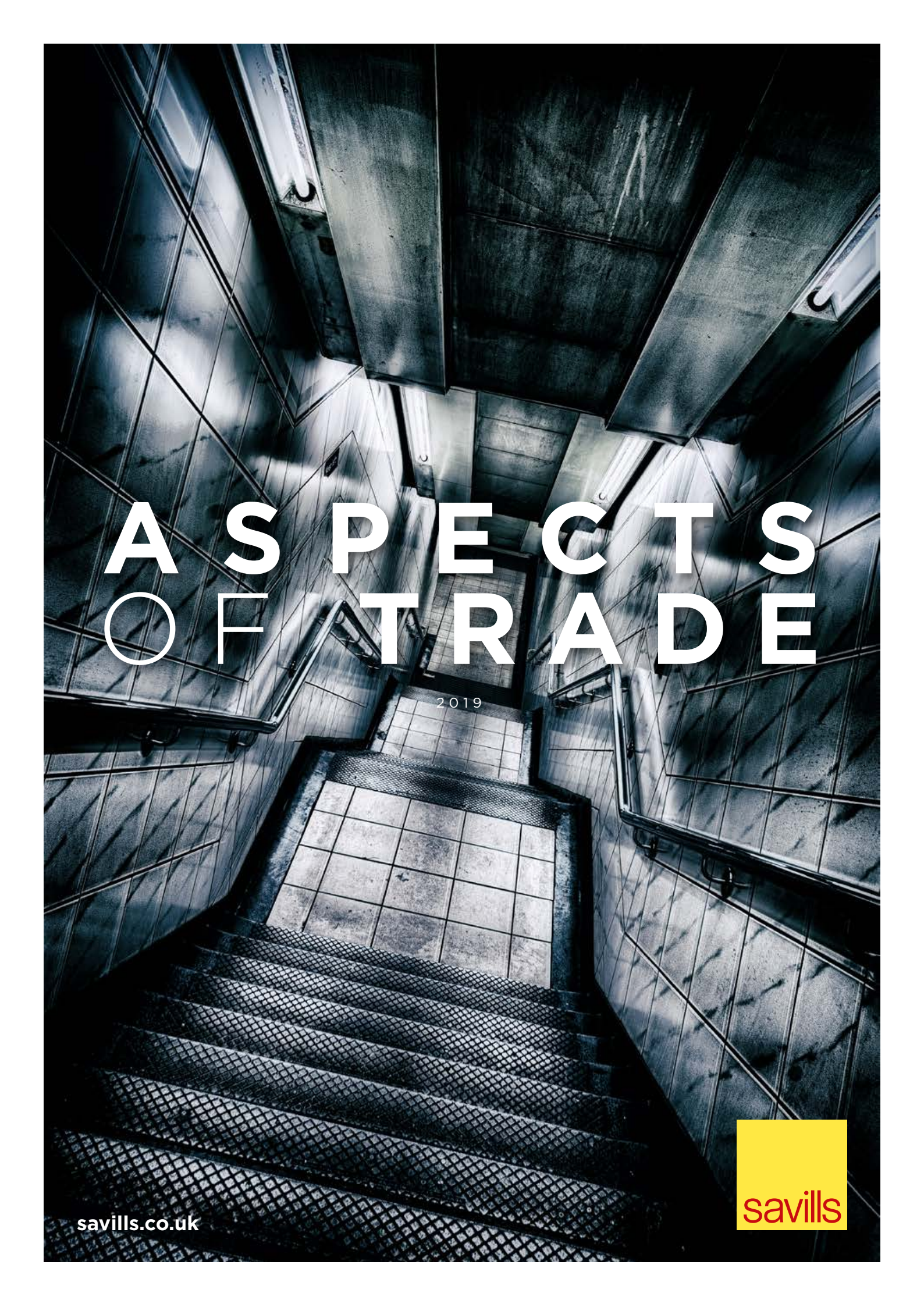




ASPECTS OF TRADE

2019

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INTRO

Welcome to the 2019 edition of Aspects of Trade. Despite Government's promises, Brexit seems as far from a conclusion as ever and the ongoing uncertainty continues to hamper investment decisions.

Despite this, many sectors appear surprisingly robust in the current political and economic climates and we have had to get comfortable with being uncomfortable. Of course there will be casualties, but the majority will make it through this difficult period and some will come out the other side in better shape. Everyone will have a lot of experience under their belts.

In this issue we include articles on Day Nurseries, Car Parks, Healthcare, and Minerals. We have a special article on the emerging Foodhall market and hope you find something here to whet your appetite...



