

2011/12

RESIDENTIAL
RESEARCH



PRIME LONDON EXPANDS

City of London and City Fringe join Prime Central London

Knight Frank



LONDON'S NEWEST PRIME
RESIDENTIAL LOCATIONS

LEADING DEVELOPERS
STEP UP ACTIVITY

HOW WEALTH IS MOVING
INTO THE CITY FRINGE

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BECOMING PRIME

“Recent changes in the City and City Fringe lift them into the prime central London bracket.”



Gráinne Gilmore, Head of UK Residential Research

What makes an area stand out as a prime location in London? Our research points to four main factors at play: good levels of top-end housing stock, either established or within new developments boasting iconic architecture; a central location; good transport links and finally, excellent retail and leisure facilities. This combination creates buyer demand and delivers a higher than average propensity for growth in capital values.

The elements above are all present in abundance in the established prime locations in central London, including Knightsbridge, Belgravia, Chelsea and Mayfair. But just as the landscape of London is constantly changing, the markets in distinct areas can also change, in some cases moving up into the prime bracket.

In 2007 we added the South Bank to prime central London as a raft of good quality stock, a lack of which had traditionally hampered this area next to the river, came to the market amid a programme of large-scale regeneration.

London is, and will continue to be, the leading global city, burnishing its reputation as a safe haven, especially in the midst of the current turmoil in the eurozone and further afield. And while London will lead the UK's economic recovery, independent forecasts suggest that within the Capital, the City of London, plus Islington and Tower Hamlets – two of the local authorities which the City Fringe straddles – will be at the forefront of that economic bounceback. This is a solid underpinning for any local housing market.

The City

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. Around a quarter of homes in the City are second homes, used by workers as a base during the working week. But the Barbican, the largest existing residential area to the west of the Square Mile, is also popular with downsizers and younger families. Those with older children also like the area because of the proximity to top schools, including the City of London School and the City of London School for Girls.

The Guildhall School of Music and Drama and the Cass Business School are both within the Square Mile, while City of London University is just a short walk away. Education is a big draw for many overseas buyers and the proximity of these establishments, as well as the rise in the number of new-build top-end apartments coming onto the market in the coming years, is likely to further boost their interest in the City as an area in which to invest.

There is no doubt that demand for homes in the Square Mile far exceeds supply – and recent developments have not dented the shortfall of properties. Over the last four years just 408 private dwellings have been completed. The lack of very top-end property, largely due to the

122%

Rise in average property prices in City of London since 2001

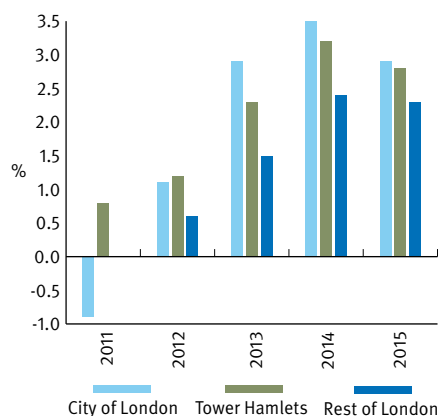
Over the last few years there have been significant changes in the housing market in two other areas of London. The City and the surrounding areas of the City Fringe have undergone fundamental alterations which we believe lift them above the threshold for prime central London.

As such, we are adding these areas to our Prime Central London (PCL) Index. The two locations may neighbour each other, but the housing market in each is quite distinct, with each becoming prime for different reasons, which we examine in this report.

