Commercial & Residential

Market Update

Q4 2020

allsop

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01

Economic Overview

It's fair to say that 2020 was a difficult year for all which brought a range of challenges, we are glad to be moving on, but we did not expect to be in a further lockdown in January 2021.

We are continuing to face up to the COVID-19 pandemic, we have adapted how we live and work to stay safe, and there are high hopes and an expectation that the vaccines being rolled out will hold the key to a return to a more normal way of life as the year progresses. A great deal has changed as we have lived through different levels of lockdown, the shift online has accelerated and we are shopping differently, we now have the viable option to work from home and perhaps the outcome will be a more agile way of working and living. It is very clear however that we are missing the opportunity for social connection, the creativity of groups, teamwork and the togetherness generated by physical meeting. We are well connected online but it's not the same.

The negative effect on the economy has been profound. The IMF has assessed the decline in UK GDP in 2020 as -10% accounting for a dip in November as lockdown measures were re-introduced in some areas. Going forward the forecast for 2021 is a slow start to the year but of overall growth of 4.5% with the economy predicted to bounce back as the positive effects of the vaccines are seen; however pre-pandemic levels of activity will not be reached until 2022.

Interest rates remain at a record low of 0.1%, the inflation rate rose in December to 0.8% (CPI) but is still way below the BoE target of 2%. In general, returns in the financial markets remain low and this, coupled with the current low exchange rate, give an added attraction to real estate.

The property markets have had a busy Q4 with an uptick of transactional volume before the Christmas break and before lockdown 3 was confirmed. There is a great deal more clarity as to those assets which are holding up and are well regarded, BREXIT concerns are a thing of the past and there is a more positive view that the market will improve as 2021 advances. There is certainly a great deal of investment appetite out there for the right product and with repricing in many areas there are opportunities to be had.

The residential markets have shown strong performance in 2020 with overall house price inflation and higher transactional volumes. From an investment perspective the residential market has seen very little of the rent collection issues witnessed in the commercial arena. There are challenges on the horizon with the end of the stamp duty holiday and the tapering off of furlough, but there should be sufficient momentum in the market being helped by record low mortgage rates.

All in all we are looking forward to a busy year.

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City & City Fringe Leasing Market

2020 for the City of London commercial markets is perhaps a year many of us will choose to forget.

2020 not surprisingly witnessed the lowest levels of take up on record in the City with just 2.65M sq ft taken for the year. This compares with 5.76M sq ft over a typical year.

Q4 witnessed the introduction of the government tier systems from 14 October to 5 November, Lockdown 2.0 and the introduction of the highest localised tier 4 restrictions from the 19 December for several Home Counties. Office staff were advised to work from home where possible and to continue to do so until March 2021 at the earliest. This led to a continued reduction in staff numbers visiting central London offices and businesses investing further in supporting working from home for the short term.

Whilst many businesses advocate the success of working from home during the various lockdowns and some see it as a more permanent strategy to reduce overheads in the medium term, we do expect to see more agile working built into occupiers' future property strategy.

Many businesses are now proposing to reduce the number of working from home days from those initially anticipated in Lockdown 1.0 and the summer of 2020 as the lack of collaboration, wellness and the need for a collective hub has become more apparent over time.

The avoidance of a brexit no trade deal with the EU presented a major boost to the UK. There is no doubt Brexit will continue to have an impact on the City and Canary Wharf in the short term but a no deal would have been a "trap door" that would have had a much more damaging effect on City business in the long term.

Overall, Lockdown 3.0 is hindering City life but there is now much more optimism about how the second half of 2021 will grow as we emerge from the shadow of COVID-19 with a national vaccination programme underway.

Given the low levels of take up activity over the past 9 months and the number of tenants with lease expiries who have effectively delayed their decision making, we anticipate there will be significant pent up demand in the second half of 2021. Whilst tenants may be more cautious in acquiring growth space and may look to downsize as they adapt to agile working there will be increasing levels of activity given the number of occupiers in obsolete buildings who need to move and give their staff a much more enjoyable working experience to encourage them back to the office.

Over the past 3 months City Office viewings have been running at c.25% of pre COVID levels although with the announcement of the new vaccine in November the sentiment and viewing levels did increase towards the end of Q4 and have continued into Q1 2021.

There has been an increase in availability of space with the vacancy rate rising from 5% in early 2020 to just under 7% by the year end. Supply has been dominated by second hand space released in an un-refurbished condition although this remains significantly lower than historic recessionary levels which exceeded 12-14% during the last downturn in 2009.

Supply levels have been increasing over the past 9 months however we were expecting to see vacancy rates in excess of 7% by the end of 2020. The speculative development pipeline is limited so supply levels for any new build stock should remain relatively constrained as occupiers seek to secure off plan pre-lets in advance of expiries between 2022 to 2025. We fully anticipate the "flight to quality" continuing as tenants seek to upgrade their premises.

The move towards "better workspace" and core locations will continue as will the emphasis placed on "wellbeing". This will encourage improved air quality, natural light and the use of sustainable material.

City commentators are united in the possibility of a euphoric bounce back by late 2021 as pent up demand reacts to a limited speculative pipeline.

Take up in the City Core was just under 400,000 sq ft for Q4 2020 and well below the long term average of 1.4 – 1.5M sq ft per quarter.

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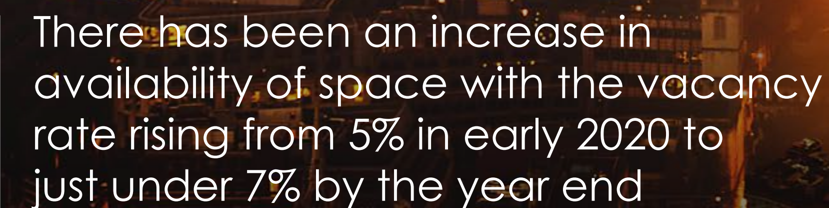

The most notable deals included the assignment at 33 Finsbury Square by the University of Liverpool to City University London for 74,000 sq ft, Northeastern University taking 39,000 sq ft on the ground and first floors at Devon House at £50 per sq ft and £56 per sq ft respectively on a 10 year term and Four Communications taking 17,500 sq ft at The Hickman, 2 Whitechapel Road at £62 per sq ft.

