Schroders capital

H1 2025

SCHRODERS CAPITAL INVESTMENT OUTLOOK: REAL ESTATE

Marketing material for professional clients only.

March 2025

INTRODUCTION

Introduction

Schroders Capital’s H1 2025 outlook for real estate: The early stage of the real estate recovery

- Schroders Capital’s real estate team is pleased to introduce our H1 2025 Investment Outlook, which provides a summary of our relative value framework. This informs assessments of the broad opportunities sourced by our local teams, the preferred strategies playing to the most impactful macro themes and, finally, **how investors should be seeking to position their real estate portfolios for medium- to long-term outperformance**.

- In the last edition of our investment outlook, we posited that a sequential opportunity across geographies, sectors and structures had gone live, due to the extent and uneven pattern of the repricing experienced across the asset class since 2022. There is now increasing evidence of positive market movements in relation to both activity and, crucially, transaction pricing – and our proprietary valuation framework continues to point to immediate opportunities across multiple sectors and geographies. Recent concerns over the economic outlook particularly with regards to stagflationary risks and a potentially less favourable path for interest rates alongside geopolitical uncertainties remain a risk closely monitored by SCRE and investors globally. However, **we see the early stages of a steady recovery in real estate progressing**.

- Performance is expected to be sequential across geographies and markets, but not the extent that it has been in recent years. Importantly, we the see the profile of asset types within markets having a greater bearing on operational and financial performance as considerations such as sustainability profile become more influential. **We remain firmly of the view that 2025 will be a strong vintage for deployment**, with the potential for capital invested to deliver outsized returns over the medium- to long-term.

- Operating conditions are being well supported by **continued tight supply and an increasing scarcity of modern, sustainability-certified space**. Elevated construction costs have been a key reason for muted supply pipelines, and this dynamic may be further exacerbated due to the potential for large-scale rebuilding programmes, assuming a cessation to major conflicts across the world. Further increases in construction costs have the potential to create a meaningful ‘cost-push’ effect on rents.

- Investment market activity remains subdued compared to historic levels, but improving investor sentiment, as highlighted by a range of indicators, coupled with a more supportive rates environment, should catalyse higher volumes this year. Indeed, **investment volumes have already showed signs of a nascent recovery**.

- Owing to the extent of the repricing observed since the first half of 2022, our proprietary market valuation framework is signalling that immediate opportunities can be found across multiple geographies and sectors. **Several markets, notably the UK and industrial and logistics segments more broadly, have rebased to attractive price points**.

- Our preferred portfolio positioning is evolving and shifting to a more neutral stance across sectors. This is owing to greater visibility on ‘rental floors’ within the retail and office sectors, as well as the elevated yields available for future-proofed assets. More broadly, **we expect asset and location considerations, for example sustainability profiles, to have a greater influence on performance going forward** relative to recent years, which saw sector performance divergence at record levels.

Source: Schroders Capital, March 2025. Sustainability-certified refers to assets that have achieved certification related to the building’s sustainability performance i.e. BRREAM the world leading sustainability assessment method for the built environment and infrastructure . The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

What is Schroders Capital Real Estate weighing up?

The key risks and performance drivers impacting global real estate prospects

	Potential Downside Risks	Sources of Potential Upside
Inflation & Interest Rate Movements	Reflation/Stagflation: Inflation continues to rise and remains well above-target levels, due to either: 1) Inflationary impulses from food/energy/commodity prices, as a result of geopolitical tensions or protectionist trade policies such as tariffs. 2) Resurgence of wage pressures. 3) Excessive government spending. This would lead central banks to curtail rate cuts and keep them higher for longer, depressing economic growth, inhibiting real estate market liquidity and performance, and creating challenges for borrowers.	Inflation remains at or around central bank's target levels, enabling central banks to move towards neutral rates, which in turn would support steady economic growth and normalised real estate market liquidity, pricing and debt finance costs.
Economic Outlook	Ongoing lacklustre economic growth due to depressed domestic and foreign demand. This would be reflected in, or driven by, a combination of low consumer and business consumption and investment, high inflation, elevated borrowing rates, and geopolitical uncertainties. Excessive levels of government debt forcing austerity programs.	Economic growth returns to solid levels, supported by inflation at trend with neutral interest rates. In turn, this would support consumers and businesses and drive occupier demand for all real estate formats. Supportive and balanced government spending supports growth.
Geopolitics	New conflicts, or further escalation of existing conflicts, exacerbates disruption to trade flows, prompting inflationary pressures and diverting significant resources. Strong global moves to protectionist economic and trade policies, and unpredictable/unstable governments impacting business, consumer and investor confidence and capital flows.	Lasting de-escalation of conflicts (resolution or stable new status quo) and renewed adaption of "free trade"-policies, with positive impacts on inflation, global trade, capital flows, economic growth and political stability.
Real Estate Capital Markets	Transaction markets remain paralysed with low investor confidence, sizeable bid-ask spreads and net selling pressure prevailing. Sales arising from stressed debt positions leading to renewed downwards pressure on pricing and valuations.	Available dry powder for real estate is quickly deployed, with a broad range of investors taking the opportunity to access product at (improved) 'fair value', and finance at accretive terms increasing market liquidity. Prospect of rising income and renewed value appreciation in the light of normalised rate environment increases the attractiveness of real estate investments and drives better-than-expected returns.
Decarbonisation (Climate and Transition Risk)	Rapidly tightening regulations and significant rises in carbon pricing put assets at significant risk of accelerated obsolescence and 'brown discounts'. More frequent extreme climatic conditions and events pose physical risk for assets.	Ongoing strong tenant and investor demand for top-rated sustainability-certified space results in ongoing rental and pricing premiums for assets with sustainability-certifications. Further increase in investment to improve energy efficiency and reduce carbon emissions, reducing the risk of obsolescence and punitive carbon taxes/costs.
Borrowing Levels & Debt Capital Markets	Ongoing high borrowing cost and lenders ending "extend and pretend"-approach leads to notable borrower distress. Risk of rise in forced sales at reduced prices impacts market pricing and valuations.	Falling costs and improved availability of traditional real estate debt enables refinancing at sustainable levels and debt financing at accreditive levels. Private, non-bank lending fills the gap and improved competition between lenders reduces costs.
Real Estate Occupier Markets	Lacklustre economic growth, above-target inflation and low business and consumer confidence directly reduces occupier decision-making, demand and income.	Occupier demand increases across all asset classes, with income and occupancy levels supported by constrained supply, especially for modern stock, amid high construction costs and limited construction sector capacity.

Source: Schroders Capital, March 2025. Sustainability-certified refers to assets which have achieved certification related to the buildings' sustainability-performance. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

Real estate market rebasing: A live window of opportunity

Cyclical opportunity to access real estate on an attractive entry basis

1

Significant and uneven repricing

Attractively repriced assets becoming available across a variety of markets and sectors. Limited debt capital availability and the impact of regulations are acting to further increase the availability of repriced opportunities.

2

Supportive operating fundamentals

Meanwhile, underlying operating fundamentals in many sectors remain supportive as new supply largely constrained beyond this year and next, owing to elevated debt finance and construction costs.

3

Attractive upcoming vintages

With pricing expected to bottom-out, we believe programmes deploying into this market are set to be outperforming vintages, as has been seen historically for private funds investing into such periods.

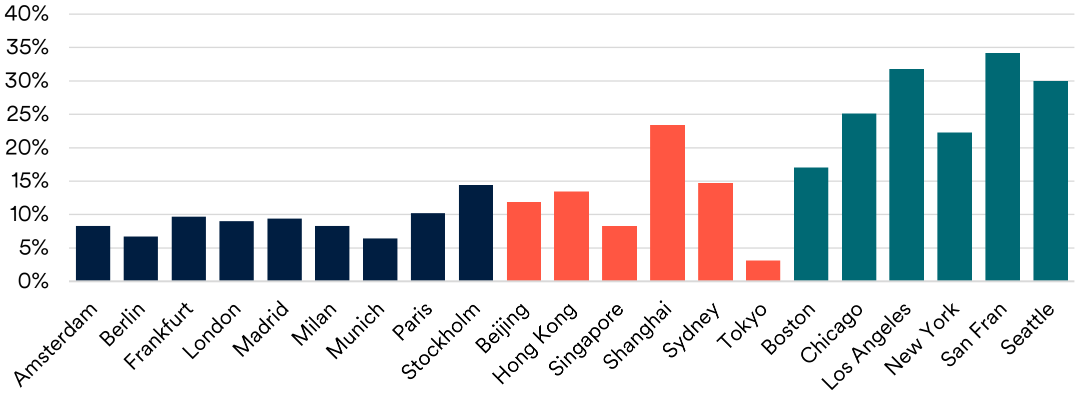
Source: Schroders Capital, March 2025. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

GLOBAL REAL ESTATE MARKET CONDITIONS

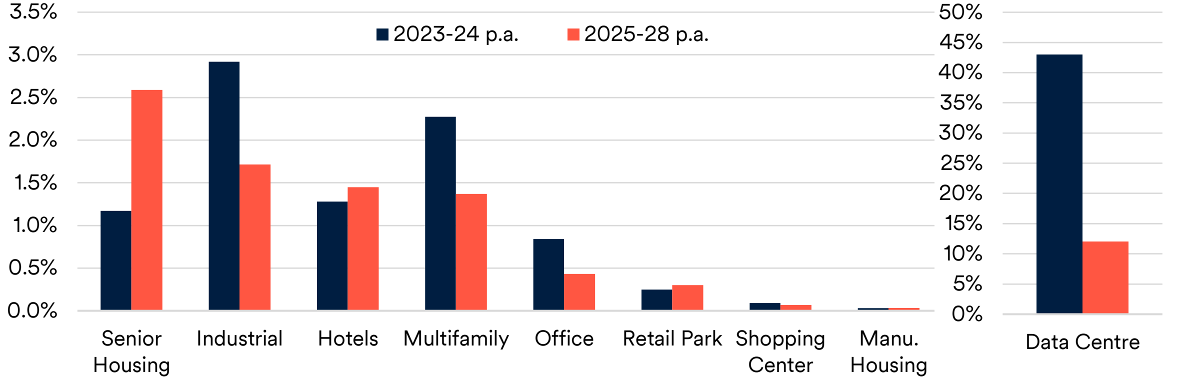
Real estate occupational market fundamentals

Preference for flexible modern sustainable space has accelerated alongside constrained supply

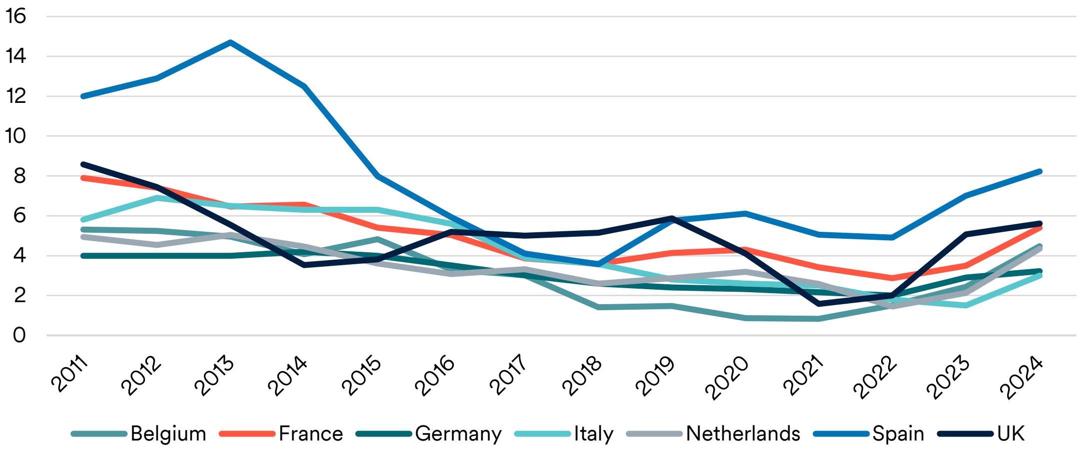
Office vacancy rates in major markets as at end Q4'24*



