

# West End Investment Watch



## Sales pick up skewed towards smaller asset sales

In August we recorded 12 transactions with a total investment volume of £248M. Ten of these were asset values of below £20M, with the remaining two deals accounting for 60% of the monthly volume.

Investment volumes this year to date have reached £2.10 Bn across 59 deals, reflecting an average lot size of £36M, compared with £58M at the same point in 2022. This 40% reduction in the average size is reflective of a challenging macro environment, specifically characterised by inflationary pressures and rising interest rates. In 2023 the 5-year SONIA has averaged 4.3%, having peaked at 5.22% in August. This compares with the 2021 and 2022 averages of 0.05% and 1.40%, respectively.

Despite investors favouring smaller lot sizes, the appetite for risk does not seem to be deterred, with all 12 August trades falling within either a core plus or development / opportunistic risk profile. In analysing the number of trades this year to date, only 20% have been core trades, with investors seemingly favouring opportunities requiring either asset management or development management. Of course it is worth noting that core assets have typically seen the least movement in price, and this low number of core trades is perhaps reflective of the narrowed pool of investors willing to pay tighter yields for these opportunities.

The largest trade was the freehold interest in Soho Square Estate, 29-43 Oxford Street & 16-19 Soho Square, W1. Set to be vacant by March 2024, the property comprises 55,813 sq ft of office and retail accommodation with consent to construct a new 66,000 sq ft office and 30,000 sq ft retail building. The mixed-use building has been acquired by GPE for £70M, which reflects £1,254 per sq ft on the existing NIA and £729 per sq ft on the consented NIA. This trade marks the REIT's third Central London acquisition this year with a total investment volume of £123M. The sale price represents an over 50% discount to levels previously negotiated.

In our last update, we reported that openly marketed assets had surpassed £4Bn, the highest volume at any point this year. As we move in September there are already signs of this level rising, albeit this will be in part offset by growing interest in repriced opportunities. Looking at the 14 bids processes we tracked in July and August, by number, 50% are now under offer, with one third still available and the remainder withdrawn from the market (see chart 2).

Arguably the most notable new opportunity is the much-anticipated disposal of Vogue House, 1 Hanover Square, by Conde Nast, the owner occupier. Their 80-year-plus leasehold is one of the last key development opportunities of the square. A feasibility study has outlined the opportunity to refurbish and extend the existing building from an existing NIA of 62,777 sq ft to 88,074 sq ft, albeit the current sensitive planning regime may temper developers' ambitions.

Looking forward, Q4 typically represents the busiest quarter of the year, comprising 43%, 61% and 40% of annual volumes in 2021, 2020 and 2019 respectively. 2022 was an exception to this weighting given the particularly strong January we witnessed, which accounted for over a quarter of the year's volume alone. While some investors might maintain a 'wait and see' position in light of the challenging macro environment, other investors will seek to capitalise on repricing and deploy capital.

Savills prime West End yield remains at 4.0%; the Bank of England base rate has increased to 5.25%, and the SONIA five-year swap rate has fallen 30 bps to 4.60%.



UK buyers dominate accounting for 35% of transactions this year



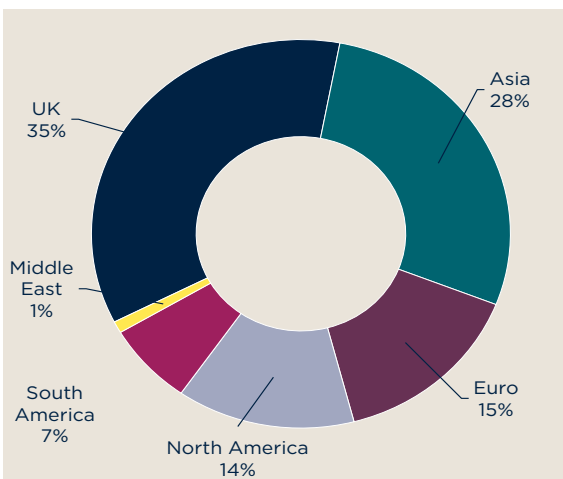
Savills holds a 22% YTD market share

**50%**

of July & August bids processes now under offer (by number)