Travers Smith remain under offer at Stonecutter Court, 1 Stonecutter Street, EC4 for 148,000 sq ft and Slaughter and May recently announced their agreement of terms to remain in 1 Bunhill Row in 260,000 sq ft for a further 10 years beyond their lease expiry in 2026 following an extensive search for pre-let options.

Whilst pre-let schemes and best in class Grade A schemes will continue to hold the headlines due to the limited availability we are now starting to see pressure on headline rents with Grade A rents reducing to £67.50 per sq ft.

Rent free periods are moving out to between 24-27 months on a 10 year term for core City product with many occupiers looking to agree delayed start dates ready for a return to the new normal in H2 2021.

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City & City Fringe Investment Market

After one of the most challenging years in recent history the City of London recorded a total of 25 deals exchanged or completed totalling £2.085Bn during the final quarter of 2020. This was more typical of a final quarter showing a 70% increase on Q3 2020, but was 43% down on Q4 2019. It also brings the year's running total for deals in the City to £4.823Bn around 44% down on 2019's total of £8.64Bn, 62% down on 2018's total of £12.67Bn and 47% down on the five year annual average. This is also one of the first times in recent history that the West End has witnessed higher trading volumes than the City; a result of the successful sale of many rare trophy assets, the majority of which were acquired by wealthy overseas families.

Such a huge differential in investment volumes is reflective of the unprecedented impact of the Global Pandemic created by the Coronavirus outbreak which has caused continued economic uncertainty and significant restrictions on not only international but also domestic travel. This was coupled with the culmination of BREXIT in December 2020 as the UK Government and the EU took negotiations right to the wire to create further uncertainty.

Despite all of the above the City witnessed five transactions over £100M comprising a third of the total transaction volume for the quarter. The largest of these transactions was Singapore based Sun Ventures' acquisition of the landmark development by Land Securities at 1 & 2 New Ludgate, EC4 for £552M reflecting a yield of 4.21% and a capital value of £1,417 per sq ft. The buildings, developed in 2015, offer two best in class office and retail opportunities with the majority of income deriving from Mizuho Bank. The WAULT is in excess of 10 years. This was Sun Venture's second acquisition in London after their purchase of 1 New Oxford Street, WC1 in Q3. This, along with the sale of the newly developed 1 London Wall Place to AGC Group (let to Schroders for 17.5 years) for £480M, 3.79% reinforces the attractiveness of best in class real estate with long let secure income, to well capitalised overseas investors and shows that London still represents an attractive safe haven for overseas investment despite the uncertainty caused by COVID-19.

Also exchanging in December was London and Oxford's long awaited acquisition of 75 King William Street, EC4 from Singapore's Keppel Land. A freehold building in an excellent location with medium to longer term repositioning potential trading at £128M, 4.59% and c.£1,000 per sq ft shows that investors are prepared to take a longer term view on more compromised buildings in super core locations. Another similar 'core plus' deal was CBREGi's acquisition of Atlantic House on Holborn Viaduct from Deka for £265M, reflecting 3.8% and £1,021 per sq ft. The building is let to Hogan Lovells for a further six years and then offers a repositioning opportunity in a prime Midtown location within 5 minutes' walk from Farringdon's Crossrail hub. The entry price for both these major acquisitions suggests that there is confidence in London's occupational market in the medium to longer term and that pricing for medium term income in strong locations remains at pre-COVID levels.

A continuing theme throughout 2020 has been value-add opportunities in excellent locations achieving very strong pricing. Q4 was no exception with 1 Great St. Helens, EC3 exchanging in 6 days to a Spanish Insurance company at £50.7M reflecting close to £1,000 per sq ft with only 3 years of income and Eden House, Spital Square E1 transacting to Global Holdings at c.£51M reflecting a capital value of nearly £866 per sq ft for a building with immediate vacant possession.

Conversely though other deals of a similar profile have struggled to sell mainly due to over-pricing; e.g. 1-5 London Wall Buildings, EC2, which was launched at c.£160M (£725 per sq ft on the proposed area) for a major refurbishment of a long leasehold interest, is likely to be withdrawn despite its excellent credentials (super core location and well worked planning consent). Capital House 85 King William Street is likely to be subject to a similar fate having launched with a pricing guide of around £150M reflecting 4.3% and £1,194 per sq ft for a freehold multi-let building in a prime location but receiving interest closer to 5.00%. Having said that, where there is a willing vendor we have also witnessed some value-add opportunities trade at lower capital values more reflective of challenging market conditions. A good example of this was the sale of 100 Fetter Lane which was marketed by the owners of Ryanair at £42M in October 2020 and was acquired by Yard 9 and Beaumont Capital at 24% below this for £32.35M reflecting £610 per sq ft for a vacant freehold building. This building did have its compromises with a leasehold interest to a pub hindering a major redevelopment. Similarly Peabody's sale of Albion House, 20 Queen Elizabeth Street, SE1 to GMG was at a price 26% below the £19M guide exchanging at £15.05M reflecting £516 per sq ft for a vacant office building.

The geography of the buyer pool is reflective of global travel restrictions and aside from some isolated cases such as 1 & 2 New Ludgate the majority of purchasers are domestic or European-domiciled with French and German investors proving to be active once again. French Fund Eurazeo Patrimoine was the equity behind Arax acquiring Johnson Building from Derwent London for £174.9M reflecting 4.10% and £914 per sq ft. We also witnessed French Asset Manager Sofidy acquiring 2-14 Bunhill Row a highly geared (17.5%) long leasehold interest let to the University of Law for a further 15 years with annual fixed uplifts. This was shortly after they acquired Penguin Random House in the West End for c.£67M. This is reflective of the fact that London still shows a discount versus prime European cities like Paris, Berlin and Frankfurt.

