Commercial & Residential

MARKET UPDATE

October 2023

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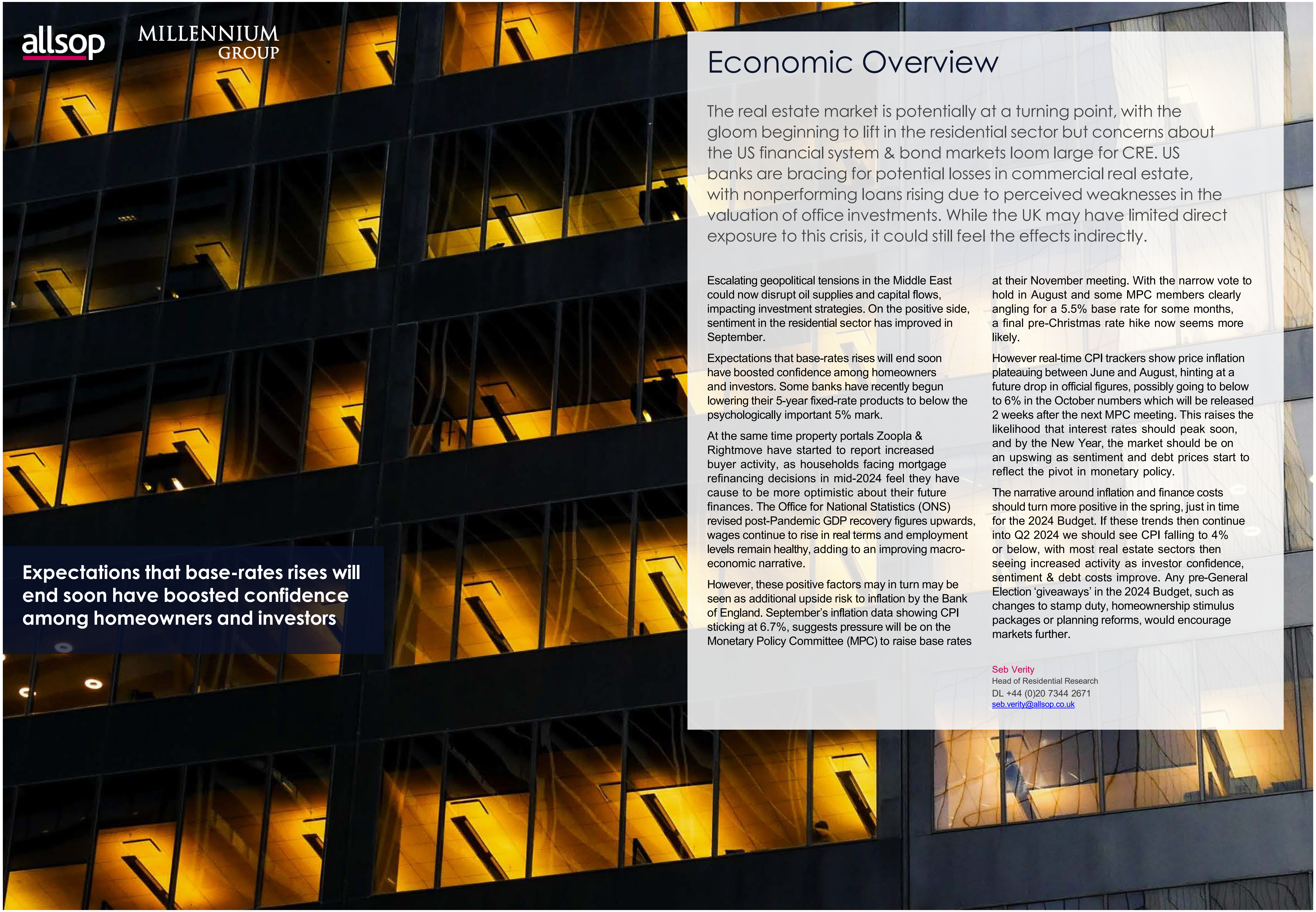


Economic Overview

The real estate market is potentially at a turning point, with the gloom beginning to lift in the residential sector but concerns about the US financial system & bond markets loom large for CRE. US banks are bracing for potential losses in commercial real estate, with nonperforming loans rising due to perceived weaknesses in the valuation of office investments. While the UK may have limited direct exposure to this crisis, it could still feel the effects indirectly.

Expectations that base-rates rises will end soon have boosted confidence among homeowners and investors

Escalating geopolitical tensions in the Middle East could now disrupt oil supplies and capital flows, impacting investment strategies. On the positive side, sentiment in the residential sector has improved in September.

Expectations that base-rates rises will end soon have boosted confidence among homeowners and investors. Some banks have recently begun lowering their 5-year fixed-rate products to below the psychologically important 5% mark.

At the same time property portals Zoopla & Rightmove have started to report increased buyer activity, as households facing mortgage refinancing decisions in mid-2024 feel they have cause to be more optimistic about their future finances. The Office for National Statistics (ONS) revised post-Pandemic GDP recovery figures upwards, wages continue to rise in real terms and employment levels remain healthy, adding to an improving macro-economic narrative.

However, these positive factors may in turn may be seen as additional upside risk to inflation by the Bank of England. September's inflation data showing CPI sticking at 6.7%, suggests pressure will be on the Monetary Policy Committee (MPC) to raise base rates at their November meeting. With the narrow vote to hold in August and some MPC members clearly angling for a 5.5% base rate for some months, a final pre-Christmas rate hike now seems more likely.

However real-time CPI trackers show price inflation plateauing between June and August, hinting at a future drop in official figures, possibly going to below to 6% in the October numbers which will be released 2 weeks after the next MPC meeting. This raises the likelihood that interest rates should peak soon, and by the New Year, the market should be on an upswing as sentiment and debt prices start to reflect the pivot in monetary policy.

The narrative around inflation and finance costs should turn more positive in the spring, just in time for the 2024 Budget. If these trends then continue into Q2 2024 we should see CPI falling to 4% or below, with most real estate sectors then seeing increased activity as investor confidence, sentiment & debt costs improve. Any pre-General Election 'giveaways' in the 2024 Budget, such as changes to stamp duty, homeownership stimulus packages or planning reforms, would encourage markets further.

Seb Verity
Head of Residential Research
DL +44 (0)20 7344 2671
seb.verity@allsop.co.uk

City & City Fringe Investment Market

Who is Buying?

European investors (39%) overtook Asian investors (34%) in terms of total volumes for the first time in over a year, transacting five and four deals respectively. The private Swiss client of UBS's purchase of Bloom, Clerkenwell EC1 enhanced their contribution with the substantial lot size of £218.5M/ £1,517 psq ft reflecting a reported 5.25% NIY. The long leasehold interest (6.35% geared) is predominantly let to Snap Group for a 7.7 year term certain.

UK investors completed the highest number of transactions with 9, but only accounting for circa 21% of the total volume, demonstrating once again their prevalence in the smaller more liquid lot size market, attracted to historically attractive pricing.

Who is Selling?

- The market is characterised by a lack of product newly available at market pricing.
- Historically low values have deterred the majority of landlords from selling unless there is some pressure to do so. Therefore funds meeting redemption requests, illustrated by Blackrock's sale of Watling House, EC4 for £67.7M/ £716 per sq ft/ 6.39% NIY, or landlords experiencing finance related events, remain the principle drivers.
- There are a number of vacant possession sales where vendors do not have the resource or appetite to refurbish/ redevelop, given all time high build costs exacerbated by additional costs required to meet modern ESG criteria. For example, 65 Fleet Street, EC4 was launched for sale in September by Jing Mei Holdings at a guide price of £100M/ £435 per sq ft with full vacant possession.

Overview

Total investment volumes were £868M in Q3 2023 across 20 transactions, a 76% increase on Q2's £495M (one of the lowest quarterly transaction volumes on record), but approximately 55% down on the long-term average. Q3 2023 was only 26% higher than during the same period in 2020 during the Covid-19 pandemic.

The 2023 running total stands at approximately £3Bn, which is 60% below the same point last year and 46% below Q3 2021.

Given the rising cost of finance, most activity has been for smaller lot sizes with the majority of deals transacting sub £20M, with just two deals of over £100M trading in Q3. These were Lion Plaza EC2 (£207.5M/ £785 per sq ft / NIY 6.01%) and Bloom, Clerkenwell EC1 (£218.5M/ £1,517 psq ft/ NIY 5.25% - reported).

Following further interest rate rises, prime City and City fringe yields have moved out 25bps to 5.25%, which is 125bps increase in 12 months. However, following the first plateauing of interest rates since Q4 2021, the pressure for yields to move out any further is somewhat relieved temporarily at least.

