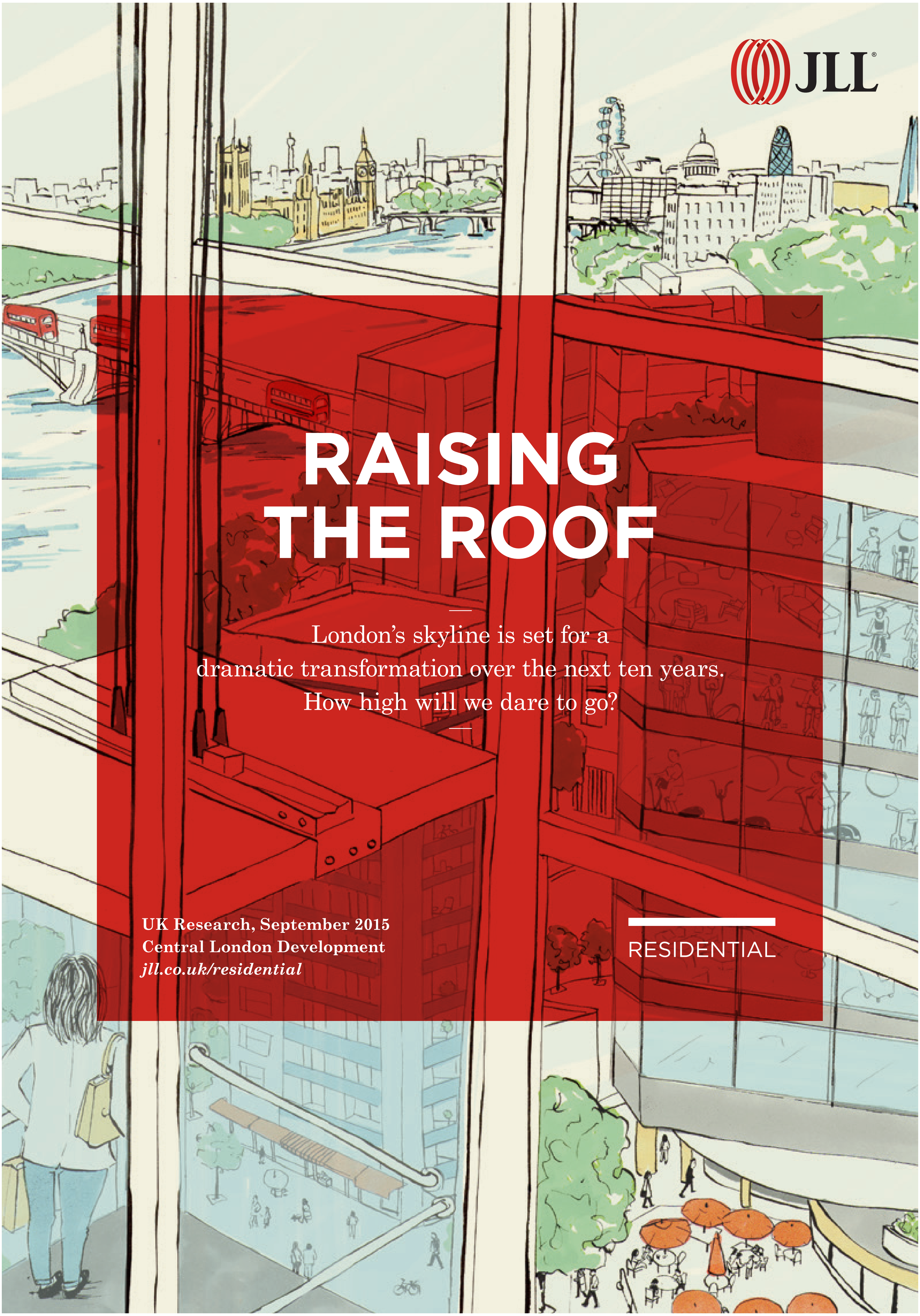


RAISING THE ROOF

London's skyline is set for a dramatic transformation over the next ten years. How high will we dare to go?

UK Research, September 2015
Central London Development
jll.co.uk/residential

RESIDENTIAL

OUR VIEW

RAISING THE ROOF

London stands at the precipice of a monumental and defining stage in its evolution. Never before has it been viewed as a modern, progressive and flamboyant city. It is renowned and revered for its history and tradition. But with more than a 10% increase in population over the next decade and a raft of new towers set to transform its skyline, London is set for a new era in its development.

Divided market

The Central London residential development sales market has divided into two. The sub £1.5m, and particularly the sub £1m sector, remains strong and active with prices rising steadily. Demand is robust, both from domestic and overseas purchasers.

The £1.5m+ market is notably more sensitive. New stamp duty rates which came into force last December are now playing an instrumental role. A £2m purchase now carries an additional £53,750 stamp duty bill. The new rates of stamp duty need urgent review.

Developers upbeat

Developers are still keen to build, buoyed by the undersupply of housing, the strength and depth of demand, especially at the lower price points, as well as the confidence instilled by a stronger UK and London economy.

They are building notably more homes. The number of units under construction has escalated from 10,000 four years ago to 30,700 today.

JLL RESIDENTIAL RESEARCH
NEIL CHEGWIDDEN

There are some signs that this may ease over the next 12-24 months but the volume of delivery certainly looks more healthy. However, as is our perennial problem in London, this is still not sufficient to meet our growing need.

Tower support

There is a sudden wave of towers ready to transform the skyline and on a scale and height never before seen in London.

The taller towers are located in central and more expensive parts of the Capital. But there are plenty of slightly shorter towers set to spring up across Greater London and for the benefit of ordinary Londoners.

These are exciting and momentous times for London. The next decade will prove a defining age for our previously sacrosanct skyline.

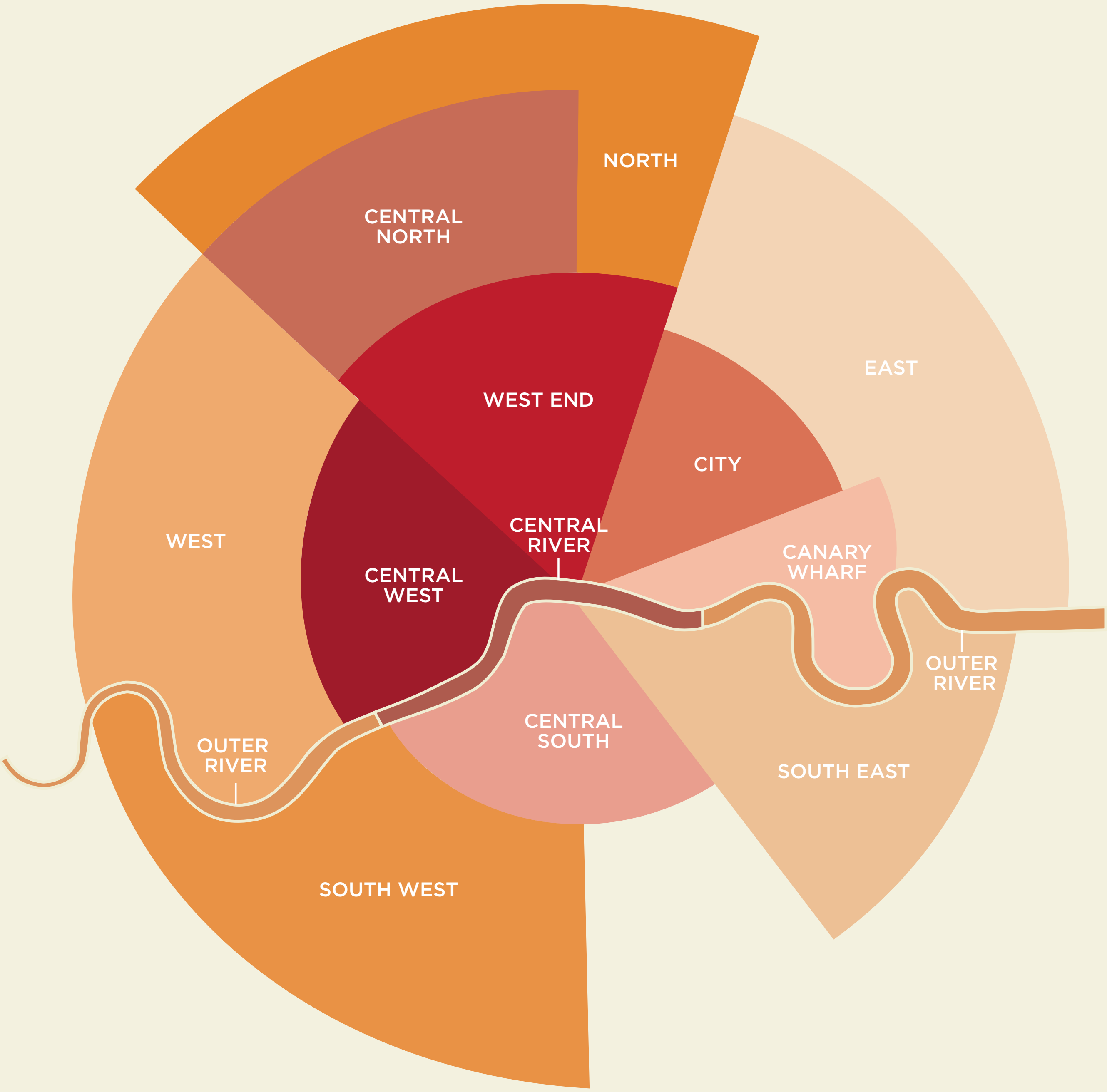
This is our #NewResidentialThinking
Join the discussion on twitter @NeilChegwidden / @Adam_Challis / @JLLUKResi

