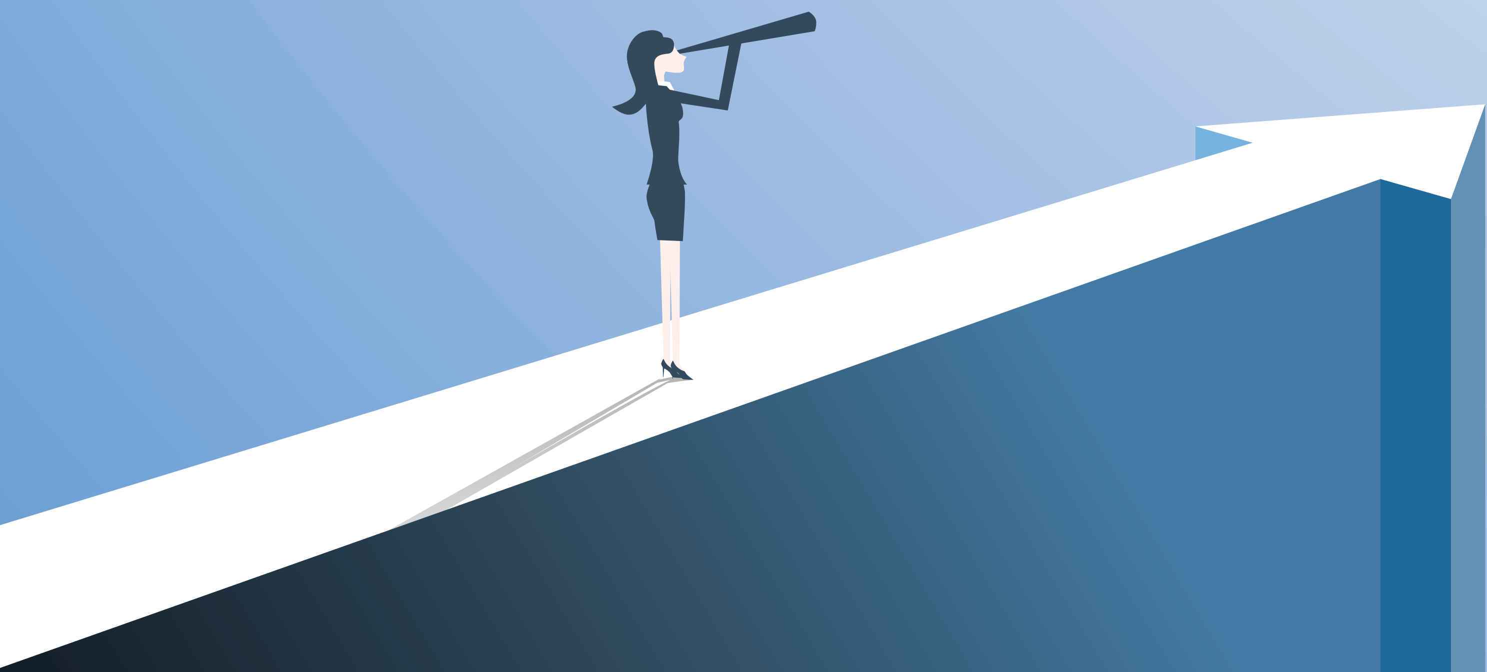
Commercial Auction

Outlook 2023



£548.5m sold

(2021 £597m)

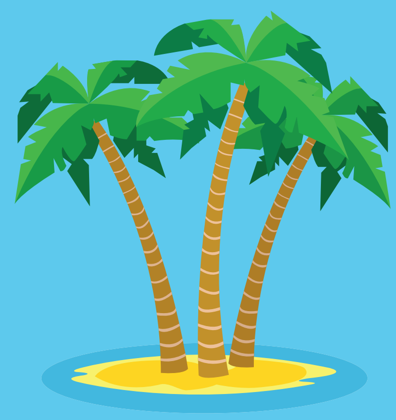
173
lots over £1m
(2021 185)

721
lots sold
(2021 834)

