Commercial
& Residential

MARKET UPDATE

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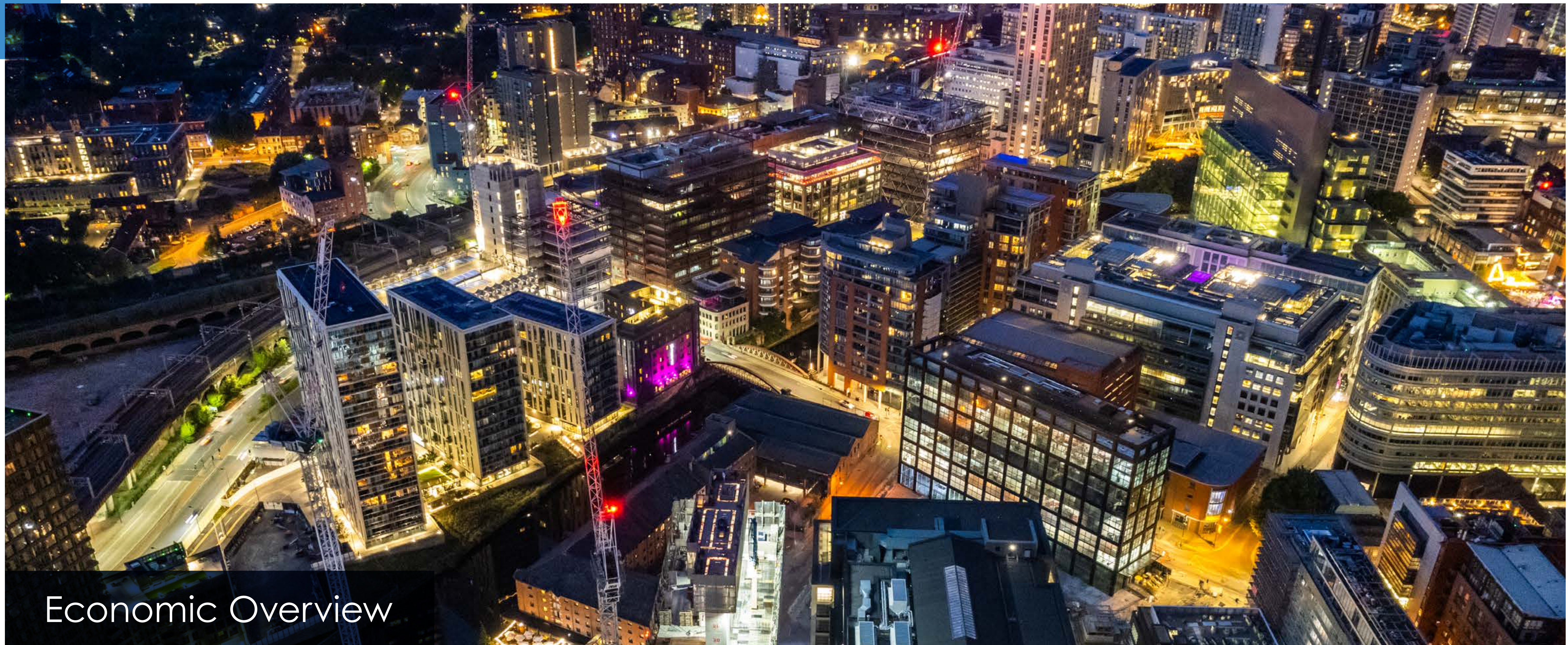

Economic Overview

As the business environment steadily gathers pace into 2023 the markets have been relatively stable during the course of the first month of the year. Confidence has been returning slowly and the chaos and uncertainty of the very brief Truss government of September / October 2022 is paling into the distance. The markets are getting used to higher interest rates which appear to be stabilising, high inflation which remains sticky but is expected to fall as the year progresses and a general acceptance of the rebasing of the real estate markets.

Inflation remains the greatest difficulty facing the economy and remains historically high with CPI to January 2023 at 10.1% having fallen slightly in both December (10.5%) and also November (10.7%). Despite the modest reduction so far inflation is expected to fall this year and the government has pledged it will halve during 2023. However there are several factors at play here, wages are rising at a record rate up 6.7%, in the 3 months to December 2022, compared to the previous year, and the labour market is very tight with a record low claimant count.

The BoE has resolved to keep increasing interest rates to tackle inflation, the base rate is now at 4% and expectations are that we are near the top despite the worry of a developing wage-price spiral. There is of course balance needed here as the economy is flat-lining and being on the brink of recession too much fiscal tightening could make matters worse, nevertheless the battle with inflation is key and many observers still believe 4.5% will be the peak mid year.

The good news is that longer term rates are stabilising with the 5 year SONIA SWAP currently at 3.7% and residential mortgage rates too with the cheapest 5 year fix now at just under 4%, and so those with, or in need of debt, are starting to appreciate where they stand. The economy is proving sluggish however with reduced spending power in the high street as a result of the higher cost of living, energy bills and interest rates.

The real estate markets remain very busy and despite the headwinds the occupational markets are proving robust and with the rates revaluation due shortly there will be an immediate impact particularly in the retail sector. The

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investment markets have rebased with yields being repriced rapidly in late 2022. Though some areas of the market are taking longer to get used to the new world than others, the flight to quality is as strong as ever. The residential markets have been quieter but are proving resilient with high occupancy levels and increasing rents but are perhaps taking longer to stabilise than the commercial arena.

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City & City Fringe Leasing Market

Q4 witnessed the occupier market continue to recover following heavy losses sustained during the pandemic. Despite a decline in take up over Q4, the leasing market remains stable, with take up in line with the 10-year average, despite a subdued end to the quarter with the lead up to the festive period.

Tech, finance, and law firms have driven activity as "best in class" space continues to propel take up, with over 65% of transactions being Grade A space (new/refurbed). Coupled with the arrival of hybrid working, build quality will continue to dominate leasing activity as companies look to lure employees back to the office, taking into consideration improved working environments and a growing appreciation of the importance of ESG credentials, not only on a domestic level but also a commercial image level too.

Notable City transactions have been Clifford Chance's pre-let of the entire 2 Aldermanbury Square, EC2. GPE are due to complete this new 321,000 sq ft development by December 2025. Accountants, Grant Thornton have acquired 106,000 sq ft from UBS to make their London HQ at 5 Broadgate. Reed Smith have also committed to the Northern Fringe, taking 127,000 sq ft at British Land's Blossom Yard, Norton Folgate.

Grade A City rents remain at £75.00 per sq ft with special buildings attracting rents in the £90s for tower floors. Rent free periods remain at 2.4 months per year typically for a 5 year term and 1.2-1.8 months per year for a Category B, fully fitted specification.

High-profile City Fringe transactions include Jaguar Land Rovers recent 12,000 sq ft acquisition at The Script, Old Street for £80 psf and the Chinese Social Media Giant, Tik Tok, acquiring an additional 86,000 sq ft at Verdant, Farringdon have recently taken 89,000 sq ft nearby at Kaleidoscope.

The City vacancy rate currently sits at 10%, which is above pre-pandemic levels and has increased slightly, quarter on quarter, in the last 18 months post the pandemic. This however does remain lower than previous downturns of 14-19%. Although vacancy rates are relatively high, prime office stock is low. Second hand and Grade B stock is suffering as growing occupier appreciation for ESG considerations and working environments appears at true face value. A wave of removal of older stock due for refurbishment or repurposing is expected in response to Grade A take up, with an increased focus on achieving build accreditations such as BREAAM, Wiredscore and WELL.

Demand throughout Q4 was encouraging with an increase in active requirements for the second consecutive year. Allsop's weekly viewings increased by 52% in Q4 when compared with the same period for 2021. New requirements have been dominated by the professional, legal, financial and serviced office sectors. The tech sector has been slower in Q4 to re-emerge with a greater tendency to work from home. However as we enter 2023 requirements from this sector have been increasing, particularly for sub 10,000 sq ft fully fitted, Category B units in the Northern Fringe. 10 White Lion Street situated in Islington, a new development where Allsop have been advising Maurice Investments, has now signed Valtech, Automata and PureGym for a total of 31,000 sq ft just 3 months post completion. This shows positive signs for demand in new build stock as we enter the new year.

