

Prime Yield Guide – July 2022

Knight Frank Intelligence

*This yield guide is for indicative purposes only
and was prepared on 12 July 2022.*



Based on rack rented properties and disregards bond type transactions

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

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

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LEADING INDICATORS

Pace of Rate Hikes to Vary. ECB could hike rates by as much as 50bps at its meeting in July. This will be the central bank's first rate hike in 11 years. Meanwhile, money markets have scaled back rate hike predictions in the US, with expectations that the interest rate will be 3.2% by year end, compared to 3.4% last week. In the UK, markets forecast a 2.4% interest rate by 2023, however, this is higher than consensus forecasts which place it at 1.75%.

Construction costs likely to impact the supply pipeline. The BCIS All-in Tender Price Index (TPI) increased by an estimated 9.1% y-y in Q2 2022. Meanwhile, the BCIS expect the cost of raw materials in the UK to more than treble in 2022. This could impact the construction pipeline in the short to medium term, which will likely have implications for buyers seeking new stock. In London, despite the 14.4 million sq ft of office space under construction, there will still be a significant shortfall of best-in-class office space. With this in mind, investors could benefit from higher rents, due to occupiers competing for space.

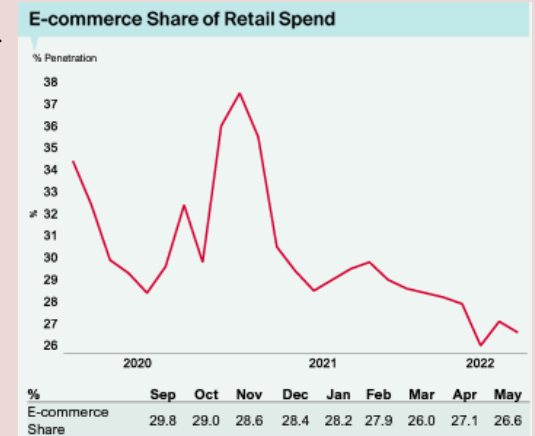
Political upheaval hits sterling and UK outlook softens. For now, we do not think there are too many direct implications of Johnson's resignation on real estate. We have seen some volatility in sterling, which has hit its lowest level since 1985. The potentially bigger story has been the warnings from the Bank of England, which downgraded its growth outlook last week. In the immediate aftermath of these announcements, swap rates fell, however, they have since increased.

RETAIL SALES – May 2022 SNAPSHOT

The consumer continued to spend; in May 2022 sales values rose +1.7% against a formidable comparisons base in 2021 (+21.5%). Inflation is biting (volumes -5.7%) but shop price inflation (7.4%) remains lower than CPI benchmarks (ca. 9%).

Non-food sales delivered a strong performance (+2.6%) against a demanding comp (May 2021: +85.9%). Clothing was the star performer achieving growth-on-growth (+16.5% vs May 2021 +145.1%).

Online receded -7.9% overall to reach 26.6% penetration, a full 10 percentage points lower than its pandemic peak. Online food declined -10.0% and non-food -10.6%.



BONDS & RATES (11/07/2022)	JUL 2021	MAR 2022	JUN 2022	JUL 2022
SONIA Rate	0.077%	0.445%	0.939%	1.191%
Bank of England Base Rate	0.10%	0.50%	1.00%	1.25%
5-year swap rates	0.717%	1.797%	2.627%	2.734%
10-year gilts redemption yield	0.72%	1.34%	2.13%	2.15%

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THE HOUSE VIEW

Global office markets: Glastonbury sets the tone



The songs of music legends, old and new, serve to shine some light on changing attitudes to work and workplace.

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KEY RESEARCH



Childcare & Special Educational Needs Overview 2022

Approximately 3.9 million children aged 0-4 in the UK and approximately 1.5 million childcare places. Our Childcare & SEN Overview takes a deeper look into the composition, market size and transactions over the past year across the two sectors.

[CLICK TO READ AND DOWNLOAD](#)

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- Ground Rents
- Trading assets
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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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