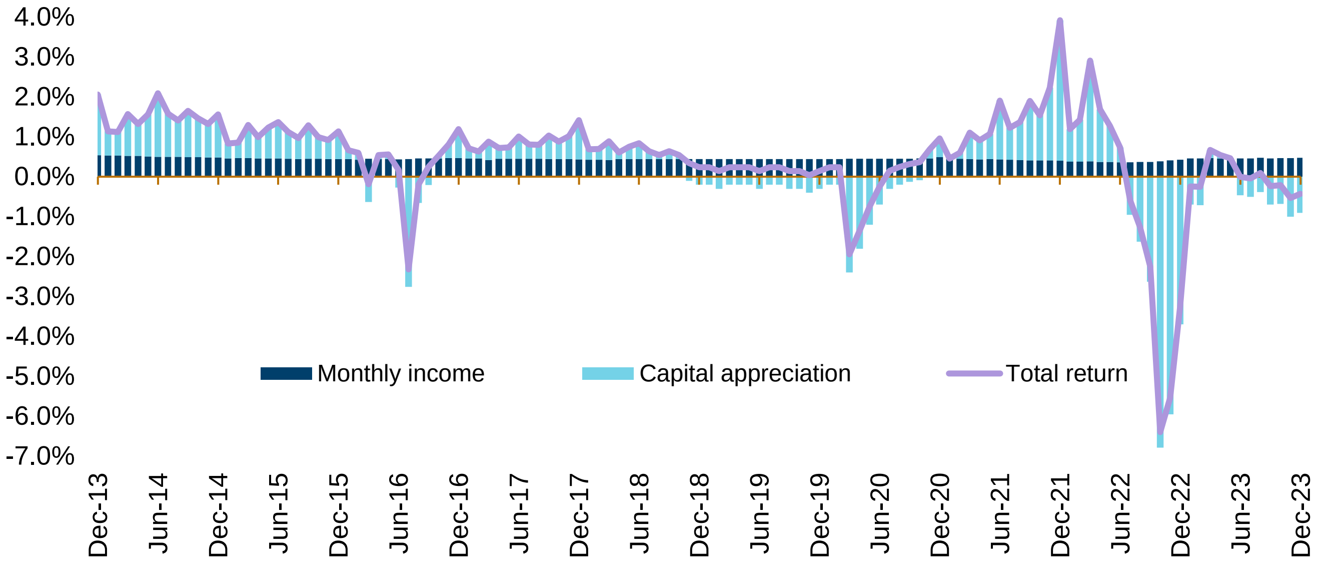
UK Real Estate: talking points

January 2024 (all data to 31 December 2023)

Welcome to Columbia Threadneedle Investments' 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: 3.3%
5-year Swap: 3.4%

Real estate:
NIY: 5.5%
EQV: 7.0%

Spread: 3.7%
(5-year Gilt to EQV)

Talking points:

"At the December MPC meeting rates were held at 5.25%, with speculation turning to when in 2024 monetary policy will start to loosen. Weak GDP performance may raise pressure to start easing early, especially if inflation continues to fall in line with expectations. Markets are already pricing this in to Gilt and Swap rates.

Spreads moved out significantly during the final quarter to 3.7%, which helps restore and support the investment rationale for property, as well as having a direct impact on reducing debt costs.

At market level, property values fell by 5.6% in 2023, surprising on the upside due to resilient rental growth."

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State of the market:

Key occupational sector metrics as at 31 December 2023

	Industrials	Offices	Retail	Alternatives
Market Allocation (MSCI Monthly Index sector weighting)	44.2%	21.9%	21.0%	13.0%
Headlines	Increasing polarisation with prime delivering growth, whilst macroeconomic headwinds weigh on occupier activity	Demand for quality space persists but value-add opportunities emerging in a multi-tiered market	Retail parks favoured - the changing tenant mix is transforming parks into day-to-day spending destinations	Undersupplied sector but new development challenged by cost of debt and increased regulation
Vacancy (By MSCI Monthly Index Market Rent)	6.7%	21.5%	5.6%	3.1%*
Rental Growth (MSCI Monthly Index, annualised)	7.6%	2.3%	0.8%	3.2%*
Subsector Allocation	Mid-box, modern future-proofed logistics along arterial routes around and transport nodes	Well-located quality stock or buildings with repositioning potential	Out-of-town parks with asset management repositioning potential	Single-family favoured, followed by multi-family and PBSA

Talking points:

"More buying opportunities are anticipated especially in H1 2024 as refinancing pressures rise releasing more product. Given the overall reduced level of leverage compared to previous cycles this should be relatively orderly and a deluge of distress is not anticipated.

Decisions should be guided by long-term trends supporting overarching sector choices, but the differences and opportunities within, and between sectors, subsectors, cities and submarkets will be crucial too"

Outlook in one line:

"Having fallen around 20% in H2 2022 and 6% last year, the expectation for 2024 is not for significant further valuation correction, although we do expect pricing to continue to soften in out of favour sectors. In the anticipated absence of clear pricing trends, buying opportunities will present for those ready to take advantage of the market dislocation"

Source: Columbia Threadneedle Investments and MSCI Monthly UK Property Index, all as at 31 December 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 December 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.**

For Professional Investors only

Sector in focus: Logistics

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

Market size	**c. 720m sq.ft**
Headline vacancy	**6.7%**
Rental growth (12M)	**7.6%**
Indicative pricing (NIY)	**5.00+%**


BOX. STN, Stanstead

House View:

- *Rental growth is expected to remain positive for the best quality space, space that is power rich, offers ESG credentials and is zero-carbon compliant. There is also a widening gap between prime and secondary rents.*
- *There is a breadth of occupiers looking for space, insulating the wider sector from any over-reliance on one sector to drive leasing activity. The growth of ecommerce continues to be a strong demand driver, as does the rising levels of household formation.*
- *Investor confidence has been sustained for prime logistics, but investor appetite has been restrained by volatile financial markets and rising borrowing costs.*
- *Investors will be much more selective, predominantly focusing on protecting income with mid-box, modern future-proofed logistics along arterial routes and around infrastructure nodes such as airports and ports are favoured.*

Next quarter: Demographics

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

About the Manager

Columbia Threadneedle Investments manages a diverse global real estate platform of property investment strategies totalling **$26.4bn*** 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 **$1.5bn** investment and **700+** leasing transactions annually.

Our management capabilities receive a high degree of industry recognition, including numerous awards over our 29-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 **3,400** buying opportunities annually. We are highly stock selective and complete approximately 35 acquisitions annually

Sustainability[3]
$7.2bn of assets independently rated by GRESB
$3.3bn 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 2023, unless stated otherwise. *Global real estate AUM as at 30 September 2023
1. Key statistics sourced from MSCI UK Property Monthly Index and Savills, as at 31 December 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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