Good afternoon everyone and welcome to the launch of Emerging Trends in Real Estate Europe 2022. I'm Eddie Mitchell stereo and I'm honored to be the moderator of this session today. I'm a European research director with saddles for over 20 years and I'm also quite involved with ULI am chair of your like Greece and Cyprus. Today's event will focus on the results of the annual sentiment survey of over 800 European real estate leaders conducted by PwC and you lie every year and published in the match awaited report. Emerging trends in real estate Europe 2022. Our agenda today. Includes a presentation of the findings by the authors of the report and then it is. It will be followed by a panel discussion. I would like to welcome Garth Lewis, director at PwC UK and Lizette Fondor, chief executive officer of Europe who are going to present the findings of the report, Lizette and Gareth. The virtual floor is yours. Thank you Hari. It's what kind introduction. Hello everyone on behalf of you. Well I'm very pleased that you're all joining today for the launch of the 2022 reports of emerging trends in real estate Europe. This is the 19th edition and we're very proud and pleased to be able to present the results.
Today it's been a long process that already started in early spring. And we're also very proud of the longstanding 19 year collaboration which PwC very successful collaboration I should say.

And and before I go into the results, just some steps to start with.

As area already pointed out, more than eight hundred 844 to be precise, people have contributed to this year's report, and that's basically you. So I want to thank you all for contributing and providing your views. And for us to be able to compile them and create a report without you, this wouldn't be possible. We get it.

Your views through a mix of uh of methods, survey, interviews and roundtable discussions. We also had a group of you and I members involved in an editorial oversight Committee committee to support the authors theme in providing input for the questions and the topics to address Indicia's report, as well as the the final messaging. When we got to the draft report, this year's title of the report, as you can see, is wrote to recovery. And uhm, while that may sound very logical, it actually took quite some discussion among the author theme, and we've chosen eventually wrote to recovery. But maybe roads to recovery would have been more appropriate, and you will learn more about that in the course of the presentation.

This year has been interesting, but at the same time, very tough year. UM, with quite some mixed messages and varying levels of optimism coming through. Next slide, please. With the input gathering mostly done over the summer and the overall feedback on the short term outlook having been extremely positive, which was obviously fueled by the general feeling and belief that the worst of the pandemic was now behind us.
and that we can truly go back to doing business.

However, some, uh, some clear concerns and uncertainties also came out,

for example, related to inflation and supply chain issues.

Some of them linked to what we call restarting the economy.

And since nobody really has experience with what restarting the economy means, because we've never experienced such a situation before. It's it's. It's become very uncertain what the real impacts will be and how much stable impact on real estate specifically and how long that impact will take and whether it's just only short term or maybe somewhat longer term.

For example, related to inflation, construction costs, availability of materials, etc. And this uncertainty we've learned has also created strong mood swings across the industry.

Where we see at some point really positive attitudes, but when something maybe on the obvious little things happen, that concert suddenly transfer into a much more negative mode.

So while we see. Volatility in the market.

We also seem to see volatility in the mood of people.

And then there is the long term perspective.

Driven by changing consumer demands, for example, for more flexibility and amenities ever, stricter ESG requirements and ongoing digitalization.

Dick industry clearly sees the need for organizational transformation, but still needs to get to grips with what this will really mean in practice.

I will talk more about this aspect later in the presentation,

but now I would really like to hand over to Garrett to talk more specifically about the results of the report.

Garrett handing over to you.

Thanks for that and good afternoon everyone.
I'm Garth Lewis from PC real estate and I lead the emerging trends in research on behalf of PwC. So what were the, what the themes and sentiment that we captured in this year's search? This aspect is always really challenging, but we've reflected five key themes that you can see here.

Firstly, a post pandemic high reflecting, very positive sentiment but with great with, with some many caveats there secondly inflated longer term concerns reflecting one of the obvious aforementioned caveats are very clear concerns around the increased costs of operating in the real estate sector. Thirdly, energy for change. What's driving? Future demand for various real estate sectors.

Fourth city stability. Capturing the industry's views on the cities with the best best investment prospects in 2022. And finally organizational change which we tackled in chapter for this year's report and this at mentioned next slide please.

So post pandemic high. Another theme here basically is confidence. Confidence was restored as European economies have started to recover from the pandemic we see a clear up turning confidence amongst industry leaders, although many are still coming to terms with the radical changes to business to business of real estate bought about or accelerated by COVID.

