allsop MILLENNIUM GROUP

Residential Transactional and Living Markets

Investment

Overview

`Price discovery phase' was something that we referenced several times in our Q2 update and this is still very much the case for our market as transaction numbers are down across the sector and the number of buyers has also dwindled.

Thus it remains a buyer's market with cash being king (as always) and with buyers being very discerning.

We are pleased to report that buyers are still out there in plenty however the last minute price adjustment (or chip) has reared its ugly head on too many occasions just recently. Tactically it can be a dangerous move at the last minute and it does not always end up well for the buyer!

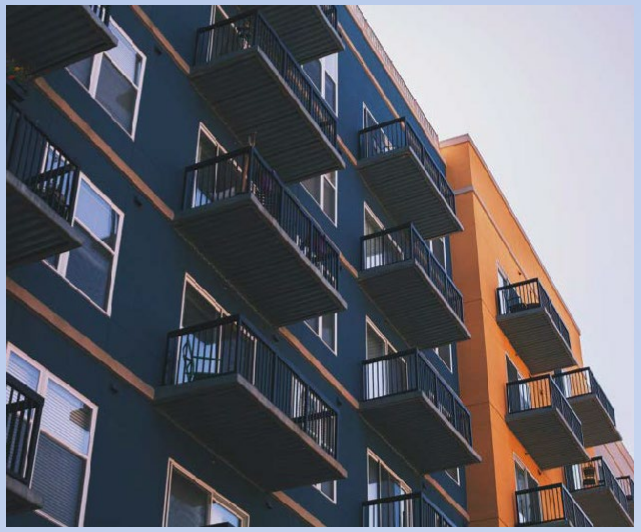
We have successfully concluded the sale of two large blocks of apartments which were converted under permitted development rights both of which were sold on behalf of the Receiver. One block of 79 flats in Bagshot sold for circa £12M off a gross yield of 7.5% and a vacant block of 91 flats in Frimley sold for over £14M. Once fully let out this block will show a gross yield closer to 8.5%.

In addition we have traded a large portfolio in the north east of close to 500 units for over £30M off a 9+% gross yield. Clearly it is yield which is the driving force for these sales as it is very tangible and makes residential investment very compelling thanks to the recent positive rental growth stories which have been widely publicised.

`Who is buying ?' is a common question which we get asked frequently and the answer is that it is still a very broad selection ranging from small and medium size UK private family offices to buyers from Israel, Australia, the Middle East and Japan.

`Who is selling then ?' is the next question we get asked and more often than not we soon find out that there is some financial pressure on our client and ultimately it is the bank behind the sale. Needless to say, we expect this trend to continue as the loan horizons loom ever closer for many borrowers.

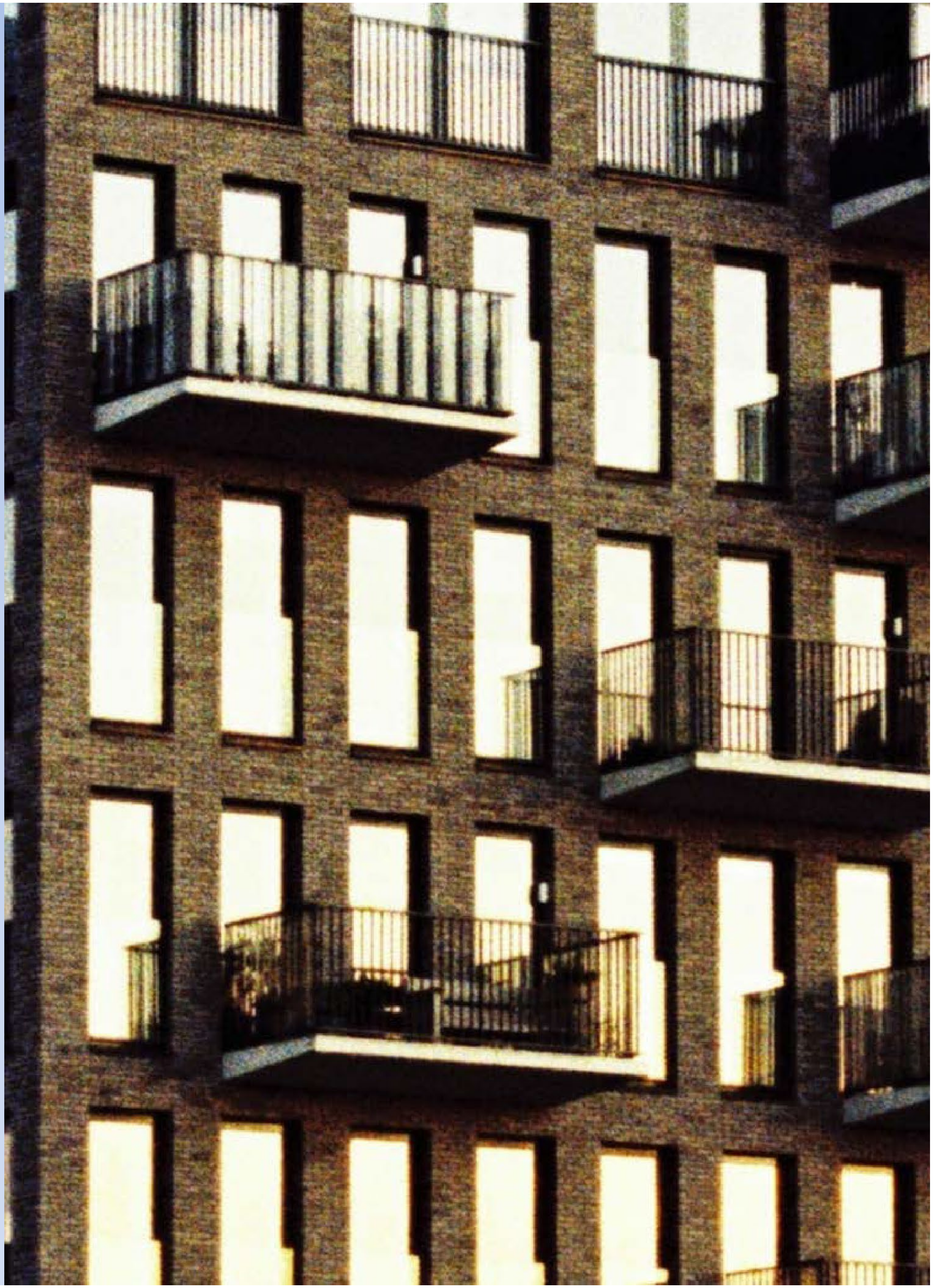
With yield being the driving factor for most, our colleagues in Leeds report that the regional market in particular is rich with opportunities and they are starting to see some healthy double digit gross yields. The majority of their buyers are looking for a minimum of 8% gross yield, although it was positive to recently dispose of a significant portfolio of suburban Leeds blocks at a sub 8% yield showing there are still buyers out there at competitive levels for the right stock. This `flight to quality' is something that we are seeing more and more.



