

West End Investment Watch



Market polarisation continues with demand increasingly focused on quality assets

We reported back in July that investor attention had become increasingly focused on above-average, high quality property and this theme persisted throughout August, with sentiment towards core, well-located assets remaining strong.

In an attempt to capitalise on this underlying sentiment and some strong associated evidence, we witnessed a number of landlords formally commit to sales of ‘best-in-class’ assets, including British Land, who are marketing the one acre Charges Estate in Mayfair for £180m (3.46%); SEB, who are marketing Chanel’s flagship building on New Bond Street for £230m (2.51%); and Farmglade, who have instructed Savills to market the freehold interest in Queen’s House, 64 St James’s Street, for £35m (£2,572 per sq ft).

Notwithstanding this, we still continue to observe an equally apparent mismatch between vendors’ and prospective purchasers’ pricing expectations for assets in the (more common) non-prime arena, and a number of opportunities which fall into this category remain unsold as a result. In a clear illustration of this, over one third of currently-available stock has been ‘buyable’ for over nine months.

This pricing stand-off, coupled with a continued lack of new product and a traditional August lull, acted as a net drag on transactional activity, with monthly turnover standing at a record low of £59m across four transactions. This was some 75% below last year’s figure by volume, and 59% below the previous five years’ average, which includes August 2018’s peak of £1.14bn.

The largest transaction to take place in August was DTZIM’s disposal of 44 Whitfield Street in Fitzrovia, W1, which was acquired by a Private European Investor, advised by Savills. The property, which had been available for over one year, is multi-let to four tenants and generates a passing rent of £937,821 per annum (£77.95 per sq ft). Pricing remains

confidential but it was below the guide price of £21.7m (£1,800 per sq ft) which reflected a net initial yield of 4.06%.

The sale took place following the vendor’s eventual decision to mark-to-market, and supports the argument that there is a significant weight of frustrated capital ready to deploy if other vendors follow suit and adjust pricing.

The other major transaction was 32 Sackville Street, W1, the freehold interest in which was sold by a private Polish investor to a corporate owner occupier in an off-market transaction. The asset, which comprises 7,200 sq ft of vacant office space, was sold for £20.5m (£2,778 per sq ft).

In contrast to muted recent transaction volumes, properties under offer now amount to well over £1.5bn.

Notable examples include CPPIB’s 50% stake in Nova, SW1, which is under offer (again) following an original Covid-related hiatus, and Landsec’s freehold interest in 7 Soho Square, W1, which is under offer to Hines for c.5% ahead of the guide price, which was £74.5m (£1,208 per sq ft).

September and October are expected to be key months for new launches, and it will be interesting see the extent to which they are impacted by a range of wider factors, including emerging economic data, occupational market prospects, travel restrictions, Brexit negotiations, Q3 rental payment levels, the wind-down of the Furlough scheme and return to work levels.

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 3.72% and 4.85% respectively.

62%

Cumulative annual turnover of £1.71bn stands 62% below the five year average of £4.49bn



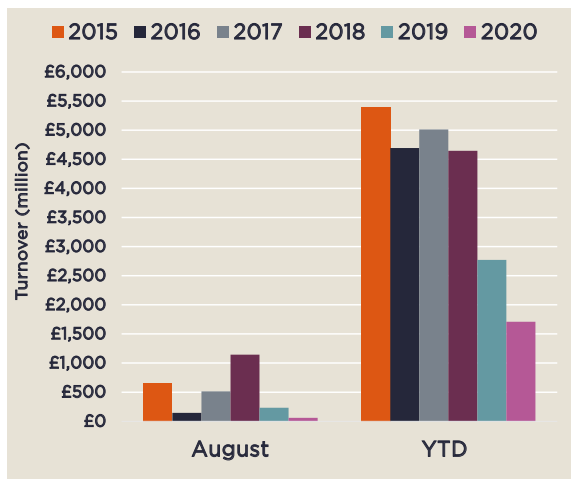
August turnover was down 75% on last year and 59% on the five-year average



Over one-third of available stock has been ‘buyable’ for at least 9 months

August and YTD turnover by volume (2015-2020)