IN THIS ISSUE

"I see a vastly different London over the next decade. We have to accommodate an extra one million people and building up, raising the roof as it were, will not only help to deliver greater housing volume, it will also keep our historic Capital city amongst the most spectacular in the world."

JLL CENTRAL LONDON DEVELOPMENT RESEARCH

AREAS AND PRICE RANGES



Source: JLL

JLL research parameters

JLL Central London residential development research covers the areas depicted in the map shown. Broadly speaking this covers Underground Zones 1 and 2. Within this area we define two main sub-groups; Core and Outer Core. The various shades of red in the map show the Core areas, while the orange regions are Outer Core. The table below shows the range of typical values within each area.

In Core markets we track developments of 25 or more private units, and in Outer Core the threshold is 50 units.

CENTRAL LONDON NEW DEVELOPMENT SUB-MARKET PRICING (£PSF)

	MAXIMUM	AVERAGE	MINIMUM
CENTRAL WEST	£6,250	£1,750	£950
WEST END	£4,000	£1,650	£900
CENTRAL RIVER	£3,500	£1,500	£1,000
CITY	£3,000	£1,300	£850
CENTRAL SOUTH	£3,500	£1,250	£850
CENTRAL NORTH	£2,600	£1,250	£800
CANARY WHARF	£1,400	£1,150	£850
OUTER RIVER	£1,050	£800	£550
NORTH	£1,250	£750	£550
SOUTH WEST	£1,200	£700	£550
WEST	£1,100	£675	£500
SOUTH EAST	£900	£650	£450
EAST	£850	£625	£450

CORE OUTER CORE

Source: JLL

DIVERGING SENTIMENT

Sentiment and activity in the Central London new development sales market has picked-up since the general election. But the market is now price sensitive as a result of the stamp duty reforms last year, which have assumed centre stage following mansion tax and election concerns. Recent events in China have also instilled a little caution into the market.

Price sensitive

The stamp duty reforms from last December are now playing a key role in the Central London development market and have created a divide in conditions above and below £1.5m.

The reforms broadly mean that purchases below £1m attract lower stamp duty than before while anything above this price point incurs an increasingly burdensome tax hit.

The market in Outer Core locations and for smaller units in Core submarkets is still highly active as prices are generally below the £1m price point.

The real step change is for larger units in locations where prices are north of £1,500 psf.

Demand drivers

The majority of domestic demand sits below this price level and is also focussed on Outer Core submarkets. These segments of the market are quite busy, with plenty of activity and some positive price growth. Owner occupiers and investors are both playing their part.

Much international demand, however, has become price and location dependent. Currency devaluations, as well as other economic and political factors, are also impacting on demand from different parts of the globe.

Demand for London residential property is reasonably strong from the Middle East and Hong Kong and has been helped in Malaysia by currency shifts. Recent events in China have dampened appetite while sentiment is now quite weak in Singapore.

Overall, international demand is mixed but steady.

Launches down

The first half of 2015 has witnessed a notable drop in the number of scheme launches, especially in Outer Core submarkets, with the uncertainty surrounding the general election in May undoubtedly a contributory factor. Importantly, there has been an increase in releases in late Q2 and into Q3 with several high profile and successful launches.

Across the whole of Central London there were 6,700 new unit launches during H1 2015, a 12% decline from the 7,600 in H2 2014. But in Outer Core markets the 6,100 unit launches in H2 2014 fell to just 4,300 units during the first half of this year, a 29% decline.

Sales activity steady

Fewer launches have inevitably led to fewer sales, but activity has held up quite well despite the interruption of the general election.

There were just under 2,500 sales during Q1 but a far stronger and more typical 3,500 sales during Q2.

In excess of 6,000 unit sales occurred during H1 2015. This is more than 25% higher than the half-yearly average over the preceding four years, but is slightly below the preceding two half yearly totals.

6,000

New units sold in Central London in H1 2015

Not surprisingly the volume of sales in the most expensive markets has slowed as these areas continue to bear the brunt of taxation issues and weaker sentiment.

But some of the less expensive Core submarkets have significantly increased sales. For example, there were over 600 unit sales in both Central South and Canary Wharf during H1 2015.

Price growth slows

Price growth has eased down as a result of the price sensitivity issues, but has remained positive and now stands at 1.4% pa having been 13.7% pa a year earlier.

1.4%

Average price increase in year to H1 2015

Lower value properties and areas have seen stronger price growth over the past 6-12 months and there is a fair range of growth rates across Central London (see map).

Smaller units in Outer Core markets have witnessed average price growth of 2.8% pa while at the other end of the scale larger units in Core markets have seen prices fall by 1.5% pa on average over the past 12 months.

Outlook less certain

The near-term outlook has become more uncertain in recent weeks following China's currency devaluation and stock market woes which have unsurprisingly caused concerns across the world.

However, the UK economy remains not only robust but strong, at least for now, with London particularly buoyant. London's safe haven status will undoubtedly stand it in good stead too.

It will take time for the Chinese issues to fully unravel and for their full impact to materialise, but until then the London residential market will press ahead with optimism, albeit tinged with some measure of caution.

