

# PROSPECTS FOR SECONDARY COMMERCIAL PROPERTY



December 2017

## Secondary Asset Yield Guide

Correct as at 29 January 2018

Based on rack rented property

SECTOR	MAR 2017	JUN 2017	SEPT 2017	DEC 2017	MARKET SENTIMENT
<b>Offices</b>					
Good City of London*	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%	Stable
Major Regional Cities (Secondary)	7.00%	7.00%	7.00%	7.00%	Stable
SE Towns (Secondary)	7.50%	7.50%	7.50%	7.50%	Stable
SE Towns (Tertiary)	9.50%	9.50%	9.50%	9.50%	Stable
<b>High Street Retail</b>					
Good Secondary	6.00%	6.00%	6.00%	6.00%	Stable
Secondary/Tertiary	10.00% ++	10.00% ++	10.00%++	10.00%++	Negative
<b>Shopping Centres</b>					
Good Secondary	6.75% +	7.00% +	7.25%	7.50%	Negative
Secondary	9.00% ++	9.00% ++	10.00%+	10.00%+	Negative
<b>Retail Warehousing</b>					
Good Secondary Open A1 Parks	6.25%	6.25%	6.25%	6.00%	Stable
Good Secondary Bulky Goods Parks	7.25%	7.25%	7.25%	7.00%	Stable
Good Secondary Solus Open A1	6.50%	6.50%	6.50%	6.25%	Stable
Good Secondary Solus Bulky	7.50%	7.50%	7.50%	7.25%	Stable
<b>Warehouse &amp; Industrial Space</b>					
Good Secondary Distribution	6.00%	5.75%	5.50%	5.25%	Positive
Secondary Distribution	7.25%	7.25%	7.00%	6.75%	Positive
Good Modern RoUK Estate	5.75%	5.50%	5.50%	5.25%	Positive
Secondary Estates	6.50%	6.50%	6.50%	6.25%	Positive
Tertiary Estates	8.25%	8.00%	7.75%	7.25%	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 outgoings 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