

West End Investment Watch



Back to 'business as usual' in the West End

As anticipated, the heightened investor confidence seen during December carried through to January, with several assets exchanging or being placed under offer, and pricing continue to strengthen in the face of acute stock scarcity.

The positive shift in sentiment is illustrated well by the fact that much of January's activity involved stock that had previously failed to attract the market's attention - with some assets having been available for over a year. Examples within this category include Seven Dials Warehouse, Eagle House, St James's, and 101 St Martin's Lane, all of which had been available for over 14 months before being placed under offer.

In addition to absorption of relatively historic stock, we also witnessed swift engagement on newly-marketed assets, with key illustrations being Camden Works, Sanctuary Buildings and 2-4 Cork Street, all of which were placed under offer above their guide prices, within two months of being marketed.

This heightened momentum and investor appetite provides a strong indication that we have returned to more typical West End conditions, following last year's relatively muted climate.

In terms of stock to exchange, January saw 14 transactions at a combined volume of £339.6m. This represents a notable 137% increase on the 'dry January' we reported last year (£143.1m across three transactions) and stands broadly in line with January 2018's volume (£392m).

The largest transaction was Hines' swift acquisition of Aviva's freehold interest in 80 New Bond Street & 325 Oxford Street, for £130m (£3,475 per sq ft). The property, which comprises 37,414 sq ft of office and retail accommodation, presents a major repositioning opportunity with vacant possession available in August 2020 and potential to increase massing, subject to planning.

Other major transactions included Baring's off-market disposal of its 122 year long leasehold interest in 7-10 Waterloo Place to a German Investor for close to £72m (£2,035 per sq ft) which reflects a net initial yield of c.4%. The property comprises 35,387 sq ft of office, restaurant and spa accommodation, and is let to six tenants for a WAULT of approximately 12.6 years to expiries.

In another off-market transaction, Derwent London acquired the freehold interest in Blue Star House, 234-244 Stockwell Road, Brixton, for £38.1m, reflecting a capital value per sq ft of £709. The mixed-use property is multi-let on a short-term basis to tenants including Lambeth Council, and presents a major development opportunity.

Derwent's confidence in the sub-market provides another illustration of an emerging theme of 'building-led' investment, where traditional micro-location concerns are outweighed by the potential to exploit tenant's ever-increasing 'foot-loose' approach and heightened prioritisation of building quality.

We are currently tracking £1.8bn worth of stock that is under offer, and expect that the strong evidence currently being set will contribute to an increase in availability as we move into the end of Q1, with previously-hesitant vendors being encouraged to sell.

In the face of continued stock shortage, global push factors, enduring occupational market buoyancy and heightened investor enquiries, Savills prime West End yield remains at 3.50%

The MSCI average net initial and equivalent yields moved to 3.37% and 4.80%, respectively.

£340m

traded across 14 transactions - 137% higher than January 2019



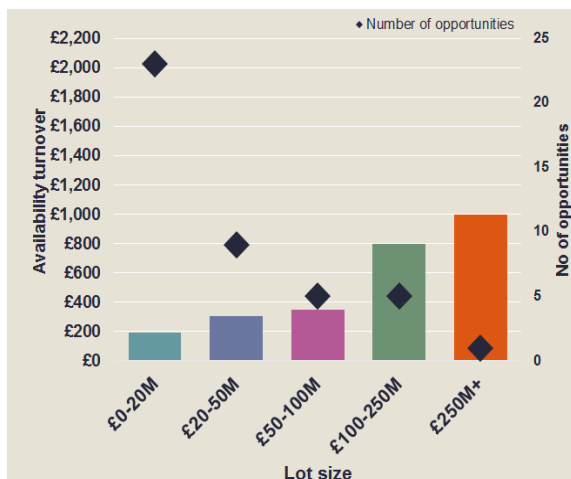
£1.8bn
worth of stock currently under offer



Stock scarcity and heightened investor enquiries maintain downward pressure on yields

