

City Investment Watch



City market awaits fresh stock and interest rate falls

May continued to see low levels of activity, with £116.1m transacting across five deals, reflecting an average lot size of £23.2m. This brought the year-to-date turnover at the end of May to £590.4m across 30 deals, which is 77% lower than the five-year average, and having already seen the lowest Q1 turnover since 1996, a similar record looks likely to be set for a record low H1. With the £100m+ lot size range generally accounting for approximately 70% of annual turnover, the City market is still yet to see a deal of this scale in 2024, and the average lot size of £19.7m is a reflection of the challenging financing environment which has stalled market activity of scale throughout the year. As at the end of April, Savills is tracking £274.3m under offer across 15 deals in the City.

The largest deal of the month saw CBRE IM acquire the freehold interest in Cloud House, 1 Muirfield Crescent, E14, from Abrdn. The property is located approximately 250 metres to the west of Crossharbour DLR station and 0.6 miles to the south of Canary Wharf, and comprises an 88,419 sq ft data centre which is single let to Digital Realty at a passing rent of £2.86m per annum until March 2048. The property was acquired for £48.65m reflecting a 5.50% net initial yield and £550 per sq ft.

In the largest office deal of the month, CLI Dartriver acquired the long leasehold interest in 1 Paternoster Square, EC4, from Commerz Real. Part of a wider estate originally developed in 2002 by Mitsubishi Estate, 1 Paternoster Square is located within 100 metres of St Paul's station and comprises 20,429 sq ft of office and retail accommodation. Held long leasehold for over 200 years at a peppercorn rent, the property produces an annual rent of £1.32m per annum reflecting £64.62 per sq ft overall, and provides a WAULTC of 6.6 years, with the majority of the income being secured to law firm Gateley LLP on a lease expiring in August 2032. CLI Dartriver acquired the long leasehold interest for a sum of £2.4m reflecting a net initial yield of 5.15% and £1,175 per sq ft. The deal is CLI Dartriver's first acquisition of the year, following three transactions in the City market during 2023.

In the month, Greycourt acquired the freehold interest in 140 Leadenhall Street, EC3 for a sum of £22.5m reflecting a 6.94% net initial yield and £496 per sq ft. Located in the heart of the Tower Cluster and within six minutes' walk of both Liverpool Street and Bank stations, the property comprises a 1930s Grade II Listed office and retail building totalling 45,389 sq ft across basement, lower ground, ground and six upper floors. The retail accommodation, which comprises 15,591 sq ft, is single let to Revolution Bars Limited until January 2032, while the office accommodation provides short-term income until January 2026 before a potential block date for a repositioning opportunity. Greycourt acquired the freehold interest from Aviva, marking their second deal of the year and their fourth since April 2023.

In terms of the macroeconomic landscape, the UK inflation rate dropped to 2.3%, marking its lowest point since July 2021 and encouragingly two of the nine members of the Bank of England Monetary Policy Committee voted for a base rate reduction. Although the base rate was maintained at 5.25%, the more optimistic view is that it is a matter of time until interest rates begin to fall. However, in the short term, the market still suffers from an ongoing lack of availability, and although £190.3m of new opportunities came to market across 10 sales during May, historic trends suggest that the coming months will see very few new sales arrive in the market due to summer holiday disruption.

Furthermore, Rishi Sunak's call for a general election to be held on July 4th is likely to cause sellers to hold off while they await the outcome. Despite improving sentiment and an emerging sense that the market may have "reached the bottom", the chronic lack of stock and prevailing interest rates combined with the typical summer slowdown and pending general election suggest the market is unlikely to see a significant surge in transaction volume in the short term.

Savills City prime yield is 5.25%, while the West End prime yield is 4.00%.



£590.4m
Jan-May turnover across **30** transactions



Savills Prime City yield remains at **5.25%** for the **10th** consecutive month



55% of transactions this year have been for assets below **£20m**.