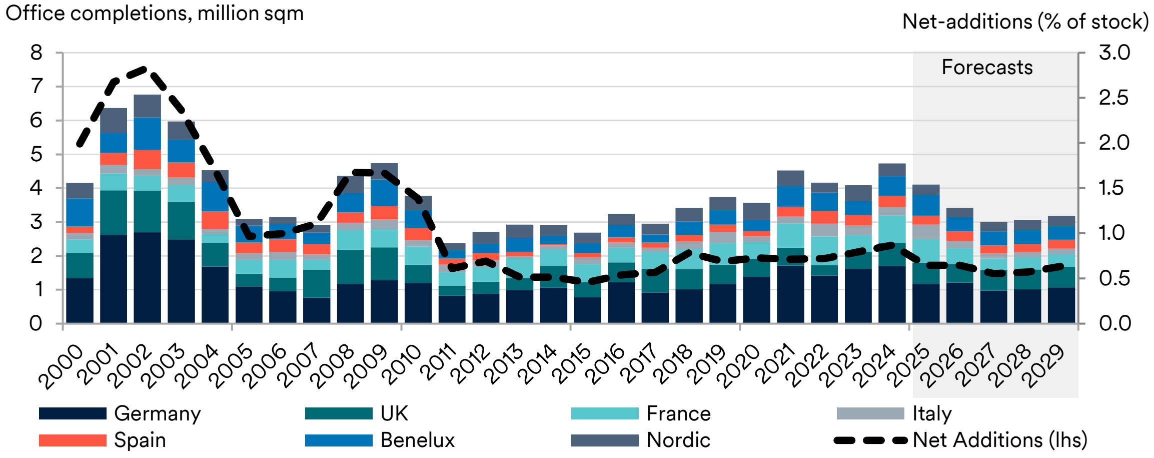
US supply trends and projections - completions as % of stock



European industrial vacancy rates (%)



European office completions and net-additions

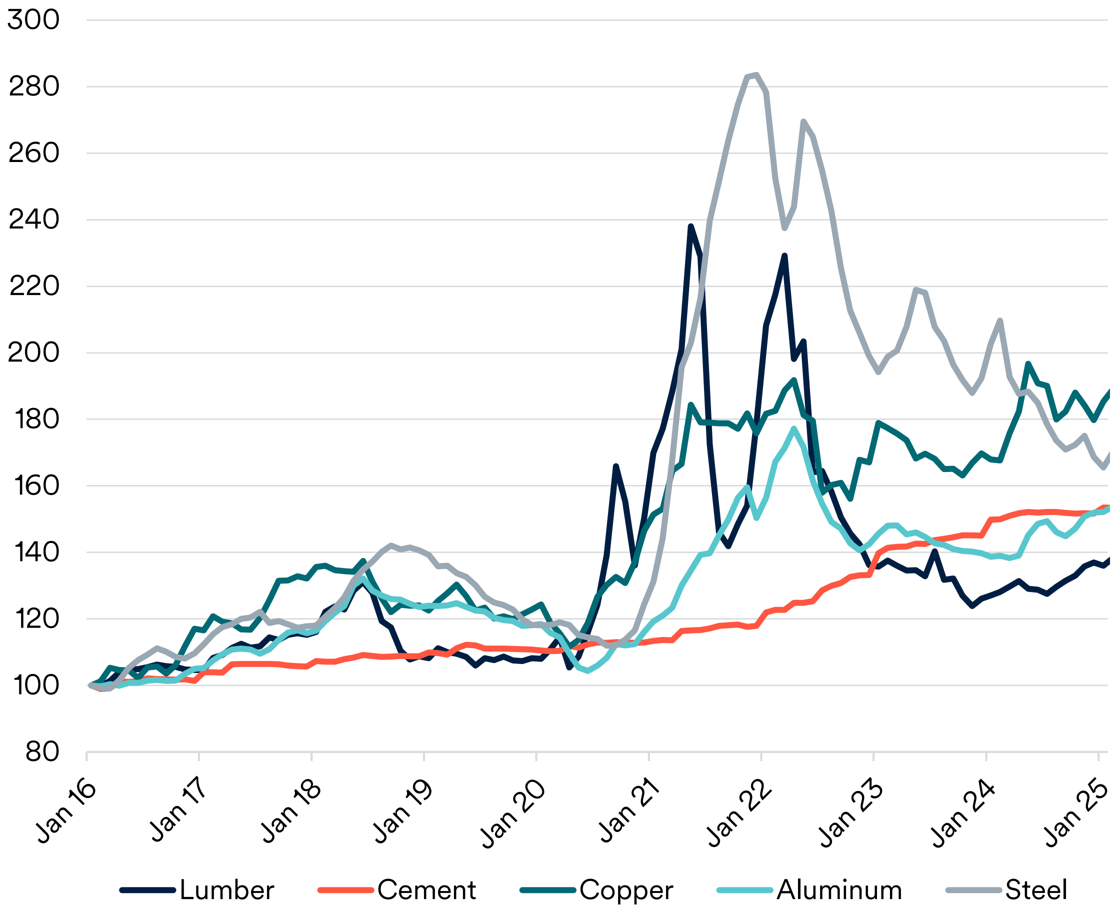


Source: CBRE, Eurostat, PMA, Green Street Advisors, JLL, Cushman Wakefield, Schroders Capital, March 2025. *Asian Vacancy as at Q3 2024.
The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only.

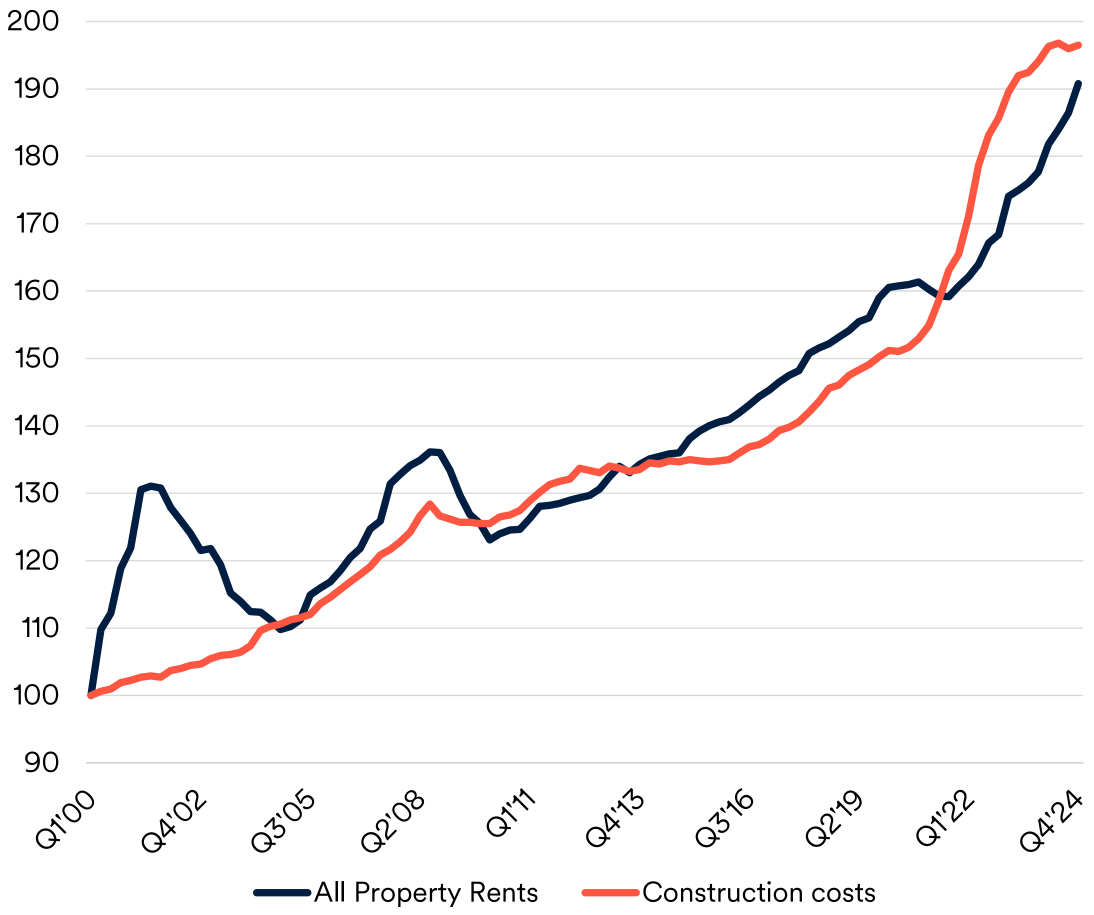
Steepening construction costs dampened new starts

Potential for a ‘cost-push’ effect on rents should large-scale rebuilding programmes commence

US: Key construction materials costs* (Index, Jan’16=100)



Eurozone construction costs & prime rents (Index, Q1’00 = 100)

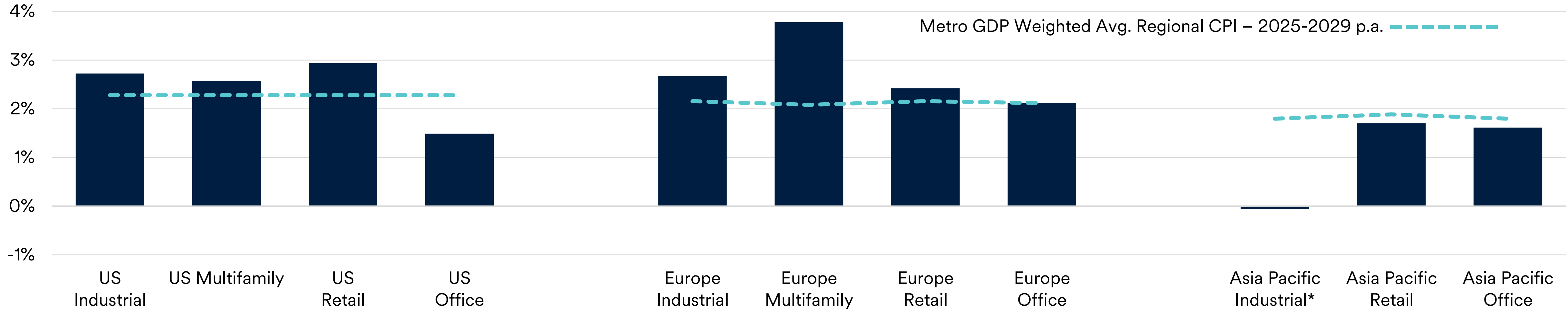


Source: CBRE, LSEG, Eurostat, Turner & Townsend, Schroders. March 2025 . *Data is based on producer prices. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only.

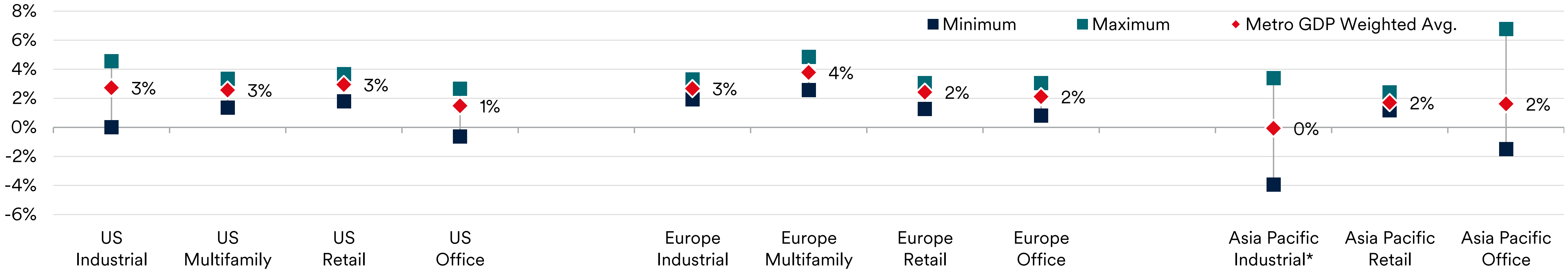
Global rental growth prospects

Nominal rental growth prospects remain underpinned by tight supply conditions

2025-2029 p.a. regional market rental growth outlooks by major sectors – metro GDP-weighted



