Welcome everyone.

Welcome to this year's launch of the ULI and PwC emerging trends in real estate Europe 2023 report. We're very pleased with this year's launch as it marks the 20th anniversary of this important report and especially because so many of you have contributed this year. More than 900 industry professionals from across Europe have contributed to the report. Either through an interview, participating in the survey or roundtable discussion and also as part of the 20th anniversary, the report not only covers the short-term outlook, but also looking back 20 years and 20 years ahead, we are very pleased with the collaboration with PwC. For all these years and also this year, it was a pleasure to work together.

Today we have the kickoff and I'm looking forward to the presentation and the discussion later, but the report is also available on our website and on PwC's website. And as you may have already seen, we have quite a lot of additional launch events planned physically across our national councils in Europe did a different countries.

For those of you who want to make a comment or ask a question, you can use the Q&A button that you see at the bottom of your screen. And now I'm very pleased to hand over to Gareth Lewis from PwC.
Who will open the webinar with a presentation of the main results?

Garrett, over to you.

Thank you, Lisette. Good afternoon, everyone. Suzette said I'm Gareth

Lewis from the PwC real estate team based in London and on bar for PwC. I'd like to first of all take the opportunity to thank Lizette, Sophie and the UI team for their efforts in collaborating with PwC to deliver this report, I think which we have in in what has been quite challenging market, market circumstances. So it's my pleasure to spend the next 15 minutes or so talking you through the the key highlights of the emerging. Friends and real estate report it. This is a forward-looking report that I think is is unique in terms of the quality of input we get from senior real estate professionals at the at the coalface of the industry. Next slide please mark.

And for me this has been one of the perhaps the most sort of interesting years I've been involved in the research. And it's also interesting for the reason that Lizette said that this is the 20 year anniversary of the European report. So. So I definitely encourage you to read chapter seven of the report which which takes that 20 year looking back and looking forward view. But as Lizette said, I wanted to also point out that today's webinar is actually going to be very much focus on the the here and now.

The outlook for for 2023 and in that sense that the reality is that the outbreak of war in Ukraine has cast a long shadow over Europe and real estate like any other industry will have to deal with the economic and political fallout for the foreseeable future. So the title of this year's report, the eye of the Storm is self-explanatory and I'll run you through the key highlights following the the themes shown here. First of all a general sentiment of reality superseding optimism. Secondly, the the wide array of shifting concerns impacting real estate businesses. Thirdly, capital pulling back from the sector and
4th we'll look at the top sectors and cities to watch out for for 2023. And finally the theme of around fit for purpose real estate. Next slide please.

So if the third year of the pandemic was supposed to offer, in signs of hope, hope, the outbreak of war in Europe has delayed recovery and exposed significant structural weaknesses in the economic, social and political fabric of Europe.

Beyond real estate fundamentals like supply and demand, the market has an almost unlimited number of distractions and these are bricks in the in the wall of worry as the US version of this year's report called. It will continue to be very fluid and the ultimate direction that many of these take would have an impact on what kind of year many of us would have from a business perspective in the 2023. The GFC and the pandemic, although they were developing over time, felt like they hit us comparatively quickly.

But this time has that feeling of being a rather slow moving downturn that will have us evaluating the potential impacts for for many months. It's clear that 2023 will be a tough year in any event as some industry leaders contend the recovery may not emerge until early 2024.

And while the proportion expecting business confidence, profitability and headcount to increase has fallen compared with 2022, as you can see in the chart here, the overall share is still higher than in the first year of the pandemic.

In 2021.

European real estate faces a challenge from a quartet of intelligent economic headwinds. Concerns over inflation, interest rates and European and global economic growth are all up sharply are on last year and even last year they were all considered very significant concerns and the fact that they've risen to the top of the concerns is to be expected I think. But the the level of concern is still remarkable
ranging from as you can see here 81 to 91% and that. Compares with the top business concern last year, which was cyber security of just 67%.

Inflation is a concern across the board, with at least 90% of those surveyed in the US major markets, including Germany, UK, France and Spain, indicating their high levels of concern.

I think if you look forward actually as you click through Martha for inflation, if you look at the three to five year term and the timescale is interesting, but if you should see on the previous slide what it was showing is that the a clear consensus that inflation will actually be a short term concern.

Next slide, please.

Seven out of 10 respondents believe Europe will move into a session before 2023 and and the views about the prospects for the economy and the real estate sector have become rapidly more negative as a summer of uncertainty turned into an autumn of consistently downbeat forecasts. But the economic circumstances and and market conditions behind previous downturns are all quite different from what Europe is experiencing today, and it's clear that the the outlook for the real estate industry will very much depend on the severity and duration of the recession.

