

West End Investment Watch



Low February turnover masks strong underlying momentum

Following a particularly active January, during which we recorded eleven sales, we witnessed a low February turnover by comparison of £25.8m across two transactions. This is significantly below the £331.6m witnessed in February 2021 (across eight transactions) and lower still than the 10-year average of £388.4m (across eight transactions).

The paucity of monthly transactions is not reflective of a lack of investor appetite, however, and this is illustrated by the unusually large quantum of stock currently under offer. At over £2bn, this stands at over double both the equivalent figure from February 2019 and indeed the 5-year average.

Notwithstanding this, it is worth noting that two-thirds of the volume under offer is derived from five assets, including Paddington Central, W2 (Q.£800m, 4.20% & £814 psf) and 160-162 New Bond Street, W1 (Q.£150.0m, 2.50% & £10,870 psf).

It is also the case that 80% of the stock under offer has carried over from 2021, pointing to a general theme of 'stickiness', the causes of which are disparate but range from technical-related speed-bumps to perhaps more geopolitical-related caution.

The largest asset to be placed under offer in February was Bond Street House, W1, a 103 year long leasehold interest under-let to luxury retailers Patek Philippe and Kiton with multi-let office upper parts (Q.£150.0m, 4.28% & £4,955 psf). Other assets placed under offer included Crosstree's 20 Golden Square, W1 (Q.£47.5m, 3.72% & £1,923 psf) and Capco's Walter House, 418-422 Strand, WC2 (Q.£9.5m, 4.83% & £1,774 psf).

The largest asset to transact during February was the leasehold interest in Melton Court, 1-41 Old Brompton Road, SW7 (Q.£14.92m, 14.34% & £471 psf) which was acquired by the freeholder, The Wellcome Trust, advised by Savills.

The building comprises thirteen multi-let retail units totalling 31,661 sq ft (including a rear service garage) with tenants including Pret a Manger, Starbucks and HR Owen. The other recorded transaction was 1 Colville Mews, W11; a self-contained office building in Notting Hill, which was sold by one Private UK investor to another at a price understood to be £7.1m & £1,010 psf.

Six assets were openly marketed over the course of the month with a combined volume of £433.0m, bringing the total availability to £2.26bn across 55 buildings. This includes Joint Treasure's freehold interest in 3 St James's Square, SW1, which is being jointly marketed by Savills. The 51,000 sq ft mixed-use building comprises multi-let offices and a luxury gym, providing a WAULT of 7.1 years to expiries and 4.7 years to breaks.

Another major opportunity to be launched in February was Ho Bee Land's freehold interest in 39 Victoria Street, SW1, which comprises a 98,000 sq ft office building, redeveloped in 2014 and single let to the UK Government until 2029, subject to a tenant-only break option in 2026. The building produces a passing rent reflecting £67.75 psf and the vendor is guiding offers in excess of £155.0m, 4.19% & £1,584 psf. The remaining four assets to be marketed in February are being sold by domestic parties, amounting to a combined volume of £123.0m. Savills is tracking a total volume of £2.27bn on the open market, derived from 55 assets.

Going forward, we will continue to closely observe the potential impact on liquidity/pricing of debt costs, build costs and, in the case of overseas investors, hedging costs, all of which are facing upward pressure.

Savills prime West End yield stands at 3.25% while the MSCI net initial and equivalent yields stand at 2.80% and 4.44%, respectively.

23%

Savills has advised on three out of thirteen transactions (23%) in 2022



£2.017bn currently under-offer; over double the 5-year average

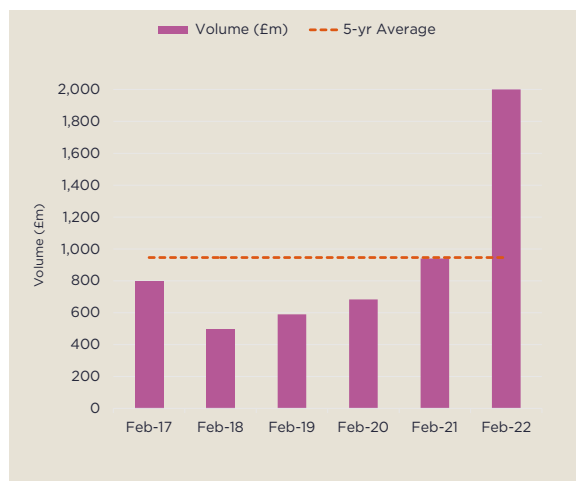


55

assets currently being openly marketed

Under Offer in February (2017-2022)

