Good afternoon everyone. My name is lissette from the war and I'm the CEO of for Urban Land Institute in Europe. I'm very pleased that you're all joining today in a truly global webinar to launch the emerging trends in real estate global outlook for 2022. This report ties together the three regional reports which have been launched at the end of last year, which I hope many of you have seen or focused on the Americas and Canada, one on Europe and one on Asia Pacific. It's a it's a remarkable time and we've tried to capture that in the report and we'll talk about that later, and and without further ado, before I hand over to the moderator, Mike Phillips. I would like to thank PwC for the long standing collaboration we have on the emerging transfer real estate report. We really value it, and we think it's a great collaboration and obviously many of you have participated. Later in the regional reports, Or in the global report, and I would like to thank all of you for that, because without you we can't do this. Reports these reports truly reflects the opinion of real estate leaders across the globe.
So now Mike, I'll hand over to you Michael to moderate today's webinar.
I'm very pleased with that. He's the UK editor for this now and has also been involved in the writing of this support. So now it's all about it. Very happy to have you moderate today, Mike. Kind over to you.
Great stuff. Thanks so much for that Lisa. Thanks very much again for joining everyone.
As Lizette said, I'm Mike Phillips, the UK editor at Biz now and I've been involved with the ULI and Peter. PwC emerging trends report for several years now, and I've got the pleasure of being your moderator today, so we're going to have a presentation on the report. First of all, and then we've got a fantastic panel to pick over the report and also its implications and what's going on in the market as well. You'll see, I'm sure your old hands at this by now, but you'll see down the bottom of your zoom screen there.
There is a chat function you know. Do feel free to have a chat amongst yourselves and sort of virtually network during the report. During the presentation and the and the webinar, and there's also a Q&A tab down there as well. If you've got any questions for our panelists at all, do put your question in there. What I would say is. Past those throughout the course of the session, and you've got more chance of getting your question answered, we will leave a bit of time at the end, but if you ask it throughout, we're more likely to get to it. So do please use that function and yet you will be able to see the webinar afterwards, and I'll explain where at the end of the session. So without further ado, I'd like to introduce introduce Garth
Lewis, director of Real Estate, and he's going to give us a presentation on the report itself.

So over to you, Garth.

Thanks Mike and hello everyone,

as Mike said I I'm Garth Lewis, director, the British state team at PwC based based in London and I'd like to echo Lisette’s words and thank the you and I on behalf of PwC for another great collaboration for this report.

I'd also like to thank all those who participated in the survey as ET.

Said global emerging trends in real estate draws together the insights from our three regional reports in combination with additional interviews undertaken specifically for this.

Global report, so what’s the outlook for the year ahead?

Well, a combination of of positivity alongside uncertainty was evident from the almost three and a half thousand participants who took part in the regional surveys, and the additional interviews I I mentioned a very similar theme in many ways.

Two to two years ago at the start of the global pandemic.

Just as everyone is dared to hope that the pandemic is receding,

Russia's invasion of Ukraine has set off a wave of apprehension across the world, and fears of a wider conflict.

And the first just to just to set the scene in 2021.

Global volumes of sales of commercial real estate totaled more than 1.3 trillion trillion.

That's 59% higher than in 2020.

In 2020, total, and that's 22% ahead of the previous peak in 2019, according to Real Capital Analytics and this extraordinary level of activity was driven by worldwide demand for residential and industrial property,
and in particular, dramatic upturn in the number of US transactions. And a key factor driving this was that the premium between property yields and interest rates, which remains in place across most global markets, and this positive capital markets perspective for real estate just about holds good for the time being, but the uncertainty we're seeing from the Ukraine, in particular when Everton inevitably slowed down the dealmaking, especially in Europe. Next slide, please mark. The first thing to be addressed is the Russian invasion of Ukraine. And let's just begin by acknowledging the humanitarian tragedy which is unfolding across that region. What does this mean for real estate? And if there is a consensus among economists, is that the Ukrainian conflict is unlikely to lead to world recession. Although no one is is ruling out that outcome, at the very least, however, the effect of the Russian invasion of Ukraine is expected to be far greater geopolitical risks, alongside slower global growth. And critically, higher, long and longer lasting inflation. Even that relatively benign Mako scenario this year would serve as a major job for the real estate industry, particularly compared to 21 as we just saw on the previous slide. It's also possible that the industry in Europe would have to deal with the consequences of a very swift changes in government spending in favor of defense and energy policies and away from areas that directly and normally positively affect real estate, such as infrastructure and housing. Yeah, the invasion of Ukraine also poses bigger questions around the ESG agenda, and in particular the acute problems of energy security and what that would have on the NPSG agenda for the
Looking at inflationary pressure in January, inflation in Europe hit five point 1% and in the US 7.5% which is the fastest annual rise for 40 years and the full impact on real estate of Labor shortages, rising wages and food bills and surging energy costs remains unclear. Yet the prevailing view among many in the industry and many economists is of moderating economic growth and inflation. Inflation peaking this year. As you can see in the chart. And this is understandably fed through to concerns about construction material and labor costs in North America and Europe. And these were in fact the top bank concerns coming out of the emerging trends, with regional reports. And that was even before the Ukrainian crisis. Whilst inflation appears to be less of a concern in Asia Pacific than other regions, even though it still adds to the development challenges. But so with big caveats over development and huge uncertainty due to the invasion of Ukraine, most interviewees still hang on to the traditional view of real estate as a good inflation hedge generally. Next slide, please. So here’s a quick look at the key points from around the the the globe on the four main real estate sectors, starting with logistics with a buildup of capital that favors real estate over other asset classes. Logistics remains the main draw alongside residential even though last year there was some talk around, some hesitant hesitancy around pricing on logistics, and one year on logistics has come to epitomize the potential risks and rewards of real estate investment investing as sort of.
asset class as a whole.

