Webinar

ULI Europe and PwC Emerging Trends in Real Estate 2023 Webinar 20 years of Emerging Trends

Date: November 30, 2022

00:00:04 --> 00:00:10: So good afternoon, everybody. My name's Angus Johnson. Welcome to

00:00:10 --> 00:00:15: welcome to the ULI Europe and PwC emerging trends in

00:00:15 --> 00:00:17: real estate 22023 webinar.

00:00:19 --> 00:00:22: Today we're going to be looking at 20 years of

00:00:22 --> 00:00:25: emerging trends and that's going to be a journey both

00:00:25 --> 00:00:29: looking at what's happened in the past but actually focusing

00:00:29 --> 00:00:31: more in the future. And to help us with that

00:00:31 --> 00:00:34: we're going to hear from Sophie Chick from the UI

00:00:34 --> 00:00:37: who's going to run us through that part of the

00:00:37 --> 00:00:40: survey that that that's dealt with this 20 year

00:00:40 --> 00:00:43: agenda. And then following that I'm going to host a

00:00:43 --> 00:00:47: panel with with Juliette Morgan, SG consultancy director from Gensler

00:00:48 --> 00:00:50: NASA Hussain founder and partner at Brookland.

00:00:51 --> 00:00:54: And Duncan Owen, CEO of Immobel Capital Partners.

00:00:55 --> 00:00:57: So with that in mind, I'll hand over to Sophie.

00:00:57 --> 00:00:58: Sophie, over to you.

00:01:02 --> 00:01:05: Thank you Angus and hello to everyone. Thank you so

00:01:06 --> 00:01:09: much for joining us today. So as you've just heard

00:01:09 --> 00:01:13: you know we're we're having a look and and celebrating

00:01:13 --> 00:01:16: 20 years of of emerging trends in Europe and I

00:01:16 --> 00:01:19: should just say that to put this to put this

00:01:19 --> 00:01:23: section of the report together with which sits within our

00:01:23 --> 00:01:27: main report for for emerging trends and this year we

00:01:27 --> 00:01:30: were really lucky to have input from a nearly 1000

00:01:30 --> 00:01:32: people across the industry.

00:01:32 --> 00:01:36: In the form of having a survey done, various interviews,

00:01:36 --> 00:01:39: roundtables and we asked experts both within the industry
outside the industry and we also made sure that we included the views of the different generations. So we've got views particularly on the future coming from everyone from students, young leaders all the way up to people with their with more experience. So I just want to start by having a quick look back because I think it is really interesting when you take a step back. And just have a look at how much things have changed in quite a relatively short space of time and picking out some of the the quotes that we saw in some of the older editions of emerging trends have really illustrated that. So we had back in 2006 we had one of the findings from a survey question was actually a though mixed-use developments were sort of gaining in popularity still we still had the majority of people being wary. Of doing mixed-use development. And then a year later in 2007, one of the findings was that when asked about had to the one of the findings from a survey a new European sustainability legislation, the majority of the respondents and the industry didn't know anything about it, didn't really care and felt that green buildings were just a marketing ploy. So it's very encouraging to see that we have moved on quite a lot since then, but I would also say that actually in some aspects there hasn't been. Has much changed. So right the way back in our first report that we did that was an outlook for 2004, someone said that we're still building things in the way that we did 30 years ago and to some extent that's still true today. One of the things that we asked in our survey was having a look back again historically at what the biggest impacts have been on the real estate industry over the past 20 years. And you can see the results here. The biggest impact was deemed to be the low interest rate environment we've had and quantitative easing. The second was the impact of the global financial crisis. And and looking at our report from 2009, someone likened this to
the fall of Rome, although they said that this time. The Barbarians were already through the gate, so the importance of the GFC really can't be understated. We then have use of technology, urbanization, and the rise of ESG coming in 5th place.

So to try and break this report down, and we did it so that we could. Break it into six different categories with capital markets on the path to net zero, taking on greater responsibility, customer service, real estate as a product and cities and placemaking and what I'm going to do. This obviously covers a huge range of material. I'm just going to give you a quick highlights from each of these topics. So starting with capital markets and it really is amazing to see the evolution of the industry that's happened over this. Over that that two decade long.

It's gone from a relatively opaque industry to one that is really integral to the financial markets and the availability of data, being able to benchmark and track performance has been really important there.

Just to illustrate how much the industry has grown since then and we have since the GFC that European listed real estate has grown from 174 billion to 441 billion and in the non listed sector we've seen funds expand from 45 to 536 vehicles according to INREV. So huge growth there.

We just talked about the GFC having a a big impact on the market and of course one of its legacies has been this change in lending philosophy. So we saw banks draw back, become much more conservative and that hasn't changed and in in its way Cora alongside that we also see when saw a new breed of lender entering the market and they're likely to continue to influence the market going forward.

