

Leading Indicators

Navigating change: the UK in the political & macro spotlight

+6.7%.

Under the Labour governments between 1997 – 2010, UK CRE achieved inflation adjusted returns of 6.7% p.a.

3.8%

The UK unemployment rate moderated to 3.8% in Q4 2023, from 4.0% in the quarter prior.

\$3.7tn

Global private equity firms have c.\$3.7 trillion in dry powder according to Bain & Company

ELECTION FEVER

Labour has scaled back its plan to decarbonise the UK economy, from a proposed annual spending of £28bn p.a. until 2030 to just £4.7bn p.a. if it were to win the general election. The party blamed elevated borrowing costs and limited fiscal headroom for the moderation. Furthermore, Labour has announced plans to reform the UK tax regime by reducing the non-domiciled tax-exemption period from fifteen to four years.

Meanwhile, Thursday's by-elections may strengthen Labour's position. Betting odds suggest a 96% and 94% likelihood of a Labour win in the Kingswood and Wellingborough by-elections, respectively. Overall, the policy detail, which is still to be ironed out, could be significant, but the impact of a Labour government on CRE performance is expected to be relatively minimal. Between 1997 and 2010, UK CRE achieved inflation-adjusted returns of +6.7% p.a. under the two Labour governments. The only period where UK CRE outperformed this (+8.6% p.a.) was the 2010 – 2015 coalition government, albeit during the post-GFC economic upswing.

TIGHT UK LABOUR MARKET

The UK unemployment rate contracted to 3.8% in Q4 2023, from 4.0% in the quarter prior and below forecasts of 4.0%. Meanwhile, average weekly earnings growth continued to slow in December, falling to a 17-month low of 5.8%, but above market forecasts of 5.6%. The moderation was driven by September's robust bonus data dropping out of the figures.

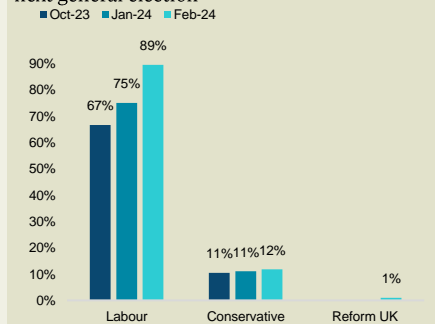
A tight labour market will likely lead to more demand for office space, evidenced by the upward trajectory of our proprietary data on London office viewings and take-up. In our latest [London Series article](#), we estimate that there is currently 11.9m sq ft of known space requirements in London, a 10-year high. Meanwhile, the under-construction pipeline (completes by 2026) is 5.3m sq ft below average levels of new and refurbished take-up, which we expect to be supportive of rents.

THE YEAR OF PE?

Private equity (PE), particularly in the US, have seen their share values rise in 2023, benefiting from rising interest rates and an influx of new assets in the credit and insurance sectors. Overall, Bain & Company estimate that global PE firms have c.\$3.7 trillion in dry powder. Not all of this capital will target real estate, but if just 1% was allocated towards the sector, it would amount to \$37bn in global investment. Whether it is to this extent remains to be seen. However, we do anticipate PE investment to pick up this year as pricing becomes more favourable. Following previous periods of dislocation, PE has typically rotated back into CRE. After the pandemic, the PE share of UK CRE volumes lifted from 10% to 19% in 2021.

Likelihood of a Labour government jumps to 89% in February

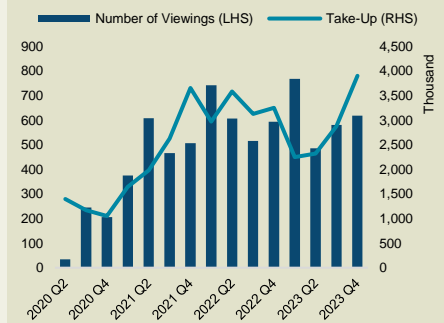
Betting odds on the government following the next general election



Source: Knight Frank Research, Oddschecker.com

c.28.3m sq ft of office lease expiries are due in London between 2024 - 2026

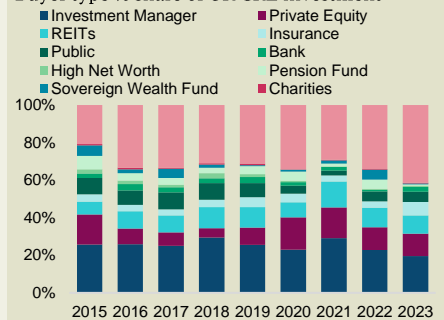
London wide viewings (LHS), sq ft (RHS)



