UK Commercial Property Auction Data Report
Q3 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 Q3 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 and interest rate uncertainty continue to influence the commercial property auction market and the attitudes of buyers and sellers.

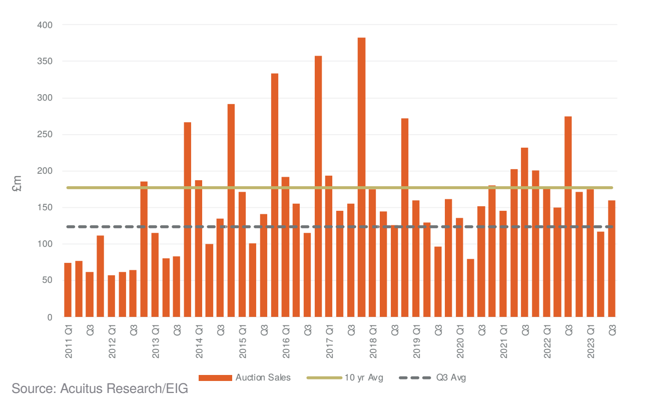
In the third quarter of 2023, the UK commercial property auction sector saw 256 lots sold for a total of £159.4m, with a sale rate of 83%.

The total amount sold was up from the Q2 level of £117m and 29% above the long-term average.

Retail accounted for one of the smallest proportions on record at 54% of the properties sold. Offices, industrial and leisure accounted for a significantly higher proportion of the total sold; 46% by value and 38% by number.

The average lot size rebounded from Q2 by almost 30% and stood at £623,000. There were a greater number of larger lots of over £1m, rising to 16% by number and 45% by value and significantly fewer smaller lots than Q2.

Q3 auction volumes 29% above 10-year average



Source: Acuitus Research/EIG

Sectors

Retail

During Q3, 160 properties were sold at auction. These represented 54% of the total sold by number, and equated to £86.2m of assets sold.

The cPad Average All-Retail yield stands 8.39%, having moved out 43bp from Q2. For the ‘dry’ High Street investments which do not have residential or other active management potential, yields have moved out by circa 50bp to reflect the increase in gilt yields.

Retail parades remain highly sought-after for their active management potential and risk spread.

Offices

In the office sector, 17 assets sold during the quarter and raised £21.9m. The cPad Average All-Office yield stands at 11.01% – having softened 55bp since Q2. Offices which have high holding costs when vacant or require disproportionate management effort and expenditure to improve their energy performance are increasingly coming to market, and finding new entrepreneurial buyers.

Industrial/trade counters

At the present, after mixed use retail/residential, this is the most popular sector with investors. During Q3, 27 industrial/trade counter assets sold for a total of £21.9m.

Yields have remained firm with the cPad Average All-Industrial yield currently standing at 8.33%. Builders yards/trade counters are in demand for their quasi-retail offer, low site coverage, longer leases and ‘household-name’ tenants.

Leisure

Leisure investments continue to be popular as they tend to have a large footprint in the town centre. The leases are longer than the standard shop lease and often have RPI-linked rental uplifts. However, strength of occupier covenant is still a critical factor unless there is potential for residential conversion that underpins value.

The cPad Average All-Leisure yield stands at 8.73% up 70bp since Q2. £20.3m was realised from the sale of 28 leisure properties during Q3.

cPad All-Property yields

- **Average All-Property yield: 8.37% in Q3 (Q2: 7.89%)**
- **Prime All-Property yield: 6.53% (Q2: 6.22%)**
- **Secondary All-Property yield: 10.10% (Q2: 9.65%)**
- **Average All-Property yield for Greater London: 6.66% (Q2: 6.17%)**
- **Rest of UK All-Property yield: 9.11 (Q2: 8.76%)**

All measures of yield in the cPad series weakened in Q3 which was expected – not least because of the rise in gilt yields. As we reach the top of the interest rate cycle, it appears from signals coming from the BOE, that we will be staying at current levels for a sustained period, possibly until summer 2024.

This is putting a strain on both buyers and sellers. Whilst the vast majority of buyers are using own funds rather than borrowing, they are looking for higher returns. At the time of writing, gilt yields are 4.48% and tend to be a benchmark against which High Net-Worth investors price returns from assets let on long leases to financially strong tenants.

For investors seeking finance the five-year swap rate is currently 4.47% and the 10-year swap rate is currently 4.23%.

For the private property companies, properties with definite added value are the only opportunities they are seeking out. Residential potential is the preferred option to add value.

“Dry” over-rented assets on short leases are not of interest unless priced to sell.

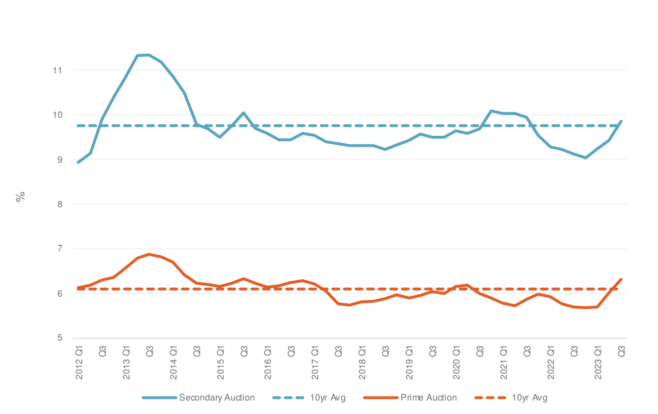
Having said this, there is buyer interest at higher risk levels providing they offer a double-figure yield. Initial yields of 13%+ are available for assets which are over-rented, let to financially mediocre tenants on 8+ years unexpired but with no clear way to add value.

For the owners of property, the high borrowing costs are now proving a major issue unless they are prepared to put in cash to reduce the loan-to-value ratio when re-financing.

One positive facet of the market is that as lenders benefit from the enhanced profitability that higher base rates bring, they are starting to reduce interest margins from the levels set during the era of lower base rates. This may now allow investors to make decisions about loan renewals or refinancing to unlock equity in order to take advantage of the opportunities in this lower priced real estate environment.

In this context, it is worth noting that for High Street retail investments yields have never been higher and rents not seen at these levels for a couple of decades.

Primary and Secondary auction yields



Source: Acuitus Research/EIG

Notable Q3 lots

- **An Odeon cinema in Hastings sold for £2.25m at a yield of 13.8%.**
- **A Travis Perkins builders yard and trade counter at Beverley in East Yorkshire sold for £1.58m at a yield of 5.6%.**
- **A modern office building of 38,000 sq ft on the Stockley Park business estate sold prior. The guide price was £3m.**

Odeon cinema
Hastings

Travis Perkins
Beverley, East Yorkshire

Stockley Park
Greater London

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

Richard Auterac
Chairman & Auctioneer

+44 (0)20 7034 4851
richard.auterac@acuitus.co.uk

Acuitus
14 St Christopher’s Place
London W1U 1NH

+44 (0)20 7034 4850
info@acuitus.co.uk
acuitus.co.uk