




Prime Yield Guide – May 2023

Knight Frank Intelligence

This yield guide is for indicative purposes only and was prepared on 3 May 2023.



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SECTOR		MAY-22	DEC-22	FEB-23	MAR-23	APR-23	MAY-23	CHANGE	MARKET SENTIMENT
 Offices (Grade A)	City Prime (Single let, 10 years)	3.75%	4.50% - 4.75%	4.75%	4.75%	4.75%	4.75% - 5.00%	+	STABLE
	West End: Prime Core (Mayfair & St James's)	3.25%	3.50% - 3.75%	3.75%	3.75%	3.75%	3.75%		STABLE
	West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	4.25% - 4.50%	4.50%	4.50%	4.50%	4.50% - 4.75%	+	STABLE
	Major Regional Cities (Single let, 15 years)	4.50% - 5.00%	5.75% - 6.00%	5.75% - 6.00%	5.75%	5.75%	5.75%		STABLE
	Major Regional Cities (Multi-let, 5 year WAULT)	5.00% - 5.25%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		WEAKER
	Good Secondary Regional Cities	7.00%	8.50% - 9.00%	8.75% - 9.25%	9.00% - 9.25%	9.25%	9.50%	+0.25%	WEAKER
	South East Towns (Single let, 15 years)	5.00% - 5.25%	6.00% - 6.50%	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% -	7.00% - 7.50%	7.00% - 7.50%	7.50%	7.50%	7.50%		WEAKER
	Good Secondary South East Towns	7.25%	8.75% - 9.25%	9.00% - 9.50%	9.25% - 9.50%	9.50%	9.75%	+0.25%	WEAKER
	South East Business Parks (Single let, 15 years)	5.25% +	6.75% - 7.00%	6.75% - 7.00%	7.00%	7.00%	7.00%		WEAKER
	South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	7.75% - 8.00%	7.75% - 8.00%	8.50% +	8.50% +	9.00%	+0.50%	WEAKER
	Good Secondary South East Business Parks	7.50% +	9.00% +	9.50% +	9.75% +	10.00%	10.50%	+0.50%	WEAKER
Life Sciences (Oxford, Cambridge)	3.75%	4.25%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.50%		+	STABLE
 Warehouse & Industrial Space	Prime Distribution / Warehousing (20 years [NIY], fixed/indexed uplifts)	3.00%	4.75% - 5.00%	4.75% - 5.00%	4.75%	4.75%	4.75% -	-	POSITIVE
	Prime Distribution / Warehousing (15 years, OMRRs)	3.50%	5.25% - 5.50%	5.25% - 5.50%	5.25%	5.25%	5.25% -	-	POSITIVE
	Secondary Distribution (10 years, OMRRs)	4.00%	5.50% - 6.00%	5.50% - 6.00%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%		STABLE
	South East Estates (excluding London & Heathrow)	3.25% - 3.50%	5.00% - 5.50%	5.00% - 5.50%	5.00% - 5.25%	5.00% - 5.25%	5.00%		STABLE
	Good Modern Rest of UK Estates	3.50% - 3.75%	5.25% - 5.75%	5.25% - 5.75%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%		POSITIVE
	Good Secondary Estates	4.75% - 5.25%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%	6.50% - 7.00%		STABLE
 Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.00%	5.75%	5.75%	5.75%	5.75%	5.75%		STABLE
	Budget Hotels London (20 years, 5 yearly RPI / CPI reviews)	3.25% - 3.50%	4.50% - 4.75%	4.50% - 4.75%	4.50%	4.50%	4.50%		STABLE
	Budget Hotels Regional (20 years, 5 yearly RPI / CPI reviews)	4.00%	5.00% - 5.25%	5.00% - 5.25%	5.00%	5.00%	5.00%		STABLE
	Student Accommodation Prime London (Direct Let)	3.75%	3.75% - 4.00%	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%	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)	3.00% - 3.25%	4.00% - 4.25%	4.00% - 4.25%	4.00%	4.00%	4.00%		STABLE
	Student Accommodation Prime Regional (25 years, Annual RPI)	3.25% - 3.50%	4.25% - 4.50%	4.25% - 4.50%	4.25%	4.25%	4.25%		STABLE
	Healthcare (Elderly Care, 30 years, 5 yearly RPI / CPI reviews)	3.50%	4.00% - 4.25%	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%	4.50%	4.50%	4.50%		POSITIVE
	Data Centres (Leased, 15 years, Annual Indexation)	4.00%	4.25% +	4.25% +	4.75%	4.75%	4.75%		STABLE
	Income Strips (50 years, Annual RPI / CPIH+1% RRs, Annuity Grade)	2.25%	3.75% - 4.00%	4.00%	4.00%	3.75% - 4.00%	3.75%		-

