

West End Investment Watch



Record low transactional levels reflects cautious buyer mood

Last month we reported on the resilience of the West End investment market throughout 2018, with both turnover and transaction numbers ahead of 2017 levels. One month on and momentum is yet to gather as we recorded just two transactions exchanging, meaning investment volume for the month stands at approximately £130m. This marks the lowest ever number of monthly deals on record. January is typically a quieter month for market activity, this year only “beaten” by lower volumes in January 2009 and 2010 (see graph 1). There is also relatively little under offer with approximately £320m estimated to be under contract, with the marketing of these deals commencing in either Q3 or Q4 2018.

Ironic given the UK’s strained relationship with Europe on the global stage, one of only two deals to have exchanged in January took place between a UK and European investor. Stenprop disposed of Euston House, NW1, to a joint venture between privately held European PropCo, Arax Properties and French-listed property investor, Eurazeo Patrimoine. Acquired for £90m, reflecting a net initial yield of 4.99% and a capital value of £799 per sq ft, the freehold, multi-let office provides 112,597 sq ft - majority let to serviced office occupiers. With a block date in 2022 it provides a major value-add opportunity opposite Euston Station and so the potential to benefit from HS2. Despite being located within the safeguarding corridor the asset was well received by investor/developers who have demonstrated their enthusiasm for large scale value-add opportunities across central London in recent months.

The second deal to have exchanged in January was the off-market sale of Aberdeen Standard Investment’s retail parade at Royal Avenue House on King’s Road, SW3, to the Cadogan Estate at a price understood to be in excess of £40m. Aberdeen Standard Investments inherited the asset upon the acquisition of Ignis Asset Management in 2014.

We have recorded 16 new opportunities totalling £1.09bn being offered since the new year, skewed by CPPIB’s proposed sale of a 50% stake in Nova Victoria, held in joint ownership with Landsec. Its £450m guide price would make it one of the largest ever West End trades and the biggest 50% stake ever. Compared to the same point last year, this is nearly triple the new availability by volume and more than double by number. UK Institutions account for nearly 25% (£642.5bn) of all availability, with 37%, across three assets, launched in the final week of January.

With unsold assets from last year and new opportunities seeking to find attention amongst a relatively narrow pool of buyers, we find ourselves with a very different market dynamic from previous years. Layered on top of this, the well-rehearsed Brexit risks mean that valuers will be coming under pressure. To date the MSCI average net initial has sharpened to 3.60% and the average equivalent yield remains unchanged at 4.74%. Savills prime yield remains at 3.50% (see graph 2).



2 January trades recorded

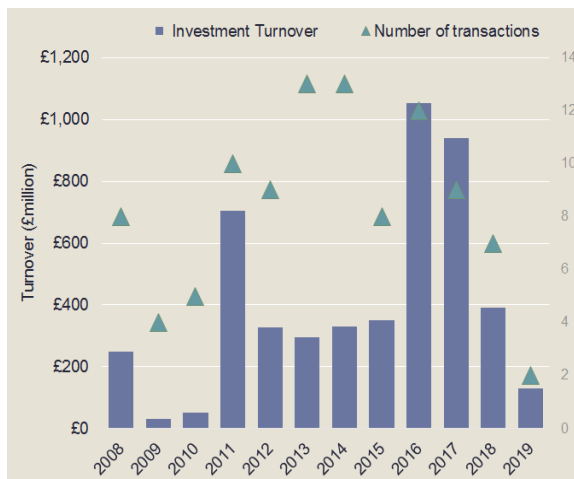
£642.5BN

UK institutions comprise the largest seller group with 13 assets available

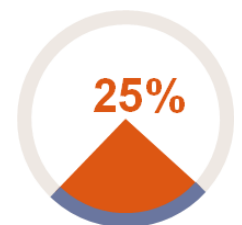
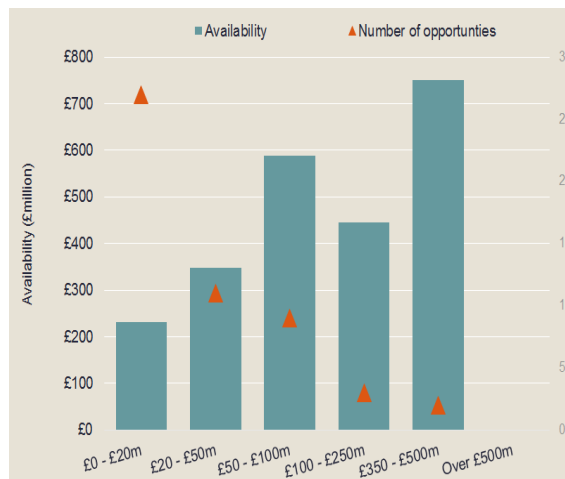


