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WINTER 2017 ISSUE TWELVE WWW.GERALDEVE.COM

Night Vision

Turning London into the most dynamic 24-hour city in the world

Metamorphic Wok

How wagamama is shaping its property strategy to meet consumer demand

The View from Europe

Thoughts from Gerald Eve's alliance partners on the effects of Brexit

GERALDEVE

EDITOR'S NOTE

In the property sector, perhaps more than any other, good negotiation skills are a prerequisite for success. From investment deals to planning permission, via occupational agency and business rates appeals, it is those who are most able to leverage their hand – and understand the motivations of the counterparty – that invariably come out on top. The very best dealmakers, of course, find outcomes that benefit everyone.

It is to be hoped that those conducting the Brexit negotiations, on both sides of the table, are able to find such a solution. The clock is already ticking and a good working deal is surely in everyone's interests. For the real estate sector, a pragmatic agreement that recognises the benefits of as frictionless a border as possible for trade and capital remains the hoped-for outcome.

Away from the Brexit negotiations, the political uncertainty created by June's hung parliament will surely see some businesses revisit investment decisions. Similarly, a dip in consumer confidence is having its own impact on the UK economy, perhaps best seen at the moment through the prism of a muted housing market.

But there remain reasons for optimism. If there is a common theme in this edition, it is that the opportunities exist for those willing to embrace changing market conditions. From the energy sector to London's nightlife scene, dynamism and innovation will continue to be rewarded whatever the prevailing economic conditions.

For Gerald Eve, these remain exciting times. Building on the acquisitions made in 2016, asset management capabilities have this year been expanded, and opportunities for growth are seized as and when they present themselves. That the firm won the National Adviser of the Year title at the recent EG Awards, on top of the Professional Agency (business rates) and Investment Teams of the Year at the Property Awards perfectly illustrates how Gerald Eve is growing its offer while maintaining its traditional strengths.

Simon Prichard
Senior Partner, Gerald Eve

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NEWS UPDATE

GERALD EVE NAMED 'NATIONAL ADVISER OF THE YEAR'

Gerald Eve has scoped the prestigious 'National Adviser of the Year' accolade at the 2017 EG Awards.

The award, in recognition of achievements during the 12 months to April 2017, follows a transformative year for Gerald Eve, during which the acquisition of five teams and further growth of existing disciplines saw the firm reach new heights.

Senior partner Simon Prichard said: "This is a fantastic achievement for Gerald Eve, underscoring the expansion and development of the firm over what has been a hugely successful year. We continue to excel not only at our traditional strengths, but have built on existing expertise to develop market-leading, award-winning offers in areas such as investment agency. It is testament to the hard work of everyone in the Gerald Eve team."

The title caps a successful six months for the firm in terms of accolades, during which time it has also been named 'Professional Agency Team of the Year' (for business rates) and 'Investment Agency Team of the Year' at the Property Week Awards.

LIONHEART

Gerald Eve is now a proud partner of LionHeart, the charity created to help support RICS professionals and their families at all stages of a surveyor's career, from APC to retirement, offering personal, flexible support to help overcome any unexpected life challenges.

The charity offers professional counselling services, bereavement support, legal and debt advice, financial grants and help with mental ill health, stress or anxiety. LionHeart supports anyone who is or has been a member of RICS.

For further information please visit www.lionheart.org.uk

LionHeart
Supporting RICS professionals and their families

WELCOME TO THE NEXT GENERATION

Gerald Eve welcomed a new intake of graduates and apprentices in September. The new joiners, who will be based in London and the regional offices, began their time at Gerald Eve with a two-day induction at Welbeck Street before commencing their roles.

We wish them every success in their careers at Gerald Eve.

CEDAR INVEST SECURES APPROVAL AT APPEAL

Cedar Invest, advised by Gerald Eve, has secured planning permission for a Macclesfield retail park following a public inquiry that has ruled in its favour.

The circa 13,000 sq m scheme will be located on a former industrial site to the north of Macclesfield town centre, and will incorporate four retail units, a coffee pod and flexible food outlet.

The application was originally rejected by the planning committee, but the decision was subsequently appealed and the inquiry granted outline permission for the scheme in September.

Harry Spawton, partner at Gerald Eve and expert witness at the inquiry said: "The decision is a victory for common sense and overturns a committee decision that flew in the face of not just the planning officer's recommendations, but expert advice."

THIS IS NOT JUST ANY RATING INSTRUCTION…

The retail rating team has successfully secured a key rating instruction with one of the UK's largest high street retailers, Marks & Spencer.

The retailer has appointed Gerald Eve for the duration of the 2017 list in an instruction which covers Marks & Spencer's full national portfolio including England, Wales, Scotland, Northern Ireland and Eire.

Richard Stoney, partner, said: "We are extremely proud to have been appointed by such a significant retailer. Marks & Spencer has a fantastic and enviable heritage in the UK and is a brand which has helped shape the high street landscape, becoming a trusted household name in the process. We are really looking forward to working with the M&S team and achieving savings for them."

IWG GROUP COMMITS TO THE HARLEY BUILDING AS CO-WORKING REVOLUTION GATHERS MOMENTUM

Gerald Eve has secured one of the West End's flagship office leasing deals at The Harley Building, a newly refurbished building on the corner of New Cavendish Street and Hallam Street, just to the east of Portland Place.

IWG Group, owner of workspace brands including Regus has taken the entire building – totalling 35,775 sq ft – as a new flagship location for its Spaces co-working concept.

The flexible workspace provider has signed a new fixed term 20-year lease for the six-storey building, paying an annual rent of £3m with a fixed rental uplift in year five.

