

The Weekly Take

Do the Evolution: What's up with U.K. REITs

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Spencer Levy

Real estate as a publicly traded investment vehicle is nothing new in the U.S. In other countries, however, this enterprise – the REITs industry – is notably less mature, yet growing. On this episode, we explore the REITs market in the United Kingdom with all its emerging complexity and opportunities.

Andrew Jones

There are an awful lot of real estate companies in the UK that look at REITs as just a tax structure which they can carry on historic and legacy strategies.

Spencer Levy

That's Andrew Jones, the CEO of London Metric Property, the REIT that went public in 2007 and today is worth just under 7.5 billion pounds sterling, about 10 billion U.S. dollars. The firm's current portfolio is mostly in urban logistics but also has diversified holdings in convenience retail, grocery, retail, and entertainment and leisure.

Franco Sidoli

It's becoming more normal to be sectorized. Personally, I do quite like the idea of diversification in terms of use because you've got some sort of hedge against different market fluctuations. But the investors do seem to like sectorized business.

Spencer Levy

And that's Franco Sidoli, a CBRE Executive Director who advises on capital markets activities across most commercial sectors. Franco has worked with the company since 2012, after CBRE acquired Franc Warwick Chartered Surveyors, the UK investment firm he co-founded in the 1980s. Coming up, REITs on the rise in Great Britain. We head to CBRE's London office in Henrietta House to get an investor's eye view across sectors, to learn what's different from their REIT counterparts here in the U.S. We'll talk about appetites for risk, investing with leverage versus using your own money – that is, what the Brits call “geared” versus “ungeared” capital. We'll find out where the pounds are flowing into UK real estate. I'm Spencer Levy and that's right now on The Weekly Take.

Spencer Levy

Welcome to The Weekly Take and welcome back to London on The Weekly Take. And we are delighted to talk about real estate and REITs specifically. And we are honored to have Andrew Jones, CEO of London Metric with us here today. Andrew, thanks for coming out.

Andrew Jones

Oh, you're very welcome. It's a great honor.

Spencer Levy

Great to have you here. And we have our very own Franco Sidoli, Executive Vice President of CBRE. So thanks for comin' out.

Franco Sidoli

You're welcome, thank you.

Spencer Levy

Andrew, one of the things we wanted to talk today is REITs, and why REIT's in the UK and where they should go. What's your point of view?

Andrew Jones

REITS in the UK actually only came on line in January 2007. And it's interesting because that was the same year that Apple introduced their first iPhone. Now Apple have just launched their 17th version. I think REITs in the UK might be at version 2 since 2007. That's 18 years in which to progress. And there are a number of reasons for that, partly because the introduction of REITs, the tax regime in the U.K. was quickly followed by the global financial crisis and what transpired after that. I think that today the embodiment of what a REIT was designed to do is getting a little bit more traction than it has done previously. But there are an awful lot of real estate companies in the UK that look at REITs as just a tax structure which they can carry on historic and legacy strategies. The U.S., for example, has matured further, partly because it's been around longer. For example, we badge ourselves as the UK's leading triple-net REIT. We could say we're probably the only triple-net REIT. We value income both in terms of the reliability, the predictability, but also the positive trajectory that it can give you extremely highly. And we think that contributes to your total return model as opposed to just a developer trader or an aggregator or a portfolio buy wholesale, sell retail.

Spencer Levy

What kind of total return are you trying to give to investors?

Andrew Jones

When we look at a real estate opportunity, I start with an ungeared total return around about nine. And that can be made up of a six income, three capital growth on an ungeared basis, it could be a five and a half, three and a half. It's unlikely to be a four and a five, but partly because of elevated costs of debt would mean that your deficit funding on the income yield. And then you're looking for growth and there's two types of growth. Really, there's the organic rental growth that comes through a rising market, particularly if you're in sectors that are enjoying a structural tailwind, or there's a contractual growth that comes through by having index linked reviews every year every five years. So that'll get you year nine. And we can aim off that depending upon how much risk I'm taking, what geography I might be in lease length, capex, as well as the big thing that people try to forget about. So that's what you're looking for. Then you put on some gearing, but you then have to take off some costs of operation. So our seven is a dividend yield. Our earnings yield will be nearer eight. It's about 7.8. We're pretty much on target for that. And our shares would trade – I know it's not a U.S. thing, but NAV, which the UK market seems obsessed about – we would trade it at the moment with just under about a 10% discount and that's probably the tightest there is in the sector.

