

West End Investment Watch



West End volumes set to increase following muted Q1

West End turnover stood at an estimated £246m in March, spread across seven transactions. Whilst ahead of last year, this is approximately 49% below the five-year monthly average and brings annual turnover to £701m across 20 transactions - some 33% below last year's Q1 figure and 55% below the five-year Q1 average.

Notwithstanding this, as we move into April we are tracking approximately £1.6bn of stock under offer and expect transaction volumes to have at least reached parity with, and most likely exceeded, those of last year by the end of Q2.

By way of comparison, it is interesting to note that this level of 'drop-off' versus the five-year average is less extreme than that which we saw in the aftermath of Lockdown 1.0 (i.e. Q2 2020) when figures were 91% below the five-year average.

Key transactions to progress in March included Grosvenor Gardens House, SW1, the freehold interest in which Bain Capital / CIT has acquired from a Private Russian Investor for a price understood to be in the region of £80m / £1,284 psf (NIA) / £696 psf (GIA), which is significantly ahead of the guide price of £70m. The Grade II listed mansion block, currently in use as offices, occupies a 1.5 acre site and has planning consent in place for the development of 42 residences and ground floor retail space. The transaction marks the fourth time the asset has traded since 2002.

Another major transaction in March was a Private Middle Eastern investor's disposal of the virtual freehold interest in 43-44 New Bond Street, W1, which has been acquired by an undisclosed investor for a price understood to be significantly ahead of the £60m guide.

The property comprises 6,209 sq ft of prime retail space and 5,506 sq ft of office accommodation above. 85% of the income is secured against the retail tenant, Wempe, at a passing rent of £1,010 Zone A.

In the latest of a series of recent disposals, Amsprop has sold Sackville House, 39-40 Piccadilly, SW1, to Germany's Art Invest Real Estate, off-market, for a reported £52m. The property comprises 31,958 sq ft of retail space let to Lloyds Bank Plc until 2024, and six floors of multi-let office accommodation above. The purchase price reflected a net initial yield of 3% and a capital value per sq ft of £1,500, with the low yield being primarily a function of Lloyds Bank's artificially low rent - the legacy of a lease that commenced in 1934.

Other transactions during March included 104 Harley Street, W1, the virtual freehold interest in which was acquired by a Private Overseas investor for £12.5m / 3.28% / £1,746 psf; 55-56 Russell Square, WC1, the 91 year leasehold interest in which was sold by a Private UK investor for £6.9m / 6.95% / £764 psf; and 78-80 Wigmore Street, W1, the freehold interest in which was sold by Receivers to a UK Property Company for a price in the region of £11.5m / £1,355 psf.

In terms of available stock, we are tracking a wealth of 'buyable' assets and expect liquidity to prove greatest in the case of sub-£100m, well-located assets with strong leasing prospects. Notwithstanding this, and in an illustration of the continued stock constriction, only five of the 65 currently-available assets have been launched this year; the remainder are either legacy stock from last year or have been known to be buyable for some time. For many, it suggests prices need to either soften or market sentiment needs to improve.

In the context of acute scarcity of prime opportunities and an increasing polarisation between 'the best' and 'the rest', Savills prime West End yield remains at 3.50% but we note continued upward pressure in the non-prime space. The MSCI average net initial and equivalent yields moved to 3.75% and 4.86%, respectively.

3.50%

Prime yield remains at 3.50% as flight to quality continues



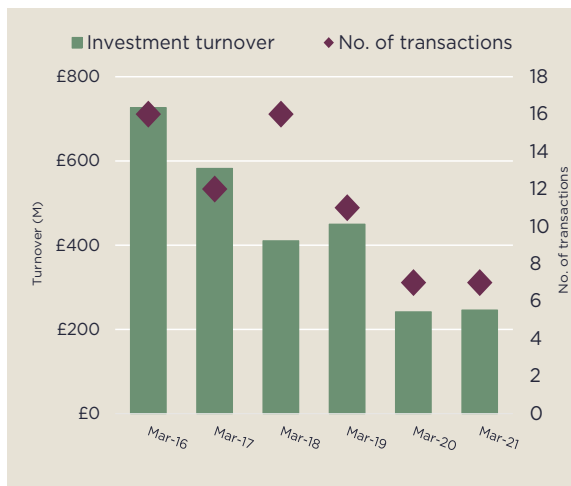
Annual investment turnover down 49% on the five-year average



£1.6bn currently under offer

March Turnover (2016-2021)

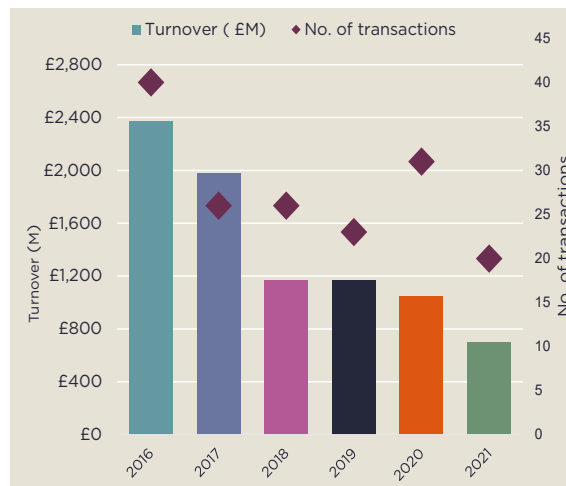
Graph 1



Source: Savills

Q1 Investment Turnover (2016-2021)

