

Real Estate Strategic Outlook: United Kingdom

Mixed-fortunes for 2024, before recovery from 2025

Price pressures easing, but economy weakening

Economic indicators highlight challenges to the UK economy, GDP growth has slowed, labour market data shows fewer job openings, a softening in pay growth and confidence indicators remain negative.¹ More positively, inflation continues to trend down and Bank of England Base rates appear to have peaked, albeit 500 basis points higher than two years ago at 5.25%². Rates will likely stay higher for longer, although market pricing would suggest the first rate cut could be as early as May 2024.¹

Over the medium to longer term the outlook is more positive. GDP growth is forecast to slightly outperform the Eurozone, with London remaining a key driver of growth.³

UK real estate offers attractive risk-adjusted returns

Have we reached the turning point?

Last year was challenging for UK real estate. A slowing economy and elevated interest rates dampened occupier and investor confidence. However, in certain parts of the market, we believe we are at the turning point and as interest rates trend lower over the second half of 2024, we expect recovery across all sectors. A higher entry yield and healthy prime rent growth suggest a robust medium-term outlook for UK property, with returns forecast to outperform the European average.

Logistics: Opportunities in development-led strategy

We continue to have a positive outlook on UK logistics and see the best opportunities for outperformance in urban and Last Hour locations, where demand drivers are supportive and supply remains tight. Redeveloping ageing stock into modern, energy-efficient logistics in the UK's largest cities may capture strong rental uplift and higher returns.

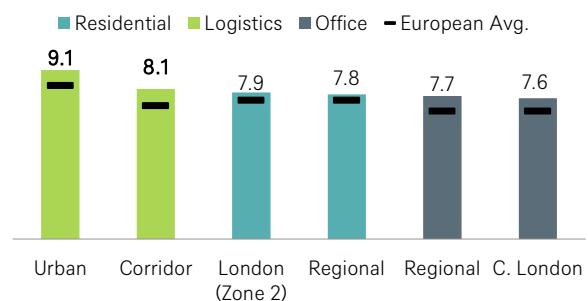
Residential: PBSA and co-living look attractive

UK build-to-rent proved relatively resilient over 2023, supported by strong rent growth driven by a notable supply shortage in many major cities. While we continue to have a positive call on multi-family, operational residential, such as student housing and co-living, could also offer attractive risk-adjusted returns, with many of the same demand-supply imbalances, expectations of strong rent growth, as well as a higher entry yield.

Office: Brown-to-green office upgrades and conversion

Office continues to face headwinds and is proving most exposed to current market challenges. That said, our supportive view on best-in-class office space remains unchanged and in London's CBD submarkets, such as West End and City, we still favour the refurbishment of secondary office stock into Next Generation offices. Outside of the CBD, but still within London, an office to beds conversion looks to be more appropriate. A chronic housing shortage, alongside sharper falls in secondary office values supports this strategy.

Prime Gross Total Return Forecast*, 2024f-2033f (% p.a.)



*Gross Total Returns minus Capital Costs
Source: DWS, December 2023

¹ Oxford Economics, December 2023

² Bank of England, December 2023

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