Commercial & Residential

Market Update

Q3 2020

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01

Economic Overview

The COVID-19 crisis has yet to go away and it continues to be the main issue affecting our lives and the economy. Most of Europe now, including the UK, is suffering a second wave of the virus. In an attempt to contain it, many parts of the country are facing increased social restrictions and in some very high risk areas, operational, business and travel restrictions, which vary across the home nations. The fight continues as we attempt to stay safe and stop the spread, but there is a necessity to carry on, and, increasingly we seem to be living with the pandemic and coming to terms with the actions we need to take to ensure that business can continue to operate in a COVID secure way.

The economic picture is a tough one with the sharp economic decline witnessed in the early part of the year only partially recovered to date, but the recovery continues with much support from the Chancellor of the Exchequer. The IMF has recently revised its predictions of an overall reduction in UK GDP for the year of 9.8% in 2020, improved from its June assessment of 10.2%. However, it estimates the rebound expected in 2021 is likely to be more moderate than hoped for at 5.9%. This is a strong recovery, but more drawn out than originally thought and will leave the economy in 2021, smaller than it was last year. In addition, the rebound will also be subject to the progress of our EU trade negotiations, and as the final Brexit deadline looms at the end of January 2021, volatility in the financial markets are expected. All in all the BoE head Andrew Bailey has recently warned of “an unprecedented level of economic uncertainty”.

The real estate markets have proved remarkably resilient and are often a haven in such uncertain times as low returns and volatility elsewhere have played out. We have passed the shock of the sudden lockdown back in March; Material Valuation Uncertainty Clauses are no longer needed and transactional volumes across the real estate markets continue to pick up.

The commercial markets have accepted that patterns of occupation in some sectors have changed markedly or continue to be in a state of flux but the direction of travel in most instances is becoming clear and investors are relishing the opportunities created, taking a longer-term view or waiting for changes in pricing to arrive.

The residential sector continues to be very resilient and confidence in the market remains from both occupiers and investors in the mainstream markets. People are keen for the opportunity to move, to invest for the future and with interest rates at a record low and the current stamp duty holiday adding to the attraction the residential markets are particularly busy. We have been particularly encouraged by the continuing strength of investor demand in Build to Rent (BTR) which continues to emerge as an institutional investment choice.

The Autumn period now to the Christmas break is traditionally the busiest time of the year and Q4 2020 is likely to remain in this mould.

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City & City Fringe Leasing Market

Q3 2020 has continued to be a challenging quarter for the City and City Fringe markets. The City witnessed an extremely quiet summer and just as occupiers were returning to the City in September, further advice from the Government to work from home if you could effectively do so will have a further short-term impact on take up levels for the City.

There is a gradual increase of City commuters mid-week (particularly Wednesdays and Thursdays) as staff now balance working from home with part of the time in the office environment to collaborate and meet where possible. The challenge of the ongoing pandemic will however see numbers being limited until the New Year.

Take up has remained subdued at 450,000 sqft with 44,000 sq ft of take up during August 2020. This is just 26.5% of the long term average (1.7M sq ft). Take up for the year to date is 2.1M sq ft compared with the 2019 total of 5.6M sq ft.

On a positive note, the legal profession remains the most active sector in the market with several firms looking to take prelet space between 2022 and 2024. The largest deal was the signing of Baker and Mackenzie taking 151,000 sq ft at Duo, 280 Bishopsgate, EC2 at an average rent rumoured to be £79 per sq ft on a 15-year term on levels 6th to 13th for 15 years.

Travers Smith is also under offer to take 148,000 sq ft at Stonecutter Court, 1 Stonecutter Street EC4 with further lawyers actively considering regears or relocations including White and Case, Addleshaw Goddard, Slaughter and May, Denton, Decherts and Hogan Lovells.

Having previously reported that Alliance Bernstein was on hold at 60 London Wall it is good news to see that the firm has now confirmed its commitment to the upper floors of the building.

'Under Offers' remain at similar levels to Q2 2020 with approximately 950,000 sq ft in negotiations. This is approximately 30% down on Q4 2019 and Q1 2020.

Significant lettings to the technology sector have been transacted in the City fringe locations of Clerkenwell and Midtown and include lettings to The Nuffield Foundation at 100 St John Street for 37,867 sq ft at £71.25 per sq ft and The Workshop Technologies at Fetter Yard, 86 Fetter Lane, EC4 for 14,995 sq ft at £64.50 per sq ft.

Availability has increased across Central London with vacancy rates increasing to 6.5%. The City and Fringes have witnessed an increase of 1.5 M sq ft over the last quarter. The main cause of the supply is through tenant release space with the majority of second hand space being returned to the market below 10,000 sq ft available through subletting or assignments.

University requirements remain active with strong demand for F1 (formerly D1 educational) consents in the City Fringe with recent lettings to NCH taking 38,700 sq ft at Devon House and further take-up at Republic, East India for 22,000 sq ft. Additional Universities active in the sector include Beifang University and Pearson College shortlisting for 30,000 sq ft and 50,000 sq ft respectively.

Whilst there continues to be very little evidence to show a reduction in headline rents for Grade A stock there will inevitably be more competition and a subsequent pressure on headline rents for Grade B availability with competitive deals being agreed. Incentives have now moved from 2.4 months per year to 2.7 months per year.

