Leading Indicators

Key economic and financial metrics, updated weekly

6 June 2023

Knight Frank

knightfrank.com/research

CRE lenders remain active as return forecasts improve

£1.2bn

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

+6.1%

IPF annual UK All Property total return forecast between 2023 – 2027

+5.47%

UK All Property annual inflation adjusted return between April 2013 – April 2023

UK CRE LENDERS REMAIN ACTIVE

In contrast to the well-documented and defensive approach in the US, lenders remain active in the UK. In April, net lending to UK CRE (including developments) hit £1.2bn, up +137% m-m and its highest level since December 2021, according to the Bank of England. This aligns with the UK Q1 2023 RICS commercial survey, which reported the first improvement in investment enquiries in a year. As detailed in my latest [Commercial World](#) note, the global context provides some reasons to expect CRE investment activity may improve further. Over the next 18 – 24 months, we could see more activity in the market due to increased refinancings. Banks will be reassessing their risk exposure, while pressures on LTV and ICR covenants will likely persist due to the higher cost of debt. Capital will be waiting in the wings to position through debt funds and fill some of the looming funding gap. Furthermore, liquidity for prime, safe-haven investments will come from purchasers less dependent on leverage, including high net-worth individuals and sovereign wealth funds.

UK CRE OUTLOOK UPGRADED

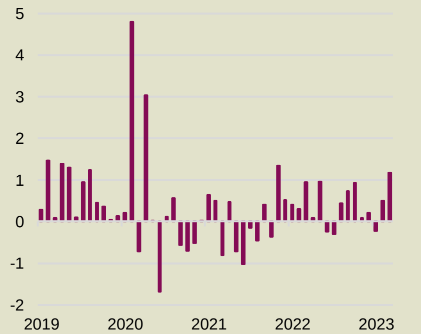
The latest IPF Consensus Survey has revealed an increasingly positive outlook for total returns in 2023. This was driven by improved rental and capital value growth projections, supported by a stronger-than-anticipated start to the year for returns. The All UK Property total return projection for 2023 improved by +220bps to 1.5% in May from -0.6% last forecast in February. Total return forecasts have been upgraded across all sectors this year except for Offices. Retail Warehouses are expected to be the best-performing sector, with a projected total return of 4.4%. Similarly, the consensus now expects a rise in All Property rents of 1.6% in 2023, up from 0.6% in February. Between 2023-2027, Retail Warehouses (7.4% p.a.), Industrial (7.0% p.a.), and Shopping Centres (6.6% p.a.) are expected to outperform All Property total return (6.1% p.a.).

IS VOLATILITY HERE TO STAY?

Since 2020, the VIX 'investor fear gauge' has been above its long-term average 68% of the time, indicating a prolonged and elevated level of volatility. This is unlikely to change soon. Central banks continue to trade off between avoiding a recession and persistently high inflation, a historic driver of macroeconomic uncertainty. In periods of high volatility and uncertainty, investors tend to rotate out of riskier equities. Here the case for direct real estate remains. When adjusted for inflation, UK All Property total return (+5.47% p.a.) over the last 10 years outperformed that of equities (+3.95% p.a.), REITs (+2.52% p.a.) and government bond yields (+0.82% p.a.).

UK CRE lending hits a 16-month high

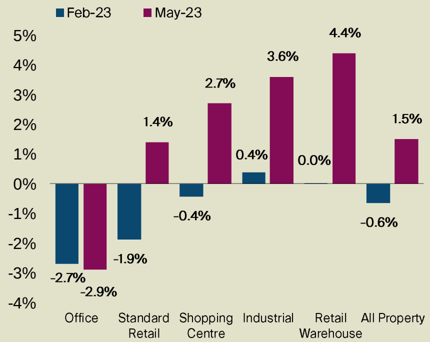
Total Net UK CRE Lending, £ bn



Source: Knight Frank Research, Bank of England

Retail Warehouse and Industrial expected to record the strongest returns in 2023

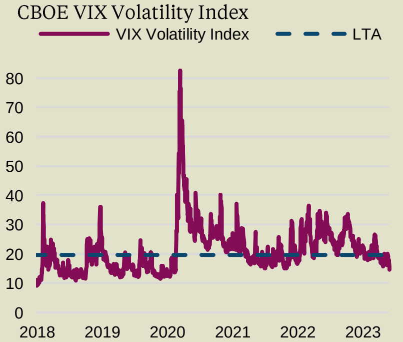
May 2023 IPF Consensus Forecast, Total Return



Sources: Knight Frank Research, IPF

Volatility is currently below the LTA, but for how long?