CENTRAL LONDON SALES EASE

Number of unit sales per half year

H1 2014
6,700

H2 2014
6,400

H2 2015
6,000

5%
DECREASE
LAST 6 MONTHS

Source: JLL, Molior

PRICES STILL EDGING UP

Price growth per half year

5.1%
H1 2014

0.7%
H2 2014

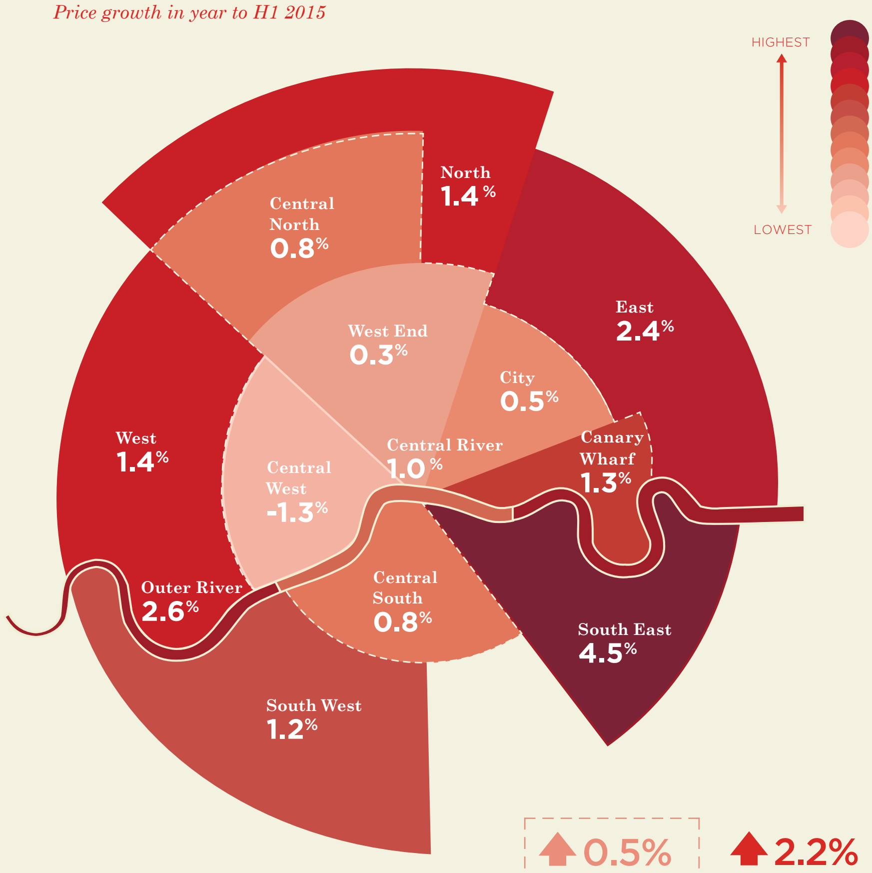
0.7%
H1 2015

1.4%
INCREASE
YEAR TO H1 2015

Source: JLL

HIGHER PRICE GROWTH IN OUTER CORE

Price growth in year to H1 2015



0.5%
CORE

2.2%
OUTER CORE

Source: JLL

PIPELINE IN SURPRISE FALL

Construction activity continues to escalate but the planning pipeline has surprisingly shrunk during the first half of 2015. Over 60% of units under construction are in Outer Core submarkets with the East and South East regions accounting for over 40% of the Central London total. We continue to believe that construction activity will begin to ease a little over the next 12-18 months.

Starts on the rise

Central London developers have upped their rate of development even further during the first half of 2015.

Unit starts in H1 2015 increased to 8,300, a rise of 9% compared with H2 2014. The escalation in development activity over the past three years has been even more staggering. In H1 2012 only 2,900 units were started.

In a change from recent times, there was a greater jump in the number of starts in Core markets. 2,350 units were started in Core locations during H1 2015, up from 1,300 in H2 2014. The City (which includes the City fringe) had the most starts at 800 units. There were also in excess of 700 unit starts in Central South.

The number of starts in Outer Core submarkets slowed from 7,600 units in H2 2014 to 6,000 in the first half of this year.

Under construction total up again

The total number of units under construction in Central London has now risen to 30,700, up 18% from H2 2014. It is now three times greater than four years ago and a post-crisis high.

206%

Increase in units under construction in past 4 years

19,000 units are underway in Outer Core markets, 62% of the Central London total.

There remains a significant volume of construction activity in Core markets despite the slightly weaker market conditions for prime product.

Completions still subdued

Only 3,700 units were completed during the first half of 2015. This was a 12% increase from the 3,300 finished during H2 2014 but remains woefully low following the subdued development market of 2-3 years ago.

The annual total has now risen to 7,000 units and is expected to remain below 10,000 units pa for another 12 months or so at which point the acceleration in development activity which began in 2013 will start to kick-in.

Pipeline falls for first time

There has been a sharp slowdown in the number of units entering planning.

The number of units applied for during H1 2015 was just 5,400 which was less than a third of the 17,300 in H2 2014 and well below the circa 10,000 units in each of the five preceding half-years. A pause in the run-up to the general election is the most likely explanation.

The volume of units granted permission in H1 2015, at 8,900, was also below the 10,700 H2 2014 total and lower than the average of 11,600 units per half year during the preceding four years.

The total number of units either at planning application or permission stage, or unbuilt in existing schemes, has fallen for the first time in at least four years.

These figures suggest that development activity could be set to peak soon.

Eastern activity

Over 13,000 of the 30,700 units currently under construction in Central London, a staggering 43%, are to the east of London.

Over 8,000 units are underway in our East region with a further 5,000+ units on site in the South East.

There is also a huge bias towards East and South East London in terms of residential units in the planning pipeline (see map).

UNIT STARTS CONTINUE TO RISE

Number of units started per half year, all Central London

Source: JLL, Molior

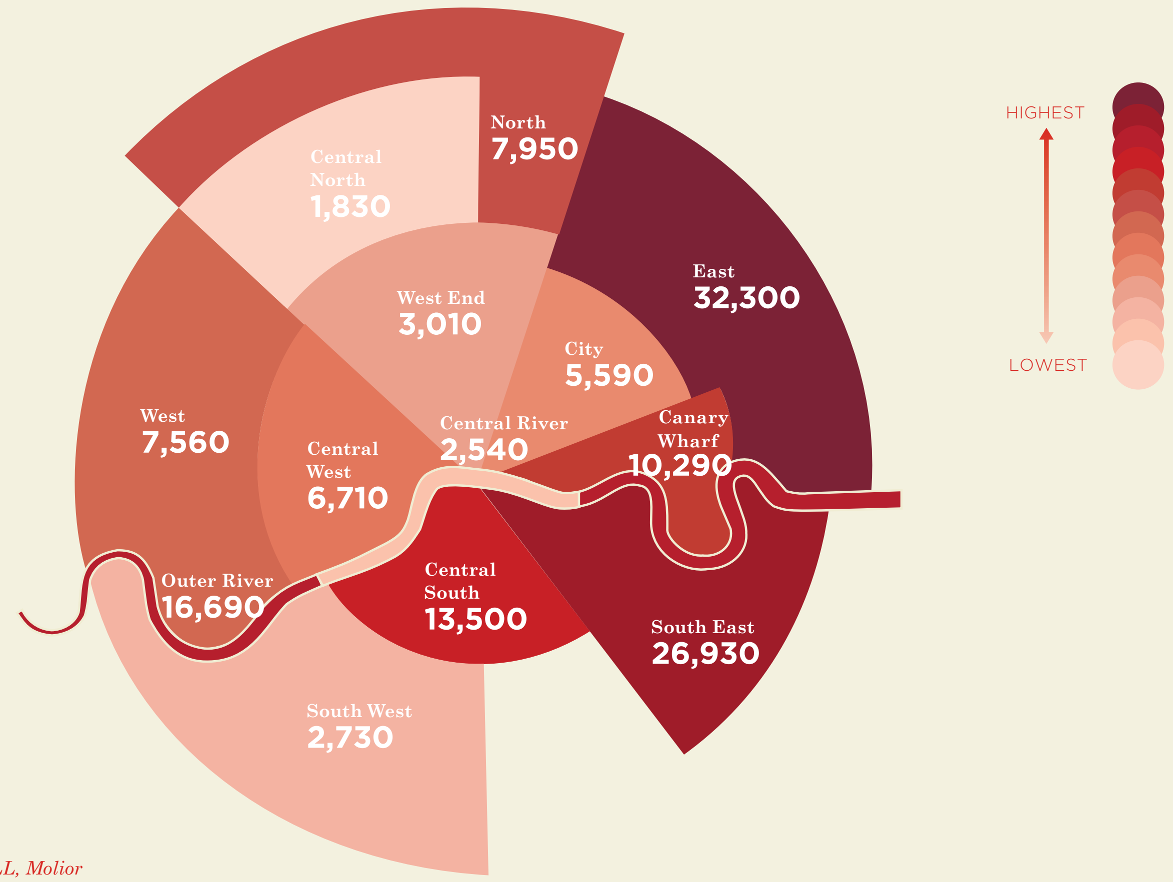
RECORD NUMBER OF UNITS UNDER CONSTRUCTION

Number of units under construction per half year, Central London

Source: JLL, Molior

EASTERN BIAS TO PLANNED DEVELOPMENT

Number of units at application or planning permission stage, or unbuilt in existing schemes, H1 2015



Source: JLL, Molior

RAISING THE ROOF

UPPING OUR GAME

London is not renowned for its towering skyline. In fact the opposite is true, especially within a global context. Many of the world's largest and most prestigious cities, particularly in emerging nations, have skylines to die for. London has hitherto been proud to be different, to cite its historic fabric and to protect important viewing corridors. But London is now changing, it is finally growing up.

The high rise timeline

The graphic opposite depicts the history of towers in London and also shows how history is set to be eclipsed by the current crop of buildings that will transform London over the next decade or so.

