

2012

RESIDENTIAL
RESEARCH



THE SOUTH BANK REVIEW

Knight Frank



MARKET OVERVIEW
FUTURE DEMAND
GLOBAL CONTEXT

LONDON'S NEWEST PRIME LOCATION



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In October 2007 Knight Frank confirmed that London's South Bank was fast maturing as a luxury residential market location, and for the first time we included this area in the geographical definition of 'prime central London'.

Now, four years on, our decision to place South Bank in the same basket as Mayfair, Belgravia, Notting Hill and Kensington appears more and more prescient.

We defined this market as London's first contemporary urban quarter, extending from County Hall and Westminster Bridge, and running east in a narrow zone towards Tower Bridge, encompassing Shad Thames and Butlers Wharf.

Regeneration in the area was led by cultural initiatives. A critical mass of projects built on the original Royal Festival Hall and National Theatre developments, and by 2007 included the rejuvenated Borough Market, the Globe Theatre and most significantly the Tate Modern.

Prime residential developments followed over time, with significant examples including Benbow House, Bankside Lofts, Winchester Wharf and Whitehouse Apartments.

Recent additions to this list include NEO Bankside, which has seen strong sales performance over the past three years and impressive price growth since its first release in 2010. New developments coming on stream include The Shard, next to London Bridge station, and One Tower Bridge, at the eastern end of South Bank. All of these new developments will help to enhance the residential offer in the area.

One question we posed in our original research on South Bank in 2007 was whether the key markets in the area, especially around the Tate Modern, would compete head-on in price terms with the

more traditional prime markets around Hyde Park. We suspected that there would be an equalisation in pricing over time between the two areas – and so it has proved.

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A trend which certainly aided this process was the ability of developers to push pricing significantly higher for modern developments, often ahead of the established homes market. Central London is rich in period properties but the availability of high-quality, well-designed apartments has been relatively poor compared to New York and other global centres.

South Bank has provided developers with the scope to fill this void, and there are now several significant schemes in planning or awaiting commencement. This is leading to the emergence of an urban quarter which

feels very different from the more traditional neighbourhoods of west London.

Our 2007 research noted that “pricing in South Bank for new developments ranges from £600 to £1,100/sq ft. This compares to figures double or even triple this level in the established prime markets to the west of London. Our view is that over the short to medium term this area will substantially outperform central London in terms of pricing growth”. As we discuss below, this has indeed come to pass.

South Bank's performance

Figure 1 confirms that South Bank prices have followed a similar pattern to the wider prime central London market since 2007. The outperformance of the South Bank is clear, with a 5% additional uplift between January 2007 and September 2011.

In fact, since March 2009 – the post-Lehman low point in the central London market – prices have risen by 44% in London's South Bank, compared to a recovery of 37% in prime central London as a whole.

Price performance for the newer developments in South Bank have far exceeded both of these headline figures. Where £800 to £1,000/sq ft was a testing target for developers in the South Bank in 2007, figures upwards of £1,400/sq ft are increasingly being achieved.

The appreciation in values is driven in part by underlying market movements, which we have reported on at length elsewhere. A further reason, and perhaps the most important one, is the fact that these new developments are providing a standard of accommodation that has simply not been provided in this area in the past – a standard that is increasingly being looked at enviously by developers scouring the more established prime markets to the west for similar opportunities.

Who is living in the South Bank?

Owner-occupiers and investors have clearly done rather well out of South Bank's rejuvenation.

However, while price growth is all to the good – for owners at least – what investors really want to know is whether they have an affluent pool of tenants to target with their shiny new investment property.

In figures 2, 3 and 4 we have pulled together the first comprehensive picture of the South Bank occupier.

The first thing to note, in figure 2, is that tenants in South Bank look a lot like residents in the rest of prime central London. On average they are 36 years old, compared to the 39-year-old average in prime central London.

In terms of nationalities, figure 3 reveals the same global mix as has become the norm in central London, with UK tenants accounting for only around 47% of all lettings. Europeans come next, representing nearly a fifth of all tenancies, and North American and Asia-Pac tenants make up the majority of the remaining lettings.

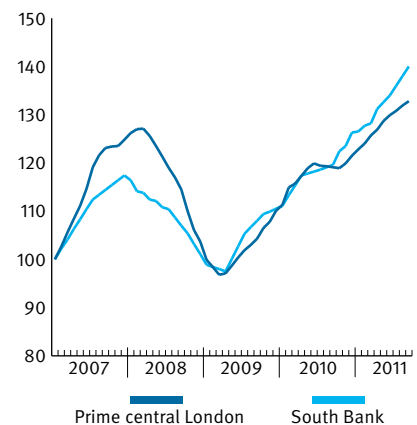
It is when we look at occupations of tenants that we really see the breadth of demand for accommodation. While the City of London is only a short walk away for most residents, the South Bank is not a zone dominated by weekday-only residents looking for nothing more than a crash pad. This is a location where people want to live.

