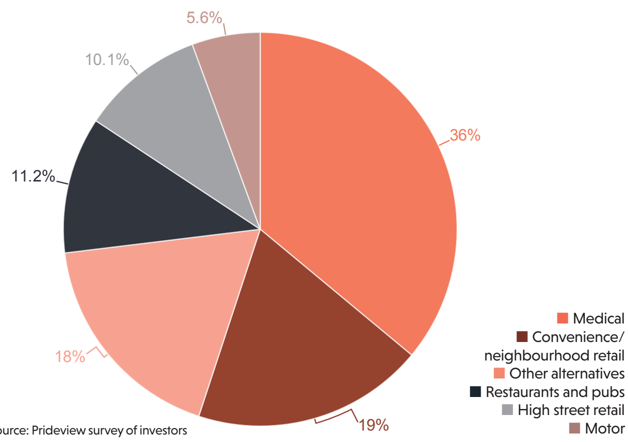
# Investors drawn away from high street


Nilesh Patel, director, and Pritesh Patel, consultant, at consultancy Prideview Group

Burton-on-Trent parade bought at 6.9% yield

**WHICH SECTORS APPEAL TO INVESTORS?**




Source: Prideview survey of investors

## What is the risk appetite in the current climate?

**Almost half of the 120 investors (47%) at our Autumn Market Review wanted a blue-chip investment with a 10-year plus lease. From our list, they selected either the McDondald's in Leicester (27.9%) or Co-op in Peterborough (18.6%).**

**But the deal that was most popular was the parade anchored by Co-op Food in Burton-on-Trent (31%), implying that while investors need some security in a blue-chip covenant they are also keen to enjoy the yields available on units let to independents. Who says you can't have it all?**

More than 120 private investors assembled in central London for Prideview Group's annual Autumn Market Review on 9 October.

Some 40% of attendees were completely new to the world of commercial property investment – busy professionals and entrepreneurs who are considering their options in today's low-interest but uncertain climate, as well as numerous residential buy-to-let investors looking to make the switch to commercial. The event was also streamed on Facebook Live.

We were joined by Acuitus auction house chairman Richard Auterac and investment director David Margolis, who began by looking at recent auction sale rates. These have fluctuated, sometimes considerably, around the 80% level, demonstrating the current sensitivity of investors to wider political events on any given day.

Looking at historic yields, they explained that prime (lower quartile) yields continue to remain firm around the 5% mark, while the "yield gap" with riskier (upper quartile) properties, where 10% yields are common, is near an all-time high.

These higher yields are certainly tempting investors in the auction room. However, for the risk-averse, the focus has moved away from high street retail to more compelling sectors such as convenience, medical, restaurants and industrial.

At Prideview, we have seen the following sectors become increasingly popular with investors in 2018:

### Convenience

Convenience retail continues to perform well as shopping habits change and convenience store product offerings widen to fresh foods and ready meals.

Recent examples include:

- An attractive Co-op Food store in Peterborough, let on a new 15-year lease. Co-op Food was relocating an existing business into this large site, which gave the buyer additional comfort that the new unit would perform well and he acquired it off-market for £1.2m, a 5.7% yield;
- A Tesco Express store in Wales with a shorter, eight-year lease, was bought off-market for £810,000 – a 6.8% yield – by an investor from the region;
- A new parade of shops in Burton-on-Trent, which includes a Co-op Food on a 12-year lease with four other tenants, was bought for £1.77m – a 6.9% yield – for a private cash buyer.

### Medical

The medical proposition is one we all empathise with, even more so given our ageing population. Doctors, dentists, pharmacies, health centres, funeral parlours, vets, opticians and cosmetic salons all fit in this category.

Recent deals we've been involved in include:

- A dental practice let to My Dentist (a blue-chip operator) in Norfolk on a lease with a break in one and a half years – it sold at auction for £245,000, a 5.7% yield;
- A Boots pharmacy with a four-and-a-half-year lease in a busy Birmingham suburb sold for £190,000, a 6.6% yield;
- At the higher end of the market, an NHS office and skin clinic in Harrow, let on a 10-year lease, was bought off-market for £2.6m, a 5.5% yield for a medical fund.

### Restaurants and pubs

This sector has performed well as it is complimentary rather than contradictory to the internet – apps such as Just Eat and Deliveroo are helping many restaurants increase their reach and sales.

Arguably the greatest covenant of them all, McDonald's, is the perfect example of this sector, and the Leicester town centre branch, which is let for another 18 years, was acquired by one of Prideview Group's medical clients at auction for around £2.5m, a 4.5% yield.

Pub sites often appeal due to their conversion and redevelopment potential, as seen with the recent off-market purchase of a pub on a large site in Southgate, North London, on a six-year lease by a local developer for £1.8m, a 4.8% yield.