Commercial and residential

Market Update

Q3 2018

allsop

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Economic Overview

With the Brexit agenda reaching its expected denouement there seems to be a heightened sense of uncertainty in the air and a feeling that despite some progress there is still a long way to go. The Irish border issue remains the key sticking point and it is looking less certain that any agreement will be reached and ratified before the deadline of March 2019. And so it continues….

The economy is still growing (albeit slowly) but forecasts are being revised downwards primarily due to this Brexit uncertainty and a poorer outlook for the global economy. The EY Item Club now expects growth of 1.3% for 2018 and 1.5% for next year which is fairly uninspiring and a mark down from previous estimates.

Inflation has eased to 2.6% in September from the six month high CPI growth of 2.7% for the 12 months to August and expectations are that this will continue to fall. Interest rates were increased again only recently in August which will reduce pressure on the Bank of England's Monetary Policy Committee to opt for a further rate rise in the immediate future. However wage growth is up at 3.1% in the 3 months to August which demonstrates a relaxation in the squeeze on incomes so a further interest rate rise cannot therefore be completely discounted. However, this is felt unlikely until Brexit arrangements are clarified which may take some time. The market is responding to the general state of limbo and uncertainty with predictable polarisation. Assets demonstrating long income, covenant strength and security are trading as well as ever and the better locations and central London are in vogue. The problem areas though are continuing to struggle; in particular the segments of the retail sector which are facing structural change of consumer behaviour away from high street shopping and a rise in the number of occupiers whose businesses are failing.

Although admittedly a general comment, the UK's residential market is characterised by reducing supply and falling demand in many areas. A 'wait and see' stance from many would-be buyers and sellers is helping to support prices for assets which do trade though so prices, on average, do appear broadly static. There are of course hot and cold spots at a localised micro-market level and it is fair to say that Prime Central London and its immediate neighbouring locations continue to find market conditions tougher than most. Looking longer term though, the number of UK households is increasing and we are not building enough new homes so the prognosis for house prices going forward arguably remains positive.

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In summary the markets are transacting well considering the degree of uncertainty out there (which has pretty much become the new norm) albeit a number of investors are adopting a wait and see approach. The markets are resilient both for large and small lots but in all areas pricing is very sensitive. If real estate is overpriced it just will not sell but if dealt with realistically and with the right approach there is an active market.

West End Letting Market

As is normal for the summertime, July to early September was relatively quiet across the board, however take-up in July reached a new monthly record of 1.13M sq ft, with the pre-let market still going from strength to strength. Pre-lets have accounted for 42% of space leased this year. One of the most notable of these was Facebook's pre-let of 600,000 sq ft on Argent's King's Cross site. This deal once again shows the strength of the Tech and Media sector who have contributed to just under half of the take up this year. Another notable pre-let was Publicis Media's acquisition of 212,000 sq ft at 2 Television Centre, W12 at a rent in excess of £50 psf.

The smaller end of the market, sub 3,000 sq ft, continues to be challenged by the serviced office market product as well as the uncertainty surrounding Brexit with some occupiers putting off decisions until there is more clarity on the situation. Occupiers continue to be attracted to high quality products and as the pipeline for larger stock gets squeezed as we head into 2019, we envisage the pre-let market leading the take up stats.

Supply at the end of July stood at 4.74M sq ft which translates to a vacancy rate of 3.9%. This is a slight increase from the previous month but remains below the 10 year average of 4.4%. However, availability of new space is critically low, and future supply is constrained particularly in the core, both through fewer construction starts and heightened pre-letting activity.

Prime rents in the West End have remained stable at £120.00 psf with Grade A rents at £79.00 psf and Grade B rents at £60.00 psf.

Rent free periods remain at 20-24 months on a 10 year lease and 10-11 months on a 5 year lease. Landlords continue to offer very flexible lease terms and, in some cases, are fitting out their space in order to decrease their letting voids and attract good covenants.

