all
NEWS AND VIEWS FROM **ALLSOP**
AUTUMN/WINTER 2021

ZERO

Nothing is happening in 2025

Hello

Following an active summer for many of us, with the markets waking up, our commutes going back to normal(ish) and occupancy in our respective offices rising… it feels too soon for the nights to be drawing in. With circumstances that have led us to queuing for fuel and with rising gas bills, wages and inflation, it is no wonder that many of us are feeling a slight trepidation, particularly for those of us old enough to remember, of a possible 'winter of discontent'.

However, like Boris who seems a little oblivious to the current environment, the property markets seem to be positive, confident, and at the moment, immune to these irritations, with stronger volumes being experienced in the investment, transactional and leasing markets.

This packed edition of 'ALL' offers interesting insight into what we are all experiencing out there in the markets; the problems, as well as possible solutions, as we all adapt to a rapidly changing environment post-pandemic.

For example, in residential, we look at how changes in building regulations are shaping homes for the future in light of net zero targets, and the impact of the External Wall System 1 form and fire safety in the wake of Grenfell. In commercial, we take a deeper look into the industrial market with its huge appetite for the multi-let sector, along with an assessment of how the City of London has kicked back into gear as occupancy rises. In auctions, we look at their evolution, where it all began, and how the format may continue to evolve.

Again, a truly packed edition with all our news and views.

Enjoy the read!

Scott Tyler FRICS
Senior Partner

Contents

NET-ZERO

Shooting for Net Zero Carbon Stars
How changes in building regulations are shaping the homes of the future

In 2019, the UK set one of the most ambitious climate change targets in the world by committing to reducing all greenhouse gas emissions to net zero by 2050. This commitment will affect a variety of sectors, including property, which will see significant changes to building regulations over the next four years.

In an effort to assist with achieving the ambitious net zero commitment, the government will implement a new Future Homes Standard (FHS) in 2025 through amendments to Part L of the Building Regulations (relating to the conservation of fuel and power in new build dwellings). Homes built under the new FHS will be fit for a zero-carbon future, with low-carbon heating, very high fabric standards and world-leading levels of energy efficiency.

The FHS will undoubtedly have a huge impact on the UK housing sector, revolutionising the way we build. We are already experiencing this in the Build to Rent (BTR) single-family housing market from both a regulatory perspective on delivery and investor expectations.

Timeline

It has been acknowledged that the adoption of the new FHS must be done in a way that ensures all industries are ready to meet the ambitious new standard in practice.

As an initial step towards full adoption, the government will implement an interim 2021 uplift to Part L, which aims to achieve a 31% reduction of carbon emissions in new build homes. The uplift is due for adoption in December 2021 and will take effect from June 2022.

The launch of a full technical consultation on the proposed specification for the FHS is scheduled to take place in spring 2023. Following this, regulations and a final standard will be agreed in 2024 ahead of full adoption in 2025. By 2025, it is estimated that an average home built to the new FHS will produce 75% – 80% lower carbon emissions than one built to current energy efficiency standards.

The introduction of the interim 2021 ‘stepping stone’ phase achieves a balance between meaningful and realistic progress towards the 2025 target, whilst simultaneously providing industry with the time it requires to develop supply chains and the necessary skills.

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Flexibility for developers

In order to provide developers with a degree of certainty around the standards they are required to build to, the government has included a transitional arrangement proposal for the 2021 uplift. The arrangement allows developers 12 months from when regulations come into effect to commence work on each building on site. In practice, this means that larger sites registered before 2022 can be built to the current version of Part L. However, any dwellings on site not commenced within one year of the uplift taking effect (June 2023) will have to be built to Part L 2021 standards.

What are the primary changes being made to Part L?

In order to meet the net zero target, it is vital to strive for the highest level of energy efficiency in the fabric of buildings and to move away from heating our homes with fossil fuels.

As a first step towards the FHS, the government has opted for a 'Fabric plus Technology' approach in its amendments to Part L. The government has produced a standard building specification for the uplift, identifying the minimum fabric standards and services expected to be incorporated in Part L compliant new build homes. Whilst this draft specification will form the basis of the 2025 FHS, it is not final and will be subject to further technical work and consultation.

The 'fabric first' approach will push building fabric standards further than ever before. Stricter fabric standards will help regulate temperature more efficiently and reduce the overall need for heating in new build homes. The introduction of minimum standards will force industries to reconsider the design and construction of new build homes, paying particular attention to issues such as insulation, airtightness and heat loss.

From a technology perspective, low-carbon heating is integral to the design of all new homes. At the moment, electrification is one of the few proven scalable options for decarbonising heat. The government expects heat pumps to become the primary heating technology under the FHS as they are highly efficient and provide approximately three times the amount of heat compared to the electricity used. Furthermore, a home built with a heat pump will have a lower capital cost than one built with a gas boiler.

In an effort to promote the use of heat pumps in homes and reach net zero targets, the government has recently announced that they will offer subsidies of £5,000 from April 2022 to help and incentivise existing households to make the switch from gas boilers to low carbon heat pumps.

"from a technology perspective, low-carbon heating is integral to the design of all new homes"

It is, however, unlikely that there will be a one-size fits-all solution. The government recognises that the December 2021 interim uplift will not automatically result in an immediate rush to install heat pumps as the supply chains and skills are not yet available to operate at this scale. Therefore, the future is likely to see a combination of low-carbon technology systems used to heat our homes.

Insulation

Airtightness

Heat loss

Impact for different stakeholders

The energy efficiency of buildings has a significant part to play in achieving the government's net zero aims, but it also carries wider benefits for consumers, developers and investors. In addition to reducing carbon emissions, energy efficient homes minimise energy bills and provide healthier and more sustainable environments in which we live and work. The move towards net zero carbon also fulfils environmental, social, and corporate governance (ESG) responsibilities of developers and investors – something that's becoming increasingly important for companies of all sizes.

Take the lead with dilapidations

All too often in our experience, landlords look to engage in dilapidations too late. The consequences of leaving negotiations until the last minute are manifold: refurbishment plans are compromised or delayed, settlements are reduced, or the landlord might be forced to use their marketing period to do works, thus extending the void before reletting.

If dilapidations negotiations are not settled before the lease ends, the need to maximise the settlement begins to affect what the landlord is able to do next. So, how can this situation be prevented?

Firstly, consider the lease at the front end: savvy drafting of the lease will help to prevent delays to works later down the line. To achieve this, landlords should secure the help of a lease advisory surveyor early on in a letting, to ensure a satisfactory outcome at the point of lease expiry.

> A dilapidations claim is generally a means for a landlord to recover the cost of repairs and reinstatement of works carried out by the tenant, at lease end

Or, landlords can get a lease advisory surveyor involved at the lease expiry stage, but well ahead of the lease expiry date. A specialist surveyor can work up the most effective dilapidations strategy and review the lease provisions to fit the landlord's likely future plans for the premises once vacated.

Here are two examples of common problem scenarios, which could be resolved by either clever drafting of a lease or the early engagement of a lease advisory surveyor.

Scenario 1

When a landlord is planning a major refurbishment, tenants might try to delay discussions to see whether the intended works result in the proposed dilapidations works being superseded. Consequently, the landlord might feel pressured to the extent of not getting any dilapidations money at all, or may even alter refurbishment plans to avoid this.

But landlords can protect against this scenario by including smart dilapidations clauses in the lease from the outset – such as a 'contract out of Section 18' clause.

This allows a landlord to recover the cost of the works as a debt, rather than as damages. This will press the tenant to settle in cash before expiry – the ideal outcome. The landlord then has the freedom to progress refurbishment plans without unwanted consequences.

Alternatively, the landlord can engage the tenant in early negotiations, detailing the scope of work required of the tenant to put the premises into repair and aiming for a cash settlement. This would also give the landlord freedom in future building plans.

The claim can never exceed the loss of value of the landlord's reversionary interest arising from the disrepair (Section 18, 'first limb')

Scenario 2

In this example, the lease has ended and the tenant has left without resolving the dilapidations issue. Meanwhile, the landlord's ambition for the space is simply to do the repair or reinstatement work the tenant should have done i.e. a straightforward repair and reinstatement job. In this scenario there is little benefit in the landlord being left to do the works (even though the cost is recoverable from the tenant), as the time spent doing so will simply prolong the landlord's void period before marketing can commence for a new tenant, thereby pushing out the starting date for new rental income.

If, however, a rent payment penalty clause has been drafted into the lease then this loss can be avoided. Such a clause facilitates the recovery of rent, rates and service charges from the tenant during any period of repair works occurring after the lease expiry date. This should bring the tenant to the negotiating table well before expiry, putting control of the dilapidations discussions firmly in the hands of the landlord.

In lieu of this, the landlord is likely to outline the work the tenant is required to do to put the premises into repair and, ideally, encourage them to do the required works under an agreed scope, before the lease end.

The lease

We often see examples of leases that have been poorly drafted, without the proper care taken to protect the landlord against dilapidations issues and other problems.

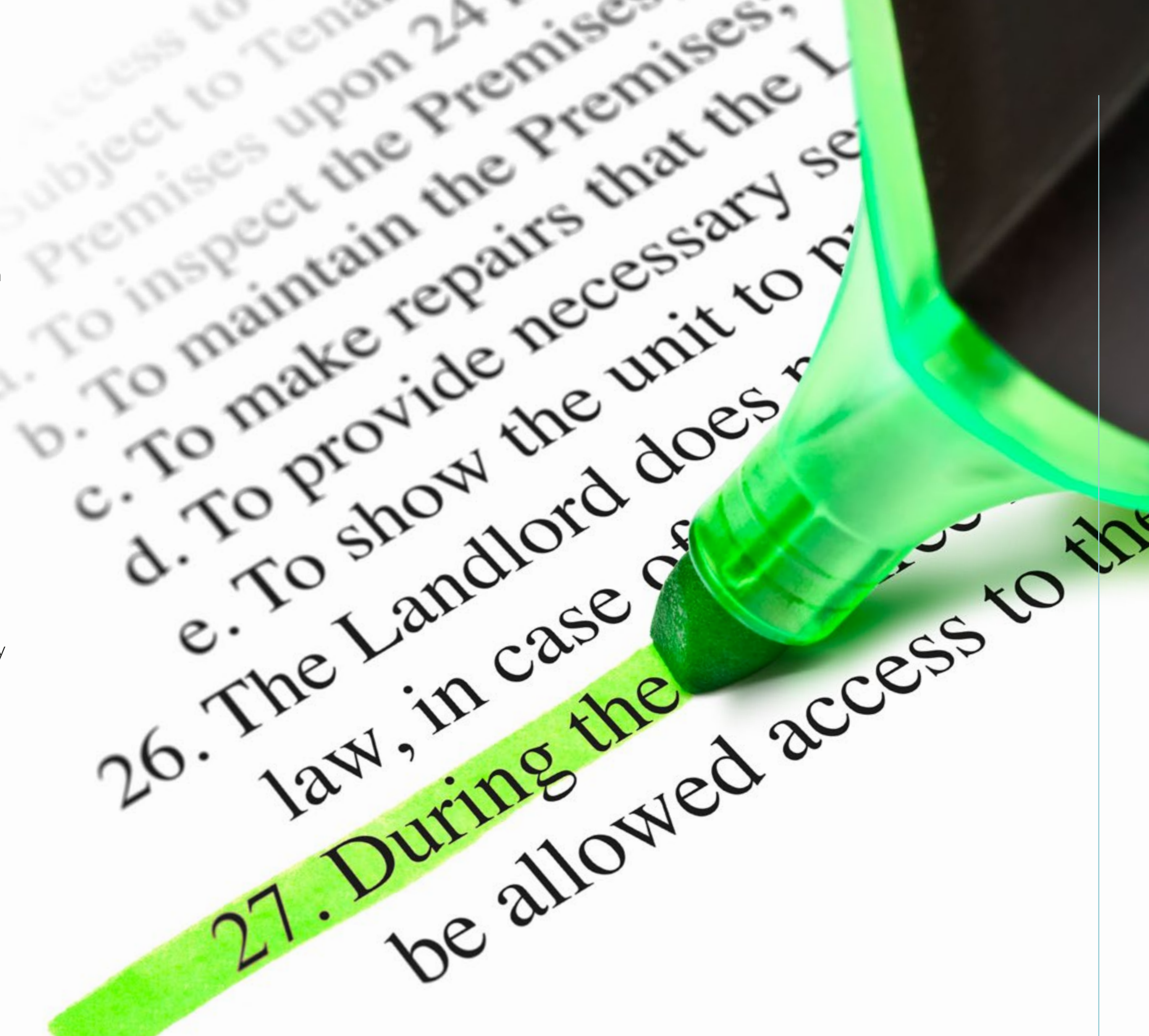
An experienced lease advisory team can really add value here, helping landlords extract more value out of the final months of the lease before space falls vacant – which is the last chance a landlord will have to do so.

