2018

allsop

COMMERCIAL

AUCTION
ANNUAL REVIEW

“COMBINED WITH OUR RESIDENTIAL AUCTION TEAM, WE HAVE RAISED £926M UNDER THE HAMMER IN OUR AUCTION ROOMS IN 2018.”

CONTENTS

2018

WHAT HAPPENED IN THE AUCTION ROOM

As the year draws to a close, it is time for us in the Commercial Auction team to reflect on the results of our sales over the last year, what we have learned and how the market might look in the early part of next year.

OCTOBER SALE LOT 12 **SOLD £830,000 (4.9%)**

Before commenting on the wider market we look at the result of our last two sales of the year held in October and December.

On the 3rd August 2018 the Bank of England raised interest rates by a massive 50% to 0.75%, the second increase in a decade! Despite promise of further "gradual and limited" increases to come, so far there have been none and interest rates remain at historically low levels.

The summer passed and although it's hard to believe, on the 15th September 2018 we remembered the 10th Anniversary of the demise of Lehman Brothers and the start of the Global financial crisis which ultimately lead to the ultra-low interest rate regime we now enjoy.

The 17th September saw the second Allsop Online Auction, when on behalf of Principal Real Estate Europe, we offered 17 lots, selling 16, raising a total of £3.23m. This result building on the success of the inaugural sale held in April.

On the 16th October we held our biggest sale of the year offering a total of 270 lots which resulted in total sales on the day of £97.03m with a success rate of 73%.

With sales after the result has improved to £115m and an 81% success rate. The overall result was somewhat below expectations and substantially down on the total sales figure of £167.3m achieved at the October sale a year before.

The continuing downbeat news emanating from the retail sector, increasing uncertainty surrounding the Brexit negotiations and the rise in interest rates two months earlier, have all weighed heavily on Investors' confidence.

"THE STRONGER RESULT OF OUR DECEMBER SALE HIGHLIGHTS THE CAPACITY OF THE MARKET TO ADAPT TO CHANGING CONDITIONS"

What was clear from the October result was that good quality, well let stock was in strong demand and despite the challenging news climate, with a shortage of supply, overall retail yields were steady at 7.8%. The same could not be said for the high-risk assets where yields rose to over 15%, a level not seen for over 5 years. Investors sought out areas of the market which might prove to be resilient to the current uncertainties in High Street retailing. Premises used for convenience stores, medical/dental practices, motor trade, funeral parlours and care homes were all sought after. This group of properties has become known as "Alternative investments" and now forms some 17% of our catalogues.

The rest of October saw the FTSE fall below 7,000 for the first time since March, whilst 5 year Treasury Bond yields reached a peak on 10th October at 1.3% (10 year Treasury Bonds rose to 1.75%). Both have subsequently fallen to 0.9% and 1.3% respectively as prospects recede for further interest rate rises.

In the retail sector Evans Cycles was bought by Sports Direct following a "cash crunch" and Debenhams confirmed they would close up to 50 stores following a financial loss of £491.5m for the year.

At the end of the month, the Budget was widely seen as a non event, although there was a little relief for hard pressed small retailers with the announcement of a 33% reduction in rates payable on premises with a rateable value below £51,000. To use the strapline from a well-known grocers advert "Every little helps".

December 4th saw our sixth and final sale of 2018. Against our expectations the sale became one of the strongest of the year with total sales now exceeding £76m and perhaps more pleasingly a success rate of 90%. Those present will recall the positive atmosphere with competitive bidding for the wide range of properties on offer. Stars of the show were undoubtedly assets located in London and the South East and anything let on long leases to good covenants.

2018 has proved to be a challenging year with fewer lots offered and total sales easing by some 17%, most of this adjustment being seen over the second half of the year.

Rental values in the retail sector continue to be under pressure as an increasing number of empty units litter the country's high streets. Investors continue to favour locations they are familiar with, as evidenced in our buyers survey. 45% of Buyers live within the same region as the property purchased, an increase from 37% last year. Average retail initial yields for all retail rose from 7.3% to 7.7% over the year. A modest difference, but it hides the increasing gap between

"2018 HAS PROVED TO BE A CHALLENGING YEAR WITH FEWER LOTS OFFERED AND TOTAL SALES EASING OVER THE YEAR BY SOME 17%."

A-Grade investments where average yields fell from a peak of 6.3% in 2016 to a figure of 5.9% in 2018. This compared to weaker multi let retail investments whose yields have moved from 7.8% in 2016 to 9% in 2018.

Quite clearly investors are still prepared to pay for good quality retail investments whilst for properties let on shorter leases in secondary/tertiary locations demand and yields continue to weaken, reflecting the increasing risk of owning such assets.

Supply of property across all sectors has tightened, as predicted, as continued political uncertainty dogs the market. Demand though has remained strong as mentioned earlier.

In summary the year has ended slightly below expectations in terms of total sales but about as expected in terms of the number of lots offered. We have had some ups and downs in the success rates achieved, with the more successful sellers being those vendors who have responded to the changing market conditions.

The stronger result of our December sale highlights the capacity of the market to adapt to changing conditions.

Finally our total sales of £518m combined with our residential teams total of £408m add up to a grand total of £926m raised under the hammer in our sale rooms during the course of 2018.

As always, we would like to thank all our clients for their instructions during the course of 2018 and our buyers for making the auction room such an exciting place to sell property. We wish everyone a healthy and prosperous 2019.

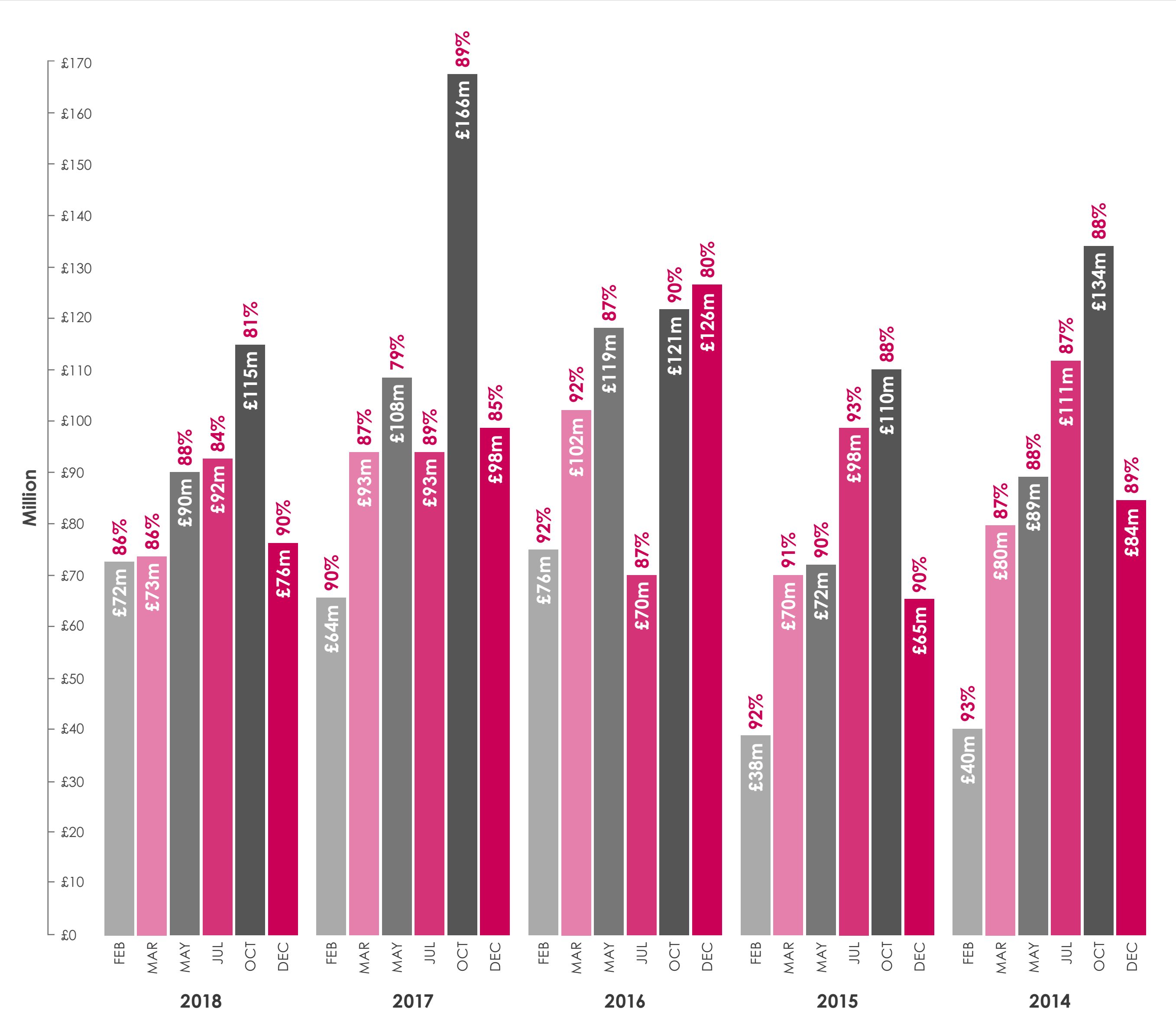
COMMERCIAL AUCTION ANNUAL REVIEW 2018

AUCTION RESULTS 2018

Auction Figures for 2014 - 2018

current totals (£) / success rates (%)

Source: Allsop Auction Data, February to December figures.



