COMMERCIAL AUCTION

2020

ANNUAL REVIEW

allsop

A year of DISRUPTION and opportunity in the auction market

There is little that hasn't been said about 2020 and the impact that the pandemic has had on society, working and shopping habits and in this market's case the ability and sometimes willingness of tenants to pay their rent.

Put simply it was a year of massive disruption with few winners bar Amazon as retail sales grew overall and reached new levels online.

The Private Investor chose to be unbowed and has patiently adapted to our digital platform which arrived with 5 days' notice in March and has quickly become mainstream and allowed uninterrupted trade throughout the year.

Arguably those Investors are the ones who have benefitted from an acceleration in the pace of sales and the acceptance of the new digital sales format.

The auction market has remained active throughout the year and we added two more auctions to the calendar increasing flexibility for buyers and sellers alike. The private treaty market was in recess for many months and as a result we have doubled our market share of the sub £5m commercial market to 9% from 4.5% last year according to Co Star's latest figures.

Which sectors have been the winners?

Investors have taken the three mantras of investing in our high yielding market to new levels - how long, how secure and what growth potential does the income have? Competition has been strongest for long income across all sectors, particularly where the rent has continued to be paid and is seen as sustainable.

This has taken convenience retail and roadside particularly to new heights; sometimes even in the absence of long leases, breaking the sacred rule of longevity of income.

With interest rates so low it is all but impossible to get a real return on cash on deposit which has added to investors' war chests when looking at value-add and mixed use assets which can be hard to price accurately. Some of these lots have been higher value than the typical auction lot, the largest, sold in December was over £10m for a development play in Ruislip Manor giving investors a substantial and long term project but meagre initial yield below 4.5%.

The greater number of larger lots has increased the average lot size throughout the year to £724,000, **and for the first time ever we recorded an average lot size of over £1m at our final sale of the year in December**.

One of the losers this year has been retail tenant demand, and rents in the core city centre High Street are uncertain at best, and typically falling in all but the most prime locations. This acceptance by the market and pragmatism from Landlords has allowed a more realistic approach on valuation. This has brought better liquidity and allowed Funds and Investors to divest away from retail which our cash rich buyers have been buying in their continued quest for yield. Our investors remain undaunted by lot size. With each investor having a different view on value, this raises the bar for us to interpret what buyers might pay.

One of the joys of our market is that it is almost perfect. Whilst owners move to rebalance their portfolios, we have the buyers ready and able to take on these assets at yields reflecting the new paradigms of risk, but with perhaps a lower cost of capital.

We saw this clearly with one client selling a long held office opposite Windsor Castle at 3.5%, (£2.625m). Within a fortnight he had replaced this income for just £850,000, as he was happy with the risk/reward of 12.6%, on a retail asset in Birkenhead, let on a longer lease than his Windsor office.

"One of the joys of our market is that it is almost perfect. Whilst owners move to rebalance their portfolios, we have the buyers ready and able to take on those assets"

The following examples and data serve to illustrate these points and more, with the Auction Team ready to delve deeper into the examples for you, so please do be in touch.

We would like to thank our clients, buyers and support teams for working wish us so patiently through this year and wish everyone good health and success in 2021.

Auction results 2020

£434m raised
2019 : £436m

599
Lots sold

91%
Success Rate

124
Lots over £1m

£724,000
Average Lot Size

All sectors and all regions covered

59%
Retail £256m

11%
Industrial £48.3m

9%
Leisure £40m

8.8%
Office £38.3m

11.8%
Other £51m

"The continued appetite for retail reflects the security of income on the one hand and opportunity for increased yield at the other end of the risk spectrum. Demand for industrial is consistently unsatisfied as yields tighten."

Commercial auction market 2020

UK's No.1
property auctioneer

Allsop Commercial
£434m raised
91% success rate

Acuitus
£118m
88%

Pugh & Company
£49.3m
69%

Barnett Ross
£32m
90.1%

NB. Source: Allsop Auction Data, correct to 4th January 2021.
Current totals (£) and success rates (%). The totals are accurate at 4th January 2021 and include sales after auction.

