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Market Update

Q2 2020

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Economic Overview

The Covid-19 crisis has had a profound effect on most aspects of our lives and not least the UK economy. The imposed lockdown in March caused much of our usual retail, commercial and business activity to either pause, change or in some instances finish and close for good and although as the UK unlocks and levels of activity are increasing it is clear that a return to a new normal will take time, will not necessarily be straightforward and the whole episode will have been hugely expensive for the UK Treasury.

The BoE chief economist Andy Haldane has recently stated that the UK economy shrunk by circa 25% in March and April following lockdown but has recovered about half of this reduction as lockdown measures have, in part, been released. It seems to date that it has been a "V" shaped recovery and a swift bounce back so far but there are differing views and the ongoing performance over the coming weeks and months will have many challenges.

Whilst there is clearly pent up demand for many goods and services and some areas of the economy are now benefiting from lower mortgage rates and government support, continued social distancing, more limited travel and the slow return to work in our cities will no doubt limit some consumer activity and with increasing unemployment and a new sense of risk averse consumer behaviour, many commentators view the ongoing recovery as likely to be an interrupted or incomplete "V" shape.

The property markets as always remain dynamic and although transactional volumes have been much reduced there have been winners and losers over this last quarter. In the depths of lockdown we successfully moved our auctions online. The liquidity of smaller lots and demand from a range of investors and occupiers has held firm and volumes have increased as confidence returns to the market.

Our private treaty transactional teams dealing with larger assets have focussed attention on the more active sectors, long income, supermarkets, convenience stores, logistics and industrial and in central London we have been busy marketing a number of opportunities as the funds and overseas investors return to the market.

The residential markets have fared well over the last quarter benefiting from agents early lockdown release, the record low interest rates, support from lenders and the demand for housing which remains strong.

There are however some areas of the commercial markets which have suffered badly with very little activity witnessed, particularly hospitality and parts of the retail sector which are dogged by very high levels of non-payment of rent and the increased structural shift online. Distress and opportunity will follow.

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City and City Fringe Letting Market

As expected Q2 2020 has been a challenging quarter for the City and City Fringe Markets. Many of the City offices have remained closed with lockdown restrictions in place during this period and few occupiers returning to the office environment to work. With the easing of lockdown, reduced restrictions and bars, restaurants, gyms and shops now open we are beginning to see more occupiers returning to the office. This is likely to build with the expected return of the majority of staff by September 2020.

Take up has been low with just under 550,000 sq ft for the City and well below the long term average of 1.7M sq ft. The take up levels for Q2 are the lowest on record. It is however encouraging that deals have continued during lockdown albeit many of the viewings and negotiations had been agreed in Q1 2020 prior to the lockdown phase.

Several key leasing deals have been signed with the professional and legal industries being the most active followed by the tech sector. Those in the City have included Covington and Burling taking 85,000 sq ft at 22 Bishopsgate, Arcadis signing for 40,000 sq ft at 80 Fenchurch Street, CDW taking 29,000 sq ft at 1 New Change and Baker Botts securing 20 Fenchurch Street at £72.50 per sq ft. It is also excellent news that, as we write, Baker Mackenzie has just exchanged at 280 Bishopsgate taking 154,000 sq ft from CBREi. A further 60,000 sq ft is under offer at 60 London Wall.

Availability currently stands at 7.1M sq ft which remains low and reflects a vacancy rate of c. 5.8%. This is significantly lower than the previous downturn during the GFC where supply was approximately 10M sq ft+ entering into 2008.

Many significant requirements were placed on hold in early June. These were predominantly expansion led requirements and included Salesforce who were expected to sign for 114,000 sq ft at 80 Fenchurch Street, Amazon (AWS) who had shortlisted 2 Gresham Street for 100,0000 sq ft and Mondrian and Alliance Bernstein who were in negotiations for 25,000 sq ft and 60,000 sq ft respectively.

There continues to be limited availability for good quality Grade A stock however there is now a steady flow of 'grey space' returning to the market. This has already been experienced widely in the City Fringe markets with additional City Core space expected when corporate occupiers re-evaluate their space requirements in September 2020. D1 occupiers continue to remain active in the City Fringes with the University of West of Scotland completing its deal for 16,500 sq ft and a further 22,000 sq ft being placed under offer at The Export Building, Republic. Many other D1 occupiers remain active across central London including Pearson College (30,000-50,000 sq ft).

Demand was at its lowest in the first week of April 2020 when only 13 enquiries were circulated to the market compared with a

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normal week of 80-100. However, on a very positive note viewings recommenced from the 5 May and to date the Allsop City Team has carried out 64 viewings in the last 9 weeks, with several smaller units of sub 10,000 sq ft being placed under offer. The demand has been driven by those leaving the serviced office sector and looking for self-contained fitted floors at more competitive levels.

Whilst there is very little evidence to show a significant reduction in headline rents we are currently aware that a number of tenants are looking to realign previously agreed rents when nearing exchange. A reduction in headline rent is likely over the next few quarters and these could fall by £5.00-£7.50 per sq ft pa with incentives moving from 2.2-2.4 to 2.5-2.7 months per year.

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City and City Fringe Investment

After a positive start to 2020 with renewed optimism post the December 2019 General Election the world was struck by a global pandemic in the form of Covid-19. With lockdown taking effect in the UK from mid-March, most of the UK population being encouraged to work from home and international travel virtually impossible this has been a completely unprecedented period for the real estate markets.

