

# PROSPECTS FOR SECONDARY COMMERCIAL PROPERTY

June 2013



## Secondary Asset Yield Guide

Correct as at 30<sup>th</sup> June 2013

Based on rack rented property

SECTOR	DECEMBER 2012	MARCH 2013	JUNE 2013	MARKET SENTIMENT
<b>Offices</b>				
Good City of London*	5.75%	5.75%	5.75%	Positive
Major Regional Cities (Good Secondary)	9.00%	10.00%	9.50%	Positive
SE Towns (Secondary)	11.00% +	12.00%	11.00%	Positive
SE Towns (Tertiary)	16.00% +	17.00%	17.00%	Stable
<b>High Street Retail</b>				
Good Secondary	7.25% +	7.25% +++	7.25% +++	Stable
Secondary/Tertiary	10.50 – 11.00%	10.50 – 11.00%	11.00 – 11.50%	Softening
<b>Shopping Centres</b>				
Good Secondary	8.00%	8.00%	8.00%	Positive
Secondary	10.00% +	10.00% +++	10.00% +++	Stable
<b>Retail Warehousing</b>				
Good Secondary Open A1 Parks	7.00%	6.75%	6.75%	Stable
Good Secondary Bulky Goods Parks	8.00%	7.75%	8.25%	Stable
Good Secondary Solus Open A1	7.50%	7.25%	7.00%	Positive
Good Secondary Solus Bulky	8.00%	7.75%	7.75%	Stable
<b>Warehouse &amp; Industrial Space</b>				
Good Secondary Distribution	8.50% +++	8.50% ++	8.25%	Positive
Secondary Distribution	9.00 – 9.50%	9.00 – 9.50%	9.00%	Positive
Good Modern RoUK Estate	7.50 – 8.00%	7.25 – 7.75%	7.25% – 7.75%	Positive
Secondary Estates	9.00% +	9.00%	9.00%	Stable
Tertiary Estates	10.00% +++	10.00% +++	10.00% +++	Stable

\*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