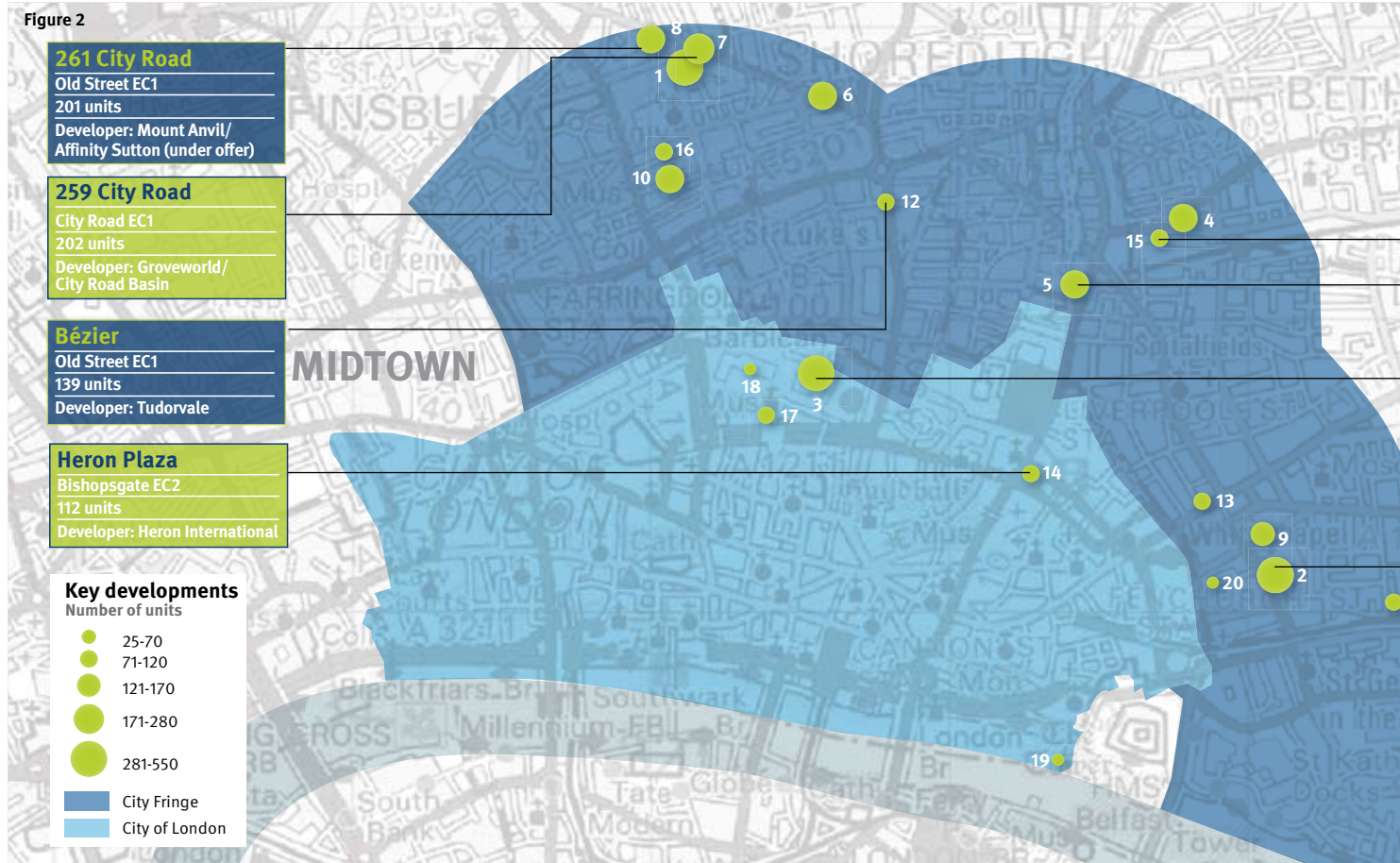
The outlook for the wider prime central London housing market is positive. Prices have risen by 38% since the post-credit-crunch trough in March 2009, and we forecast further cumulative growth of 24% by the end of 2016. Prices have been boosted by activity among overseas buyers, who now account for 55% of purchases of properties worth £2 million or more.

Figure 1

Employment growth forecast: City and City Fringe lead



Source: Knight Frank Residential Research/
Oxford Economics



small residential sector, has meant the City has never featured as a prime area to date.

Figures extrapolated from Land Registry data show an impressive 122% increase in average prices since 2001, outperforming the rise seen in PCL. This increase has propelled a significant number of properties into the prime bracket.