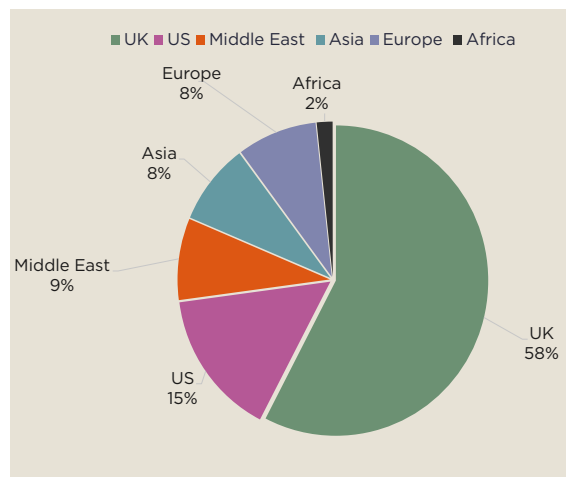
Graph 1



Source: Savills

Number of transactions by purchaser origin

Graph 2



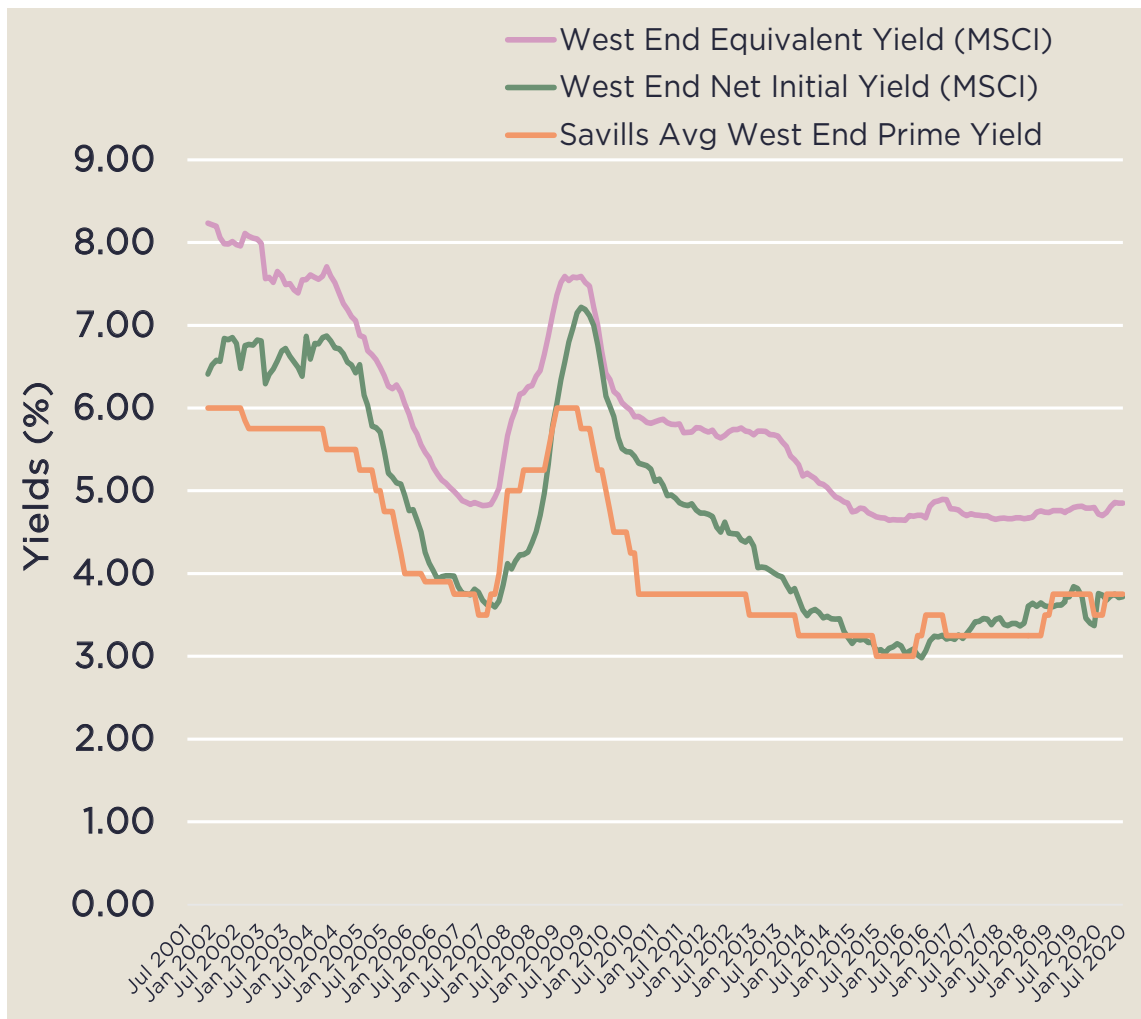
UK purchasers have accounted for 58% of YTD transactions

Key deals in August 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					
-	44	Whitfield Street	W1	Office	12,031	FH	-	-	Conf.	Conf.	Conf.	DTZIM	Private European
-	32	Sackville Street	SW1	Office	7,200	FH	-	-	£78.0 M	VP	£2,778	Private Polish	UK Owner Occupier
-	41-46a	Westbourne Grove	W2	Retail	12,746	FH	-	-	£11.4 M	£890	£890	Private UK	SRG

Graph 3

West End Yield graph



Source: Savills, MSCI

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