prices are nine times average earnings in London, but just 3.4 times in the north. "For companies in the capital, attracting young employees is becoming an increasing problem," says Kelvin Craddock, an office specialist at JLL, the consultancy. "Cities such as Birmingham, Manchester, Leeds and Bristol are increasingly more attractive as employment destinations to graduates."

Examples include Deutsche Bank opening an office in Birmingham and HSBC moving its retail headquarters to the city. Insurer Hiscox has shifted jobs to York while Nottingham has attracted Now: Pensions, owned by ATP of Denmark, and Thomson Reuters, the news agency.

The tactic has been dubbed "nearshoring" as opposed to the offshoring of jobs abroad to cut costs. The most popular destinations are the "Big 6" cities that offer cultural and sporting attractions, good transport connections and a ready pool of graduates from universities. They are Manchester,Birmingham, Bristol, Leeds, Glasgow and Edinburgh.

JLL said that 1.4m sq ft of commercial spaces was acquired by nearshoring occupiers across the "Big 6" over the past two years. The banking and finance sector accounted for almost half.

In 2015 there was a record £2.6bn worth of property investment in the Big 6 and a record level of pre-lets. According to CBRE, the property consultancy, 60 per cent of commercial property deals by value are outside London and the South East.

However there is still a shortage of talent in many big cities as graduates leave for London. Research by PwC, the professional services firm, found that in 2014 more than 66,300 people in their twenties moved out of northern England while just 42,500 moved in.

The vote to leave the EU in June has also unsettled the market. London rental prices should slow, meaning there is less pressure to look elsewhere. But the weakening pound has also made UK property cheaper for overseas buyers. And many cities are still catching up after a dearth of new building following the 2009 recession.

Cities such as Birmingham (right), Manchester, Leeds and Bristol are tempting more employers

Matt Long, director of national offices at advisers Colliers, says the provisional bull run should continue. "Birmingham continues to offer value for money, with current rents for prime office space in the city quoted at £35 per sq ft, as opposed to £60 to £80 per sq ft for equivalent space in London."

Building is continuing in Manchester. The city centre vacancy rate is just 6.8 per cent, and prime space even scarcer at 1.8 per cent. BNYMellon made the move to Manchester 11 years ago. It is one of the US bank's six global delivery centres. Matt Wells, Manchester site manager and former London resident, says it had been a "perfect home" and predicts more financial services companies will gravitate to the city.