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Market Update

Q1 2020

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Economic Overview

The onset of the Covid-19 virus, which has been classified by the World Health Organisation as a worldwide pandemic, has caused a major global crisis. The escalation of infections in the UK led to the introduction of lockdown measures on 23 March, which remain in place today, and the rise in the death toll has caused widespread concern. The political uncertainty of 2019 is a thing of the past and whilst we saw a short window of "normal" business activity in the early part of the year, business and economic activity is now much reduced and a period of recession is expected globally, and for the UK economy.

The measures to combat Covid-19 have placed major restrictions on business, and life in general, and whilst the rate of infection in the UK appears to be stabilising, and the curve flattening, it is not fully clear as to when and how the restrictions will be released. The lockdown has been extended for at least a further 3 weeks to the early May bank holiday and then a gradual release is expected. The current disruption will therefore continue in the short to medium term and whilst there will be an economic rebound in due course there is likely to be a degree of ongoing fallout in some sectors.

From late February the equity markets have fallen heavily, as has the oil price and sterling too has declined albeit recovered some ground in recent weeks. Further volatility in the financial markets is expected in the near term.

The back drop for the UK economy at the start of the year was one of expected low growth. Prior to Covid-19 growth in 2020 was forecast at 1.1% but this is certain to be lower now. The OBR has estimated a 12.8% decline in GDP over the course of the year assuming a 3 month lockdown and 3 months of partial restrictions. It also estimates a return to the former growth trend next year although it is clear the economy is to take a major hit in the meantime.

In response to the crisis the new chancellor has coordinated a range of economy boosting measures to support jobs and business, initially estimated to cost circa £350Bn. These are combined with the Bank of England's reduction in interest rates by 65bps to a record low of 0.1%. The reduction in interest rates and increase in government spending would, in normal circumstances, provide huge economic impetus, however, many commentators are concerned that the cost to be borne by the public finances will be felt over a generation to come.

The Covid-19 crisis has dealt a major economic shock which the real estate markets are still absorbing and are reacting to. We at Allsop have adapted and are working remotely and business is continuing as best we can despite the lockdown and the restriction on movement. Business carries on, but it is different, we have held successful online commercial and residential auctions which have demonstrated the market to be very much alive and our private treaty and professional teams are working hard and transacting too. The best assets, as happens in any crisis, hold up well and are increasingly sought after, but those difficult secondary properties lacking sustainable occupation are being hit hard. Many will find it tough out there but there will also be plenty of opportunities as we adjust to a new world on the other side.

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02

City and City Fringe Investment

Following one of the highest transaction volumes ever experienced in the two weeks before Christmas in Q4 2019 after the positive General Election result, much of the pent up demand during 2019 was particularly active at the start of Q1 2020, but with very limited buying opportunities.

The first quarter was typically subdued in terms of available product, with the early transactions of the quarter being those agreed in December 2019, in a market where owners have been reluctant sellers, primarily due to lack of opportunity to reinvest, but also due to lack of performance in other asset classes at fund level. The global Covid-19 has caused much transactional activity to grind to a halt during the final weeks of Q1 2020 as the market adjusts to unprecedented times.

The City of London recorded a total of £1.955Bn exchanged or completed over 23 transactions during Q1 2020, which was 46% down on Q4 2019 and 26% lower than the £2.321Bn that transacted during the same quarter last year. This quarter's turnover was only around 2% less than the long term average of circa £2Bn however, with Q1 typically experiencing the lowest total volumes of the year historically speaking. All of the transactions that took place in Q1 2020 were deals which were available during 2019 demonstrating the lack of newly available product in early Q1 2020, in particular.

The average deal size for Q1 2020 was £85M, demonstrating the continued demand for larger £50M+ lot sizes, which has become the norm in the City market. The largest deal of the quarter was Union Investment's purchase of the remaining 50% interest in Watermark Place, EC4 for £252M/ 4.62%/ £929 per sq ft. The River Thames fronting freehold is let to Nomura Properties Plc for a term to 2029 (with a tenant option to extend for 5 further years) and marked the continued resurgence of activity from German funds, following Deka's purchase of two assets in 2019. Union Investment continued its buying activity later in Q1 2020 with the purchase of Goldman Sachs & Greycoat's Procession House, EC4 for £140M/ 4.49%/ £1,330 per sq ft. The newly refurbished long leasehold interest was multi-let for 12 years to the earliest determination and demonstrated the strong demand for long let, newly refurbished prime assets. The Procession House and Watermark Place deals brought Union Investment's total investment to nearly 20% of the total transaction volumes for the quarter.

The continued strength of the occupational market across the City of London and surrounding sub-markets ensured the demand for 'value add' and development deals was at an all-time high during Q1 2020. With several large tenant requirements and very limited options, developers have fought over opportunities to capture this demand in what is one of the strongest pre-let markets ever experienced in the City. A private Greek investor who had not invested in the City for over 8 years purchased Thames Court, 1 Queenhithe, EC4 for £190M/ 5.13%/ £834 per sq ft following a competitive bidding process which saw in excess of 10 offers received. The late 1990s building is let for a further two years when the tenants will vacate, offering a refurbishment opportunity thereafter. HB Reavis completed its off market purchase of Quick & Tower House, EC2 for £65M which reflected c. £460 per sq ft based on the consented scheme of approximately 140,000 sq ft NIA. The existing, two adjoining buildings benefit from around 12 months of income before potential to build out the fully consented new build scheme, which is located where the City of London meets Shoreditch.

Q1 2020 saw the return of many of the UK institutions seeking assets in London once again, having previously adopted a more cautious approach with the looming threat of redemptions pending the December election. UBS purchased 70 Wilson Street, EC2 from Columbia Threadneedle for £93M/ 4.90%/ £1,250 per sq ft which provided a term certain of c. 14 years at the newly developed freehold, where the majority of the income derived from WeWork. BA Pension Trustees purchased a development opportunity at Ted Baker's HQ, The Ugly Brown Building, St Pancras Way, NW1 for £78.75M. The Ugly Brown Building sale involved a short term leaseback to Ted Baker with an option for them to re-occupy the building again following comprehensive redevelopment.

