

West End Investment Watch



Off market flurry heralds busiest month so far

July witnessed a buoyant level of investment activity with a total volume of £776m; the largest monthly figure observed since January, bringing cumulative 2022 volume to £4.59bn. The number of transactions, at sixteen, is the highest monthly level seen so far this year, equating to nearly a quarter of deals done year-to-date. Whilst such a strong performance contradicts the traditional summer lull, 76% of July's investment volume transacted off market; a likely function of vendor caution in light of the ongoing macroeconomic headwinds.

The largest transaction was Sinarmas Land's off market disposal of the freehold interest in Great Minster House, 33 Horseferry Road, SW1 to Lembaga Tabung Haji (c.£250m, 2.90% & £1,384 psf). The c.180,000 sq ft headquarters office building is single-let to the Department for Transport until December 2033 at a passing rent reflecting £45 psf, reviewed annually in line with CPI (capped and collared at 0%-4%). In another off market transaction, Schroders sold the freehold interest in 3-8 Whitehall Place, SW1 to Legal & General (£155.25m, 3.50% & £1,586 psf). The c.95,000 sq ft office is single-let to the UK Government until June 2029 and will serve as the headquarters for the Department for Business, Energy and Industrial Strategy following the refurbishment of the building, which is due to complete in 2023.

The price level achieved in both transactions reflects the enduring appeal of assets providing long-dated (and in the former case, inflation-linked) government income, a particularly defensive income profile in the context of economic and market uncertainty. Domestic institutional investors were the most common vendor category, with Derwent London, BMO, Aviva and Columbia Threadneedle (as well as Schroders, aforementioned) all completing sales in July. Likewise on the buy-side, UK investors accounted for 43% of transaction volume, a continuation of the long-term trend.

The volume of openly available stock is noteworthy and bucks the normal trend of an absence of stock over the summer. Current supply continues to be led by new marketing rather than aborted sales processes, and July witnessed six newly marketed assets totalling a combined lot size of £354m. The largest of these, 1-2 Stanhope Gate, W1, marks Lothbury's third West End sale of 2022 following the recent disposals of 12 Soho Square, W1 and 15-16 Bedford Street, WC2. The freehold headquarters office building comprises c.34,000 sq ft and is single-let to banking advisory firm Evercore Partners International LLP until March 2027 at a passing rent reflecting £91.58 psf (Q. £90m, 3.23% & £2,655 psf). The outcome of this sale process will act as a strong indicator for Savills prime yield, particularly given the current challenging market conditions.

Savills is marketing the virtual freehold interest (219 years at a peppercorn) in Verve, 40 Villiers Street, WC2 on behalf of ARA Europe. The building was comprehensively refurbished in 2020 to comprise 16,662 sq ft of multi-let offices, generating an average passing rent of £77 psf and a WAULTC of 7 years, and benefitting from a communal roof terrace overlooking the River Thames. The ground floor comprises four retail units (Q. £40.76m & 4.70%).

Other newly marketed assets of note include abrdn's freehold interest in 6 Duke Street, SW1 (Q. £81.6m, 3.25% & £2,358 psf) and Aquila's freehold interest in 55 Tottenham Court Road, W1 (Q. £52m & £1,032 psf). Each process will act as a useful bellwether of investor appetite for core and value-add opportunities, respectively.

Savills prime West End yield remains at 3.25%, whilst the Bank of England base rate faces upward revision from 1.25% to 1.75% in early August and the UK 5-year SONIA Swap rate stands at 2.19%.



24% of year-to-date deals occurred in July

£589m

July's off market transaction volume



£1.67bn currently under offer

Openly Marketed vs Off Market Deals (By Number)

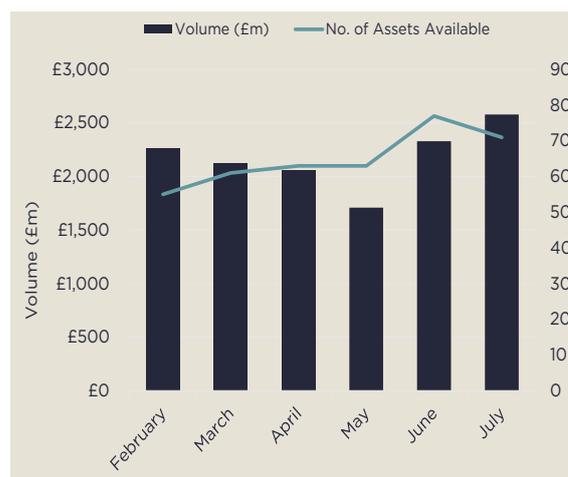
Graph 1



Source: Savills

Total Availability (February-July 2022)

Graph 2

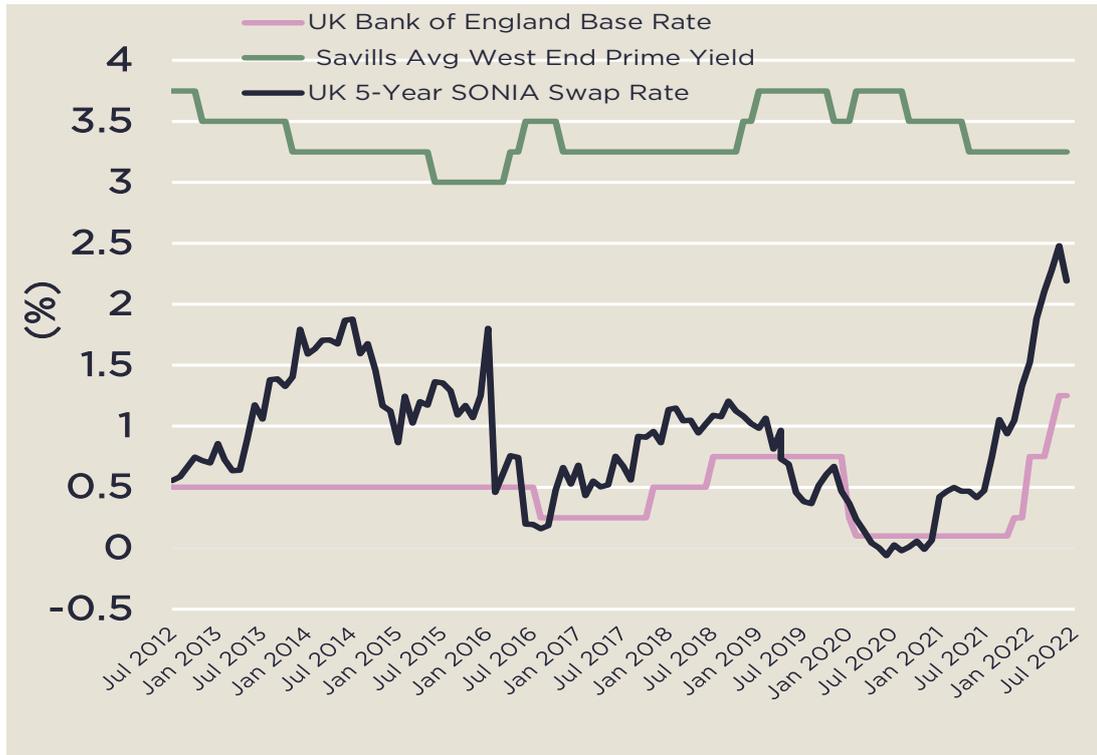


£36m

The average lot size of available assets

Graph 3

West End Yield graph



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