

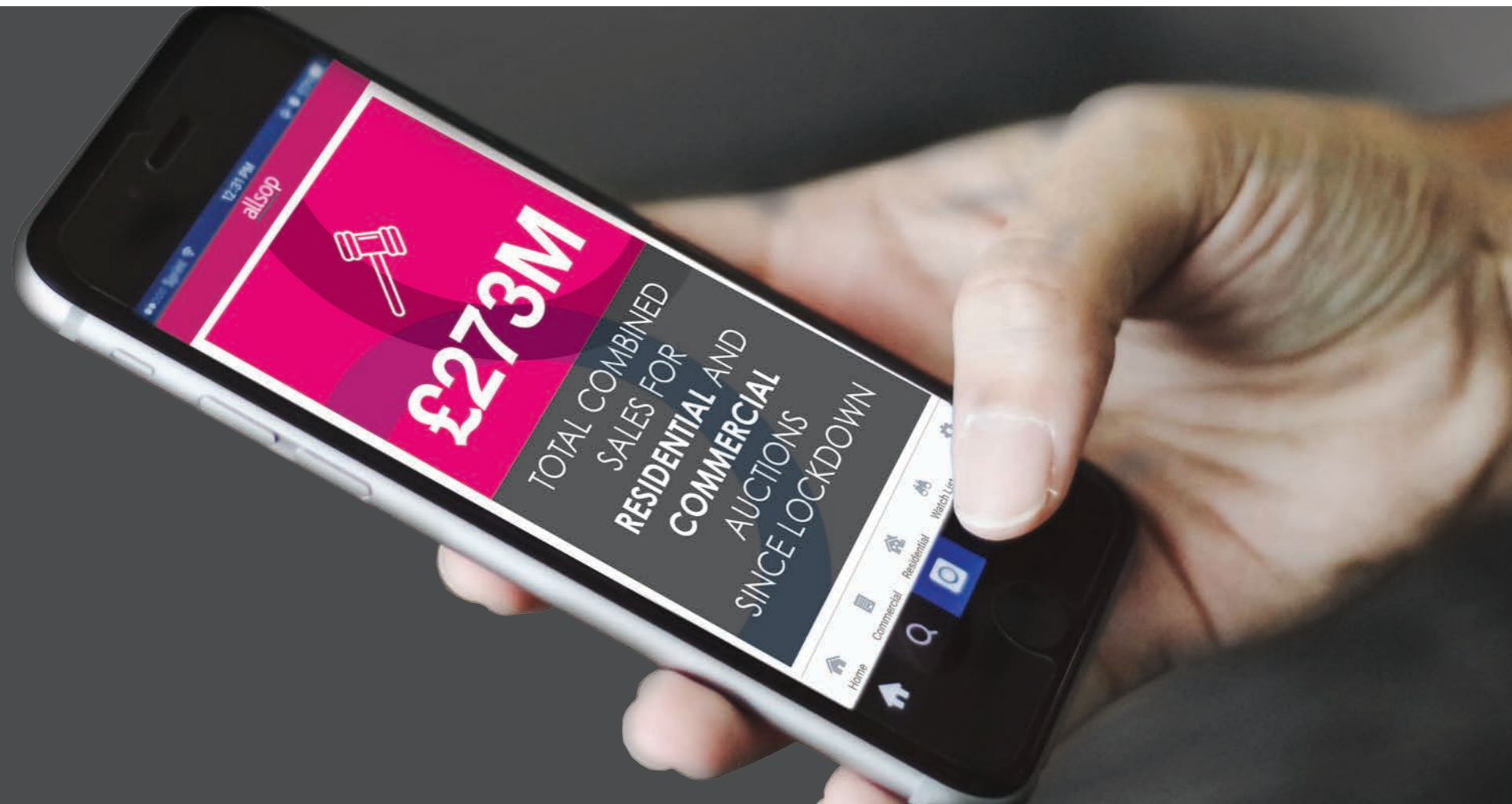


Commercial Auction
Summer Review

2020

Accelerating the property market, with a bit of help from C19

The first six months of 2020 saw some of the biggest changes ever in property sales, whilst the majority of market went into hibernation the auction market barely missed a beat.



This review will examine some of the 348 sales and £246m raised in a little detail, as we look back on a busy few months with some examples, feedback from buyers and how the rest of the year might play out.

How good is your memory, do you remember the "Boris Bounce?"

That phenomenon was in the air as we started the year in a ballroom and enjoyed a £70m sale. The message from the coal face, the sharp end of the market was muted optimism as our new PM found his feet and appointed Rishi Sunak as Chancellor of the Exchequer in mid February to deliver his first budget on March 11th - more of him later.

With the benefit of hindsight, will Q2 and Q3 2020 go down in the annals of time as the most tumultuous consecutive quarters in business in the last 25 years? As we entered late March there were a lot of questions - UK lockdown, what did that really mean and for how long? Would buyers bid without inspecting? What will be the effect on a struggling High Street? How hard will prices be hit across the board, will any sector be safe, or dare we ask, prosper from this malaise?

