

West End Investment Watch



May delivers another month of sub-par volumes

In May we have recorded close to £290m of turnover across six transactions, bringing total investment turnover in the West End this year to date to £1.72bn, with just over 30 assets trading. Up until this point we have observed incremental increases in monthly investment volumes however May has proved to be the quietest month since January 2019 in terms of both transaction volume and number, in spite of an anecdotal uptick in sentiment which we reported last month (see graph 1).

25 Soho Square has been sold by Aviva Investors. The freehold office investment, situated on this prestigious garden square provides 44,000 sq ft of accommodation arranged across lower ground to eighth floors. With an unexpired term of circa four years on the leased space, it is multi-let to five tenants at a total topped up rent of £3.2m per annum, averaging £72.71 per sq ft. The property was acquired by Royal London Asset Management for £75.35m, reflecting a net initial yield of 3.98% and a capital value of £1,713 per sq ft, the highest capital value per sq ft paid for an office asset outside of core Mayfair and St James's this year.

The brevity of this sale is testament to Soho's popularity from a multitude of perspectives including the underlying strength of its occupational market dynamics and its vibrant and expanding retail and leisure offer. Royal London's purchase follows the collapse of their larger proposed acquisition of 23 Savile Row in Mayfair, which was first reported in Q4 2018, and represents the UK asset manager's second Soho investment in just over six months.

The largest deal to exchange this month was 21 Dartmouth Street, a newly refurbished 53,000 sq ft office within Westminster. Single-let to The Corporate Officer of The House of Commons on a new 20 year term, the current rent reflects an average of £64.00 per sq ft. The vendor, Quadrum Global, acquired the property in 2014 when it had just over two years' residual income for a reported £43.0m which reflected £820 per sq ft. Following a comprehensive refurbishment and securing a lease of the entirety it is understood that the UK Government is acquiring the property at a level significantly in excess of the £88.9m quoting price, which reflected a net initial yield of 3.75% (on the vehicle in which the asset is held) and a capital value of £1,676 per sq ft. Pricing at this level would be a record for this submarket on both a yield and capital value (£ per sq ft) basis.

In 2019 to date we have recorded £2.6bn of assets being openly marketed across 47 new opportunities, broadly in line with the average for the previous four years however, down in terms of number of assets (see graph 2). Of stock marketed from the start of this year just over £500m has sold and approximately £150m is under contract. Of the remaining £1.2bn of stock which has traded this year, over 50% is accounted for by off market activity and the remainder comprises assets where marketing commenced in 2018.

The MSCI average net initial yield has moved out marginally to 3.66% and the equivalent yield stands at 4.74%. Savills prime yield stands at 3.75% (see graph 3).

£1,713 psf

achieved in Soho: the highest CV per sq ft for a non-Mayfair and St James's office this year

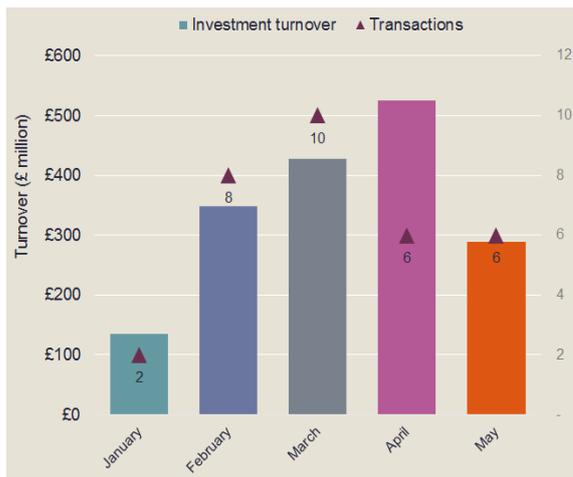


the quietest month in terms of transaction volume and number since January



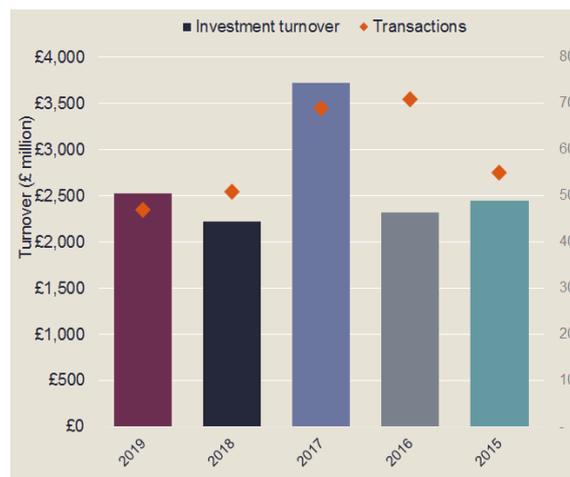
1/3 of investment activity by volume YTD has been conducted off market