Founded in Amsterdam, IWG acquired Spaces in spring 2015, with The Harley Building forming the brand's 11th UK operation, in addition to locations across the globe. Offering a creative working environment with a unique entrepreneurial ethos, Spaces is a community-driven co-working office provider. Its workspaces offer an inspiring environment designed to integrate lifestyle into work, with value-added services such as a full event programme and community managers encouraging members to build their networks and connect.

KEEPING THE LIGHTS ON

AS THE UK ATTEMPTS TO ADDRESS THE TWIN CHALLENGES OF A FORTHCOMING ELECTRICITY CRUNCH AND A SHIFT TOWARDS RENEWABLE ENERGY, A COHERENT PROPERTY STRATEGY HAS NEVER BEEN SO IMPORTANT.

For readers of a certain age, energy policy is indelibly linked to the three day week. For two months in early 1974, as a miner's strike severely restricted the UK's generating capabilities, firms were limited to just three days of electricity per week. Regular blackouts made candles and paraffin lamps the must-have domestic appliances of the day.

Viewed from 2017 it seems like a very different world, but today's always-on society is under genuine threat. Policy failures of successive governments mean 1970s-style blackouts are all too real a possibility, with some experts predicting a 40% shortfall in electricity supply by 2025.

The prospect of an energy crunch is but one challenge facing the sector. From ageing nuclear capabilities to the shift towards renewable energy – via domestic solar generation and battery technology – the UK's energy market is undergoing something of a revolution. And as ever, it is real estate that is in the front line.

Alternating current

Overseeing nearly 8,000 km of high-voltage overhead cabling, National Grid is perhaps best-placed to identify the structural shifts that are changing the way the UK powers itself. "Before the Nineties we had a very clear-cut industry," said Richard Smith, head of National Grid's networks business, in a recent interview. "It's not as simple now."

With the traditional one-way relationship between consumers and generators shifting – people are increasingly producing their own energy from solar panels and feeding it back into the grid – so the traditional infrastructure needs of the industry are changing. Nascent domestic battery technology, as being developed by Tesla, is further changing the market dynamics.

"As the sector adapts, we're increasingly seeing energy clients that require help shaping their property portfolios to fit their needs," says Ken Thurtell, regional partner and head of Gerald Eve's Glasgow office. "From reducing costs on operational sites to realising maximum value from retired assets, real estate is an ever-more central part of an organisation's strategy."

The tax treatment of power infrastructure, notably through the business rates system, is of particular importance. With the UK's energy supply market finely balanced, the size of a rates bill can be the difference between an older power plant remaining online – and therefore able to contribute during periods of heightened demand – and being closed down and redeveloped.

Thurtell continues: "With very little headroom between demand for electricity and our generating capabilities, the Government finds itself in a tricky position.

"A number of power stations are approaching the end of their useful life – indeed, with some needing to be retired as part of reaching emissions reduction targets – but are also essential to smoothing out the fluctuations in demand, kicking in as needed. How these assets are taxed is a hugely complex issue, and one that we spend a great deal of time advising clients on."

Rise of the renewables

In Scotland, energy is increasingly synonymous with onshore and offshore wind turbines, located to take advantage of the dependable gusts of the country's east and west coasts. Property advice on these new assets – site acquisition, planning, development and business rates – is at the vanguard of the UK's moves towards a lower carbon future.

But more notable than the cleanliness of these new turbines, at least in the medium-term, is the extra generating capacity they bring. And it is needed: in a market that is already very tight, some 38 gigawatts of large thermal plant will close between now and 2025. To compound matters, the rise of electric vehicles is expected to add another gigawatt of demand at peak times, straining the system further.

Small scale generation – such as domestic solar panels and onsite facilities at major factories – is expected to account for 40% of the market within 20 years, and this will go some way towards bridging the supply gap. In parallel, advances in battery technology will allow storage on a far greater scale, helping to smooth over the mismatches in supply and demand that have traditionally undermined renewable energy. But reaching a low-carbon future with enough electricity generated to meet demand will continue to be a considerable challenge.

"The industry is walking a tightrope," says Thurtell, "and it's vital for everyone that the sector continues to maintain its balance. In this situation, real estate cannot be just passively held, but must be actively managed, fine-tuned and sweated if the UK as a nation is to successfully keep the lights on." ■

For further information please contact Ken Thurtell on +44 (0)141 227 2371 or email kthurtell@geraldeve.com

