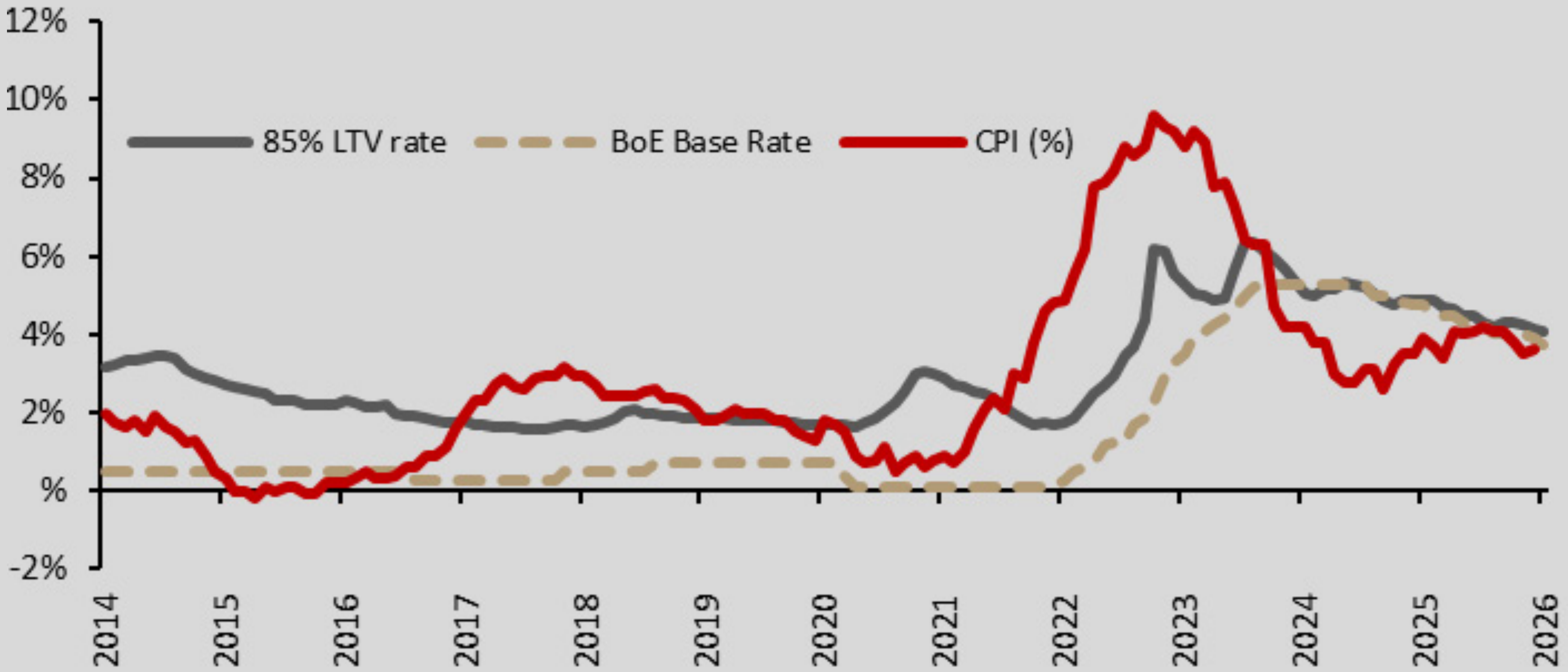
Moorfield Group

More Than Numbers

Interest Rates and Inflation

