

# PROSPECTS FOR SECONDARY COMMERCIAL PROPERTY

June 2014



## Secondary Asset Yield Guide

Correct as at 30<sup>th</sup> June 2014

Based on rack rented property

SECTOR	SEPT 2013	DEC 2013	MAR 2014	JUN 2014	MARKET SENTIMENT
<b>Offices</b>					
Good City of London*	5.75%	5.50%	5.25%	5.00% -	Positive
Major Regional Cities (Secondary)	9.00%	8.50%	8.00%	7.50%	Positive
SE Towns (Secondary)	9.00% -	8.50%	8.00%	7.50%	Positive
SE Towns (Tertiary)	15.00%	13.00%	12.00%	10.00%	Positive
<b>High Street Retail</b>					
Good Secondary	7.00%	7.00%	7.00%	6.75%	Positive
Secondary/Tertiary	11.00 – 11.50%	11.00 – 11.50%	11.00%	11.00%	Stable
<b>Shopping Centres</b>					
Good Secondary	7.50%	7.00%	6.75%	6.75%	Positive
Secondary	10.00%	9.00% +	8.75% -	8.50%	Positive
<b>Retail Warehousing</b>					
Good Secondary Open A1 Parks	6.50%	6.25%	6.00%	5.75%	Positive
Good Secondary Bulky Goods Parks	8.00%	8.00%	7.50%	7.25%	Positive
Good Secondary Solus Open A1	6.75%	6.75%	6.50%	6.50%	Stable
Good Secondary Solus Bulky	7.75%	7.75%	7.00%	7.00%	Stable
<b>Warehouse &amp; Industrial Space</b>					
Good Secondary Distribution	7.50%	7.25 – 7.50%	7.00%	6.75%	Positive
Secondary Distribution	8.50 – 9.00%	8.50 – 9.00%	8.00 – 8.50%	7.75%	Positive
Good Modern RoUK Estate	7.00 – 7.50%	7.00 – 7.25%	6.50 – 7.00%	6.25%	Positive
Secondary Estates	8.75%	8.75%	8.00 – 8.25%	7.50%	Positive
Tertiary Estates	10.00% +	10.00%	9.50%	8.50%	Positive

\*Market rent; City core location; lease sub 7 years; building over 10 years old.

Note: The capitalisation rate/yield is only part of the make up when assessing the value of secondary property. Fundamental considerations include the level of over-rent, potential capital expenditure, non-recoverable outgoing and future void/rent free periods.

## Definitions

Asset Type	Location/Pitch	Quality of building / Obsolescence	Lease length	Demand / Supply	Tenant / Covenant strength
<b>Good Secondary</b>	CBD; good location with transport links; regional centre	Good quality; well maintained; capital expenditure may be required; alternative use also considered	FRI lease; medium unexpired term (5 - 8 years)	Reasonably strong letting demand	Institutionally acceptable lease; tenant covenant considered to be "sound"
<b>Secondary</b>	Edge of CBD; fringe location	Average quality; some capital expenditure will be required; alternative use also considered	FRI lease; Short to medium unexpired term (2-5 years)	Average letting demand	Average covenant strength
<b>Tertiary</b> <i>(Yield is merely a guide, more focus on capital value per sq ft)</i>	Poor location; lacking in profile; poor transport links	Dated; nearing end of economic life - significant capital expenditure will be required; alternative use?	FRI lease; Short unexpired (2 year term or less); vacant	Short term lettings at reduced rents; vacant and unlettable	Poor; unrateable; lacking in financial detail; impossible to determine covenant strength