MARKET IN MINUTES

Savills Research

City Investment Watch

savills

Increased investment volumes in February, but further uncertainty on the horizon

February saw £519.50M transact in the City across 7 transactions, which is 86% up on January (£279.50M) and 31% up on February 2019 (£395.72Bn). The total year to date turnover is £799.00M, which is up on this point last year by 58%, but 12% down on the 10-year average. While we have seen an increase in investment volume over the past month, there is a further £1.81Bn currently under offer across 18 transactions, some of which could provide new benchmark pricing for 'prime' assets.

Notable transactions this month include Ludgate London, 55 Ludgate Hill, EC4, which was acquired by a confidential investor advised by Savills. The long leasehold interest was acquired by Greycoat and Goldman Sachs in July 2018 who have since undertaken a comprehensive refurbishment. The building now comprises 107,456 sq. ft. of office, retail and ancillary accommodation arranged over basement, lower ground, upper ground and five upper floors. The property is pre-let to two principal office tenants in ICG PLC and Crowe UK LLP providing a WAULT of c.11.90 years.

There are currently 34 buildings available to purchase amounting to £1.73Bn, with a significant proportion available off market or by way of a selective marketing process. There remains a limited supply of opportunities openly available as vendors (particularly institutional) continue to see a lack of performance in other asset classes and opportunities to reinvest any sale proceeds thereafter. A significant weight of capital continues to chase City real estate, which is in part responsible for the downward pressure on prime yields. However, there are both macro and micro influences impacting the market.

On a Macro level the slowdown in global growth over recent months can largely be attributed to the US - China trade war and the UK's decision to leave the European Union. The uncertainty surrounding 'Brexit' lifted following the General Election, which paved the way for some stability, however, the COVID-19 pandemic seems to have created further uncertainty. Investors are rebalancing wider portfolios with a larger exposure into perceived 'safer' assets which has caused bond yields to "harden" and with it the standard risk free rates investors often benchmark performance against. Consequently, we could see a reallocation of capital towards commercial property as investors increase their exposure from fixed income assets into real estate to achieve portfolio returns. Furthermore, can we expect further loosening of monetary policy to stimulate a sluggish economy providing added stimulus for investors?

At a micro level the City remains amongst the most favourable destinations globally for investors to allocate capital due to a highly liquid, transparent and comparatively risk-averse market compared to other European gateway cities. At a property level, the current strength of the occupational market which has witnessed record levels of pre-letting activity alongside strong rental growth forecasts provides further cause for optimism.

Savills Prime City Yield remains at 4.0% as we await for the market evidence to materialise since sentiment alone is insufficient to move our indicators. West End prime yields currently stand at 3.50%. The MSCI average equivalent yield currently stands at 5.68%.

At the time of publication global capital markets have reacted following the outbreak of COVID-19 which were exacerbated following tensions over a potential oil price war. Investors could adopt a 'wait and see' approach in the short term, however, we await what the impact is on the market.

February saw **£519.50M** transact over 7 transactions

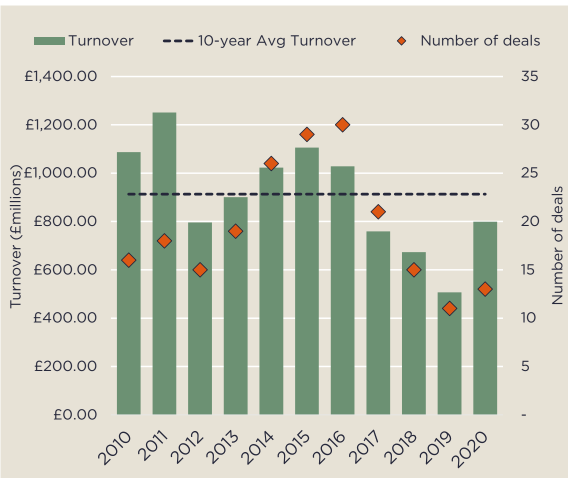
Transactional volume to date is **58%** up on the same point last year

Private investor's have accounted for **38%** of transactional volume to date

European investors have accounted for **71%** of total transactional volume amounting to **£567.00M**

