

City Investment Watch

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Anticipated rise in transactional volume in Q4 comes under threat from new COVID-19 restrictions

October saw £541.20M transact in the City of London, which is higher than that achieved in September (£144.70M) but well below the £1.16Bn transacted in October 2019. This brings the total investment volume for the year to £3.02Bn, almost half the transactional volume recorded at the same point last year of £6.08Bn and 58% below the 10-year average (£7.13Bn). October's monthly volume was across just three transactions, which compares with 11 in October 2019.

In the most significant transaction of the month, and the year to date, Brookfield sold 1 London Wall Place, EC2 to AGC Equity Partners for £472.00M, reflecting a net initial yield of 3.85% and a capital value of £1,513 per sq. ft. The transaction comes 12 months after Brookfield acquired Oxford Properties 50% share in the entire London Wall Place scheme for £354.00M, reflecting a net initial yield of 4.21% and a capital value of £1,417 per sq. ft. The long leasehold property was developed in 2017 and comprises 311,919 sq. ft. of Grade A office and ancillary accommodation arranged over basement, ground, upper ground and 12 upper floors. The property is single let to Schroders Plc for a further 22 years, with a tenant break option in November 2037, at a gross rent of circa £62.20 per sq. ft. overall.

In the second largest deal of the month, 1 Great St Helens was acquired by a private Spanish Investor for £50.70M, reflecting a net initial yield of 5.54% and a capital value of £988 per sq. ft. The freehold building occupies a 0.17 acre virtual island site in the City's 'Eastern Tower Cluster'. The property comprises 51,311 sq. ft. of office accommodation arranged over basement, lower ground, ground and nine upper floors and is single let to Hiscox Syndicates Ltd until March 2023. The total rent passing is £3m, which reflects circa £58.44 per sq. ft. overall.

There is approximately £2.28Bn of stock under offer across 18 transactions, largely consistent with the £2.95Bn and £2.44Bn under offer at the end of September (across 21 transactions) and August (across 20 transactions) respectively.

October saw 14 new assets formally marketed, which compares with 11 in September. The lack of available stock has been omnipresent over the past 24 months. It now seems, however, a flurry of stock has become available; there is now c.£6.34Bn buyable in the City, which compares with £3.02Bn that was available at the same point last year. The most notable asset to be marketed this month is American insurer W.R. Berkley's landmark tower The Scalpel, 52 Lime Street, EC3, for a quoting price of £820.00M, reflecting a net initial yield of 3.50% and a capital value of £2,044 per sq. ft.

The volume of available stock comes at a time of inherent uncertainty in the occupational market, which could stimulate a change in pricing. However, as evidenced with 1 London Wall Place, core, income-producing assets continue to achieve strong interest and record pricing. The relative security of the UK (long leases, upward only rent reviews, freehold tenure etc.) is available at a comparative discount to other European cities where core assets are trading at c.100bps premiums. We anticipate this trend to continue when set against multiple macro eco-political influences that could result in sustained low interest rates and negative bond yields across Europe.

Q4 is typically the busiest as investors come under pressure to allocate capital before year end. We expect this trend to continue this year, albeit this largely depends on how the latest surge of COVID-19 is managed. As London enters into its much anticipated second lockdown, in line with much of the rest of the UK and Europe, we anticipate this will suppress business in the short term.

As explained, due to the strength in the core market, Savills Prime City Yield remains at 4.00% for the 16th consecutive month and the West End prime yield has hardened to 3.50%.



October saw **£541.20m** transact over three deals



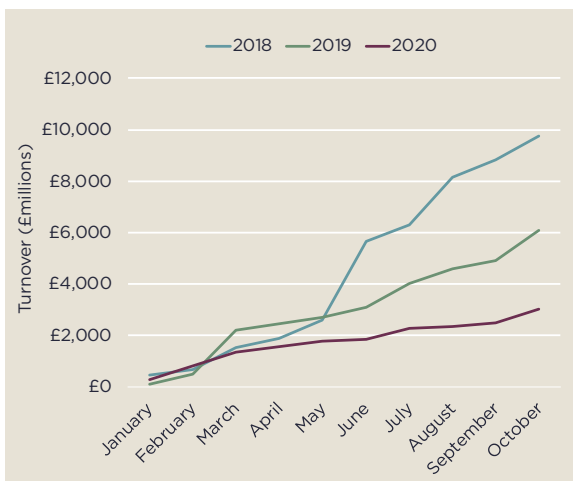
1 London Wall Place is the largest transaction to have happened in 2020 at **£472.00m**



Institutional investors have accounted for the greatest proportion of turnover to date in 2020 with **£1.52bn** or 50% of volume

