

City Investment Watch



Stand-off between buyers and sellers pricing expectations results in low November turnover

November saw a continuation of the low transactional volume evident in the last few months as just £36.60M reached exchange of contracts across five deals. Reflecting a 93% decrease on November 2021's total, Savills anticipates that transactional volume will continue to be tempered until the delta between buyer expectations and vendor aspirations narrows.

Q4 to date has seen a total transactional volume of just £293 million across 9 deals and turnover for 2022 is likely to be inverted with over half of the year's turnover (£4.16BN) being in the first quarter of 2022.

Overall transactional volume in the City for the year to date stands at £7.72 BN across 97 deals, a 13% increase on the same point in 2021. With approximately £1.35 BN under offer across 21 deals, Savills anticipates a total City transaction volume of approximately £8.0 BN by the end of 2022 and forecast to be circa 15% below the 10 year average.

While November has seen signs of greater clarity within this period of price adjustment the continued delta between buyer expectations and vendor aspirations has resulted in 79% of available stock that has been openly marketed in 2022 remaining unsold or withdrawn (totalling £7.85 BN). Activity and investor sentiment appears to be on the rise, albeit has been hindered by a lack of new opportunities with only £1.5 billion of stock coming to market since August, of which only 6 deals are in excess of £50 million. As we move into 2023, the release of new sales opportunities coupled with the total unsold assets will provide a growing buyer pool with a wide selection of opportunities in which to deploy capital.

As debt has become less accretive for investors throughout the year we have seen a push towards cash only transactions, resulting in a greater volume of transactional activity in the smaller lot sizes. This is especially the case for liquid lot sizes with 42% of openly marketed properties between £50M to

£100M having reached exchange of contracts, compared to 9.5% of transactions over £250M in having sold in the year to date.

In the largest transaction of the month, Thirty Lighterman, 30 Wharfdale Road, N1 was acquired by an owner occupier for £17.0M / 6.67% NIY / £1,175 psf. The freehold property, located 100m to the north of King's Cross, comprises 14,465 sq ft of office accommodation arranged over ground and three upper floors and is multi-let to three tenants generating a total passing rent of £1.2m, reflecting £83.70 per sq ft.

Positively, at the time of writing, the 5 year SONIA rate has fallen from a peak of 5.25% to 3.7% in the quarter which continues to help widen the pool of buyers away from just all equity investors, albeit currently at the core end of the market debt does not appear to be accretive to investment returns. As we move into the final month of the year and the Christmas period we see no let up in appetite from a global audience of investors.

In our City Investment Watch December 2021 publication, we reported that the leading buyer group in the City for the year was North American investors, accounting for 32% of total turnover and followed closely behind by UK (25%) and European (24%) investors. However, this year our analysis shows that total transaction volume has been dominated by AsiaPac investors, accounting for 53% of total transaction volume, followed by UK (27%) and European (11%). North American investors have largely been out of the market this year, accounting for just 7% of total transaction volume, but we anticipate this buyer group to be more active in 2023.

Savills City prime yield stands at 4.25%, which compares to the West End prime yield of 3.75%. The MSCI City average equivalent yield currently stands at 5.79%, while the net initial yield is 3.62%.



£7.7 BN
2022 year-to-date turnover across **97** transactions



5-yr SONIA swap rate is currently **3.7%**, down 155 bps from peak



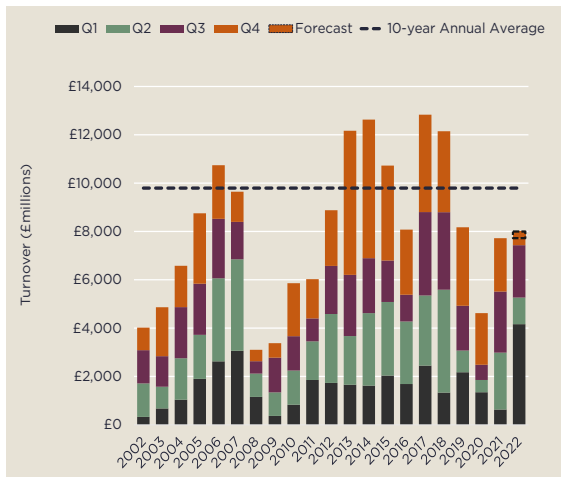
£8.0 BN in turnover forecasted by end of 2022