Heading into Q1 2021 under new lockdown restrictions; the most severe since March 2020, we envisage a quiet quarter ahead. The lockdown is likely to hold up on-going sales processes and we would anticipate that very few new opportunities will be launched to the market in January and February at least. Whilst it has been an extremely challenging year for the investment market, we anticipate that come Spring 2021 significant demand remains for both prime income producing assets and prime development sites. There are also green shoots of recovery in the occupational market which suggests that the future of the office is solidified, however, the true impact the Global Coronavirus Pandemic will have on the vacancy rate within the City is still unknown. Until this becomes more clear we believe the City investment market will become increasingly polarised with prime income yields potentially sharpening to 3.75% (from 4.00%) and pricing for multi-let buildings with imminent vacancy softening further forcing the gap between prime and non-prime to the widest it has been for over a decade.

Q3

A continuing theme throughout 2020 has been value-add opportunities in excellent locations achieving very strong pricing.

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Q4

A key feature of the quarter has been the return of larger transactions, notably absent earlier in the year.

West End Investment Market

Total West End commercial investment volume during 2020 reached approximately £5.5Bn, slightly ahead of 2019 volumes (£5.3Bn) despite the ongoing COVID-19 disruptions, which was an encouraging end to the year.

Q4 2020 marked the year's busiest quarter with £2.6Bn traded across 31 transactions, which reflects an average lot size of £77M. Almost half of the annual total exchanged or exchanged and completed in Q4, an illustration of sustained investor appetite for London's West End market despite the ongoing uncertain times being experienced globally, with London continuing to be seen as a 'safe-haven' for real estate investors.

A key feature of the quarter has been the return of larger transactions, notably absent earlier in the year. There were seven deals £150M+ collectively making up £2Bn or 75% of the total. The West End once again attracted a geographic diversity of investors with these seven properties being acquired by French, Singaporean, Canadian, Hong Kong, German (x2) and Spanish investors.

Prime Trophy assets attracted fierce competition, with 7 Clarges Street first to invite offers post summer, ultimately selling to Deka for £177M reflecting 3.52% NIY. Allsop's West End team along with our Asia partner Millennium Group advised the purchaser of BP's headquarters at One St. James's Square for £250M. Other large transactions in Q4 included British Land selling a 75% stake in three West End assets for £401M to Allianz and the sales of 158 New Bond Street to Chanel, Nova SW1 (50% stake to Suntec) and White City Place to Cadillac Fairview.

In December Allsop also advised Columbia Threadneedle on the sale of 21 St. James's Square to Pontegadea for £187.5M representing 3.65% NIY and £3,055 per sq ft. This asset attracted substantial interest predominantly from ultra-high net worth families, following a global marketing campaign which resulted in two rounds of bids. Investors were attracted by the quality of the real estate, its tenants and fundamentally the rarity of owning a freehold in London's premier Garden Square.

The West End investment market functioned surprisingly well in the second half of last year with little or no discernible value change for both prime trophy and quality value add opportunities. A large number of purchasers have been willing to commit capital to assets they were unable to travel to inspect. We anticipate investors will continue to look beyond the short term COVID-19 restrictions now that the effective vaccine rollout gathers pace, and a trade agreement has been signed with the EU. However as we enter 2021 it is likely that tightened lockdown measures may mean the launch of some planned sales are paused at least for the next few weeks.

During 2020 we witnessed first-hand through our sales the weight of capital chasing prime West End office assets. In many cases for every buyer there remain a handful of frustrated underbidders and we expect this weight of geographically diverse capital to continue to actively pursue deals during 2021. These investors believe in the long term occupational story of offices in London and the well-rehearsed investment arguments of the Capital's attractiveness to occupiers, safe haven status, rarity, liquidity and position as a top Global Tier 1 City.

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West End Leasing Market

Q4 2020 brought to a close one of the most challenging years' that the West End office occupational market has seen in its history. As the nation moved towards its third national lockdown since March, leasing activity unsurprisingly continued to be exceptionally limited with only 300,000 sq ft being let in Q4, some 60% below the long term average for the final quarter of the year. This brought take up for the year to 1.6M, again only 40% of what we would expect to see in a "normal" year. The ongoing pandemic and continued government guidance to work from home where possible will contribute to a sustained period of low level activity until at least the end of Q1 2021.

The most significant transaction in Q4 by far was Netflix securing an assignment of Capita's lease at The Copyright Building, Berners Street, W1 totalling 87,150 sq ft. The next largest deal was Hines securing a pre-let of 36,000 sq ft at Grain House, Drury Lane, where they had also recently purchased the development site. The third largest transaction for the quarter was HCA, the private healthcare provider securing 18,139 sq ft at 2 Cavendish Square from the Howard de Walden Estate.

The Tech & Media sector continues to be the most prominent driver of activity accounting for 35% of total take up, followed by the Financial sector which secured over 17% of available stock.

That said, overall market dynamics remain subdued with a large number of transactions that were under offer failing to complete, with many occupiers adopting a wait and see approach having been offered flexible and competitive terms by existing Landlords keen to avoid vacancy and/or capital expenditure in the current climate. West End supply stands at just over 6.4M sq ft equating to a vacancy rate of just over 6% of total stock. Of this stock we are seeing increasing amounts of tenant controlled "grey" space coming to the market – this now accounts for 38% of total availability and is set to increase further in the coming months. In terms of Grade A space, immediate new supply is limited with 85% of the development pipeline scheduled for delivery in Q1 2021 already pre-let.