City cumulative investment turnover

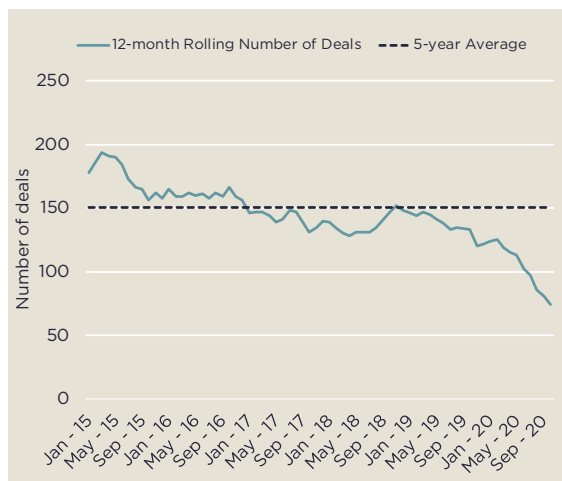
Graph 1



Source: Savills

City 12-month rolling number of transactions

Graph 2



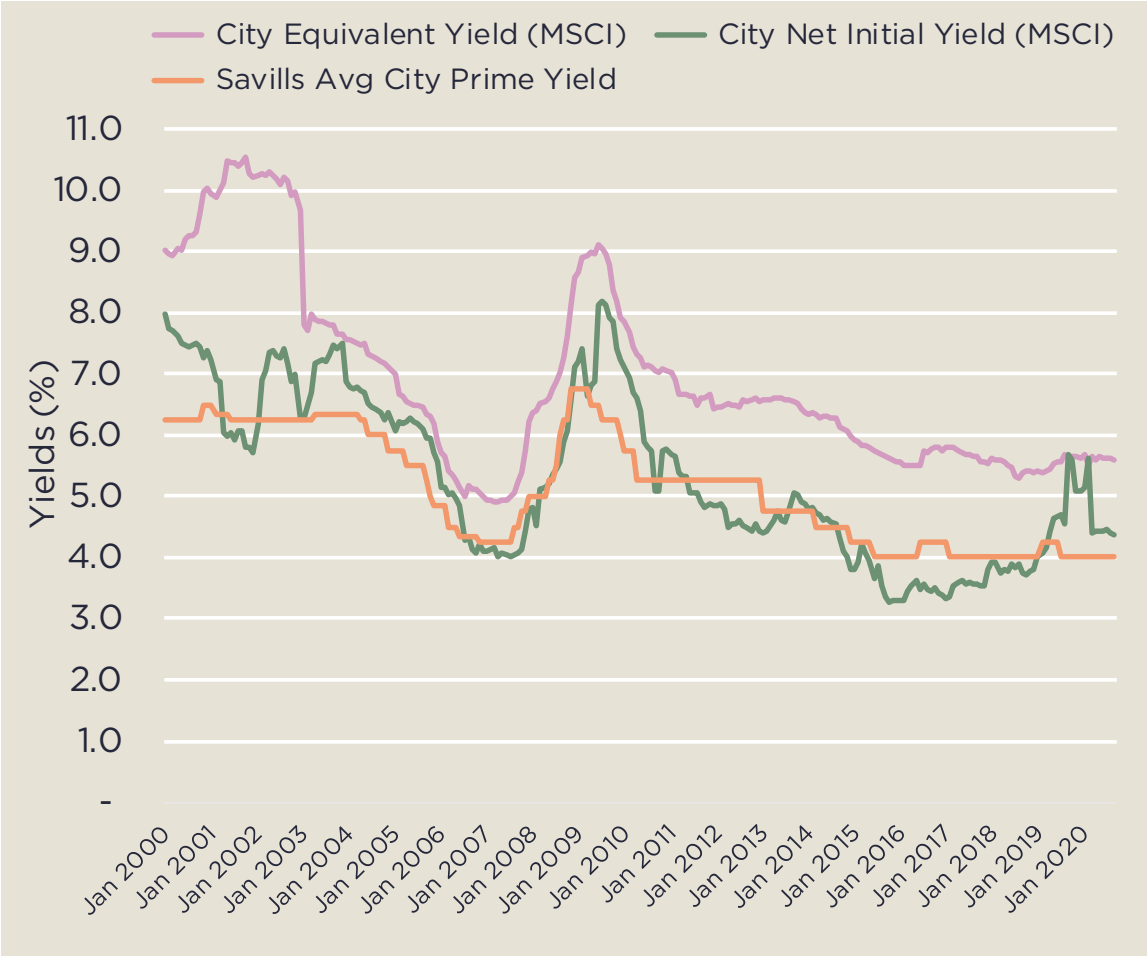
European investors have accounted for **40%** of total transactional volume amounting to **£1.22bn**

Key deals in October 2020

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					
	1	London Wall Place	EC2	Office	311,919	LLH	244	5.00%	£472.0 M	3.85%	£1,513	Brookfield	AGC Equity Partners
	1	Great St Helens	EC2	Office	51,331	FH	-	-	£50.70 M	5.54%	£988	State Street Bank	Private Spanish Investor
	20-24	Kirby Street	EC1	Office	22,500	FH	-	-	£18.50 M	4.41%	£822	Aberdeen Standard Investments	Morgan Capital

City yield graph

Graph 3



Source: Savills and MSCI

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