

# Prime Yield Guide – April 2023




Knight Frank Intelligence

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This yield guide is for indicative purposes only and was prepared on 5 April 2023.



Based on rack rented properties and disregards bond type transactions

SECTOR		APR-22	DEC-22	JAN-23	FEB-23	MAR-23	APR-23	1 MONTH CHANGE	MARKET SENTIMENT
 <b>Offices (Grade A)</b>	City Prime (Single let, 10 years)	3.75%	4.50% - 4.75%	4.75%	4.75%	4.75%	4.75%		STABLE
	West End: Prime Core (Mayfair & St James's)	3.25%	3.50% - 3.75%	3.75%	3.75%	3.75%	3.75%		STABLE
	West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	4.25% - 4.50%	4.50%	4.50%	4.50%	4.50%		STABLE
	Major Regional Cities (Single let, 15 years)	4.50% - 5.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75%	5.75%		STABLE
	Major Regional Cities (Multi-let, 5 year WAULT)	5.25% - 5.50%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		WEAKER
	Good Secondary Regional Cities	7.00%	8.50% - 9.00%	8.75% - 9.00%	8.75% - 9.25%	9.00% - 9.25%	9.25%		WEAKER
	South East Towns (Single let, 15 years)	5.00% - 5.25%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%		WEAKER
	South East Towns (Multi-let, 5 year WAULT)	6.50%	7.00% - 7.50%	7.00% - 7.50%	7.00% - 7.50%	7.50%	7.50%		WEAKER
	Good Secondary South East Towns	7.25%+	8.75% - 9.25%	9.00% - 9.25%	9.00% - 9.50%	9.25% - 9.50%	9.50%		WEAKER
	South East Business Parks (Single let, 15 years)	5.25% +	6.75% - 7.00%	6.75% - 7.00%	6.75% - 7.00%	7.00%	7.00%		WEAKER
	South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	7.75% - 8.00%	7.75% - 8.00%	7.75% - 8.00%	8.50% +	8.50% +		WEAKER
	Good Secondary South East Business Parks	7.50%+	9.00% +	9.25% +	9.50% +	9.75% +	10.00%		WEAKER
Life Sciences (Oxford, Cambridge)	3.75%	4.25%	4.25%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%		WEAKER	
 <b>Warehouse &amp; Industrial Space</b>	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.00%	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%	4.75%	4.75%		POSITIVE
	Prime Distribution/Warehousing (15 years, OMRRs)	3.50%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%	5.25%	5.25%		POSITIVE
	Secondary Distribution (10 years, OMRRs)	4.00%	5.50% - 6.00%	5.50% - 6.00%	5.50% - 6.00%	5.50% - 5.75%	5.50% - 5.75%		STABLE
	South East Estate (excluding London & Heathrow)	3.25% - 3.50%	5.00% - 5.50%	5.00% - 5.50%	5.00% - 5.50%	5.00% - 5.25%	5.00% - 5.25%		POSITIVE
	Good Modern Rest of UK Estate	3.50% - 3.75%	5.25% - 5.75%	5.25% - 5.75%	5.25% - 5.75%	5.25% - 5.50%	5.25% - 5.50%		POSITIVE
	Good Secondary Estates	4.75% - 5.25%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		STABLE
 <b>Specialist Sectors</b>	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.00%	5.75%	5.75%	5.75%	5.75%	5.75%		STABLE
	Budget Hotels London (20 years, 5 yearly RPI / CPI uplifts)	3.25% - 3.50%	4.50% - 4.75%	4.50% - 4.75%	4.50% - 4.75%	4.50%	4.50%		STABLE
	Budget Hotels Regional (20 years, 5 yearly RPI / CPI uplifts)	4.00%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%	5.00%	5.00%		STABLE
	Student Accommodation Prime London (Direct Let)	3.75%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%		STABLE
	Student Accommodation Prime Regional (Direct Let)	5.00%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%		STABLE
	Student Accommodation Prime London (25 years, Annual RPI)	3.00%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.00%	4.00%		STABLE
	Student Accommodation Prime Regional (25 years, Annual RPI)	3.25%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.25%	4.25%		STABLE
	Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.25% - 3.50%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%		STABLE
	Data Centres (Operational)	4.00% -	4.00%	4.00%	4.00%	4.50%	4.50%		POSITIVE
	Data Centres (Leased, 15 years, Annual Indexation)	4.00%	4.25% +	4.25% +	4.25% +	4.75%	4.75%		STABLE
Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.00%	3.75% - 4.00%	4.00%	4.00%	4.00%	4.00%		STABLE	