January to December 2020 Sales at, prior of after auction (£) / success rates at auction at 4th January 2021 (%)
Source: Essential Information Group.

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Review of 2020 sector by sector

Multi Million Pound Lots

Selling a lot at **£7m in May** endorsed the digital process and led to a year of increasing lot size. This helped achieve, for the first time, an average lot size of over £1m in our final auction of 2020. With funds and REITs needing to make more timely disposals and new capital in the market every month, we see this trend continuing into 2021.

DECEMBER
Over £10,000,000+
(4.28% NIY)

Lot 14
Ruislip Manor
Parade of 14 shops, 8 flats and rear land let at £479,424 p.a.

DECEMBER
£3,600,000
(4.30% NIY)

Lot 30
South Kensington, London
Listed four storey building comprising a Dentist and Flat separately let at £110,800 p.a.

MAY
£7,000,000
(4.75% NIY)

Lot 19
Tottenham
Job Centre let to the Secretary of State until 2028 at £345,858 p.a.

Retail - Added Value

Mixed use lots in the South East have seen some of the strongest demand and lowest yields of the year, allowing investors to spread their risk, preserve capital and allow longer term growth through added value.

SEPTEMBER
£3,250,000
(5.14% NIY)

Lot 52
Streatham, London
Barclays bank and offices above let at £177,900 p.a.

NOVEMBER
£6,000,000+
(4.52% NIY)

Lots 10-19
Northwood
Entire parade of eight shops, flats and rear offices

JULY
£1.015M
(7.1%)

Lot 19A
Christchurch
Parade of four shops and flats & garaging to the rear let at £76,000 p.a.

Review of 2020 sector by sector

Retail - High Street

Yields have moved out and the gap between the better and poorer stock widened creating opportunities for increased short term yields which have found a strong market from investors, despite the ongoing disruption to tenant demand.

DECEMBER
£3,900,000
(9.95% NIY)

Lot 15
Bromley
In town shopping centre of 8 shops and 3 office suites let at £413,382 p.a.

DECEMBER
£3,950,000
(10.96% NIY)

Lot 37
Chester
Three shops, one vacant, a pub and 7 flats let at £461,360 p.a.

JUNE
£1.42M
(18.6%)

Lot 18
Bournemouth
Let on three historic leases at £280,000 p.a.

Retail - Convenience Stores

This was the first sector to show real growth in 2020 as convenience shopping became ever more local. Investors are looking beyond short term break clauses as they see tremendous resilience and growth in these rental streams.

SEPTEMBER
£1,425,000
(4.63% NIY)

Lot 15
Honeybourne
Majority let to the Co Op with CPI increases on a lease expiring 2030 at £70,000 p.a.

NOVEMBER
£1,635,000
(5.32% NIY)

Lot 31
Gillingham
Let to the Co Op with RPI reviews on a lease expiring 2035 at £92,353 p.a.

JULY
£1.02M
(5.1% NIY)

Lot 15
Rossett, Wrexham
Let to the Co Op at £55,000 p.a. with RPI increases, until 2032.

Review of 2020 sector by sector

Retail - Suburban

Another sector that has benefitted from more localised spending, where rents have grown incrementally over time allowing businesses to grow with them. Buyers are identifying sustainability and growth potential in these modest unit rents.

SEPTEMBER
£1,205,000
(5.17% NIY)

Lot 8
Brighton
Let to a Costa Franchisee on a lease expiring 2029 at £65,980 p.a.

SEPTEMBER
£1,330,000
(6.55% NIY)

Lot 44
Twyford
Three shops, three flats and garages let at £92,400 p.a.

JUNE
£1.365M
(6%)

Lot 24
Taunton
Out of town parade of four shops with parking let to four tenants at £85,924 p.a.

