

City Investment Watch



Drop in Q1 transactional volume as COVID-19 pandemic causes market slowdown

March has been a turbulent month across global capital markets in which we saw £477.75M transact in the City, 25% down on February (£596.90M) and a significant decrease on the £1.69Bn transacted in March 2019, which was heavily influenced by Citibank's acquisition of 25 Canada Square for £1.00Bn. There were 8 transactions during March, which is consistent with that achieved in February (9 deals) but down on March 2019 (15 deals). Total Q1 investment volume reached £1.35Bn in the City, which is 38% down on Q1 2019 (£2.18Bn) and 27% down on the ten year average.

One such deal saw Union Investment, advised by Savills, acquire the remaining 50% share of Watermark Place, One Angel Lane, EC4, approximately 5 years after the acquisition of the initial 50 percent share, from Oxford Properties. The freehold building was originally constructed in 2009 to a BREEAM Excellent specification and comprises 539,994 sq. ft. (50,167 sq. m.) of Grade A office, retail and ancillary accommodation arranged over two lower ground, ground and 11 upper floors. The building is fully let to Japanese investment bank Nomura.

Another March deal saw Lum Chang, advised by Savills, dispose of 130 Wood Street, EC2 for £55.15M, reflecting a net initial yield of 4.27% and a capital value of £951 per sq. ft. The freehold building occupies a prominent position on the western side of Wood Street close to its junction with Cheapside and is multi-let to three office and one retail tenant providing a WAULT of approximately 6 years.

At this early stage, any signs of widespread distress in the City have not materialized (as yet) with no evidence of pricing discounts being agreed. Noticeable transactional casualties include The Cabot, 25 Cabot Square, E14 and 90 Bartholomew Close, EC1, which Blackstone and Aberdeen Standard Investments have withdrawn respectively. However, we understand the latter is benefitting from renewed interest and close to being placed under offer in addition to One

London Wall Place, EC2. In total, we understand there to be approximately £2.85Bn under offer across 21 transactions, many of which appear to be progressing.

Despite some investors maintaining their belief in the City, it is clear transactional activity has slowed as some vendors have withdrawn assets that were at an early stage of marketing; the enforcement of social isolation measures make inspecting assets and undertaking onsite due diligence impossible.

The big question is whether the black swan event of COVID-19 will knock the global economy into a short term recession or something more sustained; much will depend on the persistence of the virus and its implications on whether businesses and individuals are able to service their repayment obligations. Some landlords are dealing with shortfalls in rental income and are working with tenants in navigating these uncertain times. We may start to witness some distress after the June quarter date if cash flow complications persist.

We anticipate a fall in new activity during Q2 2020 as the majority of investors await clarity on the pandemic's economic impact. However, COVID-19 is unlikely to change the fundamental attractions of real estate; high yielding relative to bonds, income growth set against a robust occupational market, control and the opportunity to add value. Accordingly, we would hope to see a rebound in investment volumes once normality resumes, especially if the value of sterling remains low, which is already proving to be attractive for some overseas investors.

Savills Prime City Yield remains at 4.00% with no evidence to date to suggest there has been any impact on pricing. By comparison, Savills West End Prime Yield currently stands at 3.75%.



March saw **£477.75M** transact over 8 transactions



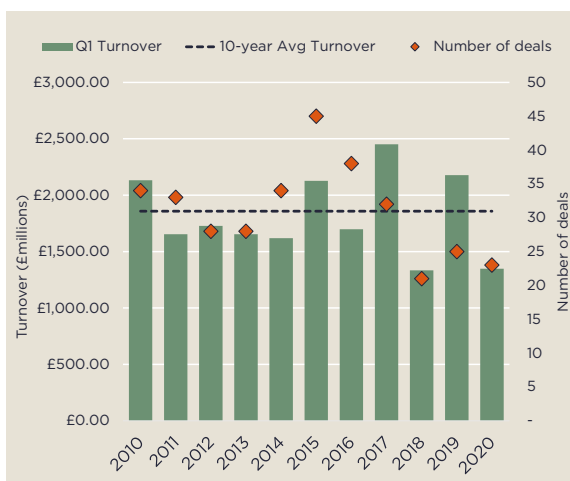
Transactional volume to date is **38%** down on the same point last year



Institutional investor's have accounted for **50%** of transactional volume to date