The chart shown here on this slide gives an indication on participants views or the impact of a prolonged recessionary environment on European real estate. Though leasing activity has held up reasonably well for much of 2022, participants are unanimous in their put opinion that a recession will lead to occupancies and rents falling even in previously performing strongly performing sectors.

And recession across Europe is also expected to further the hit to development activity provoked by the last two years.
of supply chain difficulties, increasing high borrowing costs and a
general lack of financing. And with widespread forecasts of a
decline in consumer spending, retail is likely to be the
first first to suffer, but potentially with knock on effects
in the the logistics sector, with, for example, some respondents
stating the view that retail occupiers are looking to rationalize
their real estate space.
Including using surface doors for distribution, warehousing
and thus potentially
reducing demand for logistics assets.
Next slide, please.
Now, whether it's equity or debt for new investments and
refinancing, all for development, more respondents think
availability will decrease
and stay the same or increase in 2023.
Well, they real estate companies are not as leveraged as
they were going into the global financial crisis, largely due
to regulatory changes in the past decade and 1/2 double
digit inflation in some territories continues to weaken investor
demand
going into 2023.
Capital raising is likely to be likely to be challenging
regardless of source and survey respondents believe capital
from every
region of the world is less likely to increase in
2023 compared to expectations last year. Next slide, please.
Despite all of this, a a somewhat surprising outcome of
the surveys that only 40% of respondents believe returns in
2023 will be lower than last year.
In my view it's you know, I've been involved in
this research 8:00 or so years. I think this is
the the one particular question which I think is most
impacted by participants tendency to view through rose, rose,
tinted
spectacles. Next slide please.
Here are the top 10 sectors ranked by overall prospects
for 2023 and as a sign of the times, new
energy infrastructure tops the sector rankings for the 2nd
successive
year and this sector covers a wide range of real
assets such as solar, wind, battery storage and electric
transport
infrastructure. As well as partly reflecting the energy crisis is
top banking also as part of a wider longer term
trend in which investors are rebalancing holdings away from
real estate alternative sectors that will benefit from the mega.
Been such a demographics, climate change and technology.
Various forms of housing dominate the top 10 picks, as
they have done for several years, despite increased
concerns over
top banking also as part of a wider longer term
trend in which investors are rebalancing holdings away from
real estate alternative sectors that will benefit from the mega.

political risk in the sector. And on a broad level,
there's an acceptance that the balance between residential
supply and
demand in European markets has not changed in the past
year, and it's unlikely to change anytime soon.
Despite the overall uncertainty about the near future, the
interviews
and roundtables reflect differing views across sectors,
specialisms and geographies.
Although last years safe having sectors such as logistics are
certainly challenged by the macro economic environment, the
pure logistics
specialists remain more buoyant than most of their
counterparts in
other sectors.
The office sector has continued to be the most discussed
and polarised sector and uncertainty around the future of
office utilization keeps the sector near the bottom again this year.
Next slide, please.
Here, the top ten cities ranked by overall investment and
development prospects for 2023 prospects for all 36 cities
covered
by emerging trends. Europe has deteriorated since last
year's report.
Customary safe havens in Germany such as Berlin,
Frankfurt, Munich
and Hamburg do not enjoy the same steady positive
sentiment
as in previous years, reflecting the potential impact of
inflation
on Europe's largest economy and its dependency on Russian
gas.
Berlin has slipped one place down the rankings this year
and, and like most German cities, has registered one of
the larger reductions in schools across Europe. But the city
still attracts the enthusiasm of many market players and stands out from other German cities covered in the survey. And for that second successive year, London remains the most favoured city in Europe, which overall prospects, especially for office and artistics and the depth of London's investment market, reflects the extent of its broader metropolitan area, something that's only rivaled in in Europe by Paris, which takes over second place from Berlin this year. In this evolving, evolving environment, national and international transport connectivities also seen as a key influence, a feature where Paris is again prominent and is particularly relevant for for those cities that have risen up the rankings this year, such as Madrid, Lisbon and Copenhagen. It was one of the fastest growing cities in Europe. Madrid rises this year from 6th to 4th place. 4th place where urbanization is continuing apace, are seemingly unaffected by the pandemic and and potentially due to inward immigration from elsewhere in Spain and overseas. Next slide, please.

So caught up in a a whirlwind of long-term upheavals and demographics, climate change, technology and lifestyles, real estate faces a major challenge to be fit for purpose, which was a core topic explored in this year's research that the threat of obsolescence over the next five years continues to be concerned. Nearly half of respondents. And there's also a strong view that places places need to be more flexible to cope with more rapidly changing occupational demands, and this is reflected in the emphasis on repurposing. Mixed-use in the survey responses. The survey shows that repurposing existing stock from 1 sector to another. It's clearly on an upward trend, with 54% of respondents repurposing more assets in their portfolio compared to previous years. Likewise, more than 3/4 expect to be
repurposing

still more assets in five years time, again up from

last year's survey.