There is approximately £324M under offer over 12 transactions, the largest being 12 New Fetter Lane EC4 which is being sold by Nuveen to UBS for a reported £137.5M/ NIY 5.60%/ £965 per sq ft; a 20% discount to the original £170M/ NIY 4.50%/ £1,169 per sq ft guide price. The 2015 development is let to Bird & Bird for a further 12.5 years.

Investor appetite from core buyers remains for best-in-class office buildings with high ESG and sustainability credentials. ESG criteria remains top of the agenda for developers.

Headline Deals

- The sale of 8 Bleeding Heart Yard, EC1 (£45.25M/ 4.35%/ £1,580 per sq ft) provides a key data point for long let core income, trading at 90 bps lower than the prime yield of 5.25%. The newly developed freehold is let to Julius Baer for a 9.5 year term certain and demonstrates demand for best in class assets with long term income in the Farringdon sub-market.
- Allsop sold 107 Cannon Street, EC4 on behalf of AXA IM for £13.8M/ £881 per sq ft/ 6.39% NIY to a private Hong Kong buyer. The majority refurbished 1980s property is multi-let to six office tenants and two retailers with a WAULT of approximately 8.5 years to the earliest determination.

Direction of Travel

Given the first plateauing of interest rates after 14 consecutive rises, several market commentators are suggesting the market could have bottomed out. The next set of inflation figures and interest rate decision will be key in determining market sentiment going forward. There are cautious signs that the worst point has been reached and green shoots of recovery could be on the horizon in 2024, so long as inflation continues on its anticipated downward trajectory. In the next six months, we anticipate an increase in sales driven by finance related events as banks apply pressure to borrowers to sell at market pricing.

Matt Millman
M +44 (0)7703 039177
matt.millman@allsop.co.uk

allsop MILLENNIUM GROUP

City Leasing

Overview

Q3 witnessed an increase in demand for the Central London and City markets, improving on the previous quarters' take up to a total of 2.6M sq ft, with 52% accounted for by the City and City Fringe markets.

The flight to quality continues with over 75% of take up being Grade A this quarter. The majority of 8 Bishopsgate is now under offer or leased with only the upper floors remaining. Significant lettings to Kirkland and Ellis, Proskauer Rose and Wilson Sonsini have further driven activity from the professional and legal sectors. Many occupiers are now having to consider pre-let opportunities for 'Best in Class' product ahead of their lease expiries given the reduced pipeline expected in 2024 and 2025.

Take up for the year to date in the City and Fringes is at 3.9M sq ft and in line with the long term average. The under offers remain high with 3.8M sq ft under offer across Central London, with 1.5M sq ft under offer in the City and Southbank. This is a 14% increase on the previous year, which is largely driven by the current transaction to relocate HSBC from Canary Wharf to Panorama, St Pauls for 550,000 sq ft.

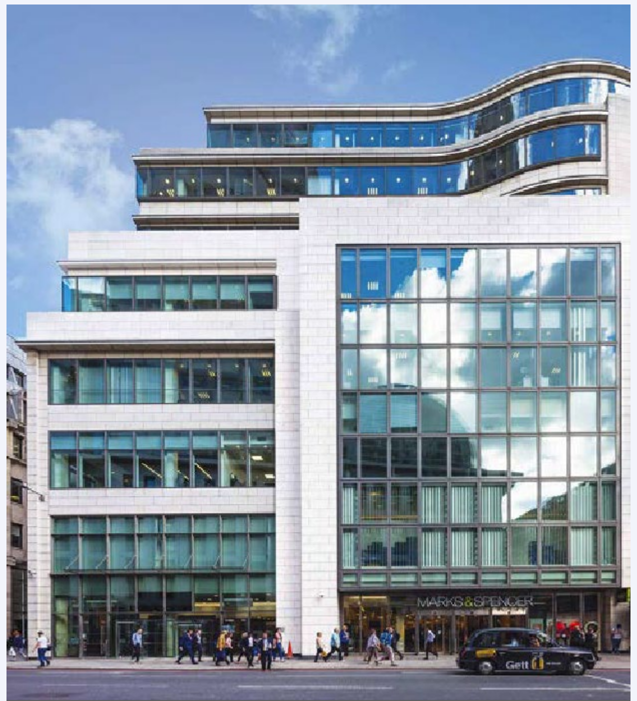
Total availability for the City remains at 10.8% with supply levels at 14.6M sq ft. By comparison Central London availability is 25.5M sqft, 9.5% vacancy. Second hand availability accounted for 17.3M sq ft, well above its long term average, with newly completed grade A at 4M sq ft, which is a 7% decrease on the previous quarter.

Prime rents continue to rise with typical Grade A rents at £77.50 per sq ft for the City. 'Best in Class' rents are now regularly achieving in excess of £100 per sq ft with evidence now witnessed at JJ Mack, Farringdon, 8 Bishopsgate and 22 Bishopsgate.

Many businesses are now working with a fixed routine of 4 days working from the office which has resulted in the increased demand for new office space and a reconfiguration of offices to encourage more modern ways of working.

Headline Market Deals

The theme of significant take up from law firms has continued into Q3 2023. Kirkland and Ellis took up the option space at 40 Leadenhall Street securing a further 173,500 sqft in addition to their original space take. Proskauer Rose relocated from Salesforce Tower to secure a new headquarters of 57,913 sq ft at 8 Bishopsgate and Wilson Sonsini signed for 32,584 sq ft at Eden House in Spital Square for a new central London headquarters.



70 Gracechurch Street

The Amp, Commercial Road

Headline Deals

Allsop transacted three significant deals this quarter which included the letting of 37,000 sq ft to Orega at 70 Gracechurch Street providing 650 workstations, the letting of 36,782 sq ft to Global University Systems at The Amp, Commercial Road on behalf of LaSalle and Trilogy and the letting of the part 19th floor of The Shard comprising 10,001 sq ft to Revantage on behalf of MPS.

Direction of Travel

The City office market has continued to see strong demand for 'Best in Class' stock as we enter Q4 2023. The knowledge of a tighter supply chain leading into 2025 and 2026 is likely to lead to increased pre-letting activity for off-plan prelets and prelets during construction. Many of the 'Best in Class' products are now witnessing an increase in rents and more upper floors continuing to break the £100 per sq ft barrier.

Tom Nicoll
DL +44 (0)20 7588 4433
tom.nicoll@allsop.co.uk

allsop MILLENNIUM GROUP

West End Investment Market

Overview

Despite just the one rise in the base rate to 5.25% in Q3 (the highest it has been for the past 15 years) its direct impact on SONIA (Sterling Over Night Index Average) and all-in cost of debt on commercial property has led to a decline in the number of larger transactions and consequently one of the lowest quarterly volumes ever recorded in the West End.

We recorded just c. £362M either exchanged or exchanged and completed in 17 transactions with an average lot size of £21M. This brings the total Q1-Q3 volume to £1.58Bn in 51 transactions, which is 61% below the 5-year Q1-Q3 average of c. £4Bn.

A stark comparison of the current slowdown is that in Q3 2020 when the world was grappling with a pandemic and lockdowns the West End managed to record a volume of £697m – almost double.

The 10-year average annual volume for the West End is £7Bn – so as we enter the final quarter of what has been a highly turbulent year, despite there being c. £7.4Bn of stock on the market, we anticipate this period of price discovery to continue.

On a more positive yet personal note, the Allsop West End Investment team has been involved in 5 of the 17 transactions in Q3 – a 30% market share in the number of deals either exchanged or exchanged and completed.

Who is Active / Headline Deals

In the absence of larger transactions – only three transactions over £100M have completed in 2023 to date (one in Q1 and two in Q2) – investor activity in Q3 has largely focussed on the £5M - £20M bracket which appeals to private investors who can trade all equity and are looking to secure buildings in busy vibrant locations that are well connected. Of the 17 deals recorded in Q3, 76% were purchased by private capital or special purchasers / owner occupiers and only three transactions recorded above £20M. To put this in context, the average lot size across Q1-Q3 stands at c. £31M which is approximately 46% below the Q1-Q3 10-year average of c.£57M.

One of the largest transactions in Q3 was GPE's purchase of Soho Square Estate, W1 for £70M which reflects £1,218 per sq ft on the existing NIA. The mixed-use buildings are currently multi-let with vacant possession expected by March 2024. The site benefits from planning consent to deliver 90,000 sq ft of new Grade A office and prime retail space.

Aside from 30 Jamestown Road, Camden, NW1 which was purchased off market for £75M by a private investor for owner occupation, the only other transaction above £20M was the purchase of ENI House, 10 Ebury Bridge Road, SW1 by La Francaise for £55M reflecting circa 6.25% NIY and £879 per sq ft. The property is held on a new 125-year leasehold interest at a peppercorn rent and is single let to ENI UK Limited until February 2038 but subject to mutual break options in 2028 and 2033. The lease benefits from five yearly rent reviews linked to RPI compounded annually with the running yield expected to increase to circa 7.5% at the next review in December 2023.

