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NEWS AND VIEWS FROM **ALLSOP**
SPRING/SUMMER 2023

one size fits all?

Hello

As I write this foreword in the month of May, there is a sense amongst many of us of pure frustration! The UK is teetering a little on the brink and is feeling the full effects now of decisions and circumstance whether referendums, Brexit, Covid, Ukraine, Conservative leadership or the energy crisis. Strikes whether rail, NHS or otherwise are dampening the mood of society, and if you throw in some potholes and damaged wheels people are frustrated. Inflation is stubbornly hanging around like an annoying terrier on a trouser leg – we just can't shake it off. It is just so ingrained in our everyday lives and still running at 10% plus as I write in May. The primary weapon to inflation of increasing interest rates which are now sitting at 4.5% has not been conducive to business and many of our markets are suffering with low volumes. For example the commercial capital markets are running at circa 40% volume levels when compared to the norm at 5 months into the year. Saying all of this, and now for some positivity, many of the leasing markets remain strong whether Residential, Industrial, Grade A offices and Retail warehousing. Mix this activity with a good amount of fresh capital raised, whether from the UK, US, Far East, Middle East and with these monies ready to go, there are firm foundations for a more positive outlook. There is an expectation that fresh monies will be deployed at a greater volume in H2. There is a feeling that when one or two investors deploy in each sector, many will follow. Will it be late June or September? – we will see. Maybe some of the articles inside will help you decide. In this Spring/Summer 2023 edition we cover…

the return and rise of retail warehousing, the rise of build to rent in commuter towns, the reshaping of the square mile in the City, has the North/South real estate divide finally closed, the evolution of departments stores, is the tide turning in the residential sector and an article on ChatGPT in the property sector – yes before you ask, I have written this all myself!

A truly packed edition with all our news and views.

Enjoy the read.

Scott Tyler FRICS
Senior Partner

Contents

The return and rise of retail warehousing

Retail warehousing rarely conjures up the kind of emotions that we see with some hotter asset classes. And, indeed prior to and during Covid as a retail warehousing specialist, I've been asked as many times about the possibility of converting retail warehousing into classes such as build to rent and logistics as I have been about their investment potential on their own merits.

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"retail warehousing is proving it is the best route to market for many retailers"

Since Covid, we have seen the tides turn. Retail warehousing is demonstrating its resilience and is drawing further attention among institutional investors. Over the past 24 months, that's become much more apparent.

Headwinds behind, tailwinds ahead

To understand why retail warehousing has picked up and looks likely to continue to do so, it's important to consider the state of the market over the past few years.

Retail real estate has rarely been in the headlines for good reasons, albeit with a few exceptions and with the sector now experiencing some tailwinds. The rise of e-commerce over the past decade, turbocharged during the pandemic, has had major implications for a range of retail destinations.

E-commerce's rise, however, has plateaued. Contrary to predictions, while the pandemic proved an accelerant of existing changes, some of its impact was short term. From a high of 37.8% in January 2021, according to data from the Office for National Statistics, to 25.2% in February 2023, online sales as a proportion of total retail sales are likely to continue to hover around the 20-30% mark.

Retail warehousing, although less exposed by its nature to the headwinds of e-commerce, has been caught up in association. Until the past few years, retail property – including high street stores, shopping centres, retail warehousing and beyond – has been lumped rather unfairly together in the eyes of certain investors, which has made some less willing to take a chance on retail warehousing, and lending terms being more onerous because of this.

We saw during national lockdowns that retail warehousing was able to show just how resilient it is, despite difficult circumstances. Income was stable as many retailers were deemed as essential, and big-ticket sales increased due to consumers investing in their homes and an increase in disposable income with the nation staying at home.

However, with limited hits from e-commerce, the impacts of the pandemic behind us, and the waves of CVAs affecting retail having retreated, the overall picture is looking much rosier.

The occupier picture

The occupier market is strong in retail warehousing. Vacancy rates are at c. 5% (compared to c.13% in in-town retail) with discount retailers and food stores increasing their portfolio. While a lot of fashion and other types of retail sales have gone online, retail warehousing is much less vulnerable to this – and, in some ways, benefits from it.

The likes of B&M Bargains aren't likely to struggle in the face of competition from online shopping – in much a similar way to Primark's resilience on the high street – particularly amid a cost-of-living crisis. In fact, after a short trial period, B&M has decided to terminate its online home delivery service.

And even the likes of fashion retailers M&S and Next have been closing high street stores to head out-of-town, where they can source flexible/efficient floor space at a cheaper rent on a £psf basis, excellent transport links with the convenience of parking to the front of their store. The growth of Click-and-Collect has been exceeding the growth of e-commerce sales, with retailers investing in dedicated Click-and-Collect services in store as it is more cost effective to operate with the increase in logistical costs of deliver and return.

We're also seeing an emergence of new types of retail warehousing occupiers. The likes of Lidl and Aldi have accelerated their expansion into retail warehousing schemes. Meanwhile, we're seeing PureGym bouncing back from the pandemic and expanding their retail warehousing premises rapidly and even an increasing number of F&B outlets, such as drive-thru restaurants and coffee units, open in out-of-town destinations. Even the likes of services such as dentists and vets are increasingly recognising that retail warehousing can suit their business needs.

This is all adding up to making retail parks much more day-to-day spending destinations, rather than one-off discretionary spending ones. Retail warehousing is proving it is the best route to market for many retailers.

The investor interest

Retail warehousing is a resilient, income producing asset class which offers investor strong annualised income returns and some capital value growth.

With investor confidence now picking up after the quiet second half of last year, we're seeing the three main players – Threadneedle, Realty and British Land – increasingly gear themselves up. Institutional capital is particularly attracted to what retail warehousing has to offer and is well placed to move on it, given these investors' access to capital with low costs, significant equity to invest, and the higher yields on offer, particularly compared to industrial property.

Yields today have moved in from Qs 3&4 2022 with more transactional evidence coming though. A key example of this was Purley Cross Retail Park, Croydon which was under offer at 5.50%+ NIY prior to Christmas but it ended up completing in March for 5.35% NIY.

We're now increasingly seeing other institutional capital returning to the market. These fund managers are focusing their attentions on the south east of England and key national cities, where we're seeing the green shoots of rental growth as a result of retailers' commitment to their store portfolios.

It all adds up to a case of retail warehousing on the rise. A sturdy investment in a time of economic uncertainty.

The rise of Build to Rent in commuter towns

'Commuter town' Build to Rent (BTR), which offers renters the convenience of apartment living outside of major cities whilst still being well-connected, has been increasingly popular with home seekers due to several factors, not least because of the supply issues in cities like London and post-pandemic living trends.

What is driving demand in 'commuter towns'?

Whilst a 'commuter belt' has no fixed boundary, the term is generally used to describe the area surrounding a large city or town where many people travel to and from their employment.

COVID-19 has played a major role in reshaping our living preferences. On the back of newly introduced remote working policies, many people started to look further afield for more space and more affordable rents. At the peak of the pandemic, many believed they would never have to return to the office again, which led to a surge in demand for houses in more remote locations. However, over time it became clear that for a large proportion of workers the 'hybrid approach' to working at home and the office works well, and as a result, connectivity has returned to the top of many renters' priorities, which partially explains the popularity of commuter-town BTR.

Supply issues:

Another reason why this rental product is bound to see continuous demand is the chronic rental stock supply shortage in parts of London's commuter belt (as well as many parts of the country). The number of properties available to rent has been diminishing, with a large portion of private landlords choosing to sell their properties because of the increased regulatory burden as well as financial viability constraints amplified by the recent interest rate rises. This is unlikely to improve as the sector braces itself for more challenges with the anticipated Renters' Reform Bill and upcoming energy efficiency targets (EPCs).

Rental growth:

Just as commuters from core cities have historically raised local housing prices, a surge in demand for rental property has led to strong rental levels and increased investor interest. Supply constraints have naturally helped to push rental growth. Nationally, rental trends have witnessed strong and steady increases, according to latest data from ONS, England has seen over 6% median rental growth in the 12 months to end of 2022.

With many investors in the BTR market already seeing strong performance from their city-centre developments, they are now focusing on expanding their portfolios into commuter towns, popular with young professionals and with a low supply of high-quality private rentals.

BTR commuter hotspots

Some commuter towns have experienced higher BTR development activity than others, and their appeal can be attributed to a host of factors.

The following commuter town locations have been examined on the following basis:

- Commutable in less than 60 minutes*
- Average house prices below the London average of £532,000, according to latest HM Land Registry data (February 2023 being most recent at point of writing).
- Rental growth analysed as being in the highest 25% of all UK Local Authorities, using rental data from ONS Private Market Statistics from 2019 to 2022 (accounting for effects of Covid-19 and indicating the robustness of the rental sector).

* According to National Rail Enquiries' travel times based on the fastest train travel from station to station, with the average commute taking less than 40 minutes.

Watford

Watford sits just 15 miles north-west of central London. With excellent train routes into the city (Euston in just 20 minutes), commuting from Watford is quicker than from many parts of London itself and proximity to the M1 and M25 make it highly convenient. Watford saw the country's second largest increase in percentage of privately rented homes - from 20.1% in 2011 to 28.2% in 2021.

The town also has numerous large companies and headquarters, with a local economy based around the service sector including financial and professional services, pharmaceuticals, health sciences, creative media, manufacturing, and retail and leisure industries. Currently, there is just one operational BTR scheme – Cortland Cassiobury, a JV between Cortland and Harrison Street.

Key stats

- **20** minutes to London Euston
- Median rental growth **19.4%**
- Average rents of **£1,200** (median) and **£1,395** (upper quartile) among the highest outside of London
- Average house price **£397,000**
- Wage growth **4.6%** (2021-2022)
- **13.2%** population growth between last two Census

Milton Keynes

Milton Keynes acquired city status in August 2022 and is an employment and business hotspot in its own right, but is also well-located, with good rail links to London Euston as well as being equidistant from the university cities of Oxford and Cambridge. With a strong local economy and demographic indicators, it is home to the Almere, owned by Invesco, which completed in 2022, whilst Grainger already operate two schemes in the city.

