



# **Commercial Property Market Flash**

## **19 June 2012**

# Introduction

- The Acuitus and IPD team
- Introduction to cPad
- IPD Property Market Analysis
- Prices today
- Future issues and predictions

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# What is cPad

- Joint initiative between Acuitus and IPD which develops upon a 15 year relationship
- Focus is on investment-grade prime and secondary assets for the private investor and property company
- A valuable snapshot of a market important to private investors and property companies
- Analyses each key commercial property auction stage throughout the year
- Relates the happenings in the auction room with the wider property market
- This barometer of the market is provided by both actual results and a scorecard for the key fundamentals which drive the property market

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# Overview of the UK economy and property market

Greg Mansell, Senior Research Manager

On the pulse of  
the property world



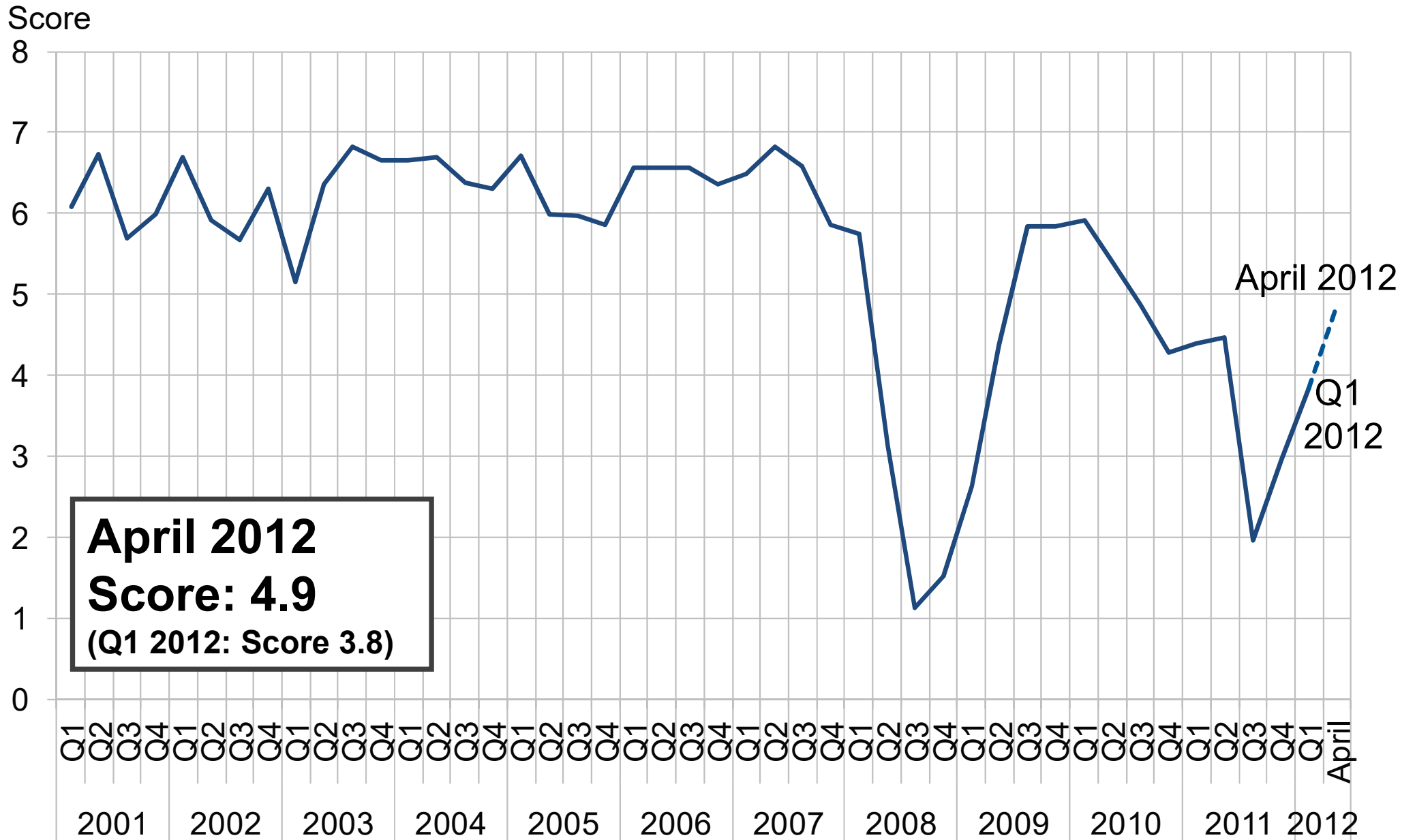
# Economic Scorecard Components

- Inflation
- FTSE
- House prices
- Consumer confidence
- Unemployment expectations
- Retail confidence
- Expected retail trade

# Economic Scorecard-what's happening now?

- Inflation falls – good or bad?
- Equities slid in response to sovereign and banking debt concerns
- House prices positive but consumer sentiment still unusually low
- Retailers looking more optimistic – Jubilee / Olympics related or more to it than that?