We're also seeing where global capital is deployed is increasingly being influenced and will continue to be influenced by disruptive forces such as geopolitical events that in many cases are quite hard to predict.
Now when we look back over the past 20 years, we saw that ESG came in fifth place in terms of the most influential factor for real estate. If we look forward over the next 20 years, it's a very different picture. You can see here the most influential factor is expected to be the SG agenda followed by climate change and decarbonization coming in 5th place. So it really is widely acknowledged that the industry accepts and knows that this change needs to happen. We know our responsibility, but it should not be understated. The challenge that faces us as we look ahead and some of the key themes that came out of these are the reports and insights from the industry are the refurbishment of existing buildings and embodied carbon are two of the greatest challenges that we need to meet and they will have an impact on value. There's a vast capital expenditure that is needed. Regulation is actually going to be really important, and what I found interesting is that this seems to be really welcomed by the industry, particularly when we spoke to the younger generations. Post technology has a part to play, and we're already seeing some of that. In the case of smart buildings or green building, material and other technology will emerge. And finally, as the world warms and continues to warm and climate resilience and adaptation are going to be critical to combat those physical risks, and we're likely to see more emphasis placed on biodiversity. Another key theme that was really interesting that came out when we were looking ahead and what was going to make the most successful real estate going forward is this idea of the industry taking on greater responsibility and responsible capitalism was there was a key theme and I think this chart here illustrates it. We asked what's going to be important for this successful organizational transformation of the real estate industry over the next 20 years and the top 2 answers are running an environmentally. Socially responsible business and creating social impact alongside financial returns. And this isn't just about decarbonization. This is thinking...
about issues such as loneliness and aging, population inequality and society.

Things that real estate can and actually should. Be having an impact and and working out how we can tackle them.

Our 4th topic is customer service. And actually it's been really interesting to see the evolution in terms of the focus from the industry from landlords going to tenants and occupiers. And they're more recently focusing on customers. And we've seen companies and and we look forward and we think the most successful companies are going to be those that look beyond just the physical real estate and now look at the spaces as service and designing it around the needs of the occupiers that they want to. Attract and this may well mean that you see broadened business models and that are able to provide design, management and operational services. Reputation and brand will be key and diversity in real estate and hiring outside traditional skill sets are going to be really important in terms of being able to meet needs for the future.

When we look at real estate as a product, it is really noticeable that we've seen an absolute explosion in the number of products that that we look at a number of different sectors. And I think a really nice way to illustrate this is when we have a look at our emerging trends rankings for development and investment prospects and have a look at the different sectors, we can see how that's changed. So back in 2004, the prospects for 2004, we looked at 8 different sectors. Interesting to note retail on top. By 2008 that had expanded to 10, but by 2016 that had almost doubled and we were at 19 different sectors. Noticeable that residential has gone from just one. And before the GFC and we're now looking at a whole number of different residential sectors and the most recent outlook that we did that we published in this report is for 2023. And the top investment and development sectors
are there's 27 in total and the top being those alternative perhaps more niche sectors like new energy infrastructure and also a huge number of residential sectors in that top half of the table as well. And I think if we look forward, what's going to be really interesting is to see how the industry manages the blurring of lines between these different sectors. Finally for me we have cities and placemaking, so. This the key theme that came out here was making cities a better place to live and focusing on social inclusion. And we've already seen a number of concepts emerged that are going to try and help with this, things like the 15 minute cities or smart cities, and we expect to see more coming through in this space. WhatsApp perhaps more radical is is when we were looking forward 20 years we had a number of people talk about the idea of self-sufficient neighbourhoods in urban locations that are producing their own food, their own energy. If this sounds a little bit like we're going back in the past it's it's not. We're still talking about things that are designed and management by technology, sophisticated adaptive AI sort of managing and and designing. These locations. So I think on on that note, it's a nice place to stop to think about where we might be living and how we might be living in 20 years from now. And I just want to say thank you so much to everyone who contributed to this report. We really can't do it without you. And the full report is available on both UI and PWC's website if you're interested in having a further look at that, but to get more. Insight to some of the topics that I've just covered. I'm going to pass you back to Angus and the rest of the panel. Thank you. OK. Thank you, Sophie. If I can ask my fellow panelist to to join in as well just while they're doing that. But this is an interactive session, so you should have on your screen a chat option.
Which will give you the.

OK. Can everyone hear me? I'm sorry about that. Yes, it just just while everyone's joining, so.

We have a chat option here on the on the screen. So, so anyone who wants to to ask a question, just just type it into the chat and it'll come up, I'll be able to see it and I will introduce it into the mix, right. So. So let's,

I thought, I thought we might might start as is just sort of taking a really big picture look at what we've seen in the last.

20 years and and and sort of try to reflect on on sort of how that makes us think about the 20 years to come if you like. I mean it feels to me that that we've seen a number of of you know quite quite extraordinary things happen.

And obviously we had the GFC we had the the the quantitative easing and and sort of the cheap money that followed that that came up on the on the report we've we've also seen a a huge advance in technology you know I was checking earlier it's actually the first smartphone and I think we probably would we accept that we measure the real rise of technology from the introduction of the smartphone.