Our job involves critically analysing a lease and interrogating the language, building a robust argument and planning a negotiating 'play'. This is our bread and butter so, when it comes to dilapidations issues, a landlord's lease is potentially in better hands with us, rather than a solicitor.

We can offer suggestions for improved wording for a lease at either its drafting stage or as it reaches expiry. We will spot the strengths and weaknesses in the key dilapidations clauses, as well as any compromising clauses, such as strict time limits, indemnity wording, and so on.

Remember, don't leave dilapidation negotiations to the last minute and engage with a lease advisory specialist early. They can help you with drafting lease terms or analyse the existing small print, to ensure the best outcome at the point of lease expiry.

Legislation prevents a landlord from claiming the cost of any works that are rendered unnecessary because the landlord intends to carry out refurbishment or redevelopment works – known as supersession works (Section 18 'second limb')



"our job involves critically analysing a lease and interrogating the language"

Kickstarting careers

As a block manager working with established communities in the PRS sector, bringing fresh ideas to my developments and keeping my onsite staff motivated, within the scope of service charge budgets and role responsibilities, can be challenging.

At River Crescent, a leasehold development of 128 units in Nottingham, I came up against this very issue. The building is an established one, with half the residents being either owner-occupiers or long-term tenants. So, working within the confines of the service charge budgets often has us walking a fine line between keeping standards high and running costs realistic.

But despite its challenges, having experienced property management at all levels, from administrator to property manager, block manager and now, portfolio manager, I know how rewarding a career in this industry can be.

I am passionate about nurturing the next generation of property managers and fostering diversity in the sector. This commitment is echoed by Allsop and demonstrated by its involvement in Women in Property, our graduate and apprenticeship schemes, and our work with schools.

The last 18 months have been difficult for everyone. For onsite staff and managers, tasked with keeping residents safe, the additional pressure has, at times, felt overwhelming. Young people starting on their employment journey have been hit particularly hard.

As unemployment rose at the height of the pandemic, so too did the number of young people claiming Universal Credit, with one in five first-time claimants under 25 years of age. Government figures show that a record 538,000 under-25s claimed unemployment benefits during the first lockdown.

In response, the government launched its Kickstart Scheme in 2020. Described as an "innovative way to help young people into work and spur Britain's economic revival", the subsidised scheme sees the government paying 100% of the National Minimum Wage, National Insurance, pension contributions and a £1,500 grant to cover the set-up and training costs of people aged 16-24, who are given 'quality' positions with a minimum of 25 hours of work per week. Kickstart Scheme jobs are designed to build skills in the workplace and allow young people to gain experience, which in turn will improve their chances of finding long-term work.

Chancellor Rishi Sunak said: "This isn't just about kickstarting our country's economy – it is an opportunity to kickstart the careers of thousands of young people who could otherwise be left behind as a result of the pandemic.

"The scheme will open the door to a brighter future for a new generation, and ensure the UK bounces back stronger as a country."

In an employment market saturated with applications, young people face being stuck in a Catch-22 situation, unable to gain experience because employers are unwilling to provide learning opportunities.

For this reason, the Kickstart Scheme is a crucial stepping-stone for young people. For employers, it offers the opportunity to effectively test-drive an employee before offering a permanent contract. Finding an employee who fits with a company's aims and values can be difficult when relying on the standard interview process – especially when the candidate has very little work history or life experience. Removing the financial outlay involved with hiring a young, untested person allows employers to invest time in their development, risk free.

Critics of the scheme will claim it provides free labour without the guarantee of long-term job prospects, and no doubt some employers will exploit the scheme in this way. But the majority will – we hope – see this as an opportunity to support the next generation of workers.

For me, hiring a young person to the team at River Crescent was the solution to several issues. The scheme has enabled us to give back to the community, empower a young person, and provide them with valuable, transferable skills. It has also allowed me to bring fresh ideas to the development. By employing a new member of staff, I can develop my existing team, expanding their managerial skills and empowering them to delegate some of their responsibilities.

Moreover, the set-up grant has allowed me to provide all the equipment our new employee needs to carry out their role, which would otherwise be unaffordable for the employee, and removes the need for me to include it in the running costs of the building.

As a result, we are delivering a financial saving to our client and leaseholders, reducing maintenance response times, and improving standards throughout the development.

We are now six months into our Kickstart Scheme journey and, though dealing with the various government agencies involved was challenging, we now have an employee who embodies all the characteristics we look for: enthusiasm, and a willingness to learn and share ideas.

My hope for our Kickstart employee is that they will stay with us for the long term, moving on to an apprenticeship programme at the end of the six-month placement and becoming a valued, experienced employee. Yes, we need to invest more time in training than we would with an experienced staff member, but this is a small price to pay considering the myriad benefits to our team.

Rates Mitigation

In some ways, business rates are a very straightforward form of tax; they are charged on a binary basis of either 'empty' or 'occupied' and charged to the person 'entitled to possession' – usually the landlord or tenant. However, since the 2008 increase in empty rates liability from 50% to 100%, the conditions have been perfect for the rates mitigation industry to thrive.

Landlords have been increasingly squeezed with regards to empty rates, and have looked to run their estates more tax efficiently. However, on speaking with landlords about rates mitigation, there are a wide array of feelings towards this as a form of liability reduction. Some are concerned that local councils will penalise them for implementing these schemes; others have utilised them for years and can see their benefit.

However there have been two notable court decisions this year that have helped to clarify the legitimacy of such schemes. Local authorities lose considerable amounts of revenue to these schemes, and therefore in an effort in increase their rates retention, they have been spending significant time and resource challenging certain forms of mitigation through the higher courts. Notable recent examples include Hurstwood Properties (A) Ltd v. Rossendale BC [2021] UKSC 16, and Public Health England v. Harlow District Council.

Rossendale sought to question the practice of the 'managed insolvency' mitigation schemes, which see a property owner grant a lease to a special purpose vehicle (SPV) without any business or assets. The SPV becomes the ratepayer by virtue of the lease but then is immediately placed into voluntary liquidation, or is otherwise dissolved. Companies in liquidation benefit from a specific exemption from liability for non-domestic rates and, as part of the dissolution process, the lease transfers to the Crown as ownerless property (bona vacantia) and remains in this state until the liquidator or Crown disclaim it.

In the Rossendale decision, the Supreme Court ruled that the SPVs could not be considered as the person entitled to possession, as the scheme had been designed in such a way that there was no real or practical ability to exercise the SPV's legal right to possession. Further to this, the SPV was only granted a lease solely for the purpose of avoiding empty rates. Therefore the landlord was found to be the person entitled to possession and therefore responsible for the empty rates liability rather than the SPV.

This decision demonstrates that landlords must remain cautious when considering how to best manage their overall rates liability and, if considering deploying a rates mitigation scheme, they must choose one based on its legal credibility rather than its overall savings potential. In the Public Health England (PHE) v. Harlow Council High Court decision from April of this year, Lord Justice Kerr clarified what can be considered a rateable occupation of premises when looking at schemes of intermittent occupation.

Intermittent occupation relies on a tenant taking rateable occupation of a premises for a period of six weeks, then vacating the property and allowing the property owner to benefit from the three or six-month empty rates exemption that this occupation generates. Harlow brought this case to the High Court to contest on two grounds; firstly, that the six-week period did not constitute a rateable occupation as the items in the boxes were of little value and, secondly, that if PHE was found to be in rateable occupation during the six-week period, that it remained in occupation for the following three months. On this last point, the council used the fact that there was a model of the building post-redevelopment in situ, as well as items used for occasional meeting purposes: coffee and tea-making equipment, chairs and a board table, as well as cleaning equipment that remained onsite after the storage boxes were removed. Both of these arguments were dismissed and, as part of his decision, Justice Kerr made the following point:

"Unless the possessor misunderstands the law or takes a wrong step, it is in a position to benefit from the exemption by occupying and then vacating the property at times of its choice. There is nothing surprising or disturbing about that observation; it flows from the established principle that "the court is not a court of morals, but of law" (per HHJ Jarman QC in Makro Properties, at [56]). It is for the legislature to change the position if it decides to do so."

The above cases highlight the need for care to be taken when seeking to reduce empty rates, as there are ways to mitigate an empty rates liability that are acceptable to the courts – and others that are not.

"landlords must remain cautious when considering how to best manage their overall rates liability"

Will food and grocery remain at the core of retail investment post-Covid?

The pandemic has proved a boon for supermarkets and convenience stores who have benefitted from their essential retailer status, as shoppers moved a greater proportion of their eating and drinking back into the home following the closure of pubs and restaurants. In the 12 weeks to 21 February 2021, take-home sales in the UK rose by 12.5%, according to Kantar.

However, the landscape has changed. With the reopening of restaurants, pubs, bars and cafés as well as the lifting of some of the travel restrictions, consumers have embraced their newly found freedom with an opportunity to buy food and drinks elsewhere, leading to a decline in supermarket sales. What does the return to normality mean for bricks-and-mortar supermarkets and convenience stores? Will they continue to be seen as attractive investments and what role will online retail play in shaping the sector?

The rise of online

According to research conducted by Mintel, in December 2020, 59% of Brits identified as online shoppers, doing some, most or all of their grocery shopping online, whilst data from AHDB suggests that at the peak of the pandemic in February 2021, online channels accounted for 15.4% of all grocery sales in the UK.

However, thanks to the rapid rollout of vaccines across the UK and the easing of social distancing restrictions, many more buyers have resumed their pre-pandemic habits and returned

“convenience stores and supermarkets are particularly attractive from an investment point of view”

to in-store shopping. Nielsen IQ’s data shows that during the first four weeks of August, online grocery sales declined by 10%, while till sales in the grocery sector increased by 1.1%, as visits to physical stores got a 12% boost. Kantar’s findings support that, showing that just over 20% of the population bought groceries online in the 12 weeks to 17 August 2021, the lowest level seen since October last year.

