Q2

Commercial & Residential

Market Update

2021

Contents

Economic Overview

As freedom day approaches, 19 July has been much anticipated by all. Whilst the Government is determined to approve a release of the majority of restrictions, the Covid-19 infection rate continues to increase further as a result of the highly infectious Delta variant and has now passed the 7 day average of 35,000 new cases per day and is climbing steeply. There is concern as we have been here before, but this time the authorities are taking a different view, the rate of hospitalisations remains low as the vaccines are providing immunity in the population and the old and vulnerable have been protected. So freedom beckons but it is going to be different. The virus is out there so caution in many areas will remain and there is the expectation of a slow return to a new normal as we learn to live with Covid-19.

The economy is growing as many sectors continue to bounce back with growth in the 3 months to the end of May of 3.6% albeit the rate of growth has slowed in recent weeks. The ONS reported strong growth in April of 2% but a more limited uplift in May of 0.8%. Whilst hospitality, hotels and leisure have benefited from being able to open indoors the slowdown was caused in part by carmakers struggling from a shortage of microchips and the construction industry hampered by bad weather. In summary, the economy is now some 3.1% smaller than it was pre pandemic in February 2020 and the catch up is steadying as we enter the holiday season.

A side effect of this growth has been the uptick in inflation now at 2.5% for the year to June and above the BoE target of 2%. An element of this is explained by the BoE as transitory as the economy reopens but there could be implications for interest rates if it continues to rise above the expected peak of 3%.

Real Estate activity in the commercial sectors has picked up steadily with the occupational markets improving as more workers return to the office and this is expected to continue further after the summer break as more and more companies set out their expectations for staff to return. The moratorium on eviction extended to March 2022 remains an issue and will continue to exacerbate low rent collection rates particularly in the retail sectors. The investment markets are active and showing strong demand for the best product with strong fundamentals but are not yet at full pace due to the restrictions on international travel.

The residential markets have continued to perform well with additional government support with the Own Your Own Home schemes and the extension of the stamp duty holiday to the end of June. The stamp duty deadline has now passed but the early signs are there remains a great deal of strength in the core residential and student markets.

So we look forward to freedom day as the bounce back continues albeit at a steadying pace.

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City & City Fringe Leasing Market

The progress for the return to the office over the last quarter has been slow and steady, although a marked improvement over the lockdown phases of Q1 2021. The roadmap steps that took place in April 2021 including the opening of outdoor hospitality and non-essential retail led to an increase in commuters into the City and we witnessed a significant increase in viewings and interest during April and May.

Whilst the increase in activity has been encouraging, the knock on effect of the delay to ending the full lockdown rules by 4 weeks from 21 June to 19 July has led some businesses to delay the exchange of leases and their committing to new offices until the full announcements have been confirmed.

Demand levels are, however, increasing given the announcement by Boris Johnson that employees will no longer be told by the government to work from home. This is a major step for the City and many business decision makers want to encourage staff to return to the office from July with many corporates setting a date for September, after the summer holiday period.

The mid-week has become a real hive of activity where staff actively commute to the City for meetings and look to collaborate and socialise with colleagues. The bars and restaurants are noticeably busier than normal although Mondays and Fridays are quiet by comparison.

We continue to run the Allsop viewings and demand tracker for the City which is showing an encouraging trend. Average viewings have continued to rise to 20 viewings per week with a peak of 34 viewings in April 2021. Demand levels have been on a continual increase since May 2020 where we are averaging 86 enquiries per week in 2021 compared with 53 in 2020. Since the 22 February we have seen 1,754 new enquiries.

City supply has started to reduce as a number of businesses withdraw space from the market as they look to either re-occupy or fully appraise their space requirements for the longer term and delay the decision making on the formal release of space.

Vacancy rates are now 8.5%. This is expected to increase in the latter half of this year as two major developments complete. This includes the St Botolph Building, 138 Houndsditch, EC3 and The Hylo Building, 103-105 Bunhill Row, EC1. Many schemes due to complete in 2022 and 2023 are however expected to pre-lease with the longer term vacancy set to reduce as businesses return to the City.

Take up was partially muted in May 2021 across the whole of Central London with nothing signing over 50,000 sq ft and only 9 deals completing over 10,000 sq ft. The largest transaction was LCA Education (trading as University of Northampton London) taking 31,000 sq ft at The Import Building, East India Dock. (Leased by the Allsop City Team on behalf of LaSalle).

Allsop has also advised on the subletting of 60,000 sq ft to Mazars at New Ludgate, EC4; one of the largest transactions to have taken place in the City so far this year.

Other significant deals and positive signs for the market include Snapchat placing Levels 2-6 under offer at The Bloom for 115,000 sq ft and Inmarsat committing to 50 Finsbury Square comprising 117,933 sq ft.

Many emerging fintech businesses have been growing during the lockdown period and we are now seeing active enquiries from Go Cardless (70,000 sq ft), Braze (40,000 sq ft), Tik Tok (90,000 sq ft) and Afterpay (30,000 sq ft) all looking to expand their offices substantially.

> Demand levels have been on a continual increase since May 2020 where we are averaging 86.2 enquiries per week in 2021 compared with 53 in 2020

Many of the professional, finance and corporate businesses are actively looking ahead of their lease expiries including Addleshaw Goddard, Lewis Silkin, Aberdeen Standard and Reed Smith.

Headline rents remain at £67.50 psf for typical Grade A supply although significant premium rents are now being achieved for 'Best in Class' new build schemes.

Rent free periods remain between 26-30 months although where there is competition for new buildings rent free periods for best in class stock are expected to reduce.

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City & City Fringe Investment Market

After a run of one of the lowest quarterly transaction volumes in recent history culminating in just £760M transacting in Q1 2021, Q2 2021 tells a completely different story.

Much of this difference can be attributed towards the UK's highly successful vaccination rollout which will culminate in the majority of the UK adult population receiving both vaccinations by the end of the Summer. As a result Lockdown restrictions have been gradually easing in line with Government projections with the exception of the final 'Freedom Day' which has been pushed back one month to the 19 July. This has had a positive impact on Central London as retail and restaurants have been allowed to reopen indoors with more workers returning to the office to work and socialise. Whilst footfall in the City is far from back to normal we anticipate that by September the majority of larger businesses will be encouraging staff back to the office but likely to be adopting a more open and flexible approach to working from home.

Reflective of this positivity, in Q2, Allsop recorded a significant increase in commercial property transaction volumes, totalling £2.483Bn of transactions reaching contractual exchange in the City and City Fringe Markets. This is an increase of approximately 227% on Q1 2021, over 900% on Q2 2020, and 23% up on the Q2 five year average. The total reflects 19 transactions, only two more than last quarter, and three more than 2020's quarterly average of 16. There were eight deals of over £100M, the highest number since Q4 2019 which shows how sentiment has improved since the outbreak of the COVID-19 Global Pandemic.