# Economic Scorecard Average







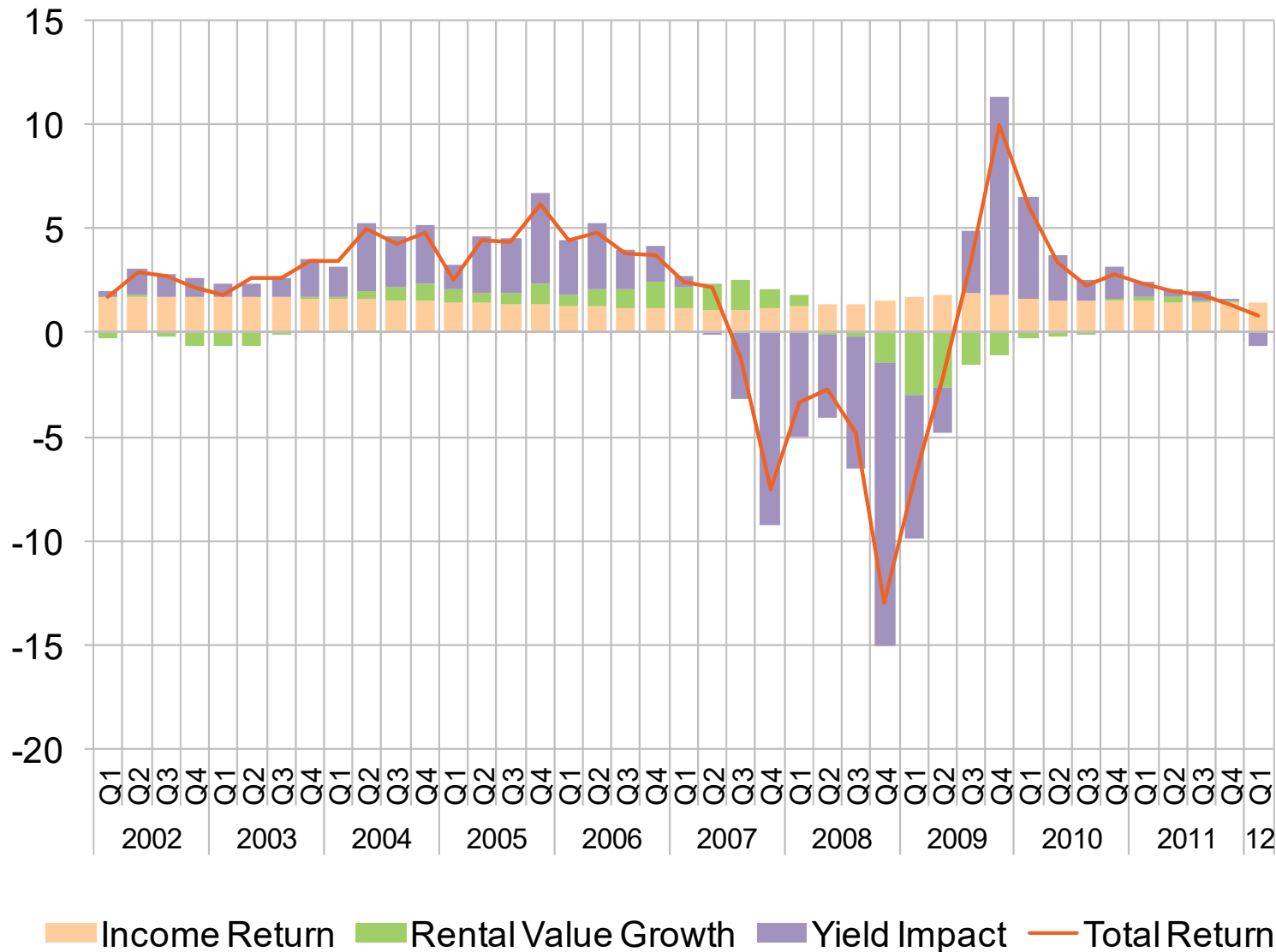
# Property Overview



# Long-term trends

## UK All Property

% q/q



### Income Return

- Up to 1.5% q/q

### Rental Value Growth

- Flat after mild growth for the last five quarters

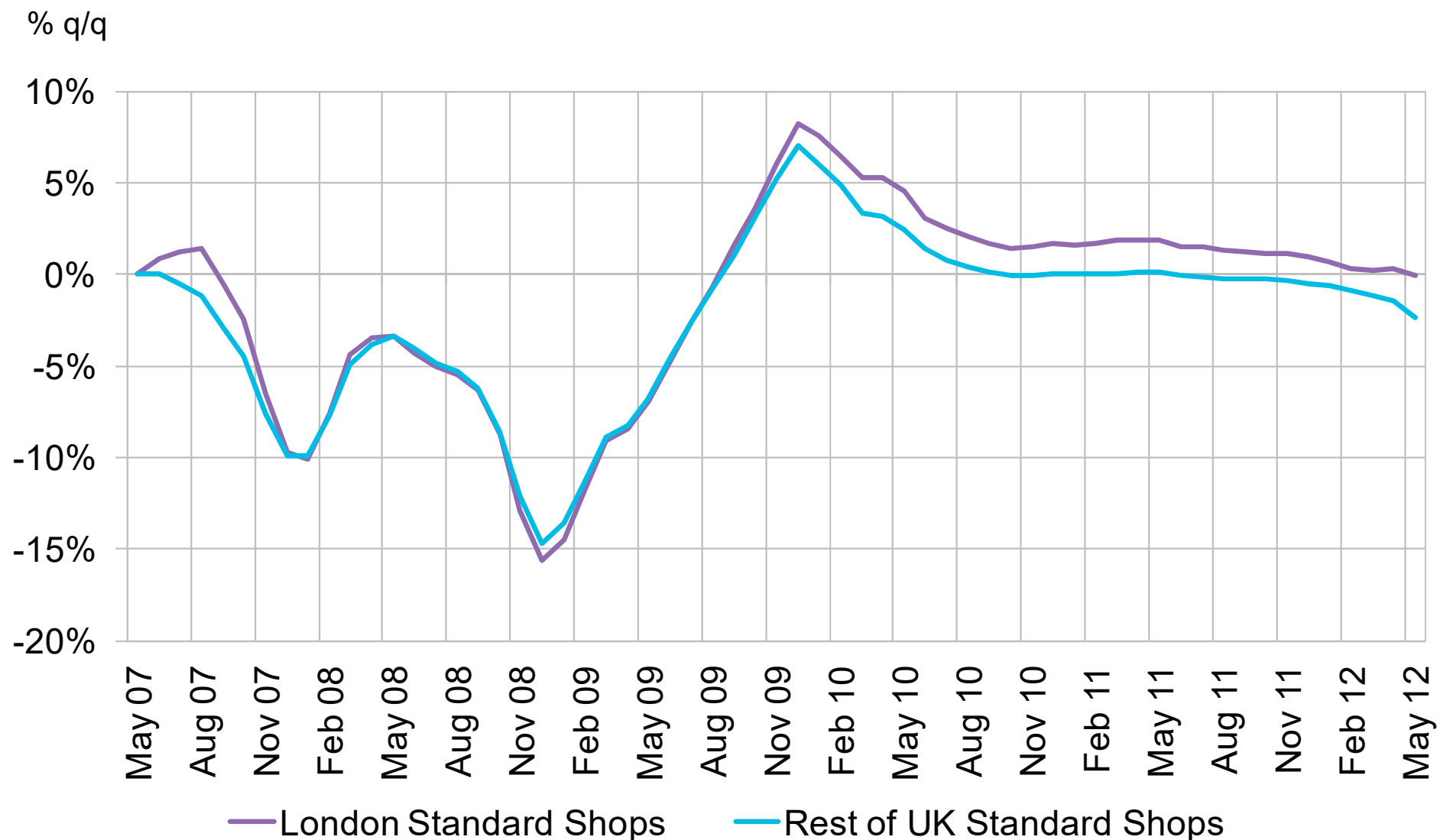
