



Sheridan
Property
Consultants

January 2021 Newsletter A Time for Reflection.....



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The annual January ritual of forming (and more often than not, breaking) New Year resolutions seem more poignant this year, with the backdrop of a once in a generation global pandemic. This traditional time of reflection takes on greater significance as we contend with tightened lockdown measures, new variants, rising case numbers and, unfortunately, more COVID-19 related deaths. While the nation (and world) digs deep to find fortitude in this bleakest of winters, there is real hope that the many vaccinations will guide us to the light at the end of this long dark tunnel. Embracing this spirit of optimism provides that fortitude to get us through this “darkest hour”, as we look to the future and reflect on the past.

In a departure from our general ambivalence to new year’s resolutions, this year we have decided to embrace the tradition. Property is an interpersonal profession and one that requires regular social interaction. We miss the breakfast meetings, long lunches, chats over coffee and the occasional night out with our colleagues and clients. This has always been our modus operandi when it came to creating, cultivating and maintaining relationships. The turmoil to our lives caused by the global pandemic has highlighted the importance of our social interactions. They say you don’t know what you missed until its gone, and in the absence of our ability to connect in our preferred manner, we have decided to post our inaugural newsletter. Our aim is to reach out and share some of our views and observations on the ever-changing face of the property landscape and stay connected. This newsletter is our new year’s resolution.

This year we celebrate 10 years as Sheridan Property Consultants. We are very proud to reach this milestone and hopefully later in the year we can raise a glass with some of you to toast the achievement. We started the business in 2011, when the world was still reeling from the economic fallout of the GFC. Having navigated our way through the choppy waters of near global financial ruin, we were faced with a more parochial but no less challenging problem, the 2014 Scottish independence referendum. Just when we thought we had resolved the question of the break-up of the United Kingdom (déjà vu), we were faced with the break-up of the UK’s relationship with the EU. We recall the market stagnation in the run up to the 2016 EU referendum result, and the market uncertainty that followed the result. When in December 2019, the Conservative party won the general election, with a majority to boot, we thought we had finally reached the end game of Brexit uncertainty. We remember the hope and optimism for the new year ahead, that was only a little over one year ago! Little did we know that all the challenges we had faced to date were going to pale in comparison to what was heading our way. At this point in time the brewing pandemic in the east went largely unnoticed in the UK.

Our journey began at a time of economic uncertainty, and despite the risks, we believed that our relentless focus on hard work and passion for providing a best-in-class service would see us prevail. We have never wavered from these core values and they have stood us in good stead. We have worked with many clients during the past decade, from first time private investors to the great and the good of the UK’s institutional echelon.

We pride ourselves for treating every client and instruction with the same respect, dedication and commitment to a first-class service. Our origins are rooted in Scottish retail, but to enable us to grow we've learned to adapt and move with our clients demands and requirements into other sectors, such as business space and alternatives. We embraced and supported this change by opening our London office in 2018 to broaden the scope of our service offering, from a sectoral and geographical basis.

Our ability to be flexible and move with the times has shown itself to be one of our greatest strengths. As we look with hope to a world beyond Covid, this ability to embrace change will be more important than ever. The virus has changed behavioural norms in a way that was unthinkable a year ago. From a market perspective, the enduring legacy of this pandemic remains to be seen. The changes to the commercial property landscape brought about by the global pandemic requires all of us to adapt, and adapt we will.

The coronavirus crisis accelerated many secular trends that were already well under way. The divergence from "bricks and mortar" retail to online retail had been gaining momentum for years. The national lockdowns proved to be an accelerant. Nationally, the vacancy in retail is now at or around 13%, according to Local Data Company. In Scotland, this figure will be significantly greater. The High Streets across the UK have witnessed the most damage, with the closures of shops, cafes, restaurants and bars for extended periods throughout the year. The recent demise of Arcadia and Debenhams has left gaping holes in our High Streets.