The average transaction size for Q2 2021 was £130.47M, 190% higher than Q1 2021's average deal size of £44.70M. This is also 76% higher than the 2 year average of £74.29M. Q2 2021's average deal size was aided by three transactions over £300M; Brookfield's acquisition of 30 Fenchurch Street, EC3 from Delancey and Safra for £635M; Union Investment's acquisition of One Braham, E1 from Aldgate Developments for £468M; and Suntec REIT's acquisition of 3 Minster Court, EC3 from Ivanhoe Cambridge for £353M.

The largest of these transactions, 30 Fenchurch Street, formally Plantation Place North, had been in discussions for over 12 months and finally reached a contractual exchange to Brookfield. The building comprises a landmark office building in the heart of the insurance district, multi-let with a WAULT of approximately 8 years. The building sits within the City Tower cluster so offers significant future massing potential. A purchase price of £635M reflects a net initial yield of 3.87% and a capital value of £1,152 per sq ft. The significance of these prolonged negotiations which resulted in a successful sale to one of London's most active buyers is precedent to the lack of opportunities to acquire major freeholds with longer term redevelopment potential in the City "tower cluster".

The sale of Aldgate Development's One Braham, E1 to Union Investments not only supports prime City yields remaining at 4.00% - 4.25% but also reinforces the strong demand for long let assets with secure covenants in an uncertain market. One Braham is single let to BT for c.15 years and achieved a yield of 4.10% and a capital value of £1,376 per sq ft, a record for the Aldgate sub-market. The debt markets remain favourable allowing investors to continue to achieve attractive cash on cash returns and the European Funds; German in particular, are very interested in newly long let buildings given the discount they can achieve in London versus other major European cities. This was further reinforced by Deka's acquisition of Bureau, 90 Fetter Lane, EC4 from Evans Randall and STARS for £118M, 4.00% and £1,594 per sq ft, one of the highest capital values paid for a multi-let building in this location.

With travel restrictions still in place for most visiting countries to the UK it is no surprise that UK Investors made up half of the purchaser pool in Q2 2021 alone (47%). The remainder was German (21%), North American (21%), one Singaporean and one Israeli domiciled investor, however, the latter will have accounted for the majority of transaction volumes with international buyers fronting the three largest transactions of the quarter. Despite an increase in transaction volumes, there have been very few buildings which have been 'actively marketed' and the majority of this quarter's deals occurred 'off market.' 'Off-'market' transactions account for 63% of quarterly deals (in terms of numbers) and 88% of total volume which is considerably higher than the average of the last six quarters of 62%. With a significant weight of capital interested in both Core and Value-Add type assets, it has become more efficient for Vendors to run more targeted sales processes.

The only transaction to have achieved in excess of the guide price (in the whole of 2021) was 1 St John's Lane, EC1 which completed at £113M, 19% higher than the £95M guide price. The profile of this building attracted significant interest because it was one of the only c.100,000 sq ft buildings in the highly sought after Farringdon sub-market. The tenancy profile offered c.7.5 years of income off a highly reversionary base rent of only £46.00 per sq ft, let to a strong covenant (Save the Children) with RPI-linked uplifts in the lease. The owners received over 11 offers for the property with several bids over £110M. Royal London was the eventual buyer paying £113M which reflected 3.39% and £1,269 per sq ft.

Whilst sentiment and confidence has clearly improved, some themes remain very prevalent from previous quarters. Prime stock is highly sought after both for core and for value-add deals, with limited product to satisfy demand. Secondary stock has witnessed a notable shift in demand and pricing, with many buildings that have been market tested over the past 12 months remaining unsold. We expect many of these to be repriced for a Q4 sale. As we move into the Summer, we envisage another quarter of comparatively high investment volumes with a number of large trophy assets being worked up for sale. With travel corridors likely to reopen to the Middle East, North America and Asia by Q4, we expect there to be more widely marketed stock available as sentiment improves further.

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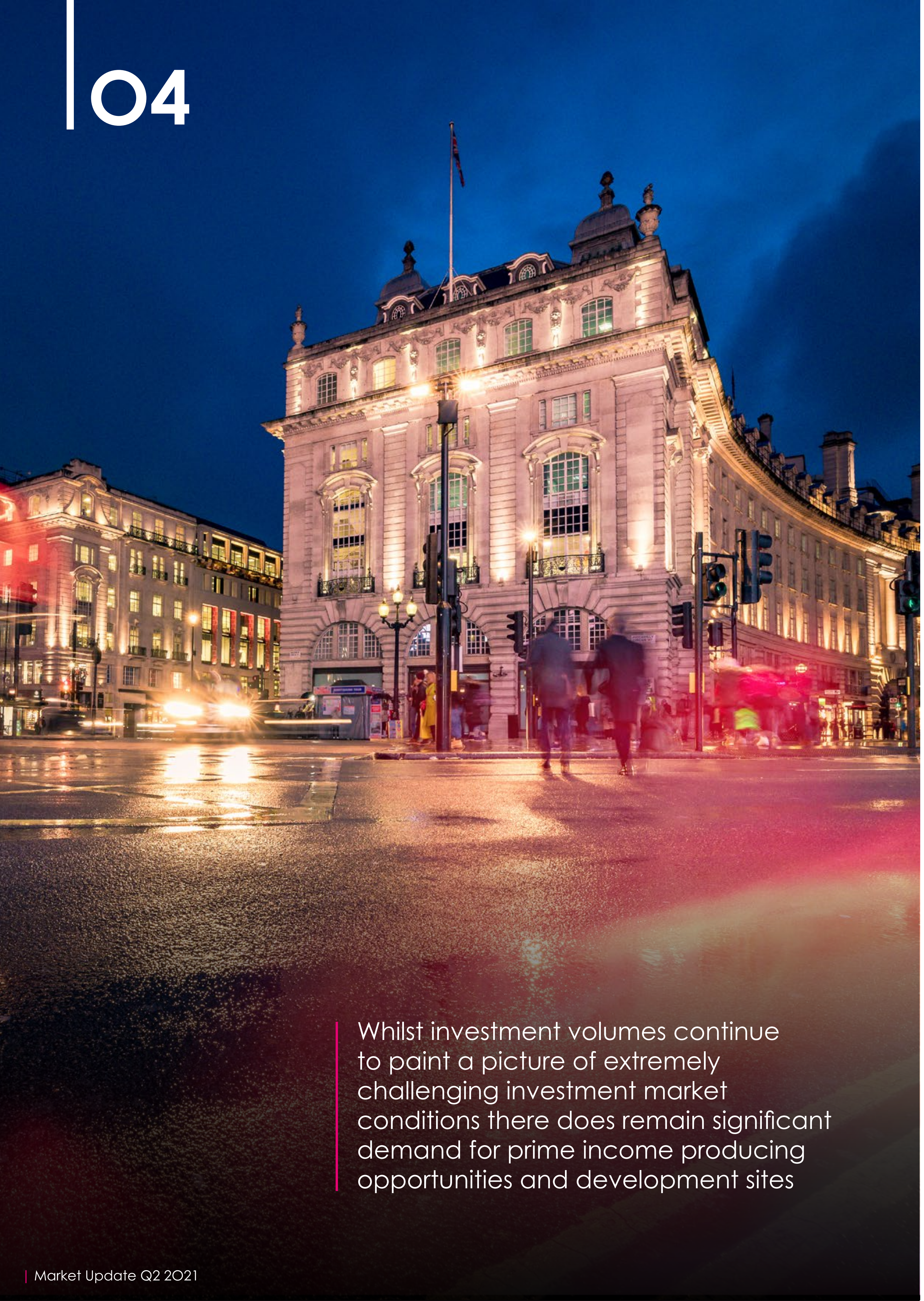

Whilst investment volumes continue to paint a picture of extremely challenging investment market conditions there does remain significant demand for prime income producing opportunities and development sites

West End Investment Market

Q2 again marked a relatively subdued quarter in terms of transactions where we recorded a total of £884M exchanged or exchanged and completed in 15 transactions, the average lot size was just under £60M. This brings the half year total West End volume to £1.8Bn (37 transactions) versus the five-year pre-pandemic Q1-2 average of £3.6Bn (50% down).