All of this data suggests that many of us have already resumed our pre-covid habits, and despite the increase in online sales recorded during the pandemic, in-store shopping remains the go-to option for many – good news for anyone considering investing in the sector.

The allure of discount chains

However fast and easy online shopping may be, it can not beat the convenience of a local shop, where you can buy a pint of milk without having to pre-book a delivery slot. According to Kantar, Co-op, the biggest convenience store operator, and Iceland, known for its affordable frozen pre-prepared meals and vegetables, as well as independent grocers, have all seen dramatic increases in sales during the pandemic, experiencing double-digit growth compared with 2019 as more people ate at home and shopped locally. Given flexible working is firmly on the agenda for many businesses, it would be reasonable to expect local supermarkets and convenience stores to thrive, albeit at a slower pace.

Waitrose, Tesco, Aldi and Lidl have all seen their market share grow. The latter two deserve a special mention. Targeting value-oriented consumers, who want low prices, a swift shopping experience with a basic service and a limited range of products to choose from, they have thrived during the pandemic. Discounters have been able to offer lower prices as a result of having fewer products, which helps to save space and time, reduce staff costs (many products are displayed in the packaging they were delivered in reducing the need for shop-floor staff) and lightning-fast cashiers. At a time of uncertainty and economic precarity, their proposition resonates with a larger number of consumers, which consequently enables them to continue opening new branches.

Convenience that’s worth paying for

Convenience stores have enjoyed sustained growth since the outbreak of the pandemic. Typically situated next to transport nodes such as stations, airports or roads, they are often easier to access. This format has a number of advantages over traditional supermarkets, including location, shorter wait times and longer opening hours. As a consequence, they usually charge higher prices than supermarkets. This is partially due to higher input costs (rent, cost of goods) and the fact that people will readily pay a premium for convenience, especially in the absence of other options nearby. For this reason, convenience stores will continue to play an increasingly important role in the grocery market landscape, helping Tesco, Sainsbury’s and Co-Op retain and increase market share at a time they are facing serious competition from Lidl and Aldi.

A safe haven during turbulent times

Convenience stores and supermarkets are particularly attractive from an investment point of view, offering buyers the opportunity to purchase well-located stores let to secure, well-established and reputable businesses on long leases. These long leases typically benefit from CPI or RPI linked rent reviews, protecting their rental income against inflation.

Convenience stores allow smaller investors to get a foothold into the market. Most recently, Allsop helped to sell a ground floor unit let to Sainsbury’s in Hackney Wick on a 15-year lease, with a break at year 10 with five-yearly rent reviews linked to RPI subject to a 3% p.a. cap. The pool of buyers for Hackney was impressive and varied, competition for the asset remained fierce up until the very end. We received interest from a number of local and overseas investors, property companies and even a couple of celebrities. Since then, the market has continued to strengthen with record yields expected to be achieved over the forthcoming quarter.

Allsop is well positioned to advise investors, however big or small, on the disposal or acquisition of retail property across the UK thanks to our market knowledge and experience, as well as an extensive network of contacts – your very own convenience store may be just a phone call away.

Allsop

A week in the life of... An Allsop Asset Manager

MON "No Daddy, I want Rice Krispies, not Shreddies," cries my three-year-old son, on the verge of a meltdown.

I'd planned for this but avoiding a crisis will require some negotiation.

"We don't have any Rice Krispies," I reply as I put some fruit in front of him, removing the offending Shreddies. "But I'll buy some for you on Friday, to have as a treat on the weekend."

Crisis averted. The Rice Krispies incident required many of the same skills demanded by my role on Allsop's Asset Management team. The key to Allsop's success is our focus on people, the ability to patiently negotiate and implement a well-thought-out strategy.

I head to a marketing meeting at a partially let 40,000 sq ft office building in Midtown. It's a sunny day and, as I walk along the Thames from Waterloo, I am enthused by the number of people on their way to work – numbers have significantly increased since summer.

I arrive at the building and sit down with the leasing agents to discuss the key requirements for the space, current market sentiment, specific interest and new occupier targets.

The plan for this asset is to create a fully fitted plug-and-play space (suites of 2,200 to 3,000 sq ft) and find short-term tenants; before a larger redevelopment of the entire building, at its natural block date in four years' time. In the meantime, we continue to work on the ongoing redevelopment and feasibility in the background.

I then dash off to a meeting with the project manager overseeing refurbishment works at a building in Mayfair. We advised the client to create a new reception area and refurbish two of the office floors, including a CAT B fit-out. The target occupiers are the less rent-sensitive financial services businesses, looking for a good-quality fitted office space and a fantastic address in the heart of Mayfair.

"just one more errand to run... off to the shops to stock up on Rice Krispies"

TUE It's an early start today and I am off to see a building we are underwriting on behalf of an overseas Asian investor, who was attracted by the characteristics of the Central London real estate investment market. For each of the buildings I look after, I make a point of regularly walking the area, to truly understand the micro market, with today being no exception.

Lunch is a Pret sandwich (sadly no Christmas special just yet!) before grabbing a coffee with an existing tenant to understand how their business has changed over the last 18 months and their aspirations for the future.

For this tenant, the pandemic created an opportunity for growth and they are now looking to expand into more space within the building. Like me, they advocate the importance of returning to the office and the power of collaboration.

WED Today I am working on the 2022 business plan and budget for a 120,000 sq ft office building in the City of London. Like many, our overseas client understands the importance of a trusted on-the-ground, all-encompassing asset manager to sense-check the numbers and pro-actively drive the performance of the asset.

I then speak with the property manager for the asset, whom we oversee to ensure continued delivery of our, and ultimately our client's, business plan, to discuss a service charge budget for the coming year.

Later, I start work on a request from a potential tenant to add a "canine clause" into their lease, which would allow their employees to bring their four-legged friends into the office on a regular basis. We are increasingly seeing tenants looking to create more inclusive, friendly workspaces with a focus on staff wellbeing.

THUR First off, it's a project management meeting for the refurbishment of a 100,000 sq ft mixed-use property. The works will include a new reception, new end-of-trip facilities, and refurbishment of 30,000 sq ft of office space, all of which is due to commence in the next month or so. Once the works are complete, the leasing team will target City occupiers looking for good value, well located, open-plan space.

And then back to the office to start on a sales strategy for an office block purchased by a client about seven years ago. Bearing in mind the yield compression, as well as rental growth coupled with a good FX gain, it could be the right time for the client to sell and recirculate their money. Many of our clients have been unable to travel recently owing to Covid, and we are often their eyes-and-ears on the ground in London.

FRI I am pitching for a new asset management job today. The client lives overseas and previously instructed a property manager to look after the asset, which they had not been doing pro-actively. Needless to say, the client now needs our help to fill the vacancy by refurbishing the office space and repositioning the ground-floor retail units following two recent CVAs.

This was followed by a regular lunch with some of my Allsop colleagues from the West End Investment, Agency and Asset Management teams. This is a great opportunity for us to swap stories from the week and exchange market knowledge, so we are able to provide market-focused advice to our clients. Regular contact with other transactional teams means we are able to provide up-to-date analysis and recommendations.

I then return to the office to clear my inbox after a busy week.

Just one more errand to run… off to the shops to stock up on Rice Krispies – I am not one to go back on a deal!

> "a well-intentioned initiative, it was put in place to help unclog the housing market"

A guide to getting comfortable with the EWS1 form

In the aftermath of the Grenfell Tower disaster, an External Wall System 1 (EWS1) form was introduced, so that buyers, owners, lenders and valuers concerned with cladding on tall properties could clarify whether a building's external wall system (i.e. cladding) was safe or not.

The form confirms that an external wall system on a given residential building has been assessed for safety by a suitable expert, in line with government guidance.

A well-intentioned initiative, it was put in place to help unclog the housing market, which, in 2019 when the EWS1 form was introduced, was increasingly choked up with valueless properties with undetermined safety credentials. This has had unintended consequences – lenders, surveyors and other parties involved in property valuation became overly cautious and started asking for the form even when it was not required.

Another issue with the EWS1 form is that many mistakenly assume it provides an indication of the cost of any works required when, in fact, its sole purpose is to confirm whether the cladding is a fire risk requiring removal, or needing further inspection.

This misunderstanding creates a major headache for leaseholders and building owners. Given the high demand for the checks that support the forms and the limited pool of surveyors and engineers qualified to carry them out, many would-be sellers must wait for years before they are able to get hold of a completed document.

Social housing providers have been warning leaseholders that they could be waiting for years to secure a check. For example, Peabody, a UK housing association that owns more than 67,000 homes across the country, warned some leaseholders may need to wait for up to a decade.

In order to help property owners and those involved in the sales process, the brief guide below from RICS outlines when an EWS1 form is actually required.

DO I NEED AN EWS1 FORM?

My building is over six storeys and:

- There is cladding or curtain wall glazing on the building or
- There are balconies that stack vertically above each other and either both the balustrades and decking are constructed with combustible materials (e.g. timber) or the decking is constructed with combustible materials and the balconies are directly linked by combustible material

My building is five or six storeys and:

- There is a significant amount of cladding on the building (estimated from what is visible standing at ground level, approximately one quarter of the whole elevation is a significant amount) or
- There are ACM, MCM or HPL panels on the building* or
- There are balconies that stack vertically above each other and either both the balustrades and decking are constructed with combustible materials (e.g. timber) or the decking is constructed with combustible materials and the balconies are directly linked by combustible material

My building is four storeys or fewer, and:

- There are ACM, MCM or HPL panels on the building*

* Note: metal cladding and ACM/MCM are visually very similar, so if metal panel cladding is present, the valuer should confirm with the building owner or managing agent in writing that they are not ACM/MCM, or, if a confirmation cannot be obtained, an EWS1 inspection should be requested

The material types together with their fixings that are classified as cladding:

- Aluminium composite material (ACM) metal composite material (MCM)*
- Brick slips
- High pressure laminate (HPL)
- Metal sheet panels
- Rendered external wall insulation system
- Plastic
- Tiling systems and
- Timber

ACM is part of a wider range of Metal Composite Materials (MCM) faced with other metals such as zinc, copper, and stainless steel. Like ACM, the filler or core material of MCM panels varies between products and can include combustible materials.

The external wall types NOT classified as cladding:

- Masonry construction (panels of solid brickwork, blockwork or stonework)
- Traditional cavity wall construction (with a brickwork, blockwork or stonework external leaf)
- Timber framed buildings (with a brickwork, blockwork or stonework external leaf)
- Concrete panels and
- Stone panels

Shedmania reigns... but it's not all about Logistics

The resilience of the multi-let sector has been proved over the last 18 months, stirring investor appetite for this sub sector.

