

West End Investment Watch



Lean transactional activity levels continue for yet another month

September witnessed another slow month for West End transactions recording only five totaling approximately £310m. This continues a clear trend across the entire year. Activity in Q3 has been much the same as the previous two, as volumes hover around the mid-£900m mark, with just 20 transactions per quarter. Turnover to the end of Q3 2019 now stands at £2.8bn across 60 transactions. This represents falls on the five and ten-year average turnover across the same period of 50% and 42%, respectively (see graph 1).

In the largest transaction this month and the fourth largest of this year, Transport for London (TfL) has sold the 150-year leasehold interest in 55 Broadway. The property is a Grade I Listed office and retail asset totaling 184,621 sq ft NIA which has served as TfL's headquarters of London Underground since 1929. It also held a planning consent for conversion to 112 apartments, offices and retail. Following a competitive sales process which began in May with a quoting price of £110m, the property was acquired by Integrity International Group for £122.50m which reflects a capital value of £664 per sq ft. We understand a hotel scheme with UK partner, Trilogy, is planned. The depth of the market for the asset and the strength of pricing achieved is evidence of the continued demand for value-add product in central London in particular from hotel operators who continue to be competitive, in this instance in spite of planning consent.

In another hotelier trade, September witnessed the sale of 55 Newman Street. The property provides 31,292 sq ft NIA of office accommodation available with vacant possession and holds a June 2018 planning consent for a new build hotel scheme totaling 65,574 sq ft GIA. The property was sold by South African hotelier, Leeu Collection, who acquired the site in 2017 for £78m and has exchanged to a Private European investor for a price in the region of £70m, reflecting £2,237 per sq ft.

Kings House, 174 Hammersmith Road has been sold by Kier Property and Investec following an extensive period under offer. The freehold office totalling 58,096 sq ft was newly developed in 2017 and is multi-let however the majority of the income is attributed to co-working operator, Work.Life. The property was acquired by private clients of Catalyst Capital for £50m, reflecting a net initial yield of circa 6.0% and a capital value of £861 per sq ft.

Other material transactions in September remain confidential for now.

We are tracking approximately £1.2bn under offer, down from a peak of £2bn as negotiations on a number of high value transactions including 21 St James's Square and Shell Centre have broken down. It appears that despite a willingness of buyers to agree to pay market levels there has been a shift in the minds of vendors and an apparent reluctance to sell even once terms have been agreed. Some certainly believe future conditions may yield better prices than the present given the occupational outlook in the office sector, low interest rates and current shallow buyer pool albeit this is moot.

September normally signals the start of the investment market's typically busiest period of the year and we have recorded seven new opportunities over £100m. Nearly all are "grey" sales, the approach recognising the challenges in uncertain political times.

The MSCI average net initial and equivalent yields remain broadly unchanged at 3.82% and 4.81%, respectively. Savills prime yield remains at 3.75% (see graph 3).

£2.8bn

Turnover to the end of Q3 2019



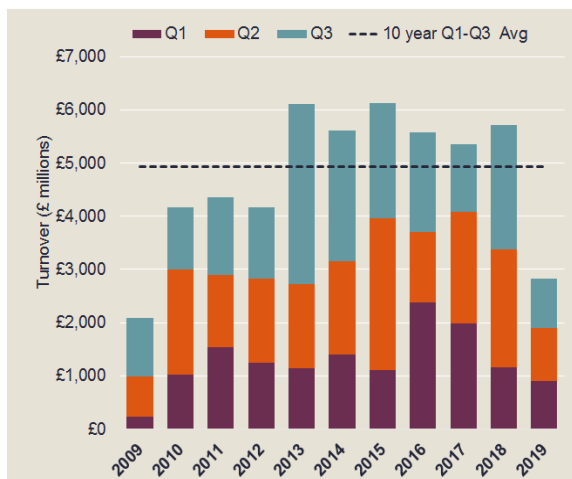
Hotel operators continue to be competitive against more traditional commercial and residential land uses

£100m+

7 new opportunities over £100m available

Turnover to the end of Q3 (2009 - 2019)