Transaction volumes however do not illustrate the full picture, as there is a lag between positive market sentiment translating into tangible transaction volumes. There were some major trophy assets launched during the quarter, and we are tracking around £2.0Bn of stock 'Under Offer' and circa £3.0Bn of stock that is set to be launched during the latter part of the year and / or is rumoured to be buyable.

This, coupled with a likely return to offices in September, and hopefully an easing of international travel restrictions later in the year should, similarly to 2020, lead to a busy second half of the year – and perhaps a return to more normalised annual volumes in the West End – broadly the 5-year average is around £7.5Bn whereas the 1 April 2020 – 31 March 2021 total was just £4.4Bn.

As per the market norm we are moving into the traditionally quiet summer period, particularly with regard to new 'far & wide' marketing campaigns.

Through our relationships with Citi Private Bank and alliance with Millennium Group in Asia, we know that there is a considerable amount of investor appetite and capital allocated to Central London. The international travel restrictions and 'work-from-home' guidance has meant that much of this capital has been patiently observing the occupational and capital markets, but we expect the trend to move from 'observing' to 'actively looking' after the summer.

Turning to the detail of the Q2 market, of the 15 transactions to take place during Q2 only four were part of recent, 'far & wide' marketing campaigns, the remaining 11 were part of 'off-market' campaigns that ranged from selective marketing, historic stock or direct approaches (particularly by neighbouring owners). This quarter included three transactions over £100M, which all fell into the 'off-market' category - the selectively marketed acquisition of 40 Eastbourne Terrace, W2 by Universities Superannuation Scheme for c. £140M (c. 3.30% NIY) and the sales of Stirling Square, SW1 to Greystar for c. £175M (c. 5.2% NIY) and One Embassy Gardens, SW11 to Kennedy Wilson for £177.5M (4.57% NIY), with the latter two being historic stock. International investment was slightly down during Q2 accounting for 68% of transactions (typically c. 75%), with there being a notable absence of Asian (only one transaction) and Middle Eastern (zero transactions) monies. North American investors were particularly active for the big ticket lot sizes acquiring two of the three opportunities over £100M (Stirling Square and One Embassy Gardens). Allsop has been involved in three of the 15 transactions.

We expect our next report in Q3 to show a significant uptick in transaction volume. Bids have been called / terms agreed on a number of trophy assets such as 50 New Bond Street, Cassini House and 20 St. James's Street, and a further £1.0Bn of transaction volume is wrapped up in Landsec's Ministry of Justice sale, Carlton House Terrace and Pansy Ho's rumoured sale of 8 St. James's Square to Deka.

Whilst investment volumes continue to paint a picture of extremely challenging investment market conditions there does remain significant demand for prime income producing opportunities and development sites that offer the ability to create a prime product. Ultimately as we move into the latter part of the year the resilience and 'safe-haven' fundamentals of why investors invest in London – transparent legal system, established financial infrastructure, global positioning and relative affordability when compared to core, neighbouring, European markets – despite the pandemic, remain unchallenged and highlight why now, more than ever, investors are moving capital from non-performing equities to prime commercial real estate.

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West End Leasing Market

As anticipated, momentum has continued to build in the West End office leasing market through Q2 2021, as London remained resilient in the face of the Delta variant and occupiers have been able to forecast with greater confidence their requirements for office space moving forward.

West End take up totalled 840,000 sq ft in Q2, which demonstrates a continued recovery. Whilst this figure is still some 25% below pre-pandemic levels, it is substantially improved from the 70% below market trend we saw throughout 2020. Encouragingly, demand for larger units (10,000 sq ft plus) has noticeably increased, with only 15 transactions making up nearly half of the total take up. Examples of these larger transactions include IBM securing 132,000 sq ft on a sublease from Shell at Southbank Place, ITV securing 120,000 sq ft at the BBC's former Broadcast Centre and Babylon Health securing 65,000 sq ft at One Knightsbridge.

In terms of supply West End vacancy now sits at 6.9% of total stock. Whilst this is still some way above the pre-pandemic vacancy level (c. 4% in Q1 2020), this demonstrates the first reduction in space available quarter on quarter for over a year (7.0% Vacancy in Q1 2021). This stabilisation has been driven by an uptick in leasing activity combined with occupiers beginning to reabsorb space that they had placed on the market previously as the move towards ending restrictions brings into focus their occupational requirements. Speculative new supply remains limited across the West End. A further 930,000 sq ft is scheduled to complete in the remainder of 2021, the vast majority of which is refurbished accommodation, with the only new build over 50,000 sq ft being completed at Soho Estate's Ilona Rose House.

Prime rents continue to remain resilient and with increased activity this quarter clearly evidencing occupiers desire to secure the best space available. Grade A transactions accounted for 45% of all activity in Q2.

Moving forward we see occupier demand continuing to recover in the West End, moving closer to the long term average levels of activity towards the end of the year. This will be driven by a combination of larger occupiers executing occupational strategies for longer term leases at new HQ buildings, and others favouring more flexible leasing alternatives which limit substantial capital expenditure. The one overriding theme is that quality continues to be king and premium product will continue to drive improved headline rentals.

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West End take up totalled 840,000 sq ft in Q2, which demonstrates a continued recovery

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National Investment Market

The easing of the Covid-19 restrictions has started to filter through to commercial property transaction volumes. Q2 2021 proved a buoyant quarter with transaction volumes up significantly on Q2 2020.

2021 transaction volumes for the entire UK market were as follows as of 6 July 2021:

Full year 2020	H1 2021	Q2 2021
£43.49Bn down 14.39% on 2019	**£20.572Bn** up 4.62% on H1 2020	**£10.79Bn** up 233% on Q2 2020

Retail

Is it yet a new era for the retail property market? Perhaps not just yet, but we are heading in the right direction.

There have been two major contributing factors to the increased positivity among investors in recent months: easing of lockdown restrictions and re-based rents.

The opening of non-essential shops in April and the positive outlook has helped to revive the retail take up in stronger locations, with secondary retail still lagging behind. With recent news about scrapping restrictions and a return to normality, we can expect even more positivity in Q3, in a sector that has been struck the worst by the pandemic.

With a view to providing retail tenants with a lifeline to operate a profitable business a large number of leases and rents have been renegotiated. Property companies and asset managers have identified that receiving rent, even if reduced, is better than defaulting payments of higher rents.

