

Leading Indicators

Changing tides: UK CRE outlook improves, despite wider headwinds

£13.9bn

Net giveaways in 2024 / 2025 by Chancellor Hunt in the March 2024 Spring Budget

+5.9%

February IPF Consensus Forecast, 2024 UK All Property Total Return

+13%

The Baltic Dry Index has increased by +13% YTD to 2,377, its highest level in three months

LIGHT SPRING BUDGET

Last week's Spring Budget had limited implications for commercial real estate, except for the introduction of 'Reserved Investor Funds' (RIFs), a new investment fund structure. RIFs are expected to attract pension funds and other capital sources to invest in UK CRE, enabling the regeneration of town centres and accelerating net-zero goals. RIFs enable UK-based real estate fund managers to avoid going offshore while benefiting from tax transparency and avoiding regulatory burdens.

Overall, fiscal policy announcements were relatively light, signalling the potential for a final pre-election Autumn Statement with more significant changes. Chancellor Hunt announced tax cuts totalling £13.9 billion in 2024/25, including a 2p reduction in national insurance tax for employees and freezes on alcohol and fuel duties. Tax increases for non-domiciled individuals, holiday lets, and oil/gas firms partly balanced these cuts. Despite these adjustments, fiscal policy will tighten by c.£41.2 billion in 2024/25 and a cumulative £77.6 billion by 2028/29, according to the OBR.

UK CRE OUTLOOK UPGRADED

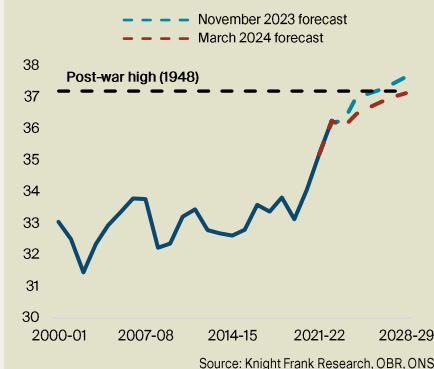
The latest IPF Consensus forecast highlights improved expectations for UK commercial property performance in 2024, 2025, and 2026. The total return forecast for UK All Property in 2024 improved by 90bps to +5.9% in February. The upward revision was driven by a more robust rental growth outlook of +2.0% y/y and a slight increase in anticipated capital value growth (+0.8%). Except for Industrial (+3.6%) and Retail Warehouses (+0.3%), all sectors are expected to record a decline in capital value in 2024 but are forecast to return to positive growth in 2025. Between 2024-2028, both Industrial and Retail Warehouses are anticipated to outperform with a total return of +8.4% and +8.1% per annum, respectively, followed by Shopping Centres (+7.1% p.a), Standard Retail (+6.8%) and Offices (+6.3%).

ANOTHER DRIVER OF DEMAND FOR UK INDUSTRIAL SPACE

Ongoing attacks from Houthi rebels in the Red Sea have impacted trade via the Suez Canal shipping route that connects the UK and Europe with China and East Asia. The IMF estimates that trade through the Suez Canal has dropped by -50% y/y in the first two months of 2024. Alongside a drought in the Panama Canal, this disruption to global supply chains has impacted costs, with the Baltic Dry Index (a measure of global shipping prices) up +13% since January. Our latest [Future Gazing](#) research outlines that manufacturers will continue to focus more on supply chain resilience and the need to expand domestic production. Here, manufacturers and logistics operators have been holding additional stock, bolstering their domestic manufacturing capabilities, and sourcing more components from domestic suppliers.

