Autumn 2019

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THE DIZZY HEIGHTS OF ALTERNATIVES

ABOARD THE LIFE TENANCY LIFEBOAT

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HOW ARNOLD CAME BACK

# TIME TO MOVE THE SPOTLIGHT AWAY FROM PBSA?

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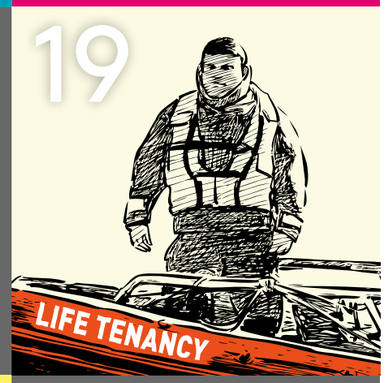






## Welcome to the Autumn edition of **'all'**, Allsop's bi-annual magazine

As another 'delay' looms and Boris' efforts are being thwarted at every turn by Bercow & Corbyn & Co … and as proroguing becomes part of our daily language and we feel we are living through scenarios that would push the credibility of a Michael Dobbs novel, I think many of us in the world of business whether you voted remain or exit, just want to move on … So that is exactly what I will do!

Sometimes you just have to focus on the day and concentrate on what you are good at. That is what we are doing at Allsop. This autumn edition looks at some fascinating topics, themes and trends appearing in the markets. This includes: The rise and maturity of the alternative sector, the chase for long-income, a look at what is next for 'peer-to-peer' lending and the buoyancy in the equity release market. We also look at the new ground rent rules, how strategic timing is crucial to marketing success, exploring suburban BTR housing, a look at less shiny student housing and how 'Arnold' became hot property in Shoreditch.
ALL is back !

Enjoy the read !

**Scott Tyler FRICS**
Senior Partner

# Time to move the spotlight away from PBSA?

**James Hood** Student Housing

Whilst the vast majority of student property research and subsequent statistical analysis relates to new, purpose-built student accommodation (PBSA), there is a significant and thriving student market outside this sphere.

Houses in Multiple Occupation (HMOs), converted student blocks, and smaller and older PBSA are all examples of student housing critical to the composition of accommodation in any student town or city. This aspect of the market is regularly trading to an array of local, national and even international student housing investors, who see opportunity beyond large-scale PBSA. This is often referred to as secondary student housing or, more recently, boutique student housing.

Secondary student opportunities are far more accessible to investors, opening up a far-reaching and often diverse buyer pool. For example, HMOs can be acquired on a micro or macro level with smaller and often older student blocks varying in value from £1m to more than £20m. This is in stark contrast to large-scale PBSA, where financial entry levels are far greater. Most PBSA deals involve portfolios comprised of hundreds of bed spaces, forward commit and forward fund structures. So, the process for getting a project off the ground is highly complex, involving a multitude of professional advice. Moreover, it can be proportionally expensive to mobilise large-scale deals.

Conversations with residential landlords about the benefits of secondary student stock and HMOs often end with discussions about the viability and expense of older student property. This is real estate that most likely requires immediate capital expenditure to get it up to scratch and on par with the competition — especially as these markets mature. Furthermore, changing demand often leaves older student property partially ostracised from the local market. As a result, this type of property often arouses nervousness amongst investors.

Nonetheless, there is still a place in the market for older accommodation. A recent student survey highlighted the importance of value for money, with 97% of students pinpointing affordability as a key factor when deciding where to live. With student course fees higher than ever before, universities are under immense pressure to provide affordable accommodation options.

It is difficult to offer students lower rents for newer PBSA owing to increasing build costs and the knock on effect on rents charged to students. In order to make appraisals for new build accommodation work, rental levels in excess of £145p/w are required as a minimum. This is a base figure and it is quite often more.

Allsop's piecemeal sale of the Prospectus Portfolio, comprising a total of circa 1,300 beds across older converted and purpose-built blocks, most of which were considered affordable accommodation, demonstrated that this type of portfolio has a place in the market. Interestingly, the portfolio was broken up and sold to a number of operators, highlighting demand for bite-size investments, as well as interest from private local and knowledgeable investors seeking new or further exposure to the student market.

Landlords must bear in mind that secondary accommodation is not competing with PBSA. This is emphasised by the sale of two student blocks in Plymouth. The supply pipeline of PBSA is notably high in this area and student numbers have reportedly dwindled. However, this did not prevent the sale of one secondary block comprising 45-beds arranged in cluster flats and a second block of 22 self-contained studios. Both opportunities provide affordable accommodation and are therefore not competing with large-scale, newer PBSA. Similarly, historic occupancy across both properties was strong, and investors recognised the demand amongst the student population for accommodation outside large-scale PBSA.

Moreover, local trends and demographics within certain student markets can change over time. A good example is Eaton Green in Luton, which was starting to fall behind other newer blocks in the area — in a market where supply had arguably outstripped demand. A former student block comprising 155-beds, Eaton Green was fully refurbished, having gained C3 planning permission, and let to Mears PLC with an underlease to Luton Council for a term of ten years. Councils are under severe pressure to provide housing and this demonstrates how older student accommodation blocks can be repositioned with a new purpose. The secondary effect of this long letting in Luton is the attractiveness of this block if sold as an investment: as a long secure income asset, it is currently a very desirable product. Accordingly, Eaton Green quickly sold for around £13m — a result that is equivalent to, if not higher than, the value attainable as a student investment.

The historically unloved secondary student market is gaining traction with a wider investor audience. There are a number of reasons for this. HMOs have strong bricks and mortar values and their popularity amongst the student demographic remains strong. Secondary purpose built blocks can — as demonstrated — offer viable alternative uses much like with HMOs that can be converted back to family dwellings, so there is a degree of flexibility with both. Yields are generally attractive too, outstripping both residential PRS and PBSA investment opportunities. Investors are beginning to recognise that these types of student assets can undercut PBSA rents and still deliver standout returns. This is owing to build costs and the subsequent rental uplifts for newer PBSA. The secondary market therefore creates opportunities both for affordable accommodation and excellent alternative use potential whilst mitigating investor risk.

The secondary market therefore creates opportunities both for affordable accommodation and excellent alternative use potential

# Why does suburban Build to Rent housing hold so much appeal for investors?

**Sam Verity** Build to Rent

Build to Rent (BTR) in the UK has primarily been associated with new build blocks of apartments located in major city centres, benefiting from amenities such as a roof garden, 24-hour concierge, gym, communal lounge and private dining space. However, interest from investors and developers in suburban BTR housing is growing and we are beginning to see increased investment in this tenure.

**What is driving the resident demand?**

Affordability constraints on home ownership remain an issue for many would-be owner occupiers, with more people than ever now likely to rent throughout their lifetime.

As people grow older and their lifestyles change, so do their accommodation requirements: larger properties in less urban locations become more desirable, preferably a house with a garden in close proximity to local amenities, employment and city centres. BTR housing offers accommodation of similar quality to that of the city centre developments residents have become accustomed to as young professionals, but in a family orientated suburban location.

**What is the appeal to investors?**

'Cradle to grave' is the terminology being used for the emergence of a wider range of institutional-grade rental products. Student accommodation today is unrecognisable from the halls of yesteryear. Likewise, the standard of rental accommodation demanded by residents is rising, and it is expected that the family housing and senior living sectors should follow suit.

Investors are attracted to the low risk characteristics of housing, including a vastly more flexible breakup option compared to a block of apartments and a wide target demographic.

**The first movers**

The £700m joint venture between Sigma Capital Group and Gatehouse Bank, which commenced in November 2014, came ahead of the pack. Their strategy was to acquire plots of between 50 and 100 units, either as part of a wider housebuilder's site, or smaller self-contained sites, largely in the northern regions where land and house prices are at attractive levels. A number of other investors and developers have followed in this format, with minimal on-site amenity and differentiating from buy-to-let investors by offering professional landlord ownership.

> Investors are attracted to the low risk characteristics of housing

**The 'evolution'**

Whilst the 'Sigma' model has been very successful, this approach does not provide full control over the wider scheme, and investors sometimes rely on the housebuilder or a management company for decisions, which could impact their investment.

There is now a new wave of investors entering the BTR housing space with a different approach. That is, to focus on larger scale contiguous schemes that allow control under one operational platform and bear more resemblance to a BTR block of apartments. Investors are then able to devise their own management strategy, considering landscaping, a refuse plan, amenity etc. Generally, more family orientated amenity will need to be provided. We often see flexible space that could double as a parent and baby club, arts and crafts workshops, a venue for coffee mornings, game nights, yoga classes, etc. Services such as superfast broadband, a concierge, or security service still remain important.

We are seeing a range of investor models focussing on different target markets. Renowned for their premium product Moda and Apache Capital, have committed to an 860-unit scheme in Brighton. Another example is M&G's development with Crest Nicholson at The Green in Crawley.

**Where does BTR housing work?**

Regeneration areas or sites that are located within the 'doughnut' of a major regional centre, where there is a strong rental market with relatively low capital values. Investors in these locations are more comfortable assuming stronger yields as the scheme is likely to encompass the anticipated growth from the wider regeneration.

Affluent commuter areas, generally located in the southern regions, can also perform well. Residents will typically be commuting by car into the neighbouring towns or cities, which offer strong employment. Usually, these schemes attract a higher-end range of amenities including tennis courts, gyms and spas. These types of location will have good rental levels but, when capitalised, still offer a large discount to vacant possession value. For an investor, returns can be achieved through the income, but also by the potential future break-up option where certain parts of a site could be traded and additional value realised.