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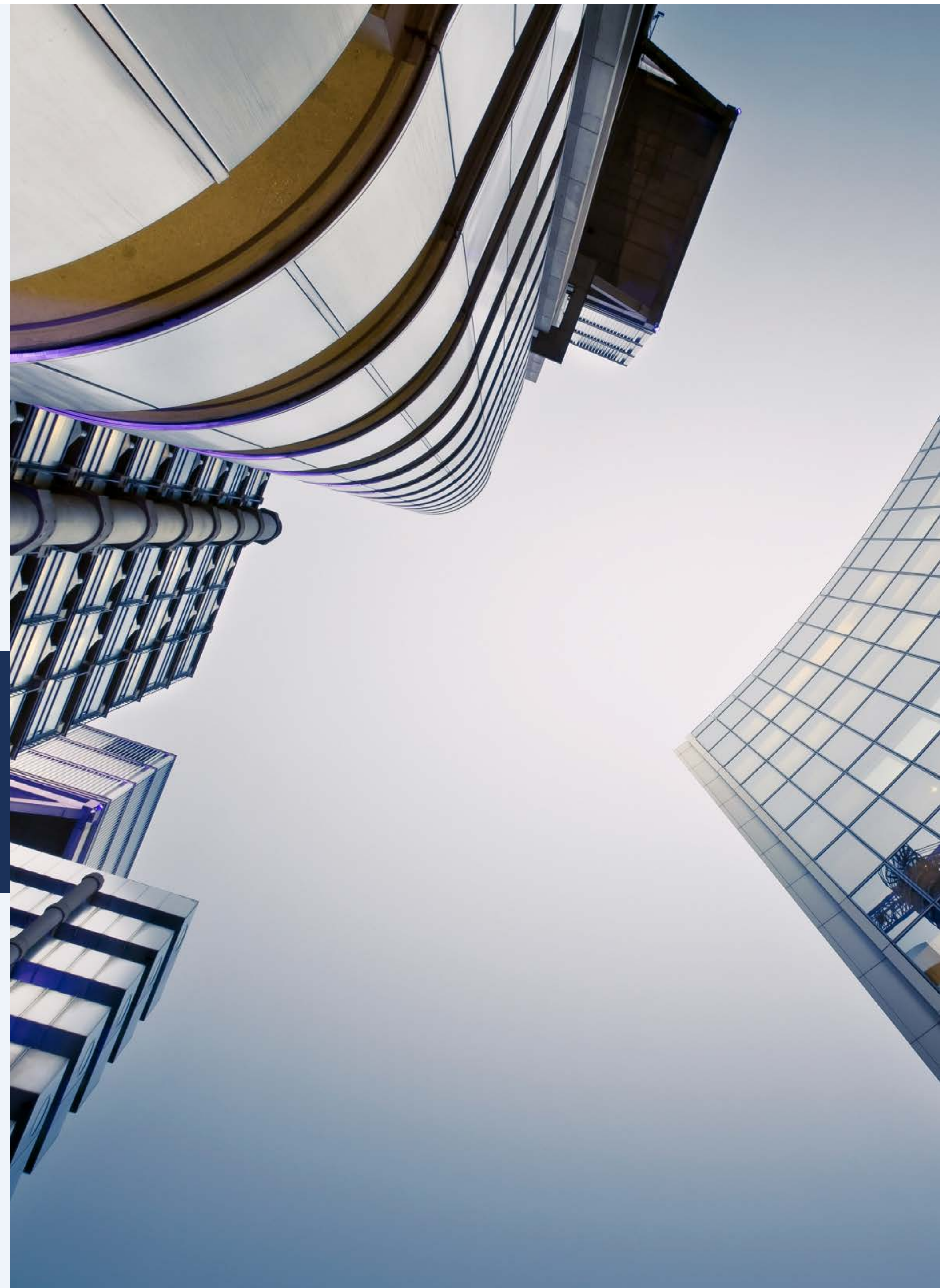

City & City Fringe Investment Market

The damage caused to the financial markets by Kwasi Kwarteng's mini-budget announced on the 25 September sent shockwaves through all markets, including real estate and the reaction both politically and economically meant that Ms Truss was quickly replaced by Rishi Sunak who has attempted to start healing the wounds. But this will take time. Still in a high inflation environment the Bank of England increased interest rates for the ninth time in 2022 and by the end of the year they had reached 3.5%, with a further increase to 4% recently announced. This is the highest they have been since 2007 and up from 0.1% in Q4 2021. A combination of the above has increased the speed of the real estate market correction we started to experience over summer 2022.

The culmination of the above meant that the City and City Fringe investment market recorded only £356M of investment transactions in Q4 2022. This is one of the lowest quarterly volumes on record and just above the £239M recorded during Q2 2020 (which was the start of COVID-19 in the UK), down by approximately 83% on Q3 2022 (£2.0356Bn), and 85% down on Q4 2021 (£2.334Bn). This total has been recorded across 18 transactions however only six of these achieved pricing of £10M or above. The Q4 volume takes the total for 2022 to £7.59BN which is within 3% of the total for 2021 (£7.75BN) and c.10% below the 5 year average (£8.29BN).

Q4 showed limited transactional activity and only 18 deals. Allsop were involved in one of these transactions which was a sub £5M sale of an office building on Carter Lane to an adjoining owner. Interestingly eight of the 18 reported transactions had an element of 'special purchaser' or were purchased by an owner occupier. 85 London Wall, the second largest deal of the quarter was bought in by the freeholder, the City of London for £34.7M, 5.78% and £844 per sq ft. Held long leasehold and recently refurbished by La Salle the building is multi-let to seven tenants off an average rent of c.£58.00 per sq ft and shows a WAULT of 6.6 years to expiry and 3.9 years to break.

Just over half of the total quarterly turnover was accounted for by a single transaction, German-based Wirtgen Investment Holdings' purchase of 50 Finsbury Square, EC2, a newly developed freehold building by GPE for £190M. The price reflected a net initial yield of 3.87% and a capital value of £1,471 per sq ft. The building is entirely pre-let to Inmarsat on a 20 year lease, with a break option at year 15 and has been subject to a high quality refurbishment aiming for BREEAM 'Excellent' and 'Net Zero' carbon. With some commentators reporting prime yields at 4.5% as at December 2022, 50 Finsbury Square, which we understand was agreed at a yield closer to 3.5% over the summer, goes against this and we believe that despite the obvious prime yield movement since the start of 2022, there will be some exceptions that buck the trend.

> With a challenging debt market for the foreseeable near future it is really domestic cash buyers who are being most active

Several large transactions are currently under offer which suggests that volumes for Q1 may be significantly higher. These include ChinaChem's imminent acquisition of 1 New Street Square, EC4 from Land Securities for c.£356M reflecting a yield of c.4.75%. The building is held long leasehold with an institutional (sub 10%) gearing and let to Deloitte for over 15 years. We also understand that a large Singaporean REIT are in detailed negotiations to acquire their fourth City holding, St Katherine's Dock, from Blackstone, a lot size of c.£350M reflecting a net initial yield in the mid-6%'s.

Domestic buyers were the most active in Q4 2022, accounting for 17 of the 18 transactions, 50 Finsbury Square, EC2 being the one exception. With a challenging debt market for the foreseeable near future it is really domestic cash buyers who are being most active and we are seeing investors who have been priced out of the City for many years returning to take advantage of higher yields and more limited competition.

Sellers in the City are always diversified but Threadneedle were the dominant seller in Q4 in terms of transaction number concluding two successful sales. The UK REITs (GPE, Land Securities and Derwent) have all exited large assets since September 2022 in anticipation of recycling this capital into new purchases and also into existing refurbishments.

There is still a lack of distress in the market but there are examples of some sales which are now being encouraged by lenders. Examples include 8 Bouverie Street, EC4 which is freehold, single let to Euromoney for a further 6.5 years and has been a casualty of multiple abortive negotiations over the last 18 months. Another is 1 Portsoken Street which is a newly refurbished multi-let freehold building in EC3 with the majority let to BPP University. This will be a C.£200M lot size and will likely show a yield of 6% plus (topped up).

With further but minor interest rate rises anticipated in 2023, the market will continue to rebase during the first half of the year. It is becoming clear that vendors are ready to accept this now and transactions are starting to happen albeit at re-based pricing. We are yet to see any significant distress in the market however with some loans inevitability up for discussion we anticipate that there will be some controlled 'bank-led' sales in Q1. Those that do not have to sell may wait for more certainty and we expect volumes to increase again towards the back end of the year especially as overseas investors see more evidence of pricing which may drive competition particularly for newly developed or recently refurbished buildings with high sustainability and environmental credentials.

There is an opportunity now for domestic capital to take advantage of the more limited competition however the gap between vendor and purchaser aspirations still remains on a number of transactions especially where there is no immediate pressure to sell.

With refurbishment costs reportedly plateauing but still higher than ever before and yields moving out, vacant possession values will continue to fall. This provides an interesting opportunity for owner occupiers or investor/developers who will hold long term and are less driven by IRR's. Because the cost of delivering a high-quality refurbishment has increased so much, some vendors simply will not have the appetite or desire to bring their buildings up to modern standards and this will be where we expect to see more stock later in the year.

