

City Investment Watch



Citigroup acquisition takes owner occupier transactions over £3.0BN since 2016

Investment turnover for March saw £1.69 BN transact across 15 deals, taking overall investment for the year (up to the end of March) to £2.32 BN. Total turnover is now 51% up on 2018 numbers, and 17% up on the 5 year average for volumes up to March, which is currently £2.0 BN.

However, we are continuing to see fewer deals this year with only 27 transactions to date, which is 28% down on the 5 year average of 38 deals (up to March). This is a trend we expect to continue for at least the first half of 2019 given the fog around Brexit. In terms of under offers, we are tracking 14 deals in lawyers hands, totalling £650.0 M.

A notable deal for the month saw Brockton Everlast acquire the freehold interest in Devonshire Quarter, EC3 for £95.0M, reflecting a net initial yield of 4.99% and a capital value of £781 per sq ft. The estate comprises four self-contained office and retail buildings extending to 121,710 sq ft. The overall passing rent across the buildings reflects a rent of £39.60 per sq ft overall, with a weighted average unexpired term to expiry of 5.9 years, providing an estate wide block date in 2023. The site provides the opportunity for a new scheme of up to c.430,000 sq ft over 23 storeys, subject to the necessary consents. This transactions is Brockton's 2nd deal in the wider City market, taking their overall spending in Q1 to £195.0M.

March also saw Axa Investment Managers sell their freehold interest in 20 St Andrews Street, EC4. The building was comprehensively redeveloped in 2017 to provide 58,517 sq ft of high quality accommodation. The property is multi let to eight tenants and provides a topped up passing rent equivalent to circa £61.50 per sq ft overall. The weighted average unexpired term is approximately 9.8 years to expiry and 7.3 years to breaks. Savills jointly advised Axa Investment Managers.

At the beginning of March, Savills predicted Q1 numbers to pass £2.0 BN, while we were correct, numbers have been aided considerably by the acquisition of 25 Canada Square by Citigroup, for £1.10 BN, the 8th deal over £1.0BN in the last 5 years. The freehold building comprises a 44 storey tower completed in 2002 to provide 1.2m sq ft of Grade A office and ancillary accommodation. The property is single let to Citigroup Property Ltd, with a surety from Citigroup Inc, on three separate leases all expiring in September 2037. The acquisition of 25 Canada Square marks a vote of confidence in the backdrop of continued Brexit uncertainty.

Citigroup's purchase represents the 38th acquisition from purchasers classed as 'owner occupiers' since January 2016, and takes this buyer group's overall investment into the City of London to £3.0 BN (since 2016). Although each transaction should be considered in isolation it is clear that the recent changes in accounting legislations are having an impact on a company's decision to either lease or buy. The new IFRS 16 affects how commercial leases are accounted for on a company's balance sheet, the regulations were issued in 2016 and came into effect from January 2019.

US investors now account for the largest share of investment so far in 2019, accounting for 54% of total investment, however this is made up of only 2 transactions. Home-grown buyers are still leading the way in terms of number of deals having acquired 16 buildings so far in 2019, totalling c. £600.0M (26% of total volume).

Savills Prime City yield is now 4.25%, which compares with the West End prime yield of 3.75%. The MSCI average equivalent yield has remained at 5.4% for the sixth consecutive month while the net initial yield continues to soften, and now is at 4.1%, the highest since April 2015.

£150M

Savills advised on £150M worth of transactions in March



£3.0BN

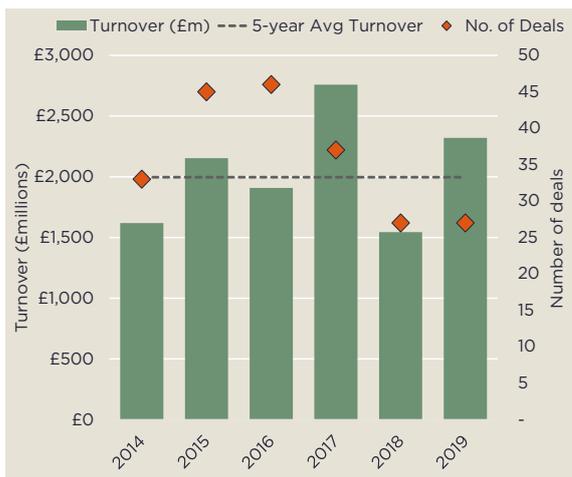
spent in London by owner occupiers since January 2016

