

# City Investment Watch



## Election causes further inertia in the City investment market

Since April when the Government scheduled leaving the European Union, November was expected to be a pivotal month with the level of business in the City CRE markets relying on a deal being struck with the European Union. As it transpired, an agreement couldn't be reached and instead a General Election on December 12th is forthcoming creating further inertia and a subsequent drop in monthly volumes as vendors opt not to sell. Positively, however, experienced investors continue to adopt a pragmatic 'business as usual' approach, which could lead to an increase in turnover if the supply increases.

November saw £401M transact across 6 deals, which is 68% down on the October figure of £1.24Bn and 65% down on November 2018 (£1.15Bn). City transactional volume year to date currently stands at £6.56Bn, which is down on this point last year by 39.6% (£10.91Bn) and the 10-year average to the end of November by 15% (£7.75Bn).

The number of transactions in November is 40% down on October's figure, bringing the total number of City deals in the year to date to 101, which is 21.7% lower than this point last year. That said, we are aware of a further £2.45Bn of stock currently under offer across 31 other deals. Should all deals exchange before January, total investment volume for 2019 could reach approximately £9.12Bn, which would be 25% down on the £12.15Bn transacted in 2018.

The drop in investment volumes, especially during H2 2019, can largely be attributed to a lack of available stock; there are currently 23 buildings available on the market totalling £1.10Bn, compared with 35 buildings totalling £2.3Bn available at this point last year.

In the largest transaction of the month, Brookfield Property Partners acquired Nexus Place, 25 Farringdon Street EC4 from Barings Real Estate for approximately £170.50M, reflecting a net initial yield of 4.75% on the Guernsey SPV and a capital

value of £1,061 per sq. ft. The property comprises a 160,772 sq. ft. multi-let office and retail building situated on the eastern side of Farringdon Street. The freehold building is fully-let off a blended rent of £51.28 per sq. ft. overall with a weighted average unexpired lease term of 6.5 years.

Also in November, Savills advised Mitsubishi Estate London and Core on the acquisition of the freehold interest in ITV Studios for £145.60M. The site was first brought to the market in January 2019 and was under offer twice previously. The prominent 2.5 acre site is positioned on the South Bank of the River Thames in close proximity to Waterloo Station and benefits from detailed planning permission for a Hopkins Architects designed scheme comprising, residential, office and retail accommodation.

UK and US investors remain the most active buyers in 2019 responsible for 35% and 33% of total investment volume respectively. Interestingly, UK buyers account for £2.28Bn of transactional volume across 57 transactions, with US buyers accounting for £2.15Bn across 8 transactions.

Perhaps unsurprisingly, the most active investors in the market remain those with an established track record. However, this may change with significant levels of global capital looking to invest in London, much of which appears unfazed by the current political uncertainty and have faith in the long term fundamentals the UK affords. With such levels of capital chasing a restricted amount of stock, coupled with the forecasted rental growth in the short-medium term, we could see increased inward pressure on yields in December and at the start of 2020.

Savills City Prime yield remains at 4.0%, which compares with the West End prime yield of 3.75%. The MSCI City equivalent yield remains at 5.65%, while the MSCI City net initial yield has softened from 4.56% (Aug'19) to 5.60% (Oct'19).



2019 transactional volume to date at **£6.56Bn - 15% down on the 10-year average**



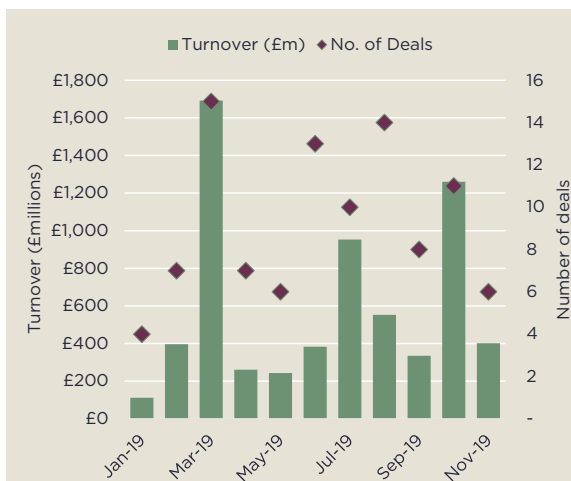
November offers stark contrast to those figures realised in October with the monthly volume of turnover at **£401M**



