Hello and good afternoon.

Welcome to the launch of the 2024 ULIPWC Emerging Trends in Real Estate Europe report launch.

I'm Simon Durkin, the Head of Real Estate Research and Strategy at BlackRock.

And thank you to the ULI and PwC for inviting me along today.

Look, this year's Emerging Trends in Real Estate report illustrates it's a fairly anxious industry coming to terms with the exceptional market conditions that we currently experience in Europe.

And while some lenders remain hopeful, a vast majority of European real estate industry professionals are looking for that solid footing as the combination of ESG requirements, geopolitical tensions and high interest rates continue to disrupt the status quo in this post COVID market.

Now I'm delighted to introduce Gareth Lewis from PwC, who will get us started by taking us through this year's emerging trends report.

Gareth, over to you.

Thank you, Simon, and good afternoon, everyone.

As Simon said, I'm Gareth Lewis, Director in the PwC Real Estate Lead Advisory Practice, and I also lead for the firm's real estate research and thought leadership, and that includes the emerging Trends in Real Estate report series,
we do in collaboration with the Urban Land Institute.
And I'd like to take this opportunity to thank Lizette and the ULI for another fantastic collaboration.
This year, the Emerging Trends in Real Estate survey is a joint survey between PwC and the ULI and it's published every year.
In Europe, it's been published every year.
Since 2003 it's it's forward-looking and and we think unique in terms of the the quality of the input we get from senior professionals around Europe and and globally.
And and I'd like to take this opportunity to thank all the people that participated in in the research this year.
This year's report takes in the views of over 1000 participants.
Who were either interviewed, took part in the online survey or indeed took part in a series of round table meetings across Europe.
So that includes investors, fund managers, developers, property companies, lenders, brokers and consultants.
So as Simon said, I'll try and give you a brief highlight of the findings of this year's survey over the next 10 minutes or so.
If we could go on to the next slide please.
Europe's real estate industry has endured record low transactions in the last 18 months.
Central bank interest rates throughout 2023 have left large parts of the industry in passive mode, and the survey and interviews were conducted before the crisis in Israel and Gaza, which started exactly 4 weeks ago.
And that's clearly added to the geopolitical uncertainty out there.
In this market, the current approach of many investors is characterized by inertia.
There's little wonder, I guess, that stay alive till 25 has become something of a mantra amongst Europe's property leaders.
And as one participant said, if investors have a choice to sit on their hands, they're doing it.

Unsurprisingly, the survey shows that interest rate movements, inflation and European economic growth are top of the industry's general business concerns going into 2024.

Although the levels of concerns are actually down or less than last year, the survey also shows that those three areas remain the chief worries for the industry as a whole over their five year time horizon.

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Having said that, the proportion of respondents in this year's survey expecting business confidence and profitability to increase is higher than last year, with around 1/3 taking this view.

That's roughly half the level of optimism 2 years ago going into 2022.

So although the survey indicates greater business confidence and profitability for 2024 than a year ago, it's fair to say this is from a low base and we're still below the optimism of previous years.

And in light of the growing realisation that we will be in a a higher for longer interest rate environment and progressively less positive and geopolitical sentiment emerging during the research period, it's notable that much of the positive, the positivity amongst interviewers often fell back on the the apparent strength of the underlying Occupy market.

So whilst the changing macro backdrop to real estate has taken a heavy toll on investor sentiment so far.

The sense is that it's yet to be fully tested by the Occupy markets and therefore the industry is clearly concerned about economic forecasts.

That suggests sluggish growth at best across Europe, but with real worries for the big economies such as Germany and the UK.

In the absence of a pickup in the real economy, the wider expectation is that far more distress will be necessary to close that bid ask gap and allow liquidity
to return.

Our next slide please.

Now the top real estate specific concerns remain construction costs

and resource availability by by some distance, although the proportion

of respondents selecting these factors is down on last year's results.

Perhaps not surprising for an issue that began with the onset of the pandemic and has now been a feature for around four years, 2/3 of respondents reference market liquidity issues.

And while this is the first time the question has been asked in the survey, the challenge was a really big.

Talking point amongst amongst interviewees.

Next slide please.

So sharply slower economic growth, stubbornly high inflation and concern about how much higher interest rates will rise continue to cast a shadow over European real estate investment.

This is on top of the ever present challenges of geopolitical volatility, increasing policy and regulate regulatory burdens.

