

City Investment Watch



Investors struggle to capitalise on the improvement in sentiment due to supply constraints

Following a push to transact prior to the year end, January is often subdued as investors consider business plans for the forthcoming year. December was particularly active relative to the rest of 2019 following the General Election, culminating in fewer available properties on the market and a quieter January than usual.

January saw £267.50M transact, which is down on December 2019 (£1.95Bn) but a 140% increase on that transacted in January 2019 (£111.25M). There were 6 deals in the City during January compared to 21 deals in December and 4 transactions in January 2019. Furthermore, at the time of writing, we are aware of a further £1.05Bn currently under offer across 17 deals.

In the largest transaction of the month 272 High Holborn was acquired by a private investor for £80.00M, reflecting a net initial yield of 4.49% and a capital value of £1,037 per sq. ft. The freehold building first went under offer in March 2019, however, it was remarketed following abortive negotiations in November. The building was comprehensively refurbished in 2009 and provides 77,152 sq. ft. of office, retail and ancillary accommodation. The property is let to the University of Arts, London (UAL) on a term to expire November 2029 at a rent of £3.5m per annum.

Another deal to have completed is the sale of 37 Wood Street, which was acquired by Magnificent Hotels for £40.00M reflecting a capital value of £707 per sq. ft. We understand the new owners are seeking to re-position the asset into a boutique hotel following positive pre-application conversations with the City of London. The building comprises a Grade II Listed long leasehold interest located immediately north of Gresham Street. The asset occupies a 0.44 acre island site and comprises 56,577 sq. ft. of office and ancillary accommodation. 37 Wood Street was sold with vacant possession by Q3 2020 when the City of London Police will vacate.

A continuation from 2019, is the significant interest in Value Add opportunities which account for approximately 49% of total transactional volume to date. The continued interest in Value Add stock further reinforces the strength of the City of London real estate markets as experienced investors continue to deploy capital as a result of a robust occupational market.

There are currently only 5 assets openly on the market, however, we are aware of a further 11 “off market” opportunities. Owners remain unwilling to consider sales of City offices due to suffering from a lack of performance in other asset classes at a fund level, a lack of opportunity to reinvest and the round costs involved in selling and reinvestment.

Following the trend in 2019, UK investors were the most active buyers in January responsible for 49% of total transactional volume amounting to £132.50M across 3 transactions with Middle Eastern and Asian investors accounting for 30% and 21% of transactional volume respectively.

Savills prime City yield is under pressure but remains at 4.0%, which compares with the West End prime yield of 3.50%. The Savills City prime yield has now been at or below 4.25% for 62 consecutive months with further potential yield compression expected in 2020.

Despite prime office yields at 4.00% and further yield compression expected, the City remains an attractive prospect for many international investors when comparing with other principal European financial centres. For instance, prime CBD yields in Madrid, Milan (both 3.25%), Paris (2.9%), Frankfurt (2.80%), Berlin and Munich (2.70%) are trading at a significant premium to the City. Moreover, this is set against a transparent and liquid market place supported by a healthy occupational market with strong rental growth forecast in the short to medium term.



January saw **£267.50M** transact



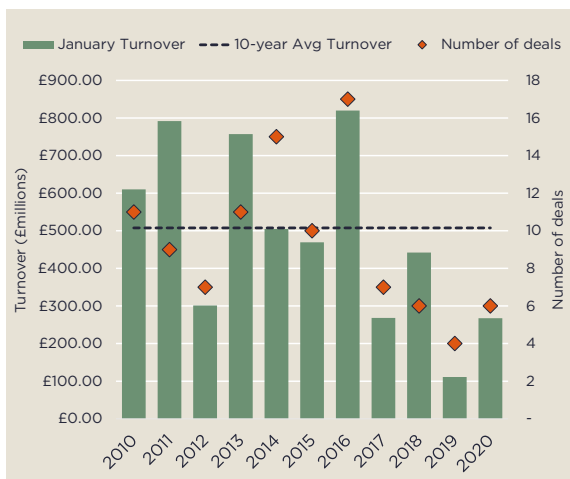
January transactional volume is **140%** up on the same point last year



Value Add market remains buoyant accounting for approximately **49%** of transactional volume

City January investment turnover

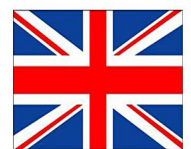
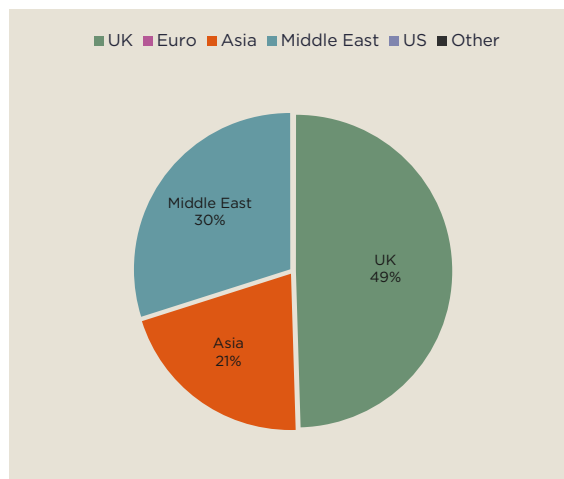
Graph 1



