The Changing Face of LONDON

By Patricia LeMarechal, SIOR, BSc (Hons), MRICS

Over the past two decades London has undergone a significant transformation in both cultural and economic terms. Once best known on the global stage for lamentable cuisine, crumbling infrastructure, and poor weather, London has come of age this millennium and emerged as a true world capital. With at least two out of these three popular myths put to rest, London is now the tourist capital of the world – ahead of New York and Paris – according to a recent survey by Mastercard.

Though visitors still flock to Buckingham Palace to catch a glimpse of the Queen and the changing of the guard, it is London's retail and leisure offerings that really draw in the crowds. Oxford Street — the capital's main shopping street — is always busy with its department stores and flagship outlets, which now command rents of £800 per square-foot. The specialist and boutique shops around New Bond Street can command rents of up to £1,200 per square-foot, making it one of the most expensive retail locations in the world.

The biggest game-changer for London in recent times has been its emergence as a safe haven for foreign investors. It's perceived distance from Eurozone woes, benign tax regime, transparent legal system, stable politics and weakened currency have all colluded to attract an influx of foreign capital since the global financial crisis of 2007. Nowhere is this more evident than the soaring residential market, where prices have risen by 20.1 percent in the last 12 months.

The buyers come from China, Russia, North America and everywhere in between; all of whom have confidence that London residential is a safe-haven for capital – gold bullion for the modern era. While this is welcome news on the macro level, it presents some challenges on a micro-economic level. Politicians need to be seen to welcome investors with open arms, but also face disquiet about a housing market in which the average London house price stands at £488,294 (source Rightmove) versus the average London wage of £34,216 (source office for national statistics).

Another consequence of London's booming residential market is the strain it puts on the transport infrastructure. Each day around 750,000 workers commute in and out of the capital. One major transport terminus, Waterloo Station, receives almost 95 million passengers per annum. This has fueled major investment in the city's underground system, which comprises 11 lines carrying 3 million passengers each day. London's ebullient mayor, Boris Johnson, has fought hard to secure investment in the underground network off the back of the recent London 2012 Olympics, though most residents would argue that this commitment needs to be maintained over the long-term.

City of London Office Areas

One scheme helping to alleviate the crush is Crossrail, Europe's largest construction project. Due to open in 2018, it will link the East and West extremities of the city, covering 62 miles in total and taking passengers from Heathrow Airport to the city in just 36 minutes. It is infrastructure investment that is already paying dividends – the demand for land close to future Crossrail stations is rocketing, and previously unviable office locations are now sought after destinations.