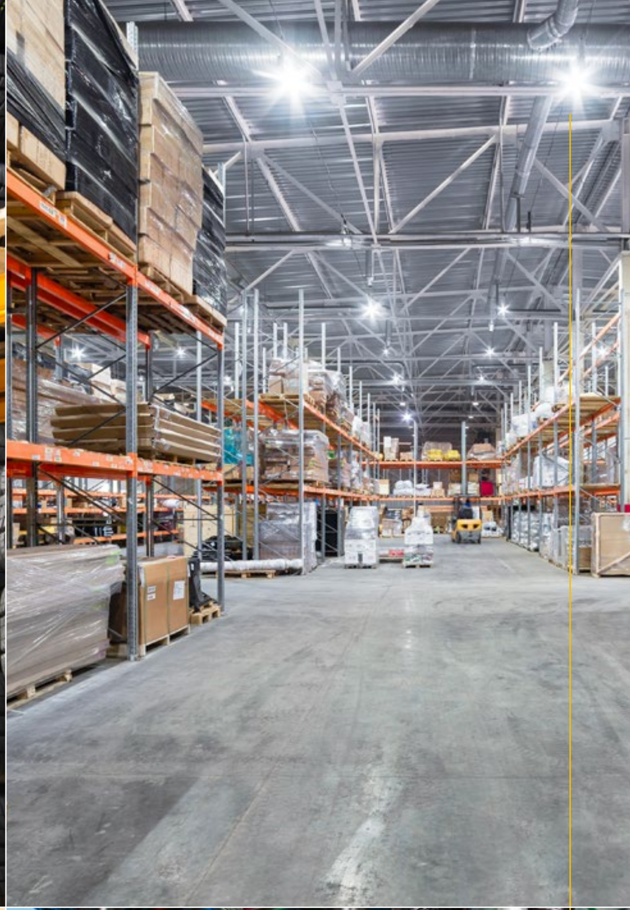
Logistics has undoubtedly become the trophy asset throughout the pandemic, stealing the limelight from its contemporaries within the industrial sector. For the multi-let sector, 2020 and H1 2021 the focus was on damage limitation, although it demonstrated remarkable resilience on rent collection, rental growth and low tenant defaults. With the storm largely weathered, H2 this year is set to see a resurgence of multi-let investments on the market. Furthermore, with demand showing little sign of abating for 'traditional industrial uses', smaller units on well-located urban industrial estates are seeing new uses emerge, adding to the competition for inner city space; the rise of the dark kitchen.

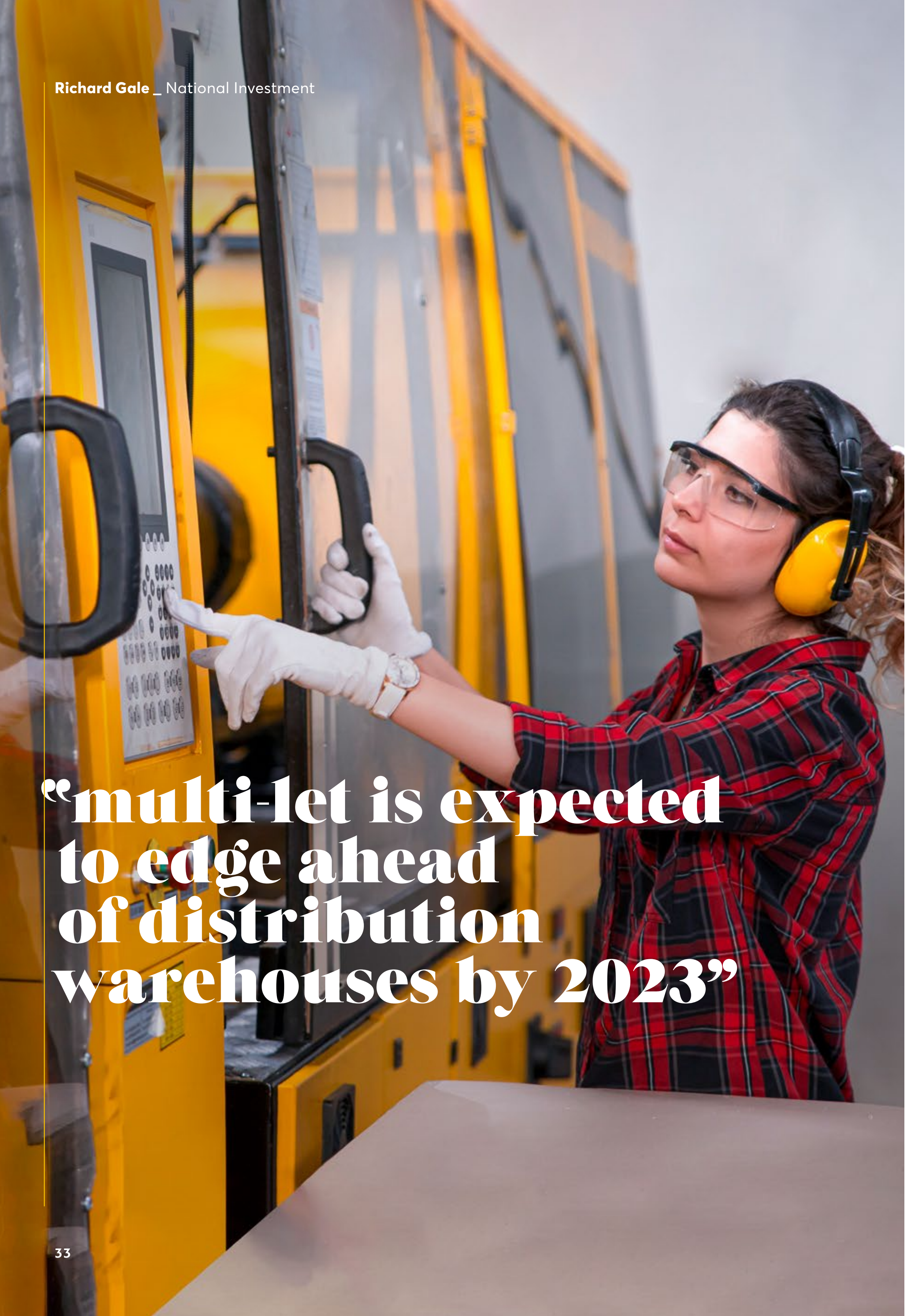
Last year, nearly 80% of industrial volume traded was in the logistics and big box sector. With £7.3Bn already traded in the first half of the year, 2021 is set to be another record breaking year. In contrast, last year saw volume in the multi-let sector sink to a record low of £1.4Bn, far removed from the £4.8Bn seen only two years previously in 2018.

The contrastingly subdued year for multi-lets reflected both the greater perceived risks around the smaller end of the market and weaker demand from domestic investors. With lockdowns and Covid restrictions imposed, the fact that logistics continued to operate highlighted its qualities to investors. The multi-lets however, were impacted by the inability of investors to inspect properties and were more likely to be closed for business than their big box counterparts.

How did the multi-let sector remain so resilient?

The immediate disruption of Covid to multi-let industrial was significant, affecting around 40% of occupied floorspace. The impact was greatest felt by the occupiers in the smaller units who were more likely to be start-up / SME tenants and who due to the nature of their business were more exposed to the restrictions imposed. For the owners of multi-let industrial





"multi-let is expected to edge ahead of distribution warehouses by 2023"

portfolios this led to unprecedented challenges engaging with occupiers, questioning not only whether they could use their space, but whether their business might survive. Landlords offered payment support programmes through rent deferrals, rent free periods and change of payment frequency. The speed of implementation of such solutions helped support rent collection during the year and even unleashed a new wave of demand from businesses repositioning their operations to support a new way of working by selling more goods online.

Multi-let owners have reported an improved trend in rent collections for each invoicing period since the outbreak of the pandemic. Stenprop, a leading multi-let industrial company, has continued to see a rise in rental income and occupancy across its portfolio for the six months to the end of June 2021. In its latest trading update the group said its passing rent saw a boost of 8% over 12 months, whilst its occupancy rate increased by another 1% in the last quarter to 95% as at 30 June, up from 91% at the beginning of the first Covid lockdown in March 2020. Similar figures were echoed by Mileway and IPIF, both of who have seen rent collection trending at c.90% over the last 12 months. All things considered, a very positive outcome.

The decrease in multi-let transaction volume has largely fallen in the regions outside the wider south east. However, whilst volume is still significantly down, London, on the other hand is currently experiencing an unprecedented pricing boom. It started with Segro buying Electra Park in Canning Town for £133M last October with a yield of 2.58%. In June, Mirastar dug deep to buy an industrial estate in Hayes for more than £65M for a yield of below 3.5%; Capital Industrial then bought a £75M, four-asset London portfolio at a net initial yield of around 2.7%, and most recently Goodman secured Mowlem Trading Estate, Tottenham for £130m, reflecting 2.54%.

The growth of new occupier markets

In the middle of every difficulty lies opportunity and therein lies the phenomenal success of dark kitchens emerging as a new growth occupier on many local industrial estates. Following the closure of restaurants, food operators rushed to adapt their operations using industrial estates as their new centre for operations. A dark kitchen is used for meal preparation; customers order their favourite food via an app from the likes of Wagamama, which prompts the kitchen to prepare the order from industrial units fitted out for food services.

Urban multi-let industrial estates are attractive places to operate dark kitchens due to their close proximity to their consumers, allowing a quick delivery service. One sector's loss is another's gain and we anticipate that core urban industrial estates in regional cities, such as Manchester and Birmingham, will also experience a rapid rise in demand going forward.

The divergence in transactions between logistics and multi-let started with the lockdown in March 2019 and was exacerbated by the perceived risks associated with a smaller market, more diverse occupier base and therefore more exposure to the fallout of Covid restrictions.

Now that the multi-let sector has demonstrated its resilience and with the role out of vaccinations and the reopening of the economy, there is a light at the end of the tunnel. Investor appetite, particularly from domestic institutions is likely to stir, in fact, multi-let is expected to edge ahead of distribution warehouses by 2023 as a result of its severely restricted supply.

The impact of changes to Use Classes Order and Permitted Development rights: opportunities for some, vulnerabilities for others

In September 2020, the government introduced radical changes to the UK planning system. A new Class E, Commercial Business and Service, replaced Classes A1, A2, A3, B1, D1, and D2, covering a range of uses from retail and restaurants to offices and light industrial, alongside the introduction of Class F1, Learning and Non-Residential Institutions, and F2, Local Community. Meanwhile, changes to the General Permitted Development Order were introduced, allowing the conversion of and extensions to buildings, without the need for planning permission.

Almost one year on, Anthony Dixon from Allsop's Residential Development team sat down with Andrew Hoban from its Commercial Valuation team to discuss the impact of these changes on the property landscape.

"These were some of the biggest changes to the National Planning Policy Framework (NPPF) since the changes to Permitted Development (PD) rights in 2013," said Hoban.

"Agreed," replied Dixon. "But this time, rather than creating more homes, the changes were much more targeted towards revitalising the high streets, making it easier for landlords to secure tenants."

This flexibility is good news for commercial landlords, but are there opportunities in the residential sector?

"Of course," said Dixon. On 31 August 2020 – the day before the new use class changes were introduced – two other PD changes came into effect: the first applied to Class ZA, allowing the demolition of vacant and redundant offices, light industrial buildings or residential blocks, to provide new flats without planning permission. The second applied to classes AA to AD, allowing the addition of one or two stories of residential space to existing buildings.

As with all new legislation, the devil is in the detail, so always discuss the finer points with your property advisor.

"So, there are potential opportunities for landlords with properties in secondary and tertiary retail locations with, say, mixed-use retail on the ground floor and residential above. They may be able to convert the ground floor to residential use and add two storeys for residential use on top. So, not only have they added value by increasing the number of units, but they've potentially increased the value of the existing residential units, which no longer sit above a commercial use class."

The new use class order allows commercial landlords to respond to market conditions, assigning a Class E use that delivers the most value. But Hoban says we need to be wary of this: "Some types of occupiers will always pay the highest rent – if not carefully managed, we risk jeopardising diversity and ending up with lots of the same type of occupier or fragmented high streets if, for instance, retail accommodation is converted to an alternative use within Class E, such as offices."