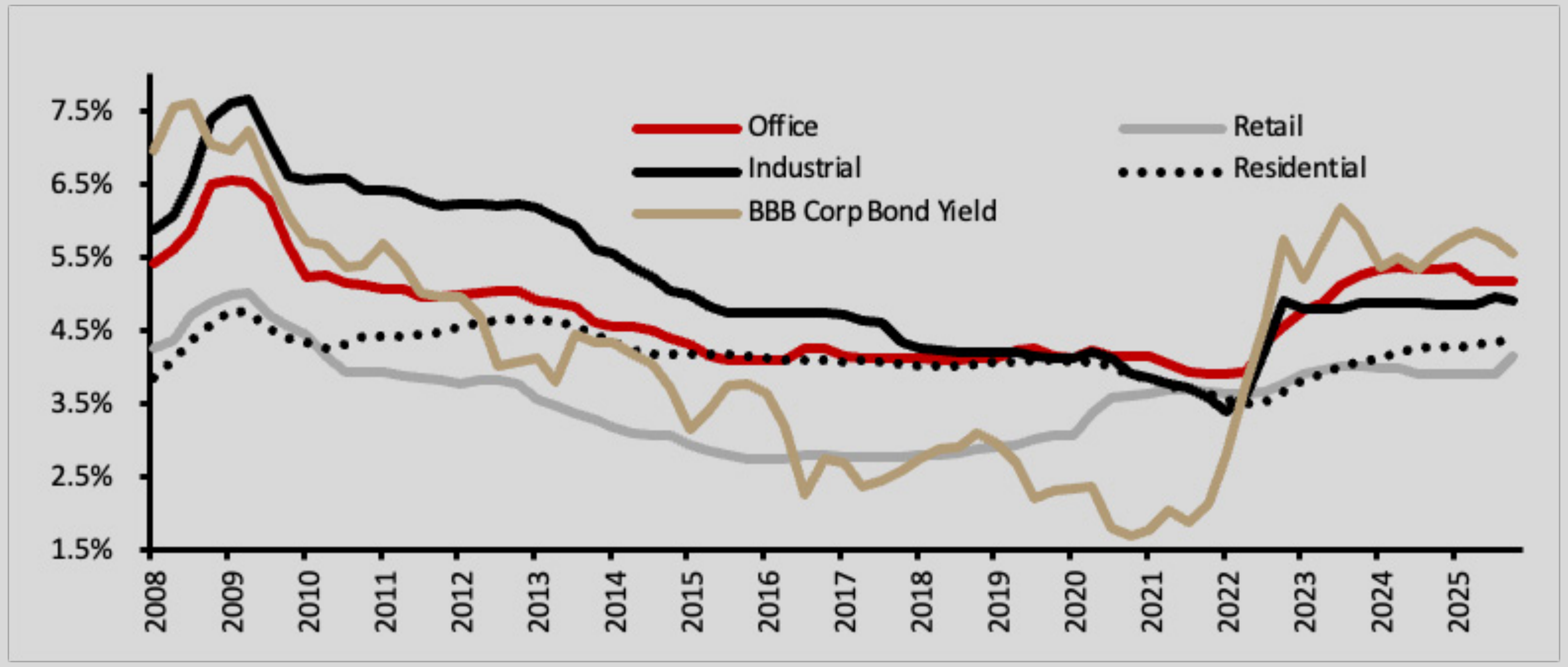


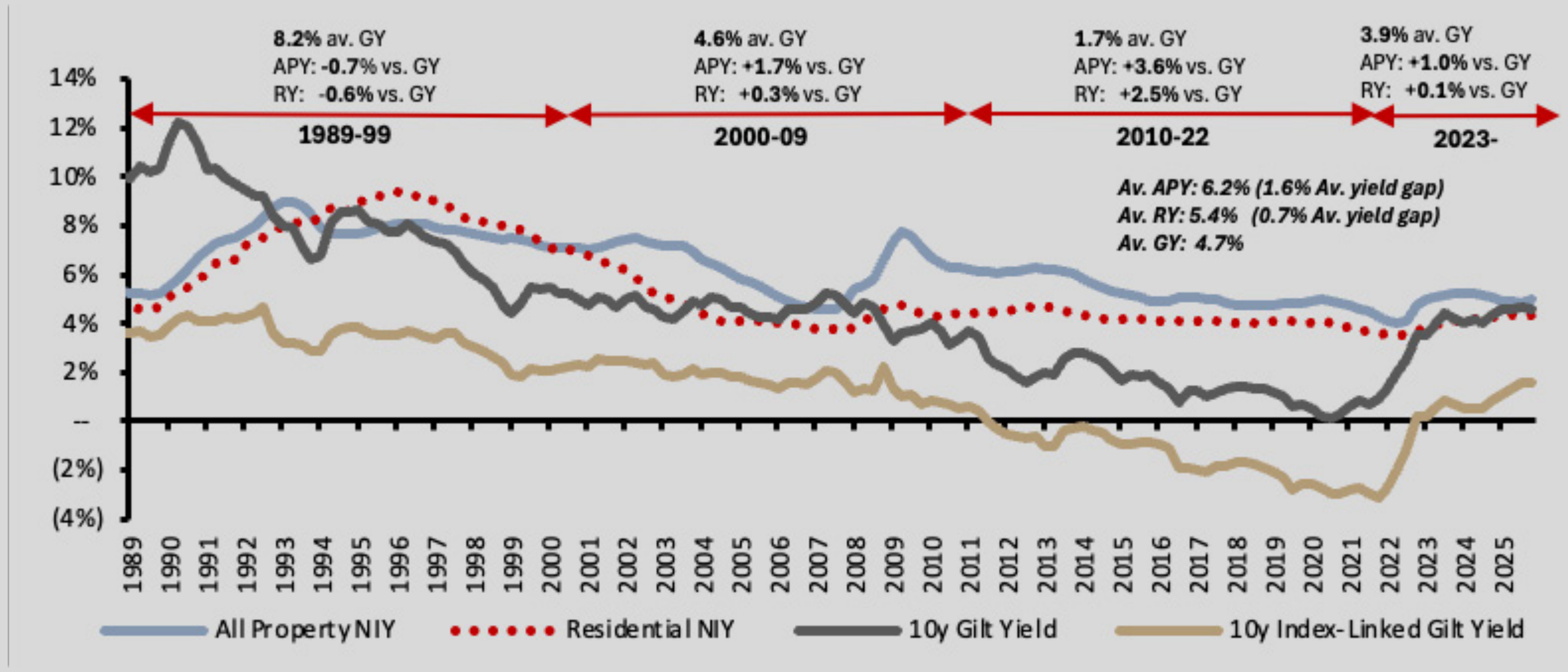
Source: *Bank of England, Office for National Statistics*

