

COMMERCIAL PROPERTY AUCTION DATA (CPAD) REPORT SEPTEMBER 2015

Prepared by MSCI in association with Acuitus



INTRODUCTION

Welcome to the latest Commercial Property Auction Data (cPad) Market Flash which analyses the £141m of commercial property assets that sold at auction during the latest round of auctions in July.

The July auctions showed an exceptional sale rate of 92% with all the office and London assets offered finding buyers. Demand remains well ahead of supply with many owners still choose to retain assets rather than sell. The difficulty of re-investing sale proceeds and finding an equivalent return is one reason why some owners prefer to hold.

Average yield softened slightly in July but this was a consequence of a larger number of secondary properties being offered rather than a weakening in prices.

Sellers see that investors are prepared to take more risk for properties which offer active management opportunities and are meeting this demand with secondary properties which fit this profile. This trend was reflected in the 100% sale rate of office properties – many of which provided opportunities for alternative use.

The strength of the London market was once again demonstrated by the latest sales as average yields hardened by 26 basis points to stand at 5.72%. However, the commercial property auction room is now less dependent on the demand for London assets – only 13% of the lots offered in July were located in the Capital.

We hope you find this cPad Market Flash useful and would be pleased to discuss any of the points that it raises.

KEY STATS

▼ 5.72%

Average yield for London properties down

▲ 92%

Sales rate increased to 92%

▲ 4%

Volumes up 4% year-on-year to £141m

▲ 100%

Sale rate for office properties

CPAD

cPad is a joint initiative between Acuitus and MSCI utilising auction sales data from EIG to provide a unique perspective on the commercial property market for private investors and private property companies. The aim is to create a valuable snapshot of today's market and help investors shape their future investment strategy.

IN THE AUCTION ROOM

BUYERS AND SELLERS MORE ALIGNED

At £141m commercial auction market activity remained firm up 4% by value on July 2014. 205 properties were sold compared with 216 the previous year.

Retail accounted for 60% by value with offices rising to 24% of the total amount and leisure standing at 10%. Every office property offered for sale at the July auctions found a buyer – despite having an average lot size of £1.3m which was double that of the average retail investment.

With one of the highest sale rates ever recorded at 92%, demand remains in excess of supply with owners still preferring to retain assets rather than sell. The difficulty in the re-investment of the proceeds of sale to provide an equivalent return is one reason why some owners are opting to hold.

Only 13% of the amount traded was in London with 87% outside London. The wide reach of the auction market place is attractive to owners of assets outside London where buyer demand is more fragmented and difficult to identify. This reflects a general trend in the property investment market, which is seeing investors' search for income and asset management opportunities driving activity beyond London. Demand for assets in London remains strong with a significant undersupply. Those properties that do reach the market place sell well with 100% of London investments readily finding buyers in July.

There is evidence to demonstrate an increase in lot sizes with 21% by number being over £1m compared with 16% in July 2015. High net-worth investors and the larger property companies are looking for assets in the £2m-£7.5m+ range but the number of assets available on an individual asset basis is constrained. With increasing wealth and a normalisation of the lending market, the trend for larger assets will continue with the smaller assets tending to be bought by new entrants to the market.

COMMERCIAL PROPERTY AUCTION SALES SUMMARY

SECTOR		JUL 2015	MAY 2015
VOLUME (£ MILLION)	▲	140.6	100.3
PROPERTIES SOLD	▲	205	185
AVERAGE LOT SIZE (£)	▲	685,751	542,303
SALES RATE	▲	91.5%	82.6%

COMMERCIAL PROPERTY AUCTION SALES (£ MILLION)