The Allsop West End investment team has been involved in 5 of the 17 transactions in Q3 including advising Labtech Investments on their sale of 1-11 Hawley Crescent, Camden, NW1 to a private European investor. The building comprises 19,510 sq ft of offices let to Dr Martens until April 2027 and 5,058 sq ft of residential accommodation comprising six apartments let on ASTs. The property sold for c. £17M reflecting 6.23% NIY and £692 per sq ft.

Allsop also jointly advised a private Hong Kong investor on the sale of 301-305 Euston Road & 69-71 Warren Street, W1 which comprises two vacant freehold properties with dual frontage to Euston Road and Warren Street totalling 15,102 sq ft of office, retail and residential accommodation. After more than 40 inspections and two rounds of bids the property was purchased by Beyond Collaboration / Carey Group for £8.25M which reflected £546 per sq ft.

The 10-year average annual volume for the West End is £7Bn – so as we enter the final quarter of what has been a highly turbulent year, despite there being c. £7.4Bn of stock on the market, we anticipate this period of price discovery to continue.

Soho Square Estate, W1

Direction of Travel

Looking forward, we estimate around £1BN+ "under offer" including a half share in the new development at 247 Tottenham Court Road, W1 (c. £80M), 125 Shaftesbury Avenue, WC2 (£150M), 55 St James's Street, SW1 (c. £70M) and 121-141 Westbourne Terrace, W2 (£85M) making up c. £385M of this total.

We have also tracked around £2.4Bn of West End stock in 34 opportunities launched to market in Q3 – albeit 50% of this is against three portfolio / estate sales including The Homax Portfolio (c. £600M – including 30 Broadwick Street W1, 95 Wigmore Street W1 and New Brook Buildings, Queen Street WC2), The Lotus Portfolio (c. £450M slice of the Langham Estate with bids received) and The Charlotte Estate, Fitzrovia (£115M - 29 assets owned by Shaftesbury Capital). We also understand The City Corporation are close to launching The South Molton Street Estate – 20 Freeholds along the east side of the street, for around £65M.

Pricing for freehold, trophy assets in core locations continues to be very resilient as demonstrated by the sale of 55 St James's Street, SW1. The property was redeveloped in 2015 and comprises a rare freehold mixed-use investment on a prominent corner site in St James's. The offices are let off £118 per sq ft overall which is now seen to be highly reversionary and with lease events in 2025/2026 there is the opportunity to drive the rental performance for the building. The property received 7 bids and is now under offer second time around to an Asian Family – understood to be around 4% c £70M and a capital value of c. £2,600 per sq ft. At the time of writing, it is yet to exchange with many investors watching closely as a test to where prime yields currently sit in the West End.

Whilst best bids have become much more of a rarity in 2023, the sale of 125 Shaftesbury Avenue, WC2 generated significant interest with 130+ inspections. The freehold property is being sold with vacant possession by Korean investors. The property received 13+ offers and following 3 rounds of bids went under offer to Mitsubishi Estates and Dutch developer Edge for c.£150M which reflects £843 per sq ft on the existing NIA – c. 16% below the asking price of £180M and 44% below the £267M they acquired the property for in 2018, with a prelet to WeWork.

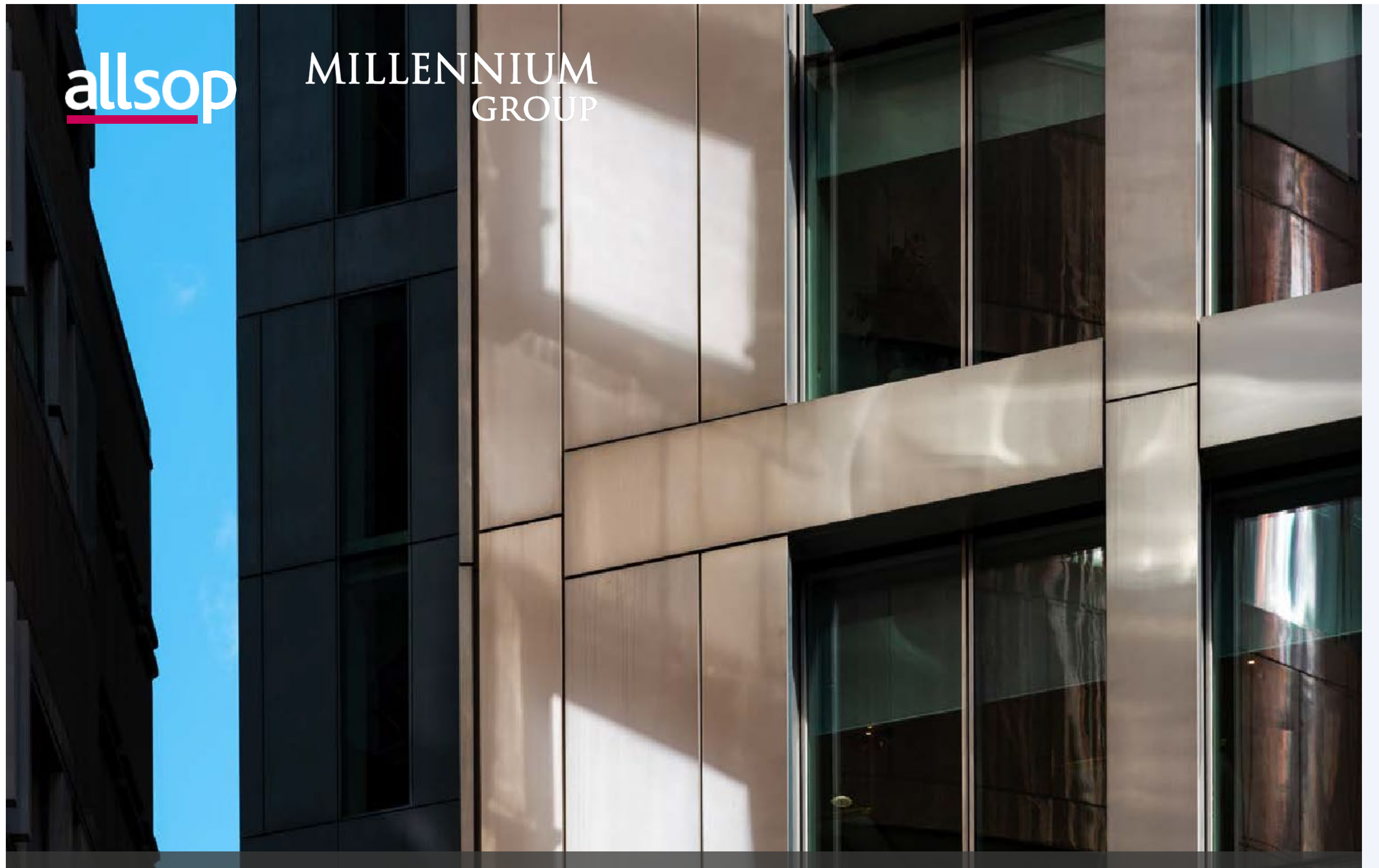
The launch of Vogue House, 1 Hanover Square, W1 in Q3 has also attracted considerable interest with 60+ inspections and bids now received. The landmark building occupies a substantial corner site at the southern end of Hanover Square and provides the opportunity to comprehensively refurbish and extend the building to provide 88,000 sq ft of best-in-class office space. Offers were invited for the 85-year long leasehold interest in the region of £70M which reflects £1,115 per sq ft on the existing and £795 per sq ft on the proposed NIA. The level of interest shown for an 85-year leasehold interest further emphasizes the importance of location (location) (location) in investor decision-making. Vendor Condé Nast have stated in their invitation to bids that the successful buyer will not be able to use the name "Vogue House" but "One Hanover Square" should be a good enough alternative.

Looking at current supply in the West End we are tracking circa £7.4Bn of assets in opportunities either on the open market or withdrawn (but in many cases still buyable).

Through our mandate with Citi Private Bank, we are seeing an uptick in interest from Middle Eastern capital as long-term average pricing continues to adjust. There is also continued interest from Asia capital which we are seeing through our tie-up with Millennium Group.

There remains a significant weight of capital allocated to Central London from across the globe and given the amount of stock currently under offer, with bids called or recently launched to the market we expect the final quarter of the year to paint a more positive picture in terms of volume given the lot sizes at play – although perhaps the number of transactions will continue to remain subdued.

Nick Pemberton
DL +44 (0)20 7543 6775
nick.pemberton@allsop.co.uk



West End Leasing Market

Overview

Q3 office take up has recovered well from a sluggish Q2 in the West End, with transactions increasing by 41%. There were double the number of transactions over 10,000 sq ft (22) than occurred in Q2 (11).

