

West End Investment Watch



Off-market activity points to underlying momentum in face of open market friction

West End investment volumes totalled £322m in February, spread across seven transactions. Whilst this is a significant increase on January's record low figure of £130m, it brought cumulative annual turnover to £452m, which stands 67% below the five year average of £1.37bn.

In a continuation of a theme identified last month, we have seen more activity take place off-market than in the open market, with five of the seven February transactions (77% of volume) having taken place 'under the radar'.

This is perhaps unsurprising, given current market conditions, with vendors preferring to avoid openly marketing assets whilst there remains general market uncertainty, and defer until Lockdown at least eases. In some cases, there is also reluctance to risk being seen as distressed or unnecessarily launch into a market seemingly lacking momentum.

That being said, the reduction in turnover during this Lockdown has been less pronounced than it was during Lockdown 1, relative to the five-year average for their respective time periods (61% vs 91%), and in an illustration of this we saw nine properties launched during February. We are also aware of several others which are either 'buyable now' or under preparation, pointing towards a more active market as we move into March.

The largest transaction to take place in February was JP Morgan's off-market acquisition of M1 Real Estate's freehold interest in Times Place, 45 Pall Mall, SW1, for £110m. The property, which was last traded in 2009 and is need of significant capital expenditure, comprises 60,271 sq ft of multi-let office space arranged across nine floors. The purchase price reflects a net initial yield of 4.55%, based on the topped-up income of £5.4m (£89.60 psf) and a capital value of £1,825 psf.

The other major transaction was Motcomb Estate's acquisition of Aberdeen Standard's freehold interest in Armani's flagship store at 51-52 New Bond Street, W1, which had been formally withdrawn in Q4 2020. The property, which comprises 15,325 sq ft of office and retail accommodation with 47 ft frontage to New Bond Street, is single let until May 2031 at a topped-up passing rent of £3.1m p.a. (£1,169 ZA). The pricing level of £95.5m reflects a net initial yield of 3.03% and a capital value of £6,232 psf.

Last month we also saw the sale of Holborn Town Hall, WC1, which was acquired by a Private European Investor for £24.9m / 5.00% / £915 psf; 6-7 Great Pulteney Street, W1, which Westbrook has acquired with vacant possession for £16.5m / £1,054 psf; and 109 Kings Road, SW3, which Martins Properties has acquired from the Eyre Estate for £3.2m / £811 psf.

In terms of on-market transactions, Lothbury / Nomura acquired RDI REIT's freehold interest in The Lightbox, 127 Charing Cross Road, WC2, for £59.25m, which reflects a capital value per sq of £1,478 (existing) / £1,051 (consented) and The Royal Veterinary Surgeons sold its freehold interest in Belgravia House, 61-64 Horseferry Road, SW1, subject to a short leaseback, for £13.5m / £958 psf.

As we move into March, we are tracking over £2bn of available assets. There is also an estimated £940m under offer, and we expect transactional activity to increase as we progress along the latest Road Map out of Lockdown.

Savills prime West End yield stands at 3.50% and remains under increasing pressure in the case of core, well-located assets generating long income, secured against strong covenants. The MSCI average net initial and equivalent yields moved to 3.73% and 4.88%, respectively.

3.50%

Prime yield remains at 3.50% as flight to quality continues



Annual investment turnover down 67% on the five-year average



£940M currently under offer

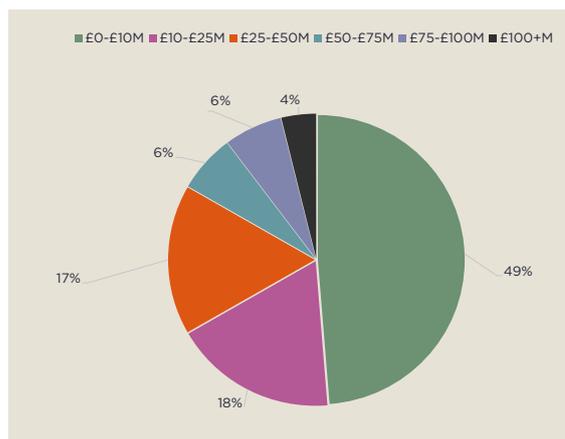
Relative Activity Levels (2016-2021)

Graph 1



Available Assets by Lot Size (2021)