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City & City Fringe Investment Market

Following one of the lowest transaction volumes on record during Q2 2020 as nationwide lockdowns restricted accessibility of real estate, Q3 2020 began with more positive sentiment following the relaxing of lockdown measures and more pricing certainty associated with the RICS Material Uncertainty Leaders' Forum lifting of restraints for Central London offices. The positive start to the quarter was dampened slightly during the latter stages following the Government's retraction of its 'get back to the office message' after an increase in COVID-19 cases. However, competitive bidding on a number of assets launched to the market later in the quarter suggests significant pent up demand and given the recent vast increase in stock levels, we anticipate much higher transaction levels going into the final quarter.

During the third quarter of 2020 the City of London recorded a total of just 9 deals exchanged or completed totalling £634M. This was a 62% increase on Q2 2020, but was 63% down on Q3 2019 and a 79% decrease on Q3 2018. It also brings the year running total around 45% down on 2019, demonstrating the sharp decline in transactional activity reflective of the ongoing uncertainty created by COVID-19.

The average lot size for the quarter was £70M, which was skewed by one deal of £380M, with 7 of the remaining 8 deals transacted sub £50M, as the lack of available product on the market restricted investor activity. However, the market was extremely well capitalised pre COVID-19 and the lack of available product during Q2 has led to significant pent up demand. We are aware of 11 new assets coming to the market in September and approximately c. £2.85Bn of stock under offer.

The largest transaction of the quarter was Hong Kong based Link REIT's purchase of The Cabot, 25 Cabot Square, E14 for £380M which reflected a net initial yield of 4.87% and £789 per sq ft. The building occupies a substantial 1.7 acre freehold site at the heart of Canary Wharf and is multi-let predominantly to Morgan Stanley accounting for c. 50% of the total income and the UK Government accounting for c. 30%, with a WAULT of 11.7 years to lease expiries and 10.4 years to the breaks. The building was originally brought to the market in November 2019 and was previously rumoured to be under offer to Blackstone pre COVID-19 at similar pricing, demonstrating the continued international demand and a robustness in pricing for 'best in class' long let assets as investors become increasingly risk adverse in a more uncertain market.

Investors' flight to quality was further evidenced on a smaller scale by La Francaise Forum's second purchase since COVID-19 at 17-18 Haywards Place, EC1 for £15.56M, which reflected 4.22% and £1,431 per sq ft. The attractive warehouse style property was comprehensively refurbished in 2018 and multi-let for a WAULT of approximately 7.3 years at a passing rent which reflected c. £65 per sq ft overall. The building is located in one of the most prime areas of Clerkenwell/ Farringdon, which will benefit from the Elizabeth Line at Farringdon station from 2022. During the quarter we have seen three sub £20M refurbishment opportunities come to the market located in Farringdon, with 20-24 Kirby Street, EC1, a £17M lot size experiencing over 11 bids following an open market campaign, going under offer at over £19M. Both these deals demonstrate the strong demand for prime liquid freeholds in Farringdon at both ends of the risk spectrum.

As well as long let income opportunities, the market has experienced continued strong demand for prime development/ refurbishment opportunities. Allsop advised The Estate Office on the sale of Liberty Place, 4-12 Norton Folgate, E1 to CLI Dartriver for £30.5M, representing £486 per sq ft on the consented NIA. The freehold property is a short walk from Liverpool Street station and achieved a planning consent for a 62,764 sq ft 'back to frame' refurbishment and extension in 2019. There was competitive bidding for the new 150 year long leasehold interest, again demonstrating strong investor appetite for vacant freeholds in the best locations. The pricing achieved at Liberty Place indicating an underwrite of pre-COVID-19 rental and yield assumptions suggesting confidence in the longer term prospects for Central London offices, despite likely challenges to the occupier market in the short term.

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Continued international demand and a robustness in pricing for 'best in class' long let assets as investors become increasingly risk adverse in a more uncertain market

Transactions such as The Cabot and St Paul's House, 8-12 Warwick Lane, EC4 which sold to a private Danish investor for £44M/ 3.80% and £1,187 per sq ft suggest there remains a weight of capital seeking secure income investments, ensuring prime City yields remain at 4.0%. This is further supported by large scale income deals One London Wall Place EC2 and 1 & 2 New Ludgate EC4, which are both over £450M and under offer at yields of 4.0% or below. We expect these to transact in the final quarter.

The active buyers of City of London real estate remain hugely diverse as London maintains its safe haven status during global uncertainty. As well as evidence of purchases by Chinese and Singaporean investors, the market has experienced a number of European funds and private investors actively bidding on properties. Despite a number of UK institutions reopening their funds in October, we expect the majority to be selling assets rather than buying in the short term given likely redemptions, however, this will be dependent on varying cash positions.

Whilst it has been an extremely challenging year for the investment market, significant demand remains for both prime income producing assets and prime development sites. There has been a lack of transactional data for secondary assets with immediate vacancy, where we do expect to see some pricing adjustment. As is typical in the final quarter, we anticipate much higher transaction volumes with evidence then likely of the widening gap between prime and secondary.