Offices

Three examples that show appetite for London and the South East, and how special purchasers are ready and able to compete for the best located assets. The market has also benefitted from the many conversions to residential, which reduces supply and can still offer a valuable alternative use.

NOVEMBER
Over £2,500,000
(5.57% NIY & £535 PSFT)

Lot 6
Westminster, London
Listed offices and a flat let at a gross rent of £151,174 p.a.

NOVEMBER
£2,625,000
(3.58% NIY & £621 PSFT)

Lot 27
Windsor
Offices opposite Windsor Castle let at £100,000 p.a.

MAY
£1,330,000
(5.88% NIY & £232 PSFT)

Lot 18
Farnborough
Offices 5,713 sq ft on 1.1 acres part vacant.

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Review of 2020 sector by sector

Industrial

2020 has seen the continued re-rating of this sector, no lack of buyers but a lack of supply through the auction route. Demand is stronger than ever.

DECEMBER
£1,022,500
(5.41% NIY)

Lot 53
Sunderland
Let to Howdens Joinery on a lease expiring 2030 at £58,500 p.a.

NOVEMBER
£1,325,000
(6.75% NIY)

Lot 32
Leicester
Multi-let estate of 38,556 sq. ft. let at £94,745 p.a.

JULY
£1,380,000
(6.25% NIY)

Lot 45
Mansfield
Estate of six units let at £97,720 p.a.

Mixed use

Prices have been very strong in some cases, with investors buying at full retail price in the best locations as these examples show. This is driven by location and a ready supply of cash to invest.

SEPTEMBER
£3,250,000
(5.14% NIY)

Lot 5
West Hampstead, London
Hairdressing salon with three flats above let at £89,957 p.a.

SEPTEMBER
£3,300,000
(7.01% NIY)

Lot 30
Orpington
Entire parade of seven shops and seven maisonettes let at £246,464 p.a.

MARCH
£1,365,000
(6.00% NIY)

Lot 85
South Norwood
Public house and eight self contained flats let at £122,700 p.a.

COMMERCIAL AUCTION ANNUAL REVIEW 2020

Review of 2020 sector by sector

Leisure

The best leisure assets have defied the restrictions of lockdown and drawn strong competition. Where locations have allowed, prices have been underpinned by alternative use values and demand from special purchasers.

DECEMBER
£2,860,000
(4.26% NIY)

Lot 6
Chiswick, London
Pub let on a lease expiring 2030 with RPI reviews at £129,600 p.a.

SEPTEMBER
£760,000
(5.95% NIY)

Lot 76
Bracklesham
Pub let on a lease expiring 2033 with RPI reviews at £47,663 p.a.

JULY
£925,000
(8.00% NIY)

Lot 61
Tynemouth, North Shield
Substantial public house on the coast let on a long lease at £78,310 p.a.

Alternatives

The key investment criteria of long sustainable income with growth potential are clear from these three examples - the private investor welcomes diversity in their portfolios, and is not restricted by sector.

DECEMBER
SOLD:
£1,075,000
(4.42% NIY)

Lot 2
Cricklewood, London
Doctors Surgery let on lease expiring 2027 at £50,332.32 p.a.

NOVEMBER
£1,250,000
(5.50% NIY)

Lot 25
Huddersfield
Car park let to NCP on a new 15 year lease at £72,875 p.a.

JUNE
£651,000
(6.5% NIY)

Lot 30
Stoke on Trent
Children's Care home let at £45,000 p.a. on a 15 year lease with annual rent increases.

Review of 2020 sector by sector

Vacant

We believe that we will see more vacant stock on the market in 2021 and these examples show a ready market in Chelsea and a former Santander bank in Guildford, one of 14 vacant banks sold in 2020. There are other examples throughout the country where competition has been intense, and buyers have specifically cited the increasing flexibility of the Use Classes Order as an incentive to consider vacant stock.

SEPTEMBER
£1,217,500

Lot 79
Guildford
Vacant former bank of 3,902 sq. ft. over four floors.

