

2020 BROMWICH HARDY LOCKDOWN BAROMETER

Feeling the Heat?

Bromwich Hardy Barometer in Lockdown

The first two months of 2020 saw a dramatic uptake in all types of commercial property, both on a freehold and leasehold basis. This was mainly due to a level of pent up frustration following the previous year's relative inactivity, with uncertainty from Brexit negotiations and then, the UK General Election stifling investment.

The UK's decision to leave the European Union, although not to the liking of all with a fiercely divided population, brought a definitive end to the conflict and a way forward. It is suggested this dramatically affected the market in a positive manner with 2020 starting to look extremely positive for commercial activity.

In late February to early March, the world watched with interest and trepidation, the unfolding occurrences in China, in particular the province of Wuhan and the sudden spread of the COVID-19 virus.

By mid-March the UK along with many other European and world countries were in total lockdown, restricting all business and social movement with only key worker and emergency exceptions.

The lockdown is now relaxing having lasted for almost a three-month period with the government paying a large proportion of wages under the furlough scheme and in recent weeks, we've seen the start of returns to work.

It is not clear how this period of inactivity will affect national and global economies, but the forecast predicts a period of recession.

There is however hope of a swift bounce back due to further pent up frustration into the property markets. Bromwich Hardy have recently seen first-hand evidence of this but at this point it is difficult to quantify.

Bromwich Hardy Lockdown Stats

Bromwich Hardy has bucked the trend during lockdown. A number of our contemporaries chose to furlough many and, in some cases all, of their staff. Our belief was that we would be better trading our way through this period, staying active and working hard on our existing instructions so we could be up, out of the blocks and already sprinting when the market returned.

This has proven to be an inspired thought process, as the firm has continued to perform well through the lockdown and is "in a prime position", now lockdown has been relaxed. This proves why

Bromwich Hardy have consistently won awards for the most active agency in the Coventry and Warwickshire region for the past 8 years.

Work completed during lockdown

Completed Lettings 20 106,194 sq. ft £988,063 in rent

Completed Sales 6 15,623 sq. ft £2,327,750 in value

Lettings Under Offer 20 53,830 sq. ft £1,052,230 in rent

Sales Under Offer 12 81,803 sq. ft £11,810,000 in value

New To Let 11 102,101 sq. ft £842,500 in rent

New For Sale 4 18,059 sq. ft £2,235,000 in value

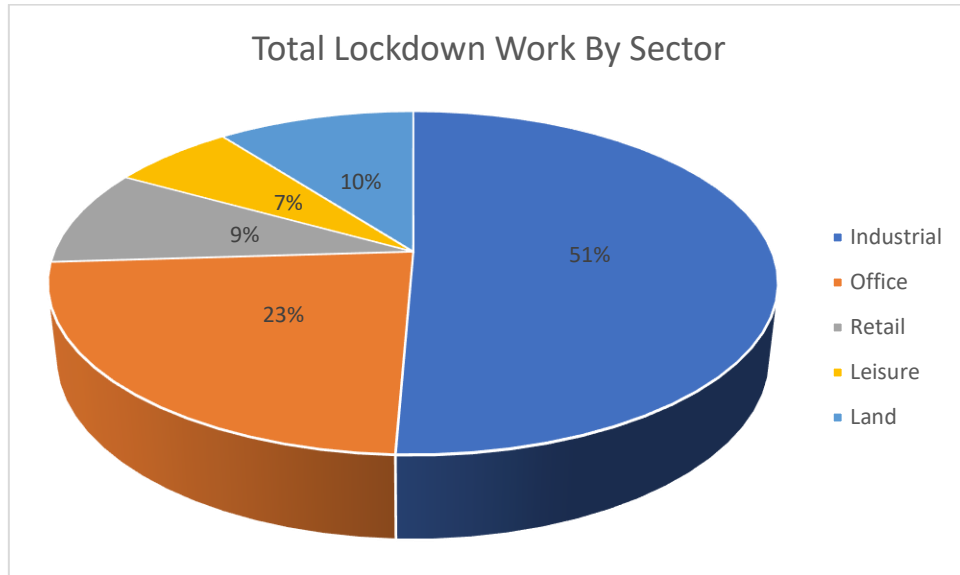
Valuations 22 £15,200,000 in value

Lease Renewals 4 9,145 sq. ft £118,500 in rent

Rent Renewals 3 22,661 sq. ft £342,326 in rent

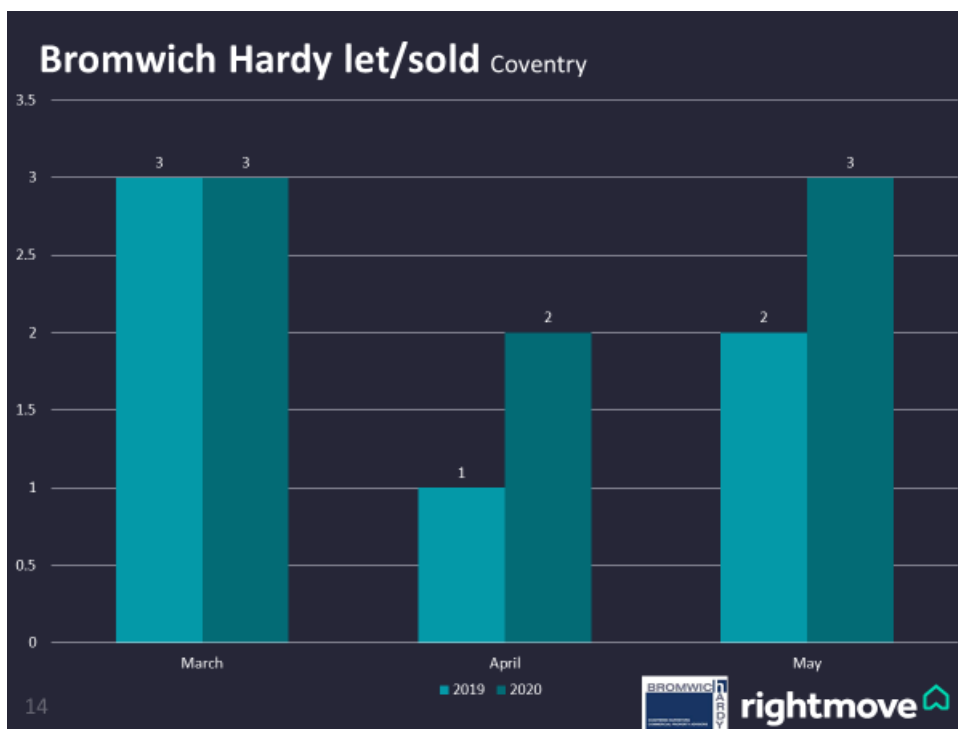
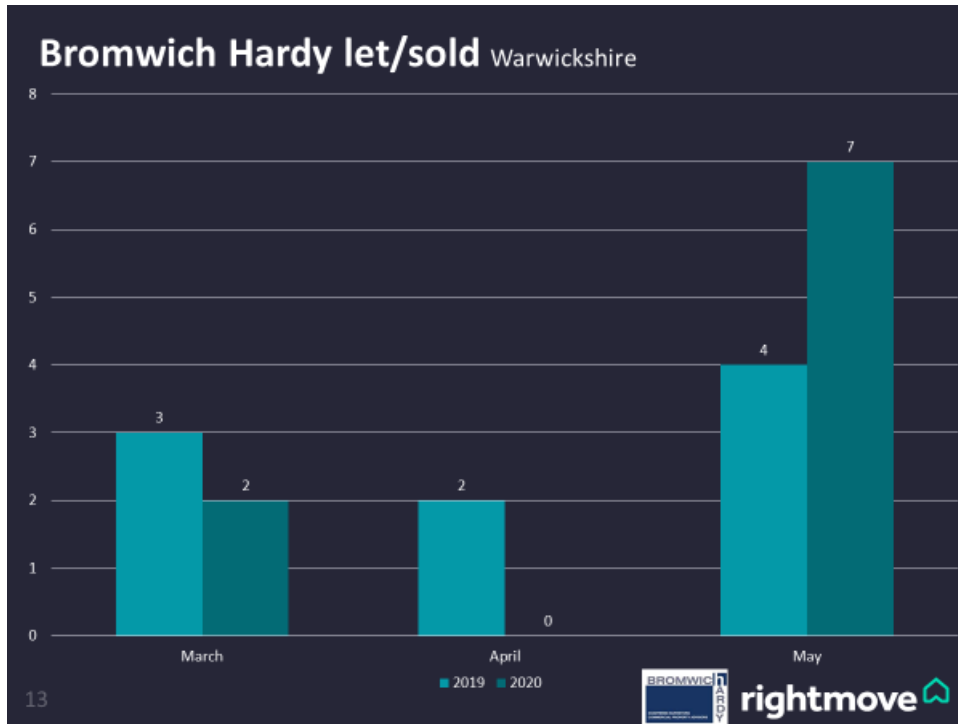
Quarter Management Rents c£2,000,000 Demanded 80% Collection

