allsop

Market Update

Q4 2019

Commercial & Residential

Contents

Economic Overview

2019 finished with a new government, a majority in parliament and a palpable sense of relief that there is likely to be a little more political stability in the UK going forwards. The uncertainty that has dogged the economy has been lifted to an extent and there has been an immediate positive reaction from the financial markets. The property markets too have picked up with a flurry of activity witnessed before the Christmas break and after, giving a positive outlook for the start of 2020.

The uncertainty of 2019 has gone for now, we will leave the EU on 31 January and business and the economy in the short term will play catch up. There is the need to negotiate a trade deal with the EU by the end of the year, a deadline which for now is some way off but will come into sharp focus in the coming months. The new government have a lot to do.

The reality is that the economy slowed in 2019 with GDP growth expected to be confirmed at an annual low of 1% and practically zero for the last quarter as a result of BREXIT uncertainty and the snap election which caused investment decisions to be put on hold. Growth in 2020 is expected to improve from this low base and with a post-election bounce the Bank of England are forecasting a 1.6% uplift for the year. Likewise, the inflation rate fell in December to 1.3% and is now someway below the BoE target of 2%. There have consequently been calls for a cut in the interest rate from its current 0.75% although the MPC this week have dismissed any change as it is felt the economy is picking up.

The property markets are showing a great deal more activity at present. There is an air of enthusiasm to do business which we have not seen for some time as a layer of the uncertainty seen over recent months has been removed. Demand for investment into London and in particular the city is at an all-time high. The majority of the retail funds are seeing net inflows again suggesting an uptick in activity to be expected and we finished 2019 with the highest commercial auction success rate seen for 3 years at 92%. The residential investment, development and student markets have seen a marked increase in investor appetite and at grass roots level our post-election residential auction turned a significant corner. There are many reasons for optimism across the Allsop markets.

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City and City Fringe Letting Market

Despite the December general election causing an end of year "blip" October and November witnessed strong levels of take-up ensuring the total Q4 2019 figure stood at 1.5 M sq ft. Take-up figures for 2019 therefore total 6.2M sq ft, 5% less than the 6.5M sq ft recorded in Q4 2018 but comfortably ahead of the 10-year average.

The largest deals that have taken place in Q4 2019 include: at 22 Bishopsgate ,Apple acquiring 156,000 sq ft (floors 31-36), Canopius acquiring 52,336 sq ft (floors 29-30), Verisk acquiring 50,418 sq ft (floors 26-27) and Statkraft acquiring 24,875 sq ft (floor 19) ; Monzo acquiring 122,280 sq ft at Broadwalk House, 5 Appold Street at a rent of £49.00 per sq ft and Deloitte Digital acquiring 79,197 sq ft at Athene Place, 66 Shoe Lane, EC4.

Meanwhile we have continued to witness significant activity in the pre-let market particularly from the legal sector who account for over 1.5M sq ft of active pre-let requirements and include Linklaters (400,000 sq ft), Slaughter & May (300,000 sq ft), White & Case (200,000 sq ft), Wedlake Bell (150,000 sq ft), Kirkland & Ellis (110,000 sq ft) and Baker Mackenzie who are rumoured to be under offer on between 120-150,000 sq ft at 280 Bishopsgate.

As predicted we have seen a reduction in the size and number of lettings to the serviced office sector in Q4 2019 following We Work's failed IPO, with both Landlords and operators pulling out of deals. It is the first time that Knotel has overtaken We Work in terms of City take-up, acquiring 42,750 sq ft at The Eye, 110 High Holborn and 20,000 sq ft at 10 Fleet Place versus We Work's 24,000 sq ft at 17 St Helen's Place.

Supply in the City has increased to 6.7M sq ft, up from 6.2M sq ft in Q3 2019. Of this available space 63% is under construction, 24% new or refurbished space and 13% is second hand space.

Vacancy rates, although slightly increased, still remain low for the City market at 5.1 %.

The City fringe has continued to see some significant deals in Q4 2019. Checkout.com took 63,874 sq ft at Wenlock Works (floors 3-6) which, with floors 1-2 under offer, leaves only 23,841 sq ft available. The final (15th) floor in the Tower element of The Bower (11,331 sq ft) has let to Brilliant Basics whilst MCC have taken 9,133 sq ft on the 3rd floor of Arnold (Allsop acting).

With very limited options now available over c. 10,000 sq ft+ we have seen continued pressure on rental levels in the City Fringe and it is understood rents of +£100 per sq ft are being achieved on the top floor of The Bloom which is rumoured to be under offer to Frontier Economics, whilst rents of £80 per sq ft are being quoted on second hand Grade A space in Alphabeta.

We have also seen an increase in the number of D1 requirements activated in the market. With a shortage of large floor plates and average rents in Shoreditch and the Northern City fringe now at £50.00 - £65.00 per sq ft, these occupiers are looking further east to achieve value for money. This is illustrated by the recent letting to LMA (30,000 sq ft) at Here East, Anglia Ruskin University (30,000 sq ft) and the University of West Scotland (16,500 sq ft) at The Import Building, East India Dock, E14 (Allsop acting) whilst UCL are rumoured to be taking additional space at Canary Wharf.

