

West End Investment Watch



Flurry of bids processes braces market for more active second quarter

Q1 2023 saw investment volumes of £713.5M across 13 transactions, with the majority of this activity taking place in March (62% by deal number). We reported in January and February that activity had been subdued, with only 2 and 3 trades occurring in these months respectively. We witnessed an uptick in activity in March, with 8 deals exchanging, albeit significantly skewed towards smaller lot sizes. The average deal volume stood at £22M, compared with £80M and £114M in January and February respectively.

Despite the increase in the number of deals, turnover for the quarter still lags behind the long term average, with Q1 volumes down 40% on the 5 year average and 56% below the 10 year average.

Notable investment activity in March includes Aviva's freehold disposal of 73 New Bond Street and 12-16 Dering Street, W1 to a private investor. The mixed use building comprises 12,186 sq ft of office and retail accommodation, fully-let to 7 tenants with a WAULT to expiry of 5.5 years and 4.5 years to break. Pricing reflected £25M, 2.96% NIY and £2,052 psf which is a 10% discount to the original quoting price.

The freehold interest in Sidney Smith Building, 36-42 King's Road, SW3 has exchanged to Cadogan Estates for a price understood to be £38.5M, 10% ahead of the original quoting price of £35M. The building comprises five storeys including 7,612 sq ft of retail accommodation across ground and lower ground, with the first to third floors comprising 2,840 sq ft of office accommodation and 5,895 sq ft of residential accommodation. Pricing at this level reflects 3.83% and £1,200 psf overall.

UK vendors continue to dominate selling activity, accounting for all 12 recorded trades this the year to date. As we look forward, domestic owners remain to be

net sellers of available assets, comprising 95% of assets marketed in March (and two-thirds of all openly marketed stock so far this year). By contrast, on the buy-side, Asian purchasers account for 47% of year-to-date volumes (skewed by GIC's acquisition of Tribeca, NW1 in February) with UK purchasers comprising only 8%.

A theme analysed in our January and February updates, regarded a wealth of 'buyable' assets, dominated by lingering core plus stock. However, the resurgence of opportunities marketed in March has shifted this delta; we recorded £540M of new availability in March. When we analyse this total, we broadly assess these to be characterised as only 6% core plus, compared with Value Add, Opportunistic and Core assets each comprising a third of the newly marketed stock.

This translated into the invitation of nine separate bids processes, set in March, including The Capital Portfolio, ENI House, SW1, 27 Soho Square, W1, 55 Strand, WC2, and Nobel House, SW1. The outcome of these processes will provide strong evidence for asset pricing, and following a muted first quarter, activity in Q2. As at the end of Q1, rolling availability has risen 23% from the start of the year, sitting at £3.82 bn across 82 assets, albeit 74% of this figure represents assets marketed pre-2023.

Savills prime West End yield stands at 4.00%. The Bank of England base rate has risen to 4.25% and the SONIA five-year swap rate stands at 3.77%.



Savills hold 23% market share (by number) in 2023



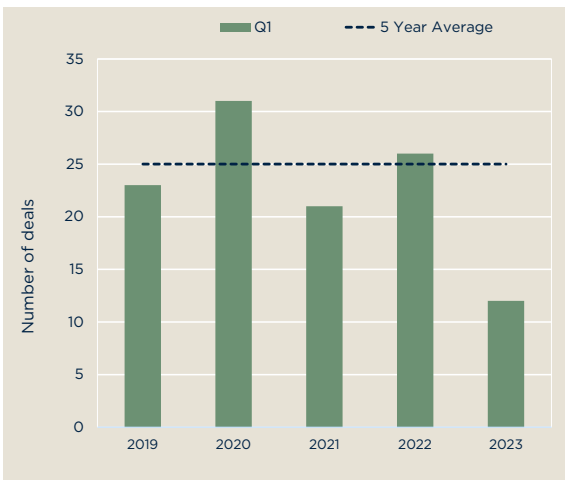
UK Vendors continue to be net sellers, representing 96% of Q1 trades