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West End Investment Market

During Q3 we recorded a total of £697M exchanged or exchanged and completed in **19 transactions**, the average lot size was £37M. Whilst this brings the total year to date to **£2.9Bn (58 transactions)**, the pandemic has had a significant affect on the middle half of the year with Q2 and Q3 combined recording just 25% of its typical West End volume (£970M vs 5-year Q2-3 average of £3.83Bn).

The absence of large transactions has evidently impacted turnover for the quarter, with only one £100M+ transaction exchanging - 1 New Oxford Street, WC2 for £174M to Singaporean based investor Sun Venture. Domestic investors have dominated the buyer pool again this quarter in terms of number of transactions (nine) but encouragingly overseas monies (1 x Asian, 2 x Americas and 1 x European) have been responsible for all four deals over £50M, which account for £407M (60% of volume) which illustrates that the long-term trend of overseas buyers dominating the West End market is returning.

Looking ahead we could see a strong finish to 2020.

October has already seen £995M exchange in three deals (Chanel's acquisition of its building on New Bond Street, Cadillac Fairview's purchase of White City Place and ARA's long awaited 50% stake in Nova), there is c. £750M of stock 'Under Offer', and bids are invited this month for several high profile trophy sales including BP's 1 St James's Square and British Land's The Clarges Estate, these two assets have a combined quoting price in excess of £400M.

There is sustained appetite for prime core Freehold 'best in class' assets, with enthusiasm for trophy products continuing to be driven by overseas investors willing to pay for rarity, particularly in the form of secure longer-term income.

Whilst there are concerns over the leasing market, encouragingly we also saw the number of bidders run into double figures for the circa £80M, 7 Soho Square, a future development scheme with short term income - bidders were attracted by the prospect of designing and delivering a quality office scheme into a "post pandemic" market – arguably seeing beyond COVID. In the medium term the case for value add development stock has proven to be popular in London, with a constrained / half pre-let development pipeline and in anticipation of a continued flight to quality from occupiers.

We will have to watch this space. 2017 and 2018 each saw around £7.5Bn traded in the West End, and 2019, £5.3Bn. Thanks to a strong Q1 we currently sit at around £4Bn, and our prediction is that 2020 will exceed 2019.

October has already seen £995M exchange in three deals (Chanel's acquisition of its building on New Bond Street, Cadillac Fairview's purchase of White City Place and ARA's long awaited 50% stake in Nova), there is c. £750M of stock 'Under Offer'.

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West End Leasing Market

Q3 2020 has seen some of the most limited West End office take up in history with only 275,000 sq ft being let, some 60% below the long term average for the quarter. This brings year to date take up to 1.3M sq ft, 58% down on the same period last year. We expect the recently announced Government guidelines on continued working from home, if it can be done effectively, to contribute to a sustained period of low level activity across the marketplace until at least the end of the year.

Despite these disappointing figures there have been some notable transactions that have completed over the period. The Office Group's pre-let of 210 Euston Road, NW1 (68,182 sq ft) was the largest deal of the quarter. There have also been 3 prominent transactions completed in the core Mayfair and St. James's submarkets, namely Lazari Investments pre-letting two floors in 25 Berkeley Square (11,990 sq ft) to Mubadala Investment at a rent equating to £125 per sq ft, Harrison Street securing a floor at 20 St. James's Street, SW1 (6,519 sq ft) at £112.50 per sq ft and most remarkably a world record rent achieved at 30 Berkeley Square where a confidential occupier seeking additional space in the building has agreed the equivalent of £277 per sq ft for a 3,000 sq ft unit.

The Tech and Media sector continues to be the most prominent driver of activity accounting for a third of total take up, closely followed by the Financial sector which secured over 20% of available stock.

That said overall market dynamics remain subdued with a large number of transactions that were under offer failing to complete, with many occupiers adopting a wait and see approach having been offered flexible and competitive terms by existing Landlords keen to avoid vacancy and/or capital expenditure in the current climate. West End supply stands at just over 5.5M sq ft equating to a vacancy rate of just over 5% of total stock. Of this stock we are seeing increasing amounts of tenant controlled "grey" space coming to the market – this now accounts for 35% of total availability and is set to increase further in the coming months. In terms of Grade A space immediate new supply is limited with 85% of the development pipeline scheduled for delivery in Q1 2021 already pre-let.

Given the above we anticipate the two-tier nature of the market to become even clearer with a real divergence in rental values and tenant incentive packages between the best space in core locations and more compromised second-hand accommodation.

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National Investment Market

The onslaught of the COVID-19 Global Pandemic continues to weigh on commercial property transaction volumes. Q3 2020 proved a challenging quarter with the ripples of the pandemic feeding through to recorded transaction volumes.

For the year to date transaction volumes for the entire UK market were down overall as follows:

Year to Date 2020 (as of 28th September 2020)	H1 2020	Q3 2020
£23.61Bn down 28% on YTD 2019	**£18.5Bn** down 6.2% on H1 2019	**£4.31Bn** down 48.5% on Q3 2019

> It will be difficult to see Q4 2020 as a knockout quarter but the green shoots of recovery are well advanced and the portfolio market is firmly back in business.