Illustration: Gary Neil

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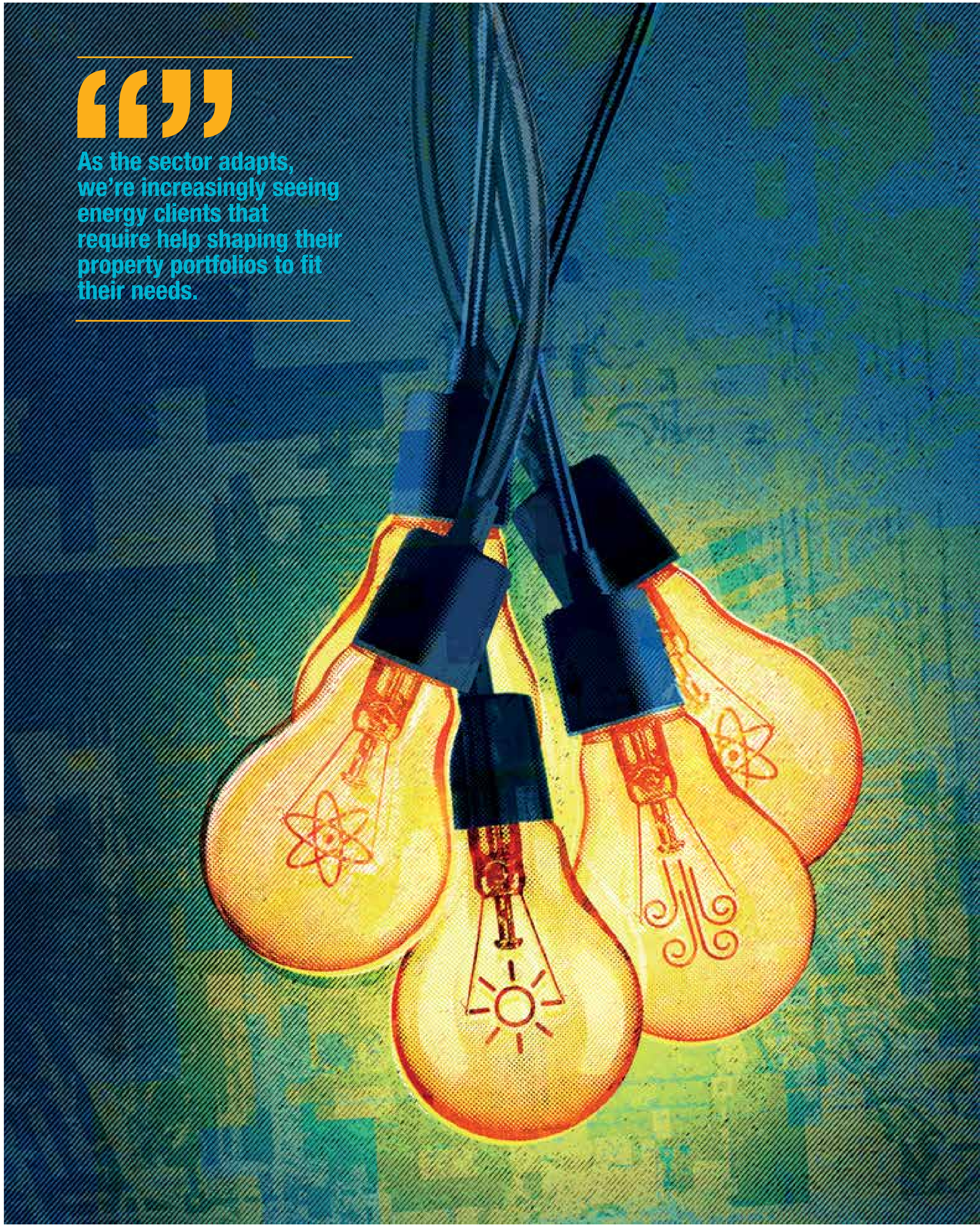
As the sector adapts, we're increasingly seeing energy clients that require help shaping their property portfolios to fit their needs.



EASTERN PROMISES

THE SALE OF ST MODWEN AND VINCI'S NINE ELMS SQUARE DEVELOPMENT SITE IN SOUTH LONDON WAS ONE OF THE MOST INTRIGUING STORIES I HAVE FOLLOWED IN YEARS OF WRITING ABOUT PROPERTY, SAYS DAVID HATCHER.

David Hatcher
Head of News & Finance
Estates Gazette

The process provided an intriguing insight into the power the Chinese government is capable of wielding far beyond its shores on the country's companies that have been bossing overseas property markets in recent years.

The disposal of the 10.2 acre former home of New Covent Garden Market, which has permission for 1,821 predominantly luxury flats, was put on the market, arguably too late in the cycle, in August last year. Despite concern around the London residential market, the word was that there was decent interest but that there was one clear theme amongst the potential runners – they were all from China or Hong Kong. The shortlist was a reflection of their desperate desire to diversify away from their home market and get cash out before stringent capital controls by President Xi's government took hold. These were being put in place due to the systemic risk investors of such magnitude are considered to pose to the country, and the impact their activity is having on currency reserves.

The country's largest commercial property company, Dalian Wanda, had been the name on everyone's lips as the most likely buyer. However, it was Macrolink Group, a company that had never invested in European real estate before, that decided to take on such a risky punt and had the site under offer early in the year.

Doubters began to whisper when no official announcement was forthcoming and it became clear in March why there had not been: the Chinese government had unceremoniously vetoed it. No ifs, no buts. The state visit of Xi to the UK in 2015 may have been met with huge fanfare and a wave of deals timed in unison, but rhetoric from China was beginning to make clear such agreements are only possible with state blessing.

Unperturbed, Wanda, which was one of four giants alongside Fosun, HNA and Anbang that had become the main focus of government scrutiny, entered back into discussions to buy the site, and in June it struck and announced a £470m deal.

It seemed odd that it would be undertaking such an obviously provocative deal, especially given the Macrolink veto, but given it was publically announced it appeared Wanda had managed to please the right people in high places back home, and the fact that it was undertaking the deal through a Hong Kong-based subsidiary seemed to give it some sort of magic pass.

The next month the theory Wanda had such magic powers was demolished by the government's iron fist. Chinese banks were banned from lending to the company and a huge restructuring including the $9.3bn sale of hotels and theme parks was imposed. On 18th August overseas property was labelled a "restricted" asset class by the Chinese government, meaning that investment would be more tightly controlled.

Surely then the Nine Elms deal had to be canned? In the EG office we prodded and poked but everyone involved was determined the deal was still on. Even still, on 21st August when St Modwen announced that a sale had completed we were flabbergasted.

