



MARKET FLASH

Commercial Property Auction Data

JAN
2013

Strongest buying market since 2008

This cPad Market Flash analyses the major commercial property auctions that took place in December 2012.

These saw the strongest buying market since 2008. At the Acuitus December auction more than £30m of assets sold, but there were still unsatisfied buyers after the sale. This is good news for owners and their advisers looking to sell in 2013

With an improved flow of assets coming into the room, expert pricing and strengthening buyer power, the market can head into 2013 with a renewed sense of purpose.

We hope you find this cPad Market Flash useful and would be pleased to discuss any of the points that it raises.

cPad

cPad is a joint initiative between Acuitus and IPD utilising auction sales data from EIG to provide a unique perspective on the commercial property market for private investors and private property companies. The aim is to create a valuable snapshot of today's market and help investors shape their future investment strategy.

KEY STATS



81%
Sales Rate



6.9%
prime
initial yield



76%
of sales were
retail properties



75%
increase in activity
year-on-year

AUCTION COMMENTARY

In the room: strong finish to year

The year ended with a flourish as cash buyers were tempted by a range of investment-grade properties available across the UK which were perceived to offer good value.

With the current yield gap between prime and secondary at its widest in 15 years and a dramatic re-basing of retail and office rents outside London, investors are taking a slightly more positive view on the risks attached to buying secondary property. With careful attention to pricing by sellers and their advisers the pool of buyer interest for the better secondary properties has deepened even though debt is still scarce.

The final month saw the greatest level of buyer demand in 2012 with success rates peaking at 81% up from 77% in Q3. Post-auction sales have pushed sale rates towards the 90% mark which suggests a depth of demand more consistent with normal market conditions and that offer prices are below market clearing levels.

With the continued shortage of debt funding, much of the buying was made through cash resources - which further highlights the commitment of buyers. The assets which sold in December comprised a wide range of property types, income profiles and geographic spreads with retail accounting for 76% of the properties sold. This level compares with 63% in October and 53% a year earlier and may have helped stimulate the extra demand.

London remains a key buying market but with it only providing 10% of the properties sold did not skew the overall result.

Talking to investors it appears that for the more property-savvy buyers, prices are at levels which compensate for the risks of tenant failure, voids, obsolescence and rental reduction. These investors are prepared to back their own skill at successfully managing property income. Additionally, high net-worth investors looking for a high initial income yield and long term capital growth still view property as a very good investment alternative to low yielding gilts and volatile equities.

The average lot size of just under £500,000 is within the expected normal range although there was a smaller percentage of £1m+ lots than October.

December recorded the second highest amount transacted in 2012 and 75% higher than the same time in 2011 albeit it was 40% below October 2012.

Demand would appear to outweigh supply at these pricing levels which caused yields to fall as competition for the better quality investments pushed prices up. The supply of investments is still significantly below the long-term trend because valuations are still too high. They act as a disincentive for owners to sell or, in some cases, prevents them and/or the lenders from selling altogether.

COMMERCIAL AUCTION SALES SUMMARY

		Dec 2012	Oct 2012
Volume (£ million)	▼	68.7	117.0
Properties Sold	▼	140	208
Average Lot Size (£)	▼	490,825	562,726
Sales Rate	▲	81.1%	77.4%