With limited supply in both the City and City fringe we anticipate further rental growth for prime developments and good second hand Grade A space in key areas during Q1 2020.

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October and November witnessed strong levels of take-up ensuring the total Q4 2019 figure stood at 1.5 M sq ft

City and City Fringe Investment

The UK's volatile political situation continued into the start of the final quarter of 2019. However despite a lack of 'on market' opportunities many investors saw this as an opportunity to agree deals with the comfort they could prolong due diligence beyond the Election Result with the hope that a Conservative majority would result in more positive sentiment going into 2020. Following an overwhelming majority for Boris Johnson's Conservative Government in December, we witnessed one of the strongest quarters of transactions reaching contractual exchange in the last decade.

The City of London recorded a total of £3.624Bn exchanged or completed over 40 transactions during Q4 2019, which was 50% up on Q3 2019 and marginally higher than the £3.349Bn transacting in Q4 2018. Despite this strong final quarter, for the year to end 2019 we have seen a total of £8.641Bn transacted which is 32% down on the 2018 total of £12.676Bn transaction volume and 23% down on the 2017 total of £11.256Bn. These figures reinforce the severity of the impact a complicated domestic political situation can have on transactional volumes and investor sentiment. We also witnessed less of the larger £1Bn+ transactions that were more prevalent in 2017 and 2018.

Demand for investment into London, particularly the City, remains at an all-time high. Investors that were adopting the 'wait and see' mentality, pre October 2019 came to life in Q4 and most of the available or buyable stock traded, leaving limited opportunities going into Q1 2020. The average lot size in Q4 was £86.37M, which is significantly larger than Q3's £49.5M and reflective of four deals trading in excess of £300M.

The two largest transactions of the quarter were Brookfield's acquisition of Oxford Properties 50% share of 1 & 2 London Wall Place for £354M which reflects a yield of 4.09% and £1,442 per sq ft and M&G's acquisition of 40 Leadenhall (Gotham City), a major City redevelopment opportunity for £355M reflecting c.£309 per sq ft on the consented NIA. Brookfield owned the other share of 1 & 2 London Wall Place making them a special purchaser however there was reportedly strong interest from other investors, notably Kingboard and EPF for the whole investment; a c.£700M total commitment. M&G's Leadenhall purchase demonstrates the unwavering confidence of one of the UK's largest institutions to develop c.900,000 sq ft in London's Insurance District.

Lack of available product coupled with some highly active overseas requirements resulted in some very strong long leasehold transactions particularly from German buyers, some of whom (Union and Deka) had not acquired in the core for several years. Deka's dual purchase of the long leasehold interest in Derwent's 40 Chancery Lane, EC4 for £121.3M, 4.25% NIY and £1,170 per sq ft and also the long leasehold of Skanska's 51 Moorgate, EC2 for £61.75M, 4.00% NIY and £1,328 per sq ft, demonstrates that the German funds are backing London's best long-let buildings once again. Similarly, the German Fund Re-Invest's acquisition of 30 Lombard Street, EC3 from McKay Securities for £76.5M, 4.16% NIY and £1,306 per sq ft, for 14 years income and Union Invest's on-going acquisition of Greycoat/ Goldman's Ludgate London, EC4, reinforces the return of German capital into the London market. The rationale for this is perhaps sensing both an opportunity to strike early (post-Election), a historically weaker Pound Sterling versus the Euro and the chance to secure best in class buildings at higher yields than in their own domestic markets.

Far Eastern investment into the City has tapered slightly in 2019, however we have witnessed the return of the Malaysian Pension funds in Q4 with EPF returning with their purchase of Greycoat/ Morgan Stanley's 2.5 Devonshire Square (Premier Place), EC3 for £327.7M, 4.35% NIY and £1,481 per sq ft. This deal shows that there is a strong exit position for high quality refurbishment opportunities, which pre-let quickly offering long lease terms in a market starved of quality stock.

The occupational market has continued to go from strength to strength with record rents set in Old Street at £83.00 per sq ft (fitted) and Farringdon rumoured at north of £90.00 per sq ft at the Crossrail hubs. Coupled with strong rental growth forecasts (most commentators forecasting 10% plus for the next 5 years) and no shortage of larger 100,000 sq ft requirements it is no surprise that the trend for 'value-add' deals being extremely popular in Q3 2019 has continued into Q4. The lack of these opportunities has to inflate pricing further. Aside from 40 Leadenhall, Q4's landmark 'value add' deal was Arax Properties' acquisition of 280 Bishopsgate for King Street Capital, a 122 year long leasehold interest offering vacant possession, which transacted at £191.5M, £701 per sq ft following a highly competitive bidding process with offers reportedly received from over 15 parties. At the smaller end of the 'value add' market, Allsop exchanged contracts to sell Quality Court, Chancery Lane, EC4 on behalf of Workspace to an overseas investor for £15.9M/ £858 per sq ft and also completed on the sale of 1 Fetter Lane, EC4 on behalf of CCLA to an Israeli investor for £22.8M/ £948 per sq ft.

