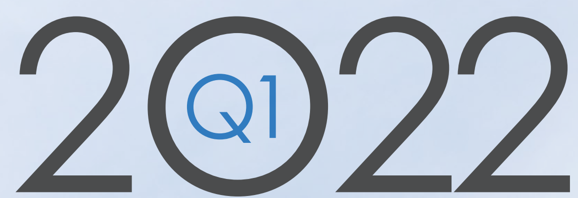

MARKET UPDATE

Commercial & Residential

allsop

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Economic Overview

The world has been appalled by the Russian invasion of Ukraine and the misery and destruction wrought by the onset of war. It has been difficult to accept this is happening in eastern Europe but made all the more real by the live TV reporting and the visual reality of the terrible impact it is having on the Ukrainian people and the destruction of infrastructure and cities.

The reaction from the west has been to provide considerable support to Ukraine and to pressurise the Kremlin by the imposition of sanctions to isolate and cripple the Russian economy. The support has helped the Ukrainians resist the invasion in the west and fight on in the east and it is expected now to be a long and drawn-out conflict. The sanctions no doubt have weakened the Russian economy, but they are not a straightforward solution as sanctions work both ways and the effects have been hampered by the outside dependence (particularly European) on Russian energy. It appears there is to be no quick solution to the conflict.

The war in eastern Europe has been a key shock to the world and UK economies and has exacerbated higher energy costs which have been the key driver of increased inflation. The UK inflation rate has now hit 7% in the 12 months to March up from 6.2% in February and the ONS is now forecasting a peak of 8.7% in the final quarter of the year which would be a 40 year high and way above the 2% BoE target. High inflation, and although limited at present, the possibility of financial contagion and reduced investment flows as a result of uncertainty over the war will doubtless reduce UK economic growth this year.

The BoE has increased interest rates 3 times since December 2021, most recently in March to the current level of 0.75%. Further increases are expected but being that high prices are developing into a cost-of-living crisis and with a probable further increase in the energy price cap in October the BoE's room to manoeuvre is limited without causing real hardship. Interest rates will rise again but perhaps by not more than to 1% this year.

The real estate markets have remained buoyant in the first quarter of the year and are often seen as a safe haven in such times of economic turmoil and high inflation. The interest rate rises have been expected and a further increase is probably priced in. The commercial markets at present are seeing stable occupational conditions with a great deal of rental rebasing having taken place during the pandemic and very strong investment demand from UK investors and the increasing return of overseas money due to the attraction of the UK from overseas as a stable haven. The residential markets are remaining strong too with price inflation in most markets and rental demand at a high although this is likely to be tempered by the increasing cost of living going forwards and to that extent ongoing high inflation is a problem. Inflation in real estate is therefore a friend to some and a concern for others but either way the markets remain very busy.

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City & City Fringe Leasing Market

The Allsop weekly viewings tracker has now recorded a record number of viewings witnessed since recording the full data at the start of Lockdown in March 2020

The first quarter of 2022 has witnessed a real sense of vibrancy and optimism in the City with a return and buzz not experienced since pre-pandemic times in 2019. Just 12 months ago Q1 2021 was spent in full lockdown with the final quarter heavily disrupted by the Omicron virus spreading across the workforce and temporarily reducing confidence for City Offices.

Many businesses now have a full return to work policy and have actioned reviews for work place strategy. There is renewed demand for businesses looking to return to London and a move towards Best in Class stock and many with a clear focus on the sustainability of their real estate given the social and environmental responsibility each company is now striving towards. This is also at the forefront of all marketing for new developments and is a key focus by Landlords to ensure future schemes are as sustainable as possible.

The Allsop weekly viewings tracker has now recorded a record number of viewings witnessed since recording the full data at the start of Lockdown in March 2020. The weekly active demand (monitored through the Agents Society) also peaked during February and continues to prove a strong return to the market, particularly for requirements of sub 20,000 sq ft.

Take up during Q1 2022 represented a significant year on year increase as the market has begun to open-up and the smaller businesses look to secure flexible office space for the future. Central London take-up exceeded 2.5M sq ft, the highest Q1 figure since 2019 although a little lower than Q3 and Q4 2021 given the reduced number of pre-lets secured. Surprisingly, there were only 3 deals that exceeded 50,000 sq ft this quarter and only 1 that exceeded 100,000 sq ft.

City take-up amounted to 1.1M sqft with February delivering the highest take up figure of just over 500,000 sqft. This was due to the most significant pre-let to Hogan Lovells who acquired 275,000 sq ft at Holborn Viaduct for occupation in Q4 2026. Other key lettings during the quarter included Aviva committing to 78,000 sqft at 80 Fenchurch Street on a 10-year term at £67.50 psf and the expansion of Deliveroo taking a further 40,000 sq ft at The Atrium Building, Cannon Bridge, EC4. Another successful letting outside of the City in Canary Wharf, Docklands was the letting to Citi who acquired 95,000 sq ft on a fully fitted short-term letting at 40 Bank Street for 4 years whilst they refurbish their main HQ.

Demand remains strong and above the 10-year average with many larger businesses now looking to commit to pre-lets given the genuine concern in the supply chain for new buildings being delivered into the market between 2022 and 2025. These include Grant Thornton, Accenture Digital, Reed Smith, Vodafone, Macquarie Group and Tata.

Supply in the City remains relatively stable at 12.4M sqft (9% vacancy rate) and 26M sqft for Central London. Newly completed schemes entering the market this year have been Technique (74,000 sq ft) in Clerkenwell and the slightly delayed Featherstone Building, City Road, (124,000 sqft) due for completion in May 2022.

Best in Class stock continues to drive the market with the majority of occupiers focussing on buildings that have an EPC rating on no less than B and above. 90% of take up is for Grade A stock.

Headline rents are currently at £70 psf for a typical Grade A supply although there is now increasing evidence of premium rents for new build stock as we witness competition in the marketplace. We are likely to experience an increasing number of deals with rents in the low to mid £80's for mid rise space and higher rents being achieved for new build tower floors in both the City and Fringes as we enter the next half of the year.

Rent free periods remain at 2.4 months per year although these are likely to move in slightly where there is competition for good quality Grade A space. Grade B stock is likely to remain at 2.4-2.7 months plus where higher volumes of competition remain.

