

COMMERCIAL PROPERTY AUCTION DATA (CPAD) REPORT JUNE 2015

Prepared by MSCI in association with Acuitus



INTRODUCTION

Welcome to the latest Commercial Property Auction Data (cPad) Market Flash which analyses the £100m of commercial property assets that sold at auction during the latest round of auctions in May.

The 11% year-on-year increase in properties sold and the improvement of the sale rate from 70% to 83% suggests a market in better balance. There is certainly more alignment of the expectations of buyers and sellers, but the sector is still being held back by a relative lack of supply.

The overall average yield and average prime yield stand at 8.7% and 6.3% respectively, and there is more current demand than supply.

There is also a whole new raft of private investors waiting in the wings to enter the market if it can supply the type of assets that fit their criteria.

However, the conundrum of under supply continues and it is hard not to ask in exasperation: "What are some sellers waiting for?".

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

KEY STATS

▼ 6.34%

Average Prime Yield

▲ 83%

Sales Rate Increased
from 70%

▲ 11%

Year-on-Year Rise in
Properties Sold

▲ 2ND

Leisure was the Second
Largest Asset Group Traded

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

Just over £100m of commercial investments were traded in the May round of auctions which corresponds almost exactly with the same period in 2014. The number of properties sold rose by 11% to 185 and the average price achieved was £542,000.

However, there was a substantial increase in the sale rate which rose from 70% in 2014 to 83% in the latest round of auctions.

This is a result of the pricing required by sellers now being more closely aligned with what buyers are willing to pay.

Increased occupier demand, improved availability of debt – albeit still restricted to the better quality, longer let properties – and slowly recovering levels of personal wealth have all contributed to higher sale rates. Unfortunately, the supply of assets coming into the auction room is still well below the level of investor demand – especially with regard to better quality assets and properties in London and the South East.

Retail remains the dominant asset type and accounted for 64% of properties sold while leisure has become the second largest sector and accounted for 17% of the properties sold in May.

A perceived recovery in the balance sheets of some of the pub, gym, cinema and bingo companies has got investors looking at this sector again. The long leases these companies take on are especially attractive to investors looking for long-term income.

The proportion of the London properties fell to 10% of all properties sold. This is low and paradoxical bearing in mind the huge demand from investors for assets in the capital.

The corollary of this is that the rest of the UK accounts for 90% of properties sold which illustrates the broad base of buyers and that there is a market for assets outside of the Capital.

COMMERCIAL PROPERTY AUCTION SALES SUMMARY

SECTOR		MAY 2015	MAR 2015
VOLUME (£ MILLION)	▼	100.3	171.1
PROPERTIES SOLD	▼	185	232
AVERAGE LOT SIZE (£)	▼	542,303	737,446
SALES RATE	▼	82.6%	86.3%

COMMERCIAL PROPERTY AUCTION SALES (£ MILLION)

SECTOR		MAY 2015	MAR 2015
RETAIL	▼	64.2	107.8
OFFICE	▼	14.0	17.6
INDUSTRIAL	▼	3.0	7.9
LEISURE	▲	17.5	6.5
OTHER	▼	1.7	12.4

