



Market Prospects for 2024 from the perspective of Real Estate Indirect Investors

Wednesday 31st January 2024





Welcome from our Moderator
Melville Rodrigues, Head of Advisory, Real Assets
Apex Group



Speakers



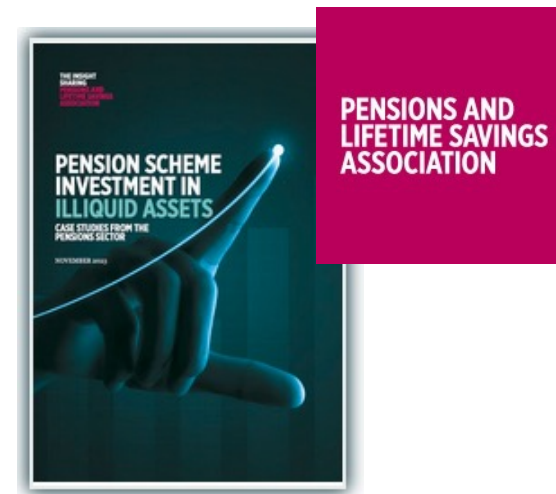
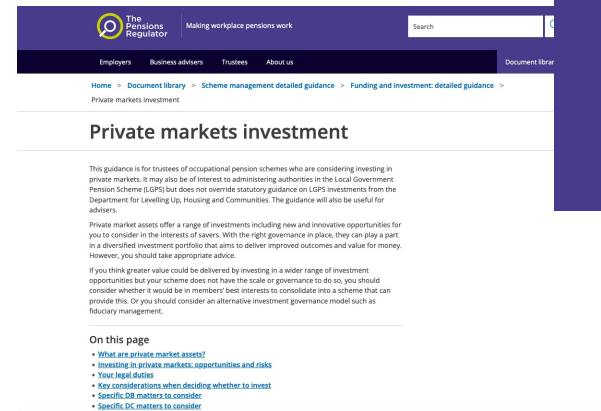
Lee Bruce
Head of Fund
Valuation
CBRE



Naomi Green
Fund Manager
Schroders Real Estate
Capital Partners

Useful materials

- 24 January 2024 The Pension Regulator guidance for occupational pension scheme trustees who are considering investing in private markets ([link](#)).
- November 2023 PSLA publication: Pension Scheme Investments in illiquid assets – Case studies from the pension sector ([link](#)).



