

Beat: News

Booming property auctions lift Brexit gloom in British real estate

UK

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USPA NEWS - Commercial property auctions are proving an unlikely bright spot in Britain's real estate market where a steep drop in sterling has attracted overseas buyers and local investors are as yet unfazed by potential fallout from Brexit.

Britain's 900 billion pound commercial real estate market was an early victim of the financial market turmoil that followed Britain's vote in June to leave the European Union.

Retail investors quickly pulled money out of commercial property funds just after the vote, causing a temporary freeze on 18 billion pounds (\$22.38 billion) in assets.

In July, British commercial property values fell by 2.8 percent, according to the IPD real estate index compiled by MSCI (MSCI.N), the biggest fall since March 2009, highlighting a sharp drop in investor confidence.

Average commercial property values have fallen around 3.5 percent since the June 23 vote and year-to-date returns tracked by the IPD index are hovering below zero.

But for commercial property auctioneers who focus on smaller properties rather than trophy assets like London's skyscrapers or regional shopping malls, it is a different story.

Allsop, Britain's biggest auctioneer, achieved its biggest sale volume in a decade at a sale on Oct. 10. Rival Acuitus on Oct. 13 recorded its largest-ever auction since spinning out of Jones Lang LaSalle in 2010.

Average rental yields at both sales fell sharply compared with July. A fall in yield - the ratio of the annual rent to the purchase price - shows demand is on the rise.

Around 500 people attended the Allsop sale at The Berkeley, a luxury hotel near London's Hyde Park, while a further 6,000-odd investors were plugged in by phone or internet, including overseas buyers, the company said.

One hundred and fifty-four shops, offices and industrial properties went under the hammer in less than seven hours, and 11 lots sold in the hours after the public event. Some properties in the 231-lot catalogue sold ahead of the auction.

The Allsop sale, its second since the referendum, fetched more than 115 million pounds (\$143.00 million). The average yield of property sold was 7.1 percent, down from 8.1 percent in July, despite uncertainty over the impact of Brexit on the wider economy in Britain.

Allsop has raised 480 million pounds from five sales this year, nearly 25 percent more than over the same period in 2015.

Acuitus sold 70.6 million pounds of property at an average yield of 8.75 percent, down from 9.56 percent in July. Its event took place in the heart of London's West End.

It has raised more than 310 million pounds so far this year and is on course for a second consecutive record-breaking year.

"People have asked whether the market might be approaching a peak, but sales like these show we are only just getting out of the blocks", Auctioneer Richard Auterac said, pointing to a steady shift in private investor interest from buy-to-let to commercial real estate.

BUMPER BIDDING

George Walker, who has been an auctioneer at Allsop for 19 years, said he was convinced of a bumper sale from the first lot, when more than 90 bidders competed to buy a 518 square foot (48.15 square metre) hair salon let on a lease with just a year to run in London's affluent St. John's Wood neighbourhood.

"When there's 94 bidders going for a single lot, that means that there's 93 people in the room who are disappointed. Those people are poised to buy, and more often than not, they bid for something else instead," he said.

The salon sold for 545,000 pounds, more than 50 percent above its minimum guide price, representing a yield of 2.48 percent. It was the lowest yield at the auction, and compares with yields on 10-year UK government bonds of 1.1 percent GB10YT=RR.

Most bidders present were UK based "regulars", Walker said, describing the long-established private investors managing portfolios worth scores of millions, who buy and sell at almost every event.

"Brexit? It hasn't affected me at all. It's more an issue for the resi[dential] guys," said one veteran investor, who bid for several lots in Allsop's session but was outbid on all.

The auctioneers said the pound's slump has attracted more opportunistic overseas buyers, with investors from Hong Kong, China and South Africa taking the place of Greeks and Italians who bought UK real estate during the euro zone crisis four years ago.

Some bidders were spurred on by the pound's fall of around 19 percent against the Hong Kong dollar GBPHKD=R and the rand GBPZAR=R since the referendum, including 3-4 percent falls in the week running up to the sales.

"Given the week sterling has had, we just had to see more international interest," Walker said.

But Auterac said he expected domestic buyers to continue to outnumber international bidders as banks increase lending support for UK private investor borrowers.

"The same old faces are here, as they have been for years," the auction investor said. "The auctions are as busy as they have ever been."

(\$1 = 0.8042 pounds)

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