Retail

In Q3 2020, the High Street retail investment market continued to suffer the after effects of the COVID-19 lockdown with footfall (the lifeblood of the high street) still significantly down on pre pandemic levels. Initially buoyed by the election results on 12 December and subsequent clarity on Brexit, there was an uptick in investor sentiment in Q1 2020, with 73 retail transactions occurring in January and February at a total transaction volume of £828.88M compared 114 transactions with a total transaction volume of £1.378M in Q3 2020.

The most significant deals in this period include, the purchase of St John's Road, SW11 for £25M / 3.99% NIY by BWM UK Trustees, the purchase of Kimberley Main Street, Nottingham by Fortune Grand Investment Limited for £22.8M/ 5.69% NIY, the purchase of the Newcastle Shopping Park, Newcastle by Patrizia for £34.5M/ 7.75% NIY. The type of parties who purchased these assets demonstrated a concerted effort by investors to reposition and revamp the high street retail market. The pandemic has had a significant impact on working cash flows that many retailers with small profit margins heavily rely on. Retailers who were already suffering due to the rise in online and omni-channel shopping have been unable to cope with this drop in demand. The retailers who are managing to mitigate the effects of the nationwide lockdown are those with robust infrastructure capable of fulfilling online orders. The knock on effect of the lockdown has been significant, resulting in a large number of tenants unable to pay their rent, despite Government schemes, such as '12 month business rates holidays', the Coronavirus Job Retention Scheme and grants for small businesses. As anticipated, this has translated to the investment market with only 54 shop transactions in Q3 at a total transaction volume of £108.95M. But it is not all doom and gloom. Investor demand for assets in the government deemed 'essential' categories, such as, supermarkets, convenience stores and pharmacies has increased significantly with yields in turn hardening. This was abundantly clear in the overall volumes with supermarkets totalling £383.68M in over 14 transactions accounting for approximately 61% of the overall retail transaction volume.

Retail Warehousing

A consensus was emerging in Q4 2019-Q1 2020 that the retail warehouse market in the UK was nearing a base position in terms of transactional activity, rebased rental values and pricing fluctuation and that a turning point was on the horizon. However, since the emergence of COVID-19 and shop closures, more CVAs on the horizon and tenants withholding rent, the sector remains challenging.

Retail warehousing is faring better than other parts of the retail hierarchy with more stores able to remain open during lockdown as they were selling essential goods and with the social distancing friendly nature of retail parks supporting a quicker recovery, there is still investor appetite.

Investor demand for supermarket income has remained strong whilst fashion led schemes and bulky goods schemes have struggled unless priced attractively, have the ability to benefit from the growing ecommerce demand or from future redevelopment.

Notable transactions over the quarter include M7's acquisition of a portfolio of 6 retail parks from RDI REIT for £156.9M, reflecting 7.5% NIY and their acquisition of Great Lodge Retail Park in Tunbridge Wells from UK Commercial Property REIT for £46.25M.

Supermarket REIT continued to build their portfolio with the acquisition of a Tesco in Bracknell for £39.5M reflecting 5.7% NIY. Allsop advised Threadneedle on the disposal of Tesco, Crowborough for £6.6M reflecting 5.62% NIY with the sale attracting strong interest from a variety of purchasers including overseas high net worth investors, councils and property companies.

Regional Offices

The overriding theme in the south east and regional office markets has been the polarisation in the market between longer and shorter income. Long income, well let offices are still selling extremely well with very little price movement form pre-COVID levels. The most active buyer pool is that of the overseas investor which has exacerbated this flight to income. Overseas investors typically want light touch asset management due to the impracticalities of being based abroad.

38% of regional offices were bought by overseas investors in H1 which is significantly above the long term average. This pent up demand together with the currency arbitrage has seen the UK continue to be viewed as a safe haven for overseas investors looking to diversify their portfolios.

Shorter income offices with voids are a different proposition altogether. Much of the stock that we have seen come out has been at pre-COVID pricing and it is our view that much of this stock is going to struggle to sell unless there is significant outward price movement. Given the changing rhetoric of working from home and the ever increasingly stagnant occupier markets, there is a greater risk profile to investors on short income stock and this needs to be reflected in the yield.

That said, without exception all of the major regional cities were in very good health going into the pandemic. Grade A stock levels were very low across the big 6 cities with an average Grade A supply of just 6%. So even if we do see increased short term vacancy rates, we are unlikely to see immediate downward pressure on rents albeit we may see incentives move out in the short term.

Industrial

The industrial sector has capitalised on a rare influx of opportunities entering the market over Q3. Whilst the first two quarters of the year were starved of stock frustrating a hungry market with a wealth of capital desperate to be deployed, Q3 has witnessed vendors pull the trigger as they finally surrender to unprecedented demand and record pricing.

There was a total of c. £2.3Bn of industrial investments transacted over Q3 2020, more than doubling that achieved in Q2. These impressive figures have been bolstered by a number of standout deals including the sale of Panattoni's 2.3M sq ft multi storey industrial facility which was pre-let to Amazon for £200M (4.3%) to L&G and Exeter Property Group's acquisition of the BAPF Portfolio comprising 9 distribution units for £150M (5%). Add to this Prologis's Platform Portfolio reportedly under offer in the region of £480M and Mountpark launching its €530M prime logistics portfolio, it is fair to say Q3 has been a busy time in the sector.

