

Leading Indicators

Resilience, reforms and repricing

£2.3bn

Net lending to UK commercial real estate in the three months to May 2023, according to the Bank of England

£75bn

Of capital could be unlocked by 2030 under new UK pension reforms

49%

Of all UK sector yields in the MSCI monthly index were stable in June on a three month rolling average basis

UK BANKS REMAIN RESILIENT

The Bank of England conducted its annual stress test, and found that the major UK banks would be “resilient” to a severe stress scenario worse than the GFC. This included persistently higher inflation, rising interest rates, deep and simultaneous UK recessions, materially higher unemployment, and sharp falls in asset prices. The central bank concluded that the UK banking system could withstand these events and have the capacity to support households and businesses throughout the stress. For commercial real estate, the story is one of resilience too. Net lending to commercial real estate remained in positive territory in May at £621m, bringing the three-month total to £2.3bn, its highest level since June 2020. Some of this is thought to be investors borrowing against older assets to provide additional equity when refinancing newer loans. This could mitigate the risk of a future surge in defaults and distressed sales.

REFORMS AHEAD

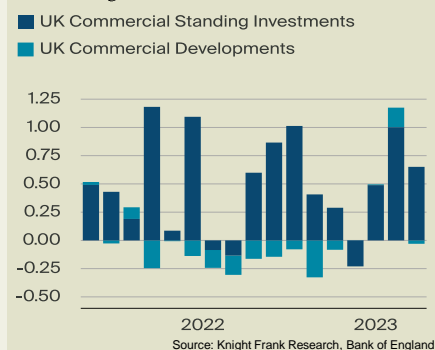
More capital could find its way into commercial real estate, under reforms recently announced by Jeremy Hunt. The package of measures aims to increase UK productivity and pension savings. One aspect involves nine large financial service firms allocating at least 5% of their defined contribution (DC) pensions to shares in unlisted or private firms (instead of public) by 2030. If the rest of the DC pension industry follows suit, this could unlock c.£50bn of capital by 2030. Additionally, a consultation will be launched with the ambition to double existing investments in private equity to 10%, which according to the government could unlock a further £25bn by 2030. The relevance of these measures comes from the fact that some of this unlocked capital for the private sector may be allocated towards UK CRE, with private equity investors, amongst others, expected to be recipients.

POLARISATION IN PERFORMANCE

Nearly half of the UK all sector market yields in the MSCI monthly index were stable in June on a three-month rolling average basis. Meanwhile, 20% were compressing, and 31% were softening. The softening share increased from 26% in May, but remains below the recent peak of 72% in December 2022 and the 89% record in 2008. However, our [latest Investment Yield Guide](#) shows that only 10% of prime UK yields softened in July, indicating polarisation within the market. The remaining 90% were stable. This divergence in performance could continue, as prime yields are expected to stabilise quicker than secondary.

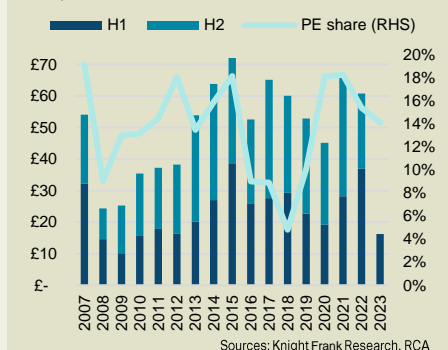
Net lending to UK CRE was positive for 3rd consecutive month at £621m in May

Net lending to UK CRE, £ bn



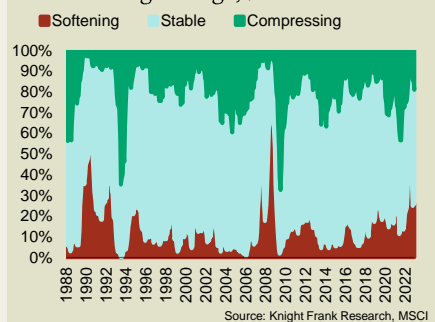
Private equity share of UK CRE investment is 14% in 2023 YTD

Total UK CRE investment volumes & private equity % share, 2023 numbers are provisional



20% of UK MSCI all sector yields were compressing in June

Proportion of all sector NIYs that are softening, stable or compressing, three month rolling average, %

