

City Investment Watch



Transactional drought as vendors press pause

September saw £220.2M transact across four deals, the second lowest month in 2019 behind January, which saw £111.25M transact across the same number of deals. This takes the total level of investment into the City of London during Q3 to £1.84BN, which compares with £2.18BN and £840M in Q1 and Q2 2019 respectively. This is 41% below Q3 2018 but just 8% below the 10-year average of £2.0BN. There have been 80 transactions so far in 2019, which is 19% down on the same point last year (99 deals) and 27% down on the 5-year average (109 deals).

Total investment volume for the year to date amounts to £4.86BN, which remains low in a historic context; 45% below the same point in 2018 and 19% below the 10-year average. So far in 2019, there have been 13 deals with lot sizes of £100M or more, totalling £2.92BN and 60% of total transactional volume. This is 53% below the same point in 2018 when 20 assets over £100M had transacted totalling £6.26BN and 71% of total volume.

September typically sees a flurry of activity as investors return from the summer recess looking to transact prior to year-end. However, with the well documented uncertainty, such activity has not been forthcoming to date. We are aware of a significant weight of capital targeting London, primarily driven by attractive currency rates and more attractive returns than competing European/global markets. At the time of writing, we are aware of 15 buildings currently openly marketed in the City totalling £740.3M.

An interesting observation in the current political landscape has seen the Value Add opportunities attract significant interest as investors look up the risk curve to achieve their required returns. Of the total transaction volume to date, approximately 32% (£1.55BN) can be attributed to such opportunities.

In the largest transaction of the month, Savills advised CBRE Global Investors and Arax Properties, on the acquisition of the long leasehold interest in 280 Bishopsgate, London EC2. The prominent headquarters office and retail building situated on the eastern side of Bishopsgate, opposite Liverpool Street station, comprises 273,110 sq ft on a 0.7 acre island site. The building is currently occupied by the owners, Royal Bank of Scotland, who will vacate the property by Q1 2020 providing an opportunity to refurbish and reposition the asset thereafter.

In another Value Add transaction, CCLA have sold the freehold interest in 1 Fetter Lane, EC4. The prominent corner building is situated on the eastern side of Fetter Lane at the junction with Fleet Street to the south. The building comprises 24,056 sq ft and is multi-let to one office and four retail tenants. The office lease has an unexpired term of approximately 0.5 years providing a purchaser with an opportunity to undertake a refurbishment and re-let the building thereafter.

So far in 2019, UK investors have accounted for the largest share of investment, having been responsible for 37% of investment volume across 43 transactions totalling approximately £1.8BN. US investors are close behind having accounted for 31% of the total investment volume.

Savills City Prime yield remains at 4.0%, which compares with the West End prime yield of 3.75%. The MSCI average equivalent yield has softened slightly and currently stands at 5.67%, while the net initial yield has hardened slightly at 4.56%.

£4.86BN

invested as at Q3 2019



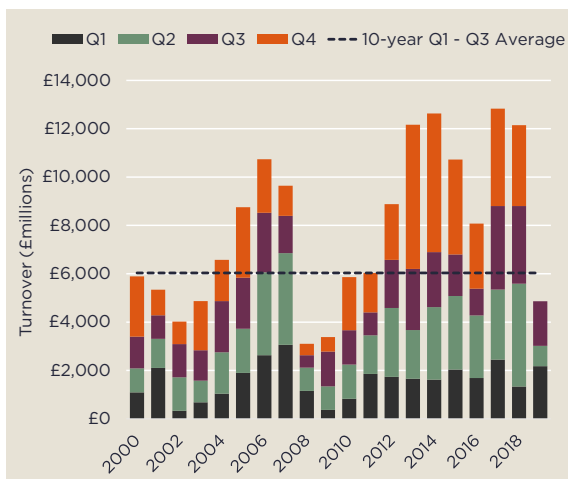
Only **15** buildings on the open market as vendors press pause