One interview summed up the magnitude of the situation by saying we're clearly going through another major transition in capital markets on a scale probably only slightly smaller than the GFC and others described.

A Poly crisis unfolding, and that unpleasant cocktail of issues has caused European real estate investment volumes to plummet and prices to fall.

According to MSCI, only 119 billion of investment turnover was recorded across Europe during the first nine months of 2023.

That's less than half the level for the same.

In 2022 and the weakest activity in 13 years.

Some 45% of respondents expect the availability of capital for debt refinancing all new investments to decrease against 28% expecting the number to increase.
And I think that explains why the proportion expressing concern about the ability to refinance in 2024 jumps to 65% this year from 53% compared to 2023 and only 30% in 2022.

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So market participants are therefore more careful than ever about how and where they deploy capital.

For many investors and developers, this means focusing on cities that offer liquidity in riskier times.

And in this respect, it's no surprise that London and Paris take the top two places in the city rankings once again.

But the premium on liquidity combined with economic performance is also evident in other cities in the ascendancy in this year's survey, namely Madrid, Milan and Lisbon.

Though relatively still relatively highly placed, the German cities of Berlin, Munich, Frankfurt and Hamburg have slipped in the rankings in terms of investment and development prospects as you can see here.

And the overall gloomy economic outlook for Germany in 2024 is influencing sentiment for those cities renowned previously renowned as a safe havens per capital not so long ago.

Some interviews also suggest that real estate pricing has been slower to adjust in Germany than across most of Europe.

In terms of sectors you can see the ESG influences is significant and for the third year running, new energy infrastructure is identified as a sector offering the greatest overall prospects for investment and development.

As you can see here, niche operational sectors once again dominate the sector rankings, underpinned by global mega trends, climate change, information technology, demographics and urbanisation.
Beds, meds and sheds, as it's often referred to as many analysts now, which you can see here shaded in orange on this slide, encompasses most of these trends that dominate those top sectors. According to MSCI, alternative sectors account for 3rd account for 33% of the 326 billion invested in Europe in 2022, compared with 21% of all investment back in 2007. And the share of office and retail fell from 70% to 44% in that time. Interviewees agree that in an area where higher rates will be the new normal and capital value increases will not be guaranteed, the move towards complex and more operational alternative sectors is is likely to accelerate. The next slide please.

But there remain many issues hindering the growth of these alternative real estate sectors. When asked about the biggest barrier for institutional capital investing in alternative sectors, the most commonly cited factor is lack of knowledge, which you could perhaps reflect. It could perhaps reflect, I guess a a lack of confidence in investors ability to manage that operational complexity. There's also the the obvious barrier, which is the investable universe and liquidity of these new sectors. As illustrated by the chart you can see here on the right hand side showing the overall sector ranking and size of transaction volumes for 2022. So these emerging these sectors are still dwarfed in size by the outer favour sectors such as office and and retail.

And next slide please.

And we asked the question which niche and emerging alternative sectors are you most likely to increase your exposure to in the coming years? In the coming five years, And the results can be seen here. According to this year's research, ESG is the driving force behind the generation, a new generation of emerging niche sectors,
including battery storage for renewable energy, solar farms, electric vehicle
parking and charging and other infrastructure.
And according to one interview, this could amount to a massive amount of quasi real estate over the next five years.
Next slide please.
This brings me to the title of this year's report, Getting Fit for Purpose.
Europe's Real Estate industry has reached a point in its evolution where it knows it must balance making short term money with providing for the longer term needs of a complex and fast changing society.
It just needs to figure out how to get there.
And the slide here shows the word cloud analysis of responses to the question of what trends will have the most impact on real estate by 2050.
The reason behind the uncertainty contributing to that current market stasis is, is both down to the macro environment and we believe the whole question around what is fit for purpose real estate and that's both in terms of the real estate product and also the way in which we that investment into that product is structured and operated.
This is probably best captured by the fact that a remarkable 76% of respondents believe that current valuations do not accurately reflect all the challenges and opportunities impacting real estate such as climate change, social impact and occupy demand.
79% of those surveyed believe that ESG credentials will have a material effect on asset valuations in the next 12 months and nine in 10.
I think running an environmentally and socially sustainable business is the most important factor for the successful organizational transformation within the real estate industry by 2050.
Next slide please.
So in conclusion.
But most forecasts for the eurozone suggest a sluggish economy at best in 2024, with a recession of realistic concern
either way, there's a sense that the industry could be on the cusp of a serious downturn in demand across Occupy markets. And as to whether that market status will persist in 2024, there's some hope. That the stars are aligning, namely clarity on inflation, interest rates and valuation, and hopefully that will facilitate greater transactional activity in 2024. However, there's unlikely to be a single timeline for this across Europe's diverse markets. Could 2024 be the year of investment opportunity for European real estate when a new wave of distressed sales comes forward and rising liquidity freezer shackles of bank lending? Or will that risk of catching a falling knife continue? To keep investors at Bay justifying that, stay alive till 25 mantra all of the above chimes with the perception emerging from the survey that we're entering into an environment in which some big calls will need to be made. Whether that's timing the bottom of the market, putting serious cash to work on an extensive brown to green repositioning strategy, making the call between an electrical or hydrogen fuel car fleet of the future or nailing colours to mask around where that whole hybrid working model settles. Whilst the sentiment from the survey points to an industry in wait and see, mode also suggests an environment and point in the market cycle where the rewards could be significant for those who are brave enough to make these these big calls. So I think we're in exciting times and looking forward to hearing the the panellists views on that. And with that I will hand over to Simon. Thank you. That was a great summary. Thank you, Gareth. I mean, I I get a sense that as an industry, we're moving into the acceptance phase now and starting to turn our attentions to how we think about playing this, this environment.
Now at BlackRock, we, we see 5 mega forces that will really drive performance going forward and that gap between the winners and losers.

