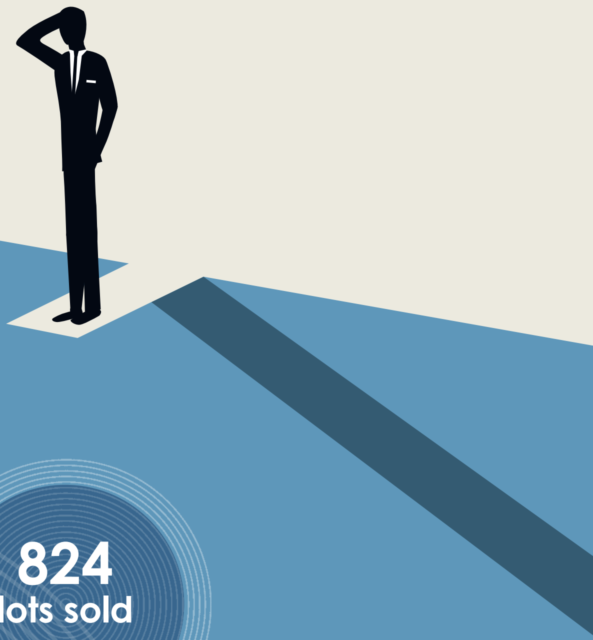
Commercial Auction

Outlook

2022



179
lots over £1m
(2020 127)

824
lots sold
(2020 615)

£584m sold
(2020 £483m)

8
auctions

93%
success rate
(2020 93%)

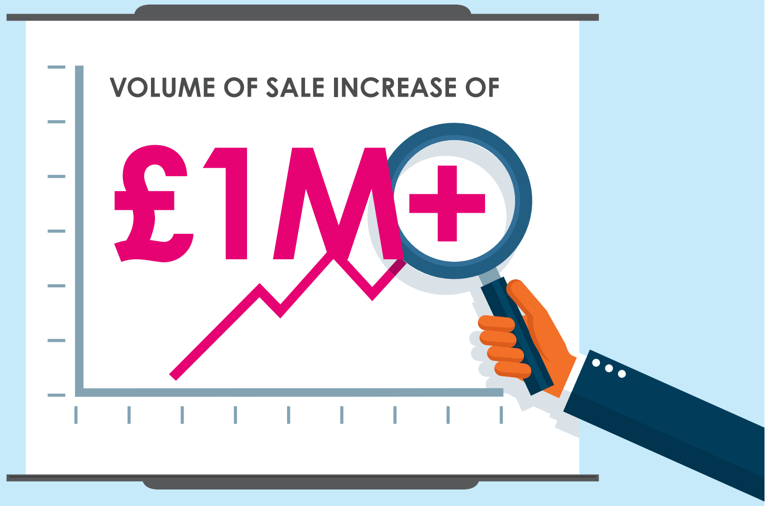
allsop

What have we learnt from 2021?

We are able to reflect on 2021 as a busy and very positive year in our market which operated totally online throughout the various lockdown restrictions and delivered increased volumes, a preponderance of larger lot sizes and revitalised appetite for retail which have been the dominant themes of the year.

We have traded well ahead of the last three years, **with £584m sold, a 30% increase year on year** and a level not seen since 2017, the year when Article 50 was invoked for the UK to leave the EU.

This compares to the wider sub £5m investment market, which according to Costar dropped by 18.7% to £6.5Bn from £8Bn in 2020.



Why is this?

The volume growth has been driven by larger lots, of the lots sold, **over 50% by value is now in excess of £1m, £310m in all.** The largest being achieved in Swindon, the former Readers Digest Headquarters, a mostly vacant office and warehouse sold as one lot at £5,000,000.

Many of these lots have been offered to market earlier by Private Treaty teams as we offer a hybrid approach to the sale process, **and have been sold largely for our widening base of Institutional sellers.** The marketing is still served by the framework of the auction contract and calendar which crystallises demand after a full marketing process and concludes the sale in a timely fashion.