As a result of the lockdown much of the on-going transactional activity at the start of March came to a pause and some deals immediately collapsed as a result of market uncertainty. Many of the larger on-going transactions including Blackstone's acquisition of The Cabot, E14, Brookfield's acquisition of Plantation Place and Plantation Place South, EC3 and Samsung's alleged acquisition of 1 London Wall Place, EC2 were all immediately put on pause with some suffering price adjustments that were unpalatable for the Vendor. The main reasons for pricing adjustments were generally finance-linked with banks and lenders moving out margins, however other buyers simply cited general market uncertainty as sufficient rationale for not progressing a transaction.

During the quarter from March to June 2020 the City of London recorded a total of 9 deals reaching contractual exchange totalling £293M. This is one of the lowest on record and 84% down on Q1 2020 and 71% down on the same quarter in 2019. Of the deals which reached contractual exchange, most were at a discount to the price achieved pre- Covid-19. CLI-Dartriver's debut London purchase of Eldon House, 2-3 Eldon House, EC2 from Aberdeen-Standard, a freehold, multi-let office and retail building near Liverpool Street station experienced a price reduction from £42M to £40M (c.5% price reduction) showing a yield of 4.81% and £878 per sq ft. A similar discount was also witnessed on Credit Suisse's acquisition of Panther House, Mount Pleasant from Duke Lease (who was retained as Development Manager), which is a refurbishment and extension opportunity just off Gray's Inn Road. Credit Suisse paid £37M for the building which reflected £451 per sq ft on the proposed areas. Both deals were well advanced pre-lockdown.

The average deal size for the quarter was only £32M and there were no deals exchanging over £100M, which is a reflection of the debt markets struggling to price with most asset classes being valued with an 'Material Valuation Uncertainty Clause' caveat. The largest deal of the quarter was by a first time buyer from Hong Kong, Mighty Divine, who exchanged on 10 Fenchurch Place, EC3 from the Chuang Family for a purchase price of £94.215M reflecting 4.29% and £1,231 per sq ft. The building had a reasonably short WAULT of between 3 and 4 years but, subject to planning, could support a tower so there is significant future residual value especially when combined with surrounding ownerships. This protracted purchase was under offer at in excess of £96M since December 2019 and experienced a c.2% price reduction.

Two of the deals that exchanged during lockdown were best in class buildings in their locations and both to European purchasers. 90 Bartholomew Close, EC1 experienced a lot of press after Aberdeen-Standard pulled out of the acquisition citing Covid-19 as the reason. One month later La Francais Group made its debut London purchase of the building; a brand new, multi-let freehold at a price only 1% lower than Aberdeen was paying; £48.5M reflecting 3.92% net initial yield and £1,568 per sq ft. Then in June, an under-bidder on this deal, a Private Russian investor, acquired 'Chapter', Brunswick Place, EC1 from LBS for £45.5M, reflecting 4.45% and £1,338 per sq ft for a freehold, multi-let newly refurbished building north of Old Street roundabout. Both of these transactions showed record capital values for their locations.

Along with best in class new buildings Allsop has experienced a strong appetite for development opportunities in prime locations. In April, Allsop was instructed to market 60 Aldgate, E1 which is a site with a planning application submitted for a c.215,000 sq ft office building where the vendor was seeking offers in excess of £40M on a structured basis. Over 10 proposals were received and at strong levels. Allsop was also instructed to market a new long leasehold interest for a consented refurbishment and extension opportunity in Shoreditch. This was a more targeted approach but interest levels were very strong and the building is now under offer at the desired pricing which shows an underwrite of pre- Covid-19 rents and yields. Delivery of both buildings is still 2-3 years away and the depth of demand for both opportunities shows that developers still believe in the longer term security of London as a safe haven for their capital and investment.

It has been a very challenging quarter and the June Quarter rent collection has been cited as quite a significant milestone for gauging the strength of occupiers. The retail and hospitality sectors have been hit particularly hard however we believe the biggest threat to the City of London Office Market is the increase in the amount of second-hand and 'grey space' which has been returned to landlords. If this fails to let quickly then we will see an increase in the vacancy rate from an all-time low in the City to more in line with the longer term average which could impact detrimentally on rents. However, with a reasonably constrained development pipeline we do not anticipate major fluctuations in rents or yields. In fact there is a chance that prime long let investments near major transport hubs may see some yield contraction as we see more of this 'flight to quality' as exemplified by 90 Bartholomew Close, EC1 and 'Chapter', Brunswick Place, EC1. We could see some more transactions trading at sub-4% in Q3 and Q4.

The truth is, there is still a huge weight of money with appetite for Central London and once the debt markets settle, assisted by the removal of the 'uncertainly clause' in Central London offices we expect many of the UK Funds to start becoming active again as well as overseas investors. particularly those from Asia, travelling across to inspect buildings again in Q3 and Q4 which will result in more transactional activity. Coupled with the extraordinarily low base rate and with gilts and bonds at an all-time low we may even see allocations to real estate increasing given the potential returns on offer and this could result in even more demand. The issue will be where the stock is coming from and without much distress we can see pricing maintaining its pre- Covid-19 trajectory and yields potentially compressing further in the medium to longer term for best in class long let product.

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West End Investment Market

The inevitable short term impact of Covid-19 and the UK lockdown in mid-March has been clearly documented, with quarterly transaction volume probably at its lowest for over 20 years and one tenth of the 5 year quarterly average.

We recorded a total of just £210M exchanged or exchanged and completed in 13 transactions during Q2. The average lot size was £16M. In context, the 5 year average for Q2 West End volume is £2.09Bn.

Despite a buoyant Q1, the half year total is still some 38% below average, and the lowest half year since 2011.

The record low of only five deals transacting in April and May is a reflection of the worldwide initial reaction to such an unexpected event and a full month of UK-wide lockdown. June saw an uptick in activity with eight deals taking place as the market responded to the 'new normal', at least for the time being.