And you summarize them on that on that word cloud. I mean, for us, it's about digital disruption. It's about geopolitics, the energy transition, demographics and the future of finance.

And we'll touch on most of these over the course of the next 45 minutes with our excellent panel.

So I have the pleasure of introducing my panellists, Anna Dashnovska, who is an MD at Invesco, Clement Schaefer, Head Real Estate for EMEA and a packet DWS. I'm Anweli Boehner, a managing partner at Velo Capital, which is part of Urban Partners, and Lissette Van Dorn, who's the chief exec of ULI in Europe.

Can I just start by asking each member of the panel to briefly introduce yourselves and just tell us what your biggest take away or surprise was from the 2024 merging trends report?

Anna, can we start with you?

Good afternoon, everybody. It's a pleasure to be here. Thank you.

Yes, I'm representing Invesco Real Estate, a global investment management company investing in direct real estate across the globe in Europe. We're actively managing about 15 billion.

Year under management and I'm responsible for coordinating asset management activities.

What is a take away, maybe not a surprise. I think it's hard to have a visibility beyond a few quarters or even few months. The markets are very volatile and so do investors responses and some of them see the glass half empty, some of them see the glass.

How full I would like to be in the Slatter Group and look forward to the near future where you
could benefit from this market dislocation and find attractive investment opportunities.

Thank you.

Great.

Thanks.

Thanks.

Anna.

I completely agree with you.

Humility is something that I think we all need to have a degree of as we as we deal with the uncertainty ahead of us, Clemens.

Yeah.

Thank you, Simon.

Also I'm very happy to be here and my name is Clement Schaefer.

I'm heading the real estate team in Europe and in APAC for DWS, we are roughly managing 40 billion of assets in these two regions combined and.

You hear my voice is a little hoarse.

So I I really hope that that will hold until the end of this panel.

But what I found astonishing when I looked at the survey results was really the the high impact, the current theme of interest rate hikes and inflation had also in the longer term.

So there was a differentiation between the impact for the.

You know 24/23/24 currently where we are and then forward-looking and I think I have a quite different opinion.

If the real estate industry isn't able to adjust in 23 and 24 to the higher for longer interest rate environment and to a more a slightly higher inflationary environment then we are pretty dead in the water.

So.

So we better get that right over the course of 24.

And then actually a lot of things might be actually much more positive in 25 and going forward.