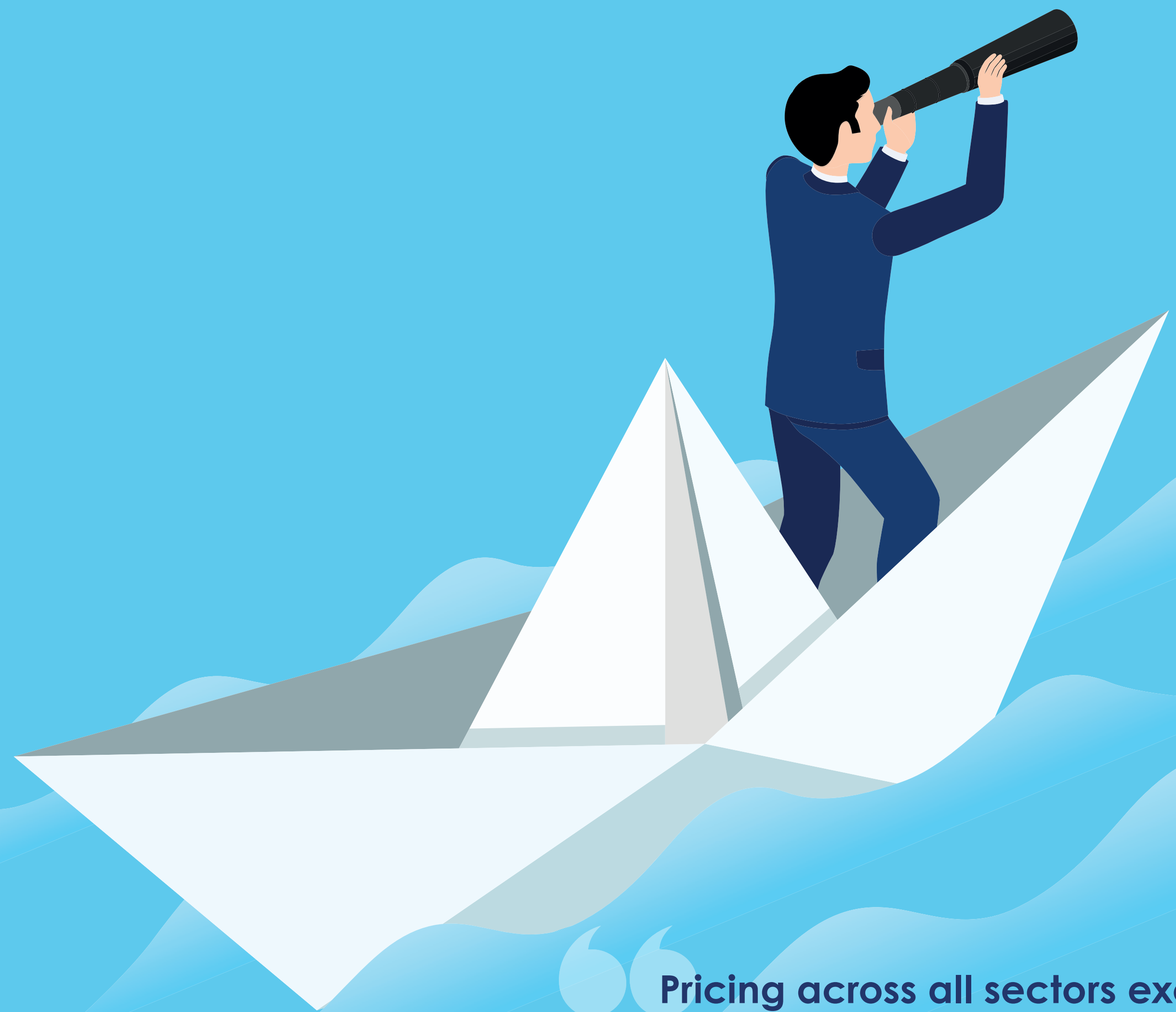
90%
success rate
(2021 93.6%)

allsop

What did we learn from last year's £548.5m of sales?



We started last year with GDP up nearly 7% on the year before, with inflation only just beginning to take hold and interest rates rising at a gentle pace, gradually ending a decade of "free" money.



> **Pricing across all sectors except for offices improved year-on-year, although with the very strong first half and subdued values in H2 2022.**

By February, these economic forces had gained teeth, driven by the impact of the terrible war in Ukraine which started in February, knocking market confidence and accelerating the pace of inflation. In September our own government performed economic harakiri sending shockwaves across the UK economy.

Nevertheless, **we traded £548m**, a similar amount to the previous year, but with a 7.5% increase in average lot size, showing the resilience of our buyer base, which predominantly consists of private buyers.

Our sector focusses on sub £5m secondary assets, with the exception of a few larger sales in London at £8m and £8.5m, across all sectors of commercial real estate, and despite the economic uncertainty, many investors continued to hunt for new opportunities throughout the turbulent 2022.

As we pointed out in the EG in October, *click to read,* private investors are there to buy in cash and are largely unperturbed by short-term economic punches as they continue to build their portfolios.

Over the course of last year our seller base evolved considerably. In addition to the usual private property companies, we also sold five significant portfolios. The continuing trade of the re-geared Boots stores, a 48-unit portfolio all let to Medivet, a high-quality multi-let industrial portfolio for a listed REIT, £52m for one fund alone and the first tranche of leaseback sales for William Hill which all sold. Whilst the premium of the September Medivet sales, which traded down to 3.6% for the best, softened later in the year overall, we saw few signs of significant discounting across the board in contrast to the wider market which saw volumes and pricing tumble from late August onwards.

Our buyer numbers were down in the last quarter after the very busy September auction, but nevertheless we traded £110m in the final two sales, bringing the total for the year to £548.5m. According to CoStar Group's data, last year we had 44% of the UK market share in commercial sales under £5m.

As ever, we can dive deeper into our statistics if needed, so please do ask one of the team if you are interested in doing so.