UK market outlook 2024

Lee Bruce

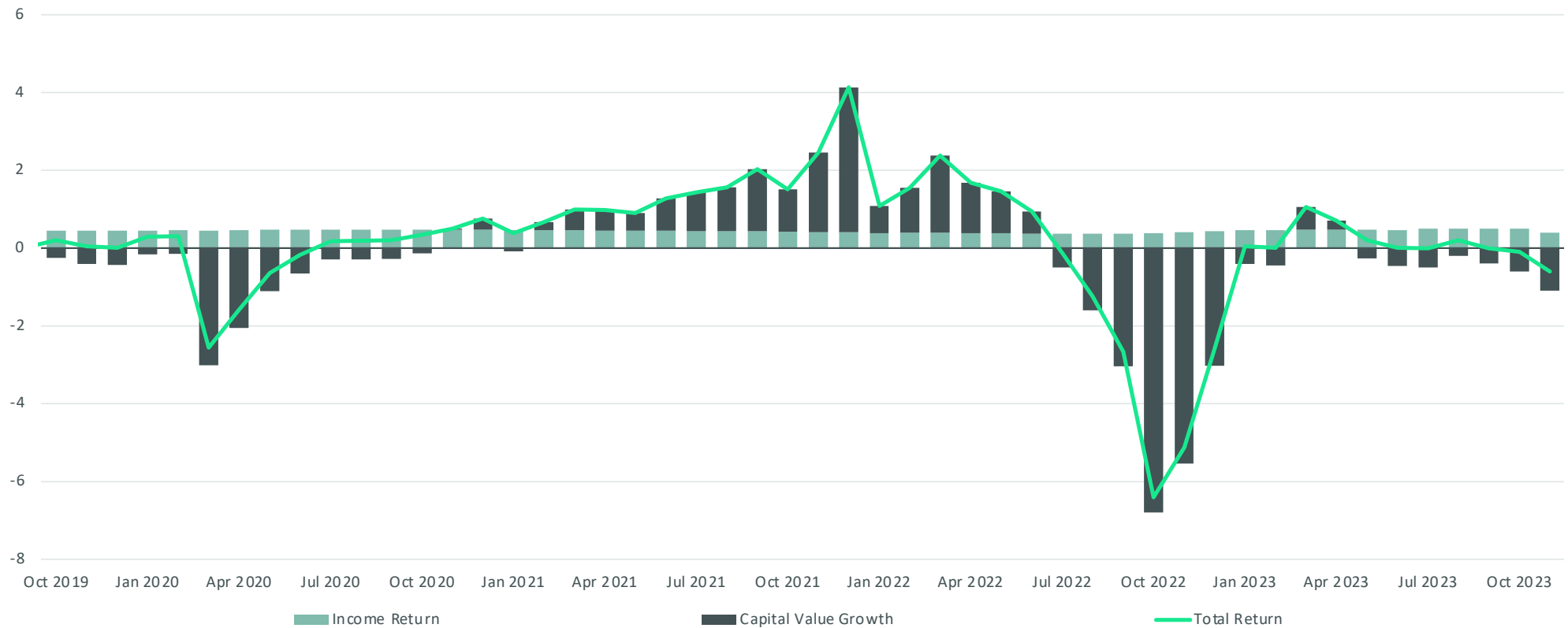
Head of Valuation UK & Ireland

JANUARY 2024



Capital values fell sharply, but now stabilised

CBRE Monthly Index



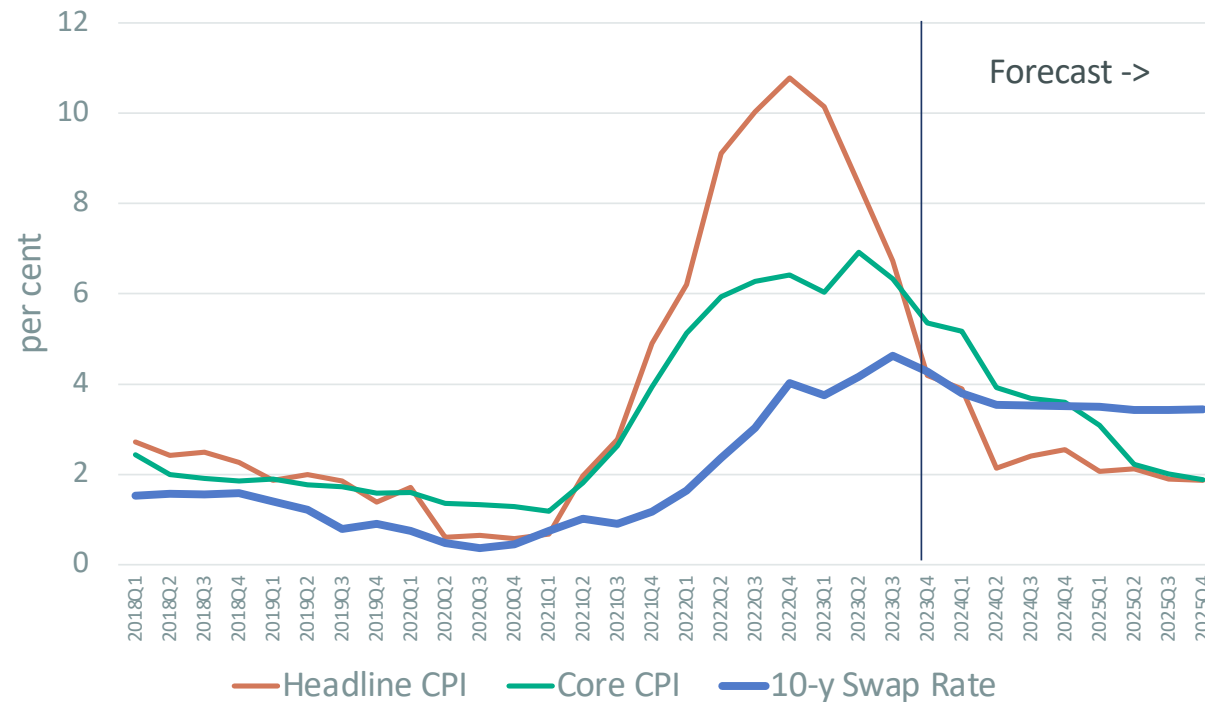
Source: CBRE UK Monthly Index

Confidential & Proprietary | © 2024 CBRE, Inc.

Inflation has surprised on the downside and interest rate expectations have reacted

- The last mile is not looking that difficult anymore
- Though there still risks (freight costs, geo-political)

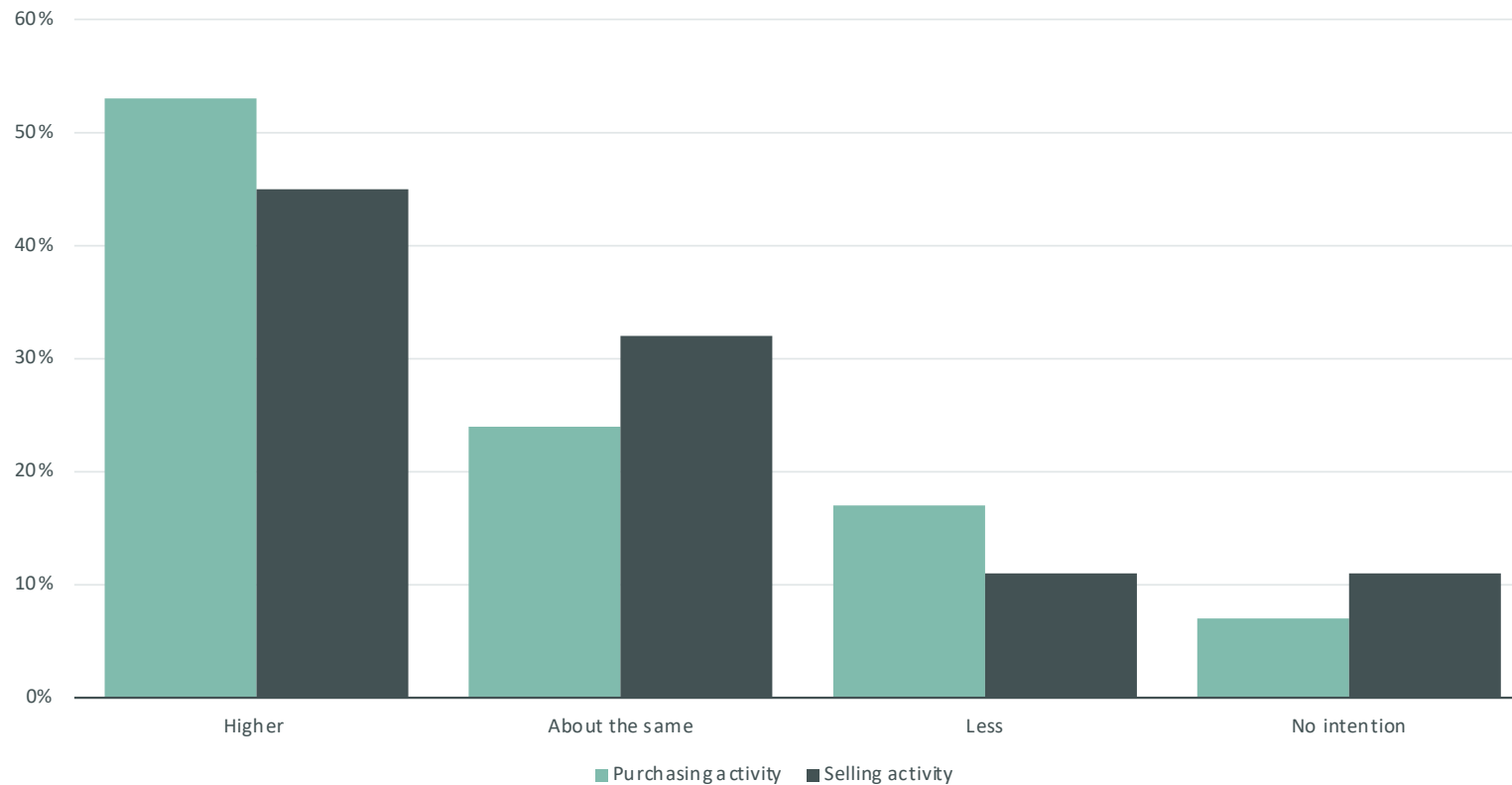
Inflation and Long-Term Interest Rates



Source: ONS, Macrobond, CBRE House View January'24

Investor intentions survey suggest a pick-up in activity in 2024

Q: Do you expect your activity in 2024 will be higher or lower than in 2023?