From an investors' perspective, not only did the Stock Market take a dive, but dividend income went with it. For the first time in its history, Shell cut its dividend in April in response to the dramatic fall in demand and at one point a negative future oil price. By the end of April, almost

half of the FTSE 100 listed companies had either stopped paying or drastically cut their dividends.

The Government stepped in with their job retention scheme, loan guarantees, small business grants and rates relief and the Bank of England joined forces in cutting interest rates to .1% on 19th March.

All this has left a mountain of cash searching ever harder for a solid return, and the impact on our market is clear. Where the rental payments

million pounds to achieve. Lockdown accelerated this process to such an extent that it took a few weeks at a cost of £4m - it simply had to be done to get food to people in their homes. Property auctions are not of course a matter of survival for anyone, but with all stakeholders working together we have crafted a very powerful method of sale online, and presented it to a very willing public. We now have over 8,700 users for our app alone. The digitisation

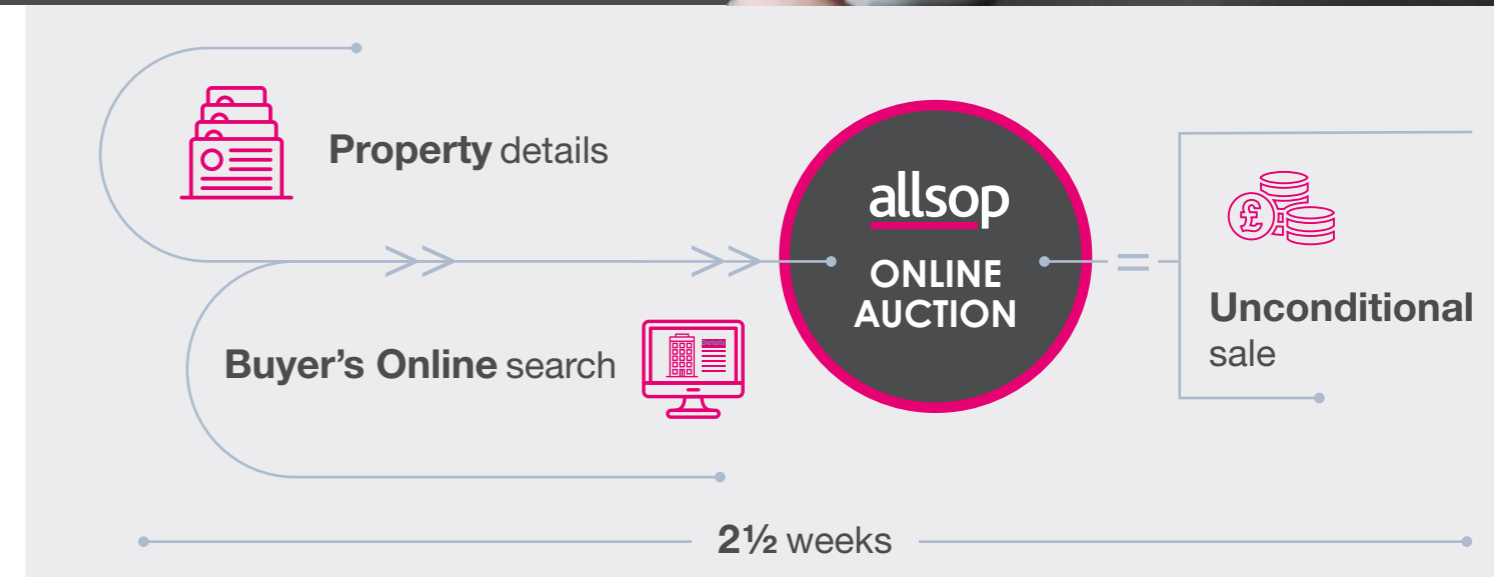
••• **“Where the rental payments look sustainable and long term, or the opportunity to add value, buyers continue to compete at ‘pre-Covid’ pricing or more”** •••

look sustainable and long term, or the opportunity to add value presents itself, buyers continue to compete at “pre-Covid” pricing or more. Any anxiety about how or where to bid was swept aside in the continued desire to continue to trade and invest.

Simple numbers do not show the pace of change brought about by “The Covid acceleration factor”, it has been seen by many businesses, not just ours. Dave Lewis, Tesco CEO had estimated that doubling their online sales would take four years and several hundred

of property sales is not just down to the Agents such as us, we are but part of the process. Without our help, buyers can now do their own 3D tours, comparable and legal research from their desks, adding as much extra data as they need to influence their decision.

In tricky markets such as this, those same buyers are as keen for the sellers to have to commit via the auction contract as the sellers are to secure an unconditional exchange with the buyers, so the process works well for both sides.



The first lot sold in lockdown in the March sale was a long lease to Boots in Halstead, Essex, three buyers competed for it and the price settled at 4.5%, £730,000. The second was also let to Boots on a shorter lease but sold at 5.2%, £592,000 which was a strong start to our digital auction process and the market has not looked back since.

