UK Commercial Property Auction Data Report

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Q1 2022

The Acuitus commercial property auction data report (cPad) reviews activity across the UK commercial real estate auction market. It is produced by Acuitus Research and is powered by analysis of the long-running cPad data series which provides transactions-based market prices going back to 1985. Accordingly, cPad puts short-term market movements into the context of long-term trends.

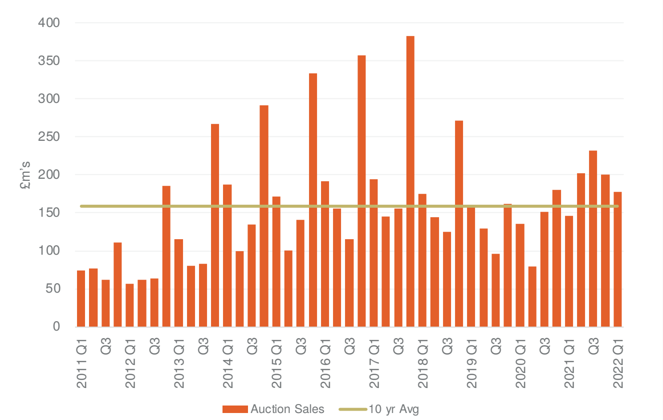
The sales data for this Q1 2022 review has been provided by The Essential Information Group. It is a subset of commercial property auction sales and focuses solely on investment-grade assets and income-producing property with development potential. As this is true market data, the analysis will reflect the number and characteristics of the assets available on the market at any given time.

Overview

Growing confidence with a greater depth of buyer interest than at any time post start of the pandemic. The true depth of demand remains masked by a lack of good quality, investable stock.

The natural flow of sales was disrupted by the pandemic as sellers awaited some clarity in terms of market direction and price levels. Since the beginning of 2022, we have started to see a more normalised auction sector and we expect this to continue through the year.

Auction sales by quarter



Source: Acuitus Research/EIG

Q1 sales hit 5-year high

At £177.5m and 260 transactions, Q1 sales in 2022 were the highest since Q1 sales in 2017. This volume was 22% above the Q1 10-year average of £145.6m and 236 transactions.

The first quarters of the previous years of 2018 to 2021 were impacted negatively by the political uncertainties and pandemic lockdowns. Whilst investors are still conscious of these issues, some sellers have recognised the strength of demand for certain assets in the real estate investment sector and decided that now is the best time to sell investments that are ex-growth or too small for their portfolios.

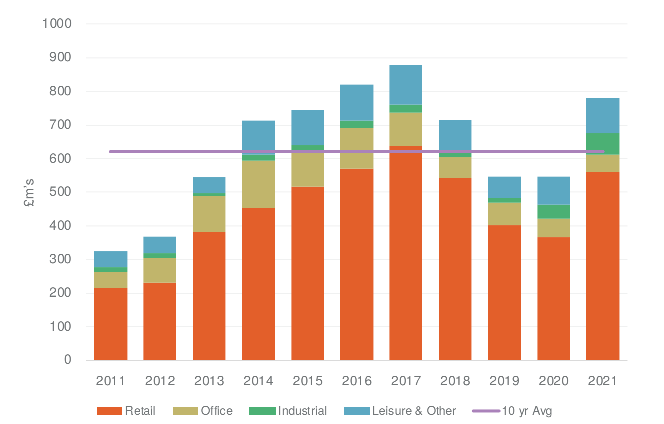
Sales volumes were also higher as a result of the growing trend for larger lot sizes. By number, 22% of the lots sold in Q1 2022 commanded prices of more than £1m and this accounted for 56% of the quarter's volume. With almost all institutional investors and REITS having now exited the sub-£10m lot size market, this sector is now dominated by high-net-worth investors and family offices who look to the auction market to place some of their funds. Greater London is still the favoured location of many investors but supply remains constrained. London accounted for 17% of the lots sold by number, and 27% by value of all UK transactions which is above the 10-year average of 20%.

Retail proves resilient

Retail was still the dominant property sector in Q1 2022 accounting for just shy of 62% of the total value of sales but this is lower than the average of 72% recorded in 2021. Having said this, at £109m the total amount raised was still greater than the £100m raised in Q1 2021.

High Street retail is perceived as not having much further to fall in rental terms but there is considerable uncertainty as to what the High Street will look like in the future. Environmental considerations and Covid have encouraged some shoppers to get back to shopping locally.

Auction annual turnover



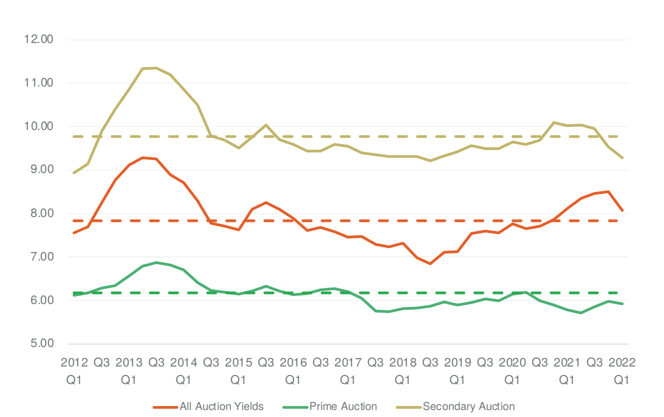
Source: Acuitus Research/EIG

Leisure on the rise

Of the non-retail assets being sold at auction, the leisure sector featured prominently and accounted for 15% of sales by value since the beginning of the year. At £26.5m, this was the highest quarterly volume of leisure assets to sell at auction for 10 years.

This might seem surprising bearing in mind that this sector was particularly badly hit by the pandemic. But what these assets can offer are longer leases where the operators want to lock into the goodwill of their brand in a particular location. The resultant long-term relatively secure income is attractive to investors.

Average net initial yield on transactions



Source: Acuitus Research

Yields sharpen as demand grows

There has been a sharp downturn in yields with the cPad All Property average initial yield moving down by 44 basis points from 8.51% in Q4 2021 to 8.07%.

In terms of the spread between Prime to Secondary auction yields, the cPad All Property initial Prime yield stands at 5.93% (Q4 2021: 5.98%) and the initial Secondary yield stands at 9.28% (Q4 2021: 9.54%). This represents a yield gap of 335 basis points.

In line with this, yields across all asset types have sharpened quarter-on-quarter with retail moving in to 8.27% (Q4 2021: 8.88%); offices at 9.07% (9.63%), and leisure at 7.54% (7.97%). The industrials yield remained virtually unchanged at 6.36%, but this was more a reflection of the paucity of stock in the auction room rather than a lack of investor appetite.

With demand substantially exceeding supply, the pricing of London assets has seen prices remain robust although their yields did move out to 5.67% (Q4 2021: 5.16%). This is 320 basis points lower than the Rest of UK cPad All Property average initial yield of 8.87%.

Inflation and interest rates

It is too soon to know for certain what impact rising interest rates will have on existing borrowers but we are aware that some owners have decided to pay down their loans. The forbearance or otherwise of the lenders will be an important factor in deciding the scale and pace of deleveraging.

From the demand side a growing number of investors are turning to real estate because of the rise in inflation and the volatility in equities and the gilts and finance markets. Inflation is an issue for an increasing number of people in older age groups who are considering having to postpone their retirement or to take part-time employment to supplement their income.

For further information on this research or to discuss auction strategy, please contact:

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