Following what was widely deemed a positive election result for the Real Estate sector in December 2019, many overseas investors returned to the market believing London represents good value compared to other global markets such as Paris, Berlin, Tokyo, and Hong Kong. European investors accounted for 44% of total volumes in Q1 2020, with 27% from German investors. UK investors accounted for c. 18% of total volumes with Asian investors accounting for less than 8%. We believe the low transaction volumes from Asian investors was largely due to lack of available product rather than demand.

For the first time since the EU referendum in 2016, the early signs of 2020 suggested prime City yields might dip below 4.0%-4.25% for the first time since 2007. However, the limited number of opportunities has failed to provide significant evidence of this, although we may see evidence in the second quarter for 'best in class' assets let to blue chip tenants such as One London Wall Place, EC2, which we understand has recently gone under offer at yield of significantly below 4%.

It is too early to declare exactly how much of an impact the coronavirus pandemic will have on the City of London investment market, nor for how long. However, short term signs indicate there are a number of ongoing deals being put on hold, with any new sales being put on hold also, as the logistical impact of the lockdown takes its toll. The debt market has also suffered, with many lenders finding it difficult to price opportunities and some withdrawing from the market temporarily. There remains a weight of capital wishing to invest in London, with most of this monitoring the situation closely and being opportunistic.

The average deal size for Q1 2020 was £85M, demonstrating the continued demand for larger £50M+ lot sizes, which has become the norm in the City market

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City and City Fringe Letting Market

As we look back Q1 2020 we are writing this update whilst we are all fully submerged in unchartered waters. All industries are analysing the effects of Covid-19 and reviewing key decisions for their businesses' strategies. This will clearly impact the take up levels expected for Q2 2020.

The market has, to date, remained upbeat with vacancy rates still low at 5.3% for the City. These continue to be significantly lower than previous years. Much of the future stock has been accounted for, with 50% of new developments already pre-leased in 2020 and 67% for 2021.

The most recent quarterly figures for the City show that take up is down by 15% on the previous quarter at 1.3M sq ft. This was however higher than Q1 and Q2 2019 where uncertainty around Brexit and the General Election delayed decision making and commitments until the latter half of Q4 2019.

Approximately 500,000 sq ft of take up was through pre-lettings and largely driven by the lack of expected supply being witnessed from 2021-2024. Second hand space accounts for 640,000 sq ft, with new build take up being limited to 200,000 sq ft. New build take up will continue to be limited as many new developments expected to complete this year will have been delayed as a result of the slowdown in the construction industry due to Covid-19.

The largest deals to have taken place in Q1 2020 include: 318,800 sq ft at 20 Ropemaker, EC2 let to Linklaters LLP, 85,000 sq ft let to IPG Media at 16 Old Bailey and 67,000 sq ft let to Convene at 80 Fenchurch Street. In addition, AXA XL has re-geared 155,000 sq ft at 20 Gracechurch Street advised by Allsop.

The legal sector remains active in the pre-letting market with the following firms looking to secure new Headquarters: Baker Mackenzie (145,000 sq ft) currently under offer at 280 Bishopsgate, Covington and Burling (80,000 sq ft) under offer at 22 Bishopsgate and Slaughter and May (200,000 sq ft) shortlisting options for a pre-let in 2023-2024.

In addition to the legal requirements, Salesforce is expected to sign for 114,000 sq ft at 80 Fenchurch Street.

Headline rents are currently £70 per sq ft although these are expected to soften in the short term for space immediately available as we experience the effects of Covid-19 for the remaining 6 months of the year.

The City Fringe has continued to see significant activity with the largest letting in Q1 2020 being to Queen Mary University London (QMUL) for 55,000 sq ft at Department W, 69 Mile End Road; a development by Schroders and advised by Allsop. Significant under offers are Rabobank (80,000 sq ft) and Frontier Economics (30,000 sq ft) both taking The Bloom, Farringdon. These have been under offer for some months, with Frontier Economics rumoured to be paying £100 per sq ft on the top terrace floor with an average rent of £85 per sq ft to the lower floors. Leigh Day is also looking to secure a new headquarters of 35,000 sq ft and is also under offer in Clerkenwell.

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LBS Properties has recently secured a rent of £75 per sq ft on a small Cat A+ unit of 2,121 sq ft at The Verse Building, Old Street let to Kaisen Search Marketing based on a 5 year lease with a 3 year break.

Whilst 5,000-10,000 sq ft floors have been in limited supply over the last 9-12 months in the City Fringe we can expect to see an increase in the availability of this size floorplate over the coming months.

D1 requirements have continued to take additional space in the fringes, not only with the letting to Queen Mary University London but with additional option space being taken by Anglia Ruskin University (30,000 sq ft) and Global Banking School (15,000 sq ft) at Republic, East India Dock. The University of West of Scotland is also expected to complete on 16,000 sq ft following approval for a change of use.

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West End Investment Market

For the first quarter of 2020, the West End team recorded a total of £2.0Bn either exchanged or exchanged and completed in 26 transactions, an encouraging 50% ahead of Q1 last year. The average transaction size was just over £77M, which is particularly skewed this quarter by two transactions (The Ritz Hotel and Sanctuary Buildings) making up over half the volume. The average lot size excluding these two was £40M.

2020 began with heightened investor confidence with transaction volumes 62% ahead of the same point in 2019. Initial transaction buoyancy aside, supply remained constrained with just under £400M worth of stock recorded as 'formally' coming to market during the first half of the quarter, with approximately £360M of this being made up of three opportunities – Random House, Vauxhall Bridge Road SW1 (a relaunch); The Eversholt, Euston NW1; and 1 New Oxford Street, WC1. Therefore, the start of the quarter, whilst active, experienced a lack of investment stock rather than investment appeal.