In addition, the completion of several large developments; The Heron close to the Barbican, The Four Seasons Hotel and Private Residences at Heron Plaza on Bishopsgate and Three Quays at Tower Hill will add extra units to the very top-end of the market in the coming years, pushing the area over a 'tipping point' to become a fully established prime residential location.

There are now nearly 650 residential units in the pipeline, an increase on the trend in earlier years, but still signalling a 68% shortfall compared to the forecast household growth for the Square Mile in the next decade.

Earlier this year in our 'hotspots report' we identified the City as one of the leading areas

for residential development over the next five years, forecasting that average prices would rise by 118% by 2016.

As reflected in the comments made by Peter Rees, the City's chief planning officer, the current developments are unlikely to mark the start of a wide-spread boost for residential activity, indicating that the large undersupply of homes for those who want to live in the City will continue, helping to support prices.

Another factor which has helped ease the City into prime territory is the noticeable uplift in amenities for residents in recent years.

The City's cultural credentials have always been top notch, with the Barbican Centre offering everything from concerts to plays and films. The bustling South Bank is also just across the river.

The Square Mile is also renowned for its restaurants and bars, but these were traditionally aimed at office workers, attracting trade during the week and closing at the weekend. The exceptions were in areas

11.9%

Household growth in City Fringe over the next ten years

frequented by tourists, such as St Paul's Cathedral and the Tower of London, but the quality of outlets here was often poor. Recent large-scale regeneration in these areas has resulted in a more upscale food and retail offering.

As the effects of the regeneration at the western Fringe in Farringdon and Clerkenwell started to filter into the City, increasing numbers of venues stayed open to take advantage of weekend trade provided by the new residents.

This sea-change was cemented by the opening of One New Change, 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.



Table 1 Schemes				
Key	Site / scheme	Developer	Status	
1	City Forum	Land Securities/ Frogmore/Galliard Homes	Under construction	
2	Goodman's Fields	Berkeley Homes	Under construction	
3	The Heron	Heron International	Under construction	
4	Avant-garde Tower	Telford Homes	Under construction	
5	Principal Place	Hammerson	Under construction	
6	Eagle House	McCabe Builders	Under construction	
7	259 City Road	Grovesworld/City Road Basin	Under construction	
8	261 City Road	Mount Anvil/Affinity Sutton (under offer)	Under construction	
9	Altitude Aldgate	Barratt London/L&Q	Under construction	
10	Central Square EC1	Mount Anvil/One Housing Group	Under construction	
11	SpacE1	Bellway	Under construction	
12	Bézier	Tudorvale	Under construction	
13	1 Commercial Street	Redrow Homes London	Under construction	
14	Heron Plaza	Heron International	Under construction	
15	Huntingdon Estate	Londonewcastle	Under construction	
16	City Central Estate (Seward Street)	Notting Hill/ Mount Anvil	Under construction	
17	Roman House	Berkeley Homes	Under construction	
18	Frobisher Crescent	United House Developments	Under construction	
19	Three Quays	Cheval Group	Under construction	
20	14-20 Alie Street	CMC Homes	Under construction	

Huntingdon Estate
Bethnal Green Road E2
116 units
Developer: Londonewcastle

Principal Place
South Shoreditch
243 units
Developer: Hammerson

The Heron
Silk Street EC2
284 units
Developer: Heron International

Goodman's Fields
Lehman Street E1
502 units
Developer: Berkeley

Key to table icons
Under construction
Pre-planning
Planning submitted
Permission - Full
Complete

In terms of transport, Crossrail, which is due to open in 2019, will also have a large impact in the City. Those living close to the Barbican will have direct access to three airports, while the station at Liverpool Street will offer services to Bond Street or Canary Wharf in 7 minutes, making it much easier to travel across London from the City. The Eurostar terminal at St Pancras is also just a short trip away, making travel to mainland Europe fast and convenient.

City Fringe

The half-mile fringe surrounding most of the City runs through three separate London boroughs and includes several disparate markets, from Clerkenwell and Farringdon in the west to Shoreditch and Whitechapel in the east.

Within this City Fringe there are also spots where the prime tag does not apply, but this is also the case across many of our established prime central London areas.