Inflation is expected to reduce this year and the Bank of England and have said that if progress on disinflation continues, then the Bank Rate is likely to continue on a gradual downward path.

There is plenty of debt liquidity, and with mortgage costs reducing, we expect more residential and commercial real estate transaction activity this year.

UK Real Estate Prime Yields



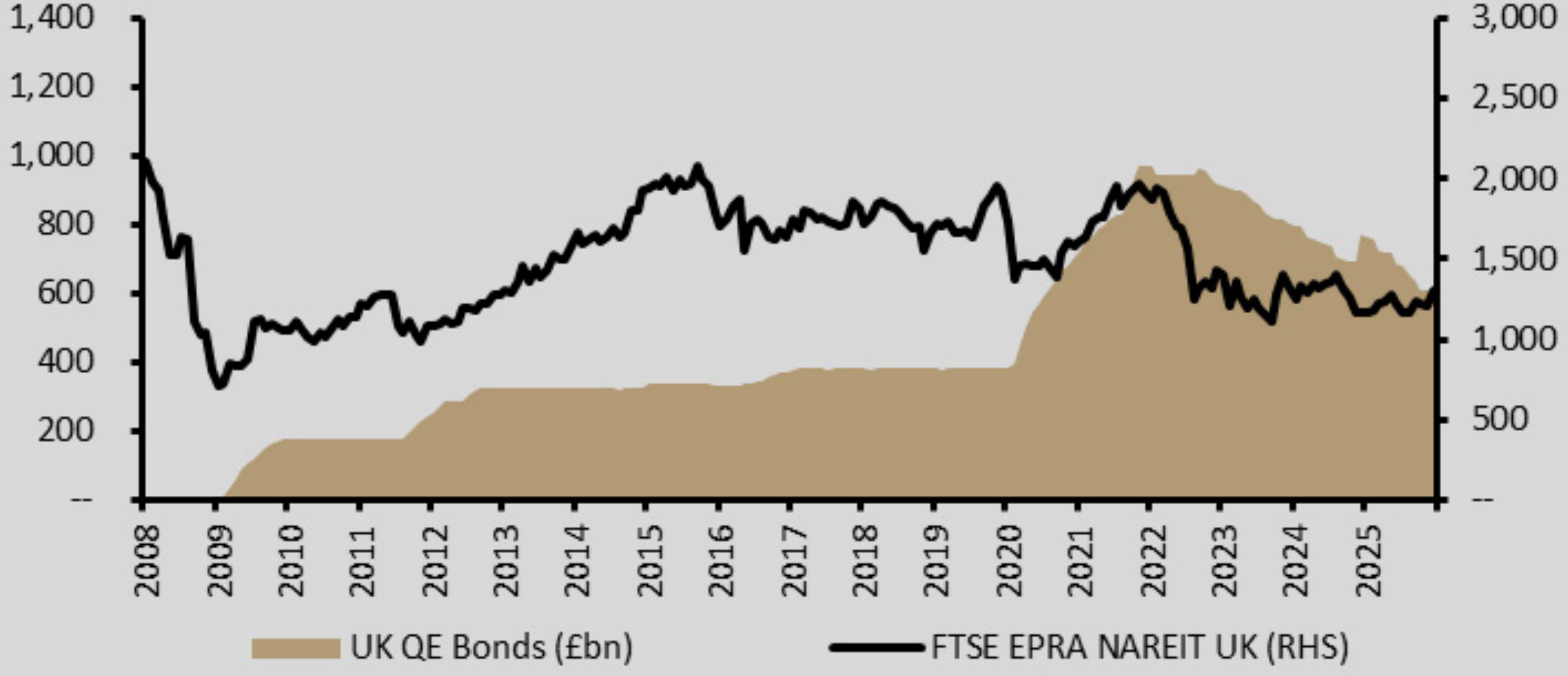


Source: *Bank of England, Capital Economics*

Real estate yields have now plateaued for a few years and while they may still look expensive relative to BBB corporate bond yields or the 10 year gilt yield, there is headroom relative to the inflation-linked gilt yield.