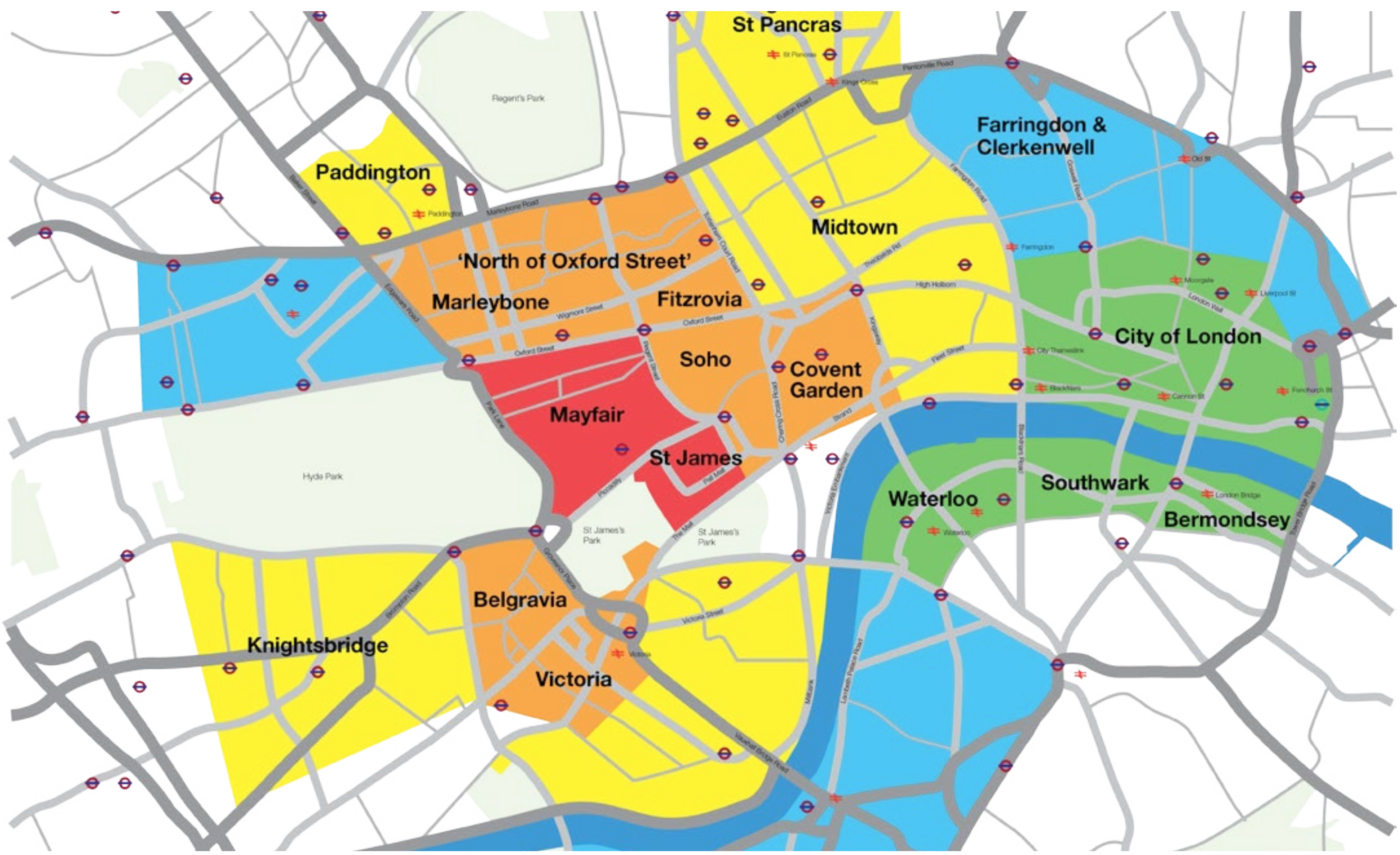
But while London's internal transport infrastructure is an ongoing battle for investment in capacity, its links to the wider world are arguably unrivalled among any other major city. Paris and Brussels are just over two hours away from St. Pancras by Eurostar train, with major centres such as Amsterdam, Frankfurt and Cologne are due to be served directly in the near future. London's five major airports link the city to virtually anywhere on the globe, with 72.3 million people a year travelling through Heathrow alone. London is at the centre of a web of transport links – a factor that makes the capital even more appealing to major occupiers in search of headquarters.

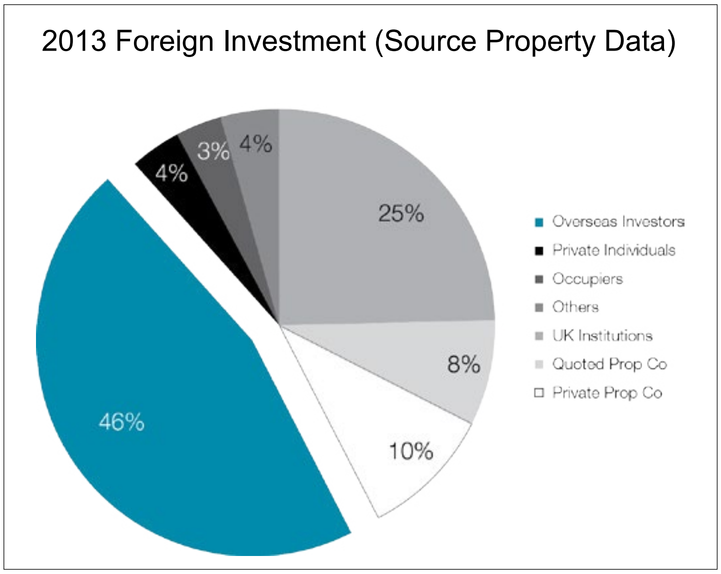
This continued rise in demand for business space over the past two decades has seen a shift in the centre of gravity for London's traditional CBD. Canary Wharf, built in the 1980s, has seen its ups and downs through the economic changes, but now is home to many headquarter buildings with tenants including Clifford Chance, JP Morgan, Credit Suisse, and Barclays Bank; commanding a rent of £ 35-45 per square feet per annum.