### Yield Impact

- Negative for the first time since Q2 2009

### Total Returns

- Rank 37<sup>th</sup> out of 45 quarters
- Rate of decline increased from last quarter

# Standard Shops Capital Value Change by Region



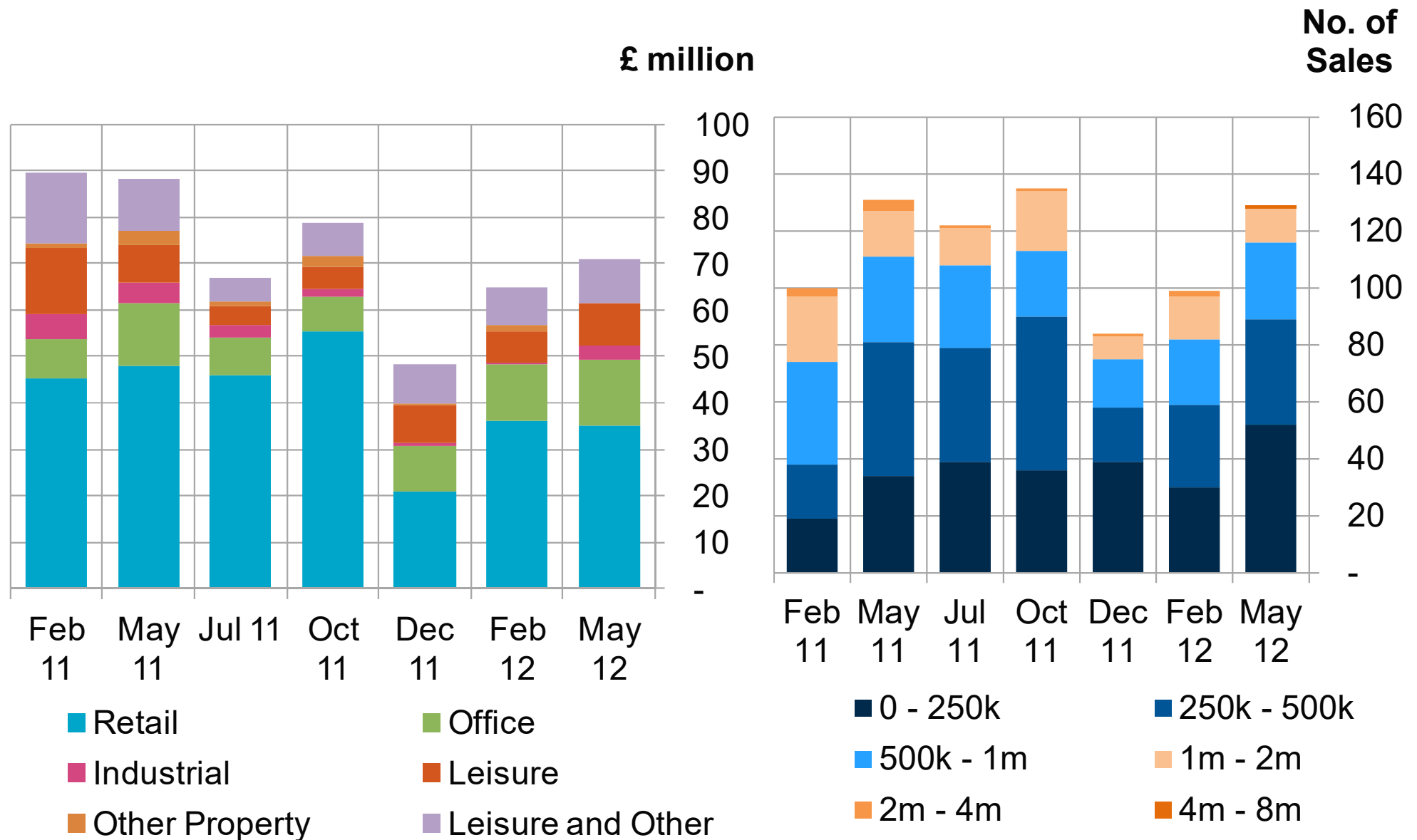
# Standard Shops Capital Value Change by Yield Quartile



