

Prime Yield Guide – September 2022

Knight Frank Intelligence

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Based on rack rented properties and disregards bond type transactions

SECTOR		SEP-21	MAR-22	JUN-22	JUL-22	AUG-22	SEP-22	1 MONTH CHANGE	MARKET SENTIMENT	
	Offices (Grade A)	City Prime (Single let, 10 years)	4.00% -	3.75%	3.75%	3.75% - 4.00%	4.00%	4.00%		WEAKER
		West End: Prime (Mayfair & St James's)	3.50% -	3.25%	3.25%	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%	3.75% - 4.00%	4.00%	+	WEAKER
		Major Regional Cities (Single let, 15 years)	5.00%	4.75% - 5.00%	4.50% - 4.75%	4.50% - 5.00%	4.75% - 5.25%	5.00% - 5.25%	+0.25%	WEAKER
		Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.75% -	5.00%	5.00% +	5.25%	5.25% - 5.50%	+	WEAKER
		South East Towns (Single let, 15 years)	5.25%	5.00% - 5.25%	5.00%	5.00% +	5.00% - 5.25%	5.25%	+	WEAKER
		South East Towns (Multi-let, 5 year WAULT)	6.50%	6.50%	6.50% -	6.50% +	6.75%	6.75% - 7.00%	+	WEAKER
		South East Business Parks (Single let, 15 years)	5.25% +	5.25% +	5.25%	5.25% +	5.50%	5.50% - 5.75%	+	WEAKER
		South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	6.75% +	6.75% +	6.75% +	7.00% +	7.25% +	+0.25%	WEAKER
	Warehouse & Industrial Space	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.25%	3.00%	3.00%	3.25%	3.50%	3.50% - 3.75%	+	WEAKER
		Prime Distribution/Warehousing (15 years, OMRRs)	3.75%	3.50%	3.50%	3.75%	4.00%	4.00% - 4.25%	+	WEAKER
		Secondary Distribution (10 years, OMRRs)	4.50% -	4.00%	4.00%	4.25%	4.50%	4.50% - 4.75%	+	WEAKER
		South East Estate (excluding London & Heathrow)	3.50% - 3.75%	3.25% - 3.50%	3.25% - 3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00%	+0.25%	WEAKER
		Good Modern Rest of UK Estate	4.00% - 4.25%	3.50% - 3.75%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	4.25% - 4.50%	+0.25%	WEAKER
		Secondary Estates	5.00% - 5.25%	4.75% - 5.25%	4.75% - 5.25%	4.75% - 5.50%	5.00% - 5.50%	5.25% - 5.75%	+0.25%	WEAKER
	Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.50%	5.00%	5.00%	5.00% +	5.00% - 5.25%	5.25%	+0.25%	WEAKER
		Budget Hotels London (5 yearly Fixed / RPI uplifts 20 year+ term)	3.50%	3.25% - 3.50%	3.25%	3.25%	3.25%	3.25% - 3.50%	+	WEAKER
		Budget Hotels Regional (5 yearly Fixed / RPI uplifts 20 year+ term)	4.00%	4.00%	3.75%	3.75%	3.75% - 4.00%	4.00%	+0.25%	WEAKER
		Student Accommodation Prime London (Direct Let)	4.00%	3.75%	3.75% -	3.50%	3.50%	3.50%	+	WEAKER
		Student Accommodation Prime Regional (Direct Let)	5.25% -	5.00%	5.00% -	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%		WEAKER
		Student Accommodation Prime London (25 years, Annual RPI)	3.25%	3.00% - 3.25%	3.00%	3.00%	3.00% - 3.25%	3.25%	+0.25%	WEAKER
		Student Accommodation Prime Regional (25 years, Annual RPI)	3.50%	3.25% - 3.50%	3.25%	3.25%	3.25% - 3.50%	3.50%	+0.25%	WEAKER
		Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.50%	3.25%	3.25%	3.25% - 3.50%	3.25% - 3.50%		WEAKER
		Data Centres (20 years, Annual Indexation)	4.50%	4.00%	4.00% -	4.00% -	4.00%	4.00%		STABLE
		Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.25%	2.00%	2.00%	2.25% - 2.50%	2.50%	2.50% +	+	WEAKER