Q1 investment turnover

Graph 1



Source: Savills

Volume under-offer at the end of Q1

Graph 2



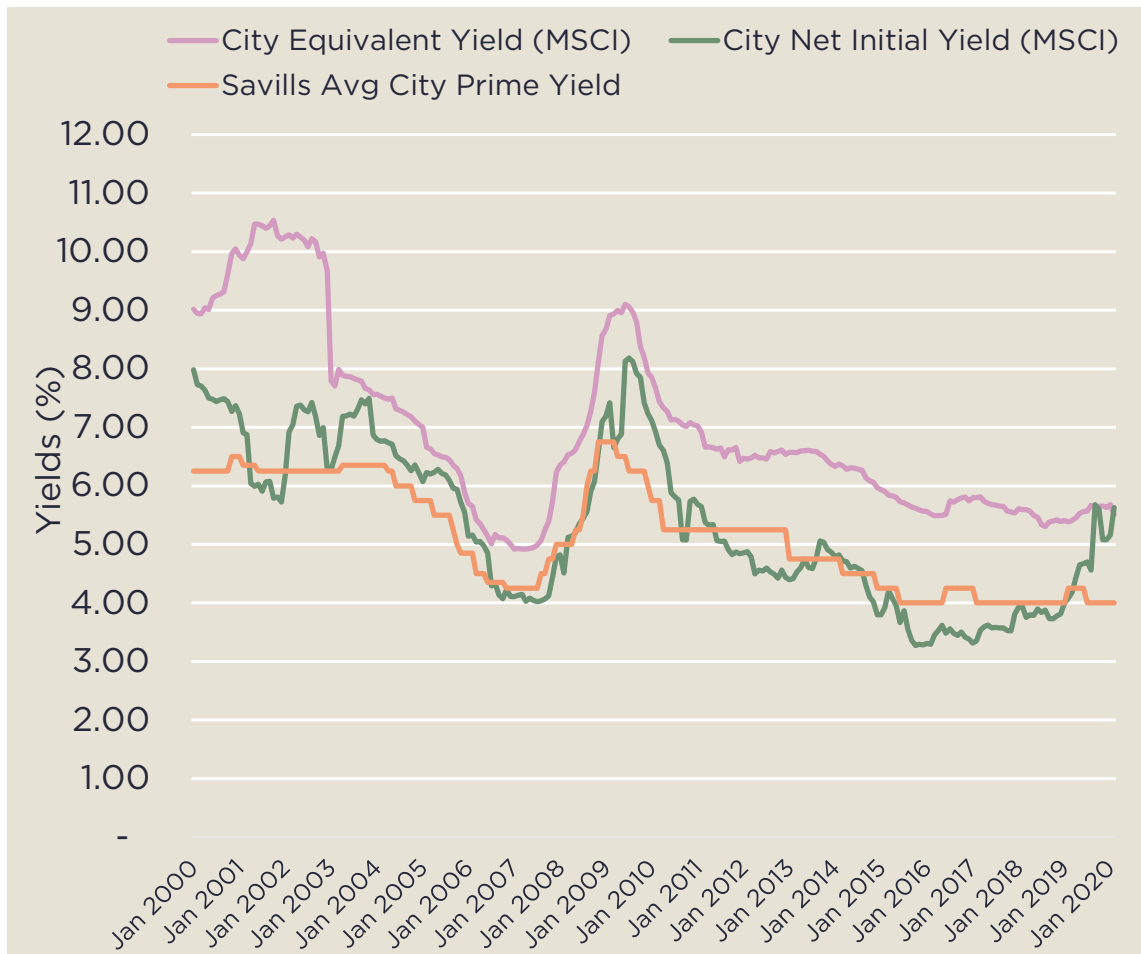
European investors have accounted for **71%** of total transactional volume amounting to **£958.70M**

Key deals in March 2020

Address				Sector	Area Sq ft	Tenure			Price (£ millions)	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Watermark Place	1	Angel Lane	EC4	Office & Retail	539,994	FH			Confidential (50% share)			Oxford Properties	Union Investment
	130	Wood Street	EC2	Office & Retail	57,976	FH			£55.15M	4.27%	£951	Lum Chang	Confidential
	27-30	Lime Street	EC3	Office & Retail	12,069	LLH	129.9	5.00%	£9.80M	5.73%	£812	Morden College	Private Investor

City yield graph

Graph 3



Source: Savills and MSCI

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