Given the above we anticipate the two-tier nature of the market to become even clearer with a real divergence in rental values and tenant incentive packages between the best space in core locations and more compromised second-hand accommodation. Assuming a relaxation of the current lockdown regulations as forecast, we anticipate a dramatic increase in activity from Q2 2021 onwards as the market and society as a whole returns to more standard working patterns.

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National Investment Market

The onslaught of the COVID-19 Global Pandemic continues to weigh on commercial property transaction volumes. Q4 2020 proved a challenging quarter with the ripples of the pandemic continuing to feed through to recorded transaction volumes.

2020 transaction volumes for the entire UK market were down overall as follows:

Full year 2020 (as of 11/01/21)
£38.59Bn
down 24% on the full year 2019

H1 2020 (as of 11/01/21)
£20.45Bn
down 33% on H2 2019

Q4 2020 (as of 11/01/21)
£11.02Bn
down 33% on Q4 2019

> Boris Johnson's confidence that workers will 'flock' back to their offices as we gain more control over the pandemic is one shared across the capital markets.

As ever individual sectors of the market saw different challenges and increasing opportunities.

Retail

The final quarter of 2020 blew hot and cold for non-essential retail, opening in October, closing in November and opening and closing again in December. Rent payment on the high street has been mixed with various payment plans being put in place and the continuation of the Forfeiture Moratorium, unsurprisingly this has led to fluctuating demand for High Street retail where the tenants' future is uncertain.

Essential retailers on the other hand have remained open throughout the year and have had a very different experience, which has been reflected in the investment market. Viewed as secure income, convenience stores and bank investments have proved resilient as Allsop advised AVIVA on the sale of HSBC Lincoln to a private investor for £5.1Mm.

With planning legislation relaxing, we have seen an increase in investor demand for high street retail assets which can be repurposed and are underpinned by alternative uses. We anticipate this trend to continue in 2021 as the effects of CVAs and the shop closures are revealed. Notable transactions for the quarter included Native Land's acquisition of Debenhams, Guildford for £20M for future redevelopment and the Debenhams in Worcester, which Allsop sold to Oyster Capital, again with future redevelopment planned.

Across the high street, transaction volumes in Q4 2020 totalled £206M in 99 transactions, down 54% on Q4 2019. With the lockdowns hopefully coming to an end and the potential to repurpose retail, there is light at the end of the tunnel.

Offices

The back-end of most years is usually accompanied by a relative increase on investment figures as agents, investors and solicitors pull together to finalise their deals in preparation for Christmas, and a fresh start in the new year. In 2020, this was perhaps exaggerated by the looming post-Christmas lockdown and the investment numbers for Q4 seemed not too dissimilar to 2019, with more than 1.8Bn transacted in the regional office markets.

With many now having worked from home through all the seasons, Funds and property companies have looked beyond initial Lockdown 1.0 concerns as to whether occupiers would return to offices and have continued to invest heavily in locations outside the Big 6 cities with strong historic office take-up. The biggest deals included the purchase of South Park Road in Oxford by L&G for £200M; AVIVA's purchase of Station Road, Cambridge for £62M and the purchase of Onslow House in Guildford for over 38M by Corum Asset Management.

This is not to say that investors have been deterred from the Big 6. Highlights included German property fund KanAm's purchase of top of the class, Grade A asset, Quartermile 3 in Edinburgh for £45M as well as Catella's purchase of Cornerblock, Deansgate, Manchester for 24M.

The message is positive. Boris Johnson's confidence that workers will 'flock' back to their offices as we gain more control over the pandemic is one shared across the capital markets. The concept that demand will fall for offices seems to have been rejected and perhaps a view that office space will instead be redesigned to provide higher job satisfaction for employees has been adopted. The market seems to indicate that this remains true for strong regional cities across the UK, whether they are in the Big 6 or not.

Industrial

The ongoing depth of appetite for industrial was reflected in a record quarterly high of £3.6Bn transacted in the final three months of the year, up from £1.3Bn in Q3. This was driven by distribution warehouse transactions including Blackstone's acquisitions of portfolios from Prologis and EPIC as well sizeable estates transacting such as Perivale Industrial Park, London for £202M and Dnata City, Heathrow for £83M. This concluded an exceptional 12 months for industrial investment, accounting for 19% of total investment volume; a record share.

Allsop completed a number of notable industrial investment deals in Q4 2020. These included the sale of the Hornet Portfolio (7 single and multi-let industrial assets across the UK) for £35.27m / 6% NIY and the CRM Portfolio (two multi-let industrial estates in Redhill and Croydon) for £20m / 5.5% NIY.

As the pandemic has accelerated and consumer adoption of online commerce, the provision of logistics stock has never been more critical. Record take up in Q4 caused availability to fall by 11% during the quarter to 65.6M sqft, roughly where it was a year ago and some 30% below its post GFC peak. Continued speculative development should help alleviate the supply shortage with 3.5M sqft under construction and scheduled for completion in 2021. Developers and investors' appetite for well located development land remains strong and continues to replenish the pipeline.

Rental growth is expected to remain relatively strong in 2021, and with fierce competition for investment assets, there may be further mild prime yield compression, with the sector continuing to outperform retail and offices.

Retail Warehouse

Throughout the national lockdowns and tiered restrictions, a much higher percentage of retail parks have managed to remain open compared to retail on the high street and in shopping centres. In addition, the large units and car parks allow for click and collect and in store social distancing to be adhered to.

With more time being spent at home as well as the more permanent working from home situation, the DIY and homeware retailers saw an increase of 21.6% like for like sales growth to October 2020 (BDO).

The total 2020 retail warehousing investment volumes were £2.04Bn, approximately 16% up on 2019 volumes of £1.71Bn. Much of this was due to the uptick in investor confidence in Q4 and the selective return of institutional capital. Q4 volumes were £650M which again were up on Q4 2019.

Many funds remain overweight in retail and therefore cannot invest into the sector but those that are not have been able to make the most of the comparatively attractive pricing on offer. Threadneedle, KFIM, Patrizia and Federated Hermes were all active retail warehouse buyers in Q4.

