

FEBRUARY 2019

Prepared by MSCI in association with Acuitus

The MSCI /Acuitus cPad report reviews activity in the commercial real estate auction market. The report is underpinned by analysis of the long running Commercial Property Auction Data (cPad) series, which provides transaction-based market prices.

COMMERCIAL PROPERTY AUCTION SALES SUMMARY (£ MILLION)

	DEC 2018	OCT 2018
VOLUME (£ MILLION)	118.8	152.8
PROPERTIES SOLD	202	309
AVERAGE LOT SIZE (£)	588,000	494,434
SALES RATE (%)	85.6	75.7

COMMERCIAL PROPERTY AUCTION SALES (£ MILLION)

SECTOR	DEC 2018	OCT 2018
RETAIL	86.8	133.2
OFFICE	20.9	12.2
INDUSTRIAL	1.8	0.9
LEISURE	5.8	5.5
OTHER	3.5	1.0

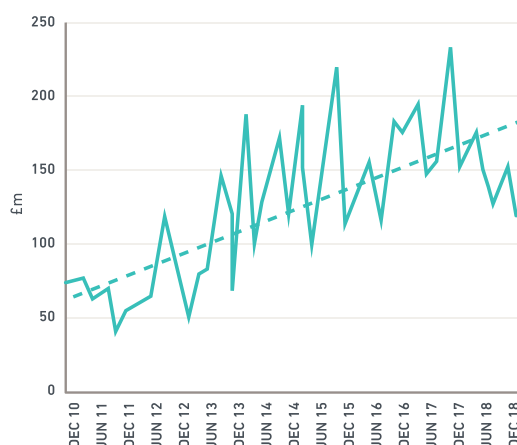
REGION	DEC 2018	OCT 2018
LONDON	14.6	14.1
REST OF UK	104.2	138.7

COMMERCIAL PROPERTY AUCTION SALES RATE (%)

SECTOR	DEC 2018	OCT 2018
RETAIL	86.6	76.3
OFFICE	85.7	64.0
INDUSTRIAL	100.0	33.3
LEISURE	72.7	85.7
OTHER	75.0	81.8

REGION	DEC 2018	OCT 2018
LONDON	80.0	75.0
REST OF UK	86.1	75.8

Volume of activity in the auction room (£m)



OVERVIEW

Sales in the commercial property auction market achieved slightly over £716m in 2018. Activity was 18% down on 2017, which is not surprising given the economic and political backdrop, although the contrast is more marked as 2017 was a particularly strong year.

The looming Brexit deadline during the latter months of the year has taken its toll on the commercial property market as a whole. Auction activity is not immune to this uncertainty, with activity in December down 20% on the equivalent point last year with sales of £119m.

The lull in activity is not across the board however; long standing private commercial property investors are continuing to place money in the market. This is reflected in a sharp increase in the sale rate to almost 87%, helped also by vendors adjusting their disposals to the current market appetite.

RETAIL IN DEMAND

Retail assets comprised their highest proportion of all sales since the start of the cPad series. 76% of sales were in the retail sector compared with 73% in 2017 and a long run average of 69%. By the end of 2018 the retail sale rate reached its highest level since early 2015. This reflects both the quality of assets coming forward for sale and the longer term opportunities for town centres seen by professional private investors looking beyond press headlines.

The value of industrial property sold during 2018 was sharply down on 2017; in part, reflecting lower values in the retail sector and the wider market shortage of stock. Investors remain reluctant to dispose of industrial assets despite strong buyer appetite.

The volume of London assets sold has remained relatively stable over the last 12 months, averaging 17% of the total. This is slightly ahead of the 14% recorded in 2017. The average lot size of London assets is virtually unchanged on 2017 at slightly over £1m.

The average lot size across the market was £588,000 marginally down on the previous year. However, over 12% of assets sold for over £1m in the auction room in 2018, marginally down on the number in 2017, reflecting the more cautious market overall.

DEMAND FOR SECURE LONG TERM INCOME

The cPad All Property Rolling Average Yield (RAY) stood at 8.28% at the end of 2018, up 17 bp over the last 12 months. The post summer period recorded the turning point in prices although the last auction round of the year saw minimal change. Average yields remain lower than prevalent before the Brexit vote.

Reflecting stock shortages, the industrial sector saw the greatest price movement. Yields for the sector moved inwards by 71 bp over the year. Despite the challenging backdrop for the retail sector, yields only saw an outward yield movement of 22 bp, a reflection of the quality of stock coming forward for sale and experience of investors in the market.

