Market outlook

While recession risks will still be climbing, central banks hope that Q1 2023 will mark a shift in global sentiment

Central banks belatedly getting ahead of inflation

- More hawkish tone from ECB as well as BoE and Fed
- The global economy is set to slow, from 6% in 2021 to 3% this year
- Recessions likely in developed world

…with the hope that 2023 will see inflation tamed

- Base effects means inflation should peak Q4 2022
- If this is achieved investor sentiment should improve looking into 2023+

Known unknowns pose risks to this strategy

- Wage spiral cannot be discounted, and energy crisis could worsen
- UK/EU tensions pose additional trade risks, while inflation is feeding the EU's emerging debt crisis
- Russia continues to probe for NATO/EU weakness (Lithuania) compound political and security risk

A changing investment landscape is favouring real estate

- Equity markets weakest performance for 20-years
- Bond market volatility means higher yields, due to IR expectations, but lower demand and higher supply will complicate the picture as QE is unwound
- Real estate's traditional hedging role is attracting attention…

Macro view sales

Inflation

- Rates will rise to 2% … relaxed
- To beat inflation might need to get to 3% … less relaxed
- Would be fastest increase in mortgage rates since late 80s early 90s…
- …house prices fell 20%

Market is slowing

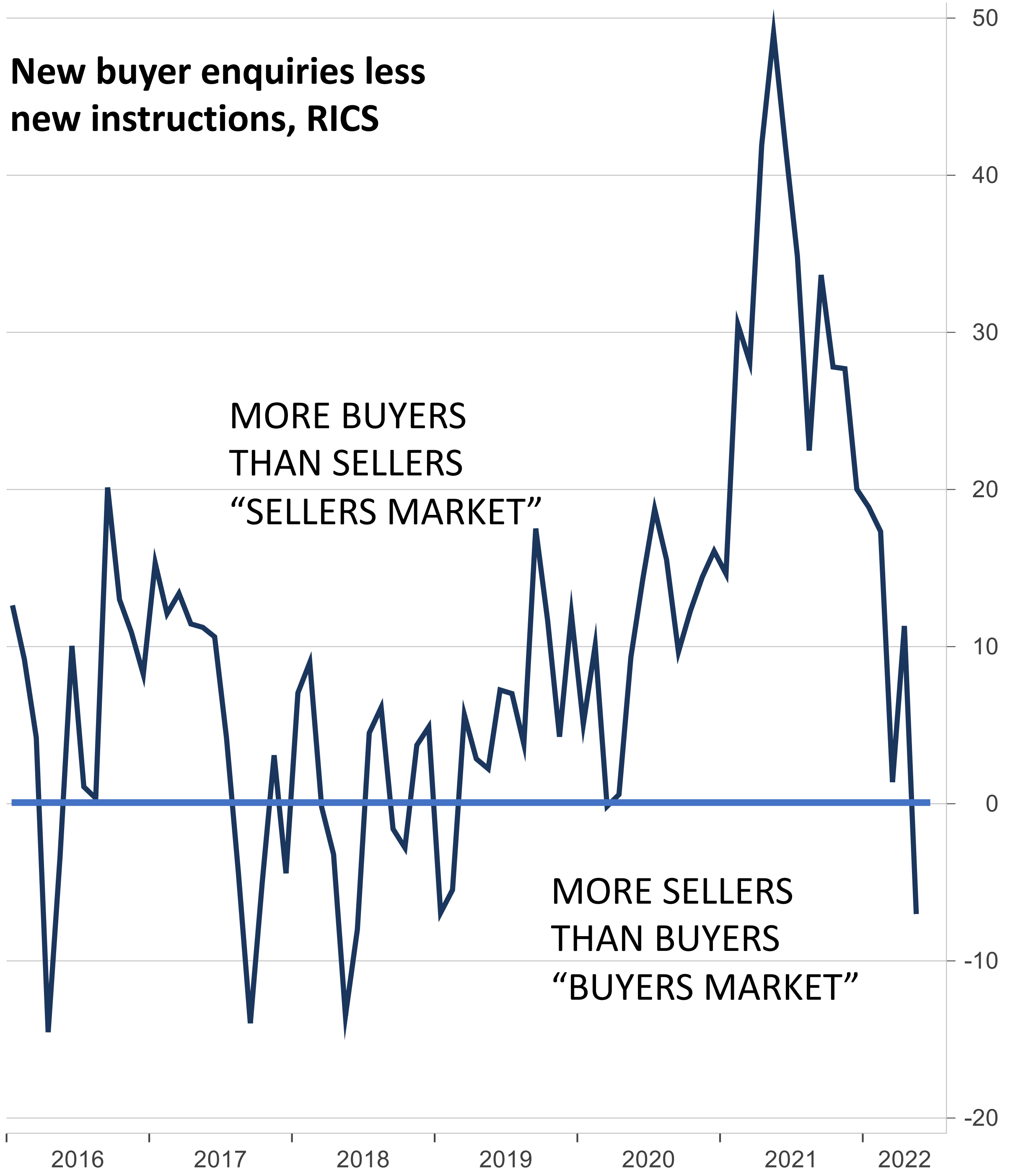
- New buyer demand
- Agreed sales
- Mortgage approvals
- House price sentiment … from a very high level