First smartphone was the iPhone. It was introduced in June 2007, which really doesn't feel that long ago, the way I look at it. But you think about the extraordinary change that that's that that's wrought since. But, you know, we've had the, the, the GFC, which was an extraordinary event. We've had a pandemic, which was an extraordinary event.

We've now got a land war in Europe, which is another extraordinary event, all of which I think, you know, if you'd asked two or three years before those things happened, do you think that would happen?

As people would have said, no.

But they have happened.

So I guess my first question to the to the to kick around with the panelists is.

Whilst it's hard to predict what the next sort of crisis would be.
Is there anything that we can learn from what's happened in the last 20 years that would help us do you think in terms of?

Of resilience in, in the face of crises. To come. Because I think what the last 20 years probably tells us is that there will be. I don't know what they are necessarily, but we can talk about that, but I think they're probably will be. Who wants to? Who wants to start? Duncan, why don't you have, why don't you have first shot at that?

Who wants to? Who wants to start? Duncan, why don't you have first shot at that? Gosh, yeah, it's a big topic and I think. First of all, what a good presentation that was. That was a really good whistle stop tour of 30,000 feet of what's happened in the last couple of decades. In order to answer the question, Angus, I'd probably. Just take one step back briefly because listening to the presentation, it feels like we're almost in a in a fourth phase of real estate and real estate investing over the cicada the last 20 years and I've maybe been unkind to my profession. But. 20 years or more ago, it seemed that. We just bought buildings, let them on long leases, waited for the lease to run to the end and then sold them as a lower price. And that moved into a slightly more proactive approach where you would hear the terms where people would buy a building their fix it, whatever that meant. They might be. The might be the occupation, it might be the fabric of the building and then they'd sell it. That was often the mantra of a as you went sort through the 2000s up to the financial crisis. Post the financial crisis, I think we moved into a theme based investment criteria and there were some mega themes people often used to talk about. I did when I was introduced, we used to talk a lot about the rapid urbanization, the fact that the world's population was going from 50 to 75% living in urban cities and at the same time it was going from 6 to 7
to 8 billion and on to 10.

Obviously the population was aging and so the demographic changes were huge and what we're doing and investment there was a big consequence on what we needed in new infrastructure and power and how we're going to get power. We're seeing that now.

The technological revolution was amazing in every way from mobile phones, communications, the fact that were there. There's now more than 10 billion mobile phone devices. The fact that. There is now twice as much data existing as there was two years ago globally. From where does that all get stored? What happens? And there was this ship from the West to the east and I think what's taken over from those themes, which is sort of the answer about the future as well as what we've learned.

Is people want more flexibility? They want the real estate to be more operation focused, customer focused. And they now need it to be green. And you need what we call 4S is you need buildings and strategically important that are smart buildings, sustainable and safe.

And you and they're all all those points are intrinsically linked.

So it's almost the fourth phase which is really focused on ESG and flexibility and everything that goes with that about amenities, social and the built in roles.

So if you look back and answering your question, I think the key thing we've learned is we don't learn from Alice's and. And by that I mean the first, the first, the, the main point, the easiest point.

Is the fall in capital values and the instability and the capital system that we have now. Is an echo and I would argue with still the consequence of the financial crisis. We're 14 years further on with quantity easing, the resultant inflation and the resultant capital crisis in that we are beginning to try and take ourselves off the drug of quantitative easing and we can't
really afford to do that and that's having an impact on it all but the very most productive and most efficient economies. And what that means is it has a huge impact.

And how it should be behaving as investors? And requiring the Council to work more smartly with decarbonization, having a pathway to net zero is essential. And we've got to learn from those lessons, getting back to my point. And we've got to have more flexibility and more of an operational approach. So I'm sort of answering two questions in one, forgive me, but.

Part One is we've got to learn from the previous lessons and the evidence suggests we have them. And Part 2 is we're in this sort of fourth phase over 20 years, which is all about green, having sustainable strategies and being more flexible. So we actually deliver more occupies once and we've really got to learn those lessons.

Still only using this. Mute, it keeps putting me on mute, right. It's quite disappointing. But the, the, the, the, I think, I think maybe the that what I take from that answer though which I think is, is fair is that you know we've spent the last 20 years somewhat reliant on yield compression.

