

City Investment Watch



Sharp decline in transactional volume during summer recess

In stark contrast to the previous month, August saw just £44.00m transact in the City of London, significantly lower than that achieved in July (£445.35m) and the same point last year (£553.19m). August's monthly volume is the lowest since April 2009 and brings the total yearly investment volume to £2.33Bn, which compares with £4.59bn at the same point last year.

While the drop in investment volume is significant, the number of completing transactions has remained consistently subdued since the outbreak of COVID-19, as evidenced in graph 2. This was emphasised last month by the summer break when investment activity naturally slows. Our analysis shows over the past five years there is on average a 110% fall in monthly transactional volume between July and August. There have been a total of 18 deals which have exchanged since March, with no more than five transactions occurring in each of the last five months.

The one deal that completed in August saw St Paul's House, 8-12 Warwick Lane, EC4 acquired off market by a Private Investor for circa £44.00m, reflecting a net initial yield of 3.80% and a capital value of £1,187 per sq. ft. The freehold property is situated opposite Paternoster Square, approximately 200 metres to the west of St Paul's Cathedral. Developed in 2012, the property comprises 37,068 sq. ft. of Grade A office accommodation arranged over lower ground, ground and six upper floors. The property is let in its entirety to the Co-operative Group for a 20 year term from June 2013, subject to a break option in June 2028 (approximately 7.8 years unexpired). We understand the tenant has sub-let much of the space. The building provides a total passing rent of circa £1,785,000 per annum, reflecting an overall rent of £48.15 per sq. ft.

The drop in transactional volume does not paint a wholly accurate picture. As social distancing guidelines have eased there has been a build-up of latent investment stock resulting in seven new assets being launched to the market in August

bringing the total volume of available stock to approximately £3.25bn.

In uncertain markets there is often a flight to quality as investors become increasingly risk averse seeking core, long-term, income-led opportunities. Such demand will be tested with the sales of Henderson Park and Endurance Land's 66 Shoe Lane, EC4 and Landsec's 1 & 2 New Ludgate, EC4. That said, there remains a large weight of domestic and global capital seeking more opportunistic value add opportunities such as the Mark Lane Estate.

We understand there is approximately £2.44bn of stock currently under offer across 20 transactions, this is similar to the end of July's £2.43bn, across 19 transactions. Furthermore, there were five bidding processes during August, highlighting the weight of money and continued investor demand, the results of which will likely be felt in the coming months.

While the quantum of stock made available and subsequently placed under offer increases, there are comparatively low proportions exchanging. Paradoxically, an increase in investment activity will reaffirm pricing, which could then result in further deal activity towards the end of the year when more stock is typically marketed.

As businesses encourage employees back to the office in September, we are hopeful market sentiment will continue to improve culminating in increased availability and turnover. If we have learnt anything in the past six months, it is that the course of any 'normality' returning is largely subject to whether there is a second 'spike' in Covid-19 cases culminating in new lockdowns and quarantine limitations further restricting the market.

While there has been a lack of market activity, pricing for prime stock has remained robust. Savills prime City yield remains at 4.00% for the 13th consecutive month and the West End prime yield remains at 3.75%.



August saw **£44.00m** transact over 1 deal



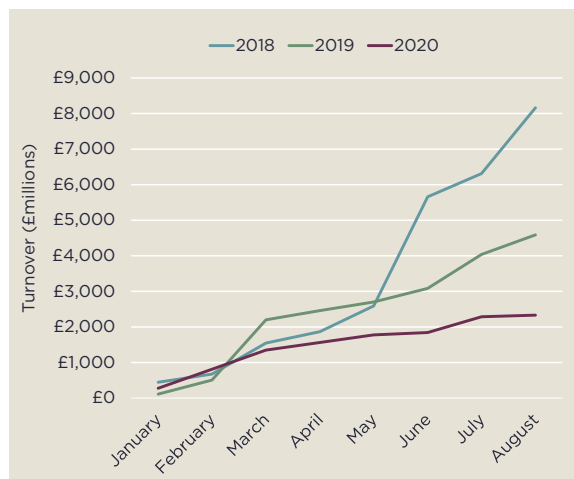
August monthly turnover is the lowest since **April 2009**



Institutional investors have accounted for the greatest proportion of turnover to date in 2020 with **£913.35m** or 39% of volume

