2021 Q3

MARKET UPDATE

Commercial & Residential

allsop

Contents

The Economy 01

City & City Fringe Leasing Market 02

City & City Fringe Investment Market 03

West End Leasing Market 04

West End Investment Market 05

National Investment Market 06

Commercial Auction Market 07

Residential Auction Market 08

Residential Transactional and Living Markets 09

- Investment
- Development
- Student Housing
- Build to Rent

Residential Letting and Management 10

Business Rates 11

Economic Overview

As the summer break seems a distant memory and the Autumn business period is well underway the pandemic remains in the background, with rather worryingly cases on the rise again. London and our cities are certainly busier as workers are increasingly returning to the office, and are being encouraged to do so. Life is returning to normal but in some respects, it does seem to be taking a lot longer than everyone expected.

As we pull away from the worst of the pandemic and we get used to life after Brexit we are seeing a range of issues and some fundamental growing pains in the economy which are of increased concern. Supply chain problems, fuel price rises, shortages of building materials, backlogs at container ports, a lack of staff in our shops and restaurants and queuing at petrol stations. The recovery has become far from smooth with some sectors in crisis and shortages and increased labour costs forcing price rises and increasing inflationary pressures.

Until now most commentators and the Bank of England viewed the increase in inflation as “transitory”, a short term blip caused by economic growth expected to max out at 4% CPI which would wash through by the spring. The bond markets are however now becoming more concerned with yields on the rise. Some forecasters predict CPI inflation of 5% to 6% by Christmas and that interest rates will be increased out of necessity by the end of the year, perhaps to 0.25% to start with and possibly further going forward to keep inflation under control.

With rate rises looking more likely what does this mean for the real estate markets going forward? Rates have been incredibly low for some time now which have helped fuel the market and as the uncertainty created by the pandemic steadily moves away the attraction of property is well apparent. Perhaps the white heat in some sectors will cool but with a volatile stock market, a lack of alternative investment choices and a shortage of housing stock we don’t expect a sudden halt to proceedings.

Ed Dunningham
DL +44 (0)20 7543 6739
edward.dunningham@allsop.co.uk

City & City Fringe Leasing Market

87% of take up in the last month is for Grade A stock

Q3 2021 has witnessed a significant improvement in market activity particularly since the end of the summer holidays and the return to school and the success of the vaccination programme. Whilst there is still caution over the continued rise in infection rates and concern in the economy with rising energy prices and delays in the supply chain for the delivery of goods, the office market has continued to see strong growth in the last quarter.

The majority of businesses are witnessing a return to the office and many are now settling in to the hybrid working routine. Many workers are returning to offices on a Tuesday, Wednesday and Thursday. Mid-September has witnessed the busiest rush hour since pre-pandemic with commuting 50% higher than in August and the underground witnessing more than 2 million passengers a day for the first time in 18 months.

The bars and restaurants are often fully booked mid-week be it for breakfast, lunch or evening drinks.

The drive for many mid-sized businesses to commit to space is still a little delayed as many corporates are reviewing their space audits and working through potential headcount over the next 6 months. This is largely due to the significant growth since the pandemic, the change in working practices and the fluctuation of employment figures.

The exception over the last quarter has been the pre-let market where many businesses and in particular the legal sector are striving forward and committing to pre-lets well into 2023, 2024 and beyond. Occupiers are committing to a reduced space take but with the opportunity for option space prior to the completion of schemes.

The take up figures for the summer witnessed the highest levels since January 2020 as the Covid pandemic began to spread through Europe. Take up for Central London sits at 2.7 million sq ft up 50% on the previous quarter but is still 10% below the 10 year take up figures.

The major deals for the quarter have been the Travers Smith acquisition of 154,000 sq ft at Stonecutter Court taking a lease of 15 years with 36 month's rent free at a blended rent of £76.00 per sq ft pa. The top rent is rumoured to be in the mid £80.00's per sq ft. Inmarsat has acquired 118,000 sq ft at 50 Finsbury Square on a 20 year term at a blended rent of £70.00 per sq ft pa. The other notable professional firm was Skadden moving from Bank Street in Canary Wharf to take floors 38-40 at 22 Bishopsgate on a 15 year term at a blended rent of £79.50 per sq ft pa.

The professional sector has continued to dominate market take up with many other law practices also looking to commit in the coming months. These include Kirkland and Ellis 275,000 sq ft, Dentons, 60,000 sq ft, Addleshaws 90,000 sq ft, Reed Smith, 100,000 sq ft Hogan Lovells 250,000sq ft and Allen and Overy taking 350,000 sq ft at 1 and 2 Broadgate with many others reviewing their position.

Demand levels have increased for 'Best in Class' stock with 87% of take up being Grade A stock in the last month. This is expected to continue with strong interest in Sumitomo Mitsui's 8 Bishopsgate and M&G's Stanza, 40 Leadenhall Street with insurance and financial occupiers such as Chubb Insurance, Aviva, Lloyds of London, William Blair and Holman Fenwick Willan all committing or discussing terms on both buildings.

The Fintech sector has experienced growth during lockdown although many of these business' are still struggling to identify their specific growth counts having expanded successfully during the lockdown. Active occupiers are Go Cardless, Afterpay, Braze, AccurRx and Accenture Digital.

The Allsop deals tracker has been running for 40 weeks and the latest figures are now showing record viewings of 31 in the last 2 weeks with an average of 17.2 viewings in 2021 compared with 7.2 in 2020. Agent enquiries are now up to 107 per week with an average of 88.5 in 2021 compared with 53 in 2020. Since the Boris announcement on the 22 February we are averaging 18.9 viewings per week. We have witnessed 576 viewings and 2,878 enquiries.

Supply currently stands at just over 27 million sq ft for Central London, a slight reduction in availability due to the removal of second hand space being withdrawn from the market in the last 3 months. This equates to a vacancy rate of just over 9.0%. Supply is expected to increase slightly in the City this quarter with the completion of schemes including The Hylo, 250,000 sq ft, The Gilbert, 150,000 sq ft and the release of space from St Botolph Building, 290,000 sq ft.

