For professional investors and qualified investors only

Viewpoint

Real estate: an intrinsic 'productive finance' asset

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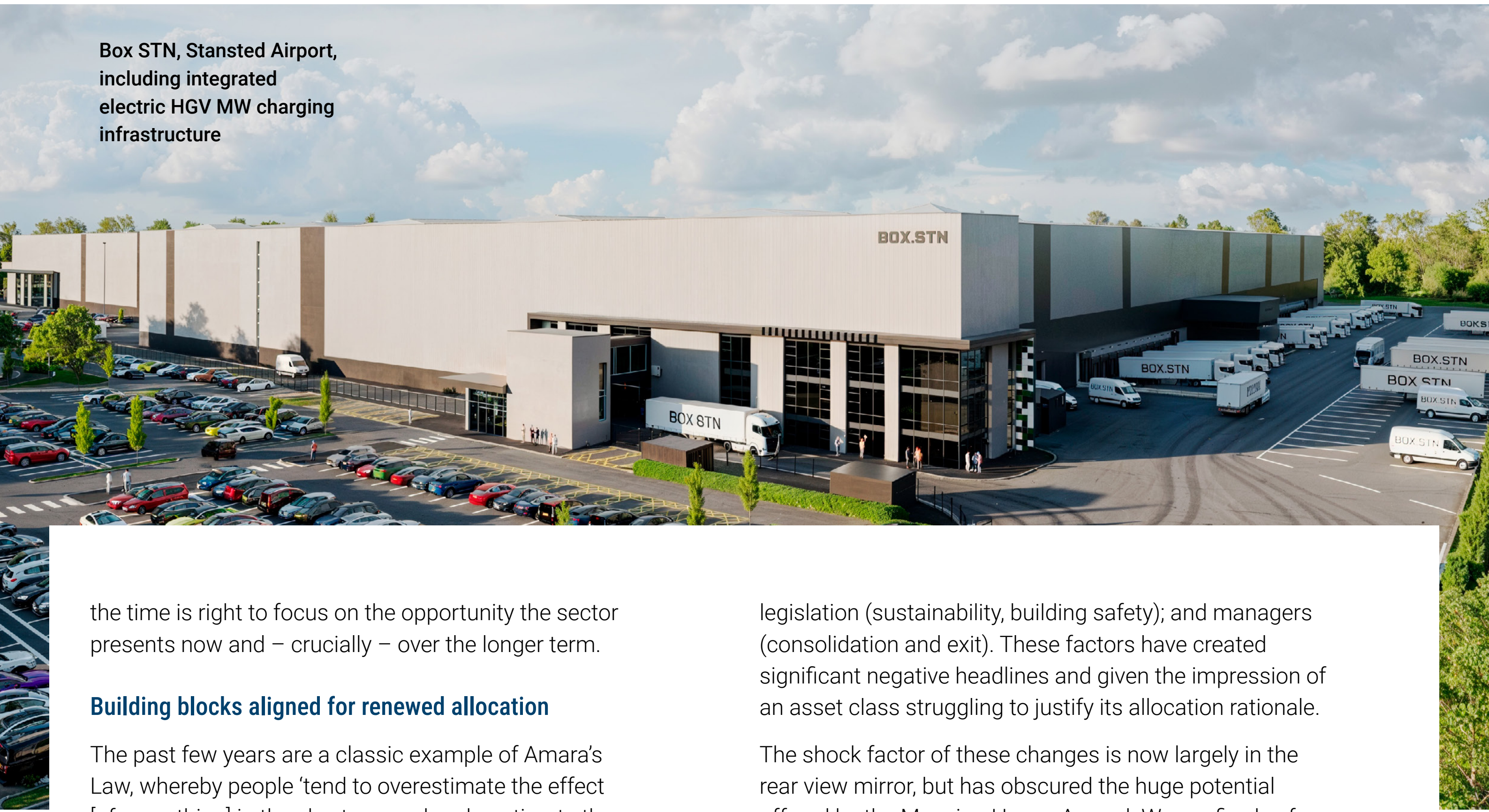
UK real estate is well positioned to deliver positive outcomes – measured against both fiduciary duty to financial performance and the government's agenda to promote assets that contribute positively to long-term economic growth.

The real estate industry is naturally optimistic in its outlook. Such a state of mind is mandatory to overcome the myriad challenges associated with developing and improving physical assets. It is testament to the industry's resilience that so many cranes can be seen in the skyline of major cities across the UK, helping to deliver economic growth, create jobs and regenerate cities and towns nationwide. Combined with the forecast performance outlook (see Forecast returns box), this makes it a natural choice for investors seeking strong risk-adjusted returns and high policy alignment.

