

City Investment Watch



An increase in number of transactions as sentiment improves in anticipation of lockdown restrictions easing

It's been 12 months since the first COVID-19 lockdown, during which time market conditions across many asset classes have been volatile. Whilst widely considered a 'safe' asset class during turbulent macro-economic events, the perceived safety of Real Estate (Offices) was at times questioned as working from home became the new norm. A year on, lockdown restrictions remain, however, the success of the vaccination program should pave the way to return to what once resembled normality.

March saw £248.10M transact in the City across 7 deals, which is approximately 28% down on February (£346.55M) and approximately half that recorded in March 2020 (£541.25M). While turnover remains subdued, the number of transactions increased from February (4) and is more in line with March 2020 (9).

Total investment volume as at the end of Q1 2021 is approximately £625.75M, approximately 50% down on Q1 2020 (£1.32Bn) and 65% down on the five year average of £1.79Bn. A relatively strong March contributed to 12 transactions, which compares with 22 in Q1 2020. Furthermore, we understand there is approximately £1.93Bn currently under offer in the City across 16 transactions, down from last month (£2.21Bn).

The most notable transaction of the month saw M&G acquire Saffron House, 6-10 Kirby Street, EC1 from Columbia Threadneedle (Zurich Pension Fund) for £78.30M, which reflects a net initial yield of 5.00% and a capital value of £1,073 per sq. ft. The building is situated in a prime Farringdon location and comprises 72,989 sq. ft. of Grade A office accommodation arranged over ground, upper ground and five upper floors. The freehold property is fully let to six tenants at a passing rent of £57.27 per sq. ft. overall and provides a WAULT of 6.6 years to expiries and 3.8 years to breaks.

In yet another deal first marketed last year, a private Middle Eastern investor acquired 124 Theobalds Road, WC1 from ESAS for £70.50M, reflecting 4.59% and a capital value of £869 per sq. ft. Situated in the heart of Midtown directly to the north of Red Lion Square, the freehold property comprises 81,110 sq. ft. of office and ancillary accommodation arranged over basement, ground and eight upper floors. The property is let to MediaCom Holdings Ltd and Vodafone, reflecting a rent of £40.65 per sq. ft. overall. The property provides the opportunity for a redevelopment to provide a landmark building totalling circa 211,260 sq. ft.

A recurring theme this year is the lack of new stock marketed and therefore much of the activity has been focused on historic sales; of the transactions in 2021, only one was first marketed this year, equating to just 6% of the quarterly turnover. This is largely a result of ongoing lockdown and travel restrictions which impact sales processes.

Unsurprisingly, given the uncertainty over the past 12 months there has been increased demand for income-led assets and a 'flight to quality'. This is in part due to a lack of stress in the debt markets who are again offering favourable terms for prime investments (where margins have increased the all-in rate has remained below pre-pandemic levels) helping investors achieve comparatively attractive cash-on-cash returns. Accordingly, Savills Prime City yield remains at 4.00% and the West End prime yields has been pushed out to 3.50%. The MSCI City average equivalent yield currently stands at 5.58%, which the net initial yield fell to 4.17%.

There is growing optimism that as life in the UK begins to return to some normality, at a rate our European neighbours can only be envious of, that market activity will begin to pick up and satisfy the pent up capital that has been observing the market over the past 12 months.



March saw **£248.10M** transact over **7 deals**



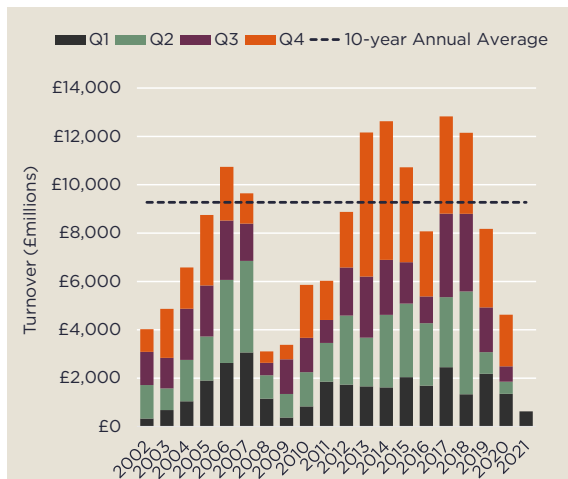
Q1 2021 saw **£625.75M** transacted, **54%** down on **Q1 2020**



Private investors accounted for **52%** of the number deals compared to **19%** being institutional