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City & City Fringe Investment Market

The City and City fringe investment market experienced a record quarter of transactions in Q1 2022 following the easing of Government restrictions and the success of the vaccine program

The City and City fringe investment market experienced a record quarter of transactions in Q1 2022 following the easing of Government restrictions and the success of the vaccine program boosting investor confidence. The positive sentiment has been challenged somewhat by the geopolitical situation associated with the Russian invasion of Ukraine, in conjunction with its impact on already strong inflationary pressures. However, this appears for the most part, to only have accentuated London's safe haven status, with large scale transactions of all types still concluding towards the end of the quarter.

During the first quarter of 2022 we have recorded £4.032Bn of commercial property transactions exchanged or completed in the City and City Fringe Markets. This is an increase of approximately 68% on Q4 2021 (typically the highest quarter for transaction volumes), and more than five times the investment turnover in Q1 2021 (which was significantly impacted by COVID-19). This total has been recorded across 36 transactions, just 3 higher than the 4 year quarterly average prior to the pandemic (33), but representative of a quarter with some of the largest transactions on record.

The £4.032Bn of transactions in Q1 2022 equates to approximately 85% of the entire deal volume in 2020 (£4.711Bn), the year most heavily impacted by COVID lockdowns, demonstrating a compelling return to positive market sentiment following two years of COVID restrictions.

The total transactions figure was skewed slightly by two substantial transactions made by Asian investors that have made large City purchases previously. The Scalpel, 52 Lime Street EC3 was purchased by Singaporean investor Ho Bee Land for £718M which reflected a net initial yield of 3.99% and a capital value of £1,731 per sqft. The landmark tower building was developed in 2018 by WR Berkeley and is multi-let for 9.5 years unexpired at a passing rent which reflects £71.95 per sqft. South Korean investor NPS purchased 5 Broadgate EC2 for £1.21Bn reflecting 3.60% and £1,651 per sqft in what is the largest ever 'non-tower' deal in the City. The substantial headquarters building was developed in 2015 and is let to UBS AG for a further 13 years, with RPI linked annual rental increases. Allsop/Millennium Group advised Hong Kong-based Manhattan Garments on their first direct UK purchase of 5 Fleet Place EC4 for £191M, which is multi-let for a further 9.25 years at a yield of around 4.00%. These three transactions demonstrate the unwavering demand from Asian investors for prime, long let, best in class assets within the City core.

With record pricing being achieved for core best in class assets, demand also remains particularly strong for value-add and development opportunities as investors seek to 'outperform' headwinds associated with inflation running well above the Bank of England's target rate, rising Government bond yields, and interest rate rises. Rising inflation has significantly impacted construction costs, but has not hindered developers who are also buoyed by some of the highest rents ever being achieved in the City market, for best in class space with the highest environmental credentials. Allsop advised Endurance Land/ Nan Fung Group on one of the largest value-add deals of the quarter, in their off market purchase of 99 City Road EC1 from London & Regional for £150M, reflecting £935 per sqft and a 4.0% net initial yield. The existing building has approximately two years of income remaining from Inmarsat who are vacating, offering a substantial development and increased massing opportunity, on one of the last undeveloped corners of Old Street Roundabout and Tech City. Barings purchased 25 Moorgate EC2 for £70.63M reflecting £857 per sqft for a 5% geared long leasehold interest, with less than 12 months of income. £857 per sqft for a soon to be vacant long leasehold interest, is one of the highest prices achieved for a lot size of this profile following a competitive bidding process.

In a sure sign that confidence has returned to the office market as a sector, Q1 2022 witnessed the first large scale transaction of an asset that is majority let to a serviced office provider, for two years since the onset of the COVID-19 pandemic. 120 Moorgate EC2 was purchased by Chinese investor Sun Ventures for £148M which reflected 4.50% net initial yield and £1,311 per sqft, for a newly developed prime freehold, 76% let to WeWork on a lease expiring in 2040. The remainder is let to Barclays Plc and Third Space Gymnasium. This transaction marked Sun Ventures third acquisition in 18 months and the price achieved will give owners of other large scale assets let to serviced office covenants confidence to test the market once again.

Whilst the market has experienced record transaction volumes in Q1 2022, this is due almost entirely to stock which was for sale in 2021 and the market is currently characterised by a huge weight of capital seeking limited new buying opportunities. This supply and demand imbalance will maintain pressure on prime City yields, which hold firm at 3.75% and continue to compare favourably to other key global cities.

The investor pool continues to remain as diverse as ever with Asian investors accounting for over 76% of transaction volumes in Q1 2022, returning to the market on a large scale having been hampered by COVID restrictions throughout 2020/2021. Asian investors had been the number one buyer group in the City market in 2017 and 2018 and Q1 2022 marks their hotly anticipated return, contributing to the two largest transactions of the quarter (5 Broadgate EC2 + The Scalpel EC3). American investors accounted for over 11% of turnover of mainly value-add deals, whilst European investors accounted for over 8%, with UK and Middle Eastern investors accounting for around 2% of turnover each.

During this period of global economic uncertainty, with the war in Ukraine showing no signs of concluding imminently, we anticipate Central London real estate to remain attractive to investors globally. The focus is likely to remain on either best-in-class buildings in the most prime locations, or development/ refurbishment opportunities which can ultimately achieve prime exit values. The £2.90Bn currently under offer suggests more of the same going into the second quarter of 2022.