While financial services and the broader business services sectors take up the top two spots in figure 4, we also see that government and diplomatic staff, retirees, entrepreneurs and students are choosing to move to new developments in this area – investors will be cheered by the diversity of demand.

Figure 1

South Bank outperforms

All prime central London and South Bank price change, index Jan 2007 = 100

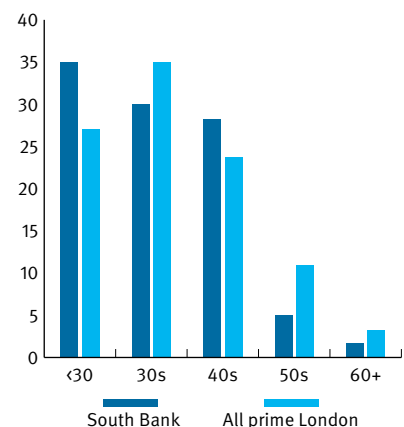


Source: Knight Frank Residential Research

Figure 2

A younger tenant market

South Bank and all prime London tenants, split by age group



Source: Knight Frank Residential Research



WHAT WILL DRIVE FUTURE DEMAND FOR PROPERTY IN SOUTH BANK?

With a reputation as London's cultural hub, boasting some of the capital's most impressive architecture, galleries, museums, festivals, exhibitions, music venues, bars and restaurants, as well as an enviably well-connected central location, the South Bank area continues to attract lifestyle and investment buyers from far and wide.

The South Bank has undergone a significant transformation in recent years. What was once a fragmented neighbourhood is one of London's key cultural centres.

This transformation has taken place in a relatively short space of time and has involved not just residential development, but also an expansion of the area's numerous museums, theatres and galleries, as well as a widening leisure and retail offer.

The South Bank Centre – which consists of the Royal Festival Hall, the Hayward Gallery, Queen Elizabeth Hall, and the Saison Poetry Library – lies at the heart of an arts quarter stretching from the Royal National Theatre to the Tate Modern and Shakespeare's Globe.

The centre sits next to the popular landmark London Eye and Jubilee Gardens, a high-profile park which is set to be redeveloped by architects West 8 with the aim of creating a new landmark open space for those who live and work in the area as well as visitors.

This cultural offering will soon be complemented by TM2, the striking £215m Herzog & de Meuron extension to the Tate Modern gallery, due to complete in 2016. This will boost the profile of the area even further, with some industry insiders likening the prestige of living near the extended gallery with living near the renowned Guggenheim Museum in New York.

The variety of nearby retail and leisure outlets is also a big pull, with the wide range of shops, bars and restaurants of the West End and Covent Garden a short walk

or tube ride away. Even closer is the new shopping centre, One New Change, which opened in 2010, and is a 10 to 15-minute walk from most locations on the South Bank.

Improved transport links have been critical in boosting the popularity of the area. Sir

Norman Foster's Millennium Bridge has placed the City (London's financial district) within a 10-minute walk, while the riverboat – The Thames Clipper service – now runs from Bankside Pier, connecting the South Bank with Waterloo in the west (11 minutes) and with Canary Wharf in the east (20 minutes).

South Bank in a global context

Investors are increasingly comparing prime markets on a global scale, with London benchmarked against New York or Singapore for example.

Interestingly, as this process encourages investors to look closely at macro trends, currency shifts, GDP forecasts and so on, there is growing appetite for investors to look at micro trends.

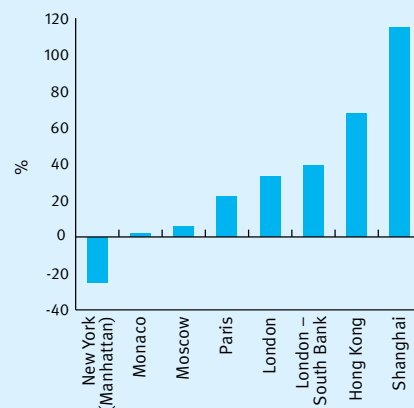
If an investor has homed in on London as the place for his next purchase, his next question is: where in London? In the chart to the right we have assembled data from Knight Frank's unique Prime Global Cities Index, which provides us with a telling context for our analysis on the luxury market in London and the South Bank in particular.

In the two years to Q2 2011, price growth in London stood well ahead of key western city markets, but lagged the remarkable performance seen in Asia.

New York's lacklustre performance is explained by a much more savage downturn in the Manhattan market following the Lehman collapse, which took much longer to reverse than was the case in London. Additionally, in the absence of a significant decline in the US dollar's value in 2009, there was no driver for a boom in international purchases in the city.

Global city performance

Prime residential price performance, Q1 2009 to Q2 2011



Source: Knight Frank Residential

Paris saw a very quiet period in 2009 and early 2010, which has been replaced in the last 12 months by a much more active market which has seen significant price growth. The 'Arab Spring' has contributed to demand from that region for Parisian property, mirroring the trend in London.

