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WCA LECTURE 18TH JUNE 2020

THE PROPERTY MARKET AND VALUATION ISSUES: INTO THE FUTURE

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- BY ZOOM PLATFORM**

PRESENTATION OF GRAHAM CHASE: BULLET POINT SUMMARY

WILL USERS WISH TO RETURN TO BUILDINGS (THOUGHTS FOR AND AGAINST)

- Online business purchases of Bricks & Mortar business will accelerate
- Too much retail accommodation (25-40%)
- Wrong type of office space
- Increased costs at a time of ongoing reduced turnover and structural change
- Supermarkets return to premium values v Public houses and restaurants go heavily negative
- Social impact with social distancing costs the key factor - Crowd avoidance incompatibility
- Accessibility without public transport
- Bicycle parking requirements
- Home working and home delivery/servicing as competition
- Communication platform technological improvements change working practices
- Entertainment & tourism awaits reboot across the board
- Airport hub downturn for passengers but not for freight
- Delivery infrastructure improvements to increase efficiency and accessibility

WHAT WILL HAPPEN TO EXISTING BUILDING OCCUPATION COST MODELS – RENTS, SERVICE CHARGES? HOW WILL RENTS BE VALUED?

- Empty property costs both social and economic to rise
- Obsolescence coupled with reduced efficiency of use will reflect business and social changes
- The existing lease contract offer is now unviable in many cases
- Rent reliance on turnover of the occupant - Market Rents now unestablished
- RICS issues Material Market Uncertainty notice on 31.3.20
- Valuers unable to inspect, no or limited comparable evidence and valuations must include extensive caveats
- Is a COVID-19 a reliable valuation or a guess in a void – probably the latter
- What is a comparable with timing of the comparable and the transaction critical?!

- Covenant strength profiles altered with Guarantors in the headlights
- Deeds of variation and waiver to terms now in negotiation to retain the occupier
- Personal concessions abound but reflect wider market – secure the tenant!
- Rent holidays and other concessions v “Wait and see”
- Service charges protected but rates holidays granted
- Emergency Government policy does not recognise property as a business – 15% UK GDP and underpins pensions, investments, stability and a vibrant property market with effective demand
- No available capital for lending then no market
- Ability to recover arrears of rent uncertain with increased covenant breaches
- Bank loans and covenant breaches affecting value but currently overlooked but will be of significance in the next 6 months when the problem emerges – inertia
- Danger of Banking crisis of 2008 (Lehman Bros) if Government does not recognise role of property as a critical business underpinning UK GDP

THE FUTURE: LIKELY LEASING MODELS

- Corporate failures & CVA’s will dominate operational profiles
- Environmental issues will intensify rather than be side-lined
- Upwards and downwards rental shifts to be the norm for the next three years
- Strengths of bricks and mortar neutralised by lack of liquidity
- Rents will fall and yields will rise - a double whammy
- Landlords will have to be flexible in the immediate future
- Tenants will be cautious on commitments
- The amount of space required in all sectors is uncertain leading to short termism
- Grade A property will see longer leases
- Grade B property will see shorter leases and licences
- Rent reviews to indexation or abandoned with annual indexation
- T/O and company accounts will feature on a forensic basis to aid short term agreements between L/Is & tens
- Longer term T/O leases only viable where there is strong control and management
- T/O leases unlikely to work outside of shopping centres and if adopted elsewhere is likely to result in loss of competition and poor corporate/tenant performance

THE FUTURE: OPTIMISM OR PESSIMISM?

Winners

- Food retailers – especially discounters and those able to deliver
- Industrial and distribution premises golden era will be extended for years to come
- Mixed-use 24-hour town centres where retail first policies are abandoned
- Manufacturing for home and export spurred by COVID-19 and BREXIT
- Rural towns and living
- Rural town and community shops
- Locations with strong Internet Connections
- Innovations and technology – war time type leap in advancements
- Home working
- Reduced travelling time to offices and meetings – the environmental bonus
- Virtual businesses
- Specialised physical business offering high quality personal services
- New wave entrepreneurial property investors/developers will emerge
- Property obsolescence – opportunity for recycling and new wave development

Losers

- Retail property in town and city centres
- Locations and property with poor direct accessibility and reliance on public transport
- Single use locations and retail focussed town centres
- Conurbations and outer suburbs
- Locations with poor quality apartment living - the slums of tomorrow, here today
- Second homes
- Over geared property companies
- Older property stock across the board - obsolescence
- Property as a secure long-term income stream
- Local authority areas and regions that fail to adapt, adopt flexible planning and attempt to secure too much planning gain killing viability
- Crowd based leisure and entertainment property including traditional restaurants

Other Considerations for the future

- Impact on institutional investors, pensions, savings and reduced disposable income
- Planning policies not fit for purpose and their inflexibility will give rise to planning chaos
- Town centre wastelands now exist and many will not recover
- Some recent high-rise residential developments creating the slums of today.
- Office downsizing a problem on the surface but will bring market movement opportunities
- Property returns will fall but Inherent property characteristics remain of:
 - Asset
 - Factor of Production
 - Place to live, entertainment and Social context
- Change in Supply and demand equation will create property shortages in some sectors
- Sale & leasebacks may come forward as a cash raising exercise in some sectors
- New development on hold and development viability difficult to achieve & Justify
- Manufacturing boom COVID-19 catalyst increasing demand for this type of space
- Brexit challenge diminished and impact of EU failures removed
- Global trade tariffs will ease and doors open to take up the slack as UK recovers
- Opportunities for land and property asset grab by speculators
- Serviced offices will provide flexibility but at a cost because of social distancing
- Investment sales on hold and good properties will stay off market

GFC 17.06.2020