SECTOR		JUL 2015	MAY 2015
RETAIL	▲	84.5	64.2
OFFICE	▲	33.9	14.0
INDUSTRIAL	▲	4.5	3.0
LEISURE	▼	14.5	17.5
OTHER	▲	3.1	1.7

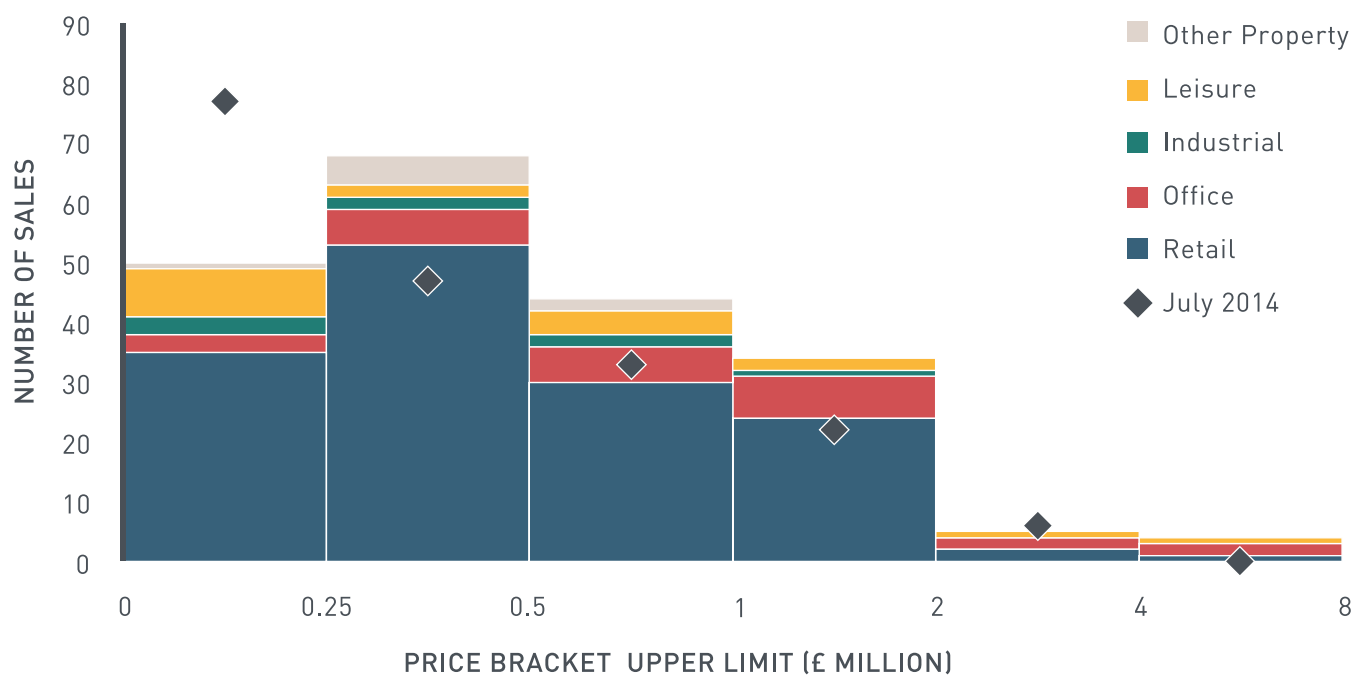
REGION		JUL 2015	MAY 2015
LONDON	▲	17.6	10.0
REST OF UK	▲	123.0	90.4

COMMERCIAL PROPERTY AUCTION SALE RATE (%)

SECTOR		JUL 2015	MAY 2015
RETAIL	▲	92%	80%
OFFICE	▲	100%	88%
INDUSTRIAL	▼	89%	100%
LEISURE	▼	80%	88%
OTHER	▼	81%	86%

REGION		JUL 2015	MAY 2015
LONDON	▲	100%	82%
REST OF UK	▲	91%	83%

COMMERCIAL PROPERTY AUCTION SALES BY PRICE BAND



Source: cPad

IN THE MARKET

YIELDS HARDEN FOR LEISURE, LONDON AND INDUSTRIAL

To give a more useful indicator of underlying yield trends, cPad provides a Rolling Average Yield (RAY) rather than a spot yield. This will smooth out the wide variation in yields that can occur between auction rounds in a single year. These variations are caused by the sample size and the differences in the basket of properties sold. The RAY is a moving average of the current and four preceding auction rounds in a 12-month period.