Ian Simpson
Head of Department



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CAR PARKS

THE FUTURISTIC CAR PARKING INDUSTRY,
WHAT DOES IT LOOK LIKE?



Technological advances have been at the core of the developments seen within the car park industry, from the automatic number plate recognition (ANPR) and electric charging stations, to automated sensor systems (ASS) and online applications. No two car parks are the same and the increased competition is leading to differentiation and entrepreneurial activity in the market.

Automation is the hot topic with the increasing popularity of electric and automated cars, the former pioneered and popularised by Tesla. According to Wired there are currently 155,000 charging points in the UK with c.4,500 being added each month. Electronic Vehicle (EV) purchases are expected to be above

1m by 2020, this will be helped by the government's £400m pledge to assist the delivery of charging infrastructure (The Guardian) as well as implementing The Plug-In Car Grant which subsidises EV purchases.

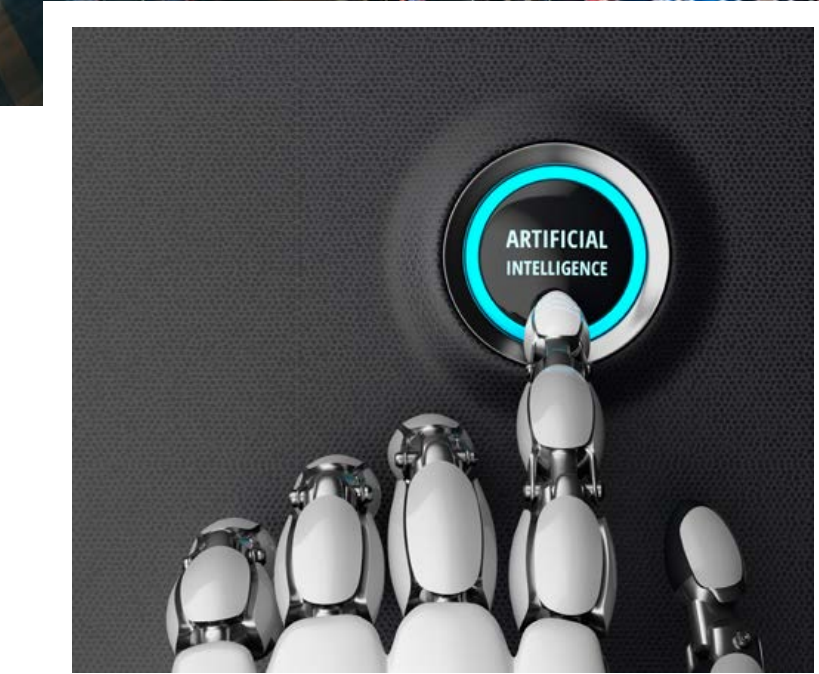
The UN foresees over 68% of the world's population living in urban environments by 2050, inevitably this will lead to significant pressure being placed upon the storage of vehicles which are not in use. Planning restraints and the inherent lack of development land supply in urban areas has meant that large traditional multi-storey car parks are increasingly unattractive. Instead, the innovation of automated valet services and automated multi-storey parking systems provide valuable alternatives.

Automated stacked parking eliminates the wasted space needed for ramps in traditional multi-storeys. Cars are tightly packed and returned to the driver upon request - this approach is likely to be a focal point of infrastructure innovation in the car park industry over the coming years. Tracking close by will be the AV services, which are currently being pioneered by Stanley Robotics and trialled at airports in Paris and Lyon. The robot is an automated pallet truck which lifts vehicles before transporting them around an open-air car park. It deposits cars into tightly packed blocks, maximising space. The system is linked to the passenger's flight, so once their flight lands, the robotic truck locates the vehicle and returns it to a designated collection point.



A new generation of Internet of Things solutions is providing an answer to the endless game of parking space hide'n'seek, by installing small sensors on the car parking spaces which are both linked to lights above the space and to a mobile application. Drivers use a smartphone app to find spaces in real-time. Once they have parked, the sensor connects to their phone to log-in the car upon arrival and then logs-out the car upon departure.

For those operators or architects that wish to take a slightly more reserved approach to the ever evolving car park industry, there are options available to them. A major downfall to the multi-storey is the land on which it occupies. Mixed use multi-storey developments are becoming more common and appear to reach a comfortable compromise between innovation and tradition by way of repurposing. Designing and



renovating for flexibility may allow other use classes to function within the same area. Possibilities include that of pop-up retail, leisure and food & beverage or for entertainment and exhibitions. For architects designing with moveable partitions and even ceilings provide the ideal environment to maximise the space and the potential income streams to the site. Adaptability is often the simple secret to survival.