That said the year to date is still down 38% on the take up figures for the same point in 2022, standing at 2.4M sq ft following the more subdued first half of this year. More encouragingly the average deal size recorded for Q3 rose to over 5,000 sq ft for the first time this year.

In terms of supply the vacancy rate in the West End has remained constant at 7.2% of total stock. Completions of new space being delivered to the market continue to sit above the long-term average for developments, but key to the continued progression of the market is that much of this newly delivered space (81%) continues to be pre-let.

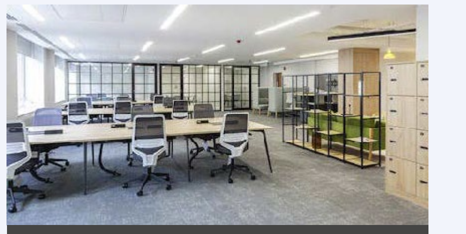
The managed / flex sector of the market continues to perform strongly with many operators, after a period of consolidation, back out actively seeking new sites, in addition to many large landlords continuing to increase the roll out of their own flexible and fully managed office solutions. It will be interesting to monitor how the well documented and continued restructuring of the WeWork empire will affect both the demand and supply dynamics of the market. At its peak the brand occupied over 4M sq ft in Central London – whilst this has been substantially reduced of late to c. 3M sq ft, it still has the potential to significantly alter the landscape of offices in Central London.

Headline Allsop Deals

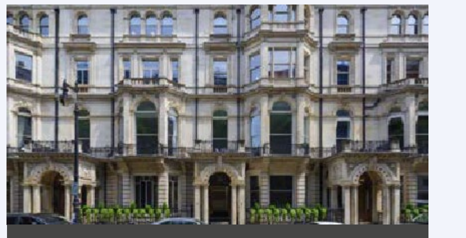
The transactions undertaken by the Allsop West End Leasing team recently continue to exhibit the key themes we are seeing across the wider market.

Firstly, the demand for high quality, fully fitted turn-key solutions continues to dominate the sub 5,000 sq ft market across the West End and Midtown markets. We were pleased to let an outstanding suite on behalf of CBRE IM at York House, 23 Kingsway, WC2 comprising 2,500 sq ft to financial services provider Centralis Group at a rent equating to £72.50 per sq ft.

Secondly, the demand for high quality space in the core Mayfair and St. James's submarkets shows no sign of abating. We have seen competitive bids for several offices we are marketing, and the lack of supply continues to increase the rental profile in the area. We were pleased to follow up recent lettings in 6 Chesterfield Gardens, W1 with a deal on the 3rd floor comprising 8,000 sq ft to oil traders Tupras Trading. This follows on from the recent lettings on the ground floor to Kallos Gallery and a private family office. Further space in the building is due to come available in Q1 2024.



York House, 23 Kingsway, WC2



38 Berkeley Square, W1

Headline Market Deals

Pre-letting activity of the best new schemes has remained robust in the West End. Most notably Moelis & Co securing 50,000 sq ft over 2nd and 3rd floors in Derwent London's 25 Baker Street at a headline rent equating to £100.00 per sq ft. This now takes the scheme to over 60% let with well over a year still to go before scheduled PC.

In addition, Audley Properties has backed up recent success at 31 St. James's Square, SW1 with a letting of 34,000 sq ft to Symmetry Investments at a headline rent equating to £136.00 per sq ft. The building has just reached completion with the only remaining floor in the 100,000 sq ft scheme not pre-committed (but understood to be under offer).

Interestingly this quarter we have seen an uptick of activity in the Grade B sector of the market for the first-time post pandemic. This was predominantly driven by John Lewis's decision to relocate to One Drummond Gate, SW1, securing 108,500 sq ft at a rent understood to be in the £30's per sq ft. This transaction does appear to fly in the face of the well documented "flight to quality" and whilst perhaps a small exception to the rule, could indicate an increased desire from certain occupier groups to find occupational solutions at the lower value end of the market.

Direction of Travel

The West End office occupational market continues to perform strongly despite wider economic uncertainties, and against wider expectations for the sector.

The supply/demand balance is currently at a crucial juncture, with the continuing high performance of the pre-letting market becoming key to keep the overall vacancy rate subdued.

Appetite from smaller occupiers will continue to be exclusively for fully fitted offices offering flexibility of occupation, whether this be on a fully managed or traditional lease basis. Their desire to keep initial capital expenditure to a minimum will render smaller offices that don't provide turn-key occupational solutions incredibly difficult to market and let successfully.

The managed / flex sector has become a substantial part of the West End leasing market in a relatively short space of time. We see the influence of this part of the market only continuing to grow in response to the demands from occupiers both large and small.

Richard Townsend
DL +44 (0)20 7543 6728
richard.townsend@allsop.co.uk

National Investment Market

Offices

Overview

Despite the ongoing challenges within the office sector, we have seen the market become the most active sector of late with a flurry of transactions and new stock to the market. The two-tier market remains present, albeit we are now starting to see greater activity in the short income stock as investors start to bet on future relaxation of Permitted Development Rights allowing for more creative solutions to drive value.

Who is Buying? / Headline Deals

Best in class and long income regional offices remain attractive investments, with overseas investors, high-net-worths and very selective pension funds. Allsop has been very active in this market advising Citi Private Bank on the acquisition of Kia's UK HQ in Walton on Thames for £13.1M (7% NIY) as well as BT's new HQ in Leeds for £38.5M (7% NIY). We also disposed of the Verisure HQ, Newcastle to BLME for £18.3M (7.67% NIY).

Freddie Foley
DL +44 (0)7765 982 637
freddie.foley@allsop.co.uk

Who is Selling?

The main sellers continue to be institutions and property companies and we have also seen a further uptick in 'consensual sales' from leveraged borrowers. Vendors are starting to come to terms with re-pricing and we expect to see vendors test the market with a mix of core and value-add stock as investors weigh up the decision to dive into asset management initiatives or pass that onto someone else.

Direction of Travel

Institutional capital continues to shy away from offices as they seek to find value in alternative markets. However, we are now seeing more and more Prop Co's and family offices target the sector where they are finally seeing yields reflect risk more closely, which also enables better underpinning through alternative use value. We will continue to see appetite for best in class, however, should we see a relaxation of Permitted Development Rights, it may well unlock the secondary market and drive demand back to the sector.

Supermarkets

Overview

Following a flurry of deals in Q1/Q2, transactions have slowed over the summer. However, levels of stock coming to the market in Q3 have increased - these include a portfolio of Waitrose sale and leasebacks of circa £140M, a Lothbury portfolio of 4 supermarkets at circa £216M and individual sales of all of the big 4.

Who is Buying?

Institutions are still the most active in the sector and paying the keenest yields as they search for best in class, particularly those in Greater London and the southeast. Location and profitability of the stores is now vital, and to pay best price institutions are keen to understand this and that the assets are underpinned by alternative value. This has been emphasised further by the over-rented nature of a number of the supermarkets available, though this has been reflected in the yields at their asking terms. There is interest from American REITS as the yields move out, particularly as you past the 7%s NIY.

Who is Selling?

There are a number of supermarkets being sold by funds that are coming to maturity, as well as those disposing of covenants such as Morrisons where the investment rating has fallen and the asset can no longer sit in particular funds.

As an alternative, investors and developers are looking towards industrial open storage (IOS); one of the fastest growing property sub-sectors in the UK. Last mile logistics operators are increasingly needing open storage land to help service their home delivery orders. As a result, we are seeing a significant increase in requirements for open storage land to cater for these 'overspill' needs.

IOS is seeing strong rental growth experiencing between 10 – 15% over the past year with rents typically achieving between 20% - 25% of a site's associated industrial headline rent. With such strong growth figures and the ongoing supply demand imbalance, it is not surprising that the sub sector is attracting increasing investment from the likes of Blackstone, Moorfield/Peloton, Marchmont, Longmead and Fabrix.