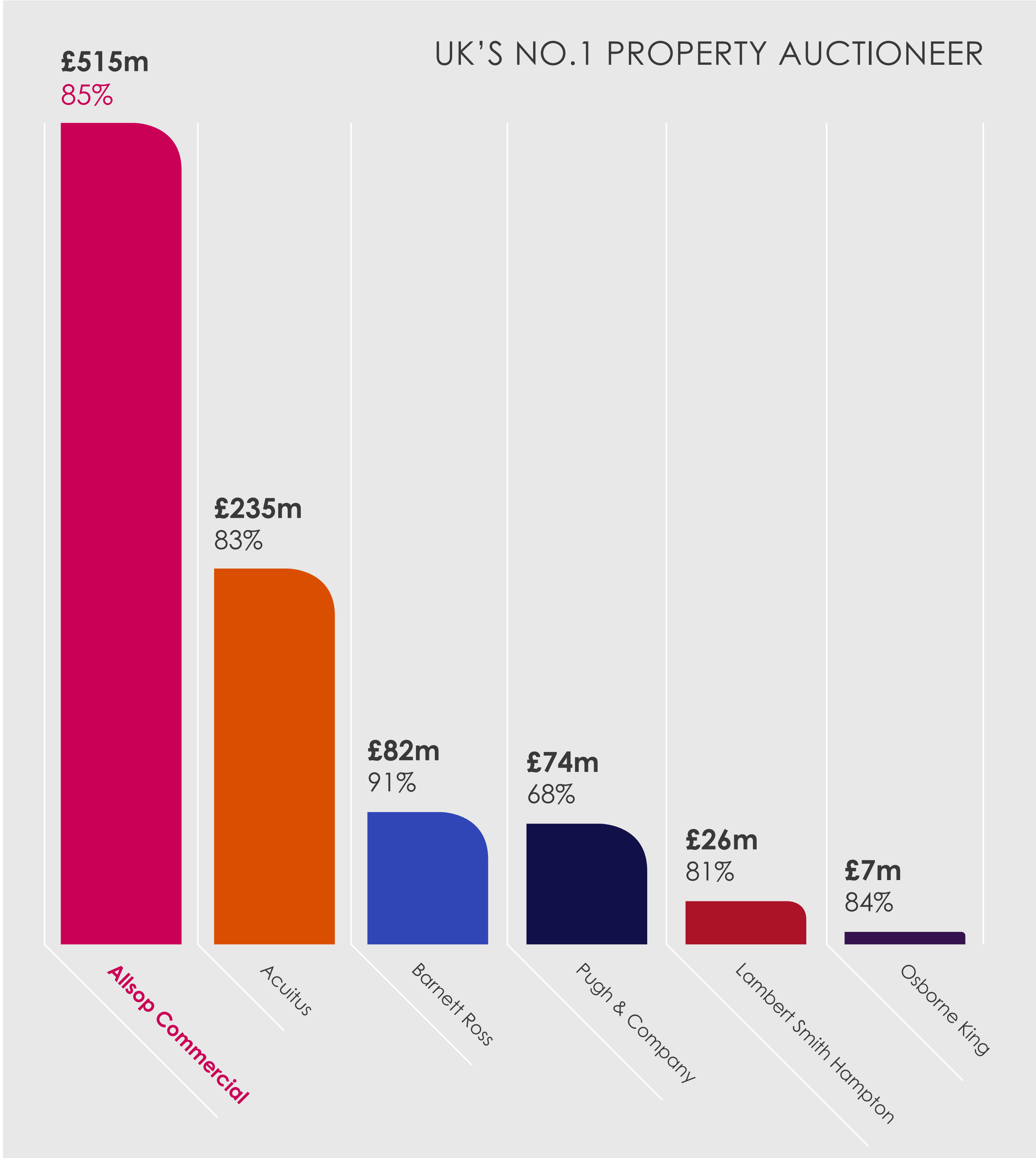
	Total Raised	Lots Sold	Success Rate	Average Lots Size	Lots over £1m
2018	£518m	861	85%	£601k	148
2017	£623m	936	87%	£665k	187
2016	£614m	977	88%	£628k	171
2015	£453m	797	91%	£568k	120
2014	£539m	872	88%	£619k	139

COMMERCIAL AUCTION MARKET 2018

January to December 2018

sales (£) / success rates (%)

Source: Essential Information Group.



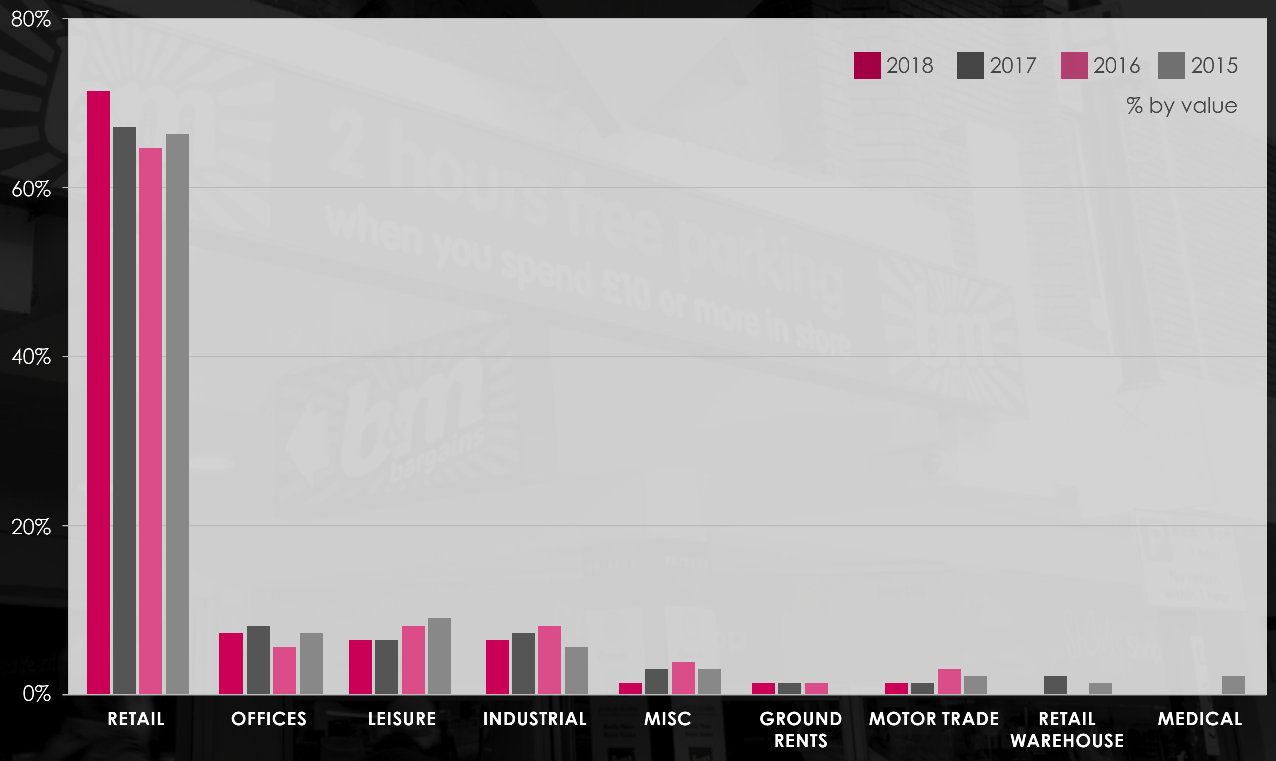
PROPERTY ANALYSIS

Sector distribution 2015 to 2018

As a proportion of the assets sold, Retail investments (at £371 million) accounted for 73% of the total sum raised through our auction in 2018, an increase over the 65% 4-year average (4YA). The average lot size for the sector also improved slightly, to £570,000 (4YA - £557,000).

Office and Industrial investments accounted for a slightly reduced share of the total sales at 15% (4YA – 18%) raising £72 million. There continues to be tight supply in these two sectors, as investors continue with the holding strategy, as identified last year.

The Alternatives sector (including Ground Rents, Leisure, Medical, Motor trade investments, convenience stores) accounted for the balance at 17% of total sales raising £66.5 million (4YA – 19% and £105 million).