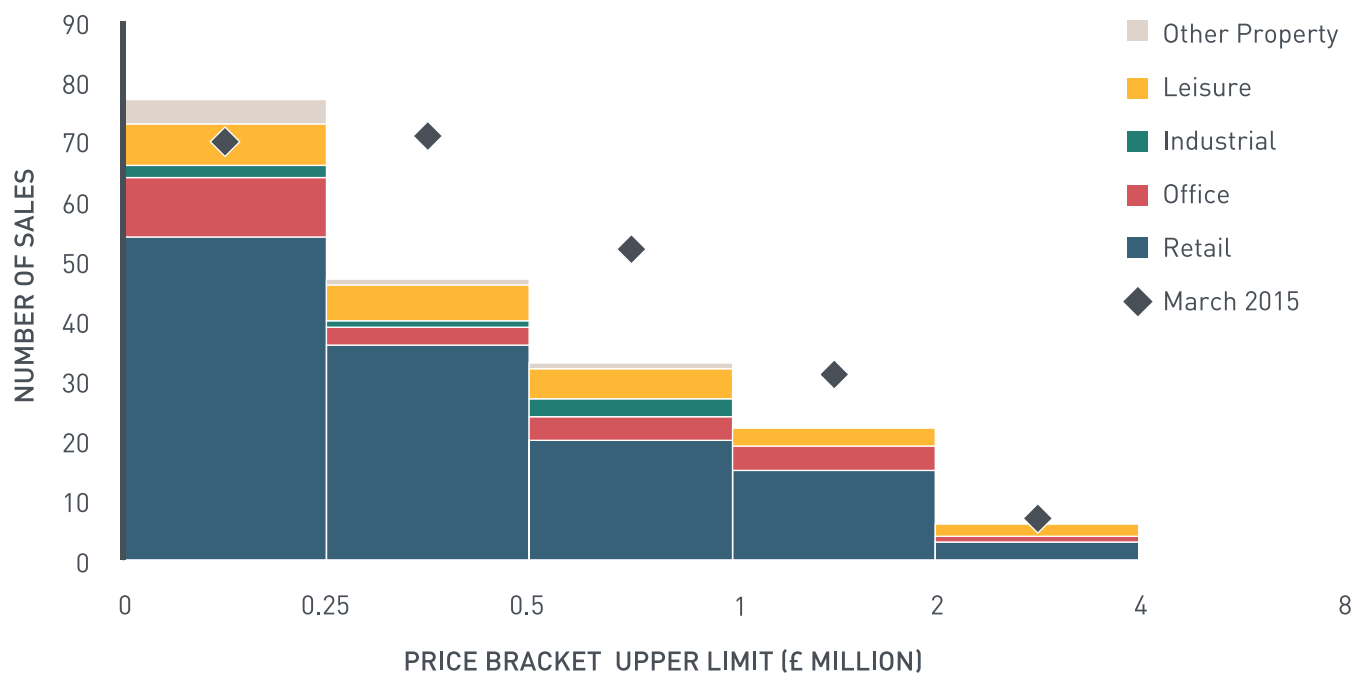
REGION		MAY 2015	MAR 2015
LONDON	▼	10.0	31.7
REST OF UK	▼	90.4	139.3

COMMERCIAL PROPERTY AUCTION SALE RATE (%)

SECTOR		MAY 2015	MAR 2015
RETAIL	▼	80%	88%
OFFICE	▲	88%	87%
INDUSTRIAL	▲	100%	75%
LEISURE	▼	88%	93%
OTHER	▲	86%	74%

REGION		MAY 2015	MAR 2015
LONDON	▼	82%	89%
REST OF UK	▼	83%	86%

COMMERCIAL PROPERTY AUCTION SALES BY PRICE BAND



IN THE MARKET

PRIME YIELD HARDENS BUT SECONDARY ALSO IN FAVOUR

To give a more useful indicator of underlying yield trends, cPad now gives a Rolling Average Yield (RAY) rather than a spot yield. This will smooth out the 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 a slight weakening from the February/March round of auctions with the average yield rising 14 basis points (bp) to 8.76% from 8.62%. Instead of being a reflection of weakening prices, this was due to a greater number of higher yielding assets entering the market as sellers sensed an increased appetite from property companies for more secondary assets. The higher yielding secondary yield rose slightly from 9.95% to 10.14%.

At the prime, better quality end of the investment spectrum competition from buyers was strong with the prime yield hardening from 6.42% to 6.34%.

The property sector yields for retail, office and leisure investments recorded small rises with industrial showing a small fall. The sector yields were retail at 8.42% (+8bp); office at 10.36% (+11bp); leisure at 8.78% (+20bp); and industrial at 9.24% (-28bp).

The strength of the London market was emphasised by yields hardening by 34bp to stand at 5.98%.

Outside London, average yields weakened slightly from 8.87% to 9.00%. Whilst buyer interest has deepened with improved economic growth in the regions, the rise in GDP has still to filter its way in all areas into higher demand for space by occupiers or into higher disposable incomes.

Voids and over-rented retail properties are still a risk and careful pricing is required if sellers are to capture buyer interest. Additionally, higher yielding assets which have risks attached and require a lot of asset management are now being released into the market from investment funds who have acquired loan portfolios.