2025-2029 p.a. regional market rental growth outlook metro ranges

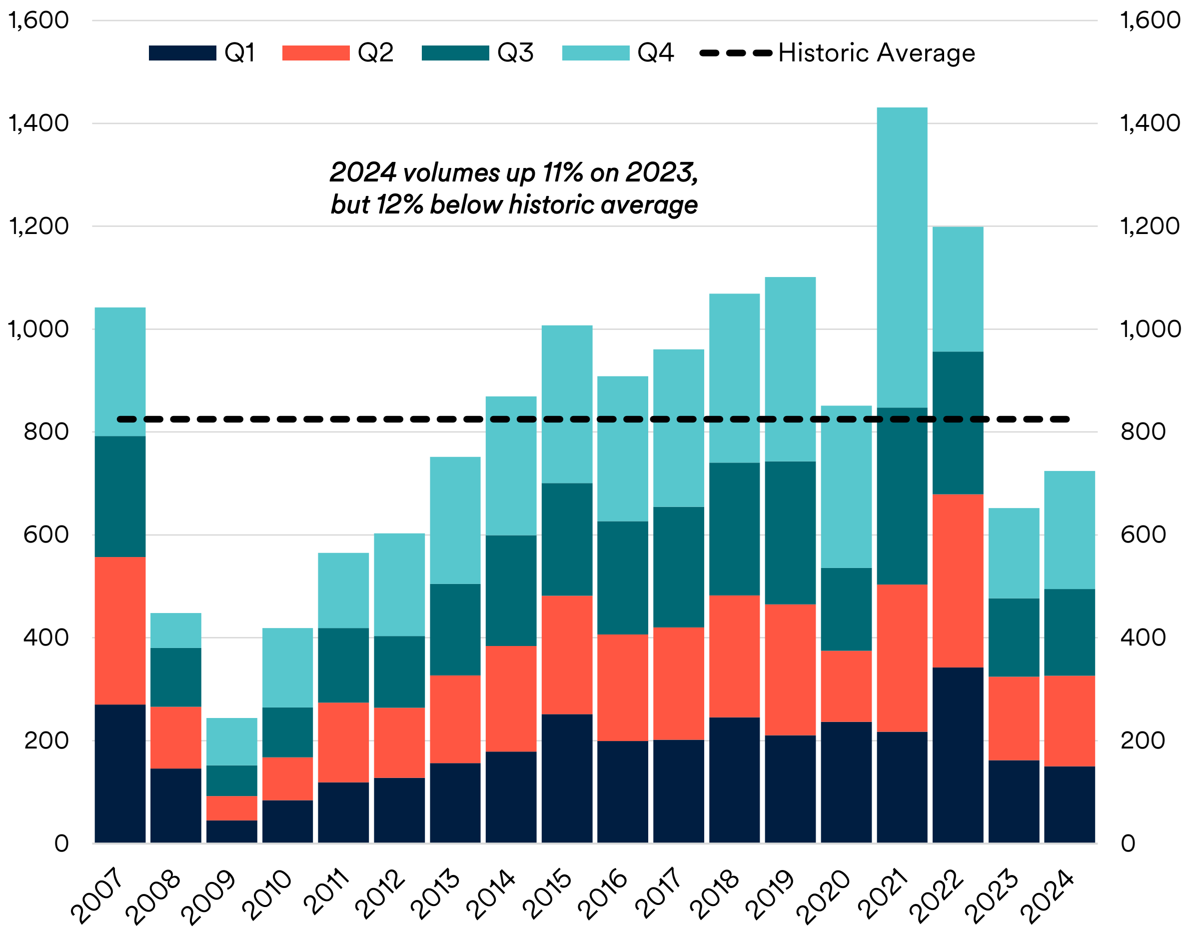


Source: Green Street Advisors, Oxford Economics, Schroders Capital, March 2025. *While several industrial markets in the AP region are forecast to show rental growth, the sector is brought down by the heavy weight of the Chinese markets. The forecast should be regarded as illustrative of trends. Actual figures will differ from forecasts. Prospective returns are hypothetical and are not guaranteed to be achieved.

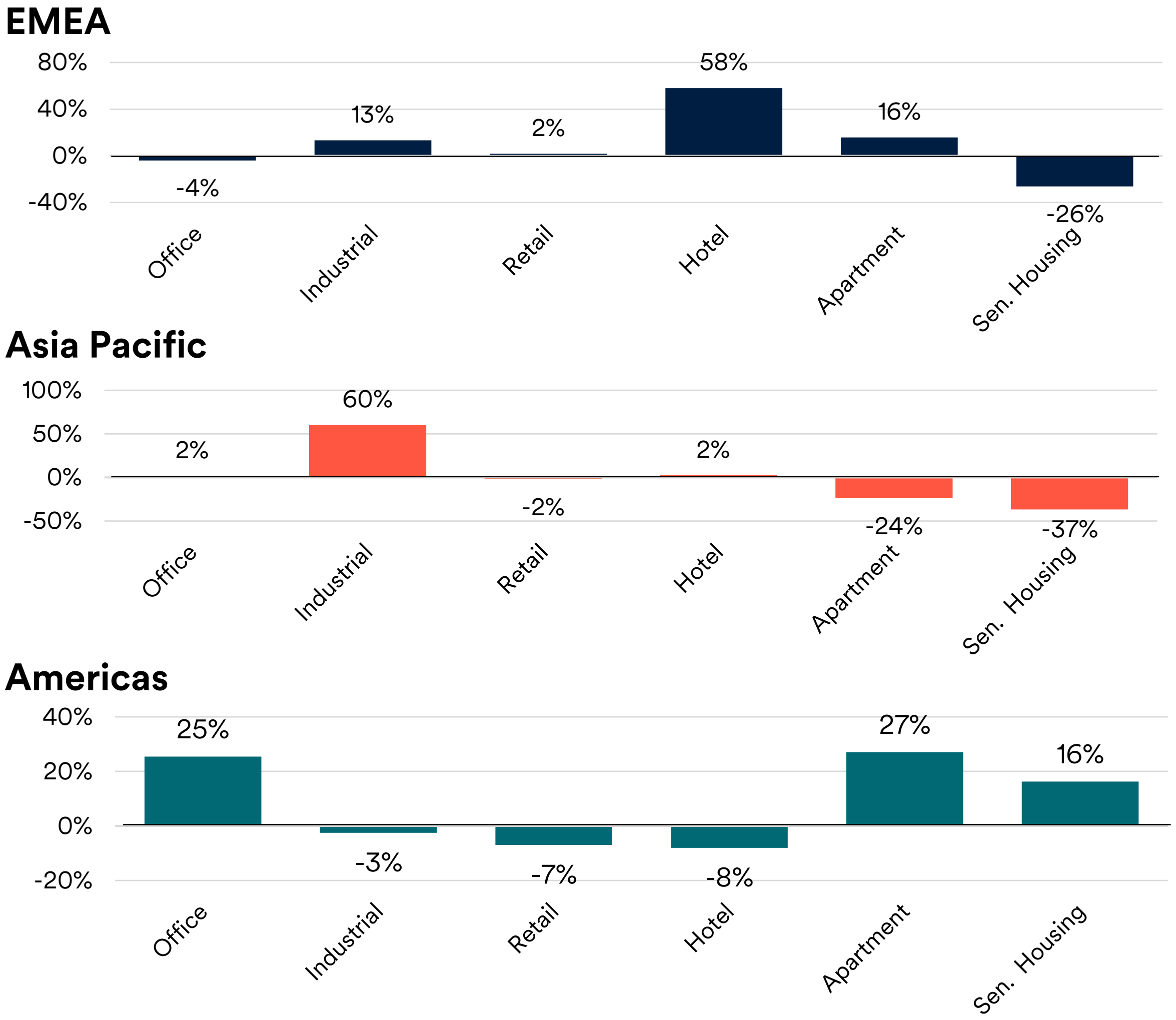
Global real estate investment volumes remain subdued

Signs of nascent recovery and improving sentiment should catalyse further activity going forward

Global real estate investment volume (USD, bn)*



Annual change** (%) in volume by sector and region

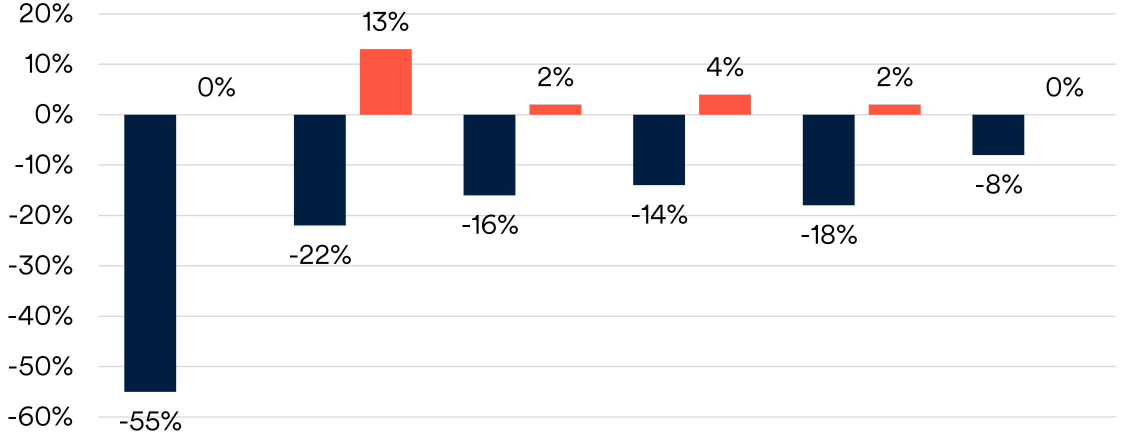


Source: MSCI RCA, Schroders Capital, March 2025. *Volumes excl. sales of development land **Last 12-months versus previous 12-months. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only.

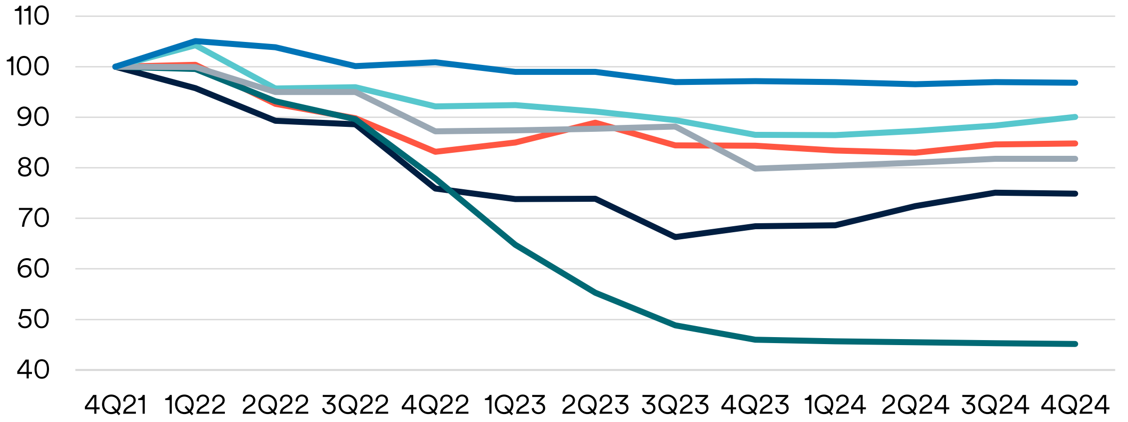
Commercial real estate transaction pricing

Clear evidence of transaction prices recovering following significant falls across multiple sectors

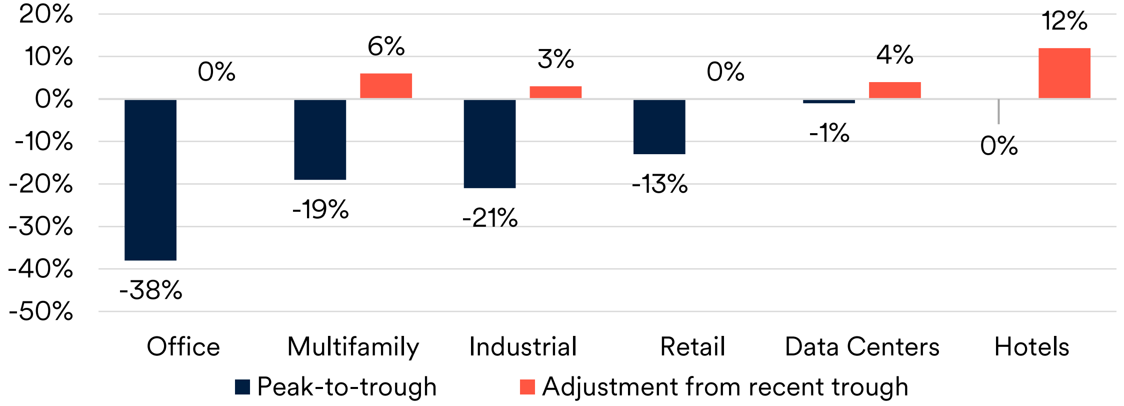
US transaction price trends since 1H22 to 2H24



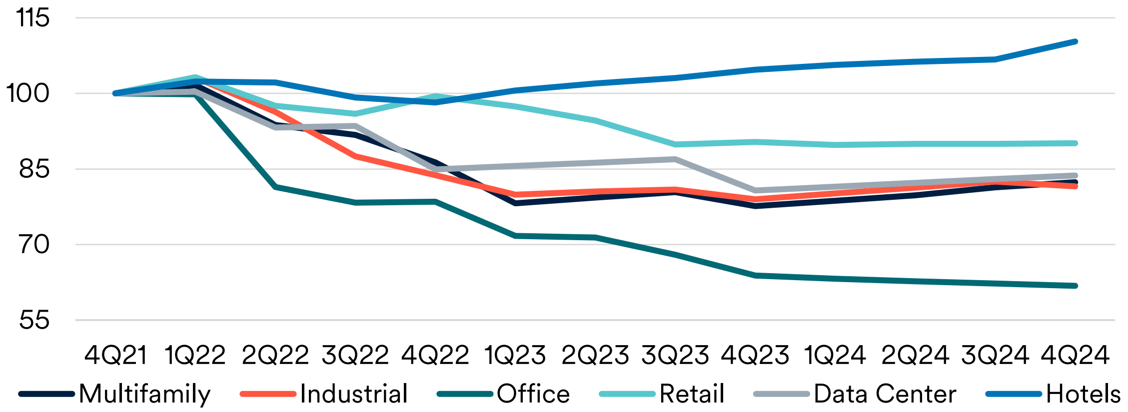
US transaction price trends Index Q4’21 = 100