Franco Sidoli

The investors buy into the London Metric story, I think, as well, because they get their continual growth in income. They like the tight management team, in terms of investors I talked to about the business. They got a very tight, very good team. And I think when you go down the intensive asset management strategy, as has been proven over the last 15 years really, you can get four out of five things right in the equation and one thing goes

wrong be it your capex or your exit yield. And suddenly your returns blow up. So to have a balance between the long-term income with fixed up this and some active asset management is a good combination.

Spencer Levy

Speaking of combination as a good transition word, most REITs in the United States are one-trick ponies. We do industrial. We do office. We do residential. Now there are triple-net REITS in the U.S. that have multiple asset classes, but it's unusual. It's unusual. But here, Franco, given your expertise that you do everything but residential, is that unusual here that you have diversified either REITs or other types of investment vehicles?

Franco Sidoli

There was a day where most public companies were multidisciplined and then it started to change. So you had the likes of Hammerson PLC, for example, that had a strategy of London offices and retail, and they were encouraged by their shareholder base to go down one route, they chose retail and they divested themselves of their office portfolio. SEGRO have become a bit of a category killer within the industrial space. So it's becoming more normal to be sectorized. Personally, I do quite like the idea of diversification in terms of use because you've got some sort of hedge against different market fluctuations. But the investors do seem to like sectorized businesses.

Andrew Jones

Yeah, I think the market gets a bee in its bonnet and says, you've got to get down this week. But we were at one stage, we were nearly three-quarter of our portfolios were logistics. And a lot of U.S. investors would say, well, Andrew, why didn't you just sell the remaining quarter? But to Franco's point, markets move around, sectors are in favor that maybe other sectors come in. I mean, I started my career off in shopping malls. And thankfully, we're not in those anymore. And you think about macro trends, you think about technology, how that has influenced lives, how it influences how we behave and how we interact with friends, or we travel to work or where we work or how we shop. You know, all of a sudden, the biggest tailwind that the logistics market has enjoyed is obviously this massive move from physical to online shopping. I was studying Next. Next is our biggest fashion retailer and probably our highest regarded and highest rated. Nearly 45% of their sales now are online. That only works if you have an efficient logistics infrastructure. And they make money. Next make hundreds of millions online. And so therefore we pivoted into warehousing. I had never bought a warehouse before 2013. And there's no coincidence coming from a retail backdrop that the first ten warehouses we bought at London Metric were all let to retailers because they're the only people I trusted. Obviously every agent said it was a brilliant warehouse. But the occupiers – they were the people I trusted: Is this a good warehouse? Does it work for you? Is it fit for purpose? Do you have high occupier contentment? So whether or not we bought Next warehouses, Marks & Spencer's, Primark, Superdrug, Bowden, Currys, DFS, Furniture Village. That's what we did.

Spencer Levy

You were essentially in the retail business.

Andrew Jones

Yeah.

Spencer Levy

And in fact, CBRE, we merged our industrial and retail research practices for precisely that reason.

Andrew Jones

It's the same customer. There was a fashion brand that's no longer with us I remember trying to lease some vacant shops that we had in our portfolio and it's like Andrew look we have 2,000 shops but warehousing is what we really would like to try and improve on.

Spencer Levy

So, Franco, you disagreed with the comment that retail's a bad place to be. I happen to be with you on this one because replacement costs, you can't do it. People have adjusted. There are some retailers, like Primark, based here in the UK that does not sell on the internet. So I think it's a great place to, not just for those reasons, but also because we've seen so many investors cycle out of office. What do you think?

Franco Sidoli

Yeah, I think that obviously the retail sector went through a massive restructuring, which I kind of think went beyond what was expected. And the outturn now is that you've got on a risk-adjusted basis the retail warehouse market in the UK delivers good yield, decent lease length, and occupation is at the lowest vacancy level for many, many years of doing very well. And what we've seen over the last 12 to 18 months is there is actually some liquidity now in large shopping centers – more liquidity than there has been probably for any time over the last five or six years.

