Commercial & Residential

Market Update

Q1 2021

Contents

Economic Overview

The careful release from Lockdown 3.0 is on track, and as step 3 of 4 is in sight, the impact of the reopening of non-essential retail and outdoor hospitality is being carefully watched. Two more steps to go to freedom and whilst there is an air of positivity prevailing there remains the expectation that testing and vaccination are set to be a big part of life from now on.

Lockdown has really put us through our paces and fully tested how we live, where we live, how we shop and where we work. It is clear that the pattern of a range of our activities has changed, and to a degree permanently. Flexibility and variety of choice are sought which is forcing real estate to adapt. It is interesting however, that although home working was novel in 2020 a return to the office in a more flexible format is increasingly sought.

The good news is that the economy is growing again with an early rebound of increased activity in February with GDP growth of 0.4% following a 2.2% decline in January and as we await the March figures this trend is expected to continue. The improvement in growth has coincided with a pick-up in exports to the EU.

In the second month of the imposition of Brexit border controls there was a £3.7Bn rise in exports to the bloc, following a £5.7Bn monthly drop in January, as cross border trade improves.

The economy is, however, noted as being 7.8% smaller than a year earlier, before the impact of the pandemic. Nevertheless these figures are encouraging demonstrating growth at a time when many businesses were closed and supporting the view that the economy has taken a far milder hit in this last lockdown than 12 months ago. Many commentators are now forecasting a rapid bounce back with expected growth of perhaps between 4 -5 % in Q2 as many retail and hospitality businesses reopen and office workers return.

There is certainly a spring in the step in the real estate world with a pent up demand to do business and the weight of capital and the desire for activity pressing. There is optimism across the Allsop business streams and expectation of increased activity as 2021 progresses.

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Ed Dunningham
DL +44 (0)20 7543 6739
edward.dunningham@allsop.co.uk

City & City Fringe Leasing Market

The progression from the implementation of the third lockdown on the 4 January 2021 to the end of Stage 3 of the roadmap has been considerable in the City leasing market.

Many businesses have u-turned from being in favour of working from home in 2020 through to a majority of businesses now wanting to return to the office.

We have witnessed Steps 1-3 of the roadmap take place; the continued roll out of the vaccine has now reached 33 million in the UK and all adults over the age of 40 can now be registered for the vaccine. Step 1 witnessed the re-opening of schools (8 March 2021) with mixing of 6 people outside permitted (29 March 2021). Most recently Step 2 (12 April 2021) witnessed the opening of indoor leisure, outdoor hospitality and non essential retail and a real increase in occupational activity.

All this has led to more people returning to the City. Mainline City stations have once again welcomed the return of commuters. A welcome sign for demand in office space which will only increase over the coming months and into H2 2021. Q2 is already shaping up to become a really active quarter; viewings have tripled and occupiers are keen to return to the City with a desire to redefine and improve the workspace for the wellbeing of staff in the future. This is leading to lower densities and increased employee engagement in the relocation process.

Landlords are reacting quickly to the increased demand for 'better' workplaces and are united in delivering increased wellbeing options for staff through air quality, sustainable materials and increased communal zones, be it terraces, gallery space, town halls and improved end of trip facilities.

The Allsop viewing tracker has been running since lockdown 1 in Q2 2020 and has seen average viewings increase for the City from 7.2 during 2020 through to a peak of 36 in the last week and an average of 15.9 per week for 2021 to date. The enquiry levels have increased from an average of 53 per week in 2020 to 79.3 per week in 2021 and a peak of 105 in recent weeks.

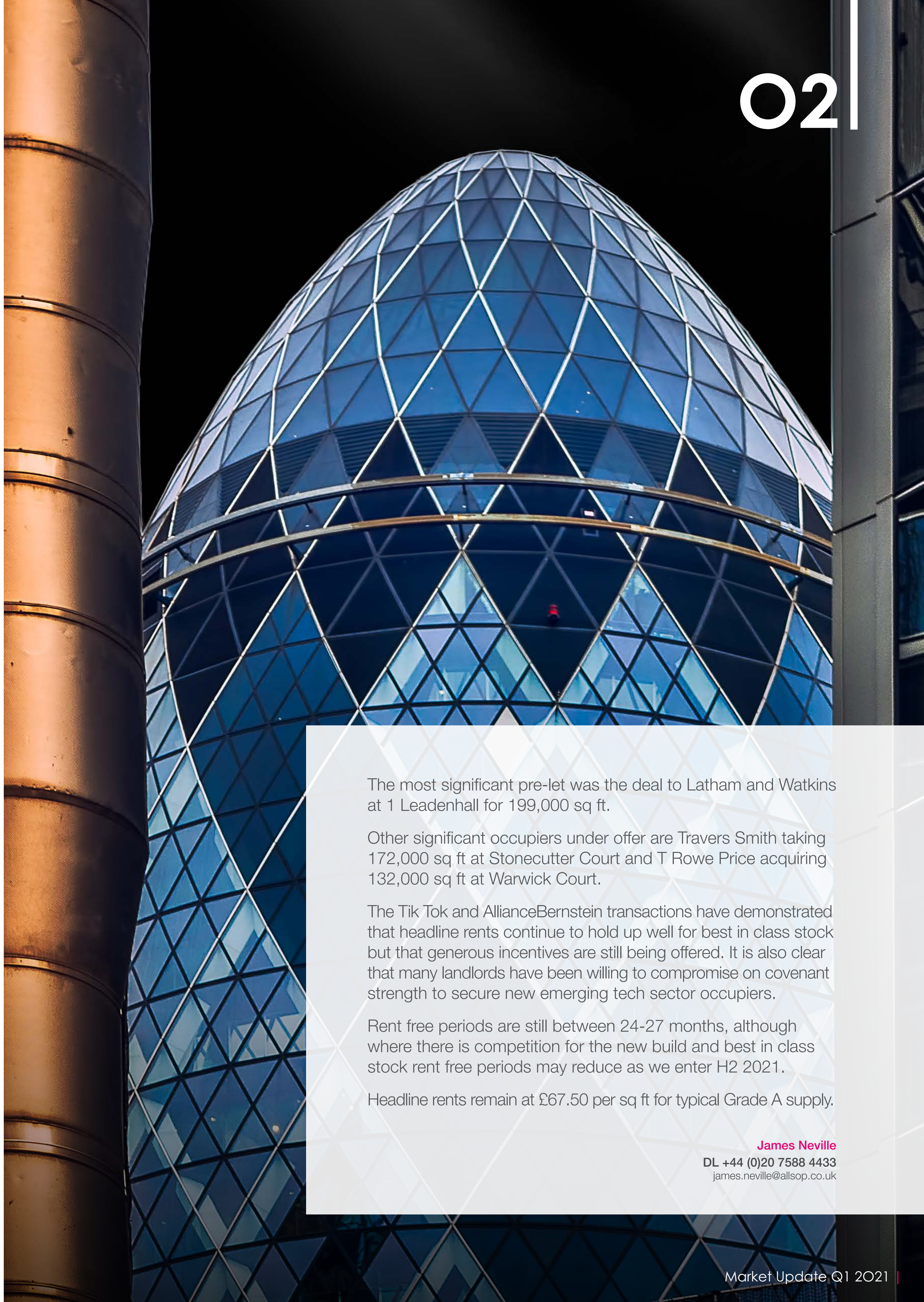
Viewings have now exceeded 200 since Boris' Roadmap announcement and we have had over 783 City Agents Society enquiries.