Graph 2



£2bn

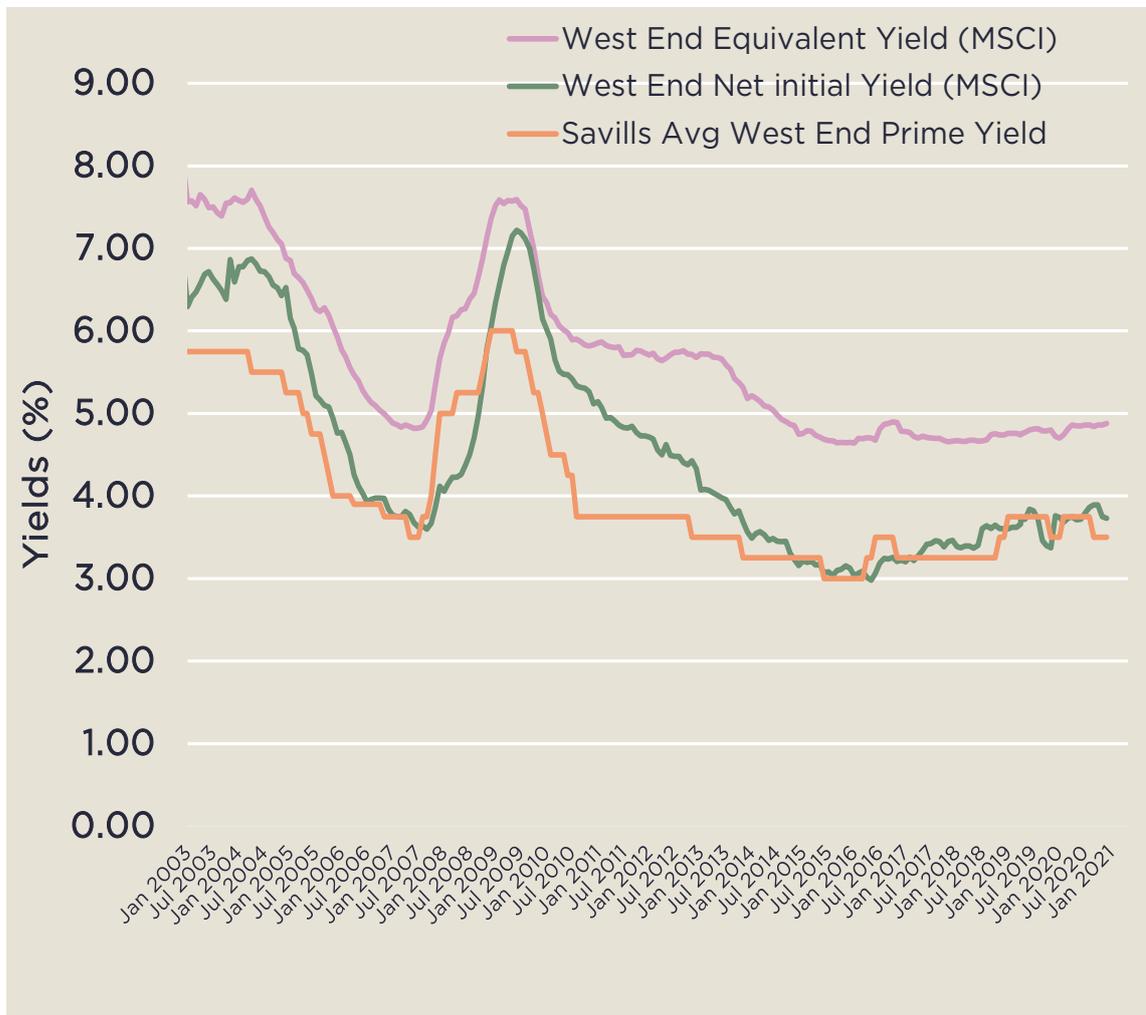
currently buyable across the West End

Key deals in February 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 | | | | | |
| Times Place | 45 | Pall Mall | SW1 | Office | 60,271 | FH | - | - | £110.0M | 4.55% (Topped-up) | £1,825 | M1 Real Estate | JP Morgan |
| - | 51-52 | New Bond Street | W1 | Retail Office | 15,325 | FH | - | - | £95.5M | 3.03% | £6,232 | Aberdeen Standard | Motcomb |
| Lightbox | 127 | Charing Cross Road | WC2 | Retail Office | 40,091 | FH | - | - | £59.3M | 3.18% | £1,478 | RDI REIT | Lothbury/Nomura |
| Holborn Town Hall | - | High Holborn | WC1 | Office | 27,225 | FH | - | - | £24.9M | 5.00% | £915 | Private UK | Private European |
| - | 6-7 | Great Pulteney Street | W1 | Office | 15,656 | FH | - | - | £16.5M | - | £1,054 | Private UK | Westbrook |
| Belgravia House | 61-64 | Horseferry Road | SW1 | Office | 14,087 | FH | - | - | £13.5M | 4.11% | £958 | RCVS | TBC |

Graph 3

West End Yield graph



Source: Savills, MSCI

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