

West End Investment Watch



Surge in launches as vendors seek to capitalise on new sales and strong evidence

Investment turnover in September reached £170.5m across three transactions, which stands 45% below last year's figure and 76% below the previous five years' monthly average. This brings the cumulative annual transaction volume to £1.87bn across 59 transactions.

Whilst this is significantly down on the previous five years' average (£5.2bn), we do expect a strong finish to 2020, with £1.1bn currently under offer across 15 known transactions.

The largest transaction to exchange in September was 7 Soho Square, W1, the freehold interest in which was sold by Landsec to Hines after a competitive bidding process that yielded over ten written proposals.

The eventual purchase price of £78m, which reflects a net initial yield of 3.98% and a capital value per sq ft of £1,265, exceeded the guide price by 5% and demonstrated the sustained appetite for value-add product when the location is sufficiently strong.

The two other transactions to exchange in September were 'The Wellington Block' in Covent Garden, WC2, which Capco sold in an off-market transaction to leisure operator, The Portfolio Club, for £76.5m (£1,159 per sq ft) and 96-98 Baker Street, W1, which was sold on behalf of LPA Receivers to a Private Middle Eastern investor for c.£16m (£1,059 per sq ft).

September traditionally heralds the end of the typical summer lull, and it is not unusual to see an uptick in launches, but this year's figure (23) was disproportionately high and their combined volume (£816m) represents 34% of all currently-available stock (£2.37bn). To put the figure into context, only seven properties were launched in September 2019, nine in September 2018 and fifteen in September 2017.

Reasons behind the surge range from the simple fact that several of the properties in question would have ordinarily

been launched earlier in the year, had it not been for lockdown, to more subjective arguments that there is a heightened sense of nervousness around the prospects for the leasing market.

Another feature of September was the return of 'best bids' - a process consistent with strong demand. Notable examples so far have included Corinthian House, W1, which Arcadia Group is marketing for £80m; 71 Victoria Street, SW1, which Aberdeen Standard is marketing for £30m, and 64 St James's Street, SW1, which Savills is marketing on behalf of Farmglade for £35m. The same process is expected on 7 Clarges Street, W1, which as reported last month, British Land is marketing for £180m and 1 St James's Square, SW1, the BP headquarters, which is available at a guide price of £235m.

As alluded to at the start of this report, there is a significant volume of stock under offer, spanning a wide profile of assets ranging from core to development; it will be interesting to gauge the appetite for each respective asset type as we move into the Autumn, as investors digest an ever-evolving myriad of macro and micro value-influencing considerations.

Positive news as we enter October includes the completion of 158-159 New Bond Street, W1, which Chanel has acquired for a reported £320m, and the progression of several other significant transactions including Nova, SW1, which is back under offer to ARA following a COVID-related hiatus, Yalding House, W1, which is under offer following a best bids process, and GWM's freehold interest in 16-17 Connaught Place, W2, which is also understood to be under offer.

On the basis of evidence seen this month, and general market sentiment, Savills prime West End yield remains at 3.75%. The MSCI net initial and equivalent yields stand at 3.79% and 4.86% respectively.

£1.87bn

Cumulative annual turnover moves to £1.87bn



23 properties launched during September

£1.1bn

currently offer across 15 transactions



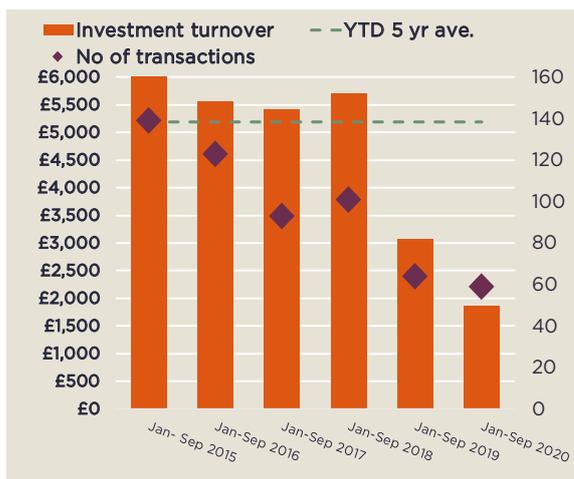
UK investors account for 50% of purchases



Only 11 buildings over £50m have exchanged YTD

YTD turnover (2015-2020)

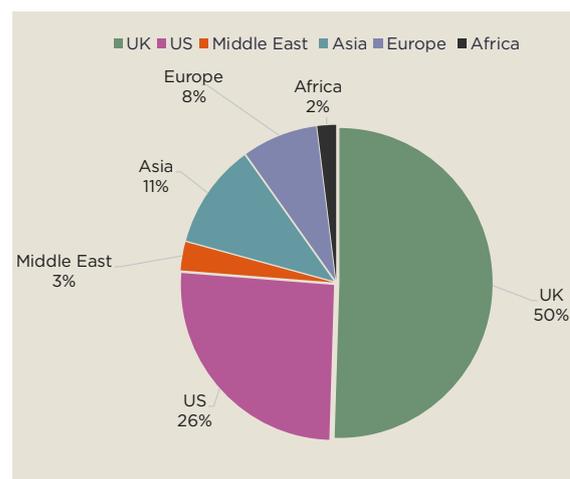
Graph 1



Source: Savills

Purchaser nationality (by volume)

