

West End Investment Watch



Lack of transactions masks improvement in sentiment

As anticipated, the COVID liquidity crunch produced another month of weak turnover, with £64.4m exchanging across seven transactions.

This brings cumulative investment volume for H1 to £1.24bn across 45 transactions; 64% below the previous five years' average by volume, and 38% by the number of transactions.

More tellingly, across the whole Q2, which broadly matches the period of 'lockdown', we recorded only £166m of transactions, 91% below the five year average and a stark contrast to the 2015 peak of £2.9bn.

Whilst June's figure is notably low, there are emerging signs, as we move from a medical crisis to an economic crisis, of a market forming and greater engagement from both buyers and sellers. Challenges still exist and caution prevails, but we do head into Q3 with an estimated £1.1bn under offer. The progress of these deals warrants close scrutiny over the summer.

The largest transaction during June was GMG's acquisition of the freehold interest in 1 Old Queen Street, SW1, a 21,747 sq ft office building with near term VP that had been openly marketed in April. The marketing campaign generated competition and drove eventual pricing to £23.4m (£1,076 psf), marginally above a guide price that was already perceived as strong given the risk profile and location.

A distinctly high proportion of properties (25 of 62) that are either 'under offer' or have 'exchanged' this year have not been openly marketed, and in keeping with this trend, five of the six other transactions that took place during June were all 'off market' too.

These included 108 New Bond Street, which was acquired by a Private Hong Kong investor. The property comprises 5,918 sq ft of mixed-use accommodation, and the purchase price of £19m reflects a capital value of £3,211 per sq ft.

The other key off-market transaction was 79 Wardour Street, which Gold Group International sold to Hong Kong group MCL for £5.8m, reflecting a net initial yield of 3.72% and a capital value of £1,387 per sq ft. The property, which is fully let to three tenants for 6.5 years, comprises 2,677 sq ft of office accommodation and 1,506 sq ft of retail space, majority let to Ann Summers.

We foresee the majority of near term market activity continuing to take place 'off market' on the same basis, with vendors wanting to hold a stronger hand in negotiations, and not risk their exit being seen by the buyers as a sign of distress.

In relative terms however, we still expect to see very few new opportunities, with vendors preferring to adopt a 'wait and see' approach, and for pricing to remain accordingly robust. This will especially apply in the case of core, well-located assets and those providing secure, medium-to-long term income, where we expect prices to surprise on the upside.

Despite potential headwinds, there remains a lack of breadth of evidence to suggest that there has been a material price adjustment for prime assets in the West End; if anything, we have seen investors' focus intensity on this space, driven by a flight to quality and even lower yielding alternatives.

As such Savills prime West End yield remains at 3.75% but we would note upward pressure on yields for secondary assets, especially those with near-term leasing / development risk.

The MSCI net initial and equivalent yields stand at 3.75% and 4.86% respectively.

£64.4m

Monthly turnover of £64.4m across seven transactions



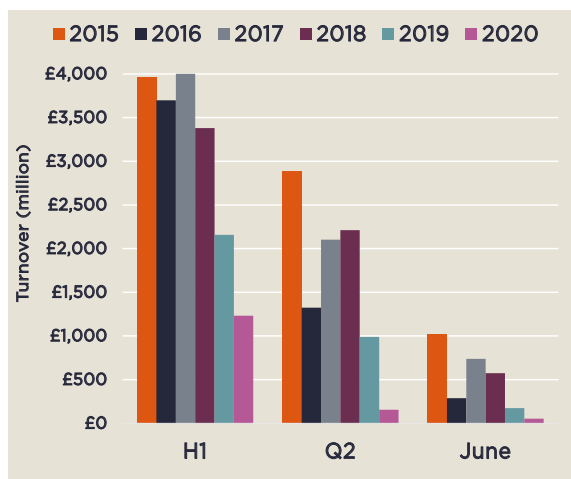
H1 2020 turnover down 64% on 5 year average