Andrew Jones

I think the bit of retail that we do like, and this is the danger of the generalists, is if it's retail, it's always been bad, which is not true. And if it is logistics, it has always been great, which also is not true. And the parts of retail we like: We like grocery. We like particularly convenience grocery. We like discount, standalone, triple-net discount stores. Maybe not trading quite as well over in the U.S. than it is over here, you know, your Dollar General. And the other thing we like is fast service restaurants

Spencer Levy

It's really interesting that you mentioned restaurants, Andrew, because I would say that restaurants as a tenant in retail were disfavored for years. And the reason why is they're expensive to put in. They have externalities in terms of smells, in terms of alcohol, parking, all that stuff became a problem. I would say traditionally, those would be considered higher risk assets. Why do you consider them to be in the same category as your industrial assets?

Andrew Jones

This comes back to what I touched on earlier, Spencer, which is how consumer behavior is evolving, you know, accelerated through technology. Online works because of technology and an efficient logistics network. Convenience grocery today is working because people are time poor. It should take you no more than half an hour to do your weekly grocery shop. We don't need these big 100,000 square foot grocery stores. You know, it's not an experience. The next generation don't want to do that. They want to spend their disposable money, not buying another navy gilet or buying another quarter zip. They want to spend it with their friends entertaining or fulfillment – whether or not it's a music concert, whether or not it's going to watch football matches, whether or not it's doing a city break, whether or not it's going away for a weekend in the country. And so, if we think about the amount of disposable income, and America's led this: You go back 50 years. Two-thirds of

disposable income was spent on what we call general merchandise, apparel, either for yourself or your home. That is about a third now. And you've seen a corresponding allocation of disposable income into entertainment and hospitality. I mean when we go to America, there are a lot of things that are a lot cheaper than they are here. Not as many as they used to be. But you want to go to a sports game in America, I mean that is 10 times what it costs Franco and I to go to a football game over here.

Franco Sidoli

Even Craven Cottage

Andrew Jones

Even Craven Cottage. But that's the point, it's how people are behaving. Think about the macro trends that are taking place. Time is a more valuable commodity today than it was for our parents or our grandparents' generation. That's why when you order something online, telling me it's gonna be with me on Friday is just not good enough. I want it to be with me at five o'clock this afternoon. Dragging your children around a big grocery store for an hour and a half up and down 44 different aisles, you're not gonna do it. I mean, unfortunately, I used to be dragged around by my mother, but that's not gonna happen. People value their time and their experiences more.

Spencer Levy

Franco, let's go back now for just a moment. I made the comment to Andrew that some of his asset types I would consider to be riskier. He said, no, because of changes in consumer behavior, maybe they're not as risky. What do you think?

Franco Sidoli

I think generally what he's saying is right. I mean, on the restaurant point you made before, the fact is people do go out and eat more often than they used to years ago. They used to go out once a week now and go to most suburban London places, people are eating out two, three, four times a week. So there's definitely been a shift in the way people spend their leisure time.

Spencer Levy

Well, I think there's a key question here, and I think this goes back to being a triple-net REIT versus being somebody who is not triple-net. And it comes down to operational excellence, operational efficiency. Basically, how much are you just collecting a rent check versus actually running the assets? And there's huge debate right now in the business about one end of the spectrum or the other. Where are you, Andrew?

Andrew Jones

Yeah, I mean, just quickly on the restaurant business. We are in drive-throughs. Again, that time is a valuable commodity piece. And don't forget, our drive-through offerings compared to what you get in most U.S. cities is woeful. You know, where do you think Deliveroo and Uber Eats fulfill their orders? That's where they're going. In terms of operational v triple-net, we just don't see the excessive returns available in operational real estate for the additional costs you take on board. Everybody tells you about their successful development or successful asset management initiatives. They say success has many fathers; failure or disappointment is an orphan. And for all those successful deals that everybody or transactions people want to talk to you about, there's something else that has blown your overall return. And I think we can reduce those risks with a triple-net operation.

Franco Sidoli

Well, look at what happened during COVID, for example. I mean, obviously, once in a generation event and hopefully never again. But if you look at the investors that own triple-net leases on long income, long leases, they got paid out during COVID. Maybe not on the day. Maybe it was delayed. Maybe they had to cut a deal to help the tenant to get through it. They got paid out in full provided the tenant was at least tenant trading well. The guys who were in the operational piece there suffered big holes in their cash flows. Never know about money and never can never get the money back so that's the extreme example of what can blow you up.