16 new opportunities available in 2019

Graph 1
January Investment Volumes 2009-2019



Graph 2
Available opportunities by size



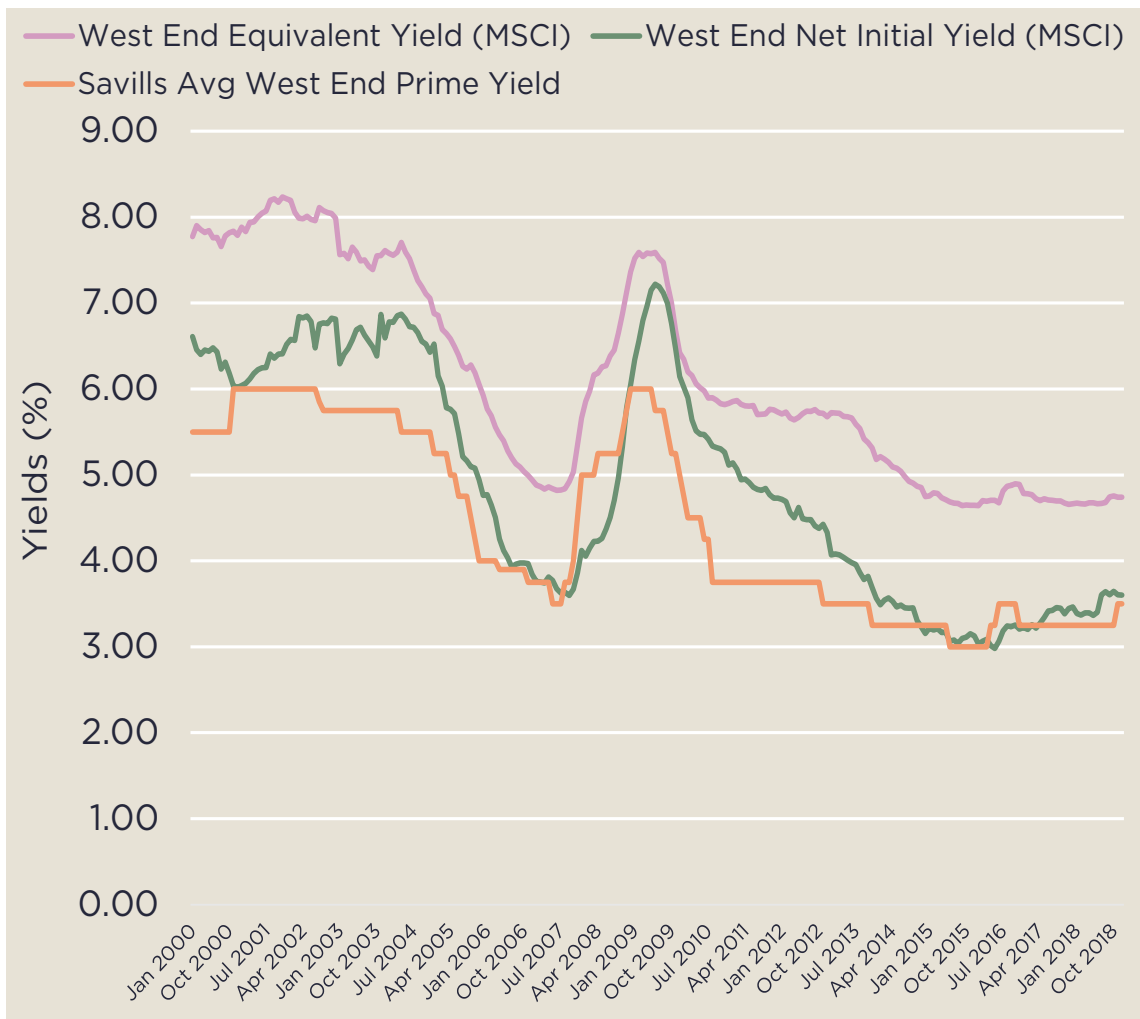
UK Institutions account for nearly 25% of current availability

Key deals in January 2019

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Euston House	24	Eversholt Street	NW1	Office	112,597	FH	-	-	£90.00 M	4.90%	£799	Stenprop	Arax Properties and Eurazeo Patrimoine

Graph 3

West End Yield graph



Source: Savills, MSCI

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