

Issue 1: March 2007

# rapid

Residential Auction Property Investment Data

- Residential auction transactions are up 132% compared with 23% for all residential sales over the same period.
- Auction's share of the residential market has increased by 89% over the past ten years.
- AST yields have fallen from 17.9% in 1997 to 7.2% in 2006.
- AST yields converge in all four geographic Areas to a very narrow band of 6.9% to 7.5%.





# What is RAPID?

## What is RAPID?

RAPID stands for Residential Auction Property Investment Data.

It is a joint initiative between Allsop, the UK's largest property auction house, and the Essential Information Group (EIG), the leading provider of property auction results and information in the UK.

## Allsop

Allsop conducts seven major residential property auction sales each year. In 2006 the firm offered 2,283 residential lots raising £377m. Based in Knightsbridge, London, the residential auction team forms part of a division providing valuation, investment and disposal advice to landlords in the private and public sectors. Over the same period the firm advised on transactions of residential portfolios to the value of around £1bn and valued residential property worth in excess of £6bn.

## The Essential Information Group

EIG has meticulously recorded the results of all auction houses selling residential and commercial property in the UK over the past 17 years. During this period, the company has recorded the details of over 340,000 auction transactions conducted by 280 separate auction houses at over 8,600 sales. In 2006, details of approximately 36,940 lots were offered raising in excess of £5.6bn.

## What does RAPID do?

RAPID aims to analyse the data recorded in relation to residential auction disposals. This data will be drawn from over 138,000 lots which in total raised £11.7bn covering England, Wales and Scotland.

Over the past 20 years, auction has shed its image as a sale method of last resort and, as the information provided by RAPID will show, is continuing to grow in popularity as a means of buying and selling both investment and vacant residential stock. Such is the scale of the industry now that Allsop and EIG have identified the need for a regular source of detailed data. Up to 50 individual fields of data have been recorded by EIG for each transaction. Consequently, RAPID will be able to analyse sales results in numerous ways. Investment sales will be examined by tenancy type (eg. assured, assured shorthold, regulated and ground rent). Geographical separation of these and vacant properties can be undertaken by region, county or postcode.

Allsop, as one of the leading firms in the residential investment sector, will provide analysis and commentary drawn from its experience in the market place. Contributors will include partners in the firm who are involved in auctions, private treaty and valuations.

The data is derived from purely residential property uses and does not include, for example, mixed use buildings.

## What does RAPID not do?

RAPID does not profess to provide a residential investment index. Its primary function is data collection, interpretation and analysis. Investment indices track the performance of the same sample data, for example, company shares (FTSE 100) or a relatively static group of property portfolios (IPD). By definition, auctions will see different properties traded at each sale. Consequently, RAPID should be regarded as presenting data and interpreting trends rather than as an industry index.

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# The Increasing Popularity of Auctions

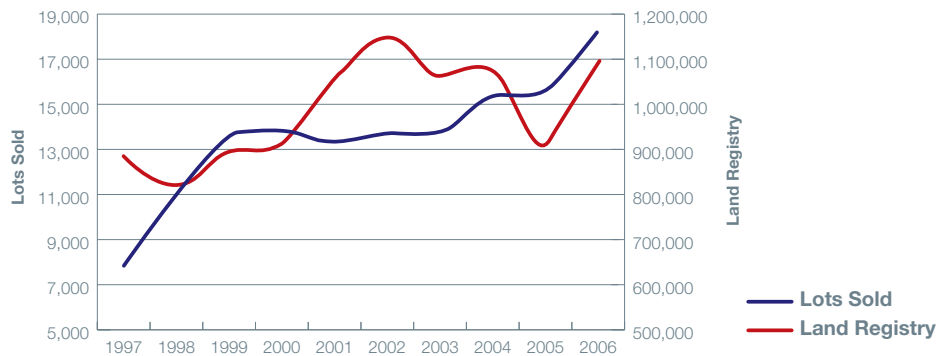
The rise in popularity of auctions is due to a number of key factors:

- Vastly improved choice of product in the last ten years.
- Increasing importance of web based marketing over postal methods in reaching an infinitely wider audience and thereby maximising competition (for example, Allsop markets to over 150,000 email subscribers compared with a print run of 18,000 paper catalogues).
- The transparency of publicly open bidding encouraging improved trust by buyers.
- The certainty and immediacy of a contract on the fall of the hammer.
- Reduced risk of failure due to renegotiation.
- Speed of sale (auction offers an average period of 2.5 weeks from start of marketing to binding sale).
- Availability of information (for example, EIG provides searchable data to subscribers enabling access to comparable auction sales and full information on forthcoming lots).
- Land Registry information has been available to the public since 2000 but is only published three months after completion. Auction data is in the public domain immediately and is disseminated by EIG to subscribers on the day of exchange.

## Residential Lots Sold v All Residential Land Registry Sales

Graph 1 shows the rise in the number of all residential auction transactions over the last ten years against the volume of all residential transactions as recorded by the Land Registry. (Land Registry records show all residential properties both vacant and let, although the vast majority will be vacant domestic single unit house and flat sales).

Graph 1



Residential auction transactions have risen from a total of 7,883 in 1997 to 18,303 (+132%) in 2006. All residential sales rose from 884,935 to 1,091,929 (+23%) over the same period.

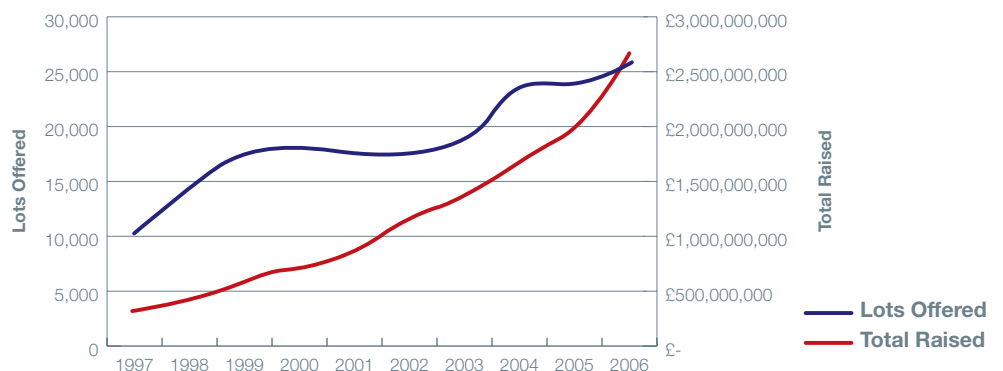
Expressed as a percentage of all residential transactions, auction sales have increased from 0.89% of the total market to 1.68%, an increase of 89%.

## Lots Offered/Total Raised

In 1997, UK residential auctioneers offered 10,348 lots. The total amount raised from such sales was £318.6m. Since then the value curve has risen steadily year on year and, in 2006, 25,728 residential lots were offered producing a sales total of over £2.65bn. The total number of lots offered remained relatively static however between 2000 and 2003.

The residential auction market represents almost half of the property auction market in the UK by value today. In 2006, all auction transactions (including purely commercial and mixed use buildings) raised £5.6bn (residential making up 47.3% by value). However, the number of purely residential property lots (25,728, 70%) offered today vastly outweigh the number of mixed use or commercial lots (11,212, 30%).

Graph 2



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# Regional Trends in Assured Shorthold Tenancy Investment

The following areas have been separated for the purpose of this analysis:

**Area 1** Central and Inner London

**Area 2** Outer London, South East and Eastern

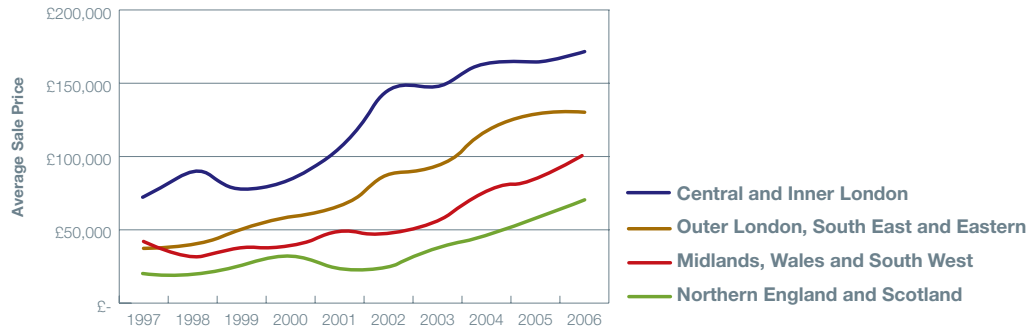
**Area 3** Midlands, Wales and South West

**Area 4** Northern England and Scotland

(The sample of available data from Northern Ireland has been excluded due to its small size).

## Average Sale Price of ASTs by Four Geographical Areas

Graph 3



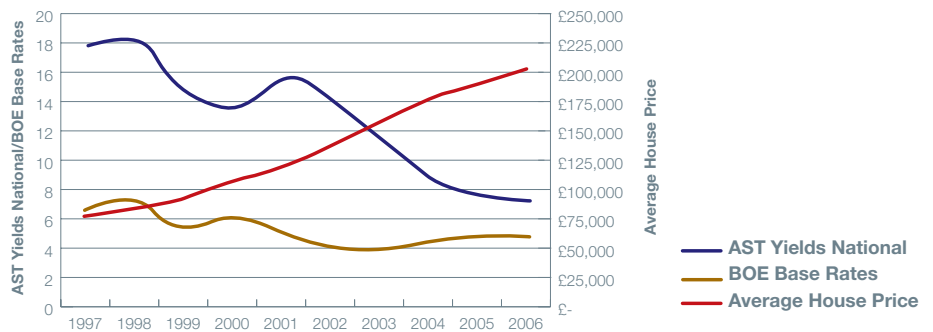
Unsurprisingly, the average sale price of an assured shorthold tenancy investment in each of the four Areas analysed here has risen over the last ten years. In all but one of the four Areas there has been a drop at some point over this period. These fluctuations have not occurred at the same time and we therefore attribute this to the variations in the value samples from year to year.

With the exception of a slight reversal of the trend in 1997 between Areas 2 and 3, the data shows that Areas 1 to 4 rank in descending order of value consistently over the ten year period.

The highest rise in AST investment sale prices was seen in Area 2, Outer London, the South East and Eastern (+249%) and Area 4, Northern England and Scotland (+240%). The lowest rise was seen in Central London (+137%). We attribute this partly to what has been described over the last few years as "the ripple effect"; the influence of high London prices on capital values immediately in the Home Counties and progressively into the regions. Also, Central London investments are comparatively less affordable unit by unit to the private investor. With a greater selection of lower value stock available under the hammer outside the capital and the increasing popularity of Buy to Let (see over), auction buyers and first time investors in particular, have been drawn to the regions by lower prices and higher returns.

## National AST Yields

Graph 4



Graph 4 demonstrates the decline in yields from AST investments at auction nationally. This is a dramatic fall from 17.9% in 1997 to 7.2% in 2006. The Bank of England base rate fell over the same period from 6.75% in July 1997 to 5% in December 2006, reaching a low of 3.5% in July 2003. The value of the average residential transaction as shown by Land Registry over the same ten year period rose steadily from just over £77,000 to nearly £203,000.

- ASTs for this purpose include both single units and multi-let buildings which are wholly and exclusively subject to ASTs.
- The following types of property have been excluded in order to avoid distortion of results:
  - those subject to mixed tenancy types
  - part vacant buildings
  - those with development value that would otherwise have been included in the sample set
  - the top and bottom 5% sets.
- This publication therefore draws on 12,140 AST investment transactions over the ten year period studied.
- The number of ASTs offered at auction rose from 286 in 1997 to 1,674 in 2006.

## National AST Yields

It should be noted that yields shown on the published graphs are calculated by expressing gross rental income relative to investment value. In other words, transactions analysed are those which took place with tenants in occupation at the date of sale. (These should be distinguished from many private treaty acquisitions of vacant houses or flats which are let subsequently in which yields are expressed relative to the vacant possession value).