We've seen the highest levels of confidence since 2014 across a range of areas such as overall business, confidence, profitability and headcount which actually shows the highest level of confidence. In over 10 years. And this high confidence is is further supported by continuing strong investor demand with debt and equity supply expected to remain high. Although there are significant differences between sectors depending on their
And as a, let's say alluded to, a key question really, here is whether this level of confidence is sustainable, giving all the uncertainty around the real estate market or is always saying effectively a sugar high from all the stimulus pumped into the economy. I'm sure the panel will talk about that aspect, but uncertainty is a keyword. When looking further ahead over the next three to five years, not only because of the number of structural changes, but also concerns over almost all business real estate, social and political issues that all come together. Would come out as higher concerns over the longer term versus the next 12 months.

Next slide, please. The second theme is around inflated longer term concerns but next slide please. So one of the key areas of concern for the industry. Despite this rising optimism, our survey still highlights a number of issues to watch for 2022. Cyber security is the most pressing business concern, with 67% of respondents concerned or very concerned about its impact up from around 50% last year. The biggest specific real estate concern relates to inflation and supply chains, impacting mostly construction prices and delivery schedules. And if anything. Escalating energy prices based on a surge in demand and ongoing supply crunch have become more of a drag on the global economy. Since the interviews were conducted with this report in the summer with no letup insight for business or consumers, the energy crisis is adding to that uncertainty around already. Heightened real estate concerns over over inflation. Even back in the summer, 82% of respondents expected inflation to rise in the near future, while 62% predict that interest rates will go up. Next. Slide, please. The third theme,
entitled Energy for Change, looks at the individual demand for different sectors. Demand for court assets continues to increase dramatically, forcing prices up in some sectors, pushing investors into new areas and others towards development to find investment returns and at the same time, the industry is trying to come to terms with what the definition of core counts. What counts as real estate core and a changing definition of what constitutes secure income continues to influence the rise in demand. Or alternative sectors as diverse as new energy infrastructure, life sciences and data centers. The same trend sees residential continue to dominate the top of the chart of investor preferences. So the in favor sectors for 2022 show similar flavor to last year with perhaps self storage and new entrants in the top ten and multi let industrial with dustrial and notable sector just outside the top 10. The pandemic has reinforced the trend of investors targeting contraceptive. Typical sectors that profit from mega trends and therefore generate more resilient income. Despite this, continues strong interest in alternative or nice sectors such as life sciences, energy and data centers, we can be sure that these sectors will not attract the most capital in 2022, as many interviewees point out, they’re yet to offer the liquidity required by most investors, but perhaps they are high. Ranking indicates a direction of travel and part of a longer. Term and fundamental shift into more operational real estate that the industry is navigating and it demonstrates a more granular approach to real estate investing. Drilling down into the specifics of subsectors when making
Several of the trends circulating in this year's report would revolve around the concept of how best to access prime real estate and developing the core as many as 3/4 of survey respondents believe that development is the best way to acquire prime property. But this links to a challenge which our survey suggests will be one of the hardest tackle in coming years. That is, the growing focus on in body carbon created by new development emissions created during construction and demolition process of a building which, by some estimates account for up to 70% of carbon produced during assets lifetime once in body carbon is taken into account building new assets rather than buying existing ones, runs counter to the sustainability goals that many investors seem so keen to embrace. And the obvious fix for this paradox is to refurbish or re purpose existing assets rather than build from the ground up. But this creates significant challenges, complexities and costs which few have managed to adequately address so far. Next slide please. Apologies, I've skipped a slide there so this this was related to previous the previous one on sector sector choices. And can we move on to the next slide please? The The four theme we we use this year is a strong city stability. So against the backdrop of all of the above, there's no surprise that the the city rankings are little changed from last year, London regains the top spot. So could we move on to the next slide, please? London will get regains, the top spot from Berlin for overall investment and development
The prominence of these two capitals, as well as other German cities and Paris indicate the investors remain selective about where they deploy capital, and there’s an understandable focus on cities that offer liquidity, at least for the short term. London has moved up one place in the city rankings to become the most favored city for combined investment and development prospects for the year ahead. Whilst London can’t shake off the Brexit, legacy is still seen by respondents as having the potential to reinvent itself, particularly with technology and life sciences. Berlin heads up the usual strong showing from German cities, which all great gain from being seen as a robust economy and having high transparency. Paris is in the top three for being another gateway city with good transportation links and the upcoming Olympics. Other cities doing well because of the livability include Amsterdam and the southern European cities of Madrid and Barcelona, which are seen as having possible pricing advantages. And at that point I’ll hand over to Lizette to cover the 5th theme around organizational transformation. Thanks. Garrett next slide please. As I already mentioned in the in my introductory remarks, there is now a broad agreement that organizational transformation is a key priority for the next 353 to five years. 68% of the respondents agreed with that next slide please. But what are their main drivers for that organizational transformation? One spot it was a real estate as a surface that in lot in combination with changing consumer demand which. Consumers asking for more increased flexibility, services, amenities, etc that has strong impact on the business.
and financial model of real estate.