Andrew Jones

But by the way, if I'm an equity investor, I think you can buy both. I mean, we haven't got on to offices, which, you know, I've often referred to as melting ice cubes. You buy an asset that for us, it'll be an income compounding machine, okay, that you could go and buy shares in a London office developer like Great Portland, who do a brilliant job. They create phenomenal, phenomenal product, but it's a different type of return. You know that our dividend is going to pay your overhead. You know it's going to put food on the table. You know it's going to pay for your next holiday. But actually, if you want a new car, you might take a gamble on an office turnaround. Or even riskier, you might want to buy a shopping mall.

Spencer Levy

Franco, you suggested that the capital markets have been slogging through the last couple of years, in large part because interest rates have stayed a lot higher for a lot longer. We have macroeconomic concerns, shocks, tariffs, things like that. But what we've seen in the United States is of a similar dynamic, okay, similar dynamic of the last few years have been tough, deal volume has been down, same kinds of shocks. But I think now is the time we're seeing certain types of investors exploit that rather than use it as a disadvantage. So specifically in the U.S., I'm seeing a lot of our high net worth investors exploit it while some of the traditional institutions are sitting on the sidelines. What are you seeing here?

Franco Sidoli

To a certain extent, that is the case as well. Unfortunately we've got a budget coming up in the UK. I had hoped it was going to be in October because it could have been either October or November unhelpfully is going to be the end of November, which is not going to leave an awful lot of time left to do any transactions before the year end. That is a further break on investor sentiment right now. But against that backdrop, you're right. We are seeing people make bids, some hotspots of value pricing, others are trying to be opportunistic. But my sense is at the moment there's actually quite a lot of transactions in the UK market under offer. So if things go well, we could have a big Q4.

Andrew Jones

One part of the market that is very, very buoyant is the smaller lot sizes.

Spencer Levy

How do you define smaller here?

Andrew Jones

Probably less than twenty.

Franco Sidoli

About twenty.

Andrew Jones

Yeah, 20 million sterling

Franco Sidoli

Two to 20 I'd say.

Andrew Jones

Yeah, and that is because debt's just not a bigger issue. It's not such an issue. And therefore, whether or not you're selling to opportunistic buyers, maybe who are experts in a particular region, whether or not you're sending to owner-occupiers or family offices and family trusts, I would say that we did, I think, 72 transactions last year, separate sale transactions. And our average lot size was less than five million. We did 300 – just under 350 million – across 72 transactions.

Franco Sidoli

I mean, the average lot size of commercial real estate generally is about 33 million. So that makes the point of how small they've gone.

Spencer Levy

What I saw in the U.S. Until nine months ago, it was all high net worth folks, but the institutions are now coming back, including, and I'm going to be direct, offices because they think that the pendulum has swung too far. You can get great offices and great sub-markets, and so some of the big-name institutions coming back

Franco Sidoli

We're agreeing on too much, I agree with you, 100%. He doesn't.

Andrew Jones

Look, hope is not a strategy, okay? I mean, hope as a gamble. The problem I've got with offices is that it's very difficult to see a clear path to profit because the cost of making these offices fit for purpose is largely underestimated. I was sitting downstairs – I remember this building coming to the market in the early 90s. It sat vacant for at least a year or two. It was funded by a Dutch pension fund. You guys have done a great job refitting it. I mean, it'd be interesting to know who paid the bills whether it was the tenant or the landlord. But the fact of the matter is, you'll have to invest in these buildings because if you don't put the money in, you have got no chance of landing a tenant.

Franco Sidoli

That's exacerbated by the fact that our leases are getting shorter in the UK. So what was 10 became 5 became now three year breaks on certain types of accommodation, on the lead floor plates.

Spencer Levy

Which brings me to hotels for just a second. I know this sounds like apples and oranges, but it's the same basic point. One of the macro challenges I think there are with operating more assets is it means the leases are shorter in part because you gotta run them more intensively. And you know who doesn't like that? The banks. Because it's like, well, if you're gonna have a three year lease, I'm gonna have three year loan and that's gonna upend that part of the equation.

Andrew Jones

Absolutely right. The difference is our hotels. Our hotels are actually triple net. So we have no involvement. I mean, we've just—

Spencer Levy

How long is a typical lease for your hotels?