Whilst we have witnessed an increase in demand, availability has also increased with a rise in vacancy rates from 7% to 8.7%. Supply continues to be dominated by second hand grade B space with limited new build stock completing for Q1 2021. The vacancy rates remain well below previous downturns in the early 1990's and the financial crisis of 2009.

Take up reached in excess of 750,000 sq ft for Q1 2021 and, whilst well below the long term average of 1.4 million sq ft, was 350,000 sq ft more than Q4 2020.

The most notable deals included, Tik Tok taking 88,500 sq ft at Helical's Kaleidoscope, 4 Lindsey Street, EC1. The best space achieved £90 per sq ft with a blended rent of £86 per sq ft pa, agreed on a 15 year term, 10 year break and 24 months' rent free.

AllianceBernstein acquired 52,000 sq ft on the seventh and eighth floors at 60 London Wall on a 10 year lease at £79 per sq ft. IDRC (The International Dispute Resolution Centre) acquired 46,000 sq ft at Juxon House on a 15 year term and Leigh Day acquired 28,360 sq ft at Panagram, 27 Goswell Road on a 12 year lease at £65 per sq ft. (Leased by the Allsop City Team on behalf of Dorrington).



The most significant pre-let was the deal to Latham and Watkins at 1 Leadenhall for 199,000 sq ft.

Other significant occupiers under offer are Travers Smith taking 172,000 sq ft at Stonecutter Court and T Rowe Price acquiring 132,000 sq ft at Warwick Court.

The Tik Tok and AllianceBernstein transactions have demonstrated that headline rents continue to hold up well for best in class stock but that generous incentives are still being offered. It is also clear that many landlords have been willing to compromise on covenant strength to secure new emerging tech sector occupiers.

Rent free periods are still between 24-27 months, although where there is competition for the new build and best in class stock rent free periods may reduce as we enter H2 2021.

Headline rents remain at £67.50 per sq ft for typical Grade A supply.

James Neville
DL +44 (0)20 7588 4433
james.neville@allsop.co.uk

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City & City Fringe Investment Market

A typically subdued start to the year was exacerbated by the Government announcement of "Lockdown 3.0" on 4 January resulting in many sales being paused until the relaxation of restrictions. Despite the challenging market conditions with inspections and overseas travel near impossible, sentiment has improved significantly towards the end of the quarter following the success of the vaccination program and "Lockdown 3.0", leading to the announcement of the gradual relaxation of restrictions.

During the first quarter of 2021 the City of London recorded a total of just 17 deals exchanged or completed totalling £760M. This was c. 60.0% down on Q1 2020 and 68% down on the five year average, demonstrating the continued sharp decline in transactional activity reflective of the ongoing uncertainty created by Covid-19.

The average lot size for the quarter was £44.70M, approximately half the longer term average and reflective of just a single transaction over £100M. The latest lockdown restrictions ensured there was just one transaction of an asset which was launched for sale this quarter, with everything else that transacted available from the latter stages of 2020. The Lever Building,85 Clerkenwell Road,EC1 was launched by Amsprop in January and purchased by Merseyside Pension Fund for £38.137M/4.28% NIY / £1,250 per sq ft. The prime Clerkenwell freehold is let to Tesco Plc for approximately 5 years and was comprehensively redeveloped in 2015. This transaction demonstrates the continued resilience of the market for prime, high quality, securely let freeholds.

The largest transaction of the quarter by some margin was by a Wing Tai Properties fronted consortium of Hong Kong investors, who purchased66 Shoe Lane, EC4 from Henderson Park and Endurance Land for £255M /4.16% NIY / £1,625 per sq ft. The newly refurbished and extended long leasehold interest comprises 157,994 sq ft and is let in its entirety to Deloitte LLP and Deloitte Digital for a term of 15 years at a passing rent of £69.79 per sq ft overall. The price paid, again illustrates the continued strength in demand for "best in class" assets let to blue chip covenants for long terms.

The market remained relatively robust even for more risky assets, as demonstrated by124 Theobalds Road,WC1which a private Middle Eastern investor purchased from ESAS for £70.50M / 4.60% NIY/£864 per sq ft. The prime freehold is currently let on a short lease to Mediacom Holdings Ltd and provides the opportunity to develop a new, much larger building of 211,260 sq ft. This transaction continues last year's trend of strong demand for prime sites which have the ability to develop "best in class" buildings in a post Covid world and which are not subject to leasing risk in the immediate future.

10 of the 17 transactions during Q1 2021 were openly marketed and all traded at below their initial guide price, with the average discount being around 14%. This is generally due to a combination of slightly aspirational pricing to begin with, and a clear dip in values for product which is secondary in terms of location, building quality, having vacancy in the short term, and/ or poor covenants being difficult to finance.

There remains some nervousness surrounding the occupational market in the short term, but evidence provided by deals such as124 Theobalds Road suggests most investors/ developers have confidence in the longer term future of London offices. We are, however, yet to witness both the extent of the 'grey space' that will inevitably come to the market later in 2021, and the corresponding impact this will have on rents and values in the short term.

Transactions such as 60 Shoe Lane support prime City yields remaining at 4.00% - 4.25% as strong demand remains for income producing assets in an uncertain market. This is reflective of favourable debt terms still being offered by lenders allowing investors to continue to achieve attractive cash on cash returns. Whilst margins have increased generally, the all-in rate has remained attractive, with little sign of distress in the debt markets.

As lockdown restrictions continue to be gradually relaxed in line with the Government's 'roadmap', we anticipate many more investors will re-enter the market for the first time in 12 months. This pent up demand is likely to be buoyed further by the relatively slow progress of vaccine roll-outs across the rest of Europe and comparably attractive yields adding to London's already substantial global appeal.

