all

NEWS AND VIEWS FROM **ALLSOP**

SPRING/SUMMER 2021

RARE

Hello

As a few of us tentatively venture back to either our city or business park offices, there appears to be much to look forward to and an opportunity to bring some "fun" back into our great industry. A year on from the ALL Spring '20' edition, life is very different and how we work has inevitably changed forever. The UK with its unbelievable vaccination programme is exiting out of the pandemic strongly. As we all come out of hibernation, there are now good opportunities to physically meet friends, associates, and business colleagues in pubs and restaurants. I highlighted recently in a column in one of the esteemed property publications how our sector is people and relationship driven. People in property and the inevitable socialising that goes on in our industry goes hand in hand with the reopening of hospitality. Many deals will be done over a beer or a glass of wine as well as in company boardrooms. Many of us have already sampled the opening of the F&B industry, braving the outdoor tables in low single digit temperatures but with smiles on our faces. So with the sun out, the firm predications for strong GDP growth in the UK for the next 2 years or so and life steadily heading towards the full release of lockdown by the 21st June, there is much to look forward to in our industry.

As many of you know, I do like my classic cars and it has taken until the eighth edition of ALL Magazine for us to legitimately be able to put a Ferrari 250 GTO on the front cover (not mine I hasten to add !). Nick Pemberton, in his article will reveal why, with a fascinating insight into the rarity of offices in London's Garden Squares and trophy assets. There are also interesting articles including … what will replace the empty department stores, how HMOs are often a misunderstood part of the market compared to the purpose built student accommodation market, through to ground rent reform and the changes to come, the pure resilience of the residential market over the last year, de-mystifying insolvency – a receivers perspective and guide and finally, a fascinating interview with our man in Hong Kong, Martin Kaye.

A truly packed edition with all our news and views!

Enjoy the read!

Scott Tyler FRICS
Senior Partner

Contents

Trophy assets
LONDON'S GARDEN SQUARES

The Ferrari 250 GTO is the most expensive car ever to sell at auction, achieving $48.5m in 2018. Produced from 1962 to 1964, only 36 were made, and buyers had to be personally approved by Enzo Ferrari before parting with $18,500, the original retail price.

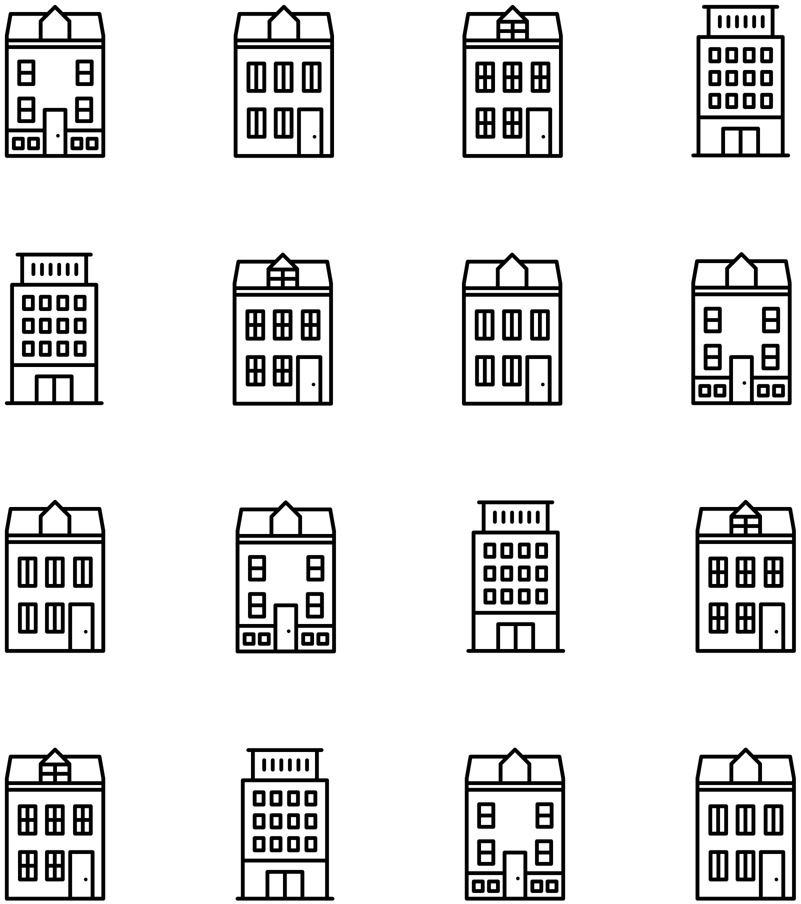
The rarity and desirability of certain assets has turned them into objects of status for hundreds of Ultra High Net Worth Individuals (UHNWI) worldwide.

With the continuing growth of the global class of super wealthy, many luxury items have progressively become more expensive, resulting in a highly competitive market. According to Forbes, in 2010 there were 1,001 billionaires with a total net worth of $3.6 trillion; 40% of them were in the USA and 6% in China. By 2020, the number of billionaires had more than doubled to 2,095 with a total net worth over $8 trillion. China's share has risen to nearly 20% during this period, and Asia's combined total to over 30%.

There are now over half a million people in the world with net assets in excess of $30m.

With interest rates at near historic lows across the UK, the US and the Far East, trophy real estate assets able to offer a solid income return are increasingly in demand, particularly in Tier 1 Global Cities such as London. Combine this with the international prestige of London, its super prime assets are well-placed to outperform the market over the long-term. It does not get more super-prime in the West End than a Bond Street shop or an office fronting a garden square.

“Allsop acted on both St. James’s Square buildings traded during 2020 totalling £440m”



Pink Floyd’s Nick Mason’s 1962 Ferrari 250 GTO

If you add up all the buildings in the three principal Garden Squares: Grosvenor Square, Berkeley Square and St. James’s Square, then take out the residential properties, clubs, institutional buildings and all the buildings held by the landed estates (Crown Estate, Abu Dhabi Royal Family and Grosvenor Estate) you are left with just 16 freehold office properties. Just 16. Half as many as there are Ferrari 250 GTOs.

Trophy status is evidenced by pricing; only two £100m+ London office buildings have ever traded for in excess of £3,000 per sq ft, both of these are located in St. James’s Square.

In 2020 Allsop represented Columbia Theadneedle Investments on the sale of one of these assets, 21 St. James’s Square. Our client had undertaken a comprehensive office development behind the listed façade to the highest standard. The building is fully let to two tenants at an average rent of close to £120 per sq ft with over 10 years of secure income.

Our marketing campaign has offered us huge visibility into the market for super-prime assets and highlighted the considerable depth of demand from UHNWI, whose confidence was not impacted by travel restrictions and the grip of the global pandemic. Following two rounds of competitive bidding the building was sold to Zara founder Amancio Ortega’s property company Pontegadea for £187.5m representing a net initial yield of 3.65% and £3,065 per sq ft. We calculated the combined wealth of the parties that submitted offers for the property to be in excess of £100bn.

Also last year, Allsop together with its Asia alliance Millennium Group, advised Hong Kong investor Lifestyle International Holdings on the £250m purchase of BP’s headquarters at 1 St. James’s Square. Our client plans to extend the building and create a truly exceptional business space that befits the address when BP vacate in a couple of years’ time.

“unique trophy property assets are finite in number”

There is only one London. Regardless of Brexit, the global pandemic and other turbulences, it remains a magnet for the global super-rich, who are increasing in number. They value the political stability, education and environment for doing business and entertainment that London has to offer. Unique trophy property assets are finite in number, London garden squares can command a premium and the most prestigious of these, St. James’s Square, is to offices what the Ferrari 250 GTO is to the car world.

Student HMOs: learn the tricks to reap the rewards

Whilst attending conferences, watching webinars and reading student housing reports, I cannot help but feel like the houses in multiple occupation (HMOs) sector is misunderstood and frequently overlooked. This omission continues to surprise me considering its wide geographical spread, the scale of investment it attracts and the demonstrable market value it carries.

According to StuRents, 71% of student accommodation (excluding university-owned buildings) is supplied by HMO, equating to 850,000 bed spaces, but the only type of student housing that's getting mainstream airtime is private built student accommodation (PBSA).

HMOs are not considered as glamorous as PBSA. A £35m PBSA deal is likely to gain a lot of media attention, while a bundle of HMOs worth the same is unlikely to generate nearly as much interest, which does not help raise awareness of the state of the market or help potential investors with benchmarking.

So how do you get comfortable making a move into the HMO sector in the absence of market information? We suggest starting with research, which should help clear the uncertainty around this often neglected asset class with a lot of potential.

Location factors

The distance to university campuses is often used as a metric which helps determine whether to buy an HMO or not. It is definitely worth taking into account, however, each university town/city is different, and in many instances, it is more important to understand what the most in-demand places for students are regardless of their distance to campus. Often the area in most demand benefits from good amenities – bars, restaurants, cafés, and coffee shops targeting the student demographic. The popular student area of Jesmond in Newcastle, where the centre is a 25-minute walk from Newcastle University, is an excellent example of this.

Market dynamics

Due to councils' decisions to impose **Article 4 Directions**, there is now a finite number of HMO properties in each city. Although extensions to existing student houses are allowed, turning a vacant family home into an HMO can be very challenging. Growth in the number of beds (and subsequent competition) is therefore constrained.

Trying to understand supply/demand ratios is complicated. You can tip the balance in your favour by getting the location right, but in order to carry out a comprehensive analysis of the student accommodation market, it is essential to consider both HMO and PBSA supply and 'live-in' student numbers. Only a data platform such as StuRents would be able to paint this picture for you, providing amongst other things, detailed supply and demand forecasts, as well as behavioural analysis covering various topics.

In any event, back your investment by targeting higher education institutions on an upwards trajectory – those with consistently high volumes of applications and students over a period of at least three years. Understanding the university's demographic can provide an accurate insight into the likely demand for PBSA and HMO.

Policies and regulations

There is no one size fits all approach. Policies and regulations vary depending on the council governing the area where you buy an HMO. One council will request a different sized kitchen and amenity space to another, which means you need to carefully examine local HMO requirements before making a decision.

Rental values

As a rule of thumb, HMOs are at least one step behind the average PBSA in terms of rental value in a given location. However, in reality, students are unlikely to go for a cheaper PBSA room if they want to live in a shared house and vice versa; their choice will be influenced by their vision for the student life they want to experience, regardless of marginal differences in cost.

So whilst having a nice buffer between the rental value of a quality shared house and a cluster flat in a PBSA development is comforting and valuable, it is by no means essential. HMOs compete with PBSA for tenants, which is why the two should be getting the same amount of attention within investment circles.

Discount or premium

This will depend on location. For the more sought after locations, discounts were prevalent in portfolio sales, however now we are at a point in time where portfolio sales reflect piecemeal sales, and we may be heading towards a place where premiums are justifiable in the context of HMOs being a finite resource. For less sought-after locations, discounts for portfolios still apply.

There are some caveats – understanding the bricks and mortar values as a sense-check is important, but again their significance will also vary by location.