The gap between freehold and long leaseholds has widened once again. Only one transaction in Q4 was a long leasehold and this was acquired by the freeholder. Long leasehold buildings, providing the leases are longer than 130 years and the gearing is sub 10% could prove an interesting investment as the yield shift could be more profound when the market strengthens again.

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West End Leasing Market

2022 will be remembered as a stellar year in many respects for the West End office market, with take up concluding at a sizeable 5.4M sq ft, some 28% above the long term 10 year average. This was assisted by a very active year for pre-letting, with 1.2M sq ft of space being secured by occupiers in new buildings currently under construction.

Many occupiers are facing challenges around flexible working patterns and overall productivity. A key response to this is having office environments that are able to provide the optimum conditions for organisations to thrive. This is combined with companies attempting to engage with and address ESG targets in an effective way, to maintain and enhance a brand which both customers and staff are keen to be associated with.

These factors are the predominant reasons for the large swing to the highest quality offices available, with major occupiers committing early in advance of up-coming lease expiries to try and protect themselves from the dwindling level of supply from a restricted development pipeline in the West End.

The transactions undertaken by the Allsop West End Leasing team in a busy Q4 can be separated into two categories.

On one hand the fully fitted and furnished “work ready” opportunities we are marketing continue to be particularly in demand with successes at properties such as 43 Eagle Street, WC1 on behalf of LGIM where 2 floors transacted to Sheridan Maine and Euro News Ltd comprising 3,500 sq ft. In addition, a fully fitted floor was let at 1 Albemarle Street on behalf of CBREIM to Arena Investors.

The other area of success in Q4 has been driven by the old adage of location, location, location - in particular buildings in close proximity to the newly opened Elizabeth Line stations. Adjacent to the new Davies Street entrance of Bond Street station we have successfully let the 4th floor at Swan House, W1, comprising 5,000 sq ft, on behalf of M&G Real Estate to Global Study Ltd. At the other side of the same station close to the Hanover Square entrance we have let the entire building of 10,000 sq ft at 42-43 Great Marlborough Street, W1, Manzanita Capital.

In addition to this we have let several floors in 55 New Oxford Street, WC1, which is a 2-minute walk from Tottenham Court Road station, on behalf of a private client.

There have been three major market making transactions undertaken in late 2022 / early 2023.

Most recently GSK secured the entire building at The Earnshaw, New Oxford Street, WC1 from RLAM comprising 155,000 sq ft at a rent rumoured to equate to c.£95.00 per sq ft overall. The building is due for completion in late 2023 with GSK planning to relocate its staff back into the West End from its current West London base in 2024.

This large relocation followed on from Blackstone committing to an early pre-let of Lansdowne House, Berkeley Square, W1 from the Brunei Investment Authority, comprising 225,000 sq ft and a rent rumoured to be approaching £200 per sq ft on the best space. The new building is not scheduled to complete until 2027 with Blackstone planning to consolidate its various operations into the building in 2028.

Lastly, after an extended period of negotiations Lazards committed to a pre-let of 20 Manchester Square, W1 from Invesco, comprising 78,500 sq ft on a new 15 year lease at a rent equating to £100 per sq ft overall. Lazards plan to relocate from their current base in Mayfair moving in by 2025.

In addition to these large HQ relocations several other notable transactions occurred before the end of the year with space at Lucent, W1 from Land Securities, AirW1 from The Crown Estate/Norges and Orchard Place, Broadway, SW1 from Northacre all achieving significant lettings.

The West End Leasing market seems set to continue on its current upward trajectory for Grade A office space. Whilst the development pipeline for 2023 is significantly higher than previous years, with c 2.4m sq ft set to complete this year, the level of pre-letting is still high with over 45% of space under construction already pre-leased.

> The difference between premium space and un-refurbished 2nd hand space has never been more marked

Overall office vacancy at 6.8% for the West End is above the long-term average but still sits someway below Central London as a whole, with many West end submarkets having vacancy levels at well below 5%, which indicates a ‘Landlords market’.

That said the difference between premium space and un-refurbished 2nd hand space has never been more marked. Whilst top rents for the best space are under constant upward pressure in most sub-markets, the converse can be said for lower grade spaces, which still make up the majority of the market, with rents remaining depressed and marketing voids remaining at longer than average levels.

The ability for a Landlord to offer a solution to the challenges occupiers currently face, whether it be around quality of space offered, easy access to public transport or a fully fitted solution to reduce up-front costs will likely be the key to whether or not a successful letting can be achieved.

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West End Investment Market

It is worth noting the improved sentiment coming into 2023 felt by the team. Our sense is that "post Truss" a large number of buyers had taken the decision during Q4 22 to "wait and see", in some cases downing tools to even look at investment purchases. This was acutely felt across London with both viewings and investment volumes down considerably. However there does appear to be a sense of optimism in this new year – a direct example of this is an ongoing sale where we have undertaken more viewings during two weeks of February than in the last 10 weeks of last year.

Looking back at our Q3 report, Rishi Sunak was several weeks into the job, international confidence in the UK had been dented, and we had seen a dramatic slowdown in transactions during September, which continued into October and November. However, some of this confidence has been restored and we saw a late flurry of transactions going through in the final 6-8 weeks of 2022. There is no doubt that the change in cost of money and turmoil at No 10 has had an effect on volume, denting what was on track to at least be an "average" year".

We estimate there have only been **c £1.05Bn of deals in c 22 transactions in the final 4 months of the year "post Truss".** Contrast this with the final four months of 2021, £3.1Bn in 52 transactions, so down approximately two thirds.

Our team tracked around **£900M of deal volume in Q4 represented in circa 17 transactions either exchanged or exchanged and completed.** This brings the 2022 total to **£5.25Bn, some way behind the 5 year average of £6.5Bn (and 2021 of £6.4Bn).**

The average lot size was skewed by the sale of Fenwicks Department Store for around £430M – without this the Q4 total would be c£460M/ c £27M average lot size.

Allsop have been involved in four of the 17 transactions during Q4 – three sales and one acquisition. In addition we have been providing market data analysis to the funding partner of a major West End site.

In one of the few value-add investments to go through, Allsop advised a UK charity on the sale of 7 Ridgmount Street W1, just off Tottenham Court Road. The 30,000 sq ft Freehold office building attracted significant interest – the first time the building has been brought to market since it was built in the 1960s. We have exchanged unconditional contracts – the building has extension potential as part of a major refurbishment scheme.

Around a third of the sales have come from UK funds, with one receivership sale of an Oxford Street retail block – relatively unheard of in the last 10 years for the West End

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A number of transactions went through at rebased pricing:

Byron House St James's Street, multilet offices plus John Lobb Bootmakers and L'Avenue Restaurant exchanged on 23 December at circa £46M / 5.5% / £1,250 per sq ft. The offices had been refurbished by vendor M&G, achieving mid £80's rents. It was held long leasehold from The Crown Estate for a further 113 years at a peppercorn gearing – one of only two leaseholds traded in the quarter. The building had been brought to market in June off a quoting price of £54M / £1,500 per sq ft / 4.6%. Bought by an Israeli private investor, the eventual price represents a circa 20% discount.

Also in St James's, Freehold multilet offices at 6 Duke Street were brought to market by UK Fund Abrdn, in July and exchanged to a middle eastern investor during December £62.5M / 4.27% / £1,783 per sq ft – again a significant discount to the original quoting price £81.5M / 3.25% / £2,300 per sq ft.

Lazari Investments' purchase of the iconic Fenwicks department store – one of the best corner sites in Mayfair - was a great vote of confidence in the occupational market. The site has planning consent to convert the upper parts to prime office space, including a rooftop extension. As our leasing team point out, Grade A new building office vacancy is at an all-time low in the West End core with some unprecedented preletting activity. On the retail side GPE recently announced that they have now fully let the Bond Street retail element of their Hanover Square scheme opposite Fenwicks, and the luxury retail along Bond Street would appear to be in good health.

The second largest deal of the quarter saw Israeli group Harel Insurance sell 50 Broadway in Victoria to a middle eastern investor. The price is as yet undisclosed but believed to be slightly under 4%, following a marketing process at around 3.25% and c £130M. The Freehold refurbished building is let to the UK Government for a further 14 years term certain. The likely sale price reflects around £1,600 per sq ft.

Around a third of the sales have come from UK funds, with one receivership sale of an Oxford Street retail block – relatively unheard of in the last 10 years for the West End. The standout trend has been that the majority of purchases have been through well-funded private families, or property companies with majority single private investor backing.

We have seen a return of Middle Eastern capital to the market – responsible for four acquisitions – typically Trophy Assets which are well-located. After the Fenwicks deal, the next three largest transactions were undertaken by Middle Eastern capital – in total making up around £260M of volume.

