

Prime Yield Guide – May 2022

Knight Frank Intelligence

*This yield guide is for indicative purposes only
and was prepared on 09 May 2022.*



Based on rack rented properties and disregards bond type transactions

	SECTOR		MAY -21	DEC -21	MAR -22	MAY -22	CHANGE OVER 1 M	MARKET SENTIMENT
	Offices (Grade A)	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% - 5.00%		POSITIVE
		Major Regional Cities (Multi-let, 5 year WAULT)	5.75%	5.75% -	5.75% -	5.00% - 5.25%	-0.25%	POSITIVE
		South East Towns (Single let, 15 years)	5.25% +	5.25%	5.00% - 5.25%	5.00% - 5.25%		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
	Warehouse & Industrial Space	Prime Distribution/Warehousing (20 year income [NIY] with fixed/indexed uplifts)	3.25%	3.00%	3.00%	3.00%		POSITIVE
		Prime Distribution/Warehousing (15 year income, OMRRs)	4.00% -	3.50% - 3.75%	3.50%	3.50%		POSITIVE
		Secondary Distribution (10 year income, OMRRs)	4.50%	4.00% - 4.25%	4.00%	4.00%		POSITIVE
		South East Estate (excluding London & Heathrow)	4.00% -	3.25% - 3.50%	3.25% - 3.50%	3.25% - 3.50%		POSITIVE
		Good Modern Rest of UK Estate	4.25%	3.50% - 3.75%	3.50% - 3.75%	3.50% - 3.75%		POSITIVE
		Secondary Estates	5.75%	5.00% - 5.25%	4.75% - 5.25%	4.75% - 5.25%		POSITIVE
	Specialist Sectors	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% - 3.50%		POSITIVE
		Budget Hotels Regional (5 yearly Fixed / RPI uplifts 20 year+ term, strong covenant)	4.00%	4.00%	4.00%	4.00%		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% - 3.50%		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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	SECTOR		MAY -21	DEC -21	MAR -22	MAY -22	CHANGE OVER 1 M	MARKET SENTIMENT
	High Street Retail	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
	Shopping Centres (sustainable income)	Regional Scheme	8.50%	8.50%	7.50%	7.50%		POSITIVE
		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
	Out of Town Retail	Open A1 (essential retailers)	7.00%	5.50% - 5.75%	5.25% -	4.75% - 5.00%	-	POSITIVE
		Secondary Open A1 Parks	8.00%	7.00%	6.25% - 6.50%	6.00% - 6.25%		POSITIVE
		Bulky Goods Parks	6.75%	5.50% - 5.75%	5.25%	4.75% - 5.00%	-	POSITIVE
		Secondary Bulky Goods Parks	8.00%	7.00%	6.25% - 6.50%	6.00% - 6.25%		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
	Major Foodstores	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
	Leisure	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

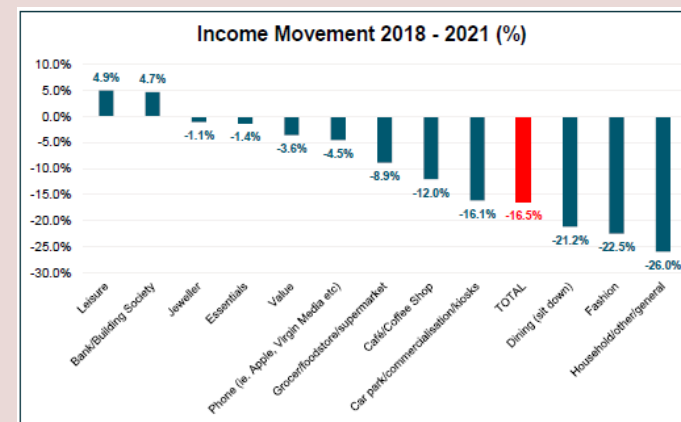
Volatile equities and bonds support the case for UK CRE. Commercial real estate currently offers an attractive alternative to riskier assets such as equities and even safe haven assets including government bonds. Over the month of April, the US Nasdaq composite contracted 13.3%, its worst monthly decline since the GFC, while UK and US 10-year government bond yields have softened to their highest level since 2015 and 2018, respectively. All UK property total return was 24% in the 12 months to March, while FTSE 250 total returns were just 0.5%.

Central banks hike rates... again. The Bank of England (BoE) increased its interest rate by 25bps to 1.0%, its highest level since February 2009 and the central bank's fourth successive rate hike since December. Meanwhile, the US Federal Reserve was more aggressive, increasing its base rate by 50bps to a range of 0.75% to 1.0%. Subsequently, sterling has depreciated to \$1.23, its lowest level in two years and ING forecast it could fall to \$1.20. This is positive for dollar denominated investors.

Dollar dominates. The US dollar index, which measures the currency against a basket of six others, has hit its highest level in over 20 years, up c.8% YTD. Currently, sterling is at \$1.23, down from \$1.37 in January, making UK assets significantly cheaper for US investors. We forecast that US investors will be the greatest source of cross border investment into UK CRE this year.

SECTOR SNAPSHOT – UK SHOPPING CENTRES

Shopping Centres – The Changing Face: A research report focussing on the Shopping Centre market. Drawing on a vast proprietary dataset, the report analyses changes that have occurred in composition and income streams over the last four years – with both predictable and surprising results.



BONDS & RATES (06/05/2022)	MAY 2021	DEC 2021	MAR 2022	MAY 2022
SONIA Rate	0.084%	0.045%	0.445%	0.941%
Bank of England Base Rate	0.10%	0.25%	0.50%	1.00%
5-year swap rates	0.733%	1.102%	1.797%	2.395%
10-year gilts redemption yield	0.99%	0.73%	1.34%	2.00%

ESG

[Nabers UK Building Certificates](#)



There is no correlation between a building's EPC rating and the amount of operational energy use.

Nabers UK is the latest office building certification; it comprises a Design for Performance process, leading to an Energy Rating (for new or existing).

NEW RESEARCH

UK Healthcare Capital Markets - 2022



[Download the full report](#)

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KEY RESEARCH



Standing tall:

What happened to London's Tall Building pipeline in 2021?

The tall building pipeline may have contracted slightly in 2021, but the volume of 20-storey-plus towers planned for the capital remains significant.

[CLICK TO READ \(est.4 MINS\)](#)

Knight Frank V&A

Did you know

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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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