

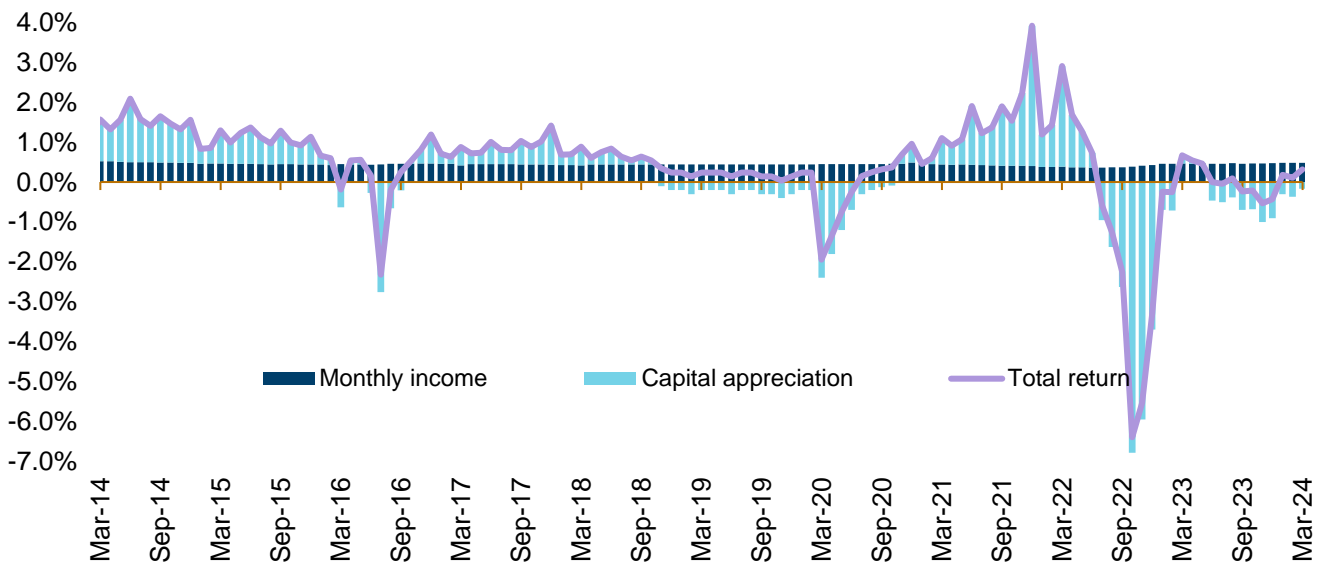
UK Real Estate: talking points

April 2024 (all data to 31 March 2024)

Welcome to Columbia Threadneedle Investments' concise quarterly snapshot of current real estate market trends, using transparent market data to summarise key implications for asset allocation and performance prospects.

Capital market context:

MSCI Monthly UK Property Index - income, capital and total returns



Finance:

5-year Gilt: 3.8%
5-year Swap: 3.8%



Real estate:

NIY: 5.6%
EQV: 7.1%



Spread: 3.3%

(5-year Gilt to EQV)

Talking points:

- Base rate was held at 5.25% in March, and market expectations of rate cuts have varied considerably through Q1 and into April. Swaps increased 40bps to 4.2% between 31 March and 18 April, indicating markets now anticipate rates remaining higher for longer, contrary to the most recent BoE narrative.
- Q1 GDP is expected to be positive and may illustrate a broader consumer-led recovery.
- A General Election in Q4 2024 is likely to weigh on already fragile investment volumes.

Source: Columbia Threadneedle Investments, JLL and MSCI Monthly UK Property Index, all as at 31 March 2024 unless stated otherwise. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Provided for information only, not to be construed as investment recommendation or advice. **Past performance is not a guide to future returns. Capital is at risk and investors may not get back the original amount invested. Not all investment ideas are suitable for all investors.**

State of the market:

Key sector metrics as at 31 March 2024

| Trending key: | Industrials | Offices | Retail | Alternatives |
|--|---|---|---|--|
| Strengthening | | | | |
| Stable | | | | |
| Weakening | | | | |
| Headlines | Development pipeline slows further, exacerbating the lack of quality supply | Sentiment remains weak but vacancy is beginning to plateau but at elevated levels | Strong investor and occupier demand for out-of-town schemes but options limited | Structural and demographic changes favour 'Beds' and 'Meds' |
| Vacancy* (By Market Rent) | 6.9% | 22.8% | 6.2% | 2.3% |
| Rental Growth* (Annualised) | 6.9% | 2.8% | 0.6% | 4.1% |
| Prime Yield Pricing** (Net Initial Yield, rack rented) | Distribution 5.25% | London (City) 5.75% | Warehouse 6.00% | Student 5.00% |
| | Multi-let 5.25% | Regions 6.50% | High Street 7.00% | Leisure 8.00% |
| Allocation | Favour multi-let and mid-box logistics. Neutral big-box distribution | Highly selective: favour urban centres with good amenity and accessibility | Favour out-of-town warehouses / parks Underweight in-town | Favour, strategic land, 'meds' and residential including student housing |

Talking points:

- Capital value declines have moderated for favoured sectors, with pricing expected to bottom-out through mid-2024 (retail warehouse could be the lead indicator of nascent pricing recovery)
- Some further asset repricing is anticipated in non-favoured sectors (office vacancy continue to increase)
- Market presents an attractive buying opportunity for investors brave enough to transact in an environment which does not yet offer full transparency.

Outlook in one line:

“A more stable macroeconomic environment should provide further clarity to investment decisions. June could signal the start of a rate cutting cycle, but the full benefits of looser monetary policy are unlikely to be seen until 2025, with the economy undergoing a period of adjustment in the interim.”

Source: Columbia Threadneedle Investments, *MSCI UK Monthly Property Index and **CBRE Prime Yields, all as at 31 March 2024 unless stated otherwise. MSCI UK Monthly Property Index Vacancy rate and Market Value Rental Growth (Alternatives data is unweighted average Hotels, Residential, Other), as at 31 March 2024. Trends against average of prior 6-months (+/- <0.25% denotes stable). Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Provided for information only, not to be construed as investment recommendation or advice. **Past performance is not a guide to future returns. Capital is at risk and investors may not get back the original amount invested. Not all investment ideas are suitable for all investors.**

Theme in focus: Demographics

Key statistics (as at 31 March 2024)¹:

| Indicator | Level 2023 | Growth (absolute) 2023-2043 |
|------------------|--------------|-----------------------------|
| Population | 68.4 million | 7% |
| 20 – 34 age pop. | 13.2 million | 9% |
| 65+ years pop. | 13.0 million | 32% |



House view:

- Changing demographics will direct the future development of real estate and will have far reaching impacts on certain sectors, namely logistics, retail and residential where we think the impact will be the most significant.
- The UK’s ageing population, whereby 1 in 3 of us will be aged 65 years or over by 2043, will put the health care system under long-term pressure and as people live longer, we are seeing early indications of a growing senior living sector, evolving alongside specialist medical facilities.
- The younger population of 20 - 34 years olds whom will be more technologically enabled, more physically mobile and more sustainably motivated, will interact with the physical world differently - where and how they shop and live will see more localisation or services, more infrastructure needed to service that localisation and the housing sector where supply is not matching demand in terms of number, size and location will need intensified attention.

Next quarter: Energy

And look out for our in-depth quarterly UK real estate overview in May

About the Manager

Columbia Threadneedle Investments manages a diverse global real estate platform totalling **£20.5bn²** with a team of 200+ property experts operating from offices in London, Paris, Munich and Houston.

We are an **experienced**, **dynamic** and **responsible** manager of real estate in the UK, active across the full risk / return spectrum of the market, focused on delivering strong, consistent returns for clients.

We invest at **scale³**



£7.7bn
AUM



40
Investment professionals



737
Properties



4,320
Tenancies

Assets are **actively** and **responsibly** managed³



£1.2bn
Annual investment turnover*



700+
Annual leasing transactions*



£5.7bn
GRESB



3,400
Annual purchase opportunities*



100+
Works projects completed annually*



£2.6bn
Net Zero aligned

Source: Columbia Threadneedle Investments, as at 31 March 2024, unless stated otherwise. *3-year average as at 31 December 2023. **Past performance is not a guide to future returns. Capital is at risk and investors may not get back the original amount invested. Not all investment ideas are suitable for all investors.**

1. Key statistics sourced from MSCI UK Property Monthly Index and Oxford Economics, as at 31 March 2024.

2. As at 31 December 2023. The total AUM in USD terms: \$26.4bn.

3. As at 31 December 2023. The numbers are for the UK direct real estate team. The AUM in USD terms: \$9.8bn.

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