

UK Commercial Property Auction Data Report

Q2 2024

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. These reports provide a comprehensive analysis of key performance metrics, sale trends across asset types, the geographical preferences of investors, and movements in yields.

The latest sales data for this Q2 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.

Overview

The auction market experienced a robust start to 2024, with significant increases in both the volume and value of lots sold and this trajectory has continued into Q2. The year to date has seen unprecedented activity and record-breaking performance across the auction sector.

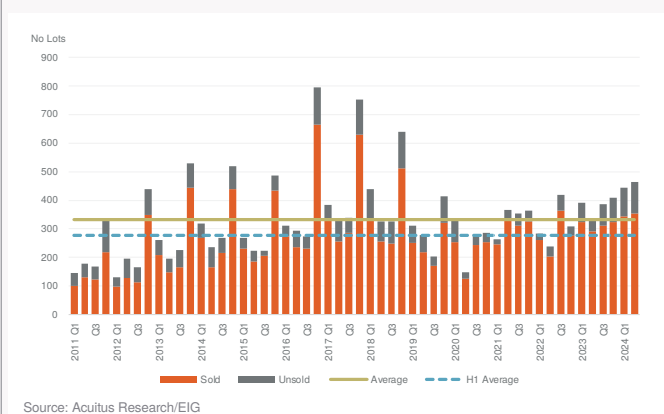
Highlights

Volumes: Q2 sale volumes reached a record £206.3m – surpassing the previous Q2 peak of £202.3m in 2021 and 70% above the long-run average for the quarter. This brought the total volume of H1 2024 sales of the assets which we track to £423.3m. This is a significant increase on the previous H1 peak of £348m in 2021 and 58% above the long-run average.

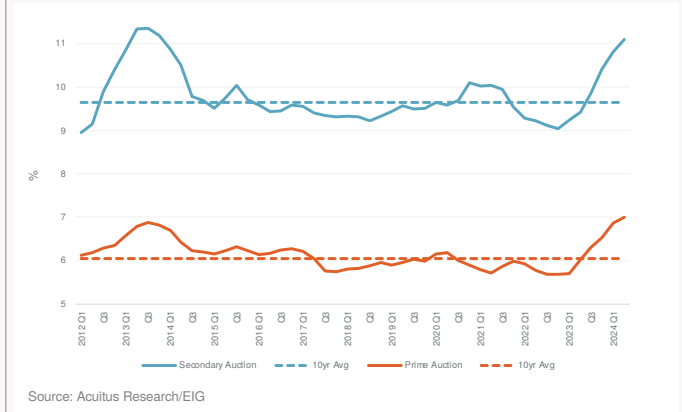
Number of lots sold: A total of 353 lots were sold in Q2 2024, compared to the previous peak of 329 lots in Q2 2021. The total number of lots sold in H1 is now 696.

Supply: There has been a marked growth in the number of lots being offered for sale by auction. During the first six months of the year, 1,163 properties were listed – a 61% increase on the previous post-pandemic peak of 724 in 2021. However, this includes properties being listed in more than one subsequent auction.

Commercial investment lots offered at auction



Primary and Secondary auction yields



A reshaped market

The dynamics of the auction market are evolving. With sales now almost exclusively taking place online and more auctions being held, this has made it more straightforward to access the auction route for asset disposals.

This has also made the auction process more efficient. Lots which are eliciting little investor interest in the pre-auction marketing period can be withdrawn enabling the seller to reconsider their pricing strategy.

Discounting the properties listed more than once, a record 907 were still offered at auction in H1 2024 – surpassing the previous peak of 764 lots in H1 2018.

In any dynamic marketplace at this point in the cycle there will be instances when there is a misalignment between the enhanced expectations of sellers and what buyers are prepared to pay – and this is also reflected in the lead or lag in valuations. The overall political, economic and financial uncertainty continues to produce ups and downs and investors are still very price sensitive. This is perhaps the reason why the overall sales rate fell to 76.1% – the lowest level since the shift to online auctions and pre-registration.