Source: Knight Frank Research

PE share of UK CRE investment lifted to 19% post pandemic

Buyer type % share of UK CRE investment



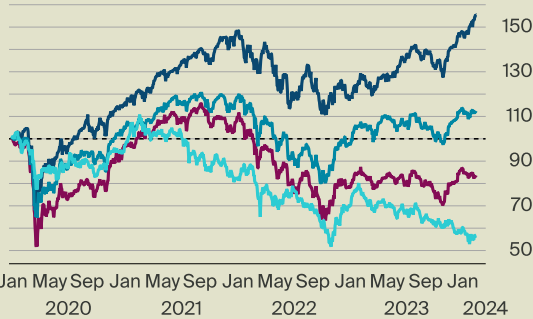
Source: Knight Frank Research, RCA

Equities

Equity markets

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

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



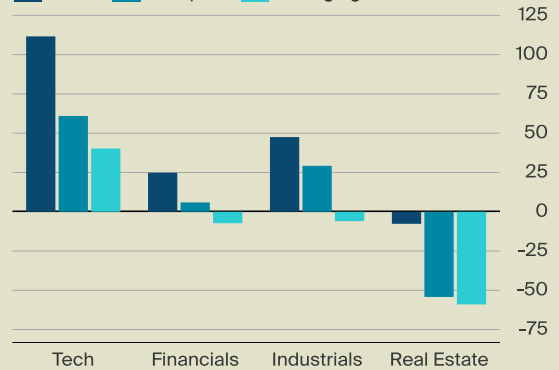
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	7,239	0.2	0.1	1.0	9.4
FTSE 250	24,235	0.6	-0.1	-0.2	-16.4
Hang Seng	2,013	-2.1	1.1	-3.1	-44.4
IBEX 35	10,751	0.8	-1.1	-1.9	0.3
MIB	33,872	1.3	2.1	2.3	28.7
S&P 500	5,022	0.5	1.3	5.1	55.4
STOXX 600	525	0.5	0.4	1.4	12.5
TOPIX	17	2.1	1.7	2.7	10.7

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



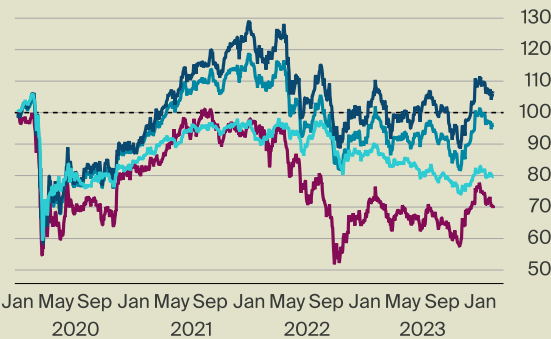
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	111.6%	61.0%	40.2%
Financials	24.8%	5.9%	-7.3%
Industrials	47.5%	29.2%	-6.0%
Real Estate	-7.7%	-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

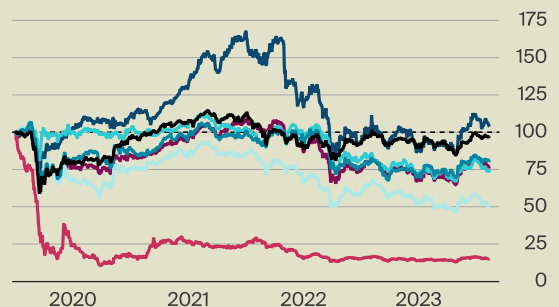
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,538	-0.1	0.1	-2.5	6.2
Europe	2,009	0.0	-0.9	-4.6	-29.5
World	3,092	0.0	-0.2	-2.8	-3.7
Asia Pacific	3,128	0.0	-1.2	-2.4	-20.3

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

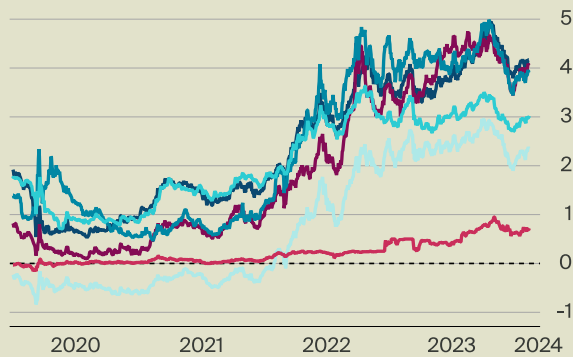
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	784	-0.5	-1.6	-4.2	-23.4
Office	1,482	0.3	-3.5	-9.3	-50.0
Industrial	1,286	-1.7	-3.1	-4.3	3.7
Retail	54	0.5	-1.0	-4.9	-84.9
Healthcare	1,685	0.8	0.3	-6.3	-25.7
Residential	1,237	-0.4	-0.2	-1.0	-19.0
FTSE 250	16,583	0.5	0.2	0.7	-2.7