"...their choice will be influenced by their vision for the student life they want to experience"

Buyers will quite rightly want to understand historical and existing OPEX, but in the HMO investment world, you are better off making your own assessment.

When it comes to bills, these are often calculated as part of the rental income. Be aware that these fixed costs are generally netted off the gross income before a suitable multiplier is applied.

Competition

Before embarking on an investment, you should consider what the competition is like in your area of interest. If all the local HMOs are of high-specification, could you bring a more budget-friendly option to the market and vice versa? Researching local competition will help you to work out your USPs and enable you to stand out from other HMO offerings.

Gross to net assumptions

These depend on many factors: localised efficiencies, using third-party property managers, letting and marketing strategies, service provision, and maintenance. The 'go-to' number is 25% excluding the cost of finance but that's not to say a portfolio running at 15% gross to net is not a true reflection of cost. The question should always be whether this is something you can replicate with your own resources.

There is a lot to take into account when investing in student HMOs – sometimes it feels like there are just too many moving parts and differentiating factors across the market. But HMOs can be glamorous, they are lucrative (if you get it right!) and most importantly, they will always be popular with UK domiciled students, and so, deserve their place next to PBSA.

Reimagining retail
what will replace the department store?

Department stores have traditionally been the beating heart of towns and cities across the UK. Offering customers a diverse range of goods under one roof for decades, they were synonymous with luxury and high standards of service. However, times have changed, and the combination of the growing popularity of online shopping, rising overheads and rapidly changing consumer habits have all proved detrimental to the continued success of these stores.

Debenhams, House of Fraser, BHS, Beales and John Lewis are examples of renowned department stores that have been headline makers for all the wrong reasons over the last few years, as retailers enter liquidation or try to consolidate their portfolio. As a result, plenty of buildings in prominent town centre locations are now vacant.

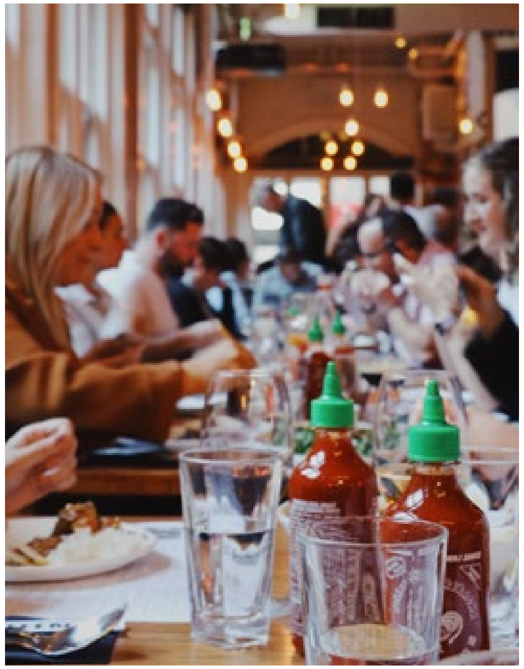
Making room for new concepts within tired spaces

The much publicised transformation of the former BHS on Oxford Street is a good example of what can be done to reinvigorate an outdated space. It has been turned into a mixed-use development, which includes a traditional ground floor retail unit, in this case, the first UK store of Polish retail chain Reserved, with the upper levels occupied by Market Halls West End, the largest food hall in London, and Swingers Crazy Golf Club.

Over the last two years, Allsop has been extremely active in the sale of former department stores. In late 2019 Allsop completed on the sale of the Beatties department store in Wolverhampton, most recently leased to House of Fraser, on behalf of the Receivers. This attractive, 140-year-old building located in the heart of Wolverhampton city centre is a much-loved landmark in the area.

The 375,000 sq ft store sits on a prominent 2.64 acre-site in close proximity to Wolverhampton University's campus. The building, despite its fantastic location, had its challenges, and when the lease to House of Fraser terminated, the landlord would have faced a rates liability of close to £500,000 per annum.

However, the owner managed to sell the building by offering it at a realistic price of £3,000,000 (capital value £8 per sq ft), which resulted in more than 80 enquiries and 10 bids. Ultimately, it was sold to a private investor who is planning to transform it into a mixed-use scheme incorporating retail and leisure on the ground floor, residential/student accommodation on the upper levels, as well as potentially securing a lease on the car park to an operator which would offer a secure investment going forward. An ambitious and time-consuming project, it has the potential to benefit the local community and create value for the buyer.



"the good news is that tired and redundant store buildings can be repurposed"

Last year, Allsop was involved in the sale of two Debenhams department stores; one in Hastings and the other in Worcester, both on behalf of Receivers. Hastings comprised a 100,000 sq ft store situated in a secondary position within the town centre – the construction of the Priory Meadow Shopping Centre in 1997 moved the prime pitch away from the store and affected its success. Despite a large, effectively vacant building in the heart of a seaside town which has been lacking in any inward investment for many years, this property attracted huge interest – 30 viewings lead to nine bids and the property eventually sold for £2,600,000. The buyer intends to maintain the retail use on the ground floor and create almost 100 flats within the upper parts – hopefully this approach will re-invigorate the town by bringing more people into the centre.

The sale of Worcester has just completed – this store was smaller, only 40,000 sq ft but is undoubtedly in the best retailing position in the City Centre. We managed to achieve the asking price of £2,250,000 (£47 per sq ft capital value) and the marketing cumulated in 25 viewings and six bids predominately from developers, many of them Birmingham based. The eventual buyer will be converting the store into an artisan food hall and spending £5m on the fit out. The proposed use is becoming a popular model for former stores – other food halls have been created in Hull (on the former House of Fraser) and Edinburgh.

Leaving a mark not just on buildings, but also communities

The UK has approximately 1,200 department stores. Before the outbreak of the pandemic, many were already struggling due to low footfall as a result of changing buyer habits. Lockdown and prolonged store closures have further exacerbated the trend, which means we are likely to see an increase in the amount of vacant large retail units in the foreseeable future.

The good news is that tired and redundant store buildings can be repurposed, helping landlords secure long income and breathing life into high streets across the country. What often becomes clear during the sales process is that Local Authorities, who often do not have the capital to take on a project themselves, are nevertheless eager to help and listen to the new owner's suggestions. Redundant shopping centres negatively affect the overall streetscape, which is why it is in everybody's best interest to agree on the best course of action as quickly as possible.

We live in an ever-changing world, and the built environment must reflect our changing habits and preferences, creating a more fulfilling experience for local residents and visitors. Solutions may not always be obvious, and some redevelopment projects will be more challenging than others, but they are often a unique opportunity to create value while benefitting entire communities for many years to come through the provision of new facilities.

BTR:
A Decade On

Delancey's landmark 2011 investment into the Olympic Village in Stratford was a watershed moment for the Build to Rent (BTR) sector.

This was among the first and most significant large-scale BTR investment in the country which resulted in an influx of institutionally backed investment into the sector. As we approach the tenth anniversary of this ground-breaking deal, we feel it is a fitting time to reflect on how far the sector has come in the decade since and where it might be headed in the future.

Growth in the sector

In 2011, around 1,400 units were scheduled for development at the Olympic Village, representing a significant proportion of the sector's total development pipeline across the UK at that time, which stood at approximately 10,000 properties. According to the latest figures published by the British Property Federation (BPF) in Q4 2020, there were 179,835 BTR units, including complete, under construction or in planning across the UK, which is an increase of 19% since 2019.

Status	Q4 2020 Totals
Complete	53,750
Under construction	37,050
In planning	89,035
Totals	179,835

Data supplied by BPF

The rise of the regions

In earlier years, London accounted for the biggest share of the total pipeline, with other areas of the UK consistently making up less than half of the total supply. However, in recent years the momentum has swung towards the regions, with the latest figures showing that they now account for 55% of total supply and pipeline. The number of units in planning in the regions grew by 42% in the last year alone, clearly signifying a change in sentiment within the sector. Higher returns, a more favourable planning context, and increased investor appetite are just some of the drivers behind this shift in geographical focus away from London.

This increase in demand and the strength of regional rental markets is having a positive impact on pricing, with investment yield compression of between 0.25%-0.50% in key cities such as Leeds, Manchester and Birmingham. Regional investment outside of these core cities is now increasingly popular, resulting in increased pricing in cities such as Liverpool, Glasgow, Sheffield, and Newcastle.

Examples of recent regional investment include Moda's £80m Holland Park, Glasgow, comprising 433 units. L&G recently agreed to fund a £57m, 245-unit scheme at Tower Works in Leeds, while Grainger is progressing its first BTR investment in Nottingham – a £55.6m, 348-unit scheme on Queen's Road. Federated Hermes and British Telecom Pension Scheme's build-to-rent platform Hestia, recently purchased a residential-led scheme in Brighton, the 229 unit scheme will also include 32,600 sq ft of office space.

Development diversification

As the sector matures, it is also becoming more diversified in terms of location, property type and target audience.

As explored in one of our previous blog/articles [(Why does suburban Build to Rent housing hold so much appeal for investors?)](), single family housing is gaining significant traction within BTR. This interest has been partially driven by shifting consumer preferences, priorities and lifestyles, in part, caused by the recent pandemic. However, the move towards a more family-orientated BTR product came well before the fallout of Covid, as the sector sought to expand its reach beyond only cities and fulfil the growing demand of a wider demographic of renters.

There is now a palpable demand for a more suburban, larger rental product with access to family associated amenities such as community facilities, health/wellbeing and cafés. The recent Goldman Sachs acquisition of a portfolio of build-to-rent family housing, comprising 918 units across the North West of England for £150m, is a symbol of the growing investor confidence in this sub sector.

Furthermore, BTR is benefitting from the challenges facing other asset classes across real estate. A prime example is high street retail stock, with former department stores being a particular focus following their decline in recent years **(Repurposing Retail)**. Hammerson and Packaged Living recently revealed plans to develop the Debenhams in Leicester's Highcross Shopping Centre into 300 apartments with co-working and resident amenities, while Allsop recently marketed the Debenhams in Staines-Upon-Thames which attracted strong interest from BTR developers and operators.

A key driver of this diversification is an increased variety of entrants into the market from both an investment and development perspective. The traditional early adopters such as M&G, Grainger and L&G, have now been joined by an array domestic and international investors. These new investors bring with them experience in a broad range of asset classes and expertise gained in more established international BTR markets.

Strong rent collections and stable occupancy rates throughout the pandemic period have meant the sector has become more attractive, suggesting a very positive outlook for BTR as we enter the next decade. On the demand-side, BTR property is likely to remain desirable as many people turn to renting as a choice rather than necessity.

> **"single family housing is gaining significant traction"**

PERMITTED DEVELOPMENT – A WINDOW OF OPPORTUNITY AND THE END OF AN ERA

Reform in its early days

The shake-up of permitted development rights in 2013 has allowed people to extend their homes and create new spaces in existing buildings, such as offices and shops, in order to speed up the construction of new homes. The amended General Permitted Development Order saw an extraordinary take-up by developers, with the most widely utilised amendment being the ability to change a building's use from office to residential.

