Commercial & Residential

MARKET UPDATE

May 2024

Economic Overview

Employment data from the United States in early April presented a robust picture, with the economy adding a staggering 303,000 jobs in March, surpassing market expectations. America's unemployment rate edged down to 3.8%, but the big news was inflation rising to 3.5% over the 12 months to March, up from 3.2% in February. Higher prices for fuel, housing, clothing, and the cost of eating out drove the increase.

Bets on a Fed rate cut tumbled in mid-April following the surprise increase, causing American bonds to spike – the US Treasury 10-year yield approaching 4.5% and some market commentators forecasting it could climb to 5% with the economy growing at or above trend and elevated American inflation being more persistent than expected. The March CPI numbers led to market mutterings that zero cuts in the Fed's base rate in 2024, or even a rise at some point, could now be possible; speculations which sparked the 'worst rout' and sell-off of US bonds since September 2022.

As a result, despite the Fed projecting it would cut rates by 75 basis points this year, even that is now looking less likely. Fed funds futures contracts for December'24 are now showing a consensus of around a 60-basis point cut in total this year, compared to the 150 basis points priced in by markets at the start of 2024.

Europe is now experiencing a different scenario - Euro area annual inflation is expected to be 2.4% in March 2024, down from 2.6% in February according to flash estimates from Eurostat - this would be the lowest inflation number for 2 years or so and would significantly raise expectations of imminent ECB rate cuts. Germany, facing a likely recession after GDP contraction and manufacturing sector stagnation, reflects broader Eurozone challenges amid high energy prices and supply issues.

China shows signs of economic recovery, with factory activity growing for the first time in half a year. However, this growth occurs within a context of heightened geopolitical tensions, particularly with the United States, which has expressed concerns over China's manufacturing and trade practices.

In the United Kingdom, the economic outlook is cautiously optimistic. The Office for Budget Responsibility slightly increased the growth forecast for 2024. Fiscal measures aiming to stimulate short-term demand include tax cuts and freezes on duties. These efforts, however, coincide with the potential for post-election fiscal tightening and the ongoing challenge of elevating productivity for long-term economic health.

Monetary policy remains a focal point globally, with central banks closely watching inflation and employment to inform their decisions. Much like the ECB, the Bank of England is now expected to diverge in policy from the Fed and cut rates much earlier, albeit the depth and timing of the first cut is still hotly debated.

As the global economy progresses through 2024, the divergent trends across major economies underscore the complex interplay between employment, inflation, and strategic responses by central banks and governments. The US boasts strong job growth but faces inflation and debt concerns. Europe struggles with recessionary pressures, China experiences a resurgence amid geopolitical scrutiny, and the UK exhibits guarded optimism with an eye on fiscal challenges ahead. The actions of central banks and governments in response to these conditions will be critical in shaping economic outcomes in the months to come.

The one factor common to all the major economies at the moment is geopolitical risk. These centre on four main stress zones, all which risk disrupting supply chains and increasing trade costs:

- the impact of the Houthi insurgency in the Red Sea,
- the ongoing Hamas-Israeli armed conflict,
- the seemingly endless Russian-Ukrainian war, plus
- 'Doomsday scenario' speculation about deteriorating Chinese & Taiwanese relations. ►

Economic Overview

A more practical concern for businesses is the risk of cyber-attacks motivated by these geopolitical tensions (for example - the Czech Transport Minister warned this month that “thousands” of attempts to interfere with train networks, ticketing and signalling systems by “pro-Russia hacker groups” had been observed since the Ukraine invasion began), together with fears of weaker demand and the threats of higher energy prices &//or reduced energy supply to economies stemming from Middle Eastern tensions.

Financial sector stability risks have also increase, particularly within certain commercial real estate markets, where a sharp contraction in values across several advanced economies is observable. Major restructuring and debt burdens in the mainland China property sector also poses a contagion concern with potential repercussions for the UK and other nations. The scale of the losses in either area could precipitate creditor setbacks and disrupt UK financial steadiness through macroeconomic and financial market spillovers, contagion to UK banks’ funding conditions, and a contraction in international financing for the UK commercial real estate segment, potentially exerting additional downward pressure on UK valuations.

High levels of public debt in major economies remain a persistent hazard to the UK’s financial equilibrium, particularly against the backdrop of an ongoing constriction in financial conditions. However, the UK banking sector remains robustly capitalized and able to support the economy, even if financial conditions deteriorated significantly beyond current projections.

The Consumer Prices Index (CPI) registered a 12-month rate of 3.4% as of February 2024, a deceleration from the 4.0% rate recorded in January 2024. This movement in the annual CPI rate reflects the interplay of various price changes. Notably, the food sector, along with restaurants and cafes, exerted significant downward pressure, while the sectors of housing, household services, and motor fuels contributed the most to upward pressures.

This trend then continued into the ONS’ March data with CPI slowing again to 3.2%. This was slightly lower than markets expected, but this is perhaps partly due to the lag in the ONS data (April will see the impact of a ~12% cut in the OFGEM energy price cap drop in which is likely to bring headline inflation below 3%) as well as the new ONS PIPR measure of residential rental price inflation which has led to a upside recalibration of the housing cost components of the main consumer price indices.

The pattern of ‘two steps forward, one step back’ in the month-to-month inflation data which started in early 2023 seems set to continue in the short term, with the long journey back to the central bank’s 2% target a harder and longer road than first hoped.

“My New Year prediction of a rate cut on May 9th is fast receding, despite poor GDP figures, the ending of hawkish votes (at last!) to increase base rates to 5.5% and Feb’s falling CPI numbers. With just one member of committee voting for a cut in March, I fear there is still some way to go before a majority of the panel votes to reduce rates, especially given the ongoing persistence of services inflation. I retain hope though that if we see another significant CPI drop into mid-2% territory following the MPC’s April break, they could be persuaded to act sooner than markets are expecting and certainly before the Fed.””

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City & City Fringe Investment Market

Overview

Typically the lowest quarter in terms of volumes, there were just £302M of transactions in Q1 2024 across 18 deals following continued challenging macroeconomic conditions and a lack of newly available product. There are signs of the sentiment improving, however, with competitive bidding for prime assets.

The last time the City of London market experienced a Q1 turnover of less than £1Bn was during the Global Financial Crisis in 2009 (£370M) and 2010 (£820M). The Q1 2024 volume is only 25% higher than the £239M realised during the peak of the Covid-19 lockdown in Q2 2020.

65 Fleet Street, EC4

The continued high cost of finance has ensured there remains a distinct lack of £100M + transactions with an average deal size of just £16.8M. The largest deal of the quarter was student accommodation and hotel developer Dominus Real Estate's purchase of **65 Fleet Street, EC4** for £83M/ £343 per sq ft. 13 of the 18 deals were £20M or below.