£650M

currently under-offer as we enter Q2 2019

Historic Q1 total turnover

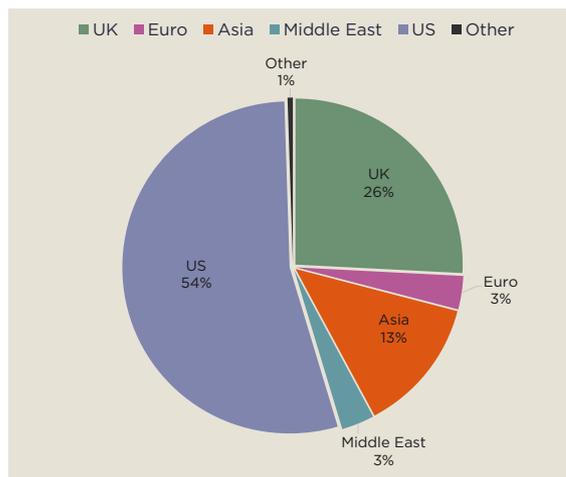
Graph 1



Source: Savills

Turnover by nationality

Graph 2



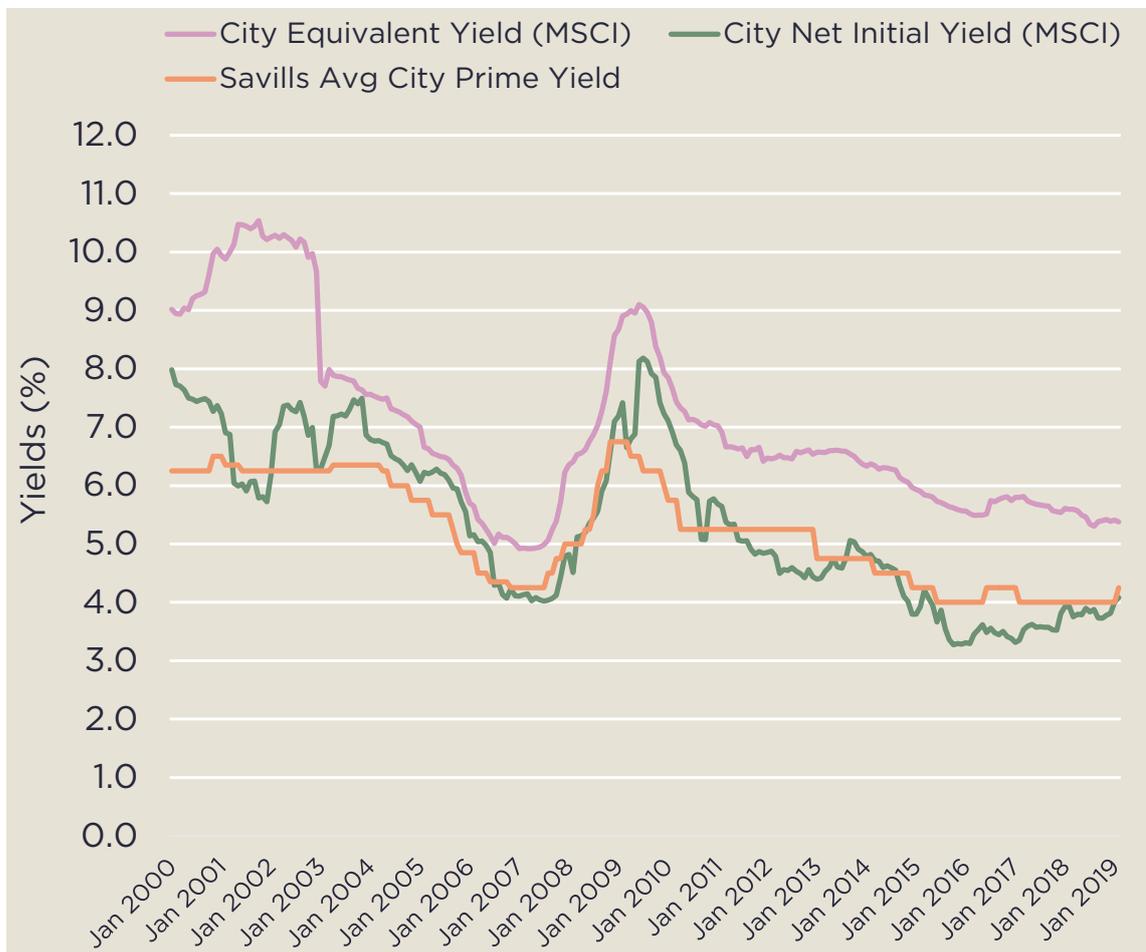
There have now been eight £1.0BN+ deals in the City in the last 5 years

Key deals in March 2019

Building Name	Address			Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
	No	Street	PC			FH/LH	U/x term	Gearing					
	25	Canada Square	E14	Office	1,243,336	FH			c.£1.10 BN	4.23%	£885	AGC Equity Partners	Citigroup
Devonshire Quarter		Houndsditch	EC3	Office/Retail	121,710	FH			£95.00 M	4.99%	£781	Madison	Brockton Everlast
Monument Place	24	Monument Street	EC3	Office / Retail	83,325	FH			£89.90 M	4.82%	£1,079	CERN	Private Asian Investor
St Andrews House	20	St Andrews Street	EC4	Office	58,517	FH			Q.£74.83 M	4.50%	£1,279	Axa Investment Management	Private Investor

City yield graph

Graph 3



Source: Savills and MSCI

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