RETAIL
Increase to
73%
over the 65% 4YA

OFFICE & INDUSTRIAL
Reduced to
15%
with tighter supply

ALTERNATIVES
Accounts for
17%
of total sales

OCTOBER SALE LOT 119 **SOLD £4M (5.49%)**

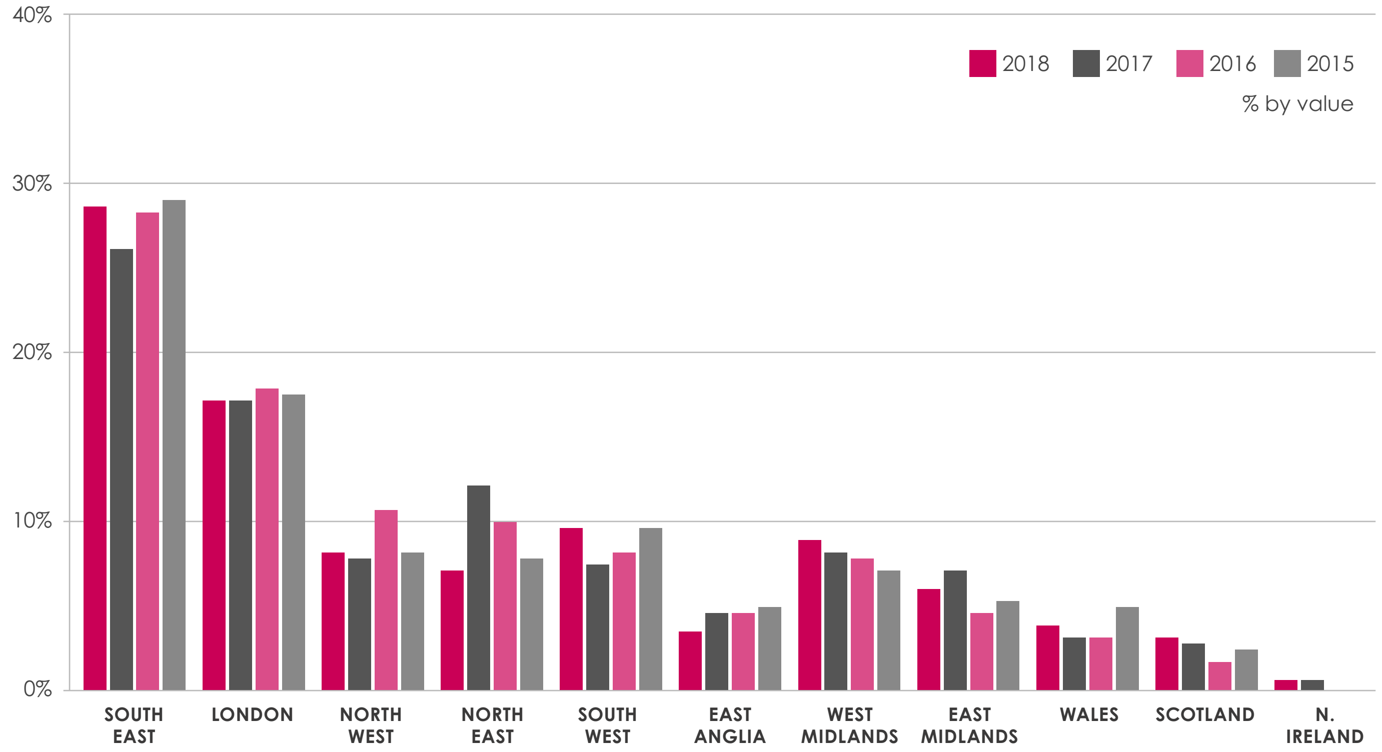
Regional distribution 2015 to 2018

Sale volumes in London and the South East recovered during 2018, returning to the 4YA of 48% (£242 million) having dipped to under 45% in 2017.

The total raised on the sales of assets in London and the South East eased for the first time in a number of years, £273m of assets were sold, accounting for 45% of the total value in 2017 (48% in 2016).

The "Hold" strategy identified last year still appears to be the option being adopted by many Vendors.

Increasing levels of activity were seen in the North East as well as the East and West Midlands, where total sales across these three regions showed a marked increase to £168m, 28% of the total, rising from a more modest 23% in 2016. The average Regional lot size saw a significant increase, up to £551,000 from £499,000 in 2016.