Going forward, we anticipate seeing growth in all areas of the BTR family housing space. For the smaller scale model, the focus is still on 50 to 100 units, whereas for a contiguous bespoke BTR housing scheme, 150 units plus are generally required in order to support efficiencies from an investment perspective, but also to achieve the goal of community creation.

# The rise and rise of alternatives

**Dale Johnstone** Commercial Investment

Once the subsector favoured by private equity houses and specialist property companies, alternatives have evolved into a mature market sector, one now highly sought by UK institutional investors.


In 2008, alternative transaction volumes were just £2bn but, last year, alternative deal volumes rose to £17.9bn — a 795% increase over ten years. As an asset class, alternatives now account for 29% of the total market, representing a meteoric rise in just a decade.

So why has the face of balanced property portfolios seen such a fundamental shift towards alternative investment?

Over the last two decades, commercial leases have shortened across most of the traditional commercial sectors. Tenants want more flexibility in a fast-changing world, leading to a rise in serviced offices and co-working space. Even large corporate behemoths are wary of committing to long leases, preferring to opt for the flexibility of shorter leases, so they are better able to adapt to changing business, technological, economic and political headwinds.

> Alternatives tend to be operational assets

However, alternative assets have bucked this trend and are one of the final bastions available to investors searching for long index-linked income. Alternatives tend to be operational assets — properties from which businesses are run, such as a hotel, care home, or pub — and often require a significant initial outlay from the tenant. So, it is in the occupier's interest to have the security and protection that comes with longer leases, to safeguard its operation and investment.

Understanding of the tenant's underlying performance, be it EBITDA or analysing rent cover, is critical to the ongoing sustainability of the income stream. This is because investment committees have become increasingly focussed in this regard and these matrices are cast under a major spotlight.

Having a strong operational asset also lessens covenant risk. An example being, if you have a profitable hotel or pub and the tenant goes into administration, there will be a plethora of similar operators who will step into their shoes. If you have an office tenant that goes bust, it is more troublesome and there are potentially long voids and high capex requirements.

Alternative assets tend to offer index linked or fixed uplifts as the operational side of the business tends to track inflation. The general consensus is that we are late on in the current property cycle, exacerbated by the current economic and market uncertainty that has been brewing since the EU Referendum. In a market where there are so many unknowns, investing in long index-linked income is, in my opinion, an astute strategy.

It is hard to see the occupational markets in the traditional commercial sectors outperforming the Retail Price Index, particularly if we have a harder form of Brexit or 'no deal'. So, it is little surprise that pension funds have flocked toward this asset class in a bid to maintain a long, secure income stream and minimise void periods.

The market for long index-linked income is likely to continue strengthening, driven by the flood of long-income funds currently being raised. Whilst yields look reasonably low already, it seems likely that these will be compressed further due to increased market competition.

Over the coming months, as we get closer to the Halloween Brexit deadline, we anticipate that the market share of alternative investments will only increase.

# "Retail today is about reinvention"...

## George Walker meets Addington Capital

**George Walker** Commercial Auctions

Over the past five years, I have worked with and learnt from Addington Capital's Matthew Allen and Martin Roberts.

MARTIN ROBERTS

Our paths first crossed at the Cheltenham Festival 2013 when we discovered that Matt and I had been offered the same graduate job with DTZ in 1987. Fast forward, and I am waiting for the pair to arrive for breakfast at Carluccio's in Fitzrovia. As I order a coffee, they confidently stride through the restaurant and make their way to the table. They have every reason to be confident. Since founding their real estate asset management firm, ten years ago, they have successfully worked with highly regarded partners such as Europa, Tristan and CarVal to achieve strong returns for their clients and investors. More on this later.

I welcome them both just as the waiter appears to take our breakfast orders. We order two granolas with yoghurt, and one eggs with mushrooms (without prosciutto). "Perfect," Martin smiles.

So… "How is the auction market?" Matt asks. There is little doubt that after the strong start at the beginning of the year, we saw a little jitter at May's commercial auction, and we saw a dramatic uptick in demand in July. We have sold £298m so far this year so it is not all doom and gloom which I am quick to point out.

"But aren't you just selling retail?" Matt chips in. With so many negative retail headlines, it is easy to understand why many in the industry would come to this conclusion, even if it is only part of the story. "Appetite is still there, but we are seeing investors increasingly hold on to their best stock," I explain.

The food arrives, and we are momentarily distracted. Eggs and granola aside, we move on to retail; a topic we are all well versed in.

What is Addington's approach to retail investment? "We take both a macro and micro approach," is the response. "When we look at retail today, we ask: Is the retailer going to be around in ten years and can they afford the rent? Especially if they are independent."

Over the past year alone, several big high street names, such as House of Fraser, Debenhams and Arcadia, have either gone into administration or been forced to close down stores. In June, Bathstore went into administration, forcing the closure of 135 units and fashion chain, Monsoon was next forcing the closure of 30 stores with rent cuts to be negotiated at a further 135. "And there are some interesting macro things at work," Martin says, referencing how the sector has fallen foul of the growth and impact of online shopping, too many tired stores, poor management and weakening consumer confidence.

However, this perfect storm is not confined to the UK market. According to the Royal Institution of Chartered Surveyors, vacancy rates are also rising across Europe. And it is not just the high street, shopping centres are being hit, too. "We just have too much retail floor space," Martin continues. "We need to figure out what to do with it."

And as a good property man he alludes to the opportunities. "As a country, we're going to grow by 0.5m people a year, so there is clearly a strong story for property, particularly in cities and the south east." He highlights that it is about identifying the right product and re-imagining retail for the future, including combining retail, offices, leisure and residential to bring an asset back to life.

"For us, we will be looking at where and how we can add value and we recognise that we might need to spend money and take a bit of a risk," Matt says. They both agree that repositioning a town centre asset that is at the bottom and offers scale presents the biggest opportunity for investors. "Current and future space requirements are difficult to predict. Take car parking, for instance, will we need as many car spaces in the future?" Matt asks.

He continues to say that it is as interesting a market now, as it has ever been, and to capitalise, the industry needs to be agnostic to use.

"To revive retail, we need more generalists in the sector. Our industry focuses too much on specialists; we have a blind spot and you need a combination of uses and a mix of experience, but you rarely find it in the same team," Matt says.

Time has flown, and the waiter is checking if more coffee is needed. We all politely decline, as I bring the conversation back to Addington's ten-year anniversary and I ask what their plans are for the next five years. Matt says: "We will keep looking for opportunities across our three main sectors — retail, residential and offices and we'll keep a close eye on what our end user wants or expects. It's going to be interesting. As the market evolves, we're evolving and we've got to respond to the market and deliver the right product."

He adds: "We're all trying to anticipate the future. But everything is moving at such a pace. Look at how much technology has changed the retail sector for example or the rise of BTR in the housing market. It's all about keeping ahead of the game."

Any predictions? "The market is moving much quicker now than ever before, and we will see ever shorter leases," Martin forecasts. And in terms of residential, with population growth almost guaranteed, it is the demand for beds they feel that will drive the best returns, whether it be build-to-rent, hotel or student accommodation.

However, this perfect storm is not confined to the UK market

And to bring high streets back to life, they suggest incorporating more residential into our town centres — residents will always need convenience shops and leisure activities, they say.

"Where's the private investor market going to be?" I ask.

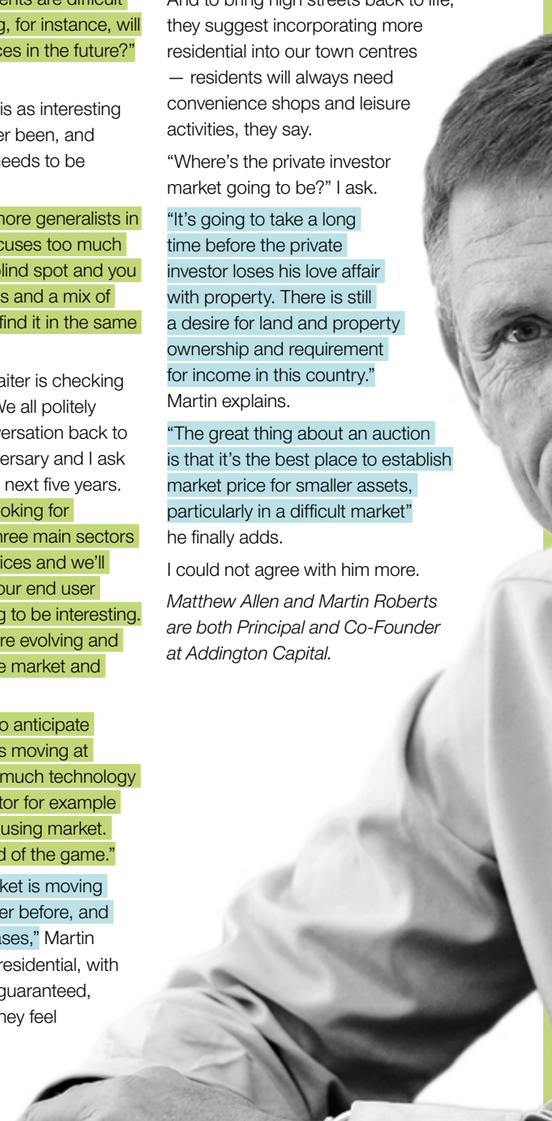
"It's going to take a long time before the private investor loses his love affair with property. There is still a desire for land and property ownership and requirement for income in this country." Martin explains.