The Odeon cinema in Foregate Street, Worcester sold for a global investment manager achieved £1.54m at a yield of 6.3% (May 2015)

SPOT YIELD SUMMARY

ALL PROPERTY		MAY 2015	MAR 2015
AVERAGE INITIAL YIELD	▲	9.0%	8.6%
LOWER YIELD QUARTILE	▲	6.5%	6.4%
UPPER YIELD QUARTILE	▲	10.8%	10.0%
YIELD BY UNEXPIRED LEASE TERM		MAY 2015	MAR 2015
0-5 YEARS	▼	8.8%	9.8%
6-15 YEARS	▲	8.9%	8.6%
16 YEARS+	▲	8.2%	6.9%

YIELD BY VALUE BAND		MAY 2015	MAR 2015
£0 - £250,000	▼	8.6%	9.0%
£250,000 - £500,000	▲	8.9%	8.6%
£500,000 - £1 MILLION	▲	9.2%	8.4%
£1 MILLION+	▲	9.8%	8.5%

SPOT YIELD SUMMARY BY SECTOR

SECTOR		MAY 2015	MAR 2015
RETAIL	▲	8.7%	8.3%
OFFICE	▼	11.2%	12.9%
INDUSTRIAL	-	8.7%	8.7%
LEISURE	▲	9.3%	7.3%
OTHER	▼	8.0%	8.9%

SPOT YIELD SUMMARY BY REGION

REGION		MAY 2015	MAR 2015
LONDON	▲	6.5%	6.4%
REST OF UK	▲	10.8%	10.0%

ROLLING AVERAGES

5 SERIES ROLLING	MAY 2015	FEB/MAR 2015
AVERAGE YIELD	8.76%	8.62%
LOWER QUARTILE	6.34%	6.42%
UPPER QUARTILE	10.14%	9.95%

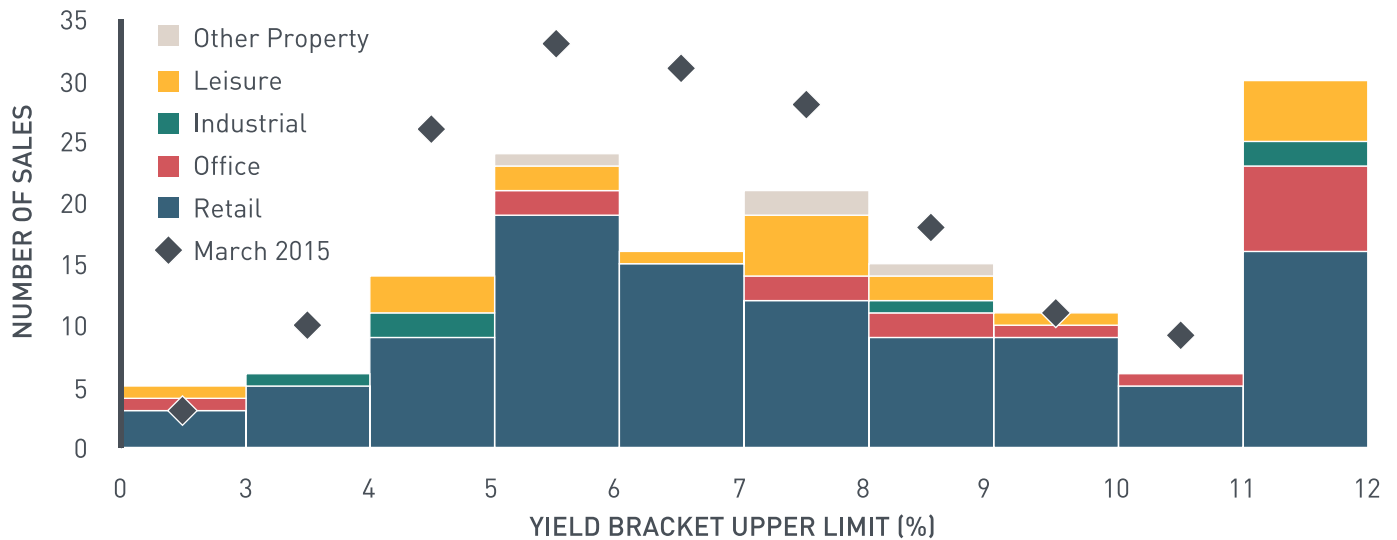
ROLLING AVERAGES SUMMARY BY SECTOR

SECTOR	MAY 2015	FEB/MAR 2015
RETAIL	8.42%	8.34%
OFFICE	10.36%	10.25%
INDUSTRIAL	9.24%	9.52%
LEISURE	8.78%	8.58%

ROLLING AVERAGES SUMMARY BY REGION

REGION	MAY 2015	FEB/MAR 2015
LONDON	5.98%	6.32%
REST OF UK	9.00%	8.87%

SPOT YIELD SUMMARY BY YIELD BAND



The Stonegate is a freehold public house investment let to Mitchells & Butlers Retail until 2017 which produces £89,000pax. It sold for £1.5m at a yield of 5.5% (May 2015)

