



2014

## FRINGE MARKET OUTLOOK

A once perceived cheaper alternative, the City fringe is facing growing pressures as occupier demand across Central London turns a corner. In this update we review recent market activity and consider the outlook for rental value growth.

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“Tenants are now looking further afield for the right ‘package’ to balance both cost and space demands. The former City fringe areas such as Shoreditch and Hoxton, to the north and east of Broadgate, are well placed to go from strength to strength”.

**Matthew Pinsent** Head of City Office Asset Management British Land

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### Expansion in TMT sector broadening to wider business growth

Letting activity in the City fringe strengthened during 2013 with approximately 3.8 million sq ft let, up by 61% on 2012. The volume of space taken has almost quadrupled since 2007 and demand is showing little sign of waning.

The occupier market is being led by the Technology, Media & Telecoms (TMT) sector, which over the last 12 months has accounted for 30% of take-up across Central London. Take up has predominantly been focussed on City fringe locations with 21,100 businesses residing in Tech City alone employing 243,600 people and contributing £17.4 billion to the UK economy according to the City of London.

Demand from the TMT sector is much smaller in scale than that of the financial and business service sector with 75% of all transactions measuring 5,000 sq ft or less.

Think Tank estimates that there are over 3,200 start-up firms based in Tech City (Shoreditch area surrounding Old Street roundabout) employing 48,000 employees, while UHY Hacker Young identified an additional 15,720 new businesses established in the London EC1V postal area alone within the past year.

**The cost of City fringe success**

The accelerating pace of growth in the TMT sector, combined with resurgent activity from business services, which are increasingly making the City fringe home, has absorbed available office stock and is placing significant upwards pressure on rents.

A YouGov poll from October 2013 found that 70% of London’s tech SMEs (small and medium-sized enterprises) are struggling with increasing occupancy costs and limited suitable office stock.

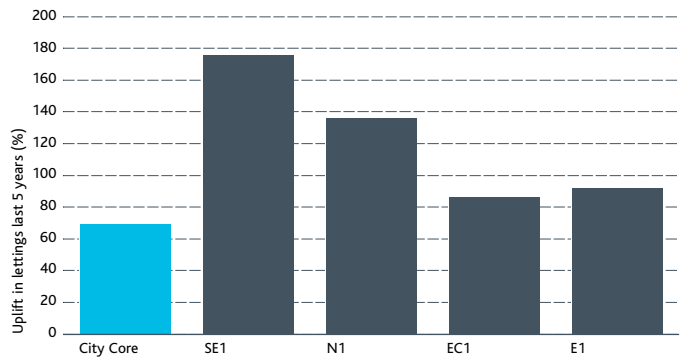
Deal volumes within fringe postcodes continue to witness year on year growth with the number of lettings having doubled since the market peak in 2007. The extent of take-up compared to the City core is highlighted when addressing the uplift in lettings over the last five years.

**Rental growth to continue**

Rents in EC1, SE1, E1 and N1 have risen by 58%, 36%, 31% and 29% respectively since the market trough in 2009.

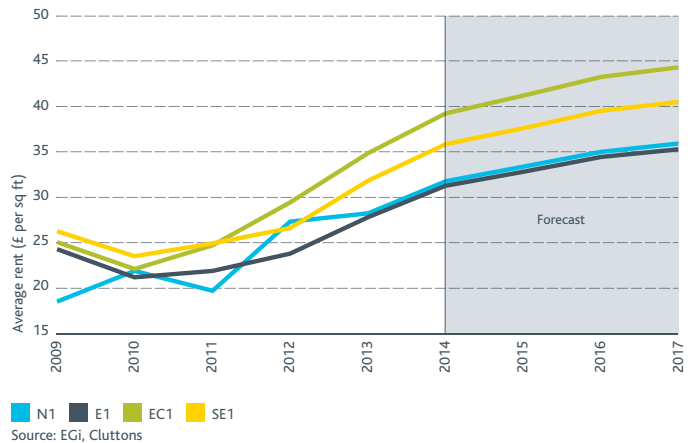
We are forecasting fringe rental values to grow by up to 25% over the next four years with the anticipated 15% increase during 2014 outpacing growth of closer to 6% in London’s West End and core City markets.

**Fringe demand outpaces City core**



Source: EGI, Cluttons

**Average Rents**



Source: EGI, Cluttons

**Buildings in focus**

**Tea Building E1**

While unique given its TMT micro-climate, Derwent London’s Tea Building has seen lettings achieving rents double that of five years earlier. Recent lettings include those to Monkey Kingdom at £36 psf and Start JudgeGill / We Are Fetch at £37.50 psf.

**Clover House EC1**

Rents 75% higher than 2010 are now being achieved. One recent letting to Yplan completed at approximately £42.50 psf.

**Gensurco House, 46-54 Rosebery Avenue EC1**

Rents have risen by 40% over the last five years, with a letting to charity occupier Movember in 2012 completing at approximately £31.50 psf.

**61 Southwark Street SE1**

Rents have increased by approximately 60% over the last five years, with lettings to Ash Gaming Limited and Ubiqu UK Limited completing at £32.50 psf.

“With technology immersed in nearly every industry the strength and depth of this market is set to continue, boding well for the creative sectors and in particular TMT. Set against a backdrop of low supply, occupiers are becoming more and more fleet a foot and embracing alternative central locations”.

**Celine Thompson** Head of leasing Derwent London

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