Headline rents are currently at £70 per sq ft for a typical Grade A supply although premium rents continue to be achieved for new 'Best in Class' stock. Exceptional upper floors with terraces are now achieving higher rental tones in the £80's per sq ft pa.

Rent free periods remain at 2.4-2.7 months per year for good quality stock although Grade B second hand supply is having to compete with higher volumes of competition and so additional incentives are being granted to minimise leasing voids.

James Neville
DL +44 (0)20 7588 4433
james.neville@allsop.co.uk

City & City Fringe Investment Market

With the success of the vaccination roll out and the gradual 'return to the office' gathering pace towards the end of the quarter, the Q3 City and City Fringe investment market has experienced a second consecutive healthy quarter in terms of investment transaction volumes. More so than ever in 2021, the market has been characterised by a huge weight of capital with a distinct lack of buying opportunities, which has driven record pricing for a number of core assets. This is in absence, for the most part, of Asian capital which was the largest investor group by volume in 2017 and 2018. Asian investors in particular continue to experience difficulty navigating quarantine upon return from the UK, despite the UK unlocking for foreign travel. However, with further travel corridors soon to be relaxed following the Covid pandemic, the stage is set for Q4 to return to its busiest and typically highest turnover of the year.

During the third quarter of 2021 we have recorded £2.293Bn of commercial property transactions in the City and City Fringe Markets. This is down approximately 8% on Q2 2021, up 262% on Q3 2020 and up 9% up on the 5 year average. This total has been recorded across 25 transactions, 6 higher than the last quarter, 9 higher than 2020's quarterly average (16) but 8 below the 4 year quarterly average prior to Covid (33).

As sentiment improves following the relaxation of Covid restrictions, the number of £100M + transactions continues to grow, a continuing trend from the previous quarter. Q3 2021 witnessed 9 deals over £100M, the highest number since Q4 2019 and 1 more than last quarter's figure. Q3 2021's total is also 3 higher than the 5 year quarterly average of 6. The average transaction size for Q3 2021 was £91.71M, which is 16% higher than the 2 year average (£77.19M).

Appetite for securely long-let investments in core locations, particularly from European funds, continues to be strong for both freehold and long leasehold interests. Deka continued its aggressive acquisition drive by purchasing 8-10 Moorgate EC2 for £170M, which reflects 3.85% and £1,239 per sq ft for a 7.50% geared long leasehold interest, let to ING for a further 12 years. Similarly, Italian fund Generali Group purchased Times Square EC4 for c. £465M in the largest deal of the quarter. The 375,000 sq ft long leasehold interest was sold by Blackstone and is multi-let with a WAULT to expiries of 15 years. The price reflected a net initial yield of 4.07% and a capital value of £1,235 per sq ft.

Value-add and development deals made up nearly half of transactions in Q3 2021, demonstrating the now common belief in the importance of the office, albeit with a particular focus on 'best in class' and creating the highest possible ESG credentials. This was demonstrated by EDGE and Mitsui Fudosan's purchase of the Stock Exchange site, 1-5 Earl Street, EC2 for £165M. The joint venture has exchanged contracts following a highly competitive bidding process, for a substantial island site situated at the hugely popular boundary where the City of London meets Shoreditch. The site has planning for a new build scheme of approximately 410,000 sq ft, with the price paid reflecting approximately £400 per sq ft on the consented area. Appetite for letting risk even in the short term was demonstrated by a private client of BNP Paribas' purchase of 68 King William Street, EC4 for £130M. The prime and prominent freehold was comprehensively refurbished by Black Mountain Group with the entire office accommodation (c. 67,000 sq ft) vacant at the time of purchase.

The trend of off market transactions continued into the third quarter with approximately £2Bn trading 'off-market', 87% of the quarter's total. As we enter the final quarter, with travel corridors likely to reopen to the Middle East, North America and Asia, we expect there to be more widely marketed stock available as sentiment improves further.

Whilst there is currently insufficient evidence to suggest prime yields have dipped below 4.0% to 3.75% for the first time in history, we believe there will be support for this by the end of the year. Certainly transactions such as Times Square EC4 and 8-10 Moorgate EC2 suggest prime City yields are on this trajectory. This is reflective of favourable debt terms still being offered by lenders allowing investors to continue to achieve attractive cash on cash returns. Whilst margins have increased generally, the all-in rate has remained attractive. This could change in the short to medium term, with rising inflation and potential interest rate rises.

Despite only accounting for 16% (4) of the transactions, Europeans (not including UK) investors made up 38% of the deals by volume, consisting largely of Generali Group's acquisition of Times Square, EC4 for c.£460M. North American investors followed with 28% of deal volume while only accounting for 5 deals. Despite the UK unlocking and allowing foreign travel, overseas investors are still having to navigate quarantining when returning home. This has been particularly the case for investors from Asia who, unsurprisingly have been less active in the City market in 2021. Asian investors have only acquired three buildings in 2021, and eight since Q2 2020. Asian investors had been the number one buyer group in the City market in 2017 and 2018 and it is anticipated they will return following a relaxation of quarantine requirements, most likely in Q1/Q2 2022.

With the huge weight of capital seeking Central London real estate, we anticipate the most buoyant quarter of the year in Q4, where many vendors will look to capitalise on this demand by marketing properties more openly, creating competitive tension from investors that have struggled to deploy capital since pre Covid.

Matt Millman
DL +44 (0)20 7588 4433
matt.millman@allsop.co.uk

West End Leasing Market

The office leasing market recovery is continuing, with current take up c. 60% up on this point last year in the West End. The overriding theme of occupiers opting to upgrade their space in an attempt to draw employees back to the office is strongly reinforced by the fact Grade A space accounts for 92% of this new take up. The nature of the recovery is notably sector specific with financial and high end tech requirements driving the majority of the demand. These trends are borne out by our own activity with an increasing number of occupier mandates being actioned and our viewing tracker exhibiting viewings up over 50% for the period since our last report.

West End take up totalled 1.18 million sq ft, which demonstrates a continued recovery and the highest quarterly take up since Q1 2019. The most prominent transactions this quarter include TOG securing a pre-let of 138,000 sq ft at Argent's R8 Development site at King's Cross, Octopus Energy securing 51,682 sq ft at UK House, Great Titchfield Street, W1 and Smart Pensions committing to 44,500 sq ft at 136 George Street, W1 after a protracted period of negotiations.

