For Professional Investors only

July 2024

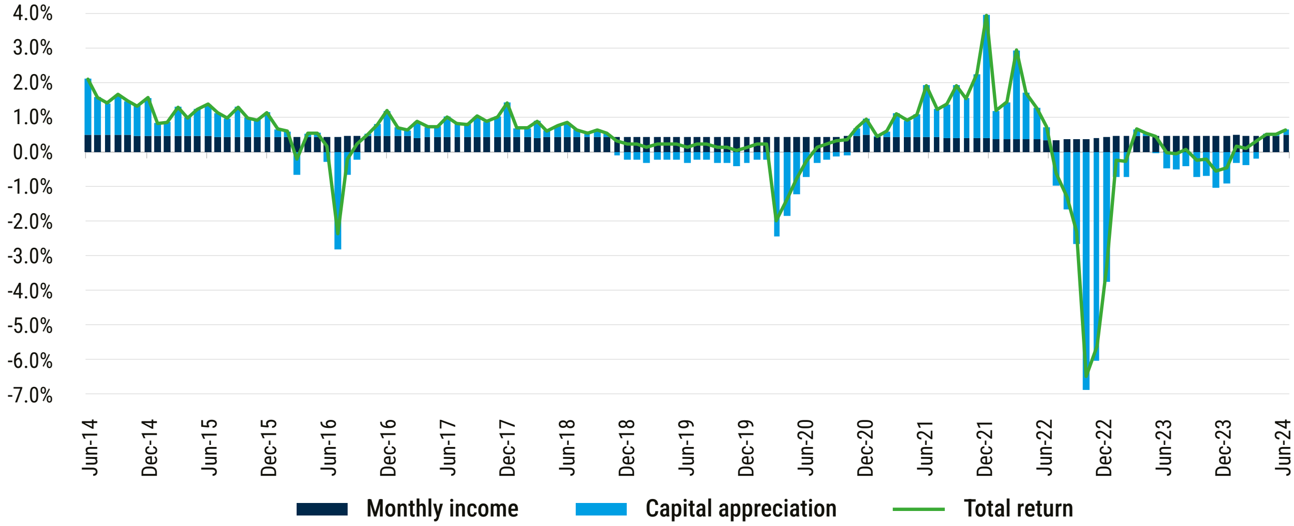
UK Real Estate
Talking points

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 June 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: 4.0%
5-year Swap: 4.0%

REAL ESTATE

NIY: 5.6%
EQV: 7.1%

SPREAD: 3.1%

(5-year Gilt to EQV)

Talking points

- Stronger than expected economic performance delivered in Q1 with an 0.7% expansion of the economy, boosted by better than anticipated consumer spending.
- The 4 July General Election returned a 172-seat majority for the Labour Party, providing welcome stability, and the expectation of supportive policy (e.g., planning reform) for real estate investors and owners.
- Real estate total returns turn positive through the quarter, as office value falls are offset by industrial rental growth and retail warehouse yield strengthening.

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

	INDUSTRIALS	OFFICES	RETAIL	ALTERNATIVES
Headlines	Reduced speculative development will underpin rents with vacancy trending downwards	Polarisation between good quality, well-located offices and the rest of the market persists	Out-of-town schemes attracting the bulk of interest, but options limited due to slim pipeline	Appetite for 'Beds' and 'Meds' persists, supported by demographic and structural changes
Vacancy* (By Market Rent)	7.5%	23.1%	6.0%	1.6%
Rental Growth* (Annualised)	6.3%	2.3%	0.8%	3.9%
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: 7.00%	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

- Investment activity remains subdued against long-run averages, but this is expected to improve over H2 2024 following the general election.
- Divergence in capital values at a sector level is evident, with retail warehousing leading the way in terms of the recovery, followed by industrials (the latter driven more by rental growth then yield compression).
- Despite rising rents attributable to 'best-in-class'[1] assets, office capital values continue to trend down on risk appetite, but declines are moderating as pricing rebases.

OUTLOOK IN ONE LINE

Political stability, rebased pricing, falling inflation and the expectation of rate cutting are collectively expected to provide a more supportive environment for UK real estate. Together with resilient rental growth across favoured sectors, this has the potential to deliver elevated forward-looking returns.

[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 June 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 June 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: Energy

KEY STATISTICS[1]

Battery, electric and hybrid car registrations reached 695,000 in 2023 and are forecast to reach 1,007,000 in 2025

The UK had 15,657 MWp of installed Solar PV, producing 13.8 TWh of electricity (2023). Assuming a grid intensity of 0.225 Kg CO_2/kWh, this saved c.~3.11 million tonnes of carbon

Renewables contributed 41.1% to UK energy mix in 2023; wind 29.4%, biomass 5.0%, solar 4.9%, hydro 1.8%

House view

- Green energy infrastructure can be delivered either through existing buildings or by repurposing surplus land or assets. Successful green energy real estate assets of the future are likely to derive significantly enhanced revenues through a mix of power generation and provision.
- The two principle drivers of value are power generation, primarily derived from rooftop solar photovoltaic (PV) panel installations, and power provision, typically through electric vehicle (EV) charging.
- Revenues can also be derived through power storage (batteries), leveraging the arbitrage in the electricity price differential at various points in the day, although this is less tested and typically attracts higher capital costs.
- The green energy transition presents a real opportunity for real estate to deliver additional value, providing investors with the potential for enhanced financial returns while simultaneously delivering on the environmental agenda.

Next quarter: Offices

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	40 Investment professionals
700+ Properties	4,200+ 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 June 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 June 2024), The Society of Motor Manufacturers and Traders (April 2024), The Energy Institute (2023) and the National Grid (2023).
2. As at 31 March 2024. The total AUM in USD terms: $25.4bn.
3. As at 31 March 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**