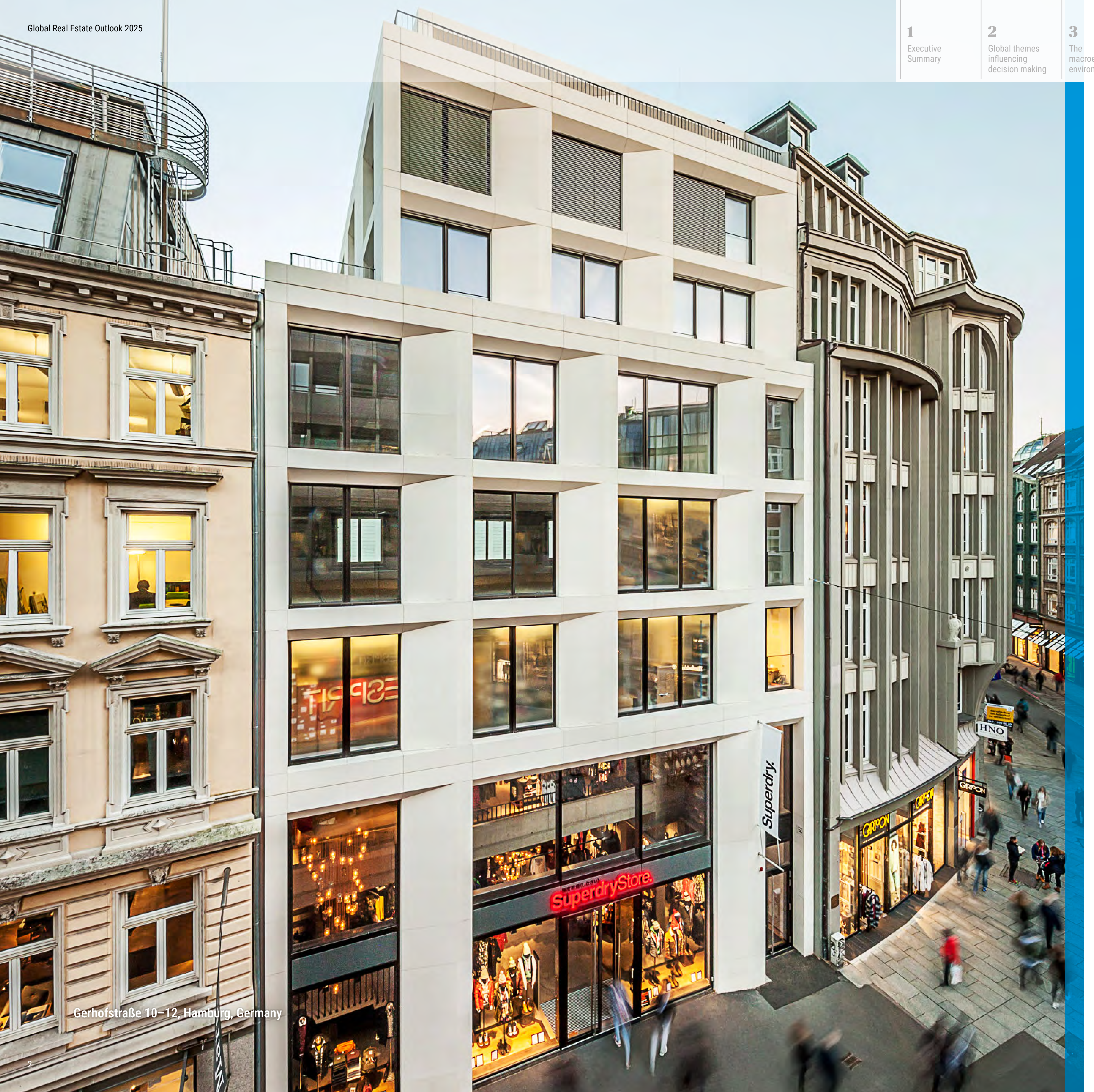
Global Real Estate Outlook 2025

COLUMBIA THREADNEEDLE INVESTMENTS®



Gerhofstraße 10–12, Hamburg, Germany

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Investors who can see through the current uncertainty will be the ones that capitalise on opportunities to outperform the next market cycle

Executive Summary

Gallagher Retail Park, Coventry, United Kingdom

The world is in a state of flux with divergent political, fiscal and monetary policies affecting economies and markets in different ways. Global trends must be weighed alongside sector and asset allocation considerations to enable active real estate managers to make intelligent decisions that will generate value for investors through this phase of the cycle.

It is worth reflecting on the past 12 months before turning attentions to what 2025 holds. We have seen elections in major economies around the world and changes in human behaviour in response to shifting structural thematics. While inflation fell across most major economies, restrictive monetary policy and the heightened cost of debt held back investment activity as bid:ask spreads persisted and real estate prices initially fell and then stabilised. But this cycle is different from the last one – the occupational sector has remained very resilient, posting positive rental growth for all sectors, even while capital values declined.

Real estate markets across the globe now appear to have reached a turning point and are showing increasing signs of positive momentum. Inflation is trending down, providing more clarity on the path of interest rates across the world, which are easing, albeit at a slower pace than initially anticipated. Global property prices have, by and large, stabilised, investor confidence is improving, and buyer and seller expectations are converging. This has resulted in increased transactions. There is, of course, divergence by sector and geography, but 2025 comes with a renewed – albeit cautious – sense of optimism for investors, occupiers and developers.

More than ever before, maximising returns will require creativity and careful stock selection. Creativity may involve securing permits for change of use, or the repositioning of standing assets through refurbishment. Stock selection must continue to favour assets which align to occupier demand (retaining 'functional relevance') and are best positioned within local markets. The next 12 months will not be straightforward, but times of uncertainty are often when opportunities are greatest. Those investors who can see through the current uncertainty will be the ones that capitalise on opportunities to outperform the next market cycle.

Our key takeaways for 2025

1

Long-term structural trends will continue to favour thematic allocations to logistics, retail (focusing where real estate adds maximum value for occupiers) and residential. Retail remains a high-conviction sector based on our direct experience investing and managing through cycles, and we believe this area offers exciting return prospects for 2025.

2

The pace of recovery will vary across the globe and deployment timing will be vital to capture growth potential. Some economies will recover faster than others and offer investors more confidence, but there is a balance to be had with the impact of geopolitical events that have the potential to slow recovery.

3

Sustainability remains a key consideration and is beginning to influence markets in more nuanced ways, which can be leveraged to drive additional returns. For example, increased reliance on electricity means access to power is crucial, now more than ever before as national grids struggle to keep up with demand. Assets that deliver onsite power/provide enhanced energy security to occupiers and offer additional performance prospects to investors will be attractive.

4

Increasingly demanding consumers and occupiers will dictate the desired format and location of real estate going forward. Assets that fall below expected standards risk becoming stranded. As a result, 'top-down' considerations must be complimented by robust 'bottom-up' asset selection and the ability to effect direct asset interventions and improvements to maximise scope for outperformance.

5

While value-add strategies are anticipated to remain favoured by investors, the recovering market and potentially higher yield arbitrage may see a return of core and core plus capital to the market.

Milliners Yard, Liverpool, United Kingdom

Global themes influencing decision making

Demographics

- Changing trends in living and consumption habits
- Altering population structures with ageing societies and more mobile younger generations
- Governmental policy response creates opportunities

Digitalisation

- Technological advances have the potential to disrupt and accelerate growth
- Demand for data and knowledge to increase
- Changes to how we occupy space with increased risk of physical asset obsolescence

Realignment

- Reorganisation of supply chains as geopolitical tensions cause disruption
- Supply-chain resilience and diversification along with policy response will directly impact logistics networks

Decarbonisation

- Regulatory and economic imperatives for proactive direct intervention on the built environment, embracing renewable energy sources
- Environmental and social factors will influence investor and occupier decisions

Investment implications

Value concentration: premium derived from functionally relevant buildings which deliver against occupational requirements and corporate agendas

Investment strategies driven by clear, thematic, sector allocations, and dynamic tactical implementation to monetise structural trends

Opportunity for active managers to reposition out-of-favour assets to align to peak capital demand (e.g. 'grey to green' refurbishment)

50 rue de Faubourg Saint-Honore, Paris, France

The macroeconomic environment

The last 12 months have been a roller coaster ride with both foreseen and unforeseen events. The European Central Bank was the first of the big central banks to drop rates (June 2024). They were followed by the Bank of England in August and the US Federal Reserve in September 2024. Inflation continues to trend down with headlines rates now close to target in most major economies. There is, however, more work to be done as services inflation – considered to be a 'good' indicator of domestic price pressures – is proving sticky and while wage growth is still relatively robust there are signs that the labour market is softening.

2024 was a big one in the electoral cycle with around 55% of the world's population going to the polls including major economies such as the United Kingdom and the United States. The United Kingdom voted in July and predictions proved accurate with Keir Starmer now the leader of the new Labour government. Elections to watch in 2025 are Germany in February – a vote that follows the collapse of the coalition government in November 2024. France is piecing together the fragments of a government after a snap Parliamentary election was called in June last year. The vote resulted in no party taking enough seats for a majority. Added to this was Michel Barnier, the French prime minister, losing a vote of no confidence in December 2024. And not wanting to be left out, the United States held an election in November 2024 with Kamala Harris pitted against Donald Trump. Trump emerged as the victor together with his ongoing tariff threats. At the time of writing, the scope, timing and magnitude of policies to be adopted are light on detail and so the degree to which they could impact economies around the world, levels of inflation and financial markets remains unknown.

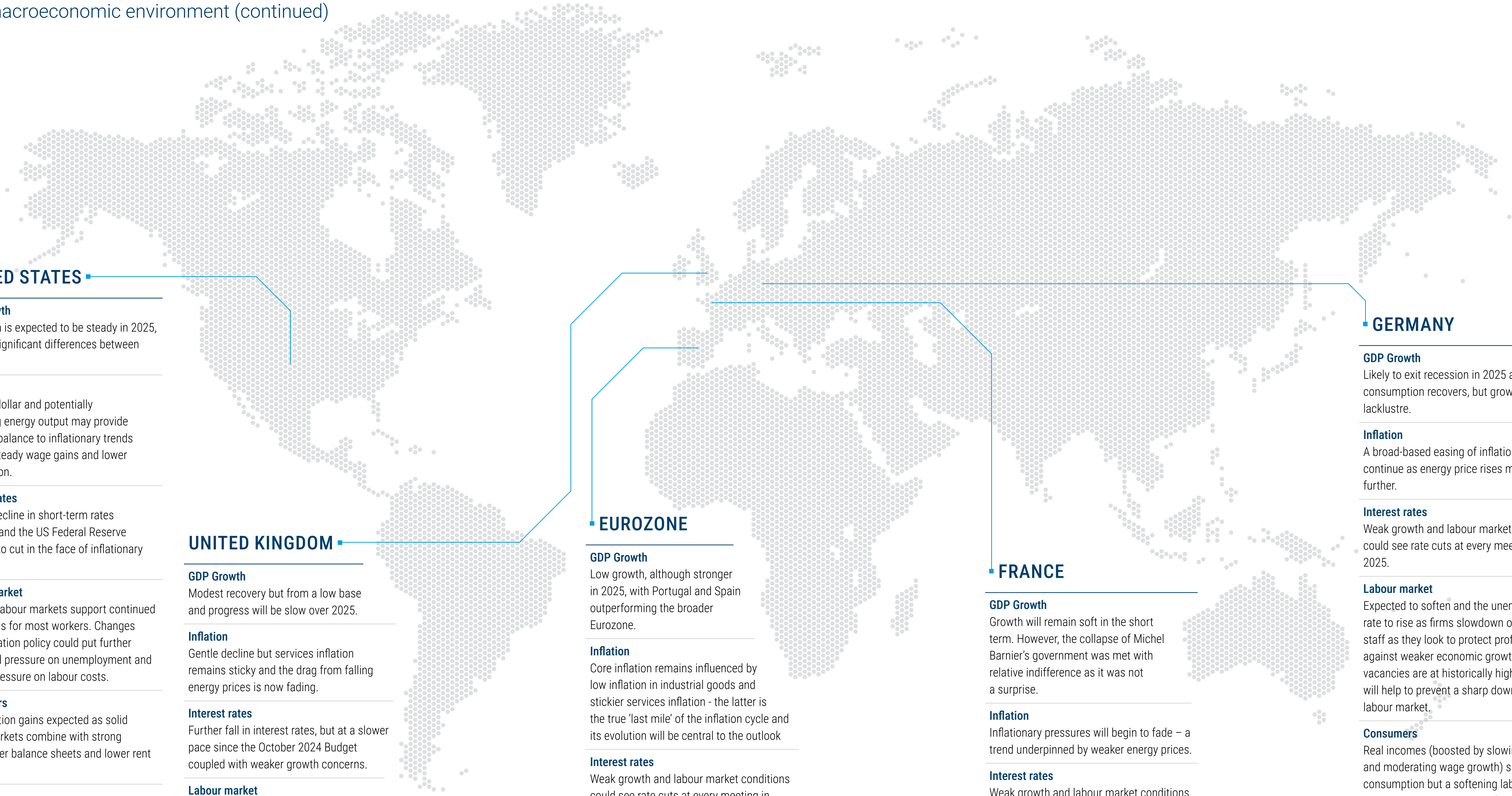
This wave of national elections and UK Budget announcements has removed some of the regulatory overhang in some markets, but it will take time for matters to unfold in others to reveal the true impact. But overall, the political outlook is clearer and is expected to contribute to improved investor confidence.