We are tracking around 65 buildings "available" (including those "withdrawn from formal marketing but buyable"). As we continue this period of price discovery between buyers and sellers, we are learning there is appetite to transact as long as parties are compromising on price.

There remains significant international capital actively watching the West End market – Our Central London team can see this first hand having undertaken investor trips during November to Singapore with our Asia alliance Millennium Group, and to the Middle East with Citi Private Bank.

Our polling of investment sales' teams is that there is unlikely to be a wave of new stock coming to market during Q1. We have only seen one major sale brought to market formally so far in 2023. Value add and development transactions have probably seen the greatest change in sentiment, with changes in both the cost of finance and exit yields denting the residual land/building purchase price. As we move towards the middle of the year, we may see an increasing number of buildings up for refinancing and some of the gated funds' sales becoming more urgent. Prime trophy assets seem to be holding up the best of all.

National Investment Market Overview

There is no doubt economic and political uncertainty weighed heavily on investment activity throughout 2022. The key economic challenge was inflation which was in double digits for most of the second half of 2022 hitting levels not seen since the 1980's. We now enter 2023 with fears of an upcoming recession which hasn't come to pass and higher interest rates to combat inflation.

Higher base rates have increased finance costs and inhibited transaction levels as the arbitrage between property yields and debt costs narrowed. This has resulted in a period where vendor expectations have been out of kilter with purchasers' expectations which in turn has exerted downward pressure on transaction volumes.

The economic downturn presents both challenges and opportunities for investors who are able and willing to take advantage. As we enter 2023, we expect a flight to quality with key fundamentals coming to bear. Well located and specified assets let to strong tenants with rental growth potential are better equipped to weather the market storm. Appetite remains strong for prime assets with resilient pricing being achieved despite the negative backdrop. A moderate recession ought to be short lived and we expect inflation to continue to moderate with the narrative shifting towards a corporate earnings recession. We expect companies will come under pressure from their shareholders to maintain profitability by cutting costs resulting in an uptick in unemployment. Green shoots of recovery will likely emerge in the first half 2023 once inflation has subsided and The Bank of England moves towards a more expansionary monetary policy and the Government cuts taxes to stimulate economic activity in anticipation of the upcoming general election.

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Retail / Supermarkets Overview

We are currently in an economic climate where consumer confidence and spending demand is considered as recessionary with rising living costs and a tightening of budgets. This inevitably, combined with ongoing strikes across numerous industries, has an impact on retailers.

Reports from retailers on festive spending have generally exceeded expectations, although in many cases this is likely due to drawn out Black Friday offers and pre-Christmas January sales.

Comparably, promotional activity among supermarkets has dropped away in recent months with foodstore retailers now more likely to offer price matching and loyalty schemes to help shoppers save and maintain market share. This has caused polarisation in performance with Aldi and Lidl rapidly increasing their market share. This is particularly important where food inflation is likely to be one of the worst hit products for consumers where they can cut back in more non-essential areas.

Allsop headline deals

- Aldi Acquisition - Droitwich Spa - £4,317,000 – 6.40% NIY – Completed December 2022
- Long Income/Leisure - Bannatyne Health Club & Spa – Carlisle – Completed December 2022
- Shopping Centre - Union Square, Torquay – Completed December 2022

Market headline deals

- Aldi - Bury St Edmunds – Completed January 2023 - £6.6M – 4% NIY
- Aldi - Harrow – Completed November 2022 - £6,776,941 – 5.50% NIY

Some assets marketed at the end of last year faced a challenge with the uncertain political and economic position in the UK causing either a market re-pricing exercise or a stifled marketing period. Since then, many assets have been transacted off-market. Currently, we are seeing some of these assets being re-launched with adjusted pricing and others being tucked back away for now.

We are seeing Family Trusts, Private Investors and Prop Cos return to be more prolific in the market where previously very competitive bidding may have priced them out. We are also expecting that as the market is now more stable, foreign investors will be attracted back again by currency plays, particularly from Hong Kong.

With there being money to spend in the market, we are seeing a 'flight to safe income' approach with many buyers looking for secure, inflation linked income in strong locations. We expect to see a continued polarisation in demand between asset classes, covenants and locations.

In terms of asset classes, it is expected that the increase of convenience shopping since the onset of Covid where consumers can use locations to save time and money is likely to continue. Consumer demand is likely to decline for non-essential and big-ticket items and instead discount/budget stores will become more popular.

In regard to covenant, established discount stores like Aldi and Lidl, alongside the mainstays of Tesco and Sainsburys, are likely to be the most sought-after covenants and attract the best yields.

In terms of location, we are seeing a focus on strong high streets and city centres. Retailers are investing large amounts of capital into flagship and experience-based shopping with many investing heavily in bricks and mortar shops drawing focus away from online retailing.

Recent examples include Gym Shark on Regent Street. The strength of more regional high streets will largely depend on the policies adopted by local councils. This includes their standpoint on conversion of existing retail stock to alternative uses such as leisure or residential as well as their direct involvement in purchasing and rejuvenating local high streets. For example, Cheltenham Borough Council recently purchased a 6,500 sq ft Poundland and adjoining properties.

Another interesting theme to look out for will be the impact of the business rates revaluation in April which is likely to have an impact on both online and bricks-and-mortar retailers. Overall, there is a reduction nationally in business rates for the retail sector, although at closer inspection there are vast differences between asset classes and locations. Shopping centres, department stores and prime high streets are likely to gain from the largest reductions, whilst convenience and independent led pitches are likely to benefit the least. Simultaneously, online retailers will likely be impacted by an increase in business rates for retail logistics.

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UK Funds have been the biggest sellers during Q4 in a reaction to significant redemptions and we expect further outflow from UK funds in H2 2023

Industrial Market Overview

After a severe pricing correction during Q3, buyer confidence is returning.

Newly completed transactions have set a new tone with prime yields pushed out by c. 100 basis points (10 - 15% in terms of capital values) since the 2022 mid-summer peak.

Many sellers are still coming to terms with rebased pricing, limiting supply and ultimately deal flow.

Occupational markets continue to experience undersupply and strong demand, which is expected to fuel rental growth, albeit moderating.

The major headline from the end of last year was CBRE IM's decision to pull the plug on the Pearl and Opal Portfolios, when they did not like the bids received, around 15-20% below asking. This left several frustrated investors who had done significant due diligence and bid competitively on the portfolios. However, some notable large deals did go through including Legal & General's Fradley Park, Lichfield sale which was hotly contested with Ares Management acquiring it for £145M reflecting a NIY of 5.47%. Similarly, Thames Gateway Park, Dagenham, a multi-let estate to 8 tenants, was sold in December 2022 by abrdn to Boreal for £98.8M reflecting a NIY of 4.00%.

The Allsop Industrial team had a busy close to the year selling the Seven Portfolio for Columbia Threadneedle to M7 Real Estate for £30M. They also completed the acquisitions of Powerhouse, Dartford for £25M and Port Road Business Park, Carlisle for £7.5M.

Many of the active buyers during the past 24 months have now returned to the market albeit in varying degrees. Several new opportunistic funds have entered the market aimed at capitalising on rebased pricing. Rebased pricing has led to a reduced pricing disconnect between overseas private equity and domestic property companies.

Larger deals (£50M+) are dominated by US private equity illustrating the firepower they still have, albeit on a more selective basis.

UK Funds have been the biggest sellers during Q4 in a reaction to significant redemptions and we expect further outflow from UK funds in H2 2023.

Secondary industrial assets have been prioritised for sale as Funds look to retain quality and de-risk portfolios. With debt costs making refinancing unviable, we are expecting to see sales drip fed into the market from private investors and property companies.

The uncertainty of Q4 2022 will be phased out by increased competition to secure assets once the market is comfortable with pricing readjustments. Whilst transaction volumes remain down and confidence still not what it was, there are deals happening.

In the later part of the year, the market will be less siloed with investor types than it has been previously. With pricing moving out we expect to see a more level playing field where you might expect the private equity investors, Funds and PropCo's all competing for similar assets.

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Portfolio Market Overview

Q4 2022 saw a spike in portfolios emerging to the market as Liz Truss's "Growth Plan" caused an immediate fall in the value of the pound sterling. Accordingly, a number of funds experienced outflows and needed to sell. Some investors with economic growth saw this as an opportunity and transacted at perceived / attractive discounts to value.

The National Investment team advised on the disposal of three industrial portfolios. The Pair Portfolio consisted of two multi let units totalling 78,184 sq ft, located in Swindon and Stroud which was purchased by Pears Property for £6M reflecting a NIY of 7.52%.

The Seven Portfolio consisted of five single let and two multi let buildings with a total area of 466,750 sq ft spread across the South, Midlands and North of England. M7 Real Estate purchased the assets for £31M reflecting a NIY of 7.56%.