Favourable market dynamics continue to attract aggressive new entrants to the industrial market with powerhouses such as Blackstone's Mileway, Arrow, Exeter and Cerberus leading the charge. And whilst some may argue we are witnessing the top of the market, back to back record quarters for industrial take-up in Q2 and Q3 2020, as well the continued growth of ecommerce suggests the industrial sector still has some way to go.

Portfolio

September is always a busy month for portfolios. The market returns from holidaying in the South of France fully re-energised to make the most of the few final months of the year.

2020 is no different, swapping usual travel destinations for the sunnier climes of Devon and the Isle of Wight where the usual pastimes of bird watching and leisurely afternoons at the pub have been replaced with the new age of holiday activities including "How many surveyors can you fit on a beach 2m apart" and building your Fantasy Fund Manager Team, all of whom are conveniently on the same IOW Ferry.

This brazen summer socialising (at a distance) has led to a slew of new portfolio sales on the market. Industrial has returned from lockdown as the continued favourite, sporting no less than six on-market sales and many more off-market. Frustrated buyers who struggled to find stock in 2019 and have waited patiently over lockdown are fully in gear across all use sectors. Retail Warehousing and office sectors are looking increasingly attractive.

Portfolio transactions totalled only £1.23Bn over the previous 3 months across 23 deals compared to £3.75Bn in the same period last year. It will be difficult to see Q4 2020 as a knockout quarter but the green shoots of recovery are well advanced and the portfolio market is firmly back in business.

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Commercial Auction Market

Change and continuity within the UK commercial auction market post-lockdown

The commercial auction market remains active and continues to offer appealing opportunities to both buyers and sellers despite the challenging times. Since we've launched our digital auction offering, more buyers and sellers have been able to transact without leaving their homes, while having all the data they may need to make an informed judgment easily accessible.

Despite the uncertainty brought by COVID-19, there is a strong appetite for deal-making; in fact, the auction format is ideal those seeking commitment in the form of unconditional contract that underpins auction sales, providing comfort and a high degree of certainty to all those involved.

Identifying the right opportunities

Given the unstable economic environment, sustainable income opportunities that can help generate long-term returns have never been more attractive.

During our last commercial auction that took place at the end of September, we saw a lot of enthusiasm for well-let convenience stores with corporate tenants, such as the long-lease Co Op in Honeybourne that sold for £1,205,000 with a net income yield (NIY) of 4.6%. Overall, retail assets comprised the vast majority (69%) of lots sold.

Given the recently erupted 'can pay won't pay' movement, which has seen well capitalised companies refusing to pay rent, buyers have been paying more attention to their tenants' track record and avoided dealing with those seen to be exploiting the Government's tenant protection scheme.

There's been a renewed interest in the suburbs where rents might have flatlined over the last decade but now look affordable as they have benefited from targeted support through the job retention scheme and rates holidays, along with increased local spend as workers stay away from city centres. One such lot, which sold at our recent auction, was a Streatham-based freehold bank and office investment with potential for future development, which was purchased for £3,250,000, with a NIY of 5.5%. Another lot offering long-term value was an office investment with redevelopment potential located in Worthing, a popular seaside town. Fully let, with a lease expiring in 2031, it presented an appealing investment opportunity and was purchased for £3,065,000 with a NIY of 6.9%.

The format of the auctions may have altered, but our fundamental approach hasn't – despite not being in the ballroom, we still take time to speak to every buyer and conduct regular surveys ensuring that the convenience of digital transacting isn't achieved at the expense of the quality of assets.

Buyers flock to the digital ballroom with cash in hand

Hosting property auctions online has enabled Allsop to continue presenting appealing deals to a perceptive public. Out of 400 or so buyers that have taken part in our auctions, only 12.5% have used finance to exchange contracts, while the rest readily transacted in cash.

Our recent survey also suggests that 22% of buyers had not bought at auction before, compared to 17% last year which shows the growing reach of this marketing method and appetite for investment in the market. In addition, the survey has revealed that investors are now more likely to travel out of their regions in order to get the right deal, particularly those after strong income opportunities.

We have seen few distressed sellers in the last nine months, although some seem to be liquidating assets ahead of refinancing dates in 2021, which is common practice.

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Looking ahead

The final quarter of the year will be no less interesting, as high street retail still has to find its level and buyers chase sustainable rental income from other assets such as multi-let industrial and the alternative sectors and diversify their risk across mixed-use opportunities. We look forward to our auction on 3 November, which, as always, will provide plenty of food for thought for buyers and sellers alike and give an indication of where the market is heading next.

Residential Development Market

As we entered Q3 2020 companies had got past the initial shock of the lockdown, had strategies in place and we were seeing an air of relative positivity, with construction sites re-opening and various developers cautiously dipping their toes back into the market with an appetite for unconsented or subject to planning deals.

As we progressed through the summer, a traditionally quiet period in terms of land transactions, we saw an increase in activity compared to the previous months. Landowners that had held off taking their sites to market earlier in the year, due to the uncertainty around COVID, and did not wish to wait until later in the year, started engaging with purchasers and consequently there were numerous successful land sales that transacted during July and August on sites which may have traditionally sold prior to the summer or launched in September.