"And this is one of the reasons why there's such an uproar from councils", added Dixon. "The regulations restrict their ability to control

"the new use class order allows commercial landlords to respond to market conditions"

town centres and that's a concern". In the past, local authorities have used Article 4 Directions to control use class changes within boroughs. These directions stop applying after 1 August 2022, and councils have to apply for new ones. However, changes to the NPPF mean new directions are far more challenging to secure.

For valuers, the new regulations also present some challenges, said Hoban. "Valuers will need to think carefully about the existing layout of properties. Whilst the use class change affords greater flexibility, not every high street unit will be suitable for a multitude of uses or users, and the capital expenditure required to change the layout may negate any uplift in value. The fundamentals of a property's characteristics and its location have to be scrutinised, or else there's a risk of under or overvaluing".

The new regulations could also have an impact on leases, as the new Class E does not feature in leases drafted prior to September 2020. For Dixon, this raises some questions about future valuations. "I think the way we draft leases could change – instead of using use class, we might see a described use instead". The tie between the Use Classes Order and leases has historically ensured consistency across leases and the industry as a whole.

Undoubtedly, the changes are more complex than they seem. Increased flexibility in the planning system is fundamentally positive, allowing the market to operate more freely, reducing vacancies and, sometimes, helping an area become more vibrant.

But where it was previously the responsibility of the council to control the diversity of certain locations, some of this power now sits with the landlords. "Tenancies will fall to the highest bidder, so there is a risk that certain occupiers will be disadvantaged," commented Dixon.

Still, the changes to the planning use class system and PD regulations are sure to aid the recovery of the retail sector, post pandemic. "The new regulations, coupled with shorter leases, give landlords the flexibility to try new things and see what works," said Dixon. Hoban added that the pandemic has also created opportunities for small businesses. "There are fewer barriers to entry now," he said. "A number of larger retailers have suffered over the past 18 months – partly due to the pandemic as well as wider economic issues – making more room for start-ups and entrepreneurs. For the consumer, that variety is really exciting."

So, is there any way that landlords and building owners can stay on top of these and future changes to planning regulations?

"Stay in contact with your consultants. It's our job to keep abreast of changes and help clients spot the opportunities that those transitional periods can provide," concluded Dixon.

"These changes never happen overnight," added Hoban, "so there's always time to leverage an opportunity, as long as your consultant has their nose to the ground."

CITY TRACKER

With lockdown officially over, the City of London is kicking back into gear.

During the first half of 2021, activity in the City leasing market was slow and steady. In fact, the government's decision to extend lockdown regulations until 19 July led some businesses to delay the exchange of leases until restrictions were at an end.

Now, as many big-name businesses announce plans for full or part-time return to the office, demand for City office space is on the rise.
In recent weeks, the back-to-school atmosphere has remained strong, with tens of thousands of commuters pouring back into central London, and mid-September seeing the busiest morning rush-hour since the pandemic hit.

In the City, the middle of the working week has become a hive of activity; workers are increasingly expected to commute in for face-to-face meetings. Returning to the office also offers employees the chance to mix, collaborate and socialise with colleagues. Certainly, the City's bars and restaurants – which have stood eerily quiet for more than a year – are now noticeably busier than normal, so much so that restaurants such as 1 Lombard, The Ivy and Fortnum's Royal Exchange are all fully booked mid-week be it for breakfast or lunch!

This uptick in activity is reflected in Allsop's viewings and demand tracker for the City leasing market. Since the government's announcement in February regarding the wind down of Covid restrictions, Allsop's City team has averaged more than 17 viewings per week and over 84 City Agents Society enquiries.

Data from Q2 demonstrated the pick-up in both viewings and enquiries across the City leasing market. In May 2021, there was an average of 11.2 viewings per week – up from 7.2 in 2020. By June, weekly average viewings had increased to 16, demonstrating increased demand from businesses for City offices.

Likewise, the tracker reveals growth in the number of enquiries into City offices. May 2021 saw an average of 69.7 enquires per week from City Agents Society, increasing to 102 per week in June 2021 – nearly double the weekly average for 2020. This is now averaging 84 per week in recent months.

Recent City office deals also demonstrate increased activity in the market. Snapchat recently made an offer for four floors at The Bloom, totalling 115,000 sq ft, and Inmarsat committed to 50 Finsbury Square, comprising 117,933 sq ft.

Similarly, the fintech sector has experienced growth during lockdown, leading to active enquiries from Go Cardless (70,000 sq ft), Braze (40,000 sq ft), Tik Tok (90,000 sq ft) and Afterpay (30,000 sq ft), all of which are looking to expand their offices substantially. Meanwhile, professional, finance and corporate businesses are actively looking for new space ahead of their respective lease expiries, notably Addleshaw, Lewis Silkin, abrdn, Reed Smith, Aviva, Kirkland and Ellis, Allen & Overy and Hogan Lovells.

After a slow 18 months and period of prolonged uncertainty, the City leasing market is experiencing a significant improvement in demand, with Allsop's viewings and demand tracker indicating that activity is likely to continue at pace in Q4.

Occupiers are now realising the value of improved collaboration through a more intensive use of the office. This is now beginning to filter through with increased take up figures and several deals for 'Best in Class' pre-let stock.

"this uptick in activity is reflected in Allsop's viewings and demand tracker for the City leasing market"

Does **scale** affect the value of PBSA?

When we are appraising student accommodation for the purposes of sale, four factors commonly determine appropriate yield: macro location, micro location, building quality and deal structure.

We are often asked whether there is justification for a yield shift for 'type' i.e. differentiating between studio and cluster accommodation. It is hard to give a definitive answer because it may be relevant in some locations, such as where there is a clear imbalance of supply. But as a general rule, we can say that determining yield by the type of accommodation on offer should not be a default position.

There is also a fifth major factor affecting a student asset's value that is often overlooked: the scale of an opportunity – the number of beds and subsequent lot size.

"put simply, there is less demand for smaller PBSA investment opportunities"

So, why is this? After all, there are many fine examples of smaller PBSA developments and, operationally, there is nothing to suggest larger-scale developments outperform smaller schemes. Put simply, there is less demand for smaller PBSA investment opportunities, so we see a softening of yields for buildings offering fewer beds.

As a result, we simply cannot adopt the yield achieved on the sale of a 350-bed scheme for a development of, say, 70 beds in the same city. In theory, yields should be comparable – but this is not how it is in reality.

To better understand the problem, let us think about it in numbers. As a hypothetical example, imagine that a capital value of £90,000 per bed is an appropriate metric for student accommodation in Sheffield. Applied over 350 rooms, this equates to a GDV of £31.5M. It is very much in institutional investment territory, which largely underpins the private ownership of PBSA in the UK. This capital can be deployed directly by the pension funds themselves or via private equity outfits, like Blackstone, but it is safe to say there is liquidity in the market for investments of this scale.

Applying the same value per bed to the 70-bed scheme equates to a value of £6.3M. The asset is saleable, but the buyer profile is less obvious. There is not enough scale for institutional investment, yet it is a big-ticket size for local or regional investors. Thus, the lot size falls between the cracks.

There are other factors at play, too. Smaller buildings can be more expensive to operate, requiring a greater gross to net margin. And the return hurdles are different for smaller scale investors, because the cost of capital is higher.

Another point to consider is this: if scale is impacting interest levels and it is therefore justifiable to reflect this in value, is value being driven by the number of beds, or by capital value? On the ground, it feels like a combination of both. Some buyers need to exercise larger amounts of capital, but the driving factor is the number of bedrooms.

The sale of Calico in Liverpool recently caught my attention: 780 beds achieving 5.80% NIY, which is a great example of scale hardening yield. For a development of less than 100 beds in Liverpool, you can take this yield out by 0.75%+ because this would be a fairer reflection of market expectation. In fact, in some instances, there is as much as 100bps difference between the yield applicable to large-scale PBSA and the yield applicable to smaller scale PBSA in the same city.

As a rule of thumb, the table below provides an indication of the yield shifts by asset size we are witnessing across a broad range of student sales.

Analysis such as this needs to be treated with caution because there will always be anomalies. Such is the established nature of student accommodation in the UK, it is difficult to make an argument that is relevant and correct for the whole market. But, broadly speaking, there is enough market evidence to support these parameters.

In super-prime regional locations such as Bristol, Bath, Oxford and Cambridge, demand for opportunities means some investors will look to adopt a slightly different strategy of building quantum by the acquisition of multiple smaller buildings. Demand for smaller assets is therefore bolstered and the yield shift minimised.
The largest differentials can be seen in prime regional and good regional locations because these markets offer a depth of opportunities for scale. Yields in secondary and tertiary markets are drifting somewhat and, given these are relatively high for student accommodation in the first instance, the value gap between smaller and larger opportunities begins to close up.

The market appears to be waking up to the opportunities presented by smaller PBSA – particularly, the apparent value and potential for yield compression to headline levels.
But demand is still stronger for larger scale opportunities and any change in sentiment is yet to carry an impact. Smaller scale PBSA therefore provides a strong investment case and opportunities to achieve more attractive returns even in some of the UK's more sought-after locations.

MARKET	>100 BEDS	<100 BEDS	DIFFERENTIAL
Super-prime regional	5%–5.25%	5.25%–5.75%	0.25%–0.50%
Prime regional	5.25%–5.75%	6.25%–6.75%	1.00%
Good	5.75%–6.75%	6.75%–7.50%	1.00%
Secondary	7.00%–8.50%	7.50%–8.50%	0.50%
Tertiary	8.50%+	8.50%+	NA

Our survey says...

Private investors have eyes on commercial property

This year more than ever, commercial property has been under the microscope and the future of the high street has been scrutinised across the country. Everyone is anxious to see the UK bounce back post lockdown, and the recovery of the commercial property sector is a big part of that.

Happily, our ongoing buyers' survey shows that there is much to be positive about. As the economy reopens and footfall returns to the country's shops, bars and restaurants, the appetite of private investors for commercial property remains strong. According to our survey, 52% of buyers from our auctions this year stated they were returning to auction within 12 months of their most recent purchase and a further 9% within five years. In addition, 26% of buyers are new entrants into the commercial auction market (compared to 22% in 2020). Desire to buy another commercial property in the future also remains high, with 96% indicating their intention to do so (70% in next 12 months, 26% in the next five years), and this is relatively unchanged from 2020 (98%).

The survey also reveals that 70% of buyers had bought properties outside of their home region – a significant increase on last year (58%), which adds weight to anecdotal evidence that suggests private investors are willing to look farther afield for good deals. At the other end of the spectrum, 5% of respondents bought properties located within five miles of their home, with all of these buyers being new entrants to the commercial auction market. This suggests we have successfully targeted local and special purchasers, such as adjoining owners and tenants.

