

Prime Yield Guide – November 2022

Knight Frank Intelligence

This yield guide is for indicative purposes only and was prepared on 3 November 2022.



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Based on rack rented properties and disregards bond type transactions

SECTOR		NOV-21	JUL-22	AUG-22	SEP-22	OCT-22	NOV-22	1 MONTH CHANGE	MARKET SENTIMENT
Offices (Grade A)	City Prime (Single let, 10 years)	3.75% - 4.00%	3.75% - 4.00%	4.00%	4.00%	4.25%	4.50%	+0.25%	WEAKER
	West End: Prime Core (Mayfair & St James's)	3.25% - 3.50%	3.25%	3.25%	3.25%	3.50%	3.50%		WEAKER
	West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	4.00%	4.00% - 4.25%	4.25%	+0.25%	WEAKER
	Major Regional Cities (Single let, 15 years)	5.00%	4.50% - 5.00%	4.75% - 5.25%	5.00% - 5.25%	5.25% - 5.50%	5.50% - 6.00%	+0.50%	WEAKER
	Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.00% +	5.25%	5.25% - 5.50%	5.50% - 6.00%	6.00% - 6.50%	+0.50%	WEAKER
	South East Towns (Single let, 15 years)	5.25%	5.00% +	5.00% - 5.25%	5.25%	5.50%	5.75% - 6.25%	+0.50%	WEAKER
	South East Towns (Multi-let, 5 year WAULT)	6.50%	6.50% +	6.75%	6.75% - 7.00%	7.00% +	7.25% +	+0.25%	WEAKER
	South East Business Parks (Single let, 15 years)	5.25% +	5.25% +	5.50%	5.50% - 5.75%	5.75% - 6.00%	6.25% - 6.75%	+0.50%	WEAKER
	South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	6.75% +	7.00% +	7.25% +	7.25% - 7.50%	7.50% - 8.00%	+0.50%	WEAKER
	Life Sciences (Oxford, Cambridge)	3.75%	3.75%	3.75%	3.75%	4.00%	4.00%		STABLE
Warehouse & Industrial Space	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.25% -	3.25%	3.50%	3.50% - 3.75%	3.75% +	4.25% - 4.75%	+0.50%	WEAKER
	Prime Distribution/Warehousing (15 years, OMRs)	3.75%	3.75%	4.00%	4.00% - 4.25%	4.25% +	4.75% - 5.25%	+0.50%	WEAKER
	Secondary Distribution (10 years, OMRs)	4.25% -	4.25%	4.50%	4.50% - 4.75%	4.75% +	5.25% - 5.75%	+0.50%	WEAKER
	South East Estate (excluding London & Heathrow)	3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00%	4.00% - 4.25%	4.50% - 5.00%	+0.50%	WEAKER
	Good Modern Rest of UK Estate	4.00%	3.75% - 4.00%	4.00% - 4.25%	4.25% - 4.50%	4.50% - 4.75%	5.00% - 5.50%	+0.50%	WEAKER
	Good Secondary Estates	5.00% - 5.25%	4.75% - 5.50%	5.00% - 5.50%	5.25% - 5.75%	5.50% - 6.00%	6.00% - 6.50%	+0.50%	WEAKER
Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.50%	5.00% +	5.00% - 5.25%	5.25%	5.50%	5.75%	+0.25%	WEAKER
	Budget Hotels London (20 years, 5 yearly RPI / CPI uplifts)	3.50%	3.25%	3.25%	3.25% - 3.50%	3.75% - 4.00%	4.25% - 4.50%	+0.50%	WEAKER
	Budget Hotels Regional (20 years, 5 yearly RPI / CPI uplifts)	4.00%	3.75%	3.75% - 4.00%	4.00%	4.25% - 4.50%	4.75% - 5.00%	+0.50%	WEAKER
	Student Accommodation Prime London (Direct Let)	3.75%	3.50%	3.50%	3.50%	3.50% - 3.75%	3.75% +	+0.25%	WEAKER
	Student Accommodation Prime Regional (Direct Let)	5.25% -	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%	5.00% - 5.25%	5.00% - 5.25%		WEAKER
	Student Accommodation Prime London (25 years, Annual RPI)	3.25%	3.00%	3.00% - 3.25%	3.25%	3.50% - 3.75%	3.75% - 4.00%	+0.25%	WEAKER
	Student Accommodation Prime Regional (25 years, Annual RPI)	3.50%	3.25%	3.25% - 3.50%	3.50%	3.75% - 4.00%	4.00% - 4.25%	+0.25%	WEAKER
	Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.25%	3.25% - 3.50%	3.25% - 3.50%	3.75% - 4.00%	4.00% - 4.25%	+0.25%	WEAKER
	Data Centres (Operational)	4.50%	4.00% -	4.00%	4.00%	4.00%	4.00%		STABLE
	Data Centres (Leased, 20 years, Annual Indexation)	4.50%	4.00%	4.00% +	4.00% +	4.00% +	4.25%	+0.25%	WEAKER
	Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.25%	2.25% - 2.50%	2.50%	2.50% +	3.50%	3.50% - 3.75%	+0.25%	WEAKER