March started with the same flurry of market activity, however this was abruptly halted due to the outbreak of Covid-19 and its spread across the globe.

We are now experiencing quite extraordinary and unprecedented times as the Global Pandemic has undoubtedly had a major impact on global financial markets, and property market activity is similarly being affected with a number of West End transactions being put on hold as the market takes a global pause. It is also worth highlighting that investors from the Far East were notably absent during Q1, presumably due to their much earlier Covid-19 lockdown.

The majority of transactions recorded this quarter either exchanged or exchanged and completed before the Covid-19 UK lockdown, and the subsequent market pause is not unsurprising given the challenges in predicting the effect on both the economy and the property market, and this pause is inevitably being adopted by the majority of property vendors and purchasers. However, we have tracked two investment sales that exchanged towards the end of the quarter "post lockdown" - 25 Maddox Street and 45 Clarges Street, totalling just over £70M.

Looking forward it is too early to measure the extent to which the market will be impacted by Covid-19 and how it will evolve as we move into Q2. In our last market update we predicted market sentiment for prime core freehold "best in class" assets would remain strong with prime yields and pricing holding broadly stable, with enthusiasm for trophy products continuing to be driven by overseas investors who are willing to pay for rarity. We expect that now, more than ever, the "flight to prime" sentiment as well as secure long income, will drive investment rationale behind any investor transacting in such an uncertain market.

The above aside, the fundamental strengths of what makes London special, relative to other Global Tier 1 cities, will remain unchanged and well positioned to respond to any, temporary, change in values. Perhaps wishful thinking but our experiences post the Global Financial Crisis and UK-EU referendum result, are that London, and in particular the West End, is one of the first markets to recover.

> We expect that now, more than ever, the "flight to prime" sentiment as well as secure long income, will drive investment rationale behind any investor transacting in such an uncertain market.

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West End Letting Market

As we currently stand, it is incredibly difficult to forecast what impact the Covid-19 pandemic and its associated restrictions will have on the West End leasing market over the short to medium term. It is clear that the lack of activity in the current climate is likely to have a significant impact on the take up of office space moving forward, despite the improved economic and political outlook exhibited prior to restrictions being implemented in early March.

Q1 take up reached just below 500,000 sq ft, the lowest figure we have seen for several years. This, combined with what will inevitably be dramatically suppressed figures in Q2, will mean the market will have to respond significantly in the back half of the year to ensure some sort of recovery in the sector. This rebound will be assisted by delayed transactions coming to fruition, likely achieved with slightly increased levels of market incentives.

In terms of supply we are being faced with significant delays to the already restricted Grade A development pipeline which, particularly for larger occupiers, was already becoming problematic. That said the amount of “grey” space returning to the market has the potential to be significant and when the market does return to normality this could become vital in providing opportunities for those occupiers who do need to relocate later in the year.

The largest transactions to complete in the quarter were dominated by Google securing both 135,000 sq ft of short term accommodation at Euston Tower, NW1 and an additional 32,000 sq ft pre-let for its Kings Cross campus at Q1 Handyside Street, N1. Aside from the tech giants, Gulf International secured 22,000 sq ft on the 1st floor at One Curzon Street at a rent equating to £115.00 per sq ft and The Office Group Group committed to a 36,000 sq ft new centre at Liberty House, 222 Regent Street, W1.

It is going to be a case of waiting and watching to assess how the West End leasing market responds to the current turmoil. Market dynamics were resilient up until very recently and we are hopeful that activity will return quickly as society as a whole returns to more standard operating conditions.

As workforces have been forced to adapt to the current situation by working remotely, question marks have been raised about how demand for office space will be affected moving forward. This has provided a unique opportunity for businesses to assess how they can efficiently utilise their office space and how effective the working from home model actually is in reality. In some instances it may show certain benefits to occupiers i.e. how some business travel is unnecessary, but in the main it has reinforced for many how important the office environment is to people who require face to face interaction, which the virtual world simply cannot match.

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National Investment Market

With the post-election bounce swept away in the onset of the Covid-19 Global Pandemic, Q1 2020 was a quarter of two halves for UK commercial property transaction volumes.

For the full year 2019 transaction volumes for the entire UK market were down overall as follows:

Full Year 2019

£47.23Bn:- down 21.1% on 2018. London accounted for £19.66Bn.

H2 2019

£19.72Bn:- down 28.77% on H2 2018.

Q1 2020:

£11.35Bn:- down 32% on Q4 2019

RETAIL

In Q1 of 2020, the High Street retail investment market has experienced two ends of the spectrum.

Buoyed by the election results on 12 December and subsequent clarity on Brexit, there was an uptick in investor sentiment, with 73 retail transactions occurring in January and February at a total transaction volume of £828.88M. The most significant deals in this period include, the purchase of Kings Mall Shopping Centre in Hammersmith for £138M by Ingka Centres, the purchase of 1 Albert Street, Nottingham by Thackeray Estates for £16.35M/ 7.50% NIY, the purchase of the Crown Glass Shopping Centre in Nailsea by Praxis Asset Management for £11.15M/ 10.60% NIY and the purchase of 711-717 Old Kent Road by the London Borough of Southwark for £12.3M which has been earmarked for significant redevelopment through the 'Future High Streets' funding project. The type of parties who purchased these assets demonstrated a concerted effort by investors to reposition and revamp the high street retail market.

However, the unprecedented outbreak of Covid-19 has resulted in widespread 'lockdown' effectively ceasing all footfall on high streets and forcing all non-essential retail stores to close. This has had a significant impact on working cash flows that many retailers with small profit margins heavily rely on. Retailers who were already suffering due to the rise in online and omni-channel shopping have been unable to cope with this extreme drop in demand.

The retailers who are managing to mitigate the effects of the nationwide lockdown are those with robust infrastructure capable of fulfilling online orders.

