

West End Investment Watch



Golden Square sale provides true core evidence

October witnessed 14 transactions with a combined investment volume of £370m, bringing year to date volumes to £3.24bn. This cumulative figure reflects a 7% and 34% decline on the 5-year and 10-year averages, respectively.

Savills advised on 4 transactions in October, the largest being Aviva and PSP’s freehold disposal of 30 Golden Square, W1, to Legal & General (£72.25m, 4.49% & £2,224 psf). The c.32,500 sq ft office building underwent a back to frame redevelopment completing in 2023. All upper office floors were let within 9 months post-PC, providing a WAULT of c.9 years to expiries and c.6 years to breaks and a blended passing rent of £102 per sq ft. The transaction serves as a key benchmark for core income office deals, particularly given their scarcity so far this year and in fact this cycle. Significantly the trade is the first office income deal acquired by a UK fund since July 2022 - when Legal & General purchased Schroders Capital’s freehold interest in 3-8 Whitehall Place, SW1.

We have observed a re-emergence of institutional demand across a number of recent processes. There is a perceived ‘price dislocation’ for prime West End offices, which in general offer an attractive discount to long term prime yields and, for best-in-class offices, a robust occupational outlook.

Another notable trade was M&G’s sale of Dorland House, 121-141 Westbourne Terrace, W2, whereby Savills advised the private buyer of this 85,500 sq ft office building. The asset is single-let to WPP for a further 11 years, providing RPI-linked rent reviews (£63.5m, 6.39% & £743 psf).

We are tracking only £399m in terms of combined volume under offer, across 15 assets. 13 of these are below £50m and 8 are assets placed under offer in August or earlier. Despite the dearth of agreed deals there are numerous noteworthy bids processes scheduled before year end, with £333m of trade required to reach parity with 2023’s full year volume (£3.58bn). This sits well below the 5-year (full year) average of £5.05bn.

Notwithstanding the relatively muted volumes witnessed so far this year, the West End has at least maintained its reputation as a highly liquid market for well priced smaller asset sales. This has been demonstrated by 105 deals to date (which is already significantly ahead of the 5-year full year average, of 76). Over half of these reflect domestic purchasers, as UK investors retain their status as dominant West End buyers (by number). Conversely, Asian and Middle Eastern investors account for only 10% of deals (combined), their suppressed outbound investment marked by macroeconomic and market challenges in their respective constituencies. US investors represent only 15% of acquisitions by number but 28% by volume, illustrating their strong appetite for core holdings, and particularly those assets offering a clear business plan to capture rental and capital growth subject to the necessary cap ex.

14 assets were marketed in October, of which 10 were above £25m, providing buyers with growing options. These include AEW and Thor Equities’ freehold interest in 100 New Oxford Street, WC1, a mixed-use building offering a medium-term, reversionary income profile (Q. £140m, 5.53% & £1,275 psf). Nearby, BC Partners is seeking a funding partner for 1 Museum Street, WC1, a consented c.220,000 sq ft office-led development scheme, with offers invited on the basis of a joint venture or preferred equity position. Both assets are well-located in the Tottenham Court Road cluster, an area which continues to draw multi-national businesses from a range of industries. Occupiers are attracted by the exceptional connectivity (via the Elizabeth line) and easy access to the amenity-rich districts of Covent Garden, Soho, Fitzrovia and Bloomsbury. Savills is tracking £2.69bn of available assets (of which there are 88) and at the time of writing 40% of assets (by quoting price) marketed in H1 remain unsold.

Savills prime yield stands at 4.0%, at the time of writing the Bank of England base rate has decreased to 4.75%, however the SONIA 5-year swap rate has increased by 36 bps in the month to 3.98%.