West End availability by lot size

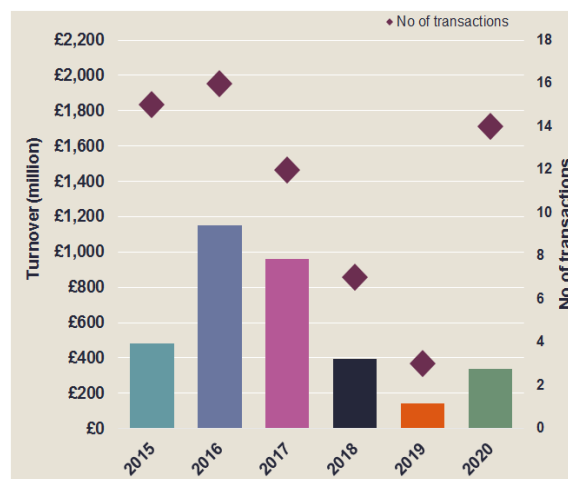
Graph 1



Source: Savills

January transactions over past five years

Graph 2

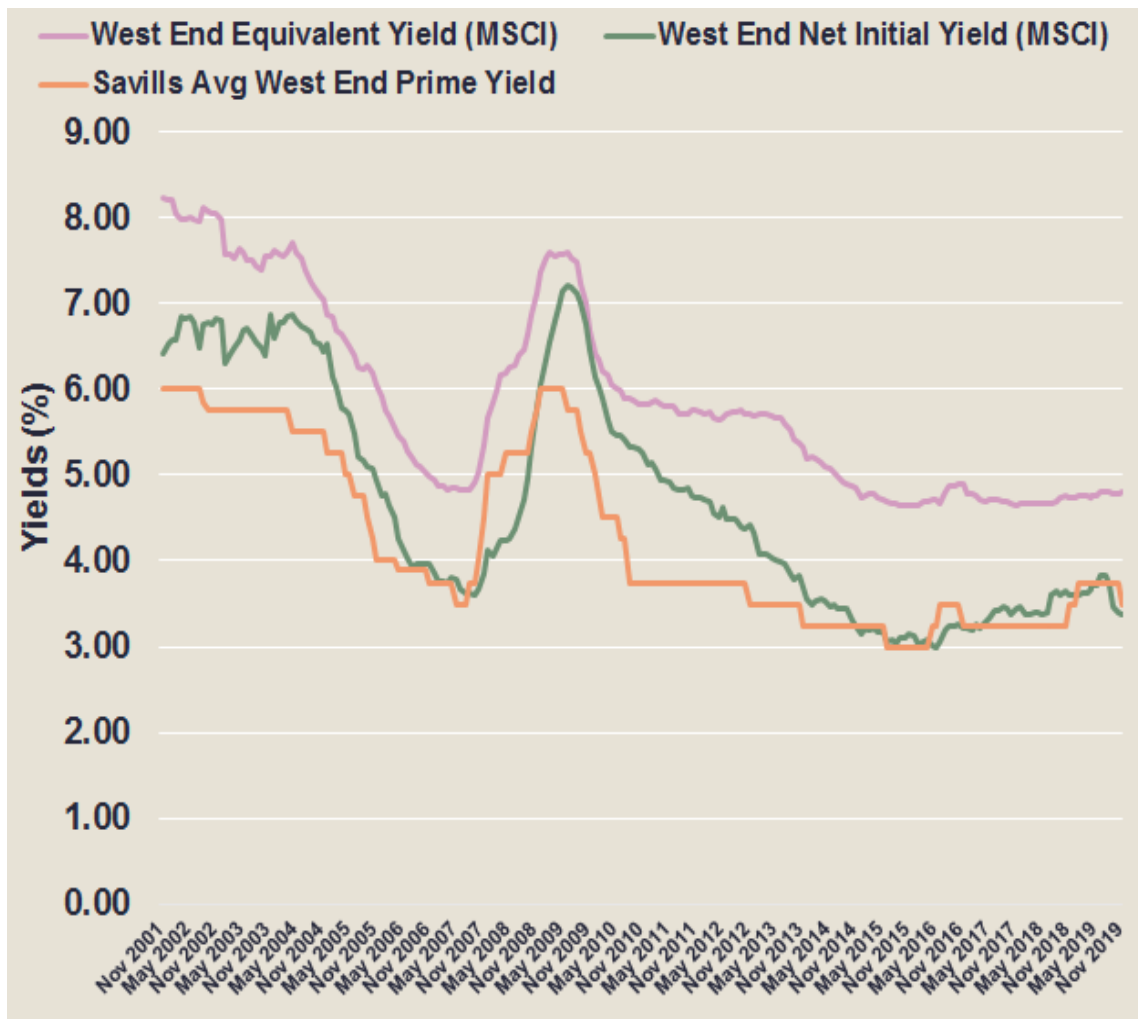


Key deals in January 2020

Building Name	Address			Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
	No	Street	PC			FH/LLH	U/x term	Gearing					
-	80 325	New Bond Street Oxford Street	W1	Office / Retail	37,414	FH	-	-	£130.0 M	2.65%	£3,475	Aviva	Hines
-	7-10	Waterloo Place	SW1	Office / Leisure	35,387	LLH	122	10%	£72.0 M	4.00%	£2,035	Barings	Private German Investor
Blue Star House	234- 244	Stockwell Road	SW9	Office / Retail	55,750	FH	-	-	£38.1 M	1.97%	£683	Private UK Investor	Derwent London
-	86	Jermyn Street	SW1	Office / Retail	43,174	FH	-	-	£20.0 M	2.59%	N/A	Charities Trust	Royal London
-	145-155	King Street	W6	Office	29,039	FH	-	-	£18.0 M	5.00%	£620	Irish Life Assurance plc	Undisclosed

Graph 3

West End Yield graph



Source: Savills, MSCI

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