UK Commercial Property Auction Data Report
Q1 2023

The Acuitus cPad report reviews activity in the UK commercial real estate auction market. The report is produced by Acuitus Research and is powered by analysis of the long-running cPad data series.

The latest sales data for this Q1 2023 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.

Overview

The increase in the Bank of England base rate, plus the troubles of Silicon Valley Bank and other US banks has caused both auction buyers and sellers to pause for reflection. Some decisions to sell were postponed and the ability of some assets to find 'special buyers' at enhanced prices was temporarily halted.

In the UK commercial property auction sector, the first quarter of 2023 saw 287 lots sell at auction for a total of £175m.

This continued the post-pandemic trend of a more even distribution of activity across the year with the latest quarter's activity broadly in line with last year's comparable figure (£177.5m/260 lots) but significantly above the 10-year Q1 average of £150m.

There was a 20% increase in the number of lots brought to the room in Q1 2023, compared to Q1 last year but there was a downturn in overall auction success rates which dropped to 84.2% – the lowest success rate in three years.

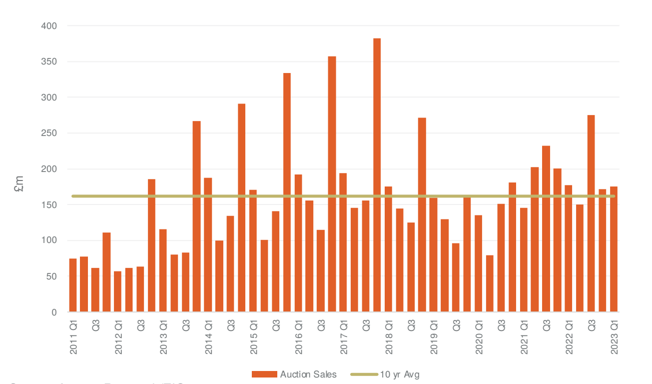
Average lot sizes continued to ease back slightly, falling to just under £610,000, although this was largely due to a fall in the average lot size of properties sold across the rest of the UK rather than in Greater London.

London makes the market

During Q1, 42% of the lots sold by value were located in Greater London. This was the highest proportion of total sales since 2011. The demand for properties across the capital remains strong and prices are holding firm. The average Q1 sale price of London properties was £1.11m. Given the depth of buying power for London assets, we expect there to be an increase in average lot sizes as sellers capitalise on the depth of investor demand.

Notable London lots sold in Q1 included Aldersgate House at 135-137 Aldersgate Street which sold for £1.455m at a yield of 4.61% in February.

The pattern of auction activity has changed



Source: Acuitus Research/EIG

Resi backs retail

Demand for retail assets in Q1 was emphatic with 67% of the quarter's lots sold by value being focused on retail assets. This was comfortably ahead of the proportion of retail assets purchased in 2022 which stood at 58%.

A sizeable proportion of the demand for retail assets was driven by residential development potential. Lots in Cirencester, Tunbridge Wells, Stratford upon Avon, Petersfield and Barnstable among others all had residential potential alongside current retail income. The residential angle adds value for the seller and future upside for the buyer.

Some examples include:

- A High Street retail parade in the London commuter town of Cheam, producing £160,900 in rent, sold for £1.93m. The parade consists of three retail units and residential ground rent from 14 flats on the upper floors.
- A Central London restaurant investment at 253 Old Brompton Road which sold for £1.706m at a yield of 3.73%. The five-storey property has reconfiguration and refurbishment potential, subject to consents.

Retail rents have dropped dramatically over the last five years and new rentals are now sensibly priced and generally affordable.

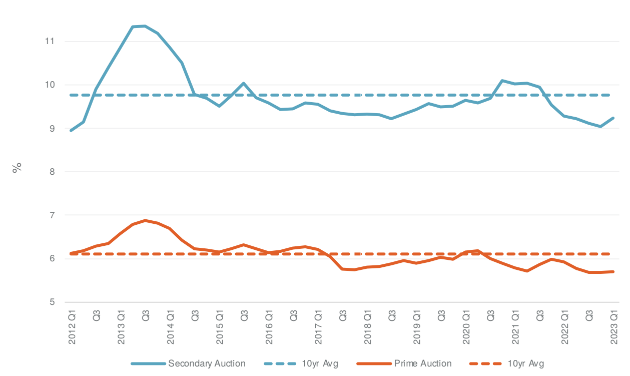
However, when investing in High Street retail assets, investors are still cautious of situations where historic rents are high. The level of over-rent can impact on the tenant's business and its ability to sustain the rental payments as well as creating uncertainty at a forthcoming lease expiry. This risk is reflected in higher yields. Notwithstanding the well-documented trading difficulties of restaurant and licensed premises post-pandemic, leisure investments continue to be popular because leases tend to be longer than the standard shop lease and often have RPI-linked rental uplifts. However, strength of occupier covenant is still an important factor.

Out of town drive-thru restaurants and coffee stores remain very popular because they tend to be in good roadside positions and are let on long leases to well-known operators. One such example in Liverpool, which had recently been let on a new 20-year lease at a rent of £135,000, sold prior to auction for more than £2m at a yield of around 6%.

Macro events and inflation

Finance has become more difficult to secure but, as we reported in our recent property finance update, the 'challenger banks' are still willing to lend at rates albeit higher than pre-2022 but lower than at the end of last year. As the returns on risk-free government assets have increased so has the wish for property investors to seek higher returns when investing their cash. Property continues to yield good long-term income returns but investors are now looking harder for capital growth through active management.

Primary and Secondary auction yields



Source: Acuitus Research

Yields

Yields have remained largely unchanged with most downside risks at the macro level now priced in.

Average auction yields in Q1 remained stable at 7.42% having been 7.41% in Q4 2022. Prime yields moved out to 6.06%, whilst Secondary yields moved in slightly to 9.38%.

Sector	Q1 2023 net initial yield	Movement from Q4 2022
Retail	7.54%	↑
Office	9.57%	↑
Industrial	7.45%	↑
Leisure	7.95%	↓
Other property	6.58%	↓
Region		
Greater London	5.71%	↓
Rest of UK	8.32%	↑

The fall in valuations of industrial assets held by the institutions at the end of last year has been well-documented and is largely as a result of the movement in yields. However, the private investor/property company investor and the institutional investor have had different investment criteria. The institutions investing in logistics and big boxes and the private investor going for the smaller traditional multi-let estates. The drive by institutions and investment funds to scale up their industrial holdings drove yields down, and consequently sent prices upwards during 2021 and the first half of 2022. The private investor has not had the same opportunity to invest in industrial because the supply of suitable assets through the auction market has been limited. The rise in values seen in the institutional market did not manifest itself to the same extent in the private investor market. Industrial fulfils some of the investment aims of investors which High Street retail used to fulfil, namely, smallish lot sizes, low physical obsolescence and relatively easy management. Prices for multi-let industrial estates and well-let industrial remain firm with demand exceeding supply.

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

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