Only 17% expect the market to return to levels before the rise in global interest rates in 2024



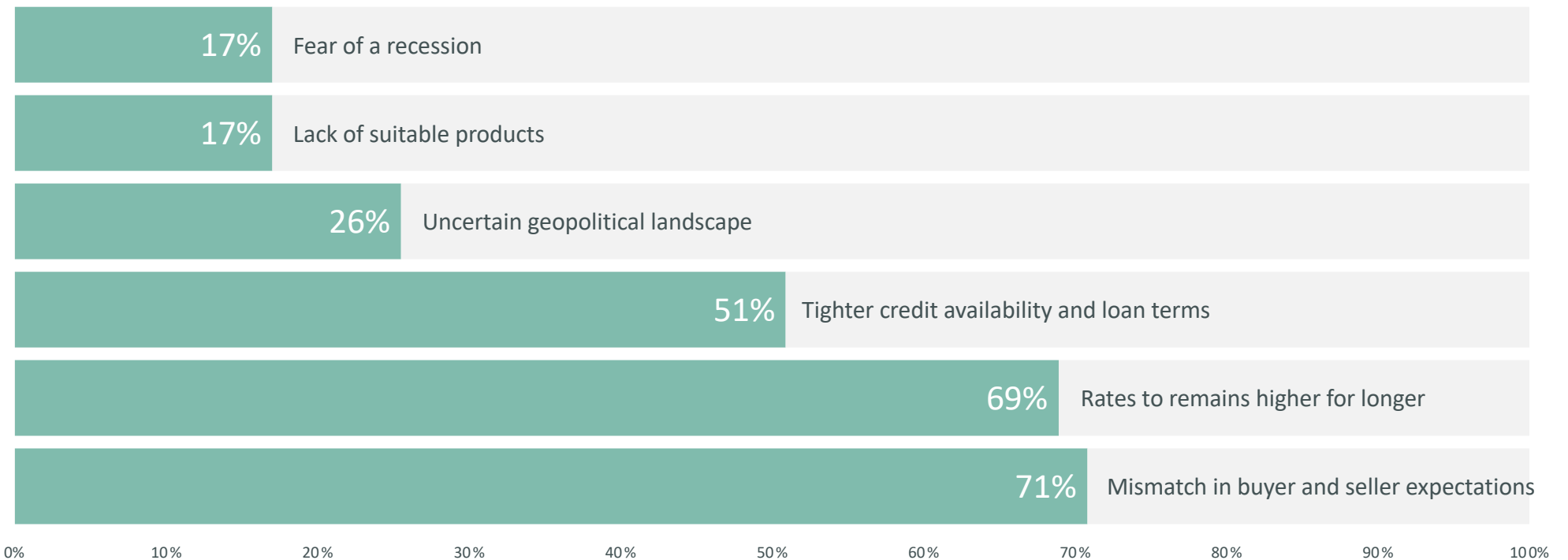
60% in 2025

Source: CBRE Research. Retail estimates are based on the High Street Retail and Shopping Centre segments.

Confidential & Proprietary | © 2024 CBRE, Inc.

Greatest challenges for investors in 2024: Fear of a recession recedes, but expectations and credit remain

Major challenges facing real estate investment in 2024
front of mind

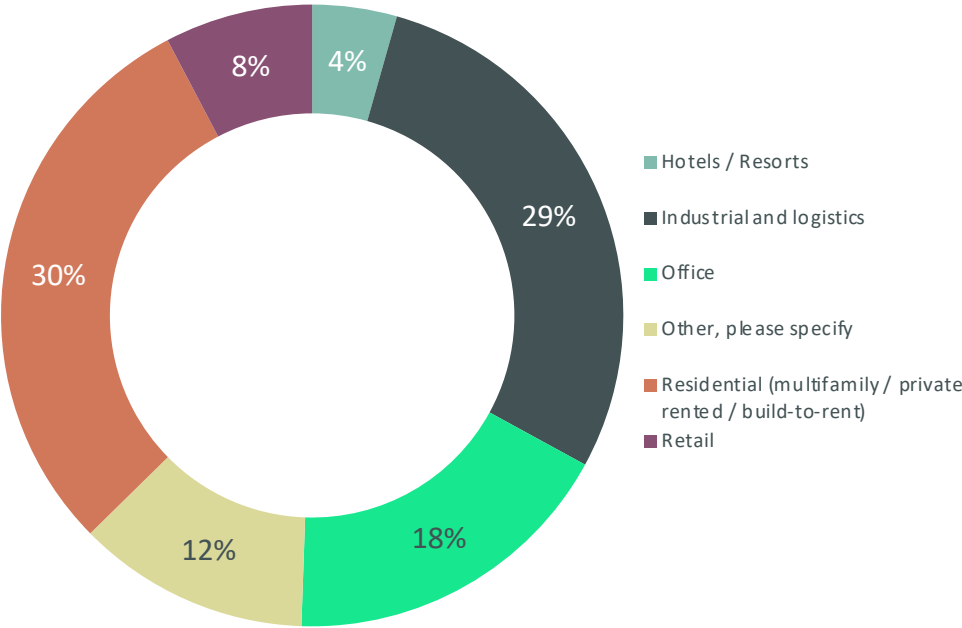


Source: European Investor Intentions Survey, CBRE Research, January 2024

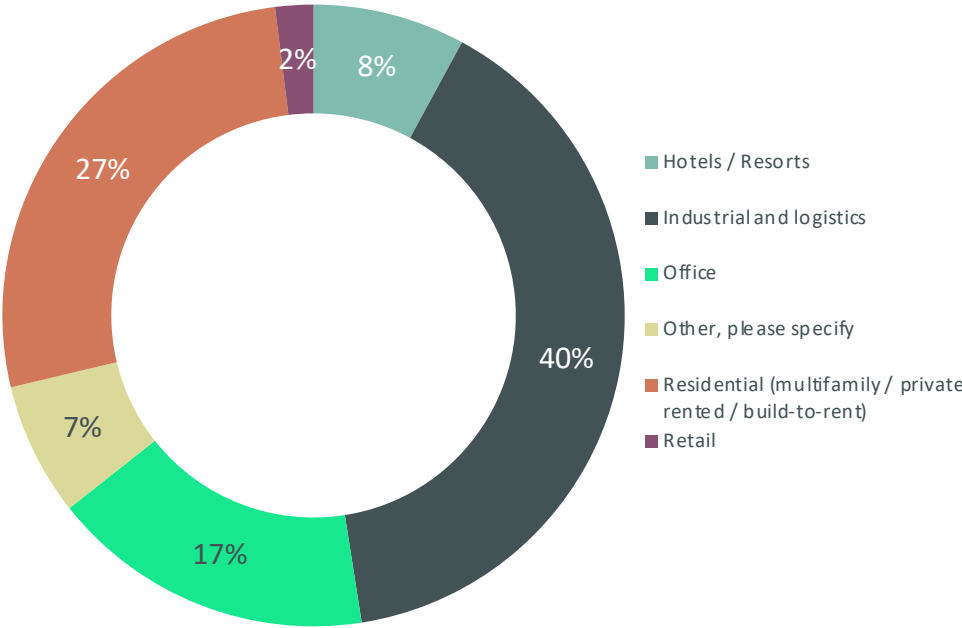
Confidential & Proprietary | © 2024 CBRE, Inc.

