COMMERCIAL AUCTION

Summer Market Review

2021

£323.5M
SOLD TO DATE

9,895
BIDS RECEIVED

450
LOTS SOLD

100
LOTS OVER £1M

93%
SUCCESS RATE

allsop

Contents

Commercial Auction

Comparing (YTD) 2021 v 2020 v The 5 year average

Jan-July

450
Lots Sold
(2020 : 352)
5yr Avg : 467

93%
Success Rate
(2020 : 92%)
5yr Avg : 88%

5
Auctions

100
Lots Over £1M
(2020 : 75)
5yr Avg : 90

9,895
Bids Received

£323.5M
Sold To Date
(2020 : £251M)
5yr Avg : £312.05M

What has been happening in 2021

Digitisation was forced on us last year and our market has learnt valuable lessons that have allowed us to continue to trade very effectively. Our volumes have increased by 28% year on year with £323.5m raised in the year to date from the sale of 450 assets.

This review will reflect on various key markers from the last seven months and highlight some of the examples which will also be discussed in more detail in our **Summer Market Review podcast**.

This year started with the clouds of lockdown still lingering and the wider market needing to gain confidence. The hope was of an end to restrictions and that our economy was strong enough to grow out of the previous nine months of multiple lockdowns. Inflation was gaining much needed momentum, which at this stage in the cycle is an important and welcome indicator of growth.

Demand is clear across all sectors, as our buyer's survey points out, our marketing continues to attract new buyers, with new entrants investing locally for the first time being pitted against cash-rich deal-driven buyers who are looking to grow their portfolios further away from home.

Our first sale of the year in February draws to a conclusion the sale of **the first Shopping Centre of the year in West Orchards, Coventry**. This sold in competition under the hammer at £4.85M and remains the largest lot sold this year to date.

This sale marked a turning point in the shopping centre market as investors, fund managers and valuers had both a public benchmark for a Shopping Centre sale and also confidence in the knowledge that the market was prepared to compete for these assets. Shopping Centres have seen some of the most severe value erosion as the High Street has evolved and they are typically larger and more complex assets than the market would expect private investors to compete for. More sales followed as the market freed up, and we have now sold £15m of Shopping Centres to date, as shown in the sector example to follow.

As **inflation** has become more of a feature, there has been clear demand for lots with RPI linked rental increases, with the **convenience store sector**, both stand-alone and roadside forecourt locations having been the most common examples in the auction market.

One other early example was in March, a children's nursery in Bolton, let to **Busy Bees** with annual RPI increases let on a lease until 2039 and an usually high cap to the RPI increase of 7.5%. Despite the passing rent being significantly ahead of market rent, it saw huge competition – and eventually sold for 5.5% net more than 60% ahead of the most recent valuation. This transaction is perhaps more of a financial hedge than a real estate purchase but was certainly an early indicator of demand for indexation.

The Residential market has had a year of positive headlines as prices have continued to harden, and this has manifested itself across our market in two ways. Firstly, an increase in demand for mixed-use assets, and as a driver of competition where entire buildings have been offered with unexploited upper floors.

We analysed the top 30 most popular lots sold by both numbers of registered bidders and bids in our auction, and half of the top 30 lots had commercial ground floors and under utilised **ancillary upper parts**.

These examples were largely drawn from two of our portfolio sales this year, let to either **Boots or Santander**, and on leases with three to nine years unexpired. These sales amounted to £66m in total from the sale of 137 lots from Cornwall to Scotland via London, and have provided a good barometer of regional demand in many **High Street** locations. The private investor has returned on the basis that rents have been rebased and in many instances, there may be a **value add opportunity** in time.

The ability of our market to identify these opportunities will be discussed in more detail in the **Summer Market Review podcast**. This phenomenon is well illustrated by the example shown of a Boots let on a market rent for a further eight years in Southgate, London, which was ambitiously guided at 4.5% and sold at **2.9%, a record low yield for a rack rented shop**.