But there are concerns voiced around late cycle pricing,
lack of rental growth, and a number of interviews cited
the fact that logistics on the development side is
more exposed to inflation than other sectors just because of
the nature of the product.

Looking at retail, we're seeing continued declining investment
volumes.

And what is the real estate prior asset class
you could say,
but we also heard talk much talk of retail,
being oversold and a growing reference to the number of
opportunities within these sectors that it's being.
Presented by an uneven recovery.
A similar theme if you like in for offices,
lots of talk of opportunities now emerging.
There's also no clear consensus on the long term impact
of working from home or dispersed work,
or dispersed workforce, and we're certainly seeing some
differences.
For example, working from home,
it seems to have less of an impact in Asia
and in Seoul,
for instance, office investments in 2021 were well ahead of
the previous years,
according to Real Capital Analytics looking at residential.
For investors, the flipside of widespread of the widespread
affordability
problem has been the continued reallocation of capital from
unfavored
sectors into various forms of housing,
and again their growing attraction of residential has been
reflected
in emerging trends,
North America and European editions,
in particular over several years.
Next slide, please. Looking beyond the mainstream sectors
alternative real
estate sectors are continuing to gain popular popularity.
As part of this fundamental shift into more operational and
service based real estate.
In particular, this applies to sectors where the underlying
00:12:17 --> 00:12:20: growth is coming from areas like digitalization,
00:12:20 --> 00:12:24: Wellness or health care, and where there's a more operational
00:12:24 --> 00:12:27: and service based element and element where you can the
00:12:27 --> 00:12:30: asset classes where you can add a service based component.
00:12:30 --> 00:12:33: Operational real estate has won wide and growing support across
00:12:33 --> 00:12:34: the industry.
00:12:34 --> 00:12:37: Also, partly because of its Contra cyclical and more of
00:12:38 --> 00:12:40: an inflation hedge than mainstream sectors,
00:12:40 --> 00:12:43: and it remains to be seen whether demand for these
00:12:43 --> 00:12:47: types of assets will become even stronger during the economic
00:12:47 --> 00:12:50: fallout from the Russia Ukraine conflict.
00:12:50 --> 00:12:56: Next slide, please. Whatever the specific real estate asset class,
00:12:56 --> 00:13:00: the industry is clearly already paying far closer attention to
00:13:00 --> 00:13:04: detail in asset management and the due diligence undertaken on
00:13:04 --> 00:13:07: the acquisition of any property type is is starting to
00:13:07 --> 00:13:09: be more rigorous than ever.
00:13:09 --> 00:13:12: Another common theme we are seeing is we around re
00:13:12 --> 00:13:17: purposing we purposes clearly gathering pace and despite overall resilience,
00:13:17 --> 00:13:20: some sectors and markets have experienced upheaval,
00:13:20 --> 00:13:24: leaving many asset classes obsolete and needing to be repurposed.
00:13:24 --> 00:13:25: And this is a theme that,
00:13:25 --> 00:13:28: to varying degrees, runs through all of our three regional
00:13:28 --> 00:13:29: reports for Europe,
00:13:29 --> 00:13:33: Asia and North America. In Europe,
00:13:33 --> 00:13:37: 52% of respondents increased the number of assets they re
00:13:37 --> 00:13:41: purpose compared to previous years and the most common assets.
00:13:41 --> 00:13:44: We purpose eyes from retail to mixed use or from
00:13:44 --> 00:13:46: office to residential.
00:13:46 --> 00:13:48: And that need for re purposing many assets is not
00:13:48 --> 00:13:49: gonna go away.
00:13:49 --> 00:13:52: But the clear message coming back from our research is
00:13:52 --> 00:13:56: that repurposing is a a much more complex and challenging
00:13:56 --> 00:13:59: proposition than many would give it credit for.
00:13:59 --> 00:14:06: Next slide, please. So what about the investment prospects for
Big cities still find favor with industry leaders interviewed for Europe and Asia Pacific report, reflecting a preference for the safe and familiar as well as the adaptability of these markets to the many structural changes in society against the backdrop of economic uncertainty following the pandemic. It's little surprise, therefore, that London, Berlin and Paris are seen as the best investment prospects in Europe and at Tokyo, Singapore and Sydney leader rankings. In Asia Pacific region, it's noteworthy that London now tops the European rankings despite being perceived to have suffered in the immediate backlash against big cities and long commutes during the worst of the pandemic in 2020. But these major, more dense cities are seen to be much more resilient to that working from home trend. The narrative around city growth has seems to be much more nuanced in the US and Canada, particularly in the Sunbelt region cities, and we certainly heard many speculate that the larger U.S. cities are potentially less well equipped to bounce back from some of these working from home trends and the rejection of the long commute because the cities are generally more car centric and less well equipped, perhaps than the European cities that have evolved over centuries. To be more aligned with the growing importance of areas like walkability and concepts like the 15 minute city.

