2021 Q4

MARKET UPDATE

Commercial
& Residential

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The investment market, whilst having a dislike for the increasing cost of debt, understands the correlation between inflation and real estate returns

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Economic Overview

The final quarter of 2021 saw the emergence of the Omicron variant and the latest wave of the Covid-19 pandemic, which despite spreading rapidly, to much relief is now subsiding in the UK. January is here and after the festive break, it is back to business, which is continuing apace after a very busy period in the run up to Christmas. It has felt like much of 2021 was characterised as two steps forward and one step back as whilst some normality returned to activity in the markets, the brakes are still engaged as the pandemic has not yet fully released its grasp.

In November, the GDP of the UK economy surpassed its pre Covid size with the ONS reporting strong performance from retail, services and construction before the arrival of Omicron. Plan B measures no doubt slowed growth in December but it appears that Omicron is leaving as quickly as it arrived and with Plan B having ended on the 26th January a return to moderate growth is expected.

However, inflation has hit its highest level for a generation, largely driven by rising energy costs, supply chain disruption and the return of activity following the pandemic. The CPI rate for the 12 months to December 2021 has reached 5.4%, some way above the BoE target of 2%. The expectation is that it will peak at 6%+ in the spring and has been the key driver behind the BoE decision to increase interest rates to 0.25% in December. Further, gradual interest rate rises are warned, the next perhaps in early February, but not to pre financial crisis levels, with many commentators expecting a stabilised position later in the year at probably no more than 1%.

The real estate markets, to date, have seen little impact from the December interest rate rise and the expected further increases are likely to be priced in. The investment market, whilst having a dislike for the increasing cost of debt, understands the correlation between inflation and real estate returns and in the housing market, residential mortgages are increasingly insulated by low fixed rates.

For a number of years now the real estate markets have lived with the uncertainty of BREXIT followed by the disruption of the pandemic, and whilst inflation is upon us, if the pandemic finally subsides, will 2022 see the handbrake finally released?

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City & City Fringe Leasing Market

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> The first few weeks of January 2022 have led to an immediate bounce back in viewings and a doubling of demand

Looking back over the last 12 months, the City office market has performed well despite the first quarter spent in lockdown and regulations hampering the drive for a return to normality until July 19th 2021. There were considerable delays to exchange leases and indecision over the return to work policy amongst many corporate businesses.

The back to school atmosphere in September 2021 led to a significant return with thousands of commuters returning to the City during Q3. This continued to develop with the majority of staff meeting clients and collaborating midweek with the reduced activity only witnessed on Mondays and Fridays.

The new Omicron variant spread through London towards the end of December 2021 slowing activity in the sub 30,000 sq ft market with occupiers holding off from making decisions and undertaking viewings until the New Year.

The first few weeks of January 2022 have led to an immediate bounce back in viewings and a doubling of demand particularly in the sub 10,000 sq ft market as the number of Omicron cases has begun to subside for Central London.

The pre-let market has been very active over the last quarter of 2021 and many businesses have confirmed their long term commitment to return to offices, seeking the highest quality space with the greenest buildings available. This has been led by occupiers concerned at the lack of good quality new build stock completing in 2022/2023 and 2024.

ESG is now firmly on the agenda and a key part in the decision making process for any headquarters relocation as occupiers look towards environmental and social commitments post Cop 26. This is coupled with a desire to review new ways of working where staff can increase the opportunity to collaborate through an improved 'work space'. The hybrid model is likely to stay for the long term however staff will be encouraged to return to the office for the majority of the week during 2022 until such times as the hybrid model settles down.

Take up during Q4 2021 continued to rise as many occupiers sought to return and commit to the office. Take up for Central London exceeded 3 million sq ft for Q4 2021 for the first time since 2019. The City witnessed take up levels of 750,000 sq ft and 650,000 in November and December respectively leading to total take up figures of 4.6 million sq ft for the year. Whilst this is still 1 million sq ft off the 5 year average, the expectation is that take up will return to more normal levels during 2022.

The most significant pre-lets signed during Quarter 4 were Allen and Overy at 1 Broadgate (267,000 sq ft), Snapchat Inc at Bloom (115,000 sq ft) and BPP Training at 1 Portsoken (80,000 sq ft). Other notable signings were at Duo, 280 Bishopsgate with Cognizant taking 53,000 sq ft at £74.00 psf and ABRDN committing to 42,000 sq ft at £67.00 psf.

Demand continues to strengthen with under offers for Central London now at just over 3 million sq ft. Significant under offers in the City include Kirkland & Ellis at Stanza London, 40 Leadenhall Street (284,000 sq ft) and Hogan Lovells at 21 Holborn Viaduct (280,000 sq ft). Demand for new grade A space is likely to continue into 2022 with the professional and tech/media business looking to relocate through the desire for new space or growth. These include occupiers such as Dentons (60,000 sq ft), Addleshaws (90,000 sqft), Reed Smith (100,000 sq ft) , Grant Thornton (80,000 sq ft) and Deloitte Digital (70,000 sq ft).

Supply in the City stands at just over 12.5 million sq ft. Newly completed schemes entering the market during Q4 were The Hylo for 250,000 sq ft, The Gilbert 150,000 sq ft. Additional schemes expected to complete in the first quarter are The Featherstone Building (124,000 sq ft), and Technique (74,000 sq ft). The completion of these schemes and the introduction of the St Botolph building have ticked supply up slightly to just over 9%. This is however, expected to reduce with the limited development completions expected in 2022 and the renewed activity with business returning to the City.

Best in Class stock continues to drive the market with 68% of take up being Grade A stock for the wider City and 98% for the City Core in the last month.

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 and this area is expected to rise steadily during 2022. Exceptional upper floors with terraces are now achieving higher rental tones in the mid £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.

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City & City Fringe Investment Market

With the return to the office and normality almost restored at the start of Q4 2021, the City and City Fringe market has witnessed another healthy quarter in terms of transaction volumes. Whilst the new Omicron variant of COVID-19 has continued to run rife throughout the world the UK has yet to experience any further National lockdowns and this has kept sentiment towards the City of London office market positive and the weight of money wanting to invest in the capital has continued to build.

During this quarter Allsop have recorded a total of £2.377Bn of commercial property transactions in the City and City Fringe Markets. This is an increase of 14% on Q4 2020, and only a 4% increase on Q3 2021 (which included Times Square and 68 King William Street).

Q4 volumes bring the total number of transactions reaching contractual exchange in the City & Fringes in 2021 to £7.793Bn which is an increase of 40% on 2020's total volumes of £4.711Bn and more in line with 2019's total volumes of £8.624Bn. It is, however, 15% below the previous 5 year average of £9.129Bn (2016-2020).