The knock on effect of the lockdown has been significant, resulting in a large number of tenants unable to pay their rent, despite government schemes, such as '12 month business rates holidays', the Coronavirus Job Retention Scheme and grants for small businesses.

As anticipated, this has translated to the investment market with only 25 transactions occurring in March at a total transaction volume of £150M. But it is not all doom and gloom. Investor demand for assets in the government deemed 'essential' categories, such as, supermarkets, convenience stores, doctors' surgeries and pharmacies has increased significantly with yields in turn hardening.

This was abundantly clear in Allsop's March commercial auction, which saw £31.9M transacted at a 81% success rate (total amount raised down 50% from March 2019). Notable transactions include the sale of a B&M in Ebbw Vale which sold for £3.475M/ 7.45% NIY.

Allsop advised on several transactions within this sector throughout the last quarter including the disposals of Batley Mill Outlet Centre for £3.3M, The Braes Shopping Centre, Castlemilk, Glasgow for £3.375M/ 17.72% Triple Net Yield, Barclays Bank, Brentwood for £1.8M/ 7.31% NIY, 208 High Street, Orpington, partly let to Poundland and with PD potential on the upper floors for £2.5M (£144 per sq ft), Debenhams Department Store, Hastings for £2.55M (£27 per sq ft) and Sainsbury's, Morden for £1.4M/ 5.25% NIY.

RETAIL WAREHOUSING

The beginning of 2020 witnessed continued demand for retail warehousing as a suitable alternative for those deterred from high street retail. Until the outbreak of Covid-19 , investors maintained confidence in the slightly better trading of Retail Warehouse tenants compared to their High Street counterparts and also recognised the importance of underlying residual values for longer term alternative use potential.

The appetite for such assets is demonstrated by Aberdeen Standard Investment's investment of £290M into the sector. The transaction included the purchase of 6 retail parks as part of a portfolio, located in Guildford, Crawley, Luton, Solihull, Chippenham and Horsham. Additionally, Argo has purchased Gateway Retail Park in Beckton for £45M. In March the Church Commissioners completed on the purchase of Wycombe Retail Park for c. £38.7M.

Following the virus outbreak, once restrictions are lifted the whole retail warehousing market will need closer tenant examination since no doubt there will be winners and losers over the period; there will certainly be plenty of opportunities for buyers to explore in the coming months.

However, inevitably due to Covid-19, £250M of retail park sales have paused, including Lombardy

Retail Park in west London (£53M).

OFFICES

We entered 2020 with a huge amount of optimism in the South East and key regional office markets. Almost every UK fund had a burning office requirement together with some larger overseas requirements for the larger lot sizes. Early Q1 saw three £100M+ lot sizes transact including Bedfont Lakes (£135M), Arlington Business Park (£129M) and Chiswick Park (£312M). These resulted in a Q1 transaction volume that more than doubled the 5 year Q1 average. The South East office market

At the time of writing, Covid-19 has largely put most requirements on hold, particularly the wall of overseas capital which tends to involve some element of debt. Having said that, the office sector remains the focus of UK councils and some overseas HNW capital so there are still transactions happening.

Two examples of this are Allsop's acquisition of 300 Capability Green for a Middle Eastern client (£62M) and the acquisition of Chapel Street, Liverpool (£40M) for a Far Eastern investor. Both of these deals have happened following the Covid-19 pandemic. The situation remains fluid but the fact that there is still some market activity gives reason for optimism.

INDUSTRIAL

Whilst proving to be more resilient than others, the industrial sector is not immune to the on-going Covid-19 pandemic. Whilst off to a promising start, transactional volumes in Q1 have slowed considerably resulting in £1.37Bn of industrial transacted over the quarter reflecting a c. 40% reduction from Q1 2019.

Since the Covid-19 outbreak, we have witnessed industrial investors take a considerably more cautious approach, or in many cases no longer consider new opportunities. Like all property sectors, isolation is impacting the fundamental mechanics of industrial transactions with advisors and purchasers unable to inspect, technical surveys reduced to desktop reviews and valuers unable to fully support lenders. In addition to this, many industrial investors, in particular those exposed to more granular, multi-let industrial property are feeling the effect of rental concessions and therefore having to focus attention to 'credit control' of existing holdings rather than potentially exposing themselves to further risk in pursuing new opportunities.

With this said, the logistics sectors continues to offer comfort. Being confined to our homes has led to a huge hike in online shopping with food delivery services spearheading this growth. As a result, online retailers are expanding operations, increasing staff numbers and on the whole paying their quarterly rents. Whilst global isolation is accelerating this trend, with a new stream of online shoppers gathering comfort with this retailing platform, the logistics sector will continue to benefit and perform.

This has been highlighted in a number of high profile deals transacted during the Covid-19 pandemic. These include a portfolio of 9 regional distribution units acquired by Urban Logistics for £56.M/ 6.3% NIY, The Cara Portfolio which comprises 22 small-medium sized industrial/ logistic units acquired by Blackstone for £122M and DHL Runcorn which was acquired by a Singaporean investor for £34M/ 5.75% NIY.

Whilst there remains uncertainty over the longevity and impact the pandemic will have on the industrial market, distribution warehousing will continue to perform and provide a 'safe haven' to investors eager to deploy capital. The remainder of the market may continue to stall as investors take stock and assess the impact this pandemic has had on their existing holdings. However, there remains a considerable weight of capital ready to be deployed in the sector and when the dust finally settles and we find ourselves back behind our desks, the sector will shine again.

PORTFOLIO

Q1 2020 has defied expectations to record one of the highest levels of transactional volume of portfolios over the past 10 years totalling £6.32Bn. Blackstone has led the charge spending £4.66Bn on the acquisition of the IQ Student Accommodation platform from Goldman Sachs and Wellcome Trust accounting for the vast majority of market activity so far this year. Blackstone has also acquired Hansteen and the Cara Portfolio for the logistics focused Mileway platform and so far have accounted for 83% of all volume to date.

