

City Investment Watch



A City market starved of stock...

A busy August saw £542.0 M transact across 13 deals, the 3rd highest monthly turnover in 2019, taking investment for the year to £4.58 BN. Investment volumes for 2019 are still low in a historic context being 44.0% below 2018 numbers of £8.16 BN and 33% below the 5 year average for turnover up to August of £6.88 BN.

The number of transactions remains constrained, with only 72 deals trading to date in the City market. This is 19% down on this point last year (89 deals) and 29% down on the 5 year average of 101 deals. Current political uncertainty is clearly affecting transactional volumes particularly in respect of a lack of availability. On writing this report we are aware of only 9 properties being formally marketed in the City totalling c. £300.0M. This is in stark contrast to the same point last year, when there were 55 buildings on the market, totalling £4.7 BN. This is a trend we have seen throughout 2019 and one we expect to continue in the first few weeks of Q4.

In the largest transaction for the month Brockton Everlast & Quinstone Investment Management acquired the freehold interest in Telephone House, Paul Street, London EC2 for £106.0M, which reflects a net initial yield of 4.71% and a capital value of £852 per sq ft. The prominent headquarters office building of 124,000 sq ft is located in the heart of Shoreditch, on a 0.95 acre island site overlooking Leonard Circus. The building is 100% let to a number of technology, media and fashion businesses, and produces a low annual passing rent of £4.7m, equating to only £38 per sq ft. The acquisition of Telephone House is Brockton's 3rd in the City market in 2019, taking their overall investment in 2019 over £300.0M.

In August, Derwent London sold their freehold interest in The Buckley Building, Clerkenwell Green, EC1 to CBRE Global Investors for £103.0M which reflects a net initial yield of 4.43% and a capital value of £1,216 per sq ft. Derwent acquired the building in 2007 and completely refurbished it in 2013

to provide 85,100 sq ft of accommodation. The property is multi let to 5 tenants at a passing rent of £4.87m per annum reflecting an overall rent of £57.23 per sq ft.

The lack of openly marketed sales within the City of London market has seen investors seek 'off market' opportunities. To date there has been £2.15 BN worth of assets sold through 'off-market' or 'closed' processes, representing 47% of all 2019 volume. That said those assets which have been openly marketed have received significant interest, creating highly competitive bidding situations and continuing to attract record pricing. There is currently £1.60BN worth of transactions known to be under offer in the City, with further assets being 'quietly' sold.

UK investors now account for the largest share of investment in 2019, having been responsible for 34% of total investment volume and acquiring 41 buildings in the City market totalling £1.58BN.

We continue to see the resurgence in Asian investor confidence, with investors from Asia Pacific countries acquiring a further two buildings in August. This is a trend we expect to continue against the backdrop of the current weak £GBP.

Savills Prime City yield remains at 4.0%, which compares with the West End prime yield of 3.75%. The MSCI average equivalent yield softened very slightly last month to 5.57% while the net initial yield continues to soften further, and now is at 4.70%, the highest since March 2014 (4.71%).

