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What is transacting in the commercial market?

May 2020

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After over a month of lockdown in the UK, and with business levels having reduced, the focus is shifting towards the question of when and how the restrictions on movement might be released and how the property market will fair going forward after the crisis. There have been very few larger property transactions in the last month but a surprisingly high number of mid-sized and smaller transactions across both the private treaty and auction markets in certain sectors, but the pattern which has emerged has very much split the market into two clear elements. There is a tier of properties which are selling well and a clear difference with those which are not.

There is a first tier of assets which are selling well, often at pre Covid-19 pricing and are in heavy demand providing a level of transactional volume. Our transactional teams at Allsop have been very busy having focussed efforts in these areas with a good degree of success both by private treaty and auction. Secondly are those assets which are property investments with an uncertain future, considered high risk, lacking sustainability of occupation or use, difficult and in some instances requiring considerable experience and skill to value and in which the market for some assets is either seeking heavily discounted prices or effectively refusing to trade.

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The first tier are property assets with the characteristics of sustainable occupation and cashflow which have sold well in the post Covid-19 market. These are assets which continue to have occupational demand, uses which are trading well in the current environment and units with strong occupier credentials.

- Retail uses such as supermarkets, convenience stores, discount / variety stores and pharmacies.
- Alternatives such as doctors' surgeries and convenience led petrol filling stations.
- Offices let to strong covenants which will continue to need accommodation such as government departments and banks or administrative centres, NHS uses.
- Well let out of town offices.
- Well located distribution units, in demand due to the increase in last mile delivery
- Light industrial / warehouse units in the suburbs.
- All of the above with long tenant leases of 10 years plus and / or strong tenants covenants
- Rack rented properties with RPI or fixed increases.
- All of the above with strong redevelopment / residential potential.

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640 – 656 High Road Tottenham N17

Due to the focus of the market on this first tier, pricing in some instances has remained strong and held firm at pre crisis levels.

A good example has been the sale of 640 – 656 High Road Tottenham N17 which was sold in late April by Allsop for £7M reflecting 4.75% NIY.

The property comprises 19,992 sq ft of freehold office accommodation across three storeys. Built in 1973, the building is currently a Job Centre and is entirely let to The Secretary of State for Housing, Communities and Local Government with eight years unexpired on the lease at a current rent of £354,858 pa. The building also has PD approval for a residential conversion of the upper parts. The property offered at £6.5M received huge interest from multiple parties.

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The second tier are those assets which were considered secondary before the crisis, but now lack sustainable occupation or use, with perhaps short income and questionable tenant covenants, non-payment of rent and a level of vacancy.

These properties are subject to thin transactional volumes or just not trading and will bear lasting damage from this crisis.

- High Street secondary pitch retail units where rental values were gently falling but now having closed will have dropped significantly.

- Properties let to retailers and leisure operators which have not paid the March quarter rent demanded and may not survive.
- Shopping centres in decline, dominated by or within another centre's catchment, part vacant and with no obvious alternative uses.

- Secondary leisure properties, hotels, restaurants, gyms, public houses let to covenants which may not continue past the crisis.

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There of course is probably some middle ground of properties which will bounce back fairly quickly in the post Covid-19 world such as well located retail parks, short let office or light industrial property, and business centres all with good fundamentals.

There is however a strong case for the material uncertainty clause currently being used by the valuation community to be lifted for the first tier and this is starting to happen. The clause will likely remain in place for the second tier for some time to come and until there is a level of trading in this market which is not the case at present.

With regards to those properties at the more difficult, bottom of the second tier, there will be a level of heavily discounted pricing which will be attractive to the market and which will kick start transactions again. However, we are a long way off that point and there needs to be a readjustment of understanding of such assets and a change of mind-set which will come with time and when the valuation community has the courage to make the necessary mark downs.

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