At the same time, obviously we see and never stricter requirements related to ESG,

a stronger agenda, a broader agenda,

not just covering the E but also the S&G and

a strong link between EST and.

Focus on brand and reputation as well as the broader license to operate for real estate.

And uhm, I already mentioned the occupier desire for flexibility,

which is also felt important.

Obviously all of these are strongly related to an honor.

Next time, please. And what is that and what are

the biggest SuccessFactors for that change?

And interestingly, it's it's all about technology with 92%

thinking that adapting and integrating technology into business processes is

one of the main drivers for successful organizational transformation.

At the same time, running an environmentally and socially stainable

business is felt important.

Also important, but less important,

is about 78% thinks you need to hire new and

non traditional real estate skills.

What we found interesting actually is that technology is on the number one spot and skills is slightly less important

and well we thought that in order to make that successful transformation and integrate technology you need the right skills

to do that.

But obviously the majority. Things differently about that.

If you then look at integrating a technology and running an environmentally and standing socially sustainable business,

there's still more work to do.

Next, slide please. And we also ask people about.

ESG specifically, and what they specifically measure.

We also ask them how they measure that and and

how important they think these elements are.

And not surprisingly. Environmental issues are the most measured by

the industry,

and if you then look what message is mostly about
energy efficiency.

Although as also Garrett alluded to, it's more about decarbonization. Operational embodied to a lesser extent, and the most that's been measured by is still. Building certification and obviously we see an increase among all of that.

With the social element that's all a bit less, and what we've seen generally is that there's a much stronger focus on history across the board. However, it's mostly still dealt with from a more operational perspective.

Getting requests from investors obviously regulation becoming stricter and dealing with all that operational hassle. If you will, it's not yet lifted to the strategic level in many cases.

Next slide, please. And then we also come to work a question on what the broader UM barriers are to organizational transformation and existing culture was by far the biggest barrier felt by many and also about risk. Obviously it's about an uncertain future.

You don't exactly know the changes you're going to make will be successful, and then we also had the issue of cost related to reorganization, or some people said, actually. In this market where it's so competitive, they actually more difficult to make those changes as there is a cost involved and the benefits often much more difficult to quantify.

So yes, there is a strong. View among the industry that there is a need for organizational transformation.

But as I already mentioned before, still trying to get to grips with what that means in practice and how to get there.

What are those steps to take? Next slide, please. I'll leave it here.

I'll invite you all to read the reports yourself.
You need to take some time for that.

Here you see the links where the report becomes available.

I've been informed it should be available after the event, but if you have any queries, just let us know. Now heading back to every for the panel discussion.

Thank you.

Thank you lissette. Thank you Gareth.

Uhm very very interesting results which we are going to discuss now with our panel.

Three top professionals key players in the European real estate market.

It's Andy popping, CEO of Indian markets at JLL, Andrea Orlandi, managing director and head of real estate Investments, Europe for Canada Pension Plan Investment Board, and Megan Walters. Global head of research at Allianz Real estate.

I would like to welcome you all.

Please introduce yourselves and then as I said, I've got a few questions prepared but also feel free to also share your questions on via the Q&A zoom function.

Uh, Megan, let's start with you.

Thank you every thank you to U Li for having me here today.

Thank you every thank you to U Li for having me here today.

So a few words about me.

I've been a member of ULIA for about 9 years now, most recently in Asia Pacific and then on the UK Executive Board.

So my background, I'm UK trained, it shatters surveyor. I've been with aliens, real estate for two years before that I was with gel in Asia Pacific for a number of years and alianta real estate is the captive.

It's part of PIMCO and we deploy capital on behalf. But the larger Allianz real estate Insurance Group, which has about 835 billion euros of assets under management

and real estate, represents about 10% of that.
Thanks, Sherry,
thank you, thank you Mega,
so under. Did you know Megan before?
Megan and I did not get a chance to interact
directly when she was in jail,
but I look forward to learning from her on the
panel today.

So, as Megan noted, a grateful to be included in
the panel and found the report fascinating,
it reaffirmed some of the assumptions that I had,
but I also found some new great insights and learnings
from it.

It will be able to take action from having
taken a deep dive into the report,
so I am the CEO of EMEA markets.
At JLL, I joined JAL via acquisition and have been
at the combined company for over 20 years now I
moved to Europe from the San Francisco Bay area where
I worked closely with many of the large global tech
companies and have found it fascinating too.
Learn a lot more about our markets in India as
well as the cultural differences across so.
Excited to join the panel.