Commercial Auction results 2022

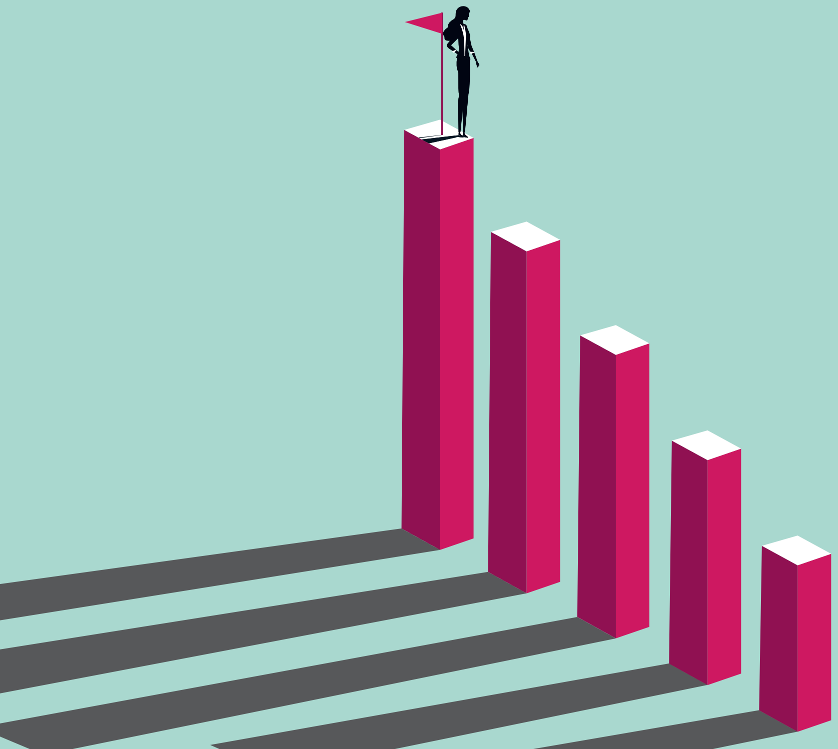
£548.5m
SALES
(2021 £597m)

721
LOTS SOLD
(2021 834)

173
LOTS OVER £1M
(2021 185)

90%
SUCCESS RATE
(2021 93.6%)

£761,000
AVERAGE LOT SIZE
(2021 £708,000)



Source: Allsop data

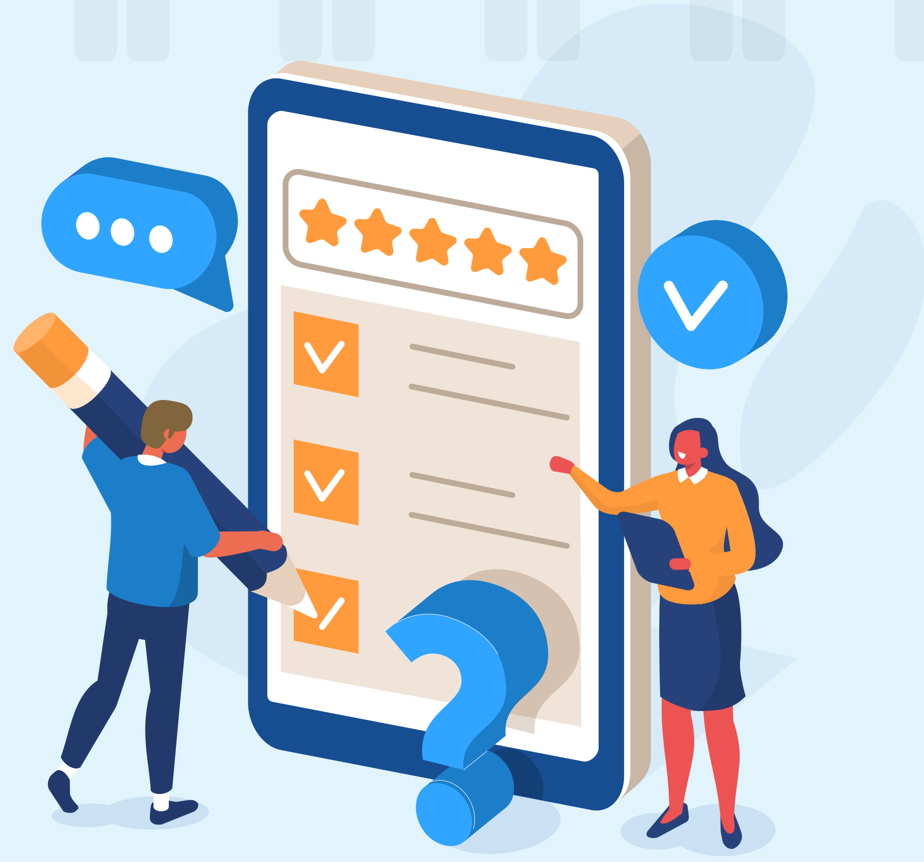
Buyers' Survey 2023 results

Immediately following the auction, the team speak to buyers by phone and have consistently asked the same questions since the Summer, with over 150 responses in full.

Our research shows that buyers are a mix of local and national investors, with the locals often out-bidding those from further afield, but only by 51/49%.

The regular appearance of new buyers even throughout turbulent times proves the depth of demand and amount of cash to be invested into commercial real estate, and once invested, 92% of buyers want to keep investing.

