

West End Investment Watch



Strong H1 in light of rising macro pressures

June witnessed an investment volume of £420m across 8 transactions, bringing Q2 turnover to £1.82 billion (across 24 deals), representing a 50% increase and 15% increase on the 5-year and 10-year Q2 averages, respectively. This figure represents a 10% fall on the activity witnessed in Q1, likely hindered by the notable rise in finance costs and the continued increase in build costs, notwithstanding the handful of very large trades witnessed in January (namely Central St Giles, WC2 for £773m and Victoria House, WC1 for £420m). The total H1 2022 volume, however, at £3.84 billion is the highest level observed since the same period in 2017, demonstrating the market's strong rebound from the height of the coronavirus pandemic. Whilst the volume figure is 28% ahead of the 10-year average, the number of transactions (49) is down 28% on the average, highlighting a growing trend over the last decade of larger-but-fewer trades; partially a function of price inflation (which itself was largely driven by rental growth).

For the last 5 years, domestic investors have been the most active nationality in H1, in terms of investment volume and number of deals done, on both the buy- and sell-side. However that trend was bucked in the first half of this year, as North American and Asian capital was the most active, transacting volumes of £1.19 bn and £1.06 bn respectively. On the contrary, domestic capital acquired only £684 million (a broadly similar level as witnessed in H1 2020 and 2021).

49 Park Lane, W1 is the largest reported deal to have completed in June and represents the first prime office transaction so far this year. The c.28,000 sq ft building is single-let to US law firm Wilmer Hale for a further 7.5 years at a passing rent of £98 psf and received two rounds of competitive bidding, before Pembroke successfully sold the freehold interest to a private Guatemalan investor, fronted by CBRE Capital Advisors, at a 15% premium to the quoting price, achieving £95m, 2.69% & £3,408 psf. In the face of macroeconomic headwinds this deal portrays the enduring appeal of well-located assets offering a secure income profile.

In another core Mayfair deal, Savills represented a private investor in the freehold disposal of 28 St George Street, W1 which was acquired by a private European investor following a competitive selective marketing process. The c.23,000 sq ft office building is single let to Providence Equity until June 2023 (with a tenant break option in January 2023) providing the opportunity for comprehensive refurbishment thereafter. On the buy-side, Savills advised a private Middle Eastern investor on the freehold acquisition of 15-16 Bedford Street, WC2 from Lothbury, marking the UK fund's second West End sale so far this year. The building boasts an enviable pitch with views down Henrietta Street and comprises c.22,000 sq ft of office, retail and restaurant accommodation, multi-let with a WAULTC of 4.1 years (£33.5m, 4.42% & £1,543 psf).

Contrary to the traditional lull of summer which is characterised by a dearth of new stock, June witnessed 10 newly marketed assets totalling £382 million, bringing total availability to £2.33 bn, which is the highest level recorded so far this year. These sales vary in profile from core St James's office (6 Duke Street, SW1 - Q. £81.6m, 3.25% & £2,358 psf) to Oxford Street retail (Barratt House - Q. £55m, 4.53% & £3,395 psf). Savills is tracking £1.65 bn of investments under offer across 32 deals, of which 11 represent deals over £50m and many of which were agreed at least 2 months ago. The outcome of these deals will set strong precedent for the pricing of new sales in the second half of this year. Savills market share at the end of H1 stands at 23% of deals by number and 12% by volume.

Savills prime West End yield remains at 3.25%, whilst the Bank of England base rate has risen 25 bps again to 1.25% and the UK Bank of England SONIA Rate has also increased to 1.89%.



£3.84bn of volume in H1, a 58% uplift on the 5-year average



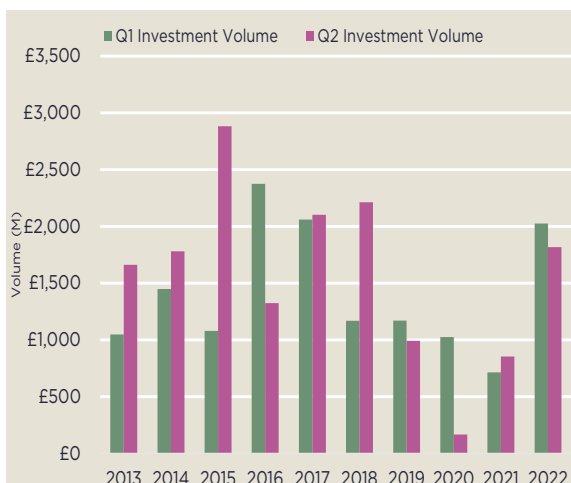
North American investors were the most active buyers in H1, by volume



