

Leading Indicators

Key economic and financial metrics, updated weekly

3rd October 2023

HS2: the government grapples with plans for northern connectivity

£1bn

Total net lending to UK CRE, August 2023

6,582

Patent applications were filed in the Cambridge cluster per one million inhabitants over the past five years

67%

Likelihood of a Labour government following the next general election, according to latest betting odds

LENDING TO CRE REMAINS POSITIVE

Net lending to commercial real estate was positive for the sixth consecutive month in August, rising by c.£1bn. This was its largest increase since April. Net lending to standing property totalled £944m in August, its strongest level in five months, while net lending to developments was positive for the first time since April in August, at £105m.

Non-bank lenders, not captured in the Bank of England data, remain a growing section of the market. In 2012, non-bank lenders accounted for 15% of UK CRE loan originations. By 2022, this had more than doubled. Non-bank lenders remain well capitalised and active in the market, although typically seeking higher margins.

In the wake of the Bank of England's recent base rate decision, underlying costs are starting to moderate. The 5-year SONIA swap rate is currently 4.61%, down -15bps m-m and -25bps lower than at the end of August. On balance, the outlook for all in debt costs reducing is more positive.

CAMBRIDGE TOP FOR INNOVATION

The UK continues to punch above its weight on the technology and innovation stage. Cambridge has retained its position as the most intensive science and technological cluster in the world, according to the 2023 Global Innovation Index (GII). Oxford placed third. The GII found that per one million inhabitants in the Cambridge cluster, 6,582 patent applications were filed, and over 37k scientific articles were published in the past five years.

UK CRE continues to benefit from innovation in Cambridge. Cambridge saw 86k sq ft of life sciences take-up in Q2 2023, which was six times greater than in Q2 2022. These levels could be much higher, were it not for a significant undersupply of space.

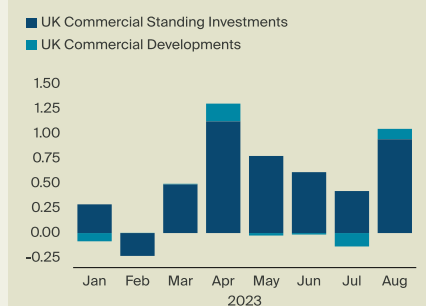
Other sectors are also spurring innovation. There are 2,276 gaming companies in the UK according to our [2023 UK Gaming Report](#), which is up 31% since 2016. In 2022, UK gaming sector take-up reached c.437k sq ft, up 45% on 2021, and in H1 2023, take-up totalled c.98k sq ft.

THE END OF THE LINE?

One issue causing greater challenge for the UK is that of infrastructure, and how to fund it. Already a focus for the Conservative and Labour political party conferences this week and next, concerns over the future of HS2 have brought the topic into sharp relief. Alternative transport projects that would better link northern cities have been mooted as a replacement. Cities such as Manchester, Sheffield and Leeds would receive additional economic benefits from greater connectivity, which all else equal, would support real estate activity. The more fundamental question of how to provide necessary infrastructure in a time of fiscal tightening remains unanswered.

Net lending to UK CRE totalled £1bn in August 2023

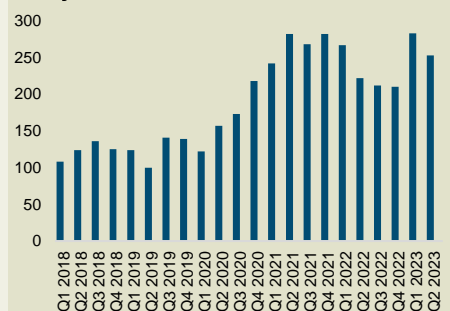
Net lending to UK CRE, £ bn



Source: Knight Frank Research, Macrobond, Bank of England

UK Life science company incorporations remain robust

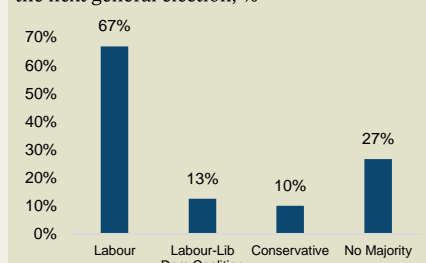
Number of UK life sciences company incorporations



Source: Knight Frank Research, Sflame. Data includes active companies only. BVD sector: Biotech and life sciences.