This "hidden" value in the ancillary floors has brought into question how reliable just the yield is as a pricing tool. Typically the upper floors have been rentalised off a discount to the Zone A rent, yet there is clearly more value to them when redeveloped, this challenges convention. The **£ per square foot** figure has as a result come into play as much in some high value areas as it has in vacant buildings.

Our market has always been a regular and useful pricing indicator, so we were interested to offer a well-located building let on a purely turnover basis for a fund whose valuers, like us, found it hard to price. Following a CVA, the rent had been rebased from £226.000 p.a. to 5% of turnover.

The market liked what it saw, and the former Jack Wills in Guildford was sold at £385psft, the only valid measure of comparison whilst turnover and hence rent was still constricted by the lockdown.

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Forecasters might have predicted a higher amount of vacant stock coming to the market, particularly in the retail sector, but it has not been seen in any great volume. The most recent was a vacant shop in Cambridge, sold for a fund for in excess of £1.7m.

We hope that the following analysis and examples are interesting, do contact a member of the auction team should you wish to go into more detail.

Auction figures for 2020 - 2021

	Feb	March	May	June	July	
2021	50 £35.29M	104 £68.25M	101 £67.66M	104 £75.22M	91 £77.08M	Lots Sold £ Raised
2020	96 £69.72M	87 £45.92M	45 £41.35M	49 £32.59M	75 £60.73M	Lots Sold £ Raised

Source: Allsop Auction Data, correct to 07.09. 2021.

Commercial auction market 2021

Jan - July 2021

allsop	£320.2M
Acuitus	£95.2M
Barnett Ross	£31.5M
Pugh	£31.1M

Source: Essential Information Group 7th September 2021.

Review of 2021 by sector

Multi-Million Pound Lots

100 lots now sold for £1m or more, (an increase of 33%) across all sectors. One example shown offers longer term residential or alternatives to their current use, a very strong driver of demand in the market and opportunities to add value, the other is a mixed use let in Marylebone, always popular.

20 JULY
£3,500,000
(4.96% NIY)
VISIT WEBSITE

HSBC, Hounslow
Freehold bank investment, entirely let to HSBC Bank Plc at £185,000 p.a. on a lease expiring 2029. Comprises a total of 15.575 sq ft

23 MARCH
£1,980,000
(4.50% NIY)
VISIT WEBSITE

Marylebone, London W1
Freehold shop and three flats, fully let at £95,900 p.a.

Retail - High Street

The number of very high yielding sales is falling away as rents have been rebased, which has lead to a greater reliance on £ per square foot in the case of turnovers rents.

6 MAY
£1,160,000
(£385 PSFT)
VISIT WEBSITE

Jack Wills, Guildford
Let to Jack Wills on a rent of 5% of turnover, rebased from @220.000 pa.

6 MAY
£1,250,000
(7.55% NIY)
VISIT WEBSITE

Greggs, Cardiff
Freehold city centre shop, let to Greggs until 2026 at £100,000 p.a. Rebased from £150,000 p.a.

Retail - Shopping Centre

The first Shopping Centre of the year was sold at auction which marked a turning point in the market, more sales and more competition followed as some confidence returned.

3 FEB
£4,850,000
(£22 PSFT)
VISIT WEBSITE

West Orchard Shopping Centre, Coventry
Leasehold shopping centre investment, comprising of a 219,503 sq ft retail, food & leisure scheme over 6 floors, let at £2,381,880.36 p.a.

6 MAY
£3,770,000
(£36 PSFT)
VISIT WEBSITE

The Swan Centre, Kidderminster
Freehold shopping centre comprising 102,401 sq ft let at £815.071 pa.

Retail - Added Value

Investors are confident enough with the better assets to overlook early break clauses, and often the price has been driven by the continued strength of the residential market, which has been a consistent factor of the commercial market for some time.

20 JULY
£1,064,000
(7.55% NIY)
VISIT WEBSITE

Wells
Freehold shop and vacant flats. Let to Mountain Warehouse at £285.000 pa.

