

PROSPECTS FOR SECONDARY COMMERCIAL PROPERTY

December 2018



Secondary Asset Yield Guide

Correct as at 16 January 2019

Based on rack rented property

SECTOR	MAR 2018	JUN 2018	SEP 2018	DEC 2018	MARKET SENTIMENT
Offices					
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
High Street Retail					
Good Secondary	6.00%	6.00%	6.25%+	6.50%+	Negative
Secondary/Tertiary	10.00%++	10.00%++	10.00%++	10.00%++	Negative
Shopping Centres					
Community	8.00%	8.00%+	8.50%+	8.50%+	Negative
Secondary	10.00%++	10.00%++	10.50%++	10.50%++	Negative
Retail Warehousing					
Good Secondary Parks	7.00%	7.00%+	7.00%+	7.50%+	Negative
Good Secondary Solus	6.25%	6.25%	6.25%	6.50%+	Stable
Warehouse & Industrial Space					
Good Secondary Distribution	5.25%	5.25%	5.25%	5.25%	Stable
Secondary Distribution	6.50%	6.25%	6.25%	6.25%	Stable
Good Modern RoUK Estate	5.00%	4.75%	4.75%	4.75%	Stable
Secondary Estates	6.00%	5.75%	5.75%	5.75%	Stable
Tertiary Estates	7.00% - 7.25%	7.00%	7.00%	7.00%	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 outgoings and future void/rent free periods.

Definitions

Asset Type	Location/Pitch	Quality of building / Obsolescence	Lease length	Demand / Supply	Tenant / Covenant strength
Good Secondary	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"
Secondary	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
Tertiary <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