Savills advised on 4 transactions in October



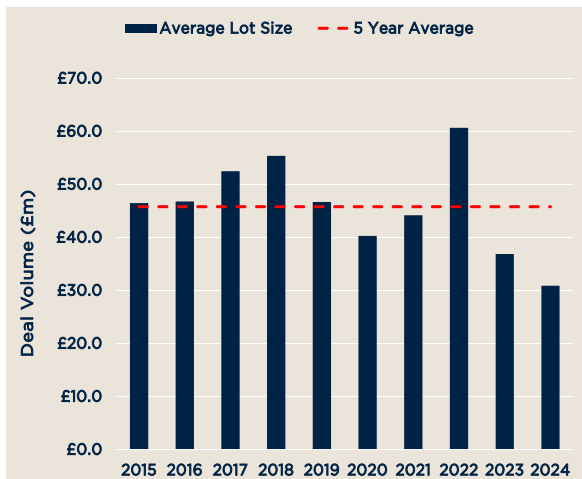
First office income acquisition by a UK fund since July 2022

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Volumes down one-third on the 10-year average

Graph 1

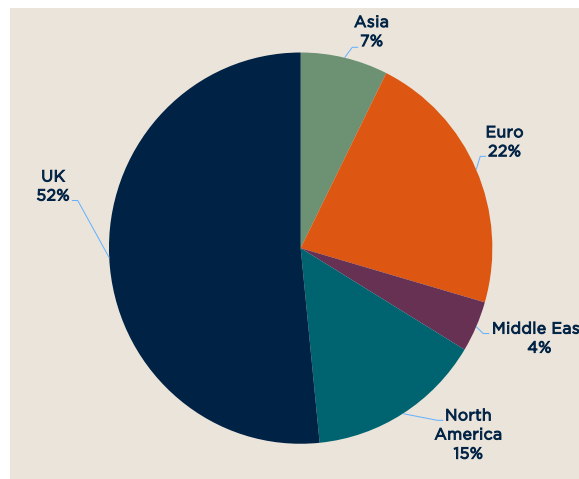
Average lot size (year-to-date)



Source: Savills

Graph 2

2024 investor nationalities (by no. of deals)

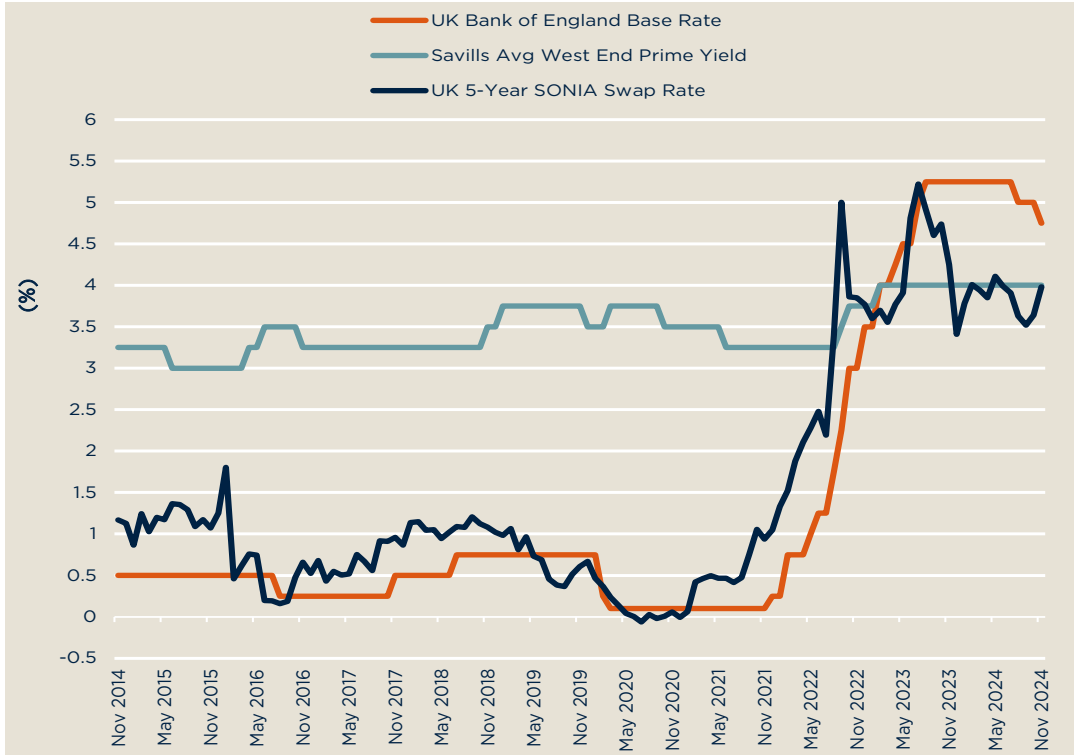


40%

of assets marketed in H1 remain unsold

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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