Overall, average yields showed little change from the May round of auctions with the all-property average yield rising 6 basis points(bp) to 8.82% from 8.76%. This reflected a greater number of higher yielding assets entering the market as sellers perceived an increased appetite from property companies to look at the more secondary property, where they may be able to add value. The secondary yield weakened slightly from 10.04% to 10.14%.

At the prime, better quality end of the investment spectrum competition from buyers was strong although the prime yield showed a slight weakening from 6.34% to 6.54%.

The property sector yields for retail and office investments recorded small rises with industrial and leisure showing small falls. The sector yields stand at retail at 8.62% (+20bp); office at 10.62% (+26bp); leisure at 8.46% (-32bp). Industrial is 8.90% (-34bp)

The strength of the London market is demonstrated with a hardening of yields by 26bp to stand at 5.72%.

Outside of London, average yields weakened slightly from 9.00% to 9.08% reflecting investor appetite to take more risk. Buyer interest continues to deepen over a wider range of property sectors and locations as GDP and real incomes rise while the lending market normalises. However, there has yet to be seen sustained and significant downward pressure in yields as investors still attach risk to rental growth, occupier demand and the physical obsolescence of the buildings.



The 43,468 sq ft United House in York which as permitted development rights for residential conversion sold for £6.02m (July 2015)

SPOT YIELD SUMMARY

ALL PROPERTY		JUL 2015	MAY 2015
AVERAGE INITIAL YIELD	▼	8.7%	9.0%
LOWER YIELD QUARTILE	▲	6.7%	6.5%
UPPER YIELD QUARTILE	▼	10.2%	10.8%
YIELD BY UNEXPIRED LEASE TERM		MAY 2015	MAR 2015
0-5 YEARS	▲	9.8%	8.8%
6-10 YEARS	-	8.9%	8.9%
11-15 YEARS	▼	6.5%	8.0%

YIELD BY VALUE BAND		MAY 2015	MAR 2015
£0 - £250,000	▲	9.0%	8.2%
£250,000 - £500,000	▲	9.1%	6.6%
£500,000 - £1 MILLION	▲	8.8%	5.4%
£1 MILLION+	▼	7.7%	10.0%