Pricing for assets outside the capital remained stable in 2018, but prices in London slipped, reflecting the wider market. The London RAY rose by 39 bp although the last auction round suggested a possible stabilisation.

Demand for short lease length assets waned during the second half of 2018, driving an outward yield movement of 20 bp. Conversely, this period of uncertainty has increased demand for long term income assets, the RAY moving inward by 27 bp.

The gap between prime and secondary commercial property values has reduced slightly since the start of 2018. The Lower Quartile RAY, which reflects the higher quality segment of the market, moved out by 26 bp over the last 12 months to 6.26%, while the Upper Quartile segment of the market, rose by just 10 bp to 9.68% stabilising having seen price weakness early in 2018.

ROLLING AVERAGE YIELD (RAY) SUMMARY

	DEC 2018	OCT 2018
AVERAGE YIELD	8.28	8.24
LOWER YIELD QUARTILE	6.26	6.23
UPPER YIELD QUARTILE	9.68	9.71

RAY BY SECTOR	DEC 2018	OCT 2018
RETAIL	8.32	8.26
OFFICE	8.09	9.08
INDUSTRIAL	7.53	8.18
LEISURE	7.67	7.68
OTHER	7.01	6.93

RAY BY REGION	DEC 2018	OCT 2018
LONDON	6.12	6.27
REST OF UK	8.48	8.41

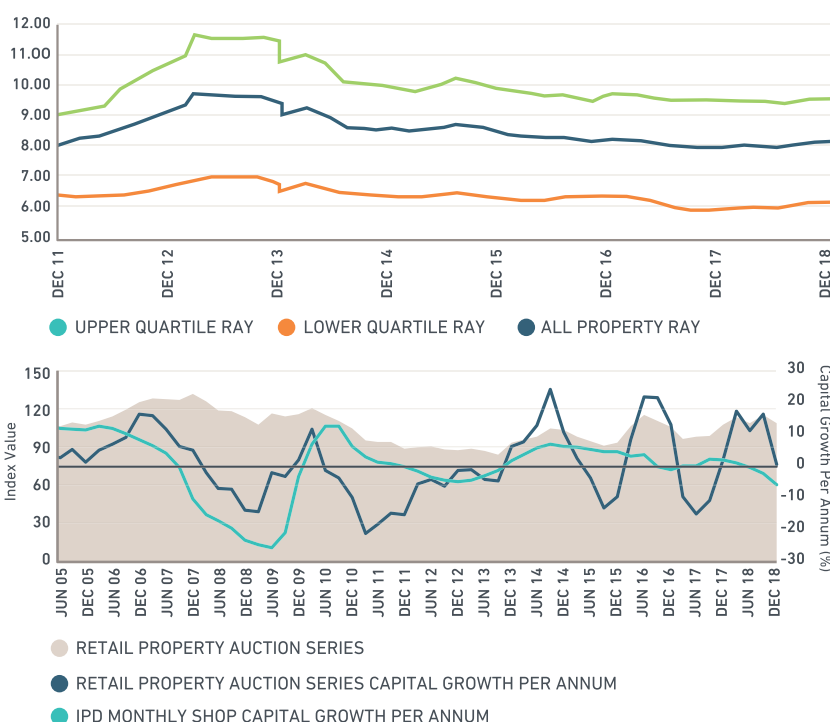
RAY BY UNEXPIRED TERM	DEC 2018	OCT 2018
0-5 YEARS	9.43	9.24
6-15 YEARS	8.19	8.14
6+ YEARS	6.92	6.91

RAY BY UNEXPIRED TERM	DEC 2018	OCT 2018
£0-£250,000	9.21	9.18
£250,000-£500,000	8.51	8.51
£500,000-£1 MILLION	7.75	7.66
£1 MILLION +	7.27	7.23

The dominance of experienced property investors in the current market has delivered a degree of stability, with a focus on assets providing longer term income and opportunity that can, as much as possible, transcend Brexit uncertainty. We expect this position to be maintained until greater clarity. The current robust demand demonstrated by experienced private investors will provide opportunities for institutional investors seeking to restructure portfolios early in 2019 following year end valuations.

ROLLING AVERAGE YIELD (RAY)

The cPad series provides a Rolling Average Yield (RAY) which is a moving average of the current and four preceding auction rounds in a 12-month period.



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