Thank you Andrea
welcome.
Thank you hi everybody, my name is Andrea Orlandi.
I head up the European investment team in real estate
for CPP investments.
I've been here for about 10 years and from here
we also launched the investment program out in India.
So I do. I used to get a chance to
spend a bit of time in India to an CPP.
Investments is a $500 billion fund.
Basically that invests the assets of the Canada Pension Plan
and we've got 20 million contributors and we have about
$50 billion of equity invested in real estate in a
global investment. Program, so we're quite active across all the
regions.
OK, thank you, thank you.
So, uh, I would like to to ask us just
to kick off the discussion.
I mean, what was for you like the most interesting or surprising outcome of this report this year?

Something you didn't expect? Or let's start with Andrea.

So a couple of things that I picked up on. I think one was as more surprises was how economic growth didn't rank higher, especially in Europe. With regard to focus.

Because it is such a driver of actually investment activity and returns that that somehow was forgotten or it felt forgotten a little bit.

The other observation for me was something actually Lizette touched upon.

There's a bit of a contradiction in some of the results because there is a focus on how the industry is changing. The operational risk we're facing, but then, if I recall correctly, the survey showed the need to evolve was not actually as highly ranked as one would have expected, and then hiring from new or non traditional places was actually once again a bit low.

So I think there's a failure recognition that if the market's changing actually we have to change too. Through Megan. Actually, I'd like to build on Andrea's point for me that the happy bit was business sentiment up at the start and reflecting on GDP.

The world should feel better next year, and the next and the year after in terms of sort of GDP growth rates.

But the point also, I wanted to pick up on was this piece that dissected at the end at around organizational transformation, and I thought it was really interesting to note in the report.

I think it was like 83% of participants felt that organizational culture was one of the barriers to change.

Now I think that's hugely interesting because we return to work sort of organization.
We think going to work is a good thing for communication and collaboration and building culture, so it's going to be quite a paradox for senior leaders in large organisations to figure out they want people to come back to work to build culture. But this report is showing that culture itself, in organisations, a barrier to change. So how do we keep the good bits of working from home? I think there was a line something about the Universal appreciation of choice in the report jumped out at me as a great line. So how do we keep the diversity and the universal appreciation of choice that working from home has brought and then how do we deal with culture? If culture itself might be a barrier to organizational transformation? That's very that's very interesting to to think for all of us. It also surprised me this that changing of fear of change was the biggest barrier. Andy, what's your thoughts or the the most interesting outcomes? Thank you every day and I I would like to follow both. But Andrew and Megan said because those were things that jumped out and raise point about the disconnect, or rather distancing of. Economic and even leasing fundamentals to investment is somewhat new and I think there are other factors that have pulled them apart which there's some great data in the report around this. I do believe very strongly, as Megan was noting that. I mean, I'm just passionate about the need for training, not just our leaders and our managers, but our employees into how to how we should be working and interacting and communicating in this new environment. It is new even if we're returning to the office, it is still new, new way of working, and so we really do need to educate ourselves around how we do this and what the appropriate expectations are.
The biggest takeaway for me and kind of reaffirms. One of my big assumptions is and it's just an exciting time to be a part of our industry because change is not optional, it's has come at a much more rapid pace and it was previously. But you've now got this intersection of organizational transformation and health and well being. ESG technology, bringing new talent into the industry and also at the same time we've real estate has been heightened. In everyone's mind, so now everyone has an opinion about return to the office and the role of office and E commerce and retail and residential, as well as every CEO across the board now has to have a stance on what the future of work looks like. So to me, it's just a really exciting time and there's great data that reinforces some of both the opportunities and the challenges that we're facing. Indeed, indeed and, and that also has affected, I suppose, investment strategies, uh, it's interesting how new sectors continue to emerge. The alternative sectors are not something new. We've seen it in the previous surveys coming up, and I would like to ask Andrea, actually an about about this this rising importance. Alternatives in in investor strategies. Aiming to, you know, capture more resilient income through these strategies, but but less income risk also comes with more managerial complexity and less liquidity, and this is something that the report also showed that the people really identified. How do you expect these to impact your investment strategies? Are you looking into alternative sectors into the ones that
I think the first comment I would make is there's a bit of a push and a pull factor, 'cause there is an emerging interest in alternative, but a little bit is also a consequence of the traditional sectors for real estate investors being retail and offices, not performing well or being in a transition period. So in some ways you've seen a migration of very large migration from traditional sectors looking for new places to invest.

