

# Spotlight London Mixed Use Development

2016



## SUMMARY

The capital needs a combination of more homes and workplaces beyond central London

■ London needs 64,000 new homes a year, a 28% increase on our 2013 estimate of 50,000 new homes a year, to take account of population growth as well as projected employment growth on the back of the capital's strong economic performance.

■ This growing number of employees will also need 20m sq ft of additional office space over the next five years, the equivalent of increasing the City of London by 25%.

■ On an annual basis we need to build 4 million sq ft of new offices, the

equivalent of 1% of existing stock. This compares with a residential demand for an increase of 1.9% of existing housing stock every year (55 m sq ft).

■ Combining both residential and commercial uses enables us to intensify development and make better use of land to address our shortfall of housing and affordable employment space.

■ There is tremendous potential outside central London. We have identified eight hotspots which are growing employment centres where

mixed use development is suitable.

■ With the differential between office rents in central locations and outer London markets the highest since 2007, these locations could provide options for more price sensitive occupiers to relocate. Development in these areas would also enable London's workforce to live closer to work in more affordably priced homes.

■ Land can be found by increasing densities around transport corridors, creating new vibrant places to live and work. Bold action is needed.

# Market Dynamics

## LONDON'S BALANCING ACT

London needs more homes and workplaces. Combining residential and commercial uses supports the best use of land

**H**ousing has never been higher on the political agenda. The new Mayor will be under pressure to deliver solutions to the housing crisis and decades of undersupply, as demand for homes continues to rise and affordability pressures on buyers and renters mount.

However, a housing shortfall is not the only challenge the new Mayor faces. As a global city, London commands some of the highest office rents in the world as a result of high demand for workplaces in the capital. We are therefore not only suffering from a housing crisis but a real estate crisis where more affordable office space is also needed, if London is to continue to grow.

According to our latest analysis, we ought to be building 64,000 new homes a year, a 28% increase on our 2013 estimate of 50,000 new homes

a year. The hike takes into account population growth and migration, as well as projected employment growth, on the back of London's strong economic performance.

The residential demand equates to at least 55 million sq ft of residential, equivalent to 1.9% of existing stock per annum. This equates to 860 football pitches.

For commercial offices, based upon the latest estimates of office-based employment growth in London, we estimate an additional 4 million sq ft commercial office space is required every year, equivalent to 1% of existing stock, or three buildings equivalent to The Shard per annum. This expansion meets the increases in employment growth but there will also be a demand for new offices for companies looking to upgrade their existing space. Our estimate of demand, split between inner and outer London boroughs shows that a quarter of the additional office demand will be required in the outer London boroughs, but the current share of new offices in the pipeline, with certain timing of delivery, is only 7%, equating to around 2 million sq ft. This will and needs to increase as the new emerging outer London office locations become reality.

Our housing demand figure is above the Greater London Authority's assessment of need which lies between 49,000 and 62,000 a year. However, with only 27,800 new homes delivered in the year to March 2015, actual supply is well short of any measure.

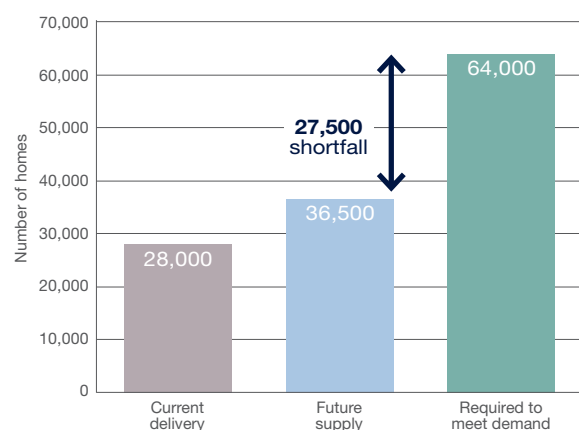
The biggest supply shortage is in the lower value markets, particularly for homes priced under £450 per sq ft (the equivalent of £270,000 for a small two bedroom flat). Our analysis of future supply against demand during the five years to the end of 2020 indicates that 36,500 homes will be delivered per annum across the whole of London, leaving a shortfall of 27,500 a year (Figures 1 and 2).

