

City Investment Watch



Deals beginning to emerge in the City

After a positive start to the year, which saw turnover in January reach £572.2m across 8 deals, February saw more modest activity, with approximately £123.0m transacting across 3 deals. At the end of February, Savills were tracking a further 12 properties under offer in the City totalling £1.26Bn including 4 deals each with a value in excess of £100m. With a number of these deals due to exchange imminently Savills expects Q1 City turnover to be in line with the 10-year quarterly average of £1.92Bn.

While the market continues to search for a consensus around pricing, a number of recently transacted or under offer deals have been agreed at a discount to historic values where there is a seller willing to accept revised pricing levels. This is highlighted in the deals under offer above £100m with an average discount of approximately 17% to the quoting price.

A price discount was also evident in one of the key February deals, where Macquarie Group acquired the long leasehold interest in 8-10 Old Jewry, EC2 from Orchard Street for a price of £41.0M, 6.72% NIY and £700 per sq ft. Held long leasehold for a further 103 years at a head rent of £1,000 per annum, the property comprises 57,745 sq ft of office, restaurant and ancillary accommodation arranged over lower ground, ground, mezzanine and seven upper floors. The building is multi-let to six office and one retail tenant at a net passing rent of £2.93m per annum reflecting £52.04 per sq ft overall and providing a WAULT of c.2.4 years to breaks and c.4.0 years to expiries. The sale of 8-10 Old Jewry at a discount to the quoting price of 21% is evidence of investor appetite for core plus assets at a liquid lot size (sub £100.0M) if appropriately priced. A similar trend was seen in the marketing of 8 Bouverie Street which received a number of bidders. Compared with their original quoting prices, the two transactions reflect discounts in the region of 21% and 35% respectively.

Despite improving investor sentiment in the market, levels of activity are being frustrated by the continued lack of available new stock coming to market, particularly of core/core plus assets with a lot size of £50m+. At the end of February, total availability stood at 84 deals totalling £3.54bn, reflecting a low average lot size of £42.2m, whilst so far this year, only 21 properties have been launched to the market totalling £480.5m, again reflecting a low average lot size of just £22.9m.

In last month's edition of the investment watch we commented on the notable disparity between pricing expectations of vendors and purchasers, however, with ongoing processes, we are seeing that there are good levels of liquidity available for deals which are priced at an appropriate level. Notably, 67% of the current availability is dominated by Core+ assets, of which 48% are long leasehold tenures and many of which have already been in the market for 6 months or longer. It is in this area of the market that we may see most likely price reductions, particularly among the £100m+ assets. We anticipate an uptick in market activity moving through into Q2 as there are a number of deals currently under offer and some anticipated future sales to be launched in the coming weeks.

Savills City prime yield stands at 4.50% and compares to the West End prime yield of 4.00%. The MSCI City average equivalent yield is currently 6.40%, while the net initial yield is 4.33%.