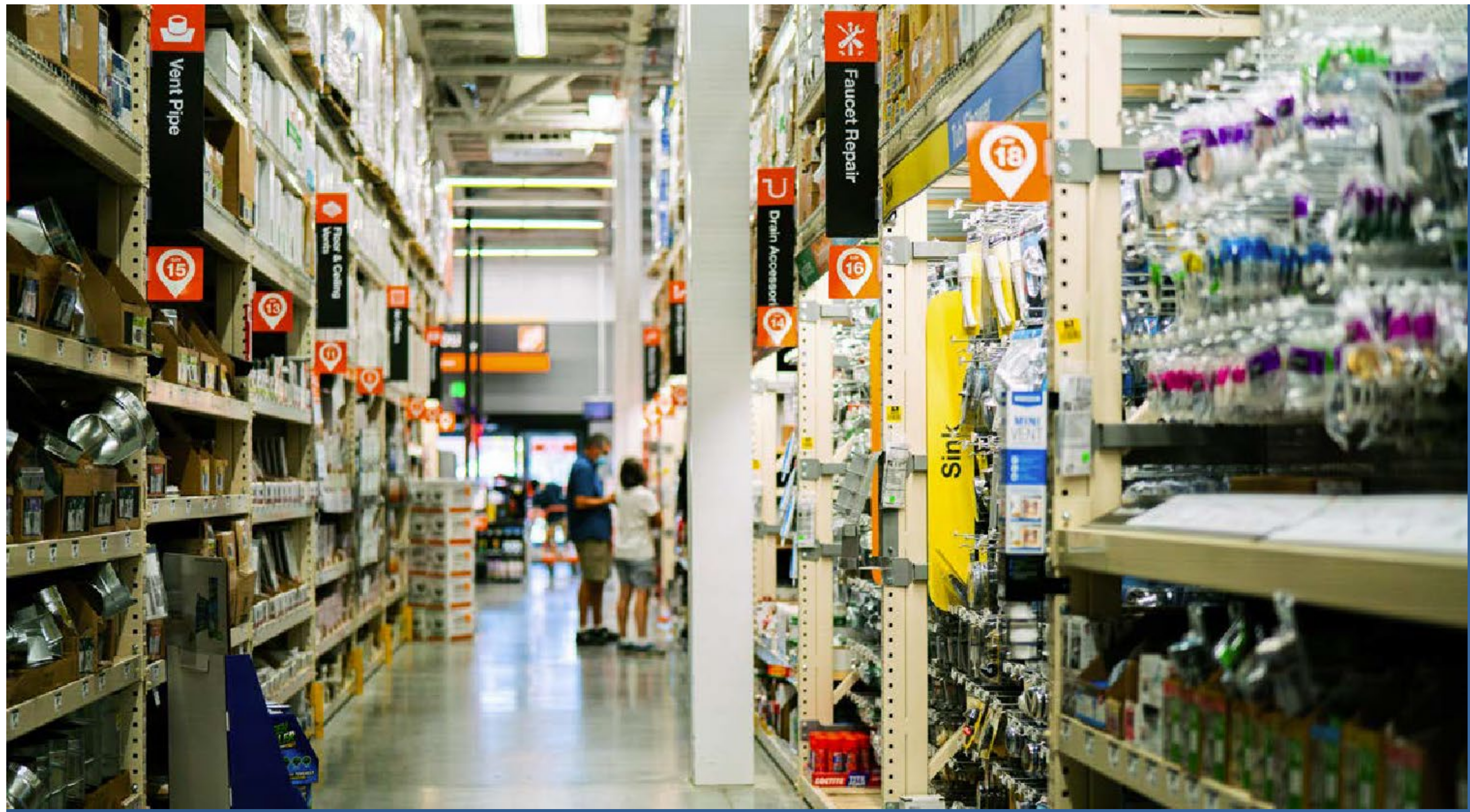
Headline deals

DTZ Investors acquired a prime London supermarket let to Sainsbury's with a new 20-year reversionary lease for £56,250,000 from Lothbury. This reflected a NIY in the low 4%'s NIY based on the reversionary rent commencing in 2024. This was a good example of an asset attracting a number of institutional buyers, and creating competition for a quality asset that ticks a number of boxes as discussed above.

Direction of Travel

We believe that there will continue to be a yield gap between best in class, and the rest – with this polarisation only growing wider as stock for best in class continues to be scarce. Institutions will continue to chase defensive assets, pushing in the yields, whereas those assets that are over-rented, poorer traders, and in less desirable locations need some yield to attract interest.

Liam Stray
DL +44 (0)20 7543 6769
liam.strays@allsop.co.uk



Retail Warehousing

Overview

We have continued to see a limited number of retail parks transact over the last quarter. There has been a limited amount of stock coming to the market with subdued activity from both buyers and sellers. The most active end of the market has been the primer end with schemes located in strong major cities or the south east being sought after by UK institutions who are seeing a discount in the current market to historic longer term pricing.

The occupational market remains strong with vacancy levels being sub 5% and towards levels of historic all-time lows. However, the squeeze on consumer spending is starting to filter through to the big ticket and electrical retailers who are reporting falls in turnovers but these businesses are generally very well capitalised to combat current market volatility. The discounters and convenience operators are still going from strength to strength with Aldi announcing a drive in their UK expansions.

Headline Deals

Templars Retail Park, Oxford was sold by Hermes to CBRE IM for £52.5M reflecting c. 6.30% NIY. The retail park is in a strong centre which is seeing potential reducing supply of retail warehousing floor space and therefore strong future rental growth prospects.

Sainsburys Islington was acquired by DTZ IM from Lothbury IM. This is a prime foodstore transaction where Sainsburys just regeared the lease to provide a term certain of over 20 years and there is strong residual potential. Reviews are CPI likes and pricing was £55.4m which shows a NIY of 4.15% on the reversionary lease.

Craigleith Retail Park, Edinburgh which is a dominant scheme north west of the city centre was acquired by Realty for £62.4M which reflects a NIY of 7.8%.

Who is Buying

Realty Income REIT and UK institutions with a focus on food anchored schemes.

Who is Selling

There is a limited amount of stock formally coming to market but when there is product it is often from REIT's or smaller schemes which are being disposed by UK institutions.

Direction of Travel

We are seeing yields continuing to move out as transactional evidence slowly starts to feed through. This yield shift is a reaction to interest rates/ debt and investment market sentiment, but we are still strong believers in the sector with the occupational market remaining very resilient to difficult trading headwinds and increasing costs. Key drivers are the discounters and food operators which tap into non-discretionary spending and vacancy levels are to remain low with upwards pressure starting to be seen on net effective rents.

Archie Stead
DL +44 (0)7525 824 606
archie.stead@allsop.co.uk

Industrial

Overview

After a turbulent twelve months it is hardly as if the industrial market has rebounded but has at the very least steadied. The pricing correction by and large has settled, fuelling an improvement in sentiment and a suggestion of increased transaction activity emerging. As a result of this year's slowdown, occupational take up fell by 41% year-on-year and has now reverted back to its pre-pandemic levels, after the Covid-induced boom. Decision-making processes within businesses are taking much longer and the growth in online retail sales has fallen back to its pre-pandemic trend.

Who is Active in the Market

There are still active requirements from institutions for prime long let supermarkets with those that are well located and benefit from good residual value still high on their list of requirements. Property Companies continue to search for opportunities and the higher yields of certain covenants are attracting them to the market. Smaller convenience stores are still proving popular for private investors, as are smaller Lidls and Aldis. Outside of the prime stock, the movement of the base rate and more expensive debt has had a direct effect on yields, though this seems to be stabilising.

Headline Deals

Despite Investment volumes being down 53% year-on-year, the industrial sector was the only sector to post positive capital growth in August, on the back of the continued rental growth story.

The biggest 'Big Box' deal of Q3'23 saw Bericote and JP Morgan, sell Coventry Logistics Park to DTZ Investors for £140M/4.5% in an off-market deal. The biggest openly-marketed deal saw Valor purchase Tera40, a four-unit mid-box scheme in Greenford, London for £143M/2.96% from Lothbury, whilst SEGRO, sold their three-unit Javelin Portfolio to P3 Logistic Parks for £100.9M.

Direction of Travel

Entering Q4, there does not appear to be the sudden surge of activity that we are so used to. There is still a subdued tone with constrained supply and ongoing price corrections. However, deals are happening notably where buyers need to gain exposure to the sector to balance out their portfolios and there is still compelling rental growth forecasts of 4.2% for 2024. There is also the emerging asset class that is open storage which is starting to gain momentum, buying up land for truck stops, container sites and bus depots with future alternative use potential clearly has its appeal. Genuine 'distress' has yet to materialise in the sector, but given the yield shifts and high proportion of buyers having highly leveraged, we may see more stock come to the market as a consequence.

Richard Gale
DL +44 (0)7527 388 024
richard.gale@allsop.co.uk

Retail

Overview

Despite the reduced number of retail park transactions over the last quarter, those which have traded have generally been well received in the market and pricing has held up. This has continued to be most notable for prime retail parks which have the attention of the UK institutions, highlighted by CBRE Capital Advisors purchase of Griffiths Way Retail Park in St Albans.

Despite the threat of recession and squeeze on disposable income, the occupational market remains strong and many product categories present on retail parks are well placed to overcome the economic headwinds. National vacancy rates are low, hovering around 3-4% across many well positioned retail parks. The all-retail warehouse vacancy rate stands at 5.4% according to Trevor Wood and if you were to remove all under offer and space earmarked for non-retail development the rate would be as low as 3.6%.

