



Vision 2024:
The Outlook for the Year Ahead

Thursday 25th January 2024



Welcome from our Moderator
Jonathan Bayfield
Head of Real Estate Research at Aviva Investors



You can ask questions via Slido: #386 1313

Agenda

- **Moderator Welcome & Intro**
- **Keynote Speaker - Neil Blake, Global Head of Forecasting and Analytics/EMEA at CBRE**
- **Panel Discussion & Q&A:**
 - Emma Gullifer, Assistant Fund Manager, Columbia Threadneedle**
 - Richard Gwilliam, Head of Property Research at M&G Real Estate**
 - Jennifer Murray, Investment Manager at Homes England**
 - Neil Blake, Global Head of Forecasting and Analytics/EMEA at CBRE**
- **Final words and close – Paul Richards**
- **Finish 10:15am**



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Keynote Speaker

Neil Blake

Global Head of Forecasting and Analytics/EMEA at CBRE



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Outlook 2024

Structural Challenges, High Interest Rates (still) and Recession

Can things only get better?

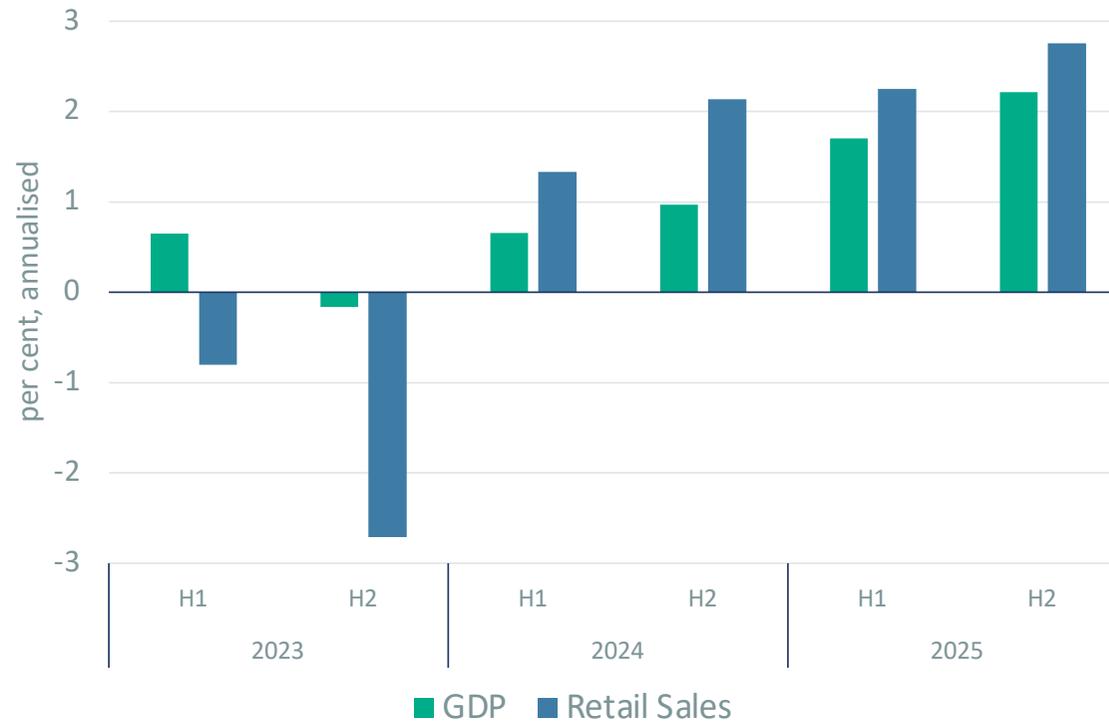
Neil Blake, Global Head of Forecasting, CBRE

25th January 2024

Flirting with Recession but better times to come

- Weak end to 2023
- Especially for retail sales
 - Impact of inflation and interest rate hikes on consumers
 - Impact of weak demand, cost inflation and interest rate hikes on business
- Survey data for January more positive
- Pressure alleviating in 2024 and, especially, 2025