CBOE VIX Volatility Index



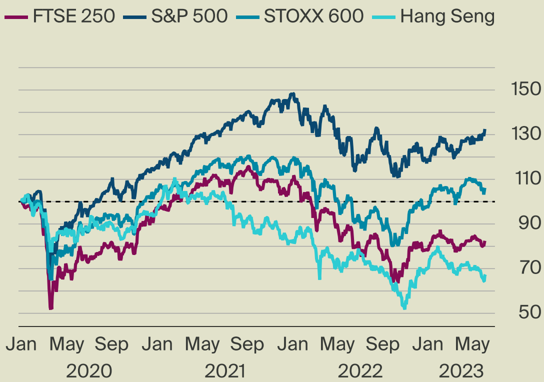
Source: Knight Frank Research, Macrobond

Sources: Bank of England, Bloomberg, Capital Economics, FT, The IPF, Macrobond, MSCI, ONS, Oxford Economics, Pantheon Macroeconomics, Reuters, Knight Frank

Equities

Equity markets

Price return index, Jan 2020 = 100, US$

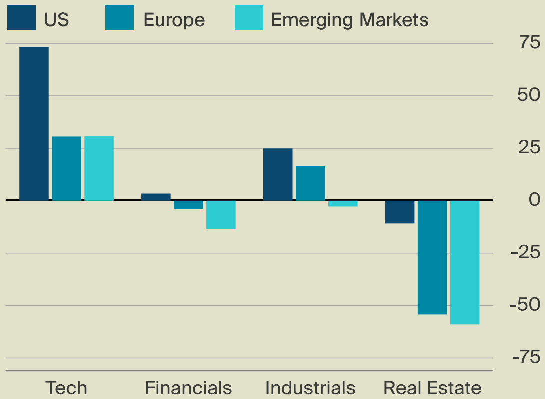


Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
Original value and base		1 day	1 week	1 month	Jan '20
DAX 30	6,820	3.1	1.6	-4.2	3.0
FTSE 250	23,901	3.0	2.8	-2.1	-17.5
Hang Seng	2,438	4.8	1.9	-4.1	-32.6
IBEX 35	9,992	3.6	2.2	-2.1	-6.8
MIB	29,028	4.5	2.5	-2.9	10.3
S&P 500	4,282	2.5	3.2	2.7	32.5
STOXX 600	496	2.9	1.3	-3.3	6.2
TOPIX	16	2.7	4.0	4.5	0.7

Equity regional sectors

Price return index percentage change since Jan 2020

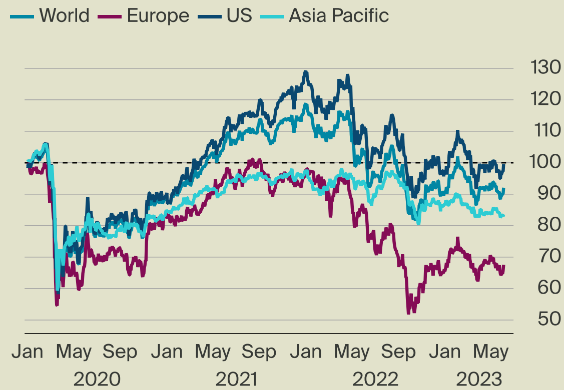


Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	73.3%	30.6%	30.7%
Financials	3.4%	-3.9%	-13.6%
Industrials	24.9%	16.4%	-2.8%
Real Estate	-10.9%	-54.2%	-59.0%

