

City Investment Watch



Savills predict £8.0BN of turnover for 2021

November saw £512.25M transact across 8 deals, which is 25% ahead of last year's monthly turnover where only £400.0M worth of assets traded. Overall transactional volume in the City up to November stands at £6.81 BN across 75 transactions, almost double the same point in 2020 where only £3.41 BN had traded across 53 properties.

At the start of December there are currently 44 buildings under offer totalling £4.0BN, 81% of which is made up of 10 properties with the most high profile being 5 Broadgate, the UBS headquarters which is understood to be under offer to Korea's NPS for a reported price of £1.25 BN. On the assumption 5 Broadgate does not exchange until the new year, Savills predict 2021 investment turnover will be approximately £8.00 BN. This would be broadly in-line with the pre-pandemic 2019 levels where £8.50BN transacted however it would be 21% below the 10 year average for annual turnover of £9.60 BN.

It is likely that as we enter 2022 there will continue to be a significant amount of stock under offer, meaning the City will see a 'bumper' Q1 next year. Currently the record Q1 turnover was 14 years ago in 2007 when £3.0BN transacted. Savills anticipate the first quarter of 2022 will put significant pressure on this long-standing record.

In one of the most high profile transactions of the month PGIM, the US based global investment manager marked their return to the City market by acquiring C Space, 37-45 City Road, EC1 from Meadow Partners. The off-market transaction is yet another example of best in class real estate attracting premium pricing with the asset trading for £91.50M reflecting a net initial yield of 3.97% and a capital value of £1,440 per sq ft, resulting in a £17.50M profit for Meadow who acquired the property in 2017 for £74.0M. The freehold former carpet factory was comprehensively refurbished by Helical in 2015 and is fully let, with 75% of the space let to creative agency MullenLowe and 25% to technology firm NeuLion.

In another off-market transaction for the month Derwent London acquired the long leasehold interest in Conoco House & Quadrant House, 230 Blackfriars Road, SE1 from CBRE Global Investors for £55.0M. The properties occupy a 0.8 acre site, which includes 30 car parking spaces, and has medium-term redevelopment potential. Conoco House is a 1970s office building comprising 60,300 sq ft and is multi-let at a passing rent of £2.1m with all leases expiring in 2025. The adjoining Quadrant House is a 36-unit residential building let to 2074. Derwent London have been one of the most active investors in Central London in 2021 with the acquisition of 230 Blackfriars Road quickly followed up by the announcement the REIT has been selected as the preferred developer for Moorfields Eye Hospital, a 2.5 acre site to the North of Old Street Roundabout for a reported price of £200.0M.

As noted in previous updates the City market in 2021 has seen a significant amount of off-market activity as investors continue to hunt for stock despite a limited amount of availability. In fact 89% of the entire November turnover was off-market and in total over 57% of the entire transactional 2021 volume has been either off-market or through a limited market process.

November's turnover was dominated by US investors with both Blackstone and PGIM acquiring properties. This has meant that North American investors have retained their position as the leading buyer group in the City in 2021 accounting for 32% of total turnover. Both UK and European investors are close behind accounting for 25% and 24% of total volume respectively.

Savills prime yield stands at 3.75% which compares to the West End prime yield of 3.25%. The MSCI City average equivalent yield currently stands at 5.48%, while the net initial yield is 2.98%.



£8.0 BN
Predicted turnover for 2021



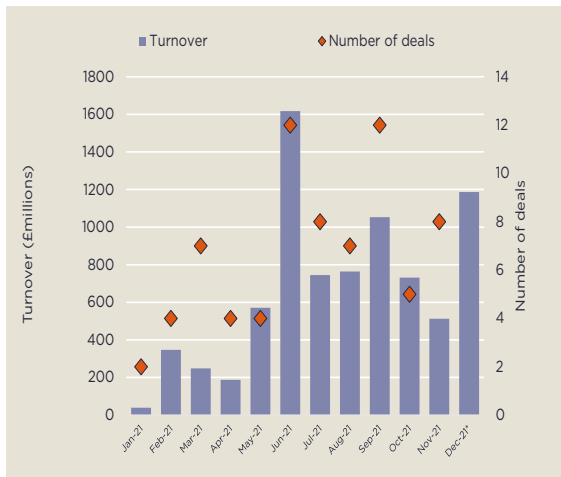
32%
North American investors the most active in the City



