For Professional Investors only


July 2025

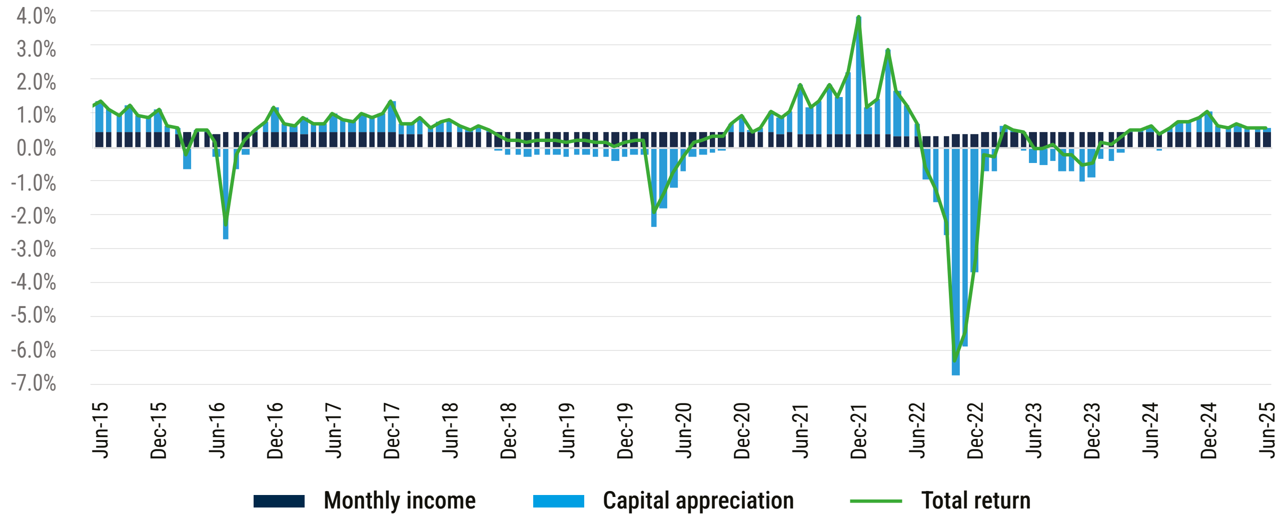
# UK Real Estate Talking points

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 30 June 2025, unless stated otherwise.


Blackpool Retail Park

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




**FINANCE**

5-year Gilt: 3.8%
5-year Swap: 4.0%

**REAL ESTATE**

NIY: 5.2%
EQV: 7.1%

**SPREAD: 3.1%**

(5-year Gilt to EQV)

## Talking points

- Interest rates held at 4.25% in June – and the 'cut-hold' tempo is likely to be the default trajectory for loosening policy, with markets pricing in a circa 50bps cut in rates over the remainder of 2025.
- The recent government Spending Review divided opinion – it combines a squeeze on day-to-day spending with a big increase in capital investments (including 5% of GDP on defence by 2035).
- UK real estate is forecast by Capital Economics to outperform Europe, Asia Pacific and the US. All-property unleveraged total returns are expected to be c.7.5% per annum from 2025-2029.

Source: Columbia Threadneedle Investments, JLL and MSCI Monthly UK Property Index, as at 30 June 2025 and Capital Economics, July 2025. 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 30 June 2025

| | **INDUSTRIALS** | **OFFICES** | **RETAIL** | **ALTERNATIVES** |
|---|---|---|---|---|
| **Headlines** | Pockets of vacancy emerging but supply:demand dynamics still generally supportive of moderate growth | Bifurcation continues with rents rising on high quality assets but low demand and high vacancy on secondary assets | Retailers continue to expand out of town – supply constraints are generating rental growth. Investor demand for town centres is improving | Residential supply remains generally constrained (outside a few PBSA markets) and supportive of rental growth |
| **Vacancy*** (By Market Rent) | 10.1% | 25.4% | 6.4% | 2.2% |
| **Rental Growth*** (Annualised) | 5.0% | 2.4% | 2.0% | 2.9% |
| **Prime Yield Pricing**** (Net Initial Yield, rack rented) | Logistics: 5.25% | London (City): 5.50% | Out-of-Town: 5.50% | Student: 5.00% |
| | Multi-let: 5.00% | Regions: 6.50% | High Street: 6.50% | Hotels: 6.25% |
| **Allocation** | Targeted allocation to sector based on bottom-up fundamentals | Highly selective: favour urban centres with good amenities and accessibility | Favour out-of-town retail with repositioning potential | Favour strategic land, 'meds' and residential including student housing |