Elsewhere industrial and alternative sectors have represented almost all of the remainder of the market with notable recent transactions including Oxenwood's purchase of three logistics sale and leasebacks for £25.9M, Urban Logistic's purchase of seven distribution units for £31.9M and the Holmes Care Portfolio for £47.5M bought by Impact Healthcare REIT.

The market is understandably largely devoid of on-market portfolios at present and a number of key market players continue to look at off-market and confidential opportunities. This shift to a more opaque transactional market has increased year on year for quite some time but the current market volatility has served to highlight this particular trend.

It is interesting to see overseas investors continue to play an active part in the UK market given consistently attractive currency disparities and there remains a large weight of capital to invest in the UK. As some of this is currently placed on hold, we expect the latter half of 2020 will become increasingly busy as restrictions ease, institutional fund activity increases and further stock is released to the market.

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Commercial Auction Market

As this is written, the Auction Teams, like everyone at Allsop are dispersed throughout the land, and are adjusting to one of the most tumultuous months in our careers.

The Commercial Auction market started the year with a spring in its step and much talk of the “Boris Bounce”, which was justified as we had a hugely busy February sale, raising £67.7M and setting new records for yields particularly in the multi-let industrial sector. This sector also provided the biggest lot of the day at £3.67M/ 7% NIY/ £102 per sq ft) for a multi let estate in Warrington. This formed part of £18.3M of industrial investments sold on the day; more than in the whole of 2019.

Strong yields were paid in the convenience sector, which has become a hedge against the failings of the High Street. Single let retail with long leases also attracted strong prices, an example being a B&M store in Ashford, Kent let until 2032 without breaks, which achieved £2.625M/ 6.8% NIY.

Our March catalogue included 163 lots and was launched with great confidence on 6 March as we looked forward to a ballroom sale on 30 March.

No one needs reminding what happened next, but suffice to say that by the time of the auction, put back a day to 31 March, Government guidelines had forced us through contingency plans A to F which was the fully online auction.

On the day, no two members of our teams were together as we watched the auction unfold online; the system having been implemented in just five working days, a huge tribute to the power of ingenuity and connectivity.

The process threw us many challenges, but proved effective as the team all worked hard to connect with the market and ensure the stability of the system.

Our clients supported us through the change, encouraged by the rigor of the process and our very clear assessment of likely demand. The buyers patiently followed new guidelines and registered to bid online.

Our overall result was a sale of £31.9M as we go to press and with the after sales continuing to get done.

The largest lot sold was a B&M Store in Ebbw Vale, let on a lease until 2031, which sold at £3.475M/ 7.4% NIY.

Other large lots included a number that had been on the market via Private Treaty and were sold on the auction contract, including a multi-let high street retail investment, in Oldham, selling just under the guide price of £2.1M.

Highlights included the convenience sector, both roadside and in town which continues to be a focus for buyer demand. Pharmacies also provided buyers with comfort in the longevity of the rental stream, as many tenants withheld rent on the March quarter day. Lots 1 and 2 were both let to Boots, on long leases and sold at 4.5% NIY and 5.2% NIY respectively.

There is no doubt that the lockdown will hasten the demise of some weaker businesses - town and city centres are empty threatening the very existence of tenants in the retail and leisure sector.

Buyers have evolved very quickly to the new normal, with a great deal of capital waiting for opportunities in an ever more polarised market. The stable pricing and demand in specific sectors as described above is in contrast to a paucity of transactions in the wider market will adjust because that is what markets do.

We are humbled and very grateful for the efforts of our teams, clients and buyers who have all joined in the process and made things happen.

In addition to our scheduled 19 May auction we have added an additional auction on 16 June, which, with the 14 July sale gives our clients three opportunities to transact before the Summer; all will be online.

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Residential Development Market

The start of Q1 2020 was one of positivity. After some uncertainty in Q4 2019 as a result of Brexit and the General Election the country certainly started the year with a degree of optimism thanks to some clarity around Brexit discussions and the benefit of a government with a majority that enables them to take decisive action.

Purchasers' confidence was significantly improved and we saw positive growth in house prices over the majority of the first quarter, with sales rates in London higher than in any quarter since Q1 2018, according to Molior London (providing some with the opinion that the so called 'Boris bounce' was taking hold). This confidence was clearly starting to translate through to the land market with increased activity from developers who had held back towards the end of 2019, generating good competitive bidding and an increased number of constructions starts.

However as we entered the later part of March the impact of Covid-19 started to become apparent and as the country entered lockdown and people's ability to work and move about was hindered, certain parties paused to take stock of the situation. However that said, many transactions that were already underway progressed with limited impact, with the purchasers' views being that the temporary health crisis would only have a short term impact.

Further caution arose when the larger house builders felt a drop in sales activity and, despite official government guidance advising that construction sites can remain open, a number of developers came under increasing pressure to close their construction sites, due to the inability of their staff to operate within the social distancing guidelines.

A large number of both developers and vendors are currently focussed on their cash flow position, furloughing staff, re-negotiating funding deals, whilst negotiating their way through various councils' planning systems to establish what they are able to actively progress in the new virtual working environment. Certain councils are holding virtual planning committees and delegating decision making powers to officers to prevent a stall in the system, while others are still establishing what works for them.

The chaotic end of Q1 2020 could not be further from the upbeat start, however as we progress through this unchartered territory it is clear that businesses of all forms are establishing how to adapt and operate in this new environment with the longer term impacts as yet un-known. The fundamentals of the UK property market pre Covid-19 combined with the financial incentives offered by the government in the short term suggest that the rapid dip in activity could be followed by a rapid recovery, however the feasibility of this is certainly dependent on the length of the lockdown.

