




Prime Yield Guide – October 2023

Knight Frank Intelligence

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SECTOR		OCT-22	JUN-23	JUL-23	AUG-23	SEP-23	OCT-23	CHANGE	SENTIMENT
 Offices	City Prime (Single let, 10 years)	4.25%	5.00%	5.25%	5.25%	5.25% +	5.25% +		NEGATIVE
	West End: Prime Core (Mayfair & St James's)	3.50%	3.75%	4.00%	4.00%	4.00%	4.00%		STABLE
	West End: Non-core (Soho & Fitzrovia)	4.00% - 4.25%	4.50% - 4.75%	4.50% - 4.75%	4.50% - 4.75%	4.75%	4.75%		NEGATIVE
	Major Regional Cities (Single let, 15 years)	5.25% - 5.50%	5.75%	5.75% +	6.00% +	6.25%	6.25% - 6.50%	+	NEGATIVE
	Major Regional Cities (Multi-let, 5 year WAULT)	5.50% - 6.00%	6.50% - 7.00%	6.50% - 7.00%	7.00% +	7.25% +	7.50% +	+ 0.25%	NEGATIVE
	Good Secondary Regional Cities	7.25% - 7.50%	9.50% +	9.50% +	10.00% +	10.50% +	11.00% +	+ 0.50%	NEGATIVE
	South East Towns (Single let, 15 years)	5.50%	6.00% - 6.50%	6.00% - 6.50%	6.50% - 7.00%	7.00% +	7.25% +	+ 0.25%	NEGATIVE
	South East Towns (Multi-let, 5 year WAULT)	7.00% +	7.50%	7.50%	8.00% +	8.25% +	8.50% +	+ 0.25%	NEGATIVE
	Good Secondary South East Towns	7.75% - 8.00%	10.00% +	10.00% +	10.50% +	11.00% +	11.50% +	+ 0.50%	NEGATIVE
	South East Business Parks (Single let, 15 years)	5.75% - 6.00%	7.00%	7.00%	7.50% +	7.75% +	8.00% +	+ 0.25%	NEGATIVE
	South East Business Parks (Multi-let, 5 year WAULT)	7.25% - 7.50%	9.00%	9.00%	9.50% +	10.00% +	10.50% +	+ 0.25%	NEGATIVE
	Good Secondary South East Business Parks	8.00% - 8.25%	10.50% +	10.50% +	11.00% +	12.00% +	12.50% +	+ 0.50%	NEGATIVE
Life Sciences (Oxford, Cambridge)	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%		STABLE	
 Warehouse & Industrial	Prime Distribution / Warehousing (20 years [NIY], higher OMV/index)	3.75% +	4.75% -	4.75%	4.75%	4.75% +	4.75% +		NEGATIVE
	Prime Distribution / Warehousing (15 years, OMRRs)	4.25% +	5.25% -	5.25%	5.25%	5.25% +	5.25% +		NEGATIVE
	Secondary Distribution (10 years, OMRRs)	4.75% +	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%	5.75%	5.75%		NEGATIVE
	South East Estates (excluding London & Heathrow)	4.00% - 4.25%	5.00%	5.00%	5.00%	5.00%	5.00%		STABLE
	Good Modern Rest of UK Estates	4.50% - 4.75%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%		STABLE
	Good Secondary Estates	5.50% - 6.00%	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 indexed uplifts & dealer covenant)	5.50%	5.75%	5.75%	5.75%	5.75%	6.00%	+ 0.25%	NEGATIVE
	Budget Hotels London (20 years, 5 yearly indexed reviews)	3.75% - 4.00%	4.50%	4.50%	4.50%	4.50% +	4.50% - 4.75%	+	NEGATIVE
	Budget Hotels Regional (20 years, 5 yearly indexed reviews)	4.25% - 4.50%	5.00%	5.00%	5.00%	5.00%	5.00%		STABLE
	Student Accommodation Prime London (Direct Let)	3.50% - 3.75%	4.00%	4.00% +	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%		NEGATIVE
	Student Accommodation Prime Regional (Direct Let)	5.00% - 5.25%	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)	3.50% - 3.75%	4.00%	4.00%	4.00%	4.00% +	4.00% +		NEGATIVE
	Student Accommodation Prime Regional (25 years, Annual RPI)	3.75% - 4.00%	4.25%	4.25%	4.25%	4.25% - 4.50%	4.25% - 4.50%		NEGATIVE
	Healthcare (Elderly Care, 30 years, 5 yearly indexed reviews)	3.75% - 4.00%	4.00% - 4.25%	4.00% - 4.25%	4.25%	4.25% - 4.50%	4.25% - 4.50%		NEGATIVE
	Data Centres (Operational)	4.00%	4.50%	4.75%	4.75%	4.75%	4.75%		POSITIVE
	Data Centres (Leased, 15 years, Annual Indexation)	4.00% +	4.75%	5.00%	5.00%	4.75%	4.75%		POSITIVE
Income Strips (50 years, Annual RPI / CPIH+1% RRs, Annuity Grade)	3.50%	4.00%	4.00%	4.00%	4.00%	4.00%		STABLE	