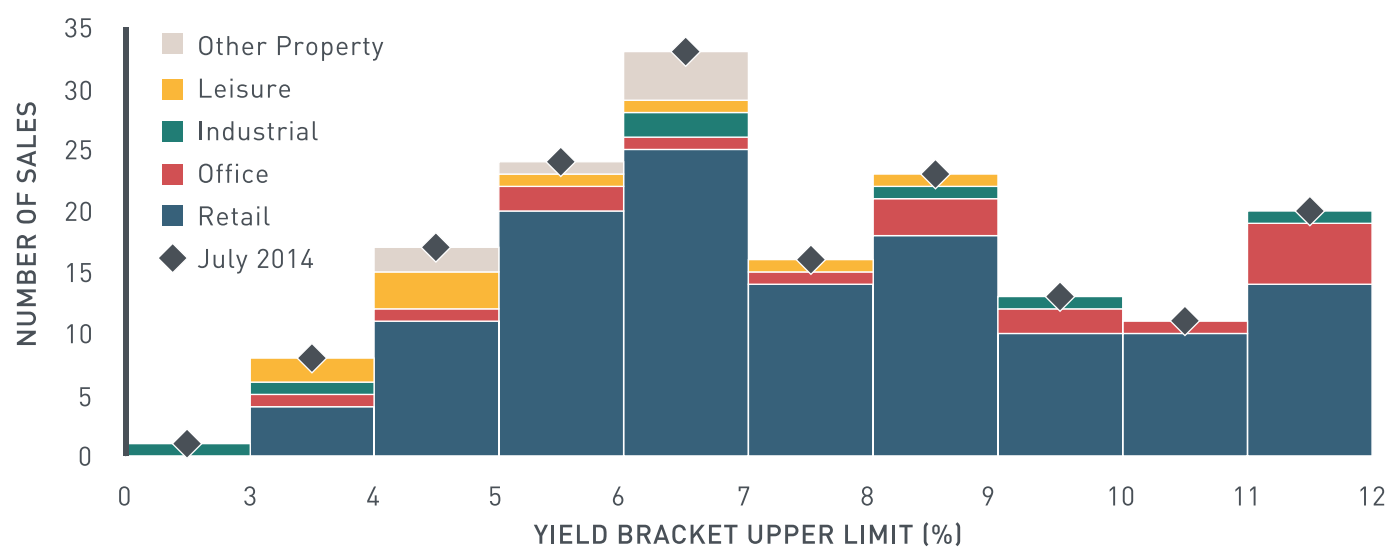
SPOT YIELD SUMMARY BY SECTOR

SECTOR		JUL 2015	MAY 2015
RETAIL	▲	8.8%	8.7%
OFFICE	▼	10.1%	11.2%
INDUSTRIAL	▲	8.9%	8.7%
LEISURE	▼	6.3%	9.3%
OTHER	▼	6.8%	8.0%

SPOT YIELD SUMMARY BY REGION

REGION		JUL 2015	MAY 2015
LONDON	▲	6.7%	6.5%
REST OF UK	▼	10.2%	10.8%

SPOT YIELD SUMMARY BY YIELD BAND



Source: cPad

UK RETAIL MARKET ANALYSIS

RETAIL RECOVERY CONTINUES AS INVESTOR DEMAND GROWS

The UK retail sector has performed strongly in the first half of 2015 with the recovery in capital values finally reaching beyond London and the South East as confidence grows. The broadly positive economic news in the UK have fuelled improvement in the retail trade, but equally a growing appetite by real estate investors for income producing assets has buoyed demand in the sector.

Nationally, there has been a dramatic improvement in retail property values as demand from the investment market increases in 2015. In the seven months to the end of July 2015 standard retail capital values have risen by 2.5%, mostly due to yield compression as investor demand grows. Average initial yields have fallen from 5.5% to 5.3% over the corresponding period reflective of this investor demand. Despite the significant improvements in the national market, growth levels in London and the South East have continued to eclipse regional performance with a further 4.4% value growth between January and July 2015.

According to the *IPD UK Monthly Property Index*, in the three months to the end of July 2015, UK Standard Retail Property provided a total return of 2.7% quarter-on-quarter (q/q), as capital values grew by 1.3% q/q and rents by 0.1% q/q.

Retail continued to underperform the broader property market, with UK All Property posting a quarterly return of 3.8% q/q as capital value growth of 2.4% q/q over the same period drove investor returns higher.

Consumer confidence levels in the UK had moderated marginally in the summer of 2015, but still remain at the highest levels seen since pre-crisis days in 2006. As a result optimism in the retail trade has improved. This has led to increased demand from both investors and occupiers. The improving investor demand was marked by a positive yield impact of 1.0% q/q in the three months to July as competition to secure assets grows. The occupier performance has been somewhat more muted, with standard retail rental values growing by only 0.1% q/q, but given that rents had been decline for almost five years the sustained growth is nonetheless welcome.