Graph 2

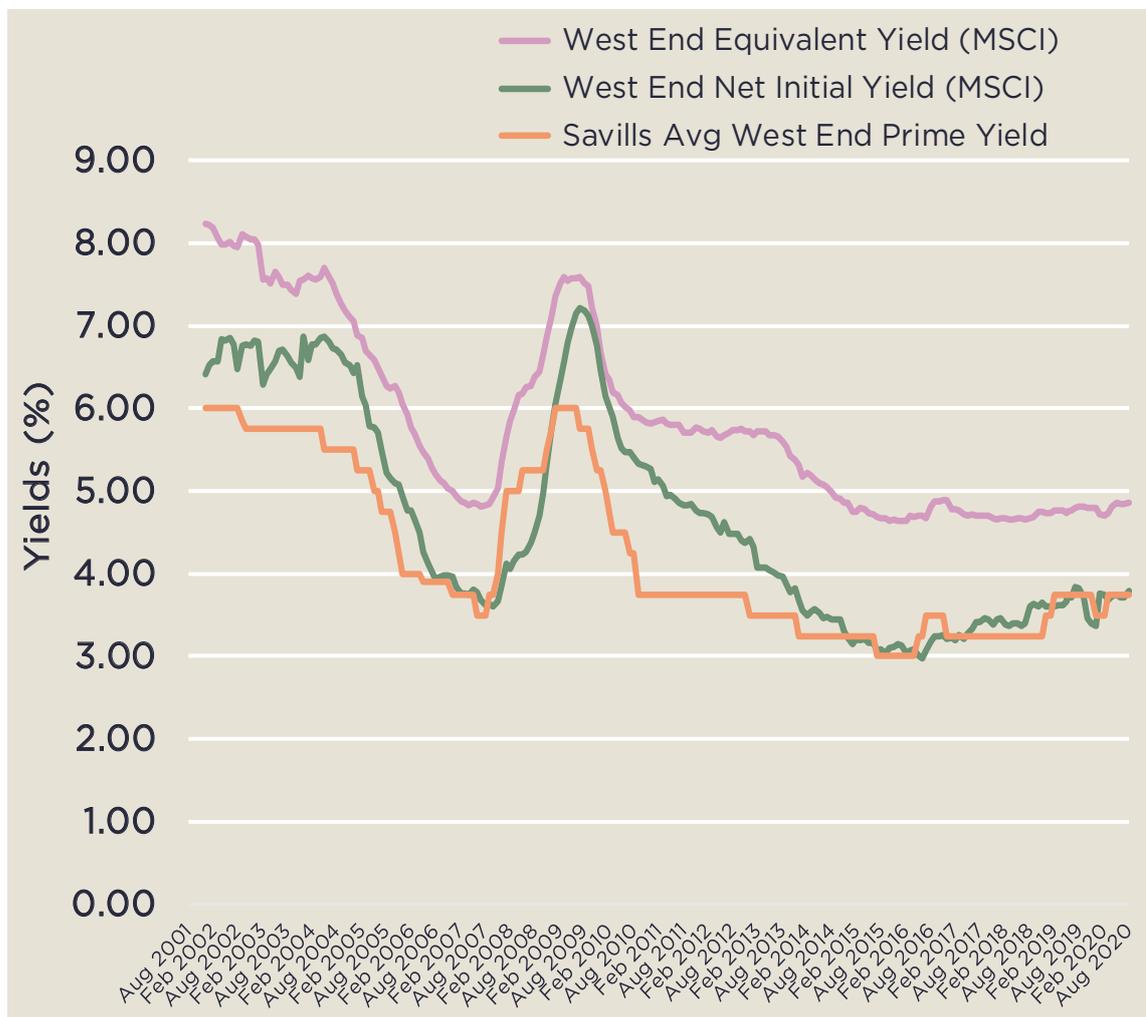


Key deals in September 2020

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
-	96-98	Baker Street	W1	Mixed-Use	15,106	FH	-	-	£16.0 M	3.01%	£1,059	LPA Receivers	Private Middle Eastern Investor
-	7	Soho Square	W1	Office Retail	61,659	FH	-	-	£78.0 M	3.98%	£1,265	Private Polish	UK Owner Occupier
The Wellington Block	25-31 24-28 15 12&14	Wellington Street Tavistock Street Exeter Street Burleigh Street	WC2	Mixed-Use	66,000	FH	-	-	£76.50 M	-	£1,159	Capital & Counties Plc	The Portfolio Club

Graph 3

West End Yield graph



Source: Savills, MSCI

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