The investor interest in London remains incredibly diverse with significant inflows of capital from the USA, Middle East, Europe (predominantly Germany) and the Far East (Malaysia and Japan in Q4). UK investors still account for a significant proportion of the total, especially on the sub £100M deals. We witnessed the return of Royal London to the City market in Q4 buying 10 Chiswell Street, EC1, a multi-let freehold building, from Fairplay Estates for c.£68M, 4.32% NIY and £1,175 per sq ft , as well as a confidential client of Allsop acquiring the long leasehold interest in 10 Old Bailey, London, EC4 (advised by Allsop) for c.£61M, 4.65% NIY and £816 per sq ft.

The substantial evidence of freehold and long leasehold transactions in the City in Q4 2019 reinforces the prime City yield at 4.00%-4.25%. We anticipate strong demand to continue with potentially evidence of sub 4% yields if the market continues to be characterised by a lack of available product. We believe that Q1 2020 offers a real opportunity for both buyers and sellers.

The UK still has a way to go before Brexit is finalised however with a majority government leading the country this will bring more certainty and increased optimism to the market certainly in the short to medium term. A lack of available product coupled with a significant weight of capital would suggest that sellers can be confident of achieving premium pricing and buyers can take comfort from increased political certainty. London continues to remain one of the most attractive markets to foreign investment and represents good value relative to other major global cities.

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West End Investment Market

2019 was characterised by reduced transactional volumes across central London due to a shortage of quality stock and a backdrop of political uncertainty, which encouraged a 'wait and see' approach amongst investors, both buyers and sellers alike.

London's West End market recorded a total of £1.9Bn either exchanged or exchanged and completed in 31 transactions during Q4 2019. The average transaction size was just over £63M, which was particularly skewed this quarter by 5 transactions over £100M, which made up c. £1.2Bn or 62% of the total: The Post Building (£610M to Ponte Gadea), Holborn Links Estate (£245M), Orion House (£130M to K&K Property Holdings), Harrington Hall Hotel (£130M to a Joint Venture between APG & London Central Portfolio) and Portman Square House (£100M to AXA IM).

This brings the 2019 total West End volume to £5.3Bn in 97 transactions, with an average transaction size of £55M.

2019 volumes are notably down on 2018, however the fourth quarter was, as per the market norm, the busiest quarter of the year and illustrates sustained investor appetite for London's West End market, and encouragingly Q4 volumes were 12% ahead of Q4 2018.

Overseas capital throughout 2019 has continued to show confidence in West End investment opportunities, despite the well-publicised political uncertainty, with these investors accounting for 60% of market activity. Notably, 73% of the year's top 12 deals recorded (all over £100M), which make up 50% of total 2019 volumes, were bought by overseas capital. The geographic origin of this weight of capital is diverse, and has been dominated by Asian, European (excluding UK) and American investors (55%) this year, with Middle Eastern investors notably absent. Non-UK investor demand has remained robust, (particularly for large prime lot sizes offering secure income, minimal capital expenditure and a relatively hands-off asset management strategy), due to the market environment of low interest rates, weakened sterling and a healthy debt market. These economic factors, combined with a resilient occupational market, have contributed towards stable prime yields remaining at 3.50%.

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London's West End market recorded a total of £1.9Bn either exchanged or exchanged and completed in 31 transactions during Q4 2019

West End Letting Market

In a year dominated by wider political uncertainty, the West End office leasing market has surpassed the expectations of many, with robust demand resulting in strong take up levels across all submarkets. 2019 saw 4M sq ft of lettings completed across the West End, slightly above the 10 year long term average of 3.5M sq ft. The Tech & Media sector continues to be the key driver of demand across the marketplace and has been responsible for over 25% of space let in 2019, closely followed by companies in the Finance sector, which secured 21%. The serviced office sector, despite a slowdown in take up of new space over the last quarter, was still responsible for 19% of lettings. Notable lettings in the last quarter of the year have included Take-Two Interactive Software securing 40,000 sq ft at 30 Cleveland Street, W1 and the London Transport Museum acquiring TfL's existing lease for 60,500 sq ft at Albany House, 84 Petty France, SW1.

In terms of supply we have seen 2.3M sq ft of new and comprehensively refurbished accommodation come onto the market in 2019 and notably 80% of this space has been let prior to completion. The vacancy rate in the West End remains at c.4% of total stock and with an exceptionally limited supply pipeline moving into 2020, there seems little possibility of this increasing notably in the short term. Looking further ahead, 28% of the development pipeline for the next 4 years of c. 10M sq ft has already been pre-committed, which will only serve to increase the urgency for larger occupiers seeking new space in the West End to commence their searches earlier than ever before.

Average Prime Rents in the West End continue to sit at £120.00 per sq ft, although given the dwindling availability of good quality floorplates, particularly in the Mayfair submarket, there is the potential for further rental growth in some undersupplied submarkets moving through 2020.

At the smaller end of the market, pro-active Landlords are continuing to respond to the serviced office sector offer by investing further to provide "furnished and work ready" office spaces. Smaller occupiers' expectations as to what their office should provide for them from day one has significantly changed in recent times and it is important the market continues to adapt to this in order to ensure the continued success of conventionally leased offices.