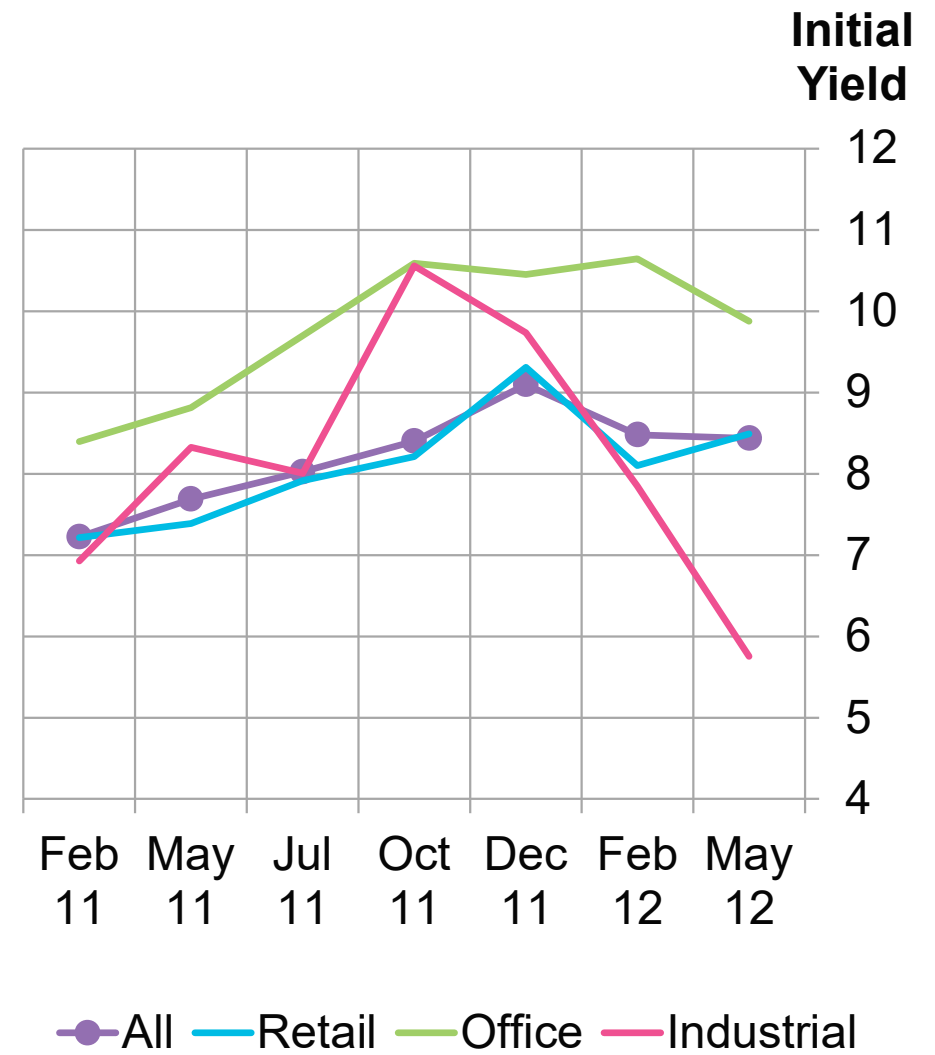
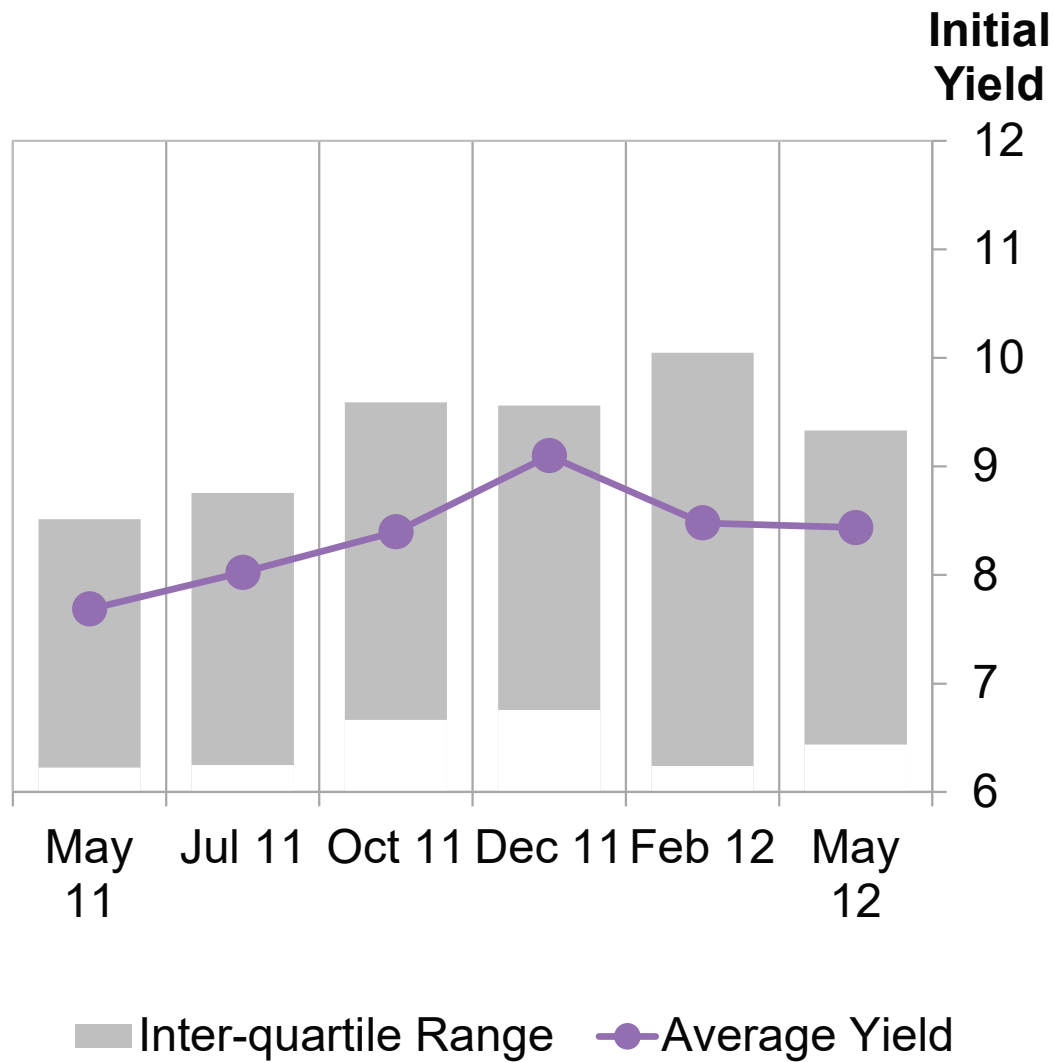