But…supports this time:-

- Strong labour market
- Lower LTVs
- Much lower peak in interest rates
- Excess savings
- Low supply and healthy demand

Scenario…

- Drop in prices *should* be less dramatic, -5%?, London safer
- Transactions -10% this year



Macro view rentals

Rental market slowly beginning to rebalance

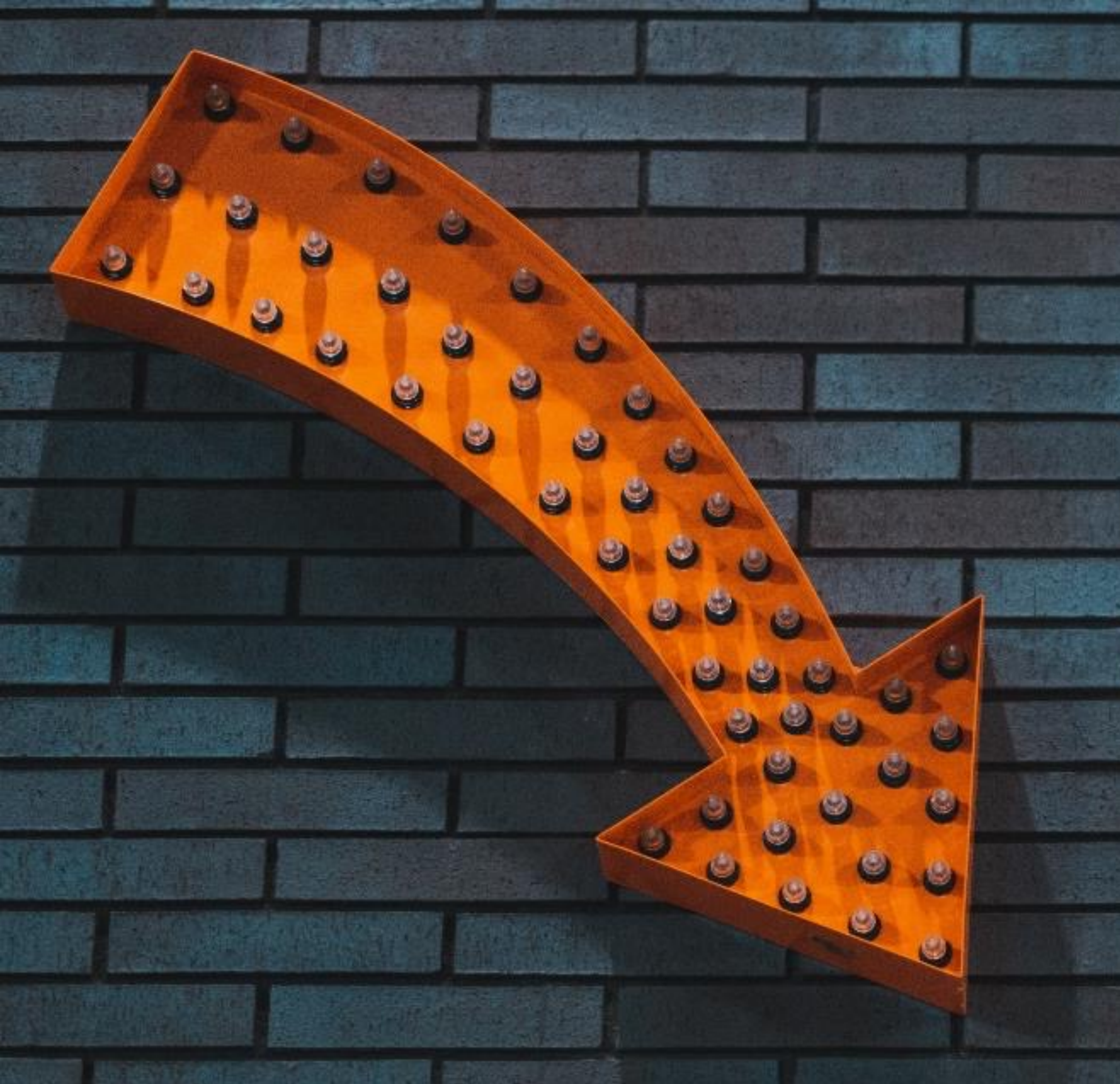
- Tenant demand is starting to ease
- Rental supply balance ticked up into positive territory, first time since September 2020
- Rents in London surged 16% pa in Q1, PCL 29%
- Rents 10pc above 2019 levels