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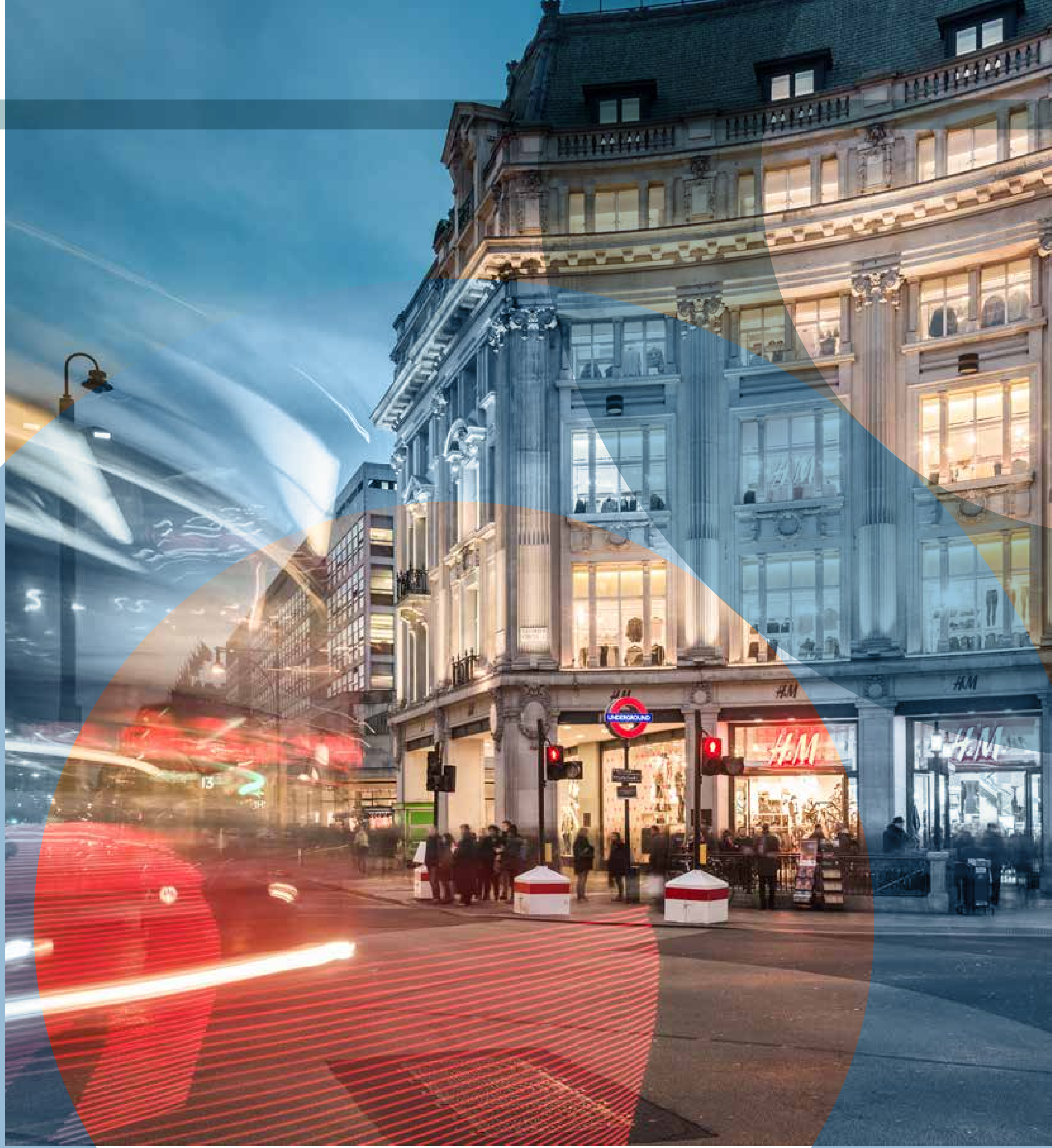

2019 saw 4M sq ft of lettings completed across the West End, slightly above the 10 year long term average

National Investment Market

With the general election and ongoing Brexit uncertainty, Q4 2019 proved a 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

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

H2 2019

£19.72 Bn:- down 28.77% on H2 2018.

Q4 2019:

£14.61 Bn:- down 12.73% on Q4 2018.

High Street Retail

The High Street retail investment market remained subdued in Q4 2019. Investor confidence in the sector has remained low and this was amplified with the news of further retailers suffering with Clintons, Jessops, Mothercare and Links of London all collapsing into administration in the quarter.

The most significant deals in Q4 include the purchase of 195-200 High Road, Loughton for £18.7M, 6.00% NIY by a Local Authority, the sale of The Parade Shopping Centre, Swindon for £23.35M and Corum Asset Management's purchase of 65-68 Briggate, Leeds for £10.32M, 6.35% NIY.

The depth of interest for High Street investments has remained thin across the sector with prime yields consolidating at close to 5.5%.