The revolution is upon us and soon these early introductions and transition phases will be a thing of the past. For now, it's an area of tremendous excitement and is certainly not the time to take our foot off the gas... or is it?

FOODHALLS

THE POP-UP RESTAURANT GOES MAINSTREAM



Whilst the challenges faced by casual dining restaurants, such as Jamie's Italian, Strada and Byron have been widely reported, the simultaneous rapid growth of foodhalls is less well documented. Foodhalls provide informal enclosed communal eating spaces with multiple food and beverage vendors. There are now over 100 foodhalls in Europe, 20 of which are in London alone, and a further 20 in the pipeline for the UK.

The growth in foodhalls has been fuelled by the demand for more choice, flexibility, and constant change as well as enhanced experiences. Added to this is the impact of social media and the trend in 'posting' photos of food.

Established foodhalls, such as TimeOut, Lisbon and Foodhallen, Amsterdam, are attracting millions of people each year as diners search to experience the latest artisan food trend at an affordable price. They entice tourists and locals alike.

Typically the Foodhall operator will redevelop a disused building to meet their needs. They look for iconic buildings of 15,000 to 20,000 sqft, with high footfall and good accessibility. They will pay close attention to the demographics and social trends of the area, as well as more practical issues such as the ease of extraction from the kitchens. They will fit the building out with multiple kitchen and bar units, and communal seating and facilities for 100s of diners, whilst paying close attention to aesthetics. The more established foodhall operators like

Market Hall are achieving payback on their capital expenditure within two years.

The foodhall operator will take a lease of between 15 to 25 years from the building owner and then, once redeveloped, they will grant a series of sub-licences to the food vendors. The food vendors generally take a licence for up to 12 months, with break clauses, and pay a rent of between 15% to 25% of turnover, with no base rent. The food hall operator provides the kitchen equipment, cleaning and security services. Some include additional spaces, such as Market Hall, Victoria, which has a gym, and event space for 80 people. The operator picks up the tab for the property overheads including business rates, utilities and licensing. This means there are low barriers to entry for food vendors and also the ability to continually adapt the food offering to changing trends.

Some commentators speculate that the Foodhall market in London is reaching saturation and increasingly foodhall operators are looking to brand the venue, like the new Bang Bang Oriental in Colindale, which claims to be the largest specialist Asian food court. The majority of those now planned for the UK are in regional cities, such as the Market Halls venue planned for York.

Challenges, other than getting the right mix of food and beverage vendors, include security, managing dwell time of visitors and keeping up with the constant demand for new experiences.



MINERALS

ARE AGGREGATE SHORTAGES ON THE HORIZON?



Demand for aggregates is set to increase considerably over the next decade with the government plans to build 300,000 new homes each year by 2025. Major infrastructure projects are also planned including HS2, Crossrail, Hinkley Point C, Heathrow Runway 3 and the Thames Tideway. According to the latest economic briefing by the Minerals Products Association (MPA), the extra demand for aggregates is expected to be up to 3.8 billion tonnes over the next 15 years. This would represent an increase of up to 18% or 14 million tonnes per annum on current levels of aggregates demand, levels not seen since 2007.

The severity of the recession following the credit crunch caused mineral operators to rationalise and close sites down. It also impacted on the development of new quarries and the replacement of mineral reserves which are essential for the construction industry. There is growing concern that this will result in a supply shortage which could lead to a lack of availability in material and an increase in prices. We have seen an increase in demand as indicated by the collation of data by the MPA. The minerals industry has recognised a fundamental change in the economic climate and is now gearing up to find and promote new mineral resources.

Critical to the delivery of all projects is the provision of an adequate source of aggregates across the UK. Fundamental to this is the replenishment of aggregate sources through the planning process to replace reserves that have been depleted. This will create opportunities for landowners. Mineral Planning Authorities (county councils or unitary authorities responsible for mineral policy and planning) are required to review plans every five years and when ready a 'Call for Sites' is made known. Each authority under the National Planning Policy Framework (NPPF) is obliged to identify and allocate sufficient reserves to provide a



seven year mineral landbank over the plan period. It is in a landowner's interest to know when their planning authority's call for sites is due to take place and use it as a trigger to scrutinise their property portfolio and to locate mineral resources for promotion. The initial site survey and geological appraisal is relatively easy to carry out, and if mineral is present, it can be followed up with a full geological borehole and planning appraisal, the cost of which can be funded by a mineral operator. There is only a limited time frame in which representation can be made so advice should be sought on how to best maximise the chance of success.

