UK Commercial Property Auction Data Report
Q3 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 Q3 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

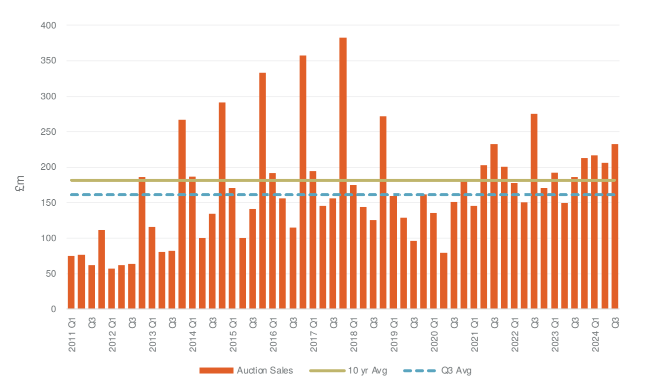
The third quarter of this year gave further evidence of the progressive trends we saw develop in the first half of the year. Sales volumes are growing which is a reflection of the increasing willingness of sellers to bring assets to market using the auction method of sale. A gradual hardening in yields is suggesting that this year has seen an inflexion point for pricing and that this will be a signal for yields across the sector as we move towards 2025.

Highlights

At £232.5m, Q3 turnover brought the year-to-date sales volume to £655.9m. The Q3 activity represented the sale of 415 lots which contributed to a year-to-date total of 1,111 lots – the highest level on record for the first three quarters of the year. This volume of sold lots is around 9% increase above the previous record set in 2022, and it stands a notable 59% above the long-term average for the first three quarters of any year.

Sale rate: In Q3, the sales rate rebounded from 76.1% in Q2 to 80.9%. However, this uptick coincided with a higher-than-expected Q3 withdrawal rate with 23% of lots being withdrawn prior. The properties that are withdrawn prior may be re-offered at a later stage at lower prices that reflect the market reality.

The pattern of auction activity has changed



Source: Acuitus Research/EIG

Sectors

Greater London: Sales of London property accounted for £75.82m of total sales with the capital remaining a bright spot for the auction market. London assets have accounted for 37% of total sales value in 2024 so far – well above the long-term average of 20%. This has encompassed £243m in property transactions, and it was not a surprise that the cPad All-Property Average spot yield for London has moved into 5.37% compared to 9.92% nationally.

Retail: This sector saw the number sold by value fall back to 53.7% of total sales – the lowest level since late 2022; but the sector continues to be the 'engine room' of the auction market. Unless the assets are prime, the most attractive retail lots are those that are capable of repurposing for residential either in part or whole. The redevelopment or conversion potential of underutilised space such as upper floors or car parking/service yards drive added value.

Offices: The sector saw an increased number of sales of properties in Q3 with development potential, many of which were vacant and primed for repurposing or repositioning. The need for retrofitting to deliver energy efficiency and new working from home patterns will continue to be major factors for this sector.

Industrial: Given how hot this sector has been in recent years, the amount of stock finding its way into the auction room has been sparse. However, Q3 saw a rebound in volumes to £26.1m (Q2: £8.7m) which represented 11.3% of the total sales volume in the quarter.

Builders merchants, Godstone

Sold prior above guide price of £2.75m

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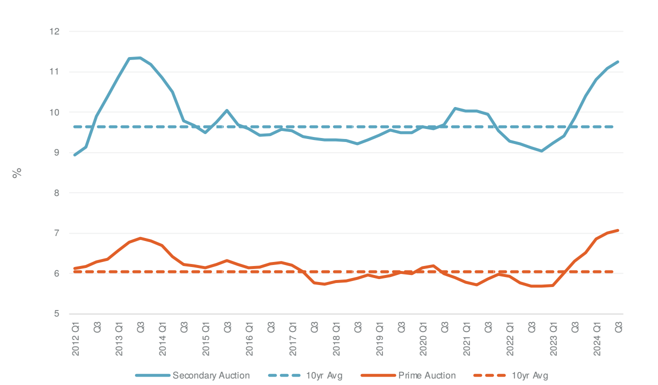
Industrial asset, Southam
Sold for £2.52m

Primary and Secondary auction yields



Source: Acuitus Research/EIG

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 reduces the distortion from the impact that the varied compositions of different auctions may have. Spot yields are the actual yields for the current quarter and can be an early indicator of change.

At the property-by-property level, there is not a clear uniform direction of travel for spot yields. Assuming we are at or near the low point in the property cycle, we can liken this to the ebb and flow of the tides at the high and low water marks.

The divergence of sale rates may be another indication of a change in wind direction. At any turning in a cycle, predicting an ultimate sale price of an asset ahead of the commencement of marketing is difficult, and the margin of tolerance can be small.

However, overall, yields stabilised at Q2 levels, following significant adjustments earlier in the year. The cPad All-Property Average spot yield for Q3 settled at 8.52%, only marginally lower than Q2's 8.53%. Using the rolling average, the cPad All-Property Average yield decreased slightly from 9.28% to 9.23%, marking the first downward adjustment since Q4 2022. It appears we may have now reached the beginning of the end of the bear cycle.

Looking at the individual property sectors, the most significant downward adjustment in spot yields in Q3 was observed in the retail and leisure sectors, where the cPad Retail Average yield fell by 85 bps and the cPad Leisure Average yield fell by 39 bps. Meanwhile, other sectors experienced varying movements, with spot yields for Industrial rising by 45 bps, and Offices climbing by 193 bps.

All-Property yields: The cPad All-Property Prime spot yield showed a small weakening to a record high of 7.14%, whilst the cPad All-Property Secondary spot yield strengthened slightly to 11.17%; a yield gap of just over 400 bps.

Looking at other investment criteria there were two significant inward shifts in the cPad All-Property Average spot yield. Firstly, for secure income properties with more than 10 years unexpired saw the spot yield harden by 181 basis points to 7.04%, down from 8.85% at the end of 2023. Secondly, the larger lot size properties (£1m+) experienced a yield compression of 113 bps to 7.98%, compared to 9.11% at the end of last year. This was the lowest spot yield for larger lots since Q1 2023.

Outlook

What is clear is that from the end of last year a change in direction is occurring and this improvement will be sustained once we see GDP and household disposable income increase, and interest rates cut take effect, as is expected over the next 12-months.

The pace of improvement however will be influenced by how investors view the effectiveness of new government's economic and fiscal policies over the coming months.

Greater London development opportunity, Kilburn
Sold for £1.4m

Government-let County Court, Torquay
Sold for £1.25m

For further information on this research or to discuss auction strategy, please contact:

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