

West End Investment Watch



A resilient year with 2018 turnover and transaction numbers up

Market comment and notable deals

In December we provided the optimistic prognosis that turnover for the month could reach £1.3bn. The transfer of some large deals into the new year has been slightly offset by a combination of off-market transactions and deal closure that is characteristic of year-end activity.

December investment volumes reached £1.03bn across 16 transactions, which brings total transaction volume for 2018 to £7.52bn across 140 transactions. This represents a 6.5% increase on 2017 turnover and is 15.5% ahead of the 10-year average (see graph 1). This paints a picture of remarkable resilience in 2018 against the “Brexit” headwinds and notably cautious activity among a number of investor groups.

The largest December deal, in which Savills was joint selling agent, was Blackstone’s disposal of Sanctuary Buildings. The freehold Victoria office, single-let to the Secretary of State for a further 14.7 years, was acquired by Hana Alternative Asset Management, backed by Hana Financial and Kiwoom Securities for £285m, reflecting a net initial yield of 4.18% and a capital value of £1,264 per sq ft. This deal continued the momentum of South Korean’s investment in Central London, which has been especially pronounced in the City, with this investor group responsible for the West End’s two largest acquisitions of Q4 2018.

On behalf of a Private Turkish Investor, Savills has sold the virtual freehold interest in 100 Knightsbridge for £27.5m, which reflects a net initial yield of 3.06% and a capital value of £9,221 per sq ft. Pricing reflects a 61% increase in value from its last trade in 2012. Located at one of London’s most prestigious addresses, One Hyde Park, and situated between Swiss watchmaker, Rolex and McClaren’s supercar showroom,

the unit is leased to Abu Dhabi Islamic Bank (ADIB) until February 2026.

In an off-market transaction, Aberdeen Standard Investments has sold the long leasehold of 200 Piccadilly & 33 Jermyn Street to Motcomb Estates for a price in the region of £132m, reflecting a net initial yield of 4.21% and a capital value of £1,535 per sq ft. The retail and office investment totals 85,981 sq ft. The offices are headquarters to private equity firm Apax Partners LLP and the retail is leased to five retailers including Hawes & Curtis and Paperchase and has frontages to Jermyn Street and Piccadilly. This deal marked Motcomb Estate’s eleventh known West End deal of 2018 and brought their total investment to over £630m, comprising over 75% of private domestic investment.

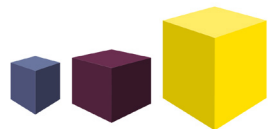
Domestic buyers retain their long-term status as the West End’s largest investor group by nationality, but make up only 32% of the overall market. Asian investors experienced a drop in market share on 2017 levels, albeit still recorded £1.7bn (of which 56% is accounted for by Hong Kong and 32% by South Korea). See graph 2.

Savills advised on £554m of sales and acquisitions in December, accounting for 54% of the market’s total monthly turnover by volume and 31% of all deals by number. This represents another strong year for the team where our market share closed at 24%.

The MSCI average net initial and equivalent yields sharpened to 3.61% and 4.74%, respectively. Savills prime yield remains at 3.50% (see graph 3).



68%
Overseas investors’ share of total 2018 West End turnover



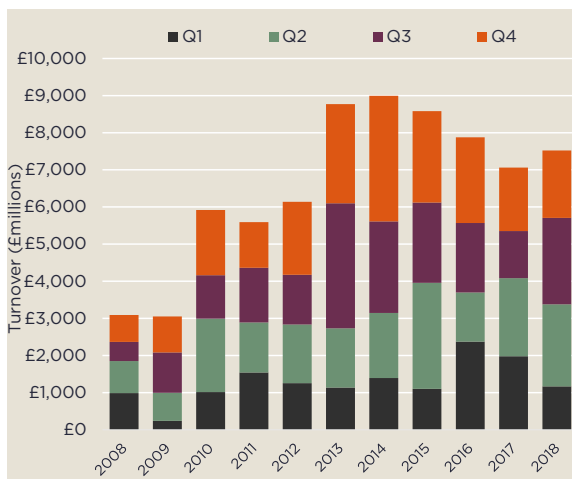
24%
Savills West End market share over 2018



-31%
Number of transactions below £50m is 31% down on the five-year average

Turnover by quarter

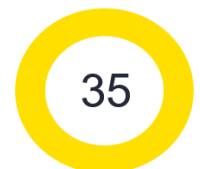
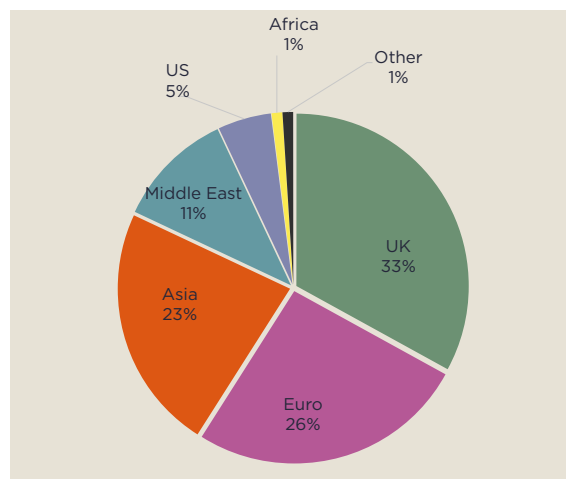
Graph 1



