

Auctions comment: A new group of private investors is becoming active on the commercial auction scene – but they are not new to property. More residential investors are seeing the appeal of commercial.

Historically, commercial property was an investment undertaken largely by institutions and property companies. But in today's market we are seeing growing numbers of private investors locally and from around the world investing. My perception is that this interest appears to be growing.

One of my clients has recently made the switch from buying residential to buying commercial property, saying that the latter is far easier to manage. It is also interesting to see a strong demand for properties that have an element of both residential and commercial or the potential to take back some excess commercial space to convert to residential. I have recently been involved in agreeing with a commercial tenant to surrender (unused) upper parts of a property. My client will then convert those into residential. We are seeing private investors using their skills in managing residential properties to add value to commercial investments.

As my client pointed out, the more limited involvement generally required by commercial property is an attraction for private investors familiar with the labour-intensive nature of being a residential landlord. On the basis that the property is let on a full repairing and insuring basis, the tenant will be responsible for all costs and maintenance. This leaves the owner with the task of collecting the rent (normally paid by bank transfer).

With low interest rates and returns on other assets, commercial property has been looking like a favourable investment for the past 12 to 18 months and even more so for private investors. The heat in some areas of

VIEW FROM THE ROOM

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the residential market emphasises this.

Buying commercial property via auction has its advantages. Auctions are quick and simple, providing easy access to properties, real-time pricing and once the hammer goes down the deal is done. Online access to particulars of sale and legal packs now make it easy for private investors to get access to properties that they would not have been aware of. The deal can be done even without the need to attend the auction room.

With the simplicity and effectiveness of the auction process there does also come an element of risk. The bidder must be prepared to undertake some element of homework before bidding.

It is imperative that the legal papers are reviewed prior to bidding to avoid any nasty surprises later. There have been countless examples of bidders successfully bidding for a property and reviewing papers subsequently and finding that they are liable to pay the

seller the tenant's arrears, or VAT is actually payable on the purchase price or that the rent review is not upward only but can potentially go down. All of these things are disclosed prior to the property being offered.

In my experience, auctioneers are keen to ensure that full legal information is provided prior to the auction. They work with the seller's solicitors to ensure that the particulars in the catalogue are correct and the legal documentation reflects this. Any changes are covered by an addendum and published in advance of the auction and on the day of the auction. It is important to check this before bidding.

It is advisable to view the property, particularly when it is open and trading. This will give the bidder a flavour of how well the business trades and information on the local area.

With the recent increase in investors acquiring commercial property and securing funding from lenders it is important that the lenders are made aware of the intention to acquire a property in advance of the auction. Completion takes place generally between four and six weeks of the auction date, so time is not on the buyer's side if they are dependent on funding. The lender will in most circumstances require a valuation report and therefore access will need to be arranged via the auctioneers, which will contact the tenant.

Private investors are changing the UK commercial property market. They are filling the auction rooms and bidding fiercely for the right asset. In turn this has a positive effect on pricing and results for the vendors.

Examples abound of buyers reviewing papers after a sale and finding they are liable to pay the seller the tenant's rental arrears