

Leading Indicators

A sign of what's to come? The UK realigns with the EU on R&D

2.2m sq ft

Current active demand of lab space in the Golden Triangle region of London, Oxford and Cambridge

£811m

In outflows from UK equity funds in August 2023, according to Calastone

+5.7%

2024 UK All Property total return forecast, IPF Consensus forecast, August 2023

UK INNOVATION ON THE HORIZON?

The UK is set to rejoin Horizon, the EU's scientific research scheme, which permits scientists and institutions to receive grants from its £81bn fund. The UK will also rejoin Copernicus, the EU's £8bn Earth observation programme. This will keep UK scientists at the forefront of climate research and allow Britain's aerospace industry to bid for satellite contracts worth hundreds of millions of euros.

The UK Life Sciences sector will view this as a win. Accession to the EU programmes will likely bolster the UK and EU's long held partnership in R&D, while contributing to growth and competitiveness in the sector, making the UK an even more attractive location for scientists and researchers. There is active demand for 2.2m sq ft of lab space in the Golden Triangle region of London, Oxford and Cambridge, however there is only 385,000 sq ft of available space, as at the end of Q2. With greater funding for the sector available, real estate pricing will remain well supported.

REAL ESTATE STOCK EXCHANGE TO WIND DOWN

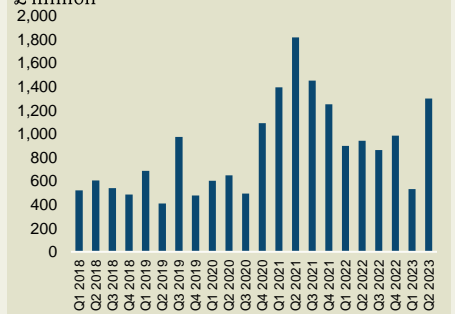
After four years and just three companies listed, the real estate stock exchange IPSX (International Property Securities Exchange) is winding down its operations. The exchange aimed to democratise property investment, allowing investors to buy directly into CRE instead of buying into a company and their management systems. Meanwhile, landlords could list their real estate assets on IPSX as REITs, allowing them to raise capital from shareholders specifically on those assets and flexibility of ownership of those assets. The CEO of IPSX blamed the exchange's failure on a succession of geopolitical and macroeconomic headwinds, including Brexit, parliamentary instability, Covid-19 and the Russia/Ukraine war all having implications for the market and the interest rate cycle. This represents the end of another experiment into alternative ways to inject liquidity into inherently illiquid real assets.

UK CRE OUTLOOK IMPROVES

The latest IPF Consensus Survey has revealed an improved outlook for rental growth in 2023. All Property rental value growth projections for 2023 have increased by +60bps, from +1.6% in May to +2.2% in August. With rental growth projections improving, this could be supportive of pricing in some sectors. Meanwhile, the All UK Property total return forecast for 2023 has been downgraded by -200bps to -0.5% in August, from +1.5% last forecast in May. For 2024, the All Property total return is expected to improve to +5.7%, albeit this is compared to forecasts of +7.1% in May.

VC funding in UK Life Sciences elevated in Q2

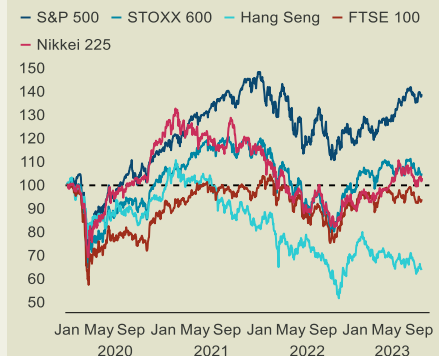
VC funding into UK life sciences companies, £ million



Source: Knight Frank Research, PitchBook. HQ location UK, Completed deals only. Covers: Biopharma, MedTech and Digital health.

Investors rotating out of UK equities?