£695.2m
year-to-date 2023
turnover across **11**
transactions



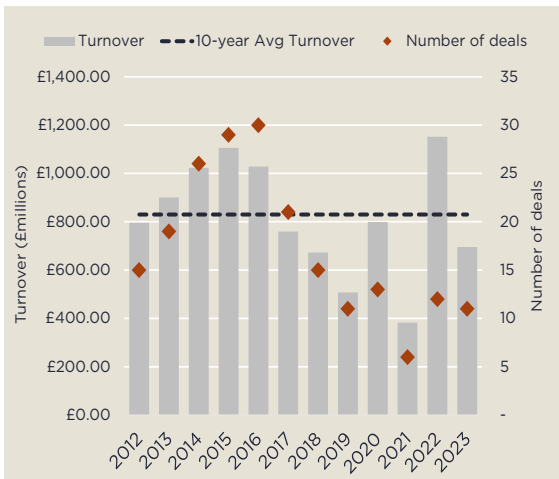
£3.54bn available
across **84** assets



Deals being agreed are
at a discount to historic
values

City February investment turnover

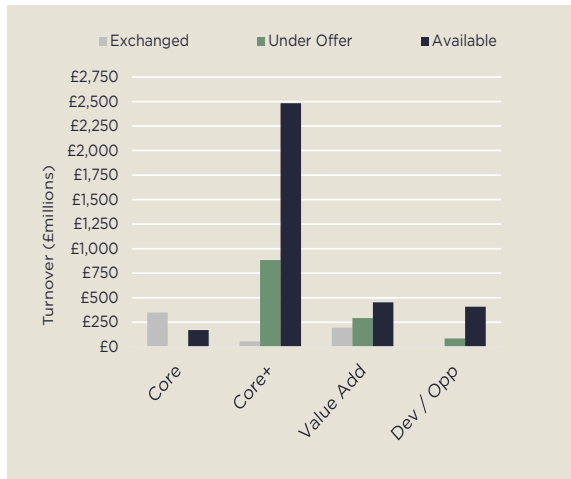
Graph 1



Source: Savills

City stock by investment type

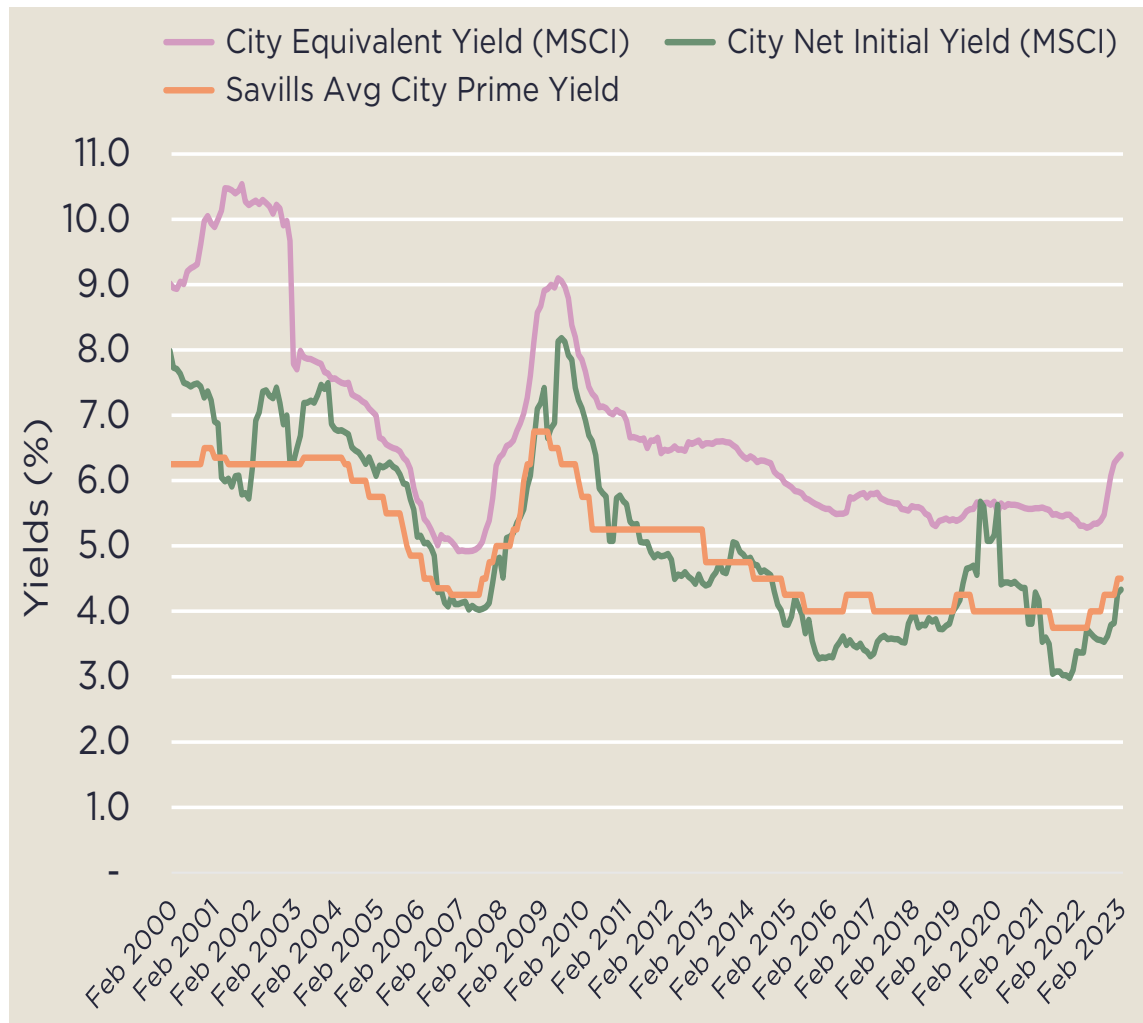
Graph 2



£1.26 Bn under offer
across **12** transactions

City Yields

Graph 3



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