

City Investment Watch



Prime City yield back to 4.0% - as investors hunt for Core assets

July saw £1.017 BN transact across 9 deals, the 2nd highest monthly turnover in 2019, taking overall investment for the year to £4.05BN. Despite the uptick in investment transactions overall volumes are still low in an historic context, currently 35% below the 5 year average (up to July) of £6.20BN. The total number of deals so far in 2019 has reached 59, 35% down on the 5 year average (for number) of 91.

We noted in previous reports that investment volumes have been impacted by a lack of Core £100.0M+ transactions in the City, with only one trading up to H1 2019. July however, saw two Core properties transact, signalling that the market for such stock is considerably strong. Most notably was the freehold sale of 8 Finsbury Circus, London EC2. Advised by Savills, Mitsubishi Estate disposed of this Prime Trophy building, overlooking Finsbury Circus. After a competitive bidding process, the property was sold to Stamford Land Corporation for £260.0M which reflects a net initial yield of c.4.0% and a capital value of £1,464 per sq ft. The multi award winning building was developed in 2016 to provide a best in class BREEAM 'Excellent' office building. The property is entirely let to 4 office and 1 retail tenant at a total passing rent of £11.09m per annum which reflects a low overall passing rent of £64.80 per sq ft.

Another notable transaction in July saw the sale of BT's headquarters at 81 Newgate Street, EC1 to Orion Capital for £209.55M which reflects a capital value of £693 per sq ft. The freehold 1.6 acre site is located directly opposite St Paul's underground station. Originally developed in 1984 the property provides 302,265 sq ft with floor plates ranging from 13,800 sq ft to 35,000 sq ft. The property was sold by way of a sale and leaseback from British Telecommunications Plc for a term of 30 months. Initial feasibility studies suggested the repositioning of the building through a refurbishment or full-scale redevelopment (subject to the normal consents), with the potential to increase the NIA by c.75%.

The sale of BT's HQ is another example of a value add/development property trading in the City, recent examples include; Devonshire Quarter (acquired by Brockton Everlast) and Charterhouse Place (acquired in a JV between Helical & Ashby Capital). There are currently a further £1.23BN worth of value add/development assets known to be under offer in the City market, which would take the total volume for such transactions to over c. £2.50BN, highlighting the continued confidence in the continuity and strength of the City and desire for value add stock.

A continuing trend is that investors are being frustrated by a lack of available buildings. At the point of writing, there are only 26 buildings being formally marketed, totalling £673.30M, which compares with 45 building being marketed at this stage in 2018 totalling £2.99BN. Across July Savills advised on 35% of turnover, accounting for £350.0M worth of deals and our recent experience has indicated that there is a depth of investors focussed on the City.

US investors still account for the largest share of investment so far in 2019, accounting for 37% of total investment, having acquired 5 buildings in the City market totalling £1.50BN. UK investors continue to lead the way in terms of number of deals having acquired 34 buildings totalling £1,27BN (31% of total volume). July saw a marked increase in activity from Asian investors, as they spent c.£480.0M, more than double their spend for the rest of the year with the current weak £ GBP we expect this trend to continue.

Against the backdrop of the sale of 8 Finsbury Circus, and an increase in investor appetite for Core buildings, Savills have moved their Prime City yield back to 4.0% which compares with the West End prime yield of 3.75%. The MSCI average equivalent yield is currently at 5.56% while the net initial yield is at 4.65%.

City prime yield back to

4%



£2.50BN worth of value add/development stock to trade in 2019.

