



CITY CENTRAL

EXAMINING LONDON'S NEW PRIME RESIDENTIAL DISTRICTS FROM FARRINGDON TO WHITECHAPEL **2015**

KEY FINDINGS

The areas surrounding the City are now established prime residential markets

Property prices in these areas have outperformed average prime central London prices over the last two years

Global businesses have announced plans to relocate their offices to the area

Over 15,000 new businesses were set up in Tech City in 2013/14, more than anywhere else in the UK

The arrival of Crossrail in 2018 will make Farringdon one of Britain's busiest train stations, linking Thameslink, Crossrail and London Underground services

The area will be served by three Crossrail stations, with extra station entrances at Barbican and Moorgate, making this one of the best connected parts of London



OLIVER KNIGHT
Residential Research

“The areas surrounding the City of London are some of the capital's most active prime residential areas, with transactions 42% higher in 2014 than in 2011.”

CITY CENTRAL LIVING

The City and its surrounding areas are now firmly part of the prime central London residential market. Increased job creation, coupled with strong buyer demand, has underpinned price growth in the market.

A number of economic and cultural factors have transformed the areas surrounding the City of London into some of the capital's most active prime residential areas. Growing demand from buyers is reflected by rising transaction levels in the area which were 19% higher in 2014 compared to 2012 and 42% higher than in 2011.

Running from Farringdon in the west all the way to Whitechapel in the east, as shown on page 3, the area benefits from existing high quality property stock including Georgian terraces as well as period commercial buildings, some of which have already lent themselves to conversion into large-scale, open plan residential buildings not dissimilar to Tribeca in New York.

The northern central quarter encompasses City Road, Old Street and Shoreditch and to the south it runs through the City of London as far as Tower Bridge and the outskirts of Midtown.

The area boasts a wide cultural offering which includes Smithfield Market, Columbia Road Flower Market, Whitechapel Art Gallery and Brick Lane. Proximity to these, as well as a host of other landmarks, has helped contribute to rising demand from buyers for property in the area.

Demand for housing is also spurred by the relative value on offer, in terms of price per square foot compared to the more traditional prime areas, as well as the ongoing regeneration and re-development taking place. In addition, the evolution of new commercial districts has brought thousands of new workers to the area.

Such change often brings with it the opportunity for price growth and, as our research shows, the area has outperformed prime central London over the last three years (figure 1).

At the heart of all this is the business hub branded “Tech City”. This technology cluster, which is a hotbed for innovative business start-ups, has added a further

dimension to the area and helped attract thousands of young urban workers here. London tech firms, many of which are based here, attracted a record \$1 billion of venture capital investment in the first nine months of 2014, according to London and Partners.

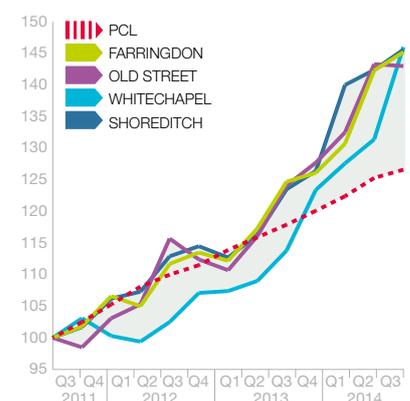
Such is the area's success, larger blue-chip companies are relocating, moving away from their previous haunts in Soho and Fitzrovia, Covent Garden and the West End. All of this has served to highlight the growing importance of the area as a business hub.

Indeed, this growing tech sector and government initiatives to market the area as a home for start-ups has prompted developers to tap into a need for supply of new office and residential space, which we explore in more detail in this report.

The “Business” case

Companies including Vodafone, Google, Amazon, Facebook, Intel, KPMG and McKinsey & Co have moved, or are planning to move to this area or its vicinity with sites earmarked in Shoreditch, King's Cross, and Old Street among others.

FIGURE 1
Outperforming prime central London



Source: Knight Frank Residential Research

FIGURE 2 Defining City Central

Number of private residential units with planning permission or currently under construction



Google's new head office in King's Cross is scheduled for completion in 2016 and will house 4,500 employees. This influx of new workers is likely to boost demand for residential housing in the areas identified in this report.

Additionally, the presence of such companies acts as a further boost for employment and wealth creation, bringing thousands of new workers to the area and creating additional amenities in the form of shops, bars, cafes and restaurants.

We expect that such "placemaking", and the improvements to the public realm which take place alongside this, will give buyers extra impetus to take an interest in the area which could result in further price outperformance.

Data shows that occupier demand for office space in and around the City continues to grow. In 2014, some 9.2m square foot of office space was leased,

12% higher than in 2013 and over 50% higher than in 2012.