Another trend revealed by our survey is that cash remains king for our commercial auction buyers. Finance is currently cheap but hard to secure, so most buyers (78% of those surveyed) are relying on cash reserves to

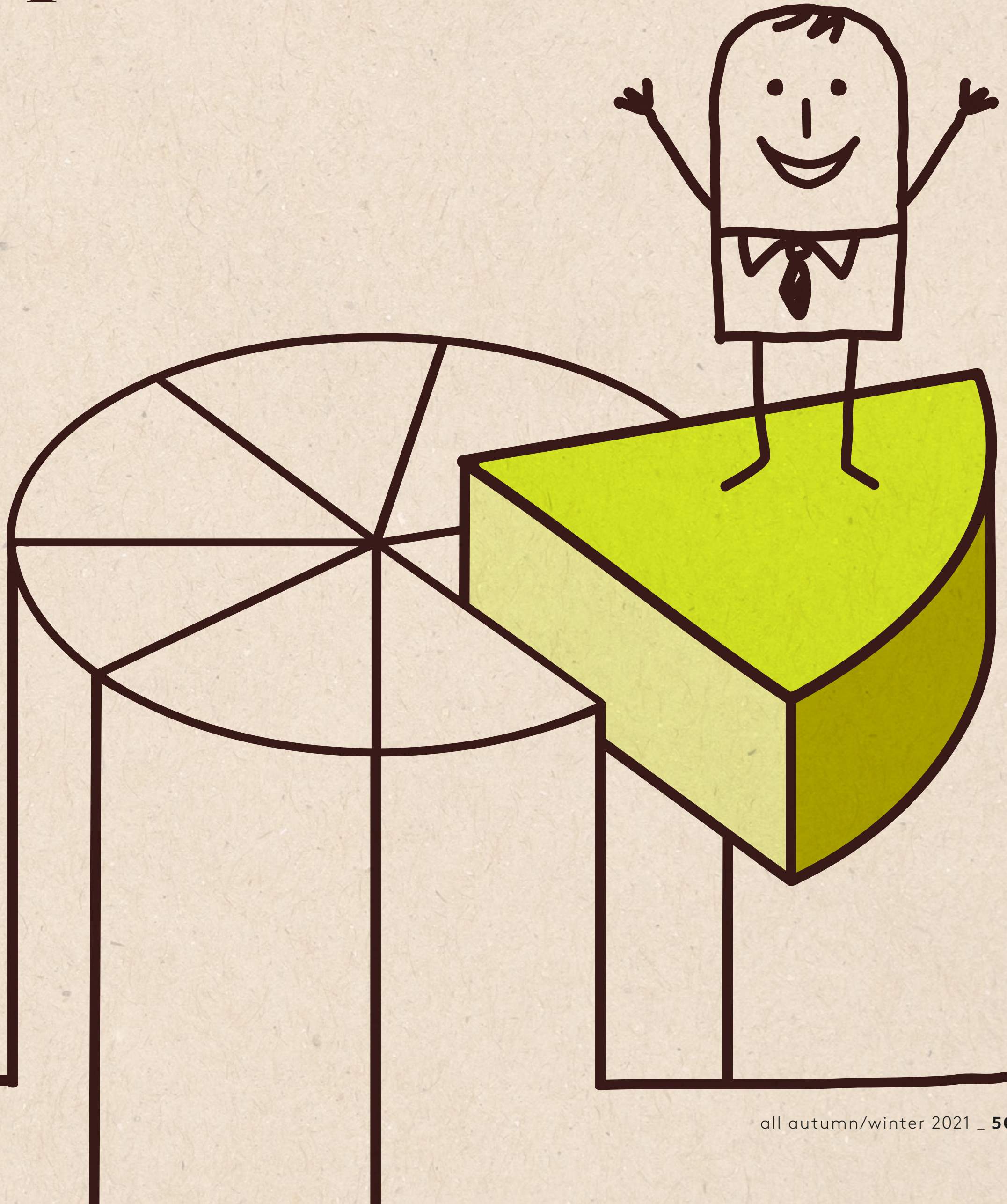
"private investors' sentiment is overwhelmingly positive"

complete – up by 10% on last year's figures. The remaining 12% are seeking external funding of between 25% and 75% loan-to-value.

Our commercial auction buyers have a strong property focus, with 48% reporting that more than three quarters of their investment portfolio, other than their primary residence , is invested directly in real estate. A further 13% held between 50% and 75% direct real estate in their wider portfolio.

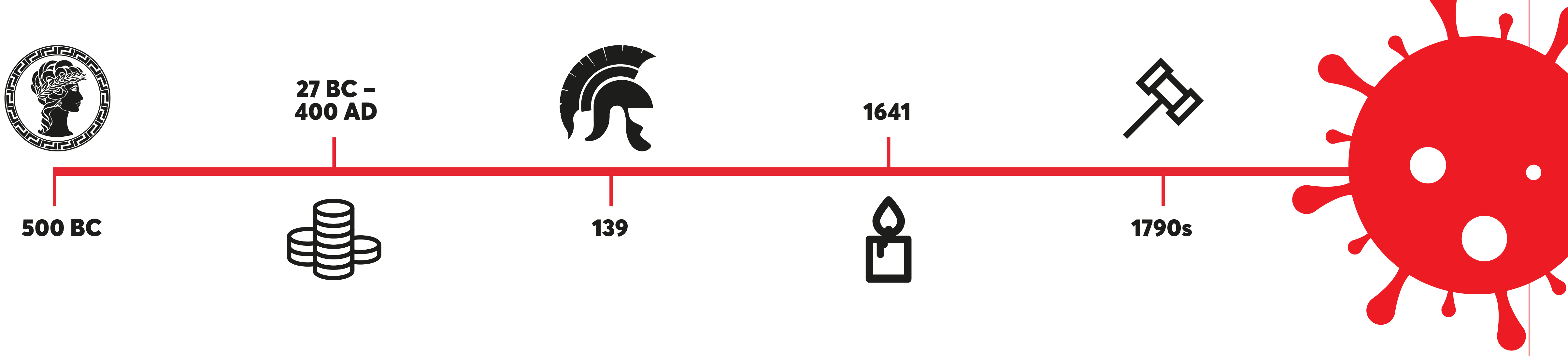
Furthermore, whilst the Covid pandemic has hit certain areas of the commercial property sector hard, private investors' sentiment is overwhelmingly positive. Far from being put off by the impact of the pandemic, 52% of our buyers claim to be looking to increase their exposure to commercial property in the future. Meanwhile, the remaining 48% declare they will be deal-driven with regards to further investment in the sector. And, though the retail sector has struggled under successive lockdowns, 41% of our buyers named retail as their preferred asset class, with 32% targeting industrial and 14% convenience stores. Of those buyers preferring to invest in convenience stores, all indicated that they would like to reinvest within the next 12 months and would do so using their own cash reserves. Over the past year we have seen an array of appealing convenience store assets benefitting from long leases (10+ years), index-linked reviews and strong covenants, making them an attractive investment choice in a potentially inflationary landscape.

So, despite 18 months of upheaval and uncertainty due to the pandemic, our survey shows that private investor confidence in commercial property – particularly the retail sector – is unshaken. Cash is still preferred by buyers at our auctions and, when it comes to their next purchase, they are motivated by a good deal. Looking ahead, the next few months are sure to be exciting!



The evolution of the Auction

Auctions have evolved enormously since they were first used as a method of buying and selling goods and services centuries ago.



Astonishingly, that evolution has perhaps accelerated most rapidly over the past 20 years, and again in the last 18 months since the start of the pandemic. Some fear that the inability to hold live room sales as a result of Covid has put the art of physical auctioneering at risk, but history tells us the age old coming together of people to bid and socialise is harder to extinguish than we imagine.

Where it all began

The word auction derives from the Latin 'Augeo', meaning to increase or augment.

The earliest auctions were recorded in Ancient Greece as early as 500 BC and during the Roman Empire, the spoils of military victories, were auctioned in the Forum under the sign of the spear. The Romans also used auctions to liquidate the repossessed assets of debtors. In 193 AD the entire Roman Empire was put up for auction by the Praetorian Guard – possibly the most significant sale in history.

From the end of the Roman Empire to the 18th century auctions lost popularity in Europe. When they regained favour, auctions by candle were used for the sale of land and goods. When the candle burned out, the sale was officially concluded to the highest bidder at that moment.

Auctions as we *knew* them

By the end of the 18th century, live auctions had come to resemble what we recognise today. Sales were held daily in coffee houses and taverns with the contract concluding on the fall of the hammer. From that point until the use of the internet for online bidding, the method remained largely unchanged.

My grandfather's first monthly auction was held in 1920 at The London Auction Mart in Queen Victoria Street. My father continued the family auctioneering business from 1953 until his retirement in 1986. I held my first sale in 1985 and my most recent (I won't say last) in February last year. For over 100 years that family tradition of auctioneering has been practiced in the same way. Since the outbreak of the pandemic Allsop sales, indeed all property sales, have been held online.

Auctions post pandemic

More change has occurred in our industry over the last 18 months than during the past 36 years since my first auction.

The obvious is the transition from room to online. But equally fundamental has been the vastly improved availability of market intelligence from digital interaction.

The bidding registration process not only collects the necessary information for anti-money laundering purposes. It enables us to assess so much more.

Payment of a bidder security sorts the serious buyers from the tyre kickers. Allsop requires pre-authorisation of a payment of £10,000 on the bidder's debit card. This is used in part payment of the deposit if the bidder is successful.

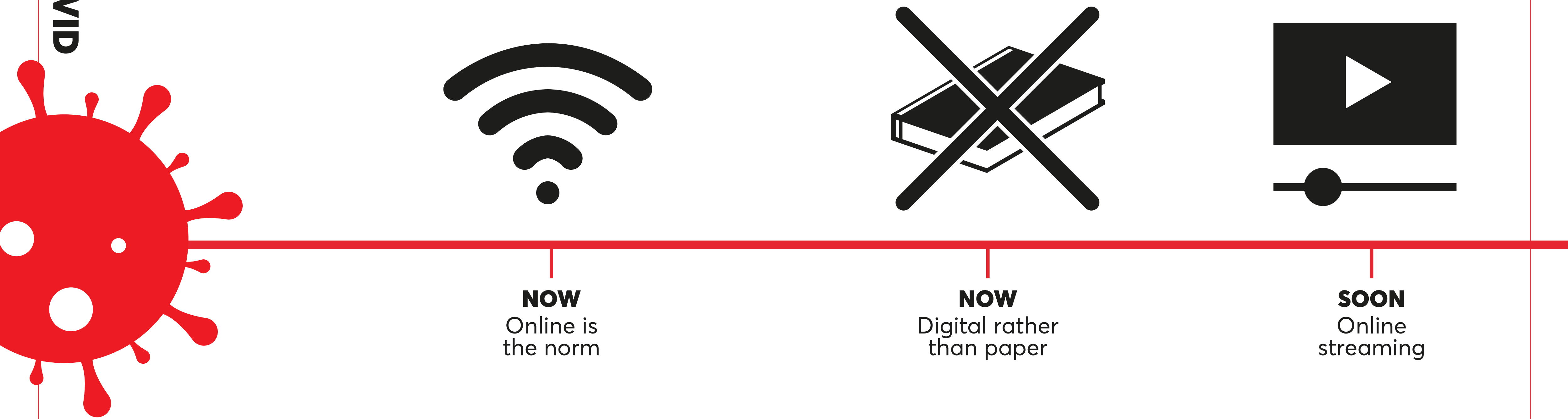
The process compels bidders to view all terms and conditions for bidding and requires confirmation that they have done so.

Details of all under bidders provide some safety netting in the event of default. But this also helps to build a profile of the market for different asset types and locations essential for future marketing.

The mystery bidder is a thing of the past. Whilst GDPR protects identities, we know exactly who is bidding – or even thinking of bidding.