With the Bank of England holding interest rates at 5.25% since August 2023, prime City yields remain stable at 5.50%. However, with positive inflation news in March, the market could experience a tightening of yields following anticipated interest rate cuts later this year.

Allsop has recorded approximately £330M under offer across 11 transactions which is significantly below the long term average and is unlikely to experience any significant uptick in activity until greater supply is forthcoming. Following the collapse of **20 Old Bailey, EC4** which was under offer to Sinar Mas Land for c. £235M/ 6.15%/ £971 per sq ft, the largest deal currently under offer is Derwent London's **The Turnmill, 63 Clerkenwell Road, EC1** for approximately £75M.

The Turnmill, 63 Clerkenwell Road, EC1

Investor appetite from core buyers remains for correctly priced best-in-class office buildings with high ESG and sustainability credentials in the best locations. ESG criteria remains top of the agenda for developers against a backdrop of historically high build costs.

Who is Buying?

UK purchasers accounted for both the highest numbers of deals (10) and volumes (49%), attracted to historically attractive pricing in the sub £20M lot size range. European investors accounted for 25% of total volumes, with two US purchases (16.5%). There was just a single Asian purchase (10%) of **52 Bedford Row, WC1**, reflective of the lack of good quality assets of a larger lot size.

52 Bedford Row, WC1

The living and hotel sectors remain very active with limited opportunities and significant capital wanting to invest. This is best demonstrated by Dominus Real Estate's £85M/ £434 per sq ft purchase of **65 Fleet Street, EC4**. The vacant 248,000 sq ft office building was purchased unconditionally for a change of use to student accommodation. ►

City & City Fringe Investment Market

Who is Selling?

The market is characterised by a lack of product newly available at market pricing. Historically low values have deterred the majority of landlords from selling unless there is some pressure to do so.

Old Change House,
128 Queen Victoria Street, EC4

Funds meeting redemption requests or winding up, remain a principal driver for sales. The British Coal Pension Fund sold **Old Change House, 128 Queen Victoria Street, EC4** to BauMont/ Addington Capital for £22.8M/ £439 per sq ft against an original guide price of £36M/ £693 per sq ft when marketed in Summer 2023. The 8% geared long leasehold interest has short term multi-let income and will require cap-ex in the short term.

There remains a number of vacant possession sales where vendors do not have the resource or appetite to refurbish/ redevelop, given all time high build costs exacerbated by additional costs required to meet modern ESG criteria. This likely encouraged the sale of **65 Fleet Street, EC4** by Jing Mei Holdings for £85M/ £434 per sq ft.

Herbal House, 8-10 Back Hill, EC1

There are an increasing number of previously consensual sales which have gone into receivership following a recent loan event. Macquarie Capital has appointed LPA receivers at Teneo over **Herbal House, 8-10 Back Hill, EC1**, a multi-let freehold that was put up for sale last year for £140M / £1,228 per sq ft / 5.00% NIY by Herbal House Investments, a company formerly owned by the Ruimy brothers. We anticipate the property will ultimately trade closer to £100M/ £934 per sq ft / 7% NIY when relaunched in Q2 2024.

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Deals Highlights

25 Charterhouse Square, EC1

Helical's sale of **25 Charterhouse Square, EC1** to Ares for £43.5M/ 6.70%/ £992 per sq ft represents a potential turning point in the market given it had been available for some time before experiencing competitive bidding this quarter. It comprises a high quality multi-let long leasehold interest, overlooking a garden square, adjacent to Farringdon Elizabeth line station.

21 Whitefriars, EC4

Allsop acted on five of the 18 deals this quarter including the purchase of **21 Whitefriars, EC4** for a private UK investor for £5.25M / 8.87% and £466 per sq ft from The City of London Corporation. The multi-let freehold is located immediately adjacent to the City of London Corporation's forthcoming 480,000 sq ft Salisbury Square development. The transaction demonstrates how domestic buyers are capitalising on historically good value.

Direction of Travel

Given the continuing plateauing of interest rates and positive March inflation figures, the anticipation is that there could be some rate reductions this summer. Sentiment is therefore improving with more impetus from buyers to conclude transactions.

We expect to see a continued lack of newly available product in the short term, with the majority of sellers holding off until later in the year following anticipated interest rate reductions. Despite this, the buyer pool is increasing which may encourage some vendors to act sooner in a stock starved market with little competition.

City Leasing

Overview

The final quarter of 2023 resulted in a flurry of activity across the City both in the core and city fringe. This included the widely publicised pre-let to HSBC at **Panorama, St Paul's, EC1** for 540,000 sq ft and a resurgence from elements of the tech sector including the commitment by Amazon to a further 100,000 sq ft at **The Bard Building** at **The Stage, EC2** development in Shoreditch and Wise relocating to 84,000 sq ft at **Worship Square, EC2**.

8 Bishopsgate, EC2

JJ Mack, EC1

40 Leadenhall, EC3

Take up for the City in Q4 amounted to 1.2 M sq ft with the continued trend for occupiers seeking 'Best in Class' options and a flight to quality. This is now above the 5 year average. 76% of take up for the quarter was for Grade A stock similar to the previous quarter with the trend set to continue into 2024. The under offers continue to be healthy for Central London at 3.0 M sq ft and the City at circa 800,000 sq ft. This is lower than the previous quarter due to the HSBC transaction accounting for 540,000 sq ft. Total availability in the City remains high at 10.8% with supply levels at c 14.5 M sq ft against Central London vacancy at 9.6%. The larger stock remains available at Canary Wharf with several buildings ready to occupy over 400,000 sq ft including **5 North Colonnade, E14** and the recently completed YY London, E14. Exceptional City rents are now being achieved for high quality developments including **8 Bishopsgate, EC2**, **22 Bishopsgate, EC2** and **JJ Mack, EC1**. Tower rents are now achieving £120 per sq ft + on the upper levels. Best in class rents such as Helical's JJ Mack has achieved £112 per sq ft on the 9th floor to Corio Generation and £81 per sq ft on the Ground to 3rd floors to Sainsbury. We fully expect rents to continue rising as supply levels for readily available stock reduce leaving occupiers with fewer grade A choices for 2024.