European transaction price trends since 1H22 to 2H24



European transaction price trends Index (Q4’21 = 100)

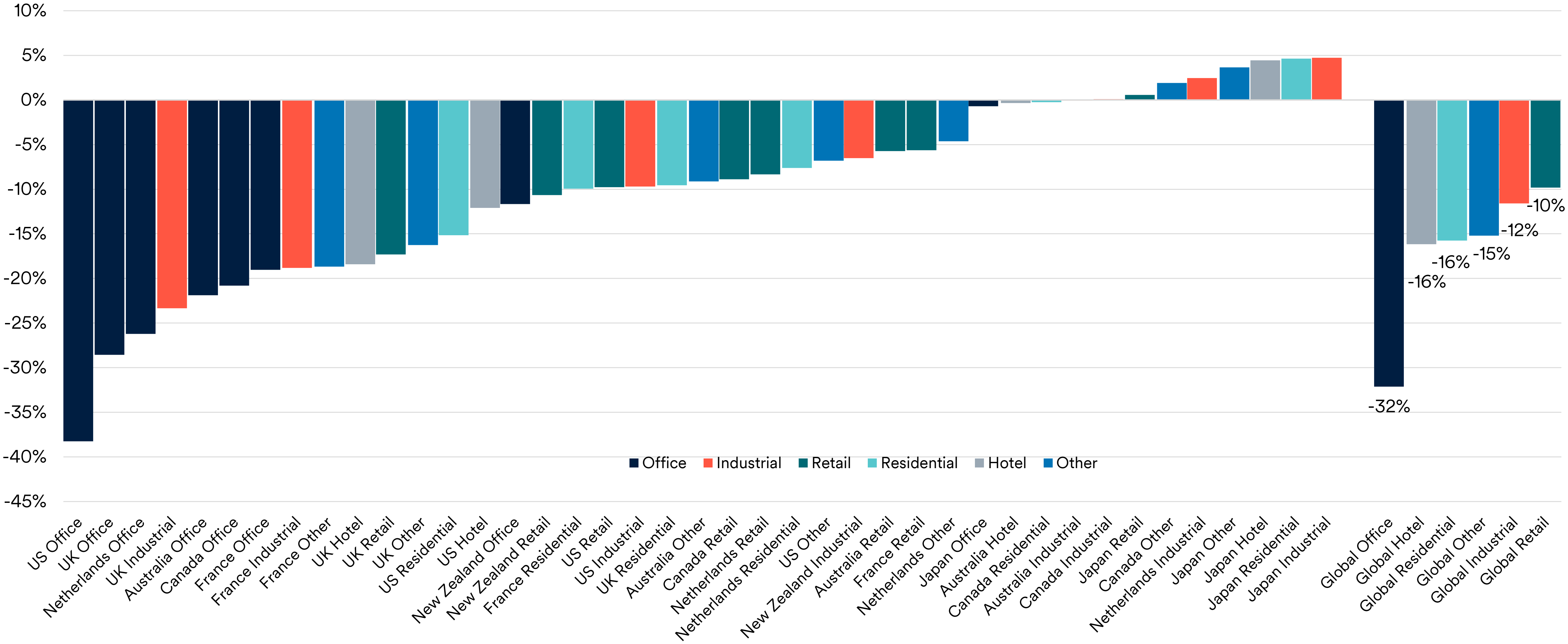


Source: Green Street Advisors, Schroders Capital, March 2025.

Private valuations correcting sequentially

Speed and depth of capital value declines differs across markets creating an ordering of opportunities

Private real estate market valuation movements 1H22 to 2H24 for select global markets – local currency & global USD

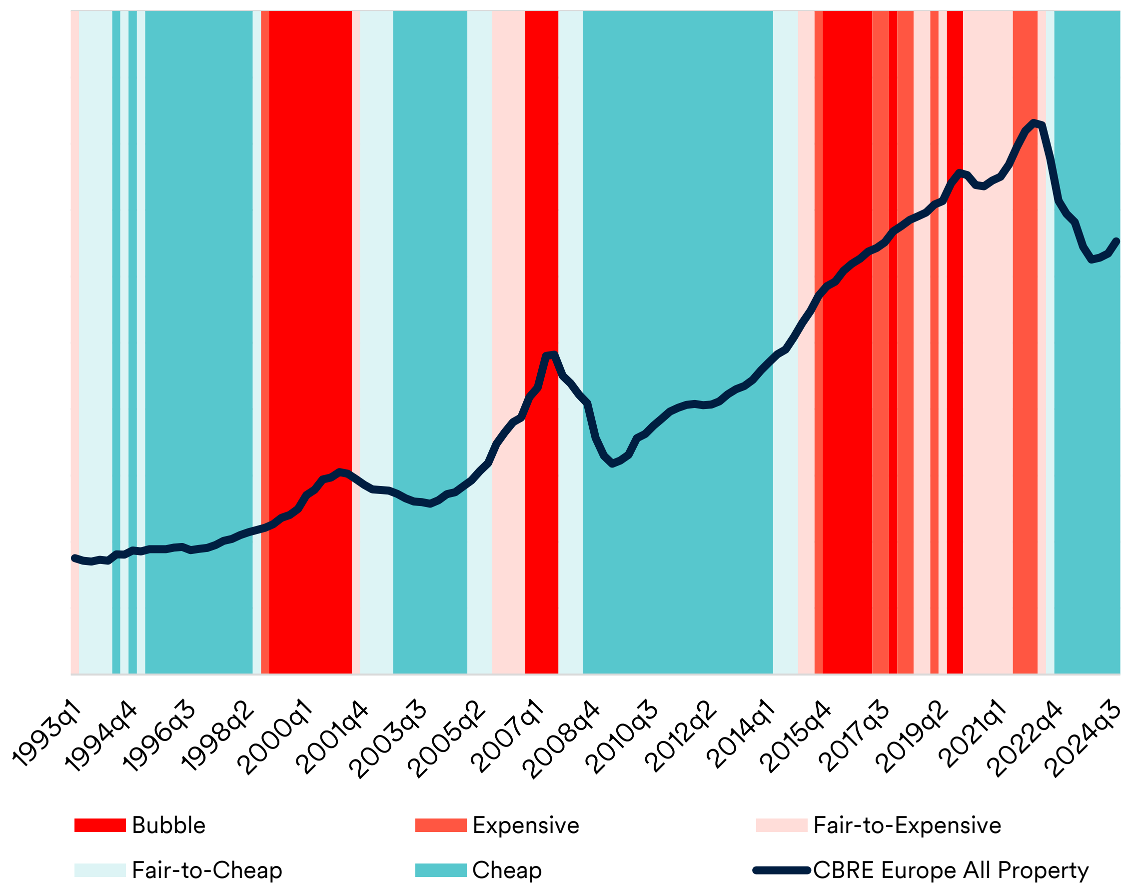


Source: MSCI, Schroders Capital, March 2025. Past performance is not a guide to future performance and may not be repeated. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities. Note: Data relating to Japanese markets and Australian hotels is as at Q3'24.

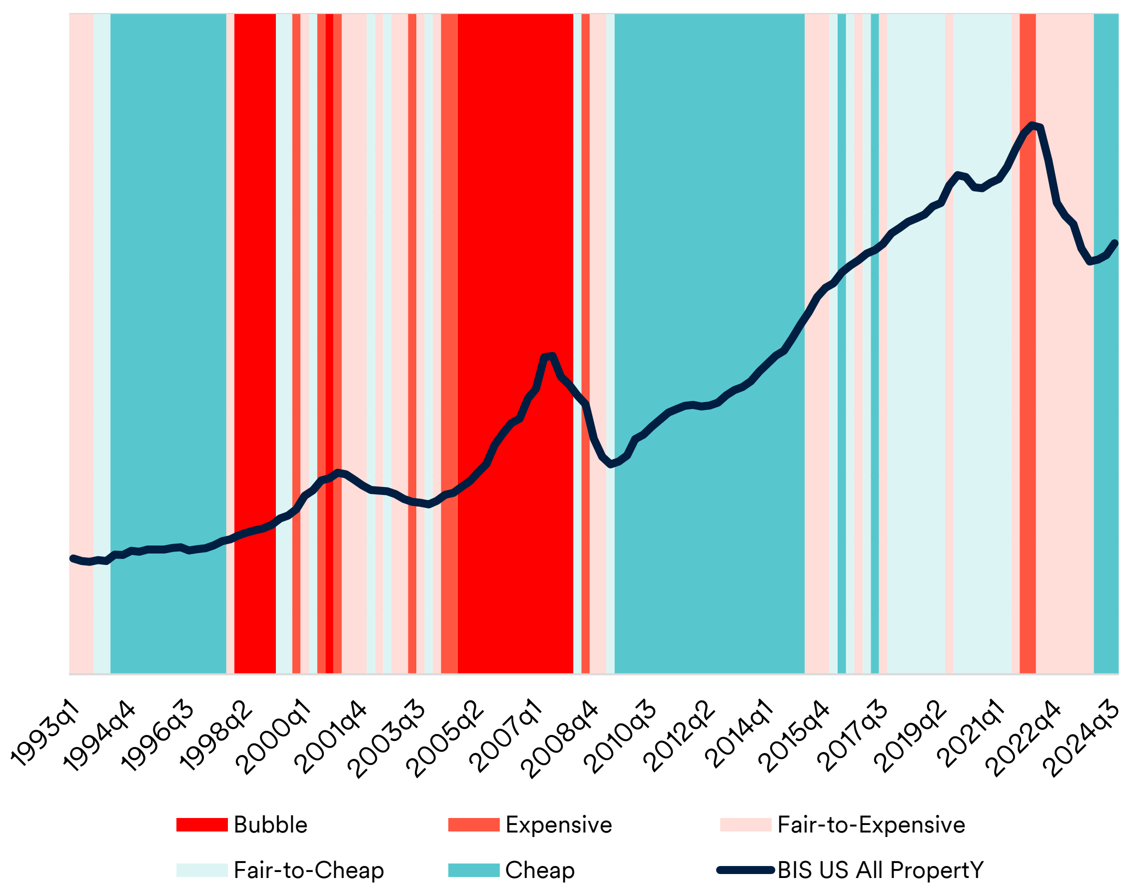
Recent value adjustments in a historical context

Recent movements have moved real estate into relatively undervalued territory

European average real estate valuation cycle



US average real estate valuation cycle

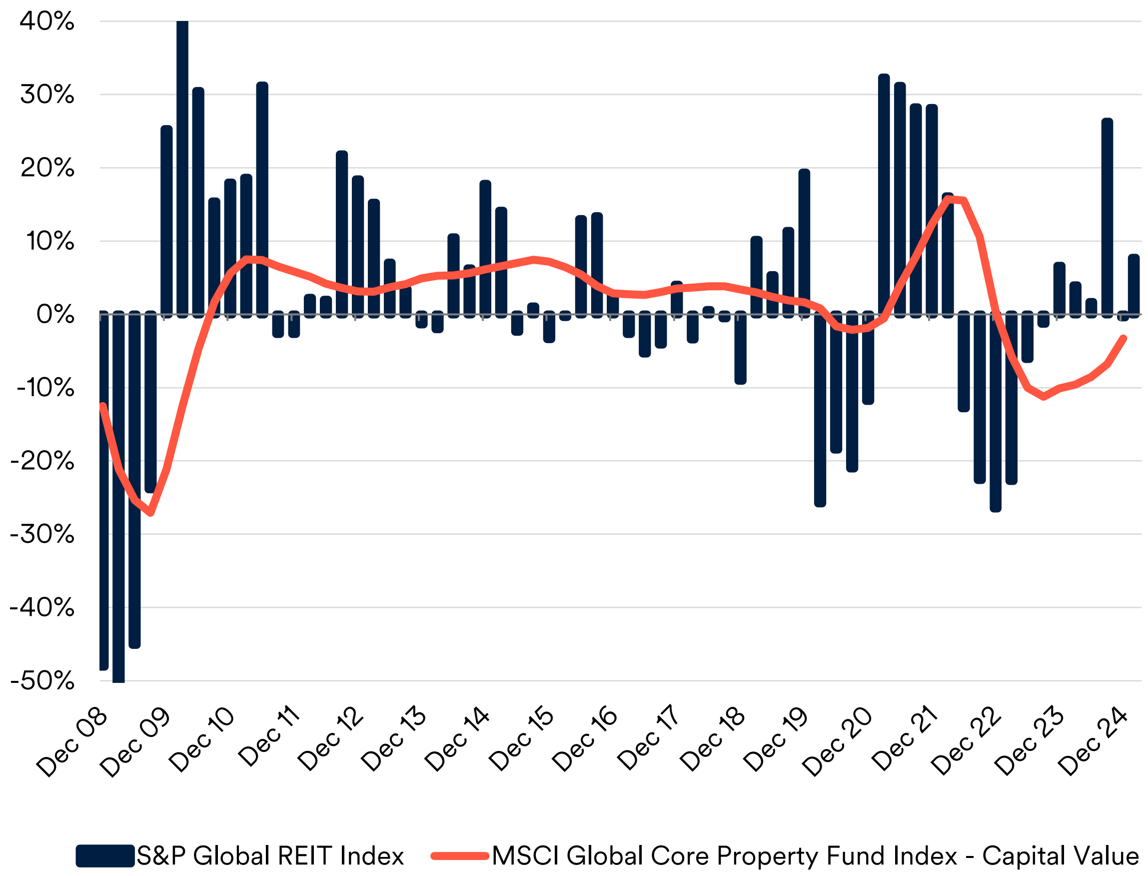


Source: Schroders Capital, March 2025. Data as of Q3 2024 – CBRE, BIS. Note: Using a Supremum Augmented Dickey-Fuller recursive test to detect the start of explosive behaviour in pricing, with bounds indicating direction of travel. Past performance is not a guide to future performance and may not be repeated. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