So I personally think that concerns are overstated with with regard to 24 five and onwards with regard to interest rates and inflation interest in clearance and I understand the
the theme of Expo this year was very much around
survive to 25 S not very much accords with.
What you've what you've just said.
Manueli, please welcome to the welcome to the webinar.
How are you thinking about this?
Recently, good afternoon everyone.
I'm very happy to be here as well.
My name is Emmanuel, I'm a partner at Urban Partners,
the Northern European Investment Manager.
And within Urban Partners, I'm managing partner of Little
Capital,
which is our alternative real estate credit business.
I think following up from what both Anna and Clement
said, it, it feels like the over ruling team in
the report is that a lot of people are scared
to catch a falling night or call in the market.
And I think, I think we can look at the
positive side from it in a way and also link
to one of the interesting ports here at the beginning
of your report which says.
Essentially, if we look at demographic, economical and social
trends,
those are telling us what tenant demands is and the
strategy comes out of that.
We don't need to catch a falling night when it's
on the floor.
Our job is not to tie the market to perfection,
but find investment teams that are going to be viable,
viable and prudent for the medium to long term.
And I think a lot of the teams in the
report are already outlining that there is a lot of
health in real estate if we can invest prudently and
with the right copy of structures.
Interesting.
Thank you.
And the set any, any surprises for you this year?
Well, we've been working on this for a while, starting
already in summer.
So kind of I need to dig deep to kind
of reflect.
But I think what we found interesting if you look
just at the survey results, which seem to be somewhat
more positive than we've seen previous years.
But if you then dig deeper and kind of go to what the interview feedback was, it's really not so positive and it's that marketing in a complete stencil. And to me that says almost there's a lot of wishful thinking around where everybody kind of keen to tap into the opportunity only looking externally like first interest rates need to stabilize even better if they decrease sort of. But accepting the current situation, I'm not sure it's already there if you look at the report, because there's a lot of looking elsewhere. For things to change before we can act again And the other thing I would say if you then look at as Iman Abella was also saying the the demand drivers, they are so strong for real estate, so much needs to happen. There are so much fundamental demand and so much opportunity, but kind of we seem to be sitting still for it to kind of arrive at the doorstep. Yeah, absolutely. And I think it's maybe the confluence of these macro mega forces that we refer to them as or structural forces that is slightly complicating the the landscape somewhat. So just picking up on your pointless set around sort of demand and demand drivers. I mean the Occupy markets have been relatively resilient in this cycle. And I just wonder whether if there is an impending recession, I wonder whether this time it might be really quite different given that in the past central banks have always written to the support of economies in a recessionary period, whereas this time it's the central banks who are actually driving a recession, The slowdown, Clemens just telling to you, how do you think a recession might impact the robust occupied demand that we have been seeing? Yeah. Thank you for that question Simon and I, I think Germany, I'm sitting here currently in Frankfurt. Germany is currently in a recession.
And the main facts currently if you look in some figures is, we had a reduction in unemployment rate, a reduction in unemployment rate, we have rising tax revenues and. That that makes me quite positive actually, right. So technically we're in a recession, correct. But people are not losing their their jobs. That means, you know, there seems to not not be any mass layoffs which drive office occupancy further down. Let retail sales deteriorate and keeps the ability to hire, hire to pay higher residential rents, right and I could continue about the leisure of sectors and so forth. So overall I am I'm, I'm not so pessimistic. If there is a recession, it will be quite shallow and it will be more technical in nature and given the substantial. Reduction in development pipeline, we're in a completely different state of repair as compared to the global financial crisis, right. So we're deep recession hit an over building in virtually all sectors from Spanish Spanish residential to retail across Europe and office as well, right. So we're in completely different situation, very, very controlled completion rates over the previous years and. If a recession, then more a shallow 1, so I don't see the healthy economic situation, the occupational markets do it materially deteriorate? Yeah. It does feel very different this time. And to your point that moving into the GFC that's a supply demand dynamic was was very different with most markets being quite significantly overbuilt and it was a real, it was a real difference among well, how, how are you? Thinking about occupier markets, are you worried about recession? I I I wouldn't say worry that. I think, I think either a technical recession or a stagnation is already baked into the numbers.
Everybody's running when doing investment analysis. And also countries that are not in recession like Germany have been through, have been going through a stagnation for a while.

So in a way when I look at macroeconomic expectations and the impact they have on occupier markets on the commercial side of things, I think there has to be a flight to quality and there has to be a flight to occupiers that can sustain long term occupancy and there is to be a movement away from single tenant occupancy, especially when it comes to office.

On the residential side, the main point of analysis has to be affordability. Residential has been sustained by for a very long term, long time by rental growth which might or might not be sustainable in the long term. So I take a lot of comfort from what Clements has said that having a lot of investments in Germany, even if the economy is not performing then tax intake is increasing which might lead to support programs in case there is there are issues in terms of probability.

