UK commercial market hits four-year high

Julia Cahill

Commercial auction lots selling above £1m reached a four-year high in 2021, with 220 transacting during the year.

This was up by more than 30% on a tough 2020, according to the *Acuitus Commercial Property Auctions 2021 Review and 2022 Outlook*. The report analyses a subset of investment-grade stock sold in commercial property auction sales, using data provided by Essential Information Group.

Acuitus chairman Richard Auterac said unsatisfied demand from property companies and developers for larger asset management opportunities had led them to buy through auction.

Examples included a 0.4-acre freehold town centre development opportunity on Friar Street and Market Place in Reading, which sold prior for £2.65m in December.

London boom

Sales of properties in London boomed during the year, with more than 200 assets selling for a total of more than £180m. Examples included a parade of five shops in Wanstead, E11, which sold for £1.5m in June, a yield of 5.6%.

The final quarter of 2021 was especially strong, with properties in the capital accounting for 29% of sales by value, against the long-run average of 19%. The average lot size of London assets in the auction room was £900,000 – 50% higher than the rest of the UK, which was just under £600,000.

This activity helped the UK auction market for investment-grade commercial stock to reach £780.6m last year, its highest level of activity since 2017 and 43% higher than 2020 (see chart 1).

The buoyant housing market played an important role in boosting demand for commercial property, the report said. "This has bolstered the confidence of developers and investors who have been targeting mixed-use schemes and opportunities for residential conversion of redundant commercial space such as offices and underutilised retail upper floors," said Auterac.

Retail excels

By the year-end, retail property transactions in the auction room had reached £560m, accounting for 72% of all sales by value. Auterac said this was slightly above the long-run average of 69%, "but exceptional given the current sentiment around retailing and the trading problems caused by the pandemic".

Assets in demand were typically those whose pricing reflected rebased rents and often had some scope for capital growth through active asset management. Sellers included international investment and asset managers, as well as corporate occupiers entering sale-and-leasebacks.

Single shops with upper parts or parades in suburban locations with a significant percentage of local occupiers were very popular. Geographically, this pattern of buying was most pronounced across Greater London, the South East and regional locations where economic activity is above the national average GDP, the report said.

Hardening yields

With a significant number of leases now less than five years in length, Auterac said investors were having to take an increasingly proactive approach to investment and appear to be more comfortable with shorter leases.

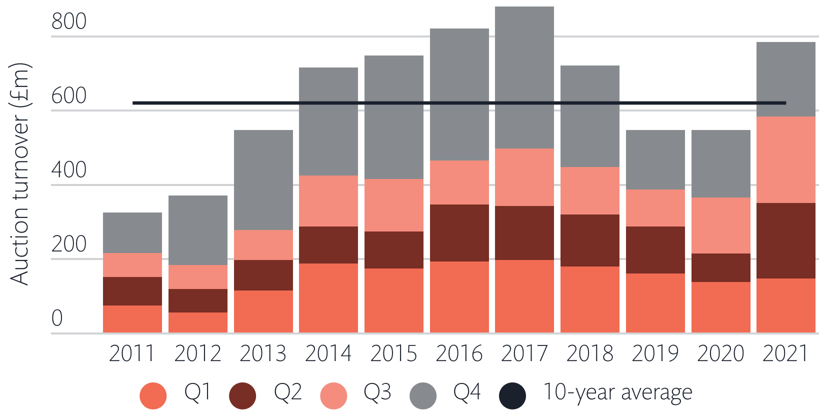
The Q4 2021 Average All Property yield for properties with less than five years to expiry hardened over the 12 months by 151 basis points to stand at 7.95%. Leases longer than 10 years came in by 42 basis points, with a current Average All Property yield of 7.04%.

Looking at the bigger picture, the yield gap between prime and secondary assets sold at auction stood at 3.56% as at Q4 2021. The prime yield remained firm at 5.98% (2020: 5.90%), while the yield on secondary property sold at auction also remained firm, closing 2021 at 9.54% (2020: 10.09%).

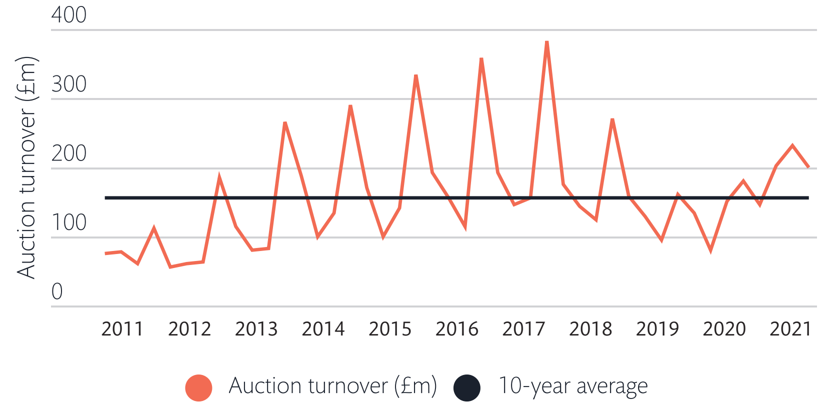
On a regional level, the yield gap between Greater London and the rest of the UK widened by more than 100 basis points and currently stands at 4.39%. The Greater London Average All Property net yield hardened to 5.16% as at Q4 2021 from 5.47% at the end of 2020. The Rest of the UK Average All Property net yield weakened to 9.55% from 8.83% year-on-year.

@EGJuliaC julia.cahill@eg.co.uk

1. Annual value of commercial auction transactions, 2011-21



2. Quarterly commercial property auction volumes, 2011-21



Source: Acuitus/Essential Information Group