Moreover, the availability of new space – as we highlighted in the Q1 2018 Issue to Watch – is critically low at just 0.4%, less than a third of the 10 year average level of 1.3%. Future supply is also increasingly limited. West End development completions peaked in 2017 and vacancy has now started trending downwards.

> Supply at the end of July stood at 4.74 M sq ft which translates to a vacancy rate of 3.9% against a 10 year average of 4.4%

West End Investment Market

The West End Team recorded a total of £2.8Bn exchanged or exchanged and completed in 37 transactions during Q3 2018, the strongest Q3 in the past 5 years and 40% ahead of the 5-year average (£2.0Bn).

This brings the total year to date to £5.9Bn (93 transactions) slightly down on the same point in 2017 (£6.0Bn).

The quarter's total was buoyed by the sale of two large assets: Verde SW1 and The Adelphi, with a combined lot size of £1.01Bn, sold to a German fund and a Spanish private respectively. These deals also represent the largest deals transacted in the West End this year. Both opportunities offered average weighted unexpired lease terms in excess of 10 years to tenant break options. This illustrates continued investor appetite for secure, long-term income streams requiring minimal asset management and low capital expenditure going forward, with Verde being completed in 2017 and The Adelphi having undergone a £70M refurbishment.

During the third quarter, the Allsop West End Team has been involved in £280M / 10% of volume, represented in four transactions.

Notably we completed the sale of One Neathouse Place, SW1 for £175M reflecting a capital value of £1,490 psf. One of the largest vacant possession transactions in the Core West End so far this year the transaction highlights the continued demand for hotel redevelopment opportunities in the capital.

A further five transactions in Q3 were in excess of £100 million: 40 & 50 Eastbourne Terrace, W2 to Yard Nine and Invesco Real Estate; The Shepherd's Building, W14 to Workspace; The Beaumont Hotel, W1 to Ellerman Investments (the Barclay brothers); 160 Great Portland Street, W1 to ADAM (Alduwaliya); and 20-24 Carlton House Terrace, SW1 to Clivedale. In total the eight deals in excess of £100 million made up 65% of Q3's total volume.

Overseas investors continue to dominate having been involved in 65% of Q3 purchases. The geographic origin of capital continues to be diverse yet often sub-market specific. In particular of the seven transactions in Mayfair this quarter overseas investors dominated transacting five of the deals, buyers notably being from the Asia and the Gulf regions.

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A further, and no doubt related, trend is tenure, with international investors tending only to purchase freehold assets since the beginning of the year.

In the West End, investor (particularly overseas) demand remains robust in a market environment of low interest rates, weakened sterling and a healthy debt market. These economic factors, combined with a resilient occupational market, have resulted in prime yield stability in London's West End. The market continues to be characterised by a severe shortage of available investment product with many investors reluctant to sell in a tight market with attractive fundamentals. In particular investor enthusiasm combined with a lack of stock means there is sustained investor demand for prime, quality products offering secure income, minimal capital expenditure and a relatively hands-off asset management strategy.

Moving into Q4 there have been several further high-profile sales brought to the market such as Seven Dials Warehouse, WC2, Sanctuary Buildings, SW1, Film House, W1 and a number of major buildings are now 'Under Offer' including 23 Savile Row, W1 and 125 Shaftesbury Avenue, WC2. In total these sales make up in excess of £1Bn of volume and suggest that we are set for a busy end to the year, particularly when the long-term average trend sees the majority of investment volume being transacted in the second half of any given year.

City and City Fringe Letting Market

Take up for Q3 2018 is down by 3% on the previous quarter to 1.2M sq ft with the largest transaction being the letting of 55 Gresham Street to Investec Asset management (121,600 sq ft). Take up for 2018 as a whole to date is 4.3M sq ft which should, with strong levels of take-up expected in Q4 2018, ensure that the year's total take up exceeds the long term average of c.5.4M sq ft.

