RESEARCH

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# SILICON LONDON

## Tech firms and Central London Offices

**Knight Frank**

## HIGHLIGHTS

- The technology sector has proved extremely resilient to the downturn in the global economy, and according to the London Stock Exchange is now worth more than it was in June 2007. Strong demand from both businesses and consumers has ensured that many technology companies have experienced rapid growth. In Central London tech sector take-up more than doubled between 2010 and 2011.
- Being located in Central London is important for these firms, although within the capital they tend to be reasonably footloose. During 2011, there were almost as many tech sector deals in W1 as in EC1, and for the more established firms office specification appears to be at least as important as location.
- The technology sector will play an increasingly important role in the Central London office market, with its continuing expansion placing further pressure on supply, particularly if firms decide to relocate from the regions in order to maximise accessibility to skilled staff.

## The growth of the technology sector

The technology and telecoms sector has proved surprisingly resilient to the difficult economic conditions that have presided over the last few years. Knight Frank's analysis of companies listed on the London Stock Exchange shows that the technology and telecoms sector is worth more now than it was in 2007, as shown in figure 1, in marked contrast to the financial sector.

Global semiconductor sales have rebounded 75% since 2009, and have held steady during 2011 despite the global economic slowdown. According to Forrester Research, global technology spending is expected to grow 5.4% by 2012.

## What is driving growth in the technology and telecoms sector?

Take-up in Central London by technology and telecoms companies more than doubled in 2011 compared to the previous year's total. The strong growth has been underpinned by structural trends impacting the sector. Innovation in the production of micro-processors is shortening the business-to-business (B2B) replacement cycle, driving demand from companies for new equipment to keep up with their competitors. At the same time, demand for online remote access and cloud computing services is fuelling demand for netbooks, tablets, notebooks and smart phones.

Alongside business demand, anecdotal evidence suggests consumers are beginning to view these devices as essential rather than a luxury. Apple posted record results in the final quarter of 2011, selling 15.4 m iPads and 37.0 m iPhones. An Apple spokesman commented "We could have sold more if we'd had more supply". This suggests that the slowdown in the global economy has done little to dampen consumers' desire to own the latest technology.

Demand for smart phones is also driving innovation of Apps and web-based services, which is providing a platform for innovative start-up companies to grow considerably. A recent study by mobile analytics company, Flurry, found that 1.2 billion Apps were downloaded worldwide over the 2011 Christmas week – more than any other week in history. Looking forward to 2012, Flurry expects breaking the one-billion-download-barrier per week will become more commonplace. There will be further scope for App and software development in 2012 as the switch off of analogue television in the UK frees up a large part of the broadcasting spectrum for super-fast wireless broadband provision. A recent study found that 26 of the 50 fastest-growing UK technology companies in 2011, were based in London.

## Why London?

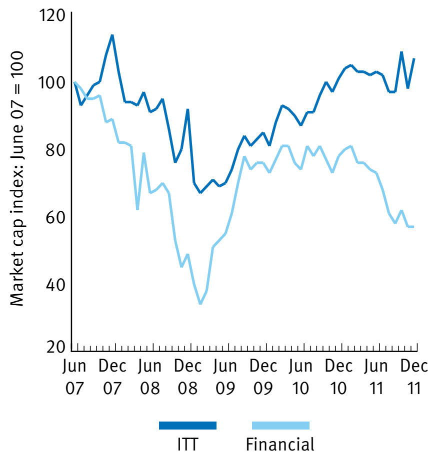
Many technology companies have made a very deliberate choice to locate themselves in Central London, as evidenced by the cluster of tech start-ups which has grown organically around the Old Street roundabout over the last five years. There are clear business advantages for technology and telecoms companies to choose London including access to capital via the City, an unrivalled talent pool and access to a truly global market place. In addition, clustering attracts infrastructure investment – Virgin Media has announced plans to provide broadband with a 1.5Gbps download speed to the area around Old Street roundabout, which would give users the capability to download the equivalent of an entire hi-definition movie in less than one minute. However, there are also less tangible lifestyle factors.