20 JULY
£1,765,000
(2.93% NIY)
VISIT WEBSITE

London, N14
Freehold let to Boots UK Limited at £55,000 p.a. until 2029. Comprises 4,746 sq ft over ground, basement and two upper floors.

Review of 2021 by sector

Retail - Convenience

The private investor has always believed strongly in the convenience sector and where RPI increases are offered this is driving yields well below 5% across the country, not just in London and the South East.

23 MARCH
£1,942,500
(4.72% NIY)
VISIT WEBSITE

Sainsbury's, Brixton, London SW2
Entirely let to Sainsbury's Supermarket Limited at £97,500 p.a. comprising of 5,475 sq ft over Ground and Part First Floor.

23 MARCH
£1,520,000
(4.60% NIY)
VISIT WEBSITE

Co-op, Staines
Virtual Freehold, entirely let to Co-operative Group Food Limited on a new lease expiring 2035, let at £75,000 p.a.

Office

There is still uncertainty in the office sector as to the longer term implications of changing work patterns. Where the right tenant or again a medium term opportunity is clear, buyers will compete.

3 FEB
£1,370,000
(5.92% NIY)
VISIT WEBSITE

Peterborough
Government centre for health and disabilities, comprising of 712 sq m (7,664 sq ft). Let to the Secretary of State until 2028 at £86,000 p.a.

20 JULY
£1,900,000
(6.81% NIY)
VISIT WEBSITE

East Sheen, London, SW14
Freehold office/workshop and residential investment with future development potential. Comprising nine office/workshop units (fully let) at a total rent of £137,378.50 p.a. and a flat let on an AST. Total accommodation of 544.7 sq m (5,863 sq ft).

Mixed-Use

A continued appetite to diversify across both the commercial and residential sectors has driven demand for mixed-use assets, whether London and the South East or in the regions, appetite is strong.

6 MAY
£2,420,000
(5.11% NIY)
VISIT WEBSITE

Farringdon, London, EC1
Freehold take away trading as Papa John's and four flats let at £131,500 p.a. Total accommodation extending to 3,533 sq ft.

15 JUNE
£3,305,000
(5.32% NIY)
VISIT WEBSITE

Haywards Heath
Freehold shop and residential investment comprising four shops and 10 self-contained flats on a total rental income of £187,160 p.a.

Alternative Use

Demand has been consistently strong for investments in the care home, education, nursery, medical and other non core sectors as buyers take the time to understand the different facets and appreciate the diversification that they offer to a portfolio.

6 MAY
£1,825,000
(6.19% NIY)
VISIT WEBSITE

Chelmsford
Virtual freehold university investment, comprising of a gym totalling 1,375.44 sq m (14,805 sq ft). Entirely let to Anglian Ruskin University on a lease expiring in 2034 at £120,000 p.a.

20 JULY
In excess of
£1,100,000
(c. 6.0% NIY)
VISIT WEBSITE

Kidderminster
Freehold care home and education centre let to Compass Children's Homes Limited at £72,500 p.a. until July 2035. Comprising a total of 780.30 sq m (8,399 sq ft).

Review of 2021 by sector

Industrial

Every industrial asset attracts strong demand as private investors are very keen to add this sector to their portfolio. The continued long-term demand and growth potential are well documented and the demand from buyers reflects that.

6 MAY
£3,100,000
(5.81% NIY)
VISIT WEBSITE

Salisbury
Long leasehold industrial estate and office investment let at £191,600 p.a. comprising of nine industrial units and an office building totaling 26,785sq ft.

15 JUNE
£2,860,000
(7.17% NIY)
VISIT WEBSITE

Knaresborough
Freehold multi-let industrial investment, let at £218,306 p.a. comprising eight units and a total of 37,420 sq ft on a self contained site of 1.9 acres.

Long Income

With interest rates at historical lows and inflation running at 3.9%, the long income sector continues to be very buoyant and will be bolstered where RPI increases are offered whatever the sector.

