

City Investment Watch



£3.4bn under offer with continued demand from a global audience of investors

July marked the beginning of the second half of 2022 and the month has been characterised by the typical summer lull in investment volumes as 9 deals totalling £373.83m exchanged, of which just one, 50 Fenchurch Street, was in excess of £100m. Despite the slower summer months, Savills is tracking a further £3.4bn of stock that is under offer across 26 deals, of which 9 are over £100m highlighting a healthy appetite from global capital targeting London commercial real estate.

In July, Savills, on behalf of Sterling Real Estate and Argo Real Estate, advised on the off market sale of the freehold interests in 18 & 20 Tileyard Road, N7 to life science developer Kadans Science Partner. Located within London's knowledge quarter, a global centre of excellence and a focal point for one of the greatest knowledge clusters in the world, the site offers the opportunity to undertake a best-in-class ground up development, subject to planning, starting in early 2024. The purchase of 18 & 20 Tileyard Road is Kadans third acquisition in the area, alongside their purchase of 4 Brandon Road and 5-10 Brandon Road in 2021.

In another deal in which Savills advised in July, Mitsubishi Estate London disposed of the freehold interest in 145-146 Leadenhall Street EC3. Located in a prominent position on the north side of Leadenhall Street and 400m from the Elizabeth Line at Liverpool Street, the property comprises 16,044 sq ft of office, retail and ancillary accommodation arranged over lower ground, ground and eight upper floors and benefits from a panoramic terrace on the 6th floor. The property offered significant asset management opportunities over the short, medium and long term with over 50% of the total area vacant. The price achieved was significantly above the guide of £12.0m reflecting a quoting capital value of £748 per sq ft.

In the largest acquisition in the month, AXA IM exchanged contracts to acquire a new long leasehold interest in 50 Fenchurch Street, EC3 including The Clothworkers' Livery Hall, from The Clothworkers' Company. Located on the south side of Fenchurch Street and 200m from Fenchurch Street

Station, planning was granted in May 2020 for a 653,000 sq ft NIA office-led tower scheme. The plans also include 36,000 sq ft of public realm with a garden terrace and winter garden. Work is expected to begin in 2024 to demolish the existing and commence the ground up development. The price paid was reported to be c.£150.0M.

In July's issue we reported that the 5-year SONIA rate had increased by 200bps in the 12 months to July 2022, however, we are seeing signs of this rate of increase tempering as at the time of writing, 5 year SONIA is 2.30%, 50 bps lower from the peak of 2.80%. In July's City Investment Watch we noted the volatility in rates was limiting the number of market participants, however debt backed buyers in particular will welcome lower or stabilising rates and if this trend continues we anticipate we will see an increase in market participants in the second half of the year.

For overseas investors looking at London commercial real estate today, the depreciation of the pound sterling to major global currencies including USD (1.21), HKD (9.48), SGD (1.67) and CHF (1.15) means the pound is at historically attractive levels. We anticipate, particularly overseas investors, who comprise 83% of buyers of London commercial real estate in the last 5 years, will see weakness in the pound sterling as an opportunity to take advantage of the historically attractive levels as we enter the second half of the year. With 15 deals over £100m currently available there is a wide selection of options giving a global audience of investors more opportunities to deploy capital in the market.

Savills City prime yield sits at 4.00%, which compares to the West End prime yield of 3.25%. The MSCI City average equivalent yield currently stands at 5.34%, while the net initial yield is 3.61%.



£5.83bn
2022 year-to-date turnover across **72** transactions



5-yr SONIA swap has reduced **50 bps** from its peak



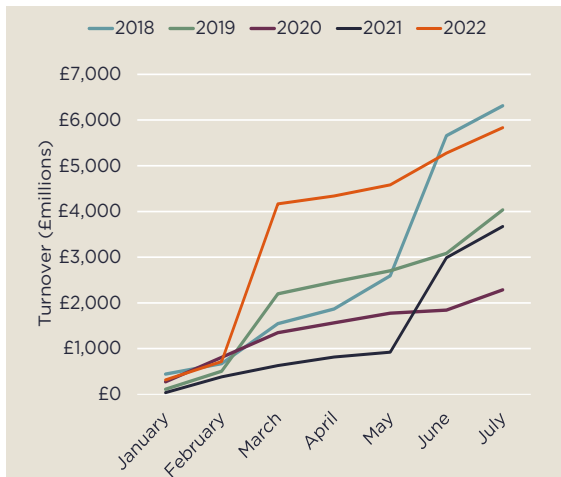
£3.4bn worth of stock under offer across **26** deals