And and really the answer going forward is going to have to be to be more focused on value creation through asset management and that maybe that that in and of itself would make the industry more resilient against against shocks that might come through. I mean I guess a surprise crisis that might come around and hit us but but which we ought to be expecting anyway. You know, it it could well be a climate based thing, you know, a a so-called green swan. Events, you know, a Pakistan style floods through Europe that makes half the built environment uninsurable a you know a series of heat waves if you like, which mean
that the UK basic building structure which you know, without wanting to sound too glib about it, I think it could be defined as keeping the rain out and the heat in. You know, we would have to deal with a situation where there's not enough water and you're trying to keep the heat out. I mean, Juliet, I know you've thought about some of these things. Are we, do you think we're underpricing the risk of that? Do you think we have any conception of of what of what that sort of crisis might look like? I think this conversation shows that we think it's a future event and actually anybody looking at some data would realise that parts of London were underwater last year in the previous year. That there are very substantially valuable assets that have been impacted by flood in this country. A commercial assets and residential three years ago just bringing it to Europe, I think the on the registry of of most impacted countries by value was Germany through massive flooding. And then we saw you know a Green swan event, a fire in London because of 40 degree heat last year. So the fact that we're even talking about this as something that's happening in the future at some unquantifiable date suggests to me that we've, we've not embraced the fact that it's, it's not happening in the future, it's happening now. So has that fed through to pricing and I suspect it hasn't partly because valuation is driven off, annual valuation cycles are not CFD disclosures. And if you look at climate mapping, then most of London would be underwater. So if you, if you look at the value of all of London's assets and that tells you a lot about whether we're priced in that risk or not, it may well have started to flow through to insurance premiums. But I think you mentioned a really important word which is a word that hasn't come up very much in in the report. So
we're talking a lot about ESG as an industry. We're not talking as much about adaptation and resilience. It's entirely likely that we breached 1 1/2 degrees. This summer. So if the tell 12 key indicators we breached 6 and there isn't a moment there's not a an identifiable experience that that kicks in when when the feedback leaks happen that we can say that was the moment. So this isn't a kind of green trajectory towards net zero that neatly goes to 203040 or 50 that will conveniently have greens ones that kick in at a time that we're ready we need to be having an adaptation and. Brilliance, conversation at the same time as an ESG agenda in order to learn from the the sins of the past. So here's the thing, right? If you look back at those reports going back to to 22,000 and three in about 2006 and 2007, there were, you know, Cassandras out there basically. And there they were talked about in the report talking about this markets getting overheated. There's a real bubble happening here. This could be a problem. But we don't listen to it until it happens. And then it's and then it's but then it's obviously too late. So I. It it does strike me as something that that, that, you know, if we're going to learn anything from what happened in the last 20 years. That we need to take more notice of those signposts. I think we know they're there, but the issue would appear to be urgency. But that and that, and that's the same, you know, I, I know it's a, it's a different crisis, it's a different scale of crisis. It's a potentially vastly bigger one. But but what you're saying is is is flagging the same things that if we look back as historians at what happened before the GFC you know you can see the same points. I mean NASA from a, you know you've got a you've got some views on on from a lending perspective do you think.
Do you think lenders do you think capital markets are starting to price any of this risk in is it, is it even featuring as a consideration? I mean, it's definitely a risk that lenders in the capital markets are cognisant off. I think rather than pricing in that risk, it's more a question of trying to incentivize more sustainability than debt. So you do see a lot of lenders now establish sustainability debt programs where they try to give preferred access to debt capital for full sustainable loans and they try to offer reduced economics for sustainable debt. Hard to interrupt, but I guess in a sense I think what the point Juliet's making is that. Making sure that going forward buildings are more sustainable in terms of their carbon footprint for example, is important because if we're going to get on top of this problem, we're going to have to do that, but actually. The risk of of a, of a, of a, of a, of a, of a major climate style event has already arrived. We've, we've, we've allowed the situation to develop to a point where regardless of what we might do with the built environment going forward, we would have to accept that there is an increased risk of a of a sort of a climate driven you know change that that is going to have that impact. Is that fair, Juliet, if I have I. It's not uniform, it's not, it's not all assets, but you know, there were shopping centres in East London that were underwater in August last year, which is a a month that you wouldn't necessarily have expected and you wouldn't necessarily have expected it to be a a shopping centre in East London, so. It it. My point is that it it's it's sudden, it's unexpected, it's random. It's not necessarily where we imagine it's going to be, but it also isn't uniform. Right. Well, that's a nice way to start isn't it?
But actually I think it's highly relevant and I, I, I, I my sense is that we have historically mispriced. Unlikely risks you know in this game and I might I sense we might be heading down the same the same pathway with this but let's let's move to a slightly more positive note I guess in this which is that you know, we now we now own a situation I think where there is widespread acceptance of the need to readapt to reimagine the built environment, certainly certainly in the West, I think that's the case. And that's a that's a combination of things. I mean it's very largely the the sort of the the net zero type gender making buildings greener. But it's also recognizing that we've particularly post pandemic you know we've got changing expectations from people about what they want the built environment to deliver for them, how they want to use it. There's a growing realization as the report shows around the need for more focus on the US side of the SG that that you know we, we. That we're more cognizant of the impact of the built environments on the on the communities that immediately surround it, et cetera and all of those sorts of things. I mean, actually when you when you look at it, I mean I, I saw a figure the other day that that estimated that the total global value of developed real estate on the planet is something in the order of 300 trillion U.S. dollars. Now. Even if only a portion of that needs to be worked on, in terms of what I've just discussed and expect, it's quite a big portion. I mean, that's a Herculean task by any description. So and a lot of that is going to fall to the real estate industry because that's what we do. So Duncan, do you think the industry is ready for it? Probably not on the balance of odds, I don't think it's really for Juliet point recognize the scale of the
issue and as normal you get a degree of denial
and then possibly even anger management to cure before you
get the solution. So if you just take I mean
what ever got that the partners and most focused
on.
Is is stranded brown officers to green officers in
in yeah, in good environments, good senses.
On average, in the main big levels, they're now in
European cities.
With the UK being included in the Europe, only about
10% to stock actually even meets the basic legal requirements
that the local authorities governments are saying as a minimum.
In 2027 and then in 2013.
Now if you ask the average office owner.
Do they have the equivalent of the sinking funds?
To pay for that retrofit and improvement and do they
have the skill sets to execute it?
Do they understand the time scales for that and that
will be physically? There are some exemptions, but it
will be illegal to let an office property that doesn't
meet those requirements in between 2020 seven 2013.
It's interesting that I think increasingly from the other end
of the lens.
Users, consumers, occupiers are seeing evidence of
recognizing that, and
that's partly because maybe some of them are being put
under some pressure for good pressure. What they've promised to
stakeholders, shareholders, their employees, their talents,
their customers, their clients
is all creating significant pressure.
All.
The owners to recognize that they need these, they they
need to remedy these. But on average we think for
good prime offices in London, Paris, Berlin, etcetera,
etcetera, etcetera.
The cost of remedial retrofitting, not burning carbon and
demolishing
it and building a new one. And we know demolishing
and rebuilding is equivalent to about 50 years use of
that office.
It's about 20% of value. There are instances where you can point to it being more. There are instances where you can point to it being less. But it respects what's happening in the micro environment that means value.

