

West End Investment Watch



Renewed confidence tempered by fresh uncertainty

West End investment volumes totalled £438.7m in February, spread across six transactions. Whilst this is broadly in line with the monthly average, it brought cumulative annual turnover to £855.2m, which is 24% below the five year average.

68% of February's turnover can be attributed to one transaction, raising the question of whether the monthly figure was representative of wider sentiment, but it could also be argued that the successful completion of an acquisition of this scale provides a valuable bellwether in itself.

The transaction in question was Legal & General's acquisition of Sanctuary Buildings, 14-26 Great Smith Street, SW1, for a price in the region of £300m (£1,330 per sq ft). This represents a net initial yield of 3.97%, albeit the acquisition is understood to coincide with a re-gear which will see the UK Government sign a new 25 year, index-linked lease.

The disposal brought to an end a hold period of less than one year for the South Korean vendor, Hana AM, who had acquired it for £285m with the intention of syndicating down to domestic investors. Whether or not further sales of this nature will materialise remains to be seen, but we continue to closely track a number of properties which were also acquired with syndication-led business plans.

In the second largest transaction of the month, the 102 year long leasehold interest in Eagle House, 108-110 Jermyn Street, was acquired by the McTaggart Family for £52.75m (£1,372 per sq ft). The property, which had been buyable for over two years, is multi-let to four office tenants and three retailers for a WAULT of c.7.5 years.

Other notable activity during February included a trio of transactions involving UK vendors and purchasers, namely 2-4 Cork Street, which Aviva sold to a private family for £23.5m, Camden Works, which Hermes sold to an undisclosed investor for c.£43.5m, and 93-99 Queensway, which Aviva sold to a private client of Savills for £11.80m.

With £793m worth of stock currently under offer, we would ordinarily expect final Q1 figures to stand broadly in line with the five year average of £1.56bn, but note the potentially constrictive impact of ongoing (and indeed unprecedented) global uncertainties.

The direct impact on the West End market remains to be seen, but based on the lack of new opportunities to date in March, it would appear that vendors' appetite to market-test assets has already been suppressed, and that several would-be disposals have been deferred until more certainty returns.

Notwithstanding this, Savills prime West End yield stands at 3.50% and remains under downward pressure, driven by the near-record scarcity of stock and the fact that investors are seeing prime real estate as an increasingly attractive option in the context of fast-diminishing returns on alternative asset classes.

The MSCI average net initial and equivalent yields moved to 3.76% and 4.72%, respectively.



£439m turnover across six transactions



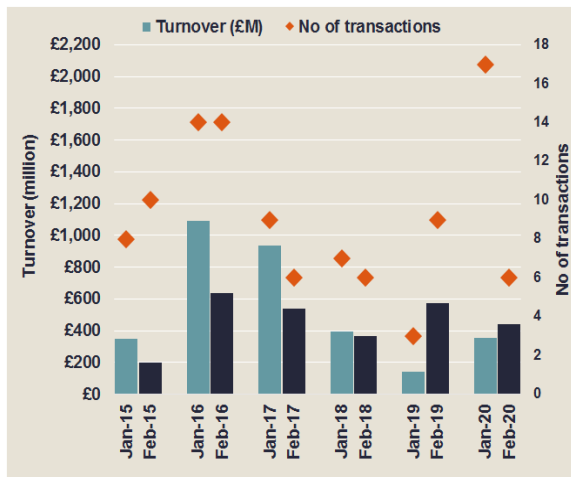
Persistent stock scarcity suppressing annual volume



