

City Investment Watch

savills

Year-to-date turnover above 5-year average but market experiencing reduced activity in the final quarter

As we enter the final two months of the year, there are clear signs of a slowing in activity as October saw just two deals transact totalling £252.95m, significantly below the five-year average for October of £715M. However, total investment volume for the City of London as at the end of October 2022 stands at £7.68bn across 91 deals, a 25% year-on-year increase and in line with the five year average of £7.67bn. As it stands, there is £2.13bn under offer across 24 deals with an average transaction size of £89m although it is unclear how many of this will exchange prior to year-end.

In the largest deal of the month, the German investor, Wirtgen Invest Holding GmbH acquired 50 Finsbury Square in an off market transaction from GPE. Located on the northern boundary of the City of London and Islington, the property occupies a prominent corner position within 400 metres of Liverpool Street station. Held freehold, the building comprises 129,164 sq ft of office and retail accommodation with the office accommodation pre-let to Inmarsat on a straight 15 year lease at an annual passing rent of £9.0 million, reflecting £68.45 per sq ft. There are 4 retail units, of which 3 are under offer and the fourth is let to Blank Street Coffee. The price paid was £218.25m, 3.85% NIY & £1,690 per sq ft (£190.0M, 4.44% NIY & £1,471 per sq ft net of top ups). The last 6 months have been characterised by rising inflation, upwards movement in interest rates and a more challenging debt financing environment as well as outwards pressure on prime yields, making this transaction stand out in the context of today's market conditions.

As alluded to in previous versions of the City Investment Market Watch, the Government's 'mini-budget' on 23rd September surprised both the real estate and financial markets as demonstrated by the 120 basis point spike in the 30-year gilt yield over just three days resulting in a pause of activity in the City market in October compared with previous years. However, with a new Prime Minister having been appointed and the majority of the 'mini-budget' policies

reversed, there are signs of hope that the turbulence created from this event has subsided. We await the Chancellor's Autumn Statement on 17th November to provide further clarity as to the UK Government's future economic plan.

The result of political and economic instability on a macro level has penetrated through to rising interest rates, SONIA rates and cost inflation. UK interest rates have seen successive increases since the start of the year; as at the time of writing the Bank of England has increased interest rates by 0.75% to 3.00%, the largest increase in 30 years and representing an increase of 2.75% since December 2021. Furthermore, SONIA rates rose to a high of 5.2% in September, illustrating an increase of 4.7% since September 2021 although this fell back to c. 4.30% at the end of October and even further to c. 4% as at the time of writing in the beginning of November. Finally, continued high inflation continues to put pressure on the market as it rose to 10.1% in October 2022 but is not anticipated to rise significantly further following the Government's cap on energy bills.

More anecdotally, a flurry of new opportunities were launched to market in October, in part driven by the redemption pressures on U.K. funds, but at much smaller lot sizes than usual. The largest opportunities brought to market in the City is c. £30 million and is reflective of the challenging debt markets as most investors are looking to buy in cash. However, as always, with challenge comes opportunity and we have witnessed renewed confidence from overseas investors, particularly \$USD pegged currencies, who view the market as providing opportunities in light of pricing movement and weakening currency.

Savills City Prime yield sits at 4.25% which compares to the West End prime yield of 3.75%. The MSCI City average equivalent yield currently stands at 5.48%, and the MSCI net initial yield stands at 3.53%.