Headline Market Deals

Key leasing deals which completed in Q1 2024 were Grant Thornton taking 97,500 sq ft at **8 Finsbury Circus**, Wise take 85,000 sq ft at **Worship Square, Rathbones** Group leasing 50,000 sq ft at **30 Gresham Street, EC2**, HCC Insurance take 38,500 sq ft at **St Botolph Building, EC3** and Tiktok take further expansion space 27,000 sq ft at **HYLO, EC1**. ►

City Leasing

Allsop Transactions

The leasing team continued a run of success into Q1 2024 advising Alfa Systems to sign a new lease of 20,000 sq ft at **Moor Place, EC2**. Further success included leasing 20,000 sq ft to On Running at British Land's **Norton Folgate, E1**, Orms taking 11,000 sq ft at JP Morgan's **Spectrum, EC1** at £77.50 per sq ft and Get Agent taking the remaining 8,000 sq ft in WorkSpaces' **The Old Dairy, EC2**.

Moor Place, EC2

Norton Folgate, E1

Spectrum, EC1

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West End Investment Market

Overview

The West End has had a second consecutive quarter where transaction volumes appear to have returned to relative normality. This quarter we **recorded £987M of transactions** either exchanged or exchanged and completed in **26 deals** with an **average lot size of £38M**.

The 5 year average for Q1 is around £1.15m. This follows on from a relatively strong Q423 where around a third of the year's total was transacted in the last couple of months of the year.

Headline Market Deals

The largest transaction by far is RLAM buying a half share in the **former Meta HQ in Regent's Place** off British Land for around £192m, targeting life sciences. This follows BL taking a £150m premium off Meta to surrender their lease early. The next three largest transactions were in the £70-£75m range: **Vogue House Hanover Square** exchanged in early January to Global Holdings' Ofer family for £70m; Shaftesbury Capital announced the purchase of six prime retail-led buildings at **25-31 James Street** in Covent Garden for £75m; and Blackrock has sold **21-25 Bedford Street**, freehold multilet offices above a large Tesco store in prime Covent Garden to Feldberg for their brown to green ReForm fund – the price reflects 5.75% and just under £1000psf having originally been brought to the market at £95M and 4.5%.

The market has been closely watching the sales of several multilet office-led assets - Bedford Street being one of them, and 55 St James's Street another – launched in May last year by Lothbury and suffering two false starts (apparently due to issues with the building needing resolving rather than investor cold feet) it exchanged in March to Nomura for a reported £67M 4.27% and £2,375psf. The passing rents on this asset at circa £115psf are significantly reversionary.

One other transaction of note is the hotly contested South Molton Estate, where the City Corporation sold a collection of properties on South Molton Street let to over 50 tenants, for around 4.3% £62MA positive boost for Fitzrovia has been the reported sale of the BT Tower to a US hotel group. We have not included this transaction value in our quarterly stats.

Picking out some themes for the quarter, there were 8 transactions over £50m and 19 of the 26 sales were openly marketed – the remainder either off market or subject to a limited/targeted campaign. However the £+100m office market remains challenging – with the business plan for the largest trade reportedly "life sciences".

Who has been buying and selling?

Sales over £10m have mainly come from the large UK institutional investors – The City Corporation, REITS and Funds including British Land, Shaftesbury Capital, Abrdn, Columbia Threadneedle, Lothbury, Blackrock, Axa, DTZIM and CBREGI were all represented in sales and made up half the vendors and 75% of the volume. There were however only three acquisitions by large UK funds/Reits. The majority of buyers were private overseas investors.

Direction of Travel

There has been a lack of large lot size trades by the "long haul investors". However, with the c. £200M trade in **Regent's Place, NW1**, and news that Blackstone has exchanged in April on the purchase of a prime Freehold block on **Bond Street, W1** for £227M, Q2 appears to be off to a healthy start. There is still a considerable amount of stock overhanging the West End market – plenty of multi-let +£100M office buildings where rental growth expectations have not quite bridged the gap between vendor pricing expectations/historic valuations and buyer's pricing expectations. Many of these assets are "officially withdrawn" but with a clear signal that the owners want to sell.

We see continued liquidity in good quality well-located assets.

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West End Leasing Market

Overview

The West End office leasing market has had a subdued start to 2024. Take up totalled only 600,000 sq ft, which is some 40% below the 10-year average for Q1 and the lowest quarterly take up seen since 2009. This low take-up level is in the main explained by the distinct lack of larger deals reaching completion, although there is an above average amount of space currently registered as Under Offer which should complete in Q2/3 and bring take up back into line with recognised levels.

Overall West End vacancy remains steady at 7%, however Grade A availability is now at a historic low of 1.1% of total stock because of limited development completions and the fact that Grade A space accounts for the majority of deals being transacted.

Headline Allsop Deals

In Q1 **Allsop** was delighted to complete an acquisition of 6,000 sq ft on the **1st floor at The Caxton, Buckingham Green, SW1** on behalf of a confidential financial sector client. This is one of the leading-edge buildings in Victoria with exceptional occupier amenity and sustainability credentials.

In addition, we continue to see strong appetite for high quality fully fitted spaces across the West End, and particularly in core Mayfair and St. James's. At **31 Dover Street, W1** where floors are being comprehensively refurbished and fitted to a high standard, we have let the 2nd floor comprising 1,500 sq ft to Beaumont Nathan Fine Art. There are 2 other floors currently under offer due for completion as the building works are finalised all at rents more than £100 per sq ft pa.

A further theme in the market is the demand for alternative uses for well located spaces. We were pleased to let the Lower Ground and Ground Floors at **23 Kingsway, WC2** comprising 4,000 sq ft to The Secret Comedy Club for its newest West End venue – turning what would have been challenging office space into a real amenity for the West End.

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Headline Market Deals

After a particularly buoyant end to 2023, the West End has seen a limited number of large transactions at the start of 2024 with no lettings of note over 40,000 sq ft.

The largest deals that have occurred include serviced office provider Orega continuing its recent expansion phase by securing 36,238 sq ft on the Ground Floor at **80 Strand, WC2**.

Outside of the serviced sector a letting of the entirety of **11-14 Windmill Street, W1** comprising 28,750 sq ft to Databricks and a pre-let of the 4th and 5th Floors at **20 Carlton House Terrace, SW1** to the finance firm Campell Lutyens comprise the next largest deals done in a quarter of limited sizeable completions.

What is the Direction of Travel?

Whilst the overall statistics for Q1 2024 paint a low-key picture of the market, looking behind the numbers there is undoubtedly a large amount of activity that should come to fruition over the coming months. We are seeing the average time for leasing transactions to complete extending markedly. A partial reason for this is occupiers that are being driven to look for new options far earlier than they need to commit by the low levels of suitable Grade A supply which consequently is lengthening the time that deals are taking to complete.

