

City Investment Watch



City market awaits arrival of new stock to stimulate investor interest

Only 4 deals totalling £52.7M transacted in June and rounded off a generally subdued Q2 which saw a total investment volume of just £447.7M across 10 deals. Of this total, 70% of the total transaction volume can be accounted for in just one deal, Sancroft EC4. This brings the year-to-date transaction volume at the end of H1 2023 to £2.21bn across 37 deals, which represents a 56% decrease in turnover and 39% decrease in the number of deals when compared with H1 2022, and respective falls of 41% and 25% when compared to the 5-year H1 average.

In the largest deal of the month, Dominus acquired the freehold interest in 5-10 Great Tower Street, EC3 which comprises 55,817 sq. ft. NIA and was sold by Natwest with full vacant possession following the departure of the former tenant RBS. The sale attracted significant interest with more than 15 parties understood to have submitted first round bids. The level of interest was largely a result of an attractive quoting price of just £15M / £269 per sq. ft., driving investor interest and the potential for alternative land uses for the building which drove considerable interest from hoteliers and serviced apartment owners and operators that were seeking to take advantage of the City of London's new 'Destination City' policy. The property was acquired for £27.5M reflecting a capital value of £493 per sq. ft.

As at the end of June, 12 properties totalling circa £636M were under offer, a 39% increase on May. However, a substantial proportion of the under offer volume is attributable to the sale of Lion Plaza, 5-10 Old Broad Street, EC2 which is under offer to a new Asia Pacific entrant in the London commercial market following abortive negotiations with a European investor earlier in the quarter. Majority let to White & Case with a 7.4 year WAULT, the property is understood to be under offer at a net initial yield of approximately 6.00%, representing over a 20% discount from the initial quoting price of £262.5M / 4.75% NIY in Q4 2022 and will provide a valuable reference point for the outward movement in the prime City yield.

During the month of June, Watling House, 33 Cannon Street, EC4 went under offer at a price reflecting c.£70M, a 12.5% discount to the quoting price and a Net Initial Yield of c.6%. Located in the City core, the freehold property totals 94,489 sq. ft. and provides a c.2.8 year WAULTC at a low passing rent of £48.86 psf offering significant upcoming asset management opportunities.

June continued to see a lack of new stock coming to market with just seven assets totalling £304m being launched during the month. The largest asset to be marketed is Herbal House, 8-10 Back Hill, EC1, a multi-let, freehold building with 5.3 years WAULTC. The quoting price is £140M reflecting a 5.00% NIY and £1,228 per sq. ft. overall. For the year to date we have seen just £1.25bn of sales launched to the market highlighting the unwillingness from owners to launch properties in challenging market conditions.

The current challenging macroeconomic climate continues to impact investment activity in part due to uncertainty around future Bank of England interest rates rises. June witnessed a thirteenth consecutive increase in the Bank of England base rate, rising 50 basis points to 5.00% from 4.50% in May, and reflects a 375 basis point increase since this time last year. A similar trend has been seen in the 5-year SONIA swap rates, which currently stand at 5.22% compared with 4.53% this time last month and 2.40% this time last year, reflecting increases of 69 bps and 282 bps respectively.

Savills City prime yield currently stands at 5.0% and the West End prime yield is 4.0%. The MSCI City average equivalent yield currently stands at 4.4%, while the net initial yield is 5.25%.