Rents in Central London offices have grown considerably through the current cycle. Prime rents have grown robustly since the economic downturn and as a result the differential between office rents in central locations and outer markets is the highest since 2007 (Figure 4).

### Office demand

While we have seen rapid rent rises in central locations (City, West End or

FIGURE 1  
Annual housing delivery shortfall



Source: Savills Research



Gap between supply and demand closing for homes between **£450** and **£700psf**

“We are not only suffering from a housing crisis but a real estate crisis where more affordable office space is also needed, if London is to continue to grow”

Docklands), the outer London market (everywhere else) has shown flatter growth. Some markets in locations that provide quick access to the financial and Government centres therefore remain affordable, prompting some businesses to relocate, particularly more consumer focused ones which are more sensitive to rising rents.

## Beyond the centre

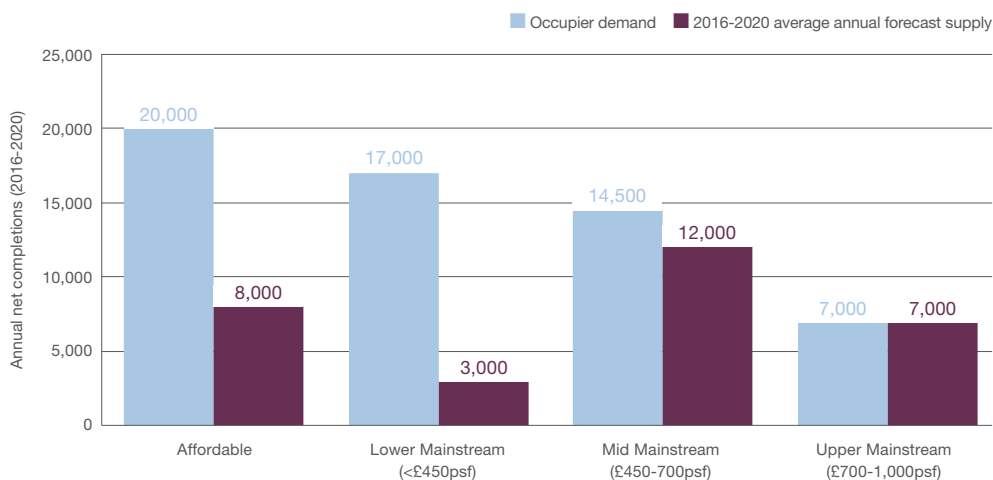
Regeneration and transport improvement can open up opportunities beyond the centre to bring forward new homes and employment space. As we explained in a previous report 'Redefining Density' last year, there is tremendous potential to make better use of land by building at higher densities beyond central London, particularly by developing close to transport nodes. Delivering a mix of uses: residential, employment as well as supporting retail and other social amenities is essential to achieve this aim and create great places.

In the shorter term, developers must navigate certain market challenges. Following 66% house price growth over the last ten years, the London residential market has been softening. Volumes of sales of prime new homes slowed following the reform of Stamp Duty Land Tax (SDLT) in December 2014, the announcement of a tapering of mortgage tax interest relief from 2017 and the introduction of a 3% surcharge on SDLT on investors and buyers of second homes in April this year.

The volume of sales of new homes have slowed most in the Mid Mainstream market (£450psf-£700psf) and the Lower Mainstream market (sub £450psf) due to a lack of available stock.

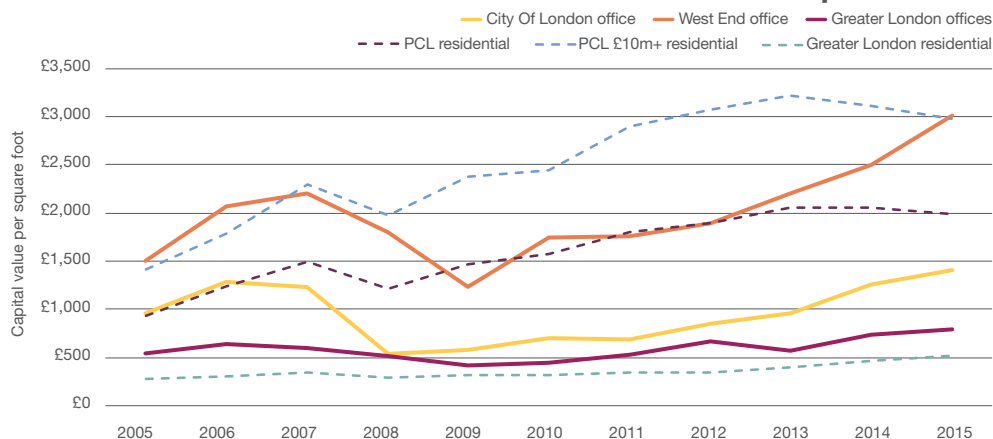
Affordability pressures have also been growing, despite lower mortgage rates, with the average deposit for a first time buyer now at £77,000. Home buyers have therefore been looking further afield for value. Over the past 12 months outer London boroughs have seen the largest price growth, with Enfield, Hillingdon and Lewisham recording increases in value, ranging from 17% to 20%. We expect this to continue and forecast that boroughs outside the centre which have not seen such strong price growth over the last 10 years will see significant growth over the next five years. ■

