all

NEWS AND VIEWS FROM **ALLSOP**
SUMMER 2022

Virtual
realty

Hello

Against a backdrop of uncertainty with the Ukraine war, rising energy bills, fuel bills, rising inflation and interest rates you would naturally assume little activity in the property world would prevail….? Wrong – at Allsop we are experiencing high volumes of activity across all our transactional departments whether Auctions, Capital Markets or Leasing. Our professional teams are busy too – why? – I put it down to a number of factors – for example differences of opinion create strong transactional volumes – some see top of the market, others see opportunity and the requirement not to be sitting on cash that could erode at 10% over the year! There is also still the 'lag' activity particularly in the leasing markets from the inactivity of the last 2 years.

In addition some feel the need to get their business done earlier in the financial year this year before the 'unknown' of the winter that lies ahead. All these components make for a fascinating 6 months or more ahead which I am sure, in our different ways, we all know we are going to have to navigate like a ship in the storm!

This leads me on to highlighting that this packed edition of ALL which I sense has a 'Tech' based theme to it this time and the importance of its use, married with the people element , can produce powerful results in the property world .

There are some fascinating articles highlighting the power of tech in 'smart' convenience stores and whether there is a premium attached, the metaverse - and is it realistic to think real estate could become a commercial grade asset class within it , also how a data driven approach in PBSA is bringing new and revised ways of analysing those off radar markets, the digital evolution in online auctions but married with the human touch and the importance of relationships, an update on Ground rents following the biggest reform to English property laws for 40 years and on ESG which reigns supreme in investment decisions – how policy changes such as tax incentives will be necessary to improve the UK's commercial property stock.

A truly packed edition with all our views and news.

Whilst writing I would also like to congratulate all 46 of our truly talented people who have been recently promoted (a record in a single year at Allsop) and who are listed towards the back of this edition – very well done.

Enjoy the read!

Scott Tyler FRICS
Senior Partner

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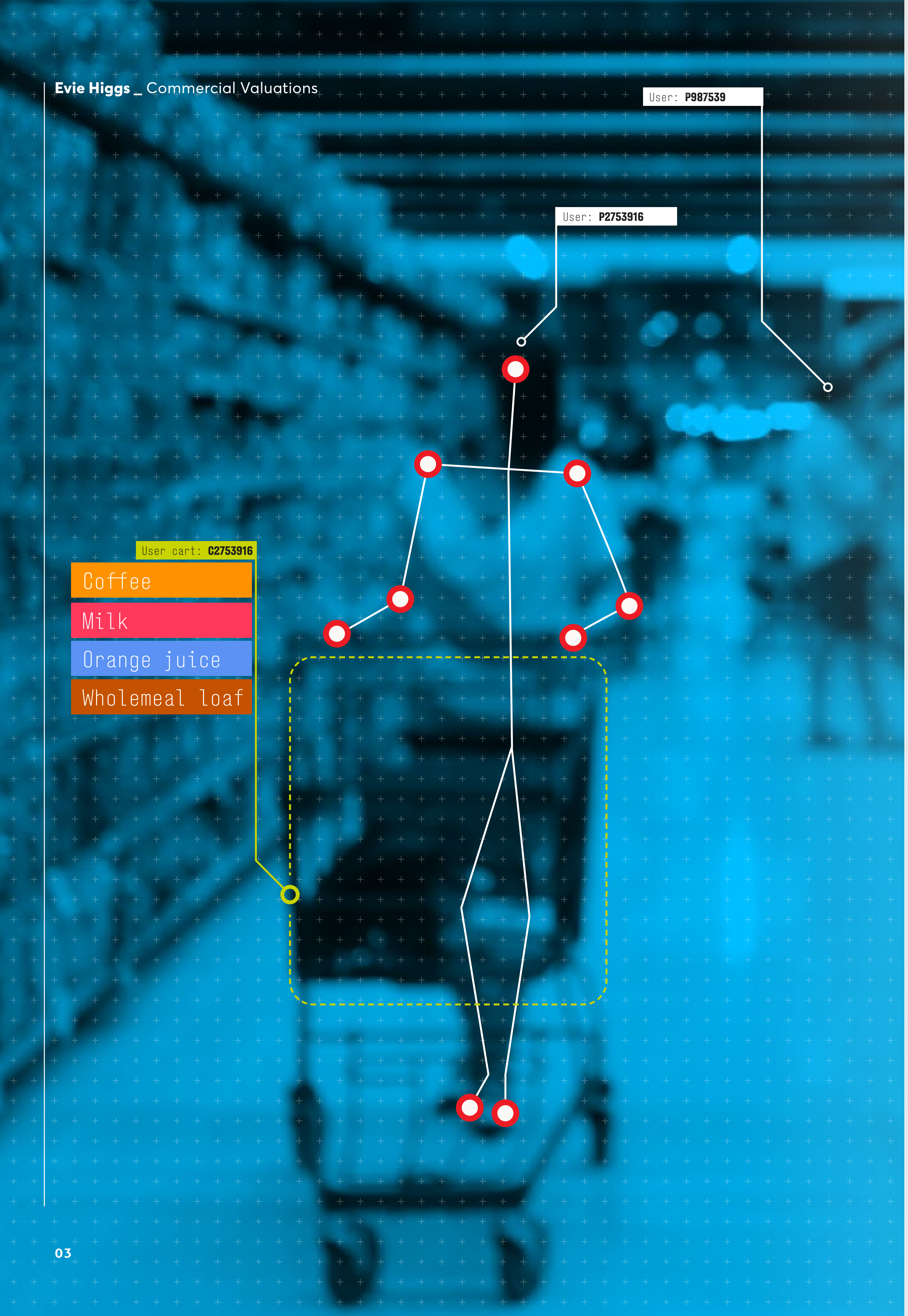
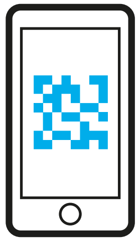


Smart convenience stores = retail property revolution?



London's Holborn is primarily known for its high concentration of law firm offices and diamond shops per square mile. Lately, the area seems to have assumed an additional identity, with numerous smart convenience stores having sprung up all around it.

In the past 18 months alone, Sainsbury's, Amazon Fresh and Tesco have launched checkout-free stores in Holborn. These shops feature autonomous technology which means shoppers can enter, identify themselves via a QR code, pick up desired products for purchase and walk out, without ever having to tap their contactless cards, let alone queue.

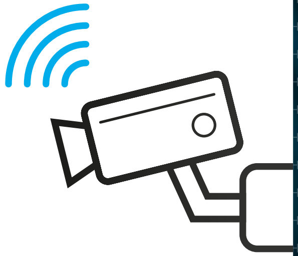
The rollout of these new technologies is starting to have an impact on our day-to-day lives, but what are their implications for the property market?

According to some estimates, the fit-out cost for a smart-powered retail property is more than £1m, double that of a conventional 3,000 sq ft convenience store, given the need to integrate numerous weight sensors, cameras and other costly technological features from the very start. Given the size of the investment required, it is reasonable to assume that would-be tenants would seek longer leases, allowing them to reap the benefits of the new, 'smart shopping' format, which can take a while to materialise. This could be good news for those owning or looking to invest in retail premises in commercial districts, where time is of the essence. Areas like Holborn, as well as some parts of the City and Canary Wharf, have all seen footfalls increase as the pandemic subsided, making these areas desirable from an investment perspective, and being able to lock in well-capitalised tenants for longer further adds to their appeal.

Tangible benefits

Smart-powered stores are designed to help retailers reach a number of commercial objectives. Firstly, they minimise queues, which often lead to customer frustration and cause people to leave stores empty-handed. Secondly, these stores reduce wage bills, with fewer people needed to run the shops at any single point in time. Thirdly, they minimise customer theft, which has been particularly problematic for shops relying primarily on self-checkout tills. An estimated £5.5bn is lost every year to shoplifting and employee theft – a significant enough sum to prompt retailers across the country to consider incorporating smart stores into their portfolios.

Evie Higgs _ Commercial Valuations



The social issue

While the benefits of this costly technology are at first glance clear from an investment perspective; the ease with which consumers will be able to adapt to it are less straight forward. Since the start of the pandemic, QR codes have become ubiquitous, especially in larger cities, but their use is far from universal. Digital literacy is often taken for granted and it's easy to forget that the elderly population may find the switch to apps and QR codes stressful and confusing.

In addition, not everybody owns a smart phone, essential for the next-generation shopping experience. Consequently Smart shops could very well remain confined to business districts, like Holborn, given their focus on serving time-poor and tech savvy people, albeit new stores have more recently opened in the outer London boroughs of White City, Camden, Ealing Chingford and East Sheen. Local convenience stores remain an important element of the social fabric for many people, providing them with comfort and much-needed human interaction, and it's not clear if they would be welcomed with open arms outside of urban areas.

Going back in time?

Some retailers in France, on the other hand, have been experimenting with radically different offerings – known as 'bla bla' cash registers, which are manned by friendly and, most importantly, chatty cashiers, where customers are encouraged to take their time when shopping specifically designed to provide customers, particularly the elderly, with a more rewarding shopping experience. Several big supermarket chains have set up 'bla-bla' cash registers in select locations, to target specific local demographics. While a niche offering that may not be ideal for fast-paced environments, it does have its proponents who view shopping from a social rather than utilitarian perspective.

Not a done deal

Smart stores are still a novelty for the UK market, and valuers recognise that not all buildings are suitable to house smart stores. The premium in rental value is likely to be attributed to the shape of the unit, the lack of physical intrusions, such as structural columns and most importantly of all, the micro location. These are the fundamental characteristics that will determine the rental value. The capital value will be determined by the quality of the tenant, the inclusion of index linked rent reviews and length of lease. Will there be a premium attributed to an investment that includes smart technology?

We are not aware of any smart stores having been traded, but we are starting to see more businesses embrace the power of tech, with Aldi opening a new tech-powered store in Greenwich earlier this year, while Morrisons has been trialling the new till-free model since last summer. It is a matter of time before we can understand the differences in investment value between conventional stores and smart stores. It is undoubtedly an attractive proposition, but we must not forget that old habits die hard and we, as humans, tend to treat new things with suspicion. If the retail industry is ready to go full steam ahead on the new offering, there might be a need for an educational campaign to get customers aboard the AI train.

"will there be a premium attributed to an investment that includes smart technology?"

Monetising your land may be your biggest ever payday – here's how

One of my favourite memories from working in the City fringes was the time I called the owner of a 50,000 sq ft building in Shoreditch.

It was around seven years ago and, during the course of a conversation about their intentions for the building which they had owned since the early 1970s, we got on to what they thought it would be worth if traded in today's market (for reference, I took great pleasure in hearing that one of our 'competitors' recently valued this building at £16,000,000).

