

City Investment Watch



December records highest monthly volume of 2020 bringing the annual total to £4.48Bn.

December is historically the busiest month of the year as investors look to close deals prior to year-end. Any concerns the typical flurry of activity would be impacted by the omnipresent political and economic disruption, principally focused around lengthy Brexit trade negotiations and the ever-evolving Covid-19 pandemic, were allayed swiftly. The largest deal of the year exchanged early in the month contributing to a monthly volume of £1.18Bn, a significant increase on November (£404M) and the 2020 monthly average of £301.60M, but 31% below December 2019 (£1.69Bn).

A comparatively strong December contributed to a total Q4 volume of £2.14Bn, 34% down on Q4 2019 and 39% down on the Q4 10-year average. Total 2020 transactional volume reached £4.48Bn, which is approximately 42.5% down on that achieved in 2019 (£8.18Bn) and 53% below the 10-year average.

There were 16 deals in the City in December, which is an increase on that achieved in November (6), and brings the total number of deals in Q4 and 2020 to 26 (27 in Q4 2019) and 68 respectively (42% down on 2019).

In the largest transaction of the year, Landsec sold the virtual freehold interest in 1 & 2 New Ludgate, EC4 to Singaporean investor Sun Venture for £552.0M, reflecting a net initial yield of 4.20% & a capital value of £1,417 per sq. ft. in what is their second acquisition of the year. Occupying a highly prominent 1.5 acre site, 1 & 2 New Ludgate provide a combined 389,615 sq. ft. of office and retail accommodation. 1 New Ludgate is multi let to seven office and five retail tenants. 2 New Ludgate is let entirely to Mizuho Bank. The assets generate a total rental income of approximately £23.7 million per annum.

Also in December, Derwent London sold the freehold interest in The Johnson Building, EC1 to Eurazeo Patrimoine, the real assets division of Eurazeo, and Arax Properties for £170.0M reflecting a net initial yield of 4.10% (gross of top-ups) and a capital value of £895 per sq. ft. Located in a prominent corner position in close proximity to Farringdon station, the office

and retail complex totals approximately 192,700 sq. ft. The total rent passing is approximately £7.3 million per annum with approximately 40% of the income expiring in 2021.

No new assets were marketed in December given the disruption associated with the November Lockdown and the Christmas / New Year break. Accordingly, with the rise in investment turnover there has been an expected fall in the volume of stock under offer, which currently stands at £1.50Bn across 14 transactions.

Unsurprisingly given the disruption across both investment and occupational markets, investors were principally seeking Core (54% of annual transactional volume over 13 transactions) and Core Plus (29% over 29 transactions) opportunities in 2020. Value Add and Development opportunities are inherently subject to more occupational risk, which has resulted in increased uncertainty in pricing.

Savills City Prime yield remains at 4.00%, which compares with the West End prime yield of 3.50%. The MSCI net initial yield currently stands at 3.81% and the average equivalent yield currently stands at 5.57%.

Looking ahead into 2021 there is real optimism now the UK has agreed a trade deal with the EU and with the commencement of the Covid-19 vaccination process. In the short term, however, as the UK enters “Lockdown 3.0”, we anticipate investors will adopt a ‘wait and see’ approach until the effects of such measures are fully realised.

Assuming the virus can be controlled and the vaccination process proves effective, restrictions will begin to relax allowing for some semblance of normality which will in turn improve investor sentiment. It is at this point, we expect activity to improve as there remains a significant weight of global capital still looking to invest in London.



December saw **£1.18Bn** transact over **16 deals**



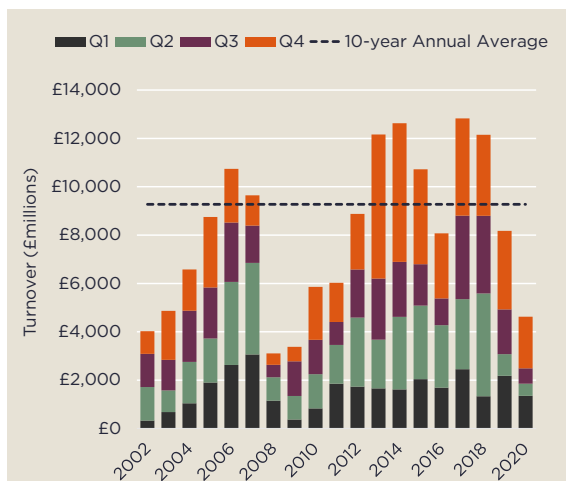
Q4 saw **£2.14Bn** transacted, bringing total **2020** transactional volume to **£4.48Bn**



Largest transaction of the year exchanged in December **1 & 2 New Ludgate, EC4** at **£552.0M**

