AUCTIONS REVIEW

2024 & OUTLOOK 2025

savills

WELCOME

to the inaugural Savills Auctions

Annual Review and Outlook.

In this publication we are pleased to provide the results of our first auction buyers survey, an analysis of vendor classes, a market review of 2024 with a sector specific analysis of results – and finally our thoughts on the opportunities, challenges and prospects ahead for 2025.

We do hope you find this of interest and would be delighted to receive your feedback. Please feel free to message any one of the contributors.

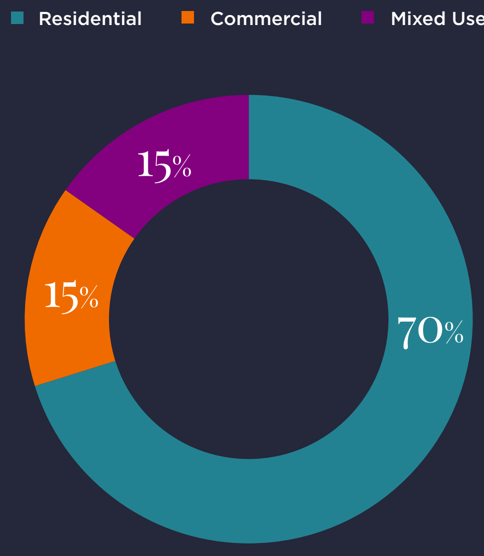
If you're buying or selling in 2025, we are here to help.

SOLD APRIL 2024 - £3,280,000

OUR RESULTS 2024

Savills sold over £810m worth of property in 2024 from the sale of 2,500 lots. They also sold more properties over £1m under the gavel than any other auction house. We achieved a 74% success rate though that varied through the year, in response to changes in market sentiment. Investors buying market let residential stock obtained an average gross yield of 11.1% though that varied significantly by reference to the nature of stock purchased. Our sales included £236m of commercial and mixed-use assets with dry investments delivering an average yield of 10.8%.