Many of the most successful and forward-thinking new technology companies have a high proportion of young workers – the average employee age at Google is 31, while at Facebook the average age is 26. Indeed, London has a young population, with 45% of Londoners aged between 20 and 44, compared to 35% for the UK as a whole. Companies with a young, trendy and bright workforce are aware that locating outside Central London could limit their access to the most talented workers. Indeed, Nokia recently moved from Hampshire to Paddington, citing an inability to attract quality staff to its Farnborough campus.

## Technology & telecoms and the Central London office market

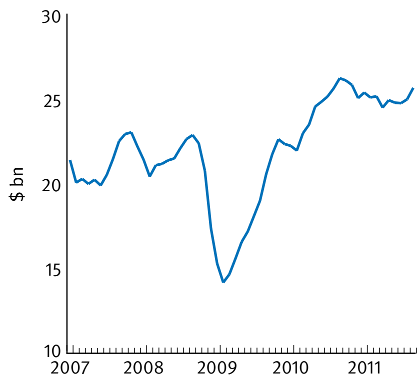
This growing sector has played an increasingly important role in driving leasing activity in Central London over the last 12 months. Back in 2007 at the peak of the last cycle,

Figure 1
**Sector market capitalisation by business sector**



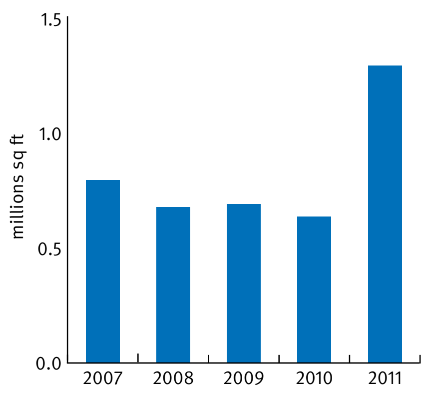

Source: London Stock Exchange, Knight Frank Research

Figure 2
**Monthly global semiconductor sales**




Source: Semiconductor Association

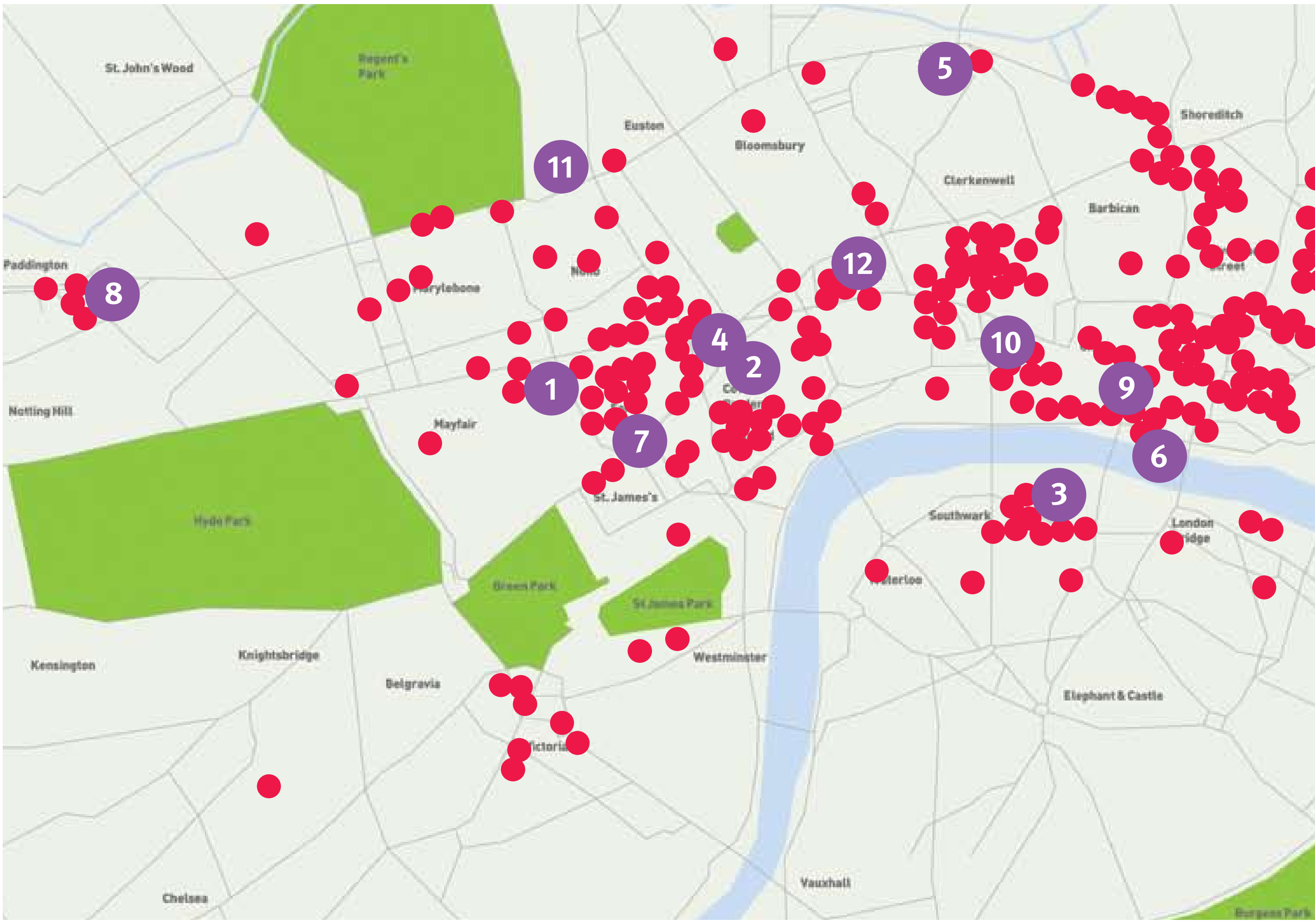
Figure 3
**Central London technology & telecoms take-up**




Source: Knight Frank Research

> *London is a City that needs no introduction. It is known as the Capital of Capitals, and for good reason. No other City can outdo us, whether it's the diversity of our population, the selection of musical and dramatic theatre, our rich culture and history or the endless variety of exciting nightlife. The Google London office is located in the middle of all this action.*
>
> **Google corporate website**

