

West End Investment Watch



Flurry of activity ahead of anticipated seasonal lull

Investment volumes over the course of the month stood at £673m, spread across twelve transactions, crowning May the busiest month so far this year in terms of number of deals and accounting for 32% of year-to-date trades. May's activity brings the cumulative annual turnover to £3.46bn which marks a 62% and 39% uplift on the 5-year and 10-year averages, respectively.

The largest transaction was Landsec's freehold disposal of 32-50 Strand, WC2 which exchanged to Sinar Mas Land for a reported £195.0m, reflecting a net initial yield of 4.20% and a capital value £1,383 psf. The property totals 141,000 sq ft, comprising 101,000 sq ft of offices single-let to Bain & Company until 2032. The remainder comprises multi-let retail accommodation which generates 30% of the asset's total income.

Other key transactions include O&H Properties' freehold disposal of 160-162 New Bond Street, W1 to LVMH, Lothbury's freehold sale of 12 Soho Square to a joint venture between ARAX Properties and the Cambridge University Endowment Fund (£23.5m & £1,536 psf) and Angelo Gordon & Hondo's off market long leasehold disposal of 12-13 Wells Mews, W1 to DWS (c. £43.7m, 4.10% & £1,910 psf). The latter, a 12.4 year leasehold interest with head rent gearing of 5%, was comprehensively refurbished in 2021 and is let to two office tenants with a WAULTC of approximately 7.5 years. The price achieved highlights the enduring appeal of buildings with secure income profiles and strong fundamentals, driven in part by the ever-growing ESG requirements of institutional investors.

Savills advised the vendor, LabTech Investments, on a significant trade in May, being the off market disposal of 7-11 Herbrand Street, WC1. The Grade II listed Class E building is single-let to fintech company, Thought Machine until 2026 at a net passing rent of £58.50 psf. Upon lease expiry, the asset provides a repositioning opportunity to deliver a laboratory-enabled building, to supply the rapidly growing Life Sciences

sector concentrated around London's 'Knowledge Quarter'. The freehold interest traded to Life Science REIT for £85m which reflects 4.78% on the property income & £1,238 psf.

Following the multitude of bids processes held in April, a number of deals were subsequently agreed in May, namely Pembroke's 49 Park Lane (Q. £82.5m, 3.10% & £2,960 psf), Ballymore's EG:HQ (Q. £80m & £366 psf) and M&G's 89 Ecclestone Square (Q. £57.5m & £837 psf). In each instance, an open market bids process was held which instigated competitive bidding, and we understand that all three assets, which vary in nature from core income to development land, have been placed under offer. Against a backdrop of rising finance costs and construction costs, to date we have observed robust pricing across the market, illustrating the defensive nature of West End commercial property.

Although many assets are attracting a strong response from investors, a number have languished and we are monitoring some 60 available properties. When analysing on-market opportunities (totalling £1.59bn) there is a clear shortage in the supply of large lot sizes. Of the 60 assets being openly marketed, only 7% lie within the £100m+ category, 27% fall between £20-£100m leaving the remaining 67% of buildings in the sub £20m bracket. Some are in the early stages of a sales process, however a number, either through quality or price have stalled. With the pressing macro-economic and geopolitical factors unlikely to disappear in the short term it will be interesting to see how owners and buyers respond, and whether H2 activity matches the volume witnessed in H1.

Savills prime West End yield remains at 3.25%, whilst the Bank of England base rate has risen 25 bps to 1% and the UK Bank of England SONIA Rate has also increased to 0.94%.



Bank of England base rate rose 25 bps in May and remains under upward pressure



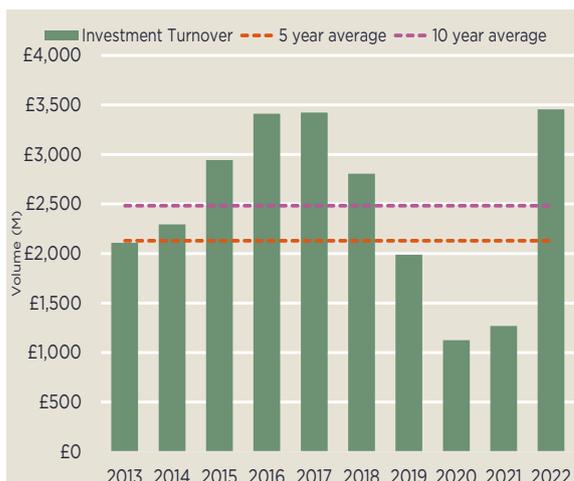
Only 7% of openly marketed assets fall within the £100m+ category