Annual investment turnover

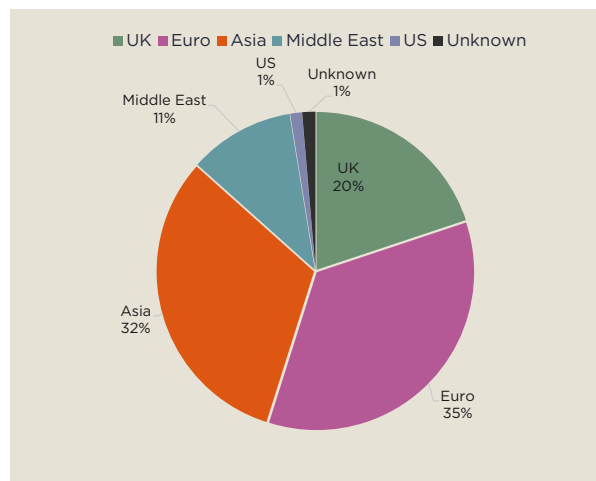
Graph 1



Source: Savills

Nationality of investors

Graph 2



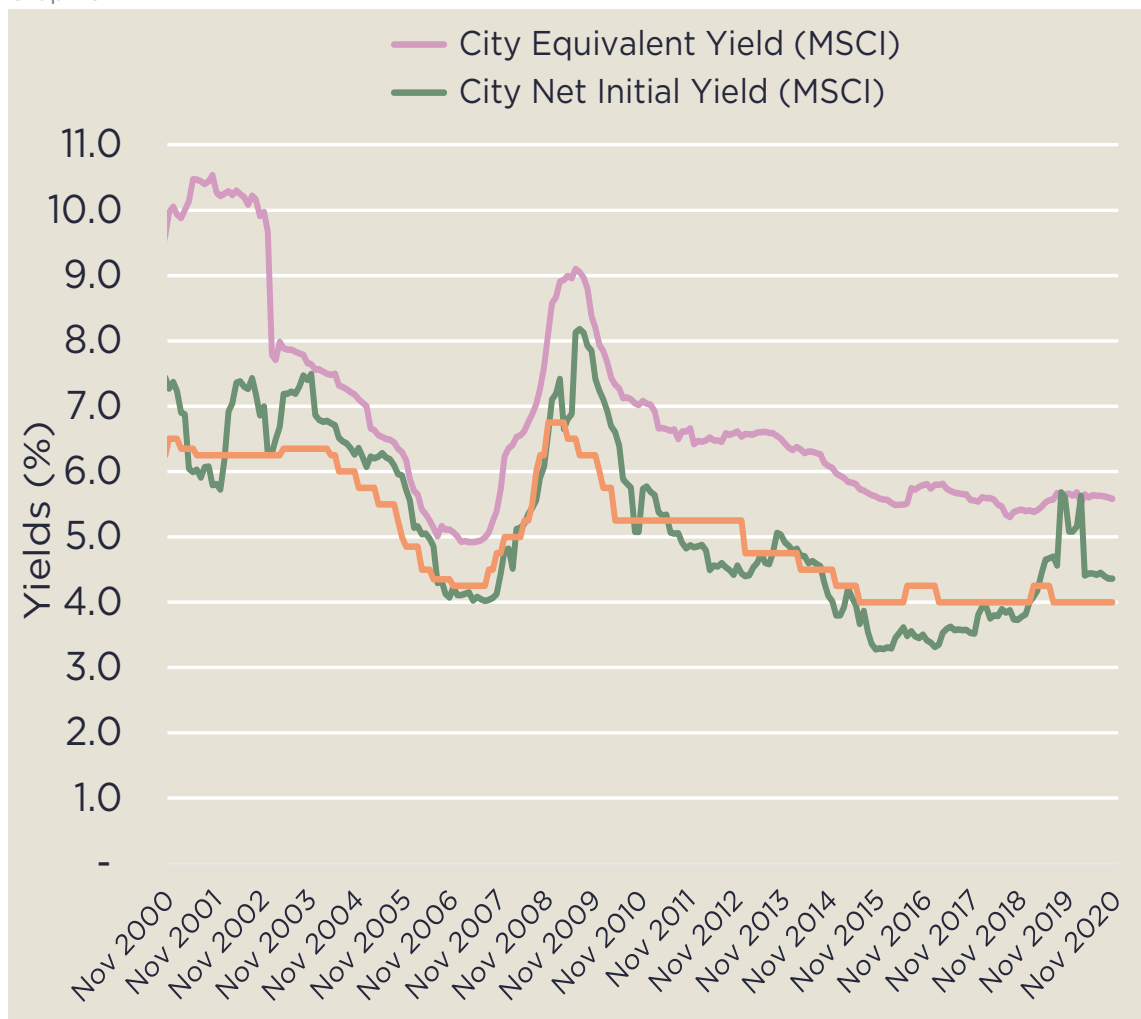
European investors have accounted for **35%** of total transactional volume amounting to **£1.57Bn**

Key deals in December 2020

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					
	1 & 2	New Ludgate	EC4	Office	389,615	FH	993		£552.0 M	4.20%	£1,417	Landsec	Sun Venture
Johnson Building	77	Hatton Garden	EC1	Office	193,179	FH			£174.9 M	4.10%	£905	Derwent	Eurazeo Patrimoine/ Arax Properties
	75	King William Street	EC4	Office	128,431	FH			£128.1 M	4.59%	£997	Keppel	London & Oxford
	55	Old Broad Street	EC2	Office	99,942	FH			£87.0 M	5.82%	£871	PGIM	Landsec

City Yields

Graph 3



Source: Savills and MSCI

Savills contacts

Please contact us for further information

Richard Bullock
Director
City Investment
020 7409 8006
rabullock@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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