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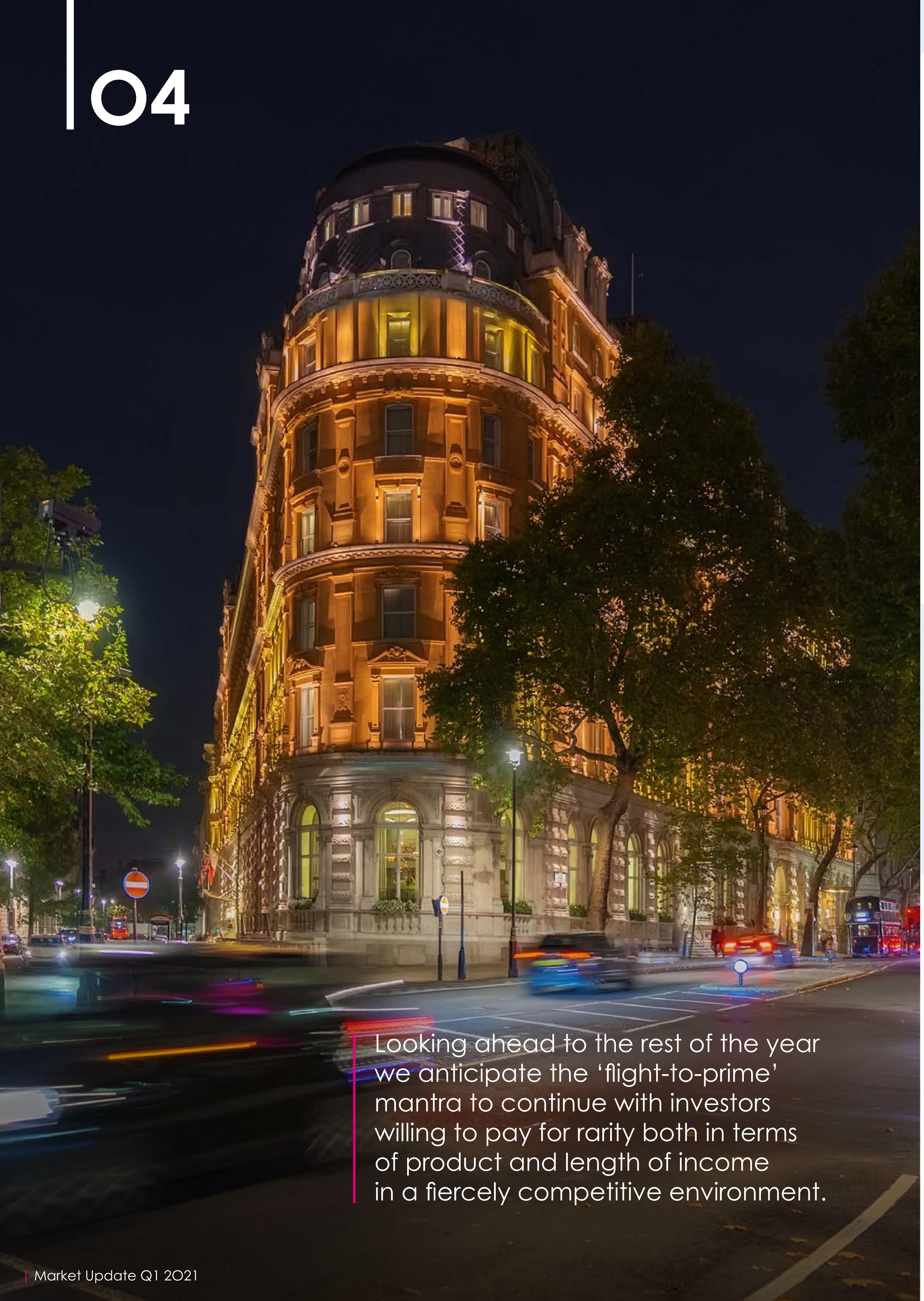
Matthew Millman
DL +44 (0)20 7588 4433
matthew.millman@allsop.co.uk



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Looking ahead to the rest of the year we anticipate the ‘flight-to-prime’ mantra to continue with investors willing to pay for rarity both in terms of product and length of income in a fiercely competitive environment.

West End Investment Market

It has now been a full 12 months since the first Covid-19 lockdown in the UK. Unsurprisingly market conditions across numerous asset classes experienced volatility and even the ‘safe-haven’ reputation of the London commercial real estate market was brought into question as the office workforce was told to work-from-home and non-essential retailers, restaurants and other leisure outlooks were forced to temporarily close. In our last update we reported that year-on-year 2020 recorded £5.5Bn worth of transactions in the West End, slightly ahead of 2019 volumes (£5.3Bn) despite the disruptions. However, if we look at the past 12 months (1st April 2020 – 31st March 2021), volumes are 40% (£4.4Bn) down on the five-year average of £7.4Bn across this period.

For the first quarter of 2021, the West End team recorded a total of £883M either exchanged or exchanged and completed in 22 transactions, with an average transaction size of just over £40M. This is 57% down on Q1 volumes recorded last year (£2.0Bn) and 42% down on the five-year Q1 average (£1.5Bn). However, the subdued activity is not unexpected with the UK having returned to full scale lockdown at the end of last year, and encouragingly we are not experiencing the same market halt witnessed in Q2 2020. The market has clearly adapted, and now moving into Q2 restrictions are beginning to be eased and the continuing success of the vaccination program means we are all experiencing, including the markets, a return to what was once normal.

This quarter included two transactions over £100M - the off-market acquisition of Times Place, SW1 by JP Morgan for £110M / 4.55% NIY and the sale of Smithson Plaza, SW1 to European investors Fidelidade for £158M /4.85% NIY. Neither of these were new to the market, Times Place had been put on hold at the start of 2020 due to Covid-19 and Smithson Plaza had been openly marketed since the end of 2019. Both were also sold below pricing aspirations – Times Place pricing was renegotiated as part of the deal resurrection and Smithson Plaza was transacted at 7% below the original £170M informal guide.

A recurring theme has been the lack of new stock marketed. In Q1, of the 22 deals recorded only two deals were openly brought to the market and traded in the same quarter. Further, our end of 2020 prediction of the continued ‘flight-to-prime’ for 2021 has rung true with two Bond Street retail buildings being traded. The Giorgio Armani unit traded for £95.5M / 3.04% NIY to Motcomb Estates and the Wempe store was acquired by a Private Asian Investor for c. £80M / 2.15% NIY. International monies, for assets of all lot sizes, have been particularly active this quarter accounting for 85% (£750M), or 16, transactions. The geographic origin of such capital remains diverse with buyers from Europe, Asia, America and the Middle East.

Looking ahead to the rest of the year we anticipate the ‘flight-to-prime’ mantra to continue with investors willing to pay for rarity both in terms of product and length of income in a fiercely competitive environment. We are also now seeing the leasing market begin to reopen as the roadmap out of working-from-home is initiated. In turn this will positively impact the assets where quality Grade A space can be created, as occupational confidence returns and it becomes increasingly apparent the West End’s occupational market is underpinned by supply shortages particularly for prime space.

We are currently tracking c. £1.5Bn of stock currently ‘Under Offer’ as the weight of capital that has been patiently observing the market over the past 12 months starts to move in. Similarly to 2020, we anticipate that 2021 will be a ‘game of two halves’ – partly dictated by travel restrictions. The fundamentals of what makes London a Tier-1 investment market have only been aided in the past few months by Brexit being finalised, Crossrail set to open and the success of the vaccine roll-out strengthening predictions that international travel restrictions will be eased come summer.