Savills have advised on nearly one-quarter of transactions year-to-date

Year-to-date Turnover (2013-2022)

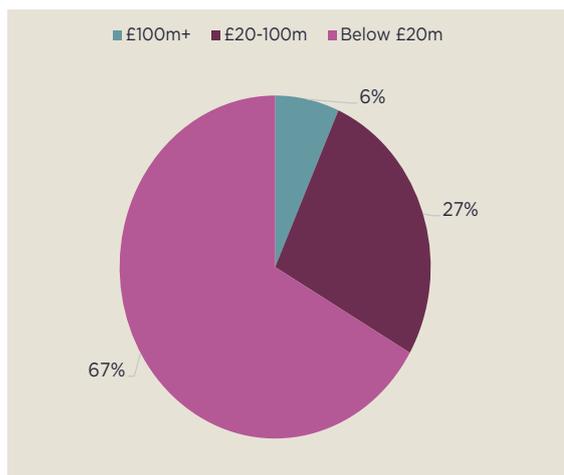
Graph 1



Source: Savills

Analysis of Available Stock (By Number)

Graph 2

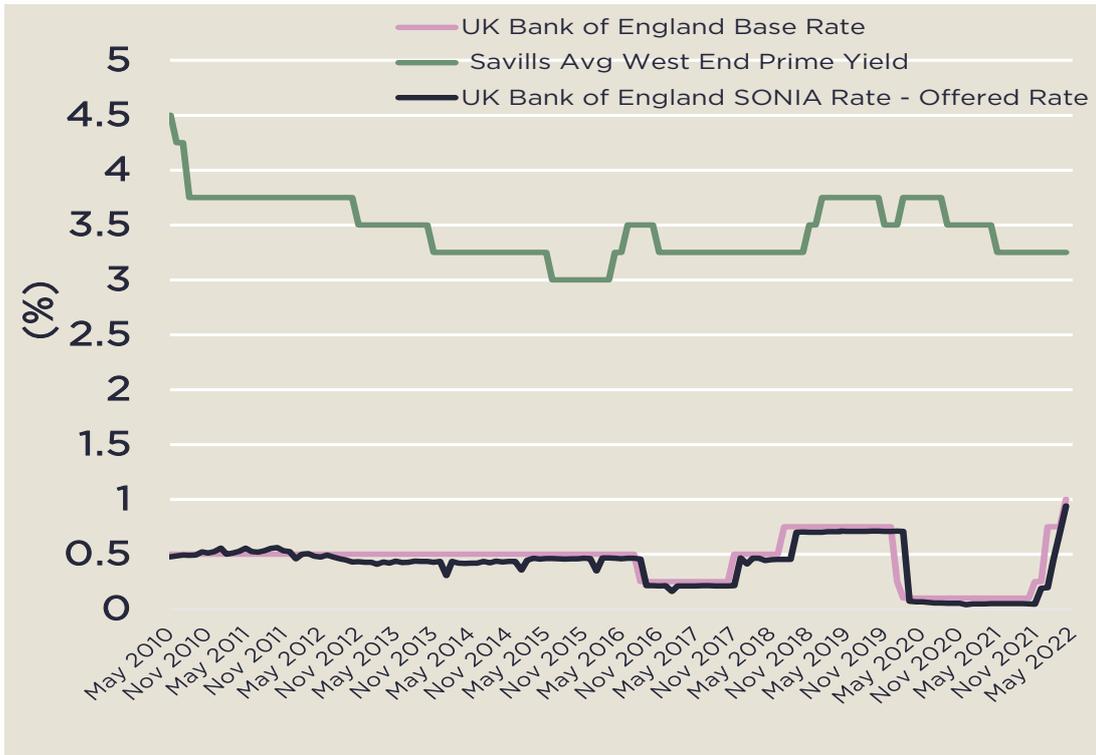


32%

Nearly one-third of this year's transactions took place in May

Graph 3

West End Yield graph



Savills contacts

Please contact us for further information

Paul Cockburn

Director
West End Investment
020 7409 8788
pcockburn@savills.com

Will Post

Associate Director
West End Investment
0203 107 5490
william.post@savills.com

Emma Mason

Research Analyst
Research
0207 409 5903
emma.mason@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