23 MARCH
£1,702,500
(5.58% NIY)
VISIT WEBSITE

Busy Bees Nursery, Bolton
Entirely let to Treetops Nurseries Limited at £100,802.20 p.a on a lease expiring in 2039. Accommodation extends to 11,883 sq ft.

20 JULY
£800,000
(6.03% NIY)
VISIT WEBSITE

Texaco Filing Station, Sherborne
Freehold petrol filling station and convenience store investment, entirely let to Bestway Retail Limited at £50,913 on a lease expiring in 2037 with fixed rental uplifts in 2027 and 2032.

Leisure

As the leisure sector recovers, the strongest covenants continue to attract demand whilst buyers will also seek out opportunities that might be local to them or offering longer term opportunity.

23 MARCH
£1,287,000
(5.13% NIY)
VISIT WEBSITE

Brentwood
Let to Spirit Pub Company Limited until 2029 and Scottish & Newcastle Limited until 2024. Current rental income of £70,000 p.a.

15 JUNE
£680,000
(4.74% NIY)
VISIT WEBSITE

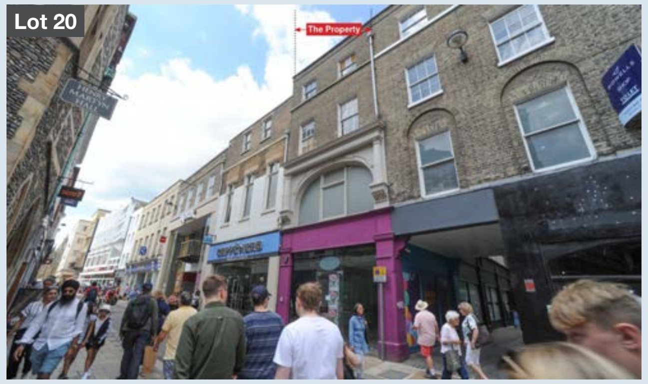
The Alexandra, Finchley, London N1
Freehold restaurant and residential investment let until 2033 at £33,891 p.a. with annual RPI reviews.

Vacant

Two examples in very different sectors are shown, both assets where it is down to the buyer to create a long term investment on their own terms.

23 MARCH
£2,325,000
(£133 PSF)
VISIT WEBSITE

Reading
Grade II listed former Natwest Bank and offices. 17,455 sq. ft. majority vacant.



20 JULY
£1,725,000
(£395 PSFT)
VISIT WEBSITE

Cambridge
Freehold vacant city centre shop comprising of a shop with ancillary upper parts totalling 4,358 sq ft.

Buyers survey

Our Buyers Survey, asked to our buyers since 2012, picks up on trends and sentiments amongst buyers which helps us look forward.

As the economy continues to reopen and commercial property makes the headlines as customers return to shops, bars and restaurants sentiment from investors for the sector remains strong. Prior to their most recent purchase 52% of buyers were returning to the auction within 12 months and a further 9% within the past 5 years. 26% of buyers were new entrants into the commercial auction market (compared to 22% in 2020). Intent to buy another commercial property also remains high at 96% (70% in next 12 months, 26% in the next 5 years). This is relatively unchanged to 2020 (98%).

70% of Buyers bought properties outside of their home region, a significant increase on last year (58%) and emphasising the anecdotal narrative that buyers are willing to look farther to find deals. Of the respondents, 5% of buyers bought properties located within 5 miles of their home with all of these buyers being new entrants into the commercial auction market. This emphasises both the wide reach of the auction but also its ability to target local and special purchasers.

