

West End Investment Watch

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Uptick in activity signposts West End resilience

Investment volumes in May totalled £369M, spread across 13 transactions, representing the busiest month this year to date, accounting for one-third of activity both by transaction volume and number of deals. Cumulatively, investment volumes are 33% down on the 5-year average, standing at £1.22 Bn, however this reflects only a 9% decrease by number of trades. As we analysed in our April update, we are observing a trend of smaller lot sizes trading, which is partly a function of the ongoing macroeconomic environment and cost of finance. The average deal size this year-to-date stands at £32M, compared with £75M at the same point in 2022.

In the largest trade of Q2 so far, Brookfield acquired 77 Grosvenor Street, W1, which marks the first acquisition of scale by a North American investor in the West End market in 15 months, and Brookfield's first London acquisition in 18 months. The asset is held long leasehold with 113 years unexpired subject to 10% gearing, and vacant possession achievable in December 2023 which provides the opportunity to comprehensively refurbish thereafter. Pricing is understood to be c.£100M reflecting c.£1,800 psf.

May witnessed a sub-4% yield achieved on three freehold income deals, all of which were acquired by private investors, reinforcing the West End's resilient appeal. GPS House, Great Portland Street, W1 was purchased by a private Singaporean investor for £54M, 3.89% NIY and £1,577 psf; 96 Jermyn St, SW1 was acquired by a private Turkish investor for £15.5M, 3.49% NIY and £2,157 psf; and 44 Old Bond Street, W1 has been acquired by a private UK investor, for £18.25M, 2.26% NIY and £11,314 psf.

Other key transactions include Orchard Street's disposal of 141 Wardour Street, W1 to GPE (£39.5M, £1,331 psf) Royal London's disposal of Trafalgar Buildings, 1-3 Whitehall Place, SW1 to Criterion Capital (Q. £50M, £700 psf), CBRE IM's disposal of 103-105 Jermyn Street to Northstar (£26.95M, 4.47%, £1,620 psf) and Maroush's disposal of 3-4 Vere Street, W1 to Tenigla (£20.25M, 4.74%, £1,448 psf).

We are tracking £1.07 Bn under offer across 22 assets, with an average lot size of £50M, notably 50% larger than the average size of deals which have exchanged so far this year. We analysed in our last update that competition and bids has endured for selected sales and we have seen this activity translate to 8 new deals agreed in May. This includes another Lothbury sale at 19-22 Rathbone Place, which following bids is under offer to a North American investor (Q. £67.50M, 4.26%, £1,640 psf). The asset comprises a freehold corner building multi let to four office tenants with a WAULT of 4 years. Similarly, the freehold interest in Nobel House, SW1 is under offer (Q. £55M, £384 psf) to a German investor.

13 assets were openly marketed in May reflecting a total volume of £620M, of which 46% are value add opportunities, 23% core opportunities and 31% core plus opportunities. This reflects a shift towards a more balanced market across the risk spectrum, which has been dominated by core plus stock in recent months.

The largest newly marketed asset in May was Stirling Square, W1, which Savills are selling on behalf of Tristan Capital and Greycourt. The landmark 93,579 sq ft headquarters building is let to 4 occupiers with a WAULT to expiries of 10 years. The property, providing exceptional office accommodation in the prestigious submarket of St James's, has a history of no vacancy since it was built in 1999, with 2 of the 4 existing tenants having been in occupation since its construction.

With the flurry of activity pre-summer helping demonstrate liquidity and pricing, we predict a steady flow of newly marketed assets over the summer months, in contrast to the season's traditional lull.

Savills prime West End yield remains at 4.0% and, at the time of writing, the Bank of England base rate is 4.5%. The SONIA five-year swap rate has increased by 85 basis points in May, to 4.81%.