"I can get you over £32,000,000," I said. And then, followed by a long pause, their response: "This is one of the best calls I've ever had and …I'll call you back."

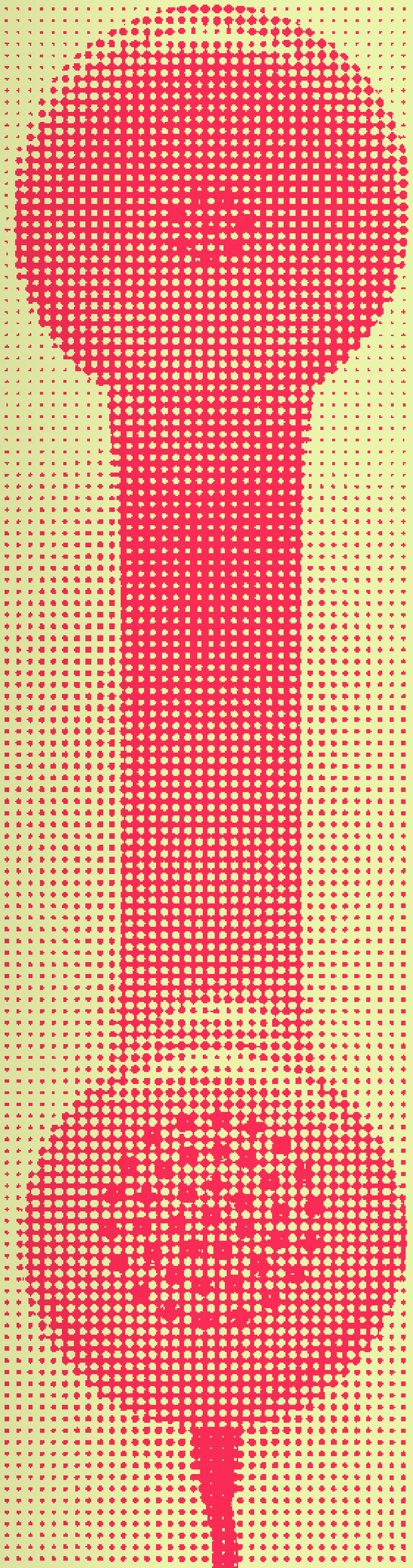
This is not uncommon. We have seen such growth in certain parts of London that, unless you are plugged into it on a day-to-day basis, you can be blissfully unaware of and not know how to access this rapid improvement in value.

The market is full of opportunities, but they aren't always obvious to those who don't live and breathe property.

The difference in an area like Shoreditch over the past seven years is remarkable and we've seen this in a number of sub-markets in London. And particularly in cases in which a business which may own its premises but where this is not its primary line of income, it often won't even think about how much it may be worth. And that's where we can come in to advise. Often, the underlying real estate is more valuable than many years' worth of returns that the business will get from its main line of work.

We property types spend countless hours looking at plans and dealing with architects and planners for schemes that can take 10 years to come to fruition. In the meantime, we see CGIs and have discussions with potential tenants that set new pre-lease rents – all of which can create vast value even before a brick is laid. A massing study or a positive pre application is quite often all that is needed!

Unlocking potential starts with a conversation. We spend a huge amount of time learning the intricacies of how to create or extract value from real estate, and generally we love to talk and pull together expertise from best-in-class advisers who would form part of the team.



"I can get you over £32 million"

"this is one of the best calls I've ever had and..."

Meanwhile, different local authorities have different expectations and priorities which change all the time. Navigating this, as well as matching it up with what is happening in the leasing and investment world can be a minefield and have expensive consequences if mishandled. You have to be able to play a medium to long game but when the stars align, it can be very profitable.

There is a myriad of architects, planning and cost consultants that need to be managed, which is ultimately what the surveyor should handle given we've done it so many times before.

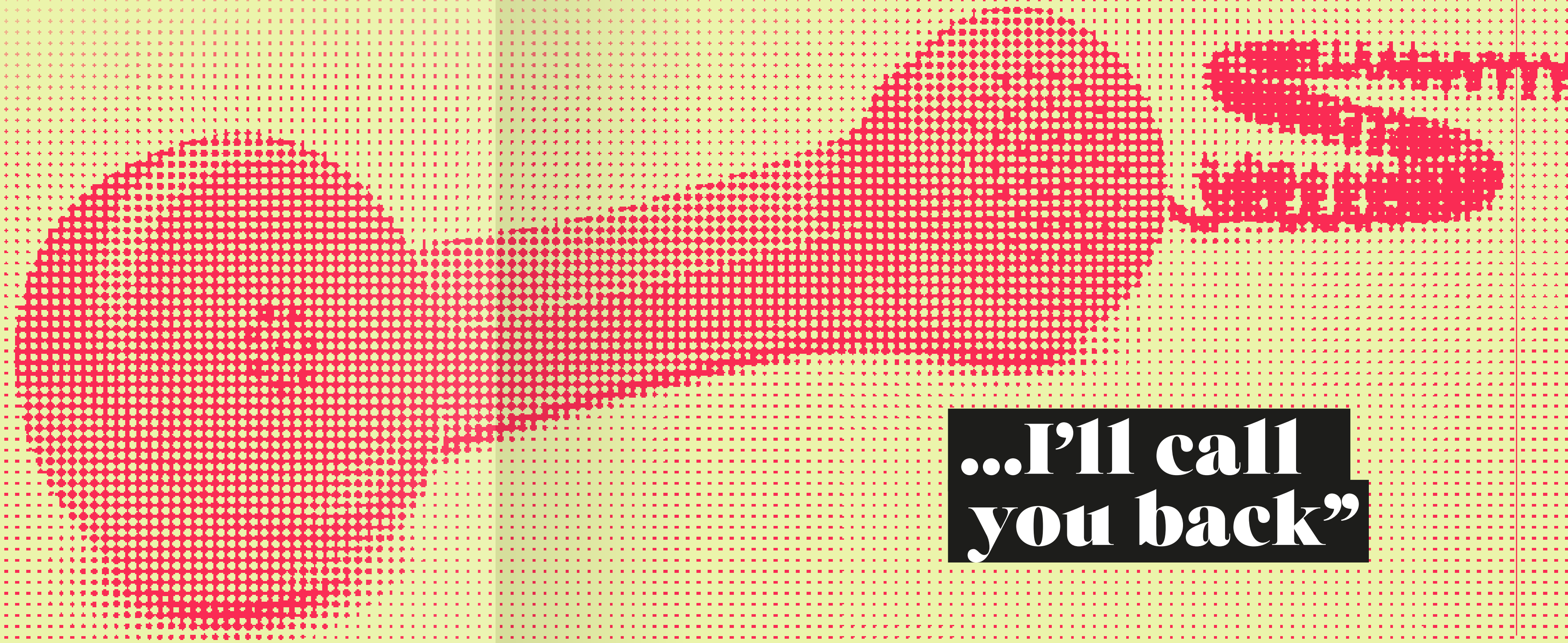
On an everyday basis, we've had a number of successes where we have advised on adding value. Recently, for example, we have acted on behalf of the owner of a Dial–a–cab House site just off the Old Street roundabout, which was a four-storey building with car parking and has in the past month been funded by UBS to deliver a 22-storey hotel, pre-let to Motel One. We achieved a price in excess of £30,000,000 for the site.

From four-storey Dial–a–Cab House to 22-storey Motel One hotel

The greatest example of this is currently being set with the development of 22 Bishopsgate in the City of London. This is going to be an amazing product that started off with a purchase price of the site at circa £220 million and will result in a market capitalisation in excess of £2 billion.

Unlocking value can be done at many stages during the process but understanding timings, use classes and costs to get to each stage is equally important. The ultimate achievement is to get planning, pre let and sell, which thankfully we at Allsop have a great track record in from working with a large number of private landowners through to the likes of British Land and Brookfield.

The value of your land may be – and probably is – a lot more than you think. And if you're keen to discover just how to unlock it, pick up the phone and see if we can give you the best call you've ever had.



When real becomes meta: real estate enters the metaverse

The property world loves a good buzzword. From 'flight to prime' and 'weight of capital', concepts like 'the metaverse', 'Web 3' and 'NFTs' (non-fungible tokens) are the latest to take the sector by storm.

After Facebook made the strategic decision to rebrand itself as Meta, there has been a significant uptick in people's interest of the 'metaverse'. From artists like Snoop Dogg to companies such as Nike, Adidas and Walmart, this emerging digital world has captured the imagination of some, and mystified others. Whilst it's in very early days of its development, it begs the question of what is the metaverse and how can the real estate sector position itself to benefit from this new world?

So…what is the Metaverse?

Originally coined by Neal Stephenson in his 1992 novel *Snow Crash*, describing a 3D virtual world inhabited by avatars of real people, the metaverse is far from a new concept and the lines are very much blurred as to what it will eventually look like in the future. Some believe it will be the place where we all interact, trade, shop and socialise much like we do in the real world. Others like Microsoft are betting its growth will be interwoven with advances in video games. Others even think it could be the technology to one day replace mobile internet.

Today, the metaverse can be defined as a simulated digital environment that uses augmented reality (AR), virtual reality (VR) and blockchain to create spaces for immersive user interaction.

The key to the recent explosion in this topic is the individual growth of each of the three core elements. VR and AR have seen significant advances in technology and affordability, whilst blockchain has enabled digital currencies, gaming tokens and NFTs to create a world where digital ownership of products, land and real estate has become possible.

A good example of this is the metaverse game, Decentraland, which has taken the real estate world by storm, as investors have been snapping up plots of land – in some cases, for millions of pounds.

But, why on earth would someone pay millions of pounds to own land in a virtual world?

Much like the traditional real estate market, landowners will be able to capitalise on commercial opportunities and occupier demand (of sorts). For businesses, it creates a unique opportunity to create digital storefronts, host events and create exciting new concepts to advertise to a younger, more digitally native audience. For owners, it provides cash flows much like traditional buildings.

Mark Gord, CEO of Metaverse Group explained that whilst major cities like New York and London have tens of millions of people, it is not unreasonable to suggest there could be over 100 million people active on a platform like Decentraland at any one time. This creates incredible marketing opportunities for businesses to attract the next generation of customer, with the added benefit of significantly reducing overhead costs as real-world physical boundaries are removed.

This creates an opportunity for landowners to operate much like the traditional property market. By owning and operating virtual land, companies can deliver high yielding cash flows to their investors through leasing space, providing advice on how to build stores within the metaverse and assisting in disposal and acquisition transactions.

Is it realistic to think virtual real estate could become a commercial grade asset class?

Sales of virtual real estate topped $500 million in 2021 with predictions that the market will reach $1bn in 2022. If this growth continues, it could become unavoidable that commercial real estate in the metaverse becomes a serious asset class.