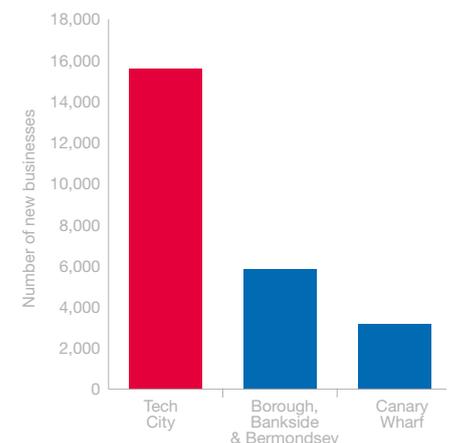
Furthermore, research by Knight Frank has found that the time taken to let new and refurbished office buildings in and around the City has fallen dramatically over the last 24 months. Almost half of all schemes built in the last two years have achieved 85% occupancy within 12 months of completion. This is a significant increase from the preceding 2-year period, during which only 15% of schemes reached 85% occupancy within 12 months.

An active economy is driven by job creation and this is evident from the results of a study by UHY Hacker Young which found that **15,620 new companies were set up in Tech City in 2013/14 alone (figure 3)**. This is nearly five times as many businesses launched as in the Canary Wharf area and more than double the 5,850 new start-ups in the Borough, Bankside and Bermondsey areas.

FIGURE 3

Hotbed of business creation

Number of new companies set up in 2013/14



Source: UHY Hacker Young

In 2012/13, 15,720 new businesses were launched in Tech City.

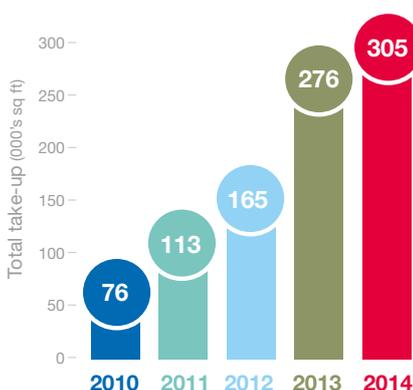
The area's long-standing association with design, media and innovation acts as a draw for start-ups, while the cheaper office rents that are available make it a viable option for such firms. Commercial rents here are around £50 per square foot compared to nearly £70 in Covent Garden and around £80 in Soho and Fitzrovia. In the West End office rents are more than double at £107.50.

Our research has found that take-up of serviced office space, a popular choice among smaller or relatively new companies who are more reluctant to sign for longer lease periods and appreciate the flexibility that serviced offices provide, has spiked in recent years in the central London areas. In 2014, take-up reached nearly 305,000 square foot, almost double the level recorded in 2012 (figure 4).

The city's financial heritage has already helped to foster a booming scene for financial technology firms. A study by the consultancy Accenture found that London is the 'fintech' capital of Europe, attracting around 50% of all European venture capital funding over the last five years.

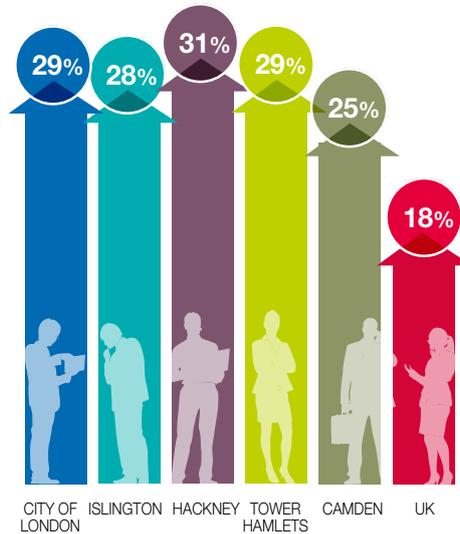
The drive to encourage companies within the TMT sector to re-locate into this area has been given the full backing of the UK government and is subject to a number of initiatives aimed at providing financial

FIGURE 4
Entrepreneurial spirit
Take-up of serviced offices in the City and East



Source: Knight Frank Research

FIGURE 5
A growing workforce
Forecast increase in jobs 2013 - 2031



Source: Knight Frank Residential Research / Experian

support. For example, the government's UK Trade and Investment department has created the [Tech City Investment Organisation \(TCIO\)](#), the body responsible for making Tech City one of the world's top destinations for tech entrepreneurs, rivalling world renowned locations such as Silicon Valley.

As a result, Experian forecasts that employment growth in the boroughs will outpace the UK average over the years to 2031 (figure 5), while their average annual economic growth is forecast to outperform the rest of the UK over the next decade.