It was the 1960s and 1970s when we started to build higher with a mixture of commercial and residential towers rising from the ground. Almost 280 buildings of more than 20 storeys were completed during these decades, with around 230 being primarily residential.

Just 47 structures were above 25 storeys, 35 being residential. Only 3 properties were higher than 40 storeys, all residential.

The upper strata of London's skyline then remained remarkably unchanged during the 1980s and 1990s with only one building in each decade rising above 25 storeys. None were residential.

In contrast, the first 15 years of this millennium have witnessed a significant increase in tall buildings in London, but it will be the next 5-10 years when London's skyline will alter beyond recognition.

There are now 39 towers of 40 storeys or more in the pipeline, either under construction or within planning.

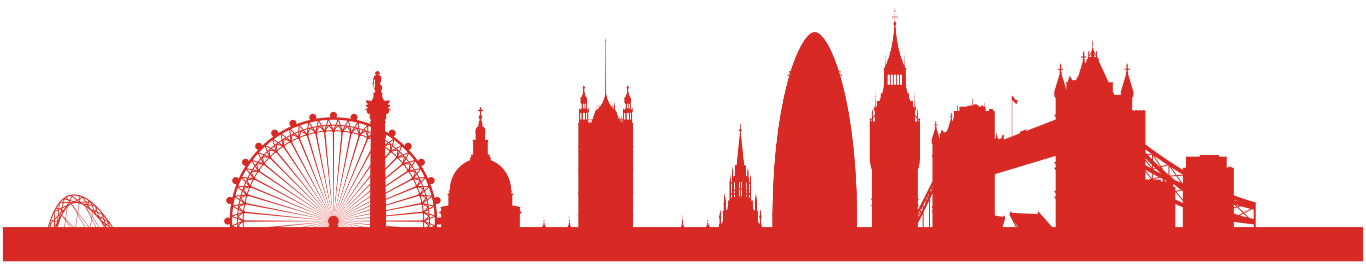
London is growing up - slowly

The Shard is now London's tallest tower, standing at approximately 309m with 87 storeys. Although it is a mixed use building, there is very little residential.

One Canada Square in Canary Wharf is the next tallest property at 235m with The Leadenhall Building (The Cheesegrater) next, at 225m. The 278m, 62 storey development at 22 Bishopsgate, previously the Pinnacle and now under construction, will usurp all but The Shard when completed.

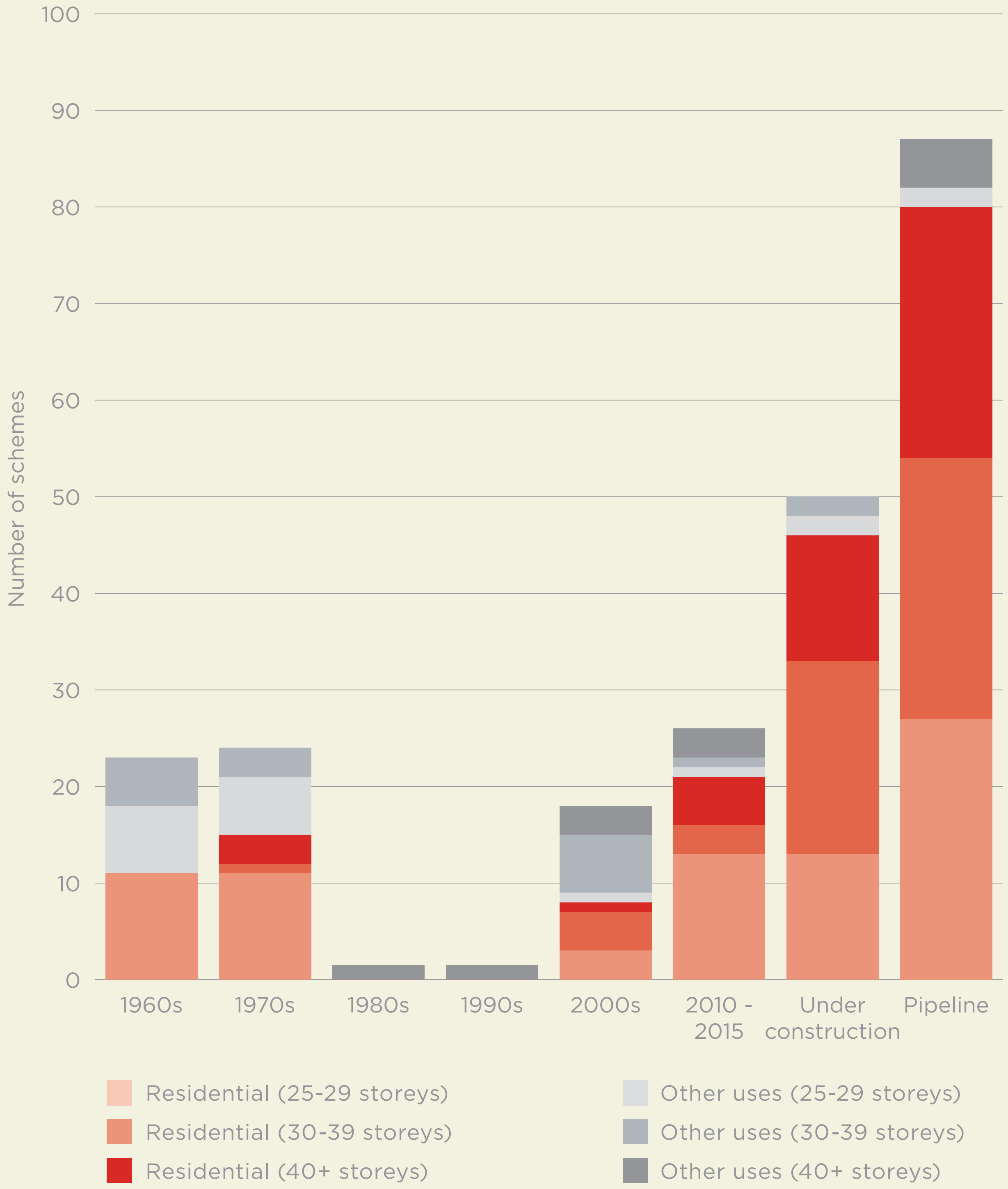
Solely in terms of residential towers The Tower at St George Wharf is by far the tallest existing building at circa 181m, totalling 50 storeys.

Brookfield Multiplex's Strata at Elephant & Castle soars 148m into London's skyline while Ballymore's Pan Peninsula is the third tallest with 48 storeys extending to around 147m.



LONDON'S HIGH RISE TIMELINE

Number of schemes completed during time period, except under construction and pipeline



Source: JLL, Skyscrapernews.com, EGi

GLOBALLY INSIGNIFICANT, BUT ONLY FOR NOW

In global comparison terms London is nowhere to be seen in terms of skyscrapers – not unsurprising given it's historic fabric, protection of landmark views and building height laws.

However, there have been opportunities to build higher than we have to date. Fanciful tall schemes typically appear on drawing boards during property booms. Few have ended up getting built.

London is 45th on the global city hierarchy in terms of number of buildings completed in excess of 150m. Only The Tower at St George Wharf is predominantly residential.

