

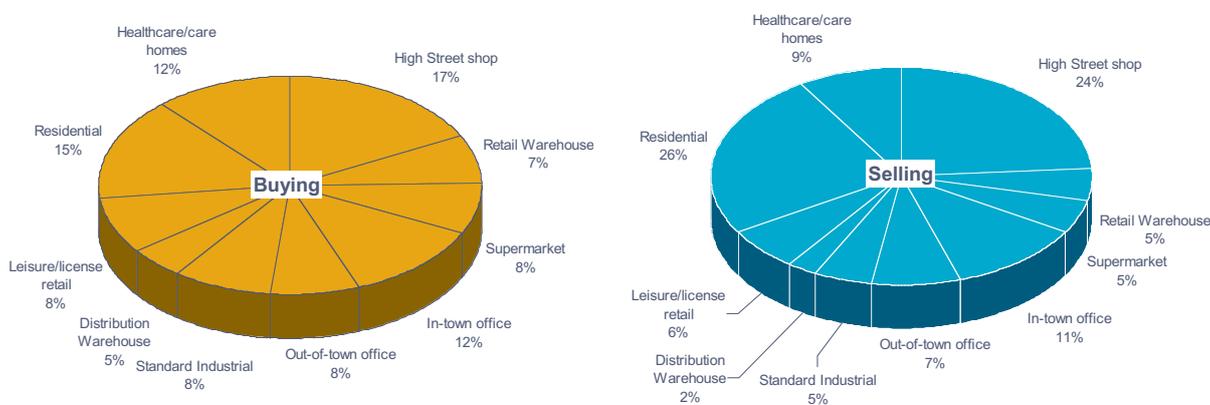
Commercial Auctions Survey

April 2010

“A significant amount of commercial auction buyers have less than 25% debt in their portfolios where average loan to value ratios in the UK market are 60-70%. Sellers should consider this method of sale as it gives them the best access to a competitive market of cash rich buyers.”

Simon Parker, Head of Commercial Auctions

Sectoral buying and selling preferences



Source: Savills

- This is the first Savills' Commercial Auction survey to investigate buying and selling aspirations.
- A representative sample of the UK auction market 'players' has highlighted preferences, aspirations and hopes for the UK market both this year and next. Private property companies accounted for nearly half of the respondents; individuals accounted for a third. This indicates that the auction market is alive and well and is still appealing to the private investors. However, just because they are private investors does not mean they are small investors. Over two-thirds of respondents have portfolios over £2 million and 42% over £5 million showing that these are professional buyers.
- Buyers with above £2 million portfolios had much more varied requirements potentially illustrating that they are more open-minded on their investment requirements considering all sectors.
- This report highlights the regional and sectoral preferences (shown above). It is interesting to note the net balance between the sectors. For example, High Street shops will present net reduction. Whereas, healthcare/care homes will see increasing demand. Results from EIG and our auction research over the last 18 months have shown the commercial auction market comprised 75% retail, but the requirements of those surveyed showed a much wider balance of investor interest in other sectors. This suggests auctioneers can be less selective on stock they offer as long as the fundamentals of location and pricing are right.
- Nearly two-thirds of the respondents have a portfolio above £2m and 42% above the £5m level. It is worth noting the varying buy/sell aspirations, by sector, of those investors above and below the £2m portfolio level. Those with a sub-£2m portfolio have a much higher preference for High Street shops. Savills believes that it is the easiest sector to understand, but with downward pressure on rents, retailers in trouble and increasing voids, is this the sector for secure investments? Buyers need to be careful and very specific of what they buy in this sector.