The timing of real estate investments will be crucial, as will top-down sector positioning and bottom-up asset selection. The new cycle is emerging, but only slowly. As the recovery takes hold, it is unlikely to be smooth sailing against a backdrop of geopolitical tensions and bond market volatility. The continued squeeze on business profits and further cost pressures could see further business failures. But one thing is for sure, 2025 will bring with it a new normal level of uncertainty, affording opportunity to those real estate investors who are able and willing to be amongst the first movers. If nothing else because the last cycle was different to previous ones; capital value declines were pitted against a resilient occupier base and those who can see the opportunity in this juxtaposed position will benefit.

Timing matters and as the geopolitics playing out across the world differ by country and region, so will the impact of key economic indicators on the real estate market for investors, occupiers and developers.

The timing of real estate investments will be crucial, as will top-down sector positioning and bottom-up asset selection

The macroeconomic environment (continued)



UNITED STATES

GDP Growth
US growth is expected to be steady in 2025, but with significant differences between regions.

Inflation
A strong dollar and potentially expanding energy output may provide a counterbalance to inflationary trends such as steady wage gains and lower immigration.

Interest rates
Modest decline in short-term rates expected and the US Federal Reserve reluctant to cut in the face of inflationary factors.

Labour market
Still tight labour markets support continued wage gains for most workers. Changes in immigration policy could put further downward pressure on unemployment and upward pressure on labour costs.

Consumers
Consumption gains expected as solid labour markets combine with strong homeowner balance sheets and lower rent increases.

UNITED KINGDOM

GDP Growth
Modest recovery but from a low base and progress will be slow over 2025.

Inflation
Gentle decline but services inflation remains sticky and the drag from falling energy prices is now fading.

Interest rates
Further fall in interest rates, but at a slower pace since the October 2024 Budget coupled with weaker growth concerns.

Labour market
Higher employer costs delivered in the Autumn Budget (2024) could see companies scale back on hiring. Unemployment is hovering around historic lows, so any uptick is expected to have limited overall impact.

Consumers
Reasonable consumption levels at the end of 2024 that outstripped growth in household disposable income. But household saving ratio remains elevated.

EUROZONE

GDP Growth
Low growth, although stronger in 2025, with Portugal and Spain outperforming the broader Eurozone.

Inflation
Core inflation remains influenced by low inflation in industrial goods and stickier services inflation - the latter is the true 'last mile' of the inflation cycle and its evolution will be central to the outlook

Interest rates
Weak growth and labour market conditions could see rate cuts at every meeting in 2025.

Labour market
The tightness of labour markets, with still very high levels of vacancies across many sectors and higher-than-usual labour shortages, means that a small rise in the unemployment rate over the next 12 months is more likely than a severe deterioration.

Consumers
Consumption is expected to outpace GDP growth but there are likely to be large variances across the Eurozone. Fundamentals are supportive of stronger spending in 2025, but consumers remain cautious.

FRANCE

GDP Growth
Growth will remain soft in the short term. However, the collapse of Michel Barnier's government was met with relative indifference as it was not a surprise.

Inflation
Inflationary pressures will begin to fade – a trend underpinned by weaker energy prices.

Interest rates
Weak growth and labour market conditions could see rate cuts at every meeting in 2025.

Labour market
Labour in France will likely stay more expensive than in its trading partners in the absence of structural reforms to contain relative labour costs.

Consumers
Even though wage increases have been outpacing inflation, household savings are at a new high as consumers/households remain careful on spending.

GERMANY

GDP Growth
Likely to exit recession in 2025 as consumption recovers, but growth remains lacklustre.

Inflation
A broad-based easing of inflation will continue as energy price rises moderate further.

Interest rates
Weak growth and labour market conditions could see rate cuts at every meeting in 2025.

Labour market
Expected to soften and the unemployment rate to rise as firms slowdown on hiring staff as they look to protect profit margins against weaker economic growth. However, vacancies are at historically high levels and will help to prevent a sharp downturn in the labour market.

Consumers
Real incomes (boosted by slowing inflation and moderating wage growth) support consumption but a softening labour market could impact consumer confidence and spending.

Source: Oxford Economics, Columbia Threadneedle Investments

Strandkai, Hamburg, Germany

Real Estate: current environment and outlook

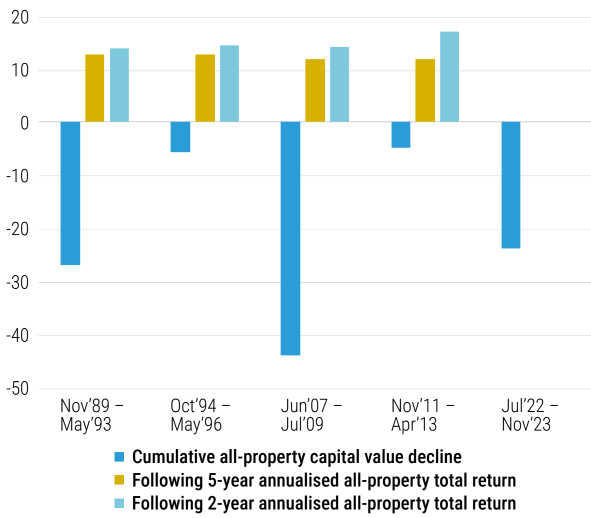
Despite more positivity there are some lingering uncertainties. The potential for a resurgence in inflation, although not to the level seen in 2022, could delay the general downward trend of interest rates. And inflated construction costs have stalled new development completions and significant refurbishments, limiting the supply of new availability whilst pushing some stock into obsolescence – this in turn limits investor and occupier choice. There have also been regulatory pressures – like rent controls and planning regimes – that have also impacted the construction of much needed stock in high demand sectors such as data centres and residential.

These factors could present opportunities to selectively deploy capital. Following a period of decline and volatility, the real estate market has started to show signs of recovery. 2024 was characterised by rising yields and declining capital values with investment activity in Europe and the United States below trend, as some investors opted to hold off on deals and wait for economic conditions to improve, interest rates to find their new-normal and more visibility on benchmark pricing to emerge.

History has shown that investing early in a cycle can lead to relatively strong performance. Taking the UK as an example, after recent economic downturns in the UK and the associated fall in commercial property capital values that followed, the subsequent two- and five-year periods have seen double digit growth on an all-property total return basis. As per Figure 1 below, this is true of the last four downturns. The performance of the fifth downturn will be revealed in due course.!

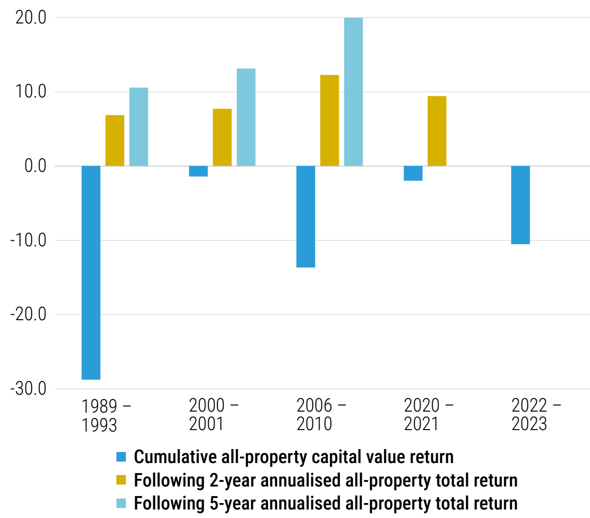
Similar results can be seen in the United States (Figure 2), where periods of value decline have been consistently followed by extraordinary value gains. There are several catalysts that could support above average returns for both income and capital value drivers of total return. Income returns are widely expected to be positive for most US property types through 2027, barring a recession. For the multifamily and industrial property types, near-term supply deliveries are declining, and demand is steady. Retail and offices have very low levels of supply so any increase in demand may translate into higher occupancies.

Figure 1: UK all-property capital value decline vs following 5 & 2 year all-property total return



Source: MSCI UK Monthly Digest (November 2024), Columbia Threadneedle Investments

Figure 2: US all-property capital value decline vs following 5 & 2 year all-property total return



Source: NCREIF (January 2024), Columbia Threadneedle Investments

Real Estate: current environment and outlook (continued)

And sellers have begun to take notice of the changing environment with some feeling more confident in launching non-distressed sales processes in markets that are largely considered to be close to the bottom of the cycle – for example the United Kingdom. These deals will test the market and help establish new benchmark pricing.

Fund-raising activity is also indicating that the market is moving beyond its low point and a rebound in 2025 is largely anticipated. The robust fundamentals characterising the occupier market underpin the more optimistic outlook. There will be further polarisation around the quality of assets that investors favour and this will lead to differing outcomes by location. Alongside this, the investor base is expected to broaden with equity-led private wealth investors leading the charge but a more diverse spread of international capital following. Europe is attracting Asian capital as it shifts away from China and the Middle East. Having retrenched during the Covid years it is now looking to Europe for opportunities, in particular in the UK, France and Germany. North American investors are also recognising that there are opportunities to be had – for example in the Europe's improving office sector that has not been as negatively impacted as the US office market has been.