Reduced turnover has also clearly been impacted by the absence of any deals in Q2 transacting in excess of £50M. Half of transactions in Q2 were from owner occupiers, generally for well-located, freehold smaller buildings. Special interest buyers such as tenants and adjoining owners also featured. For these smaller assets there is little evidence of price softening. The largest transaction of the quarter was Beltane and Angelo Gordon purchasing 129 Marylebone Road, W1 for c £48.5M – just under £800 per sq ft for a freehold office refurbishment and extension opportunity. It is understood the purchasers negotiated a significant price reduction from a previously agreed transaction, reflective of additional leasing risk.

The temporary switching off of the debt markets at the start of the pandemic was clearly a big contributing factor to the lack of larger deals. Similarly the gating of UK funds led to larger sales being withdrawn from the market despite good interest, and ongoing purchases terminated. International investors have dominated the larger London transactions in recent years and in the main, have not been willing to commit to an investment purchase without the ability to travel and inspect. Vendors have largely been unwilling to soften pricing in the office sector.

Volumes have also been particularly subdued by a lack of available fresh investment stock coming to market. We are tracking a number buildings prepped for market or subject to a targeted marketing campaign. However there is a general reluctance to undertake broad marketing whilst travel restrictions and quarantine measures remain in place, and some market uncertainty remains.

However, over the past week (at the time of writing in the third week of July), the Material Valuation Uncertainty Clause on central London offices has been lifted, and Q3's market volume has already exceeded that of Q2. A Singaporean investor has exchanged on 1 New Oxford Street, circa £175M and 4%, 103 Mount Street and 25 Hanover Square are believed to have exchanged, contributing a further £80M and £40M respectively. Debt markets are continually improving, and whilst travel restrictions are largely in place, they have been lifted from Hong Kong, which is on the list of countries exempt from the 14 day quarantine measures for travel into the UK.

Predictions for the second half of 2020 continue to focus on sustained appetite for prime core freehold 'best in class' assets remaining 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 this market.

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The average lot size was £16M. In context, the 5 year average for Q2 West End volume is £2.09Bn

West End Letting Market

The largest transactions for the quarter were the 60,000 sq ft pre-Let at 25 Golden Square, W1 to Roxor Gaming and BNP Exane securing 38,000 sq ft at GPE's One Newman Street, W1

Q2 2020 take up was just 300,000 sq ft, down 53% on the long term average for the quarter, an inevitable result given the market being in effective lockdown for the majority of the period. The largest transactions for the quarter were the 60,000 sq ft pre-let at 25 Golden Square, W1 to Roxor Gaming and BNP Exane securing 38,000 sq ft at GPE's One Newman Street, W1. However, aside from these two larger transactions the vast majority of activity has been in the sub 10,000 sq ft size bracket. Despite the low level of transactional activity the amount of space under offer remains at above average levels.

The amount of active requirements in the marketplace have reduced substantially with many occupiers putting their searches on hold whilst they review or consider their options, with many being assisted by obtaining short term extensions from Landlords in no hurry to have vacancies. The Tech and Media sector remains the most active occupier group in the West End accounting for approximately a third of all active demand.

Evidence of rental reductions as a result of the current market dynamics have yet to be seen, although rents will undoubtedly come under pressure as occupiers, able to secure new space, will quickly take advantage of the increased choices available to them across most sectors of the market.

In terms of supply there is currently 5M sq ft available in the West End equating to a vacancy rate of 4.5%, however as a trend this is growing with the amount of tenant controlled "grey" space increasing markedly over the last 2/3 weeks. Of the 9M sq ft of developments scheduled to complete between now and 2023, over 30% is already pre-Let.

We are seeing viewings increasing week on week, with the majority of demand being focused in the smaller size bands, particularly for fitted out space as many occupiers are seeking to mitigate their upfront costs. As we move through the Summer we expect to see an uptick in activity as occupiers finalise their occupational reviews and establish their office requirements moving forward.

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National Investment Market

With the post-election bounce swept away in the onset of the Covid-19 Global Pandemic, Q2 2020 was a particularly difficult quarter 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.

H1 2020

£17.68Bn:- down 41.89% on H1 2019.

Q2 2020:

£4.02Bn:- down 59.59% on Q2 2019.

High Street Retail

The retail market has faced a significant downturn since the beginning of lockdown as a result of shop closures and a reduction in UK consumer spend. A continued fall in footfall on the High Street is expected in the near future until more certainty is provided about a potential second Covid-19 wave in the autumn. As a consequence, many retailers who were struggling already have been unable to meet their rent and service charge obligations and have been requesting rent holidays. It is estimated that 14% of the June quarter date rent was received by landlords. Due to various legislation protecting these vulnerable tenants, landlords are unable to recoup the monies, however, once Government support is withdrawn from these retailers we expect to see a large number of CVAs in the market.

It is therefore no surprise that value add investors have looked for assets suitable for future development potential or conversion. Assets with such characteristics remain sought-after by opportunistic buyers seeking to take advantage of the current tumultuous market.

Some areas of the retail market including long income assets, pharmacies, grocery shops and supermarkets have seen stronger interest and sharper prices than pre-lockdown.

There has been a significant rise in investor demand for supermarkets since the start of the pandemic with £322M of supermarket investments sold since March 2020. Investors see supermarkets as a safe haven and 'Covid resilient' providing an essential service that was permitted to remain open during lockdown. They have been one of the few sectors to benefit from lockdown with supermarket sales up 14.3% in the 12 weeks to 17 May. The fastest since records began according to research company Kantar. Supermarket tenants have continued to pay rent, unlike some national non food retailers during the pandemic and their trade is expected to remain strong as consumers remain both cautious and are restricted in their use of restaurants, bars and catering establishments even though these are now open for business.