On closer inspection, what was conspicuous by its absence was Wanda's name from the statement. Suspicions heightened, between ourselves and Bloomberg, the next morning we managed to reveal that Wanda had been pushed into selling the deal on to Hong Kong-based R&F Properties and CC Land. Whether the duo paid Wanda the £470m it dished out to the sellers is unknown, but given what evidently became a forced seller situation it appears unlikely. St Modwen chief executive Mark Allan later admitted that even he did not know who he was actually selling to. It was a bizarre twist to a year long tale.

These I think are the main lessons:

1. St Modwen and Vinci had a lucky escape, in that a deal did get done but when considering transactions with Chinese firms it is crucial to understand whether the company already has the cash offshore to deploy or whether it will be subject to state approval.
2. Deals with Wanda, HNA, Fosun and Anbang will come under more scrutiny and uncertainty than any others. HNA registered the highest bid to buy the Olympia conference centre but was not chosen as the preferred buyer for this reason. And deal size matters too – one of China's largest companies told me they were focusing on small lot sizes in order to avoid upsetting the regulator.
3. The Chinese government's belt and road initiative has given a clear indication of the type of investments it wants companies to invest in overseas – infrastructure and large-scale regeneration along old trading routes is more likely to be green-lighted than shiny tower projects.
4. Transacting with Hong Kong-based companies or subsidiaries can be mildly more straightforward but not always. Clearly R&F and CC Land have a free hand compared to Wanda but with most Hong Kong firms typically having much of their portfolios on the mainland they are still within the Chinese government's influence.

The fundamental appetite from such investors is unlikely to wane as to some London still looks a bargain compared to, say, Hong Kong where in May a car park development site sold for $3bn, or $6,400 per sq ft. But much of this could be offset if the Chinese government becomes more probing. In London where around £10bn of assets have recently flooded the market in the hope of taking advantage of the companies desperate to diversify away from China, a reduced depth of buyers could leave sellers exposed. This could in particular be the case for those with secondary assets with short-term income that have yet to see re-letting risk priced in.

The next great hope for sellers is Japanese capital but it is not yet here in earnest, and there is a risk that German buyers, which are typically active at this stage of the cycle, have already had their fill.

Those looking to cash in their chips that receive reasonable and well funded bids for assets should grab the deal with both hands and resist getting greedy. ■

THE VIEW FROM EUROPE

WITH NEGOTIATIONS SURROUNDING THE UK'S DEPARTURE FROM THE EU NOW WELL UNDERWAY – AND THE RACE TO ATTRACT FINANCIAL OCCUPIERS BECOMING INCREASINGLY COMPETITIVE – ENGAGE SPOKE WITH GERALD EVE'S EUROPEAN ALLIANCE PARTNERS TO SEE HOW THE KEY DESTINATIONS ARE SHAPING UP.

PETER VON PUTTKAMER, REALCIS, SPAIN

"We think commercial real estate in the two major Spanish cities may benefit from a possible, but in our view limited, exodus of some UK firms to Madrid and Barcelona, seeking to improve their links to South America and maintain a European passport.

"Residential would be very different, as a significant number of British residents in Spain may move back to the UK and try to sell their homes here, which would depress apartment and house prices along the coast even more. In summary, Brexit will cause a lot of upheaval for what we think are all the wrong reasons."

"Recent developments in Catalonia have demonstrated that the rule of law has been re-established and that Catalonia is and will continue to be an important part of Spain. The December elections should hopefully confirm the peaceful and complete return to normality as well as provide investors with the needed security for the future."

SYLVAIN PIEDFER, ESTATE CONSULTANT, FRANCE

"There are rumours of some banks moving staff to Paris, and the European Banking Authority (EBA) may choose La Défense following Brexit. Yet in my understanding it is Frankfurt, with the most balanced offer, that will be the biggest winner in terms of jobs.

"Paris is lovely for travelling and tourism, together with sufficient potential employees and available office space, but France is not known as a fan of banks nor for its competitive tax regime – which may admittedly change with former banker Macron as President. Frankfurt has everything except the weather."

INGRID CEUSTERS, GROUP HUGO CEUSTERS – SCMS, BELGIUM

"Lloyds of London has decided to open an office in Brussels, to be in operation as of the beginning of 2019. This is a direct result of Brexit, and will hopefully be followed by many others that are dealing with the EU. As well as general advantages – a multi-lingual workforce, central location, accessibility etc – one of the reasons for choosing Brussels was that Lloyds could be pretty certain that it wouldn't be leaving the EU!

"We're sorry for our London colleagues . . . but obviously very willing to join efforts to help these companies in their moves to the continent!"

EMMANUELLE GAUTHIER, EUROFLEMING EXPERTISE, FRANCE

"Over the past months and since the change of president, more strength is provided to companies and work legislation is about to change.

Paris could have the ability as a financial centre right now. Impressive business hubs and real estate developments are ongoing. Paris has lots of assets that many companies could seriously consider."

MORTEN HAHN, DR. LÜBKE & KELBER, GERMANY

"We have seen a first 'run'. More than 10 of the largest globally active banks have committed to Frankfurt as the new EU headquarters including Goldman Sachs, Morgan Stanley, Citigroup and diverse Japanese banks such as Nomura and Daiwa. We know that different scenarios have been further developed by companies that will be affected by Brexit and that these plans will be implemented in a timely manner as the situation becomes clearer. We assume that at least 8,000 employees will have to relocate to Frankfurt in the next few years."

"Frankfurt is an established European financial and banking location which offers many ideal conditions such as the best-connected airport in Germany and the seat of the European Central Bank."

MICHAEL CHIDIAC, REALCORP, LUXEMBOURG

"We have had M&G, AIG and Blackstone all recently elect to set up their European hubs in Luxembourg, although sadly we missed out on Lloyds!"