Key stats

- **35** minutes to London Euston
- Median rental growth **15%**
- Average rents of **£1,035** (median) and **£1,250** (upper quartile)
- Average house price **£322,000**
- Wage growth **7.3%** (2021-2022)
- **15.4%** population growth between last two Census

Crawley

Crawley has expanded fast in recent decades. Whilst the local economy is primarily based on Gatwick Airport and industries that serve aviation, Crawley train station benefits from a good service to London, as well as Brighton and easy access to the M23/M25. PLATFORM_ was the first to develop a BTR scheme in Crawley, and M&G has a single-family rental scheme, The Green, on the outskirts of the town.

Key stats

- **45** minutes to London Victoria
- Median rental growth **13.2%**
- Average rents of **£1,075** (median) and **£1,250** (upper quartile)
- Average house price **£327,000**
- Wage growth **14.6%** (2021-2022)
- **11.2%** population growth between last two Census

South Cambridgeshire

South Cambridgeshire district surrounds Cambridge City (which is its own district) offering a different proposition to the previous locations discussed, in that being a mostly a rural area, this commuter location is attractive for single-family led BTR. The district has strong rents and the highest weekly pay of the areas examined (despite a negative wage growth in the last year). The suburban location it is appealing for housing-led rental with Present Made (Apache Capital) securing planning for a large-scale rental housing scheme.

Key stats

- **55** minutes from Cambridge Station to London Kings Cross
- Median rental growth **15.8%** (Central Cambridge authority only 4%)
- Average rents of **£1,100** (median) and **£1,300** (upper quartile)
- Average house price **£464,000**
- Wage growth **-1.9%** (2021-2022)
- **9%** population growth between last two Census

Ashford

Ashford in Kent is a market town that has developed rapidly in recent decades, with many new build housing developments and has seen strong house price growth in the previous 10 years above the national average. Known for its countryside and access to the Channel ports, the high-speed rail link to London St. Pancras takes just 38 minutes, making it a convenient location for both city working and easy access to green space. Anticipating population growth of c.8% in next decade (compared to national 4% forecast), we are aware of one BTR development in operation so far by Citra Living, and Starlight Investments recently committing to acquire a scheme helping to meet growing demand for high-quality rental homes.

Key stats

- **38** minutes to London St Pancras
- Median rental growth **13.2%**
- Average rents of **£900** (median) and **£1,100** (upper quartile)
- Average house price **£379,000**
- Wage growth **11.7%** (2021-2022)
- **12.5%** population growth between last two Census

Summary

It has been well reported that people are seeking to achieve a better work-life balance in locations with convenient transport, amenities, green open spaces, and value for money as the country is battling the cost-of-living crisis. The permanence of hybrid working will have implications for local government planning in terms of housing and infrastructure, and whilst this will play out differently in commuter towns across the UK, one thing is certain – BTR is emerging as a prominent proposition in this field.

Large cities will continue to exert a gravitational pull and the efforts of employers to lure staff back to the offices is having an effect. Yet, as we have seen so far, the longer-term pattern for hybrid working means commuter towns may also develop a new symbiosis between the cities and their surroundings, benefitting from the relocation of residents and businesses alike.

Law firms' new Manhattan-style offices show how office tastes are reshaping the Square Mile

First appeared in React News May 2023

If you want to understand how the City of London is reinventing itself in the post-pandemic era, a look across the Atlantic gives the greatest indication.

Ever since March 2020 and the first lockdown in the UK, there has been a recognition in the City of London – from both its governing body, the City of London Corporation, and those firms that have called it home for so long – that the capital's central business district has needed to reinvent itself.

While the City has always been full of restaurants, bars and retail to serve office workers in the Square Mile, it has fared less well at serving as an all-day, all-week destination, often emptying out in the evenings as fewer people attend after-work drinks and even more so at the weekends.

Fortunately, that's changing. Throwing off its own grey suit, the City is increasingly reinvigorated. This is in no small part thanks to the Corporation's leadership and drive towards creating a more diversified 'live-work-shop' economy, but – less well recognised – developers and office occupiers are also doing a lot under the surface to change the City's real estate. And they have to: there is a continued need to improve older buildings (particularly as Minimum Energy Efficiency Standards (MEES) increase) and as occupiers' wants and needs change.

The City is changing, then, as both a carrot and a stick. How might the City look in five or ten years from now? The changing offices of law firms give a hint – whose tastes are best summed up in one word: Manhattan.

From the glass towers…

Up until the pandemic, many of London's US law firms based themselves – primarily, not exclusively – in glass and steel towers in the City, particularly in and around financial centres such as the Bank of England, Liverpool Street (Broadgate) and St Pauls. While there is never a one-size-fits-all in terms of the kind of office that all companies in a sector occupy, generally firms looked for around one person per 12 sq m, with a small proportion of amenity and wellbeing. Domestic law firms might have looked around the City boundaries including the northern fringes of the City, Southbank and Midtown, while international ones brought their fondness for glass towers from Chicago and New York to the UK capital.

Now, in the post-pandemic era, all change is afoot. Law firms are driving the City leasing market right now, ever since Reed Smith, Dentons, Dechert and Clifford Chance kicked off the search in 2020 and sparked a cascade of lawyers looking for new spaces that would help them encourage employees back to the office and win the war on talent.

We're seeing approximately 900,000 sq ft of requirements from law firms as of the end of April 2023. Much of that demand is from roughly nine law firms.

So, what are they looking for now? Simply: a slice of the variety of New York City.

...to the warehouses...

From the once much-loved corner office on the upper floors of a City block, many law firms – particularly UK-headquartered ones – have fallen in love with Manhattan-style warehouse spaces.

Edgy and industrial, these spaces are high in demand as characterful offices that provide a bit of colour to office life. Amid the war on talent, law firms see them as an opportunity to better develop their brand among existing and would-be employees.

Firms taking space like this include the likes of Wilson Sonsini (30,000 sq ft) and international law firm Reed Smith at British Land's Norton Folgate development – which is an astounding endorsement of the Spitalfields development's quality from a firm no one could have predicted would leave the glass towers behind.

...and even the glass towers, still.

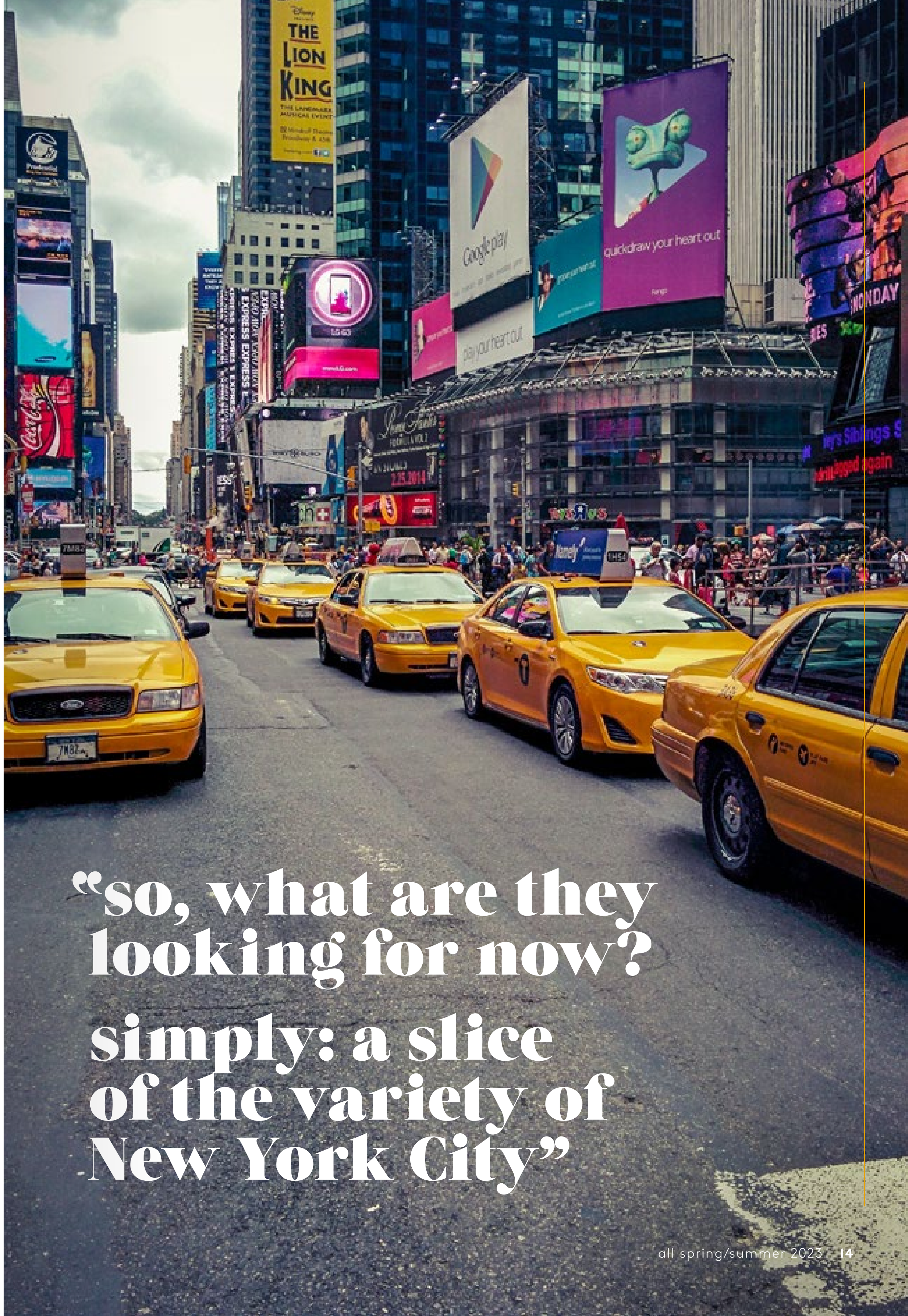
Of course, not all the interest can go to industrial-style spaces.