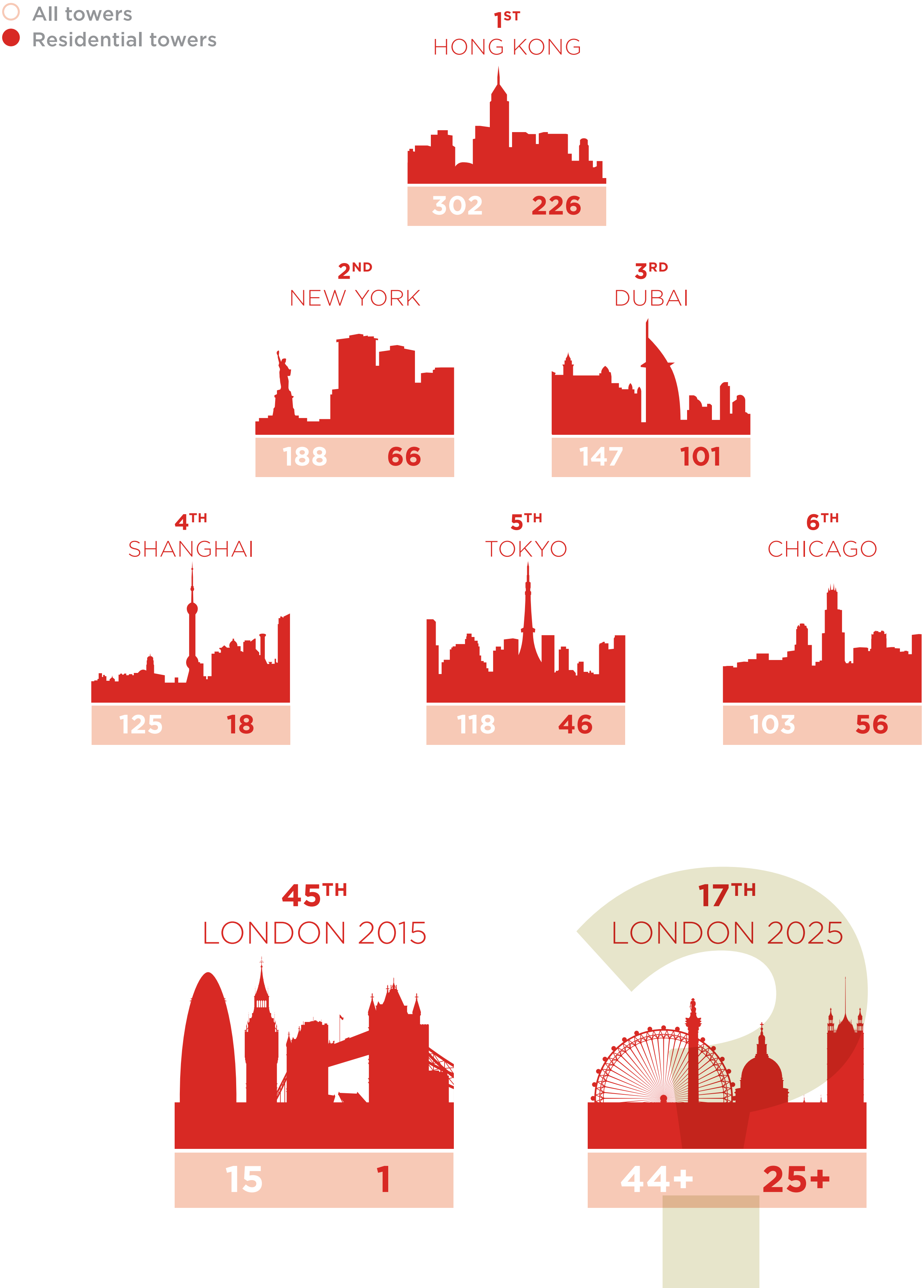
London is equal 100th in the global city list in terms of number of residential towers above 150m.

But London is planning a high rise revolution. If all the planned towers get built, London will have around 44 buildings of more than 150m, with 25 being predominantly residential.

If no towers are built in other cities, London will soar to 17th in the all properties global city hierarchy and to an amazing 14th in residential towers – a level no one would have foreseen 5 or 10 years ago.

TALLEST GLOBAL CITIES

Number of towers 150m or more



Source: JLL, Council on Tall Buildings and Urban Habitat (CTBUH)

LONDON'S TRANSFORMING SKYLINE

Incredibly and suddenly London's skyline is coming of age. We now have a battle in the sky, with competition between developers as to who can build the tallest London landmark. We currently have 13 schemes which extend to 40 or more storeys under construction, dwarfing the five recently completed. There are at least a further 26 schemes in planning or on the drawing board. Greenland's Hertsmere House is the tallest of these at 237m but there are plenty of others competing in the skies.

1 **THE TOWER**
ST GEORGE
50 storeys, 181m high

2 **STRATA**
BROOKFIELD MULTIPLEX
43 storeys, 148m high

3 **PAN PENINSULA**
BALLYMORE
48 storeys, 147m high

4 **THE LANDMARK**
CHALEGROVE PROPERTIES
44 storeys, 140m high

5 **STRATFORD HALO**
GENESIS HOUSING ASSOCIATION
43 storeys, 133m high

6 **THE DIAMOND TOWER**
CANARY WHARF GROUP
60 storeys, 220m high

7 **ONE NINE ELMS**
DALIAN WANDA
59 storeys, 200m high

8 **SAFFRON SQUARE**
BERKELEY HOMES
45 storeys, 151m high

9 **MORELLO TOWER**
MENTA REDROW
55 storeys, 172m high

10 **PRINCIPAL TOWER**
W1 / CONCORD PACIFIC / BROOKFIELD
50 storeys, 162m high

11 **ONE BLACKFRIARS**
ST GEORGE
50 storeys, 163m high

12 **250 CITY ROAD**
BERKELEY HOMES
42 storeys, 155m high

13 **BALTIMORE WHARF**
GALLIARD
46 storeys, 150m high

14 **360 LONDON**
MACE REAL ESTATE
44 storeys, 149m high

15 **MANHATTAN LOFT GARDENS**
MANHATTAN LOFT CORPORATION
42 storeys, 143m high

16 **PROVIDENCE TOWER**
BALLYMORE
44 storeys, 136m high

17 **SOUTH BANK TOWER**
CIT
41 storeys, 155m high

18 **TWO FIFTY ONE**
OAKMAYNE / SOUTH CENTRAL MANAGEMENT
41 storeys, 134m high

19 **LANDMARK NORTH**
CHALEGROVE PROPERTIES
75 storeys, 233m high

20 **SOUTH QUAY PLAZA**
BERKELEY HOMES
68 storeys, 215m high

21 **ONE LANSDOWNE ROAD**
GUILDHOUSE UK
55 storeys, 203m high

22 **WARDIAN LONDON** *
BALLYMORE
55 storeys, 185m high

23 **THE MADISON**
LBS PROPERTIES
53 storeys, 182m high

24 **AYKON NINE ELMS**
DAMAC
50 storeys, 170m high

25 **VAUXHALL SQUARE** *
CLS HOLDINGS PLC
50 storeys, 168m high

26 **1 MERCHANT SQUARE**
EUROPEAN LAND PROPERTY LIMITED
42 storeys, 140m high

27 **BANKSIDE QUARTER**
NATIVE LAND / TEMASEK / HPL / AMCORP
49 storeys, 161m high