After a very light Q1 where only £752M of deals transacted, the final three quarters all showed investment volumes of between £2.2BN and £2.4BN which demonstrates that confidence in London's office market has been sustained since the easing of Lockdown restrictions began in March 2021.

In Q4 the City of London office market experienced a significant increase in the number of buildings being openly marketed which indicates the increase in success of formal sales processes. 54% of Q4 transaction volume was subject to a formal marketing process, which is significantly higher than the 13% reported in Q3.

A significant amount of transactional activity has rolled into the period between Christmas and New Year and Allsop report close to £4Bn of stock under offer as we move into 2022. Some of these negotiations include some very large transactions like 5 Broadgate, EC2 (£1.3Bn), 90 High Holborn, WC1 (c.£240M), 5 Fleet Place (c.£190M) and The Fenchurch Estate (c.£175M).

Therefore, we anticipate a very healthy Q1 2022 as the buyer pool continues to diversify and more overseas investors, particularly those from Asia, are slowly starting to return to the UK.

Still, only two of the quarter's total of 27 transactions were acquired by Asian buyers, one of which was Bavaria House on Appold Street, which is a development site with consent for a mixed-use scheme (office and hotel) which was acquired for£64M by Giant Mind from mainland China. This transaction supports an increased appetite for risk that Asian investors are prepared to take on as the site offers significant construction risk but arguably is one of the best-located sites in London.

UK and European investors accounted for 74% of the transactions in terms of numbers and two thirds of the total volumes, which again is reflective of the previous quarters themes, the dominant one being travel restrictions and lengthy quarantine rules when travelling from Far East Asia. Legal & General made their return to the City Office market with their acquisition of 45 Folgate Street, E1 from a Private European Investor. This freehold multi-let building was purchased for £26.8M which reflects a yield of 4.28% and a capital value of £1,287 pst. This was the Fund's first London office purchase in several years reinforcing the positive sentiment of institutional purchasers towards the office sector as well as the diversity of the buyer pool.

Broadly in line with Q3, the average deal size for Q4 was £88M with eight deals transacting over £100M, two less than in the previous quarter. Appetite for securely long-let investments in core locations, particularly from European funds, continues to be strong for both freehold and long leasehold interests. The largest deal of the quarter was Omnicom's acquisition of 2-3 Bankside, SE1 which is their own UK Headquarters for £440M, £1,058 psf reflecting a yield of c.4.52% following intense competition from a number of under bidders including Asia's LINK REIT. Acquisitions such as these reinforce global companies' commitments to office space and need to have globally recognisable headquarters in high quality buildings.

In Q4 the City of London office market experienced a significant increase in the number of buildings being openly marketed

More so than we have experienced previously the weight of money seeking value-add or refurbishment opportunities is higher than ever. Allsop advised Castleforge on their acquisition of 1 Golden Lane, EC1 from Singaporean based Hoi Hup for £75M which reflected £702 pst. The building was vacant from purchase. This was a highly competitive process which resulted in a sale price £10M in excess of the original quoting price. Similar on-going processes such as the sale of DWS's long leasehold interest in 25 Moorgate, EC2 and Orchard Street's freehold interest in 6 London Street, EC3, both major repositioning opportunities, will likely yield similar results with competitive bidding. The desire for investors to reposition office space to create high quality working environments with the top environmental and sustainability standards is ensuring that this trend is set to continue as we move into 2022.

With many transactions under offer as we move into 2022, most market commentators, including Allsop are shifting prime City yields to 3.75% for the first time in history and expect increased transactional evidence to support this in Q1 2022.

We anticipate a strong start to 2022 with the themes of 2021 ongoing as investors continue to seek out best in class newly developed buildings in good locations let to strong tenants as well as well-located refurbishment or repositioning opportunities.

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West End Leasing Market

> The way businesses invest in their workspaces and talent bodes well for the continued success of the West End office market.

Q4 2021 saw a strong finish to the year with 1 million sq ft being let across the West End, bringing the total take up for the year to 3.75 million. This is still slightly below the long term average, but a substantial and meaningful recovery from the historic low figures of 2020.

The most notable transactions in Q4 included Facebook securing a further 312,000 sq ft at 1 Triton Square, NW1, Gamesys' acquisition of 96,596 sq ft of the former Arcadia HQ at 70 Berners Street, W1, Edelman securing 38,200 sq ft at Francis House, Greencoat Place, SW1 and Copper Co signing up for 28,000 sq ft at Ingeni, 17 Broadwick Street, W1 at a rent in the mid £90's psf overall. These transactions are good examples of the continued dominance of the Tech / Media and Financial occupiers that have been at the forefront of a sector led recovery throughout 2021, making up 58% of the total space let.

The amount of space under offer at the end of 2021 totalled over 1.5 million sq ft, which sits at 40% above the normal long term average. It could be said that this high level of transactions in solicitors hands was contributed to by deals being delayed from completing by the emergence of the Omnicrom variant at the tail end of the year, but equally it points to a continued recovery as we move into early 2022 and emerge from the current work from home guidance.

The West End will see continued demand from office occupiers, driven by a heightened awareness of a need to provide premises that offer high quality space with robust environmental and sustainability credentials for brand and talent attraction reasons. That said, take up, whilst still increasing could take a while to get back to pre Covid levels and above. We could still see some occupiers delaying key decisions whilst they obtain further clarity on what hybrid working means for their particular business. What isn't in doubt is the continued increasing demand for the best quality accommodation in the best locations for staff. The fundamentals of the way businesses invest in their workspaces and talent bodes well for the continued success of the West End office market. The way offices are utilised will continue to evolve rapidly in a post Covid world, with specific requirements being developed by different occupier groups which will become more distinct from each other as time moves on.

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West End Investment Market

Q4 once again marked the year's busiest quarter in London's West End with £2.9Bn sold across 46 transactions, reflecting an average lot size of £62M. This excludes a further c. £1.5Bn of real estate within the sale of the Selfridges business, which could be attributed to West End volume.

This brings the year total to approximately £6.4Bn. The flurry of activity experienced at the end of 2021 means this year's volume is comfortably ahead of that of 2020 (£5.5Bn) – a year that saw Lockdown's 1.0 to 3.0, and further cements worldwide market rhetoric that London, despite the tumultuous past couple of years, has retained it's safe haven status and position as a top Global Tier 1 City.

This also puts 2021 in line with the 5-year average of £6.5Bn – albeit the "pre-pandemic" 5-year average 2015 - 2019 stood at around £7.4Bn.

Similarly to 2020 almost half of the annual total volume was exchanged, or exchanged and completed, in Q4. In many ways this is remarkable given the rise of Omnicron towards the end of November, which despite rumblings failed to derail transactions. The market pauses experienced in 2020 as a result of Lockdown 1 and 3 did not materialise this time round, as the London property market has adapted and learnt to operate in what continues to be the new worldwide norm.

