

MSCI UK Commercial Property Auction

Data report

February 2020

Prepared by MSCI in association with Acuitus

The MSCI/Acuitus cPad report reviews activity in the commercial real estate auction market. The report is underpinned by analysis of the long running Commercial Property Auction Data (cPad) series, which provides transaction-based market prices.

COMMERCIAL PROPERTY AUCTION SALES SUMMARY

	DEC 19	DEC 18
VOLUME (£ MILLION)	59.5	118.8
PROPERTIES SOLD	114	202
AVERAGE LOT SIZE (£)	521,746	587,976
SALES RATE (%)	79.2	85.6

COMMERCIAL PROPERTY AUCTION SALES (£ MILLION)

SECTOR	DEC 19	DEC 18
RETAIL	43.2	86.8
OFFICE	5.5	20.9
INDUSTRIAL	4.1	1.7
LEISURE	4.0	5.8
OTHER	2.7	3.5

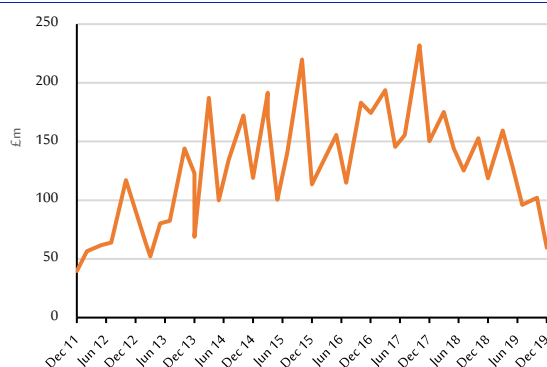
REGION	DEC 19	DEC 18
LONDON	5.8	14.6
REST OF UK	53.7	104.2

COMMERCIAL PROPERTY AUCTION SALES RATE (%)

SECTOR	DEC 19	DEC 18
RETAIL	76.8	86.6
OFFICE	77.8	85.7
INDUSTRIAL	100	100
LEISURE	77.8	72.7
OTHER	100	75.0

REGION	DEC 19	DEC 18
LONDON	80.0	80.0
REST OF UK	79.1	86.1

Volume of activity in the auction room (£m)



Overview

Sales in the UK commercial property auction market as measured by MSCI totalled £550m in 2019. This represented a year-on-year reduction in volume of 23% but this was considerably smaller than the drop in sales activity in some private treaty markets which saw falls of around 60% during the same period.

Auction volumes were last at this level in 2013-14. At that time, the investment and financial markets were still coping with the aftermath of the Global Financial Crisis and from an auction perspective the lending market hadn't normalised and private investors hadn't fully switched back into buying commercial real estate outside London.

Whilst in 2019 there was no shortage of buying demand from private investors looking to use the auction room to access commercial property returns, there was little reason for many owners to sell because they would struggle to then put capital into investments that would generate a similar level of return.

This situation was, of course, compounded by uncertainty around Brexit and the general UK political scene and the problems of the retail sector which has traditionally produced so many of the assets that sell at auction. The financial challenges being faced by some national retailers and a slew of well-publicised CVAs meant that there was little clarity outside the auction market around prices in this sector.

Despite these factors, 2019 sale rates – the average percentage of lots at auction that found buyers - remained historically high. This was not only due to sellers offering only those assets where there was perceived demand, but was also a result of sellers reacting quickly to adjust their expectations to market price.

Buying trends in 2019

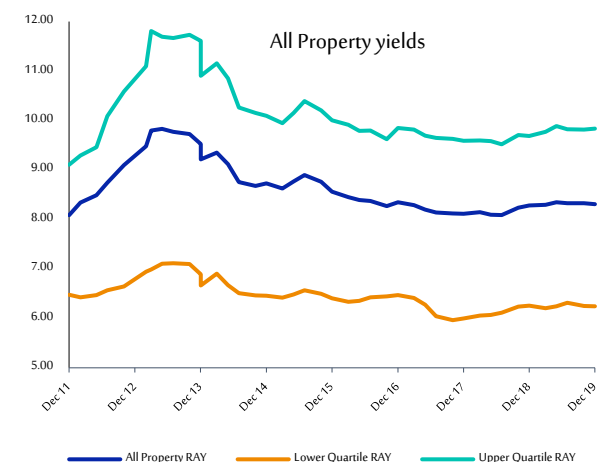
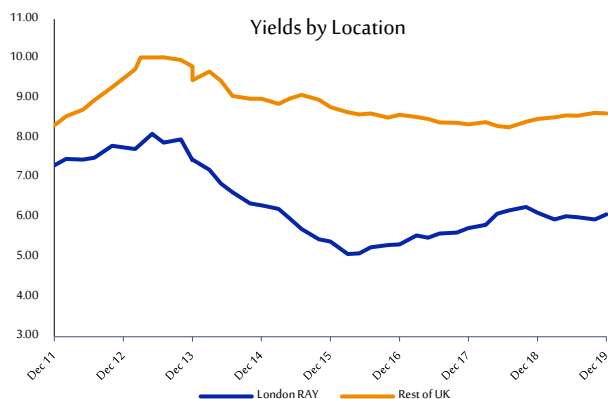
Active buyers can broadly be classified as high net-worth investors (HNWI); local buyers with property expertise; and property companies acquiring a range of property sectors across the UK.