Focussing on our buyers, they have become very used to good information being available online from day one, and with the help of sellers and their solicitors this **has allowed us to work with two to three week marketing periods to great effect before exchange of the unconditional auction contract.**

Earlier this year **we called the turning point in the retail sector as investors competed for assets large and small,** the most notable of which was the West Orchards Shopping Centre in Coventry that had been in the market for over 12 months. It was **sold in competition at £4.85m to seasoned investor Tony Khalastchi** and nine months of asset management have given rise to eight renewed leases, **all three floors of the former Debenhams store being committed separately and a major High Street retailer about to conclude a significant letting**. We hear that the net income will have risen to £1.5m within 18 months of the purchase.

Retail has been the dominant sector which has been bolstered by the sale of three mixed portfolios, including the sale of 93 newly let Boots stores which were bought in 2017 are covered in more detail later on.

All sectors have of course been covered from a local library, to a gritting lorry depot. We have achieved £145m of sales away from the retail sector which we have shown with sector by sector analysis.

As ever the Auction Team have many more examples and insight at their fingertips. If you have further queries we would all be pleased to talk to you, and don't forget to listen to our regular podcasts covering our take on every auction.

> **"The volume growth has been driven by large lots, of the lots sold over 50% by value is now in excess of £1m."**

Who is Selling?

In our **Summer Review** we focused on feedback from a buyers' survey, so in this Outlook we will comment more specifically on some of the sellers using the auction process.

As always the vast majority of our sellers, by number of lots are privately owned property companies.

Institutions & Funds have been active sellers over the year, raising some £64m. They have often used a hybrid approach to marketing on some of the bigger lots where buyers might benefit from a longer period for their due diligence. These include our first significant turnover rent in Guildford, a Multi Let industrial estate in Salisbury and Out of Town Retail on the Isle of Wight.

Asset Managers - long term holders of stock that has been bought to manage and trade on, who have built the liquidity provided by the regular sales dates of the auction market into their business plans, with great effect as their stock has matured the sales have been executed. Examples of these include portfolios of leases to Santander and Boots, these sellers have sold over £130m of stock right across the price range from £35,000 to several million pounds.

Operators - we have sold directly for three High Street Retailers and a Bank as they raise capital from their estate offering buyers leases of up to five years or vacant former bank branches. As the occupational market recovers and demand for capital raising increases, we may well see more of these sales in 2022.

Consensual Sales - Vendors selling with the co-operation of their banks before the implementation of formal recovery proceedings has had a resurgence in volume. We have sold two portfolios of High Street assets including Shopping Centres at a total value of £48m.

Receivership Sales - Receivers have sold £6.5m over the year. Many of the borrowers redeem the debt in full or part when the pressure of the auction date comes to bear. We have seen little sign of an increase in appointments which may change over the course of 2022 as the cost of borrowing rises.

Yield Analysis

We have analysed single let retail assets with unexpired terms between 3 & 15 years from the last year. The sample comprises **357 assets (£211.8m)** from 2021 compared to 186 assets (£98m) in 2020.