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Intentions & regional preferences

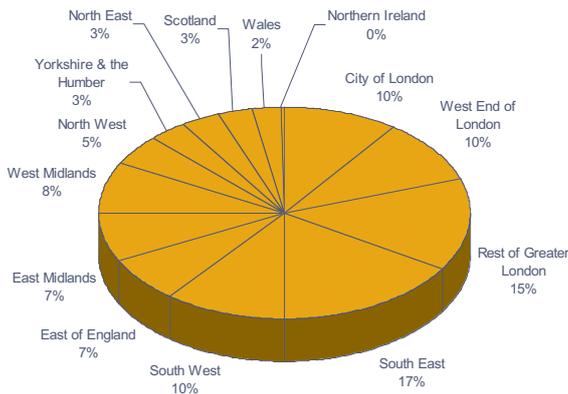
Past behaviour and future intentions



Source: Savills

- In the chart, the bars in each period add up to 100%. In all periods, buyers outnumber sellers; not unusual for an auction that will attract buyers. It is interesting to see the level of confidence returning, particularly when you consider the lack of positive sentiment when respondents were asked about the potential for increased prices in the next two years (see page 4).
- In the last two years, a 'wait and see' approach has been broadly adopted, but for those that remained in the market, net buying was achieved. Net buying was the result of the opportunities that the UK market presented; a 44% (peak-to-trough) fall in capital values maintained buyer interest.
- The survey shows that the fall in capital values has maintained buyer interest. Price remains the key factor for investors. However, lease length and covenant strength create a vital component in the equation. This is supported by the increasing prices in the market for secure investments sold on long leases.

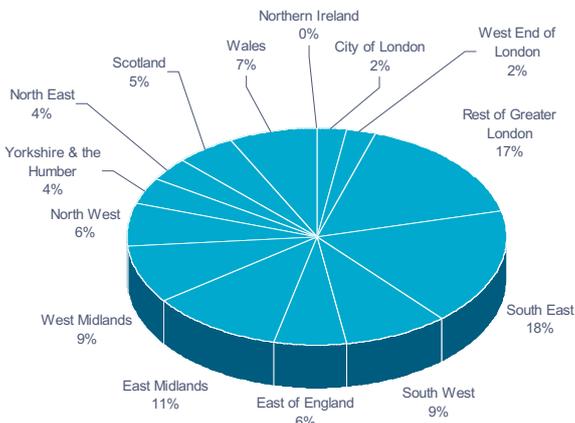
Regional buying preferences in the next 12 months



Source: Savills

- The 'future' part of the top chart clearly illustrates a renewed vigour with two-thirds firmly in 'buying mode' throughout this year and next. The proportion of 'hold' buyers has receded and these buyers have moved off the sidelines and will become more acquisitive. This is great for the market that suggests the buyers will increase, but will stock levels soak up this demand? It gives positive feedback to the auction market that prices should remain steady.
- There is a broad spectrum of target regions for those looking to buy during the next 12 months. The South East of England dominates with 52%. It is clear that buyers are sticking to their own regions. This illustrates the perception that prices will be maintained in the South East and, as a key driver of the UK economy, it is considered the most secure market.

Regional selling preferences in the next 12 months

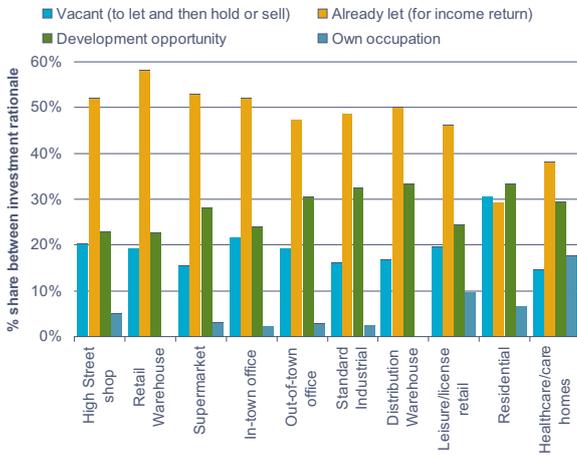


Source: Savills

- The survey also illustrates that there was a strong swing to buying in the South East with more buyers than sellers pushing up demand when compared to the regions where, for instance in Wales, there was a strong swing to sell but not enough buyers therefore leading to falling values.
- Although there is a bias towards the South East region, at 39% (including London), it is notable when compared with above, that the sellers are looking to trade out of the regions more readily. Although it is possible more property is held in the South East.
- A third of South East buyers put a 'vital' rating on lease length and covenant strength compared to only 25% and 20% for non-South East buyers. This reflects the higher prices paid in the South East and the need to secure income.