In the short term there will be less activity as certain landowners wait for clarity and developers preserve cashflow, however the medium to long term effect will be linked to the performance of the wider housing market. As the length of reduced activity increases, the knock on effect on developers' finance agreements, cash flow, pre-sales, pre-lets and construction and planning deadlines will become more severe meaning those without significant cash reserves may struggle.

In the meantime however, there is certainly a proportion of the market that is cash rich and opportunistic who believe in the fundamentals of the UK residential market and see this as an opportunity to acquire a pipeline of sites with significantly less competition, however there is a clear preference for delayed completions, value add or subject to planning deals. There remains a fundamental shortage of homes and therefore there will be continued demand for land, and over the coming months timing and pipeline assessment will be key.

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Residential Investment Market

It certainly felt like the clouds had lifted at the end of Q4 with Boris into power and a palpable sense of relief across the property industry. Talk of a 'Boris bounce' led to much optimism and we all returned to work in the new year with a spring in our step. Many of the potential vendors referred to in my Q4 update were quick to contact us and were keen to take advantage of renewed market confidence and commence marketing of their stock, thus Q1 was off on a very positive note.

Indeed many of the deals that had slowed down during the uncertainty of Q4 picked up the pace and a £6M acquisition in Ealing for one client was quick to exchange followed by a £13M sale of a 'pepper potted' portfolio of flats in the Midlands and a £13M part investment, part development opportunity on the London/Surrey border.

The market optimism was probably best encapsulated in the enthusiasm shown by the market for two well appointed and affordable blocks of flats in Coventry showing circa 7% gross yield with well over 30 viewers and 20 offers.

Needless to say the concerns over Covid-19 started to have an impact at the beginning of March albeit with initially quite mixed feedback.

Some residential investors are keen to press ahead with their acquisitions where they have an acceptable yield and with their finance agreed, they want to see their cash giving them a better return than in the bank whereas others are having doubts about whether they will be able to get a better deal post Covid and are sitting on their hands.....for now.

Once total lockdown arrived however it has left us all wondering what the longer term consequences will be. Undoubtedly there will be some negative market fluctuation in the short term but we are confident there will be a strong bounce back in due course.

One thing is for certain however, there is still a huge shortage of housing across the UK and thus residential investment remains a very sensible and defensive place to deploy capital due to the additional levels of risk attached to some commercial covenants that would traditionally have been considered fairly safe.

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Student Housing Market

2019 was largely recognised as another successful year for the sector. Commentators and property consultancies agree that transaction volumes hit >£5Bn, bringing the year close to the record breaking levels of 2015. Continuing the trend, news broke in January and February of this year that Goldman Sachs and Wellcome Trust were to sell IQ to Blackstone for a reported £4.7Bn. The student accommodation market was alive and kicking harder than ever, grabbing continuous headlines with transaction volumes now making this one of the most active sectors of the property market in the UK – 2020 was clearly set to be the new record breaker.

The UK government was confident of upping international student intake by a third, leveraging on its internationally renowned and highly in-demand Higher Education Institutions. UCAS statistics released this quarter underlined the continued attractiveness of HE study for domestic and international students with some universities such as Nottingham Trent, Bristol and Coventry seeing unprecedented levels of acceptances. Investor confidence was quite understandably high, despite some uncertainties surrounding Brexit. What a difference a few weeks make…

The student housing market is heavily impacted by the Covid-19 pandemic and whilst it is too early to make an accurate assessment, deal flow has and will continue to slow. The impact is really one of mobility – how and when will students be able to resume their education as planned? The overarching problem is one of uncertainty. Will international students have the ability (or even appetite) to travel to their host university city? When will studies reconvene? Will the academic year 2020/21 be impacted and how? Right now, nobody knows and that is a huge issue for owners, operators and developers.

The immediate issue has taken investor attention away from any growth or investment strategies, with the area of highest importance right now being operations. UNITE announced its waiver of third semester rents and clearly many other operators felt obliged to follow suit. This will create a significant issue for many, in what will be the first ever chink in the armoury of student accommodation as an asset class. The pandemic has proven student accommodation is not immune to a global crisis, but that should not take anything away from its outstanding resilience to a rather turbulent decade. It will be interesting to see if the perceived risk of the asset class changes and only time will tell if this leads to a subsequent yield shift.

Whilst it is easy for commentators speaking outside the ownership circle, logic would support the notion that whilst the sector may take a hit for up to 12 months, it will recover quicker than many. Its consumer is not one that can hang around in life – there will continue to be the need to educate and travel for the very best education. It is quite likely there will be a rush of post-summer bookings which will inject some confidence into the sector, followed by what is likely to be a bumper AY 21/22.

Naturally investors who are caught midway through acquisitions may seek some comfort in respect of forward lettings, but land deals for delivery in AY 21/22 and beyond should be concluded. The bounce of 2019 and of just a few weeks ago should not be forgotten – it was built on solid foundations.

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Build to Rent Market

Whilst the various world economic factors put uncertainty across many sectors of the property industry, the 'long term' view taken by almost all investors means that BTR remains an attractive investment with counter cyclical dynamics.

Whilst many commentators suggest the private for sale market will suffer as we emerge from the current health pandemic, mainly due to uncertainty and mortgage availability, BTR offers quality rental accommodation with cohesive communities where residents can feel secure for longer term tenancies.

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 152,071. The regions have closed the gap on London in terms of the number of BTR homes, accounting for approximately 75,663 with 76,408 in London.

Recent BTR activity of note includes: Invesco's £73.8M forward fund of 294 apartments at Aubrey Place in Milton Keynes which will be developed and operated by Packaged Living, due for completion in Q2 2022; L&G's acquisition of its second BTR scheme from developer Renaker with the new North Tower in Deansgate Square, Manchester comprising 276 apartments across 37 storeys; Grainger securing its first scheme in Nottingham having agreed to forward fund Blocwork's 348-home scheme for £55.6M; Grosvenor has been granted planning consent for a BTR neighbourhood in Bermondsey, London for over 1,500 homes of which 35% will be affordable. The first phase will deliver 359 rental homes; a joint venture between Knight Dragon, Lincoln Property Group and MGT plans to build 500 BTR homes in Greenwich Peninsula subject to planning; Eutopia Homes has been granted planning permission for a £130M urban village in Exeter which will include 230 BTR homes; and Moda Living, Apache and North Star have been granted planning for a £200M residential scheme in York.