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



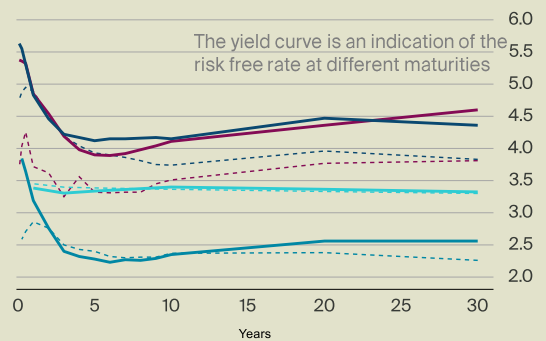
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.91	3.91	3.85	3.73	1.40
Japan	0.72	0.69	0.71	0.60	-0.03
Singapore	3.02	2.99	3.00	2.81	1.74
UK	4.06	4.06	3.95	3.79	0.82
US	4.17	4.17	4.09	3.96	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

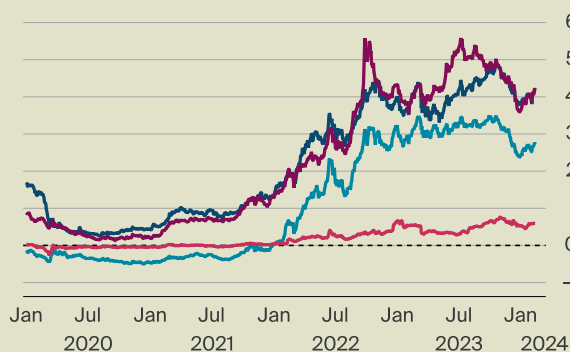


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



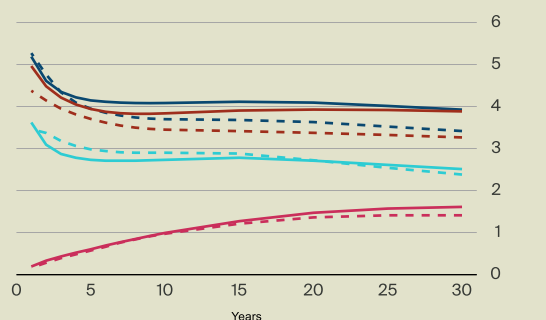
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	2.73	2.77	2.68	2.53	-0.13
Japan	0.60	0.60	0.61	0.45	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.18	4.23	4.13	3.82	0.88
US	4.15	4.16	4.13	3.83	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



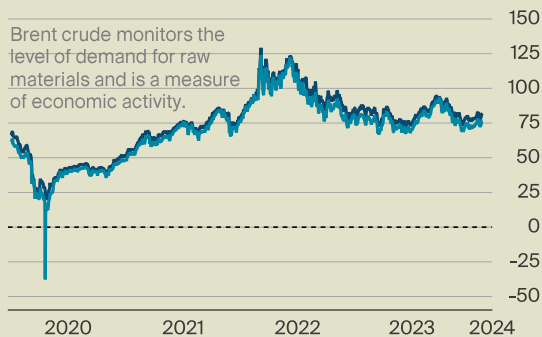
Source: Knight Frank, Macrobond

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	82.0	81.7	77.8	78.2	66.0
WTI, \$ per barrel	76.9	76.8	72.8	72.7	61.1

Baltic dry index

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

— Baltic dry index



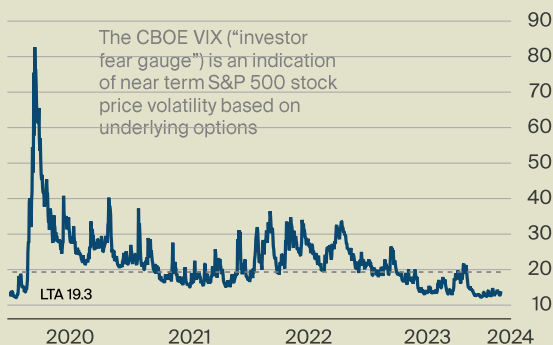
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1572	6.72	9.47	7.67	44.2

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	13.9	13.9	13.1	12.7	13.8
Euro Stoxx 50 VIX	14.4	14.4	13.6	13.4	14.0
Nikkei VIX	19.5	19.3	19.7	22.4	14.8
KOSPI VIX	18.0	17.2	17.6	16.8	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



