

# Prime Yield Guide – February 2023

Knight Frank Intelligence

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Based on rack rented properties and disregards bond type transactions

SECTOR		FEB-22	OCT-22	NOV-22	DEC-22	JAN-23	FEB-23	1 MONTH CHANGE	MARKET SENTIMENT
<b>Offices (Grade A)</b>	City Prime (Single let, 10 years)	3.75%	4.25%	4.50%	4.50% - 4.75%	4.75%	4.75%		WEAKER
	West End: Prime Core (Mayfair & St James's)	3.25%	3.50%	3.50%	3.50% - 3.75%	3.75%	3.75%		WEAKER
	West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	4.00% - 4.25%	4.25%	4.25% - 4.50%	4.50%	4.50%		WEAKER
	Major Regional Cities (Single let, 15 years)	5.00% -	5.25% - 5.50%	5.50% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%		WEAKER
	Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.50% - 6.00%	6.00% - 6.50%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		WEAKER
	South East Towns (Single let, 15 years)	5.00% - 5.25%	5.50%	5.75% - 6.25%	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% +	7.25% +	7.00% - 7.50%	7.00% - 7.50%	7.00% - 7.50%		WEAKER
	South East Business Parks (Single let, 15 years)	5.25% +	5.75% - 6.00%	6.25% - 6.75%	6.75% - 7.00%	6.75% - 7.00%	6.75% - 7.00%		WEAKER
	South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	7.25% - 7.50%	7.50% - 8.00%	7.75% - 8.00%	7.75% - 8.00%	7.75% - 8.00%		WEAKER
	Life Sciences (Oxford, Cambridge)	3.75%	4.00%	4.00% +	4.25%	4.25%	4.25% - 4.50%	+	WEAKER
<b>Warehouse &amp; Industrial Space</b>	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.00%	3.75% +	4.25% - 4.75%	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%		STABLE
	Prime Distribution/Warehousing (15 years, OMRRs)	3.50% - 3.75%	4.25% +	4.75% - 5.25%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%		STABLE
	Secondary Distribution (10 years, OMRRs)	4.00% - 4.25%	4.75% +	5.25% - 5.75%	5.50% - 6.00%	5.50% - 6.00%	5.50% - 6.00%		STABLE
	South East Estate (excluding London & Heathrow)	3.25% - 3.50%	4.00% - 4.25%	4.50% - 5.00%	5.00% - 5.50%	5.00% - 5.50%	5.00% - 5.50%		STABLE
	Good Modern Rest of UK Estate	3.50% - 3.75%	4.50% - 4.75%	5.00% - 5.50%	5.25% - 5.75%	5.25% - 5.75%	5.25% - 5.75%		STABLE
	Good Secondary Estates	4.75% - 5.25%	5.50% - 6.00%	6.00% - 6.50%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		WEAKER
<b>Specialist Sectors</b>	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.00%	5.50%	5.75%	5.75%	5.75%	5.75%		STABLE
	Budget Hotels London (20 years, 5 yearly RPI / CPI uplifts)	3.25% - 3.50%	3.75% - 4.00%	4.25% - 4.50%	4.50% - 4.75%	4.50% - 4.75%	4.50% - 4.75%		STABLE
	Budget Hotels Regional (20 years, 5 yearly RPI / CPI uplifts)	4.00%	4.25% - 4.50%	4.75% - 5.00%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%		STABLE
	Student Accommodation Prime London (Direct Let)	3.75%	3.50% - 3.75%	3.75% +	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)	3.25%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%		STABLE
	Student Accommodation Prime Regional (25 years, Annual RPI)	3.50%	3.75% - 4.00%	4.00% - 4.25%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%		STABLE
	Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.75% - 4.00%	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%	4.00%	4.00%		STABLE
	Data Centres (Leased, 15 years, Annual Indexation)	4.00%	4.00% +	4.25%	4.25% +	4.25% +	4.25% +		WEAKER
	Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.25%	3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00%	4.00%		STABLE