With finance taking so long, it is somewhat surprising to see over 20% of buyers using finance to complete, so we assume that these are facilities against the existing portfolio.



Here are the three other questions and responses:

01

Have you bought a commercial property at auction before?

Yes
121 (79%)

No
33 (21%)

02

Do you intend to buy another commercial property at auction?

Yes
142 (92%)

No
9 (6%)

Unsure
3 (2%)

03

Will you be using finance to complete your purchase?

Cash
117 (76%)

Finance
37 (24%)

Who is selling?

Institutions & Funds

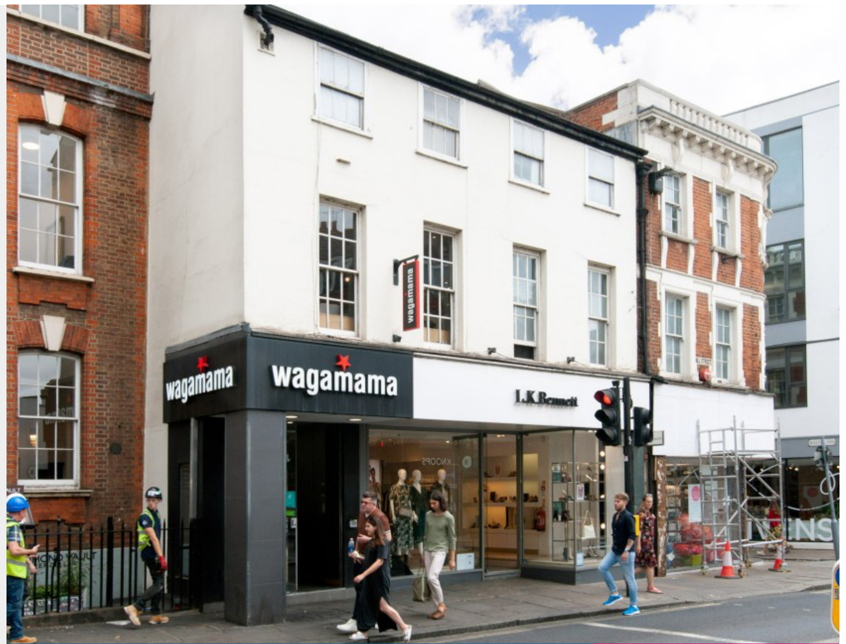
This one fund alone has sold £53m of assets over the year including Retail, Offices and Roadside, largely in the third quarter in the face of redemptions.

Total
£53m

Average lot size
£1.43m

Average yield
7.1%

Lots sold
37



SEPTEMBER - Lot 7: RICHMOND | £1.6m (5.7% NIY)

Asset Managers

The liquidation of the Boots portfolio has been ongoing for three years, 198 assets have been sold, raising over £150M to date at an average yield of 6.7%.

Total
£67.4m

Average lot size
£733,000

Average yield
6.1%

Lots sold
92

JULY - Lot 43: EALING | £1.88M (3.7% NIY)

Private Propcos

Private Property Companies form our biggest client base, mostly with a small portfolio or individual lots. The Medivet Business was sold in 2021, and the former owners went on to sell their entire portfolio at auction, following that sale.

Total
£29.2m

Average lot size
£608,000

Average yield
6.4%

Lots sold
48

SEPTEMBER - Lot 137: HARROW | £915,000 (3.6% NIY)

Listed REIT

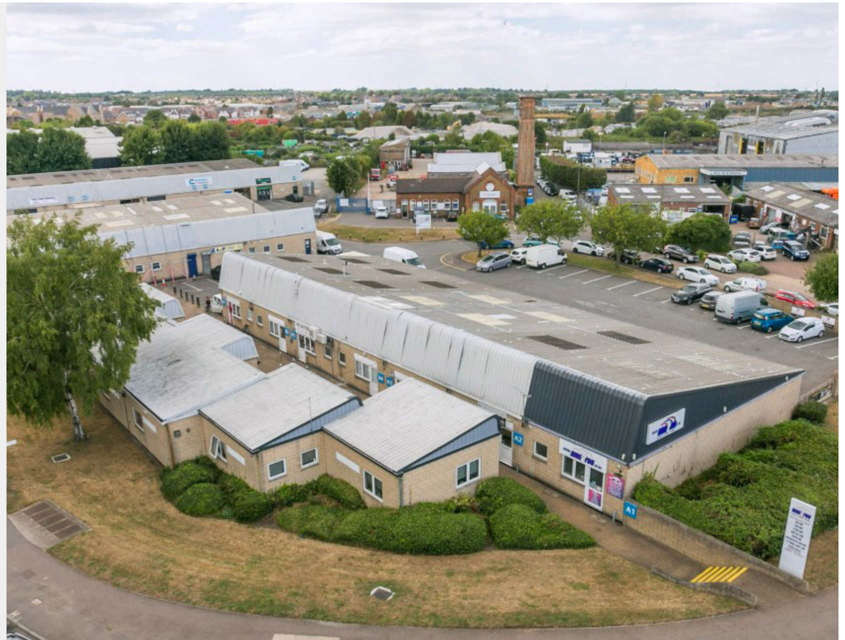
Allsop worked with Savills on a nationwide industrial portfolio that sold in the September sale.

