UK Commercial Property Auction Data Report

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Q3 2022

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 Q3 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.

Overview

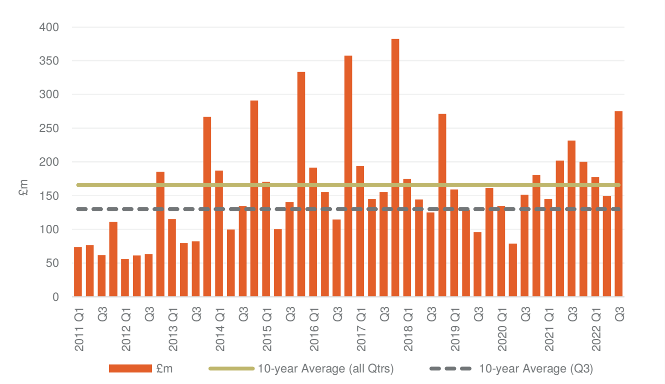
Volumes and lot sizes

- Commercial property auction sales in Q3 totalled £275m (up 18% year-on-year). It was also a long-term record for Q3 and more than double the 10-year average for the quarter.
- The total number of lots sold in Q3 was 363: the highest quarterly volume since Q4 2018.
- The average Q3 lot size was £757,553. Historically, this is a significant shift upwards: by comparison, the Q4 2018 average lot size was £531,412.
- This average lot size reflected the appetite for larger lots generally. During the year to date, there have been record levels of lots selling for more than £1m. In Q3, 85 lots sold for above £1m and represented £164.7m of buying.
- The proportion of retail assets selling at auction diminished: by value they represented 50% of Q3 sales – down from 74% in the previous quarter.

Yield movements

- cPad All-Property average yield: 7.52%: lowest level since Q1 2019.
- Prime and Secondary All-Property yields down to 5.69% and 9.12% respectively.
- At 5.68%, London remained the most sought-after location as measured by yield.

Quarterly value of commercial auction transactions



Source: Acuitus Research/EIG

Bargain hunting?

The exceptional volume of Q3 sales highlights two current trends in the auction sector.

As sellers have become more confident that they can use auctions to tap into large pools of private equity and do so within a timescale which meets their strategic needs, larger properties have been increasingly coming to market.

It also reflects that many assets have seen their prices fall dramatically and buyers sense the possibility of an over-correction leading to 'bargains'. Certainly, the scale of correction in some instances has been dramatic. It's not uncommon in the retail sector for a formerly institutional-grade asset to come up for auction with a guide price of around 10-20% of its erstwhile value.

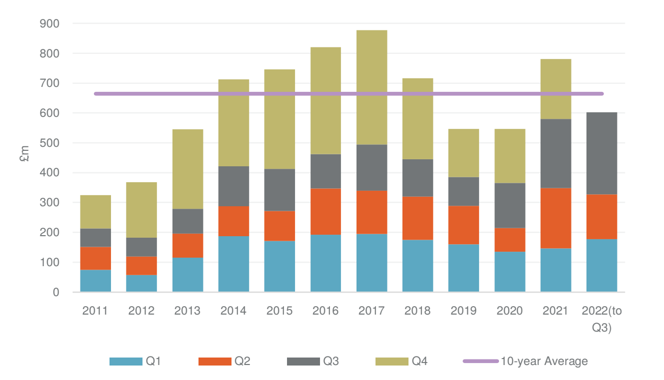
Institutions and major investment funds recognise that the auction market is the best route to reach the private investors and property companies who are potential buyers. This transitioning of assets from institutional to private ownership is to be welcomed and will play a key role in repositioning the UK's retail property market.

Despite the steady fall in values, the demand through the auction for retail investments has remained steady during the last five years. The issues that shops have faced have been well-documented. Prices and rents have, of course fallen, but investors have not lost faith in this sector. Demand has changed and what investors are looking for more than ever before are investments that must be let at sustainable rental levels, that occupiers with a sound business model can afford or where there is the potential to add value – often through residential conversion.

With prices falling across the board this has put shop investments in reach of a far greater number of smaller investors who are seeking returns better than they could earn through other investment media.

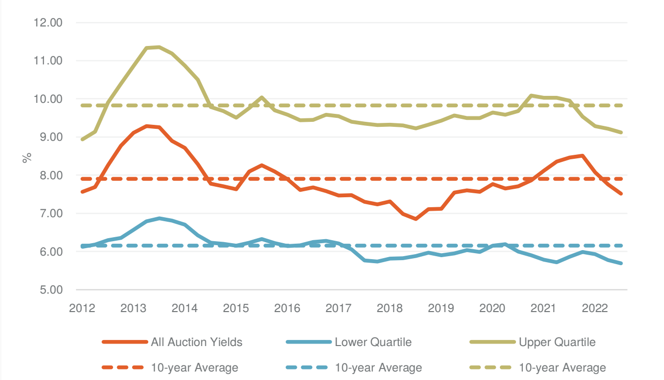
Apart from the fall in absolute terms of retail prices, the biggest factor causing retail to make up a smaller proportion of total sales is the increase in sales across other property sectors. In Q3 2022, the sale of £46.9m of industrial assets accounted for 17% of total volume while leisure and other miscellaneous properties raised £63m (22.9% of total volume).

Annual value of commercial auction transactions



Source: Acuitus Research/EIG

Average net initial yields



Source: Acuitus Research

Yields

Despite the wider economic turmoil we are experiencing, net initial yields – perhaps slightly surprisingly – continued to compress during Q3. The cPad All-Property average yield was 7.52% – the lowest level since Q1 2019 – and 39 basis points below the 10-year average.

Both the cPad All-Property Prime yield and Secondary yield edged down with Prime at 5.69% and Secondary at 9.12%. The yield gap of 343 basis points fell below the 10-year average of 369 basis points.

In line with the points made above, the cPad All-Property average yield for £1m+ lots hardened again from 7.68% in Q2 to 7.48%. However, smaller properties of £500,000 to £1m were also in demand. The cPad All-Property average yield for this price band was 6.79% – the lowest on record. This was on the back of 254 properties selling for a total of £182.3m.

By yield profile, London remained the most sought-after location with a cPad All-Property average yield of 5.68%. This was 264 basis points stronger than the rest of the UK which had an average yield of 8.32%.

Outlook

It will be important to see what impact rising interest rates will have on yields and demand going forward. We know that the rise in interest rates will be significant although not unprecedented, but what is not clear is what the landscape will look like in 2-3 years' time after the economy has weathered the current issues.

Reduced consumer spend will impact the occupier's profitability and demand for space. Interest rate rises may make non-real estate investment more attractive to high-net-worth investors.

Increases in interest rates will make finance more expensive, and loan-to-value ratios will come under pressure because of the concomitant rise in loan debt service cover. However, this may have a muted impact on investor demand as most have been acquiring assets without the immediate need for debt.

The hardening of yields as observed above at the time when there is economic uncertainty is notable. We believe there are a number of possible reasons for this including a strong belief in 'bricks and mortar'. There is also a clear preference among investors to focus on secure income. In a period of uncertainty, real estate continues to have the attraction of tangibility.

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

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