

City Investment Watch



Surge in investment volume post December's general election

December is historically amongst the busiest months of the year as investors look to close deals prior to year-end, however, following a year of political and economic uncertainty there were concerns 2019 would be different. Any apprehension was soon allayed following an election result deemed to provide stability for the first time since June 2016. The resultant pick up in sentiment culminated in the fifth largest Q4 on record.

December saw £1.69Bn of turnover, a 322% increase on November (£401M) and 36% increase on December 2018 (£1.24Bn). The strong December total contributed to a total Q4 volume of £3.25Bn, which was down on Q4 2018 by 2.9% but 0.3% up on the 10-year Q4 average. Total 2019 transactional volume reached £8.18Bn, which remains low in a historic context; 33% below 2018 and 12% below the 10-year average.

There were 20 City deals in December, which was significantly up on November (6) bringing the total number of deals in the City in Q4 to 37 and 121 as at year-end (18% down on 2018). As previously mentioned, the drop in 2019 investment volume can largely be attributed to a lack of available stock as investors opted against marketing during times of political and economic uncertainty.

In the largest transaction of the month, EPF (via CBRE Global Investors) acquired the freehold interest in Premier Place, EC2 from Greycoat and Morgan Stanley for approximately £324.00M, reflecting a net initial yield of 4.30% and a capital value of £1,383 per sq. ft. The property, which is currently under refurbishment, comprises 234,234 sq. ft. of office, retail and ancillary accommodation arranged over basement, ground and eight upper floors. The office space is pre-let in its entirety to Jane Street Capital and Squire Patton Boggs providing a WAULT of approximately 14 years.

Also in December, Savills advised Skanska Development on the sale of 51 Moorgate, EC2 to Deka for £61.75M. The newly

refurbished building, comprises approximately 46,500 sq. ft. of Grade A office and retail accommodation. The office space is fully let to Skanska UK for a term of 15 years at a rent of £62.50 per sq. ft. overall, subject to annual RPI indexed-linked increases, with a collar and cap of 2.0% and 4.0% respectively. The building is held on a new long leasehold interest from The Innholders Company for a term of 150 years, subject to a 10.00% gearing.

US investors were responsible for 32% of total transactional volume in 2019, amounting to £2.61Bn across 11 transactions. This is somewhat misleading as £1.1Bn is attributed to Citigroup who acquired their headquarters at 25 Canada Square in Canary Wharf. UK investors were second accounting for £2.21Bn of volume (27%) across 56 transactions.

Considering the uncertainty surrounding 'Brexit' perhaps it was expected the majority of investor's sought Core (37% of volume) investment opportunities in 2019. However, there was strong interest in Core Plus and Value Add opportunities, which accounted for 24% and 23% respectively, highlighting investors underlying confidence in the City investment and occupational markets.

Heading into 2020 we're aware of significant global capital looking to invest in London. With such a significant weight of global capital chasing a restricted supply, coupled with excellent fundamentals in the occupational market, we expect to see downward pressure on pricing during Q1 2020, which is beginning to manifest itself in deals such as Aurum, 30 Lombard Street, EC3 and 40 Chancery Lane, WC2 (please see table overleaf).

Savills City prime yield remains at 4.0%, which compares with the West End prime yield of 3.50%.



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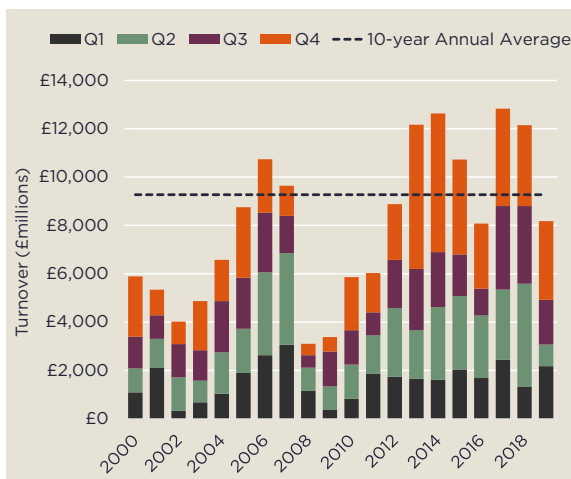
Q4 saw **£3.25Bn** transact; **2.9%** down on Q4 2018 and **0.3%** up on the Q4 10-year average



2019 transactional volume reached **£8.18Bn**; **33%** below 2018 and **12%** below the 10-year average