At Acuitus' auctions, local buyers accounted for 40% of buyers. These investors are knowledgeable about property and are able to understand the opportunities and risks of buying property in their region

The national property companies tend not to be property sector or location specific. They invest in property specific assets where they can spot the opportunity to add value through the active asset management of renewing leases, changing use or development or are attracted by the high initial yield.

ROLLING AVERAGE YIELD (RAY) SUMMARY

	DEC 19	DEC 18
AVERAGE INITIAL YIELD	8.48	8.56
LOWER YIELD QUARTILE	6.52	6.55
UPPER YIELD QUARTILE	9.99	9.90
RAY BY SECTOR		
RETAIL	8.41	8.32
OFFICE	9.52	8.99
INDUSTRIAL	6.91	7.53
LEISURE	8.58	7.67
OTHER	6.64	7.01
RAY BY REGION		
LONDON	6.08	6.12
REST OF UK	8.62	8.48
RAY BY UNEXPIRED TERM		
0-5 YEARS	8.57	9.43
6-10 YEARS	8.43	8.19
10+ YEARS	7.68	6.92
RAY BY PRICE BAND		
£0-£250,000	9.00	9.21
£250,000-£500,000	8.28	8.51
£500,000-£1 MILLION	7.83	7.75
£1 MILLION +	8.15	7.27



HNWIs were generally only interested in prime property with little risk. For these assets, yields and prices remained firm throughout 2019

What was selling?

Although retail assets accounted for 70% of all commercial property auction sales in 2019, purchasers were very selective. The best locations in strong, affluent cities were the most sought after but the rent had to be perceived to be sustainable.

Buyers steered away from over-rented shops which were considered to be too risky. They looked to alternative quasi retail/leisure assets to provide them with security of income for 10 years plus. Some form of indexation in the rent increased the attractiveness further. In this context, hotels, licensed premises and drive-thrus were popular.

Trade counters were also popular as they include a retail element but at a rent that is more reflective of the strong industrial sector rather than retail.

Returns remained steady

In 2019, owners remained reluctant to sell assets that offered high initial yields and this was a contributory factor in reducing the volume of transactions during the year. It also meant that, as many of these higher yielding assets were not traded, transactional yields remained largely unchanged although there were some interesting subtle shifts.

In times of uncertainty, investors naturally gravitate to longer lease lengths and more security of income.

However, it is interesting to note that the average yield commanded by assets with lease lengths of less than five years sharpened by 76bps year-on-year.

We think this reflects a growing perception that pricing – particularly in the retail sector – is bottoming out and that short leases may present more positive asset management potential whilst still providing the comfort of a high initial yield. London remained very popular with investors, with demand outstripping supply particularly where there was a residential angle.

ROLLING AVERAGE YIELD (RAY)

The cPad series provides a Rolling Average Yield (RAY) which is a moving average of the current and four preceding auction rounds in a 12-month period.

CONTACT

General Enquiries
realestate@msci.com

msci.com

SPONSORS



Acuitus.co.uk
richard.auterac@acuitus.co.uk

essential
information group

EIGpropertyauctions.co.uk
david.sandeman@eigroup.co.uk

ABOUT ACUITUS

Since it was founded in 2010, Acuitus has sold more than £2bn of commercial property assets at auction and delivered a new, innovative and hugely successful approach to the auction process.

The firm has transformed auctioneering from a simple means of buying and selling property into a sophisticated platform for enabling investment strategies.

It collaborates with MSCI to produce the commercial property auction sector's leading research studies.

ABOUT EIG

EIG is recognised as the Industry Standard for auction information and currently includes details on over 800,000 lots. With 35,000 lots coming to auction each year, it is used by investors and developers to identify buying opportunities

In addition, the fully searchable historic database spanning 28 years is a valuable resource for valuation comparable.

ABOUT MSCI INC.

MSCI is a leading provider of critical decision support tools and services for the global investment community.

With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com.

The information contained herein may not be reproduced or redistributed without MSCI's prior approval. Unless expressly licensed by MSCI in writing, it may not be used as a benchmark for portfolio or manager performance, as a basis for financial products, or in connection with investment vehicles, or to create any derivative works. None of the information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. The information is provided "as is". TO THE MAXIMUM EXTENT PERMITTED BY LAW, MSCI Inc. and its subsidiaries make no express or implied warranties or representations and shall have no liability whatsoever with respect to the Information. No regulated use of any MSCI PRIVATE REAL ASSETS index in any jurisdiction is permitted without MSCI's EXPRESS written authorization. The process for applying for MSCI's EXPRESS WRITTEN authorization can be found on the Index Regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

©2020 MSCI Inc. All rights reserved