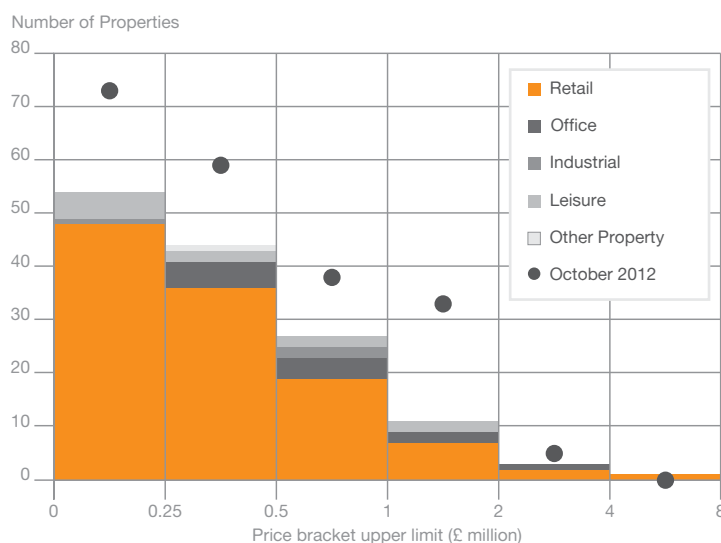
COMMERCIAL AUCTION SALES, £ MILLION

Sector		Dec 2012	Oct 2012
Retail	▼	51.9	73.1
Office	▼	9.8	24.0
Industrial	▼	1.5	5.4
Leisure and Other	▼	5.5	14.6
Region		Dec 2012	Oct 2012
London	▼	6.7	11.6
Rest of UK	▼	62.0	105.5

COMMERCIAL AUCTION SALES RATE, %

Sector		Dec 2012	Oct 2012
Retail	▲	85%	76%
Office	▼	75%	79%
Industrial	▲	100%	94%
Leisure and Other	▼	61%	77%
Region		Dec 2012	Oct 2012
London	▲	78%	63%
Rest of UK	▲	81%	79%

COMMERCIAL AUCTION SALES BY PRICE BAND



In the market: London leads

The average yield hardened 40 basis points from October 2012 and now stands at 9.7%. This change is within the expected normal range and is not of any significance except in as far as it might be shown from subsequent observations that the gap between prime and secondary yields has peaked. The current gap between the prime yield of 6.9% and secondary yield of 11.2% is 430 basis points compared with a gap of 510 basis points last October.

The average yield for investments let on leases with less than five years to expiry continues to move out and stands 40 basis points higher at 11.4% whilst the yield for 6-15 years' unexpired is 8.1% and has hardened 20 basis points.

Looking at average yield by lot size shows no discernible difference. This would indicate that investors - regardless of the amount invested - determine what they are going to pay from a uniformly rational approach which balances relative risk and reward rather than irrational exuberance in the auction room.

There was clear evidence of a relatively strong finish to the year caused in part by high net-worth investors competing for a small number of long lease, well-let assets and in part by property companies wanting to get their skills back to work on the small supply of correctly priced properties with potential. However, it is not clear whether this indicates a definite upward trend.

The market is still fragile and successful transactions are property-specific with careful attention being paid to pricing. It is likely that 2013 will see greater activity because sellers and their lenders will have more evidence to determine their pricing expectations, adjust to market levels, liquidate their assets and recycle their capital. Similarly, an increasing number of buyers will feel that the bottom of the economic and financial cycle has been reached and that property priced at this stage should produce long-term capital growth. The outlook will remain mixed for 2013 and it is unlikely that there will be steady upward progress, but ultimately we will see an improvement in GDP and consumer spending filter through to investor confidence. For the present, prices will remain flat in the absence of debt supply and also because of the weakness in the occupier market. Simply, keeping the cash coming in will be the main priority for investors.

YIELD SUMMARY

All Commercial Property Totals		Dec 2012	Oct 2012
Average Initial Yield	▼	9.7%	10.1%
Lower Yield Quartile	▼	6.9%	7.0%
Upper Yield Quartile	▼	11.2%	12.1%
Yield by Unexpired Lease Term			
0-5 years	▲	11.4%	11.0%
6-15 years	▼	8.1%	8.3%
16 years +	▲	11.3%	11.0%
Yield by Value Band			
£0 - £250,000	▲	9.9%	9.3%
£250,000 - £500,000	▲	9.3%	9.2%
£500,000 - £1 million	▼	9.8%	10.2%
£1 million +	▼	9.8%	12.7%