Virtual Property Tours 41

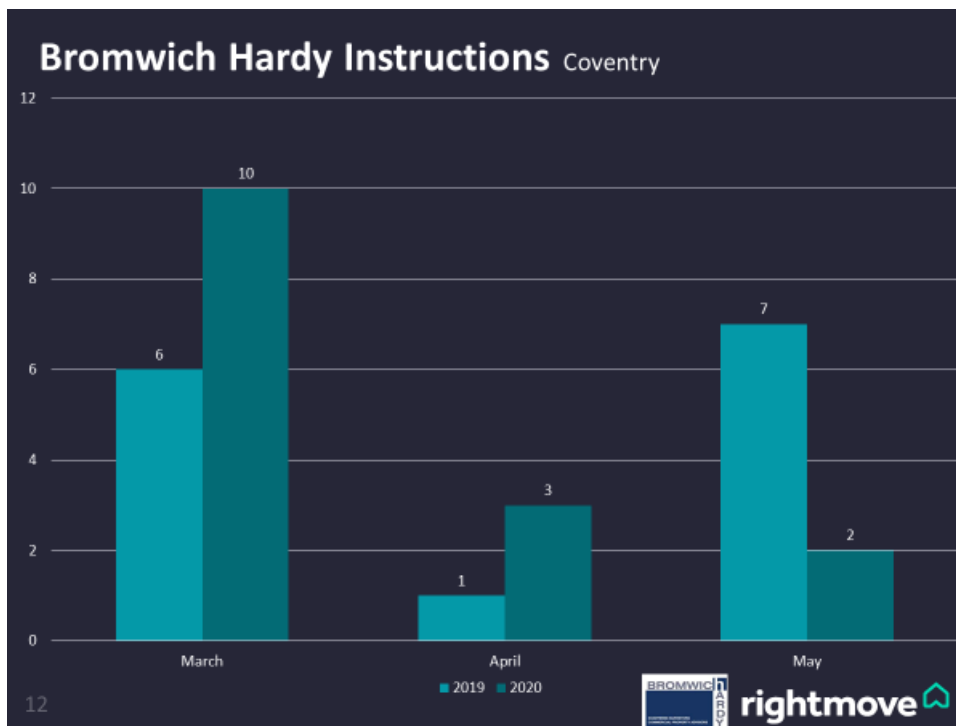
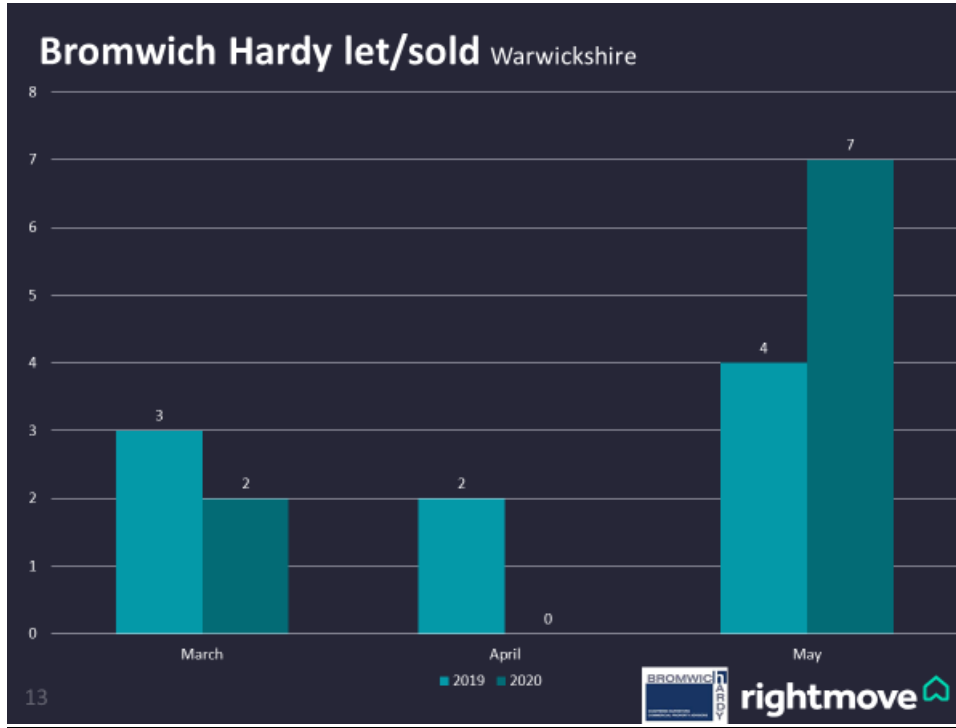


It is interesting how these levels compare to the same period last year. We asked our principal marketing tool Rightmove, to kindly provide some analysis from their records. It is important to note that all the above instructions will not pass through Rightmove, but their charts help to give a flavour of how the time periods compare.