DECEMBER
£1,075,000

Lot 71
Chelsea, London
Vacant shop and ground rent above in Chelsea.

JUNE
£813,000
(£27 PSFT)

Lot 11
Buxton
Former Marks and Spencer of £27 psft.

Long income

With negative real interest rates now a reality, buyers will compete ever harder for long dated income and this will only increase as confidence improves and cheap debt becomes a long term feature of the market. Fixed increases and CPI or RPI increases drive the competition particularly hard.

NOVEMBER
£535,000
(4.64% NIY)

Lot 3
Southampton
Takeaway restaurant let on a long lease expiring 2039 at £26,000 p a.

DECEMBER
£1,800,000
(4.29% NIY)

Lot 4
Upminster, London
Pub let on a long lease, expiring 2072 at £82,000 p.a.

MAY
£925,000
(3.9% NIY)

Lot 34
Halifax
Premier Inn Hotel let at £37,720 p.a. until 2064 on geared ground rent.

COMMERCIAL AUCTION ANNUAL REVIEW 2020

Buyers Survey

We have been running our buyers' survey since 2012, which we have enhanced with a full market survey this year, the findings for which will be published at the end of January.

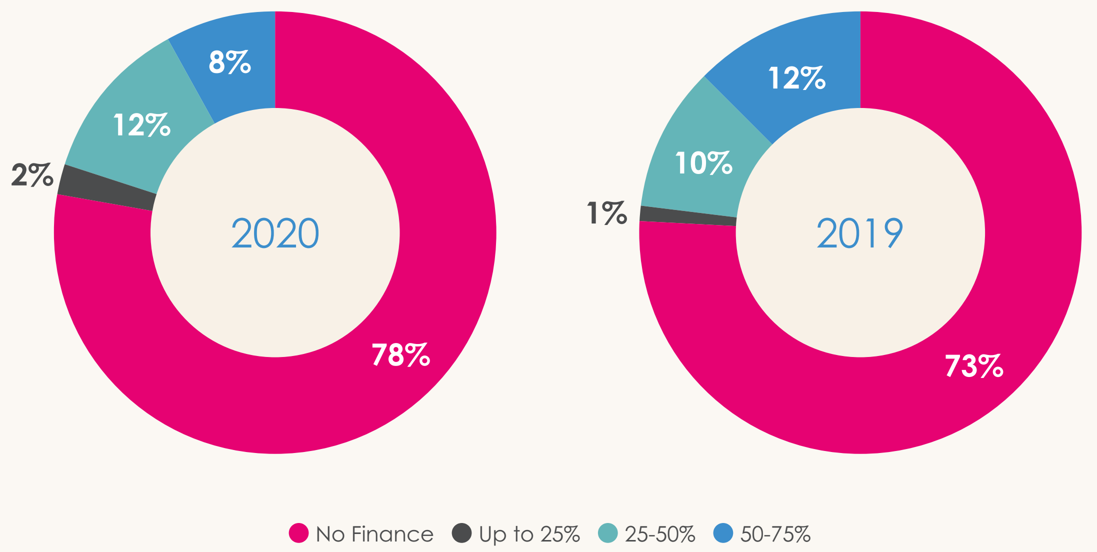
This past year, the buyers' survey was completed online. Buyers happily responded providing us with some fascinating insight as to their thinking upon which we would be happy to expand.

Demand amongst successful buyers to buy again within the next 12 months rose to 84% from 77% 2019 with the remaining 16% intending to buy again at auction within the next 5 years. This reflects **the highest overall demand amongst buyers to buy again at auction ever recorded** in this survey (100%).

20% of buyers were new to buying commercial property at auction (17% in 2019) with 47% of buyers being regular buyers in the auction room over the past 12 months (50% in 2019). The increase in new buyers is testament to the far reaching marketing campaigns run throughout the year attracting new buyers and the take up of the digital format.

