CLUTTONS
INVESTMENT MANAGEMENT

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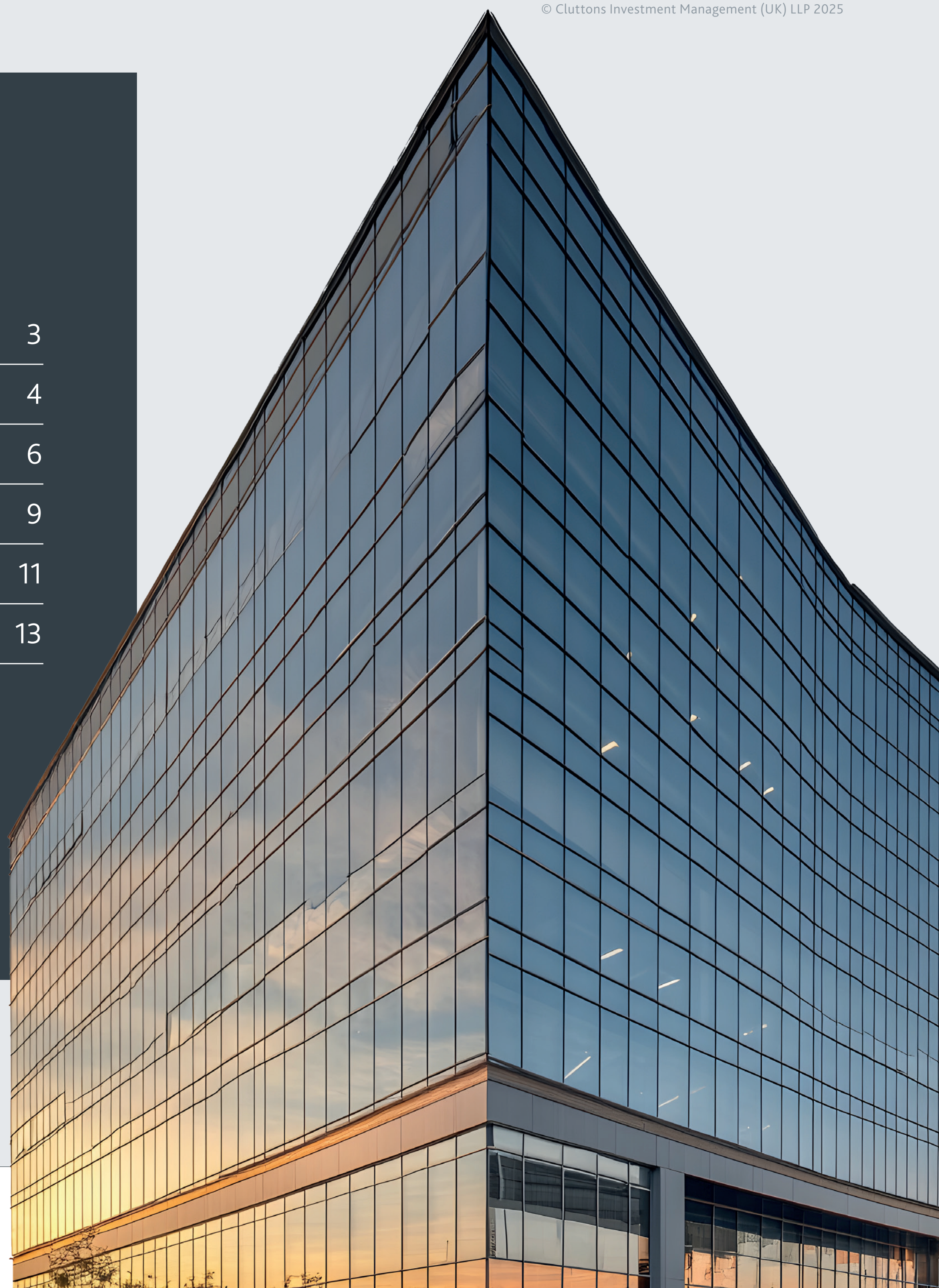
Commercial property examiner

Q1 | 2025

Contents



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1. Key takeaways

The introduction of tariffs on goods being exported into the US in April is the biggest change in world trade seen in a century. As countries move quickly to try and agree trade deals, with the first deal with the UK, which reduces some tariffs, recently announced, the landscape remains uncertain, but the expected impact on trade and economic growth around the world means the IMF has already cut its forecasts for growth across all advanced economies. The outlook for UK GDP growth in 2025 has been downgraded from 1.6% to 1.1%.

President Trump's tariff regime has also introduced new levels of volatility into financial markets. The MSCI World Index, dropped -6.0% in USD terms in Q1 and the dollar has weakened against all major currencies. Since the start of the year, the price of gold has risen 26% as investors look for any perceived safe-haven. Less volatile assets are looking increasingly attractive, but uncertainty can also delay investment decisions, although with interest rates set to fall, there will be an increasing imperative to look for good opportunities.

The sentiment of UK real estate investors had been improving as the market produced some strong performance numbers at the end of 2024, but this momentum stalled at the start of the year. In Q1, All Property total returns, as recorded by the MSCI Monthly Index, decreased by 80 bps to 2.0% from 2.8% in Q4 2024.

Further reductions in base rate are anticipated throughout this year. However, weak economic growth combined with a troublesome inflationary outlook and increasing risk-free rates have created strong headwinds that will slow the recovery in commercial property values in 2025. At the All-Property level, performance expectations for 2025 have been cut by two percentage points to 8.0%. Average annual total returns over the next three years are also expected to be 8.0%, down from a previous forecast of 9.0%.

2. The UK economy

The IMF's "World Economic Outlook," published in April 2025, notes that the United States and its trading partners have announced and implemented a series of new tariff measures and countermeasures bringing effective tariff rates to levels not seen in a century. This is a major shock to the outlook for growth. In addition, the unpredictability with which these measures have been unfolding makes it more difficult to assess their impact.

Global growth expectations for 2025 have been downgraded from 3.3% to 2.8% and are now well below the average level of 3.6% achieved pre-pandemic between 2000 and 2019. Forecasts for growth have been reduced across all advanced economies. In the USA growth is expected to slow by 90 bps to 1.8%. The forecast for UK GDP growth in 2025 has been downgraded from 1.6% to 1.1%, although the UK is expected to outperform its European neighbours, except for Spain.

