

West End Investment Watch



Lowest first quarter volumes for a decade

At the end of Q1 2019 we have recorded investment turnover of £900m across 19 transactions. Nearly 50% of this is accounted for by March's activity, where 10 deals totalling £423m exchanged. This demonstrates substantial monthly gains in both deal number and volume from January through to the end of March (see graph 1) but represents declines on 5-year and 10-year average Q1 turnover of 44% and 32%, respectively. Most notably, it marks the West End's quietest first quarter since 2009 (see graph 2).

Domestic investors retain their status as the dominant traders in the West End, making up 34% of acquisitions and 58% of sales by volume and therefore continue as net disinvestors. Focusing further on this investor category, UK funds account for 30% of all sales by volume and 25% by number with Aberdeen Standard Investments (ASI) being the largest seller.

In one of this month's largest deals, ASI sold 60 Charlotte Street and Scala House, 21 Tottenham Street to US investment manager, Westbrook Partners. The Fitzrovia freehold is multi-let to eight office tenants, the restaurant to Gaucho, and Scala House to serviced apartment operator, SACO. There is a WAULT to expiry of three years on the offices which are let off rents averaging £65.80 per sq ft. In the medium-term it offers multiple asset management opportunities and we understand there was strong demand for value-add product such as this; a trend which has continued from the end of 2018. We understand pricing was £80.75m, representing a 4.40% net initial yield and a capital value of £1,169 per sq ft. The deal represents ASI's third West End sale this year and more are expected.

In another UK fund sale Aviva Investor's has disposed of 4 Matthew Parker Street to Charles Street Buildings Group. The Westminster freehold office is multi-let to seven tenants with an average passing rent of £62.62 per sq ft and a WAULT of 7 years to expiry. The largest single tenant is the Conservative Party. After a brief marketing period the property has reportedly sold for £51.5m, reflecting a 4.47% net initial yield and a capital value of £1,311 per sq ft, circa 6% ahead of quote.

Availability, or lack thereof, of investment opportunity continues to be a theme for 2019, with the open marketing of just five new opportunities totalling £340m commencing in March. Unsurprisingly these are wholly accounted for by domestic vendors, 67% of which by volume (three opportunities) are sales by UK funds.

Bucking the above trend, one of M&G's funds has opted to retain its 73,626 sq ft mixed-use redevelopment opportunity at 247 Tottenham Court Road despite attracting significant investor interest following its January 2019 launch with a guide of £90m and £1,222 per sq ft. Given the dearth of stock ripe for redevelopment the fund has appointed CO-RE as development manager to assist when the asset falls vacant in Q3 2019.

The MSCI average net initial yield experienced a marginal outward shift to 3.62% and the equivalent yield remains at 4.76%. Savills prime yield stands at 3.75% (see graph 3).



Domestic investors retain position as dominant buyer & seller group by nationality albeit remain net disinvestors