Much like any investment, property fundamentals like location and footfall play a crucial role in the metaverse.

Finding value in virtual real estate will come through picking the platforms that capture the imagination of the younger generation, whilst providing significant commercial opportunities for businesses to enter the space through content marketing and advertisement.

Although mass adoption is still a long way off, should the metaverse take off then it will present a whole new commercial asset class where barriers to entry and ownership are far more efficient, transparent, and truly global in reach. Could Allsop pioneer the first physical property auction in the metaverse? Could we see George Walker don a VR headset and sell virtual land to bidders across the world?

The answer right now may be no. But, if we see continued growth in the sector, investors begin to see the market as commercial grade and everyone comes to own a VR headset, even the most unimaginable concepts could become a reality in the metaverse.

Are you sold on digital real estate in the metaverse yet?

If so, here's a brief explanation of how to buy virtual real estate.

Investment in virtual real estate occurs through the purchase and exchange of nonfungible tokens (NFTs). These are non-interchangeable units of data, stored on the blockchain behind smart contracts that enable items to be sold and traded with a cryptocurrency of the vendor's choosing. To own an NFT you must have a digital wallet. This allows you to store NFTs on the blockchain ledger which can be traced providing a clear record of ownership. NFTs can be anything from art collectibles to elaborate mansions built in the metaverse. Smart contracts are like the title documents underpinning the ownership of a building. In the case of NFTs, they underpin the functionality of the NFT.

What has attracted the attention of the real estate sector is the speed and traceability of ownership with these concepts. They present the possibility of transferring assets with a push of a key on a fully traceable decentralised blockchain ledger. Anybody validated through the blockchain with enough cryptocurrency in a wallet could log in to Opensea and purchase available land in various metaverse platforms. You could complete the entire process on your mobile if you so wished.

"could Allsop pioneer the first physical property auction in the metaverse?"

LEEDS IS DOUBLING IN SIZE AND THERE IS NO LIMIT ON THE HORIZON FOR CITY CENTRE BTR

Leeds pulled the handbrake hard on residential development following the mothballing of many apartment schemes in the city centre in the late 2000s, a result of inflated prices, rising interest rates and a lack of capital growth.

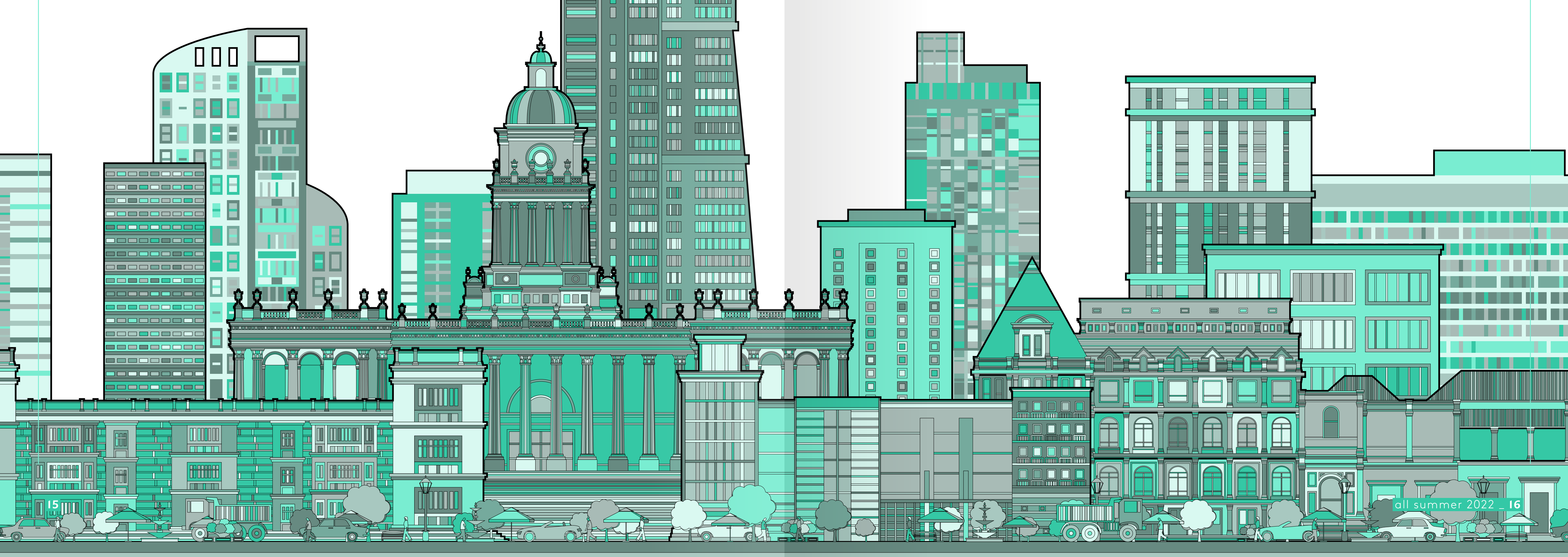
Over 7,100 units were delivered between 1998 and 2007, and 3,800 units were under construction in 2007, but between 2010 and 2019 only 1,639 residential units were completed, and fewer than 800 of those were new build. Across the Pennines, 10,729 units were built in Manchester within those nine years.

Leeds didn't completely axe development, and since 2014 over 3.3 million sq ft of office accommodation has been built addressing the huge undersupply of Grade A office space. MEPC's Wellington Place has created a new central business district, and along with investment into the city's infrastructure, has helped attract blue chip employers including the BBC, Channel 4, UK Infrastructure Bank and HMRC. The city remains the UK's fastest growing major legal centre, and its working professional population has been swelling.

Delivery of private built student accommodation (PBSA) in and around the Arena Quarter, which now offers more than 5,500 student beds, has brought more students into the city centre, who then want to continue enjoying city centre living post-graduation. Trinity Leeds and Victoria Gate, two inner city shopping centres, now boast enhanced retail and leisure amenities, enticing new and existing residents.

As a result, Leeds has turned into a modern and rapidly developing city, with a broadening core, albeit with a distinct shortage of good quality, new build residential property to satisfy strong rising demand. Fortunately, Build to Rent (BTR) is starting to address the supply / demand imbalance.

The sheer weight of resident demand for BTR schemes in Leeds is shown by their performance to date. Today, there are three fully operational schemes totalling 1,233 apartments: Leodis Square, Mustard Wharf and The Headline, and all are over 94% let. Grainger's The Headline opened in August 2021 and set a new leasing record achieving 95% occupancy in just two months.



Alongside strong occupancy, BTR has brought a new rental tone to Leeds. The older private rented sector (PRS) apartments delivered between the late 1990s and mid-2000s, command rents in the region of £15 to £18 per sq. ft. Rents within the BTR market, on the other hand, are now firmly between £22 to £27 per sq. ft – well within the realms of affordability when considering average earnings. Moda Living's New York Square plans to welcome its first residents in May and is aiming for the upper end of the market, with rents in excess of £30 per sq. ft.

The area currently classed as Leeds' city centre core extends to approximately 228 acres, however, this is set to double in size over the next 10 years, with some 230 acres either already in development or set to be delivered. Within this planned expansion, 24 BTR schemes are currently proposed demonstrating the desirability of city living in Leeds and the appeal of BTR.

Leeds South Bank forms the largest area of regeneration, taking in three main developments: CEG's Temple, Vastint's Aire Park and Citu's Climate Innovation District – all of which are now under construction. Leeds South Bank regeneration project aims to deliver 8,000 new homes, 30,000 new jobs and over 1.2 million sq. ft. of office space, putting the River Aire at the heart of the city.

In other areas of the city, the regeneration of Mabgate, anchored by Leeds City College's new Mabgate Campus and the continued development at SOYO will enhance the city to the north and east.

Another major factor which will further improve the attractiveness of Leeds is the planned £200m development and initial delivery of the mass transit system over the next five years, which will significantly improve connectivity and transport links within the city and the wider region.

Whilst the pipeline of BTR development may appear high, we must remember the distinct undersupply of residential accommodation and the lengthy planning and development process before these units reach their target audience. It is useful to consider the likes of Manchester and Salford, more mature BTR markets, where media and investor concern about oversupply has never materialised.

Performance of BTR schemes in Manchester and Salford, and all residential property, has been extremely robust. Every BTR scheme which launched in early 2021 or before is over 90% let. Furthermore, from a delivery of over 3,500 new homes within the first nine months of 2021, only 420 homes were available to let by October, showing excellent rates of absorption.

"media and investor concern about oversupply has never materialised"

	Manchester & Salford	Leeds
Current Operational BTR Units	9,164	1,449
BTR Units Pipeline	7,556	7,464
Total Combined BTR Units	16,720	8,913

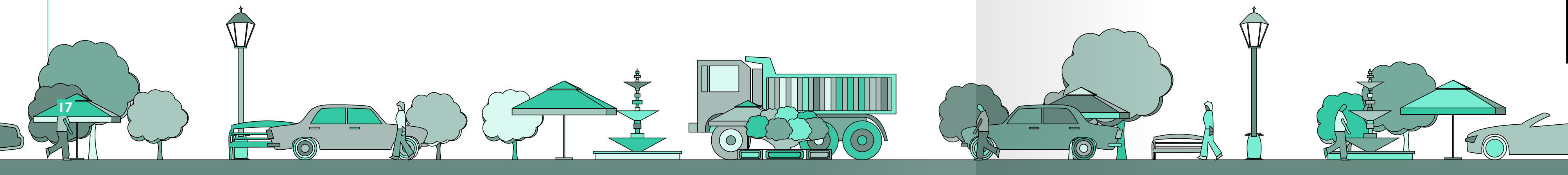
In the context of key demographics, the population and average earnings across Manchester and Salford compared to Leeds aren't any more favourable.

	Manchester & Salford	Leeds
Population	c.818,400	c.800,000
Ave. Wages (Gross £pa)	£27,916	£31,023

Whilst there is a reasonable supply of BTR and residential accommodation in Leeds, it will likely not catch up to the underlying demand in the short to medium term. Leeds' current revised housing target is 3,247 new units per annum through to 2033, which has not been achieved in over a decade. The delivery pipeline in Leeds is well spread across several years until 2026, with 3,002 BTR units currently under construction and 4,462 in the planning or pre-planning stage.

Given the housing shortage, the population growth, appeal of the city to highly skilled young professionals and investor appetite, Leeds is unlikely to suffer from an oversupply of homes in the foreseeable future.

BTR will be at the forefront of both expanding the city and being part of the housing crisis solution.



A data-driven approach puts a new spin on the PBSA investment market

London, Manchester, Birmingham, Exeter, Bristol, Edinburgh, and Leeds – are all cities that feature heavily on investor wish lists. The clamour for big, popular, well-established university cities is completely justified. However, by using data sourced from the UK's leading student accommodation search, property management and data platform, StuRents, we can make a case for some of the less obvious PBSA investment locations.

