

City Investment Watch



H1 2022 investment turnover surpasses £5bn milestone

June saw a significant uptick in investment volume with 5 deals exchanging amounting to a total turnover of £696.7m, an increase of 260% on May 2022. The transaction activity in June was primarily driven by two deals amounting to over 96% of the monthly deal volume, both of which Savills advised on.

Following a record first quarter, Q2 was more subdued with a total transaction volume of £1.1bn across 24 deals reflecting an average lot size of £46.25m. This places H1, 2022 transactional volume at £5.28bn across 62 deals, reflecting a 76.5% increase on H1 2021 and 31% above the 10 year average. This equates to the highest transactional volume during H1 since 2018 where investment volumes reached £5.8 billion.

In June, on behalf of a private Asia Pacific investor, Savills advised on the acquisition of 2 London Wall Place, EC2. Completed in 2017 by Brookfield, the building comprises 191,452 sq. ft. of best-in-class office, retail and ancillary accommodation arranged over two lower ground, ground and 16 upper floors. The property is multi-let to eight office and 1 retail tenant including Cleary Gottlieb, R3, IFM Investors, Macintyre Hudson and Barnett Waddingham for a further 10 years. The price remains confidential.

Despite some challenging headwinds, Savills are tracking approximately £3.4bn of assets currently under offer in the City of London market across 24 deals of which 8 deals total over £100m. The opening up of travel corridors and a relaxation in Covid-19 restrictions alongside very low cost of financing drove investment volumes to near record levels for the first half of 2022, however there is an expectation we will see investor appetite tempering as higher than average levels of inflation and increasing cost of debt financing remain at the forefront of investors' minds.

Within a 12 month period, the five year SONIA swap has increased from 0.45% in July 2021 to c.2.5% today, having peaked at almost 2.8%; this volatility in rates is limiting the number of market participants, particularly those debt backed buyers who require financing to close transactions, however we are starting to see investors focus turn to the depreciation in £GBP vs a number of major global currencies including \$HKD (9.29) and \$USD (1.18) as an opportunity for cash buyers who are looking to deploy capital at a historically attractive rates.

Following a subdued 2021, Asia Pacific investors have been the most active on the buy side, accounting for just over half of all transactional volume. While this is somewhat skewed by NPS's purchase of 5 Broadgate for £1.21bn and Ho Bee Land's purchase of The Scalpel for £718m, it highlights the return to the market from Asia Pacific investors since the opening of travel corridors and the end of Covid-19 restrictions.

We are closely tracking a handful of active asset management opportunities over £100m, most notably Winchester House, Deutsche Bank's UK headquarters. Originally built in the late 1990's the building was let on a 25 year lease to Deutsche Bank expiring September 2023 at which point full vacant possession will be provided of the offices as the bank moves to their new headquarters at 21 Moorfields. Held freehold and totalling over 317,000 sq ft, Winchester House is arranged over 12 storeys and has the potential to increase the massing to over 650,000 sq ft across 22 storeys. This major repositioning and development opportunity is a good test of the market appetite from a global audience of investors seeking to create a landmark building in the City core.

In the month of June Savills moved the City prime yield outward from 3.75% to 4.00%, which compares to the West End prime yield of 3.25%. The MSCI City average equivalent yield currently stands at 5.30%, while the net initial yield is 3.67%.



£5.28bn
2022 year-to-date turnover across **62** transactions



In the last 12 months the **5-yr SONIA** swap has increased **205 bps**



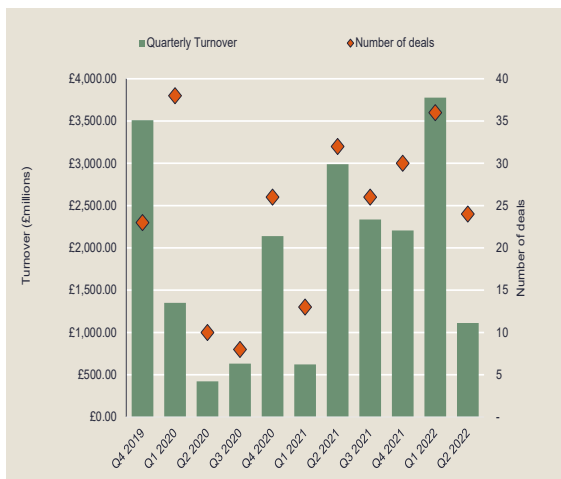
£3.4bn worth of stock under offer across **24** deals