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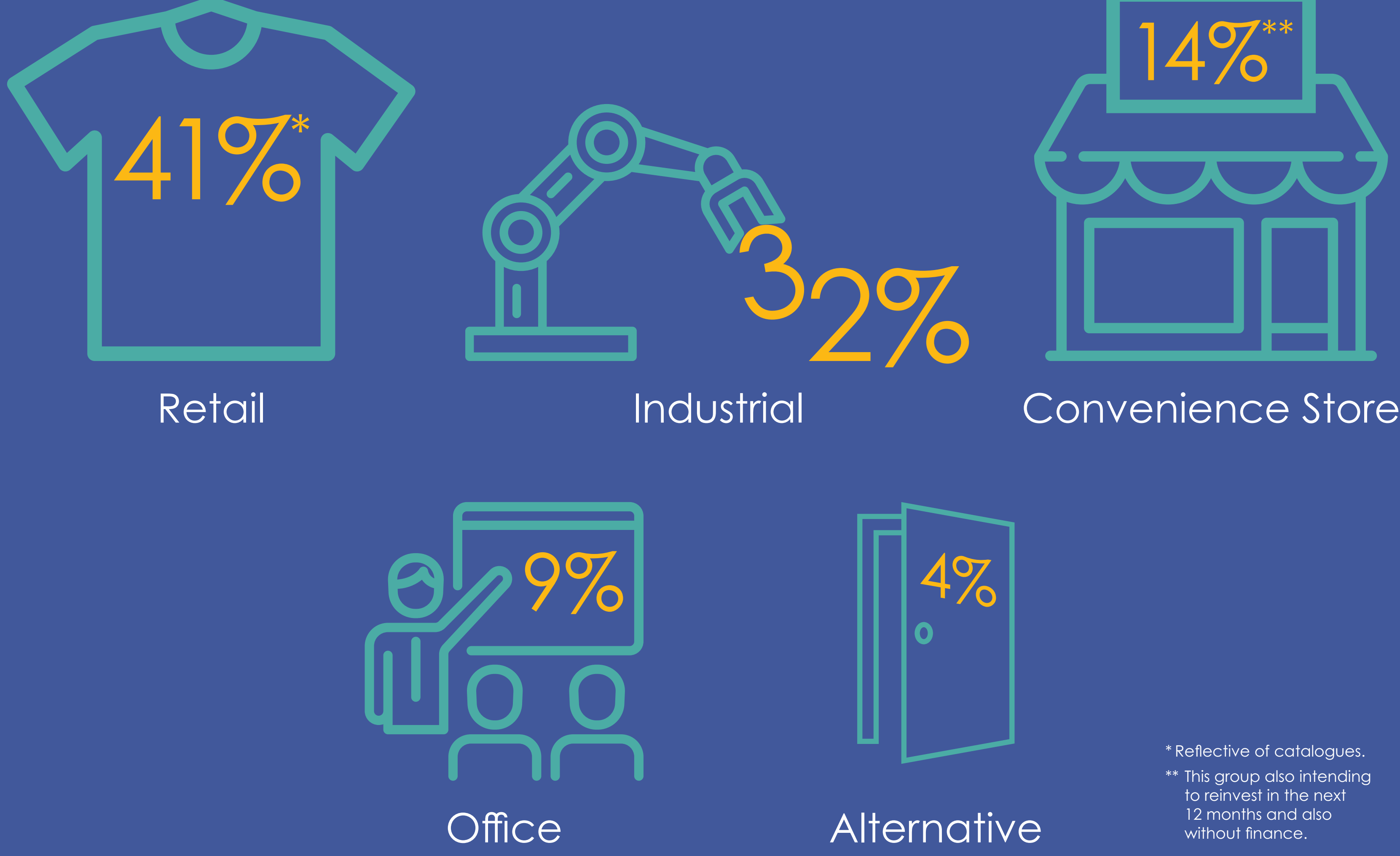
Funding remains key to purchasing at auction with the timescales involved and cash once again remains the dominant method of funding with 78% of buyers relying on cash reserves to complete (68% in 2020) with the remaining 12% seeking external funding between 25% - 75% Loan-to-value.

Focusing on the wider portfolio holdings of buyers and 48% of buyers state that 75%+ of their investment portfolio, other than their home, is invested directly in real estate while a further 13% held up to 75% direct real estate in their wider portfolio.

Moving forwards what is your preferred sector to invest in?



* Reflective of catalogues.

