City Investment Watch

Strong statement by Wells Fargo as they purchase a new City HQ

August 2016

Market comment and notable deals

■ July turnover was £460m across 6 deals bringing year-to-date total City turnover to £4.8bn, which is 18% lower than this point last year.

■ The 12-month rolling turnover for the City is currently at £9.6bn, which is 29% up on the long-term average.

■ In the City market, we are currently monitoring 70 investment opportunities totalling circa £4.2bn. Of this, we are aware 25 are currently under-offer totalling circa £1.2bn, leaving an estimated £3bn worth of available opportunities.

■ A notable deal from July was the purchase of 33 Central, King William Street, EC4 for circa £260m, £1,156/sq ft. The property has been bought by American bank Wells Fargo as their new HQ. The world's biggest bank by capitalisation, agreed the deal in principle prior the result of the Referendum, and encouragingly decided to complete the purchase post the vote.

■ Another deal which exchanged in July was the purchase of 5 King William Street, EC4 for £87m, 3.77% and £1,061/sq ft. The property is single let to Daiwa Securities until March 2027. The asset has shown how a good quality building with long income security has good demand and therefore can command record low yields. The property was bought by a private Middle Eastern investor from Allegra European Holdings.

■ Of the 91 City transactions so far this year, the fringe has accounted for the largest number at 49 (42% of turnover). The core has accounted for 28 transactions (46% of turnover), Midtown with 11 transactions (9% of turnover), and the Docklands 3 transactions (3% of turnover).

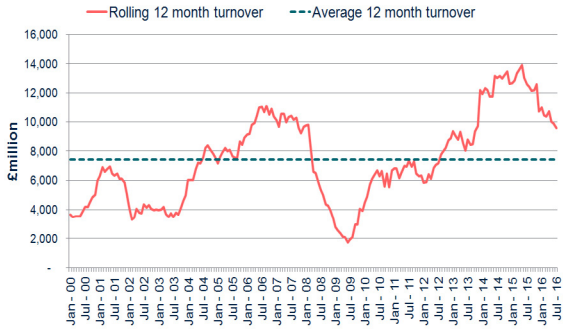
■ To date in 2016 Asian purchasers have accounted for the highest level of turnover (42%), followed by UK purchasers (21%) and European (14%). The percentage share for US purchasers has risen following the Wells Fargo deal, as they have now accounted for 10% of City turnover.

■ The City leasing market is expecting a cyclical slowdown, which was being anticipated prior to the referendum. However, we are not expecting take-up to fall significantly below average levels, and with a pipeline that is consistently seeing more space pre-let, we do not expect a drastic increase in the vacancy rate. For instance, from 2017 - 2021 we are forecasting the average annual vacancy rate to be circa 6.1%, which is low in historic context as the long-term average is 9.7%.

■ Savills prime City yield has remained at 4.25% for the second month. The spread between the City and the West End is still at 75bps with the West End prime yield also moving out 25bps last month to 3.50%.

GRAPH 1

City 12-month rolling turnover



Graph source: Savills

GRAPH 2

City 2016 turnover by nationality

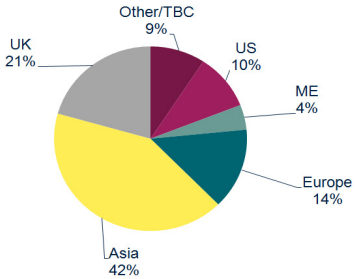


Chart source: Savills

GRAPH 3

City & West End prime yield

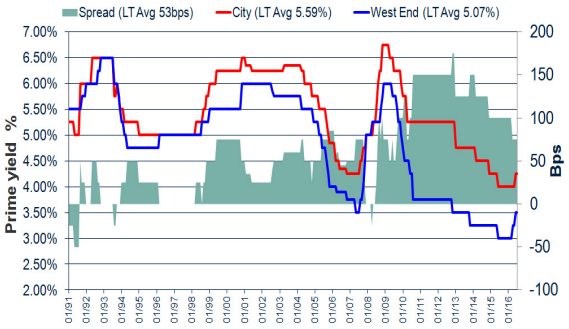


Chart source: Savills

TABLE 1

Key deals in July 2016

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
House	No	Street	PC			FH/ LH	U/x term	Gearing					
33 Central	33	King William Street	EC4	Office	225,000	FH			£260.00 M	N/A	£1,156	HB Reavis	Wells Fargo
	5	King William Street	EC4	Office	82,025	FH			£87.00 M	3.77%	£1,061	Allegra European Holdings	Private Investor
Travelodge	1	Harlow Place	E1	Hotel	45,528	FH			£42.00 M	4.84%	£922		YT Realty
Boundary House	7 - 17	Jewry Street	EC3	Office	45,062	FH			£27.80 M	4.45%	£617	Picton	GR Properties
	11	Old Jewry	EC2	Office	65,375	LLH	16	£8,000	£21.00 M	10.31%	£321	Curzon	Colliers Capital

Table source: Savills

Please contact us for further information

Robert Buchele
Director
+44 (0)20 7409 8007
rbuchele@savills.com

Richard Bullock
Director
+44 (0)20 7409 8006
rabullock@savills.com

Dan Hesketh
Director
+44 (0)20 7409 8008
dhesketh@savills.com

Felix Rabeneck
Director
+44 (0)20 7409 8918
frabeneck@savills.com

Jamie Olley
Director
+44 (0)20 7578 7546
jamie.olley@savills.com

Tom Reeves
Director
+44 (0)20 7578 7549
thomas.reeves@savills.com

Henry Timmis
Associate Director
+44 (0)20 7409 8915
htimmis@savills.com

Daniel Gaunt
Associate Director
+44 (0)20 7409 8857
dgaunt@savills.com

David McArthur
Associate Director
+44 (0)20 7578 7545
david.mcarthur@savills.com

Stephen Hartley
Associate
+44 (0)20 7409 8955
shartley@savills.com

Nick Wells
Associate
+44 (0)20 7409 8916
nwells@savills.com

Ben Raywood
Associate (Research)
+44 (0)20 7409 8791
braywood@savills.com

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