Quarterly investment turnover

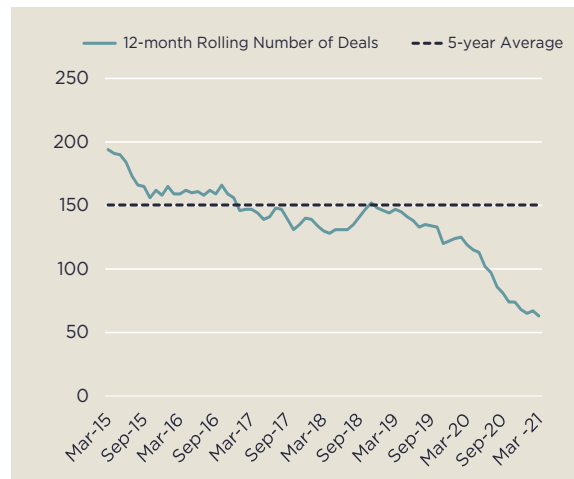
Graph 1



Source: Savills

12-month rolling number of deals

Graph 2



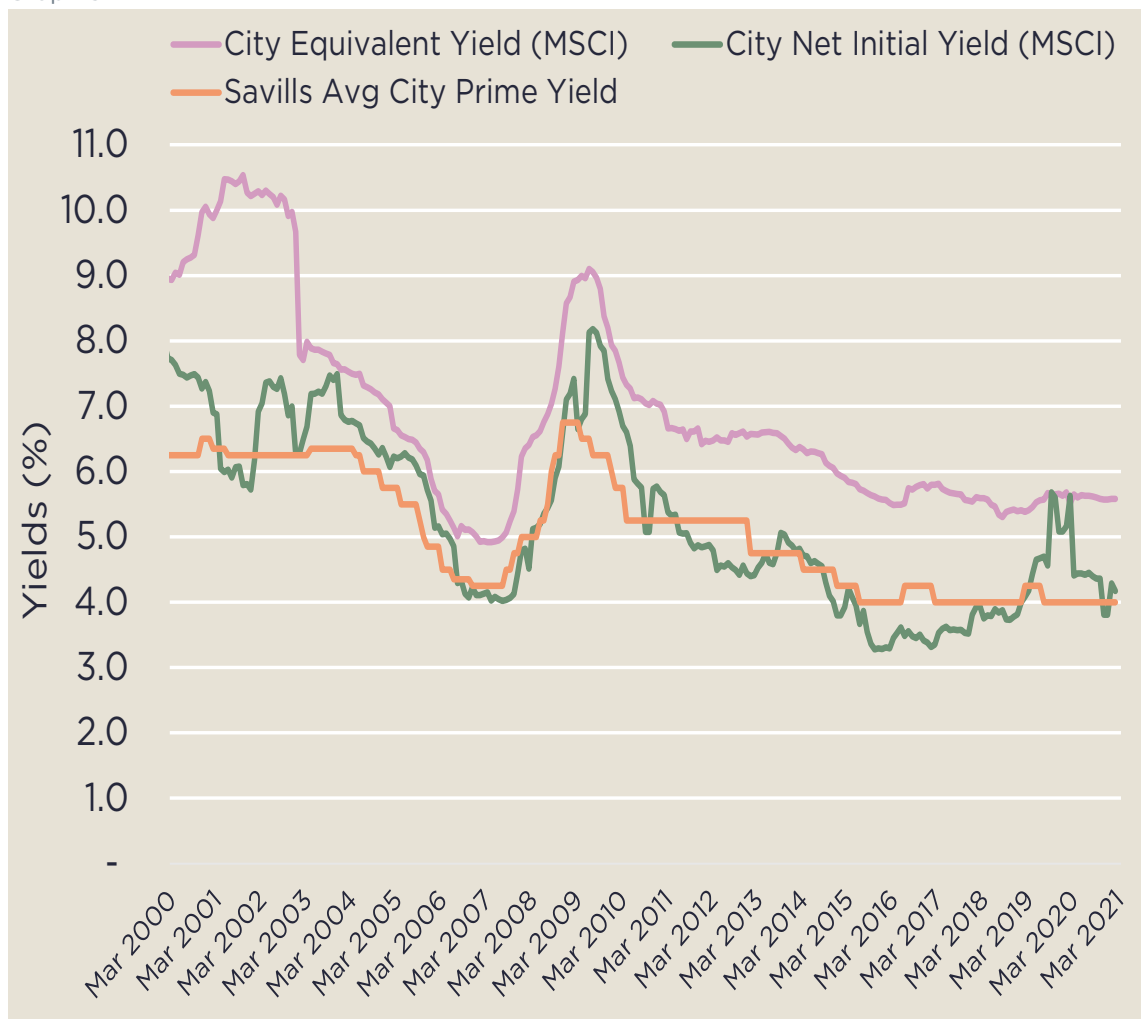
UK investors have accounted for **47%** of total transactional volume followed by European (**18%**) and Asian (**18%**)

Key deals in March 2021

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					
Saffron House	6-10	Kirby Street	EC1	Office	72,989	FH				5.00%	£1,073	Columbia Threadneedle	M&G
	124	Theobalds Road	WC1	Office	81,110	FH				4.59%	£869	ESAS	Private Middle Eastern
John Carpenter House	7	Carmelite Street	EC4	Office	34,027	FH				4.49%	£890	Estel Property	Private Investor
	60	Goswell Road	EC1	Office	27,141	FH				5.12%	£601	Amsprop	Kiri Capital

City Yields

Graph 3



Source: Savills and MSCI

Savills contacts

Please contact us for further information

Henry Timmis

Director
City Investment
020 7409 8915
htimmis@savills.com

Will Richards

Associate
City Investment
020 7409 8059
wrichards@savills.com

Will Wilson

Analyst
Research
020 7409 8791
will.wilson@savills.com

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