Newsletter Q4 2020

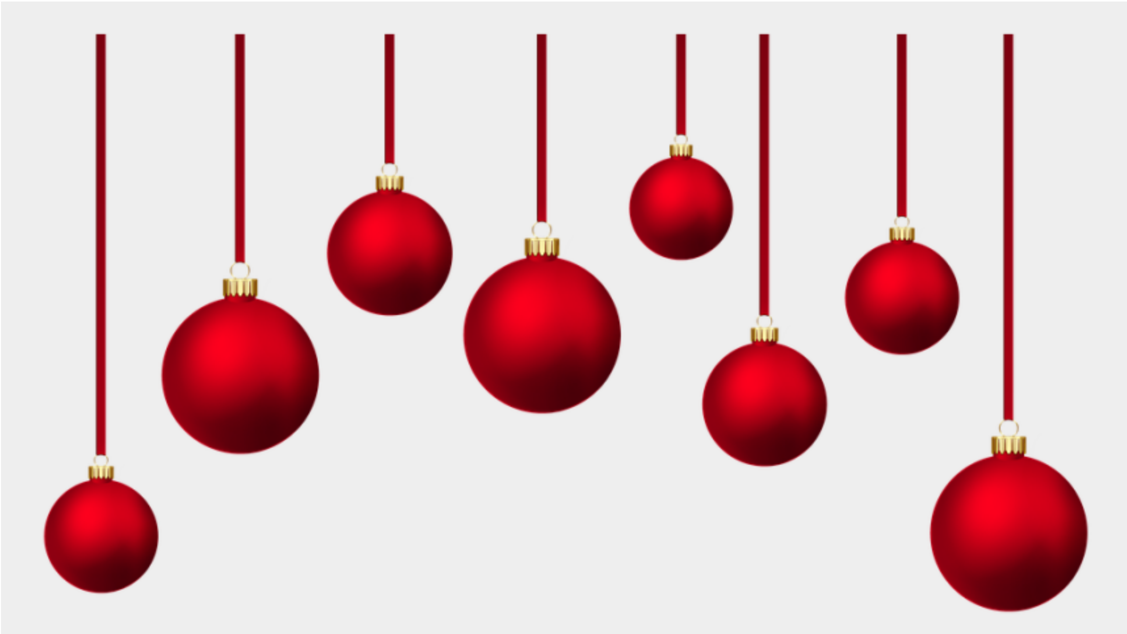
Welcome to the latest edition of our newsletter, in which we round-up some of the views on key subjects facing the industry that we have shared in print over the last few months.

This has undoubtedly been a unique year, a difficult year, and one whose impact will be felt for many years to come. Despite the challenges, however, we are looking ahead to 2021 positively and plan to be at the centre of London's rejuvenation as spring beckons, the vaccine rolls-out, and we all begin to enjoy more positive times.

But before we all start our much-needed festive break, we wanted to wish you all – our clients, fellow consultants and friends – a very Merry Christmas and a happy New Year. We look forward to working with you in 2021.

All the best

Ted, Nick, Duncan and Vicki



A kick in the baubles

Published in full by Propel on December 18

By the partners of Shelley Sandzer: Ted Schama, Nick Weir, Duncan Lillie and Victoria Oates

Despair and anger. Those words summarise what the majority of the hospitality sector is feeling right now. And it is understandable.

The government's seemingly baseless targeting of the industry in its fight against coronavirus, a fight the statistics indicate we are not winning based on comparisons with other countries, was already causing untold damage. But the moving of London, the South and the East of England into tier four, bringing over two thirds of England's population under tier three or tier four restrictions, is likely to be the straw that breaks the camel's back for many operators, and probably some landlords too.

After a tough year, is this really how we all want to finish it?