The Seven and Pair Portfolios simultaneously exchanged and completed on 15 December 2022.

We expect income returns, rather than capital growth to drive market activity. This means a heavier focus on the financial performance of occupiers

The Northern Lights Portfolio comprised 3 multi let industrial estates with a total area of 410,208 sq ft located in Cramlington, Sunderland and North Tyneside. The portfolio was purchased for £24.1M reflecting a NIY of 8.80%.

All three portfolios received strong interest, with competitive bidding processes and with a number of competing offers.

Allsop are also marketing the Chamber Portfolio which comprises six London focused Travelodges which have an exceptionally low capital value of £200 per sq ft. The package was quoting 6.5% back in Q3 2022 and is now under offer at 7%.

Urban Logistics REIT has already set the tone in 2023 with the purchase of Project Fox which consisted of four single let industrial assets in Redditch, Droitwich, Southampton and Rugby totalling 402,708 sq ft for £39.5M at a blended NIY of 6.10%. All assets were income producing with short to medium term asset management opportunities combined with currently low rents.

A number of high net worth and middle eastern investors have entered the market to which Allsop has unrivalled access.

We expect income returns, rather than capital growth to drive market activity. This means a heavier focus on the financial performance of occupiers and the key factors influencing income and occupancy at an asset level.

After an extremely fast fall in UK Real Estate pricing last year post Liz Truss's mini budget we believe that 2023 will offer a unique buying opportunity for investors. Despite rising interest rates and the cost of debt curbing investment volumes there will still be appetite for 'best in class' assets that will deliver rental growth. This is already being seen through the high levels of interest in the 'Capital Portfolio' which includes six carbon neutral, BREEAM Excellent, London centric offices totalling 224,000 sq ft.

We anticipate that the alternatives market will ramp up, in particular long let care homes, due to the UKs ageing population. However, quality of design, nature of amenity space and of course income and operational costs will play a major part in investors' willingness to acquire these. The likes of Impact Healthcare REIT has led this with its purchase of six boutique care homes comprising a total of 438 high quality beds for £65M reflecting 7% NIY.

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Office Overview

It has been a challenging period for the office market as rising interest rates and heightened investor focus on ESG requirements have created a greater disparity between pricing expectations for buyers and sellers.

Allsop recently acquired Grange House, Twickenham on behalf of a private client from Threadneedle's TPUT fund for £4.5M / 7.5% NIY. We are also marketing Verisure HQ, Quorum Business Park in Newcastle upon Tyne. This is an attractive opportunity to purchase a highly energy efficient, modern office building let to an exceptional covenant for a term certain in excess of 14.5 years.

Since the turn of the new year we have seen a mix of office deals entering the market, ranging from distressed receiver sales to the Capital Portfolio, an ESG led portfolio of six London office buildings, with potential to reposition and grow over the buildings' next life cycle.

We are beginning to see assets come to the market at levels reflecting a market re-pricing, however it will be interesting to track what level these opportunities trade for to see if the market believes further yield expansion is necessary.

Overseas buyers targeting 10+ year income streams to good covenants remain acquisitive in the market.

In Q4, a range of PropCo's re-entered the market, taking advantage of re-pricing and dealing in a number of off market transactions.

On the multi-let side, private equity money from the US may turn its attention to the sector once pricing is deemed sufficiently re-based. Investors will be looking to buy now while things are relatively cheap, with an expectation that many assets will become stronger as the year progresses.

There will be a continued focus on offices with strong ESG credentials. The key challenge in the sector will be understanding cap ex to meet these growing requirements, with re-pricing imperative to achieve value in the face of rising costs and greater occupier requirements.

Should re-based pricing continue, offices will once again look like good value versus other sectors and a greater pool of investors will seek to take advantage.

As we look ahead to 2023 and beyond, there is growing confidence that a wider market re-pricing will take place and offices will begin to see a greater variety of investors return to the sector, with stronger pricing returning to the sector in the later part of the year and into 2024.

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Retail Warehousing Overview

It has been a jittery investment market for the retail warehouse sector in terms of transactional activity, with limited transactions in Q3/4 2022, while the market found its feet following a correction in pricing.

Christmas trade figures for retailers was a crucial gauge to the health of the sector following a squeeze in disposable incomes. There has generally been very positive retailer feedback to date, which demonstrates the continued performance of retail warehousing and how retail warehousing is the best route to market for many retailers.

Rating revaluation will bring benefits in April this year with an average of -9% relief across UK retail warehousing. Click & Collect rates are continuing to rise with retailers offering free Click & Collect and returns while starting to charge for online returns due to associated costs increasing. This demonstrates how retailers are trying to direct customers to their physical store portfolio and the value they place on their store network.

Allsop recently acquired Aldi in Droitwich on behalf of Chancerygate for £4.3M / 6.40% NIY. The property provides over 10 years high quality income with fixed uplifts taking the reversionary yield to 7.25%. Other transactions to note was London Metrics acquisitions of Cantium Retail Park, Old Kent Road, London from Aviva which they acquired for £38M, reflecting a NIY of 5.40% and a capital value of £566 per sq ft. This is a B&Q anchored scheme and is a very strong trading store for this retailer. Segro expanded their Slough Estate ownership with the acquisition of Bath Road Retail Park from Royal London for £120M. These transactions plus Pearly Cross Retail Park in Croydon which is under offer at circa 5.75% NIY provide clarity around where pricing is for prime retail warehousing in Greater London in this new re-priced environment.

We are still seeing core activity from the institutions and Realty are back acquiring after a brief pause at repriced levels. We expect sales to come from institutions who are doing some housekeeping and are disposing of non-core assets.

We believe that the retail warehousing sector will perform well in 2023 with strong annualised income returns and some capital value growth. There is currently a lack of available stock but we expect supply to improve as the year goes on. Retail warehousing provides attractive income returns against the risk free rate and other sectors.

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Commercial Auction Market

The paths of inflation and interest rates will be the key drivers of activity in our market this year, and for now uncertainty is the only certainty.

Our residential auction colleagues are suggesting that their market could have further to fall as the cost of debt rises, and fixed, low-interest mortgages become a distant memory. LTVs are increasingly under pressure, which could well impact buyer confidence in the commercial market as many portfolios are exposed to both sectors. Meanwhile, residential rental growth is strong, and the UK housing sector continues to suffer from a severe lack of supply – a combination of factors that could entice new entrants into the market.

The Commercial Auction market remains cash driven, with continued liquidity as we showed in Q4 last year, a year that ended only a little behind the previous year with £548m sold.

The cost of finance forms the benchmark for pricing, so buyers are likely to focus on the better stock and smaller lot sizes in the months ahead.

Assets that are well-let, well-located and with inflation protected rent reviews will remain in high demand with the best as ever attracting the most competition.

Roadside, medical and other alternative assets will remain the most buoyant – their use remains resilient, typically with strong tenants and long leases.

Buyers will be looking for the opportunities offered by short-let assets across all sectors which will be the most vulnerable to softer pricing - a theme that continues from 2022. With private investors often building portfolios locally, they can see through some of the flaws using their expert knowledge of the area in question and will continue to buy. This theme came through with the sale of an industrial portfolio in September 2022, which largely traded at the historic valuation figure of six months earlier, whilst the wider market fell by 20-30% in a few weeks.

Nevertheless, this will be a hard year for regional offices as occupier trends remain uncertain. Larger lots of secondary and tertiary retail, where re-financing will be tough to achieve as banks steer away from the retail sector, are also facing a challenging 2023. Lastly, pubs and bars in weaker locations look very vulnerable to reduced consumer spend and rising energy costs.

Looking ahead, the Business Rates 2023 revaluation, in place from 1 April, will assist a wide range of occupiers, particularly regional retailers who will see their rates bills reduce significantly. In better locations this may allow some rental growth to come through, if not countered by higher occupational and wage costs.

As to sellers, private investors and private property companies will continue to form the bulk of our clients and all for different reasons.

We are beginning to see stock in the market from vendors finding re-financing hard or seeking liquidity to serve other assets in the portfolios which is a common theme in regular market conditions, but is becoming more common than 12 months ago.

The take-up of unregulated short-term debt has been significant in the last five years, and these lenders tend to be quicker to act than those within the regulated sector. Whilst we have not seen much distress yet, these lenders may well be encouraging sales later this year.

Many funds have had to sell in the face of redemptions, which was largely done in Q3 and Q4 2022, but the continued upgrading of portfolios by funds and listed vehicles will provide the auction market with opportunities where granular local knowledge and shorter decision timescales can add value.

We saw a rise in sale-leasebacks last year, mainly from William Hill, which were well received by the market, and these will continue into 2023.

In summary, 2023 will be a year of consolidation for the Private Investor, with continued trade at pricing that fell during the end of last year but is unlikely to fall further, with plenty of opportunities to be taken advantage of for both sellers and buyers.