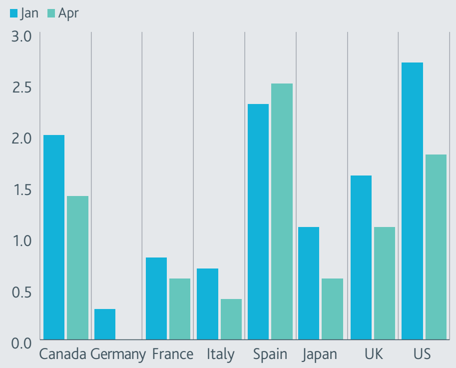
The most recent monthly estimate of GDP released by the Office for National Statistics (ONS) indicates that the UK economy surprised on the upside. GDP is estimated to have grown by 0.5% in February 2025, with growth in all main sectors, following January 2025 which showed no growth after the data was revised up from a previously reported fall of 0.1%. The economy grew by 0.9% in the three months to February having shrunk by -0.1% in the three months to November 2024.

The service sector, which represents 80% of the UK's economy, grew by 0.6% in the three months to February. Manufacturing output rose also by 0.6% in the three months to February and has now increased by 0.3% in the last 12 months. Construction output is estimated to have grown by 0.4% in February but has shown no growth in the three months to February having fallen back in January and December.

Economic output is now 4.4% above its pre-pandemic level, but it is also 5.6% below its potential level if output had continued at its post-GFC trend rate during Covid and its aftermath. Manufacturing is -6.9% below its February 2020 level and will doubtless struggle further after the USA, its second largest car export market for cars, imposed a 25% tariff on all vehicle imports.

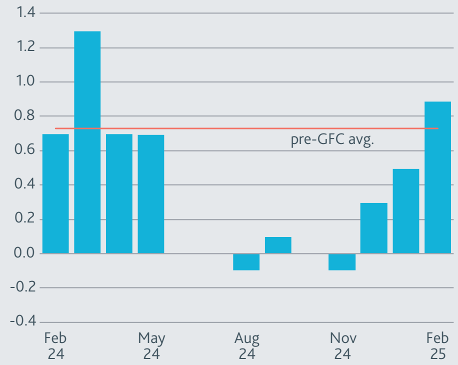
February's Monetary Policy report from the Bank of England recognises that the current stance of monetary policy is restrictive, and that indicators of business and consumer confidence have declined since November. The report projects that GDP growth in 2025 will be weaker than it previously forecast, before staging a stronger and more sustained recovery from the middle of this year, to over 1.5% by March 2008. As the MPC not only targets inflation but also sustained

G7 2025 gdp forecasts (%)



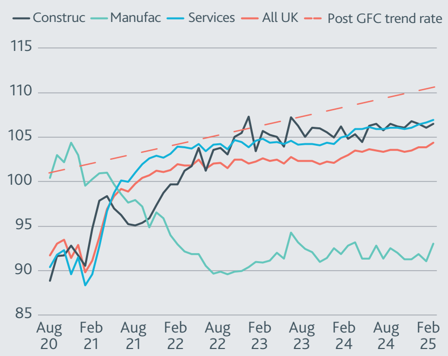
Source: IMF, April 2025

Rolling 3m UK economic growth (%)



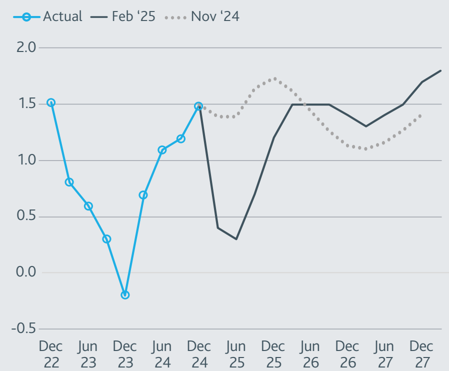
Source: IMF, April 2025

UK economic growth indices (Feb 2020=100)



Source: IMF, April 2025

Actual GDP index and MPC forecasts



Source: ONS & Bank of England, Feb 2025

growth and employment, it is likely that further reductions in the Bank's Base Rate can be expected. The MPC voted for the second quarter point rate cut of the year on May 8th, taking the base rate to 4.25%. But the uncertainty created by the trade challenges was underlined by the fact that two members of the nine-strong committee voted for no change to rates, while two voted for a 0.5% rate cut. It now seems highly likely there will be two more rate cuts this year.

Annual CPI inflation growth remains above the MPC's 2% target. Consumer prices spiked in January reflecting the traditional adjustments to the price of goods and wages at the start of the year, but the inflation numbers have been easing back in the last two months. CPI rose by 2.6% in the 12 months to March, up from 2.5% in the 12 months to December but nevertheless an improvement on 2.8% recorded in the 12 months to February. Core inflation excluding energy, food, alcohol and tobacco has increased from 3.2% in December to 3.4% in March and continues above its post-GFC average of 2.7%. Similarly, service sector CPI inflation has increased to 4.7% at the end of March from 4.4% in December.

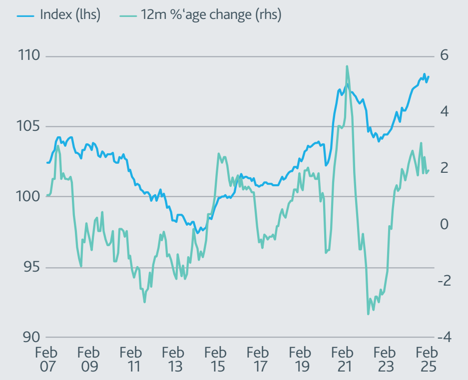
February's Monetary Policy Report projects that CPI inflation will be stronger than the central Bank forecast in November last year. It is now projected to rise to around 3.7% by the second half of 2025 driven by rapidly rising global energy costs. However, current weak levels of growth have created some slack in the economy and a looser labour market. Consequently, CPI inflation is projected to return to around 2% in the medium term. The MPC considers that the main risks to this outlook come from uncertainty surrounding the degree of slack in the economy and the persistence of the "second round effects" of domestic prices and wages.

The annual rate of growth in employee earnings across the country fell in Q1 2025. Pay excluding bonuses increased by 4.8% in the three months to March compared to the previous year, a reduction from 5.4% recorded in December. Real regular pay growth increased to 2.0% in the year to February from 1.9% in November.