I&L and resi top of the pops and Office is out of favour

2023 Investor Intentions Survey



2024 Investor Intentions Survey

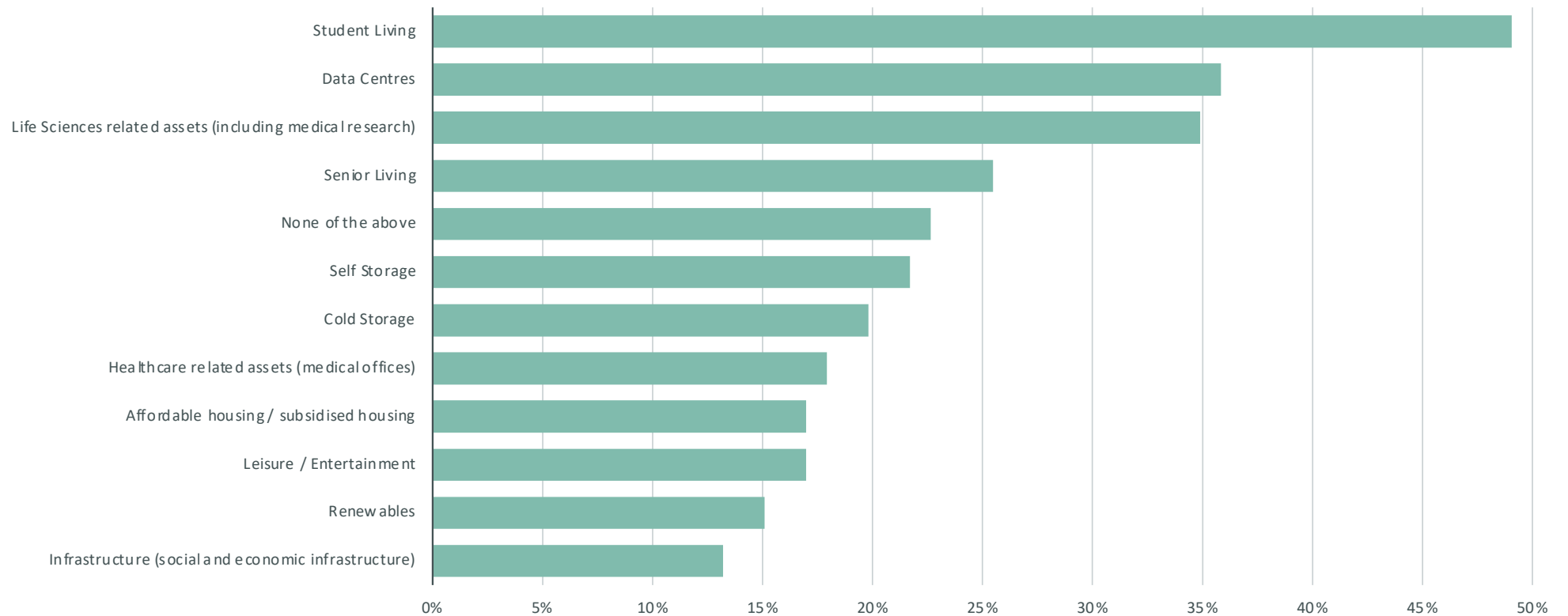


Source: European Investor Intentions Survey, CBRE Research, December 2023
 Confidential & Proprietary | © 2024 CBRE, Inc.

Source: European Investor Intentions Survey, CBRE Research, December 2023

Student accommodation is the most popular alternative sector investment in 2024

Alternative sectors being pursued by UK investors throughout 2024 (Multiple Choice)

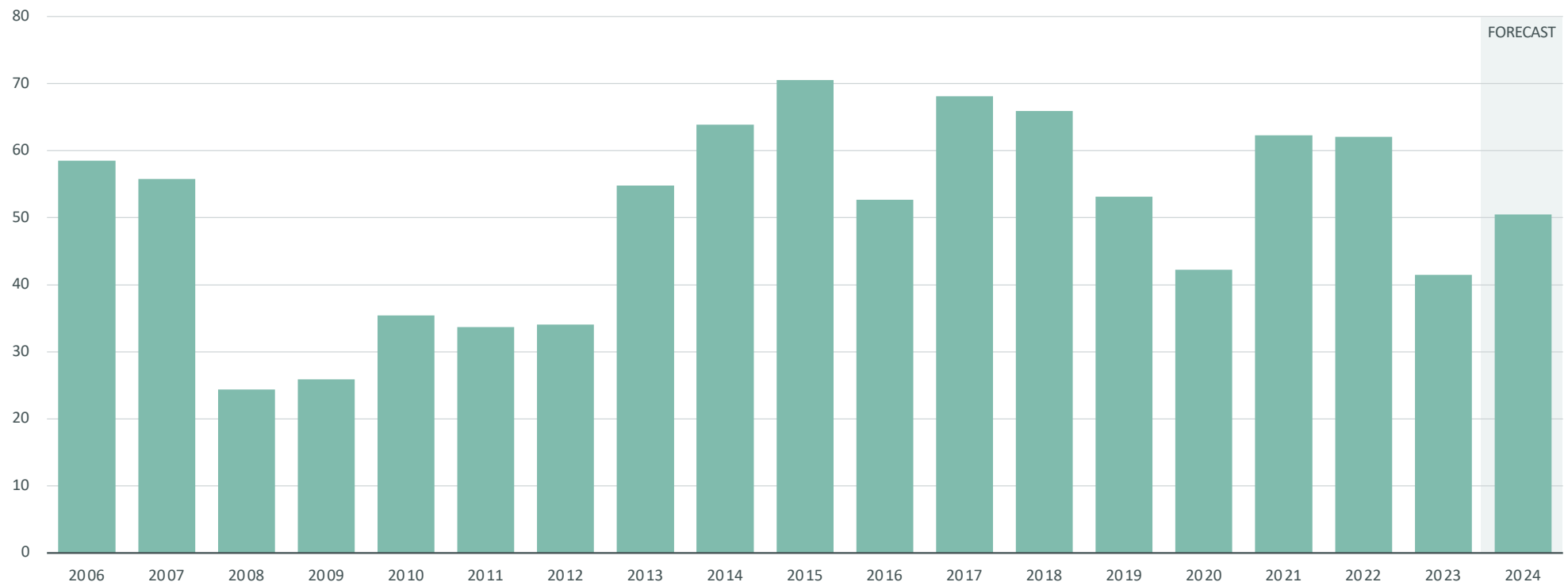


Source: EMEA Investor Intentions Survey, CBRE Research, January 2024

Confidential & Proprietary | © 2024 CBRE, Inc.