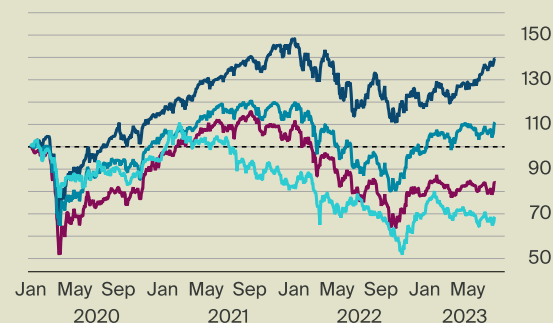


Equities

Equity markets

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

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



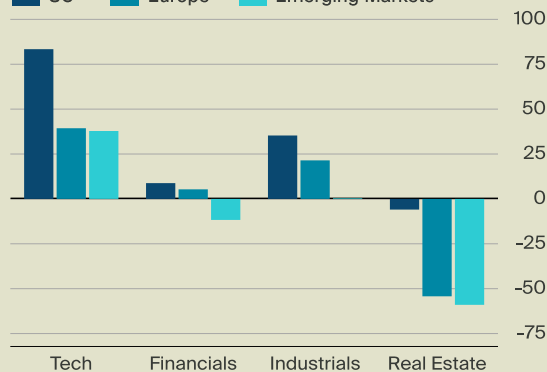
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	7,165	1.6	7.3	3.1	8.2
FTSE 250	24,353	0.8	7.1	0.7	-16.0
Hang Seng	2,484	3.1	4.9	-0.3	-31.3
IBEX 35	10,611	0.9	5.1	5.2	-1.0
MIB	32,224	1.5	7.8	8.2	22.4
S&P 500	4,505	0.7	2.1	3.1	39.5
STOXX 600	518	1.6	6.6	3.5	11.0
TOPIX	16	0.7	2.4	-0.2	2.4

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	83.4%	39.4%	37.8%
Financials	8.8%	5.3%	-11.7%
Industrials	35.3%	21.5%	0.4%
Real Estate	-5.9%	-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

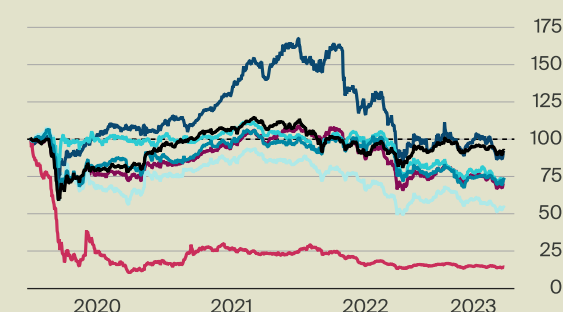
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,522	0.7	2.7	4.4	5.5
Europe	1,973	1.2	8.5	5.1	-30.8
World	3,104	1.0	3.6	4.2	-3.4
Asia Pacific	3,208	1.1	1.4	-0.7	-18.3

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

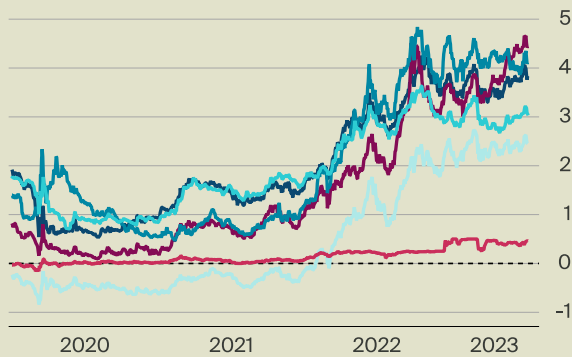
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	725	0.4	4.6	-1.5	-29.1
Office	1,602	-1.5	2.0	-2.8	-46.0
Industrial	1,126	0.0	3.7	-2.7	-9.2
Retail	51	0.3	4.7	-2.6	-85.7
Healthcare	1,667	1.1	3.0	-1.9	-26.5
Residential	1,133	1.4	6.1	1.3	-25.8
FTSE 250	15,750	0.0	3.7	-2.9	-7.6