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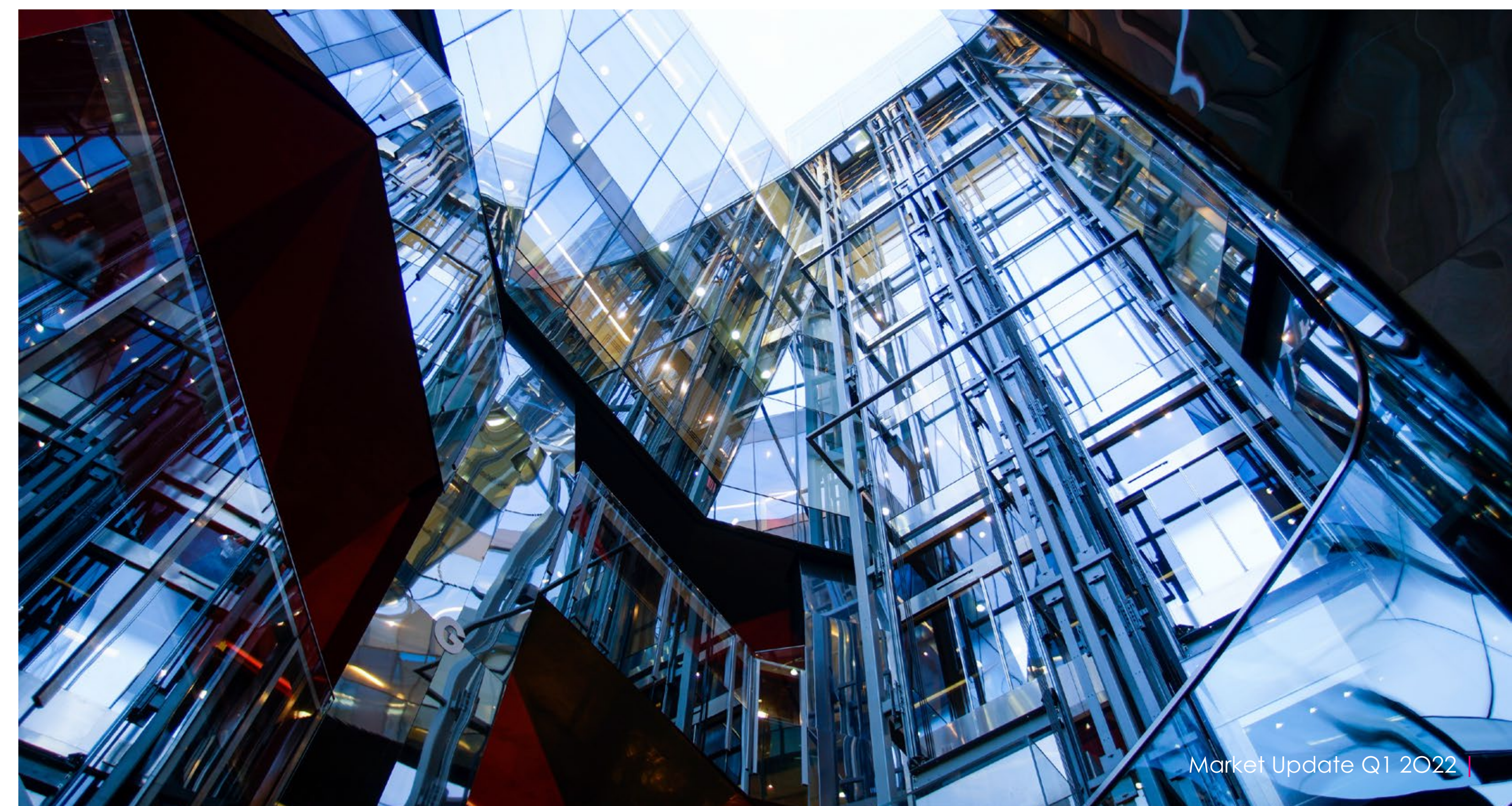

West End Leasing Market

> 75% of the new or refurbished space set to complete this year is already prelet or under offer

After a fairly low key start to the year, Q1 2022 exploded into life as companies pushed on with committing to the best quality new office spaces, with over 1M sq ft being let in the West End for the 3rd consecutive quarter.

Q1 was notable for a number of large financial occupiers finalising longer term searches and committing to space. Prominent examples include Stonehage Fleming taking 30,000 sq ft at 6 St. James's Square, Warburg Pincus & Low Carbon securing 37,000 sqft between them at Stirling Square, SW1 and Blackstone securing 37,500 sq ft in Berkeley Square House, W1.

In addition to this cyber security firm Darktrace committed to 31,000 sqft at 80 Strand, WC2 in what has turned into a very promising start to the year for the market.

In terms of supply over 2.5M sq ft of brand new or refurbished space is set to complete across the West End by the end of 2022, albeit over 75% of this is already pre-let or under offer. This in addition to declining second-hand availability as occupiers continue to reabsorb space placed on the market throughout the pandemic, has resulted in the vacancy rate falling once again to 6.7% in the West End. This sits below the overall London vacancy which has risen to 9.5% in Q1.

Indeed, particular submarkets continue to be critically undersupplied with good quality space in the West End. Mayfair is a prime example where Grade A availability currently sits at just 1% of total available stock. Given the above supply dynamics we will continue to see upward movement in Grade A headline rents for the best space in core locations with particular spikes occurring where occupiers find themselves in competitive bidding situations.

The market continues to diverge with West End occupiers increasingly making a choice between ultimate flexibility and paying premium costs to achieve this verses making longer term commitments where incentive packages for occupiers remain compelling. The flexible office market continues to increase its presence in the West End, with large organisations such as Currys securing 400 permanent desks in WeWork.

Anecdotally viewing levels increased dramatically towards the end of the quarter with many businesses having now got to grips with how their post pandemic office requirements look. They now have the confidence to push on with meaningful decisions and this should see continued activity across the remainder of the year.

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> The market continues to diverge with West End occupiers increasingly making a choice between ultimate flexibility and paying premium costs

West End Investment Market

January 2022 saw strong investment volumes, commencing with the £773m acquisition by Google of their core West End HQ at Central Saint Giles, and quickly followed by several other transactions including 20 St. James's Street, SW1 at £118M to a European Investor. The month closed with around £1.0Bn of volume, which is almost unprecedented given a typical annual total in the West End of around £6.5Bn. There was big expectation that much like the London City market, we could see a record Q1 if volumes continued into February and March.

However, February and March were subdued both in terms of new stock coming to market and existing under offer stock exchanging before the quarter end.

For Q1 2022 we tracked £1.4Bn of volume across 17 transactions, reflecting an average lot size of £85M. Q1 volumes were c. 15% ahead of the five-year average (£1.3Bn). However, as is sometimes the case, the transaction volume was buoyed by one transaction, and if you were to remove the large ticket lot size of Google from the equation this reduces the average lot size to £42M and illustrates a sluggish Q1 total volume of £671M, 40% below the revised five-year average (£1.12Bn).

The geographic origin of the capital allocated to the West End market continues to be very diverse. Q1 volume was dominated by North America (60%) in terms of volumes and by Domestic UK in terms of numbers of deals (11 of the 17). Notably European investors have been particularly active in terms of large ticket lot sizes of all asset classes, acquiring 3 of the 5 deals over £60M - German Investor Caleus acquired future value-add play 19-24 Dering Street, W1 for £62.5M / 3.16% NIY and Greek Investor Ekistics bought St. James's office trophy 20 St. James's Street, SW1 for £118M / 4.19% NIY (LLH interest). Unlike the City market, surprising absent have been Asian monies but this is not due to a lack of investor appetite, rather the ongoing lack of stock being experienced in the West End market.

Agents and buyers have both been complaining of a lack of suitable stock in the market since the start of the year exacerbated by a continued significant weight of capital allocated to the London market. It is possible that a number of decisions to sell that are usually made in January have been deferred due to the war in Ukraine.