£2.21bn
year-to-date turnover
across **37** transactions



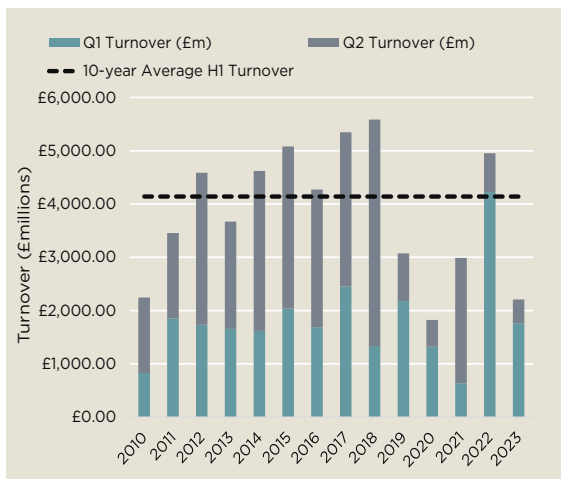
£2.98bn available
across **70** assets



£304m of new stock
was launched in June

City H1 investment turnover

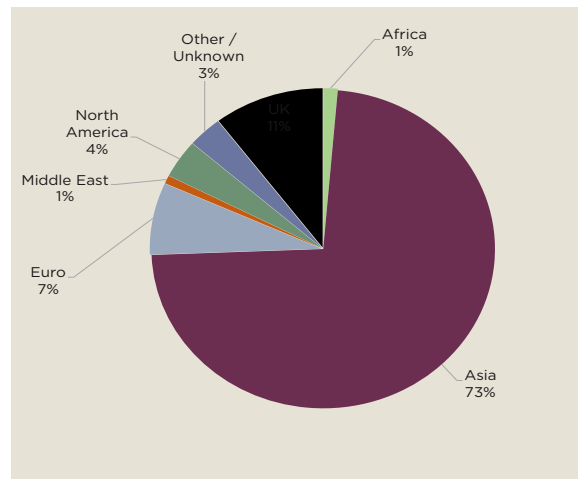
Graph 1



Source: Savills

City H1 volume of investment by purchaser nationality

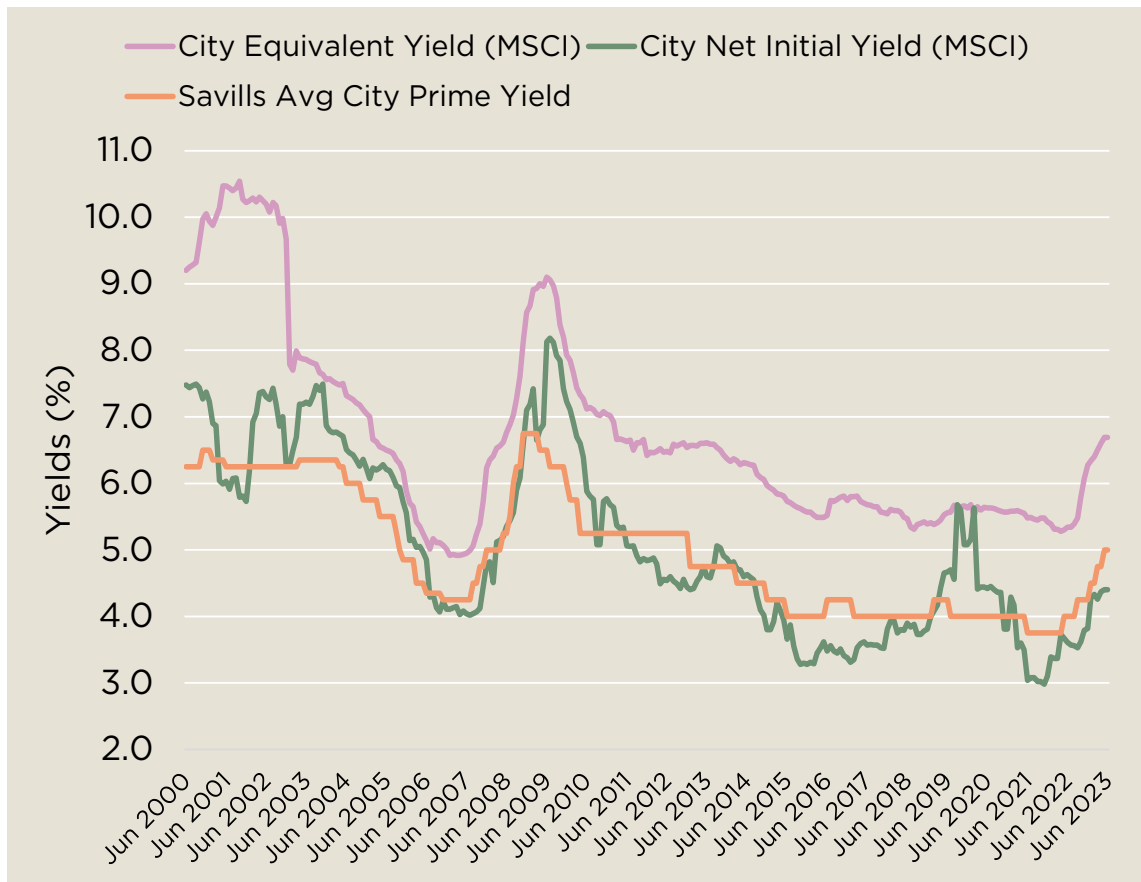
Graph 2



5.00%
Savills Prime yield, a
100 bps outward
movement in 12 months

City Yields

Graph 3



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