Uhm, the other maybe focus I would say is there is an interest in the alternative sectors. The ability to invest in them is actually more limited. It's a smaller universe. So once again the ability for investors to actually deploy capital there. Will have consequences when I think people will ultimately look back on retail and offices and see if it's not so bad actually.

I think when you're investing in alternative sectors, you're taking on more operating risk as you, as you pointed out, and there's greater complexity. Also a little bit in today's world is yes, there's more complexity, but returns are actually getting lower. So I think also there's a little bit of a self reflection for a lot of investors when you look at those sectors that you're actually generating returns lower than you were used to, though, you're taking greater risk. So as Andy said, actually it's a very interesting time right now and and even in our traditional asset classes retail and offices, there's greater operating risk today. With flexible working, you now have an alternative the digital world.

So suddenly offices are riskier too and retail it all accelerated with the pandemic, but there was a trend with ecommerce, so there's a lot of moving pieces.
We are of course looking at alternative sectors.

We've recently invested in life sciences.

I wouldn't call industrial as being alternative, but it's gained in importance.

But that universe is still small.

Indeed, we had. We had a quick chat with Megan yesterday about that and.

You mentioned that you stick to the traditional sectors. Is it because you think you fear the liquidity issues or the complexity issues?

What? What's your driver behind your decision?

Thanks, thanks for the question so that we are a very large diversified core investor.

The alternative section in terms of transaction volumes makes up about 10% of volumes in the US and in Europe.

Using the kind of RCA global transactional data.

So you know we do have exposure to some of the alternative sectors we we deploy in three ways, so we have direct investments.

We have funds, indirect investments and debt markets and so for some of the smaller.

Alternative sections we would go into those sections using indirect funds to gain some exposure there.

Because to Andrea's point it, you know they're very small sectors.

So what really matters for us is actually the partners that we have.

So we have very, very strong joint venture partners.

So things like life sciences or things like single family rental housing,

those sorts of sectors we would be in with some of our JV partners now.

Does that mean we've abandoned the other sectors?

No, during I looked up the.

That how much we deployed last year across 2020 just to say you know what was our rate of deployment during COVID and we did ???8.3 billion worth of investments last year in 2020. So I think that sort of speaks fairly well to the fact that we're still out
there buying.

Just recently we we completed on a big tower in Frankfurt big office tower in Frankfurt as, or forward funding purchase. So we're still very much in the traditional areas, but to to both Andy and Andrea's point, with its now hugely important to. Understand what you're buying the the the return, this the differential in the spreads on the yields between prime and secondary. It's blown out for shopping centers and it will go the same way for officers. That that's interesting, and 65% of the respondents said that the prime assets even are overpriced. I mean there there is. There is part of the survey shows that there is an expectation of deviation of evaluation of primary secondary. But a big part believe that prime is overpriced. I don't know. Would you like to comment on that? So can I just can I jump into that one there? Because I say this was a really interesting area, so we did some super long run studies over 40 years. To look at the spread between the real risk free rate so government bond rates adjusted for inflation and your property yields. To find out what the sort of risk premium for owning office was. What's the average? Where are we now? So just state London. There's an example the the kind of theoretical long run average of London is about 350 basis points. It's currently 650 basis points, so the idea that real estate is overpriced prime is overpriced. It's depends what. Alternative you can get and if the alternative is the real bond rate as a return, then actually property real estate looks like quite good value.
So I wanted to get that one in there and and then throw it over. And I would add to that when you look at prime versus the alternatives within the real estate sector. Uh, many of those that have been mentioned, life sciences data centers are capital intensive to get started and the risk profiles are different. And then I would also say you come back to kind of the new way of working where there is greater value placed on those on. Sites that can provide the health and well being and the amenities and so prime really is prime. For four of these in. That means new product, newer product. And if you look at them, these segment of the market which estimates AUC 20 or almost 30% when you add in the ESG component that could ultimately be. Maybe not obsolete, but will will require a fair amount of capital to get to an appropriate level. Then that pressure on prime becomes even greater. I think does justify some of that premium that you noted. What's your view Andrea or on on the price and the current pricing levels? Are you comfortable with with them? I don't think you can talk about pricing without talking about expected returns. It it sort of depends what you're targeting as a return. I think returns in core asset classes have come down quite a bit at historical lows. Yes, compared to fixed income risk, there's still a spread. I guess the question is, you know. The embedded equity risk, the embedded operating risk, and is that being accounted for, and what happens when the vacancy goes up? Or what happens when you come? Yields go up by 25 basis points, which is not a lot and. To Andy's point is also the embedded CapEx,
which is something I think unfortunately many real estate investors forget about when they're running their cash flows, and in a market where yields are compressing historically.