FIGURE 2  
**London supply and demand by price band**



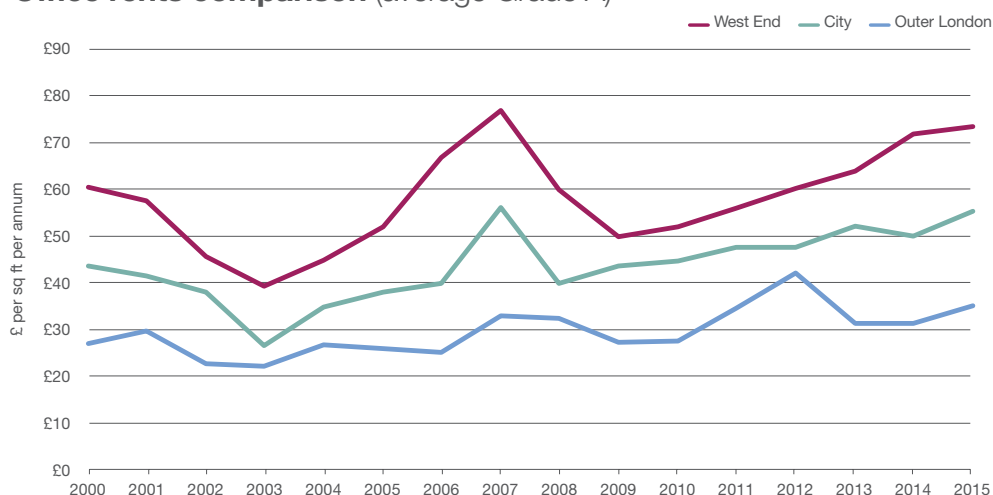
Source: Savills Research

FIGURE 3  
**Revised recent London office and residential value comparison**



Source: Savills Research

FIGURE 4  
**Office rents comparison (average Grade A)**



Source: Savills Research



# Development hotspots

## HOMES AND WORKPLACES

Transport improvements enhance the potential to deliver mixed use projects, creating new neighbourhoods and employment centres

New train lines and station openings act as a catalyst for development and regeneration. To make the best use of London's land we need to deliver the right balance of homes, workplaces and supporting local amenities.

In our 2015 report, 'London Development: Towards 50,000 homes a year', we identified 21 hotspots which could deliver 58,000 additional new homes by 2025. Here, we have analysed which of those locations could support a combination of homes and workplaces.

We picked eight locations where good connectivity allows building at higher densities to deliver a mix: Tottenham Hale, Croydon, Stratford, Canada Water, Wembley, Clapham Junction, Brent Cross and Royal Docks. Some of these locations are currently under a period of complete transformation.

There are four main factors governing decisions on where to locate an office: connectivity, cost, clustering potential and amenity provision. Most of these elements also influence where people like to live and hence demand for housing. However, developers must also consider Community Infrastructure Levy, the requirement for affordable housing and build costs in the decision process.

A key element in the success of a mixed use scheme is access to transport. Employers are hesitant to move to poorly connected locations for fear of losing staff. Most prefer locations where there is access via more than one mode of public transport. The Transport for London (TfL) Public Transport Access Levels (PTAL), scores locations in regard to their proximity to existing public transport and the frequency of services.