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



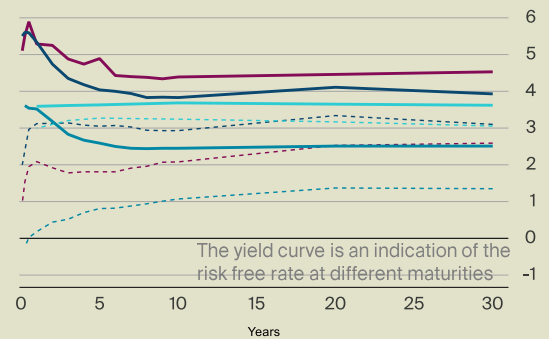
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.11	4.11	4.30	3.94	1.40
Japan	0.46	0.46	0.43	0.43	-0.03
Singapore	3.03	3.06	3.22	3.00	1.74
UK	4.44	4.44	4.64	4.41	0.82
US	3.83	3.83	4.01	3.77	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



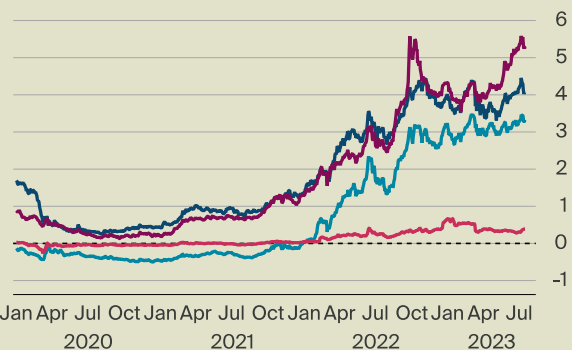
The yield curve is an indication of the risk-free rate at different maturities

Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



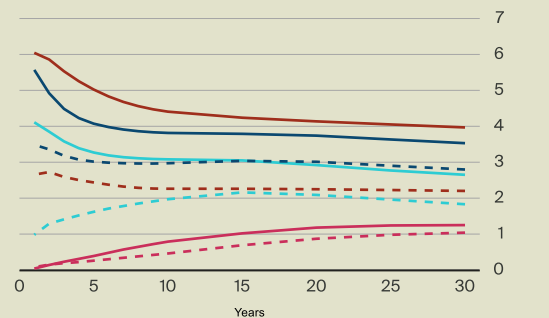
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.27	3.30	3.45	3.25	-0.13
Japan	0.39	0.39	0.37	0.32	0.03
Singapore	3.66	n/a	n/a	3.48	1.50
UK	5.24	5.29	5.53	5.14	0.88
US	4.07	4.07	4.31	4.06	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



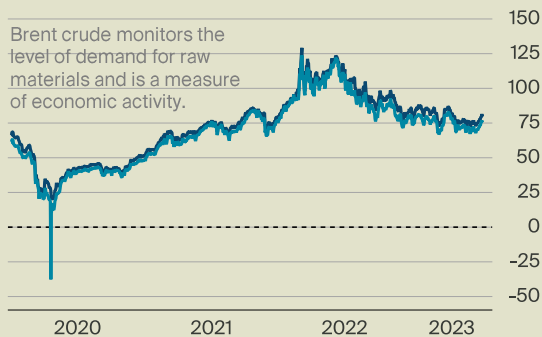
Source: Knight Frank, Macrobond

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	79.6	79.6	77.8	76.3	66.0
WTI, \$ per barrel	75.4	75.4	73	71.5	61.1

Baltic dry index

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

— Baltic dry index



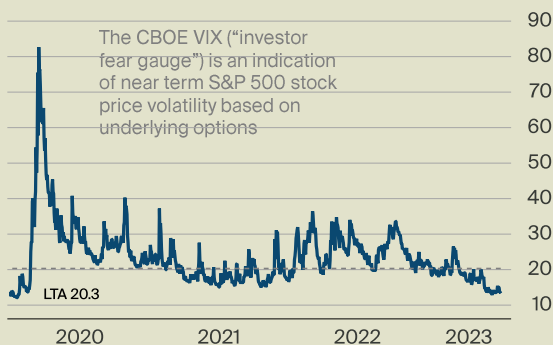
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1073	-2.72	4.79	-0.279	-1.56

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

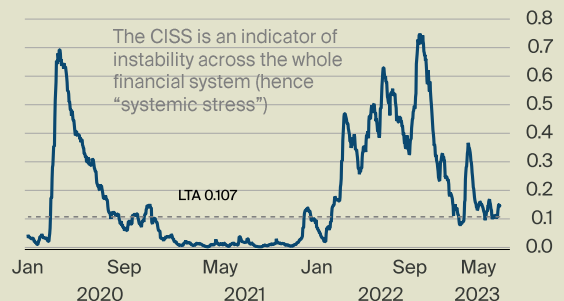
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	13.3	13.3	15.1	13.5	13.8
Euro Stoxx 50 VIX	14.8	14.8	17.5	13.1	14.0
Nikkei VIX	20.5	20.5	21.1	20.7	14.8
KOSPI VIX	13.2	13.2	14.6	13.1	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