It's worth noting that a quarter of the 160 stores vacated by BHS in 2016 are still vacant. Finding a solution will be one of the biggest challenges the sector faces. Shopping centres were already having a tough time before the pandemic but are now the pariah of the market, especially from an investment perspective. Vacancy rates in shopping centres are almost double that of retail parks.

Retail jobs have been a heavy casualty of this pandemic, with more than 170,000 jobs lost during 2020. To add further woe, the Centre for Retail Research has estimated that up to 200,000 jobs in retail will disappear in 2021.

Retail in the UK has never experienced greater challenges. And yet, even in this hard-hit sector there remains huge opportunities for developers and investors on repositioning plays in town centres and retail parks. As many traditional mainstream High Street retailers grapple with the transition to online platforms, they are also turning their attention to out-of-town retail parks. The lower cost base, easier car parking and larger stores have become increasingly important to the likes of Next and M&S. We see significant opportunity in this space. Supermarkets performed well during the pandemic, remaining open during lockdowns to provide food and essential goods. Investors have been reminded of their essential importance to the fabric of our society.

The challenging headwinds facing retail are undeniable. The outlook for the office sector remains more uncertain. At the heart of the matter is the nascent trend of remote working. Whether this becomes the new standard will to a large extent influence the prospects for this sector. London remains arguably the most vulnerable to the changing work patterns, with the potential for large scale relocation of labour to avoid the higher cost of living, long commutes and compact living. The regions could be beneficiaries of the brain drain exodus out of London. Edinburgh and Glasgow are well placed to take advantage of any companies looking to relocate from London. Irrespective of the prevailing situation, offices are fundamental to the machinations of our economy.

Offices have proved durable and stood the test of time. There will be winners and losers in this sector, with the best in quality offices attracting the strongest covenants, highest rents and sharpest yields.

The pandemic provided a tail wind for the UK's retail logistics sector. Occupational demand for last-mile delivery facilities and large warehouses surged as the shift to on-line retailing accelerated due to the national lockdowns. Strong tenant demand and limited availability is driving investors into the sector. Capital inflows into distribution warehouses in 2020 reached record numbers with over £4.5 billion, up 25% on the previous year. We can expect more of the same in 2021 as the supply and demand dynamics of the occupier market continue to drive investor demand. The chronic shortage of high-quality distribution warehouses in Scotland will fuel continued capital growth and development, in strategic locations.

The leisure and hospitality sectors have been badly impacted and it remains to be seen how they will emerge from the coronavirus crisis. We expect to have a clearer view in the second half of the year. Pent up consumer demand should provide a much-needed impetus to kick start a recovery. It is an area of the market that could offer investors exciting growth prospects as we believe bars, restaurants, hotels and gyms are fundamental to our society, and sanity.

Student accommodation, BTR and senior living will be very interesting sectors to watch in 2021. As our society emerges from the national lockdowns and life begins its slow, but inexorable, journey back to normality we will see the return of students to universities. PBSA offer investors attractive income in a growing sector with favourable demand and supply dynamics, especially in Edinburgh. BTR in Scotland lags behind England but is becoming increasingly relevant. We expect to see large capital inflows into this sector in 2021. The nascent Senior Living sector continues to attract investor interest and we could see it emerge as a sub-market in Scotland this year. As we look back over the past ten years of our business, it is clear we had to battle many challenges. None of them, however, compares with the coronavirus pandemic.

The unprecedented challenges of 2020 required all of us to endure and be resilient. Despite the extraordinary circumstances we finished the year having transacted more than £200 million. This represents approximately 20% of total transactional volume in Scotland. We are immensely proud of this achievement, and despite the challenges that lie ahead, we will continue to show our resiliency, flexibility and continued passion to providing our clients with fierce conviction and a first-class service.

We would like to take this opportunity to thank all our friends, colleagues and clients who have supported us on our journey so far, and hope for their continued support in the years ahead.

You will be hearing from us very soon, until then stay safe and keep well.



