

West End Investment Watch



Record July as flight to quality intensifies

In a sign of ever-increasing liquidity and market momentum, West End investment volumes stood at £525m last month. This is 25% above the previous five-year average for July and the highest monthly total this year.

Cumulative annual turnover now stands at £2.1bn across 52 transactions, which remains 38% below the previous five years' average but 25% ahead of last year's record low figure of £1.65bn.

Savills has advised on over 70% of the transactions in St James's this year and the most notable of these, 5 St James's Square, SW1, exchanged last month. The Grade II listed property, which is multi-let to five tenants at an average rent of £140 psf, was acquired by Ramsbury from Ocubis for c.£75m, which reflects a net initial yield of 2.84% and a record capital value of £4,634 psf.

The transaction was preceded by Shun Tak Holdings' equally significant sale of 8 St James's Square, SW1, to Deka, jointly advised by Savills, for c.£220m / 3.50% / £3,548 psf. The Grade A office building was developed in 2014 and is multi-let to five tenants at an average rent of £129 psf, with expiries ranging between 2025-2030.

The transactions above provide a clear illustration of the well documented 'flight to quality' that we have seen since the onset of the pandemic.

July also provided evidence of strong interest in 'Value Add' with several such transactions including Argo Real Estate's disposal of 5-10 Brandon Road, N7, to AXA / Kadans Science Partner for £32m / £1,041 psf; Red Circle Investments' disposal of 55 Argyll Street, WC1, to Heatherwick Studio for £30m / £1,085 psf and

Railpen's disposal of its 119 year long leasehold interest in 83 Pall Mall, SW1, for £50m / £1,096 psf.

The latter, which is subject to a head rent of 15%, has a potential block date and it is envisaged that the purchaser, Best Star Group, will undertake a comprehensive repositioning of the Grade II listed building thereafter.

In another major value-add transaction, Arax and its Institutional JV Partner has sold a 1.2 acre site in Marylebone - the Harley Street Estate - to a confidential investor for a price understood to be over £70m. The mixed-use Estate comprises 253,352 sq ft of medical, life science, car parking, office and residential accommodation, 66% of which falls under direct control of the freeholder.

The final transaction of note during July was the 124 year long leasehold interest in Grafton House, 379 Euston Road, NW1, which Sofidy has acquired from a Private Indian investor for over £19.0m.

We are tracking over £2bn of assets available on the open market and expect a significant quantum of new opportunities to be marketed in the coming weeks, both by opportunistic vendors buoyed by strong recent pricing and by those who would have otherwise done so earlier in the year had it not been for COVID-induced restrictions.

With over £2.5bn worth of assets known to be under offer, we expect July's momentum to be sustained throughout the typically quieter month of August and for pricing to remain accordingly robust, particularly in the case of core, well located assets. On the basis of the evidence seen this month, Savills prime West End yield remains at 3.25%. The MSCI net initial and equivalent yields stand at 3.47% and 4.85% respectively.

3.25%

Savills prime yield remains under downward pressure



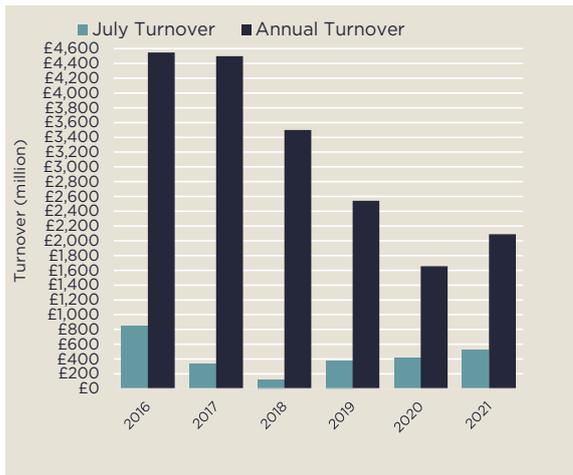
July turnover highest monthly volume in 2021



£2.5bn currently being tracked under offer

July & Annual Turnover (2016-2021)