The highlight of the May auction was a lesson in the appeal of Government income and alternative use value with a Job Centre in Tottenham, London which sold within a few days of release ahead of the guide price of £6.5m, and at a yield of 4.75% - the biggest lot sold to date, marketed jointly with our private client team.

We held the first June auction for 20 years, allowing our clients to take advantage of more regular sales which have now become the norm as we no longer have to allow for postage delays and selecting dates for London hotels. The largest lot in the £29.4m sale was a long let bank in Derby achieving £2.1m for a fund.

The July auction saw a test of the appeal of London as we went to market with one of the biggest lots of the year at 37 Berwick Street, Soho, London W1. Due diligence was done by 21 parties including many from overseas which drove the price ahead of the guide of £3.25/£3.5m showing the continued appeal of Central London to private investors.

Another test was a portfolio of multi let industrial assets offered by a single vendor. Within the space of the three week marketing period, the seven assets sold at £9.94m which was within a whisker of their pre-Covid valuation in March.

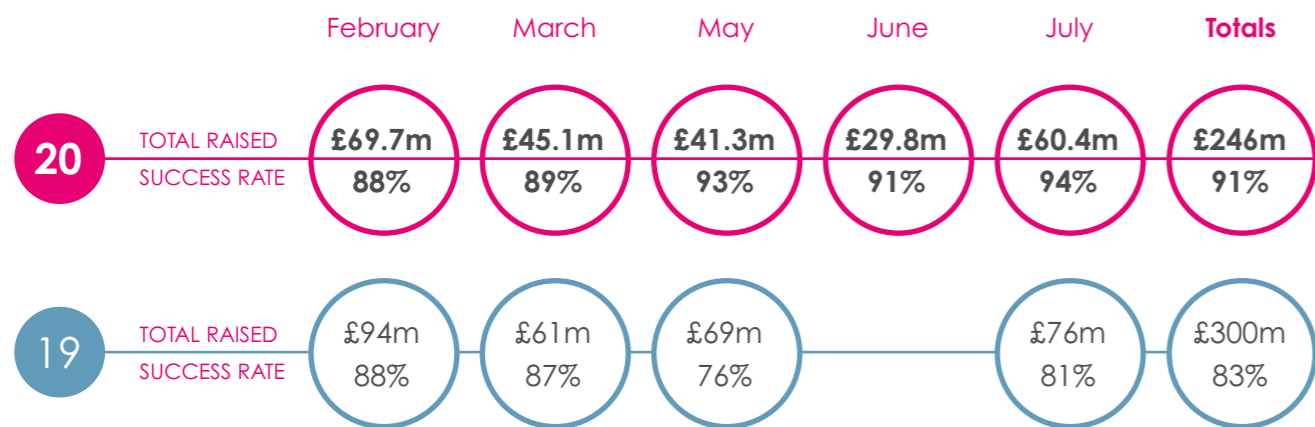
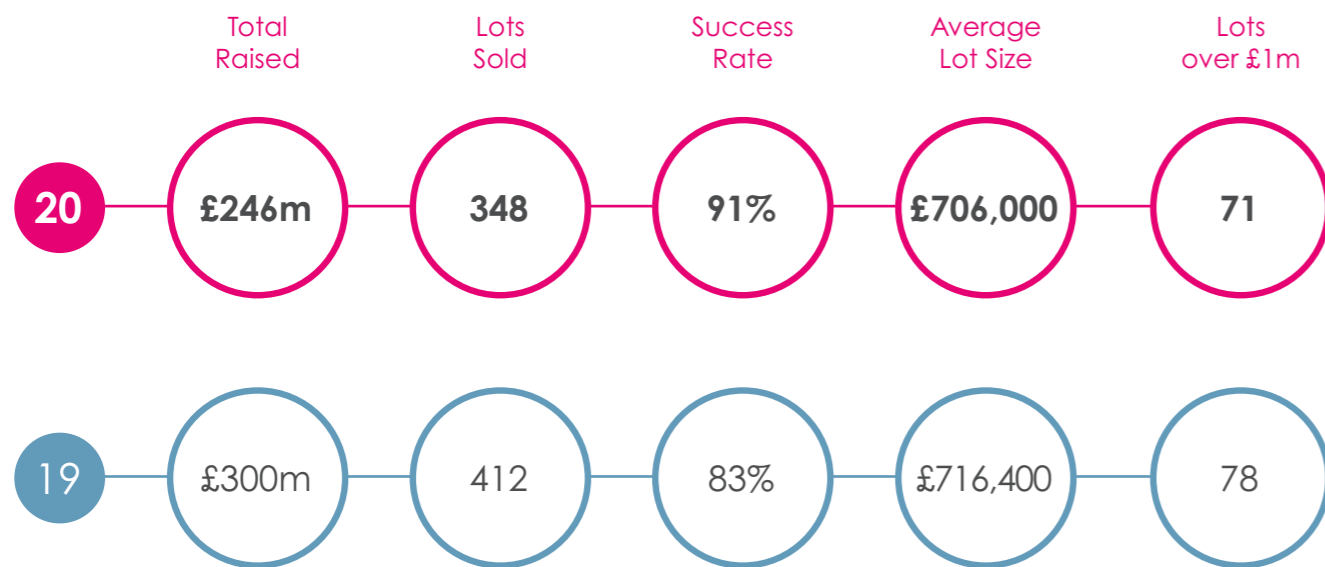
••• The results of the auctions show a total of £246m year to date, only 19% down from the equivalent period last year against the wider sub £10m market where volumes have fallen by over 75%. •••