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Savills has advised on 22% of deals this year (by number)



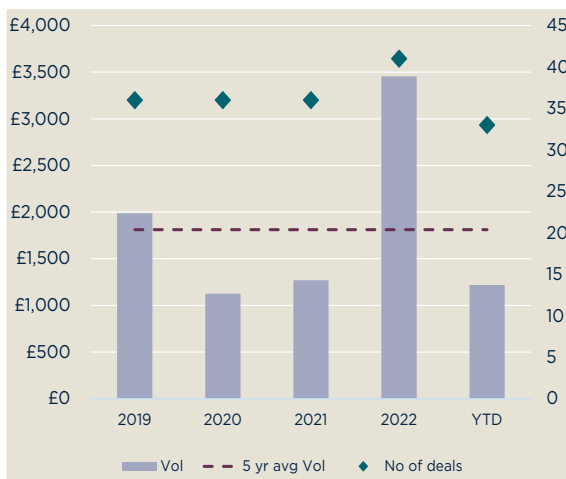
13 openly marketed assets in May (£620M by volume)



First acquisition of scale by a North American buyer in the West End in 15 months

Transaction Volumes YTD

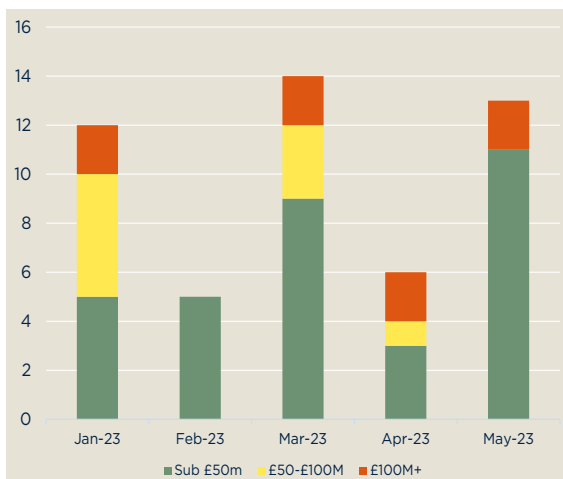
Graph 1



Source: Savills

Newly Marketed Assets by Lot Size

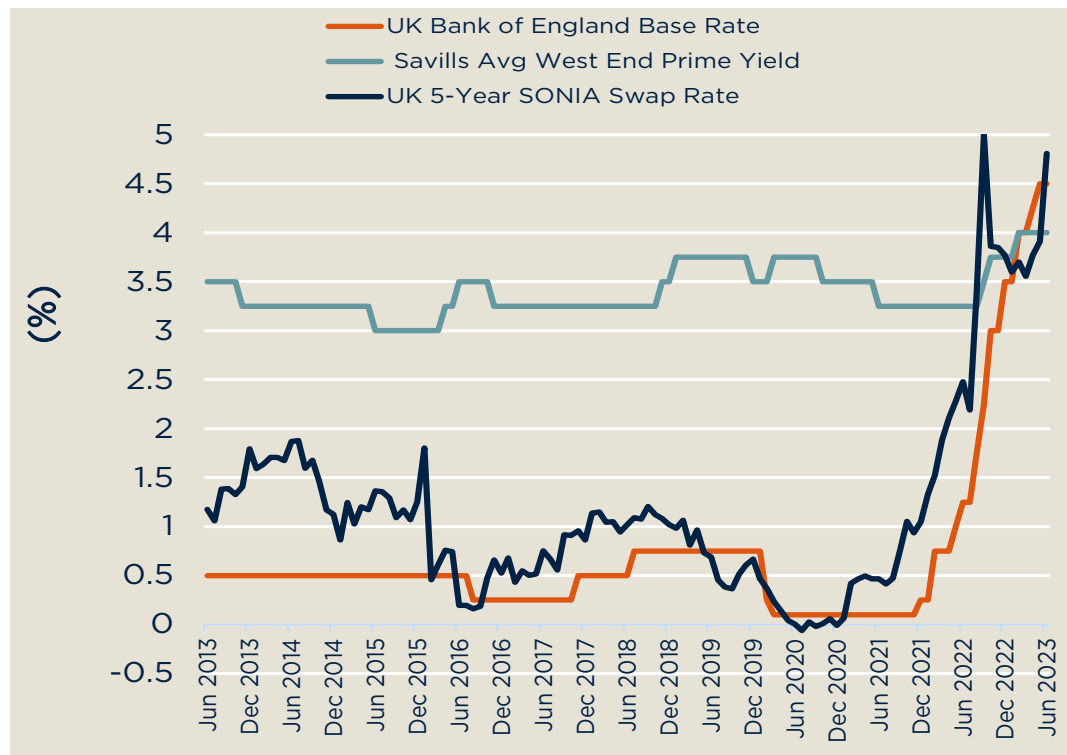
Graph 2



Upwards trend on the average deal size (both under offer and being marketed)

West End Yield & Finance Rates Graph

Graph 3



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