UK RETAIL MARKET ANALYSIS

RETAIL RECOVERY BROADENS ON UPBEAT ECONOMIC PERFORMANCE

The significant economic improvements in the UK have finally started to be felt by the retail sector, particularly for beleaguered regional retail markets where, until recently, values had continued to fall in the majority of locations. Nationally, there has been a dramatic resurgence in the retail property investment market during 2015, as the strong recovery in London and the South East stems out further afield as investors move beyond their London safety zone.

The early half of 2015 has followed the same trends, with regional retail values growing and the broader UK property market posting improved returns for investors, albeit at a more modest level than what was seen in the final months of 2014 when values initially rebounded.

According to the *IPD UK Monthly Property Index*, in the three months to the end of April 2015, UK All Property provided a total return of 3.2% quarter-on-quarter (q/q), as capital values grew by 1.8% q/q and rents by 0.9% q/q. UK All Property investment yields were stable with equivalent yields at 6.3% and initial yields standing at 5.3% at the end of April 2015, both measures recording continued compression through 2015.

As consumer confidence and the retail trade improves so to have capital values in the UK retail sector. Investors have been more willing to take advantage of more generous yields outside of London, helping compress yields for regional retail assets as investor competition grows. Retail occupiers have drawn encouragement from the improving levels of consumer confidence as the UK economy strengthens, with rental values finally stabilising in the majority of locations.

Nationally, retail rents grew by a marginal 0.3% q/q in the three months to the end of April. Average initial yields for standard retail assets fell to 5.35% - the lowest level since March 2008 further evidence of the growing expectations that investors hold for the recovering regional retail sector.

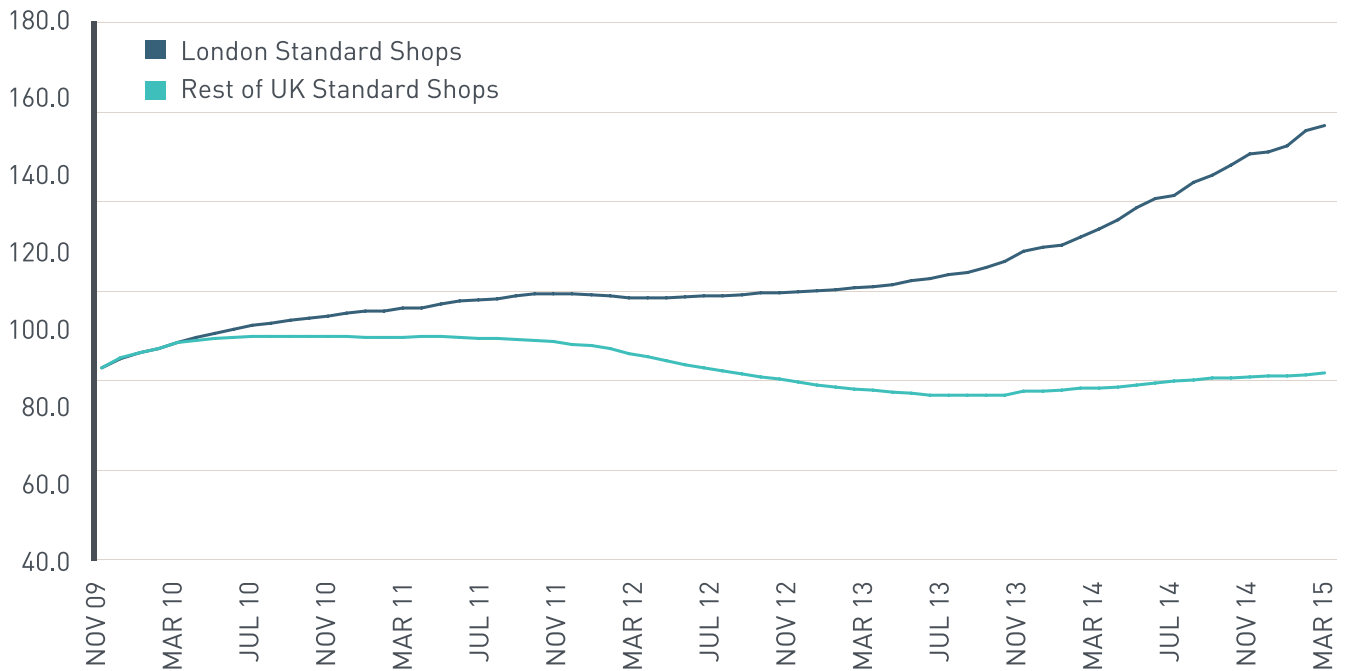
Like in previous months, London and the South East have continued to record the strongest performance, with a total return of 6.7% q/q for standard retail properties in the centre of the capital. However, rest of the UK (outside London and the South East) returned only 1.9% q/q in the first three months to the end of April as performance remained more muted due to weak rental growth.

