

City Investment Watch



Muted investment activity and price discovery set to continue into the summer

The delta between vendor and purchaser pricing aspirations continued to impact investment volumes throughout April as just three deals totalling £340.25m transacted over the month, of which 93% of the investment volume was attributed to one deal on which Savills advised. 2023 year-to-date turnover is £2.05bn across 29 transactions, reflecting a 53% decrease on 2022 by investment volume and a 38% decrease on 2022 by number of transactions.

As at the end of April, there are ten deals under offer totalling £301.7m and reflecting an average deal size of just £30.17m. At the same point last year, Savills reported healthy levels of demand with over £3bn under offer compared to today's figure which stands at just 10% of this total. Generally, there continues to be a significant lack of conviction from buyers unless there is a compelling story to deploy capital into a deal today.

In the largest transaction of the month, Savills advised Mitsui Fudosan and Greycoat Real Estate on the acquisition of Sancroft, 15 Newgate Street, EC1 from Shanghai based investor Shimao Group. Situated on a prominent island site on Paternoster Square the building benefits from immediate proximity to both St Paul's underground station and City Thameslink as well as Farringdon station. Comprising 308,000 sq ft of Grade A office accommodation extending over 7 floors, the building provides best-in-class occupier facilities and ESG credentials. Paternoster Square is immediately adjacent to St Paul's Cathedral and Sancroft benefits from typical floor plates of 42,000 sq ft with private terrace overlooking St Paul's Cathedral on the 7th floor.

The investment market at present is characterised by inertia exacerbated by rising interest rates, increasing cost of capital and ongoing price discovery. There are 23 deals totalling £767.54m that have commenced marketing this year. This compares to 44 deals totalling £4.61bn last year, highlighting the hesitancy from sellers to market assets without a push factor e.g. financing event or fund redemptions.

Over the course of the last year we have discussed the discrepancy in pricing aspirations between vendor and purchasers and this has never been more stark; one example is Lion Plaza, 5-10 Old Broad Street, EC2 which commenced marketing in November 2022 seeking offers in excess of £262.7m, 4.75% NIY & £992 per sq ft and following abortive negotiations we understand is now available at over a 20% discount to the original quoting price.

However, as noted in our March edition of the Investment Watch, we have seen good levels of investment appetite for assets at a liquid lot size (sub £100M) and if appropriately priced at discount to historic values. An example of this is Natwest's disposal of 5-10 Great Tower Street, which we understand has received pre-covid levels of interest due to the attractive quoting price (£15.0m/£269 per sq ft) and alternative use potential - the building will be sold with full vacant possession. Savills are tracking this sale closely to understand where final pricing will stand.

At the time of writing, the Bank of England increased interest rates for the twelve consecutive time since December 2021 to 4.50% (0.25% in January 2022) following similar rate rises by the US Federal Reserve and the European Central Bank. Further, Savills continues to closely monitor the UK inflation rate, which has remained stubbornly high since it peaked at 11.1% in October 2022 and stood at 10.1% as at March 2023.

Savills City prime yield has moved to 4.75%, a 100 bps outwards movement since June 2022, and compares to the West End prime yield of 4.00%. The MSCI City average equivalent yield currently sits at 6.50% whilst the net initial yield is 4.26%.



