DATSCHA TRANSACTIONS REPORT

November 2017

EAST VS WEST: LONDON'S COMMERCIAL PROPERTY LANDSCAPE

DATSCHA

Foreword

Within hours of the Brexit vote last year, London's commercial property market was on a knife edge. Volumes of investment declined almost overnight, property deals began to fall through and property funds were limiting the amount investors could withdraw. There was a fear of encouraging a mass exodus and a lack of confidence in the capital's property sector.

Fast forward more than 12 months and investment in commercial property across London is as strong as ever. By the end of August 2017, just short of £16bn had been invested in Central London alone; leading to the City of London market experiencing its strongest spell of trading since pre-recession years[1].

This report provides a snapshot of the commercial property landscape in East and West London, comparing levels of investment and the most popular types of commercial developments per region in the eyes of investors.

[1]http://www.telegraph.co.uk/business/2017/08/30/london-commercial-property-sales-top-11bn-city-market-has-best/

DATSCHA TRANSACTIONS REPORT

November 2017

Why compare East and West London commercial property markets?

It's an exciting time for both sides of the capital. From December 2019, the Elizabeth Line will connect Essex and East London to West London and as far afield as Berkshire. Key employment districts beyond the capital's boundaries will be just a 30–45 minute train ride away, unleashing huge potential for businesses all across the capital to attract further talent.

Crossrail should therefore capture the attention of commercial property investors. GVA forecasts a potential increase of £5.5bn added value to both commercial and residential real estate along the entire route of the Elizabeth Line between 2012–2021[2].

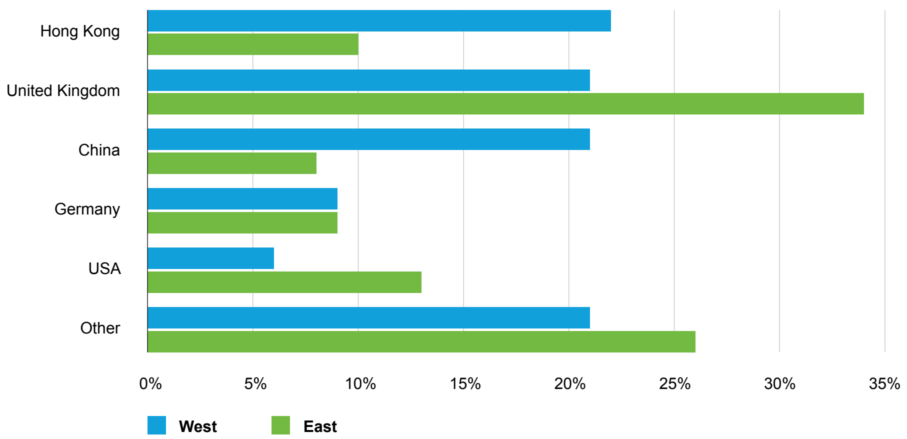
[2]http://www.crossrail.co.uk/news/articles/crossrail-predicted-to-increase-property-values-by-55-billion

What are the key drivers behind the renewed momentum of London's commercial property market?

Following the EU referendum there has been an influx of overseas investment in both East and West London, particularly for high-value commercial property assets. The 20% fall in Sterling made UK property a more attractive investment for overseas buyers.

Over three-quarters of commercial property acquisitions in East London were purchased with overseas money. It was a similar picture on the opposite side of the capital where almost two-thirds of commercial property transactions were purchased with foreign capital. The top-five largest office transactions were from Asian and Middle Eastern investors, with the £1.28bn acquisition of The Walkie Talkie Building being the cream of the crop.

Investment origin of London commercial property transactions



East Vs West: The key figures on London's commercial property market

Before we delve deeper into the facts and figures behind the activity within the East and West London commercial property markets, here are the main points of note from Datscha's year to date figures on real estate investment in the capital.