And as the chart here shows, for office and retail

assets, the two sectors facing the most obvious structural challenges

repurposing to mixed-use real estate is the activity that participants expect to increase most over the next three to five years.

As a survey makes clear, the motive is not just about dealing with the threat of obsolescence. Nearly 2/3 of respondents believe repurposing or retrofitting and existing building is the most attractive way to acquire prime assets. That's a similar theme in many ways to the flight to quality theme, which has been a frequent reference in the interviews.

Next slide, please.

As mentioned, new energy infrastructures top ranking reflects a trend in which traditional real estate is looking towards sectors that occupy that overlapping space between energy transition, transport, logistics sectors and real estate. A once in a generation value shift from transport and energy value into real estate as I've heard it described. There’s also a clear example of the real estate sector starting to apply its core skills and capital to deliver products that deliver tangible benefits from an ESG perspective and for over 90% of respondents. Running an environmentally and socially sustainable business is the most important factor for a successful organization over the next 20 years. And in addition, just under 90% of respondents highlighted the importance of creating social impact alongside financial return over the next 20 years.

The chart shown here highlights that the ESG agenda, climate change and decarbonisation all feature in the top five expected drivers of change for real estate over the next 20
years, alongside technology and the changing demands of customers.

Next slide, please.

So to conclude, real estate parties have always been in a state of constant state of evolution and and how the property world fully and satisfactorily aligns future profits with a wider social objective is is clearly still in transition with values already falling. The coming year could be a great buying opportunity for investors to enter into new emerging sectors, investing in sectors they're under allocated to or to embark on developing new transition strategies for fast changing market.

Right now, this is perhaps more theory than practice, and most interviews are are experiencing the sort of market logjam that occurs at all times of economic uncertainty, when buyers and sellers can't agree on the price of assets.

The potential for distress has been a great topic of debate among both investors and lenders interviewed for this year's report, and the consensus view seems to be that the level of distress is unlikely to reach the proportions of the GFC because of those lower leverages, lower leverage levels.

I set out in Chapter 7 of this year's report, which again, I'd urge you to read. The industry's move towards new products and a form of responsible capitalism over the next 20 years is driven by many factors, but above all by the climate crisis. It is the one trend that has only gained in prominence and relevance throughout emerging trends, Europe's 20 year history, connecting both the past, the present and the future.

And with that, I'll hand over to Simon for to introduce the the panel.

Thanks, Gareth. Umm, that's a great summary of of once again, what is an excellent UI report. And good afternoon everybody. Welcome to the interactive panel session and the program to run for the next 40 minutes or so.

So we'll look to finish up at about 1:30 UK
time. My name's Simon Martin. I'm going to moderate the session today and joined today by some faces that will be very familiar to many of you, if not all of you with me today. We've got Natalie Charles from BNP Asim, I'll. Follow me from Berlin hip Yogan thank from Primordial and Lisette is joining us for the panel as well. If you could all switch your cameras on guys that would be fantastic. I'd remind you all as audience members that you can pose questions to the panel as we proceed using the Q&A function and that the set highlighted earlier on those will come into me and I'll try and sell to them in to the debate as we go along through the various subjects we've got on the Charter today.

I thought I'd kind of kick off by asking some posing some questions of my own. You know, one of the things I was sort of reflecting on as a consequence of sort of looking at all the results of the report and reading through kind of the findings was that, you know, the contrast between, you know, when the survey was originally filled in back in, I guess the late summer and and in early September. And the world that we sit in today, you know, there's been a lot of volatility and uncertainty in Europe since the end of the summer break. In the survey at the end of the summer, I think 51% of the respondents thought they'd be investing more capital into the market in 2023. And I'm wondering if that's changed then have the events of the last couple of months changed how you guys are panelists do the investment opportunity. So I love all of your views but I thought I'd start with Natalie, see if you know if you could kick us off, have you shifted your view of the investment opportunity and what you'd like to do in 2023 since the summer break and it would be great to understand if you have how. They might have changed that.

Thank you, Simon for starting with me and good afternoon, everybody. The answer is simple. No, we have not shifted because we were already.
Very cautious with the idea that there are a lot of things we can't predict at all. So we just need to be humble, to be agile, to work with our sleeves and to work hard on the performance of the assets we manage and the portfolio we manage in general. Of course, the general environment is obviously more pessimistic today than it was two months ago, but.

In terms of mid to long term strategy, I don't see a change. I see a change in the short term but not in the mid to long term and as we are mid to long term player this has. No significant influence to our general strategy.