** This group also intending to reinvest in the next 12 months and also without finance.

Looking ahead and buyers seem to be emboldened and not put off by the events of the pandemic with 52% of buyers looking to increase their exposure to commercial property with the remaining 48% declaring they will be deal driven on their exposure. This reinforces the findings of a previous survey we conducted earlier in the year.

Honing in on specific sectors and 41% of our buyers have stated that their preferred asset class is retail with 32% targeting industrial and 14% convenience stores. Of those preferring to invest in convenience stores all indicated that they would like to reinvest in the next 12 months and would do so using their own cash reserves, this reinforces some of the fundamentals of convenience store assets sold in the past year namely long leases (10 years+), index linked reviews and strong covenants.

We would like to thank all those who contributed towards the survey.

Buyers survey

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

70% outside their home region

5% within 5 miles of their home region (of which all were new entrants to the market)

17% in the same region

9% overseas

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

YES
52% last 12 months
9% last 5 years
13% over 5 years

NO **26%**

Do you intend to buy another commercial property at auction?

YES
96% (98% in 2020)
70% within the next 12 months
26% within next 5 years

NO **4%**

How did you fund the purchase?

78% cash reserves (68% in 2020)

12% financed

9% 50–75% LTV
3% 25-50% LTV

Looking ahead, are you planning to increase your exposure to commercial property?

52% looking to increase exposure to commercial property

48% deal driven

Looking ahead

Having sold so many lots this year, we have the joy of listening to a huge number of buyers, and in the same way that everyone likes talking about their family, a lot of these investors share their motivations for buying and selling with us.

Many of these have been captured more formally in our buyer's survey, but we cannot capture all the nuggets by survey alone.

The most remarkable noisette recently was from a buyer of one of our bigger lots who shared a recent bank statement with us as part of his normal identity check, and he was earning just £27 pcm, less than **.01%pa from his £3,000,000 on deposit.**

Whilst this is better than the negative rates seen in Germany, this low return is a classic driver of the high yielding market in which we operate, which will surely be a powerful force for the remainder of the year as we see yield compression continue. We will examine this in more detail in our Annual Market Review in January 2022.

Whilst our buyers are largely in cash, finance rates are very cheap on a historical basis and for those that can secure finance in a timely fashion, the yield gap is very compelling.

The breadth of demand has been remarkable this year in a market where the main volume of sales has once again been in retail and there are many examples, mostly of larger lots in education, care homes and nurseries, where investors have been keen to buy at strong prices. Perhaps this is in response to seeing how valuable diversification can be to the returns from their portfolio in the tricky market of the last eighteen months.

It is with some relief that we have heard very little recently of the anxieties of tenant failures and the eviction moratorium as so many landlords have come to agreements with tenants. There are of course some corporate occupiers who will continue to exploit the situation and are building themselves an unenviable reputation in the process.

Trying to predict how the next twelve months will play out is a challenge for the very best economists, but the signs are all positive with the latest quarterly figures showing 4.8% growth in GDP some 22% up from 12 months ago. The Retail Price Index is a little under 4%. This is almost double the Bank of England's target rate which would at any other point in time be a cause for raising interest rates significantly. There seems little sign of increases at present, despite so many every day signals to even the most casual observer of fuel, shipping, commodity and wage increases due to staff shortages.

To conclude, we are enjoying a growing economy, with significant inflationary pressures and plenty of capital available to invest, which we believe will drive **a strong second half of the year in our market.**

With our thanks to all our clients and buyers who we have enjoyed working with and listening to this year.

> **"The breadth of demand has been remarkable this year in a market where the main volume of sales has once again been in retail"**

Meet the team

The team has 289 years of combined auction experience

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Forthcoming auction dates for 2021/22

Commercial

Thursday 23rd September 2021
Tuesday 2nd November 2021
Wednesday 8th December 2021
Thursday 3rd February 2022
Thursday 24th March 2022

Residential

Thursday 30th September 2021
Tuesday 9th November 2021
Thursday 16th December 2021
Thursday 17th February 2022
Thursday 31st March 2022

For further details on our auction sales
visit our website

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2021

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