LONDON & SE
Return to
48%

AVG LONDON/SE LOT SIZE
Improves to
£791k

AVG REGIONAL LOT SIZE
Increase up to
£551k

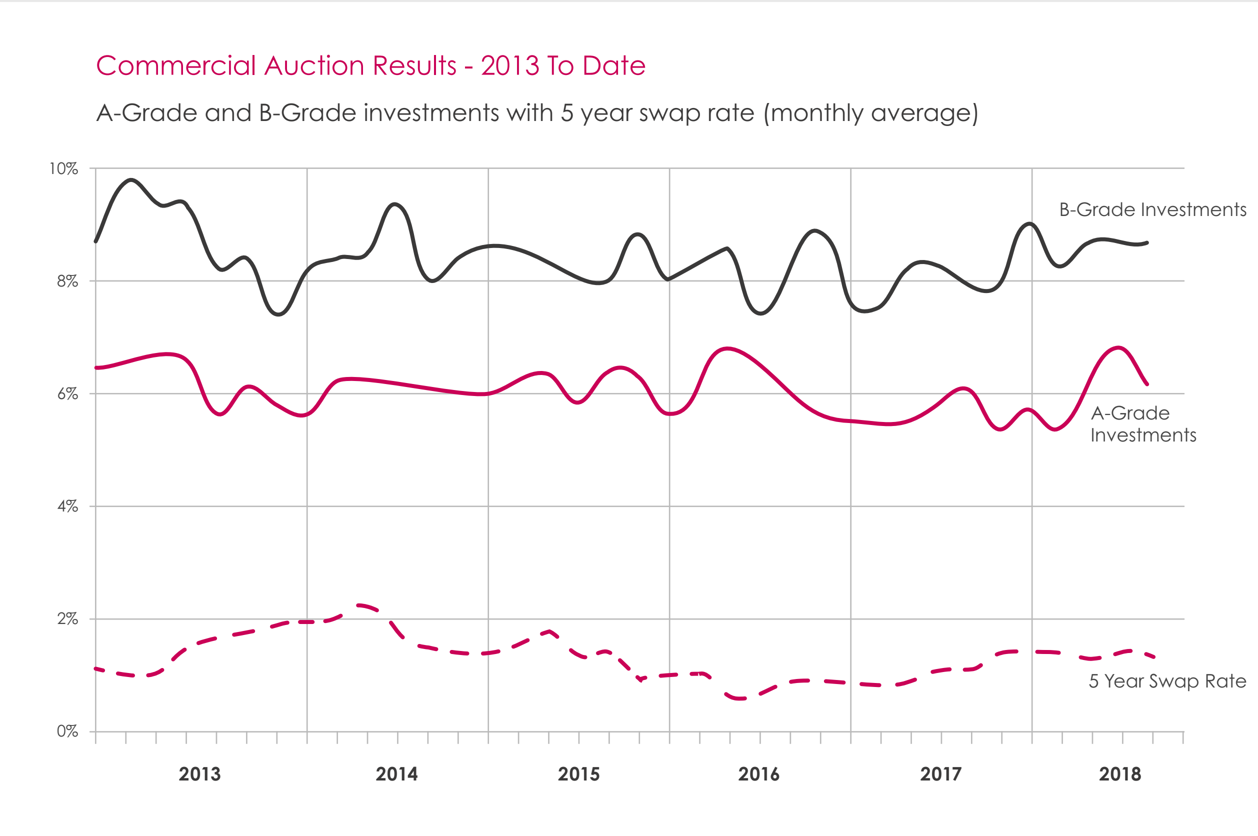
PROPERTY ANALYSIS

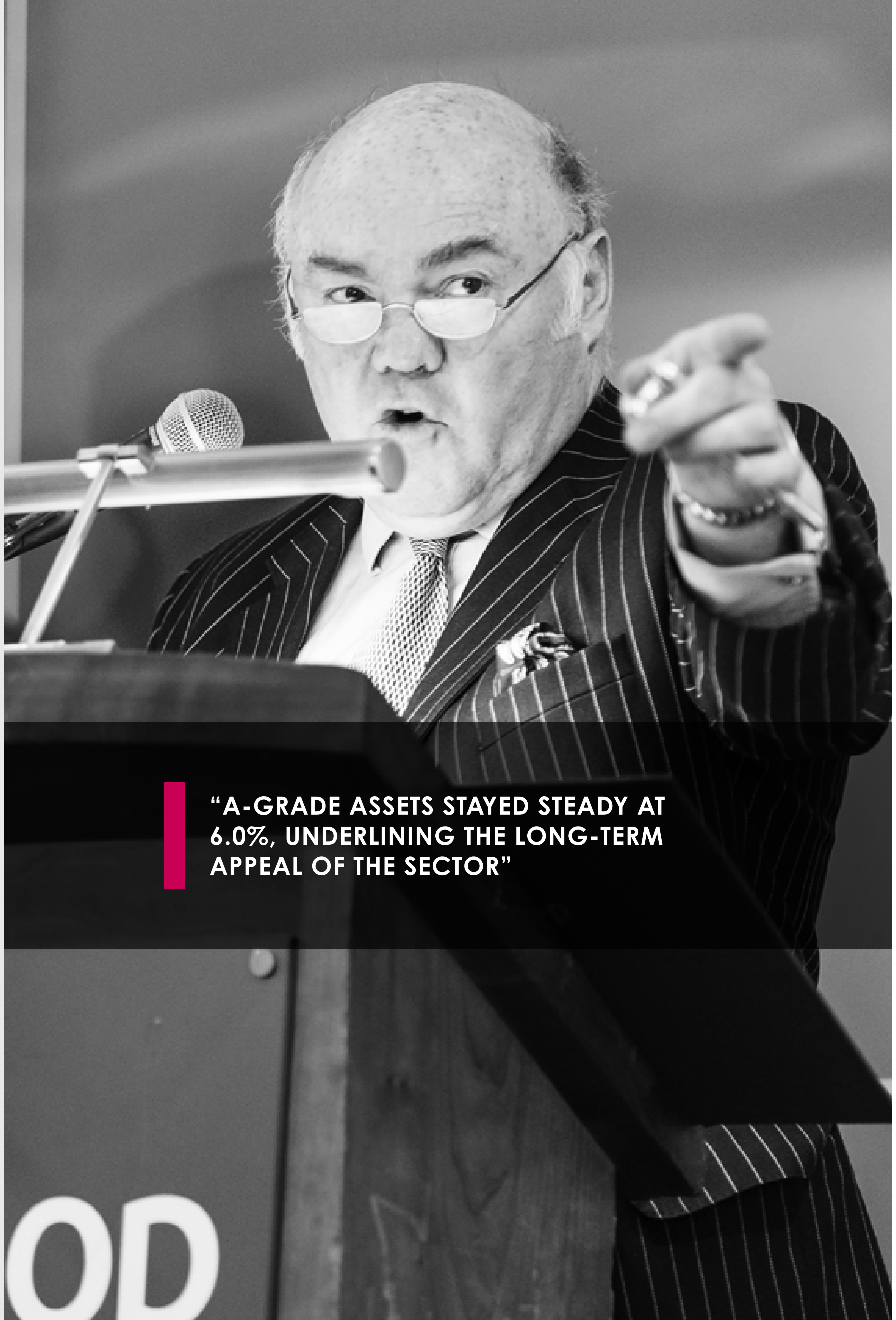
Yield analysis 2013 to 2018

The year delivered some shocks to the retail investment market. CVAs were threatened by a number of operators, together with – and sometimes followed by - corporate failure, affecting over 2,800 units (Centre for Retail Research).

Against this backdrop one might expect the appetite for retail investments to wane, with consequent increases to yields. There is undoubtedly pressure on rental levels, with the number of voids in many towns becoming obvious, but the successful sale of £371 million suggests the market still has the capacity to absorb correctly priced investments.

The overall retail yield did ease out to 8.3% (net) by the end of the year from a 4YA of 7.5%, largely due to a softening in the appetite for the secondary and tertiary assets. A-grade assets stayed steady at 6.0%, underlining the long-term appeal of the sector.





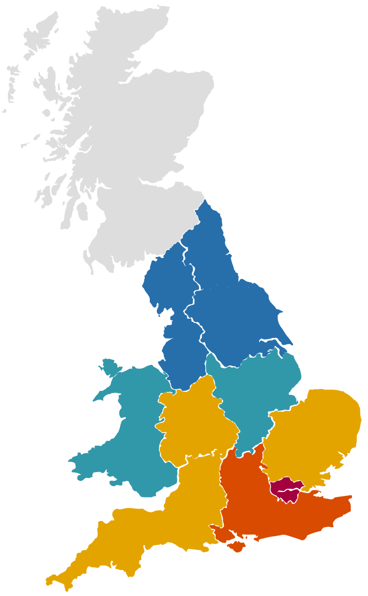
“A-GRADE ASSETS STAYED STEADY AT 6.0%, UNDERLINING THE LONG-TERM APPEAL OF THE SECTOR”

THE ALLSHOP BAROMETER

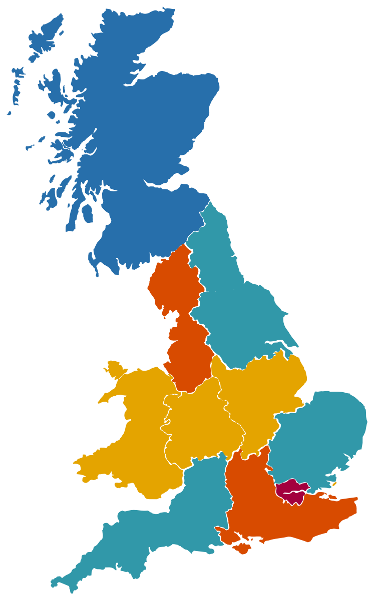
- Overall regional retail yields have softened in the period between July 2018 and December 2018 compared with the period between December 2017 and May 2018.
- Competition from buyers for retail investments is strongest in the south of the country with yields being more resilient and hardening in parts while retail yields softened in much of the north of the country.
- Retail yields in **Scotland** have remained stable over the past 6 months with Medium (5-9 years) and Long term (10-15 years) income tranche retail yields remaining at 9.5% and 6.6% respectively.
- **Wales** has seen average retail yields soften to 11.0%.
- In the north of the country the **North East** has performed the best out of the Northern regions with average retail yields hardening to 7.6% from 7.9%. Conversely the **North West** has seen average retail yields soften to 8.3% from 7.5%. This is likely to be attributed to the quality of the regional stock brought to the market during this period.
- Retail yields softened in the **West Midlands** in all 3 income tranches with average retail yields softening to 8.1% from 6.9%. The **East Midlands** saw a similar story with the exception of Long income (10-15 years) which hardened by 100 basis points to 4.9%, a notable improvement.
- **East Anglia** has seen average short term (3-5 years) income soften to 8.3% while average medium term (5-9 years) income has hardened to 7.2%
- The **South West** has seen average retail yields harden to 7.0% from 7.9% with medium term (5-9 years) income moving in from 8.8% to 7.3%.
- In the **South East** average retail yields remained stable at 6.2%. Small adjustments have been seen in individual income tranches but overall retail yields in this region were stable during this period.
- **London** saw retail yields harden over all 3 income tranches and average overall retail yields come into 5.4% from 6%.
- The yield gap between average retail short income (3-5 years) and average retail long income (10-15 years) has remained stable at 1.9%. However, both short and long income average yields have both softened by 0.7%. Average retail yields in the short income tranche are now 8.5% and average retail yields in the long income tranche are now 6.6%. The maintaining of the yield gap at 1.9% suggests an overall rise in risk across the whole retail sector, which perhaps is understandable in the current climate.

December 2017 - May 2018

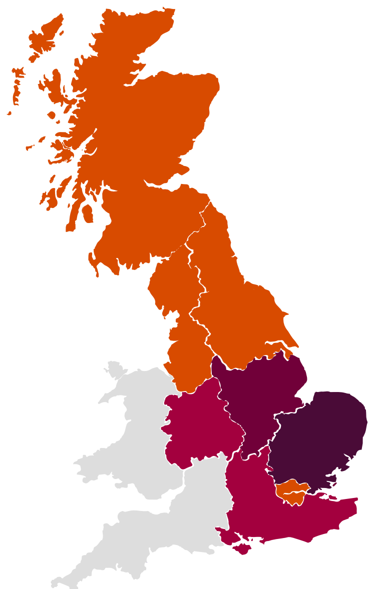
3 Years - 5 years
Net Yield Average



5 Years - 9 years
Net Yield Average



10 Years - 15 years
Net Yield Average

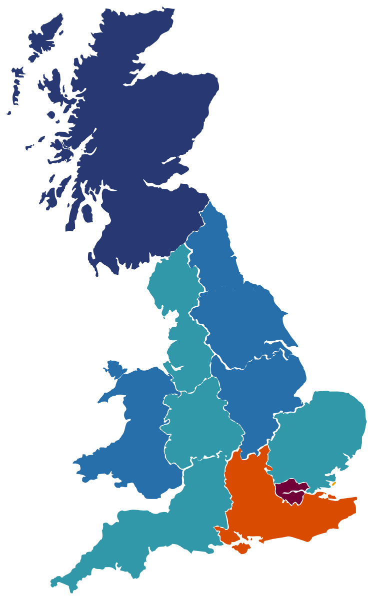


12-13% | 11-12% | 10-11% | 9-10% | 8-9% | 7-8% | 6-7% | 5.5-6% | 5-5.5% | Sub 5% | No Data