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# AST Yields by Area

## Outlook

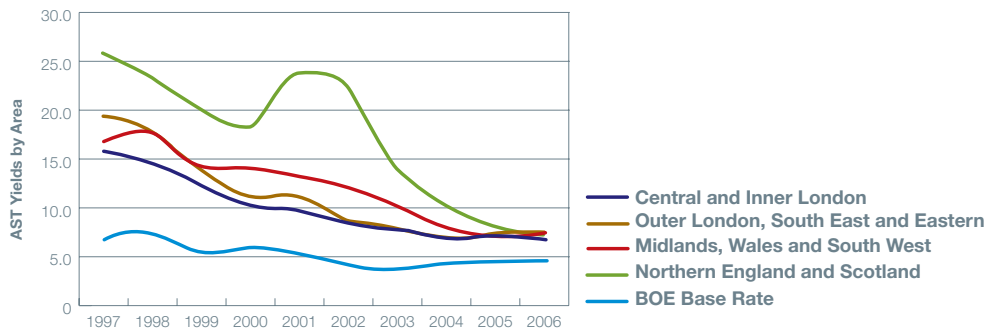
We do not see the buoyancy in the residential auction markets abating significantly over the next six months. The recent quarter point rise in the base rate seems to have had little effect on investor confidence. However, over the past few years many Buy to Let borrowers will have taken advantage of high loan to value deals at low short term fixed rates which are now reverting to higher variable rates. Many will also have overlooked the risk of rental voids and burdensome outgoings. We anticipate an increase in lots to auction from lenders in this market as loans fail. Conversely, these lots will be enthusiastically reabsorbed into the market. There is still a strong appetite for bricks and mortar and many commentators believe that there will be further house price gains. Total returns (rental income and capital growth) should therefore be sustained in the short term.

As we approach the financial year end, City bonuses will bring new money to the investment markets with London and the South East leading the way.

In the longer term however, buyers may need to exercise caution. Despite current rates still being relatively low, house price growth and affordability generally, are at risk from further base rate rises.

## Residential Lots AST Yields by Area

Graph 5



In Graph 5, AST yields are separated according to the same four geographical Areas analysed by investment value above.

In 1997, AST yields were over 15% in all areas. Highest average returns were seen in Northern England and Scotland (25.8%) with Central and Inner London showing 15.8%. Over virtually the entire ten year study, as one would expect, the areas show the reverse ranking by yield (lowest to highest) as Graph 3 shows by investment value (highest to lowest).

What is notable is the convergence of gross AST yields in all four geographical Areas in 2006 to a very narrow band of 6.9% to 7.5% (1,674 transactions).

We attribute this to a variety of factors:

- There has been something of a revolution in private investment in residential property over this period. Buy to Let has become more accessible to a wider audience as an increasing array of low interest/high loan to value mortgage products are offered by both primary and secondary lenders in this aggressively competitive mortgage market.
- Fashion has played its part with appetites fuelled by numerous television programmes advising on home improvement, property development, interior design and buying at auction.
- The private property investor has become increasingly sophisticated. Poor performance in the equity markets and disillusionment with traditional pensions typified by Equitable Life have forced a migration to alternative investment classes.
- Bricks and mortar are seen as a safe haven today. Capital growth adds to the feel good factor and contributes to the "total return" from residential investments.
- Memories of the last recession have faded and the new generation of investors will have no adult experience of it.
- The first year of our analysis coincides with a change of Government. Many may have feared over regulation of the private rented sector but New Labour has turned out to be surprisingly landlord friendly.
- Auctions have attracted an increasing number of higher value lots shifting the emphasis away from low value terraced housing to a much more cosmopolitan mix.

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Source: Essential Information Group Ltd, Land Registry.

Data sample has been taken from:

141 residential auctioneers across the UK, and from information compiled from a data set of around 138,000 individual auction lots for general analysis and 12,140 for AST analysis.