"The great thing about an auction is that it's the best place to establish market price for smaller assets, particularly in a difficult market" he finally adds.

I could not agree with him more.

*Matthew Allen and Martin Roberts are both Principal and Co-Founder at Addington Capital.*

MATTHEW ALLEN



# Affordable housing in London: does it provide a viable solution to the housing crisis?

**Rob Austen** Residential Valuation

The London Plan, a spatial development strategy for the Greater London area written by the Mayor of London, seeks to ensure that living in the UK capital remains both desirable and feasible for Londoners over the next 20 — 25 years. The London housing crisis, which saw property prices in the capital sky-rocket, has forced thousands of young workers to rent far longer than previous generations. This has been driven by a significant growth in demand and a chronic shortage of homes.

In a bid to address the housing crisis, housebuilders have delivered thousands of private homes for sale, however, there is still a shortage of genuinely affordable housing, including social homes, which means thousands of low-income families are forced to rent privately, often in poor conditions, for lack of alternative options.

The London Plan has sought to address this imbalance and provide a greater diversity of homes for those across the income spectrum. The Mayor has stipulated homes within affordable housing must fall under three categories — Social Rent, London Affordable Rent and Intermediate Housing, which comprises London Living Rent and Shared Ownership.

While well-meaning, are these just a highly confusing gimmick to both consumers, planners and developers or are they the key to solving the London housing crisis?

### London Affordable Rent and Social Rent

The introduction of London Affordable Rent by the coalition government in 2011 involved the cutting of the grant funding allocated to housing associations to help them build homes for low income earners, allowing them to charge higher rents to make up for the reduction in financing.

The new regime offers less secure tenancies compared to social rented homes, whereby rent levels can rise to as high as 80 percent of local private sector levels. London Affordable Rent differs significantly from national Affordable Rent and is based on target rent levels that social rents are gradually raised towards. For that reason, London Affordable Rent is ultimately higher than the average social rent in the capital, but in line with the rent that would likely be charged if a new social rent unit was built and set according to the same formula.

> Many have questioned the need for London Living Rent

In April 2019, the Mayor of London updated the benchmark London Affordable Rents, which set a new standard level of rent across all London boroughs, aiming to make rents across the capital affordable to households on low incomes.

Many see London Affordable Rent as a back door to Social Rent.

Effectively, a grant for social rented homes is being used to fund London Affordable Rent, which is more expensive, and as a result, we may see a reduction in the number of social rent units constructed.

### London Living Rent

London Living Rent or intermediate rent is designed to help middle-income earners, whose household income is below £60,000.

The scheme allows aspiring home owners to pay a discounted rate for their rental property, making it easier for them to build up a deposit for home ownership while paying rent.

Provided at a cost above social rent but below market level, it is calculated on the basis of a third of average local household incomes and adjusted for the number of bedrooms in each home. The homes are offered on tenancies of a minimum of three years, during which tenants are encouraged to save and given the option to buy their home on a shared ownership basis during their tenancy.

Many have questioned the need for London Living Rent considering that Affordable Rent performs a similar function by allowing people to pay lower rents and save towards a Shared Ownership product.

### London Shared Ownership

Shared Ownership is where you buy part of a home and pay rent on the rest. The Shared Ownership scheme was originally designed to help low-earning key workers, such as nurses, get on the property ladder, however, as a result of soaring house prices this scheme has become out of reach for less-well-off Londoners.

London Shared Ownership has been criticised for being too costly even for middle income households. The subsidised rent paid on a shared-ownership basis goes up in line with inflation, whereas private rents, capped by wage growth, have been increasing at a much slower pace. Very often, the qualifying household income for a share of a flat needs to be much higher than the borough average, making even partial home ownership increasingly unaffordable for many households.

Critics have argued that the scheme has deviated from its original goal of helping less-well-off Londoners, particularly because the earnings threshold to qualify for the scheme has been raised.

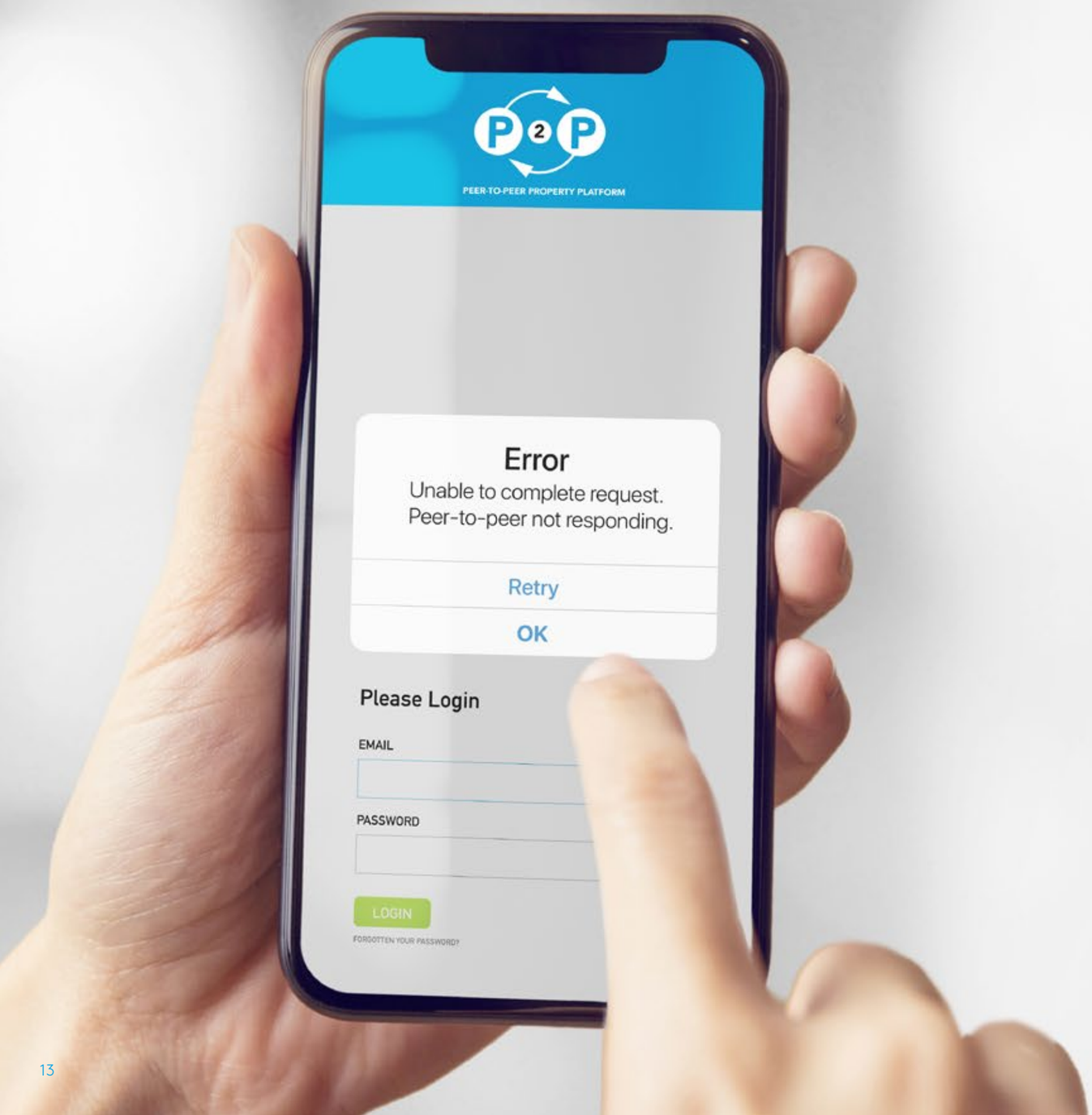
Whereas the London Plan has demonstrated a clear commitment to designing an inclusive housing policy for Londoners, the proposed options present a challenge to a range of stakeholders, including housebuilders, who have often struggled to make affordable housing requirements work.

It is yet to be determined whether the framework helps deliver a greater number of homes for the people who really need them, including the homeless and families living in hotels.

Perhaps, narrowing down the focus of the London Plan would help solve some of the issues in the intermediate term, given the finite resources available to the GLA. Focusing on those in dire need through targeted policies and eliminating confusion could be part of the solution, which could clear path for further reforms.

# What's next for peer-to-peer lending?

**Annika Kisby and Victoria Liddell** Receivership




Since the global financial crisis, we have witnessed a rapid rise in the number of alternative lenders entering the market — in particular, the introduction and increased popularity of peer-to-peer (P2P) lenders. The surge in P2P lending is not unique to the British property market and we have seen significant growth of this sector in Europe, Asia and the US.

P2P lenders offer an approach to property investment similar to that of crowdfunding; for those looking to invest relatively small amounts, P2P lending is very accessible, with investment amounts as low as £500. Furthermore, by offering individuals the chance to invest proportionally smaller sums of capital, investors can theoretically spread risk across multiple loans. Some P2P lenders also promise investors returns of around 12%, which is far more attractive than the sub 1% interest received on many standard savings accounts.

For borrowers, peer-to-peer lending offers an alternative to traditional lending and was particularly attractive following the global financial crisis, which saw many traditional lenders batten down the hatches.