Let/ Sold Completions During March to May



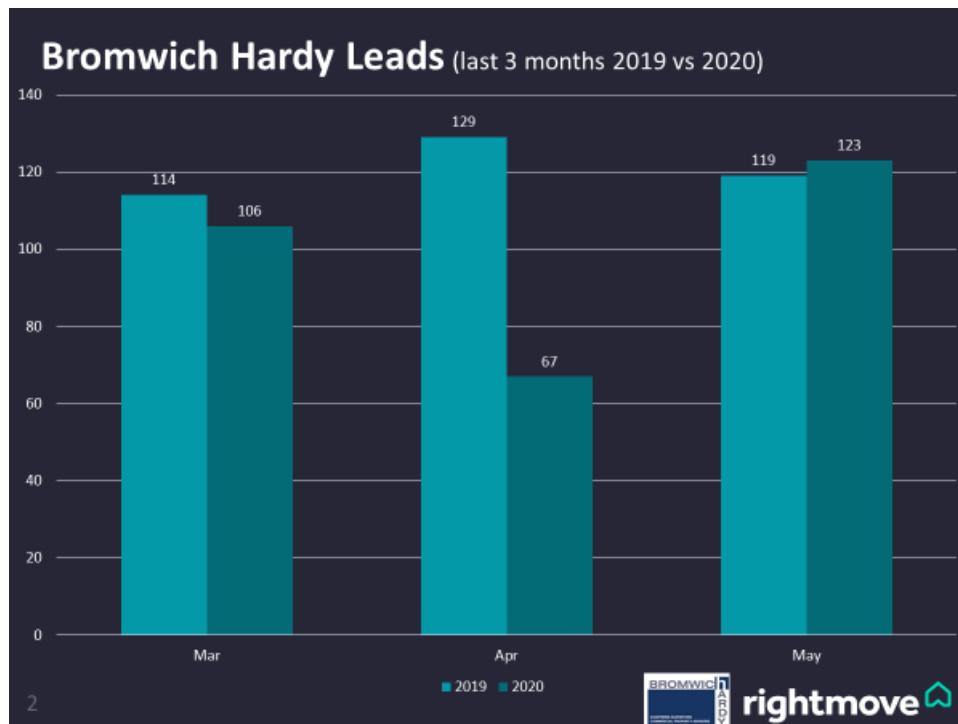
New Bromwich Hardy Instructions For Sale/ To Let



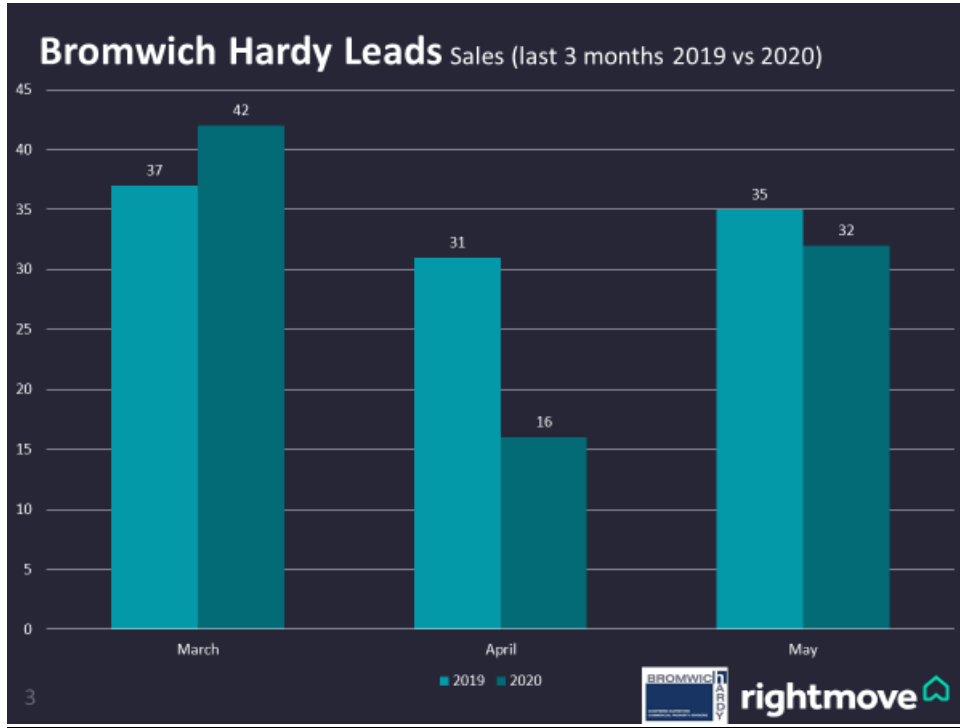
Enquiries

Enquiries were very badly affected in the final two weeks of March and throughout April, but we have seen a steady increase during May and June, returning somewhat to pre-COVID levels. This is illustrated by analysis provided by Rightmove Commercial:

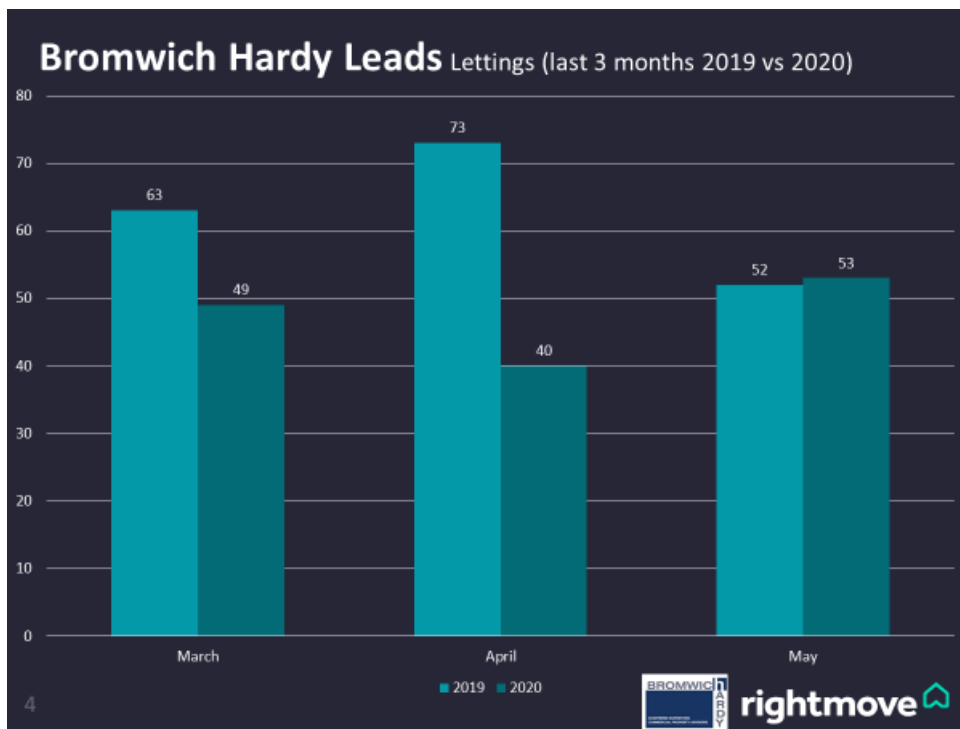
Total Leads



Sales Leads



Letting Leads



Advances in Marketing and Virtual Tours

As one of the most forward-thinking property agents in the region Bromwich Hardy is constantly looking for new ways to innovate and stay ahead of the market.