We noted at the end of last year we had experienced some of the fiercest competition to date driving pricing, and investor appetite has not let up. Such ferocity in bidding particularly for value-add stock has continued, notably on value-add assets in vibrant locations where it is possible to create Grade A in a relatively short timeframe to take advantage of the shortage of prime office space and the resultant rental growth that this is beginning to lead to. As an example, 25-27 Store Street, WC1 close to Tottenham Court Road attracted a significant number of viewings and several rounds of bids, and we understand pricing has hit c. 25% ahead of quoting terms.

There remains significant capital chasing limited core prime opportunities such as 49 Park Lane, W1 and the soon to be launched 50 Broadway that offers 15 years of UK Government income in a refurbished building in St. James's Park.

The political and Covid headwinds, combined with rising build costs and erratic debt market, has not served to dent developer's resolve that if you can create high quality office space in vibrant locations, it will attract quality tenants on strong rental terms.

Looking froward, we are tracking c. £1Bn 'Under Offer', with British Land having recently completed its sale of a 75% stake in Paddington Central to GIC for c. £700M should help with the Q2 volumes. This transaction is a clear portrayal of ongoing investor commitment to London and to the importance of the physical office environment. We are also tracking c. £2.5 Bn worth of stock either available or coming to market. Combined with the sheer weight of capital allocated to London from across the global for deployment this year, we predict a strong middle part of the year in terms of volume, held back only by a potential lack of stock.

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National Investment Market Overview

The easing of COVID 19 restrictions and the positive bounce back in activity early on in the quarter has been countered by the rise in inflation and the consequent increases in interest rates which were very much expected. Positive sentiment has now been further challenged by the Russian invasion of Ukraine and the further pressures this is adding to inflation. So far however, there is little sign that inflation and the war in eastern Europe is dampening buyer sentiment as the fundamental attractions of Commercial Real Estate remain intact.

Transaction volumes:

Full year 2021	H2 2021	Q1 2022
£55,202.82M	**£23,820.17M**	**£11,988.59M**
Up 26.55% on full year 2020	Up 20.23% up on H2 2020	Up 18.45% on Q1 2021

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Retail Market Overview

A more positive picture is emerging for the High Street retail sector as consumers are returning to the High Street and footfall is increasing with a week on week increase of 7.8% for the seven days to 20 March. Whilst last year the High Street wasn't at the top of investors shopping list, the sector is starting to see an increase in demand from private investors who are dominating the market.

Allsop sold 48-50 Highgate High Street for £4.5m reflecting a low 3.9% NIY following competitive bidding from Private Investors. Investors were attracted by the London postcode, the development opportunity to the rear of the site and 12 years unexpired income.

Occupationally vacancies have begun to see a slight decline to 14.4% and some national and independent occupiers are using the opportunity to gain a foothold in prime locations with attractive and more flexible lease terms. Retailers such as Crew, Uniqlo, Lululemon and Ann Summers are all looking to expand their retail portfolios and it is clear the occupational picture is stabilising in some locations.

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Retail Warehousing Market Overview

The Retail Warehousing Sector is thriving with the return of institutional capital to the market in Q1 2022. 2021 delivered strong transactional activity with transaction volume reaching well over £3.5Bn, this represents the second largest level of investment volumes in the last 10 years, second only to 2015. We are also seeing pricing being achieved in Q1-22 which is eclipsing the previous market peak of 2015. A notable transaction which demonstrates this is Huntingdon Retail Park which traded for £20.23M, showing a NIY of 4.85%. Other Q1 2022 transactions of note are AvonMeads Retail Park, Bristol which traded for £48.83M / 5.95% NIY (generally 20% over-rented) and The Brewery, Romford traded for £162M which are the largest single assets transacted in the sector since COVID-19.

2022 has continued at a pace with sharp yield compression across the sector as liquidity has returned to every element of the subsector. 2021 saw five key buyers being Realty, M7, Threadneedle, Brookfield and British Land but in 2022 we are seeing a broader buying pool emerge with institutional investors, REITS, Private Equity, PropCos and HNW investors becoming more active in the sector. The outlook for 2022 remains extremely positive for the sector with the occupational market seeing green shoots of rental growth with strong levels of leasing activity from discount food, value, athleisure and gym operators. Also, DIY occupiers and key anchor tenants are continuing to re-gear leases to either take advantage of rebased rents or secure their long term occupation. The retail warehouse vacancy rate is now sub 7.8%.

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Office Market Overview

Q4 2021 saw a strong bounce back in transaction volumes as prime yields compressed 25 bps to 4.75% in the regional office markets, a trend that has continued into Q1 2022. Although Q1 2022 has seen reduced stock in the market owing to growing economic risks and wider geo-political headwinds, there continues to be a strong weight of money for national offices, with continued strong appetite from overseas investors driving demand.

With a strong emphasis on location, prime regional cities are faring well with the largest deals in Q1 predominantly focused on the Big 6 cities and life science opportunities. Allsop completed three transactions in Q1 totalling £56M, comprising a portfolio of prime offices in Edinburgh, Newcastle and Birmingham on behalf of EPIC REIT. Other notable transactions included White Rose Office Park in Leeds trading for £110M (6.75% NIY) to Immobel Group and Waterloo Place, Edinburgh trading for £78M (5.66% NIY) to Kennedy Wilson. Confirmation of prime regional yields compressing was also highlighted by the sale of The Quadrant, Aztec West, Bristol which sold to The Duchy of Cornwall for £20M reflecting a NIY of 4.75%.

As the life sciences market remains exceptionally buoyant, investors have looked at out-of-town offices with the view for repositioning in the near future. An example of this is Trinity House, Oxford Business Park. The property sold for £41M in February to be redeveloped into 100,000 sq ft of best-in-class lab and office accommodation. The deal reflected approximately £24.1M per acre. A further standout life sciences transaction was Grove Business Centre, Wantage. A 32.72-acre site comprising office, warehouse and R&D accommodation with additional land with prior approval for development sold for £33M to the Oxford University Endowment Fund, reflecting a NIY of 3.02%.

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Industrial Market Overview

There is no doubt that 2021 was a standout year for the industrial investment market with total transactional volumes exceeding £15.2Bn, almost double the previous record year. With that in mind, the question is… can 2022 compete?

Early signs suggest that whilst the industrial market continues to be the standout sector in regard to demand, capital deployment and yields, the reigns may have been tightened. Our research suggests that £3Bn of industrial deals have transacted in Q1, reflecting a c. 15% reduction on the same time last year, a telling fact when considering Q1 reflected 2021's lowest quarter in terms of volume.

