National Investment Market

Offices

Overview

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

Who is Buying? / Headline Deals

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

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Who is Selling?

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

Direction of Travel

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

Supermarkets

Overview

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

Who is Buying?

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

Who is Selling?

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

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

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

Headline deals

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

Direction of Travel

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

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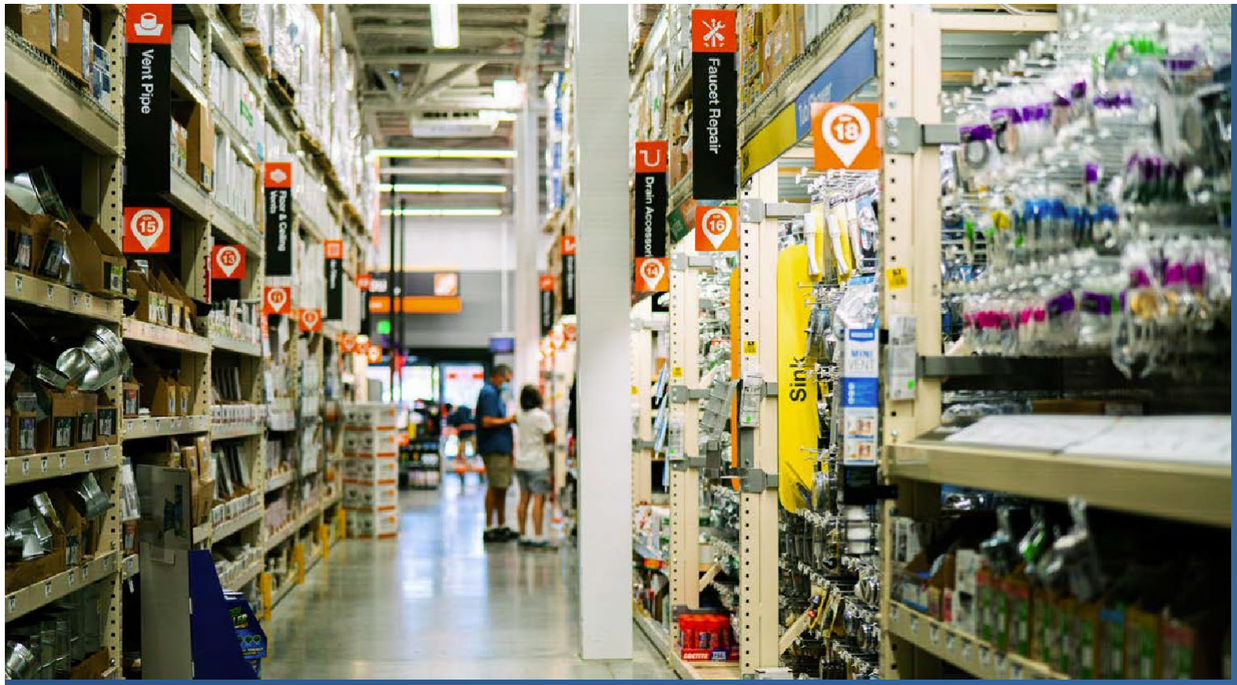

Retail Warehousing

Overview

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

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

Headline Deals

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

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

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

Who is Buying

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

Who is Selling

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

Direction of Travel

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

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Industrial

Overview

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

Who is Active in the Market

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

Headline Deals

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

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

Direction of Travel

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

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Retail

Overview

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

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

Headline Deals

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

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

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

Who is Buying?

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

Who is selling?

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

Direction of Travel

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

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

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