Source: Savills

City turnover by nationality

Graph 2



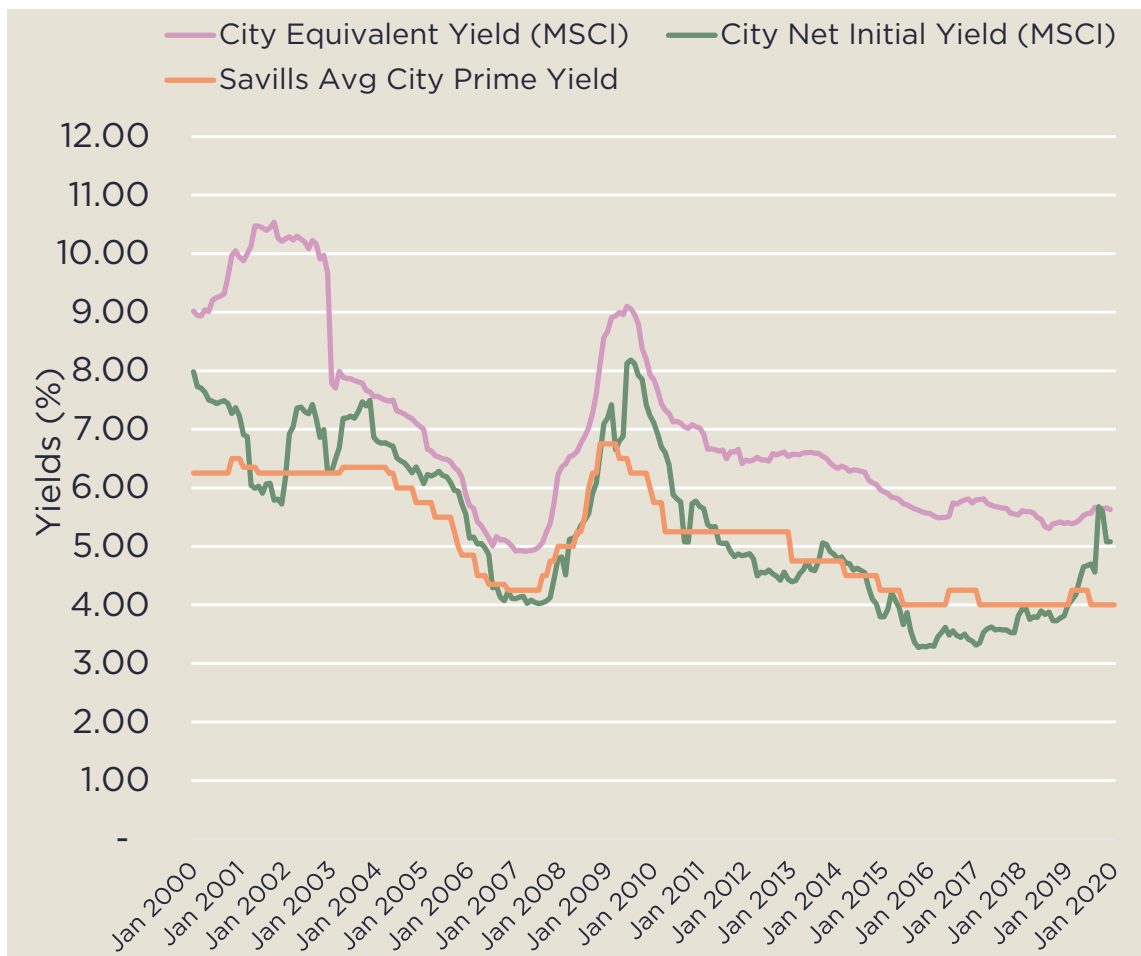
UK investors accounted for **49%** of total transactional volume amounting to **£132.50M**

Key deals in January 2019

| Address | | | | Sector | Area Sq ft | Tenure | | | Price | Yield | CV/sq ft | Vendor | Purchaser |
|---------------|-----|--------------|-----|--------|------------|--------|----------|---------|---------|-------|----------|-----------------------|--------------------|
| Building Name | No | Street | PC | | | FH/LH | U/x term | Gearing | | | | | |
| | 272 | High Holborn | WC1 | Office | 77,152 | FH | | | £80.00M | 4.49% | £1,037 | Private Thai Investor | Private Investor |
| | 37 | Wood Street | EC2 | Office | 56,577 | LLH | 150 | P'corn | £40.00M | - | £707 | City of London | Magnificent Hotels |
| | 5 | Snow Hill | EC1 | Office | 25,957 | LLH | 150 | P'corn | £15.00M | - | £578 | City of London | Whitbread |

City yield graph

Graph 3



Source: Savills and MSCI

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