In terms of supply West End vacancy now sits at 6.8% of total stock. Whilst this is still some way above the pre-pandemic vacancy level (c. 4% in Q1 2020), this demonstrates a further quarter on quarter reduction from the peak 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 people return to the office. 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. Super Prime rental levels in Mayfair are now approaching new heights of c.£150-160 per sq ft plus more regularly for the best small floorplates with outside space. It remains to be seen whether this upward pressure at the top end of the market will ultimately translate to rental increases on more standard floors in prime buildings.

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 via 'fully fitted' options, whether this be Landlord fitted CAT A plus or securing surplus tenant accommodation. The one overriding theme is that quality continues to be king and premium product will continue drive improved headline rentals.

We see occupier demand continuing to recover in the West End, moving closer to the long term average levels

Richard Townsend
DL +44 (0)20 7543 6718
richard.townsend@allsop.co.uk

West End Investment Market

Q3 recorded a total of £1.75Bn exchanged or exchanged and completed in 36 transactions, which reflects an average lot size of just under £49M. This marks the highest Q3 figure since 2018 as confidence continues to build.

The year to date total (Q1-Q3) now stands at £3.5Bn across 73 transactions. The five year average is £6.6Bn, which pre-pandemic was running at £7.4Bn.

The largest transactions to take place this quarter, all in excess of £100M, which made up nearly 40% of the total volume were: the off-market acquisitions of 250 Euston Road, NW1 for £188.5M / 2.32% NIY by Derwent London and 8 St. James's Square, SW1 by DEKA for £220M (3.50% NIY); and the sales of 47-50 New Bond Street, W1 to Al Khashlok Group for £228M / 3.27% NIY and Cassini House, 57 St. James's Street, SW1 for £145.5M / 3.23% NIY to a Private Asian Investor.

The 'flight-to-prime' theme for the past 18 months has continued and intensified during Q3, resulting in downward pressure on prime office yields which now sit at 3.25% NIY. A key illustrator of this is Cassini House, SW1 that traded for 3.23% NIY, c. 25 bps ahead of guide and 5 St. James's Square, SW1 that sold for £75M / 2.84% NIY. Super-prime assets continue to attract fierce competition from High Net Worth Investors that drive pricing, and often vendors of such assets are willing to hold them until their pricing expectations are met - this was the case with 5 St. James's Square, which was originally launched to market in 2019.

International investment was slightly down this quarter accounting for 65% of transactions (typically c. 75%), with there being a notable absence of American funds (only two transactions) but a resurgence of Asian monies who were responsible for five transactions (vs one Q2 2021), two of which were big ticket lot sizes in excess of £100M (Cassini House and New Bond Street), and Middle Eastern monies (two transactions vs zero Q2 2021).

The traditionally quiet summer period, particularly with regard to new 'far & wide' marketing campaigns, has come to an end with £1.0Bn of stock having been formally launched to the market since the start of September and we are tracking a further £500M set to imminently come to market. This coupled with the c. £3.0Bn of assets 'Under Offer' that we are tracking, means we are anticipating a particularly active Q4, especially as travel restrictions are beginning to ease and confidence returns to the occupational market as London's workforce returns to the office - Bloomberg's 'Pret Index' reports sandwich sales in the West End have now reached 100% of their pre-Covid base.

As we look towards the end of the year there remains a diverse and significant weight of capital looking to deploy into London's West End - possibly more equity allocated to London than at any point in its recent history, and it remains focussed on both Core and Value-Add type assets. The rationale behind both investor types is an emphasis on 'prime' real estate; either the ability to acquire a ready-made trophy West End real estate as a Core transaction or the ability to create a prime product by pursuing a Value-Add strategy.

Volumes in the second half of the year could finish at double that of the first half, and therefore close to the 5 year average. We anticipate positive investor sentiment towards both leasing and capital markets will continue to build, with investor requirements significantly outpacing available stock.

Chloe Newton
DL +44 (0)20 7543 6886
chloe.newton@allsop.co.uk

05

As we look towards the end of the year there remains a diverse and significant weight of capital looking to deploy into London's West End

National Investment Market

Commercial property volumes are showing signs of turning a corner registering strong growth in Q3 2021 volumes on the same time last year.

2021 transaction volumes for the entire UK market were down as follows:

Full year 2020 (as of 05/10/2021)	H2 2021	Q3 2021
£43.58Bn Down 14.6% on full year 2020	**£23.87Bn** Down 3.7% on H2 2020	**£10.3Bn** Up 17% on Q3 2020

Retail

Whilst the UK is facing economic challenges such as rising inflation, the risk of rising unemployment, with the end of furlough and an apparent widening skills gap, consumer spending has remained high and is the main driver behind the current economic rebound. Shoppers are feeling more comfortable to return to in town shopping as time goes on which has helped to rejuvenate the High Street in the short term and alleviated some of the financial pressure that Covid imposed on retail tenants, however with winter looming, there is a sense of caution in our forecasting.

Transparent rental accounts, rent arrears' management plans and other rental arrangements are the key considerations for investors purchasing retail assets in the current climate. This window of hardship has allowed negotiations in many cases between landlords and tenants to review the latter's occupation, evaluate the rents being paid and perhaps agree lease extensions. We have witnessed an emerging trend of secondary retail tenants transitioning to a monthly rental basis and although we do not foresee this becoming the new norm, we do expect this to carry on whilst the rent moratorium is in place.

It is no secret that we are undergoing a transformational period for retail property, but perhaps the most striking shift of it all is the change in ownership type. Funds and property companies looking to tighten their portfolios and release underperforming assets is being met by the private investor's search for add-value which keeps the transactional market ticking over.

This quarter we have been involved in the sale of the Green Oaks Shopping Centre in Widnes – this was marketed last year at £8M but following further tenant setbacks, we have been seeking £4M. What is apparent is that once a scheme reaches a certain pricing level (c. 5 YP) the investor interest is extremely strong – 8 bids have been received to date.