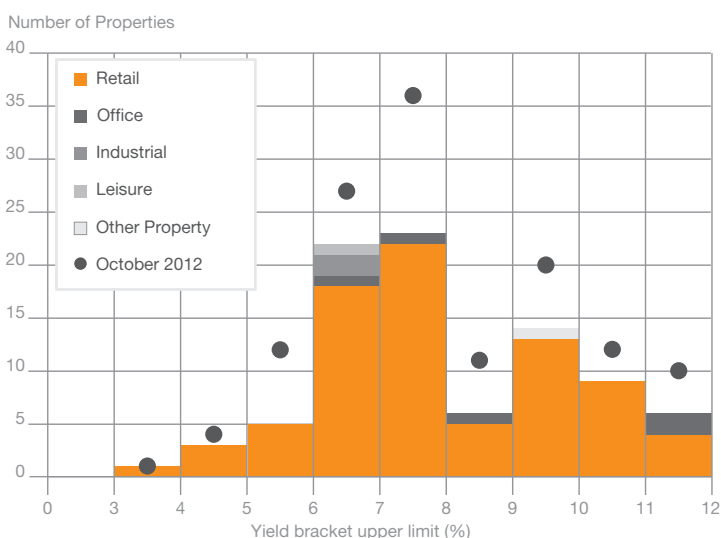
YIELD SUMMARY BY SECTOR

Sector		Dec 2012	Oct 2012
Retail	▼	9.0%	9.1%
Office	▼	12.8%	14.7%
Industrial	▼	6.9%	11.9%
Leisure and Other	▲	16.6%	10.8%