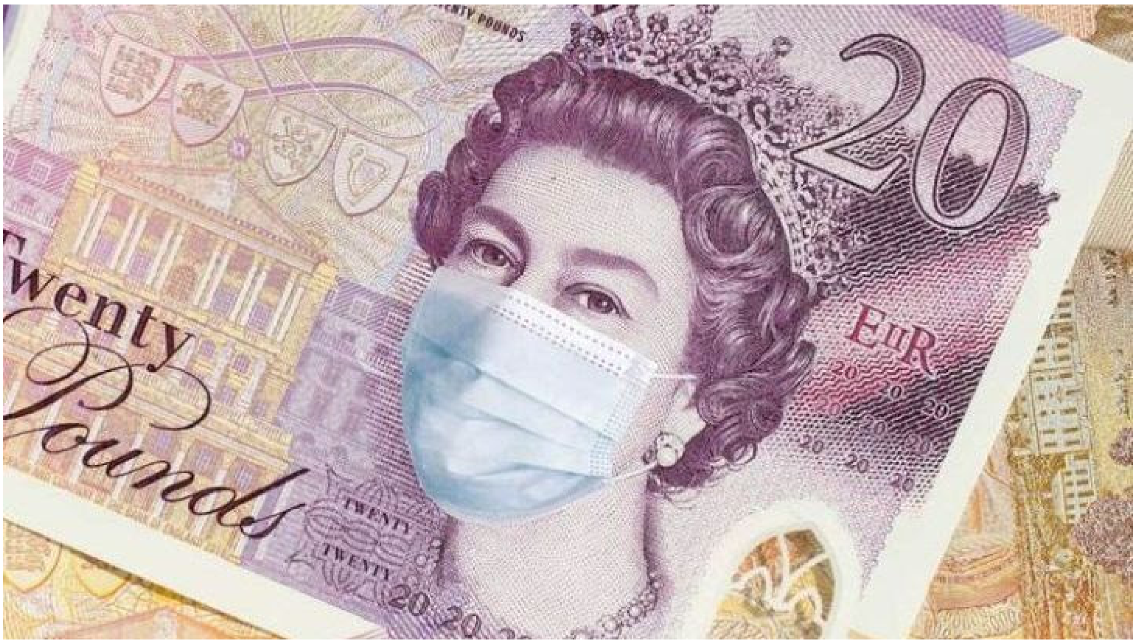
The short answer has to be no. We need to be rallying now as a sector to ensure we fare better in 2021. While not an operator or a landlord, we feel the sector's pain as keenly as everyone else, and are as passionate about the need to rebuild as the industry's most ardent advocates. So this is our take on where we go next:

1. Secure a minister for hospitality. We called for this in early October and the mantle has been taken up across the industry. We need to be shouting collectively and loudly for the government to do the right thing and give the sector a voice on the inside. The good news is, over 150,000 people have signed the petition, which means the government must consider it as a subject for debate by MPs. We are not there yet though, so we must continue to push for this to happen
2. Undertake a genuine and progressive reform of the business rates system. Doing so will require boldness and creativity, not least because of the scale of what is at stake in terms of tax revenue. Yet failure to do so, and to do so quickly, will decimate the ability of many town and city centres across the UK to recover from the impact of the successive lockdowns and tier restrictions
3. The government needs to take its head out of the sand and deal with the debt mountain accumulating as a consequence of the forfeiture moratorium and lack of action on rents. While intervention in business may not be a Conservative policy, the moment for inaction passed a long time ago. By doing nothing though, the government is taking the industry back decades, and with it high streets, towns and cities across the UK. And this is not a plea to bail out landlords or operators, simply a request to recognise there is a significant issue, and to meet the sector at least a third of the way

These are not unreasonable requests either, given the importance of the hospitality sector to UK Plc. It is the fourth biggest employer in the country, accounting for around six million direct and indirect jobs, and generates over £70bn of GVA to the UK economy directly.

More than that, as we look to rebuild our towns and cities, the industry's operators will have a vital role to play due to their significance in creating a sense of place and community.

It is also a highly entrepreneurial sector. Afterall, so many in the hospitality industry make a living by making something. It is an industry that innovates, that has made pivoting an art form. It is an industry of people passionate about their product and the people they provide it to. We all have a fire that can help ignite the nation's recovery. The government just needs to not extinguish it.



No more unicorns, cash is king

Published in full by MCA on November 24

Nick Weir, co-managing director, Shelley Sandzer

In a fast-moving and uncertain world, landlords and tenants require flexibility and the ability to react quickly if things do not work out. This has meant the relationship between landlord and tenant has very quickly become more personal, thankfully moving beyond interactions derived from a quarterly rent demand paper with little or no social contact.