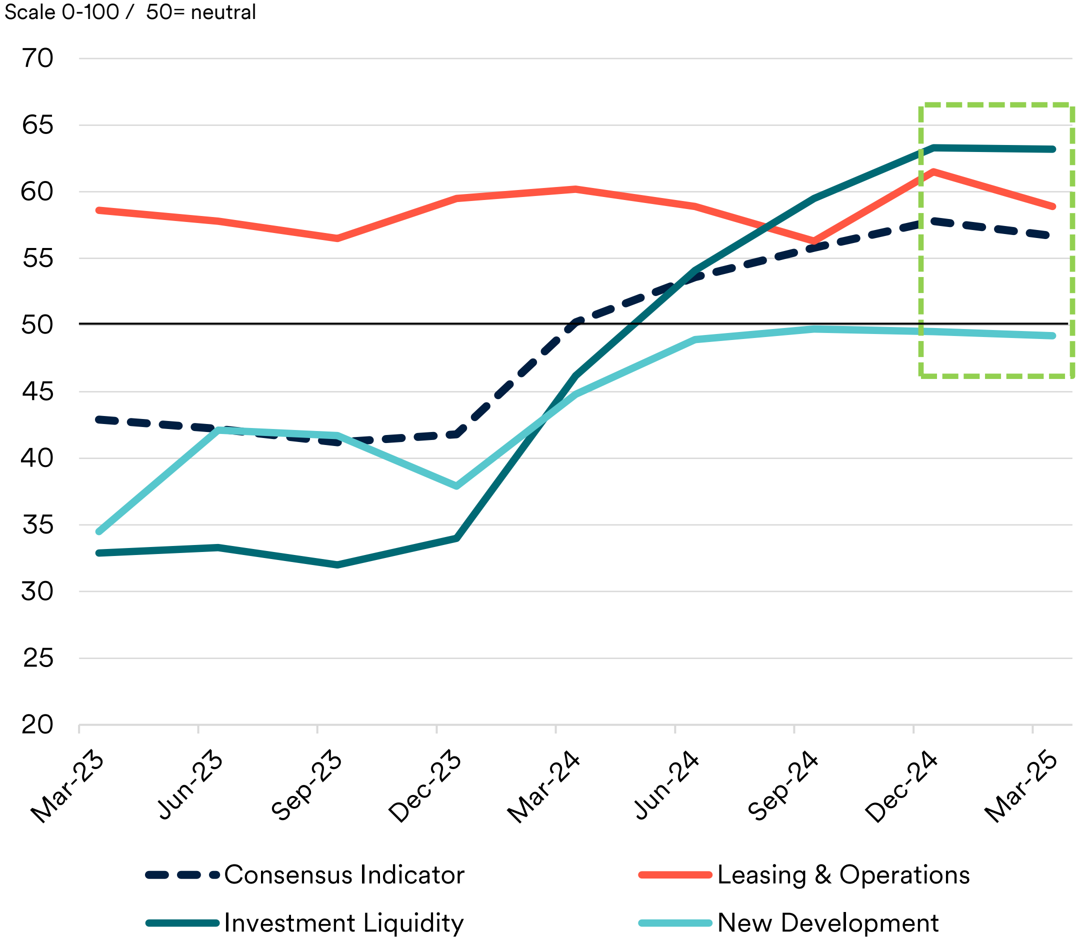
Lead indicators pointing to private market improvements

Growing optimism over improved private real estate capital market conditions and performance

Price and value movements across public and private markets



INREV European real estate consensus indicators



Source: INREV, MSCI, Refinitiv, Schroders Capital, March 2025. Past performance is not a guide to future performance and may not be repeated.

Private real estate market valuation summary

Findings from Schroders Capital's proprietary real estate market valuation framework

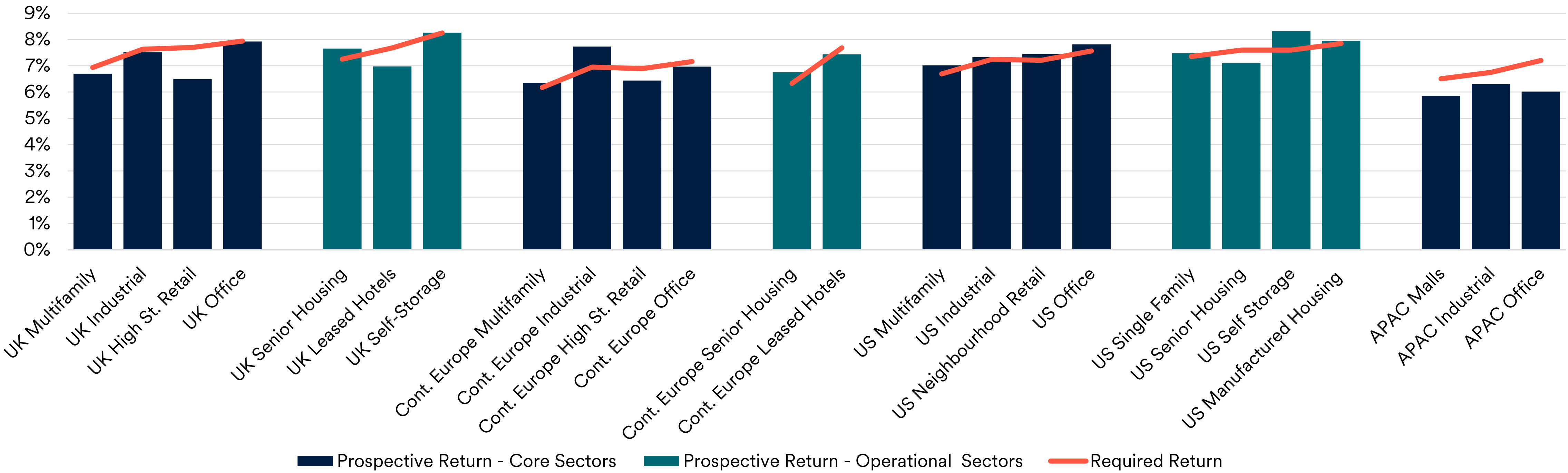
- We recognise that market repricing is ongoing and spotting a trough is a difficult task, but our proprietary market valuation framework indicates 2025 is set to be a compelling vintage for real estate investment.
- This framework assesses the prospects for stabilised income-producing institutional real estate globally across a range of sectors, and its findings are most applicable to core and core-plus real estate programmes.
- Tight supply conditions (due to higher construction and debt finance costs) continue to support rental income levels, and the scarcity of high-quality sustainability-certified space will fuel renewed rental growth, especially once economic growth in various regions rebounds.
- Should large-scale rebuilding programmes commence in many multiple parts of the globe presently afflicted by conflict, then further construction cost pressures may arise, in-turn triggering a meaningful cost-push impact on rental levels across sectors.
- Our market valuation framework continues to signal immediate opportunities in markets that have experienced the fastest repricing, such as the UK and Nordic region, followed by the US and other select Continental European markets. In the Asia-Pacific region, cyclical opportunities are available in markets that align with China's delayed recovery and/or offer alternatives in the nearshoring/friendshoring of supply chains.
- Given the broad-based repricing across sectors, we now view there to be more widespread value being signalled with less of a spread in relative and absolute values across market segmentations.
- Supported by elevated entry yields, grade A/prime offices meeting 'modern workplace' standards and able to service ever-increasing occupier requirements, now show value with tight supply pipelines for such building profiles providing the potential for growth.
- Owing to firm underlying fundamentals, the industrial sector continues to show attractive relative value on a global basis with likely lower levels of expected obsolescence owing to these assets' characteristics, creating positive cashflows profiles.
- A range of operational segments able to provide 'inflation pass-through' directly or indirectly show attractive value, with many being well-supported by favourable structural trends.

Source: Schroders Capital, March 2025. Sustainability-certified refers to assets that have achieved certification related to the buildings' sustainability performance. The forecast should be regarded as illustrative of trends. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

Global market valuation analysis

Long-term value identified across multiple sectors given the adjustments experienced to date

Major geography and sector average unleveraged prospective returns vs. required returns for sustainable grade-A/prime real estate profiles



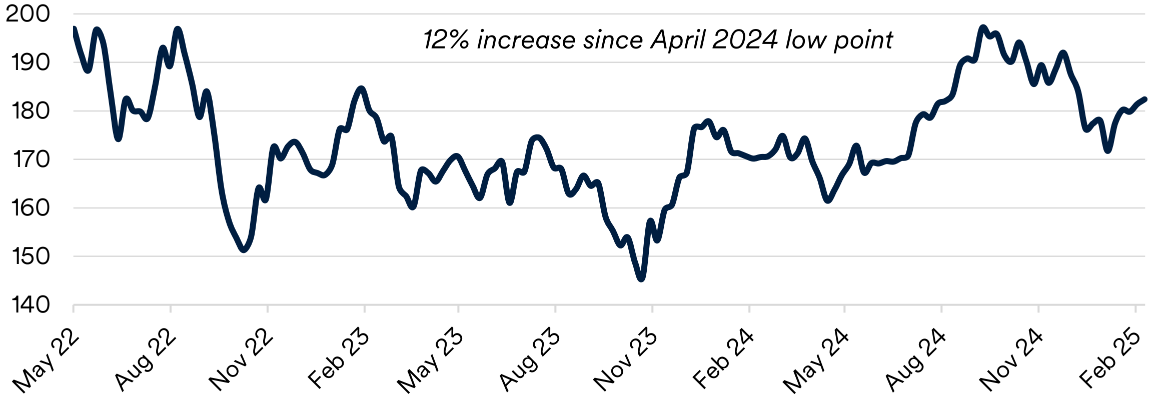
- Entry pricing underlying these prospective returns assessments are based on our investment teams' estimates of current transaction pricing levels, which have been stabilising in recent months given the extent of the repricing experienced to date.
- The required returns that are the key reference point are based on trend estimates for interest rates, predicated on higher-than-consensus estimates of long-term inflation. Thus, prospective returns at or above these levels can be considered as having adjusted to a higher rate environment.
- The industrial sector has repriced significantly and is continue to show attractive relative value on a global basis, with strong underlying fundamentals.