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SECTOR		OCT-22	JUN-23	JUL-23	AUG-23	SEP-23	OCT-23	CHANGE	SENTIMENT	
	High Street Retail (institutional lot sizes)	Bond Street	2.75% +	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%	2.75% - 3.00%		STABLE	
		Oxford Street	4.00%	4.50%	4.50%	4.50%	4.50%		STABLE	
		Prime Towns (Oxford, Cambridge, Winchester)	6.25% +	6.75%	6.75%	6.75%	6.75%	6.75% +	+	NEGATIVE
		Regional Cities (Manchester, Birmingham)	6.50% +	7.00%	7.00%	7.00%	7.00%	7.00% +	+	NEGATIVE
		Good Secondary (Truro, Leamington Spa, Colchester etc)	8.50%	9.00% - 9.25%	9.00% - 9.25%	9.25%	9.50%	9.50% +	+	NEGATIVE
	Shopping Centres (sustainable income)	Regional Scheme	7.50% - 7.75%	8.00% +	8.00% +	8.00% +	8.00% +	8.00% +		NEGATIVE
		Sub-Regional Scheme	8.75%	9.00% +	9.00% +	9.00% +	9.00% +	9.50%	+ 0.50%	NEGATIVE
		Local Scheme (successful)	9.50%	9.75% +	9.75% +	10.00%	10.00% +	10.50%	+ 0.50%	NEGATIVE
		Neighbourhood Scheme (assumes <25% of income from supermarket)	9.25% - 9.50%	9.50% - 9.75%	9.50% - 9.75%	9.75% - 10.00%	9.75% - 10.00%	9.75% - 10.00%		NEGATIVE
	Out of Town Retail	Open A1 Parks	5.25%	5.75% -	5.75% +	5.75% - 6.00%	6.00%	6.00%		STABLE
		Good Secondary Open A1 Parks	6.50%	7.50%	7.50%	7.50% - 7.75%	7.75%	7.75%		STABLE
		Bulky Goods Parks	5.25%	5.75% -	5.75% +	5.75% - 6.00%	6.00%	6.00%		STABLE
		Good Secondary Bulky Goods Parks	6.50%	7.50%	7.50%	7.50% - 7.75%	7.75%	7.75%		STABLE
		Solus Open A1 (15 year income)	5.25%	5.75%	5.75% +	5.75% +	5.75% - 6.00%	5.75% - 6.00%		STABLE
		Solus Bulky (15 year income)	5.25%	5.75%	5.75% +	5.75% +	5.75% - 6.00%	5.75% - 6.00%		STABLE
	Foodstores	Annual RPI Increases [NIY] (20 year income)	4.00% - 4.25%	5.00%	5.00%	5.00%	5.00%	5.00%		STABLE
		Open Market Reviews (20 year lease, 5 yearly reviews)	4.75% - 5.00%	5.50%	5.75%	5.75%	5.75% +	5.75% - 6.00%		NEGATIVE
		Discounters (20 years, 5 yearly indexation)	3.75% - 4.00%	4.75%	4.75%	4.75%	4.75%	4.75%		STABLE
	Leisure	Prime Leisure Parks	7.00% +	7.50% +	7.50% +	7.50% +	7.50% +	7.50% +		NEGATIVE
		Good Secondary Leisure Parks	8.25% +	9.00% +	9.00% +	9.25%	9.50%	9.75%	+ 0.25%	NEGATIVE