During the 1990s, as the market began to expand, agents like us at Shelley Sandzer and property developers scoured the length and breadth of the country. We were looking for property to satisfy the requirements of the growing pack of restaurant and pub groups now being funded by a very thirsty bunch of private equity groups.

The creation of this investment was the Holy Grail. The investment market liked the fact there were now numerous players in the market, long-term income was in place, and the property had been fitted-out at the tenant's expense. The companies with the best finances were like unicorns.

Fast forward to autumn 2020 and the market is rather different. Most of these so called unicorn companies have undergone some form of restructuring, leading to a renegotiation of lease terms and rent holidays. Landlords are suffering the heavy losses.

Chasing the best covenant, pursuing unicorns with their 25-year leases, is no longer the Holy Grail.

Working with knowledgeable, hungry tenants, often using their own cash and not fuelled with unsustainable debt, taking shorter-term leases is becoming the new norm. The more enlightened landlords now see tenants as partners, rather than quarterly paper recipients with no face or social interaction.

This can only be a good thing and a much needed positive to take out of this extremely challenging year of negatives.

The hospitality industry cannot wait for the vaccine panacea

Published in full by CoStar on December 2

Duncan Lillie, partner, Shelley Sandzer professional services

The news of effective Covid vaccines is about as good as it gets, but will they be the panacea that cures all the ills within the hospitality sector? While it is certainly promising in the medium- to long-term though, it will do nothing to address the debt accrued within the sector since the first lockdown in March.

It is generally accepted 2021 will be just as challenging as 2020, albeit for different reasons. Uncertainty will be the primary concern and, whatever happens, landlords and tenants need to embrace and shape the new normal that will become clearer as we reach the end of next year.

To achieve this objective, however, there is a need to realise that aggression is not the same as assertiveness. Presenting the other side with an unreasoned fait accompli is not productive. Learning from experience, objectivity has been the key to addressing intransigence. The ability to see the position from both the landlord's and operator's perspective is what achieves a successful outcome for all involved.

There also needs to be an end game that gets both parties back to some degree of normality. This takes us back to the 3Cs we have advocated from the outset of the pandemic: collaboration; co-operation; and compromise.

Much is said about us all being in this together. As cliched as it may be, this "Blitz spirit" is as important now as it has ever been, as the full effects of the Covid vaccine will not be felt for some time. And waiting is just not an option.

Future proofing the landlord-tenant ecosystem

Published in full by CoStar on November 16

Victoria Oates, partner, Shelley Sandzer Professional Services

The fight against Covid continues, and businesses have shut again.

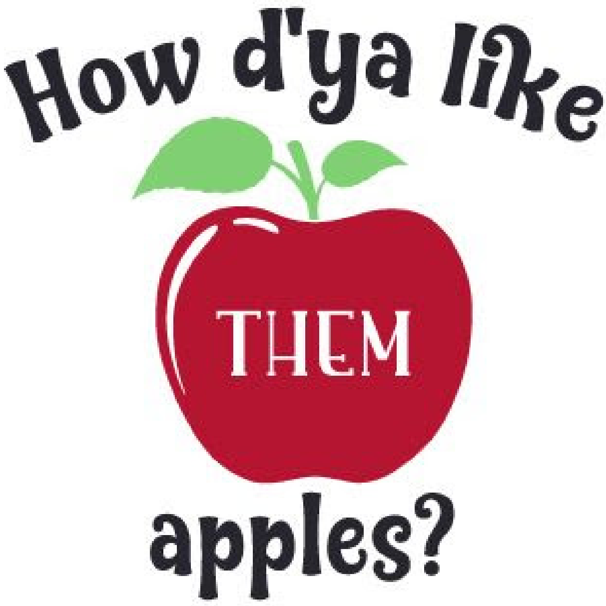
The government's approach appears reactive, so it should come as no surprise the property industry is behaving the same way. Plenty of tenants have been withholding rent, and understandably so, as they have been hit by the first lockdown, 10pm curfew, rule of six, household mixing ban, second lockdown and now, for most, the extended tier two and tier three restrictions.

It is often forgotten though that landlords have bills to pay too. Not receiving rent for two, three and now probably four quarters is having a marked impact on their ability to function effectively. Job losses and significantly reduced investment are consequences on both sides of the fence, and the hefty amount of pre-Christmas trade effectively cancelled for over half the country will not make this better for either party.

