

Prime Yield Guide – August 2022

Knight Frank Intelligence

This yield guide is for indicative purposes only and was prepared on 10 August 2022.



Based on rack rented properties and disregards bond type transactions

SECTOR		AUG-21	MAR-22	JUN-22	AUG-22	CHANGE OVER 1 Mth	MARKET SENTIMENT	
	Offices (Grade A)	City Prime (Single let, 10 years)	4.00%	3.75%	3.75%	4.00%	+0.25%	WEAKER
		West End: Prime (Mayfair & St James's)	3.50%	3.25%	3.25%	3.25%		STABLE
		West End: Non-core (Soho & Fitzrovia)	4.00% - 4.25%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%		WEAKER
		Major Regional Cities (Single let, 15 years)	5.00%	4.75% - 5.00%	4.50% - 4.75%	4.75% - 5.25%	+0.25%	WEAKER
		Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.75% -	5.00%	5.25%	+0.25%	WEAKER
		South East Towns (Single let, 15 years)	5.25%	5.00% - 5.25%	5.00%	5.00% - 5.25%	+	WEAKER
		South East Towns (Multi-let, 5 year WAULT)	6.50%	6.50%	6.50% -	6.75%	+0.25%	WEAKER
		South East Business Parks (Single let, 15 years)	5.25% +	5.25% +	5.25%	5.50%	+0.25%	WEAKER
		South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	6.75% +	6.75% +	7.00% +	+0.25%	WEAKER
	Warehouse & Industrial Space	Prime Distribution/Warehousing (20 year income [NIY] with fixed/indexed uplifts)	3.25%	3.00%	3.00%	3.50%	+0.25%	WEAKER
		Prime Distribution/Warehousing (15 year income, OMRRs)	4.00% -	3.50%	3.50%	4.00%	+0.25%	WEAKER
		Secondary Distribution (10 year income, OMRRs)	4.50% -	4.00%	4.00%	4.50%	+0.25%	WEAKER
		South East Estate (excluding London & Heathrow)	3.75% - 4.00%	3.25% - 3.50%	3.25% - 3.50%	3.75% - 4.00%	+0.25%	WEAKER
		Good Modern Rest of UK Estate	4.00% - 4.25%	3.50% - 3.75%	3.50% - 3.75%	4.00% - 4.25%	+0.25%	WEAKER
		Secondary Estates	5.25% - 5.50%	4.75% - 5.25%	4.75% - 5.25%	5.00% - 5.50%	+	WEAKER
	Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.50%	5.00%	5.00%	5.00% - 5.25%	+	WEAKER
		Budget Hotels London (5 yearly Fixed / RPI uplifts 20 year+ term, strong covenant)	3.50%	3.25% - 3.50%	3.25%	3.25%		WEAKER
		Budget Hotels Regional (5 yearly Fixed / RPI uplifts 20 year+ term, strong covenant)	4.00%	4.00%	3.75%	3.75% - 4.00%	+	WEAKER
		Student Accommodation Prime London (Direct Let)	3.75% - 4.00%	3.75%	3.75% -	3.50%		STABLE
		Student Accommodation Prime Regional (Direct Let)	5.25% -	5.00%	5.00% -	4.75% - 5.00%		STABLE
		Student Accommodation Prime London (25 years, Annual RPI)	3.25%	3.00% - 3.25%	3.00%	3.00% - 3.25%	+	WEAKER
		Student Accommodation Prime Regional (25 years, Annual RPI)	3.50%	3.25% - 3.50%	3.25%	3.25% - 3.50%	+	WEAKER
		Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.50%	3.25%	3.25% - 3.50%	+	WEAKER
		Data Centres (20 years, Annual Indexation)	4.50%	4.00%	4.00% -	4.00%	+	STABLE
Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade Covenant)	2.25%	2.00%	2.00%	2.50%	+0.25%	WEAKER		

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	High Street Retail	Bond Street	2.75% +	2.75%	2.75%	2.75% +	WEAKER	
		Oxford Street	3.50% +	3.50%	3.50%	3.50% +	WEAKER	
		Prime Towns (Oxford, Cambridge, Winchester)	6.50%	6.25%	6.25%	6.25%	STABLE	
		Regional Cities (Manchester, Birmingham)	6.50% +	6.50% +	6.50%	6.50%	STABLE	
		Good Secondary (Truro, Leamington Spa, Colchester etc)	8.25% - 8.50%	8.25% - 8.50%	8.25% - 8.50%	8.25% - 8.50%	NEGATIVE	
	Shopping Centres (sustainable income)	Regional Scheme	8.50%	7.50%	7.50%	7.50%	STABLE	
		Sub-Regional Scheme	9.00%	8.50%	8.50%	8.50%	STABLE	
		Local Scheme (successful)	10.00%	9.00%	9.00%	9.00% +	WEAKER	
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.50% - 9.75% +	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	STABLE	
	Out of Town Retail	Open A1 (essential retailers)	6.00%	5.25% -	4.75%	4.75% - 5.00%	+	WEAKER
		Secondary Open A1 Parks	7.50%	6.25% - 6.50%	6.00%	6.00% - 6.25%	+	WEAKER
		Bulky Goods Parks	6.00%	5.25%	4.75%	4.75% - 5.00%	+	WEAKER
		Secondary Bulky Goods Parks	7.50%	6.25% - 6.50%	6.00%	6.00% - 6.25%	+	WEAKER
		Solus Open A1 (15 year income)	5.75%	4.75%	4.75% -	4.75% +	+	WEAKER
		Solus Bulky (15 year income)	5.75%	4.75%	4.75% -	4.75% +	+	WEAKER
	Major Foodstores	Annual RPI Increases [NIY]	3.50%	3.50%	3.25% - 3.50%	3.50% - 3.75%	+	WEAKER
		Open Market Reviews	4.25%	4.00%	4.00%	4.00% +	+	WEAKER
	Leisure	Prime Leisure Parks	7.00% +	7.00% +	7.00% +	7.00% +	STABLE	
		Secondary Leisure Parks	8.00% +	8.00% +	8.00% +	8.00% +	STABLE	