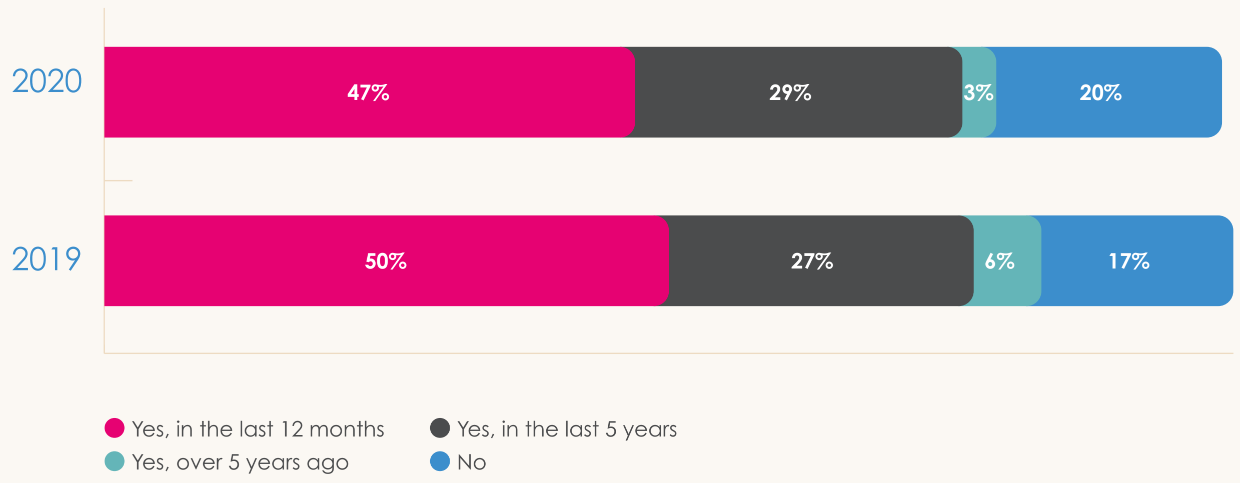
Those that were successful in buying at auction relied on existing cash reserves to fund their purchase (78% in 2020, 73% in 2019) and almost half the buyers were happy to buy nationally rather than locally, being deal driven.

How did you fund the purchase?

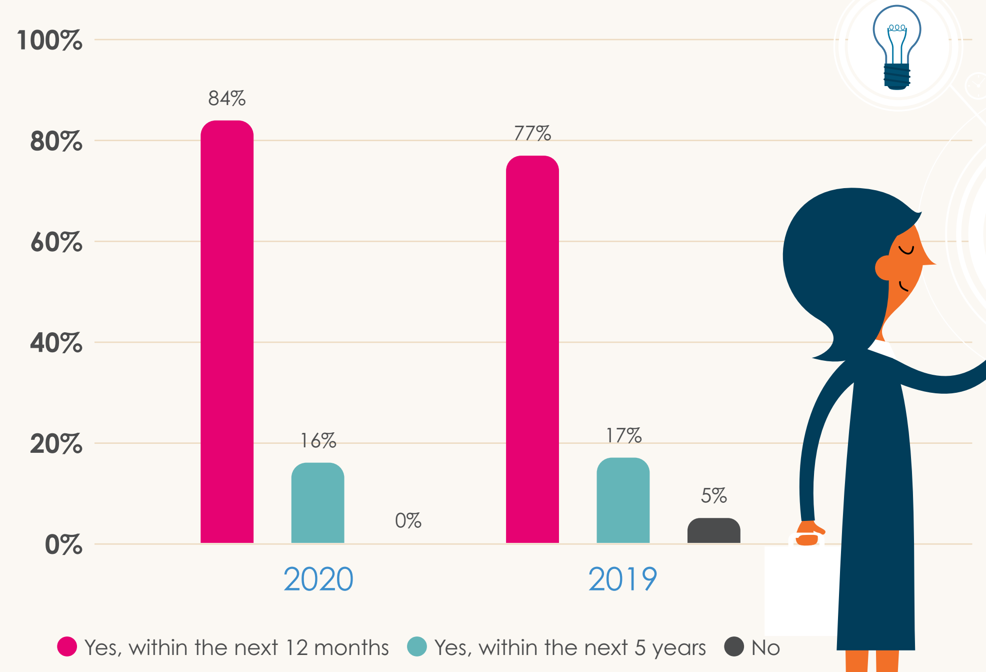


Demand amongst successful buyers to buy again within the next 12 months rose to 84% from 77% to 2019.