Six of the locations all score highly in the TfL's PTAL rating: Tottenham Hale, Croydon, Stratford, Canada Water, Wembley and Clapham Junction all scored above six, highlighting their excellent connectivity and hence how this will appeal to an employer's labour force. Royal Docks will improve with the

arrival of Crossrail, now Elizabeth Line. Brent Cross will also benefit from a new station.

The infrastructure improvements, both confirmed and proposed, will provide additional transport capacity to areas that are already well connected and open up new areas.

Crossrail is expected to open from 2017, with trains starting to operate in phases until the full service is delivered by the end of 2019. The current ambition is to open Crossrail 2 by 2033, and £80 million was committed by Government in the latest budget to get the project through the initial planning phases.

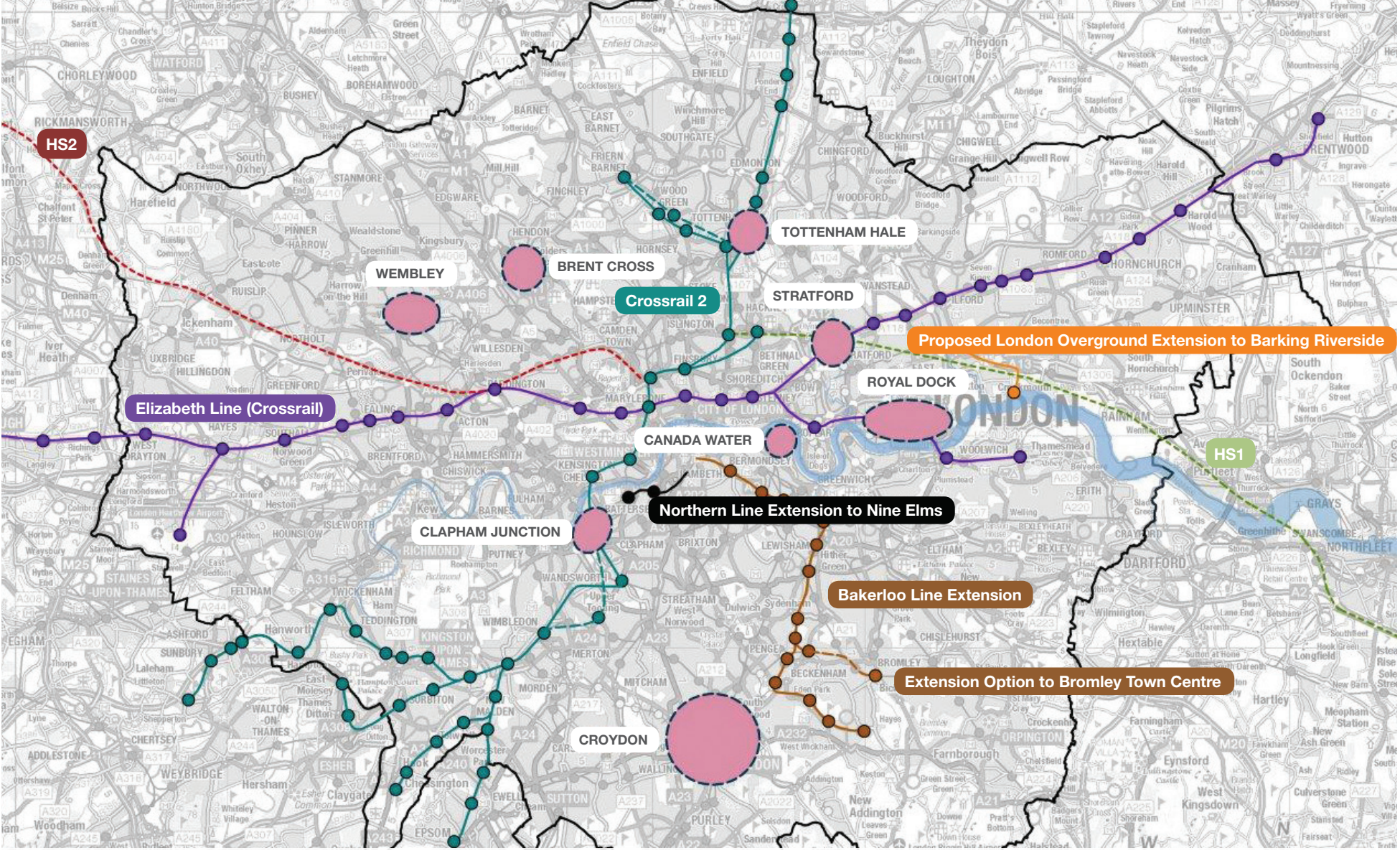
Of our development hotspots, Croydon currently has the most mature office market and an existing residential market. However, with significant regeneration in progress, including the delivery of new retail development, Croydon's reinvention can drive the office market forward to attract larger employers.