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 stabilisation in recent months, with consistent economic growth, declines in unemployment and broad improvements in consumer and retailer sentiment. Challenges remain with inflation falling well behind the target rate and only minor wage growth being recorded.

The Economic Score card moderated to 6.2 in June 2015, as growth slowed marginally during the uncertainty of the general election period in May.

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
	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	6.0	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
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	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	6	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
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
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
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

Source: IPD, ONS, EcoWin, Nationwide

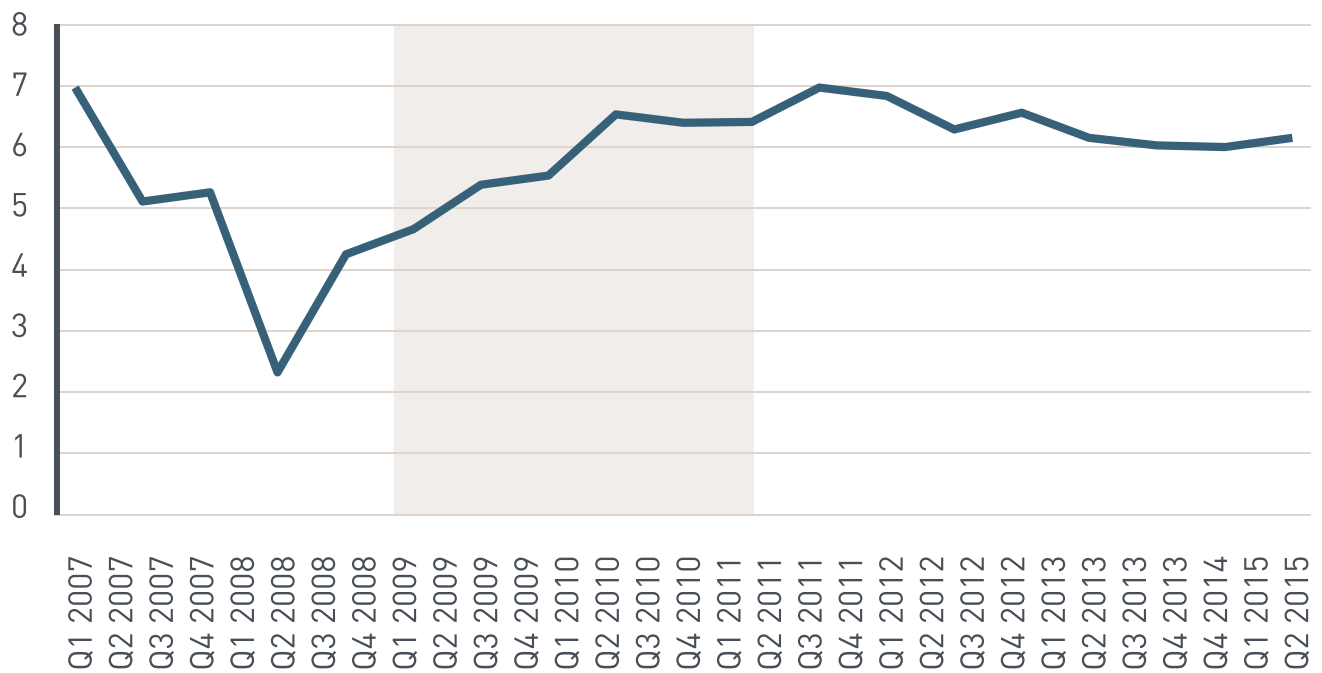
SCORE CARD KEY

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



Dale House is a landmark 44,000 sq ft office investment in Stockport. It is multi-let on short leases currently producing £283,000pa and sold for £2.35m (May 2015)



