

City Investment Watch



H1 Turnover up 64% - as the market continues to heat up....

June saw 12 transactions totalling £1.62Bn, almost a threefold increase on the volume achieved in May (£558.5M) and the highest monthly turnover so far in 2021. Total investment into the City market for H1 2021 stands at £2.99Bn across 32 transactions a 64% increase on H1 2020 (£1.83Bn across 35 transactions), a clear demonstration of a return in confidence to the market.

This continued recovery is evidenced by the fact that Q2 2021 turnover was the highest since Q4 2019, the last non-pandemic affected quarter. This uptick in volume is a trend we expect to continue through the summer months with a further £1.85 Bn of stock under offer across 28 transactions.

In a continuation of the trend seen across previous months, June saw a further 6 off market sales (84% of June turnover). The most high profile of which was the acquisition of the The Minster Building, 3 Minster Court, EC3 by ARA Asset Management and Suntec REIT for £353.0M, reflecting a net initial yield of 4.50% and a capital value of £1,203 per sq ft. Built in 1990 and having undergone a significant refurbishment in 2018, the 11-storey building comprises 293,398 sq ft of office and retail accommodation. The building is multi let to ten office tenants and three retail tenants, providing a weighted average unexpired lease term of 12.3 years.

The largest transaction of the month saw Brookfield acquire the freehold interest in 30 Fenchurch Street, EC3 for a reported figure of £635.0M, reflecting a net initial yield of c.4.50% and a capital value of £1,152 per sq ft. The property comprises approximately 551,000 sq ft arranged over 18 storey's and is multi let to tenants including Accenture, Aspen, Royal Sun Alliance and law firm BLM.

Transactional activity in June was driven in most part by larger assets with 5 deals in excess of £100.0M. This is another clear sign of a return to positivity, and is being driven by a weight of capital targeting London real estate. June alone

saw ARA/Suntec REIT, Madison Realty, Brookfield and Dekra all acquire real estate in the City. A clear sign that these established landlords continue to see London as a safe haven for long term investment. So far in 2021 there have been 8 buildings over £100.0M transact accounting for approximately 75% of turnover (£2.26Bn). We are also aware of a further six £100M plus properties under offer which would surpass the 13 transactions across the whole of 2020.

The market however continues to be stifled by a lack of openly available buildings, June saw only 3 properties formally launched, with the most high profile being M&G's 20 Churchill Place, E14, which was re-launched to the market following previously abortive negotiations. The UK's continued vaccination success and unlocking is undoubtedly set to lead to an increase in available stock, however at writing this article Savills are not aware of a significant amount of assets being prepared for sale. As a result those assets which are being openly marketed are attracting a significant amount of investor interest, and we continue to see increasingly competitive bidding for a wide range of stock.

With the acquisition of 30 Fenchurch Street, North American investors now lead the way in terms of transactional volume acquiring £830.0M worth of real estate 28% of total volume. However looking ahead we expect European investors (25% of current volume) to take back the top spot as the most active buyer group in the City market in 2021.

Savills prime yield remains at 4.00%, but on the basis of emerging evidence and market sentiment is under increasing downward pressure. The West End prime yield is now 3.25% a 75 bps yield shift in comparison. The MSCI City average equivalent yield currently stands at 5.55%, while the net initial yield rose to 3.50%.