One such P2P lender promising 12% returns was the British property finance company Lendy, which went in to administration in May 2019. Lendy's demise is believed to have cost retail property investors tens of millions of pounds and it has £160m in outstanding loans, £90m of which, have been reported to be in default. Although Lendy is not the first or only P2P lender to collapse, the scale and impact of its fall certainly received the most publicity, sparking industry concerns of the sustainability of P2P lenders.

The sector's approach to securing new investment has been widely criticised with some contesting that investors are not sufficiently informed of the risks of their investment nor do they have the expertise and experience required to make investment decisions without having sought professional advice first.

Indeed, the sector's low barrier of entry and ease of access, attracts a wide range of investors all with different levels of investment experience. In June, the Financial Conduct Authority (FCA) responded by announcing new rules to better protect future investors. From December 2019, P2P lenders will be required to ask investors that have not received financial advice a series of questions to ensure they have the knowledge and experience to invest. New investors will also only be able to invest a maximum of 10% of investible assets. It is hoped that the rules will deter inexperienced investors and ensure those deemed suitable are truly aware of the risks.

> Over the past few years the Allsop receivership team has seen that when borrowers from mainstream lenders needed to refinance, P2P lenders have been an important source of funds

However, this crack down may have a significant knock-on effect on the lending market. Economic uncertainty over the last decade has already impacted small and medium-sized businesses (SMEs) with many struggling to obtain finance via traditional high street lenders because of stricter lending criteria and a lack of appetite for risk. As a result, many SMEs have turned to alternative financiers, like P2P lenders.

A lack of confidence in the P2P market, and a clamp down on the number of eligible investors following the introduction of this suitability test, may have a serious impact on the finance available to small businesses.

What will the implications be for the property market if P2P reduces its market share or disappears altogether?

One of the services that the Allsop receivership team provides is pre-receivership advice. Over the past few years we have seen that when borrowers from mainstream lenders needed to refinance, P2P lenders have been an important source of funds. SME's make up 99% of all private sector businesses and over half of all employment in the UK — if they are struggling to access traditional finance and their plan B is less accessible, what will the implications be? Will high street banks be pressured to increase their presence again or will challenger banks continue to build their market share?

It is true that as high profile as Lendy's collapse has been, there have been only a few such examples in Europe; Collateral and TrustBuddy, to name a couple. Long standing P2P firms such as Zopa and Funding Circle are still going strong and while savers continue to be hit by low interest rates, P2P platforms are likely to continue to be an attractive investment. Could this new regulation help to boost confidence in the sustainability of P2P firms and drive further growth instead?

A demise of this popular sector could have far reaching implications and, in these times of political and economic uncertainty, businesses will need all the help they can get to stimulate wider investment and growth. Without this, is the keenly anticipated "Boris Bounce" that the property market has been hoping for possible?

# The chase for long-income

**Vik Shukla** Commercial Valuation

In a world of low interest rates, volatile markets and political uncertainty, predictable long-income assets are increasingly valuable to investors. Moreover, the prevalence of regular inflation-linked rent reviews has driven rental growth, sparking further interest in long leases.

In particular, we are seeing a growing demand for secure, long-dated cash flows that help hedge long-term liabilities for institutional investors, such as pension funds. Furthermore, volatility in the market is attracting investors who would normally operate higher up the risk curve. But, as they grow in popularity, assets offering reliable returns have become expensive.

Real estate let on long leases to good investment-grade tenants offers an attractive option to investors looking for security. While sale and leasebacks are perhaps the most familiar type of long-income real estate asset, a number of other options exist.

Income strips, where the owner-occupier sells the asset but retains the right to repurchase it from the investor at the end of the lease (usually for a nominal sum), offer investors a secure income stream with no exposure to real estate at lease expiry. And, unlike real estate ownership, there is no management hassle associated with this type of investment.

For instance, Milburngate in Durham is a long leasehold investment, comprising circa 60,000 sq ft of office space, 75,000 sq ft of retail and leisure space and 153 apartments; the entire first phase of the scheme has been pre-let to Durham County Council. Upon practical completion, a new 250-year lease will be granted to the investor, and Durham County Council will enter into an overriding 35-year lease subject to annual increases of 2% to 4%. When the occupational lease expires, the council will have the option to acquire the freehold for £1. Milburngate was purchased in February 2019 for £120m, reflecting a net initial yield of circa 2.50% to 2.75%.

Other alternatives include ground rents. In the residential sector, these investments will probably undergo significant reform but, in the commercial sector, they remain a popular income stream. Collateralisation is an important factor with this type of investment, since ground rents are typically only around 5% to 20% of the estimated rental value of the land and buildings, meaning they are significantly over-collateralised in terms of capital and rental value. Consequently, the likelihood of ground rent non-payment is unlikely.

There has been considerable demand for commercial ground rents with recent transactions, illustrating the strength of the market and the sharp yields investors are prepared to pay.

For instance, Vintners Place — a 275,000 sq ft office building in EC4 — is let on a long lease to The Vintners' Company for 120-years, at a rent of £1m per annum. The rent, which is geared to a minimum of £1m or 7.5% of rents received, was sold in November 2018 for £24.9m, reflecting a net initial yield of 3.77%.

However, the UK legal process for selling commercial freehold ground rents and / or commercial property is time consuming and, as a property transaction, the underlying asset is relatively illiquid compared to other asset classes, such as listed equities or bonds.

Sale and leasebacks are also popular with investors looking for long-term and stable income.

The appeal of such investments is based on longevity

These investments feature rental payments often structured to rise each year in line with inflation, offering investors a secure and guaranteed growth income stream.

Supermarket investments are a favourite with investors seeking long-term, secure index-linked income. Based on our research and analysis, the net initial yield for the supermarket sector on a quarterly basis has moved from approximately 6.3% in March 2009 to 5.2% in March 2019. Over this period, the yield hardened to circa 4.7% during 2013 and early 2014, which was the sector's best performance in the ten-year period. At 66 Cornard Road in Suffolk, the freehold interest in the 60,000 sq ft supermarket let to Sainsbury's for a remaining term of circa 20 years, with annual RPI uplifts, subject to 1% collar and 3% cap; sold in March 2019 for £34.6m, reflecting a net initial yield of 4.73%.

The appeal of such investments is based on longevity, plus the returns they offer relative to those of other investments. Compared to conventional real estate assets, such as high street retail units, supermarket assets are a defensive investment and less sensitive to property market cycles.

Despite their popularity, there are still risks associated with long-income real estate. For instance, it is essential to rate the credit risk of the tenant, and bear in mind that 'bullet proof' credit worthiness might not last forever — think House of Fraser and Debenhams. So, in the chase for long-income, it is important to keep an eye out for stumbling blocks.

# Leeds apartment market

**Andrew Hunt** Residential Valuation

Leeds Build to Rent (BTR) developments soar alongside the city's prosperity.

## So, what is driving the change from build-to-sell to BTR?

More than a decade after the last peak in apartment-led development in Leeds' city centre, apartment construction is undergoing a resurgence. But this time the story is very different. Now it is a proliferation of BTR schemes rather than a high water mark of build-to-sell developments.

Currently, in the city centre 1,862 apartments are under construction of which 1,397 are in five BTR developments, representing 75% of the total. This level of development is greater than in 2007 when 1,586 flats were built, and more than the average of 1,120 flats constructed per year between 2004 and 2007. To put the noughties growth spurt in context, there were less than 1,000 flats in Leeds in 2001.

Speculative investors buying off-plan were a major force driving the noughties flat building boom. But, naturally, this form of investment fell away in the crash. With lending from banks and investment funds from private investors drying up, so did the supply of new apartments. The only large-scale development that commenced between 2007 and 2010 was Isis' Granary Wharf development of 282 flats, which were released on the market between 2010 and 2013. Between 2013 and 2016 no purpose-built apartment developments were undertaken in central Leeds. It was not until 2017 that the building of apartments returned to the city with the completion of two schemes; X1 on East Street with 147 flats and Tate House on New York Road in the Northern Quarter comprising 74 flats. But these build-for-sale developments are dwarfed by the Build to Rent schemes currently underway.

After the financial crash of 2007/2008, initially there was an over-supply of flats on the rental market. But, with the crash throttling back development in its wake, combined with Leeds' economic resurgence, the outlook for the rental market has transformed with demand far exceeding supply. This time round it's not buy-to-let landlords or speculators financially fuelling development. The driving force now is mainly institutional investors and large property companies attracted to the long-term steady income and relatively low-risk of BTR developments.

With economies of scale being an important factor, these BTR schemes are substantial. The first BTR development to be constructed in Leeds, Dandara's scheme on Sweet Street, is close to completion and will provide 744 units. On a former Yorkshire Post site is a Grainger development of 242 flats, while L&G has a scheme at Mustard Wharf. With staggered completion dates and Leeds' strong economic outlook, the city centre rental market will remain attractive to investors.

So, what is driving the change from build-to-sell to BTR? Nationally, there has been a fundamental shift. Renting has become more attractive due to owner occupation becoming increasingly unaffordable. Overlying this is Leeds' economic and cultural success and the demand for city centre living where renters can be close to work and amenities.

Leeds is one of the largest employment centres outside of London with an active workforce of 498,000 people. Employment is expected to grow by 25,000 during the next decade, equal to Birmingham, and much higher than other major employment centres. The relocation by Channel 4 to Leeds alone is expected to create more than 1,200 new jobs during the next 10 years, adding over £1bn to the local economy. Leeds compared to its UK rivals has benefited from the highest rate of private sector growth of 6.1%, ahead of London at 4.4% and the national average of 2.5%, according to Cities Outlook for 2017.