With this said, pricing appears to remain as strong as ever. Arrow Capital Partners' £223M purchase of Amazon's new 2M sqft facility at Wakefield Hub was the highest price ever paid for a single-let warehouse in the UK. Furthermore, the Allsop National Investment team achieved a record £44M per acre on the sale of Imperial Studios, Fulham. Evidence suggests yields show no sign of moving out in the short term with prime logistics and MLI now comfortably in the mid 2% and some examples (Nucleus & Wax Low Road, Park Royal) breaking well into the 1%'s NIY.

Whilst early signs are positive, it's understandable to think 2022 may struggle to keep up with the previous 12 months. The ongoing issues in Ukraine, rises in interest rates and an ever-thinning arbitrage between prime industrial yields and the secure money markets do present challenges for the sector in 2022. However, whilst some traditional industrial buyers are dipping their toes in to alternative sectors to find yield, we are still witnessing new, heavy weight buyers entering the market with extremely deep pockets full of predominantly overseas capital.

2022 promises to be an exciting but unpredictable year with some doubts surrounding the sector. However, with impeding sale of Blackstone's £21Bn Mileway platform threatening to smash all records, the industrial sector could once again surprise us all.

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> There is no doubt that 2021 was a standout year for the industrial investment market with total transactional volumes exceeding £15.2Bn

Portfolio Market Overview

The UK Portfolio market has witnessed a strong start to the year, largely dominated by several big-ticket transactions. Total volume is £4Bn, significantly above £2.5Bn recorded in Q1 2021, the market has from a volume perspective recovered to pre-pandemic levels in its entirety.

Whilst the performance of the previous quarter is a positive sign, the remainder of the year is set to significantly improve. So far, we have seen a market largely propped by industrial and alternative sectors, no doubt this dominance will continue, in particular once Blackstone's Mileway portfolio has traded.

What we have yet to see however is substantial trading within the £20M-£60M portfolio category which during the pre-summer and autumn months is an especially liquid area of the market, maintaining a high level of demand. Historically, record breaking years are made by the success of this lot size category which propels transactional volume through sheer number of deals.

Allsop has been at the forefront of the sector, trading the EPIC Portfolio for c.£65M, a portfolio of three prime City Centre offices in Edinburgh, Newcastle and Birmingham along with Project Winding Lake, a multi-tenanted Pub Portfolio, trading at c.£95M in 2021.

We anticipate an environment of more stable economic and geopolitical fluctuation in the remainder of the year, which may well benefit the market, our portfolio transactions under offer now totalling over £250M are testament to the strength of the market.

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Commercial Auction Market

As I am sure many of my colleagues will report in this update, the first Quarter of 2022 started and finished in very contrasting macroeconomic conditions - how did the Private Investor respond?

As we started the year after a strong 2021 we were aware of inflation rising and could see the cost of money increasing in the medium term. We then had a sharp increase in energy costs hitting both the consumer and corporate tenant, and interest rates doubling on the day of our February auction.

This was then quickly followed by war emerging in Ukraine, placing immediate pressure on food and energy supplies across Europe and the prospect of inflation becoming a more serious issue rather than the blip that was predicted at the turn of the year.

Auctions are a useful and very immediate barometer of investor confidence as we saw with the reduced levels of trade around the Brexit period, subsequent series of General Elections and of course the pandemic as it ebbed and flowed.

The message however from the front line of the Private Investor is that they remain unbowed and demand is if anything a degree stronger than last year.

In bare numbers we have sold a little over £113M this year against £103M in Q1 2021, which, considering the disruptive forces in the financial markets is a strong outcome at a success rate of 91%.

The February 3rd sale totaled £43.3M and of the 63 lots sold, just four sold at reserve showing how much more demand was in the market than we thought when pricing the catalogue only a month earlier. Nine of the lots sold at yields better than 5%, including a well let Tesco in Birmingham with RPI increases, lot 10 where the tenant bid against over a dozen investors to buy the asset at £1.31M 4.6% NIY. This was just one example of tenants keen to acquire their Freeholds which continues a trend that we have begun to see more regularly at auction.

The March 24th sale now totals £76m from the sale of 100 lots with 28 lots being sold at £1M or more continuing the trend for larger lot sizes. 44 lots of £1M or more have sold through us this year, an increase of 50% on 2021.

Whilst the balance of stock is weighted to retail, staying at the long term average of a little over 70% there has been strong demand in other sectors.

Whilst one sale does not make a trend, we sold an independent bar in The City, lot 15, Simmons Bar and Cocktails near Liverpool Street Station at £1,800,000 (5.1% NIY) for the ground floor only which shows confidence in the sector that is once again attracting strong investment.

We continue to sell from the Boots portfolio of High Street assets where all the leases have been re geared on rebased rents. Pricing has improved this Quarter, with the average yield dropping to 5.7% from the 2021 average across all sales of 6.1% NIY.

Our market has also seen some of the strong demand in out of town retail, over and above the convenience store sector, with a Retail Warehouse let to B&M, lot 19 in February, in March, Cambridgeshire selling a £2.71m, 5.6% NIY and two units (one vacant) on Winterstoke Trading Estate, Weston Super Mare lot 8 in March selling for a fund in, 28% ahead of the guide at £1.61M, £79 per sq ft.

Finally, the market's enthusiasm for small industrial and trade counter assets is very evident in our market. Particular examples were a small industrial unit in Dover, lot 65 in March let to the Secretary of State at £63,500 pa selling in strong competition at £1.192M 5%NIY and a mid terrace trade counter in Lymington, lot 7 in March with an early break clause selling at £1.275M, 5.5% NIY.

March Cambridgeshire

As to bidder appetite, we poll our buyers after every auction and it is clear that we continue to attract new buyers to the market. Whilst the majority, 75% are established investors these new entrants are an important source of fresh capital and a large majority want to buy again.

With this feedback in mind and many strong results this year already, we are anticipating continued consistent strong demand as we enter the new Financial Year. Whether this is in spite of or partly because of the wider disruption in financial markets only time will tell.

> Our market has also seen some of the strong demand in out of town retail, over and above the convenience store sector

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Residential Auction Market

As preparations for the third sale of the year get underway, house prices have now reached a 17 year high with annual growth hitting 14.3%

Allsop's first residential auction of 2022 (17 February) set a positive tone and generated £42m in sales, with 122 lots sold. On the day of the auction, buyers placed 4,751 bids with 1,036 individuals having registered to participate in the sale.

The first lot of the sale was one of the most popular to be offered on the day. This freehold detached bungalow with gardens in Solihull attracted a total of 114 bids and sold for £426,000.

