

City Investment Watch



Sharp decline in transactional volume as investors pause and take stock

April saw three transactions totalling approximately £149.4M in the City, a sharp decline on that achieved in March (£477.75M) and lower compared with April 2019 (£260.62M). As at the end of April, 2020 investment volume stood at circa £1.50Bn across 26 transactions, 39% down on the same point last year which saw £2.46Bn transact across 33 deals.

The most high profile transaction saw La Francaise Group acquire 90 Bartholomew Close, EC1 for £48.50M, reflecting a net initial yield of 3.92% (assuming purchaser's costs of 6.80%) and a capital value of £1,568 per sq. ft., a price which represents only a 1% discount to the price it was reportedly under offer at previously. Developed by Helical Plc and Baupost, the freehold building comprises 30,929 sq. ft. and provides a weighted average unexpired lease term certain of 5.60 years and a rent passing of £2,031,224 per annum (£65.67 per sq. ft. overall).

Also in April, Hong Kong listed investor Mighty Divine exchanged contracts to acquire 10 Fenchurch Street, EC3 for approximately £94.20M, reflecting a net initial yield of approximately 4.30% (assuming purchaser's costs of 1.80%) and a capital value of £1,213 per sq. ft. in an off market transaction from Hong Kong listed Chuang's Consortium International and Chuang's China Investments. The freehold building comprises approximately 77,652 sq. ft. of Grade A office, retail and ancillary accommodation arranged over 12 storeys. The building has the potential to accommodate a new tower development, subject to the necessary consents.

There is circa £2.15Bn under offer in the City across 18 transactions. Of this, only 3.5% was placed under offer during April, further highlighting the drop in investment activity.

Transactions placed under offer prior to the lockdown appear to be making gradual progress with much of the property-level due diligence having already been undertaken, thus placing less significance on the inevitable logistical complications of inspecting real estate. Despite progress, additional precaution is commonplace as banks and investors alike seek extra

approvals in an attempt to alleviate concerns over potential market uncertainty.

The drop in transactional activity can be attributed to many investors adopting a wait and see approach with potential sales as they've been forced to focus on managing any hangover from Q2 rent collection. Only one new opportunity was launched to the market in April.

Unsurprisingly many investors are seeking an opportunity to acquire assets at a discount. If there is to be any pressure from sellers, we expect it to become apparent closer to the Q3 rent collection date; the volume of rent received could have implications for landlords ability in meeting their financing obligations. If valuations fall, lenders may start to enforce sales as they seek liquidity. Conversely, borrowers may struggle in allocating more equity when refinancing due to lower Loan to Value ratios and higher margins.

It remains early days, however, pricing in the City is proving resilient with, as yet, no evidence to suggest a material discount for best in class stock. We do, however, anticipate a growing price gap between prime and secondary assets.

With China and Hong Kong starting to return to normal business practices, they are turning their focus back on London. The fall in value of Sterling and an anticipated pricing correction is causing many investors to consider London at a time when there is perceived to be less competition. Anecdotal evidence suggests that when there is further certainty in the market and practical constraints are eased, there remains a strong supply of investor capital ready to re-enter the market as a recovery commences.

Savills Prime City Yield remains at 4.00% with still no evidence to date to suggest there has been any impact on pricing but it is clear sentiment and attitude to risk is shifting. The only evidence since the lockdown reinforces our Prime Yield. West End prime yields remain 3.75%.



April saw **£149.40M** transact over 3 transactions



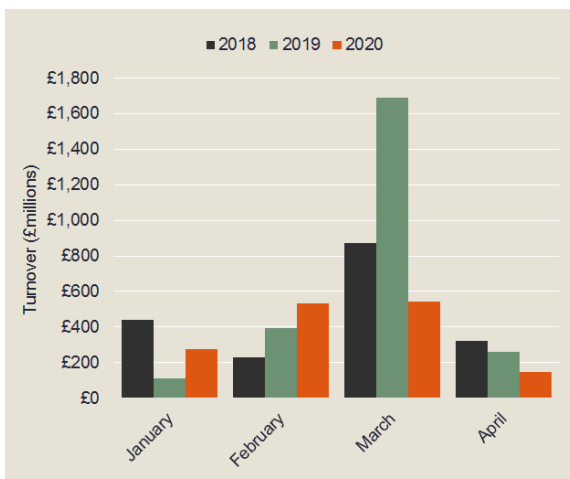
Transactional volume to date is **39%** down on the same point last year



Institutional investor's have accounted for **55%** of transactional volume to date