We have seen these assets with rebased rents perform better in the market, where a more sustainable agreement has been reached with the tenant.

Finally, the reduction in the supply of retail space will help to underpin the market. The millions of sq ft of department stores that are being repurposed as well as the extremely low level of new construction are perhaps a necessary evil to reset the retail market and perhaps condense the High Street.

However, we cannot ignore the rent moratorium which has now been extended until March 2022, which delivered another blow to landlords who own retail assets. Retailers have of course welcomed this, but in our view, there needs to be more action from the Government and local councils to protect, revitalise and re-energise High Streets.

Notable deals in Q2 include: 650,000 sq ft Touchwood Solihull Shopping Centre, sold for £90M /10% NIY, Tesco Superstore in Colchester achieved £63M reflecting 4.5 NIY with 19 years unexpired and a parade of 5 shops on Union Street in Bristol, which sold for £10.19M reflecting 8% NIY.

Offices

On the back of a subdued Q1, the appetite for office investment heated up this quarter seeing £4.2Bn transacted across the sector. It reflected a 200% improvement against Q2 2020 transaction volumes, showing further evidence of a renewed confidence in the sector as lockdown restrictions begin to ease and the sentiment around office work continues to improve.

The largest regional office transaction of the quarter was a deal agreed at the end of Q1 in which Global Net Lease bought the McLaren HQ in Woking for £170M. Notable other transactions included the Capitol Building in Bracknell achieving £44M (7.65% NIY) and the Pearson Building in Maidenhead, which traded for £26.025M (6.86% NIY). Life sciences continued to see heightened demand as two deals transacted across both Cambridge and Oxford Science Parks achieving a total combined value of £70.5M.

Industrial and Logistics transactions remain exceptionally strong with several high profile portfolios

Retail Warehouse

Q1 2021 saw the introduction of the UK's third national lockdown and subsequently saw a subdued investment market totalling £275.45M. As restrictions have eased this quarter, sentiment and transaction volumes have risen substantially to £805.84M, reflecting a 192.5% increase on Q1 figures that included 6 transactions in excess of £40M.

A portfolio transaction was the main driver of the uptick in volume this quarter, as Brookfield Asset Management purchased 7 retail parks from Hammerson Plc for £330M ranging from Falkirk to Telford. Brookfield also purchased two further retail parks in Nottingham and Waterlooville from Nuveen Real Estate for £75M. Other notable transactions included a £43M portfolio sold to a private overseas investor from Harbert European RE Fund reflecting a 10.8% NIY and £90.85 per sq ft cap rate and Castle Vale Retail Park, a c.182,000 sq ft scheme anchored by Sainsbury's which sold for £60M to Realty Income Corporation in June. British Land was also active this quarter, purchasing A1 Retail Park in Biggleswade for £49M reflecting 8.5% NIY. Allsop received good interest in and are under offer on the sale of Neasham Road Retail Centre in Darlington on behalf of Investec.

Industrial

With the sector going from strength to strength, it comes as no surprise that transactional volumes reached another record level in Q2 2021. With in excess of £3Bn of deals transacted over the past 3 months (35% above the 2020 monthly average), the sector comfortably retains its status as the undisputed poster child of UK commercial real estate.

It was not only transactional volumes breaking records but individual lot sizes too. Q2 witnessed a string of £100M+ industrial deals transacted or coming to market as some landlords (and occupiers) decided to cash in on this booming market. On the buy side, Blackstone continued to lead the charge having acquired the Albion Portfolio (31 industrial and trade counter units) for £285M as well as agreeing to buy St Modwen for £1.27Bn and more recently Asda's network of 35 distribution units £1.7Bn. Other notable deals include; Amazon's 1M sq ft Fulfilment Centre in Bardon acquired by Savills IM for £161M and Aberdeen Standard's forward funding of the Next Retail Distribution Facility in South Elmsall for £114.8M.

Supported by a buoyant occupational market and arguably limited prospects in other commercial sectors, we continued to see new entrants to the already hotly contested industrial market. This growing pool of investors, supporting a huge weight of capital, is putting further pressure on yields with prime logistics now fully established in the mid 3%'s and prime multi-let comfortably sub 4% (equiv), both moving in 75 bps+ over in the past 12 months.

Given the latter part of year traditionally reflects stronger performance in the industrial investment market, 2021 will inevitably be another record year with volumes forecast to easily surpass the £4.7Bn transacted in 2020. With lack of opportunity and pricing barriers leaving landlords reluctant to sell, the only threat to the industrial investment market remains supply.

Portfolio

Q2 portfolio transactional volume totalled just over £3Bn, which is the highest level recorded since 2018, further cementing the recent successes of the market. Variety is the theme of this quarter with the market slowly shifting away from the well-established focus on industrial and alternative sectors to office and retail warehousing uses. As we continue to move away from the Covid-19 restrictions in place during the first half of 2021, many of these sectors are presenting a compelling choice for portfolio investors.

In the retail warehousing sphere, Alpha Portfolio purchased by M7 Real Estate for £69.9M (7.25% NIY) showed considerable yield compression for good quality parks in Scotland and the North West of England which, had it traded during the height of the pandemic would have told a very different story. As we are also seeing in the individual Private Treaty market, the sector is rapidly becoming one of the most sought after.

Industrial and Logistics transactions remain exceptionally strong with several high profile portfolios traded including Mountpark Logistics (£93.77M – 4.56% NIY), purchased by M&G Real Estate, Project Iron (£111M – 5.9% NIY), purchased by Liberty Property Trust and Bluebell Portfolio (£39.05M – 6.9% NIY), purchased by Blackstone Real Estate (JV). Whilst we name just a few, the sector has established a stable yield profile generally in the 5.0%-6.0% NIY territory and it is exceptionally challenging to find higher yielding industrial portfolios, despite ever-strong demand.

Looking towards the latter half of the year, office markets are looking enticing too as occupiers continue to increase staff levels, arrears are settled and we find ourselves in a new working landscape, which it is now clear offices will continue to contribute towards. The High Street retail sector has yet to re-start trading in significant volumes within the portfolio market but again as society re-opens, so too will this sector grow in popularity at a revised price base.

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Commercial Auction Market

We have sold £238M this year, and volumes continue to climb as we go to market with the 20 July 20 2021 catalogue with 34 lots guided at more than £1M

Q2 in the commercial auctions market in 2021 started against the background of a modest Q1 where the market was still slightly nervous.

The statistics showed some tremendous growth this year, with industry wide revenues up over 100% year on year when many Auctioneers cancelled their sales in the early days of lockdown.

Allsop continued to trade throughout last year and our Q2 volumes rose to £138M, selling over 200 lots, an 87% increase overall and with an average success rate of 88%. We have sold £238M this year, and volumes continue to climb as we go to market with the 20 July 20 2021 catalogue with 34 lots guided at more than £1M.

We reported the first Shopping Centre sale of the year in West Orchards, Coventry at £3.85M in the last update, that sale marked a turning point in the market as buyers are chasing the high yields and diversification on offer - we have now sold over £15M of Shopping Centres this year. The latest was The Swan Centre, Kidderminster which sold at £3.305M in the May auction, having already been in the market for some time with buyers suggesting a price of less than £2.5M.