CONTINUED >

Illustration: Jim Tsinganos

JAMES MULHALL, MURPHY MULHALL, IRELAND

"The office market, primarily in Dublin, has already experienced an increase in demand from international companies such as J.P. Morgan, Barclays, Standard Life and others growing their existing operations in Ireland. As is well known, Ireland attracts such companies and will be the only English speaking country in the EU post Brexit.

"The current office supply in the pipeline should accommodate any post Brexit relocations. In terms of the investment market, the uncertainty caused by Brexit has led to a slowdown of UK funds and private investors considering Ireland. Conversely, it has seen a renewed focus from European and other international funds looking at prime assets in Dublin in particular.

"The bigger issue for Ireland is that Brexit and the weakening of sterling will mean challenges for Irish businesses trading with our most important and closest economic partner. Ultimately this will affect economic growth."

AND THE VIEW FROM THE UK

STEPHEN PEERS, GERALD EVE, LONDON

"The relocation of some UK-based staff to other EU cities is inevitable. In a way that is yet to be fully understood, Brexit has changed the landscape for those with financial trading mandates within Europe, and with that change comes a natural, proactive reaction to shape a business accordingly.

"For some, this will be an opportunity to widen their centre of excellence beyond the pivot of London, whether it is eventually necessary or not. For others, if passporting is to alter and the movement of employees is to be restricted, then they simply have no choice. And, understandably, our European colleagues are keen to capitalise on this opportunity.

"That said, one year on from the initial shock, the feeling 'on the ground' is that the impact of these shifts may be somewhat less than originally feared. Anecdotally, the majority of mooted relocations appear to be reserved for key European personnel, on a case-by-case basis. Conversely, over the past year we have some other, much diversified industries – particularly those in the tech and creative sectors – committing to London in a big way; all of which compete with our financial markets for the very best talent. A combination of continuing traditional occupier demand, a less dramatic reaction from the FSI sector than first feared and some major new entrants suggests to me that the prospects for this great City remain both positive and strong." ■

AN ASSET TO THE FIRM

ENGAGE CATCHES UP WITH GERALD EVE'S NEW PROPERTY AND ASSET MANAGEMENT TEAM TO LEARN ABOUT THE LATEST STRING TO BE ADDED TO THE FIRM'S BOW.

"We describe ourselves as being at the centre of a wheel, with access to the full range of services. At any given time, we'll be engaged with every department in the firm, but crucially remain the single point of contact for the client. It's a structure that works for both us and the client."

Yvonne Smith is outlining how Gerald Eve's new property and asset management recruits fit into the wider firm. Yvonne was recruited alongside Angela Duru and Jennifer Cottle in spring 2017 to bridge the noticeable investor side property and asset management gap in Gerald Eve's capabilities. The three of them previously worked together at a specialist advisor, but the opportunity to create a new team within a larger firm was an irresistible one.

"Gerald Eve had existing asset management capabilities," says Cottle, "but didn't have the capacity to take advantage of all the opportunities presented by its great client list. Now we're here, the firm is being retained by clients who would previously have looked elsewhere for their management requirements."

Duru adds: "Gerald Eve also understood the quality of the service we undertake. We're very particular and discerning about what we do, and we couldn't work somewhere we would need to compromise. These same values can be seen throughout the firm, in all departments and at all levels."

Transparency

For the property and asset management sector as a whole, these are interesting times. The need for a good strategy for each asset and portfolio has never been higher, but at the same time previous approaches have been found lacking. The practice of using property management as a loss leader – in the hope of picking up lucrative agency fees – has shown itself to be unfit for purpose as landlords tire of the hidden charges. Continued >

> **We're seeing a lot of high net worth clients who have bought trophy buildings, but would be seen as small fry by the larger firms. As a result, they come to us knowing they'll get the attention and advice they need**

"Owners understand that they get what they pay for," says Cottle, "and there's growing discontent with management contracts that look cheap but end up expensive as charges are hidden away in ancillary services. Frankly, we'd rather be transparent with our clients when it comes to fees and make sure they get the strategy and services that benefit them, not our bottom line."

Smith continues: "We're different to larger firms, who tend to offer high-volume, low-quality services but struggle with issues such as staff turnover as a result. We're providing a bespoke, high-quality service with partners working on each and every instruction. We're innovative and nimble in our approach, which the larger firms can't be. Similarly, there's a growing feeling that cheaper, higher-volume asset managers have relatively little impact on values and returns."

Typical clients

"We work with clients of all sizes," says Smith, "but the majority of our work falls within what some would call the middle ground – not the largest REITs and institutions, which have global mandates with the biggest firms, but the assets and portfolios we advise on are still sizeable and significant."

Cottle adds: "A typical client might be an endowment or pension fund, or a high net worth individual. We're seeing a lot of clients who have bought trophy buildings, but would be seen as small fry by the larger firms. As a result, they come to us knowing they'll get the attention and advice they need."

Duru continues: "In monetary terms, the portfolios we manage would usually be between £100m and £500m in value. Again, it's the middle ground that is under-served by other firms, and offers excellent opportunities as a result."

Cottle adds: "When we were first speaking with Gerald Eve, we heard Simon Prichard describe the firm as 'small enough to care, large enough to deliver' and that really struck a chord with us." For clients and colleagues of the three new arrivals, their passion and enthusiasm has really struck a chord too.

Duru concludes: "Now, with the new capability in place we are able to offer asset, property, portfolio and facilities management alongside Gerald Eve's existing suite of services." ■

For further information please contact the team on +44(0)800 140 4978

CASE STUDY: MERCURY PLACE

Mercury Place is a dual-use building in Leicester, offering 59,000 sq ft of office space over five floors and an adjoining 24,000 sq ft of warehouse space. Situated on a 2.4-acre site close to the city centre, it includes undercover car parking spaces and was previously owned and occupied by the Leicester Mercury newspaper.