City investment turnover by month

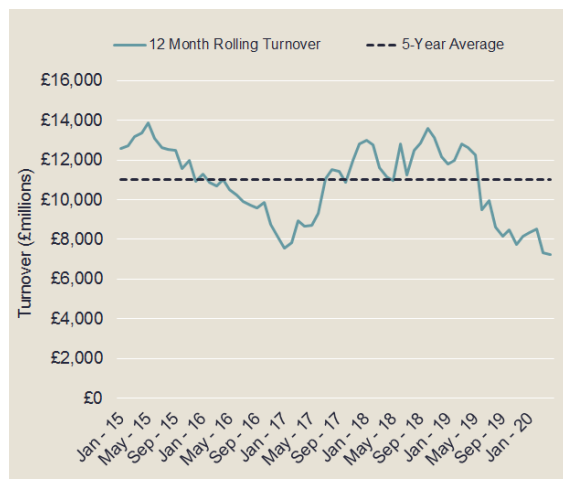
Graph 1



Source: Savills

City 12-month rolling turnover

Graph 2



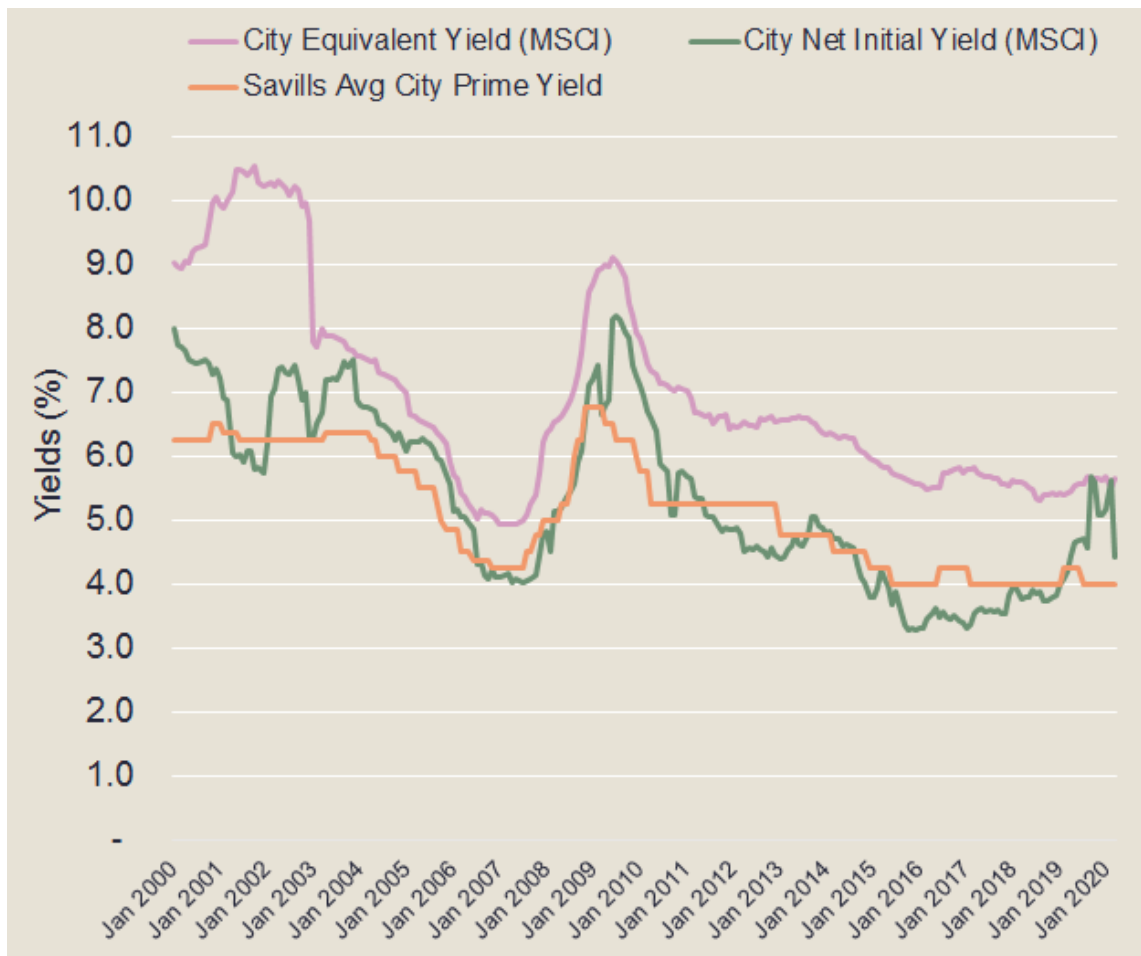
European investors have accounted for **67%** of total transactional volume amounting to **£1.01Bn**

Key deals in April 2020

Building Name	Address			Sector	Area Sq ft	Tenure			Price (£ millions)	Yield	CV/sq ft	Vendor	Purchaser
	No	Street	PC			FH/LH	U/x term	Gearing					
	90	Bartholomew Close	EC1	Office and Restaurant	30,929	FH			£48.50M	3.92%	£1,568	Helical Plc & Baupost	La Francaise
	10	Fenchurch Street	EC3	Office and Retail	77,652	FH			£94.20M	4.30%	£1,213	Chuang China	Mighty Divine

City yield graph

Graph 3



Source: Savills and MSCI

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