76%

of all East London commercial property investment in 2017 focused on office space

68%

of all commercial property investment in East and West London during 2017 was from overseas

34%

of all commercial property investment in East and West London during 2017 was from Asia

60%

higher average value per transaction in East London compared to West London in 2017

70%

more UK commercial property investment was attracted to West London compared to East London in 2017

DATSCHA TRANSACTIONS REPORT

November 2017

A SNAPSHOT OF THE EAST LONDON COMMERCIAL PROPERTY MARKET

DATSCHA

A snapshot of the East London commercial property market

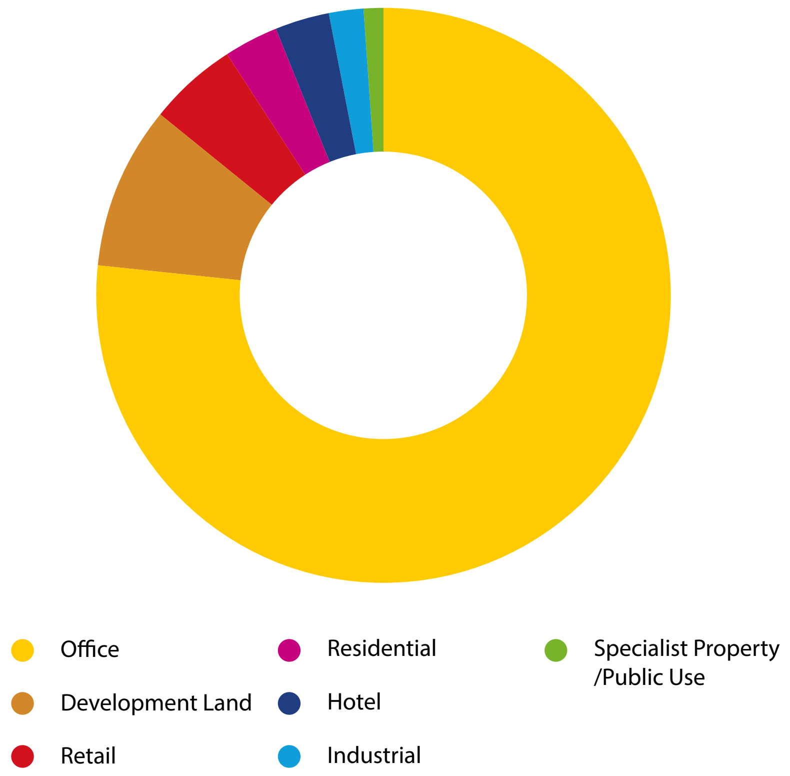
In 2017, there has been a total of £9.7bn invested in commercial property throughout East London. This corner of the capital is unique in many ways. It is the world's most powerful financial centre, according to the Global Financial Centres Index (GFCI) September 2017[3]. Further afield, it has benefited hugely from investment in infrastructure and housing since the 2012 London Olympics in Stratford.

In the last few years, East London's Old Street roundabout has evolved into a world-leading hub for tech and creative start-ups, reportedly home to the third largest number of tech start-ups on the planet after San Francisco and New York City[4]. The area is also known for its manufacturing heritage and the Centre for Engineering and Manufacturing Excellence is positioned on the Thames Gateway to provide a hub for engineering, manufacturing and tech businesses too.

£7.4bn

investment in East London office space (76% of all commercial investment in the area)

Development type breakdown in East London commercial property



[3]http://www.longfinance.net/images/GFCI22_Report.pdf
[4]http://home.bt.com/tech-gadgets/what-is-silicon-roundabout-11364168966830

A snapshot of the East London commercial property market

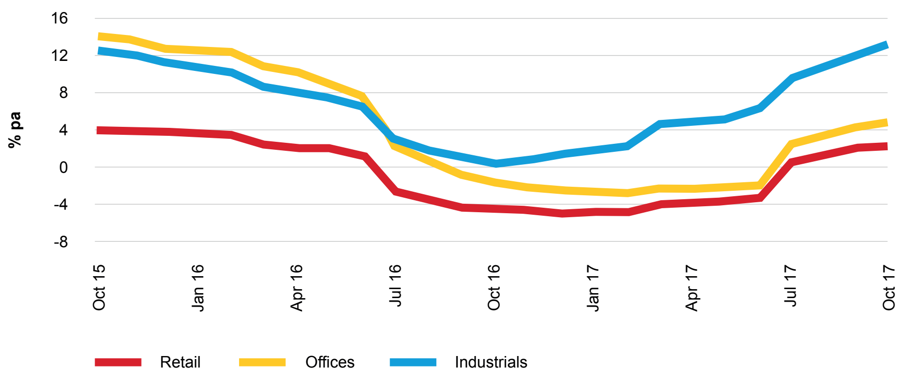
East London remains one of the most attractive areas to invest in for London commercial property. Its proximity to quirky, hipster amenities and neighbourhoods such as Hoxton, Shoreditch and Hackney make the area very appealing to young professionals. Next year, Crossrail will enable improved connectivity across the capital and beyond. Furthermore, businesses also recognise the area's logistic potential due to its proximity to London City Airport and Stratford International Station.