There is still a large contingency of law firms looking for space in glass towers in central locations. They are still looking for Grade A spaces that offer a wealth of amenities, both within their buildings and on their doorsteps, and much like the warehouse-style occupiers their focus is also on best-in-class sustainability features, often open-plan layouts, and more appropriate size of space rather than space for space's sake.

Ultimately, whether Manhattan warehouse-style or glass tower, there are a few certainties:

1. Virtually everyone is moving. So far, relatively few – such as Slaughter & May – have decided to stay put and regear their leases. Nearly everyone else who has a lease event coming up is reconsidering their current home.
2. Quality reigns. The best-in-class spaces are the highest in demand. Norton Folgate and Dartriver's Folgate Building are ample proof of that. While law firms are reconsidering the kind and size of space (some are reducing their footprint, some actually building out from satellite offices to HQ buildings), they remain laser-focused on best-in-class spaces.
3. Sustainability will remain the driver for a long time to come.

With the City still experiencing a small pipeline of readily available Grade A spaces, not expected to meet demand until 2026 or so, there will continue to be fierce bidding for the City's offices from the legal sector.



"so, what are they looking for now? simply: a slice of the variety of New York City"

HAS THE NORTH-SOUTH REAL ESTATE DIVIDE CLOSED?

The 'north-south divide' is as much a part of British culture as the Premier League. In a way reminiscent of cheering on your chosen team, always at a home game, so too do we tribally cheer our side (and jeer the opposing).

Far be it from me to trash this British institution, but in one way – the real estate market – the north-south divide is currently not nearly as stark as you might think.

Northern and Scottish regional markets have generally performed at a discount to the London and southern markets. Transactions with sub-5% yields were rare and held for only the best-in-class assets. So, when the markets turned - in the face of the Russian invasion of Ukraine, the cost-of-living crisis and the significant increase in the Bank of England base rate from 0.1% to 4.25% in the space of 10 months – there wasn't the same significant outward push that was seen in the southern markets where yields are, and have historically been, stronger.

Even with high interest rates, investors are still making property investment work in the regions whereby properties with a 6-7% return are still performing and transacting. While it doesn't quite mean the end of our country's cultural divide, the value gap between northern and southern property has narrowed, bringing with it significant opportunities for existing investors in the regions and those potentially looking beyond London and the South East for the first time.

That being said, some sectors have inevitably fared better than others. So, what should northern investors and property owners be thinking of when it comes to the value of their assets?

INDUSTRIAL

The industrial sector had seen the largest proportionate outward push on values, but in the face of ever-increasing competition and pricing, high interest rates, low yields, the commencement of the new 2023 Rating List, and increasing operating costs due to inflationary pressures, something had to give. However, within the Yorkshire, North East and North West regions in particular, there is still such a strain on the supply relative to the demand of stock that the occupational market is showing strong signs of resilience and even growth.

Taking a look at the vacancy levels in the Leeds and Manchester markets, for example, which continue to stand at 3.25% and 2.87% respectively. This is against a Northern average of 5.45% and, with a limited development pipeline, this is a statistic that is likely to attract the flow of cash back into this sector once again.

Furthermore, given that stock has typically been higher yielding in the North the proportional fall in value has not been as significant as London and the South East.

"the value gap between northern and southern property has narrowed"

OFFICE

The office sector has seen the 'flight to quality' whereby occupiers are seeking to address the ESG pressures to create new and improved working environments to attract workers back to the office, as well as using it as a tool to attract new talent. For the best-in-class stock, this is pushing the occupational market and driving record rents, with Leeds pushing beyond £36 per sq ft and Manchester to £40 per sq ft. A major confidence boost to the Leeds office market is the major move by Lloyds Banking Group to the 124,000 sq ft 11 & 12 Wellington Place building which is the largest single letting in recent years and made up a large proportion of the total 266,713 sq ft take-up in Q1 2023.

The casualty in this is likely to be secondary offices, which risks falling behind and thus creating a larger gap in pricing to the prime/secondary markets on both the occupational and investment sides. However, as the market looks to be stabilising, value seeking investors could pounce on discounted but management intensive assets. A theme that has already been seen through several major out of town office deals.

RETAIL

And finally, the retail sector. A sector which never really recovered since the global financial crisis in 2008, with the major hurdles it has faced since then – the rise of e-commerce, falling rental values, perpetual CVAs. The post-pandemic period should have been a major shot in the arm for the sector, with pent up consumer demand seeking to return to the high streets. This was the case until the cost-of-living crisis reared its head in the UK, all of which continues to hurt the sector's recovery and growth. On a more positive note; however, we continue to see strong investor appetite in convenience, anchored local/community led retail assets.

From a lending perspective, we continue to see finance readily available, albeit at a much higher cost. Banks and lenders are increasingly focusing on ESG credentials, namely EPCs. There is certainly more emphasis on ensuring a property is re-lettable, considering that the regulations could require a minimum of a B rating by 2030.

Away from the cost of debt, the cash buyer remains present in the marketplace, and as more stability and confidence enters back into the markets, we expect more investors will press that buy button in the North.

In summary, the northern regional marketplace in general appears to have a positive outlook. Underpinned by strong credentials of a busy occupational market, lack of major development pipelines across all sectors and subject to a degree of re-pricing, there are assets that remain attractive and liquid.

A STUDENT LANDLORD'S PERSPECTIVE ON THE RENTERS' REFORM BILL

The Renters' Reform Bill is causing student HMO landlords some concern. The reoccurring conversations we're having with our clients in the sector all lead to the same conclusion – that the legislation has the potential to cause significant disruption. Although there is consensus reform is needed within the PRS sector, there appear to be some major oversights in relation to the student market.

Background

In June 2022, the government's white paper 'A fairer private rented sector' set out the long-term vision for the PRS market. This paper represented the most significant reform of the PRS sector for years led by concerns regarding security of tenure, tenant rights and housing standards. In February 2023, the government's pledge took a significant step forward with the introduction of the Renters' Reform Bill. It is expected that the Bill will be debated in Parliament with votes gathered on or before May 2023

Proposal

The main legislative changes include:

- The abolishment of section 21 of the Housing Act 1988. The government intends to introduce new possession grounds for landlords to use instead of section 21 notices to limit 'no fault' evictions
- Convert all assured and assured shorthold tenancies (ASTs) to periodic tenancies
- Create a centralised register of landlords
- Landlords and agents will no longer be able to discriminate and cannot refuse to rent properties to people who receive benefits and have families
- Introduce a private rented ombudsman to help enforce renters' rights and reform the court system

Although the changes will bring many benefits for private renters, there has been significant concern towards ending fixed-term ASTs within the student accommodation sector.

James Saul, from Silverspring Lettings, recently shared his concerns with me:

"The end of fixed-term tenancies would completely throw into turmoil the annual letting cycle, as it would mean students could not secure their tenancy for the following academic year in the manner to which they have become accustomed".

Currently, landlords understand with certainty when students will be moving in and moving out under the agreed fixed term. In fact, both landlords and students benefit from this certainty. Fixed contracts allow landlords to advertise rooms from a specific date in advance of the next academic year. This allows students to gain security of accommodation for their forthcoming academic year, and the landlord can operate a planned business model with the benefit of foresight and future expected revenue.

Periodic tenancies will allow students the ability to end their contract throughout the academic year. Operationally, this will provide several challenges.

For example, landlords will not be able to guarantee a whole house to a group of friends as they wouldn't be able to confirm when the house will be fully vacant again. Several students currently living in Leeds HMOs that we've spoken to consider this a worry as generally, students who prefer to live in an HMO choose this option so that they can live only with their friends.

The end of fixed tenancies could result in more void periods in between letting cycles and we may see more mixed-tenant HMOs because young professionals are always seeking accommodation throughout the academic year.

The government has acknowledged that the Bill doesn't work for all asset classes and has already made purpose-built student accommodation (PBSA) exempt if the provider is registered with a government-approved code. However, as yet, student HMOs and converted accommodation have not been given the same grace.

Neil Young, Chairman of national student HMO operator We Are Kin, has said: *"My fear here is [that] the rent reform act has unintended consequences. It will add greater stress for students as well as over time reduce the supply of student HMOs at a time when student numbers are predicted to continue to grow"*.

The concern is that further red tape, legislation, and hurdles will make the private sector accommodation less appealing as an investment. We talk to more landlords referencing increasing regulatory burden and lack of support from the government as a reason for disposing of their student properties. This is at a time when there is a shortage of student accommodation, especially when it comes to more affordable options which HMO's offer.

Scotland has already ended fixed-term contracts across the board, which has prompted landlords in several cities to let to other tenants rather than focusing solely on students. Landlords believe this will only drive up the cost of renting for students with less accommodation available to them.

As a result, landlords and landlord associations such as the Leeds Property Association https://lpa.org.uk have been lobbying to ensure the private rented student accommodation market also gains exemption before the legislation goes through.

Recent updates

The House of Commons released its latest report on 6 February 2023. The report suggests that the on-going lobbying is making a difference:

"We agree with the evidence that not exempting the student PRS could push up rents or reduce the availability of student rental properties, at a time when the market in many university towns and cities is already very tight. We therefore recommend that the Government retain fixed-term contracts in the student PRS."

It appears that the government is listening but only time will tell. What has become apparent is that all reputable landlords desperately want to abolish the rogue landlords that give the sector a bad name. Our clients agree that students should have the opportunity to live in good-quality accommodation, but there's an overwhelming consensus that scrapping fixed tenancies is not the way to achieve this.