Labour majority following the next general election remains most likely outcome

Latest betting odds on the government following the next general election, %



Source: Knight Frank Research, Oddschecker.com

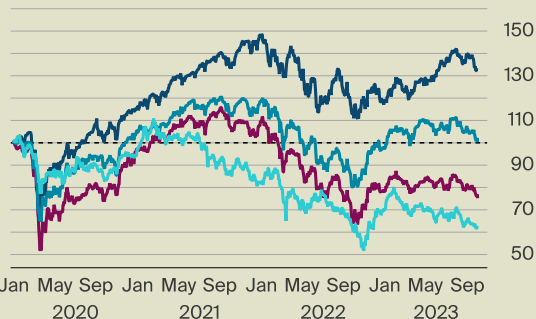
Sources: Bayes Business School, Bloomberg, Capital Economics, Financial Times, Macrobond, Oxford Economics, Reuters, Knight Frank

Equities

Equity markets

Price return index, Jan 2020 = 100, US\$

— FTSE 250 — S&P 500 — STOXX 600 — Hang Seng



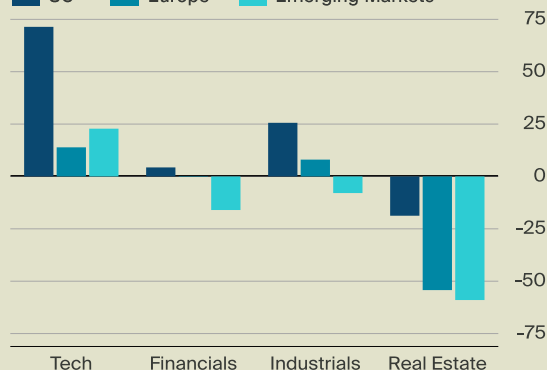
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	6,336	-1.1	-3.6	-7.4	-4.3
FTSE 250	21,796	-1.3	-4.3	-7.5	-24.8
Hang Seng	2,275	1.0	0.8	-1.6	-37.1
IBEX 35	9,786	-1.7	-3.5	-5.1	-8.7
MIB	29,245	-1.7	-4.1	-6.5	11.1
S&P 500	4,288	-0.3	-0.7	-4.9	32.7
STOXX 600	468	-1.3	-3.3	-5.9	0.3
TOPIX	15	-2.4	-5.2	-5.2	-3.8

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



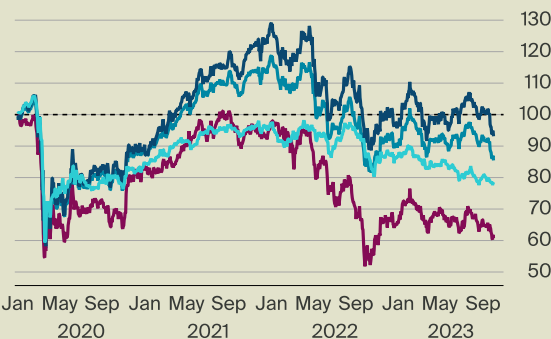
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	71.4%	13.9%	22.8%
Financials	4.3%	-0.2%	-16.0%
Industrials	25.6%	8.0%	-7.9%
Real Estate	-18.7%	-54.2%	-59.0%

REITs by region

EPRA/NAREIT total return index, Jan 2020 = 100, US\$

— World — Europe — US — Asia Pacific



Source: Knight Frank, Macrobond

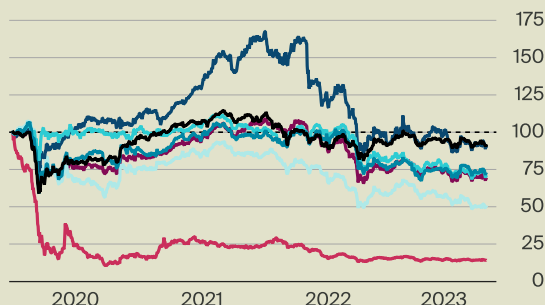
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,226	-1.7	-3.2	-8.5	-6.9
Europe	1,735	0.9	-4.7	-8.6	-39.1
World	2,745	-1.2	-3.3	-8.1	-14.6
Asia Pacific	3,061	0.5	-0.6	-3.0	-22.0

