

Durham, Retail Park



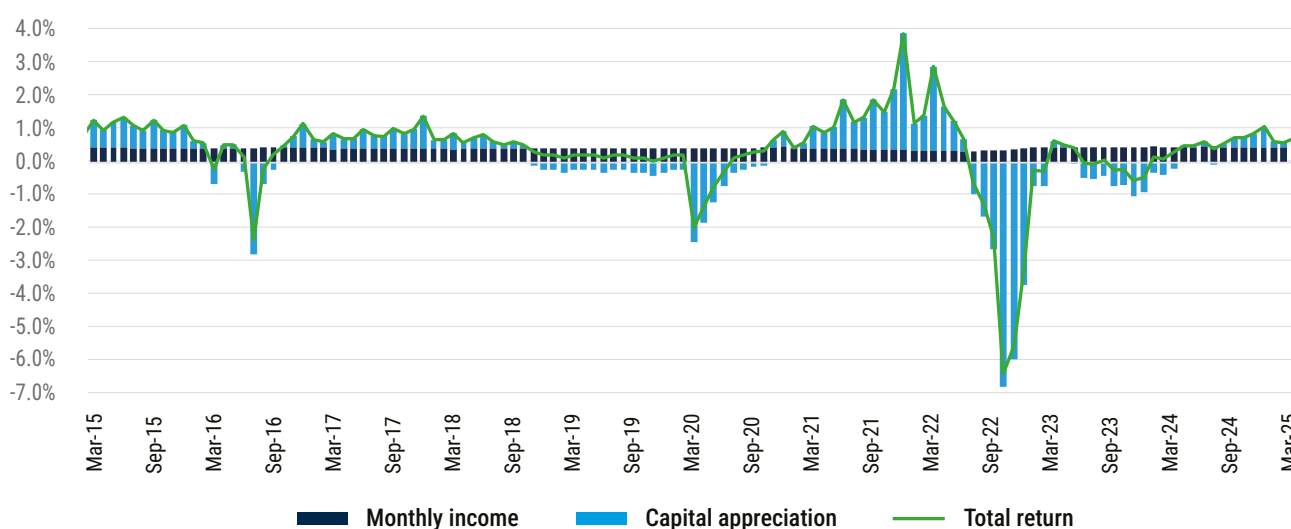
April 2025

UK Real Estate Talking points

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

All data to 31 March 2025, unless stated otherwise.

Capital market context: MSCI Monthly UK Property Index – income, capital and total returns



FINANCE

5-year Gilt: 4.3%
5-year Swap: 4.0%



REAL ESTATE

NIY: 5.3%
EQV: 7.1%



SPREAD: 2.8%





(5-year Gilt to EQV)

Talking points

- The 10% baseline tariff imposed on UK exports to the US (plus levies on countries across the world) have escalated trade tensions, resulting in volatility in stocks and bonds, despite the recent 90-day tariff reprieve.
- Markets are pricing in circa 75 bp base rate cuts from the Bank of England this year, as investors assess the potential for tariffs to reduce economic growth and inflation. Rate cuts have traditionally supported real estate returns.
- The Chancellor did just enough in the Spring Statement to meet fiscal rules, but further fiscal consolidation in the Autumn Budget should not be ruled out. Higher National Insurance contributions are likely to negatively impact business sentiment.

Source: Columbia Threadneedle Investments, JLL and MSCI Monthly UK Property Index, all as at 31 March 2025 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 2025

				
	INDUSTRIALS	OFFICES	RETAIL	ALTERNATIVES
Headlines	Positive structural forces support sustained long-term demand in a transitioning sector	Good-quality, well-located assets attract the bulk of attention as hybrid working strategies continue to evolve	Convenience and value anchor the continued success of retail parks. Options limited with vacancy low	Undersupply of residential units and PBSA support long-term sector growth as well as positive rental growth
Vacancy* (By Market Rent)	9.0%	26.0%	6.4%	2.2%
Rental Growth* (Annualised)	5.4%	2.1%	1.8%	3.1%
Prime Yield Pricing** (Net Initial Yield, rack rented)	Distribution: 5.25%	London (City): 5.75%	Warehouse: 5.50%	Student: 5.00%
	Multi-let: 5.00%	Regions: 6.50%	High Street: 6.75%	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 with repositioning potential	Favour, strategic land, 'meds' and residential including student housing

 Strengthening

 Stable

 Weakening

Talking points

- At 8.5% the 12-month total return for commercial property surprised on the upside, driven by resilient occupational markets and sustained, positive rental growth across sectors.
- Tariffs and global political and financial uncertainty are anticipated to delay some occupational and investment transactions, which were already taking longer to close than in previous cycles.
- We are closely monitoring tenant insolvencies as a proxy for stress in the real economy – while some occupiers are certainly under pressure, overall vacancy continues to be low and most voids are re-let.

OUTLOOK IN ONE LINE

Tariffs have introduced a lot of 'noise' into financial markets – but overall, we consider the impacts on real estate are likely to be secondary (and in some cases such as logistics onshoring be positive), which should provide investors and managers with sufficient visibility to make informed decisions and does not materially impact our house view, which remains based on 'ground up' property fundamentals.

Source: Columbia Threadneedle Investments, *MSCI UK Monthly Property Index and **CBRE Prime Yields, all as at 31 March 2025 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 2025. Yield 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: Retail Warehousing

KEY STATISTICS¹

Vacancy rate ¹	5.8% (Q4 2020)	3.2% (Q4 2024)
Completions (sq ft) ²	-1,300,000 (2020-2024)	+200,000 (2025f-2029f)
Annual Total Return ³	-9.7% (to March 2020)	13.0% (to March 2025)



House view

- The UK retail warehouse market is supported by a very favourable imbalance of supply and demand. Vacancy is currently <3.5% (for comparison, high streets are ~12% and shopping centres ~9%) and constrained by a very limited development pipeline, which is restricted by the planning regime and elevated construction costs.
- Retail warehouses disproportionately benefit from multiple occupational tailwinds: convenience/accessibility to consumers at a relatively low (per sq ft) rental price point, servicing omni-channel functionality (returns and ‘click and collect’) with the advantage of driving higher footfall levels to physical units.
- Retail warehouses offer a near-unique opportunity to deliver green energy infrastructure through the introduction of high cover PV and EV charging. This offers exciting additional revenue streams in addition to traditional property rental growth, which has the potential to enhance returns from the sector over the next cycle.

Next quarter: Supply chains

About the Manager

Columbia Threadneedle Investments manages a diverse European platform with a team of property experts operating from offices in the UK, Germany and France. We are an **experienced, dynamic** and **responsible** manager, active across the full risk / return spectrum of the market, focused on delivering strong, consistent returns for clients.

We invest at **scale⁴**

€14.8bn	79	900+	12,500+
AUM	Investment professionals	Properties	Tenancies



Source: Columbia Threadneedle Investments, as at 31 December 2024, unless stated otherwise. 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. MSCI Quarterly Digest December 2024;

2. Property Market Analysis, Spring 2025;

3. MSCI Monthly Digest March 2025

4. As at 31 December 2024. The numbers are for the European direct real estate team.

To find out more visit columbiathreadneedle.com



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