APAC investors account for **52%** of investment turnover in H1

City quarterly investment turnover

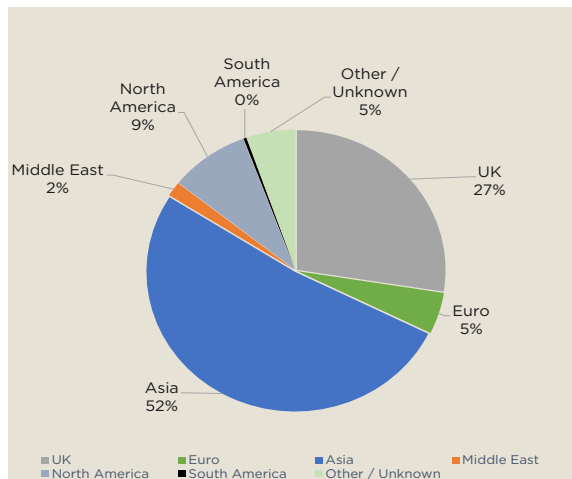
Graph 1



Source: Savills

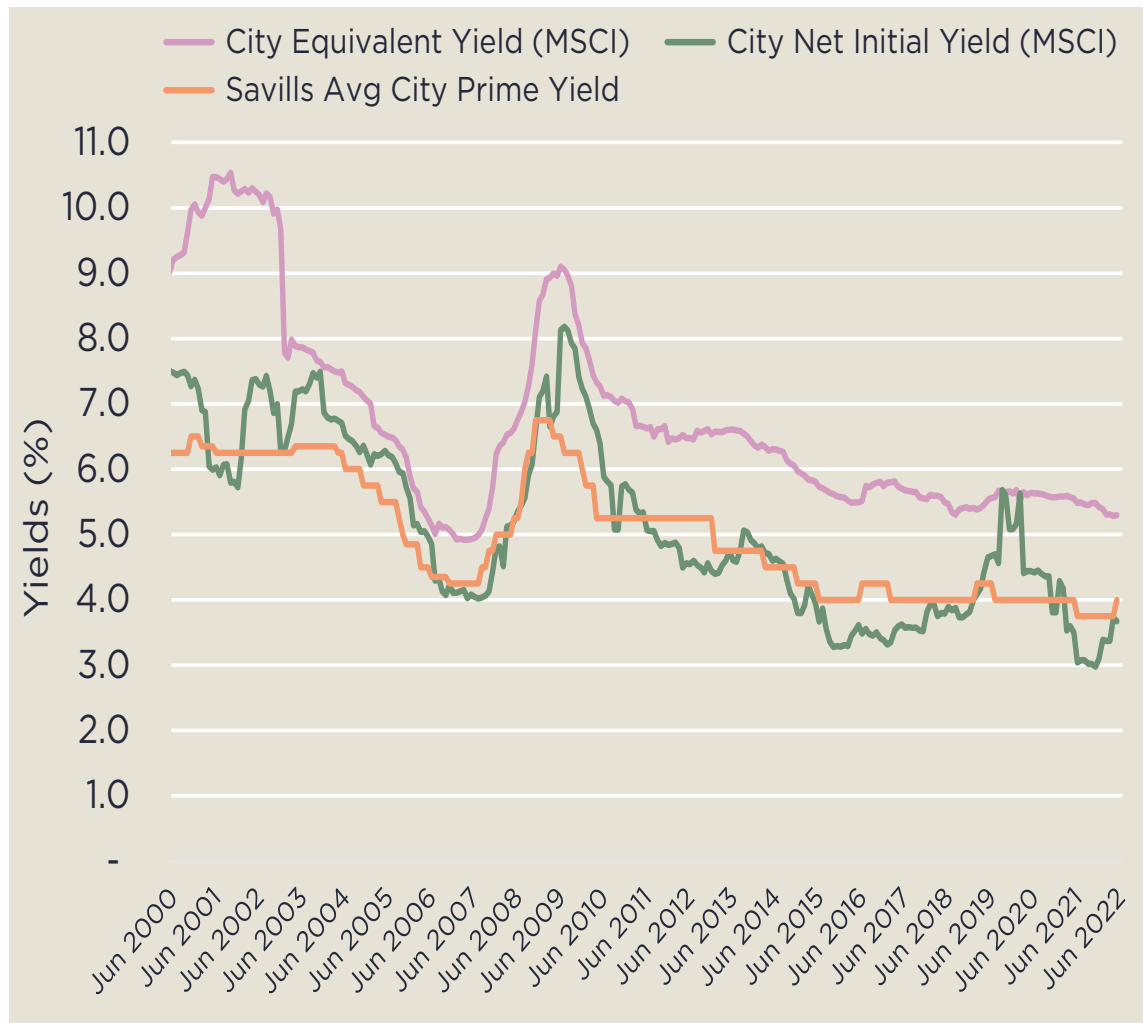
City investment turnover by nationality

Graph 2



City Yields

Graph 3



Savills contacts

Please contact us for further information

Stephen Hartley

Director
City Investment
020 7409 8955
shartley@savills.com

Hannah Heslop

Surveyor
City Investment
020 7409 8955
hannah.heslop@savills.com

Will Wilson

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

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written