Last summer the opportunity was taken to move into the world of virtual tours and walkthroughs, by purchasing a 360-degree camera that enables 3D modelling of buildings and an ability to create online tours and virtual viewings.

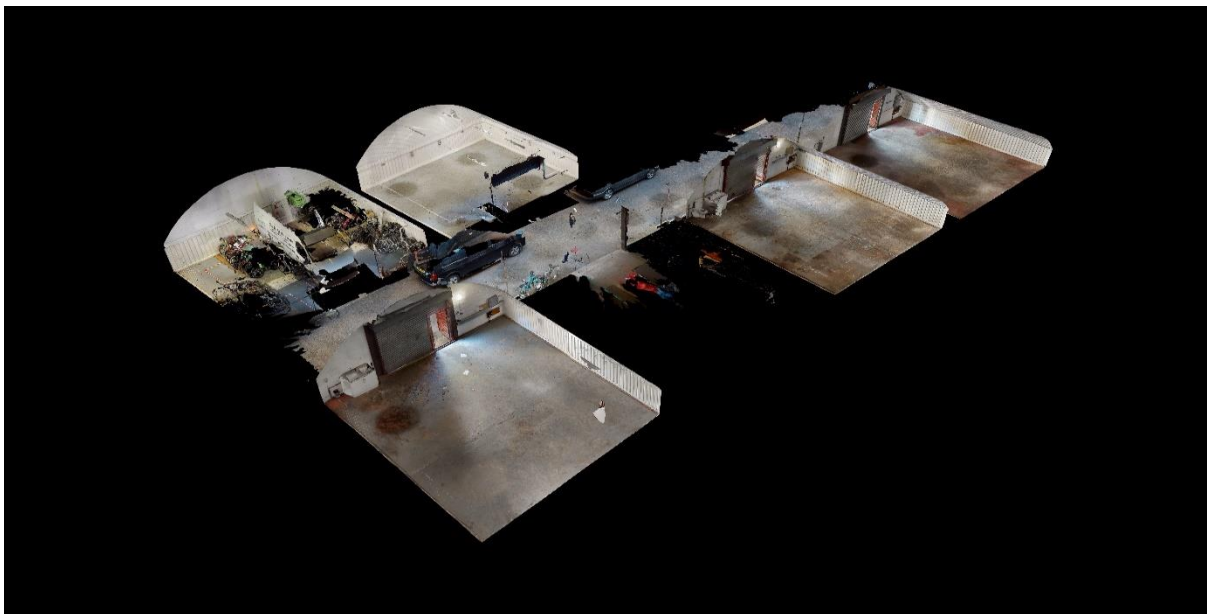
Locally, we are the only agency to have properly invested in this technology and have, for the last 12 months been honing our skills in creating virtual walkthroughs and transferring these into marketing videos or effective virtual viewings to be shared on social media and added to online marketing platforms.

Little did we know the massive advantage this would create once entering this enforced period of lockdown due to COVID-19.

Not only have we been able to get out and see empty buildings and understand them back at our desks, but our software has facilitated hundreds of viewings and allowed us to complete deals without physical visits to the properties.

The online measuring tool within the software has also allowed potential tenants to measure floor spaces and heights from the comfort of their own home, working out fit-out and capacity for storage.

We now have over 40 of our current live properties able to market and view in this novel way. It is a hugely advantageous marketing tool and if this is of interest to you in relation to a leasehold or freehold property interest you are looking to dispose of, please contact us to discuss or see some more examples of our work.



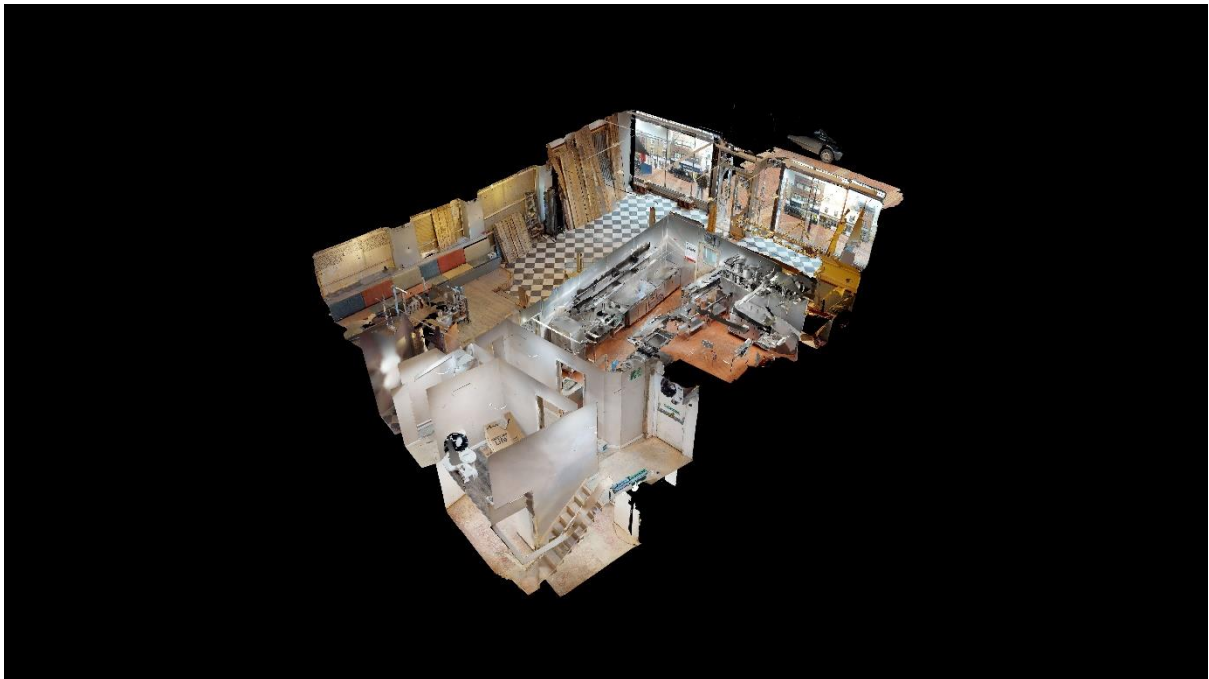
Virtual walkthrough - <https://my.matterport.com/show/?m=5uPivpt3zZn>

Promotional video - <https://youtu.be/DtIh9OhtkTk>



Virtual walkthrough - <https://my.matterport.com/show/?m=v4DxfHJu7rb>

Promotional video - <https://youtu.be/nRWqY1xOevE>



Virtual walkthrough - <https://my.matterport.com/show/?m=6uEynddDnpX>

Promotional video - <https://youtu.be/vKGz69AA5KM>

Industrial Market

As you can see from the breakdown of our work by sector, by far the most buoyant over the lockdown period has been the industrial sector.