Given this, it is no surprise that the 'Material Valuation Uncertainty Clause' valuers were using in their valuations was removed from supermarkets and convenience stores early on in lockdown.

Retail Warehousing

During the second quarter of 2020, retail warehousing registered a sharp drop in investment with total volumes of £115M for Q2 2020 compared to £379M for Q2 2019. This can be attributed to a range of factors including agents, vendors and solicitors all having to adapt to working from home and investors waiting on the side-lines to assess the economic implications of lockdown.

We remain of the view that investment demand for retail warehousing will continue to be more resilient than for high street retail given the generally superior tenants, rent payment and the type of goods sold. Until the outbreak of Covid-19, investors maintained confidence in the superior 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 easing in the lockdown measures, we expect a resurgence in transaction volumes although investors will likely be more mindful of covenant strength and the underlying site potential going forward.

Offices

As anticipated, Q2 has seen a significantly reduced number of transactions, however the sector has proved resilient when compared to others in terms of rent collection. There has been a lack of office investments being marketed as investors hold on to the assets given their defensive characteristics.

The interest seen at the beginning of the year from overseas investors initially cooled whilst travel was restricted but has more recently started to pick up as domestic and international quarantines have been removed. Interest from UK funds and institutions has remained quiet amidst the Covid-19 uncertainty.

As more people start to return to the office, questions are being raised as to what the future office will look like with occupiers evaluating their requirements for space. This will inevitably lead to investors focussing on core assets with strong fundamentals or assets underpinned by alternative uses.

The largest transaction to have exchanged during Q2 2020 was the acquisition of Reading International Business Park for £120M by Tristan Capital Partners.

Industrial

There is a sense of optimism in the industrial sector as investment transactions picked up toward the end of Q2. The easing of restrictions resulted in a wave of deals bolstering what was looking to be an otherwise quiet quarter. Total transactional volume for Q2 reached an estimated £1.02Bn with the sale of Perivale Park acquired by Segro for £202.5M, the Next sale and leaseback acquired by Aviva for £119M and the Neovia sale and leaseback on Desford Campus acquired by Grifffen Capital (undisclosed price) accounting for the lion's share of the total transactional volume.

Whilst investment transactions have been constricted by the ongoing Covid-19 pandemic, the industrial occupational market has thrived witnessing 12.78M sq ft of lettings, reflecting a record quarter for the sector. With online retailers responsible for almost 50% of take-up, it is clear this bumper quarter is a reflection of changes in consumer behaviours in response to the on-going pandemic.

The sector has proved how flexible and responsive it can be to changes in consumer demand. This resilience has encouraged both new entrants into the investment market and a wave of capital entering the UK via successful fund raises, including the £153M raised in Warehouse REIT's June share placing. Confidence in the sector has been further highlighted by Prologis's decision to bring the £425M Liberty Portfolio to market. The portfolio, comprising 22 warehouses across the UK, will be the UK's largest logistics portfolio sale and a clear statement from one of the biggest names in the European industrial sector.

With a weight of capital ready to be deployed and signs of new stock entering the market, we anticipate increased transactional volume and performance in Q3. Whilst questions are being raised over the future of some alternative sectors in the UK real estate market, industrial (in particular logistics) remains a justifiable and attractive opportunity within the UK real estate market offering security and rare potential for future growth.

Portfolio

The lockdown period has significantly hampered transactional activity in the portfolio market as vendors and buyers alike re-assess their options and keenly watch pricing movements as the economic fallout unfolds.

This period of uncertainty is now being replaced by an aura of cautious optimism as there are a number of on-market and off-market opportunities across multiple sectors. Several pre-Coviid-19 portfolios remain up for grabs across a variety of use classes at varying price points. We are actively monitoring several upcoming portfolios and do expect a busier summer and end of the year as both transactional and occupational activity increases.

A particularly interesting trend which is emerging is the potential for more 'change of use' portfolio sales, as we are also seeing in the individual sale arena. Ongoing tenant difficulties, particularly in the retail and leisure sectors are paving the way for interesting conversion cases. This is not just straightforward residential conversions; industrial, logistics, healthcare and supermarket uses, to name a few, are enjoying their time in the limelight and well packaged portfolios, with strong underlying residual values will likely fare particularly well in this market.

Transactional data is, as expected, muted over the previous 3 months and almost entirely focused within non-core alternative sectors totalling just over £500M. Recent highlights include the £62M sale and leaseback Waitrose portfolio, purchased by LondonMetric and the £102M, 26 store Sainsbury's portfolio, purchased by Supermarket Income REIT and BA Pension Fund (you can see a trend emerging here…).

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Commercial Auction Market

Since we last reported, the Commercial Auction team has completed two further sales, adding a June date for the first time in 20 years. Across the market, all Auctioneers have once again re commenced trading using a variant of an online platform.

The latest Allsop July catalogue, released on Friday 3 July is the biggest yet, with 102 lots catalogued with a clear upturn in quality and average price.

The quality and variety of the catalogue reflects the growing confidence in the process and our ability to reach a wide pool of buyers, many investing for the first time as yields have risen a little under lockdown in most sectors.

In summary, the two auctions have raised £66M in total, against £72M raised in the equivalent period last year which is a more positive comparison than we dared to hope for as we headed into lockdown.

Whilst overall yields have moved out a little in response to the uncertainties everywhere, some sub sectors have seen pricing at the equivalent or firmer than pre lockdown levels as demand is more concentrated in those sweet spots.

Convenience Stores have been clear winners as they have stayed open in all formats and £9M has been traded with the very best achieving 5.25% which is certainly as good as any pre-lockdown evidence.