NATURE OF PROPERTY SOLD BY VALUE OF SALES

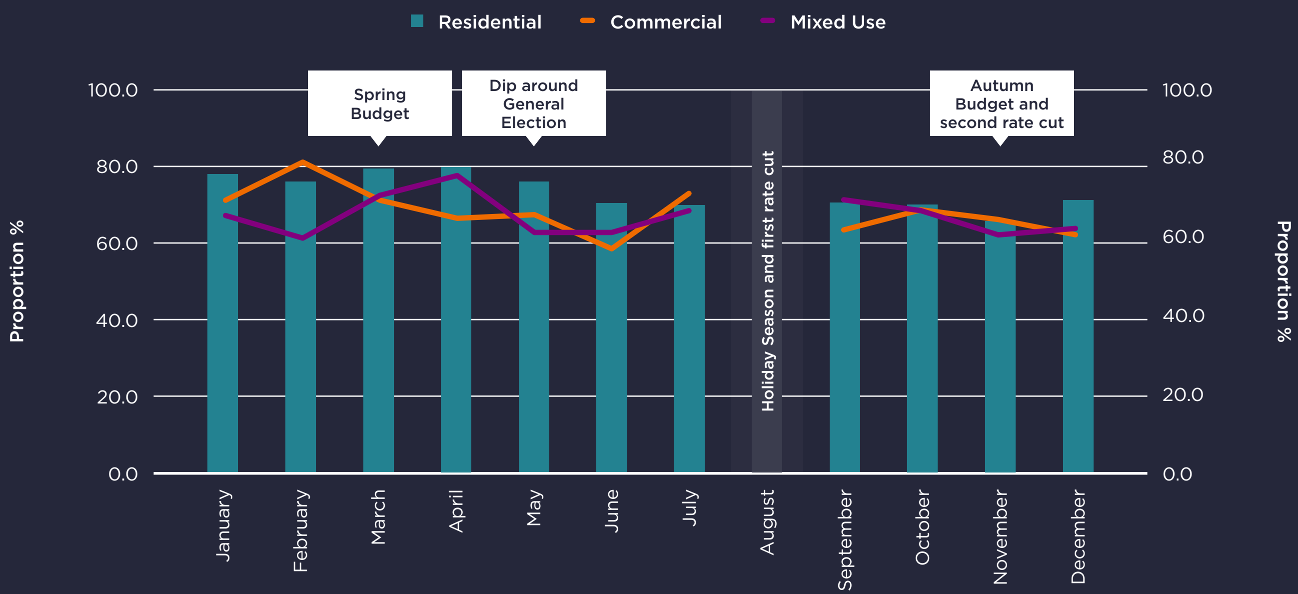


£810m
assets sold

2,501
lots successfully sold

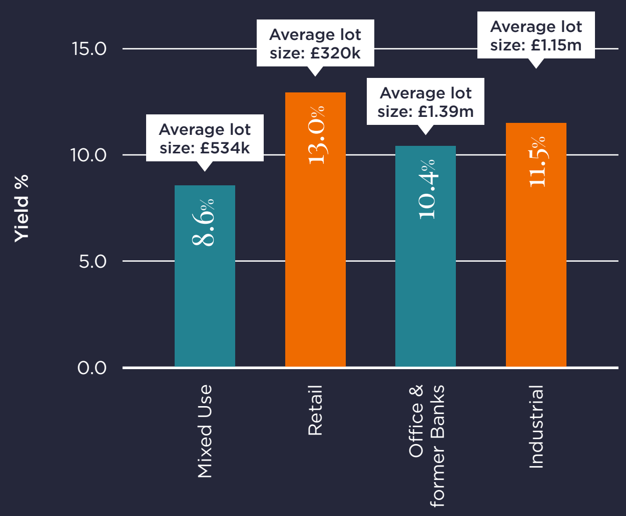
74%
success rate

PROPORTION OF LOTS SOLD



Source: Savills Research using EIG

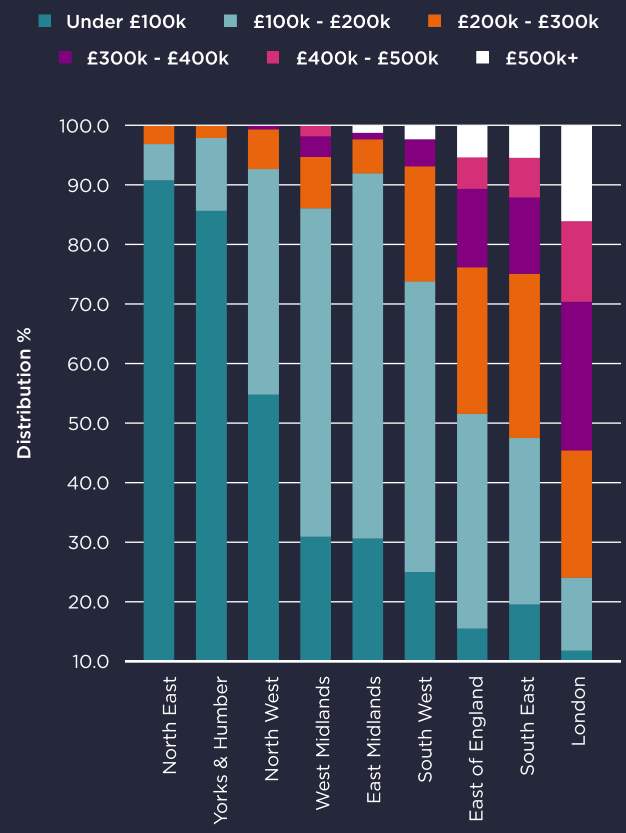
GROSS COMMERCIAL INVESTMENT YIELD



GROSS RESIDENTIAL INVESTMENT YIELD BY LOCATION (MARKET LET STOCK ONLY)

WHERE TO FIND VALUE?