As inflation reached its highest level in 30 years - the Consumer Price Index rose by 6.2% in the 12 months to February 2022 - buyers were increasingly seeking investment opportunities which would offer them a hedge and a safe haven for their cash.

A freehold detached building in Lambeth, London which was arranged to accommodate restaurant premises and 17 flats was offered with an income of over £170,000 pa. It was sold for £2,585,000 reflecting a gross initial yield (GIY) of 7.63%.

The Bank of England base rate had doubled to 0.5% exactly two weeks prior to the February sale. Despite this hike, there was little discernible impact upon demand or prices. A large proportion of bidders were cash buyers and appeared to be undeterred.

A freehold detached block in Worthing, West Sussex comprising ten self-contained flats, all let on assured shorthold tenancies, sold for £2M. It was producing in total £115,660 pa. showing a gross return to the successful bidder of 6.61%.

Lots with development potential performed well. Buyers sought 'value-add' opportunities despite the pandemic-induced increase in build costs and materials supply chain disruptions.

For example, a parcel of freehold detached warehouse buildings on a site of 0.46 acres in High Wycombe, Buckinghamshire was sold for £1.5M. The lot was offered with planning permission for nine houses - eight x four bedroom and one x three bedroom extending to nearly 11,000 sq ft in total.

Three weeks after the February sale, the catalogue for the 31 March auction was released. At 200 lots it was 10% larger than the March 2021 catalogue. To date, the auction has generated £46M from the sale of 131 lots. On the day of the auction, buyers placed a total of 3722 bids with 788 individuals having registered to participate in the sale.

Investment opportunities in private rented accommodation, change-of-use and 'value-add' properties proved popular. The highest lot of the sale was a freehold parcel of four hostel buildings in Finsbury Park, north London providing a total of 45 letting rooms. The majority of rooms were let to Westminster City Council and sold to a private investor prior to auction substantially in excess of the guide price of £7M.

The auction result demonstrated the continued popularity of the residential sector as an asset class. The war in Ukraine had not affected demand. Bricks and mortar were clearly seen as a safe haven for investment.

Further highlights of the March sale included a freehold detached building in Willesden, north west London with seven bedrooms extending to 3,174 sq ft. It was among the most popular lots on the day with 23 registered bidders and 272 placed bids. It sold for more than £2.15M.

In Upminster, Essex, a freehold 20 bedroom registered house in multiple occupation (HMO) producing a rental income of over £90,480 pa sold for £1,066,000 (GIY 8.48%).

In Derby, a freehold building with planning permission for change of use from a residential/business centre to a 56 bedroom care home attracted a total of 142 bids and sold for £781,000.

As preparations for the third sale of the year get underway, house prices have now reached a 17 year high with annual growth hitting 14.3% - according to Nationwide. Many residential property owners will now see this is a seller's market.

Allsop's next residential auction will be held online on 12 May 2022.

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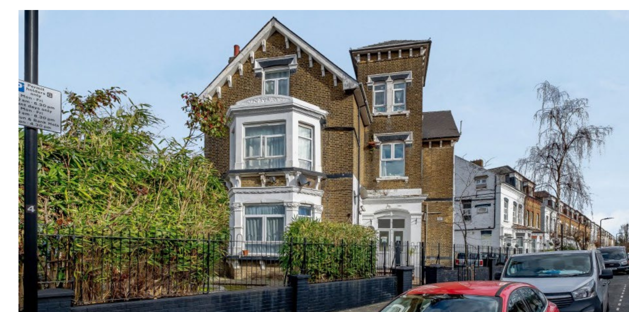

Finsbury Park

Residential Transactional and Living Markets

Investment

As we entered the new year expectations for a steady business environment were raised and further encouraged by the lifting of COVID restrictions. Needless to say the war in eastern Europe will inevitably have some ripple effects but for now it is business as usual and our market remains positive and very active.

Its is pleasing to report that our specific deals which were under offer and in solicitors hands from the last quarter in Hayes and Wandsworth have now both been sold. As always, we can only sell to one party which means we have a long list of potential buyers who weren't successful who are now itching to part with their money on similar opportunities.

Fortunately, the pipeline for sales in Q2/3 looks to be very healthy and we have been reporting on even more of our varied selection of blocks and portfolios than usual.

One of the many positives with Allsop is the variety of opportunities that come across our desks thanks to our extensive client database. This has never been more apparent than in recent times with what appears to be the entire spectrum of residential investment scenarios heading for the marketplace. Ranging from central London reversionary ground rent opportunities through to stand alone income producing buildings with planning angles to portfolios of Regulated tenancies, AST's and even retirement stock.

Recent transactions have spread across the UK with a very popular portfolio in Manchester for circa £1.5m through to a portfolio of 25 houses with mixed tenancies in the west country, a complete cul-de-sac in Hertfordshire and a large acquisition in Harlow of circa 100 units at close to £20m.

Some current sales in the market are six EPC grade A houses in Kent with significant green credentials which have proved very popular indeed, together with a nice block of flats in Southampton and a mixed parade of shops with residential uppers located in emerging Goodmayes which is also causing a stir due to its rarity and planning potential.

The houses in Kent and the block in Southampton quickly went under offer in excess of their asking prices and will almost certainly be sold by the time you read this.

One specific area of the market which is beginning to carve its own specialist sector for rental are the former office permitted development buildings.

> Fortunately, the pipeline for sales in Q2/3 looks to be very healthy and we have been reporting on even more of our varied selection of blocks and portfolios than usual

There have been a notable number of transactions of varying size and scale by this team ranging from Stamford Hill and Sidcup to Cirencester and Sheffield. These conversions vary quite considerably in quality and location but they are beginning to be properly recognized by the wider market as PRS in a different form. Loathed by some but serving an essential need for accommodation for many and this is an interesting and emerging sector to watch out for.

Appetite for residential is stronger than ever and it is undoubtedly a sellers' market. Inflation is rapidly eroding the value of cash and more than once a week we are meeting and speaking to new funds, existing property companies and high net worth cash rich investors keen to deploy their cash into good income producing assets.

We are seeing yield compression across the UK and the traditional bulk purchase discount to vacant possession model has disappeared for many.

Times are changing, the market is moving forward in a positive way so if you are sitting on assets and considering a sale, don't delay.'

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Residential Development

It took a while for Q1 to get started but once it did it was very much on the demand side as opposed to the supply side. With a significant amount of money looking for value add development opportunities that have been few and far between as well as strong demand for good quality consented stock.