Two years later, the government announced that permitted development rights to convert offices to residential would be made permanent, while giving local planning authorities the power to remove permitted development rights in their respective geographical area via Article 4 Directions, thus providing them with a greater degree of control and requiring developers to go through the standard planning permission process.

Since 2013, a variety of Permitted Development (PD) schemes have been brought forward, many of which are good-quality conversions, however, a number of newly converted properties have been deemed substandard due to their small size and the lack of natural light. This led the government to introduce a further requirement, announced in 2020, for all new PD schemes to provide adequate natural light and comply with minimum space standards set at a national level.

According to those rules, the gross internal area of any new home can be no smaller than 37 square metres. This now applies to any application submitted since ***6 April 2021***.

These announcements have been welcomed by many and arguably help ensure a certain standard of stock is maintained while providing a degree of control to local planning authorities in key geographical areas.

Moving forward

One of the key planning changes brought about in 2020 was the creation of a new learning and non-residential institutions class – Class F1 – and a new commercial, business and service class – Class E.

This simplification of use classes is arguably one of the first attempts to modernise the planning system to better respond to the current socio-economic challenges, which have been exacerbated by the Covid pandemic providing more flexibility for both landlords and tenants, helping reduce vacancy rates in our towns.

However, a key change for 2021 is the government's proposals for further changes to PD rights, allowing one to convert the new E-Class buildings to C3 Residential, under a new 'class MA'. The consultation ended on 28 January 2021 and the outcome of certain elements of that consultation were published on 31 March 2021.

There are a number of implications of this change, the most immediate of which is the 'window of opportunity' created until ***1 August 2021***. The existing right under 'class O' to convert an office of unlimited size to residential will terminate on 31 July 2021. From this date onwards a conversion under PD will have to be done under the new 'class MA' which has a maximum limit of 1,500 sq m (16,146 sq ft) per building.

It appears that the era of converting large office buildings via permitted development is now coming to an end and there is a very limited 'window of opportunity' for landowners and developers to submit permitted development applications with no size limit under the existing rules.

Key clarifications from the consultation include;

— Existing PD rights 'class O' and 'class M' (office to resi and retail to resi) will ***end on 31 July 2021***

— Expansion of rights under new 'class MA' to include the whole of E use class (shops, offices, restaurant, cafés, health services, nurseries, gyms and leisure) ***comes into effect on 1 August 2021***

— ***Size limit*** of 1,500 sq m (16,146 sq ft) has now been imposed, a significant variation on the previous no limit for offices

— The introduction of a ***three month vacancy*** period prior to the date of application (excluding Covid related vacancy)

— Correct 'class E' usage for ***two years***

— Consideration around the potential loss of health centre and nurseries on the provision of local services

— Applicable within conservation areas

— ***Fee*** of between £100–£5,000 per new home may be applicable

While the new legislation is due to come into effect from 1 August 2021. In an attempt to protect the Article 4 Directions the legislation will carry over any existing Article 4 Directions relating to office to residential conversions until ***31 July 2022***. Article 4 Directions have been put in place in almost 20% of local authorities in England, including 20 London boroughs and are costly and require consultation and notice periods. Therefore while this protection for the first year allows councils who wish to preserve these directions sufficient time to do so, they will need to act quickly and decisively.

This, combined with the proposed changes to the National Planning Policy Framework, according to certain experts, is likely to make it significantly harder for local authorities to obtain Article 4 Directions going forward which may also create some interesting opportunities in locations which were previously protected.

For further information the government's explanatory memorandum in relation to the changes can be found here along with its own press release here.

PD rights 'class O' and 'class M'
ends on 31 July 2021

Window of opportunity until
1 August 2021

New class 'MA'
1 August 2021

"it appears the era of converting large office buildings via permitted development is now coming to an end"

Five minutes with… MARTIN KAYE

Our man in Hong Kong, Martin Kaye, gives his views on Asia-based investors looking to deploy capital into UK real estate

What's it like to live in Hong Kong?

It's fair to say that I have a biased view: I am Hong Kong born, and despite stints in a few other Asian cities and a British education, I have always considered it home. Most people think we live in a concrete jungle but the truth is, 86% of all land is a country park, while the beaches with stunning clear water are only 20 minutes away, so we have the benefit of the city hustle with a great playground on our doorstep.

The key question for Hong Kong right now is that of stability. Since 2015, when the Umbrella Movement started, we've seen China introduce national security laws aimed at curtailing opposition to the Communist Party, which was followed by arrests and a flurry of negative headlines across the world.

However, contrary to what's been reported, we still enjoy a very free lifestyle.

How has Hong Kong differed from the UK over the course of the pandemic and what has the market been like?

Hong Kong went into lockdown much earlier than other places around the world and enforced strict international travel and quarantine rules. Although its mandatory hotel quarantine lasted longer than expected, thanks to this measure we now have fewer than 10 daily cases. There's compulsory testing for anyone who's been in contact with an infected person, and masks are encouraged in public spaces. As a result, we are now almost back in full swing.

On the commercial real estate side, the key difference between the two markets is the UK government's interjection, preventing banks from using the foreclosure process to evict non-paying tenants. In Hong Kong, most commercial leases are on three-year tenures, and this has meant most landlords have been reasonable in offering free or reduced rents, or tenants have vacated.

Retail, restaurants and cafés have taken a large hit and subsequently, a number of well-known restaurants have permanently closed. Whilst values for these assets have dropped, we are seeing interest from new tenants and anticipate a jump in activity as a surge in spending is predicted to happen.

The office sector is probably the most concerning. The trend whereby large occupiers are choosing to downsize, combined with a large amount of new supply coming on to the market does not paint a pretty picture. Rents were off 25% in the CBD in 2020 and are expected to drop a further 15-20% as landlords continue to compete for a limited pool of tenants.

The residential sector, similarly to the UK, has held up well, with a small growth in values. Second-hand apartment prices have seen a drop of 5-10%, as hotels have been offering exceptionally good two-year rates for their superior duplex suites.

How much Hong Kong investment should the UK be expecting?

The outbound capital remains at exceptional levels, with a potential £21bn worth of investment into the UK, based on an internal survey of our regional investors. We do expect to see a slight drop in the transaction volumes compared to last year, just shy of £6bn. The first half of the year is likely to be relatively quiet due to uncertainty, while the second half is projected to be very busy.

Historically, the majority of interest has been focused on London offices, and this is most likely to continue, however we have forecasted more interest to regional assets such as warehouses, business parks and prime residential income. Prime hotels also continue to be of interest but there is a large bid-ask difference.

Martin Kaye

"a potential £21bn worth of investment into the UK"

Where in Asia will the capital be coming from?

Hong Kong and Singapore will be the lead investors this year and while there are capital restrictions in mainland China, these may be lifted and we are keeping our eye on that. Interest from the Japanese is also likely, through indirect routes such as funds or listed entities looking for regional logistics and business parks.

We expect the Thai, Indonesian and Malaysian investors to be more likely to repatriate cash and take advantage of local markets.

What trends and challenges in investment are you noticing?

The key is security and quality of tenant covenant as the capital is weighted to strategies enabling wealth preservation. There is demand in the UK for bigger assets with larger tenants and thus better covenants, with longer WAULTs with a minimum of seven years.

We are seeing strong demand for prime developments and are working on some joint ventures with a number of UK developers to bring new opportunities to the market.

The biggest challenge right now is investors from the Far East are expecting price drops and bargains; the bid-ask difference is apparent already. I would also suggest the ongoing travel restrictions will limit deal flow until quarantine is lifted at both ends, which could carry on until Q3 this year.

How have the last 12 months changed the way the industry works?

We had never had five or more business calls over video conferencing per day, that's for sure. Despite having to embrace technology as our main way of communicating, we have come to be more reliant on the local team to complete unbiased underwriting to support transactions.

From the capital markets perspective, we have needed to have more up-to-date data as the markets remain unsettled, particularly when it comes to leasing activity, demand, vacancies etc.

While virtual tours are highly sophisticated, they're not the same as an in-person visit, and it's often difficult to showcase the surrounding location when conducting viewings online.

Does London still hold its allure?

London is still considered the most favoured destination for offshore property investment due to transparency, land laws and the fact that everyone speaks English. There will be waves of investment depending on the market cycles and other external factors, including currency, the rollout of Brexit and the ongoing pandemic. However, the government's highly organised vaccine roll-out initiative has been a true testament to the resilience and strength of the UK.

The importance of asset preservation in a rapidly maturing BTR sector

According to data published by the British Property Federation (BPF), there were 179,835 Build to Rent (BTR) homes complete, under construction or in planning across the UK in Q4 2020. This shows a 19 per cent annual increase against the same period last year.

As the BTR market matures and becomes increasingly competitive, the focus on asset preservation naturally sharpens; ensuring existing BTR developments retain long-term consumer appeal and the assets continue to generate meaningful, and sustainable, returns for investors.

Why should asset preservation be a part of strategy?

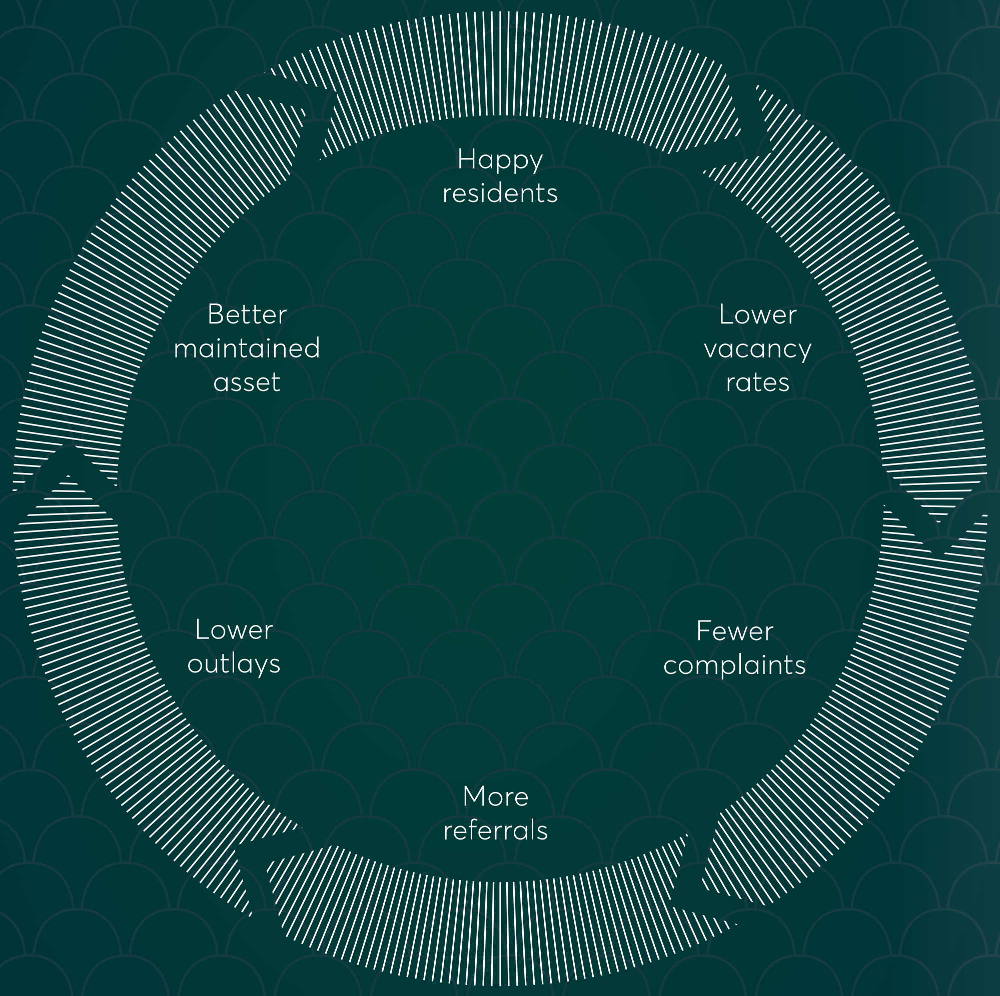
BTR differs from the traditional private rented/buy to let sector. BTR developments provide a rental proposition that combines a large-scale purpose-built product featuring enhanced on-site resident services and amenity, all professionally managed under single ownership. These elements help deliver a frictionless experience and create an enhanced value-for-money proposition for the renter that often outweighs that found in the wider private rented sector market. With the many varying facets of BTR operation to consider, it is essential for property managers to be strategic by keeping abreast of the property's condition, the macro and micro market trends and the competition to ensure the asset and its occupants are performing at their optimum.