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	High Street Retail	Bond Street	2.75%	2.75% +	2.75% +	2.75% +	2.75% +	2.75% - 3.00%	+	WEAKER
		Oxford Street	3.50% +	3.50% +	3.50% +	3.50% +	4.00%	4.25% +	+0.25%	WEAKER
		Prime Towns (Oxford, Cambridge, Winchester)	6.50%	6.25%	6.25%	6.25%	6.25% +	6.50% +	+0.25%	WEAKER
		Regional Cities (Manchester, Birmingham)	6.50% +	6.50%	6.50%	6.50%	6.50% +	6.75% +	+0.25%	WEAKER
		Good Secondary (Truro, Leamington Spa, Colchester etc)	8.25% - 8.50%	8.25% - 8.50%	8.25% - 8.50%	8.25% - 8.50%	8.50%	8.50% - 8.75%	+0.25%	WEAKER
	Shopping Centres (sustainable income)	Regional Scheme	8.50%	7.50%	7.50%	7.50%	7.50% - 7.75%	7.75% - 8.00%	+0.25%	WEAKER
		Sub-Regional Scheme	9.00%	8.50%	8.50%	8.50%	8.75%	9.00%	+0.25%	WEAKER
		Local Scheme (successful)	10.00%	9.00%	9.00% +	9.25%	9.50%	9.75%	+0.25%	WEAKER
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.50% - 9.75% +	9.00% - 9.25%	9.00% - 9.25%	9.00% - 9.25%	9.25% - 9.50%	9.50% - 9.75%	+0.25%	WEAKER
	Out of Town Retail	Open A1 (essential retailers)	6.00% -	4.75%	4.75% - 5.00%	5.00%	5.25%	5.50% - 6.00%	+0.50%	WEAKER
		Good Secondary Open A1 Parks	7.50% -	6.00%	6.00% - 6.25%	6.25%	6.50%	7.00% +	+0.50%	WEAKER
		Bulky Goods Parks	6.00% -	4.75%	4.75% - 5.00%	5.00%	5.25%	5.50% - 6.00%	+0.50%	WEAKER
		Good Secondary Bulky Goods Parks	7.50% -	6.00%	6.00% - 6.25%	6.25%	6.50%	7.00% +	+0.50%	WEAKER
		Solus Open A1 (15 year income)	5.25%	4.75%	4.75% +	5.00%	5.25%	5.50% +	+0.25%	WEAKER
		Solus Bulky (15 year income)	5.25%	4.75%	4.75% +	5.00%	5.25%	5.50% +	+0.25%	WEAKER
	Major Foodstores	Annual RPI Increases [NIY]	3.50%	3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	4.50% - 5.00%	+0.50%	WEAKER
		Open Market Reviews	4.25%	4.00%	4.00% +	4.25% - 4.50%	4.75% - 5.00%	5.25% - 5.75%	+0.50%	WEAKER
	Leisure	Prime Leisure Parks	7.00% +	7.00% +	7.00% +	7.00% +	7.00% +	7.25% - 7.50%	+0.25%	WEAKER
		Good Secondary Leisure Parks	8.00% +	8.00% +	8.00% +	8.00% +	8.25% +	8.50% - 8.75%	+0.25%	WEAKER

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LEADING INDICATORS

ECB, Fed and BoE all hike rates by 75 basis points: The Bank of England matched the US Federal Reserve and the ECB by increasing the base rate by 0.75% at its monetary policy meeting on Thursday 3rd. This is the central bank's largest rate rise since 1989 and has brought the base rate to 3.0%, its highest level since 2008. While rates are increasing, some economists are hinting at signs of abating. Economists expect the BoE to signal smaller hikes at meetings in the near future, with the UK not "far off" a policy pivot. Currently, money markets expect the BoE base rate to peak at 4.75% to 5.00% next year.

Elevated all in debt costs may lead to recapitalisation events next year: All UK property investment in 2017 and 2018 was 30+% above the long term average, and assuming a 5-year loan term, debt back buyers will be facing higher refinancing costs as those loans come to maturity. Higher debt costs may limit refinancing LTVs leading to recapitalisation events in 2023, with investors having to either inject additional equity, refinance higher up the capital stack or bring assets to the market for sale.

Uncertainty is impacting sentiment? Amidst heightened volatility in financial markets, business confidence has weakened. The Lloyds Bank business barometer has declined to a 19-month low in October. Office occupier sentiment has also moderated in line with business sentiment. The Knight Frank CRESA Global CRE Sentiment Index turned negative in Q3, falling by 5.5% q-q. Despite the negative outlook, occupiers are focusing on enhancing workplace services and amenities to bolster utilisation.

DEBT MARKET – 3 NOVEMBER 2022

Debt margins have started 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)



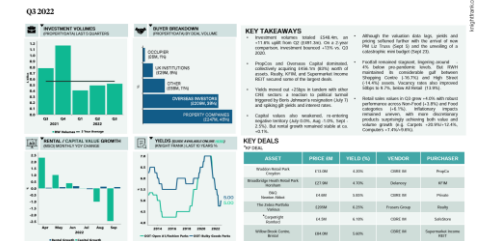
BONDS & RATES (01/11/2022)	NOV 2021	SEP 2022	OCT 2022	NOV 2022
SONIA Rate	0.117%	1.691%	2.187%	2.186%
Bank of England Base Rate	0.10%	1.75%	2.25%	3.00% (on 3 rd)
5-year swap rates	1.271%	3.770%	5.079%	4.403%
10-year gilts redemption yield	0.92%	2.92%	4.01%	3.45%

ESG: 6 lessons

Quantifying ESG in real estate:
Six lessons from the journey so far

Intelligence Lab

Retail Warehouse Monitor



A concise quarterly synopsis of activity in the UK retail warehousing market.

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KEY RESEARCH



Knight Frank's flagship capital markets research programme, Active Capital, will guide you through the complexities and challenges of global real estate, whilst highlighting the opportunities that lie ahead over the next 18 months.

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Knight Frank V&A

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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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