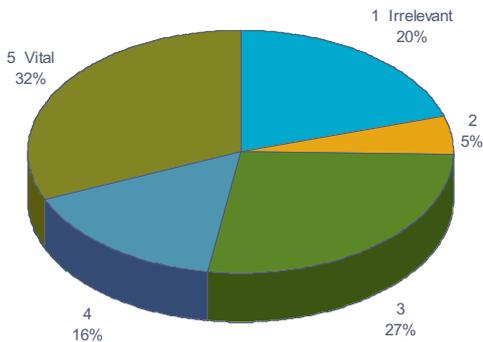
Rationale & income security

Property buying strategy by sector



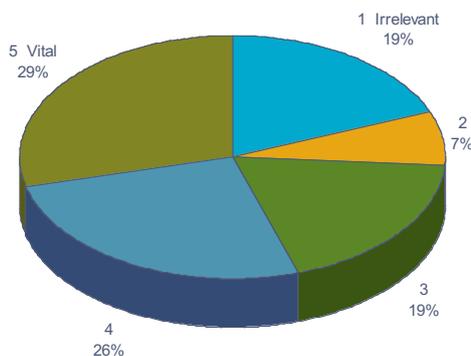
Source: Savills

Higher importance on lease length



Source: Savills

Tenant strength and security is important



Source: Savills

- The bars for each sector add up to 100%; the four bars represent the split of the rationale for investing. It is unsurprising to see that the most important rationale is for income return. The retail warehouse sector is the highest in this regard, which reflects the need for security where the likelihood of finding a new retail warehouse tenant in the current market is lower.

- However, the retail warehouse sector also presents the largest differential between investors' willingness to 'buy vacant' versus 'let'. This reflects the more limited number of occupiers within the sector and letting risk. The residential sectors, including care homes, had a more balanced response in terms of rationale reflecting the comparative ease of finding tenants.

- It does illustrate the importance of security for most buyers. With the limited debt market, most buyers are still cash rich and they are seeking better returns and security for their money than they can get in the bank and other investments.

- The demand for income return, within the commercial property investment market ensures that lease length remains important. Those respondents that said lease length is 'vital' are mostly interested in High Street shops and healthcare. The preferred regions of these respondents have a southern bias showing security is key and they are defensive investors.

- Those respondents that believe that the length of lease is 'irrelevant' plan to target residential and standard industrial property during the next 12 months. On balance, tenant strength and security of income is more important than ever. This is unsurprising considering the fact that most respondents buy at auction for investment purposes.

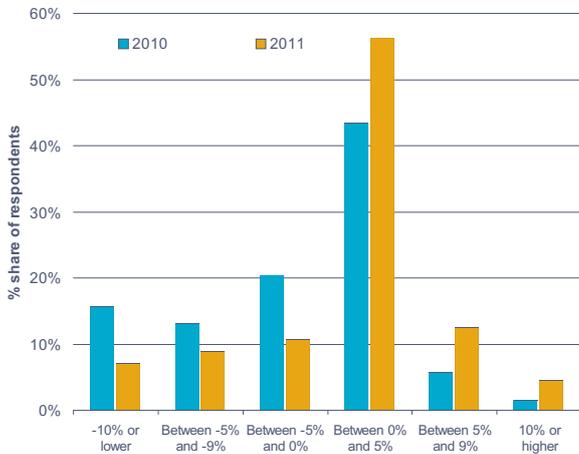
- Buyers that place a 'vital' rating on tenant strength are primarily buyers of High Street shops, supermarkets and in-town offices. These buyers expect to find the stronger covenants in London and the South East.

- Those that consider tenant strength to be irrelevant are targeting High Street shops but also consider in-town and out-of-town offices and standard industrials as 'buys'. These buyers are also more likely to go beyond the South East and invest in the South West and the East of England regions.

