

Prime Yield Guide – March 2022

Knight Frank Intelligence

*This yield guide is for indicative purposes only
and was prepared on 03 March 2022.*



Based on rack rented properties and disregards bond type transactions

SECTOR		MAR-21	SEP-21	DEC-21	MAR-22	CHANGE OVER 1 M	MARKET SENTIMENT	
	High Street Retail	Bond Street	2.75% +	2.75%	2.75%	2.75%	STABLE	
		Oxford Street	3.25% - 3.50%	3.50% +	3.50% +	3.50%	-	STABLE
		Prime Shops (Oxford, Cambridge, Winchester)	6.50%	6.50%	6.50%	6.25%		STABLE
		Regional Cities (Manchester, Birmingham)	6.50% +	6.50% +	6.50% +	6.50% +		NEGATIVE
		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	8.00%	8.50%	8.50%	7.50%	- 0.25%	POSITIVE
		Sub-Regional Scheme	9.00%	9.00%	9.00%	8.50%		STABLE
		Local Scheme (successful)	10.00%	10.00%	10.00%	9.00%	-0.50%	POSITIVE
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.50% - 9.75% +	9.50% - 9.75% +	9.50% - 9.75% +	9.00% - 9.25%		STABLE
	Out of Town Retail	Open A1 (essential retailers)	7.00% +	6.00%	5.50% - 5.75%	5.25% -	- 0.25%	POSITIVE
		Secondary Open A1 Parks	8.75%	7.50% -	7.00%	6.25% - 6.50%	- 0.25%	POSITIVE
		Bulky Goods Parks	7.00%	6.00%	5.50% - 5.75%	5.25%	- 0.25%	POSITIVE
		Secondary Bulky Goods Parks	8.50% +	7.50% -	7.00%	6.25% - 6.50%	- 0.25%	POSITIVE
		Solus Open A1 (15 year income)	6.25%	5.50%	5.00%	4.75%	- 0.25%	POSITIVE
		Solus Bulky (15 year income)	6.50%	5.50%	5.00%	4.75%	- 0.25%	POSITIVE
	Major Foodstores	Annual RPI Increases [NIY]	3.75% -	3.50%	3.50%	3.50%		POSITIVE
		Open Market Reviews	4.50%	4.25%	4.00%	4.00%		POSITIVE
	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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	Offices (Grade A)	City Prime (Single let, 10 years)	4.00% - 4.25%	4.00% -	3.75% - 4.00%	3.75%	POSITIVE	
		West End: Prime (Mayfair & St James's)	3.50% - 3.75%	3.50% -	3.25% - 3.50%	3.25%	POSITIVE	
		West End: Non-core (Soho & Fitzrovia)	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	3.75% - 4.00%	POSITIVE	
		Major Regional Cities (Single let, 15 years)	5.00%	5.00%	5.00%	4.75% - 5.00%	-	POSITIVE
		Major Regional Cities (Multi-let, 5 year WAULT)	5.75%	5.75% -	5.75% -	5.75% -	POSITIVE	
		South East Towns (Single let, 15 years)	5.25% +	5.25%	5.25%	5.00% - 5.25%	POSITIVE	
		South East Towns (Multi-let, 5 year WAULT)	6.25%	6.50%	6.50%	6.50%	STABLE	
		South East Business Parks (Single let, 15 years)	5.25% +	5.25% +	5.25% +	5.25% +	STABLE	
		South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	6.75% +	6.75% +	6.75% +	NEGATIVE	
	Warehouse & Industrial Space	Prime Distribution/Warehousing (20 year income [NIY] with fixed/indexed uplifts)	3.50% -	3.25%	3.00%	3.00%	POSITIVE	
		Prime Distribution/Warehousing (15 year income, OMRRs)	4.00% -	3.75%	3.50% - 3.75%	3.50%	POSITIVE	
		Secondary Distribution (10 year income, OMRRs)	4.50%	4.50% -	4.00% - 4.25%	4.00%	POSITIVE	
		SE Estate (excluding London & Heathrow)	4.00%	3.50% - 3.75%	3.25% - 3.50%	3.25% - 3.50%	POSITIVE	
		Good Modern RoUK Estate	4.50%	4.00% - 4.25%	3.50% - 3.75%	3.50% - 3.75%	POSITIVE	
		Secondary Estates	5.75%	5.00% - 5.25%	5.00% - 5.25%	4.75% - 5.25%	POSITIVE	
	Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.50%	5.50%	5.00%	5.00%	POSITIVE	
		Budget Hotels London (5 yearly Fixed / RPI uplifts 20 year+ term, strong covenant)	3.50%	3.50%	3.50%	3.25% - 3.50%	POSITIVE	
		Budget Hotels Regional (5 yearly Fixed / RPI uplifts 20 year+ term, strong covenant)	4.00%	4.00%	4.00%	4.00%	POSITIVE	
		Student Accommodation Prime London (25 years, Annual RPI)	3.50%	3.25%	3.25%	3.00% - 3.25%	POSITIVE	
		Student Accommodation Prime Regional (25 years, Annual RPI)	3.75%	3.50%	3.50%	3.25% - 3.50%	POSITIVE	
		Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.50%	3.50%	3.50%	POSITIVE	
		Data Centres (20 years, Annual Indexation)	4.50%	4.25%	4.00%	4.00%	POSITIVE	
		Income Strip (50 years, Annual RPI, Annuity Grade Covenant)	2.25%	2.25%	2.00%	2.00%	POSITIVE	