Distribution of average sale prices of vacant residential properties in 2024

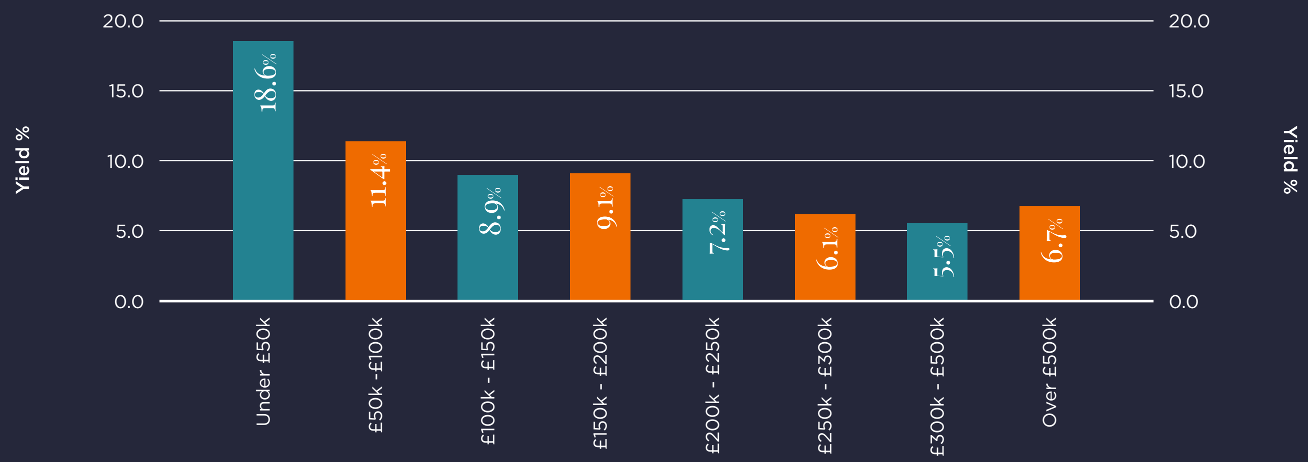


£267k average unmodernised

£311k average other

11% difference

GROSS RESIDENTIAL INVESTMENT YIELD BY PRICE BAND (MARKET LET STOCK ONLY)



RESIDENTIAL

Reflections *on 2024*

INTEREST RATES

There is little doubt that the macro-economic and policy outlooks were critical to the relative strength of the residential auctions market in 2024. And with all eyes on the path for interest rates, and the pace at which government regulation is introduced, they look set to be the main drivers of supply and demand in 2025.

Last year the taming - if not complete conquering - of inflation, along with two cuts in bank base rate and a relatively stable mortgage environment, all contributed to relatively healthy mainstream house price growth of 4.7% (according to the Nationwide) as overall buyer demand stood up well to the uncertainty that invariably surrounds a general election.

POLITICAL MANOEUVRING

At the beginning of last year, our fear was that an autumn general election would restrict the positive impact of prospective cuts in bank base rate upon sentiment in the second half of the year. Those fears were eased as the country went to the polls much earlier than expected.

However, as Labour's first budget approached, so too did the political rhetoric around budgetary black holes and the need for the new chancellor to make "difficult financial decisions". The success rate in the auction room mirrored this. It was slightly higher in the first five months of the year than the last seven, though without really showing much sign of being the ailing canary in the housing market coal mine.

BUYERS SURVEY

Our inaugural auctions survey, conducted in the final months of 2024, suggests that appetite to buy remains fairly finely balanced as we enter 2025 - particularly among residential investors and redevelopers.

That reflects lingering economic uncertainty following a budget that has done little to stoke business or consumer confidence. It also reflects a budget that brought forth an additional 2% stamp duty land tax surcharge for those buying an "additional home", which, if nothing else, is likely to mean that serial buyers at auction retain their laser-like focus on what represents good value in 2025.