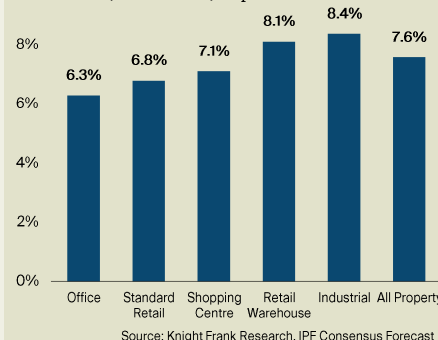
Reducing NICs will delay the tax burden reaching its post-war high until 2028-29

Forecast UK taxes as a % of GDP



UK Industrial set to outperform between 2024 - 2028

February 2024 IPF consensus forecast, annualised total return, 2024-2028, % per annum



Global shipping costs rise by +13% YTD as geopolitical tensions simmer

Baltic Exchange, Shipping Dry index (BDI)

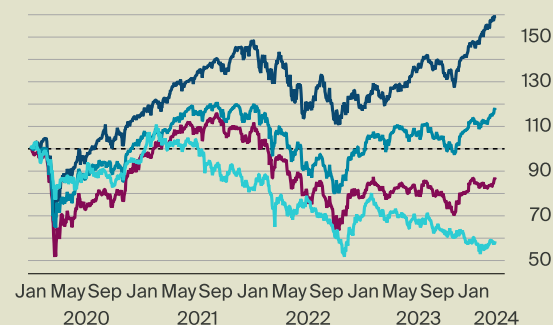


Equities

Equity markets

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

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



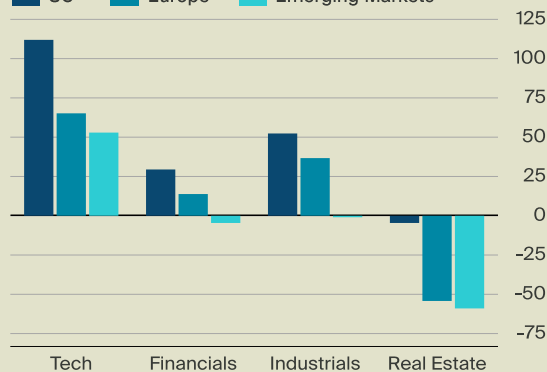
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	7,646	-0.6	0.9	5.8	15.5
FTSE 250	24,997	-0.2	2.1	3.8	-13.7
Hang Seng	2,121	2.2	0.1	4.5	-41.4
IBEX 35	11,280	0.0	3.5	5.8	5.2
MIB	36,394	-0.4	2.0	8.9	38.2
S&P 500	5,118	-0.8	-0.4	2.4	58.4
STOXX 600	548	-0.4	1.6	4.9	17.4
TOPIX	18	-2.4	0.6	5.6	14.6

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



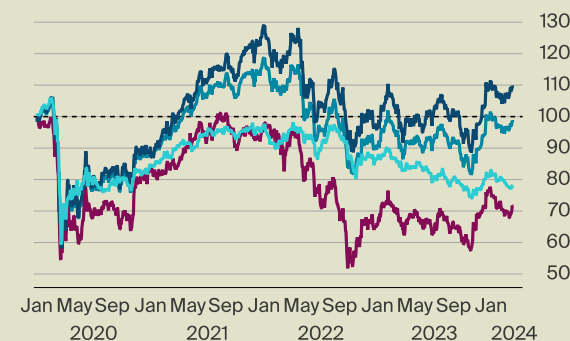
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	111.9%	65.2%	52.9%
Financials	29.4%	13.8%	-4.6%
Industrials	52.3%	36.7%	-1.0%
Real Estate	-4.6%	-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

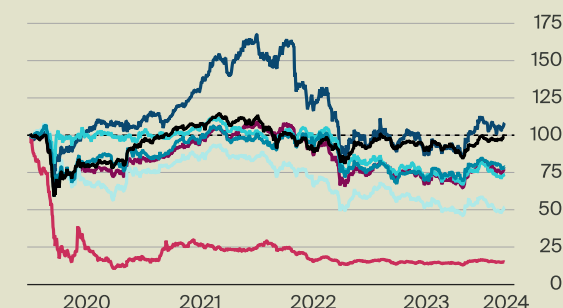
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,612	0.6	0.9	2.8	9.3
Europe	2,041	2.0	4.0	1.6	-28.4
World	3,161	0.7	1.3	2.2	-1.6
Asia Pacific	3,075	1.1	1.4	-1.7	-21.7