Obsolescence of the that and the impact on the value is probably approaching 20% on average. If people take it seriously. Now is that widely recognized node, I'm certain it's not a set of Saturn that year end valuation meetings this year to know it is not being matched. I know that leads to confusion and some of it is the cost of financing. You know we do debt from NASA. will tell us it's going to cost us three times what it would have cost us in the summer if it's possible. Does all manner of other things. Affecting value but the biggest and most permanent is the need to rectify the carbon footprints and sustainability building so it's fit for purpose for the occupiers. And you can then read that across to all the other sectors, especially residential. Many people spend 80% of their lives where they sleep and where they work in offices and a residential lot so that they are too acute, acute sectors that are in real need of rectifying recognition and then rectification. So I don't think it is. I think it's coming in a rush. But again to Julia's point, it's here and now. Because if you're an occupier, you're not going to commit even for two or three years, let alone 10 to 15 years to occupy a premises that doesn't meet these requirements. Because it's not fair on your staff. It doesn't. It's not fair on your clients and your customers and for all of those reasons, it's not fair on the environment and and the next generation so. Stop, I don't think it is recognized and that there is still a final thing I'd say on there is there is still witness with several investors that we're meeting, get it? But equally there is a difference between intellectual
acknowledgement of

And then you see an in totally different emotional response to it. People will say, yes, that's right, Duncan, it'll take 20% of the value of the office to get it to. But that's not the case for my office. No. And that's the issue. No, no, nobody likes to spend money to stand still. I mean NASA. You know if you take what what Duncan's just said as as a reasonable estimate of an all and I think the 20% number is, is, is, is one I've I've heard before as well. I mean that implies an enormous investment of capital. I mean just just putting aside the practicalities of it. not come back to that in a in a moment, but but do you think, do you think that capital markets in their various forms as they, as they, as they look really do you think that there's anything like? That amount that that capital available to to finance this. I think. I think probably not right now, and it depends. How that debt is distributed over a number of years. as well, right? I mean, I think, I think what's interesting, if you look at the UI survey and you, you look at where suburban officers rank. In relation to potential investment performance, they ranked 27th out. of 27th asset assets, right. So I think the market understands and appreciates the issue and I think the fact that European governments introducing minimum PC requirements or in the process of doing so, forces both both borrowers and lenders to start tackling the issue. I think one thing that the global financial crisis did for us it it it it, it stressed the importance of having the most diversified form
of of of of of sources of debt. Right. So we do now benefit from far more diversity in debt than we than we ever have. Across Europe and in recent years most most sort of financings of transitional assets or repositioning of assets in particular offices have been funded by debt funds and and debt funds have the requisite risk appetite to fund those sorts of transactions. They are growing in scale and size and and and probably best place to tackle this issue. And hopefully when the capital markets return, we can also tap into CRC Los where where debt funds are able to actually raise additional capital. Charmed beyond the LP capital that they have to try and to try and tackle this issue and there are, there are a number of schemes out there for sustainable debt, but in I mean they're they're tiny in terms of the scale of the problem right now. So, so there's still a lot to do. I mean, Juliet, I I think you've probably done a bit of work looking at the. You know, the reality of, of, of trying to execute this, this change. I mean maybe you're assuming that we've got the money and and that's not clear either, is it? Is it actually possible to be done in any sort of reasonable time frame? Yeah, it is. I just want if I answer that in a second, I want to go back to your previous question. Your previous question related to social value and and I'm not entirely sure that we answered the social value aspect of the conversation. So if if you're willing, I'm just spend a second, please do. Is it possible because it forms part of it? Is it possible conversation? Yeah. Social value reporting is is one of the harder aspects to measure. So the reason, the reason why we're all talking about SG is because you know, going back to 20 years it was CSR, Now it's SG. And there are rumblings of conversations around the world. I've just come back from America where people are saying is it even going to be SG or is it gonna
become something else, right. So there's kind of a mood out there that it isn't here to stay. I would, I was also at COP 27. And I can absolutely tell you that having looked at things like Mark Carney, G fans initiative and what's going on across, you know, European changes in regulation and North American changes in regulation in terms of financial disclosure.