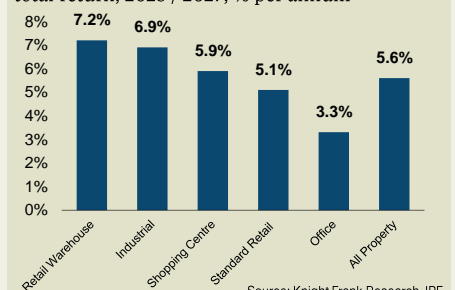
Price return index, Jan 2020 = 100, US\$



Source: Knight Frank Research, Macrobond

Retail Warehouse, Industrial and Shopping Centres set to outperform over the next 5 years

August 2023 IPF Consensus Forecast, annualised total return, 2023 / 2027, % per annum



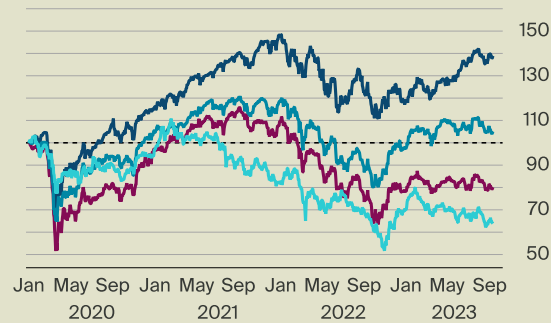
Source: Knight Frank Research, IPF

Equities

Equity markets

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

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



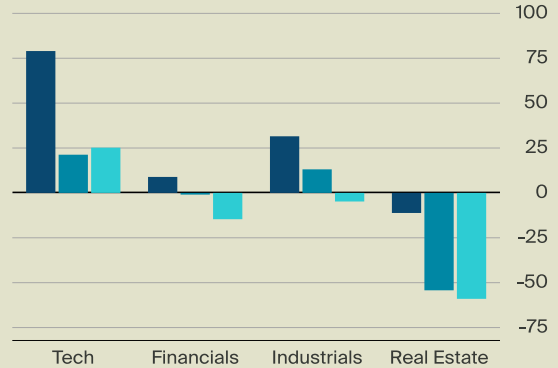
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	6,720	1.0	-0.7	-3.6	1.5
FTSE 250	23,211	1.2	-0.5	-4.0	-19.9
Hang Seng	2,310	-0.5	-1.4	-6.2	-36.1
IBEX 35	10,140	1.8	-0.6	-3.1	-5.4
MIB	30,656	1.8	-0.9	-2.6	16.4
S&P 500	4,487	0.8	-0.6	0.4	38.9
STOXX 600	490	1.0	-0.9	-4.1	5.1
TOPIX	16	1.8	0.2	1.9	2.9

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



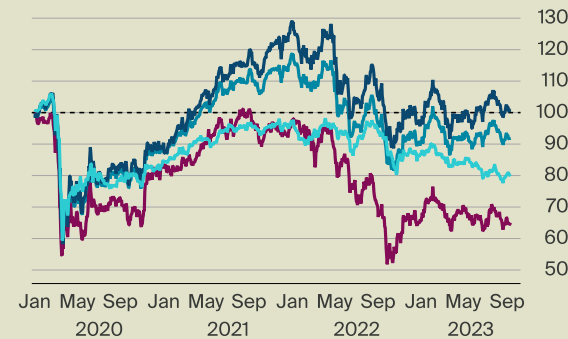
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	79.0%	21.3%	25.2%
Financials	8.9%	-0.9%	-14.6%
Industrials	31.5%	13.1%	-4.8%
Real Estate	-11.2%	-54.2%	-59.0%

REITs by region

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

— World — Europe — US — Asia Pacific



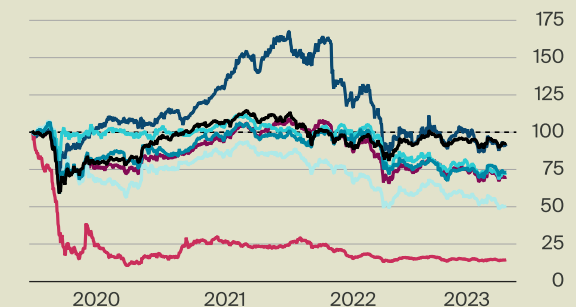
Source: Knight Frank, Macrobond

Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,408	-0.3	-1.0	-1.6	0.8
Europe	1,854	1.0	-0.7	-5.0	-35.0
World	2,950	-0.1	-1.1	-2.1	-8.2
Asia Pacific	3,132	-0.7	-1.0	-0.2	-20.2