SOLD JANUARY 2025 - £550,000

Looking forward *to 2025*

A TIGHTER REGULATORY FRAMEWORK FOR INVESTMENTS

Political change means private landlord investors are bracing themselves for a tighter regulatory environment. This reflects both the swift passage of the Renters' Rights Bill though parliament and government aspirations to increase minimum energy efficient standards on let properties. Both measures are likely to bring stock to auction this year from those looking to cash in on historical investments that, despite the recent burst of rental growth, no longer deliver the returns to warrant their retention – thus widening the divide between smaller amateur investors and larger more professional landlords.

We expect to see institutions and corporate investors favour single family houses over larger blocks of flats. Houses are likely to attract more stable longer term tenants and are easier to build within the prevailing restrictive planning system. Whilst this may add depth to the pool of buyers for development land, institutions and corporates will be unlikely to buy existing units in a granular way at auction.

We are more likely to see existing portfolios purchased privately and then pruned, resulting in surplus stock entering auction catalogues in individual lots.

THE RENTERS' RIGHTS BILL

The Bill is expected to become law by the summer of 2025 and understandably, whilst tenants' delight, landlords are concerned about how the proposed changes will affect their ability to manage and/or recover their properties. When enacted, the Bill will challenge the sector with the removal of rental bidding wars, the introduction of rent caps for one year and no fault evictions.

In addition landlords face cladding requirements, penal ground rent structures within existing leases - and their impact on funding - and higher living costs impacting tenant affordability.

With the private rented sector becoming increasingly regulated, it is likely that many landlords will leave the market or turn to less regulated and more profitable sectors, such as Airbnb This may impact the housing crisis further as there will be fewer properties available for rent. In addition, whilst section 21 notices still exist, we may see an increase in possession actions in the short term.

SOLD DECEMBER 2024 - £305,000

PUBLIC SECTOR & SOCIAL HOUSING

Local authorities and housing associations are likely to continue to bring to the market stock which compromises their commitments to reach net zero or meet building safety obligations without substantial investment.

MORTGAGORS AND MORTGAGEES

We do not, however, expect to see much of an increase in stock from lenders, whose mortgagees have benefitted from the tightening of mortgage regulation in the mid-2010s. Their proactive approach to help borrowers work their way through a period of elevated interest rates has kept a lid on repossessions. And, as we move into 2025, we are going to see a fall in the numbers facing an increase in mortgage costs as their fixed rate deal comes to an end. While those coming off a five year fix will still face an uncomfortable increase in outgoings, they have now had some time to plan for this. Meanwhile, the prospect of further rate cuts will ease some of the pain. And those coming to the end of a two year fix are likely to benefit from an easing in mortgage costs, having already had to face up to the financial implications of higher housing costs at their worst.

SOLD JUNE 2024 - £1,010,000

PLOTTING FOR DEVELOPMENT

Development opportunities will remain sought after but will be very sensitive to pricing.

On a positive note, although 2024 continued to see the land market affected by higher costs of building materials, indices show that costs have begun to stabilise or fall.

Meanwhile, the government's ambition to increase substantially the delivery of new housing - primarily through reform of the planning system and local level housing targets - will bring more small development plots into play, as opportunities to unlock the 'grey belt' are pursued. Whether they deliver the value aspirations of their owners is perhaps less certain, given the prospect of higher affordable housing requirements and corresponding viability challenges that the auction 'room' is uniquely placed to price in.

Moreover, 2025 will see land values - and therefore demand - affected by more onerous section 106 and CIL (Community Infrastructure Levy) requirements as the government seeks to increase the affordable housing supply.

INCREASING INTEREST RATES

Housing policy has the potential to shape the composition of supply and demand in 2025 but, above all, the strength of demand is likely to be determined by the underlying economic environment.