Given that demand for high-quality rental accommodation recovered quickly after the crash, it is surprising that BTR development did not take place earlier. However, one issue delaying BTR development in Leeds has been the shortage of suitable sites. Grade A office space has been in short supply in the city centre, with commercial land values outstripping residential land and building focusing on delivering commercial development. As a result, residential development had initially been forced to take place on sites peripheral to the city's densely developed commercial core.

Even though there is a significant increase in apartment numbers under construction and in planning, totalling 11,760 apartments, they should easily be absorbed by the city given its positive economic outlook, backed by the improved infrastructure and facilities now in place.

Looking ahead, Leeds' strong economy and BTR's appeal to institutional investors means this type of scheme will be the main driving force for new flats in the city centre. Build-to-sell is likely to play a more secondary role in the medium-term with pockets of development in the city.

# The Life Tenancy Lifeboat; buoyancy in the equity release market

**Beth Mitchell** Residential Valuation

Equity release is booming. Even a quick scan through the Sunday papers will alert readers to the competitive financial solutions to unlocking the wealth of debt-free equity in UK housing. The products are aimed at those approaching retirement or already retired; the asset rich and cash poor generation who have the opportunity now to capitalise on decades of house price inflation. For many, however, equity release is a 'cash lifeboat' for a variety of reasons.

The ONS' latest 'Wealth and Assets Survey' (to December 2017; released August 2018) found while more than half of those surveyed expect to retire between the age of 65–69, 49% of individuals were 'not very' or 'not at all' confident that their income in retirement would give them the standard of living they would hope for. With the growth in house prices in the UK over the years having been so significant, increasingly consumers are looking to equity release to either supplement their income in later life or, in increasing numbers, provide a solution to paying unsettled mortgage finance once they become ineligible for traditional methods. For three quarters of those in the age group 55–64, the reasoning for pursuing equity release included repaying outstanding interest only mortgage finance, and for nearly two thirds (60%) settling 'unsecured debt' (ERC Q1 2019).

The Equity Release Council (ERC) reported the industry's busiest start to the year in Q1 2019 with the total amount of equity released 8% up on 2018 figures. A total of £3.94bn was lent during the whole of 2018, up 29% on the previous year. 'Lifetime mortgages' account for the bulk of the market; offering a similar option to conventional mortgage finance — customers borrow against their home whilst retaining full ownership of it with the finance settled by their estate when they die or move into long-term care. Different products offer options such as whether to receive a lump sum on day one or draw down in increments over the period. Similarly there are options including paying interest along the way or rolling it up to be settled as part of the final payment.

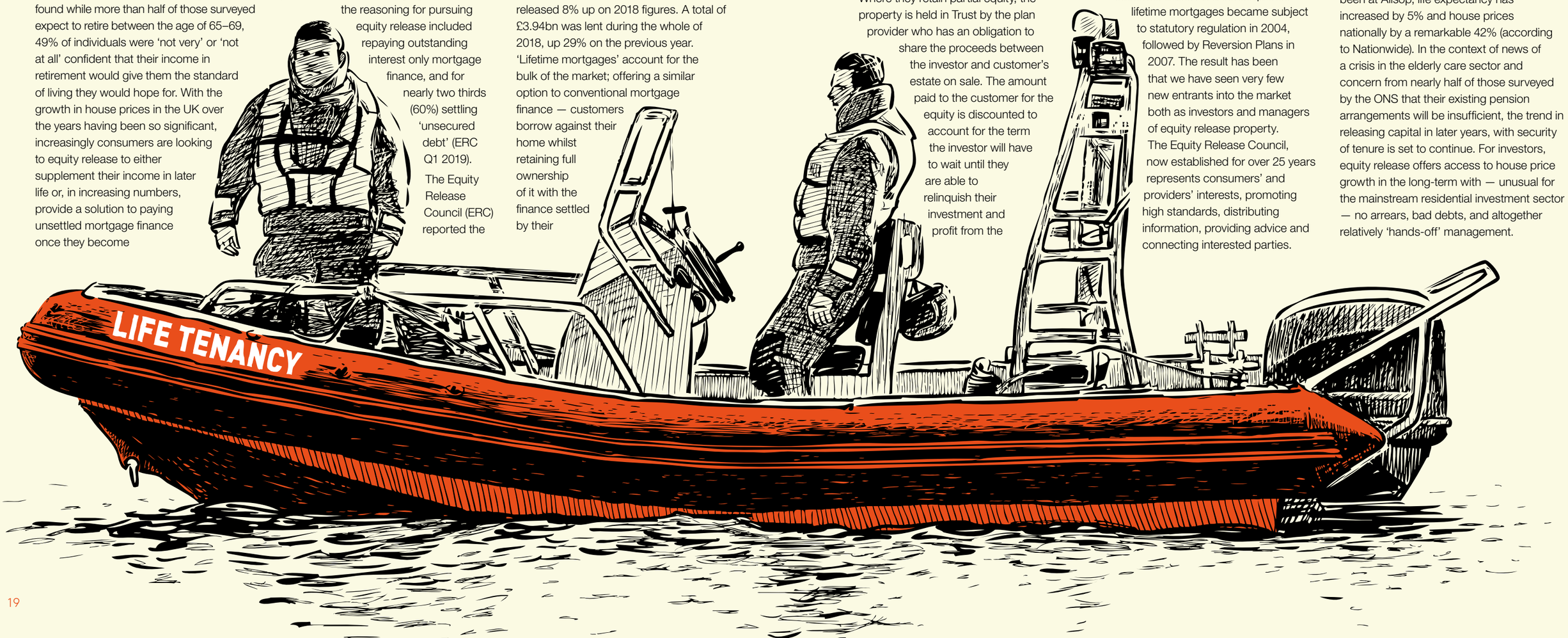
> Equity release is quickly becoming a real opportunity for those entering retirement

Home reversion plans offer an alternative whereby customers part with the right to all or part of the ownership of their property in return for the right to remain resident in it for rest of their lives rent-free. Where they retain partial equity, the property is held in Trust by the plan provider who has an obligation to share the proceeds between the investor and customer's estate on sale. The amount paid to the customer for the equity is discounted to account for the term the investor will have to wait until they are able to relinquish their investment and profit from the property, having received no rent in the meantime. Whilst the period until this point is notoriously unpredictable, investors look to predictions of life expectancy and consider their in-house expectations of house price growth to calculate their pricing. Customers become 'lifetime tenants' of the property, free to enjoy their home for the rest of their lives with little intervention from the plan provider. During their life tenancy they are required to keep the property in good repair — to the standard at the time the plan was taken out — and keep it adequately insured. Most agreements allow customers to 'port' their plan if at some point their needs change and they would like to jointly or indeed solely ask their plan provider to help them move to more suitable accommodation. Equally customers who hold onto a share of equity in their home can later sell further increments in order to release additional capital.

Equity release has received bad press in the past, particularly given its vulnerable customer base. As a consequence lifetime mortgages became subject to statutory regulation in 2004, followed by Reversion Plans in 2007. The result has been that we have seen very few new entrants into the market both as investors and managers of equity release property. The Equity Release Council, now established for over 25 years represents consumers' and providers' interests, promoting high standards, distributing information, providing advice and connecting interested parties. Restrictions now extend to protect consumers and their estates from negative equity, ensure they have access to an appropriate Financial Ombudsman and to ensure they take up independent advice as a matter of course. During the last 20 years, Allsop's residential division has acted as valuers to most of the main investors in this specialist sector.

Equity release is quickly becoming a real opportunity for those entering retirement, with ERC statistics showing that their members' customers average between 68 and 70 years old at take up. The growth in the sector outstrips growth of those exercising their rights to access flexible pension payments under their 'pension freedoms'. With growth in product range expanding, we are seeing a different type of investor now in the market. Previously the domain of property companies, the home reversion plan market now includes private equity and institutions.

In the (now more than) ten years I have been at Allsop, life expectancy has increased by 5% and house prices nationally by a remarkable 42% (according to Nationwide). In the context of news of a crisis in the elderly care sector and concern from nearly half of those surveyed by the ONS that their existing pension arrangements will be insufficient, the trend in releasing capital in later years, with security of tenure is set to continue. For investors, equity release offers access to house price growth in the long-term with — unusual for the mainstream residential investment sector — no arrears, bad debts, and altogether relatively 'hands-off' management.



# The ground rules on ground rent

**Gary Murphy** Residential Auctions

For nearly two years now the once rock–steady ground rent market has been functioning under the shadow of growing political sensitivity and impending reform. For some time, more and more developers have been adding increasingly higher ground rent payments in the leases of new build flats and houses.

Payments have been subject to more frequent review structures, often doubling or linked to inflation. Whilst very attractive to long-term investors, leasehold homes have become more difficult to sell or finance. Add to this, criticism from pressure groups of high service charges, opaque or one-off billing, permission charges and high enfranchisement/lease extension payments and it is no surprise that something has had to give. Although trade in ground rents in and outside the auction room has continued, caution and uncertainty surrounding future legislation has impacted investment values.

Finally, the Government's stance on ground rents and leasehold reform is becoming clearer

Finally, the Government's stance on ground rents and leasehold reform is becoming clearer. Following two consultation periods (which started in December 2017), a Law Commission review and a House of Commons Select Committee, last month the British Government clarified its position on potential legislative changes with plans to ban future leases on new build houses, a legal clamp down on unjustified costs, provide rights for leaseholders to challenge payments and implement regulation to review charges faced by leaseholders and freeholders. The government has also outlined plans to create a compulsory new homes ombudsman which will include a code of practice in dealing with leaseholds, service charges and mixed tenure estates.