The market competed hard for it and in the same sale two other centres were sold.

There was an interesting test of the market response to the sale of an investment let with the rent set at just 5% of turnover in Guildford; Lot 76 in May. This was one of the first turnover rent investments to be offered at auction, in a strong location. During the peak of lockdown the new letting terms produced of an income over £2,387 for Q2 2020 against the original rent, prior to the tenant's CVA, of £226,000 pa.

The market responded well and it sold at £1.16M/ £385 per sq ft – the most useful measure as the initial yield was irrelevant.

Lot sizes have been continuing to grow as sellers are taking advantage of returning confidence across all sectors, some of which are shown in the following examples.

Lot 32 May: **Salisbury -** this was a trade counter and office investment of 26,785 sq ft in all across ten buildings. This sold on behalf of a fund at £3.1M / 5.75%.

Lot 23 June: **Haywards Heath -** a mixed use building with three commercial tenants and ten flats proved the popularity of mixed use assets in good towns, selling at £3.305M / 5.3%.

Lot 46 June: **Knaresbrough -** a secondary multi-let industrial estate of 37,420 sq ft sold at £2.86M / 7.2%.

Lot 67 June: **Crawley -** a mixed use investment of two shops and seven flats which was re offered from the September 2020 auction when it failed to sell, off the same guide and reserve price of £1.9M achieved £2.05M / 7.6%.

A further test and useful indicator for the market has been the sale of two portfolios of High Street assets, mostly let to either Boots or Santander.

The Boots portfolio is largely held on 5 year lease terms; 47 have been sold at an average of £606,000 with £27.8M raised in all, at an average yield of 6.7%.

The Santander portfolio was a little different with some better and some much worse locations with letting terms generally of 5 years term certain and some vacant. 67 have been sold at an average of £476,000 and 7.7%.

The latest catalogue release in July is dominated by London and good South East towns and considerably higher lot sizes which will bring the average yield down substantially.

Overall, our reading of buyers is that they are gaining confidence by the day, and beginning to take advantage of the availability of inexpensive debt and the obvious yield gap.

If inflation does increase as some predict, this will not impact this demand as the key to buyers' confidence is continued growth which seems to be well established.

The market has received our most recent catalogue with enthusiasm and we feel this will continue for the foreseeable future with strong appetite for larger lot sizes across all sectors where the fundamentals are resilient.

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Residential Auction Market

The residential auction market has proved remarkably resilient in the first half of this year. This resilience may in part be due to the stamp duty holiday. However, as tax concessions are phased out, we are seeing few signs that activity will subside.

Over four online sales so far in 2021, the firm has raised over £188M with a success rate of 85%. During the same period last year, £143M was raised with 83% sold.

Our first sale of the second quarter was held on 13 May and has raised in excess of £42.5M at the time of writing. 86% of lots offered have been successfully sold so far. May's result marks a 36% increase on May 2020's total. The highest value lot of the sale was a three bedroom apartment in Maida Vale which was knocked down for £1.28M.

The highest profile lot of the May sale was Kinmel Hall, Abergele, north Wales. This Grade I and II Listed mansion and stable block was inspired by the Palace of Versailles. Designed by English architect William E Nesfield, it is a fine example of a 'calendar house', having 365 windows, 122 rooms and 12 entrances. Built in 1874 on a much larger estate, it was sold with reduced grounds of 17.5 acres. Sitting on the edge of Snowdonia National Park and within sight of the north Welsh coast, Kinmel was originally commissioned as a private home. It served as a military hospital during both world wars and has since been used as a health centre, a girls' school and a conference centre. After competitive interest from around the world, it was sold to a local buyer for £960,000.

Further notable lots from the May sale included a freehold Grade II Listed building in Paddington, London which sold for £1.1M, and a pair of freehold mixed use buildings comprising two retail units, four self-contained flats and an office unit in Horley, Surrey with redevelopment potential which sold for £791,000.

In total 1,145 bidders were registered for the sale and almost 4,000 online bids were placed during the day. The sale was held as lockdown restrictions were eased and the UK vaccination programme gathered pace. This, coupled with the extension of the stamp duty holiday, helped to maintain optimism in the market and the wider economy.

Six weeks later on 24 June we held our fourth online sale of the year and confidence in the market was as strong as ever. The total raised is currently in excess of £44M with 92% of lots offered now sold. Post auction deals are still progressing. The level of activity and final result were particularly encouraging in the light of the fact that bidders would only have benefitted from the tapered stamp duty nil rate band up to £250,000 (£500,000 for completions prior to 1 July).

> Over four online sales so far in 2021, the firm has raised over £188M with a success rate of 85%

The most valuable lot of the sale was a freehold detached former office building in Haywards Heath, West Sussex, with prior approval for change of use to provide 76 apartments. It was sold prior to auction for a figure substantially in excess of its £7M guide price. The largest lot to sell on the day was a freehold building arranged as two self-contained maisonettes in Wandsworth Common, London which went for £1.5M. A vacant leasehold site in West Drayton with ten garages and planning permission for a pair of two bedroom semi-detached bungalows was the most popular lot of the day. With over 40 buyers registered to bid, and a total of 283 bids placed on the day, the lot was sold for £408,000. It was originally guided at £125,000.

We are now working towards our first ever August sale on the fifth of the month. Traditionally, a sale at the height of the summer season had been avoided. But online sales and advanced technology have enabled bidders to participate so much more easily from anywhere in the world. Many will be staying in the UK in any event due to overseas travel restrictions and ongoing quarantine requirements. We do not see the enticement of well-priced opportunities being any less powerful in August and look forward to continuing depth of demand for residential assets as we enter the second half of the year.

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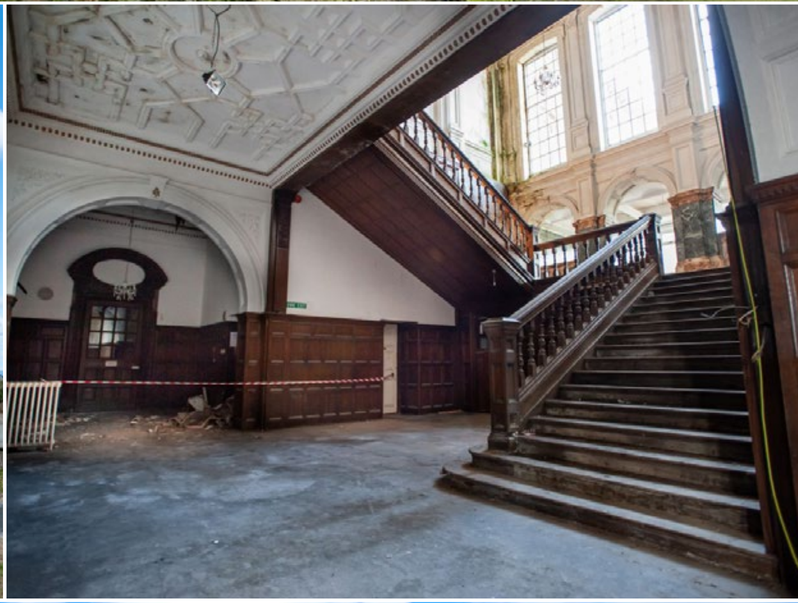

09

> Increasingly, investors are expanding their net, happier to consider previously overlooked locations

Residential Transactional and Living Markets

Investment

With lockdown beginning to ease and the vaccine rollout going so well, there were encouraging signs of even more confidence across the residential investment sector in Q2 2021.

