COLUMBIA THREADNEEDLE INVESTMENTS

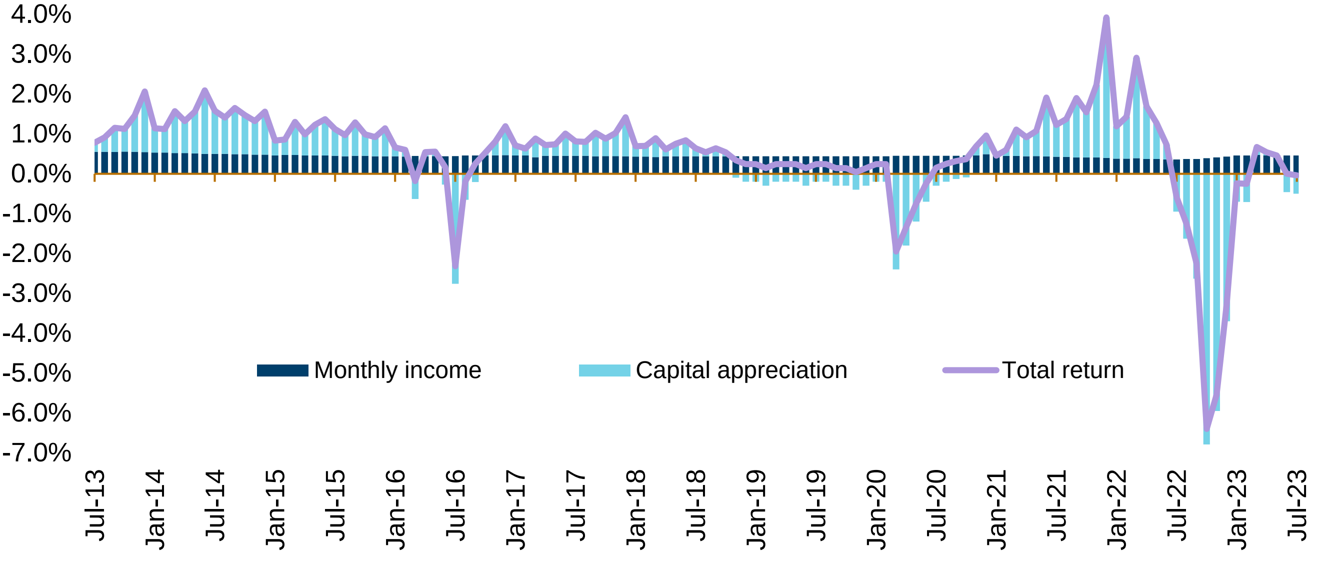
UK Real Estate: talking points

August 2023 (all data to 31 July 2023)

In this new series, we provide a concise quarterly snapshot of current real estate market trends, using transparent capital and occupational market data points to summarise key implications for asset allocation and performance prospects.

Capital market context:

MSCI Monthly UK Property Index - income, capital and total returns



Finance:
5-year Gilt: 4.57%
5-year Swap: 4.75%

Real estate:
NIY: 5.3%
EQV: 6.7%

Spread: 1.9%
(5-year Gilt to EQV)

Talking points:

"Finance rates dropped back in July, partially reversing a sustained prior trend higher, reflecting inflation and interest rate expectations. Spreads remain significantly below long run averages (20-year average c4.1%), which is still placing increasing forward-looking pressure on leverage."

"After recovering in April and May, capital valuations trended negative in June and July 2023, driven by downward valuations in the office market, as pricing increasingly reflects significantly more negative sentiment towards the sector. Pricing and values for industrials, retail and living assets remain stable."