City availability by size and number

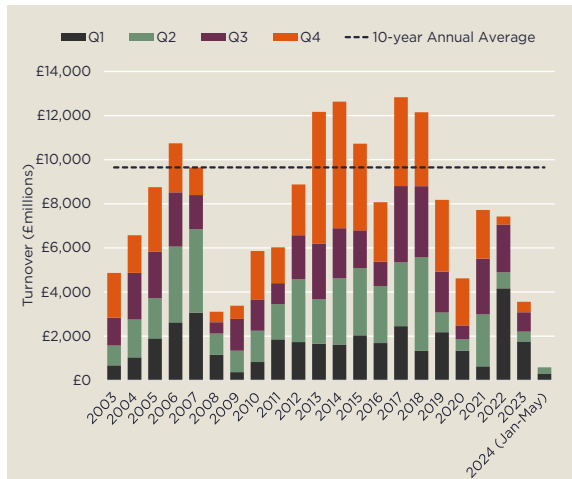
Graph 1



Source: Savills

City quarterly investment turnover

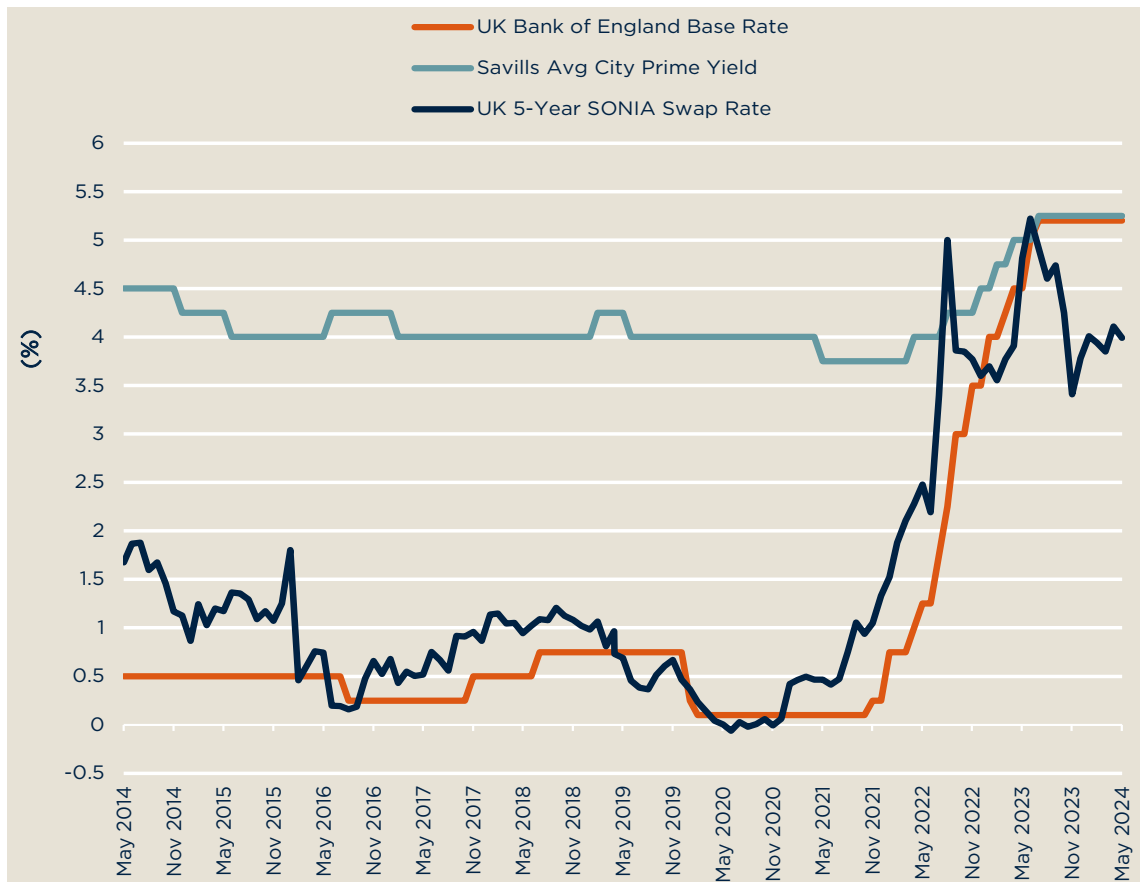
Graph 2



£274.3m under offer across **15** transactions

City Yields

Graph 3



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