During Q4, 11 of the 46 transactions made up 72% (£2.1Bn) of this quarters total, the largest of these being LabTech's sale of Victoria House, WC1 for c. £425M to Oxford Properties and IKEA's acquisition of 214-218 Oxford Street, W1 for £378M. We advised Brunswick Property Partners on their acquisition of The Eversholt, NW1 for £110M. Excluding deals £100M+ from the numbers the average lot size is £22M.

We have experienced some of the fiercest competition on record over the final quarter of the year due to the sheer weight of capital allocated to London's West End outweighing available stock. Bid processes this quarter have included third round straight shoot outs; bidders not being invited to the second round rebidding anyway; and the art of gazumping has returned when disgruntled investors find out they have been unsuccessful. For example, at 2 Cavendish Square, W1 £56.75M (£2,094 psf and 3.90% NIY) was quoted. Double figure first round bids were received and levels in excess of quote were hit in the first round. Four parties were formally invited back to the second round and regardless more bid than were invited to. The building has been sold to CBRE IM (PAIF Fund) for £64.1M (£2,365 psf and 3.45% NIY), with the adjoining owner, unusually, finding themselves outbid. 60 Sloane Avenue, SW3 we understand attracted around 15 seriously interested parties and has traded (exchanged) ahead of quote price to CIT with Bain.

In previous years during particularly competitive market environments we saw a specific geographic region of the world dominating West End investment transactions – however as at today the money really is coming from a wide variety of jurisdictions – 26% of volume from North America, 25% domestic UK, 24% Asia, 21% Europe and the remainder the Middle East.

The ferocity of competition being witnessed in marketing campaigns, diversity of investors, and continuous new entrants, means the West End market (unlike the City) is favouring 'far & wide' marketing campaigns at present in order to achieve best price. We expect this trend will continue into 2022 as active investor requirements from across the globe continue to outpace available stock, particularly as the number of frustrated underbidders grows. The focus of such investors we anticipate will continue to be on both Core and Value-Add asset types.

As we look ahead to the end of Q1 2022 specifically, we are already predicting a strong start to the year, as we track c. £2.4Bn worth of assets 'Under Offer', much of which did not quite make it over the line at the end of last year. We expect this confident start to the year to be mirrored by the leasing market as London's long-term occupational story remains unchanged.

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Active investor requirements from across the globe continue to outpace available stock

National Investment Market

The easing of the Covid-19 restrictions, historically low interest rates and accommodative fiscal policy have cemented the recovery in overall volumes which are up significantly on 2020. 2021 will be remembered as the year positive sentiment returned to the commercial property market.

2021 transaction volumes:

Full year 2021	H2 2021	Q4 2021
£51.39 Bn	**£24.66Bn**	**£13.49Bn**
up 17.8% on full year 2020	Up 24.4% on H2 2020	Down 10% on Q4 2020

Retail

Over the last quarter, demand for High Street Retail has seen a resurgence at the prime end of the market where yields have moved to an attractive level or where repositioning to alternative uses is possible. Secondary retail remains challenging with a smaller buyer pool, as rents continue to be rebased but as footfall returns to the High Street we expect this market to pick up in 2022.

We have seen strong demand for High Street retail in affluent locations at the smaller end of the market with sub £5m lot sizes proving popular amongst private investors. Allsop recently marketed 25-27 St Peters Street in St Albans, let to Pret a Manger with a quoting price of 7% NIY, the property attracted over 80 interested parties and is under offer in well excess of the quoting price.

Occupationally a number of retailers are currently investing in expanding their physical footprints, taking advantage of the significantly lower and more flexible rental deals on offer. Early snapshots of Christmas trading performance have been positive for some of the big High Street names with Next, M&S, JD Sports all reporting increases of 23%, 18.5% and 10% on Christmas 2019 despite a circa 18.6% drop in December footfall due to Omicron fears.

There are continued obstacles in the road for retailers that will impact the investment market as retailers remain challenged with stock availability amid supply chain issues, labour shortages, inflation and potential interest rate rises.

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Retail Warehousing

After a particularly buoyant Q3, the sector saw continued resilience as transaction volumes reached £547M for Q4. Albeit a reduction against Q3, the sector is has comfortably outperformed 2020 investment volumes, signalling the strength of market sentiment with investors viewing the sector as offering value particularly in comparison to industrial yields. Notable transactions for Allsop this quarter include Wickes in Oxford and Marina Quay Retail Park. Wickes, Oxford was originally acquired in March 2020 for £11.42m / 5.72% NIY with circa 18 years unexpired. In December, this was sold off market to an institutional fund for 4% NIY with circa 16 years unexpired. Marina Quay, Rhyl sold in November with a blue chip tenant line up to include The Range, Aldi, B&M, Farmfoods, Greggs and Costa with a WAULT of 13.9 years to expiry and 12.1 years to break for £17.7m / 6.1% NIY. Other large institutional deals included Poole Retail Park comprising a Decathlon, Homebargains, Next, Boots Homebase and others which together traded for £58M, reflecting 6.6% NIY.

Capital flows are strongly weighted towards institutional investors and large REITS as they view the sector as one with defensive fundamentals against traditional retailing and potential future alternative potential for conversion to light industrial / warehouse / last mile delivery uses. The type of goods sold are less susceptible to online retailing as a high proportion of sales are fulfilled in-store as consumers tend to want to see, sample and test particularly for bulky household goods like sofas, fridges, ovens & washing machines and DIY for tools, paint, timber, kitchens and building equipment. The retail warehousing sector has witnessed a strong recovery since the easing of restrictions with favourable shopping conditions compared to the high street with ample car parking facilities, more space and comparatively low rents compared to the high street. Additionally, as click-and-collect spend is forecast to increase to c.£10Bn by 2024, retail warehousing benefits from the Omni Channel retailing model. We expect to see continued yield compression in this sector during the course of the next 6 months.

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Offices

Following a bounce back in investor appetite in Q3 for regional offices the market has continued to come back strongly with the highest quarterly uptake in the sector since the start of the pandemic. Across the UK, the Q4 transactional volume is estimated to be £5.3Bn, with continued demand from some larger funds such as CBRE GI, Canada Life and Blackstone.

The largest transactions of the year happened in Q4 with 1 Hardman Boulevard, Manchester being sold for £292M to NatWest in one of Manchester's largest ever single let deals. This was quickly followed by Segro's £425m purchase of Slough offices (reflecting 4.6% NIY) showing a continued demand to deploy capital into the office market.