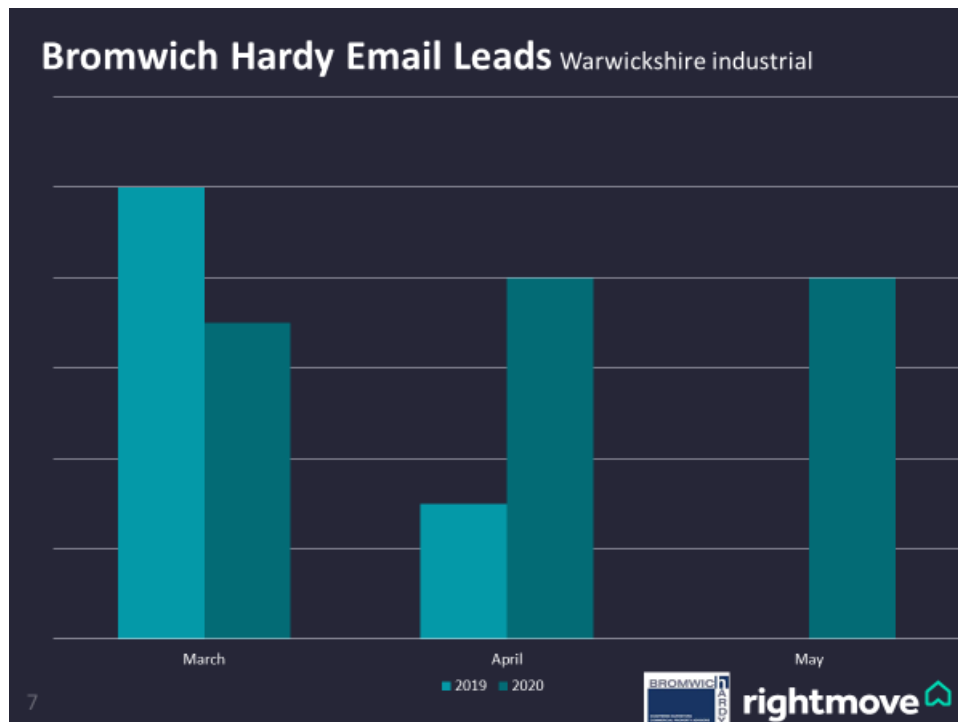
Our sector specialist, partner Andrew Cosnett comments:

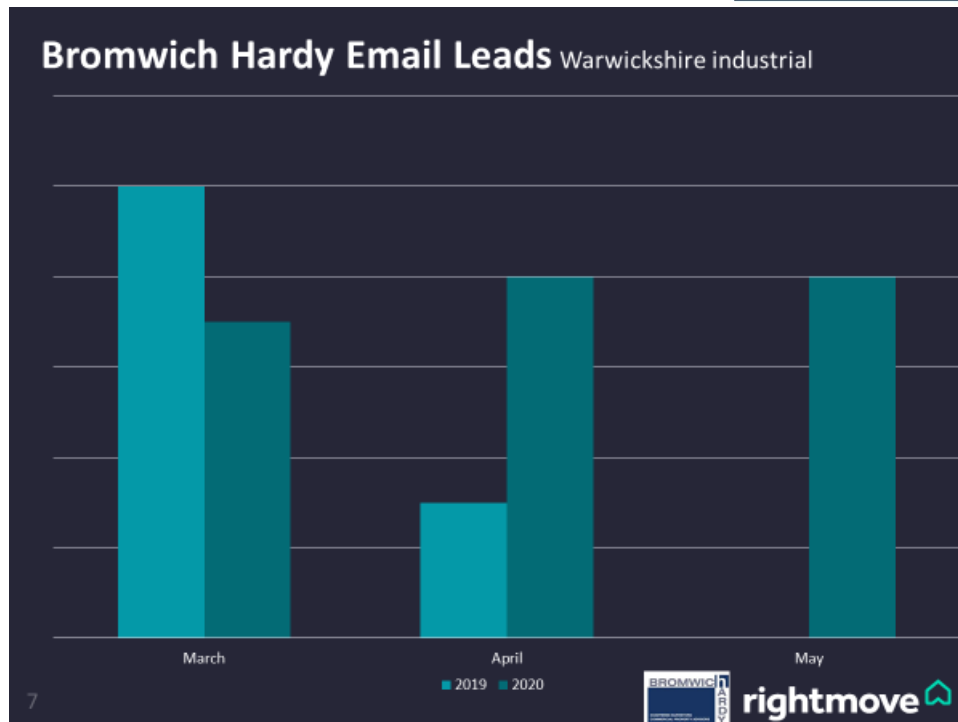
“At the moment the market appears to be resilient. Smaller units- sub 50,000 sq ft – are attracting interest and in the main, deals are being done at asking rents, three-year terms and the usual rent-free periods, roughly equating to a month for every year of the term. Larger units over 100,000 sq. ft, are also attracting interest and deals from logistics businesses.

The general lack of supply in the West Midlands market and particularly within Coventry and Warwickshire is still driving the market even with a reduction in overall demand. Inspections are taking place, especially below 50,000 sq. ft at pre-COVID levels.

Rents are holding up and there is evidence that 10-year terms with 5-year tenant break options are becoming increasingly common, against longer unbroken leases.”

Analysis provided by Rightmove shows enquiry levels over the lockdown period against last year for both Warwickshire and Coventry:





Office Market

Bromwich Hardy partner and office specialist Michelle Mills gives her views on the office market:

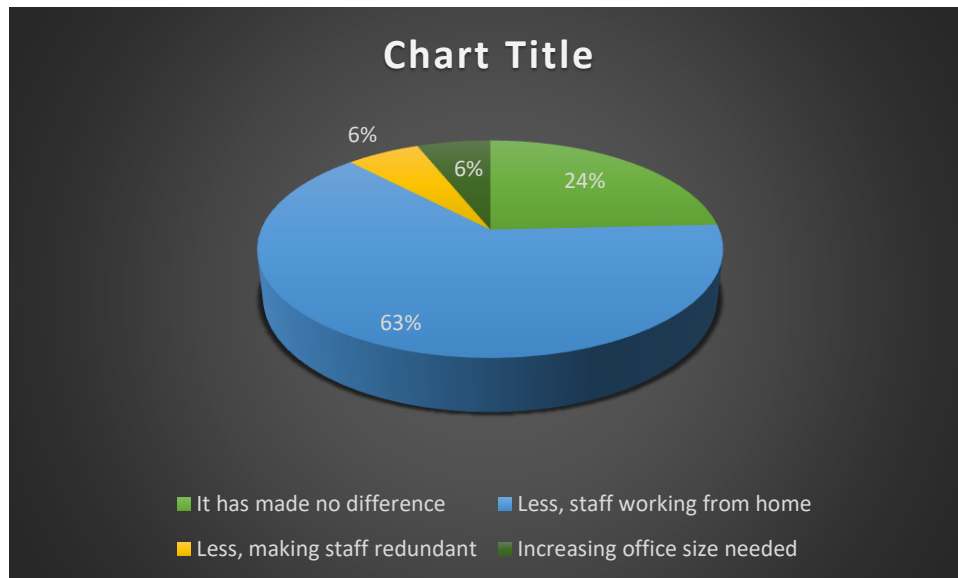
“As alluded to by the national press and national agents, the office market has without a doubt been impacted by the lockdown enforced by coronavirus.