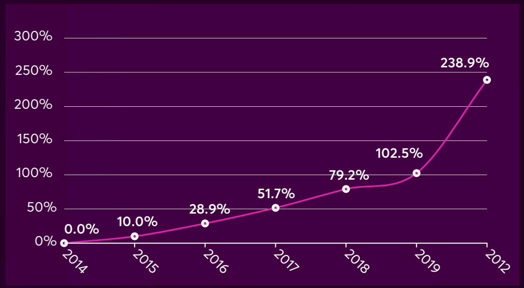
Across all locations, the depth and quality of the data now available can provide insights and an ability to qualify and operationalise decision making in markets where the high-level student to bed ratios no longer give the full picture or provide certainty.

Here are some examples of different insights applied to markets with varying degrees of investor sentiment.

Glasgow's international popularity

Edinburgh tends to steal the Scottish limelight, but Glasgow is a Russell Group city and, with the University of Strathclyde, Glasgow has one of the largest student populations of any regional centre. The fundamentals are solid but the city's popularity with students studying from China is of particular interest for PBSA investment.

FIG 1: Indexed Chinese student growth – Glasgow University



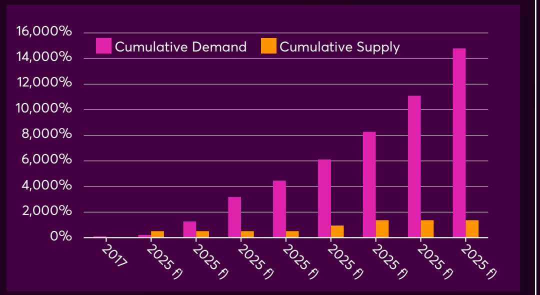
A city's popularity with international students is a key consideration supporting PBSA investment. Whilst domestic students do take occupancy in PBSA buildings, international students tend to stick to PBSA throughout their whole university life cycle; through the second, third and often postgraduate years.

The growth in Chinese student numbers at Glasgow University shown here in Figure 1 is bettered only by the University of Leeds (240%) over the period 2014-2020. As a standalone statistic, this should provide significant comfort for PBSA development in the city.

Student numbers in Preston

It's always interesting to look at the student growth rate from a point in time compared with the rate of PBSA growth over the same time period. In doing so, we often see that some UK cities have seen student growth outpaced by PBSA growth. This is not the case at the University of Central Lancashire (UCLAN) in Preston, which is growing apace and has seen student numbers completely outstrip the supply of PBSA.

FIG 2: Demand growth vs Supply growth (cumulative)



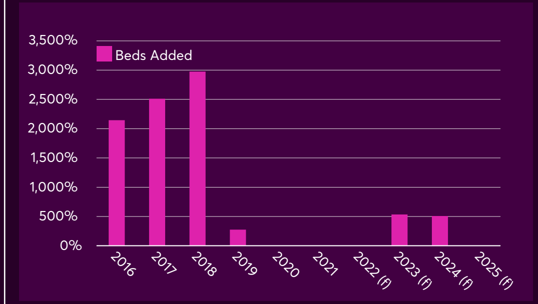
From 2017 to 2020, UCLAN full-time student numbers increased by 3,179. Not all of these additional students will require student accommodation but, in the same timeframe, only 507 PBSA beds were delivered in the city. If the rate of growth continues through to 2025, it is possible the city will see an additional 11,000 students with only 860 PBSA beds in the planning pipeline.

There are challenges in developing new PBSA in cities like Preston, but the data suggests it could make a compelling case for future investment. It is certainly a city to keep an eye on.

Sentiment takes a hold of Newcastle

The use of the term 'oversupply' by the market in reference to a university destination can have far-reaching consequences: rather than slowing the market down, it can often put a complete halt to the delivery of new PBSA beds, which feels like an overcorrection.

FIG 3: PBSA delivered per year in Newcastle



Newcastle has everything you want in a student market. A lively city with famous student areas (Jesmond), a Russell Group university and a polytechnic in Northumbria. It is a city that will always attract high volumes of new students. Yet, despite the fundamentals, new investment for PBSA has been – much like its football team – beleaguered of late.

Figure 3 shows that, after significant investment in 2016, 2017 and 2018, the delivery of new PBSA dropped off a cliff in 2019. So much so that in 2020, 2021 and 2022 no new beds were added in the city and the delivery of 1,044 beds between 2023 and 2024 has been called into question.

Poor investor sentiment should bring caution with the data, not a complete withdrawal. At some point, probably very soon, Newcastle will need to address the current state of student accommodation, particularly as the universities there are about to remove and demolish circa 1,300 existing beds. Opportunities will, once again, beckon for investors.

Portsmouth's HMO demand feeds PBSA

When we talk about HMOs in conjunction with PBSA, we're often trying to understand how the co-existence of both types of student accommodation impacts actual demand. Looking at Portsmouth, we can take a step further and look at how the demand for HMOs could favour PBSA.

FIG4: HMO supply vs demand

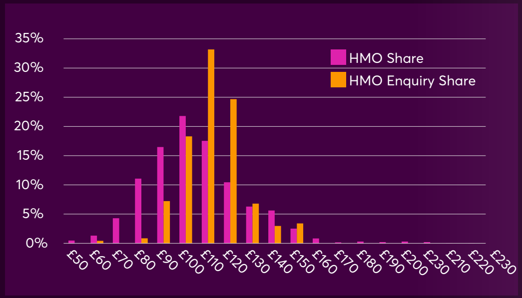


Figure 4 shows that students in Portsmouth are enquiring for better quality HMOs that don't seem to exist in quantities that satisfy demand. This suggests that PBSA owners/developers should be targeting typical HMO tenants, providing them with better-quality options.

There are other markets where the data appears in the same way, so whilst it is easy to say HMOs detract from PBSA demand, a closer look at the data points suggests that, in some markets, the lack of good-quality HMO provides opportunities for PBSA owners - and Portsmouth looks like one such example.

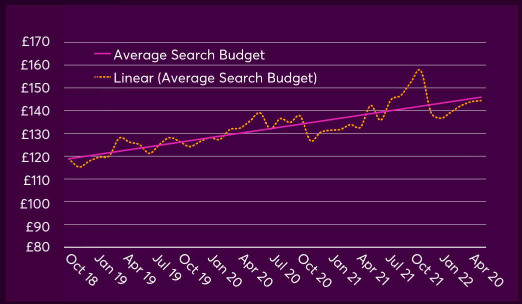
"poor investor sentiment should bring caution with the data, not a complete withdrawal"

Nottingham students push rents

There's a lot of talk about the affordability of student accommodation; what is fair to students and how can affordability be implemented throughout the sector?

Without undermining the importance of affordability, searches via online letting platforms show evidence of students' budgets increasing in some UK markets, such as the city of Nottingham, as Figure 5 shows.

FIG 5: Nottingham average search budget



Critically, this data doesn't show what students are paying; it indicates what they would be willing to pay.

Whilst there are some monthly deviations, the trend in Nottingham since 2018 has seen students willing to pay more for their accommodation. The driver for this is uncertain, but from an investor/developer perspective, the rental trajectory of a given market is a key justification for the modelling of future rental growth. It would seem difficult to underwrite rental growth when in fact student budgets are getting smaller.

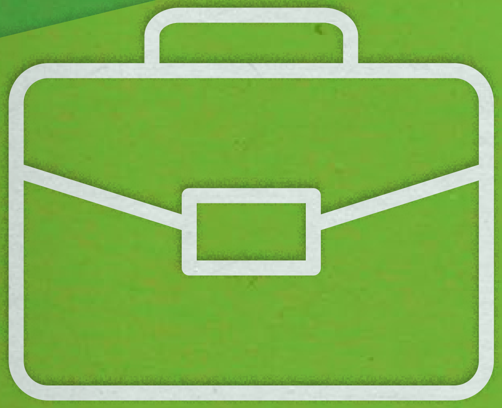
Summary

The UK student investment market has matured to the point where data is becoming more important than ever - it is also more accurate and insightful than ever.

That many investors want to invest in the same locations makes sense: the fundamentals are indeed compelling. But the availability of data, like the data provided by StuRents for this article, should open up new and revised ways of analysing a market, providing further confidence and allowing investors to think outside the box, unlocking investments in locations that aren't normally on the radar.

Levelling up commercial real estate in the ESG era

Environmental, social and governance (ESG) issues come up in nearly every – if not every – business investment decision across the globe these days.



Not only is ESG expected by an organisation's stakeholders – from its customers and employees to shareholders – its elements are also becoming a legal requirement, posing a whole array of new challenges to commercial property owners, occupiers and investors.

Given the government's drive to raise minimum energy efficiency standards (MEES) on commercial buildings, which will need to be EPC 'B' by 2030, upgrading obsolete buildings is no longer optional.

Few would argue against the benefits of more environmentally friendly buildings. They are cheaper to maintain (better insulation results in lower heating bills, for example), are often more visually attractive and some are even designed as mini-power stations.

However, the cost of renovation to hit ESG targets will be a determining factor for the property investor, particularly in secondary and tertiary locations. So can these ambitious targets be achieved by all in the real estate sector, or will it just be confined to the big and well capitalised players?

Offices

The most energy efficient offices are achieving rental growth as corporate real estate trends demand the highest standards. There is a drive for this kind of product across primary locations in the UK as many ESG-aware businesses are looking to occupy sustainable buildings, but there are pressures on the landlords of older buildings especially in secondary and tertiary locations as upgrading will come at a price.

If you take the average office rent in somewhere like Leamington Spa, which is around £20-£25 per sq ft, and compare it to the cost of improving the space (which may be around £100 per sq ft minimum), it's clear there will be trouble ahead. For smaller property owners with a limited improvements budget, justifying the capital expenditure would prove challenging. While doing nothing isn't an option, some will find that doing something isn't either.

Retail

Due to the MEES target, 83% of retail stock will need to be upgraded by 2030 according to Savills. While the institutional landlords with deep pockets that own the larger shopping centres and retail parks will find this achievable, albeit at a big expense, it's the smaller units on the high street, more likely to be owned by private investors, that will struggle. One thing that will help is the updating of the 'carbon factor' in EPC ratings. As electricity is less reliant on fossil fuels due to a large increase in renewable power, carbon emissions are significantly lower relative to gas than they used to be – a small 'win' in difficult times.

Logistics

On the other hand, the logistics sector offers some of the most opportunistic asset management potential with rooftop solar panels and even rainwater harvesting allowing carbon neutral buildings and other clean energy use opportunities including electric vehicle charging units. The challenging aspect with offering the above will be working on the existing stock as there may be restrictions relating to the older units in terms of their weight bearing capability.