Next slide please Martha.

Before I hand over to panel, I just wanted to touch on one other major agenda item for the industry and that's the ESG agenda. As we explore in Chapter 2 of this year's report, there's been a huge reallocation of capital towards decarbonising real estate. But also so much more to be done by lenders and regulators.

If the industry is to meet its targets,
the OECD is calling for seven trillion to be invested each year between now and 2030 for the world to meet its climate and development objectives. That reallocation has the potential to enable real estate to play a huge part in Decarbonizing, the world economy, equity and debt providers that drive real estate and determine how it acts have the power to influence the industry’s approach to issues like decarbonization on social impact and the indications are that it’s the equity investors that are leading the charge and working to get ahead of the regulation. Whereas debt providers, with notable exceptions seem to be waiting for the regulation to come. One of the biggest challenges is that the real estate industry needs to come together to work with regulators to harmonize the definition of 0 carbon. The way in which carbon emissions are measured and how green buildings are classified, and a general lack of agreement about the benchmark level of emissions from the from the building hinders the ability of lenders to demand an improvement. But as already mentioned, there’s now great uncertainty about whether the surging energy costs resulting from the Ukrainian crisis will speed up or undermine the global transition from fossil fuels to kuna cleaner energy sources. The danger is that high prices will spur further investment in oil and gas production, just as they did in previous crises, but for the longer term, the hope is that that the acute problems of energy securities will act as a wake up call to governments about the radical economic transformation that they will need to implement. Under the PSG agenda. And with that I'll hand over to Mike to lead us through the the the panel session. Great stuff, thank you so much for that Garth. That's a wonderful overview of a very,
very timely report. So thank you so much for that.
And and for anyone watching you haven't had a chance
to read the report yet.
I've posted a link to a summary and where you
can download that report and also the various individual
global reports as well.
I posted that in the chat.
As I said earlier, do please ask questions of our
panelists.
And the sooner you ask them,
the more likely that is to get asked.
So hopefully now my panelists have revealed themselves
and I
will just give a very brief introduction to them.
Also, we've got a wonderful panel to pick through the
issues that have been raised by the report,
so we've got Christina Gore managing principal and head of
capital markets at Gore Capital,
the Hong Kong based investor with 35 billion of assets
under management which invests in Asia Pacific,
the US and the UK,
we've got Michelle Huber, Chief Operating officer at Ivanhoe
Cambridge,
the. Tech based global investor with about 50 billion in
a UM and Lizette Vandoorne chief executive officer of
Europe at the ULI,
who we heard from earlier.
So I truly global panel to analyze a truly global
report.
So thank you all so much for taking the time
to to join us today.
I think there's only one place really to start in
terms of the implications that come out of the report
and and you know,
it's the the key topic of conversation around the
world,
and that's obviously and the Russia,
Ukraine war. From a humanitarian perspective,
the situation there is obviously,
you know, above all humanitarian tragedy.
Alas, no clear end insight over the past few weeks,
the West's response to it has come in the form of strong economic and financial sanctions against Russia. And what are the implications of that for the market that you all operate in, Christina, I'll start with you if that if that's OK, what what? What's what have been the implications of, you know, on markets and how you're seeing the world of that particular conflict. Sure, so clearly we have seen very big market movements of late globally. First stemming from China's own reforms started from last summer in the tech sector. And then we went into the real estate developer sector in the fourth quarter and then came the wall. So we have definitely seen market capitulation. But as always we we also find that you know historically, for all these years of investing crisis always comes with opportunities as well from our perspective. So while. It's still too early to tell the true implication on Asia Pacific markets from the war itself, but we tend to think that China it plays its Cardwell with its relationship with Russia on the oil trade, will be interesting development to monitor and with the US also switching its focus onto Russia right now, the attention on China maybe taking a temporary sideline relief internally within domestic China. COVID effect has not completely waned off yet, unlike the western markets, but the focus is continuing. On domestic consumption as well as the notion of common prosperity continues, I guess. All in all do focus on the concerns for interest rate rise, inflation, rise in increasing labor costs, and increase in material costs, all of which have direct impact on the real estate sector. So the key is to focus more on alternative real estate sectors that are still in favor in terms of supply and demand dynamics, where lifestyle and habit change constitute a key part of
how space is being used. So I guess within the APEC region we are seeing good demand for alternative asset classes like logistics data centers, life science, real estate and some of the ESG related themes started to we are seeing opportunities started link between infrastructure type investment but with land development. So in that sense real estate actually does come into play. So for example. Battery energy storage companies for renewal energies requiring scalable land acquisitions to build their plants. So these are some of the new thematic sectors that are in good demand for our region. As more investors focus heavily on ESG, especially in the last 18 months, obviously from Europe, it is a number of years already, but I would say in Asia Pacific it it really become much more prominent dialogue in the last 18 months. So so those are kind of the areas that we're looking for opportunities. In the Asia Pacific region, with all of those uncertainties happening around the world, sure just to dig into something that you brought up there. That relationship between Russia and China and how that influences markets. What you know how? How do you see? How do you see that influencing markets? What? What might that change in terms of you know how a real estate investor you know might see the world. Well, it is actually I think I think, obviously it's more on the political side of discussion, right? Which which things could play out very differently because we are now still kind of in the heat of all of that motion. But from our perspective is clearly that's what I mentioned about how China places card.
It's it's kind of where things might land, but I think some of the key part is really on the oil. You know, like whether China is going to trade, you know much more with Russia, which is a natural. Thing, and obviously with all the Western market playing sanctions on Russia, and obviously that China was being attacked as well. You know right now what we are seeing is that a lot of the attention is going on to Russia. If if you're in the West, which I was traveling in the Western countries in the last three months versus like late last year, you know most of the international news is actually focused on China, whereas recently of course every day you switch on the news, everything is about the wall. OK, so from that standpoint, you know. In terms of the global attention or the Western sanctions or tag it, it's kind of switching on to the Russia rather than necessarily focusing on China. So in that sense you know it does allow China to get through its own internal reforms. That is going through supposed to be for the longer benefit of a more sustainable growth market. But on the other hand, you know the oil is actually a factor that is going to drive or affect a lot of the global. You know inflation and. Interest rate rise that we are. We're currently being concerned in the real estate market as well, so so I think that that's kind of how we are seeing it in terms of those two. It'll China and Russia. How you know how they together could influence the global market? Sure, thank you for that. That's that's really interesting. Christina and Michelle. From from your point of view,
how are you seeing the conflict?
Sort of impacting the macro environment?
Sort of risk appetite in real estate.
It's very early, but any thoughts on that you have
on how things play out from here?
Yes, I think Christina put already a lot of good thoughts into this.
So so. She covered her very well if she aspects so on our side.
I think that the reaction was really well.
The two first absorbed the situation and acknowledged that it will take a while also to to figure out and grasp the amplitude of the different impacts that we could see on the global context.
So they there are three key areas that I often come back in discussions when we look at this right now and I will touch on them briefly.
So the first one being that talks about the. The potential flight to quality,
so I see that we we could see more risk aversions on different types of markets opportunities and that cold air on the other hand the favor.
More more core types of opportunities in major markets so so we see that it will change a bit the dynamics around that.
So make some things more attractive than they were before.
Another second point you touched on risk Mike.
I think for us as a global investor it's really.
In this situation, right now,
it's really puts back the geopolitical risk at the forefront of the investment decision making.
So we were living in this world where it it seemed really a global and a lot of investors like us are moving into more at thematic investment strategies where the the geography was not the the first decision driver anymore.
So I think in this context we see that the geopolitical risk coming back and adding pressure in two.
Underwriting assumptions and their risk.
How we see a risk premium so.
So that's a that's a change that is already underway,
and there may be a Third Point.