In 2020, the Bank of England, HM Treasury and the FCA came together to form the Productive Finance Working Group (PFWG). The intention was to facilitate investments that support economic growth and development. It is now almost four years since the group published its Roadmap for Increasing Productive Finance Investment[1]. With this in mind,

[1] Bank of England, A roadmap for increasing productive finance investment, September 2021



Box STN, Stansted Airport, including integrated electric HGV MW charging infrastructure

the time is right to focus on the opportunity the sector presents now and – crucially – over the longer term.

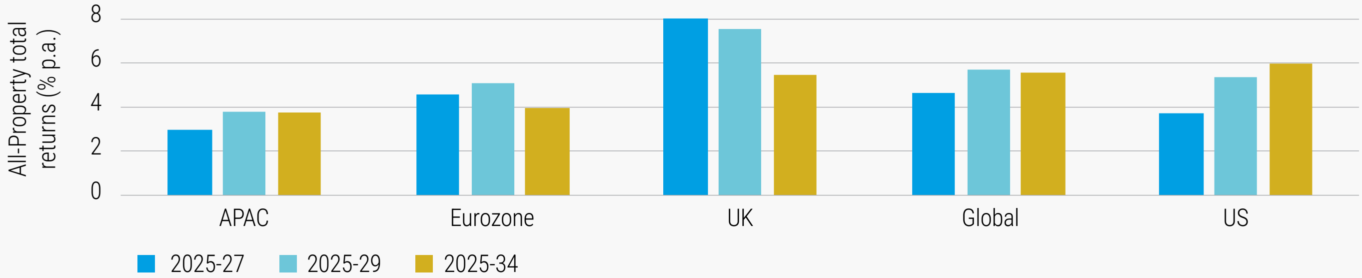
Building blocks aligned for renewed allocation

The past few years are a classic example of Amara's Law, whereby people 'tend to overestimate the effect [of something] in the short run and underestimate the effect in the long run'. Within real estate, the short term has been dominated by huge changes: to policy (the Mansion House Accord[2]); pricing (inflation/interest rate re-basing); capital sources (corporate defined benefit exit, Local Government Pension Scheme pooling and defined contribution master trust aggregation); structuring (Long-term Asset Funds, Reserved Investor Funds); legislation (sustainability, building safety); and managers (consolidation and exit). These factors have created significant negative headlines and given the impression of an asset class struggling to justify its allocation rationale.

The shock factor of these changes is now largely in the rear view mirror, but has obscured the huge potential offered by the Mansion House Accord. We are firmly of the opinion that in accordance with the second part of Amara's Law we will see substantial capital flowing into UK private markets in the long run, potentially £25 billion of additional allocation over the next five years.[3] This includes real estate, which is emerging from its transition phase well placed to deliver attractive attributes to portfolio allocators going forward.

