

City Investment Watch

The Chinese Embassy buys their new home as owner occupiers dominate May turnover

June 2018

Market comment and notable deals

■ A number of high profile deals took investment volume in May to £655.07M across 5 transactions, taking the total figure for 2018 to £2.44 BN, 36% down on the 5 year average of £3.82 BN. We do not anticipate this low level of volume to continue, as we are seeing an increase in available opportunities.

■ Currently in the City market we are aware of c. £3.70BN of available stock, 55% of which has been launched to market since April, the most notable being 30 Gresham Street, EC2 for £425.0M.

■ In the largest deal to date in 2018, Mirae Asset Management acquired the freehold interest in 20 Old Bailey, EC4 for £341.0M reflecting a net initial yield of 4.20% and a capital value of £1,419 per sq ft. The property was comprehensively redeveloped by Blackstone in 2017, and pre-let to internationally recognised tenants including Barings and Wilthers LLP. The 240,319 sq ft property was let at an overall rent of £61.19 per sq ft with a WAULTC of 13.6 years. This was Mirae's 2nd acquisition this year, following their acquisition of Cannon Bridge House in March.

■ In perhaps the most high profile acquisition of 2018, the People's Republic of China acquired the freehold interest in Royal Mint Court, EC3 for in excess of £200.0M. The 5.4 acre site is located opposite the Tower of London World Heritage Site. Planning consent was granted in 2017 for a comprehensive redevelopment of the site to provide c. 600,000 sq ft of office accommodation and a 1.8 acre landscaped public realm.

■ In an off market transaction Carlyle Group acquired the freehold interest in The Crosspoint, 34-37 Liverpool Street, EC2 for £43.0M reflecting a capital value of £1,040 per sq ft. The property was developed in 2017 by Amsprop to provide 41,340 sq ft of office accommodation and was sold with vacant possession. We understand Carlyle will occupy the property as part of their serviced office business.

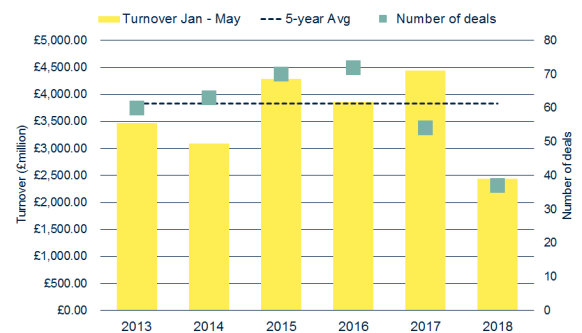
■ The acquisitions of Royal Mint Court and Crosspoint, highlight a continuing trend of owner occupiers, and is the 6th acquisition by this buyer group already this year, accounting for 18% of total volume. Since 2017 we have seen this group significantly increase their standing in the market with a total volume last year of £964M across 15 transactions. The interesting development is owner occupier's ability to now acquire larger sized assets, with the group traditionally acquiring smaller vacant buildings. However the acquisition of The Devonshire Square Estate by WeWork and 33 King William Street by Wells Fargo, highlight clearly their standing as a viable purchaser for properties above the £50.0M lot size.

■ Private investors continue to lead the buyer profile comprising up 29% of total volume for the year, followed closely by Institutional Investors (28%) and Property Companies (24%).

■ Savills Prime City yield remains at 4.0% which compares with the West end prime yield of 3.25%. The City of London and docklands continue to look attractive in comparison to other major European cities where prime yields are keener than 4.0% (see graph opposite).

GRAPH 1

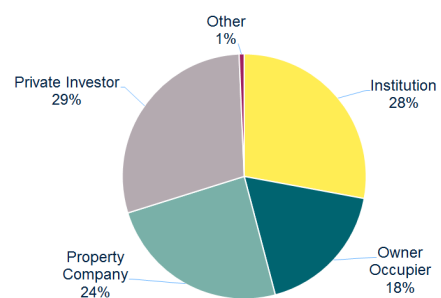
City turnover Jan - May



Graph source: Savills

GRAPH 2

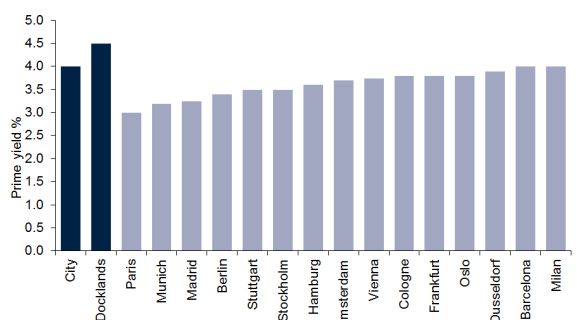
City turnover by purchaser profile



Graph source: Savills

GRAPH 3

Comparative European prime yields



Graph source: Savills

TABLE 1
Key deals in May 2018

Address				Sector	Area Sq ft	Tenure		Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term					
	20	Old Bailey	EC4	Office	240,319	FH		£341.00 M	4.20%	£1,419	Blackstone	Mirae Asset Management
Royal Mint Court			EC3	Mixed Use	c. 600,000	FH		c. £200.00 M	N/A	£425	LRC + Delancey	People's Republic of China
The Crosspoint	34-37	Liverpool Street	EC2	Office / Retail	41,340	FH		£43.00 M	N/A	£1,040	Amsprop	Carlyle Group
Bath & Cayton	7-9 4-12	Bath Street Cayton Street	EC1	Office	23,158	FH		£17.32 M	3.96%	£748	City University	Rockspring

Table source: Savills

Please contact us for further information



Robert Buchele
Director
+44 (0)20 7409 8007
rbuchele@savills.com



Richard Bullock
Director
+44 (0)20 7409 8006
rabullock@savills.com



Dan Hesketh
Director
+44 (0)20 7409 8008
dhesketh@savills.com



Jamie Olley
Director
+44 (0)20 7578 7546
jamie.olley@savills.com



Felix Rabeneck
Director
+44 (0)20 7409 8918
frabeneck@savills.com



Tom Reeves
Director
+44 (0)20 7578 7549
thomas.reeves@savills.com



Daniel Gaunt
Associate Director
+44 (0)20 7409 8857
dgaunt@savills.com



Stephen Hartley
Associate Director
+44 (0)20 7409 8955
shartley@savills.com



David McArthur
Associate Director
+44 (0)20 7578 7545
david.mcarthur@savills.com



Henry Timmis
Associate Director
+44 (0)20 7409 8915
htimmis@savills.com



Paul Bassi
Associate
+44 (0)20 7299 3044
pbassi@savills.com



Will Richards
Surveyor
+44 (0)20 7409 8059
wrichards@savills.com



Ben Raywood
Associate (Research)
+44 (0)20 7409 8791
braywood@savills.com

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