Also another thing that we are seeing is that the spillover effects will there probably be a very profound and they're changing over the coming coming months ahead of us.

So so at first it was easy to try to really.

Fuck your son. What was immediate?

Very close to the conflict,

but we see it's much larger than that.

It touching on the energy and flation supply chains.

And there's also that require of us to to really stay agile in them.

Monitor all this search engine context.

Sure, I'm just just to on that second point.

That's really interesting. The kind of re emergence of geopolitical risk as something that investors are focusing on is that solely on sort of Ukraine.

Russia, or is it sort of like every deal you do?

You're thinking OK, maybe we were ignoring geopolitical risks slightly and we just need to sort of factor it in a little bit more with every deal that we're doing.

I would say it impacts everything in the the sense well.

Of course we were thinking about the geopolitical risk before it was part of the analysis and of the the risk frameworks everything.

But now I think it's really puts it back in a more more permanent way and looking at different markets as we also have to try to figure out what will be the indirect impacts,

how other geographies will will evolve along these lines so.

It's really bringing back the topic the more important way, sure, sure, sure. Thank you so much for that.

And you know, Christina, you touched on inflation when you were when you were speaking earlier and that in terms
That was one of the major concerns that came out. I think it was the second most prominent concern for those interviewed and polled after cyber security, but above interest rate rises, which obviously are sort of linked to inflation. So how? How are you sort of seeing it in different parts of the world? Obviously you're. Your global investor is is kind of in the inflation rate in different parts of the world and impacting kind of how and where you invest and how do you see it. Sort of playing out and impacting real estate.

Right, I think. Well, basically recently we we're trying to put back a lot of focus on the Asia Pacific region because from a capital markets perspective, we are also seeing large investors focusing on certain sectors with which Michelle also mentioned about core. OK, which is kind of flight to quality and being a little bit defensive when the world is going uncertain. So we try to focus on mentioned earlier. You know, in the in the first question about alternative sectors. Right where supply demand dynamics remain favorable and the growth and cap rate compression remain attractive. But you know from the capital market standpoint we are also seeing increasing demand from large investors looking more for core investments in the Asia Pacific region. Especially now, while conventional wisdom is that in the rates rise environment, one might usually focus on assets that offer higher growth rate higher IRL. However, in this environment where labor costs and material costs are also. Rising quite exponentially. You have to look at replacement cost for a brand new build, which becomes a lot more costly versus if you were
to buy existing core assets that are actually still relatively new.