There has been much speculation about whether legislation will be brought in to affect existing leases retrospectively, especially those with 'onerous ground rents'. It looks as though this will be unlikely. However there are some points to note.

Many lenders now have a ground rent lending policy for individual flats. Nationwide is one of the toughest. They will not lend on a dwelling where the ground rent is more than 0.1% of the value.

About 60 developers, freeholders and managing agents have already signed up to a voluntary code of practice whereby they will offer leaseholders who have an 'onerous' review clause a replacement clause linked to inflation.

Despite the impending changes, yields of long dated ground rent investments sold at auction across the UK over the past three years have not been significantly impacted. With the help of the Essential Information Group (EIG), we have analysed yields of ground rents with over 90 years unexpired for the 36 months to June 2019. Average yields in year one (12 months to June 2017) were 4.24%. Although this figure rose to 4.98% over the following 12 months, average yields in year three (to June 2019) fell to 4.29%.

There will be relief amongst investors that rent caps are unlikely to be retrospective. Indeed, we may see the older style investments become the more valuable collectibles of the future if left unaffected by reform.

The future value of reversionary ground rents however has become particularly uncertain. The opportunity to derive capital payments for lease extensions has long been sought after. Indeed, several years ago we saw investors attributing reversionary value to leases having up to 90 years unexpired — despite the statutory formula for calculating enfranchisement prices prescribing 80 years. The language of the House of Commons Report is likely to be of concern to those in this market. There is support for a process that makes enfranchisement 'substantially cheaper' and effects 'a transfer of power from one party to another' (landlord to tenant). Quite sensibly though, it appears less likely that a new pricing system will be based solely upon a multiple of ground rent.

These reforms are likely to be implemented when the government finds legislative time in parliament. Although the timing is still vague, there is no doubt that this is an area which is seen as a priority. Only when proposed reforms have or have not become law will investment values become established once again. Until then, all eyes will be on auction results.

# Pitfalls or windfalls: dilapidations can go either way

James Acock Lease Consultancy

Many landlords and tenants will forget to plan adequately for dilapidations, dismissing the process as just a haggle over costs at the point of lease expiry. But, in fact, dilapidations are far more complex and, if not handled properly in advance, can lead to complicated disputes that could otherwise be avoided.

Put simply, dilapidations are unexpected exit costs prior to lease expiry, whereby a tenant must return the property to its pre-let state. For example, if the tenant has put in a kitchen where there was not one before, it must be removed. And, if there has been any damage to the property, this must be repaired.

### To what extent is a property in disrepair?

A lease on a second-hand space typically comes with a schedule of condition. A poor schedule, containing low-quality images, or poor annotations, will make it difficult for both landlord and tenant to prove what repairs need to be done — making the schedule somewhat ineffective.

When it comes to dilapidations, a common mistake is for key clauses in the lease to inadequately reference the schedule of condition. Not only should the schedule be referenced in the repairs and yield up clauses, but also the rent review and decorating clauses.

Examples of properly referenced leases are hard to come by, but we recently struck gold when we negotiated dilapidations for the tenant of a modern building in Gracechurch Street EC3. The lease contained unambiguous descriptions of general condition, and photos annotated and with a supporting plan. To our delight, the lease even included the ultimate mitigating words, "…no better condition than…" — a phrase we would like to see more often!

A quality schedule of condition and well-referenced lease will leave little room for ambiguity during dilapidations negotiations, ensuring the process is wrapped up as swiftly as possible.

### Preparing for dilapidations

Whether you are a landlord or a tenant, it is important to be prepared for dilapidations. Indeed a tenant may seek an estimate of potential dilapidations liabilities three to four years before the end of the lease, for tax or balance sheet purposes. Generally, dilapidations advice should be sought at least six months before the end of the lease.

> …advice should be sought at least six months before the end of the lease

For the landlord, proper preparation can reduce the risk of the dilapidations process running beyond the lease expiry date, extending the void prior to reletting. For the tenant, where a landlord's costs for the scope of works is much higher than that of the tenant's contractor, then sufficient time must be factored in before the expiry date deadline for the tenant to vacate and carry out the works themselves, if this is their most cost-effective solution.

### Can premises be left dilapidated?

Section 18 of the 1927 Landlord and Tenant Act puts a cap on the cost of dilapidations repairs. Using this clause, a seasoned dilapidations surveyor with good negotiating skills and local market knowledge may be able to extinguish a dilapidations claim.

In essence, dilapidations is a landlord's claim for damages: a dilapidations surveyor can deploy a Section 18 valuation to illustrate this, highlighting the relevance or magnitude of a landlord's legitimate claim.

For example, Allsop recently acted for Rhinegold Publishing Limited, a tenant in Shaftesbury Avenue, London, which received a dilapidations claim from the landlord for £180,000. Rhinegold initially instructed a building surveyor, who negotiated the claim down by half, by the usual methods and recommended settlement. At this point, Allsop was approached by Rhinegold to provide a second opinion: we insisted on a Section 18 valuation and demonstrated that the hypothetical landlord would not repair and re-let the building. Instead, they would probably change the building's use to residential, in which case, any repairs would only be ripped out again. In the end, we negotiated the claim down to just £22,000.

### The key to successful dilapidations negotiations

Remember: dilapidations negotiations can be complex, so be sure to leave plenty of time to iron out the issues and ensure the schedule of condition is well-referenced in the lease.

The key to successful negotiations is seeking advice from an industry specialist with both knowledge of the 1927 Landlord and Tenant Act and a finger on the pulse of the property market — especially for Section 18.

Allsop is more than happy to navigate dilapidations and bring our negotiation skills, our grasp of case law legislation, and market intelligence to help you dodge the common dilapidations pitfalls.

# Transformation complete! How ARNOLD became the new hot property in Shoreditch

James Proctor City Office Leasing

Is it economically beneficial to recycle a building and work with an existing framework? Or, is it better to be environmentally friendly to start from fresh and work from the ground up? This was the issue that Allsop faced when advising The Property Trust Group on a run-down office building, Arnold House.

The building is located at the heart of the Shoreditch triangle, offering easy access to the City and the tech centre of Old Street. Shoreditch is a hotbed of up-and-coming start-ups, successful entrepreneurs and established corporates, as well as a cultural landmark, giving the area a unique appeal.

But, despite its trendy location, Arnold House was struggling to attract new tenants. Moreover, built in the 1960's and suffering from tired interiors, no facilities or air-conditioning, just one lift and only single glazing, rental values were low.

One option was to knock the building down and start again; another was to do a light refurbishment, fixing only what really needed to be fixed. But knocking the building down would take a long time, and there would be significant planning risk associated with this approach. On the other hand, it was clear Arnold House needed much more than a lick of paint.

With this in mind, The Property Trust Group agreed to an alternative approach, which could add significant value to the scheme. The building is located in an area that is highly popular with tenants and where there is demand for modern floorspace at a higher market rent than Arnold House was able to command.

Arnold House was struggling to attract new tenants

As an old warehouse, the structure of the building was strong, and its floor-to-ceiling height was also good: it was established that a series of comprehensive renovations and an extension would breathe new life into the building and help the landlord attract more tenants, generate more income and increase its capital value.

Arnold House was rebranded as, simply, ARNOLD, while designs of the new, modernised space reimagined interiors as a characterful workplace designed for tech and creative companies, particularly those operating in the rapidly expanding Telecoms, Media and Telecommunications (TMT) sector.

Following substantial refurbishment work to bring these designs to life and by extending the building, the property now stands as a stylish 75,000 sq ft office called ARNOLD. Indeed, standing as it does just a short distance from the City of London and London's Tech Belt, ARNOLD is a dream come true for tenants looking for spacious, contemporary offices in the capital.

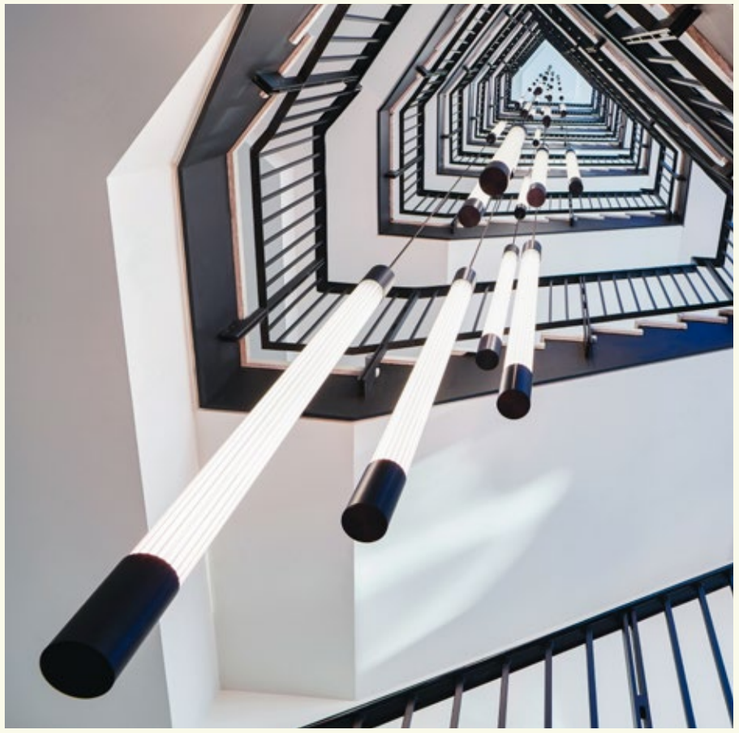
By adding three new floors and a rear extension, ARNOLD increased in size from 50,000 sq ft to an impressive 75,000 sq ft. The property now boasts six floors of over 9,000 sq ft each — almost double the size of floorplates typical for this part of London. Now, tenants enjoy an airy, sophisticated environment that is flooded with natural light.

