

City Investment Watch



Sentiment builds as lockdown restrictions ease despite a fall in monthly transactional volume.

April saw just three transactions in the City totalling £181.90M, a 26.6% decrease on that achieved in March (£248.10M) but an 21.8% increase on that achieved in April last year (£149.40M), the first month of the first lockdown, and 67.6% below the long-term year average (£562.30M). So far this year, total investment volume stands at £807.65M across 15 transactions, which is approximately 44% down on the same point last year.

The highest profile transaction this month saw Aberdeen Standard Investments acquire Friars Bridge Court, 41-45 Blackfriars Road, SE1 from Kennedy Wilson in an off market transaction. The freehold building comprises approximately 94,021 sq. ft. of office space arranged over basement, ground and eight upper floors. The building was let in its entirety to WeWork, however, having agreed a surrender, it's reported the building is being converted from office accommodation to a purpose-built laboratory, with a new lease to medical diagnostics provider Synlab Group on a new 20-year lease. We await confirmation of details, however, we understand the purchaser paid approximately £135.00M, which reflected a net initial yield of 3.50% and a capital value of £1,436 per sq. ft.

In another transaction, AM Alpha acquired the freehold interest in 21 Great Winchester Street, EC2 from a private Singaporean investor in another off market transaction. The building comprises 26,929 sq. ft. arranged over lower ground, ground and six upper floors. The building is multi-let to five office tenants at a rent of approximately £45.50 per sq. ft. Again, we await confirmation of details, however, we understand the purchaser paid approximately £30.00M, which reflected a net initial yield of 3.83% and a capital value of £1,114 per sq. ft.

Despite the fall in transactional volume, which has been consistently inconsistent over the past 12 months, sentiment continues to improve. The sustained success of the vaccination programme can be felt with a notable increase in tenants viewing buildings and considering their options again.

Throughout April we are aware of seven new assets marketed totalling approximately £287.53M, which is the highest number of assets launched since November 2020. We are currently aware of approximately £4.33Bn of stock buyable in the City across 64 assets.

The strong demand for office assets is evidenced by the number of sales resulting in competitive bidding processes and an increase in the volume of stock under offer, which currently stands at £2.49Bn across 20 assets, which is a 29% increase on the previous month (£1.93Bn).

Pricing has remained robust with income-led opportunities attracting increasing investor attention. Conversely, uncertainties in the occupational market has resulted in vacant space emerging as the principal risk for investors, which has consequently resulted in pricing coming off on a number of secondary Grade B assets.

International investors have long appreciated the relative value London offices offer, a trend we are now seeing from a domestic audience largely driven by the polarisation in pricing for industrial and retail assets. While we expect the international investor-base to make their presence felt later in the year, it's the domestic funds (or those international investors with a UK presence) that are likely to capitalise upon existing travel constraints.

With the City of London Corporation publishing 'The Square Mile: Future City', detailing the City's five year post-pandemic recovery, perhaps residential real estate will play a more active role in the City's Real Estate dynamic having referenced plans to utilise vacant office spaces to deliver approximately 1,500 new homes by 2030.

Savills Prime City Yield remains at 4.00%, whilst West End prime yields also remain unchanged at 3.50%. The MSCI City average equivalent yield currently stands at 5.59%, which the net initial yield fell to 3.53%.



April saw **£181.90M** transact over **3 deals**



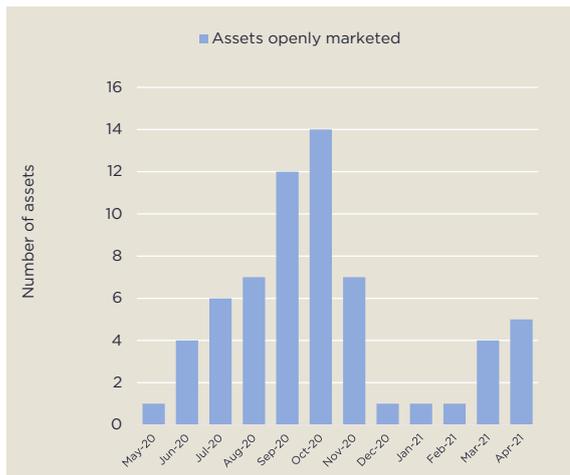
£2.49Bn of stock is currently under offer, up **29%** on last month



Private investors account for **26%** of the number deals so far this year, compared to **13%** being institutional