Total
£21.4m

Average lot size
£2.37m

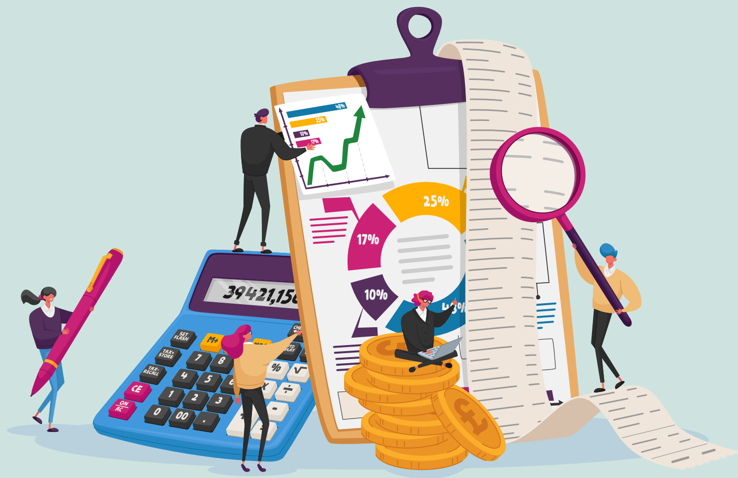
Average yield
6.7%

Lots sold
8



SEPTEMBER - Lot 105: SITTINGBOURNE | £4,500,000 (7.1% NIY)

Who is selling?



Corporate Occupiers

Shoe Zone have a continuing programme of leasebacks, and at the end of the year William Hill started a programme of sales that will continue into 2023.

DECEMBER - Lot 27: THORNTON HEATH £915,000 (3.6% NIY)

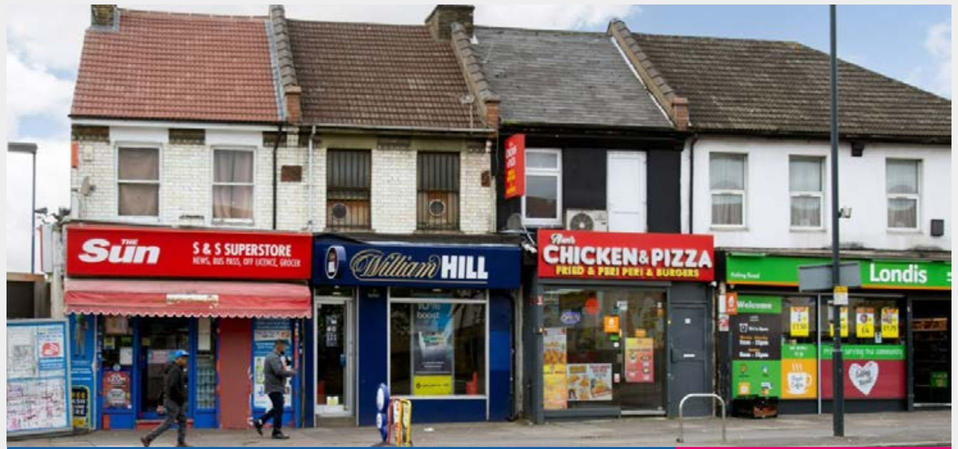
shoezone

Total
£3.03m

Average lot size
£337,000

Average yield
10.2%

Lots sold
9



DECEMBER - Lot 37A: WEMBLEY £259,000 (3.7% NIY)

William HILL

Total
£4.5m

Average lot size
£237,000

Average yield
6.9%

Lots sold
19

DECEMBER - Lot 4: PANGBOURNE £1,510,000 (5% NIY)

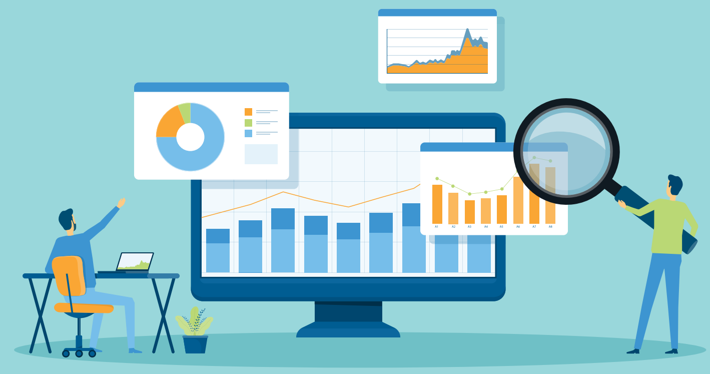
Private Investor

Making up over half our sellers, this example shows excellent stock choice from 1996.

