

City Investment Watch



The City begins to show signs of renewed activity despite significant decline in investment volumes

June saw a total of £61.40M transact in the City, down on last month (£207.40M) and the same time last year (£382.37M). Investment volume reached £423.10M for Q2, compared to £1.35Bn in Q1 and 53% down on Q2 2019 (£895.93M). In fact, Q2 2020 is the lowest since 1996 (£214.72M) and the lowest quarterly total since Q1 2009 (£368.79M).

As at the end of H1 2020 total investment volume reached £1.77Bn, of which Savills claims a c.57% market share having advised on just over £1.01Bn of transactions. While the H1 2020 volume represents a 41% decrease on H1 2019 (£2.99Bn) and the lowest since 2009 (£1.34Bn), the average lot size of £53.70M is only 13% down on H1 2019 (£61.47M).

June saw just three transactions, similar to April (3 deals) and May (4 deals) highlighting the unsurprising and consistent lack of investment activity over the past quarter. There were 10 transactions that exchanged during Q2 2020 and 33 for H1 2020, a 28% decrease on H1 2019 (46 deals).

The largest transaction in June saw Chapter House, 16 Brunswick Place, N1 purchased off market by a private investor for £46.00M, reflecting a net initial yield of 4.48% and a capital value of £1,423 per sq. ft. The freehold building comprises a new development by the vendor, LBS, of 32,327 sq. ft. arranged over lower ground, ground and four upper floors. The building is fully let or under offer to three office tenants providing a weighted average unexpired lease term of c.4.8 years.

The second largest deal to exchange in June saw 79-81 Paul Street, EC2 acquired for £10.00M, reflecting a capital value of £1,139 per sq. ft. The freehold building was sold with vacant possession.

While the headline statistics paint a somewhat melancholy picture, there is reason to be optimistic with approximately £2.62Bn under offer across 21 transactions, reflecting a 16% increase on May. There has been a further £625.00M

of stock put under offer in June across three transactions, approximately 62% of which can be attributed to The Cabot, 25 Cabot Square, E14. This is reportedly under offer to Hong Kong-based buyer LINK REIT, in what would be their first acquisition in London, close to the initial pre-COVID-19 quoting price of £390.00M, reflecting a net initial yield of 4.75% and a capital value of £916 per sq. ft.

There have been three new opportunities openly marketed during June, bringing the total volume of stock for investors to consider to approximately £1.82Bn across 34 assets. Similarly there have been formal bids on two development opportunities, both of which commanded a significant level of interest and highlights the underlying long term belief in the City of London office market.

As we have alluded to throughout lockdown, the lack of transactional activity is largely due to a lack of available stock with owners not experiencing outward signs of distress (as yet), coupled with impracticalities in inspecting real estate due to ongoing travel restrictions. At the time of writing, however, we await the impact of the June rent collection, which could force some landlords hands albeit we think this will not come to ahead till later in the year.

Positively, as the Government relaxes their stance on lockdown and many businesses urge more 'normal' working practices in line with Asia and Europe, more opportunities are becoming available. Anecdotally, the weight of overseas capital looking to London, which has proven robust as values have largely held firm to date, is encouraging; we anticipate investment activity to remain comparatively subdued in the short term and over the summer but the early signs of increased market activity are emerging.

Savills Prime City Yield remains at 4.00% and the West End prime yields remains 3.75%. The MSCI equivalent yield has softened slightly on last month and currently stands at 5.64%, while the MSCI net initial yield has remained at 4.44%.



June saw **£61.4M** transact over 3 transactions



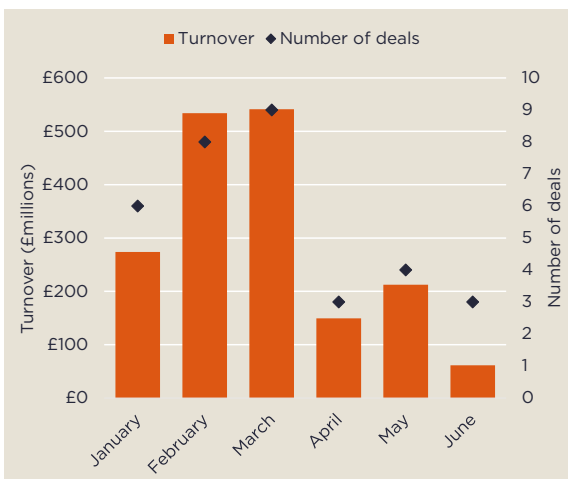
Q2 investment volume of **£423M** is the lowest since 1996 (£215M)



H1 investment turnover of **£1.77Bn** is the lowest since 2009 (£1.34Bn)