Headline Deals

Griffiths Way Retail Park, St Albans, sold by LXi REIT to CBRE Capital Advisors for £31M reflecting 4.7% NIY. The retail park has a strong tenant line up of B&Q, Aldi and Costa. There are RPI linked leases providing future reversion.

Studlands Retail Park, Newmarket, sold by Hobart to Hathaway Opportunity Fund for £19M reflecting 6.7% NIY. This is a 73,000 sq ft fully let scheme anchored by Homebase. It is the only park in the Newmarket catchment.

Boots & Sports Direct, Calcot, Reading – Allsop advised Threadneedle on the off market acquisition for £7.1M reflecting 8.25% NIY. The property sits next to a dominant Sainsbury's foodstore and has a WAULT of circa 5 years.

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Who is Buying?

Realty Income REIT remain the most active investor in the sector. UK institutions have remerged looking for core assets, typically food anchored and/or convenience led schemes.

Who is selling?

The lion's share of transactions are being agreed off market; vendors are predominately REIT's and UK institutions.

Direction of Travel

We anticipate the yield differential between core retail parks and more secondary parks to increase as investors who have capital to deploy become increasingly selective.

Occupational costs have come down for the majority of occupiers given the April reduction in business rates and rebasing of rents however the cost of living crisis may still bite. We believe value retailers and grocery retailers will be the key drivers of demand for retail parks as consumer spend is weighted towards essential items. We expect to see more amenity provision on retail parks with the likes of leisure operators Ninja Warriors and We are Padel and community healthcare operators MyDentist and InHealth keeping vacancy rates low.

Gergo Petrovics
DL +44 (0)7961 234 029
gergo.petrovics@allsop.co.uk

Business Rates

New Rating Bill is changing Business Rates

The Business Rates system is to change (slightly) and there will be an impact for ratepayers, including an increase in administration and possible hefty fines.

The Non-Domestic Rating Bill will soon be enacted; the third and final reading in the House of Lords was on 16th October and is likely to receive Royal Assent soon – probably in time for an announcement in the Autumn Statement.

The Government has wanted to amend the Business Rates system for years. This is the first piece of primary legislation that sets a tone for future changes but it is interesting for what it does not cover rather than what it does – it does not tackle the incredibly high rates multiplier (likely to be increased to well over 50p in the pound for 2024/25) nor empty property rate provisions, the latter subject to another recent consultation.

The Bill is wide ranging, and some measures will not have a direct impact on your business. But the following are the main points to note:

- Confirmation of 3 year Rating Lists:

  As of 1st April 2023, Rating Lists will be three years in duration. Previously, this was 5 years (often extended mid-List). The valuation date will remain 2 years pre-revaluation. We are already collating evidence for the next Rating List, which starts on 1st April 2026 (valuation date 1st April 2024).

- Duty to Notify – Likely pre-2026

This change will be an enormous administrative burden for ratepayers and changes the current status quo: at present the onus is on the VOA to collect and gather property data – ratepayers currently do not have to show their hand. This emphasis will be flipped and that statutory duty of the Valuation Officer removed.

Ratepayers will be obliged to make an annual confirmation that the premises' data held by the VOA is correct.

The ratepayer must also inform HMRC within 60 calendar days when they become a new ratepayer of a premises and notify the VOA within 60 days of any changes to a property or lease terms. From 2026 the government will introduce a sanctions regime; potentially punitive financial penalties will apply for non-compliance or false information (the latter is a criminal offence).

Three new Reliefs:

1. Green energy and decarbonisation – mentioned in the Spring Budget and linked to the below; some plant and machinery will receive 100% first year relief on capital allowances, including rooftop solar panels, battery storage used with renewables and electric charging points
2. Low carbon heat networks – new 100% relief for eligible low carbon heat networks which have their own rates bills
3. Improvement Relief – This measure is to provide relief against the increase in RV following improvements made to a commercial property, for one year post completion of the works to improve a premises. There are eligibility requirements, including the ratepayer must remain in occupation during the works. This provision will last until 2029

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MILLENNIUM GROUP

James Pullen
DL +44 (0)20 7543 6793
james.pullen@allsop.co.uk

- Transitional Measures:

  In the past the impact of large increases or decreases in Rateable Value ("RV") have been cushioned by transitional 'phasing' measures to lessen the impact on cash flows:

  - a large increase saw gradual annual upward phasing
  - a large decrease saw ratepayers penalised by slowly graduated downward phasing of their liability.

Downward phasing has been removed for the 2023 Rating List – a major win for some ratepayers.

- Completion Notices - refurbishments

  Completion notices are a way of forcing a nearly completed 'new' property into the Rating List, where a Local Authority considers a property complete or where it can be reasonably expected to be completed within three months.

  The Bill intends to advance the definition of a new building. An existing property subject to redevelopment, that could become capable of beneficial occupation, will be considered a 'new building'. This includes structural alterations of an existing building to create new assessments and buildings, or parts of a building, within an assessment which is or was in the list and subject to alteration – a loss for ratepayers.

- Material Change in Circumstances ("MCC") reform

  Ratepayers can no longer appeal their RV if government guidance and regulations which affected the use of a property, or changes in a locality, are instigated. This continues the approach when government changed the law in light of the huge impact of Covid-19 lockdowns and distancing rules – another loss for ratepayers.

Measure	Pros	Cons
Three Year Rating Lists	This will bring Rateable Values closer to actual rental levels.	By the very nature of shorter Rating Lists, there will be reduced certainty in forecasting liability, and therefore guess work will be required for any financial planning beyond the three year period of the Rating List.
Duty To Notify	None, other than Government having more accurate data from ratepayers	This could be an administrative minefield for ratepayers, particularly those with large portfolios or serviced office providers.
Three New Reliefs	Helpful measures to promote green Plant & Marchinery and sustainability credentials. Investment relief will provide some assistance on rates for occupiers who update or improve the quality or offer of the property they occupy.	All measures are only available for one year. Improvement relief will likely not assist landlords, particularly now that the government is looking to amend empty rate regulations. There are a lot of questions on the mechanics of the improvement relief: • When/how does the ratepayer claim the relief? • Will it take a long time to get the relief? - VOA will need to certify the increase in RV/ Local Authority needs to confirm validity – relief could be granted well after completion Is one year's grace in RV increase sufficient to encourage occupiers to improve their existing premises? Will this discourage seeking deletions from the List? We doubt it.
Transitional Measures	For sectors that have seen significant decreases between Rating Lists (retail, hospitality and leisure particularly) no downward phasing is hugely welcomed	Currently, the law requires transitional measures to be self-funding. Removal of downward transition means there is no direct funding for upward phasing – no confirmation from government as yet on how it will be funded. May we potentially see an increase in the multiplier?
Completion Notices - refurbishments	None	This allows the Local Authority more opportunities to force developers' hands into paying rates where properties are only partially occupied. In effect, government is trying to close a perceived loophole on avoiding empty property rates on legitimate cases. A pre-curser to changes in empty rate relief regulations too?
Material Change in Circumstances ("MCC") reform	None	Government initiatives that previously were deemed MCCs, such as the smoking ban in 2007, will not now get any temporary reduction in RV to reflect (eg) for loss of revenue etc… But theoretically the scope is huge and open to exploitation by the government and covers indirectly related guidance/regulations, further reducing the opportunity for ratepayers to appeal their rates through no fault of their own.

The Bill addresses a lot of changes that Government has wanted to make to the Business Rates system for years. What ratepayers really need is for Government to reduce the monstrously high rates multiplier through reducing the circa £26Bn per annum business rates expectation and to also not penalise occupiers and landlords who hold empty property.

The measures in the Bill will likely ease the burden on an underfunded and understaffed VOA by stacking the burden on ratepayers, incurring headaches on compliance and no doubt the occasional onerous fine for non-compliance.

Regardless as to the level of impact these measures have on your business, engaging the services of Allsop Rating Department will be more important than ever when looking to mitigate your business rates.

Commercial Auction Market

What are buyers competing the most for in the commercial auction room?

Most of our buying community are simply deal driven. Does this deal, in this sector at this price work for me with the cash that I have in my portfolio?

The measure of the most popular lots is a simple one, we look at the number of active registered bidders on each lot and the overage generated by their competition at auction.

Let us look at the five most popular lots sold on September 19th.

The September auction sale prices were on average 14% ahead of the reserves, and if you look at these examples you can see where a good amount of that overage came from.

These were the five most popular lots sold at auction, other lots sold before and after the sale. The most striking point is that they have little if anything in common in terms of lot size or sector, the only common denominator was a willingness to get the pricing correct at the outset which encouraged the market to decide the price, in competition.