Nick Pemberton
DL +44 (0)20 7543 6775
nick.pemberton@allsop.co.uk

West End Leasing Market

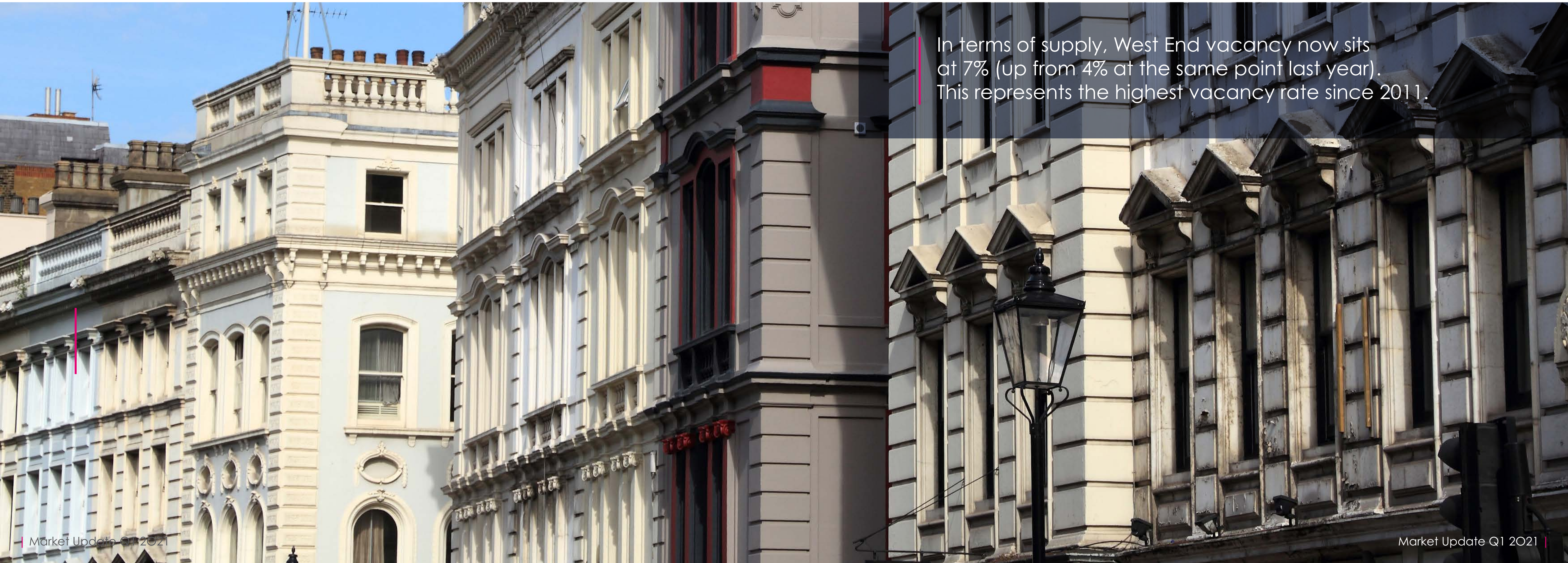
2021 has had a subdued start to the year in terms of activity in the West End leasing market. Unsurprisingly as a result of the third national lockdown, the sluggish nature of the market has been pronounced (particularly in January where only 31,000 sq ft was transacted – the lowest level ever recorded). That said activity on both viewings and transactions has picked up substantially through February and March and this trend is set to continue as London benefits from the gradual easing of lockdown restrictions through Q2 2021.

After a late rally, take up in Q1 totalled 560,000 sq ft (up from 320,000 sq ft in Q4). Interestingly there were no transactions this quarter in excess of 35,000 sq ft and as a result no larger deal is able to dominate the statistics. Key lettings this quarter include Waypoint Capital securing a 30,000 sq ft pre-let at Crosstree's One Berkeley Street, W1, MSQ taking 20,315 sq ft at 34 Bow Street, WC2 from Telereal Trillium and Forrester Research securing 18,000 sq ft at 61 Aldwych, WC2. There remains c. 950,000 sq ft of space under offer, with 80% of this space being classified as Brand New / Grade A or refurbished standard.

In terms of supply, West End vacancy now sits at 7% (up from 4% at the same point last year). This represents the highest vacancy rate since 2011. However the level of Brand New / Grade A supply remains comparatively very low as compared with that period. In addition to this, tenant released "grey" space continues to account for over 30% of available accommodation, although the level at which this is increasing appears to have stalled and we anticipate some occupiers will reabsorb a proportion of this space as they return to more normalised operating conditions. These trends are enabling current headline rental levels to remain stable, which we expect to continue through 2021, although it is clear that average rents will remain under pressure as we move through the year. Likewise rent free incentives are likely to remain static for the best space, but undoubtedly will be pushed out in an attempt to secure occupiers in markets where there is surplus space.

As we obtain greater clarity on timelines for a return to the office we anticipate an uptick in activity as occupiers are able to make relocation decisions with more confidence. That said, occupiers will have more choice and will continue to prioritise the best space available, with options that can limit their initial capital expenditure and offer lease flexibility still offering the best opportunity for successful lettings.

Richard Townsend
DL +44 (0)20 7543 6718
richard.townsend@allsop.co.uk



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National Investment Market

The Covid-19 Global Pandemic continues to weigh on commercial property transaction volumes. Q1 2021 proved a challenging quarter with the pandemic continuing to feed through to recorded transaction volumes.

2021 transaction volumes for the entire UK market were down as follows:

Full year 2020 (as of 27/04/2021)	H2 2020 (as of 27/04/2021)	Q1 2021 (as of 27/04/2021)
£43.39Bn down 17% on full year 2019	**£24.68Bn** down 24.43% on H2 2019	**£9.45Bn** down 15.6% on Q4 2020

Retail

It has been much the same in the first quarter of 2021 as the end of 2020 as the UK's lockdown continued throughout Q1 2021. 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 tenant's future is uncertain. Notable deals include 37-40 High Street Stratford-upon-Avon which was sold by Allsop in 2021 for £3.95M reflecting 9.39% NIY for a local jewellers.

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. Demand for certain retail covenants has continued to grow with those that remained open benefiting financially from the restrictions to some competitors and consumers' limited options. DIY and Homeware stores have particularly profited from the 'essential retailers' status with improved investor sentiment as homeworkers pump additional capital into home improvements.

Viewed as secure income, High Street convenience stores and bank investments have proved resilient as Allsop advised a private investor on the sale of Sainsbury's in Hackney Wick for £2.55M reflecting 4.61% NIY.

Offices

The largest regional office transaction of the quarter was Brockton Capital's acquisition of L&G's Cambridge Science Park for £98.77M reflecting 4.21% NIY. With more than 20 bidders, this showed the strong depth of demand for the Life Sciences sector amongst a wide range of buyers. This is further evidenced by the third largest transaction of the quarter, Melbourn Science Park in Royston, which sold for £46.2M to a Joint Venture between L&G and Bruntwood Estates who intend to expand the park.

By contrast, traditional office stock has had a quieter Q1 with investors holding out until Lockdown 3.0 came to an end. By the end of the quarter, 53 transactions totalling £468M had completed compared with 100 transactions and £706M in Q1 2020. From an occupational perspective, there has been an uptick in enquiries and viewings however they have yet to materialise into new lettings. This increase in activity does signal renewed confidence in the sector as many businesses have now indicated that the office remains important despite changing work practices.

Q1 transactional volumes reached almost £2Bn, reflecting c.20% above the 2020 monthly average.

Industrial

1. Coming off the back of a record last quarter for transactional volumes in Q4 2020, it seems that investor appetite for industrial shows no signs of slowing. Q1 transactional volumes reached almost £2Bn, reflecting c.20% above the 2020 monthly average. The largest deals of Q1 included a 7-asset logistics portfolio purchased by Bentall Green Oak for £303M, the Purdey Portfolio purchased by Partners Group for £253M, and Bedfont Logistics Park, Heathrow, purchased by Blackstone for £118.5M.
2. The pandemic has accelerated the shift to online retail with E-commerce expected to grow to a 30% share of total retail sales by 2024. This has hugely impacted occupier supply chains with online retailers requiring three times the amount of space than regular retail stores, prompting record levels of enquiries. Retailers and distribution companies continued to dominate take up in Q1 (89% of take-up in 2020), the largest deal being the pre-let of 670,000 sq ft at Redhill Business Park, West Midlands by Pets at Home. Available space remains limited across the UK with several regions seeing less than one year's worth of supply and historically low vacancy rates.
3. In spite of the disruption caused by the pandemic, developers have continued to respond to strong occupier demand with speculative development. Rising planning applications and consents have bolstered the amount of space expected to complete in 2021, with 3.5M sq ft of space currently under construction. Rents continued to rise throughout the pandemic and are projected to continue to increase for all regions over the next 5 years. London (3.7%), the South East, and Eastern regions are expected to see the strongest growth (2.4% to 2.7%).
4. Monthly MSCI figures continue to show strong year-on-year capital growth with 5.52% growth in the year to February, up from 4.63% in January, continuing to offer a premium over other asset classes.