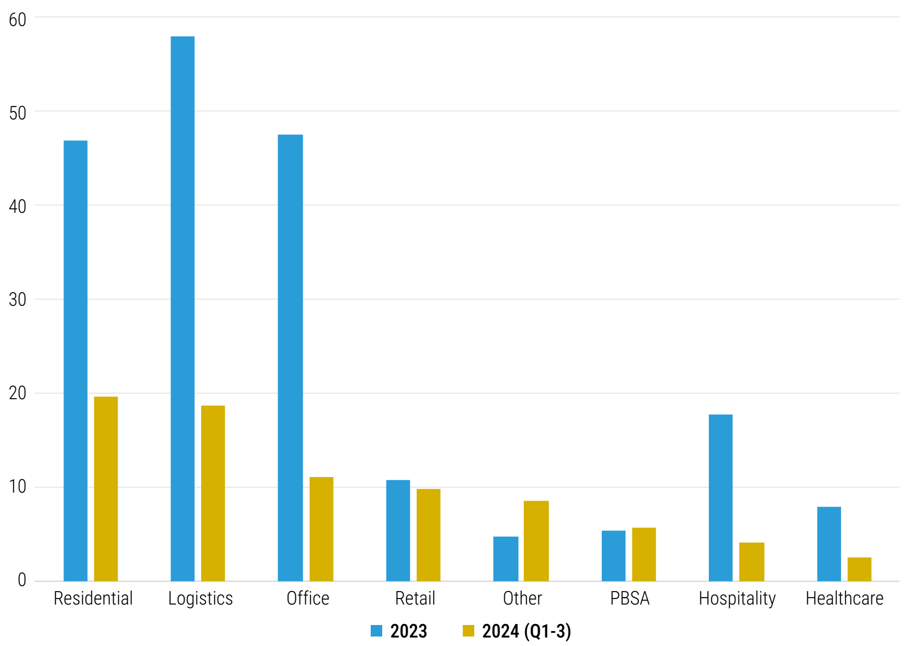
Liquidity will play a crucial role in the recovery of the real estate market globally, with larger markets such as the United Kingdom, France, Germany and the United States better positioned as they are able to offer a diverse range of options and a depth of occupiers. Accessing stock could be a challenge over the next year as investors who do not need to sell will probably hold out for improvements in pricing to maximise returns. Additionally, construction costs remain prohibitively expensive and could discourage investors from taking development risk and this in turn could create a supply bottleneck

Logistics and the living sectors remain in favour. The growth of e-commerce and re-engineering of supply chains will support logistics whilst the dearth of quality stock will drive demand for the residential sector. Pricing may not have adjusted enough for some investors, but the long-term fundamentals of migration and population growth in specific areas are expected to feed positive investment performance over time. Retail is also back on the agenda for many investors, led by occupational trends which favour retail warehousing at the value end of the pricing spectrum (in many cases supporting omni-channel profitability) and prime high streets across European capital cities and tourist hot spots at the luxury end. Adopting a 'barbell' approach to retail sector investing avoids mid-market centres most adversely affected by the rise in e-commerce. Offices are on the watch-list with opportunities emerging to buy targeted quality assets at the bottom, or close to the bottom, of the market. Europe has seen a flight-to-quality which has resulted in a shortage of quality stock – a situation exacerbated by a slowdown in the development pipeline.

As central banks cut interest rates and credit conditions continue to improve (although slower than most had expected in 2024), attractive opportunities should be created in 2025 as more capital is drawn back into the market. The recovery will not be equal across sectors or geographies as the pace of economic recovery varies. Regulations will also differ and adapting to these differentials as well as understanding the long-term impact of structural drivers such as demographics, consumer behaviour and technological trends will be imperative to delivering outperformance.

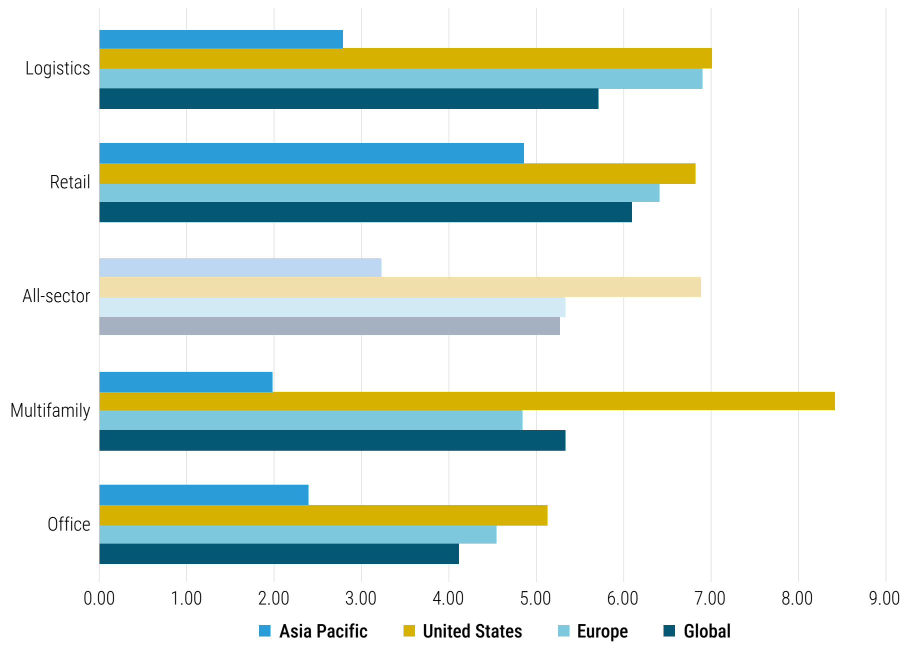
2024 US GDP and job growth were favourable for real estate demand. Federal deficit spending is supportive of near-term growth, potentially offsetting interest rate increases by the US Federal Reserve. The recent US election has boosted business sentiment, particularly among small business owners. Of course, the change in US President also introduces a new variable to deficit spending and growth calculations. Consensus thinking is for Trump 2.0 to be inflationary due to increased government spending and the imposition of tariffs. Consensus thinking is for Trump 2.0 to be inflationary due to increased government spending and the imposition of tariffs, along with lower immigration, all without tax increases. However, the same consensus calls for stronger job and capital markets as well, in which case the net impact of the US economy for real estate would be positive in 2025 as well.

Figure 3: Capital rasied by sector (European real estate)



Source: RealfinX and Cushman & Wakefield (October 2024)

Figure 4: 5-year average per annum total return (%, 2024 - 2028)



Source: Property Market Analysis (April 2024)

Figure 5: Government deficit and job growth both high but declining

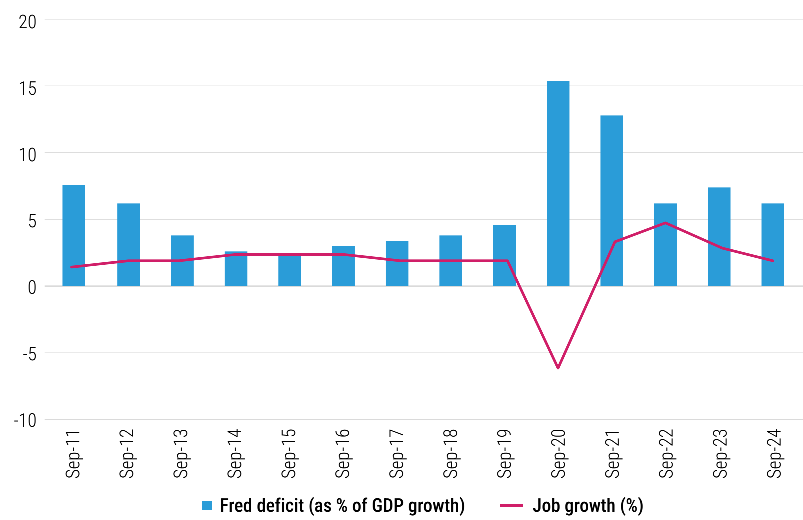


Figure 6: Despite higher interest rates, economy steady

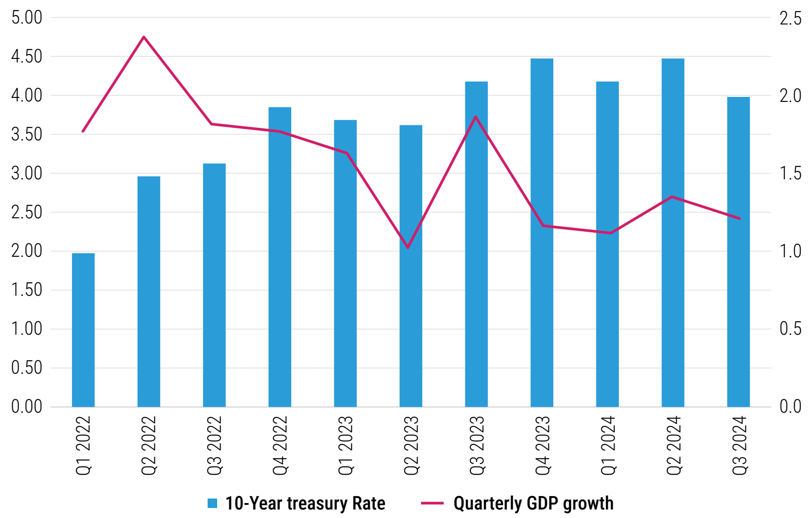
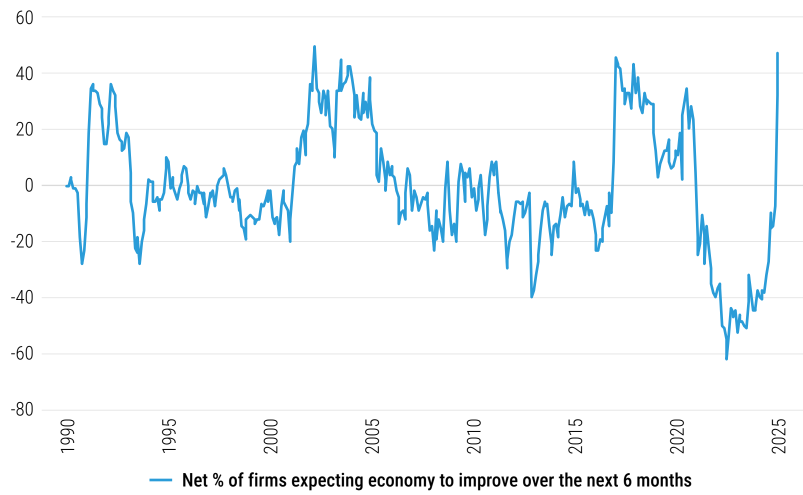


Figure 7: Net % of firms expecting economy to improve over the next 6 months



Source: Federal Reserve Economic Data (FRED), Macrobond, NFIB, Columbia Threadneedle Investments

Real Estate: opportunities

We believe opportunities exist within sectors and this table summarises our thoughts across regions. The path ahead is clearer, but opportunities must be made selectively based on quality, location and sector.