Thanks. I mean yergen have have you changed your view was your were you similarly sort of pessimistic going into the summer or or are you a little bit more optimistic about 2023?

No, I, I, I would, I would actually, I'm close to repeat what Natalie said because it applies to us as well. But I'm not saying it again. I'm, I'm, I'm certainly more more pessimistic for 2023. I would be surprised to hear people being different. The environment is as it is. We are. We are clearly waiting for opportunities.

We have capital that allows us to take advantage of opportunities. Right now the market is still in the process of getting repriced. It's it's happening slowly actually too slowly but steadily and and we will, we will, we will be there when we when we see the the right environment.

Especially in terms of yields.

Right. And I mean, I think it'd be interesting I think to to sort of contrast that with the way in which the banking markets, looking at the current environment,

have you guys changed the way that you're thinking about risk appetite about what you're prepared to to lend into or again are you stepping back being a little bit more circumspect and being more patient?

Yeah, I think we haven't fundamentally changed our view how we see the market, but we we do recalibrate risk
And I think it is induced by several factors. One, for once the uncertainty as as everybody already mentioned, the uncertainty also leads banks to be more cautious and to see where is the value discussion going. Secondly, the value discussion will always also result into a consumption of risk weighted assets. So that mechanically will lead to a decrease in appetite of lenders practically speaking. And all this will be amplified also by an increasing importance of ESG we'll come together that later on I know but but ESG will will be a factor in that discussion to. Whether not lenders will still be who have the same appetite so in a in A to put it shortly the risk appetite will of blenders will decrease will go down and and thus lending or bank financing will become more expensive that's my my view first talking for speaking for Biden hip we we are not in any way concerned for 2023, but we will be probably a bit more selective than than before. And selective in terms of the range of different things you'll look at or just simply selective in terms of the the pricing that you're you're willing to kind of put on things? No selective in in in the the, the, the risk that we will underwrite right there. So. So tactically speaking probably we'll we'll we'll be doing a bit less on the construction financing side practically speaking will be we stay as as a conservative as before on the retail side we will be selective. It'll be a very nuanced picture when it comes to offices. It would be a. Time when residential will be still be regarded as a as a safe haven, so to speak, and after a correction. Values are also logistics. But basically if I may jump in. So what you're saying is that banks will reduce capacity or will have reduced capacity for lending? Which?
Yeah.

As the good.

News for the good news for alternative lenders.

That that's true I think it is, I think it is. I mean you know how to works when when the macroeconomics go down the drain then we we have.

Downgrades in in ratings and that will lead up risk weighted assets which will not be available for new business.

So yeah I I think the the balance sheets will be slightly diminished by by the recession.

I mean so focusing just on that, I mean that question is I think the alt lender community particularly are going to an interesting idea, right. I mean I I do people see there being significant momentum behind fundraising in that sector because it you know clearly if there is going to be an investment opportunity in that sector, an opportunity to allocate capital that that is clearly an area where you might start to see more fundraising activity, more institutional appetite for allocating capital into that space.

It is. I mean, you just read, you just read every day that somebody is raising the debt fund. KKR has announced to to start in Europe others as well smaller ones I think it's and I don't know how successful they are in fundraising account comment on that. But I think that they clearly see the opportunity of that potentially reduced capacity of banks as a potentially because it's not for certain but especially in conjunction with us and with what Asim said which is the reduced appetite because.

I think you can probably say generally banks will will probably avoid more of the developments development loans. So that's a space where the alternative lenders and debt that funds clearly can play and including their potentially their yield requirements they have on that on that type.

Of product.

Absolutely.

You'd be talking about things like, you know, the.
00:26:57 --> 00:27:01: Obviously development. Development, but you're also really
talking about high

00:27:01 --> 00:27:04: LTV lending I guess as well in that space. You're

00:27:04 --> 00:27:07: also potentially talking about you know, financing transition
assets where

00:27:07 --> 00:27:10: there are big research costs or big CapEx requirements.

00:27:11 --> 00:27:14: I think you know I think the whether it's big

00:27:14 --> 00:27:17: LTV I'm not sure if if you need to

00:27:18 --> 00:27:21: have a high LTV you can probably be successful as

00:27:22 --> 00:27:24: a as a debt lender if you if you go

00:27:24 --> 00:27:28: slightly above what the the traditional.

00:27:28 --> 00:27:31: Things are doing which is not necessarily high LTV, but

00:27:31 --> 00:27:35: I think there are a lot of opportunities that may

00:27:35 --> 00:27:38: come up in terms of refinancing recapitalization.