With some resilient retailers such as grocery, DIY and discount shopping, one can understand why the retail market remains buoyant.

Gergo Petrovics
DL +44 (0)20 7543 6847
gergo.petrovics@allsop.co.uk

Offices

Following a slightly more vibrant Q2, in Q3 investor appetite for regional offices has continued to come back fairly strongly. By August, year to date volumes had risen 170% from 2020 and we are already ahead of 2020 full year transaction volumes.

A good example of the strong depth of demand for best-in-class office assets and the life sciences sector is Brookfields purchase of the Arlington portfolio consisting of both regional business and science parks for £714M; this portfolio was very popular amongst a wide range of buyers.

Well let government income remains popular with Abrdn's recent acquisition of the government let Temple Quay House in Bristol for £75M reflecting 3.75%, the lowest yield ever paid for a less than 20 year income deal in the regions.

Formas' purchase of Aurora, Glasgow for £55m reflecting 8.4% is one of several office transactions to have taken place with shorter income profiles and highlights the slight increase in willingness of some investors to embrace risk of late.

Whilst strong requirements for offices, whether it be multi or single let, has cooled dramatically over the past 18 months we are seeing signs of recovery, particularly for quality stock. Long income assets let to secure covenants are well contested and overseas money is returning. We forecast that the market for Secondary and Tertiary offices will take longer to return as occupancy continues to fluctuate and rents rebase themselves in the near term.

Lottie Hayward
DL +44 (0)20 7543 6750
lottie.hayward@allsop.co.uk

Industrial

2021 looks set to be another record breaking year for the industrial sector with £10.7Bn already traded, more than double the five-year average with three months left to go. The third quarter of 2021 was the fourth consecutive quarter where over £3Bn of deals were transacted and we are not seeing signs of any slowing yet.

Occupational take-up in H1 of 2021 hit an all-time high, the strongest half year on record, whilst supply dropped to an all-time low. Retail and wholesale occupiers continued to be the most active, with Amazon accounting for a massive 20% of take up in H1.

Portfolio sales have accounted for 54% of the market share at the end of the third quarter, of which logistics continues to be the main driver of activity with a 30% share. In the multi let sector there has been a marked improvement in transactional activity, after an 8 year low in 2020. This has been driven by greater investor confidence following a resilient 18 months of rent collection and low tenant defaults.

Overseas capital continued to dominate, climbing to 50% of total volume, predominantly from North American buyers. However the Institutions, after 5 years of being net sellers, emerged as net buyers in Q3 and continue to be acquisitive.

Unsurprisingly investor demand continues to push up prices and hammer down yields. Average industrial yields moved in by 70bps over the first three quarters to a new low of 4.56%. London continues to outpace the other regions as over £1.2Bn has been deployed, compressing average yields to around 3%.

With the shortage of supply and limited new development, rents will continue to rise further exacerbating the pricing problem as demand is not abating.

Richard Gale
DL +44 (0)20 7543 6755
richard.gale@allsop.co.uk

Retail Warehousing

After a particularly buoyant Q2 which saw lockdown restrictions ease and a significant increase in transaction volumes (£805M), the sector saw continued resilience as transaction volumes reached £655M for Q3. Albeit a reduction against Q2, the sector is firmly on pace to outperform the total 2020 investment volumes, signalling a continued improvement in market sentiment with investors seeing the sector as a real pocket of value with attractive yields for medium to long income stabilised stock.

The majority of market activity took place in the later stages of the quarter with 5 deals in excess of £40M. Notable transactions included the Railpen portfolio comprising two retail parks in Cardiff and Scunthorpe which together traded for £68M to a JV between iSec and PGIM Real Estate, reflecting a NIY of 9% (source: PropertyData). Two transactions also completed at £84M respectively, the first of which saw British Land purchase Thurrock Shopping Park, reflecting a NIY of 6%. The second transaction saw The Fort Shopping Park in Birmingham sell to a JV between Invesco Real Estate and George Capital LLP.

Capital flows are strongly weighted towards institutions and large Property Companies as they view the sector as one with defensive fundamentals against traditional retailing. In particular, the type of goods sold are less susceptible to online retailing as a high proportion of sales are fulfilled in-store as consumers still wish to see and touch products. Additionally, as click-and-collect spend is forecast to increase to c.£10BN by 2024, retail warehousing benefits from the omni channel retailing model as well as large stores, relatively low rents and significant car parking amenities.

We expect to see continued yield compression in this sector during the course of the next 6-12 months.

Andrew Wise
DL +44 (0)20 7543 6731
andrew.wise@allsop.co.uk

Portfolios

The summer months of 2021 totalled over £5Bn in volume, accounting for 52% of all portfolio deals so far this year, and is a perfect representation of how quickly the market has recovered from the most recent national lockdown.

August has naturally been restricted by the summer holiday period with volume totalling c.£800M, this is more pronounced in 2021 than a typical year as we witnessed at face level the market enter a period of relative hibernation. Behind the scenes however, this has been a period of preparation for September and it was positive to see numerous early details for portfolios circulate in the market; a majority of these are now released formally and have found a positive depth of interest and competitive bidding.

Given the increasing supply feeding into industrial, office and alternative sectors, we expect a strong finish to the year. Q4 2020 totalled c.£3Bn of volume and was arguably stifled by lockdowns either side. We expect these totals will be exceeded and if they are, will place the year of 2021 at a higher volume than 2018 and 2019 and significantly above the five year average.

At Allsop, we are working at the forefront of this recovery having completed two large portfolios in 2021 including Project Port Office Portfolio (£22M) and Project Winding Lake Pub Portfolio for £95.2M in addition to over £500M of portfolio transactions on the desk entering Q4 2021.

There is clear momentum in the market, as evident elsewhere within the economy, and the winter months are shaped up to be an exceptionally busy period.

Tom Dales
DL +44 (0)20 7543 6866
tom.dales@allsop.co.uk

Commercial Auction Market

The auction sales in the third quarter of the year have simply confirmed the continued appetite from the private investor. During the period we have had two auction sales with the most recent, on 23 September raising £104M as we go to press which is the largest sale since the market slowed in the run up to Brexit and the General Election of 2019.

