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!

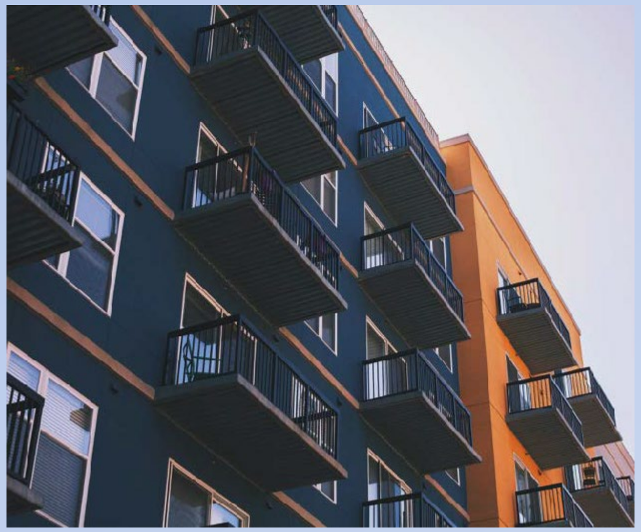
We have successfully concluded the sale of two large blocks of apartments which were converted under permitted development rights both of which were sold on behalf of the Receiver. One block of 79 flats in Bagshot sold for circa £12M off a gross yield of 7.5% and a vacant block of 91 flats in Frimley 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.

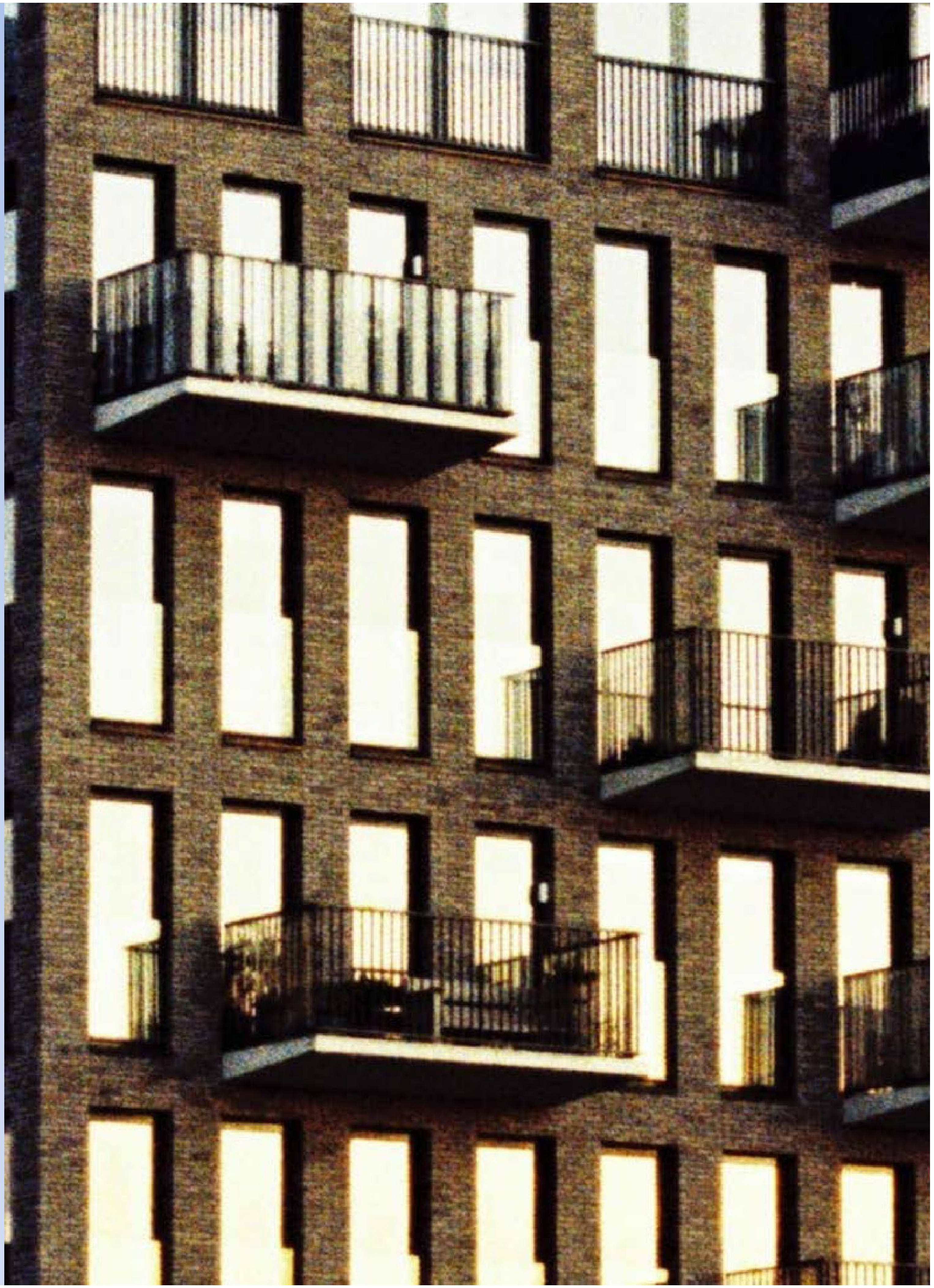
With yield being the driving factor for most, our colleagues in Leeds report that the regional market in particular is rich with opportunities and they are starting to see some healthy double digit gross yields. The majority of their buyers are looking for a minimum of 8% gross yield, although it was 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



