

West End Investment Watch

Steady stream of deals keeps West End turnover buoyant

November 2018

Market comment and notable deals

■ October saw volumes of £604m over 13 transactions, taking annual turnover to the end of the month to £6.2bn. This compares positively with the same month last year where only £180m of deals were recorded. With Q4 typically the busiest time of year, our read of the market, analysing both deals already under offer and openly marketed stock, suggests that year end turnover will reach at least £7.4bn. Again this compares favourably to £7.0bn in 2017 (see graph 1).

■ In the largest deal of the month, Almacantar sold 125 Shaftesbury Avenue to KB securities for £267m, reflecting a 4.56% net initial yield and a capital value of £1,502 per sq ft. The freehold interest totals 177,809 sq ft of office and retail accommodation. The offices are single let to WeWork on a 20 year lease, expiring in January 2038 at a passing rent reflecting £76.00 per sq ft overall. WeWork has subsequently underlet the whole to Facebook on a three year term. The five retail units are leased with expiries between 2027 and 2032, with the combined rent making up 12.5% of the total income.

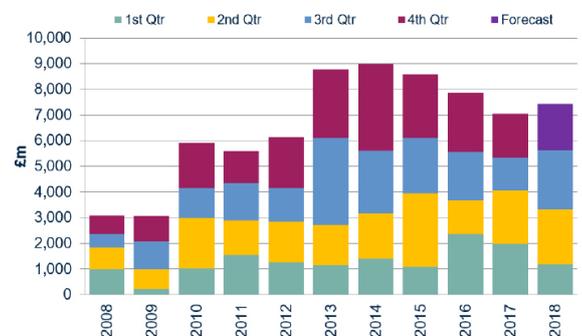
■ In their seventh known sale of the year, Great Portland Estates sold 55 Wells Street for £65.46m, reflecting a 3.99% net initial yield and a capital value of £1,675 per sq ft. The newly developed freehold office and restaurant property totals 39,095 sq ft and is multi-let to two office tenants, Yotam Ottolenghi's flagship restaurant, ROVI, and the Cartoon Art Trust, providing a WAULT of over 10 years to expiry and approximately 8.5 years to tenant breaks.

■ On behalf of a private Cypriot investor, Savills sold the freehold interest in 16 Hanover Street, a rare mixed-use development opportunity in core Mayfair. The property is vacant and comprises 10,215 sq ft of stripped-out accommodation that benefits from a rare planning consent to deliver a three storey restaurant and six floors of Grade A office space above. The property was acquired by a private Middle Eastern investor for £20.4m, reflecting £1,997 per sq ft on the current area.

■ European Investors have been the most active among £100m plus assets this year to date making up 35% of purchases by volume. Asian investors on the other hand have accounted for just 23% totalling £860m, in stark contrast to 2017's £1.63bn, which equated to a 41% market share (see graph 2). Whilst we have already recorded a healthy 17 deals in excess of £100m this year, we need to see a string of larger transactions in the remaining two months in order to break the record of 22 set in 2014, 2016 and 2017.

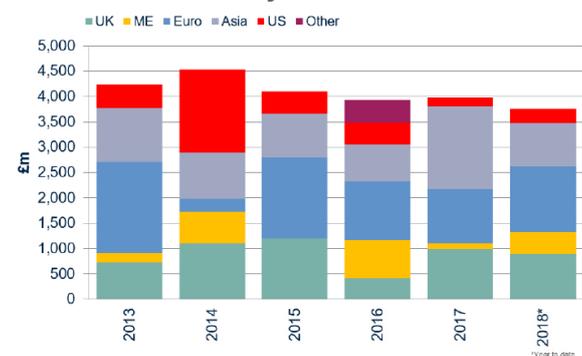
■ The MSCI average net initial yield moved in to 3.60%, whilst the equivalent yield moved out to 4.74%. Savills prime yield has moved out to 3.5% (see graph 3).

GRAPH 1
West End Turnover by Quarter



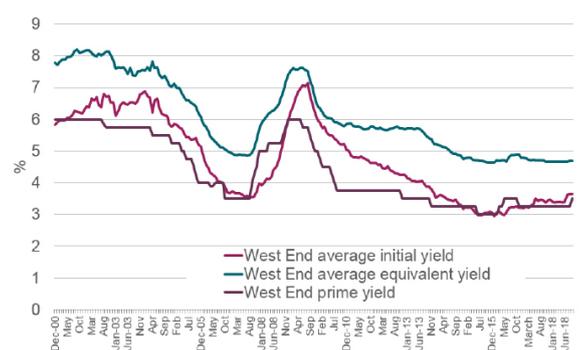
Source: Savills. Data to end of October 2018

GRAPH 2
Purchaser nationality <£100m transactions



Source: Savills. Data to end of October 2018

GRAPH 3
West End Yields



Source: Savills and MSCI

TABLE 1
Key deals in October 2018

No	Street	PC	Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
					FH/LH	U/x term	Gearing					
125	Shaftesbury Avenue	WC2	Office Retail	177,809	FH	-	-	£267.00 M	4.56%	£1,502	Almacantar	KB Securities
55	Wells Street	W1	Office Retail	39,091	FH	-	-	£65.46 M	3.99%	£1,675	Great Portland Estates	Antirion SGR
16	Hanover Street	W1	Office Retail	10,215	FH	-	-	£20.40 M	-	£1,997	Private Cypriot Investor	Private Middle Eastern Investor
23-25	Mortimer Street	W1	Retail	2,974	vFH	978	pep	£2.60 M	4.25%	£874	Private Irish Investor	Private Cypriot Investor

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