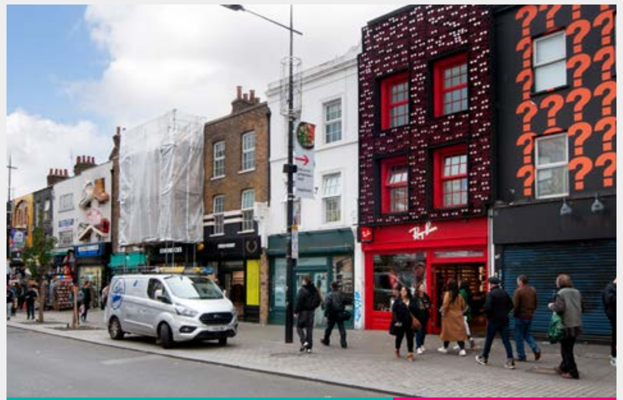
1-6 The Square, Pangbourne

Purchased	Sold
December 1996	**December 2022**
Rent **£22,500pa**	Rent **£81,000pa**
At **£240,000**	With two flats added **£1,510,000**
Yield **9.2%**	Net **5%**

Sector Analysis 2022



Retail



NOVEMBER - LOT 42: CAMDEN | £8m (4.6% NIY)

Average yield	Total sales	Number of lots
7.1%	£311m	462
Average yield 2021	Total sales 2021	Number of lots 2021
7.8%	£448m	677

Industrial

SEPTEMBER - LOT 145: TIPTON | £2.8m (6% NIY)

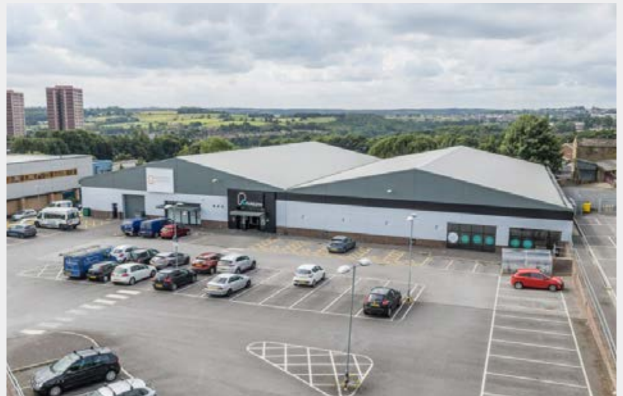
Average yield	Total sales	Number of lots
6.8%	£54.7m	42
Average yield 2021	Total sales 2021	Number of lots 2021
7.8%	£48m	34

Offices

JULY - LOT 22: LONDON | £1.75m (6.2% NIY)

Average yield	Total sales	Number of lots
10.2%	£26m	36
Average yield 2021	Total sales 2021	Number of lots 2021
9.9%	£28.2m	36

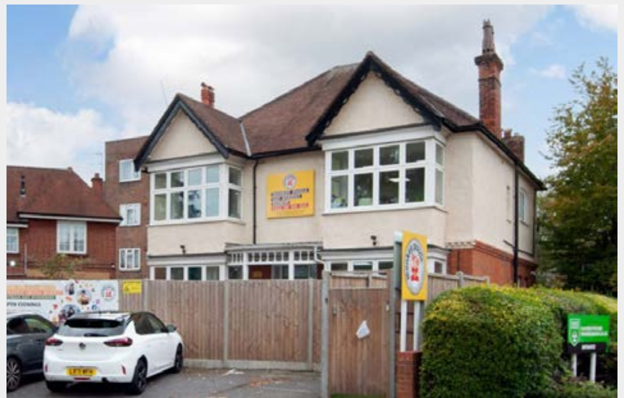
Leisure



SEPTEMBER - LOT 28: LEEDS | £3.41m (5.4% NIY)

Average yield	Total sales	Number of lots
7.5%	£40.4m	41
Average yield 2021	Total sales 2021	Number of lots 2021
8.1%	£28.9m	35

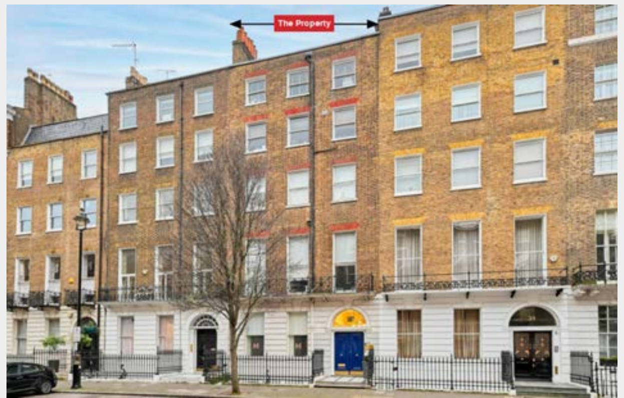
Alternatives including Motor Trade



NOVEMBER - LOT 17: HARROW | £1.41m (5.4% NIY)

Average yield	Total sales	Number of lots
6.3%	£39.2m	48
Average yield 2021	Total sales 2021	Number of lots 2021
8.1%	£27m	31

