

Prime Yield Guide – October 2022

Knight Frank Intelligence

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Based on rack rented properties and disregards bond type transactions

SECTOR		OCT-21	JUN-22	JUL-22	AUG-22	SEP-22	OCT-22	1 MONTH CHANGE	MARKET SENTIMENT	
	Offices (Grade A)	City Prime (Single let, 10 years)	3.75% - 4.00%	3.75%	3.75% - 4.00%	4.00%	4.00%	4.25%	+0.25%	WEAKER
		West End: Prime Core (Mayfair & St James's)	3.25% - 3.50%	3.25%	3.25%	3.25%	3.25%	3.50%	+0.25%	WEAKER
		West End: Non-core (Soho & Fitzrovia)	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	3.75% - 4.00%	4.00%	4.00% - 4.25%	+0.25%	WEAKER
		Major Regional Cities (Single let, 15 years)	5.00%	4.50% - 4.75%	4.50% - 5.00%	4.75% - 5.25%	5.00% - 5.25%	5.25% - 5.50%	+0.25%	WEAKER
		Major Regional Cities (Multi-let, 5 year WAULT)	5.75% -	5.00%	5.00% +	5.25%	5.25% - 5.50%	5.50% - 6.00%	+0.25%	WEAKER
		South East Towns (Single let, 15 years)	5.25%	5.00%	5.00% +	5.00% - 5.25%	5.25%	5.50%	+0.25%	WEAKER
		South East Towns (Multi-let, 5 year WAULT)	6.50%	6.50% -	6.50% +	6.75%	6.75% - 7.00%	7.00% +	+0.25%	WEAKER
		South East Business Parks (Single let, 15 years)	5.25% +	5.25%	5.25% +	5.50%	5.50% - 5.75%	5.75% - 6.00%	+0.25%	WEAKER
		South East Business Parks (Multi-let, 5 year WAULT)	6.75% +	6.75% +	6.75% +	7.00% +	7.25% +	7.25% - 7.50%	+0.25%	WEAKER
		Life Sciences (Oxford, Cambridge)	3.75%	3.75%	3.75%	3.75%	3.75%	4.00%	+0.25%	STABLE
	Warehouse & Industrial Space	Prime Distribution/Warehousing (20 years [NIY], fixed/indexed uplifts)	3.25% -	3.00%	3.25%	3.50%	3.50% - 3.75%	3.75% +	+0.25%	WEAKER
		Prime Distribution/Warehousing (15 years, OMRRs)	3.75%	3.50%	3.75%	4.00%	4.00% - 4.25%	4.25% +	+0.25%	WEAKER
		Secondary Distribution (10 years, OMRRs)	4.25% -	4.00%	4.25%	4.50%	4.50% - 4.75%	4.75% +	+0.25%	WEAKER
		South East Estate (excluding London & Heathrow)	3.50%	3.25% - 3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00%	4.00% - 4.25%	+0.25%	WEAKER
		Good Modern Rest of UK Estate	4.00%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	4.25% - 4.50%	4.50% - 4.75%	+0.25%	WEAKER
		Secondary Estates	5.00% - 5.25%	4.75% - 5.25%	4.75% - 5.50%	5.00% - 5.50%	5.25% - 5.75%	5.50% - 6.00%	+0.25%	WEAKER
	Specialist Sectors	Car Showrooms (20 years with fixed uplifts & dealer covenant)	5.50%	5.00%	5.00% +	5.00% - 5.25%	5.25%	5.50%	+0.25%	WEAKER
		Budget Hotels London (20 years, 5 yearly RPI / CPI uplifts)	3.50%	3.25%	3.25%	3.25%	3.25% - 3.50%	3.75% - 4.00%	+0.50%	WEAKER
		Budget Hotels Regional (20 years, 5 yearly RPI / CPI uplifts)	4.00%	3.75%	3.75%	3.75% - 4.00%	4.00%	4.25% - 4.50%	+0.50%	WEAKER
		Student Accommodation Prime London (Direct Let)	3.75%	3.75% -	3.50%	3.50%	3.50%	3.50% - 3.75%	+0.25%	WEAKER
		Student Accommodation Prime Regional (Direct Let)	5.25% -	5.00% -	4.75% - 5.00%	4.75% - 5.00%	4.75% - 5.00%	5.00% - 5.25%	+0.25%	WEAKER
		Student Accommodation Prime London (25 years, Annual RPI)	3.25%	3.00%	3.00%	3.00% - 3.25%	3.25%	3.50% - 3.75%	+0.50%	WEAKER
		Student Accommodation Prime Regional (25 years, Annual RPI)	3.50%	3.25%	3.25%	3.25% - 3.50%	3.50%	3.75% - 4.00%	+0.50%	WEAKER
		Healthcare (Elderly Care, 30 years, 5 yearly indexed linked reviews)	3.50%	3.25%	3.25%	3.25% - 3.50%	3.25% - 3.50%	3.75% - 4.00%	+0.50%	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% +	4.00% +		WEAKER
		Income Strip (50 years, Annual RPI/CPIH+1%, Annuity Grade)	2.25%	2.00%	2.25% - 2.50%	2.50%	2.50% +	3.50%	+1.00%	WEAKER

