

West End Investment Watch



Buyers' options dominated by core plus

We witnessed a muted start to the year in a continuation of Q4's subdued activity. Only 2 transactions took place in January with a combined volume of approximately £165M. Over the past five years, January has witnessed average volumes of £493m, spread across 8 transactions. This year's total volume sits at less than half of this and well below that of January 2022, where we reported our highest turnover on record at £1.58 bn.

The largest transaction was 27 Old Bond Street, W1, a freehold retail-led building which exchanged off market to a private investor. The property comprises 20,965 sq ft arranged as a prime retail showroom let to Alexander McQueen for a further 9.5 years and the upper floors comprise offices let to Chanel. Pricing is confidential, however we understand the building was previously under offer to another party at circa £140M, reflecting a sub 3% NIY & £6,876 psf, highlighting the enduring appeal of one of the West End's most prestigious addresses, particularly in the private investor market. This trade is a continued example of buyer conviction in the core markets, targeting defensive assets with secure income profiles and strong building fundamentals.

In the second transaction RBS Pension Fund sold the freehold interest in 35 Great Smith Street, SW1, which exchanged to a private Swiss investor for £25M reflecting 4.79% and £785 psf. The building is single let to the UK Government for a further 2 years providing the opportunity to comprehensively refurbish thereafter. This transaction follows the notable trend of fund disposals, being one of 20 assets that have been sold by a UK institution in the last 12 months (circa 20% of all deals by number).

The number of deals agreed so far this year has also been scarce. We are tracking £1.3 billion under offer across 24 deals; of which 85% (by volume) was agreed in 2022. The largest deal agreed in January was AXA IM's freehold sale of The Assembly, 77 Fulham Palace Road, W6; a 3-acre

office-led campus comprising 225,000 sq ft, multi-let to 18 tenants. The revised quoting price in October 2022 was £120M, 7.56% and £531 psf.

Institutional investors continued their reputation as net sellers and represented two of the three newly marketed assets in January. In the most significant of these, Savills, on behalf of abrdn, is marketing the freehold interest in 33 Foley Street, W1; a prime office building in core Fitzrovia, single-let to FTSE-listed Kier Group Plc for a further 19.9 years. The 42,462 sq ft BREEAM 'Excellent' warehouse-style building is the only single-let office freehold providing long-dated, RPI-linked income ever marketed in Fitzrovia.

Index-linked income is a particularly attractive structure in the context of the current backdrop of high inflation. January witnessed another asset of this nature in the marketing of ENI House, Pimlico, SW1. The new long leasehold interest is being sold by Grosvenor and comprises 62,587 sq ft of office accommodation single let to ENI UK Limited for a further 15 years with mutual break options in the 5th and 10th years, with index-linked rent reviews every 5 years (Q. £60M, 5.70% & £959 psf).

We are monitoring approximately £3.1bn of available stock, and notably over 70% of this (by volume) commenced marketing over 3 months ago. The majority of these unsold opportunities can be categorised as 'core plus' in nature, albeit many are hampered by tenure, void risk and pricing expectations relative to current sources of demand.

In the face of continued stock shortage and macroeconomic headwinds, Savills prime West End yield stands at 4.00%. The Bank of England base rate has increased 50 bps to 4.00%, and the SONIA five-year swap rate stands at 3.73%.



2 January trades recorded



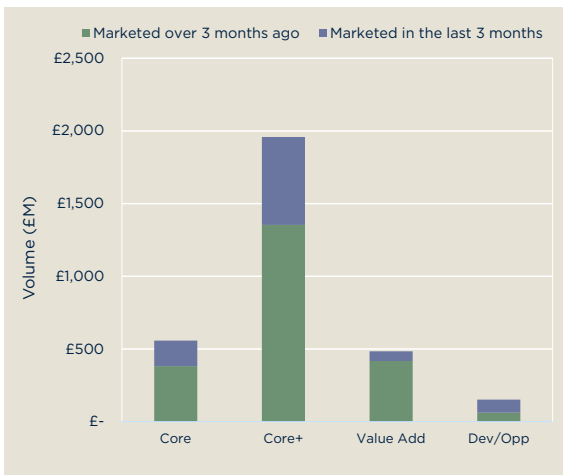
UK vendors account for 53% of current availability



