

Prime Yield Guide – January 2023

Knight Frank Intelligence

This yield guide is for indicative purposes only and was prepared on 10 January 2023.



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Based on rack rented properties and disregards bond type transactions

SECTOR		JAN-22	SEP-22	OCT-22	NOV-22	DEC-22	JAN-23	1 MONTH CHANGE	MARKET SENTIMENT
Offices (Grade A)	City Prime (Single let, 10 years)	3.75% - 4.00%	4.00%	4.25%	4.50%	4.50% - 4.75%	4.75%	+	WEAKER
	West End: Prime Core (Mayfair & St James's)	3.25% - 3.50%	3.25%	3.50%	3.50%	3.50% - 3.75%	3.75%	+	WEAKER
	West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	4.00%	4.00% - 4.25%	4.25%	4.25% - 4.50%	4.50%	+	WEAKER
	Major Regional Cities (Single let, 15 years)	5.00%	5.00% - 5.25%	5.25% - 5.50%	5.50% - 6.00%	5.75% - 6.00%	5.75% - 6.00%		WEAKER
	Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.25% - 5.50%	5.50% - 6.00%	6.00% - 6.50%	6.50% - 7.00%	6.50% - 7.00%		WEAKER
	South East Towns (Single let, 15 years)	5.25%	5.25%	5.50%	5.75% - 6.25%	6.00% - 6.50%	6.00% - 6.50%		WEAKER
	South East Towns (Multi-let, 5 year WAULT)	6.50%	6.75% - 7.00%	7.00% +	7.25% +	7.00% - 7.50%	7.00% - 7.50%		WEAKER
	South East Business Parks (Single let, 15 years)	5.25% +	5.50% - 5.75%	5.75% - 6.00%	6.25% - 6.75%	6.75% - 7.00%	6.75% - 7.00%		WEAKER
	South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	7.25% +	7.25% - 7.50%	7.50% - 8.00%	7.75% - 8.00%	7.75% - 8.00%		WEAKER
	Life Sciences (Oxford, Cambridge)	3.75%	3.75%	4.00%	4.00% +	4.25%	4.25%		STABLE
Warehouse & Industrial Space	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.00%	3.50% - 3.75%	3.75% +	4.25% - 4.75%	4.75% - 5.00%	4.75% - 5.00%		WEAKER
	Prime Distribution/Warehousing (15 years, OMRRs)	3.50% - 3.75%	4.00% - 4.25%	4.25% +	4.75% - 5.25%	5.25% - 5.50%	5.25% - 5.50%		WEAKER
	Secondary Distribution (10 years, OMRRs)	4.00% - 4.25%	4.50% - 4.75%	4.75% +	5.25% - 5.75%	5.50% - 6.00%	5.50% - 6.00%		WEAKER
	South East Estate (excluding London & Heathrow)	3.25% - 3.50%	4.00%	4.00% - 4.25%	4.50% - 5.00%	5.00% - 5.50%	5.00% - 5.50%		WEAKER
	Good Modern Rest of UK Estate	3.50% - 3.75%	4.25% - 4.50%	4.50% - 4.75%	5.00% - 5.50%	5.25% - 5.75%	5.25% - 5.75%		WEAKER
	Good Secondary Estates	5.00% - 5.25%	5.25% - 5.75%	5.50% - 6.00%	6.00% - 6.50%	6.50% - 7.00%	6.50% - 7.00%		WEAKER
Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.00%	5.25%	5.50%	5.75%	5.75%	5.75%		STABLE
	Budget Hotels London (20 years, 5 yearly RPI / CPI uplifts)	3.50%	3.25% - 3.50%	3.75% - 4.00%	4.25% - 4.50%	4.50% - 4.75%	4.50% - 4.75%		WEAKER
	Budget Hotels Regional (20 years, 5 yearly RPI / CPI uplifts)	4.00%	4.00%	4.25% - 4.50%	4.75% - 5.00%	5.00% - 5.25%	5.00% - 5.25%		WEAKER
	Student Accommodation Prime London (Direct Let)	3.75%	3.50%	3.50% - 3.75%	3.75% +	3.75% - 4.00%	3.75% - 4.00%		WEAKER
	Student Accommodation Prime Regional (Direct Let)	5.00%	4.75% - 5.00%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%		WEAKER
	Student Accommodation Prime London (25 years, Annual RPI)	3.25%	3.25%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	4.00% - 4.25%		WEAKER
	Student Accommodation Prime Regional (25 years, Annual RPI)	3.50%	3.50%	3.75% - 4.00%	4.00% - 4.25%	4.25% - 4.50%	4.25% - 4.50%		WEAKER
	Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.25% - 3.50%	3.75% - 4.00%	4.00% - 4.25%	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% +	4.25%	4.25% +	4.25% +		WEAKER
	Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.25%	2.50% +	3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00%	+	WEAKER

