

Leading Indicators

Key economic and financial metrics, updated weekly

5th September 2023

Are investors positioning for upcoming refinancing events?

£297m

Net lending to UK CRE in July 2023, according to the Bank of England

67%

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

\$4.4tn

Generative AI could add up to \$4.4tn of economic value annually, according to McKinsey

NET LENDING TO UK CRE RISES

Net lending to UK commercial real estate totalled £297m in July, the fifth consecutive month in which it was positive. The total was tempered by net lending to developments, which fell to a seven-month low of £-135m in July. Therefore, net lending to UK CRE was supported by lending to standing property, totalling £432m in July.

We expect refinancing to be a key feature of the market over the coming months. In 2018, c.£50bn of CRE debt was originated in the UK. Assuming a five-year loan term, much of this debt will be starting to approach maturity.

Separately, Q2 2023 saw the lowest number of UK CRE standing property transactions in over 10 years, with the number of transactions -37% below the 10-year Q2 long term average. This suggests that firms are borrowing for reasons other than purchasing, including to prepare for upcoming refinancing events.

FROM TAIWAN TO TAMWORTH: POLITICS HEATING UP

Political tensions are on the rise. Over the last week alone, we've seen a coup in Gabon, a rise in military tensions surrounding Taiwan, and Ukraine increasing its drone presence in Russia. Meanwhile, in the US and UK, the run-up to the 2024 elections is underway. In the UK, yesterday saw a Labour Shadow Cabinet reshuffle; meanwhile, the Conservative party could be facing two by-elections this autumn for the Mid-Bedfordshire and Tamworth seats. Betting odds currently suggest a 67% likelihood of a Labour majority following the general election next year, down from 69% in July. Meanwhile, the probability of a no majority outcome increased from 8% in July to 27% currently.

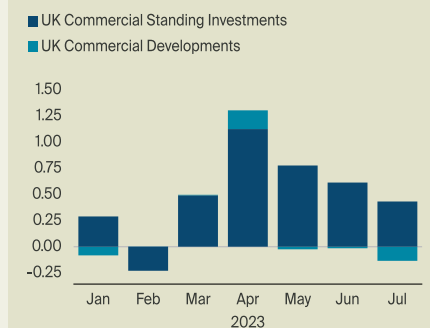
If Labour were to form a government, the impact on UK CRE might be relatively positive, at least based on previous performance. Between 1997 and 2010, UK CRE achieved inflation-adjusted returns of +6.7% p.a. under the two Labour governments. The 2010 – 2015 coalition government was the only period where UK CRE outperformed this (+8.6% p.a.). However, the context of a post-GFC economic upswing cannot be ignored.

HOW GENERATIVE AI WILL SUPPORT ESG IN REAL ESTATE

Flora Harley, Head of ESG Research, [argues](#) that Generative AI could play a particularly pertinent role in supporting real estate's ESG ambitions. For example, by attaching a device to the building management system, AI can analyse occupancy, energy consumption, waste and water usage data to provide insight. This could optimise energy consumption by identifying inefficiencies and suggesting energy-saving measures to reduce costs, waste and emissions.

Net lending to UK CRE remains positive in July

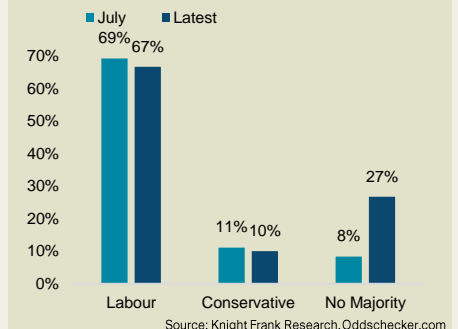
Net lending to UK CRE, £ bn



Source: Knight Frank Research, Bank of England

Labour majority is the most likely outcome, but possibility of no overall majority rises

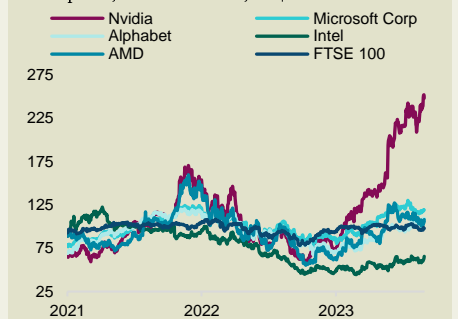
Betting odds on the government following the next general election, %