Portfolio

What a difference a few months can make. Following a muted start to 2020, the UK commercial portfolio market has found its mojo.

We reported in the Q3 2020 market update that market conditions were improving following a slew of September portfolios brought to the market, the majority of which have now successfully sold and in several cases achieved significant premiums to quote prices. As expected a majority of commercial portfolios are focused on industrial and logistics uses. Blackstone Real Estate continues to buy and accounted for a mammoth 46% of Q4 portfolio transactions, further solidifying its position as the most active purchaser.

Fuelled by our sale of the Octane Portfolio, a portfolio of forecourts and convenience stores (£11.95M, NIY: 5.55%) further cementing our long term specialism in alternative long income sectors, the Allsop National Portfolio team was on fire during the winter months with exceptional results. The Hornet Portfolio (£35.27M, NIY: 6.00%) and the CRM Portfolio (£20M, NIY: 5.20%), both multi-let industrial portfolios gained strong interest and premium pricing.

Now for the interesting news. Q4 transactional volumes remain c.40-50% of recent transactional peaks over the last 5 years and we know there is plenty to come in Q1 2021. The positive shoots of growth are now well rooted. Even in the first few weeks of the usually muted month of January, new portfolio stock is already on the market highlighting increasing consistency of supply.

We have proven through our own sales, there is a real depth to investor demand in the market right now. We are looking forward to updating you again in several months' time, and we think we will be looking at a very different and increasingly positive transactional landscape.

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Commercial Auction Market

A year of disruption and opportunity in the auction market

There is little that hasn't been said about 2020 and the impact that the pandemic has had on society, working and shopping habits and in this market's case the ability and sometimes willingness of tenants to pay their rent.

Put simply it was a year of massive disruption with few winners bar Amazon as retail sales grew overall and reached new levels online.

The Private Investor chose to be unbowed and has patiently adapted to our digital platform which arrived with 5 days' notice in March and has quickly become mainstream and allowed uninterrupted trade throughout the year.

Arguably those Investors are the ones who have benefitted from an acceleration in the pace of sales and the acceptance of the new digital sales format.

The auction market has remained active throughout the year and we added two more auctions to the calendar increasing flexibility for buyers and sellers alike. The private treaty market was in recess for many months and as a result we have doubled our market share of the sub £5m commercial market to 9% from 4.5% last year according to Co Star's latest figures.

Which sectors have been the winners?

Investors have taken the three mantras of investing in our high yielding market to new levels - how long, how secure and what growth potential does the income have? Competition has been strongest for long income across all sectors, particularly where the rent has continued to be paid and is seen as sustainable.

This has taken convenience retail and roadside particularly to new heights; sometimes even in the absence of long leases, breaking the sacred rule of longevity of income.

With interest rates so low it is all but impossible to get a real return on cash on deposit which has added to investors' war chests when looking at value-add and mixed use assets which can be hard to price accurately. Some of these lots have been higher value than the typical auction lot, the largest, sold in December was over £10m for a development play in Ruislip Manor giving investors a substantial and long term project but meagre initial yield below 4.5%.

The greater number of larger lots has increased the average lot size throughout the year to £724,000, and for the first time ever we recorded an average lot size of over £1m at our final sale of the year in December.

One of the losers this year has been retail tenant demand, and rents in the core city centre High Street are uncertain at best, and typically falling in all but the most prime locations. This acceptance by the market and pragmatism from Landlords has allowed a more realistic approach on valuation. This has brought better liquidity and allowed Funds and Investors to divest away from retail which our cash rich buyers have been buying in their continued quest for yield. Our investors remain undaunted by lot size. With each investor having a different view on value, this raises the bar for us to interpret what buyers might pay.

One of the joys of our market is that it is almost perfect. Whilst owners move to rebalance their portfolios, we have the buyers ready and able to take on these assets at yields reflecting the new paradigms of risk, but with perhaps a lower cost of capital.

We saw this clearly with one client selling a long held office opposite Windsor Castle at 3.5%, (£2.625m). Within a fortnight he had replaced this income for just £850,000, as he was happy with the risk/reward of 12.6%, on a retail asset in Birkenhead, let on a longer lease than his Windsor office.

The recent arrival of the vaccines will deliver a rebound in GDP growth and consumer spending once we are all more clear of the pandemic threat. Canny investors will benefit from these opportunities, it is just a matter of timing. The yield gap has widened reflecting the risk differentials between the safest and the most opportunistic income streams, and this will continue to be the case until we can detect a base line of genuine recovery. This ongoing disruption creates the sort of market where the Private Investor is at its most nimble and the auction market its most efficient so it will be a year of opportunity and intrigue.

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Residential Development Market

> There continues to be strong demand for unconsented land available on either an unconditional or subject to planning basis.

2020 has certainly been a year unlike any other. However Q4 almost reflected the year as a whole. Much like the start of 2020, which started with a degree of optimism and a first quarter of positive growth, after six months of relative turmoil and continued uncertainty the end of Q3 and the start of Q4 was filled with relative positivity. Numerous delayed transactions exchanged and completed industry wide throughout September and October. This was followed by a dip in sentiment at the end of October and November which was linked to a second lockdown with the quarter then finishing with an uptick in sentiment following vaccine approvals and the sense of a light at the end of the tunnel.

This sentiment was supported by the new homes sales figures from Q3 which reportedly almost matched the pre-covid Q1 figures. It is clear that the combination of the continued help to buy scheme, stamp duty break and buyers being confined to their existing properties for significant amounts of time has galvanised UK owner occupiers into acquiring new build property. This has subsequently led to increased confidence from developers.

There has, as anticipated, been an increased number of sites available following a pause in transaction volumes earlier in the year, however there continues to be strong demand for unconsented land available on either an unconditional or subject to planning basis, along with the smaller consented sites, with a significant number of offers being received for this stock.

