

## FIVE YEARS ON, LONDON'S OLYMPIC REAL ESTATE LEGACY IS A CLEAR WINNER

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## Five Years On, London's Olympic Real Estate Legacy Is A Clear Winner

The Olympics have become famously bad for real estate. Numerous academic studies have shown the games offer no net economic benefits to a host city, and the cost and complexity of holding them is rising. The legacy of the 2004 Athens Olympics is hundreds of acres of abandoned facilities that may never come back into use. That of Rio is of spiralling costs and myriad corruption trials.

But at a time when it seems no one wants the Olympics in their city, it is worth looking back on the real estate legacy of the London 2012 games – a rip-roaring success.



*Courtesy of Delancey  
East Village is radically shaking up the London rental market.*

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Earlier this month the International Olympic Committee took the unprecedented step of naming the host cities for two upcoming Olympics rather than just one, and Paris and Los Angeles will host the games in 2024 and 2028.

The move may be due to decreased interest in hosting. Few other cities were mulling bids and no others had made firm commitments.

But five years (to the day on July 27) since the 2012 games in London kicked off, the Olympics has begun to make good on its promise of creating a thriving new district on the former Olympic Park in Stratford, East London.

"Before the Olympics, people just didn't go to Stratford, but London is moving east and the Olympics is a big part of that", said Ben O'Rourke, Lendlease's managing director for the International Quarter. "Stratford is well-connected to the rest of London, and there is the chance for companies looking for affordable space to come here and have a blank canvass [to] reinvent themselves."

Major office tenants, myriad startups, universities, museums and theatres have all committed to moving to the Olympic Park. Thousands of new homes have been created, with the rented accommodation element starting to radically alter how the U.K. private rented sector operates.

One of the most challenging assets to convert after any games is the broadcast and media centre, given the technical infrastructure and specific nature of the building. Even here London has set an example to follow.

Private equity firm Delancey completed a long-lease on the building in 2014 and began the process of creating a 1.2M SF tech cluster called Here East, including a data centre and space leased to larger corporates, academic institutions and startups.

Tenants include broadcaster BT Sport; Ford, which has an autonomous driving research facility there; Loughborough University and University College London; and an innovation centre managed by a company called Plexal, which has 150 members and aims to grow to 800.

In spite of the unique nature of the property and strict requirements for who can take space – technology and innovation companies only – it is already 65% leased, with plans to be fully leased by the end of next year.

When UCL's facility opens in the autumn, 2,500 people will use the building each day, a figure that will grow to 5,500 when it is fully occupied.

"We could have filled the space a lot quicker with leasing to large corporate enterprises, but that would have been suboptimal in terms of the longer-term vision," Here East Chief Operating Officer Andrew Roughan said. "We didn't want to compromise, and that would have changed the dynamic.

"There are three pillars to who we have here – students, larger enterprises and startups – and we really wanted to build a technology cluster where they could genuinely collaborate and collide."

Roughan said the collaboration between companies and organisations was not just limited to Here East – as the employment ecosystem at the Olympic Park grew, so did the opportunities for innovative firms to work together.

"Within the higher education facilities that are here there is a lot of research being done into autonomous and connected vehicles, and that fits well with Ford, who are setting up an innovation office looking into smart mobility solutions in Europe", Roughan said. "That offers a perfect parallel for Transport for London, which are moving to the International Quarter. There will be a lot of collaboration between Here East and other occupiers on the park."

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*Courtesy of Delancey*

*Here East is leasing up quickly in spite of the challenges the Olympic broadcast centre presents.*

The International Quarter, a joint venture between Lendlease and LCR, is in many ways the centrepiece of the effort to turn the Olympic Park into a genuine employment destination. The huge scheme will comprise 4M SF of offices, where up to 25,000 people will work when completed. It will also feature 52K SF of shops and restaurants and 333 homes.

The challenge for a scheme of this sort was to persuade large office occupiers that the Olympic Park and Stratford is a viable location.

But so far the team has been resoundingly successful. Next month Transport for London will occupy a 265K SF building in the first phase of the International Quarter, moving 3,000 employees to the site.

Next year the Financial Conduct Authority will move 3,800 staff into 425K SF of a second 515K SF building.

Other occupiers, including Cancer Research and the British Council, are reported to be taking up to 150K SF at the scheme, meaning construction of a third building can soon commence.

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"We selfishly see the International Quarter as being at the heart of the legacy as far as real estate is concerned, as we're right in the middle of all of these building blocks",

O'Rourke said. O'Rourke said the tenor of conversations with tenants had changed, and moving the Olympic Park was no longer seen as such a leap of faith.

"It was important for TfL and the FCA to have faith in the scheme and move here when it was just a big square of tarmac, and there was always risk for them in being a first mover. Now people ask less and less about whether it is a viable location. People are starting to see that the building blocks are in place and there is that critical mass. Next year when the first phase fully opens and the restaurants and bars are full I think people will start to fully realise what is going on here."