Investment likely to pick up in 2024

UK investment volumes, £bn



Source: CBRE Research

Confidential & Proprietary | © 2024 CBRE, Inc.

Outlook

- Lower interest rates are a game changer
- Yields levelling off in 2024 but would have gone up further had interest rates not reversed
- Occupier market and ESG challenges still exist
- Industrial set to be the best performing sector again
- Residential also an out-performer
- DB Fund redemptions not going away and DC not likely to backfill any time soon.
- Inflation is surprising on the downside, but risks remain



*AREF SEMINAR
2024 MARKET PROSPECTS FOR
INDIRECT*

Schroders Capital Real Estate Solutions

Naomi Green
Fund Manager

31 January 2024

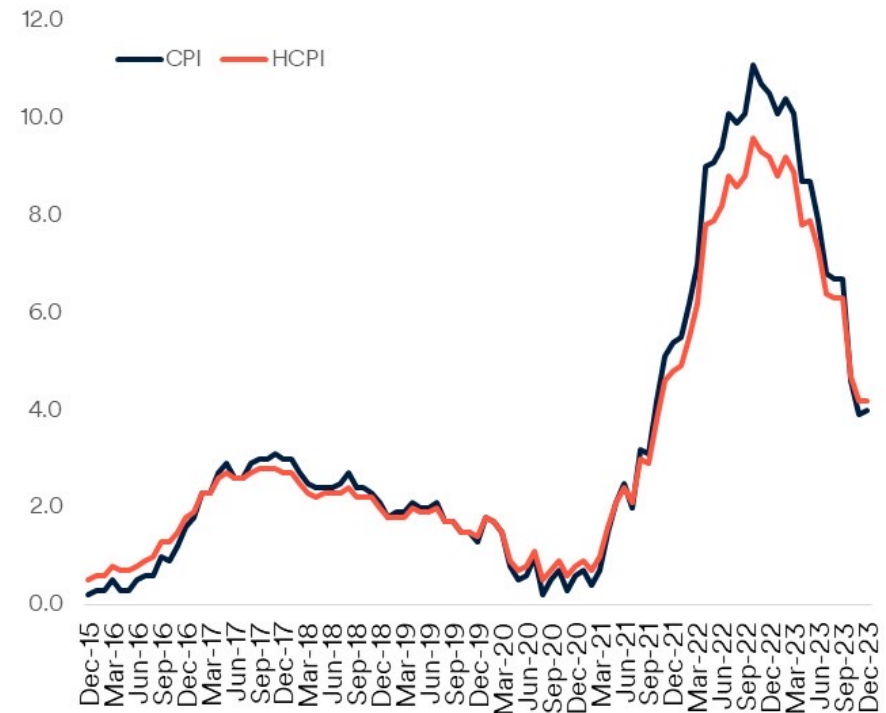
UK economy

Year ahead is currently forecast to deliver almost no growth – but inflation has further improved

Forecast Economic Growth for 2024



UK HCPI & CPI (change y-o-y %)

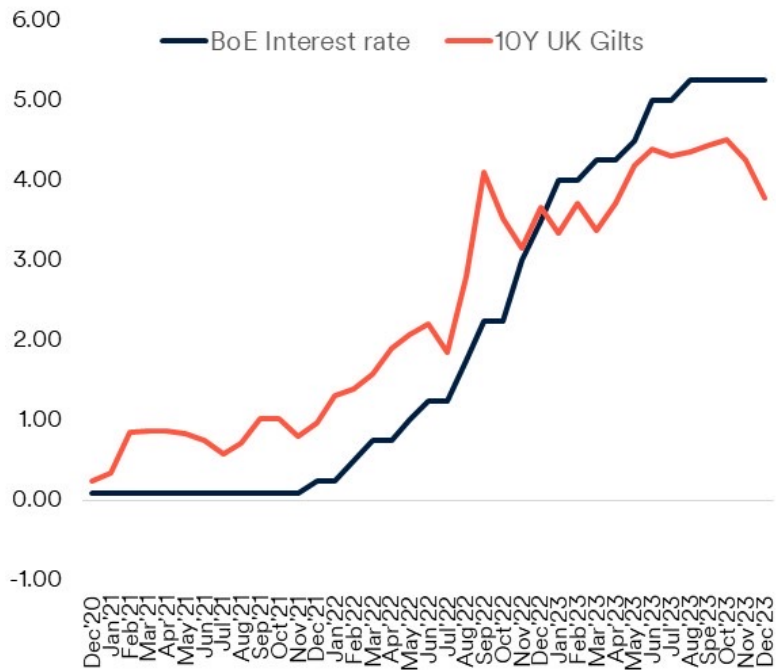


Source: Consensus Economics, Schroders. January 2024. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts.

UK rates have stabilised – Gilt yields softening

Policy rate was last changed in August'23 with markets now betting in 1st cuts in late H1'24

Interest rate & gilt yields (%)



Interest rate implied probabilities (%) from options

		Bank of England Rate (%)									
		3.5	3.75	4	4.25	4.5	4.75	5	5.25	5.5	5.75
Monetary policy decision date	01-Feb-24	0	0	0	0	0	0	2.8	97.2	0	0
	21-Mar-24	0	0	0	0	0	0.4	16.1	83.5	0	0
	09-May-24	0	0	0	0	0.2	6.8	43.4	49.7	0	0
	20-Jun-24	0	0	0	0.1	3.9	27.6	47.0	21.5	0	0
	01-Aug-24	0	0	0	0	16.5	83.5	0	0	0	0
	19-Sep-24	0	0	0	10.4	58.8	30.8	0	0	0	0
	07-Nov-24	0	0	9.5	54.7	33.1	2.6	0	0	0	0
	19-Dec-24	0	4.1	29.0	45.5	20.0	1.5	0	0	0	0