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

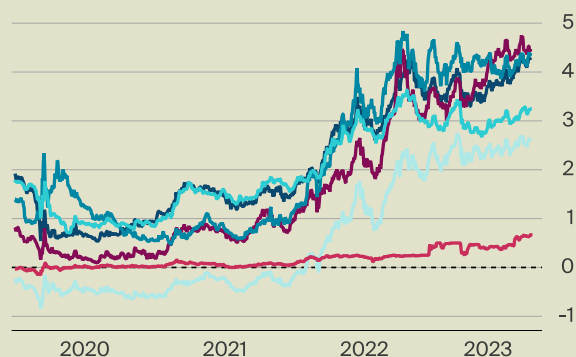
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	715	0.4	-0.2	-4.6	-30.1
Office	1,496	0.3	0.9	-7.5	-49.5
Industrial	1,138	0.3	0.2	-3.0	-8.3
Retail	52	1.5	1.8	-2.7	-85.5
Healthcare	1,645	-0.1	0.2	-3.3	-27.5
Residential	1,117	0.5	0.0	-5.1	-26.8
FTSE 250	15,803	0.8	0.0	-2.2	-7.3

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



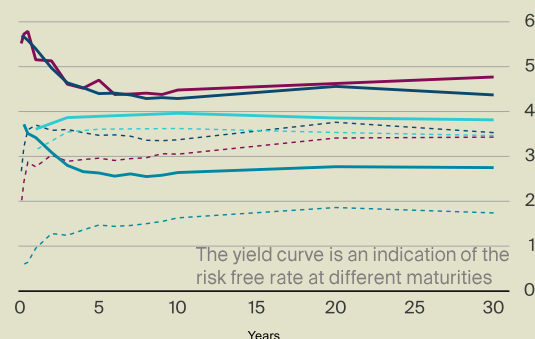
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.39	4.39	4.32	4.24	1.40
Japan	0.70	0.64	0.63	0.56	-0.03
Singapore	3.25	3.26	3.19	3.07	1.74
UK	4.47	4.47	4.53	4.53	0.82
US	4.29	4.29	4.27	4.16	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



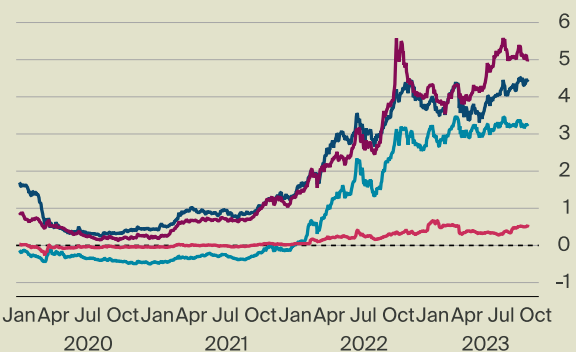
The yield curve is an indication of the risk free rate at different maturities

Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



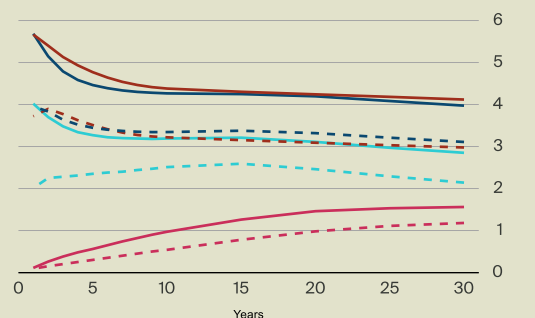
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.27	3.25	3.23	3.32	-0.13
Japan	0.56	0.50	0.50	0.47	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.99	4.97	5.06	5.15	0.88
US	4.46	4.43	4.34	4.33	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



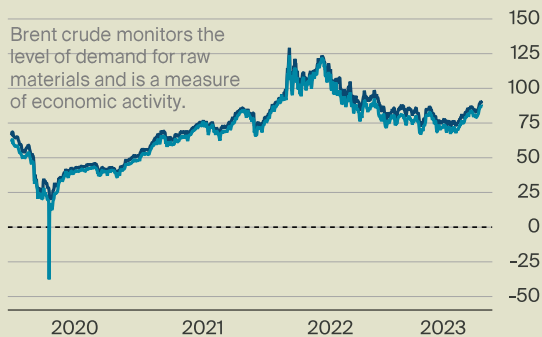
Source: Knight Frank, Macrobond

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	90.6	90.4	89.0	86.6	66.0
WTI, \$ per barrel	87.3	87.5	85.8	83.2	61.1

Baltic dry index

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

— Baltic dry index



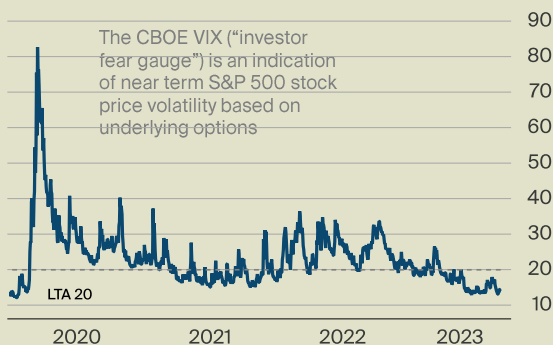
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1209	5.96	11.6	7.09	10.9

