Emma Powell

IC COMMENT

Landlords are likely to be forced into making costly concessions over unpaid rent later this year

Hammerson (HMSO) epitomises the weighty balancing act retail landlords are struggling to perform. Extracting rent from retailers and hospitality providers operating under the strain of enforced closure has been a wrench – the commercial landlord collected only 41 per cent of the amount due in advance for the first quarter. Yet the need to keep below debt covenant limits is an ever-present – and arduous – task.

Just a quarter of the group's occupiers are open, either offering essential retail, Click & Collect, and/or takeaway and delivery services, while destinations in France are subject to a 6pm national curfew. Even after taking into account payments deferred until later this quarter, almost £29m, or half of the amount due on 25 December, remains outstanding. Judging by the results of negotiations over last year's rent, that figure is likely to edge down as repayment plans bear fruit – but not by much.

Retail landlords had collected around half of the rent owed for the first quarter a week after it was due, according to data compiled by Remit Consulting. Only 74 per cent of rent due for the fourth quarter had been paid three months after it was due in September.

Retail landlords have lost their teeth, at least figuratively – and they will not have much bite even after the moratorium on commercial evictions (for not paying rent) comes to an end in March. Investors should expect high write-offs of unpaid sums, not least because of an almost-certain increase in tenants launching company voluntary arrangements or entering administration. Meanwhile, a dearth of financially robust potential replacements means landlords will likely be forced into costly concessions with tenants that have not paid rent.

Yet more fundamentally, an oversupply of space means that even those retailers that are fighting fit can afford to barter hard on lease terms. That includes lower rents, shorter leases and a continued push towards turnover-based rents.

In August, previous Hammerson chief executive David Atkins said he intended to introduce a new leasing model, which would include more flexible leases, rebased rents at more affordable levels and indexation replacing the existing rent-review system. It is hard to see how newly installed boss Rita-Rose Gagné will have the option to deviate from offering improved terms, such as these, to retain and attract tenants.

Tapping the market for capital – à la Hammerson – provides some breathing room beneath debt covenants. However, with more retailers likely to go to the wall this year and asset values falling, it is a short-term solution. ●

PROPORTION OF Q1 2021 RENT COLLECTED (%)

	Retail	Offices	Leisure	Industrial	Overall average
Due date	45.8	71.2	28.8	62.1	52.6
Plus seven days	50.5	79	33.3	72.4	59.5
Source: Remit Consulting					

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Is the buy-to-let market now too risky?

Further potential tax reform and an expected rise in unemployment may provide challenges to the market this year

- Rental growth accelerated outside London in December
- Potential tax changes and pressure on household income may dim the appeal of buy-to-let

After her tenant stopped paying rent over a year ago, landlord Candy Richards has stomached £7,000 in arrears from the single property she lets. "As a landlord it's definitely made me think long and hard about whether I want to continue renting out that property," she says. Mooted reforms to the capital gains tax (CGT) regime have added to the feeling that the government is not on the side of landlords, she says.

Ms Richards is not alone in questioning her future in the market. A third of landlords surveyed by the National Residential Landlords Association (NRLA) at the end of last year said that they were more likely to either sell some or all of their properties, up from around a quarter during the third quarter. The risk of missed rent payments and a potentially higher tax bill under proposed CGT reforms have made the buy-to-let market more precarious.

Yet there was a sharp acceleration in rental growth in December, which rose by an annual 4.1 per cent, according to data from Hamptons International, marking the fastest rate of rental growth since July 2016. London rents also increased by 1.6 per cent, after turning positive in November for the first time since the onset of the pandemic. However, rents in inner London plunged by 11.5 per

cent as a decline in tourism, corporate travel and student demand led to a jump in properties on the lettings market.

Richard Davies, head of lettings at Chestertons, said the estate agency had seen an increase of more than 90 per cent in properties on the London market in December. Together with falling demand, that prompted more landlords to offer a month rent-free to secure a tenant before Christmas, which helped boost enquiries via online property portals by an annual rate of 69 per cent. That is a trend that some landlords have continued this month, he adds. "Particularly those where they have got a whole building that they own and they don't really want to reduce the rent," he says.

The rise in rents outside the capital could be due to the steep fall in properties available to let, says Aneisha Beveridge, head of research at Hamptons. "I think it probably does come down to that supply and demand imbalance," she says.

The number of homes for rent fell by double-digit percentages in every English region – except for London – in December, while prospective tenant numbers surpassed 2019 levels for the first time since the onset of the pandemic.