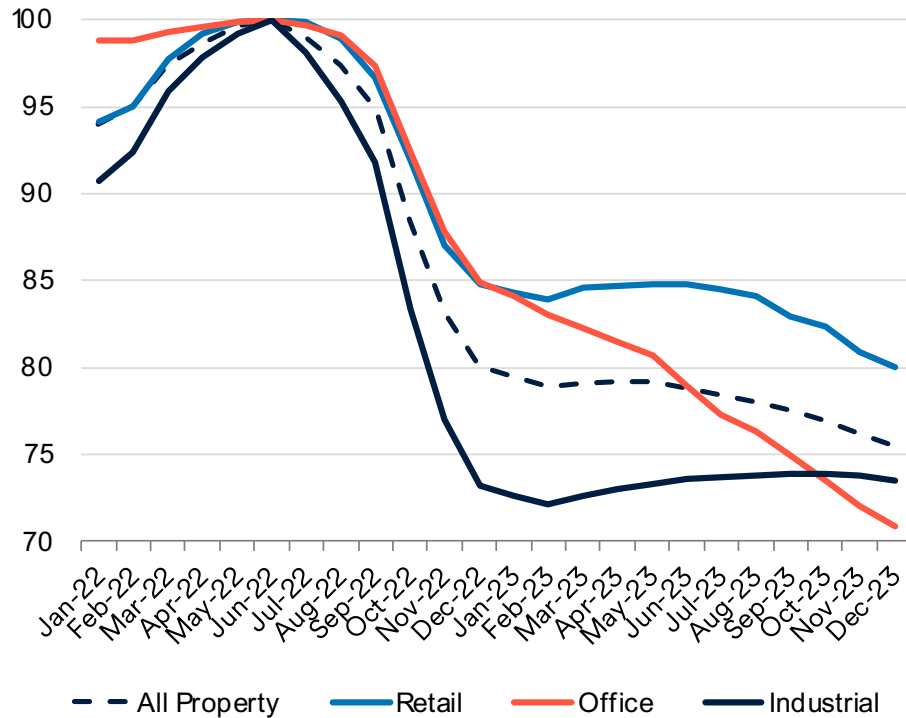
Source: LSEG, Schroders. January 2024. - Interest rate probabilities as at January 29th, 2024. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts.

UK real estate performance

Capital values see further declines driven by pressure on offices and retail and despite rental growth