Businesses have been forced to reassess their working practices and how they occupy their office space. The rise in homeworking has enabled some businesses to see that their staff can be effective, flexible and happy whilst working remotely from home, and this hasn't necessarily led to the drop in productivity levels many business owners expected.

The office market is, without a doubt, in a state of flux but offices are here to stay. It is a case of how we use them as we ease out of lockdown, and whether occupiers consider there to be a need to downsize, upsize, to progress expansion plans, or place them on hold.”

Bromwich Hardy set up a poll on LinkedIn to gain feedback from office occupiers and employers:

Question – Have your business’ office size requirements changed during lockdown and are they now changed for good?



Michelle continues:

“Within the Warwickshire area Bromwich Hardy has seen the immediate impact of the lockdown and how companies considering a move have reacted.

Turning first to occupiers that were under offer on taking new office properties with deals in solicitor’s hands when the lockdown took place. Of these transactions, a significant number continued through to completion, a number have gone on hold with legal work stalling due to staff being furloughed or occupiers saying they still want the office but can see no point in completing the lease until they can take occupation. Many occupiers were also put off completing as they faced initial problems getting hold of contractors to complete fit outs.

Many banks put a freeze on lending against commercial properties so several office sales that were under way and required bank lending to complete, have gone on hold. And of course, there have been several transactions, albeit a small number, that have fallen through.

Enquiry levels took an immediate dip, but are beginning to gain momentum, though not to the same degree as pre-lockdown yet. Viewing numbers dropped, but thanks to our Matterport technology we have been able to produce fully interactive virtual tours and we have been able to conduct viewings following safe practice guidelines throughout lockdown.

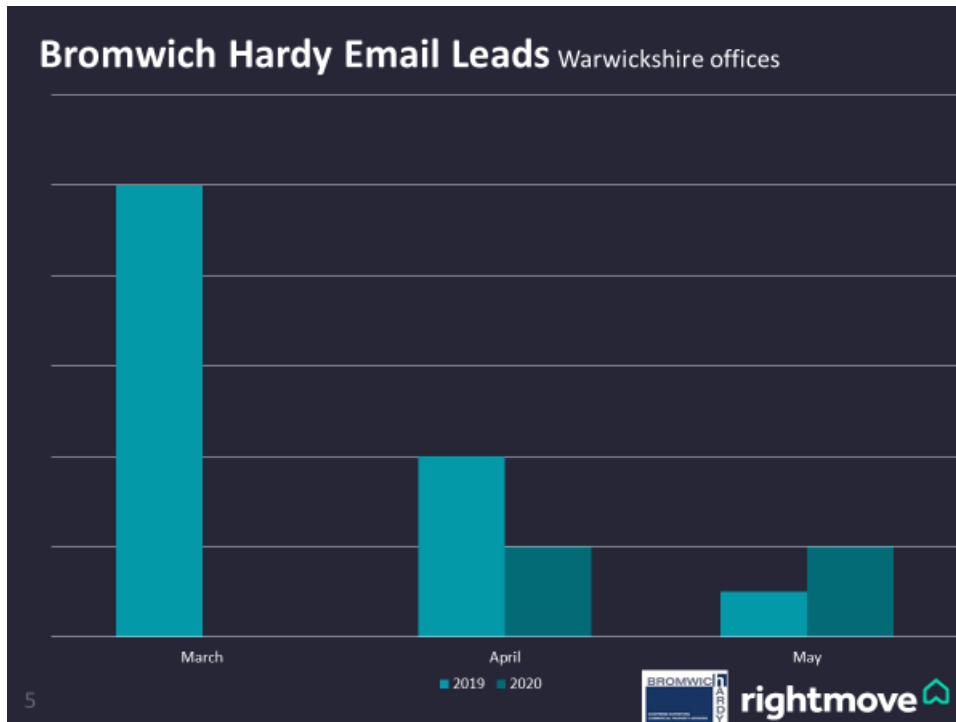
We have promising examples of office properties going on the market, under offer and leases completing all within the lockdown period. Examples are The Old Grain Dryer in Henley-in-Arden and The Lighthouse on Priory Road in Kenilworth.

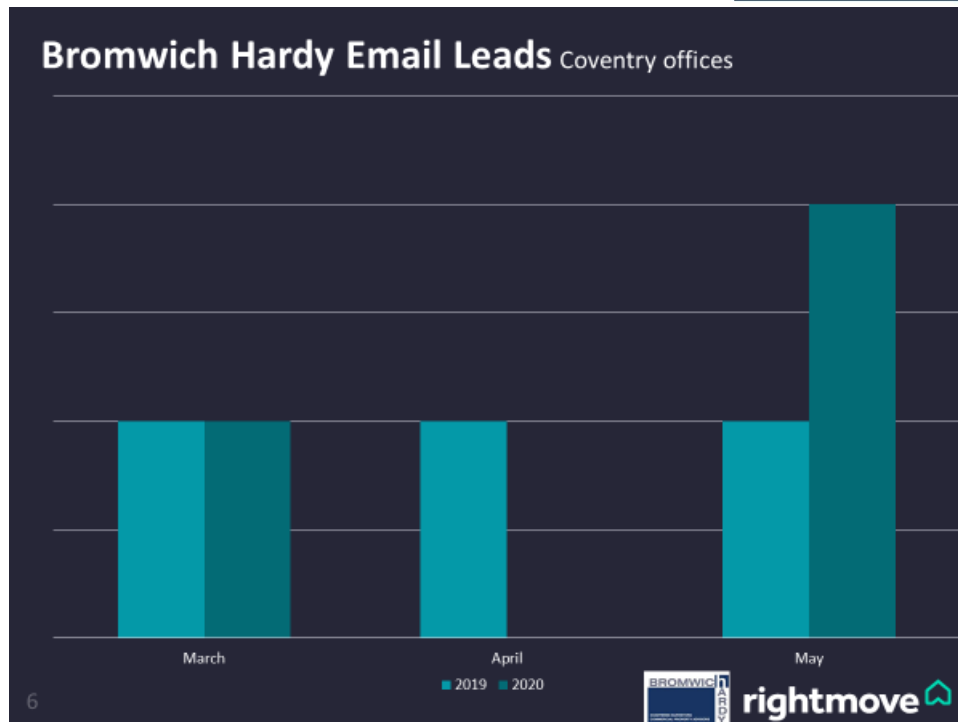
At the moment there is still a significant question mark as to how the office market will respond and evolve. We have not seen office rents drop or incentives increase. We still have a lack of stock in the market so choices are limited for tenants and this may assist in holding rents at pre-lockdown levels.