Auction results 2020

Auction Figures for 2019 - 2020

current totals (£) and success rates (%)

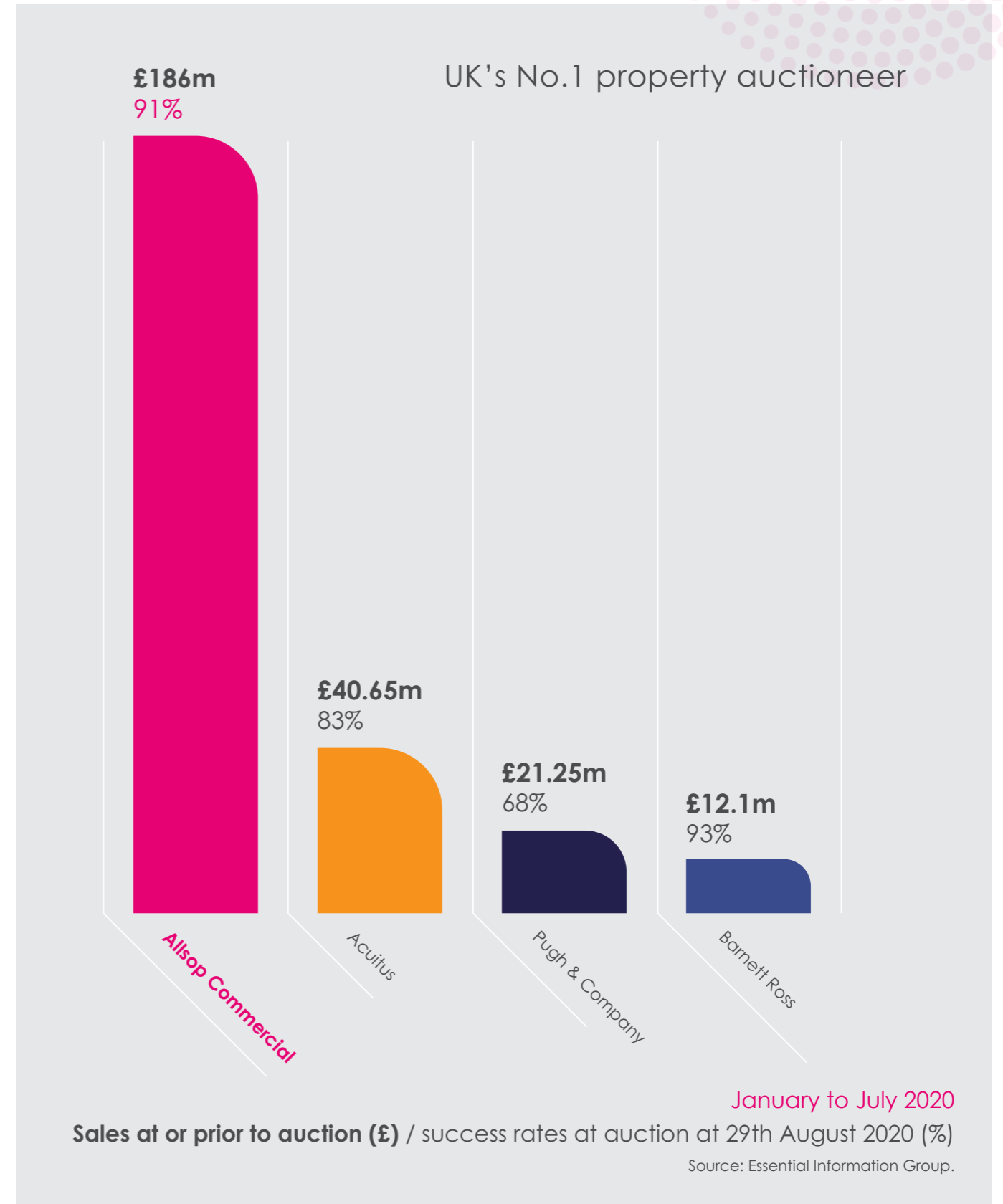
Source: Allsop Auction Data, correct to 29th August 2020.



NB. The totals are accurate at 29th August 2020 and individual sales after auction.

Commercial auction market 2020

Allsop market share increased to 72% from 51% in December 2019





2020 Selection of typical sales by sector

Multi Million Pound Lots

74 lots over £1m have been sold to date against 81 in 2019, across all sectors, with the average price of the higher values lots at £1.8m compared to £2m in 2019 which include the highest ever lot size of £12.4m.



