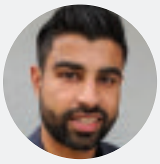
There are promising investments to be made

OLIVIER HOSLET/EPA/SHUTTERSTOCK

Investor view: Brexit buying opportunities



Nilesh Patel, director,
Prideview Group

The build-up to the March round of auctions felt at times like the lead up to Doomsday. As our beloved politicians thrashed it out day after day in parliament, investors could be forgiven for not selecting an auction catalogue for their afternoon tea read. However, it's not just buyers, but also sellers who have adopted this "wait and see" approach and, as a result, the market for quality commercial properties has remained resilient.

Yes, yields may have softened a touch, but it's nothing revolutionary.

Reduced supply was evidenced by Allsop's March auction where 81 lots were sold at a 77% success rate, compared with its March 2018 auction where 118 lots where sold at a similar 75% success rate.

One of the most popular sectors to be in now is convenience retail. As larger retail supermarkets struggle, it's the small, local and modernised formats that now best suit consumers' evolved shopping habits.

We assisted in the sale of 10 investments let to McColl's on new 16.5-year leases with fixed rental uplifts located nationwide from the Midlands up to Scotland. The total sale value was £4m (a 6.8% gross yield) off a guide of £3.6m (a 7.7% yield). This was very reasonable pricing, and the investors who picked these up were all fairly savvy as they had to complete within four-week timeframes (which would not suit finance) and had to cough up VAT on the purchase prices too (recoverable in the most part of course).

But within this portfolio were a couple of interesting variations to note: Lot 19 (Allsop) – A McColl's in Nottingham let on a new 16.5-year lease at a rent of £17,513 pa. It was guided at £260,000 and sold for £377,000 – a 4.6% yield. This was a single-storey, detached corner building in a great location between a top UK city and a top university. Enough said. This has development potential one day and value-add potential matters. Until then you have a long-lease to a good tenant operating in a popular market. This was always going to fly, Brexit or no Brexit.

Lot 36 (Allsop) – McColl's in Manchester let on a new 16.5-year lease at £46,357 pa, part sublet to Well Pharmacy. It sold at its £670,000 guide – a 7.1% yield. Perhaps because this was the largest of the lots (the rest were sub-£500,000), it was overlooked. But to pick up long-term income like this in a city as strong as Manchester for 7%-plus is extremely rare – this was our deal of the day. While it is part sublet, the fact you have a blue-chip pharmacy in occupation actually makes it more attractive, as it is a diversified convenience/medical investment. We were delighted that one of our clients acquired this at guide – he will complete in cash, refinance and enjoy a return on equity well above 10% for years to come.

On the buying front, we bid on the freehold ground-floor newsagent with maisonette and garage in Ruislip, west London, this lot on behalf of a first-time commercial investor who knows the affluent surburb well and understood that to buy a mixed shop and flat investment around the £500,000 mark in London is very rare. Knowing that it has plenty of potential for rental growth and would sell well above guide, we advised them to bid up to £550,000, but unfortunately they were outbid by an investor who was ready to keep bidding much further.

Ironically, the Brexit ball has been kicked into touch for another six months, meaning those adopting the "wait and see" approach may want to think about whether to stick or twist.

We have been saying all along that what is most important is sourcing properties that will remain relevant in the context of the major structural changes affecting our high streets. And with Brexit set to dominate headlines, the next six months could provide a great buying opportunity.

> *What is most important is sourcing properties that will remain relevant in the context of the major structural changes affecting our high streets. And with Brexit set to continue to dominate headlines, the next six months could provide a great buying opportunity*