

West End Investment Watch



North American investors continue buying spree

April witnessed 10 transactions totalling £554m, bringing cumulative investment volumes to £1.62bn, which is marginally ahead of the previous 5 year's average albeit 25% down on the last decade. Notably, the number of year-to-date deals (41) is considerably ahead of the 5-year average (29), highlighting a strong recovery of liquidity since the pandemic period, albeit skewed towards smaller lot sizes. We are starting to observe price discovery across the risk spectrum and this useful transactional evidence will provide both vendors and purchasers with greater clarity ahead of forthcoming sales process.

Last month we outlined the deal agreed at 130-134 New Bond Street, W1, which has since traded from Oxford Properties & Richemont to Blackstone for £227m, 3.55% & £8,208 psf. The retail component is considered reversionary and the asset marks the twelfth purchase by a North American investor in the last 12 months. In fact, in the same time period, North American buyers have dominated the market in the £100m+ bracket, reflecting 60% of acquisitions (by volume). In the case of £50m+ acquisitions, domestic investors were marginally more active than North Americans, accounting for 35% of volume.

The re-emergence of North American capital can be explained by a multitude of factors. These include the aforementioned price discovery, and the West End continues to offer a resilient occupational underpin compared to other markets, with exceptional rental growth forecasts for best-in-class product in core locations, and at macro-level the US dollar remains relatively strong against the sterling.

Other notable transactions include 20 Grafton Street, W1, acquired by an owner occupier for a figure believed to be in excess of £100m, reflecting over £3,968 psf; one of the highest ever capital values psf paid for an office-led asset. In contrast, Assembly, 77 Fulham Palace Road, W6 traded to

a private client of KFIM, reflecting £52m, 17.4% & £230 psf, a 57% discount to the original quoting price set 18 months ago. Pricing is reflective of the limited demand for assets of scale in peripheral markets with limited re-letability prospects and alternative use potential.

Savills is tracking 27 assets under offer with a combined volume of £606m. 40% of this figure (£250m) reflects the nine deals agreed in April, whereby Savills is advising the vendor on three transactions. The most notable asset to be placed under offer is Schomberg House, 80-82 Pall Mall, SW1. AFIAA marketed its long leasehold interest (109 years unexpired at gearing of 12.5%) in this office building, single-let to Permira Advisers for a further 10.5 years, subject to a rent review in October of this year. The asset received multiple written bids and is under offer to a US investor for approximately £46.5m, 5.29% & £1,247 psf. Schomberg House will provide a useful bellwether for the long leasehold market if the transaction is successful.

We are recording £2.57bn of available stock across 92 assets, of which 60 fall below £20m. In contrast we continue to observe scarcity in the marketing of assets over £100m, with only 1 out of 12 assets marketed in April with a quoting price in this bracket. Derwent London is marketing its freehold interest in 90 Whitfield Street, W1, a 108,000 sq ft office-led building providing medium-term income at an average passing rent reflecting c.£70 psf overall. There is the opportunity to refurbish the majority of office space and re-let, capturing the reversionary potential. Pricing aspirations are £130m, 5.4% & £1,200 psf.

Savills prime yield stands at 4.0%; the Bank of England base rate remains at 5.25%, and the SONIA five-year swap rate is 4.11%.

41

transactions this year-to-date



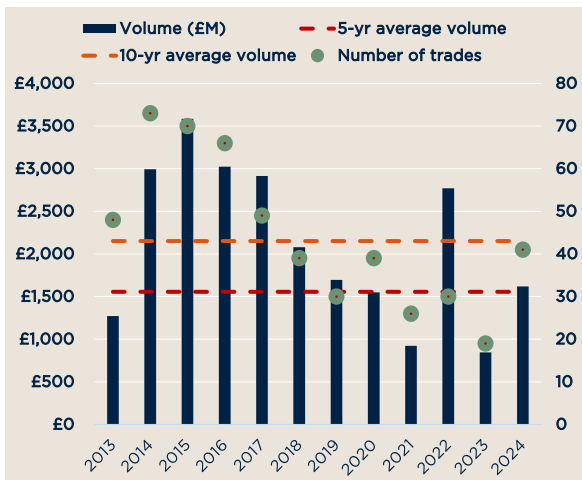
60% of £100m+ acquisitions in the last 12 months