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LEADING INDICATORS

Energy prices continue to rise. The Russia/Ukraine conflict continues to impact commodity prices, with Brent crude reaching \$139 per barrel yesterday, its highest level since 2008, while European gas prices increased 79% over the weekend to €345 per megawatt hour. Commercial real estate has the potential to be impacted indirectly via inflation and moderating growth, as well as the need to reorganise some supply chains.

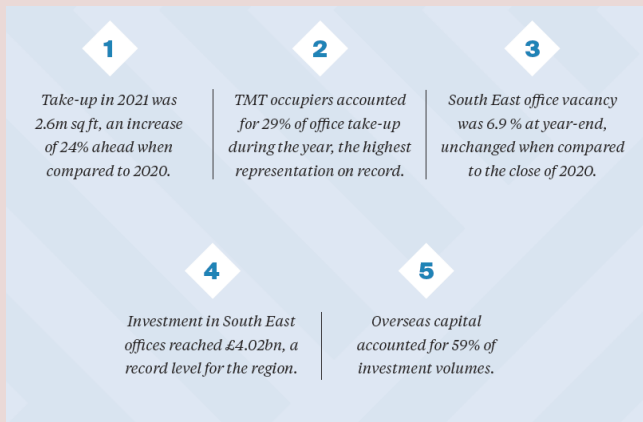
Geopolitical risk hits 20-year high. The outbreak of conflict in Ukraine has seen the global geopolitical risk index rise by 152% in March to its highest level since 9/11. With some economies already contending with decade high inflation and the likelihood of rising interest rates, the conflict in Ukraine has exacerbated uncertainty. Despite this, the Chair of the US Federal Reserve has committed to rising interest rates by 25bps at the next monetary policy meeting on 15th March. Markets expect six more rate hikes this year from the Fed.

UK advances with new trade deals. The UK has signed its second Free Trade Agreement (FTA) post Brexit with New Zealand, following its deal with Australia. This takes the UK one step closer to joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free trade area of 11 Pacific nations, including New Zealand, with a total GDP of circa £9 trillion.

SECTOR SNAPSHOT – M25 OFFICES

Investor confidence continues to grow, with a record level of investment recorded over the year.

Focus is on prime fundamentals, ESG and best in class to the detriment of secondary stock.



The final quarter of 2021 registered a late flurry of occupier activity with 48 deals completing, the highest quarterly total for two years.

Take-up across the South East for 2021 increased to 2.8 million sq.ft, 24% ahead of total take-up recorded in 2020 but 18% short of the 10-year annual average.

BONDS & RATES (03/03/2022)	MAR 2021	SEP 2021	DEC 2021	MAR 2022
SONIA Rate	0.053%	0.051%	0.045%	0.445%
Bank of England Base Rate	0.10%	0.10%	0.25%	0.50%
5-year swap rates	0.410%	0.753%	1.102%	1.797%
10-year gilts redemption yield	0.52%	0.73%	0.73%	1.34%

ESG



In February, members of Knight Frank Valuation & Advisory spent the day volunteering at Felix Project kitchens. The team managed to prepare a total 2,481 meals for the charity.

NEW RESEARCH



UK CITIES

Knight Frank's UK Cities report details a number of key themes that are set to influence the regional city office markets in the UK.

[Download the full report now.](#)

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KEY RESEARCH



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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 have one about our research, or would like some property advice, we would love to hear from you.



Jeremy Tham

Partner – Valuation & Advisory - Head of Secured Lending
+44 20 7861 1769
Jeremy.Tham@KnightFrank.com



Emily Miller

Partner – Valuation & Advisory - Head of Investment Funds
+44 20 7861 1769
Emily.Miller@KnightFrank.com



Richard Booth

Partner – Valuation & Advisory - Head of Corporate & PropCo Funds
+44 20 7861 1294
Richard.Booth@KnightFrank.com



Chris Galloway

Partner – Valuation & Advisory - Head of Valuation Business Development
+44 20 7861 1297
Chris.Galloway@KnightFrank.com



Matthew Dichler

Partner – Valuation & Advisory
+44 20 7861 5224
Matthew.Dichler@KnightFrank.com



Will Matthews

Partner – Research - Head of Commercial
+44 20 3909 6842
William.Matthews@KnightFrank.com

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