With a strong emphasis on location, primary regional cities are faring well, but the return of confidence in secondary and tertiary towns is lagging. As the life sciences market has become particularly strong, investors have looked at out-of-town offices with the view for repositioning in the near future. A good example is Life Science REIT, which has transacted 5 out-of-town office buildings in Q4 2021 with the view to converting them to Life Science parks, totalling in excess of £175M.

Going forward we expect to see strong demand in regional CBD's for high quality stock as occupiers return to the office. Many funds are looking towards ESG considerations and as a likely by-product we will witness a large number of refurbishment projects improving building's sustainability credentials with a view to attracting strong covenants.

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Industrial

2021 was a record breaking year for industrial investment volumes with logistics again stealing the show. Investment volumes for UK big box sheds doubled in 2021 from the previous year with £16Bn of transactions and a 45% increase on the previous record year in 2017. With such a large weight of capital looking to scale up in the sector, the year saw a plethora of platforms, portfolios and assets transacted; portfolio sales accounting for circa 60% of market share were the main driver of activity.

The largest logistics deal of the year was Blackstone's £1.7Bn purchase of Asda's distribution network, while Blackstone's £1.3Bn take-private of St Modwen was also logistics dominated. Other notable portfolio's that closed the year off included London Metric's £122M deal to buy a logistics-heavy portfolio from Savills IM and M&G agreeing with M7 Real Estate to sell its Bow & Arrow portfolio for £200M.

Although the year was a record for investment, take-up stayed largely consistent with 2020, dropping by just 5%. 41% of all floorspace transacted was attributable to e-fulfilment occupiers however the depth of demand continued to rise with increased requirements from supermarkets, 3PL's and cool storage operators. At the end of the year, the UK vacancy rate stood at 5.5% or 1.1% if speculative space under construction is excluded.

There is still a huge weight of capital chasing a finite level of stock and we don't expect this to ease going into 2022. We expect demand to remain very strong, availability to continue to tighten and there to be continued upward pressure on rents – particularly for central locations in major cities. There will be further occupational growth driven by further expansion of online retail, the emergence of new sectors like grocery apps, and supply chain disruption.

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Commercial Auction Market

The largest seller this year has been Asset Managers - long term holders of stock that has been bought to manage and trade on. They have built the liquidity and regular sales dates of the auction market into their business plans with great effect. Examples of these include portfolios of leases to Santander and Boots, along with some vacant stock, and these sellers have sold over £130m of stock right across the price range from £35,000 to several million pounds.

Institutions & Funds have been active raising some £64m which has included one Fund who have sold 33 smaller assets, and some less regular sellers – all taking advantage of demand from the Private Investor.

This growth is in contrast to the figures reported by Co Star on the sub £5m commercial market, which saw a decline of over 18% in 2021.

The volume growth in auctions has been driven by larger lots, over 50% by value is now in excess of £1m, £310m in all. The largest being achieved in Swindon, the former Readers Digest Headquarters, a mostly vacant office and warehouse sold as one lot at £5,000,000.

Many of these lots have been offered to market earlier by Private Treaty teams as we offer a hybrid approach to the sale process, and have been sold largely for our widening base of Institutional sellers. The marketing is still served by the framework of the auction contract and calendar which crystallises demand after a full marketing process and concludes the sale in a timely fashion.

Our buyers, a mixture of Private Investors, Propcos and REITS have become very used to good information being available online from day one, and with the help of sellers and their solicitors this has allowed us to work with two to three week marketing periods to great effect before exchange of the unconditional auction contract.

Earlier in 2021 we called the turning point in the retail sector as investors competed for assets large and small, the most notable of which was the West Orchards Shopping Centre in Coventry that had been in the market for over 12 months.

It was sold in competition at £4.85m to seasoned investor Tony Khalastchi and nine months of asset management have given rise to eight renewed leases, all three floors of the former Debenhams store being committed separately and a major High Street retailer about to conclude a significant letting. We hear that the net income will have risen to £1.5m within 18 months of the purchase.

Retail has been the dominant sector which has been bolstered by the sale of three mixed portfolios, including the sale of 93 newly let Boots stores which were bought in 2017 and re geared on new leases at an average of 5.8 years term certain.

All sectors have of course been covered from a local library, to a gritting lorry depot. We have achieved £145m of sales away from the retail sector.

All sectors and all regions covered

Sector	Share	Value	2020
Retail	59%	£439m	2020 - £264m
Industrial	11%	£47m	2020 - £48m
Other	11.8%	£40m	2020 - £52m
Leisure	9%	£27m	2020 - £42m
Office	8.8%	£31m	2020 - £38m

Who are the sellers?

Institutions & Funds have been the largest sellers over the year by value, raising some £178m. These sales have included a Fund who have sold 33 smaller assets, and some less regular sellers taking advantage of demand from the Private Investor.

The next largest seller has been Asset Managers - long term holders of stock that has been bought to manage and trade on. They have built the liquidity and regular sales dates of the auction market into their business plans with great effect. Examples of these include portfolios of leases to Santander and Boots, along with some vacant stock, and these sellers have sold over £123m of stock right across the price range from £35,000 to several million pounds.

Consensual Sellers have been ongoing and are the third largest category by value, as clients sell assets alongside their banks. We have sold two portfolios of High Street assets including Shopping Centres at a total value of £48m.

There there has been little sign of an increase in formal Receivership appointments to date, where they have been appointed many borrowers have taken advantage of alternative finance, sometimes at the 11th hour as the auction date creates a clear deadline for them. This may well change as the cost of borrowing increases in 2022.

Further in depth analysis of the year, illustrated with many examples is available from our **Outlook**, to be published on 26th January which also covers some thoughts for the year ahead.

> The volume growth in auctions has been driven by larger lots, over 50% by value is now in excess of £1m

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Residential Auction Market

The final quarter of 2021 saw two very successful sales.

November's auction raised £47.6m with a success rate of 85%.

London opportunities attracted strong interest from investors. For example, an income producing investment situated in Roman Road, Bow, comprising two adjoining buildings with development potential, sold at £1.1m. It was originally guided at £1m+. The sale reflects a gross yield of 5.52%. A freehold ground rent investment secured upon a landmark block of 125 flats in Hammersmith, sold for £1,094,000 from a guide price of £875,000. The sale showed a gross yield of 4.08% or 24.5 YP. Owner occupiers and investors competed aggressively for a self-contained two-bedroom flat on a 43 year unexpired lease in Swan Court, Chelsea Manor Street, Chelsea. It ultimately sold for £800,000, well above the guide price of £300,000. In total 200 bids were placed. One of the highlights outside of London was a freehold site in Maidstone Road, Grays, Essex, extending to 0.728 acres with potential for a substantial mixed used redevelopment scheme. This popular lot sold for £1,104,000 from a guide of £1M.