REITs by region

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

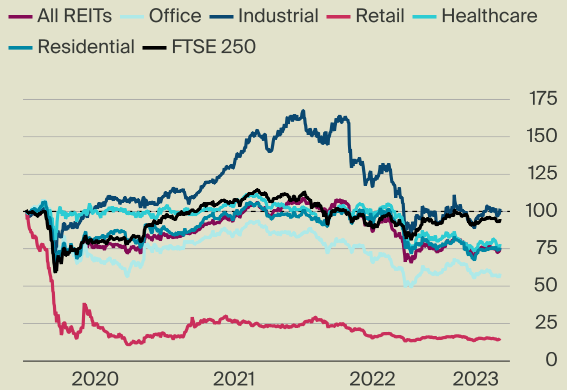


Source: Knight Frank, Macrobond

Index, total return	Last	Percentage change since			
Original value and base		1 day	1 week	1 month	Jan '20
US	2,380	2.3	4.8	-0.1	-0.4
Europe	1,926	4.5	4.6	-3.8	-32.4
World	2,958	2.2	4.1	-1.0	-7.9
Asia Pacific	3,280	0.1	1.2	-0.8	-16.4

UK REITs by sector

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



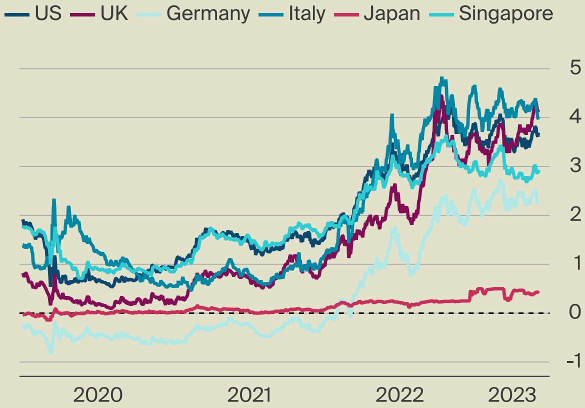
Source: Knight Frank, Macrobond

Index, total return	Last	Percentage change since			
Original value and base		1 day	1 week	1 month	Jan '20
All REITs	776	3.7	3.9	-2.6	-24.1
Office	1,731	4.3	2.9	-4.2	-41.6
Industrial	1,264	3.8	5.3	-1.7	1.9
Retail	54	4.8	6.3	-2.8	-85.0
Healthcare	1,773	2.7	2.2	-1.3	-21.8
Residential	1,155	1.8	1.8	0.7	-24.3
FTSE 250	16,180	2.4	1.7	-1.1	-5.0

Bonds & Rates

Government bond yields

10 year government bond yields, %

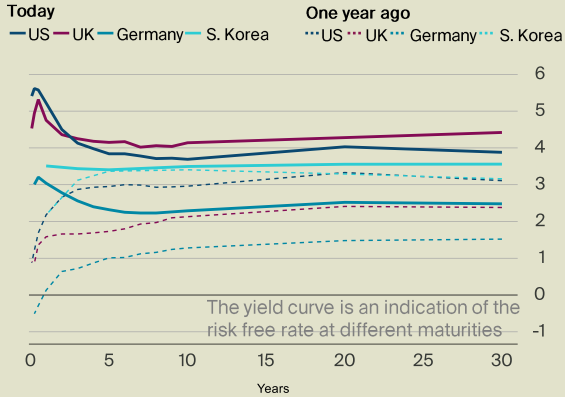


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.96	3.96	4.27	4.19	1.40
Japan	0.41	0.42	0.42	0.40	-0.03
Singapore	2.93	2.89	2.95	2.67	1.74
UK	4.16	4.16	4.33	3.78	0.82
US	3.69	3.69	3.80	3.44	1.92

Yield curves

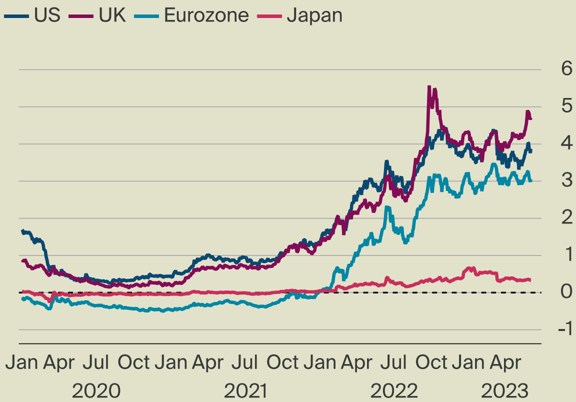
Latest nominal yield curves vs one year ago, %



Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

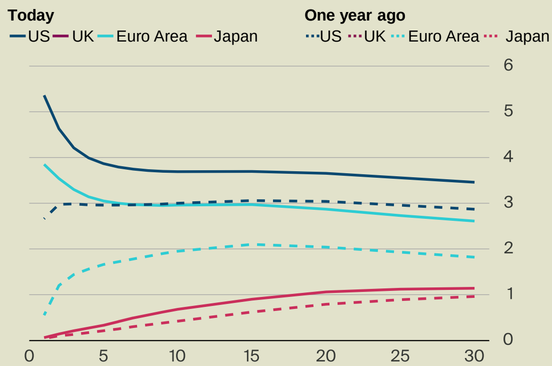


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.05	3.05	3.19	2.97	-0.13
Japan	0.33	0.33	0.35	0.33	0.03
Singapore	3.54	3.54	3.54	3.54	1.50
UK	4.70	4.70	4.86	4.23	0.88
US	3.87	3.87	4.02	3.52	1.70

Swap curves

Latest swap curves vs one year ago, %



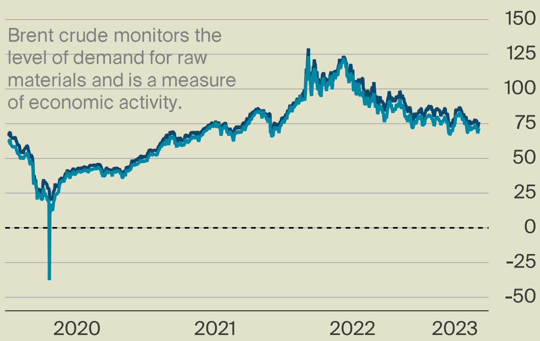
Source: Knight Frank, Macrobond

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	76.2	76.2	77.1	75.3	66.0
WTI, $ per barrel	71.7	71.7	72.9	71.3	61.1

Baltic dry index

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

— Baltic dry index

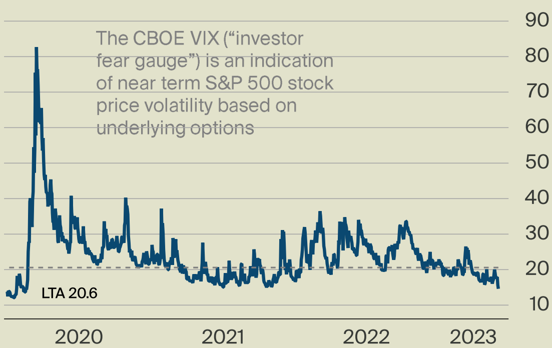
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	939	0.213	-19.9	-39.7	-13.9

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

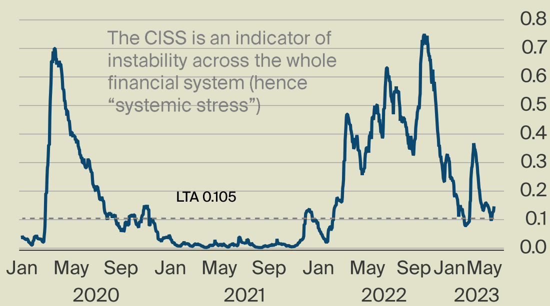
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	14.6	14.6	18.0	17.2	13.8
Euro Stoxx 50 VIX	16.0	16.0	17.9	18.3	14.0
Nikkei VIX	21.8	20.1	20.2	15.8	14.8
KOSPI VIX	14.1	14.0	15.0	15.3	14.7

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

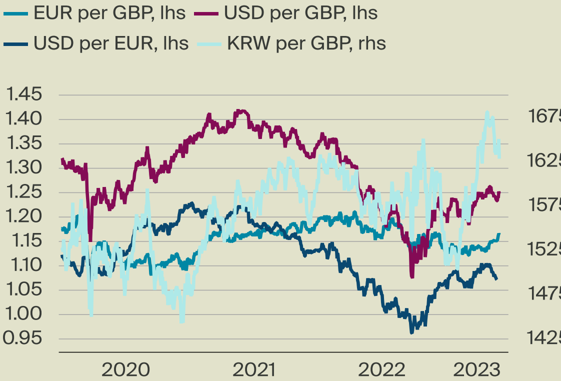
	Last	1 week	1 month	Jan '20
Systemic stress composite	0.282	0.217	0.268	0.023
Equity markets stress sub index	0.119	0.077	0.073	0.009
Bond markets stress sub index	0.078	0.073	0.079	0.02
FX markets stress sub index	0.020	0.018	0.016	0.004