With fully ESG compliance standing those assets will ultimately fetch higher rental from future tenants because of the chase. For sort of more healthy building we we we call it so long term value will then be well sustained. So we're actually seeing that. A rebalancing approach of the large LP's looking at their global portfolio, where I think during the global financial crisis at leading through the last, you know 6-7 years and they were able to pick up a lot of very good core assets. Good value core assets in the western market, right and then Asian core were less of a focus a couple of years ago, but now we come in play right? So so I think that that is, you know, kind of how I would share about your your question on. Inflation effects and what are the areas that is our focus?

Sure, thanks for that and and Michelle. For from your point of view. I mean, Garth touched on it in his presentation real estate sort and real assets, traditionally seen as a sort of hedge for inflation. Do you see that holding true in this particular inflationary environment? And how is it? How is sort of inflation affecting again, you know where you're where you're investing around the world? Yes, so so I agree with the views are brought by Garrett. I think when we look at the broader investment universe, real estate is still holding its ground and it's on a relative basis stays interesting in an inflation context, so so that's something that that is positive and we already had a lot of capital interested to the sector. I think this will continue in this inflation context.
So for us, really, when it comes to what it implies on the investment strategies.

As Christina said that that we people are looking for sectors where the fundamentals are strong where we expect roads.

So lots of people are looking for logistics life sciences alternatives,

so so it puts more competition into it with this sector.

So so it's really about how can we access a differentiated opportunities working with the right partners.

So so it definitely puts pressure and competition into a into the game and.

Another sector where we, another area that was that is key in our planet for the years ahead is on the development side,

so of course inflation. It brings it means rising construction costs so so we see we see the some pressure on that side two so,

but it will remain an important part of our plan.

So we we just need to make sure we have the right convictions on the revenue potential and that we that we are cautious in.

Having the right to assumptions from the start,

of course, and and as I say,

kind of interest rate rises.

You know, inherently linked to inflation are you,

are you? So we've seen the Fed sort of indicating that they're going to be raising rates?

You know fairly significantly and then around the world there's a bit more of a sort of decoupling between sort of Europe and the US and Asia and the USI mean. What are you factoring in in terms of rate rises?

Because obviously pretty much since the GFC.

You know post GFC. Sort of low interest rates have been absolutely brilliant for for real estate.

Or are we coming to the end of that era?

Do you think?

Well, I wish I had the the crystal ball to figure out the next 10 years ahead.
So so for us. Yes,

it means it's interesting how you put it.

It means you you as a global investor we we

have to be mindful of that about how things could

evolve from a region to to another and really our

strategy is more based on the long longer term side.

The long term fundamentals. So so trying to to stick

to to what we want to build as a portfolio.

Around the resilient sector. So so yes,

we have to be mindful of the global context and

see how if we adjust along the way or our

capital allocation.

But no, no big panic movement or or whatsoever.

Sure sure sure and please set the E Tre report.

You had a very strong focus on this idea that

we are in a kind of late cycle moment,

you know, sort of COVID very much didn't reset the

cycle,

it was maybe just a bit of a pause and

then we're sort of back into that.

That kind of late cycle moment.

How are investors finding value across the you know,

across the world in in a moment like that and

and avoiding the pitfalls of,

you know, kind of what inevitably comes at the end

of the cycle.

Yeah, thanks Mike. I think actually Michelle and Christina

already

commented on the other extensively,

but I actually wanted to bring in the long term

perspective to that,

because yes, we may be at the end of the

cycle,

especially for some sectors. It's probably not an even cycle

for all the different sectors where some have also been

massively disrupted through the pandemic.

So I think I I'm not sure I've seen that

in the past,

but it's such a. Wide gap between sexual performance that

I think you almost need to look at it at

a very granular level,

sector by sector, and maybe even sometimes sock sector by
subsector,
where I think it's very important to keep the long
term mega trends in mind,
and I think that still drives a lot of the
investment in the various sectors we heard a lot already
about logistics and where where kind of the.
The specifics looking it's not just looking at logistics anymore,
it's looking at specific deals,
specific pricing levels, locations, etc.
But from a long term perspective and that may see
a hiccup now.
Maybe with the with the current crisis it's still more
growth to be expected.
And then we have, of course.
All driven by technology, but technology is also driven data
centers.
Communications infrastructure, and I think a lot around that
and
then we have demographics fully driving that appetite for
residential.
And it's not just about social or for the whole
housing,
it's about all the different housing types and I think
what we're seeing now is really excellent.
Asset allocation has gotten a different meaning.
I think it's not just looking at retail for us
is office versus residential.
It's looking really that level.
Below, and that also signifies the trend,
and it may. It is also partly connected to made
cycle is that focus on operationalizing the assets.
I would say squeezing the last bit of return out,
but obviously it's also the long term shift in the
industry where we realize that we're moving from a business
to business.
I would say to a business to consumer sector where
we need to think about.
The end user, the customer who is using or properties.
What are they doing with it?
How can we service them better and that trend kind
of is reflected also in where the values being seen.
Some sectors are still very small.
Life sciences data centers and and others,
but there's huge potential there so I think and and kind of what you see with that as well.

It's a huge widening almost.
The definition of of real estate,

where in the European report,

for example, new energy infrastructure was under number one spot

in the top ten of preferred sectors and that infrastructure element gets more and more focused.