Whilst our buyers survey tells us that there is an abundant supply of cash purchasers, the path of interest rates remains crucial to the depth of demand in 2025. Although further rate cuts are expected in 2025, the extent and pace of rate cuts remains uncertain. As they occur, they will widen the pool of mortgaged buyers and their buying power, with a knock-on impact on the commitment of other buyer groups. As things stand, it is more likely that this will progressively increase the flow of demand for residential property over several years rather than open the floodgates. Against this context, we are forecasting general house price growth of 4.0% in 2025, gathering pace into 2026.

HIGH YIELDERS POPULAR

For the time being, in this comparatively elevated interest rate environment, higher yielding assets are likely to be sought after. Buyers will find 'yield' for example in houses in multiple occupation (HMOs), hostels and single or multi-let buildings in lower value locations.

VACANT SINGLE HOUSES & FLATS

This category of asset has always remained popular at auction and interest has been fuelled by TV shows such as the Homes under the Hammer. First time buyers, downsizers, second home seekers, private developers and dealers are the leading players on this stage. The opportunity to add value is critical, so realistic pricing is key.

The seller's capacity makes a huge difference to appeal and bidders will continue to respond to sales advertised on behalf of housing associations, local authorities, executors and mortgagees. These sellers understand the impact on demand of realistic pricing and a demonstration of commitment to the auction process.

Failing REITs (Real Estate Investment Trusts) will continue to swell the supply of single units as asset managers and administrators seek an efficient exit for distressed stock.

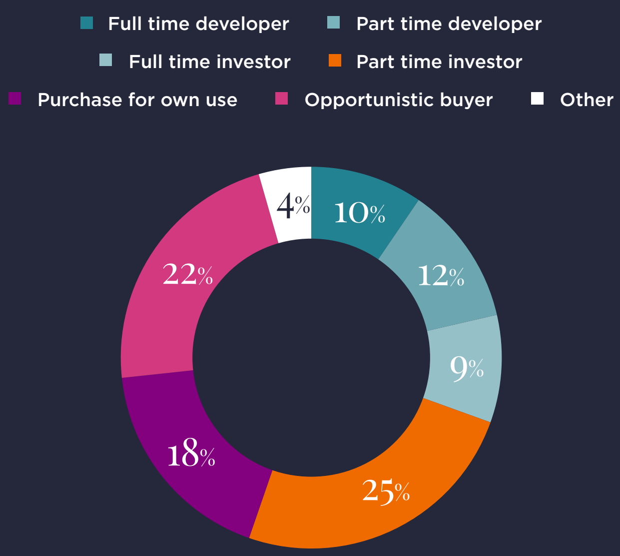
GROUND RENTS

This has become a challenging market for sellers due to recent and impending legislative reform. The Leasehold Reform (Ground Rent) Act 2022 abolished ground rents for most new residential leasehold properties in England and Wales. The Act came into force on June 30, 2022. The Leasehold and Freehold Reform Act 2024 has been passed but is not in force in its entirety. It will ban the sale of new leasehold houses and remove marriage value in the calculation of leasehold enfranchisement pricing. Reform firmly favours tenants. Investors have been deterred and values are consequently impacted. That said, investor demand remains - but lower YP multiples are here to stay.