£1.3 billion of stock under offer, 85% of which was agreed in 2022

West End availability by profile

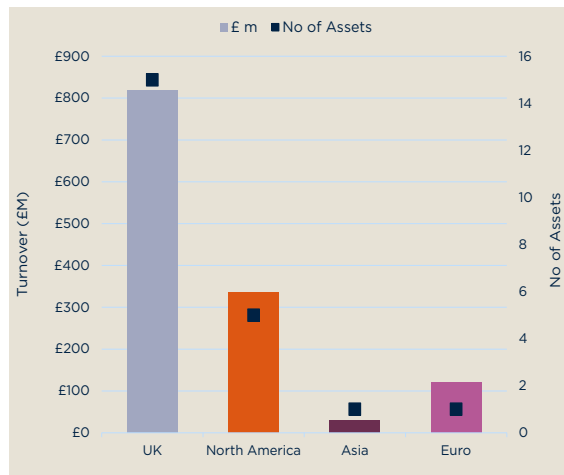
Graph 1



Source: Savills

Assets under offer (by vendor nationality)

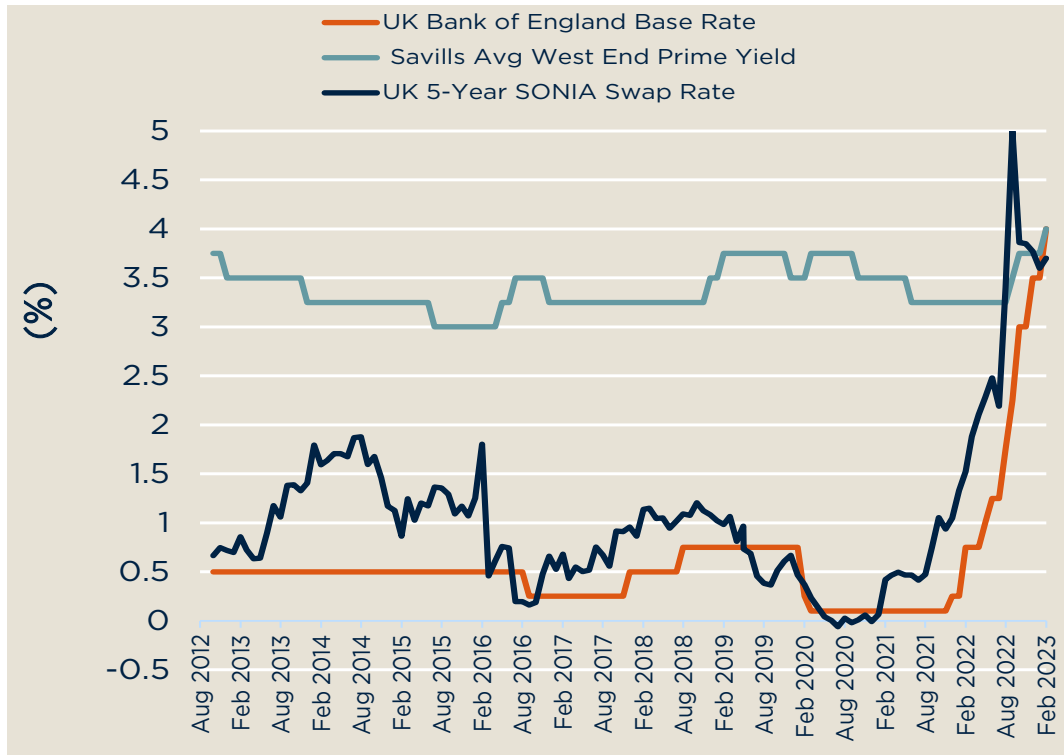
Graph 2



62% of available stock is 'core plus' in nature

West End Yield & Finance Rates Graph

Graph 3



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