

City Investment Watch



A lack of availability holds the market back in Q2 - as vendors cautious on where to re-invest

June saw £318M transact across 9 deals, taking H1 turnover to £2.99BN, the lowest since 2010, and 47% down on H1 2018 where turnover reached £5.65BN. The total number of deals for 2019 at H1 is 46, considerably lower than the 5 year average figure (for number of deals) of 77.

The overall Q2 volume of £821.0M, is the lowest recorded by Savills since 1999 and is a result of a continuing lack of supply. The Q2 figures, although stark, are somewhat misleading, with £400.0M worth of transactions exchanging in the 1st week of July. Furthermore we have seen a continued increase in market activity across June/July, with a number of properties going to bids, and currently there is £1.45 BN worth of assets under offer.

Although political uncertainty, in the shape of the Conservative leadership race, is impacting the market, it is clear that the most crippling factor is a lack of availability. At the start of July there are only 19 buildings being openly marketed, worth £928.90M, at this point in 2018 there was £2.99BN on the market across 45 deals. Investor appetite remains strong, reflected in the competitive bidding for the majority of properties on the market, as investors continue to be frustrated by unwilling vendors who in-turn are cautious about where to re-invest their capital.

A notable deal in June saw WeWork Property Investors acquire the long leasehold interest in 99 Queen Victoria Street, EC4, from the Omani Investment Authority for £68.0M, which reflects a net initial yield of 6.39% and a capital value of £746 per sq ft. The property provides 91,131 sq ft of office accommodation and is single let to Sumitomo Mitsui Banking Corporation on a lease until March 2026, with a tenant break in September 2021. The tenant is set to vacate the property, having pre-let 160,000 sq ft of British Lands' 100 Liverpool Street development.

June also saw the sale of Paxton House, Artillery Lane, E1

by Aberdeen Standard Investments for £11.10M reflecting a capital value of £889 per sq ft. The freehold, bought by GMS Estates, is a prominent corner 'warehouse-style' office building located 150m from Liverpool Street station, which is set to provide access to Crossrail. The property provides 12,487 sq ft of office and ancillary accommodation and is multi let to 7 tenants, with vacant possession achievable in December 2019. The passing rent is £455,657 per annum which reflects a rent of £36.49 per sq ft overall. The highly competitive marketing process saw in excess of 90 inspections, showing the continued investor demand for value-add, well located buildings.

The shortage of available buildings continues to frustrate investors, which has led to competitive bidding for on-market stock, as well as a marked increase in off market activity. Vendor indecision can be clearly identified in the fact that H1 2019 saw only one £100.0M+ core deal trade in the City of London (ignoring Citibank's acquisition of 25 Canada Square, E14). The City of London is a market synonymous with core deals, at this point in 2018, there had already been over £1.0BN of core transactions. Furthermore, there is currently only one £100M+ core asset being openly marketed. As we enter H2 however we do not see this trend continuing and believe the sale of 8 Salisbury Square, EC4 (£222.0M) to a JV fronted by Wing Tai, will be the first of a number of core assets to trade.

US investors still account for the largest volume of investment so far in 2019, at 48% of total, having acquired 3 buildings in the City market. UK buyers continue to lead the way in terms of number of deals having acquired 26 buildings totalling £878.9M (29% of total volume).

Savills Prime City yield remains at 4.25%, which compares with the West End prime yield of 3.75%. The MSCI average equivalent yield softened very slightly last month to 5.53% while the net initial yield continues to soften further, and now is at 4.65%, the highest since April 2014 (4.70%).