	Residential for rent	Student housing	Senior housing	Industrial & Logistics	Self-storage	Retail	Office	Hospitality
Trend	Chronic undersupply across the residential spectrum and/or a lack of the right quality of stock in attractive locations.	Capitalise on the recent underinvestment in the sector but in selective cities only.	The long-term thematic of an ageing population is creating rising demand for specialised housing.	E-commerce and supply chain efficiency and resilience supporting demand.	Limited supply and opportunity to scale and capitalise on size.	The sector must adapt and deliver to changing consumer preferences and needs.	Structural changes impacting long-term performance and reducing overall demand.	A sector returning to growth post the pandemic but with operators challenged by inflated costs and squeeze on margins.
Europe	Viability and high mortgage rates impacting new supply and constraining 'owner' affordability. Continued rental growth to be captured across multi-family housing and single-family housing. Look for schemes with low levels of amenities to maximise efficiencies.	Target cities with multiple universities where there is a lack of student housing and housing supply in general, as well as first-generation purpose-built student accommodation which can be improved/ repositioned.	Small and fragmented sector but with rising investor interest. Pricing is attractive but with a focus on high quality well-managed assets.	Opportunities across the sector from urban logistics to multi-let industrial estates. Power access is crucial and a defining factor in future-proofing assets.	Small, fragmented sector with some growth potential in larger cities. Operational experience is crucial.	Focus on both ends of the retail spectrum – prime, high-footfall streets in tourist-backed locations and retail warehousing able to offer a value proposition.	Focus on high quality assets or those that can be refurbished/ repositioned to deliver in-demand ESG criteria. Central locations dominate and rising risk of obsolescence/ stranded assets in second tier locations and older stock.	Attractive returns at both ends of the spectrum; affordable and luxury in business centric cities and/or holiday destinations.
United States	High housing prices and mortgage rates prop up rental demand. Near-term oversupplied markets present opportunity as deliveries plummet and occupancies recover. Opportunity in distressed assets in currently oversupplied markets at prices significantly below replacement cost. Some coastal market opportunities but beware of possible rent regulations.	Housing supply-constrained urban university cities present solid long-term opportunities. Tertiary markets require caution due to supply risk.	Occupancies expected to continue increasing as supply is low and senior population grows quickly. Rents benefit from high home sale prices.	Multiple attractive strategies available due to the rapid shutdown in new construction deliveries (supporting occupancy gains) and growth in consumer spending.	Market selection critical as supply is high and recent demand is inconsistent across metros. High barrier markets are the focus as supply is a worry through cycles.	Quality suburban centres appear attractive as population and income gains, especial in high growth cities, combine with limited supply to support net operating income growth.	Focus on best quality properties, especially in mixed-use environments which should command occupancy and rents gains even as overall sector vacancies increase. Dearth of equity and financing support constrain near-term investment but support long-term gains as the market normalises.	Upscale assets and those in markets which benefit from both return to office and leisure spending growth are expected to continue outperforming. Supply and demand are roughly in balance. Metropolitan areas supported by leisure travel, particularly in the luxury sector.

Real Estate: sectors in focus

REAL ESTATE SECTORS IN FOCUS

Living rises up

DRIVERS:

- Long-term structural undersupply
- Unaffordability of homeownership
- Changing demographic and structure of the population

Europe's residential sector is characterised by a chronic undersupply and an underbuilding of homes versus both the current and projected levels of demand. Higher mortgage rates and housing prices have pushed many into continued renting – and for many, home acquisitions look set to remain delayed with interest rates unlikely to fall to previously ultra-low levels.

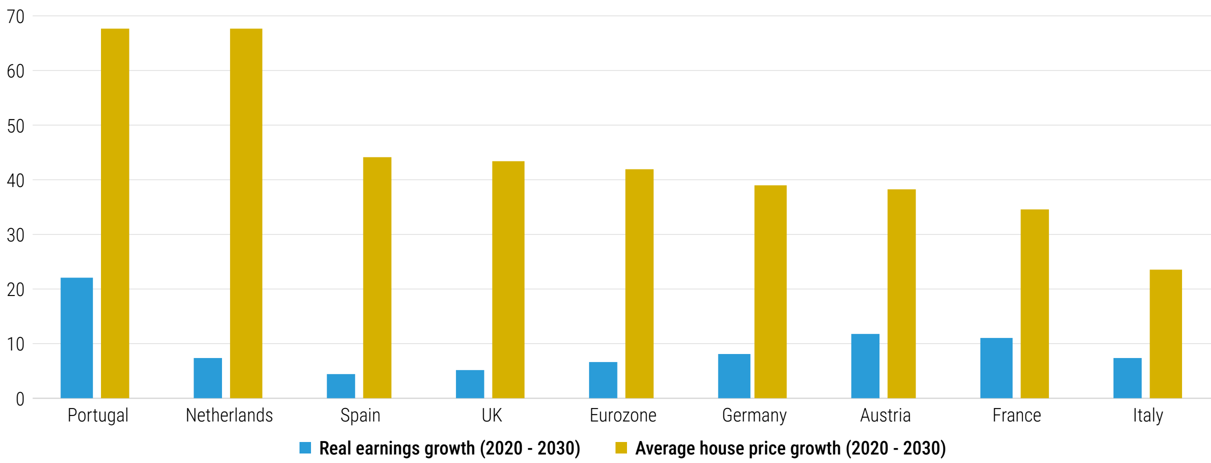
The demand:supply imbalance is a key political talking point and remains a crucial issue, although one without an immediate answer. The sector's structural imbalance, low vacancy rates, tight supply and hurdles to higher construction levels, have drawn increasing appetite from investors attracted by the positive rental growth story and increase in capital values. These factors provide a solid base for investors to increase their allocation to residential real estate.

The sector is not without its challenges, however. Assets either need to be allocated to a balanced fund for diversification purposes, or there needs to be significant scale in a thematic fund to ensure that operational economies of scale are captured and capitalised on. And the current acute supply challenge will only be exacerbated by the sharp rises in interest rates over the recent past which have pressurised developer margins. This in turn has led to many scaling back on new schemes given the squeeze on profits.

Long-term structural trends, however, mean that the overall outlook for the sector is positive. Many cities across Europe are expected to see population rises over the next two decades which will fuel demand for residential property – especially in areas where growth is most concentrated. Layer on the existing lack of supply and unaffordability and the sector is expected to perform well going forward.

Societal preferences are also shifting, and the sector needs to adapt to meet these changing preferences. Aside from the affordability challenge and the expanding 'generation rent' (a generation of young adults regarded as having little chance of becoming homeowners), there are some parts of society who are actively choosing to rent and live a more nomadic lifestyle. The breadth of the sector is also expanding with sustained demand for student housing (supported by increasing access

Figure 8: Real earnings growth vs average house price growth (%, 2020 – 2030)

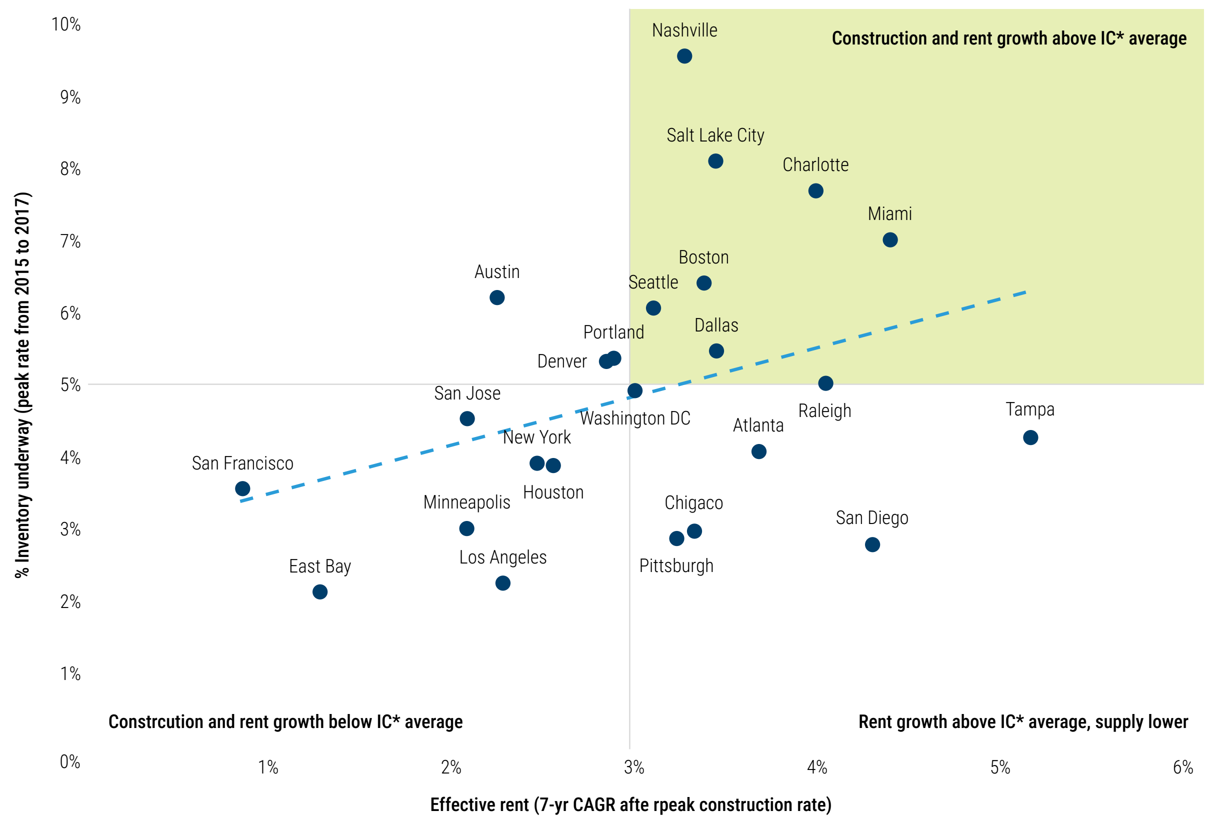


Source: Oxford Economics, Columbia Threadneedle Investments to higher education) and senior living and care homes with an ageing population providing the tailwind. And as Europe's demographic profile changes with a larger proportion of the population 65+ years of age, there will likely be significant demand for accommodation under the senior living banner. Currently fragmented and relatively small as an investment sector, this will evolve as government policy incentives coupled with changing social expectations encourage (some) retirees to move into a purpose-built schemes. In parallel, as the depth and experience of operators increases product will further align with consumer expectations.

Given the shortfall in supply, planning restrictions, increasing regulation relating to rental caps and energy performance ratings, it is doubtful that European housing supply will increase enough to narrow the gap with demand levels. This positions the sector well for growth. New supply is also being held back by construction inflation and high labour costs. Additionally, supply gains made through the repurposing of existing real estate into residential has been modest at best. Taking Germany as an example, the debt distress in the construction sector has severely reined in the development pipeline of housebuilding. There are several property companies who – facing the higher cost of refinancing existing debt – have focused on repairing their balance sheets rather than start new projects. This is reflected in a declining number of new residential permits being issued. The UK, Sweden and Denmark are other examples of where there has been a significant decline in development activity. In Denmark, for example, new residential starts are at the lowest level in a decade.

Despite positive tailwinds for the sector, investment activity has been somewhat muted in the recent past. This was largely driven by the higher cost of debt, together with lack of clarity around rental caps in some markets as well as the perception that pricing had not moved far enough out to warrant higher levels of investment activity. However, sentiment is improving and so is liquidity with some larger investors now returning to the market. Pricing is now stabilising at the prime end across multiple markets in Europe and has moved out far enough to tempt investors to reconsider the sector. There is interest and appetite across the living spectrum, but much is centred around multi-family residential. Single family residential is now becoming more institutionalised and this is especially so in markets that are not constrained by any rental caps. Purpose-built student accommodation (PBSA) is also an attractive sub-segment.

Figure 9: Peak construction vs. rent growth



*IC - internationally competitive cities are those that score highly in a proprietary market ranking that evaluates economic growth, demographic trends, sustainability and the business climate
Source: CoStar (January 2024), Columbia Threadneedle Investments

As with most of the western world, US home prices are near record highs and interest rates are higher than recent history. These factors combine to make renting either a necessity or preference for about one-third of US households. This dynamic - combined with solid job and income growth and very high immigration – explains the 2024 strength in apartment demand and increasing confidence among investors around demand prospects. 2024 apartment absorption was about 550,000 units – the highest level since peak pandemic absorption of approximately 700,000 units in 2021. All that 2024 demand was met with historic levels of supply, which we believe was also brought on by the pandemic-era demand spike, in combination with low interest rates and higher investor appetite for real estate investments.

The higher interest rate environment post 2022 has dramatically decreased apartment construction. As a result, deliveries are trending sharply down, which should support stronger occupancies in 2025 and, many believe, a strong recovery in rents in 2026 and beyond.