### Purchaser Nationality by volumes (YTD)

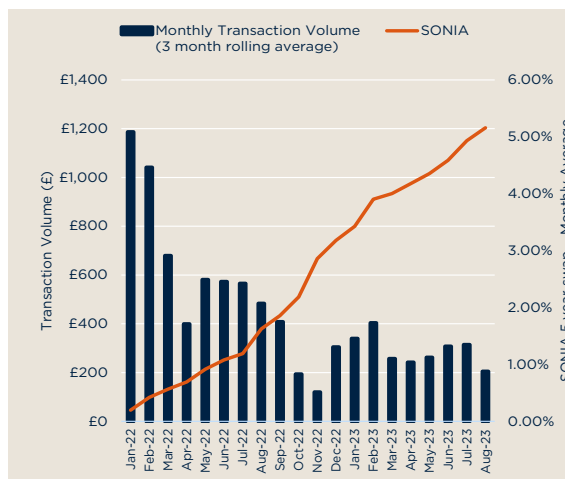
Graph 1



Source: Savills

### Central London average deal sizes

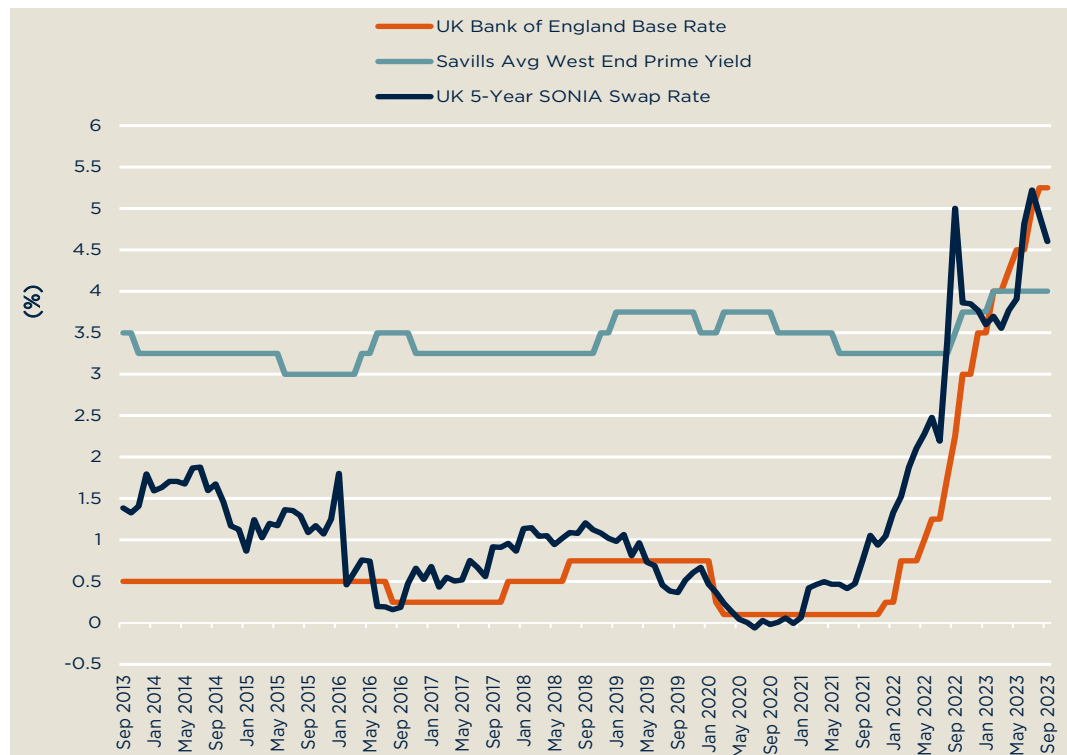
Graph 2



£706 million under offer across 25 deals

## West End Yield & Finance Rates Graph

Graph 3



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