Such growth is likely to act as a boost for the residential property markets highlighted in this report.

The arrival of Crossrail in 2018 is another key factor for these markets. The route runs through the heart of the area with station entrances in Farringdon, Barbican, Moorgate, Liverpool Street and Whitechapel. Crossrail has already boosted the appeal of the area and our analysis shows that residential prices within a ten-minute walk of the station entrances have already outperformed the wider areas. This is expected to continue in the run up to the line opening in 2018, and beyond.

CROSSRAIL

Changes in infrastructure can stimulate and open up parts of a city, attract investment and create additional demand for housing and bring a new energy to areas.

The most significant such change in London is the arrival of Crossrail in 2018. The high-speed rail line is the biggest infrastructure project in London in nearly two decades, and is set to increase London's rail transport capacity by 10% when it opens. This will be the single largest uplift in capacity since the Second World War.

Passenger numbers are expected to be in the region of 200 million a year and the dramatically faster travel times that will be possible once Crossrail opens will make central London more accessible to a greater number of workers, and to residents who will benefit from shorter journey times across the capital and to airports.

The City and its surrounding areas will be served by three Crossrail stations, at Farringdon, Liverpool Street and Whitechapel, with extra station entrances at Barbican and Moorgate. According to Knight Frank's [recent survey of those renting property in London](#), nearly 80% of Londoners said proximity to transport links was a key factor when choosing where to live.

We are forecasting that residential property located within a 10-minute walk of Crossrail stations will outperform wider price growth in the area until the route opens in 2018.

Crossrail 2, which will include stations at Angel and Dalston and run north south through London, will serve to further increase the desirability of the City Road if final permission is granted.

Farringdon

Farringdon and nearby Clerkenwell have seen a noticeable uptick in buyer activity in recent years due to their proximity to the City and the South Bank and also as a result of widespread regeneration and re-development. Over the last three years, average property prices in Farringdon have risen by 45%.

Crossrail will open its doors at Farringdon Station in 2018. The arrival of the high-speed east-west train route will make Farringdon one of the biggest transport interchanges in the capital, linking Crossrail to Thameslink, a north to south train line which calls at both Luton and Gatwick Airports. An estimated three million passengers are expected to use Farringdon's Crossrail station every month. They will be transported to Bond Street in just four minutes, Canary Wharf in eight and will have direct access door to door from Farringdon to Heathrow in just over 30 minutes.

A range of public realm improvements are planned in the vicinity of the station and our analysis shows that there are nearly 750 private residential units under construction or with full planning permission in the area.

Local demand for housing is evident – government figures show that forecast household growth in Islington between 2011 and 2021 is 18% – or an extra 16,500 households.

Old Street / City Road

The emergence of **Tech City** as a burgeoning cluster of hi-tech and digital companies based around Old Street roundabout has been a game-changer in terms of driving regeneration on City Road and Old Street. Average property prices here have risen by 43% over the last three years.

The area's proximity to the City, Shoreditch and Farringdon (all less than a 10 minute walk) has been recognised by major developers. Canaletto, a 31-storey water-side residential tower on City Road, is one of the first of a cluster of skyscrapers to take shape.

Across the road from the Canaletto tower is the site for Berkeley's City Forum complex at 250 City Road, which includes two towers.

In Old Street and along City Road, there are currently more than 2,000 private residential units with planning permission granted or currently under construction. Some of these schemes are in the early stages of development and may take some years to deliver, but the scope of development planned highlights the benefits of this areas central location between the City and Islington.

The level of residential development is matched by commercial development activity with two major schemes close to Silicon Roundabout – Derwent London's White Collar Factory office building and Helical Bar's The Bower – planned for 2016. Both will offer office space designed to attract high quality tenants to the area.

The step up in residential and commercial offering is having a knock-on impact on retail. Take, for example, Whitecross Street, just off Old Street. This street has undergone a complete transformation over the last five years. It is now largely pedestrianized, and the retail offering includes art galleries as well as popular restaurants and independent cafes. Elsewhere, Transport for London launched Old Street station as its first innovative retail destination with seven new pop-up shops opening in the station foyer. So far the available units have been occupied by, among others, Tate Modern, a seller of electrically powered bicycles and a maker of marshmallows.

Shoreditch / Hoxton

Shoreditch has undergone a marked transformation over the last two decades. It is one of the most vibrant arts and entertainment districts in London, making it one of the liveliest areas of London.

The area now attracts young professionals from all over the world. This trend is likely to continue when new commercial tenants move in next door in Bishopsgate, bringing thousands of new workers to the area.