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

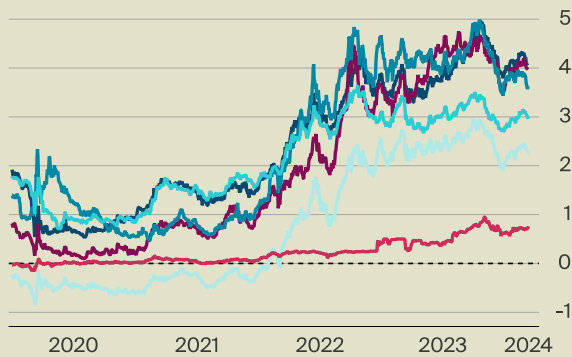
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	794	1.5	2.5	0.7	-22.4
Office	1,536	2.7	4.4	4.0	-48.2
Industrial	1,343	1.5	3.0	2.7	8.3
Retail	54	0.1	-0.2	-0.7	-85.1
Healthcare	1,669	1.0	1.3	-0.1	-26.4
Residential	1,202	1.2	1.0	-3.2	-21.2
FTSE 250	16,904	-0.3	1.0	2.5	-0.8

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



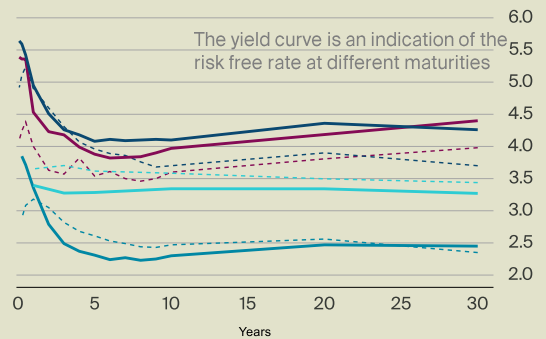
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.62	3.62	3.70	3.91	1.40
Japan	0.76	0.73	0.71	0.69	-0.03
Singapore	3.00	2.97	3.06	2.99	1.74
UK	3.97	3.97	4.01	4.06	0.82
US	4.10	4.10	4.13	4.17	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

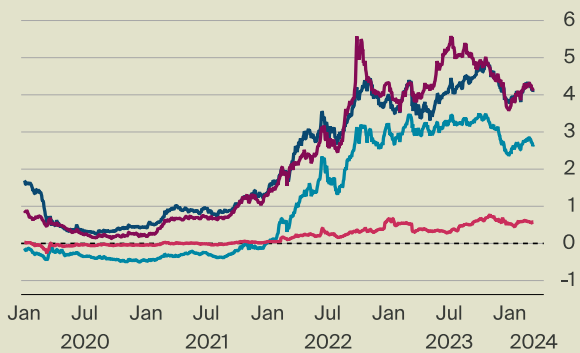


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



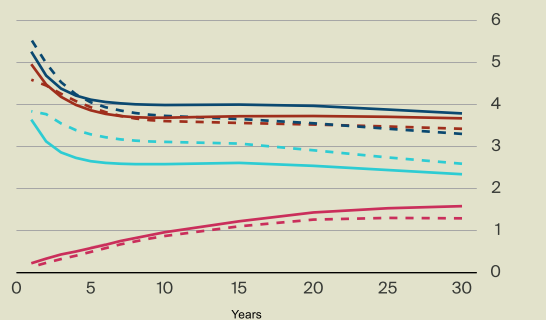
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	2.65	2.62	2.77	2.77	-0.13
Japan	0.58	0.58	0.57	0.60	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.11	4.14	4.27	4.23	0.88
US	4.12	4.10	4.23	4.16	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