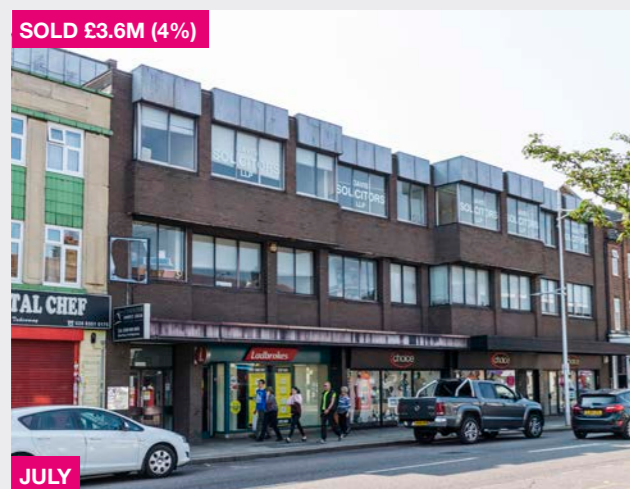
Lot 80 - Warrington
Multi-let industrial estate of 45 units, £288,833 p.a.



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

Retail - Added Value

Buyers are as keen as ever on well located mixed use opportunities where asset management can have a meaningful impact on returns, or simply spread the income risk.



Lot 10 - Barkingside
Two shops with offices above with PD rights for 16 flats.



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

Retail - High Street

Where rents are not excessive, being paid and are sustainable, market town pricing has held up. The converse is true where retail supply is excessive and rents deemed unsustainable in the medium term where yields well over 10% can be required to tempt investors.



Lot 26 - Oswestry
High Street Bank let at £23,800 p.a. until 2031.



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

Retail - Convenience Store

Ever popular with the private investor, rents have continued to be paid by convenience store operators and demand from investors has grown this year. Rental resilience and affordability, long leases and modest lot sizes have all driven the spike in investor demand. In total 43 lots have been sold at £34.2m.



Lot 11 - Kirriemuir
Let to the Co-Op with annual increases until 2035 at £172,126 p.a.



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



2020 Selection of typical sales by sector

Retail - Suburban

Suburban retail is a sub sector which is showing resilience and some areas will even have benefited from lockdown as workers stay away from City centres and spend money more locally. Typically, rents in the suburbs have been modest and affordable having not seen the rapid growth in city centres which has ironically led to an oversupply of space. These rents are now seen as sustainable which appeals to investors.

SOLD £1.365M (6%)



JUNE

Lot 24 - Taunton

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

SOLD £521,000 (6%)



MAY

Lot 3 - Fleet

Let to DP Realty until 2030 with a flat at £32,600 p.a.

Offices

Regional offices away from major centres may become more popular as supply has been reduced by residential conversion and tenants look to car borne locations away from City Centres. £11.7m raised in total.

SOLD £1.33M (5.9%)



MAY

Lot 18 - Farnborough

£232 psft 5,713 sq ft on 1.1 acres part vacant.

SOLD £1.4M (7%)



JULY

Lot 20 - Egham

£249 psft 5,610 sqft on .5 acres with scope for redevelopment.

Industrial

The market continues to compete for industrial assets of all lot sizes and factor in rental growth and redevelopment potential.

SOLD £926,000 (6.5%)



MAY

Lot 7 - Newbury

Six units let at £63,204 p.a.

SOLD £1.38M (6.25%)



JULY

Lot 45 - Mansfield

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

Mixed Use

Residential rents have to date not been subject to the same pressures as retail so investors are keen to add mixed use to their portfolios.

SOLD £1.365M (6%)



MARCH

Lot 85 - South Norwood

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

SOLD £2.005M (6%)



MAY

Lot 15 - Upton Park, London E13

Three shops, offices and three flats let at £129,620 p.a. with potential to develop further.



2020 Selection of typical sales by sector

Leisure

Well located public houses, bars and restaurants have continued to appeal where the business model seems sustainable, several tenants have also bought.

SOLD £925,000 (8%)

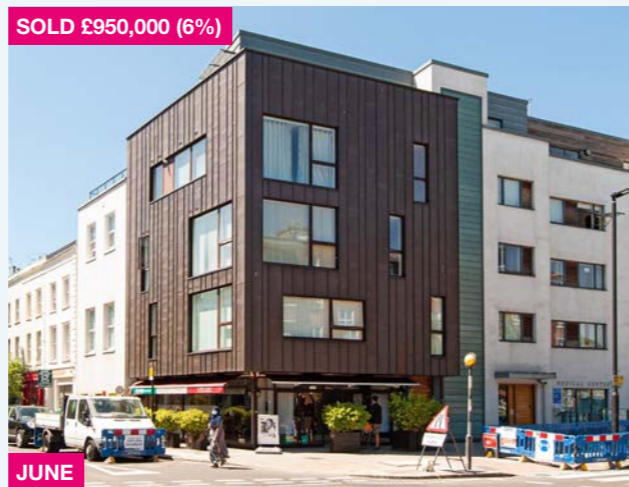


JULY

Lot 61 - Tynemouth, North Shield

Substantial public house on the coast let on a long lease at £78,310 p.a.

SOLD £950,000 (6%)



JUNE

Lot 2 - London

Central London restaurant let at £60,862 p.a. bought by an overseas buyer.