A must, not an option

BTR assets generate best returns for investors through constant marginal gains, so it's essential to ensure expenditure and return are optimised and continuously assessed. It's important to regularly review and benchmark all aspects of the operating asset. The cost and quality of facilities management contracts, staff performance and service delivery are just some example aspects that impact on everyday performance and contribute to marginal gains (or losses). There is little room for complacency in a maturing competitive market – every aspect counts.

Property managers must take a proactive stance when it comes to asset preservation to ensure consistent returns. This can involve substantial works or light touch-ups, introduction of new gym equipment more in line with the tenants' preference or the purchase of trendy sofa cushions for the communal area. Asset preservation and improvements should be viewed as an essential route to ensuring the scheme retains its competitive edge. Those who see it as optional, risk losing market share to better equipped and more agile providers.

"this can involve substantial works… or the purchase of trendy sofa cushions for the communal area"



Practical implications

BTR assets need to be evaluated on a regular basis, and this on-going reassessment should include proactive cyclical redecoration programmes, a 10-year major works plan, regular staff training and upskilling to keep abreast of consumer trends, as well as stringent budget management and thorough analysis of data on return on investment.

The importance of thorough analysis shouldn't be underestimated. At first glance, it may seem reasonable to hold off £20,000 that could be spent on the chemical dosing of the heating system. However, when taking into account the permanent damage done to the radiators, pumps and boilers, and the likely cost impact over the next five–six years, it becomes clear that in fact, proactive measures help prevent asset value erosion and unplanned additional expenditure.

Creating a virtuous circle

Happy residents translate into lower vacancy rates, fewer complaints, more referrals (equating to lower marketing and administration outlay) and a better maintained asset. Overall, tenants have a positive experience, tend to stay for longer and look after the asset better, treating it like a home, not just a stepping stone to another residence.

By way of example Allsop Letting and Management (ALM) has recently undertaken a brand refresh at The Keel in Liverpool in line with an enhanced offering for residents including the introduction of a residents' portal, installation of self-serve parcel lockers; introduction of superfast broadband across the site, lighting upgrade throughout and securing a 'greenified' utilities supply; both securing significant energy savings for residents and upping green credentials. The team are now working on facilitating the 'freshening up' of the main lobby area so customers can enjoy a 'new look' resident amenity space. Timed with an exciting resident engagement programme including Friday night Food Disco, 'Do you know your flatmate?' interactive game show, virtual yoga and gym classes, and a residents' art gallery. The upgrades across the scheme have optimised the asset all while events and engagement have fostered relationships within the development and created positive neighbourly interaction, ultimately strengthening retention and enhancing a resident's experience. Undertaken in a proactive manner, such measures are a great way of upholding high standards and reminding customers of the value you're creating.

This creates a virtuous circle, and its spill over effects are also felt by the employees looking after the scheme, who have few complaints, many compliments and are encouraged to devote their efforts to enhancing the resident experience, which gives the BTR sector its edge and importantly, its much needed place delivering great places for people to rent long term.

In 2020, Allsop Letting and Management won RESI Property Manager of the Year and in 2019 was voted BTR Operator of the Year by HomeViews.

Q&A on commercial valuations

Being a vital part of the economy, the commercial property market is intimately linked to people's lifestyle and consumption patterns, all of which have seen a shift over the past year. But what does this change mean in practice and how does it affect bricks-and-mortar assets?

Allsop's commercial valuation team has compiled a list of the top 5 most frequently asked questions to help businesses and investors better navigate the commercial property sector in the current climate.

The current crisis has highlighted the shortcomings of judging a tenants' covenant strength by reviewing historical accounts data alone. Whilst the accounts of many of the retail casualties of late, like House of Fraser, did not paint a rosy picture prior to the current pandemic, few crystal balls would have predicted the total collapse of Topshop.

Valuers, property owners and those with a vested interest in real estate must consider live data such as share performance, pedestrian volume and flows, and level of competition as better performance indicators. Assessing the future sustainability of a business is key, particularly for those businesses with high overheads. Many tenants in the retail sector have signed up to expensive leases they can no longer afford, and for these businesses to survive, rents will need to be rebased. Re-gearing leases may provide a respectable solution for both the landlord and tenant.

Going forward, in certain sectors, covenant strength may be perceived as less important, particularly where occupation is flexible. In high street retail, for example, are we about to witness a shift towards shorter, more flexible leases and in the leisure sector, will turnover rents become the norm? Under both scenarios, a landlord is far less likely to be concerned with covenant strength as long as the market can demonstrate strong re-letting prospects, and the fact that the fundamental property characteristics are positive.

There is no single hard and fast rule. For one market that is seeing downward pressure on rents, there is another that is performing robustly. Each market and submarket needs to be considered in its own right.

Whilst the difficulties of high street retail are well publicised, rents have generally held up well for local neighbourhood retail owing to affordability, essential-type retailing and the many nearby chimney pots.

In the office and industrial markets, rents are a product of demand and supply. Whilst occupier demand in the office sector is, on the whole, more subdued than normal and greater incentives may currently be offered, this pandemic has made it fundamentally clear that the office is here to stay and is the bedrock for facilitating a strong brand/corporate identity, staff development, diversity of thought, and mental wellbeing. Many towns and cities still suffer a supply shortage owing to the conversion of much office accommodation into residential through Permitted Development rights over the last decade which has meant rents, and thereby values have held up reasonably well. Towns and cities, on the other hand, where supply exceeds demand, fare far worse.

In the industrial sector, there has been little new supply and heightened demand due to the increasing importance of logistics and last mile distribution driven by the growing importance of e-commerce. The sector is also moving away from the just-in-time model to just-in-case, increasing the need for space. This supply and demand imbalance has created significant upward pressure on rents in recent years, and the current development pipeline does not suggest these imbalances are to go away anytime soon.

03

IS IT JUST THE BEDS & SHEDS MARKET THAT IS PERFORMING ROBUSTLY IN THE CURRENT CLIMATE?

The beds and sheds market (comprising residential and warehousing), has stolen the press headlines over the course of the pandemic and for good reason. However, there have been other robustly performing sectors.

'Alternatives', which include care homes, petrol stations, nurseries etc have grown significantly over the past decade, benefiting from a weight of money due to investors seeking to balance their portfolios. Such properties generally provide long and often index-linked income, which is particularly attractive in the face of shortening commercial leases across most of the traditional asset classes. There has been no let up during the current pandemic, with £13.3bn worth of 'alternative' property assets sold over the course of 2020 with an average NIY of sub 4.5%.

The supermarket/convenience store subsector has also remained strong being seen as a safe haven. Within this market, retail sales volumes have grown significantly over the last 12 months benefiting from a surge in demand for home deliveries but also from the 'treat' culture which has resulted in consumers spending more on higher-quality goods to enjoy at home. Unsurprisingly, this sector witnessed hardening yields over the course of the pandemic, with over £1.83bn of supermarket assets traded in 2020 surpassing 2019 levels.

Central London trophy assets are still in demand. International investors remain attracted to such properties owing to a favourable exchange rate, rarity, but also due to London's reputation for being a safe haven in comparison to other international cities. Over the second half of 2020, this market witnessed fierce competition, none more so exemplified by the Allsop-advised sale of 21 St James's Square in December 2020 for £187.5m, reflecting a NIY of 3.65%. This property attracted substantial interest predominantly from ultra-high-net-worth families, following a global marketing campaign which resulted in two rounds of bids.

04

WHAT LOT SIZES ARE MOST ATTRACTIVE/LIQUID AND WHO ARE THE BUYERS?

Liquidity has never been more important. With many institutional funds being gated and international travel being curtailed during the first six months of the pandemic, there was a pause in the market for the larger £20m+ assets. However, activity remained strong below this threshold, with property being seen as an asset providing credible investment returns against a backdrop of all-time low interest rates and falling dividend payments from over half of the FTSE 100 companies.

The private investor and small and medium-size property companies proved particularly active, with our auction teams witnessing strong demand throughout the pandemic, with £750m raised between our commercial and residential auction teams over the course of 2020.

"liquidity has never been more important"

From a commercial perspective, competition has been strongest for long income across all sectors, particularly where the rent has continued to be paid and is seen as sustainable. Mixed-use property and those with the opportunity to add value have also performed well, being seen as helping to spread risk and providing long-term advantage.

The activity disparity between the large and small lot sizes narrowed as we closed out 2020 with institutions, REITs and international buyers returning to the market in strong numbers. This provides hope that 2021 will be a much more balanced year from an investment perspective.

05

IS IT FAIR THAT LANDLORDS ARE BEARING THE BRUNT OF THE PAIN RESULTING FROM THE EVICTION MORATORIUM?

It has been announced that the current moratorium on landlords' ability to evict commercial property tenants will be extended to June 2021. The measure continues to leave landlords unable to enforce lease covenants and is hurting many property owners. With approximately 60% of the UK high street owned by pension funds, the public sector and individual investors, the loss of income affects the wider economy, including pensions, long-term savings and public sector services.

Whilst the moratorium was put in place to protect tenants and served as an important function at the outset of the crisis, it has provided tenants with a position of advantage, which some large national and international companies have abused by continually failing to meet lease obligations when they are in a position to do so.