At this point in the year, the market was demonstrating stability and confidence. There was a good level of buyer depth for well-priced assets across all sectors. The noise surrounding the possibility of imminent interest rate rises had clearly not fazed buyers.

December saw a total of £44.1M and a 83% success rate – despite a rise in interest rates for the first time in over three years from 0.25% to 0.1% on the same day.

The largest lot to sell on the day was a parcel of three freehold 'eco' houses in Mill Hill, London NW7. With one occupied and two vacant, bidding finally reached £1,500,000. One of the most popular lots of the sale was a part vacant plot of land extending to around 3.7 acres in Rotherham, South Yorkshire. This residential development opportunity attracted over 600 bids despite the lack of planning permission and occupation of part by Cadent Gas. It was eventually knocked down for £836,000.

The highest value lot to sell overall went post auction early in the New Year. Lot 33 was an attractive grade II listed freehold building arranged as 12 self-contained flats together with four semi-detached houses on a site of 1.25 acres. With six flats sold and the remaining accommodation subject to ten Assured Shorthold Tenancies, Highgrove House in Ruislip, Greater London sold for an undisclosed sum. It was guided at £3.5M.

The year concluded with increasing interest in the UK from overseas investors, particularly for high quality stock in London and the south-east. Values continued to rise in well-connected rural locations as an outdated urban and suburban living-commuting lifestyle gave way to more flexible working patterns. Rental demand remained strong across the country ensuring a favourable climate for buy to let investors (despite a less favourable income tax environment). And owner occupiers and developers continued to search the auction catalogues for ways to add value to unmodernised properties.

The total raised for the year was £381.3M, an increase of almost 21% on 2020 and an overall success rate of 86%.

For a more detailed look at 2021 and our predictions for the year ahead, please take a look at our **Annual Outlook 2022.**

> The noise surrounding the possibility of imminent interest rate rises had clearly not fazed buyers.

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09

Residential Transactional and Living Markets

Investment

Since our last update we were anticipating a surge of interest after the summer, but it didn't quite materialise to the extent we'd expected. The late summer activity of Q3 2020 did not appear in 2021 and although we were busy, the number of enquiries was less than expected and vendors were hesitant in coming to the market. Fortunately there was still plenty of demand from the established investor fraternity which has resulted in some excellent prices being achieved for our vendors alongside some healthy off market acquisitions at the same time.

One thing that was very clear however was that accurate pricing is key and anything with a reasonable yield and a `value add' angle to it was of particular interest to buyers.

In South London a terrace of 5 period buildings with planning permission to build 4 new houses at the rear proved very enticing. Several offers well in excess of the asking price meant it sold very quickly to a cash buyer for circa £5.5m. Taking the development site out of the figures this showed circa 5.25% gross yield.

In Hayes, a block of 20 flats is under offer to a fund at a level which will reflect 6% gross yield on the estimated rental value after some upgrading and active asset management. Crossrail is the lure in this location and it is promised to open in the first 6 months of 2022.

In Wandsworth, a rare freehold gem came to the market for over £12M in late November. It was the first time it had seen the light of day in over 20 years and with the `value add' box firmly ticked in the shape of reversionary leases and planning permission to build on top, the interest was understandably substantial. Negotiations are on-going but by the time you read this, it will be firmly under offer and in solicitors hands with more detail to follow in the next update.

Moving to the regions, in the south west, a long running saga with a small unbroken block of 15 flats in Bristol finally got to completion close to £2.25M and a 7% gross yield making another vendor very happy whilst some high yielding HMO's in Yeovil and a portfolio of houses in the countryside near Winchester have proven to be popular.

Heading to the Midlands, a nice block of 16 flats in Birmingham sold for close to £2.5M showing a 5.8% gross yield and further north in Sheffield a long leasehold former office converted into 48 flats under permitted development sold for over £6M reflecting a 9% gross yield. In Hull, another block sold for over £2.3M.

The north continues to be strong sellers' market. A lack of stock coupled with a wall of cash rich investors pursuing income makes for busy marketing periods and hectic offer deadlines. Within the first week of marketing we received nearly 100 requests for further information for one Freehold block of 28 apartments in Manchester, and were inundated with a staggering 36 offers for another Freehold block of 16 apartments in Cheshire.

In East Anglia a portfolio of 87 age restricted units across 4 locations was recently acquired for close to £6.5M showing close to 8% gross yield and on the south coast another mixed residential and commercial opportunity was quietly acquired off market for close to £3.5M also showing circa a 8% gross yield.

Looking into 2022, after a bumper year of demand from owner occupiers thanks to the stamp duty holiday we can see that the housing supply shortage will ease a little as more property owners look to sell up.

In terms of market sentiment the decline of the Omnicron variant will boost investor confidence alongside the much anticipated opening of Crossrail and the well publicised continuing shortage of rental stock. If or when international flights get back to some semblance of normal we fully expect a significant uptick in foreign investment as well. Yield compression in this sector looks to be increasingly likely as confidence returns despite small interest rate hikes as investors are keen to deploy cash suffering from inflationary value erosion.