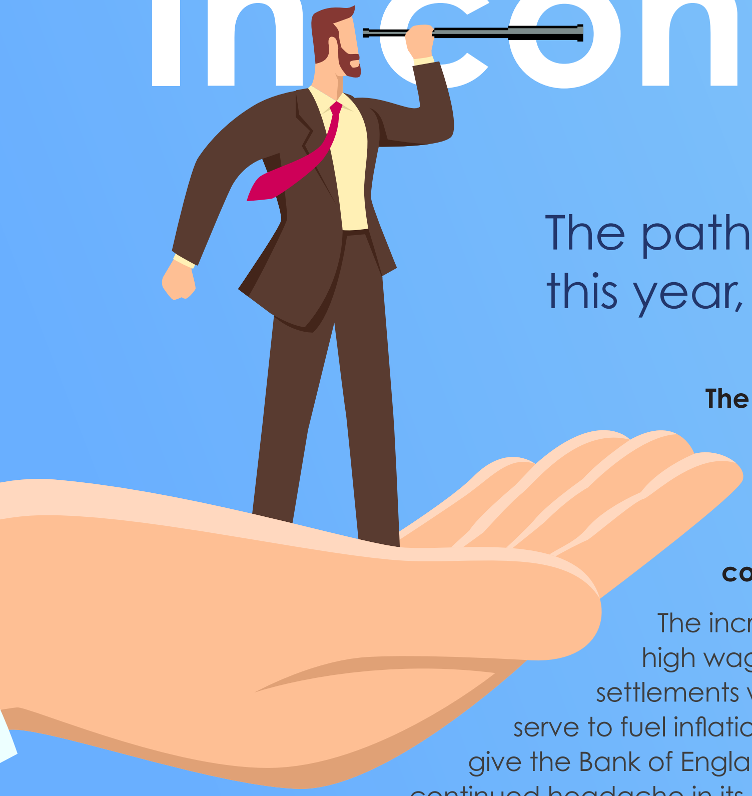
Medical



JULY - LOT 21: LONDON | £8.5m (4.2% NIY)

Average yield	Total sales	Number of lots
6.4%	£48m	61
Average yield 2021	Total sales 2021	Number of lots 2021
7.7%	£3m	4

In conclusion



The paths of inflation and interest rates will be the key drivers of activity in our market this year, and for now uncertainty is the only certainty.

The UK narrowly avoided a recession in Q4 last year, with 0.1% growth in GDP, but the economy remains in a precarious state. With the government energy subsidies to both consumers and businesses coming to an end in their current form in April, will enterprises be able to continue to grow without outside support?

The increasingly high wage settlements will also serve to fuel inflation and give the Bank of England a continued headache in its effort to curb inflation against the backdrop of a weak economy – managing inflation back to 2% is however its central remit, **so stagflation is likely to continue throughout 2023.**

There are signs of easing – inflation has begun to fall in the US and lending rates in the residential market in the UK have also begun to drop back.

Our residential auction colleagues are suggesting that their market could have further to fall as the cost of debt rises, and fixed, low-interest mortgages become a distant memory. LTVs are increasingly under pressure, which could well impact buyer confidence in the commercial market as many portfolios are exposed to both sectors. Meanwhile, residential rental growth is strong, and the UK housing sector continues to suffer from a severe lack of supply – a combination of factors that could entice new entrants into the market.

Our market remains cash driven, with continued liquidity as we showed in Q4 last year, but the cost of finance forms the benchmark for pricing, so buyers are likely to focus on the better stock and smaller lot sizes.

Assets that are well-let, well-located and with inflation protected rent reviews will remain in high demand with the best as ever attracting the most competition.

Roadside, medical and other alternative assets will remain the most buoyant – their use remains resilient, typically with strong tenants and long leases.

Buyers will be looking for the opportunities offered by short-let assets across all sectors which will be the most vulnerable to softer pricing - a theme that continues from 2022. **With private investors often building portfolios locally, they can see through some of the flaws using their expert knowledge** of the area in question and will continue to buy. This theme came through with the sale of an industrial portfolio in September 2022, which largely traded at the historic valuation figure of six months earlier, whilst the wider market fell by 20-30% in a few weeks.

Nevertheless, **this will be a hard year for regional offices as occupier trends remain uncertain.** Larger lots of secondary and tertiary retail, where re-financing will be tough to achieve as banks steer away from the retail sector, are also facing a challenging 2023. Lastly, pubs and bars in weaker locations look very vulnerable to reduced consumer spend and rising energy costs.

Aside from inflation and the cost of debt, investors are also concerned about the Minimum Energy Efficiency Standards (MEES) and the Business Rates 2023 revaluation.

A minimum EPC rating of E is needed in order to collect rent from this April and C from 2027. This is now being taken into account by buyers and lenders alike which may well mean that more dated assets come to the market where landlords don't have the resource or inclination to make them more energy efficient.

The Business Rates 2023 revaluation, in place from 1 April, will assist a wide range of occupiers, particularly regional retailers who will see their rates bills reduce significantly. In better locations this may allow some rental growth to come through, if not countered by higher occupational and wage costs.

> **"Assets that are well-let, well-located and with inflation protected rent reviews will remain in high demand"**

As to **sellers,** private investors and private property companies will continue to form the bulk of our clients and all for different reasons.

