

West End Investment Watch



Stellar Q3 provides compelling evidence of market momentum

Investment turnover in September reached £404m across nine transactions, which stands 95% ahead of last year's figure but 28% below the previous five years' September average. This brings cumulative annual turnover to £3.33bn across 75 transactions; whilst this is 25% down on the previous five years' average (£4.4bn), it is nearly double the equivalent figure for 2020 and 10% higher than in 2019.

In a clear indication of the improvement in sentiment, September marked the end of a third Quarter that saw £1.76bn trade across 33 transactions – this is 25% higher than the previous five years' Q3 average, 175% higher than Q3 2020 and 91% higher than the more normalised Q3 2019.

The largest transaction to exchange in September was The Heals Building, W1, which Columbia Threadneedle has sold to KKR and General Projects after a targeted marketing campaign. The property, which is held by way of two long leasehold interests from The Bedford Estate (141 years) and The Property Trust Limited (41 years), comprises 82,809 sq ft of multi-let office accommodation (68% of the income) and 103,551 sq ft of retail space (31% of the income), anchored by Heals Department Store. The quoting price of £120m (£639 psf) reflects a net initial yield of 4.91%.

In another value-add transaction, Workspace has sold its freehold interest in 13-17 Fitzroy Street, W1, to DWS for £92m, which reflects a capital value of £993 psf. The property, which Workspace acquired in 2017 for £98.5m, was openly marketed and comprises 92,669 sq ft of vacant office accommodation in need of repositioning.

The key core transaction during September was a Private Middle Eastern investor's disposal of Enterprise House, 167-169 Westbourne Grove, W2, to Kamco for £56m, which reflects a net initial yield of 3.68% and a capital value of £1,242 psf. The property, which was first marketed in October 2020, is single let to Network Rail Infrastructure

Limited for a remaining 12 years at an annual rent averaging £47 psf, subject to open market rent reviews.

Other transactions during September included Legal & General's disposal of its 123 year long leasehold interest in 101 St Martins Lane, WC2, to KGAL for £53.5m (£1,123 psf), which reflected a net initial yield of 5.3%; and Savills disposal of Abrdn's freehold interest in 33-41 Charlotte Street, W1, for £31m (£1,259 psf) which reflected a net initial yield of 5.21%.

The office element of the latter is single let to serviced office provider, Knotel, until 2029 at an annual rent averaging £75 psf (73% of the total income), while the retail element is let to two restaurants with expiries in 2027 and 2037. The freehold interest also includes four residential apartments and a corner restaurant unit let to ROKA, albeit these elements are sold-off on long leases.

As we move into October, we are tracking approximately £3bn worth of stock under offer, spanning a wide range of profiles from core through to development, and continue to see an increased polarisation between 'the best and the rest', with investors paying record prices for assets which fall under the former category. Encouraged by the weight of demand targeting West End assets, vendors have launched 25 properties to the open market during September and October alone, accounting for £1.23bn worth of stock, and we anticipate a busy Q4 and these materialise into transactions.

On the basis of evidence seen this month, and general market sentiment, Savills prime West End yield remains at 3.25% albeit we would note upward pressure on yields for assets with near-term leasing risk and will closely monitor how the lending market, and capital market in turn, reacts to increased likelihood of a near term rise in base rates. The MSCI net initial and equivalent yields stand at 3.57% and 4.82% respectively.



73% of acquisitions carried out by UK and European investors



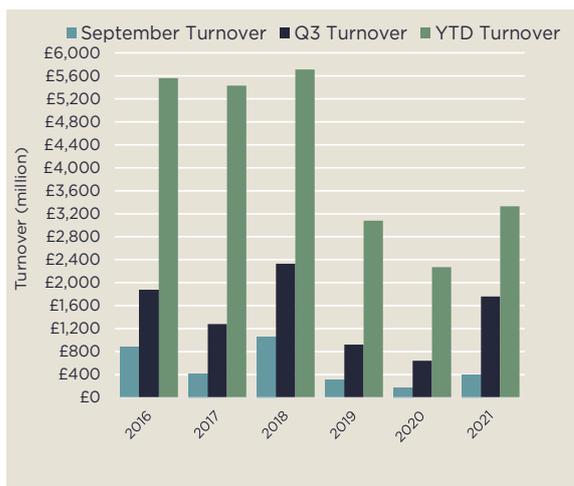
Q3 turnover 25% ahead of 5-year average



£3bn of stock currently under offer

September Turnover (2016-2021)