Source: Schroders Capital, March 2025. The forecast should be regarded as illustrative of trends. Actual figures will differ from forecasts. Prospective returns are hypothetical and are not guaranteed to be achieved. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

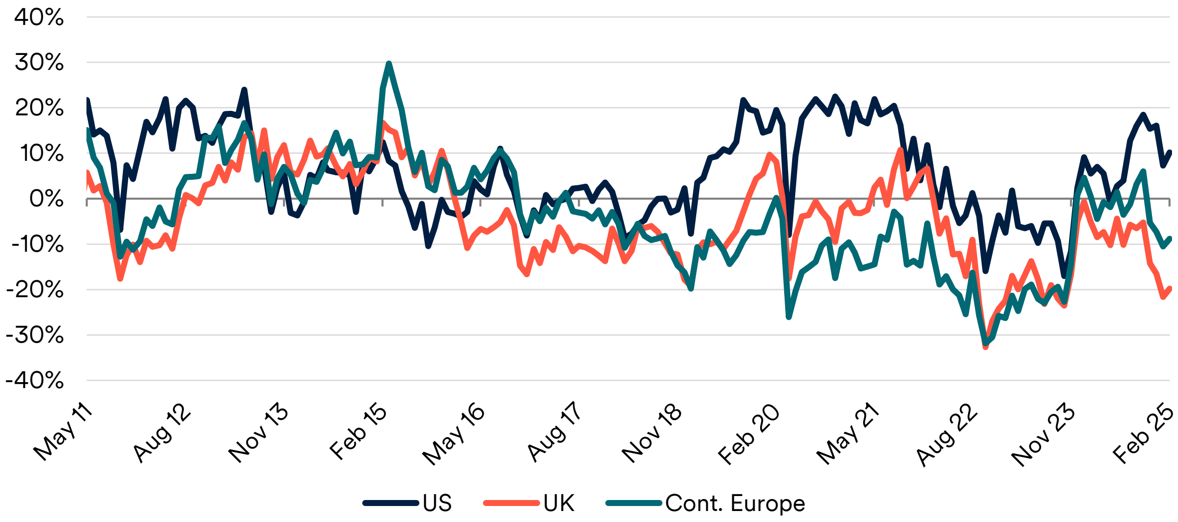
Publicly traded real estate equity implied pricing

Recent price movements have seen discounts to net asset values emerge

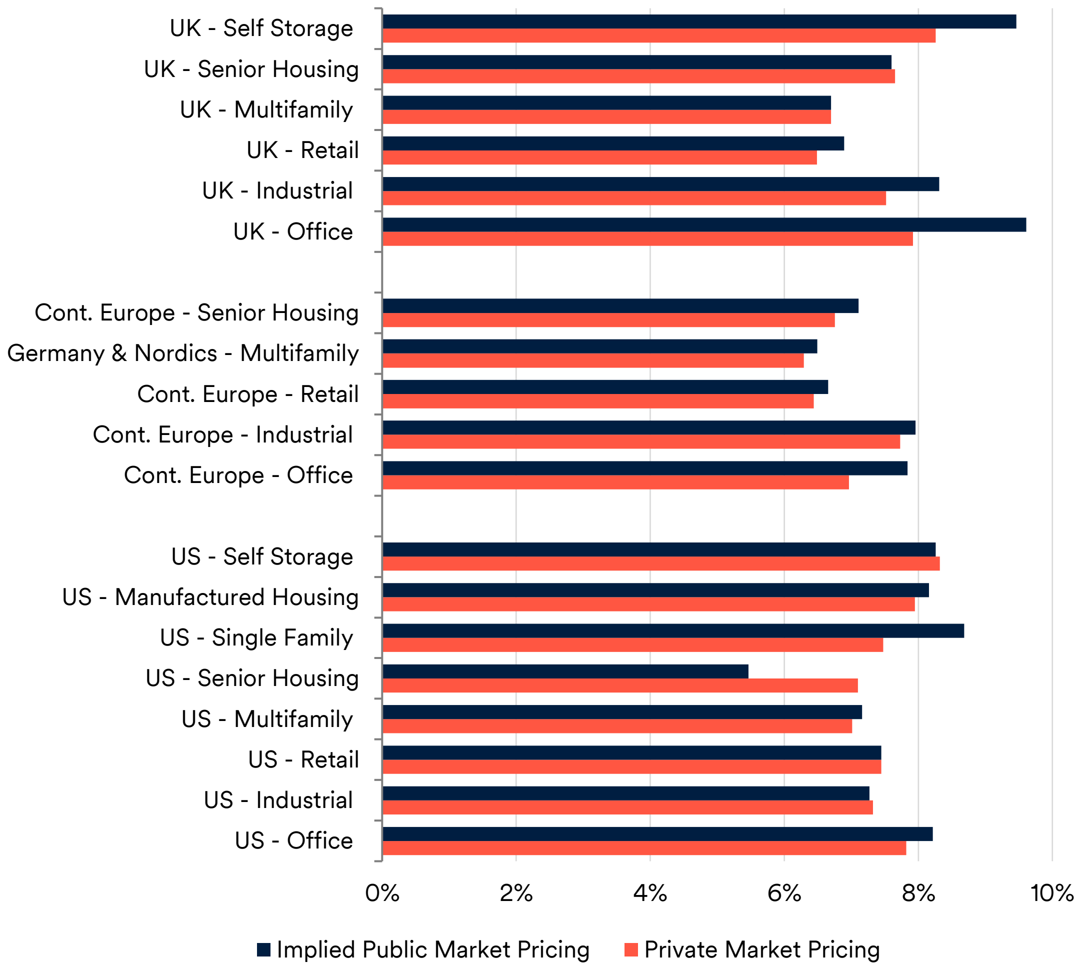
S&P global REIT price index sees strong recovery since spring 2024



Listed REIT market pricing vs. NAV



Private vs. implied public market pricing – unlevered prospective return



Source: Green Street Advisors, S&P, Schroders Capital, March 2025. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. The forecast should be regarded as illustrative of trends. Actual figures will differ from forecasts. Prospective returns are hypothetical and are not guaranteed to be achieved.

CONVICTION THEMES & PREFERRED STRATEGIES

Secular trends translating to strategies

Key structural trends are supportive of a variety of real estate sectors

Technology & the Knowledge Economy

The interface for "work" has shifted, consolidating value in those buildings that address specific needs and evolving tenant preferences, as industry sectors continue to evolve

- Select Office
- Life Sciences / R&D

Individualism & Deglobalisation

Individual preferences with regards to "work, live and play" have shifted in an also changed geopolitical landscape, deepening disparities in demand between and within related sectors

- Hospitality
- Micro-Living
- Urban Logistics
- Self-Storage

Demographic Shifts

Rapidly changing demographics, including ageing populations, further altering relative demand for various types of (affordable) living formats

- Multifamily
- Single Family
- Student Housing
- Senior Housing / Care

People, Places & Planet

Increased regulatory and industry standards demand a holistic approach to the creation of value for all stakeholders, including investors and communities

- Energy and amenity upgrades
- Regeneration
- Social Housing
- Medical Office

Source: Schroders Capital, March 2025. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes.

Current asset views

Preferred approach to portfolio strategy within defined investment parameters

- **Repricing experienced to date has brought more markets to the position of ‘fair’ or ‘better value’** – and we anticipate 2025 being a strong investment vintage for deployment into private real estate investments.
- Given the extent of the revaluations experienced our view is that **investors should position themselves on the front foot to prioritize opportunities according to a ‘sequential playbook’ with an ordering of focus across markets, thematic opportunities and investment structures** where relative value is most evident, whether steadier capital market dislocation and/or relative value adjustment.
- **Evidence has emerged of positive repricing and improving sentiment**, which is starting to translate into favourable valuation adjustments, for example in the UK industrial sector, which bodes well for many developed markets. Stubbornly high borrowing rates have the potential to curtail this dynamic in the coming quarter.
- We continue to not anticipate a ‘v-shaped’ recovery materialising; rather a **steadier improvement in performance** is predicated on combinations of higher income returns, rental income growth through explicit and indirect inflation linkage, and operational management.
- Our current convictions are as follows:
  - Our preferred portfolio positioning is evolving and shifting to a **more neutral stance across sectors**. This is owing to greater visibility on ‘rental floors’ within the retail and office sectors, as well as the elevated yields available for future-proofed assets.
  - More broadly, **we expect asset and location considerations, for example sustainability profiles, to have a greater influence on performance going forward** relative to recent years, which saw sector performance divergence at record levels.
  - We retain **strong conviction and overweight positioning to the industrial/logistics sector**, given the extent of repricing thus far and positive demand dynamics related to the impact of near-shoring benefitting larger facilities, and ‘just-in-case/time’ distribution benefitting facilities close to urban areas. Relatively low physical obsolescence risks support cashflows.
  - **Positive view on living and other more operational segments** able to provide long-term resilient cashflows, with development, change of use and aggregation-led growth strategies particularly favourable in these segments.
- Given a constrained development pipeline, we see a **specific cyclical opportunity to upgrade buildings to modern fit-for-purpose use, with an enhanced focus on sustainability**. This is pertinent given the prevailing limited availability of debt capital, increasing regulatory pressure and shifting occupier preferences. Whilst this initially has a European bias, we see this opportunity broadening across key global real estate markets, despite the current rhetoric emanating from the US.
- **Advantageous pricing remains for private real estate secondaries and recapitalisations** encompassing the provision of capital solutions to existing funds, companies and portfolios. We are observing an increasing opportunity set from stress situations (from loans and/or vehicles) arising that can be addressed.

Source: Schroders Capital, March 2025. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

Global income-focused current asset views

Sectors	North America	Europe	Asia Pacific
Future Workplaces	• Sunbelt and non-gateway CBD markets with sustainability profile and micro location amenities key • Life science sector burdened by oversupply and demand shortfalls	• Flexible assets with sustainability-certifications and amenity rich, in A locations within major metropolitan and select regional city CBD locations	• Brown-to-green strategies in office space to capture flight-to-quality trends • Japan focus given demand-supply dynamics and lower rate environment
Ecommerce & Tech Winners	• Repriced distribution facilities in high-barrier-to-entry coastal markets • Urban logistic formats in densely populated metropolitan areas	• Multi and single-let light industrial asset aggregation to capture yield premia • Last-mile distribution benefitting from urbanisation trends • Indoor and outdoor storage formats in select markets	• High-quality industrial assets in Australia, and Japan boosted by favourable structural tailwinds and infrastructure improvements
Living – Demographic Winners	• Mid-market urban and suburban multifamily poised for growth as current supply is absorbed • More supply constrained manufactured housing provides for strong growth dynamic • Student housing in major college locations	• Undersupplied affordable and mid-market rental housing not subject to rental regulations • Senior and student accommodation on a repriced basis • Emerging single-family markets and formats	• Multifamily in Australia and both multifamily and living conversion projects in Japan • Alternative living strategies including corporate accommodation in mainland China and co-living/student housing product in Hong Kong
Ecommerce Challenged	• Neighbourhood or community centres providing grocery and essential retail • Supply challenges remain in other formats	• Convenience and grocery-anchored formats providing inflation-linked cashflows • Prime/top-tier city high-street destinations benefitting from tourism trends	• Repriced retail assets in Hong Kong where recentralisation trends are observed
Hospitality	• Limited service and luxury formats preferred	• Leased and stabilised operating hotels in main destination locations providing inflation-linked income streams and/or exposure to operating profit	• Repriced hotels in Hong Kong positioned for improved inbound tourism and resort opportunities in Japan
Other Social Impact & Operational Winners	• Medical office • Hyperscale data centers where demand is far outstripping prevailing undersupply	• Modern purpose-built social housing • Select primary and secondary healthcare	• Opportunity-driven healthcare, retirement living and affordable housing format in select markets. JVs with operators being targeted

Preferred strategies within each major region & sector: Low Allocation Neutral Allocation High Allocation

Sources: Schroders Capital, March 2025. Brown-to-green refers to strategies seeking to redevelop or transform real estate assets, into modern sustainability-certified space. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

Preferred global growth strategies

Value add & operational real estate strategies attractive in compelling upcoming vintages

	North America	Europe	Asia Pacific
Structural demand-driven opportunities	• Acquisition of repriced industrial and logistics assets. Development and portfolio aggregation opportunities available • Data centre capacity is in short-supply and as a result there is a substantial development funding opportunity for sizeable hyperscale deployments • Student housing offers higher yielding opportunities coupled with a robust growth outlook owing to growing demand coupled with more limited supply • Medical office assets providing high and resilient cash-on-cash yield with ability to garner elevated development yield premia	• Sustainability led upgrading of well-located workspaces in supply-constrained major cities and regional CBDs, capitalising upon a projected supply shortfall for such space • Capitalising on industrial sector repricing through capturing rental reversion, transition-led refurbishments, expansion and/or attractively priced development funding solutions • Consolidation and aggregation of self-storage and other storage formats and/or access via platform opportunities • Capitalize upon a shortage of powered-land through land development in Tier 2 and emerging locations where AI usage is viable	• Brown-to-green strategies as both occupiers and investors goals start to impact • Multifamily housing capturing strong migration and urbanisation trends in Japan, mainland China and Australia • Arbitrage opportunities through corporate entities as these vehicles seek to exit assets incl. real estate due to succession planning in Japan • Alternative living formats capitalising upon rental upside potential e.g. Japanese multifamily to partial hospitality use and co-living properties in major cities across Asia
Cyclical opportunities	• Provision of high-yield debt and liquidity solutions for new acquisitions, refinancings and recapitalisations to strong operators through assets, platforms and other entities • Development of affordable mid-market multifamily in growth markets structured as preferred equity/junior debt to protect downside • High yield private real estate debt opportunities capitalising upon funding gaps emerging from asset revaluations alongside market and regulatory constraints facing traditional bank lenders	• Operating hotels where repositioning/ restructuring of operations and/or completion of stabilization activities drive value creation • Provision of liquidity solutions for acquisitions, refinancings and recapitalisations to strong operators through assets, platforms and other entities • Development and aggregation of age-restricted, senior and student housing or access via platform acquisition • Regeneration of selective urban centres through development and repurposing of dated overprovisioned retail and/or office stock	• Distress-led opportunities in Hong Kong where existing assets have repriced significantly • Rescue capital, buyout situations and/or capital solution opportunities in markets in the region that are exposed to distress • Recapitalisation opportunities in mainland China and Hong Kong from investment vehicles reaching maturity at a time of market disruption • Development lending opportunities in Australia against residential and industrial projects provide for elevated double-digit coupons in well protected positions