£542M

invested in August 2019



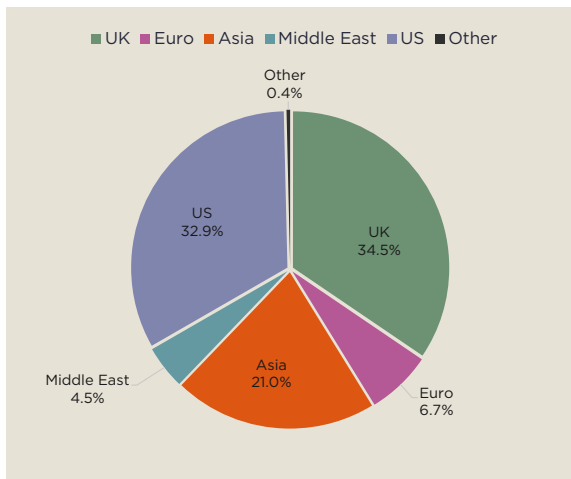
Only **9** buildings on the open market

Prime City yield currently at

4.0%

City turnover by nationality

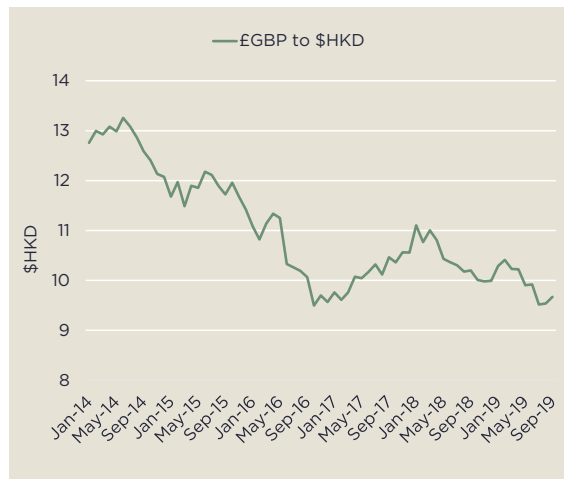
Graph 1



Source: Savills

£GBP conversion rate to \$HKD

Graph 2



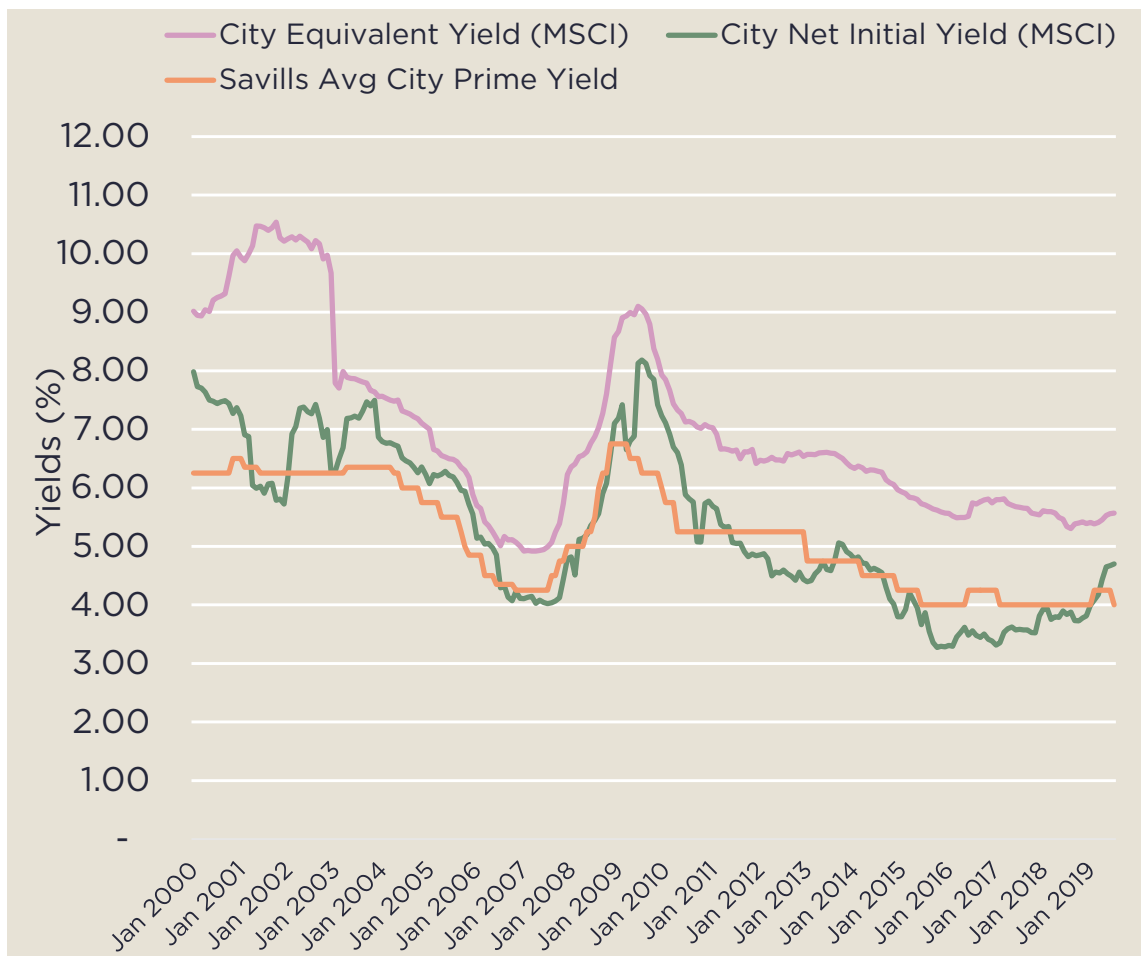
Weak £GBP attracting overseas investors to the City

Key deals in August 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					
Telephone House	69-77	Paul Street	EC2	Office	124,434	FH	-	-	£106.00 M	4.71%	£852	Private Investor	Brockton Everlast and Quoinstone Investment
Buckley Building	49	Clerkenwell Green	EC1	Office	85,100	FH	-	-	£103.00 M	4.43%	£1,210	Derwent London	CBREGI
	49-51	Paul Street	EC2	Development / Hotel	68,964	FH	-	-	£32.00 M	-	£464	Ocubis	Dalata Hotel Group
Holborn Town Hall	193-197	High Holborn	WC1	Office	25,464	FH	-	-	£21.95 M	5.22%	£862	Mactaggart Family & Partners	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
rbullock@savills.com

Paul Bassi

Associate
City Investment
020 7299 3044
pbassi@savills.com

Ben Raywood

Associate Director
Research
020 7409 8791
braywood@savills.com

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