£2.33bn of available stock, the highest amount so far this year

Q1 vs. Q2 Investment Volumes (2013-2022)

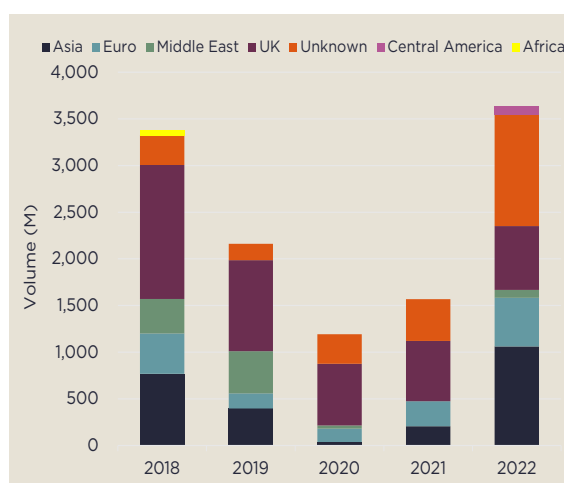
Graph 1



Source: Savills

Purchaser Nationality (2018-2022)

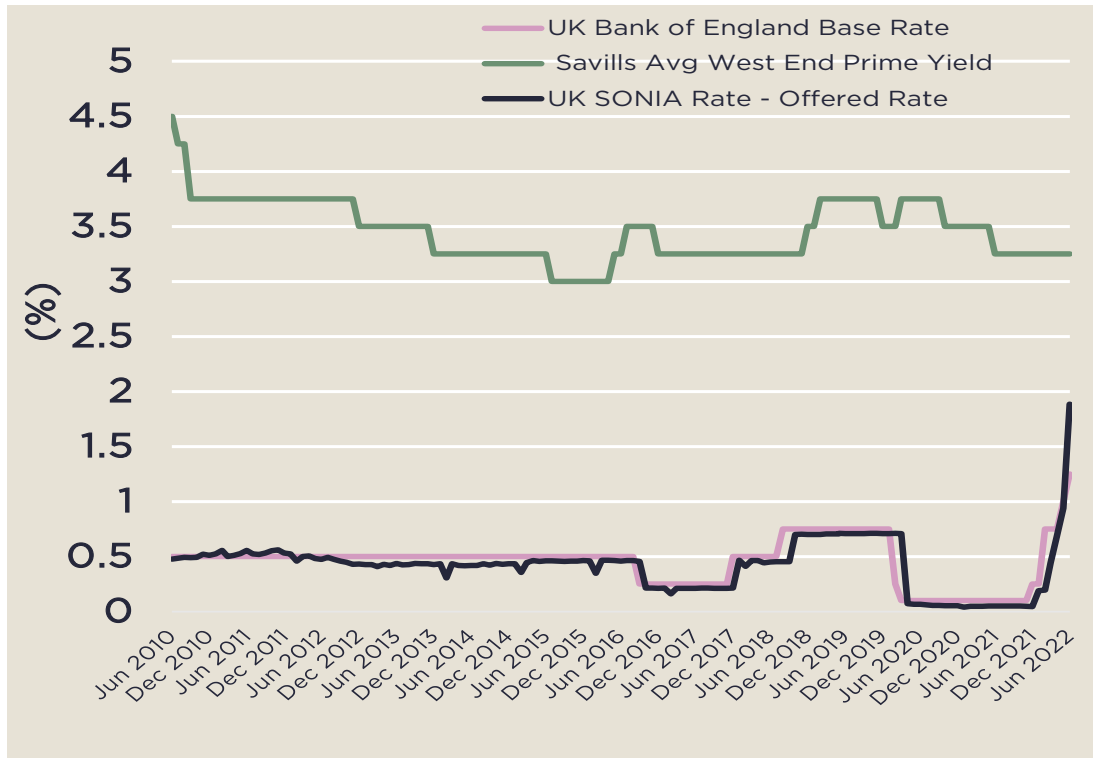
Graph 2



Savills has advised on nearly a quarter of transactions so far this year

Graph 3

West End Yield graph



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