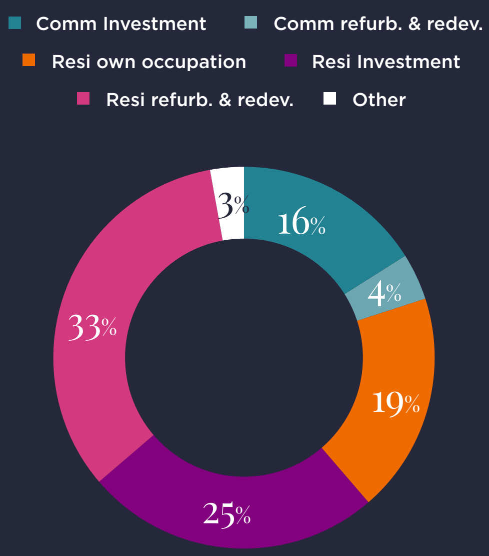
BUYER SURVEY RESULTS

472 people responded to our first buyer survey over the course of November and December 2024. 95% said they would buy at auction again with over half saying their primary reason for buying was because of the value on offer. Commercial investors and people buying a home for their own occupation showed the strongest improvement in commitment to buy, with commercial buyers most likely to loosen their purse strings. And contrary to common perception, buyers are not great risk takers, only buying when they feel they know what they are in for.

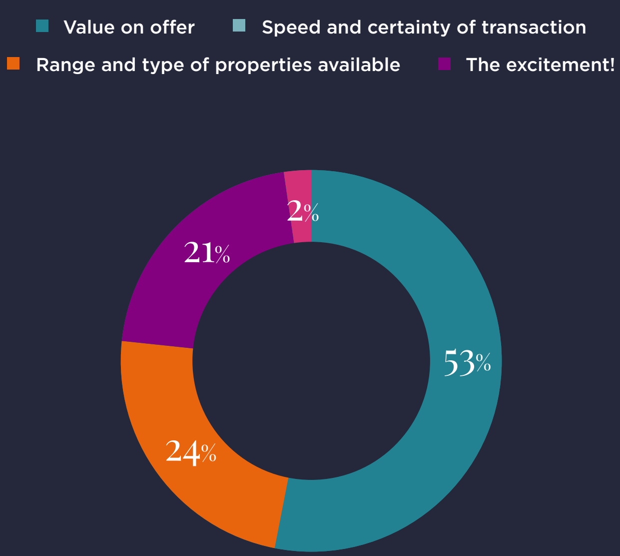
WHO IS IN THE ROOM #1?



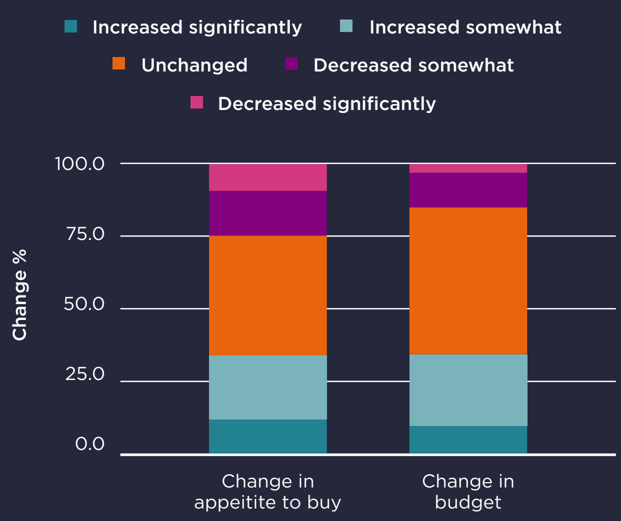
WHO IS IN THE ROOM #2?