This activity was compounded towards the end of the quarter by deals that were agreed pre or mid-lockdown with delayed timescales, which finally transacted as market confidence improved. It is clear that the impact of COVID-19 to date has not led to any significant changes in London land values, with continuous demand from developers for unconsented and subject to planning deals, and the stall in acquisitions over Q2, has lead to an increased requirement to buy land in order to feed the pipeline.

While this is positive, buyers are approaching transactions with an air of caution, with large consented flat led schemes currently less in demand than unconsented land, subject to planning or housing led schemes. This is due to the perceived risk of the impact of another lockdown on the imminent build program and the caution attached to achieving best value and build efficiencies on a scheme that has not been specifically designed for their own product. Albeit we may see increased demand for these schemes towards the end of this year and as we move into 2021 and certain housebuilders and housing associations establish gaps in their pipelines that need to be filled.

There is continued demand for small oven-ready sites of sub 60 units from independent SME developers and contractors who are looking to re-build their pipeline. With caution still remaining in the funding market, cash purchasers who can perform quickly are in a strong position to acquire the best sites with vendors often opting for speed and certainty if the price differential is palatable.

The future is uncertain and there is a corner of the market that is holding cash reserves waiting to target distressed assets, currently these are few and far between, however, as the uncertainty around COVID-19 continues and the Government's economic initiatives temporarily support the economy, anticipation for this stock increases.

However, for the time being, there is demand for stock and land values continue to remain fairly robust with the temporary stamp duty holiday and rising house prices providing an air of confidence in the resilience of the housing market, supported further by the institutional demand from build to rent investors seeking forward funding opportunities.

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Residential Investment Market

Q3 was a busy time for the residential investment market as lockdown eased and the pent up demand to 'get on with business as usual' surfaced. From London to Leeds it was clear that income and reasonable yields from this traditionally safe asset class was hotly in demand from investors sitting on cash. In particular, anything with an angle to add some value was a notable draw.

The marketing of blocks of flats during lockdown across the UK, from Sunderland to Sheffield, Cheltenham to Ipswich and Peckham to Sidcup and Canning Town to name a few proved to be a smart move by a variety of canny vendors.

A small block of flats in a period block in Cheltenham being sold by an old client of the firm is a good example of investor sentiment. The property had been in the market on and off over the last couple of years with one abortive sale but sold very quickly during lockdown to a private investor reflecting a 7% gross yield.

Two small blocks of flats located in trendy Peckham proved particularly popular at an affordable sub £3M price point. The opportunity to add value in both instances was potentially possible through exploring planning to add additional units to the rear in each instance. Capital growth might seem somewhat dim and distant at the current time but the popularity of this location cannot be denied and thus must also be a driver here.

Despite the difficulties around organising strict COVID compliant viewings, several bids were received and sales quickly completed reflecting sub 5% gross yields in each instance. The buyer profile was a private individual in the medical profession for one block and the other was a London based property investor we had known for some time who had not surfaced for several years.

A small newly built block in Canning Town marketed for Receivers was sold vacant and in good condition, ready for tenants to move in. It attracted lots of interest and 9 bidders, the eventual buyer being two smaller private investors paid close to £4M for it recognising the long term growth prospects of this emerging residential location so close to the Jubilee line and only a few minutes by tube to Canary Wharf and 20 minutes to Bond Street. Again, fully let, this block would reflect just under 5% gross yield.

In the regions, and specifically up north, we have seen transaction levels increase and return to the levels experienced pre-COVID.

It has been clear that where our vendors can confirm that rents are being paid, the Residential Investment sector is as resilient up here as it has always been.

The market for property up to the value of £5M has seen the biggest rise in demand and four recent sales in Liverpool and Sheffield are good examples. A new purchaser has recently emerged with significant funds and investing with a social impact hat on. They quickly acquired a block in each location, one in The Wirral off 10% gross yield and one in Sheffield off circa 7%. The remaining blocks went to a high net worth locally based private investor and a private family office both securing their purchases at a similar 7% gross yield.

The depth of the Allsop database is far reaching and the number of new buyers stands out. We expect this trend to continue and on-going marketing campaigns for blocks currently in the market in Sidcup, Derby, Bradford, Brighton and Surrey are showing a similar trend with new faces (and some old) and new names cropping up all the time.

Q4 is already shaping up well with new opportunities and some significant potential instructions on the horizon. The threat of another lockdown is not helping but we are far better prepared this time around than previously and the old mantra that "people always need somewhere to live" really is proving true in these uncertain times.

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Student Housing Market

As the COVID-19 pandemic endures, uncertainty in the student sector continues to dominate the headlines, reflective both in the volume of transactions, but also, more importantly, in the owner/occupier sphere.

Occupancy, forward looking for the 20-21 AY, is yet to be fully rationalised and it will be difficult to discern until late September, early October, which Universities and which product: HMO or PBSA, studio or cluster, will be most affected by the various International and regional restrictions imposed by governments.

Early indications suggest that low ranking secondary and tertiary university towns and studio led markets will be the hardest hit, unsurprisingly, with more UK domiciled students being pulled into the top ranking Universities post A-Level results and clearing, with a preference skewed towards HMO's and cluster led schemes.