£1.35 BN under offer across **21** transactions

City year-to-date investment turnover

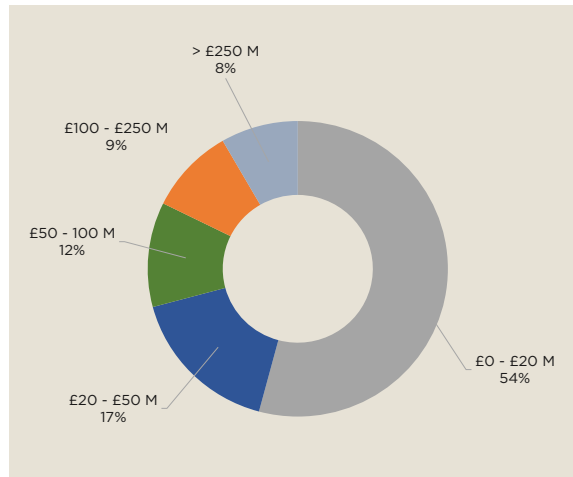
Graph 1



Source: Savills

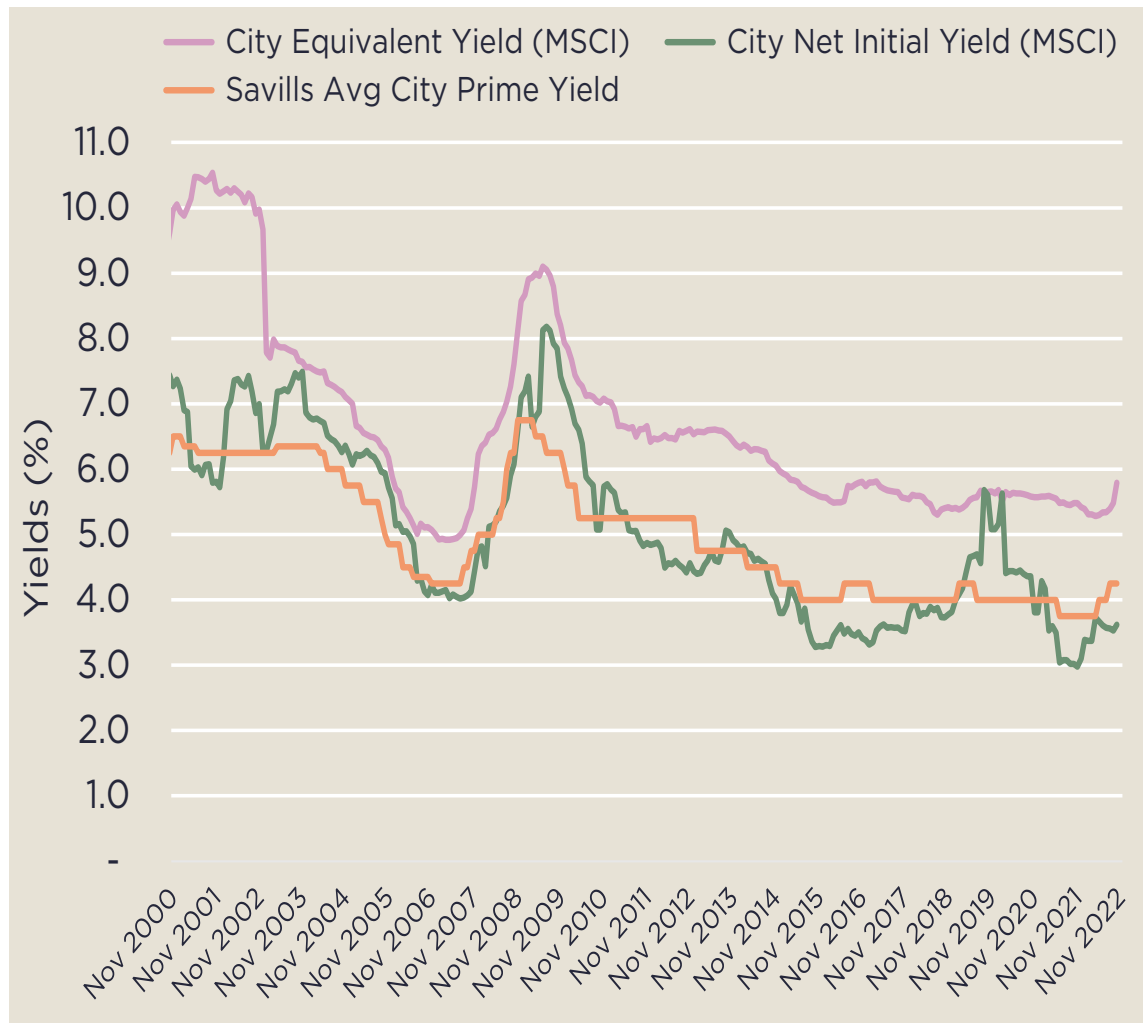
City investment turnover by number

Graph 2



City Yields

Graph 3



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