Stratford and the Olympic Park are also being seen as a viable investment destination for institutions and pension funds. The buildings occupied by TfL and the FCA have been bought by Legal & General and Deutsche Asset Management, respectively, for a combined total of more than £600M. The yield paid for the buildings was below 4.5%, higher than for equivalent buildings in the City or West End, but not significantly so, and at significantly lower rents.

The employment side of the Olympic Park is performing well, and the same is true of the residential side.



*Courtesy of London Legacy Development Corp.  
The Olympic Park*

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The main plank of this is the former Athletes' Village, where 3,000 residential apartments were created once the athletes moved on from what is, by all accounts, a three-week festival of extreme sporting perfection and sex.

Delancey is again involved, purchasing 1,500 of the units for £500M alongside Qatari Diar and using it as a platform to create one of the U.K.'s first large-scale private rented sector owners and managers, Get Living London, providing apartments leased at full-market rent.

A further 1,500 units were leased at sub-market rent or sold via shared equity schemes, and the common areas of all of the units are managed by Get Living in a joint venture with Triathlon homes. The entire scheme was rebranded East Village, and residents moved in in 2013.

Statistics provided by Get Living show the average age of the residents in Olympic Park is 28; their average salary is £38K and the biggest employer is the National Health Service.

The average rents paid are around £17K to £20K a year, and the average occupancy is around 95%, showing that while the rents are not cheap, the service offered is in high demand.

As well as providing much-needed new residential units for London, East Village is changing the way London's rental market could work. Tenants do not have to pay letting fees, and earlier this year Get Living abandoned tenant deposits, refunding existing tenants £2M in the process. It offers three-year leases instead of the standard one-year lease, and is looking at providing even longer leases in the future.

"The key thing for us winning the bid for the site was the legacy commitment," Delancey Investment Director Stafford Lancaster said. "We were aligned with the London Legacy Development Corp's long-term investment plan. We weren't planning to sell the units off but looking to invest long-term and offer homes for rent. That was a real issue and there was a real desire from government to provide these kind of homes."

In terms of the innovations Get Living has put in place, Lancaster said this was part of a desire to "challenge the rental market" in the wake of the financial crisis and "change the benchmark of what people expect from rental accommodation".

In spite of the high occupancy rate he said there have been hurdles in managing the scheme.

"You have the challenge of leasing 1,500 properties, and by the time you've done that the first leases start running out and they start to come back to you again. It has been far more seasonal than we expected, it ebbs in winter and then leasing picks up again in the summer."

With that in mind Get Living struck a deal with Deloitte to lease the company 40 apartments, and is looking to strike other corporate deals.

The sale of land in and around the park will have the capacity to create tens of thousands of further homes for sale and rent.

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*Courtesy of Delancey*

*The average age of those living in East Village is 28.*

On the retail side, the Westfield Shopping Centre built in time for the 2012 games has gone from strength to strength, expanding its footprint and establishing itself as one of the top five malls in the U.K., according to research from Harper Dennis Hobbs.

Its success has spilled out beyond the boundaries of the Olympic Park and precipitated further residential development. U.K. opportunity fund Frogmore bought the nearby secondary Stratford shopping centre for £142M earlier this year, and has teamed up with house builder Galliard to build a new residential tower on top.

In between these commercial developments a massive cultural and educational renaissance is underway.

University College London is planning its biggest expansion since the 1820s with a new 1.9M SF campus, UCL East, the first phase of which will open in 2020 and accommodate 3,000 students and 625 staff.

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In 2021 the London College of Fashion will open a 323K SF facility housing 5,500 students and 500 staff.

The Victoria & Albert Museum is building a 194K SF museum facility called V&A East, where it will house some of its existing collection, host new exhibitions and also collaborate with the Washington-based Smithsonian on projects.

Dance theatre Sadler's Wells is planning a new 550-seat auditorium near the new V&A. Even the stadium, often a white elephant after Olympic Games are over, has been leased to football team West Ham United, albeit at a significant public subsidy, and much to the chagrin of the team's fans.

All of this, O'Rourke argued, will help to continue the process of turning the Olympic Park into a real part of London's fabric and a destination in itself.

He and those involved in transforming the Olympic Park are proud of what has been achieved so far, and what is still to come.

"London measures itself against every Olympics that has come before", O'Rourke said. "I'm an Aussie so I'm obviously pretty parochial, but I can say that relative to Sydney, London is several steps forward on what it has created."

"Over the next 10 years it's all about the small pieces of the puzzle, that add character and turn it into a real place. People often criticise big master planned schemes that create large, empty windswept developments, and rightly so, but that hasn't happened here, and we're excited and ambitious about playing a part in the destination that's being created", O'Rourke said.

"One of the reasons I'm excited about going to work every day is that London doesn't even know what it's created yet, because it's still early days", Roughan said. "When its all completed in the 2020s there will be 30,000 people working here every day, 60,000 people living here and it will be one of the largest cultural destinations in Europe. There will be leisure assets and one of the largest urban parks in London. I will look back with pride to have been involved."

In an era when the Olympics is not the brand it once was, London too can look back with pride at what it used the games to create.