Graph 1
Monthly turnover Jan - May 2019



Source: Savills

Graph 2
Marketed Property Jan - May



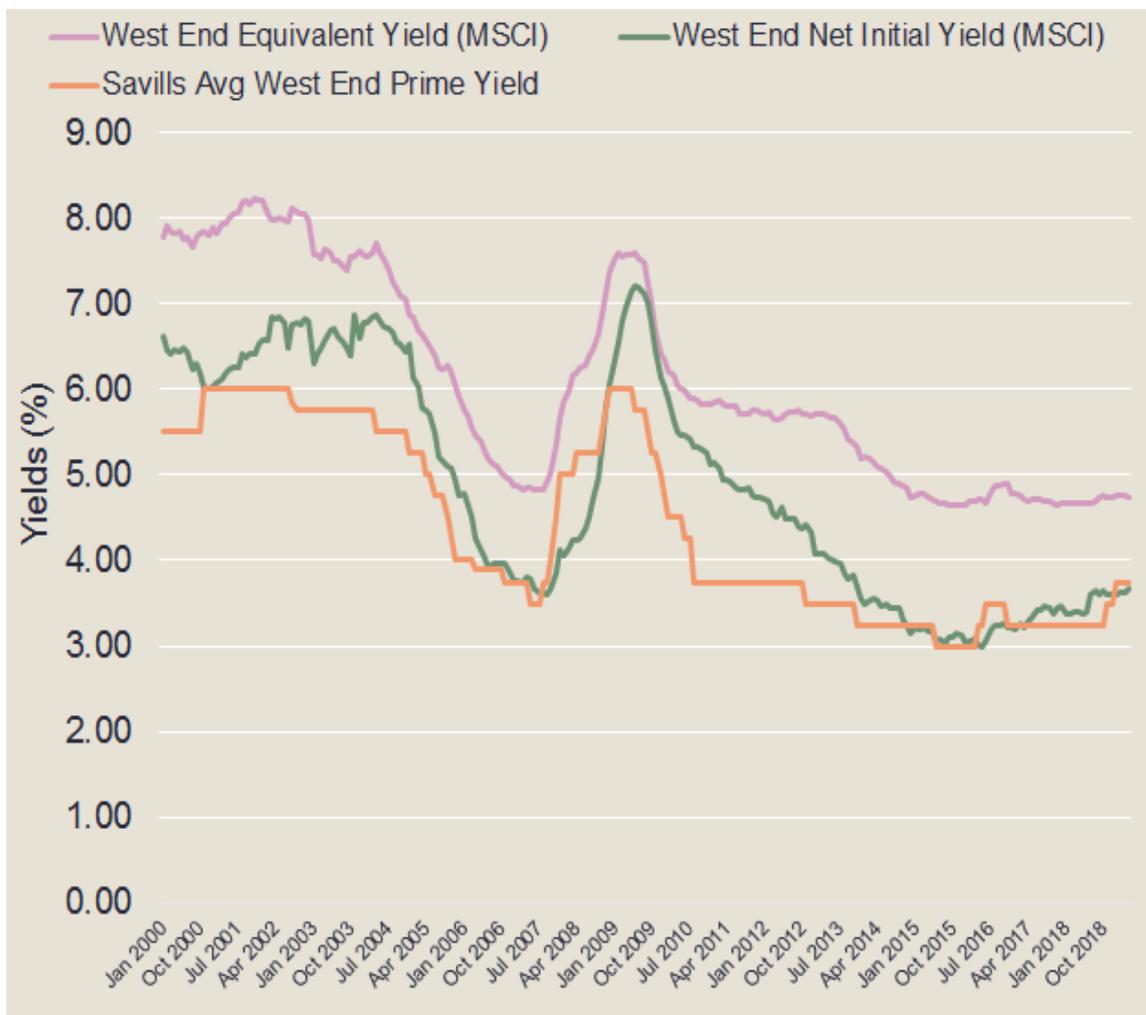
strong evidence in May for secure income

Key deals in May 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					
	21	Darmouth Street	SW1	Office	53,042	FH	-	-	Q. £88.90 M	Q. 3.75%	Q. £1,676	Quadrum Global	UK Government
	25	Soho Square	W1	Office	43,988	FH	-	-	£75.35M	3.98%	£1,713	Aviva Investors	Royal London Asset Management
	172	New Bond Street	W1	Retail Office	4,255	FH	-	-	£74.00M	1.58%	£17,391	Private European Investor	Private Asian Investor
	35-37	William Road	NW1	Office	32,476	FH	-	-	£22.60 M	-	£696	Addison Lee	MBU Capital

Graph 3

West End Yield graph



Source: Savills, MSCI

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