There is considerable demand for mixed use assets, particularly in London and the South East where buyers seem to be banking on a solid recovery rather than being put off by short term closures.

Over 50% of our sales remain in the retail sector and predictably retail, with the leisure sector have been heavily hit by lockdown and the uptick in CVAs which continues to dominate headlines. Many of the strongest tenants, a recent example being Pret a Manger, are closing or not planning to re open outlets post lockdown and paying only a small proportion of their due rents as is well publicised.

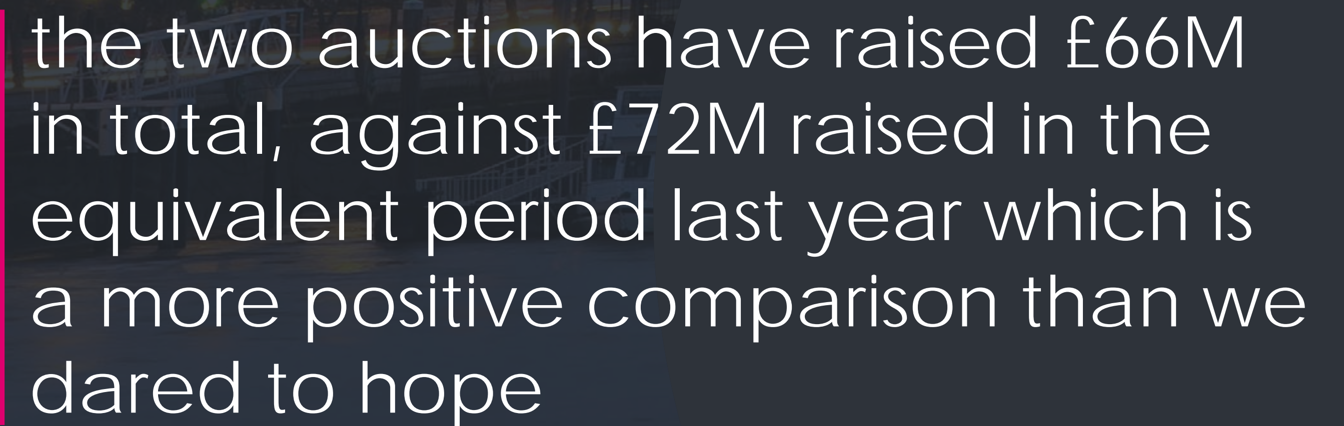
We will be analysing the retail market once the July auction data is in, at the end of the Summer to try and identify meaningful trends.

Whilst the Chancellor has done wonders with schemes such as the Furlough job retention scheme, legislation has been unfriendly to Landlords and buyers are factoring in tenant's willingness to pay rent along with trying to establish sustainable rental levels which is increasingly hard to predict in all but the best locations.

Of the positive trends emerging from this period, one of the most interesting has been demand from tenants to buy their leased properties.

This demand has come from both corporate occupiers where leases have become short and yields have risen and private tenants buying their own business premises, including several closed pubs and restaurants.

Finance is still difficult to access but the yield gap is clear and compelling, and a very positive indicator for the smaller lot size investor.



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In summary, a slight increase in yields has drawn out new investors with cash readily available.

Looking ahead, our market will have a busy quarter, looking for sustainable investment opportunities and our buyers will be quick to respond to the relaxation of planning laws on retail.

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Residential Development Market

The second quarter of 2020 has been unlike one we have ever seen before. With the country on lockdown from the 23 March this year, there was inevitably a reduction in activity in the land market as people and businesses managed their on-going concerns and established new working protocols.

This resulted in a large majority of developers stalling the construction of their sites at the start of the quarter. Housebuilders furloughed large numbers of staff, mainly construction staff that were no longer able to work on-site, while everyone was assessing their financial position and cashflows and establishing how best to proceed.

There was a portion of sites where construction was able to continue throughout lockdown, which in general appeared to be those being built out by main contractors, as opposed to in-house construction teams, as their cashflow and timings depend on monthly progress. However, the larger PLC housebuilders, the smaller private developers and those operating on constrained sites, on the whole, took the decision to pause construction.

Fortunately, come the end of Q2 we can see that the majority of sites have now re-opened. According to Molior London only 4.5% of sites that were under construction in London pre Covid are now still on hold due to lockdown. This shows that the majority of developers now have a strategy and are back up and running. However there is a clear focus towards finishing those sites that are near completion, which, while arguably the hardest phase of construction to progress in line with social distancing guidelines due to the number of contractors on site, are also the projects that will have the biggest impact upon the developers' year end results.

Transaction volumes have been down over the last quarter, however there has been huge collaboration between various teams and companies and transactions have continued to happen throughout lockdown. The large housebuilders and housing associations have clearly not been in the market for the last quarter as they sorted out their own houses, and the smaller, SME developers have also been busy managing their existing sites and various funding lines. This has had a short term impact on the sale of consented land with a smaller buyer pool and we have seen delayed completions and Covid clauses being introduced with various deal structures. However, there has continued to be activity without significant price implications and it is clear, especially on the smaller consented stock that cash purchasers are taking advantage of this reduced competition to acquire outside of the traditional sale processes.

As we reach the end of the second quarter, market sentiment is certainly improving and housebuilders and housing associations are back in the market, albeit with a focus on 'subject to planning' deals and delayed completions. There is also a significant amount of equity seeking unconsented land

opportunities and looking to capitalise on the fact that a significant proportion of developers will struggle to justify making large unconditional land purchases to their board at present.

It is too early to establish the impact of Covid-19 and the lockdown on the land market, however it is clear that the industry has very much returned to work and while new construction starts are down, there has been a steady increase throughout the quarter as market confidence improves. While there are a number of land deals happening it is expected that there will be a significant increase in sites coming to the market in the Autumn as market confidence improves and vendors who have held off decide to implement their disposal strategies.