The attraction of inflation-linkage that you can get from the rental growth of certain real estate sectors is attracting attention and inflation-protection remains a key priority for investors.

Government Stock of Bond Holdings (£bn)

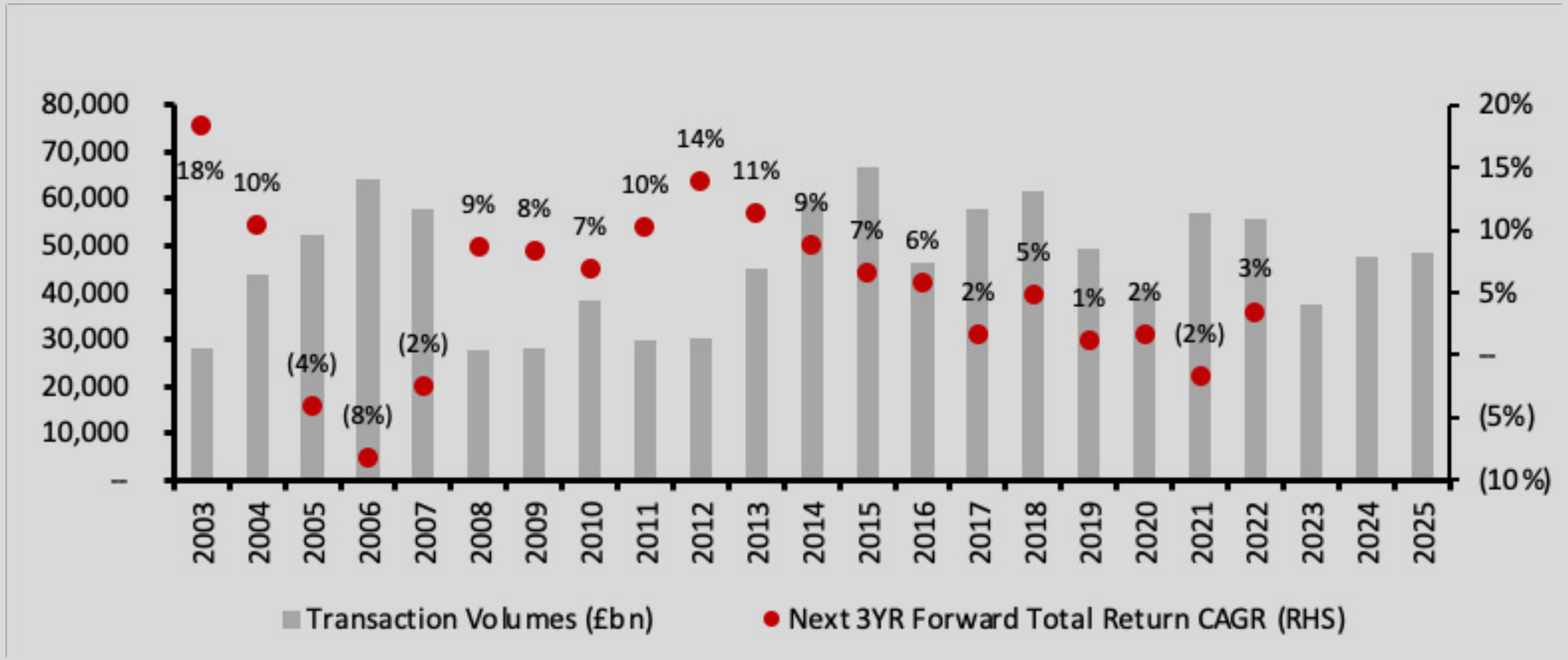


Source: *Bank of England, Capital Economics*

The 10 year gilt yield remains high but the worst fears about the Budget did not materialise and instead extra fiscal headroom was announced. There is scope for gilt yield reductions going forward.

The restrictive environment created by the Bank of England from the high Bank Rate and Quantitive Tightening looks like it is now coming to an end. The stock of government debt owned by the Bank of England is approaching pre-COVID levels and there is also scope for the Bank of England to stimulate the economy if needed.