Andrew Jones

Thirty years

Spencer Levy

Thirty years. And you're and your tenants are local landlords and then it can be managed by Marriott or Hilton?

Andrew Jones

No, no, no. We have let to the Marriott, in this instance, or we've let to Travelodge or we've let to Premier Inn. So they've taken a full repairing, insuring lease for 25, 28, 30 years. And the rent is not linked to occupancy or rev par. The rent is linked to inflation. We closed a deal, 50 million last week or the week before.

Franco Sidoli

And the next big challenge in our market will be the parliamentary bill that's going through right now where they're trying to ban upward only leases. That's going to be the next big challenge.

Spencer Levy

They're trying to ban what leases?

Franco Sidoli

Upward only leases.

Spencer Levy

Really?

Franco Sidoli

So they'll have upward and downward leases at rent review.

Spencer Levy

So now, let's be clear here. This is for commercial assets or for residential?

Franco Sidoli

Commercial.

Spencer Levy

Interesting, so they want to have the ability to lower your rent.

Franco Sidoli

It won't be retrospective. If it goes through. It won't be retrospective. This was a bit of a surprise that this came out, it got buried somewhere, but it's going through Parliament as we speak. And basically it won't be retrospective, but on new leases they're proposing that rent reviews will be upward and downwards. Unless, I think, unless it's got an escalator with a floor of zero and a cap of whatever, three or four percent. So that's the next challenge.

Andrew Jones

Yeah, but if you've got a good building in it, a winning sector, you know, one that is seeing tailwinds of demand, then you're going to feel pretty comfortable that the rent's going to go up, not even stand still. Where you are in trouble is where rents are set maybe artificially high because of large tenant inducements, again, turn to offices or big department stores or big and you find out that at year five... All of a sudden, the true market, the net effective rent, the true-market rent is a lot lower than it was when you started off, when you did the original leasing deal five years previously. So actually in the winning set, because I don't think it has much of an impact, there will be ways around it in some ways, as Frank has said, by putting in fixed uplifts, whether or not it's the fix that you talk about, Spencer, or whether or it's the index.

Spencer Levy

We'll have to see. A long, long time ago, in a land far, far away, I was an investment banker, and my clients included a company that specialized in amusement parks and specialty realty. A lot of people would say theme parks have a level of risk that's different than perhaps other assets. What do you think?

Andrew Jones

I think there's two things. One, I go back to consumer behavior, people wanting to spend more time in fulfillment and entertainment, rather than go down to the shopping mall and for the day, and let's get a Thorpe Park or something for some thrills and spills. That's the first thing. Secondly, all the capex is the operator's issue, not mine, so that's fine. And secondly, the replacement cost is so divorced from the current valuation. And to give you a flavor, Universal are planning to open their first theme park in the United Kingdom in Bedford, which is on a site adjacent to quite a lot of our ownerships. And we've met Universal, because they're going to need some additional space for storage and what have you. These guys—we're talking five, maybe up to five billion dollars. When I compare that to what we value our assets at, we are fractions of that. We're like 5% of that in valuation terms, maybe 7%. So the replacement cost has no relationship whatsoever to the valuation.

Spencer Levy

But this begs another question. So we had on this show a couple of weeks ago, a private equity firm in New York called New Mountain Capital, a triple-net investor that buys manufacturing facilities, which have incredible cost, very specialized costs. And they try to buy what they would call mission critical manufacturing, even in secondary or tertiary locations. Why not buy manufacturing?

Andrew Jones

I think mission-critical is a great word, or two words. It implies a stickiness, a commitment to your location. I mean, we have got one or two very long-leased facilities in our portfolio, but what we're always really looking to make sure, and this comes back to our occupier relationships that we skirted about earlier, and that is wanting to own real estate that enjoys high occupier contentment. Your customer thinks that it is mission critical because that implies that they'll never leave. But things change, you know, technology makes us, hopefully, more efficient. And if that happens, you just wanna make sure that we don't own a bespoke facility that only suits that particular occupier and that would have no interest or no appeal to their peers or their competitors or new entrants. And the other thing you have to be very, very careful on when you go into manufacturing and mission critical is M&A transactions take place. And M&A transactions will throw up an opportunity for economies

of scale, which means that we're gonna mothball that one over there, which I'm really sorry about, guys, but we're going to focus all our attention over here where we think there's greater cost advantages per unit. That doesn't apply to-

Spencer Levy

So let's stick on that point and I have a question for Franco, but you just did a sizable M&A transaction. My facts are correct. A billion dollar urban logistics rate. Tell us about that deal and why that fits into your M&A strategy.

