




# Prime Yield Guide – June 2022

Knight Frank Intelligence

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and was prepared on 07 June 2022.*



*Based on rack rented properties and disregards bond type transactions*

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

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

**Sterling resilient, despite political jitters.** Sterling has already settled back to where it was before Boris Johnson's confidence vote, at \$1.25. Currency stability is important for cross border investors who may be looking to capitalise on weaker sterling when purchasing UK CRE. Unless the rules are changed Johnson's win means that a leadership challenge is unlikely for another year. He has also ruled out a snap election, further encouraging market stability.

**UK CRE top for global cross border investment.** The UK is the top market globally for cross border commercial real estate investment, with \$18.3bn invested year to date, which compares to the \$11.3bn invested in the US and \$7.5bn in Germany. Meanwhile, London remains as the most invested city worldwide for overseas capital. The office sector in particular has benefited from cross border investment into the UK, with a 45% share of total investment this year, followed by Industrial (29%), Residential (15%) and Retail (9%). Investors may be trying to benefit from the current positive momentum in UK CRE, highlighted by the IPF's improved 2022 total return forecast, up from 8.6% in November to 10.2% in May.

**Real estate and ESG equity funds outperform.** Despite UK equity funds recording £3.7bn in net outflows year to date, ESG funds have bucked the trend, receiving £2.8bn in net inflows. Property funds have also been another pocket of positivity, after net outflows fell to their lowest level in close to four years in May. Here, investors could be turning to property for its relative inflation protection.

## SECTOR SNAPSHOT – UK HOTEL INVESTMENT

UK Hotel transaction volumes exceeded £1.5 billion for the first four months of the year, already some 40% ahead of H1-2021, with two more months to go. Transactional activity has been relatively evenly split, with London securing approximately £750 million of investment, whilst regional UK achieved over £800m of hotel transactions.



BONDS & RATES (01/06/2022)	JUN 2021	DEC 2021	MAR 2022	JUN 2022
	SONIA Rate	0.078%	0.045%	0.445%
Bank of England Base Rate	0.10%	0.25%	0.50%	1.00%
5-year swap rates	0.695%	1.102%	1.797%	2.627%
10-year gilts redemption yield	0.92%	0.73%	1.34%	2.13%

## ESG

### Green Building Certificates



Matt Hayes, research analyst at Knight Frank, summarises what an occupier should consider when analysing green building certificates.

## NEW RESEARCH

### UK Film & Television Studios Markets - 2022



[Download the full report](#)

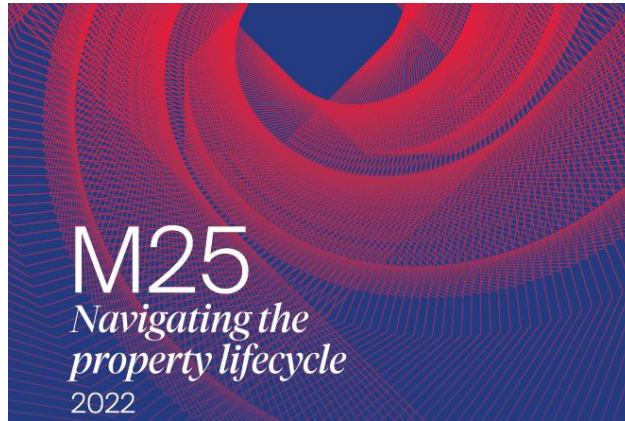
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## KEY RESEARCH



**Welcome to this year's edition of the M25 & South East Office Market Report**

Operational to end of life and reinvention. Identifying the factors that influence each stage can help us understand where the market is heading – and identify opportunities.

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- 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 have one about our research, or would like some property advice, we would love to hear from you.*



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