Retail property has undoubtedly been affected by uncertainty over Brexit, however the more significant driver of falling values and transactional volumes has been the structural challenges around online and omni-channel retailing.

The retail market remains challenging with the common theme over the last 24 months being to sell investments within this sector. There could however be light at the end of the tunnel. Capital values on prime retail schemes have fallen by at least 20% across the last two years and at some point opportunistic investors are going to call the bottom of the cycle and start to invest once more in this sector. This will also transcend through to secondary and tertiary retail schemes. The biggest imbalance has been between price expectations of vendors and purchasers. 'Book valuations' have been coming closer to alignment with the market and when the pricing appears attractive enough to allow for a rebalancing of rents to a level that struggling retailers are able to afford expect activity to take place.

Allsop advised on several transactions within this sector throughout the last quarter including the disposals of HSBC, Brighton for £5.7M, 5.01% NIY, Beatties Department Store, Wolverhampton for £3M (c. £8 per sq ft capital value), Jaspar House, Stanmore for £4.35M and St Benedict's Square, Lincoln for £3.15M.

Retail Warehousing

Retail warehousing is arguably the most defensive part of UK retailing against the rise of online retail sales. Despite the negative sentiment surrounding the sector, there continues to be significant occupational activity particularly at the value end of the market (Aldi, Lidl, B&M, The Range, Home Bargains).

The most significant deal of Q4 2019 was the purchase of Ravenside Retail Park, Edmonton for £51.4M by logistics specialist, Prologis. The scheme comprises a 128,500 sq ft retail warehouse scheme let to Argos, Carpetright, Wren, Tapi Carpets and Wickes located in Edmonton on the southern side of the north circular. Robin Woodbridge, head of capital deployment for Prologis in the UK, said the park would continue to operate as a retail park for the "foreseeable future, with potential redevelopment to industrial logistics in the medium to long term".

Other significant transactions include Goldstone Retail Park, Hove was sold for £34M, 5.1% NIY to Oxford University Endowment fund. The scheme comprises an 82,000 sq ft retail warehouse scheme let to tenants including Tesco, Next, Marks & Spencer and Currys located approximately 1.5 miles west of Brighton. Brookfield Shopping Park, Cheshunt was sold for £25.4M, 6.3% NIY to Sports Direct. The scheme comprises a 93,000 sq ft retail warehouse scheme let to JD, Next, Argos, Boots and Costa located 3 miles north of junction 25 of the M25, adjacent to A10 connecting London to Cambridge. Springfield Retail Park, Lisburn sold for £40M, 8.7% NIY, to New River REIT. The scheme comprises a 231,000 sq ft retail warehouse scheme let to Sainsburys, Next, Argos and B&Q located adjacent to the main junction between Northern Ireland's M1 motorway and the A1 road, which is the main route connecting Northern Ireland to the Irish Republic.

The outlook for the economy is reasonably good with unemployment continuing to fall and wages rising faster than inflation which should be supportive of the sector. The convincing Conservative majority has lifted some of the political uncertainty which we expect will unleash pent up investor demand leading to rising investment volumes and yields stabilising for retail warehousing going forward.

Offices

Investment volumes for regional offices were marginally down in Q4 due to a lack of supply and continued political uncertainty however, a healthy demand ensured yields remained stable.

A lack of development pipeline and completions in 2019, combined with Grade B space continuing to be repurposed, has led to a shortage of available space for occupiers. The south east and 'Big 6' cities are generally all at record low levels of Grade A supply and we expect to see upward pressure on headline rents.

Overseas investors were particularly active in Q4, key transactions included, Singaporean investor, Elite Capital Partners acquiring both the Bruton Portfolio and Stratton Portfolio for £115m reflecting 4.45% NIY. The portfolios comprised 10 year government income in Greater London and the south east. New York based LCN Capital Partners acquired 1 City Park in Aberdeen for c.£80m reflecting around 7% NIY.

Industrial

The industrial market has continued to strengthen with transactional volumes reaching £2.56Bn in Q4. Whilst still £500M behind Q4 2018 this can be considered a strong quarter given the market has again been heavily hindered by a lack of supply.

There remains a weight of capital ready to deploy causing frustration for many investors who have struggled to identify stock and/or be competitive in bidding situations. Given current supply/ demand dynamics, it was no surprise to see the average weighted yield strengthen to 5.25% reflecting a 35 bps improvement on Q3 2019. This was assisted by a number of prime distribution transactions achieving yields of 3.50% – 4.50% NIY which also helped increase the average deal size which doubled from the previous quarter to £13.25M.

Prime distribution yields remain in the region of 4.00% NIY with Q4 evidence in core south-east and strong regional locations achieving sub 3.75% NIY. Whilst limited supply meant little was transacted over Q4, prime multi-let yields remain in region of 4.50% - 5.00% NIY and this part of the sector continues to be in hot demand from a range of investors including UK institutions and overseas private equity.

Notable Q4 transactions include; the Tudor Portfolio (7 prime distribution units) which sold for £241M, 3.9% NIY, the UK Urban Industrials Portfolio (10 multi-let industrial estates in core UK locations) for £200M and Abingdon Business Park, Oxford (415 sq ft multi-let industrial Park) which sold for £61.5M, 5.8% NIY.