UK REITs by sector

UK EPRA gross total return index, Jan 2020 = 100, GBP£

— All REITs — Office — Industrial — Retail — Healthcare

— Residential — FTSE 250



Source: Knight Frank, Macrobond

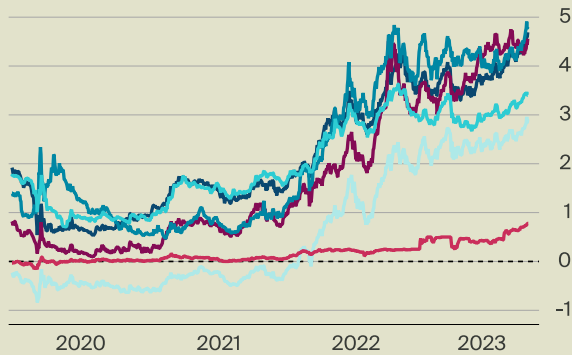
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	697	1.0	-4.4	-4.1	-31.8
Office	1,468	1.0	-4.4	-2.3	-50.5
Industrial	1,110	1.0	-4.6	-3.7	-10.5
Retail	51	2.0	-2.7	-1.6	-85.9
Healthcare	1,586	0.8	-5.6	-4.2	-30.0
Residential	1,094	0.4	-4.4	-3.3	-28.3
FTSE 250	15,368	-0.7	-3.3	-3.1	-9.8

Bonds & Rates

Government bond yields

10 year government bond yields, %

— US — UK — Germany — Italy — Japan — Singapore



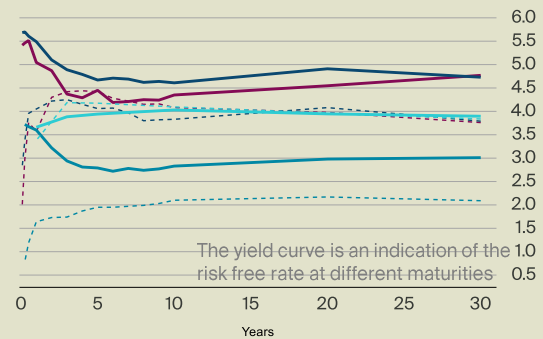
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.80	4.80	4.72	4.22	1.40
Japan	0.78	0.78	0.72	0.64	-0.03
Singapore	3.40	3.40	3.45	3.14	1.74
UK	4.56	4.56	4.33	4.43	0.82
US	4.69	4.69	4.56	4.18	1.92

Yield curves

Latest nominal yield curves vs one year ago, %

Today — US — UK — Germany — S. Korea One year ago ...US ...UK ...Germany ...S. Korea

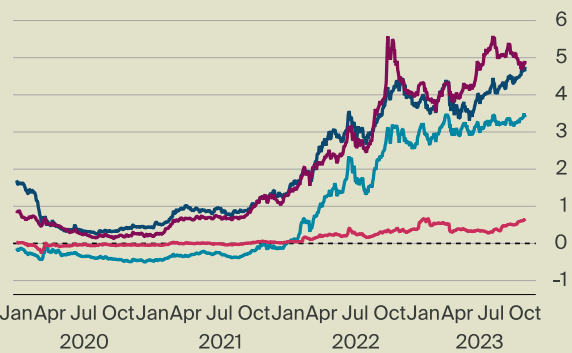


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



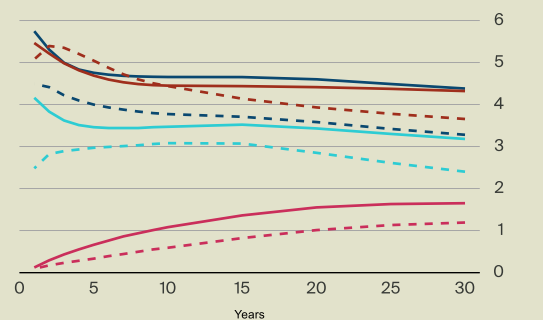
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.46	3.41	3.38	3.20	-0.13
Japan	0.66	0.64	0.61	0.50	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.91	4.83	4.72	5.03	0.88
US	4.76	4.63	4.65	4.36	1.70

