

City Investment Watch

Turnover set to reach £11.6 BN as value add opportunities come to the fore

December 2018

Market comment and notable deals

■ Investment turnover in November saw 16 transactions totalling £1.112 BN, the 3rd highest monthly turnover in 2018 (to date). Total investment volumes for the year now stand at £10.68 billion, across 120 transactions. This is up on this point last year, when investment volumes were £10.41 billion over 113 transactions.

■ Investment volumes in the City continue to be at record levels, with one month to go until year-end. We are currently monitoring 31 deals known to be under offer totalling £1.88 BN. Despite this, Savills are updating our year-end prediction, to £11.60 BN, due to the current political climate, which could delay the usual year-end rush. This would be the fourth highest annual turnover recorded, and 39% up on the long-term average of £8.37 BN.

■ In the largest transaction of the month Samsung sold the long leasehold interest in 30 Gresham Street, EC2 to a joint venture between Wing Tai Properties and Manhattan Garment Holdings, for £411.0M which reflects a Net Initial Yield of 4.39% and a capital value of £1,018 per sq ft. The 403,639 sq ft building was developed in 2003 and is multi let to 6 tenants at an overall passing rent of £45.39 per sq ft. The weighted average unexpired term is 10 years to expiry and 9.70 years to breaks.

■ In another notable transaction the freehold interest in Cannon Green, 27 Bush Lane, EC4, was sold to South Korean investor KiwoomAM for £120.0M, which reflects a Net Initial Yield of 5.0% and a capital value of £1,089 per sq ft. The property was redeveloped in 2018 and multi let to nine office tenants and two retail tenants at a passing rent of £58.23 per sq ft overall. The weighted average unexpired term certain is 9.2 years. Savills and Capital Real Estate advised the vendor.

■ 2018 has seen increased demand for value add/development opportunities. In November alone there were 6 deals (36% of total monthly volume), falling into this category. Demand is being driven in part by a constrained development pipeline, exacerbated by record levels of pre-letting activity in the City occupational market. To date 25% of the total City development pipeline for 2019 – 2022 is already pre-let. To date there have been £1.84 BN of property transactions in this category across 41 deals, with bidding on over five more totalling in excess of £440 M, due over the course of December.

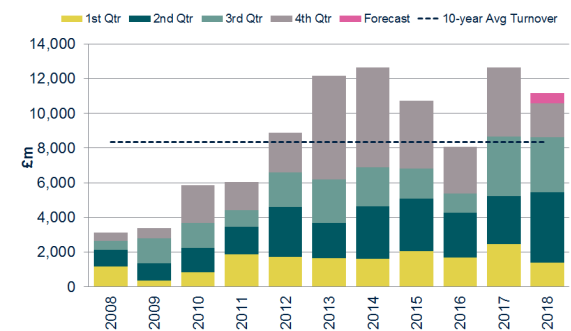
■ The constrained development pipeline and availability of value add/development opportunities has seen a return to the market for UK REITS and the established global developers. Opportunities such as the BT Centre, 81 Newgate Street, EC1 and 25 Lavington Street, SE1 have seen strong interest. With 81 Newgate Street going to second round bids and 25 Lavington Street eventually being acquired by Land Securities for £87.10M, their first acquisition in Central London since 2014.

■ The City of London market continues to attract a diverse range of investors, with 24 different nationalities acquiring real estate to date this year.

■ Asian investors continue to account for the largest share of investment into the City, with 57% of total volume so far this year, having spent £5.87 BN across 26 transactions. With the acquisition of Cannon Green, South Korean investors have now acquired over £2.0BN of real estate in the City market (19.4% of total turnover). UK investors are the 2nd highest group having spent £1.74 BN - 16.4% of total turnover.

■ Our prime City yield remains at 4.0% which compares with the West End prime yield of 3.5%.

GRAPH 1
City turnover by quarter



Graph source: Savills

TABLE 1
City development pipeline

Year	Refurb	Devs	Total	% Pre-let
2019	2,333,903	3,254,345	5,588,248	38%
2020	2,399,622	1,088,648	3,488,270	9%
2021	2,587,180	1,379,077	3,966,257	29%
2022	-	1,536,380	1,536,380	0%
Total	7,320,705	7,258,450	14,579,155	25%

Graph source: Savills

TABLE 2
Top 5 nationalities investing in the City in 2018

Nationality	£ Volume	% of Turnover
	£2,074.50 M	19.4%
	£1,736.42 M	16.5%
	£1,638.20 M	15.3%
	£1,409.35 M	13.2%
	£974.12 M	9.1%

Graph source: Savills

TABLE 3
Key deals in November 2018

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
	30	Gresham Street	EC2	Office	403,639	LLH	160	£10.00 p.a.	£411.00 M	4.39%	£1,018	Samsung	Wing Tai / Manhattan Group
Cannon Green	27	Bush Lane	EC4	Office / Retail	110,143	FH			£120.00 M	5.00%	£1,089	Ocubis	KiwoomAM
FT Building	1	Southwark Bridge Road	SE1	Office	147,789	FH			£115.00 M	N/A	£778	Pearson	M&G
	70	Fleet Street	EC4	Office / Retail	33,203	FH			£26.83 M	4.68%	£808	Royal London	City of London
	2 - 4	Idol Lane	EC3	Office	21,275	FH			£21.27 M	4.39%	£1,000	L&O	Pembrey AM

Table source: Savills

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