The team was appointed by the new owners to devise and implement a comprehensive asset management strategy that would maximise the value of the property. With the majority of the property already stripped back to shell-and-core, and the 30 year old services suffering after years of under-investment and mismanagement, a full refurbishment of the building was in order.

The team oversaw the refurbishment works to Cat A standard, reduced energy consumption by 24%, and improved both cashflow and the average length of unexpired leases. The strategy saw an increase in value of 66%.

Photography: Paul Tait

NIGHT VISION

HOW LONDON'S NEW NIGHT CZAR IS TRYING TO BALANCE THE NEED FOR A VIBRANT NIGHT-TIME ECONOMY WITH CONTINUED DEMAND FOR NEW HOMES AND WORKPLACES.

Amy Lamé
London Night Czar

"My ultimate goal is to turn London into the most dynamic 24-hour city in the world...

...The development community has a crucial role to play in making London a 24-hour city and in future-proofing the night-time economy"

In November 2016, London Mayor, Sadiq Khan, appointed the capital's first ever night czar in a bid to protect the city's established venues and enhance the night time economy. Speaking upon the appointment of Amy Lamé to the role, Khan said: "My night czar will be working with other businesses, local authorities and Londoners to maximise the economic and social impact of a growing night time economy".

The job of night czar may sound enviable on paper, but the reality is far more challenging. Despite – or maybe because of – London's status as a world city, its once famed night-life is now in rapid decline. Since 2007, London has lost 40% of its live music venues and half of its nightclubs.

This presents the city's authorities with a thorny dilemma. The influx of new residents and workers into London all come for social and cultural reasons as much as employment reasons. They also need somewhere to live, yet no-one wants to live next door to a nightclub.

In a bid to address this dilemma, London's Night Time Commission, led by Khan, along with Lamé and Philip Colvin QC, has launched a vision for London as a 24-hour city. Speaking at its launch, Khan said: "I want London to be a global leader in the way we plan for life at night. But we face tough competition, with Paris, New York, Berlin, Tokyo and San Francisco all looking to grow their night time offers.

"London's greatest asset is its diversity. I want to make sure London at night is welcoming and accessible for all. This isn't just about pubs and clubs. It's about a whole range of activities and services, from museums and theatres opening later, to being able to do your weekly shop after an evening shift, through to the safety of those working and travelling at night. We need positive planning for our night time economy – to attract the right balance of businesses and activities at the right times."

With these ambitious targets being set, Engage caught up with Amy Lamé to hear her views on how the city can balance the need for new homes, workplaces and infrastructure alongside a thriving night-time economy and a diverse cultural backdrop.

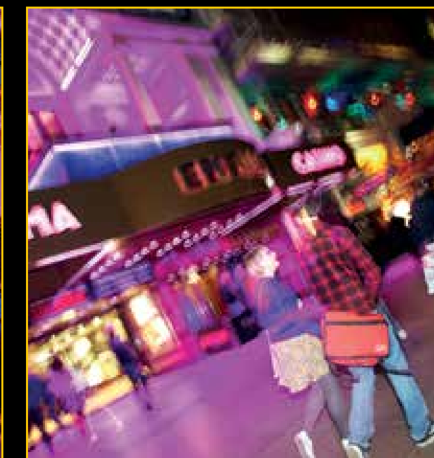
Speaking of the challenges involved, she said: "My first priority is to stem the tide of closures. And then my ultimate goal is to turn London into the most dynamic 24-hour city in the world.

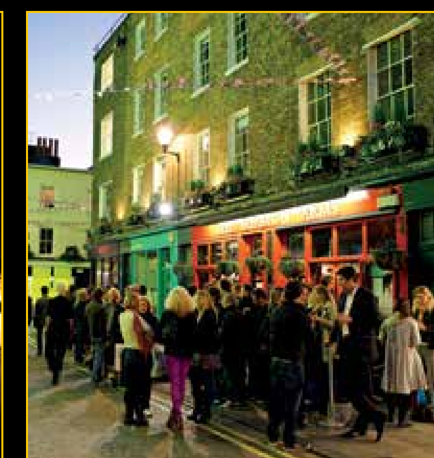
"But this is a nuanced job that requires conversation. Of course I will fight hard for venues and operators, but I also understand that co-operation with developers is absolutely vital. Having good relationships with all stakeholders – the developers, the councils, the police, planning and licensing – is the only way we can ever reach any consensus and work towards achieving this goal."

The appointment of a night czar is the first step towards addressing one of the major problems to have affected the city's nightlife in recent years. To date, those with most influence over licensing decisions are local councillors and police officers – neither of which has any incentive to promote a night time economy. Police officers want to reduce crime and anti-social behaviour and councillors are at the mercy of local residents who generally oppose any increase in nocturnal activities.

The Night Time Commission will bring local authorities, businesses, police, residents and workers together to shape its plans and will seek the views of a wide range of Londoners. They will recommend policies and new initiatives to the Mayor to make London at night a vibrant place for everyone.

Preserving and enhancing the capital's nightlife is not purely a hedonistic exercise. As Lamé explains: "London's night-time economy is worth an estimated £26bn and accounts for one in eight of the capital's jobs.





We ignore this at our peril. We are facing an uncertain future with Brexit and we have an opportunity to really craft and create a dynamic, well-balanced 24-hour London. "

Figures from Gerald Eve also estimate that London's night time economy contributes some £400m per annum in business rates revenue – sums that are not easily replaced if venue closures continue at their present rate.