UK GDP & Retail Sales Growth

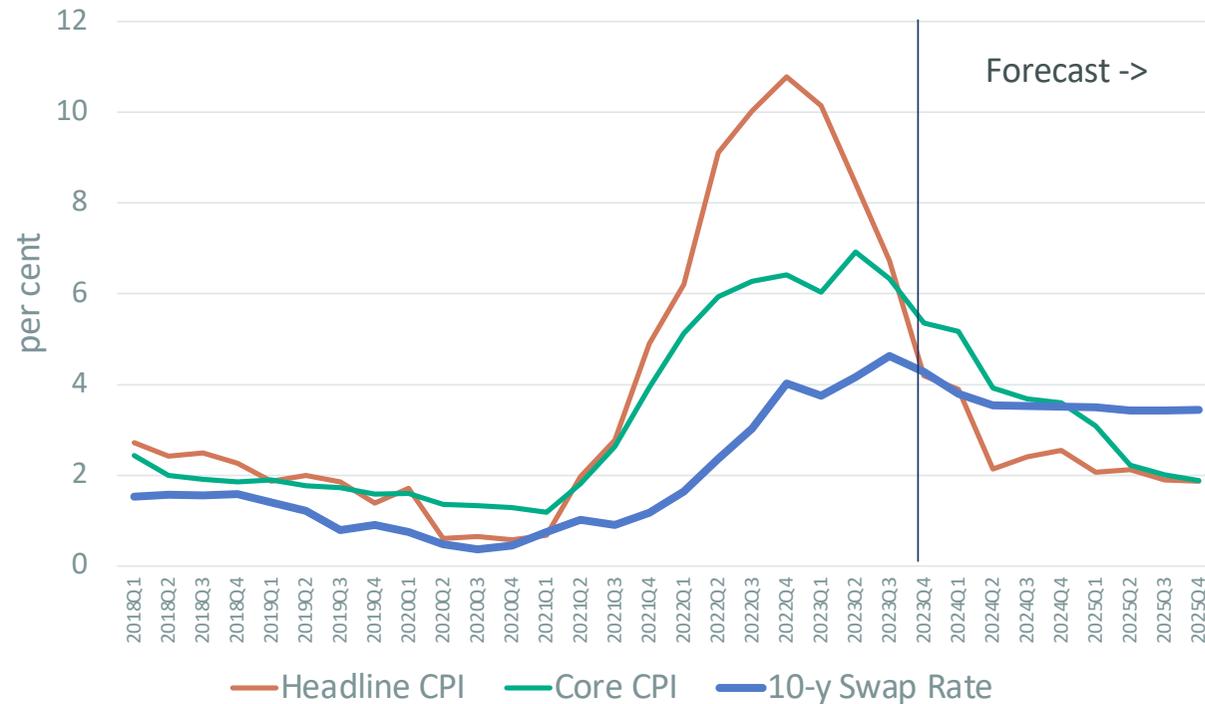


Source: ONS, CBRE House View January'24

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

UK: Bank Rate & Swap Rates

Markets are Pricing in 125bp of Bank rate Cuts in 2024

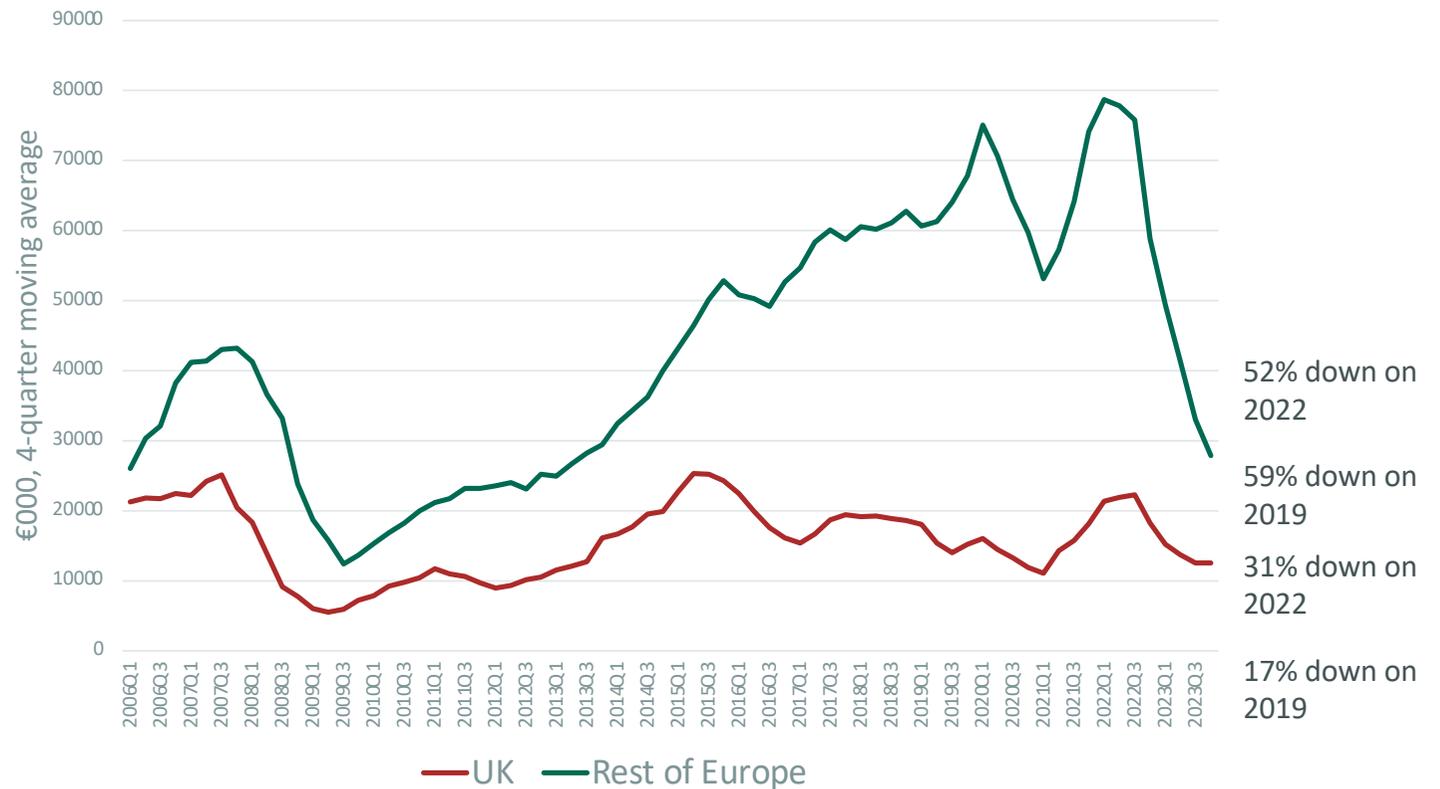
- With more to come in 2025
- Market expectations in July wee for a peak rate of 6.5% in March 2024, falling back to 6% for end-2024
- That’s a big change in expectations