We understand there is approximately **£2.5Bn** of stock currently under-offer

### 2019 investment turnover by month

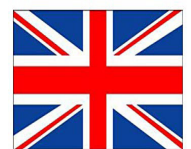
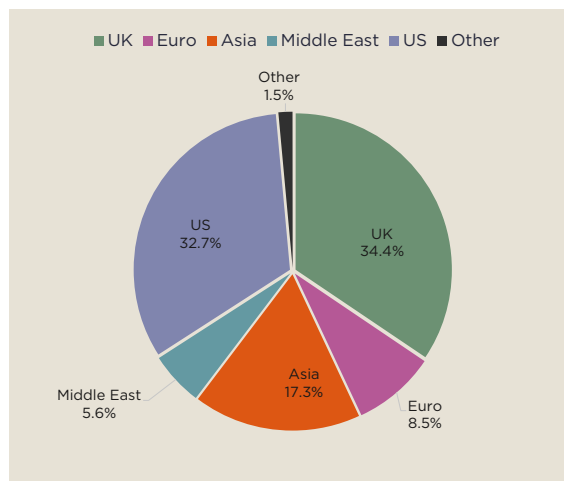
Graph 1



Source: Savills

### City turnover by nationality

Graph 2



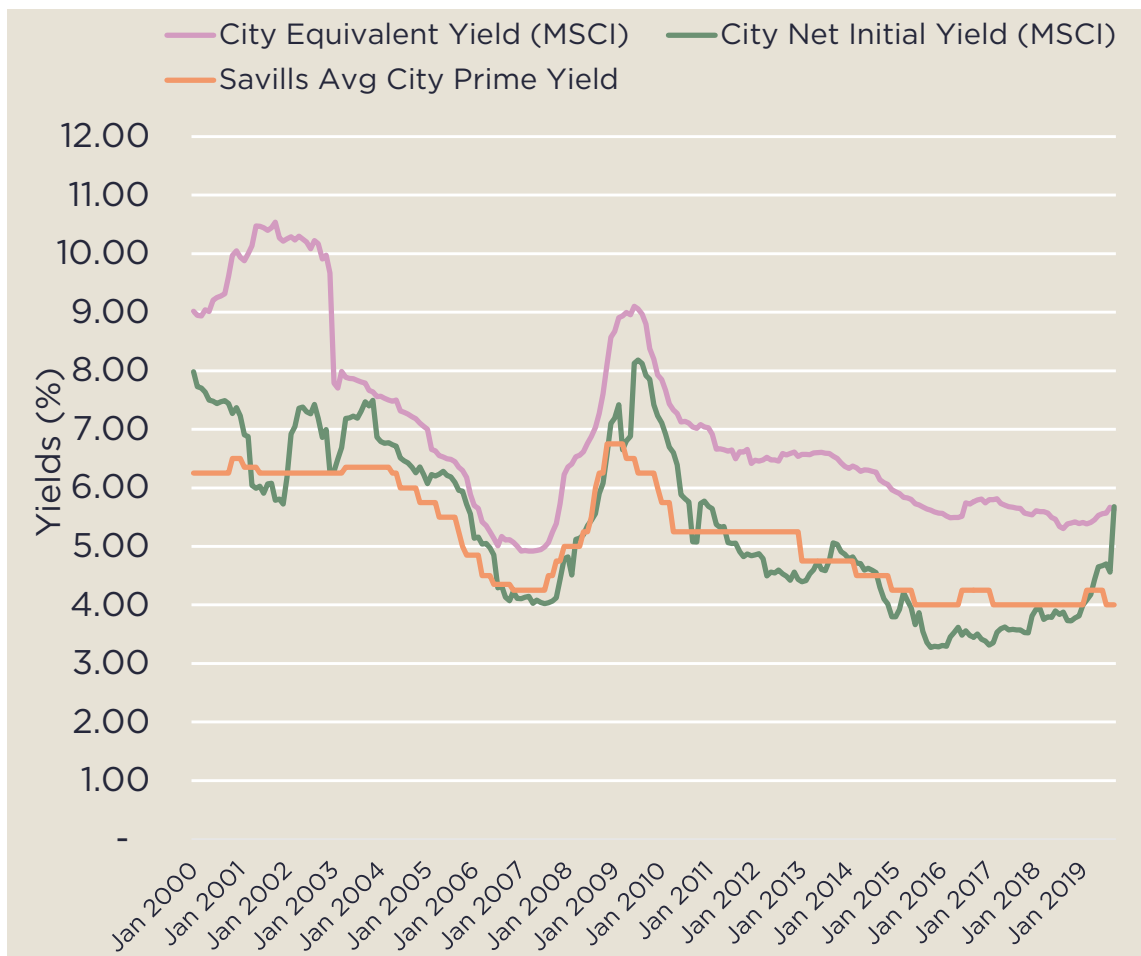
UK buyers still account for the largest share of transactional volume across 57 deals

## Key deals in November 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					
Nexus Place	25	Farringdon Street	EC4	Office & Retail	160,772	FH			£170.50M	4.75%	£1,061	Barings Real Estate	Brookfield Property Partners
ITV Studios	52-78	Upper Ground	SE1	Development	261,198	FH			£145.60M	-	£557	ITV Plc	Mitsubishi Estate London
Harlequin Building	65	Southwark Street	SE1	Office	50,062	FH			£60.45M	4.41%	£1,208	Meadow Partners	Alduwaliya

## City yield graph

Graph 3



Source: Savills and MSCI

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