28 **THE GARDEN** *
VSM ESTATES
54 storeys, 177m high

29 **CANADA WATER - SITE C&E**
SELLAR DESIGN & DEVELOPMENT
40 storeys, 150m high

30 **CONVOYS WHARF**
HUTCHISON WHAMPOA
48 storeys, 142m high

31 **20 BLACKFRIARS ROAD**
BLACK PEARL
42 storeys, 141m high

32 **STRATFORD CENTRE & MORGAN HOUSE**
CATALYST CAPITAL
42 storeys, 147m high

33 **DOON STREET TOWER**
COIN STREET COMMUNITY BUILDERS
43 storeys, 140m high

34 **HARBOUR CENTRAL**
GALLIARD
42 storeys, 145m high

COMPLETE UNDER CONSTRUCTION PERMISSION APPLICATION OPINION SOUGHT

35 **ATLAS BUILDING**
ROCKET INVESTMENTS
40 storeys, 135m high

36 **THE STAGE**
GALLIARD / CAIN HOY
40 storeys, 134m high

37 **ALPHA SQUARE**
FAR EAST CONSORTIUM
60 storeys, 212m high

38 **WOOD WHARF ***
CANARY WHARF GROUP
57 storeys, 204m high

39 **30 MARSH WALL**
MW30
53 storeys, 185m high

40 **BISHOPSGATE GOODSYARD**
BALLYMORE / HAMMERSON
46 storeys, 166m high

41 **PAN PACIFIC HOTEL AND RESIDENCES**
UOL GROUP
41 storeys, 152m high

42 **GLENGALL QUAY**
TAMERIC
45 storeys, 145m high

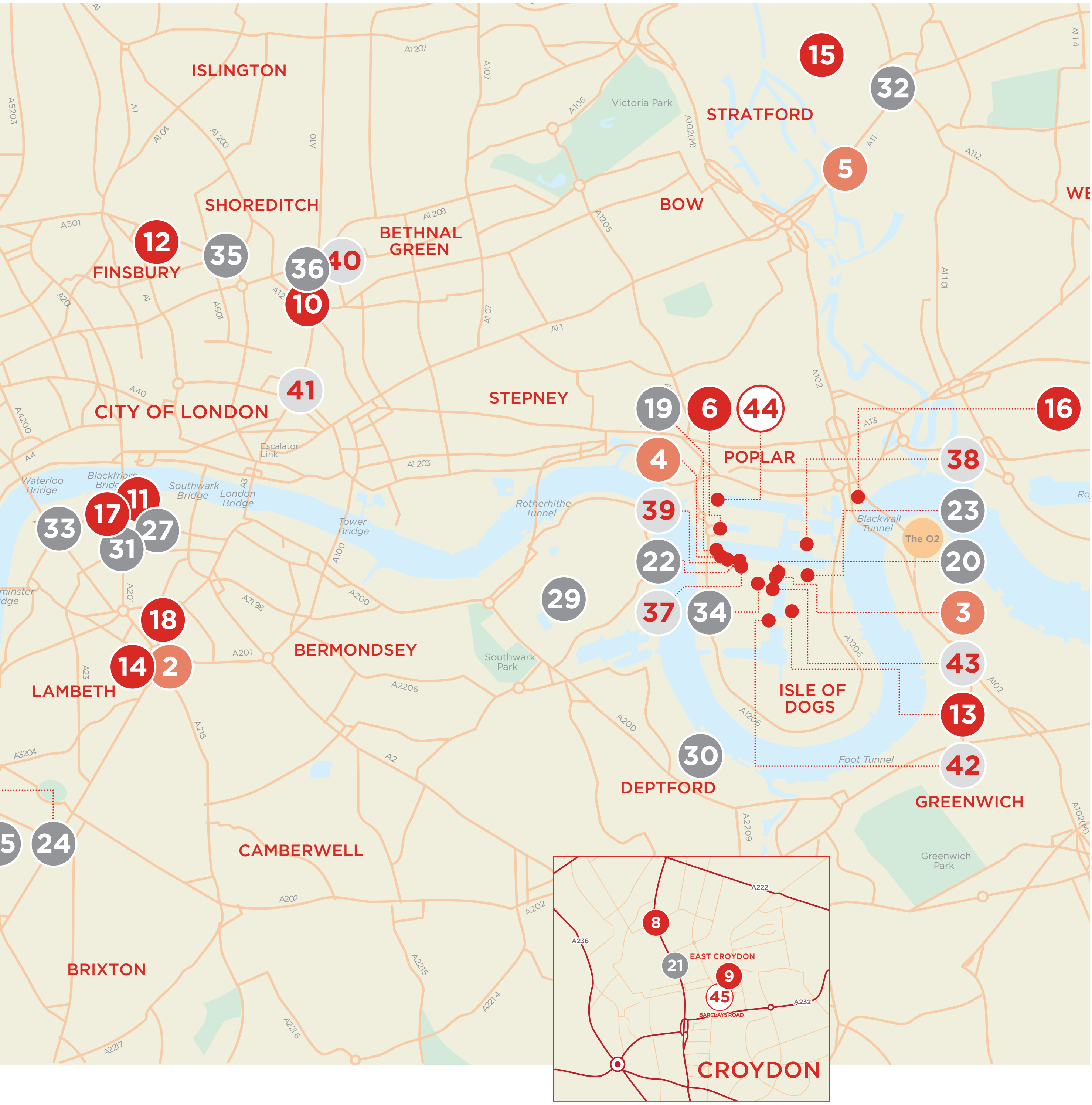
43 **MILLHARBOUR VILLAGE ***
GALLIARD
45 storeys, 145m high

44 **HERTSMERE HOUSE**
GREENLAND
71 storeys, 237m high

45 **MONDIAL HOUSE**
BRIDGEWATER PROPERTIES
42 storeys, 142m high

Source: JLL, Molior

** Consists of more than one tower of 40 or more storeys.*



RAISING THE ROOF

HIGH RISE INSIDER

What insight and lessons can we learn from someone who is developing a residential tower in London? We talked with Chris Murray, Managing Director at W1 Developments Ltd who, in conjunction with Brookfield and Concord Pacific, are developing the Foster & Partners designed Principal Tower in the City.

MANAGING DIRECTOR, W1 DEVELOPMENTS LTD
CHRIS MURRAY

What do you see as the greatest risks when developing a residential tower in London?

Unquestionably the highest risk today is around construction costs. These have escalated by close to 20% in the last year and could possibly increase further over the next 12 to 18 months.

The high building costs when developing a tower mean a greater exposure to construction cost inflation which, if not factored in, can kill a deal.

What about buyer risk?

We don't see there being any end-user risk at all, assuming the developer is of reputable standing and will deliver the product at the end of the day.

Tower schemes may consist of 200-400 units which is not huge within a London context, so volume is rarely an issue.

In fact, we see the market risk as diminished in a well-located, quality tower. The better views, iconic design and prime location create greater selling power.

Most Britons are not used to vertical living but they will learn to love it. With buyers from both the UK and overseas there will always be plenty of demand for the right product in the right location.

What are the additional cost implications for towers?

A quality, iconic and well-located tower in London will cost around £500 psf to build assuming an excellent offering is being developed.

You need to ensure the tower is of top quality construction and design, that it stands out and is iconic and that it possesses all the facilities expected – pool, spa, gym, concierge etc.

A basic London residential building of circa 10 storeys might cost in the region of £300 to £350 psf, so the additional costs of an iconic tower are significantly higher, but you expect to get this return back in terms of sales prices.

What about pre-sales and financing?

You need pre-sales to secure construction funding. Typically around 40% of room count or 30-35% of GDV (Gross Development Value). The greater proportion you sell, the more competitive your financing costs become.

We take the view that you only pre-sell what you need to secure the senior loan. The greatest returns on your investment will come by selling closer to completion.

At Principal Tower, JLL have helped us sell 45% of units. This is enough for now. We expect prices to rise further by the time we finish construction in three years. Purchasers will also pay more when they can see and feel the development, how it fits in with the local area, what they are buying into and can imagine living there. This is when margins are made.

Principal Tower

Do you think Britain has the expertise to develop towers? We certainly have limited experience.

The skillset is there on all but the build side, but few people have the relevant tower experience. Internationally renowned architects have been in London for years – this is a global marketplace, and companies like JLL have global reach.

But in the UK there are only a handful of contractors who you would commission to do the job. In New York, Shanghai, Hong Kong or Kuala Lumpur you would have your pick from perhaps 20 or 30.

This makes the tendering process tighter, and probably means higher cost.

The other issue is that these firms currently have full order books, especially given the number of developments and towers in the pipeline. So securing a contractor and getting your scheme built when you want – at the price you want - is an issue.

On top of this, the contractors cannot find the construction labour workers. There are simply not enough around. So this impacts on timing and cost as well.

Design-wise what must a tower have?

The absolute must is that it is iconic. It must be unique, it must stand out and it must be able to stand the test of time. So design is absolutely key.

As well as design there is an amenities race. You have to provide a gym, spa, cinema, concierge, a resident's bar/lounge – anything to add to the service offer. They have to be top drawer and you should push the boundaries as far as possible to set your product offering higher than your competition.

The location of these amenities within the tower is critical – nobody likes a gym in a basement with no natural light. There is a personal safety element to consider as well – your customers need to feel safe and happy in these resident's areas.

Concrete monstrosities from the 60s are what most Britons would picture as a UK tower. How will the current crop of towers look in 20-30 years' time?

Design is of paramount importance and we are not looking 20-30 years ahead. We are building for the long-term, 100 or more years into the future. After all you are selling homes – for today and for future generations.

Designing the right building, adopting the right cladding and using the right materials are all crucial.

The building needs not only to be inhabitable in 100 years' time, it still needs to be iconic and it still needs to exude class, especially in prime locations.

It also needs to be designed and built with sustainability in mind. It must be built to last, and that means not scrimping on design, materials or technology.

If you had one message you have learned from the Principal Tower experience what would it be?

