

West End Investment Watch

Brexit shock but income-focused product predicted to remain resilient

July 2016

Market comment and notable deals

■ June saw volumes of £245m over 14 transactions pushing turnover to £3.58bn to the end of H1. Whilst the total Q2 turnover of £1.2bn was the lowest since 2009, the strong start the year meant H1 was 14% and 32% in excess of the 5 and 10 year averages respectively (see graph 1).

■ In a landmark pre Brexit transaction a private UK investor has purchased 169 New Bond Street for £65m reflecting a net initial yield of 1.55% and a incredible capital value of £18,830 per sq ft. The property is let to Richemont (t/a Piaget) on a lease expiring March 2035 at a current passing rent of £1.073m per annum, equating to £1,390 ZA. From our records this sale represents the highest value transaction on a capital value per sq ft basis of any asset including residential in London.

■ Acting on behalf of Standard Life Investments, Savills sold the long leasehold interest (119.5 years / 10% gearing) of 20 King Street for £50.2m reflecting a net initial yield of 3.59% and a capital value of £1,704 per sq ft. The property totals 22,450 sq ft of office and 7,018 sq ft of retail / gallery accommodation. The property offered the potential for vacant possession, with the sole office tenant, GAM (UK) Ltd, having expressed an intention to negotiate a surrender of its lease although we understand its occupational requirement is being reviewed following the outcome of the referendum.

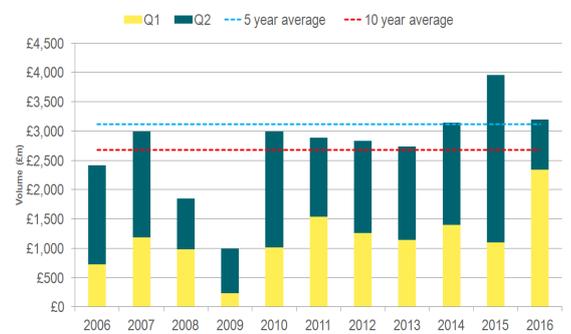
■ Acting on behalf of a Private European Investor, Savills has acquired the freehold interest in two public houses from TH Real Estate for a combined price of £13.5m, reflecting a net initial yield of 3.50%. Both the Goat Tavern and the Two Chairmen are let to Spirit Pub Company (Managed) Ltd on leases expiring in 2044. The leases are subject to fixed increases and offer the prospect of re-basing to upward only open market reviews every five years from March 2022, at the Landlords discretion.

■ The outcome of the June referendum has caused much uncertainty in the property market, with many UK funds downgrading their portfolio unit prices and moving to weekly valuations to enable them to react to price changes. A run of outflows on a number of open ended funds over the past two weeks has also culminated in the suspension of redemptions in some funds. We expect to see a downward adjustment in values across the board, with larger lot sizes likely to be hit hardest. We predict income-focused assets will fare better with investors seeking a flight to safety. The recent 13.5% weakening of the pound will undoubtedly see some overseas private investors viewing London as a buying opportunity.

■ The IPD average equivalent and initial yields now stand at 4.70% and 3.08%, respectively (see graph 2). Considering recent events we envisage some outward movement in yields over the following months.

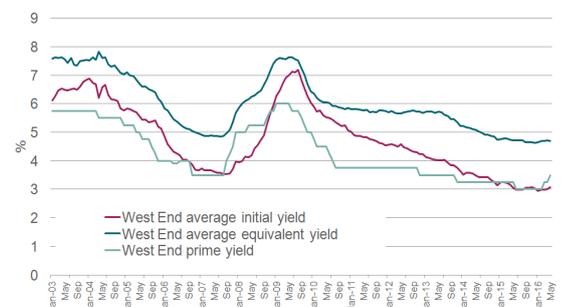
■ Savills was involved in over 27% of all West End transactions by turnover during H1, and both of the transactions over £200m.

GRAPH 1
West End H1 Turnover



Source: Savills

GRAPH 2
Yields



Source: Savills, IPD

TABLE 1
Key deals in June 2016

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
House	No	Street	PC			FH/LH	U/x term	Gearing					
	169	New Bond Street	W1	Retail	3,452	FH			£65.00 M	1.55%	£18,830	Private Middle Eastern	Private UK Investor
	20	King Street	SW1	Office Retail Gallery	29,468	LH	119.5	10%	£50.20 M	3.59%	£1,704	Standard Life Investments	Arbutnot
	63-64 65-66 22-25 10	Frith Street Frith Street Dean Street Chapone Place	W1	Retail Office Residential	25,190	FH			£34.05 M	n/a	£1,352	Pramerica	Royal London Asset Management
	7	Curzon Street	W1	Office	16,676	LH	123	15%	£21.00 M	4.62%	£1,259	Aberdeen Asset Management	Private Italian Investor
	9	Upper Grosvenor Street	W1	Office	4,543	LH	125	10%	£11.75 M	3.02%	£2,586	Morgan Stanley	Private Portuguese Investor
	19	Golden Square	W1	Retail Office	5,061	FH			£10.50 M	n/a	£2,075	FKS Capital Partners	Vectis Property Group
Goat Tavern	3A	Kensington High Street	W8	Public House	4,473	FH			£8.22 M	3.50%	£1,838	TH Real Estate	Private European Investor
Two Chairmen	39	Dartmouth Street	SW1	Public House	3,355	FH			£5.28 M	3.50%	£1,574	TH Real Estate	Private European Investor
	1	Bentinck Mews	W1	Office	2,901	vFH	903	£5	£5.10 M	n/a	£1,758	Private UK Investor	Private UK Investor

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Savills plc

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