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Residential Auction Market

Allsop's last residential auction sale of 2022 was held on 15 December. At the time of writing the sale has raised £48M in total from a sale of 133 lots with a success rate of 74%. This brings the total raised for 2022 to £372M from over 1,000 sales with an overall success rate of 80%.

The challenges the economy has faced over the year have been well documented. The aftermath of the pandemic, political instability, Russia's invasion of Ukraine, Liz Truss's disastrous mini-budget, increasing interest rates, expensive building materials, the cost of living crisis, rising inflation, rising unemployment and widespread strikes have all taken their toll, not least on the residential property market.

Despite this, our virtual auction rooms have continued to facilitate active trading. As ever, when times are tough, buyers resort to quality – good buildings or sites in good locations at sensible prices. On 15 December, Piers Court in Stinchcombe, Dursley, Gloucestershire, a Grade II listed manor house, once home to Evelyn Waugh, sold for £3.16M. Five apartment blocks in Halifax comprising 42 flats, 29 let and 12 sold off, sold for £1.965M off a yield of 9.43%. And in Archway, north London, a vacant garage site without planning permission raised £1.287M.

There is no doubt that the market is undergoing a sustained price correction. Experience shows that auction results dip immediately after major events in our market – despite auctioneers' efforts to persuade sellers that demand at the point of sale may not support their hopes or expectations. As reality dawns, and the evidence of value is laid bare by auction results, reserve prices at subsequent sales are set more realistically and sales success rates improve. In fact, many sellers will do well to price assets attractively in the first quarter of 2023. If values slide further, many may regret not having priced their unsold assets more modestly.

when times are tough, buyers resort to quality – good buildings or sites in good locations at sensible prices

In 2023 first time buyers will find the first rung of the property ladder even further out of reach. Existing owner occupiers will face huge increases in outgoings. Those on fixed rate mortgages will have escaped to a degree – but only for so long as their fixed periods last. Many buyers took advantage of the post Covid stamp duty holiday from 1 July to 1 October 2021 and fixed rate loans available at the time. But many of those fixed rate periods will have come to an end a year later. Any tax savings made at the time of purchase were probably offset by inflated prices caused by the surge in demand. Now house prices are softening and repayments will have soared. With affordability impaired, there are likely to be defaults and potentially repossessions in 2023. Although, as with the 2007 recession, lenders will be strongly encouraged by government to exercise forbearance.

Buy-to-let investors will suffer additional difficulties. As of today, domestic private rental properties must meet a minimum Energy Performance Certificate (EPC) rating of E. In 2025 this will be changed to C for all new tenancies and from 2028 to all tenancies – even for those with longstanding tenants. For buy-to-let borrowers, failure to meet these standards could result in a breach of loan covenants. Owners of flats may face cladding issues. Since 2020, all residential buildings of any height require a fire safety certificate (EWS1). Although some investors in this sector may be saved by rising rental values, the case for buy-to-let has altered considerably. With limited, or possibly zero or negative capital growth next year, net yield will be the all-important driver. According to the Office for National Statistics (ONS), private rental prices paid by tenants in the UK increased by 4%, and in London by 3.5%, in the 12 months to November 2022, representing the largest annual percentage change since this data series began in January 2016.

Agents in the more affluent areas of the Home Counties report that business remains buoyant and that prices are robust. During the pandemic we saw a shift from London to more leafy commutable areas offering more space for living and home working. Post Covid, these working patterns have continued and appear to be the new normal. We expect that homes in the doughnut surrounding London will show capital growth in 2023.

We expect attractively priced assets to remain in demand in 2023. As private buy-to-let investors are squeezed out of the market by rising outgoings, the larger corporates may take advantage of thinner competition and escalating rental values. Cash rich occupiers will seek out 'value add' opportunities in the form of unmodernised homes. Sites with planning permission or potential for future development are likely to come to market at reduced prices as a result of increased construction costs. Ground rents will remain a stable investment in the longer term although legislative reforms and cladding issues may stem enthusiasm.

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Residential Transactional and Living Markets

Investment

The world of residential investment has had a fairly slow start since the new year which is not that unusual but perhaps is even less surprising due to the catalogue of recent economic challenges.

Looking back only six months it seems almost remarkable that we managed to do quite so much business in the last quarter of 2022 with circa £150M (and circa 1,000 units) either completed, exchanged or under offer.

The list of challenges including the Truss/Kwarteng debacle, the hikes in interest rates, high inflation and removal of 'help to buy' to name but a few and combined with the threat and now manifestation of strike action across so many different sectors has been a big distraction and disruption to all.

Despite all the above and the determination of the press and some industry think tanks to talk house prices down, the wider rhetoric around this sector has been very positive with increasing rents and high occupancy rates which has attracted new and older more established buyers into the fray. The older more seasoned buyers (especially those less reliant on bank lending) have been fully appreciative of the opportunity to buy into a market with less competition and the new buyers have been particularly notable from abroad who have the added advantage of a weak pound and a currency play to assist them.

Higher bank lending rates are inevitably having an effect on many domestic buyers and sellers thus our teams in London and Leeds have been extremely busy appraising stock for sellers who are mindful of imminent bank lending deadlines. Explaining to would-be sellers that (depending on the stock of course) the gross yield expectation has moved out by 100 basis points is a challenging conversation to have with some but being a busy agent we know that the stock where we have real buyer engagement is showing gross yields in excess of 7%. The days of sub 6% gross yields for standard residential blocks, unless extremely well located, are numbered.

It also seems inevitable that with owner occupiers sitting on their hands, without 'help to buy' there will be some blood in the water for smaller developers who were heavily reliant on this sales prop. We expect to see some distress in this sector over the coming months albeit there are willing buyers ready to pounce who will lock the stock away for long term rental until such time as confidence returns and the units can be sold piecemeal.

Another area of uncertainty is the lease wrapper model where we are seeing a lot of vendors wanting to sell housing across the UK let to different charities, housing providers and CICs with seemingly little in the way of covenant strength. The well-publicised challenges for Home REIT have intensified the spotlight in this area and the valuation conundrum around the strength of these covenants and their ability to pay rent in the long-term trundles on. The necessity for most of these vendors to achieve a sale price in excess of the traditional vacant possession bricks and mortar value presents a major challenge for potential buyers and valuers alike. The necessity and demand for housing of this type is well documented but again, we do expect to see some distress in this sector this year.

The market has undoubtedly shifted but we do not think pricing has adjusted by much just yet, mainly because rental levels remain so strong. Inevitably there will be challenges for some borrowers brought on by much higher lending rates but we expect to continue to see willing vendors and willing buyers, old and new, attracted to the long term defensive benefits of residential investment.

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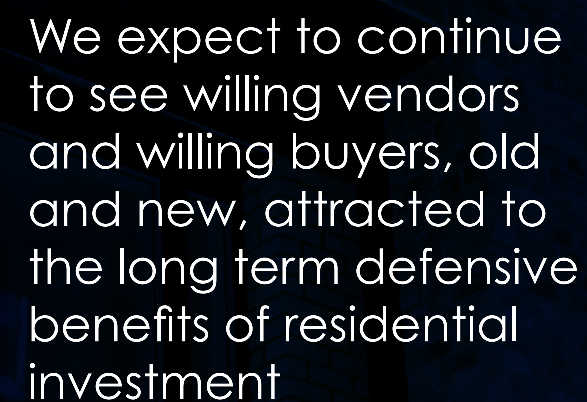

Residential Development

As we enter 2023 there is a general question as to what is going to happen to the market going forward and the answers are varied, depending on which crystal ball you're looking at. However, one thing that appears clear in the land market is the continued demand for land; developers are looking to keep teams busy safe in the knowledge that there is a continued housing shortage, which alongside increased investment in alternative living markets means there continues to be a competitive marketplace. Fundamentally, the market is controlled by supply and demand and the current continued demand is further enhanced by a scarcity of supply as several landowners hold off selling in the current climate.

The residential market as a whole has fared better than the commercial market in recent months but has taken longer to stabilise. Some confidence has returned to the market since the November/December hiatus, as the number of mortgage products available to buyers has increased; however, there is a period of depressed growth anticipated due to on-going build cost challenges and increased finance rates for developers. The media has a tendency to generalise markets as a whole and one must not forget that different locations and scale within the residential living markets will fair differently. There is, for example a strong demand for stock in fundamentally good locations, while those opportunities in tertiary locations with lower values come with an increased risk due to the sensitivities around construction risk.