Stratford has developed from a standing start and has continued to evolve since the Olympics. The Royal Docks, like Stratford, has developed from a low base and is certainly a market of the future.

Wembley saw considerable investment and development in the last property cycle. New build residential values are outperforming the second hand market. The delivery of an office element will provide choice for companies moving out from central locations.

As part of the GLA 'Housing Zones' programme, Tottenham Hale, Clapham Junction and Canada Water benefit from access to finance to provide local infrastructure improvements, greater planning certainty for developers and political drive to speed up delivery.

Tottenham Hale's relative location to Central London, makes it an area to watch. Clapham Junction offers exceptional connectivity and is close to a rich seam of labour in the London market. Of the three 'emerging' locations, Canada Water has the potential to be the most significant development over the next 15 years with the capacity to create 15,000 jobs. ■





### FOUR PILLARS OF MIXED USE DEVELOPMENT

- Connectivity
- Occupational cost
- Clustering potential
- Amenity provision

Mixed use development hotspots

Market	Prime Office Quoting rents £psf	Discount to Average Prime West End	Discount to Average Prime City	Current Connectivity (PTAL)	Residential New build £psf (assume 15 min walk from station)	Residential Second hand upper quartile £psf (ward)
Tottenham Hale	£42.50	60%	43%	High (6a)	£525	£400
Croydon	£37.50	64%	49%	V Good (6b)	£550	£360
Stratford	£42.50	60%	43%	V Good (6b)	£750	£470
Canada Water	£39.50	62%	47%	High (6a)	£750	£660
Royal Docks	£30.00	71%	59%	Low (2)	£650	£520
Wembley	£37.50	64%	49%	High (6a)	£700	£410
Clapham Junction	£52.50	50%	29%	High (6a)	£975	£800
Brent Cross	£37.50	64%	49%	Good (5)	£640	£520

Map source: Savills Research, OS OpenData

Table source: Savills, Transport for London



# Planning

## MAKING BETTER USE OF LAND

Intensifying development and building a mix of uses helps to create a dynamic new place

**O**ur eight development hotspots provide great opportunities to deliver both homes and employment

spaces. However, to achieve the greatest potential for each location, developers, planners and communities must consider intensifying development to provide a broad mix of housing and commercial space with supporting shops, services, leisure facilities and amenities.

Our research shows that there are many areas of London where density is low relative to its transport connectivity, particularly in the outer boroughs. In a previous report, 'Redefining Density', we calculated that we could theoretically deliver 1.46 million new homes if density levels in areas of low density but good connectivity were increased slightly.

The tremendous potential to do more is reflected in amendments to the London Plan, giving greater policy support to densification in areas such as town centres of varying sizes from international centres in central postcodes to smaller district centres in the outer boroughs.

By definition town centres are focal points for communities and key locations for a range of activities from living and working to shopping and leisure. Hence town centres clustered around transport nodes can provide good opportunities for development across a range of uses at neighbourhood level.

### Office and Resi

There is a symbiotic relationship between residential and commercial development that can help support local amenities and create a sense of place, if both are considered together at neighbourhood level rather than treated as separate entities.

Residents clearly value access to good local shops, cafes, restaurants and other leisure amenities and higher residential values near vibrant high streets illustrate this fact. However, retail and leisure facilities need day time trade to thrive. Local commercial workplaces provide this vital footfall.

Moreover, commercial occupiers moving out from more central areas demand excellent access to retail amenities whether this be included in the same scheme or on a nearby high street. Occupiers do not want to feel isolated and risk losing staff if there is a lack of retail amenity in close proximity.

### Education, education

Schools and educational facilities provide similar benefits at a local level. Good schools are a draw to home buyers. Our analysis shows that there is a 19% house price premium around the 20 best performing state schools in London.