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	High Street Retail	Bond Street	2.75%	2.75% +	2.75% +	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%	WEAKER	
		Oxford Street	3.50% +	3.50% +	4.00%	4.25% +	4.25% - 4.50%	4.25% - 4.50%	WEAKER	
		Prime Towns (Oxford, Cambridge, Winchester)	6.50%	6.25%	6.25% +	6.50% +	6.75% +	6.75% +	WEAKER	
		Regional Cities (Manchester, Birmingham)	6.50% +	6.50%	6.50% +	6.75% +	7.00% +	7.00% +	WEAKER	
		Good Secondary (Truro, Leamington Spa, Colchester etc)	8.25% - 8.50%	8.25% - 8.50%	8.50%	8.50% - 8.75%	9.00% - 9.25%	9.00% - 9.25%	WEAKER	
	Shopping Centres (sustainable income)	Regional Scheme	8.00%	7.50%	7.50% - 7.75%	7.75% - 8.00%	8.00%	8.00% +	+	WEAKER
		Sub-Regional Scheme	9.00%	8.50%	8.75%	9.00%	9.00% +	9.00% +	WEAKER	
		Local Scheme (successful)	10.00%	9.25%	9.50%	9.75%	9.75% +	9.75% +	WEAKER	
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.50% - 9.75% +	9.00% - 9.25%	9.25% - 9.50%	9.50% - 9.75%	9.50% - 9.75%	9.50% - 9.75%	WEAKER	
	Out of Town Retail	Open A1 (essential retailers)	5.50%	5.00%	5.25%	5.50% - 6.00%	6.00% +	6.00% +	WEAKER	
		Good Secondary Open A1 Parks	6.75% - 7.00%	6.25%	6.50%	7.00% +	7.25% +	7.50% +	+0.25%	WEAKER
		Bulky Goods Parks	5.50%	5.00%	5.25%	5.50% - 6.00%	6.00% +	6.00% +	WEAKER	
		Good Secondary Bulky Goods Parks	6.75% - 7.00%	6.25%	6.50%	7.00% +	7.25% +	7.50% +	+0.25%	WEAKER
		Solus Open A1 (15 year income)	5.00%	5.00%	5.25%	5.50% +	5.75% - 6.00%	5.75% - 6.00%	WEAKER	
		Solus Bulky (15 year income)	5.00%	5.00%	5.25%	5.50% +	5.75% - 6.00%	5.75% - 6.00%	WEAKER	
	Major Foodstores	Annual RPI Increases [NIY] (20 year income)	3.50%	3.75% - 4.00%	4.00% - 4.25%	4.50% - 5.00%	5.00%	5.00%	WEAKER	
		Open Market Reviews (20 year lease)	4.00%	4.25% - 4.50%	4.75% - 5.00%	5.25% - 5.75%	5.50%	5.50%	WEAKER	
	Leisure	Prime Leisure Parks	7.00% +	7.00% +	7.00% +	7.25% - 7.50%	7.50% +	7.50% +	WEAKER	
		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 the end of the tightening cycle near? UK natural gas prices have moderated; as a result, economists expect inflation to be less pronounced than previously anticipated. Both Capital Economics and Oxford Economics forecast UK inflation to slow and reach the Bank of England's 2.0% target by 2024 meaning the Bank of England could be close to the end of its tightening cycle; albeit reluctant to cut rates this year unless the anticipated recession is deeper than currently expected.

Strong lending on UK CRE. Net lending increased for the third consecutive month in November 2022, at just over £1.0 billion, the strongest rise in commercial property lending since December 2021. However, there will be affordability challenges due to the elevated all in cost of debt. Today's lending arena is different to the GFC because of a broad range of bank and non-bank lenders providing a depth of liquidity that didn't exist in 2008 / 09. While non-bank lenders are relatively untested through more challenging conditions, capital remains waiting in the wings to deploy through non-bank lending over 2023.

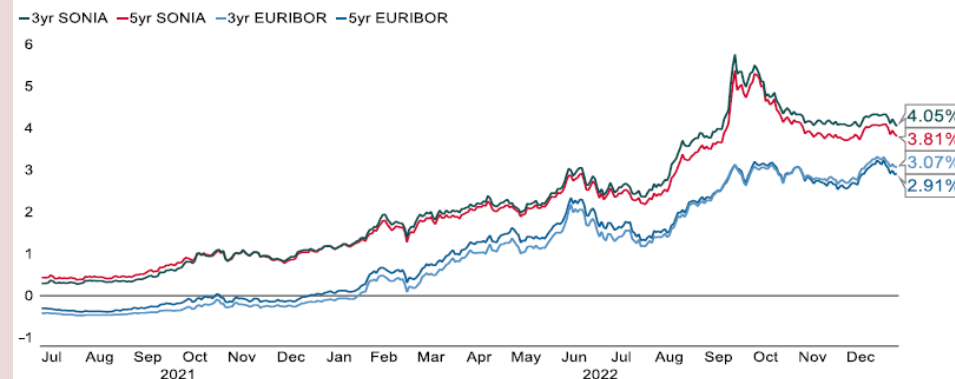
UK labour markets shows signs of softening. Job vacancies fell for the sixth consecutive quarter to 1.2 million in November. While the OBR forecasts unemployment to peak at 4.9% in Q4 2024, this is below the 6.8% long term average at 7.9% GFC peak. Despite the slightly softer labour market outlook, office leasing demand remains relatively healthy. In London, for example, preliminary figures for Q4 2022 outline almost 3 million sq ft of new office leases were agreed, just below trend levels of 3.1 million sq ft.

DEBT MARKET – 9 JANUARY 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 (09/01/2023)	JAN 2022	NOV 2022	DEC 2022	JAN 2023
SONIA Rate	0.195%	2.186%	2.928%	3.427%
Bank of England Base Rate	0.25%	3.00%	3.50%	3.50%
5-year swap rates	1.464%	4.403%	4.014%	4.050%
10-year gilts redemption yield	1.23%	3.45%	3.11%	3.53%

ESG



COP27 – What it means for real estate

Weather and climate came under sharp focus as the battle to reduce global carbon emissions continues.

Intelligence Lab



Knight Frank's annual assessment of operating performance in the UK care home sector. The market leading report includes analysis of occupancy, fees and profitability on a regional basis.

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KEY RESEARCH



Future Gazing 2023

Covering the challenges of e-commerce and what the solutions may be, our research examines the challenges and opportunities brought by structural change in consumer demand and how real estate strategy is being influenced far beyond the retail sector.

Knight Frank V&A

Did you know

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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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