Prime city centre bank investment, Leicester
Sold for £2.07m

Sectors

Alternatives in favour: H1 2024 has seen £107.1m of assets from outside the core sectors of retail, offices and industrial being sold with £54.1m of lots finding buyers in Q2. Typical lots in the 'alternatives' category include properties which serve the medical, leisure and motor trade.

Alternatives accounted for 25.3% of all lots sold by value in the year to the end of June. This is the highest six-month total since H2 2022, when £122m was transacted.

Investors are increasingly drawn to assets with 'sticky' occupiers who for reasons of licensing (medical), position (motor trade) or goodwill (leisure) are more likely to stay put and renew their leases.

Loving London: A substantial segment of investors will look no further than the capital when finding their latest acquisition. In the second quarter of this year, £86.7m of London assets were sold to bring the H1 total to £167.3m – the highest on record, surpassing the previous high of £156.2m in H2 2022. The average lot size of London property sold in Q2 2024 was £1.17m which was the second successive quarter when average sales prices were above £1m.

Retail rolls on: Retail assets remain the engine room of auction activity. During Q2, £129.8m of retail properties were sold which accounted for 62.9% of all sales. Whilst this was below the long-run average of 67.6%, there is a clearly a reappraisal of retail investment currently taking place and we expect there to be increased investor interest as the year progresses and investors become more confident about the resilience and performance of certain assets. This shift in attitude is beginning to be evidenced by movements in retail spot yields.

Yields

The Acuitus cPad yields are calculated from the rolling averages of the spot yields for the previous four quarters. This smooths the data and prevents distortion from the impact from the varied compositions of different auctions. Spot yields are the actual yields for the current quarter and can be an early indicator of change.

Prime yield stability: At the end of 2023, we reported that more than 400 basis points separated the Prime and Secondary yields. This yield gap was one of the widest and was twice the gap that prevailed 15 years' ago. The Prime and Secondary yields have not moved since the end of last year even though market sentiment has improved.

All-Property Prime and Secondary spot yields: The cPad All-Property Prime spot yield (lower quartile) remains at 7.04%, and the cPad All-Property Secondary (upper quartile) spot yield is at 11.25% with the same yield gap steadfastly sticking at

over 400bps. This continues to beg the question as to whether the current level of yields is beginning to offer some of the best value opportunities in more than a decade?

All-Property Average spot yields: Looking at another measure, the weighted cPad All-Property Average spot yield is down to 8.53% from the recent peak of 10.17% in Q1 2024. This adjustment brings spot yields back to early 2023 levels, indicating potential signs of a market turn although it's still early days and investors are highly selective.

Retail and office yields tightening: There have been improvements in both the retail (down 160 basis points) and office (down 150 basis points) sectors. While these improvements may be partly due to the quality of assets coming to market, the underlying trend in yields is downward.

London vs. the Rest of the UK: The cPad Average spot yield in London has sharpened by 80 basis points to 6.37%, but the most notable shift was across the Rest of the UK assets basket where the cPad Average spot yields fell by 160 basis points to 10.25%.

Longer is better: With investors still very focused on the security of income profile of assets, the cPad All-Property Average spot yield on assets where the average lease terms are above five years has decreased by 75 basis points, while properties with shorter lease term profiles (< five years) continue to move out.

Outlook

The first half of 2024 has demonstrated remarkable growth and activity in the auction market, setting new records for turnover and lots sold.

The shift towards online auctions and increased regularity has significantly impacted investor behaviour and market dynamics. While challenges such as the increase in withdrawn lots and a lower sales rate have been features of this year's market, the overall outlook for the auction market remains positive, with continued high levels of interest and participation.

The trends in property types and yield movements suggest a nuanced and evolving market landscape that warrants close observation in the coming months.



Builders merchant investment, Godstone

Sold prior above pre-auction guide price of £2.7m



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