City 2020 investment turnover by month

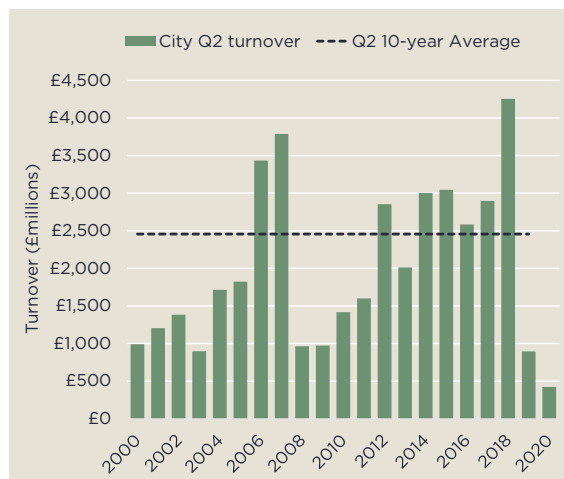
Graph 1



Source: Savills

City Q2 historic investment turnover

Graph 2



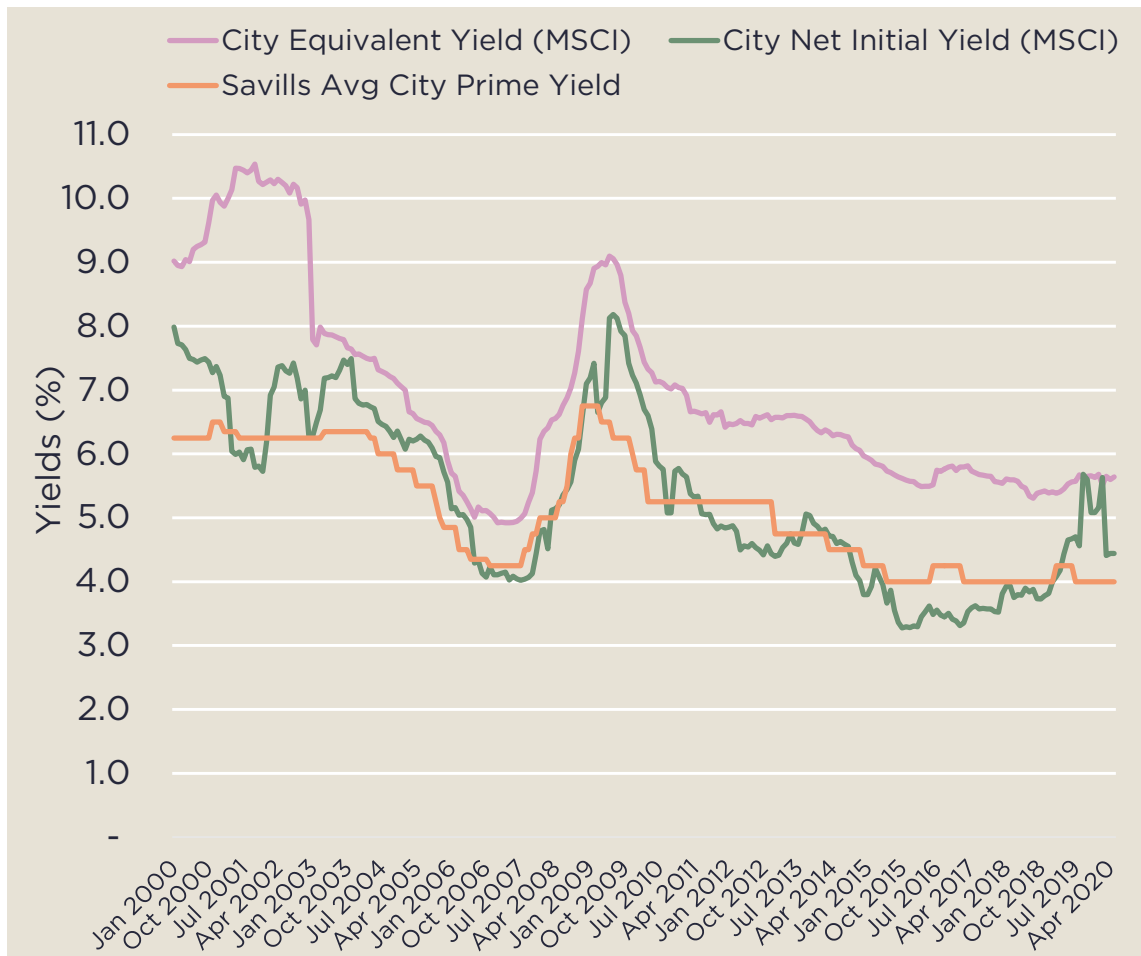
European investors have accounted for **57%** of total transactional volume amounting to **£1.01Bn**

Key deals in June 2020

Building Name	Address			Sector	Area Sq ft	FH			Price (£ millions)	Yield	CV/sq ft	Vendor	Purchaser
	No	Street	PC			FH/LH	U/X term	Gearing					
Chapter House	16	Brunswick Place	N1	Office	32,327	FH	-	-	£46.00 M	4.48%	£1,423	LBS	Private Overseas Investor
	79 - 81	Paul Street	EC2	Office	8,779	FH	-	-	£10.00 M	N/A	£1,139	Private Hong Kong Investor	Confidential
	8 - 9	Gough Square	EC4	Office	6,805	FH	-	-	£5.40 M	N/A	£794	The Milton Group	Confidential

City yield graph

Graph 3



Source: Savills and MSCI

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