Source: Knight Frank Research, Oddschecker.com

AI stocks outperforming wider tech companies

Close price, Jan 2021 = 100, US\$



Source: Knight Frank Research, Macrobond

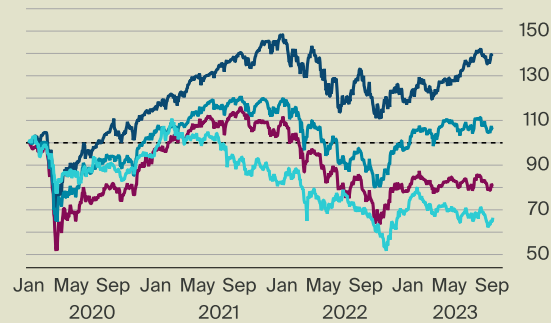
Sources: Bloomberg, Capital Economics, FinancialTimes, Macrobond, Oxford Economics, Reuters, Knight Frank

Equities

Equity markets

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

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



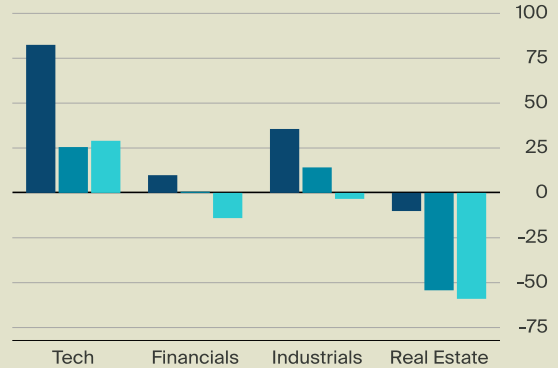
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	6,755	-1.3	1.2	-1.8	2.1
FTSE 250	23,374	-0.8	2.5	-2.3	-19.3
Hang Seng	2,405	2.6	5.1	-3.3	-33.5
IBEX 35	10,158	-1.5	0.8	-0.2	-5.2
MIB	30,903	-1.2	1.5	-1.6	17.4
S&P 500	4,516	0.0	3.2	-1.6	39.8
STOXX 600	494	-0.6	1.4	-1.4	5.9
TOPIX	16	1.0	3.5	1.9	2.8

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



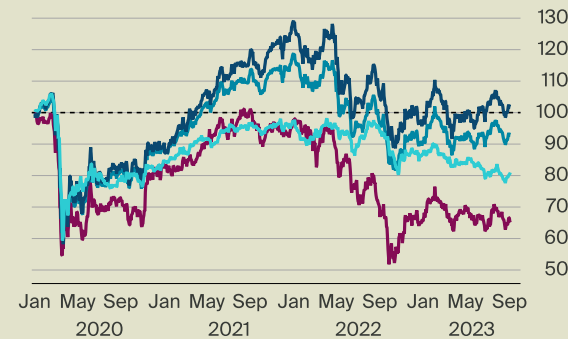
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	82.5%	25.5%	29.0%
Financials	9.9%	0.7%	-14.0%
Industrials	35.6%	14.2%	-3.3%
Real Estate	-10.1%	-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

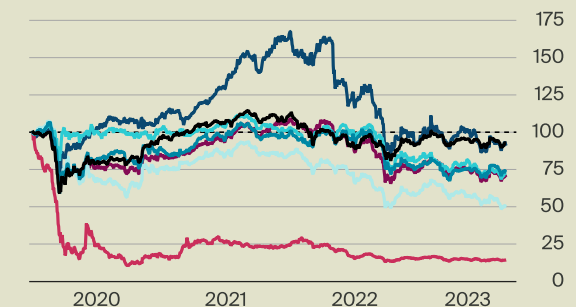
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,434	0.0	1.7	-1.4	1.8
Europe	1,856	-2.2	1.3	-3.1	-34.9
World	2,981	-0.1	1.7	-1.5	-7.2
Asia Pacific	3,179	0.7	2.0	-0.1	-19.0

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

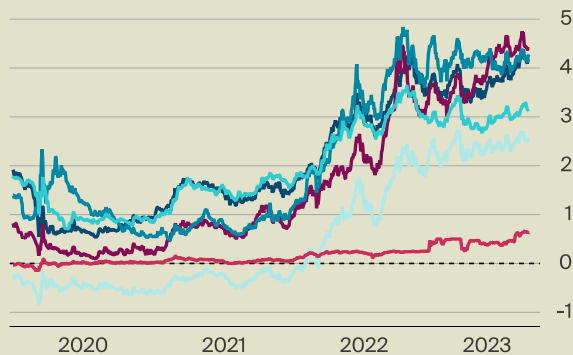
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	713	-2.0	0.4	-3.9	-30.3
Office	1,477	-1.7	0.4	-9.6	-50.2
Industrial	1,127	-2.3	-0.2	-1.8	-9.1
Retail	51	-0.1	1.3	-2.1	-85.7
Healthcare	1,645	-0.7	2.7	-2.2	-27.5
Residential	1,115	-1.5	0.2	-5.4	-27.0
FTSE 250	15,792	-0.4	2.2	-1.3	-7.3