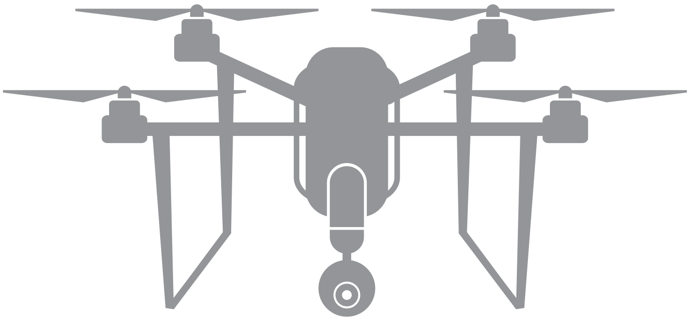
To respect London as a unique world class city.

London is different. It has a tremendous rich history of commerce, design and culture. You must respect London, you have a responsibility to Londoners, you have an opportunity to make your mark but you have an unequivocal responsibility to do it right.

Anything less - not on my watch. If you are thinking of anything less than pure excellence then think again.

Respect London. We have a collective responsibility.

VIEWS SELL TOWERS DRONES AID VISUALISATION



A view, whether it be an iconic landmark such as the Houses of Parliament, the London Eye or The Shard, or a natural landscape, such as The Thames or Hyde Park, can add significant value.

However, before a building is started or is complete it can be difficult to perceive exactly what the views will be like as the tower soars upwards. Views will change at different heights and floor levels and will be dependent on aspect too.

Drones

Drones have been added to the Development Consultant's tool bag recently.

A drone is a great way to establish how views change as new heights are reached and inform when neighbouring buildings drop out of view and when improved views come into play.

However, drones are not always the perfect answer. Some local authorities impose restrictions. In Hackney, for example, JLL were only permitted to send a drone up to the 40th storey of the proposed Principal Tower. As Principal Tower is 50 floors high, there were some unfilmed floors.

DEVELOPMENT CONSULTANCY DIRECTOR, JLL

HOLLY STOCK

In Islington, the council allow drones to fly as high as is needed so long as it is safe but in Canary Wharf, Tower Hamlets place quite tight constraints.

Going up

We typically add 1-2% to the pricing of apartments as we move up the tower but adjustments are also made for layout, size, aspect, outside space, ceiling height and specification.

Kickers

There are also price kickers when views change. For example when clear views over and above surrounding buildings or when iconic landmarks come into view.

There is also a ceiling price for each unit type to factor in. So, given the location of the building we would gauge an absolute maximum unit price at the top of the tower and build this into our thinking.

Penthouses are particularly interesting to price at the top of towers. There is definitely a preference for lateral living over duplex style apartments and there will also be a maximum unit price within each location submarket that units will transact for. Both of these factors will be key considerations when we are pricing penthouses.

At one scheme in Nine Elms, views over the Thames were priced with a circa 100% premium to inland and railway line aspects.

At City Peninsula in SE10 the best views eastwards over the Thames commanded a 10-15% premium.

PLANNING PERSPECTIVE

MIX MISMATCH

London's local authorities quite rightly demand that developers provide sufficient family housing, but is there really a 'one size fits all' across the whole of London? We question whether a greater volume and proportion of smaller units should be permitted in Central London locations.

PLANNING DIRECTOR, JLL
MARK CONNELL

Mark Connell explains the wisdom and reasoning behind the unit mix philosophy.

Local authorities in England are obliged to undertake Strategic Housing Market Assessments (SHMAs) as part of the plan-making process. The primary objective of these assessments is to identify the future quantity of housing needed, including a breakdown by type, tenure and size.

These assessments can look as far ahead as 20 years and involve a myriad of complex social and demographic assumptions. There is no standardised methodology. However, the assessments are absolutely crucial for strategic planning and it is from these assessments that local planning policies are derived – including family housing policies.

In the Capital, both the GLA and London boroughs have their own assessments. All recognise the substantial need to deliver additional housing, which can only be accommodated through building at higher densities.

Higher densities

In broad terms, higher densities have been considered more suitable for households without children. Indeed, the architects of the Density Matrix, the GLA, acknowledge that lower densities are more suited to family housing, and that the opposite is true for high densities.

Herein lies the potential mismatch between the need for family homes and the overall need to develop homes of all types in London. High densities are not encouraging of family homes.

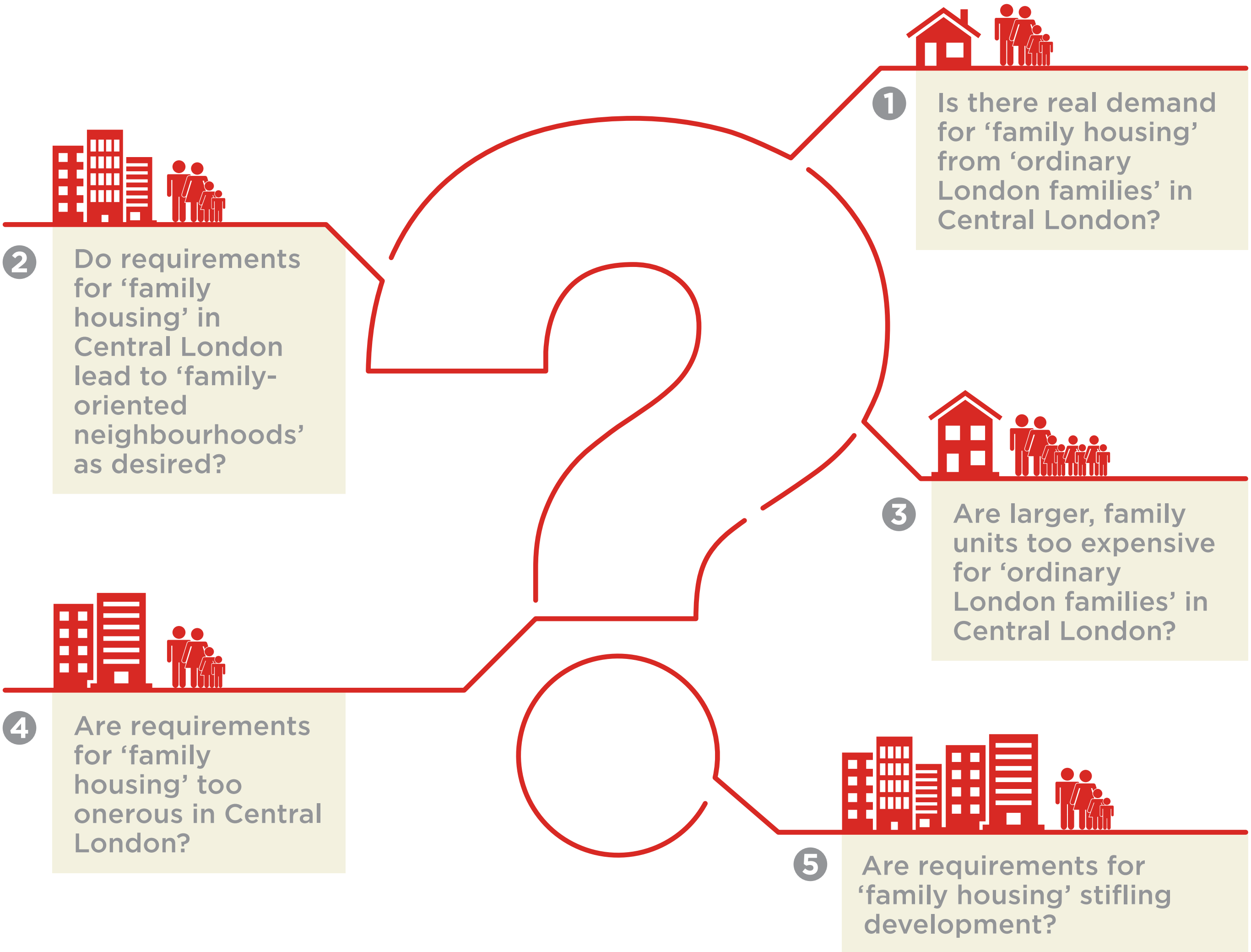
Conventional wisdom is that the urban environment is more hostile for families and more welcoming of the single or couple household. To overcome this, the planning system understandably places a premium on additional space for family homes to compensate. Whether this is through increased open space, child play or parking requirements – family homes carry a greater space burden on development. This matters on tightly constrained brownfield sites.

Prescribing mix

Rather than compromise on these standards, local authorities have reacted by seeking to prescribe unit mixes on developers. In London, typical prescriptions are that developments must include up to 25% family housing containing three bedroom homes or more.