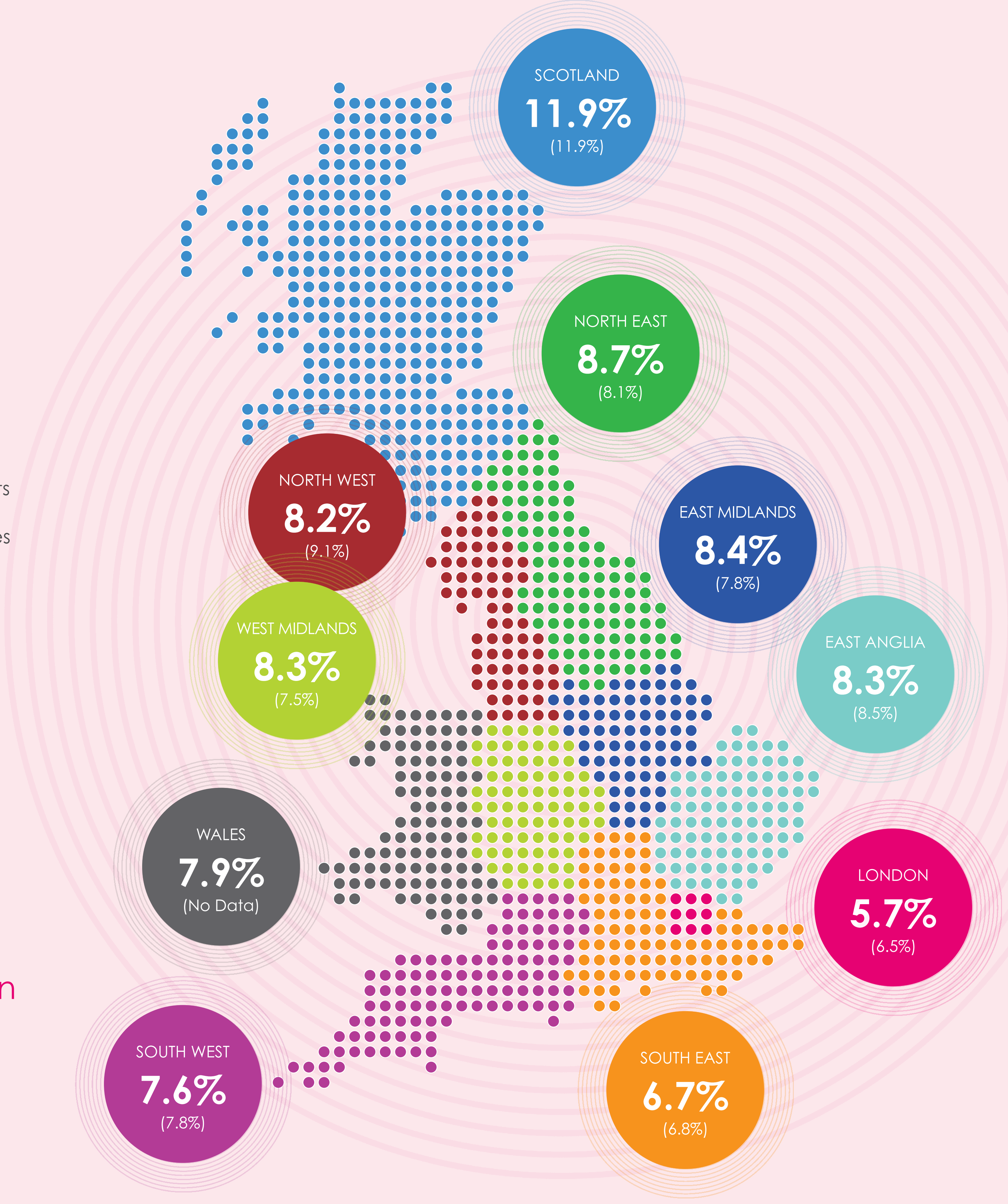
This larger sample size, almost double the past year by volume, provides the most in-depth dataset since 2018 and helps us to ascertain trends and buyer sentiment towards retail assets across the nation.

We have shown the average yields across the UK by region against the equivalent sales from 2020 which shows an improvement in yields achieved in just half of the regions, with the biggest improvement being in London. Whilst we show many strong yields in our examples, each asset is unique and requires the real time knowledge of the auction sector and immediate buyer demand that we can offer to accurately predict the pricing. This analysis of the whole data set by yield hides some vagaries in the detail as we alluded to in our Summer Review.

Yield is the common measure but where rents remain high on some of the longer leases that remain in the market, the yield needs to move out as buyers will factor in where the rents are likely to re settle. Therefore the capital rate per square foot becomes a more important measure.

This also allows comparable analysis of assets where the upper floors remain unexploited as shown in some of the examples, as the alternative use value is much higher than retail in the medium term.

Our analysis can be further broken down by lease length, in brackets of 3-5, 5-10, and 10-15 years which is worthy of a blog in its own right which we shall publish shortly.