It's OK, but you know where we are at a place with very low yields. A very high pricing, and so as long as it stays that way that's OK, but it, but once again it. It depends on the returns you're targeting.

And. And it's about the I mean the the quality of the other income streams and we're talking about. A service and flexibility, I mean property as a service. Almost all sectors will become property as a service responding to demand to occupied users to customers as they are called.

Now demands and expectations, and I mean on the how. How do we, how we determine how do we determine the quality of income in the context of this operational intensive assets where there is shorter leases, flexible leases. And all that.

It's a challenge and what I would add to that is as we look at where we are in our future of work journey. It is still early days.

So yes, it and we can look at markets where people have returned to work or left work and and greater percentages as examples, but it's still very early days and in terms of occupiers defining what their future of work programs look like and I would say this journey. Will continue on for five years most likely, and that's because we're starting to get people back to work or not back to work.

They didn't really ever leave work, but they left office is so return to the offices and the future of how we work. But it is capital intensive if you are going to shift how your physical space supports your your workforce and
for people with a portfolio of sites on the occupier or investor side. You've got leases that expire overtime and we all are and we aren't going to dump all of the CapEx required in the first year of an untested future of work environment. So I I would say this is something that plays out over a period of time and there will need to do small tests both on the occupier and investor side as we and learn from it as we go. So it will take time.

Thank you, thank you and, uh, Megan, what's your view on that?

As you can imagine, I'm 220 offices, so at the start of the pandemic, the question was how did we analyze these? What do we think about them? How do we categorize them?

So one of the things that we did was to form some ideas that we think that the the offices and locations that will do best will tend to be those that are in higher density cities. They tend to be higher rent cities. It means that if you do need to upgrade cap ex.

You know the cost of new cladding or cost of ESG. Something around boiler components. It kind of cost the same whether you're in a fairly low rent city or a higher rent city,

so the maths tend to work better in a higher rent city.

The other thing about high density and high rent cities is we tend to have already come sorted out the kind of space planning and space utilization area within those offices and the other thing with high density cities is they tend to have smaller.

Residential apartments and so people are more likely to choose to go to the office.
So if we think about where large corporate occupiers might want to be, they want to be on transport links because that goes to your SG. A net carbon zero policy about being on a transport area. You want to be in an environment where the macro economic environment has a strong rule of law and some stable macro. You know interest rates and other areas like that. So high density cities we did a big exercise. For them, and measured everybody's density and came to the conclusion that it's the talent pools and about 7 to 10 global gateway cities where we will continue to invest. And that's where we think the global talent pools will be. And there's a large number of those in Europe. That and and it's true that at the top of the ranking we still have London and Paris and Berlin. Just changing a bit positions. Uhm, but Andrea, so you don't. You don't expect any any major reshuffle of these rankings in the future. Do you think that the the as as Megan says these are the big gateway cities will remain the the main target for investment? I think so. I mean, I'd say if they were focus cities pre pandemic, I don't see why they would not be focused cities post pandemic. There are certain attributes those cities bring transportation, infrastructure, demographics, education, talent pool. Those strengths are still there and there's a reason those cities have concentrated wealth or they've concentrated talent so they. And it's very hard to replicate. Those intrinsic benefits come and I, I believe. Still, I think that there is still a place for the office space for all organizations. Ultimately, and we are in a transition period,
but you immediately see the benefits of being at an office when you get everybody together and get the ideas sharing and so forth.

So I I don't expect any any significant changes.

There are some messages coming from the US that the people you know can that companies can employ people from anywhere in the US,

and you don't really need to live in the biggest, most expensive cities to work for.

The biggest I don't know and most the coolest companies,

I think under you have a background in the in EU S market.

I mean, have you followed the you know the post pandemic kind of change of working patterns or.

Or employment patterns if you like.

Yes, and it is fascinating throughout the pandemic to see the in particular the large global tech brands and and how they were treating them to work from home or work from anywhere. Two things that I think are important to note here.

First, we're going through this transition in a historically tight labor market,

and that does have an impact on the work from work from home programs that we're seeing with a flexible work programs,

there are a number of them,

including Google and Apple, who announced programs to bring employees back to work,

and there was an immediate reaction and tough to to really measure just how.

Broad their reaction was, but with social media.

It was a loud reaction,

really pushing back against this drive to come back to the office.