It now seems likely that increased trade restrictions will slow global economic growth and consequently lower energy prices. But there is significant uncertainty surrounding the impact of tariffs on the size and direction of UK inflation.

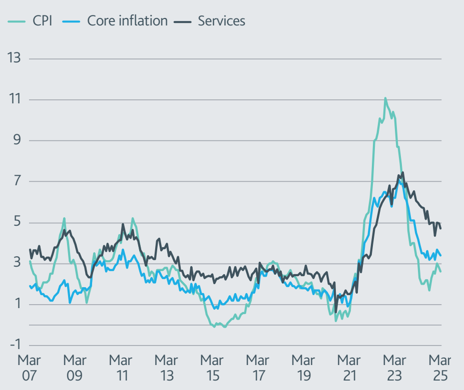
This uncertainty is echoed by the Office for Budget Responsibility (OBR) in its Economic and Fiscal Outlook, published in March, which found that the outlook has become more uncertain with upward pressure on defence spending and a tightening of global trade restrictions. The OBR has halved its 2024 GDP forecast and now expects real GDP growth of 1.0% this year, before it recovers to average around 1.75% over the rest of the decade. Higher energy and food prices and more persistently high wage growth cause inflation to rebound to a quarterly peak of 3.7% in mid-2025, before returning to target over the rest of the forecast. The Bank's base rate is expected to fall back to 3.5% next year.

Real pay index, sa (May 2005=100)



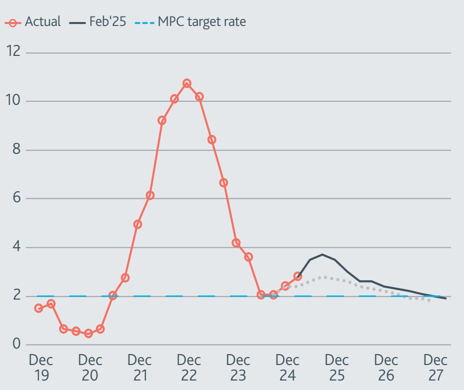
Source: ONS, April 2025

CPI inflation (%pa)



Source: ONS, April 2025

Annual CPI and MPC forecasts Feb'25



Source: ONS & Bank of England, Feb 2025

3. Stock markets, interest rates & asset yields

President Trump's "Liberation Day" and subsequent ad-hoc adjustments to tariffs imposed on imports to the US have caused huge volatility in financial markets. But even before 2nd April, markets were experiencing problems dealing with White House policy uncertainty. Since the start of the year, the price of gold has risen 26% as investors look for any perceived safe haven.

The MSCI World Index, with large and mid-cap representation across 23 developed markets, dropped -6.0% in USD terms in Q1. On a hedged GBP basis, the index fell -4.0% as the dollar weakened against the pound. The market sell off has continued beyond the end of the quarter and at the time of writing, the World Index is down a further -3.5%, having recovered after falling -10.6% immediately following "Liberation Day".

European markets displayed a degree of resilience in Q1. The broad-based Eurofirst 300 index gained 5.5%. Germany's DAX rose by 11.3%, as sentiment improved following the general election and announcements of spending on defence and infrastructure projects. France's CAC 40 increased by 5.6%, while the UK's FTSE 100 gained 5.0%.

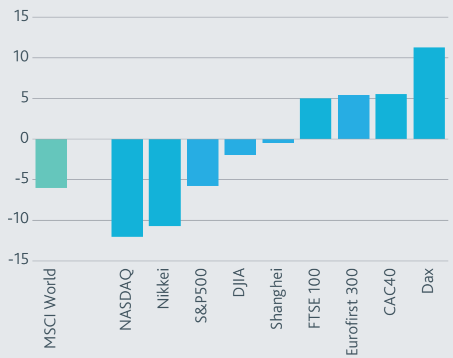
U.S. markets experienced significant declines in Q1 2025. The Nasdaq decreased by -12.0%, the S&P 500 fell by -5.8%, and the Dow Jones Industrial Average lost -2.0%.

China's DeepSeek artificial intelligence model, comparable to market leaders but developed at a fraction of the cost, caused investors to reassess expectations for tech stocks. In addition, investors feared that trade tariffs and public sector job cuts could reduce consumer confidence, cut growth prospects and heighten inflation risks. In March, the US Federal Reserve (Fed) cut its US growth forecast for 2025 to 1.7% from 2.1% and lifted its inflation outlook to 2.7% from 2.5%. Interest rates were kept on hold at 4.25-4.50% during the quarter.

The Nikkei index experienced losses of -10.7% during the first quarter as Japanese equities faced selling pressure, driven by uncertainty surrounding US tariff policies and an announcement that the Trump administration would impose 25% tariffs on imported cars.

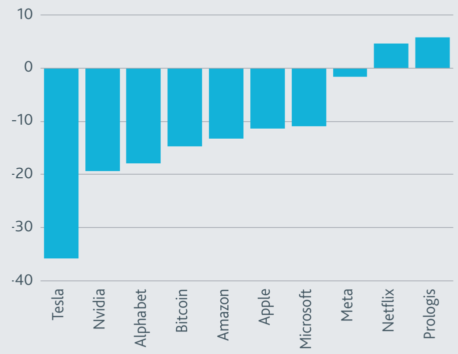
The same tech stocks that had led markets sharply higher in the previous two years, disappointed in Q1. Tesla's shares were down -35.8% as it faced increased competition from Chinese EV manufacturers. Distaste for Elon Musk's role within the Trump administration produced demonstrations outside Tesla dealerships and reduced the global demand for its cars. Nvidia shares were marked down following fears that it was overvalued after the emergence of DeepSeek and the threats US tariffs posed to its manufacturing bases in

World stock markets in Q1 2025 (%'age growth)



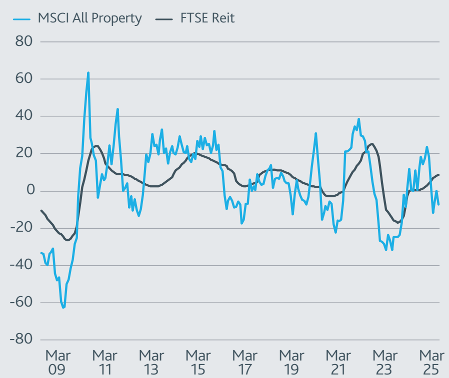
Source: Yahoo Finance, April 2025

Tech & other selected stocks in 2024 (%'age growth)