Average commercial property transaction values in East London 60% higher than in West London

The flip side of the growing reputation and demand for East London business space is that average commercial property transaction values have been around 60% higher in 2017 than those in West London. For example, East London's Tech City is fast becoming the most expensive tech hub on the planet, with rents surpassing similar hubs in San Francisco, Los Angeles and, closer to home in Dublin, at around £70 per sq ft[5].

Year on year capital value growth

Source: CBRE market flow report (October 2017)



[5]http://www.telegraph.co.uk/business/2017/09/28/london-home-worlds-expensive-technology-hub/

DATSCHA TRANSACTIONS REPORT

November 2017

A SNAPSHOT OF THE WEST LONDON COMMERCIAL PROPERTY MARKET

DATSCHA

A snapshot of the West London commercial property market

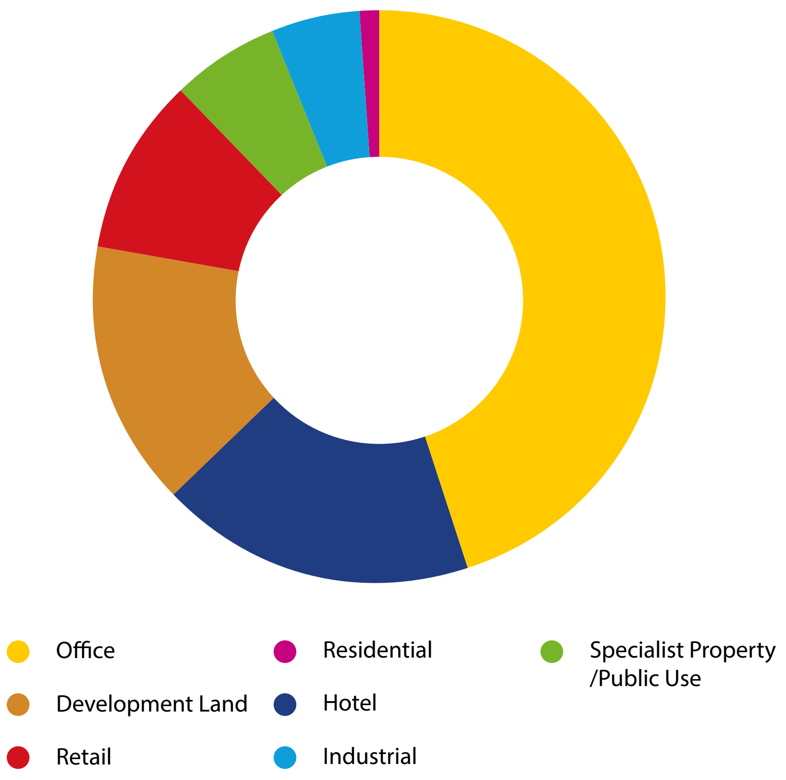
In recent years, there has been a noticeable pattern of commercial property tenants moving from West London and the West End to East London, due largely to greater space and cheaper rents available in Eastern fringes[6]. Many leading corporate names are making East London their home, most notably Transport for London (TfL), Cancer Research UK and the Financial Conduct Authority (FCA)[7]. Despite this, West London remains an attractive opportunity for commercial property investors with volumes totalling over £10bn in the year to date.

The average value of West London commercial property transactions have been almost 40% lower than East London during 2017. Interestingly, commercial property investment in West London was spread much more evenly across a host of sectors, with office space not such a dominant force in the West as it is in the East; only a third of all commercial property transactions involved office space, compared to 67% in the East.

