Acuitus Commercial Property
Auction Review H1 2021

acuitus
Real Estate Auctioneering & Investment

The Acuitus cPad report reviews activity in the UK commercial real estate auction market. The report is underpinned by analysis of the long running cPad data series, which provides transaction-based market prices going back to 1985.

It puts short-term market movements into the context of long-term trends. The data has been provided by The Essential Information Group and is a subset of the results of commercial property auction sales.

As this is true market data, the analysis will reflect the number and characteristics of the assets available on the market at any given time.

All individual transactions highlighted throughout the document and in the sales cross-section on p8-9 were conducted at Acuitus auctions.

Acuitus Research

It was perhaps inevitable that the commercial property auction room would see a surge in investor demand once society began to see a way out of the pandemic and back towards normality.

The auction room: Record Q2 volume of investment sales

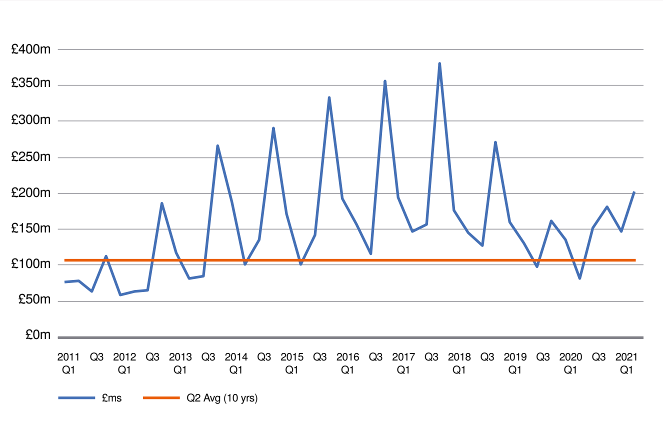
However, the extent of pent-up demand was unexpectedly substantial and drove the volumes of transactions to record levels in the second quarter of 2021.

At £202m, sales in Q2 were 90% higher than the 10-year average for that period of the year and over 1.5 times higher than in 2020. The total number of properties sold was 329 which was a record number for Q2 auctions and the highest since Q4 2018.

The first half of this year saw the tech platform on which our auctions are now conducted come of age. The ease of access and convenience of our live-streamed auctions has been enthusiastically adopted by those who wish to invest in commercial property.

As we head into the second half of the year, demand from private investors should remain on a continued upward curve as an increased universe of buyers target both secure income and asset management potential.

Quarterly value of commercial auction transactions 2011-2021



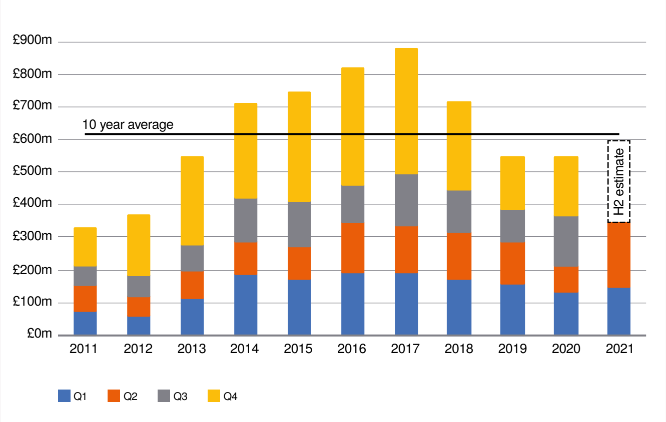
Recognising the unsatisfied investor demand for mainstream commercial property assets has prompted a growing number of sellers to bring properties into the auction room. These sellers included international investment and asset managers as well as corporate occupiers wishing to utilise capital more productively in their core businesses through sale-and-leasebacks.

Our auctions have enabled these sellers to exit their positions in an orderly, efficient and timely way using a programme of sales to achieve best prices unconditionally.

Since the onset of the pandemic in March 2020 the number of active buyers at auction has increased substantially not least because of the new reach that online sales have brought. The proliferation of online platforms across various forms of investment has made investors increasingly comfortable with this mode of acquisition.