What next?

The question investors are asking is whether it is feasible to upgrade these buildings at a large cost in the hope that occupiers will pay increased rents

Regulated investors are under pressure to increase their proportion of sustainable assets but with costs for development so high, the upgrades demanded will push the boundaries of affordability. Fortunately, there are many funds that are raising capital for these types of carbon neutral or ESG portfolios. Therefore, with a future influx of demand from funds there will be a predictable increase in value for these properties if supply does not follow suit.

> **"policy changes such as tax incentives will likely be necessary to support these buildings and the high streets that rely on them"**

Eventually investors will be required to use capital to improve the efficiency of buildings whether they are buying the assets, or the assets are already within their portfolios. It will be difficult for the private investor to advance in this space as they will have to deal with a level of risk that could be hard to justify, especially in the still-struggling retail sector.

Given this problem particularly affects regional towns and cities, and the government's much heralded levelling up agenda, political intervention or policy changes such as tax incentives will likely be necessary to support these buildings and the high streets that rely on them.

While ESG reigns supreme in investment decisions, work to improve the UK's commercial real estate stock is not as straightforward as it may appear to be.

Anthony Dixon _ Residential Development
Gavin Whitney _ Fladgate

For smooth transactions, lawyers and agents must be on the same page

Anthony Dixon, of Allsop's Land & Development team, and Fladgate's Gavin Whitney have worked together on several transactions, from the simple disposal of a commercial property to more complex deals that were subject to planning. To ensure their clients get the best advice, and that transactions proceed smoothly, they believe it's important for property agents and lawyers to work together, allowing them to identify and resolve any issues as efficiently as possible.

Heads of terms

The heads of terms **(HoTs)** outline the key fundamentals of a deal, which lawyers use to draft and negotiate the legal documentation. HoTs can vary significantly in detail but, however detailed they are, the lawyers will most likely have further legal points to discuss during legal negotiations. The number of these can be reduced or avoided altogether by:

- the lawyer being able to comment and feed into the HoTs whilst they are being negotiated;
- the agent and lawyer working together throughout, taking a commercial approach to issues and working on joint solutions, and raising points directly with their respective clients.

Working in this way ensures contracts can be exchanged as quickly as possible, which is naturally what everyone wants!

Common transaction hurdles

Anthony and Gavin, what are some of the common issues you have encountered in the time you've spent working on transactions, both jointly and separately?

Tax

G **Gavin:** A number of taxes can come into play on a property transaction, such as VAT and stamp duty land tax **(SDLT)**. There are also non-property taxes that may play a part, such as corporation tax, capital gains tax **(CGT)** and inheritance tax **(IHT)**.

A **Anthony:** What is your approach to dealing with a let property that is opted to tax for VAT purposes? Won't the transaction be a transfer of a going concern **(TOGC)**, so that no VAT is payable on the purchase price?

G **G:** That's generally the case, yes. But it does depend on whether the buyer intends to continue the letting of the property after completion, which could affect the availability of TOGC treatment. Lawyers and agents should check at HoTs stage whether the property is VAT opted, as it can affect the overall deal structure. It is helpful to get tax advisors involved at the outset of a deal to ensure the most tax efficient structure is used.

A **A:** Yes, on the deal we both worked on recently, where we had to deal with VAT, SDLT, CGT and IHT, we needed to understand the tax issues in order to finalise the HoTs, so the tax advisors helped shape the deal. If a property is VAT opted, does that mean VAT should also be charged on the deposit?

G **G:** Not normally, unless it is held as agent (i.e. released to the seller), which is non-standard for commercial deals. Until recently, the accepted position was that, if the contract were terminated by the seller, no tax point would arise and the deposit would be released to the seller. But HMRC has since muddied the waters, and now appears to view termination payments as subject to VAT. So, a seller might collect a sum equivalent to VAT on the deposit at exchange, in case they choose to terminate - though this position is not always adopted in practice or agreed by the buyer.

The buyer

A **A:** We carry out buyer due diligence, proof of funding, etc. on individuals involved in a transaction at HoTs stage. But in practice we don't always know who the contractual buyer is at the outset, as often a new special-purpose vehicle is formed to acquire a property. What do you need to consider when you're drafting the documents in this situation?

G **G:** If the buyer is not based in the UK, we require an opinion letter from a reputable lawyer in the relevant jurisdiction, opining on the ability of the buyer to enter into the documentation. The seller may also have their own compliance requirements.

The price or overage

A

A: The price is the easy bit, or it should be! But it's important to ensure all offers are assessed on the same basis, especially when reviewing 'subject to planning' offers, which can be challenging if buyers are not bidding off the same proposed scheme. Differing planning statements, feasibility studies and pre-app responses mean all parties will have varying views on what is achievable.

It is often easier to ask all parties to bid on the basis that a certain base area, unit number, and affordable housing percentage is achievable and then offer an overage on anything achieved in excess of this. This enables the agent and seller to assess offers on a like-for-like basis.

G

G: Exactly. As lawyers, our role is to deal with the nitty gritty of the overage drafting and how the obligation will be secured. The best form of security is a legal charge (i.e. a mortgage), but the buyer will rarely agree to this, as funders are reluctant to accept them. An alternative is a positive covenant linked with a Land Registry restriction, which prevents dispositions, but this approach raises questions about who can release the restriction. In the end, the position agreed will usually depend on the strength of the bargaining position, the likelihood of overage actually arising, and the identity of the parties.

"every contract is different but a few points come up regularly"

The contract

A

A: Every contract is different but a few points come up regularly, such as the ability to assign the contract, reasonable or best endeavours and onerous planning conditions. Before we get onto the last one, what are your thoughts on whether a seller should be concerned about a buyer asking for the ability to assign a contract, and the significance of reasonable versus best endeavours?

G

G: On your first point – the ability to assign the contract – it's worth noting that a party can only assign the ***benefit*** of a contract (i.e. the right to acquire the property), not the ***burden*** (i.e. the obligations on that party such as to pay the purchase price). If a seller agreed to a buyer assigning, there would usually be very strict conditions, not just as to the assignee's financial worth, but also a requirement that the assignee assume all the buyer's obligations.

Regarding reasonable and best endeavours, the latter term is usually taken to mean the seller or buyer "taking all the steps in their power that are capable of producing the desired results". This could involve significant expenditure and should be used with caution. The term 'reasonable endeavours' is more vague and so less challenging. A half-way-house is often considered to be "all reasonable but commercially prudent endeavours", but in all cases, the parties need to appreciate that when agreeing to this obligation, they must try to do what they have agreed to do, or they could end up in breach of contract.

A

A: The onerous conditions within a contract are often one of the key area's that an agent will liaise on with a solicitor because these have a fundamental impact on the ability to complete the transaction. There is a trade-off between what's reasonable and what could potentially be considered a get-out clause for the buyer, in the event the market has moved against them.

Conclusion

Fundamentally, the terms of any transaction are down to negotiation between the individual parties and a lot of this will depend on the deal structure, the nature of the parties, their objectives, and the asset itself. Ensuring your agent and your solicitor are on the same page, working collaboratively to protect your interests, will make any issues that arise easier to resolve.

Can suburban single-family BTR deliver on its promise?

With interest rates on the rise, and household finances squeezed by raging inflation and skyrocketing energy bills, both homeownership and upsizing seem increasingly out of reach for many individuals and families across the UK. Others are reluctant to buy given the UK-wide shortage of quality housing stock and prefer to rent rather than compromise.

Build to Rent (BTR) has been traditionally associated with large urban apartment schemes, which have long been popular with professionals living in UK's largest cities, like London, Manchester and Liverpool. Often equipped with resident facilities, including gyms, cinema rooms, coworking areas and rooftops for outdoor yoga sessions, BTR developments are designed to offer residents a personalised service, delivered by a concierge or an on-site team, with community events and activities being an important part of the offering.

Over the past few years, we've seen a proliferation of new suburban BTR schemes, designed with families in mind – a timely response to the UK housing crisis offering home seekers an attractive alternative to property ownership. Suburban single-family BTR developments are usually located further away from city centres yet enjoy good transport links and proximity to schools.

Given their lack of on-site management and the absence of communal lounges, are such developments able to deliver the personalised service and sense of community that occupiers have become accustomed to?

Connected living

Many single-family BTR schemes benefit from access to open green space with communal amenities, allowing residents to enjoy shared gardens and playgrounds. Typically, such developments comprise between 50 and 100 units, so friendships are easily forged, with many children attending the same school or playing in the same football club.

Tech-enabled communities

In most cases, the residents of suburban single-family BTR schemes have access to a residents' app, where they can find an array of information on their neighbourhood and various services available to them. Often, they will also receive updates on local amenities and special offers (such as discount codes for neighbouring restaurants and cafés), which can help them get to know the area and encourage them to explore new places.

The residents' app is also a great way to learn about nearby or on-site events, such as yoga classes, organised dog walks, book clubs, street parties, and bake-offs - all of which foster community links.

Smarter homes

In the absence of a dedicated on-site management team, many operators are equipping homes within single-family BTR developments with a variety of devices ensuring their smooth functioning and alerting residents to any issues. For example, leak detectors notify residents of any problems early on, while they can still be mitigated and repaired before causing any damage to the property.

Smart thermostats and smart meters, on the other hand, help optimise bills and reduce energy expenditure while residents are away – it's also a great tool for landlords, who can avoid extra costs during vacancy periods.

Another clever innovation being rolled out across some schemes are smart locks, which remove the need for the conventional keys that are so often lost or broken. This way, tenants, property managers and authorised contractors can access the homes with ease.

An attractive alternative

The rising cost of living, coupled with the lack of quality housing stock and the desire for greater flexibility are all contributing to an important paradigm shift. Today, not aspiring for home ownership no longer raises eyebrows – instead, it is increasingly seen as a practical solution leading to better quality, and often, more sustainable living (with many schemes equipped with solar panels, helping people mitigate their carbon footprint and save money on bills).

Thanks to the advances in technology, a lot of the benefits that have come to be associated with BTR, including the community elements and round-the-clock maintenance services, can all be delivered to residents, whether they're based in central Manchester or in the suburbs of Liverpool. Given the UK BTR industry is still in its infancy, the potential for innovation is untapped, with more developers and investors entering the market, creating healthy competition which gives birth to excellence and creative solutions.

"today, not aspiring for home ownership no longer raises eyebrows"

ESG IN PROPERTY: MORE THAN JUST ECO-FRIENDLY BUILDINGS

Sustainability is now at the core of business decision making across most sectors. Environmental, Social and Governance (ESG) standards are becoming the core driver of how real estate will be designed and valued over the coming years. As Asset Managers, we must not only have an in-depth understanding of how the market views the various sustainability metrics but also advise landlords on how to effectively introduce the new requirements into a building's business plan.

