

# Prime Yield Guide – June 2023

Knight Frank Intelligence

This yield guide is for indicative purposes only and was prepared on 5 June 2023.



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SECTOR		JUN-22	FEB-23	MAR-23	APR-23	MAY-23	JUN-23	CHANGE	MARKET SENTIMENT	
	Offices	City Prime (Single let, 10 years)	3.75%	4.75%	4.75%	4.75%	4.75% - 5.00%	5.00%	+	WEAKER
		West End: Prime Core (Mayfair & St James's)	3.25%	3.75%	3.75%	3.75%	3.75%	3.75%		STABLE
		West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	4.50%	4.50%	4.50%	4.50% - 4.75%	4.50% - 4.75%		STABLE
		Major Regional Cities (Single let, 15 years)	4.50% - 4.75%	5.75% - 6.00%	5.75%	5.75%	5.75%	5.75%		WEAKER
		Major Regional Cities (Multi-let, 5 year WAULT)	5.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		WEAKER
		Good Secondary Regional Cities	7.00%	8.75% - 9.25%	9.00% - 9.25%	9.25%	9.50%	9.50% +	+	WEAKER
		South East Towns (Single let, 15 years)	5.00%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%		WEAKER
		South East Towns (Multi-let, 5 year WAULT)	6.50% -	7.00% - 7.50%	7.50%	7.50%	7.50%	7.50%		WEAKER
		Good Secondary South East Towns	7.25%	9.00% - 9.50%	9.25% - 9.50%	9.50%	9.75%	10.00% +	+0.25%	WEAKER
		South East Business Parks (Single let, 15 years)	5.25%	6.75% - 7.00%	7.00%	7.00%	7.00%	7.00%		WEAKER
		South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	7.75% - 8.00%	8.50% +	8.50% +	9.00%	9.00%		WEAKER
		Good Secondary South East Business Parks	7.50% +	9.50% +	9.75% +	10.00%	10.50%	10.50% +	+	WEAKER
Life Sciences (Oxford, Cambridge)	3.75%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.50%	4.50%		STABLE		
	Warehouse & Industrial	Prime Distribution / Warehousing (20 years [NIY], fixed/indexed uplifts)	3.00%	4.75% - 5.00%	4.75%	4.75%	4.75% -	4.75% -		STABLE
		Prime Distribution / Warehousing (15 years, OMRRs)	3.50%	5.25% - 5.50%	5.25%	5.25%	5.25% -	5.25% -		STABLE
		Secondary Distribution (10 years, OMRRs)	4.00%	5.50% - 6.00%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%		STABLE
		South East Estates (excluding London & Heathrow)	3.25% - 3.50%	5.00% - 5.50%	5.00% - 5.25%	5.00% - 5.25%	5.00%	5.00%		STABLE
		Good Modern Rest of UK Estates	3.50% - 3.75%	5.25% - 5.75%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%		STABLE
		Good Secondary Estates	4.75% - 5.25%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		STABLE
	Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.00%	5.75%	5.75%	5.75%	5.75%	5.75%		STABLE
		Budget Hotels London (20 years, 5 yearly RPI / CPI reviews)	3.25%	4.50% - 4.75%	4.50%	4.50%	4.50%	4.50%		STABLE
		Budget Hotels Regional (20 years, 5 yearly RPI / CPI reviews)	3.75%	5.00% - 5.25%	5.00%	5.00%	5.00%	5.00%		STABLE
		Student Accommodation Prime London (Direct Let)	3.75% -	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	4.00%	+	STABLE
		Student Accommodation Prime Regional (Direct Let)	5.00% -	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%		STABLE
		Student Accommodation Prime London (25 years, Annual RPI)	3.00%	4.00% - 4.25%	4.00%	4.00%	4.00%	4.00%		STABLE
		Student Accommodation Prime Regional (25 years, Annual RPI)	3.25%	4.25% - 4.50%	4.25%	4.25%	4.25%	4.25%		STABLE
		Healthcare (Elderly Care, 30 years, 5 yearly RPI / CPI reviews)	3.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%		STABLE
		Data Centres (Operational)	4.00% -	4.00%	4.50%	4.50%	4.50%	4.50%		POSITIVE
		Data Centres (Leased, 15 years, Annual Indexation)	4.00%	4.25% +	4.75%	4.75%	4.75%	4.75%		STABLE
		Income Strips (50 years, Annual RPI / CPIH+1% RRs, Annuity Grade)	2.00%	4.00%	4.00%	3.75% - 4.00%	3.75%	4.00%		STABLE

