

West End Investment Watch



Market awaits return of large scale assets

September represented a relatively steady month of transactional activity totalling £201m. Year-to-date volumes stand at a cumulative £2.87bn, reflecting a 10% and 41% decrease on the 5-year and 10-year averages, respectively. In continuation of a theme witnessed in the previous two years, Q3 activity (which totalled volumes of £816m) was more muted than both Q1 and Q2. A lack of new sales and those of scale has been key. Only 8 assets above £100m were openly marketed in the first half of this year and only 3 have traded. In fact, Q3 witnessed only one transaction above £100m (14 St George Street, W1). Contrast this with ten years back in 2014 when we saw 25 sales over £100m across the whole year.

We have recorded 90 deals this year-to-date, the highest figure since 2018, reflecting a 29% uptick on the 5-year average. Almost half of YTD transactions represent assets under £20m, whereas only 17% of trades reflect asset trades above £50m. The most recent of these was the receivership sale of 6-7 Clifford Street, W1. Oval Real Estate / Elliott continued their core-plus Mayfair acquisition spree with the purchase of this 41,000 sq ft multi-let office building. The asset provides a WAULT of 3.5 years income, let off a reversionary overall passing rent of £107.50 psf with clear scope for reversion subject to the necessary capital expenditure (£85m, 4.86% & £2,072 psf).

This deal marks a continuation of the ‘flight to quality’ theme, where the most robust demand (and pricing) is focussed on assets in defensive locations with exceptional leasing prospects, presenting straightforward business plans to capture rental and capital growth.

In other notable September deals, Savills advised Oxney Investments Limited on the conditional freehold sale of Albany House, 94-98 Petty France, SW1 to a private investor (£47m & £813 psf). Lazari sold the freehold interest in 81-85 Baker Street, W1 to a private investor (£33m, 5.86% & £1,041 psf).

September observed further evidence of demand for large scale assets across the risks spectrum. Joint Treasure’s freehold sale of 3 St James’s Square, SW1, a multi-let core-plus office, was placed under offer to Realty Income.

The most significant activity, however, was the bids process of 20 Manchester Square, W1; a 79,000 sq ft office pre-let to Lazard for 15 years, passing off an overall rent of £97.50 psf. Invesco’s long leasehold interest (110 years unexpired at 18.75% gearing) received competitive bids from a range of private and institutional investors, and at the time of writing is under offer at a level understood to be approximately circa £120m, better than 5.2%. If successful, the sale will be the first office income deal with over 10 years unexpired, above £100m, since the sale of 50 Broadway, SW1 in December 2022. The sale was unusual as the rent was already considered to be reversionary on a net effective basis.

We are tracking 85 openly marketed assets at a combined quoting price of £2.17bn; over half (by number) reflects domestic landlords. Significantly H1 witnessed £3.16bn of newly available assets and only 53% (by volume) has traded. Many owners ‘took stock’ over the summer in anticipation of the BoE’s base rate decrease on 1st August and the market remains hopeful for more large assets to be marketed, particularly as debt funding is becoming more accretive to property returns, relative to recent years.

Savills prime yield stands at 4.0%, the Bank of England base rate remains at 5.0% and the SONIA 5-year swap rate has increased by 24 bps in the month to 3.64%.

48%

of YTD trades are sub-£20m (by number)



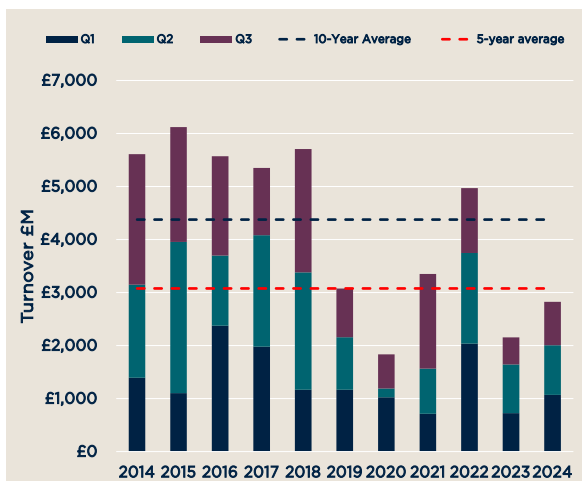
Domestic owners represent over half of assets currently on the market (by quoting price)