That said the demand for the best spaces in the West End continues unabated with 16 deals happening across the West End at rents in excess of £100.00 per sq ft pa. Rental levels for the best spaces in well connected locations will continue to move ahead whilst the grade A availability ratio remains at such low levels.

National Investment Market Overview

Supermarkets

Overview

It has been another interesting quarter for supermarket deals with a number of food store investments continuing to transact. Whilst the amount of new stock coming to the market fell compared to Q4 2023 the amount of stock available and going under offer at the back end of last year meant a number of deals fell into the new year.

Who is Buying?

Institutions are still searching for what they consider the perfect product; assets in Greater London and the south east, at or under ERV, underpinned by alternative uses. However, as stock to satisfy this requirement proves difficult to source we are seeing a real mix of buyers across the sector. REITs and investment firms have looked to secure strong assets at what they consider depressed pricing – ICG purchased a Sainsbury's in Fallowfield, Manchester and a Tesco in Corstophine, Edinburgh, whilst Newcore purchased a Tesco in Bromley-by-Bow for circa £30M. HNWs have also been active; a good example of this is the purchase of a Sainsbury in North Cheam by James Dyson's property company Weybourne Holdings.

Who is Selling?

Institutions continue to be the main sellers with often external pressures forcing their hand. Reasons for selling include funds coming to maturity, the fulfilling of redemptions and the lowering of investment grading for certain covenants. The change in yields being achieved has meant many private investors and property companies are not yet ready to stomach the outwards yield swift, and many are not yet willing sellers.

Deal Highlights

A number of deals concluded in Q1 2024 which included sales of all of the traditional 'big four' supermarkets. One stand out deal completed by **Allsop** was the purchase of a **Morrisons** in **Aldershot** by one of our Citibank clients for £22.25M (9.65% NIY), let until 2037.

Direction of Travel

As we move further into 2024 we expect investors to continue to be attracted by the income-producing potential of food stores and further by the yield range on offer. This only helps to increase the buyer pool in a sector known for its strong fundamentals. As the market matures this year, and settles, we expect to see further assets come to the market via property companies and private investors only helping to increase the stock on offer. As demand increases and interest rates start to fall, or at least look like they are heading in this direction, we expect yields to start to compress.

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Retail Warehousing

Overview and Q1 Review

- In Q1 we saw increased positivity in sentiment which is creating a strong platform for the remainder of the year.
- Lack of supply is a continuing theme but deals which have been available from last year have now generally been completed on or put under offer in the first quarter.
- Deals which have happened in Q1 have now created good transactional evidence for the market.
- The smaller lot sized are also holding up with a wider buying pool of private money, smaller funds and property companies still being active.

Who is Buying?

We have seen the same buyers dominant in 2022 returning to the market with Realty Income under offer or completed on circa 10+ deals. The buying pool is starting to get deeper with a number of institutional buyers active in the market.

Who is Selling?

Mix of investors who have either been managing redemptions or have assets which are at the end of their business plans. Vendors have been waiting for a less volatile market to sell in which they are now seeing in 2024.

Headline Deals

- Silk Bridge Retail Park in Hendon shows where prime London focussed yields are trading at £16.25m, showing 5.88% NIY.
- For regional scheme Hermiston Retail Park in Consett traded for £30m, reflecting a NIY of 8%.
- Looking at solus units The Range in Southampton traded at £5.65m / 7.18% NIY and B&M in Loughborough sold for £2.7m . 6,75% NIY.

Direction of Travel

- This first quarter has stabilised and with renewed investor sentiment and transactional evidence being created there is optimism for the market going forward. With the long awaited drop in interest rates coming through later on in the year we will see yield compression throughout the year.
- There is a large weight of capital looking to enter the market but waiting for the right opportunities, especially for food anchored, south east product or strong regional centres.
- There is still a lack of stock which is holding the market back.

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Industrial

Overview

The industrial market is experiencing a period of improving optimism through the first half of 2024. Sentiment within the sector is on an upswing, bolstered by expectations of base rate cuts throughout the year. This anticipation of a more accommodative monetary environment is infusing the market with renewed confidence and sets a promising backdrop for the sector's performance in the coming months.

There are now signs of a more sustained recovery with rising land values, steady rental growth and growing occupier demand should give rise to more positive trading activity during 2024

Prime headline rents increased by 8.7% on average across the UK markets in 2023 and this momentum has carried through into Q1 – we now predict UK average prime rental growth to reach 5% for 2024.

However, the market is likely to witness a significant variation in this trend. While London and select regions in the Southeast should experience double-digit rental growth, secondary stock may see rents fall by as much as -4%.

This divergence is attributed to ongoing flight to prime from occupiers and a growing aversion to second-hand stock, grade A space making up around 70% of 2023 take-up.

Capital Deployment and Market Dynamics

The appetite for investment in the industrial sector remains robust, with a considerable volume of capital ready for deployment. This is particularly evident among major overseas investors who are showing a sustained interest in the UK market. This could potentially drive pricing at the prime end of the market and we might see a degree of yield compression later in the year..

Lack of supply remains the main draw on transactions. Nevertheless, the recent uptick in mergers and acquisitions activity within the sector could potentially contribute to an increase in available stock, thereby enabling a more dynamic trading environment.

Direction of Travel

The industrial real estate sector's performance is set to be characterized by steady rental growth and a consistent rise in occupier demand, which together point towards a more active trading scene in 2024. The growing inclination towards prime real estate, driven by occupiers' flight to quality, is reshaping market dynamics and influencing investment strategies.

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Retail

Overview and Q1 Review

Since the start of the year the number of high street retail assets coming to the market has gradually increased and we are slowly starting to see more activity in the sector. As trading conditions for retailers and profit margins remain challenging investors continue to place a strong focus on the location of a property and the sustainability of rents.

The occupational story is mixed, the news headlines have focussed on a number of well known administrations including The Body Shop (closing 75 stores but keeping 116 UK stores open) and Ted Baker (closing 15 of the company's 86 UK stores). But the news is not all bad; national retailers including Sports Direct and Primark are planning expansion with the latter looking to invest more than £100M in it's UK stores which includes £75M of new investment in UK retail this year.

Who is Buying?

The same investors that were active in 2023 remained acquisitive in the early part of 2024; those being private investors, UK and overseas (namely US, Hong Kong and Israeli). We expect institutional investors to start investing in the sector in the second half of the year as interest rates starts to decline and inflation reduces to around the BoE target.

As in 2023, despite reduced investment volumes, local shopping parades continue to attract good interest from private investors and property companies as the tenant line up is largely based around essential retailers and they are let off sustainable rents. Property companies and developers are considering high street opportunities where there is the potential to develop the underutilised upper parts, provided pricing allows for elevated build costs.