## **cPad Results**

# cPAD Trading Volumes



# cPAD Average Yields



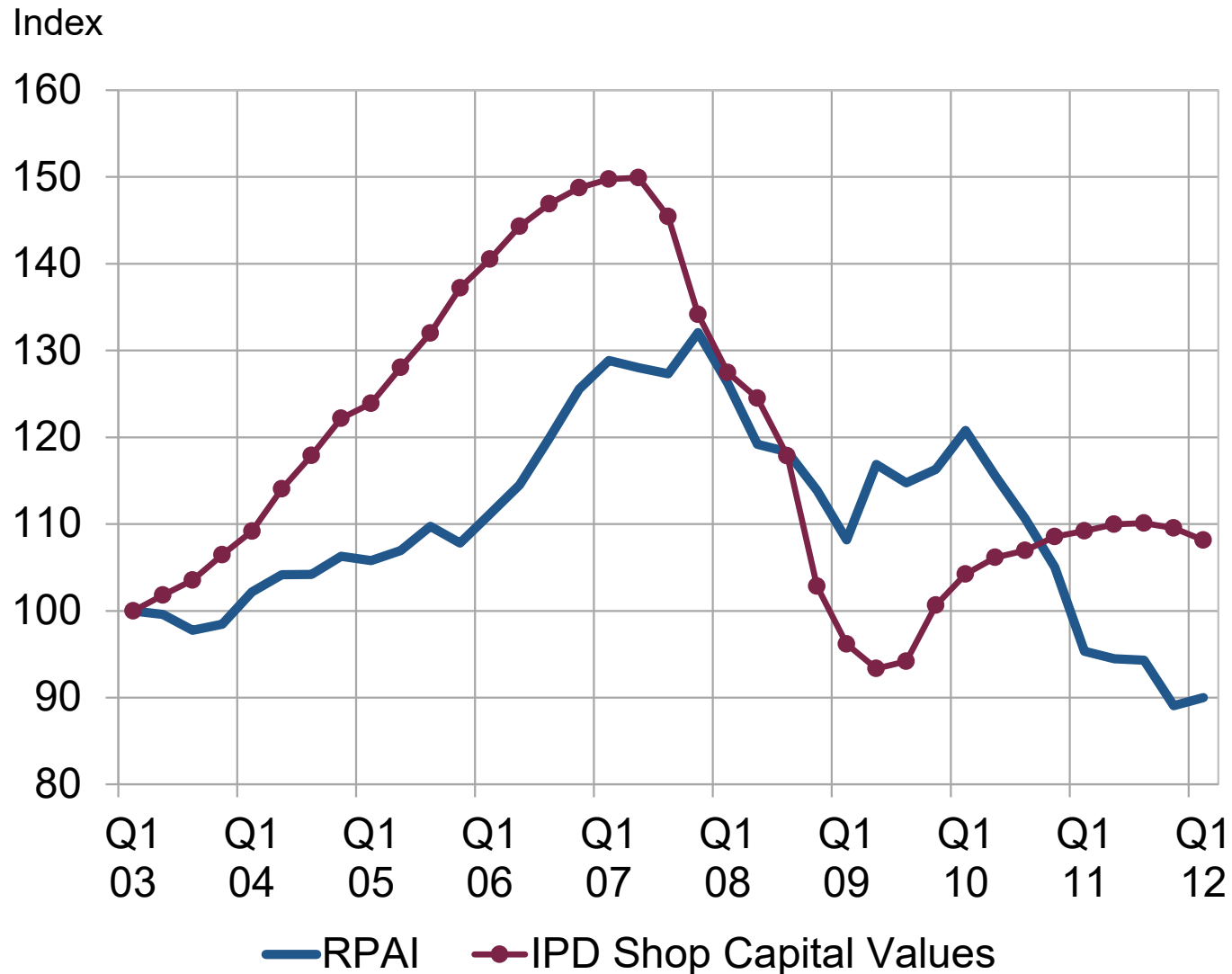




# **The IPD UK Retail Property Auction