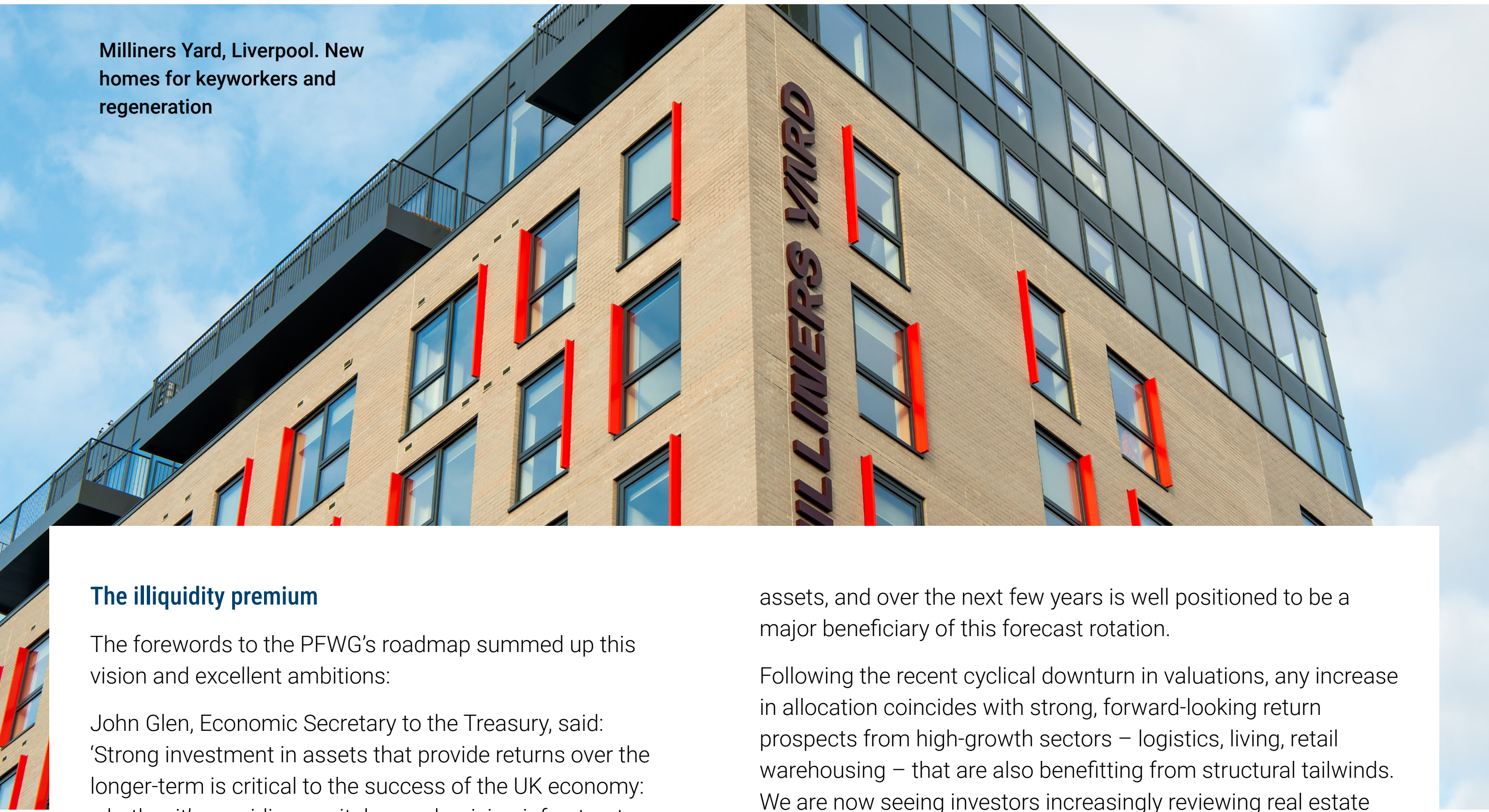
Forecast returns

The optimism in the UK outlook is supported by forecasters such as Capital Economics who believe near-term returns for the UK market will be significantly higher than in the APAC, eurozone and US markets. Having corrected earlier in the cycle – and to a greater extent – the UK is now well-placed to lead the recovery.



Source: Capital Economics, July 2025

[2] Gov.uk/HM Treasury, Pension schemes back British growth, 13 May 2025
[3] Bank of England, A roadmap for increasing productive finance investment, September 2021



Milliners Yard, Liverpool. New homes for keyworkers and regeneration

The illiquidity premium

The forewords to the PFWG’s roadmap summed up this vision and excellent ambitions:

John Glen, Economic Secretary to the Treasury, said: ‘Strong investment in assets that provide returns over the longer-term is critical to the success of the UK economy: whether it’s providing capital … modernising infrastructure or supporting the transition to a carbon neutral economy.’ Meanwhile, Andrew Bailey, Governor of the Bank of England, said: ‘… it is now more crucial than ever that a long-term investment culture is fostered that delivers good outcomes for consumers, while aiding economic recovery. Investment in less liquid assets can also have broader benefits, including facilitating the financing of long-term projects, such as the transition to a net zero carbon economy.’

The analysis that underpins the essential delivery of good outcomes for consumers is that a typical equity/fixed income portfolio would not only benefit from enhanced returns by inserting a 10% allocation to private markets, but would also give clients lower volatility and an improved Sharpe Ratio (risk-adjusted returns). These outcomes improve further still with a 20% allocation to private markets. This higher number is very much in line with the current weightings adopted by Australian superannuation funds and Canadian pension funds. These international players appreciate the illiquidity premium and analysis from the Pensions Policy Institute suggests that this higher allocation to real assets can deliver a 1%-7% increase in returns over the long term.

The economic case for UK real estate

Real estate is the longest standing, most understood and arguably the most transparent of all the private market assets, and over the next few years is well positioned to be a major beneficiary of this forecast rotation.

Following the recent cyclical downturn in valuations, any increase in allocation coincides with strong, forward-looking return prospects from high-growth sectors – logistics, living, retail warehousing – that are also benefitting from structural tailwinds. We are now seeing investors increasingly reviewing real estate opportunities with an appreciation of forecast higher returns and the benefit of diversification.