So far, the real estate sector has been predominantly focusing on the 'E' element of ESG, with the energy efficiency of buildings being the key concern in a race for the UK to achieve net zero by 2050. However, it's important to acknowledge the property industry's potential to enact social change and impact the health and wellbeing of entire communities through the regeneration of public spaces and the creation of affordable housing.

The final component, governance – designed to encourage companies to promote diversity, uphold cultural values, and take care of reputation – cannot be understated. These governance standards should inform the behaviour and decisions of a broad spectrum of property industry players, including landlords and occupiers, if we are to see meaningful change.

A welcome shift

As Asset Managers, our aim is to improve the value of the asset over the course of the business plan on behalf of our clients whether they be institutional or private investors. Historically, our main priority has been increasing rents, reducing void periods, and ultimately driving value. Whilst our core objective has not changed, the way it is achieved is beginning to shift. For many investors, the environmental and social impact of the tenant are as important as the rental income, which means there's a broader range of factors for the asset manager to consider when looking for potential occupiers.

Tenants, on the other hand, are now looking for much more than just a space to work in. For many, a new office is an opportunity to create an enticing social experience for staff, most of whom spent the past couple of years working from home with rare glimpses of office life and social interactions, so the perfect workspace needs to incorporate wellbeing amenities and communal spaces.

Let's talk about E (Environmental)

Close to 40% of all greenhouse gas emissions worldwide relate to buildings. It is therefore essential that real estate professionals understand the impact they can have on the environment. Carbon reduction may not initially generate higher returns for landlords; however, it will certainly preserve asset liquidity as well as value. All occupiers will have their own ESG targets however, this is essential for service providers, who will be drawn to buildings that reflect and complement these targets, as this is the only impact they can have on their carbon footprint.

Based on the latest information on the EPC ratings of currently available office stock across London, we can conclude that approximately 80% of London's office space **will not be EPC compliant by 2030** (requiring an EPC rating of A or B). Bringing office space in line with UK Government guidelines is one thing but assessing how that fits in with occupiers' broader financial and social requirements, strategy and priorities adds another layer of complexity to an already challenging task.

Whilst there may be a large initial cost to bring an older non-sustainable asset to the Minimum Energy Efficiency Standard (MEES) ahead of 2030, this will be offset against shorter voids and lower operational costs.

No more social distancing

The financial benefits of owning more environmentally sustainable assets are clear, with increased rental premiums, lower tenancy void periods and lower operating costs throughout the lifecycle of the building. However, energy efficiency on its own may not be enough to achieve all these objectives as the social/lifestyle factor grows in importance with WELL ratings set to become essential alongside energy performance ratings such as BREEAM. The provision of end-of-trip facilities, communal break-out spaces, better air ventilation and filtration systems as well as gyms are becoming essential as buildings are no longer solely 'work' environments, but also social ones. The growing prevalence of mental health concerns, such as depression, which was experienced by 19% of adults at the peak of the pandemic, is another reason for employers to consider providing healthy and sociable work environments with people's wellbeing at their core.

"buildings are no longer solely 'work' environments, but also social ones"

The forgotten G

Energy efficiency and state-of-the-art amenities can certainly increase a property's appeal, but there's more to ESG than that. As occupiers become more socially and environmentally conscious, one element of ESG tends to be forgotten – Governance. Landlords and occupiers alike have begun to focus on ensuring an asset has the right mix of tenants as well as providing a firm code of ethics and transparency. Poor governance can lead to corporate incidents, such as Volkswagen's emissions scandal, which caused significant financial and reputational damage – the latter being harder to quantify.

Looking ahead

The onus is on landlords to not only provide sustainable buildings, but also help create work environments that benefit occupiers from a variety of other perspectives. Our experienced asset management team is well versed in helping businesses implement their ESG objectives, which often start with property but are rarely confined to just bricks and mortar.

FOLLOWING THE UK GOVERNMENT'S WHITE PAPER IN 2021, THE FOLLOWING EPC TARGETS FOR PROPERTIES HAVE BEEN OUTLINED, ALTHOUGH NOT LEGISLATED FOR, YET:

- By 1 April 2023, all non-domestic properties being let must have a minimum EPC of Grade E or better.
- By 1 April 2025, all non-domestic properties being let must have a valid EPC registered on the national database, no matter what the building's occupancy situation is.
- By 1 April 2027, all non-domestic properties being let must have a minimum EPC of Grade C or better.
- By 1 April 2030, all non-domestic properties being let must have a minimum EPC of Grade B or better.

[Exemptions are possible whereby it is not economical to change the rating]

WHY ARE BUSINESS RATES SO UNPOPULAR?

Whoever you speak to about business rates, you can be confident of two things. One, they will not like business rates. Two, it will be a passionate dislike.

Whilst few taxes would be described as popular, business rates in particular have been subject to constant criticism.

Why is this – and is there any likelihood it will change?

Level of charge

Above all else, it is the level of the tax that attracts the greatest criticism.

Since 1990 the government has fixed the level of the national Uniform Business Rate (UBR). The UBR has risen from its original level of 34.8p in 1990 to 51.2p this year. This represents an increase in the charge of nearly 50% since it was first introduced.

Annual inflation increases

Regardless of the state of the economy, rates bills are ratcheted up annually by the rate of inflation.

With inflation soaring, this is likely to lead to the UBR for next year incorporating a 9-10% increase due to the level of the CPI.

Empty properties

Before 2008, rates on vacant shops and offices were charged at a 50% discount to the normal level, with no rates at all on vacant warehouse and factories. These reliefs were removed in 2008, and rates are now payable in full after the expiry of a three-month void period on shops and offices and six months on warehouses and factories.

The short void periods offer minimal relief to landlords and fail to reflect the realities of the time necessary to re-let a property. Part of the original justification for abolishing this relief was that it would encourage landlords to let vacant properties. There is little evidence to support the notion that landlords are dragging their feet, rather than that voids are a result of lack of demand among occupiers.

Even vacant properties in disrepair are normally forced to pay full rates as the legislation requires it to be assumed they are in good repair.

Improvements

If a property is improved, then the government penalises the ratepayer by increasing the rates payable on the building, providing a big disincentive to undertake improvements.

Rates phasing

Following a revaluation, those ratepayers in buoyant markets who have seen large increases in their rateable values are given relief with their rates capped. However, this is balanced by those ratepayers in struggling sectors, who are made to pay the cost of this relief.

"regardless of the state of the economy, rates bills are ratcheted up annually by the rate of inflation"

This sees the unjust situation of, for example, many retailers in Stockport only seeing a net 3.5% actual reduction in their rates bills in 2017/18, despite their rateable values falling by 50% in that year's revaluation.

Out of date

This year's rates bills are based on rental levels prevailing over seven years ago. As property markets are dynamic, the delay in carrying out frequent revaluations leads to a disconnect between the rental value of a property and the rates payable.

Unpredictable

Continual changes to rates make it difficult for businesses to budget ahead. The Government cancelled the 2021 revaluation just 10 months before it was due to come into effect. This was despite the benefits it would have given to the pandemic-hit retail sector. This followed on from the earlier cancellation of the 2015 revaluation. The Government is also only giving 13 weeks advance notice of the new 2023 rateable values before rates bills land on the doormat, giving businesses little time to budget for the new figures. For every previous revaluation, six months' advance notice was provided.

Transparency

Most taxes are very clear as to the basis of the liability. Business rates charges, however, are based on the rateable value that represents the Valuation Office Agency's (VOA) estimate as to the 2015 rental value of a property.

The VOA believes the Commissioners for Revenue and Customs Act 2005 prevents it from providing ratepayers with the evidence justifying the valuation rate it has applied and, as result, ratepayers are left unknowing as to whether they are being charged the correct level of tax.

Online Retail

As a proportion of all retail sales, online shopping has risen from 3% in 2006 to 26% in March this year. Many retailers paying high business rates on their high street stores claim rates create an unfair distortion within the retail sector, favouring online retailers that can operate without the need for high value shop units.

Further costs on top

Businesses then face additional costs, piled on top of already high rates bills. These include supplements to finance the cost of proving small business relief, the cost of Business Improvement Districts and, in Greater London, a Crossrail supplement that is due to remain in place until 2041. As just one example of how this really adds up, in Harrow the combined impact of all the supplements can add 11% to the rates bill.

So, what's next?

The 2023 rating revaluation will update the tax base and partially address some of the current concerns. This is likely to lead to a significant cut in rates bills in the retail sector.

In its recent review of business rates, the government recognised many shortcomings and advised that it "wants to preserve the benefits of business rates but will make changes to make their operation fairer and more effective".

While the government is proposing making further changes, as well as consulting on others, it is resisting any fundamental cut in the level of the tax.

Although the changes it is making will be largely welcomed, without a cut in the level of the tax it is likely that business rates will continue to attract strong criticism from businesses.

2023 REVALUATION TIMELINE

The next nationwide Rating Revaluation is to take place on 1st April 2023. This will place new Rateable Values on all 2.1 m properties liable for business rates. The new figures will be based on rental levels prevailing in April 2021.

1. **1ST APRIL 2021**
Valuation date for 2023 Rating Revaluation

2. **Summer 2021**
Valuation Office commence issue of Forms of Return requesting rental information - data used by VOA to assess 2023 Rateable Values

3. **May 2022**
Government launch consultation on 2023 Transitional Relief scheme, which will determine the level of any caps on large rates increases and reductions

4. **Autumn/Winter 2022**
Government announce provisional UBR for 2023/24 and details of Transitional Relief scheme

5. **31st December 2022**
VOA publish the draft 2023 Rateable Values

6. **March 2023**
Local councils issue rates bills based on the new 2023 Rateable Values

7. **31st March 2023**
Likely last date for appeals against the 2017 Rateable Values - actual date to be confirmed

8. **1st April 2023**
2023 Rateable Values come into effect

With the current Rateable Values being based upon rental levels prevailing seven years ago there are likely to be wide swings in liability change following the 2023 Revaluation.
The biggest changes are likely to be seen in the retail sector where significant reductions in liability are anticipated. In contrast, other sectors such as parts of the logistics and industrial sector are expected to see substantial increases in rates liability.

Receivers to the rescue

Don't miss your opportunity to take a peek inside a receiver's inbox

From: **Big Bank plc**

To: **Alexandra Ward**

Subject: **HELP!**

Dear Alex,
Hope you're well. Thank you so much for your work on the Nottingham office block – glad we've managed to reach an agreeable outcome given the sensitivity of the issue and the number of parties involved.

I'm getting in touch regarding another borrower whose activities are of big concern to our department – UK Propco, which owns the Sunny Mall in Manchester. The shopping centre has had a vacancy rate of circa 40% since before Covid and has been showing a negative return for quite some time now. It has a significant proportion of leisure amenities which have all experienced a worrying decline in footfall, as well as an old Debenhams (which is no longer trading).