ALTERNATIVE INVESTMENTS: THE HOTTEST NEW THING SINCE… AI?

Alternative investments are growing in popularity amid changing consumer and workplace habits, policy and funding shifts, and investor appetite. Liam Stray dives into the hottest new AI in town.

AI – artificial intelligence – is the hot topic on everyone's lips right now, including in the occasionally tech-averse property sector. But there's another AI that should be piquing real estate's interests right now: **alternative investments.**

Alternative asset classes, which can range from car parks and hotels to more infrastructure-led investments such as energy generation assets and care homes, are of course not new to the market. However, recognition has grown among investors over the past couple of years as to the value they can add to diversified portfolios.

What's driving the interest to investors?

Over the last two decades, commercial leases have significantly shortened across the traditional commercial sectors, reflecting tenants' desires for flexibility and landlords' responding needs to attract quality occupiers.

Alternative asset classes, however, frequently still benefit from these longer leases. They usually feature tenants taking secure leases to protect their operations as well as the often substantial initial investment they make in order to adapt the space to their specific needs. Minimum void periods can additionally serve to help investors with their portfolio weightings.

Further to that, particularly amid the challenging market conditions we've experienced over the past six to 12 months, investors are attracted by alternative assets' income-producing potential. They tend to offer regular index-linked or fixed uplifts, as the operational sides of the business tend to track inflation.

All of the above suggests that although interest rates have moved out (and yields have followed suit) continued volatility is ensuring that a 'flight to safety' remains at the top of some investors' wish lists.

What investors need to consider

Of course, as with any investment, there are risks. But investors in alternative classes can follow some fairly broad rules that should ensure they're best placed to keep the income steady.

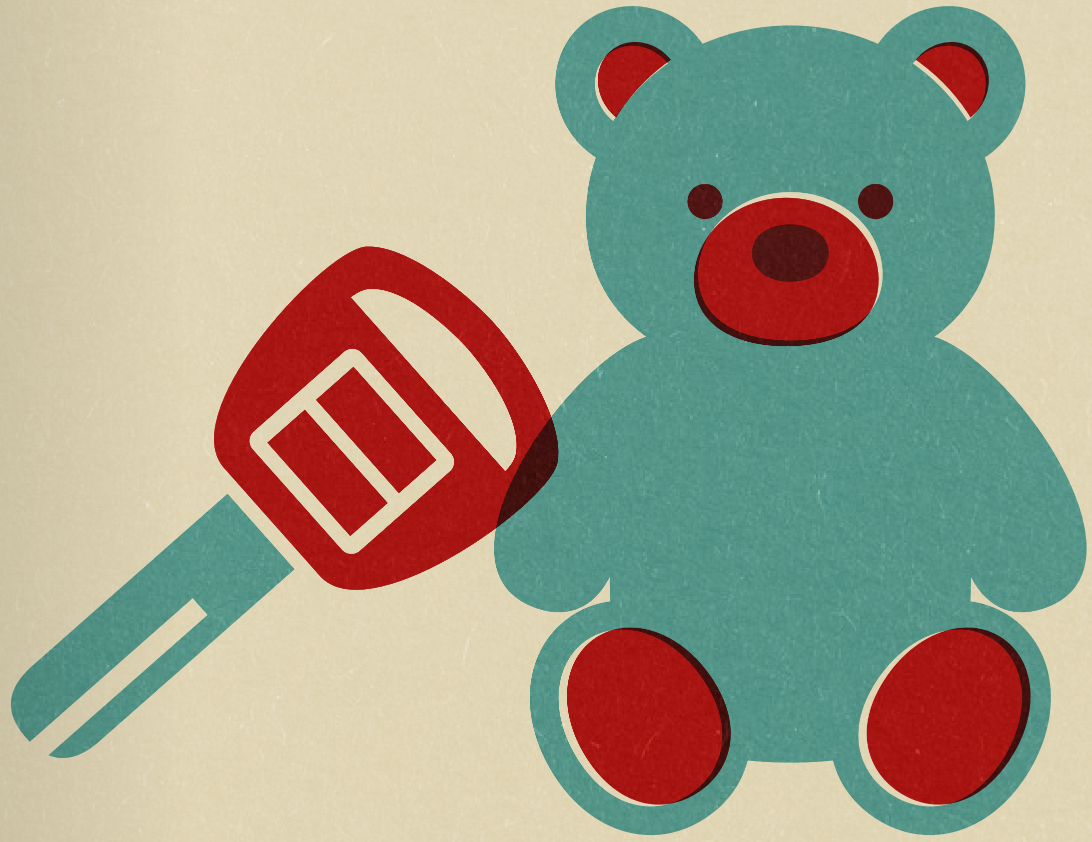
There is risk associated with long-let investments in general, including alternatives, which include the potential that the tenant will default. What this demonstrates, however, is the importance of having a strong underlying operational business, which lessens covenant risk when compared to traditional long-income investments, with a depth of occupiers ready to step into a profitable business.

Understanding of the tenant's underlying performance, whether it's EBITDA or analysing rent cover, is critical to the ongoing sustainability of the income stream.

So where's the money going?

In 2021, total alternative transaction volumes were £11.57 billion. Last year, total alternative deal volumes were at £15.15 billion – a 31% increase. As an asset class, alternatives accounted for approximately 31% of the total market of commercial real estate traded in 2022, an increase from 21% in 2021. With no sign of this trend slowing down, where should investors consider putting their money?

With Covid in retreat, consumers and travellers are once again packing **hotels** – and, because of the cost of living crisis, are also generally staying closer to home. Value brands in particular are enjoying low vacancy rates. There is improved sentiment on covenants with the likes of Travelodge, which had declared a CVA during the pandemic that subsequently made investors nervous about buying and selling, which are now again starting to rise in investor popularity if priced correctly.



"last year, total alternative deal volumes were at £15.15 billion"

We're seeing a big increase in interest in **car show rooms**, with several investors speaking to us about these assets. Likewise, there is growing demand for **care homes**, driven by the UK's ageing population. Research from BuiltPlace revealed that over 65s in the UK hold 47% of national housing wealth. If even a small amount of this wealth trickles to private care home providers, it will mean a buoyant outlook for the sector in the long-term.

Finally, among alternative investments that will see a pick-up this year are **nurseries and childcare assets**. Having already seen an uptick in investor interest, we're now expecting a rise in demand following the government's planned expansion in state-funded childcare. This will see the existing policy of providing up to 30 hours a week for three- and four-year olds expanded by September 2025 to include eligible households in England with children as young as nine months. The property ramifications of this are huge if funded correctly, and could see improvements in existing spaces, redevelopment of buildings with other uses, and new ones created.

Have your cake and eat it

When a tenant spends a large capital sum on a building the landlord is normally delighted: it shows the tenant is committed to a long tenure at the building. When the landlord grants the tenant a license for the intended works they may be unnecessarily giving way c. 5% of the rent due from the next rent review or renewal.

Here's why: as soon as the tenant has landlord's consent for the works, those works may be considered to be "improvements" not merely "repairs" and that matters at rent review or lease renewal. Improvements are usually disregarded from the valuation but repairs are not, repairs are fully valued. If the tenant can classify repairs as consented improvements they will not have to pay the rent due for the repaired premises.

That makes sense if a tenant builds an extension at their own cost: why should they pay rent for the extension as well as paying to build it? It does not make sense where the tenant is obliged by the lease to keep, say, the now decrepit air conditioning in good repair. Replacing an old system with a new one is usually just repair by replacement with a modern equivalent, but it can look like improvement to the uninitiated. The distinction is often unclear and may depend on how dilapidated the air conditioning is and what it is being replaced with, but the landlord's default response ought to be: "Proceed with my blessing, but you do not need my consent." The only time a license might protect the landlord is if he wanted the tenant to reinstate the works at the end of the lease, but for new A/C this is unlikely.

Do not rely on your solicitor to spot this. It is not their job to evaluate whether works are "repair" or "improvement". Theirs is not to reason why you have asked them to draw up the license and they will not usually evaluate whether the works are "improvements" or necessary repairs. A good solicitor may point out that you should make that evaluation yourself, but they won't get paid if you decide not to commission them to write a licence, so don't be surprised if it is not their first priority.

The grey area is around repair works that include "an element of betterment". Often a scheme of works will include items that are repair works and some that are genuine improvement and differentiating between them can be difficult. A new A/C system is often "better" by design than the system it replaces but that does not always matter if it is the tenant's chosen form of repair. It depends on many factors but the first decision to get right is: don't give landlord's consent without good reason.

> "don't give landlord's consent without good reason"

The only advantage of giving a licence is if you want it removed it at the end of the lease.

Beware of Greeks Bearing Gifts

As an alternative, or if the tenant insists on getting a license, the landlord could offer to make a contribution to the works. Many leases will only disregard improvements done "at the tenant's expense" or "without contribution from the landlord". If the landlord can show that they made even a nominal contribution to the works they should fall outside that definition of works to be disregarded and be fully valued in the new rent.

So when a tenant asks permission for something you should decide whether you want that disregarded at the next rent review or not.
If you want it to be valued, try not to give your permission, but if you have to, give them a contribution too.

Department stores – an evolution

According to historical records, the first department store opened its doors back in 1796, at 89 Pall Mall in St James's, London. Divided into several sections, it offered affluent shoppers a wide selection of items, ranging from furs to jewellery. At the time, it was a truly innovative concept, allowing consumers to browse freely and turning a rather functional activity into a popular pastime.