Andrew Jones

First of all, it's a sector that we feel very comfortable with. Urban logistics would probably be our strongest conviction call amongst UK sectors today and the ability to acquire a billion on a transaction is rare. Secondly, as well as liking the real estate portfolio, it comes, as most M&A does, it offers up synergies of scale, ability to cut out overheads and reduce costs, which all flows through into earnings accretion and obviously dividend progression. That's good. And the fact of the matter is whilst we don't want to get big for the sake of it particularly when we're talking to global investors particularly U.S., you know, you've got to be relevant. And the bigger you are the more relevant you are you're relevant when you've got a five billion dollar market cap you're less relevant when your small

Spencer Levy

But also the size matters as it relates to institutional investors' – if you want to get really technical about it – float. Because an institutional investor that is going to write a sizable check, doesn't want to be too big of a percentage of your float, because then they have illiquidity issues.

Andrew Jones

Yeah, look, there's a lot of small cap reach still around. I mean, there's a lot less than there was. We call it the lobster pot. For an investor it's easy to get into that stock, but boy, it's going to take a lot of time to get out of it, okay.

Spencer Levy

Let me just tell you what our perception is of the UK right now. The macro perception is that there was a lot of negativity regarding the Brexit and concerns about the financial district and the future of the U.K. As a viable investment market. But we think that from a macro perspective, the U.K. has weathered it quite well. The financial sector, notwithstanding the short term challenges you have from capital markets is doing quite well, do you agree with that?

Franco Sidoli

Overall, we think the UK is in a decent position. I just think at the moment we're in a bit of a difficult place, really because of what's been going on very recently. The whole tariff situation earlier in the year took the wind out of the sails. As I say, we've got everyone hope the conflict in the UK and the Middle East will be resolved by now, which obviously hasn't happened. And we've got a government in that people are worried about the impacts on business going forward, this budget is going to be really important I think for sentiment. Overall I think UK PLC has weathered it well, is in a good spot.

Andrew Jones

I think actually Franco's hit the nail on the head. I think, actually, the UK bid at the moment is a little bit about uncertainty and perception. The actual reality is that the UK consumer is in great shape. No longer do we have headlines talking about credit card debt levels. We

have full employment. We have material wage increases. I'd argue maybe too material in certain areas. And we have therefore a balance sheet, both at the personal and at the national level, that is absolutely fine. But what we do have is uncertainty and a negative perception about how it plays out. And what that leads to is people basically starting to rein in a little bit, okay? We're just not sure what's around the corner. Our growth is relatively anemic. But people are pretty well protected. It's not as if we've been having a party for last three or four years that the case had been in the run-up to the GFC. The UK economy is actually, the balance sheet is in pretty good shape.

Spencer Levy

Let's go back to REITs for just a moment. Andrew, part of the reason why you're here today is and you stated at the very beginning was that you thought that the read industry is still immature here in the UK relative to what it is in the U.S. Where would you like the read-industry to go? What would you like to change to make it more dynamic?

Andrew Jones

We're potentially on course to end up with maybe seven or eight super REITs that remain relevant both for UK investors but also for global investors. And let's be absolutely clear, the UK as an investment destination is a phenomenal place, whether or not it's where we sit in time zones or the rule of law in the UK is sacrosanct and probably in a much better position than it is in other European countries or other areas of the world. So at the end of the day global MS is one to come into the UK. And we're seeing it. You look at transactions, overseas investment in the UK in the first half of this year would account for probably close to half of all transactions, would be my gut feel. Probably more of the U.S. equity. U.S. would be leading that. I think that we are the favored location for the U.S. if they're going to put money into any country in Europe. But scale and liquidity is important. You've got to avoid the logs, the pot. And so you could end up with seven or eight super REITs. And when I say super REITs, I'm talking market caps over five bill. I know that a lot of investors in the U.S. still think, call us small cap, unless we get to 10 bill. But let's start with the art of the possible. So you end up with super REITs and that can come, I think in the short term, that's coming through M&A. Over time, we hope that that will come through equity, future equity raises. And also that should breed efficiencies of operation. I think REIT could get bigger. I think they could be more disciplined on costs. And I think that, as the REIT legislation was designed to encourage, they could give income a higher billing towards your total return than was currently the position before REITs. Because you don't have to worry about tax. You know, we don't pay tax. The REITS took away the double taxation drag on income.