## Central London technology & telecoms deals (2010-11)




1. **Apple**
   1 Hanover Street
   26,000 sq ft
   £72.50 per sq ft

2. **Facebook**
   Seven Dials Warehouse
   36,440 sq ft
   £52.50 per sq ft

3. **Detica**
   Blue Fin Building
   40,000 sq ft
   £43.00 per sq ft

4. **Google**
   Central St Giles
   155,000 sq ft
   £65.00 per sq ft

5. **Expedia**
   The Angel Building
   93,000 sq ft
   £42.50 per sq ft

6. **Groupon**
   Seal House
   43,000 sq ft

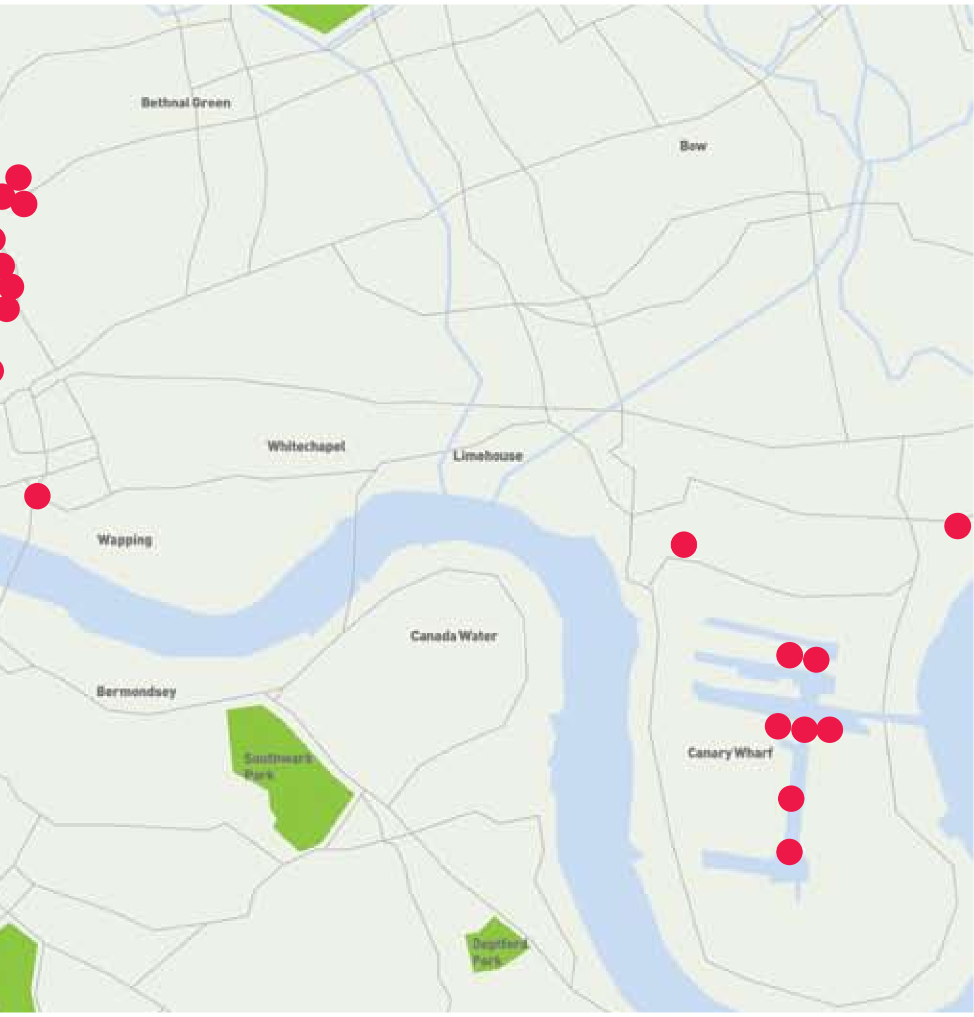
7. **Telefonica (O2)**
   Air, W1
   51,000 sq ft

8. **Nokia**
   2 Kingdom Street
   58,000 sq ft
   £57.50 per sq ft

there were just five deals in excess of 25,000 sq ft to tech companies across Central London with professional and financial occupiers dominating the take-up profile. In 2011, which saw 31% less leasing activity than 2007, there were 12 deals greater than 25,000 sq ft to technology companies, emphasising the contribution that this sector made to the capital's performance.

While many start-up companies have chosen to cluster around the Old Street roundabout, the sector as a whole has spread across Central London, as shown on the adjacent map. Larger tech companies favour Clerkenwell, Farringdon, Southbank, Noho and Covent Garden.

The accepted wisdom that tech sector companies prefer offices in converted warehouses in fringe locations is an anachronism – today's requirements focus on the right offices in good locations. These companies seek state-of-the-art specification with back-up power and high-speed broadband feeds. In fact, office requirements for the more established tech sector companies are becoming increasingly similar to financial sector searches.