Who is Selling?

A mix of Institutional investors who are continuing to reduce the number of smaller assets in their portfolios and property companies who have completed a business plan/ secured planning permission for residential uppers or have converted the upper parts themselves.

Headline Deals

The old Beatties department store in **Wolverhampton** sold for £6.15M in February 2024 to Eden Property Group reflecting £16.33 per sq ft; the intention is to redevelop the site into 400 new homes.

Allsop acquired on behalf of a private investor, **The Great Hall, Tunbridge Wells** for £5.625M reflecting 9.8% NIY. The property was 79% let to 3 tenants including Sainsbury, the BBC and BR Flooring Ltd.

Direction of Travel

Static for now.

As and when interest rates start to come down, pressure should start to ease on occupiers as consumer confidence grows and more life should come back to the high street.

There is an opportunity now to acquire well located retail for attractive yields as the second half of the year could see yields start to move back in.

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Offices

Economic Overview

The first quarter of 2024 has seen a continuation of the cautiously optimistic sentiment that closed out the previous year. The Bank of England's decision to maintain base rates at 5.25% has been interpreted by market participants as a precursor to potential rate cuts at the end of Q2 2024. This anticipation has contributed to a steadily improving market sentiment, with vendor and purchaser aspirations becoming more aligned, resulting in stock trading, rather than sitting available in the market.

Valuation and Transactional Evidence

March valuations are expected to reflect the final stages of the price rebase, with a number of transactions in early Q1 providing the necessary evidence to valuers. The market has witnessed a marked increase in demand for office buildings offering short-term income, spurred by the changes in legislation regarding Permitted Development Rights (PDR).

Legislative Changes and Market Response

The changes in PDR legislation have seen an uptick in demand, as investors seek opportunities for conversion to residential – the abolishment of the c.16,000 sq ft threshold has created significant opportunity, particularly across the South East. Meanwhile, with pricing now looking more attractive on a capital value per sq ft basis, conversion to alternative uses such as Student Accommodation continues to come to the fore. The recent acquisition of 2 Rivergate, Temple Quay, Bristol by Tri7 / Fusion for £14.5M exemplifies this trend, highlighting the market's adaptability and responsiveness to potential opportunity.

Occupational Demand and ESG Credentials

Occupational demand continues to focus on best-in-class accommodation that benefits from strong ESG credentials. With a limited supply of such stock and a constrained development pipeline due to high construction costs, prime rents have seen notable increases both regionally and across the South East. This trend is expected to persist as secondary (Grade B and B+) stock is repurposed for alternative uses.

Direction of Travel

Looking ahead, the expectation is that satisfactory all-in debt costs, coupled with rebased valuations and pent-up investor demand, will lead to an uptick in investor activity in the second half of the year. The market is poised for a dynamic period as it navigates the interplay between economic policy, legislative changes, and evolving demand patterns.

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Commercial Auction Market

Overview

Like most capital markets, the Commercial Auction market is down on historic volumes, but in contrast to the wider market ours is only down by around 10%, with overall volumes to the end of February 2024 at £1.08Bn against £1.2Bn for the corresponding period the year before.

The Allsop Commercial Auction team numbers for the first quarter are in line, as we have traded £115M against £135M in Q1 2023 which included portfolio sales by William Hill and Bournemouth Council which boosted volumes.

The wider market auction market has seen a marginal fall in lot size with an average success rate of just 70%, which is where the Allsop team differ.

The Commercial Auction team continues to see a meaningful increase in the average lot size, from £648,000 to £859,000 this year with the success rate holding strong at a little over 85%, which compares to £351,000 and 73% across the market as a whole.

These volumes show a strong appetite from buyers, and volumes will increase once sellers are prepared to trade at levels where the market provides competition, but not every seller can.

Headline Deals


February Lot 26 - Larkswood Leisure Park, Chingford

The biggest lot sold this year was **Larkswood Leisure Park, Chingford** which had been on the market for 5 months and was sold ahead of its £7.25M guide price at 8% net.

Other notable deals are the run of sales of **Shopping Centres**, we sold over £12M alone in the March sale – over the course of the last 12 months we have sold about 25% of the stock in the sector below £10M at an average of over £3,000,000. Once again demonstrating that when the sellers price assets realistically, even these bigger complex assets, the auction buyer is ready with their cash.

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Who is buying?

Private Investors are a wide base of buyers with regulars buying and being outbid at every sale competing with cash rich individuals looking to expand their portfolios.

Various overseas buyers have been successful, but no theme has emerged, except they are informed, seeking value for money and have ready cash to deploy.

Who is selling?

The year to date has been dominated by portfolios from smaller private property companies, with some evidence of trading beginning to emerge.

Tesco and Funeral Partners have continued to use the auction room for their ongong sale and leaseback programmes but not in the volumes that we saw last year from Tesco, Farmfoods and William Hill.

Various Funds have been liquidating historic assets, with the majority in the retail sector.

Direction of Travel

With every single auction, it is clear that the buyers are ready and will happily compete for the right asset when priced realistically.

As with all capital markets, the first move of rates will mark the end of a long period of speculation and hopefully a period of increased activity with a new level of certainty.

However, as we have shown, the auction market is healthy enough as we are, and have been since August last year when rates increased to 5.25%, so any change is unlikely to change much immediately, but form part of the journey of our new normal.

Residential Auction Market

Overview

This year started on a high note with our January auction which brought a noticeable uptick in private investor buyer activity. This renewed interest could be directly linked to heightened expectations of an impending decrease in interest rates, which had been forecasted to take place this year together with the offering of national well priced property opportunities on offer.

The anticipation of more affordable borrowing costs undoubtedly acted as a catalyst, sparking a wave of enthusiasm across the buyer spectrum, clearly reflected in the vigorous bidding and acquisition activities observed at our residential auctions early in Q1. However, the tail end of the first quarter brought with it a tempering of expectations. Confidence in the likelihood of an imminent downturn in interest rates started to ebb, giving way to a more measured approach and perhaps more realistic outlook as we progress into Q2.

The market has had to reconcile with the growing realisation that the anticipated rate reductions might not materialise as soon as hoped, or indeed expected by many property professionals.

January - April 2024 Highlights

Lots offered

665 Lots

Average success rate

87%

Lots sold

577

Lots over £1M

18

What is selling?

In the face of these shifting economic signals, most auction buyers have strategically pivoted their attention to assets with the potential for higher returns. There has been a pronounced demand for Houses in Multiple Occupation (HMOs) and high-yielding residential properties, including blocks, houses, and flats. This trend underscores a clear preference for investments that can deliver robust income streams, which is particularly crucial in a landscape where the future of interest rates remains uncertain.