Spencer Levy

Now, Franco, you suggested that we had a tough slog in part because of interest rates, in part because of macro, some domestic issues regarding your budget. Next year or two, what do you see coming?

Franco Sidoli

Hopefully we get a decent foreign wind to actually get the investors that want to come into our market able to deploy and we have that sort of equilibrium in the market where buyers and sellers can do deals together and we can get the volumes up. I see that hopefully values will start to stabilize and trend upwards. We think – going back to the office market, which you've mentioned before – clearly, there's been a big uptick in terms of investor demand over the last year, and this year's numbers will be twice what they were last year but still way down on what it was historically. Things are starting to readjust again. I see offices doing quite well. I think retail will continue to have a resurgence. And the logistics

market and industrial market will continue to be strong. So if we can get through this and get some predictability in terms the economic and political climate, I think we'll do quite well

Spencer Levy

Andrew, same question to you. What's your perspective, next two to three years, where we're going to be from both a REIT and a real estate market here in the UK?

Andrew Jones

I think you're going to get increasing polarization of performances across the sectors. I think those sectors – and we talk about convenience, logistics, entertainment, hospitality, we obviously think are the winners because that's where we've allocated our money and positioned our boats. There will be pockets in the office sector that will do well but it will be the top 5%. Nobody wants to talk about the other 95%. Retail, those that deal with convenience and appreciate that time is a more valuable commodity. We'll continue to do well, groceries in particular. We're not gonna build any more shopping malls for obvious reasons today. We have too many and the developers not gonna make any money. But at the end of the day, we have to remember that no matter how hard we try or how hard work, the macro will always outrun the micro. And the one thing that we've got to hope for and I and Franco have been saying this for over a year now, but it's gonna come. I'm gonna get this right. Is that we are operating today with elevated interest rates or elevated swap rates. Franco referred to them before. The swap rate in the UK today is just over 3.8% or 380 basis points. In Europe, it's 217. It's 160 basis points cheaper to what to borrow in Europe. And that's an indication of where the economies are. Even in the U.S., the five year swap is three and a quarter. So if we saw five, if five year swaps in the UK, we were down at three and a quarter. Which is where we thought they were. Where we expect them to be, we might be a bit late. I tell you, the liquidity is gonna do that. I agree. Okay, because we have seen, to Frank's point, a lot of sectors have seen the occupational rent reset, and you could say the prime for growth. The reason I'm negative on certain sub-sectors of UK real estate is all down to capex. Warren Buffett is, you know, I'm a Buffett disciple. Warren famously said, the business that doesn't need capex to grow is a whole lot more attractive than the business grows with capex. We're getting free cash flow. There needs to be further maturity in the REIT sector. But I do think at the macro level, if we start to see those five year swaps down at three and a quarter, all of a sudden this place is going to be humming.

Spencer Levy

So on behalf of The Weekly Take, what a great conversation today with Andrew Jones, CEO of London Metric. Andrew, thanks for coming out today.

Andrew Jones

You're very welcome and thank you for entertaining me.

Spencer Levy

And our friend and colleague Franco Sidoli, executive vice president of CBRE. Great job, Franco.

Franco Sidoli

Thank you. Thanks very much, I'm going back to work now.

Spencer Levy

We'll also be going back to work in the UK with an upcoming conversation at the CBRE Institute's 2025 EMEA Symposium that was recently held across town in London's Whitehall neighborhood. We'll talk with entrepreneur and author, Sam Conniff, about dealing with uncertainty in business, breaking rules, and the informative lesson he finds among, yes, pirates. That's coming soon. And if you're interested in more on REITs or on other asset types and opportunities, check out our episode archives with investing focused conversations that include explorations of risk and portfolio strategies with top global investors and a deep dive into REITs in the U.S. as well. You can find all that and more at [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake) or on the podcast platform of your choice. Thanks to all of you in the U.S. and across the globe for joining us. And don't forget to subscribe, rate, and review the show wherever you listen. I'm Spencer Levy. Be smart. Be safe. Be well.