Transaction Volumes and 3 Year Forward Total Return CAGR



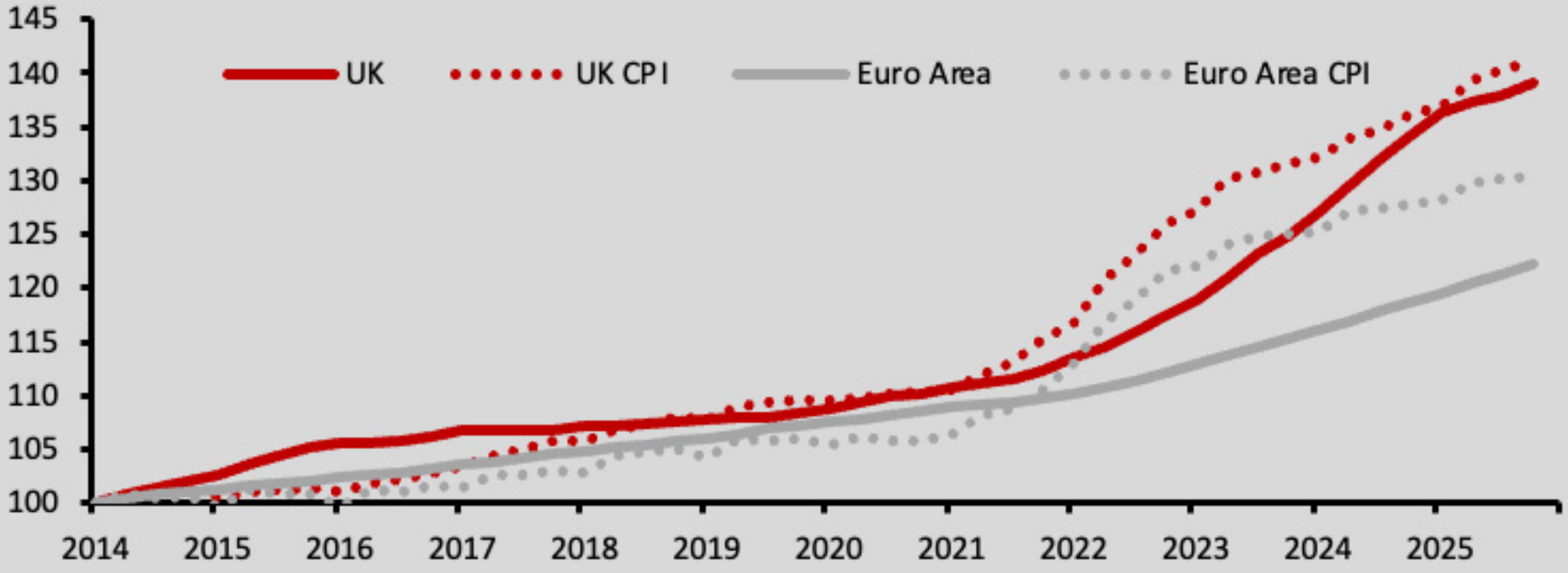
Source: *Capital Economics*

A good guide to future returns is the level of transaction activity. High transaction volumes typically represent strong confidence but this often leads to weaker performance. Lower transaction volumes tend to result in better returns being achieved as the reduced competition leads to more attractive pricing.

Transaction levels remain muted and are set to be delayed by the conflict in the Middle East. Higher energy costs will likely also lead to higher construction and operating costs, whilst the expectation of higher inflation and delayed Bank Rate cuts has already driven a 50bp increase in the 10 year gilt yield.

Residential Rents (2014 = 100)