Capital Values by Sector

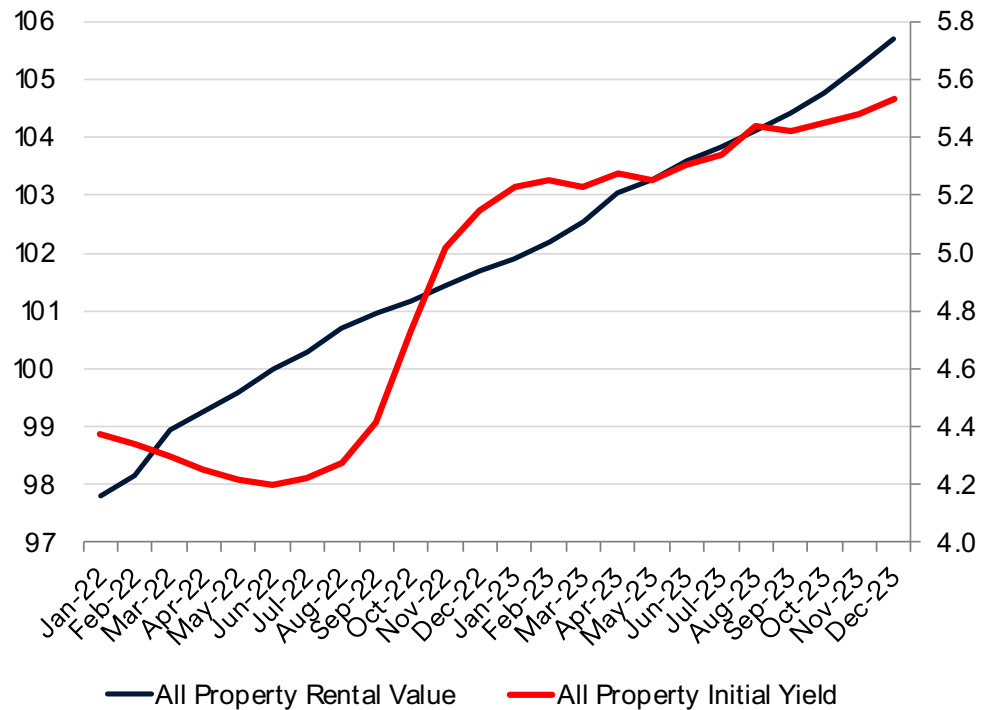
June 2022 = 100



Rental Values and Yields

Rental Values, June 2022 = 100

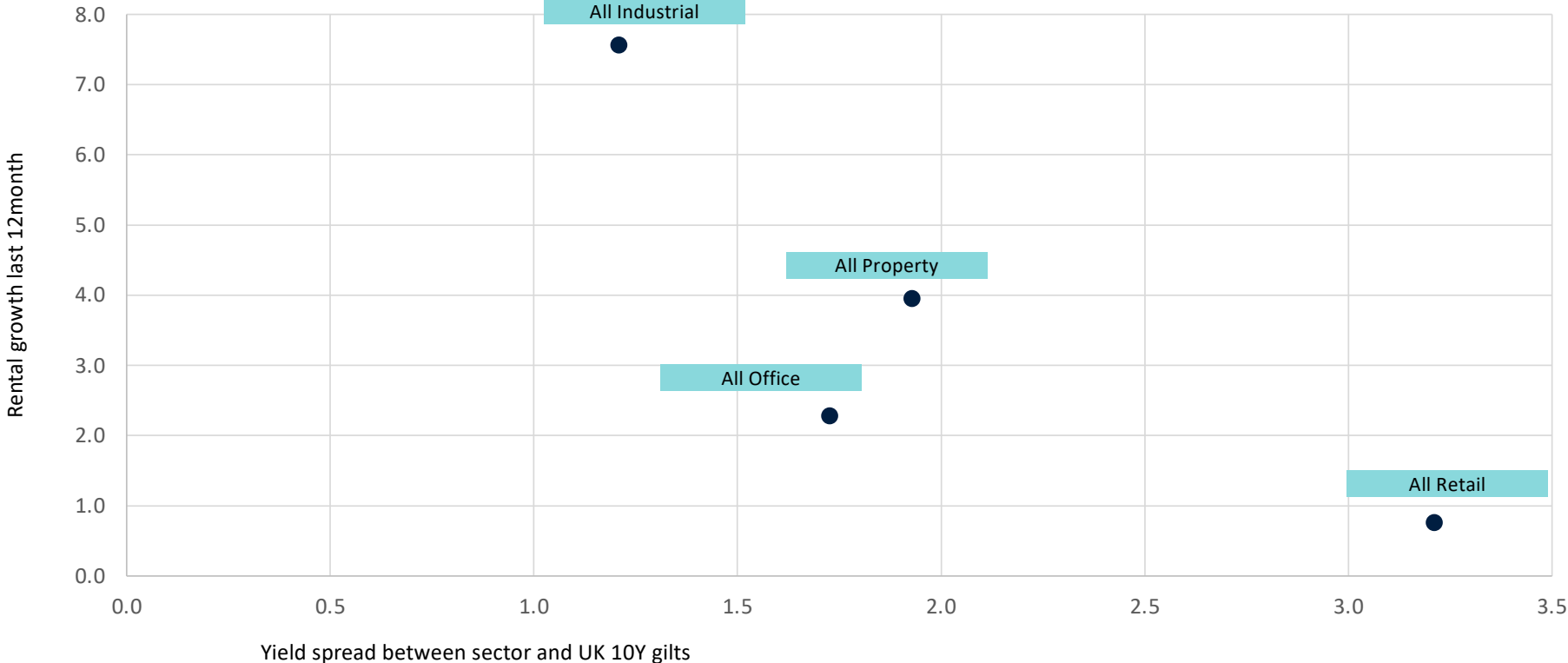
All Property Initial Yield %



Source: MSCI UK Monthly Index, Schroders. January 2024

UK property values

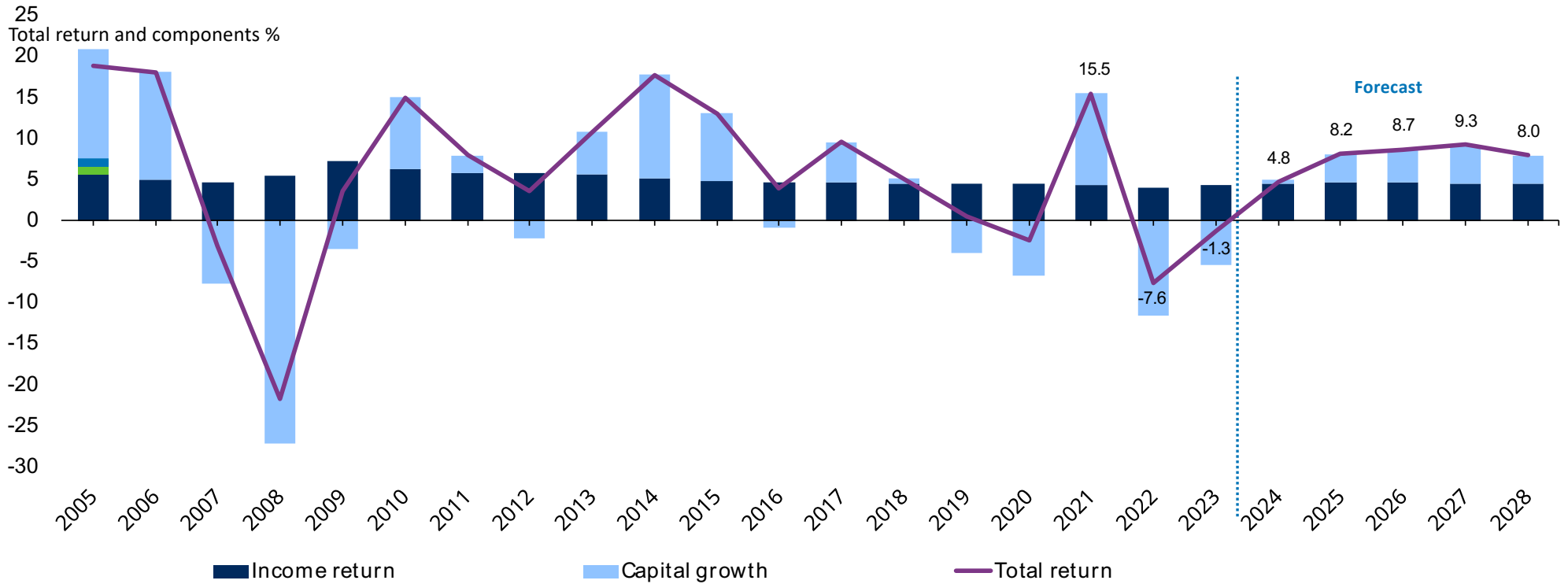
Outward movement in yields and decline in 10Y gilts creates positive spread for real estate



Source: MSCI UK December Monthly Index, Schroders. January 2024. Gilt yield as at 31/12/2023

UK real estate performance - forecast

Positive returns returning in 2024 with attractive & above recent average returns from 2025 onwards

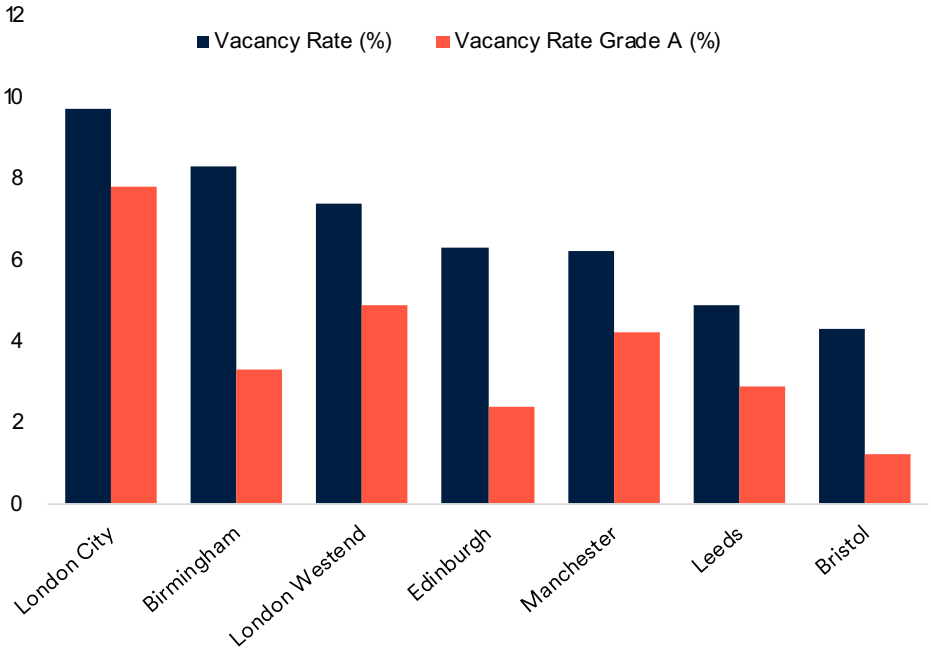


Source: MSCI, Schroders. January 2024. Note the forecasts are for average grade buildings, not prime. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts.