Swap curves

Latest swap curves vs one year ago, %

Today — US — UK — Euro Area — Japan One year ago ...US ...UK ...Euro Area ...Japan



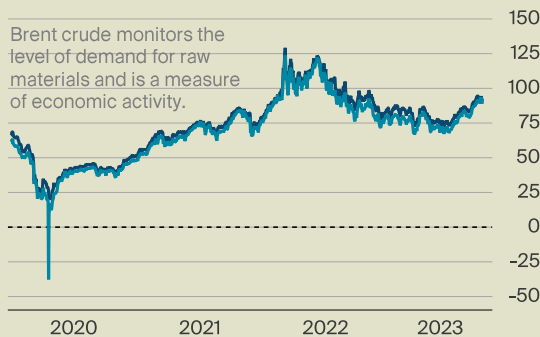
Source: Knight Frank, Macrobond

Commodities & Volatility

Energy

Oil spot prices, \$ per barrel

— Brent Crude — West Texas Intermediate (WTI)



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, \$ per barrel	90.5	92.1	91.9	88.9	66.0
WTI, \$ per barrel	88.8	90.8	89.7	85.9	61.1

Baltic dry index

Baltic Exchange, Shipping Dry index (BDI), US\$

— Baltic dry index



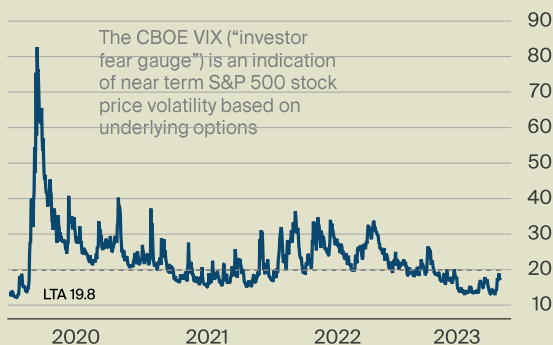
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1737	1.22	7.62	63.1	59.4

Volatility index

Near term stock price volatility indicator

— CBOE Volatility Index (VIX) --- Long term average



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	17.6	17.6	18.9	13.1	13.8
Euro Stoxx 50 VIX	18.9	18.9	19.8	15.9	14.0
Nikkei VIX	20.3	18.9	18.2	16.9	14.8
KOSPI VIX	15.1	n/a	14.7	12.5	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



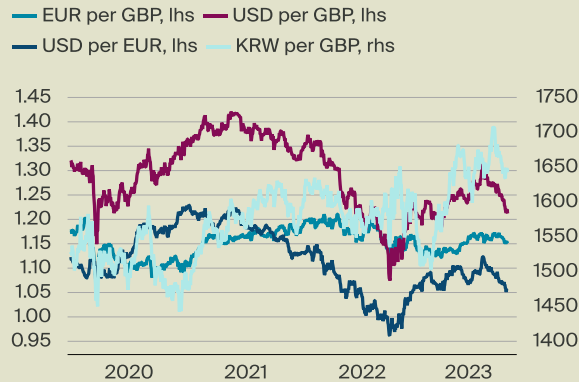
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.185	0.175	0.167	0.023
Equity markets stress sub index	0.081	0.077	0.053	0.009
Bond markets stress sub index	0.083	0.069	0.078	0.02
FX markets stress sub index	0.027	0.018	0.028	0.004

Currencies & Monetary Policy

Currencies

Spot prices

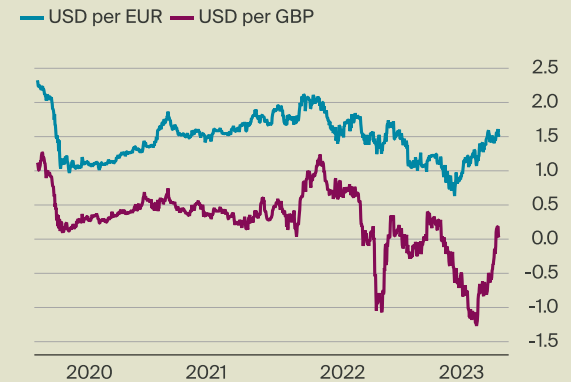


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.155	1.153	1.153	1.168	1.177
KOR per GBP	1,647	1,643	1,634	1,665	1,525
USD per GBP	1.212	1.221	1.220	1.262	1.321
USD per EUR	1.058	1.058	1.059	1.079	1.123