40%

of volume under offer was agreed in April

Graph 1

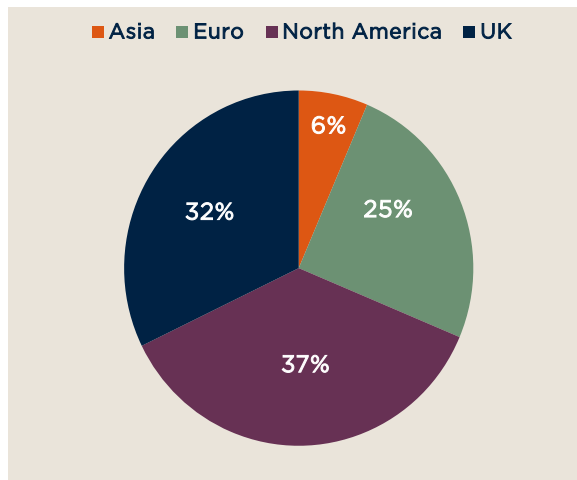
Historical Transactional Activity (Jan-Apr)



Source: Savills

Graph 2

Buyers of Scale (£50m+) - last 12 months

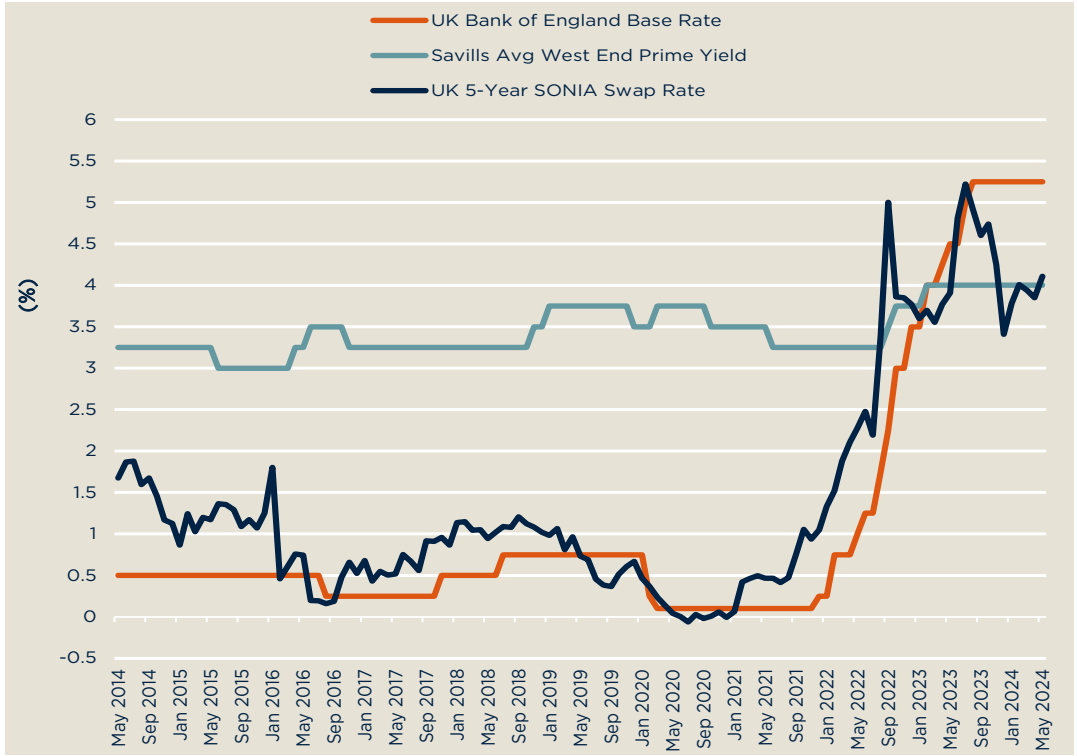


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of available assets are below £20m

Graph 3

West End Yield & Finance Rates



Savills contacts

Please contact us for further information

Paul Cockburn

Director
West End Investment
0207 409 8788
pcockburn@savills.com

Will Post

Associate Director
West End Investment
0207 107 5490
william.post@savills.com

Deri Ashford

Research Analyst
Commercial Research
0207 409 5903
deri.ashford@savills.com

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