Alternatives

Investors continue to be drawn to buy term value and will buy into most asset classes.

SOLD £651,000 (6.5%)



JUNE

Lot 30 - Stoke on Trent

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

SOLD £543,000 (0.2%)



JULY

Lot 29 - Greenford

A ground lease let at £1,250 p.a. until 2057 offering long term development.

Vacant - all sectors

There has been a rise in the number of vacant assets, particularly High Street as Santander and NatWest both realise ex operational assets and larger tenants vacate such as Marks and Spencer. 34 vacant lots have been sold, from £40,000 to £2.2m.

SOLD £1.25M (£146 PSFT)



JULY

Lot 63 - Liverpool

Former city centre bank of 8,528 sq ft.

SOLD £813,000 (£27 PSFT)



JUNE

Lot 11 - Buxton

Former Marks and Spencer of £27 psft.

Long income

Resilient tenants on long leases continue to appeal to our long term, cash rich investor where borrowings are minimal at best

SOLD £315,000 (4.6%)



JULY

Lot 12 - Uckfield

Let to Kwik Fit on a new 15 year lease with RPI increases at £15,000 p.a.

SOLD £925,000 (3.9%)



MAY

Lot 34 - Halifax

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

Buyers Survey

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

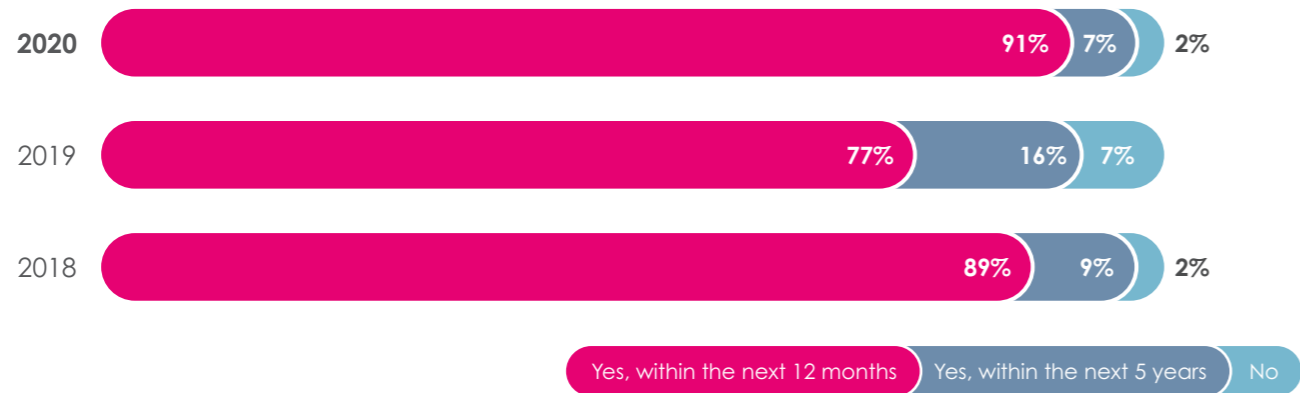
Despite the UK economy being placed into hibernation in March and the negative connotations around commercial property within the press, demand from buyers is at the highest recorded level since 2018. 98% of buyers stated their intention to buy another commercial property at auction (93% in 2019). Through this buyers are telling us that they are comfortable with the buying process at auction and satisfied with their purchases.

Of the successful buyers at our auction 78% have bought a commercial property at auction before (83% in 2019 and 82% in 2018). This results in 22% of buyers being new to commercial property at auction, a reflection of the far reaching appeal of both the sector and the purchasing method for buyers.

often take their time thus putting deposits at risk, leaving buyers to internally fund their purchases and to refinance following completion.

One of the big questions asked in this year's survey was if and how Covid-19 has affected buyers' investment decision making. The responses received were wide and varied, as one might imagine, with each buyer drawing on their different experiences. A number of buyers stated Covid-19 has had no effect on their investment decision making. Others meanwhile are becoming more selective in picking their stock, looking more closely at the tenants underlying business and ignoring their perceived stature. With many tenants not paying their Q2-3 rents buyers are also looking closely into agreements made during this

Do you intend to buy another commercial property at auction?



In their pursuit for the right investment, our survey has found that buyers are widening their geographic net and looking outside of their home region. 58% of buyers have stated that they are located outside of the region they have purchased their property in (50% in 2019). This rise is perhaps reflective of buyers' behaviour becoming more deal driven.