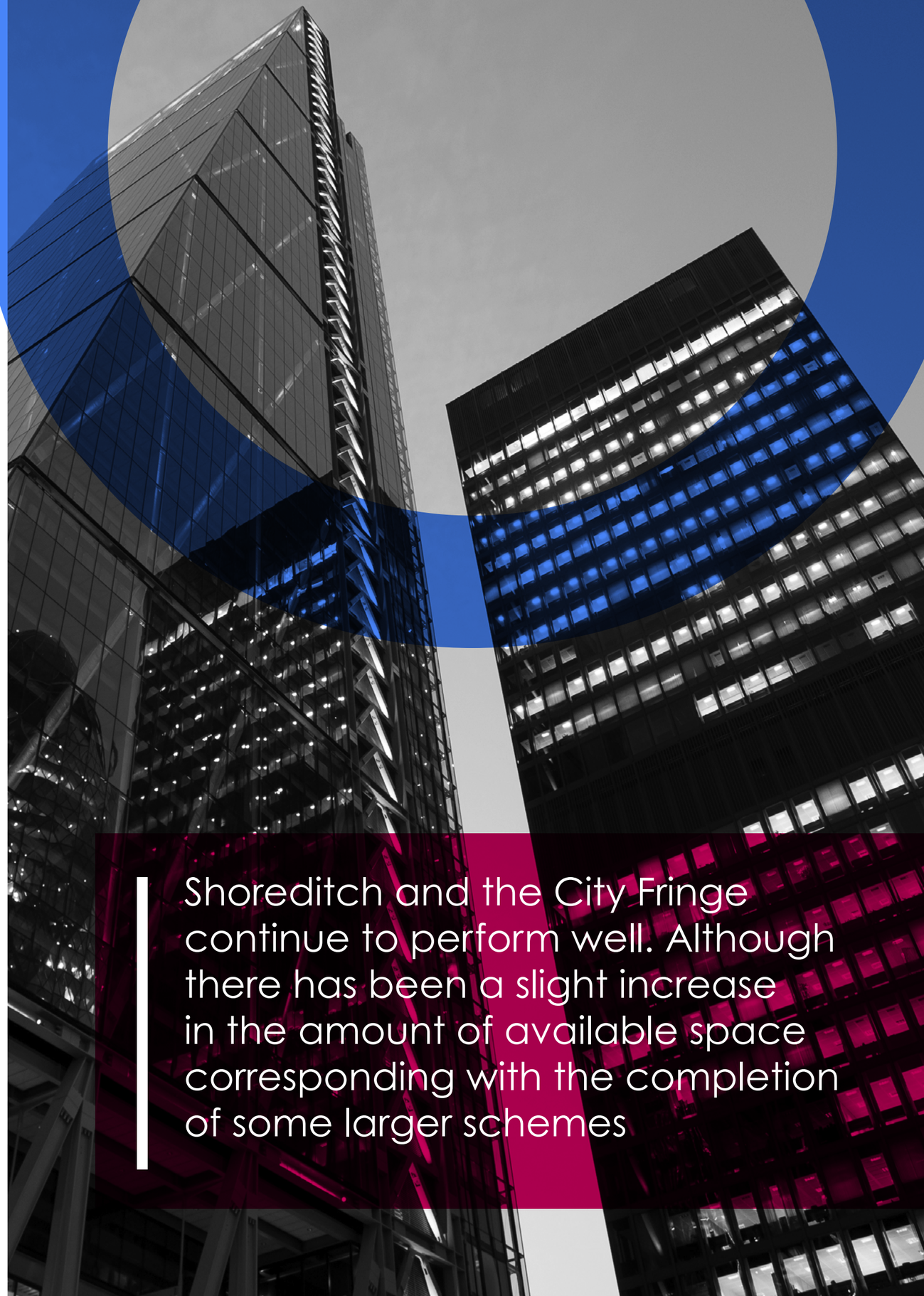
Although the serviced office sector continues to account for a significant amount of City and City fringe take-up, the Investec letting at 55 Gresham Street, EC2 and Hiscox deal at 22 Bishopsgate, EC2 (75,000 sq ft) mean the Insurance and Financial sector has dominated in Q3 2018.