Indeed, dramatic occupancy cycles are not unusual in the US, particularly in markets with low barriers to new construction and high job growth such as those in the Mountain and Southeast regions. Metros in green (in the chart) had the highest inventory underway as a percentage of stock in the last cycle – 2015-2017. Almost all the 'hockey stick' markets (those broadly lying from Seattle, down through the Rockies, into Texas and over through the Carolinas) are in this high supply, high rent growth quadrant. These metropolitan areas may provide attractive opportunities to take advantage of current distress and a subsequent normalisation of occupancies.

Barriers to new supply did not appear to propel rent growth in this period. New York City, San Francisco and Los Angeles are all in the bottom left quadrant where the rent growth and supply are lowest. It is true that high supply markets from the last cycle were bailed out by pandemic-induced migration, which supported absorption and rent growth. At the same time, it could also be true that these markets have sufficient demand growth to propel a strong recovery over the 2025-2027 period, during which supply is declining. Also, high-barrier coastal markets generally have lower population growth with which to drive absorption and rent gains as US demographics and household formation are expected to be much lower over the next 10 years than they have been previously.

Opportunities in the Living sector by geography

FRANCE

Student housing in growing academic towns including Lyon, Toulouse, Montpellier, Rennes and Nantes.

Senior living which is undersupplied nationwide.

Residential in key cities (e.g. Paris, Marseille, Lyon, Toulouse) via development conversions from alternative uses offers a value-add angle.

Luxury hotels in Paris that cater for tourist demand.

GERMANY

Multifamily in Tier 1 cities (Berlin, Munich, Frankfurt), evolving tech hubs such as Stuttgart and Leipzig or Hamburg, supported by significant urban development projects.

Access stock via developments and/or property companies that are financially challenged.

UNITED KINGDOM

Multifamily in locations with economic growth and job opportunities such as London, Manchester, Birmingham, Bristol, Edinburgh, Liverpool and Leeds.

Single-family housing in undersupplied areas and cities of sub 450,000 inhabitants

Housing at the affordable end targeting key workers.

Senior housing in areas with an above average affluence level in, or near, areas with large populations.

Smaller sized hotels in London and tourist cities, for example Edinburgh and York.

OTHER EUROPE

Focus on Italian university cities and build-to-rent in Milan, Rome and Bologna.

Spain generally, with the focus on Madrid and Barcelona and on change of use from offices to residential.

Multifamily in Lisbon and Porto boosted by net migration trends and digital nomads.

Key Dutch cities that include Amsterdam, Utrecht, Rotterdam, The Hague and Eindhoven where demand is strong against limited supply.

UNITED STATES

Apartments in markets oversupplied in the near-term but with above-average income and population growth. Focus on top quality assets at a discount to replacement cost – target markets include Raleigh, Nashville and Houston.

Also of interest are coastal markets where expected strong income growth combines with relatively limited supply including New York, Boston and Seattle.

REAL ESTATE SECTORS IN FOCUS

The far reach of Logistics

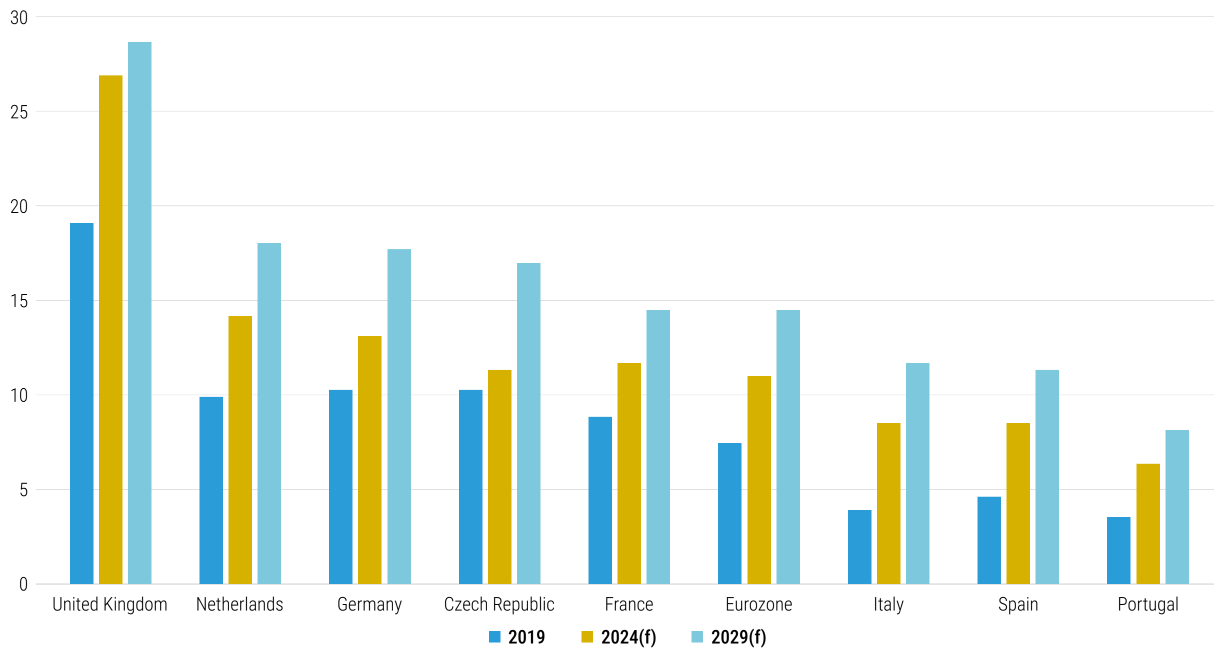
DRIVERS:
- The need for supply chain sustainability and resilience
- The continued rise of e-commerce
- Access to power is crucial

The logistics sector is still a popular target for investors. Demand is fuelled by the e-commerce boom and the need to build sustainable and resilient supply chains. This comes against a backdrop of historically low vacancy rates as demand for high-quality logistics space remains strong. However, vacancy is drifting upwards as older stock is returned to the market and new space is completed. At the same time, deals are taking longer to complete as companies assess their needs in a complex marketplace. Location and asset selection will be of greater importance as companies look to future proof growth and protect profit margins whilst rental growth continues to push forward, albeit at a more moderate pace.

Generally, leasing markets have come off the peak seen during Covid and in the few years that followed. But as inflation rose rapidly (in some countries hitting double digit highs) occupiers have become increasingly diligent around profit margins. This follows several years of rising costs, whether they be accommodation, energy or labour. These factors are contributing to a slowdown in industrial take-up and companies consolidating their footprints.

Rental growth slowed over 2024 in line with weaker demand and the classic relationship between vacancy rates and rents is now more obvious. However, rental growth remains positive and there are many investors able and willing to underwrite deals, even given the more conservative rental growth expectations, relying more heavily on the long-term drivers of the sector for performance. Vacancy is trending upwards from the historic lows of 2021/2022, but is still constrained in most markets, particularly those with limited land

Figure 10: Retail spending online share (% of total)



Source: Property Market Analysis, October 2024 availability, such as the Netherlands. There is growing competition amongst buyers, but this is because there is a multi-dimensional sector emerging. There are opportunities across the breadth of the sector right through supply chains, logistics hubs, production, key transit nodes and in more nascent sub-sectors such as open storage and cold storage which are yielding attractive returns. Appetite is typically focusing on better-quality stock that still has some longevity in an ever-changing world of increasing occupier requirements.

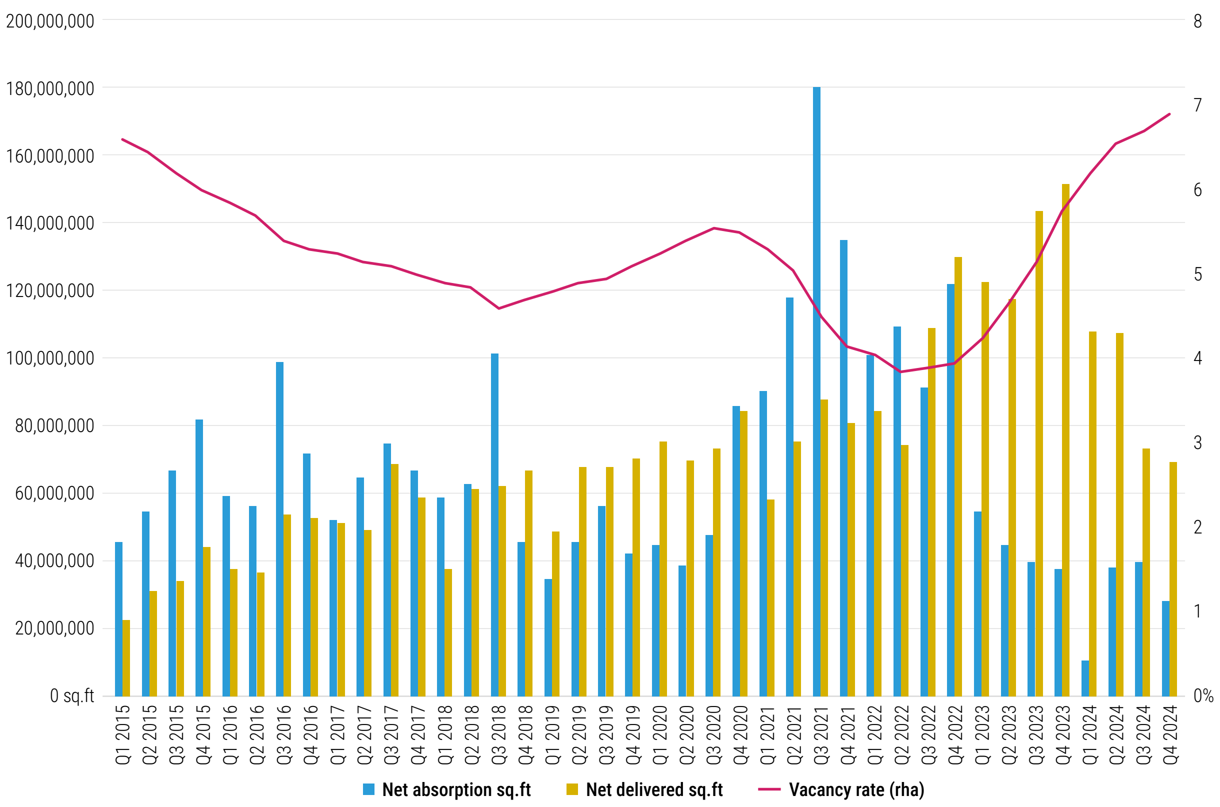
On the investment side, new prime benchmark pricing has been achieved in core US markets, and in some European areas such as London, Madrid and greater Paris. Elsewhere, liquidity is returning and those assets with a 'fair' market value are attracting multiple bids. Progress is slow however, and there is a lack of available stock with few motivated sellers coming forward. This will likely steer capital towards strategic platforms and income-producing assets (where possible) as investors shy away from assuming too much development risk. Sales tend to be driven by close-ended funds coming to the end of the lifecycle or by redemption claims that need to be settled. 2025 should bring with it a further evolvement of the buying pool. Over the last 12-18 months, private investors have been very active when able to act quickly on opportunities when they arise. More recently private equity groups have taken on a more dominant role, albeit selectively and in liquid markets where the exit is relatively clear.

'Mid-size logistics' is clearly a front runner in terms of investor target, but there is also increasing interest in multi-let industrial estates and urban logistics. Multi-let industrial estates can offer the opportunity to capture more reversion than longer-let single assets. Urban logistics is tapping into the evolving consumer dynamic of shorter delivery times – a trend that is expected to persist.

Whatever the sub-segment of interest, access to reliable power and/or energy generation is a strategic differentiator in a sector investing heavily in robotics and automation alongside other power-hungry initiatives such as EV charging and electrification of vehicle fleets. Other related factors include consideration of rising energy costs alongside greater prioritisation of energy security, zero-carbon credentials and lower obsolescence risk.

