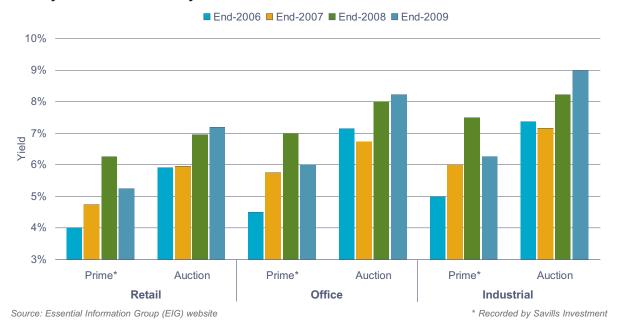
## Commercial Auctions Market Review

## February 2010

"2010 will bring more stock to the auction market but the difference between prime and secondary prices will continue to separate until funding becomes easier"

Simon Parker, Head of Commercial Auctions

### Prime yields versus auction yields



- Prime yields are falling across the board. Auction yields rose in 2009, but at a much slower rate for retail and offices. However, they are expected to fall in 2010. The key question is whether the gap is too wide between
- For 2009, property, in terms of total return performance, sat in its rightful place between gilts and equities. The equity markets saw a significant recovery with a 25% increase in capital growth of the FTSE All Share.
- Latest forecasts for UK property show a considerable improvement this year and next. This will result from a positive upward shift in capital growth. Income return will move lower as the rental growth prospects remain subdued due to a weaker occupational market.



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prime and auction yields?



## **UK Commercial Auctions**

#### **UK commercial auction results**



- Final half of 2009 saw the number of lots offered
- 2009 saw £1.07 billion raised at auction, which was slightly below the £1.09 billion recorded during the previous year.
- The success rate rose in 2009 to 72% from 67% in 2008 and the average lot price rose 6% in 2009.
- Early indications suggest there will be more sellers in 2010 although not all of them will be willing.
- We expect the numbers of lots offered and sold to continue to increase in 2010, but only gradually.

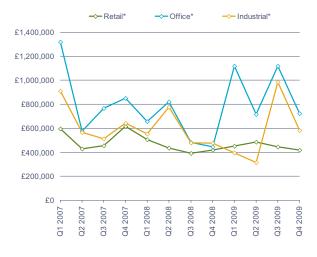
### Auction success rates



Source: EIG website (\* Sectoral data taken)

- Success rates at the end of 2009 better than end of 2008 for all sectors.
- Dip in success rates towards the end of 2009 directly attributable to sellers expectations rising following the October round of auctions.
- Industrial has fluctuated during the past few quarters. Retail remains the most stable
- In terms of securing income, the void rate data on page 3 continues to suggest that the retail sector offers the best chance of achieving this.
- Auctioneers continue to monitor success rates and are cautious of pushing reserves too early which will maintain stock levels low for 2010 but keep success rates up.

### Auction average sale price



- The retail sector accounts for over three-quarters of the commercial auction market. Hence the relative stability in average sale prices.
- The retail sector raised £147 million in Q4 2009 versus £104 million in the previous quarter.
- Industrial and office sectors are volatile as these asset classes are difficult to find buyers for.
- Funding remains the major influencing factor on prices and stock selection for buyers and auctioneers.

Source: EIG website (\*Sectoral data taken)

# **UK All Property & Investment**

### Office and industrial void rates remain high



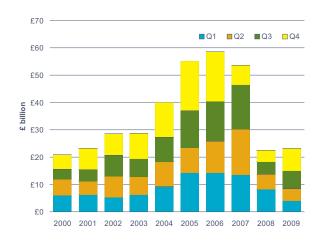
Source: Investment Property Databank

### Property yield gap is gradually closing



Source: Investment Property Databank / FT / Bank of England

### 2009 UK investment was marginally higher



Source: Property Data

- The UK is experiencing the longest recession on record, which is now in its sixth quarter. However, the 0.1% growth in Q4 2009 is a step in the right direction, but rose by the smallest margin.
- The impact on the property market is evident from the void rate on commercial property (shown opposite). The proportion of estimated rental value of the un-let property as a share of current income, by sector, is presented.
- There is a clear rise at the beginning of 2008 or the office and industrial sectors. The retail sector has trended upwards since the start of the last decade, but remains the lowest sector.
- UK GDP is expected to be around 1.4% this year, compared to -4.5% last year.
- The property yield on UK property peaked at 9.3% at the end of April 2009. Since then, this equivalent yield has fallen by 110 basis points.
- Base rates have remained low, although the inflationary pressures are building up in the UK. The expectation is for higher rates this year. We would expect this at some point in Q3.
- Since the end of 2008, the gilt yields and swap rates have fluctuated around the 3% level. However, we would expect them to move higher alongside the base rate.
- The gap between the 5-year swap rate and the property yield is still 500 basis points, down from a peak of 640 basis points. For comparison, between 2000 and 2005 ('normal' investment environment), the gap was 250 basis points on average.
- 2009 was expected to mark the low point in this property cycle in terms of UK investment. However, as shown opposite, the 2009 outturn was 3.5% higher than 2008.
- Q1 and Q2 last year were the lowest recorded. Despite this, the second half of the year presented a marked recovery. This final quarter of 2009 was the highest since Q1 2008.
- UK institutions were the highest net buyers in 2009 followed by overseas investors and then private individuals. Property companies were the largest net sellers.
- Following positive total return from property in 2009, the positive growth expectation for UK property this year will ensure a higher level of investment.

## **Notes & Contacts**

Notes: Savills believe that it is interesting to look at the commercial auction data on a sectoral basis. Consequently, the property data count for bespoke regional Essential Information Group (EIG) auctions data, taken from their website, is relatively low for particular sectors during some quarters. A degree of caution should be exercised in comparing results between quarters.

Win a case of Champagne or a free entry in our 10th May auction by logging on to our website and completing our auction survey. www.savills.co.uk/auction

2010 Auction dates*	Catalogue closes
Monday 1st March	Monday 25th January
Monday 10th May	Tuesday 6th April
Monday 12th July	Monday 7th June
Monday 11th October	Monday 6th September
Monday 13th December	Monday 8th November
For a current catalogue order on-line at www.savills.co.uk/auction	

<sup>\*</sup> Dates subject to change. Please check on-line or with the Auctions team.



### For further market information or to enter a lot please call a member of the Auctions team on 020 7877 4711 or log on to www.savills.co.uk/auction



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