The City has continued to see large amounts of space placed under offer in Q3 2018. 146,400 sq ft has gone under offer at 135 Bishopsgate, EC2 to two occupiers; 150,000 sq ft at Premier Place, 2a Devonshire Square, EC2 is under offer to Jane Street Capital who are relocating from 20 Fenchurch Street; and 40,000 sq ft on the 5th and 6th floors at 25 Copthall Avenue has gone under offer to Old Mutual. Other significant requirements in the market include IBM (100,000 - 200,000 sq ft) Quilter (80,000 - 100,000 sq ft), BT (150,000 sq ft) and JLL (120,000 sq ft).

Shoreditch and the City Fringe continue to perform well. Although there has been a slight increase in the amount of available space corresponding with the completion of some larger schemes, such as Helical Bar's Tower element of The Bower which remains partly un-let, overall however vacancy remains relatively low compared to the City.

We have also seen significant amounts of space placed under offer in this submarket during Q3 2018 including 60,000 sq ft at The Farmiloe Building, EC1 rumoured to be under offer to Live Nation, 40,000 sq ft at Arnold, Great Eastern Street, EC2 to an undisclosed co-worker and 15,000 sq ft at Herbal House to Adidas.

Prime rents have stabilised at around £70 psf and rent free periods remain at 24 months on a 10 year term for City and City Fringe buildings, however with the low levels of speculative development stock, this should mean a positive effect on market activity in the short to medium term, particularly for large offices floors exceeding 10,000 sq ft.



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City and City Fringe Investment

After a slow initial start to 2018, Q2 turnover demonstrated the ongoing strong investor interest in the City and City Fringe markets, which has continued into Q3 2018.

Our City Investment Team has recorded a total of £3.015Bn either exchanged or completed in 39 transactions during Q3 2018; slightly higher than Q3 2017, which, putting it into perspective was a year which ended with the highest City transaction volumes on record. This figure is less than the £3.706Bn recorded in Q2 2018, which can be explained by more limited available product rather than any reduction of investor appetite, which remains strong and diverse.

The average deal size for Q3 2018 was £77.1M compared to £109M in Q2 2018 which is a reflection of more limited large scale opportunities being available rather than decreased demand for £100M plus lot sizes. The largest transaction of the quarter was the Goldman Sachs Headquarters sale and leaseback at 40 Shoe Lane, EC1, where National Pension Service of Korea purchased for £1.165Bn/ £1,409 psf/ 4.17%. The second largest transaction of the quarter was Sixty London, EC1 which Norges Bank Real Estate Management purchased for £321M/

£1,359 psf/ 3.87%. We understand that both these assets experienced competitive bidding, with several under bidders from South Korea, demonstrating the continued trend of South Korean Investment into Central London, seeking 'best in class' long term income investments. The fact Norwegian sovereign wealth fund Norges purchased Sixty London, demonstrates the continued diversity of buyers in the market. These transactions also highlight the depth of demand for large lot sizes.

Whilst Asian investors, in particular South Koreans continue to dominate larger £100M plus transactions, domestic buyers continue to lead the way in terms of number of deals. There has been a notable increase in UK institutions in the market seeking liquid 'best in class' assets in the traditional City fringe markets such as South Bank, Shoreditch and Clerkenwell, driving values in these markets to an all-time high. Orchard Street purchased 80 Clerkenwell Road EC1 for £18.5M/ £1,494 psf/ 4.63%, a new record capital value for the area. Similarly, 100 Union Street, SE1 was purchased by Weybourne Partners for £26.25M/ £1,351 psf/ 4.19%, with at least three UK institution under bidders. Many UK institutions are experiencing historically high levels of cash, following a more cautious approach to new acquisitions in the wake of the Brexit vote. Their rationale for investing in the City Fringe markets is driven primarily by the strength of their occupational markets which are popular with the rapidly expanding tech sector, combined with a distinct lack of Grade A supply.