We are worried about UK Propco's ability to meet its current debt obligations and wanted to ask your professional opinion to determine the best course of action. We will let you lead in terms of assent management as per the Nottingham property.

Look forward to hearing from you,

Julia Banks,
Head of Credit at Big Bank plc

Send

From: **Alexandra Ward**

To: **Receivership: all team**

Subject: **potential new mandate (another shopping centre!)**

Hi all,
forwarding you the email we've just received from our contact at Big Bank plc. Looks like something we could advise on given we've previously worked on similar-sized shopping centres in Leek and Boston, and the challenges faced by Big Bank plc are, unfortunately, all too familiar.

The lender is in an advantageous position given the appetite for shopping centres we've been seeing in the market, with property companies, councils and private investors actively looking for attractive repositioning/redevelopment opportunities.

For the benefit of some of our new joiners, I've outlined initial steps/thoughts below:

- We need to start by assessing each tenant's rental and service charge status – ideally, with the help of the borrower, otherwise, we can collect this information ourselves on the ground once appointed
- As receivers, we are not liable for rates – the rates liability will remain with the borrower and thus will not be a liability to the lender
- The old Debenhams isn't receiving any income and I think we should look at alternative uses. The Debenhams we sold in Worthing was bought by a residential developer, however due to the location and configuration of the building here, it may be better suited to leisure which will further support the rest of the centre by driving footfall
- There are various asset management initiatives that could help us increase the footfall to the centre. We should look at securing leases on vacant units by examining the local retail landscape and identifying a sustainable target tenant mix and ensure that all rent reviews and lease renewals are dealt with to improve the income from the centre

cont...

cont...

Suggested plan of action:

- ***Phase 1:*** undertake due diligence and issue a due diligence report (Allsop to contact the borrower and shopping centre manager to ensure all due rent and service charge payments can be collected from day one)
- ***Phase 2:*** There have been situations whereby borrowers are more motivated to redeem the loan via a refinance once a receiver has been appointed, so sometimes, our activity will stop there
- ***Phase 3:*** Allsop to approach best-in-class agents and auctioneers to seek marketing recommendations for the property. Ideally, we'd want to redeem the debt in full through a sale, otherwise, further asset management initiatives can be undertaken to increase the desirability of the property and secure the best possible price when the right market conditions arise

Forward

"the challenges faced by Big Bank plc are, unfortunately, all too familiar"

The foundations remain solid for freehold ground rent investments

Freehold investments can be a rather arcane, yet lucrative, asset class. However, this corner of the market was shaken up at the beginning of this year as a new law was passed, making it illegal for developers to charge ground rent on new build homes. In addition, a few other reforms are being proposed to the laws governing the relationship between freeholders and leaseholders.

So, what does this shaking of the foundations mean for freehold ground rent investors – attracted to the steady, long-term returns, opportunities for capital appreciation and the relatively low risk this asset type has traditionally provided?

Freeholds: income and capital streams

Firstly, for those who may be less familiar with this often-overlooked sector of the market: some background into freeholds.

Freeholds grant ultimate ownership of land and the properties built on it in perpetuity to their owner and heirs. They provide a plethora of rights to the owner, including the granting and sale of leases for the use of a property,

"the biggest reform to English property laws in 40 years"

for example a flat and communal areas, for a limited duration (in the terms of the lease).

Freeholders, in compensation for leaseholders using their land and property, can charge them a ground rent. Then there are service charges for the maintenance and repair of buildings, landscaped grounds and facilities used by leaseholders, as well as the provision of insurance. The freeholder can also benefit from any development, for example, an additional floor on a block of flats, and receive compensation for deferring their rights on reversion of a lease when extending it.

All this can mean a multitude of income streams – covering ground rents, management fees and commissions, as well as capital payments from lease extensions and the sale of spaces – which can make freeholds a strong investment opportunity indeed.

Freehold reforms

The abolition of ground rents for new build homes has arrived after a string of scandals. In recent years a number of developers sold new build houses with leaseholds containing onerous clauses, with ground rents doubling over 10 years or similar terms, to maximise the value of their freehold interest. On top of this is the fallout from the Grenfell tragedy in 2017, where leaseholders have been hit by remediation costs for replacing unsafe cladding, waking firewatches and price gouging by property management companies. There has also been a growing number of complaints by leaseholders about the cost of extending their leases. All of which has made it difficult, if not impossible, for some leaseholders to sell.

As a result, early last year the government promised "the biggest reform to English property laws in 40 years." Understandably, this has caused some concern among investors.

Early in 2021, the government announced leaseholders would be given the right to extend their leases up to a maximum of 990 years at zero ground rent. It would also make the process simpler to extend leasehold interests, abolishing marriage values on the extension of leases of flats with less than 80 years to run (described as reversionary to freehold owners). Additionally, zero ground rent was proposed to apply to retirement leasehold properties.

Despite property law once again being on the government's agenda, the market for ground rent investments has seen little disruption. In 2020 the average year's purchase (YP) multiplier

(price to income) for long-dated (over 80 years) ground rent investments sold at auction in the UK was 21.4, with an average yield of 4.7%. This breaks down to 26YP (3.85%) for sales within the M25 and 19.4YP (5.1%) for sales elsewhere. Given that this excludes income from sources such as management and gains from re-development, the returns are attractive, particularly when compared to bonds, let alone savings accounts.

Moreover, between February 2020 and December 2021, the level of freehold ground rent transactions at Allsop's national auctions, despite the uncertainties of the pandemic, saw a drop of only 16%, compared to the previous equivalent period between 2018 and 2019. We attribute this to some owners of ground rents electing to hold on to their investments pending forthcoming legislation. Despite this restriction in supply, Allsop has not detected a fall in demand. Investors in this sector seem to be as keen as ever to acquire new stock – although bids from seasoned buyers have been adjusted to reflect the risk of leasehold reform excluding marriage value from enfranchisement pricing.

But pressure continues to mount. At the end of January 2022, the government announced that it intends to allow leaseholders the right to buy freeholds of properties that include commercial units within them. Unsurprisingly, freehold investors including large pension funds and the landed great estates are pushing strongly back against this.

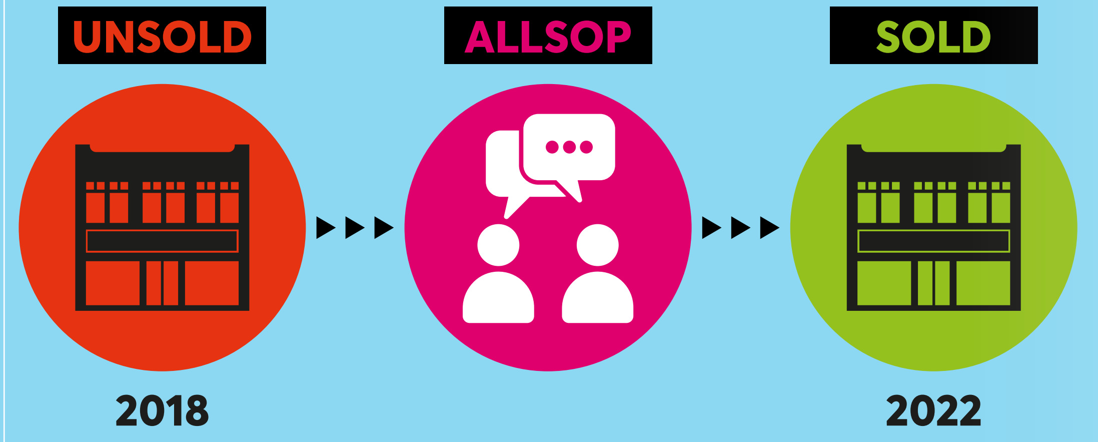
With freehold ground rent investments being a well established and popular asset class, any property law reform finally enacted is unlikely to be drastic. And, due to the legal complexities involved, the status quo we've been witnessing for years may hold for months if not years to come. This will be a relief to investors, at least temporarily, but shows building your freehold ground rent investments can still be well worth it.

Auctions – the digital evolution continues, with a human touch

In March 2020, Allsop went fully online with both the residential and commercial teams' auction catalogues. At the time, it seemed an almost impossible leap and a huge challenge to the auction, but we have found this digitisation has brought with it a whole new marketing tool, delivering benefits to our clients and buyers alike.

Before lockdown, HMRC required us to register all our buyers. While this was of course for good reason, most of us saw it as a great inconvenience. Now, however, we're able to use buyer registration to our significant advantage, as it feeds neatly into our new digital system, becoming central to the online auction process.

Within our digital system, there are many datasets recording upwards of 35 different data points for each auction lot offered and sold. This amounts to some 2,500 lots every year across both the commercial and residential auction teams, totalling around £1bn in sales each year. There have always been earnest analysts who record their own interpretations of sector, geography, lot size and every other definable nuance, but it is the buyer activity that they can't add to this matrix – and which gives us, and through us our clients and buyers, a competitive advantage.



"these relationships will remain the final piece of magic in the process to help our clients"

As a result of the registration process (did I hear a "Thank you, HMRC"?), every time a buyer looks at a lot, we record who, where and when they visited the lot online. In this way, we can assist in providing the latest information as they progress to bid at auction, without plaguing them with irrelevant marketing.

If these buyers are successful, we record their preferences and buying criteria, which presents opportunities for offering them a similar lot in the next auction. For every competitive sale, there will be underbidders with unspent funds that we can then match to more opportunities in the same or future auctions - which can be a powerful start to a transaction. Funds burning a hole have a habit of getting spent.

However, the last and longest-lived aspect of this data is the archive we are building, combining the property, circle of interest, buyer and underbidder with those 35 data points.

Pricing information is always key for any sale, to which these datasets give us and our valuation teams live access.

However, having access to the best data in the world would, on its own, be like a carbonara without lardons: a significant piece would be missing. That piece for us, and the true strength behind the data, is our relationships.

For years now, auction - like most forms of agency - has revolved around relationships with our buyers and sellers, new and old. It is at this point that captured data must be read correctly and made the most of when applied through the lens of the relationships we have cultivated. These relationships will remain the final piece of magic in the process to help our clients.

A wonderful and recent example of this playing out involves a property in Southall. 40-40A The Broadway originally listed for sale with us back in October 2018 for £4.5m and it did not find a buyer – sadly not every lot will sell on the day it goes under the hammer.

Fast forward to 2022 and a new buyer comes into the market. This new party shared with us their desire to build a portfolio and we thought that 40-40A The Broadway perfectly fit the bill. We were still in touch with the seller, and we married the two up – the result being that we sold the asset some four years after it first came onto the market. Our data gave us the initial step, but it was our relationships - the cornerstone of agency - that got the deal over the line. And there will always be more deals to be found if we keep investing in the two resources.