2019 investment turnover by year

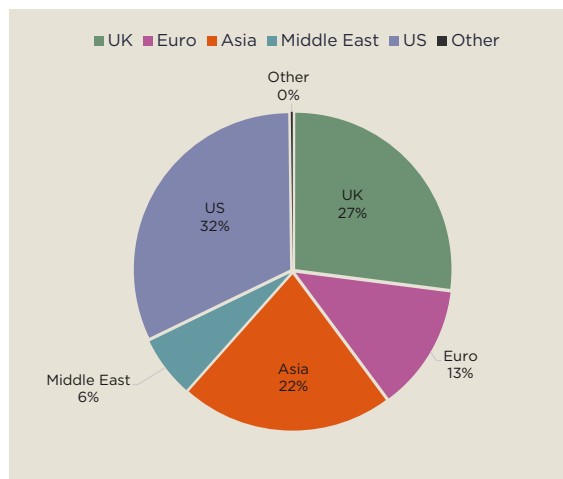
Graph 1



Source: Savills

City turnover by nationality

Graph 2



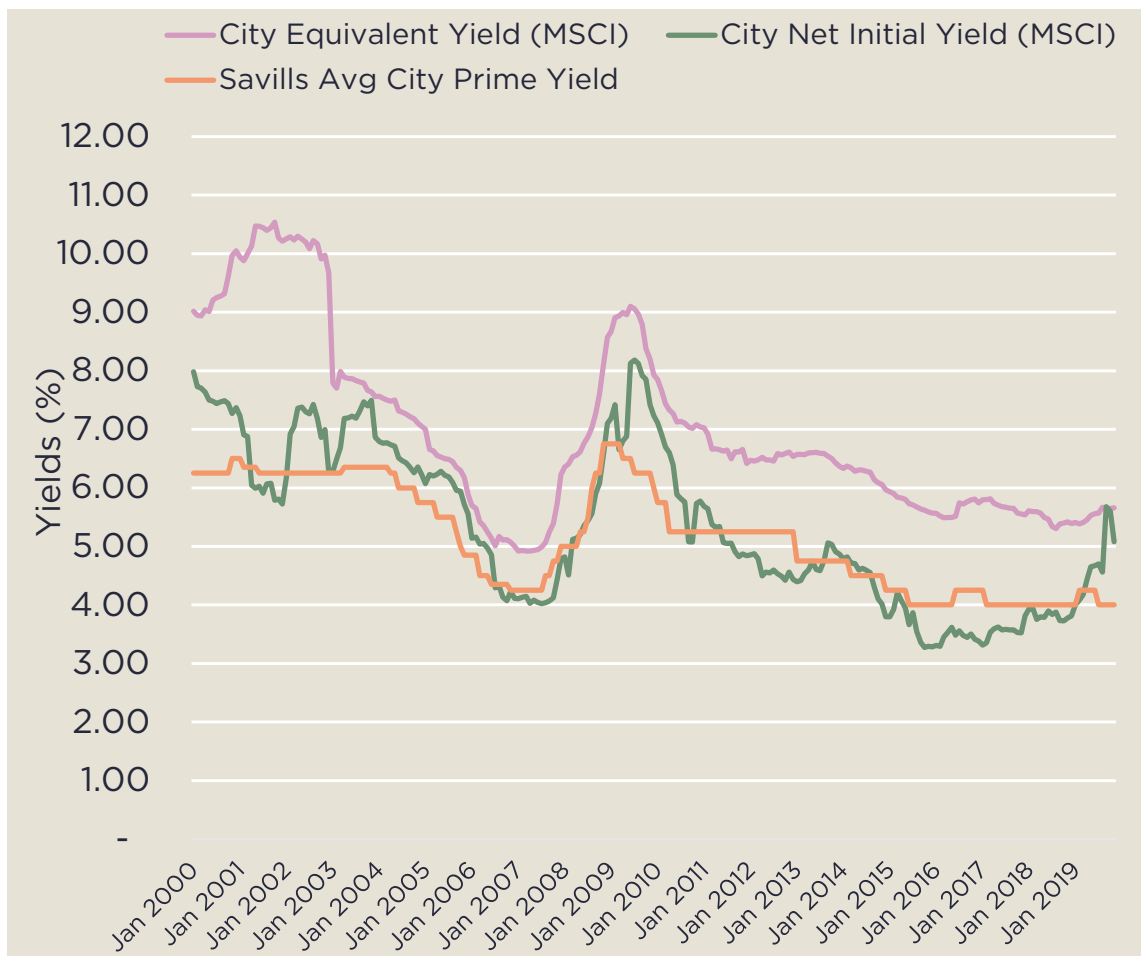
US investors accounted for **32%** of total transactional volume amounting to **£2.61Bn**

Key deals in December 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					
Premier Place	2a	Devonshire Square	EC2	Office	234,234	FH			£325.00M	4.29%	£1,388	Greycoat / Morgan Stanley	EPF (CBRE Gi)
	100	Cheapside	EC2	Office	101,823	LLH	147.9	7.0%	£141.00M	4.10%	£1,385	Aberdeen Standard Investments	KWAP
	40	Chancery Lane	WC2	Office	103,700	LLH	120.7	10.0%	£121.30M	4.25%	£1,770	Derwent London	Deka
	51	Moorgate	EC2	Office	46,004	LLH	150.0	10.0%	£61.75M	4.00%	£1,342	Skanska Development	Deka
Aurum	30	Lombard Street	EC3	Office	58,585	LLH	113.7	10.0%	£76.50M	4.16%	£1,306	McKay Securities	REInvest

City yield graph

Graph 3



Source: Savills and MSCI

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