Fast forward to 2023, and department stores remain at the centre of our towns and cities, with some of them, such as London's Harrods and Paris's Galeries Lafayette having turned into landmarks in their own right. However, even some of the most iconic shopping destinations haven't been immune to the technological changes that have disrupted the way we shop – namely, the rise of e-commerce, which has enabled millions of people to buy goods online, often helping save time and money, completely bypassing bricks-and-mortar retail. The cost of living crisis has made post-Covid rebounding a lot more challenging, with disposable incomes squeezed, putting even more pressure on retail operators across the country.

These changes haven't gone unnoticed, prompting the likes of John Lewis to reconsider the use of its numerous premises, which has resulted in a decision to convert almost half of its Oxford Street shop space into offices. Retail-to-office conversions are fairly common (with Allsop's London HQ located in a former Debenhams) due to the relative ease with which they can be achieved – open floor spaces lend themselves well to being turned into open-plan offices, and wide ground floor entrance lobbies provide plenty of space for reception areas and cafés.

There are, however, other options that are looking increasingly attractive for developers and local councils which involve converting tired department stores into residential and mixed-use developments. With the UK continuing to experience an acute shortage of housing, councils have often been supportive of such initiatives, with some providing developers with additional incentives to get involved. Hull City Council, for example, offers grants of up to £750,000 to those creating jobs in the city through redevelopment.

Take a few of our own sales as examples. Allsop recently helped sell a former Debenhams in Worthing, which has since been submitted for planning to create 79 one and two-bedroom high-end flats overlooking the sea. Using its wide database of potential buyers eager to snap up such opportunities, Allsop sold the building for £2.8m, almost double the price a local estate agent had previously estimated.

The Plymouth Debenhams, also sold by Allsop on behalf of its leaseholder British Land, may be transformed into more than 160 flats and shops, with formal plans for redevelopment having been submitted at the end of 2022. As part of the transformation project, the outdated retail space at the upper levels of the building would be converted into residential accommodation, with the ground floor reserved for commercial uses. Identified in the Plymouth and South West Devon Joint Local Plan, and in the Plymouth Conservation Area Plan as an opportunity for re-use, this department store is an important heritage asset for the city, whose freehold is owned by the local council. Consequently, the council has been heavily involved in conversations considering its repositioning and has cooperated with the purchaser to ensure that a feasible scheme can be worked up to bring the high street back to life.

Finally, the Debenhams in Staines is another example of a recently sold department store whose buyer intends to pursue a residential use. Unlike in the two previous cases, on this occasion, the developer sought to demolish the original building to unlock space for a residential development, seeking to create over 200 apartments, which has met opposition from the council with an appeal having been submitted at the end of last year.

As the above examples show, there is no one size fits all approach when it comes to repositioning former department stores – developers' options are determined by the area in question, the council's role and interest in the project and, of course, the state and status of the building. In some locations, retail-to-office conversions would make more sense, while in commuter towns, where quality housing is often scarce and office stock aplenty, more residential development could be needed.

Sustainability is an increasingly important consideration for investors and developers, and many would prefer to repurpose existing buildings rather than demolishing them. But, in certain cases, a more flexible approach may be required in order to ensure town centres remain vibrant and continue to exert their gravitational pull – while the buildings that once housed department stores continue to be centrepieces for the town.

Given the councils' increasingly active involvement and willingness to collaborate with the private sector, often through the provision of various incentives, now is a good time for investors and developers to take a closer look at department stores. Such projects can not only yield attractive returns but also achieve important social value objectives and revitalise entire communities – if handled sensitively.

"there is no one size fits all approach when it comes to repositioning former department stores"

UK RESIDENTIAL INVESTMENT - THE TIDE HAS TURNED

Over the past 12 months, the UK investment market has been rocked by a series of economic and political events, ranging from Liz Truss' disastrous mini-budget back in September 2022 to the sequence of BoE base rate rises, now at 4.25% and expected to peak at 4.5%.

Needless to say, it's been a time of uncertainty for many investors and landlords, however, market activity has anything but stalled. Having been through Brexit and Covid, the residential sector has remained resilient and even buoyant in the face of challenges. Over the past year though, we've seen the balance tilt in favour of buyers, and there's been some price readjustment in the market. This is hardly surprising given the increase in the cost of borrowing, with commercial lending rates at 6.5-7%, making some previously appealing opportunities less feasible for would-be buyers and resulting in a more limited investor pool for the sellers to rely on. These changes, affecting investors' ability and willingness to transact on old terms, have prompted those looking to sell to adjust their pricing expectations, while others, faced with the inevitability of having to refinance their loans on much less favourable conditions, are now being forced to dispose of their assets.

Property is often perceived as a relatively safe and reliable investment class, known for its ability to hold and grow in value as well as producing income, and residential property is particularly well placed to ride out the market uncertainty we're faced with today. The housing shortage across the UK is well documented and isn't something we would expect to be fixed overnight – if anything, given the upcoming changes to EPCs and the Renters' Reform Bill, many smaller landlords will be forced out of the market, which will tighten the supply of available homes even further, inevitably leading to a rise in demand.

A challenging period for many, now is also the time of opportunity for others, especially cash buyers looking to expand their portfolios, and we have certainly noticed an increase in appetite for well-priced residential assets across the UK, however large or small. The fact that rental values are on the rise across the country has also helped fuel the demand for residential stock.

We recently sold an unbroken permitted development office to residential conversion (PD) block in Purley comprising of 86 apartments for £26m, the sale represented a 6.25% gross yield which for PD stock represents an excellent result. At the other end of the spectrum we have a block of eight two-bedroom flats with asset management potential in Maidstone (guided at £1.1m), has received interest from over 100 investors and is currently under offer over the guide price.

A discount on Vacant Possession Valuation (VPV), a good yield or a combination of both is what makes an opportunity attractive to investors, and given today's challenging economic situation, it is essential that at least one of these factors is in place to pique prospective buyers' interest. It is worth noting that pricing assets in the current market environment has to be exercised with caution, due to the absence of up-to-the-minute comparable evidence and the need to rely on last year's valuation and HM Land Registry data. Getting more data on recent deals will certainly help justify any price adjustments, particularly when ensuring valuations stack up.

Having operated in these uncertain market conditions for a while now, we've witnessed a series of transitions. During Covid, the market forces sided with sellers for a number of reasons, including the Stamp Duty holiday, the savings glut and the well-documented challenges faced by the commercial property sector, making residential top of the shopping list for many.

The tide has turned, and we're now facing a different reality, where the cash buyer is king. Despite the changes in the market dynamic, correctly priced residential property remains in high demand, offering an opportunity not only to insulate capital from inflation, but also grow it over time – something that resonates with many.

All it takes is spotting the right opportunity at the right time, and if what we're seeing in the market is anything to go by, there is plenty of excellent stock out there and there couldn't be a better time to invest, subject to price.

RECEIVERS...

From: **GDFD Bank**
To: **Alex Ward**
Subject: **Exposure to secondary office market**

Dear Alex,
Great to speak earlier.

As discussed, we have a couple of loans secured against assets in the secondary office market which are coming close to expiry and would be keen to understand how Allsop can help us minimise the risk to our exposure.

In light of the current market, we are considering our strategy and wanted to ask your professional opinion to determine the best course of action. Could you please provide us with insight into what your initial plan of action would be were we to appoint you as receivers?

Your advice would be, as ever, very gratefully received.

C, Curran
Director at GDFD Bank

...TO THE RESCUE

From: **Alex Ward**
To: **Receivership: all team**
Subject: **Bank lender in need of support**

Hi all,

Please see below – a problem that I think we're all familiar with now having been appointed so recently on similar jobs in Hammersmith and Newcastle and given the market challenges our clients are experiencing.

As we know, the good news for GDFD is that there continues to be demand among a range of investors in the market.

Considering next steps, let's recap on what we should do to assess the situation:

- **Firstly, we'll assess the state of the local office market.** Far from the 'death of the [regional] office', many towns and cities have attractive office markets – with our capital markets colleagues in regular conversation with Middle Eastern and East Asian investors in particular. However, our first step should be to work out the state of the market in each of the areas in which GDFD has loans against assets, especially where the offices are located within the town. Those in more central locations are looking to be fully occupied, but out of town stock is likely to have experienced reduced tenant demand. We will aim to gather

From: **Alex Ward**
To: **Receivership: all team**
Subject: **Bank lender in need of support**

information on the numbers of people back in the office full time within the regions, assess whether tenants are under utilising the space and what they are actually occupying in order to assess the opportunities when it comes to lease renewal and improving the assets' income potential.

- **Secondly, we will look into whether alternative schemes are a viable avenue to go down.** This may increase costs at least in the short term. However, if the office market isn't sufficiently attractive and if there is an alternative use that is viable with planning permission reasonably likely, it could be the best long-term outcome. We have had success with letting in the short term and instructing planning reports in the past.
- **Finally, we would need to assess the environmental, social and governance (ESG) landscape in secondary office markets given the potential risks.** This is of course a hot topic and at the forefront of everyone's minds currently. In keeping with Minimum Energy Efficiency Standards, lettable spaces have to be at least E rated. Those buildings that have good ESG credentials are more likely to let well and command higher rents when compared with those that are lower. Therefore, even if the payback is longer than seven years it may be in the landlord's interest to undertake works so their property is lettable and there will be increased demand. It will increasingly be the case that because of the disparity in rents and yields on properties that have good ESG credentials and those that don't, failing to invest in ESG credentials is a false economy. Banks would suffer reductions in their LTVs as a result.

From: **Alex Ward**
To: **Receivership: all team**
Subject: **Bank lender in need of support**

The final question we'll need to assess is what the capital value is at the time of loan expiry - will there be sufficient equity to redeem the debt? Furthermore, the disparity between the prime and secondary market is getting larger, and therefore the market risk of holding in the short to medium term in order to secure and maintain long-term value creation will need to be considered and compared to the value as is today.

Does everyone agree? Our extensive experience in this type of situation means that we are well positioned to enable a happy outcome for GDFD. We can be confident of an efficient process allowing GDFD to enter the secondary office market with the expiry of the loans.