Positioning to support UK growth

We believe a strong allocation to real assets can further deliver the additional aims of the PFWG. Real assets are more aligned than ever to deliver on the UK government’s wider growth agenda – creating jobs, improving productivity, kick-starting regeneration, supporting the new Industrial Strategy, delivering housing and, of course, addressing the decarbonisation agenda.

Productive real estate **supports jobs** within logistics, offices, retail and leisure, and hospitality. At Columbia Threadneedle Investments, we estimate that with our circa 40 million sq ft of

Our activities support the significant repurposing of redundant assets, economically and environmentally, into productive spaces that have wide-reaching benefits to the community

Life Sciences, Cambridge. Repurposing buildings for growth industries of the future

accommodation around 75,000 people are employed in assets we own, which are typically smaller, more liquid assets naturally occupied by small and medium-sized enterprises (SMEs). By supporting the SME businesses growing in our functionally relevant assets we are supporting job creation and the future growth of UK Plc.

Regeneration is typically led by real estate solutions, be it the repositioning of shopping centres or delivery of much needed town centre **residential accommodation** – both of which are integral to thriving communities. Our activities support the significant repurposing of redundant assets, economically and environmentally, into productive spaces that have wide-reaching benefits to the community in terms of creating safe environments, employment and homes for local keyworkers. This regeneration is especially important in areas historically starved of capital. Investment can help facilitate an exciting new chapter for a deprived region by providing a platform for future growth, boosting confidence and attracting additional capital.

Real estate is integral to the government's **Industrial Strategy**[4], which has a focus on those growth sectors that historically have generated two-thirds of the economy's entire productivity growth. The focus on advanced manufacturing, clean energy, creative industries, life sciences and financial services is designed to 'unleash the full potential of our cities and regions'. Real estate is a crucial component of providing cost-efficient, world leading accommodation to enable this forecast growth to flourish.

Real estate also has a key part to play in the **decarbonisation** of the economy. New buildings are typically green and operationally efficient, but in any one year this may only account for say 2% of existing stock. There remains an amazing opportunity to make outsized returns from repositioning assets to create functionally relevant buildings fit for 2050. At Columbia Threadneedle, decarbonisation is no longer considered a cost, rather we see it as an opportunity to create additional revenue streams from a systematic solar roll out across our extensive portfolio. This gives the occupier cheap, clean electricity, and, typically, our investors an additional 8%+ income return. We also look for ways to support consumers, assisting the net zero agenda further by accommodating electric vehicle recharging hubs on our extensive retail park portfolio and benefit from the additional revenues they bring. As an operational asset, real estate is unique in being able to actively and directly integrate these solutions for the benefit of investors, occupiers and the wider community.

The bottom line

We all strive for a better world – and an allocation to real estate can help deliver this. As an integral component of the main aims of the Productive Finance Initiative, it is not only perfectly positioned to support economic growth and development, but can also provide investors with a private markets allocation aligned to the Mansion House Accord that is anticipated to generate meaningful financial returns over the next capital markets cycle.

The optimistic, can-do nature of property industry participants may now be matched by supportive government tailwinds, and Amara's Law may once again be proved correct.

We have a proposal to deliver an operational decarbonised logistics park with integrated 1MW lorry chargers for our occupiers to transition to an electric fleet

[4] Gov.uk/Department for Business and Trade, Industrial Strategy, 23 June 2025

Meet the authors

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Guy Glover, MRICS, is a Fund Manager for the CT UK Commercial Property Fund and also Co-Manager of the CT UK Residential Real Estate Fund FCP-RAIF. He has over 25 years' experience in property and joined Columbia Threadneedle Real Estate Partners through the acquisition of BMO GAM (EMEA) in 2021, having previously been with BMO Real Estate Partners since 2004. Guy is a Chartered Surveyor and holds a Bachelors' Degree in Land Management and a Postgraduate Diploma in Property Investment. He sits on the management board of the Association of Real Estate Funds (AREF).

James Coke
Executive Director & Fund Manager, UK Real Estate

James Coke is an Executive Director & Fund Manager of UK Real Estate at Columbia Threadneedle Investments. He took up this role in October 2020 and has joint responsibility for the investment performance and strategy of our UK institutional property mandates. He is also portfolio manager for the Threadneedle Property Unit Trust.

Before joining the company, James worked in the UK Capital Markets team at JLL, advising a range of institutional clients on property acquisitions and disposals throughout the UK.

James has a BSc (Hons) in Land Management from the University of Reading. He is also a member of the Royal Institution of Chartered Surveyors.

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