The recently published annual UCAS figures provides a broadly positive outlook, with "more applicants holding firm offers to start a course this year (2020) than at the equivalent point last year" (Ref: UCAS) and with a +1% rise in UK domiciled students and +12% rise in applicants from outside the EU, suggesting a continuing upwards trend towards growth outside of the EU (down by -6%).

On the ground the market is trying to establish how these applicant numbers are filtering through to 'heads on beds' i.e. how many – particularly international students – have accepted offers and have arrived in the UK, or are yet to arrive and if not whether these students are turning up at all. Many operators offered students flexi-tenancies, with flexible start dates, so are naturally exposed to 'no-shows'. We are yet to realise the exact impact of this.

Within the investor sphere, metrics for the YTD are heavily skewed by the Blackstone acquisition of IQ (£4.66Bn); being a pre-pandemic exchange and mid-pandemic completion, this deal was a marker of the great confidence surging through the sector coming out of 2019 and into 2020. None of the medium to long-term market fundamentals have changed since then but an immediate shift of investor focus from growth and acquisitions to operations and lettings, has naturally cooled what was set to be a hot 2020 market.

As such 2020 transactions have been comparatively few and far between. Market sentiment is heavily weighted towards a flight to quality stock with KWAP's acquisition of 700 beds in Leeds and Sheffield grabbing the headlines alongside the smaller but no less significant acquisition of 243 beds in Edinburgh and Leicester by 90North. Both deals would suggest little if any yield/ value movement. KWAP reportedly paid £90M for Symons House and Crown House, representing a NIY of 5.5%, and 90North is understood to have paid £22.2M for Goods Corner and Dover Street representing a NIY of 5.85%.

Appetite, certainly, feels as strong as ever, though, disparity between vendor and purchaser expectation persists, with owners, arguably, only beginning to feel the full effects of the summer/spring lockdown; and with their eyes firmly set on the forward letting year, there seems to be a unilateral reluctance to accept any capital depreciation or yield correction on stock until there is greater certainty around future occupancy.

With anticipation growing around such deals as Greystar's 'exclusive talks' to buy the KKR/Round Hill portfolio comprising assets in London, Coventry and Glasgow, amongst others, investors finally look to be beginning to turn their eye forwards to the 21-22 AY and beyond, suggesting a busy pre-Christmas period - pandemic dependent.

It is pandemic dependent because just as we write this the 'second wave' presents us all with new challenges and some concerns. Headlines regarding the spread of the virus amongst the student population, 'lockdowns' of Halls of Residence and subsequent welfare issues are casting a negative spotlight on the sector. What will the Government's response be? Owners and operators have eyes fixed on a developing situation.

Forecast

It is clear that university destinations are facing up to different challenges and as a result there is no one size fits all market appraisal. For example some markets have suffered unduly from the A-Level fiasco (while others benefited), some are impacted by the institutions decisions to delay face to face teaching, or worse still courses in their entirety and some are more exposed than others to international and postgraduate markets.

What all markets do have in common, is that the onset of the aforementioned problems are a product of the pandemic. The passing of the pandemic will provide greater certainty and with that markets will respond strongly, returning to late 2019 and early 2020 momentum in 2021. In fact, academic year 21/22 could be quite the bounce.

However much will depend on how the sector manages through the current wave of infections. Any significant announcements, for example a move to send students home, will likely dampen increasingly positive market sentiment and push us back a few months.

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There has been an increase in transactional activity in Q3 as we emerged from lockdown

Build to Rent Market

Whilst the COVID pandemic endures and local lockdowns materialise, the BTR sector continues to remain robust with investor appetite and levels of rent collection remaining strong. The 'long term' view taken by almost all investors means that BTR remains an attractive investment with counter cyclical dynamics.

As the Government's furlough scheme nears its conclusion, prevailing affordability constraints and the continued growth in unemployment will likely turn home buyers towards BTR, which offers 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.

There has been an increase in transactional activity in Q3 as we emerged from lockdown. All deals have represented strong pricing levels considering they were primarily agreed during wider economic uncertainty.

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 167,853. The regions continue to grow their margin over London in terms of the number of BTR homes, accounting for approximately 90,285 with 77,568 in the capital.

Activity of note during this quarter includes; ENGIE and NPL have secured planning for a 296 family housing BTR scheme in East Manchester, Allsop has advised the JV through design and funding with the scheme currently under offer; L&G has agreed an £81.5M forward funding of a 346 unit BTR tower in Candleriggs Square, Glasgow; PGIM Real Estate has made its first BTR UK acquisition with the £31.5M purchase of 123 multifamily rental units in High Wycombe; Reef Group has gained consent for a 242 home BTR scheme in Gravesend; Long Harbour has completed its second BTR forward funding deal in Tottenham Hale with Berkeley Square Development comprising 315 BTR units for £156M; Muse Developments has secured £130M forward funding from Pension Insurance Corporation for its 520 BTR apartment scheme in Manchester; Clarendon Quarter in Leeds, an operating BTR scheme which was under offer last quarter, has been acquired by Aberdeen Standard Investments for £41M.

