

West End Investment Watch



Volume under offer surpasses £2bn

Investment activity maintained momentum through August, witnessing volumes of £482m across nine transactions. This is slightly behind the 5- and 10-year averages, which stand at £554m and £558m respectively, and was largely driven by three transactions above £100m (there have been fourteen trades in this size bracket this year-to-date). In a broader context, cumulative annual turnover now stands at £5.01bn, some 74% ahead of last year's figure and 49% ahead of the 5-year average. The average deal size this year-to-date, at £67m, represents the highest level within the last decade, illustrating investor confidence in light of the ongoing geopolitical and macroeconomic headwinds.

The largest transaction to take place was AXA's long leasehold (79 years unexpired at £1,000 p.a. gearing) disposal of Portman Square House, W1 to WELPUT. The 117,000 sq ft headquarters building comprises offices (94% of gross income) let to Cushman & Wakefield and Invesco until 2025 and 2027, respectively, at a blended average office rent of £84 psf, as well as three retail units. Upon expiry of the offices there exists the opportunity to reposition the asset via the partial infilling of the atrium and the creation of an additional floor and associated terracing, subject to planning and freeholder consent. Following successful price renegotiations, pricing was in the order of approximately £152.5m, 5.67% & £1,305 psf and marks the fifth time the asset has traded since 2006.

In another major trade, a joint venture between Clivedale and ABIL sold the freehold interest in 5 Strand, WC2 off market to Whitbread. The site was previously the headquarters to both Landsec and Westminster Council and the purchaser intends to develop a luxury Park Hyatt hotel comprising 200-bedrooms and a top floor restaurant, which is expected to open in 2027, subject to planning. Pricing is understood to be in the order of approximately £100m.

In a continuation of last month's theme of UK fund disposals, LaSalle IM sold their leasehold interest in 1-4 Connaught Place, W2 to the freeholder, The Church Commissioners (£28m & £889 psf). NFU sold their last remaining West End asset, 51-54 Long Acre, WC2 to Teesside Pension Fund (£31m, 5.32% & £1,836 psf), having originally marketed the property, which is 90% let to fashion retailer Zara, in July 2019.

As we enter September we are tracking £2.05bn under offer across 39 transactions. Over the last 6 months we have observed a steady upwards trend in both the total volume and number of deals agreed. An element of this figure represents newly under offer deals, which throughout August includes Liberty House, 76-80 Hammersmith Road, W6 (Q.£70m & £779 psf) and Sidney Smith Buildings, 36-42 King's Road, SW3 (Q.£35m, 4.21% & £1,200 psf). However over 50% of deals under offer (by volume) were agreed over 3 months ago, and this theme of 'stickiness' of deals is unsurprisingly correlated to the continually rising cost of debt.

With little evidence of renegotiated core deals to justify movement in Savills prime yield, the outcome of the bids processes at 1-2 Stanhope Gate, W1 (Q.£90m, 3.23% & £2,655 psf) and 6 Duke Street, SW1 (Q.£81.6m, 3.25% & £2,358 psf) will provide the strongest evidence.

Savills is recording £2.1bn of openly available assets across 64 buildings, and it will be interesting to observe the quantum and profile of new stock in September (a typically active month) in the context of this ever-changing market dynamic.

Savills prime West End yield remains at 3.25%, whilst the Bank of England base rate has risen 50 bps to 1.75% and the SONIA 5-year swap rate has also increased to 3.4%.



39 assets currently under offer, reflecting £2.05bn

190 BPS

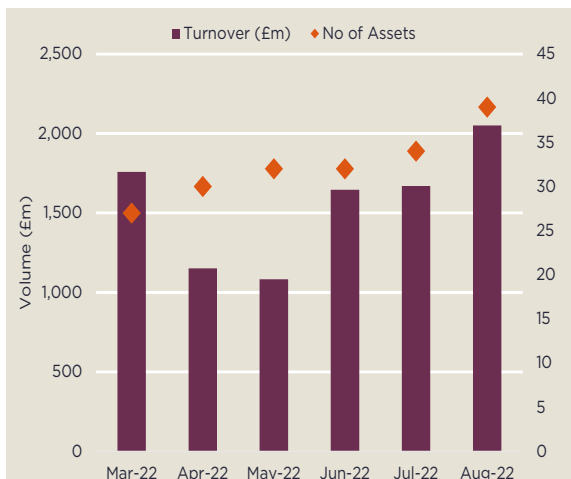
the increase in the SONIA 5 year swap rate in last 6 months (to 1st September)