Assets openly marketed

Graph 1



Source: Savills

12-month rolling transactional volume

Graph 2



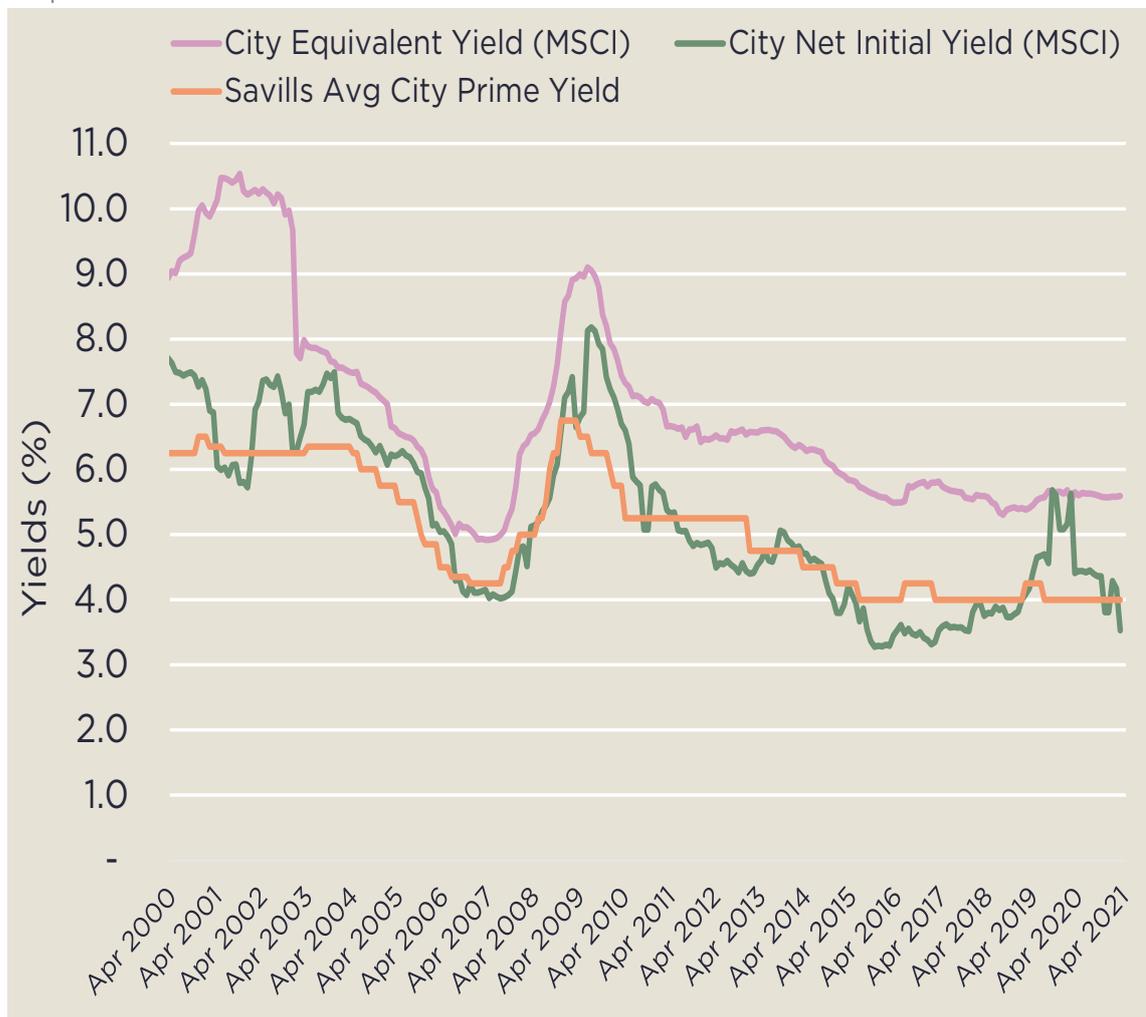
Middle Eastern investors have accounted for **29%** of total transactional volume followed by the UK (**21%**)

Key deals in May 2021

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					
Friars Bridge Court	41-45	Blackfriars Road	SE1	Office	94,021	FH			£135.00M	3.50%	£1,436	Kennedy Wilson	Aberdeen Standard Investments
	21	Great Winchester Street	EC2	Office	26,929	FH			£30.00M	3.83%	£1,114	Frasers Property	AM Alpha
	48-50	St John Street	EC1	Office	19,543	FH			£16.90M	4.93%	£865	Aberdeen Standard Investments	Confidential

City Yields

Graph 3



Source: Savills and MSCI

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