The quarrying industry is a cyclical business which is closely linked to the fortunes of construction. We have seen a return to growth with major infrastructure projects expected to consume a large volume of aggregates. This is a green light for landowners to generate significant value by seizing the opportunities offered through the mineral plan process.





RESIDUAL PROPERTY VALUES

A REALITY CHECK

Are you reducing your published profitability by depreciating your built freehold property to a nil value?

If so, perhaps there are sound reasons, such as reducing your tax burden or preparing for further development expenditure. But if you're finding that it's restricting

your ability to borrow, making your investors nervous about your performance, or restricting your potential to remunerate your employees as you would like, then perhaps have a rethink?

Many, if not all constructed and maintained buildings will still operate usefully in 15 years, 25 years, 35 years or indeed 50 years' time - it doesn't take a surveyor to point out this obvious truism. The residual value for financial reporting purposes is

"an estimate of the amount that an entity could receive from the disposal of the asset at the reporting date, if the asset were already of the age and condition that it will be in when the entity might expect to dispose of it."

It is for the finance director and the auditors to agree the period over which a building should be depreciated, and if, at the expiry of that time, a suitably qualified building surveyor is of the opinion that the asset has a residual economical

useful life (i.e. a number of further years where the asset returns more value to its owner than it costs to own, operate and maintain) then the property need not be depreciated to a nil figure, but to its residual value at the given date.

The assessment of the residual figure necessarily is hypothetical though meaningful. A suitably qualified valuer and a building surveyor should be employed.

Simplistically, from a trading asset, firstly the valuer needs to reach an estimated market value and then remove the goodwill element. From this the value of the land with the benefit of planning consent for the construction of the building should also be removed to leave the present value of the fitted-out building itself.

The building surveyor should then assess the overall remaining useful life of the building (assuming maintenance and where standard in the industry, minor refurbishment - but not overall refurbishment which cost should be treated separately) and where this is greater than depreciation period chosen by the accountants, a residual value is reached on a pro rata basis over time.

It is likely that the fittings and equipment would be depreciated over a different period to the building and assessed separately.

In many cases, the exercise will both be more realistic than depreciating simply to zero, but will also improve bottom line published profitability - often a boon where substantial recent investment has been made which is significantly masking though depreciation the positive outcome of the investment on financial performance.

Maybe worth thinking about?





HEALTHCARE

WHAT NEXT FOR ELDERLY CARE?

Almost 420,000 people live in elderly care homes in the UK, accounting for nearly 15% of the population aged over 85, according to LaingBuisson. The ONS projects a 36% increase in the 85+ population by 2025, and we expect to see a corresponding increase in care home demand.

However, despite the demographic drivers supporting care home demand, some operators are facing financial pressure due to reliance on local authority funded residents.

Elderly care home investment was £1.3 billion in 2018 across 26 deals, almost double the investment in 2017 (£0.7

billion and 24 deals). Net initial yields averaged 6.6% in 2018, down from 6.9% in 2017. Yields compressed by 22 basis points, with three transactions below 4.0%, including Aberdeen Standard paying a record low 3.75% for Moore House in Esher.

Just two deals made up more than half the value invested last year: Aedifica's acquisition of the Forest portfolio from Lone Star and Chinese private equity firm Cindat's purchase of HCP's Ice portfolio. Overseas marks a change from 2017, when 74% of investment volumes in elderly care homes was domestic.

Leasing to operators for long terms with indexed rents, means investors can expect a stable income stream, similar to established property sectors such as offices or hotels. Unlike the hotels sector, however, care homes are benefitting from demographic shifts that mean investors have greater certainty of demand growth.

Many of the UK's 470,000 care beds are in dated buildings with facilities no longer fit for purpose. The number of care beds is decreasing, as unviable, smaller or older homes close faster than the rate of new development.

As stock falls and the number of older people increases, we expect increasing demand for new care home development.

While there are many reasons a person might move into a care home, one of the most common is dementia. The Alzheimer's Society reports that 70% of elderly care home residents in 2019 had dementia or severe memory problems, and one in six people aged over 80 across the UK suffered from the illness. As the population with diseases such as dementia grows, the need for care homes and dementia care facilities will continue to rise.

Four Seasons has dominated recent headlines with their fall into administration, and we have seen a 33% increase in insolvencies for elderly and disabled care homes between 2017/18 and 2018/19, according to our analysis of Insolvency Service figures.