Only 2 trades over £100M in Q1

Q1 2023 Number of Transactions

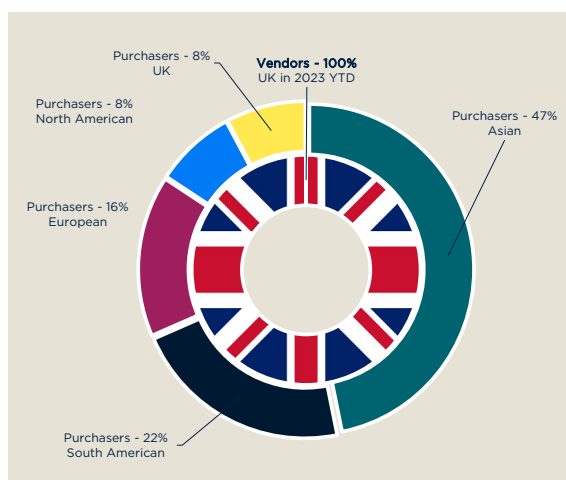
Graph 1



Source: Savills

Q1 2023 Vendor & Purchaser Profiles

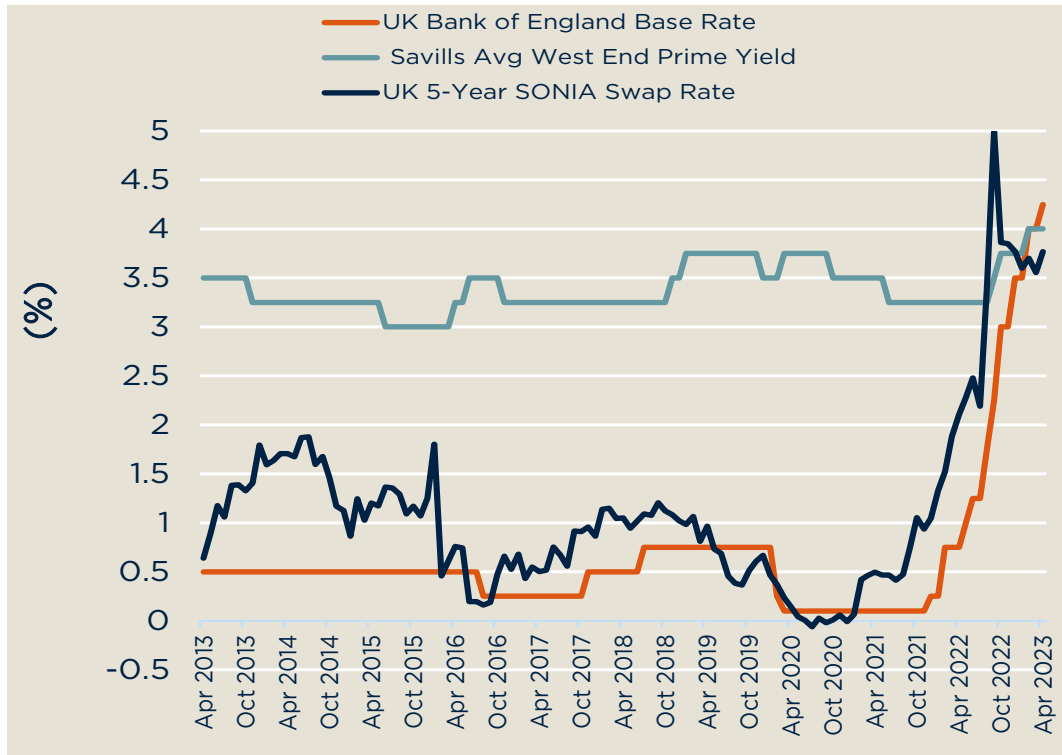
Graph 2



47% by volume acquired by Asian investors

West End Yield & Finance Rates Graph

Graph 3



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