89% of transactions in November were off market

City monthly investment turnover volume

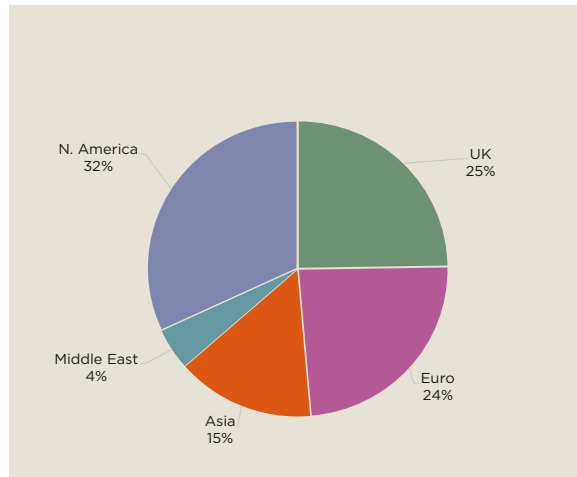
Graph 1



Source: Savills

2021 Purchaser nationality (by volume)

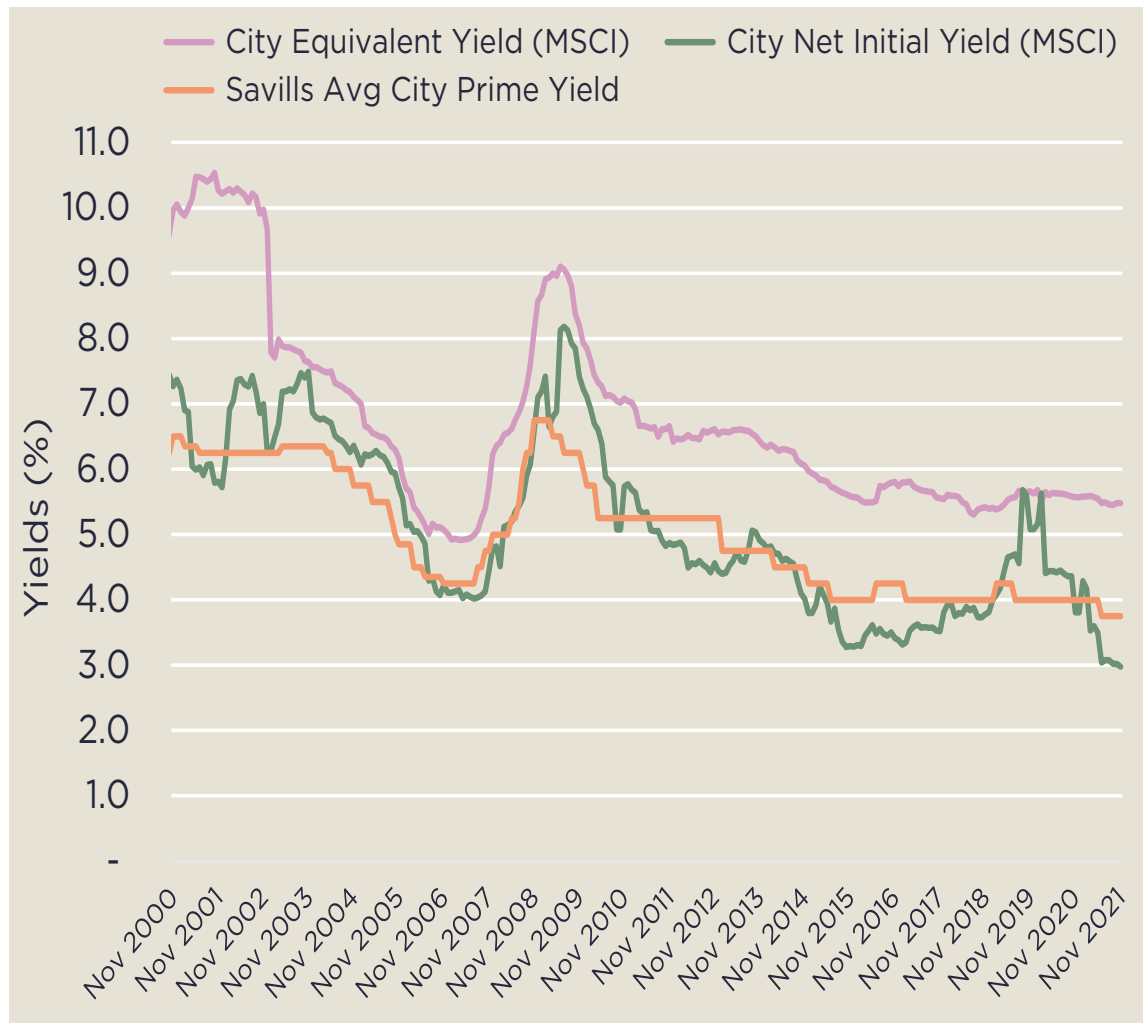
Graph 2



£4.0 BN of stock under offer

City Yields

Graph 3



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