2020-2021 was for open out-cry property auctions what 1986 was for the London Stock Exchange when it moved to electronic trading. Open out-cry auctions may still be held by those auction businesses who have the skill to bring together and hold the attention of an audience of motivated buyers who are in turn attracted by showmanship and want the reassurance of human traders. But electronic trading has reduced the cost and friction of buying commercial real estate and opened up the market to retail investors, who can now add commercial property to their investment portfolios at the click of a button.

Value of auction transactions – annual 2011-2021



The main driver for the strong Q2 2021 performance was retail assets. They accounted for 74% of the sales total with 263 properties selling.

Retail rebounds

The sector has seen significant falls in the value of High Street shops and shopping centres and this made some sellers cautious about exposing assets to the market where a sale might show a significant mark down on valuation.

Of course, historic valuations neither reflect today's rents nor the true financial status of the tenants or the ability to let a property, so have almost become academic in their relevance – but are still very pertinent to debt secured against an asset and the potential for an exit route.

In this context, the vertiginous falls in shopping centre asset values have attracted most publicity, but even in that sector there has been sustained investor demand for assets that are deemed to have continued relevance to their catchment and may offer a repurposing angle.

On the High Street, where shops have been relet or leases have been renewed at rebased rents, buyers are increasingly seeing them as investable stock. However, this does not apply to the vast number of over-rented stores often let to national multiples which are heading for a CVA.

The majority of retail investments that were offered for sale in Q2 were straightforward neighbourhood shops let at sensible rents to occupiers who provide for local needs such as pharmacies/health care, supermarkets and banks with alternative use/residential potential.

The most sought-after of all retail investments are the neighbourhood parades where tenant risk is diversified and asset management opportunities such as change of use and residential development to add value are possible.

Hillsborough Exchange Shopping Centre

Sold at auction in May 2021 for in excess of £3m.

There has been concerted demand for small to medium-sized investments in the £250-£1m bracket. They accounted for 55% of the total in Q2 – the highest proportion since Q3 2018. They offer a range and choice of investments for smaller investors and local buyers, and have seen a very high take-up.

Small is beautiful: Surge in £250,000-£1m lot sales

From a location perspective, the strength and depth in demand for Greater London investments has been notable. A record number of properties offered and sold: 68 being sold in Q2 reflecting a take-up rate of 88%. Greater London accounted for 21% of the total number of properties sold.

Whilst the investment case for London is well-known and also reflects the number of active investors for whom the capital is their neighbourhood, we are now also seeing considerable confidence in the reletting prospects of many suburban locations and the future resumption of GDP growth. Many of these suburban assets also offer a potential or immediate residential angle to add value and are the most popular because they offer risk diversification.

The defensive nature of industrial investment and the rental growth opportunities it offers has meant that it has performed well in comparison with retail during the past 3-4 years. Owners have consequently preferred to retain their assets. Industrial accounted for only 8% of property sold but what was offered sold well.

During the past year, there has naturally been much interest in the healthcare and medical sector where care is provided by the private sector. It can offer a long-term income flow, often pegged to RPI, and with little asset management input required from the investor.

The Old Bank House on Uxbridge High Street

Sold at the June auction for £1.69m. Let to an NHS Trust, it produces current annual income of £110,000, and the sale price reflected a net initial yield of 6.13%.

By the end of the first half of 2021, the Prime All Property yield had hardened to 5.72% – its lowest in 10 years.

Prime auction yields at 10-year low

In contrast, the yield gap between Prime and Secondary is now 431 basis points which is the widest since Q4 2013.

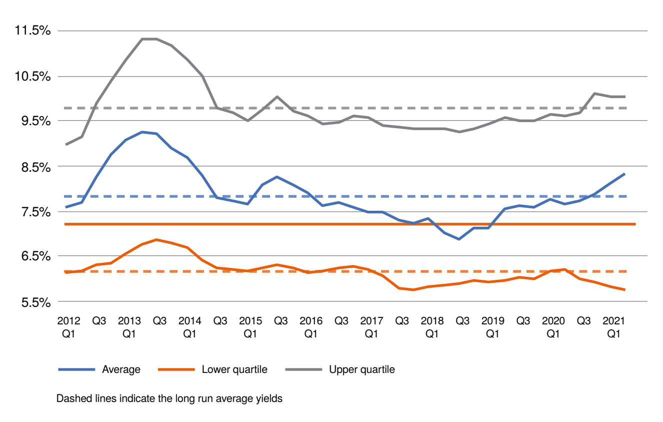
The cPad All Property Prime (lower quartile) yield edged lower by 7bps to 5.72% from 5.79%. This was partly as a result of the proportion of Greater London properties which were offered to sale during the period. The continued demand for assets in and around the capital has led to the cPad Greater London All Property Prime yield hardening 8bps points to 5.54%.

