



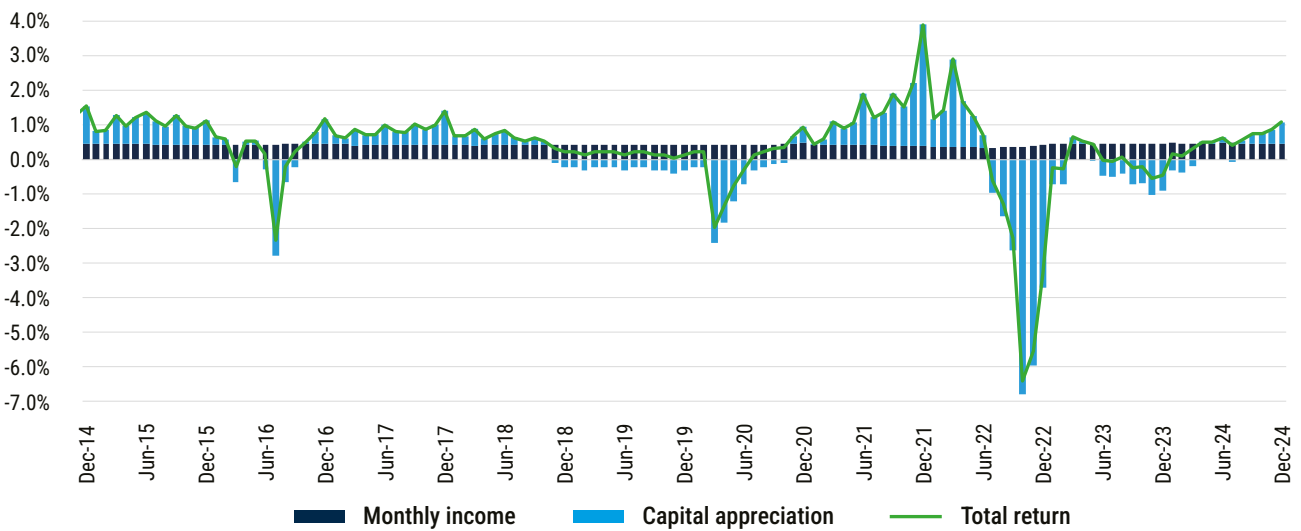
January 2025




# UK Real Estate Talking points

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

All data to 31 December 2024, unless stated otherwise.

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



 <p><b>FINANCE</b> 5-year Gilt: 4.4% 5-year Swap: 4.1%</p>	 <p><b>REAL ESTATE</b> NIY: 5.3% EQV: 7.1%</p>	 <p><b>SPREAD: 2.7%</b> (5-year Gilt to EQV)</p>
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### Talking points

- Fiscal and monetary policy collectively slowed real estate market momentum coming into the New Year, with The Autumn Budget delivering tax rises for employers and The Bank of England continuing to balance weaker growth and inflation when setting interest rate policy.
- Gilt market pricing reacted negatively in the first few weeks of January but has since stabilised.
- Income growth and rising capital value growth combined to see the strongest real estate returns of 2024 in Q4, resulting in full year total returns of circa 7.0%.

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

# State of the market: Key sector metrics as at 31 December 2024



	INDUSTRIALS	OFFICES	RETAIL	ALTERNATIVES
<b>Headlines</b>	Positive rental continues but at a slower pace as nationwide the vacancy rate rises	Polarisation between prime and secondary quality assets and markets intensifies	Strong demand translating into rental growth and modest yield compression for retail warehouses	Lack of supply and regulations slowing development of residential and PBSA
<b>Vacancy*</b> (By Market Rent)	9.4%	24.9%	6.3%	1.6%
<b>Rental Growth*</b> (Annualised)	5.5%	2.1%	1.3%	3.3%
<b>Prime Yield Pricing**</b> (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%
<b>Allocation</b>	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

- Investor cautiousness, given the lack of clarity around pricing, is giving way to more optimism that the trough of the market has been reached and there are opportunities at a new, rebased benchmark level.
- Investment activity picked-up in Q4 2024 but the divergence towards favoured sectors such as industrial, retail warehousing and the majority of the living sector will only intensify further.
- Development is muted given the high cost of construction which is making some developments unfeasible and will only serve to exacerbate the already low levels of availability in the future.



### OUTLOOK IN ONE LINE

Sentiment appears to be improving towards certain sectors, but maximising returns will require creativity and careful stock selection, and real estate fundamentals matter now, possibly more than ever before. Investors who can see through the uncertainty will be the ones that capitalise on valuations and will be well positioned to outperform the next market cycle.

Source: Columbia Threadneedle Investments, \*MSCI UK Monthly Property Index and \*\*CBRE Prime Yields, all as at 31 December 2024 unless stated otherwise. MSCI UK Monthly Property Index Vacancy rate and Market Value Rental Growth (Alternatives data is unweighted average Hotels, Residential, Other), as at 31 December 2024. 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: Hotels

### KEY STATISTICS<sup>1</sup>

Indicator	Regional	London
2024 investment volumes (f)	£3.3 billion	£2.4 billion
Investment volume growth (y/y)	+217%	+105%
Overnight stays 2024/growth vs 2019	32 million/ +17%	25 million/ +6%



Premier Inn in Darlington

### House view

- UK overnight stays are rising in both London and the regional cities, with 2024 levels expected to be 12% higher than the 2019 pre-Covid level. This is supporting increased occupancy linked in particular to rising levels of corporate travel demand in both London and UK regional markets.
- The record RevPAR levels recorded in 2024 are expected to increase further in 2025 by approximately 3% to 5% with the bulk of demand likely to come from rising corporate demand driving occupancy levels in both London and regional UK cities.
- As the pace of UK inflation slows, this is providing some cost pressure relief for the hotel sector and will help to boost some profitability, following the sustained pressure on margins the sector faced. Proactive revenue-management is a must to offset continued inflationary and operational challenges.

## Next quarter: Retail Warehousing

### About the Manager

Columbia Threadneedle Investments manages a diverse global real estate platform totalling **£20.5bn<sup>2</sup>** with a team of 200+ property experts operating from offices in London, Paris, Munich and Houston.

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

We invest at **scale<sup>3</sup>**

**£7.7bn**

AUM

**40**

Investment professionals

Assets are **actively** and **responsibly** managed<sup>3</sup>

**£1.2bn**

Annual investment turnover\*

**700+**

Annual leasing transactions\*

**£5.7bn**

GRESB

**737**

Properties

**4,320**

Tenancies

**3,400**

Annual purchase opportunities\*

**100+**

Works projects completed annually\*

**£2.6bn**

Net Zero aligned

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

1. Key statistics sourced from Oxford Economics, Savills (as at 31 December 2024)

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

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

To find out more visit [columbiathreadneedle.com](https://columbiathreadneedle.com)



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