Clearly, many tenants need support but if a business is not viable and can't meet its rental obligations, should it be propped up? There is no right or wrong answer to this question. Whilst it has provided those tenants with viable businesses but short-term cash flow issues a safety net, a landlord is only likely to seek to evict a tenant when it perceives the business to have no longevity and where there are realistic re-letting prospects. The moratorium could end up hurting more people/businesses than necessary – those businesses that were on a path to failure are unlikely to move off this path, but we may well see landlords face serious financial difficulties if support continues to be one-sided.

Demystifying Insolvency… A Receiver's perspective

The last year has seen a raft of retail CVAs and Administrations; Debenhams, Topshop, and Jessops to name a few.

The current and projected distress in the market is heavily reported in the press and insolvency terminologies and acronyms are being thrown about the market as frequently as Boris's press conferences.

'LPA Receivership' v 'Fixed Charge Receivership (FCR)'; 'CVA', 'Administration' and 'Liquidation' all methodologies to deal with insolvency positions but what do they actually mean and how do they differ?

Insolvency processes:

Receivers are either described as LPA and/or Fixed Charge Receivers. The two terms are generally used interchangeably although the Receiver is acting with different powers derived from different places – namely the Law of Property Act 1925 (LPA) and the Fixed Charge (FCR).

A CVA is a Company Voluntary Arrangement which a company enters into to avoid an insolvency procedure by reaching a binding agreement with its creditors with minimal involvement from the courts.

Administration is an insolvency process. Its purpose was created by the Insolvency Act 1986, but substantially refashioned by the Enterprise Act 2002 as a rescue remedy. Administrators are appointed by the Courts where a floating charge secures the company's assets and there is a need to either trade the company or utilise powers provided to the Administrators under the Enterprise Act. Administrators are experts in appointments where there is value in the trading company.

Liquidation is the winding up of a company by the disposal of the assets.

Why choose Receivers?

As Receivers at Allsop, we are appointed by high street banks, challenger banks, peer to peer lenders, bridging lenders, individuals… basically anyone who has a Fixed Charge over an asset.

Lenders use FCR to execute a robust, cost effective and efficient recovery of a distressed loan. The Receivers' powers are derived from the lenders' charge documentation and the LPA. Lenders have long used FCRs, as an extremely effective, blunt instrument to recover loans which are secured by a Fixed Charge over an asset by solely dealing with the asset and leaving other liabilities with the borrower.

A Fixed Charge Receivership offers lenders the ability to appoint specialist property and insolvency experts in the specific asset classes that are charged, thus securing a quick and informed exit.

"once a Receiver is appointed they have a primary duty to the lender"

The process:

Receivers are appointed under a deed that can be actioned with speed and ease without the need to apply to court. FCR appointments can generally be made as soon as the terms of the loan have been breached and a final demand has been made which allows lenders to protect their position in a timely manner and reduce the assets' exposure to market uncertainty, a particularly prominent issue in today's market.

Once a Receiver is appointed they have a primary duty to the lender with the obligation to obtain best price for the asset they are appointed over. There is no need for court reporting or accounting to all creditors as there is in an Administration or Liquidation.

In a Receivership, all rents received are available for distribution to the appointing lender. On the other hand in an Administration, the distribution of proceeds is detailed by the Enterprise Act 2002 and more recently the Finance Act 2020 and therefore there is rent dilution to preferential creditors. Furthermore business rates are payable as a cost of administration during the period which the company continues to occupy, however within an FCR the Rates liability lies with the borrower, maximising the realisations to the lender.

Changes to legislation:

We anticipate that reasons for choosing FCRs over Administrators where debt recovery is from real estate assets has become more compelling due to the change brought about by the Finance Act 2020, which replaces the former Enterprise Act 2002. The Finance Act has restored HMRC as a preferential creditor ahead of floating charges and unsecured claims.

In practice, this means that if a company enters Administration, whilst the assets securing the floating charge remain protected, the monies secured by a floating charge will be paid after any monies due to HMRC and any other preferential creditors.

This could significantly reduce the realisations available to a floating charge holder and increase the risk of a shortfall in recovering the debt. Therefore a borrower's tax liabilities are now of much more importance to existing and new lenders, where they have taken security over a floating charge.

What next?

Looking ahead to 2021, the end of eviction moratoriums and the government's furlough scheme indicates we are likely to see more insolvencies coming to the market. As FCRs we are here to steer lenders through the uncertain times ahead.

GROUND RENTS REFORMS: GOOD IN THEORY BUT TIME WILL SHOW

Ground rents have long been considered one of the lowest risk – and perhaps the dullest – long-term investments in the property sector. Despite the vanilla, cries for reform regularly move them firmly into the property spotlight. In February this year, the Government outlined proposals for **'the biggest reforms to English property law for 40 years'.** The sector awaits its fate, but will this be any time soon?

Although historically low income producing per unit, ground rent payments are secured upon individual homes with the ultimate, but rarely invoked sanction of forfeiture of the lease for non-payment. Additional capital payments over time add to the attraction. As lease terms diminish, extensions are granted at premiums. Freeholders' permissions for lease variations are dispensed in return for payments. Commissions are earned for insurance and management. And, one hopes, latent development value is released from rooftops, garage blocks, porters' flats and the like.

The scale of ground rent collection ranges from a handful of units by small investors to multi-million-pound portfolios by property companies, pension funds and landed estates. Despite challenges presented over the years by, for example, lessees' rights of pre-emption on sale (Landlord and Tenant Act 1987), collective enfranchisement (Leasehold Reform Housing and Urban Development Act 1993) and the right of lessees to manage their own buildings (Commonhold and Leasehold Reform Act 2002), the trade and value of ground rents – and the vehicles that own them – have largely been unaffected.

Over recent years, to maximise the value of their residual freehold interests, developers have granted leases on new build homes which impose heftier payment obligations. These will often start from a higher base level, be subject to more frequent reviews (every 10 years being common) and often double at every interval. Lenders have recognised the impact on affordability over time, and UK Finance (formerly the Council of Mortgage Lenders) has advised against accepting such leases as mortgage security. As a result, many leaseholders have found that their properties are unsellable. Much lobbying forced the Government to announce its intention several years ago to introduce reforms, although these proposals were not detailed at the time.

Despite this promise of reform, the market for ground rent investments has continued pretty much as before, with little or no perceptible change in pricing. In 2020 the average year's purchase (YP) multiplier (price to income) for long-dated (over 80 years) ground rent investments sold at auction in the UK was 21.4 – an average yield of 4.7%. This breaks down to 26YP (3.85%) for sales within the M25 and 19.4YP (5.1%) for sales elsewhere.*

On 7 January this year the shape of this intended reform was brought further into focus. The Government issued a statement announcing that, in order to make home ownership fairer and more secure, leaseholders will be given the right to extend their lease by a maximum of 990 years at zero ground rent. An online calculator will be introduced to make it simpler for the 4.5 million leaseholders in this country to find out how much it will cost them to buy their freehold or extend their lease. 'Marriage value' – presently shared equally between freeholders and lessees on the extension of leases of flats and some houses with less than 80 years to run – will be abolished. A zero ground rent restriction will also apply to retirement leasehold properties.

Freeholders, particularly the London estates, institutions, property companies, and others with wide exposure to the sector, will want to make their case strongly. They are likely to accept that a pendulum swing in favour of leaseholders is inevitable but will oppose an outright value grab. Pension funds will point out that many savers invested in ground rent funds – many of whom are leaseholders themselves – will suffer losses, unless fair compensation is awarded for the diminution in the value of their investments.

Some lessees will wait until reforms are finalised before extending. Others will not have the option and will pay the statutory price now, or at least reach agreement with their landlords.

"we have to remember that reforms in this area have been on the cards since 2017"

If lease extensions become cheaper, then logically, the value of short leasehold interests will rise, however, impaired mortgageability will remain a barrier to sale.

So how will owners and practitioners value ground rents going forward? It won't be easy. Allsop sells almost half of all London ground rents traded at auction, and accurate pricing has always been key. Until the online calculator is unveiled, the market will decide. If auctioneers can persuade sellers to set reserves low enough to reflect the uncertainty, results will establish values over time.

Since January's announcement, the market remains active. We have, however, experienced different emerging approaches to bidding. Some prefer to limit bid prices to multiples of ground rent income and ignore marriage value for now.

Others are betting against the abolition of marriage value and are prepared to reflect that additional element in their bids.

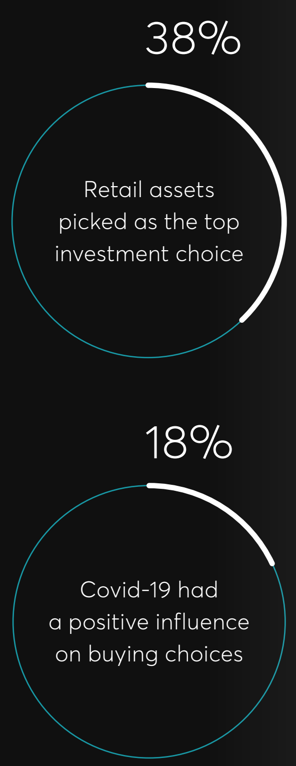
Before freeholders panic, and new investors smell blood, we have to remember that reforms in this area have been on the cards since 2017. Recent announcements have amounted to little more than a press release and whilst effective in courting headlines, they have changed nothing for the immediate future. A change in legislation is required before lease extensions become 'easier and cheaper', and that could take years. In the meantime, freeholders are likely to hold firm leaving leaseholders to face a choice – pay the going rate or sit this out. The outcome and duration of this process are a long way from clear.

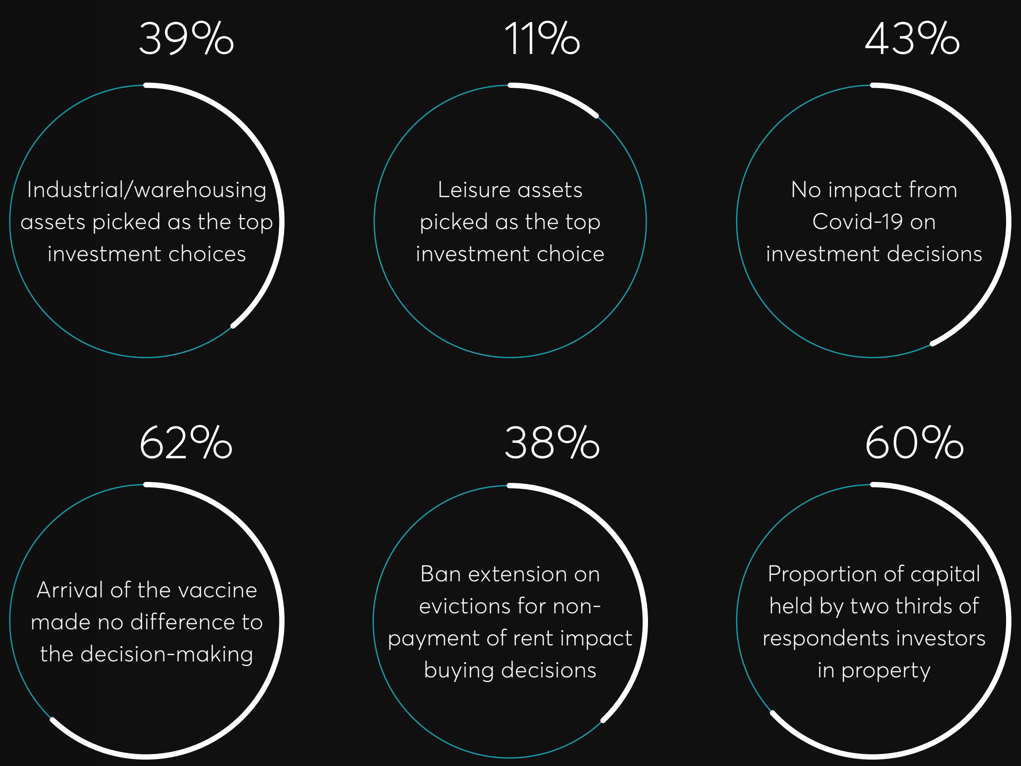
*Source : Essential Information Group

2021 THROUGH THE EYES OF A PROPERTY INVESTOR

The market has very clearly bought into our digitalised auction process – Allsop has sold over £481m worth of assets since its last live commercial auction in February 2020. Even though we continue to spend a lot of time talking to buyers and sellers alike, the meeting of minds and sharing of thoughts in the auction room is, of course, hard to replace.