Retail Warehouse

With England entering into a third national lockdown in Q1 2021, like in the previous year a much higher percentage of retail parks have managed to remain open compared to retail on the high street and within shopping centres. In addition, the larger units and car parks are allowing for a wide range of click and collect services to operate whilst allowing for social distancing measures to be adhered to.

The total 2020 retail warehousing investment volumes were £2.04Bn, approximately 16% up on 2019 volumes. Q4 2020 continued to grow on the 2019 figures, despite the second national lockdown. Q1 2021 has seen a third national lockdown, and a dip in the figures with a total of £275.45M transacted.

Notable transactions over the quarter include Bolton Shopping Park, which sold as part of a portfolio for £15.15M achieving 10.75% NIY to Greenridge Regional UK. Greenridge also acquired Great Northern Retail Park in Huddersfield for £19.95M / 10.23% NIY. Columbia Threadneedle acquired both Flowerdown Retail Park in Weston-Super-Mare and Durham City Retail Park for £22M / NIY 9% and £27M / NIY 9% respectively. Bromsgrove Retail Park sold for £13M (6.21% NIY) to Colliers Global Investors. In addition, M7 Real Estate bought a portfolio of three retail parks Christchurch, Bolton and Ellesmere for £19.35M.

Portfolio

Q1 2021 has significantly exceeded expectations following a very busy end of the year in 2020. Portfolio transactional volume totalled £2.87Bn across 46 individual deals. The number of transactions has led to an increased range of successful buyers in the market, many of whom have been dormant for the duration of the Covid-19 pandemic.

Rewind back to Q1 2020 and the portfolio market transacted a record breaking £5.95Bn in the first quarter, this was heavily weighted by the iQ Student Portfolio acquired by Blackstone at £4.66Bn so stripping this out gives us a much more modest total of £1.29Bn, whilst the Covid-19 situation was slowly developing, lockdown 1.0 officially began on 21 March so this deal volume reflected a relatively busy market, albeit with negative sentiment beginning to impact volume.

Fast forward today and both transactional volume and number of transactions have more than doubled on the same period last year. Whilst industrial sectors continue to perform very well, it is promising to see activity within Supermarket, Leisure, Residential and Student sectors too as the market begins to benefit from increasing diversification in use classes. We have not yet seen consistent activity for Office, Retail and Mixed-Use portfolios in 2021 and we know first hand there remains significant pent up demand and weight of capital. Vendors may well find justification to dispose of assets in these sectors as occupational sentiment improves with lifting of social distancing restrictions, it is crucial to price these sales correctly.

Whilst long income remains the bed-rock of the market in the single lot arena, finding good quality long income portfolios is challenging, stock levels are anticipated to remain low here and many private and institutional investors are finding success in building up a portfolio through piecemeal purchases. This lack of large-scale supply continues to compress yields achieved across multiple sectors and we expect this will continue into 2021.

Alex Butler
DL +44 (0)20 7543 6722
alex.butler@allsop.co.uk

Commercial Auction Market

The overall commercial auction market in the year to Q1 2021 fell by 11.8%, but we are pleased to say that from an Allsop perspective volumes rose in the same period by 5.7% to the comparable twelve month period.

The Allsop year started very positively with an increase in the number of buyers registered per lot in the February auction at 237 across the auction catalogue against an average of 166 for 2020.

The highlight of the auction was West Orchards Shopping Centre, Coventry, comprising 219,500 sq ft. This was launched in the lead up to Christmas, bucking convention and received strong demand from buyers, who had not seen it in the previous twelve months.

This sold at auction in competition at £4.85M, the first Shopping Centre sale of the year and as a result several more have followed including the Loreburne Shopping Centre in Dumfries which sold off a guide of £3M in the March auction with three more to follow in the May auction.

The February sale also comprised a portfolio of six banks each let to Santander UK PLC on new 5 year leases which was a real test of the appetite for single let High Street assets. These all sold for an average of 4.9% NIY and led to a further tranche in the March auction of 33 branches across the country let on similar terms. These all sold again raising £14M at an average of 7.4% NIY reflective of their locations.

The March sale also included a similar tranche of Boots stores let on leases with 4 to 9 years unexpired, which all sold raising £12.1M at an average of 7.1% NIY.

The buyers of these small lots were drawn from all quarters, reinforcing the results of our survey carried out before Christmas that there is a lot of cash to invest in the market, and buyers' horizons are very long term, looking beyond the pandemic and current eviction moratorium.

A notable trend from this quarter that has continued is the increase in average lot size. We have sold 27 lots in excess of £1M, at an average of £1.7M in the first quarter alone.

In summary, buyer sentiment is strong as the market has re priced some assets and buyers are quick to react and bid competitively.

With growth prospects for the economy looking solid as we move beyond the pandemic, interest rates remaining low and the residential sector buoyant, we are anticipating another strong year.

In summary, buyer sentiment is strong as the market has re priced some assets and buyers are quick to react and bid competitively.

George Walker
DL +44 (0)20 7543 6706
george.walker@allsop.co.uk

Residential Auction Market

February 2021's sale delivered a total of £56.9M – over £7M more than the year before. The catalogue included a variety of stock and a wide range of values. The auction saw a total of 3,936 online bids placed during the day, with 1,361 bidder registrations.

The highest value lot of the day was lot 122, a former pub with adjacent land in Owlswick, Buckinghamshire, and planning permission to convert the existing building into a six-bedroom house and erect a further eight houses on site, sold at £3.03M. The property is located 2.2 miles from Princes Risborough station, which provides direct services to London Marylebone.

The most popular lot of the day was lot 64, a freehold building in Greenford comprising a ground-level shop and a maisonette, which received 203 bids. The building, which offers an opportunity to convert the shop into a residential property and create an extension into the rear yard, sold at £363,000.

Lot 144,a Grade II listed six-bedroom house in Coulsdon, Surrey, with an annexe, providing a further two bedrooms, reception room, kitchen and bathroom, adjacent to Chipstead Golf Club, sold prior to the auction well in excess of its guide price of £1.75M.

Lot 140, a leasehold flat above commercial premises with an opportunity to add a second floor and create four flats in South Harrow sold at £376,000, while lot 151, a freehold building with a previously granted planning permission to create four self-contained f lats sold at £1.1M, showing a strong appetite for properties with value-add potential.

Although stamp duty concessions contributed to sustained levels of activity, the main driver was investors' positive perception of residential property.

Our second online residential auction of the year resulted in the sale of 117 lots, raising £41.1M. The auction saw a total of 2,698 online bids placed during the day, with 889 bidder registrations.

The highest value lot of the day was lot 40, a three storey freehold building in Dalston, London. The ground floor comprises a vacant bar and nightclub with 10 flats on the two floors above; eight flats on assured shorthold tenancies. The property was incredibly popular with 15 parties registering to bid and 128 bids being placed on the day, ultimately selling for £2.54M, from a guide of £1.5M – £1.6M.