Yield analysis by region of single let retail only
357 ASSETS (£211.8M)

Region Average net Yield 2021 (2020)

Auction results 2020-2021

£584m raised
2020 : £444m
2019 : £435m

824
Lots sold
2020 - 615 LOTS SOLD

93%
Success Rate
2020 - 93% 2019 - 86%

179
Lots over £1m
2020 - 127 LOTS £1M+

£710k
Average Lot Size
2020 - £722k

All sectors and all regions covered

59%	11%	11.8%	9%	8.8%
Retail	Industrial	Other	Leisure	Office
£439m	£47m	£40m	£27m	£31m
2020 - £264m	2020 - £48m	2020 - £52m	2020 - £42m	2020 - £38m

Commercial auction market 2021

£ Total Commercial sales raised by main Auction houses £866m

UK'S NO.1 PROPERTY AUCTIONEER
Allsop Commercial
£584m raised
93% success rate

Acuitus
£163m
94%

Pugh & Company
£59m
72%

Barnett Ross
£50m
99%

Lambert Smith Hampton
£9.4m
86%

Source: EiG-Commercial sales only 14.01.2022

Shakespeare Portfolio

the sale of newly let Boots Stores across the UK

This 312 store portfolio has been managed by our clients for the last four years, with all leases being regeared in phases to reflect current rent and trading performance. The new leases had unexpired terms from 5 year (done with 3 year break) to 10 year certain, an average of 5.8 years overall.

Total of **95 lots** sold at auction alone so far, realising **£74.9m** in proceeds.

Average yield outside London and the South East on 66 lots **- 6.8%,** at an average sale price of **£611,000.**

Average yield in the South East on 21 lots – **5.9%** at an average sale price of **£967,000.**

Within Greater London, on Freehold sales of 8 lots, the average yield was **4.4%** at **£1.68m.**


Lot 33 July

Southgate, London

Entirely let to Boots expiring 2029, sold at **£1.765m, 2.9%, £371 psft.**


Lot 31 July

Finchley, London

Entirely let to Boots expiring 2029, sold at **£1.625m, 4.3%, £325 psft**.


Lot 6 July

Amersham

Entirely let to Boots expiring 2029, sold at **£1.835m, 4.5%, £286 psft.**


Lot 54 June

Stockport

Entirely let to Boots expiring 2029, sold at **£525,000, 4.7%, £119 psft**.

Review of 2021 by sector

Multi-Million Pound Lots

178 lots have been sold at £1m or more raising £310m, 52% of total sales. One of the largest single lot was a Multi Let Industrial Estate in Stockton. Secure and long income is always at a premium, as shown with the Finchley example, let in its entirety to HBOS.

Lot 66

8 DEC
In excess of £4,300,000
(6.12% NIY)
VISIT WEBSITE

Stockton-on-Tees
Freehold industrial investment comprising 12 industrial units at current rent of £286,172 p.a.

Lot 9

2 NOV
£2,151,000
(4.42% NIY)
VISIT WEBSITE

North Finchley, London
Freehold bank investment entirely let to Bank of Scotland plc (t/a Halifax) at £101,100p.a. comprising two shops, first floor offices/ancillary & a self contained flat.

Retail - Added Value

Buyers will pay a premium where value could be added in the medium term, and or for upper floors that remain unexploited.

Lot 20

2 NOV
£2,650,000
(4.68% NIY)
VISIT WEBSITE

Streatham, London
Freehold parade of shops with development potential comprising an unbroken parade of six shops with ancillary upper parts let at current rent of £132,000 p.a.

Retail - High Street

The average retail yield across all lots has come in to 8.1% net this year from 8.6% last, reflecting both stronger demand and a better offering of High Street assets. These two examples show the demand that can be generated in popular towns where rents are realistic.

Lot 53

23 MAR
£1,652,000
(5.7% NIY)
VISIT WEBSITE

Croydon
Entirely let to Santander, expiry 2025 at £100,000 p.a.

Lot 6

8 DEC
£1,210,000
(5.77% NIY)
VISIT WEBSITE

Peascod Street, Windsor
Freehold shop investment entirely let to Crew Clothing Co. Ltd on new five year lease expiring 2026 at £74,000 p.a.

Retail - Convenience

Convenience stores remain a favourite of the Private Investor, particularly with Inflation based increases, by RPI or CPI and this demand will continue to improve the pricing and bring yields in. Supply is limited and retailers now resist these minimum increases in new lettings.