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	High Street Retail	Bond Street	2.75%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%		STABLE		
		Oxford Street	3.50%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%		STABLE		
		Prime Towns (Oxford, Cambridge, Winchester)	6.25%	6.75% +	6.75% +	6.75% +	6.75%	6.75%		STABLE	
		Regional Cities (Manchester, Birmingham)	6.50%	7.00% +	7.00% +	7.00% +	7.00%	7.00%		STABLE	
		Good Secondary (Truro, Leamington Spa, Colchester etc)	8.25% - 8.50%	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%		STABLE	
	Shopping Centres (sustainable income)	Regional Scheme	7.50%	8.00%	8.00% +	8.00% +	8.00% +		WEAKER		
		Sub-Regional Scheme	8.50%	9.00% +	9.00% +	9.00% +	9.00% +		WEAKER		
		Local Scheme (successful)	9.00%	9.75% +	9.75% +	9.75% +	9.75% +	9.75% +		WEAKER	
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.00% - 9.25%	9.50% - 9.75%	9.50% - 9.75%	9.50% - 9.75%	9.50% - 9.75%	9.50% - 9.75%		WEAKER	
	Out of Town Retail	Open A1 Parks	5.00% -	6.00% +	6.00% +	6.00% +	6.00%	6.00% -	-	POSITIVE	
		Good Secondary Open A1 Parks	6.00% - 6.25%	7.25% +	7.50% +	7.50% +	7.50%	7.50%		STABLE	
		Bulky Goods Parks	5.00% -	6.00% +	6.00% +	6.00% +	6.00%	6.00%	6.00% -	-	POSITIVE
		Good Secondary Bulky Goods Parks	6.00% - 6.25%	7.25% +	7.50% +	7.50% +	7.50%	7.50%		STABLE	
		Solus Open A1 (15 year income)	4.75% -	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%		POSITIVE	
		Solus Bulky (15 year income)	4.75% -	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%		POSITIVE	
	Major Foodstores	Annual RPI Increases [NIY] (20 year income)	3.25% - 3.50%	5.00%	5.00%	5.00%	5.00%	5.00%		STABLE	
		Open Market Reviews (20 year lease)	4.00%	5.50%	5.50%	5.50%	5.50%	5.50%		STABLE	
	Leisure	Prime Leisure Parks	7.00% +	7.50% +	7.50% +	7.50% +	7.50% +	7.50%	-	STABLE	
		Good Secondary Leisure Parks	8.00% +	8.50% - 8.75%	9.00% +	9.00% +	9.00% +	9.00% +		WEAKER	

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## LEADING INDICATORS

**MEES regulation comes into effect.** From 1 April, all tenanted commercial buildings across the UK needed to have an EPC rating of 'E' or better under the Minimum Energy Efficient Standards. We estimate that circa 5% of commercial floorspace (c.364m sq ft) falls below the threshold in England and Wales. Whilst not yet in law, there has been a further consultation of making that EPC 'C' by 2027 and 'B' by 2030.

**UK CRE less exposed to bank volatility.** The situation in the UK is different from that of the US. Firstly, the UK is yet to see a bank failure this cycle; furthermore, UK bank exposure to real estate debt is currently relatively low at c.6% of all debt, compared to 12+% pre-GFC, according to Capital Economics. UK banks have also been relatively restrained, with 80+% of UK CRE loans at an LTV of under 60%, again below pre-GFC levels. And notably, over the last 15 years, we have seen a rise in non-bank lenders, another source of available liquidity for CRE investors. Credit conditions may tighten for CRE lending in the short term, but longer term, downwards pressure on rates may gradually ease financing conditions.

**UK GDP & Inflation.** UK GDP expanded +0.3% m-m in January 2023 so the UK economy avoided a technical recession. The annual inflation (CPI) rate unexpectedly rose to 10.4%, from 10.1%, missing expectations of 9.9%. This is the first increase in four months, following October's 41-year high of 11.1%. Despite this, the Bank of England Monetary Policy Committee does not see February's rise as a sign of persistent inflationary pressure. In March, Manufacturing PMI fell to 48.0 and Services PMI fell to 52.8.

## DEBT MARKET – 03 April 2023

Debt margins have continued to drift out over the last quarter as a reflection of wider economic uncertainty and dislocation in the market.

Source: Macrobond

SONIA/EURIBOR Swap Rates (3/5 Year)



BONDS & RATES (03/04/2023)	APR 2022	FEB 2023	MAR 2023	APR 2023
SONIA Rate	0.691%	3.927%	3.927%	4.177%
Bank of England Base Rate	0.75%	4.00%	4.00%	4.25%
5-year swap rates	2.305%	3.582%	4.308%	3.949%
10-year gilts redemption yield	1.84%	3.17%	3.81%	3.40%

## ESG



### What was in UK Budget 2023 for real estate?

We examine the key sustainability policies and those that were missing in the 'growth budget'.

## Intelligence Lab



### Will the banking crisis mean less lending?

The Head of Debt Advisory assesses the fallout for developers and investors from bank turmoil.

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## KEY RESEARCH



### UK Healthcare Property Market Overview 2022/23

The latest report gives an up to date review of what is going on across healthcare property markets.

## Knight Frank V&A

### Did you know

In addition to valuing assets in the main property sectors and having award winning teams in the Healthcare, Student and Automotive sectors, Knight Frank also has expertise in :

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- Infrastructure
- Garden Centres
- Film Studios
- Serviced Offices
- Data Centres
- 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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