We have traded £182M in total, which amounts to £428M year to date. This is an increase on 2020 of 36%, the sector overall has improved alongside this with sales having improved by 22% on the same period last year.

Several trends have emerged from the market, the appetite for larger lots, the return of the overseas buyer and continued dominance of retail assets.

Demand for the larger lots has been central to the increase in sales volumes which can be illustrated by these examples, two sales at £5M from the September auction.

Lots 35 & 54: Swindon

Pegasus House, the former Head Office of Readers' Digest with attached industrial unit, arranged over 63,609 sq ft in total. Sold at £5M prior to auction, £78 per sq ft.

Lots 25 & 31: Chichester

Two lots comprising a modern trade counter of 15,053 sq ft let to Jewson Limited at £176,625 p.a. until 2032, and an industrial unit of 34,730 sq ft let to West Sussex County Council at £144,125 p.a. until 2030. These lots sold prior to auction at combined price of £5M (6% NIY)

Our survey for the Summer Review **(Click to read)** showed that overseas buyers were returning to our market and this was evidenced by the September sale when one buyer alone bought ten assets across the UK and in all sectors. Whilst travel restrictions are only just easing, this is a positive sign and assisted greatly by the availability and low cost of funds for an experienced portfolio buyer.

The retail sector has continued to form the lion's share of our sales, with the very best being competed for as buyers remain confident and of course familiar with the asset class.

We typically rely on the initial yield as a tool of comparison and pricing but its efficacy has been challenged recently by the clear demand for the best located assets, particularly those with unexploited upper floors where the alternative use value can often deliver higher medium term returns for the Landlord.

Lot 33 July: Boots, Southgate, N14

This example, a shop and two upper floors of 4,746 sq ft entirely let to Boots on a five year lease at £55,000 pa sold at £1,765,000, a meagre initial yield of 2.9% net and £371 per sq ft.

The range of retail yields remains very wide as it can be an unreliable tool where leases are over rented and tenants still negotiating concessions and new leases being granted. All the shopping centres are documented off passing rents rather than a triple net income figure so that each buyer can make their own assessment. These all show a notional initial yield of over 20% for the £11.5M of these assets sold which would be much lower on a triple net basis.

Whilst the highpoint for the yield range of the remaining sales is in double figures, only 6 of the 91 retail lots sold are above 10% which shows a returning confidence to the sector. Our annual review will examine the yield trends in more detail.

We continue to review each auction with a brief podcast available **(here)**, we are always happy to have your comments on this, to podcasts@allsop.co.uk, with the question posed most recently on how the market deals with turnover rents.

We anticipate a strong market continuing for the rest of the year as we will bring two more catalogues to market on 2 November and 8 December

Demand for the larger lots has been central to the increase in sales

George Walker
DL +44 (0)20 7543 6706
george.walker@allsop.co.uk

Residential Auction Market

Our last market bulletin (Q2) highlighted the resilience of the residential auction market during the first half of this year. This buoyancy has continued throughout the third quarter despite the phasing out of stamp duty concessions, the end of the furlough scheme and general economic uncertainty as the UK, and the rest of the world, endeavour to navigate a path post pandemic.

2021 is the first year that Allsop has held an August auction. Held online on the fifth of the month, the sale has to date raised over £32.4M with 93% of all lots offered now successfully sold. Despite being held at the height of the holiday season, demand was reassuringly strong. On the day of the auction, there were 3,284 bids and more than 650 bidder registrations, with some of the most popular lots attracting more than 150 bids each. Travel restrictions and quarantine requirements due to Covid ensured that fewer buyers were abroad at this time of year. Irrespective of this, our online offering enabled bidders to engage no matter where they were in the world.

The highest value lot to go on the day was a freehold building with seven self-contained apartments in Elephant & Castle. It sold for £1.39M. A former education facility in Swansea with potential for change of use or redevelopment sold for £217,000, almost five times the guide price of £45,000. A freehold building in Thornton Heath, Surrey with development potential was originally guided at £570,000. It was sold for £1,307,000, after bids were received from 30 potential buyers. And a three-bedroom semi-detached house in Sevenoaks, Kent which attracted more than 150 bids, sold for £378,000, substantially in excess of the guide price of £225,000.

> The total raised in 2021 from residential auction sales is currently £281.96M. At this point in 2020, the equivalent total was £220.5M - an increase year on year of 28%.

Having taken £32.4M from the market in August for the first time, concerns were raised about the potential for building a traditionally mammoth September catalogue. Even if the stock were there to be sold, would there be sufficient buyers to sustain a strong result? Any fears were soon allayed. On 10 September the catalogue was released promoting 236 lots across the UK - 21 with guide prices at or above £1M. Buying opportunities included Grade II Listed buildings, owner-occupier "value-add" homes, student investments, roof spaces and development sites. Early interest was shown by both domestic and international buyers. The easing of restrictions and the acceptance of safety measures helped to increase the number of in-person viewings.

The sale was held online on 30 September and has, at the time of writing, raised over £61M from the sale of more than 165 lots. The success rate was 82% and demand was as strong as we could have hoped for. On the day of the auction, there were 5,770 bids and more than 1,166 bidder registrations. 12 lots were purchased for £1M or above and the average lot size was £360,440. The result was the highest total for a residential UK sale this year and, with the August sale, set a record for residential auction receipts in August/September at £91.6M. The highest value lot to go under the hammer was a freehold semi-detached building in Willesden Green, London, in need of renovation, which sold for £1.3M. It was originally guided at £920,000. An unmodernised two-bedroom maisonette in Islington, London, sold for £706,000, well above its guide price of £310,000, having drawn 396 bids. A freehold detached four-bedroom house in Epsom, Surrey, sold for £702,000 - originally guided at £350,000 - with 59 buyers having registered to bid for it. And a partially completed freehold residential development scheme in Camden Street, Liverpool sold at £712,000 from a guide price of £350,000.

Lot 113 September: Liverpool (CGI)

The total raised in 2021 from residential auction sales is currently £281.96M. At this point in 2020, the equivalent total was £220.5M - an increase year on year of 28%.