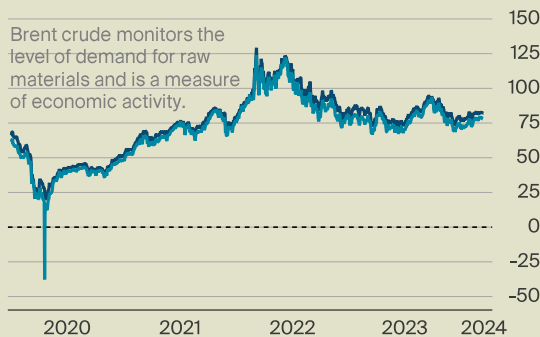
Source: Knight Frank, Macrobond

Commodities & Volatility

Energy

Oil spot prices, \$ per barrel

— Brent Crude — West Texas Intermediate (WTI)



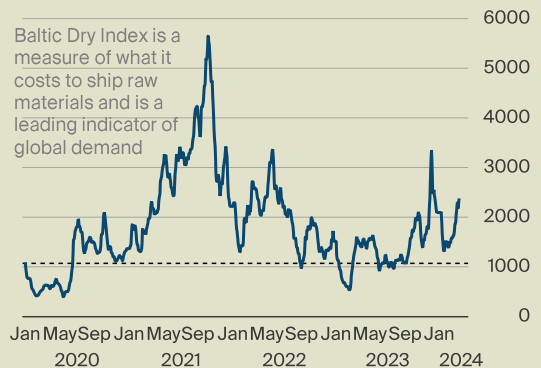
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, \$ per barrel	82.2	81.8	82.6	81.7	66.0
WTI, \$ per barrel	77.9	78	78.7	76.8	61.1

Baltic dry index

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

— Baltic dry index



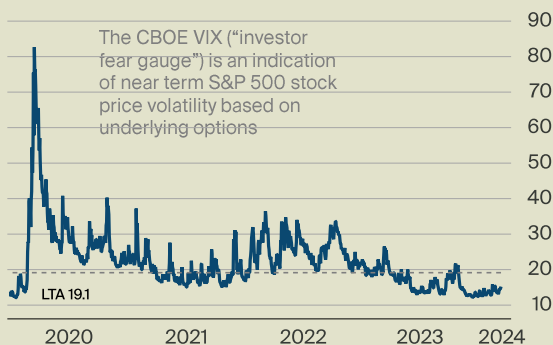
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	2377	5.6	3.48	53.9	118

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

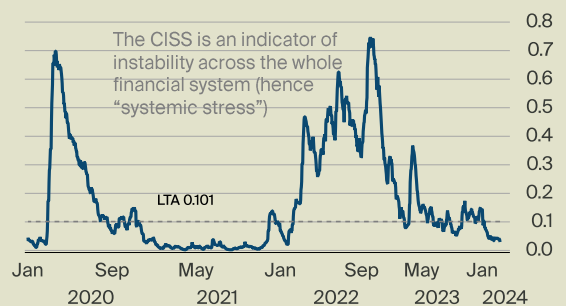
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	15.2	15.2	14.5	13.9	13.8
Euro Stoxx 50 VIX	14.7	14.7	14.7	14.4	14.0
Nikkei VIX	21.5	22.0	20.4	19.3	14.8
KOSPI VIX	17.8	18.1	17.1	17.2	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



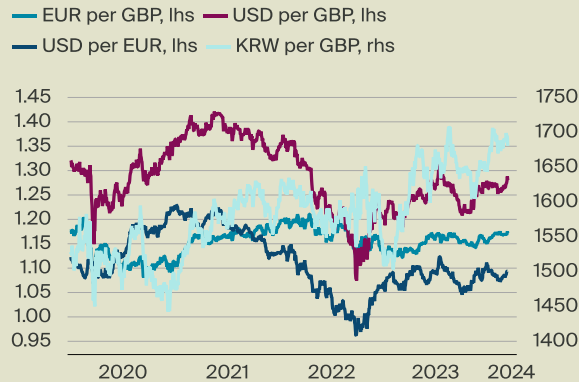
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.053	0.057	0.085	0.023
Equity markets stress sub index	0.021	0.015	0.019	0.009
Bond markets stress sub index	0.040	0.039	0.059	0.02
FX markets stress sub index	0.015	0.008	0.023	0.004