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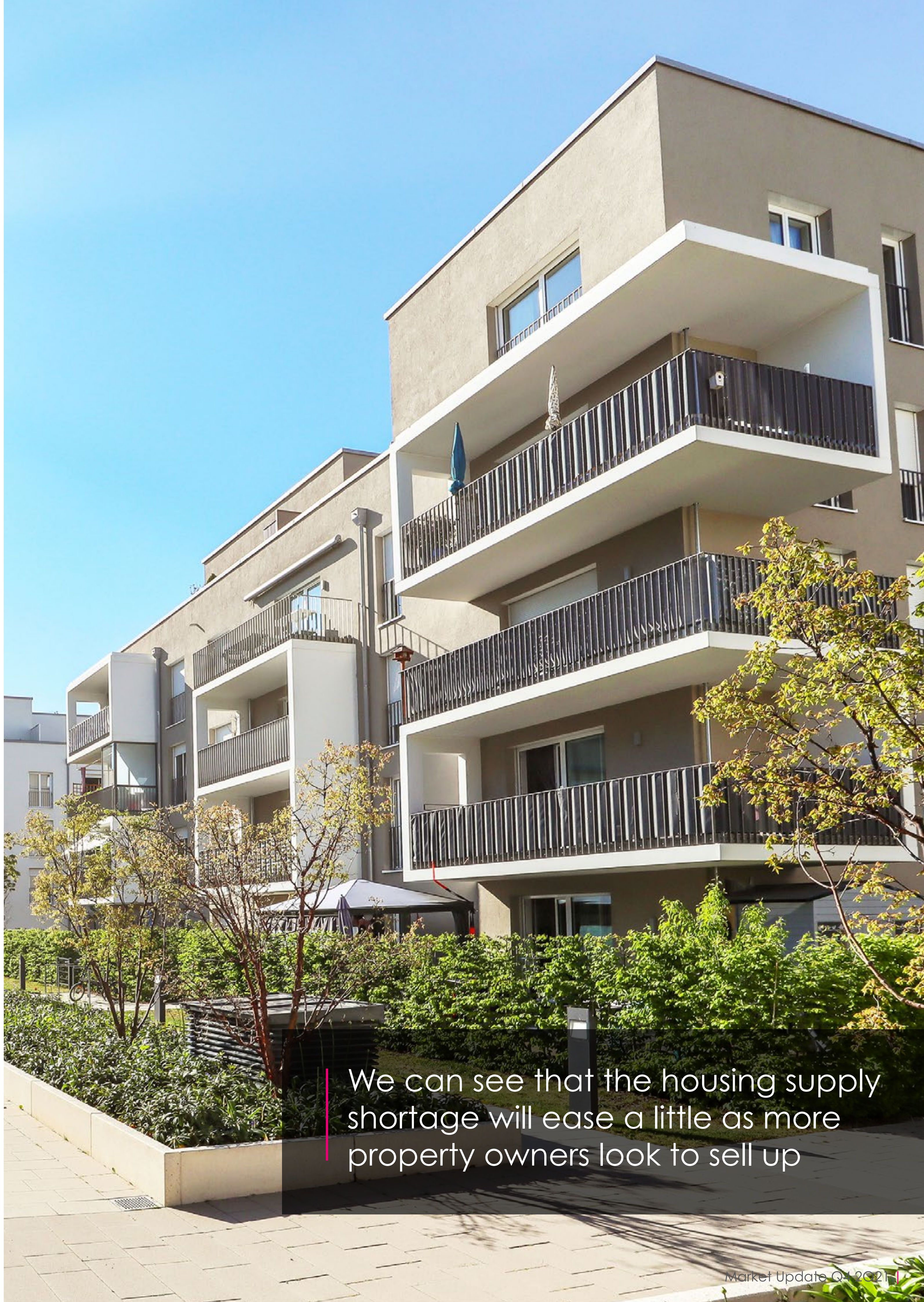

We can see that the housing supply shortage will ease a little as more property owners look to sell up

It is apparent that the market moving in to 2022 is gearing up for sustained periods of positive sentiment

Development

After the uncertainty of the summer months and the inevitable slowdown due to the holiday season, the expectation was that we would experience a major bounce back in the market in September. This didn't materialise in the way that everyone had anticipated with caution and tentative behaviour continuing. Rather than a glut of new opportunities coming to the market, there was a steady stream of both new launches and transactional activity.

In terms of activity that could be categorised as 'new to the market', as has been typical, there were a significant amount of consented opportunities within the new launches and a limited number of good quality change of use / unconditional deals. There remains a wall of money waiting to invest in value add deals and commercial investments with a development upside.

This appetite for unconditional deals has not been dimmed by the challenging planning environment that exists. We continue to see extensive delays in obtaining planning permissions and a real lack of certainty and consistency in advice to developers. This disconnect between what has been conveyed to developers during pre-application meetings and the views of members when applications reach planning committee is stark. This has resulted in a scenario where the market is spending an inordinate amount of time navigating the planning process.

The quarter as a whole was characterised by challenges in transacting deals and the increases in build and labour costs from earlier in the year clearly starting to have an impact on pricing, with construction materials cost increases reaching a 40 year high according to BCIS materials Costs Index.

However, that said construction companies reported fewer shortages of raw materials and improved delivery times which offered an encouraging early sign that build cost inflation is easing. However the emergence of the Omicron variant threatened to de-rail this progress at the end of the year with staff shortages clearly having an impact and the pressure on materials and prices is expected to continue until the end of 2022.

As we had highlighted in our Q3 update, the end of PD saw a flood of prior approval application prior to the 31st July. We have transacted a number of PD opportunities on the back of this and we are expecting to see a steady stream of new consents. With the continued impact of affordable housing review mechanisms on planning permissions, and the simplicity of PD, we are still seeing a major appetite for good quality consents.

Due to lifestyle factors and build costs, the preference in the market is for lower density and housing led development rather than tall buildings. There has been a real polarisation of the market for higher density development with the best in class opportunities still being attractive but anything slightly peripheral struggling to get traction. This is partly due to the depth of the market with housing associations still not as active as historically.

The quarter finished with a backdrop of concern over the new Covid variant, which created a significantly quieter December, on all fronts, than we usually experience. We are used to a rollercoaster of sentiment which fluctuates month to month let alone quarter to quarter. It is apparent that the market moving in to 2022 is gearing up for sustained periods of positive sentiment with the assumption that the latest Omicron wave is less damaging than what we saw in early 2021.

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Student Housing

Despite some lingering occupancy and operational challenges, Q4 2021 was the period the UK PBSA market returned to its full pre-pandemic strength.

Competitive bidding for a number of high profile sales in Q4 highlighted the weight of investor demand and crystalized the significant availability of capital.

The ability of student housing to adapt and outperform many other sectors through the last two years has injected further confidence and coupled with a long term favourable demographic backdrop, appetite feels as strong as ever. 2020 is already starting to feel like a short term blip.