10

10th trade in Mayfair above £50m this year

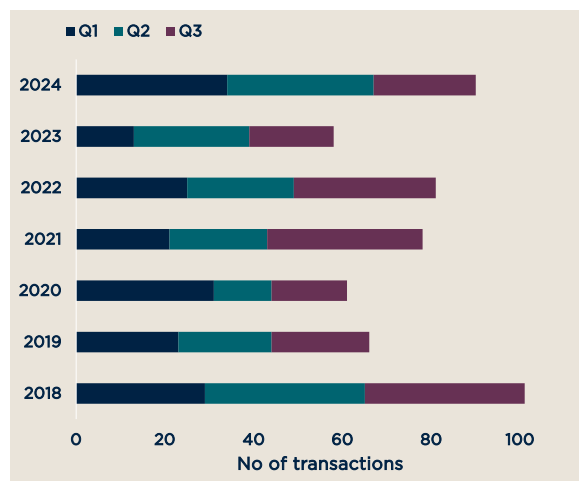
Graph 1

Q1-Q3 Investment turnover



Graph 2

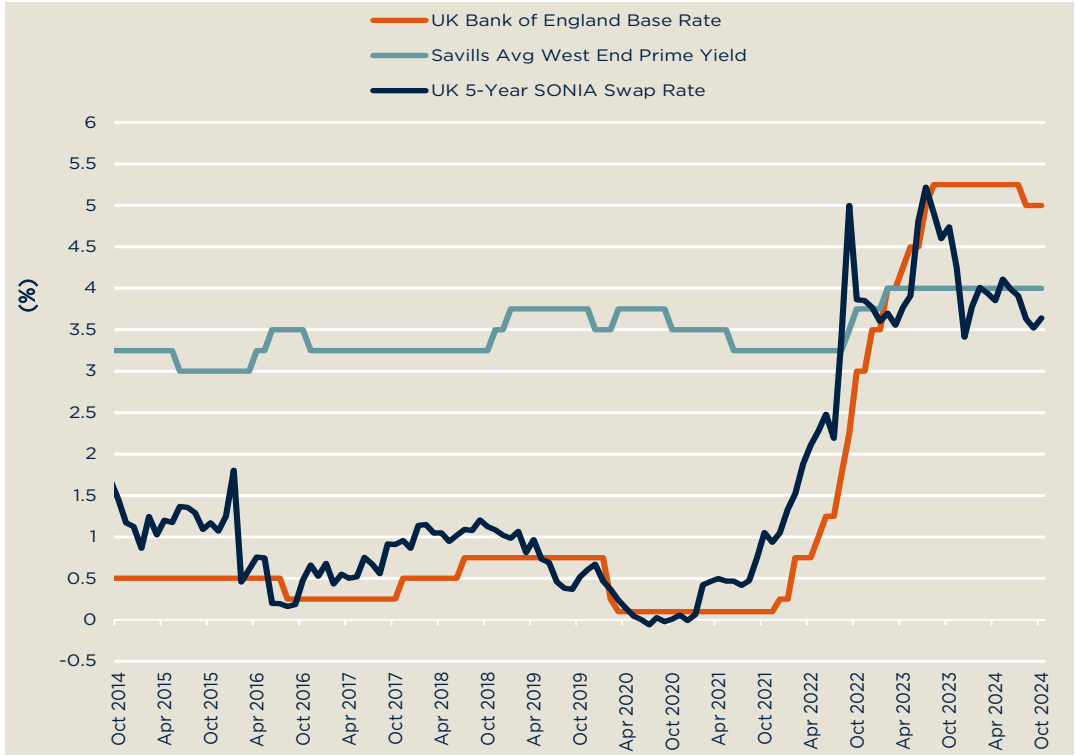
Number of transactions



Prime Equivalent Yield remains at 4%

Graph 3

West End Yield & Finance Rates



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