The extension of the government's furlough scheme may have been one factor in boosting tenant numbers, says Ms Beveridge. "Another possibility was the threat of another lockdown, perhaps people wanted to get on and move before that happened again," she says.

But will rents continue rising? Respondents to the latest Royal Institute of Chartered Surveyors residential survey said they expected rents to increase everywhere except London over the next three months, with 15 per cent reporting higher tenant demand in December. However, the expected rise in unemployment and potential affordability constraints will provide a challenge. "We still haven't seen the full impact of the economic crisis and what that means for people's jobs and income," says Ms Beveridge. "We are probably not going to see the worst of that until the summertime."

Just over half of landlords surveyed by the NRLA during the fourth quarter said they had lost some income due to the pandemic and around a fifth had lost over £5,000. Gaining repossession of a property has become a lengthier process, partly due to landlords being required to give tenants six months notice, save for some exceptional circumstances.

THE SPECTRE OF REFORM TO THE CGT REGIME IS ANOTHER RISK TO CONSIDER

Some landlords that can afford to do so have offered struggling tenants the option to defer the rent until they are in a better financial position, says Elizabeth Oxendale, associate at law firm Forsters. "Some of the landlords I've been working with have taken the view that it's better to have a tenant paying some rent, even if it's a lower rent, rather than a tenant paying no rent for up to a year potentially," says Ms Oxendale.

Despite the gloom among some investors, others have been caught up in the rush to take advantage of stamp duty savings ahead of the deadline for the tax break on 31 March. In November, investors buying property to let accounted for 15 per cent of sales agreed in the UK, the highest proportion in four years, according to data from Hamptons International. Over the entire fourth quarter that figure stands at 13 per cent, which the estate agency estimates translates into just over 51,000 completions, the highest figure for that quarter since 2015.

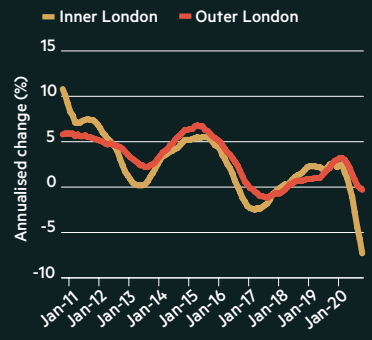
The stamp duty break is useful for landlords, says Chris Norris, director of policy and campaigns at the NRLA. However, he adds: "I certainly wouldn't want someone to disregard the current risks of more unemployment and greater difficulty in renting out property just because they were having to pay a smaller stamp duty upfront."

The spectre of reform to the CGT regime is another risk, particularly for those with smaller holdings. The Office for Tax Simplification has proposed that CGT be brought in line with income tax rates and the annual allowance for the tax cut from £12,300 to as low as £2,000. Currently, CGT on sales of second homes is charged at 18 per cent for basic-rate taxpayers and 28 per cent for higher-rate taxpayers. However, since companies do not pay CGT, buy-to-let properties owned by a limited company would not be affected. Last year a record number of limited companies were set up to let property – a trend that could be hastened if the proposed reforms take effect.

The affordability challenges associated with building up a deposit remain the core impediment to first-time buyers, according to Nationwide's latest affordability report, despite the low cost of mortgage borrowing. That looks set to continue driving demand for rental homes. However, the spectre of a tighter squeeze on household budgets, along with a potentially higher tax bill, mean buy-to-let investors should weigh the market risks more carefully this year. EP

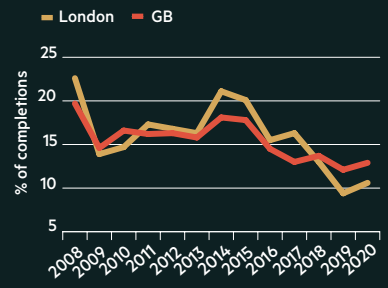
RENTS STILL UNDER PRESSURE

INNER-CITY RENTS DECLINE POST-PANDEMIC



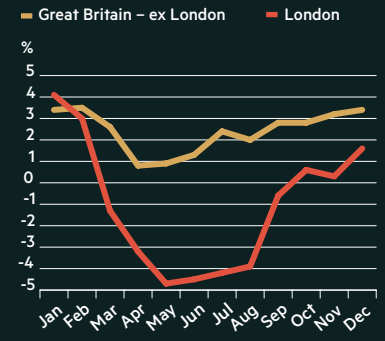
Source: Zoopla

LANDLORDS BUY GREATER SHARE OF HOMES



Source: Hamptons International

LONDON RENTAL GROWTH LAGS OTHER REGIONS



Source: Hamptons International