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	High Street Retail	Bond Street	2.75%	2.75%	2.75% +	2.75% +	2.75% +	2.75% +	WEAKER	
		Oxford Street	3.50% +	3.50%	3.50% +	3.50% +	3.50% +	4.00%	+0.50%	WEAKER
		Prime Towns (Oxford, Cambridge, Winchester)	6.50%	6.25%	6.25%	6.25%	6.25%	6.25% +	+	WEAKER
		Regional Cities (Manchester, Birmingham)	6.50% +	6.50%	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%	8.25% - 8.50%	8.50%	+0.25%	WEAKER
	Shopping Centres (sustainable income)	Regional Scheme	8.50%	7.50%	7.50%	7.50%	7.50%	7.50% - 7.75%	+0.25%	WEAKER
		Sub-Regional Scheme	9.00%	8.50%	8.50%	8.50%	8.50%	8.75%	+0.25%	WEAKER
		Local Scheme (successful)	10.00%	9.00%	9.00%	9.00% +	9.25%	9.50%	+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%	9.00% - 9.25%	9.25% - 9.50%	+0.25%	WEAKER
	Out of Town Retail	Open A1 (essential retailers)	6.00% -	4.75%	4.75%	4.75% - 5.00%	5.00%	5.25%	+0.25%	WEAKER
		Secondary Open A1 Parks	7.50% -	6.00%	6.00%	6.00% - 6.25%	6.25%	6.50%	+0.25%	WEAKER
		Bulky Goods Parks	6.00% -	4.75%	4.75%	4.75% - 5.00%	5.00%	5.25%	+0.25%	WEAKER
		Secondary Bulky Goods Parks	7.50% -	6.00%	6.00%	6.00% - 6.25%	6.25%	6.50%	+0.25%	WEAKER
		Solus Open A1 (15 year income)	5.25%	4.75% -	4.75%	4.75% +	5.00%	5.25%	+0.25%	WEAKER
		Solus Bulky (15 year income)	5.25%	4.75% -	4.75%	4.75% +	5.00%	5.25%	+0.25%	WEAKER
	Major Foodstores	Annual RPI Increases [NIY]	3.50%	3.25% - 3.50%	3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	+0.25%	WEAKER
		Open Market Reviews	4.25%	4.00%	4.00%	4.00% +	4.25% - 4.50%	4.75% - 5.00%	+0.50%	WEAKER
	Leisure	Prime Leisure Parks	7.00% +	7.00% +	7.00% +	7.00% +	7.00% +	7.00% +	WEAKER	
		Secondary Leisure Parks	8.00% +	8.00% +	8.00% +	8.00% +	8.00% +	8.25% +	+0.25%	WEAKER

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LEADING INDICATORS

Sterling reverses back to pre-'mini-budget' levels: Sterling has appreciated from a record low of \$1.03 last week, back to \$1.14, last seen two weeks ago. However, sterling is set to remain sensitive for now. The risk free rate has also seen improvement, with the UK 10-year gilt yield. The yield gap between the UK All Property yield and the 10-year gilt yield is currently 1.26%. However, in the run up to the GFC, the yield gap hit a low of -0.7%. UK 30-year gilts peaked at 5.08% last week and have since compressed following the Bank of England announcement about new quantitative easing over a two week period for 20+ year maturities. 5-year SONIA swap rates have also moderated since peaking at 5.4%.

Signs of elevated systemic stress across the Euro area & UK: The Russia/Ukraine crisis, damage to Nordstream 1 and 2 pipelines and market volatility in the UK following the UK's mini-budget announcement last week led to a regional increase in the ECB's new composite indicator of systemic stress (New CISS). The Euro area New CISS is currently the highest since March 2020 (0.61) and the UK's stress indicator reached the highest level since April 2009 (0.56), albeit markedly lower than the GFC peak of 0.93 and pandemic peak of 0.70. US levels remain relatively low at 0.26.

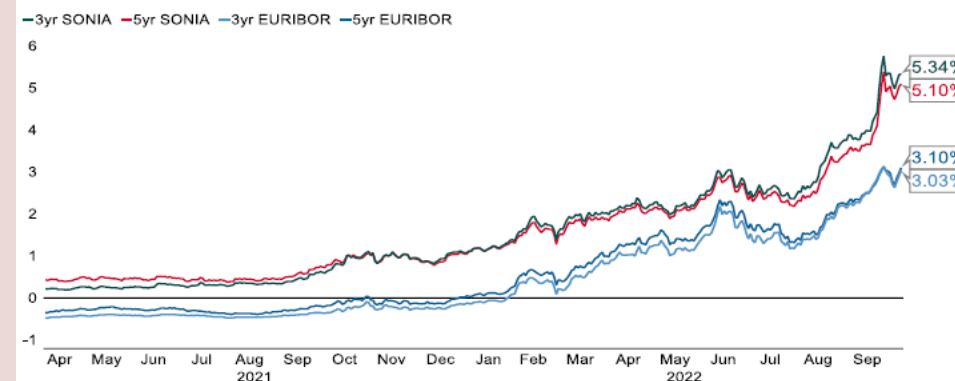
What is the outlook? The UK base rate is now forecast to average 5.0% in 2023, before moderating to 3.25% by Q4 2024, according to Capital Economics. Money market expectations for base rates for 2023 have come in over the week from an expectation of rates peaking at 6+% net year to below 5.5% currently.

DEBT MARKET – 7 OCTOBER 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 (05/10/2022)	OCT 2021	JUN 2022	SEP 2022	OCT 2022
SONIA Rate	0.125%	0.939%	1.691%	2.187%
Bank of England Base Rate	0.10%	1.00%	1.75%	2.25%
5-year swap rates	1.115%	2.627%	3.770%	5.079%
10-year gilts redemption yield	1.06%	2.13%	2.92%	4.01%

ESG: 6 lessons

Quantifying ESG in real estate:

Six lessons from the journey so far



Intelligence Lab



Michael Connolly considers how the budget announcement will impact business sentiment and if it could stimulate growth.

Liam Bailey considers the big implications of the mini-budget on potential parity for USD:GBP, SDLT, Mortgage rates and online retail.

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Knight Frank V&A

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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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