And so because of the tight labor market,

we all need to respond to this and make sure we're providing adequate flexibility while bringing people back so they can have the experience that Andrean noted about just how productive and innovative you can be when when you're together.
So I do think it's important to note that it's a balance, but will also say because it's a tight labor market. We are also recruiting and onboarding people in this new environment where the relationship between an individual employee and their employer is potentially going to change from a broad societal perspective. I mean, we've been used to people who have a cultural connection to the company and to their manager. And their team and as Megan mentioned at the onset, this is changing. And so we've got to be very thoughtful about what that looks like as we all have. Historically, because we've been doing this for more than a few years, have experienced the benefits of being in the office together with a team and having that strong connection to our employer. So I mean, you know, like offices and retail or orbital in a period of transition, some uncertainty around their future.

Uh, add on this the the age of the stock. How much of the age of the how much of the stock is is out of date and doesn't meet the green criteria that we want today? And are we going? Have we seen already brown discounts in buildings which are maybe not as much in demand and on the top they are not, they are not up to date. You know, from a functional point of view and design point of view.

Uh, Megan. So I think it's not so much.

It's a discount as it's a sudden stop. Uhm, so that you'll get real point where it is simply UN economic and and I think the phrase in the report and we've seen it is the stranded asset. So at what point does it simply become uneconomic for that asset to be repositioned? The cap ex doesn't work, and if it did, well so any demand for that asset anyway.
From a locational perspective, 'cause you've now got it on both sides, you've got the ESG component and the crime pathway. Can it meet the crime pathway? Because if it can't, what's your exit liquidity? To sell to the next investor down the line and on the other side you've got, do we need as much office stock as we've got and did we need suburban office stock and did we need office Doc? Let's not sat on public transportation, and so there are some assets. Geography. I think being the key issue, if it's not near a public transport system in the center of a vibrant city with amenities, then I think you're going to struggle. So I would. I would urge people to think of it not so much as a discount 'cause that kind of implies. It's a sliding scale. A bit soft, I think you get to a sudden stop where the asset no longer makes economic sense. So I mean, Andrea, you don't think that there could be a point that it becomes a value add opportunity in the market. If they the discount is significant, could it be worth buying it and making it up and putting it back in the markets could we see sales of interest in the future of that sort? On those kinds of assets, I mean, yes, if somebody is ready to take the equity loss. 'cause ultimately that's the consequence. And then you go to the alternative use, which is kind of be probably less valuable than what that asset used to be. So I think you. I mean yes, it's a sudden stop, but it will be a gradual adjustment as people accept that maybe they should have sold the asset that they should have refurbished it along time ago. You know we we buy less core assets but
we develop core assets and I can say pretty much every asset that we would develop today really has to meet ESG requirements. Otherwise we probably won't pursue that.

And yet we have this conflict now. Uh, between building and repurposing, and the discussion about considering the embodied carbon when you develop something from a new building from scratch, and is that going to create issues in the future? I don't know. Directed in the report, someone I think said that in a few years expects not to be allowed to develop but be forced to redevelop.

Andy.

I don't know the conclusion to that, but I would say that in order to meet both the combined ESG goals and the needs of the workforce going forward, there's an emphasis on both the new and scale and where you have the opportunity to develop any place making type of format so you can bring all of the elements together that meet the needs of the future.

Future environment. That's where we will see people really have success.

I think there will be an emphasis on new in scale, and I don't see a scenario where development comes to a complete standstill.

I'm hopeful that technology will help us catch up to the ESD requirements, even though I know it's been a long time coming. I think to add to that, I think we will see some some changes in the economics construct, for example re utilizing foundations.

So going from foundation up, and so it will be a blend.

Or. I mean, we've always done recladding of building,

so padding off new cladding on but so I think
we will find in it could be solutions as to and it will be different it'll be different dependent on the land value, the rent you can contract command, you know the cost of doing it, so it'll be different. But I think the one thing we keep coming back to is. You've really got to be near. I would say some form of public transport I think, or many large organizations have declared themselves to be net carbon neutral by 2050.

And and to do that you really need to be on public transport so your employees can make use of that facility. I think I think that that gives me a chance, maybe to a kind of wrap up and with with a more topical question.