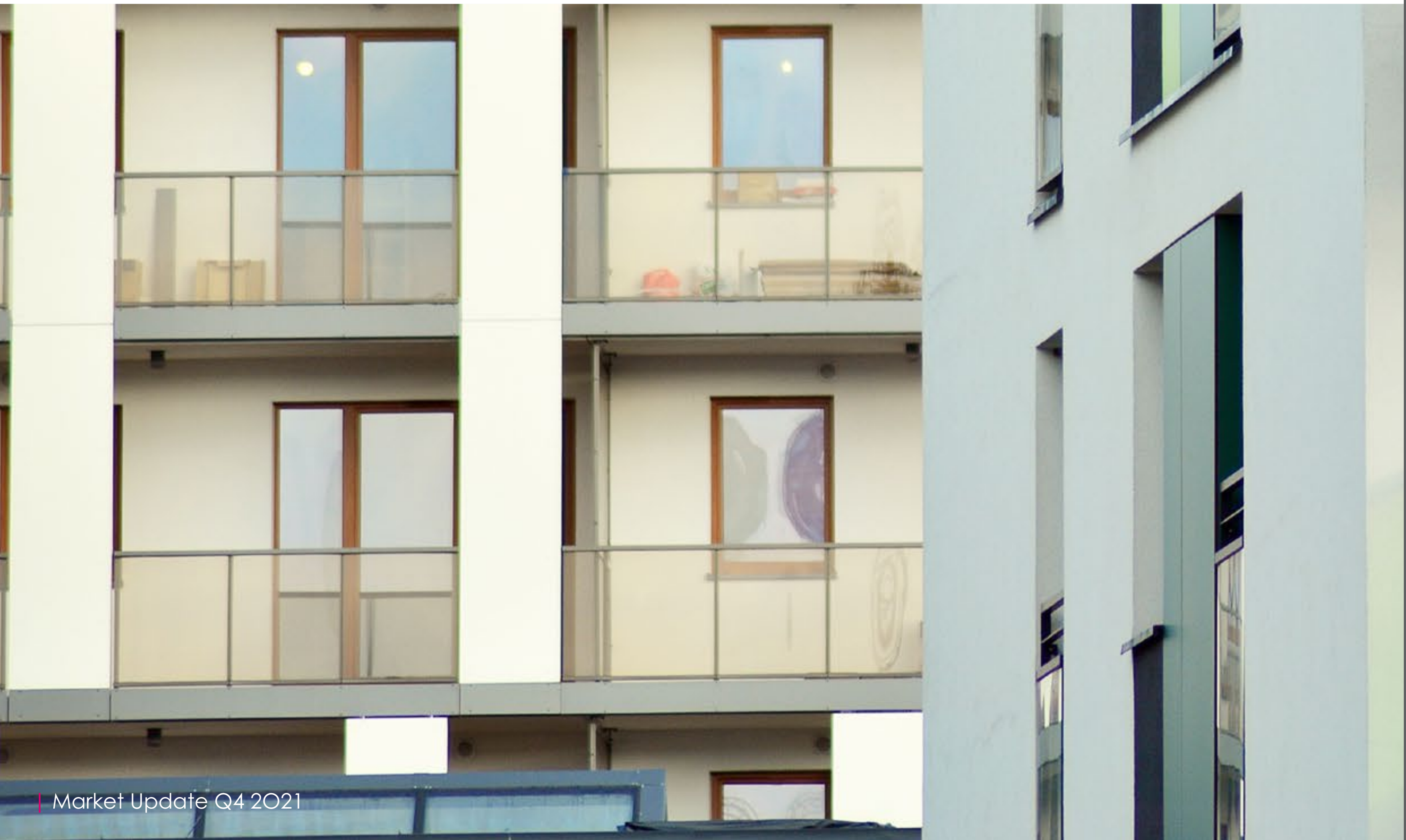
Q4 saw the release of the latest UCAS data and as expected the number of acceptances by EU students for academic year 2021-22 declined significantly, by ~50%. This is a direct consequence of Brexit and the subsequent loss of home fee status. In some instances, tuition fees for EU students have jumped from £9,000 to as much as £40,000 a year.

To offset this decline, acceptances from both the UK and countries outside of the EU rose at rates of 1.36% and 2.24% respectively. The British Council released figures for the year ending September 2021 regarding the issue of Chinese student visas. 135,000 visas were issued, this represents a 157% year on year increase but perhaps more significantly, a 13% uplift on pre-pandemic levels.

The latest UCAS data justifies investor appetite for PBSA opportunities in higher tariff university cities where acceptances were up by 1.33%. This is in contrast to medium and lower tariff universities where acceptances fell 3.72% and 1.88%.

Overall acceptances for 2021-22 were down 1.5%. Considering however the severe drop-off in EU student numbers, challenges around international travel, Omicron and a higher proportion of students deferring entry, this shouldn't be a cause for concern, nor an indication for the future trajectory.

The continued growth in the number of non-EU students is a good news story for the sector; these are the students that want to live in PBSA and will continue to drive demand. This is one of the many reasons why investor confidence has rapidly returned and why in Q4 the sector saw unprecedented levels of competition for stock.



The Trium portfolio comprising 619 studios and apartments in Southampton, Exeter and Durham experienced high levels of demand. A best bids process took the asking price of £84.1M (showing ~5.50% NIY) way in excess of this level and a yield closer to 5.00%.

Bath Spa University called bids for Green Park House with offers invited over £70M. The development comprises 470 bedrooms and attracted significant interest with multiple bids surpassing the guide price by more than 10%. Round Hill and JV partner Starwood Capital put six PBSA assets comprising 1,361 beds on the market in a sale known as Project Skyfall. The successful bidder is unknown however the sale has attracted widespread interest with many highly regarded well-established student investors having lost out. It is thought the portfolio, which benefits from Russell Group university locations, will likely reach a NIY of 5.00%.

Other significant sales include Aberdeen's acquisition of The Fitzalan in Cardiff. The asset comprising 355 beds sold for in excess of the £36M representing a yield of ~5.35%. 458 bed Havannah House in Glasgow was remarketed, having previously launched amid the pandemic. This was a clear indicator and good market case study of the investor confidence that has quite clearly returned. Appetite was initially lukewarm however expressions of interest submitted in December show strong demand pushing a previously quoted yield of 5.50% NIY down towards an expected result of 5.20%.

A review of Q4 market activity would suggest regional yields for PBSA opportunities in higher tariff or Russell Group university cities have hardened beyond pre-pandemic levels, compressing 5.25% towards 5.00%. This is widening an already prominent price gap between secondary markets home to weaker universities where assets are struggling to sell. Q4 has further thrown the spotlight over the polarisation of the sector between prime markets and secondary and tertiary markets.

With the amount of new and existing capital targeting the sector as we move into 2022, yield compression is likely to continue. Q4 has left some investors frustrated at the heightened competition with difficulties in securing new opportunities becoming a theme of the market and without a surge in the availability of well-located stock, it is difficult to see anything other than value growth. The question is whether we will see some investors diversify in 2022, broadening horizons to the opportunities in good secondary markets perhaps, or considering moving towards development funding if stabilised stock continues to price them out.

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Build to Rent

2021 was a record breaking year for the BTR sector with over £4Bn invested across the sector. The market has become extremely competitive for institutional grade assets as investor interest grows. A number of new entrants emerged throughout 2021, in part due to the counter cyclical dynamics the sector has shown. The regions proved particularly attractive, which has been aided by operating assets in those areas showing strong occupation and strong rental levels being established as better quality product is offered to the market.

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

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning permission standing at 205,525. Numbers in the regions continue to grow at a faster rate than London, accounting for approximately 116,632 with 88,893 in the capital.