For a long time, cash has been the dominant method of funding purchases in the auction 'room'. Our buyers' survey has found that the dependence on cash reserves to complete is more prevalent than it has been in the recent past with 87.5% of buyers relying on cash to complete their purchases (76% in 2019 and 73% in 2018). This is in line with anecdotal evidence that lenders can

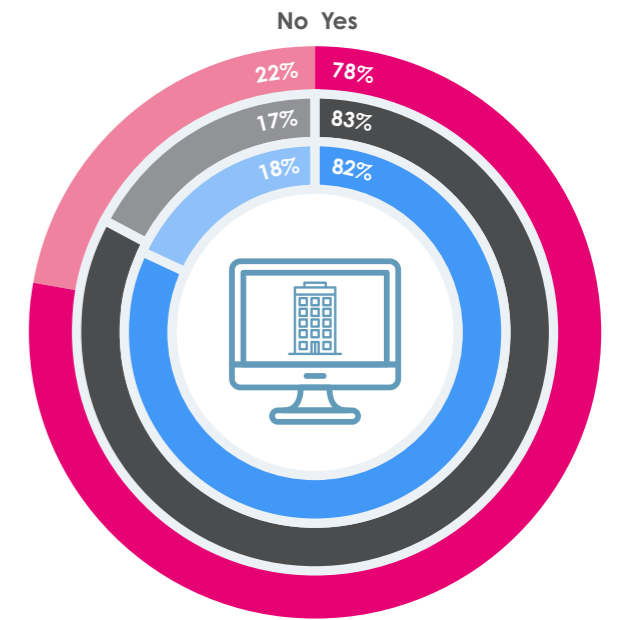
period and where possible are resisting paying for historic and more recent rent arrears. For those buyers based far away or overseas the resultant travel restrictions have made buying more difficult which is perhaps reflective in the sharp drop off of overseas buyers seen in the auction room this year (2% down from 16% in 2019).

The motivation behind buying commercial property at auction is predominantly driven by income generation, with portfolio diversification, added value and special purchasing also identified.

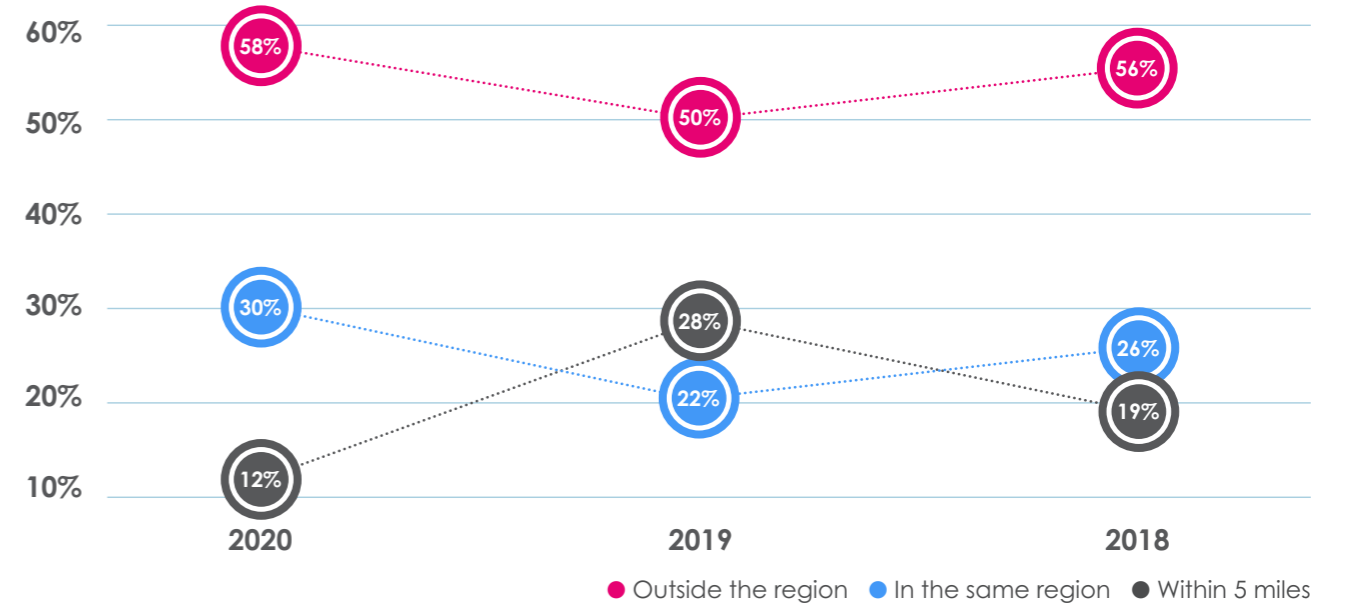
Thank you to all who participated in this survey and contributed towards the results. The results of the prize draw will be announced shortly.

Have you bought a commercial property at auction before?