While we are building significantly more homes than we have historically it is clear that we are still some way off from meeting the demand. London appears to be some 15,000 homes a year away from the London plan targets, however the size of the construction pipeline appears to have peaked with the current levels of new housing starts at their lowest levels in almost a decade. This is partly due to the Pandemic however more fundamentally it is also due to the on going delays within our planning system with planning applications taking longer than they ever have before.

However while the planning system has always been a challenge and Covid has only exacerbated this, the very current and very real challenge now faced by developers is the on-going battle with their construction teams and contractors. While we have been talking of inflation and increased build and labour costs coming for some time, it is in the first quarter of 2022 that it's become a reality for most and difficult discussions are clearly being had in attempts to maintain suitable profit margins for all involved. As we touched on it our Q3 report construction material cost increases have reached a 40 year high according to BCIS materials cost index.

This could discourage those that are able to afford to do so from building out their sites in the short term in the hope that some of the costs will ease in time. If this is a view taken by many then there is a risk of creating a further shortage of supply subsequently leading to upward pressure on sales values, potentially creating a false market.

However there is currently significant demand from developers to acquire land to fill their pipelines and satisfy their investors. While SME developers have been increasingly active in recent years and have been very competitive due to the increased availability of funding within the market, we are now seeing the more traditional housebuilders and developers being more competitive as the benefit of their experience, in house construction teams, contractor relationships and funding lines arguably allow them to overcome the build cost challenges more effectively than those relying on inflated QS costings and the subsequent funding challenges that accompany these.

All but one of the listed housebuilders have reported an increased number of plots in their immediate pipeline in 2021 and this is expected to continue into 2022. With a shortage of stock and strong demand it is expected that land values will continue to stay strong.

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While we are building significantly more homes than we have historically it is clear that we are still some way off from meeting the demand

Q1 has seen a couple of notable lending deals showing the confidence within sector.

Student Housing

Q1 2022 has continued where 2021 left off – competitive bidding, compressed yields for prime assets and increasing demand from investors. Positive sentiment remains - student housing offers exposure to the alternatives market along with a very strong demographic backdrop, with average occupancy being reported at over 90% for the current academic year. Looking ahead for 2022/23, there is confidence and buoyancy off the back of a positive forward letting status across the sector.

There is generally a lack of quality assets available which is increasing pent up demand. Last quarter we reported that Bath Spa University had called for bids on 470 beds at Green Park House in Bath. Aviva Investors completed the deal at £82M where they simultaneously entered into a 27-year lease agreement with the University of Bath, which included annual CPI rent reviews, collared and capped at 0% and 6% respectively. The completion price, £12M ahead of the quoting price, is a good example of the strength of the market and competition for well-located assets.

The latest HESA data showed that non-UK domiciled students grew by 8.7% year on year and that half of all international students came from Asia. China accounted for 45.6% of all students from Asia albeit at a reduced growth rate in comparison to previous years. A tale tell sign of the hangover effect from the COVID environment the year before.

The positivity within the market was highlighted by Unite's announcement of a £343M pre-tax profit for year ending December 2021. This compared handsomely to the £120M loss announced the year prior and was aided by their £182.2M valuation gain, 94% occupancy and a 2.3% rental growth.

McLaren Property have successfully sold £72M worth of student properties since December including Meadow Court in Edinburgh to BP investment Management for £16M. Boasting 148 bedrooms, a 100% occupancy since 2016 and additional summer income from Edinburgh Fringe Festival, this proved an attractive proposition for BP. Empiric have also acquired 92 beds in Bristol from McLaren. With practical completion in September 2020, it has a 100% occupancy for the current academic year and reflects a net initial yield of 4.75%. This now means that Empiric total 404 beds in Bristol. UBS Asset Management have purchased the 483 bedroom student housing investment in central Nottingham at reflecting a NIY of 5.25%.

The largest transaction of the quarter was Loan Star's acquisition of 11 properties comprising 4,488 beds from Unite Students for £306M. The portfolio, which was largely secondary in nature, achieved a NIY of 5.70% which is yet another indication of a tightening of yields.

Q1 has seen a couple of notable lending deals showing the confidence within sector. Paragon provided a £22.6M debt facility to Study Inn Group for a 270 bed PBSA scheme in Nottingham. This scheme on Triumph Road is Study Inn Groups second development in Nottingham. Additionally, Investec has also provided a £35M debt facility to Tribe Student to fund their first ground up 250 bed PBSA scheme in South Bermondsey. This is one of five sites in Tribe's pipeline, who have a vision of easing the shortage of affordable accommodation for students in London.

As 2022 continues we would expect the status quo to continue with competitive bidding on prime assets along with capital value growth. This is supported by the coming bulge in demographics amongst university aged adults. If more quality investment stock does come to the market, then there is an argument to suggest that values might level out slightly and investors might start to take a more positive view on markets more traditionally seen as secondary.

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The Build to Rent Market

Building on the record-breaking year for BTR investment in 2021, investment within the first quarter of 2022 has continued on an upwards trajectory with significant capital deployed. Despite the challenge of rising construction costs the sector has remained extremely active, with several transactions concluding. The regions still prove particularly attractive, aided by operating assets in those areas showing strong occupation and rental levels, whilst London and the south east has become increasingly desirable as occupation and rental levels bounces back from the effects of the pandemic.

Demand is driven by a strong desire from residents, generally 23 – 35 year olds, to live in good quality rental accommodation, in central locations, with cohesive communities where residents can feel secure with longer term tenancies. The success of BTR schemes which have opened over the past six to 12 months is proven by the vast majority of schemes in main centres such as Bristol, Birmingham, Manchester and Leeds being over 90% let.

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 212,177. Numbers in the regions continue to grow at a faster rate than London, accounting for approximately 122,499 with 89,678 in the capital.

The BTR single-family housing (SFH) market has continued to experience significant investment, activity of note includes; Hearthstone Investment have agreed to purchase 70 units in Farnham Hampshire for £23M; Countryside has joined forces with Leaf Living for two SFH schemes in Colchester and Cressing, Essex delivering a total of 227 units for £74M; Sigma Capital have also agreed a JV with Countryside for a further 1,300 homes across three sites in the North West; L&G's suburban SFH arm has agreed to acquire 117 homes in Great Haddon from Countryside. Investors already operating in the sector, alongside an increasing number of new entrants, are continuing to commit to the BTR SFH market, and we anticipate the sector to exponentially grow over the next few years.