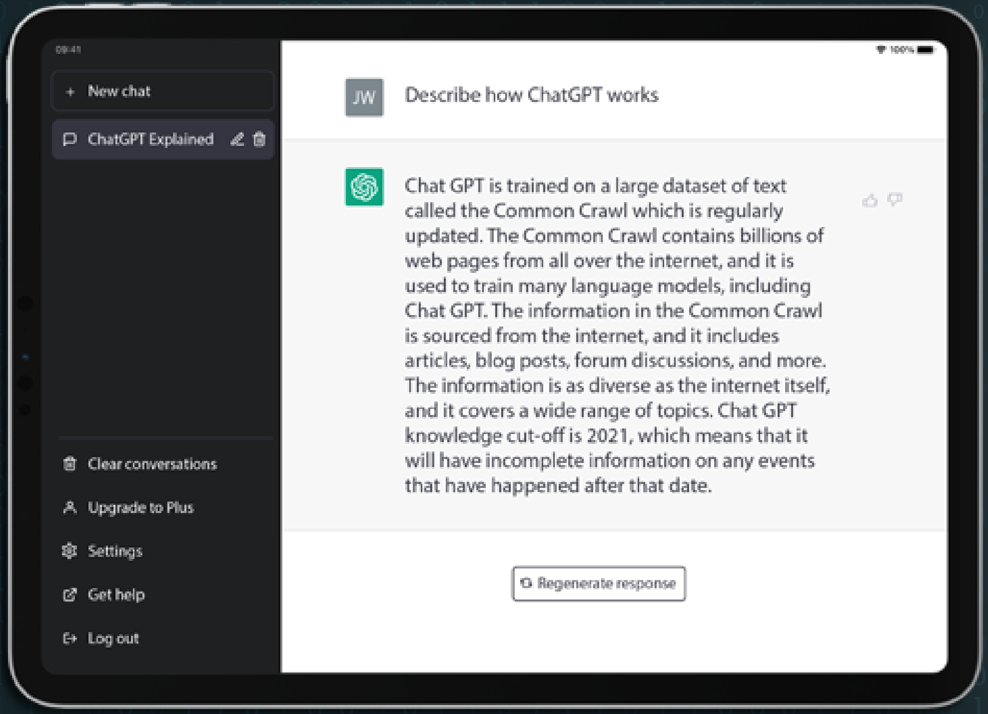
CHATGPT

Image generated via text to image AI

On a Sunday night I inputted the address of a property I was valuing into ChatGPT, an artificial intelligence chatbot, and within seconds it began to describe line by line the exact location of the building - I was impressed. So were the other million people who have signed up to the service since it launched a couple of months ago.

This might sound like a mundane task to ask of ChatGPT, but one of the time-consuming aspects of writing a valuation report is describing locations. Whilst this might save me 30 minutes, and some sanity, it begs the question: what other areas of human activity can ChatGPT enhance and replace?
To understand the answer to this, it's important to understand how ChatGPT works and where the data is currently originated.

ChatGPT is trained on a large dataset of text called the Common Crawl which is regularly updated. The Common Crawl contains billions of web pages from all over the internet, and it is used to train many language models, including ChatGPT. The information in the Common Crawl is sourced from the internet, and it includes articles, blog posts, forum discussions, and more. The information is as diverse as the internet itself, and it covers a wide range of topics. ChatGPT knowledge cut-off is 2021, which means that it will have incomplete information on any events that have happened after that date.



ChatGPT wrote most of the previous paragraph, so I didn't have to. But what's important is that at present, the datasets are already two years out-of-date which reduces their utility. Additionally, the information the AI has cut its teeth on is not up to the quality we would require to write the more complex areas of our reports. However, where things could become very interesting is what happens once ChatGPT has access to all the data portals that property professionals use on a daily basis - CoStar, Lonres, Molior etc.

- Could ChatGPT describe to me the three key developments taking place in SW7?
- Could ChatGPT succinctly describe demographic data in Wigan?
- Could ChatGPT describe the three best comparables for my property?

The commercialisation of ChatGPT is unclear. Microsoft's whopping rumoured investment of $10bn and its previous $3bn cash injection give us some clues as to how ChatGPT might be commercialised and used in the near future. Integration into Microsoft's Bing search engine seems to be the main priority at present with Google looking to launch its own version of ChatGPT in what has been a slow response from the search engine behemoth.

It is inevitable that this technology is going to replace some of the tasks performed by property professionals. What's exciting is that whilst valuers will likely not be writing location descriptions, they will be focusing on much more valuable tasks for clients, such as building relationships, piecing together complex information and advising firms and individuals on the nuances of the UK property market. Will my job be replaced? No, I just won't be googling the distance from Wigan to central London anymore…

"it is inevitable that this technology is going to replace some of the tasks performed by property professionals"

The other side of auctions: **a treasure trove for quirky property lovers**

Residential property auctions have long been popular with property companies, private investors, developers and would-be owner occupiers looking to secure an attractively priced investment, house, flat, HMO or a parcel of land (with or without planning consent) whilst offering the certainty and speed of sale the auction model is known for.

However, residential auctions provides a much broader range of property types than most would imagine, making them the ultimate accessible treasure trove for property enthusiast's chasing after undiscovered opportunities. Over the years, we've sold numerous unusual and varied lots, ranging from converted water towers to boat houses and listed country mansions - and the list keeps getting longer.

Why would a seller choose the auction route for these less typical assets? The answer becomes obvious. Auction provides a transparent and competitive route to market. The often cited key reason is Allsop's residential auctions' unrivalled national reach and our extensive registered subscribers database we've built within our sector over the past 117 years, allowing us to match vendors with the right buyers – whether that's a plot of land or a historic mansion. Buyers, on the other hand, love the variety as well as diversification opportunities we bring with every subsequent catalogue, which is not something a conventional local agent would be able to offer.

While houses, mixed-use schemes, flats, and land remain our bread and butter, why not take a look at some of the show-stopping/eyebrow-raising properties we've sold over the past few years?

And who knows – maybe you'll find your dream (boat)house in our next catalogue?

Upper deck 68.5 sq m

Lower deck 92.5 sq m

Oyster Wharf Dock - with planning permission for a floating house

Located in Battersea opposite Chelsea Harbour Pier, a prime central London location, this dock with planning permission for a floating house was sold in 2022 for £351,000. The guide price was £150,000. With typical boathouses on Chelsea Harbour Pier ranging from £500,000 to £1m in price, this lot offered a compelling investment and value-add opportunity. With numerous remote bidders and several dozen potential buyers having requested further information on the lot ahead of auction, it was clear to us that the demand for such opportunities is higher than typically assumed.

"why wouldn't a seller choose the auction route for these less typical assets?"

Piers Court, one of the most beautiful houses in Gloucestershire

This stunning Grade II* listed Cotswolds mansion where Evelyn Waugh wrote Brideshead Revisited, sold for £3.16m at our December 2022 auction. There was fierce competition between 22 bidders with 228 expressing interest prior to auction.

Set in 23 acres of gardens, parkland and pasture, and enchanting views of the surrounding countryside, Piers Court features eight bedrooms and six bathrooms, with plenty of room for entertaining.

England's largest Victorian water tower in Colchester

This Grade II* Listed water tower, nicknamed 'Jumbo' after a famous London Zoo elephant, was completed in 1883. Intended to supply safe drinking water to Colchester and counter the threat of fire, the tower held over 220,000 gallons of water.

It sold at auction in 2014 for £190,000, and after being disused for 35 years, there are now plans to restore, convert and extend this historical tower.

A bunker-turned-luxury apartments in Mistley, Essex

One of the highlights of our November 2021 auction, this lot was built in 1951, during the Cold War, as a nuclear bunker for use as a command centre for the deployment and firing of anti-aircraft defences in the event of a nuclear war. In 2016, the building was purchased by developers who converted it into high-end apartments. With its high specification and location in the sought-after historic village of Mistley, this property received high volumes of attention from buy-to-let investors and was ultimately sold at £385,000.

Former public toilets in Penge

Marketed on behalf of the London Borough of Bromley, this property was comprised of former public conveniences, totalling 915 sq ft. Located in a busy retail area, with a number of shops in close vicinity and enviable transport links within easy access, lots like these often attract the attention of those on the lookout for change-of-use opportunities. This well-proportioned building found its lucky buyer, who was willing to part with £225,000, at one of our 2018 auctions.

