

Auctions comment:

“My property is too big to sell via auction” was a recent comment made to me by a client. But my experience suggests that a new appetite for larger lot sizes is growing rapidly.

When it comes to selling at auction, does size really matter and is there such a thing as an optimum lot size? Commercial auctions typically sell properties priced anywhere between £250,000 and £1.5m; the average lot size is just below £1m. Lot sizes in excess of £2m tend to be less common.

Similarly, it tends to be the case that the smaller the lot size, the more interest it attracts. This is especially true of individual investors deploying their own cash for income return, whereas larger lot sizes have been of more interest to property companies, funds and financial institutions.

The majority of commercial property bought by institutional investors is via private treaty simply because the auction process would not be favourable to them either in terms of time or because of the nature of the auction contract. Until now, this has resulted in a certain reluctance by vendors to offer larger and more expensive properties for sale at auction.

However, my experience over the past few months or so suggests that things are changing – and changing fast.

Commercial property auctions attract buyers ranging from small private investors to large property companies, overseas buyers and businesses seeking to acquire real estate as an investment commodity for pension purposes. Furthermore, auctions are a fantastic medium for marketing a property. Promotional literature, marketing campaigns and, most important, the internet, can all help to attract interest not just in the UK but around the world from those who

VIEW FROM THE ROOM

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would not normally have access to the property.

A good example of this is the sale earlier this year of Carlton House in Putney, London, which sold via auction for £13.5m. The property was originally guided at around £7m-plus, although previous private treaty offers a few months prior are said to have reached £7.2m.

I was subsequently instructed by the underbidder, who had become aware of the sale of the property only because it was being offered via auction. This sale is a good example of how auction marketing and strict timescales combined to achieve a final sale price almost double the original guide price.

While it is accepted that institutional buyers require slight technical variations to the purchase contract, there is no material risk to the seller and any changes can be made in the auction conditions of sale to allow the institution to buy. For example, a

few years ago I acted in connection with the sale of a commercial property valued at around £4m that was acquired by a corporate pension fund. The auction contract was negotiated to enable the pension fund to acquire the property and the exchange took place a day before the auction.

But the days when only big institutions were able to acquire high-value properties are long gone. My firm recently acted in connection with the sale of a freehold ground rent investment opportunity in Harrow town centre. The property, which is occupied by Debenhams, had a guide price in the region of £6m but sold at auction to a private investor for £9.55m.

Competition among bidders was fierce. The successful investor outbid an institutional buyer and a number of large property investment companies to secure the freehold. I doubt whether the vendor would have achieved that price from a private treaty sale.

However, for vendors wishing to attract the best price, the basics – lease length, covenant strength and location – remain as important as always.

Auctions have always provided buyers and sellers a fantastic opportunity to take advantage of real-time pricing and, once the hammer comes down, the deal is done, providing certainty for both parties.

I believe we will see bigger lot sizes being offered at auction, with competition between private investors and institutional buyers continuing to be as fierce as ever. It will be interesting to see who will come out on top.

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