Lot 87

23 SEP
£1,380,000
(4.78% NIY)
VISIT WEBSITE

Co-Op, Hove
Virtual freehold convenience store investment entirely let to Co-operative Group Food Limited with CPI rent reviews on a lease expiring 2035 at £70,000 p.a.

Lot 18

23 SEP
£1,034,000
(5.42% NIY)
VISIT WEBSITE

Sainsbury's, Hull
Freehold supermarket investment entirely let to Sainsbury's Supermarkets Ltd with RPI rent reviews until 2025 at £59,264 p.a.

Review of 2021 by sector

Retail - Suburban

Local neighbourhood shopping has been a beneficiary of the changing working and more local spending habits of the past 18 months, and these retailers have had proportionately the most government backed financial support in furlough, grants and continuing rates relief. Buyers have responded to this and shown increasing appetite for local independent tenants.

23 SEP
£686,000
(7.38% NIY)
VISIT WEBSITE

Garforth, Leeds
Parade of four shops with four maisonettes above totalling 577.5 sq m (6,216 sq ft). Let at £53,300 p.a.

8 DEC
£370,000
- £135,000
(6.24%-9.17% NIY)
VISIT WEBSITE

Mitcham
A parade of 23 ground floor shops of which 17 were sold as separate lots.

Industrial

Rental growth is the driver of tremendous Investor demand in the industrial and logistics sectors. This starts at a local level where supply is limited as ever bigger units are built.

23 SEP
£1,190,000
(4.76% NIY)
VISIT WEBSITE

Watford
Freehold investment let to Parts Alliance Group Limited on a lease expiring in 2028 at £60,000 p.a.

23 SEP
£2,500,000
(6.81% NIY)
VISIT WEBSITE

Denaby, Doncaster
Freehold investment let on two leases to United Carpets (Property) Ltd until 2031 at £181,026 p.a.

Office

Increasingly flexible planning policies continue to benefit office assets, particularly in high value residential areas or good commercial centres. This may be the year when regional demand stabilises.

8 DEC
£1,900,000
(4.67% NIY /
£511 PSF)
VISIT WEBSITE

Gerrards Cross
Grade II listed Freehold office & residential investment comprising three self contained office suites and two self contained flats let at £94,368 p.a.

23 SEP
£5,000,000
(£78 PSF)
VISIT WEBSITE

Swindon
49,656 sq ft offices and adjacent 13,953 sq ft warehouse part let at £563,878 p.a.

Trade Counter

Always a popular sector, lockdown has driven tenant's profits, investment stock is limited and the potential for rental growth clear. One portfolio of five assets had failed to sell by Private Treaty, and sold well ahead of guide prices, individually.

23 SEP
£2,750,000
(6.04% NIY)
VISIT WEBSITE

Chichester
Leasehold trade counter let to Jewson Limited, until 2032 at £185,000 p.a.

2 NOV
£613,000
(4.66% NIY)
VISIT WEBSITE

Swindon
Trade counter entirely let to J.P. McDougall & Co Limited until 2028 at £30,000 p.a. Part of a portfolio of five similar lots that had been marketed previously and unsold.

Review of 2021 by sector

Mixed Use

Whether office and residential or retail and residential, demand is always strong for mixed use income across the country, with particular spikes as ever in London locations.

2 NOV
£2,952,000
(8.77% NIY)
VISIT WEBSITE

Meir

Unbroken mixed use parade comprising seven shops and 43 flats let at a total rent of £280,548 p.a.

2 NOV
£1,900,000
(6.54% NIY)
VISIT WEBSITE

Nottingham

Grade II listed office & residential investment comprising offices & three modern well specified flats. Let at a total current rent of £132,000 p.a.

2 NOV
£1,710,000
(4.89% NIY)
VISIT WEBSITE

Camden, London

Estate agents with four flats above. Let at a total current rent of £88,739 p.a.

8 DEC
£502,000
(4.08% NIY)
VISIT WEBSITE

Wimbledon, London

Shop and self-contained maisonette let at a total current rent of £21,452.84 p.a.