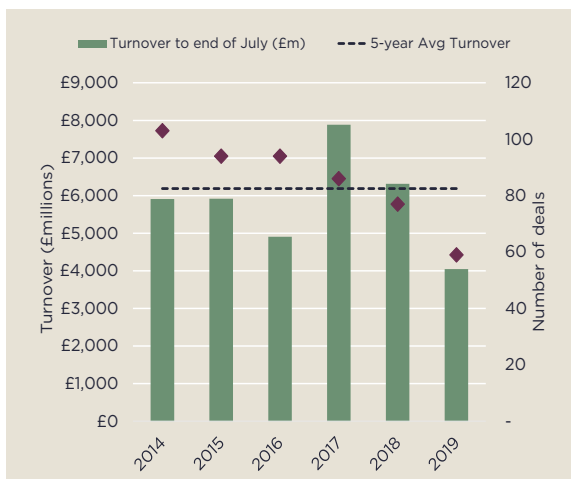
Savills advised on

35%

of turnover in July

H1 City turnover to the end of July

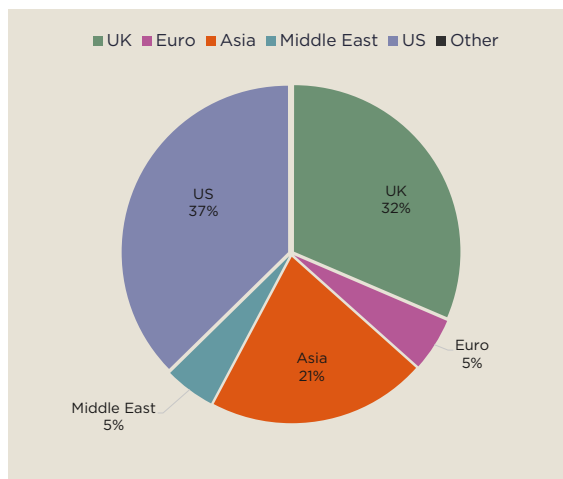
Graph 1



Source: Savills

City turnover by nationality

Graph 2



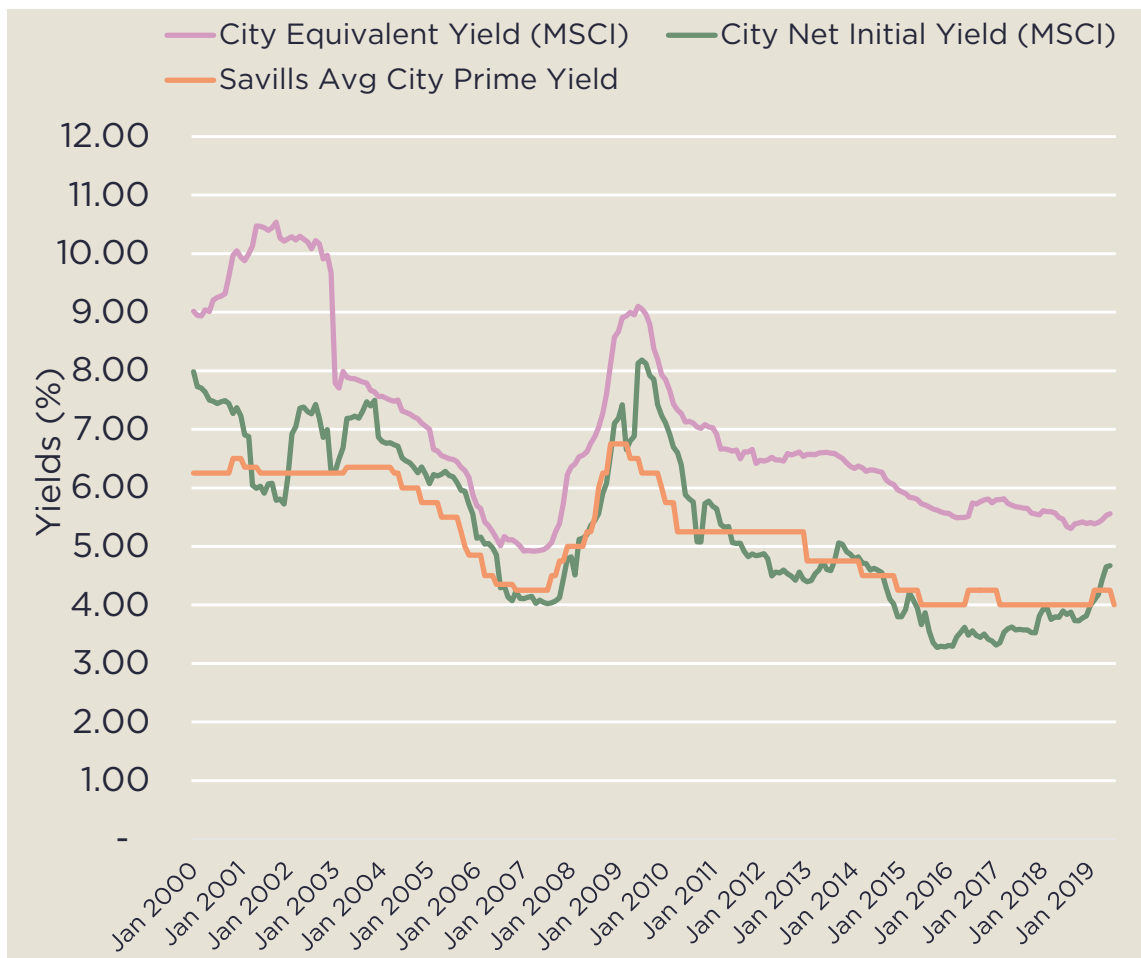
Over **£480.0M** spent by Asian investors in July

Key deals in July 2019

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
	8	Finsbury Circus	EC2	Office	177,586	FH			£260.00 M	c.4.0%	£1,464	Mitsubishi Estate	Stamford Land Corporation
Salisbury Square House	8	Salisbury Square	EC4	Office	165,523	FH			£222.00 M	4.59%	£1,341	Greycoat & Cheyne Capital	JV fronted by Wing Tai
BT Centre	81	Newgate Street	EC1	Office / Retail	302,265	FH			£209.55 M	N/A	£693	British Telecoms	Orion Capital
	15	Bonhill Street	EC2	Office	114,543	FH			£112.50 M	5.12%	£982	Legal & General	Mayfair Capital (Swiss RE)
	4-7	Chiswell Street	EC1	Office	39,129	FH			£36.40 M	4.69%	£930	Schroders	City Corporation

City yield graph

Graph 3



Source: Savills and MSCI

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