

Prime Yield Guide – March 2023

Knight Frank Intelligence

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Based on rack rented properties and disregards bond type transactions

SECTOR		MAR-22	SEP-22	DEC-22	JAN-23	FEB-23	MAR-23	1 MONTH CHANGE	MARKET SENTIMENT	
	Offices (Grade A)	City Prime (Single let, 10 years)	3.75%	4.00%	4.50% - 4.75%	4.75%	4.75%	4.75%	STABLE	
		West End: Prime Core (Mayfair & St James's)	3.25%	3.25%	3.50% - 3.75%	3.75%	3.75%	3.75%	STABLE	
		West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	4.00%	4.25% - 4.50%	4.50%	4.50%	4.50%	STABLE	
		Major Regional Cities (Single let, 15 years)	4.75% - 5.00%	5.00% - 5.25%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75%	-	STABLE
		Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.25% - 5.50%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	-	WEAKER
		South East Towns (Single let, 15 years)	5.00% - 5.25%	5.25%	6.00% - 6.50%	6.00% - 6.50%	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% - 7.50%	7.00% - 7.50%	7.00% - 7.50%	7.50%	+	WEAKER
		South East Business Parks (Single let, 15 years)	5.25% +	5.50% - 5.75%	6.75% - 7.00%	6.75% - 7.00%	6.75% - 7.00%	7.00%	+	WEAKER
		South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	7.25% +	7.75% - 8.00%	7.75% - 8.00%	7.75% - 8.00%	8.50% +	+0.50%	WEAKER
		Life Sciences (Oxford, Cambridge)	3.75%	3.75%	4.25%	4.25%	4.25% - 4.50%	4.25% - 4.50%	-	WEAKER
	Warehouse & Industrial Space	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.00%	3.50% - 3.75%	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%	4.75%	-	STABLE
		Prime Distribution/Warehousing (15 years, OMRRs)	3.50%	4.00% - 4.25%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%	5.25%	-	STABLE
		Secondary Distribution (10 years, OMRRs)	4.00%	4.50% - 4.75%	5.50% - 6.00%	5.50% - 6.00%	5.50% - 6.00%	5.50% - 5.75%	-	STABLE
		South East Estate (excluding London & Heathrow)	3.25% - 3.50%	4.00%	5.00% - 5.50%	5.00% - 5.50%	5.00% - 5.50%	5.00% - 5.25%	-	STABLE
		Good Modern Rest of UK Estate	3.50% - 3.75%	4.25% - 4.50%	5.25% - 5.75%	5.25% - 5.75%	5.25% - 5.75%	5.25% - 5.50%	-	STABLE
		Good Secondary Estates	4.75% - 5.25%	5.25% - 5.75%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	-	WEAKER
	Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.00%	5.25%	5.75%	5.75%	5.75%	5.75%	STABLE	
		Budget Hotels London (20 years, 5 yearly RPI / CPI uplifts)	3.25% - 3.50%	3.25% - 3.50%	4.50% - 4.75%	4.50% - 4.75%	4.50% - 4.75%	4.50%	-	STABLE
		Budget Hotels Regional (20 years, 5 yearly RPI / CPI uplifts)	4.00%	4.00%	5.00% - 5.25%	5.00% - 5.25%	5.00% - 5.25%	5.00%	-	STABLE
		Student Accommodation Prime London (Direct Let)	3.75%	3.50%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	-	STABLE
		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%	-	STABLE
		Student Accommodation Prime London (25 years, Annual RPI)	3.00% - 3.25%	3.25%	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%	4.00%	-	STABLE
		Student Accommodation Prime Regional (25 years, Annual RPI)	3.25% - 3.50%	3.50%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.25%	-	STABLE
		Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.25% - 3.50%	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%	4.50%	+0.50%	STABLE
		Data Centres (Leased, 15 years, Annual Indexation)	4.00%	4.00% +	4.25% +	4.25% +	4.25% +	4.75%	+0.50%	STABLE
		Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.25%	2.50% +	3.75% - 4.00%	4.00%	4.00%	4.00%	-	STABLE

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

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LEADING INDICATORS

The changing structure of the UK economy. Overall, UK economic output grew by +1% year on year in Q4, however, some sectors have recorded a significant increase. Indeed, the Arts & entertainment (+9%), Construction (+5%) and Professional & Scientific (+4%) industries saw increased output year on year in Q4 2022. However, some sectors including Production (-4%) and Manufacturing (-6%) saw output moderate. Here, the higher costs of materials, energy and labour likely weight on output. For the year ahead, the Bank of England forecast inflation to fall to 4% from 10%, which could alleviate some pricing pressures on these sectors that have seen output decline.

UK inflation continued to slow falling, for the third consecutive month, to 10.1% ahead of expectations. Producer price inflation also moderated, to 14.1%. The positive inflation news has left market commentators deliberating the BoE's next interest rate decision on 23 March. Capital Economics outlined that the likelihood of its forecast of 4.50% peak is lower now, while Oxford Economics expects the central bank to lift its rate by 25bps to 4.25% in March, where it will remain until at least the end of the year.

Flash PMIs for the UK surprised on the upside, with UK services businesses reporting growth for the first time in eight months (figure above 50). Indeed, the UK Services PMI increased to 53.3 in February, from 48.7 in January, beating market expectations of 49.2. Meanwhile, the Manufacturing PMI rose to 49.2 from 47.0 in January, exceeding market forecasts of 47.5.

DEBT MARKET – 27 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 (01/03/2023)	MAR 2022	JAN 2023	FEB 2023	MAR 2023
SONIA Rate	0.445%	3.427%	3.927%	3.927%
Bank of England Base Rate	0.50%	3.50%	4.00%	4.00%
5-year swap rates	1.794%	4.050%	3.582%	4.308%
10-year gilts redemption yield	1.34%	3.53%	3.17%	3.81%

ESG



Refurbishing Offices

What are the economic and green challenges and opportunities from refurbishing office buildings?

Intelligence Lab



UK Retail Sales Dashboard – January 2023

An overview of UK retail performance, including key metrics on core sub-sectors and e-commerce.

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KEY RESEARCH



UK CRE Quarterly Review – February 2023

The Quarterly UK RE Review outlines the key occupier and investment trends across the different sectors within commercial real estate.

Knight Frank V&A

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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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