5 deals over **£100.00M** in June



£2.99Bn H1 turnover



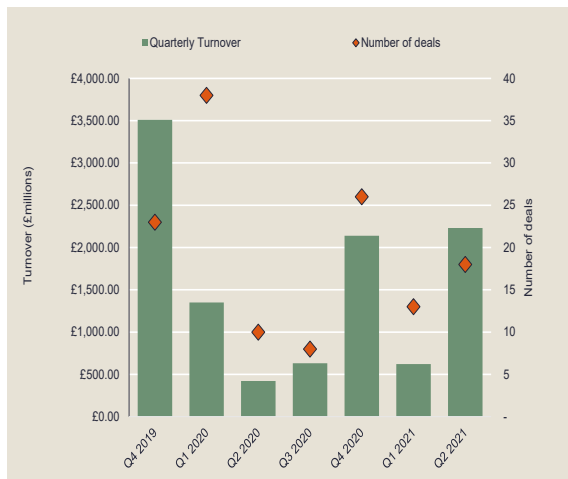
Downward pressure on prime City yields



Only **3 buildings** launched to the market in June

Quarterly investment turnover

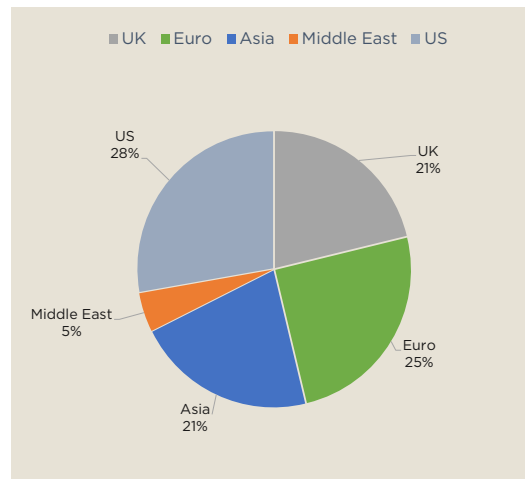
Graph 1



Source: Savills

Investment turnover by nationality

Graph 2

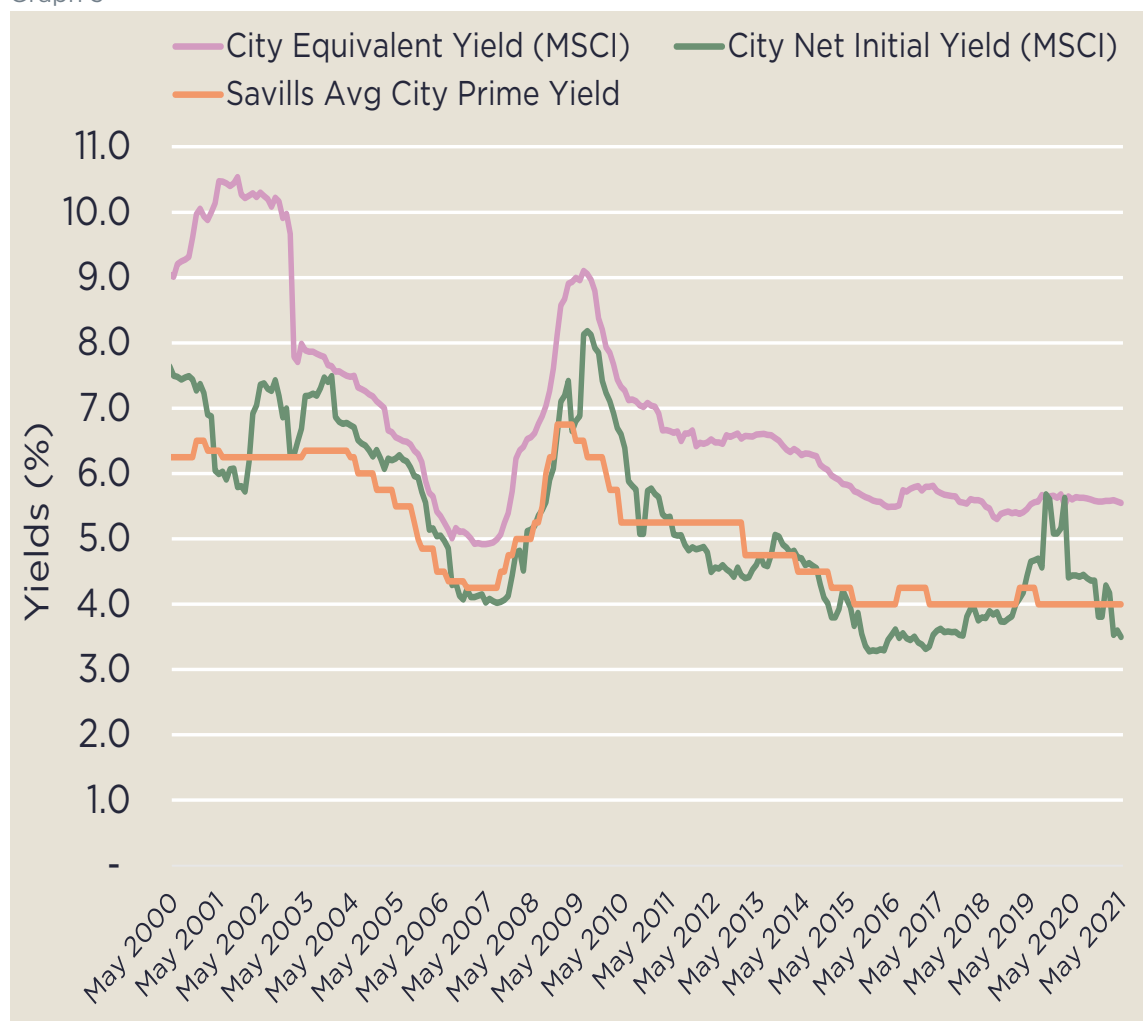


Key deals in June 2021

Building Name	Address			Sector	Area Sq ft	FH			Price (£ millions)	Yield	CV/sq ft	Vendor	Purchaser
	No	Street	PC			FH/LH	U/X term	Gearing					
	30	Fenchurch Street	EC3	Office	551,026	FH			£635.00M	4.41%	£1,152	Safra	Brookfield
The Minster Building	3	Minster Court	EC3	Office	293,398	VFH	986	Pepcrn	£353.00M	4.50%	£1,203	Ivanhoe Cambridge	ARA/Suntec
The Bureau	90	Fetter Lane	EC4	Office	74,023	FH			£118.00M	4.15%	£1,594	Evans Randall	Deka
	1	St John's Lane	EC1	Office	89,033	FH			£113.00M	3.39%	£1,269	Aberdeen Standard	Royal London
The Emerson Building	135	Park Street	EC1	Office	148,486	LH	150	5.0%	£43.25M	4.47%	£291	LIM	LBS/Barings

City Yields

Graph 3



Source: Savills and MSCI

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