Review of 2021 by sector

Leisure

The combination of a roadside asset, the strong covenant of McDonalds and a long lease will always spike investor demand and this example is no exception. Overall volumes of leisure assets were reduced year on year due to the interruptions in trade, but demand for proven locations was evident.

23 SEP
£1,400,000
(4.99% NIY)
VISIT WEBSITE

Redcar
Drive-thru restaurant investment entirely let to McDonald's Restaurants Ltd on a lease expiring 2026 at £74,025 p.a.

2 NOV
£1,151,000
(4.76% NIY)
VISIT WEBSITE

London, SW7
Restaurant & ground rent let at £58,000 p.a. on a lease expiring in 2030.

Vacant

Total volumes of vacant assets were reduced this year to £26.2m from £30.4m in 2020. Two factors have driven this, a sales campaign by three High Street Banks last year realised a third of the total and occupier demand has become clearer, allowing owners to hold and take longer term views.

23 SEP
£2,825,000
(£62 PSF)
VISIT WEBSITE

Worthing
Former Debenhams. Comprising a total of 44,897 sq ft.

23 SEP
£1,600,000
(£70 PSF)
VISIT WEBSITE

Plymouth
Vacant offices with redevelopment potential comprising a modern office over three floors extending to 22,587 sq ft plus car parking for 96 vehicles.

Long Income

A long lease to The Local Council with inflation based rent increases provided one of lowest yields of the year as shown, and a similarly well let regional office are two examples of Investors paying strong prices to hedge against inflation.

2 NOV
£1,705,000
(3.31% NIY)
VISIT WEBSITE

Colliers Wood, London
Library entirely let to the London Borough of Merton with RPI rent reviews until 2043 at £60,000 p.a.

8 DEC
£447,000
(5.4% NIY)
VISIT WEBSITE

Cheltenham
Grade II Freehold office entirely let to Richmond Care Villages Holdings Ltd (subsidiary of Bupa Ltd) with RPI rent reviews until 2037 at a gross rent of £30,000 p.a.

Hybrid Approach to Marketing

Several larger sales have been achieved working with other teams within and outside Allsop, still within the framework of auction timing and the unconditional contract.

8 DEC
£2,550,000
(9.4% NIY)
VISIT WEBSITE

Exeter
City centre shop comprising two shops let to Blacks Outdoor Retail Limited (t/a Millets) and White Stuff Limited at £255,000 p.a.

23 SEP
£2,400,000
(13.67% NIY)
VISIT WEBSITE

Canterbury
Long Leasehold shop and ground rent investment comprising three shops with ten flats above. Tenants include the Secretary of State (t/a Jobcentre Plus) and Lakeland Limited. Let at a total current rent of £392,000 p.a.

Looking Ahead...

With Government Scientists talking of the **pandemic moving to an endemic in the early months of 2022**, there should be fewer restrictions to trade, more shoppers on the street, more drinkers in pubs and bars, greater restaurant bookings and a wider uptick in trade. We are optimistic that we will see the continued growth in buyer numbers that we saw in the last months of 2021 which should continue to drive pricing.

At an economic level, GDP is at 6.8% ahead of last year and unemployment level below forecasts at 4.1% the tone is set for another positive year.

Rising inflation has been a theme for every pundit commenting on 2022, with CPI at 5.1% and RPI 7.1% at the year end, a dramatic leap from even six months ago, particularly exacerbated by energy costs at every level. These levels of inflation are placing a strain on the cost of living with wages only rising at 4.2% but this is rising as well.

Inflation has typically been seen as the friend of the property investor, eroding debt and in time driving rental growth and as we have already commented has driven pricing higher on some of the stock with index based rent increases in our market already.

One of the challenges is whether this cost-push inflation will stall consumer spend and prove to be a drag on economic and rental growth, particularly on the High Street with the rise in cost of living which may impact demand.

Many Commentators are suggesting that this inflation will not be long lived and by the end of the year will fall back nearer to the Bank's target level of 2%. Assuming that plays out, and the money markets are to be believed, then inflation and demand will force bank rates up to +/- 1% within a year which would be four times where we started 2022.