Buyers are being as discerning as ever, with a great focus on due diligence, location and property type, but we continue to see vast numbers registering interest with us when going to market. As has been said in previous reports, "something has to give" and people cannot keep holding out for the "next best opportunity" when there are great investments in the market currently.

There is undoubtedly pent-up demand and a desire to invest but we are still very much in the `price discovery phase' and for those with cash, it is rich pickings if you know where to look.

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



Build to Rent Market

Overview

Following a subdued summer across the sector, September began with a notable increase in activity in the BTR market.

Who is Active / Headline Deals

High inflation and cost of capital has presented viability challenges for development. Strong rental growth and high occupancy rates are compelling which has helped limit pricing movement, counteracting a slight softening of yields. The nationwide supply / demand imbalance means that the investment case remains strong and transactions are being structured considering the market challenges. The latest BOE decision to hold interest rates has helped with a positive shift in sentiment and a feeling that rates are (or close to) topping out.

There has been increasing interest in PRS sales by housebuilders as sales rates remain slow. Recent Single Family transactions include Casa by Moda acquiring 223 homes at Casa Abbey Court, Leeds and Picture Living's – PfP Capital's SFR platform – forward funding two schemes in Essex for £23M.

After a challenging 12 months in the Multi Family market, recent transactions including Greystar's forward funding of Dandara's 391-unit BTR scheme in Staines and Long Harbour's forward purchase of 370 units in Colindale being delivered by St George of Berkeley Group has provided a timely reminder of the investor demand which remains in this sector.

Andy Pointon
DL +44(0)7929 506 238
andy.pointon@allsop.co.uk

Direction of Travel

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 253,402. Numbers in the regions continue to grow at a faster rate than London, accounting for approximately 156,108 with 97,294 in the capital.

We continue to expect investors to chase the best quality Multi Family assets with strong, experienced development partners. Yields will be robust for best-in-class schemes, with secondary locations more challenging due to viability constraints. As inflation starts to be seen to be under control and order books reduce, contractor pricing should be more conducive for development.

Affordability constraints in the mortgage market will only exacerbate the demand on rental stock, particularly in the Single Family housing space. A recent Rightmove report suggests that the average number of applications per rental property has risen from 6 pre-covid to 25 today.

Strong rental growth and high occupancy in suburban areas is likely to continue as the supply/ demand imbalance becomes more acute.

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

In London and strong south-east locations, funding NIYs range from 4.00% to 4.50%, with major regional centres at 4.25% to 4.75%. Secondary locations are in the region of 4.50% to 5.00%. Single Family NIYs are between 4.00%-4.25% in the south-east and 4.25%-5.00% in the regions.

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Contacts

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

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

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

Hong Kong office:
Millennium Group,
Level 16,
The Hong Kong Club Building,
3A Chater Road, Central,
Hong Kong
Tel: +852 2297 2206

Singapore Office:
37 Floor Ocean Financial Centre,
10 Collyer Quay, Singapore 049315
Tel: +65 6808 6360
millenniumgroup.net

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