Whilst we can talk long and hard about a period of “price discovery”, in all five cases the market found the prices in two and a half weeks, or three minutes depending on how you look at it.

If you were to analyse each of these sales the pricing was very strong compared to any pricing we have seen over the last 18 months which takes us to the market before the economic catastrophe that was the Truss budget of September 2022.

Pricing at the outset is therefore key to a good outcome and where Vendors are able, pricing assets showing a clear intention to sell typically drives the price way beyond initial expectations.

Overview

The view from the Private investor and the Commercial Auction market is no doubt similar to most capital markets where volumes are reduced – and pricing difficult to pin down. Whilst commentators and investors alike are keen to try and spot the point at which markets at least stabilise before the inevitable upswing in demand.

Put into numbers, for the year to date we have sold £309M against £442M at this point in 2022. What these numbers also prove is that there is always trading going on.

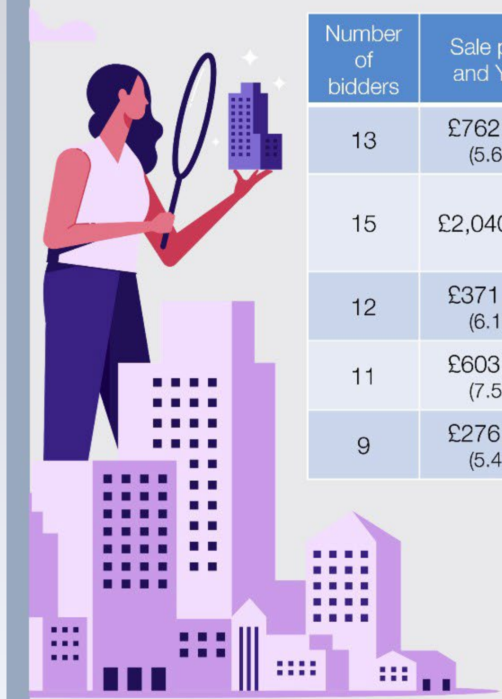
For example it was only back in April, six months ago that we sold all 53 lots for William Hill in their own auction. This completed their sales campaign that started as Truss’ Budget hit the markets, but investors responded and William Hill successfully sold all 132 lots over five auctions raising £24M in the process.

Pricing was key to that success and as these tricky times continue, setting pricing to satisfy Vendors and meet Buyers’ aspirations is more important than ever.

By comparison to the commercial market, volumes in the residential sector have increased by over 20% year on year. One of the main reasons for the difference is that commercial investors tend to have a longer term view, they will take more time to react to price changes and have less incentive to sell whilst the rents continue to be paid.

To analyse our market, at this time of the year we typically provide in depth insight into hundreds of sales. However, with such pricing disparity and reduced volumes we have chosen to explore where buyers are focusing their attention on the most popular sales, and see what we can learn.

Five most popular lots sold in Sept 2023



Number of bidders	Sale price and Yield	Overage above guide price	Lot number	Location	What was it?
13	£762,000 (5.6%)	138.5%	Lot 28	Clifton Northampton	Dentist on a lease expiring 2036
15	£2,040,000	151%	Lot 13	Lewisham, London SE13	Tool Station letting until 2032 with six flats above
12	£371,000 (6.1%)	123%	Lot 98	Gloucester	Industrial unit on new five-year lease
11	£603,000 (7.5%)	150%	Lot 92	Northampton	Care Home on lease expiring 2050
9	£276,000 (5.4%)	345%	Lot 109	Milton Keynes	Betting shop – holding over

Why were these lots so popular?

Lot 28

The Elms Dental Practice, Cliftonville, Northampton

No of Bidders: **13**
Sale Price: **£762,000**
Yield: **5.6%**
Overage above guide price: **138.5%**

This was one of a portfolio of 10 sales, being offered by the former owners who had retained the freeholds of the surgeries when they sold the business. The assets were spread across the south of the country and caught the imagination not only of our regular investors but also local dentists as they appreciate the true worth of these sites.

This was one of the larger lots in the portfolio, so it is a little more of a surprise that demand was so strong, with 13 bidders, it was the most popular lot in the catalogue on its own self contained site with parking.

Why so popular? The modest rent offers growth potential and long lease, until 2036 gives the buyer a relatively low risk but secure income for a further 13 years.

Lot 13

Tool Station with six flats above, Lewisham High Street, London

No of Bidders: **15**
Sale Price: **£2,040,000**
Overage above guide price: **138.5%**

This was the largest lot sold under the hammer in our September saleand was sold on behalf of The City Corporation. At £2.04M it was well ahead of the guide of £1,400,000. This investment includes a trade counter, always a popular sector whether in town or out, and only one of the flats was let, giving the chance for the buyer to refurbish and let them quickly in a rising rental market.

Why so popular? Mixed use assets in London are always popular and Investors also like to buy from Institutions like the City Corporation as there is always a view that they can do better with the asset.

Lot 98

Unit 2 Whitworth Court, Gloucester

No of Bidders: **12**
Sale Price: **£371,000**
Yield: **6.1%**
Overage above guide price: **123%**

Demand has returned to the industrial sector as a dozen buyers were active on this lot.

Why so popular? This is as much a function of the modest lot size, realistic rent which offered the chance to grow and that our market has been a little starved of industrial assets for the last few years as they rarely reach the open market.

Lot 92

Care Home, 17 Landsdown Drive, Northampton

No of Bidders: **11**
Sale Price: **£603,000**
Yield: **7.5%**
Overage above guide price: **150%**

The key to this lot was the lease length, expiring 2052 - our market rarely sees an occupational lease for a further 29 years, and with such a strong tenant, buyers were competing for a long and resilient income stream which increases annually by RPI.

Why so popular? With this length of lease from a solid covenant, it gives investors a very long income, with annual growth built in which overcomes any nervousness about the underlying value of the real estate.

Lot 109

14 Fyfield Barrow, Walnut Tree, Milton Keynes

No of Bidders: **9**
Sale Price: **£276,000**
Yield: **5.4%**
Overage above guide price: **345%**

This was one of the few Receivership sales in the auction, and had been under offer to the Freeholders of the parade for some time. As that deal fell through, Allsop were appointed and we identified a special purchaser who met strong competition at auction.

The overage at 345% looks very high, and this was partly because the initial guide price had to take account of a very restrictive head lease and no security of income for the buyer. It is always good to be proved wrong by the market and in this case a special purchaser who drove the overage at auction.

What can we learn from these examples?

These examples show our buyer pool are long on cash and each have their own criteria, which when it is met will encourage them to pay good prices when the asset works for them.

In conclusion, our October 31st auction will be a real test as we are offering a wide range of bigger assets than before, 35 are guided above £1M – the challenge is whether we and our clients have found the price point that works for investors.

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

Residential Auction Market

Overview

Our August Auction delivered the highest amount ever raised by a national residential auction team. The overall amount raised currently stands at £46,985,900 with a current success rate of 99%.

This is an exceptional and unprecedented result, especially within a period where mortgage rates were at their highest for over a decade. The Bank of England base rate rose from 5% to 5.25% on the auction date itself (3rd August) – however, investors, property groups and developers were undeterred with their intent to purchase at auction. There were two interesting statistics from our August auction; the first being 18 lots sold prior and notably 18 lots were sold after auction. The largest lot on the day sold for £2.55M which was a development opportunity in Surrey.

Auction Highlights Include

Lot 78

West Byfleet, Surrey, KT14
VACANT - Freehold Building with Residential Planning Consents
Sold: £2.55M

Lot 73

Manchester, M19
INVESTMENT - Two Freehold Adjoining Blocks of Flats
Sold: £1.7M

Lot 38

Cricklewood, London, NW2
VACANT - Freehold Mid Terrace Building
Sold: £1.1475M

Lot 67

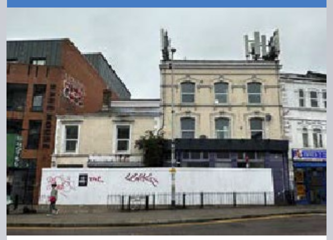
South Croydon, London, CR2
VACANT - Freehold Former Care Home
Sold Prior in excess of £1.9M

The following auction took place over 3 days in September and provided both 'in room' and 'streamed' auctions to suit all buyers' needs. The total number of lots across 3 days amounted to 509. The last time we had an auction with more lots was November 2008, amidst the height of the GFC which comprised 996 lots across 4 days.

Our 3 day September auction realised a current total of £67,168,050 at a success rate of 88%. Interest rates remained unchanged at 5.25% which boosted investor confidence. This was demonstrated on a number of lots which exceeded reserve and, one lot in particular more than tripled reserve; lot 278 – 4, Charnwood Avenue, Dudley , West Midlands, which eventual sold for £224,500 - having started the bidding at £60,000.