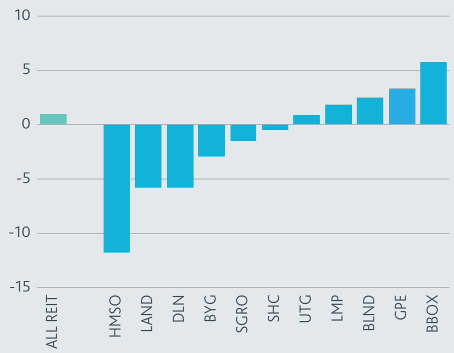
Source: Yahoo Finance, April 2025

Long term 12m total returns



Source: Yahoo Finance & MSCI, April 2025

UK Reit price movement in 2024 (%'age growth)



Source: Yahoo Finance, April 2025

Taiwan and South Korea. Apple is another business threatened by global trade wars. Its largest manufacturing partners are in China although it has been trying to diversify its manufacturing base in India and Vietnam. Mobile phones, computers and semiconductors have now received some relief from "reciprocal" tariffs, but this exemption could just be temporary.

Investors in Prologis enjoyed a 5.8% uplift in share price in Q1 as the impetus towards onshoring and reshoring strengthened, increasing demand for logistics real estate. The largest logistic and warehouse real estate company in the world published one of its regular market insights in December last noting that *"global logistics real estate rents declined by 5% in 2024 as market conditions normalized after historic growth during the pandemic. An influx of new supply – coupled with positive but subdued demand rooted in economic, financial market and supply chain uncertainty – pushed vacancy rates up in most markets across the globe."*

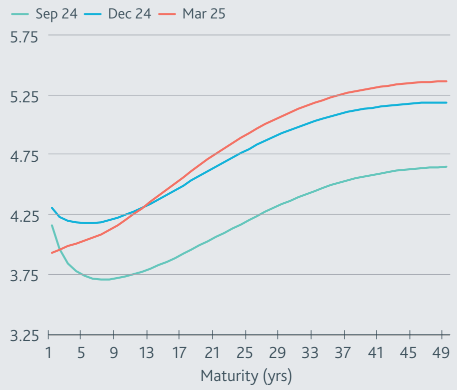
A recent note also explains that the relationship between building costs and market rents produced a challenging environment for speculative development. New building starts in Prologis' key markets fell nearly 40% in 2024. Consequently, completions are poised to fall in 2025, and new supply will fall short of demand forcing down vacancy rates and causing rents to rise later in 2025.

The performance of the FTSE Reit index has fallen away since last September and suggests that investors expect the future performance of the direct market for real estate assets to disappoint. The Reit index again underperformed the wider all share market in Q1 by 2.5 percentage points driven by concerns over continued high borrowing costs, weak underlying growth, and rising gilt yields. Despite recent M&A activity including Segro and Tritax EuroBox and New River and Capital & Regional, the sector could benefit from further consolidation as many smaller Reits struggle with scale and liquidity.

Hammerson advertises itself as the largest UK-listed owner of ten retail and leisure city destinations across the UK, Ireland and France. Its UK assets posted a total property return of 8.6% in 2024. However, its share price fell -11.7% in Q1 as year-end results revealed a £497 million impairment on the sale of its 40% stake in Value Retail, the owner of Bicester Village.

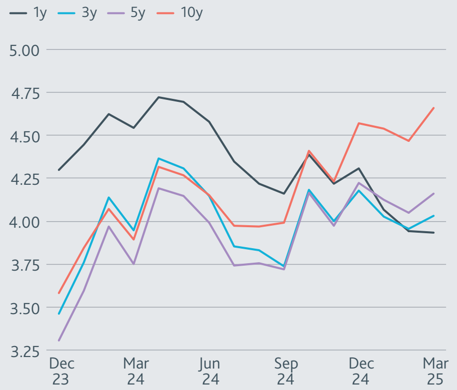
Segro's share price fell by -1.5% in Q1 despite reporting a total property return of 5.2% across its whole portfolio and a 5.8% increase in like for like rental growth. The UK's largest real estate company said that the industrial and logistic markets "have a shortage of modern, sustainable space with low land availability and restrictive planning policies limiting the supply of competing space" and "demand for space will continue to be supported by powerful, enduring

Gilt yield curve (%)



Source: Bank of England, April 2025

UK gilt yields



Source: Bank of England, April 2025

structural trends: data and digitalisation, urbanisation, supply chain optimisation and sustainability. Sentiment in occupier markets is improving" resulting in improving occupier activity through the final months of last year.

Great Portland Estates' share price rose 3.3% in Q1 as the outlook for grade A Central London, and, in particular, West End offices improved. GPE's "Flex" offers fully managed, premium, fully furnished office space which is letting well and delivering premium levels of rental growth.

Last quarter we commented on Land Securities' strategy of acquiring flagship shopping malls. In February, the Reit presented its plan to investors to sell £2bn worth of office buildings and scale back office developments as it pivots towards residential property. It aims to reduce the allocation to offices from about 65% to a third by 2030, while boosting retail and housing to roughly a further third each. Nevertheless, its share price ended Q1 down -5.8%, possibly as investors doubted whether it would be able to sell down its office asset without suffering painful impairments.

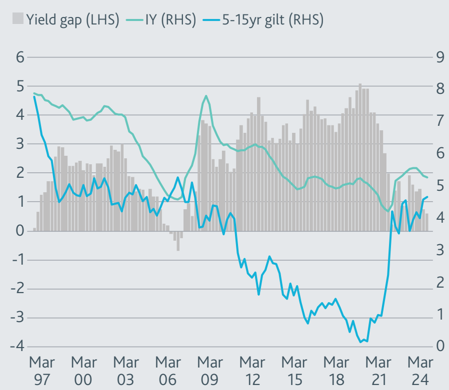
An increase in inflation expectations and concerns arising over the fiscal outlook has put pressure once again on the pricing of UK risk-free assets. At the shorter end of the curve, yields ended Q1 slightly lower than at the start. But yields have risen for longer maturities. Policy uncertainty in Washington has seen the ten-year US Treasury yield increase and this trend has been exported to UK.