We are still waiting for the larger PLC and corporate occupiers to take stock and decide whether to continue with acquisitions and we expect occupiers to require ever greater flexibility in terms of lease lengths and break options.

There is an expectation that more stock will come to the market and this might drive rents down, but we have not seen this happen yet. However, there is still activity and we are still negotiating on lease terms and still placing properties under offer whilst undertaking an almost daily assessment of what is happening in the marketplace.”

Analysis provided by Rightmove shows enquiry levels over the lockdown period against last year for both Warwickshire and Coventry:





Retail and Leisure

The retail sector, has for some time, been struggling to cope with the changing face of the high street, but with an extended period of social distancing and inability to gather in public places, the leisure industry has been one of the hardest hit.

Bromwich Hardy partner James Brookes comments on the retail and leisure sectors:

“It is well known that the high street has been struggling for some time, but it is my opinion that although exasperating the situation further, now could actually be an opportunity for the high street and retailers to change and bring it back to prominence.

The truth is the demise started back in the 80s and 90s, not more recently. The arrival of big box operators such as BHS, Debenhams, Woolworths, Argos etc. changed the shape of high streets, knocking together 2, 3 or 4 plus shops to make a larger space for them to trade from, offering multiple retailing options all under one roof. They took lengthy leases on big rents and the covenant strength they provided, saw the investments sold into pension funds and asset trusts, who viewed them as safe long-term assets.

As these occupiers have slowly diminished, we have been left with large retail spaces on high rents with no occupiers and rather than let at a more market driven rent, they have lain empty to protect the asset value on the books, calculated from previous rental achieved. In effect creating a continuing false financial position and stifling occupation of high street retail.

The correction has been coming for some time and this could present huge opportunity for the high street, in particular small retailers. The cyclical nature of the property market will probably revert to

previous type with lots of small independent retailers occupying the high streets, potentially with upper floor areas converting into residential, which will help to create natural footfall and thriving social spaces.

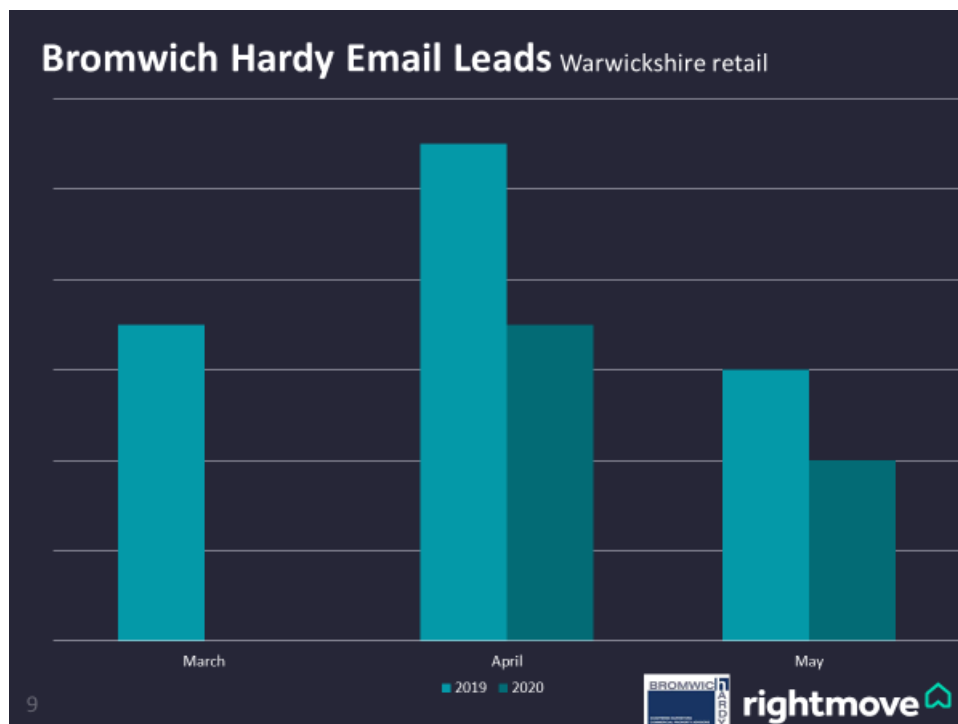
This is something we have seen a little more of recently and through lockdown, the desire overall has come for smaller spaces. On that basis we are continuing to let retail units, as long as they are small, the rent is sub £25,000 pa and reasonably positioned.

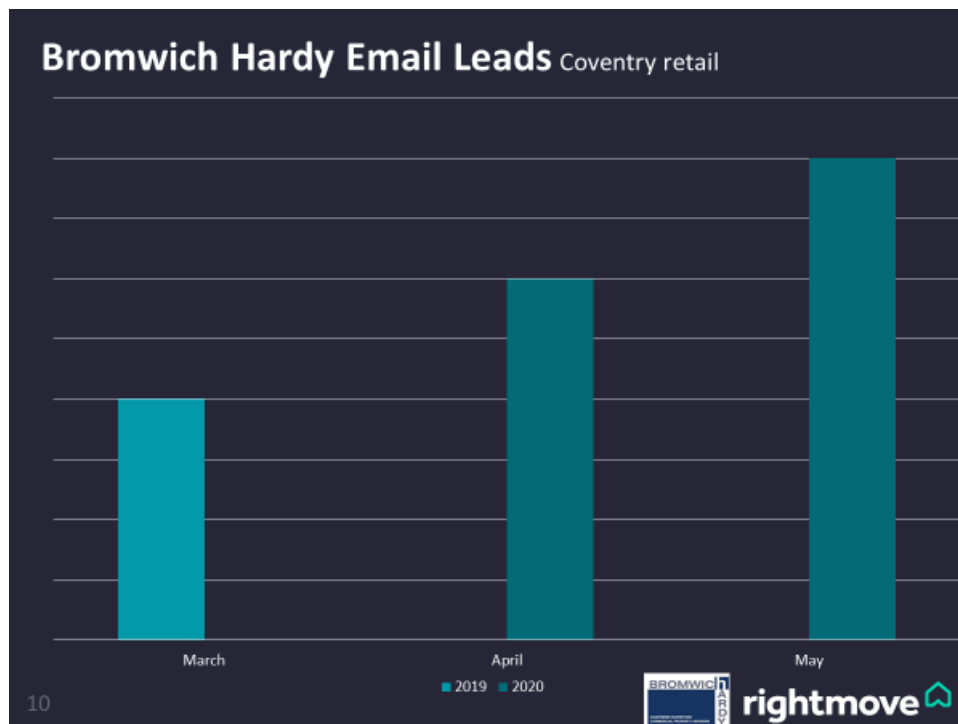
This is also the same for leisure, in particular restaurants. The clamour for chain restaurants and their covenant strength is falling apart. It has been a long-held view of mine that the strength will always be in the independents, who watch every penny of cost and every meal that goes out of the kitchen in terms of quality.

The chains have largely lost their identity and it is difficult to keep the quality of service and food consistent when spread nationally. Added to that, a somewhat false position created by quickly expanding chains who have in recent times taken lengthy leases at high rates per sq. ft, but large incentive packages that are all front ended. Once the incentives finish, they find it difficult to cope with the reality of the lease deal and has resulted in the closure of a number of high-profile chains.