So yes, late cycle, but a lot of opportunities I think,

and especially when looking at it from a long term perspective.

I think there's huge interest.

I want you to bring in one link with.

Inflation as well because we say it's not operating in isolation.

Many of our investors not only invest in real estate, but other asset classes do,

and high inflation and rising interest rates may not be at some point so beneficial for real estate.

They might be even less beneficial for other adds classes.

Look at where bonds going at the moment.

And there's a big question.

Marks about edge equities as well,

and I think that's really important to keep in mind.

Ultimately, it's about relative value,

and there's still a lot of value to be made in real estate,

I think, and that is linked also to those emerging sectors where lot is happening.

Sure,

sure. Sure, thanks for that.

Is that Christina? Do you agree with that point that we're kind of late late cycle?

And how are you? How are you kind of positioning the business?

Accordingly,

so so. So I'll I'll.

You know, I'll jump on a little just just a little bit on logistics,

just because I mean. But I think Lynette and Michelle
have already kind of addressed most of it, but then I will also talk a little bit about what what we're seeing in Asia specifically. OK, so, for example, take logistics. The report did mention about late cycle, and indeed cap rate compression has been severe already, and in fact we have beneficiary of it because we've been buying and we have been selling as well. So we are experiencing that growth cycle in a positive way. But we are also finding other verticals with the within logistic to enhance value such as code storage, right? As you guys have seen in the West Coast, storage is actually coming about as a very valuable vertical chain within logistics, which in Asia is really just started. You know, even though it is not as huge of the of the market that you could scale like the dry storage. But in essence it is a higher margin business within the logistic vertical. So we find that there are always ways to evolve and work on extracting higher margin within a similar sector that has benefited from exponential growth. Because there is a fundamental habit shift of the population right now, the one thing that I wanted to mention about which is very specific to China right now and it does have a little bit of a link to other Asia Pacific opportunities which is. In a way, it's a little bit of a self inflicted real estate developer demise. You know that we have seen huge market capitation with the Chinese developer bonds, you know, which was very much in the market in the fourth quarter of last year. And as this continues of deleveraging like the the forcing of the government to have the private developer companies in China to deleverage their balance sheet. Basically it it it. It created quite a bit. Have special situation opportunities for us in that some of
these developer do have to sell some of the investment portfolio assets and even some of the development assets that they are already that are in, you know, prime areas outside of China.

For example, we are looking at a few in Hong Kong where it is a home market home turf and we were able to get into very very attractive prep deals or debt deals. You know where.

Otherwise it it probably wouldn't occur so so we're also looking at. Some will be Special Situations where it's it's specifically happening in our region, not necessarily related to what's happening.

You know, around the globe, yeah,

so I'm just one question that's come in from our audience before we move on to the sort of ESG discussion Christina talking about kind of long term trends and something we've been hearing a lot about in the West.

In particular, is the idea that COVID is sort of precipitated this idea that value chains and supply chains. Need to be kind of reassured or uninsured and the potential move, particularly in manufacturing and logistics of wave from Asia back towards North America and Europe.

I mean, is that something you are seeing playing out in practice?

Is it something you're anticipating coming through? And does that affect the sort of proposition you know, particularly in sectors like logistics in Asia?

Actually, funny enough, not really, you know, because in a way I think a lot of the heavy industry type of manufacturing for the US, for example, has actually moved back domestically. And even though China is still being seen as like the you know factory of the globe or whatnot.