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LEADING INDICATORS

Bank of England raised its interest rate to 1.75% and updated its forecasts. The 50bps increase was the central bank's largest increase in 27-years and its sixth successive rate rise since December, and 1.75%, is the highest level since December 2008. The BoE now expect inflation to peak at 13.1% in Q4 2022 (10.2% previously forecast), with inflation forecast to pare back to its 2% target by Q3 2024 (previously Q2 2024). Lastly, the BoE expects the UK economy to enter into a recession in Q4 2022 which will last for 5 successive quarters. Despite the BoE's announcements, the UK 5-year swap rate and 10-year gilt yield have been largely unaffected, currently at 2.35% and 1.96%, respectively.

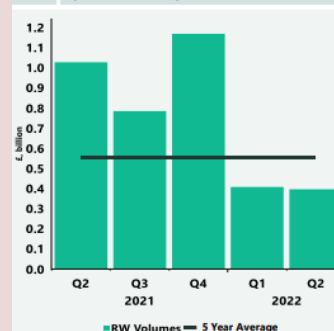
Counter cyclical and lower beta real estate to receive more investor focus. Counter cyclical and lower beta real estate such as affordable housing, retirement living, discounters and food stores may see more focus as the rising cost of debt causes more polarisation within UK CRE. Investors will also look to target local levels of growth and resilience. More traditional, liquid sectors as well as those which capture structural changes from data centres to residential sectors, could also benefit.

UK CRE investment remained robust in Q2. Q2 2022 saw some strong sector level performances, for example, both the specialist sectors and the industrial sector recorded their second strongest Q2 on record. Overall, UK CRE investment totalled £15.2bn in Q2, which was +39% above the Q2 LTA. Investors looking to hedge against inflation, capitalise on weaker sterling or even act before softer economics hit, could drive UK commercial real estate over the coming months.

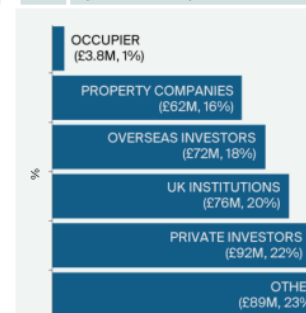
RETAIL WAREHOUSE MONITOR – Q2 2022

Q2 2022

INVESTMENT VOLUMES (PROPERTYDATA) LAST 5 QUARTERS



BUYER BREAKDOWN (PROPERTYDATA) BY DEAL VOLUME



Investment volumes totalled £394.8 million in Q2 2022.

MSCI showed +3.52% capital value growth, about half that seen in Q1 2022 (+7.20%).

Footfall remained slightly below pre-pandemic levels but retained its position ahead of other retail sub-sectors.

[Read the full update here.](#)

BONDS & RATES (05/08/2022)	AUG 2021	MAR 2022	JUN 2022	AUG 2022
SONIA Rate	0.070%	0.445%	0.939%	1.690%
Bank of England Base Rate	0.10%	0.50%	1.00%	1.75%
5-year swap rates	0.700%	1.797%	2.627%	2.717%
10-year gilts redemption yield	0.66%	1.34%	2.13%	2.04%

ESG – Retrofit or Rebuild

[M&S and the battle to greenify retail property](#)



Senior Research Analyst, Emma Barnstable, reacts to M&S proposals for its 1930s Marble Arch flagship store being called in by the government for environmental review.

THE HOUSE VIEW

[London Offices Spotlight](#)



[A summary of the state of the London office market in Q2 2022.](#)

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KEY RESEARCH



Prices paid for industrial land have grown significantly over the past few years. We seek the reasons why, aim to quantify the increase, and establish the trajectory of future growth.

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Knight Frank V&A

Did you know

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- Infrastructure
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- Serviced Offices
- Data Centres
- Life Sciences
- Income Strips
- Ground Rents
- Trading assets
- Expert Witness
- IPOs

KEY CONTACTS

We like questions. If you would like some property advice, or want more information about our research, we would love to hear from you.



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