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



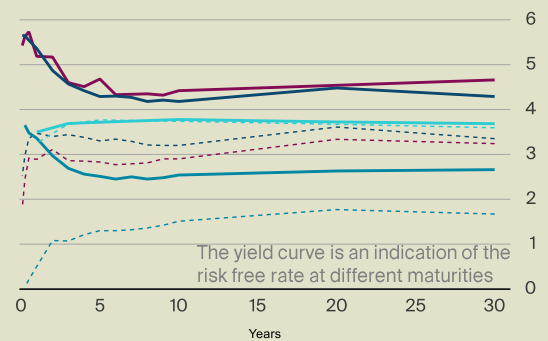
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.28	4.28	4.16	4.21	1.40
Japan	0.63	0.62	0.65	0.64	-0.03
Singapore	3.16	3.16	3.23	3.09	1.74
UK	4.43	n/a	4.42	4.38	0.82
US	4.18	n/a	4.12	4.05	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

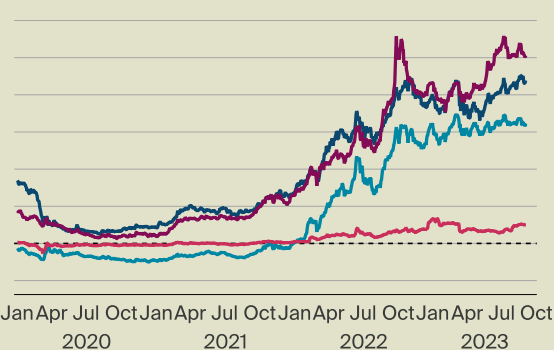


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



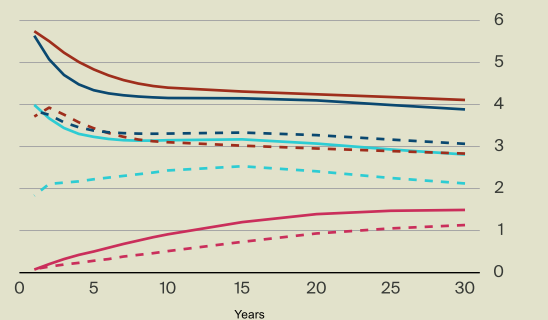
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.23	3.20	3.26	3.25	-0.13
Japan	0.50	0.50	0.51	0.48	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	5.06	5.03	5.14	5.04	0.88
US	4.34	4.36	4.48	4.25	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



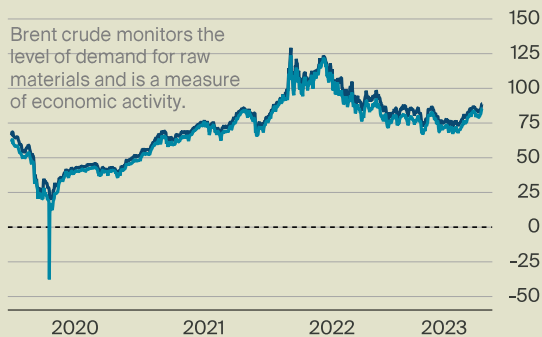
Source: Knight Frank, Macrobond

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	89.0	88.9	83.8	86.0	66.0
WTI, \$ per barrel	85.8	85.6	80.1	82.8	61.1

Baltic dry index

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

— Baltic dry index



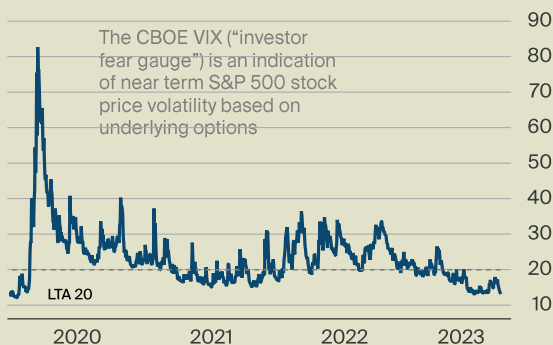
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1083	-0.276	0.278	-4.67	-0.642

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

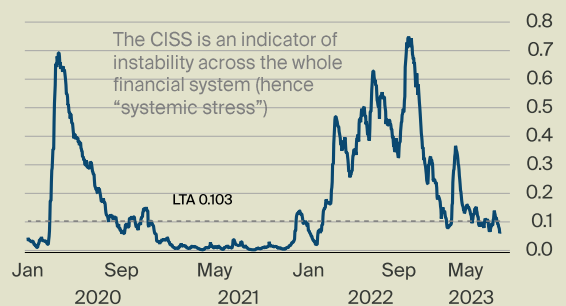
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	13.1	n/a	14.5	17.1	13.8
Euro Stoxx 50 VIX	16.7	16.7	16.8	18.4	14.0
Nikkei VIX	17.6	17.1	18.0	20.9	14.8
KOSPI VIX	12.4	12.5	13.5	15.6	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