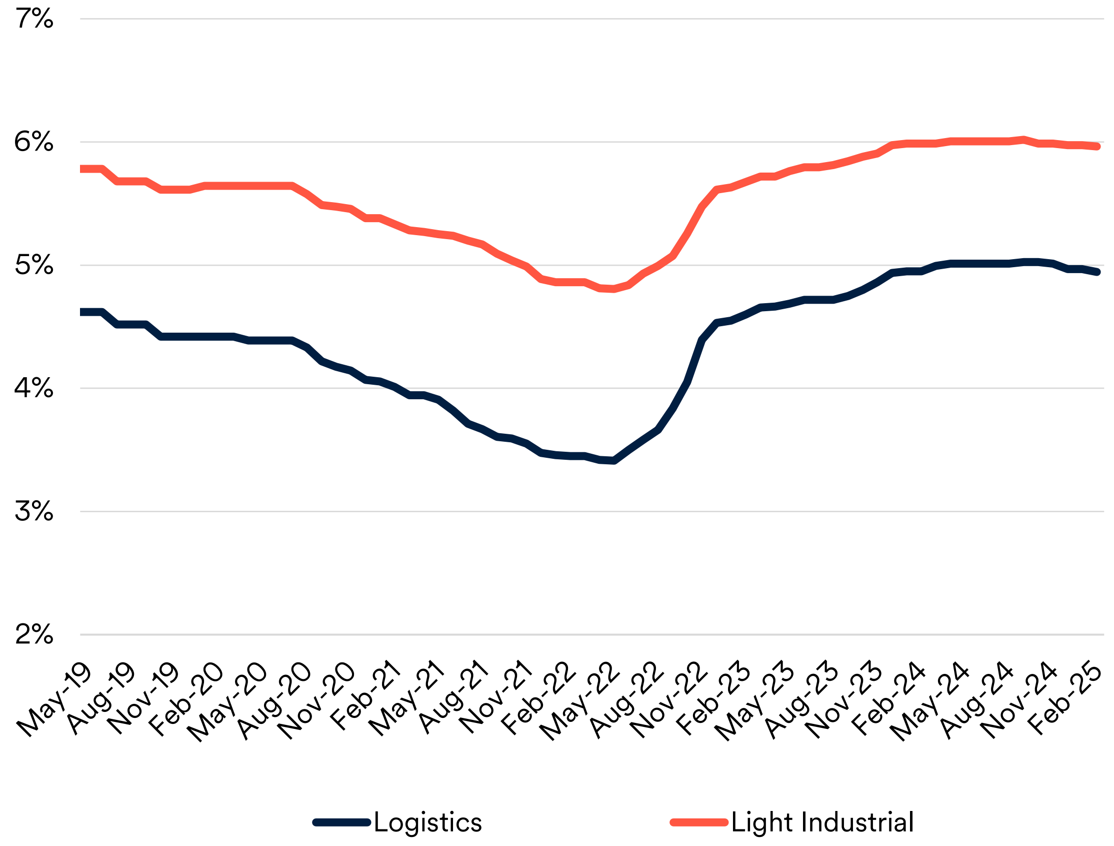
Source: Schroders Capital, March 2025. Brown-to-green refers to strategies seeking to redevelop or transform real estate assets, into modern sustainability-certified space. The views shared are those of Schroders Capital and are subject to change. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

Light industrial is not light on income

Debt financing currently accretive to paid income returns in European light industrial strategies

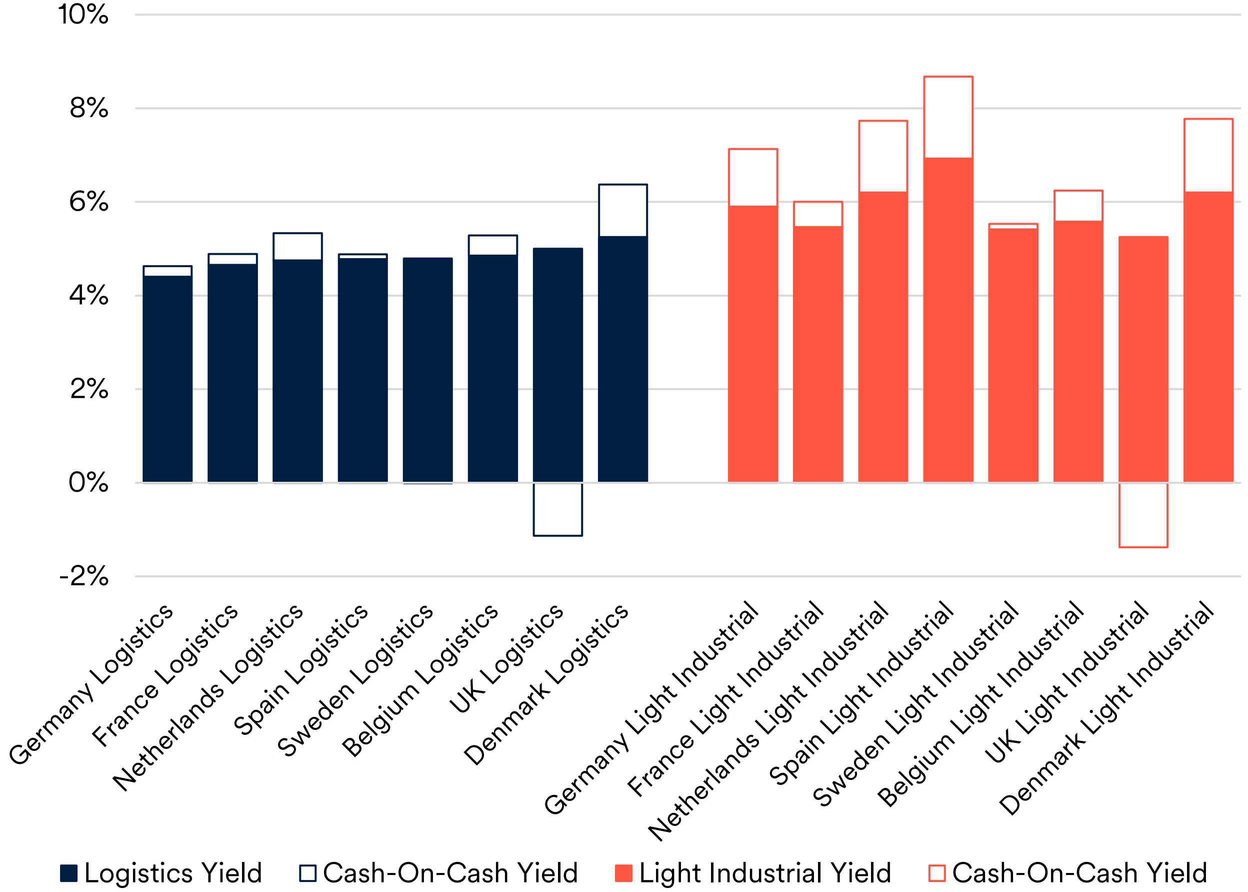
Prime yields (%): Logistics and light industrial

*Unweighted European averages**



Prime yields and estimated levered (50% LTV) cash-on-cash yields

Assuming prevailing debt finance costs for a five-year commercial real estate mortgage on a pre-tax and fee basis



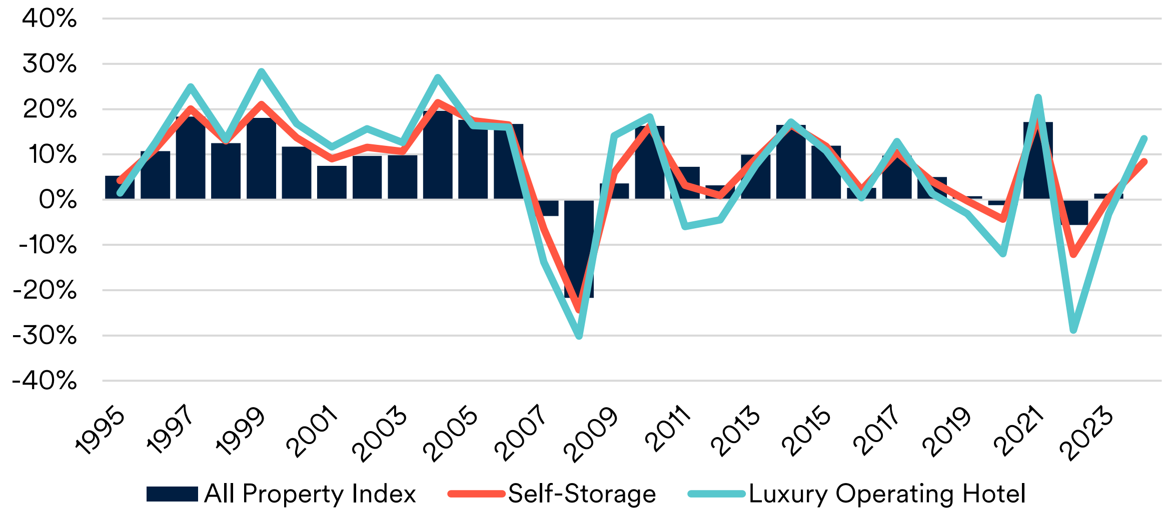
Source: CBRE, Schroders Capital, March 2025 *Unweighted averages for Belgium, Denmark, France, Germany, Netherlands, Spain, Sweden and UK. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

Operational real estate risk-return estimates for stabilised formats

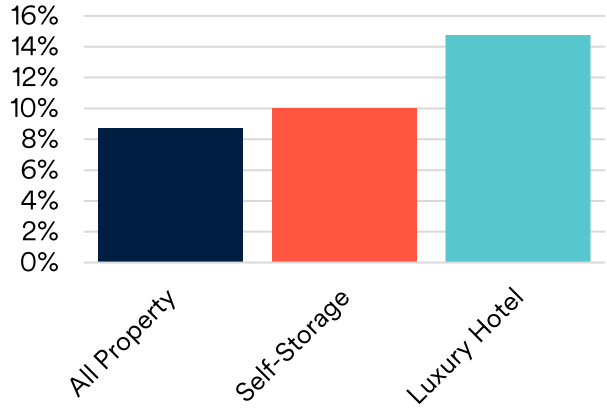
Simulation exercise employed to estimate the risk-return profile resulting from operating models

- As operational real estate types continue to comprise a growing share of portfolios, investor need to better understand their risk-return attributes
- This would inform key metrics such as required returns and allocation considerations such as whether they should be incorporated into core or non-core components
- We have employed a simulation exercise by modelling the MSCI Annual UK Index to consider two operational real estate formats. In both cases a stabilised asset profile is assumed at the start of 1995 which the modelled resulting income (EBITDA) profile driven by assumed operating margins, fixed vs variable cost splits and fixed costs growing in-line with CPI
- For self storage, the assumed operating margin is 63% and 30% for luxury hotels, with fixed-costs representing over 75% of total in both instances
- Market rental growth and occupancy movements are assumed, so it is the operational cost structure which drives the variability of income. The historic relationship between income and yield volatilities is used to derive accompany yield shift volatility vs market
- The tighter profit margin for luxury hotels drives simulated historic volatility to 15% versus 9%, and a market beta of 1.5x on an unlevered basis. Equivalent estimates for stabilised self storage are 10% and 1.2x respectively
- The use of financial leverage and the degree of stabilisation will further impact these risk estimates for defined strategies

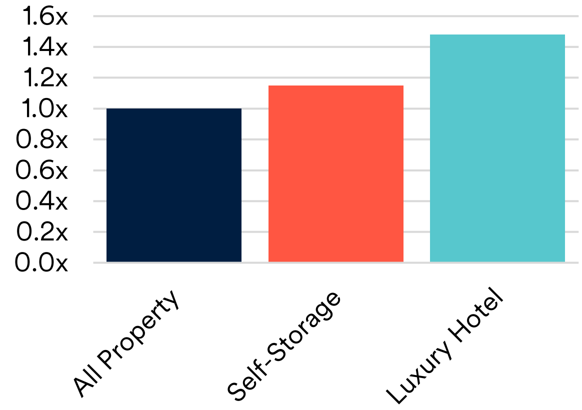
Unlevered annual total returns: All property & operational real estate formats