## Talking points

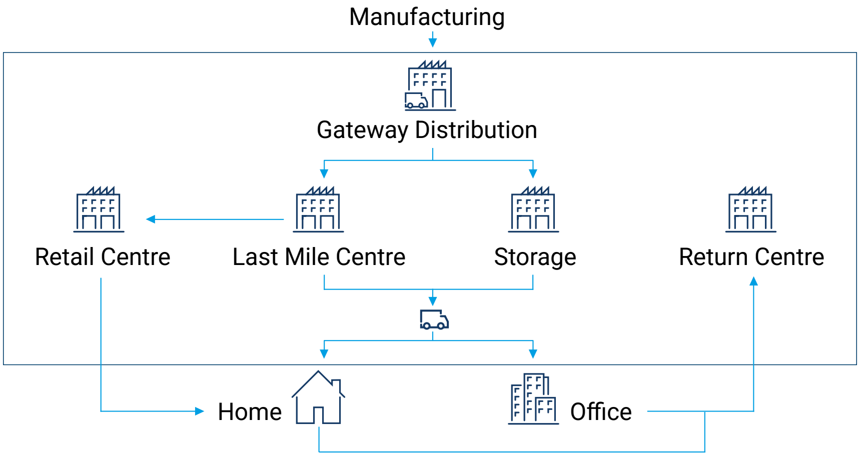
- Rental growth remains resilient across sectors and is the key contributor to delivering total returns of 8.6% over the 12 months to the end of June.
- Lengthier transaction times coupled with elevated tenant insolvencies continue to represent modest tactical headwinds to performance, requiring proactive asset management.
- Elevated pockets of industrial vacancy prompts review, but performance is still obtainable – although requires targeted allocation to the sector based on bottom-up fundamentals and deep due diligence.

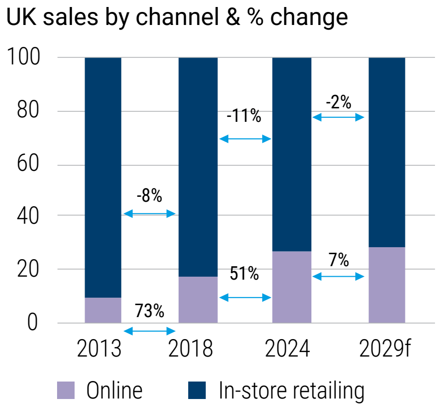
**OUTLOOK IN ONE LINE**

Macro policy is becoming more supportive of UK real estate. The government has agreed trade deals with India and the US, and debate around the Mansion House Accord (and attractive returns prospects) is re-energising the case for investment by defined contribution (DC) capital in the asset class. Against this, we continue to weigh the potential impacts of recently proposed legislative changes to UORR mechanisms.

Source: Columbia Threadneedle Investments, *MSCI UK Monthly Property Index and **CBRE Prime Yields, all as at 30 June 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 30 June 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: Supply chains




Source: Property Market Analysis

## House view

- Resilience is more important than efficiency when re-structuring supply chains. This impacts managements as they look to streamline, yet mitigate against tariff disruption and geopolitical risks, while ensuring stock availability to meet demand. So, they are nearshoring, friendshoring and onshoring all or part of their supply chains.
- Online returns in the UK are projected to exceed £27 billion[1] (2024) and are reshaping the economics of UK retail, adding pressure on retailers to optimise their return processes. 11%[1] of consumers generate nearly 25%[1] of all returns and 66%[1] of shoppers prioritise convenience over environmental impact when returning items.
- Logistics hubs are being rethought in terms of quantity and location to ensure the seamless movement of goods from the point of production, along the supply chain to delivery at physical retail/direct to consumer and vice versa for returns. But unravelling supply chains is not easy – it takes time and is costly. However, it will support demand for logistics from big box storage/fulfilment through to urban logistics to service online deliveries, click & collect orders, replenishing of physical stores and processing of returns.

## Next quarter: Natural Capital

## 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 scale[2]**

| €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. Retail Economics & ZigZag, Annual; Returns Benchmark: The Cost of Serial Returners 2024
2. 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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