

City Investment Watch



Turnover inflated by Citigroup deal, as April sees only five buildings trade

Investment turnover for April saw £179.35M transact across five deals. Overall investment for the year (up to the end of April) is now £2.50 BN, 34% up on 2018 (£1.86 BN), however 8% down on the 5 year average up to April of £2.71 BN.

As noted in previous monthly updates, 2019 has seen a continuing trend of a lower number of deals, with only five transactions in April, the lowest volume in the month of April since 2009. The number of deals for 2019 now stands at 32, 35% down on the 5 year average (to April) of 49.

The largest transaction of the month saw a private investor acquire 15 Fetter Lane, EC4 for £92.60M, reflecting a net initial yield of 5.0% and a capital value of £1,085 per sq ft. The freehold corner building was substantially refurbished in 2017 to provide 85,323 sq ft of office and ancillary accommodation. The property is multi let to Sharia compliant tenants with two floors currently vacant. The topped up passing rent of £4,939,872.55 per annum reflects a rent of £57.90 per sq ft overall. The weighted average unexpired term on the let accommodation is 9.1 years to expiry and 7.0 years to breaks. Savills advised the purchaser.

April also saw Aberdeen Standard Investments sell the freehold interest in 28-30 Cornhill, EC3 for £32.40M, reflecting a net initial yield of 4.25% and a capital value of £1,051 per sq ft. The freehold Grade II listed building is located 100m from the Bank of England and opposite The Royal Exchange. The property comprises 30,816 sq ft of office, retail and ancillary accommodation and is multi let to 5 office tenants and 1 retail tenant with one floor currently vacant. The topped up passing rent is £1,470,660 per annum which reflects £47.72 per sq ft overall, with a weighted average unexpired term certain of 3.8 years. The property was acquired by Cheung & Sons and marks their first City of London acquisition.

The relatively high levels of turnover contradict actual market sentiment, with total volume figures being inflated by the £1.10BN acquisition of 25 Canada Square by Citigroup which accounts for 44% of volume. Market sentiment is perhaps more clearly shown by the number of deals exchanged and the volume of assets under offer.

There is currently only £810.0M across 18 properties known to be formally under offer in the City market, 50.0% of which is made up of three transactions including 81 Newgate Street (BT Centre) and ITV Studios. At this stage in 2018 there was £3.01BN under offer across 18 deals.

So far in 2019, the most active demand continues to be for value add/development opportunities, with 15 properties under this classification trading in 2019. The level of continued appetite for such stock will be tested with the recent launch of 280 Bishopsgate, EC2, by RBS. The asset marks the 3rd property sale from the banking group in the City market since 2015. The long leasehold interest is being marketed for £173.0M, which reflects a capital value of £633 per sq ft.

US investors account for the largest share of investment to date in 2019, accounting for 50% of total investment, however, this only constitutes two transactions. UK investors continue to lead the way in terms of number of deals having acquired 17 buildings totalling £633.0M (25% of total volume).

Savills Prime City yield remains at 4.25%, which compares with the West End prime yield of 3.75%. The MSCI average equivalent yield has remained at 5.4% for the seventh consecutive month while the net initial yield continues to soften, and now is at 4.17%, the highest since March 2015 (4.21%).



have accounted for 44% of the total transactional volume for the City in 2019



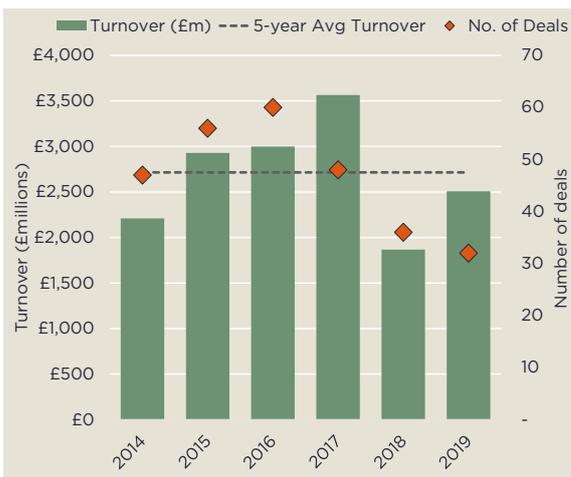
25% of turnover has been accounted for by UK investors