Whilst this might have a negative impact on some of the very low yielding sales that we have achieved this year, it will **make little difference to demand on the wider high yielding market of commercial auctions**, which are more driven by investor confidence and the attraction of regular income.

Availability of finance is the challenge for most investors, particularly in the retail sector where few banks are willing to lend, and the timescale for approval is long. Our buyers rely on cash, and those that require debt use one of the short term lenders in our market.

With the clear upturn in our market that we have shown in the last twelve months, will we see more banks coming forward with long dated facilities this year?

The rising cost of borrowing is also likely to increase the pressure on borrowers where values might have stabilised over the last twelve months but have dropped significantly over the period of the loan, resulting in loan to value ratios and covenants being breached. We sense that banks have been patient during the pandemic but with a more predictable market, more confidence in the stability of pricing we might well see more consensual sales and Receivership appointments in our sector providing opportunity for investors.

High Street retail will continue to evolve this year, and will be helped by the phenomenon of online retailers building High Street presence such as Amazon Fresh and Gym Shark. Both established and new occupiers are taking space including the small scale grocery delivery services such as Getir that we are seeing in more urban areas.

As the use of offices finds a new normal, perhaps there will be more demand for decentralised and out of town offices as there has been for out of town retail, where good free parking is key.

The **leisure sector** was hard hit by the pandemic, yet at a corporate level last year the sale of Greene King was one example of a long term investment in a property backed leisure business. With new pub companies continuing to be formed and profits rising there may well be a rise in confidence in the sector generally.

Industrial and Logistics will continue as the sector in strongest demand with the continued quest for home and last mile delivery driving rental growth.

The rise in importance of **ESG factors (Environmental, Social and Governance)** is on the minds of corporate investors, funds and financiers and assets which do not meet their criteria might be sold, which would provide interesting opportunities for the Private Investor in the auction market.

The **Commercial Rent (Coronavirus) Bill** is due to come into law this year, which will essentially ring fence the £7Bn of arrears that remain outstanding from the lockdown period. Whilst most Private Investors will have already come to arrangements with tenants, the establishment of a formal arbitration process to address these arrears will help end the stand-off between Landlord and Tenant and from a Landlord's perspective allow that rent to be paid where the enforced closure did not threaten the viability of the business.

> “GDP is at 6.8% ahead of last year and unemployment level below forecasts at 4.1% the tone is set for another positive year”

Our thanks to all our clients and the wider auction community for your support and feedback this year, we wish everyone a healthy 2022, and hope to see more of you in person this year.

The people behind the UK's No.1 property auctioneer

MEET THE TEAM

Keep up-to-date with our market insights throughout the year

NEWS & VIEWS

PODCASTS

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Forthcoming auction dates for 2022

Commercial	Residential
Thursday 3rd February	Thursday 17th February
Thursday 24th March	Thursday 31st March
Wednesday 25th May	Thursday 12th May
Wednesday 13th July	Thursday 23rd June
Tuesday 20th September	Thursday 4th August
Tuesday 1st November	Thursday 22nd September
Thursday 8th December	Thursday 3rd November
	Thursday 15th December

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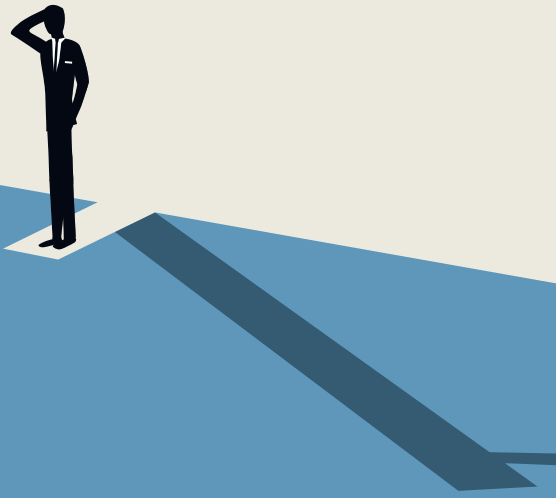

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