Annual investment volume 24% below five year average

Relative Activity Levels: 2015-2020

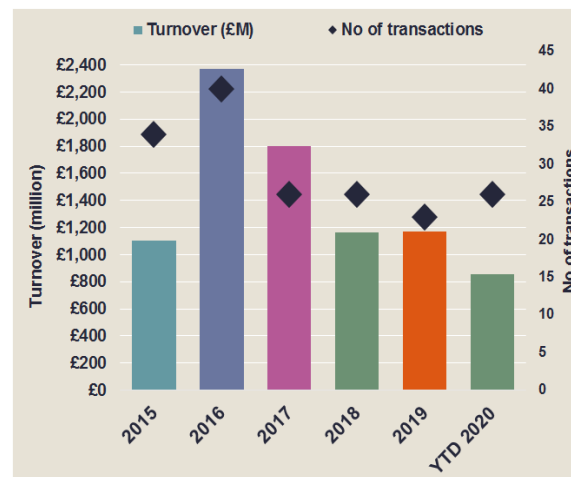
Graph 1



Source: Savills

Q1 Investment Volumes: 2015-2020

Graph 2



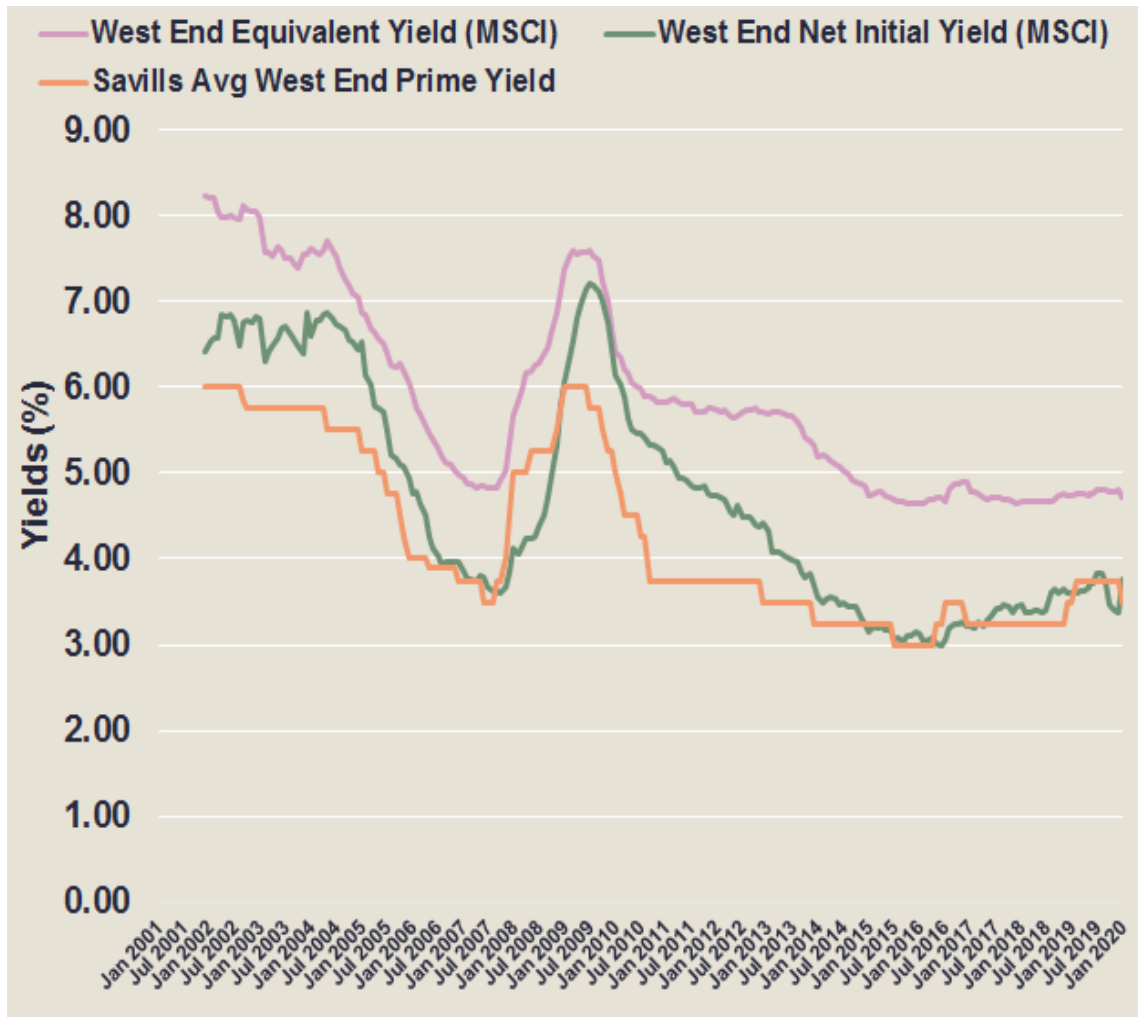
UK investors account for all monthly purchases

Key deals in February 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					
Sanctuary Buildings	14-26	Great Smith Street	SW1	Office	225,485	FH	-	-	£300.0 M	3.97%	£1,330	Hana AM	L&G
Eagle House	108-110	Jermyn Street	SW1	Office/ Retail	77,992	LLH	102	15%	£52.75 M	5.01%	£1,372	CBREgi	Private UK
Camden Works	42/43 12 57	Gloucester Crescent Oval Road Jamestown Road	NW1	Office	45,000	FH	-	-	£45.50 M	4.98%	£967	Hermes	Undisclosed UK
-	2-4	Cork Street	W1	Office/ Gallery	16,719	LLH	100	10%	£23.50 M	-	£1,406	Aviva	Private UK
-	93-99	Queensway	W2	Retail/ Leisure	9,038	FH	-	-	£11.80 M	4.41%	£1,301	Aviva	Private UK
-	63	Catherine Place	SW1	Mixed Use	5,701	FH	-	-	£6.70 M	1.77%	£1,175	UK Owner Occupier	Netcraft

Graph 3

West End Yield graph



Source: Savills, MSCI

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