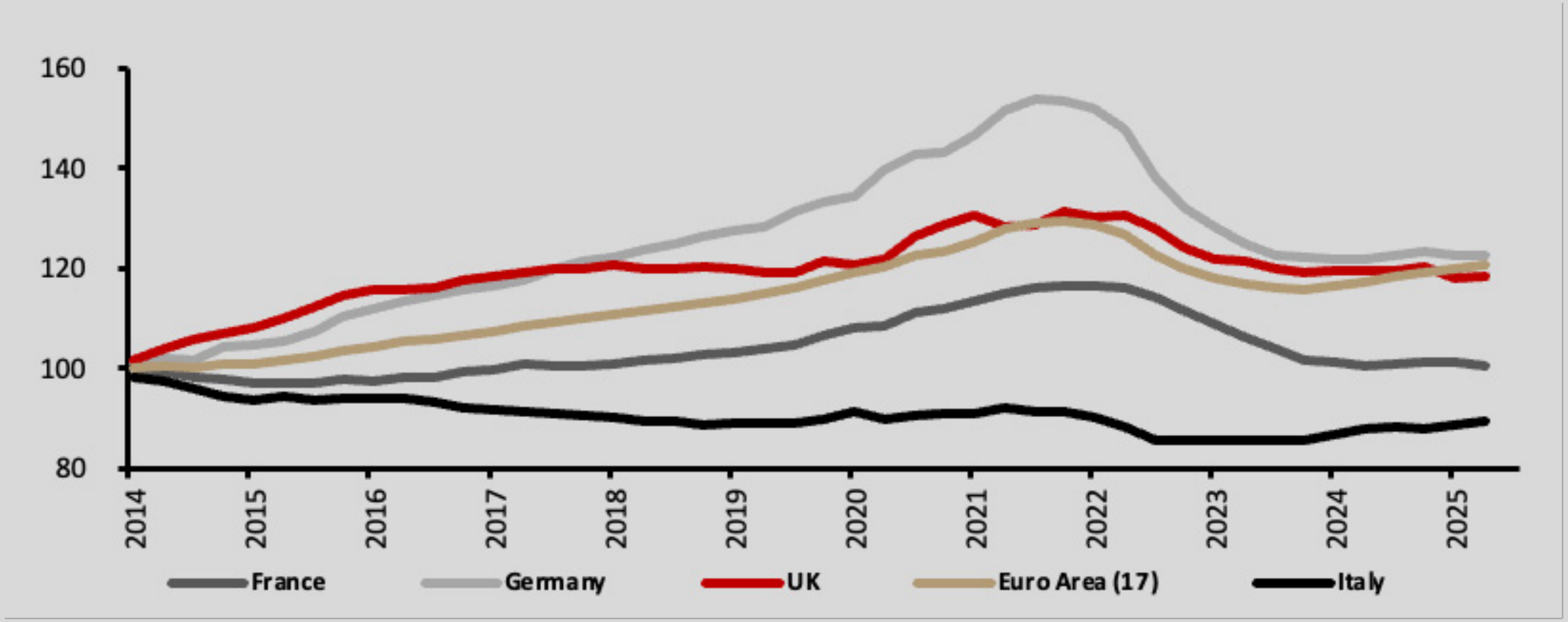
One of the key trends we have identified when comparing the residential sector in the UK vs the Euro Area is stronger correlation between residential rents and inflation.