YIELD SUMMARY BY REGION

Sector		Dec 2012	Oct 2012
London	▼	7.4%	8.4%
Rest of UK	▼	10.0%	10.3%

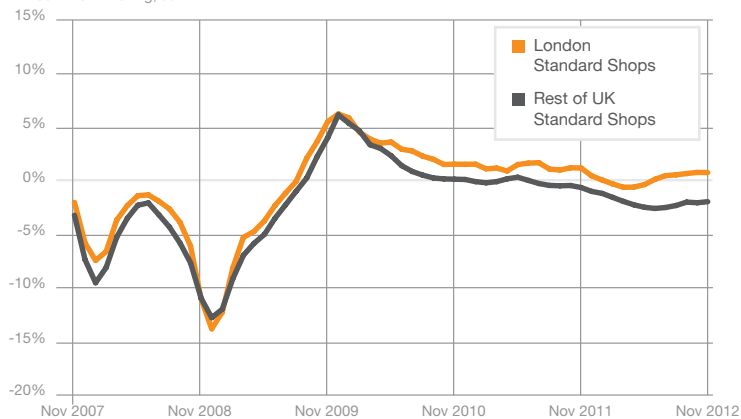
YIELD SUMMARY BY YIELD BAND



STANDARD SHOPS THREE-MONTH ROLLING CAPITAL VALUE CHANGE, %

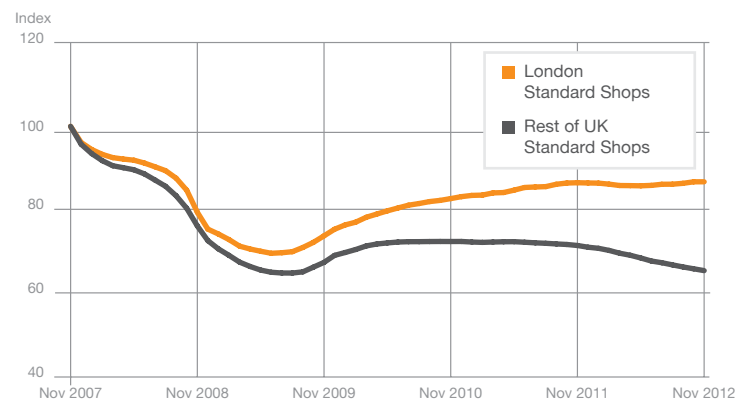
Source: IPD UK Monthly

Three - month rolling, %



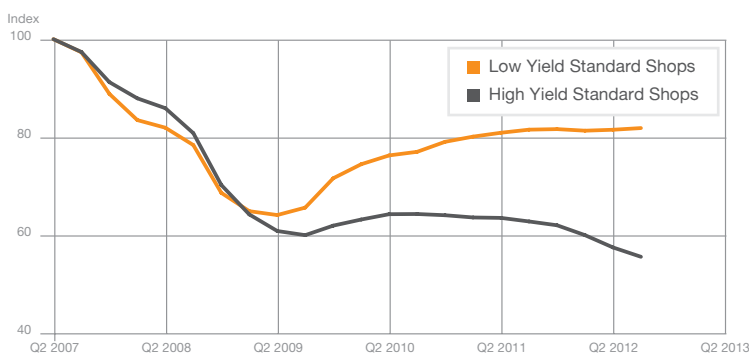
STANDARD SHOPS CAPITAL VALUE INDICES BY REGION, MONTHLY

Source: IPD UK Monthly



STANDARD SHOPS CAPITAL VALUE INDICES BY YIELD, QUARTERLY

Source: IPD UK Quarterly



LONDON SHOPS SHOW THEIR STRENGTH

Commercial property values fell each month from November 2011 to November 2012 and although the monthly declines have been mild, they have culminated in a loss of 4%. However, beneath the surface there are a number of far stronger and deviating trends. On the high street, the divergence between London and the rest of the country has continued.

In the early part of 2012, London shops saw values slip but the second half of the year saw a return to growth and values were up 0.3% y/y, as at November 2012. Conversely, shops outside of the Capital continued to haemorrhage value and stood 8.4% lower in November compared to the 12 months prior – although the rate of decline has decelerated in recent months.

In the context of the previous peak in June 2007, values for London shops were still 17% off their peak. The rest of the country remained 40% from its respective peak and continued to move in the wrong direction.

When the IPD sample was split by equivalent yield in order to determine trends for prime (low yield) and secondary (high yield) assets, the divergence in trends by asset quality mimicked that of location quality. Low-yielding asset values were 18% from their Q2 2007 peak. High-yielding asset values were 44% from their peak after falling a further 3.2% in Q3 2012.

Much of the overall decline has been due to yield expansion. Investors are continuing to re-assess retail properties' future cash flow growth and tenant default risk. Retailer defaults were higher in 2012 than in the two prior years and included high profile names as well as small independent traders. Rents are back in decline, so future rental growth assumptions are being curtailed and pushed further into the future.

However, the economic indicators used in this report show that the second phase of a double dip in consumer and retailer confidence has passed. When this is combined with the fact that regional and secondary stock stands at a 40% discount-to-peak value, a compelling case can be made for investing in the market.

The final nagging doubts surround the recent resurgence of retailer confidence in the face of high default rates, a tough consumer environment and uncertainty over true rent levels in smaller markets with thin leasing evidence. Most investors are likely to hold off until consumers sustain spending and retailers commit to consistent rental growth, which may first require sharp write-downs in the near term.

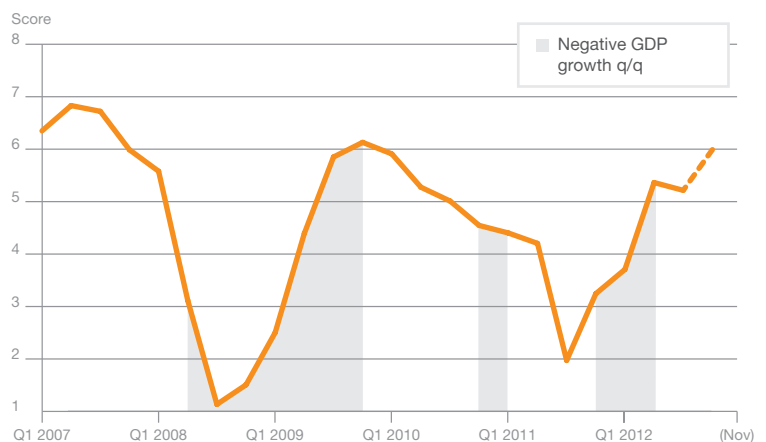
However, based on the activity in the auction room and much improved sales rates for high-yielding regional stock, many investors are already acting on the early signals and deciding that at current yield levels, the returns will compensate for the risks.

KEY MARKET DATA

Economic Score Card Average

The economic score card average remained steady at 5.2 in Q3 2012 but rose again in November to 6.0. A score above six was briefly achieved during the height of the property recovery in Q4 2009. Retailer confidence surrounding current and future trading conditions were the main reasons behind the recent rise. However, this is at odds with heightened retailer default rates and poor consumer spending bringing into question whether this spike will pass as quickly as it appeared. Once the December and January trade figures are available investors can assess the true health of the market.

