

City Investment Watch



£3.48bn under offer and healthy levels of activity

May witnessed an uptick in the levels of market activity with a total of 10 deals exchanging, amounting to a total turnover of £268.3m and reflecting an average lot size of £26.83m. Following on from the record-breaking Q1, May followed a similar trend to April, with activity largely focused on smaller lot sizes. While Q1 saw no fewer than nine £100m+ transactions, May saw only one, with all other deals exchanging being sub-£50m. The year-to-date total turnover is £4.59bn across 57 deals, which compared with 2021's total of £1.39bn across 21 deals, is approximately 230% ahead of last year's turnover volume and 166% greater in terms of number of deals at the same point. Savills are tracking £3.48bn of stock currently under offer across 24 deals and a further £5.85bn currently available.

During May, Savills, on behalf of Orchard Street Investment Management, advised on the off market disposal of 6 St Andrew Street, EC4 to GPE. The 46,200 sq ft building is held long leasehold from the City of London for a further 101 years at a head rent of 7.5%. The building was sold with full vacant possession and benefits from planning permission for a two-storey extension to provide a total of 48,000 sq ft over lower ground and eight upper floors with two private terraces as well as a communal roof terrace and winter garden. The property was acquired by GPE for £30.0M reflecting a capital value of £626 per sq ft.

The largest transaction of the month was 22 Kingsway, WC2. Located in a prominent position fronting Kingsway, the long leasehold building comprises 123,863 sq ft of office and theatre accommodation (theatre sold off on a long lease). The office accommodation is let in its entirety to King's College until September 2025 providing secure income for approximately 3.5 years with significant redevelopment potential for office, hotel, or student accommodation use. The property benefits from a unique planning consent for a 313-bed hotel and generated widespread interest from a range of parties which culminated in student accommodation developer Scape acquiring the property from LaSalle IM for £104m reflecting a net initial yield of 3.55% and a capital value of £1,148 per sq ft on the total net usable area. Having originally quoted £82m,

22 Kingsway achieved approximately 27% above quote, attesting to the strong demand for value-add opportunities in Central London, particularly among the alternatives sectors.

During the month we saw two deals of similar size transacted on Cannon Street. 50 Cannon Street was sold by the Medical and Dental Defence Union of Scotland to a private European investor for £29m reflecting a 4.60% net initial yield and £1,158 per sq ft. Held freehold, the building is multi-let to five office tenants at an overall passing rent of £57.00 per sq ft and a WAULTC of 2.66 years. In another transaction on Cannon Street in the month of May, London & Oriental sold their long leasehold interest in 111 Cannon Street to La Francaise. The property, which was developed in 2018 and benefits from a rare EPC A rating, is fully let to six tenants at an average gross rent of £76.45 per sq ft with 5.3 years to expiries and 4.1 years to breaks. La Francaise acquired the 140 year long leasehold interest subject to a head rent of 8.5% at the quoting price of £27.87m reflecting a 4.50% net initial yield and a capital value of £1,480 per sq ft.

There are good levels of market activity in the face of some challenging headwinds with total investment volume for the year to date up 170% on pre-covid 2019 investment volume. The story remains the same with the aforementioned geopolitical pressures contributing to inflationary pressures affecting all aspects of the market. However, the demand and weight of money focusing on London real estate also remains high, particularly with a significant weight of capital targeting value-add deals but being constrained by the lack of available opportunities. This lack of availability is leading to competitive bidding, as illustrated by 22 Kingsway, and is leading to investors seeking to make more off market, direct approaches to landlords which is a trend we expect to continue to see throughout the remainder of the year.

Savills prime yield stands at 3.75% which compares to the West End prime yield of 3.25%. The MSCI City average equivalent yield currently stands at 5.28%, while the net initial yield is 3.73%.



£4.59bn
2022 year-to-date turnover across **57** transactions



Significant weight of capital targeting value-add deals



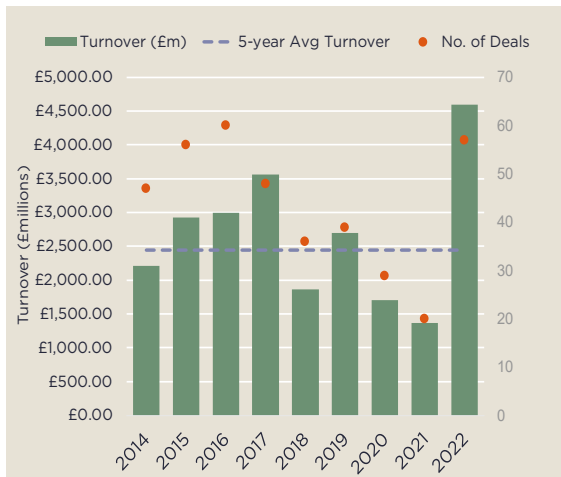
£3.48bn worth of stock under offer across **24** deals