00:27:39 --> 00:27:43: Don't forget you know a lot of loans that have

00:27:43 --> 00:27:46: been made five years ago have been made at at

00:27:46 --> 00:27:50: basically a zero rate plus margin and now we have

00:27:50 --> 00:27:54: a three or three something rate plus margin. So there

00:27:54 --> 00:27:57: will be triggers in terms of LTV's and and debt

00:27:57 --> 00:28:01: service coverage that could be you know painful for for

00:28:02 --> 00:28:04: some and an opportunity for others.

00:28:06 --> 00:28:09: Mayor, may I may add maybe just to complete what

00:28:09 --> 00:28:12: I fully agree with argan, LTV's will not go up

00:28:12 --> 00:28:15: in a in a time where we haven't found the

00:28:15 --> 00:28:19: right value yet. So I think that's maybe for 2024

00:28:19 --> 00:28:23: when maybe somebody's picking up the Delta V thing again.

00:28:23 --> 00:28:27: But for the time being it's about what you're going

00:28:27 --> 00:28:30: to say it's about assets and that there are a

00:28:30 --> 00:28:34: bit alternative such as data Centers for example that that

00:28:35 --> 00:28:36: banks will maybe.

00:28:36 --> 00:28:39: Not have such a great appetite to to finance.

00:28:40 --> 00:28:41: Is that you had a comment I think.

00:28:42 --> 00:28:46: Yes, similar I think the deployment that you can raise,

00:28:46 --> 00:28:49: maybe you can raise the money for that funds, but

00:28:49 --> 00:28:53: deploying it is is subject to what you said earlier

00:28:53 --> 00:28:57: on the repricing. No, because the costs will go up

00:28:57 --> 00:29:01: probably for everyone and the financing cost and the independent

00:29:01 --> 00:29:04: of the of the the lending source, but you still

00:29:04 --> 00:29:07: need to be able to close the deal and if

00:29:07 --> 00:29:09: the market hasn't repriced.

