

West End Investment Watch



October turnover exceeds £1bn as the market continues to absorb more core assets

In a sign of continued liquidity and sustained investor appetite for core, well located assets, investment turnover in October reached £1.09bn, spread across ten transactions.

Whilst cumulative annual turnover (which now stands at £2.97bn) remains 50% below the previous five years' average, this was the highest October volume ever recorded in the West End and represents 37% of the total annual transaction volume to date.

The marked increase in activity can partly be attributed to investors' continued appetite for, and arguably heightened focus on, prime assets but also to the scale of some of the transactions in question; these included a 50% interest in The Nova Estate, SW1, which CPPIB sold to Suntec for £430.6m, the freehold interest in 158-159 New Bond Street, which SEB sold to the building's sole occupier, Chanel, for £310m, and White City Place, W12, which Mitsui Fudosan / Stanhope sold to Cadillac Fairview for £235m.

Additional transactions to take place included three freeholds with vacant possession in Mayfair / St James's, including Queen's House, 64 St James's Street, which Savills has sold for in excess of the £35m / £2,572 per sq ft guide price, and 32 St George Street, which Savills acquired on behalf of an owner occupier for £7.43m / £1,948 per sq ft.

October saw twenty one properties launched for sale, amounting to a combined £485m; this stands in stark contrast to the relatively few properties which were launched in October 2019 (2) and October 2018 (6), and provides clear evidence of vendors' renewed confidence in the prospect of gaining market traction when selling, relative to the previous six months.

In a further indicator of market momentum, a staggering £2.01bn worth of stock moved from available to under offer status last month, and we are tracking a number of other

assets which are understood to be close to following suit.

These include The Clarges Estate, W1, which British Land reportedly agreed to sell to Deka for close to the £180m / 3.45% guide price; Corinthian House, W1, which Arcadia Group has placed under offer at a price understood to be around £70m; and 19a Cavendish Square, W1, which is let to the NHS for a further 23.5 years. In an illustration of the premium purchasers are currently placing on certainty of income, pricing for the latter is understood to reflect a net initial yield below 3%.

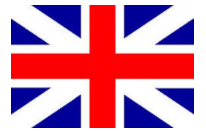
Notwithstanding the positive momentum noted above, there clearly remain economic headwinds and, on a property level, resultant challenges to transaction structuring; these have moved from the more practical constraints that we experienced during Lockdown 1.0 relating to physical access, to more transaction-level challenges surrounding the treatment of outstanding rental payments and the extent to which (and how) vendors might stand behind pre-agreed payment plans.

Moving forward, in the face of fresh restrictions, we will closely observe the progress of several landmark transactions, including 1 St James's Square, where terms are close to being agreed for in excess of £235m / £2,216 per sq ft; Central Saint Giles, WC2, which Google is reportedly considering acquiring for in excess of £700m; and 21 St James's Square, which has been launched at £182m, reflecting a net initial yield of 3.76% based on the average passing rent of £118 per sq ft that is secured for over 10 years.

On the basis of evidence seen this month, and general market sentiment, Savills prime West End yield has compressed to 3.50% albeit we would note an increasing delta between yields for prime and secondary assets, both in terms of quality of location and security of covenant. The MSCI net initial and equivalent yields stand at 3.86% and 4.86% respectively.

3.50%

Savills prime West End yield down from 3.75%



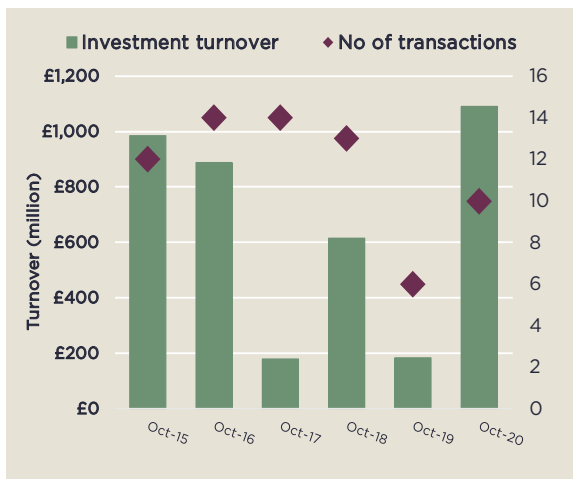
UK purchasers have accounted for only 14% of turnover since the end of Lockdown

£1.1bn

Highest October transaction volume ever recorded

October Turnover (2015-2020)