In conclusion, Auctioneers will always be mass marketeers, provided that we keep listening, learning and using data sensibly, we can keep getting closer to becoming the perfect brokerage platform to harness the cash and appetite of the private investor.

#trending

if it’s happening, it’s here

With most of us once again office based, we’ve enjoyed being back together, sharing successes and an even stronger commitment to giving back.

Congratulations

The Props

Dale Johnstone shortlisted for Young Property Person Award

APC success

Siobhan Badman
Surveyor (Commercial Valuation)

Promotions

To Equity Partner
Dale Johnstone

To Salaried Partner
Susannah Summers
Anthony Dixon
Harry Theakston
James Salmon
Will Clough
Will Taylor

To Senior Associate
Aoife Broderick
Ben Hodge
Chloe Newton
Dan Hopkins
Doug Guild
Emily Norman
Emma Hart
Helen La Frenais
Holly Thomas
James Hood
Laura Hutton
Liam Stray
Lottie Hayward
Mark Ibbotson
Richard Gale
Sally Beech
Sara Chalmers
Tom Dales
Tom Hanson
Zoe Foster

To Associate
Gabriella Brunton
Rose Eden
David Evans
Gordon Dunne
Alex Ward
Andrew Wise
Steve Lydon
Tom Nicoll
Ciaran McGivney
Oliver Murley
Vicky Bingham
Sam Verity
Owen Rees

To Senior Surveyor
Olivia Bentley
Evie Higgs
Gergo Petrovics
Antonia Beech
Charlotte Hawthorne
Daniel Legge

Congratulations

RESI Awards

Shortlisted for Property Manager of the Year.

New Arrivals

Baby Stanley born January to Zoe and Max.

Weddings

Congratulations to Mr and Mrs Taylor.

Charity

Moved by the conflict in Ukraine

Bake sales in London and Leeds office, The Allsop Get Together and a donation from the Pat Allsop Trust raised £6,551 for the Red Cross Appeal.

NEVER TOO YOUNG for bowel cancer

Ho, Ho, Ho

The Christmas drinks and mince pies trolley was popular and raised **£1,465.**

Never Too Young

Richard Bouchier cycled solo from Lands End to John O’Groats and raised a staggering £8,460 and counting.

Charity

Football Festival

The Allsop Property Football Festival saw 16 teams compete for the tournament trophy at Leyton Orient Football Ground. **We raised over £6,000.** Thanks to all participating.

Sirius Property Finance
Shawbrook Bank
Close Brothers
Telereal Trillium
WorkSpace
Patrizia
Aviva Investors
Prideview Group
RSM
Derwent London
Newcore Capital
Addington Capital
SEC Newgate
HSBC

LandAid

Allsop were proud to sponsor this year's **LandAid 10K** event with 30 Allsop runners competing.

Sports

Football

A great start to the season for the as yet unbeaten Allsop Football team, which warmed them up nicely for the Allsop Football Festival.

Netball

After a few years break, the Allsop netball team have come back together, with some great new additions. The team enjoyed playing in a winter league at Victoria and finished mid table.

Cricket

The Allsop Cricket team are warming up for the season at Lord's nets.

Social

Allsop Get Together

In February as everyone began to feel more comfortable in large gatherings, Allsop teams came together at The Mayfair Hotel to share their business aspirations and, naturally, to reconnect in the bar.

Office dogs

Everyone has enjoyed meeting Reggie and Jaguar who are now regular visitors to the Wigmore Street office.

Jaguar
Owner
Tom Dales

Reggie
Owner Aoife Broderick

Commercial Deals

National Investment

One Forbury Place, Reading
ACQUIRED FOR £100M
Newly built Grade A office scheme acquired for Citi Private Bank.
Located in the capital of the Thames Valley, One Forbury Place is a BREEAM 'excellent'- rated office building, offering 185,109 sq ft of customisable workspace. The building is let to SSE, the FTSE 100 energy company, for a further 9.5 years.

National Investment

St Phillips Point, Birmingham B2
SOLD FOR £24.5M (8.8% NIY)
Short income / value add office located in the core CBD with asset management potential.
Office Investment

National Investment

Formal Industrial Park, Tewkesbury
ACQUIRED FOR £20.6M (6.10% NIY)
13 modern industrial units and a single 206,835 sq ft warehouse let to Bensons for Beds.
Industrial Investment

West End Investment

The Eversholt, 163-203 Eversholt Street, London NW1
ACQUIRED FOR £110.00M (5.13% NIY)
Freehold 0.91 acres island site, with 3 office buildings.
Multi-let with WAULTs 4.7 years to expiries & 2.1 years to breaks.
Office Investment

National Investment

Broad Street Mall, Reading
ACQUIRED - (EXCHANGED)
398,000 sq ft shopping centre benefitting from consent for 422 homes above the existing scheme and a hotel.
Shopping Centre Investment

West End Investment

45-46 Poland Street, London W1
SOLD FOR £3.65M (£1,153 PSF)
Freehold, part let / part vacant, office building arranged over lower ground, ground and four upper floors.
Vacant Office Refurbishment Opportunity

Commercial Deals

West End Investment

72 Old Compton Street, London W1
SOLD FOR £4.4M (4.00% NIY)
Freehold restaurant (let for a further 13 years) and residential building (four flats).
Leisure & Residential Investment

West End Investment & National Investment

Imperial Studios,
3-9 Imperial Road, London SW6
SOLD FOR £19.1M (2.51% NIY)
Freehold estate arranged as 16 business & industrial units. Planning granted for 53,969 sq ft GIA commercial development (73% uplift).
Industrial & Business Space Investment & Redevelopment Opportunity

City Investment

5 Fleet Place, London EC4
ACQUIRED FOR £191M
A 130,500 sq ft landmark building built by British Land in 2007. It provides exceptional office space in one of the world's leading business hotspots.
Office Investment

City Investment

Warehouse K, Royal Albert Dock, London
SOLD FOR £45M
Allsop secured a letting to the Secretary of State for Housing, Communities and Local Government, which accounts for about half the income and whose lease runs until 2034.
Office Investment

City Investment

99 City Road, London EC1
ACQUIRED FREEHOLD FOR £150M
A 162,000 sq ft HQ at Old Street roundabout, let to Inmarsat with break option in 2024, enabling a substantial longer term redevelopment.
Office Investment

City Office Leasing

The Bindery, 51-52 Hatton Garden, London EC1
DISPOSAL OF 13,000 SQ FT
on behalf of Dorrington.
A pre-let of the lower ground to 2nd floor to Faber and Faber.

City Office Leasing

The Export Building, Republic, London E14
DISPOSAL OF 24,500 SQ FT
on behalf of Trilogy.
The Cat A floor was let to York St John University.

City Office Leasing

6 Middle Street, London EC1
ACQUIRED 12,000 SQ FT
on behalf of Bolt Burdon Kemp.
The self-contained building was substantially refurbished by landlord, Trust for London.

Commercial Deals

West End Office Leasing

Centro 4, London N1
DISPOSAL OF 10,000 SQ FT
on behalf of Workspace Plc.
Let to Brand Machine Group.

West End Office Leasing

22 Carlisle Place, London SW1
DISPOSAL OF 9,000 SQ FT
on behalf of a Private Investor.
Let to AE Corp & Somerset Capital.

West End Office Leasing

The Studio, Gramophone Works, London W10
DISPOSAL OF 4,660 SQ FT
on behalf of Resolution Property.
Let to fashion designer Emilia Wickstead.

West End Office Leasing

20 Red Lion Street, London WC1
DISPOSAL OF 4,500 SQ FT
on behalf of Mayfair Capital.
Let to Compass Group.

Auction

B&M, March Trading Estate, March PE16
SOLD FOR £2.712M (5.58% NIY)
Well let freehold retail warehouse investment of 25,371 sq ft, let to B&M Retail Ltd until 2030. Current Rent £161,000 p.a.
Retail Warehouse

Auction

19-20 Victoria Road, Surbiton KT6
SOLD £2.69M (3.14% NIY)
Well located freehold pharmacy investment let to Boots UK Ltd until 2025 with potential for redevelopment of the upper floors. Rent Reserved £90,016 p.a.
Retail

Auction

4/12 Market Place, Great Dunmow CM6
SOLD FOR £2.055M (5.80% NIY)
Grade II listed town centre freehold shop and residential investment comprising 6 shops, 4 maisonettes, 3 cottages and a coach house. Current Rent £126,640 p.a.
Mixed Use Parade

Auction

Unit 130, Lymington SO41
SOLD FOR £1.275M (5.57% NIY)
Modern freehold industrial investment of 9,996 sq ft let to RTL Materials by way of a lease renewal expiring 2030.
Rent Reserved £75,250 p.a.
Industrial

Residential Deals

Build To Rent

Watling Grange, Harrogate
EXCHANGED GDV C.£18M
61 BTR single-family housing units which form part of a wider master-plan development.

Build To Rent

BeckYard, Leeds
UNDER OFFER GDV £80M+
375 BTR unit scheme located in South Bank Leeds. Amenities include: residents' lounge, gym, 3 external terraces, co-working space, private dining.

Residential Investment

Coleman Court, Earlsfield, London SW18
SOLD FOR £12.64M
A substantial Freehold 1930s estate located in South West London.

Residential Investment

Edinburgh House, Harlow
ACQUIRED FOR £19.064M
A former office building recently converted to residential.

Student Housing

The Empiric Portfolio
SOLD FOR £26.5M
476 PBSA bed spaces in five schemes located in Exeter, Durham and Leicester.

Student Housing

Larch House, Liverpool
ACQUIRED FOR C.£4M
Re-development opportunity comprising a vacant student accommodation block of 103 beds.

Residential Development

Old Debenhams, High Street, Staines
SOLD FOR £13M
Vacant 134,000 sq ft department store with potential for residential development.

Residential Development

Former BHS, Woking
SOLD FOR £9M
Department store in the town centre with redevelopment potential for circa 200 units.

Residential Deals

Auction

Highgrove House, Ruislip
SOLD AFTER AUCTION FOR £3.5M
Freehold Grade II Listed building providing 12 flats & four semi-detached houses, each subject to an AST or Long Lease.

Auction

15 Ambrose Place, Worthing
SOLD FOR £925K
Freehold Grade II Listed building providing 12 studio flats, each subject to an AST.

Auction

14 St. Georges Terrace, Brighton
SOLD FOR £1.2M
Freehold Grade II Listed building providing 11 flats, each subject to an AST.

Auction

10 Woodfield Road, London W9
SOLD PRIOR FOR IN EXCESS OF £3.1M
Freehold building providing 16 flats, each subject to an AST.

<< end_ >>

allsop.co.uk

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