Lowest Q2 turnover in **20 years**

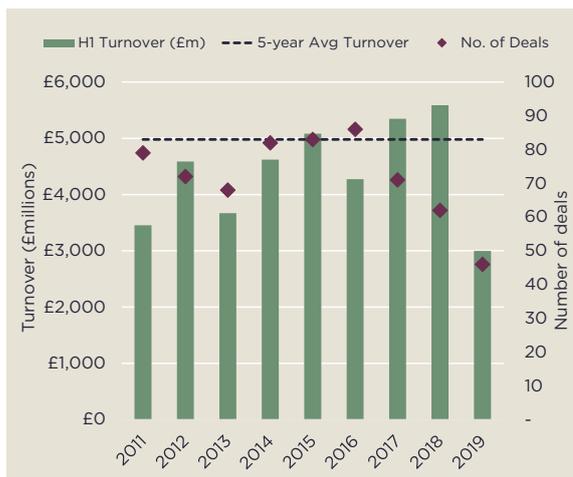


£1.45BN
of stock currently under offer

Only one **£100.0M+**
core transaction in H1 2019

H1 City turnover

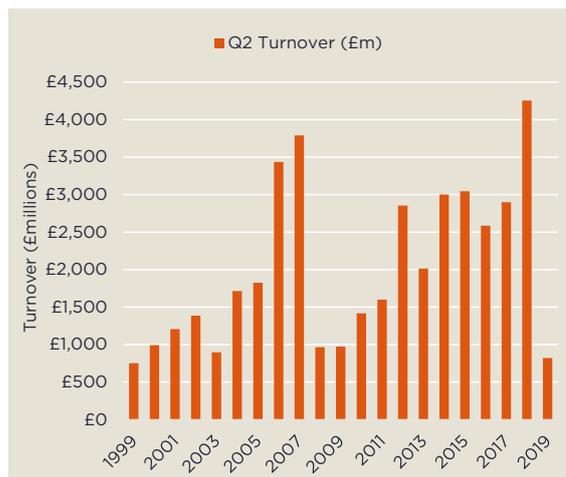
Graph 1



Source: Savills

Q2 City turnover

Graph 2



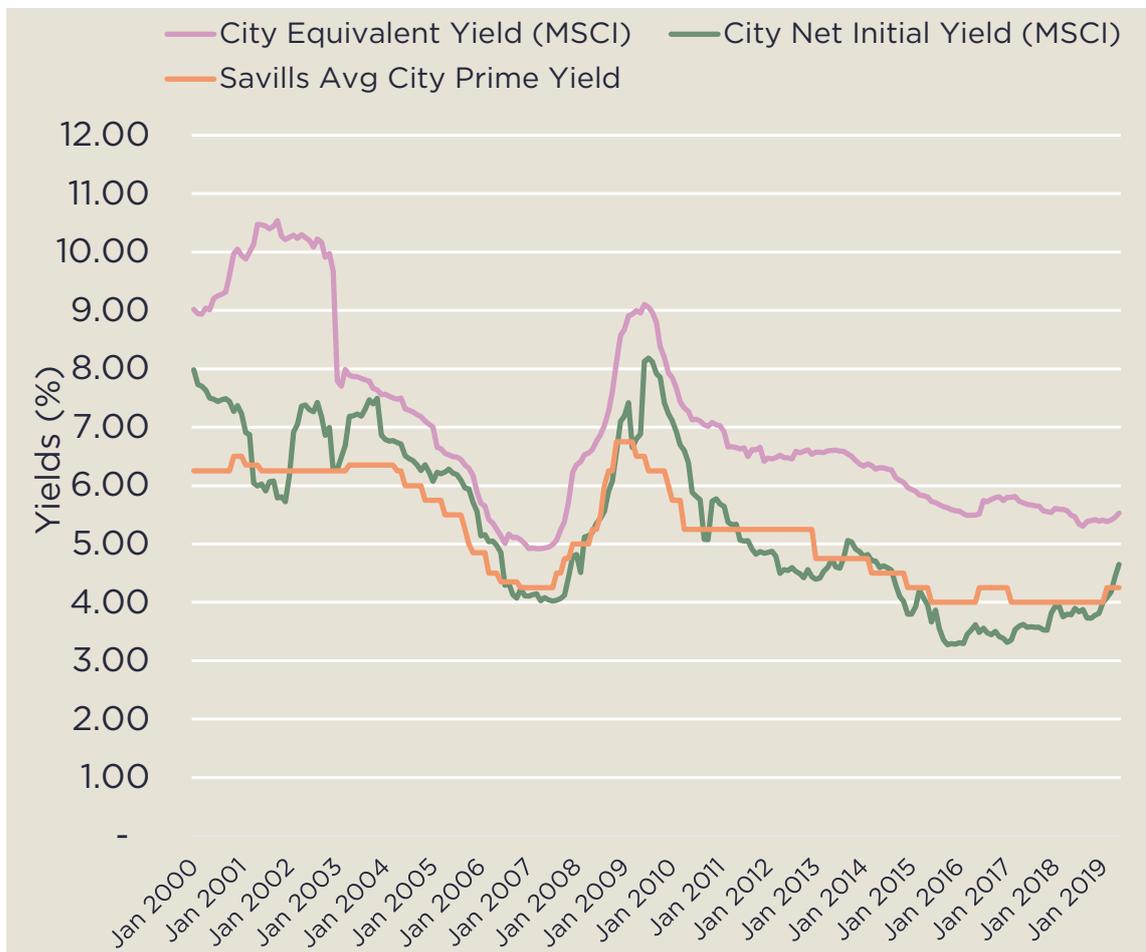
Only **19 buildings** formally on the market, as we enter H2 2019

Key deals in June 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					
	99	Queen Victoria Street	EC4	Office	91,131	LLH	134	5.00%	£68.00 M	6.39%	£746	OIF	WeWork Property Investors
	1	Clink Street	SE1	Mixed	22,975	FH			£18.83 M	5.69%	£819	Palmer Capital	Nuveen
	17	St Helen's Place	EC3	Office	23,986	LLH	130	10.00%	£14.60 M	-	£609	Private UK	CSI
Paxton House	26-30	Artillery Lane	E1	Office	12,487	FH			£11.10 M	3.84%	£889	Aberdeen Standard Investments	GMS Estates

City yield graph

Graph 3



Source: Savills and MSCI

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