YTD invest volume **170%** up on pre-covid 2019 investment volume

City investment turnover

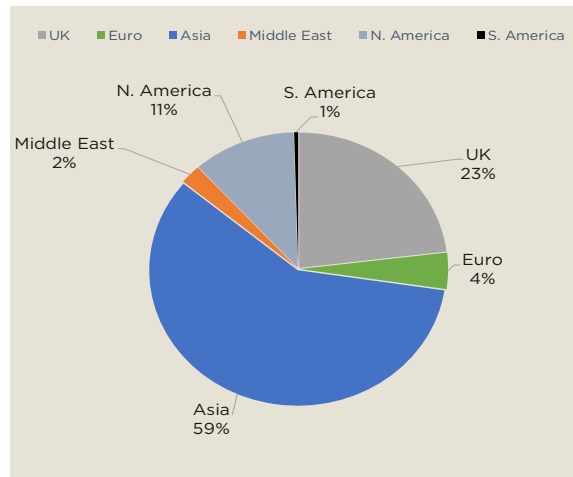
Graph 1



Source: Savills

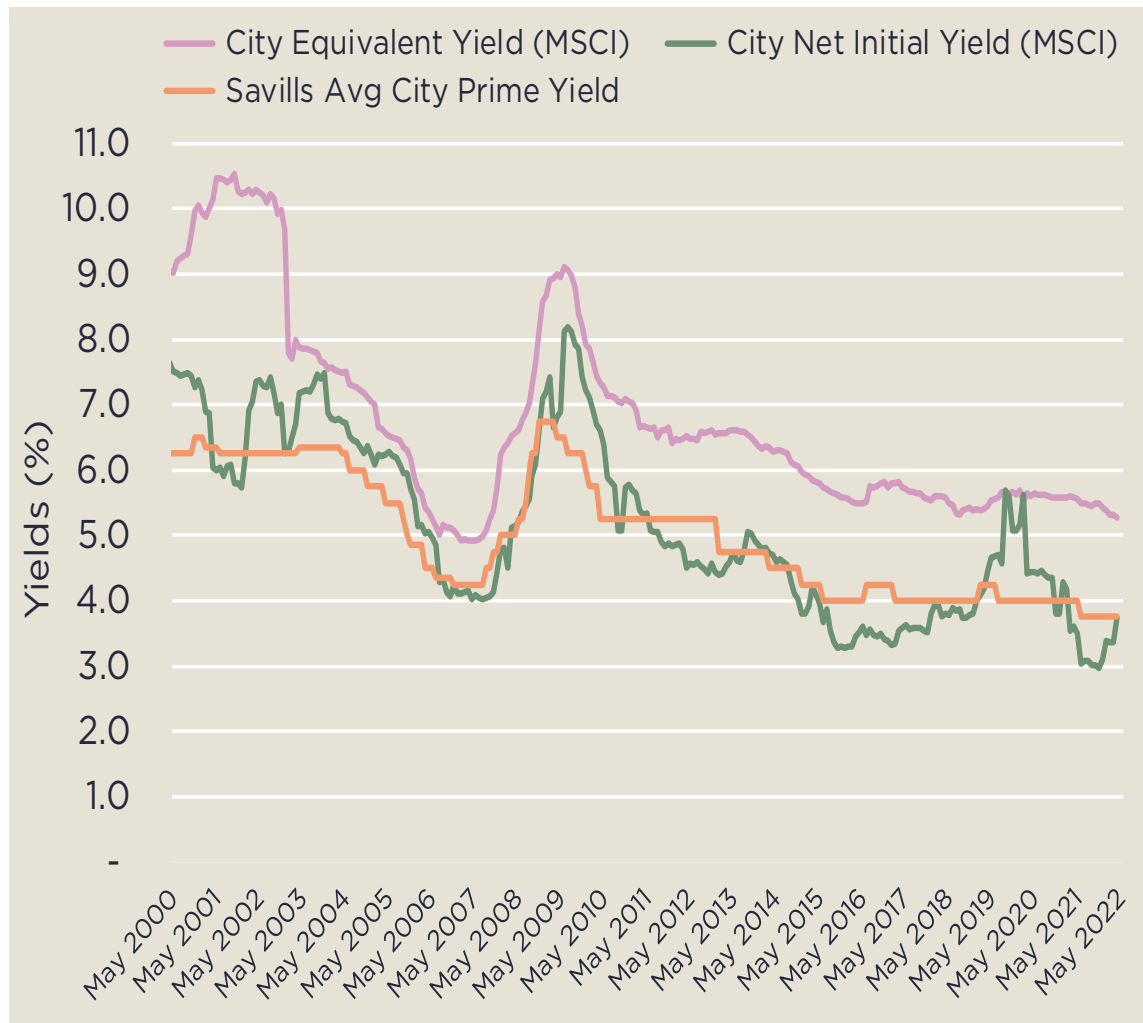
City investment turnover by nationality

Graph 2



City Yields

Graph 3



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