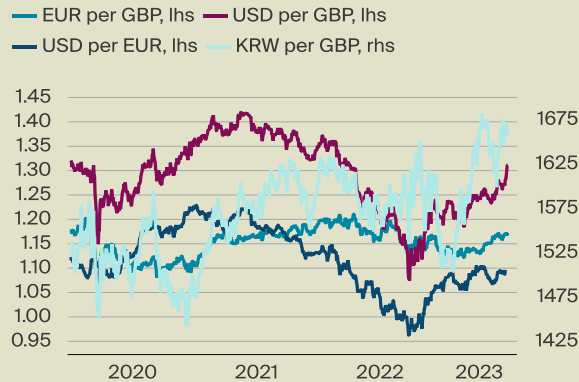
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.203	0.262	0.245	0.023
Equity markets stress sub index	0.075	0.077	0.070	0.009
Bond markets stress sub index	0.082	0.084	0.080	0.02
FX markets stress sub index	0.053	0.020	0.011	0.004

Currencies & Monetary Policy

Currencies

Spot prices

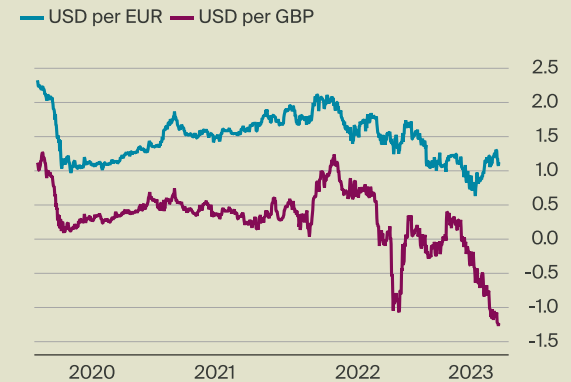


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.171	1.169	1.168	1.167	1.177
KOR per GBP	1,661	1,658	1,667	1,599	1,525
USD per GBP	1.311	1.300	1.270	1.260	1.321
USD per EUR	1.096	n/a	1.087	1.079	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	1.12	1.07	1.29	1.22	2.32
USD to GBP	-1.23	-1.27	-1.07	-1.02	1.12

Inflation and monetary policy

Inflation rate (%)

	June	May	Apr	Mar
Australia	n/a	n/a	n/a	7.1
Canada	n/a	3.4	4.4	4.3
China	0.1	0.3	0.3	0.8
Euro Area	5.5	6.1	7.0	6.9
France	4.5	5.1	5.9	5.7
Germany	6.4	6.0	7.1	7.5
India	4.8	4.3	4.7	5.7
Italy	6.4	7.6	8.2	7.6
Japan	n/a	3.2	3.5	3.2
Saudi Arabia	n/a	2.8	2.7	2.7
South Korea	2.7	3.3	3.7	4.2
Spain	1.9	3.2	4.0	3.3
Sweden	9.3	9.7	10.5	10.6
UK	n/a	8.7	8.7	10.1
US	3.1	4.1	5.0	5.0

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

Interest rates (%)

	Last	Jan '21
	4.10	0.10
	5.00	0.25
	4.35	4.35
	4.00	0.00
	4.00	0.00
	4.00	0.00
	6.50	4.00
	4.00	0.00
	-0.10	-0.10
	5.75	1.00
	3.50	0.50
	4.00	0.00
	3.75	0.00
	5.00	0.10
	5.25	0.25

Asset purchasing

	Latest (\$)	1m change (%)
	0.409 tn	-0.2
	269 bn	-4.3
	5.77 tn	2.8
	786 tn	-6.6
	1.91 tn	-0.3
	2.81 tn	-3.9
	360 bn	2.6
	1.43 tn	-10.0
	5.18 tn	-1.5
	499 bn	2.7
	411 bn	-2.1
	487 bn	0.1
	128 bn	-0.1
	1.4 tn	-0.5
	8.3 tn	-1.1

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.

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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