Evidence displayed during Q3 2018 suggests that London will continue to attract overseas investors despite Brexit

Evidence displayed during Q3 2018 suggests that London will continue to attract overseas investors despite the UK's exit from the EU, drawn primarily to London's safe haven status and the fact it offers good value in comparison to other major cities globally, albeit there is caution from some investors.

The increased presence of UK investors bidding competitively for smaller, riskier assets, buoyed by a positive occupational market, shows strong market sentiment across the investor spectrum. We expect this to continue into the final quarter with prime yields remaining at their historic low of 4.0% - 4.25%. Going into the final quarter, there is approximately £1.5Bn available compared to a record breaking £6.5Bn in the final quarter of 2017. We therefore expect a significant reduction in total transaction volumes in 2018 despite resilient investor demand, albeit still significantly higher volumes than the 10 year average.

We expect only gradual rises in interest rates in the short to medium term, which will have limited effect on investment yields.

National Investment Market

With political uncertainty dominating headlines, Q3 2018 was always going to be a testing for the commercial property sector. Following weak economic output growth of just 0.2% in the weather affected first quarter, the wider economy rebounded in Q2 18 expanding to 0.4%.

The Bank of England voted unanimously to raise interest rates in August 2018 by 25 bps to 0.75%. The rise had originally been expected to come through in May but was delayed due to the weaker than expected wage growth released in Q1 18.

Despite the challenges investment volumes in H1 2018 totalled £27bn, the second highest on record with International investors accounting for a sizable 49% of the market. There was a total of £14.38bn transactions in Q3 2018 against the £20.34bn reported in 2017. Despite ongoing weakness in the retail sector there is continued confidence in the UK market which is perceived as a safe haven for international capital.

At the time of writing we expect deal volumes to fall over the next 6-9 months with increasing uncertainty surrounding the outcome of the Brexit withdrawal agreement. However the doubt presents an opportunity for shrewd investors with some commentators stating that a deal may be agreed by the end of October which would create a bounce in the market.

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Industrial

The industrial sector is the major beneficiary of the shift towards e-commerce and a weaker sterling boosting the manufacturing sector. This has resulted in significant rental growth, particularly on multi-let estates. We expect this trend to continue for the foreseeable future.

Prime logistics yields are 4.0-4.50% depending on rent review structure and prime multi-let estates 4.0%. Transactional volumes in Q3 2018 were £3.34Bn down 29% against £4.68Bn in Q3 2017.

Notable transactions included The Hub, Witton which sold for £33.7m reflecting 4.63% and Nexus Park in Newbury which sold for £27.5M reflecting 4.83%. Allsop advised on the disposal of £25m of logistics and industrial property including Quantum Park, Manchester which sold for £9M reflecting 4.94%.

High Street

The success of the industrial sector comes at expense of the high street which continues to suffer from low investor confidence due to a significant oversupply of shops in the UK and growth in e-commerce. High profile casualties in Q3 included House of Fraser and the large development schemes in Croydon and Brent Cross which were put on hold due to shareholder pressure on Hammerson.

Strong retail locations continue to perform on the occupational side owing to low vacancy rates and strong fundamentals, however the ongoing negative sentiment continuing to weigh on the retail sector is resulting in cautious investor demand. Total retail transactions equated to £352M in Q3 2018 down by 18% on the £431M transacted in 2017.

There is a significant yield gap between prime and secondary assets with prime yields now at 4.75% and secondary / tertiary high street shops transacting at yields in excess of 10%.

Notable transactions include 41 Old Bond Street, W1 for £65M reflecting 2.72% and 78-90 Buchanan Street, Glasgow for £31M reflecting 3.99%. Allsop advised on over £40M of retail disposals including the sale of HSBC in Norwich for £6.75M reflecting 5.8%, Caffè Nero in Winchester sold for £5.25M reflecting 4.70% and Victoria Street, Blackpool for £2.9M reflecting 12.66%.