Figure 4 (on page 6) shows how the City and Shoreditch and the surrounding areas have

Table 2 Prices per sq ft for new-build		
	Current	Forecast 2016
City	£800+	£1,750+
Eastern Fringe	£750+	£1,200+
Western Fringe (Farringdon)	£850+	£1,300+

Figure 3
How house price growth compares 2001-11



Source: Land Registry,
Knight Frank Residential Research

THE CITY PLANNER



Peter Rees
City Planning Officer

What is the current outlook for residential development in the City of London?

The City is not a residential area, the City is a business district. In so far as residential growth occurs in already established residential areas such as the Barbican, then the corporation isn't opposed. What we will strenuously resist is 'pepper-potting' of residential through the City.

How do you feel about the outlook for the economy, and do you see it impacting the City?

We have only developed a truly global economy in the past few years, and you can't change the economy in one area without it having an impact on other regions. Within that, I do believe there are certain locations that have a better chance to recover than others, and I believe London is uniquely placed in its micro-economy to survive more securely compared to other places. London is truly a world city.

What do you think about Crossrail?

It's essential. The Corporation has backed it from the beginning. The east-west capacity in London is chronically underprovided. Even more importantly it provides a good link into Heathrow airport and the City and Canary Wharf – it's all beneficial.

To what extent does a financial district need some sort of residential activity?

The idea that you have a business centre that falls quiet after 7pm in the evening and then wakes up again at 7am the following morning isn't very sensible, it isn't a good use of resources. If nothing else, it means that buses and tubes aren't carrying to their capacity and the whole place gets a dead feel.

The City needs life in addition to that brought by the commuters and this is provided by tourists, shoppers and night-time revellers – rather than by a significant increase in the small residential population.



Case study: City Fringe



Robert Soning, founding partner and Chief Operating Officer at developer Londonnewcastle, which has submitted a planning application for a mixed-use development on the Huntingdon Estate on Bethnal Green Road, discusses Shoreditch and East London as a residential area.

We identified Shoreditch as an area of growth around seven years ago. The 'boundaries' of the City are moving up towards Bethnal Green Road, and for us, it meant a great fusion of leisure, retail and commercial coming together.

Street level in Shoreditch will remain fairly gritty. But behind doors and up on rooftops it is a different story. It's a real treasure box, and really fun – and it really has a New York feel to it.

West London has happened – the East is happening. West London is an expensive part of town to live whereas the East has been ignored for a long time. As a result, people have had the space, buildings and architecture to be creative. They moved in for very little and created great space, and you can't do that in the West, and probably in five years time you won't be able to do that in Shoreditch either.

Transport links are great. You have the new East London line now and Liverpool Street is only 5 minutes walk away. Five years ago your typical city executive would have turned up his nose at living in Shoreditch. Now it could not be a more attractive proposition. It is exciting, it is cool. People will buy their way into that.

The Huntingdon Estate is by architect Amanda Levete. We pretty much gave her a licence to thrill. We didn't want our building to represent the grandness of the architecture within the City, we wanted it to be 'anti-corporate' to a certain extent.

become more prosperous over the last six years, with a significant uplift in the number of wealthy residents living there. This process of gentrification is usually a pre-cursor to an uplift in property prices as wealthier buyers bid up prices. The market in the eastern Fringe is less advanced but we expect the spread of wealth to continue in years to come.

Overseas interest in property in the City Fringe is likely to increase, especially in light of the new-build developments recently completed and in the pipeline, but the market will probably be more heavily skewed towards domestic buyers.

The lack of supply of housing in the City has always made the City Fringe quite attractive, but traditionally this was manifested more to the West, in Clerkenwell and Farringdon, where buyers were drawn to spacious properties that were more reasonably priced than those in the

City. This pushed up values in these areas during the nineties as the surrounding locality caught up, with new shops, bars and even a face-lift for Exmouth market.

Despite being more established markets, Clerkenwell and Farringdon have more room for growth in value. Our '[hotspots report](#)' forecast that values for new developments in these areas would rise by around 50% over the next five years – significantly outperforming the forecast 24% uplift expected in prime central London prices over the same time period.