Furthermore, there is a sustained interest nationally for unmodernised houses and flats. The allure of these properties comes from their competitive pricing, which has proven effective in attracting a widespread and diverse audience of national buyers. Such assets represent an opportunity for value add through refurbishment and redevelopment, appealing to both individual investors and professional developers alike.

Ground Rents Market

Contrasting with the buoyancy in some subsectors, the freehold ground rent market has witnessed a noticeable contraction in terms of pricing. This segment has seen a decline in the availability of assets, alongside a narrowing of the buyer groups actively participating in this space. The changes can be attributed to the outcomes of recent government consultations, which have had a tangible impact on the sector. The resulting environment is one of caution and recalibration, as market participants navigate the new regulatory landscape and reassess their investment strategies - to read more about changes to Ground Rents see our detailed analysis at:

https://publications.allsop.co.uk/research/ground-rents/

Allsop Auction Highlights

Against this backdrop, Allsop Residential Auctions has carved out a position of strength in Q1 2024. The Firm has experienced a surge in auction activity, eclipsing the transaction volumes that were recorded in Q1 2023. This uptick in activity has been principally driven by an increase in instructions emanating from Asset Managers and Housing Associations. These entities have turned to the auction market as a platform for the efficient disposal of assets, a move that has contributed significantly to the vibrancy and liquidity of the market.

The performance metrics for Allsop Residential Auctions over the first financial quarter are in contrast to the broader market's health. With a total of **577** lots sold across three auction sales, Allsop has set a commendable pace for the calendar year ahead. The auctions have not only been successful in terms of volume sold but also in achieving an impressive average success rate of 87% (industry average 73.1%- source EIG). The comparative number of lots sold Q1 2024 against Q1 2023 shows an increase of 78%.

We have sold 18 lots over £1M in Q1 2023, compared with 14 lots over £1M sold Q1 2023, and three lots over £3M+. (See examples below) The most notable of our data recorded this quarter is the increase of approved registered bidders; **4,641** - Q1 2024 compared with 1,129 registered bidders Q 1 2024. **This represents a 312% increase of registered bidders compared to the same period of last year.**

Q1 2024 Largest Lots

Lot 216 - February 2024

Exton House, 4 Second Avenue, Hove, East Sussex, BN3 2LG

- INVESTMENT - Freehold Detached Grade II Listed Building
- Arranged to provide Eleven self contained Flats, each subject to an Assured Shorthold Tenancy

Sold prior in the region of £4m

Lot 294 - March 2024

75 Greencroft Gardens, South Hampstead, London NW6

- VACANT - A Rarely Available Freehold Well Located Semi Detached Building in need of extensive modernisation.

Sold prior in the region of £4m

Auction Property Sales Analysis

Auction Analysis 24 – Q1

Regional Analysis (All Lots)*

Regions	Lots Offered	Lots Sold	% Success	Av. Lot Size
North-East	66	66	100.00%	£41,602
North-West	17	14	82.35%	£135,929
South-East	59	48	81.36%	£261,115
South-West	20	15	75.00%	£170,500
M25	83	65	78.31%	£475,400
Midlands & East Anglia	38	33	86.84%	£136,258
Wales	3	3	100.00%	£75,833
Scotland				
Yorkshire & The Humber	22	20	90.91%	£67,150
Northern Ireland				
Other				

By Property Type

Property Type	Lots Offered	Lots Sold	% Success	Yield	Av. Lot Size
Regulated	3	3	100.00%	6.16%	£139,167
Assured Shorthold	182	167	91.76%	12.88%	£121,387
Assured	1	1	1	NULL	£300,000
Ground Rents (80 yrs+)	8	4	50.00%	5.39%	£22,625
All Ground Rents	24	17	70.83%	5.56%	£28,382

Vacant Units (Individual Houses and Flats)

Regions	Lots Offered	Lots Sold	Total Raised	% Success	Av. Lot Size	Lots over £1m
North-East	222	221	£10,678,603	99.55%	£48,319	
North-West	30	24	£2,798,000	80.00%	£116,583	
South-East	81	66	£27,958,500	81.48%	£423,614	4
South-West	40	29	£5,113,500	72.50%	£176,328	1
M25	153	116	£57,219,000	75.82%	£493,267	12
Midlands & East Anglia	83	70	£13,245,999	84.34%	£189,229	
Wales	3	3	£227,500	100.00%	£75,833	
Scotland	1	1	£28,000	100.00%	£28,000	
Yorkshire & The Humber	52	47	£5,260,495	90.38%	£111,925	1
Northern Ireland						
Other						
TOTALS	**665**	**577**	**£122,529,597**	**86.77%**	**£212,356**	

Direction of travel

As we move further into 2024, the Residential Auction Market continues to be influenced by both micro and macro-economic indicators and sector-specific trends, in addition to both domestic and international political influence. The market currently remains agile, with investment strategies being continuously refined to harness opportunities and navigate challenges. The positive, looking ahead, is that interest rates are unlikely to increase which provides certainty for investors and developers alike for the remainder of 2024.

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Residential Transactional and Living Markets

Residential Investment

Overview

With Q1 2024 underway, the UK residential investment market is witnessing an upswing in confidence. This is underpinned by a broader economic environment, where a slowing inflation trend and expectations of a monetary policy shift are contributing to a brighter sentiment.

There is recognition amongst sellers that the current interest rates may persist, prompting a recalibration of gross yields on property offerings. This adjustment is capturing the interest of a diverse pool of buyers, including UK-based high net worth individuals, private family offices, and a noticeable influx of foreign capital, particularly from Israel and China. Considering the geopolitical uncertainties in these countries, UK real estate is increasingly being perceived as a secure investment haven.

Demand is vigorous across the UK for residential investments at all price points. Smaller blocks in the range of £1-3M are always in high demand from smaller investors and more sizeable properties up to £25M are particularly sought after especially when gross yields are delivering 7% or higher.

Much higher yields can still be found especially in more northerly locations and our Leeds office has been particularly busy on this front.

As always, the market is most enthusiastic about acquiring unbroken freehold blocks of flats, and there is rising interest in modern single-family homes.

The busier residential investment landscape in Q1 2024 stands in contrast to the final quarter of the previous calendar year which, while quieter in the lead-up to the festive season, maintained a steady level of activity in London and the South East with sales being concluded in areas like Islington, West Kensington, Oxford and Basildon across various price points.

The outlook for the remainder of 2024 is one of cautious optimism. The UK residential investment market is continuing to display signs of resilience and adaptability, with investors seeking value and security in a range of residential assets. This steadfast demand across different segments of the market suggests a year of opportunity and potential growth for discerning investors.