BTR housing continues to emerge as more specialists in the developer/contractor space are attracted to the model. Major masterplan projects see the addition of a BTR element as an attractive diversification alongside the traditional private for sale schemes. Allsop has two such developments, located in the north west and east of England, which are at varying stages of the planning process and forward funding agreements for both have now been agreed with investors. We expect developers in this space to consider such an exit, if as anticipated, there is a slowdown in the private for sale market.

Yields remain strong for well-designed BTR stock in prime, practical locations; in London and strong south east locations, NIYs range from 3.25% to 4.00%, with a number of major regional centres at 4% to 4.5%. Secondary locations are seeing closer to 4.75% to 5.25% NIY. It is too early to say what effect the current investment climate will have. Transactional evidence will be scarce in the next few months as very few development agreements will complete due to a large numbers of contractors being reluctant to go on-site due to Covid-19 health and safety concerns. However, we may potentially see some stabilised stock traded subject to individual investor pressures in uncertain times.

Allsop Letting and Management (ALM) has now launched Moorfield's third BTR scheme; Duet in Salford comprising 270 units, adding to the award winning management of The Trilogy in Castlefield, Manchester and The Forge, the first BTR development in Newcastle. In February ALM was chosen by Barings to take over the BTR management operations of The Keel in Liverpool, a 240 unit scheme on the historic Queens Dock. ALM has also been instructed by Land Securities to manage its residential portfolio.

the 'long term' view taken by almost all investors means that BTR remains an attractive investment with counter cyclical dynamics.

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Residential Auction Market

The two halves of Q1 2020 could not have been more contrasting.

The year started positively with a new prime minister enjoying a strong majority and long awaited closure on Brexit. The market responded with enthusiasm. Our February sale was more active than we could remember for some time. Interest was strong during marketing. On the day, bidders queued outside the InterContinental Hotel to clear the venue's security. The start was delayed for half an hour and the room was hastily extended to accommodate the crowd. Bidding remained lively throughout the sale and it was clear that the confidence that was so lacking over previous years was finally restored. The auction delivered a total receipt in excess of £45M.

All sectors seemed to be reviving well. Development opportunities were keenly sought after. Lot 53, a large building in Wimbledon with planning permission for conversion to seven flats, raised the highest price of the sale at £2M. Encouragingly, interest extended beyond London. Lot 163, a 16,000 sq ft care home in Hindhead, was knocked down for £1.38M. Ground rent investments remained in demand; Lot 17, a landmark leasehold building in St John's Wood, London, subject to 85 occupational under leases (22 of which were reversionary) was sold for £950,000.

Our 31 March catalogue was looking particularly promising with 285 lots. However, during its compilation, the Covid-19 outbreak was rapidly spreading beyond China. Two days before its release, the World Health Organisation declared a global pandemic. Midway through marketing, the prime minister announced total lockdown. Days prior to this, the Allsop partners had agreed that the only safe way to hold an auction would be to move to an exclusively online offering. The residential sale was moved to 2 and 3 April.

Over 780 unique bidders entered the registration process with more than 300 going on to place bids over the two days. As ever, in times of crisis, buyers focussed on quality of location and security of income. London homes fared relatively well. Ground rents remained popular. Interestingly, development opportunities remained in demand. A leasehold rooftop with potential for airspace development in East Finchley raised £711,000 – a promising result in light of the fact that there was no planning permission, only a pre-application report.

Despite the inability of the firm to arrange viewings due to government restrictions on public gatherings, over 70 vacant properties were successfully sold. Virtual tours and internal photographs had been uploaded to the Allsop website. When surveyed, 84% of buyers said that they had not viewed their purchases before bidding. 24 buyers were buy-to-let investors, 15 were developers, nine were owner occupiers and 11 were undecided.

The online sale was more successful than we had hoped. Over £30M has been raised and post auction sales are progressing at a pace. 78% of all lots offered have been sold.

In the private treaty sector, prospects for sale are far bleaker. The government has advised people not to move home unless absolutely necessary. It is no surprise therefore, that Hometrack reports that sales subject to contract in the mainstream market are down 90% since 7 March.

Online auctions are, for the time being, the only truly functioning marketplace for trading residential property.

Our next sale is planned for 28 May and will be held exclusively online. The catalogue will be released on Friday 8 May. Entries are invited.

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Business Rates Relief Covid-19 - Update

The government has introduced a number of measures to give support to businesses through the period of disruption caused by Covid-19. In this article we will set out the measures taken and how they will apply to businesses in England.

BUSINESS RATES RELIEF
The main relief granted by the government is a 12 month exemption from rates on most occupied retail, leisure and hospitality properties for the 12 months commencing on 1 April 2020.

There is no Rateable Value limit on the relief and ratepayers that occupy more than one property will be entitled to relief for each of their eligible properties.

WHICH PROPERTIES WILL BENEFIT FROM BUSINESS RATES RELIEF?
Set out below are the broad categories of occupied properties which are being granted the rates relief, at the time of writing in early April:

- Shops, restaurants, cafés, drinking establishments, cinemas and live music venues
- Estate agents, lettings agencies and bingo halls
- Properties used for assembly and leisure
- Hotels, guest and boarding premises and self-catering accommodation
- Privately run nurseries which are on Ofsted's EYR and provide care and education for children up to 5 years old.

Detailed guidance has been issued to assist the identification of qualifying properties within these broad categories. The ultimate decision however, as to whether to grant the relief, is made by the local council.