Yeah, I I wouldn't to an extent we we need a new playbook now to help us think about the macro and how it translates. I mean just looking at the current rates of. Of unemployment across most of Europe, the level of interest rates and inflation would typically imply much higher rates of unemployment than those that we're seeing. So the economies are proving proved to be a lot more resilient.

Anna, how are you thinking about your positioning in the face of a recession? Or are you already well positioned to to weather the storm? So well, I don't think anybody's well positioned to this situation and obviously we are carefully analysing the investment opportunities. I guess the era of simple real estate transaction were cheap depth towards the main driver is no longer there and and both investors and the investors advisors need to be much more sophisticated and have to create a robust business plans in order to.
Progress with any acquisition clearly at the moment the real estate expects some premium versus the other classes of assets because the attractiveness, the relative attractiveness of real estate as an investment class versus, for example, securities. There is at the moment under big question mark. I think the debt strategies, they definitely have their rosy time, time and there will be plenty of opportunities for refinancing, recapitalizing, repositioning of different projects. I think the trend also is that the landlords would need to take much more operational risk, which is not always something that they wish for or they have to internal competence. But I think Garth mentioned that in his presentation. But without that you cannot get really the competitive advantage. At Invesco, we tend to kind of drive our investment decision by the underlying secular trends in sectors and the regions. And I think this will stay as is for the next at least couple of years where we’re not going to change this approach. And also obviously the ES GS have fundamental part of everything we do. ES, GS part of the investment decision process not only for us but probably for many other investors as well and we have put a bar very high. So basically either you buying best in class in terms of ES credentials or you have a fantastic business plan to get you this asset there to this level. Yeah, interesting. We managed to get in 15 minutes into the panel before ESG was mentioned. I think that has to be. There has to be a record. I think while whilst we're on that let's explore this a little bit more. The set just turning to you in Europe, the ULI has been getting a lot of traction around it sort of sea change initiative. Where do you think the industry should be focusing in
order to accelerate that transition?

Because yeah, I was at your, I was at your summit in in Copenhagen recently and although in real estate we're making. Phenomenal progress to decarbonize.

We're still way off track to achieve Net 0 by 2050.

I I unfortunately, I agree with that and actually officially we're still in moving in the wrong direction. We're not the only industry moving in the wrong direction, but we are.

So everything that we're doing right now is not enough to kind of really significantly reduce emissions.

A couple of things. I think there's a real opportunity to look at decarbonisation amidst those structural trends and what needs to happen with our building stock.

Often when we look at it in isolation, we just consider the costs and it's short term cost and not really sure what the long term value of that is. That still we hear things about green premiums, brand discounts,

but it's still. Very blurred with often being new buildings in the best locations.

So what is exactly that's green element I think by looking at it from the transformational perspective and then mixed-use increasing density etcetera what we need in cities anyway it becomes much easier to include it.

But I think it and it also goes for the wider ESG is.

We need to look at it from an integral perspective, just not looking at the E separately, the S separately, because also we don't get the decarbonization right. There's a big risk it will further increase the social divide we already see in cities.

And therefore, I think it's really important to look at what the costs are, what the potential benefits are, who kind of where do those benefits.

Arrive and kind of share the bigger picture. That sounds a bit fake probably and conceptual, but on
a lot of cases I'm not talking the easy ones,
the CBD offices, the high end residential where kind of
the cost to decarbonize is relatively low versus the the
value of the building and the value of the land.
It's really about the more complicated.
Maybe somewhat edge of city centre, suburban offices,
social and
affordable housing.
Those are the areas we really need to look at
and work together, public and private sector to achieve this.
And I'm sure it's possible, but we we really need
to scale up.
And the last thing I would say, and it's not
only about just looking at the cost of decarbonization,
building
the business case better, there was and Garrett presented
that.
I think over 75% of respondents didn't think current
valuations
reflected properly all the challenges that exist.
I think we have to use our common sense and
look, and I know how many people are already doing
that, but look at what is the real value, What
is in here?
And that's not just decarbonization, it's also physical climate
risk
and it's social elements.
And then look at starting there.
What is the business case?
And it becomes easier to make it.
And the other thing I think we need to start
focusing on is carbon pricing, because you're only focused on
the cost of decarbonization.
There's also the cost of the externalities, and if we
don't do it, someone else will.
Yeah, interesting.
I think the report very clearly.
Has a focus on that sort of social aspect of
of real estate and there's a great quote in the
report that's that's goes something like the people who will
make money over the next decade will be those who
solve the problems of of society.
So maybe we are starting to see that narrative switch from the E to the S on the basis that the S what you can't do the S without the E So it's a fundamental part of of of how we do ultimately decarbonize. Clements how, how, How did DWS think about real estate and the energy transition?