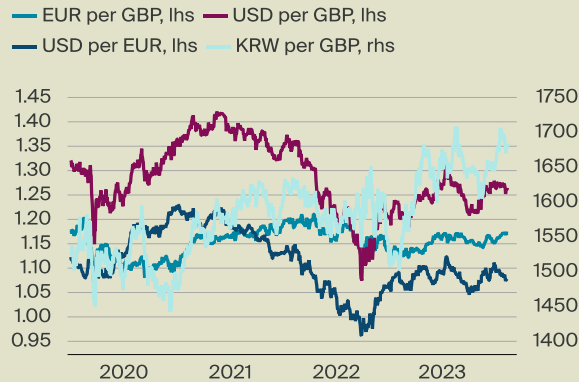
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.074	0.084	0.115	0.023
Equity markets stress sub index	0.017	0.019	0.071	0.009
Bond markets stress sub index	0.048	0.059	0.069	0.02
FX markets stress sub index	0.011	0.023	0.027	0.004

Currencies & Monetary Policy

Currencies

Spot prices

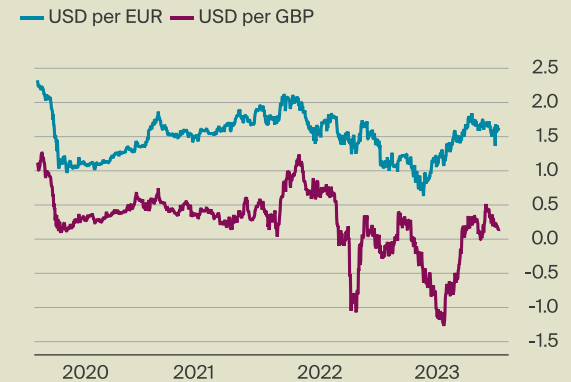


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.172	1.171	1.168	1.164	1.177
KOR per GBP	1,677	1,683	1,674	1,672	1,525
USD per GBP	1.262	1.263	1.252	1.276	1.321
USD per EUR	1.078	1.078	1.074	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	1.63	1.63	1.66	1.54	2.32
USD to GBP	0.14	0.13	0.19	0.24	1.12

Inflation and monetary policy

Inflation rate (%)

	Jan	Dec	Nov	Oct
Australia	n/a	4.0	4.0	4.0
Canada	n/a	3.4	3.1	3.1
China	-0.8	-0.3	-0.4	-0.1
Euro Area	2.8	2.9	2.4	2.9
France	3.1	3.7	3.5	4.0
Germany	2.9	3.7	3.2	3.7
India	5.1	5.7	5.6	4.9
Italy	0.8	0.6	0.7	1.7
Japan	n/a	2.6	2.8	3.3
Saudi Arabia	n/a	1.5	1.7	1.6
South Korea	2.8	3.2	3.3	3.8
Spain	3.4	3.2	3.3	3.5
Sweden	n/a	4.4	5.8	6.5
UK	n/a	4.0	3.9	4.6
US	n/a	3.3	3.1	3.2

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	0.5
	240 bn	-0.9
	6.4 tn	3.7
	7.44 tn	-0.9
	1.77 tn	-1.8
	2.66 tn	-0.6
	416 bn	7.6
	1.35 tn	-1.7
	5.17 tn	0.9
	482 bn	-0.7
	400 bn	0.1
	487 bn	-0.7
	120 bn	-0.3
	1.37 tn	-0.5
	7.63 tn	-0.7

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

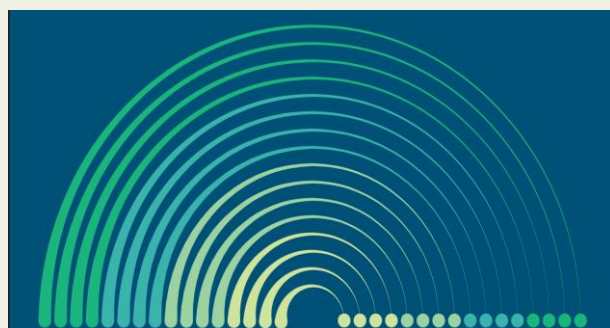
Source: Knight Frank, Macrobond



The London series – What Drives Leasing Out-Performance?

The London market has become increasingly polarised. The prime market is seeing heightened levels of demand, a deepening imbalance between supply and demand and, consequently, further upward pressure on rents. Read this article and other insights using the link below, including 'How London will recover this time?'.

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Global Healthcare Report 2023

Ageing demographics and the need for long term care present themselves as key factors in the interest for healthcare globally. As private equity, REITS and institutional investors continue to chase strong, long income generated, there is growing interest in healthcare's capabilities to aid ESG investing strategies.

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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 – Q3 23

The latest Real Estate Navigator analyses the Q3 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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