

City Investment Watch



Quiet summer continues but City sees signs of life in larger lot size range

The annual summer lull added to an already quiet City investment market, with only one deal exchanging during the month of July, albeit of a substantial £208 million lot size. Despite the lack of activity elsewhere, this one deal in isolation provides a valuable data point for a market which has not seen a deal in excess of £40M exchange since April. Transaction volumes for the year to date are £2.42bn across 38 deals, reflecting a 57% decrease in turnover from this time last year and a 46% drop in number of transactions, and on a 5 year average reflects a reduction in turnover and number of deals of 45% and 34% respectively.

The only deal in July saw a private Vietnamese investor, Dragon Capital, purchase the freehold interest in Lion Plaza, 5-10 Old Broad Street EC2, which comprises 264,697 sq ft of office and retail accommodation located in the core of the City in close proximity to the Bank of England. The property is multi-let at a total passing rent of £13.32 million per annum reflecting £50.35 per sq ft overall, and 86% of the rental income is secured to the international law firm, White & Case, on co-terminus leases expiring in January 2030. The reported price was £208 million reflecting a net initial yield of 6.00% and a capital value of £786 per sq ft overall. This reflects a 125 basis point and 21% discount from the original quoting price of 4.75% when the property launched to market in November 2022.

This transaction, which was the first deal in excess of £40 million since Sancroft, 15 Newgate Street EC4, traded in April, is notable for the lot size, but also for the buyer profile which saw a new entrant to the market in the form of Dragon Capital, a Vietnamese high-net-worth family. This purchase highlights the trend of investment from Asia Pacific capital into Central London offices, especially in the larger lot size range of the market. In 2023, the City has now seen six transactions in excess of £100 million, all of which have been purchased with capital originating from the Asia Pacific region.

At the end of July, the total stock under offer stood at approximately £419 million across 12 deals, and with several notable deals going under offer during the last month. These include Watling House, 33 Cannon Street EC4, a core freehold comprising 94,489 sq ft, multi-let at a low passing rent of £48.86 per sq ft overall with a WAULT of 4.4 years to expiries and 2.8 years to breaks. With a number of Core+ assets currently available in the market, the deals at Watling House and Lion Plaza offer much needed price discovery in a market searching for reliable data points.

Elsewhere, 8 Bleeding Heart Yard EC1 is rumoured to be under offer at a price reflecting a 4.35% net initial yield, which is 65 basis points lower than the current City prime yield of 5.00% and would be a key data point for long let core income. Located within 100 metres of Farringdon station, the property is a newly refurbished, liquid lot size freehold asset comprising 28,874 sq ft of office accommodation single-let to Julius Baer on a new 10-year lease. Meanwhile in the value-add market, 2 Hosier Lane EC1 in Farringdon, which is a 41,713 sq ft freehold with 2.2 years of remaining income, has gone under offer at an approximate discount of 30% of the quoting price.

With just one property coming to market in July, there continues to be a lack of new stock to reinvigorate investor interest, a trend which is unlikely to change before September. Meanwhile, the challenging macroeconomic climate which has provided a challenging backdrop for the 2023 investment market, has seen some signs of positive news ahead. Although the Bank of England base rate rose a further 25 basis points to 5.25%, the CPI inflation rate fell to 6.8% reflecting a fall of 330 basis points since the start of the year and 430 basis points from peak inflation in October 2022. Similarly, SONIA swap rates also fell during July, falling from 5.16% to 4.81%. Savills' City prime yield currently stands at 5.00%, and the West End prime yield is 4.00%. The MSCI City average equivalent yield currently stands at 6.90%, while the net initial yield is 4.30%.