Building on significant investment in the BTR single-family housing (SFH) market throughout 2021, Goldman Sachs Asset Management agreed a three year JV with Urban & Central to buy up to £200M of houses. The deal will see Goldman buy an initial 700 homes, with the first being 149 units at Houlton, Rugby. Furthermore, Regis Group and Blackstone announced their new SFH platform of at least £1Bn, with the aim of delivering an initial 5,000 homes. Apache Capital's platform for SFH, Present Made, have acquired a 180 acre site in central Bedfordshire which will deliver 650 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; Real Star forward funding HUB's £100M scheme in Leeds which will comprise 463 units across two blocks; Grainger have agreed to forward fund Network Homes' 401 unit BTR scheme in Southall, London for £141M; Mulbury have secured a £37M forwarding funding agreement with Europa Capital for their 161 unit BTR development in New Cross, Manchester; Cortland and funding partner Madison International Realty have agreed to buy a 50-storey BTR development in Salford from Renaker which will comprise c.560 units; HUB have agreed a £155M forward funding agreement with Get Living to deliver their 429 units in Maidenhead; L&G IM agreed to forward fund Watkin Jones' £130M development in Lewisham comprising 322 apartments.

Funding yields remain strong for well-designed multi-family BTR stock in prime, practical locations. This is aiding to combat current increased build costs, a result of in part, labour and material shortages. In London and strong south east locations, NIYs range from 3.25% to 4.00%, with major regional centres at 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 transactions in the south east and some major regions in 2022 are likely to challenge the 4.00% NIY threshold. We are starting to see a small number of stabilised transactions for multi-family BTR across the UK where yields are now dropping below the 4% mark.

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Residential Letting and Management

2021
TOP 10
WINNER
ALLSOP
NATIONAL MANAGEMENT COMPANIES
(UNDER 2000 UNITS)
BTR RESIDENT CHOICE AWARDS
homeviews
IN PARTNERSHIP WITH THE UKAA

Allsop Letting and Management has been awarded a number of accolades including Team of the Year at the BTR Talent awards and Top Management Company by Homeviews.

In November the UKAA BTR Fayre was a particularly exciting event for the industry, not least because the in person conference took place without restrictions, allowing attendees to catch up, network and share insights, whilst also celebrating the sector's achievements despite the tough market conditions. As residents had been confined to their homes more than ever during the past 18 months, sometimes unable to use the fantastic amenities that separates the sector from other rental developments, it was wonderful to see so many companies gain the recognition they deserve at the Homeviews awards, where success is measured purely through resident reviews. The high scores awarded to BTR developments across the country highlighted the widespread quality embedded into the industry and each company's dedication to providing top service to its residents. In addition BTR Talent Awards were awarded to the teams and individuals working onsite at developments to recognise their effective customer service strategies and ability to develop strong communities.

The Fayre demonstrated what sets the quickly evolving BTR market apart. In a keynote speech, John Lewis & Partners entrance into BTR validated the sector's open commitment to sharing knowledge and expertise and that this, along with the markets proven resilience during the Covid pandemic, has rapidly attracted lenders and investors.

The sector's collaborative approach was evidenced throughout the Fayre. Say Property launched hereSAY, a mystery shopping and benchmarking service that will provide in-depth insights into the quality of BTR developments and therefore extremely beneficial to the market. The UKAA road tested the Best Practice Guide, a tool that will be kept up to date by those operating and working in the sector and therefore help the market to evolve as it matures by sharing knowledge and experiences.

According to Propertymark's PRS report the number of properties managed per letting branch has increased during the fourth quarter from 196 in October to 212 in November. However there has been a slight decrease in demand from the summer months with only 71 prospective tenants registered per branch in October and 82 in November compared to the record high of 107 in August.

As the sector looks ahead to 2022, Propertymark has presented their 'Future of Renting' paper setting out strong recommendations to the government on renting regulation and the need to ensure existing and new landlords are attracted to the PRS sector. In addition the BPF, UKAA, Dataloft and London First joined forces again to release their second publication of 'Who Lives in Build-To-Rent? The data covered 89 schemes in England, totalling over 20,000 residents living in over 15,000 homes. Representing nearly 20% of completed BTR homes, the largest ever UK resident study in BTR demonstrated how the sector is much more representative of the wider PRS demographic than is often perceived.

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Business Rates

2022/23 – Retail, Hospitality and Leisure Business Rates Relief Scheme

The Government have now announced the relief that will be granted to ratepayers in 2022/23. The relief is to benefit those in the retail, hospitality and leisure sectors and will provide a 50% rates reduction up to a total cash cap of £110,000 per business. Although this is to be welcomed, in practice due to the cap imposed it provides very little relief to those companies with multiple sites around the country who still have to pay rates based on 2015 rental values.

Covid-19

The Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act finally came into force in December. This will prevent Rateable Value reductions being granted as a result of COVID-19. By way of partial compensation the Government has introduced a new £1.5 billion COVID-19 Additional Relief Fund (CARF). This fund will provide support to those businesses affected by the pandemic which have been ineligible for relief linked to business rates.

Business Rates Review

The long awaited Government Business Rates Review has finally been published and these are some of the key announcements:

- **Business Rates to be retained -** The government is not proposing to change the nature of the tax, or the basis of valuation and has dismissed the alternatives considered such as a system of banding or a Capital Values Tax or Land Value Tax.
- **UBR not to be cut -** The Government rejected calls to cut the UBR back to its original level of 35p as this would cost an estimated £9 billion annually.
- **Rating Revaluations -** the next Revaluation will take place on April 2023 and thereafter at 3 yearly intervals to ensure that the tax businesses pay is more responsive to economic changes.
- **Online Sales Tax (OST) -** no decision has yet been made on whether to proceed with an OST. The Government stated however that if introduced, the revenue would be used to reduce business rates for retailers with properties in England.
- **Rates Reliefs -** The government does not currently propose to remove any of the existing reliefs although it is carrying out further work relating to Empty Property Relief due to concerns around potential misuse.
- **Valuation Date -** The government considers that in the medium term there is a case to reduce the two-year gap between the valuation date adopted for a revaluation and the date the revaluation takes effect.
- **Duty to Notify -** All ratepayers will be required to notify the VOA of changes to the occupier or physical property characteristics, and to provide rent and lease information to the VOA on an annual basis. These duties will be phased-in during the course of the 2023 Revaluation. Penalties are to be introduced for non-compliance.
- **Appeal Window and Clearance Deadlines -** From the 2026 Revaluation onwards there will be a 3-month deadline for appeals to be made and a statutory requirement for the VOA to clear all revaluation appeals before the end of the revaluation
- **Rental Evidence -** for the 2026 Revaluation the VOA are to provide a fuller analysis of the rental evidence used to set an RV for a specific property
- **Transitional Relief -** The government is to consult later this year on the transitional scheme to apply for the 2023 revaluation.

Although some of the changes proposed are to be welcomed the Government have failed to achieve one of the stated key objectives of the review, which was to reduce the overall burden of business rates. Not only are Business Rates set to remain payable at circa 50% of a property's rental value but significant new obligations are to be imposed on businesses with the new and onerous Duty to Notify.

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Services

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Build to Rent
Business Rates
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