We are beginning to see stock in the market from vendors finding re-financing hard or seeking liquidity to serve other assets in the portfolios which is a common theme in regular market conditions, but is becoming more common than 12 months ago.

The take-up of unregulated short-term debt has been significant in the last five years, and these lenders tend to be quicker to act than those within the regulated sector. Whilst we have not seen much distress yet, these lenders may well be encouraging sales later this year.

Many funds have had to sell in the face of redemptions, which was largely done in Q3 and Q4 2022, but the continued upgrading of portfolios by funds and listed vehicles will provide the auction market with opportunities where granular local knowledge and shorter decision timescales can add value.

We saw a rise in sale-leasebacks last year, mainly from William Hill, which were well received by the market, and these will continue into 2023.

In summary, 2023 will be a year of consolidation and continued trade at pricing that fell during the end of last year but is unlikely to fall further, with plenty of opportunities to be taken advantage of for both sellers and buyers. The latter continue to actively look for lucrative opportunities, which will be aplenty, and sellers will be able to once again tap into our 50,000-buyer strong database. Through Allsop, they will get access to a vast pool of experienced (and very active!) property investors and enthusiasts, who know how to spot the right opportunity in any market environment. But that's not all.

According to our annual buyers' survey, 20% of buyers are new to the market in any given year, and once invested, over 90% intend to buy again providing the auction market with a consistent influx of fresh participants and amplifying opportunities for all.

Whether sellers are looking to liquidate assets to rebalance their portfolios, avoid lengthy and costly refinancing, or simply take advantage of a return on cash on deposit, we are confident in our ability to put them in front of the right buyers and help them achieve their desired goals quickly and efficiently.

Meet the team CLICK HERE

Keep up-to-date with the commercial auction team throughout the year

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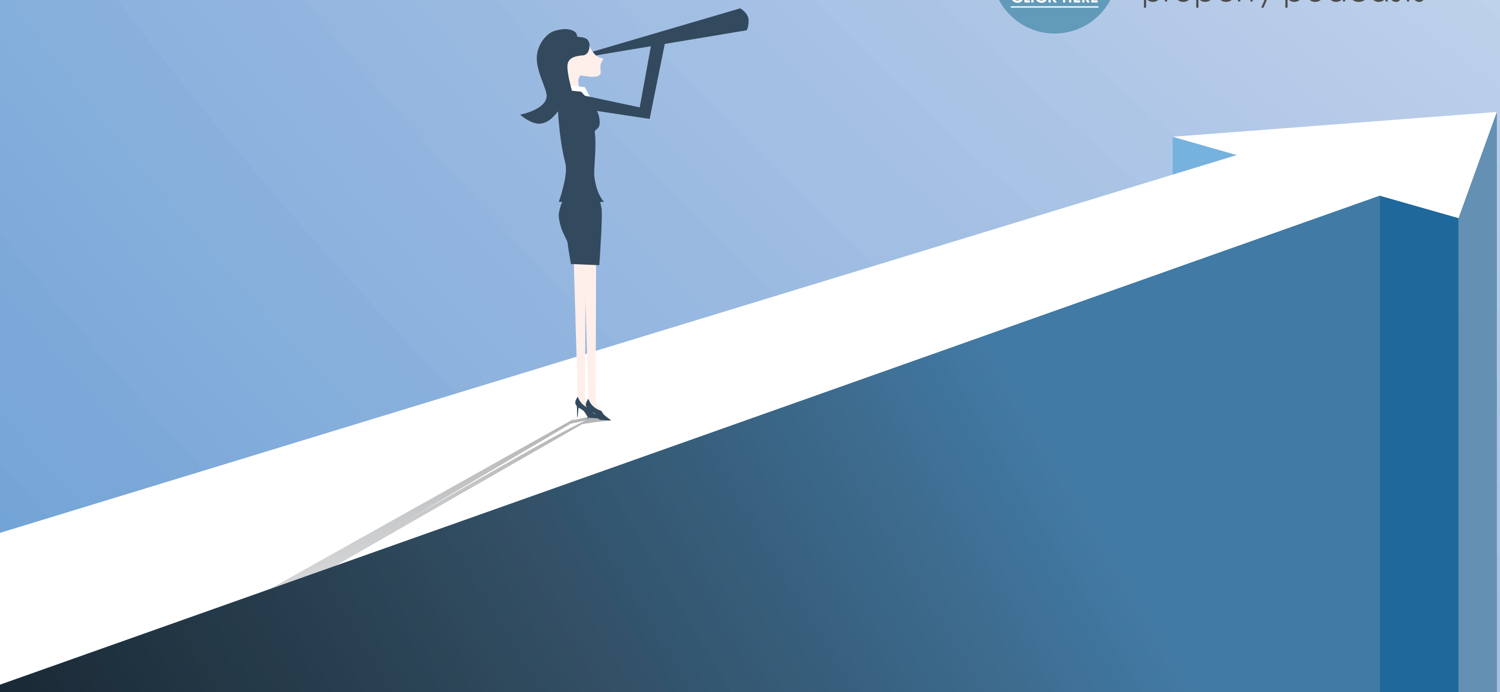

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