Acuitus Commercial Property Auction Report

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Real Estate Auctioneering & Investment

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 Q4 2024 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.

Acuitus Research

The UK commercial property market is undergoing significant shifts, as evidenced by the latest data and trends observed in 2024.

A combination of evolving investor preferences, economic pressures, and sector-specific dynamics is reshaping the landscape, signalling a departure from traditional norms and a move toward diversification and resilience. Below, we explore the key narratives defining the market as it transitions into 2025.

THE SHIFT AWAY FROM RETAIL

One of the most notable trends is the declining dominance of retail properties in the commercial property market. In Q4 2024, retail properties accounted for only 43% of sales by value, and for the entire year, they represented 55% of total sales – this is the lowest proportion recorded over the last ten years. This is in stark contrast to previous years when retail assets dominated the market often for more than 70% of quarterly sales volumes.

High Street retail has historically been the dominant investment medium for the private investor and family offices; low locational and physical obsolescence and minimal management input. The downward trajectory of rents and consequently capital values during the last 10 years has been dramatic. The collapse of major national multiples and department stores and the rise of online shopping has led to an increase in uncertainty about the future of the High Streets.

Shorter leases and changing trading patterns has meant that retail is no longer a one-way bet it once was. This poses two questions. Firstly, if the bottom of the market has been reached, does this mean that the next direction can only be upwards? Our cPad analysis indicated that the bottom of the market, in terms of overall average yields, was reached in Q1 2024 but it has been bumpy since then. The second question is whether a new set of investor tools is required to pick the right location and occupier and then to actively manage the investment? Sadly, letting stores to household brands on 25-year FRI leases has been consigned to history.

So if the appetite for retail is in decline where are we now seeing investor demand being focused?

Mixed-use development or change of use from commercial to residential. The perennial favourite of ground floor retail with flats above and/or the potential to add residential above and ‘at the back’ are still keenly sought after. This has been the most popular asset type during recent years.

Alternative sectors have also gained prominence: leisure and other non-retail properties contributed to 26% of total sales value in 2024, reflecting a diversification trend in investor portfolios. This shift underscores the growing importance of sectors beyond retail, with investors increasingly recognising the potential of leisure, hospitality, medical and other specialised properties to deliver stable returns in a changing market. Investors are being attracted by the longer lengths of income stream and the relative financial strength of the tenants.

Investments with generously sized sites such as builders merchants, out-of-town retail and industrial with low site coverage provide the opportunity to add value in the future and there is a ready demand for them.

Builders Merchant, Godstone, Surrey

Sold in July for an undisclosed sum on behalf of a private investor.

BROADENING ROLE OF AUCTIONS

The role of auctions in the commercial property market has expanded significantly as a result of the shift to online live stream auctions. As already noted, traditionally seen as a platform for retail asset transactions, auctions are now being utilised to sell a broader range of property types. This trend is indicative of a significant shift, as investors look to rebalance their portfolios and diversify their holdings.

In Q4 2024, the types of lots sold exemplified this diversification. The shift from retail is emblematic of a broader trend toward portfolio rebalancing, where resilience and diversification take precedence over concentration in a single asset class which has shown poor investment attributes during the last 10 years.

This point in the cycle is being seen by investors who have the confidence – and capital – as being an exceptional time to rebuild portfolios with stock for future development. Some might say this represents a once-in-a generation opportunity.

For example, in the heart of one major UK city a 90,000 sq ft former student and residential building recently sold for £5 per sq ft while an historic harbour side multi-storey warehouse of 45,000 sq ft sold for £1 per sq ft. It's quite hard to see a long-term downside when you're buying in at such low values.

Milton Street, Nottingham

A prime city centre retail parade and offices sold for £2.125m in February 2024.

LOVING LONDON

London remains a focal point for commercial property investment. In 2024, properties in London accounted for 35.2% of all lots sold, the highest proportion ever recorded in cPad history. This sustained appeal underscores London's status as a prime destination for investors seeking stability and growth potential.

Since late 2021, £780m of property has been sold in the capital, highlighting its enduring allure. The city's robust infrastructure, diverse economy, and global connectivity continue to attract both domestic and international investors, making it a cornerstone of the UK commercial property market.

BIGGER IS BETTER

High-value properties remain a key feature of the market. In 2024, lots valued at over £1 million accounted for 52% of total sales by value, despite representing only 16% of the total number of lots sold. This trend highlights the continued weight of money and interest in larger, potentially more valuable properties, even in the face of broader economic challenges.

The focus on high-lot size assets reflects investor confidence in the long-term potential of premium properties. These assets often offer asset management opportunities to add value and achieve higher returns, making them an attractive choice for investors who have the skill.

YIELDS ON THE MOVE

The dynamics of property yields provide valuable insights into market performance and investor sentiment. In Q4 2024, the Acuitus cPad All-Property Average "spot" yield did rise to 9.66%, driven by the higher-yielding sectors such as Offices and higher risk properties where cash-rich entrepreneurial investors are prepared to take a view providing they are offered a higher return to compensate for the risk.

The yield gap between prime and secondary assets signalled a further growing divergence and currently stands at 475 basis points:

- Acuitus cPad All-Property Prime spot yield:
  fell to 6.94%, the lowest level since mid-2023, suggesting a shift toward high-quality, resilient properties.
- Acuitus cPad All-Property Secondary spot yield:
  increased significantly to 11.69%.
- Acuitus cPad Industrial Average yield:
  decreased to 7.90%, showcasing resilience in this sector, which continues to benefit from robust demand and limited supply.

Winchcombe Street, Cheltenham

A substantial freehold retail parade and office investment that sold for £1,700,000 in May 2024.

AUCTION SUCCESS RATES UNDER PRESSURE

Overall, auction success rates declined in 2024, falling to an average of 77.6%. This figure is below the long-run level of 80% and significantly lower than the average of 89% which had prevailed since the introduction of pre-registration for bidding during pandemic lockdowns.

While this decline reflects the challenges facing the broader market, it also underscores the changing nature of auctions, which are now catering to a more diverse array of property types and investor profiles. It is fair to say that there is a wide range of sale rates between asset classes and auctioneers demonstrating why it's important to grasp these market differences and local nuances.

BROADER ECONOMIC CONTEXT

The economic backdrop has played a crucial role in shaping the commercial property market. Following the "Reeves Budget," the UK economy has faced significant headwinds, adding complexity to investment decisions. However, there are reasons for cautious optimism. Early signs suggest that investors remain hopeful for a recovery, buoyed by the market's ability to adapt and evolve in response to economic pressures.

Humberstone Gate, Leicester

A prime city centre bank investment that sold for £2.07m in March 2024.

2025 OUTLOOK

The UK commercial property market is undergoing a transformation characterised by diversification, regional concentration, and a bifurcation in asset demand.

Key trends include:

- A shift away from retail-dominated sales toward alternative sectors…for the present.
- A broader role for auctions as a platform for diverse property transactions.
- Continued strength in London as a prime investment destination.
- Sustained interest in high-lot size properties from cash-rich investors, despite economic challenges.
- Diverging yield dynamics between prime and secondary assets.

These trends reflect a broader rebalancing by investors as they adapt to evolving market conditions. As the market enters 2025, resilience, diversification, and a focus on quality will remain central to investment strategies, shaping the future of the UK commercial property sector.

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