The UK, France, Spain, the Netherlands and Germany are leading Europe in terms of activity led by occupiers who are strategically locating to ensure supply chain resilience. This means a move away from 'quick and lean' to 'longer and fuller' to satisfy their customer demand. But realigning supply chains takes time, and this theme as a driver of demand has a long way to run.

Figure 11: US industrial



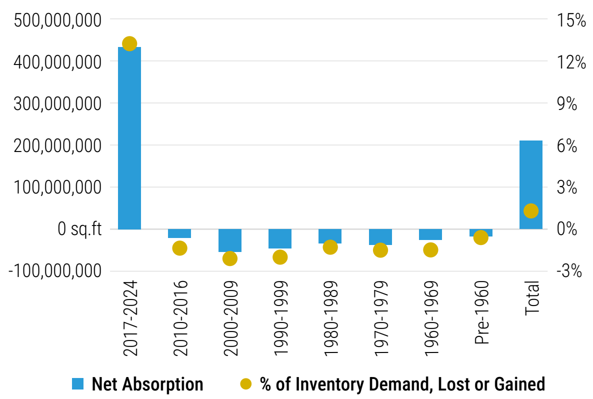
Source: CoStar (January 2024), Columbia Threadneedle Investments

The United States industrial market is at an inflection point with high supply and relatively lacklustre leasing activity. There is a notable shift in demand towards modern space, with second-hand space showing negative demand growth in 2024. Beginning in approximately 2015, demand for logistics and industrial space generally outstripped supply, leading to a continuous period of sub-6% vacancy rates.

These unusually high vacancy rates versus history backstopped demand for industrial space across a wider variety of quality, age and location than may have been the case in a more balanced supply/demand environment. Now that vacancy rates have been increasing since early 2023, it is easier to see the space which commands occupancy. Conversely, as properties that fail to meet the occupier requirements are released back to the market a wide variety of space of differing quality levels and price points will be more readily available. We believe industrial users are clearly showing their preferences for higher quality space, proxied by age.

As shown below, for the six quarters ending in December 2024, about 450 million square feet of industrial net absorption was posted for space delivered in the 2017-2024 period while every other vintage building tracked posted negative net absorption. Going forward, this may indicate that quality is a better arbiter of investment value than price as lower priced, older assets face increased occupancy risks.

Figure 12: US net absorption by vintage (last 18 months, Q3 2023 to Q4 2024)



Source: CoStar (January 2024), Columbia Threadneedle Investments

Opportunities in the industrial and logistics sector by geography

FRANCE

Concentration on the greater Paris region, the east axis stretching from Lille to Marseille via Lyon and increasing interest along the west coast from Nantes to Toulouse including Bordeaux.

GERMANY

Asset selection is vital as the overall market slows and rents come under downward pressure. Opportunities lie in port cities such as Hamburg and generally higher quality logistics in the top nine to 10 locations in Germany (including Berlin, Munich, Frankfurt, Cologne).

UNITED KINGDOM

Multi-let industrial estates, secondary quality properties with rental reversion, mid-box, modern future-proofed logistics along arterial routes and around infrastructure nodes such as airports and ports are favoured.

OTHER EUROPE

Older industrial assets located close to larger cities where there is potential to reposition, but access to power will be crucial.

In Italy focus on logistics in the north of the country.

Madrid, Barcelona and Valencia in Spain.

The port city of Rotterdam, the Schiphol area close to the airport and to Amsterdam, and locations close to the border with Germany such as Venlo.

UNITED STATES

A combination of strong job and income gains and manufacturing growth should support markets such as Houston and Nashville, which have tight vacancies and reasonable levels of new supply. Longer-term, currently oversupplied but strong demand markets include Dallas, Atlanta and Tampa. High barrier markets including Orange County, Los Angeles and Boston remain solid long-term investments.

48 rue Francois 1er, Paris, France

REAL ESTATE SECTORS IN FOCUS

The resilience of retail

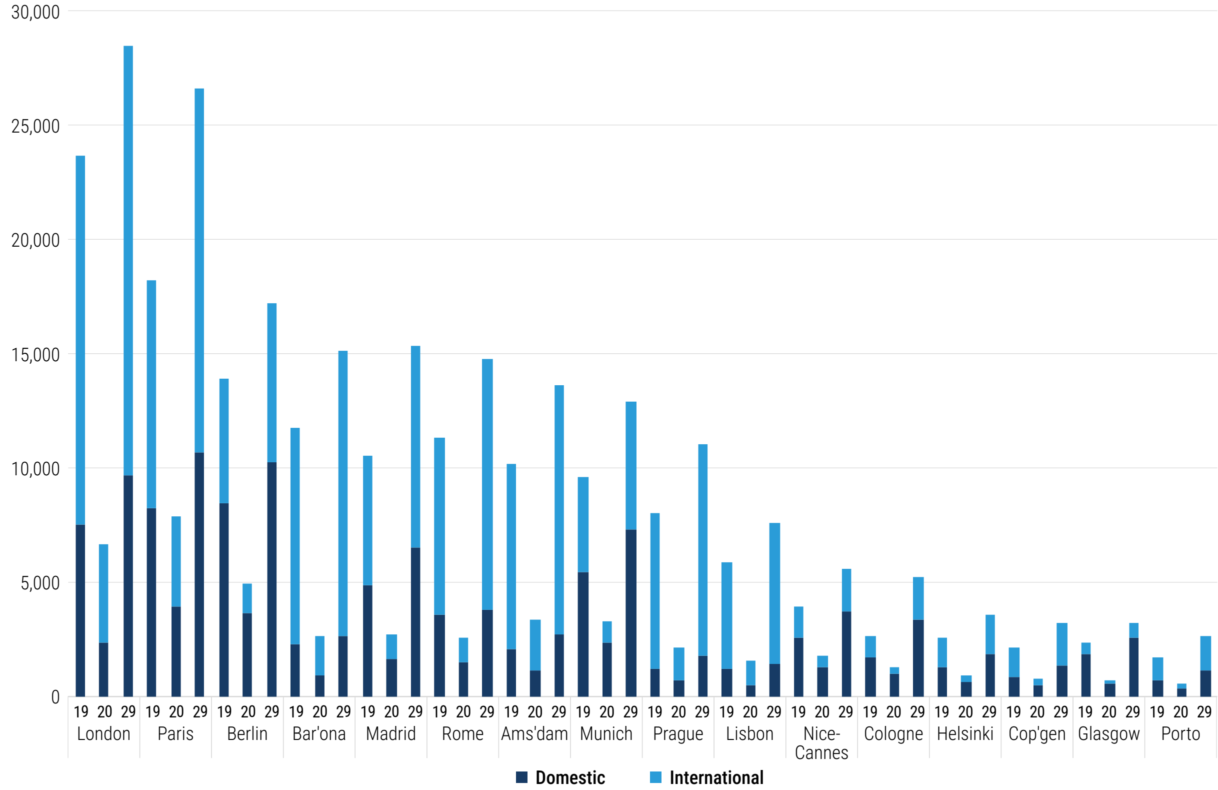
DRIVERS:
- Value proposition is a key driver of footfall
- Tourist-backed high streets support the luxury segment
- Delivering an omnichannel platform is crucial to success

If tales of the past are to be believed, retail was a sector that would fade away, forever. The sector has been tested to destruction over the last few years as headwinds emerged. Some of the headwinds were evident before the pandemic but gained momentum as a result, for example e-commerce. More recently, there have been greater pressures on household spending and in the UK for example, the Autumn Budget put more pressure on retailers as they deal with escalating employee costs on top of already inflated prices. The format and units that are still trading well are those that are more resilient and more purposeful and sit at opposing ends of the retail hierarchy. At one end is the value proposition, typically found on retail warehouse parks. These are trading well and offer choice to income stretched consumers. Luxury high street retail sits at the other end with consumers here typically more insulated from the squeeze on household spending.

High Streets

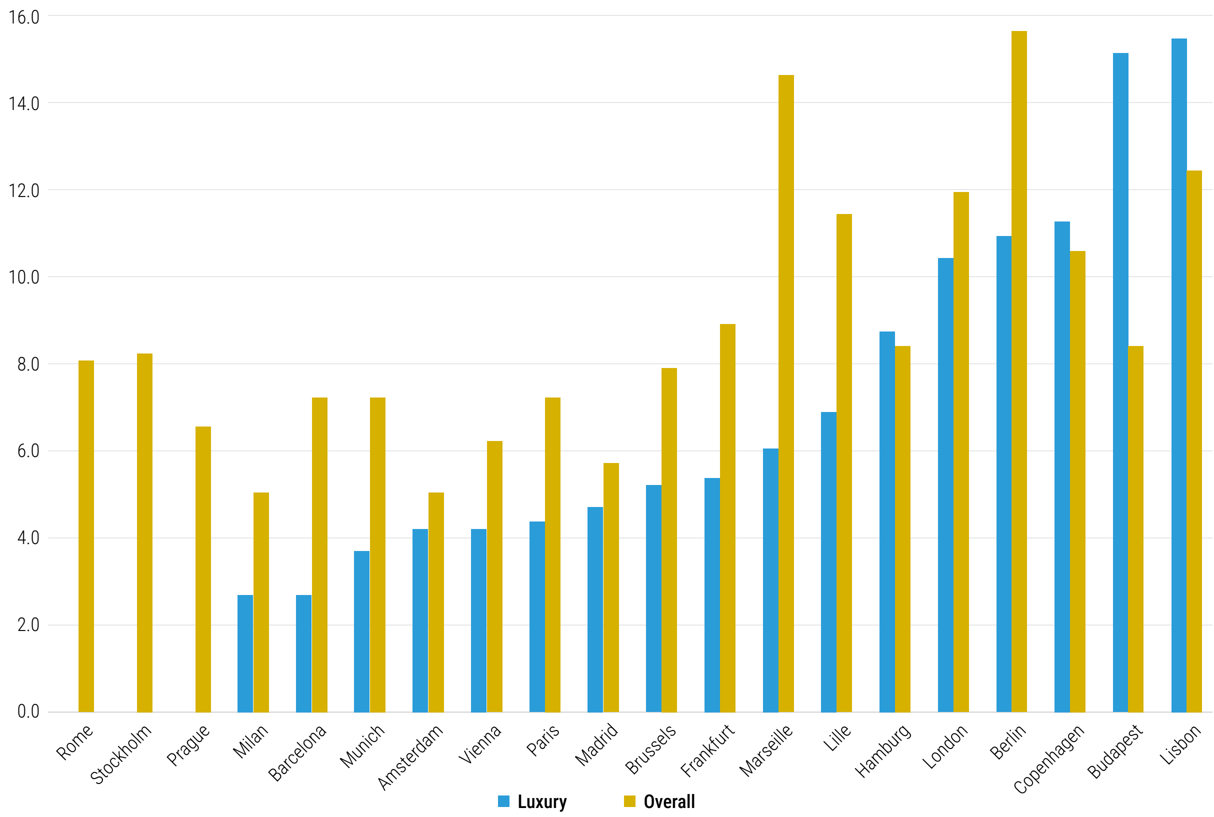
Tourism – an important indicator of the health of international high streets – fell by 66% in Europe in 2020 as governments locked down their economies and confined populations to their homes. However, once economies reopened, travel rebounded with a speed

Figure 13: City Overnight Stays (000s)



Source: Oxford Economics, December 2024

Figure 14: Luxury pitch vacancy versus overall vacancy (2023/2024)



Source: Property Market Analysis (latest data available, varies by location)

some thought unlikely and footfall numbers to Europe's high streets followed suit. In 2024, tourism numbers reached a new record and are expected to exceed pre-pandemic levels by 11% with a further 7% rise in 2025 from 2024 levels.