Down the road at Principal Place, for example, Amazon is due to open its offices in 2017, housing more than 5,000 employees.

The forecast for household growth in Hackney between 2011 and 2021 is 13% – an extra 13,000 households. Add the cross-London appeal of the area to this local demand, and the indications are that competition in this market could be intense in the years to come. Developers

are tapping into this need for high quality residential housing like the Izaki Group Long Street development of 119 units which is due to be completed in 2017.

Rising demand from buyers is likely to underpin pricing. Already property prices in Shoreditch have outperformed the wider market, rising by 46% over the last three years.

City of London

The City is at the heart of arguably the world's most important financial district, and as such is always an attractive place to live for City workers. Another factor which has helped ease the City into prime territory is the noticeable uplift in amenities for residents in recent years.

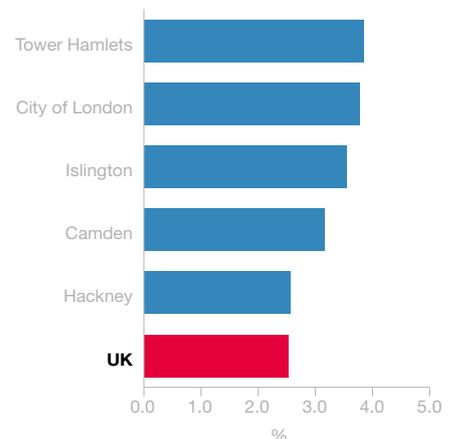
Demand for homes in the Square Mile far exceeds supply – and recent developments, including The Heron and Roman House, have not dented the shortfall of properties. Developers continue to tap into the demand for prime homes, as Barratt London's plans for 165 apartments in its Sugar Quay development demonstrate.

This type of re-development in the residential parts of the City has, over time, resulted in a wider food and retail offering. This sea-change was cemented by the opening of One New Change back in 2010, the upmarket retail centre next to St Paul's, and the re-developed Cheapside, where an array of designer shops are open seven days a week.

FIGURE 6

Economic growth

10 year average annual GVA growth



Source: Knight Frank Residential Research / Experian



Whitechapel

Whitechapel is set to become a major transport hub, connecting Crossrail to the London Overground orbital route around London. Crossrail will also mean that Whitechapel has a direct link to Heathrow, with a journey time of just 36 minutes. In addition, the travel time to Canary Wharf will be cut from 12 minutes on the overland train and then Jubilee line, to just 4 minutes direct, enhancing the area's attraction for workers based in Canary Wharf.

The [Whitechapel Vision Masterplan](#), put together by Tower Hamlets Council, will guide new development in the area over the next 15 years.

The masterplan focuses on six key areas, including the revitalisation of Whitechapel Road and the creation of a new civic hub. It will also deliver over 3,500 new homes by 2025, generate 5,000 jobs, and create seven new public squares and open spaces. This includes the redevelopment of the Sainsbury's store

at the junction of Cambridge Heath Road. Expected to deliver approximately 650 new homes the scheme will provide a new 'Whitechapel Square' linking the Crossrail exit to Mile End Road.

The complete overhaul of Whitechapel station, and the upgrade of the Royal London Hospital, just opposite the station, which is due to be completed in 2016, will significantly improve the public realm in and around the station. There is a burgeoning cultural life in the area, led by the Whitechapel Art Gallery and the Royal London Museum.

There are a number of residential schemes under construction or with planning permission in Whitechapel amounting to nearly 1,900 units which are due to be completed in the coming years.

Average property prices in the area have outperformed the average price uplift in the wider borough, climbing by more than 46% since 2011. This compares to price growth of 28% in Tower Hamlets over the same time.

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Front cover image: Crossrail/TfL

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OUTLOOK

The areas surrounding the City of London are already residential and businesses hubs. Further improvements to infrastructure and continued re-generation of the area will result in new amenities being delivered, as well as improvements to the public realm. This is likely to increase buyer demand for residential property in the area and could underpin future price rises.

Transport is a key factor. It not only strengthens the attractiveness of the area for business, but any improvements are an added benefit for those already living there.

At present, the areas discussed in this report are well served by the tube and overground network. From 2018 residents will be able to access the high-speed

Crossrail train from Moorgate, Farringdon or Barbican, cutting travel times across the city and to major airports.

There has also been much discussion about Crossrail 2, a second high-speed rail line connecting South West London to the North East. One of the key central stations for Crossrail 2 will be Angel, at the other end of City Road from Silicon Roundabout, adding to the transport links already in the area.

These infrastructure developments, as well as the delivery of new homes should serve to underpin demand in the residential sector.

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