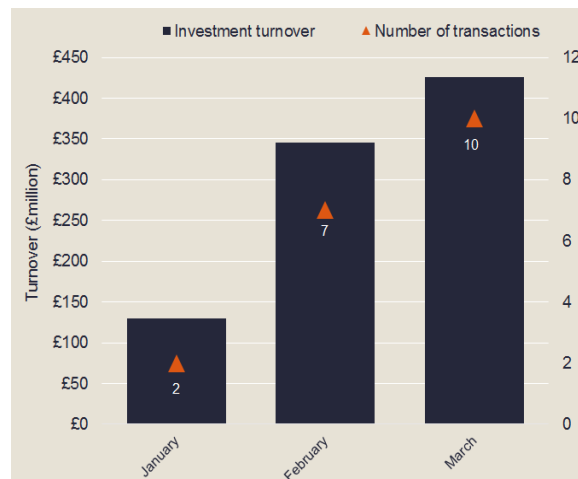
£900m

transacted in Q1 2019, the lowest since 2009

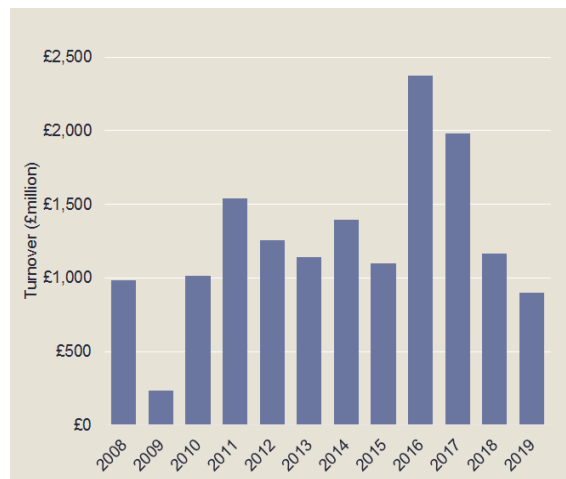


Deal numbers increase month on month to 10 transactions in March

Graph 1
Monthly investment turnover Q1 2019



Graph 2
Q1 West End Turnover 2008 - 2019



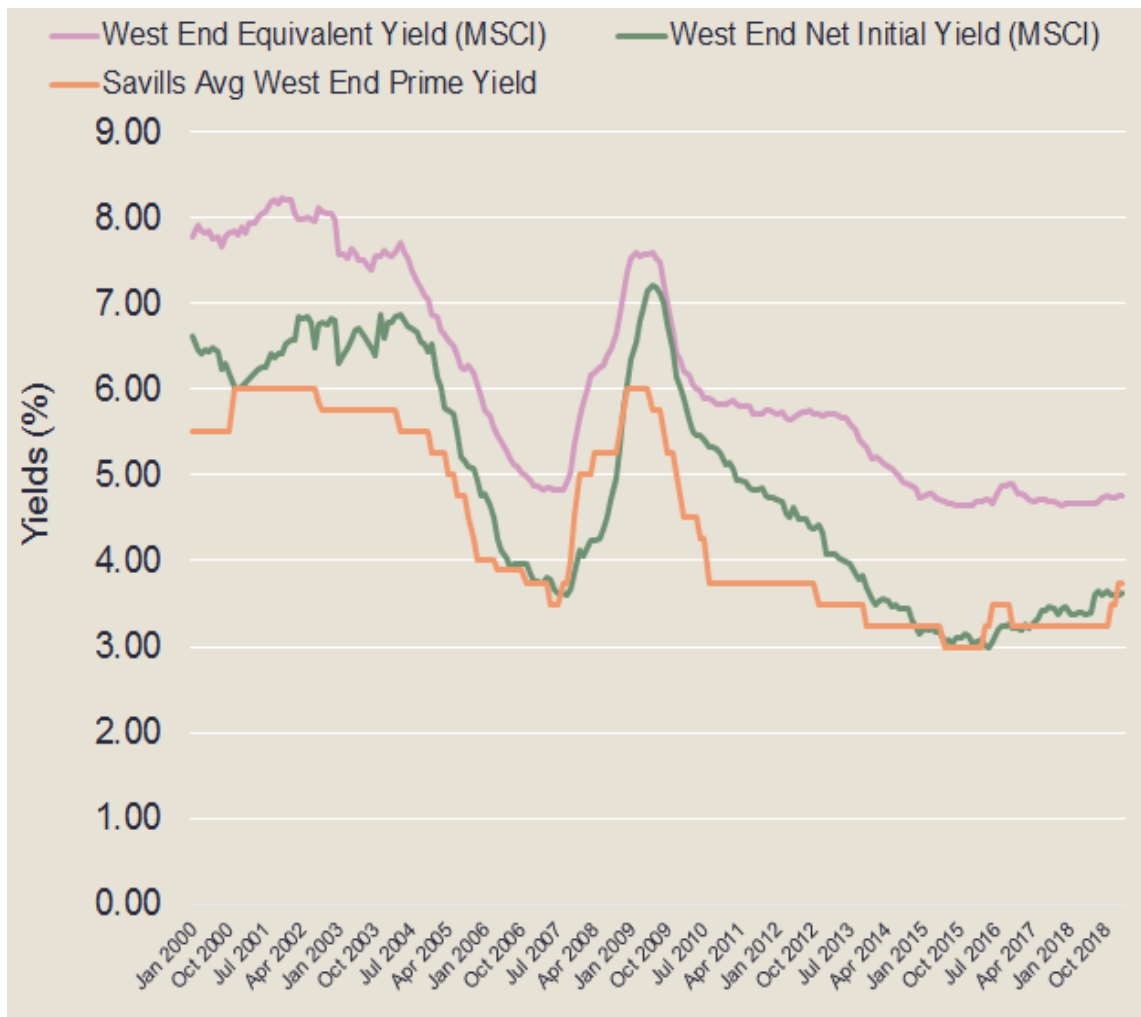
5 new opportunities openly marketed in March

Key deals in March 2019

Building Name	Address			Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
	No	Street	PC			FH/LH	U/x term	Gearing					
Scala House	60 21	Charlotte Street Tottenham Street	W1	Office/ Resi	69,057	FH	-	-	£80.75 M	4.40%	£1,169	Aberdeen Standard	Westbrook Partners
	50	Pall Mall	SW1	Office	35,257	FH	-	-	£59.16 M	4.25%	£1,678	Zenith Property Developments	Lazari
Premier House	-	Greycoat Place	SW1	Office / Resi	60,701	FH	-	-	£50.00 M	n/a	£824	Derwent London	GMG Real Estate
Clarence House	4	Matthew Parker Street	SW1	Office	39,290	FH	-	-	£51.50 M	4.47%	£1,311	Aviva Investors	Charles Street Buildings Group
Marylebone House	129-137	Marylebone Road	NW1	Office	62,314	FH	-	-	£48.00 M	n/a	£770	Arcadia	Apirose

Graph 3

West End Yield graph



Source: Savills, MSCI

Savills contacts

Please contact us for further information

Paul Cockburn

Director
West End Investment
020 7409 8788
pcockburn@savills.com

Anastasia Hicks

Associate Director
West End Investment
020 7299 3022
ahicks@savills.com

Victoria Bajela

Associate
Research
020 7409 5943
victoria.bajela@savills.com

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