This demand has meant that land values have remained relatively static, despite uncertainty, however in certain circumstances vendors' expectations have been re-aligned with the market. Housebuilders and Housing Associations have returned to the market, however are doing so cautiously with their focus still on subject to planning or value add opportunities which has resulted in the market for the larger consented stock continuing to be slow with a marginal price correction seen in certain places.

Caution still remains in the funding market and therefore cash purchasers who can perform quickly continue to be in a strong position to acquire the best sites with certain vendors continuing to opt for speed and certainty.

While there is a degree of optimism in the air and a flurry of transactions took place in the lead up to Christmas, there is certainly a corner of the market that continues to hold cash reserves awaiting opportunities that may come during the year ahead. There is concern around what may lie within a post furlough, post help to buy and post stamp duty relief world with lingering fears over potential Brexit implications combined with retailers reduced Christmas trade impacting already struggling trading conditions which will be further effected by the national lockdown going into 2021.

However, while the suggestion is that the second half of 2021 is likely to see an element of distress in certain areas of the industry, this will create asset management and alternative use opportunities for those with the appropriate funds and resources in place. Early signs in 2021 suggest despite the national lockdown, news of the vaccine rollout timetable and the industry's experience of working under these conditions has meant that there is still a degree of optimism in the air.

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Residential Investment Market

As predicted following my Q3 update, the appetite for residential across the length and breadth of the UK has not dimmed in the slightest.

We have been selling property from South Kensington, South Norwood and Muswell Hill to Bristol, Glastonbury, Doncaster and Hull amongst others. Although the yields and the types of property vary considerably, our extensive database continues to flush out a broad selection of buyers looking for a safe place to deploy cash funds and a tangible investment.

The Central London market is also proving ever popular, however it is clear that investment buyers are being cautious and picky on what and where they buy due to uncertainty on pricing and a lack of good transactional evidence in recent months to rely on.

Cash however seems to be readily available and recourse to borrowing is minimal albeit this tends to be in the sub £3- 4M price bracket.

Pricing as ever is key and any investment showing a reasonable yield and an opportunity to add value (and thus add rental income) is a notable draw for prospective purchasers, in particular in the south east where yields remain tight and capital values high.

The notable uptick in enquiries and demand from buyers for specialized housing as previously mentioned in my Q3 update also continues. With significant demand for a very broad range of all property types with specific end users in mind, whether it be hostels for the homeless or a mix of part self contained and shared accommodation for those with special needs and live-in carers.

We expect this demand to continue throughout 2021 and beyond as wider economic forces come to bear and demand for housing at the cheaper end of the rental spectrum increases. We do have some significant institutional mandates for all manner of housing types from houses to PD conversions and we would love to see more from our client base in this regard.

Perhaps surprisingly, in December the market did take its usual lull and although Christmas parties and client entertainment were not on the agenda, with the obvious tier restrictions placed on all of us and uncertainty around family gatherings and travel, it was not all that surprising that it was quieter than expected.

The continuation of lockdown is frustrating for vendors and buyers alike but we anticipate a collective, but positive sigh of relief as the days get longer, winter recedes and the vaccine gets rolled out.

Q2 of 2021 looks to be the most likely springboard we are all waiting for.

> The notable uptick in enquiries and demand from buyers for specialized housing as previously mentioned in my Q3 update also continues

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Student Housing Market

A multitude of external factors continue to hamper vendors and investors, creating a temporary feeling of frustration but with a clear eagerness to 'get back to it' as soon as a form of normality returns.

The seemingly continuous doses of consumer-led, headline grabbing negativity are unanimously regarded as immediately short-term with nobody questioning the medium to long-term investment credentials of student housing. The fundamentals have not changed, in fact the fundamentals are more appealing than ever before but the sector needs to get beyond this academic year before we can expect investment activity to resume pre-2020 levels.

2020 was predicted to be the year that topped all years, a record breaking year for transaction volumes. Instead, 2020 will now hold the title as having the lowest in a decade. Blackstone's acquisition of IQ (£4.66Bn) will distort figures so if you want to consider the truer picture by removing this anomaly, what you will find is a 12 month period with fewer than £1Bn worth of transactions. 2021 could take the crown; demand is bourgeoning but timing is everything.

Q4 specifically was dominated by news about the student population – 1,000s of COVID cases, online teaching, locked-down halls, mass-testing and how to get students safely home for Christmas. Inevitably this is all having an impact on vendors and the market is suffering from such operational pressures as a result. It is distracting, but nonetheless a priority to ensure the safety and well-being of tenants over and above making further acquisitions.

There were other factors supressing the market too. The cost of debt, heightened reliance on rental incentives, occupancy, refunds and general short-term uncertainties regarding security of revenue streams.

In a trading update, Unite Group indicated that 88% of its bed spaces were let across its portfolio, down from 98% in 2019-20. The FTSE 250 company referenced 20% of bookings were yet to 'check-in', which is a consequence of the necessity to offer students flexible contract start dates. Similarly Empiric announced occupancy across its portfolio had fallen to 70% from 94% in 2019-20. It too was affected by students arriving late. Interestingly both Unite and Empiric recorded like for like weekly rental growth, despite a challenging letting season.

Q4 did see some eye-catching announcements, all of which represent strong evidence of the continued longer term confidence in the student sector. A JV between GSA and Harrison Street acquired the Print Hall and Unity Street buildings in Bristol comprising 500 beds for an undisclosed price from a UK pension fund. US-based Harrison Street also announced a JV with Torsion Group to invest £200M in UK PBSA having identified a pipeline to bring forward 3,000 new bed spaces. Singaporean listed Metro Holdings announced a new UK PBSA fund known as Paideia Capital. The fund made its first acquisition in Warwick, securing a newly delivered 210 bed scheme - Red Queen. Brookfield/ Student Roost also signed a funding deal with Watkin Jones to deliver 659 beds between two schemes in York and Bristol.