Further improvements were made on the ground floor, where retail space was incorporated into the scheme, and a new enlarged and sleek reception area created. The City team also suggested introducing cycle storage: ARNOLD now offers 132 cycle spaces, as well as a generous number of showers, lockers and changing facilities, making it easy for tenants to cycle to and from work.

In addition, ARNOLD's outdoor spaces support an open and relaxed business culture. Roof terraces, totalling 3,822 sq ft, and a soon-to-be landscaped courtyard offer space for tenants to relax, socialise or have informal outdoor meetings.

A new air-conditioning system, three new large lifts, a BREEAM rating of 'Very Good' a WiredScore rating of 'Gold' and — the final flourish — a statement light feature weighing approximately 450kg, hanging down the stairwell from the seventh floor, complete the renovation. ARNOLD's new stylish interior enhances the building's existing charm, allowing it to stand out as a distinctive commercial property, very much in tune with its surroundings.

Following the works, The Property Trust Group now has a more attractive asset that can command much higher rents and attract new occupiers. With the building already half let to a company operating in the TMT sector, the landlord is seeing the benefits of unlocking unforeseen value.



# Wimbledon fortnight and half-term: highlights of the property sales calendar

**Nick Pemberton** West End Investment

"It's half-term next week, so we expect viewings to tail off," said the investment agent to the fund manager in the weekly marketing report.

This would have been a common phrase a few years ago. However, in the dynamic and sometimes unpredictable investment market, adapting to change and knowing the appropriate time to launch a building is key to a successful sale.

Identifying key dates in the calendar year such as bank holidays, religious festivals or school dates is commonplace, and marketing a property during these periods has always been cautionary. However, foreign investment in the London property market has seen a marked increase over the past few years, with overseas investors buying more than half of all properties for sale in London's most exclusive areas. This influx of buyers from all corners of the globe has turned the traditional sales calendar on its head.

An example of this was Allsop's sale of Thames Wharf, a £40m investment that is home to the River Café restaurant in Hammersmith. During the October half-term (a period traditionally considered extremely quiet), there were substantially more viewings at the building than would normally have been expected. A number of those interested parties were foreign parents visiting their children at boarding school in the UK. One party even brought the entire family on the viewing. This significant uptake in viewing activity ultimately resulted in a successful sale for the client.

It is therefore important to consider how the relevance of certain dates can fluctuate. The belief has long existed that school holidays are a tricky time to market a building, being seen as a quieter period that often experiences a slow-down in business. We have increasingly found this not to be the case.

## London is filled with high-net-worth international visitors

However, an increase in foreign students studying in UK boarding schools and universities has brought more high-net-worth parents to the country during school holidays. For instance, according to the Independent Schools Council 2019 Census, the two biggest groups of foreign students studying in the UK were from mainland China and Hong Kong. 80% of these students, and 96% of those from Hong Kong specifically, had parents living outside the UK.

It is not unusual for high-net-worth parents to combine visits to the UK with viewing property they are keen to acquire. London is known as the gateway to Europe and a popular choice for foreign investors looking to broaden their property portfolio and secure additional income.

Take for instance, the early summer months in London, where many property agents take leave during the 'quiet period'. These few months are also when our Capital City plays hosts to a range of wealthy individuals and potential investors, drawn to London by Bond Street shopping, Royal Ascot, Henley Royal Regatta or simply the chance to escape the desert heat. London is filled with high-net-worth international visitors from places such as Hong Kong, China and the Gulf, to enjoy the glittering delights of London's summer season.

In mid-July 2019, we marketed several buildings in the week leading up to the super weekend of sport, including the Wimbledon final, the Cricket World Cup and the British Grand Prix. There was a significant increase in overseas investor viewings with people in London to attend the sport and collect their children from school.

The same can be said for religious and cultural holidays such as Chinese New Year, Rosh Hashanah and Ramadan. Understanding the target audiences, their behaviour and their calendar, all plays a crucial role in the marketing and sales process. Smart agents will strategically adapt their marketing approach to match the cultural and social calendar of their wealthy, global audience.

With international and domestic political events making the pound look cheap against foreign currencies, investors are still spotting buying opportunities. Despite the uncertain political landscape, London remains the number one global city for many and an attractive investment proposition. In a constantly evolving and more international market than ever before, it's important for consultants and agents to remain agile and in tune with the changing interests, behaviours and schedules of buyers.

When selling investments with international investor appeal, half-term holidays are now our prime marketing time!

"I'm often asked by people outside the firm why Allsop has a Brighton office. 'London, Leeds and Brighton' doesn't, on the face of it, strike one as a wholly logical mix of locations. The straight answer is that it was in Brighton that we founded our residential property management business 20 years ago — a fairly Bohemian location for what is best described as a prosaic line of business."

**Andrew Wells** Letting and Management

# PARTY LIKE IT'S 1999!

Brighton and Leeds came about not by chance, but through the strategic vision of our former senior partner and RICS president, Alan Collett. He recognised in the 1990s that investment in residential property was likely to attract significantly more corporate and institutional interest as successive Housing Acts encouraged a growing private rented sector. Offering residential letting and management to Allsop's existing investors was a sound, vertical integration. A client could acquire

## A remarkably loyal client base during these first 20 years

properties through the firm, have them let and managed and we would also be in the right place to assist in a disposal if that ever occurred later down the line.

So it was that in October 1999 we acquired Leaders in Brighton, a small letting and management operation upon which we built our growing management business. Three years after opening on the south coast, Allsop made a step change with the acquisition of Oriel Management in Leeds, a successful property manager that came with a contract to run a portfolio of some 2,500 former Abbey National and Royal Bank of Scotland business expansion scheme (BES) residential tenancies. It was a neat coincidence that six months earlier Allsop had opened a Leeds office, under my direction, concentrating on residential investment and valuation work. Since then we have had a hugely successful run of undertaking property management, residential valuation and investment acquisition and disposal.

We have never held ourselves out to be a solution for buy-to-let landlords at the granular end of the market. Our aim has always been to play our part only in the private rented sector (PRS) and we have enjoyed our relationships with a remarkably loyal client base during these first 20 years. Dorrington Plc, Guy's & St Thomas' Charity Trustees and Low Moor Properties have been with us since an early stage of our journey. Many other corporate and institutional clients have joined us along the way.

Today, Allsop Letting & Management operates alongside the Allsop partnership from London, Leeds and Brighton with property managers at both ends of the country and our finance function in Leeds.

Alan's prediction of the institutionalisation of PRS has borne fruit. We were early promoters of the investment benefits of PRS and one of the first operators in the Build to Rent sector. We manage nearly 1,000 Build to Rent flats in Manchester and Newcastle and with a growing pipeline of management contracts we, like the market and technology, have come a long way since 1999.

Expectations of occupiers and clients are understandably high and we have adapted the tools we use to promote lettings, manage tenancy documents online, communicate with customers and report to clients. Our front-of-house teams are more likely to have had a background in hospitality than in surveying.

It would be easy to think of residential property management as the Cinderella of the property profession and many still do.

But there are not many roles that on the one hand have such a close interaction with the customer and yet on the other are integral to driving asset performance for investors. We would like to think that coming to the 'ball' with twenty years of experience gives us quite an advantage.

The next twenty years will be even more different. It is a fair bet that politicians are likely to interfere still further in the rented sector, some of it helpful, some of it not. Allsop will continue to adapt and we will hope to also influence change. But in October 2019 we'll look back on a very satisfying twenty years as a constant and reliable partner for our clients. And we will be having a party.

# ALLSOP TEAM HEADS TO KENYA TO HELP LOCALS GET ACCESS TO CLEAN WATER

Gary Murphy, Richard Bourchier and Aoife Broderick

At the beginning of July, a group of volunteers from Allsop and St Paul's Church in Ealing, London, embarked on a trip to Kenya to install a clean water pipe, funded by Allsop, in the Maasai village of Oloropil.

Thanks to the guidance and support of John Blissett from Willets Safaris and a number of Maasai warriors, we were able to cycle over 100 kilometres across a challenging terrain of dirt roads and mountainous goat paths from Maji Moto (outside of Nairobi) to the Maasai village of Olorte. During the 10-day bike-led safari, we cycled alongside wildebeest and zebra, both a terrifying and breath-taking experience, and became used to seeing giraffes and elephants along the way. We were absolutely dazzled by the raw beauty of the African savannah and forests.

During the trip, John and the Maasai warriors generously shared their knowledge and experience, teaching us how to identify the sounds of lions and leopards at night. In the evenings, we would sit around the campfire learning and singing Maasai songs, creating unforgettable memories.

Over the course of 10 days, we encountered many friendly and welcoming Maasai people. The physical strength of local women was staggering. We learned that they have to walk up to ten kilometres a day carrying 30 litres of water on their heads and backs, while also having to wash clothes by hand in the local water source, usually located very far from their homes.