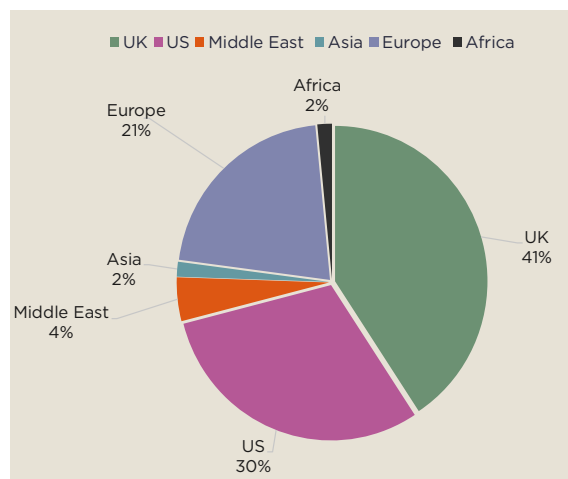
Graph 1



Source: Savills

Buyer Nationality 2020 YTD

Graph 2



£2bn+

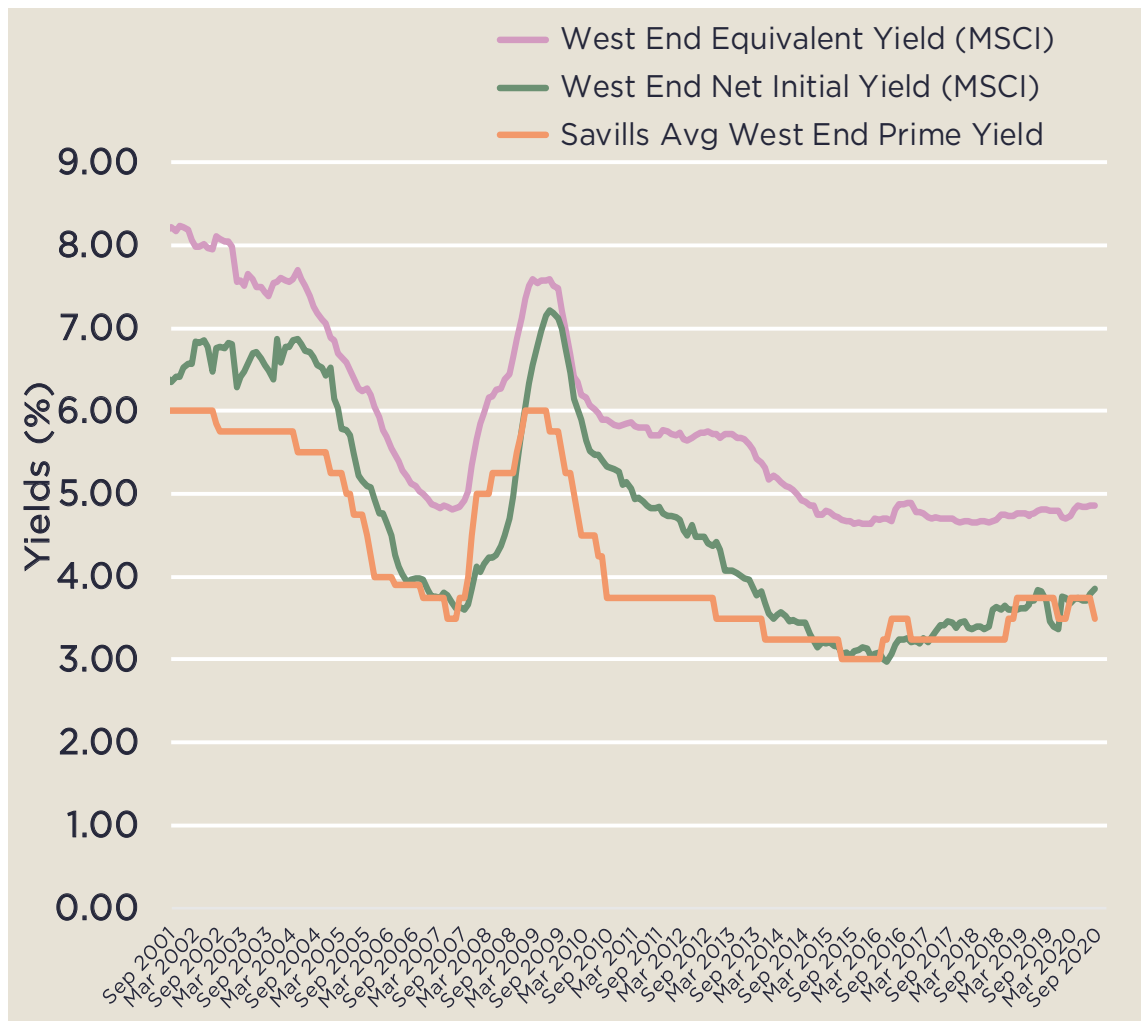
placed under offer in October

Key deals in October 2020

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Nova Estate	-	-	SW1	Mixed-Use	280,300	FH	-	-	£430.6 M	4.73%	£1,536	CPPIB	Suntec
-	158-159	New Bond Street	W1	Mixed-Use	37,042	FH	-	-	£310.0 M	2.23%	£8,369	SEB	Chanel
White City Place	-	-	W12	Mixed-Use	930,116	50% vFH	-	-	£235.0 M	3.26%	£253	Mitsui Fudosan / Stanhope/ AIMCo	Cadillac Fairview
Queen's House	64	St James's Street	SW1	Office	13,609	FH	-	-	Q.£35.0 M	-	Q.£2,572	Farmglade	Confidential

Graph 3

West End Yield graph



Source: Savills, MSCI

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