For Professional Investors only

October 2024

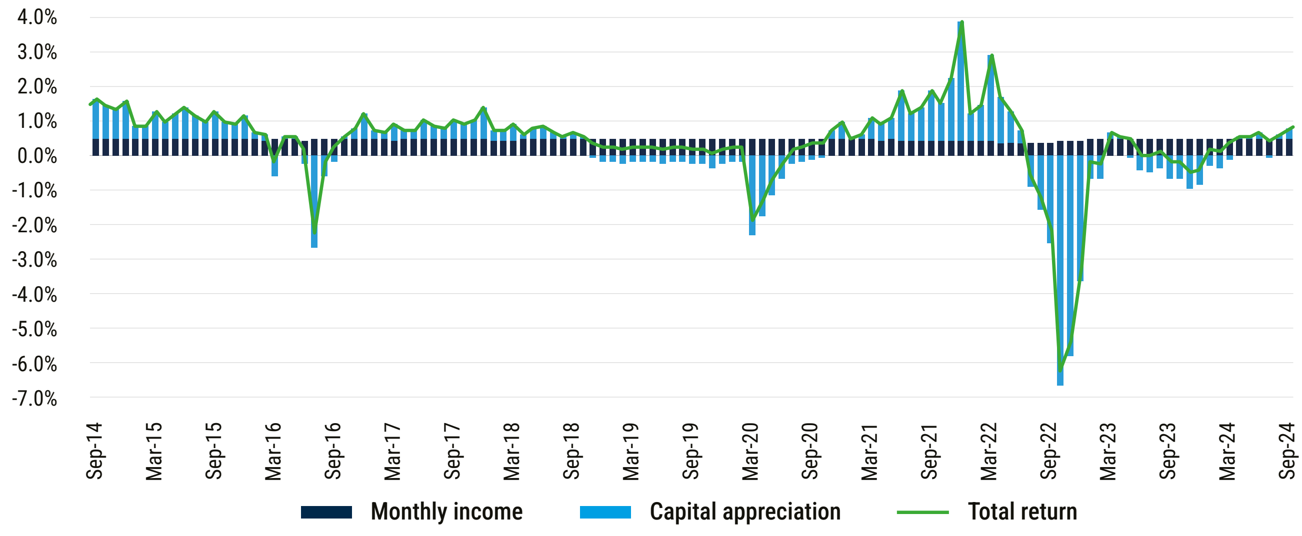
UK Real Estate
Talking points

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 September 2024, unless stated otherwise.

Thomas Road, High Wycombe

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



FINANCE

5-year Gilt: 3.8%
5-year Swap: 3.6%

REAL ESTATE

NIY: 5.5%
EQV: 7.1%

SPREAD: 3.3%

(5-year Gilt to EQV)

Talking points

- The start of the new cycle seems to be here. The Bank of England cut rates in August after steady inflation figures, with the US Federal Reserve following suit, dropping rates by a significant 50 bps in September.
- Autumn Budget due in October which the real estate community will be watching closely. The new government has a clear desire to boost growth which is undoubtedly welcome.
- Real estate total returns strengthened through Q3 boosted by industrial, the strongest performing sector, followed by retail. Residential displayed the most robust rental growth while office value declines slowed.

Source: Columbia Threadneedle Investments, JLL and MSCI Monthly UK Property Index, all as at 30 September 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 30 September 2024

	INDUSTRIALS	OFFICES	RETAIL	ALTERNATIVES
Headlines	New developments setting new headline rents despite rise in nationwide vacancy rate	Demand for quality supply is driving take-up and eroding availability as development slows	Strong occupier demand continues for out-of-town schemes, but choices are limited	Hotels, multifamily and increasingly single family BtR lead the way under the Alts banner
Vacancy* (By Market Rent)	8.1%	22.4%	5.9%	1.4%
Rental Growth* (Annualised)	6.2%	2.4%	0.9%	4.5%
Prime Yield Pricing** (Net Initial Yield, rack rented)	Distribution: 5.25%	London (City): 5.75%	Warehouse: 5.75%	Student: 5.00%
	Multi-let: 5.25%	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

- Q3 was characterised by muted investment activity with the new cycle slow to emerge as investors deal with refinancing issues and higher cost of debt despite some early cuts in interest rates.
- Continued bifurcation with the industrial and living sectors most likely to outperform all-property, along with retail warehousing. Offices, albeit on a very selective basis, could see relatively robust rental growth.
- Occupational markets have been resilient and with choice for occupiers continuing to diminish as future supply is limited, rental growth should strengthen particularly for 'best-in-class'[1] assets.

OUTLOOK IN ONE LINE

Sentiment appears to be more positive after the summer and whilst there is capital ready to be deployed and evidence of appetite for larger lot sizes, there is a general lack of stock coming to the market hindering higher levels of investment volumes. But rate cutting and rebased pricing is expected to be a boost to UK real estate activity in 2025 supported by positive rental growth.

[1] 'Best-in-class' in terms of location and quality.

Source: Columbia Threadneedle Investments, *MSCI UK Monthly Property Index and **CBRE Prime Yields, all as at 30 September 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 30 September 2024. 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: Offices

KEY STATISTICS[1]

Indicators	Q3 2024	12 months to Q3 2024
Capital value growth	-1.0%	-10.5%
Rental growth	0.4%	2.4%
Net initial yield (Q3)	7.5% (in-town)	8.3% (out of town)


62 Threadneedle Street, London

House view

- Shifting work patterns are continuing to impact portfolio and location strategies but mounting evidence suggests more companies are pivoting to growth, although with a much more targeted approach to how and where they locate. Amenity rich, centrally located offices are a key focus as sustainability commitments remain important.
- The outlook for prime / 'best-in-class' offices is looking more positive, although there is greater downside potential for secondary office stock. The leasing market has most likely reached the bottom and there is now a volume of pent-up requirements that will boost occupier but with a focus on quality, demonstrated by the speed with which the limited pipeline of new supply is absorbed.
- Pricing for prime office space has begun to stabilise in some, but not all UK markets. Investment volumes are still low and liquidity has been within smaller lot sizes, but some larger lot sizes are being released to the market and could indicate a turning point for a sector that has seen values decline significantly over the past two years.

Next quarter: Hospitality

About the Manager

Columbia Threadneedle Investments manages a diverse global real estate platform totalling £20bn[2] 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 in the UK[3]

- **£8bn** AUM
- **37** Investment professionals
- **700+** Properties
- **4,100+** Tenancies

Assets are actively and responsibly managed[4]

- **£1.2bn** Annual investment turnover*
- **700+** Annual leasing transactions*
- **£5.7bn** GRESB
- **3,400** Annual purchase opportunities*
- **100+** Works projects completed annually*
- **£2.6bn** Net Zero aligned

Source: Columbia Threadneedle Investments, as at 30 September 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. Key statistics sourced from MSCI UK Property Monthly Index (as at 30 September 2024) and Property Market Analysis (as at October 2024).
2. As at 30 June 2024. The total AUM in USD terms: $25.3bn.
3. As at 30 June 2024. The numbers are for the UK direct real estate team. The AUM in USD terms: $10.1bn.
4. As at 31 December 2023. *3-year average as at 31 December 2023.

To find out more visit **columbiathreadneedle.com**

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