Note: sample size 416

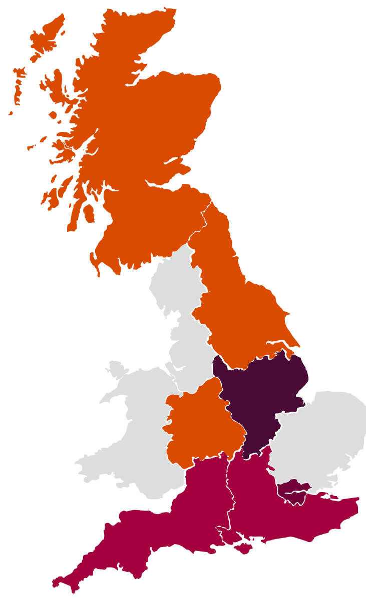
July 2018 - December 2018

3 Years - 5 years
Net Yield Average



5 Years - 9 years
Net Yield Average

10 Years - 15 years
Net Yield Average



12-13% | 11-12% | 10-11% | 9-10% | 8-9% | 7-8% | 6-7% | 5.5-6% | 5-5.5% | Sub 5% | No Data

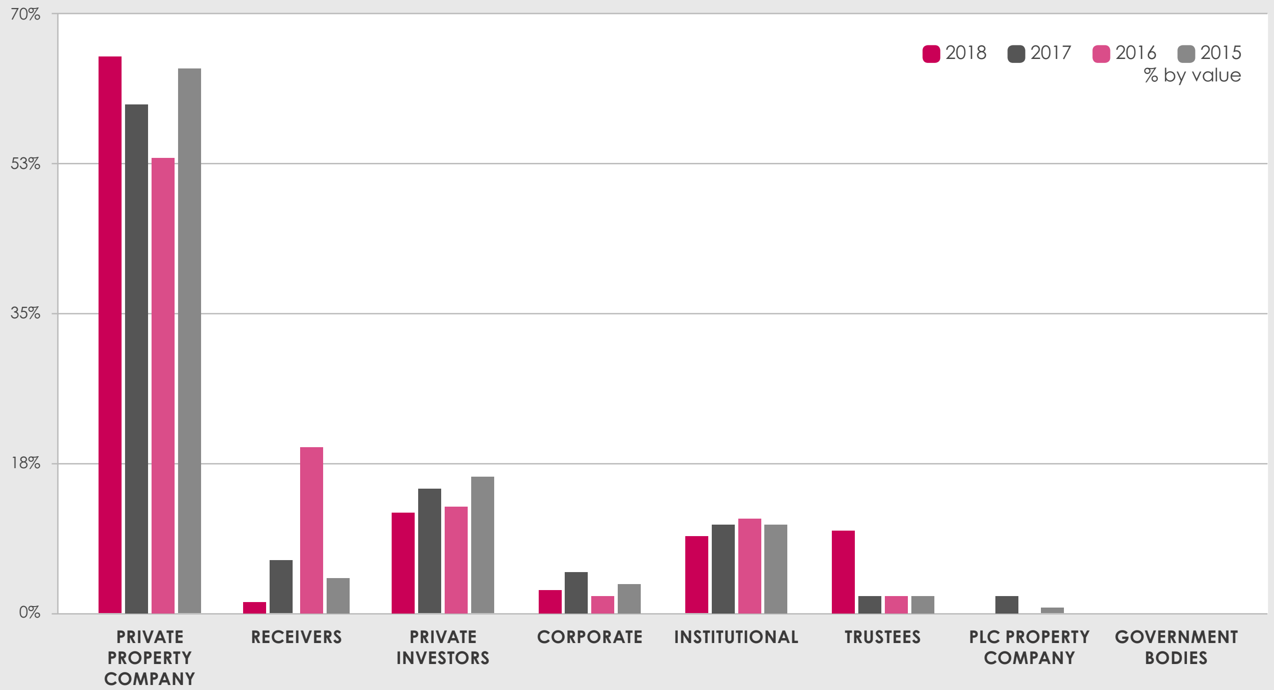
VENDOR ANALYSIS

Over recent years it would appear that an increasing number of owners are holding assets in Limited companies. Reasons for this are many and varied, likely to be driven by taxation regimes, debt funding constraints and wealth preservation.

64% of sales in 2018 were from private, limited liability companies, an increase over the 56% 4YA.

Not unexpectedly, receivership sales declined over the year to 2% of total sales (4YA – 11%). Whether this is a result of an improvement in debt and loan restructuring conditions is debateable, but there is clearly less activity at present for Receivers. Looking to the future, this trend might not necessarily be long term.

2018 saw a significant rise in Trustee disposals, from 4YA of 2%, to 10%. This was largely a result of a private trust using the auction room to break up a granular portfolio of bank investments. The auction afforded the Vendor a high degree of transparency, access to the best range of likely buyers and the capacity to secure the best price on a specific date.



PRIVATE LIMITED LIABILITY COS
Increase to
64%
sales, over 56% 4YA

RECEIVERSHIP SALES
Declined to
2%
over 11% 4YA

TRUSTEE DISPOSALS
Increase to
10%
over 2% 4YA

A SELECTION OF OUR CLIENTS

AVIVA INVESTORS
Telereal Trillium
COLUMBIA THREADNEEDLE INVESTMENTS
OLIM Property

On the instructions of Joint Fixed Charge Receivers allsop
Viridor
nationalgrid

CBRE INVESTORS
OXFAM
shoezone
Canal & River Trust

threadneedle.
NHS Property Services
LaSalle

SPORTS DIRECT.com
wetherspoon
vision express
ROCKSPRING

PALACE CAPITAL
M&G REAL ESTATE
JLL

REI
Topps Tiles
ceg
BDO

BUYER ANALYSIS

The Allsop Buyers Survey, asked at the point of exchange since 2012, picks up on trends and sentiment amongst buyers which helps us look forward.

This years survey highlights continued demand for purchasing commercial property at auction, an increase in new buyers entering the commercial auction market as well as an increase in buyers buying close to home. Demand remains high for larger lot sizes (£1,000,000+) and most buyers prefer to use cash reserves between exchange and completion.

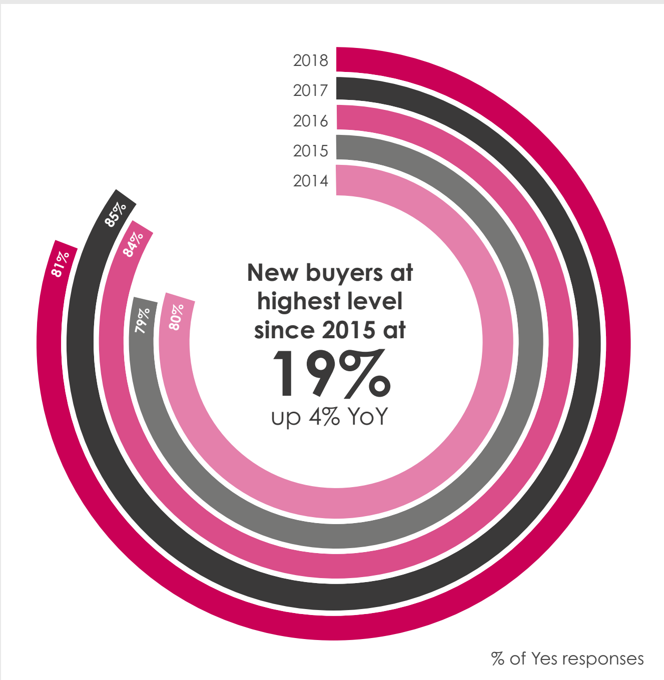
Although the majority of buyers have purchased at auction before (81%) the number of new buyers to the auction room has increased (19%, 15% in 2017), the highest level of new buyers since 2015. Part of this trend could be attributed to our marketing campaigns which have been targeting new buyers throughout the year. In addition, former buy to let investors continue to maintain an exposure to real estate by buying Commercial lots. (Graph A)

Continuing the trend of recent years, demand from buyers to purchase another commercial property at auction is high (98%, 97% in 2017) despite the wider uncertainty in the market. We believe this high demand is due to limited alternatives for investors to place their resources while interest rates remain low and with stock markets becoming more volatile. (Graph B)

This year has seen an increase in local buyers (44%, 37% in 2017) as well as a continued, reasonable proportion of overseas buyers (8% in 2018 against a 5 year average of 6.6%). This is a reflection of buyers buying close to their homes in locations they are familiar with as well as keeping a close eye on their investment. Whilst our buyers are mainly UK based the continued fall in the value of sterling is giving overseas buyers greater purchasing power for UK property. (Graph C)

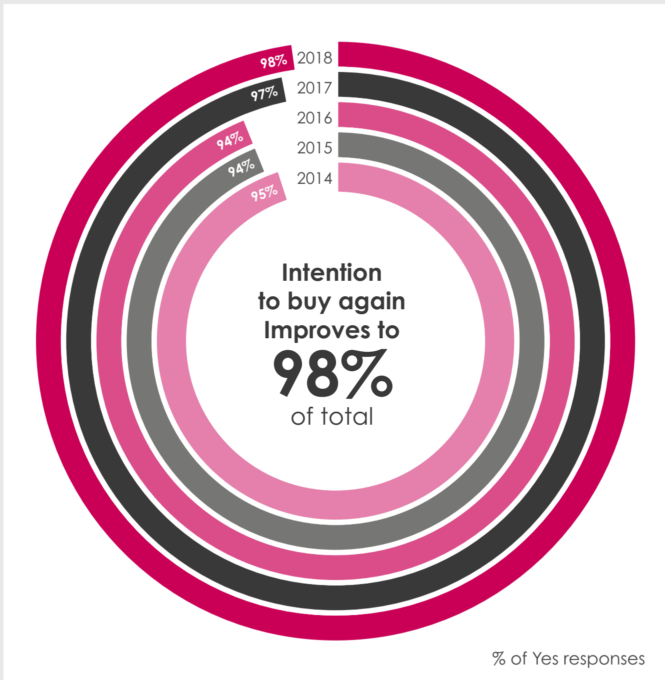
Have you bought a property at auction before?