00:29:10 --> 00:29:13: And the deal won't go through, no. And that's probably

00:29:13 --> 00:29:16: the the biggest point at the moment.
Absolutely. So I mean we've talked a lot about the market, market conditions a little ooh a little bit at least we could probably spend the remainder of the next 20 to 30 minutes talking about them. But there was a couple of other things that we thought we should pick up on in terms of the conversation and and the report. The the second, the the sort of second area that I wanted to just sort of touch on very briefly was just to sort of ask you guys whether or not you know, you thought that people's strategies would evolve as a consequence of the market changing. So for a long time you know? If you look back at the prior reports and also you sort of talk to people in the marketplace and people have had a really strong preference for just a handful of you know thematic strategies. I mean I've seen asset highlighted it, residential has been a kind of a big thing with the logistics markets have been a big thing for people to focus their effort and energy on. And I was wondering if people felt that you know the strategic biases that they had been applying to last two or three years. So it's really big semantic bets we're going to slip in the next 24 months and we're going to go back to really trying to find. Great deals or distressed sellers, are we talking about a different market environment where we we don't all have to be completely somatic or or are we all going to keep just smashing away at those, those keys thematic ideas and keep doing all the same things for the next 5 years? I guess I could ask that to anyone really, maybe start with yoga and then perhaps, Natalie, if you could give us your view as well, that would be really great. But I do believe. Yes, I do believe that there has been some shift in, in terms of asset classes, but you just mentioned logistics for example, which definitely in the last 3-4 years was more or less replacing the Golden Age of retail that was taking place 5 to 10 years ago. But when you look in detail at what were the volumes
in commercial real estate in general, you can see that offices which were definitely not at the heart of the conversation in the recent years, we're still more or less 50% of the volumes that were transacted. So I mean I think we need to make differences between what is popular in term of conversation and this was also the asset classes that were were shown in the study, for example like life science or or some other elements which were highly ranked in the European 20 real estate study. But what are the real volumes? Overall in Europe and finally, yes, there has been a shift between retail and logistics. This one is true in the last few years. But life science for example remains the sector where a lot of people have said I want to go in this sector because I believe in it and we're practically speaking the market has not really been there. There was, there were no products, it was not easy except maybe a bit in the UK, but overall in the euro zone very, very few transactions and then if you look at. Other alternative sectors, for example, you've seen a significant increase into the healthcare sector, which is for example, one of our favorites at the Imperium for an obvious reason, which is that it is related to demographics, which doesn't depend on macro trends demographic. The demography of the next 20 years has already been there for 60 years in this area. So it's quite solid and also easy to forecast. But despite the increase of this sector in the last two or three years, it's still less than 10% of the overall market. So I think it's very important to pay attention to the reality of numbers and not only to talk sector by sector. Yogen, I mean obviously you guys have got sector biases in what you do, but are you in the same place, is it, is it more about the reality of the market opportunity and less about the the sort of sector schematics for the for the foreseeable future? Yeah, I mean we, we we continue to focus on thematic teams. We are conviction based. We are clearly looking
at you know demographic and EG topics in real estate
that doesn't reduce things to one or two asset class.
But you know Healthcare is vicodins coincidence. Also one of
our favorite asset classes which by the way wasn't an
asset class two or three years ago and this is
also important to say that you know that the shift
of capital.
A little bit away from office into other asset classes
have suddenly given the other asset classes more more
importance
and have become more institutional. Having said that, you
know,
like Natalie said, doesn't mean that there's suddenly more
product
and it has led to.
To to shift and keep rates and so now on
the other side you know I'm, I'm always.
Taking these ahead of opportunity of opportunities, there will
be
a lot of.
People out there, the more opportunist and more short term
investors that will be looking for distress and yields just
without any specific teams, just the opportunity to make
money
and this has always been the case in crisis and
it will be again the case is this this time
and overall, you know overall for me the clear point
is that whoever has capital will be on the winning
side.
Agreed. You're gonna?
That's a great point actually and I wanna come, I
wanna come on to capital raising because I think it's
an incredibly important one. And actually I'm gonna, I'm
gonna
kind of go to Lisette here and put her on
the spot a little bit because you've just been in
the US, right, you literally just walked off the plane.
You know, we all obviously looked a little bit to
the US leadership and kind of when capital flows are
going to start moving over here on the opportunistic side,
what what is the US view?
Of.
Europe right now, one and two, do you think that
is additive to capture?
Do you think that there is going to be any interest from the US and coming over to Europe to try and take advantage of some of you know what the guys have been talking about in terms of potential dislocation or changes in the market that might occur over the next year or so?
I think for the short term, the US feels there's more opportunities in the US than in Europe. Europe feels very complicated at the moment with obviously the war energy prices.
And if you well, what we know from tradition, slow reactions, no.
He has responded much slower to very high inflation.
I think that's already what we heard in the survey as well and that's also the the view still that.
For the time being, there's not a lot to do and what we know also more generally is Americans tend to come more for the more opportunistic value add opportunities and while they may arise, they're not there yet and we already mentioned that before so.
Knowing Americans, they will always be looking. And and of course not the currency to forget which is highly volatile at the moment and moving again in the wrong direction only only today. So there's not a lot to do for Americans in Europe at the moment and I think they see they are concerned too. So the general picture about the Americas is. Probably not as as extreme and outspoken of what we see here in terms of concerns.
So, but I think for now there there remain focus on their home markets seeking the opportunities there.
I think it's what's interesting is obviously with treasury yields as high as they are.
It makes it pretty hard to justify coming away from your home market. I guess would probably be the the response I've had from a number of our clients from the US side.
OK. So what I wanted to do also was just to rotate a little bit, we mentioned ESG a little bit earlier on and and I think I might just
stay with you lissette just on this just for a
second which is the's right up there is a major
consideration for most of the people clearly in this survey,
lots of focus on office. I I particularly liked one
of the quotes in the report which by 1 participant
which referenced the idea that his office portfolio which is
residential development pipeline. I guess again I was
wondering in
in all the conversations that you're having with investors.
You know, given what we've seen in energy prices, is
there any sense that some of that energy efficient efficiency
push might be blunted by the reality of a more
challenging market around the the concerns over the supply of
capital it changes in risk appetite?
You know, particularly going into a tougher market, are people
still fully wedded to the idea of driving through that
energy efficiency approach in their portfolios? Do you see any
signs of wavering at all?
Well, not not on the verbal side. So if you
talk to people, there's no, no, no, we say we
remainEscobar.
Committed to ESD as we were before, but if you
then kind of try to dig a bit deeper and
talk about construction costs being very high financing, we
already
spoke about it.
How do you see it working in practice um construction
companies that we still hear not willing to fix a
price. So basically you're writing a blank check to making
the regenerate during the regeneration and the upgrades and in
a very uncertain time that's pretty hard also if
you have a refinancing coming up maybe in the next
year or two and may need equity before for our
LTV breach if your value.
Goes down. So I think in practice it's hard and
that's what we hear the the commitment is there, but
what we've heard is it may slow down within a
year or two.
If to make those regeneration interestingly what we didn't
about and what I think again we did most of the work over summer. And what we've seen since slightly appearing not very explicitly yet is, oh wait a minute, that tenant faces hugely increasing energy bills as well and more and more starts to look at total occupancy cost, so. What is not clear yet how one will outweigh the other. If your contract is about to end in the next year or two, you will really be probably be forced to do anything even to keep your rental income. So, and I'm not sure at the time we did the work that was already completely featured into the thinking and I think that starts to come through. We were running a project around. Be change, decarbonization of real estate have extensively spoken with occupiers over the last few months and that is really coming through, so maybe not even from the. Energy efficiency, we are alert a lot about attractiveness to talent where tenants want to move. Tenants are in a tough spot too, of course at the moment for their operational business, but even for cost reduction, they will be looking at these buildings. And this is and this is, I mean this goes to one of the actually I've just had one of the questions come through which is about you know, it's actually going to be quite a challenging time for tenants because a lot of them are getting index rents, right, so they're facing. Rising rental costs at the same time they're they're facing rising energy bills and on all of that squeezes margins pretty aggressively. So I think yeah your points your points well made it. It isn't perhaps wasn't completely in the survey when the survey was conducted but I I can't believe that in by the beginning of 2023 everybody won't be dealing with it this sort of twin pressure of of rising rental costs and also you know releasing of energy bills. Yeah, but maybe may I just had a remark. I think I, I, I understood the, I understand the
pressure that the investors are under these days, but ESG is also about protecting your capital values, right. So you can either prepare for a LTV breach or you can buy investing into the energetic capacities of your building can also avoid the LTV bridge.