A blind purchase, whether through impulse bidding by a novice in the room or a calculated risk taken by a professional, is no longer made in the dark. High quality virtual tours, rarely seen or heard of pre-pandemic, are no longer an expensive marketing tool for high value buildings. They are expected by bidders across the entire spectrum of prices.

While not being the most sustainable method of communication and harmful to the environment, paper catalogues created



further problems that we did not realise we had until web marketing became the exclusive. They were costly to produce, print and distribute. Errors or outdated information were crystallised at the printing press – as were the addenda necessary to notify bidders of changes. Online is alive and instantaneous. Dissemination of information is easy, immediate and much more environmentally friendly. The trail of communication is digitally recorded too – usefully cutting down both paper use and disputes about representations made, or not made, pre-auction.

Feedback to clients on interest, critical for advice on pricing, is now much more informed. Aside from the usual tally of viewings and document requests, we now know exactly how many bidders have been approved for participation at the main event. No approved bidders allows the seller to withdraw and treat privately – thereby avoiding the possible blight of an unsuccessful result.

Reliance on automation should only go so far though. Registered bidders still need to be called on the day of sale to remind them to log in. Indeed, conversations throughout the marketing process are potentially more important to selling the lots – in the old-fashioned sense – than the collection of market intelligence digitally.

Property has always been a people business. Despite the huge advancements in the role played by technology, I believe that the auction houses which put personal service and interaction ahead of automation will always be at the forefront of the industry.

Which begs the question – will we ever go back to the live room?

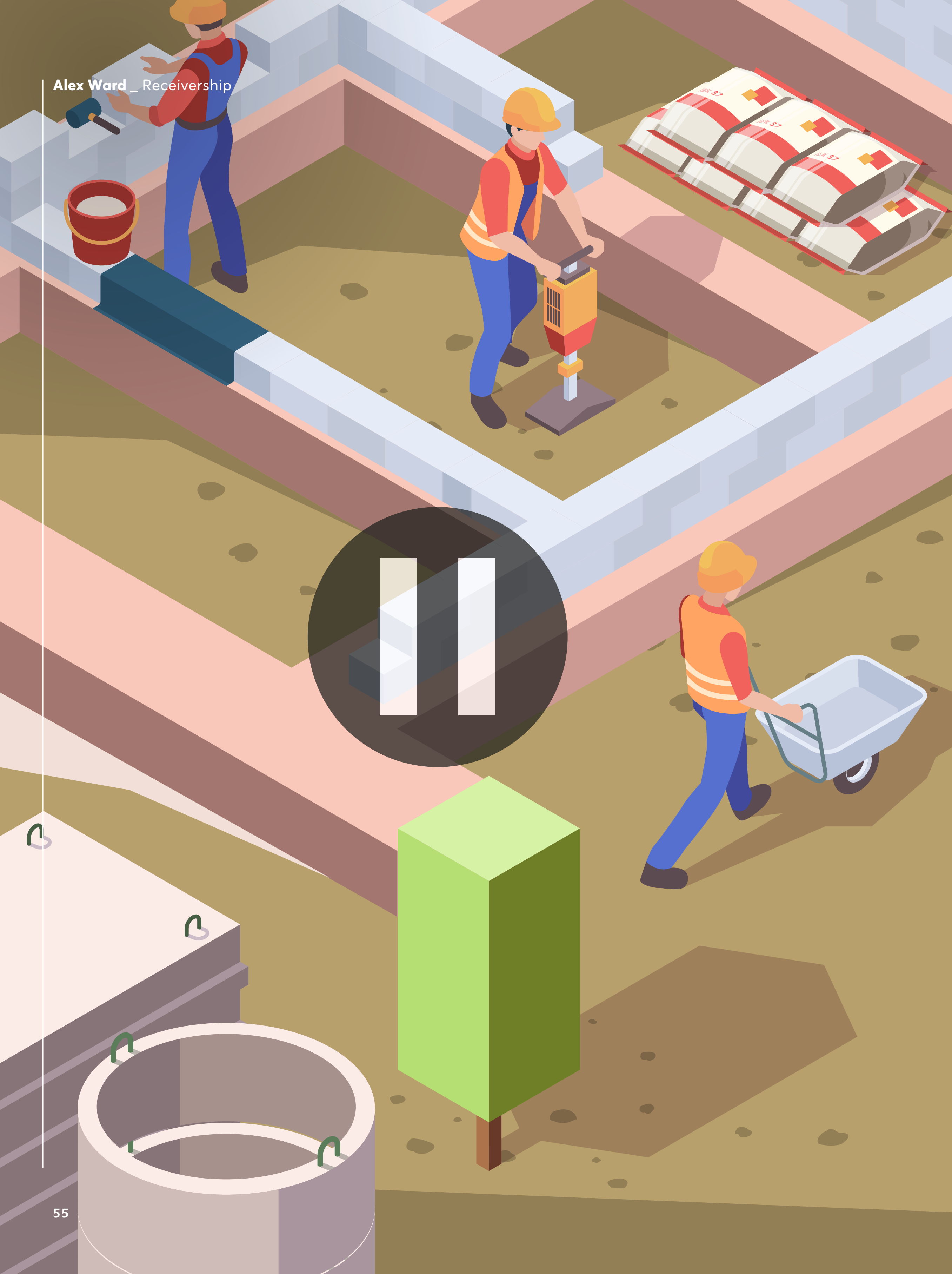
In this next chapter for auctions, I believe that live sales in an adapted form that combines the benefits of online and the auction room will continue. We have always championed multi-channel auctions where competition is maximised across all bidding methods – in-room, phone, proxy and online. However, pre-pandemic, online bidders were scarce and the room was the principal focus. But now the scales have tilted. Online has become part of life.

It is likely that next stage auctions will be live streamed to the world as a high quality interactive visual production and harness software to assist the auctioneer as the arbiter in the bidding battle. Online bidders will enter bids as they do now but phone bids, proxy bids and bids made by people in a live room will be managed and accepted by the auctioneer. The software will show the world how the bidding is going and the fall of the auctioneer's hammer will bring the sale to a binding conclusion.

A live forum is more than an auction room. It's a meeting place, a networking forum, a barometer of the market, a showcase of a firm's skill and stature. It's a spectacle. It's entertainment.

It is, and still will be, fun.

"it is likely that next stage auctions will be live streamed to the world"



How to navigate the financing of part-built developments

Increased reward is part of the allure for development lenders when compared to standard purchase finance. Of course, borrowers expect to pay higher interest rates to account for the increased risk to the lender but what happens when developments fail?

Over the last two years the Receivership team at Allsop has seen an increasing number of lenders with concerns over borrowers' ability to complete developments on time or running out of funds to complete, leading to cut corners, failure to pay planning and building regulation costs, or with additional works needed post completion.

Whilst contractors were among the first non-essential workers to return to site during the pandemic, there were nonetheless delays to completion for some developments. These delays have contributed to a greater demand for workers, causing yet further delays to construction programmes. This is compounded by the availability of fewer site workers, an outcome of the agreed BREXIT deal.

Plus, as any budding DIY enthusiast knows, the costs of construction materials have increased (anywhere from 4% for decoration to 25% for scaffolding) due to the massive demand and pressure on supply chains.

While the temporary SDLT holiday helped to prop up the property market during the fall out of Covid, the pandemic created more structural shifts to buying habits among homeowners and investors, who changed what and where they wanted to buy a property for the long term. Those developments with outdoor space and additional rooms for home offices have thrived, whereas apartments with little outdoor space have struggled.

“there are always challenges and we are well versed at overcoming them”

These factors have understandably impacted the bottom line of developments across the country. Those with outdoor space have experienced a higher level of demand compared to pre-pandemic levels however, the dearth of workers and increasing construction costs will have had an impact on profitability. The question is how will this impact lenders and what avenues are available for those lenders who foresee a shortfall in the loan?

As a result of these market conditions, we have seen an influx of development Receiverships in the last 18 months. Whilst Receivers are under no obligation to improve a property they will always consider completing a development if this is in the lender’s best interest. We have undertaken works to ensure the properties achieve the best possible price on numerous occasions, however consideration will always be given to the time and cost of undertaking works (with the necessary cash flows being undertaken) versus the expected uplift in value. After all, time is money.

During the last 18 months, we have built out near complete schemes and procured building regulation sign off from councils. Concurrently we have obtained building warranties ensuring planning consent is implemented in accordance with the planning permission, and more importantly within the three years’ timeframe of the permission. There are always challenges and we are well versed at overcoming them.

In terms of initial financing, we would suggest that lenders and investors do not solely rely on construction costs and timescales provided by the borrower, as these may be unrealistic. An impartial surveyor will be able to sense check the likely cost of construction and ensure that the borrower has accounted for all potential uncertainties.

Additionally, lenders should consider whether the proposed asset meets the local market’s expectations. Time and time again we have seen completed projects fail to sell because the asset is not in line with what the local market needs and desires, whether it be over or under specified. In depth conversations with local agents will help to mitigate this, as will reviewing upcoming developments in the vicinity to ensure that upon completion supply will not outstrip demand.

Once the loan facility is agreed lenders undertake regular site visits to ensure progress is still being made and we would recommend this process is as robust as possible. A monitoring, RICS accredited surveyor with a good track record should be used and instructed by the lender to ensure that the correct information is being relayed. This could also include an update on construction costs and any extension to timeframes, enabling the lender to act quickly and make the appropriate provisions should a development start to deteriorate. Additionally, it will ensure that the development is being constructed in line with regulations and no corners have been cut.

When we become involved as Receivers, our role is much easier with access to previous monitoring reports, details of building control providers, warranty providers (ensuring such warranties are acceptable for mortgagees), as well as contractors and architects. Even with this information though, cases that on the face of it may seem straightforward, become protracted when we discover that corners have been cut, rendering completion costly to remediate for the lender and borrower. It is imperative that the development is monitored fully to avoid either a large bill at the end of the development for required works, or a drop in development value due to the lack of warranties. The monitoring report will go a long way in informing our decision making process.

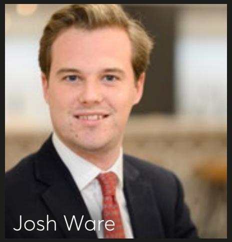
#trending

if it's happening, it's here

As the UK continues its journey back to normality, we've just started to enjoy the fun of being able to catch up with each other again.

Congratulations


Joe Lydon


Josh Ware


Daniel Legge

APC success

Joe Lydon – Surveyor (Residential Auction)

Josh Ware – Surveyor (Residential Valuation)

Daniel Legge – Surveyor (Receivership)


Tom Hanson


Doug Guild

Allsop Promotions

Tom Hanson – Associate (Commercial Auction)

Doug Guild – Associate (Commercial Auction)

New Graduates

Will Walker
Harri Guy
Tom Slade
Mia Bourne
Jemima Mitchell
Arthur Landman
Luke Houldey
Amelia Bowder
Umar Akram
Charlie Harrocks
Liam Rees
Harry Barlow

Congratulations

Apprentices

James Eckel
Oliver Powell
Ysabella Argentieri
Adam Patel
Nasif Miah

Weddings

Congratulations to Mr & Mrs Anthony Dixon, who married on 28th August in Yoxford, Suffolk.

Charity and Environment

Charity Sports Day

To raise money for the charity Latch, the Allsop team in Leeds hosted a fun sports day in September for clients at Leeds Dock and then for pie and mash at The Tetley.