Actual and simulated volatility



Estimated operational segment beta



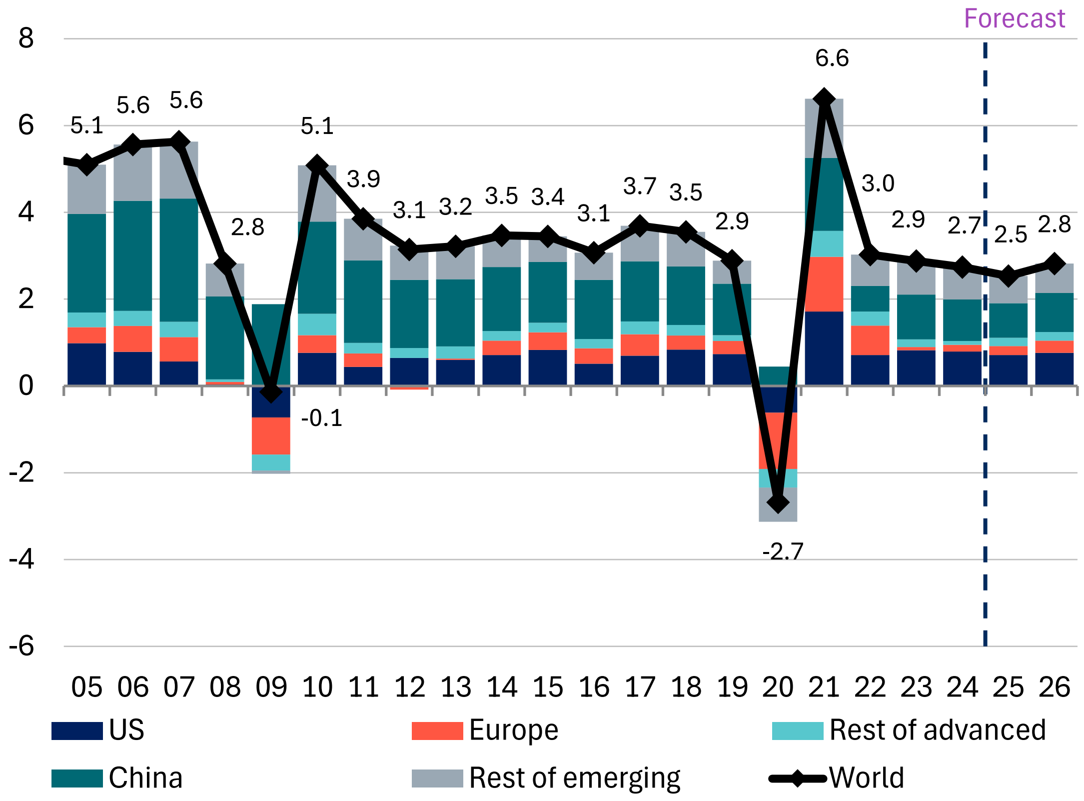
Source: MSCI, Schroders Capital, March 2025. Estimates calculated using a UK MSCI Annual Property Index simulation exercise

MACROECONOMIC ENVIRONMENT

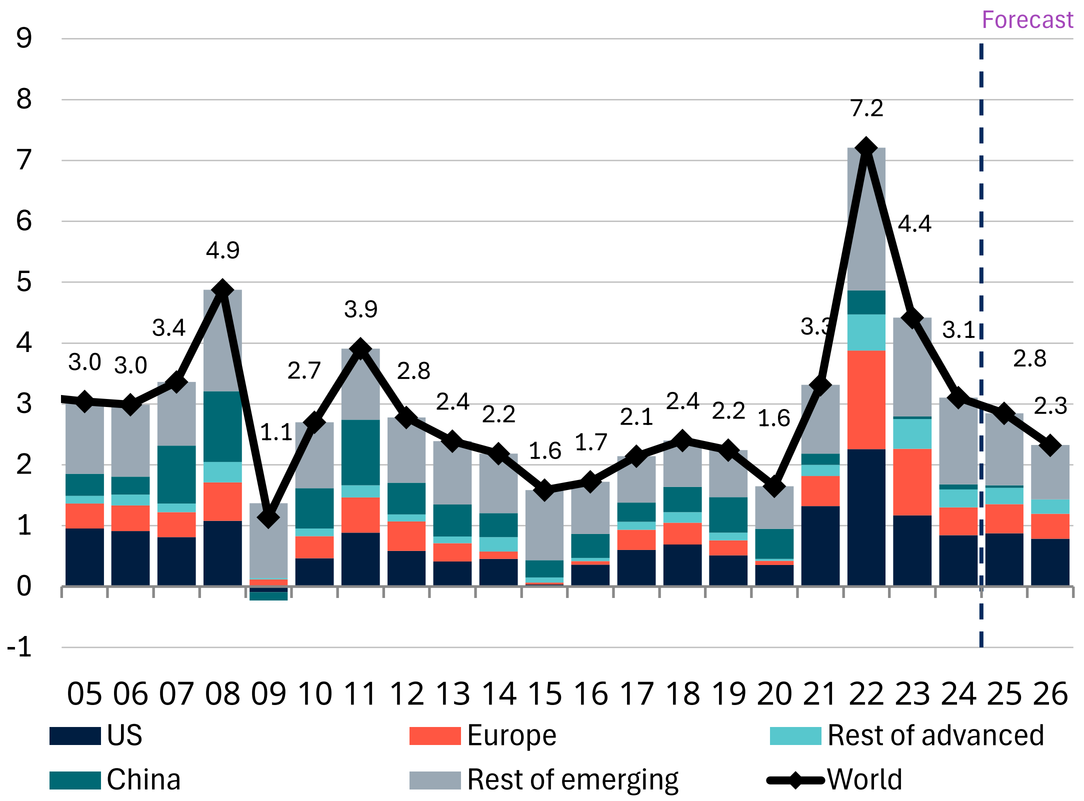
Global growth to set to remain at 2.5-3% over 2025/26

Inflation remains elevated, particularly in developed markets

Contributions to World GDP growth (y/y)



Contributions to World inflation (y/y)

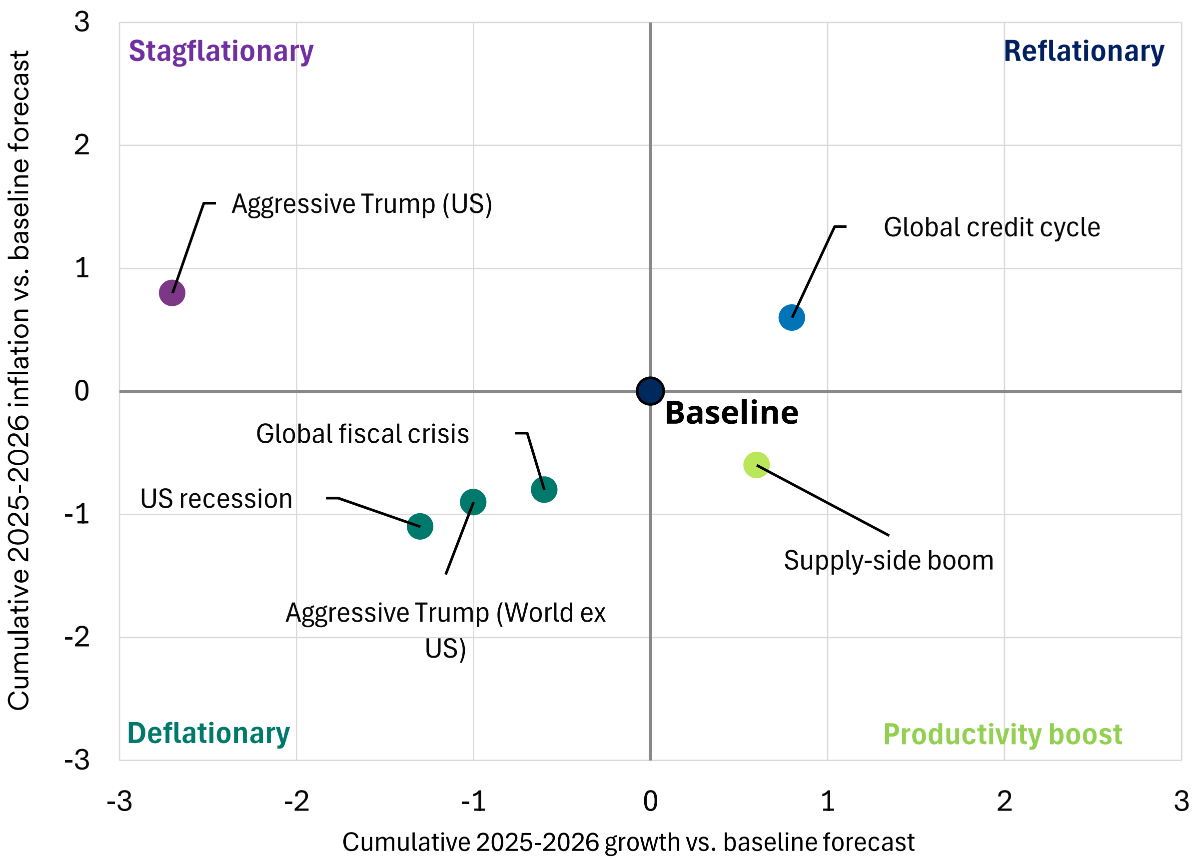


Source: Schroders Economics Group, 14 February 2025. The forecast should be regarded as illustrative of trends. Actual figures will differ from forecasts.

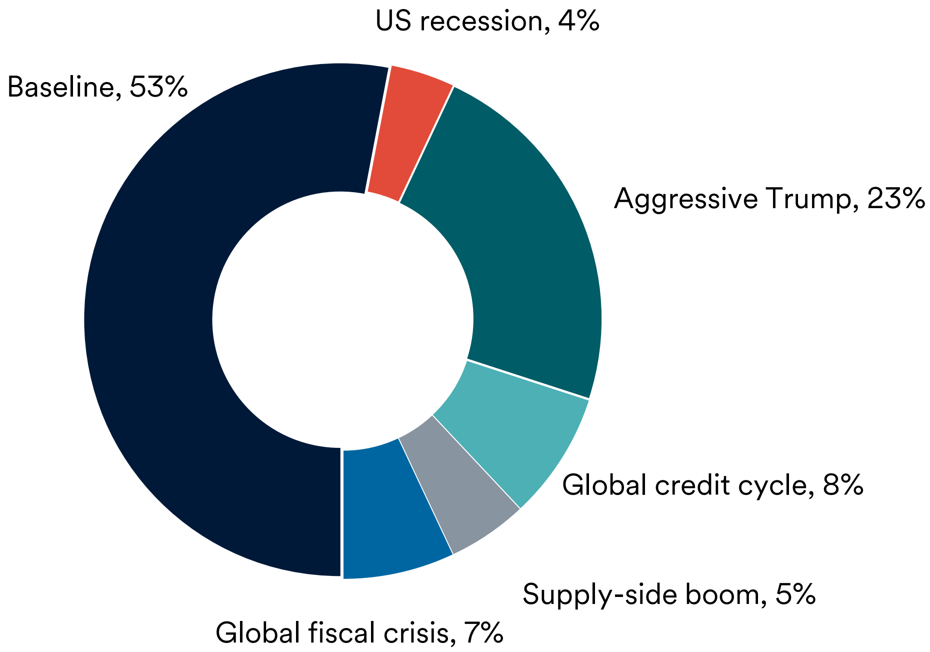
What are the key risks to our baseline forecast ?

Aggressive Trump scenario seen as biggest risk – diverging prospects for US and rest of world

Scenario impact on growth and inflation



Scenario probabilities*



Source: Schroders Economics Group. 14 February 2025. *Scenario probabilities are based on mutually exclusive scenarios. These views should not be interpreted as investment guidance or a guarantee of any investment outcomes. Shown for illustrative purposes only. There is no guarantee these scenarios will occur or lead to favourable investment opportunities.

Kieran Farrelly
Chief Investment Officer & Head of Solutions, Real Estate
kieran.farrelly@schroders.com
+44 207 658 5733

Schroder Real Estate Investment Management Limited
1 London Wall Place
London EC2Y 5AU

www.schroderscapital.com

BUILDING CHANGE

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Prospective investors should be aware of the associated risks and special factors of the Real Estate asset class which are not related to investments in traditional listed instruments. Attention is drawn to the following specific risks:

Credit risk	A decline in the financial health of an issuer could cause the value of its bonds, loans or other debt instruments to fall or become worthless.
Currency risk	The Fund may lose value as a result of movements in foreign exchange rates.
Interest rate risk	The Fund may lose value as a direct result of interest rate changes.
Liquidity risk	The Fund is investing in illiquid instruments. Illiquidity increases the risks that the fund will be unable to sell its holdings in a timely manner in order to meet its financial obligations at a given point in time. It may also mean that there could be delays in investing committed capital into the asset class.
Market risk	The value of investments can go up and down and an investor may not get back the amount initially invested.
Operational risk	Operational processes, including those related to the safekeeping of assets, may fail. This June result in losses to the fund.
Performance risk	Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.
Property development risk	The Fund may invest in property development which may be subject to risks including, risks relating to planning and other regulatory approvals, the cost and timely completion of construction, general market and letting risk, and the availability of both construction and permanent financing on favourable terms.
Real estate and property risk	Real estate investments are subject to a variety of risk conditions such as economic conditions, changes in laws (e.g. environmental and zoning) and other influences on the market.

Source: Schroders Capital, 2025.

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