Rental growth will slow…

- …but wage growth will average 5pc to 6pc per year 2022 and 2023
- higher mortgage rates will keep some people renting for longer
- therefore above trend rental growth is likely

Where do we stand?

Market cycle is shifting, pandemic to post-pandemic, sellers to a buyers' market
Markets were supported by low rates, pushing prices, but will be tested as policy tightens
Everything depends on how far rates rise – but big counter trends



Will house prices fall?

Yes, in some markets they are already falling (HK, NZ, China, Singapore, Frankfurt), more will follow, PGCI slowed in Q1
Inflation, higher cost of living, rising mortgage rates, lower buyer sentiment, foreign buyer bans (Canada)
Recent growth means all these themes make markets highly volatile

...could they crash?

Less likely, (1) need forced sellers and (2) collapse in house price expectations

It's a “bit different this time”, the GFC was preceded by massive loosening in credit conditions

Financial system is stronger than in 2008, less high LTVs and income multiples, lower household debt to income ratio, also strong labour market

1. Supply will support prices

Unlike 2008, no overhang of stock, problem is still lack of stock, 40% below pre-pandemic LA
Supply will rise – unlock sales
Supply disruption and cost rises = development volumes have fallen, developers hungry for new sites and opportunities

2. Demand will remain strong

Three things boosted prices: low rates, covid demand for more space, and pandemic led household savings
Elevated savings still in play, hybrid working isn’t going away - lifestyle drivers support demand
Demand is strong, WR 21% want to buy 2022 (19% 2021), 80% above trend London

3. The return of the international buyer

LHR -36%, DBX -31%, HKG -98%, PCL international buyers -20%
Dollar play GBP, EUR, AUD, NZD = -10% in 12-months, PCL -34% vs 2014, Monaco 10% rise in a year is reversed

4. Investors want income

23% of UHNWIs plan to invest in 2022
Inflation hedge? Berlin 16%, Manhattan 27%, London 29%, Miami 33%
20% of UNWIs want indirect, REITS, equities etc, but also JVs and development finance, access to wealth opens opportunities

5. The wealth opportunity

173,000 additional UHNWIs, 37m more HNWIs
Enter new cycle as property more central to lifestyle and investment criteria
The Wealth Report, unique insight into client, behaviours, motivations and requirements