Over £10bn

total investment in West London commercial property

Development type breakdown in West London commercial property



[6]http://www.savills.co.uk/blog/article/198745/commercial-property/is-londons-west-to-east-drift-over.aspx
[7]https://www.standard.co.uk/business/why-the-big-businesses-are-moving-to-east-london-a3649961.html

A snapshot of the West London commercial property market

West London commercial property attracts 73% more domestic investment than East London

The overseas appeal of London's commercial property has already been documented, however more than a third of all commercial property transactions in West London were from domestic investors.

77%

more investment in new West London developments than those in East London

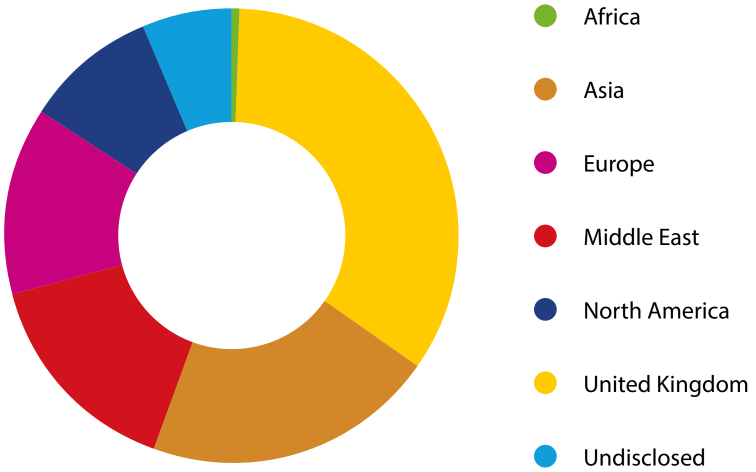
West London has also managed to secure around three-quarters more investment in brand-new commercial development space than in East London. One of the largest deals to complete was the sale by St Modwen Properties and Vinci of a 1,900-home site in Nine Elms for £470m to Chinese investors, R&F Properties and C C Land. Development space made up 15% of all West London commercial property investments since January 2017.

West London: A hotel hub?

The Hotel sector remains a vital part of the capital's tourism industry. In 2016, overall visitor numbers to London increased for a seventh successive year to 37.3 million. With London's 2017 year-end room occupancy rates forecast to be 82%[8], it's a good opportunity for investors to capitalise on the tourist boom.

West London's proximity to the West End as well as London's key airport hub, Heathrow, makes the area ripe for the Hotel sector and investors would appear to agree. West London hotel investment totalled more than five times (£1.8bn) the amount invested in East London hotel developments (£332m), in a bid to cater for the higher number of tourists that visit the West End and its world-class cultural attractions and seek to stay within the capital's main concentration of luxury hotels here, particularly in Mayfair and Soho.

Investment origin of West London commercial property transactions



[8]http://www.meetpie.com/modules/newsmodule/newsdetails.aspx?t=Tourism-boost-sees-London-room-rates-soar&newsid=26381

Who's buying commercial property in London?

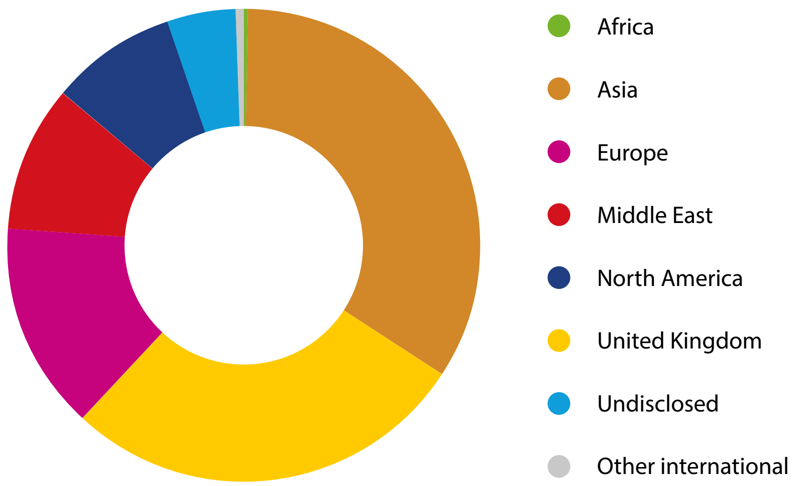
More than a third of capital flows in both East and West London arrived from Asia. Aside from the fact that foreign investors are currently getting more for less from their Sterling-priced assets in London, investors also acknowledge that the capital is a safe market to place their investment funds.