Portfolio

Defying expectations, the UK Portfolio market fared reasonably well in 2019 with transactional volume totalling c.£12.5Bn, only 9% below the previous year despite the tumultuous political and economic backdrop over the previous 12 months.

Given this, transactional levels have remained resilient. We continued to achieve success across a range of portfolio sectors including Project Key, a long income Travelodge hotel portfolio, sold for £22.775M, NIY 5.60%, Project Castle a prime South Coast mixed use portfolio sold for £18.63M, NIY 5.67% and Project Evergreen a high quality multi-let industrial portfolio for £13.835M.

Beneath the surface, the market has changed significantly. Transactions of Residential and Alternatives have largely propped up the market over the last 12 months, however this is expected to slowly shift towards more core commercial portfolios as institutional capital re-enters the market following positive recent inflows.

A number of portfolios in 2019 failed to sell, primarily due to questionable asset mix and variable quality of stock; these have, on the whole, been successfully sold piecemeal and over phased periods.

Portfolio premiums do still exist and we have achieved them on several occasions recently, asset selection and targeted marketing is absolutely crucial to achieving these competitive bidding situations. In an increasingly opaque market, the nuances of selective marketing become ever more important from high quality marketing details to generating an increasingly important aura of exclusivity, 2020 is shaping up to be a busy year.

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> The outlook for the economy is reasonably good with unemployment continuing to fall and wages rising faster than inf ation

Commercial Auction Market

The commercial auction market, like all capital markets had a tricky year, but finished with a resounding vote of confidence on December 9th, in anticipation of the General Election on 12th.

The success rate for the December catalogue now stands at 92%, which is the highest in 3 years and the sale raised £49M in total.

It seemed that the buyers in the room, just three days before the General Election knew the imminent result of a significant Conservative majority, and the consensus is that this will be positive for the property market looking ahead.

This sale concludes a year where 642 properties were sold for a total of £429M, including 114 lots over £1M.

We have recently published a full review of the year where we consider many examples across all sectors and look ahead to 2020. This is available from our web site under Auction Insights.

Particular highlights from the December sale included the largest lot, lot 14 in Pitsea, Essex which is an unbroken mixed use parade, with retail at ground floor and both offices and residential above all let at £410,000 pa, this sold at £4,56M.

Demand was clear across all sectors leaving many underbidders sitting on funds ready, we hope, for spending in the New Year.

Added value opportunities seem an increasingly rare commodity, and demand can defy conventional wisdom on High Street retail where there is a mix of tenants and medium term opportunity. An example of this was Lot 26, a town centre retail parade in Grays, Essex which sold at £1.7M, 9% NIY off the rent roll of £164,000 pa.

The market continues to compete for trophy assets and lot 1, Caffè Nero in Chipping Norton with residential above sold well ahead of the guide at £1.01M off a rent of £50,000 pa.

Buyers are looking to identify sectors with the potential for rental growth, which is reflected in some strong pricing for alternatives, industrial, leisure and offices in the regions. Examples include:

Lot 17, a modern office in Brighton was sold after the auction at £2M with a rent roll of £177,000 pa and some vacant accommodation. The buyer called first thing, the day after the election result, which was the beginning of a flurry of sales which followed the result. Offices can provide quite attractive yields and represent one area for rental growth as the new Government prioritises the regions.

Alternatives such as Lot 15, a new letting to Pure Gym in Didcot on a 15 year lease, and as importantly the rent was subject to five yearly RPI linked increases, sold at £985,000, NIY 6.7%.

A final example in the industrial sector, Lot 53 in Great Yarmouth sold at 6.3% NIY, £640,000 off a rent of £42,500 pa proving the depth of demand in the industrial sector.

With over 600 sales, we are able to monitor yields across the year and the graphs show a continuing divergence at either end of the risk spectrum which was particularly acute in December.

This was caused by buyers paying more - lower yields - for the best stock and some assets, mostly in the retail sector trading at yields above 10%.

The market is becoming increasingly comfortable with assets that need re positioning, or sometimes redeveloping and this is an area where we believe we will see more activity in 2020, particularly as the planning regime becomes more flexible.

With greater liquidity generally, the prices for the best assets will hold and perhaps improve a little further as sellers have more options to reinvest the proceeds.

We are anticipating a busier year as both sellers and buyers enjoy the enhanced certainty and clarity from Central Government.

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> The success rate for the December catalogue now stands at 92%, which is the highest in 3 years

Residential Development Market

Whilst the residential development market has been fairly resilient to the political environment, driven by a fundamental shortage of housing and the house builders' need to keep the machine moving, there has clearly been uncertainty. A number of landowners have awaited the outcome of the election and this arguably stalled a sector of the market towards the end of last year.

However 2019 saw a significant increase in institutional investor appetite in the residential sector as an asset class. This has led to both house builders and landowners considering their options in further detail, assessing the cashflow benefits of bulk disposals and forward funding deals. An increase in developers agreeing bulk sales to institutional investors to reduce risk, could itself be seen as evidence of the uncertainty that was present in the 2019 market.