Yields remain strong for well-designed BTR stock in prime, practical locations; in London and strong south east locations, NIYs range from 3.25% to 4.00%, with a number of major regional centres at 4% to 4.5%. Secondary locations are seeing closer to 4.75% to 5.25% NIY. We expect to see the recent activity in the sector continue into Q4 assisting with post lockdown pricing, however as seen, we believe the minor movement for the stronger schemes in prime locations will endure.

Allsop Letting and Management (ALM) has now launched Moorfield's third BTR scheme; Duet in Salford comprising 270 units, adding to the award winning management of The Trilogy in Castlefield, Manchester and The Forge, the first BTR development in Newcastle. In February ALM was chosen by Barings to take over the BTR management operations of The Keel in Liverpool, a 240 unit scheme on the historic Queens Dock. ALM is in the process of mobilising Vox in Salford also on behalf of Barings. The 280 unit scheme is yet another outstanding BTR development backed by a strong institutional player, coming on to the Manchester rental scene early 2021. ALM has also been instructed by Land Securities to manage its residential portfolio.

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Residential Auction Market

Since our half year market update was published, Allsop Residential Auctions has held two further online sales. In July, £42M was raised from the sale of 177 lots with a success rate of 82%. Our subsequent sale in September was the largest residential online auction to have been held in the UK delivering a record total of over £55M, a success rate of 83% and improving upon the September 2019 total by more than £15M. This brings the sales total for 2020 to £213M.

The largest lot of the July sale was Lot 41, 27 Peterborough Road, Harrow, a freehold former office building arranged as 16 self-contained studio flats. All were let on assured shorthold tenancy agreements producing collectively £182,100 per annum. It sold after auction for £2.65M+ (7%). The largest lot to sell under the virtual hammer in July was Lot 40A, a freehold mid-terraced building in Westcroft Square, Hammersmith, London W6. Internally arranged to provide two self-contained maisonettes, the property was offered subject to a regulated tenancy and an assured shorthold tenancy collectively producing £43,400 per annum. It had remained in the same ownership for 93 years and was sold for £1.49M reflecting a gross initial yield of 3.22%.

The largest lot sold in September was lot 33, a £1.5m stucco-faced mid-terrace building at 20 Denmark Terrace in Brighton. Arranged as six self-contained flats, each let on assured shorthold tenancies, it was producing an income of £71,760 per annum. The sale reflects a yield of 4.49%.

Lot 121, Pencoed Castle near Newport in Wales was one of the most unique lots listed in the September catalogue. This Grade II listed, Tudor castle occupies a 65-acre site that dates back to the Norman times. The property was available with planning permission for restoration of the main building and conversion of its outbuildings to offices. The approved scheme would create 12 new dwellings. Offered with mainly vacant possession, the lot was sold for £1.11M.

The mini-boom in the residential sector continues as a result of a blend of different stimuli.

The Bank of England base rate is currently the lowest on record at 0.1%.

Savings rates are at an all-time low having halved over lockdown. The average one year fixed rate ISA pays little more than 0.5% compared to 1.14% in March this year. Property is a much higher yielding alternative with gross returns on assured shorthold tenancy investments at auction in 2020 ranging from 6.5% in London to 18.6% in the north-east.

There has been a release of pent up demand since lockdown, a release of stalled pre-lockdown purchases and a desire by some to change their lives post quarantine.

Demand has also been boosted by the rise in the level of stamp duty exemption from £125,000 to £500,000 to the end of March 2021. This price point is the sweet spot for the majority of auction purchases.

Home working is shifting values geographically. Whilst London remains stable, we are seeing price rises in most areas outside of the capital. In particular, homes within commutable distance of cities and with outside space are becoming increasingly popular, as are those with space to work from home.

At the time of writing, the team is marketing a 258 catalogue for online sale on 29 October. Levels of interest indicate another promising result.

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Business Rates

In July the Government published its call for evidence in relation to the review of Business Rates currently being undertaken. The deadline for submission of evidence has now passed and the Government is reviewing the evidence received.

This is a fundamental review of every aspect of the business rates system and it will potentially lead to the most fundamental changes to the modern rating system since it was introduced in 1990. The objectives for the review are: reducing the overall burden on business; improving the current business rates system; and considering more fundamental changes in the medium-to-long term.

The main areas under consideration are as follows:

- **Rate reliefs** – these cost the Government £4.25Bn a year and it is reviewing whether the reliefs can be simplified, targeted more effectively and made robust against abuse.
- **The Uniform Business Rate** - The Government is considering alternative methods of setting the UBR each year as well as at revaluations and the merits of potentially introducing additional UBRs that vary by geography, property value or type.
- **Revaluations** – the Government is reviewing how often rating revaluations should take place and the length of the gap between the valuation date for the revaluation and the date the revaluation takes effect. It is also considering whether to introduced a simplified banding or zoning system to facilitate more frequent revaluations.
- **Valuation transparency and appeals** - the Government is seeking evidence on the benefits of providing ratepayers with the rental evidence on which their Rateable Values are based.
- **Exploring alternatives to business rates** - The Government is seeking views on the introduction of alternative taxes to either replace or complement the business rates system. The main alternatives being considered are a capital values tax or an online sales tax.

The Government will publish an interim report this autumn with the full conclusions being published next spring.

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