While the Night Time Commission is making some inroads and encouraging a more joined up approach among key stakeholders, surely the biggest threat to London's nightlife is high property costs. Lamé readily admits property is a big problem.

"It doesn't take a genius to work out that you can make more money by turning a pub into flats than you can by pulling pints," she says.

Although she admits there is no quick fix, Lamé is clearly looking towards the property industry for solutions. "The development community has a crucial role to play in making London a 24-hour city and in future-proofing the night-time economy. A key part of this role is ensuring that good acoustic design is embedded into their plans and that their buildings are well soundproofed. That way, new developments can thrive alongside night-clubs, bars and grassroots music venues without compromising residents' need for a good night's sleep." ■

The key word for us is relationship... We want to act as trusted advisor and co-investor on carefully selected assets – and only when the market timing is right.

Illustration: Neil Webb

IN GOOD TIME

STEVEN LEWIS, CEO OF SQUARE METRE ASSET MANAGEMENT, TALKS TO ENGAGE ABOUT THE ORIGINS OF HIS FIRM AND HOW THE BEST OPPORTUNITIES ARE ALWAYS A PRODUCT OF TIMING.

Steven Lewis
CEO of Square Metre Asset Management

During a recent interview with Steven Lewis, we didn't take the opportunity to examine his choice of watch. However, for a man who has built his entire career on a judicious sense of timing, we can safely assume that his timepiece is precision engineered.

In a career spanning three decades, Lewis has ridden many peaks and troughs and emerged with a reputation for shrewd investment decisions. A commitment to robust analysis and a willingness to challenge market consensus are the cornerstones of his boutique advisory firm, Square Metre Asset Management.

Since its inception in 2013, Square Metre has kept a discrete profile, working as asset manager to Goldman Sachs on a series of portfolio investments. Lewis and his team have successfully implemented many and varied business plan strategies across all UK commercial real estate sectors, with the ability to call markets and realise value being at the core of the business.

Talking of his relationship with Goldman Sachs, Lewis says "I was first introduced to Goldman Sachs via Andrew Rosenfeld, former Chairman and CEO of Minerva Plc, who approached me at the tail end of 2007 to work alongside him to identify investment opportunities that may have been of interest to Goldman Sachs managed real estate funds."

The following three years were characterised by uncertainty and lack of opportunity due to the effects of the global financial crisis. During this period, Lewis quickly came to understand the rigorous analytical approach required by the bank and seized the opportunity to apply this to the real estate marketplace.

"The level of analysis and due diligence in the initial underwriting stage of a deal was unlike anything I'd ever encountered previously– despite having cut my teeth in major propco's such as Ladbrokes and Burford."

As he began to better understand the bank's method of working and investment rationale, Lewis saw the opportunity to bring appropriate deals to Goldman Sachs' attention. At the end of 2012, perceiving value where the market had not yet done so, a case was made for a multi-sector portfolio strategy to be executed by Goldman Sachs in partnership with Lewis. It was at this moment that Square Metre was born. Overlaying Lewis' extensive market knowledge to Goldman Sachs' intensive analysis, both parties were confident of an imminent improvement in the UK property market following historic lows between 2008 and 2012.

"The global financial crisis caused a market shift the likes of which we had never seen before. The resulting opportunity was simply too good to ignore. Thankfully Goldman Sachs understood and were aligned to the rationale", says Lewis.

"By combining a market-facing asset management-led strategy to the acquisition and disposal of assets, alongside the reporting rigours of an investment bank, we really have been able to identify and add disproportionate value."

Having successfully managed some £675m of assets, Square Metre has cemented its pedigree and is poised for further growth. With a demonstrable track record, Lewis is eager to offer Square Metre's rigorous asset selection and business plan execution capabilities to new investors.

"The key word for us is relationship", adds Lewis. "Our rationale isn't just about getting hold of money and then deploying. We want to act as trusted advisor and co-investor on carefully selected assets – and only when the market timing is right.

An unwavering commitment to this approach has underpinned the success of our continuing relationship with Goldman Sachs. The bank has recognised the value we add and we look forward to offering the same to other investors at the appropriate moment."

Lewis is justifiably proud of Square Metre's track record in a short time, but sounds a note of caution for future investment decisions.

"We have now entered a phase in which we cannot rely on yield compression to add value. A wider understanding of ever-changing macro and micro market conditions together with careful asset selection and detailed asset management will be vital to ensure value enhancement in the current environment. Whilst I'm very proud of the assets we have bought, I'm prouder still of the ones we didn't buy".

METAMORPHIC WOK

AS THE CASUAL DINING MARKET CHANGES, ONE OF ITS MOST POPULAR OPERATORS IS ADAPTING WITH THE TIMES. ENGAGE SAT DOWN WITH JAMES DORAN AND TOM TRENCHARD FROM WAGAMAMA'S PROPERTY TEAM TO LEARN MORE ABOUT THE OPPORTUNITIES AND CHALLENGES IT FACES.

For wagamama, the current market is creating opportunities. Its portfolio size makes it relatively small when compared to some of its competitors, and opportunities for expansion are presenting themselves...

In the 25 years since the first wagamama opened its doors on a Bloomsbury back street, the pan-Asian restaurant group has become a firm high street favourite. Those in need of their fix of gyoza or teppanyaki now have 128 restaurants across the country to choose from, as well as five US eateries and a further 47 franchises worldwide.

With much of this expansion taking place over the past decade – in 2005 the group had only 37 UK restaurants, and has more than doubled in size since 2011 – the growth of wagamama has mirrored the wider boom in casual dining during the same period. But is this set to continue, and how will wider economic pressures affect wagamama and the food and beverage (F&B) trade?