State of the market:
Key occupational sector metrics as at 31 July 2023

	Industrials	Offices	Retail	Alternatives
Market Allocation (MSCI Monthly Index sector weighting)	42.2%	24.2%	21.8%	11.7%
Headlines	Supply/demand imbalance continues to favour landlords	Occupier demand selective, ESG agenda increasing renewal costs	Occupiers favour out-of-town (omni-channel, lower costs)	Favourable supply/demand for ‘Beds’ and ‘Meds’. Leisure remains challenged
Vacancy (By MSCI Monthly Index Market Rent)	6.7%	21.3%	6.5%	3.1%*
Rental Growth (MSCI Monthly Index, annualised)	7.2%	2.0%	0.3%	2.8%*
Subsector Allocation	Favour multi-let estates and mid-box logistics	Highly selective. Favour urban centres	Favour out-of-town parks and sales of inelastic goods	Favour residential, strategic land and ‘meds’

Talking points:

“Headline office vacancy rates of 20%+ continue to move out as overall demand weakens, and these elevated levels are difficult to reconcile against surprisingly resilient rental growth. While occupiers appear increasingly rent agnostic for best in class, more secondary stock needs repositioning to restore confidence in the sector.”

“Vacancy rates at c5% on retail warehouse parks, combined with the April rates revaluation, potentially imply more scope for medium term rental growth than markets are currently pricing.”

Outlook in one line:

“While persistent inflation has clouded the immediate pricing outlook, especially for offices, occupational markets remain relatively resilient. Thematic value bias will continue to influence capital allocation, favouring functionally relevant assets.”

Source: Columbia Threadneedle Investments and MSCI Monthly UK Property Index, all as at 31 July 2023 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 July 2023. Trends against average of prior 6-months. 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.**

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Sector in focus: Retail Warehousing

Key Statistics (as at 31 July 2023)[1]:

Market size	c200M sq. ft.
Headline vacancy	5.0%
Rental growth (12M)	0.7%
Indicative pricing (NIY)	6.5%

Deva Retail Park, Chester

House View:

- *Format favoured by retailers due to comparably lower occupational costs, flexibility of units, omni-channel functionality (returns and click and collect) and accessibility and convenience for consumers*
- *Vacancy rates reflect this, and at 5.0% compare favourably to regional high streets (12.9%) and shopping centres (10.5%). Demand remains robust, especially from discounters and gym operators*
- *Aggregate pricing valuations at market level reflect 6.5% NIY and 6.7% EQV, which offers a high and sustainable income yield advantage over favoured growth sectors such as industrial and residential*
- *Were rental growth to surprise on the upside, entry yields at this level offer scope for future compression*

Next quarter: **Residential**

And look out for our in-depth quarterly UK real estate overview in August

About the Manager

Columbia Threadneedle Investments manages a diverse global real estate platform of property investment vehicles totalling **$25.4bn** and has a team of 200+ property experts.

In the UK, we are a significant and experienced manager of real estate, active across the risk/return spectrum of the market, focused on delivering strong, consistent returns for clients.

We are an active manager, completing in the UK an average of **$1.9bn** investment and **868** leasing transactions annually.

Our management capabilities receive a high degree of industry recognition, including numerous awards over our 28-year track record.

Combining the resources of a global investment business that is renowned for original research, advanced data analytics, and a proactive approach to responsible investment, Columbia Threadneedle Investments provides the responsive partnership and market expertise investors need to manage their real asset investments.

Experienced

Established in 1994, we have built a track record centred upon market timing, investment expertise, and discipline

Dynamic

Our innovative investment approach, adding value through active investment and asset management, gives us valuable market insight

Responsible

Environmental, Social and Governance considerations are fully integrated within our operations, and many of our strategies promote sustainable outcomes

Market penetration[2]

We review over **2,500** buying opportunities annually. We are highly stock selective and complete c35 acquisitions annually

Sustainability[3]

$7.4bn of assets independently rated by GRESB

$3.8bn of assets committed to achieving operational Net Zero carbon emissions by at least 2040

PRI and **UK Stewardship Code** signatory

Source: Columbia Threadneedle Investments, as at 31 December 2022, unless stated otherwise.

1. Key statistics sourced from MSCI UK Property Monthly Index and Trevor Woods, as at 31 July 2023
2. Buying opportunities logged on EPIC. Number of direct property acquisitions on behalf of Columbia Threadneedle Investments' managed mandates.
3. Columbia Threadneedle Investments is a signatory to the PRI and UK Stewardship Code and subscribes to GRESB in respect of its UK real estate managed portfolios.

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