**9. Bloomberg**
Walbrook Square
750,000 sq ft
FH

**10. Kelway**
10 Fleet Place
27,000 sq ft
£33.50 per sq ft

**11. Ricoh**
20 Triton Street
43,000 sq ft
£53.50 psf

**12. Lastminute.com**
The Johnson Building
22,000 sq ft
£42.50 per sq ft

Figure 4

**Central London technology and telecoms take-up by location, 2011**

**(000's sq ft)**

| | |
|---|---|
| West End Core | 2% |
| Victoria | 4% |
| W1 (Non-Core)/NW1 | 11% |
| Paddington | 8% |
| Bloomsbury/Covent Garden | 21% |
| Midtown | 2% |
| City Core | 21% |
| City Fringe | 23% |
| SE1 | 6% |
| Docklands | 2% |

Source: Knight Frank Research

While clustering is important for start-up companies, it is less relevant for the larger, more established players who are more footloose within Central London. As shown in Figure 4, all Central London submarkets saw activity from technology and telecoms sector occupiers. The City Core saw a particularly high number of transactions involving sub-50,000 sq ft tenants – many of which are involved in designing trading software for financial companies.

Looking ahead, technology and telecoms companies are set to have a significant impact on the Central London office market. The growth of the sector is likely to put pressure on office supply in Central London, where economic uncertainty and lack of available debt is restricting construction activity.

Technology continues to advance year after year, and 2012 will present new opportunities for the Central London office market. Some of the fastest-growing technology companies in the UK during 2011 have been those focused on integrated IT solutions for City-type businesses and those providing internet-based business models such as social networking and online retailing. However, there has also been significant growth in the software design and telecoms arenas.

We expect the technology sector to account for a greater percentage of transactions in Central London over the next few years than any time in the past, and those landlords and agents able to identify companies with growth opportunities will be best placed to accommodate those requirements.

**Deloitte list of fastest growing companies, London 2011**

| Rank | Company | Sector | 5-year % growth |
|---|---|---|---|
| 1 | Fixnetix | Computers/Peripherals | 24,557% |
| 2 | Leadpoint UK | Internet | 21,801% |
| 3 | GPEG International Ltd | Semiconductor/Components/Electronics | 17,716% |
| 4 | PKR | Internet | 9,314% |
| 5 | RatedPeople.com | Internet | 8,144% |
| 6 | Mimecast | Software | 3,102% |
| 7 | notonthehighstreet.com | Internet | 2,720% |
| 8 | Quickstart Global | Software | 2,481% |
| 9 | Adconion Media Group | Internet | 2,443% |
| 10 | Monitise plc | Software | 2,408% |
| 11 | Forward Internet | Internet | 2,388% |
| 12 | Grove Group | Internet | 1,817% |
| 13 | Kelway (UK) Ltd | Computers/Peripherals | 1,447% |
| 14 | Block Solutions Ltd | Telecommunications/Networking | 1,332% |
| 15 | Media Ingenuity Ltd | Internet | 1,232% |
| 16 | Essence | Internet | 1,139% |
| 17 | Skrill | Internet | 1,113% |
| 18 | Sciemus | Semiconductor/Components/Electronics | 970% |
| 19 | txaris Systems | Internet | 859% |
| 20 | TranslateMedia Ltd | Media/Entertainment | 785% |
| 21 | Academia Ltd | Software | 750% |
| 22 | Content and Code | Software | 720% |
| 23 | Geo Networks Ltd | Telecommunications/Networking | 709% |
| 24 | Reevoo | Internet | 683% |
| 25 | The Foundry | Software | 675% |

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Bahrain
Abu Dhabi, UAE


**Commercial Research**

**Patrick Scanlon, Partner**
Central London Research
+44 (0) 20 7629 8171
patrick.scanlon@knightfrank.com

**John Snow, Partner**
Head of Central London Offices
+44 (0) 20 7629 8171
john.snow@knightfrank.com

**James Roberts, Partner**
Head of Commercial Research
+44 (0) 20 7629 8171
james.roberts@knightfrank.com

**Hayley Reid, Senior Analyst**
Central London Research
+44 (0) 20 7629 8171
hayley.reid@knightfrank.com


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