




Prime Yield Guide – August 2023

Knight Frank Intelligence

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SECTOR		AUG-22	APR-23	MAY-23	JUN-23	JUL-23	AUG-23	CHANGE	MARKET SENTIMENT
 Offices	City Prime (Single let, 10 years)	3.75% - 4.00%	4.75%	4.75% - 5.00%	5.00%	5.25%	5.25%		WEAKER
	West End: Prime Core (Mayfair & St James's)	3.25%	3.75%	3.75%	3.75%	4.00%	4.00%		STABLE
	West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	4.50%	4.50% - 4.75%	4.50% - 4.75%	4.50% - 4.75%	4.50% - 4.75%		WEAKER
	Major Regional Cities (Single let, 15 years)	4.50% - 5.00%	5.75%	5.75%	5.75%	5.75% +	6.00% +	+0.25%	WEAKER
	Major Regional Cities (Multi-let, 5 year WAULT)	5.00% +	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	7.00% +	+0.50%	NEGATIVE
	Good Secondary Regional Cities	7.00% +	9.25%	9.50%	9.50% +	9.50% +	10.00% +	+0.50%	NEGATIVE
	South East Towns (Single let, 15 years)	5.00% +	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%	6.50% - 7.00%	+0.50%	WEAKER
	South East Towns (Multi-let, 5 year WAULT)	6.50% +	7.50%	7.50%	7.50%	7.50%	8.00% +	+0.50%	NEGATIVE
	Good Secondary South East Towns	7.25% +	9.50%	9.75%	10.00% +	10.00% +	10.50% +	+0.50%	NEGATIVE
	South East Business Parks (Single let, 15 years)	5.25% +	7.00%	7.00%	7.00%	7.00%	7.50% +	+0.50%	WEAKER
	South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	8.50% +	9.00%	9.00%	9.00%	9.50% +	+0.50%	NEGATIVE
	Good Secondary South East Business Parks	7.50% +	10.00%	10.50%	10.50% +	10.50% +	11.00% +	+0.50%	NEGATIVE
Life Sciences (Oxford, Cambridge)	3.75%	4.25% - 4.50%	4.50%	4.50%	4.50%	4.50%		STABLE	
 Warehouse & Industrial	Prime Distribution / Warehousing (20 years [NIY], fixed/indexed uplifts)	3.25%	4.75%	4.75% -	4.75% -	4.75%	4.75%		STABLE
	Prime Distribution / Warehousing (15 years, OMRRs)	3.75%	5.25%	5.25% -	5.25% -	5.25%	5.25%		STABLE
	Secondary Distribution (10 years, OMRRs)	4.25%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%		STABLE
	South East Estates (excluding London & Heathrow)	3.50% - 3.75%	5.00% - 5.25%	5.00%	5.00%	5.00%	5.00%		STABLE
	Good Modern Rest of UK Estates	3.75% - 4.00%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%		STABLE
	Good Secondary Estates	4.75% - 5.50%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		STABLE
 Specialist Sectors	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 reviews)	3.25%	4.50%	4.50%	4.50%	4.50%	4.50%		STABLE
	Budget Hotels Regional (20 years, 5 yearly RPI / CPI reviews)	3.75%	5.00%	5.00%	5.00%	5.00%	5.00%		STABLE
	Student Accommodation Prime London (Direct Let)	3.50%	3.75% - 4.00%	3.75% - 4.00%	4.00%	4.00% +	4.00% - 4.25%	+	WEAKER
	Student Accommodation Prime Regional (Direct Let)	4.75% - 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%	4.00%	4.00%	4.00%	4.00%		STABLE
	Student Accommodation Prime Regional (25 years, Annual RPI)	3.25%	4.25%	4.25%	4.25%	4.25%	4.25%		STABLE
	Healthcare (Elderly Care, 30 years, 5 yearly RPI / CPI reviews)	3.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.25%	+	WEAKER
	Data Centres (Operational)	4.00% -	4.50%	4.50%	4.50%	4.75%	4.75%		STABLE
	Data Centres (Leased, 15 years, Annual Indexation)	4.00%	4.75%	4.75%	4.75%	5.00%	5.00%		STABLE
Income Strips (50 years, Annual RPI / CPIH+1% RRs, Annuity Grade)	2.25% - 2.50%	3.75% - 4.00%	3.75%	4.00%	4.00%	4.00%		STABLE	