A decommissioned cooling station in Camden

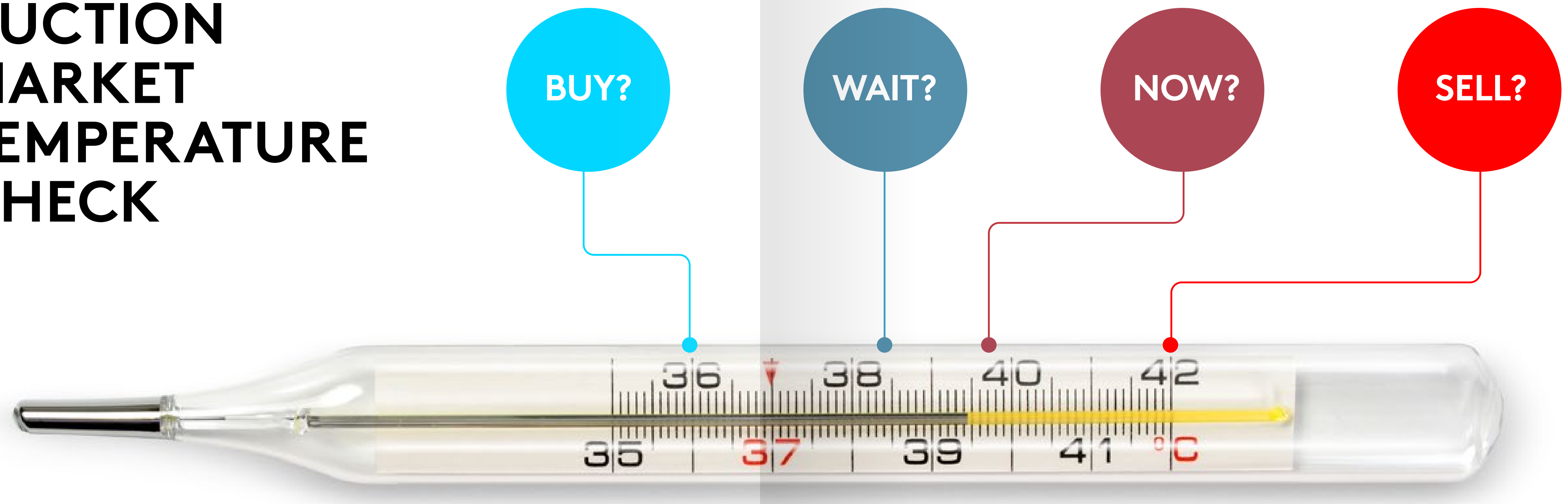
Conveniently located walking distance to Primrose Hill and Regent's Park, this cooling station sold on behalf of National Grid proved to be popular with value-add aficionados, having generated 20 bids during our December 2022 auction, and ultimately selling at £660,000, more than double the guide price. Purchased by a property company, this lot offered ample potential for redevelopment, benefitting from a desirable location with numerous amenities, and Chalk Farm tube station a short walk away.

Why choose the auction route?

The world of auctions may seem opaque and intimidating to newcomers, but in reality, it's exactly the opposite – auctions enable sellers and buyers to achieve the best possible price in a transparent way, and are ideal for buying and selling unusual lots, which are inherently hard to value due to their scarcity.

When pricing quirky (or any) assets, auctioneers typically start from a modest figure that a large number of buyers would theoretically be happy with. Buyer demand, which can be assessed in real time, ultimately determines the final price, making auctions a great tool for achieving fair and realistic pricing not only for private investors, but also trustees, local authorities and publicly listed companies. As residential auctions resume in-room sales, this summer may be the perfect time to join our community and have a go at bidding on one or even more of our lots, ranging in value from 'without reserve' and up to £12m in lot size

COMMERCIAL AUCTION MARKET TEMPERATURE CHECK



So how is the market?

Allsop's Commercial Auctions team are often asked this question, particularly at the start of a new year, as well as 'Is it a good time to sell, or should I wait until later in the year?'

The stock market definition of 'normal market conditions' are market conditions where prices remain stable for an extended period of time, coupled with low levels of volatility. In other words, where demand equals supply.

Allsop Commercial Auctions are often considered a bellwether for the wider secondary commercial investment market. In 2022 we catalogued 1,003 properties and sold 720 of them raising £548m. Our corresponding five-year average is 958 lots catalogued, 740 lots sold and £508m raised. So, our 2022 volumes reflect low levels of volatility and would seem to suggest that demand is meeting supply.

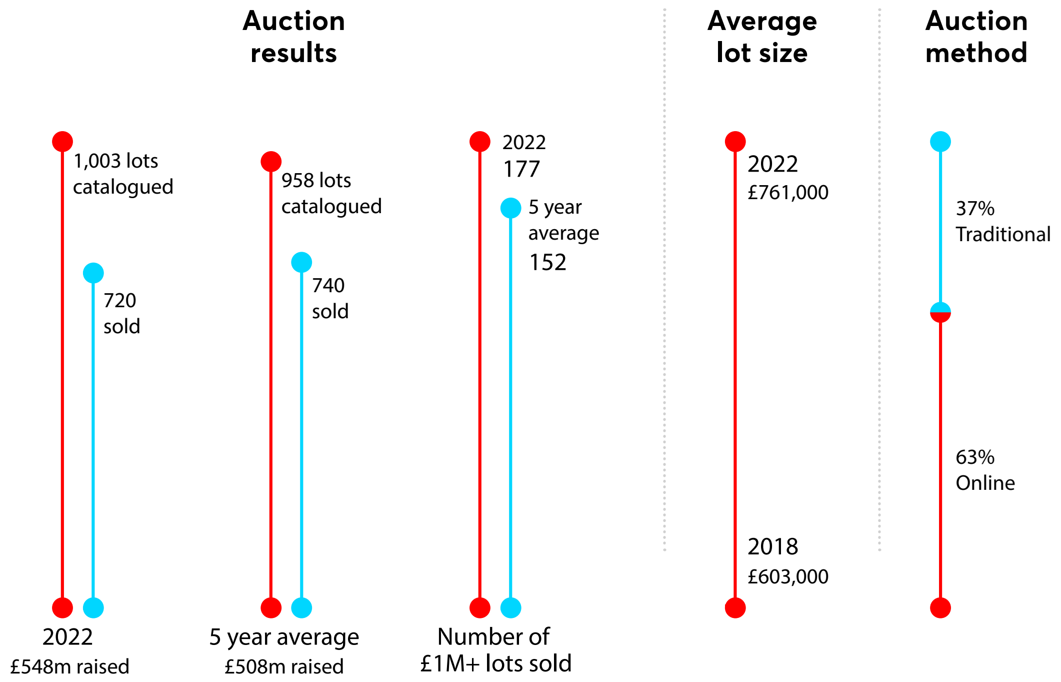
Over the past five years our average lot size has grown over 20% from £603,000 in 2018 to £761,000 in 2022. This is mainly due to the larger lot sizes being sold at our auctions. In 2022 we sold 177 lots in excess of £1m, against a five-year average of 152.

It is also worth noting the major transition that occurred during this time in the way we hold our auctions. The majority i.e. 22 (63%) of the 35 auctions were held online.

But what about the prices themselves? Are they stable?

Certain sectors and locations have seen a lot more turbulence than others. Take retail and industrial/logistics, for example. By 2016 the UK e-commerce market had already matured to be the most developed e-commerce market in Europe. Good for the industrial/logistics sector but not so good for the retail sector. This and other trends, like hybrid working, were then turbocharged by Covid in 2020/21 but are now rebalancing.

Sentiment is also a powerful thing which drives markets and economies. The UK's protracted departure from the EU in January 2020 (some 3.5 years after the referendum in June 2016) caused more than its fair share of negativity. As did the arrival of Covid. But positive sentiment certainly helped fuel the recovery in 2022 until Liz Truss got the keys to No.10.



Has the way we approach pricing changed?

There are two main drivers of commercial property prices – finance costs and tenant demand. Due to persistently high inflation, UK interest rates are in the process of establishing a new normal. The days of cheap credit are over, and they are now at levels not seen for 15 years. With regard to tenant demand, high interest rates, energy costs and taxes are all taking their toll, but tenants will still pay well for the best buildings and the best locations due to their scarcity.

Location, the financial strength of the tenant and the sustainability of the rent they are paying remain as important as ever. Other considerations include a building's potential for extension and alternative use. But you often cannot beat a simple sense check of the capital value by looking at the rate per square foot.

With EPC standards rising, the EPC rating is also a key consideration and gives an indication of the condition of the building. EPC changes in April and beyond are coming into increasing focus for many and will no doubt affect lending decisions, and ultimately prices, particularly of the older properties. Existing owners of older properties will see this as a reason to sell, and cash buyers will see it as an opportunity to negotiate hard.

Ultimately, high numbers of cash buyers will help prevent prices from falling too low, particularly those of the better assets. Quality invariably holds its value in the most turbulent of markets again, due to limited supply.

Should I be selling now?

Allsop commercial auctions like to debate this question with sellers and will look closely at the property in question as to whether it is right to do so, or if there are ways in which value can be added before doing so. But it might be the decision has already been made. If so, we will more often than not advise sellers to get on with it. No two auctions are ever the same and as the experiences of recent years have shown, a lot can and often does change in a short space of time.

Examples of motivations for selling include to improve cash flow, service a loan, avoid legislative or government changes, tax reasons, or to simply move to cash in anticipation of something better coming along.

Should I be buying now?

We know that buyers are driven by the deal - if they see value they buy. The majority of buyers buy for the long term, and this generally smooths out any short/medium-term market upheavals.

Buying today invariably requires large amounts of cash, and in our experience, there is no shortage of people with it right now.

Examples of motivations for buying include wanting a hard tangible asset that is capable of producing an income, whilst providing a hedge against inflation, or having an angle to add value in some way.

Auctioneers sit at the coal face. Our primary role is to match the expectations of the sellers with those of the buyers within a defined period of time.

There are always reasons to buy and sell, and ultimately, this is what makes a market. It is the shock events that cause the real upheaval, such as a global liquidity crunch or a pandemic, because no one sees them coming. In the absence of one of those, I would suggest all appears relatively 'normal' right now, so let's take comfort in that, avoid talking the market down and push on…

"the days of cheap credit are over, and they are now at levels not seen for 15 years"

5 minutes with Dannie Woodward, Allsop Letting & Management

Meet the team managing some of the best rated residential developments across the country

About me

My role is a mix between a resident service advisor (RSA) and community associate. As part of it, I work front of house to help residents with general enquiries on a daily basis, as well as managing the social media account for Vox, an award-winning build-to-rent (BTR) development operated by Allsop in Manchester, which has been included in the top three North-West BTR developments based on HomeViews' resident reviews. In addition to that, I also plan events for our residents.

My main focus is Vox, however, I also work very closely with the team over at Trilogy, another development that Allsop looks after on behalf of a client, also in Manchester.

I started at Vox in July 2022, so it's been less than a year, although because of how busy it's been and how much I've learned since last summer, it feels like I've been with the team for a lot longer.

"work is a constant source of positive emotions for me"

What is your professional background?