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

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## LEADING INDICATORS

**Is it too early to discuss rates cuts?** The US Federal Reserve (Fed) lifted its base rate by 25bps to a target range of 4.50% - 4.75%, whilst the Bank of England (BoE) and European Central Bank (ECB) both raised theirs by 50bps to 4.00% and 3.00%, respectively. Additionally, all three central banks adjusted their tone towards future hikes. Indeed, the BoE dropped previous language about its willingness to act “forcefully” and instead noted it will just “tighten policy” if price pressures persist. The softened tone suggests that the current hiking cycle could nearly be over. Money markets agree, pricing in a rate cut by the end of the year. However, Oxford Economics feels this is premature, expecting the base rate to peak at 4.25% in March, where it will remain until at least the end of the year. Lower interest rates will be supportive of real estate pricing and debt costs when the central bank decides to cut rates.

**The BoE’s outlook has improved.** The BoE now expects the UK economy to contract by -0.5% in 2023, better than -1.5% forecast in November. This shallower contraction reflects an improved consumption outlook, due to ongoing labour market strength and moderating energy prices. Declining energy prices have also impacted the BoE’s inflation outlook, with inflation now forecast to fall to 3.0% by Q1 2024 (4.0% last forecast). Meanwhile, labour market resilience is expected to remain, with the current unemployment rate growing slightly from 3.7% to 4.25% in 2023 (5.0% forecast in November). Despite robust labour markets, recent job loss announcements in certain sectors may cause some employees to increase their office presence, which could support office demand.

## DEBT MARKET – 6 FEBRUARY 2023

Debt margins have drifted 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 (03/02/2023)	FEB 2022	DEC 2022	JAN 2023	FEB 2023
SONIA Rate	0.445%	2.928%	3.427%	3.927%
Bank of England Base Rate	0.50%	3.50%	3.50%	4.00%
5-year swap rates	1.834%	4.014%	4.050%	3.582%
10-year gilts redemption yield	1.54%	3.11%	3.53%	3.17%

## ESG



### What does net zero mean for real estate?

Is ESG fit for purpose or would a simpler approach help meet industry objectives

## Intelligence Lab



### UK Industrial: The price is (almost) right.

Some prices are starting to stabilise, investment activity looks set to improve, but occupiers are facing rising costs and difficulties raising capital.

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## KEY RESEARCH



### UK Cities Watch List 2023

What will the defining trends be that influence market behaviour?  
Our Watch List 2023: Spaces, Industry, Politics, Costs and Environment

## 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 :

- Waste and Energy
- 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.*



### Jeremy Tham

Partner – Valuation & Advisory - Head of Secured Lending Valuations  
+44 20 7861 1769  
[Jeremy.Tham@KnightFrank.com](mailto:Jeremy.Tham@KnightFrank.com)



### Emily Miller

Partner – Valuation & Advisory - Head of Investment Fund Valuations  
+44 20 7861 1483  
[Emily.Miller@KnightFrank.com](mailto:Emily.Miller@KnightFrank.com)



### Simon Gillespie

Partner – Valuation & Advisory - Head of Central London Valuations  
+44 20 7861 1292  
[Simon.Gillespie@KnightFrank.com](mailto:Simon.Gillespie@KnightFrank.com)



### Chris Galloway

Partner – Valuation & Advisory - Head of Investment Fund Valuation Business Development  
+44 20 7861 1297  
[Chris.Galloway@KnightFrank.com](mailto:Chris.Galloway@KnightFrank.com)



### Matthew Dichler

Partner – Valuation & Advisory – Investment Fund Valuations  
+44 20 7861 5224  
[Matthew.Dichler@KnightFrank.com](mailto:Matthew.Dichler@KnightFrank.com)



### Will Matthews

Partner – Research - Head of Commercial  
+44 20 3909 6842  
[William.Matthews@KnightFrank.com](mailto:William.Matthews@KnightFrank.com)

Knight Frank Research  
Reports are available at  
[knightfrank.com/research](https://knightfrank.com/research)

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