PRIMARY REASON FOR BUYING AT AUCTION



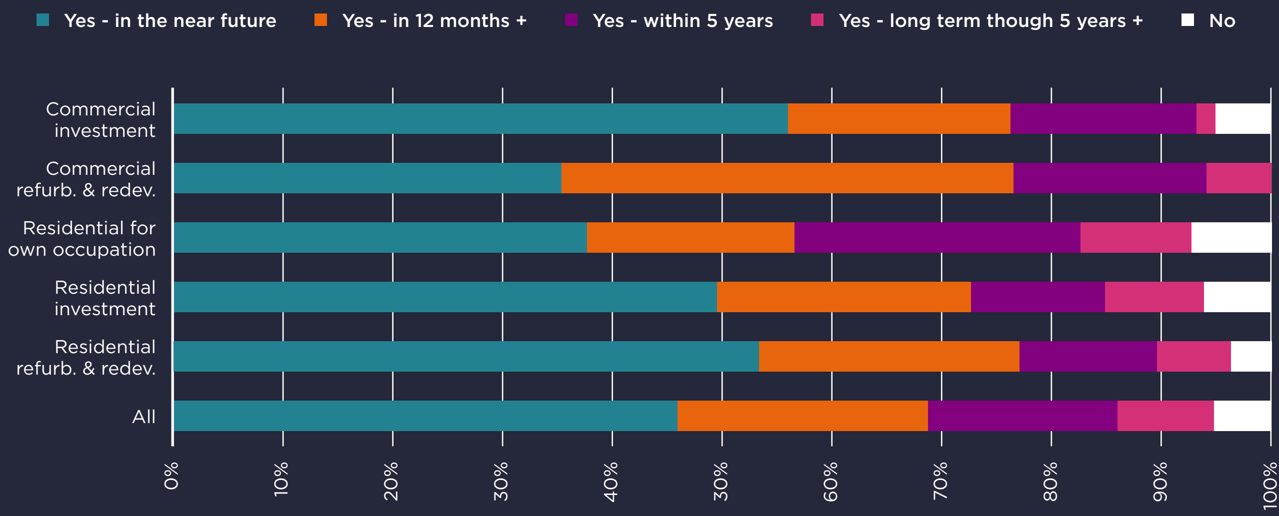
CHANGE IN BUYING ASPIRATIONS OVER THE PAST 3 MONTHS



Source: Savills Research

BUYER SURVEY

WILL YOU BUY AT AUCTION AGAIN?



SOURCE OF FUNDING

68%
Cash

32%
with debt

PROPENSITY TO BUY ACROSS MULTIPLE SECTORS & PROPERTY TYPES HIGHER AMONG THOSE BUYING REGULARLY AT AUCTION

CHANGE IN BUYING ASPIRATIONS BY BUYER TYPE (NET BALANCE OF RESPONDENTS)

	Increased appetite to buy	Increased budget
Commercial Investment	+25%	+34%
Commercial refurbishment & development	0%	+29%
Residential for own occupation	+26%	+13%
Residential Investment	+3%	+17%
Residential refurbishment & redevelopment	-2%	+18%
All	+9%	+19%

BUYERS' ATTITUDE TO RISK

	Residential owner occupiers	All respondees
I actively look for higher risk opportunities	2%	2%
I am comfortably with a moderate to high degree of risk given the information made available to me	9%	13%
I am prepared to take a low to moderate degree of risk after having assessed the financial upside and downsides	33%	44%
I will only buy when I am certain that a property represents fair value and risks are minimal	56%	42%

COMMERCIAL

Reflections *on 2024*

SOLD JANUARY 2025 - £5,810,000

At the start of 2024, various areas of uncertainty were inhibiting buyers and sellers in the commercial property market. We hoped they would diminish. Like all hopes, some of what we wished for came true, but not all. As quickly as political uncertainty ended, economic uncertainty ensued as the new chancellor imposed her first budget.

The recovery within the wider economy, although initially hampered by inflation and higher interest rates, started to gather pace as the year progressed. Staggered rate reductions were welcomed. Although their frequency was slower than many had predicted, their trajectory was favourable for the auction market. Conversely, the first budget did have some stings in its tail.

The occupational retail market saw a marked improvement over 2024 with the MSCI reporting 1.9% rental growth for the year to October 2024 (29% negative growth in the 12 months to May 2023), thus underpinning hopes of further recovery on the high street. Prime industrial and retail yields did start to harden. In the office sector, investors remained cautious as the rhetoric around working from home continued rather than diminished.