Our next residential auction will be held online on 9 November. This again promises to be a large sale with a broad choice of opportunities. We remain positive about the market for the remainder of the year and beyond. There is an increasing interest in the UK from overseas investors, particularly for high quality stock in London and the south-east. Values continue to rise in well-connected rural locations as an outdated urban and suburban living-commuting lifestyle gives way to more flexible remote working patterns. Development opportunities will continue to favour buyers as long as the delivery of materials is challenged by impaired supply chains due to lack of drivers and a continuing fuel crisis. Rental demand remains strong across the country thus ensuring a favourable climate for buy to let investors (despite a less favourable income tax environment). And owner occupiers will continue to search the auction catalogues for ways to add value to unmodernised properties.

For the foreseeable future, residential remains resilient.

Gary Murphy
DL +44 (0)20 7344 2619
gary.murphy@allsop.co.uk

09

The fundamentals around residential investment remain strong

Residential Transactional and Living Markets

Investment

Picking up from where we left off in June, the world seems to have returned to almost normal. Our cities are buzzing again, the roads are packed (certainly around petrol stations anyway), trains and tubes are rammed, offices with people in them (who would have thought it?) and perhaps some of us are now even looking back over our shoulders a little wistfully.

Traditionally our market slows down in July and August due to holidays and September is the traditional time to launch new stock once everyone has returned to their desks. This Q3 certainly had those hallmarks but we were busier than usual with a couple of significant transactions including the corporate sale of a large Equity Release portfolio, comprising 450 houses with an asset value of c. £69M; and the sale of a large HMO in Bognor Regis for over £7M which benefitted from a long unexpired lease of c. 21 years to Butlins Skyline Limited, reflecting a NIY yield of c.6%. The property is used by Butlins to provide much need affordable accommodation to its staff in the seaside town.

A wider UK regional portfolio sale was keeping our Leeds team busy with 172 houses and flats located from Ipswich to Nottingham and Newcastle. It was well received by the market and multiple offers on the whole portfolio and parts thereof are in the process of being agreed for circa £19M. The running average gross yield of 6.52% with the potential to increase it to 7% + was proving to be a compelling lure for many.

In London some large off market sales and acquisitions have kept that team busy alongside some interesting sales including a stunning serviced apartment building in Bloomsbury during August. It attracted lots of interest and multiple bids with the sale agreed to a buyer from Hong Kong. A triple net yield of 5% is hard to find in Central London but the vendor is confident and a sale and leaseback agreement sealed that particular deal.

Appraising, prepping and launching stock for sale has also been a big part of Q3 with opportunities in Hertfordshire, Croydon, Yeovil, East Anglia, Manchester, Hayes and Wandsworth just a few of the newly released and soon to be released opportunities.

Demand remains good but there seems to be a notable lack of stock in the wider market. As usual, the £1-3M price point is very hot as is anything showing reasonable yield in the regions at 6%+.

A small block in Cirencester and another in Bedford for just over £1M were hotly contested.

The wider economic factors around inflation and possible interest rate hikes will be of understandable concern to some but the fundamentals around residential investment remain strong and as long as a fair yield can be obtained and ideally with a 'value add' angle as well then we do not see any let up in the near future.

Michael Linane
DL +44 (0)20 7344 2623
michael.linane@allsop.co.uk

Development

The market has been relatively subdued this quarter as the industry took advantage of the country opening up and international travel becoming easier, with a large part of the industry taking the opportunity to have a well needed break over the summer months after a busy first and second quarter. In this time there was also a lot of movement in the planning and political arena.

There was a significant amount of activity in the permitted development market throughout July with a flurry of prior approval applications made by landlords before the 31 July 2021 deadline which brought an end to Class O of the General Permitted Development Order. These applications will have now all been decided, other than those with on-going appeals, and will have three years to be completed. There is therefore currently a lot of demand for good PD consents from developers who focus on these conversions and are aware that there is a limited number remaining.

The continued growing focus on the living markets sector, whether residential for sale, build to rent, affordable housing or student accommodation, all filters down to the land market and we are seeing continued heightened demand for unconditional brownfield land without planning consents from developers looking at multiple use classes. Our recent sale of the old vacant Debenhams department store in Staines for £13M saw a situation where build to rent developers were outbidding the traditional house builders on unconsented land.

However it is clear that the house builders and developers are very much active again and looking to fill any gaps in their pipelines that Covid may have caused, meaning good consented sites of 150 plus that are sensibly priced have been going well both in the city and the regions.

The Housing Associations have still yet to step back into the market with any force, however in August we saw the London Mayor secure £3.46Bn of grant funding to deliver 29,456 homes with councils and Housing Associations in London. A further £5.2Bn was announced by the government for homes to be delivered outside London. Therefore we may see an increased activity from them going forward as this filters through to the land market.

The increasing values within the industrial and logistics sector has also meant that landlords are re-assessing their assets as certain city centre industrial sites now have strong commercial or existing use values.

In September we saw a political shake up with Michael Gove being appointed the Secretary of State for Housing, Communities and Local Government, now re-named the Department for Levelling Up, Housing and Communities.

The impact of this is yet to be known, but with Michael Gove being a relatively experienced and senior politician this could be a positive. It is his view that simple planning reform will not be enough to deliver the homes the country needs and he appears to be currently focused on boosting housebuilding in the north of England and on brownfield land. However his appointment has also caused the highly anticipated planning White Paper to be pushed back until 2022 and it is therefore likely to provide an excuse for it to be watered down, so we expect to see some changes to this.

The key issue at the moment however is the impact of increasing build costs on the back of high demand, disrupted labour markets and dislocated supply chains with all the major house builders advising of rising costs and anticipated inflation increases over their construction timelines. This is subsequently having an impact on land values, although at present values are remaining relatively stable due to demand.

However as the quarter came to an end and with the majority of the industry back at work there has certainly been heightened activity. There is a continued shortage of land and both vendors and purchasers alike are now keen to progress matters in the lead up to the end of the year and we expect to see a number of opportunities and transactions throughout Q4.

Anthony Dixon
DL +44 (0)20 7344 2625
anthony.dixon@allsop.co.uk

Student Housing

The student sector experienced an increasing sense of normality with students returning to universities across the country to start the 2021/22 academic year. The vast majority of universities are now offering face to face lectures with 47 of the largest 50 universities providing a blended approach of online and in person learning. The general sentiment is 'business as usual.'