London remains increasingly attractive for commercial property investment. Its continued 'safe haven' status, independent currency, and buoyant occupational markets have sustained frenetic investment activity over the past five years. Yields for prime office buildings in the main districts of the city of London and the West End now stand at 4.75 percent and at 3.85 percent respectively. Recent notable deals include 22 Hanover Square in W1 purchased at £155million and a yield of 3.35 percent, and £1,773 psf capital value. It is let to JLL to March 2017, and was bought by India Bulls, who also purchased 9 Marylebone Road, Colliers former offices, in Sept 2012. 60 Holborn Viaduct in the city was bought by AXA Reim at £245million and a yield of 4.75 percent.

Despite recent high levels of investment and development in London, it will always be constrained by a lack of available land which, in turn, impacts the value of the opportunities which do exist. Large swathes of land in London, both residential and commercial, remain in the ownership of large and historic estates such as the Grosvenor Estate and Cadogan Estates, as well as ownerships of the Crown and Church Commissioners. Nevertheless, the graph shows the influx of capital into London, confirming its place as a key location in the world's economy, and the sources of investors at the current time.

Due to lack of space, areas tenants would never previously have considered as desirable are now becoming sought after and in some cases trendy locations. These include Whitechapel and Clarkenwell as well as Farringdon. In Clarkenwell, in the last three years rents





have increased from late £20s per squre foot per annum to early £50s per square foot per annum for old best warehouse space and may well increase further post the completion of Cross rail.

Soho, once viewed as a seedy part of town, has been totally transformed with offices now achieving rents of £92.50 per square foot per annum per square foot and is home to established tenants including Spotify Ltd and M and C Saatchi.

Although traditionally known for its historic architecture and renowned buildings such as St Paul's Cathedral and the Bank of England, London now boasts some world-class modern architecture. Large office buildings such as The Gherkin, The Shard, and 20 Fenchurch Street "The Walkie Talkie" have proved to be truly iconic additions to London's skyline. Rents in these buildings typically sit at around £70-80 per square foot and space is leased quickly with occupieres keen to secure an exclusive and globally recognizable address.

The city of London, the traditional heartland of the financial services sector, office space and command rents of around £60 per square foot per annum. Many occupiers originally moved to the city due to lower rents and more availability of suitable product than the West End with rents of up to £110 per square feet per annum.

In addition to service charges, building occupiers in the U.K. also pay annual property tax which is based on the rental value of the space. Business rates, as they are known, are currently around 50 percent of rental costs, and as such, represent a large occupational cost for the tenant. It is possible to challenge the level of business rates through legislation and knowledge of the markets, which can save a considerable amount of money; last year alone Gerald Eve saved its clients across the U.K. some £500m against the 2010 revaluation assessments. The next reevaluation, on which business rates are based will be in 2017; and as such, it will be key to ensure that all occupiers consider this and ensure that they get professional advice to mitigate the costs of occupation – not only in London – but elsewhere in the U.K.

As demand continues to grow and London expands outwards, the capital will change but it will retain its historic backdrop, drawing cultural with its multi-cultural society, its vast array of attractions, and things to do well into the next century. In order to see these sites and experience all that London has to offer, then look out for a conference in London in 2015.

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