Regionally, the market has continued in the same vein with the same resilience we have witnessed over the past year. This most recent quarter has seen a handful of exchanges / completions on typically higher yielding asset management opportunities in the sub-£2M bracket. Increasingly, investors are expanding their net, happier to consider previously overlooked locations. This shift in investment criteria has seen gross yields hit 7-8%, whereas previously we would expect the same opportunities to sell in the region of 8-9%.

Two stand-out larger deals are that of Celtic House, Derby and Eastbrook Hall, Bradford, selling for approximately £7.5M and £5.2M respectively. The market for opportunities between £5M and £10M typically provides for a smaller pool of investors, however we received a handful of bids across both opportunities, further proving the resilience of the residential investment market.

In London, a couple of mixed commercial and residential sales stand out. Timing to launch both instructions was key. In each instance we had the mandate to launch the sales much earlier in the year but patience proved the right tactic, being timed to commence in line with the easing of Lockdown 3.0. The hoped for initial rush and desire to deploy funds proved to be the case.

Kingston Road, Raynes Park and York Way, Camden both comprised ground floor commercial units (office and retail) but the vast majority of the income and value add angles in each instance came from the residential upper parts. Neither property had ever been in the market before and investors from all manner of property backgrounds, private family offices, traditional property companies and more institutional ones made the effort to come and inspect and to place offers. Gross yields achieved were sharp, reflecting 6% and sub 4.96% respectively with sale prices of £8M and £14M meaning some very satisfied buyers and equally as satisfied vendor trustees in each instance.

Another particularly interesting example is the sale of a portfolio of 22 buy-to-let properties located across London. Marketed using our unique hybrid private treaty and auction method of sale, a portfolio buyer was flushed out by the healthy 6.5% gross yield and a sale agreed in excess of the £7.5M asking price. Completion on the stamp duty deadline of 30th June made for a nervy ending but there were £105,000 worth of reasons to get this sale in before the deadline and once again, a very happy buyer and vendor !

Income is undoubtedly the key ingredient and driving this market at the current time. If some `value add' angles can be included with the deal then the market will immediately sit up and take note. Some premium prices are being achieved and yield compression is inevitable whilst interest rates are expected to remain at historically low levels.

Looking forward to Q3, a number of new UK wide instructions are being prepared for launch showing vendors' confidence not only in us but in the strong demand as mentioned in the few examples above. Is now a good time to sell ?..........yes it certainly is.

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Development

The market awoke at the end of Q1 and this continued into Q2 as we saw increased activity within the residential market as a whole. Transaction levels saw a significant increase on Q2 2020, which is unsurprising considering a year ago we were at the start of a worldwide pandemic, but this quarter shows that we are in a much more positive world, motivated by less stringent lockdowns and the drive to vaccinate the country.

This has inevitably led to increased market confidence. The extension to the Stamp Duty threshold also meant that there was a flurry of activity in order to get transactions over the line before the end of June. This suggests that the market may subsequently be slightly subdued with the pace of growth and demand slowing slightly and returning to more sustainable levels as the rush to meet this deadline passes. However this activity has clearly provided developers and investors with increased confidence in the residential market as a whole as we are seeing a significant amount of equity looking for value add opportunities, with sensibly priced assets receiving a significant number of offers.

> While there is good demand from developers for opportunities, it is clear that there is caution around increased build costs and planning reform / delays

Regional consented sites are in high demand by the larger house builders who are looking to capitalise on the increased regional demand. We have seen this first hand with the disposal of a 240 dwelling site in North Yorkshire on behalf of our retained client Keyland Developments (property arm of Yorkshire Water), where we received a number of unconditional offers at a highly competitive level from PLC house builders.

The Government has set a priority to help more people onto the housing ladder although the Own Your Home campaign, the new Equity Loan scheme, restricted to first-time buyers, only came into force in April 2021 and lasts until March 2023 with the aim of allowing purchasers to get on the housing ladder with a smaller deposit. We are seeing certain developers taking this into consideration within their pricing, especially with house builders in more regional locations where the thresholds have an impact upon the capital values that are achievable.

While there is good demand from developers for opportunities, it is clear that there is caution around increased build costs and planning reform / delays. This appears to be creating increased opportunities for housing associations and build to rent developers who are in the position to de-risk their sales exit enabling them to be more competitive in certain locations while the typical house builders still seek their traditional margins. Alternative users have also been more prevalent with greater competition for land from the industrial and owner occupier market.

However increased labour and material costs, alongside sustainable planning reform and an increased focus on health and safety restrictions are all contributing factors for increasing build costs which affect all parties.

On 5 July 2021 the Government published it's Building Safety Bill looking to establish a new 'Building Safety Regulator' (BSR) to scrutinise planning applications for high-rise buildings earlier in the development process. Fire Safety issues will be brought into the planning system for the first time nationally with the legislation due to come into force from 1 August 2021 and will be applicable to buildings in excess of 7 storeys. This will likely add additional costs for developers in both the planning and construction phase. It is anticipated that the legislation for PDR (Permitted Development) schemes will also likely be amended to require the submission of fire safety information with LPA's requesting advice from HSE on the fire safety elements of the proposals.

However site completions have increased and units are selling and there is a continued shortage of stock. With continued demand and a wealth of purchasers seeking development opportunities, land prices continue to be resilient. It is expected that there will be a significant number of opportunities coming to the market over the coming months to feed this demand as vendors release sites which have been 'on hold' during the pandemic.

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As travel restrictions look set to ease there is optimism looking towards September that international students are able to return without impact

Student Housing

Albeit that Q2 has felt a little subdued with lower transaction volumes than in comparison to other quarters gone by, there is clearly still a desire to look beyond the immediate uncertainties and return to normality. Despite uncertainty surrounding issues such as international travel and new Covid variants, investor appetite is still there for the student sector with focus remaining on accommodation with value add potential, affordable rental levels, prime regional university towns and cities and for opportunities in the HMO sector. There seems to be a continued weight of money from local and high net-worth individuals looking to enter the arena, particularly lot sizes of £1-£5m.

The continued investment appetite is no better demonstrated than by the recently launched Apollo European Core Plus platform. Apollo is closing in on the acquisition of the Jewel Portfolio comprising 1,655 beds, across three CRM operated buildings, in Cardiff, Norwich and Portsmouth currently owned by Crown Student.

One of the most significant deals of the quarter has been the acquisition of Nido West Hampstead. This 347 bed block, owned by Round Hill Capital since 2014, was purchased for £124M by IQ Student reflecting a reported NIY of c. 4.3%. Low stock levels in London resulted in strong competition for this asset demonstrating the confidence in the London student market. Unite Student also reported the sales of two London assets to its London Student joint venture with GIC. A total of 1,358 beds located in Wembley and Whitechapel at an approximate NIY of 4%.