This is my first role in the BTR industry. Before joining Allsop, I worked in luxury retail and social media and completed a degree in marketing.

What does your typical day look like?

Each day at work brings something new, which makes the job so interesting and varied! I am customer-facing and spend a lot of time engaging with residents and hosting activities for them, such as random act of kindness days. On other days, my main area of focus could be administrative tasks, overseeing the smooth running of the building which can involve booking in contractors. It's a great mix of tasks and responsibilities, so I feel like I'm constantly challenged and stimulated.

What's the most rewarding element of your job?

The most rewarding part of my job is the strong relationships I've built within our Vox community and within the team in the office. Work is a constant source of positive emotions for me because of my amazing colleagues and all the events and community activities I get to participate in with the Vox residents.

Your proudest moment (at work)?

My proudest moment would have to be getting the signature on my email changed from 'RSA' to 'Events & Social Media Co-ordinator' and being able to meet and talk weekly with new brand partners and plan collaborations as part of my new remit. This is such a fun part of my job as I LOVE planning events and meeting like-minded people from the creative industries.

The best thing about working at Allsop

I love how Allsop caters to what you enjoy and lets you fully showcase and use your strengths to achieve great results for the team, and how welcoming everyone is.

Your advice to those considering a similar career path

That's a really hard one! The best advice I could give would be to go for it, give it a try! Especially if you're coming from another industry like me… The move to Allsop has been great for my personal and professional development, and my role is both fun and challenging, which is the perfect combination. I would add, though, that this role requires strong people skills – you end up spending a lot of time communicating with residents. Flexibility and being able to act quickly are also very important – always expect the unexpected as no day is ever the same.

#trending

if it's happening, it's here

Here's a look at what we've all been up to since last time. Roll on the warm weather and the Summer fun!

Congratulations

Promotions

Congratulations to newly appointed Equity Partners: Michael Linane, Residential Investment, Liam Dowdell & Damian Keeling, Residential Valuation.

Salaried Partner

Richard Gale – National Investment

Senior Associate

Vicky Bingham – Residential Investment
Ciaran McGivney – Residential Valuation
Oliver Murley – Residential Valuation
Tom Nicoll – City Agency
Archie Stead – National Investment
Sam Verity – Build to Rent

Associate

Antonia Beech – Residential Investment
Olivia Bentley – Build to Rent
Will Greasley – West End Investment
Charlotte Hawthorne – West End Agency
Evie Higgs – Commercial Valuation
Becky Swinburn – Residential Valuation

Senior Surveyor

Siobhan Badman – Commercial Valuation
Freddie Foley – National Investment
Josh Ware – Residential Valuation

Congratulations

Hello City

The city team, welcomes Alice Keogh, who joins them as a Senior Associate in the leasing team

Hello baby Isabel

Congratulations to Sarah Bathurst Brown on the birth of her daughter Isabel in November

Hello baby Oscar

Congratulations to Anthony and Georgie Dixon on the birth of their son Oscar born in March

Charity

International Women's Day

Elsie Holden

On International Women's Day we remembered Allsop secretary and legend, Elsie Holden, whom Allsop founder, Ben Allsop left in charge when he was mobilised in WW1. Coming back after the war to a profitable business, he made her a partner. Most likely, one of the first female partners in an estate agents in Great Britain.

Marathon 2023

Congratulations to our four Allsop marathon runners – Alexandra Ward, Betsy Rowett, Victoria Liddell and Will Davies. Tommys, Rainbow Trust, Phyllis Tuckwell hospice and Bowel Cancer UK were the benefitting charities.

Charity

Story update

On World Water Day we received an update from the village in Kenya to say that the water project we funded there is still working perfectly through the worst drought in 40 years.

We are enormously proud to have made such a huge difference to this Kenyan community.

Quiz night

A fun evening as always at the Allsop Quiz, well done to our West End winners. A huge thank you to our quiz master, Wil Clough who is the best in the business. Our raffle raised over £300 for The Cycle, our charity of 2023.

Social

Alumni Party 2023

Our 2023 Alumni Party was a great success. It was amazing to see lots of the Allsop family, past and present.

Commercial Deals

National Investment

Plot 4A & 4B, The Powerhouse, Dartford, DA1
ACQUIRED: £25M
Prime, high specification industrial units in a well established industrial and logistics location.
Multi-let Industrial

National Investment

Northern Lights Portfolio
SOLD: £24.1M
Three multi-let industrial estates totalling 410,208 sq ft located in Cramlington, Sunderland & North Tyneside.
Multi-let Industrial

National Investment

Seven Portfolio
SOLD: £31M
Seven properties, five single let and two multi-let buildings totalling 466,750 sq ft spread across the South, Midlands & North of England.
Multi-let Industrial

National Investment

232-234 High Street, Exeter, EX4
SOLD: £5.25M
Three prime, well configured retail units providing 41,945 sq ft.
Retail

City Investment

The Stables, 28-32 Britannia Street, Kings Cross, WC1
ACQUIRED: £20.25M (5.96% NIY)
Attractive freehold former stables building predominantly let to Balderton Capital LLP on a new 10 year lease. An off-market transaction on behalf of a private Middle Eastern client of Citibank.
Office

City Investment

9 Marshalsea Road, SE1
SOLD: £6.785M (6.77% NIY)
Multi-let, Freehold Victorian warehouse building in the heart Southwark.
Office

West End Investment

7 Ridgmount Street, London WC1
SOLD: C. £27.5M / £942PSF
A Freehold prominent corner building which has not traded for over 50 years.
Multi-let value add opportunity.
Office

West End Investment

Charles House, 7 Leicester Place, WC2
ACQUIRED: £13M (2.96% NIY)
A Freehold corner building in Soho – an income producing asset with value-add potential.
Office and Cinema

Commercial Deals

Auction

Aerodrome Studios, 2/8 Airfield Way, Christchurch, Dorset, BH23
SOLD: £1.365M (4.% NIY)
Let at £58,800 p.a. on a lease expiring 2169. Part of the £5.857m portfolio sold on behalf of Bournemouth Council, average yield 3.3%.
Industrial Ground Rent

Auction

25, 27 & 29 Hazel Walk, Bromley, Kent, BR2
SOLD: £408,000 (3.8% NIY)
Let at £16,450 p.a. expiring 2029. Part of a £15.5m portfolio sold by Bromley Council, at an average yield of 5.8%.
Retail

Auction

87 & 89 Lodge Lane, Liverpool, L8
SOLD: £307,000 (3.7% NIY)
Let to William Hill on a new 15-year lease with 10-year break at £12,000 p.a.
Retail

Auction

76 High Street, Sutton, Surrey, SM1
SOLD: £960,000 (5.32% NIY)
Let to Specsavers at £54,000 p.a. until 2029.
Retail

City Office Leasing

10 Old Bailey, London, EC4
DISPOSAL OF 10,500 SQ FT
On behalf of Longmead Capital.
4th floor let to G2V Recruitment on a 10-year term.
Refurbished CAT A floor.

City Office Leasing

1 Kingsland Passage, London, E8
DISPOSAL OF 10,600 SQ FT
On behalf of Blackfriars UK.
A unique repurposed old tram shed let on a 10-year term to Fnatic Ltd.

West End Office Leasing

42-43 Great Marlborough Street, W1F
DISPOSAL OF 7,000 SQ FT
On behalf of Private Investor.
Self-contained building let as a whole to Saint Germain Ltd.

Commercial Deals

West End Office Leasing

16-17 Greek Street, W1D
DISPOSAL OF 12,000 SQ FT
On behalf of Private Investor.
Self-contained, educational building formerly occupied by Conde Nast College of Fashion & Design, let as a whole to Vidal Sassoon.

West End Office Leasing

13 Berkeley Street, W1J
DISPOSAL OF 4,250 SQ FT
On behalf of Viridis Real Estate.
2nd, 3rd & 4th floors let to Hermes (GB) Ltd.

West End Office Leasing

Rex House, 4-12 Regent Street, SW1Y
DISPOSAL OF 6,500 SQ FT
Acted on behalf of the tenant Bradwell Power.
5th floor let to Dajaroo Ltd.

Residential Deals

RESIDENTIAL TRANSACTIONAL AND LIVING MARKETS

Student Housing

Green Wood Court, Bassett Green Road, Southampton, SO16
SOLD: £11.8M (5.2% NY reversionary)
Off-market sale. A first generation building, fully-let, comprising 233 beds.

Student Housing

Garden House, Kirkstall Lane, Leeds, LS5
SOLD: £2.45M (8.4% GIY)
Freehold, fully-let student property comprising 40 beds in Headingley.

Residential Investment

The Quadrangle, Herne Hill, SE24
SOLD: £6.025M
Attractive Grade II Listed Freehold block comprising 40 x flats.

Residential Investment

Capella Court, Brighton Road, Purley, CR8
SOLD: £26M
Recently completed Freehold unbroken block comprising 86 new apartments and further amenity space.

Residential Deals

RESIDENTIAL TRANSACTIONAL AND LIVING MARKETS

Residential Development

208 – 212 High Street, Orpington
SOLD: PRICE CONFIDENTIAL
Former commercial building with the benefit of planning for 40 residential units and ground floor commercial.

Residential Development

Highbury Quadrant Congregational Church, London N5
SOLD: £4.936M
Consented residential development for 40 units on an island site.

Auction

Piers Court, Dursley, GL11
SOLD: £3.160M
Freehold Grade II* listed Georgian manor house.

Auction

9 Marloes Road, Kensington, London, W8
SOLD: £2M
Freehold well located mid terraced HMO building.

Auction

20 Hendon Lane, London, N3
SOLD: £1.1M
Freehold end of terrace building.

Auction

Charlotte House, 19 Fenkle Street, Newcastle Upon Tyne, NE1
SOLD PRIOR
Leasehold prominent Grade II listed investment and development opportunity.

allsop.co.uk

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