

City Investment Watch



Increased transactional volume as Boris Johnson's road map offers some much needed certainty.

The early months of 2021 have followed a similar pattern to last year; after a typically slow January, there has been an increase in investment activity in February, albeit principally focused around assets first marketed in 2020, highlighting the influence lockdown measures are having on a supply-starved market.

February saw £346.55M transact in the City across four deals, a significant increase on January's turnover (£30.96M) but still c.31% down on February 2020 when £505.65M transacted across seven deals. Last month's turnover brings the total investment volume year to date to £377.51M, which is 52% down on the same point last year (£779.45M) and 65% down on the five-year average (£1081.05M).

The most high-profile transaction saw Wing Tai Properties fronting a joint venture consortium of leading Hong Kong investors to acquire 66 Shoe Lane, EC4 from Henderson Park and Endurance Land for £255.00M, reflecting a net initial yield of 4.10% and a capital value of £1,648 per sq. ft. The comprehensively refurbished building comprises 156,994 sq. ft. of office, retail and ancillary accommodation arranged over basement, ground and nine upper floors. Held long leasehold, the building is fully let to Deloitte LLP and Deloitte Digital for a term of 15 years at a passing rent of £69.79 per sq. ft. overall.

In another notable transaction, Merseyside County Council acquired the freehold interest in the Lever Building, 85 Clerkenwell Road, EC1 from Amsprop in what is the only asset in the city to have been formally marketed during 2021. We understand the purchaser paid £38.15M, reflecting a net initial yield of 4.28% and a capital value of £1,245 per sq. ft. Located in the heart of Clerkenwell, the property comprises 30,637 sq. ft. of Grade A office accommodation arranged over lower ground, upper ground, five upper floors and mezzanine level. The property is single let to Tesco Stores Limited until April 2025 at a passing rent reflecting approximately £57.00 per sq. ft overall.

We understand there is approximately £2.21Bn currently under offer in the City across 19 transactions, a similar amount to last month (£2.30Bn). As mentioned previously, the majority of investor interest is focused on assets first marketed in 2020.

We are aware of approximately £4.17Bn of stock buyable in the City, which compares with £4.87Bn at the same point last month. Given the ongoing lockdown restrictions, vendors are reluctant to carry out formal marketing processes given practical difficulties in inspecting real estate, which could then result in a loss of momentum. Accordingly, those investors with active buy-side requirements are having to be more proactive in their pursuit of opportunities due to less availability of stock.

The continued success of the UK's vaccination program has afforded the Government the opportunity of being proactive in setting out how the UK's recovery plans will take shape. The reduced uncertainty has seemingly initiated a change in sentiment as investors across all asset classes become increasingly bullish on the prospect of a strong economic recovery sooner than anticipated; a notion echoed in the commercial real estate markets.

The City of London remains amongst the most favoured destinations globally due to a highly liquid, transparent and comparatively risk-averse market place. While our European counterparts, whose stuttering vaccination program is still in its infancy, struggle to manage the pandemic, we anticipate more investors will look towards London earlier in the year to satisfy their requirements.

Savills Prime City Yield remains at 4.00% for the 20th consecutive month and West End prime yields also remain at 3.50%. The MSCI net initial yield currently stands at 4.29% and the average equivalent yield currently stands at 5.58%.



February saw **£346.55M** transact in the City



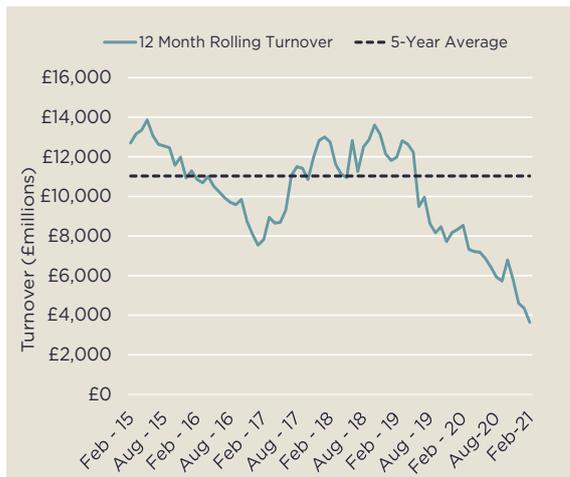
February turnover significantly higher than January but still **c.31%** down on February 2020