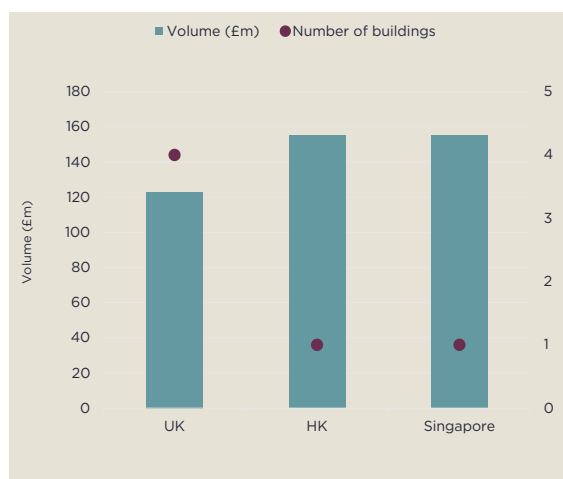
Graph 1



Source: Savills

Marketed in February (by Vendor Nationality)

Graph 2

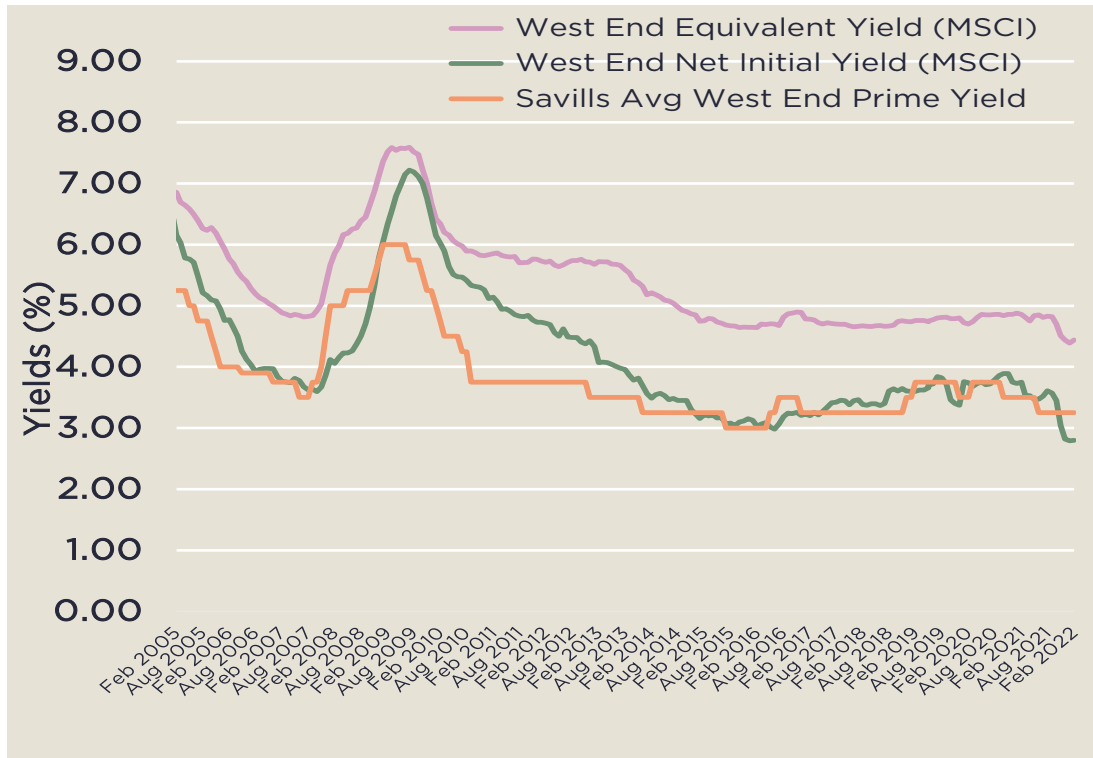


3.25%

Savills prime yield remains at 3.25%

Graph 3

West End Yield graph



Savills contacts

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