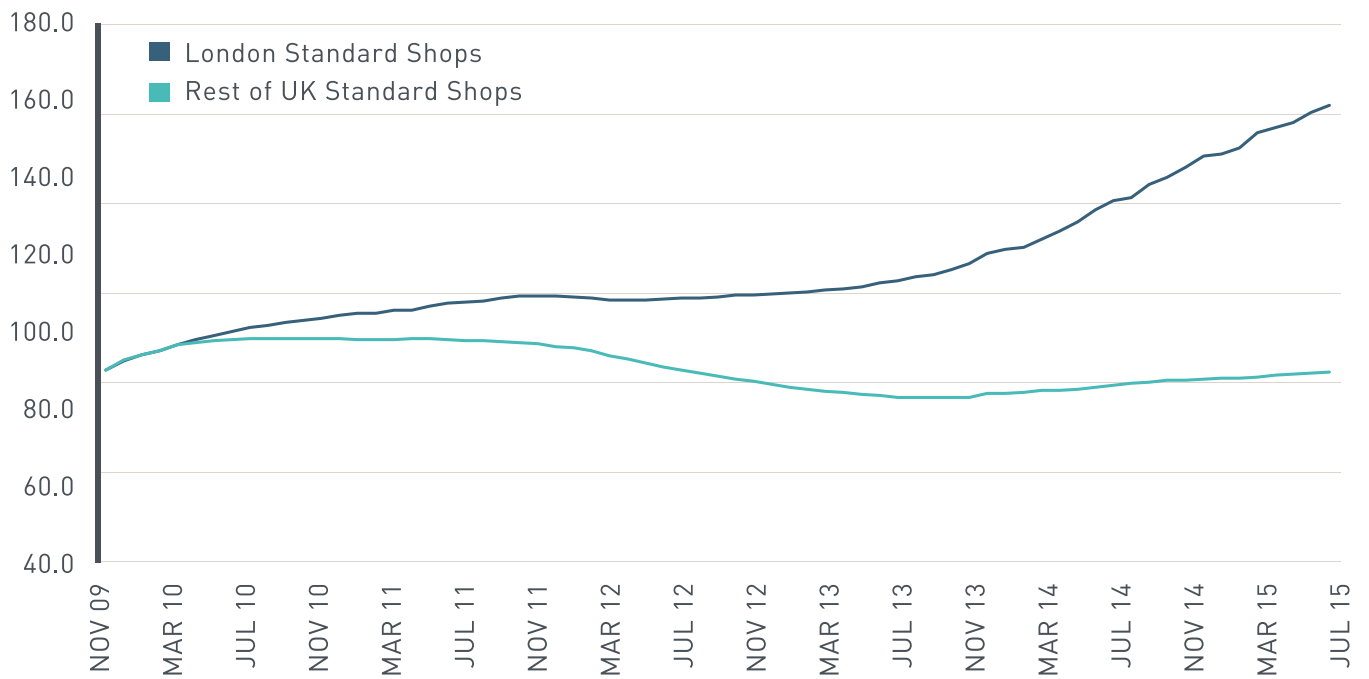
The standard retail sector in the UK has already shown signs of sustained growth throughout 2015, with quarterly returns rising from 2.3% q/q in January to 2.7% q/q by July. The improving momentum in both rents and yields, combined with warming consumer and retailer confidence, paint a positive picture for the sector in 2015.

STANDARD SHOPS CAPITAL VALUE INDICES BY REGION (MONTHLY)