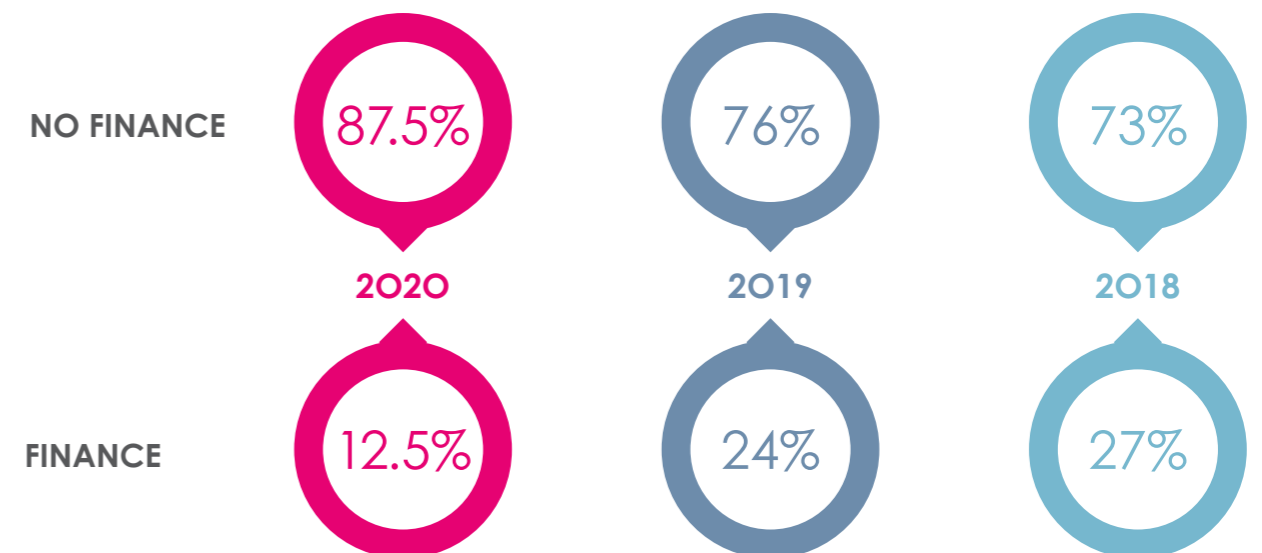
● 2020 ● 2019 ● 2018



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



How did you fund the purchase?



Looking ahead to Q4 and beyond

The continued change in work and shopping habits along with the impact of the ending of the Chancellor's Job Retention scheme are the biggest unknowns looking ahead. Unemployment looks set to rise, so the big question is how that will impact the level and rate of growth in the wider economy.

With the GDP heading into positive territory after two negative quarters we must surely be in for a V shaped recovery in line with the thoughts of the Governor of the Bank of England. The only question is how steep will the gradient be as there is a lot of ground to make up. We are unlikely to return to pre-Covid levels until the end of 2021 at best and are of course still vulnerable to the virus, and any disruptions and opportunities that Brexit will bring must not be forgotten.

Landlord's ability to forfeit leases will return at the end of September, although with so much focus already on rental collection and concessions, it is unlikely to have as big an impact as it otherwise might on our market.

In the retail sector, turnover rents have been around for a long time, but have until recently been confined to actively managed shopping centres. They have now become a mainstream request/demand most recently from

New Look's latest CVA and Anne Summers. Few but the most entrepreneurial Private Investors will welcome this exposure to variable returns without a meaningful incentive and are as likely to take advantage of the new found flexibility of the Use Classes Order and faster planning process where the quality of the real estate will allow.

"We must be in for a V shaped recovery... the only question is how steep the gradient will be"

Casualties and opportunity will arise where rent payments have not been met. The retail market will find its bottom sooner than otherwise and this will create opportunities for investors along with pain for the banks and borrowers.



This has been the case on the High Street for some time, so it is another Covid acceleration but with B&M Retail now elevated to the FTSE 100, the Co Op planning 50 new stores and Tesco creating 16,000 new jobs the future is solid for the best retail real estate.

Projecting the trends that we have examined from the last six months suggests that our investors will continue to compete for the best assets, and search out opportunities that will benefit from the clear changes in working practices as commercial and residential tenants' needs evolve.

Whilst the stock markets have recovered some of their gains over the last six months, or more in the tech sector, the main driver of our high yielding

market is income as the buyers survey has reported. With real interest rates likely to remain negative for the foreseeable future we anticipate that this will continue. There is no shortage of appetite to invest their deep pool of capital, we hope the examples shown give some insight into this demand.

In these strange times, we believe that our many years of experience working with the Private Investor and a very busy last six months leave us well placed to offer clear and measured advice.

We wish to thank our clients and buyers for your support and forbearance during these rapidly changing times and wish you and our extended community well for the coming months.



Forthcoming auction dates
for 2020/21

Commercial

Tuesday 22nd September 2020

Tuesday 3rd November 2020

Wednesday 9th December 2020

Wednesday 3rd February 2021

Tuesday 23rd March 2021

Wednesday 19th May 2021

Residential

Thursday 17th September 2020

Thursday 29th October 2020

Thursday 17th December 2020

Tuesday 16th February 2021

Tuesday 30th March 2021

Tuesday 4th May 2021

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


Meet the Team

The team has 284 years of combined auction experience



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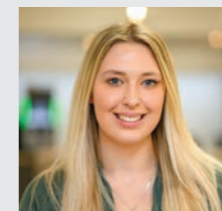
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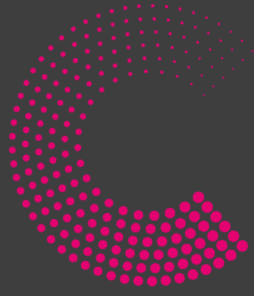
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