The the way in which investors are assessing projects is changing. And of course it's on Capitol Valley, but it's also on environmental and social impact. Environmental we know we can measure the greenhouse gases, we can measure the embodied and operational carbon. We can look at air quality. So the E is quite measurable.

The US is a little bit harder because the US has been used as a kind of shorthand for the people in the building. Is it, is it well, has it got good air quality? Does it encourage health and Wellness and fitness and and all those good things that happen inside the building. The shift now seems to be and this is where the change in mindset and is it achievable comes from. How do I demonstrate that this asset is contributing to the community around it in a way that's transparent and measurable? And there's a few ways of doing that. One is you can you can apply an economic metric to it. The other is.

You can do it in in softer ways, but is things like access to jobs, access to community space, access to, you know, social funds or charitable funds that are distributed in that local area? Did it improve air quality in a climate event? Can the Community access call for heat or or safe spaces? Is it designed for equity, inclusion, diversity, mobility issues? So there's a whole range of ways that an asset manager, investor, developer, owner and operator can look at contributing to the community.

It's beyond just the users of the building, which brings us to how do we do that?

We if you take a hierarchy we we we worked
a thing called a 10 point plan for a net zero building. So you you basically say right can I retain a building step one, use what you've got, don't knock it down, don't start new unless you absolutely have to. So the first hurdle is can I retain it and refurbish it. If you look at what's happened less in the UK but you know one of the things that I think we're at risk of missing in this conversation is that post pandemic working has changed and has changed. We don't entirely know what that looks like yet, but we do know it means hybrid working, and it means that the potential to convert office to residential within city centres to recover value is something that we're collectively going to have to look at. And that has a planning implication. It has a value implication, it has a social usage implication, it reactivates streets. It does all of those things. So can we refurbish it? Can we mix use within the building and do that in a way that that stacks up from a capital perspective? How do we do that with the lowest? Embodied carbon possible with it, you know. A friendly concrete recycled steel biomaterials on fit out. How do you get the life cycle carbon analysis on that building down as low as it can possibly be because that becomes the investable proposition and how do you dial up the social impact to the people outside of the building and inside the building and do there were things that you know we're talking about net zero conversation other people are talking about regenerative. So there there is I think there's a movement in language that's happening in these conversations that I've got clients asking for nature based solutions biodiversity and. Again designing with nature. And so this isn't about how do I decarbonise the world's worth of trillions of dollars of standing built stock this is how do I design that with nature in a way that creates equity for humans planet and.
Long answer.

No, look I think that's.

I think that's going to be right. You know, it's
got to be the direction that that this goes in.

I suppose the, the, the sort of the very practical
issue though here also is you can do all of
that. You can, you can do all that thinking, you
can do all that planning, you know, you can come
up with those solutions.

But you know, in an environment where.

Put bluntly it's you know, you're lucky if you can
get a plumber to come to your house to fix
your boiler, you know in the in in sort of
a A3 to four week. I mean my, my concern
would be that that the construction industry and I think
we've got to view the construction industry as part of
the conversation here. You know, it's got a huge job
in front of it in terms of scaling itself up
to actually deliver.

You know those those those outcomes I think.

Um, I mean look. All of which I think leads
me to to to some of my next point here,
which is that?

You know, we're all, I think, in agreement that there's
huge challenges in front of us here on the built
environment that the real estate industry, you know, is, is
bound to be, you know, a sort of leader
in all of this, but I'm not sure that.

Well, I think one of the things that real estate
is you're going to have to think about here is
how it positions itself in society.

You know what it's brand is and and the the
degree to which it can, it can get positive support
from society, from governments et cetera. You know on, on
this journey because my my feeling is that you know
we're starting from a not very good place on that.

Front.

You know that, that, that for all that.

Everybody on the planet, except a few people, hermits living
in caves somewhere, you know, interacts with the built
environment
every day.
But has no real conception of who built that building, who owns that building, you know what was the process that led to its, it's its creation et cetera in a way that you know, they would have different views I guess in terms of the car that they drive or the, you know the food that they eat et cetera. These industries have been I think much better you know at at at sort of positioning themselves. I mean is that something that you think? That the industry needs to fix. It it it it's brand and its reputation with the public at large and and with governments in particular.

Duncan. Probably.