Index**

# IPD UK Retail Property Auction Index

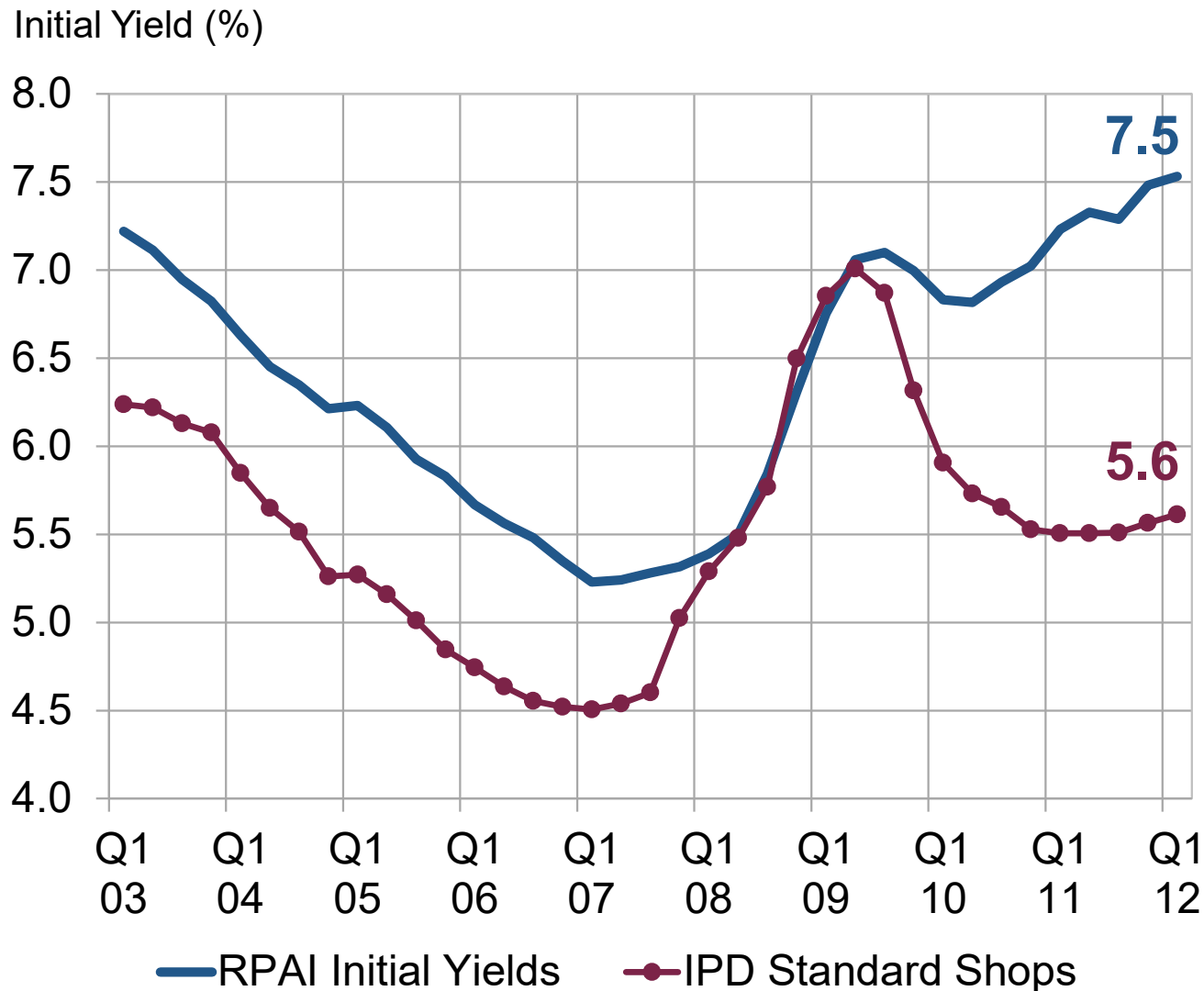
Price index of retail property sold at auction vs. IPD shop CV index