74%

Investment volumes significantly ahead of the same point last year

Volume Under Offer - last 6 months

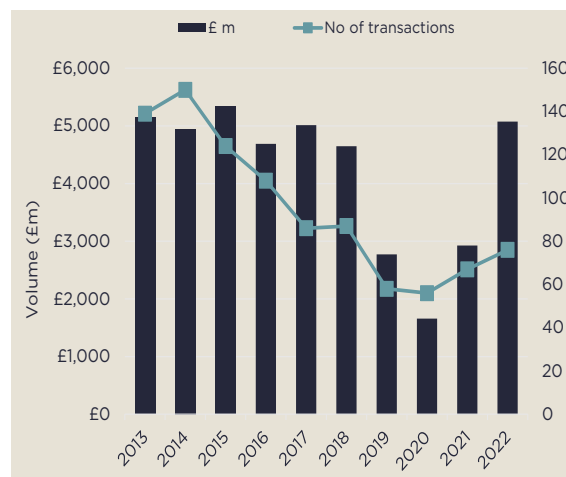
Graph 1



Source: Savills

Investment Volumes to end of August

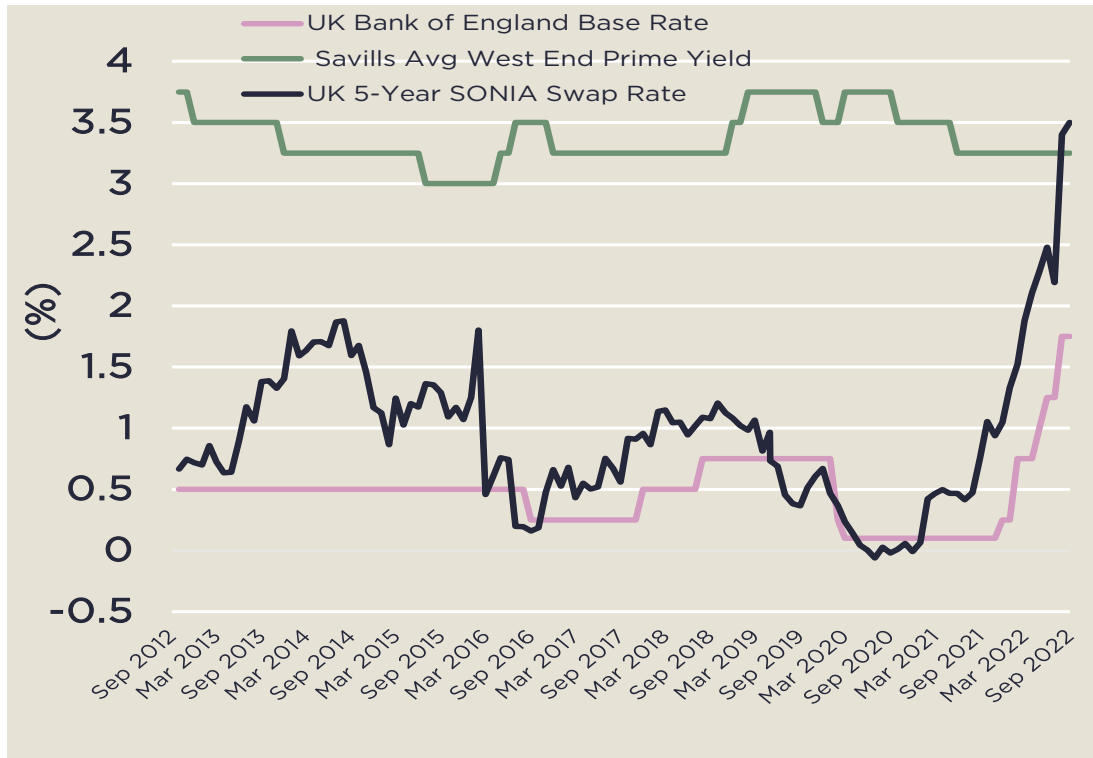
Graph 2



£2.1 bn of openly available stock across 64 assets

Graph 3

West End Yield graph



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