Prior to this purchase have you bought a commercial property at auction before?



Do you intend to buy another commercial property at auction?



Coming soon...

Results from a comprehensive commercial auction market survey, conducted by Allsop and independent researchers.

COMMERCIAL AUCTION ANNUAL REVIEW 2020

Looking ahead to 2021 Q1 and beyond

A rebound year

The fuel of our market, low interest rates, looks set to continue for some time, with long term debt available at 3% fixed.

This seems cheap, but the base rate of 0.1% may become negative which would be uncharted territory adding a new dimension to assessing yields on real estate and stoking demand from investors.

“Buyers now trust their own instinct more than ever and rely on their own assessment of the ability of tenants to pay rent”

Buyers now trust their own instinct more than ever and rely on their own assessment of the ability of tenants to pay rent and the real estate to perform for them, hence the widening of yields in our markets.

CVAs in the retail and leisure sectors have become part of the landscape of risk and with Clarks joining the list in 2020, both landlords' and tenants' arguments are now well developed.

The sale of Arcadia is going through a second round of best bids in January 2021 with Evans having already been sold. UK buyers such as Next plc, Primark and M&S plc are competing with overseas brands with Private Equity backing. The final format of this sale could signal the beginning of a more stable and positive phase for the core High Street.

With the continued uncertainty of the pandemic, the Government has extended the Furlough scheme again and apparently, for the last time, the embargo on Landlords claiming possession for unpaid rent. Our more recent market survey shows investors continue their long term view and are taking little heed of the pandemic.

The new flexibility in the Use Classes Order has been well received but otherwise Landlord has been left out of the list the Chancellor's schemes such as rates holidays and direct grants. This seems unlikely to change in the short term and will bring opportunity for new capital as funds are squeezed and disposals will need to be made with debt covenants breached and incomes failing to recover.

The recent arrival of the vaccines will deliver a rebound in GDP growth and consumer spending once we are all more clear of the pandemic threat

“Disruption creates the sort of market where the Private Investor is at its most nimble and the auction market its most efficient”

Canny investors will benefit from these opportunities, it is just a matter of timing.

The yield gap has widened reflecting the risk differentials between the safest and the most opportunistic income streams, and this will continue to be the case until we can detect a base line of genuine recovery.

This ongoing disruption creates the sort of market where the Private Investor is at its most nimble and the auction market its most efficient so it will be a year of opportunity and intrigue.

We look forward to working with everyone in 2021, wish you good health and look forward to seeing you face-to-face as regulations allow.

Click to read our blog on the recent changes in the Use Classes Order

COMMERCIAL AUCTION ANNUAL REVIEW 2020

Forthcoming auction dates for 2021*

Commercial

Wednesday 3rd February 2021
Tuesday 23rd March 2021
Thursday 6th May 2021
Tuesday 15th June 2021
Tuesday 20th July 2021
Thursday 23rd September 2021
Tuesday 2nd November 2021
Wednesday 8th December 2021

Residential

Thursday 18th February 2021
Wednesday 31st March 2021
Thursday 13th May 2021
Thursday 24th June 2021
Thursday 5th August 2021
Thursday 30th September 2021
Thursday 4th November 2021
Thursday 16th December 2021

CLICK TO SYNC TO CAL
Add our auction dates to your calendar

For further details on our auction sales including venue and timings please visit our website **allsop.co.uk**

*Date subject to change and alteration

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The team has 299 years of combined auction experience

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