Stepping back and looking at the ESG strategy for you and how you implement it on your portfolios, it's topical. I mean, it's still being discussed at COP 26 now. The there is a name to for countries to commit to achievement 0 by 2050 for organizations. So so to show to evidence that they are doing so, uh. What? What is your? What is? How? How do you go about committing to this goal and in your organization Megan? So aliens the wider Allianz group is part of the net Zero asset owners alliance. And so that's the overarching allianssi insurance group committed to net carbon neutral by 2050. In a more immediate section for Allianz real estate, we're committed to a 25% reduction. In our emissions on our portfolio by 2025 as measures against 2019, so we have to kind of take a portfolio approach to this. Not every asset will be able to achieve the cream pathway immediately, but taken as an overall then we've got 57 assets
that we're targeting on to facilitate this reduction of
of emissions reduction by 2025 and then alongside that,
like Andrea every IC meeting that we have every investment
committee.
In all new acquisitions run or run over with a
very fine tooth comb.
The crme pathway. Will it meet it?
How does it operate? So ESG is a major major
component of the investment decision.
Andrea,
how about your organization?
Yeah, it's been interesting. Yeah,
it's interesting how climate change became a source of
discussion
to basically go into the top of the agenda,
literally in the last two months,
maybe three. It's it's. It's amazing.
You know there's the. It's the distinction between the new
investments where you can actually do that common zero,
and that's the target. I mean for us as an
organization,
real estate is really right now surveying all the properties
we have,
measuring and then being able to actually figure out what's
the actual cost CapEx and so forth to achieve any
of the targets and.
In some ways, I think there's an element of disconnect
there right now,
'cause there's a lot of targets,
but we still need to actually measure the cost and
what it's going to take to achieve those targets.
But basically we're in the process of that.
Andre anything to add?
But, and this is potentially a defining issue of our
time,
general is committed to be net zero by 2040,
including client sites that we manage.
So it will be a partnership amongst occupiers and investors
and ourselves and managing properties for them.
And we signed the climate pledge along with Amazon and
a few others.
We are. We are very committed to this.
Thank you very much, UM.
Let me see. I think we've I'm looking out at some of the questions that came in, and I think we've covered many of of the topics.
Uh, there are some some questions specifically on on on geographies and specific asset types, which I think we don't have the time to go into detail.
Uhm? Let me see. I would say that if you like to add anything to conclude this, this discussion a message for the future, something like related to you know like to what is in your view them.
Although you also mentioned already Megan you mentioned you know like your view on what is the most successful can be the most successful building or on the on the in the future. What characteristics should it have? I don't know if each of you would like to describe what is your core asset.
A core asset in in your view.
If it is a sector or if it is certain characteristics at the building needs to have in the future in the next years.
Yeah, I'm happy to take that first in my answer, maybe maybe from a little bit different perspective, but our core asset is our people.
And that's what drives what we're doing, so it's making sure we're taking good care of of our jail employees who can then then help others.
This is very interesting and I I it could be an answer that the most important thing is to take care of the of the tenants of the of the building before before anything else, and that it could fall into the South of the ESG discussion which we haven't touched much today. So it's not about environmental only, it's the social element as well of our buildings, Andrea. He thought about the best trick or building for the future.
Yeah, I mean, I'll I'll,
I'll piggyback briefly and then just say we wouldn't discuss
it as much.

But today talent retention is I think,
I suspect the biggest issue for all of us.

Basically, 'cause I think we've probably seen quite a bit
of of people moving around and and and now trying
to retain our best people.

Uhm, I. I think the future asset core asset to
me.

It's about flexibility. It's about mixed use.

It's about being able to adjust and you know something
we discussed with pre pandemic on the focus on mixed
use,
but I think it's going to be more and more
because.

The real estate we used to think as competition as
new supply,
but actually now the digital world is our competition and
so we need to be flexible in what we're giving
to to tenants and to our employees.

Thank you, thank you Andrea.

UM and Megan so
well to add to those excellent points around people,
talent retention and what the asset is.
I think really, it's just to be optimistic about the
diversity for the future within the real estate industry,
and I think from from this is from a personal
perspective.
It has been relatively not terribly gender diverse over the
years,
and I think that one of the things we'll see
from from working from anywhere.
Is just a greater inclusion of different ideas and diversity,
which I think bodes well for the industry.
Thank you, thank you Megan and and that was something
that came through the reporters as well.
And we saw it in the results.
Uhm, thank you so much.
UM, all three of you and they set in cars
earlier for presenting the results.
As it says you need to set aside some time
for reading the report,
but it's it's worth it.
Every single bit of it is worth it.
It's a lot of insights,
and we had a lot of food for thought.
I would like to remind everybody up,
but uh, there is the annual conference in February in Brussels.
Hopefully we will be there in person.
Uh, it will be a hybrid event,
so if not, you know people can be also attending it from home,
but hopefully we will be able to meet there in person and attended.
And also if you could spare a couple of minutes for three questions,
your feedback is very valuable to us.
And that would go. Please,
I'll give you a few seconds to respond.
I don't know if I need to read them loud.
I mean obviously they are coming up to on your screens.
So once again, thank you for attending the webinar.
Thank you so much for your insights and very glad to have met you virtually thank you for all your questions and hope to see you soon to a next event. If you've missed it, it's going to be on knowledge Finder soon.
This event and you can listen to it recorded.
Thank you.

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