We also found out that a large number of young children have to forgo school in order to help with these tasks, in addition to minding younger siblings or helping the family financially by working as goat or sheep herders, which could put them at a disadvantage later in life.

These daily struggles opened our eyes to the importance of having access to fresh clean water in villages. These things, taken for granted in the Western world, make an enormous difference to the lives within the Maasai community, going beyond the prevention of waterborne diseases. Access to water enables women to free up a significant amount of time, which they can use to educate themselves, support their families and the local community.

When we arrived at our final destination, Olorte, we met and stayed with Hennie Marais of RedTribe. This charity has been supported by St Paul's Church for over ten years, working tirelessly to create sustainable change within the Maasai community through its school, the Maasai Academy; a farm project that currently provides 13,000 meals a month for the local community and teaches farmers modern farming techniques, as well as a beadwork project that supports vulnerable women.

The water project aimed at providing clean water from a spring to communities across the region is one of the charity's recent ventures. In collaboration with universities in the UK and experts across the world, it is delivering a life-changing solution to the Maasai, among whom water-related deaths are still rife.

Our expedition culminated in the opening of a water pipe in the village of Oloropil. We were treated to a ceremony in both Maasai and English languages, and were gifted local attire by the villagers which we wore with pride at the event! The celebratory ceremony was full of joy, singing and dancing and was followed by a ritual goat sacrifice.

This life-changing trip opened our eyes to the struggles many people still face today on the other side of the world. I am glad to have been able to contribute to this project as part of the Allsop team — knowing that the water pipe will impact the lives of hundreds of people in Oloropil, some of whom we've met, makes us all tremendously proud.

# Allsop Life

## Charity

### Allsop Football Festival

Congratulations to Aviva Investors who took home the Allsop Charity Football Festival trophy and to Workspace who won the plate. Huge thanks to Aviva, Workspace, CBRE Gi, Derwent, Telereal Trillium, Prideview, First Urban, M7, MHA and Create Design for a fantastic day of football and for helping us to raise £5,000 for JBVC Foundation.

### LandAid 10K Challenge

Well done to our Allsop runners who raised over £4,200.


### Allsop meets awesome hero

When real life military hero, Johnson Beharry VC, came to speak to us, the room filled with awe. The Iraq war veteran is founder of the JBVC Foundation which helps young people get out of gangs and into a better future. We have so far raised over £5,000 for our charity of the year.

## Congratulations

Allsop Letting and Management celebrate their 20th Anniversary.

### Weddings

Harry and Alice Theakston.

### Babies

Tom Wright / Charlotte Sloan / Jenni Parlour and Lisa Scott.

### Graduates

Ronnie Morgan on passing his APC.

### Leeds in the lakes

This year our Leeds trekkers and (Yorkshire terrier, Dillane) covered four Wainwright summits starting in Grasmere and ending up with a well-earned pint at Tweedies Bar.

### Beyonce Know'alls

Winners of best team name at the Great Property Quiz in aid of Maggies.

## Sport

### Football

A strong start to the season still undefeated and a fantastic performance in the Allsop Football Festival where we reached the semi-finals.

### Cricket

The Allsop Cricket Team are now league winners in an unbeaten 'invincibles' season. Player of the season was Tom Nicoll with a batting average of 121.

# Commercial Deals

## NATIONAL INVESTMENT

**Koito, Kingswood Road, Droitwich Spa WR9**

Sold for £11.89m (6.5% NIY)

Long-income HQ manufacturing unit let to the 5A1 covenant of Koito for a further 10 years term certain.

***Industrial Investment***

**North Quay, Newhaven BN9**

Sold for £9.9m (7.25% NIY)

Multi-let to 12 tenants providing 11.3 years to expiries with RPI/CPI linked income.

***Wharfside Storage and Distribution Investment***

**Nidderdale House, 4–16 Cambridge Road and 7 Oxford Street, Harrogate HG1**

Sold for £5.545m (7.27% NIY)

Prime freehold convenience retail investment located in the historic spa town of Harrogate.

***Retail Investment***

## CITY INVESTMENT

**9 Prescot Street, London E1**

**98,000 sq ft**

Sold for £53.85m

(4.45% NIY, Cap Val £555 psf) on behalf of Derwent London Plc and LaSalle Investment Management

Iconic freehold Art Deco building, originally constructed in 1938 for owner occupation by the Co-operative Bank.

***Office Investment***

**Palace House, Cathedral Street, London SE1**

Sold for £48.8m

(5.00% NIY, Cap Val £1,063 psf) on behalf of Schroders

Freehold property with Caffé Nero on the ground floor and office accommodation above fully let to Kaplan Estates until 2033.

***Office and Retail Investment***

**81–82 Gracechurch Street, London EC3**

Sold for £15.25m

(5.51% NIY, Cap Val £785 psf) on behalf of LaSalle Investment Management

Grade II Listed long leasehold building providing office, retail and ancillary accommodation arranged over basement, ground and four upper floors.

***Office and Retail Investment***

## AUCTION

**140–142 Camden High Street, London NW1**

Sold for circa £6m (4.33% NIY)

Prominent high street bank and four self-contained flats with potential to extend the upper floors.

***Mixed Use Investment***

**The Bottle of Sack, 2 Birmingham Road, Sutton Coldfield B72**

Sold for £1.66m (5.67% NIY)

Prominent freehold bar/restaurant investment let to JD Wetherspoon Plc until 2035.

***Leisure Investment***

**B&M Retail Ltd, Church Street, Shildon, County Durham DL4**

Sold for £1.07m (6.18% NIY)

Modern freehold retail investment let to B&M Retail Limited until 2031 at £70,000 p.a. with RPI linked reviews.

***Retail Warehouse***

## WEST END OFFICE LEASING

**31 St. Petersburgh Place, London W2**

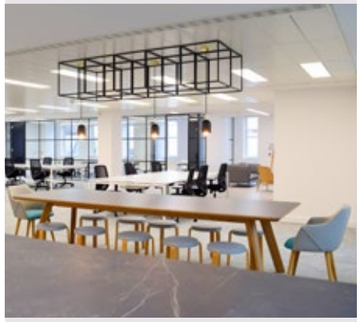
Disposal of 23,000 sq ft

Let to QWR2 Ltd on a new lease to expire 2024, on behalf of Capreon.

**Cranmer House, Kennington Park SW9**

Disposal of 3,500 sq ft

Let to Bitpesa on behalf of Workspace.



**55 Strand, London WC2**

Disposal of 3,200 sq ft

Let to You Travel on behalf of Legal & General Investment Management, as part of LGIM's Capsule initiative, which combines the benefits of traditional leasing with the convenience of serviced offices.

## CITY OFFICE LEASING

**Senator House, London EC4**

Disposal of 100,000 sq ft

Let to Quilter on behalf of Legal & General Investment Management.

**ARNOLD, London EC2**

Disposal of 40,000 sq ft

Let to Fora Spaces on behalf of The Property Trust Group.

**100 Liverpool Street, London EC2**

Acquisition of 40,000 sq ft

On behalf of Peel Hunt LLP.

# Residential Deals

## INVESTMENT

### Build to Rent

**Fabrik, Leeds**

Located in the emerging Holbeck area, Fabrik comprises a 216 unit BTR development with internal and external resident amenity. Designed specifically for renting, we advised our developer client on the forward funding sale to Grainger Plc. At a gross development price of £34m construction is underway with completion expected in late 2021.

### Student Housing

**Kexgill Portfolio, Leeds**

Prime student portfolio comprising four fully let blocks.

Sold for £7m

### Development Opportunity

**Newlands House, Surbiton**

Former nursing home and health centre with planning permission for conversion of the nursing home and demolition of the health centre to provide 41 private units.

Sold

**Cuthbert House, Newcastle**

Prominent city centre office with planning for residential conversion.

Sold


### Student Housing

**Lea Halls, Luton**

Located directly adjacent to Luton Railway Station, Lea Halls extends to two acres and comprises 452 bed spaces across 10 blocks. Let to the University of Bedfordshire on leases expiring in 2019—2020.

Acquired

## INVESTMENT

### Residential Investment

**River Crescent, Nottingham**

Landmark freehold residential investment with 91 luxury apartments remaining.

Sold

**Apple Building, Manchester**

Rare city centre unbroken block of flats.

Acquired

### Land

**Ordsall Lane, Salford**

Land with planning for 375 residential units.

Sold

## AUCTION

### Development Opportunity

**Long Acre, Covent Garden, London WC2E**

Block of flats with a house and planning permission to convert into three apartments and a two-bedroom house. Guide £3.8m+.

Sold prior to auction

**Ealing Road, Wembley, Greater London**

Freehold office building with an application for permitted development submitted to convert the site into 15 flats.

Sold for £1.38m at auction

### Private Home

**Somerset Place, Bath**

Freehold five storey Grade I Listed Georgian townhouse.

Guide £1.1m.

Sold post auction

### Residential Investment

**Eton Avenue, Hampstead, London NW3**

Unbroken freehold building arranged as seven self-contained and six non-self-contained flats. Mainly let and producing over £181,000 p.a.

Sold for £4.66m at auction

**Esmond Road, Chiswick, London W4**

Vacant freehold terrace comprising of three two-bedroom flats.

Sold for £1.7m at auction

**Inglewood Road, West Hampstead, London NW6**

Freehold mid terraced building arranged as five flats. Four flats let on ASTs and one let on a regulated tenancy. Producing £80,312 p.a.

Sold for £1.555m at auction

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