Lot 70 and lot 71, a Grade II Listed mansion and Grade II listed gate house in Monmouth, Wales proved to be among two of the most popular lots in the catalogue. Originally guided at £800,000 and £250,000 respectively, the buildings attracted fierce bidding and sold for £1.704M and £337,000.

So the total raised so far this year from residential auction sales stands currently at £98M. The overall success rate so far is 82%. During a year of online auctions, we have noticed increased activity pre and post auction, so we expect this total to continue to rise.

The factors that will influence the residential auction market over the remainder of the year are many and varied, but overall they point to sustained activity. Many feared a potential cliff-edge drop in demand and values, had the stamp duty exemption been withdrawn as planned on 31 March. The tapered return to previous rates announced in the Budget will ease those concerns: the nil-rate band is now extended on purchases up to £500,000 until 30 June, with no stamp duty on transactions up to £250,000 from1 July to 1 October. From this point, there are likely to be falls in demand and supply in the occupier market as the pressure to beat deadlines ends.

The furlough scheme is also due to end on 30 September, so we should expect unemployment to rise after that and some of the gains seen over the previous year may then be lost to modest corrections. That said, the continued vaccine rollout and lifting of restrictions will definitely bolster confidence. Interest rates remain at record low levels and government-backed 95% mortgages will deliver a boost to first-time buyers.

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The residential auction market, while clearly influenced by owner-occupier sentiment, is also driven by investors, traders and developers. These bidder classes, although entitled to the stamp duty exemption, have always been subject to the 3% stamp duty surcharge.

The financial impact of a return to normal SDLT rules will be a factor to consider but, at the end of the day, it is unlikely to have a significant impact on auction results. In fact, many will view the final quarter of the year as presenting potential buying opportunities – and that in itself will crank up competition. The professionals will continue to do business; they will bid if the price is right.

There has also been added competition from elsewhere; with so much uncertainty in the retail and office sectors in particular, many commercial investors are increasingly looking to residential auctions for new opportunities.

Our next auction sale will be held on 13 May and is expected to deliver another strong result.

Gary Murphy
DL +44 (0)20 7344 2619
gary.murphy@allsop.co.uk

Residential Transactional and Living Markets

Investment

Q1 undoubtedly saw a notable pause as the market waited for positive signs around the vaccine but the teams were well aware that the weight of money ready to be deployed was ever increasing and it was only a matter of time before the button to release would be pressed.

Following swiftly in the wake of Q4, the first quarter of this year did indeed feel a bit like a wake as Christmas was cancelled and the collective mood as we moved into January was rather sombre to say the least. However, despite a quieter period in London, demand for regional assets appeared to be as strong as ever, with investors travelling the length of the country in order to benefit from greater returns on capital. Yields on offer in the region of 7-9% continue to prove a strong pulling force with investors comfortable buying in secondary and tertiary towns with strong local letting markets. Interestingly, the discount to vacant possession value appears to be less of a driving factor in value for a number of investors, which inevitably is compressing yields.

Regionally, in particularly, we continue to see increasing demand for the more granular assets from Housing Associations and those representing them. Growth in this sector an unfortunate consequence of the pandemic, providing increased demand for flats and houses throughout the country from the social sector.

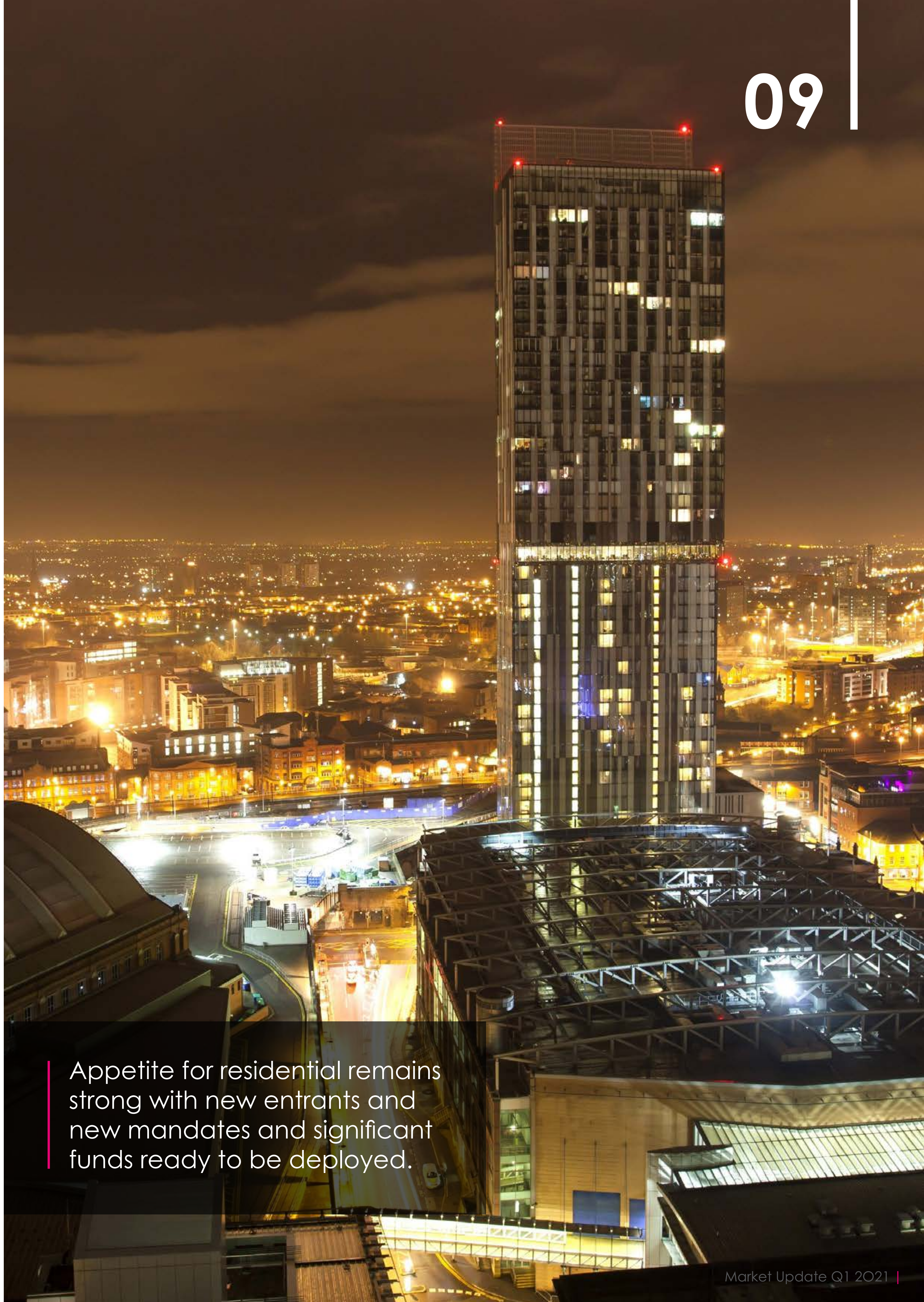
Blocks of apartments in Sheffield, Bradford, Hull, Derby and Huddersfield were all snapped up by income hungry investors for a collective £15M but a portfolio of over 400 houses acquired for over £30M was the deal of Q1. One very happy purchaser has some significant work to do but these large portfolios of houses are rare opportunities and the purchaser was delighted to tuck them into their existing portfolio to provide much needed social housing in the North West.