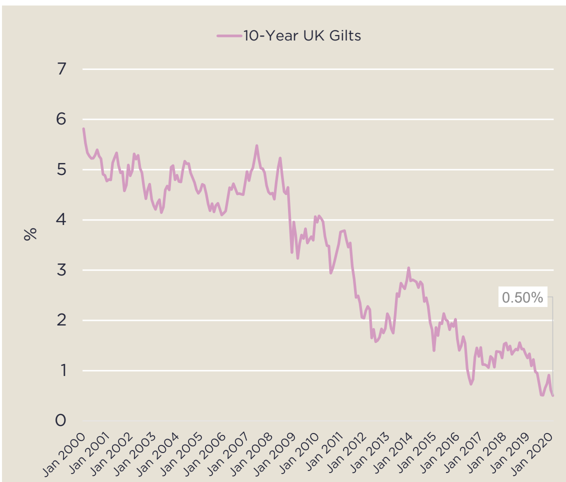
City January & February turnover

Graph 1



10-Year UK Gilt Yields

Graph 2



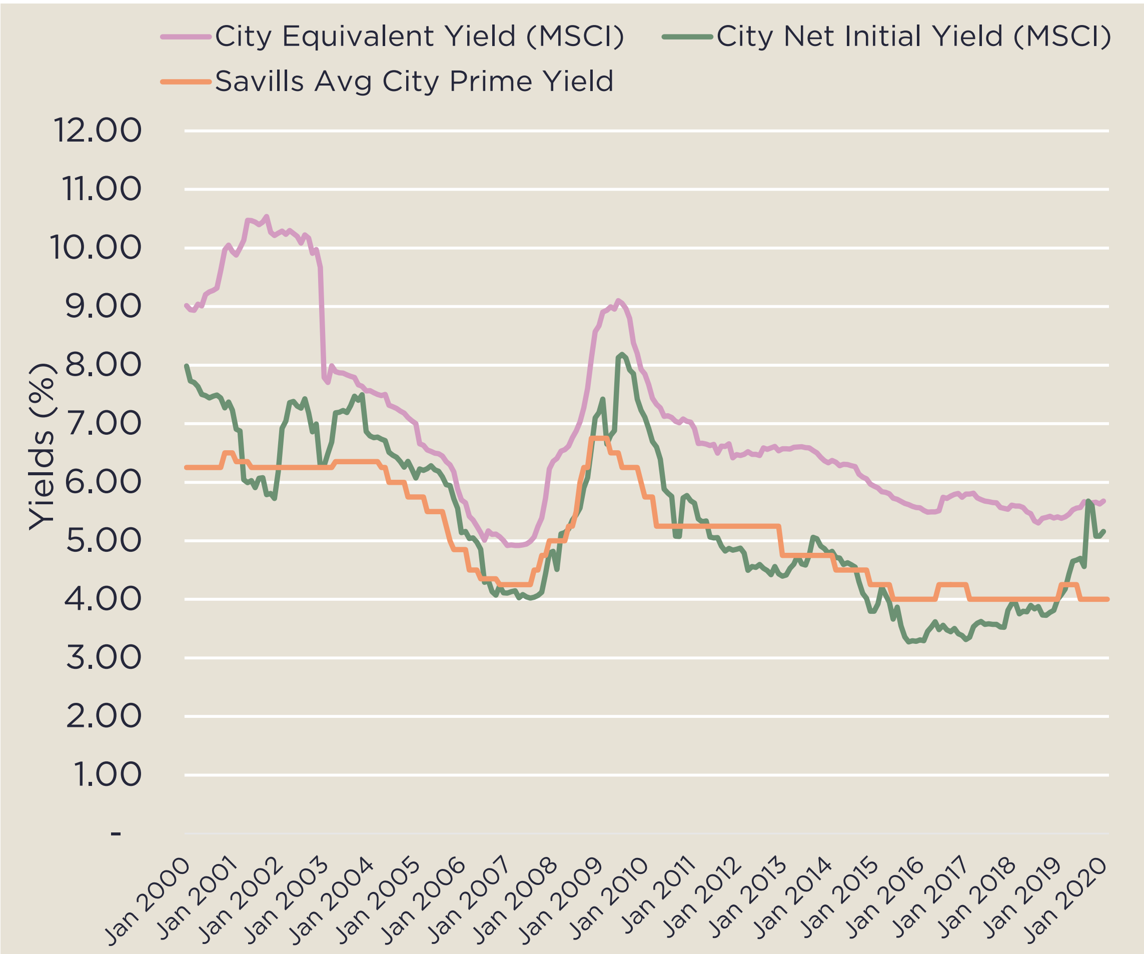
Source: Savills

Key deals in February 2020

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/ LH	U/x term	Gearing					
Ludgate London	55	Ludgate Hill	EC4	Office & Retail	107,546	LLH	130	5.00%	Confidential			Greycoat & Goldman	Confidential
	70	Wilson Street	EC2	Office	74,388	FH			£92.00M	4.95%	£1,237	Columbia Threadneedle	UBS
Quick & Tower House	65	Clifton Street	EC2	Office	53,745	FH			£65.00M	N/A	£1,209	Bridges Fund Management & Hobart Partners	HB Reavis

City yield graph

Graph 3



Source: Savills and MSCI

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