

# Prime Yield Guide – December 2022

Knight Frank Intelligence

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Based on rack rented properties and disregards bond type transactions

SECTOR		DEC-21	JUN-22	SEP-22	OCT-22	NOV-22	DEC-22	1 MONTH CHANGE	MARKET SENTIMENT	
	Offices (Grade A)	City Prime (Single let, 10 years)	3.75% - 4.00%	3.75%	4.00%	4.25%	4.50%	4.50% - 4.75%	+0.25%	WEAKER
		West End: Prime Core (Mayfair & St James's)	3.25% - 3.50%	3.25%	3.25%	3.50%	3.50%	3.50% - 3.75%	+0.25%	WEAKER
		West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	3.75% - 4.00%	4.00%	4.00% - 4.25%	4.25%	4.25% - 4.50%	+0.25%	WEAKER
		Major Regional Cities (Single let, 15 years)	5.00%	4.50% - 4.75%	5.00% - 5.25%	5.25% - 5.50%	5.50% - 6.00%	5.75% - 6.00%	+	WEAKER
		Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.00%	5.25% - 5.50%	5.50% - 6.00%	6.00% - 6.50%	6.50% - 7.00%	+0.50%	WEAKER
		South East Towns (Single let, 15 years)	5.25%	5.00%	5.25%	5.50%	5.75% - 6.25%	6.00% - 6.50%	+0.25%	WEAKER
		South East Towns (Multi-let, 5 year WAULT)	6.50%	6.50% -	6.75% - 7.00%	7.00% +	7.25% +	7.00% - 7.50%	+0.25%	WEAKER
		South East Business Parks (Single let, 15 years)	5.25% +	5.25%	5.50% - 5.75%	5.75% - 6.00%	6.25% - 6.75%	6.75% - 7.00%	+0.25%	WEAKER
		South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	6.75% +	7.25% +	7.25% - 7.50%	7.50% - 8.00%	7.75% - 8.00%	+	WEAKER
		Life Sciences (Oxford, Cambridge)	3.75%	3.75%	3.75%	4.00%	4.00% +	4.25%	+0.25%	WEAKER
	Warehouse & Industrial Space	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.00%	3.00%	3.50% - 3.75%	3.75% +	4.25% - 4.75%	4.75% - 5.00%	+0.25%	WEAKER
		Prime Distribution/Warehousing (15 years, OMRRs)	3.50% - 3.75%	3.50%	4.00% - 4.25%	4.25% +	4.75% - 5.25%	5.25% - 5.50%	+0.25%	WEAKER
		Secondary Distribution (10 years, OMRRs)	4.00% - 4.25%	4.00%	4.50% - 4.75%	4.75% +	5.25% - 5.75%	5.50% - 6.00%	+0.25%	WEAKER
		South East Estate (excluding London & Heathrow)	3.25% - 3.50%	3.25% - 3.50%	4.00%	4.00% - 4.25%	4.50% - 5.00%	5.00% - 5.50%	+0.50%	WEAKER
		Good Modern Rest of UK Estate	3.50% - 3.75%	3.50% - 3.75%	4.25% - 4.50%	4.50% - 4.75%	5.00% - 5.50%	5.25% - 5.75%	+0.25%	WEAKER
		Good Secondary Estates	5.00% - 5.25%	4.75% - 5.25%	5.25% - 5.75%	5.50% - 6.00%	6.00% - 6.50%	6.50% - 7.00%	+0.50%	WEAKER
	Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.00%	5.00%	5.25%	5.50%	5.75%	5.75%		STABLE
		Budget Hotels London (20 years, 5 yearly RPI / CPI uplifts)	3.50%	3.25%	3.25% - 3.50%	3.75% - 4.00%	4.25% - 4.50%	4.50% - 4.75%	+0.25%	WEAKER
		Budget Hotels Regional (20 years, 5 yearly RPI / CPI uplifts)	4.00%	3.75%	4.00%	4.25% - 4.50%	4.75% - 5.00%	5.00% - 5.25%	+0.25%	WEAKER
		Student Accommodation Prime London (Direct Let)	3.75%	3.75% -	3.50%	3.50% - 3.75%	3.75% +	3.75% - 4.00%	+	WEAKER
		Student Accommodation Prime Regional (Direct Let)	5.00%	5.00% -	4.75% - 5.00%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%		WEAKER
		Student Accommodation Prime London (25 years, Annual RPI)	3.25%	3.00%	3.25%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	+0.25%	WEAKER
		Student Accommodation Prime Regional (25 years, Annual RPI)	3.50%	3.25%	3.50%	3.75% - 4.00%	4.00% - 4.25%	4.25% - 4.50%	+0.25%	WEAKER
		Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.25%	3.25% - 3.50%	3.75% - 4.00%	4.00% - 4.25%	4.00% - 4.25%		WEAKER
		Data Centres (Operational)	4.00% -	4.00% -	4.00%	4.00%	4.00%	4.00%		STABLE
		Data Centres (Leased, 15 years, Annual Indexation)	4.00%	4.00%	4.00% +	4.00% +	4.25%	4.25% +	+	WEAKER
		Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.25%	2.00%	2.50% +	3.50%	3.50% - 3.75%	3.75% - 4.00%	+0.25%	WEAKER

