

# West End Investment Watch



## Second Lockdown fails to dampen investor enthusiasm

Transactions continued apace in November in spite of a second national Lockdown, with a strong monthly investment volume of £574m across nine transactions. This figure exceeds the five-year average for November by over 60% and stands in stark contrast to the near-standstill conditions we witnessed during the first Lockdown, during which we recorded only £161m of transactions.

Whilst the cumulative annual total of £3.56bn remains 53% below the five-year average, this shortfall stems primarily from H1's record low liquidity; indeed turnover over the past three months, which stands at £1.86bn, is actually higher than both 2019 (£845m) and 2018 (£1.85bn) and very much in line with the longer term Autumn average.

During the past three months, it is worth noting that Asian investors accounted for 38% of turnover by volume, ahead of European investors at 27% and UK purchasers at 12%. This is a marked reversal in dynamics from H1, during which the majority (55%) of purchasers were UK-based and Asian investors only accounted for 3% of volume.

In November, 74% of volume can be attributed to two transactions, the largest of which was 1 St James's Square, SW1, which was purchased after competitive bidding by Hong Kong-listed Lifestyle International Holdings from BP Plc, who will lease-back the building for two years at a rent of £108 per sq ft.

The purchase price, which is understood to be £250m, reflects a capital value of £2,358 per sq ft and a 6% premium to the guide price of £235m. By our analysis, target rents in the proposed scheme, which involves a comprehensive refurbishment and creation of a new floor, average in the region of £150 per sq ft.

The other major transaction during November was British Land's disposal of the residue of its landmark Clarges Estate,

which comprises 65,083 sq ft of fully let Grade A office accommodation and three retail units (the 34 residential apartments having been sold off). The property was acquired by German fund, Deka, advised by Savills, for £177m which reflects a net initial yield of 3.51% and a capital value of £2,720 per sq ft overall, or an estimated £3,000 per sq ft on the office element.

Further activity included the disposal by British Land of Yalding House, Great Portland Street, W1, which was acquired by a European client of Savills for £42m (4.42% / £1,458 per sq ft); 71 Victoria Street, SW1, which Aberdeen Standard sold with vacant possession to a European investor for £31m (£966 per sq ft); and 36-38 Dean Street, W1, which was sold by Soho Estates to a Private UK Investor, advised by Savills. This latter deal was for £22.1m which reflects a net initial yield of 4.03% and a capital value of £1,498 per sq ft.

As we move into December, we are tracking £1.2bn under offer and key transactions to watch include 21 St James's Square, SW1, and 127 Charing Cross Road, WC2, both of which are understood to have been placed under offer ahead of their respective guide prices (£180.0m and £56.5m), further demonstrating investors' sustained appetite for assets in fundamentally strong, resilient locations.

For all the good news, we also observe with interest a broader-than-normal range of assets which remain unsold or have been placed under offer at discounted levels to their guide prices. There are too many factors to simply explain away this phenomenon, however they will include rental payment and collection issues, void risk uncertainty, quality of accommodation and ultimately breadth and depth of investor demand.

Based on November's activity, Savills prime West End yield remains at 3.50%, while the MSCI net initial and equivalent yields stand at 3.89% and 4.89% respectively.



£574m investment volume across nine transactions



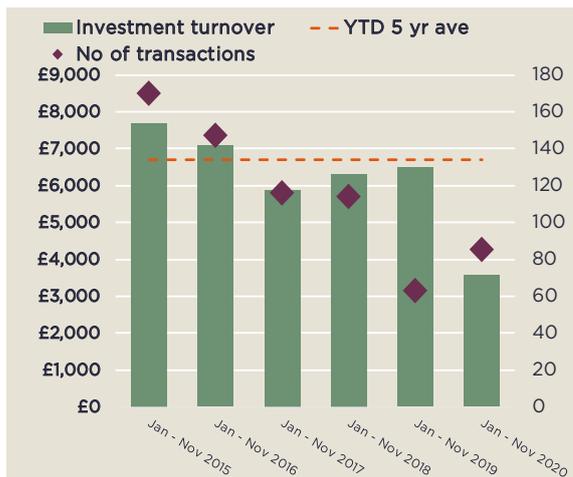
Reversal in purchaser nationality profile during past three months