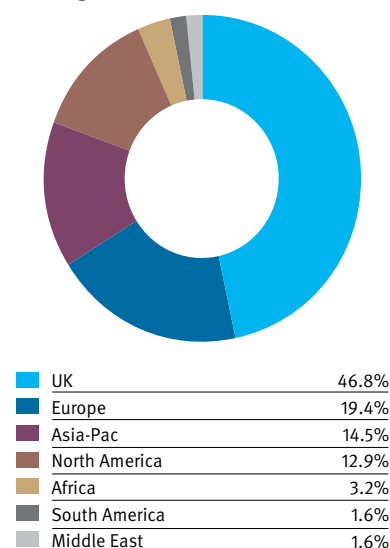
Asian markets have boomed on the back of economic growth and escalating demand. Despite these compelling drivers of price growth, the very high rates reported in both Hong Kong and the main Chinese cities raise obvious concerns over the sustainability of pricing and the risk of speculative bubbles.



Figure 3

Global tenant base

South Bank prime market tenants, split by broad world region

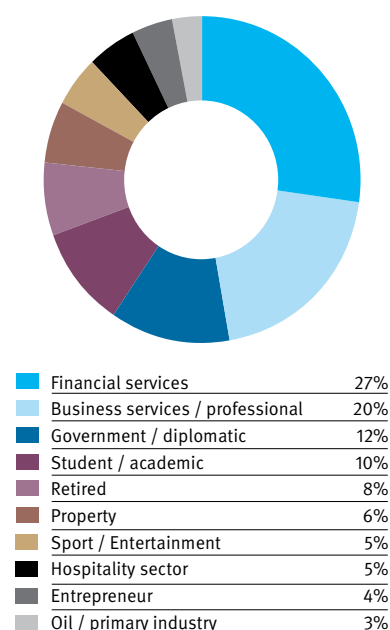


Source: Knight Frank Residential Research

Figure 4

Occupation of tenants

Occupations of South Bank prime market tenants, March to September 2011



Source: Knight Frank Residential Research

Additionally, with the Jubilee Line running the length of the South Bank, there is easy access to Canary Wharf, the West End and the wider underground and rail network. In late 2011 the newly rebuilt Blackfriars underground station (currently only accessible from the north bank of the Thames) will have a new South Bank entrance, giving direct access to the Circle and District lines.

It is this ease of accessibility, combined with a rapidly improving lifestyle offer, which has helped to drive investment by developers as well as residential purchasers.

A significant driver for investment from international buyers stems from educational requirements. The South Bank is within a

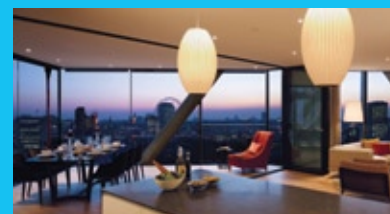
30-minute tube ride of seven world-renowned universities including The London School of Economics, University College London, Central St. Martins and Goldsmith's.

Over the past decade, the number of international students studying at UK universities has risen by nearly 200%, with the strongest growth coming from students from the Asia-Pacific region.

Wealthy UK residents living outside of London have also emerged as a strong source of domestic demand. For these purchasers a pied-a-terre with easy access to the City and West End, and a simple commute via nearby Waterloo Station or London Bridge, has proved an attractive prospect.

Setting the standard: NEO Bankside

NEO Bankside, a development of 217 luxury apartments and penthouses by Native Land and Grosvenor and designed by award-winning architects Rogers Stirk Harbour + Partners, has been the leading prime development on the South Bank since our incorporation of the area into our Prime Central London Index. We spoke to Knight Frank agent Meriam Makiya to gain an insight into the performance of the scheme to date.



What stage is the development at?

Pavilions A and B are complete and residents began to move in late last year. The whole development, including Pavilion C and leisure facilities, is due to complete in spring 2012.

What has sales activity been like?

Excellent – we have sold 125 of the 217 apartments. On average we sell one property each week.

Who's been buying what?

Of the 125 properties sold to date, a third have gone to British buyers and the rest to a mix of over 20 nationalities. One and two-bedroom properties have attracted significant interest from investors, while larger two and three-bedroom apartments have been popular with owner-occupiers. The mix of owner-occupiers and investors is evenly spread.

What prices have been achieved?

The scheme's popularity has resulted in a new benchmark for pricing in the South Bank. Prices achieved have continued to rise, with the average now £1,350/sq ft.

How do you expect prices to perform in the coming years?

We expect prices at the development, and in the area in general, to outperform wider prime central London due to the fact that it is the newest addition to the capital's prime market. The addition of a number of other new developments to the South Bank will further boost the area's desirability and therefore prices.

What properties are still available to buy?

Most of the available properties have two or three bedrooms and range in size from 818 sq ft to 2,676 sq ft. Pavillion A has sold out, with the exception of the show apartment. Pavillion B has just two units available, and 35% of the properties at Pavillion C have been sold.



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