In August, the Chinese government enforced new regulations targeting Chinese investors' 'irrational' investments in overseas sectors, including property. Other Asian investors, in Hong Kong for example, have recognised East and West London as a sensible place to move their cash.

In fact, Asian investment in East and West London commercial property was 22% higher than that of UK investors. Many British-based investment funds sold some of their London commercial space in the backdrop of the Brexit uncertainty. Legal & General sold over £1bn of UK real estate to overseas investors during Q1-Q3 2017, including the £272m sale of 70 Gracechurch Street (EC3)[9]. Meanwhile, Lloyds Banking Group is reportedly in the process of selling off its London headquarters at 25 Gresham Street (EC2)[10].

Nevertheless, Asian investors seem to be taking a longer-term outlook on London's property market, buoyed by stable rental incomes.

Sources of commercial property investment in East and West London



UK commercial property investment from Asia

[9]https://realassets.ipe.com/news/investors/legal-and-general-sells-1bn-of-uk-real-estate-to-foreign-investors/10021257.article
[10]https://www.ft.com/content/3a02adfa-8999-11e7-bf50-e1c239b45787

Who's buying commercial property in London?

There was a much greater disparity between levels of investment in East and West London property by Asian investors this year to date. Some £4.6bn was spent on commercial space in East London, compared with just £2.1bn in West London. Though this may be indicative of the higher average commercial property values in East London, it also suggests that East London is considered a safer market for buyers to invest their money because of its financial capital status.

UK commercial property investment by British investors

51% less European investment in East and West London commercial property than UK-based investment

The Brexit vote appears to have seen levels of European investment in East and West London commercial property wane, with 51.4% less investment than even tentative UK-based investors. European investment levels were spread somewhat equally across East and West London property.

West London attracted 70% more UK commercial property investment than East London

Closer to home, British investors are focusing their attention more on commercial space in West London, with 70% more investment reported here than East London. In fact, aside from European and Asian investment, West London's commercial property market received more investment from the UK, Africa, the Middle East and North America than the East London property market.

CONCLUSION

When will East London commercial property reach its ceiling?

The Olympic legacy is certainly reaping the rewards in East London, with Stratford now the second best connected station in the capital behind King's Cross. The area is within minutes of the City of London and the Financial District and is home to a world-leading tech hub in Shoreditch.

A perfect storm of falling Sterling has seen overseas investors act quickly to get more for their initial investments. It remains to be seen whether the region has yet reached its ceiling as tech and creative firms continue to place immense value on having business space in and around Silicon Roundabout.

The impact of Crossrail 1 and 2 will offer increased potential for East London businesses to connect to city fringe locations in all four corners of the capital, so it's unlikely we will experience declining demand in the short-to-medium term.

However, Brexit remains the underlying factor regarding property values and demand; particularly if London is forced to surrender its position as Europe's financial capital. This could hit the City of London hard, resulting in many job losses.

However, a recent survey in the Global Financial Centres Index (GFCI) found that London is still the world's most attractive financial centre, even extending its appeal over New York amid the Brexit uncertainty[11] . When you combine this with the vote of confidence in East London – as shown by the surge of overseas investment – it appears East London's property market is not yet on the knife-edge that many thought it would be.

Lesley Males
Head of Research UK
DATSCHA

[11]https://uk.reuters.com/article/uk-britain-eu-london-rating/london-stays-worlds-top-finance-centre-despite-brexit-idUKKCN1BM0E7

ABOUT DATSCHA

Since 1996, Datscha has been developing award-winning technology to collect, aggregate and visualise public and proprietary real estate data in Sweden, Finland and the United Kingdom via intuitive online dashboards.

It provides customers with an overview of up-to-date property portfolios, transactional data on the properties that companies have been buying and selling and the outright owners of all commercial properties in these three nations.

Today, Datscha is serving over 700 companies in seven countries with this real-time property market data and ownership information, designed to help its customers stay competitive in the commercial property market.

Get in touch with us
datscha.co.uk
0203 0044 947
support@datscha.co.uk

DATSCHA