A-level results day saw an unprecedented rise in high grades, with 44.8% of A-level students across England, Wales and Northern Ireland receiving A* or A grades. This is an increase of more than 75% since conventional exams were taken in 2019. This outcome has led to several of the most popular universities finding themselves oversubscribed. For example, Bristol saw the number of applicants who met their offer grades rise to 75% from their usual level of 46%. Consequently, students have been asked to move to different institutions or have been offered substantial financial incentives as well as free accommodation to defer their place until 2022.

The influx of domestic students has put pressure on some universities to provide suitable accommodation and has highlighted a number of destinations with a clear supply/demand imbalance. For example students studying in Bristol are living in Bath, York students are living in Hull and there were even reports that students in Falmouth had to camp due to the lack of student beds available in the town. However, the supply/demand picture across the sector is variable.

It is too early to ascertain exactly the number of overseas students that have arrived for the new academic year. However, based on information from the British Council which is overseeing VISA application numbers, the general consensus is the final number will likely be around 50%. For context, there are approximately half a million overseas students studying in the UK therefore in number terms, there could be a shortfall of up to 250,000 students for academic year 2021-22. There are roughly 680,000 PBSA beds in the UK so this is a significant drop-off and it is evident with some vendors suffering unusually, albeit temporary, high void rates.

Nearly half of international students travel from China, India and the US and there is still a sense of apprehension as the risk of a winter lockdown in the UK brings with it inherent travel risks going forward. Students do not want to be trapped and unable to travel home willingly. Therefore with most universities offering online teaching for semester one, it is likely many international students will take advantage of this whilst monitoring the Covid outlook and return to study in January when the sector is expecting an influx of further bookings.

Overall, market sentiment remains strong because short term Covid related issues are disproportionally outweighed by medium-long term growth factors. At the half year mark transaction volumes total approximately £2.3Bn with the expectation the sector will breach £4Bn by the end of the year.

Apollo Global Management has recently completed the acquisition of Crown Students' Jewel Portfolio comprising 1,655 beds in Cardiff, Norwich and Portsmouth for £210M reflecting 5.25% NIY. In addition, Mapletree has acquired four PBSA blocks comprising 917 beds from Vita in Nottingham, Leeds, Bristol and Exeter for £165M. There are a number of high profile operational buildings and portfolios under offer expected to complete in the coming months such as The Fitzalan in Cardiff (355 beds). The demand for both well-located operational and funding opportunities is relentless.

Q3 is a popular time for new opportunities to enter the market. This is because the booking cycle has closed thus providing buyers and sellers a clear income picture, removing unnecessary ambiguity. This year has been no exception. The Trium Portfolio comprising 619 beds in Durham, Southampton and Exeter is being offered for a price of £84.1M. We understand there has been significant interest with an offer well excess of the guided price already having been accepted. Green Park House in Bath is being offered on behalf of the University of Bath; the guide price of offers in excess of £70M reflects a per bed space value of £148,936. Project Jura comprising three Downing-owned PBSA blocks and a single BTR block for a total of £230M is also understood to be under offer. In London the iconic Northumberland House on Trafalgar Square comprising 262 beds can be acquired for £115M reflecting a 3% net yield.

In addition to the PBSA market, the HMO market continues to perform very well, particularly in prime university destinations and well located secondary university towns and cities. National, regional and local HMO buyers continue to compete against each other to acquire portfolios in prime locations, pushing values higher and hardening yields. For example, the capital value of a HMO bed in Exeter is now around £115,000 per room.

Deal progression feels slightly slower than before the pandemic. This is mainly down to further due diligence required on properties in relation to fire safety and, in particular, external wall systems. This will likely drag transactions comprising older operational stock into the New Year and may water down total transaction volumes for the year. Q4 will bring a clearer picture with regard to international student numbers and by the end of the year the sector will have hoped to have fully shaken off any Covid-hangover. We expect momentum and sentiment to strengthen and further competition for opportunities through to the end of the year.

Vicky Bingham
DL +44 (0)113 236 6682
vicky.bingham@allsop.co.uk

Build to Rent

The BTR market has become even more competitive for institutional grade assets as investor interest grows, with a number of new entrants throughout 2021, 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, in central locations, with cohesive communities where they can feel secure with longer term tenancies. This was highlighted by Grainger's Gatehouse Apartments in Southampton taking only three months to fully let as well as their recent launch of The Headline in Leeds becoming their most successful BTR scheme in terms of initial take-up to date.

The British Property Federation's (BPF) latest figures show the total number of units either complete, under construction or with planning standing at 195,598. Numbers in the regions continue to grow at a faster rate than London, accounting for approximately 110,916 with 84,682 in the capital.

Building on significant investment in the BTR single-family housing market in H1 2021, L&G submitted plans for 124 suburban BTR homes in North Horsham and Citra Living has formed a JV with Barratt Developments to bring forward single-family BTR homes. 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; The BMO UK Housing Fund completed a £40M forward funding agreement with Home Group for 258 units at Hughes House, Liverpool. Allsop advised on the transaction and the scheme will have a mix of market and discounted market rent units when operational; Barings has purchased The Trilogy in Manchester from Moorfield for £53.5M. The Trilogy which has 232 units has been operational since Q2 2019; Watkin Jones has agreed a £76.5M forward funding with L&G for their 216 home scheme in Hove; Get Living has agreed a £166M forward funding of Hub's Landing scheme in Maidenhead; CDL Hospitality Trust has forward purchased The Castings, a £73.3M BTR scheme in Manchester comprising 352 units being delivered by Packaged Living; L&G has forward funded the first phase of Urbo's Soho Yard in Sheffield for £150M, which will contain 368 BTR units alongside other commercial buildings; PGIM has acquired Manchester Life's Lampwick Quay in Ancoats, Manchester, a 213 unit BTR development which opened in September 2021.

Yields remain strong for well-designed multi-family BTR stock in prime, practical locations. This is helping to combat current increased build costs, a result of labour and material shortage. 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 4.00% to 4.75% 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.