APAC investors account for **51%** of 2022 year-to-date investment turnover

City investment turnover comparison

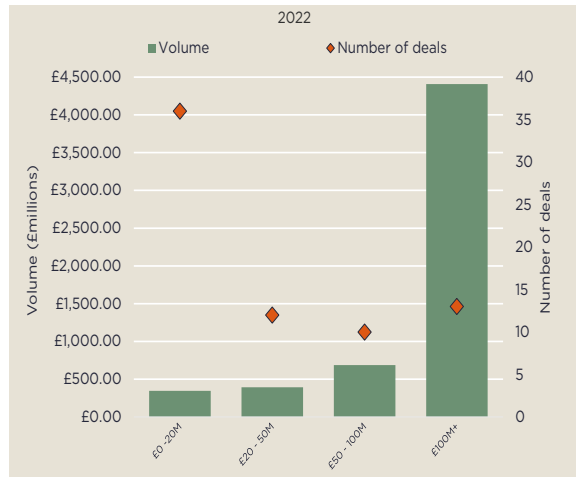
Graph 1



Source: Savills

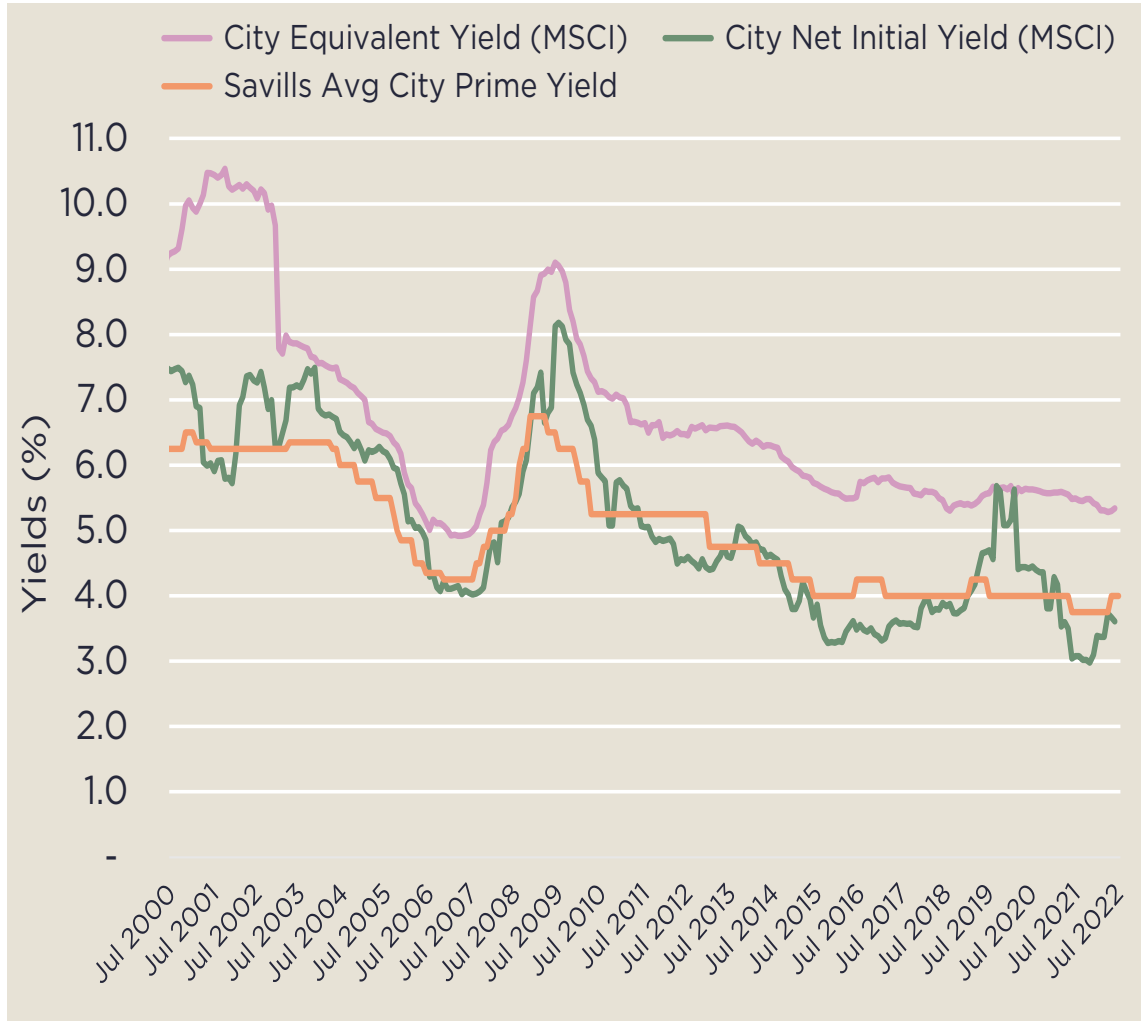
City investment turnover by lot size

Graph 2



City Yields

Graph 3



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