Retail Warehousing

The retail warehouse sector has had a tough 12 months as a result of tenant instability. This has resulted in an outwards yield shift due to the lack of investor confidence of 150-200 bps. However, the outlook is more positive than the high street due to more stable income returns and affordability of space. There were £620M of warehouse transactions in Q3 2018 against £521M in 2017.

Prime yields are 5.75-6.25% dependent on a variety of parameters with secondary parks trading for 7.50% ++ NIY.

There is a clear relationship between retail warehousing and distribution which will grow due to 'Click and Collect' and 'Last Mile' delivery models. We anticipate that the retail warehousing sector will perform in the medium term as investors will seek to chase higher returns which elude them in the industrial sector.

Notable transactions include the Hammerson sale to Capreon for £164M, Almondvale South Retail Park, Livingston for £30.45M reflecting 7.77% NIY and South Baileygate Retail Park, Pontefract for £7.6M reflecting a NIY of 7.88%, where Allsop advised on the sale.

National Offices

The sector continues to remain popular with both domestic and overseas capital encouraged by the depreciation in sterling. Demand is supported by a strong occupational market with serviced office / co-working space growing in importance, with take-up up significantly. This has resulted in a shortage of Grade A office supply and is putting significant upwards pressure on rents.

There were £534M regional transactions in Q3 with prime yields currently 4.75%.

Notable transactions include the purchase of the Brockton Capital / Landid portfolio by Spelthorne Council for £285m across Reading, Uxbridge and Slough, One Park Row in Leeds purchased by CCLA for £35.6M reflecting a 4.43% NIY. Allsop advised on the disposal of over £75M of regional transactions including the Acute Portfolio which consisted of three properties in Greater London for £51.8M.

Portfolio

The UK Portfolio Market continues to significantly outperform expectations with over £10.5Bn transacted in 2018 to date, significant on-market supply and consistently strong investor demand is anticipated to drive year end transactional volume in excess of an already stellar 2017.

In 2018, the UK Portfolio Market has exhibited signs of significant segregation between lot size groups and purchaser demographics, within individual use sectors. This polarisation is unprecedented and has proven the importance of targeted marketing and well-conceived portfolio mix. Industrial and Alternative sectors continue to dominate the transactional market with a busy summer period highlighting numerous competitive bidding situations. The elusive portfolio premium has staged a comeback in recent years often out-performing vendor book value.

Allsop has advised on the successful transaction of over £213M of UK portfolio transactions over the previous 12 months including the recent acquisition of the Cedar Portfolio, a highly reversionary multi-let industrial portfolio purchased for Kames Income Fund for £39.9M reflecting 5.85%.

Source:propertydata

Commercial Auction Market

The private investor continues to be a resilient source of capital and increasingly selective as market conditions, particularly on the High Street continue to throw up challenges.

Nevertheless, Allsop has transacted £421M including the recent October auction sale and importantly our largest online-only sale.

Our second online auction raised £3.3M on behalf of a single vendor with a success rate of 94%. The auction was made up of 16 properties, from across the country, comprising a mixture of investment and added value opportunities. The most popular lot was Lot 1, Brighton, a restaurant investment which attracted 50 bids on the day and sold for £377,000 (7.0%). The largest lot

sold was Lot 9, Liverpool, a parade of shops and flats, which after being offered at a reserve not to exceed price of £500,000 sold after competitive bidding for £700,000.

Our main October sale raised £98M selling largely to a busy auction room, with bidding also taken from telephone and internet based buyers. It was dominated by three bank portfolios, two were long let and the third with leases expiring in five years; all but two sold, raising £21.7M.

Vision Express was amongst the beneficiaries of the continued shift to quality and sold all of its sale and leaseback portfolio at an average yield of 4.8%.

The best retail stock at auction has seen a price improvement from 4% to 3.8% over the past year as buyers bid competitively for the longest let quality investments.

Three tertiary Shopping Centres were sold, with Dudley the biggest lot of the day achieving £4M / 16.77%. Two others in Tredegar and Stafford sold at yields in excess of 20% reflecting an appetite for risk in the market – when compensated for by yield.