Prime City yield currently at

4.0%

Investment turnover by quarter

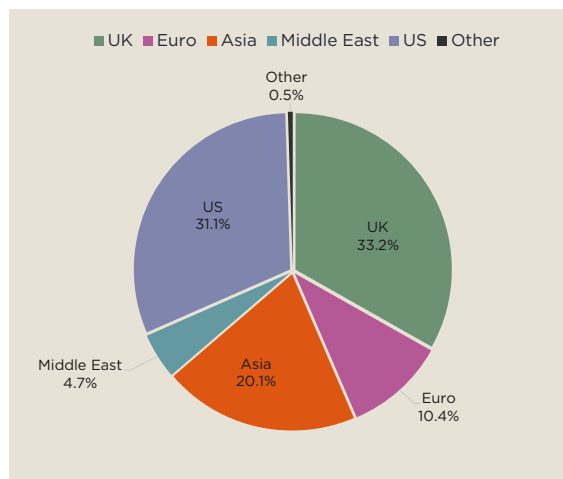
Graph 1



Source: Savills

City turnover by nationality

Graph 2



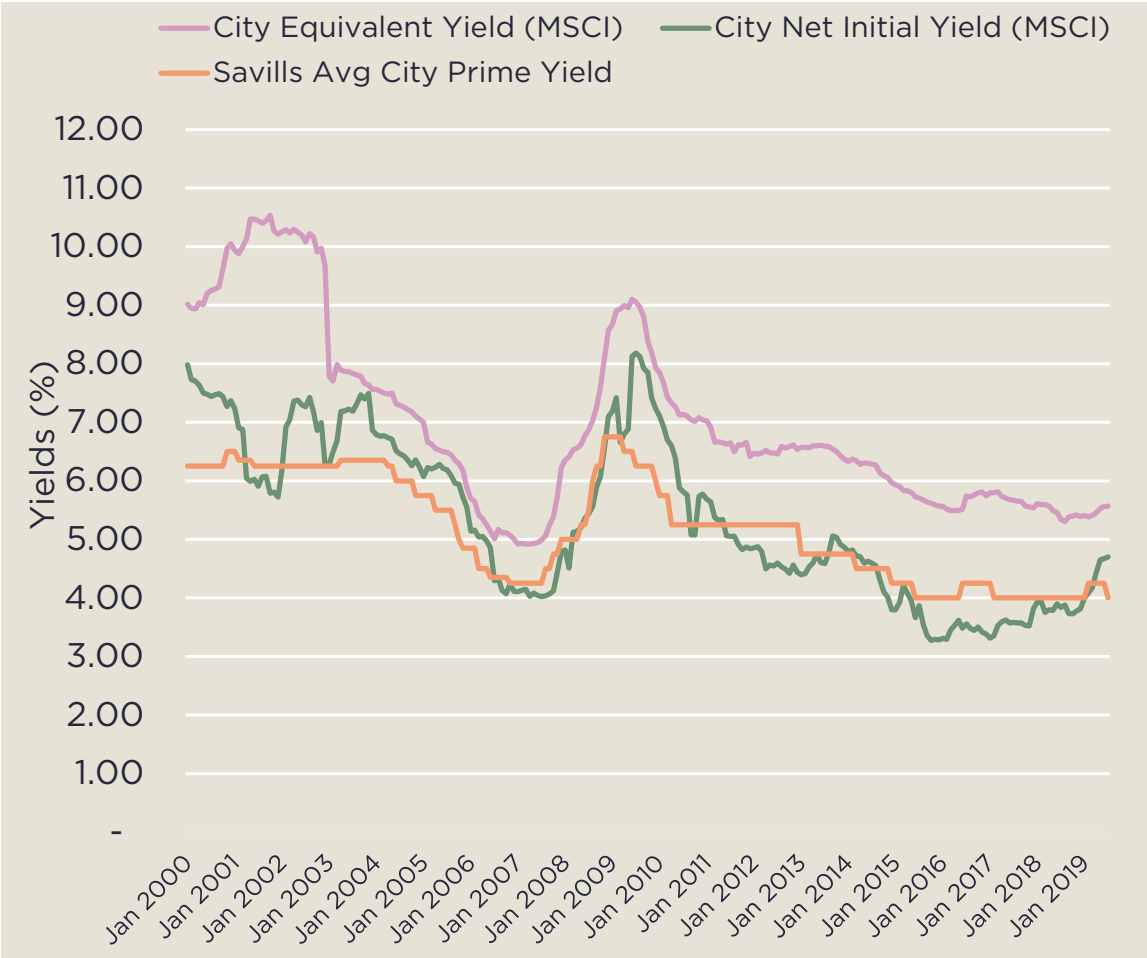
Private investors have accounted for 26 deals amounting to £1BN so far this year, compared with 25 deals amounting to £2.2BN last year

Key deals in September 2019

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/ LH	U/x term	Gearing					
	280	Bishopsgate	EC2	Office/ Retail	273,110	LLH	122	3.93%	£190.00 M	-	£696	RBS	CBREGI and Arax Properties
	1	Fetter Lane	EC4	Office/ Retail	24,056	FH	-	-	£22.80 M	4.93%	£948	CCLA	Haga Group (Private Israeli Investor)
	352- 358	City Road	EC1	Office	6,970	FH	-	-	£5.10 M	-	£732	Cranstoun	Fenbrook Holdings Limited
	182- 186	St John Street	EC1	Retail	4,317	V.FH	977	P'corn	£2.30 M	4.09%	£533	Private Turkish Investor	Atlas Property

City yield graph

Graph 3



Source: Savills and MSCI

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