**3.50%**

Savills prime West End yield remains at 3.50%

### Jan - Nov turnover (2015-2020)

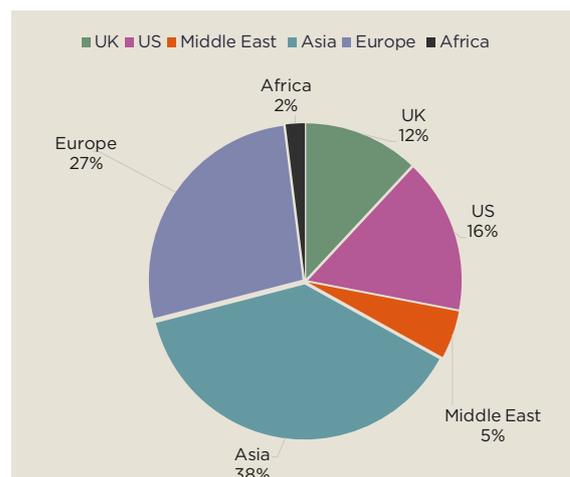
Graph 1



Source: Savills

### Transaction volume by purchaser nationality (Aug - Nov 2020)

Graph 2



**£1.2bn**

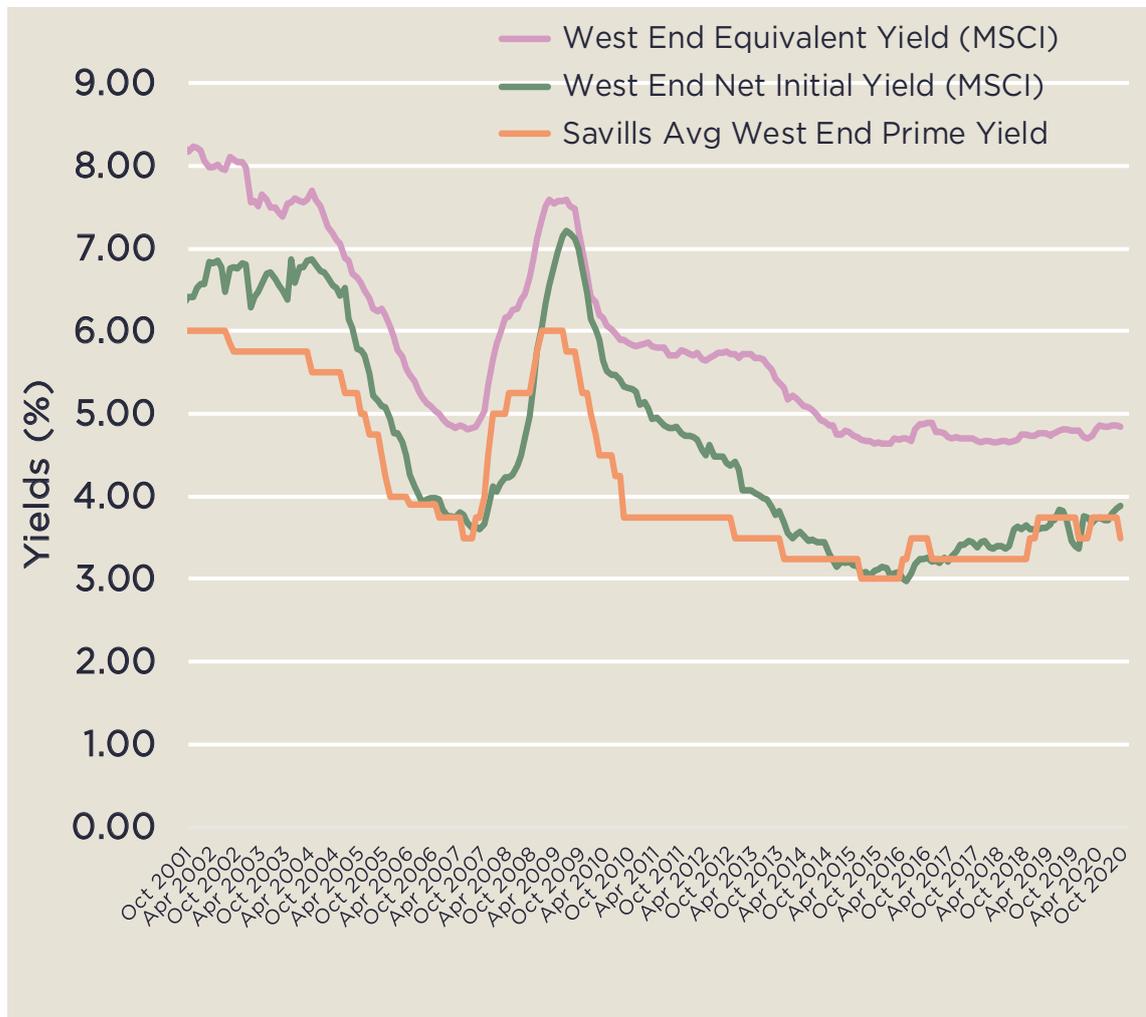
currently under offer

## Key deals in November 2020

| Address       |         |                       |     | Sector          | Area sq ft | Tenure |          |         | Price    | Yield | CV/sq ft | Vendor            | Purchaser               |
|---------------|---------|-----------------------|-----|-----------------|------------|--------|----------|---------|----------|-------|----------|-------------------|-------------------------|
| Building Name | No      | Street                | PC  |                 |            | FH/LH  | U/x term | Gearing |          |       |          |                   |                         |
| -             | 1       | St James's Square     | SW1 | Office          | 106,000    | FH     | -        | -       | £250.0 M | 4.20% | £2,358   | BP Plc            | Lifestyle International |
| -             | 7       | Clarges Street        | W1  | Office / Retail | 65,083     | FH     | -        | -       | £177.0 M | 3.51% | £2,720   | British Land      | Deka                    |
| Yalding House | 152-156 | Great Portland Street | W1  | Office / Retail | 28,842     | LLH    | 118      | 5.75%   | £42.0 M  | 4.42% | £1,458   | British Land      | Confidential            |
| -             | 71      | Victoria Street       | SW1 | Office          | 32,096     | FH     | -        | -       | £31.0 M  | -     | £966     | Aberdeen Standard | Private European        |
| -             | 36-38   | Dean Street           | W1  | Office          | 14,752     | FH     | -        | -       | £22.1 M  | -     | £1,498   | Soho Estates      | Private UK              |
| -             | 30-32   | Mortimer Street       | W1  | Office          | 16,477     | FH     | -        | -       | £17.0 M  | -     | £1,032   | Private UK        | Elena Capital           |

### Graph 3

#### West End Yield graph



Source: Savills, MSCI

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