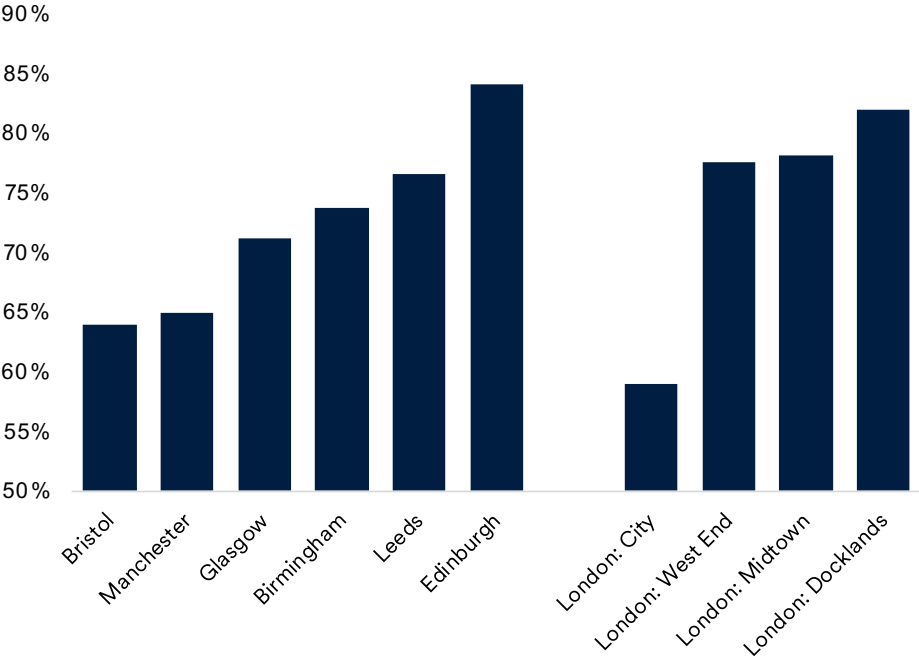
Lack of high quality, ESG compliant space likely to emerge

Modern space already scarce and aging stock will become a challenge

Vacancy rates Q2'23 (%) – Overall and Grade A



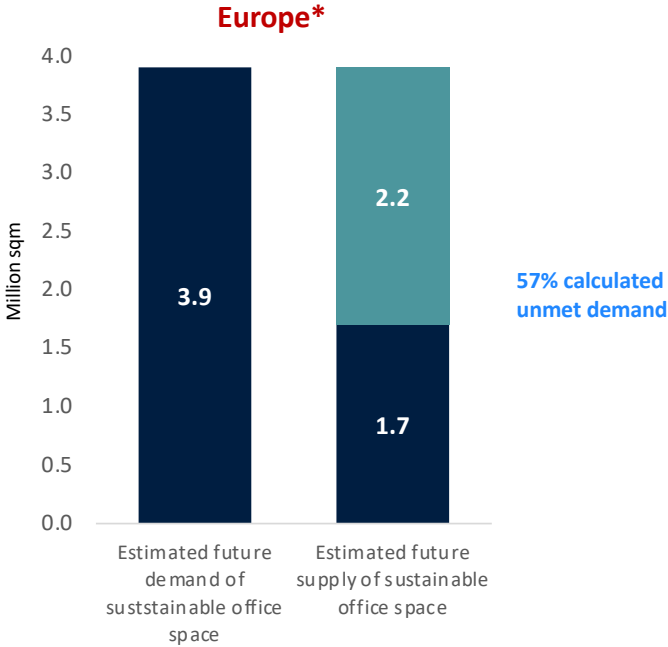
% of office stock at end-2022 older than 15 years



Source: JLL, PMA, Schroders. September 2023.

Evidence of green premiums and emerging lack of sustainable space

Estimated future supply of sustainable place not expected to meet demand



Source: JLL “The commercial case for making buildings more sustainable”, December 2023
Note Green Premiums: All three studies calculated green premiums using a hedonic pricing model, meaning that the impact on rental values from environmental certification was isolated from other effects, such as building age and location.
*Europe: Berlin, Frankfurt, Hamburg, Munich, London and Paris. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts.

What will 2024 and beyond bring

More redemptions

- DB scheme de-risking; LGPS pooling
- Who will pick up the demand?

Move towards alternative / niche / impact funds

- Will MM only invest in value add / impact / ESG funds?

ESG focus

- Stranded assets / obsolescence
- Resource heavy



Thank you for joining us.



Important information



Marketing material for professional clients only.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall.

Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions. Schroders has expressed its own views and opinions in this document, and these may change. Information herein is believed to be reliable, but Schroders does not warrant its completeness or accuracy. This document may contain “forward-looking” information, such as forecasts or projections. Please note that any such information is not a guarantee of any future performance and there is no assurance that any forecast or projection will be realised. This material has not been reviewed by any regulator.

This information is not an offer, solicitation or recommendation to buy or sell any financial instrument or to adopt any investment strategy. Any investment in the Fund must be based solely on the prospectus, or any other document issued from time to time by the Manager of the Fund in accordance with applicable laws.

The material is not intended to provide, and should not be relied on for accounting, legal or tax advice. Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions. No responsibility can be accepted for error of fact or opinion. Any references to securities, sectors, regions and/or countries are for illustrative purposes only.

The opinions, beliefs expectations or intentions, unless otherwise stated, are those of the investment adviser, Schroder Real Estate Investment Management ('Schroder REIM') of 1 London Wall Place, London, EC2Y 5AU. All information and opinions contained in this document/presentation have been obtained from sources we consider to be reliable. No responsibility can be accepted for errors of fact or opinion. Reliance should not be placed on the views and information in this document/presentation when taking individual investment and/or strategic decisions.

The forecasts included are not guaranteed; they are provided only as at the date of issue and should not be relied upon. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

Any data has been sourced by us and is provided without any warranties of any kind. It should be independently verified before further publication or use. Third party data is owned or licenced by the data provider and may not be reproduced, extracted or used for any other purpose without the data provider's consent. Neither we, nor the data provider, will have any liability in connection with the third-party data.

The material is not intended to provide, and should not be relied on for accounting, legal or tax advice. Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions. No responsibility can be accepted for error of fact or opinion.

The forecasts included in this presentation should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

Any references to securities, sectors, regions and/or countries are for illustrative purposes only.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage.

Important information



MSCI Third Party Data Disclaimer: Third party data is owned or licensed by the data provider and may not be reproduced or extracted and used for any other purpose without the data provider's consent. Third party data is provided without any warranties of any kind. The data provider and issuer of the document shall have no liability in connection with the third-party data. The Prospectus and/or www.schroders.com contains additional disclaimers which apply to the third-party data.

The Company is generally exempt from UK tax on capital gains realised on the disposal of its investments (including interest paying securities and derivatives). Overseas investors, depending on their tax status, may be liable to capital gains tax (or corporation tax) upon disposal of their holding. Investors who qualify as exempt (including overseas qualifying pension funds, charities and sovereign wealth funds) will benefit from full exemption.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage.

Issued in January 2024 by Schroder Unit Trusts Limited, of 1 London Wall Place, London, EC2Y 5AU. Registered Number 4191730 England. Authorised and regulated by the Financial Conduct Authority. For your security, communications may be taped or monitored. UP000657