While 'coronavirus' may end up being word of the year, within the retail and dining world it will probably be an abbreviation, 'CVA'. This used to be a last resort for businesses, but in these times, it is a go-to tool for survival.

A word of caution though, for businesses too easily considering the 'CVA our problems away' route: at some point things will return to (something akin to) normal, and burning a bridge with a landlord could harm the future of the business you are trying to protect.

If we are to truly future-proof bricks and mortar business, landlords need to keep up the hard work and operators need to work with, not against, them. "Survive it together" is a working mantra we could all do well to live by.



How d'ya like them apples?

Published in full by Property Week on November 20

Ted Schama, managing partner, Shelley Sandzer

When rateable values were last updated in 2017, the apple was the UK's favourite fruit. It now barely features in the top 10 – a sign a lot has changed in three years.

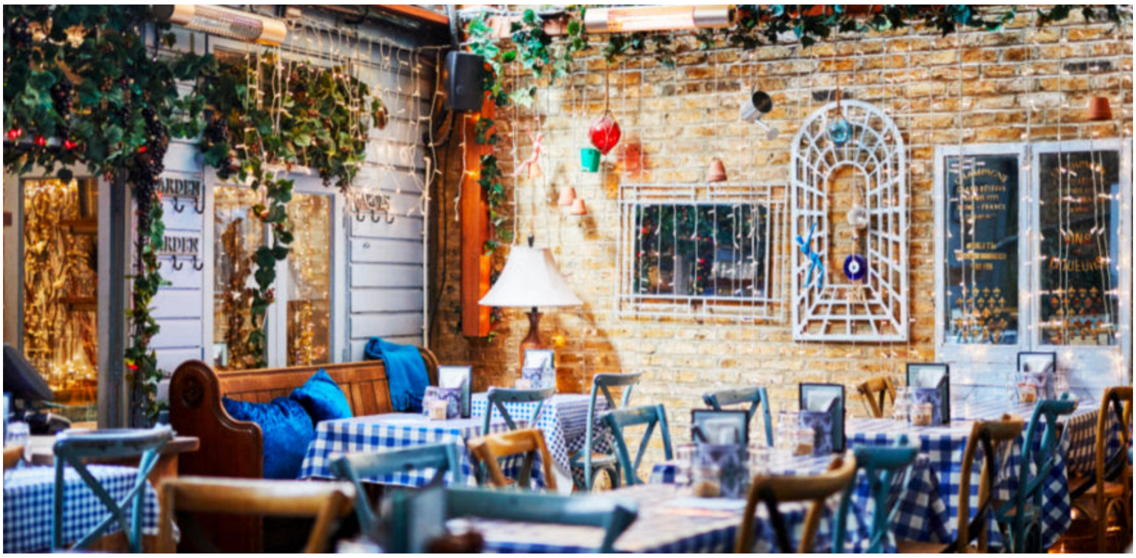
Imagine going to your local supermarket or greengrocer, because you fancy an apple. You have plenty of choice and all are on offer at half price because of a great harvest this year. That £1 bag of apples is now just 50p. The government applies a tax to apples, which works out at about half the value, so you approach the counter, expecting to pay 75p.

But there's a problem – the government don't calculate the tax on live prices, they only take the value of apples at a point in time and apply the same tax value for four or more years thereafter. A few years ago apples were very expensive, about £2 a bag, so the till tells you your 50p bag of apples is actually going to cost you £1.50. In this situation most people would put the apples back and leave empty handed, as the tax alone is twice the value of the apples.

The pending reintroduction next year of business rates as they stand is equivalent, and leaves us just as confused as my poor apple-buyer.

Being a landlord with a vacant unit is also tough, as not only do you have zero income but you're paying an inflated tax based on historic values. COVID has fast-tracked everything, and rates should be no exception, but it appears for the moment they are.

The current business rates system is a rotten apple.