The future for this sector is definitely in smaller offerings both in retail and leisure and our most recent enquiry streams definitely back up this position. The challenge from landlords is how to invest in large spaces to break them up again and/or convert upper areas into residential to provide a second more consistent income stream.”

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Student and Private Residential Schemes (PRS)

As there is the potential for another significant downturn in the short to medium future following this enforced period of inactivity and the consequences it will bring about, it is important to consider the impact on student accommodation as it was the best performing asset class throughout the last recession and PRS the new poster boy of future residential development.

Partner James Brookes has been specialising in the student accommodation market for the last 6 years and is just turning his attention to PRS and its emergence:

“Student accommodation was the best performing asset class within the last global recession and following this, it was only time before the major funds and institutions started to invest heavily into the sector because of the high returns and relatively safe long-term income streams.

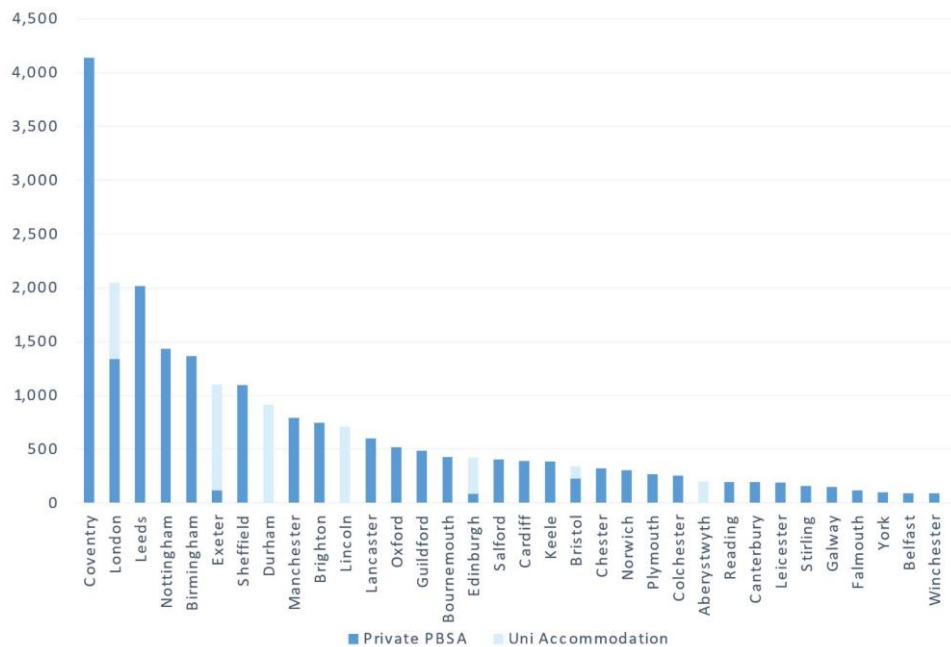
University accommodation had for some time been a relatively poor offering, with University owned historic halls propped up by houses converted into multiple bedroom offerings, effectively cramming as much in as possible. This started to change in 2013 and we saw the emergence of large purpose-built student accommodation (PBSA) blocks, that offered en-suite/studio accommodation, communal leisure areas and an all-in product on a set reduced term to mirror university teaching years.

Nowhere was this more evident than in Coventry city. The city houses two world class institutions, Coventry University in the city centre and Warwick University on the outskirts in Canley, which between them, on most recent estimates, house c52,000 full and part-time students.

PBSA development over the last seven years has been enormous in the city, with c14,000 new student beds created. Bromwich Hardy have been directly involved in over 3,000 of these.

It has been suggested in many quarters that the development level of student accommodation has been too much, and the market is now saturated. That is true to a point, although it is worth understanding that before this development drive, Coventry had the second lowest percentage of PBSA accommodation in the UK so there was some way to catch up. But we have caught up!

The following graph showing new PBSA beds by location & type (2020-21) illustrates this point perfectly:



The interesting point for the year ahead in relation to student rents is to understand when rents for the year will actually start. Warwick University is proposing to start back physical teaching in September, although this will definitely be a mix of physical and online to combat current problems.

Coventry University has announced it does not intend to start physical teaching until January, which brings into question when students will actually start to take up accommodation and will rents for the year be on a two-term basis? Bromwich Hardy have acted for Coventry University on a number of projects over the last couple of years and will continue to keep a watching brief on the situation and keep close to the market.

In relation to Private Rental Schemes (PRS) in the city of Coventry and in the towns of Warwickshire, this is a burgeoning market. However, at this point it is not viable in every situation. The values in Coventry city centre for residential are now in excess of £300 psf, evidenced by the recent sales of the refurbishment at the former Co-op building on Corporation Street which averaged at £307 psf. This, for a refurbishment rather than new build where views from the apartments either go into the internal atrium or out onto a service yard.

There are several high-profile projects pushing forward, with NSG in conjunction with Rainier Developments pressing on with the former Elliot's site on the London Road and the current application for 731 apartments in 8 blocks due for outline consent at Abbots Lane in Coventry, delivered by Complex Development Projects. Bromwich Hardy will be selling the development opportunities of individual blocks with outline consent and massing, with public open space and off-site contributions having been covered off so please contact me if this is of interest.

Student accommodation has created the starting block in the city for this type of accommodation, setting down precedents for height, massing, location and understanding. It is now time to move this into mainstream residential.

The Warwickshire towns however, remain more challenging with restrictions on height of no more than 6 storeys likely, build costs at present make the development of PRS unviable without the height massing necessary.

However, in both sectors student and residential, we continue to see great interest from external developers in Coventry and Warwickshire. Particularly relevant for Warwickshire, there has, in recent weeks according to my estate agency friends, been a massive rise in enquiries for buyers to come out of London and inhabit more rural locations, as long as there is potential for an office in their property and there is reasonable access to a main line train station.

This may in turn change the layout of PRS developments, with previous requirements having focused on studio and 1 bed accommodation, having a second bedroom that could be converted into an office seems a definite distinct advantage going forward."

Going Forward

Bromwich Hardy remain very confident in our ability to transact in any department and the above overviews of the different sectors exhibit our deep understanding for property in the region and nationally.

If you would be interested in some property advice or utilising our services to dispose of leasehold or freehold property, please get in touch and we will provide you with the top quality service we have been providing to all of our existing clients during, before and after lockdown.

BROMWICH HARDY AWARD-WINNING COMMERCIAL PROPERTY SPECIALISTS

Client Services

- Corporate Property Advice
- Development
- Investment and Aquisition
- Commercial Property Management
- Valuations and Landlord and Tenant
- Commercial Property Agency



David Penn

Richard Hardy

Andrew Cosnett

Michelle Mills

Tom Bromwich

James Brookes

1 The Cobalt Centre
Siskin Parkway East
Middlemarch Business Park
Coventry CV3 4PE

02476 308900
bromwichhardy.com