London has seen limited growth over the past 5 years and therefore, with renewed confidence in the market, it is looking increasingly attractive to many investors both private and institutional. With Boris's recent political focus on the regions, there is also continued confidence in the northern towns and cities from investors, a market that has thrived in recent years as investors and developers sought alternatives to the London and South East.

Housing associations continue to play a key role in housing delivery and the fact that the number of completed new homes in London is reportedly down on the year whilst the number of affordable homes has reportedly increased for a third consecutive year, is evidence of the role they play. It has been a lengthy process but with political pressure and S106 review mechanisms, developers and landowners alike have had to accept the reality that they need to allow for affordable housing within their figures.

In December 2019 the Mayor conceded a reduction in the London Plan target of 65,000 new homes a year to 52,000 following a review by independent experts suggesting unreasonable targets. Fundamentally, this supply / demand dynamic will continue to help pricing going forward into 2020 potentially assisted by a 'Boris bounce' in the first quarter, whilst the land market could be assisted by an increased confidence in a future sales environment that will benefit from a degree of political stability.

With continued calls from the industry to diversify to enable demands to be met, combined with a new Government, increased institutional demand, and private investment in modern construction methodology, the housebuilding industry has an exciting year ahead.

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2019 saw a significant increase in institutional investor appetite in the residential sector as an asset class

Residential Investment Market

As reported earlier Q4 was dominated by the election and Brexit and the residential investment teams in London and Leeds undoubtedly noticed the impact on potential vendors' decision making processes in the run-up to 12th December…… and understandably so. For our buyers however, the market uncertainty did not seem to throw them off the scent, leading to some significant transactions all across the UK, stretching from Bognor Regis, Horsham and Whitechapel, E1 to Cambridge, Liverpool, Bradford and Barnsley.

It is not often that a stabilised block of 129 fully occupied apartments in a 10 year old building come to the market in the centre of Barnsley and with a very attractive 8.5% gross yield, the purchaser did not hesitate to snap them up for a figure in excess of £10M. The same purchaser was also quick to buy two other blocks from us in Bradford and Liverpool reflecting 9% and 7% gross yields respectively with a collective purchase price of circa £8M.

Moving south to Bognor Regis, the staff accommodation for Butlins, let on an FRI lease with over 18 years unexpired was acquired by a Pension Fund for over £11M reflecting a net yield of 5.4% before purchasers' costs. This was followed by a portfolio of flats and houses in Horsham and Cambridge which was acquired by another Pension Fund for circa £15M reflecting a blended yield of circa 5.5%. Heading back into London, an unbroken block of flats in trendy Whitechapel proved too good an opportunity for one individual who recognized the strength of the local rental market and future growth potential buying in at a gross yield of 4.5% and a price close to £10.5M.

These sales and acquisitions all exchanged and completed in November and December 2019 and show quite clearly the strength, resilience and depth of residential investment as an asset class across the UK in one of the most uncertain markets within recent history.

This is not an exhaustive list of recent transactions so please do not hesitate to get in touch with us for further insight and information.

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Q4 was dominated by the election and Brexit and the residential investment teams in London and Leeds undoubtedly noticed the impact on potential vendors' decision making

Student Housing Market

Investment activity

The Competition and Markets Authority cleared the way for Unite's £1.4Bn acquisition of Liberty Living on 6 November, with the deal proceeding to completion by the end of the same month. Unite refers to a 'substantial market opportunity' provided by the 1.5M students requiring accommodation in the UK every year.

This reflects general market sentiment in a quarter that demonstrated the continuing strong appetite of Singaporean-based investors for UK student housing opportunities. Singapore Press Holdings completed its £448M acquisition of Student Castle, Mapletree paid £96M for 1,127 beds in Coventry and Far East Orchard bolstered its portfolio to a total of 3,260 beds with the £66.5M acquisition of 974 beds in Leeds and Sheffield.

Brookfield-backed Student Roost committed £175M to forward fund McLaren's delivery of 1,387 bed spaces in Warwick and Brighton too, as the Canadian-based fund continues its drive for new development-led opportunities.

It is too early to conclude the exact transaction volume for 2019 but this is likely to have breached £3Bn, in a year plagued by unfavourable market influences. Whilst it would be inaccurate to say Q4 has not felt the impact of a General Election, ultimately favourable macro-demographics continue to underpin investor confidence. Notwithstanding this, actual transaction volumes are likely to be down on 2018 as a consequence of general economic uncertainty hitting some fund raising exercises.

Topical

December is home to the popular Property Week student conference and my colleague Rebekah Donaldson has summarised the main takeaways in a blog available on Allsop's corporate website. Many consumer-led themes dominate debates amongst industry experts with wellbeing and affordability high on the agenda. Industry-led themes of 2019 such as operating budgets, build costs and polarising markets will likely carry the same weight in 2020.