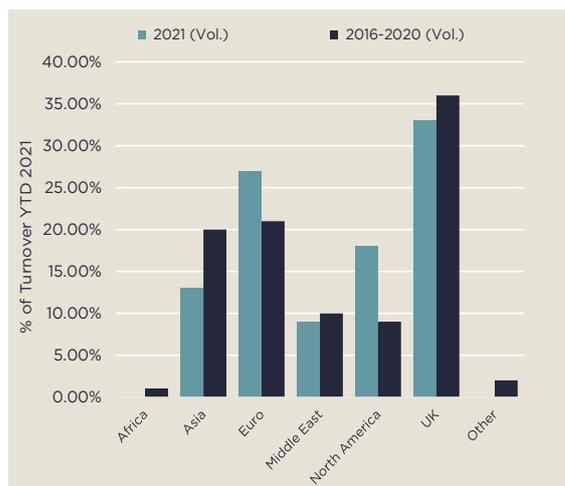
Graph 1



Source: Savills

Purchaser Nationality YTD 2021 vs YTD 2016-2020

Graph 2



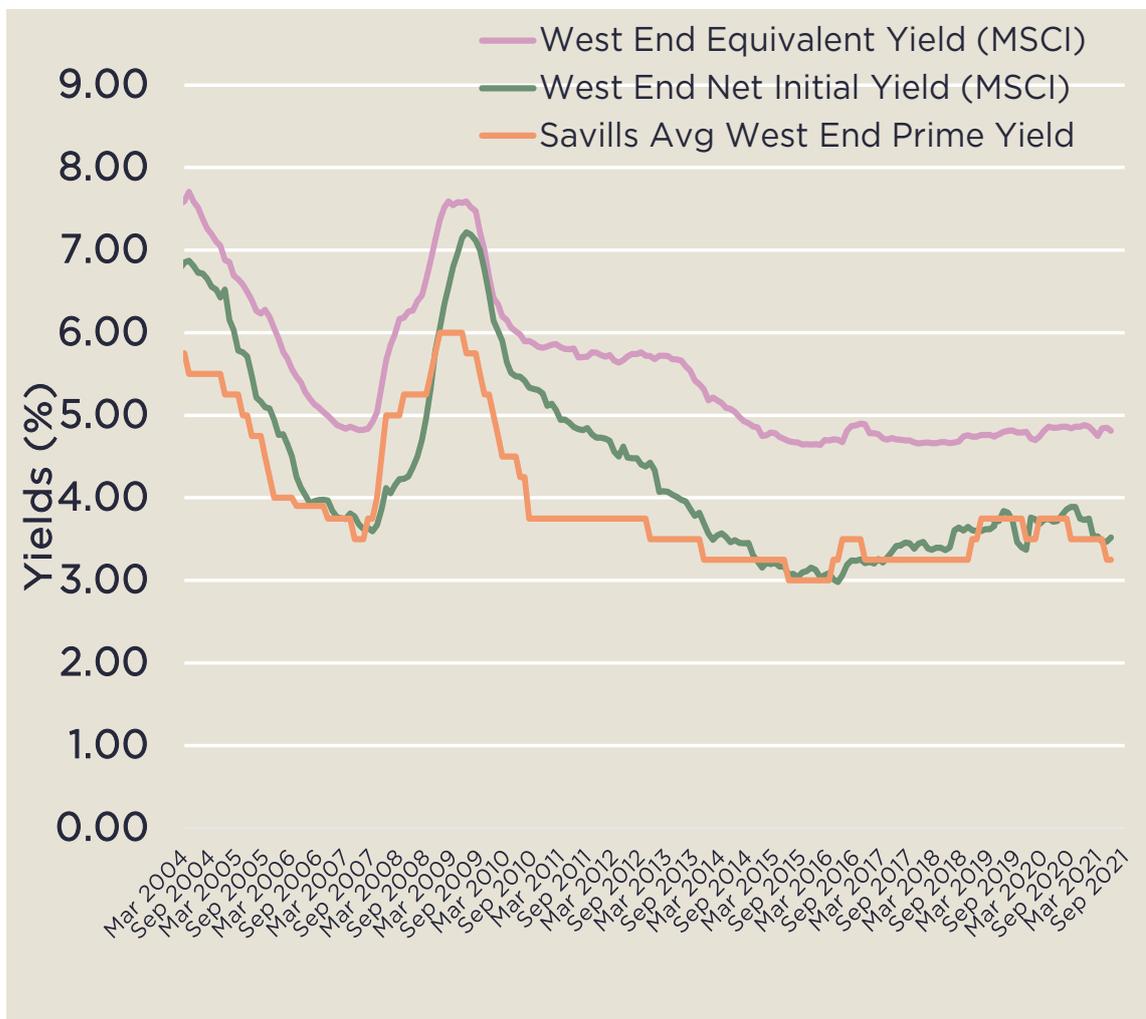
£404m monthly turnover is 95% ahead of last year

Key deals in September 2021

Address				Sector	Area sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
The Heals Building	196	Tottenham Court Road	W1	Mixed-Use	187,884	LLH LLH	141 41	30% £20,000	Q.£120.0M	4.91%	£639	Columbia Threadneedle	KKR
-	13-17	Fitzroy Street	W1	Office	92,669	FH	-	-	£92.0M	-	£993	Workspace Plc	DWS
Enterprise House	167-169	Westbourne Terrace	W2	Office	45,074	FH	-	-	£56.0M	3.68%	£1,242	Private Middle Eastern	Kamco
-	101	St Martin's Lane	WC2	Office Retail	17,970 6,646	LLH	123	8.5%	£53.5M	5.30%	£1,123	Legal & General	KGAL
-	33-41	Charlotte Street	W1	Office Retail	17,970 6,646	FH	-	-	£31.0M	5.21%	£1,259	Abrdn	Elwood Fund Management
-	11-13	Macklin Street	WC1	Mixed-Use	17,496	FH	-	-	£8.5M	-	£486	Private UK	Elleric

Graph 3

West End Yield graph



Source: Savills, MSCI

Savills contacts

Please contact us for further information

Paul Cockburn

Director
West End Investment
0207 409 8788
pcockburn@savills.com

James Purdon

Associate Director
West End Investment
0207 409 5920
jpurdon@savills.com

Emma Mason

Research Analyst
Research
0207 409 5903
emma.mason@savills.com

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