Sam Verity
DL +44 (0)20 7344 2693
sam.verity@allsop.co.uk

Vox, Manchester (CGI)

Residential Letting and Management

The summer months continued to emphasise the strong demand across the sector as the number of new prospective tenants registered per branch hit a record high of 102 in July, followed by another record breaking number of 107 in August according to Propertymark. Whilst demand from tenants continues to increase, the number of properties managed per letting agent branch is starting to reduce. London recorded the lowest levels of stock at 126 properties on average per branch in August. This has led to an increase in rent levels with 79% of agents reporting landlords have increased rents and only 0.4% of tenants successfully negotiated rent reductions in August.

The Manchester BTR market continues to be buoyant with the occupancy and reservation rate remaining high at Duet and The Trilogy at 98.9% and 98.3% respectively. The onsite teams' success at Duet has been rewarded with nominations at the Insider North West Residential Awards in the Social Impact of the Year and Development of the Year categories. ALM enjoyed further success in September as the shortlist for Property Week's Resi Awards were announced. ALM has been shortlisted for three awards - Residential Company of the Decade, Best Covid Response and Property Manager of the Year, an award we won in 2020.

The Trilogy saw a change in ownership in September as Moorfield sold the development to Barings Real Estate for £53.5M, its largest build-to-rent acquisition.

ALM continues to manage The Trilogy in Salford for Barings, alongside its other BTR assets; Vox in Salford and The Keel in Liverpool.

Despite BTR's increasing appeal to residents and investors, the property and construction sectors have still faced challenges over the past few months. Longer lead times and increased prices for essential materials such as timber and cement, combined with labour shortages due to Brexit and the Pandemic has led to delays in the scheduled delivery of projects as well as maintenance of existing buildings.

Increased interest in the sector from those such as Lloyds and John Lewis,has led the UKAA to start the creation of a Best Practice Guide. This will draw upon the collective experience of many BTR specialists, including operators, investors, suppliers and developers with the aim of sharing best practice and raising the understanding of the varied components that make up this exciting asset class.

Although the country looks ahead to the winter months with slight uncertainty, we expect rental, and more specifically BTR demand to remain strong for the rest of 2021.

> Although the country looks ahead to the winter months with slight uncertainty, we expect rental, and more specifically BTR demand to remain strong for the rest of 2021

Lesley Roberts
DL +44 (0)20 7344 2653
lesley.roberts@allsop.co.uk

Business Rates

Covid-19

A bill is slowly progressing through parliament which will prevent Rateable Value reductions being granted as a result of Covid-19. The **Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Bill** is expected to become law shortly and this will prevent any account being taken of any matter "that is directly or indirectly attributable to coronavirus".

Empty Rates Mitigation - court decisions

There have been two recent court decisions relating to empty rates with contrasting outcomes:

- Hurstwood Properties (A) Ltd v. Rossendale BC [2021] - the Supreme Court ruled against the use of a managed insolvency mitigation scheme to remove liability to rates. The Court determined that the special purpose vehicle had no real or practical ability to exercise the right to possession and therefore the rates liability remained with the landlord.
- Public Health England (PHE) v. Harlow Council - the High Court dismissed a claim by Harlow Council that a six-week period of occupation for storage did not constitute a valid rateable occupation.

2022/23 - UBR

The rating legislation provides for the UBR to be increased each year by the rate of CPI. With rising inflation this could lead to a significant hike in the 2022/23 UBR. The rating regulations however do enable the Government to fix a below inflation increase and an announcement is anticipated shortly as to the confirmed UBR figure.

2022/23 - Rates Relief

The reliefs certain property sectors are currently receiving from rates are due to end next year. At present all sectors are due to return to paying rates at pre-pandemic levels from next April. The Government is being lobbied however to retain some level of relief and an announcement is anticipated in the Autumn Budget.

2023 Rating Revaluation Date Fixed

The Non-Domestic Rating (Lists) Act 2021 has now fixed 1 April 2023 as the date for the next Rating Revaluation. The Act has also changed the publication date of the draft Rateable Values from 6 months before the Revaluation to 3 months. On this basis the new 2023 Rateable Values on all the 2.1M properties liable for Business Rates will be released on 31 December 2022. These new Rateable Values will be based on rental levels prevailing on 1 April 2021.

Business Rates - Toilets

The Non-Domestic Rating (Public Lavatories) Act 2021 now provides 100% business rates relief for separately rated public toilets in England and Wales. This relief is backdated to 1 April 2020.

Outstanding Business Rates Review

The outcome of the long awaited Government Business Rates Review is finally expected this Autumn. It was back in the 2020 Spring Budget that the Government announced it would carry out a "Fundamental Review of Business Rates". The outcome of the review was originally due to be published in Autumn 2020. This was however postponed to spring 2021 due to covid-19 and then this was in turn postponed till Autumn 2021.

Labour Party

At its September party conference Shadow Chancellor Rachel Reeves announced that Labour would cut, and eventually entirely scrap business rates, replacing them with a "new system of business taxation fit for the 21st century". There were no details provided however as to how the £26Bn of tax currently raised would be replaced. I believe the level of the tax should be cut and the UBR should be reduced back to circa 35p which was its original level when the modern business rates system was introduced in 1990. There is a widespread consensus that certain other reforms to business rates are also overdue. I believe the implementation of these reforms would address the majority of the current concerns and would avoid having to find a replacement for business rates.

Robert Sherwill
DL +44 (0)20 7543 6814
robert.sherwill@allsop.co.uk

Services

- Asset Management
- Auctions
- Build to Rent
- Business Rates
- Development Agency & Advisory
- Investment Sales & Acquisition
- Lease Advisory
- Letting & Management
- Office Leasing (Central London)
- Receivership
- Student Housing
- Valuation

Contacts

Head office:
33 Wigmore Street, London W1U 1BZ
Tel: +44 (0)20 7437 6977

City office:
2 Copthall Avenue, London EC2R 7DA
Tel: +44 (0)20 7588 4433

Leeds office:
8th Floor, Platform, New Station Street,
Leeds LS1 4JB
Tel: +44 (0)113 236 6677

allsop.co.uk