Domestic tourists led the post-pandemic recovery although this changed in 2022 as international visitors overtook. The change was boosted by strong inter-regional demand and the return of Chinese holidaymakers. Visitors from China remain below pre-pandemic levels, but visitors from the United States and the Middle East (especially the United Arab Emirates and Saudi Arabia) helped to fill the gap.

Retailers have shown a level of resilience against recent weaker consumer spending. Competition for prime retail locations is strong and vacancy rates for luxury pitches are falling. And despite tourist numbers trending up, retailers are pivoting their strategies. They are increasingly adopting 'city-led' strategies aimed at tourists and local shoppers – an approach that has resulted in growing interest in prime high streets in second tier cities such as Florence and Lille.

Other trends set to continue to play out include retailers building out omnichannel platforms whilst (re) positioning their stores to deliver an in-store experience to consumers as they look to drive brand engagement and customer loyalty. They are doing this by reinvesting, rightsizing, relocating and refitting their store networks. In addition, they are increasingly offering free returns in physical stores in a bid to encourage footfall numbers, especially as charging for returns to fulfilment centres becomes more frequent as retailer logistics space costs rise.

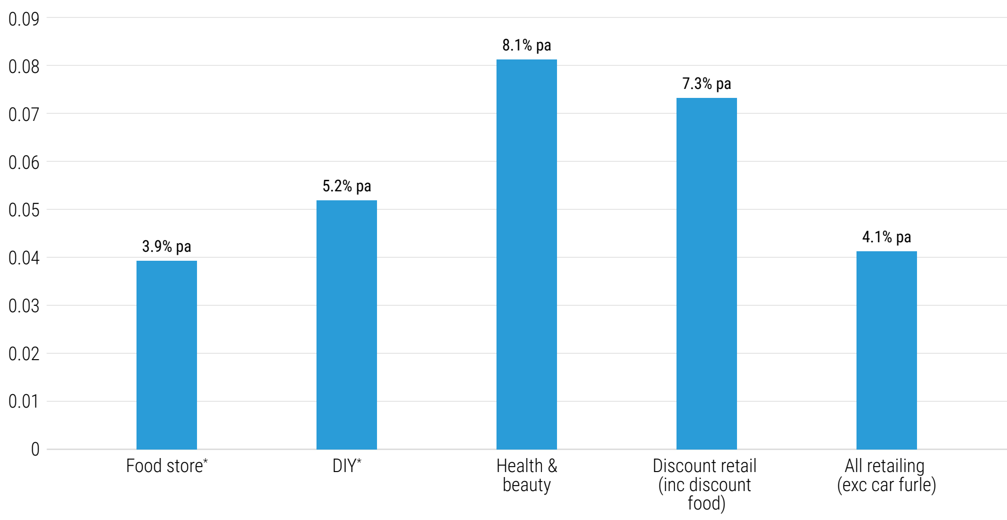
Retailers are focusing on their real estate commitments, actively acquiring space, positioning themselves in the right properties and locations to maximise revenue, control costs, preserve and enhance margins. High street rents have rebased, which is helping to support activity on high streets, but retailers are specific about where they want to be. We are seeing large retail units in strong demand as retailers look to open fewer-but-larger high-quality stores in prime locations. These strategies are facing challenges due to a lack of available real estate and occupiers may need to secure units ahead of their own strategic priorities. Opportunities to secure the best sites are limited and so the cost of not acting when a site becomes available could negatively impact a business longer term. This demand – particularly for quality locations and properties – has eroded vacancies and we are expecting positive rental growth going forward.

Historically you could not get away from 'online is killing the high street' headlines. And while online spend is not going away, it is rising at a much slower rate than many forecasts had anticipated. At the same time, footfall in physical stores is rising. In parallel we are seeing retailers continue to focus on creating a strong omnichannel experience, seamlessly combining the online and bricks-and-mortar experiences, finding creative ways of increasing customer engagement and driving footfall. E-commerce will remain a well-established part of the retail furniture, but businesses are wising up to its impact on profit margins and the cost of returns.

Retail warehousing

Retail warehousing has gone from a relatively unloved sector to one characterised by shortages as interest has risen sharply, and vacancy has fallen dramatically. The interest in retail warehouse parks has accelerated since Covid and the mixed-use and clean-tech development opportunities these, usually large-scale formats, on urban peripheries are well placed for the future. The sector has come into its own. The resilience it has demonstrated has drawn much attention from both occupiers and investors and it is not often that real estate can ask interested parties to form an orderly queue! The overall retail sector has not been without its challenges as inflationary pressures squeezed household incomes pushing more consumers to non-discretionary and discount retail. This trend further supports the attractiveness of retail warehousing as it delivers a keen value proposition to consumers. Even as some inflationary pressures ease, consumers are still cautious in their spending and the attractiveness of retail parks is now of a more ingrained choice by consumers. The sector is also well-placed to benefit from some of the structural thematics shaping the built environment. These include renewable power generation via installing photovoltaic panels, electric vehicle charging points and place-making within urban locations with the aim of lengthening dwell time and spend.

Figure 15: Retail sales growth by sector (2017 - 2023)



Sources: Retail Sales Index, December 2023; Food and Non-Food Discounters UK Report, Mintel Group, 2022. *Note: Based on non-seasonally adjusted values.

Over recent years, one of the standout trends in the retail property market has been the resilience of the out-of-town retail warehouse sector, particularly retail parks. As the wider retail sector – namely mass-market high streets and shopping centres – face ongoing structural challenges, retail parks have emerged as a preferred destination for many national retailers. This shift is driven by the convenience they offer to consumers and tenants. These include plentiful free parking, comparably lower occupational costs, flexibility of units and proximity to major road networks. Often these characteristics complement the rise of e-commerce by optimising services like 'click and collect'. This combination of factors has fuelled strong occupier demand and created positive rental growth dynamics, which in turn have attracted a deep pool of capital to the sector looking for opportunities.

The UK (followed by France and Germany) is by far the most mature retail warehouse market in Europe. Over the first nine months of 2024 approximately 487 new UK store openings were recorded on retail parks – an impressive statistic that demonstrates the depth of the market. This is significantly below the long-term average of approximately 860 per year, but the lower number is a function of fewer available units and a very thin development pipeline. All this comes against a backdrop of rising occupier demand as retailers increasingly recognise the benefits of locating on a retail park.

And this has seen the tenant mix change over recent years. The traditional bulky goods operators and DIY brands still dominate, but their share of floorspace has declined from approximately 46% a decade ago to around 25%. Additionally, retailers of bulky goods like furniture, carpets, kitchens and electricals have felt the most pressure amid the ongoing cost of living crisis. Some have closed their doors. The reduction in 'bulky

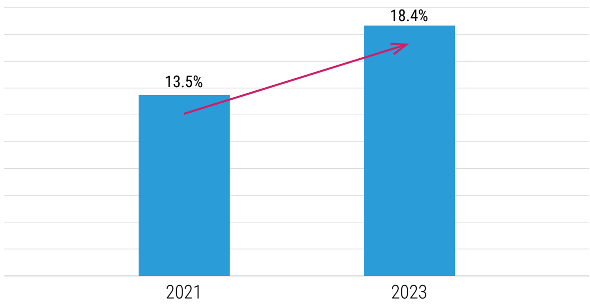
Retail warehousing offers a high and sustainable income yield advantage over favoured growth sectors such as industrial and residential

goods' now means the retail park sector provides a more diverse offering to consumers and is arguably healthier as a result. The typical tenant mix includes essential retail, discount retail and supermarket provision, all of which are generally better positioned to weather economic headwinds. The last decade has seen the value-based/discount-let retailers (such as The Range, B&M and Home Bargains) intensify their activity. They now account for approximately 40% of brands in the out-of-town market (up from around 30% a decade ago).

More high street brands have been moving in as well as gyms, leisure and food & beverage operators, as the sector transforms from a shopping location to 'destination'. For example, fashion retailers Marks & Spencer and Next have been closing high street stores and heading to retail parks where occupational costs are lower. Additionally, transport links are generally good and retail parks offer the convenience of free parking to their customers. The unit sizes also allow retailers to have dedicated and cost-effective click-and-collect services in store as they try to counteract the increase in logistical costs of delivery and return.

The UK nationwide vacancy rate is around 4.6%, a marginal increase on the historic low of 4.4%. It stands at its lowest point since 2017 and even with the administration of large occupier Carpetright in July 2024,

Figure 16: UK: estimated share of online sales with 'collection'* as the fulfilment method



Source: Mintel, Online retailing: delivery, collection and returns – UK – 2024
* this is intended only as a guide, and this estimate only includes click-and-collect orders, those orders where payment is made online but products are picked up in a physical location, and not reserve-and collect orders

the depth of demand for units meant that the vacancy rate barely moved as units were re-leased with speed. The same was true in November 2024 when the DIY retailer Homebase entered administration. The impact on the UK retail warehouse vacancy rate is yet to be seen in real terms. However, with an average store size of c.35,000 sq.ft for Homebase versus c.10,000 sq.ft for Carpetright the return of stores to landlords is likely to have a greater impact on the UK's vacancy rate, but this is expected to be short-lived with a number of units already re-let.

Between 2016 to 2020, retail park rental levels were re-based to more sustainable levels for retailers and are generally lower than rents on high streets and in shopping centres. This pricing advantage has supported healthy demand from retailers seeking space across the retail warehouse sector. Given the historically low vacancy rates and re-based rents, the sector is positioned for continued positive rental growth. When vacancies do occur as witnessed following the Carpetright administration, they are often re-let/placed under offer in quick succession with numerous occupiers seeking representation. This gives landlords the opportunity to capitalise on the acute lack of available units and set a new rental level. In addition, the supply pipeline is constrained owing to planning authorities prioritising the development of residential housing and/or to protect town centre retail provision as well as high construction costs. These factors are adversely impacting the financial viability of new development. As a result, supply is expected to remain tight in the short to medium term, which will likely support continued rental growth in 2025.

From an investor perspective, the occupier fundamentals stack up and so does the pricing. Aggregate pricing valuations at market level reflect 6.2% net initial yield (NIY) and 6.8% equivalent yield (EQV). Retail warehousing therefore offers a high and sustainable income yield advantage over favoured growth sectors such as industrial and residential. With increasing appetite for the sector, entry yields at this level offer scope for future compression.

Opportunities in the retail sector by geography

FRANCE

Key luxury streets in Paris (e.g. Champs Elysées and Avenue Montaigne) and dominant retail warehouse parks nationwide.

GERMANY

Food-anchored retail and in the more established markets with a broader mix of operators, which include grocery-anchored schemes and a focus on value retail operators.

Convenience shopping on local high streets where place making is possible to enhance value.

UNITED KINGDOM

Retail warehousing nationwide but with a focus on sizeable locations and those with growing catchment areas.

Retail parks with the opportunity to change the tenant mix and move rents on and those with a strong proportion of value-orientated and discount shopping.

OTHER EUROPE

High streets in Milan (Via Monte Napoleone) and Rome (Italy) and in Lisbon (Avenida da Liberdade) in Portugal.

Prime luxury high streets in Madrid (Ortega y Gasset) with retail warehousing a younger, but growing sector of interest.

In the Netherlands focus on in-town retail in key regional cities such as Amsterdam, Rotterdam, The Hague and Utrecht.

UNITED STATES

Suburban centres in metropolitan areas with both income and population growth and low supply levels, including the 'Texas Triangle' (Dallas, Houston and Austin), Atlanta and Raleigh. Some urban areas, including Manhattan and the Seattle CBD, may benefit from return to office trends.