Based on rack rented properties and disregards bond type transactions

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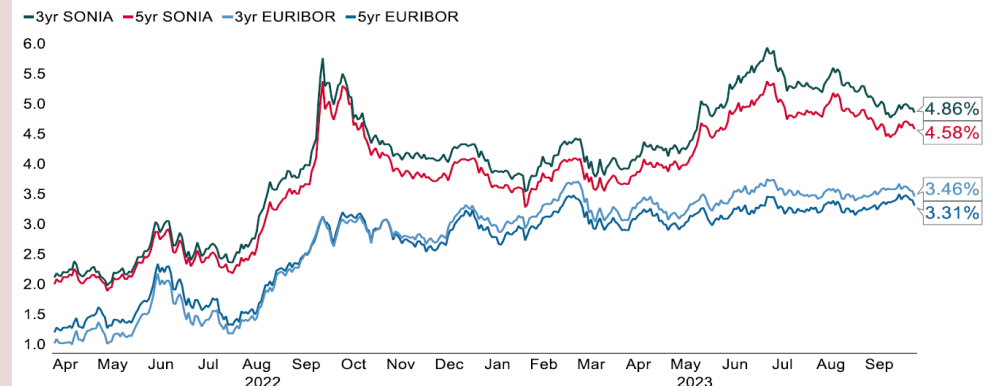
LEADING INDICATORS

Global Bond Sell Off. Fuelled by expectations that interest rates will remain higher for longer, particularly in the US, there has been a global sell off in government bonds. US and UK 30-year government bond yields hit 5+% last week for the first time since 2007 and 1998, respectively. Long dated German bund yields reached levels last seen in the run up to the 2011 eurozone debt crisis, while Italy's 10-year bonds hit 5% last week, the highest level since 2012, when the crisis was underway. However, for the UK, the speed of the rise in long dated gilts (+44bps over 10 days) is slower than during the run up to the liability-driven investment (LDI) crisis following last year's 'mini-budget' (+155bps over seven days). While another LDI crisis is unlikely, the cost of debt in the UK has risen in response to the bond sell off. The 5-year SONIA swap rate is currently 4.56%, which compares to the recent four month low of 4.44% at the end of September. Elevated financing costs could provide opportunities for investors less reliant on debt.

Opportunities remain, despite headwinds. Given higher interest rates and the elevated cost of debt, we have seen a global moderation in CRE investment in 2023. However, with a thinner pool of capital, comes opportunity. Our [latest Active Capital research](#) suggests that high-net-worth investors and Sovereign Wealth Funds, typically less reliant on leverage, are using this pause to acquire 'once in a generation' safe haven, trophy assets with less competition. Investors in countries with relative currency strength, such as North America and Singapore, will likely continue to be active internationally.

DEBT MARKET – 09 October 2023

SONIA/EURIBOR Swap Rates (3/5 Year)



Source: Macrobond, ICAP

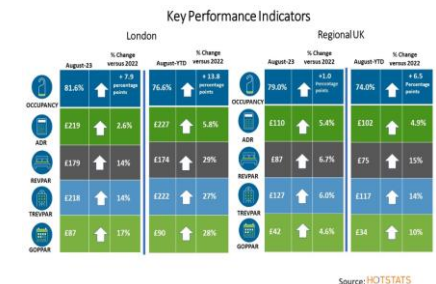
BONDS & RATES (05/10/2023)	OCT 2022	JUN 2023	SEP 2023	OCT 2023
SONIA Rate	2.187%	4.428%	5.185%	5.187%
Bank of England Base Rate	2.25%	5.00%	5.25%	5.25%
5-year swap rates	5.079%	4.779%	5.032%	4.869%
10-year gilts redemption yield	4.01%	4.21%	4.42%	4.57%

ESG



Head of ESG Research, [Flora Harley](#), presents key findings from our: Q3 2023 ESG Property Investor Survey

Intelligence Lab



Seasonality patterns return, but with continued strong recovery for the UK hotel market.

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KEY RESEARCH



ESG Property Investor Survey – Q3 2023

Knight Frank's unique research survey providing valuable insight into how ESG trends are shaping property investment decisions.

Knight Frank V&A

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- Serviced Offices
- Data Centres
- 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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