Source: *OECD*

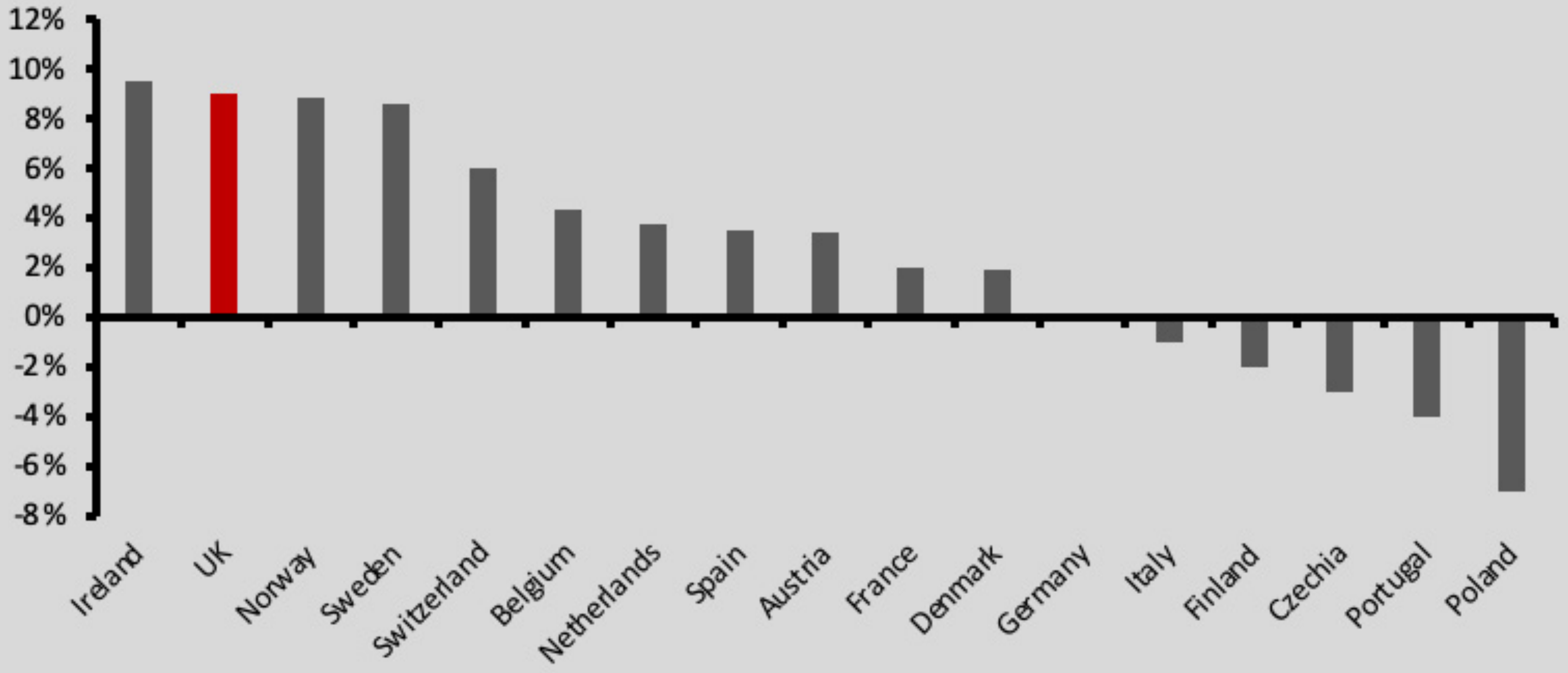
Real House Prices Rebased to Q1 2014

Real House Prices in the UK have performed in line with the Euro Area and ahead of France and Italy – with Germany underperforming the most since 2021/2.



Source: *OECD*

Projected Population Growth 2024-40



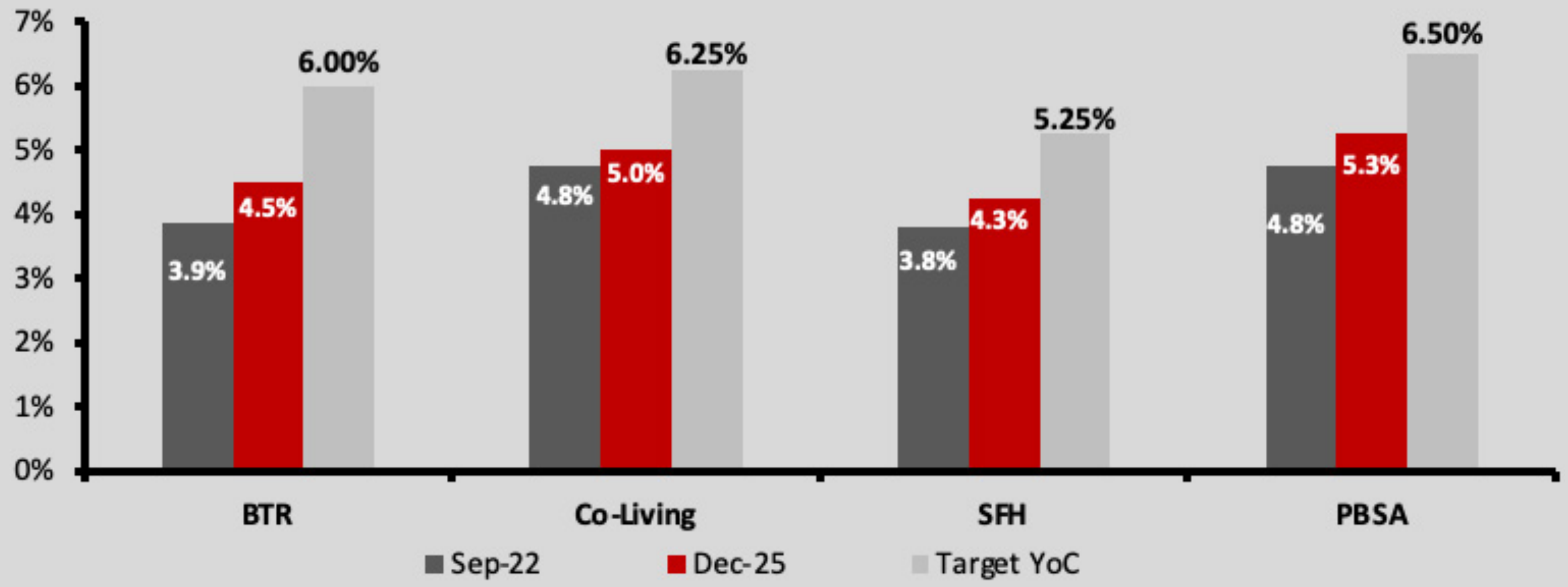
Source: *Moodys Analytics*

One of the key differences between the UK and the Euro Area has been stronger population growth in the UK, which is expected to continue.