- RPAI increased in Q1 2012, first rise in eight quarters
- RPAI decreased in Q2 2010 and has fallen by 25% since
- Shop values have recently fallen by 2% and the outlook is for further falls

# Retail initial yields

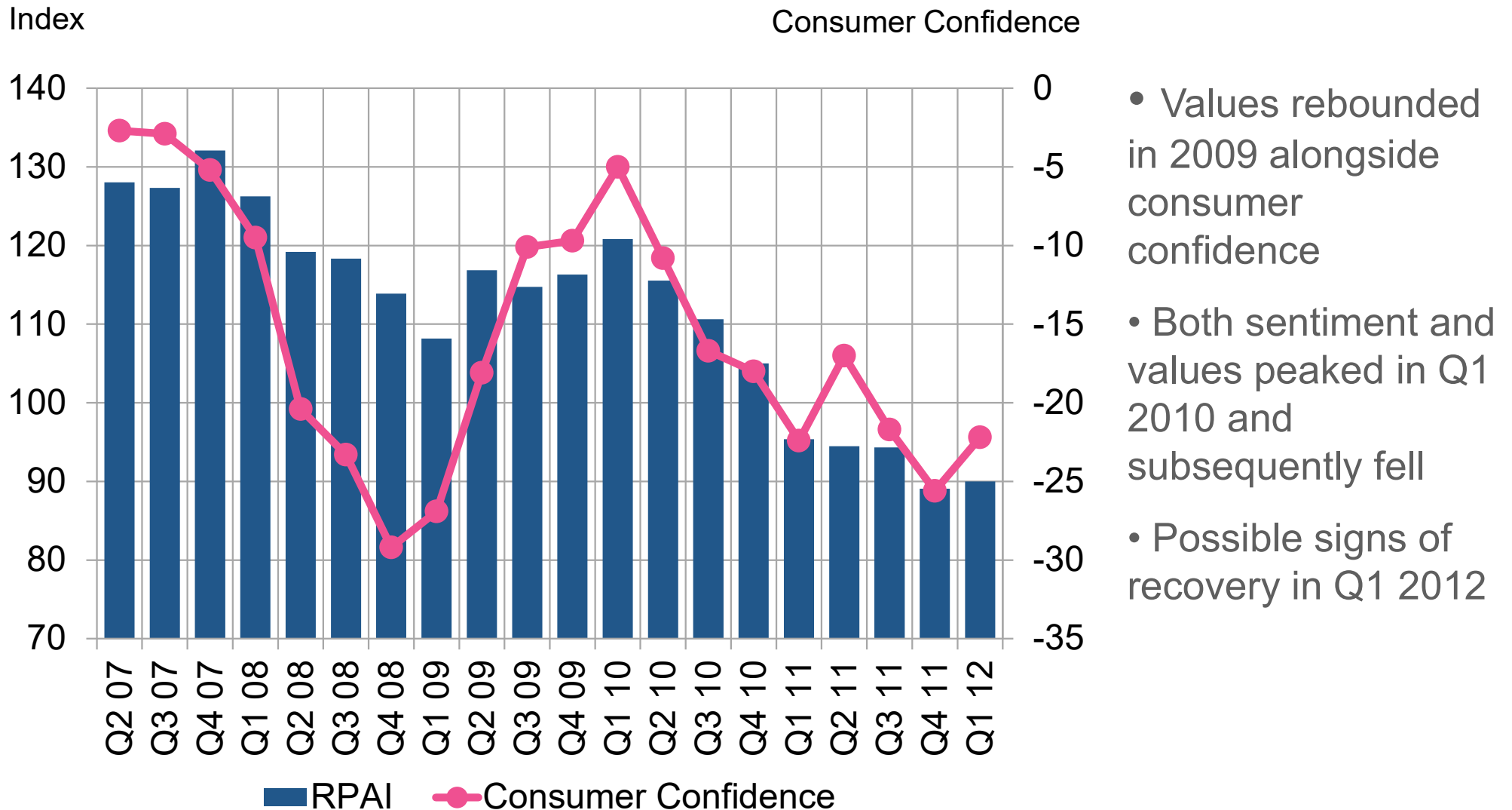
## Average initial yields at auction vs. wider market



- Average yields at auction now at all-time high of 7.5%
- Initial yields in the auction room have risen for six of the last seven quarters
- IPD standard shop yields have risen for the last two quarters to 5.6%

# RPAI is sensitive to changes in sentiment

Price index of retail property sold at auction vs. consumer confidence



Source: DG ECFIN

# The legal bit

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## IPD

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# What's happening today

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# Who is selling

- Receivers and administrators
- Motivated owners unable to refinance
- Institutions selling the smaller properties
- Owners of Central London properties wishing to capitalise on high buyer demand
- Corporate sale and leasebacks tapping into demand by private investors for secure income
- Owners concerned about the difficulties and capex issues of managing short term leases



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# Who is buying

- Overseas in central London
- “Local” and national private investors looking for 10 year + secure income at today’s rents
- “Local” and national property companies taking advantage of “realistic” pricing to carry out asset management and hold as a “cash cow”



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# Funding market

- Finance is available for experienced commercial investment clients
- The new regulations mean higher margins as banks look to maintain their return on capital
- Only the best deals with reasonable loan sizes can obtain margins beginning with a 2 for new deals, the majority of deals are now priced at a margin over 3%.
- This has resulted in some of the lenders who supported commercial property in the past withdrawing from new business like Nationwide and Clydesdale/Yorkshire.
- The good news is that some banks are allowing property investors to access the governments reduced interest margin scheme
- Non bank finance from insurance companies is focussed primarily on property valued in excess of £8/10 million.
- Some specialist funds are starting to work with property companies or large investors on a joint venture or return on capital basis.