Annual transaction number 38% below the five year average

Investment turnover: 2015-2020

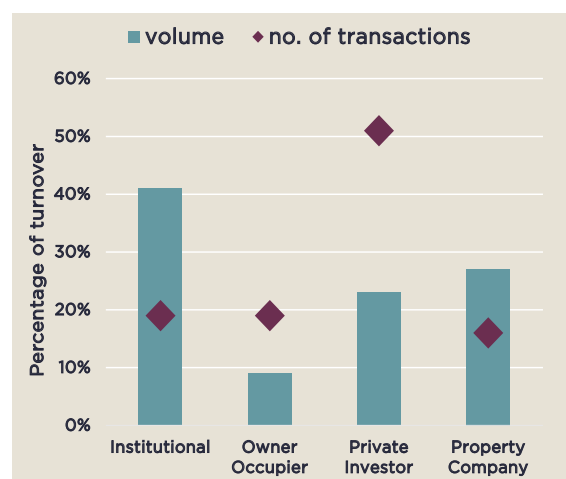
Graph 1



Source: Savills

H1 Turnover by Purchaser Type

Graph 2



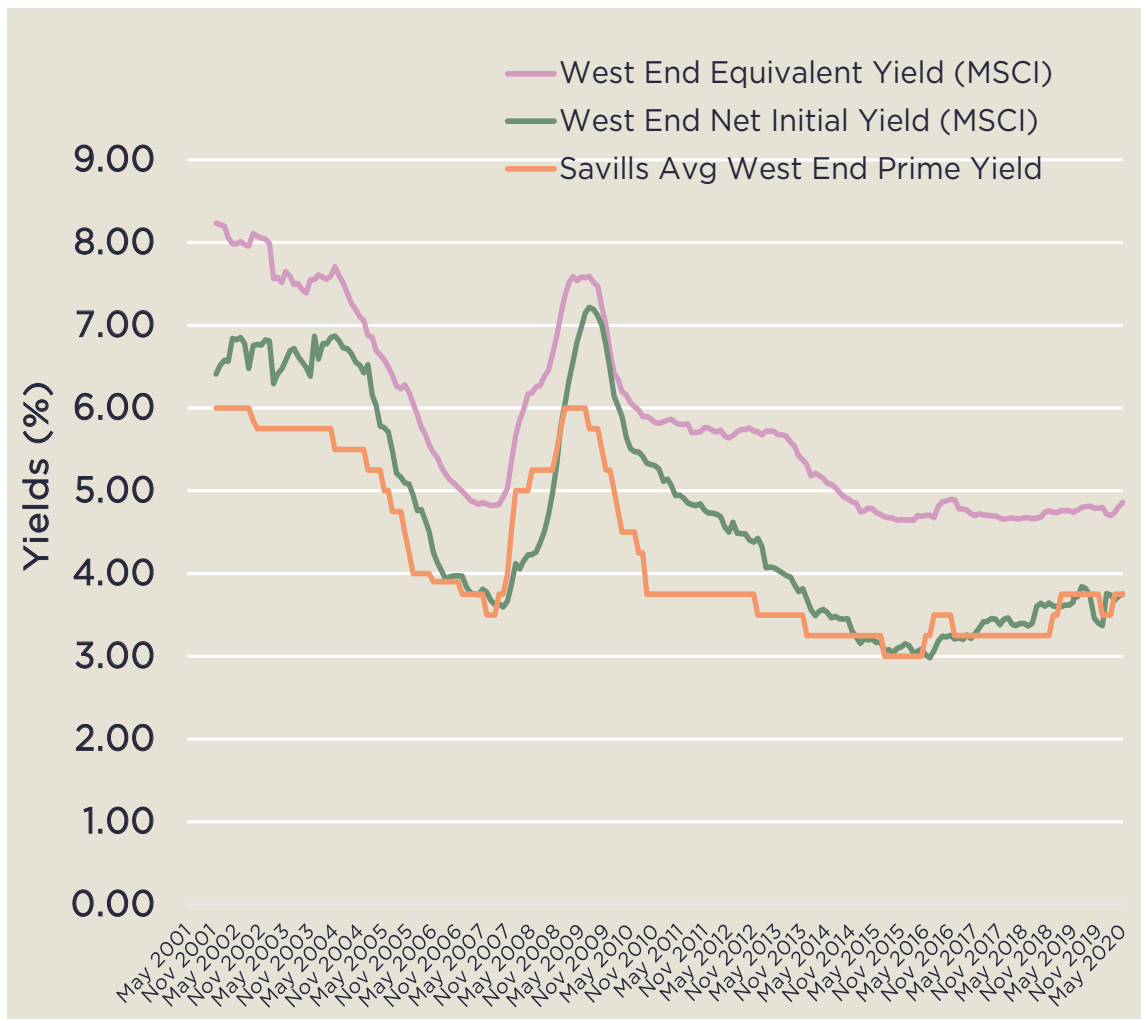
Prices on high quality assets holding firm

Key deals in June 2020

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
-	1	Old Queen Street	SW1	Office	21,747	FH	-	-	£23.40 M	n/a	£1,076	Private Trust	GMG
-	108	New Bond Street	W1	Retail / Office	5,918	FH	-	-	£19.00 M	TBC	£3,211	Private UK	Private HK
-	7	Hertford Street	W1	Office	6,055	FH	-	-	£9.70 M	VP	£1,602	Liberty Property	Sidra Capital
-	79	Wardour Street	W1	Retail / Office	4,183	FH	-	-	£5.80 M	3.72%	£1,387	Gold Group	MCL

Graph 3

West End Yield graph



Source: Savills, MSCI

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