

City Investment Watch



Savills City Investment team transacts £1.86bn in 2023 reflecting a market share of 52%

December saw a total transaction volume of £108.25m across 6 deals, reflecting an average lot size of £18.0m. This volume is slightly below the £196.8m which transacted during November, and brings the final transaction volume for 2023 to a total of £3.56bn across 75 deals, reflecting an average lot size of £47.3m. When compared to the five-year average, activity is approximately 55% lower in terms of transaction volume and 43% lower by number of deals, figures which represent the lowest annual turnover volume seen in the City market since 2009. Savills is currently tracking a further 15 deals under offer, totalling c.£534m, and £1.96bn of stock available in the market across 62 deals.

Savills advised on the largest deal in December, selling the freehold interest in Spitalfields House, 110-114 Middlesex Street, E1, on behalf of Seaforth Land and QuadReal. Located approximately 150 metres from Liverpool Street station, the property comprises 47,490 sq ft of office and retail accommodation arranged over lower ground, ground and five upper floors and was comprehensively repositioned in 2021. The office accommodation, which accounts for 93% of the contracted income, is fully let to QA Limited at a passing rent of £2.47 million per annum reflecting £60.32 per sq ft overall on a lease expiring in September 2035 with a tenant break option in September 2031. The retail is fully let to Marugame Udon (Europe) Ltd on a 15-year lease expiring in March 2036 at a passing rent of £180,000 per annum reflecting £34.94 per sq ft overall. The property benefits from an EPC B rating and WAULT of 11.7 years to expiries and 8.0 years to breaks at the time of sale. The property was acquired by the French property fund, Remake, for a sum of £35.47m reflecting a 7.00% net initial yield and £748 per sq ft.

In December Savills advised on the second largest transaction in the month, acting for Hines on the disposal of the freehold interest in Atlas House, 1 King Street, EC2. The Grade-II Listed Georgian building, comprises 44,232 sq ft of office accommodation arranged over basement, lower ground, ground and five upper floors, and was sold with full vacant possession.

Following one of the recurring trends seen in the City market during 2023, the sale attracted particularly strong interest from a range of buyers seeking an opportunity to convert a vacant office building to hotel use. The property was acquired by Integrity International for a sum of £34.55m reflecting £781 per sq ft.

These two deals bring Savills' total involvement for 2023 to £1.86bn across 18 deals, reflecting a 52% market share. In a value add office development transaction, Greycoat and Goldman Sachs acquired the long leasehold interest (234 years at 10% gearing) in Finsbury Dials, 20 Finsbury Street, EC2, from Northwood. The building comprises 141,196 sq ft of office accommodation and was sold with vacant possession and an option to refurbish and extend the NIA to c.160,000 sq ft. The long leasehold interest was acquired for £23.0m reflecting £163 per sq ft on the existing accommodation.

The notably low annual turnover seen in 2023 has been largely a result of the challenging macroeconomic climate, which saw sustained interest rate rises during the first half of the year, with the Bank of England increasing its base rate from 3.50% in January to 5.25% in August, where it remained stable for the remainder of 2023. During this same period, the City saw a clear correlation in prime yield shifts, moving out from 4.25% at the start of the year to 5.25% by August, before again stabilising for the remainder of 2023. With interest rates rising to their highest point since 2007, the City market saw a notable decline in transactions, particularly in the key £100m+ lot size range, which typically accounts for c.70% of annual turnover. With several months of stability and continued falls in CPI inflation, there is some cause for cautious optimism and increased investor activity in 2024.

Savills City prime yield is 5.25%, whilst the West End prime yield is 4.00%. The MSCI City average equivalent yield stands at 7.88%, whilst the net initial yield is 4.9%.



£3.56bn
2023 turnover across **75**
transactions



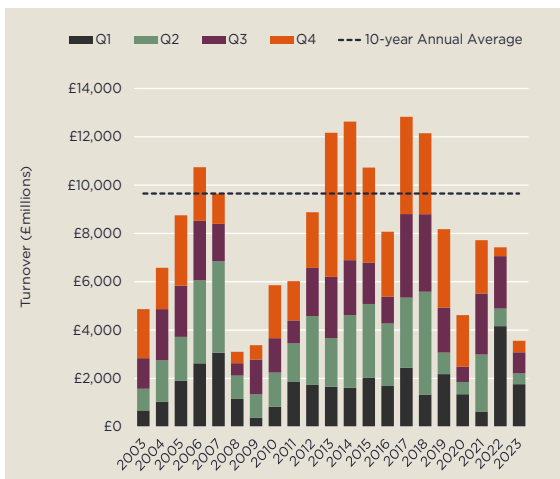
£534m under offer
across **15** transactions