Residential developers continue to be active; however, the battle with increased build costs, planning delays and increasing regulatory reform (e.g fire regulations) very much continues. The land market is increasingly aware of the issues facing developers and slowly accepting of the subsequent impact on land values. For assets that are correctly priced there is strong interest. For those that are unwilling or unable to accept this adjustment often there are still options, however more innovative JV arrangements between parties are needing to be navigated to ensure the deliverability of sites and to mitigate the impact of increased costs and planning delays.

As 2023 progresses, we expect housing policy to remain at the top of the political agenda ahead of the next general election and there is likely to be increased pressure on policy makers to provide clarity over long term housing supply and planning reforms. In the meantime, we are seeing an increasing number of investors targeting affordable housing, build to rent, student and later living products as an alternative to mainstream commercial investment, so while we do expect typical residential house building to be slightly depressed, the increased investment in these other living markets is feeding into the land market. Developers that are able to de-risk their exits to a bulk investor are thereby reducing their profit margins enabling them to continue to be competitive in a land market with limited supply.

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Fundamentally, the market is controlled by supply and demand and the current continued demand is further enhanced by a scarcity of supply as several landowners hold off selling in the current climate

Student Housing

The student housing market continues to prove its strength in adversity. Despite a turbulent end to 2022 there was a total of £7.2Bn worth of investment last year reflecting a 69% increase from the previous year.

Despite some headwinds following through from last year, the investment sentiment in 2023 is strong. This is mainly driven by the sector being supported by:

- An increasing student population. UCAS forecasts there could be a million undergraduate applicants by 2026 with the main growth attributed to the growing number of 18-year-olds.
- Positive rental growth. In 2022, PBSA rents on average grew by 3.1% whereas HMOs grew by 5.2% year on year.
- Constrained supply of bedrooms, albeit this is location specific and varies due to the cyclical nature of supply and demand.
- The ability to change rents annually. Allowing investors to offset some of the increasing costs.

The previous lack of urgency to invest capital in Q4 2022 is fading and the volume of deals is expected to increase in 2023. However, one of the biggest challenges we, as agents, are currently facing is the alignment of vendor aspirations with buyer expectations. With the increased interest rates and subsequent higher cost of capital along with increasing energy prices we are experiencing a period of reassessment whereby the market is trying to find ways of absorbing these higher costs.

Operationally, to date, the 2023/2024 letting cycle is strong. The HMO markets have had good take-up, particularly in strong university cities. HMO portfolio landlords are generally 80%+ let if not already full. It is still relatively early in the PBSA lettings cycle however Unite has already reported that 70% of beds have been sold compared to 60% in the previous year.

Allsop Student Housing transactions:

- Acquisition of Lillian Penson Hall, London W2, comprising 313 vacant student bedrooms to Union Property Services for over £75M.
- Disposal of Green Wood Court in Southampton. This was an off-market direct sale for £11.8M reflecting just over £50,000 per bed.
- Acquisition of Opera House, London N17 comprising 66 bedrooms for £11.5M. This represented almost £180,000 per bed.
- Instruction to sell Urban Study Portfolio in Newcastle comprising 354 high specification studios. We are currently seeking offers of £38M. This reflects 5.5% NIY and c.£107,000 per studio.

Market Student Housing Transactions:

Operational assets still remain popular with a number of high-profile transactions completing at the end of last year:

- Student Roost's portfolio of over 23,000 bedrooms and secured development pipeline for approximately 3,000 further bedrooms was acquired by GIC & Greystar for £3.3Bn.
- Harrison Street's portfolio of 1,657 bedrooms across 4 properties in Birmingham, Canterbury, Coventry and Leeds. This was acquired by CDL for £185M reflecting £112,000 per bed and approximately 5.25-5.5% NIY.
- Empiric sold Emily Davies Halls in Southampton for £14.2M to Far East Orchard. This PBSA block comprised 180 operational bedrooms with value-add opportunity. The price per bed was around £80,000 showing a NIY of 5.7%.

Within the development and forward funding market, there has been a slowdown in appetite mainly due to a lack of visibility; there can be no certainty with build costs, debt and exit yields which makes for a challenging environment. We are however seeing some green shoots and some stability returning and as a result we expect to see the wheels turn again in the coming months. Appetite from investors is there, this is just a matter of timing. That being said, we have seen some examples of market movement in the past months:

- Urban Group selling 26-34 Merrion Street in Leeds to QIP for £14M reflecting a price per bed of £160,000 and a NIY of 5.8%.
- Madison Cairn selling Redcliff Quarter in Bristol to UBS Asset Management for £56.7M reflecting a price per bed of £155,000 and a NIY of 5%.

What seems to be emerging in the PBSA space is a very unpredictable market with little consistency. There are pockets of strength and pockets of weakness. Some opportunities will clear good levels of interest and offers relatable to values of summer 2022. We saw this in the sale of Cumberland Place in Southampton, a newly delivered 206 bed development which sold reflecting a net yield of 5.0%. In contrast, other opportunities will struggle for interest and will require significant yield shift to find a home.

Our experience dealing with several smaller value (sub £5M) opportunities has been positive. Despite headwinds, there appears to be plenty of appetite from high net worth individuals and cash rich propcos who do not need bank finance and are seeking to benefit from less competition in the market.

There is movement at the top end of the market too, but interest seems to be entirely focused on opportunities offering institutional grade assets with strong macro and micro location characteristics. It feels as though there is no room for a 'commercial view' in negotiation or 'rough with the smooth' mentality.

We still feel as though there are opportunities in the mid-market, so for investments of a value between £10M and £25M. Often too much of a stretch for high net worths and propcos but too small for institutional capital. We see very good buildings in strong locations, but the buyer pool is limited. There are opportunities to aggregate 1,000+ beds with consistent quality.

The HMO market remains buoyant, although the heat has come off slightly. Landlords are figuring out how best to address utility costs with some now reversing the all-inclusive rental format in favour of separating utility costs. When coupled with increased legislation such as the uncertainty surrounding The Rental Reform Bill we may see more HMO portfolios and smaller blocks being traded during 2023.

As referenced earlier, the headwinds in the market have caused a shift from a very active, seller-led market to a slower more cautious buyer-driven market but deals are still happening, and appetite is still very evident. Sentiment will free up as we move through to Q2.

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The Build to Rent Market

Whilst macro-economic factors have inevitably had an impact on the BTR investment market, the counter cyclical dynamics of residential rental investments and the strong drivers that remain; high occupancy, rental growth and the demand / supply imbalance, means sentiment has remained resilient.

Whilst there has been a lack of forward funding transactions since September 2022, PICs forward funded Court Collaboration's £200M 51-storey on One Eastside, Birmingham which will provide 667 units is now under construction. L&G's suburban BTR arm has forward funded Cala Homes' 107-unit site in Berkshire, whilst Unite purchased arbdn's stabilised 178 BTR scheme, 180 Stratford, E15 for £71M and more recently Real Star's £108M forward funding of 488 BTR units in Leeds with HUB and Bridges Fund Management, adjacent to their first Leeds scheme, currently being delivered by the same developer.

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 237,362. Numbers in the regions continue to grow at a faster rate than London, accounting for approximately 140,777 with 96,585 in the capital.

We have seen more investor activity across the sector in recent weeks, compared to the latter stages of 2022. It is clear that BTR developers are still looking at a range of opportunities, alongside progressing their current pipeline.

It is likely that the higher cost of borrowing for mortgages and continued build cost challenges is only going to exacerbate the imbalance of supply / demand across the BTR sector. We believe the regions will remain particularly attractive, aided by operating assets in those areas showing strong occupation and rental levels – most schemes are over 95% let. London remains desirable for investors, although cost of land and high delivery costs, amongst other factors, are making it more difficult to unlock opportunities in the capital at present.

Funding yields remain resilient for well-designed multi-family BTR stock in prime, practical locations, underpinned by the strong performance of operating schemes. This will aid to help reduce the impact of increasing delivery costs, a result of in part, labour and material shortages and rising utility costs. In London and strong southeast locations, NIYs range from 3.50% 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. We expect single-family housing NIYs to remain at 4.00 to 4.25% across the UK.

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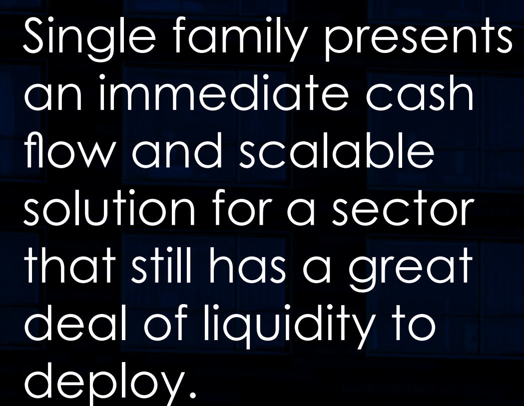
Funding yields remain resilient for well-designed multi-family BTR stock in prime, practical locations, underpinned by the strong performance of operating schemes



Residential Letting and Management

As a result of the larger pension funds and institutional debt pausing to assess their options on pipeline deals; and house builders experiencing a drop off in sales due to increased mortgage rates and greater consumer certainty, Allsop has seen an uplift in developers obtaining their own funding deals to allow them to stabilise stock before bringing their schemes to market as a stabilised proposition, rather than a forward fund or forward commit opportunity.