Hereford Retail Park, Hereford, United Kingdom

REAL ESTATE SECTORS IN FOCUS

Offices, a watching brief

DRIVERS:
Focus on quality and amenity rich (flight to quality)
Repositioning of stranded assets to residential
Regulation pushing change forward

Offices are a sore subject for some yet increasingly viewed as an opportunity by others. The polarisation between the best and the rest is a trend we expect to persist across the globe in 2025. While occupiers are downsizing their space they are upgrading in terms of the quality where there has been some recent positive rental growth. However, the acceleration of hybrid working models and the structural decline of leasing activity is expected to settle at approximately 15%-20% lower than the long-run average.

The quality of the asset is ever more important in the decision-making process, as is the location. This is illustrated by the noticeable gap between vacancy rates in central locations versus non-central locations in many European cities. The average European city centre vacancy rate (based on a sample of 15) is sub 5.0%, 350 basis points lower than the average of 8.5% for non-central locations. Vacancy rates of course vary across European cities. In Madrid for example, the average vacancy rate in the City Centre submarket is 3.25%, compared to nearly 15% in the Decentralised submarket. Likewise in Munich's City Centre the vacancy rate is close to 2.0% against an overall city level of approximately 6.9%. The trend is not expected to change over the next 12 months as tenant requirements focus on well-located quality space that is amenity rich and boasting ESG credentials. Lease events are driving relocations, while demand for flexible workspaces also feature as companies navigate hybrid working models. These factors result in fewer leases being renewed on older, less efficient stock and feed the overall level of obsolescence the sector is increasingly seeing.

Investors and developers are struggling with balancing the cost of refurbishment or development to deliver a space that occupiers want at a cost they are willing to pay. Regulatory obligations for assets to be EPC B-compliant by 2030 (in the UK) add a further burden. So, while there is a focus on the right space, there are mounting headwinds leading to a greater risk of more buildings becoming obsolete and the stranding of non-compliant assets. It can be simply not cost effective to bring the asset up to scratch and/or the asset is simply in the wrong location for tenant demand. A further and crucial consideration is conviction on the exit scenario and at the moment, there is just not enough clarity on this to tackle the office sector head on in any meaningful way.

Access to power is at play here too – landlords have begun to do their part in driving energy efficiency, designing pathways towards low and net zero carbon, as well as leaning into the post-pandemic health trend by providing wellness and fitness facilities. But all of this comes at a cost – and one which sometimes is simply too high to achieve any meaningful returns.

And so, we believe that offices should be on a watching brief. We think there are further capital value declines to come through. Interest in the sector will most likely come as further space is removed from stock figures and converted to alternative uses such as residential, and the limited development pipeline brings the demand:supply equation into a more sustainable balance. And structurally there will be lower levels of take-up, but volumes should rise a little from 2020-2022 levels as return-to-the-office mandates are gaining momentum in countries such as the United Kingdom. Countries such as France and Germany were less affected from the outset.

Over much of 2024 there was an obvious lack of stock in some of Europe's larger countries including the UK, Germany, France and the Netherlands. The UK, considered a first mover as the new cycle emerges, has seen a reasonable amount of activity for office deals below £100 million. Activity for the larger lot sizes has been minimal at best, with some transactions not concluding as pricing fails to meet expectations. Improvements are anticipated as capital values reach their trough through mid-2025 and new benchmark pricing is established providing a more comfortable footing for investors to turn more attention to the sector. A few larger assets have been brought to market and will be the litmus test for both appetite and capacity of the investor community. Higher levels of investment activity are expected to follow in 2025 – although these are expected to be on a selective basis. Of note has been the absence of global cross-border capital into the European office sector with just 9% of 2024 volumes accounted for by non-European investors against a five-year annual average of 20%. However, there is mounting evidence that US private equity in particular, is more active and targeting discounted core assets, offering an opportunity to take market share at scale and before market pricing reaches the bottom of this cycle.

Investors and developers are struggling with balancing the cost of refurbishment or development to deliver a space that occupiers want at a cost they are willing to pay

Opportunities in the office sector by geography

FRANCE

Paris CBD and Western Crescent submarket, emerging areas linked to the Paris Grand Plan infrastructure project, key cities such as Lyon supported by business growth (e.g. aerospace).

GERMANY

Secondary offices in key locations such as Berlin, Munich, Dusseldorf and Cologne and evolving tech hubs such as Stuttgart and Leipzig.

UNITED KINGDOM

London with a focus on the City of London submarket.

South East: Reading, Maidenhead, Maidstone, Guildford, Woking.

OTHER EUROPE

Generally, lower quality of offices near transport hubs with a repositioning angle.

In Italy, focus on Grade A buildings in semi-central locations in Milan and Rome.

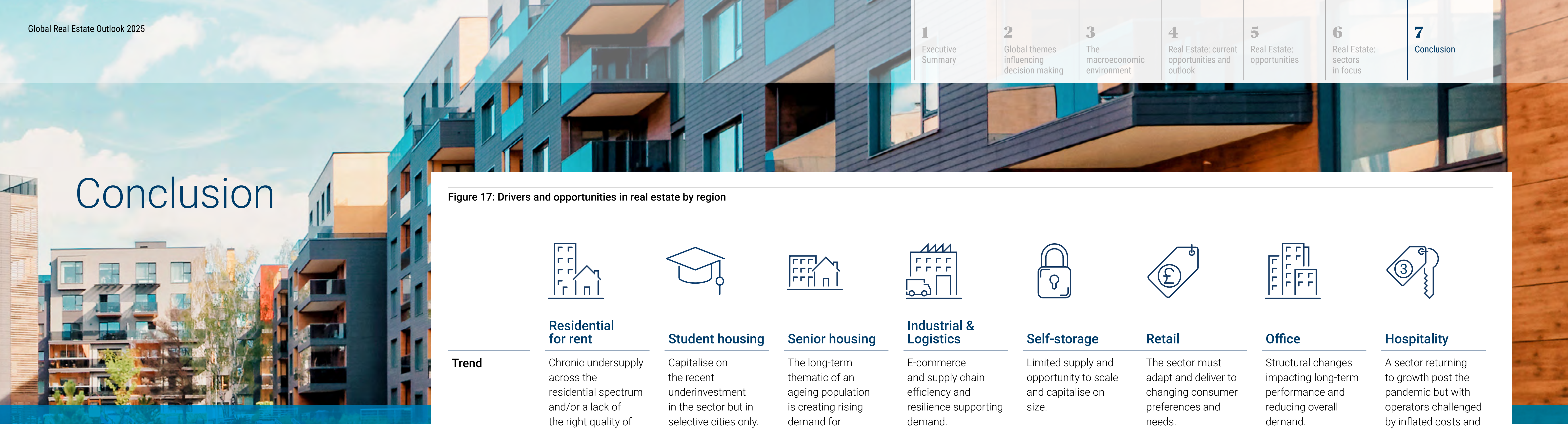
Older office schemes in Madrid and Barcelona (Spain) where there is change of use potential, for example to residential, and/or assets where upgrading to offer in-demand ESG criteria is possible.

In the Netherlands, the inner-city areas in the four main Dutch commercial hubs of Amsterdam, Rotterdam, The Hague and Utrecht.

UNITED STATES

New York City submarkets which benefit from the return to office trends including Grand Central, Parke Avenue/Plaza District.

Newer buildings in mixed use environments in cities with solid job and income growth including Raleigh, the East Side of Seattle, Nashville and Atlanta.



Conclusion

As the economic backdrop improves, we are expecting a recovery to entrench over the course of 2025. That said, interest rates will remain elevated and these will weigh on growth and make fundraising challenging (although not impossible). The higher interest rate environment also highlights the importance of active asset management programmes.

The recovery is unlikely to be all smooth sailing and we expect to see volatility over the course of the year. We are likely to see cost pressures cause further business failures and geopolitical uncertainties will also play their part. The real estate landscape is complex and investors will need to tread cautiously, but there are opportunities and capital is available to deploy. Those who are putting capital to work should focus on underlying real estate fundamentals more than ever before.

Gone are the days of simply 'taking the income'. Each asset must work harder to maintain its relevance to investors, whether that is through diversification of income streams, for example installing electric vehicle (EV) charging and/or photovoltaic (PV) panels on sites, or through measured capex programmes to increase value and return profit to investors. Asset managers need to invest in real estate sectors that offer the best prospects for growth and then strategically implement asset management programmes to protect and create value.

Figure 17: Drivers and opportunities in real estate by region

	Residential for rent	Student housing	Senior housing	Industrial & Logistics	Self-storage	Retail	Office	Hospitality
Trend	Chronic undersupply across the residential spectrum and/or a lack of the right quality of stock in attractive locations.	Capitalise on the recent underinvestment in the sector but in selective cities only.	The long-term thematic of an ageing population is creating rising demand for specialised housing.	E-commerce and supply chain efficiency and resilience supporting demand.	Limited supply and opportunity to scale and capitalise on size.	The sector must adapt and deliver to changing consumer preferences and needs.	Structural changes impacting long-term performance and reducing overall demand.	A sector returning to growth post the pandemic but with operators challenged by inflated costs and squeeze on margins.
Europe	Viability and high mortgage rates impacting new supply and constraining 'owner' affordability. Continued rental growth to be captured across multi-family housing and single-family housing. Look for schemes with low levels of amenities to maximise efficiencies.	Target cities with multiple universities where there is a lack of student housing and housing supply in general, as well as first-generation purpose-built student accommodation which can be improved/ repositioned.	Small and fragmented sector but with rising investor interest. Pricing is attractive but with a focus on high quality well-managed assets.	Opportunities across the sector from urban logistics to multi-let industrial estates. Power access is crucial and a defining factor in future-proofing assets.	Small, fragmented sector with some growth potential in larger cities. Operational experience is crucial.	Focus on both ends of the retail spectrum – prime, high-footfall streets in tourist-backed locations and retail warehousing able to offer a value proposition.	Focus on high quality assets or those that can be refurbished/ repositioned to deliver in-demand ESG criteria. Central locations dominate and rising risk of obsolescence/ stranded assets in second tier locations and older stock.	Attractive returns at both ends of the spectrum; affordable and luxury in business centric cities and/or holiday destinations.
United States	High housing prices and mortgage rates prop up rental demand. Near-term oversupplied markets present opportunity as deliveries plummet and occupancies recover. Opportunity in distressed assets in currently oversupplied markets at prices significantly below replacement cost. Some coastal market opportunities but beware of possible rent regulations.	Housing supply-constrained urban university cities present solid long-term opportunities. Tertiary markets require caution due to supply risk.	Occupancies expected to continue increasing as supply is low and senior population grows quickly. Rents benefit from high home sale prices.	Multiple attractive strategies available due to the rapid shutdown in new construction deliveries (supporting occupancy gains) and growth in consumer spending.	Market selection critical as supply is high and recent demand is inconsistent across metros. High barrier markets are the focus as supply is a worry through cycles.	Quality suburban centres appear attractive as population and income gains, especial in high growth cities, combine with limited supply to support net operating income growth.	Focus on best quality properties, especially in mixed-use environments which should command occupancy and rents gains even as overall sector vacancies increase. Dearth of equity and financing support constrain near-term investment but support long-term gains as the market normalises.	Upscale assets and those in markets which benefit from both return to office and leisure spending growth are expected to continue outperforming. Supply and demand are roughly in balance. Metropolitan areas supported by leisure travel, particularly in the luxury sector.

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Source: Columbia Threadneedle Investments, as of 31 December 2024.. Columbia Threadneedle Investments is the brand name of the Columbia and Threadneedle group of companies, which is reflected in the above statistics.

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