So I think it's very difficult to to be generous, but I think there is some significant improvement and there is a a real awareness and acknowledgement that if the built in Brown alone towns and cities are depending on which numbers you use and the various 40 to 50% of the. Carbon footprints, you've got to start there and that affects the industry and everybody working in it. I think the questions that that you need to ask yourself that make that easier, is this is sort of basic sort of business MBA stuff, but it's very applicable to the real estate industry that people start with what they do and what it is and what the product is and what the building is. If you start with why you're doing it, and then how are you doing it? The right what or the right product comes out and there are many really strong, almost eternal, but really strong brands who produce very good goods and services. That may only be marginally better than competition, but people buy them because that entity articulates why it's doing it. A guide for real estate is is you know there is a win, win. But why you're doing, why you're developing, why you're investing, why you're retrofitting if the answer can be that to improve the working environment or
to improve the built environment.

Umm.

How you go about that and what you end up with can be a win. Win. It doesn't mean to be to to depress with two hands. And we all know it will. It will ultimately improve returns because you'll make.

And problems that people want to occupy and have a higher value as a consequences, basic fundamentals, this yield thing goes up and down. We've all got very little control and influence over that. We've got lots of control and influence over creating the best environment possible, which makes more people want to occupy our investments than other people's, which makes them more viable. So I think that is a way of trying to deal with the the stigma of the industry. On there, I don't really want to mention them, but there are one or two brands that have different their vote strong emotions but Apple for example. Do explain very well why they're doing it and the way they're doing it in style and and and actually I would argue I'm sure people in Apple would dispute this that the, the, the the maybe even how they are producing it and what what their product is, it might look a bit better. It's very subjective. There's not demonstrably different to a Hewlett Packard like a laptop for example. So what is the difference? Well maybe you could argue customers and users are using Apple because of. Why they say they're in business, and I think that we could probably learn something by way of one example from that from how we approach the real estate industry going forwards. But it does seem to me that that you know, you can draw a parallel with the development of vaccines for in the in the pandemic. You know the, the, the, the governments had the the money and the will and and the you know the the various drug companies had the the sort of the skills and the ideas that they developed and and sort of one got behind the other to sort of
drive that forward. I mean you'd like to think
would that there was the potential for similar sorts of
arrangements you know between governments and the
industry to find
solutions to various problems that Juliet was.
Was was outlining, but I mean I, you know my,
my somewhat jaundiced view of what went on in the
pandemic was was that, you know, the real estate
industry was just sort of lent on to you know
to support its its client base and was probably the
only industry that didn't get you know direct financial support
from the government for doing that. But I mean Juliet,
what, what's your thoughts there?
I'm.
I think.
Brand value is built on trust and the real estate
industry, we didn't use the word faceless but I think
I think you were sort of touching at it, but
there isn't a good understanding of who owns operates
assets
and there's also a perception that it's incredibly wealthy. So
whilst whilst there may be a perception that it was
an under supported industry in the pandemic, I think there's
a lot of people that would have really struggled with
the idea that landlords and reeds were receiving financial help
during that environment and so.
Taking this out of a conversation about privilege or or
relative wealth and asking the question, what's a customer gonna
look to us to produce? They're going to look to
us to produce social equity and environmental outcomes,
because that's
what they're now reporting on so.
I don't. I don't see.
They're kind of you know industry I've I've just been
at cop companies were kept away from governments whilst agreements
were being made and yet capital lives within companies and
companies can make decisions and deploy capital to to get
on board with an agenda and and so often the
conversation is government ought to legislate for this mandate it
make me do it.

And and yet the the the capacity to actually deal with things lives in the boardrooms and it lives on the annual reports and it lives within the in the sustainability reports. So maybe that's a long way of saying I'm not sure that we necessarily deserved the pandemic style cooperation to to fix the big COVID problem. I think the onus sits on us as an industry. It was, it was made very personal to me. Someone said if if 40% of emissions. Are leading to 40% of climate deaths or climate migrants. That's four in 10 belong to ulot. And and then it gets real, right. So I don't need government to tell me that we should get on with it. It's abundantly clear that we should get on with it. It's abundantly clear that we should get on with it and the capital to do that and the will to do that and the ability to execute against that, loosen the boardrooms. Yeah, although, although I I. My sense is that that the scale of this problem is, is going to be such that it's not going to be enough that the real estate industry by itself thinks it needs to get on with it. You know it. It's it's going to need, it's going to need all the help it can get. It shouldn't wait for government to. Mandate no agreed but but it's not going to get help with the reputation that it's currently got which goes back to your point about trust I think so I you know I just feel that that's a that's a that's a major issue coming to. A question has come up on the Q&A which I think sort of leads us neatly in into the the. The next part of this is. Does the industry have the skill set currently to retrofit the existing old stock and if not what can we do to to bridge the skill gap. I mean I think the I'd like to sort of broaden that out a little bit because I think at the beginning of all this Duncan was talking about you know the the sort of the move towards.
More sort of operationalised version of Real Estate, you know and and more a more value add by what we do with it and I'm just interested in what we think this means in terms of.

What are real estate investment management, if I can describe it that way, organization is going to look like going forward. You know the sorts of people and the sorts of skills that have traditionally been in it, you know, and and and what we think that's going to look like going forward.

