

City Investment Watch



Lack of distress and uncertainty culminating in a continued lack of transactional activity

May saw total transactional volume of £207.40M in the City, up on April's figure of £149.40M, but 20% down on the same point last year (£242.50M). This was across four transactions, up on the two deals last month but down on that recorded at the same point last year (six). As at the end of May, total investment volume in the City stands at approximately £1.70Bn, across 29 transactions, which compares with £2.70Bn in 39 transactions at the same point last year and is 40% below the 5 year average of £2.81Bn.

The most high-profile transaction saw CLI Dartriver acquire their first City asset in Eldon House, 2-3 Eldon Street, EC2 from Aberdeen Standard Investments for £40.00M, which reflected a net initial yield of 4.81% and a capital value of £878 per sq. ft. The property was first brought to the market in July 2019 at a guide price of £42.00M. The freehold building occupies a prominent corner position approximately 170 metres from Liverpool Street station, adjacent to the Broadgate Estate. The property comprises approximately 45,535 sq. ft. and is multi let to seven office and three retail tenants, providing a passing rent of £2,056,589 per annum, reflecting £45.17 per sq. ft. overall, and a WAULT of 5.34 years.

There is approximately £2.20Bn of stock currently under offer across 19 transactions, of which only 2 transactions totalling £21.00M were placed under offer during May. The remaining deals were under offer prior to government restrictions being enforced, which has caused well documented delays that are likely to be further compounded as overseas investors are required to quarantine for 2 weeks on entry to the UK.

The lack of investment activity can in part be attributed to a lack of available stock due to (1) no distress (as yet), (2) lack of certainty in terms of pricing and (3) investors not wanting to be perceived as being under pressure. There is currently approximately £877.70M of stock across 22 assets available for investors to consider, compared with £2.37Bn across 32 assets available at this point last year.

Most activity has been in the smaller lot sizes –sub £100 million. Investors who wish to invest are looking for a price correction which has resulted in casualties; most recently 5 Fleet Place, EC4 which was withdrawn following a bidding process. We understand an overseas purchaser initially exceeded the guide price of £182.50M, reflecting a net initial yield of 4.17% and a capital value of £1,399 per sq. ft., however, terms could not be agreed following a proposed price renegotiation. We expect the building to be re-launched later in the year.

While the lag in market activity has dragged on for another month, there is some positive news as the rate of infections across the capital is reportedly declining at a steady rate and along with the controlled relaxation of the stringent measures we've been subject to. Offices are slowly beginning to open again, albeit at a reduced capacity to ensure social distancing measures are maintained, allowing some semblance of normality. We anticipate investment activity will remain comparatively subdued in the short term as attention switches to the June quarter rent collection for landlords, banks and valuers alike.

Savills Prime City Yield remains at 4.00% with still no evidence to date to suggest there has been any impact on core pricing but it is clear sentiment and attitude to risk is shifting. The only evidence since the lockdown reinforces our Prime Yield. West End prime yields remain 3.75%. The MSCI equivalent yield has hardened slightly on last month and currently stands at 5.60%, while the MSCI net initial yield as softened slightly on last month, currently at 4.44%.



May saw **£207.4M** transact over 4 transactions



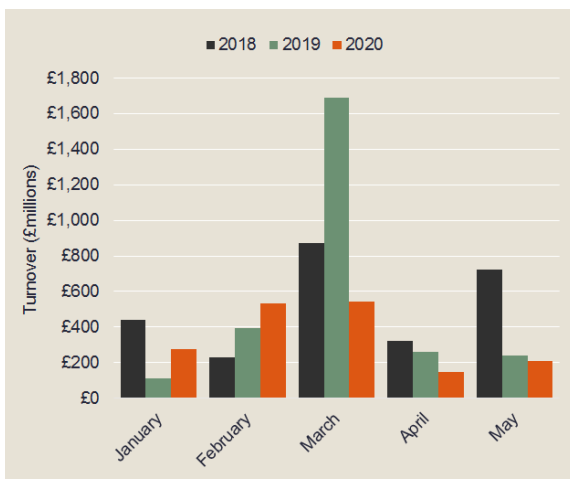
Transactional volume to date is **37%** down on the same point last year



Institutional investor's have accounted for **44%** of transactional volume to date