Source: Savills, MSCI

Turnover by nationality

Graph 2



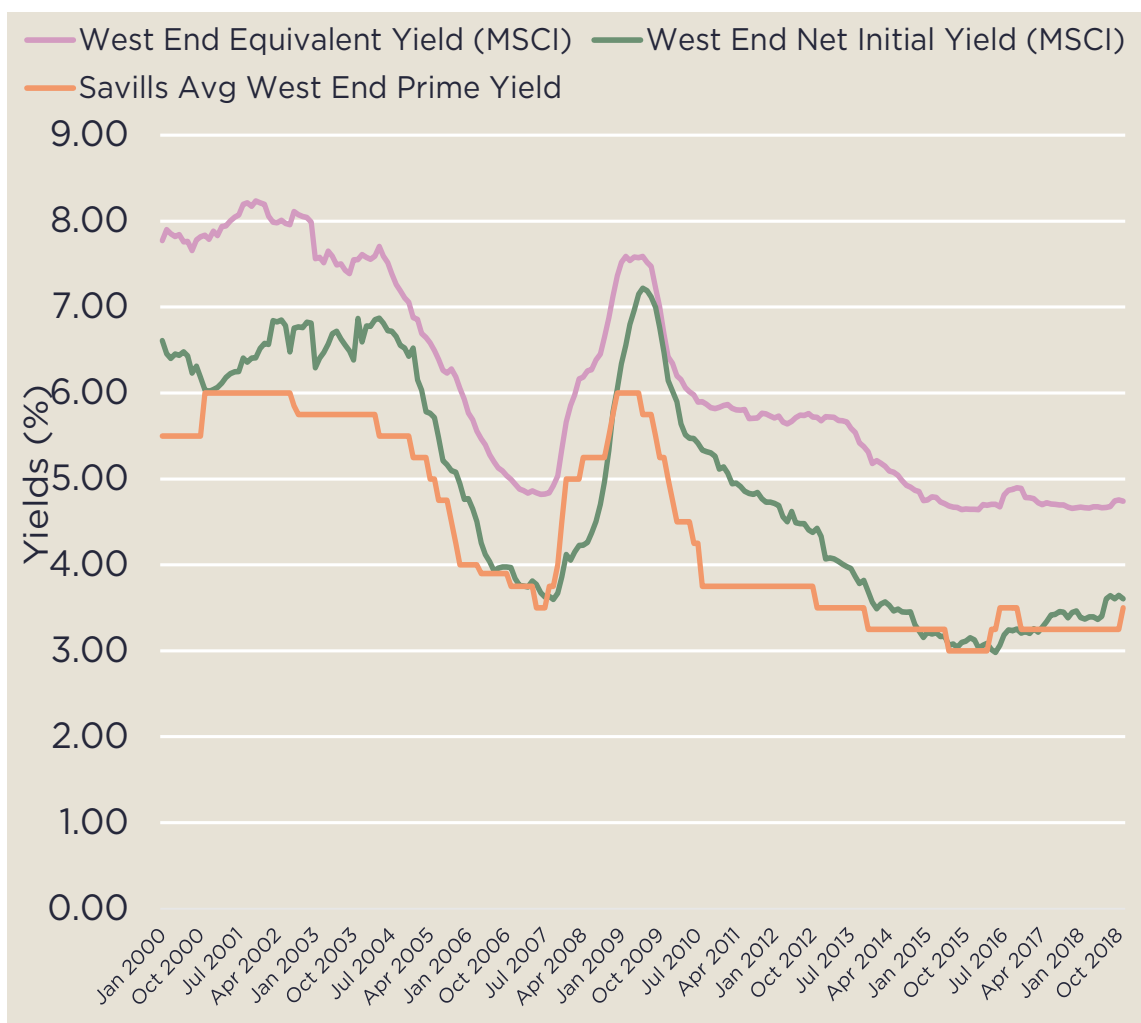
35
Savills advised on 35 West End transactions in 2018

Key deals in December 2018

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Sanctuary Buildings		Great Smith Street	SW1	Office	225,485	FH	-	-	£285.00 M	4.18%	£1,264	Blackstone	Hana Financial & Kiwoom Securities
Standbrook House	2-5	Old Bond Street	W1	Retail Office	23,625	FH	-	-	£155.00 M	2.75%	£6,561	NFU Mutual	Private Asian Investor
	200-33	Piccadilly Jermyn Street	SW1	Office Retail	85,981	LH	113.25	10%	£132.00 M	4.21%	£1,535	Aberdeen Standard Investments	Motcomb Estates
	184-192	Drummond Street	NW1	Office	42,933	FH	-	-	£38.34 M	5.30%	£893	Columbia Threadneedle Investments	British Land
	37-45	Kensington High Street	W8	Retail Office	23,036	FH	-	-	£30.80 M	4.09%	£1,337	Private Middle Eastern Investor	Private Middle Eastern Investor
Unit C	100	Knightsbridge	SW1	Retail Office	2,982	vFH	988	-	£27.50 M	3.21%	£9,221	Private Turkish Investor	Private European Investor
	2	Kensington Square	W8	Office	21,934	FH	-	-	£22.50 M	3.54%	£1,026	M&G Investments	Frogmore

West End Yield graph

Graph 3



Source: Savills, MSCI

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