ECONOMIC SCORE CARD AVERAGE



	2007				2008				2009				2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Nov
Economic Score Card Average	6.3	6.8	6.7	6.0	5.6	3.1	1.1	1.5	2.5	4.4	5.9	6.1	5.9	5.3	5.0	4.5	4.4	4.2	2.0	3.2	3.7	5.4	5.2	6.0
Inflation (CPI y/y)	4	6	7	7	6	2	1	4	5	7	5	5	3	4	4	2	1	1	1	1	3	6	7	5
FTSE All Share (q/q)	7	7	6	7	4	5	1	1	5	7	7	7	7	5	7	7	7	7	2	7	7	7	7	7
Nationwide House Price Index (q/q)	6	7	6	5	2	1	1	1	3	7	7	7	6	6	4	4	6	5	4	5	4	4	5	5
Consumer Confidence	7	7	7	7	6	1	1	1	1	2	6	6	7	5	3	2	1	3	1	1	1	1	2	4
Unemployment Expectations	7	7	7	7	7	5	2	1	1	1	3	4	5	4	3	3	2	4	4	2	4	5	6	7
Retail Trade Confidence	7	7	7	5	7	4	1	1	1	4	7	7	7	6	7	7	7	5	1	4	3	7	4	7
Expected Retail Trade	7	7	7	4	7	4	1	1	1	2	6	7	7	7	7	7	7	5	1	3	4	7	5	7

Source: IPD, ONS, EcoWin, Nationwide

Score card key

7	6	5	4	3	2	1
Fully Functioning Market		Partially Functioning Market		Impaired Market Function		Severely Impaired Function

ECONOMIC SCORE CARD VARIABLES

Economic Score Card Variables	Score	Jul 2012	10-yr avg.	Analysis
Economic Score Card Average	6.0	6.0	5.7	The Economic Score Card (ESC) average improved to 6.0 in November, from 5.2 in September. The improvement in retailer confidence was the main driver, although it is difficult to justify such confidence in the current climate.
Inflation (CPI y/y)*	5	2.7%	2.2%	Inflation stayed steady at 2.7% in November after jumping 50 basis points in October. Food prices formed the bulk of upward price pressures. Expectations are for further short-term rises due to food, gas and electricity prices.
FTSE All Share (q/q)	7	4.8%	0.0%	Throughout what has been a volatile period for UK equities, the FTSE All Share Index has remained in positive territory on a three-month and year-to-date basis, as at November.
Nationwide House Price Index (q/q)	5	0.2%	1.8%	House prices remained stagnant over the last three months to November. Growth has been concentrated in London and the South with sharp falls in the regions and, in particular, Northern Ireland.
Consumer Confidence	4	-14	-8	Consumer confidence was still below the 10-year average but improved markedly since its trough of -26 in December 2011. Consumer spending will be closely watched over the Christmas period into January to see if this improvement translates into a genuine turning point.
Unemployment Expectations**	7	27	30	Employment expectations improved throughout 2012 and stood below (therefore stronger than) the 10-year average in November. The unemployment rate fell to 7.8% in the three months to October. However, this turnaround has yet to translate into improved output.
Retail Trade Confidence	7	9	1	Retailer confidence moved back into positive territory in November in anticipation of a strong Christmas despite much analysis to suggest the period is likely to be an extremely tough one for all retailers.
Expected Retail Trade	7	24	11	Expected retail trade improved to a score of 24, far above the 10-year average. In the past, retailers have been poor at forecasting their future trade conditions and the improvement has either not materialised or been short lived.

* Scoring is based upon deviation (either above or below) from the Bank of England's target CPI rate of 2%

Source: IPD, ONS, EcoWin, Nationwide

** Scoring is inverted. E.g. High value equals low score.

The Economic Score Card is an economic indicator tailored to monitor the health of consumers and retailers. For each component, a score of seven is awarded if the data point is greater than its 10-year average. For every third of a standard deviation the data point is below the average, the score is reduced by one. Each score contributes to the overall average, which is weighted using the same methodology as the European Commission's ESI methodology. For further details, email IPD using the contact details found below.

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