Care homes are funded through a mix of sources. Residents with more than £23,250 in savings (more in Wales and Scotland) must pay for care themselves, while local authorities fund care for those below this. Local authority funding for care homes is restricted, with the state paying substantially lower rates than an individual funding their own care. This puts financial pressure on homes with a high proportion of local authority-funded residents. Without reform, we are likely to see more care homes close as they struggle to remain profitable.

In spite of these funding challenges, the UK's ageing population will drive growing need for elderly care. For the many care home operators attracting a high proportion of private paying residents, it's possible to deliver strong and sustainable returns and this will continue to drive further investment into the sector.





DAY NURSERIES

LARGER PORTFOLIOS ARE LIKELY TO BE OF INTEREST TO PRIVATE EQUITY AND COMMERCIAL INVESTORS

Day-care nurseries offer care for children aged from birth to five years on either a full time or part time basis. Facilities are run by a range of operators including private individuals, community groups, commercial businesses or by companies for their employees.

According to the Department of Education there were an estimated 80,000 early year providers offering 2.8 million Ofsted registered childcare places in Spring 2018. This includes 23,600 group based providers providing 1.1 million places; 16,900 school based providers offering 330,300 nursery places; 696,900 reception places; 329,900 before school places, 187,800 school places and 40,900 registered child-minders providing 243,000 places.

There are historically low levels of employment at present, and far more mothers are now at work. There are also more single parent families and those with children with special needs which has created greater demand for early years care. The sector has adapted to and changed its provision accordingly.

There has been significant political debate about the affordability of childcare. The increase in the National Living Wage and pension auto-enrolment are beneficial to

those working in the sector but have increased the operating costs of early years businesses. Government contributions have been fixed and are not rising in line with increased costs. This is placing further pressure on margins especially in areas where salaries are lower.

In some senses the market is divided. Nurseries in affluent areas where higher prices can be charged are performing well, whereas other areas where salaries are lower or reliance is on government, there are threats of further closures.

Investors and Opportunities

In England, less than half the expenditure of pre-primary care is government funded making England the second lowest across all OECD Countries. The UK therefore has one of the highest private child day care industries.

The market is slowly becoming more consolidated with the bigger brands selectively buying businesses as they become available and fit their business model. Day care nurseries are predominantly independently operated. There are a number of chains with multiple locations around the country, however despite this around 80% are owned by independents. Larger groups are continuing to buy smaller businesses

which fit their model and further consolidation in the market place is inevitable.

Good quality, profitable assets receive significant interest with many nursery groups buying small independent chains and single businesses off market. As portfolios increase in size, they are likely to be of interest to private equity and other commercial investors. Location is important with those centres close to a wealthy large population catchment receiving the most demand and able to achieve better profit margins.

Challenges and what we can offer

Due to market composition, the average size of a nursery is currently small. Larger purpose-built facilities are being developed, with new build settings catering for a larger number of spaces. With significant changes being implemented to early education and childcare, it is important that those delivering childcare provision understand the financial, political and societal changes that are expected to occur. Savills have a diverse range of service lines and are able to provide advice on all aspects of day care nursery property including valuations, planning and development and site searches. Contact us for further information.



TRADE TRIVIA

TRADE RELATED SECTORS 2019



420,000

people (0.6% of the UK population) live in elderly care homes in the UK, this is 15% of the population of over 85s.



Over 100

There are now over 100 foodhalls in Europe, 20 of which are in London alone, and a further 20 in the pipeline for the UK.



Demand

for aggregates is set to increase considerably over the next decade in line with government plans to build 300,000 new homes each year by 2025.



Many

if not all constructed and maintained buildings -will still operate usefully in 15 years, 25 years, 35 years or indeed 50 years' time



c.4,500

There are c.4,500 new electronic vehicle charging points being installed each month in the UK



80,000

There are 80,000 early year providers in the UK offering 2.8 million places

ASPECTS OF TRADE

SAVILLS TRADE-RELATED SERVICES

WHO WE ARE AND WHAT WE DO

VALUATION, AGENCY AND PROFESSIONAL/ADVISORY WORK IN
THE FOLLOWING:

Leisure Property

- Golf
- Holiday Properties
- Caravan Parks
- Hotels & Resorts
- Licensed Premises
- Sports Venues
- Urban Leisure
- Visitor Attractions
- Water-based Leisure
- Equestrian

Trade-related Property

- Ports and Airports
- Waste Transfer and recycling centres
- Renewable Energy
- Abattoirs and food processing
- Crematoria, graveyards and woodland burial sites
- Churches
- Nurseries and garden centres
- Education
- Mineral extraction/landfill
- Vineyards

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