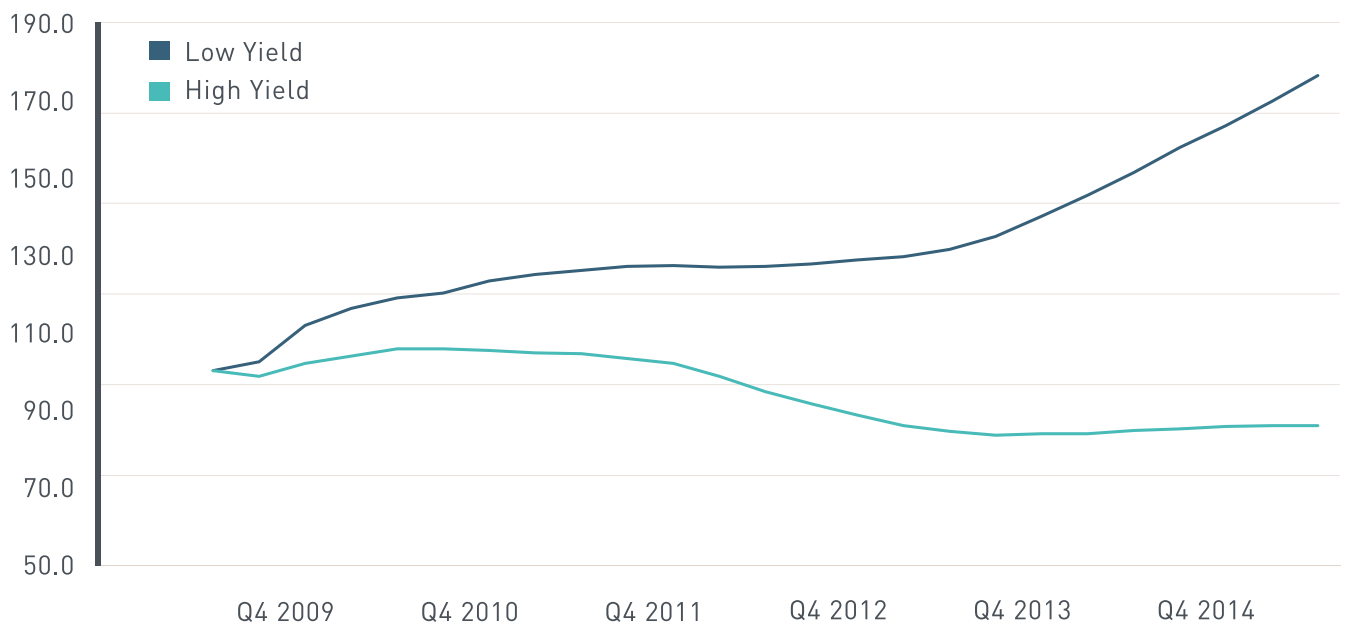
Source: *IPD UK Monthly Property Index*

STANDARD SHOPS THREE-MONTH ROLLING CAPITAL VALUE CHANGE (%)



Source: IPD UK Monthly Property Index

STANDARD SHOPS CAPITAL VALUE INDICES BY YIELD (QUARTERLY)



Source: IPD UK Monthly Property Index

ECONOMIC SCORE CARD

ECONOMIC SCORE CARD AVERAGE

The UK economy appears to have moved into a period of relative stabilisation in recent months. The pace of economic growth has remained consistent, unemployment levels too have stabilised, even increasing marginally, but overall there have been broad improvements in performance compared to the same period last year. Inflation remains a challenge as price growth remains well behind the Bank of England target rate, while any interest rate hikes are likely to be stymied by concerns for UK economic growth in 2016.

The Economic Score card stabilised at 6.2 in September 2015, unchanged from the June 2015 score. However, as the year enters its final third concerns abound as growth slowed in China and other BRIC's economies, providing further uncertainty for the closing months of 2015.

ECONOMIC SCORE CARD AVERAGE	2007				2008				2009				2010				2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	6.9	7.0	6.5	6.2	5.7	4.0	1.6	1.7	2.4	4.4	5.9	6.5	6.6	5.5	5.7	5.3	5.1	5.3	2.3	4.3	4.7	5.4	5.6	6.6	6.4	6.4	7.0	6.9	6.3	6.6	6.2	6.1	6.2	5.9	6.2
Inflation (CPI y/y)	6	7	5	6	7	4	1	6	7	5	3	7	5	6	6	4	3	3	1	3	5	7	6	7	7	7	7	6	4	5	3	1	1	1	1
FTSE All-Share (q/q)	7	7	5	6	2	5	1	1	2	7	7	7	7	1	7	7	6	6	1	7	7	4	7	7	7	5	7	7	5	6	5	6	7	5	7
Nationwide House Price Index (q/q)	7	7	7	6	3	1	1	1	3	7	7	7	7	7	4	4	7	6	5	6	5	5	6	6	7	7	7	7	7	7	7	7	7	7	7
Consumer confidence	7	7	7	7	7	4	3	1	2	4	7	7	7	6	5	4	3	5	3	2	3	3	4	5	4	5	7	7	7	7	7	7	7	7	7
Unemployment expectations	7	7	7	7	7	6	3	1	1	2	4	4	6	5	4	4	3	5	4	4	4	5	6	7	7	7	7	7	7	7	7	7	7	7	7
Retail trade confidence	7	7	7	6	7	4	1	1	1	4	7	7	7	6	7	7	7	6	1	4	4	7	5	7	6	7	7	7	7	7	7	7	7	7	7
Expected retail trade	7	7	7	5	7	4	1	1	1	2	6	7	7	7	7	7	7	6	1	4	5	7	5	7	7	7	7	7	7	7	7	7	7	7	7