Forward fund and commit opportunities in well regarded higher education destinations remain popular as they overcome immediate uncertainties in respect of occupancy and rent collection for the forthcoming academic year.

In Nottingham, Nottingham City Council has agreed a subject to planning deal of a City Centre site to Watkin Jones for £40M. The developer proposes to build 357 student bed spaces on Lower Parliament in the Old Lace Market with an agreement to lease back to the council.

The requirement for long income remains strong, particularly from institutions, especially where there is fifteen or more years of income certainty. This has been demonstrated by the fierce competition from institutions for St Marks Village in Lincoln let to the University of Lincoln for 21 years on an index-linked lease. Seeking offer in excess of £30.35M, the investment is rumoured to be under offer in the late thirties.

Recent positive news from Unite that its portfolio is 83% forward-let for academic year 2021/22, coupled with 2-3% rental growth is a positive barometer for the sector. This performance reflects positive news reported by UCAS in the past week as a record number of students applied for University by the June 30 deadline. With 682,000 applicants, this is a 4% increase on 2020 with offers made by Universities (1,998,690) also up by 6%.

The numbers are boosted by UK 18 year olds of whom 311,010 applicants made 1,474,900 applications – a notable 12% increase from 2020. It was reported that there has been a notable rise in applications for the most selective universities, which continues to reflect investor preference for opportunities in higher performing university destinations. We can see this in the yield disparities between super prime and prime destinations vs secondary and tertiary destinations, where the gap is becoming more defined.

Finally, as travel restrictions look set to ease there is optimism looking towards September that international students are able to return without impact – certainly Universities themselves are working with the Government to arrange testing and isolation procedures with both keen to secure a working solution. Outside of the EU, international student numbers - according to UCAS data - are up 14%, with a very notable 16.6% rise from China. Demand is evident and not in question, there just remains the question of logistics in the short term.

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Build to Rent

The BTR market has become even more competitive for institutional grade assets as investor interest grows in part due to the counter cyclical dynamics the sector has shown. The regions have proven particularly attractive, which has been aided by the operating assets in those areas showing strong occupation and new rental levels being established as better quality product is offered to the market.

A growing number of purpose built multi-family BTR schemes are now opening up across the UK and are showing strong take-up and rental levels. This is indicating that there is a strong desire from residents, generally 23 – 35 year olds, to live in good quality rental accommodation with cohesive communities where residents can feel secure with longer term tenancies. Community engagement, technology and security, which has been utilised by BTR operators through this past year, is now one of a resident's top priorities when looking for a new home according to HomeViews.

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 188,456. The regions continue to grow their margin over London in terms of the number of BTR homes, accounting for approximately 105,722 with 82,734 in the capital.

Q2 2021 has seen significant investment in the BTR single-family housing market with PGIM acquiring a 433 unit portfolio of homes from Wise Living. Located in seven cities and towns across the Midlands and the North of England, the portfolio comprised five stabilised assets and three development sites. We anticipate the size of the BTR single-family housing market to grow exponentially over the next two to three years.

Activity of note within the BTR multi-family market this quarter includes; Grainger agreeing to forward fund Becketwell, a BTR apartment scheme in Derby, being delivered by St James Securities. Allsop advised St James Securities who will deliver the 259-unit scheme, which forms part of a mixed-use regeneration development in Derby city centre; Catella has forward acquired The Arches in Leicester, a 184-unit BTR scheme being developed by Watkin Jones, due for completion in August 2021; Grainger has acquired The Forge in Newcastle for c.£57M. Formerly owned by Moorfield, the scheme comprises 283-apartments, with 3,500 sq ft of internal amenity – including an on-site gym, residents' lounge, entrance lobby and flexible co-working space – The Forge has been operational since 2019; Greystar has purchased a site in York Road, Battersea from Big Yellow for £31M and are now working up a 500-unit scheme; PIC has forward funded Amro Partner's 278-apartment, £90M BTR scheme in Ealing – 197-flats will be private with the remaining provided as DMR units, a mix of a discount from market rent and at London Living Rent; Heimstaden Bostad AB has bought 752-flats at Soho Wharf, Birmingham for £160Mfrom Apsley House Capital and Galliard Homes, the latter will be retained as developer; Watkin Jones has been granted permission for a 551-unit BTR scheme, Maker's Yard, in Birmingham city centre.

Yields remain strong for well-designed multi-family BTR stock in prime, practical locations; in London and strong south east locations, NIYs range from 3.25% to 4.00%, with major regional centres at 4.00% to 4.50%. Secondary locations are in the region of 4.50% to 5.00% NIY. NIYs range from 4.25% to 5.00% for single-family housing schemes in the North West, Midlands and Yorkshire regions. We anticipate activity in the south east and south west over the coming 12 months where transactions are likely to challenge the 4.00% NIY threshold.

Having showcased its robustness throughout the turbulence of 2020, the BTR sector has had a strong first half of 2021 and we expect this to continue through the second half of the year.

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Q2 2021 has seen significant investment in the BTR single-family housing market with PGIM acquiring a 433 unit portfolio of homes from Wise Living

Letting & Management

Demand in the rental market is at an all-time high with the number of new prospective tenants registering per branch increasing to 97 in the month of May according to Propertymark. This is a jump from 82 in April and continues the upwards trend from just 70 new prospective tenants on average per month during 2020.

This movement is no more apparent than in Manchester with all three Allsop managed Build to Rent (BTR) developments experiencing high enquiry and lease up rates. At Vox, which welcomed residents from January, we saw 37 lets agreed in the month of June, and at the time of writing Duet has 27 planned move ins over the next 5 weeks with 47% of viewings turning into offers. The market shows no sign of slowing down at The Trilogy either, with an average of 25 viewings taking place per week in June.

On the 11 June Grainger Plc purchased The Forge, a stabilised BTR asset in Newcastle, which ALM has managed since the building's completion in 2019, for £57M from Moorfield Real Estate Fund III. This is Grainger's first BTR investment in their home city of Newcastle and we are pleased to continue managing this high performing asset during the transition phase, before owner operator Grainger bring the management in house – in line with their overall strategy.

In the same month, ALM announced Liverpool's iconic waterfront development The Keel will be undergoing a refurbishment to transform its communal areas and services. The re-design will bring a new residents' lounge as well as state of the art co-working spaces. ALM has already project managed a number of positive changes since it took over management last year, improving The Keel's carbon footprint by switching to a green electricity tariff, utilising solar panels and installing new energy efficient LED lighting.

Lesley Roberts, Executive Director of ALM and Allsop's Build to Rent Partner launched the first of her quarterly columns with BTR News. Writing on the need for diversity within the sector, Lesley explained how this would help to keep creating unique spaces that attract those from all demographics and challenge the perception that BTR is only for 20-something professionals in high-rise apartment blocks. Lesley also teamed up with fellow Build to Rent Partner Andy Pointon to discuss how the BTR market has evolved during the pandemic and the lessons learned. Away from the written word Lesley took part in Deverell Smith's New Lease of Life podcast where she discussed what it takes to run a successful and long lasting OpCo.