Looking ahead, pricing continues to be challenging, but there is clearly a deep pool of capital provided the risk/reward balance, or pricing is appropriate.

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Residential Development Market

The start of Q3 proved to be relatively slow as certain factions of the market used the summer months and the uncertain political landscape as justification to sit back and observe.
The council elections were held in May and therefore a number of developers have spent this quarter assessing the implications of a change at the local political level on both their current and future planning applications.

It has been reported that during 2017 and 2018 so far it has taken an average of 13 months to gain a full planning consent and there is increasing political pressure to reduce this. However despite these timescales there is still a strong appetite for unconditional unconsented land from those that are experienced in adding value and even more so for sites with the benefit of short to medium term income (1 – 5 years) which provides a return while the hurdles of the planning system are navigated.

In London there has been some activity in the Zone 1 and 2 locations with certain planning success stories including Berkeley's consent for 1,800 homes and 37 storeys at its Fulham Gasworks site and LBS Properties approval for its 48 storey tower through appeal, both positive in the current planning environment. There is also a positive story with good pricing reportedly being achieved on new schemes, albeit often on completed units, albeit a number of buyers of the high end products are being less speculative in the current environment and wanting to see the units they are purchasing before parting with their cash. The mood from overseas appears to be that Brexit is not of a serious concern and while buyers may be faced with a lot of choice they appear to still pay good prices for the right product.

The masses are certainly still targeting the outer London boroughs and beyond with continuing demand for sites in areas with a sub £800 psf price bracket where the majority of the units fall within the Help to Buy (HtB) catchment therefore providing confidence in future sales velocity. The HtB initiative has certainly drawn buyers and developers to areas that they may not have considered 5 years ago, however while the government has confirmed that the scheme will last until March 2021 at present there is uncertainty as to whether or not it will be continued and if so whether it will be in its current form.

This consequently has started to create caution around the sales assumptions on schemes that will be completing post 2021 and will continue to do so until the government provides clarity on the situation. This is also reflected in Londoner's aspirations where we are seeing a softening in their stance on pricing. For those sites with planning, it is essential to try and avoid onerous affordable housing review mechanisms, over – sized units and where possible costly basement excavations.

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Residential Investment Market

The Residential Investment market continues to be dominated by demand for yield driven opportunities from a broad spectrum of investors with the regions remaining at the epicentre of any activity. The £1M-£5M price bracket continues to be the most popular, albeit it is clear that buyers are becoming increasingly more discerning with significant extra due diligence being undertaken. Good quality stock in established locations will sell readily.

The demand for significant quantum of units located within close proximity of each other remains healthy with the obvious benefits to be had from the economies of scale in relation to established running costs on portfolio stock.

There is a notable uptick in demand for large numbers of houses, as opposed to flatted developments, with an oversupply of new build flats available for sale, and for rent, which are coming to practical completion in certain locations at the present time.

London investment opportunities are numerous but there is a significant note of caution from investors which cannot be ignored. Yield compression has been notable over recent years and, whilst this is not an issue if the market perceives capital growth in the medium term, this `hope value' appears to have ground to a halt and the well-publicised softening of pricing in central London is rippling further out.

Some would argue that the uncertainty in the current market, which is mainly due to Brexit concern, is an excellent opportunity to step in, in readiness for a return to market confidence once a deal has been thrashed out in Brussels.

We have interesting and challenging times ahead but, in any market, there will be willing sellers and willing purchasers. After all, everyone will always need a place to live!

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The Build to Rent Market

The BTR sector is now firmly in the 'development phase', with the focus having shifted towards construction of schemes and existing stock management including mobilisation of assets in development. The British Property Federation's (BPF) latest figures demonstrate this shift into the construction phase, estimating an impressive 25,665 units completed and 41,870 under construction. The BPF estimates a further 64,320 units have planning permission. London has taken back the majority gain of BTR homes with approximately 67,117 in London compared to 64,738 in the regions.