Graph 2



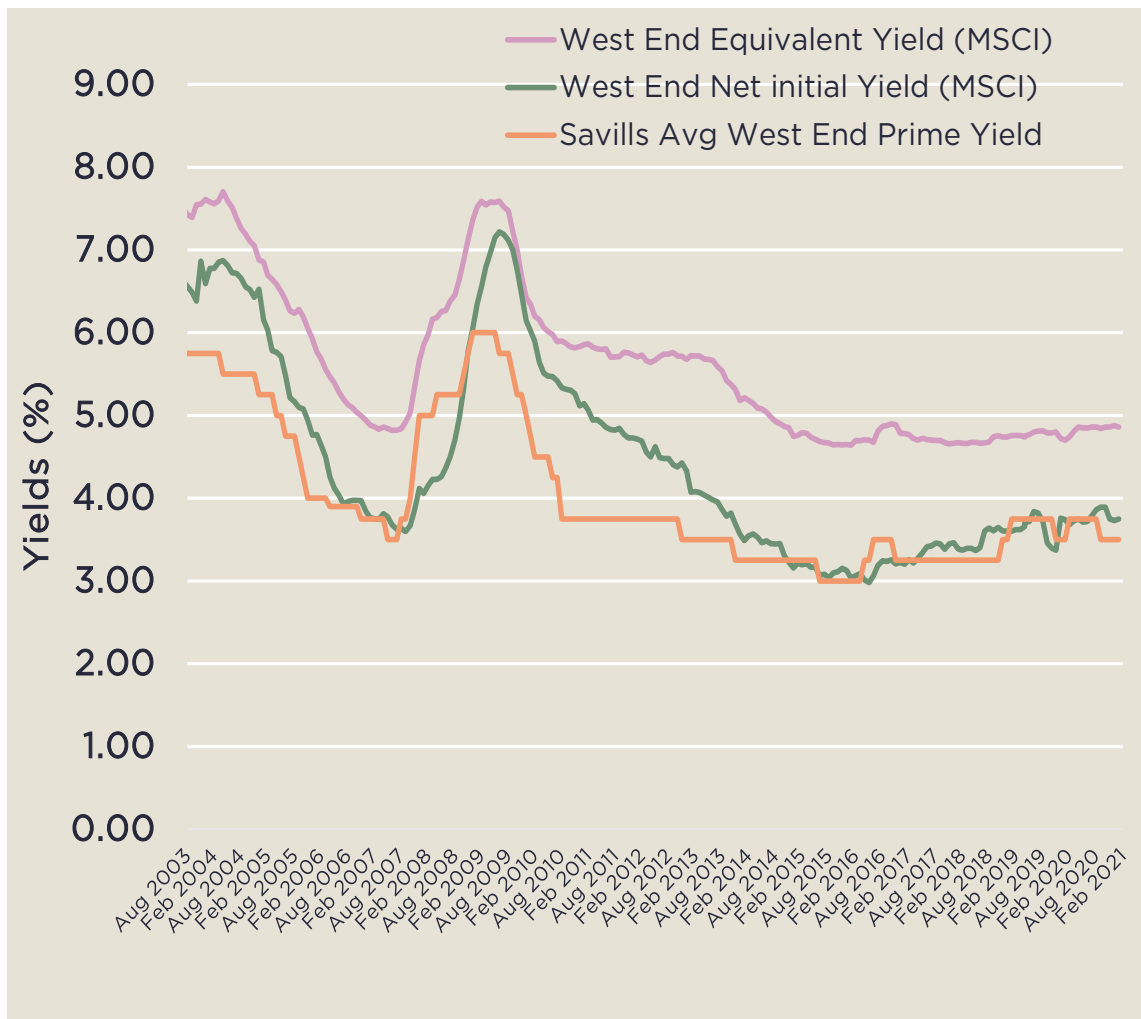
Over the past 12 months MSCI average net initial yield has risen by 16bps

Key deals in March 2021

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Grosvenor Gardens House	35-37	Grosvenor Gardens	SW1	Office (Resi-Consent)	62,283	FH	-	-	£80.0M	-	£1,284	Private Russian	Bain Capital/CIT
-	43-44	New Bond Street	W1	Retail Office	11,715	vFH	1,885	£44m	£60.0M	2.83%	£5,122	Private Middle Eastern	Private Overseas
Sackville House	39-40	Piccadilly	W1	Retail Office	33,000	FH	-	-	£52.0M	3.00%	£1,500	Amsprop	Art Invest Real Estate
-	104	Harley Street	W1	Medical Resi	7,159	vFH	999	pep.	£12.5M	3.28%	£1,746	Private UK	Private Overseas
-	78-80	Wigmore Street	W1	Retail Office	8,488	FH	-	-	£11.5M	-	£1,355	LPA Receivers	UK Property Company
-	55-56	Russell Square	WC1	Office	9,036	LH	91	pep.	£6.9M	6.95%	£764	Private UK	Private HK

Graph 3

West End Yield graph



Source: Savills, MSCI

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