Other deals in Ipswich, West London and Southampton totalling circa £9M capped off the first quarter and despite some areas of the market feeling rather flat and lethargic, the easing of lockdown towards the end of Q1 and roadmap to the opening of non-essential retail and outdoor leisure in mid April was expected to be the springboard for buyers and vendors alike to put their heads up above the parapet and for a market resurgence. This already appears to be very much the case.

Appetite for residential remains strong with new entrants and new mandates and significant funds ready to be deployed.

In terms of the market for Residential Ground Rents, it has been somewhat stagnant since the Government announced in January that it intends to implement several of the recommendations made by the Law Commission last year, which would see a wholescale reform of the sector. Key elements of the announcement included that Leaseholders will be given the right to extend their lease by a maximum of 990 years at zero ground rent and that an online calculator could be made available to Leaseholders to ascertain how much it will cost them to buy their freehold or extend their lease. Crucially that "Marriage Value" traditionally applied to flats with less than 80 years to run, could be abolished or at least reduced. The announcement was made with no clear indication of the exact duration and process the Government will be running to bring about this legislation and whilst it is clear that significant reform is coming it still remains very unclear as to how far the Government will ultimately go in terms of implementing these changes. During the last quarter, Freeholders and Investors have been largely taking stock of this announcement and whilst Freehold Ground Rents have been selling at auction, larger portfolio sales have mostly been put on hold. In recent weeks however, we have begun to notice that both existing Freeholders and Purchasers are now recalibrating their pricing expectations in light of the announcement and we anticipate that this sector of the market will become significant more active over the next six months.

Michael Linane
DL +44 (0)20 7344 2623
michael.linane@allsop.co.uk



Appetite for residential remains strong with new entrants and new mandates and significant funds ready to be deployed.

Development

Q1 for the residential land and development market started as expected, rather slow, which is not uncommon in 'normal times'. Rather than the usual wait for landowners and developers to return from the slopes for the market to pick up traction, with holidays off the cards, this year it was waiting to see how the vaccine rollout would impact on the infection rate and then whether it would create enough confidence in the market to entice landowners to commence marketing. It has been difficult to gauge the strength of the residential development market in the last quarter simply due to the lack of transactional activity. From regular dialogue with both national house builders and developers it is clear there remains a huge pent up demand for new opportunities, particularly as current developments are coming to an end and the need to replenish land stock becomes more critical. With the residential housing market extremely strong at the moment, they are struggling to keep up with demand for end units, which in turn is giving them the confidence in the market to secure further opportunities.

The latest relaxation of Covid-19 restrictions has provided the much needed shot of confidence for landowners with more opportunities coming to the market. As expected, interest from house builders and developers has been very strong, particularly with opportunities that have either an existing income or planning permission in place. It is apparent return on capital still remains important and a key consideration. We are seeing smaller consented development sites, sub £5M, where the interest pool is greater, continuing to attract significant interest and not just from traditional residential developers but also parties who historically focussed more on commercial opportunities.

There are a number of incoming changes to both Government and planning initiatives which are going to have an impact on residential development in the coming months and impact on certain opportunities and definitely on land values.

The first of these changes comes with the Government replacing the existing Help to Buy Equity Loan scheme with a new scheme, that is restricted to first-time buyers only and introduces regional price limits, coming in to force from April 2021. Under the new scheme, first-time buyers will still be able to borrow up to 20% (40% in London) of the cost of a newly built home. The buyer must pay a minimum of 5% deposit for the home and then use a Help to Buy mortgage to fund the remaining cost of the property. The previous Help to Buy scheme, accounted for a significant part of house builders' sales and the general industry feedback is the new regional price limits have been set far too low. This will force house builders to provide a larger number of homes under this threshold so they can continue to take account of the Government scheme, but will in turn impact on land values.

The second change comes following a long consultation period by the Government which has finally issued an update on the Future Homes Standard. On the 19 January 2021, it introduced new measures focusing on ensuring all new homes are zero carbon-ready by 2025. The commitment is that all on carbon emissions against current standards. As a first step, from 2021 all new homes will be expected to produce 31% lower carbon emissions as part of an 'interim uplift' in Part L standards and developers will need to start work before June 2023 to avoid an individual building being assessed under Part L 2021. We are already seeing house builders accounting for these extra upcoming measures within their pricing of schemes where construction will go beyond June 2023, again impacting on end land values.

Finally, the third change comes in the form of planning change with Class O permitted development right for office to residential conversions ending on 31 July 2021. It will be replaced by Class MA, a new prior approval process for residential conversions from all Class E properties, which includes shops, banks and restaurants as well as offices. However, these new permitted development rights, unlike Class O, have a maximum size limit of 1,500 square metres. These changes will see an end to large offices being converted to residential as has been a significant trend in the last few years.

Despite these incoming changes, the outlook for the market remains extremely positive with house builders and developers continuing to report really strong sales rates and with the lack of development opportunities in the market over the last 12 months the appetite to acquire opportunities could not be higher.

Anthony Dixon
DL +44 (0)20 7344 2625
anthony.dixon@allsop.co.uk

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Student Housing

Despite the ongoing pandemic, the Student accommodation sector has witnessed a very significant influx of interest and investment over the past quarter. This comes across the whole student spectrum, but with a particular focus on value add, affordably rented, PBSA accommodation in prime market towns.

Lone Star's £315 Million debut into the PBSA sector – 4 assets in Hatfield, Cardiff, Sheffield and Swansea, caps a surprising record quarter in the student space for portfolio acquisitions, with VHML/Aventicum (£132 million), Generation/Ares (157.5 million) and Greystar (£291 million), all entrancing the student sphere in a significant way, and across a wide subsection of the country. And this is just the tip of the iceberg. Similarly, a number of new entrants; Almero/Patron, Iceni/Clearbell, Crosstree and Deutsche Finance (amongst many others) have all independently transacted on large single acquisitions of note, taking this quarter to above a billion.

The sudden and sheer volume of investment is in large part due to long bottled up-demand; derived from even before the pandemic – from Brexit and the general election, but is also testament to the cyclical strength of the asset class and the ever-changing pandemic sentiment. With the positive news accompanying the vaccine rollout, investors are undoubtedly looking ahead to the new academic year, running from September 2021, where the expectation is for students to be returning in full - from home and abroad. This, coupled with positive UCAS figures, age demographics (with more 18 year olds than ever before in the UK) and a limited supply of genuine affordable accommodation, is driving demand.

This is despite poor ongoing occupancy. With the prolonged January lockdown, preventing students from returning, occupancy was far lower than anticipated for 2020. Unite, as an example; the student market leaders, reported a fall in occupancy from 98% in 2019/20 to 88% in 2020/21, and in London, GCP was down at 69% in June 20/21, from an average of 94% historically.

Looking to next year's occupancy figures the picture for PBSA occupancy looks a lot more 'cautiously optimistic', but anecdotally behind where it was this time last year and years before. This is undoubtedly a concern. There is certainly some nervousness amongst the big PBSA operators, though this is arguably tempered with an expectation that students will start booking rooms closer to the beginning of the next term - when there is greater clarity over travel restrictions etc. This is in stark contrast to the HMO market, where occupancy is well ahead of last year (with evidence of rental growth), perhaps better demonstrating the depth of the national student pool.