Graph A



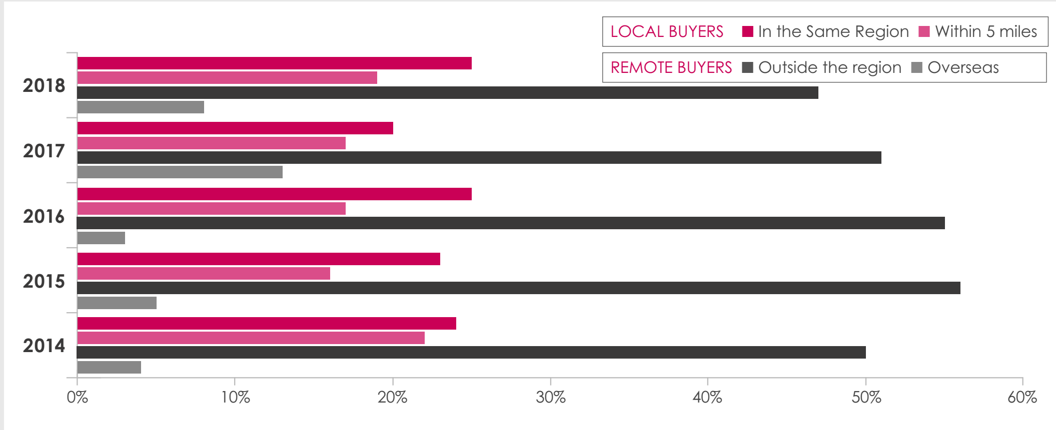
Do you intend to buy another commercial property at auction?

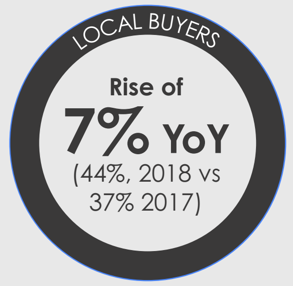
Graph B



How far are you located from the property you have purchased?

Graph C



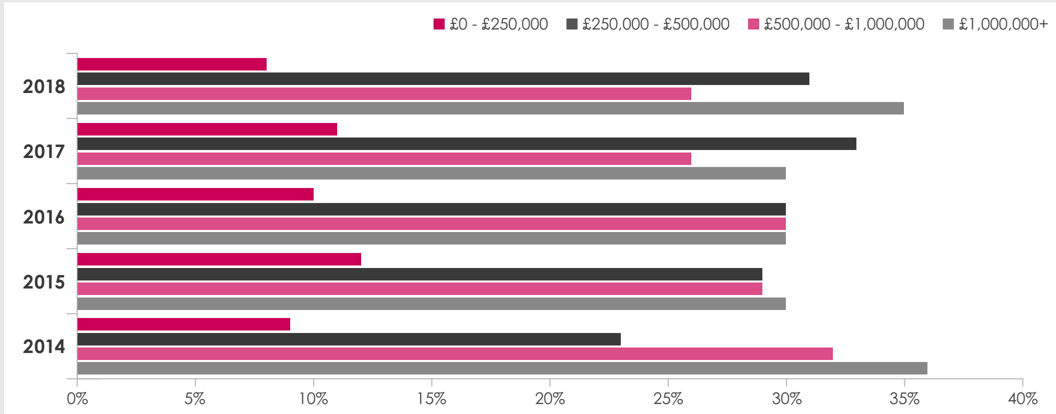


Demand for larger lot sizes (£1,000,000+) is at its greatest since 2014 (35% in 2018, 5% higher than 2017 at 30%). This is an encouraging sign for the year ahead as well as perhaps reflective of the makeup of the catalogues seen throughout the year. Whilst our buyers quite clearly show a desire to purchase £1m lots the number of such lots coming to Auction has reduced over the 12 months by 42 lots. Quite clearly some unsatisfied demand. Strong demand remains for mid-sized properties (£250,000 - £1,000,000 at 57% in 2018 and 59% in 2017) reinforcing these as liquid lot sizes. (Graph D)

Although most buyers rely on cash to fund their purchases (72%) we have seen a notable increase in buyers gearing their purchases between 50% - 75% LTV (15%), the greatest level since the inception of this survey. This is an encouraging sign that funds are being made available by lenders for commercial properties. (Graph E)

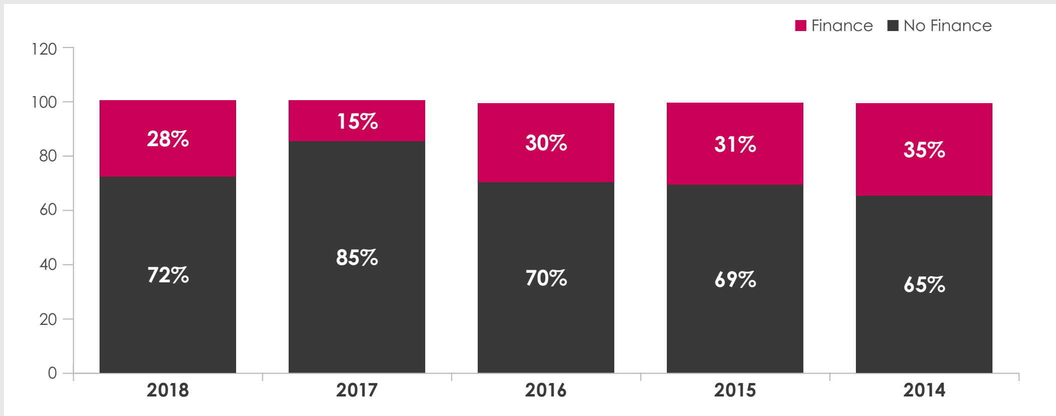
How much do you intend to invest in any single property

Graph D



How do you intend to fund the purchase

Graph E



2018 SELECTION OF TYPICAL SALES

February

SOLD £1.22M (4.80% NIY)

BANK

LOT 6 - LEWES

Attractive town centre building entirely let to Bank of Scotland Plc (T/A Halifax) at £62,000pa. Lease expires 2031.

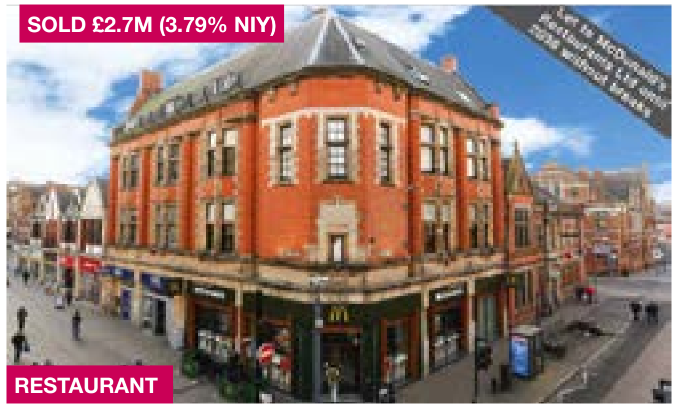
SOLD £1.3M (6.22% NIY)

TRADE COUNTER

LOT 14 - PORTSMOUTH

Self contained unit let to Speedy Hire Centres (Western) Limited at £85,751pa expiring in 2023.

SOLD £2.7M (3.79% NIY)



RESTAURANT

LOT 67 - LEICESTER

Well located city centre restaurant entirely let to McDonalds Restaurants Limited at £109,000pa. Lease expires 2036 (no breaks).

SOLD £3.5M (6.78% NIY)

RETAIL

LOT 76 - READING

Well located parade of five shops with offices (part vacant) above in pedestrianised position near Waitrose. Let at £252,865pa.

SOLD £730,000 (4.52% NIY)

MOTOR TRADE

LOT 78 - BOURNEMOUTH

Tyre and exhaust depot let to Kwik Fit Properties Ltd at £34,778.22pa. Reversion 2027. Future redevelopment opportunity.