That's, that's beautifully put us in.

I think we're all very conscious of the costs of not investing in our assets and therefore the implications for our health B’s. But I think it's well put. I mean ultimately I think that part of this also goes to the idea of how to cap rate set in the next five years that there is clearly a lot of pressure on cap rates associated with rising interest rates.

I would I would proffer that perhaps some of the assets that will be most resilient in those will be the assets that have been most invested in for many HG standpoint.

Yeah. And I think we will. We will, we will see lenders making a strong point in in their selection of of preferring ESG compliant assets.

Actually, sorry, you had a comment there.

Yeah, and I completely agree with what just was just said by SM.

Looking precisely at this question for new investments is absolutely mandatory now, and not only because of regulations.

On the other hand, I do believe that high energy prices will accelerate energy savings. I mean, it is a strong signal. It is super painful at the moment. It's painful for investors, it's painful for tenants. Nobody has a perfect or simple solution. So it requires a lot of work, but it is a strong signal that will differentiate good assets from average assets.

And and definitely the protection of value for investors is absolutely key. So we are going to do more EG in my view not only because of regulation or because of convictions, but because of good common sense having the right assets that will get the right tenants that can afford the right trends and then do our job, protect our investors value.
And that's this, this just relates to another question that just come in, but do you see yourself therefore really pushing on the Green lease side of things, you know, do you feel that you need to enshrine that also in the tenants obligations to you as a landlord?

I mean the price signal will push the tenant to look at those question whatever its list says. At a certain point it's not about having more sophisticated contracts. It's about again what I call good common sense, which is just looking at your bills, you're looking at your your cost and making choices which are not only on a number of other criteria, but that on boards this question of EG in general the one of energy price in particular, the right of the, the one of location the, the, the one of as well the development around the S question and particularly.

Your place within the community and the territory you are getting into. So yeah, I think the the more it becomes sophisticated the more at the same time we need to be super pragmatic in our relationship with students. And I don't think it's about Greenlease's it's, it's about. I mean fair and balanced business relationship.

I think just one question on, just one last one on this CSG seems, I think it's an interesting one is do you guys see yourselves also putting in covenants and clauses associated with margin step downs for the right kind of ESG behaviour or is that just a sort of a step too far for you guys is, but are you trying to actively encourage it in the economics that you're placing into loans?

Absolutely. We, we, we, we introduced our, our the family of green and social loans. And and that implies that there's a penalty mechanism if you don't comply with the with the greener anymore. So yeah, yes, yes we do and we we've done that on the refinancing side for a while. We were the first lender to to issue a sustainability link link bond and our green bonds we issued starting to to 16.

So yeah, yes, yes we are going down this in in this direction. Very.

Clearly not. I can see you nodding there. You you
seem to be in complete agreement that it was there
a comment there or is it just complete agreement?
My side clear agreement.
No, I was, I was nodding and smiling
because I don't. I think 18 months ago there was
the other way around you gotta you gotta premium when
you complied with some some SG measures now you get
you you you you getting you getting a penalty
and it's right you know it's it's like it's like
educating children you.
Know you.
Have to use both sides.
How old are your children?
Yeah, my old enough to say that you.
Know adults so before because we've got about 5 minutes
left, I just wanted to very quickly talk a little
bit about cities. And I think it was interesting just
to note in the in the cities analysis, some of
the German cities who sort of dropped a little bit
down the the hierarchy, but they were safe havens at
a German cities no longer safe havens of something changed
in the marketplace that we should be thinking about.
Well, first of all, to to put this in perspective,
I'm based in Paris. I run a European platform and
I happen to, I happen to be German, so I'm
not defending Germany, but I think we have to be.
First of all, Berlin has lost one place, Hamburg and
Munich haven't lost any place, so they remain stable. Only
Frankfurt has lost three places, but all four are still
under the in the top eight. So that's still, I
would say, not bad.
But it is clear that the high dependency on, on,
on, on, on Russia for energy and as a result
and high energy cost and the prospective for difficult winter
and a relatively grim German economy sentiment has
certainly led
that impact on on the ranking by all the the
people who participated in this, in this, in this session.
Nevertheless you know Germany has always had strong fundamentals.
And here we're talking about cities and not about Germany.
You know, unlike other countries, you know, Paris is very
heavy, France, Germany has seven markets, significant real estate markets.