£179M

is the lowest April turnover since 2009

Historic City turnover to end of April

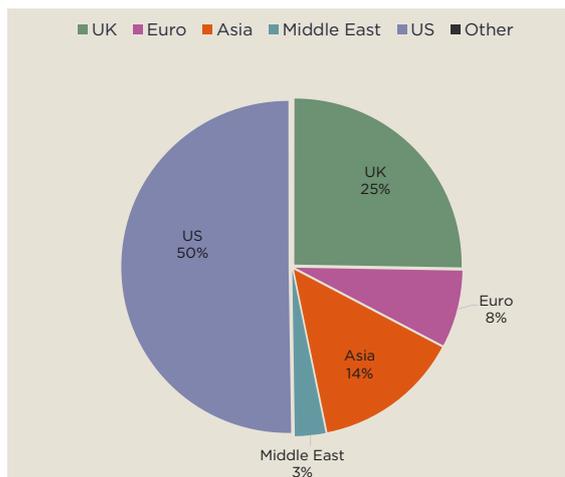
Graph 1



Source: Savills

Turnover by nationality 2019

Graph 2



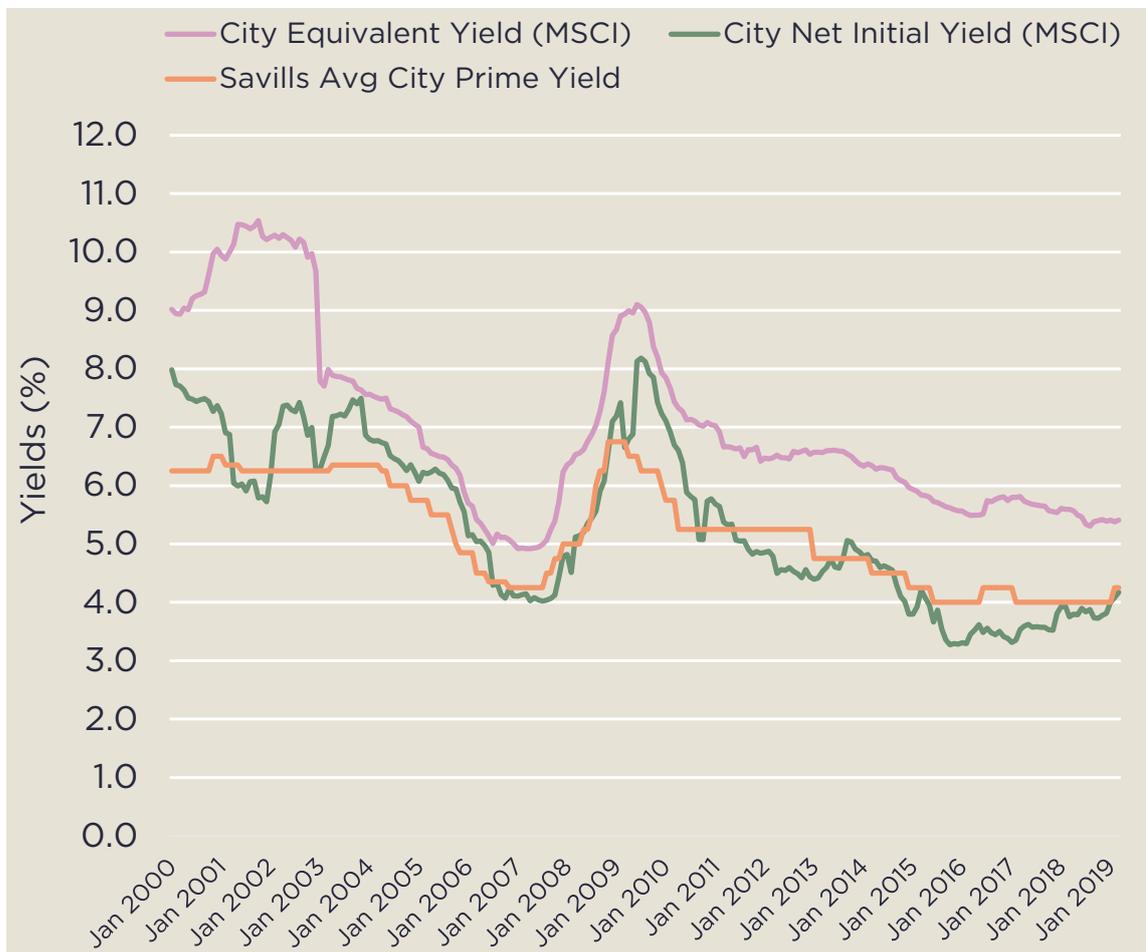
Only **£810.0M** under offer as we approach H1 2019

Key deals in April 2019

Building Name	Address			Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
	No	Street	PC			FH/LH	U/x term	Gearing					
	15	Fetter Lane	EC4	Office	85,323	FH			£92.60 M	5.00%	£1,085	British Steel Pension Fund	Private Investor
	28-30	Cornhill	EC3	Office	30,816	FH			£32.40 M	4.25%	£1,051	Aberdeen Standard Investments	Cheung & Sons
	1	Frying Pan Alley	E1	Office	25,172	FH			£20.80 M		£826	ABS	Owner Occupier
	11	Ironmonger Lane	EC2	Office	19,381	FH			£18.30 M	5.01%	£944	Private Japanese Investor	Balder
	81	Gracechurch Street	EC3	Office	19,418	LLH	142	10.0%	£15.25 M	5.51%	£785	LaSalle Investment Management	London & Oxford

City yield graph

Graph 3



Source: Savills and MSCI

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