Savills advised on the
two largest deals in
December

City annual investment turnover

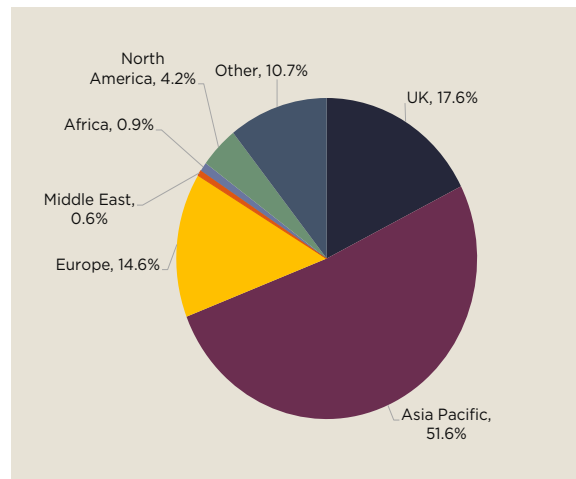
Graph 1



Source: Savills

2023 Turnover by nationality

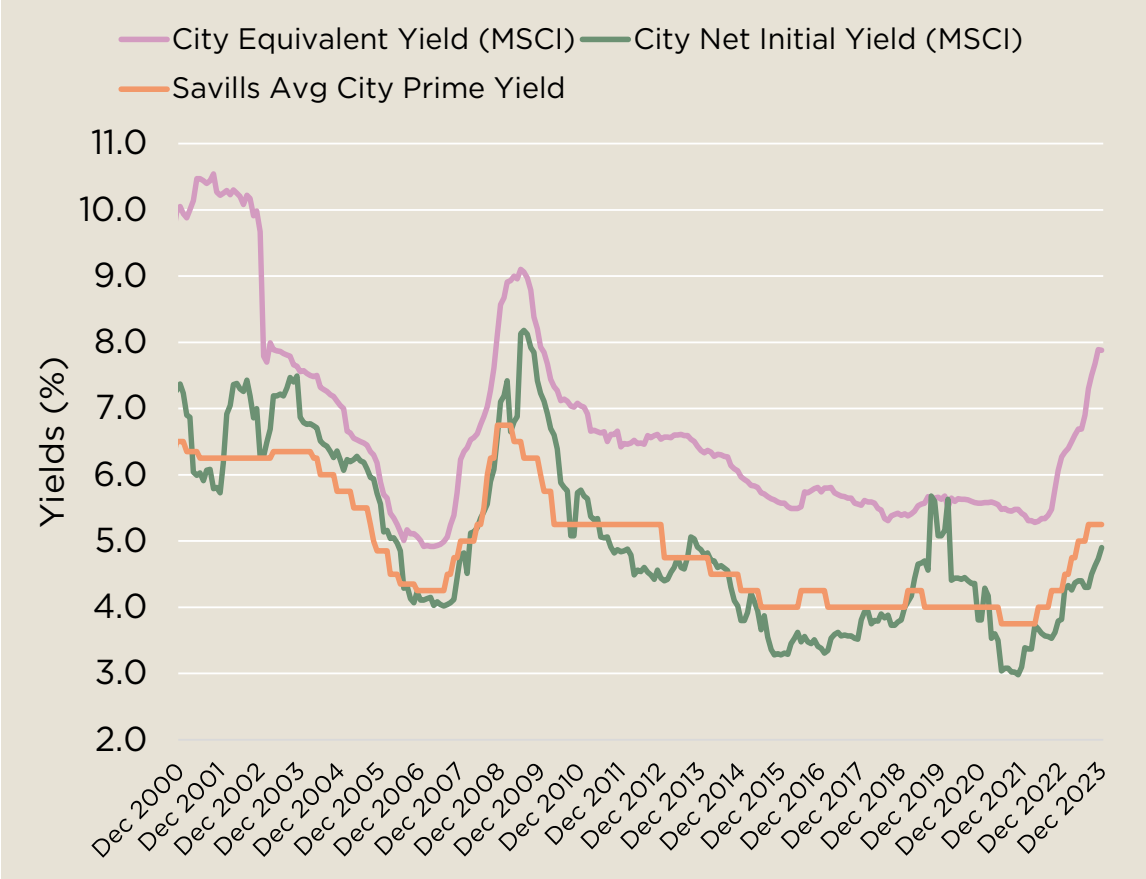
Graph 2



APAC investors account
for **52%** of 2023 turnover

City Yields

Graph 3



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