> Demand is driven by a strong desire from residents, generally 23 – 35 year olds, to live in good quality rental accommodation

Activity of note within the BTR multi-family market this quarter includes; Get Living have entered a £136M forward fund with Watkin Jones for a 551 BTR unit scheme within Birmingham; Swiss life have enter the UK market through Mayfair Capital, with the £73M purchase of Duet in Salford Quays from Moorfield containing 270 units; Catella forward funding Urban Centric's £37.5M scheme in Cardiff which will comprise 188 units next to Cardiff Central Railway Station; Railpen have agreed to forward fund Revenue + Capital to deliver 198 units in Barking, East London for £92M; PIC has agreed to forward fund a HG Living for their £80M, 306-unit BTR scheme within Milton Keynes; Realstar have agreed a forward funding agreement with Lendlease to deliver 251 unit BTR scheme in Deptford alongside an additional forward funding agreement with Telford Homes 238 scheme in North Acton, London for £91M.

Funding yields remain strong for well-designed multi-family BTR stock in prime, practical locations. This is helping to reduce reduce the impact of increasing build costs, a result of in part, labour and material shortages. In London and strong south east locations, NIYs range from 3.25% to 4.00%, with major regional centres at 3.75% to 4.50%. Secondary locations are in the region of 4.50% to 5.00% NIY. For pipeline opportunities of scale, NIY's for single family BTR across the country are now dropping below the 4.00% mark. Competition is fierce for limited opportunities.

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Residential Letting and Management

The UKAA, the Build to Rent (BTR) sector's trade body, first introduced a Senior Leaders Forum to discuss the global pandemic, then almost three years later to the week, the forum reconvened to address the war in Eastern Europe, its already significant impact and to contribute help to the crisis.

The rise in energy costs has been widely reported on. In the UK approximately 45% of our electricity generation is done by burning gas, therefore the price of gas and electricity are intrinsically linked and has reacted substantially to the invasion. As these price increases will continue for another twelve to eighteen months operational budgets will be hit significantly. In addition BTR residents may assume the price cap applies to them, however as many BTR energy contracts are commercial, this will not necessarily be the case as the price cap does not apply to the commercial market. For those in the Private Rented Sector (PRS) sector, it is predicted that the Government will start to adjust the price cap monthly therefore the cost of living will continue to be impacted.

As Ukrainian refugees flee their country, the UK Government have set up a Government backed programme to allow individuals to offer a spare room or house to Ukrainian refugees. Already the BTR sector has seen residents, through their tenancies, wanting to offer their spare rooms through this programme and Landlords are endeavouring to support their wish. As a sector our buildings can be used to support refugees by housing food and clothing banks, making space available for English language classes and through financial fundraising.

In addition to this forum the UKAA have set up both a North West hub and a Scotland hub to recognise the growth of the sector in both regions. Allsop's Dougie Orton-Wade was named the Chair of the North West region. In other industry news, after working extremely closely on a wide range of topics in recent years, including the building safety crisis, sector mental health and regulatory reform, ARMA and IRPM merged in March to form The Property Institute (TPI).

Propertymark reports the PRS continues to face record pressure as the average branch reports it has just five properties available to rent in February, which is a 44% decrease from a four-year average of nine. On average 142 applicants are registered with each agent, a record high in February and a year on year increase of 73%. In addition the number of new properties being rented has fallen for the third month in a row.

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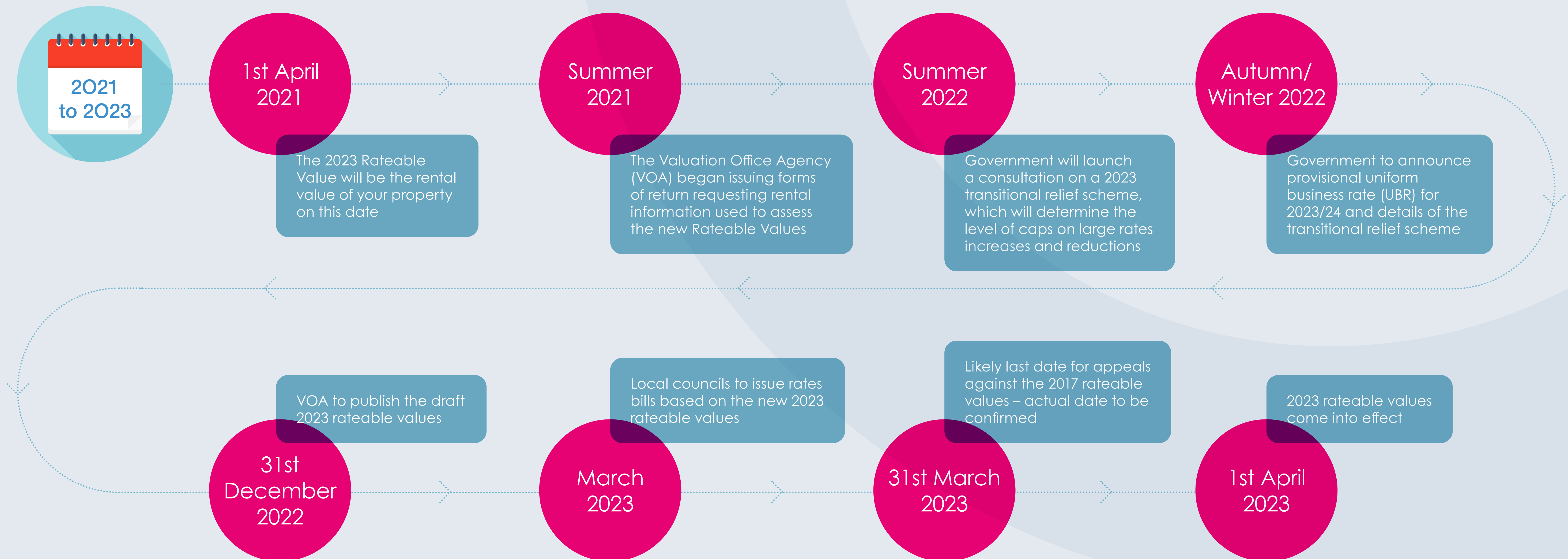
Business Rates

2023 REVALUATION TIMELINE

The next nationwide business rates revaluation is to take place on 1 April 2023, placing new rateable values on all 2.1 Million properties liable for business rates. The new figures will be based on rental levels prevailing in April 2021.



With the current rateable values being based on rental levels prevailing seven years ago, there are likely to be big swings in liability change following the 2023 revaluation.

The biggest changes are likely to be seen in the retail sector, where significant reductions in liability are anticipated, while other properties in parts of the logistics and industrial sector are expected to see substantial increases.

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