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Residential Investment Market

The residential investment market is moving again.

After a temporary pit-stop, in which thoughts were gathered and deals put on hold, we have first-hand experience of pent up demand for what has proven, once again, to be one of the safest places to invest. The vast majority of deals which were under offer pre-lockdown, have remained in solicitors' hands with buyers and sellers at the table willing to do the deal.

A good example of this was an off market portfolio of 119 flats in north Wales which exchanged and completed with a very willing vendor and a buyer who fully recognised that although significant capital expenditure and intensive management would be required, the healthy yield was too good to ignore. This was despite the bank reducing the LTV at the last minute which required an unexpected additional cash injection for the purchaser.

Such was the perceived demand from one of our major corporate clients that we commenced the marketing of a portfolio of 11 blocks of flats across the country stretching from Sheffield to Peckham, the majority of which are now under offer and in solicitors' hands. Multiple bids were received from an array of parties.

We continue to see increased demand from investors with cash resources to deploy and in particular, looking for a greater return as can often be found in the North, however eyes are watching London and the South East very closely. We have also seen a notable increase in the number of foreign investors looking for a safe haven on UK soil. We expect this to become a notable trend in the coming months.

Viewings are taking place, albeit at social distances and with a great deal of care and attention, however the message is clear….. for the time being, we are back up and running…

During these uncertain times we have also seen significant demand for Ground Rent opportunities. Investors are attracted to this very secure source of 'dry income' which nearly always benefits from an inflation linked or doubling rent review pattern. Furthermore, Freeholds which are subject to short leases provide significant reversionary value which is unlocked when lessees inevitably have to ask the Freeholder for a lease extension at a premium, most often when they are looking to sell their flat or re-mortgage.

During the lockdown we have successfully transacted two 'short lease' portfolios located in London and the Home Counties, with a further one now in solicitors' hands. We also agreed terms with an institutional investor to acquire a Prime London Freehold subject to 'long lease' ground rent income which is currently going through the statutory Section 5A Notice period to allow lessees to exercise their Rights of First refusal. This specialist market, however, is not without its challenges and could be subject to leasehold reform in the future; however current appetite remains strong from a number of specialist investors with cash readily available for deployment.

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The vast majority of deals which were under offer pre-lockdown, have remained in solicitors' hands with buyers and sellers at the table willing to do the deal

Student Housing Market

Our Q1 2020 update highlighted the buoyancy in the market at the turn of the year, quashed by the immediate issues presented by Covid-19. Since then the market has had some time to take stock. Whilst there remain uncertainties and subsequent caution from investors, activity is picking up as strong market fundamentals that underpinned the buoyancy of the pre-Covid market lure investors back into play.

Where are we now?

Owners of student accommodation operated different strategies to deal with rent collection. Some waived third semester rents whereas others collected it. Where vendors decided to collect rent, we understand they were successful; some of our clients in the HMO space report no year on year change.

With many HMO contracts for the Academic Year 2020/21 signed pre-Covid, direct-let PBSA has been more exposed to lettings risk for the forthcoming year. Most providers have adopted a flexible approach to lettings, providing students with the option to tailor their start date to the start of their university term.

The vast majority of universities have now published teaching plans for AY 2020/21, with most adopting a hybrid approach utilising online and face to face methods. UCAS continues to report 'normal' applicant behaviour, with application numbers holding firm. The Office for Students is monitoring closely how universities deal with their applicants, and in-particular their accuracies in respect of teaching mechanics – this is to avoid any counts of misselling the AY 2020/21 experience.

Market activity

We are seeing good demand for well-located PBSA and HMO assets in London and prime regional centres but this is not reciprocated in secondary and tertiary destinations where investor appetite is noticeably thin. Early evidence would suggest yields have stabilised for opportunities in prime regional centres however shallow buyer pools in secondary and tertiary centres are pushing yields in these markets out.

Notable deals include 90 North Real Estate Partners' acquisition of Goods Corner in Edinburgh and Dover Street in Leicester comprising a total of 243 beds. We understand 90 North paid £22.2M for the two assets which shows a blended NIY of 6.04% and £91,500 per bed space.

In addition, London and Scottish disposed of two assets acquired by Malaysian Pension fund KWAP for a total of £89M. The two assets were located in Leeds (Symons House) and Sheffield (Crown House) and together provide a total of 700 beds. The deal represents a blended bed space value of £127,000 and a NIY of 5.5%. We understand a 12 month rental underwrite at 75% of gross revenue was agreed to counteract potential lettings risk due to Covid-19.

Deals for standing assets and portfolios are currently being negotiated off-market, where in all instances a form of rental guarantee is required to deal with the risk posed by AY 2020/21. Investors are confident that the market will recover quickly and student demand will return strongly for AY 2021/22.

Finally, we are experiencing good levels of interest for value-add assets - particularly where benefitting from strong locations - and land/ development opportunities too. Both provide defence from any potential fall in student in numbers for AY 2020/21.

What to look out for

The big question mark remains over international student numbers, and right now the sector does not have very good visibility in respect of what these numbers will look like come the start of September. The Institute for Fiscal studies said this week that a significant drop in international student numbers could have a dramatic impact on the higher education sector, predicting that as many as 13 universities face the real prospect of insolvency without a Government bailout. Interestingly it is the highly regarded higher ranking universities that are generally more exposed to the international student markets however given their significant financial buffers and likely recruitment of more UK-domiciled students to plug the gap, it is the lower ranked, less prestigious universities that are under threat. You can see this potential risk playing out in the market for student accommodation, where (as highlighted above) secondary and tertiary centres seem to be bearing the brunt.