Yet, despite the prevailing uncertainties, the yield on the 5-15 year gilt index softened by just 8 bps in the first quarter to reach 4.65%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q1 of 2.5%. However, over the last 12 months, the gilt index has provided a total return of -7.5% and Q1's yield is 97 bps higher than it was 15 months ago.

As risk free rates expanded further in Q1, the All Property initial yield itself hardened by 7 bps. Consequently, the property initial / gilt yield gap decreased by 15 bps to 0.61%. Judging by recent market history, UK CRE once again looks to be priced above fair value. However, throughout the recent downturn, market rental value growth particularly in the dominant industrial sector has proved resilient, which may justify a narrower risk premium.

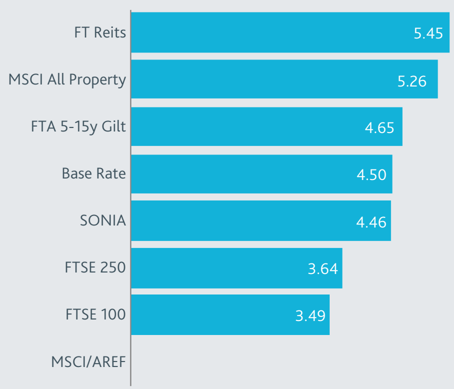
Direct property continues to offer a competitive income return compared to other UK asset classes. But gilts are now yielding more than 4.6% without the risk of holding and managing the assets and the dividend yield on Reits of 5.5% is attractive with the share price currently implying some large discounts to Net Asset Value.

Property IY – Gilt yield gap (%)



Source: MSCI & Bank of England, April 2025

UK asset yields Q1 2025 (%)



Source: Yahoo Finance & MSCI, April 2025

4. Commercial property market performance

In Q1, All Property total returns, as recorded by the MSCI Monthly Index, decreased by 80 bps to 2.0% from 2.8% in Q4 2024. Capital values rose by 0.6% compared to a rise of 1.3% three months earlier. Property equivalent yields softened by 2 bp and made no material contribution to changes in valuations. All Property market rental value growth in Q1 again remained at 0.9% as it was in both Q4 and Q3 2024. First quarter income returns amounted to 1.4%.

Over the course of the first quarter, retail rental growth decreased to 0.5% from 0.7% in Q4 2024 while office rental growth increased to 0.8% from 0.4%. Industrial rental value growth decreased to 1.1% from 1.5% a quarter earlier. Market rental values for shopping centres and retail warehouses remain positive but there is still little improvement in rental values for the traditional high street shop segments.

In the 12 months to the end of March, All Property total returns increased to 8.5% from 7.0% in the 12 months ending December as weak numbers from Q1 2024 fell out of the calculation.

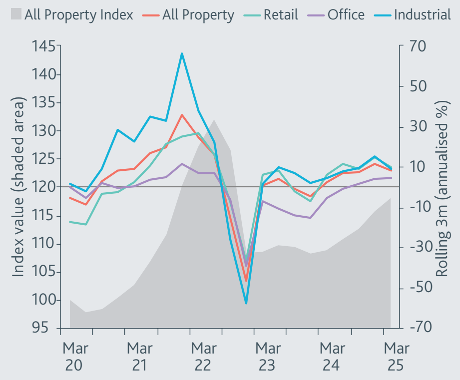
All Property capital growth continued to improve on annual basis in Q1, increasing to 2.5% in March from 1.1% in December. Property equivalent yields have softened by less than one basis point in the 12 months to March and made a negligible contribution to any change in valuations over the course of the last 12 months. All Property rental values increased year-on-year by 3.4% and income return amounted to 5.9%.

In the last three months, retail equivalent yields have hardened by 3 bps. The office sector re-rated in December by 21 bps but has given back 11 bps with another de-rate in Q1 as office values continue to drift further. Industrial equivalent yields remained stable over the course of the quarter.

The recovery stage in the current cycle remains disappointing compared to the vigorous bounce in capital growth enjoyed after previous downturns in both 1991-92 and 2008-09. Cuts to the Bank Rate in August and November last year and most recently in February have not added impetus to any upswing. The latest economic developments will not have added to confidence.

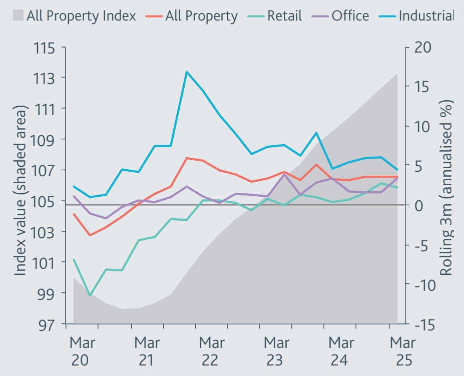
The Tables included contain further performance data for UK commercial real estate in Q1 2025.