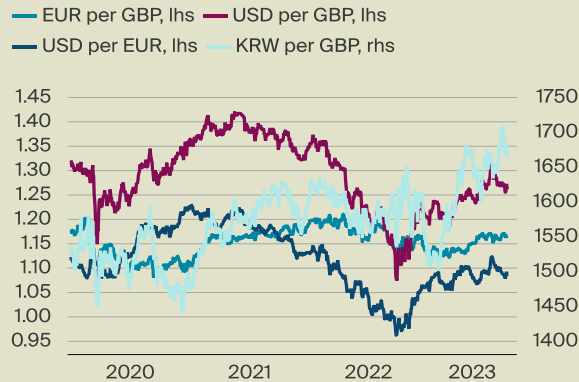
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.148	0.167	0.165	0.023
Equity markets stress sub index	0.064	0.053	0.065	0.009
Bond markets stress sub index	0.076	0.078	0.071	0.02
FX markets stress sub index	0.039	0.028	0.052	0.004

Currencies & Monetary Policy

Currencies

Spot prices

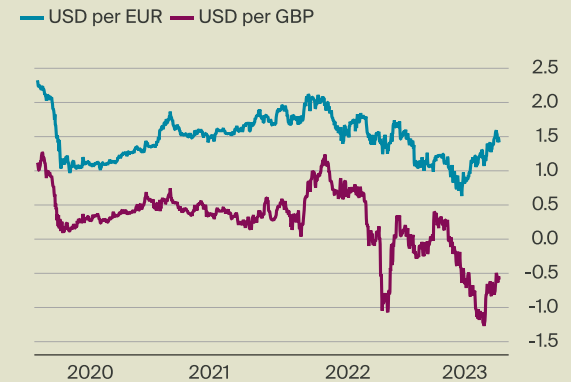


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.168	1.168	1.165	1.162	1.177
KOR per GBP	1.665	1.678	1.669	1.646	1,525
USD per GBP	1.262	1.267	1.255	1.276	1.321
USD per EUR	1.084	1.084	1.079	1.097	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	1.42	1.46	1.53	1.33	2.32
USD to GBP	-0.59	-0.54	-0.54	-0.71	1.12

Inflation and monetary policy

Inflation rate (%)

	Aug	July	June	May
Australia	n/a	n/a	6.1	6.1
Canada	n/a	3.3	2.8	3.4
China	n/a	-0.2	0.1	0.3
Euro Area	5.3	5.3	5.5	6.1
France	4.8	4.3	4.5	5.1
Germany	6.1	6.1	6.4	6.0
India	n/a	7.4	4.9	4.3
Italy	5.5	5.9	6.4	7.6
Japan	n/a	3.3	3.3	3.2
Saudi Arabia	n/a	2.3	2.7	2.8
South Korea	3.4	2.3	2.7	3.3
Spain	n/a	2.3	1.9	3.2
Sweden	n/a	9.3	9.3	9.7
UK	n/a	6.8	7.9	8.7
US	n/a	3.3	3.1	4.1

Interest rates (%)

	Last	Jan '21
	4.10	0.10
	5.00	0.25
	4.35	4.35
	4.25	0.00
	4.25	0.00
	4.25	0.00
	6.50	4.00
	4.25	0.00
	-0.10	-0.10
	6.00	1.00
	3.50	0.50
	4.25	0.00
	3.75	0.00
	5.25	0.10
	5.50	0.25

Asset purchasing

	Latest (\$)	1m change (%)
	0.37 tn	-2.0
	271 bn	0.1
	5.71 tn	-2.4
	7.76 tn	-0.5
	1.84 tn	-0.6
	2.75 tn	0.0
	378 bn	5.5
	1.44 tn	-0.2
	5.14 tn	0.9
	476 bn	-2.5
	437 bn	5.0
	487 bn	-0.8
	128 bn	0.0
	1.36 tn	-0.5
	8.12 tn	-1.2

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

Source: Knight Frank, Macrobond



Active Capital 2022/2023

Our 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.

[Watch the launch](#)



(Y)OURSACE 2023

Knight Frank | Cresa's research indicates that corporate real estate leaders are increasingly challenged by managing complexity across their business, with real estate playing a critical strategic role in supporting business transformation. (Y)OUR SPACE investigates how the future of the workplace is likely to unfold over the next three years.

[View Report](#)

Recent research



Quantifying ESG in real estate

This report covers a selection of our recent analytical projects, as well as practical applications and considerations for clients. It offers clear messages that we hope will inform decision-makers as they make decisions against a rapidly evolving backdrop. We also hope the ideas will spark debate and unlock new areas of investigation.



Retail Property Market Outlook 2023

The 2023 Retail market outlook discusses predictions for the Retail market, providing in-depth commentary on retail sub-sectors and occupier activity amidst economic distress.

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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