

West End Investment Watch

Q1 Transactions muted but strong and diverse demand still the theme for 2015

April 2015

Market comment and notable deals

■ March saw volumes of £430m over 12 transactions, bringing Q1 2015 to £963m over 27 transactions. After a busy January, transactional volumes slowed leading to the lowest quarterly turnover and number of recorded transactions since Q2 and Q1 2009 respectively (graph 1). However this was still broadly consistent with the Q1 average over the last 10 years. With almost £2bn currently under offer we forecast Q2 transaction volumes will significantly exceed those achieved over the first three months of the year.

■ In the largest deal of the month Threadneedle acquired One Neathouse Place, a mixed office and retail investment, for £100.5m reflecting a 5.00% net initial yield and a capital value of £856 per sq ft. The offices are single let to BHP Billiton Petroleum until June 2017 at a rent reflecting £51.45 per sq ft. The office tenant is rumored to be vacating the property at lease expiry.

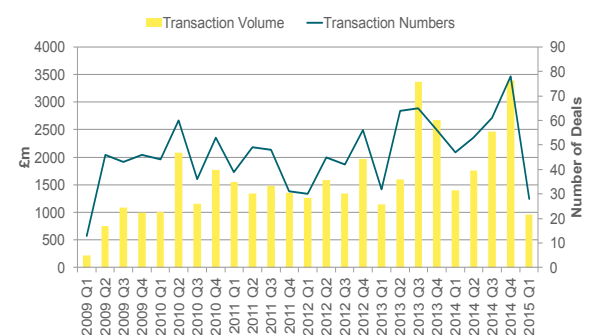
■ A private Hong Kong investor has purchased 175-179 Oxford Street for £58m reflecting a capital value of £2,733 per sq ft. The property is let to five tenants at a passing rent of £1.49m per annum. The retail element is currently passing off £433 ZA and is subject to an outstanding review from March 2015. This reflects an approximate initial yield on the retail of 2.00% assuming 3.75% on the offices. On settlement of the outstanding review we estimate a retail equivalent yield of 2.75%.

■ Further to our comment in the March edition concerning the uptick of Kensington High Street transactions, DTZIM has purchased 129-137 & 151-161 Kensington High Street for £55.4m reflecting a 4.04% net initial yield and a capital value of £1,540 per sq ft. The property consists of a retail parade of 11 units and 19 residential flats totalling 35,981 sq ft.

■ A lack of openly marketed product combined with a continuing appetite for Central London property has led to the continuation of record prices being achieved for all commercial asset classes within the West End. With under £100m of stock entering the open market during March the current supply demand imbalance shows no sign of abatement. Investors looking to capitalise on current pricing, by selling, continue to be UK Investors who were considerably the largest vendor nationality of stock traded in Q1 (graph 2).

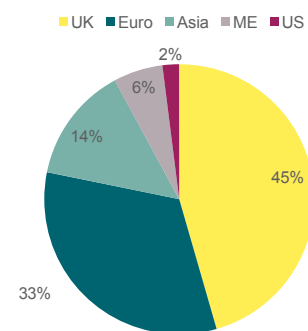
■ Savills prime hypothetical West End yield remains at 3.25% with the IPD average equivalent yields currently standing at 4.79% (Feb 2015), down from 5.19% 12 months ago. Considering current investor demand we expect IPD yields to continue to be squeezed further over the next three months.

GRAPH 1
Quarterly Transaction figures



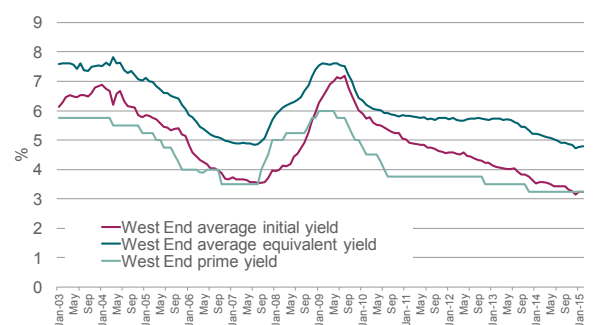
Source: Savills

GRAPH 2
Q1 2015 Vendor Nationality Profile



Source: Savills

GRAPH 3
West End yields



Source: Savills

TABLE 1
Key deals in March 2015

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
House	No	Street	PC			FH/LH	U/x term	Gearing					
	1 27-31,39 & 40	Neathouse Place, Wilton Street	SW1	Office Retail Total	96,595 20,877 117,472	FH			£100.50 M	5.00%	£856	IVG	Threadneedle
Regent Arcade House	25	Argyll Street	W1	Office	65,565	LH	118	pep	£75.00 M	4.59%	£1,144	Stenham	Stenprop
	175-179	Oxford Street	W1	Retail Office	21,223	FH			£58.00 M	2.43%	£2,733	NFU	Private Asian Investor
	129-137 & 151-161	Kensington High Street	W8	Retail Residential	35,981	FH			£55.40 M	4.04%	£1,540	Aviva	DTZim
	40-41	Great Marlborough Street	W1	Office (Planning for residential)	12,052	FH			£18.25 M	n/a	£1,514	Westbrook	Private Hong Kong Investor
Remax House	31-32 33-34	Alfred Place	WC1	Office	43,383	LH	39 39	£1,250	£16.50 M	n/a	£380	Candy & Candy	GPE
	54	Abingdon Road	W8	Retail Residential Total	5,016 1,813 6,829	FH			£5.60 M	2.11%	£820	Private UK investor	Private UK investor
	33	Eastcastle Street	W1	Retail / Gallery	3,122	vFH		pep	£3.95 M	n/a	£1,265	Private UK investor	Langham Estate

Please contact us for further information



Paul Cockburn

Director

+44 (0)20 7409 8788

pcockburn@savills.com



Chris Gillum

Director

+44 (0)20 7409 5918

cgillum@savills.com



Simon Ewart Perks

Director

+44 (0)20 7409 8003

seperks@savills.com



Jonathan O'Regan

Director

+44 (0)20 7409 8179

joregan@savills.com



Barry Mangan

Director

+44 (0)20 7409 5915

bmangan@savills.com



Ed Nicholson

Associate Director

+44 (0)20 7409 8004

enicholson@savills.com



George Gawthrop

Associate

+44 (0)20 7409 8002

ggawthrop@savills.com

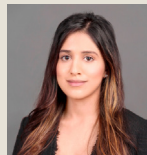


Anastasia Hicks

Surveyor

+44 (0)20 7299 3022

ahicks@savills.com



Jas Rahi

Research

+44 (0)20 7016 3832

jrahi@savills.com

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