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	High Street Retail	Bond Street	2.75%	2.75%	2.75% +	2.75% +	2.75% - 3.00%	2.75% - 3.00%		WEAKER
		Oxford Street	3.50% +	3.50%	3.50% +	4.00%	4.25% +	4.25% - 4.50%	+0.25%	WEAKER
		Prime Towns (Oxford, Cambridge, Winchester)	6.50%	6.25%	6.25%	6.25% +	6.50% +	6.75% +	+0.25%	WEAKER
		Regional Cities (Manchester, Birmingham)	6.50% +	6.50%	6.50%	6.50% +	6.75% +	7.00% +	+0.25%	WEAKER
		Good Secondary (Truro, Leamington Spa, Colchester etc)	8.25% - 8.50%	8.25% - 8.50%	8.25% - 8.50%	8.50%	8.50% - 8.75%	9.00% - 9.25%	+0.50%	WEAKER
	Shopping Centres (sustainable income)	Regional Scheme	8.50%	7.50%	7.50%	7.50% - 7.75%	7.75% - 8.00%	8.00%	+0.25%	WEAKER
		Sub-Regional Scheme	9.00%	8.50%	8.50%	8.75%	9.00%	9.00% +	+	WEAKER
		Local Scheme (successful)	10.00%	9.00%	9.25%	9.50%	9.75%	9.75% +	+	WEAKER
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.50% - 9.75% +	9.00% - 9.25%	9.00% - 9.25%	9.25% - 9.50%	9.50% - 9.75%	9.50% - 9.75%		WEAKER
	Out of Town Retail	Open A1 (essential retailers)	5.50% - 5.75%	4.75%	5.00%	5.25%	5.50% - 6.00%	6.00% +	+0.25%	WEAKER
		Good Secondary Open A1 Parks	7.00%	6.00%	6.25%	6.50%	7.00% +	7.25% +	+0.25%	WEAKER
		Bulky Goods Parks	5.50% - 5.75%	4.75%	5.00%	5.25%	5.50% - 6.00%	6.00% +	+0.25%	WEAKER
		Good Secondary Bulky Goods Parks	7.00%	6.00%	6.25%	6.50%	7.00% +	7.25% +	+0.25%	WEAKER
		Solus Open A1 (15 year income)	5.00%	4.75% -	5.00%	5.25%	5.50% +	5.75% - 6.00%	+0.25%	WEAKER
		Solus Bulky (15 year income)	5.00%	4.75% -	5.00%	5.25%	5.50% +	5.75% - 6.00%	+0.25%	WEAKER
	Major Foodstores	Annual RPI Increases [NIY] (20 year income)	3.50%	3.25% - 3.50%	3.75% - 4.00%	4.00% - 4.25%	4.50% - 5.00%	5.00%	+	WEAKER
		Open Market Reviews (20 year lease)	4.00%	4.00%	4.25% - 4.50%	4.75% - 5.00%	5.25% - 5.75%	5.50%	+	WEAKER
	Leisure	Prime Leisure Parks	7.00% +	7.00% +	7.00% +	7.00% +	7.25% - 7.50%	7.50% +	+0.25%	WEAKER
		Good Secondary Leisure Parks	8.00% +	8.00% +	8.00% +	8.25% +	8.50% - 8.75%	9.00% +	+0.50%	WEAKER

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## LEADING INDICATORS

**Global inflationary pressures may have peaked.** A moderation in factory gate prices, shipping rates and commodity prices from recent highs indicate that strong global inflationary pressures may have peaked. The UK's main prices balance fell for the third consecutive month. Moderating activity should further ease capacity constraints, albeit, commodity prices remain sensitive and the looming ban on Russian oil will likely keep inflation in the UK and eurozone elevated. While indicators suggest we are near peak wage growth, on-going worker shortages would mean elevated inflation levels persist.

**Solvency II have implications for UK CRE.** Reforms will likely involve the relaxation of the current matching adjustment rules, which will permit insurers to invest greater long-term capital to the UK economy. The risk margin will also be reduced, with a 65% reduction for long-term life insurance businesses and a 30% reduction for general insurance businesses. These interpretation changes could increase investment flexibility, which will broaden eligibility criteria on the matching adjustment. This could encourage investment in long-term produce assets and UK commercial real estate may benefit.

**CRE's role in reducing emissions.** Globally, energy consumption is the largest source of greenhouse gas emissions, and according to the World Economic Form, 40% of this is consumed within buildings. The combined heating, ventilation, air-conditioning and lighting systems in a typical office building account for roughly 70% of that building's energy consumption. Targeting consumption efficiencies will be important.

## DEBT MARKET – 28 NOVEMBER 2022

Debt margins have started 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 (01/12/2022)	DEC 2021	OCT 2022	NOV 2022	DEC 2022
SONIA Rate	0.045%	2.187%	2.186%	2.928%
Bank of England Base Rate	0.10%	2.25%	3.00%	3.00%
5-year swap rates	1.102%	5.079%	4.403%	4.014%
10-year gilts redemption yield	0.73%	4.01%	3.45%	3.11%

## ESG



## Intelligence Lab



The November 2022 Review outlines the key occupier and investment trends across the different commercial sectors.

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## KEY RESEARCH



Knight Frank's flagship capital markets research programme, Active Capital, will guide you through the complexities and challenges of global real estate, whilst highlighting the opportunities that lie ahead over the next 18 months.

[Watch the launch on-demand](#)

## Knight Frank V&A

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- 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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