Look out for further updates from UCAS, the British Council and more generally the Government's relaxation of travel restrictions which could coax international students back in more numbers than so far predicted. In respect of UK-domiciled students, A-Level results are released next month (August) and we will be in a better position to understand how take-up of university places is shaping up then. It will be interesting to see how universities deal with students' requests to defer a year, they are not obliged to and traditional gap years do not look too appealing in the current environment, so the hope is deferrals do not add to the issue of a fall in international student numbers.

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Build to Rent Market

Whilst the Covid-19 pandemic influenced an inevitable slight slowdown across the UK housing market, the BTR sector remained robust with high levels of rent collection and continued investor appetite. 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 be volatile as we emerge from the current health pandemic, mainly due to uncertainty, mortgage availability and unemployment levels, BTR offers quality rental accommodation with cohesive communities where residents can feel secure for longer term tenancies. We are seeing growing number of PFS (private for sale) developers now considering a BTR development across a number of locations in the UK.

There has been transactional activity through the lockdown and we are aware of a number of new deals being agreed at strong pricing levels considering the wider economic uncertainty.

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 157,512. Notably, the regions have overtaken London in terms of the number of BTR homes, accounting for approximately 82,620 with 74,892 in London.

Whilst activity has been slightly down in this quarter, news of note: Aberdeen Standard has purchased the former Abbey Sports Centre in Barking for £50M to deliver 170 BTR units; Grainger has funded 278 units in Hallsville Quarter, Canning Town with Linkcity; Lendlease and Canada Pension Plan Investment Board have agreed an £85M investment to build 123 BTR homes at Elephant Park; Court Collaboration has submitted plans for a £125M BTR scheme in Deritend, Birmingham comprising 454 flats across 48 storeys; Taylor Grange has also submitted plans for a BTR scheme in Birmingham with plans for 440 units, alongside a hotel, on Broad Street; revised BTR plans for the iconic Hoover Building in Perivale, consisting of 278 apartments, have been approved; Grainger has completed its acquisition of Nikal's Exchange Square for £77M which consists of 375 units; Clarendon Quarter in Leeds, an operating BTR scheme, came to the market in Q1 2020 and is now under offer having attracted strong institutional interest.

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. We expect to see good activity in Q3 and Q4 which will assist with post lockdown pricing, however we believe there will be minor movement for the stronger schemes in prime locations.

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.

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

Residential Auction Market

Following on from the success of our first principal online sale (2 and 3 April), we held our second online sale on 28 May. At the time of writing £30M from this sale has been raised with a success rate of 87%. This brings the total online residential auction receipts since lockdown to £61.2M and the total for 2020 to £110.3M with an overall success rate of 83%.

Our 28 May catalogue was particularly well received. 14 lots were sold prior and 160 were offered on the day. 1,200 bidders completed the online registration process and 6,000 bids were placed over the 12.5 hours duration of the sale. Unable to offer group viewings due to prevailing Government safety guidelines, Allsop arranged for the majority of the 88 vacant properties to be viewed by virtual tour. Despite this lack of physical access, competition remained exceptionally keen. Prices held up well with little perceptible change since pre-lockdown.

The largest lot of the day was Troy House near Monmouth, Wales. This Grade II* Listed 17th century mansion extends to almost 44,000 sq ft and sits in over six acres. Formerly used as a school, the building is in poor condition. It was offered against a guide price range of £200,000 to £250,000 and sold after 560 bids for £1.356M. Potential alternative uses ranged from residential apartments to a boutique hotel.

Assured shorthold tenancy investments proved resilient. 15 were sold showing an average yield of 6.99%. Long term ground rents, always popular in times of uncertainty, remained steady at 4.76% for 80+ years life of income.

According to figures recently released* Allsop was responsible for 35% of the total amount raised from the sale of property by auction in May this year (£68M of £192.6M).

At the time of writing, we are in the process of marketing over 250 lots for our third online auction sale to be held on 16th July. The catalogue includes a broad selection of vacant, investment and part vacant properties across the country. Viewings are now permissible but subject to strict safety guidelines. Early interest has been particularly keen and we anticipate a strong result.

This experience has been echoed across the residential market generally. With the easing of lockdown, the release of three months' pent up demand has resulted in a spike in activity. Some investors have taken advantage of the Government's 'bounce back loans' (max £50,000 one year interest free). This 'mini boom' is unlikely to be sustained however as the furlough scheme is tapered and redundancies grow. Inevitably there will be increased distressed selling towards the end of the year and into 2021.

With a return to live auction sales looking less likely this year, online auctions are continuing to be fundamentally important in sustaining trading activity in the residential market.

*Essential Information Group

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> This brings the total online residential auction receipts since lockdown to £61.2M and the total for 2020 to £110.3M with an overall success rate of 83%

With the 2023 revaluation being based on 2021 values the new Rateable Values will incorporate the impact of both Brexit and Covid-19

Business Rates

Rating Revaluation Postponement and Business Rates Review

The next Rating Revaluation which was due in 2021 has been put back two years and will now take place on 1 April 2023.

Revaluations are carried out to ensure that business rates bills more accurately reflect up-to-date property rental values and the 2021 Revaluation was to be based on rental levels prevailing in April 2019. The current 2017 Rating Revaluation is based on 2015 values.

In May the Government announced that the revaluation of business rates will no longer take place in 2021 “to help reduce uncertainty for firms affected by the impacts of coronavirus”. This was followed by an announcement on 21 July that the next Revaluation will instead take place on 1 April 2023 and that “so that it better reflects the impact of Covid-19, it will be based on property values as of 1 April 2021.”