So you have to look at the fundamentals and the resilience of those cities and in my view there's still strong.

Berlin has it's, it's large, Munich has a super strong economy and and Hamburg as well. So I I think that the for me I'm not concerned about the midterm outlook of Germany.

Now I think on the short-term basis we will see the same thing then every everywhere else. We will see some distress, some opportunities, but it's still, you know whether you call it safe haven or interesting markets, for me it's really more part of interesting markets because safe nothing is safe in real estate anyhow.

I'm hesitant to ask you because it you're Berlin hit but I'm gonna ask you the same question is do you guys see that see the do you see the the you know the same pan in Germany that that yogurt laid out. Yeah.

Yeah, I I obviously I will hold up the the flag from Berlin and then then say Berlin is a great city and great place to invest but we we obviously also investing in in in other places. But I I would fully agree with Yogins to I don't want to repeat what you're going to say.

Right and and one thing before we just sort of move off cities. The other thing I was just going to highlight and they said maybe if I come to you and Natalie as well on this one is there's a couple of second tier cities that people would historically have thought of as being kind of you know obesity perhaps in a Lisburn jumps up the hierarchy. Copenhagen has done well, Leon has shown up you know as an improver. Anything particularly that you think is driving that or or is it you know is it, is it population, is it you know the the the shifts that we've seen with working practices is there something.
Knowing that you guys would identify as being informed.

I believe that the first reason why those markets was more attractive is that the returns were still higher at the time of very low yields than the core cities.

So offering opportunities and then some of those markets really expanded with more, more liquidity and more depth than they used to have 10 or 20 years ago. It will be interesting to see if this remains in the next three years or if it's vanishes a bit.

With people being a little more cautious and coming back to what I would call global cities, my conviction is that this should remain, but we don't know, so we'll see.

I also think it resembles a trend we've already seen for a while, but which two seems to kind of scale up and it's more focused on livability and EST. And Copenhagen probably is a clear example of that where we've already seen international investors go in the last few years, but really came out really well from the pandemic as one of the few probably who managed it really well and. With the whole net zero strategy they've set for 2025, it has a very clear focus on livability and investors more and more recognize that.

Fantastic. Thank you. Listen, I I think I'm, I'm running rapidly out of time. So we go around the room quickly and and then I can roll into the the 25
final sets but actually I'll start with you what do you think? Great day.

Um, thank you for starting with me. I would say between 4 and 4.5, meaning 100 to 150 bips of risk premium.

Yeah, again.

1 1/2.

4 1/2 I see.

4 to 4 1/2.

But expecting a scarcity of taxonomy compliant assets on the one hand and also expecting for some asset classes also rental increases will which will be factored in to decrease that yield.

I feel not qualified to answer this.

Especially with already 3 answers, what else can I could have said 4 1/2?

Appears to be the magic the magic number OK.

We have absolutely hit our time limit. Now it's so

it's 126. So I'm conscious that we need to wrap up at this point and I'd like to obviously thank all of the panelists who joined me here today.

You will see a feedback poll appear on your screens. Please provide your feedback to the UI and to PwC.

I know the UI wants to hear from you. It's very keen to improve their webinars, make their seminars better.

So please do respond. Why do you click your way through that? I just wanted to thank you, I personally, for allowing me and inviting me to moderate today, and of course to thank all of the fantastic panelists we've heard.

Who've joined us and and showed their perspectives, of course.

There's a huge thank you from all of us in the industry to the UL team, to the set, to her her team, and to Garrett and PwC for the work that goes into Emerging Trends survey in the report itself.

You know clearly we should thank everybody who takes the time to also fill in this report and contribute. It
remains an incredibly important window on the wonderful world that
we all Occupy and this year's report that's the 20th in this series is as excellent as ever and thank you to to you and I for that PwC with that and the I think the questionnaire is is revolved through, I can certainly sign off. Thanks for joining us today. Have a great afternoon and we hope to see.
Each other soon, I guess.