Total returns (%) by sector



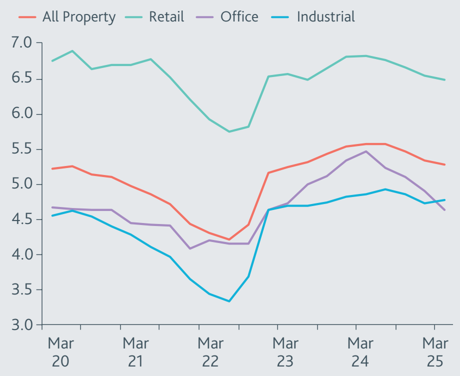
Source: MSCI, April 2025

MRV growth (%) by sector



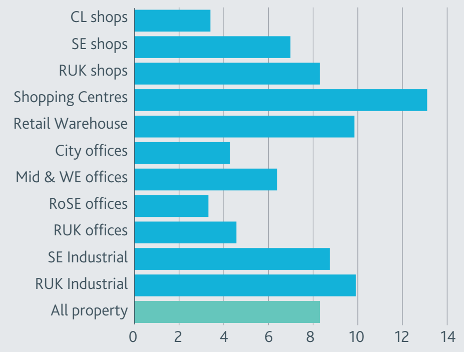
Source: MSCI, April 2025

Initial yield (%) by sector



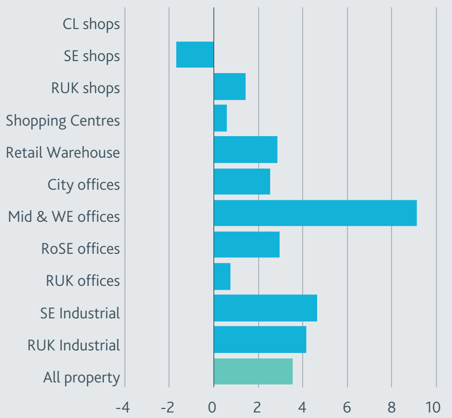
Source: MSCI, April 2025

Total returns (%) by segment – Q1 2025 annualised



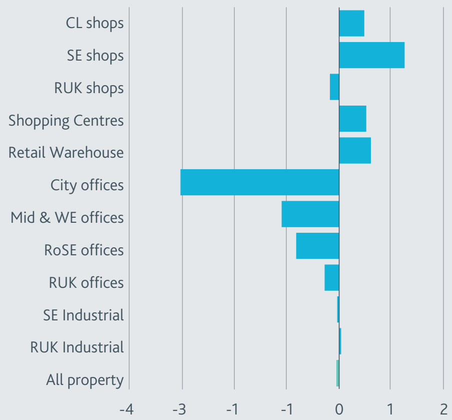
Source: MSCI, April 2025

MRV growth (%) by segment Q1 2025 annualised



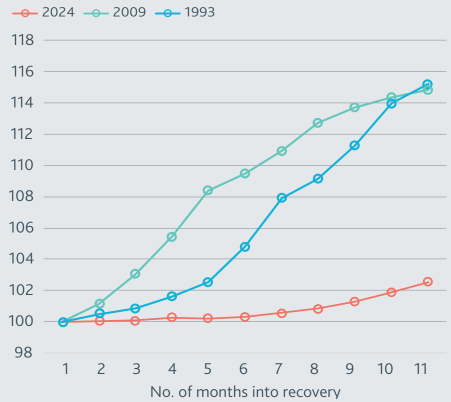
Source: MSCI, April 2025

Yield impact (%) – Q4 2024



Source: MSCI, April 2025

The pace of recovery from market downturn by month



Source: MSCI & APR, April 2025

Total returns (%)

	Mar	3m	6m	12m
All Property	0.7	2.0	4.8	8.5
Retail	0.9	2.4	6.0	11.4
Office	0.4	1.1	2.2	2.4
Industrial	0.8	2.2	5.9	10.4
Annualised				
All Property	9.1	8.3	9.9	8.5
Retail	10.8	9.9	12.3	11.4
Office	5.1	4.6	4.4	2.4
Industrial	10.5	9.1	12.1	10.4

Source: MSCI & APR, April 2025

Capital growth (%)

	Mar	3m	6m	12m
All Property	0.3	0.6	1.9	2.5
Retail	0.3	0.6	2.4	3.9
Office	0.0	-0.2	-0.5	-3.1
Industrial	0.4	1.0	3.3	5.1
Annualised				
All Property	3.2	2.4	3.9	2.5
Retail	3.5	2.6	4.8	3.9
Office	-0.1	-0.8	-1.0	-3.1
Industrial	5.1	3.9	6.7	5.1

Source: MSCI & APR, April 2025

Income return (%)

	Mar	3m	6m	12m
All Property	0.5	1.4	2.9	5.9
Retail	0.6	1.7	3.5	7.2
Office	0.4	1.3	2.7	5.6
Industrial	0.4	1.2	2.5	5.1
Annualised				
All Property	5.8	5.8	5.8	5.9
Retail	7.1	7.2	7.2	7.2
Office	5.2	5.4	5.5	5.6
Industrial	5.1	5.0	5.0	5.1

Source: MSCI & APR, April 2025

ERV growth (%)

	Mar	3m	6m	12m
All Property	0.4	0.9	1.8	3.4
Retail	0.2	0.5	1.2	1.8
Office	0.5	0.8	1.2	2.1
Industrial	0.5	1.1	2.6	5.4
Annualised				
All Property	5.0	3.5	3.5	3.4
Retail	2.3	2.2	2.5	1.8
Office	5.9	3.4	2.5	2.1
Industrial	6.0	4.5	5.2	5.4

Source: MSCI & APR, April 2025

Net initial yield (%)

	Mar	3m	6m	12m
All Property	5.3	5.3	5.5	5.6
Retail	6.5	6.5	6.7	6.8
Office	4.6	4.9	5.1	5.5
Industrial	4.8	4.7	4.9	4.8

Source: MSCI & APR, April 2025

5. Investment in property

As investor sentiment improved at the end of last year, All Property investment volumes, represented by the current value of investment transactions adjusted for capital growth, increased by 51% in Q4 2024 compared to Q3. This was the second consecutive rise in activity. Encouragingly, fourth quarter transaction volumes were 8% above their long run average. This improvement in liquidity seems unlikely to have survived the destabilising impact of US trade policy on the global economy. Preliminary estimates suggest that investment volumes in Q4 decreased by 57% and were 53% below the long run average. As usual the latest numbers for Q1 2025 are likely to be revised in the coming months.

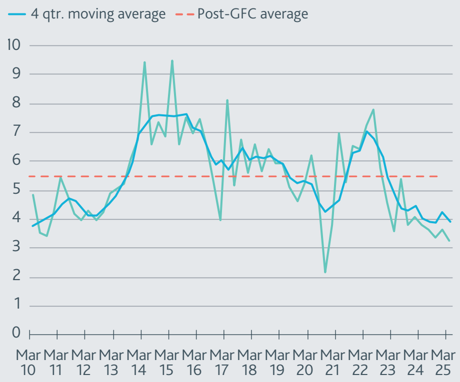
Retail made up 47% (by number) of investment transactions in Q4 2024; offices represented a further 22% and industrials made up the remaining 31%. In the 12 months ending March 2025, the retail sector accounted for 44% of transactions with the volume of shopping centre and particularly Retail Park investments increasing. Offices represented 22% of transaction numbers and industrials a further 33%.

Retail, office and industrial investment volumes so far recorded in Q1 this year are all lower than in Q4 2024. Despite the upwards revision, total investment volumes recorded in 2024 were lower than in each of the previous five years except 2020, the year of two lock downs.