"there's a lot of appetite for retail and industrial/ warehousing assets"





In order to gain more insight into our buyers' and sellers' considerations and expectations, we commissioned an independent survey at the end of last year, which resulted in a range of interesting and somewhat counterintuitive findings. The vast majority of the survey respondents were buyers, which makes the findings particularly insightful for those looking to get a steer on the investment sentiment within the commercial property market.

Despite an array of negative headlines surrounding retail, our survey has shown that there's a lot of appetite for retail and industrial/ warehousing assets, which were picked as the top investment choices by 38% and 39% of respondents, respectively. From the additional comments they'd provided, we've learnt that the recent changes to Use Classes Order have been a major factor in generating such high levels of demand. These reforms have resulted in greater flexibility when it comes to repositioning assets, allowing flexibility of commercial use and making it easier to convert commercial units into residential. Given the decline of the high street in many areas of the country, this is a welcome and necessary development which has stimulated the market

The leisure sector, unsurprisingly, didn't come out among the most appealing (with only 11% of investors looking to buy into it this year) having been severely hit by the pandemic, however, assets in sought-after locations and with a clear redevelopment potential remain of interest.

We didn't expect to discover that Covid-19 made no impact on the investment decisions of 43% of the respondents. In the meantime, nearly one-fifth (18%) admitted that the health crisis had a positive influence on their buying choices.

This is a little hard to interpret, but the market is swift to react to disruption of any scale, and prices have adjusted very quickly, which of course, provides opportunities for the cash rich investors who are at the core of our market.

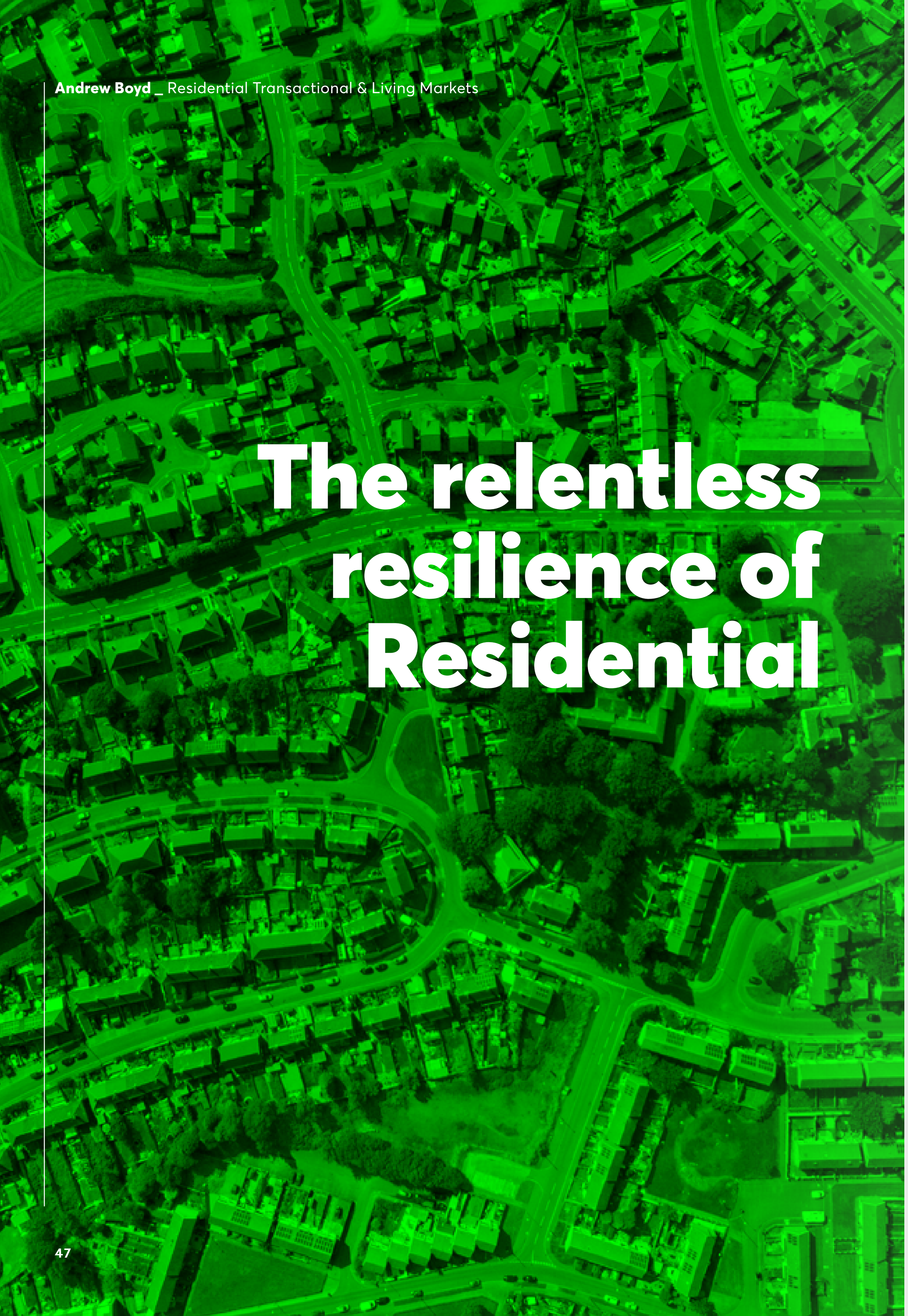
The commercial property market has typically been one for long-term investment, which is reflected in how little the arrival of the vaccine impacted investment decisions, with 62% of participants saying it made no difference to their decision-making. More investors were concerned about the prolonged ban on evictions for non-payment of rent – 38% said the last extension had impacted their buying decisions.

One of the more striking details was the proportion of capital held by investors in property – for two thirds of respondents, property accounted for 60% or more of their total investment portfolio. This shows a great reliance on a diversified approach to benefit from the highs and accommodate some of the lows in a disrupted market.

Lastly, respondents were showing appetite to buy and hold rather than sell, but if 9% of the entire database of 57,000 do sell in the next 12 months, there will be plenty of opportunity to invest those cash reserves.

The full survey can be accessed **here**, and we look forward to sharing more market observations with you over the course of this year.

Allsop would like to thank all those who have taken the time to share their views on the market as part of our survey – your insights are invaluable. In recognition of your time and effort, we have made a contribution to LandAid, a property industry charity and our long-term partner.



The relentless resilience of Residential

During a rollercoaster year of unimaginable uncertainty and turmoil for the UK real estate industry, one subsector has proven itself to be far more resilient than anyone ever imagined, as it outshone huge areas of the market and attracted a raft of new investors searching for a safe-haven for their capital.

Even before the pandemic hit, the residential sector was maturing apace and we started to see a blurring of lines between some of the historically distinct areas: between investment and development, between living sectors like student and Build to Rent (BTR): the crossover was suddenly both evident and extensive.

Our highly integrated business streams across the residential sphere, give us the opportunity to look at the market from a more holistic perspective, prompting a renaming of our offering to Residential Transactional and Living Markets.

We are now seeing a wall of capital on the side-lines focussing on the residential and living space ranging from private individuals through to institutional investors. The maturity of the student sector has created a vast market with a multiplicity of asset types. With the BTR market following suit with the emergence of stabilised blocks, there are many parallels evident with the creation of primary and secondary assets. Our standing in the traditional residential investment and development market, allied to our growing status in the BTR market gives us a strong understanding of the total breadth of that space and the different requirements of investors.

As our clients continue to entrust us to be their eyes and ears on the ground and to help them stay ahead of the game, we'd like to share with you our bird's eye view of current trends and opportunities across the market:

Development

The repurposing of retail assets has been an often-discussed trend over the past year and despite the travails of the planning system, the more pragmatic policy approach that we are seeing for the high street vs what we saw on office buildings, has drawn extensive capital to this space.

In a hugely positive move for the development market, the new E class and Permitted Development (PD) rules will create significant opportunity for smaller asset sizes, which we are regularly transacting through a hybrid offering with our commercial auction team.

Scale is very much the watchword for large parts of the development market. The stamp duty and Help to Buy initiatives have kept sentiment strong and encouraged greater interest in the strategic land sector. A period of prolonged positivity, allied to the potential BTR single family housing exit opportunities, will reinforce interest in this area.

Subject to planning deals are very attractive to the development market as they allow the incoming developer to get control and only speculate planning fees early in the process. We are increasingly helping clients enter joint ventures or subject to planning deals to allow premium prices to be achieved and maximised consents to be obtained.

We are seeing escalating demand from privately-owned commercial owner occupiers who are thinking outside the box in order to futureproof businesses; they are now looking at developing site's for their own use, often with residential above. Many landowners see this as an opportunity to de-risk the commercial elements, which are unattractive to housebuilders.

Residential Investment

The investment market is showing positive signs following a difficult year, as landlords appear to be taking on board demands from investors and the market. This is particularly evident with mixed-use buildings where a number of possible opportunities exist around change of use of ground floor and conversion or extension of the upper floors.

Another area of demand is for large-scale portfolios of houses that are high yielding with exits on lease deals, due to the attractive return on investment. This space has a significantly greater buyer pool with Housing Associations, Councils and increasingly institutional capital.

In the sub £5m bracket we are seeing a much more varied pool of buyers with an increase in private individuals or family offices that previously invested in commercial assets. This purchaser demographic is attracted by both yield and value add angles.

There are greater opportunities for residential investment across the new build housing sector with SME housebuilders developing houses for funds on schemes of 50 units and not just large scale BTR.

Whilst the new build investment sector has attracted a substantial amount of focus, there is still a strong market for well-managed, good quality secondary standing stock of all sizes and indeed, ground rent portfolios, despite recent government intervention.