I mean NASA you've Brooklyn's is relatively new in the special case but what's your thoughts on that.

So the vast majority of our business has been on alternative assets and and. The vast majority of those have involved operating assets. So there's been a dramatic shift mainly mainly driven by the fact that interest rates were so low and there was so much equity in the market and investors chasing returns had to look at alternative asset classes.

So there's been this dramatic shift to alternative assets and and alternative assets in specialized industries and those industries involved a lot more operating operating risk, right. And in taking that operating risk you move away from the traditional asset manager, property manager model and it's and it's much more sort of service service orientated. You move away from long term contracted lease income and you move towards and assessing whether an operating business can create secure and sustainable income through through shorter term contracts etcetera.

And therefore it becomes more of a service, they become more service LED businesses, which means that the focus...
then

shifts more towards you know, customer service guest.

Guest relations brand how you brand the management team becomes

much, much more fundamental.

To, to, to, you know, to to the online business.

And and and.

Instead of outsourcing a lot of services, many real estate

investors end up providing those services themselves.

Repair, Maintenance FM,

they may provide utilities.

Etcetera. So, so, so, so, so.

The nature of.

Really say teams is is changing and and the way

in which lenders have to underwrite that risk is that

has as fundamentally changed. But we do benefit from the

fact that we we do not have very diverse sources

of debt and a lot of that debt is also

financed through the leverage finance market and the

corporate bond

markets. You know a lot of rats actually raise their

capital not through, not through state finance but actually through

the corporate bond markets. So there are there's an abundance

in terms of supply.

Dead capital to fund that type of operating risk. And

depending on where real estate value falls out, it either

says in the real estate finance markets or it goes

into the leveraged finance market.

Yeah, OK. I mean Duncan, you know you, you you've

recently moved, moved organizations and and and I guess this

would be something that you'll be thinking about I mean.

We must be looking, must we at at, at at

a, a, at a very different sort of landscape

in terms of the people that you would have working

for you going forward, I would imagine.

Yeah.

Yes.

Well, I mean, there are.

The old way of being a fund manager and being

the capital allocator.
Is probably over.

I do. About Capital Partners, we've got a, we would call in jargon an integrated team. So there are people like me who come from traditional investment backgrounds, they're asset managers, was development skills, was development management skills, was leasing skills and it's totally integrated and that.

I believe leads to better outcomes for the occupiers because you're in more you're in control of the various constituent parts that have value, whether you want a green outcome or you're focusing on the social outcome and the amenities. And I think that's really important to have that understanding you can't do everything for everybody and hence that's why you know at the moment we're we're very focused in Brown to green officers and making sure that happens, but I don't think.

We use best in class. We we use we Consultants and advisers, but I mean we're a very diverse group. There are five senior people in it, three of them are women. I'm the only, they're Englishman in the company, but we're based in London. So it's quite an interesting, a lot of things go into being. And having that totally integrated service and it's not diversity for the sake of it, it's different skill sets. Yes.

Yeah, yeah. It leads to in our case, a lot of diversity in in both in terms of.

Male and female ratios, but in terms of other, in terms of skill sets and backgrounds whether something comes through development background or something comes from finance structuring background or an investment background or as I said leasing and actually into into dealing with with with the occupiers. And all of that is because the design and procurement of buildings to add most value has to be different for the reasons we've been discussing here for reduction of carbon.

Etcetera, but also then how you procure the services. I sit on a board with another company, very well known office reads who are flexible office operator and you learn so much from dealing with these these world class
professionals

and we've learned you know data that you can have
in your offices from having a smart building and the
efficiency of use it. Yes, it reduces carbon and power
usage but actually it also leads to a much better
service and it's not rocket science.

Yeah, some sectors hospitals have been doing it for 20
years. They know where there's empty hospital bed. Why
don't

you know where there's empty workstation or free or or
or a free office for meeting space or a
free amenity that's available now by the minute. Why don't
you have the monitors in in you should have and
it leads also to very good outcomes for the environment
because you don't air condition and heat and light and
office that's not been used.

Because you know it's not being used and within reason
you can really have an intelligent building management
system. So

yes the the short answer is the investment managers of
the model or people like him without the partners which
are founded all of 11 months ago, is you have
to be vertically integrated. You have to have those skill
sets that provide a good service, the totalization as people
call it real estate, but you also need those building.
Operate and to make your buildings world class and
everything
that that means part of the service.
OK. Well that's, that's probably kind of where we started
and probably a good place to to to sort of
finish as well because I mean sadly we have run
out of time.
If I could just thank the panelists, Juliette Duncan, NASA
for your for your time and for your for your
comments and insights.
And I think there is a.
Here we go, another slide. Yep, we we absolutely at
the URL. I would value your feedback in terms of
all this. So there's a there's a poll that you
can that you can answer. It would be. It would
be great to have that feedback.
And I believe there is another slide coming up which
is going to show a number of events that will
be available through the UI in the future.
So with that, I will, I will thank you again
to the to the panelists and thank you all for
joining us. Goodbye.