- This illustrates the two types of buyers in the market. Both cash rich but the first, and largest, has a defensive investment strategy looking for secure income where increase in asset value is less important; the other, entrepreneurial buyers, looking to buy high risk properties at value, aggressively manage them to maximise the asset value in the future and potentially trade them on in the future. The auction market can accommodate both these buyers, but the properties and prices they seek are very different.

Expectations & portfolio analysis

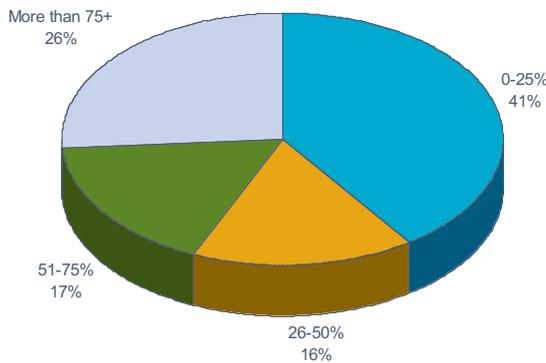
UK capital growth expectations are positive



Source: Savills

- Investment Property Databank (IPD) capital growth expectations for 2010 and 2011 are around 7% and 9%, respectively. Respondents to this survey are more cautious. This is because they are putting their own equity in and this is more precious than ever before and therefore leads to a cautious approach. Savills believe this defies the traditional opinion of the auction market, which is considered high risk.
- Only 8% believe values will increase more than 5% this year. 16% see the market falling by 10% or more this year; interestingly, these more negative respondents are net buyers in 2010.
- Why are so many buyers in the market when 16% still see further falls this year? Judging the bottom of the market is “crystal ball gazing” but these cautious respondents must be fairly confident of a bounce back in 2011 or why would they now be buying?

Percentage of debt secured on property portfolio



Source: Savills

- There is a higher level of optimism for next year. 17% expect capital value to grow at or above 5% next year. This mirrors the higher expectation presented by IPD. The optimism for next year illustrates why there are so many buyers in the market at the moment.
- It is encouraging to see that a significant proportion of debt is only between 0-25%. This is low considering the fact that loan-to-value levels within the UK market are around 60-70%, on average, but the auction market attracts buyers more than sellers and is a hub of cash rich buyers with easy access to the market. However, for those respondents with property portfolios above £5m, 41% have 51-75% of debt compared to 17% of the whole sample. This highlights the high level of gearing on larger portfolios, which are generally run professionally.

The attraction of auctions



Source: Savills

- At the institutional level, property within investment portfolios usually account for 5-10%. Considering the survey sample, it is no surprise that property, by value, accounts for over 50% of the portfolio for nearly 90% of the respondents, but investors in the auction market generally stick to what they know - property.
- For buyers, value for money is the most attractive feature of buying at auctions. The speed of the transaction is the next most important attraction of the auction process; for sellers it gives certainty and for both buyers and sellers it avoids protracted negotiations and the potential for last minute price reductions or abortive sales and gazumping.
- For sellers, the speed of the transaction is the most important feature. Interestingly, the security of contract is the second most important. Sellers need to know they have sold the property and the auctioneers have all important 10% deposits. This also may illustrate concerns over future values and the perceived pressure from the banks on loan-to-value ratios.

Notes & Contacts

Savills sent the survey to its commercial auction service database contacts via e-mail, made available on the website and provided the opportunity for attendees of the 1st March commercial auction to complete the questionnaire survey. A statistically representative sample of responses was received, collated and analysed to create a comprehensive assessment of the characteristics and trends within the commercial auctions marketplace from the buyers' and sellers' perspectives.

The Savills Commercial Auction Team would like to thank all those who made time to complete the survey on-line or at the auction and if you were unable to contribute, but would like to be kept in touch with future auction dates, catalogues and research, please call or e-mail the team on the numbers below.

2010 Auction dates*	Catalogue closes
Monday 10th May	Thursday 8th 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

* 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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