

Income Strip Capability Statement

Helping our clients deliver on long term income

As more investors are seeking low risk property investments in the market, the appetite for annuity/income strip investments has increased. We have the skills, knowledge and experience to help structure and deliver these deals across diverse asset classes.

What is an income strip deal?

An income strip investment is where a strong covenant tenant (often the public sector) commits to a long lease, usually 30 – 50 years, the rent is fixed and subject to annual increases linked to RPI or CPI (inflation measures), often with a “cap and collar” in parallel with a traditional institutional “forward fund”.

Benefit to investor: the liability for repair and operation of the asset usually sits with the tenant, along with the future residual value, allowing the investor to “strip” the income out of the asset. The investor benefits from relatively stable long term income which represents 100% of the investment’s return.

Benefit to tenant: at the end of the lease term the tenant often has the option to acquire the freehold for £1-a key part of the attraction for tenants. The passing rent with the long lease is frequently less than market rent, enabling the tenant to sublet at a rent higher than the rent payable to investor, allowing it to take a “profit” rent.

Sale and Leaseback

In addition to the income strip model, long lease deals can take the form of sale and leaseback, where an owner-occupier sells the freehold to an investor and then leases it back on a long-dated lease (typically 20-plus years). The income generated from sale and leaseback deals is typically higher than that from the other long lease structures and significantly exceeds the yields on long-term gilts.

Applicability

The income strip model along with sale and leaseback has applicability across a number of sectors and a diverse range of asset, from offices through logistics, car parks, to shopping centres, residential and student accommodation. We have seen these structures deployed to underpin investment in town and city centres, development of student accommodation and to raise capital from significant existing assets.

A public sector covenant is frequently at the heart of an income strip and participants need to be alive to ensuring the deal is EU procurement and State aid compliant. We have advised developers, investors and the public sector on all aspects of these deals, and we understand and can address the various competing stakeholder interests.



We have experience of advising developers, occupiers and investors on a wide variety of annuity, income strip and sale and leaseback transactions. A selection of our key clients and projects are listed below.

1 Muse – we acted for Muse on the pre-letting of a 1000 space car park to NCP and for Muse and Stockport on the subsequent £20m forward funding (on an income strip basis) of the development with Canada Life.

2 English Cities Fund (ECf) – advising on the £50m forward funding of the 125,000 grade A office block “One New Bailey” in Central Salford by Legal & General including a 25 year headlease to Salford Council.

3 Genr8 – advising on its collaboration with the Council for the Rochdale Riverside shopping centre regeneration scheme comprising a sale and leaseback deal on an income strip basis alongside substantial demolition and infrastructure works, retail lettings to anchor tenants, M&S and Next and a cinema.

4 Legal & General – we acted in relation to the complex £252m income strip leaseback arrangements for over 4,000 housing units with Places for People, the largest direct investment made by an institutional investor to date into the affordable housing sector.

5 ECf – advising ECf on the £100m+ development of the 187,500 sq ft 2 New Bailey Grade A office in Salford. The development is pre-let to Salford Council, and forwarded funded by a UK institution.

6 ECf – advising ECf on the £17.5m development of a 633 space multi-storey car park in Central Salford. We advised on the pre-let to NCP, an “annuity wrapper” headlease to the Council and the forward funding with a UK institution.

7 Legal & General – advising on their initial £65m investment into Newcastle Science Central, a 24 acre science and technology hub set to create 500,000 sq ft of office space and 450 new homes including the sale and leaseback (on an annuity lease structure) on the first 100,000 sq ft office with Newcastle City Council site.

8 Unipart – we acted for Unipart on the sale and leaseback of a portfolio of properties to a foreign investor for circa £85m, being Unipart’s head office and warehouse at Cowley (comprising 1m square feet of warehouse and 100k square feet of offices) plus two warehouses at Baginton and Ketton.

9 Private UK PropCo – advising on the re-profiling of an existing lease of Council offices (following development and initial letting to the Council a number of years ago) to an annuity structure and the simultaneous £90m+ investment sale to an institutional investor.

10 Aviva Investors – advising Aviva on a number of student accommodation forward fundings on an income strip basis including a £17m 295 bed scheme.

Get in touch



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