Additionally house builder schemes already in construction where sales have become stagnated are now also posing an opportunity for those wishing to build single family housing portfolios. Allsop currently manage for Savills' Investment Management, Packaged Living and Columbia Threadneedle in this space and are expecting to agree terms with a number of other entrants to the market in the immediate future.

This strategic approach is an area Allsop's Letting and Management team as well as our BtR investments team are setup experienced and prepared for as we mobilise, stabilise and then develop a management strategy in order to derive the best exit prices for our Agency colleagues.

Allsop is currently working on a significant pipeline of single family and BtR schemes and whilst I have no doubt our pipeline of BtR will continue to be fed it is the single family housing sector where I believe we will experience the most growth over the short term. Indeed Allsop will mobilise and onboard single family schemes in Harrogate, Rugby, Braintree, Telford and Dartford as well as BtR assets in Leeds and Manchester over the next 6 months.

Single family presents an immediate cash flow and scalable solution for a sector that still has a great deal of liquidity to deploy. As inflation begins to fall back and yields become more stable I believe house-builders who have been reticent to engage will become more open to institutional collaboration. Due to the scale of our operation and the data we hold on operational costs I believe Allsop are well setup perfectly positioned to assist deliver best in class management services.

Whilst that collaboration will need to involve a shift in attitude towards finance funds' loftier ESG (think air source heat rather than gas) credentials, and their desire to tweak designs that have been acceptable to owner occupiers, it will result in bulk sales for the house builders likely long enough to get them through to the other side of the current economic circumstances preventing the sales they have become used to.

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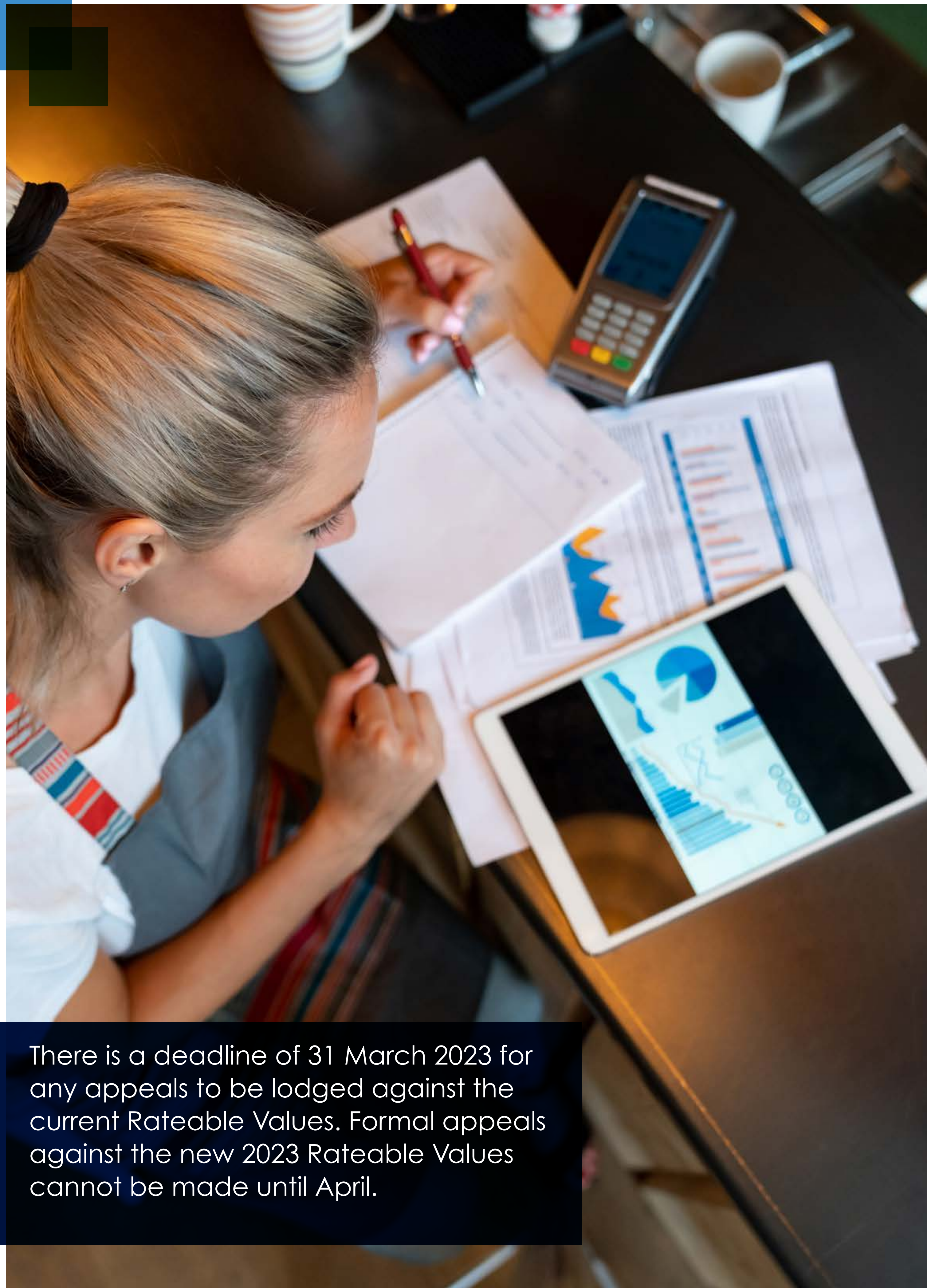

There is a deadline of 31 March 2023 for any appeals to be lodged against the current Rateable Values. Formal appeals against the new 2023 Rateable Values cannot be made until April.

Business Rates

2023 Rating Revaluation – draft figures published

The Government has now published the draft 2023 Rateable Value List which will come into effect on 1 April 2023. The new rateable values represent the Government's view as to the rental value of each property in April 2021. The revaluation has been undertaken to ensure rates bills reflect changes in market conditions since 2015.

The impact varies significantly by both sector and region:

2023 REVALUATION IMPACT – Change in Rateable Value by sector and region					
	All Sectors	**Retail**	**Industrial**	**Office**	**Other**
England	8%	-17%	37%	12%	6%
- North East	2%	-21%	26%	11%	2%
- North West	8%	-17%	29%	24%	7%
- Yorkshire and the Humber	5%	-24%	25%	11%	9%
- East Midlands	10%	-20%	28%	4%	9%
- West Midlands	9%	-22%	33%	21%	5%
- East	18%	-18%	49%	37%	14%
- London	3%	-15%	46%	7%	-2%
- South East	13%	-17%	46%	26%	8%
- South West	11%	-11%	35%	17%	10%
Wales	0%	-16%	15%	8%	3%

- data relates to properties with RV >£51,000

The clear beneficiary of the revaluation is the retail sector which in every region will see significant reductions in rates bills. The largest increases are being seen in the industrial and logistics sector reflecting the rental growth seen since 2015.

Appeal deadline – 31 March 2023

There is a deadline of 31 March 2023 for any appeals to be lodged against the current Rateable Values. Formal appeals against the new 2023 Rateable Values cannot be made until April.

Uniform Business Rate Frozen – 2023/24

The Government is freezing the business rates multiplier in 2023-24. It was previously feared that the UBR would incorporate a 10.1% increase based on the September CPI inflation figure. As a result the 2023-24 UBR will remain at 51.2p with a lower figure of 49.9p for properties with Rateable Values below £51,000.

Transitional Relief 2023/24 onwards

The caps on rates reductions are to be abolished. This will mean that a ratepayer with a declining business rates bill as a result of the 2023 Revaluation will benefit from the full decrease immediately.

A 3 year transitional relief scheme will be implemented for those properties facing rates increases as a result of the 2023 Revaluation. The 'upward caps' will be 5%, 15% and 30%, respectively, for small, medium, and large properties in 2023-24.

Retail, Hospitality & Leisure Relief – 2023/24

The Government is extending and increasing the Retail, Hospitality and Leisure relief scheme in England for eligible retail, hospitality and leisure properties. For eligible properties the relief will increase from 50% to 75% - this relief however will be subject to a cap of "£110,000 per business".

Online Sales Tax consultation outcome

Following the recent consultation on an Online Sales Tax (OST), the Government has decided not to introduce such a tax. The government advised that their decision reflects concerns raised about an OST's complexity and the risk of creating unintended distortion or unfair outcomes between different business models.

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