The cPad All Property Secondary (upper quartile) yield remained unchanged at 10.03%. In the current climate, there is understandably a greater aversion to higher risk. The higher yield investments are the preserve of property companies and experienced entrepreneurs who will tend to have the greater asset management and financial skills.

Owing to the strength of the residential market there is strong interest in properties which have good current income and future repositioning/redevelopment potential.

The cPad All Property Average yield weakened by 25bps to 8.35% from 8.11% in Q1. This put it at the highest level since Q1 2014 which was the turning point in the commercial property market following the decline in values after the global financial crisis of 2008. It will be interesting to see whether we will see a similar turning point in the market.

Auction net initial yields



Sale rates

Auction take-up rates remain high. Although they are down from 94% in Q1 to 90% in Q2 the rate is still high in relation to the 10-year average. It needs to be borne in mind that the number of properties sold in Q2 is significantly higher in total than in the first quarter.

The requirement for bidders to pre-register has permitted vendors to have greater intelligence around buyer demand and price levels before the auction. This has allowed sellers to have a more nuanced approach as to whether they should proceed with or defer a sale.

Units A & B on the Elms Industrial Estate in Bedford

Sold at the May auction for £3.2m at a net initial yield of 5.4%.

We expect that commercial property transaction volumes will grow as the economy and business confidence continue to recover although the pace of this will be dependent on a number of factors.

Outlook

Loosening the grip of the pandemic, a resumption in GDP growth and the continued political impact of Brexit are all major factors in a return to economic stability.

In this situation, it is not easy for an owner and lender to know what is the right course of action and finding a solution may take time. The fall in retail values continues to cause issues for owners particularly where loan covenants have been breached.

Assets which provide for the day-to-day needs of a local population such as supermarkets, convenience stores and pharmacies have been popular this year and will continue to be in demand going forward. The continued rise in the popularity of the healthcare sector is notable.

Greater London, South East England and affluent parts of the major cities and counties will see investor demand but beyond that recovery will be slower.

We believe cathedral cities and market towns can now offer value once prices have adjusted. However, these locations still require a good knowledge of the retail sector and an understanding of the occupational market as many of the national multiples are retreating or have simply gone bust. Knowing what rent levels are affordable is key.

The adoption of new technology by investors will bring investment opportunities to a far wider audience both locally and internationally which should encourage more sellers to bring stock to market.

A cross-section of 2021 sales

London, EC1 – 131-133 Whitecross Street

Sector
High Street Retail

Sale price
£1.35m

London, N10 – 541 Holloway Road

Sector
High Street Retail

Sale price
£2.21m

Harrow – 82-84 St Ann's Road

Sector
High Street Investment/ Development

Sale price
£3.225m

Wanstead – 32 High Street and 11-15 Woodbine Place

Sector
Retail Parade

Sale price
£1.525m

Kingston-upon-Thames – 85-87 Clarence Street

Sector
High Street Retail

Sale price
In excess of £2m

Croydon – 53-55 North End

Sector
High Street Retail

Sale price
£2m+

Farnham – 41-42 The Borough

Sector
High Street Retail

Sale price
£910,000

Truro – 95-96 Pydar Street

Sector
High Street Retail

Sale price
£860,000

Diss – Victoria Road

Sector
Retail Parade

Sale price
£1.85m+

Portfolio of 29 pharmacy investments

Sector
Medical/Healthcare

Sale price
Achieved yields as low as 4.75%

Liverpool – Knowsley Village

Sector
Medical/Healthcare

Sale price
£1m+

London, SW12 – 19 Cavendish Road

Sector
Assisted Living

Sale price
£1.62m

Houghton Le Spring – Rainton Meadows Arena

Sector
Leisure

Sale price
£1.725m

Maldon – ICS House, 10-14 Hall Road

Sector
Industrial/Warehouse

Sale price
In excess of £5m

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