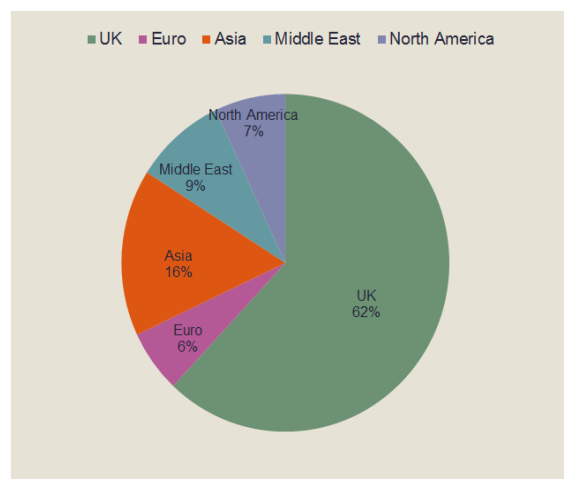
Graph 1



Source: Savills

Purchaser Nationality by Volume

Graph 2



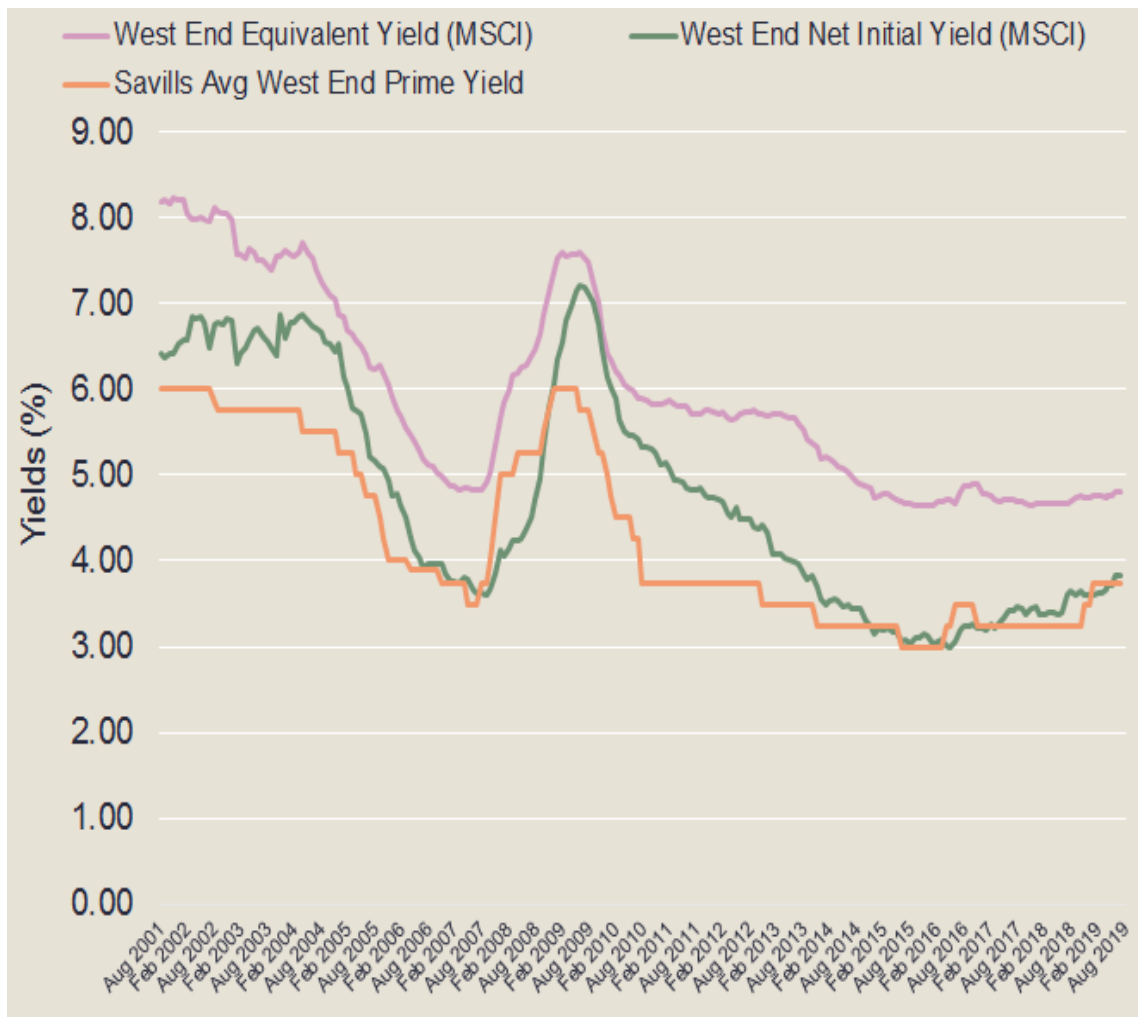
Buyers willing to pay market prices are faced with reluctant vendors

Key deals in September 2019

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
	55	Broadway	SW1	Office Retail	184,621	LH	150	£40,000 per annum	£122.50 M	n/a	£664	Transport for London	Integrity International / Trilogy
	55	Newman Street	W1	Office (Hotel consent)	31,292	FH	-	-	Q. £80.00 M	n/a	Q. £2,557	Leeu Collection	Private European investor
Kings House	174	Hammersmith Road	W6	Office	58,096	FH	-	-	£50.00 M	c. 6.00%	£861	Kier Property / Investec	Clients of Catalyst Capital

Graph 3

West End Yield graph



Source: Savills, MSCI

Savills contacts

Please contact us for further information

Paul Cockburn
Director
West End Investment
020 7409 8788
pcockburn@savills.com

Anastasia Hicks
Associate Director
West End Investment
020 7299 3022
ahicks@savills.com

Victoria Bajela
Associate
Research
020 7409 5943
victoria.bajela@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