It will become easier to price deals in Q1 2021 and beyond as lettings for academic year 21-22 provide the benchmark both buyers and sellers need – a reflection of regular market conditions. Q4 saw hugely positive early uptake with many of our clients reporting their strongest ever October/ November booking performance. This was reported across the board for both HMO and PBSA landlords. We expect such encouraging booking numbers to be just the catalyst required for a strong start to 2021 as investors get back to it.

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Build to Rent Market

The BTR sector continued to show resilience to the effects of the COVID-19 pandemic with investor appetite and levels of rent collection remaining strong in Q4, as they have done since March. The 'long term' view taken by almost all investors means that BTR remains an attractive investment with counter cyclical dynamics.

Prevailing affordability constraints and the continued growth in unemployment as a result of the pandemic will continue to turn home buyers towards BTR, which provides quality rental accommodation with cohesive communities where residents can feel secure for longer term tenancies. Community engagement, technology and security, which has been utilised well by BTR operators through this pandemic, is now one of a resident's priorities when looking for a new home according to HomeViews.

The transactional activity we saw emerging from the summer lockdown in Q3 continued into Q4 with the November lockdown providing no slowdown in the sector. As investors and developers looked ahead into 2021 and evaluated new opportunities, it was a busy end of the year for BTR. Deals in Q4 continued to represent strong pricing levels considering they were primarily agreed during 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 171,814. The regions continue to grow their margin over London in terms of the number of BTR homes, accounting for approximately 95,010 with 76,804 in the capital.

Activity of note during this quarter includes; Long Harbour has sold Skyline II, a 135 unit stabilised BTR scheme in Manchester to L1 UK Property Investments for around £27M, having bought it in 2013 for £17M; L&G agreed to fund its second BTR scheme in Birmingham for £100M through a joint venture with PGGM and L&G Capital, the 395 unit scheme will be developed by Sir Robert McAlpine; TfL and Grainger were granted planning for 139 homes in Kennington; Moda Living received permission for its second BTR development in Birmingham, a £260M, 772 unit scheme situated in Birmingham's Jewellery Quarter; Countryside Properties and Sigma Capital have expanded their existing partnership to deliver an additional 5,000 homes over the next three years, which will comprise a mix of private sale, PRS and affordable homes; Apache Capital Partners and Harrison Street have agreed to forward fund Moda's 433 unit BTR scheme in Glasgow which is expected to be completed in 2023; L&G has announced a new suburban BTR business which will aim to build over 1,000 homes a year from 2024.

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 in the region of 4.75% to 5.25% NIY.

The BTR sector has showcased its robustness throughout the turbulence 2020 brought to the world. Now in 'Lockdown 3.0' we expect activity in the sector to grow and predict a busy and successful 2021 for BTR as a whole and continued emergence and development of the suburban BTR market.

The transactional activity we saw emerging from the summer lockdown in Q3 continued into Q4 with the November lockdown providing no slowdown in the sector

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Residential Auction Market

The final quarter of 2020 was reassuringly robust. Our October sale raised £44.7M with a success rate of 84%. The total was almost 13% up on the October sale a year earlier at £39.6M. We finished the year with a strong 87% December sale which to date has raised £56.3M, up 10.4% on December 2019 at £51M.

2020 ended on a total of £315.8M with 86% of lots offered successfully sold. Despite fears for the market immediately after the outbreak of the pandemic and the first lockdown in March, the final four sales of 2020 each generated more than the corresponding auction of 2019.

These exceptional results were due in part to interest rates remaining at a record low of 0.1%, the extension of the furlough scheme, the availability of government 'bounce back' loans and, in particular, an increased stamp duty exemption to £500,000 up to 1 April 2021.

Changes in working habits continued to cause shifts in geographical demand. Whilst London remained stable, properties with outside space in more rural locations grew in popularity. Yields from assured shorthold tenancy investments outside of London contracted as investors recognised this trend. London yields crept up.

Despite the continuing spread of the virus across the UK, developers showed determination for new opportunities. One of the most popular lots to be sold in October was a freehold detached former health centre and site in Bexleyheath. Comprising a building of almost 6,000 sq ft on a site of 0.4 acres, the property offered potential for conversion to residential use or for complete redevelopment. A total of 198 bids were placed online raising the bidding to a final sale price of £1.37M. And the most valuable lot to be sold at this sale was a freehold development site in Sutton, Surrey of 0.24 acres. With planning permission for demolition of an existing building and redevelopment to provide a new block of 14 apartments, the lot was sold for £1.7M.

The December auction crowned the year's results. Housing associations contributed 70 lots to the 270 lot total. There were 30 garage sites of varying shapes and sizes, some offering potential for redevelopment. The highest value lot was a freehold mid terrace building formerly used as a house in multiple occupation in Blythe Road, West Kensington, London. It was sold prior to auction for £1.75M. And one of the most popular lots was a vacant maisonette in Haggerston, London N1. Fuelled by the countdown to the stamp duty deadline, competitive demand resulted in 140 bids being placed. It was eventually sold for £523,000.

The year ended on a more hopeful note as the vaccination programme was rolled out. The final four sales of the year reflected the data from the wider housing market. According to the Nationwide Building Society, house price growth had risen to a six year high of 7.3%. House prices ended the year 5.3% above prices prevailing in March when the first lockdown was announced. Despite the undoubted influence of an array of supportive government measures, the pattern of auction results during the last quarter of 2020 is indicative of an underlying confidence in UK residential property as an asset class.

For a full analysis of our auction results in 2020 and our outlook for 2021, please take a look at our Residential Auction Annual Review which is now available to read on our website.

