UK Commercial Property Auction Data Report
Q2 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 Q2 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

Macro-economic pressures continue to influence the commercial property auction room and the attitudes of buyers and sellers.

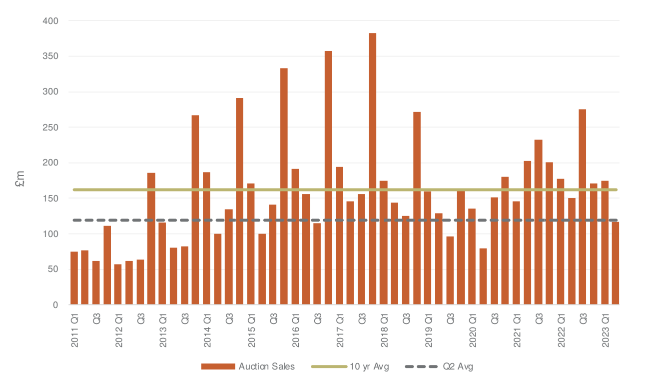
In the second quarter of 2023, the UK commercial property auction sector saw 239 lots sold for a total of £116.9m, with a sale rate of 92% – a figure which is significantly up on the previous quarter (84%).

While the total amount sold was down from the Q1 level of £175m, this is in line with the long-term Q2 average of £118.7m. A large proportion of investors continue to put their faith in Greater London: 31% of the properties sold by value in Q2 were located in the capital. This is a 50% increase on the long-term average of 20%.

Smaller value lots were predominant in Q2. Of the 239 properties sold, 172 were below £500,000. This represents 72% of lots by number and is the highest proportion of this price band on record. The previous high was 69% in Q2 2012. It is not, however, obvious that this was a result of a flight away from the larger lots because the proportion of £1m + lots was consistent with previous quarters at 13% by number and 46% by value.

The pandemic saw a positive change in investors' attitude to using technology for the purposes of acquiring property and the good auction platforms now put a far wider range of investors both locally and nationally in touch with investment opportunities. This might be manifesting itself with the increased depth of bidding for the smaller lot sizes which tend to attract more local investors. With property investment now easier to access, it is entirely possible that we will see growing investment by individuals in their local areas.

The pattern of auction activity has changed



Source: Acuitus Research/EIG

Sectors

Looking at the various sectors across commercial property, the demand for leisure and mixed use has continued to be popular accounting for 22% by value realised. The retail and office sectors dropped to 61% and 9% respectively – compared to their respective long-run averages of 68% and 13%.

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.

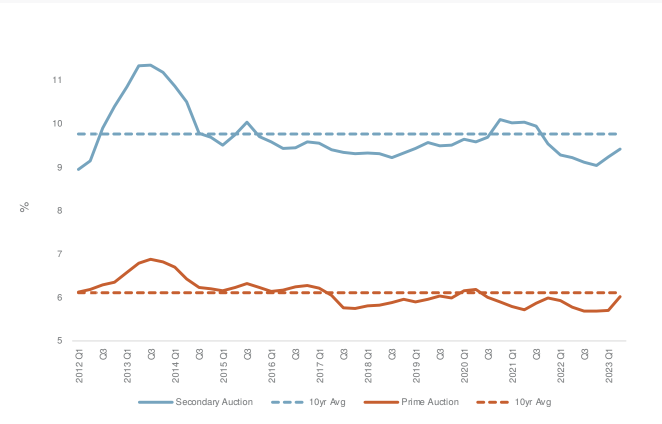
Notable Q2 Lots

- A Travelodge on the outskirts of Newcastle sold for £2.5m with a yield of 6.5%.
- A Central London restaurant and residential investment at 295 New Kings Road sold for £1.566m at a yield of 4.45%.
- A Freehold Gastro Pub & Hotel investment within the vicinity of the affluent area of Sandbanks sold for £2.2m with a yield of 5.13%
- A vacant office freehold opportunity in Leatherhead sold in May for £1.74m, which may benefit from future development.

Travelodge
A1/19 roundabout,
Fisher Lane, Seaton Burn,
Newcastle upon Tyne,
Tyne and Wear, NE13 6BP

The Anchorage
47 Haven Road,
Canford Cliffs, Poole,
Dorset, BH13 7LH

Primary and Secondary auction yields



Source: Acuitus Research/EIG

Yields

Whilst interest rates look set to rise further and stay higher for longer, returns on cash are still low although rising, and there remains a strong case to lock into property for the higher yields available. Added value acquisitions – especially those that have residential potential – provide an opportunity to increase returns across the medium term.

In Q2, the cPad Average All-Property yield was 7.57%, up from 7.42% and keener than the corresponding 2022 figure of 7.75%. The cPad Prime All-Property yield moved out slightly to 6.02% in Q2 against a long-term average of 6.1%. The cPad Secondary All-Property yield was up by 19bp to 9.42%.

The cPad Average All-Property yield for Greater London softened 20bps to 5.90% against a long-term average of 5.64% while the Rest of UK cPad Average All-Property yield was virtually unmoved on 8.42%

The cPad Average Retail Property yield remained firm at 7.66%. The largest increase in sector-specific yields were in the office and industrial sectors where yields were 10.03% (up by 56 bp from Q1) and 7.89% (up by 44 bp) respectively.

The increased activity in smaller lots sizes helped yields harden in the sub £0.5m sector of the market with the cPad Average All-Property yield for this location down by 12 bp on average to 8.26%. Yields on larger lot sizes edged higher by 29-30 bp to 7.54% but still remain lower than for the smaller properties.

It has been a difficult quarter with both the stubbornness in inflation and the rising interest rates bearing out. This has not helped those who seek finance to purchase but as the majority of investors are “cash” buyers the increase in finance costs has not yet had a significant impact on demand or yields.

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

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