£2.21Bn currently under offer in the City across **19** transactions

City Investment Turnover

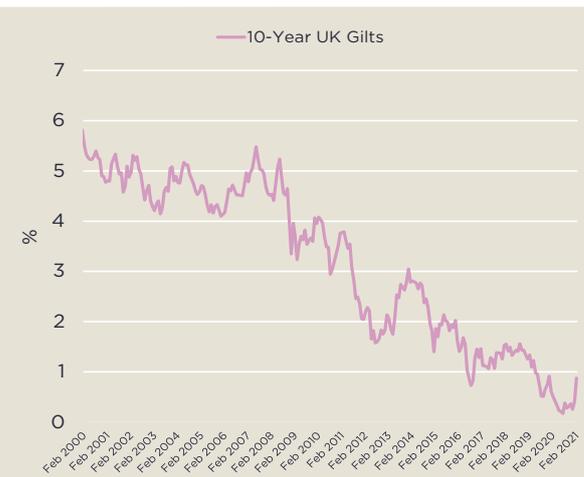
Graph 1



Source: Savills

10-year UK gilt yields

Graph 2



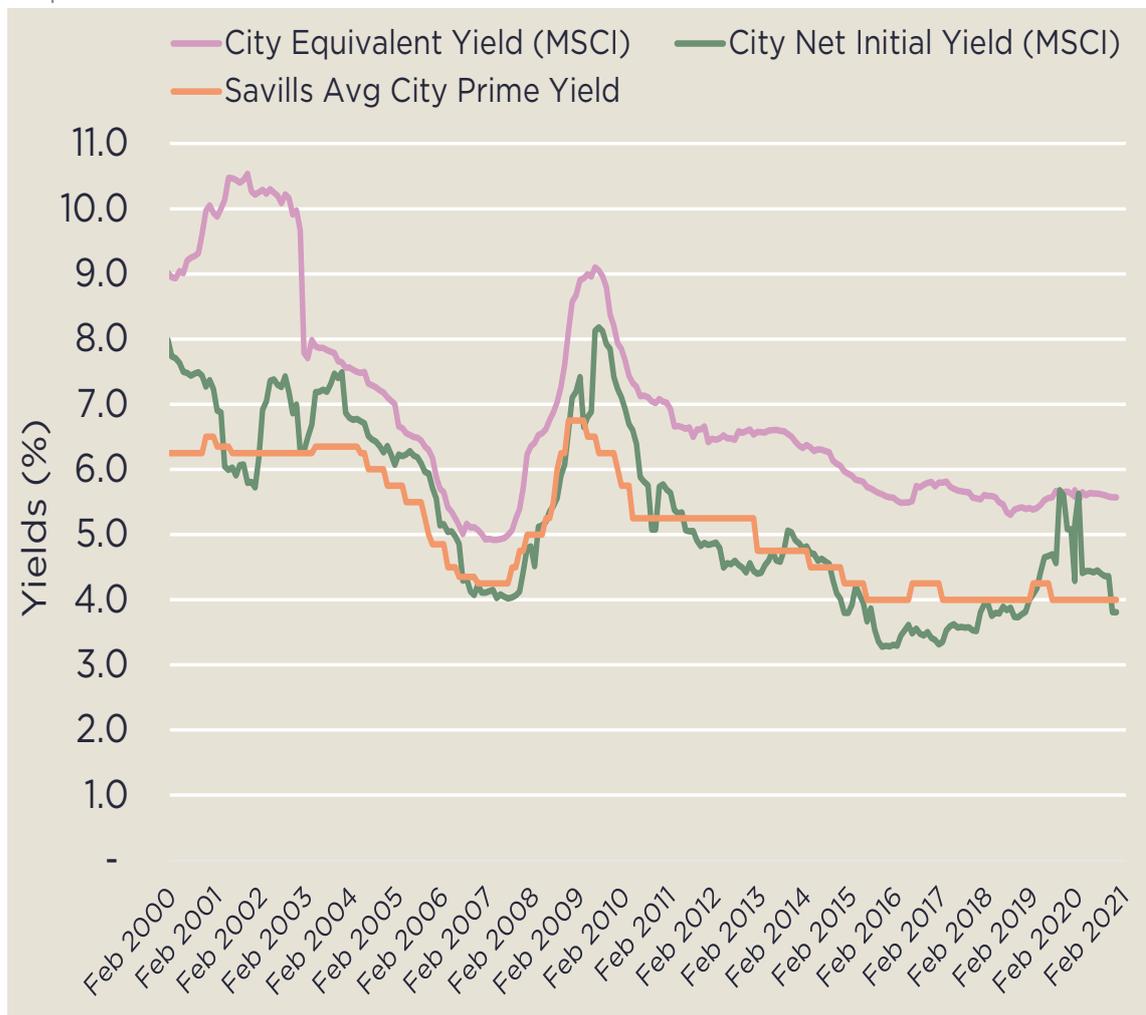
Investment volume year to date equates to **£377.51M**, **52%** down on the same point last year.

Key deals in February 2021

Address				Sector	Area Sq ft	FH			Price (£ millions)	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/X term	Gearing					
	66	Shoe Lane	EC4	Office	156,994	LLH	132	P'corn	£258.70 M	4.10%	£1648	Henderson Park & Endurance Land	Wing Tai
Lever Building	85	Clerkenwell Road	EC1	Office	30,637	FH			£38.15M	4.28%	£1245	Amsprop	Merseyside County Council
	3	Dorset Rise	EC4	Office	51,862	FH			£35.00M	6.73%	£675	Columbia Threadneedle	Oval RE
	85	Gray's Inn Road	WC1	Office	45,000	FH			£19.50M	5.76%	£694	Bensco Charity	Clearbell

City Yields

Graph 3



Source: Savills and MSCI

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