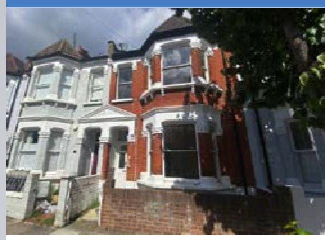
Selected Highlights September

Lot 10



South Tottenham, London, N15
VACANT - Substantial Freehold Building
Sold: £2.53m

Lot 21



Fulham, London, SW6
VACANT - Freehold Building internally arranged to provide Two Self Contained Flats
Sold: £887,500

Lot 30

South Kensington, London, SW7
INVESTMENT - Share of Freehold Self Contained Second Floor Flat
Sold: £850,000

Lot 47 & 48

Purley, Greater London, CR8
VACANT - Freehold Block of New Build Flats
Sold: £4.17M

Direction of Travel

We anticipate that there will be an increased number of distressed properties being sold by way of auction leading up to Christmas and into Q1 2024. Whilst it appears that interest rates have possibly peaked we anticipate a bottle neck of underperforming 'buy to lets' that will eventually come into the market both consensually and on behalf of administrators/Receivers in the foreseeable future. With buyer confidence becoming restored, we anticipate a busy period ahead.

Jourdan Prowting
DL +44 (0)207 344 2675
jourdan.prowting@allsop.co.uk

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!

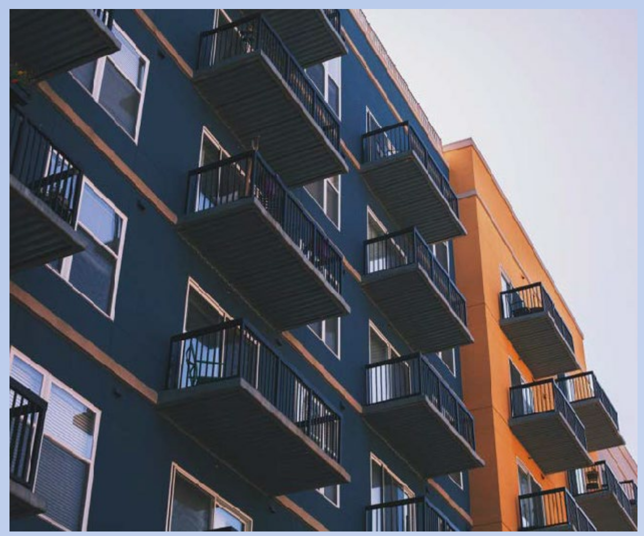
We have successfully concluded the sale of two large blocks of apartments which were converted under permitted development rights both of which were sold on behalf of the Receiver. One block of 79 flats in Bagshot sold for circa £12M off a gross yield of 7.5% and a vacant block of 91 flats in Frimley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

Residential Development

Overview

It's no secret that the land and development market has been slower this year. The significant interest rate rises and build cost inflation over the past 24 months has impacted the viability / profitability of several schemes. This was then compounded by the fire safety regulatory changes and the second stair core debate which took place during the first 6 months of the year culminating in a final decision which now requires second stair cores in buildings over 18m as of July 2023. This combined with the new building regulations coming into effect from June this year has seen a perfect storm of increased costs negatively influencing land values and this has been hard for landowners, developers and contractors alike, with subject to planning deals being renegotiated and planning consents often having to be amended prior to implementation, and contractors falling into administration, leading to further construction delays around the country.

This is evidenced by the fact that from a London focussed perspective, according to Molior, the capital has seen just 1,430 new homes under construction during Q3 2023, that is lower than any quarter since 2009. The symptoms of a slower new homes sales market is also evident with developers failing to underwrite construction through pre-sales and schemes therefore stalling, with 65 schemes across London alone registered as stalled and part built.

Who is Buying?

For the larger sites, there has understandably been reduced activity from the housing associations and house builders as many of them have been busy re-jigging existing planning consents and establishing the viability of their existing contractual positions. This is particularly notable in London with housing activity and regional housebuilding being a more positive picture. For smaller opportunities or value add planning plays, we have seen a wealth of cash rich private investors and private equity backed entities that are eager to take advantage of the lack of competition; however, understandably they are not willing to pay 2021 prices. This market continues to be a price exploration exercise for many vendors and the reality of today's values is now beginning to set in and being illustrated through reductions in land value that clearly will vary depending on the characteristics of the site. With concerns around the underwrite on multi storey flatted development and the margins in multi-family BtR, there continues to be significant demand for development land for student use in suitable locations.

Who is Selling?

There is a perception by some that those selling in this market are distressed. That is not the case from what we have seen, yes we have seen a number of distressed or consensual sales and it is clear that there will be a steady stream of such assets in the market. Many clients though are simply reviewing their business plans or family circumstances and considering the sale of non-core assets to recycle in to new opportunities. With the challenges in the land market that we have seen over the past 18 months, there is an understanding amongst vendors that the market is there for the right type of asset at the right price so the right sales narrative and guide is key.

Direction of Travel

There is a wealth of equity in the market and this is evidenced by a part built asset we marketed in Q2 and received over 18 offers and the transaction simultaneously exchanged and completed within 10 days of agreeing heads of terms. There is also a renewed focus on central London assets, which have been well received in the market as purchasers have more confidence in the price point and the Central London story. While it was a slower than usual summer, the direction of travel is now more positive and the market has very much awoken since September. The feeling is that there is a better market emerging and there is now a stronger market to sell into than we have seen for most of the past 18 months. Those selling in the market are showing greater pragmatism around pricing and there is more activity on the developer side, with people needing to fill their pipelines having bought less land. We expect to see a significant uptick in market activity even in the event of a further rate rise, with more opportunities coming to the market and developers feeling more confident around medium term outlook, particularly given the chronic shortage of housing numbers being delivered.

Anthony Dixon
DL +44 (0)7867 398390
anthony.dixon@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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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.

Residential Letting and Management

Overview

With over £1bn invested in UK single family housing in 2023 despite what many are considering challenging market conditions the credentials of Residential Investment as an investment class seem to be there for everyone to consider. Indeed the number of opportunities presented to us by our own clients as well as potential new entrants through our Agency colleagues seems to be showing no signs of slowing.

Who is Active

Allsop's management of The Thistle Portfolio latterly named as Project Domus provides a clear indicator there is still significant institutional appetite for single family assets with Goldman Sachs selling the portfolio to PGIM in the first quarter of 2023.

Allsop manage and operate a number of significant single family housing schemes owned by PGIM, Packaged Living, Columbia Threadneedle and Savills Investment Management all of which are providing further demonstrable credentials for an asset class we believe will rapidly overtake BtR Multi-Family. Schemes launched this year include Telford, Rugby, Alconbury and Braintree.

Headline Deals

Over the course of the next 12 months Allsop will launch a minimum of six further single-family schemes across the UK in addition to BtR assets in Leeds and Liverpool. The market conditions for institutional landlords are strong – an already chronic undersupply of stock coupled with various BTL landlords exiting the market due to rising interest rates compounded by a less favourable tax environment is reducing supply in the marketplace. Statistics gained on our SFH schemes shows up to 20% of our customers are coming directly from BTL landlords exiting the market exacerbating even further the supply/demand imbalance.

Additionally, as these brand new, professionally managed homes, high quality homes hit the market the customer-base is ready to hoover them up mirroring those experiences of multi-family. Allsop are now managing waiting lists on all our single-family assets as we wait for future phases to handover. This demand is universal across all 20+ housing estates showing this is a national not regional issue.

Whilst Allsop are outperforming underwrite targets we continue to closely monitor affordability rates as the cost-of-living crisis and the associated inflationary pressures hit household incomes. To date the impact on affordability ratios has been less pronounced (22% of household income is spent on rent) in single family housing where traditionally households do spend a smaller proportion of their household income compared to BtR.

Our Multi-Family assets are also thriving and certainly no stranger to success. These multi-award-winning assets continue to enjoy low voids, strong rental growth and importantly less churn, driven by excellent customer service but also a reticence to move home in what is an economically uncertain period for many people.

Our Eda (295 apartments) scheme in Anchorage went live during September quickly hitting 25% lease up inside a month in what is arguably most competitive market for BtR in the UK.

Direction of Travel

What is clear is that there is currently an environment where more pressure is on housebuilders to do deals and possibly be more amenable to an amendment of specification. How long that environment will take to equalise again is uncertain but in the meantime it is clear there are is a great deal of institutional money happy to make SFH part of their business plan.

Matt Smith
DL +44 (0)113 290 2516
matt.smith@allsop.co.uk

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Services

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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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f w a i n B
allsop.co.uk