BTR

As a relatively new asset class in the UK, the BTR market has become a competitive marketplace as investor interest grows with each demonstration of counter cyclical strength the market has shown. Although there are approximately 54,000 units now completed in the UK, BTR is still viewed as a somewhat immature market, which many investors are keen to enter.

The emergence of BTR Single Family Housing has brought another dimension to the market, and one that is likely to benefit from strong institutional demand, with a number of bespoke schemes in the pipeline.

The regions have performed well and seen yield contraction throughout the pandemic period, buoyed by the performance of assets in the stabilised investment market.

Allsop currently has circa £500m worth of forward funding transactions at a progressed stage, a sizeable proportion of which are joint ventures that we have facilitated between landowners and contractors who want exposure to the sector.

The repurposing agenda on the high street that is integral to the development market is also central to the BTR discussion. We are advising a number of funds on repurposing buildings, which by virtue of their location, accessibility and scale exhibit all the right characteristics for BTR development.

Student

Overall demand for student investment opportunities is as strong now as it has ever been, with new investors entering both the PBSA and HMO markets adding depth to a buying pool swimming with established investors looking to capitalise on the right opportunities. As we move closer to Q3, we will see the market strengthen across the board as values benefit from the clarity afforded by AY21-22 occupancy rates.

There is growing demand for operational PBSA opportunities with value-add potential and a small but significant shift of positive sentiment towards some secondary locations where the UK demographic outlook and predicted growth of international students is providing renewed confidence across a wider spectrum of university destinations.

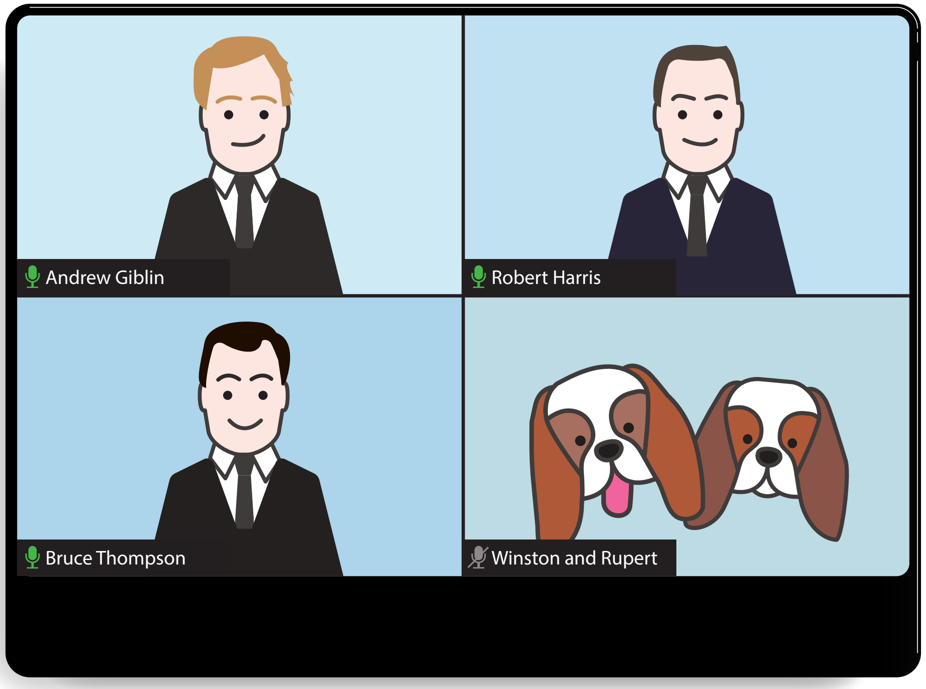
Interest for prime regional and in particular London development opportunities both with and without planning is evidently high, albeit peripheral sites can struggle for appetite as the sector continues to mature.

Deals of a forward funding and forward commit nature have slowed-up a little and there has been a thinning of the investor pool creating a rather selective feel to interest levels. Covid possibly hit this sector of the student market hardest but we expect a full recovery in the months ahead.

The weight of demand is favouring larger scale investment opportunities; operational portfolios and single assets comprising >250 beds are trending the highest and yields remain stable. However yields have pushed out for smaller PBSA assets and properties of a converted nature where investors struggle to gain optimum operational efficiency levels.

The repurposing agenda we are seeing is both from commercial to residential and living markets but also within the residential and living markets themselves. This is where the blurring of lines has become so apparent and creates major opportunities for you all, as our clients. With what we all hope is a golden period of sentiment emerging, now is an excellent time to scrutinise assets and consider their optimum uses and form.

Dorrington: A breath of fresh air in the office sector



It's Friday afternoon at 4:30pm when I join a Zoom call with three directors from Dorrington – Andrew Giblin, Bruce Thompson and Rob Harris. I am greeted by Andrew's two Cavalier King Charles spaniels, Winston and Rupert, and immediately know our end-of-the week call is off to a good start!

We'd scheduled this meeting to discuss the recent letting success of Panagram, a 52,000 sq ft office building in Clerkenwell. Dorrington, together with architects Buckley Gray Yeoman remodelled the nine-storey building on Goswell Road, with Allsop securing the first tenants, law firm Leigh Day, to occupy 28,360 sq ft of space across five floors on a 12-year lease. There are only four vacant floors remaining, which are likely to be snapped up very soon, given the levels of interest we are currently seeing.

I ask Andrew what it is that he believes has made Panagram such a success. "The 'bones' of the building and the views from the upper floors in particular are fantastic. These fundamentals, coupled with our approach, which was to breathe life back into this 1980s building with colour and fun to the interior space, have created a great product. It has a vibrant reception space, a focus on wellness and amenity and smart building features that have resulted in a best in class offering".

"The first step in repositioning Panagram was deciding to celebrate the post-modern design. Terrazzo was used to wrap around the new extra-wide entrance portal, inviting you into the building from the street and into the free-flowing reception space, where the traditional desk was noticeably removed. The colourful elevators then transport you upstairs where the fresh air ductwork is painted in Parisian pink and Duck Egg blue on alternate floors. Wellness is a hugely important element and this is celebrated with the injection of greenery. A mature Ficus tree has been planted in the double-height ground floor office space and surrounded by a series of extra-large steps to be used either as a place to sit and relax or as an auditorium. This is also a visually striking feature that catches visitors' attention from the outset."

> "we need to create the kind of space that people really look forward to going to"

Andrew adds, "On the second floor, Buckley Gray Yeoman have created a cat B fit out, which is collaborative and dynamic with both formal and informal working arrangements, with no single detail overlooked. For example, we have chosen sheer curtains for breakout areas to create a sense of privacy while maintaining an element of fluidity."

Walking into Panagram is like finding yourself in a swish hotel lobby come yoga studio complete with a feature Koi fishpond (and resident gnome) for added affect. The strength of this design has proven to be such a success, it is now being used as a showcase for future developments to adopt a similar style.

The term 'flight to quality' is often bandied about without substance. As an advisor who gets to see tons of properties, I've noticed just how much the definition of 'quality' can vary. For some, it's just limited to interior design, but in reality, there's a lot more to it than that. A big part of creating an outstanding space is about anticipating the needs of future occupiers and solving problems before they even arise, which is the guiding

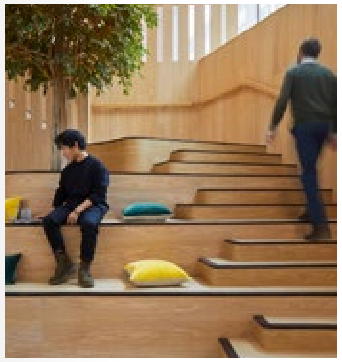
principle behind every single property within the Dorrington portfolio; putting themselves in the shoes of the occupier.

Creating beautiful spaces is also part of Dorrington's DNA and is clearly evident in two of its other developments – 51-53 Hatton Garden and Hamilton House, Temple Avenue – both of which Allsop is advising on.

Rob's enthusiasm for Hamilton House is obvious. "People talk a lot about wellness, but when you're working with the right building, it does much of the heavy lifting for you. All the elements of a healthy working environment are often already there. For example, Hamilton House was beautifully designed over 100 years ago, with fantastic proportions, huge ceiling heights and windows on three elevations, resulting in an abundance of natural light; it also benefits from openable windows – a rare but highly desirable feature in a post Covid world. The good fundamentals make our job easier. Working in a well-designed building is uplifting. Good architecture equals wellness", he adds.

Hamilton House was a tired Grade II listed building, but is being completely upgraded and brought back to its former glory, offering a wonderful blend of heritage architecture and detailing and contemporary office spaces for small and mid-sized companies, on flexible terms. Located directly on the River Thames in a prime setting, the building is near to Blackfriars station, and right next to Temple Gardens, allowing its tenants to enjoy both waterside views and green spaces on the doorstep.

It's fair to say that over the past 20 years, the office has evolved into a dynamic place with a strong emphasis on the user experience, and most recently flexibility, with the pandemic



Above,
Panagram's distinctive break out area

Above right,
Hatton Garden

Right,
the Grade II listed Hamilton House

dramatically accelerating the demand for alternative working arrangements.

Bruce comments: "There has been a sharp shift towards flexible working which has accelerated as a result of the pandemic, and companies now understand the need to provide the right kind of facilities to encourage people to come in to the office rather than work from home. The responsibility now falls on the landlord to create places which inspire people – where people can experience a professional and collaborative environment.

We need to create the kind of space that people really look forward to going to."

"At Hatton Garden for example, we have commissioned an artist in residence to curate a gallery space in the reception, helping create an entrance that's not a typical office foyer, but somewhere that inspires creativity and promotes mental health".

There is also an amazing 3,500 sq ft of external spaces at Hatton Garden, including a stunning rooftop garden. Designed with covered and uncovered seating, tenants of the building can enjoy panoramic views across London, whilst sitting in the company of thousands of plants. The gardens even have a greenhouse to grow produce available in the downstairs kitchen. Every detail has been thought of.

From an advisor's perspective, this new breed of office design has been a welcome breath of fresh air (literally) to the sector. Following decades of sky-high buildings with little soul and fluorescent lighting, I'm looking forward to experiencing this new world of office spaces, with a big thanks to Dorrington for paving the way.

#trending

if it's happening, it's here

As we (hopefully) look forward to gradually getting back to normal, here are just a few of the things we've been up to since last time.

Congratulations

Jack Robson baby

Ella Robson born 27th December.

Harry Theakston baby

Congratulations to Harry and Alice Theakston on the birth of Cecily Emma Grace on 26th April.

Congratulations

Ben Hodge well-timed wedding

Ben and Victoria Hodge managed to get their October wedding day in before the winter lockdown. Huge congratulations to them both.

A dog's life

William Shoebotham lockdown handbag dog, her name is Prudence.

Congratulations


Florence Rothwell


Antonia Beech


Gergo Petrovics


Evie Higgs

APC success

Congratulations to our four graduates who passed their APC virtually, which seems to be the new normal.