The impact of delaying the revaluation is that ratepayers will be paying rates until April 2023 based on 2015 values which often bear no relation to present day values. Although the retail, leisure and hospitality sectors are currently receiving 100% rates relief the Government will come under pressure to implement further rates relief measures to protect these sectors when the rates holiday ends next April. There are also many other sectors severely affected by Covid-19 which have yet to receive any relief from the Government.

With the 2023 revaluation being based on 2021 values the new Rateable Values will incorporate the impact of both Brexit and Covid-19. This will potentially lead to a significant reduction in the level of rates collected by the Government unless it decides to increase the Uniform Business Rate to compensate.

The Government has also published its call for evidence in relation to the review of Business Rates currently being undertaken. The Government’s objectives for the review are: reducing the overall burden on business; improving the current business rates system; and considering more fundamental changes in the medium-to-long term. The Government “recognises that concerns remain about the level of business rates and about the wider functioning of the system and its effects on businesses”. As a result this review is intentionally wide-ranging considering all aspects of the current system, as well as considering the possible benefits and drawbacks of alternative property and online taxes put forward as potential replacements for rates.

The Government anticipates announcing the preliminary outcome of this review on the most urgent areas in the autumn with the final report to be published in the spring of 2021.

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Radical Reshape of Planning Use Class System

The Government has announced radical changes to our planning system, overhauling our current long standing Use Classes Order in favour of increased flexibility in the hope of supporting the recovery of our high streets and towns.

The new provisions will come into force on 1 September 2020 and will allow significantly greater flexibility to change uses within towns across England without the need to obtain planning permission. The changes will see us wave goodbye to Classes A1, A2, A3, B1, D1 and D2 all of which will be revoked in favour of a new Class E 'Commercial Business and Service'. This new class will cover a wide range of uses including: retail, financial and professional services, cafés and restaurants (currently A1-A3); offices, research and development and light industrial (currently B1); clinics, health centres and nurseries (currently D1) and indoor sport and recreation (currently D2).

Two other new use classes will be introduced: Class F.1 (Learning and non-residential institutions) which currently sit within use class D1, and F.2 (Local community) which currently sit within use class D2.

As we would expect there have been some exclusions from Class E to protect uses with community value for example 'cinemas and bingo halls' (currently D2) and also to prevent unrestricted conversion to those uses with potential negative externalities, for example drinking establishments (currently A4) and 'hot food takeaways' (currently A5). These now fall within Sui Generis use and will need planning permission for change of use to or from.

This new system will allow landlords, and tenants to a degree, to keep pace with our changing retail and leisure market; enabling redundant retail accommodation to be repurposed into a viable alternative use. Landlords are likely to benefit, being able to pick and choose the most valuable use for their property. However, whilst many positive changes are likely to occur, will such an open policy reduce the range of services our high streets have to offer?

Local authorities have always previously retained an element of power to influence the use class of a building. When the government announced, in 2015, that office buildings could automatically be converted into residential accommodation through Permitted Development Rights we saw the subsequent introduction of Article 4 Directions which provided localised powers to prevent such conversion and protect employment areas. Only time will tell if such an opportunity will arise for local authorities to soften the impact of this new legislation, however we have no doubt that many councils will want some input in shaping their built environment.

GUIDE TO CHANGES TO THE USE CLASSES ORDER IN ENGLAND

Use	Use Class up to 31 August 2020	Use Class from 1 September 2020
Shop not more than 280 sq m mostly selling essential goods, including food and at least 1km from another similar shop	A1	F.2
Shop	A1	E
Financial and professional services (not medical)	A2	E
Café or restaurant	A3	E
Pub or drinking establishment	A4	Sui generis
Take away	A5	Sui generis
Office other than a use within Class A2	B1a	E
Research and development of products or processes	B1b	E
For any industrial process (which can be carried out in any residential area without causing detriment to the amenity of the area)	B1c	E
Industrial	B2	B2
Storage or distribution	B8	B8

Use	Use Class up to 31 August 2020	Use Class from 1 September 2020
Hotels, boarding and guest houses	C1	C1
Residential institutions	C2	C2
Secure residential institutions	C2a	C2a
Dwelling houses	C3	C3
Use of a dwelling house by 3-6 residents as a 'house in multiple occupation'	C4	C4
Clinics, health centres, crèches, day nurseries, day centre	D1	E
Schools, non-residential education and training centres, museums, public libraries, public halls, exhibition halls, places of worship, law courts	D1	F.1
Cinemas, concert halls, bingo halls and dance halls	D2	Sui generis
Gymnasiums, indoor recreations not involving motorised vehicles or firearms	D2	E
Hall or meeting place for the principal use of the local community	D2	F.2
Indoor or outdoor swimming baths, skating rinks, and outdoor sports or recreations not involving motorised vehicles or firearms	D2	F.2

Changes of use within the same class are not development. Use classes prior to 1 September 2020 will remain relevant for certain change of use permitted development rights, until 31 July 2021. The new use classes comprise:

Class E (Commercial, business and service uses) · Class F.1 (Learning and non-residential institutions) · Class F.2 (Local community uses) · Sui generis (In use class of its own)

We live in a dynamic country with changing consumer and occupier habits. Our built environment needs to keep pace with these changes and this new use class system is providing us with a suitable framework. It will remove red tape, increase flexibility of land use and will allow the repurposing of redundant buildings. This can only be a good thing for our economy. We anticipate, however, that some local authorities may seek to impose restrictions to protect amongst others, core employment areas and prime retail pitches.

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- Asset Management
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- Development Agency & Advisory
- Investment Sales & Acquisition
- Lease Consultancy
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- Office Leasing (Central London)
- Receivership
- Student Housing
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