Student Housing

Overview

Although investment volumes have fallen by 40% year-to-date compared to 2022, this headline does not accurately represent the optimistic outlook on the robust occupational market and the abundance of capital poised for investment in the sector.

As the new academic year begins, there is generally a noticeable upwards trajectory in the demand for beds, resulting in notably high occupancy rate reported within the sector. This trend is expected to gain even more momentum in the years ahead due to the sluggish pace of new stock delivery. Therefore, it comes as no surprise that the sector has witnessed a record-breaking 8% private rental growth. Investors are primarily interested in university locations where the supply/demand disparity is most pronounced. This is due to the potential for significant rental growth and the expected limitations on future development opportunities, driven by increasing construction expenses, limited land availability and planning challenges.

While there are numerous areas experiencing a shortage of supply, certain locations have seen a surge in bed capacity over the past year, resulting in an oversupply situation. Sellers in these areas should exercise caution and focus on maximizing occupancy rather than pushing for higher rental rates. Understandably, investors are hesitant to commit to such locations unless occupancy levels are close to full capacity for the new academic year.

Who is buying and selling?

Over the past quarter, institutional investors have been at the forefront, primarily targeting top-tier assets. The standout transaction of the period involved the developer and operator Vita Group, who sold a 1,340-bed portfolio across three locations in Warwick, Edinburgh, and Belfast to Savills IM for £300M. Additionally, developer McLaren secured two forward funding agreements: Barings agreed to a £65M deal for the 319-bed St Gabriel's Lodge scheme in Manchester, while M&G acquired the 318-bed Talbot Street scheme in Nottingham for £55M. Currently, opportunities that offer scale, quality, and an array of amenities are rare.

Consequently, the yield dynamics in this segment of the market, whether it's related to funding or stabilised transactions, have experienced minimal movement.

In addition to developers, sellers in the market include those who are either seeking to raise fresh capital, realign their business strategies towards more scale, or manage schemes that demand substantial capital expenditure. Notable transactions during the quarter feature the acquisition of Singer Hall, Coventry, totalling 627 beds, by traditionally commercially oriented Frogmore for £22M from Coventry University. Similarly, Patron Capital and Curation acquired Lady Barn House, Manchester, comprising 117 beds, from Empiric for £12.15M. Both instances offer value-add and repositioning opportunities that are increasingly appealing to a growing pool of private equity and international buyers.

Buyers of HMO's continue to be highly engaged. The market is bolstered by the robust attributes of the domestic market and restrictive supply, making it appealing to both PropCos and High Net Worth Individuals. Particularly enticing are portfolios that come with value enhancement.

Direction of Travel

The robust market dynamics in the student housing sector, combined with an appealing yield differential when compared to traditional PRS, position the sector favourably for the last quarter of 2023 and beyond. The potential stabilisation of interest rates has reduced market hesitancy, and we anticipate an increase in transaction volumes in the upcoming months. The Allsop student team is currently in legals on 12 deals with a promising pipeline on the horizon. We expect to finalise several more transactions in the coming months; however, the challenge lies in adhering to transaction timelines as there is an increasing amount of building compliance required to satisfy both buyers and their lenders.

Owen Rees
DL +44 (0)20 7344 2643
owen.rees@allsop.co.uk

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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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