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Student Housing

Overview

Despite an anticipation of higher transactional activity in Q1 2024, the projected expectation has not materialised. A significant development in the last quarter was the Chancellor's announcement of the abolishment of Multiple Dwelling Relief (MDR) effective from 1st June.

Although not widely reported, the change has inadvertently implicated the PBSA sector most significantly due to the nature of PBSA buildings, which often allowed investors to utilise MDR to qualify for Stamp Duty Land Tax (SDLT) rates as low as 1%. However, as of 1st June, the SDLT payable will rise to 5%, subsequently affecting underlying values. Nonetheless, the fundamentals of the student market remain robust, and the occupational market continues to outperform. The largest provider of student accommodation in the UK, Unite, housing over 70,000 students, has had their portfolio independently valued at £3Bn, maintaining a stable value compared to the previous quarter, owing to the strong rental performance of their portfolio offsetting the implications of MDR.

Who is buying and selling?

Regarding buyer and seller dynamics, the major headline deal for 2024 has been from an overseas sovereign wealth fund, with Singaporean Mapletree's acquisition of a £1Bn European portfolio from Cuscaden Park Investments, of which Mapletree is one of the major shareholders. This transaction expands Mapletree's ownership to 17,000 beds in the UK. Institutional investors continue to target core assets in top-tier cities, with standout forward funding deals like Hines agreeing to fund Watkin Jones 260 Bed Gas Lane, Bristol scheme. On the operational transactional side, notable deals included Greystar's purchase of the 423 bed Capital House, Southampton scheme from Kier Property for £44M and Apollo Global Management's purchase of 229 beds in Chamberlain Place, Birmingham for £32.5M.

Apart from capital pursuing core assets, there is growing interest in deploying funds into value-added opportunities. However, deal execution can face challenges due to heightened emphasis on compliance, leading to deals remaining under offer but with extended timelines. Investors continue to show strong interest in HMOs, attracted by the resilience of the domestic market and constrained supply, appealing to both Property Companies (PropCos) and High Net Worth Individuals (HNWIs). Portfolios offering opportunities for value enhancement hold particularly attractive in this environment.

Direction of Travel

Looking ahead, Q2 2024 is expected to be a particularly busy quarter, with multiple deals anticipated to close. The deadline of the abolishment of MDR, at least for a short period, means that purchasers are under pressure to finalise transactions before 1st June to benefit from SDLT savings. Beyond 1st June, challenges in adhering to transactional timelines may persist due to building compliance requirements for buyers and lenders. However, a strong pipeline of deals under offer across the sector will undoubtedly contribute to increasing investment volumes as we move into the second half of the year.

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Residential Development and Land

As we come out of the winter into the Spring it is clear that sentiment has improved during the last quarter. Looking at the housing market generally, there are more properties on the market and more transactions happening; the same can be said for the land market. We have seen a marked increase in opportunities available this year due to increased positivity in the economic climate, combined with greater certainty around regulatory changes which caused lengthy delays in obtaining deliverable planning consents.

Housebuilders have been less active over the last 12 months with an increased focus on managing their existing land portfolios and there have been significantly slower build programmes over the last year with some 70 sites reported as stalled as of July 2023. However, since then the market sentiment has improved, build cost inflation has reduced and greater clarity has been provided around regulatory requirements. The impact of new building and fire regulations, future homes standards and biodiversity net gain are all factors that developers are now having to account for within their bids for land.

The CMA housebuilding market study report produced in February clearly found that the unpredictable planning system in the UK alongside the limitations of private development were responsible for the reduced number of homes being delivered, as opposed to land banking by developers. Something that was widely known, however a positive for the industry to have it confirmed.

From the assets that we have dealt with it is clear that there is still a strong drive for quality. Assets located in high value, strong performing locations are receiving very strong interest especially in the sub £10M market where there are clearly a large number of cash buyers looking to deploy equity. Allsop recently sold an unconsented site in Balham which received in excess of 25 bids, demonstrating that there is confidence and strong competition out there especially for value add opportunities.

There remains a variety of buyers across the residential development market, with many who are not burdened with debt continuing to acquire sites in tried and tested locations. In more urban and fringe of city centre locations competition is increasing particularly from Student and Build to Rent developers. There continues to be a rise in bulk sales to Build to Rent investors, which are supporting the new build market by underwriting risk on sites and diversifying large schemes.

That said, we are still seeing a more challenging environment for SME developers particularly in regional locations. The trend across the UK of larger land deals being primarily driven by alternative living uses such as Build to Rent, student and co-living rather than private led schemes has continued, particularly in the London market. The lack of stimulus in the Budget for the private sale market has impacted on sentiment and developers are also grappling with affordable housing deals significantly less valuable than they would have ordinarily been. This is continuing the trend of private led consented residential developments being challenging to sell.

There is no doubt that since Easter there has been a much more positive outlook in the land market after an unexpectedly stagnant Q1 2024. The latest iteration of Permitted Development conversion from offices to residential has been a major part of the improving sentiment given the paucity of value-add opportunities we have seen in the market, constrained by a turgid planning system. Sales rates for developers do vary depending on quality and location; however, the land market is cautiously optimistic around mortgage rates and a reduction in interest rates later this year. With the lead in time to on-site delivery of actual schemes, the feeling of developers purchasing now is that they will be selling into a more favourable sales and mortgage market than what has been experienced over the past year.

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The Build to Rent Market

Overview

The UK Build to Rent (BTR) sector is seeing a marked increase in activity in comparison to 2023, within both the Single Family Housing (SFH) and Multi-Family (MF) markets.

This uptick is a further display of confidence in the resilience of the BTR market, even in the face of broader economic uncertainties. The current investment landscape is characterised by a proactive approach from investors and developers to find an investment solution in a challenging environment.

Viability, particularly in Multi-Family is unsurprisingly difficult in a sector that, although showing some maturity, is still very much in the development stage.

Who is Active / Headline Deals

The persistence of a higher cost of capital is one of the core challenges to the viability of BTR projects. However, there is a sense of optimism within the industry, with stakeholders hopeful for an improvement in conditions as the year unfolds. This optimism is predicated on the anticipation of a decrease in the cost of capital, which would improve the financial feasibility of BTR schemes.

We are seeing continued engagement from housebuilders with investors, in response to the currently slower individual private sales market, which provides a strategic avenue to maintain sales velocity and capital inflows.