As optimism from the consumer and investor grows, we expect the market to continue to thrive over the summer as businesses open up and cities come back to life.

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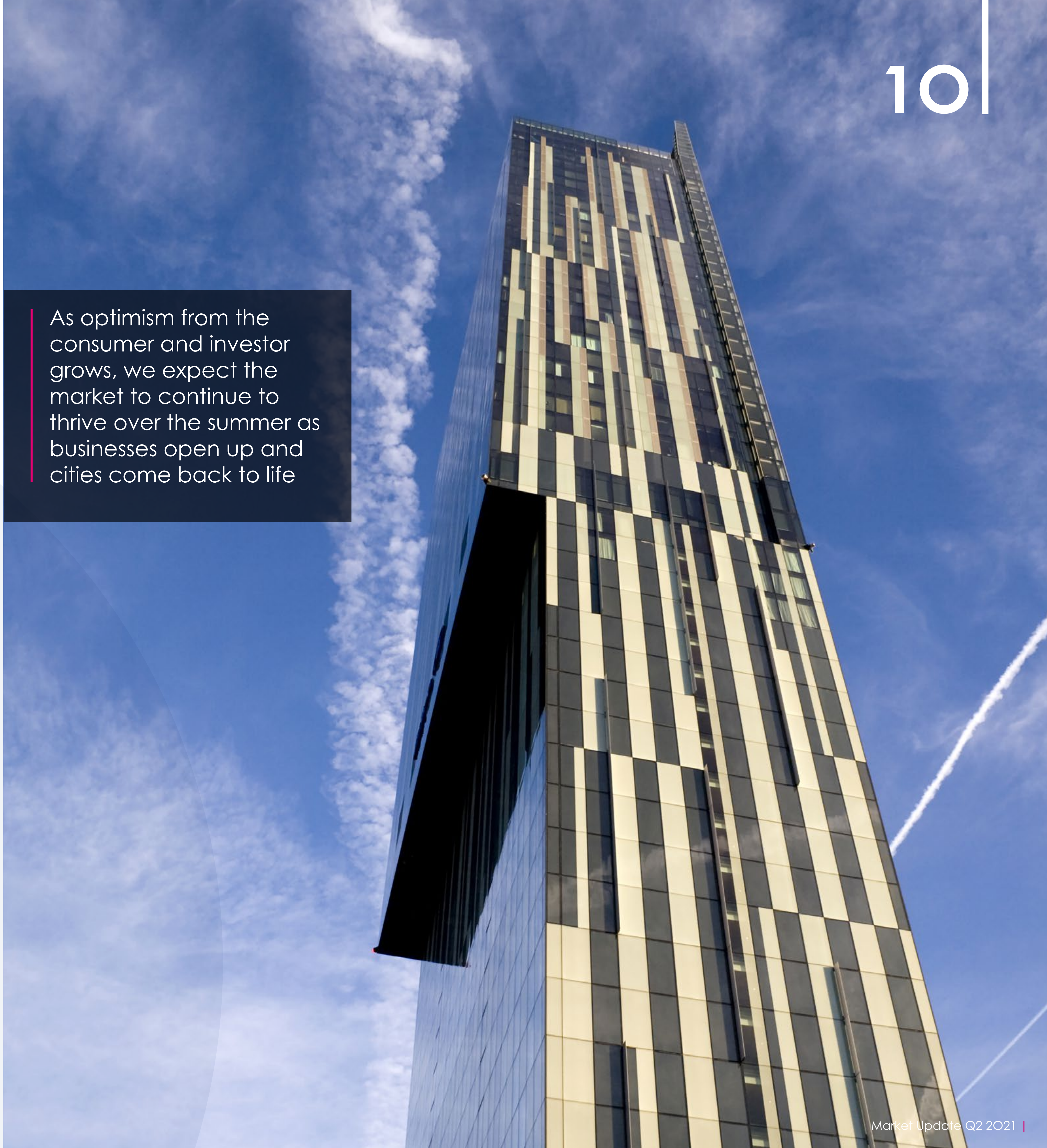

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Market Update Q2 2021 |

Business Rates

> The Government has just launched a formal consultation document in relation to making Business Rates Revaluations more frequent

More Frequent Revaluations

As part of the ongoing "Fundamental Review of Business Rates" the Government has just launched a formal consultation document in relation to making Business Rates Revaluations more frequent. This consultation proposes that Revaluations take place every three years instead of the current system of five to ensure they better reflect changing economic conditions. The Financial Secretary to the Treasury Jesse Norman commented that "Proposals set out in this consultation would mean that valuations more quickly reflect how the economy is performing, making the business rates system more accurate and responsive".

A number of fundamental changes are proposed however to enable the Valuation Office to cope with the requirement to carry our Revaluations every 3 years.

- Duty to Notify - Annual confirmation return – all ratepayers will be required to access an online portal on an annual basis to confirm that the Valuation Office data held for all their properties is correct. This introduces a significant new burden on ratepayers.
- Mandatory provision of lease information – all ratepayers will be required to provide the lease details and other supporting information for all their properties. Penalties will be levied for missed deadlines or provision of inaccurate or false information.
- 3 month window to appeal - Ratepayers will be given a 3 month deadline to appeal their Rateable Values following a Revaluation. If a new occupier takes over a property after the deadline then they would be given the ability to make an appeal within three months of the start of their occupancy.
- Material Change of Circumstances appeals – the Government is considering reviewing when Material Change of Circumstances appeals can be made in order to reduce the work of the VO and to limit the cost of rates reductions to local councils
- Restrictions on who can appeal - The Government is considering only permitting appeals to be submitted by the ratepayer or their agent and preventing appeals by landlords unless the property was vacant
- Fee to submit an appeal - The Government is considering introducing a fee for submitting an appeal. The fee would only be refunded if the appeal outcome was a decision in favour of the ratepayer.
- Two year valuation gap - All previous revaluations have incorporated a two year gap between the valuation date used for a Revaluation and the date the Revaluation is introduced – i.e. the current 2017 Revaluation is based on values prevailing in 2015. Despite calls for this two year gap to be reduced to make valuations more up to date the Government have decided a shorter gap is not deliverable at this time.
- Rental Evidence – at present the VO do not notify a ratepayer of the rental evidence used to support their valuation of a property. The Government has finally recognised that provision of this evidence is important and have set out longer term plans to provide this to ratepayers. The Government is however considering levying a non-refundable fee for providing this information.

If introduced the proposed changes would represent a radical change to the Business Rates system. In recognition of this the Government is proposing to phase in the changes over two Revaluations. The consultation paper was unfortunately vague as to what measures would be introduced for the 2023 Revaluation and which would be held back until the 2026 Revaluation.

Although the proposal to hold Revaluations more frequently is welcomed it comes at a substantial cost to ratepayers with significantly increased burdens to provide detailed information to the Valuation Office coupled with reduced rights of appeal and charges to even submit an appeal. The outcome of the consultation is due to be announced in the autumn.

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- Letting & Management
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- Receivership
- Student Housing
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