Currencies & Monetary Policy

Knight Frank

Currencies

Spot prices

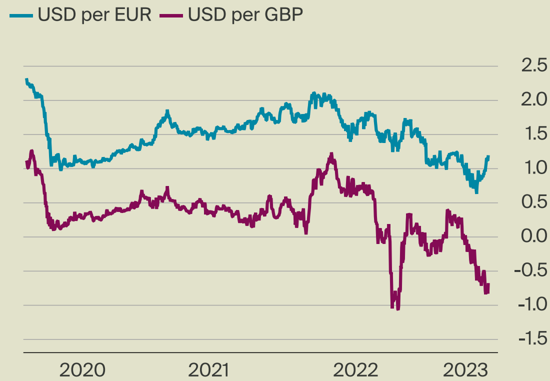


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.164	1.166	1.152	1.136	1.177
KOR per GBP	1,628	1,651	1,635	1,673	1,525
USD per GBP	1.249	1.252	1.233	1.247	1.321
USD per EUR	1.071	n/a	1.071	1.100	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	1.20	1.12	1.08	0.89	2.32
USD to GBP	-0.67	-0.83	-0.73	-0.52	1.12

Inflation and monetary policy

	Inflation rate (%)				Interest rates (%)		Asset purchasing	
	May	Apr	Mar	Feb	Last	Jan '21	Latest ($)	1m change (%)
Australia	n/a	n/a	7.1	7.1	3.85	0.10	0.40 tn	-0.1
Canada [1]	n/a	4.4	4.3	5.2	4.50	0.25	281 bn	0.0
China	n/a	0.3	0.8	1.1	4.35	4.35	5.96 tn	-2.0
Euro Area	6.1	7.0	6.9	8.5	3.75	0.00	8.3 tn	-0.1
France	5.1	5.9	5.7	6.3	3.75	0.00	1.97 tn	-0.2
Germany	6.0	7.1	7.4	8.7	3.75	0.00	2.88 tn	0.6
India	n/a	4.7	5.7	6.4	6.50	4.00	345 bn	-5.9
Italy	7.6	8.2	7.6	9.1	3.75	0.00	1.6 tn	0.0
Japan	n/a	3.5	3.2	3.3	-0.10	-0.10	5.34 tn	0.7
Saudi Arabia	n/a	2.7	2.7	3.0	5.75	1.00	486 bn	-1.7
South Korea	3.3	3.7	4.2	4.8	3.50	0.50	454 bn	2.6
Spain	n/a	4.1	3.3	6.1	3.75	0.00	487 bn	0.1
Sweden	n/a	10.5	10.6	12.0	3.50	0.00	129 bn	-0.8
UK	n/a	8.7	10.1	10.4	4.50	0.10	1.37 tn	1.4
US	n/a	5.0	5.0	6.0	5.25	0.25	8.39 tn	-1.7

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

Future Gazing 2023

In the latest edition of the Future Gazing Report, the sectors and locations which could benefit from reconfiguring supply chains are explored. Through the past three years, we have experienced a supply-side crisis. Simply restoring the old order is unlikely to solve the crisis and provide much-needed resilience amidst a shifting geopolitical landscape.

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

William Matthews
Partner
Head of Commercial Research
+44 20 3909 6842
william.matthews@knightfrank.com

Victoria Ormond, CFA
Partner
Head of Capital Markets Research
+44 20 7861 5009
victoria.ormond@knightfrank.com

Antonia Haralambous
Associate
Capital Markets Research
+44 20 3866 8033
antonia.haralambous@knightfrank.com

Khadija Hussain
Analyst
Capital Markets Research
+44 20 8176 9671
khadija.hussain@knightfrank.com