Currencies & Monetary Policy

Currencies

Spot prices

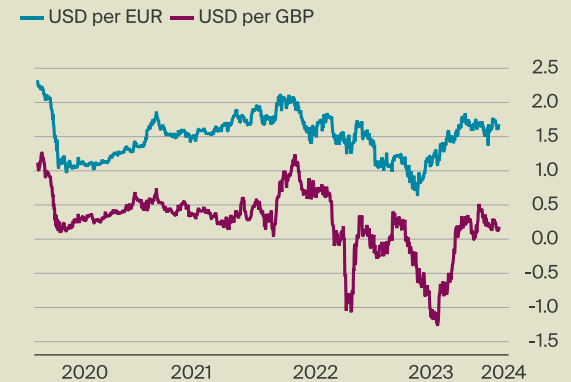


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.172	1.175	1.169	1.171	1.177
KOR per GBP	1,680	1,693	1,691	1,683	1,525
USD per GBP	1.281	1.288	1.270	1.263	1.321
USD per EUR	1.094	1.094	1.086	1.078	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	1.66	1.68	1.65	1.63	2.32
USD to GBP	0.18	0.14	0.12	0.13	1.12

Inflation and monetary policy

Inflation rate (%)

	Feb	Jan	Dec	Nov
Australia	n/a	n/a	4.0	4.0
Canada	n/a	2.9	3.4	3.1
China	0.7	-0.8	-0.3	-0.4
Euro Area	2.6	2.8	2.9	2.4
France	2.9	3.1	3.7	3.5
Germany	2.6	2.9	3.7	3.2
India	n/a	5.1	5.7	5.6
Italy	0.8	0.8	0.6	0.7
Japan	n/a	2.2	2.6	2.8
Saudi Arabia	n/a	1.6	1.5	1.7
South Korea	3.1	2.8	3.2	3.3
Spain	n/a	3.4	3.2	3.3
Sweden	n/a	5.4	4.4	5.8
UK	n/a	4.0	4.0	3.9
US	n/a	3.1	3.3	3.1

Interest rates (%)

	Last	Jan '21
	4.35	0.10
	5.00	0.25
	4.35	4.35
	4.50	0.00
	4.50	0.00
	4.50	0.00
	6.50	4.00
	4.50	0.00
	-0.10	-0.10
	6.00	1.00
	3.50	0.50
	4.50	0.00
	4.00	0.00
	5.25	0.10
	5.50	0.25

Asset purchasing

	Latest (\$)	1m change (%)
	0.35 tn	-1.1
	240 bn	1.7
	6.43 tn	-0.1
	7.39 tn	-0.7
	1.73 tn	-0.3
	2.66 tn	-0.6
	417 bn	0.0
	1.35 tn	-0.2
	5.16 tn	-0.1
	484 bn	0.5
	414 bn	3.3
	487 bn	-1.1
	120 bn	-1.8
	1.37 tn	-0.5
	7.54 tn	-1.2

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

Source: Knight Frank, Macrobond



The London series – The key drivers of London's occupational market

As the noise from the great global workplace experiment gives way to stronger signals, occupier requirements are changing not evaporating. We have identified three key aspects of the occupier mindset that are combining with three dominant deal drivers to shape occupier activity in London.

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Future Gazing – Logistics for modern living

Our 2024 Future Gazing report explores the lifestyle, demographic and consumer trends that shape our relationship with industrial and logistics property. Our research anticipates that an additional 111.6m sq ft of industrial and logistics space is required to support the growth of retail, manufacturing and service sectors over the next five years.

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Recent research



Life Sciences & Innovation Insight – Q4 2023

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



UK Real Estate Navigator – Q4 23

The latest Real Estate Navigator analyses the Q4 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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