55 clients attended and the event raised **£2,600** for Latch.

The sports day included games such as the egg & spoon race, archery, and challenges. The winning team was from Wainwrights, 2nd place Shoosmiths and 3rd place Niemen.

Charity and Environment

Oliver Burchill – Mental Health Awareness Challenge –YoungMinds/CALM/MIND

In honour of World Suicide Prevention Day 2021 (10th September) and in remembrance of every single one of the 154,363 people who have taken their own lives over the course of the last 26 years, Oliver set out on a remarkable challenge to raise money for YoungMinds/CALM/MIND charities.

Over the course of 24 hours Oliver lifted a total of 154,363kg, 1 kg for each and every one of the lives lost to suicide.

Total weight lifted:
154,630kg (6,443kg per hour / 107.4kg per minute)

Average weight lifted: 49kg

Total reps:
3,156 (132 reps per hour / 2 reps every minute)

Calories Burned: 13,850Kcal

Total Sleep: 40 minutes

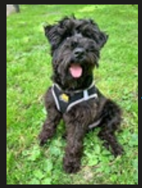
His monumental challenge garnered interest from press including an appearance on talkRADIO and LADbible.

His astounding feat of perseverance and strength raised an incredible **£21,500** for YoungMinds/CALM/MIND charities.

Top Dog Competition for Cancer Research

1st

1st Place: Bobbie
7 ½ month old puppy
Labradoodle
Owner: Alex Neil



2nd

2nd Place: Reggie
5 month old
Miniature Schnauzer
Owner: Aoife Broderick

3rd

3rd Place: Purdey
Rescue dog
Owner: Phil Parsons

Never Too Young Campaign

NEVER TOO YOUNG for bowel cancer

The campaign was set up by Sophia Sangchi from the Allsop family, who unfortunately passed away in November 2019 from Bowel Cancer. Sophia was 31 when she was diagnosed and following her diagnosis, she committed herself to support other young people living with this disease. She reached out to some of her fellow young bowel cancer sufferers to create a specific 'patient-led' campaign "Never Too Young" directly associated with Bowel Cancer UK.

Allsop has been doing various fund raising activities to support the charity, most recently raising **£2,193** through a charity raffle. There are further activities planned for the year, so watch this space.

Sports and Social

Allsop Summer Party

Allsop was pleased to be able to hold their first social event as a firm, since the lifting of restrictions. It was a great occasion for staff to see each other in person and for some to catch up for the first time in over a year-and-a-half.

Allsop FC

The Allsop football team have enjoyed their best ever run this summer, with only 1 defeat in 12 games. The team has been bolstered with fresh young blood paired with some of our more experienced players, which resulted in wins over the RICS, CBRE Investment Management and Patrizia teams.

Allsop attended the mixed 10th Telereal Trillium football tournament, with some new recruits amongst the squad. The team are looking forward to more tournaments this year.

Residential Auctions summer BBQ fun

With the welcome lifting of lockdown, the Residential Auction team gathered for some team bonding in the summer sun.

Commercial Deals

National Investment

Project Winding Lake
SOLD FOR C. £100M
30 Greene King Pubs with a WAULT of 13.5 years.
Leisure Investment

National Investment

Premier Inn Norwich City Centre, Duke Street, NR3
SOLD FOR £11.06M (4.08% NIY)
Let to Premier Inn for a further 18.4 years with 0-4% CPI Linked Rent Reviews.
Hotel Investment

National Investment

Retail Parade, Reading RG1
ACQUIRED FOR £21M (8.5% NIY)
Freehold 119,829 sq ft retail parade securely let to 11 tenants. Significant development potential for a residential led mixed-use scheme.
Retail Investment / Development

National Investment

Marina Quay Retail Park, Rhyl LL18
SOLD FOR £17.7M (6% NIY)
11 retail units, a food store and a drive through totalling 102,316 sq ft.
Retail Park Investment

City Investment

89 Charterhouse Street, London EC1
ACQUIRED FOR £12M
Grade II listed office and retail building in the heart of Farringdon.
Mixed-Use Investment

West End Investment

Dacre House, Victoria, London SW1
CONFIDENTIAL SALE
Vacant office and retail building with planning permission for refurbishment and extension to increase the existing NIA by c. 35%.
Development Opportunity

City Investment

Oval Works, London SE1
ACQUIRED OFF MARKET
Forward purchase of a 76,800 sq ft standalone office building that will form part of Berkeley's Oval Village.
Office Investment

West End Investment

50 Frith Street, Soho, London W1
SOLD FOR £5.235M (4.04% NIY)
Freehold leisure, office and residential building. Fully let for a WAULT 10 years to expiries (no breaks).
Mixed-Use Investment

Commercial Deals

West End Investment

14-15 Carlisle Street, Soho, London W1
ACQUIRED FOR £6.6M (£1,211 per sq ft)
Freehold, majority vacant, office building arranged over lower ground, ground and three upper floors.
Vacant Office Refurbishment / Redevelopment

Auction

HSBC Hounslow, TW3
SOLD FOR £3.5M (4.96% NIY)
Freehold bank investment, entirely let to HSBC Bank Plc at £185,000 p.a. on a lease expiring 2029.
Multi-Million Investment

Auction

Co-op Staines, TW18
SOLD FOR £1.52M (4.65% NIY)
Virtual freehold convenience store investment, entirely let to Co-operative Group Food Limited on a lease expiring 28th October 2035 at £75,000 p.a.

Auction

Old Vicarage, Kidderminster, DY14
SOLD FOR £1.110M (6.17% NIY)
Freehold care home and education centre investment, entirely let to Compass Children's Homes Limited at £72,500 p.a.
Alternative Investment

Auction

119-127 South Road, Haywards Heath, RH16
SOLD FOR £3.305M (5.32% NIY)
Freehold shop and residential investment with development potential, comprising four shops and 10 self-contained flats on a total rental income of £187,160 p.a.
Mixed-Use Investment

City Office Leasing

6 Bevis Marks, EC3A
DISPOSAL OF 10,050 SQ FT
on behalf of AXA XL.
Fully fitted floor part 4th floor in the insurance district.

City Office Leasing

The Export Building, Republic, E14
DISPOSAL OF 25,508 SQ FT
on behalf of Trilogy.
The CAT A floor was let to University of The West of Scotland.

West End Office Leasing

31 St Petersburgh Place, W2
DISPOSAL OF 7,100 SQ FT
on behalf of Finchatton.
This creative warehouse style space was let to Pearlfisher.

Commercial Deals

City Office Leasing

2 New Ludgate, E1
DISPOSAL OF 60,000 SQ FT
7th, 8th and 9th floors let to a firm of accountants.

West End Office Leasing

265 Tottenham Court Road, W1
DISPOSAL OF 5,788 SQ FT
on behalf of London & Regional. The fully refurbished 2nd floor was let to Seraphine.

West End Office Leasing

262 High Holborn, WC1
DISPOSALS TOTALLING 7,500 SQ FT
on behalf of Lazari Investments. Lettings concluded to Punter Southall and La Prairie.

West End Office Leasing

1 Albemarle Street, W1
DISPOSAL OF FULLY FITTED AND FURNISHED SUITE in Mayfair on behalf of CBRE Investment Management. DBAY UK secured the part 5th floor.

Residential Deals

RESIDENTIAL TRANSACTIONAL AND LIVING MARKETS

Build to Rent

Becketwell, Derby, DE1
SOLD FOR C.£37.4M
259 unit BTR scheme forming part of a wider mixed use city centre development.

Build to Rent

Hughes House, Liverpool, L3
ACQUIRED FOR C.£38M
258 unit BTR scheme on the former TJ Hughes site. Amenities include: residents' lounge, gym, concierge, roof terrace.

Student

Bishop Blackall School, Exeter, EX4
SOLD FOR £11M
Prime operational student accommodation comprising 113 beds.

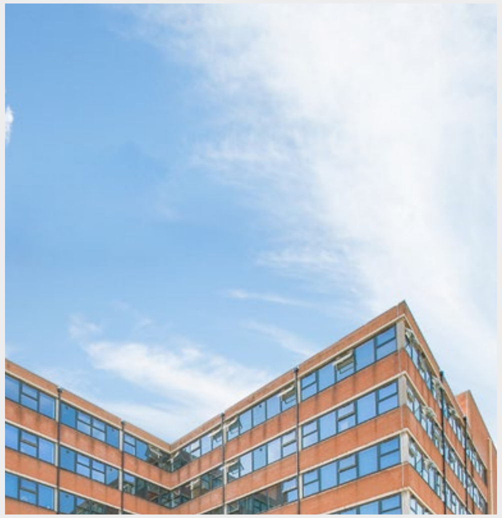
Student

HMO Portfolio, York
SOLD FOR £3.3M (7.37% GIY)
Fully let, HMO portfolio in York city centre comprising 41 beds.

Residential Deals

RESIDENTIAL TRANSACTIONAL AND LIVING MARKETS

Residential Investment



Celtic House, Derby, DE1
SOLD FOR £7.35M (8.83% GIY)
Freehold unbroken residential investment opportunity comprising 78 apartments.

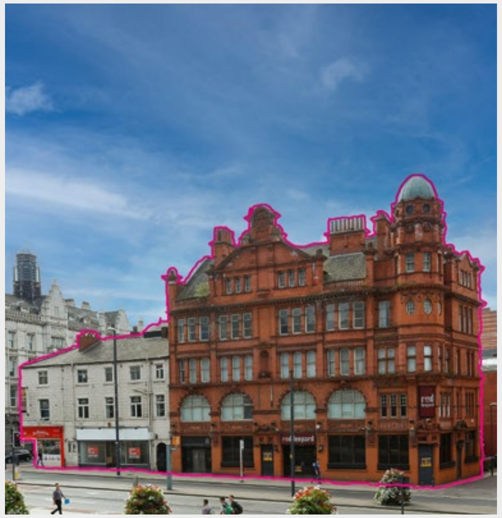
Residential Investment

York House, Camden, London, N7
SOLD FOR £14M (4.9% GIY)
A rare unbroken block comprising five ground floor retail units, two additional commercial units in the basement and 26 flats on the upper floors with parking to the rear.

Residential Development

Land at Caxton Road, Wood Green, London, N22
SOLD FOR £7.8M
A cleared site with planning permission for 75 residential units.

Residential Development



The Jubilee, Leeds, LS1
SOLD FOR £4.175M
Residential new build and conversion opportunity in prominent city centre location.

Auction

4 Woodberry Down, Finsbury Park, London, N4
SOLD AFTER AUCTION FOR IN EXCESS OF £3M
Freehold site extending to approximately 942.9 sq m (10,149 sq ft).
Vacant

Auction

Chester House, Harlands Road, Haywards Heath, RH16
SOLD PRIOR FOR IN EXCESS OF £7M
Freehold detached former office building with prior approval for change of use to provide 76 apartments.
Vacant

Auction

269 & 271 Green Lanes, Palmers Green, London, N13
SOLD PRIOR FOR £1.7M
Two freehold adjoining semi-detached office buildings and rear car park with development potential.
Investment

Auction

332-348 Moseley Road, Birmingham, B12
SOLD PRIOR FOR IN EXCESS OF £2.8M
Freehold buildings (Part Grade II Listed) and site with planning.
Vacant

allsop.co.uk

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