£2.42bn
year-to-date turnover
across **38** transactions



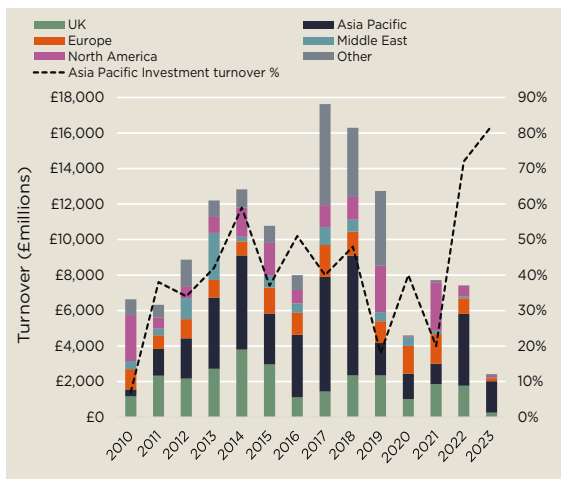
£2.64bn available
across **66** assets



£419m under offer
across **12** assets

Year to date turnover by nationality

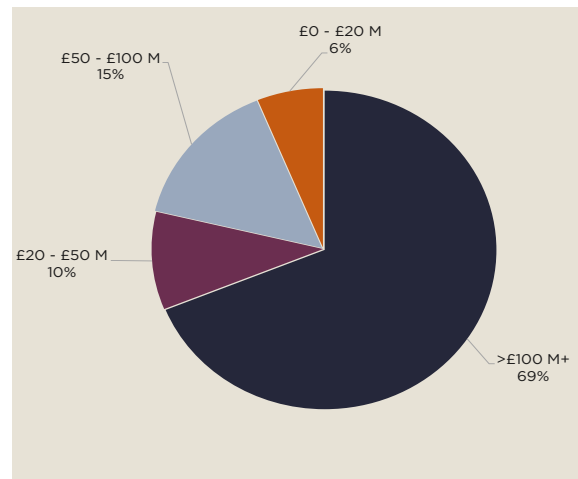
Graph 1



Source: Savills

2023 investment volumes by lot size

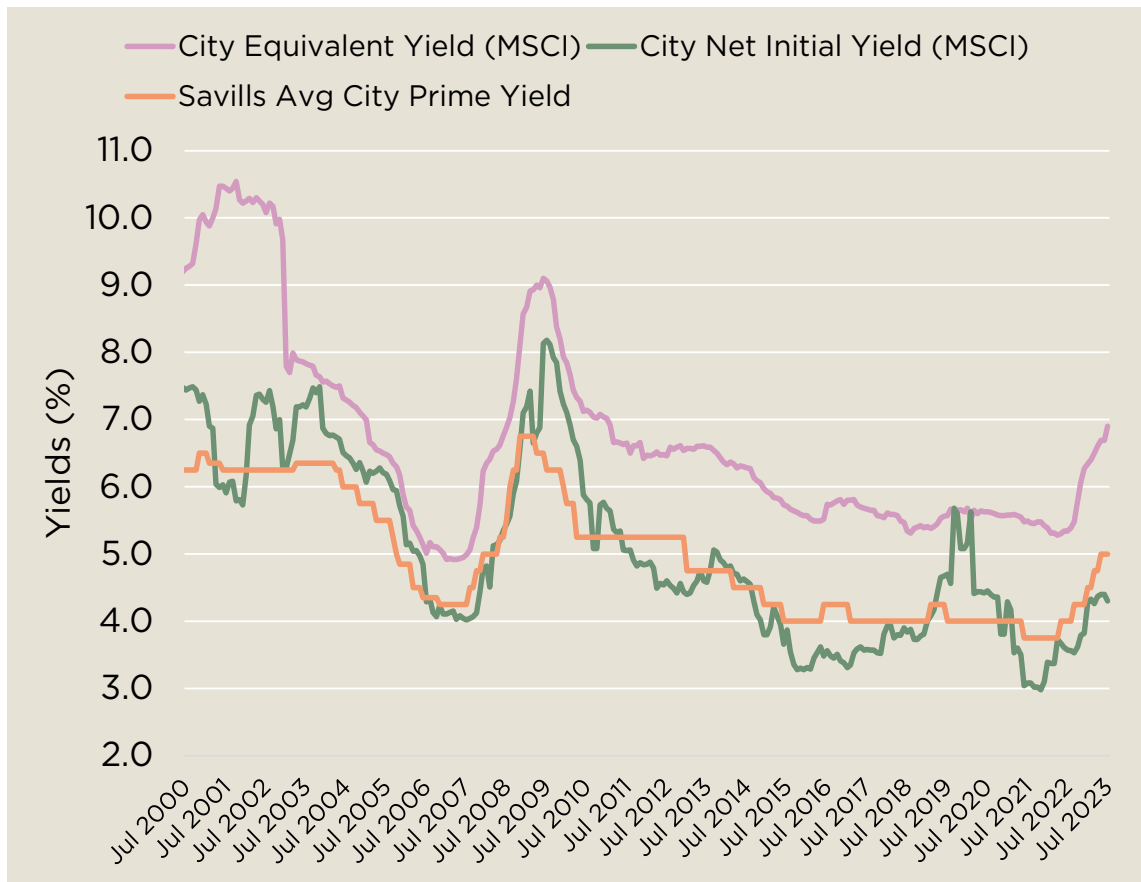
Graph 2



5.00%
Savills Prime yield, a
100 bps outward
movement in 12 months

City Yields

Graph 3



Savills contacts

Please contact us for further information

Stephen Hartley

Director
City Investment
020 7409 8955
shartley@savills.com

Billy Robinson

Associate
City Investment
020 7824 9067
billy.robinson@savills.com

Victoria Bajela

Director
Research
020 7409 5943
victoria.bajela@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