City cumulative investment turnover

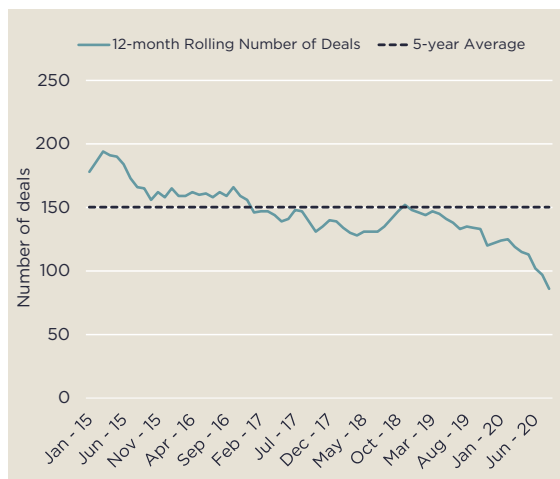
Graph 1



Source: Savills

City 12-month rolling number of transactions

Graph 2



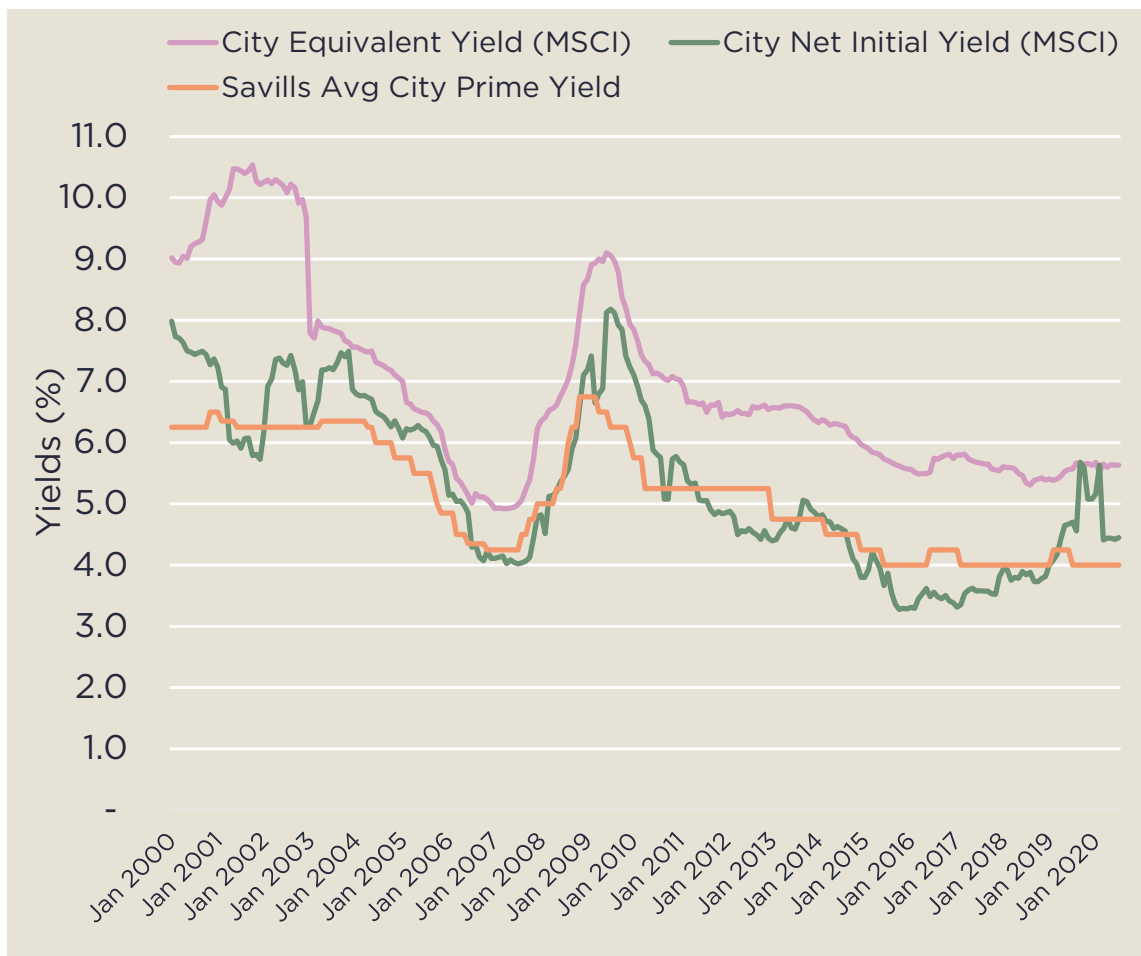
European investors have accounted for **50.1%** of total transactional volume amounting to **£1.17bn**

Key deals in August 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					
St Paul's House	8-12	Warwick Lane	EC4	Office	37,068	FH			£44.00m	3.80%	£1,187	Private Turkish Investor	Private Danish Investor

City yield graph

Graph 3



Source: Savills and MSCI

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