In many cases, these requirements are focussed upon the affordable housing component of the development only. However, Housing Associations are limited by many of the same factors as private developers, not to mention the constraint of the benefit cap on their social tenants. Furthermore, in the case of products such as shared ownership – a first step on the housing ladder is rarely a leap into a family home.

THE BIG QUESTIONS



In many boroughs the prescriptions have expanded to include private housing. However, the private sector is subject to under-occupation as people often seek to maximise the space they can acquire rather than purchase on the basis of the bedroom standard. Family-sized homes do not necessarily house families. But they do cost more in an already inaccessible housing market for Londoners.

Social engineering

Depending on your viewpoint you may regard housing mix policies as an unnecessary form of social engineering that fights against the market, or alternatively, a necessary approach to ensure balanced and sustainable communities.

From either perspective, the success of these unit mix policies is difficult to judge. Few targets are achieved in practice, but many councils argue that delivery of family homes would be even lower without the leverage provided by such planning policies.

Let's return to the premise that London needs a higher proportion of family homes than the market is providing – as evidenced by many SHMAs. It should be noted that the authors of the reports are keen to point out that SHMAs are best guesses of bigger trends, and unit sizes are particularly sensitive to the assumptions underpinning the methodologies.

Reduced housing delivery

Whether correct or not, this forensic approach to housing mix presents another challenge to overall housing delivery in London. And, unless this data is used with pragmatism by local authorities there is a danger that 'paralysis from analysis' will result.

Dogmatism may achieve a greater proportion of family housing, but ultimately there will be less housing delivered, exasperating London's already chronic undersupply problem.

AGENCY PERSPECTIVE
MIX MISMATCH

There is a fundamental disconnect between market demand for particular unit types and what is permitted by planners in terms of unit mix. Serious questions need to be asked, which could eventually lead to greater housing delivery for London.

DEVELOPMENT CONSULTANCY & AGENCY DIRECTOR, JLL
PETER GIBNEY

Peter Gibney offers an agency perspective.

Our experience in the Central London new-build market is that, as well as investors, there is a huge tranche of buyers looking to get a foot on the property ladder including young professionals who simply want to live in a central location close to work. Both types of purchasers are looking to buy small units, studio or one bedroom apartments, and are often willing to sacrifice space for a central location.

Small unit attraction

Small units sell the quickest at London scheme launches. Unless buyers are fortunate enough to be one of the initial applicants or are willing to queue up early they are often unlikely to secure one of these units. The cause of this is partly due to limitations on the mix of units stipulated through policy with planners creating a situation where the percentage of smaller units is not sufficient to meet current demand.

On the flip side we are seeing a glut of two, three and four bedroom units which often remain on the market for significant periods of time (see chart).

The problem does not seem to be being addressed or understood at the planning level. The long-term requirement for family homes in London is valid, which is ultimately what is driving this mix requirement, but why Zone 1 or the Central Activity Zone (CAZ) cannot be treated differently to other areas of London is not clear.

Tough questions

We need to start asking hard questions about whether new build apartments in the CAZ are really the living environments families want to live in on a permanent basis. Our experience is that families with the sort of money needed to buy these larger units simply do not want these as their primary residence. They would prefer a house with a garden and are willing to move outside of the CAZ in order to achieve this goal.

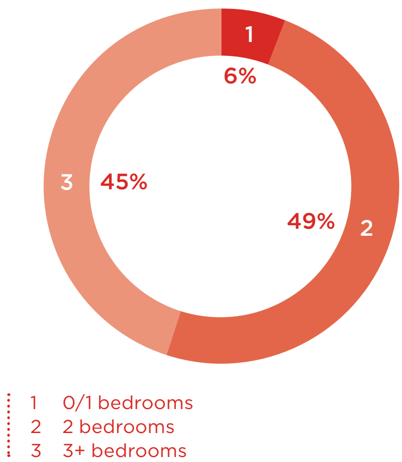
Being realistic

The harsh reality is that less than half the required number of homes are being developed in London each year. For every one of these larger units, which are likely to be left vacant or only part-used, we could be creating two, three or more smaller units which could be used to house less wealthy Londoners and which would certainly be more fully occupied.

There are certainly other limitations on building a greater percentage of smaller units; such as measuring affordable housing provision by unit number and not floor area; and also the greater cost psf of building smaller units.

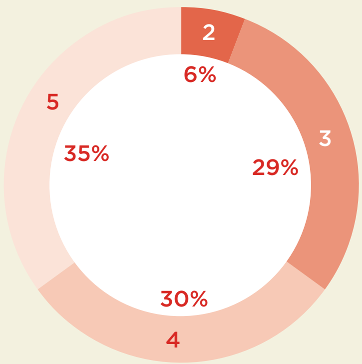
However, there is a perfectly valid and defendable argument for relaxing the current policy restrictions in central locations to allow market forces and developers to determine the appropriate mix of units rather than be dictated to by the authorities, especially as the ultimate result will be a greater number of more affordable units and a better alignment between delivery and demand.

JLL LOOKED AT OVER 1,100 UNITS, IN 40 SCHEMES, WITHIN THE CENTRAL ACTIVITY ZONE (CAZ), UNSOLD POST-LAUNCH. THE VAST MAJORITY ARE LARGER UNITS



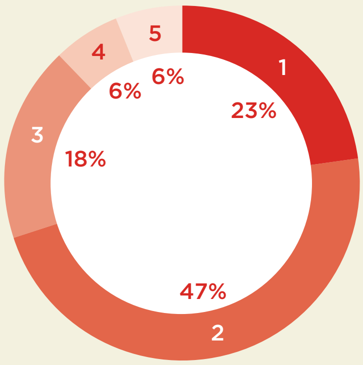
Source: JLL

WHAT DO YOU THINK OF THE UNIT MIX DEMANDED BY LONDON LOCAL AUTHORITIES?



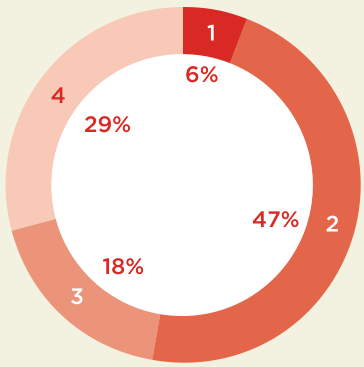
1 Far too many smaller units
2 Slightly too many smaller units
3 About right
4 Slightly too many larger units
5 Far too many larger units

DO YOU THINK MORE SMALLER UNITS SHOULD BE ALLOWED IN INNER LONDON BOROUGHS, WITH A GREATER PROPORTION OF LARGER UNITS REQUIRED IN OUTER LONDON BOROUGHS?



1 Yes, definitely
2 Yes, probably
3 Ambivalent
4 Probably not
5 Definitely not

DO YOU THINK LOCAL AUTHORITIES SHOULD HAVE ANY SAY IN WHAT DEVELOPERS DELIVER WHEN IT COMES TO UNIT MIX?



1 Yes, definitely
2 Yes, probably
3 Ambivalent
4 Probably not
5 Definitely not

Source: JLL survey of London developers

THE FINAL WORD

"London desperately needs more housing. But crucially it needs the right type of housing in the right locations. That means enough housing at affordable prices for ordinary Londoners as well as providing higher end product for those who can afford and who want to live in Central London.

High rise living, whether it is 20, 40 or 60 storeys can help, but only to some degree. Developing these towers on available brownfield land or through converting from other uses implies a certain level of efficiency in our housing development. Utilising brownfield land in urban areas almost guarantees the housing delivered will be in the right kinds of locations.

So building towers for the right people, at the right prices and in the right places will certainly help to deliver more homes for London. And the more successful the first crop of towers become, and the more comfortable Londoners are about living in towers, the more other developers will follow.

Creating the right neighbourhood structures where ordinary Londoners can live is also vital. This means local authorities should consider relaxing their stance on 'family units' in central locations to allow higher densities where appropriate.

I see a vastly different London over the next decade. We have to accommodate an extra one million people and building up, raising the roof as it were, will not only help to deliver greater housing volume, it will also keep our historic Capital city amongst the most spectacular in the world."

—

Andrew Frost
JLL Head of Residential

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