Furthermore, commercial occupiers are now seeking to be located near good educational establishments in order to secure the future of their labour force. The opportunity to establish a partnership with a local university has proved attractive to occupiers when considering relocating from central London.

In larger scale developments, particularly where new

▼ North West Village Terrace overlooks Wembley Stadium



neighbourhoods are being created rather than enhanced, bringing forward a mix of uses rather than building a dormitory housing development, is a particularly effective way of creating a sense of place.

Time invested in planning and delivering the ground floor leisure and retail offering can pay dividends further down the line as we have seen with the Argent regeneration of King's Cross.

The amenities act as a draw to commercial occupiers which provide greater footfall at an earlier stage of a big scheme than residential sales over several phases could achieve. However, place improvement enhanced by these amenities drive residential values.

Achieving the critical mass to support local amenities and social infrastructure can require intensification of land use. Ensuring that new mixed use developments are well-designed and high quality allows for greater densities to be achieved. The result is a better use of London's scarce land and ultimately more homes and workplaces for Londoners.

## Affordability and housing

We need to be building greater volumes at sub £450psf but the challenges of delivering homes at these lower price points are enormous. Finding suitable sites that are viable once build costs have been factored in is very difficult in the open market. Therefore, the disposal of surplus public land is key. There are challenges. When considering land value, the volume of demand should be as important a consideration as the headline pricing.

Developers investing in place making, or in areas where infrastructure is improving, expect value uplift, thereby pushing up to price points where there is less of a supply demand imbalance. Our analysis shows that there is a finite volume of occupier demand at higher price points, so care needs to be taken not to sacrifice absorption rates for high prices. This highlights the importance of providing a range of tenures and housing products targeted at people across a range of incomes to maximise take-up. Shared Ownership, Starter Homes, Help to Buy and Build to Rent all have a role to play. ■

## OFFICE EMPLOYEES' VIEWPOINT

### Length of commute is an important factor

Not everybody wants to work in the city centre. In fact, 29% would prefer not to be located in the centre according to our survey of office-based workers across the UK. Our YouGov survey was commissioned by Savills alongside the British Council for Offices.

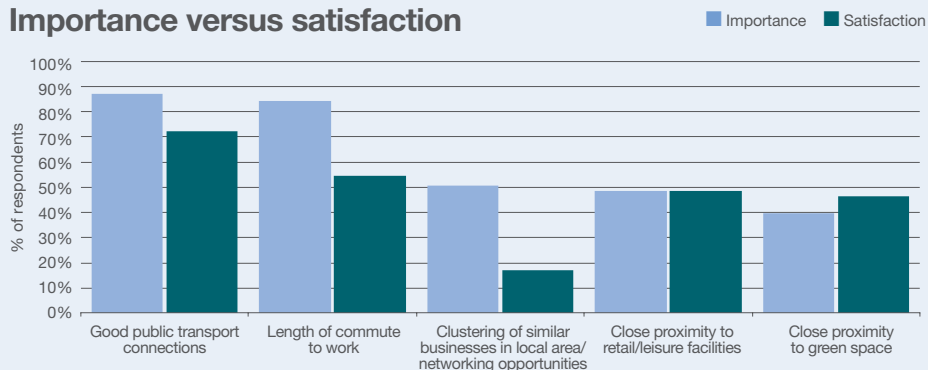
The fact that many employees seem to aspire to eliminate the commute into central postcodes suggests there is an opportunity for employers to consider cheaper office floorspace options further out. But will the emerging locations beyond core London and towards the outer boroughs provide real alternatives to traditional employment centres?

We surveyed what office workers rate as important and compared that with their levels of satisfaction with their current working environment. The accessibility to the workplace is of major importance. Transport and the commute are the highest rated factors in chart 5. Only 17% of London workers commute by car compared with a 50% average for the UK. The time commitment of the commute for London office workers is clear in Figure 6. Around 54% of London office workers commute for more than 45 minutes compared to 25% for the UK average. As a consequence, for London, there is a direct relationship between the longer length of commute and workers' lower levels of satisfaction which could potentially influence employers' locational strategy in the future.