City investment turnover by month

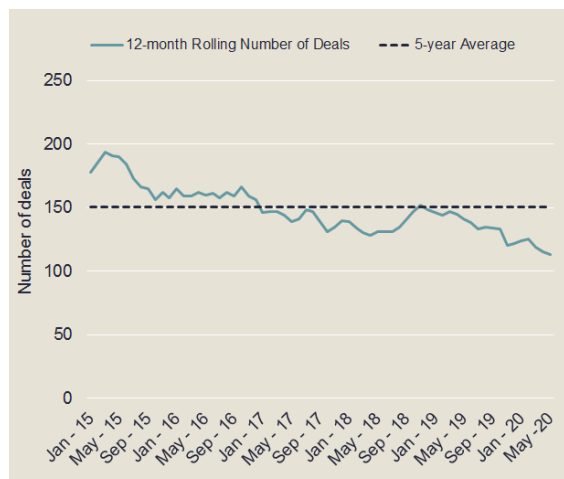
Graph 1



Source: Savills

City 12-month rolling number of deals

Graph 2



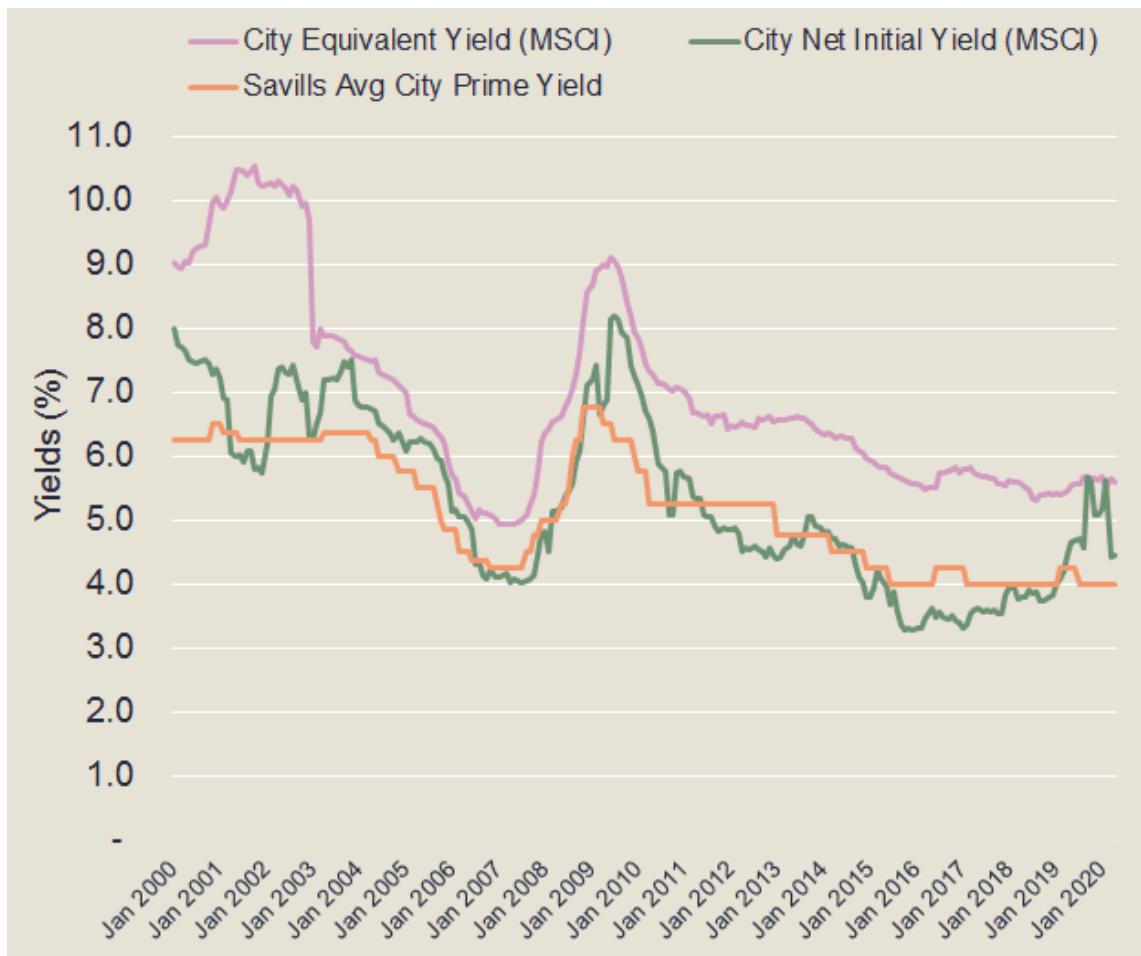
European investors have accounted for **61%** of total transactional volume amounting to **£1.04Bn**

Key deals in May 2020

Address				Sector	Area Sq ft	fH			Price (£ millions)	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Eldon House	2-3	Eldon Street	EC2	Office	45,535	FH			£40.00M	4.81%	£878	Aberdeen Standard	CLI Dartriver
Panther House	38	Mount Pleasant	WC1	Office	c. 82,000 (consented NIA)	FH			£36.50M	N/A	£445	Dukelease	European Fund
	20	Farringdon Street	EC4	Office	90,669	FH			Confidential			HB Reavis	Private Investor

City yield graph

Graph 3



Source: Savills and MSCI

Savills contacts

Please contact us for further information

Richard Bullock
Director
City Investment
020 7409 8006
rabullock@savills.com

Will Richards
Associate
City Investment
020 7409 8059
wrichards@savills.com

Ben Raywood
Associate Director
Research
020 7409 8791
braywood@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange.

We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