The UK is one of the largest economies in the world that attracts more cross border net real estate investment than any other country (including the USA). It has the benefits of time zone, language, legal system, transparency, liquidity and attractive demographics in its favour. The UK also has some of the best global universities and an entrepreneurial culture with a highly educated service-led economy.

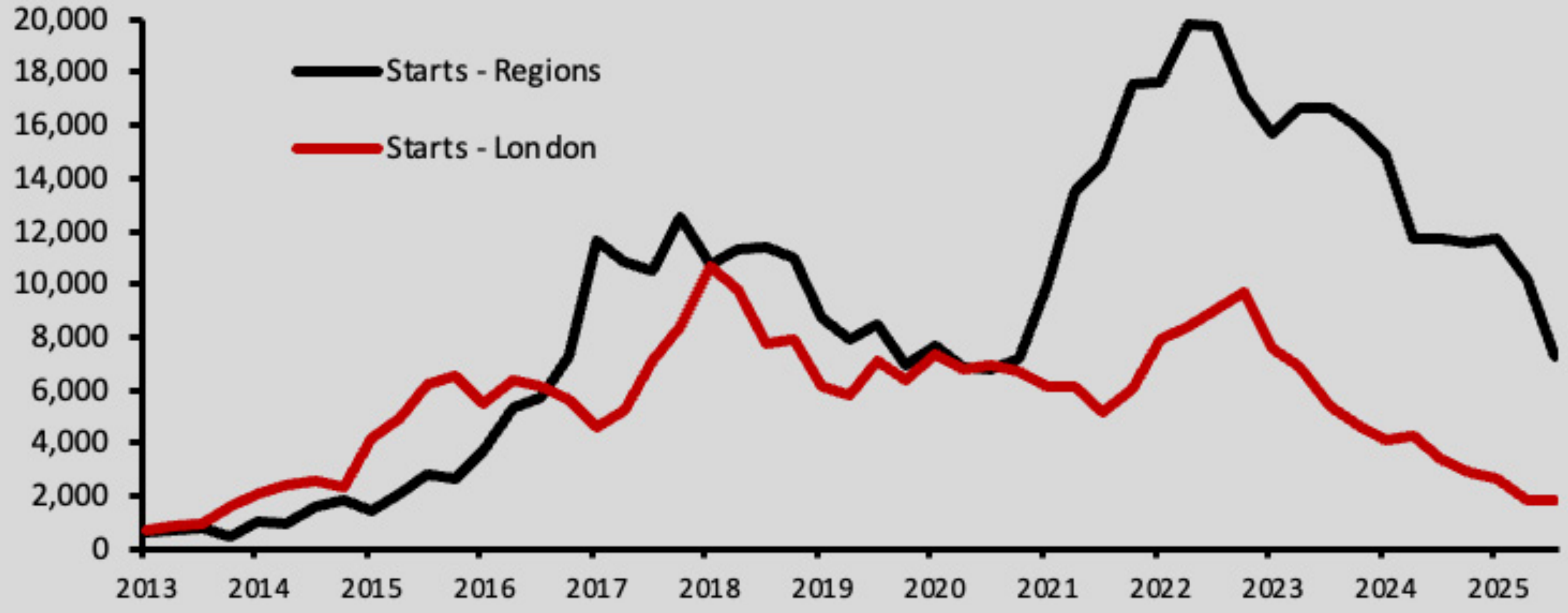
Whilst there are challenges due to low current economic growth, we expect increased capital flows that might otherwise have been directed at the US and the Middle East because of the geo-political environment. If harnessed, this capital will help drive economic growth and help deliver much needed housing supply.

Yields



Source: *CBRE, Knight Frank*

UK BTR Construction Starts (Rolling Annual Basis)



Source: *Savills Research, British Property Federation, Molior*

We believe there is a material opportunity for investors who can unlock development funding and create best in class assets that will be attractive to both customers and low cost of capital institutional investors.

There is a lack of development funding availability and an attractive yield difference available between the development funding yield on cost and stabilised valuation yields.

This is especially the case for assets with the latest building safety and environmental credentials and we expect there to be a scarcity premium.

Moorfield Group

"Specialist skills and long term relationships are required to unearth the best opportunities and structure the appropriate funding agreements with developers. It is also necessary to have operational experience to deliver the necessary customer experience; using design, technology and hospitality skills. Financial expertise and data analytics are also critical and over 30 years Moorfield has managed to hone its approach across these disciplines to deliver attractive returns to its investors.

This proven history and experience of managing real estate through many cycles is a critical feature to give investors confidence in the current environment."

Charles Ferguson-Davie
CEO and Chief Investment Officer