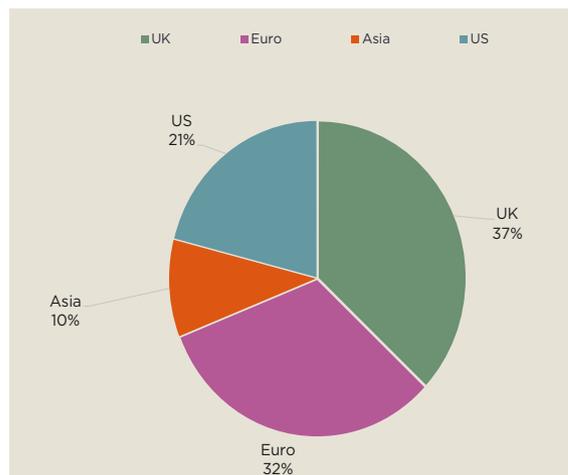
Graph 1



Source: Savills

2021 Purchaser Nationality (by Volume)

Graph 2



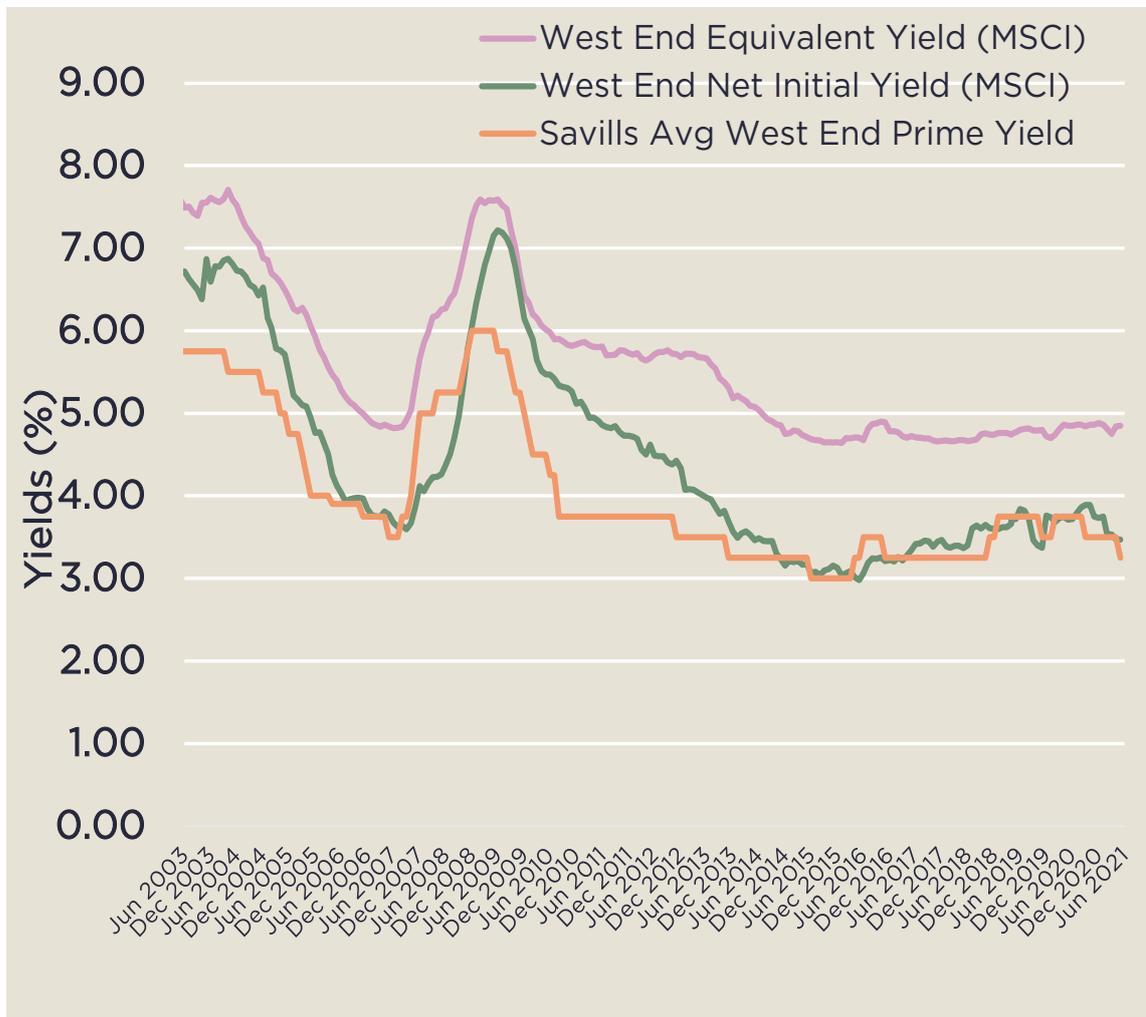
Annual turnover up 25% year-on-year

Key deals in July 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					
-	8	St James's Square	SW1	Office	62,000	FH	-	-	c.£220.00 M	c.3.50%	c.£3,548	Shun Tak Holdings	Deka
-	5	5 St James's Square	SW1	Office	16,183	FH	-	-	c.£75.00 M	c.2.84%	c.£4,634	Ocubis	Ramsbury
Harley Street Estate	-	Harley Street Queen Anne Street	W1	Mixed Use	166,261	FH	-	-	£70.00 M	2.78%	£1,421	Arax/ JV Partner	Confidential
-	83	Pall Mall	SW1	Office	45,660	LLH	119	15%	c.£50.00 M	-	£1,095	Railpen	Best Star
-	5-10	Brandon Road	N7	Mixed Use	30,728	FH	-	-	£32.00 M	-	£1,041	Argo Real Estate	AXA/ Kadens
-	55	Argyll Street	WC1	Office	27,658	FH	-	-	£30.00 M	-	£1,085	Red Circle Investments	Heatherwick Studio
Grafton House	379	Euston Road	NW1	Office	17,338	LLH	124	5%	£19.00 M	5.01%	£1,096	Private Indian Investor	Sofidy

Graph 3

West End Yield graph



Source: Savills, MSCI

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