savills

Savills World Research
UK Commercial

West End Investment Watch

Transaction numbers down but volumes hold steady

March 2017

Market comment and notable deals

■ February saw a total turnover of £475m over just four transactions, the largest of which exchanged over £400m. Low transaction numbers but large lot sizes has been the theme of the first two months of the year with just 10 deals recorded over this period compared to 24 in 2016 (see graph 1). Transaction volumes to the end of February are 50% up on the five year average with the average deal size at an unprecedented £132m.

■ Deka Immobilien Investment and WestInvest Gesellschaft Für Investmentfonds joint offshore entity, Rathbone Place Jersey, has agreed to forward purchase the freehold of Rathbone Square from Great Portland Estates for £435m. The deal reflects a net initial yield of 4.25%. The 419,700 sq ft mixed used development is currently under construction with phased practical completion expected from late March 2017. The 242,800 sq ft of office accommodation is pre-let to Facebook on a 15 year lease at an initial annual rent of £17.8m. More than half of the 25,200 sq ft of retail space in the scheme is under offer and 139 of the 142 private residential units have already been exchanged for sale (on 999 year leases). Savills advised the purchaser on the transaction and the vendor on the residential.

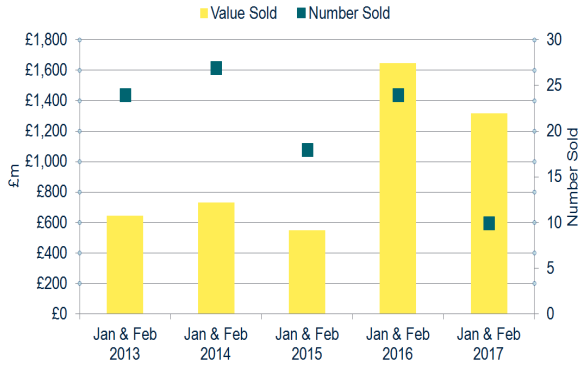
■ Schroders has sold the Freehold interest in Craven House, 121 Kingsway to a private Hong Kong investor for £23m, reflecting a 3.54% net initial yield and a capital value of £1,054 per sq ft. The property comprises office and retail accommodation fully let for a weighted unexpired lease term of approximately 7.5 years with the passing office rent reflecting £46.25 per sq ft overall. The property was openly marketed during the last week of January but went under offer within a week.

■ Despite an absence of a material number of active sales we have identified almost £3bn of what we believe to be likely sales this year. Approximately £2.2bn of these being of UK origin with UK institutions making up 60% of that figure. Only a quarter of potential sales identified are owned by overseas capital. The reason for this seems to be twofold, firstly the cost of repatriating the money in line with the movement in currency against the pound in the past 8 months, and secondly the difficulty in buying back into the London market.

■ The Savills prime yield, IPD initial yield and IPD average equivalent yield all showed no movement this month, standing at 3.25%, 4.78% and 3.20% respectively (see graph 2).

GRAPH 1

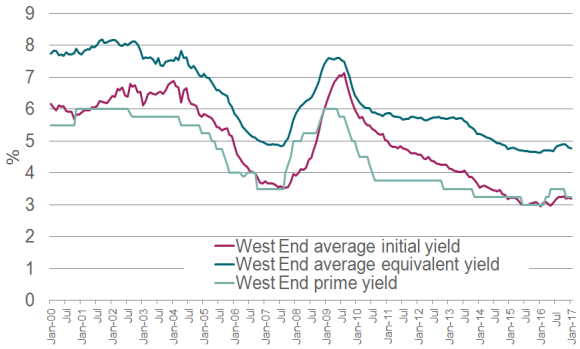
Relative Activity Levels



Source: Savills

GRAPH 2

West End Yields



Source: Savills/IPD

TABLE 1

Key deals in February 2017

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
House	No	Street	PC			FH/ LH	U/x term	Gearing					
	1	Rathbone Square	W1	Office Retail	268,000	FH			£435.00 M	4.25%	£1,623	Great Portland Estates	Deka Immobilien Investment and WestInvest Gesellschaft Für Investmentfonds
Craven House	121	Kingsway	WC2	Office Retail	21,816	FH			£23.00 M	3.54%	£1,054	Schroders	Private Hong Kong Investor

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