Interest in the secondary markets i.e. non Russell Group destinations gathered pace throughout 2019 and whilst some remain intent on securing opportunities in prime university cities only, confidence is gaining where opportunities are underpinned by well performing younger institutions. Secondary products; first generation PBSA and the HMO sector are intriguing prospects for some investors, particularly in the face of rising build costs and pressures on affordability.

Election result

The sector experienced significant capital commitments throughout 2019 and even in its last quarter when the election gripped the nation, deals continued to progress. The Conservative government is not set to make ground breaking changes to the HE sector – there was very little in the way of commitment by way of pledges or legislation in its manifesto. Any changes are likely to be directed towards tuition fees, ensuring university is as affordable as possible for students – this may mean changes to interest rates payable, which may have a positive impact on future student growth.

Removing the prospect of a no deal Brexit will create significant bounce – some investors remain wary and will act with caution in the interim period. If a Brexit deal is agreed, subsequently removing the prospect of a no deal entirely, the shackles really will come off. Investors will however be watching on, placing particular interest on the treatment of EU students in the hope the government agrees a deal that can retain the UK's desirability as a place for study.

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Build to Rent Market

There are now an increasing number of authentic BTR developments which have completed or are nearing completion with Grainger's 'Brook Place' development in Sheffield being one such example, launching in the past month. The British Property Federation's (BPF) latest figures show the total number of units either completed, under construction or with planning standing at 152,071. London has maintained the majority gain of BTR homes accounting for approximately 76,408 in London and 75,663 in the regions.

There has been a slight increase in the number of units under construction since the last quarter with a number of schemes starting on-site including L&G's Buchanan Wharf in Glasgow and Moda's SOYO Phase I in Leeds, on which they have recently secured a £96M debt facility from LaSalle IM.

Recent BTR activity of note includes: Grainger's forward fund of 307 apartments at Capital Quarter in Cardiff which is due for completion in 2022; Moda Living and Apache Capital have received planning consent for their £215M Springside development in Edinburgh for 476 homes and 13,000 sq ft of amenity; investment manager Kös-e Life is looking to raise up to £600M to deliver sustainable family rental housing in suburban locations; Grainger has also acquired its third BTR scheme in Canning Town from developer Linkcity, adding 132 apartments to its portfolio; Court Collaboration has submitted a planning application for 392 BTR apartments in Edgbaston, Birmingham and has gained approval for its 51-storey BTR scheme in the city centre, which comprises 667 apartments and is located adjacent to the proposed HS2 Curzon Street station.

The sector proved robust to wider economic and political uncertainty when compared with other asset classes in Q4, with focus more on the development risk rather than long term investment concerns. Most investor strategies are long term and although they do take into account the short term volatility, (reduced following the election result) longer term projections remain compelling.

BTR housing continues to emerge as more specialists in the developer/contractor space are attracted to the model. Major masterplan projects see the addition of a BTR element as an attractive diversification alongside the traditional private for sale schemes. Allsop has two such developments, located in the north west and east of England, which are at varying stages of the planning process and both with forward funding arrangements agreed with investors.

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.

Allsop Lettings and Management (ALM) has now launched Moorfield's third BTR scheme; Duet in Salford comprising 270 units, adding to the management of The Trilogy (now fully let), voted by residents as the best BTR development both regionally and nationally according to Homeviews' independent survey. The Forge in Newcastle, Moorfield's first BTR development, continues to perform well, nearing stabilisation and was voted as one of the top five regional BTR places to live. ALM was acknowledged across the sector with the recent win of Homeviews' overall BTR Complete Provider award.

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London has maintained the majority gain of BTR homes accounting for approximately 76,408

Residential Auction Market

Our post-election December auction ended the year, the decade – and four years of uncertainty – on an extremely positive note. The atmosphere in the ballroom of the InterContinental was completely different to any sale held by Allsop for a while. Bidding was brisk and competition keen. Reserve prices were often exceeded by a surprising margin. At the time of writing, the total from the sale stands at over £51m and the success rate at 83%. This brings the total for the year to over £351m and 79%. It would seem that we have turned a significant corner.

The largest lot of the December sale to sell under the hammer was a freehold student block known as London House in High Wycombe, Buckinghamshire. It was arranged as 42 en-suite bedrooms across eight apartments. Each bedroom was let on an assured shorthold tenancy and the total current gross rent reserved for the academic year 2019/2020 was almost £246,000. The lot was knocked down for £2.1m

The most valuable lot of the catalogue was sold post auction having been marketed with a guide price of £5m+. 16 Prescot Street, Whitechapel, London E1 was a former magistrates' office used as a restaurant with residential accommodation above. This Grade II Listed building extends to around 815 sq m (8772 sq ft) and was let and producing £98,700 pa.

We are pleased to have turned the page on 2019. It was a challenging year. Although sales volumes were down across the industry, we were encouraged that prices remained reasonably stable. Sellers remained robust when negotiating, particularly post auction. Many who did not need to sell postponed their decision to do so. Cautious buyers withdrew from spending until certainty was restored. The wind has now changed and we look forward to active trading over the forthcoming year.

Allsop's first residential sale of 2020 will be held on 13 February at the InterContinental Hotel, One Hamilton Place, Park Lane, Mayfair, London W1J 7QY.

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