

West End Investment Watch

Bumper January sets Q1 off to a strong start

February 2016

Market comment and notable deals

■ The West End witnessed just 8 transactions in January however, this included a number of significant deals which led to a bumper monthly turnover of £895m, already 81% of total Q1 2015 turnover volume figures (see graph 1).

■ Acting on behalf of the UK Government, Savills alongside investment bank Lazard agreed the £371m sale of a 36.5% stake in the iconic King's Cross redevelopment to AustralianSuper. The significant shareholding in Europe's largest city centre development encompasses 8m sq ft of residential, office, education, restaurant and retail uses. The Government's stake in King's Cross is held by its wholly-owned subsidiary, London & Continental Railways, which has overseen the development at King's Cross on behalf of the Government for 20 years. Other owners also sought to sell or reduce their holdings by selling simultaneously. This gives the majority shareholder a stake of over 65%.

■ On behalf of Deka Immobilien GmbH, Savills acquired 33 Margaret Street for £216.25m, reflecting a 3.3% net initial yield and a capital value of £2,085 per sq ft. The part freehold/part leasehold property comprises 103,700 sq ft of predominately offices, developed in December 2012 by Great Portland Estates. The offices are fully let to Savills until 2032 with the remainder of the building's income coming from two retail units fronting Regent Street. The transaction formed part of a wider agreement with Great Portland Estates, who acquired 50 Finsbury Square, EC2 from Deka at the same time.

■ In an off market transaction, City & General Estates has sold the freehold interest in 2 Savoy Court for £38m, reflecting a 3.57% net initial yield and a capital value of £1,188 per sq ft. The property comprises 31,993 sq ft of office, retail and leisure accommodation and is multi let at a overall passing rent of £44.91 per sq ft. With a range of lease events over the next couple of years and with rents in this submarket location continuing to improve, this appears to represent a fair value transaction.

■ Short leasehold opportunities continue to trade at strong levels within the West End. In January MSS Real Estate purchased 10 Charles II Street, a 68 year unexpired leasehold interest for £10.2m, reflecting a net initial yield of 3.44% and a capital value of £1,172 per sq ft. The property is multi let at an average rent of £48.36 per sq ft.

■ Savills prime yield remains at 3.00%, its eighth month at this level, with the IPD average equivalent yield currently at 4.64% (see graph 2). With continued demand for a range of asset classes within the West End, we do not envisage any outward movement in yields within the short term.

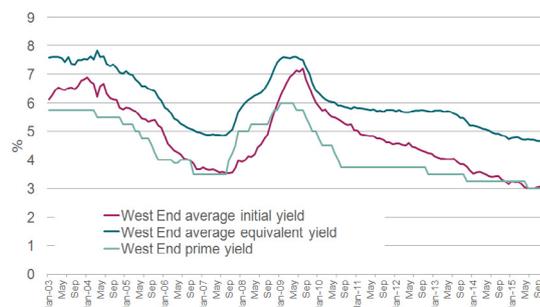
GRAPH 1
Q1 Investment Values



*To end of January 2016

Source: Savills

GRAPH 2
Yields



Source: Savills

TABLE 1
Key deals in January 2016

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
House	No	Street	PC			FH/LH	U/x term	Gearing					
King's Cross Estate			N1C	Office Residential Retail Education	n/a	36.5% of FH			£371.00 M	n/a	n/a	London & Continental Railways	AustralianSuper
	33	Margaret Street	W1	Office Retail	103,700	FH LH			£216.25 M	3.30%	£2,085	Great Portland Estates	Deka Immobilien GmbH
	2	Savoy Court	WC2	Office Retail Leisure	31,993	FH			£38.00 M	3.57%	£1,188	City & General Estates	Revenco
	10	Charles II Street	SW1	Office Retail	8,701	LH	68	15.00%	£10.20 M	3.44%	£1,172	A&A Investments	MSS Real Estate

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Savills plc

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