"F&B has been increasingly important to landlords for some time," said James Doran, head of estates at wagamama, "and that appetite is still there. Schemes that were predominantly retail are changing focus slightly and looking to further compliment the retail with F&B. If it's a good mix, and the number of operators isn't too excessive, then it can work for all, but beyond a certain point the supply simply outweighs demand."

It is certainly a sector that has seen remarkable growth, but the outlook for some isn't entirely rosy. For every wagamama – whose expansion has been more organic and sustainable than others – there are groups that arguably over-extended themselves as the sector boomed and are now starting to pay the price. A look at the nation's high streets would suggest certain categories are potentially over-served in a number of locations.

For wagamama, the current market is creating opportunities. Its portfolio size makes it relatively small when compared to some of its competitors, and opportunities for expansion are presenting themselves as larger groups rein in their growth or even retrench following past over-commitments.

"The advantage wagamama has is that we're in a category of one," said Tom Trenchard, head of acquisitions.

"If consumers want pan-Asian food – or landlords, for that matter – it's wagamama that they come to. We offer fresh food, great service, enjoyable new fit-outs and a cool brand. Landlords like us."

"Increasing costs and pressure on consumer spending are exposing those chains that perhaps expanded too aggressively in the past," added Doran. "We may not have grown at their rate during the boom times, but it means we're better placed now."

"The wagamama brand, our like-for-like growth and covenant are all attractive to scheme owners," continued Trenchard, "but we still choose where we go very carefully. Growth of new sites is still important to us but quality over quantity."

New formats, new markets

Like any successful operator, as wagamama has expanded its brand and offer have evolved. Where initially its restaurants were located in basements or on first floors, it is now seeking more prime space, and is testing its format in non-traditional locations.

Doran explained. "As the group has evolved ground floor space makes most sense for us – and landlords also want us there – and this brings both the advantage of greater footfall but the challenge of higher rents and rates bills."

Trenchard picked up on the theme: "The growth of the brand can be seen in the new types of building we're occupying and also the quality of the fit out. Our investment in kaizen ("good change") fit-out on sites such as Covent Garden and Soho reflects the changing nature of the wagamama offer." A look at a newly-refurbished restaurant, incorporating a range of new features – including separate 'booths' alongside the traditional communal bench seating – reveals an evolving interior ethos, designed to be more appealing to families and small groups.

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So what, in broad terms, do they seek in a new site? "We ideally need three-and-a-half to four thousand square feet of ground floor space," continued Trenchard, "and it needs to be accessible and visible. We need a population whose demographics fit our profile, and high footfall is important."

Continued >

The group has also tested itself in non-traditional locations such as airports, with two restaurants at Gatwick Airport and a further one at Heathrow Terminal 5. "Putting sites into airports is not for the faint-hearted," said Doran, "but the feedback from the airports has been great. It's on a turnover rent basis, which fosters a good working relationship with the landlord, and the three locations have proven to be very successful."

But perhaps the most significant shift in the wagamama property portfolio is being shaped by the rise of take-out and Deliveroo. With the home delivery service now available from 93 of the group's UK restaurants, it's increasingly a factor in the location, fit out and pitch of each restaurant.

"On a very basic level, each restaurant needs more kitchen space to meet the increased demand," said Doran. "So existing restaurants need redesigning and new locations have a larger footprint. Then you need to consider how food pick-ups are handled – you don't want delivery drivers wandering through the restaurant, so do you have a separate entrance / counter? Deliveroo wasn't a factor five years ago, but it is now part of the acquisition and fit-out thought process."

Property challenges

There are, of course, a number of real estate challenges that the group is facing too. April's business rates revaluation has increased wagamama's total bill by more than 20%, and will see it pay an extra £2.5m a year by 2021/22. The problem is particularly acute in London, where rents have continued their upward spiral and the group's best prime sites have seen their rates liabilities quadruple. Gerald Eve advises the group on mitigating its rates bills.

Doran commented on the challenges: "There's this enormous upward pressure on property outlays, while at the same time significant challenges such as increased staffing costs are squeezing the business elsewhere. The impact of these rises – especially business rates which to a certain extent are beyond our control – will be felt at the margins. Potential new restaurants will become unviable and the investment won't be made."

Trenchard added: "F&B is an incredibly competitive and dynamic sector, with new operators and formats entering the market all the time. Therefore we need to be very discerning in our choice of future locations. The wagamama brand is strong – and its fun persona is part of its success – but to continue to thrive we need to continually reinvent ourselves. We all know that evolution is vital if we are to remain relevant."

Landlords seeking an operator such as wagamama – with the nimbleness and innovation that have been the hallmarks of the brand's success – should take heed. ■

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LandAid
THE PROPERTY INDUSTRY CHARITY
uniting to end youth homelessness

LANDAID DAY 2017

THE PROPERTY INDUSTRY'S BIGGEST DAY OF FUNDRAISING WAS HELD ON THURSDAY 12TH OCTOBER WITH THE RETURN OF LANDAID DAY.

This year's theme, 'Record Breakers', saw a day of activity and events taking place across the firm, with everybody invited to take on a wacky world record or set a personal best and raise money in the process.

A special mention goes to Kirstie Murray for winning the largest and most outrageously decorated cake competition, Samantha Hall for managing to eat 40 Smarties in one minute using chopsticks and Freddie John who won the golf putting challenge after a fiercely fought competition.

Gerald Eve is a foundation partner of LandAid, the property industry charity working to end youth homelessness.

Visit www.landaid.org for more details.

EG AWARDS 2017

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