But I think we are. We are actually dealing mostly if what we are seeing on demand is mostly very very domestic centric,
meaning that a lot of the things that's happening in China in terms of demand is actually domestic demand. Of that 1.4 billion population, and what we are seeing in fact within Asia Pacific itself, which is benefiting the factory. In fact we're doing build to suit factories. OK, which is something I didn't talk about because it is very much specific to Vietnam which we also about market. We are very active in which we're very successful doing built to suit factories where is actually benefiting the Chinese manufacturers moving their plants. To Vietnam so. So this is not like multinational companies per say. It is the Chinese company needing to move that plant to Vietnam and therefore benefiting that trend of, you know, we're creating factories, building up factories very quickly and that these manufacturers could just move to Vietnam from China so that they could actually export out to the to the Western world. OK, so this is not completely, you know, gone in terms of that demand. Yeah, and the other thing is also. In Vietnam you would also see Korea, the LG Electronics and all that they are setting up plants all over in Vietnam as well, right? So within the Asia Pacific demand itself, it is still creating more demand for, you know, manufacturing, right moving within Asia in different countries. Yeah right, thank you for that. Is there in terms of the report Chapter 2 out of big focus on decarbonization and how that's going to be sort of funded and and. Finance, but there was also an element in there that sort of talked about how that you know, has Garth mentioned in his presentation the sort of plethora
of standards regulations around what constitutes a sustainable building,
how we label them, what different regulation is occurring in
different parts of the world that's being seen as a
big hindrance to the ability of equity and debt providers
to sort of plot, plot their strategy in terms of
decarbonisation.
So what do you think is the role of a
to sort of clarifying that,
and what are the big opportunities and challenges at this
time,
do you think?
Yeah, that's a very important point,
and Mike and I I wanted to go back a
bit back in history to kind of.
Almost explained the reason why we are where we are
and that is,
let's say, 20 years ago we started to talk about
sustainability and at the time there was nothing.
There were no standards. There were no building certifications,
nothing and only if you had the word green in
your front title you were already kind of.
And if the building had some screen credentials,
whatever that meant at the time it was already a
big advantage.
So soon we saw development of all kinds of buildings.
Handles Graham, leads, etc. And that has evolved overtime
at that time also the folks were still on products
being green or funds being green.
Now it has to be part of our whole corporate
strategy.
To be sustainable, and it's far more than,
say, energy efficiency or building insulation.
But what I think you've seen throughout that time is
a very clear lack of regulation.
To push this market forward,
it's been investors, institutional investors,
mostly, who've been driving this.
Many of you may remember grasp coming in.
What was it? 2920, ten?
And that kind of adopted by institutional investors who then pushed it through the market at the time I work for INREV, and we also had guidelines pushing them through to the market, supported by institutional investors. And those demands are of those institutional has not fully aligned. Everyone wants some specifics here and there and I think what we now have is a market where there are too many building city stations, reporting standards etc. And now the regulator is trying to speed up the process. We see huge progress being made in the EU with the EU taxonomy. And now we've come to stage that it's actually not helpful anymore. There's just too much on that. And now it's the question, how do we get which? Basically the race to net zero. We have no time to lose, so how do we get to some common understanding and agreement, or what the right standard is for a sustainable building? And obviously, that goes much further than just. Energy, the social element should ideally be included in that as well, but even for the the east side, it's already complicated enough, and I think that is hugely important because it will help us speed up the process and scale up the process because a lot a you don't know what you're measuring at the moment. You may be measuring something and it's all done with good intentions. The only thing is it's hard. To verify, because you may use another definition, then your colleague fund manager may use so that comparison is. It's not possible, and that kind of also on a wider industry level is the risk of greenwashing.
which is not intentional greenwashing.
But because there is no comment.
Definition standard whatsoever. It's very hard to judge that properly.
We're actually in the process now, together with interest and UN PRI to start mapping and visualizing all those different standards, which has not been done before. So at least start to create transparency on how do they relate to one another and which one is actually the most advanced.
So maybe in industry Canmore get behind that.
So we think it's a lot of work and it's a key step.
We need to take to take this forward, so I'm gonna ask you a really provocative question.
Then, is that so is the market going to come up with a solution here?
IE, everyone will gravitate towards 1 benchmark or one or one measure or does some?
I don't know who the body would be.
Does someone have to say well you all need to merge or you know how?
How do we get to that point?
Do you think?
I think the regulator is stepping up and I actually think the industry is happy.
The regulators stepping up. I've never asked, seen so many people in real estate asking for regulation to under especially under the carbon side.
And I think it's well, the EU is getting ready for it.
I think the key risk or element to consider is it tailored to real estate?
We've seen that in the past.
We're kind of real estate is sort of an add on to all asset classes and being a different asset class that it doesn't always make it easy.
And what we actually see is that I think in Asia also regulation is ramping up quite rapidly.
Now, is that some follow the EU model, so there may be local variations,
but it's based on the same principles so I do think the regular the regulator is stepping up.

Michelle, I know you wanted to add something on sort of embodied carbon, which is something that the the industry starting to get its head around.

For those of you, if it's not a term, it's not necessarily a term that everyone knows. That's the carbon emitted in the construction and demolition of a building rather than it's it's operations.

But Michelle, I know you've been sort of thinking about that quite a lot.

Yes, so so on our side.

Well, I I I have to say that the work we do with you, Ella and other industry leaders is so important in that regard.

And of course there is still a lot of work to do.

I think to engage properly the the public side with the private side,

but at least some work is getting done and we are progressing on that front and maybe just a touch on that.

I think in Europe we see that the regulation, even if it did not perfect the frameworks in place, are really playing a role in that driving decarbonisation so so I compared to other regions across the world.

So I think in the US we are starting to see us.

So as some some levers are coming out of that, but they're still in Europe.

It's a. It's a good place,

a good model to to look in other geographies as well.

So so for us yes, and embodied carbon. Now for us the the challenge is really to look at everything from existing assets to the new ones we developed.

So so I think these are two.

Francis where there's a needed to engage and I really
set some standards and approaches on the embodied carbon,
which is the carbon that is emitted at the construction stage we launched last week with other European player and initiative for low carbon labels.
So that's the type of the more we work together around this,
the faster it will go,
and it may be so.
That's something we for us.
It's a bit the next challenge because so far over
the last year.
A lot of the talk was about the operational emissions so now where we also have to be to be honest and to tackle the.
Also the development side so that will be more and more important.
And maybe Mike. If I had a word on the existing building assets and the need for greener retrofit projects,
I think this is another critical area where as Lisa said we need this,
this discussion, this engagement.
Going on so. So on our side like for this there's a statistic that always come up that in the in 20 fifty 80%
of the buildings that will be there have already been built so it shows that we we cannot ignore the the existing building park that we have.
So so on the public side when it comes to green retrofit projects,
what has been the driving so far the change has been mostly more kind of stick approaches.
Go away, punitive or be the threat of not being able to rent space.
If the energy see energy efficiency is not up to par.
So what we would like to see and we are starting to see this happen is maybe more as some carrot approaches.
And so like let's say in Italy where we see
some density bonus and if some renewable energy thresholds are met.