There are various exclusions to the above which include banks and building societies, medical services (eg dentists, vets) and professional services (eg. accountants, financial advisors) as well as generally properties that are not reasonably accessible to visiting members of the public.

To qualify for the relief the property should be wholly or mainly being used for the above qualifying purposes. This is a test on the use of the property rather than occupation. Therefore, properties which are occupied but not wholly or mainly used for the qualifying purpose will not qualify for the relief.

To qualify for the relief the property must be occupied although the government have made it clear that properties which have closed temporarily due to the government's advice on Covid-19 should be treated as occupied for the purposes of this relief.

RETAIL, HOSPITALITY AND LEISURE GRANT FUND
The government has also introduced the Retail, Hospitality and Leisure Grant (RHLG). This will give additional assistance to some of the businesses in the retail, leisure and hospitality sectors who qualified for the 12 months rates exemption.

Qualifying properties in these sectors with a Rateable Value LESS than £51,000 will also be eligible for a grant of up to £25,000. There are various detailed qualifying criteria.

SMALL BUSINESS GRANT FUND
In order for the government to reach smaller companies in other sectors, a grant has been drawn up to assist small businesses. Qualifying ratepayers will be eligible for a grant of £10,000.

WHICH PROPERTIES WILL NOT GET RELIEF
Although significant rates relief is being given to those in the retail, leisure and hospitality sectors, many ratepayers will not receive any relief. These include those ratepayers of:

- Empty properties – which were empty prior to Covid-19
- Other properties which cannot realistically be occupied but receive no relief e.g. colleges, universities and office occupiers

As a result a landlord paying rates on an empty shop is not being granted any relief from business rates. Many sectors are aggrieved at not being granted any relief and believe the challenges they are facing are comparable to those in the retail, leisure and hospitality sectors.

RATES APPEALS
There are many instances where the impact of the Covid-19 and the government measures taken to limit the impact will warrant rates appeals seeking a temporary rates reduction. This may enable some relief from rates for those ratepayers who do not qualify for the 12 months rates holiday.

An appeal could be warranted for example on an office in a location where the main tube station has shut and all the local shops, cafés and restaurants have closed.

There will be many situations where a 'Material Change in Circumstances' appeal is potentially warranted although these need to be considered on an individual basis due to the complex rules relating to such appeals. These appeals are time sensitive and would require immediate professional rating advice and action whilst the property is being affected.

EMPTY PROPERTY
It seems owners of empty property have drawn the short straw, being completely excluded from government support. There are however certain existing provisions in the rating regulations which could in certain circumstances enable a claim to be made for rate relief. At the time of writing, local and central Government have not published any guidance for those affected – but these are rapidly changing circumstances and seeking professional advice early on could prove critical later down the line.

REDEVELOPMENT SCHEMES

For those property owners who are in the midst of a redevelopment scheme and are still paying rates bills, there is legal argument that no rates are payable – even if you have had to 'down tools' due to Covid-19.

If the property in its current state is not capable of occupation and a scheme of works has started, challenges could be made to both the local council and the Valuation Office, using current case law and regulations. This would likely result in additional reliefs or exemptions, and the property being taken out of the rating list from the start of refurbishment - meaning significant backdated refunds for the property owners.
It is recommended that advice should be sought immediately for those developments affected by Covid-19.

2020/21 RATES BILLS

In summary, although the government has acted quickly to provide the above schemes to assist businesses it is up to local councils to deliver them. Many of the rates bills for 2020/21 were already issued prior to the new measures being announced. Due to this, it is imperative to seek advice on your rate bills as there is no certainty these will be accurate. It is not unusual to see incorrect dates, erroneous liability amounts and wrongly applied reliefs (or, no relief applied at all, in many cases).

As ever, the earlier you can seek advice, the better. Although appeals and relief claims can normally be backdated, advice sought early on will ensure the best possible outcome is secured.

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Lease Consultancy

Landlords currently under pressure to agree short lease extensions may feel that they have no negotiating levers. The Coronavirus Act 2020 gives tenants confidence that they cannot be evicted, so why should they negotiate at all?

In many situations it will not be appropriate to double the rent but there may be situations where it is helpful to know that these two pieces of often overlooked legislation are available to you. They are just as effective now as they were 300 years ago: the Landlord and Tenant Act 1730 and the Distress for Rent Act 1737.

Where a tenant's lease is "outside the Act" (that is outside the LTA 1954) but they stay in occupation after the end of their lease a landlord can charge a "Rate of double the yearly Value of the Lands" until the tenant leaves or signs a new lease. That may put an interesting angle on the conversation you have with a tenant who wants a short extension.

Under the current Covid-19 restrictions it is sometimes hard for tenants to vacate their premises. It is also hard for them to search for and commit to new premises. We are finding that many tenants want a short extension to their lease. This may be entirely reasonable and mutually beneficial to both landlord and tenant. However some landlords may feel disadvantaged by tenants using the situation to extend leases unfairly.

In such instances a landlord may want to use "Double Value" to encourage tenants to move, or extract some compensation from those tenants who wilfully stay (not by mistake or because they have a reasonable claim of title to the property). All the landlord has to do is demand vacant possession in writing and be willing to demonstrate the rental value in court if necessary.

Double value isn't just doubling the monthly rent; it is double the value that a willing tenant would pay for the premises during the period of trespass as assessed by the courts.

The situation is slightly different if a tenant has already given an undertaking to vacate a premises (by serving a break notice say) but then stays in occupation anyway. For this, another piece of legislation is useful: the Distress for Rent Act 1737. It does not require an expensive argument over rental value: instead, the landlord is automatically entitled to double the passing rent as soon as the lease ends. In this case the landlord must treat the tenant as a trespasser i.e. not accept rent at the old rate.

It strikes us that double rent may be preferable to gaining vacant possession in many cases at the moment.

These are not tools for the faint hearted but they have a place in an asset manager's armoury.

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