Recent BTR announcements worthy of mention include: US property investor Harrison Street Real Estate Capital who are forming a BTR joint venture with Apache Capital Partners and plan to forward fund seven schemes, in Liverpool, Birmingham, Edinburgh, Glasgow, Leeds and two in London; Palmer Capital who are launching the first BTR business model called Packaged Living, which will act as an investor, developer and manager; Mark Woodrow has left Grainger to set up a new BTR development and advisory company called BTR Partners; Morgan Sindall Investments Limited (MSIL) has unveiled plans for a new BTR funding vehicle focused on London and the South East with a seed portfolio of 1,000 homes (c.£480M GDV); and Realstar has signed two financing deals totalling £100M for developments in Wembley and New Cross.

The trend for 'secondary' cities such as the likes of Leicester, Derby, Poole etc. and well-connected large towns continue to be on the radar, with investors seeking to deploy remaining and growing capital in secondary or even tertiary areas. Experience from other stabilised schemes is providing the confidence that security of income can still be achieved in less 'prime' areas, and sharpened yields are helping to improve viability in these locations. Investors are becoming more comfortable with investment pricing being much closer to hypothetical sales values which is facilitating yields hardening. This is a crucial factor in making it possible for BTR to work in towns and cities with sales values of less than £300 psf.

> Yields remain strong for well-designed BTR stock in prime, practical locations

On the back of this trend, the emphasis for BTR housing continues. Locations where there is availability of land yet close to a good level of amenity including schools and transport infrastructure, is important to attract the family demographic or those considering alternatives to city centre living. Houses are the next logical step for residents wanting more space and the flexibility and perks of living in a well-managed new house, without the need to save for a deposit or mortgage.

Yields remain strong for well-designed BTR stock in prime, practical locations; in London and the South East a NIY range of 3.25% to 3.75% is being accepted and 4% to 4.5% in a number of major regional centres. Secondary locations are seeing NIY yields closer to 4.75% to 5.25%. We are now seeing some incremental stabilised asset transactions, which are demonstrating potential further premiums to development funding yields.

Of note is Moorfield's newest BTR development, The Forge, located in Newcastle city centre, which opened its doors in October and is managed by Allsop Lettings and Management. Lettings have been very positive with over 25% of phase one units now occupied and rental targets have been exceeded. The release of phase two is anticipated for the end of 2018 / beginning of 2019, with new reservations already underway. As the BTR market establishes itself further, the sector needs to continue to build on the data being gathered from stabilised schemes and adapt the customer service offering accordingly.

Residential Auctions Market

It is clear there is a lot of uncertainty surrounding Brexit which has created stagnation with price falls across most areas and significant slumps in the uber prime price brackets. Mark Carney's rather reckless warning of a 35% drop in house prices in the event of a no deal Brexit has not helped that.

When looking at activity in the auction room and listening to commentary in the market, whilst transactions have slowed, these are by no means reasons to believe that the end of the world is nigh. Buyers are still there – but they have recognised the opportunity to drive a harder bargain. That goes for investors, occupiers and especially traders. We are seeing post auction activity at its busiest for some years.

Although the RICS presented a rather gloomy snapshot last month of agreed sales being at their weakest in August (aren't they every year?), there are signs that owner occupiers are returning to London.

Despite a 0.5% drop in average asking prices across the capital since this time last year, Rightmove reports that there has been an upswing in buyer activity. Whilst interpreted as a sign that the market is improving, we will of course have to wait to see if this is no more than a post summer, back to school blip.

Rightmove forecasts that London house prices are to improve by an average of 12% over the next five years. Among the London boroughs expected to undergo the fastest growth are Hackney, Camden, Tower Hamlets and Haringey.

Overseas interest in London residential property continues. However, this is now weighted in favour of occupiers seeking longer term commitment. Both overseas and domestic investors have generally favoured regional locations with good transport links over London due to more affordable capital values and higher net rental returns.

It is true that 24 of all 33 London boroughs have experienced price falls in the past 12 months. But despite the uncertainties that continue to impact the London property market – and indeed most markets – there is still positive opinion out there.

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