The picture to the east of the City was quite different at the turn of the century. Even five years ago, many city workers would not have considered living in Spitalfields or Shoreditch or further afield, despite the flourishing entrepreneurial hub that had emerged there.

Case study: City of London

The Four Seasons Hotel and Private Residences at Heron Plaza on Bishopsgate in the heart of the City of London will be the first luxury hotel to be built in the City for 40 years. The development, by Heron International, will also include 112 luxury apartments which will be built to the highest specification. Heron is also building The Heron, a residential tower with 285 apartments close to the Barbican.

Gerald Ronson, Heron's Chief Executive, and Laurence Ronson, Sales Director, share their views on Heron Plaza and the City.

The City of London is a unique destination. Arguably the financial capital of the world, it has recently experienced a cultural renaissance too. As well as the long standing markets, Michelin-starred restaurants, historical and cultural attractions, there are countless individual bars, cafes and boutiques each offering something special and catering for the most discerning City dweller. The City of London also enjoys the lowest crime rate in London together with a high level of security.

Buyers are 'label-conscious' these days in terms of branding. Four Seasons is one of the best hotel brands in the world. If you're talking about what chairmen, chief executives and managing directors expect, they understand what a Four Seasons brand is and the service levels that it provides to guests, which is why we are also linking it to The Residences. There is a



level of service they expect. We are very proud of the Heron brand, but the Four Seasons is a hotel, and this is a mark of the service buyers will get with their apartment. That brand is worth a significant premium.

Those who purchase an apartment at Heron Plaza will get everything they expect from a luxury hotel. There will be the basic services that you would expect from a high-end development, but there will also be an à la Carte hotel services menu so that whatever they ask for the concierge will organise, from theatre tickets and restaurant bookings to valet parking and managing deliveries. The apartments themselves will be finished to the highest standards, a real 'step up' from what has been seen before.

There aren't going to be many more large residential developments in the City. In fact there is an unbelievable scarcity in the City of London of any prime product. Demand will always outstrip supply, which is how we will generate good levels of capital growth.



But gradually, the opportunities to buy spacious accommodation at prices that were significantly cheaper than the City despite being in very close proximity to the Square Mile, coupled with new retail and leisure facilities, such as the rejuvenated Spitalfields Market, have made the area a more attractive opportunity for wealthier individuals.

The recent completion of the East London line has also made the area more accessible, and the Crossrail station at Whitechapel will allow residents to get across town to Baker Street in just 12 minutes.

Local planners in Tower Hamlets and Hackney are also much more open to new residential developments than the City – and there are plans for some top-end developments as illustrated in figure 2, which should help boost the area's profile, not to mention property values.

The emerging “Silicon Roundabout” on Old street and along the City road is also creating another market amongst younger workers in the technology industry. This is expected to be one of the strongest areas of growth for UK PLC in the coming years.

Whereas San Francisco is a ‘dormitory town’ for many Silicon Valley workers in the US who want to live in the centre of a city, entrepreneurs and tech workers in London can choose to work and live in one of the liveliest areas of the Capital.

The area around the Old street roundabout is now host to hundreds of start-up tech companies, and the Government has pledged to support this technology boom with the creation of the East London Tech City, which will run from the Old Street roundabout to the Olympic Park in Stratford. Many global companies have already pledged to invest in the technology hub, including Vodafone, Cisco Systems, Intel Corporation and Facebook. Google recently announced that it would provide office space and assistance to new technology companies in Bonhill Street in EC2 from next year.

Sentiment among developers is changing as they look to new ideas to take advantage of these opportunities and the evolving demands of tech occupiers. Developments with flexible uses incorporating offices, space for R&D research and education, social amenities and retail outlets as well as residential units may well become a feature within the next five years.

Since 2001, prices across the whole of the City Fringe have risen by 92%, lagging slightly behind the 101% growth seen in the existing prime central areas, but underlining that this is still an evolving market which we believe has more potential for growth.



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Front cover CGI image: The Four Seasons Hotel and Private Residences at Heron Plaza

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