Higher interest rates spark a collapse in investment spending

- Potential leveraged buyers needed much higher yields
- Most other potential buyers put off by occupier and capital market uncertainties
- but most potential sellers able to wait
- makes valuation difficult (values and yields)
- Will all start to change with lower interest rates

Commercial Real Estate Investment Sales



The Yield Correction Has Done the Damage in All Sectors

Cumulative Yield Impact & ERV Growth June 2022-December 2023



Source: *CBRE, MSCI*

Sector Challenges

Capital Markets

- All sectors to benefit from lower interest rates
- Correction of income growth expectations for industrial already over
- Possible mis-pricing of some retail
- Ditto for secondary offices with value-add potential

Office

Final impact of remote working unclear

Slowing employment growth

ESG and Capex; but retro-fitting costs less prohibitive

Flight to quality

Industrials

Weakness of consumer demand in 2023 turning into recovery in 2024

Future trends in e-commerce unclear but growth expected to resume

Retail

Weakness of consumer demand in 2023 turning into recovery in 2024

Is re-pricing over?

Residential

Affordability
Lower mortgage rates divert demand to owner-occupation

Potential Returns Have Picked up and will Improve Further

- **2021** was the low point for predicted 5-year returns
- Already looking better in 2022 with a peak around now!
- Driven by a levelling off of yields and eventual compression, and further (though slower) rental growth
- No return to the very high returns of 2008-13 as interest rates and yields are not expected to fall to such low levels again

Forward Looking 5-year UK Total Returns



Each datapoint shows the estimated/predicted total returns over the following 5-years of an investment made in the year shown. IPF Consensus total returns for 2028 assumed to be the same as 2026-27.

Summary

- 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
- Potential for a value-add boom in offices but that might have to wait until 2025

- Inflation is surprising on the downside, but risks remain
- No return to ultra-low interest rates



Audience Poll Question 1

Scroll to your browser, search **Slido**, enter this code: **386 1313**

When do you expect the Bank of England to announce a rate cut?



Audience Poll Question 2

Scroll to your browser, search **Slido**, enter this code: **386 1313**

According to the AREF-MSCI index, property returns were -1.6% in 2023? What did you think they will be in 2024?



Audience Poll Question 3

Scroll to your browser, search **Slido**, enter this code: **386 1313**

What do you expect the % allocation to Residential (excl PBSA) within AREF-MSCI index by the end of 2024?



Panel Discussion - followed by Q&A



Neil Blake
Global Head of
Forecasting and
Analytics/EMEA at
CBRE



Emma Gullifer
Assistant Fund
Manager,
Columbia
Threadneedle



Richard Gwilliam
Head of Property
Research at M&G Real
Estate



Jennifer Murray
Investment
Manager at Homes
England



Raise your hand or ask a question via Slido: **#386 1313**



Final words
Paul Richards
CEO, AREF



Main focus for AREF this year

- The General Election
- Retail funds and liquidity
- DC investment
- Overseas investment
- Industry reputation
- Residential

AREF - what's coming up

- **AREF Conference** – Tuesday 25th June in London
- **FutureGen Conference** – Tuesday 3rd September in Cambridge
- **Annual Dinner** – Wednesday 18th September at The Savoy
- **Mentorship Scheme** - Launching in Q1.
- As well as our usual seminars, webinars and topical events





Thank you for joining us.