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SECTOR		MAY-22	DEC-22	FEB-23	MAR-23	APR-23	MAY-23	CHANGE	MARKET SENTIMENT	
	High Street Retail	Bond Street	2.75%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%		STABLE	
		Oxford Street	3.50%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.25% - 4.50%	4.50%	+	STABLE
		Prime Towns (Oxford, Cambridge, Winchester)	6.25%	6.75% +	6.75% +	6.75%	6.75%	6.75%		STABLE
		Regional Cities (Manchester, Birmingham)	6.50%	7.00% +	7.00% +	7.00%	7.00%	7.00%		STABLE
		Good Secondary (Truro, Leamington Spa, Colchester etc)	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%	8.00%	8.00% +	8.00% +	8.00% +	8.00% +		WEAKER
		Sub-Regional Scheme	8.50%	9.00% +	9.00% +	9.00% +	9.00% +	9.00% +		WEAKER
		Local Scheme (successful)	9.00%	9.75% +	9.75% +	9.75% +	9.75% +	9.75% +		WEAKER
		Neighbourhood Scheme (assumes <25% of income from supermarket)	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	4.75% - 5.00%	6.00% +	6.00% +	6.00%	6.00% -	5.75% -	-0.25%	POSITIVE
		Good Secondary Open A1 Parks	6.00% - 6.25%	7.25% +	7.50% +	7.50%	7.50%	7.50%		POSITIVE
		Bulky Goods Parks	4.75% - 5.00%	6.00% +	6.00% +	6.00%	6.00% -	5.75% -	-0.25%	POSITIVE
		Good Secondary Bulky Goods Parks	6.00% - 6.25%	7.25% +	7.50% +	7.50%	7.50%	7.50%		POSITIVE
		Solus Open A1 (15 year income)	4.75% -	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75%	-	POSITIVE
		Solus Bulky (15 year income)	4.75% -	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75% - 6.00%	5.75%	-	POSITIVE
	Major Foodstores	Annual RPI Increases [NIY] (20 year income)	3.25% - 3.50%	5.00%	5.00%	5.00%	5.00%	5.00%		STABLE
		Open Market Reviews (20 year lease)	4.00%	5.50%	5.50%	5.50%	5.50%	5.50%		STABLE
	Leisure	Prime Leisure Parks	7.00% +	7.50% +	7.50% +	7.50% +	7.50%	7.50%		STABLE
		Good Secondary Leisure Parks	8.00% +	8.50% - 8.75%	9.00% +	9.00% +	9.00% +	9.00% +		WEAKER

Based on rack rented properties and disregards bond type transactions

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LEADING INDICATORS

UK inflation moderates but disappoints and UK CRE investment down but not out. UK inflation fell from 10.4% to 10.1% but expectations were at 9.8%. The UK remained the second most invested market globally in Q1 and the top location for cross border capital; however, volumes have moderated due to wider macro-economic and global banking sector headwinds. In Q1 2023, all commercial real estate (CRE) investment totalled £8.1 billion, which was a -63% contraction on Q1 2022, -23% down q-q and -33% below the Q1 average; however, Q1 2022 was the strongest Q1 on record for the UK.

Is the hiking cycle nearly over? The US Federal Reserve and European Central Bank will make interest rate decisions this week, whilst the Bank of England will do so on 11 May. Although some forecasting this the tightening cycle is now largely over for the BoE, money markets seem to be pricing in rate rises to 5%. A 25bps hike is anticipated in each case but, as always, there are multiple forces at play for each Central Bank.

Net zero transition to keep interest rates higher? There are some concerns that the transition to net zero will exacerbate already elevated inflation levels and interest rates. Climate funding is currently insufficient to meet the Paris Agreement of limiting global warming to below 1.5 degrees by 2050. Consequently, investment in clean energy globally must increase by 3-4x current levels, which could cost up to \$6 trillion per annum, according to TS Lombard. Part of this is effectively fiscal stimulus and therefore is a further consideration for monetary policy committees to weigh as they look at potential cuts.

DEBT MARKET – 03 May 2023

Debt margins have continued to drift 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 (02/05/2023)	MAY 2022	MAR 2023	APR 2023	MAY 2023
SONIA Rate	0.941%	3.927%	4.177%	4.179%
Bank of England Base Rate	1.00%	4.00%	4.25%	4.25%
5-year swap rates	2.395%	4.308%	3.949%	3.880%
10-year gilts redemption yield	2.00%	3.81%	3.40%	3.66%

ESG



Risk of non-compliance with MEES

UK Commercial property retrofit rate needs to be quadrupled to meet proposed regulation.

Intelligence Lab



UK Logistics Outlook - 2023

An annual report that highlights our key expectations for the year.

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KEY RESEARCH



UK Healthcare Capital Markets 2023

This year's report focuses on the healthcare investment market in 2022, looking at emerging trends from both an operational and real estate perspective, as well as our insights for the year ahead.

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- 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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