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SECTOR		AUG-22	APR-23	MAY-23	JUN-23	JUL-23	AUG-23	CHANGE	MARKET SENTIMENT	
	High Street Retail (institutional lot sizes)	Bond Street	2.75% +	2.75% - 3.00%	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%	4.50%	4.50%	4.50%	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%	9.25%	+	WEAKER
	Shopping Centres (sustainable income)	Regional Scheme	7.50%	8.00% +	8.00% +	8.00% +	8.00% +	8.00% +	WEAKER	
		Sub-Regional Scheme	8.50%	9.00% +	9.00% +	9.00% +	9.00% +	9.00% +	WEAKER	
		Local Scheme (successful)	9.00%	9.75% +	9.75% +	9.75% +	9.75% +	10.00%	+0.25%	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%	9.75% - 10.00%	+0.25%	WEAKER
	Out of Town Retail	Open A1 Parks	4.75% - 5.00%	6.00% -	5.75% -	5.75% -	5.75% +	5.75% - 6.00%	+	WEAKER
		Good Secondary Open A1 Parks	6.00% - 6.25%	7.50%	7.50%	7.50%	7.50%	7.50% - 7.75%	+	WEAKER
		Bulky Goods Parks	4.75% - 5.00%	6.00% -	5.75% -	5.75% -	5.75% +	5.75% - 6.00%	+	WEAKER
		Good Secondary Bulky Goods Parks	6.00% - 6.25%	7.50%	7.50%	7.50%	7.50%	7.50% - 7.75%	+	WEAKER
		Solus Open A1 (15 year income)	4.75% +	5.75% - 6.00%	5.75%	5.75%	5.75% +	5.75% +	WEAKER	
		Solus Bulky (15 year income)	4.75% +	5.75% - 6.00%	5.75%	5.75%	5.75% +	5.75% +	WEAKER	
	Foodstores	Annual RPI Increases [NIY] (20 year income)	3.50% - 3.75%	5.00%	5.00%	5.00%	5.00%	5.00%	STABLE	
		Open Market Reviews (20 year lease, 5 yearly reviews)	4.00% +	5.50%	5.50%	5.50%	5.75%	5.75%	WEAKER	
		Discounters (20 years, 5 yearly indexation)	3.50%	4.75%	4.75%	4.75%	4.75%	4.75%	STABLE	
	Leisure	Prime Leisure Parks	7.00% +	7.50%	7.50%	7.50% +	7.50% +	7.50% +	WEAKER	
		Good Secondary Leisure Parks	8.00% +	9.00% +	9.00% +	9.00% +	9.00% +	9.25%	+0.25%	WEAKER

Based on rack rented properties and disregards bond type transactions

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LEADING INDICATORS – 02 August & 08 August

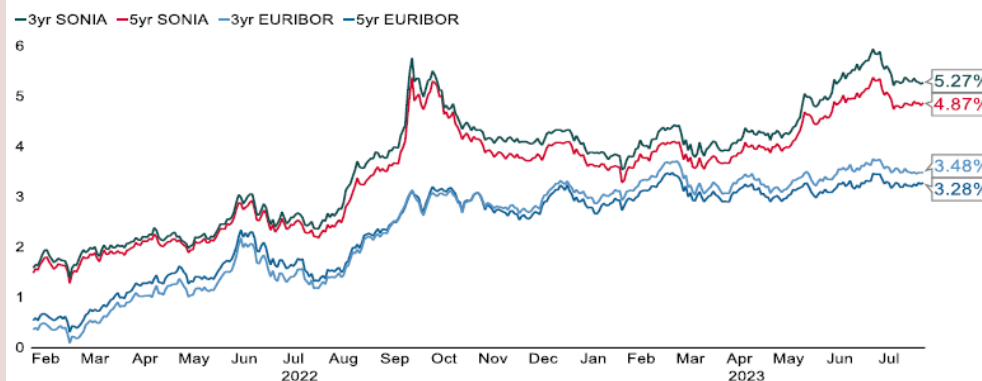
Is the peak in sight? The Bank of England followed the US Federal Reserve and the ECB in raising the base rate from 5.00% to 5.25%. Although there was a downward surprise in the UK's latest CPI data, strong pay growth and a still tight labour market means we may see further tightening. However, indications are that the peak could be in sight, with money markets pricing in a peak of 5.75% by November and economists expecting UK rates to top out by Q3/Q4 this year between 5.50-5.75%. Despite higher interest rates, the UK remains relatively attractive globally, remaining second after the US as a destination for cross-border real estate capital this year, albeit on soft global volumes.

Eurozone core inflation remains sticky. The Eurozone headline inflation has moderated to 5.3%, according to preliminary figures, driven by lower food and energy inflation, although core inflation is holding steady at 5.5%. At the country level we continue to see inflation divergence across the bloc. This divergence is also reflected in economic growth. The overall Eurozone growth outlook for 2023 is positive at 0.6%, a revision upwards from 0.4% in February, according to Oxford Economics. The BoE predicts CPI will fall to 5% by the end of this year, returning to 2% target in Q2 2025, in the UK.

Divergence in the UK growth outlook. The BoE's Monetary Policy Report predicts the UK economy will expand by +0.50% in 2023, better than +0.25% forecast in May. The outlook for 2024, however, has been downgraded, with GDP growth expected to remain at +0.50% (previously, +0.75%), as higher borrowing costs begin to take their toll on activity. Forecast outcomes remain wide however.

DEBT MARKET – 07 August 2023

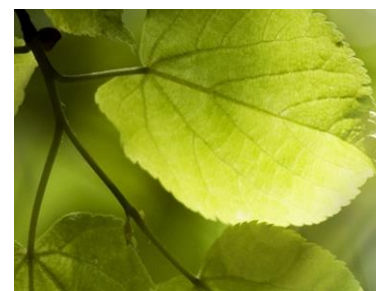
SONIA/EURIBOR Swap Rates (3/5 Year)



Source: Macrobond, ICAP

BONDS & RATES (04/08/2023)	AUG 2022	JUN 2023	JUL 2023	AUG 2023
SONIA Rate	1.690%	4.428%	4.929%	5.183%
Bank of England Base Rate	1.75%	4.50%	5.00%	5.25%
5-year swap rates	2.717%	4.779%	5.364%	5.040%
10-year gilts redemption yield	2.04%	4.21%	4.42%	4.37%

ESG



What does 'good' ESG in UK real estate look like?

What constitutes 'good' ESG and how do you ensure incentives are aligned to the right goals?

Intelligence Lab



LOGIC – Midlands Q2 2023

A quarterly regional level commentary on occupier and investment market trends in the UK industrial and logistics sector.

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KEY RESEARCH



THE LONDON OFFICE REPORT - Q2 2023

Knight Frank's latest quarterly report examining the performance of London's office occupier, leasing and investment markets across the City, West End and Docklands.

Knight Frank V&A

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- 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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