Florence Rothwell
Antonia Beech
Gergo Petrovics
Evie Higgs


Tom Wright


Sara Chalmers


Dan Hopkins

Allsop promotions

Tom Wright – **Partner**
Sara Chalmers – **Associate**
Dan Hopkins – **Associate**

Charity/Environment

Kaiya Dalton age 4

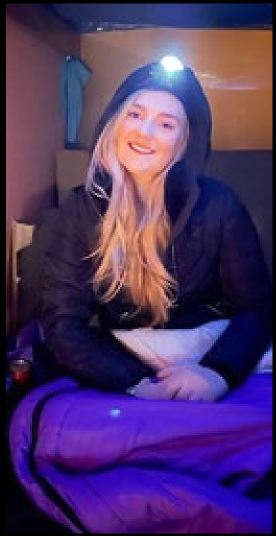
Oliver Easton age 7

Morne Reynders age 11

Save our planet poster competition winners

Allsop children got creative during half term to create these amazing environmental posters.

Charity/Environment



LandAid Sleepout 2021

Eleven Allsop volunteers slept very uncomfortably for one night, raising £9,545. We are happy and proud to support LandAid in their goal to end youth homelessness LandAid & Allsop.

Giving Tree

Thank you to Allsop staff who generously purchased £675 of vouchers for children in refuges through the Kidsout kidsout.org 'Giving Tree'.
A brilliant way to bring gifts and experiences to disadvantaged children.

Lockdown Race to Return

Collectively from 24th February to 15th April we cycled ***8,180.42km*** and ran ***8,227.44km.***

Huge thanks to all participants and congratulations to our winners.

Running/Walking

1st place: Alex Ward
610.67km

2nd place: Helen La Frenais
462.09km

3rd place: Hayley Good
416.22km

Cycling

1st place: Richard Bourchier
1,205.98km

2nd place: Alex Pugh
1,020.73km

3rd place: George Debreceni
928.97km


Alex Ward


Richard Bourchier

Lockdown Entertainment

Friday fun with Receivership Team

Deciding that it's Friday and that it's the Cheltenham Gold Cup, the team abandon their regular Teams meeting to have an impromptu sweepstake. Turns out they don't know anything about horse racing but it was fun finding that out.

Commercial Valuation Team CookAlong

Recipes for main course and dessert were sent out to the team and culinary genius emerged. Great fun too. Thanks to guru chef Sara Chalmers and well done to Sally who cooked all hers in an Aga.

Never Too Young Campaign

NEVER TOO YOUNG

After sadly losing Sophia Sangchi to bowel cancer at just 32 a year ago, the 'Never too Young' campaign she worked to set up launched in November with a mission to shine a light on young bowel cancer patients. Allsop and her family are beyond proud of this awesome young woman and her amazing legacy which has already brought about change in clinical practice and policy in the fight to save young lives.

Commercial Deals

National Investment

Hornet Portfolio, UK wide
SOLD FOR £35.27M 5.9% NIY
Seven industrial assets with a total floor area of 270,472 sq ft. Average unexpired term of 3.5 years (2.5 years to breaks).
Industrial Investment

National Investment

CRM Portfolio
SOLD FOR £20M 5.2% NIY
Three multi-let industrial assets in Greater London, with significant rental reversion and management potential. Corporate structured transaction.
Industrial Investment

National Investment

M&S Supermarkets, Ferndown and Haslemere
ACQUIRED FOR £14.65M 4% NIY
Two prime supermarket investments, located within exceptionally affluent areas.
Retail Investment

National Investment

Sandford House, Solihull, B91
ACQUIRED FOR £10.5M 5.92% NIY
Government let office building with ten years term certain in a prime Solihull location.
Office Investment

West End Investment

1 St. James's Square,
St. James's, London SW1
ACQUIRED FOR £250.1M
4.16% NIY
Super prime garden square freehold, single let (BP) office building with future development potential.
Investment Opportunity with Development Potential

West End Investment

21 St. James's Square,
St. James's, London SW1
SOLD FOR £187.5M
3.65% NIY
Trophy garden square freehold; comprehensively redeveloped and refurbished, fully let office building.
Office Investment Opportunity

Commercial Deals

West End Investment

26 Dean Street, Soho, London W1
SOLD FOR £2.4M 3.00% NIY
Freehold restaurant, private members club and offices. Single let (t/a Quo Vardis & Barrafina) for further 14 years.
Leisure Investment Opportunity

West End Office Leasing

Swan House, 17-19 Stratford Place, W1
DISPOSAL OF 4,000 SQ FT on behalf of M&G. Seventh floor let to Mountpark after competitive bidding.

City Investment

Liberty Place, 4-12 Norton Folgate, London E1
SOLD FOR £30.50M
£486 per sq ft on the consented NIA
Regeared LLH vacant office building with planning consent for a refurbishment and extension to 62,764 sq ft.
Vacant Office Refurbishment / Redevelopment

West End Office Leasing

3 Dryden Street, WC2
DISPOSAL OF 3,000 SQ FT on behalf of Donmar Warehouse.
This creative warehouse style office space was let to 23 Red.

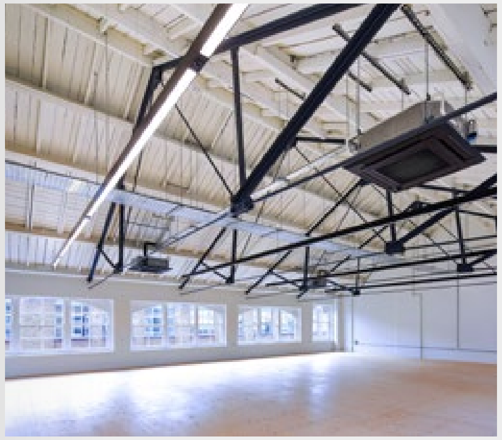
West End Office Leasing

15 Rathbone Street, W1
ACQUISITION OF 1,500 SQ FT
New office premises acquired on behalf of Ark Data Centres.

City Office Leasing

168 Shoreditch High Street, Shoreditch, London E1
DISPOSAL OF 14,564 SQ FT on behalf of Max Barney.
Over the last six months, the City Team has secured three new tenants; Matter of Form, Kreston Reeves Accountants and Given Agency to this new build development in the centre of Shoreditch.

City Office Leasing



6-14 Underwood Works, Old Street, London N1
DISPOSAL OF 5,368 SQ FT on behalf of WRE and U-City.
The City team has carried out four lettings at Underwood Works, a converted pre-war paper production warehouse, with the latest deal secured in March 2021 to Hassell Studio.

City Office Leasing

Panagram, 27 Goswell Road, Clerkenwell, London EC1
DISPOSAL OF 28,360 SQ FT on behalf of Dorrington in January 2021.
Secured a letting to Leigh Day for the majority of the building in a very challenging market.

Commercial Deals

Auction

Boots Sales National
20 assets sold in Q1 2021
SALES PRICE RANGE £390,000–£1.1M+
4.65%–9.62% NIY
The sale of a national portfolio containing pharmacy investments let to Boots with varying lease lengths.
Retail / Pharmacy Investment

Auction

Santander Sales National
29 assets sold in Q1 2021
SALES PRICE RANGE £150,000–£1.652M
3.99%–14.04% NIY
The sale of a national portfolio containing bank investments let to Santander with varying lease lengths.
Retail / Banks Investment

Auction

West Orchards Shopping Centre, Coventry
SOLD FOR £4.850M 18.5% NIY/£22.09 per sq ft
City centre leasehold shopping centre investment comprising 219,503 sq ft and part let to M&S until 2087.
Retail / Shopping Centre Investment

Auction

1–17 Victoria Road & 69–83 Park Way, Ruislip Manor
SOLD PRIOR FOR £10.5M 4.28% NIY
Freehold unbroken parade with planning permission and further development potential comprising 14 shops, 18 flats and land to the rear adjacent to the Underground Station.
Retail Parade / Added Value / Development

Residential Deals

Auction

102–104 Rose Hill, Sutton, Surrey, SM1 3HB
SOLD FOR £1.7M
Vacant freehold development site of approximately 0.097 hectares (0.239 acres).
Development Opportunity

Auction

24 Adolphus Road, Finsbury Park, London, N4 2AZ
SOLD FOR £1.74M
Freehold semi-detached building arranged as eight flats with planning permission.
Investment Opportunity with Development Potential

Auction

Former The Shoulder of Mutton Public House and land, Owlswick, Bucks, HP27 9RH
SOLD FOR £3.032M
Freehold former public house building and land with planning for a total of nine houses.
Investment Opportunity with Development Potential

Auction

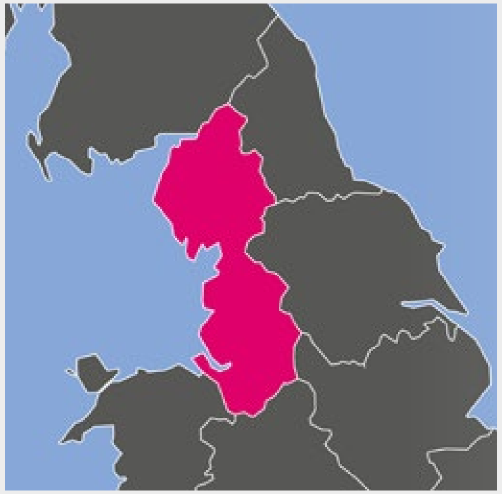
512 Kingsland Road, Dalston, London, E8 4AE
SOLD FOR £2.54M
Freehold three storey corner building comprising bar/nightclub and ten flats above.
Investment Opportunity

Residential Deals

Residential Transactional and Living Markets

Our integrated approach across the UK, offers services encapsulating student investment, residential investment, development and build to rent.

Residential Investment



North West Portfolio
ACQUIRED FOR c£32M
Portfolio comprising 438 houses and flats situated across the North West of England.
Investment Opportunity

Residential Investment

9 Devonshire Terrace, London W2
SOLD FOR c£7M
Eleven apartments in an attractive mid terraced stucco fronted building.
Investment Opportunity

Residential Investment

Grainger Regional Portfolio, UK wide
SOLD FOR c£21M
Portfolio comprising eight residential freehold blocks, fully let on ASTs.
Investment Opportunity

Residential Development

Land at Church Fenton, Tadcaster
SOLD FOR £4.985M
Former army barracks with a lapsed planning permission for 124 dwellings.
Development Land Opportunity

Residential Development

Bollo Lane, 2–10 Roslin Road, Ealing
SOLD FOR c£15M
Former industrial site with planning permission for a mixed-use scheme. Comprising 101 residential units with commercial units at ground floor.
Investment Opportunity with Development Potential

Student

Prime HMO Portfolio in Exeter
SOLD FOR C.£6.0M
Off-market student HMO acquisition consisting of 66 beds.
Student Investment Opportunity

Student

Beech Gardens, Birmingham
ACQUIRED FOR £10.4M
242 bed PBSA in Birmingham.

allsop.co.uk

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