Cautious optimism and nervousness is doing little to dampen interest, however, with a significant volume of transactions anticipated across all modes of Student in the forthcoming quarter. You heard it here first.

> With the positive news accompanying the vaccine rollout, investors are undoubtedly looking ahead to the new academic year

Nick Troubridge
DL +44 (0)20 7344 2627
nick.troubridge@allsop.co.uk

Build to Rent

The BTR sector has shown great resilience to the effects of the Covid-19 pandemic with investor appetite, pricing and levels of rent collection remaining strong through the last 12 months. 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 likely 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 British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 179,835. The regions continue to grow their margin over London in terms of the number of BTR homes, accounting for approximately 99,114 with 80,721 in the capital.

The demand and investor interest towards BTR single-family housing continues to grow demonstrated by Goldman Sachs and Pitmore's £150M acquisition of the Thistle Portfolio from Gatehouse Bank, which comprised 918 units, predominantly two and three bedroom houses across the north west of England. This follows the news from the last quarter that L&G is progressing its suburban BTR business targeting single-family homes. We anticipate the size of the BTR single-family housing market to grow exponentially over the next two to three years.

Activity of note within the BTR multi-family market this quarter includes; L&G has funded Tower Works in Leeds for £57M. This will provide 245 BTR units and is situated next door to its recently launched Mustard Wharf scheme, bringing its Leeds holdings to just under 500 units; Grainger has agreed to forward fund a 231 unit BTR scheme in Bristol from Firera and Cubex Land for £63.1M; developer Court Collaboration has been granted planning for a 484 unit 48-storey BTR development in Birmingham's Digbeth; Fiera Real Estate and Packaged Living have purchased Suffolk House in Cardiff and intend to develop a c.300 unit BTR scheme; a JV between Angelo Gordon and Ridgeback has completed the purchase of a site in Sheffield's Heart of the City which will bring forward 340 BTR apartments.

Yields remain strong for well-designed multi-family 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 5.00% NIY. We are seeing NIYs range from 4.25% to 5.00% for single-family schemes in the north west, Midlands and Yorkshire regions.

Having showcased its robustness throughout the turbulence 2020 brought to the world, BTR has had a busy start to 2021 and we expect this to accelerate through the year.

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

Sam Verity
DL +44 (0)20 7344 2693
sam.verity@allsop.co.uk

Letting & Management

The rental market continued to show resilience in the first few months of the year and with lockdown restrictions starting to ease, the sector has a spring in its step as it looks ahead to the summer months.

Our newest Manchester BTR development, Vox saw its first residents in January and is well on the way to hitting its March occupancy target. Resident feedback has been extremely positive on Homeviews, the Tripadvisor for renters, with Vox already voted the #1 residential development in Manchester as voted for by residents.

In the last few months Lesley Roberts, Executive Director of ALM and Allsop's Build to Rent Partner has spoken to Property Week on the need for more diversity within the BTR sector, discussed the positive aspects of renting compared to home ownership with Wales Online and shared her views on co-living gaining traction in the UK at Insiders co-living roundtable. Lesley also travelled virtually to her homeland to speak at the Australian Build to Rent conference on how to generate a sense of community through building management, product design and service.

Closer to home, although by no means a local issue, Lesley participated in a podcast hosted by Women in Property to discuss the implementation of sustainable development goals into the way the property sector operates alongside Jane Findlay, Director of Fira and President of the Landscape Institute. On the same theme, Lesley also launched the UKAA's Sustainability Summit in March in her role as President of the UKAA.

On the 10 March, the UK Government further extended the ban on bailiff-enforced evictions and the requirement for landlords to provide six-months notice to tenants. These new extensions will now be in place until at least 31 May and with the furlough scheme extended until September, as announced in the Government's 2021 budget, further changes are expected in the months ahead. Exceptions for the most serious circumstances, for example anti-social behaviour, remain in place.

Although the eviction ban continues to be a significant factor for landlords and managing agents, ARLA has reported an increase in the number of new prospective tenants seeking properties, with 82 potential new tenants registering per branch in March compared to 64 in December 2020. Year on year figures have risen with 49% of agents reporting that landlords are increasing rent levels, compared to 39% in January and 40% in February 2020. Evidence again that the demand for rental properties remains.

We expect the market's optimism to continue in the second quarter of the year as renters' confidence increases into Q2 and beyond.

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Lesley Roberts
DL +44 (0)20 7344 2653
lesley.roberts@allsop.co.uk

Business Rates

COVID-19 – Rates Allowance

The vast majority of ratepayers have received no rates relief from the Government despite for much of the last year being legally unable to use the premises on which they have had to pay full rates. As a consequence an estimated 400,000 appeals have been submitted by ratepayers to the Government's Valuation Office seeking reductions in their Rateable Values due to the impact of Covid-19 and the restrictions placed on the use of premises. The Valuation Office commenced discussions relating to these appeals with ratepayers' agents in the latter part of 2020.

The Government has now decided however to retrospectively legislate to change the rules and seek to deny the granting of Covid-19 rates reductions to businesses. In its place the Government is providing a £1.5Bn relief fund that will be allocated to local authorities based on the properties in their area and the sectors affected by Covid-19. The Treasury advised that 'Local authorities will use their knowledge of local businesses and the local economy to make awards'.

This sum equating to just 7.5% of the rates payable by potentially eligible businesses fails to reflect the impact of Covid-19 on the ability of businesses to use their premises and is substantially lower than the relief that would have been granted to businesses through Rateable Value appeals. No further details on the relief have been announced and it is likely to be many months before businesses can start to apply for and receive the promised funds. The fate of the outstanding rates appeals appears destined to end up being resolved in the courts.

Fundamental Review of Business Rates

A huge sense of disappointment followed the publication of the Government's interim report on its "fundamental review of business rates". This spring should have seen the full outcome of the review. This, however, has now been deferred until the autumn and in its place the Government published an interim report which made no recommendations and merely set out a summary of feedback received from the 487 organisations who responded to the call for evidence.

The areas under consideration are indeed fundamental and could lead to the most wide ranging changes to the modern rating system since it was introduced in 1990. In its report the Government acknowledged that respondents have "emphasised a range of important challenges. These include the burden of the tax, including its administration burdens; the targeting and effectiveness of the reliefs system, the frequency of revaluations, and calls to address competition from online sales. Respondents have also presented the Government with a range of proposals for reform and improvement within the existing system."

One of the original main objectives for the review was reducing the overall burden of rates on business. I have a concern that this objective will be watered down and the final report will fail to adequately resolve the fundamental issue with business rates which is that the overall level of the UBR is set too high with rates bills now being circa 50% of the Rateable Value whereas when the modern rates system was first introduced they were set at 34%.

Robert Sherwill
DL +44 (0)20 7543 6814
robert.sherwill@allsop.co.uk

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Contacts

Head office:
33 Wigmore Street, London W1U 1BZ
Tel: +44 (0)20 7437 6977

City office:
2 Copthall Avenue, London EC2R 7DA
Tel: +44 (0)20 7588 4433

Leeds office:
8th Floor, Platform, New Station Street,
Leeds LS1 4JB
Tel: +44 (0)113 236 6677

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