The market's robustness is evidenced by the sustained rental growth and high occupancy rates observed across all BTR schemes. Recent evidence of market activity, include Aviva and Packaged Living's investment of approximately £85M in two SFH schemes with **Dandara in Milton Keynes**, and their funding of 121 homes in **Ebbsfleet Garden City** with Chartway, Hines' £100M forward funding of Olympian Homes' **519 unit scheme in Newcastle**, Grainger's strategic acquisition of **The Astley in Manchester**, a stabilised BTR scheme offering 135 units, from M&G and L&G's purchase of 41 BTR homes in **St Neots**.

Direction of Travel

The British Property Federation's (BPF) latest figures show a total number of units either complete, under construction or with planning standing at 263,694 – this is a 10% year on year increase. Numbers in the regions continue to grow at a faster rate than London, accounting for approximately 159,498 with 104,205 in the capital. There has also been a 141% year on year increase in the number of SFH under construction.

Clarity has been provided regarding new regulations that mandate dual stair cores for residential buildings over 18m by the Government, with guidance to come into force from September 2026. Whilst providing transparency to developers, this has been a requirement for the bulk of investors for the past ~18 months and the market was already adapting.

We continue to expect investors prioritising progressed, best quality MF assets with strong, experienced development partners. Yields will be robust for best-in-class schemes, with secondary locations more challenging due to (but improving) viability constraints. As inflation continues to stabilise and order books reduce, contractor pricing should be more conducive for development. We expect 2024 to be a noticeably stronger year for new starts on sites than 2023.

In London and strong south-east locations, funding NIYs range from 4.00% to 4.50%, with major regional centres at 4.50% to 4.75%. Secondary locations are in the region of 4.75% to 5.00%. SF funding NIYs are around 4.25% in the south-east and 4.50% in the prime regions.

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Residential Lettings and Management

Overview

Despite the relatively subdued last 12 months Build to Rent (BTR) is still very much a growing sector with developments continuing to offer high-quality amenities and services aimed at long-term renters. With ever increasing demand for rental accommodation, particularly among young professionals and families we do not see that momentum reducing.

The single-family housing market continues to expand at pace with the chronic undersupply in the rental market being exacerbated further as BTL landlords exit the space due to unfavourable lending and tax conditions. Those lending conditions are also resulting in housebuilders being more amenable to bulk sales something several of Allsop's clients are taking full advantage of as they seek to build their investment portfolios.

Direction of Travel

Build to Rent (BTR) in the UK is poised for continued growth and innovation. Several key trends are shaping the future of the sector:

1. **Expansion Beyond Major Cities:** While BTR developments initially focused on major cities like London, Manchester and Birmingham, there is a growing trend of expansion into secondary cities and suburban areas. Developers are identifying opportunities to meet demand for high-quality rental accommodation in emerging urban hubs and commuter towns.
2. **Diversification of Offerings:** BTR operators are diversifying their offerings to cater to a broader range of tenants. This includes developing mixed-use schemes with residential, retail, and leisure components, as well as offering a variety of unit types to accommodate different household sizes and lifestyles.
3. **Focus on Sustainability:** Sustainability is becoming increasingly important in BTR developments, with a focus on energy efficiency, green building materials, and eco-friendly amenities. Developers are incorporating sustainable design principles to reduce environmental impact and enhance the long-term sustainability of BTR communities.
4. **Technology Integration:** Technology is playing a significant role in shaping the future of BTR, with developers leveraging digital solutions to enhance the resident experience and streamline operations. This includes smart home features, digital concierge services and online leasing platforms to simplify the rental process.

Who is Active/Headline Deals

SFH has been a particular hot topic over the last quarter with Blackstone's acquisition of Sage Housing underpinning their confidence in the growth potential of the BTR sector. Pembroke's acquisition of The Lark, Nine Elms, London SW11 (Allsop managed) was their first foray into the European residential market and we have seen a flurry of deals announced by Packaged Living as Allsop assist them with delivering a significant and growing pipeline of SFH schemes. We expect the forthcoming quarter to be even more active – indeed Allsop will launch 4 SFH schemes inside the next 3 months.

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Business Rates

There have been some recent significant changes to be aware of relating to Business Rates.

Change in Completion Notice Practice

Do you have refurbished vacant office floors which previously have been deleted from the Rating List?

The Non-Domestic Rating Act 2023 amended Section 46A of the 1988 Local Government Finance Act. The alteration impacts Local Councils' ability to issue Completion Notices.

Before this change Local Councils in certain situations were unable to issue a Completion Notice to bring a property back into the rating list. For example, in an office building undergoing refurbishment once the Rateable Value for a floor had been deleted due to the works the Local Council then struggled following completion of the works to issue a Completion Notice as these only applied to a 'new building'. Unless any structural works had occurred, these floors did not meet the threshold of being considered 'new'. Local Councils were therefore in limbo with floors that had been deleted as a result of a scheme of refurbishment as they did not qualify as 'new'. This meant that deleted floors stayed out of the list for (sometimes) years before they were then re-let and brought back in to the list as an occupied floor.

Following this change Councils are now actively seeking to serve Completion Notices in such situations.

Empty Rates Mitigation – Change in the 're-set period'

Have you been using an Empty Rates Mitigation scheme?

In applying an empty rates liability, Local Councils have a binary 'vacant' or 'occupied' lens from which to view properties and apply the mandatory 3 (or 6) months' empty rates relief to a rating assessment when it is deemed to move from being 'occupied' to 'vacant'.

Over the years, several (now well known) schemes have operated in this space – pop-up shops, box-mitigation schemes, Bluetooth occupiers etc. This model has meant that for a rate payer once they have paid 6-weeks' occupied rates they can then benefit from 3 (or 6) months' empty rates relief (minus a savings related fee to the occupier). However, this has now changed as since 1st April 2024, an occupier now needs to be in occupation for 3 months to then benefit from 3 (or 6) months relief.

What the impact of this is remains to be seen. We suspect that there will likely be a further increase in landlords stripping out buildings to delete them from the rating list, and that there will be an increase in the adoption of 'charity' occupations.

General Anti-Avoidance Rule

One to watch going forward as to what constitutes tax avoidance.

In March the Government published some initial conclusions following the consultation into Business Rates avoidance and evasion. The reset period as mentioned above has been amended and the Government has also announced a further consultation on the merits of introducing a "General Anti-Avoidance Rule" for business rates. There are no further details as to what this means at this stage – however, worries abound as there is no definition of 'avoidance' and therefore, what qualifies is unknown.

Labour Party

On 10th April the Labour party released its '5-point plan to breathe life into Britain's high streets'. One of the 5 measures is to 'replace business rates with a new system of property taxation which rebalances the burden and levels the playing field between our high streets and online giants.' No further details on this potential change have been announced yet.

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Bringing property & people together

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