The long-dated freehold retail interest in 297-301 Station Road, Harrow, produces income of £110,000pax and sold for £2.7m (May 2015)

ECONOMIC SCORE CARD VARIABLES	SCORE	MAR 2015	10-YR AVG	ANALYSIS
ECONOMIC SCORE CARD AVERAGE	6.19	6.19	5.6	The Economic Score Card Average remained strong in the first half of 2015 although moderating from the 6.8 high posted at the end of March this year. With the average now consistently above 6 for the last twelve months this reinforces the view the UK economy is close to a fully functioning market. In June 2015, the average score was 6.2 a slight fall from the 6.8 in the previous quarter, but up from 6.0 as posted in December 2014.
INFLATION (CPI Y/Y)*	1	-0.1%	2.6	The rate of inflation in the UK made a historic shift into negative territory during the second quarter of 2015, with a fall in prices of -0.1% in April compared to a year ago. This was the first time in more than half a century that inflation turned negative in the UK, and provided a boost to households by bolstering the expectation that Bank of England interest rates will remain at a record low for the remainder of 2015. The Office for National Statistics said this was the first time the CPI had fallen since official records began in 1996 and the first time since 1960 based on comparable historic estimates.
FTSE ALL SHARE (Q/Q)	7	3.8%	0.0%	The UK Equities market, as measured by the FTSE All Share Index, continued to post strong returns in the second quarter of 2015, with a total return of 3.8% in the three months to June. However, returns continue to see more muted performance than last year, although a pick-up following the UK general election provided some respite to investors. However, concerns in Greece and ongoing instability in Europe's eastern borders continue to weigh heavily on attitudes towards short and medium term growth.
NATIONWIDE HOUSE PRICE INDEX (Q/Q)	7	1.0%	0.0%	UK house price growth slowed to a marginal 0.3% m/m increase in May 2015 as the market held its breath ahead of the General Election. This price growth, as reported by mortgage lender Nationwide, represented the lowest increase (when annualised) in almost two years, at 4.6% y/y. For the three months to June 2015, this meant a more minimal price increase of 1.0% q/q. However, the market continues to gain momentum with the Bank of England reporting the biggest jump in the number of mortgage approvals by lenders for six years in the month to the end of April.

* 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	7	-10	UK Consumer confidence strengthened for the fifth successive quarter in the opening months of 2015, and by May hit the highest level recorded since pre-crisis 2006. UK consumers are at their most optimistic in almost nine years as improvements in income growth, employment levels, low inflation and cheap interest rates help boost spending power. Consumers have also benefitted from zero inflation with lower prices in supermarkets and petrol stations boosting spending power further.
UNEMPLOYMENT EXPECTATIONS**	7	2	32	UK unemployment fell to a seven-year low in the period to the end of March 2015, according the latest statistics from the Office for National Statistics (ONS). The number of people not in employment in the January to March 2015 period fell to 1.83 million, down 35,000 from the previous quarter, and to the lowest level since 2008. Not only is the rate of unemployment falling in the UK, but average pay for employees (excluding bonuses) rose by 2.2% in the quarter compared to the previous year. This means that for the 31.1 million people in work, regular pay is now growing at its fastest rate for nearly four years.
RETAIL TRADE CONFIDENCE	7	4	0	In line with improving consumer confidence and against a backdrop of improving employment levels and increasing pay levels, UK retailers were at their most optimistic in 27 years over expectations of future trading according to the CBI survey of retailers in May. The upbeat tone of the survey was echoed by the strong jump in sales recorded in May 2015 by British retailers as sales volumes grew faster than City analysts and retailers themselves had been expecting.
EXPECTED RETAIL TRADE	7	23	10	With retailers encouraged by the strong sales growth in May 2015 and improving order levels on the high street suggesting a strong summer sales performance, expectations about future trade growth in 2015 will be optimistic for many British retailers. This was reflected by the Expected Retail Trade score of 27 in June 2015 which is more than double the long-term average of 10, highlighting the buoyant expectation of retailers for the remainder of 2015.

** Scoring is inverted. e.g. high value equals low score.

Sources: IPD, ONS, EcoWin, Nationwide



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