In a reflection of the upturn in the broader All Property investment market, volumes in the UK's key Central London office market increased by 30% in Q4 2024 compared to Q3 but fourth quarter transaction volumes were still -45% below their long run average. Preliminary estimates for Q4 indicate that the momentum may not have carried into the first quarter. In Q1 2025, Central London office transaction volumes deteriorated by 13%.

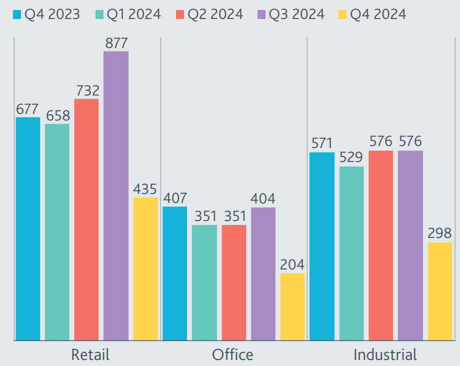
Midtown and West End made up 74% (by number) of Central London office investment transactions in Q4; City offices represented 9% and Fringe offices made another 17%. Total investment volumes for the 12 months ending March 2025 indicate that Midtown and West End accounted for 58% of transactions; the City 13%; and the Fringe markets of Docklands, Southbank and City fringe 28%. Central London investment volumes so far recorded in Q1 2015 have continued to disappoint. Central London office investment volumes in 2024 were lower than in each of the previous five years including 2020.

All property investment volumes (£bn)



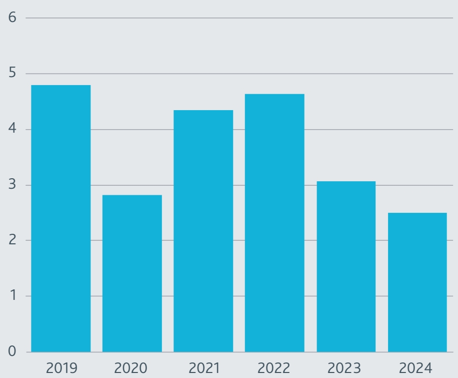
Source: CoStar, MSCI & APR, April 2025

UK investment transaction nos. by quarter



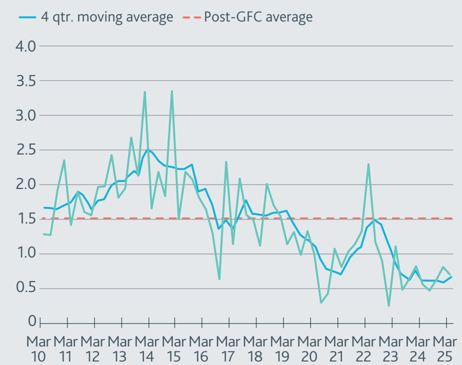
Source: CoStar, MSCI & APR, April 2025

UK investment volumes by year (£bn)



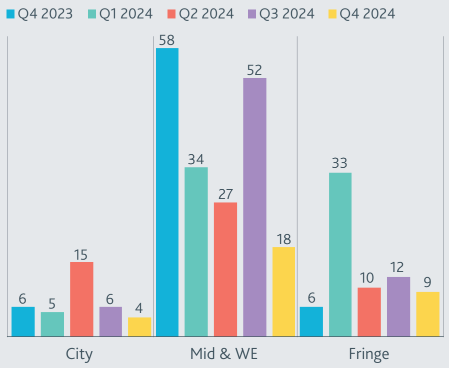
Source: CoStar, MSCI & APR, April 2025

Central London office investment volumes (£bn)



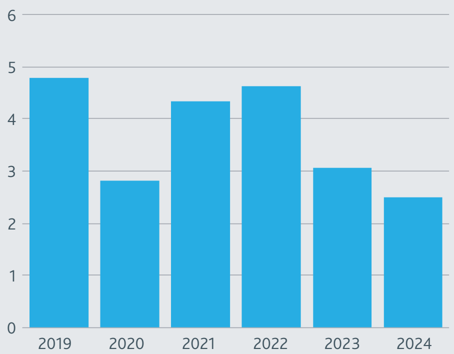
Source: CoStar, MSCI & APR, April 2025

Central London Office transaction nos. by quarter



Source: CoStar, MSCI & APR, April 2025

Cumulative Central London office investment transactions by year (£bn)



Source: CoStar, MSCI & APR, April 2025

6. Outlook & House view

Forecasters' confidence in a recovery of the UK's commercial property market strengthened in Q1. Consequently, February's Investment Property Forum (IPF) consensus forecasts for 2025 were increased to 9.0% from 8.8% in November. The IPF outlook for 2026 marginally deteriorated to 8.7% from 8.8%. However, the data was collected before contributors had fully digested the implications of US trade policy for the global economy and financial markets.

It is likely that the forecasters responding to the survey expected that the momentum from the recovery in Q4 2024 would continue into 2025 and beyond. The annualised total return average forecast over the three years to 2027 is 8.6 % and 7.8% for the five years ending 2029. Total return expectations for 2025 improved in February's survey across all segments except Rest of UK offices.

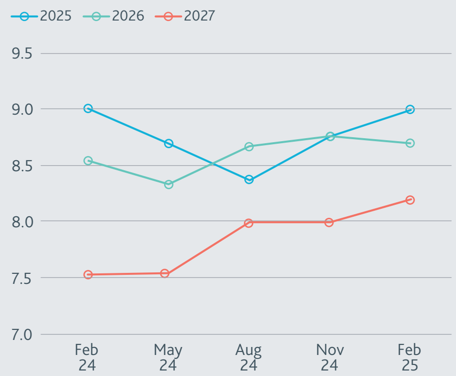
Although the maximum total return forecast for 2025 decreased from +11.2% in November to +9.9% in February's consensus report, the minimum forecast has increased to +7.3% from +6.4% three months earlier. The forecast range for 2026 is 3.0%, with a maximum of +10.2% and a minimum of +7.2%.

The central forecast from the House View model is revised on a quarterly basis to reflect the changing macro-economic outlook and the current performance of commercial real estate. A third reduction in UK base rate to 4.25% is anticipated in early May. Ordinarily this would provide a boost to commercial real estate markets. But presently the focus has shifted from movements in the risk-free rate and the cost of borrowing to the possibility of a US recession being exported around the world.