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	High Street Retail	Bond Street	2.75%	2.75%	2.75%	2.75% +	2.75% +	2.75% +	WEAKER	
		Oxford Street	3.50% +	3.50%	3.50%	3.50% +	3.50% +	3.50% +	WEAKER	
		Prime Towns (Oxford, Cambridge, Winchester)	6.50%	6.25%	6.25%	6.25%	6.25%	6.25%	STABLE	
		Regional Cities (Manchester, Birmingham)	6.50% +	6.50% +	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%	8.25% - 8.50%	8.25% - 8.50%	STABLE	
	Shopping Centres (sustainable income)	Regional Scheme	8.50%	7.50%	7.50%	7.50%	7.50%	7.50%	WEAKER	
		Sub-Regional Scheme	9.00%	8.50%	8.50%	8.50%	8.50%	8.50%	WEAKER	
		Local Scheme (successful)	10.00%	9.00%	9.00%	9.00%	9.00% +	9.25%	+0.25%	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%	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	WEAKER
	Out of Town Retail	Open A1 (essential retailers)	6.00%	5.25% -	4.75%	4.75%	4.75% - 5.00%	5.00%	+	WEAKER
		Secondary Open A1 Parks	7.50% -	6.25% - 6.50%	6.00%	6.00%	6.00% - 6.25%	6.25%	+	WEAKER
		Bulky Goods Parks	6.00%	5.25% -	4.75%	4.75%	4.75% - 5.00%	5.00%	+	WEAKER
		Secondary Bulky Goods Parks	7.50% -	6.25% - 6.50%	6.00%	6.00%	6.00% - 6.25%	6.25%	+	WEAKER
		Solus Open A1 (15 year income)	5.50%	4.75%	4.75% -	4.75%	4.75% +	5.00%	+0.25%	WEAKER
		Solus Bulky (15 year income)	5.50%	4.75%	4.75% -	4.75%	4.75% +	5.00%	+0.25%	WEAKER
	Major Foodstores	Annual RPI Increases [NIY]	3.50%	3.50%	3.25% - 3.50%	3.50%	3.50% - 3.75%	3.75% - 4.00%	+0.25%	WEAKER
		Open Market Reviews	4.25%	4.00%	4.00%	4.00%	4.00% +	4.25% - 4.50%	+0.25%	WEAKER
	Leisure	Prime Leisure Parks	7.00% +	7.00% +	7.00% +	7.00% +	7.00% +	7.00% +	WEAKER	
		Secondary Leisure Parks	8.00% +	8.00% +	8.00% +	8.00% +	8.00% +	8.00% +	WEAKER	

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LEADING INDICATORS

What does Liz Truss's appointment mean for UK CRE? With a new leadership strategy focused at its heart on economic growth, commercial real estate should have a fundamental role to play – the challenge for the sector will be to ensure that its suggestions and requests are heard amongst the many issues vying for space at the top of the inbox. Longer term, there is a desire to raise the UK's trend growth and productivity, with a focus on sectors such as life sciences, and infrastructure investment.

Central Banks to hike rates even further. With record levels of inflation and a tight labour market in mind, money markets largely expect the European Central Bank (ECB) to hike its interest rate by 75bps on Thursday, bringing the policy rate to 0.75%. Next Thursday, the Bank of England will make its September interest rate decision, while the US Federal Reserve reconvenes on 20 September 2022. Currently, money markets expect the BoE interest rate to rise by 250bps to 4.25% by March 2023.

G7 countries agree to impose a price cap on oil as prices surge. Following Russia's announcement that the Nord Stream Pipeline will be closed indefinitely, European natural gas futures jumped by 35% to €270 per megawatt hour yesterday. This comes as all the G7 countries agreed to introduce a price cap on the global purchase of Russian oil. The proposed price cap would maintain the supply of Russian oil to global energy markets, but delivering it at a lower price. The G7's imposition of temporary price caps could therefore help in reducing inflationary pressures.

DEBT MARKET – 7 SEPTEMBER 2022

There has been a significant increase in all-in cost of debt and the 3-month SONIA forward curve shows a peak in the end of H1 2023 – but the market has previously over-forecast rate rises.

Interest Rate Swaps
SONIA and EURIBOR 3-year & 5-year interest rate swaps, %



The current increase in debt pricing has been driven by global increases in reference rates – see the 3 year and 5 year SONIA swap rates (in red and green [left]).

Reduced leveraged returns for investors leading to rebasing of asset pricing if borrowers will not increase equity.

BONDS & RATES (05/09/2022)	SEP 2021	MAR 2022	JUN 2022	SEP 2022
SONIA Rate	0.063%	0.445%	0.939%	1.691%
Bank of England Base Rate	0.10%	0.50%	1.00%	1.75%
5-year swap rates	0.753%	1.797%	2.627%	3.770%
10-year gilts redemption yield	0.73%	1.34%	2.13%	2.92%

ESG: Pop-up Shops



Pop-ups shops are regularly cited as a solution to high vacancy - but could they actually, by the law of unintended consequences, be the answer to retail's ESG crisis? ([previous ESG research](#))

THE HOUSE VIEW



Further to the London Office Report Q2 2022, Jordan Vine, Senior Research Analyst, gives an overview of the key themes in a 60 second property digest with an accompanying article.

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KEY RESEARCH



Knight Frank Research looks back at take-up, supply, development and prime rental levels in 10 UK Cities across H1 2022 and consider what is likely to be a tricky H2 2022.

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Knight Frank V&A

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- Infrastructure
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- 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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