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Despite fears for the market immediately after the outbreak of the pandemic and the first lockdown in March, the final four sales of 2020 each generated more than the corresponding auction of 2019

CLICK TO READ THE RESIDENTIAL AUCTION MARKET REVIEW IN FULL

Business Rates

Over the past decade, online retail has altered the consumer experience and created significant headwinds for the traditional high street. Never has this been more relevant than in 2020, a year where we have been confined to our homes; with our work and social lives being lived-out virtually. It is therefore unsurprising that e-commerce has followed, highlighted by non-food online sales increasing 36.2% in 2020. For many, the latest lockdown has been the straw that broke the camel's back, adding to the swathes of businesses with 2020 obituaries. The crucial question we ask ourselves now is will we see a reversion to 2019 or continuation of 2020 for bricks and mortar.

This further shift online will increase the pressure on the Government and its promised Business Rates Review. As discussed in our previous quarterly report, the Government is undertaking a comprehensive review of business rates. However, the interim report that was expected in the autumn has since been delayed to the spring, highlighting the difficulty of surveying this ever-changing economic landscape. This report, alongside the March Budget, should provide clarity on the direction the Government will take on business rates going forward. Crucial information for retail and hospitality is whether or not the expanded retail rates relief scheme will be extended beyond its current deadline of 31 March, and if so, by how long. Furthermore, will there be any changes to income tax, corporation tax, VAT, stamp duty and the furlough scheme; all of which will greatly impact both businesses and individuals moving forward.

In order to bring some level of financial planning ahead of this, the Government announced in the November Spending Review that the 2020/21 multiplier would be frozen for the 2021/22 business rates year. This is positive for occupiers and business owners in that it eases their ability to accurately budget for next year. However, it does little to dampen the cries for clarity on whether occupiers of other commercial units can expect any form of rates allowance. As it is widely known and commented on, whilst businesses in the hospitality, retail and leisure sector have benefitted from the much needed cessation of their business rate liability for the year 2020/21, sectors such as offices, factories, car parks and more, are yet to receive any form of allowance or relief as a result of the pandemic. This is despite the inability to occupy their spaces for large parts of this year.

In the 2017 List the valuation date was set on 1 April 2015, meaning that all current rateable values are based on rents set at this date. As a result of the delayed revaluation, the new 2023 List will utilise 1 April 2021 as the new valuation date. This will allow the impact of the pandemic on the UK property market to be reflected in the valuations going forward, at least in-part, and therefore the new rateable values shall be more reflective of the actual economic circumstances than the original 2021 Revaluation.

Case Law – Important Q4 Decision

Ludgate House is a vacant office building. The owner Ludgate House Limited (LHL) engaged VPS (UK) Ltd to organise the occupation of the building by property guardians. This occupation is utilised for the prevention of squatters and vandalism to the building, as the guardians take up residence to protect the building. This type of occupation also benefits from moving the property from the business rates list to the council tax list due to its new use as residential for the period that the guardians are in occupation – this leads to an enormous reduction in the overall tax liability of the building.

The Upper Tribunal decided that the occupation by 'guardians' did indeed mean that council tax rather than business rates would be applicable, however the Court of Appeal overturned this decision in December. The Court of Appeal drew from examples of caretakers and in-home help, whom occupy space in a property in order to perform certain duties, but are not in rateable occupation of that property. Lodgers too are able to live within a property with their own lockable room, but are similarly not in rateable occupation. The guardian scheme of Ludgate House has elements of each of these examples. The Court of Appeal therefore deemed that the landlord LHL had retained paramount control of the property as the guardians were in occupation to provide a specific role; providing a property guardian service. The guardians were on-site because of a contract between LHL and VPS, and in this the guardians did not have exclusive occupation.

This decision will undoubtedly have ramifications on the 'guardian' model, and it will be interesting to see if the case is revisited in the Supreme Court.

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Letting & Management

As the government's ever changing lockdown guidelines became a consistent part of everyday life, feeling safe and secure in our homes has never been so imperative for us all.

The impact of emergency legislation introduced following the outbreak of the global pandemic continues to be a significant factor for landlords and managing agents. Rules preventing the enforcement of evictions against tenants have been extended in England, meaning no eviction notices can be served until the 21st February, except for the most serious of circumstances; for example anti-social behaviour and extreme rent arears. The six-month notice period introduced by the government in September will remain in place until at least 31 March 2021; this is on top of the extreme delays within the courts, creating further difficulties for landlords.

With the government's furlough scheme being extended again to April 2021, we have found landlords are aiming to keep occupancy levels stable by opting for zero rent increases across their portfolios. This is in line with ARLA's recent report covering the month of November, which found less than one in three agents (28%), witnessed landlords increasing rents, compared to 37% in October and 40% in September.

Despite the challenges this sector has faced, the last quarter of 2020 has been extremely positive for Allsop Letting and Management (ALM). We were delighted to win Property Manager of the Year at the RESI Awards in December and we were also identified within the top three BTR Managers at the Homeviews Awards as voted for by residents. The accolades continued as Lesley Roberts, Executive Director of ALM and Allsop's Build to Rent Partner was named as one of The Negotiator's Top 20 Women in Property.

ALM has been appointed to deliver the financial service charge element of Landsec's Nova and Kingsgate developments in Central London. This is in addition to handling the property management of other developments within Landsec's portfolio.

In early 2020 ALM was appointed by Barings to take over the management of The Keel, a BTR development in Liverpool. This successful partnership has been supplemented with Vox, an exciting new 270 unit BTR scheme in Manchester comprising 1, 2 and 3 bed units across 15 storeys which is launching in January 2021. Designed with wellbeing in mind, residents will enjoy the outdoor terrace and a rooftop running track, as well as a yoga and fitness studio offering Wexer virtual technology fitness classes.

As the start of 2021 brings another national lockdown, we expect the first quarter of the year to be a continuation on 2020 in relation to operations and rental market resilience. As the vaccination programme gains momentum, we expect the rental market to go from strength to strength as we enter spring and beyond.

> Despite the challenges this sector has faced, the last quarter of 2020 has been extremely positive for Allsop Letting and Management (ALM)

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