Source: IPD, ONS, EcoWin, Nationwide

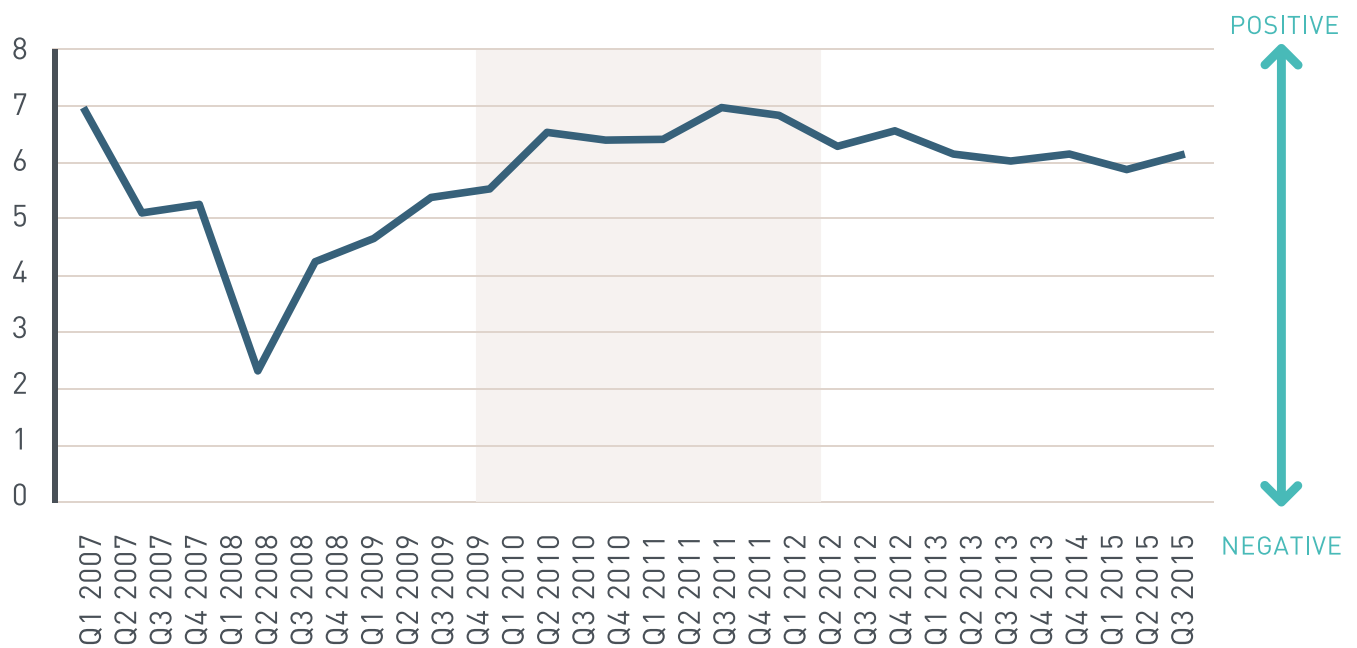
SCORE CARD KEY

7	6	5	4	3	2	1
Fully functioning market		Partially functioning market		Impaired market function		Severely impaired function

The Economic Score Card is an economic indicator tailored to monitor the health of consumers and retailers. For each component, a score of seven is awarded if the data point is greater than its 10-year average.

For every third of a standard deviation the data point is below the average, the score is reduced by one. Each score contributes to the overall average, which is weighted using the same methodology as the European Commission's ESI methodology.