£2.05bn
year-to-date turnover
across **29** transactions



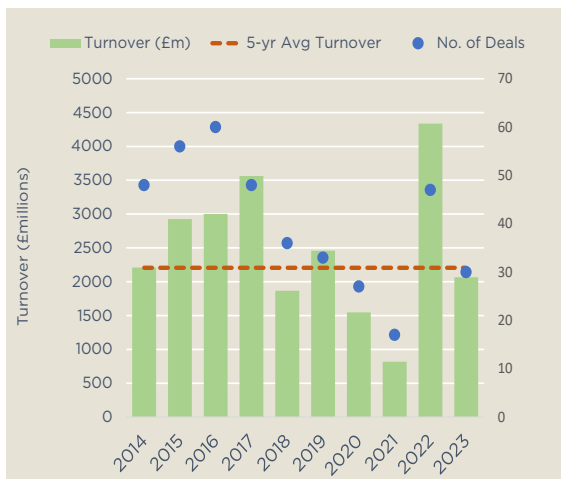
£2.66bn available
across **66** assets



23 deals totalling
£767.54m have
commenced marketing
this year

City year-to-date investment turnover

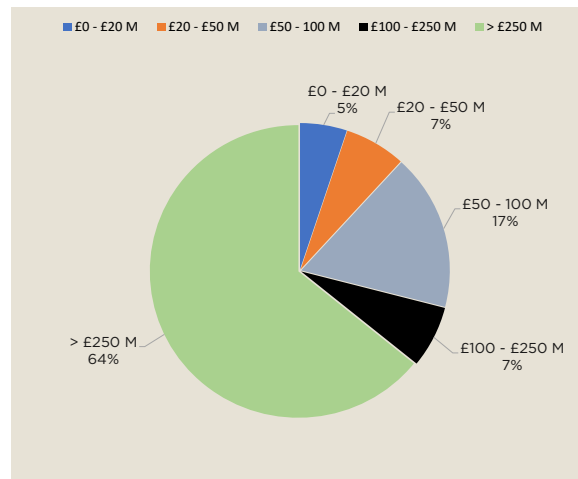
Graph 1



Source: Savills

City year-to-date investment volume by lot size

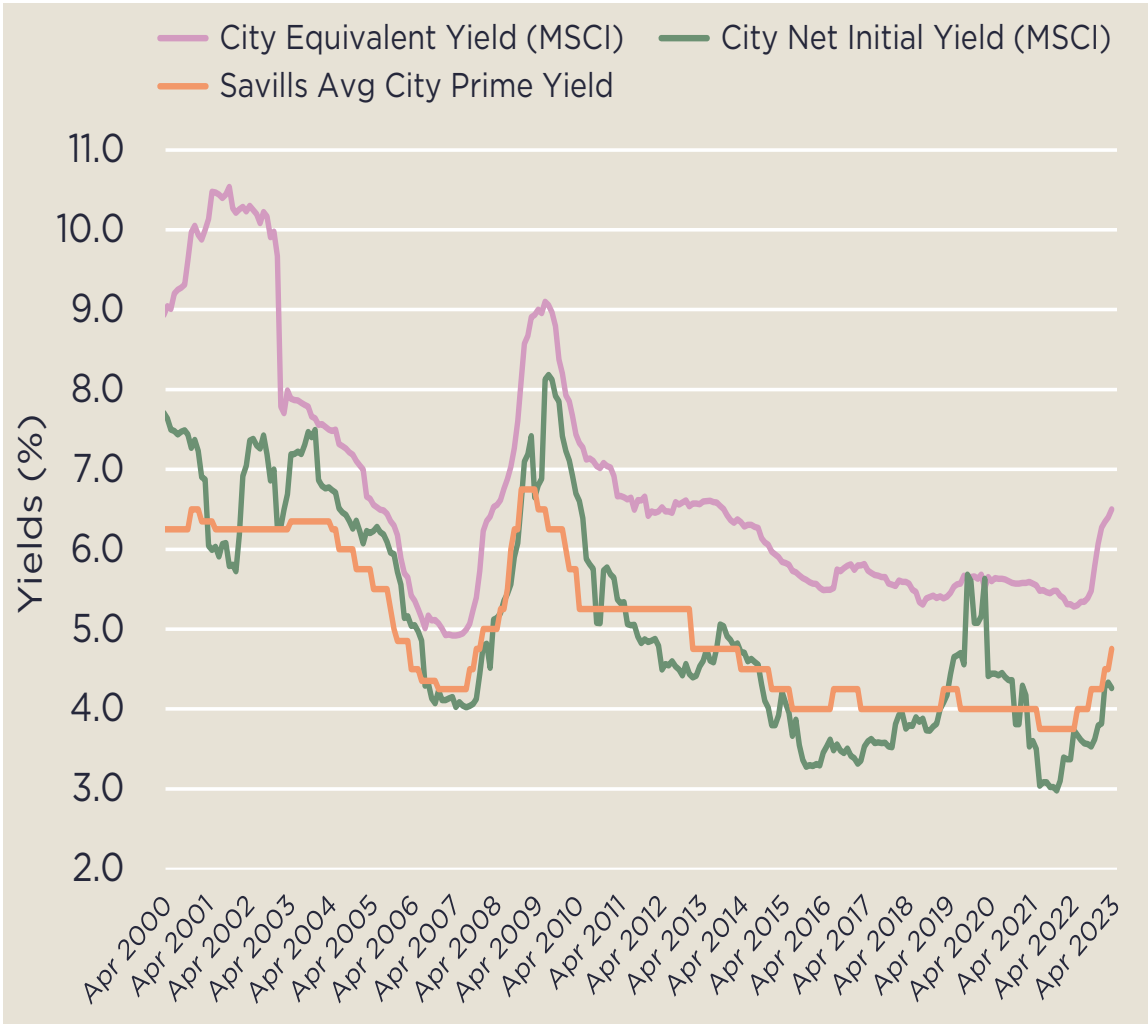
Graph 2



4.50% the Bank of
England has increased
the base rate for the
12th consecutive time

City Yields

Graph 3



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