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	13.8	13.8	14.0	14.8	13.8
Euro Stoxx 50 VIX	16.2	16.2	16.4	18.4	14.0
Nikkei VIX	16.2	16.9	17.6	19.2	14.8
KOSPI VIX	12.4	12.4	12.4	13.4	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



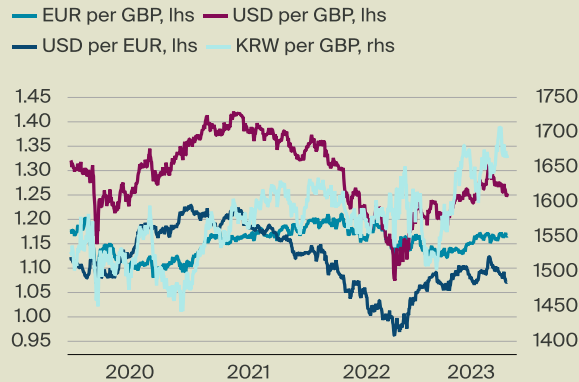
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.142	0.149	0.173	0.023
Equity markets stress sub index	0.048	0.064	0.064	0.009
Bond markets stress sub index	0.063	0.076	0.065	0.02
FX markets stress sub index	0.010	0.039	0.022	0.004

Currencies & Monetary Policy

Currencies

Spot prices

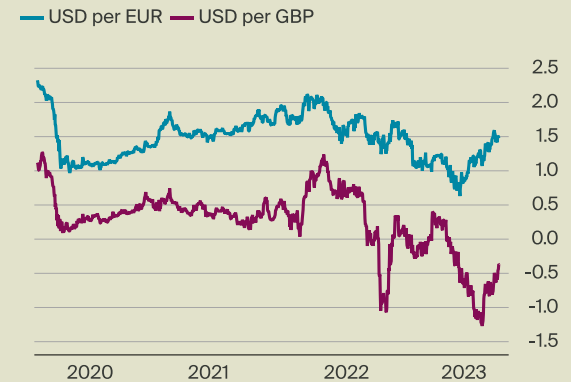


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.166	1.165	1.170	1.159	1.177
KOR per GBP	1.663	1,667	1,664	1,689	1,525
USD per GBP	1.253	1.249	1.262	1.271	1.321
USD per EUR	1.071	1.071	1.079	1.096	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	1.48	1.49	1.42	1.37	2.32
USD to GBP	-0.37	-0.37	-0.59	-0.69	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	0.2	-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

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

Interest rates (%)

	Last	Jan '23
	4.10	3.10
	5.00	4.25
	4.35	4.35
	4.25	2.50
	4.25	2.50
	4.25	2.50
	6.50	6.25
	4.25	2.50
	-0.10	-0.10
	6.00	5.00
	3.50	3.25
	4.25	2.50
	3.75	2.50
	5.25	3.50
	5.50	4.50

Asset purchasing

	Latest (\$)	1m change (%)
	0.366 tn	-3.2
	271 bn	0.1
	5.71 tn	-2.4
	7.77 tn	-0.1
	1.84 tn	-0.6
	2.78 tn	1.2
	379 bn	1.3
	1.41 tn	-0.6
	5.06 tn	0.5
	476 bn	-2.5
	437 bn	5.0
	487 bn	-0.8
	126 bn	0.1
	1.34 tn	-0.5
	8.1 tn	-1.3

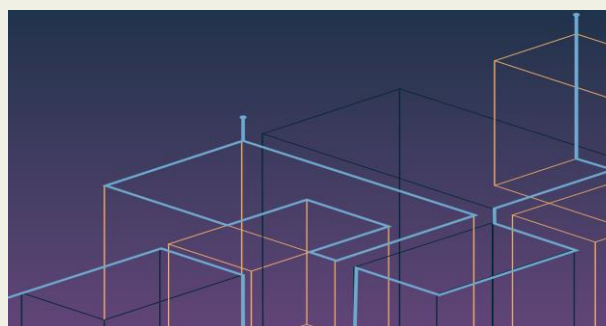
Source: Knight Frank, Macrobond



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



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