Meanwhile, in the auction 'room', we experienced a sustained supply of stock for sale. We brought 757 commercial properties to market, more than double the number in the previous year. A supply shortage in the wider secondary investment market attracted new bidders to our auctions, thus contributing to the resilient prices achieved. The average commercial property lot size was nearly £500,000 (£480,000 in 2023). 64 commercial properties sold for more than £1m. 121 lots were sold for over £1m across the wider Savills auction team. Overall commercial auction sales receipts were also up with £237m raised (£108m in 2023) - a 119% annual increase.

Private investors, not least in the auctions market, were quick to capitalise on any market weaknesses. Top picks for private investors in 2024 included good quality high street retail, where rents had rebased and yields remained very high, and some urban logistics opportunities, where pricing looked like it might have over-corrected.

Looking forward *to 2025*

Will investors be more confident about UK commercial property in 2025?

We are optimistic for 2025. Our buyer survey reveals a similar sentiment with 95% of commercial investors looking to reinvest. 100% of those buyers looking for 'value-add' opportunities said that they would be bidding again. We expect to see borrowing costs continue to fall, through both a gradual reduction in the base rate as well as through increased competition amongst commercial lenders. We anticipate further cuts of 100 basis points over the course of 2025 and 2026. There is, however, a wide range of views around the forward trajectory for interest rates, and this remains an uncertainty for investors both at the point of purchase and the eventual exit.

Many areas of uncertainty that we faced a year ago have dissipated. Political risk, at least in domestic politics, has diminished. It is a reasonably credible argument that the UK looks less politically volatile than many of its European neighbours.

The shape of the economic recovery is also clearer than it was. Whilst forecasts have been revised downward a little post-budget, there is a widespread acceptance that 2025 and beyond will see accelerating GDP growth – and this has traditionally been good for real estate.

Occupational market performance has been strong. Will this strength continue?

One of the paradoxical characteristics of the commercial property market in the UK in recent years has been the strength of many of the occupational markets through Covid and thereafter. This is reflected in many metrics, not least the relatively low vacancy rates normally expected during a recession, the comparatively strong take-up of space and ultimately the elevated rental growth that has been experienced in many markets.

Retail accommodation made a significant contribution to our auction catalogues (32% of lots in 2024). The occupational market, and therefore rents, continue to strengthen. Consequently, we would expect to see investors increasingly favour the retail sector.

An improving economy will result in business expansion, and this will lead to rising demand levels not only for shops but also for offices, factories and warehouses. Furthermore, lower levels of cost inflation should be good for business. The one wrinkle in this otherwise positive outlook is the fiscal regime. The surprise rise in employers' national insurance contributions will mean that most companies will now have to look to raise prices or reduce spending to maintain margins. This will be felt in the leasing markets, and we have therefore moderated our take-up forecasts a little to reflect a more cautious corporate environment in 2025.

SELLERS AND STOCK

The proportion of distressed sellers is unlikely to increase as banks continue to work with borrowers and assist refinance or sale. The granular transactional market will continue to be dominated by private individuals and property companies. Funds will continue with their disposal strategies as they regear their portfolios and meet redemptions. Traders will take advantage of stock coming online as rates begin to drop and the market continues its upward trajectory.

OUTLOOK

Although we have a clearer outlook now than we did six months ago, the chancellor's recent budget and the activities of bond vigilantes have raised questions around the economic performance of the UK.

Despite these headwinds, many will see opportunities and we would expect to see purchasers of high street assets throughout the country capitalising on the positive retail narrative. Well located properties and those with potential to add value should also attract improved competition in the auction room. Development opportunities will be sought after as build cost inflation abates and the government's drive towards planning reform gathers pace.

Offices remain the one sector where prime yields are yet to harden - but 2025 will be the year that this happens. The recent rental growth story is undeniable, and no longer just limited to super prime. Most major office locations have no new office buildings due for completion in the next three years. So with limited medium term supply and sustained tenant demand, office investment yields are likely to fall.

In conclusion, 2025 promises to be a year of growth and opportunity for the commercial property market as investors look set to navigate both the challenges and the potential rewards.

Auctions

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