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SECTOR		JUN-22	FEB-23	MAR-23	APR-23	MAY-23	JUN-23	CHANGE	MARKET SENTIMENT
	<b>High Street Retail</b> (institutional lot sizes)	Bond Street	2.75%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%	STABLE
		Oxford Street	3.50%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.50%	4.50%	STABLE
		Prime Towns (Oxford, Cambridge, Winchester)	6.25%	6.75% +	6.75%	6.75%	6.75%	6.75%	STABLE
		Regional Cities (Manchester, Birmingham)	6.50%	7.00% +	7.00%	7.00%	7.00%	7.00%	STABLE
		Good Secondary (Truro, Leamington Spa, Colchester etc)	8.25% - 8.50%	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	STABLE
	<b>Shopping Centres</b> (sustainable income)	Regional Scheme	7.50%	8.00% +	8.00% +	8.00% +	8.00% +	8.00% +	STABLE
		Sub-Regional Scheme	8.50%	9.00% +	9.00% +	9.00% +	9.00% +	9.00% +	STABLE
		Local Scheme (successful)	9.00%	9.75% +	9.75% +	9.75% +	9.75% +	9.75% +	STABLE
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.00% - 9.25%	9.50% - 9.75%	9.50% - 9.75%	9.50% - 9.75%	9.50% - 9.75%	9.50% - 9.75%	STABLE
	<b>Out of Town Retail</b>	Open A1 Parks	4.75%	6.00% +	6.00%	6.00% -	5.75% -	5.75% -	STABLE
		Good Secondary Open A1 Parks	6.00%	7.50% +	7.50%	7.50%	7.50%	7.50%	STABLE
		Bulky Goods Parks	4.75%	6.00% +	6.00%	6.00% -	5.75% -	5.75% -	STABLE
		Good Secondary Bulky Goods Parks	6.00%	7.50% +	7.50%	7.50%	7.50%	7.50%	STABLE
		Solus Open A1 (15 year income)	4.75% -	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75%	5.75%	STABLE
		Solus Bulky (15 year income)	4.75% -	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75%	5.75%	STABLE
	<b>Foodstores</b>	Annual RPI Increases [NIY] (20 year income)	3.25% - 3.50%	5.00%	5.00%	5.00%	5.00%	5.00%	STABLE
		Open Market Reviews (20 year lease, 5 yearly reviews)	4.00%	5.50%	5.50%	5.50%	5.50%	5.50%	STABLE
		Discounters (20 years, 5 yearly indexation)	3.25% - 3.50%	4.75%	4.75%	4.75%	4.75%	4.75%	STABLE
	<b>Leisure</b>	Prime Leisure Parks	7.00% +	7.50% +	7.50% +	7.50%	7.50%	7.50% +	STABLE
		Good Secondary Leisure Parks	8.00% +	9.00% +	9.00% +	9.00% +	9.00% +	9.00% +	WEAKER

Based on rack rented properties and disregards bond type transactions

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## LEADING INDICATORS

**UK CRE lenders remain active** Net lending to UK CRE hit £1.2bn, up +137% m-m and its highest level since December 2021, according to the Bank of England. This aligns with the UK Q1 2023 RICS commercial survey, which reported the first improvement in investment enquiries in a year. The global context provides some reasons to expect CRE investment activity may improve further. There could be more activity over the next 24 months due to increased refinancings; Banks will be reassessing their risk exposure, while pressures on LTV and ICR covenants will likely persist due to higher cost of debt.

**UK CRE outlook upgraded** The latest IPF Consensus Survey has revealed an increasingly positive outlook for total returns in 2023 (-0.6% last forecast in February to 1.5% forecast in May) driven by improved rental and capital value growth projections, supported by a stronger than anticipated start to the year for returns. Total return forecasts have been upgraded across all sectors this year apart for Offices.

**Is volatility here to stay?** Since 2020, the VIX 'investor fear gauge' has been above its long-term average 68% of the time, indicating a prolonged and elevated level of volatility. This is unlikely to change soon. Central Banks continue to trade off between avoiding recession and persistently high inflation, a historic driver of macroeconomic uncertainty. In periods of high volatility and uncertainty, investors tend to rotate out of riskier equities. Here the case for direct real estate remains. When adjusted for inflation, UK All Property total return (+5.47% pa) over the last 10 years outperformed that of equities, REITS and gilts.

## DEBT MARKET – 05 June 2023

SONIA/EURIBOR Swap Rates (3/5 Year)



Source: Macrobond, ICAP

BONDS & RATES (05/06/2023)	JUN 2022	APR 2023	MAY 2023	JUN 2023
SONIA Rate	0.939%	4.177%	4.179%	4.428%
Bank of England Base Rate	1.00%	4.25%	4.25%	4.50%
5-year swap rates	2.627%	3.949%	3.880%	4.779%
10-year gilts redemption yield	2.13%	3.40%	3.66%	4.21%

## ESG



Changing work patterns, tightening regulation, and a greater corporate focus on ESG creates risk and opportunity for office assets.

## Intelligence Lab



### UK CRE Quarterly Review - May 2023

The key occupier and investment trends within the different sectors of commercial real estate.

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## KEY RESEARCH



### (Y)OUR SPACE-2023

(Y)OUR SPACE is Knight Frank | Cresa's flagship thought leadership research bringing you data-led insights about the future direction of travel in corporate real estate.

## Knight Frank V&A

### Did you know

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- Infrastructure
- Garden Centres
- Film Studios
- 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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