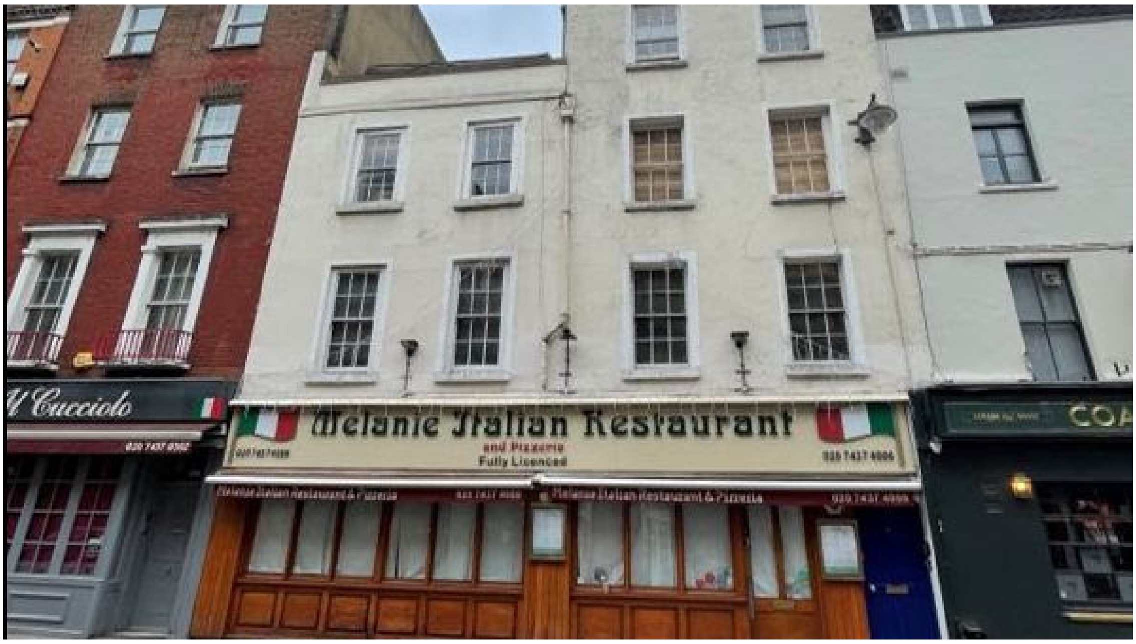


Shelley Sandzer signs Megan's in Surbiton as suburbs lead recovery

Acting on behalf of a private landlord, Shelley Sandzer leased a 4,300 sq ft restaurant at 38 Victoria Road in Surbiton to **Megan's**, the independent all-day eatery.

The new two-floor Surbiton site will be the brand's ninth, including the recently opened St Alban's restaurant, their first outside London. Like all Megan's, the Surbiton town centre location will be dog-friendly and open from morning to late evening. The restaurant is set to open in later this year.

Nick Weir, Co-Managing Director at Shelley Sandzer, said: "There are opportunities aplenty in the London suburbs now; more people working from home and increasing efforts to shop and dine locally means we are seeing deals with great value for landlords and operators alike. Megan's understand this and has an offer that suits – a quality neighbourhood-focused restaurant that will add to Surbiton’s appeal to locals.”



Shelley Sandzer brings historic site to market for first time in 30 years

Acting on behalf of a private landlord, Shelley Sandzer is marketing 4-6 Old Compton Street, formerly occupied by Soho institution, Melanie Italian restaurant.

The site, a Grade II listed building dating back to the 18th century, comprises 1,817 sq ft of A3 restaurant space over ground and basement, with three upper floors containing seven apartments.

Located on Old Compton Street close to its junction with Charing Cross Road, the site is in the heart of the Soho, along one of Central London’s most vibrant thoroughfares.

Nick Weir, Co-Managing Director at Shelley Sandzer, said: “This site has real history – bringing it to market for the first time in three decades is an exciting prospect at a crucial time for our industry. We are looking for an operator that can really complement the existing restaurants, cafés, and theatres, attracting its own crowd while also able to pick up on the natural footfall this area generates given its position in the heart of Soho.”
Shelley Sandzer is acting for the landlord.

This year we are supporting The Trussell Trust Charity. The Trussell Trust is working to stop UK hunger and poverty. Our network of foodbanks provides emergency food and support to people in crisis.

We all wish you the very best over the festive season and looking forward to 2021.

Team Shelley Sandzer

Shelley Sandzer is the leading leisure property consultancy, covering agency, leasing, acquisitions, rent reviews, lease renewals, valuations, investments and international expansion.
Just ask and we would be happy to help you on your journey.