

City Investment Watch

City turnover set to reach £12.0BN, for only the fourth time on record

October 2018

Market comment and notable deals

■ Investment turnover across September saw six transactions totalling £582.15 M, taking overall investment for 2018 at the end of Q3 to £8.63 BN across 94 transactions. This is in line with last year's figures of £8.67 BN across 94 deals.

■ At the end of Q3 2018 there are currently over £2.50 BN of transactions under offer, compared with only £900M in 2017.

■ There is undoubtedly continued demand from domestic and overseas investors, however, we believe year end turnover will be affected by a lack of available stock. At this stage last year total availability stood at over £6.50 BN, compared to current availability of only £1.50 BN, across 28 opportunities.

■ Savills predict turnover for the year will reach £12.0 BN, which will be only the fourth time in history investment volumes have reached this mark, and considerably higher than the 10 year average of £8.37 BN. At this juncture we expect volumes will fall short of the record £12.64 BN transacted in 2017.

■ In the largest transaction of the month, Norges Bank Real Estate Management acquired the freehold interest in Sixty London, Holborn Viaduct, EC1 for £330.0M, reflecting a net initial yield of 3.85% and a capital value of £1,396 per sq ft. The landmark office building occupies a 0.7 acre site and provides 236,422 sq ft of Grade A office and retail accommodation. The offices are let to Amazon for over 10 years, at a rent of £54.71 per sq ft overall, which is subject to annual CPI linked increases with a minimum of 1.0% and maximum 4.0% uplift.

■ Another notable transaction in September saw Singaporean investor City Developments Ltd acquire the freehold interest in Aldgate House, 33 Aldgate High Street, EC3 for £183.0M, reflecting a net initial yield of 4.93% and a capital value of £868 per sq ft. The property provides 211,855 sq ft of office, retail and ancillary accommodation and is multi let to four office and one retail tenant. The current passing rent of £9,247,572 per annum reflects £43.65 per sq ft. The weighted average unexpired term is 7.4 years to expiry and 5.4 years to breaks.

■ In their third City acquisition of 2018, M&G Real Estate acquired Gate House, 1 St John Square, EC1 in an off market transaction for £28.50M reflecting a net initial yield of c.5.0% and a capital value of £1,086 per sq ft. The freehold building comprises 26,254 sq ft and is multi let on a floor by floor basis. Originally developed in the 1960's the property benefits from planning permission for an extension of the 3rd and 4th floors and an additional 6th floor.

■ Asian investors continue to account for the largest share of investment into the City, with 57% of total volume to date, £4.96 BN across 20 transactions. UK investors still lead the way in terms of number of deals, having acquired 42 buildings up to the end of Q3 2018, totalling £1.55 BN (18% of total volume).

■ Our prime City yield remains at 4.0% which compares with the West End prime yield of 3.25%.

GRAPH 1

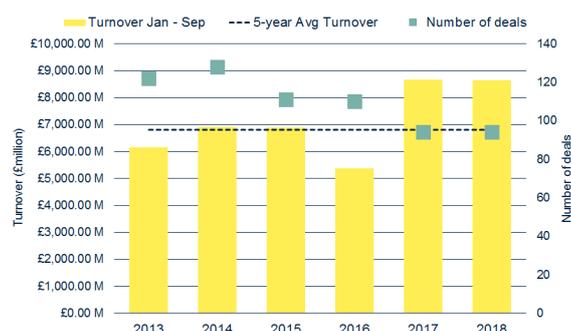
City 2018 monthly turnover



Graph source: Savills

GRAPH 2

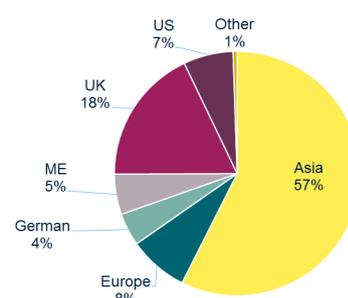
City investment volumes (to September)



Graph source: Savills

GRAPH 3

City turnover by purchaser nationality



Graph source: Savills

TABLE 1
Key deals in September 2018

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Sixty London	60	Holborn Viaduct	EC1	Office / Retail	236,422	FH			£330.00 M	3.85%	£1,396	Hines	Norges Bank Real Estate Management
Aldgate House	33	Aldgate High Street	EC3	Office	210,826	FH			£183.00 M	4.93%	£868	Hermes Real Estate Investment Management / CPPIB	City Developments Limited
Gate House	1	St John's Square	EC1	Office	26,254	FH			£28.50 M	5.00%	£1,086	Private Investor	M&G

Table source: Savills

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