Hedging benefits

Hedging benefit p.a. on a 5 year forward



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
USD to EUR	1.53	1.50	1.53	1.47	2.32
USD to GBP	0.02	0.04	0.16	-0.60	1.12

Inflation and monetary policy

Inflation rate (%)

	Aug	July	June	May
Australia	n/a	n/a	n/a	6.1
Canada	n/a	4.0	3.3	2.8
China	n/a	0.2	-0.2	0.1
Euro Area	4.3	5.2	5.3	5.5
France	4.9	4.9	4.3	4.5
Germany	4.5	6.1	6.1	6.4
India	n/a	6.8	7.4	4.9
Italy	5.3	5.4	5.9	6.4
Japan	n/a	3.2	3.3	3.3
Saudi Arabia	n/a	2.0	2.3	2.7
South Korea	n/a	3.4	2.3	2.7
Spain	n/a	2.6	2.3	1.9
Sweden	n/a	7.5	9.3	9.3
UK	n/a	6.7	6.8	7.9
US	n/a	3.7	3.3	3.1

Interest rates (%)

	Last	Jan '23
	4.10	3.10
	5.00	4.25
	4.35	4.35
	4.50	2.50
	4.50	2.50
	4.50	2.50
	6.50	6.25
	4.50	2.50
	-0.10	-0.10
	6.00	5.00
	3.50	3.25
	4.50	2.50
	4.00	2.50
	5.25	3.50
	5.50	4.50

Asset purchasing

	Latest (\$)	1m change (%)
	0.347 tn	-6.7
	257 bn	-2.5
	5.72 tn	2.1
	763 tn	-0.2
	1.81 tn	0.2
	2.7 tn	-1.2
	379 bn	1.3
	1.41 tn	-0.6
	5 tn	-1.0
	470 bn	-1.3
	424 bn	-5.6
	487 bn	0.4
	123 bn	-2.1
	1.31 tn	-0.5
	8 tn	-1.5

1. Australia Inflation rate is only available on a quarterly basis.

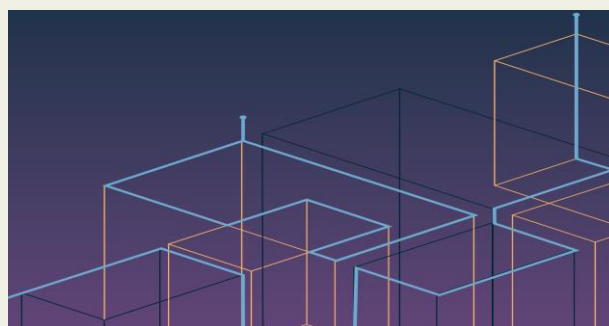
Source: Knight Frank, Macrobond



Is the Logistics sector delivering on ESG?

The real estate sector is currently experiencing an ESG wake-up call. Recognising its contribution of around a third of total energy consumption and just shy of 40% of CO2 emissions, governments are introducing ESG-focused legislation and strategies to ensure corporations and the real estate sector take action.

[View Report](#)



Healthcare Development Opportunities 2023

The continued interest in UK healthcare markets is based on strong fundamental drivers such as demographic shifts, secure income and consistency regarding performance – so understanding current and future supply levels is becoming increasingly important.

[View Report](#)

Recent research



Life Sciences & Innovation Insight – Q2 2023

Record company incorporations, highest ever quarterly life sciences real estate investment and UK Government proposes road to “science superpower”.



UK CRE Quarterly Review – August 23

The latest CRE Review analyses the Q2 2023 occupier and investment performance of the UK commercial real estate sectors.

We like questions, if you've got one about our research, or would like some property advice, we would like to hear from you



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