The old aphorism that "When America sneezes, the world catches a cold" is a reminder of the close relationship between the US economy and the global economy, and how the US can play a significant role in shaping global economic fortunes. An aggressive U.S. tariff policy will trigger a significant slowdown in the U.S. economy this year and next, with the median probability of recession in the next 12 months approaching 50%, according to economists polled by Reuters in April. The same month, J.P. Morgan, the investment bank, raised the probability of a recession in the USA to 60% from 40%.

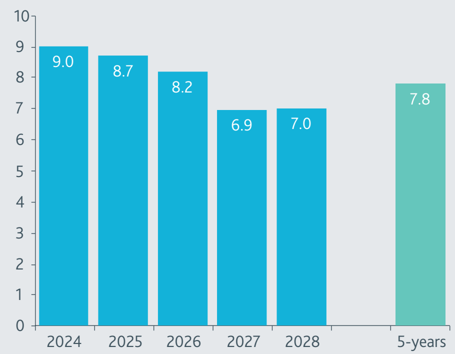
It seems unlikely that the UK economy will emerge unscathed from the tariff shock. The UK is an open economy with high exposure to global trade markets. Although the EU remains the UK's largest trading partner, the US is the second largest destination for 22% or £187 billion of exports. The UK

IPF Consensus forecast evolution (%)



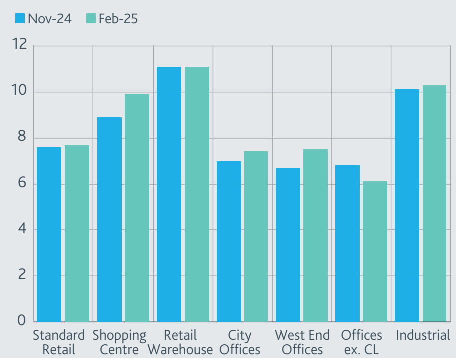
Source: IPF, Feb 2025

IPF All Property consensus forecasts y-by-y (%)



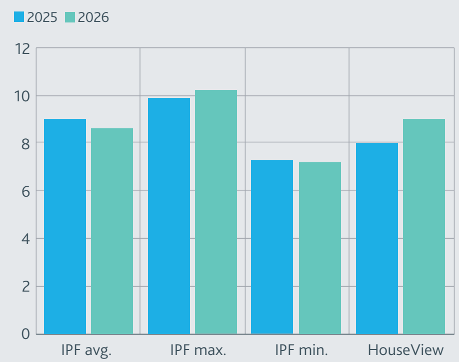
Source: IPF, Feb 2025

IPF 2025 total return forecasts by sector Nov 24 v Aug 24 (%)



Source: IPF, Feb 2025

UK commercial total return forecast range (%)



Source: IPF, APR & Cluttons, Feb & April 2025

Manufacturing PMI declined in April as expectations of a contraction in the manufacturing sector increased. Already, senior executives from the UK's manufacturing sector, including Rolls Royce, Bentley, Aston Martin and McLaren have warned a Parliamentary committee that job losses are likely "within weeks".

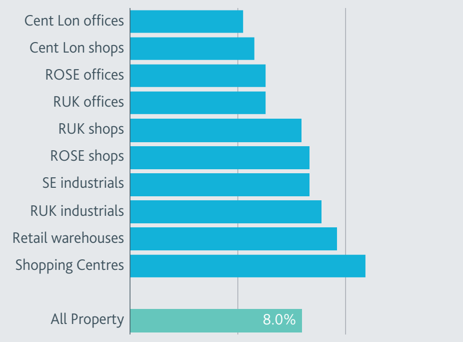
Historically, there has been a strong link between economic performance and rental value growth. A recession would inevitably lead to declining rents with a lag. More recently, strong rental growth from the industrial and logistics sector has supported continued rental growth at the All-Property level despite weakening retail and office rents. The forces that have driven this industrial rental growth are likely to continue. Segro's view that there is a shortage of modern space and increased demand is persuasive. For the moment, therefore, we have maintained last quarter's rental growth forecasts in the house view model.

We nevertheless think that weak economic growth combined with a troublesome inflationary outlook and increasing risk free rates have created strong headwinds that will in all likelihood slow the recovery in commercial property values in 2025. To reflect this, we have removed any yield compression from the house view model in the current year.

At the All-Property level, performance expectations for 2025 have been reduced by two percentage points to 8.0% and on a three-year view annualised average total returns have fallen back by one percentage point also to 8.0%. The market will continue to be driven by relatively strong levels of rental growth for industrial and logistics while Shopping Centre performance is boosted by high income returns. Post Covid, investor demand for Retail Warehouses is supported by retailer demand, ample car parking and the ability to service click and collect customer fulfilment. Offices continue to be penalised by reduced occupier demand as hybrid working patterns now seem to be established and the cost of upgrading buildings to meet energy and emissions requirements. However, risks lie firmly to the downside and upside risks are strictly limited.

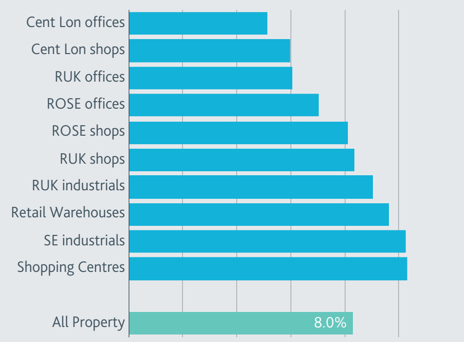
Lastly, a current theory points to an alignment between the current economic environment and the 1973 oil crisis. Briefly, then President Nixon prevailed on Fed chair, Arthur Burns, to temper any increases in interest rates. Inflation peaked at 15% and Burns' successor, Paul Volcker, was left to push rates higher, cause a recession and crush inflation. In such circumstances, real assets such as commercial real estate, infrastructure and gold outperform core stocks and bonds. From 1970-81 UK All Property produced an annualised average total return of 16.9% while inflation ran at 12.4% a year.

Cluttons House View – 2025 relative total returns (%)



Source: IPF, APR & Cluttons, April 2025

Cluttons House View – 2025-2027 relative total returns (%)



Source: IPF, APR & Cluttons, April 2025

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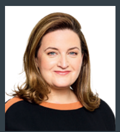

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