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# Activity

- Flat, but generally lack of product offered at realistic prices rather than a lack of buyers
- What is offered by administrators and receivers is selling but pricing levels have to be proved
- Greater acceptance by sellers that prices have fallen but differing expectations of when they will recover and this impacts on pricing realism. Pricing ahead of marketing is a challenge
- An increasing number of properties as banks begin to unwind their loan books of the smaller assets has been slower to materialise

2012 February – May

114 properties sold

£65,000,000 raised

Acuitus May  
sale rate 83%

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# Prices

- Prices for good investments with long leases remain fairly stable but.....
- The rest has seen some steep price falls over the last 6 months.
- Price levels have hit base and “valuations are tumbling after”
- Pricing gap between institutional prime and property company secondary has levelled out for the moment

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# Recent sales: the good, the bad and the ugly



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# May 2012 – Central London

## 19 Crown Passage, St James's, London SW1



- Sale Price - £975,000
- Price /sq ft £1,219
- Vacant possession

Source: Acuitus



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# May 2012 – Central London

84 Gloucester Place, London, W1U 6AU



- Sale Price - £5,050,000
- Price /sq ft £720
- Vacant possession
- Former embassy

Source: Acuitus



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# March 2012 – Bank

35 Market Square, Leighton Buzzard, Bedfordshire LU7 1EU



- Sale Price - £780,000
- 4.79% NIY:
- Lloyds TSB Bank until 2022

Source: Acuitus



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# March 2012 – Corporate sale and leaseback

40 Market Place, Cirencester, Gloucestershire GL7 2NW



- Sale Price - £320,000
- 5.96% NIY
- Sue Ryder until 2022

Source: Acuitus



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# May 2012 – Convenience store

165 North Street, Glasgow



- Sale Price – 865,000
- 6.01% NIY
- Tesco until 2025

Source: Acuitus



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# May 2012 – leisure London suburbs

Hillfield Park, Muswell Hill, London N10 3PJ



- Sale Price - £2,601,000
- 8.62% NIY
- Let to LA Fitness until 2041
- £16.00/sq ft

Source: Acuitus



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# May 2012 – Regional business park

3100 Century Way, Leeds LS15 8ZB



- Sale Price - £2,825,000
- 13.70% NIY: £122.sq/ft
- Let to Atkins until 2018
- Rent: £16.75/sq ft

Source: Acuitus



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# March 2012 – Multi-let industrial

Crigglestone Industrial Estate, Wakefield, West Yorkshire WF4 3HT



- Sale Price - £722,000
- 9.71% NIY:
- Multi-let on short leases

Source: Acuitus



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# May 2012 – Retail warehouse

Staples, Huntingdon Street, Nottingham NG1 3NL



- Sale Price - £1,330,000
- 13.01% NIY
- Let to Staples until 2015
- Rent: £12.00/sq ft

Source: Acuitus



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# May 2012 – Home counties office

27 Kings Road, Reading RG1 3AR



- Sale Price - £1,400,000
- 19.77% NIY: £96/sq ft
- Let to a single tenant until 2015
- Rent: £19.00/sq ft

Source: Acuitus



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# May 2012 – Regional office

Vespasian House, Bridport Road, Dorchester, Dorset DT1 1BX



- Sale Price - £1,300,000
- 15.78% NIY: £44/sq ft
- Multi - let to Primary Care Trust until 2015
- Rent: £7.00/sq ft

Source: Acuitus



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# May 2012 – City centre retail and office

Gladstone Buildings, Church Street and St James's Row, Sheffield S1 2EU



- Sale Price - £910,000
- 14.32% NIY: £55/sq ft
- Multi - let offices and shops on short leases with vacant offices

Source: Acuitus



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# May 2012 – Regional office

59 Ruchill Street, Glasgow G20 9PX



- Sale Price - £745,000
- 34.44% NIY: £10/sq ft
- Multi - let offices on short leases expiring in 2013 with vacant space

Source: Acuitus



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# A summary of buyer sentiment

- Long lease and London properties a safe haven but could it be over-priced?
- There is demand for the rest but only if **all** potential downsides are factored into price
- No price rises until the debt market and GDP growth “normalise”
- Higher yielding assets will come to market as lenders unwind loans but working with current borrowers is still the preferred route
- Good buying opportunities for those with the knowledge and skill....and money!
- Owners without knowledge and skill will struggle and valuations will fall further




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# Next steps

- cPad June report is available today
- Let us know if you would like to discuss any aspect of this presentation
- Contact Acuitus or IPD if you would like to know more about 
- Visit our new web site [www.acuitus.co.uk](http://www.acuitus.co.uk)
- Join us at our next auction on the 10<sup>th</sup> July 2012 or at our future auctions on
  - 18<sup>th</sup> October 2012
  - 6<sup>th</sup> December 2012



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