SOLD £762,500 (6.47% NIY)

RETAIL

LOT 79 - WORCESTER

Town centre shop entirely let to Accessorize Ltd at £52,000pa until 2027.

March

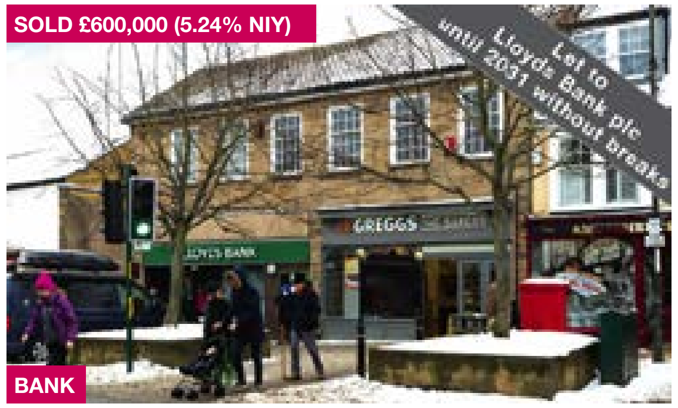
SOLD £757,500 (4.26% NIY)

RETAIL

LOT 3 - LONDON, NW7

Shop and maisonette let on overriding lease until 2027 (TBO 2022) at £34,000pa.

SOLD £600,000 (5.24% NIY)



BANK

LOT 9 - GUISBOROUGH

Well located town centre unit entirely let to Lloyds Bank Plc at £33,000pa. Lease expires 2031 (no breaks).

SOLD £1.8M (5.49% NIY)

LEISURE

LOT 11 - BRIGHTON

Newly fitted restaurant let to Patty & Bun Ltd at £105,000pa on a new 20 year lease (no breaks). Well located in The Lanes.

SOLD £2.5M (3.11% NIY)

CAR PARK

LOT 24 - READING

Central London car park let until 2037 (no breaks) at £82,757pa.

SOLD £975,000 (6.12 NIY)

OFFICES

LOT 51 - CRAWLEY

Offices let to Aircraft and Leasing Management Ltd at £63,120pa. Comprises 2,610 sq. ft.

SOLD £3.5M (2.48% NIY)

OFFICES

LOT 88 - LONDON, W1T

Prime mixed use city centre investment with self contained maisonette on third & fourth floors. Total rent £92,609.92pa with vacant office.

COMMERCIAL AUCTION ANNUAL REVIEW 2018

2018 SELECTION OF TYPICAL SALES

May

SOLD £1.78M (5.29% NIY)

RETAIL WAREHOUSE

LOT 19 - ORPINGTON

Trade Counter Warehouse unit let to Multi Tiles Ltd on a new 20 year lease (no breaks) at £100,000pa.

SOLD £630,000 (4.23% NIY)

BANK

LOT 21 - WETHERBY

Well located town centre Bank of Scotland let at £28,000pa until 2031 without breaks in historic Yorkshire town.

SOLD £1.2M (5.98% NIY)

INDUSTRIAL

LOT 67 - WORCESTER

Industrial unit let to Specialist Building Products Limited (t/a Permadoor) until 2031 (No Breaks) at £76,000pa with guarantee from Epwin Group Plc.

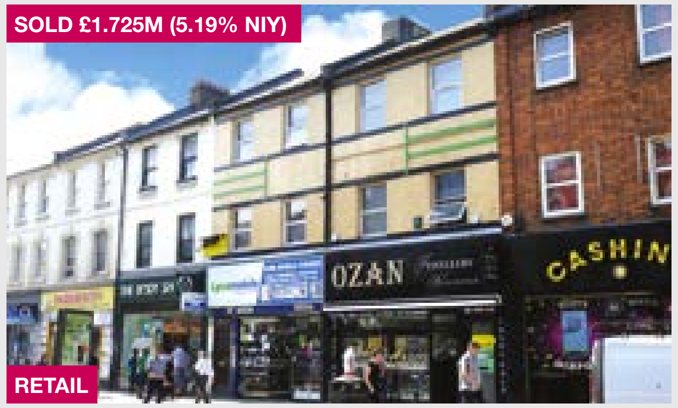
SOLD £2.06M (3.54% NIY)

RETAIL

LOT 90 - BEACONSFIELD

Attractive corner property, let to W H Smith Retail Holdings Ltd at £77,500pa on a lease expiring 2024. Large upper parts.

SOLD £1.725M (5.19% NIY)



RETAIL

LOT 91 - LONDON, N22

Two well located shops plus offices above with residential conversion potential. Total rents £95,000pa.

SOLD £2.5M (6.08% NIY)

MOTOR TRADE

LOT 94 - LEATHERHEAD

Well located petrol filling station fronting A24/A246 let to Co-Op on a lease expiring 2027 at £161,639pa. Annual increases of 2%pa.

July

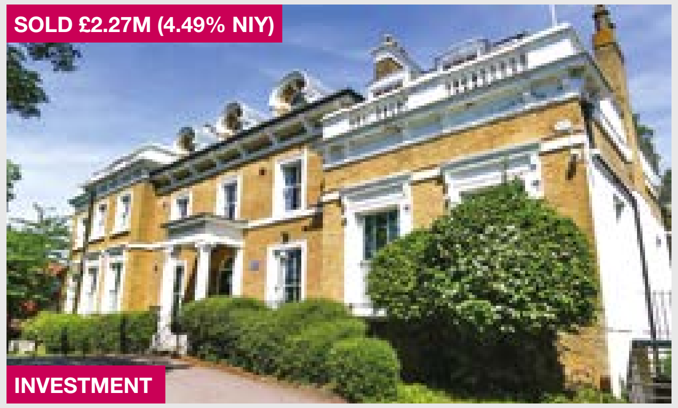
SOLD £2.13M (4.2% NIY)

BANK

LOT 12 - ENFIELD

Let to Bank of Scotland Plc (t/a Halifax) let at £95,000pa until 2031 without breaks. Includes upper floors with residential potential subject to planning.

SOLD £2.27M (4.49% NIY)

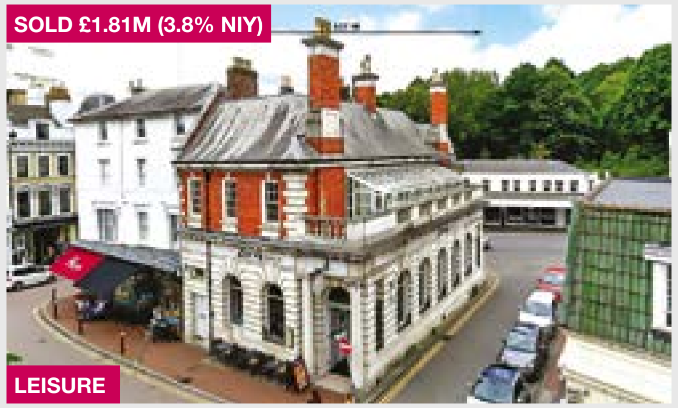


INVESTMENT

LOT 91 - MITCHAM

Detached building (6,643 sq. ft.) with car parking providing a private school let at £108,440pa. Popular South London area.

SOLD £1.81M (3.8% NIY)



LEISURE

LOT 94 - TUNBRIDGE WELLS

Attractive restaurant in affluent town entirely let to Azzurri Restaurants T/A Zizzi until 2041 (no breaks) at £72,990pa.

SOLD £1.9M (4.88% NIY)

RETAIL

LOT 98 - HARROW

Town centre Public House with residential uppers, let to Mitchells & Butlers Retail Limited (t/a O'Neill's) until 2022 at £98,500 pa.

SOLD £1.42M (4.78% NIY)

RETAIL

LOT 108 - GRIMOLDBY

Convenience Store let to Co-operative on new 15 year lease from May 2018 (no breaks) with RPI increases. Rent £72,000 pa.

SOLD £1.7M (4.82% NIY)

INDUSTRIAL

LOT 110 - BARKING

5,673 sq. ft. of industrial units on site of 0.41 acres within 50 metres of North Circular. Let on 2x new 10 year leases at total £86,965pa.

COMMERCIAL AUCTION ANNUAL REVIEW 2018

2018 SELECTION OF TYPICAL SALES

October

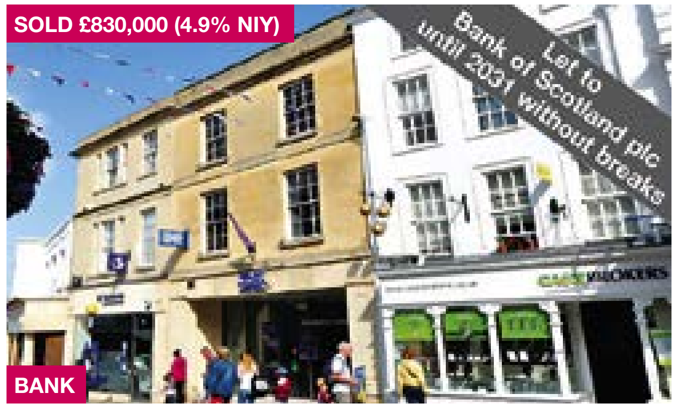
SOLD £1.994.5M (AVG. 4.7% NIY)

SALES & LEASEBACKS

VISION EXPRESS - UK WIDE

A package of nine regional high street sale and leasebacks on 10 year leases without break.