City year-to-date investment turnover

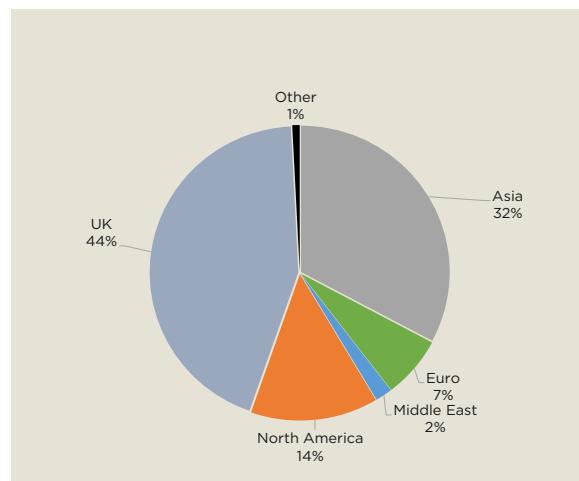
Graph 1



Source: Savills

City investment turnover by nationality

Graph 2



£7.7bn
2022 year-to-date turnover across **91** transactions



5-yr SONIA swap rate
is currently **3.97%**



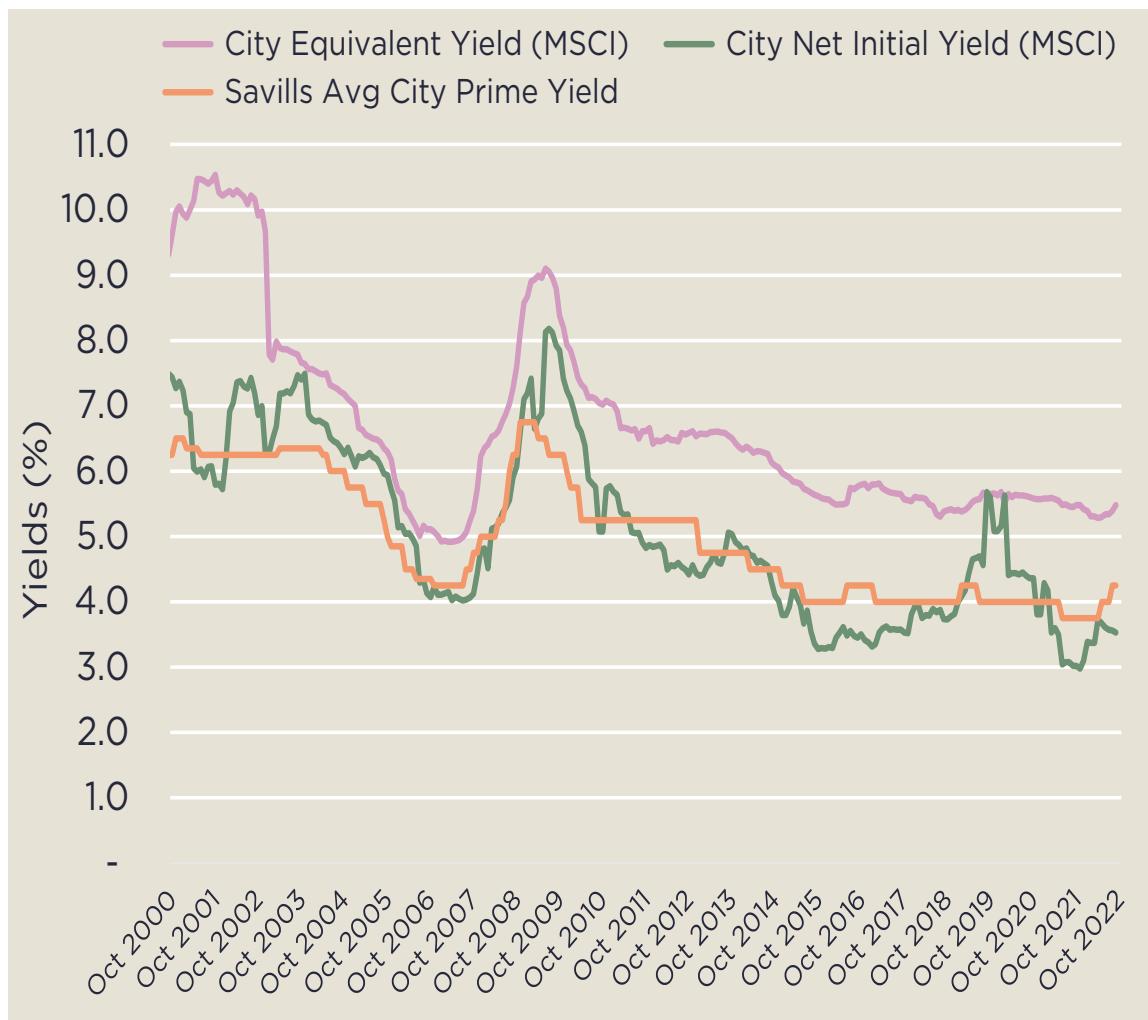
£2.1bn worth of stock under offer across **25** deals



UK investors account for **44%** of 2022 year-to-date investment turnover

City Yields

Graph 3



Savills contacts

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