So that's something that we find really interesting and inspiring and that.

We keep a close eye on and on the private side that we have been there quite vocal about that.

Also at High V Nowhere Cambridge I think to make green retrofit projects more attractive we need a clear price on carbon.

So so we need to as an industry to help ourselves and may make the maps work.

So evaluations are important there and to really to demonstrate that the reality of future and future perspectives as well.

Just just two things to pick up on what you said there. That's super interesting, Michelle, thank you for that.

I would say it of course it takes a different kind of factors,

but the importance of the ESG factors for us they are becoming more and more important,

so so it has already.

It was already integrated throughout our investment trusts and more and more we are putting it more at the core of the strategy really in the decisions that drive capital allocation. So so one measure like that person will not be a game changer,

but the. These factors are considered in how we allocate
capital and will be more and more that will be
more and more the case.
So
sure, sure and and just your point on carbon pricing.
That's really interesting when you say you know we need
a clearer price on carbon,
I mean again, sort of who should be setting that
price.
Is that something that you do internally or that
you know real estate will do internally?
Or is that again something that comes from external
regulation?
I, I think
this is as much a company level than an industry
level or type of challenge here.
So so at the company level.
Of course we and we are exploring around these lines
as well about how can we have an internal carbon
price and how can we access the CapEx programs
accordingly
and make the right choices around that.
And I think it's also an industry level discussion where
we we if we want change to happen around
us and.
To to really see the industry moving this way.
This way recognize the the increased value that we we
see in a green assets so so that how can
we as an industry progress toward that.
So. So I think there is work to do on
the on both levels.
Yes
brilliant thank you. And then we've just got a couple
of minutes left so Christina just take us home as
I say we've got about 2 minutes but tell us
a bit about any innovation you're seeing on the ESG
side in in Asia Pacific if you would.
Sure, OK, I I guess that's that is 6 years
ago we started to go into Proptech investment,
which I think at that time everywhere is still kind
of very skeptical about how big or how far proptech
could go and and obviously without saying anything more it's
becoming much more prominent, especially for real estate player,
especially when people are focusing on the EE within the ESG.

A lot of the software companies have proptech does do their job in terms of providing a lot of useful data to ended up helping.

Landlords or tenants and whatnot to actually save on energy usage.

So we have done investment in those type of companies as a strategic partner where once we have tried their technology in our portfolio, if they are useful we have actually further proliferate their usage onto some of our LP's who have much larger real estate portfolio to use them right so thereby helping some of these companies grow within the Asia Pacific region is interesting in that as you know, all of these technology or smart.

Building contains data and increasingly all the countries are very much protecting their data and as a result of that you could argue that the APAC innovators or sustainability areas that we have seen. It's not necessarily that different from the West where you know a lot of these companies or protect it's it's even further developed. It's just that in Asia you kind of have to localize those companies.

So instead of seeing a global company coming into Asia and be able to proliferate very quickly, it's more like all the companies that. Light localized in a way in their own region. A company that could tackle China cannot tackle Southeast Asia, for example, right, so there there it goes.

The opportunity of how you have different kinds of companies that you could invest while they are doing similar type of things in their market in their respective market. This is kind of like relating to obviously the real estate side, but then as time is tight you know I'm just gonna quickly into like the SNG where on a social aspect a little bit less related to real estate.

Would be if you look at Southeast Asia.
Increasingly, there is a lot of focus on sustainable farming, agricultural tech, food, tech, supply chain, sustainability within retail tech, all of these. For example, Singapore is a huge base for food tech innovation in the region. Indonesia and Vietnam have a lot of potential to explore innovating around the social part because developing countries have more ways to create a sustainable way of retail agriculture. Doing manufacturing as processes are not. Get us fixated like developed markets, right? So these are sort of the newer opportunities within ESG and sustainability within the Southeast Asian market that we are seeing because there's a lot of ways that they could do something new, and to certain extent a lot of these new businesses require real estate to to grow with them as well. It could be warehouses or industrial assets, so from that standpoint there is the real estate relevance to us and that's why we we keep the focus on all of these new, you know, innovate. Innovative company and industry areas. That waterfall, great forward thinking and forward looking point to to finish on so thank you so much for the panel for that incredible insight into in into the the report and some of the topics that have come up from that. So thank you all so much for taking the time to to give your views today. I really really appreciate that to our audience. Please stick around. I think we're just about to launch a zoom poll where you can give us. Sort your feedback on the event and also a few other things relating to the lion emerging trends. So do please take a couple of minutes. To fill that out and I'll say thank you all very much for joining us and hand back over to Lizet to close us out. So over to you Lisette. Thanks, Mike, I don't think I have a lot more to add because I found it really fascinating,
so I wanted to thank Garrett Mike you for moderating
Christina Michelle for participating.
And of course the audience for listening.
If you are interested in the web and R as
well as the reports are are vailable on
knowledgethatyoulie.org also
on PwC websites and.
I'm just pointing out two upcoming events that you realize
organizing the spring meeting in April 19 to 21 in
San Diego and the Europe Conference in Brussels from the
11th to the 13th of May and hope to see
many of you at either one of those events.
Thank you so much and hope to see you soon.
Again, thank you. Thanks everyone.
Yeah.