SOLD £830,000 (4.9% NIY)



BANK

LOT 12 - CHIPPENHAM

Attractive bank let to Bank of Scotland Plc at £43,000pa until 2031 without break.

SOLD £935,000 (4.55% NIY)

RETAIL

LOT 35 - BRIGHTON

Well located high street shop let to individuals at £45,000pa until 2023.

SOLD £3.5M (£89PSF CAP VAL, 21.2%)

OFFICE

LOT 131 - STOCKTON ON TEES

Offices extending to 39,375 sq. ft. with 167 space car park. Let to the Secretary of State at £790,000pa until 2024, tenant break in 2021.

SOLD £2.632.5M (AVG. 5.72% NIY)

RETAIL

LOT 132 to 139 - WELLING

A parade of eight shops and maisonettes all let. Total rents £159,604pa. Offered as eight lots.

SOLD £850,000 (6.13% NIY)

TRADE COUNTER

LOT 178 - NORWICH

Freehold trade counter extending to 11,629 sq. ft. let to Howdens Joinery at £55,000pa until 2025.

December

SOLD £1.520M (5.15% NIY)

BANK

LOT 18 - BROMLEY

Town centre bank let to Metro Bank Plc until 2042 at £70,000pa with 3 bedroom maisonette let on an AST. Total rents £83,200pa.

SOLD £1.15M (6.73% NIY)

RETAIL

LOT 79 - SKIPTON

Well located Grade II Listed shop in attractive market town let to WH Smith Retail Holdings Ltd at £82,000pa until 2024.

SOLD £1.95M (5.22% NIY)

OFFICE

LOT 86 - LONDON, N5

Attractive and well located double fronted office with seven flats above, six let on AST's and one vacant. Total rents £108,158pa.

SOLD £1.450M (5.8% NIY)

LEISURE

LOT 87 - BRIERLEY HILL

A 32 bedroom hotel entirely let to Travelodge Hotels Limited until 2039 without breaks at £89,010pa.with uncapped RPI increases.

SOLD £1.79M (5.92% NIY)

CAR PARK

LOT 89 - SWANSEA

385 space car park let to Virgin Media Ltd until 2039 at £112,540.40pa with 5 yearly rent reviews to a minimum of 4% pa compounded.

SOLD £1.56M (6.38% NIY, £98.45PSF)

INDUSTRIAL

LOT 107 - BATLEY

Industrial unit extending to 15,845 sq ft on a 1.61 acre site let to Tuffnells Parcels Express Ltd at £105,600pa until 2024.

COMMERCIAL AUCTION ANNUAL REVIEW 2018

2019

"THE DEMAND FOR PROPERTIES IN LONDON AND THE SOUTH EAST CONTINUES TO BE AS STRONG AS EVER, WITH PRICES ACHIEVED TO MATCH"

OUTLOOK FOR 2019

Attempting to try and forecast what may happen in the secondary property market over the next six months is about the riskiest thing I have done in my 40 year career! With the ever increasing risk of a "no deal" arrangement from the Brexit negotiations it would seem that markets and Industry are now starting to plan for this eventuality. Plan for the worst, hope for the best seems to be the best phrase to sum up the current mood.

Whilst some industries/companies will undoubtedly suffer from a "no deal" scenario, for many it will be business as usual. Brexit is being blamed for all the Country's problems, but in truth we believe much of the slowing economy and particularly changes in High Street retailing would have occurred in any event. With high levels of personal debt, low income growth and increasing penetration of internet shopping, it is not surprising both the high street and online retailers are under pressure.

In the latest Bank of England inflation report GDP Growth for 2019 is projected to be 1.7%, CPI inflation at 2.1% and interest rates to rise to 1%. These projections are fairly similar to 2018.

In the general investment market, returns are still weak with UK Government Bonds currently yielding around 1%. The FTSE which started the year at 7,671 is currently around 6,900, just over a 10% reduction for the year, with an average dividend yield of around 4%.

The regime of historically low interest rates looks set to continue, which enhances the appeal of the Real Estate sector as an investment medium. Private Investors, whilst becoming increasingly risk averse, will continue to invest in property for the higher income returns which can be generated and increasingly the perceived security of "bricks & mortar".

Supply of investment stock continues to tighten with a reduction of lots being offered, not only in the Auction Rooms, but also in the wider Private Treaty Market. The principal reason for this tightening is likely to be due to the traditional lag between Vendors expectations and market reality. This may change as Vendors continue to adjust to the fluctuating market conditions, however in the short term we believe supply will continue to tighten.

Rental values in the retail sector continue to be under pressure. With the exception of a few locations rents appear to be, at best static or falling. Void periods and incentives required by potential tenants are also rising.

Our Buyers Survey shows a continuing increase in the numbers of buyers purchasing in areas they are familiar with, a trend we fully expect to continue. Anecdotally we are being made aware of further tightening in the availability of debt from mainstream lenders. Conversely our Buyers Survey suggests that an increasing number of Investors intend to borrow to purchase, which suggests Challenger Banks and new entrants into the lending market are filing the gap from where traditional lenders have drawn back. There are still a substantial number of Investors (72%) who require no finance to purchase. A whopping 98% of Buyers stated they wish to purchase again in the foreseeable future which when added to the number of unsuccessful under bidders, suggests there continues to be no shortage of demand.

In conclusion the outlook for the secondary property market for the first half of 2019 looks uncertain; although we feel Brexit is having some effect on the wider economy and some Vendors in their decision to sell, it is, quite clearly not having an impact on Buyers, who continue to seek suitable investments in this low interest rate environment. Our December sale finished the day at a success rate of 79%, our highest of the year. This would suggest that once again if assets are priced accurately, significant levels of demand can be generated. We believe there will be a continued tightening of supply for the first half of the year which in turn will lead to further competition from Buyers, thus keeping yields fairly static for the best quality lots. Yields for more secondary and tertiary lots are likely to continue to rise.

We will continue to monitor the investments being termed "alternatives" to see their progress over the next six months. Again we suspect these will continue to be popular and thus yields are anticipated to remain static.

Geographically the demand for properties in London and the South East continues to be as strong as ever, with prices achieved to match. We see no reason why this position should change.

Properties situated in more secondary and tertiary locations or further away from the Capital are likely to continue to weaken where rental values are under increasing pressure. In the retail sector, local knowledge will continue to be extremely valuable.

Hopefully before 29th March 2019 our position in Europe will be slightly clearer and some of the uncertainty in the general economy will be removed. In the meantime in this continuing period of historically low interest rates, Real Estate continues to be an attractive investment and demand continues unabated for correctly priced stock.

Patrick Kerr, Partner.

98%

OF BUYERS STATED THEY WISH TO PURCHASE AGAIN IN THE FORESEEABLE FUTURE

COMMERCIAL AUCTION ANNUAL REVIEW 2018

Forthcoming auction venues and dates for 2019

COMMERCIAL

The Berkeley, Wilton Place, Knightsbridge SW1X 7RL

TUESDAY 5th FEBRUARY
online catalogue available: 12th January

TUESDAY 26th MARCH
online catalogue available: 2nd March

MONDAY 20TH MAY
online catalogue available: 27th April

TUESDAY 9TH JULY
online catalogue available: 15th June

WEDNESDAY 23rd OCTOBER
online catalogue available: 28th September

MONDAY 9th DECEMBER
online catalogue available: 16th November

RESIDENTIAL

FEBRUARY, MARCH, MAY, JULY & DECEMBER:
The InterContinental,
One Hamilton Place, Park Lane W1J 7QY

SEPTEMBER & OCTOBER:
The Cumberland Hotel,
Great Cumberland Place, London W1H 7DL

TUESDAY 14th FEBRUARY
online catalogue available: 26th January

THURSDAY 28th MARCH
online catalogue available: 9th March

THURSDAY 30th MAY
online catalogue available: 11th May

THURSDAY 18th JULY
online catalogue available: 29th July

THURSDAY 19th SEPTEMBER
online catalogue available: 31st August

THURSDAY 31st OCTOBER
online catalogue available: 12th October

TUESDAY 17th DECEMBER
online catalogue available: 30th November

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THE TEAM HAS 253 YEARS OF COMBINED AUCTION EXPERIENCE

2018

COMMERCIAL
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Auctions
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Investment (Sales & Acquisition)
Lease Consultancy
Letting and Management
Office Leasing (Central London)
Receivership
Valuation

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