Similarly, despite clustering and related networking opportunities being important to 50% of Londoners, there is an extremely low level of satisfaction with this. This illustrates the potential for new locations to act as hubs for similar companies where like-minded employees can engage. For developers, within a mixed use development, this should certainly be a consideration and incorporated within the development of the newest and emerging office locations.

FIGURE 5

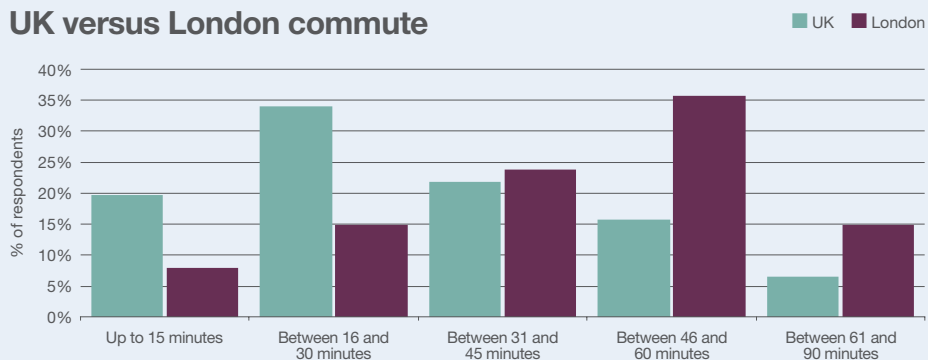
### Importance versus satisfaction



Source: YouGov, Savills, BCO

FIGURE 6

### UK versus London commute



Source: YouGov, Savills, BCO

## OUTLOOK

### Great potential for mixed use development beyond central London

■ London needs to provide a greater number of homes and an increased variety of more affordable workplaces. We estimate the capital requires 64,000 new homes a year. We also need to deliver 4m sq ft of new office space a year to meet demand for workplaces. Building a combination of uses at neighbourhood level in well connected areas is the best way to intensify development and optimise London's land.

■ Developing town centres away from central London provide opportunities to deliver necessary homes and offices. Our forecasts for both residential capital values and office rents suggests that this is a good time to consider the outer boroughs.

■ Croydon tops our list as the hottest market for office rental growth in London and the South East. We expect office rents to rise by an average of 27.8% a year over the next five years, far surpassing office rental growth in the City and West End but starting from a far lower base.

■ We expect to see a more muted residential market. House price inflation in London has slowed significantly except in

the outer London boroughs which are still seeing annual growth of up to 17%.

■ This trend is likely to continue, with price growth in the outer boroughs exceeding our five year forecast for the London average of 15.3%, as buyers seek better value away from the centre. Areas benefitting from transport improvements and significant high-quality regeneration and place-making are likely to see value uplift ahead of these borough averages.

■ We estimate that there is an annual shortfall of housing of 27,500 with greatest need for homes priced below £450psf. Building in the outer boroughs is more likely to service demand in the price bands with the greatest shortfall.

■ A wider tenure mix will still be necessary including homes for rent via institutional PRS and homes for sale at sub-market levels via schemes such as Starter Homes and shared ownership.

■ Infrastructure is a key trigger. By opening up new sites and parts of outer London, new lines such as Crossrail (1 and 2) can

trigger development, particularly when these new stations are accompanied by bold plans for place improvement.

■ The disposal of surplus public land (already underway and helped by London Land Commission), will help bring forward many new sites for much needed development. However, we would question whether London can accommodate its growth within its city boundaries. Co-operating with surrounding local authorities to identify sites and bring forward development should be a key step for the new Mayor.

.....  
Building a combination of uses at neighbourhood level in well connected areas is the best way to intensify development and optimise London's land"  
.....

## Savills team

### Research



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



**Katy Warrick**  
London Development  
020 7016 3884  
kwarrick@savills.com  
@katywarrick



**Steven Lang**  
UK Commercial  
020 7409 8738  
slang@savills.com



**Dominic Grace**  
Head of London  
Residential  
Development  
020 7409 9996  
dgrace@savills.com



**Paul McGowan**  
Greater London  
Development  
020 7016 3844  
pmcgowan@savills.com



**Piers Nickalls**  
Office Agency  
020 7409 8704  
pnickalls@savills.com



**Simon Tate**  
Head of London  
Commercial Development  
020 7409 5979  
state@savills.com

### Development

**Savills plc:** Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.