ECONOMIC SCORE CARD AVERAGE



Source: IPD, ONS, EcoWin, Nationwide



An Odeon cinema investment in Banbury Cross sold for £2.2m at a yield of 5.5% (July 2015)

ECONOMIC SCORE CARD VARIABLES	SCORE	MAR 2015	10-YR AVG	ANALYSIS
ECONOMIC SCORE CARD AVERAGE	6.2	6.2	5.6	The Economic Score Card Average stabilised during the three months to the end of September 2015 to close at 6.2, effectively unchanged from the June 2015 figure although showing a decrease from the 6.8 level posted in March. Nonetheless, the score card average remained high suggesting that the UK economy remains a largely healthy and full functioning market. The September 2015 score was also significantly above the 6.0 level recorded at the end of December 2014.
INFLATION (CPI Y/Y)*	1	0.1%	2.5	The rate of inflation in the UK recovered marginally from June's record low of -0.1% to show a 0.1% increase in the three months to September 2015. According to the Office for National Statistics (ONS) cheaper clothing and grocery prices were the main contributors to the continued low rate. The -0.1% rate recorded in June was the lowest recorded since the Consumer Prices Index (CPI) measure started to be recorded in the 1980's. Despite a positive turn since then, the current inflation figure remained well below the Bank of England's target of around 2%.
FTSE ALL SHARE (Q/Q)	7	2.3%	1.0%	The UK General Election in May 2015 had threatened to put the brakes on what had been a significant growth period for the FTSE 100 index, but with post-election political certainty, at least domestically, the market returned to business as usual in early summer. In the run up to July 2015, UK equities rallied somewhat and the pound gained against the Euro and US Dollar, however growth headwinds remained ahead. Slower growth prospects, following a year-long bull run by the UK equities market when an all-time high was reached in April 2015, look likely. External factors, particularly a China slowdown and weakening economies in other BRIC nations have weighed heavily on market sentiment in recent months as much of the earlier 2015 gains are eroded.
NATIONWIDE HOUSE PRICE INDEX (Q/Q)	7	1.0%	0.5%	Annual house price growth edged upwards in July 2015, with a national rise of 0.4% for the month. On an annualised level, UK house prices are now 3.5% higher than at the same point in 2014, compared to 3.3% higher in June 2015. House price growth had moderated in recent months, particularly in the run up to the general election, but there are signs emerging that house prices may be finally stabilising closer to the level of income growth, which has historically averaged around 4% per annum.

* Scoring is based upon deviation (either above or below) from the Bank of England's target CPI rate of 2%

ECONOMIC SCORE CARD VARIABLES	SCORE	MAR 2015	10-YR AVG	ANALYSIS
CONSUMER CONFIDENCE	7	3	-10	UK Consumer Confidence remained positive in the three months to September 2015, with an average score of 3 recorded. This is a moderation of the positive score of 7 recorded in the previous quarter, but nonetheless consumer confidence levels remain at their highest position since pre-crisis days in 2006. However, going into September concerns about the general economic situation, both in the UK and abroad, weigh on consumers' minds hence the recent contraction in confidence levels.
UNEMPLOYMENT EXPECTATIONS**	7	6	32	The UK unemployment rate rose unexpectedly for the first time in two years during the three months March-to-May 2015, in the latest data available from the Office for National Statistics (ONS). The ONS said that 1.85 million people were unemployed during this period, an increase of 15,000 from the previous quarter, equating to a jobless rate of 5.6%. However, employment and wage expectations remain positive, with average weekly earnings (including bonuses) rising at the fastest rate in over five years, with an annual increase of 3.2% in the three months to June 2015.
RETAIL TRADE CONFIDENCE	7	12	0	Retail Trade Confidence remains high in the UK, despite some recent moderation in Consumer Confidence. The volume of retail sales has continued to increase in the UK market, with August figures showing an increase in the pace of growth, largely thanks to a supermarket bounce back and strong demand for summer clothing. The pick-up in grocery sales was particularly noteworthy following a period of stagnation for much of 2015.
EXPECTED RETAIL TRADE	7	21	11	The latest CBI Retail Survey has shown that retailers are hoping for a pick-up in sales in the months from September to Christmas. Major retailers also believe that conditions on the high street are now considerably better than normal for this time of year (August, September). Crucially, the survey also showed that UK retailers have taken a more positive future outlook and planned to invest and hire more staff for the first time in nine months.

** Scoring is inverted. (High value equals low score)

Sources: MSCI, ONS, EcoWin, Nationwide



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