And where do you see the greatest opportunities emerging from the decarbonisation of the the built environment?

Thank you for giving me an E question and not an S Yeah, so that's the thanks for that.

So yeah, couple things are wide.

You know if you're an investment manager and you're predominantly active core, core plus you got you got an ageing portfolio, what is your investors? What are your investors actually expecting of you? Is it to basically sell now into the market and or to take on the challenge to reposition these assets and take on the the decarbonisation challenge yourself? If you look into the market right now for your existing stock, I'm sure every manager has that there are a couple buildings which need which which are in dire need of CapEx.

And sometimes you know clients want to sell, wanted to have sold that that's becomes it becomes sold. Sometimes you ask for service redemptions or whatever. But if you are actually in a position that you can take your fate in your own hand, I think investment managers are very well posi should actually take on the challenge and internalise that's what we do. So we we haven't sold for for quite a while and.

Let's take older office asset. Actually we have gone through the brain damage of of getting our head around and repositioning these buildings because if you think about the alternative, you can either sell to a a cost of capital investor somewhere between 15 and
20% of course IR or you internalize, internalize that within your remit. So that that's something where I think two things really come together. One, an idea to strengthen returns in accordance with the mandate given by the investor. And 2nd, actually to take on the challenge of decarbonisation and to accelerate basically the speed of decarbonisation. Well, that that's within the existing product range. And that's a bulk. And that's where the battle is lost or won, right? Because from today until 2050, we will probably build another 2025% of stock. So if we are unable to decarbonize what we already have, we won't get there. Right, absolutely. And I think the statistic that I saw, I think it was the IEA that 75% of the stock that will exist in 2050 already exists today. So that's. It's completely supports what you're what you're saying we just can't we can't build our way to net to net zero. Well how are you thinking about decarbonisation and again focus on OK, well what are those, what are the opportunities that that their structural one way structural trend is likely to to throw up. Yeah, I I think all I heard so far is honestly music to my ears because as a group we've been and I would dare say obsessed about the transition for a very long time. And everything we do is geared in a way towards urban transition. Not only because we think it's the right thing to do, but also because we think it's good business and it significantly impacts the risk written profile of our investments in a way borrowing Lizard's point on holistic approach on urban environment.
So that is why we have structured the way we are.
We are, we think that there is a lot that can be done in real estate, but real estate alone will not be enough to achieve the targets we have. You will need technology, you will need new energy, you will need a number of different items and investment classes that all in around the urban environment and we are trying to capture those synergies and on I'm following up on Clemens Point, I think it's very important that the sector as all stops talking about brown to green and actually shows that we can deliver brown to green. And that is what we are also trying to do internally.
It's retrofitting an existing building is unquestionably a better situation in terms of decarbonisation than demolishing an old one and rebuilding it. That's that's where we all need to get better.
Yeah, interesting.
And it's a fundamentally different way of thinking about the risk and return profile of real estate than we did even five, five years ago.
Anna, So turning to you, you raised ESG first, and what are investigators doing to sort of make an impact and what do you think we should be doing more of?
Yes, I I believe that we are fairly advanced with ESG implementation not only at the strategy level but actually at the asset level. This is not something new and we've been working on that for, for several years. So starting from the basic things like data collection, going through the net 0 audit process, incorporating ESG into decision process, cram analysis and actually the the CapEx business plan to improve the the credentials is that that we do and I'm sure many peers do have similar approach.
However, not everything is straightforward and I'd like to just give a couple of examples from the asset management perspective.

So firstly, something that Lisa had mentioned, valuations do not yet reflect the full challenges of the ESG transition. I have a feeling that actually valuers are struggling, how to get a single clear guidance how those risks should be valued or even reported. And there is like a potential asset obsolescence as a big risk probably significantly undervalued at this stage.

Secondly, the whole thing about of regulations, regulations need to be as the front of all this transformation. And there are a lot of like practical problems with simple things like you know signing the green contract on the photovoltaic panels on the roof, consuming the energy on sign, being the distributor, the landlord, a lot of problems around fairly simple thing. So the regulations have to be more robust and there is a clearly a role role for the regulators to speed up and and give a clear guidance. And finally there is this dilemma that I was thinking about that for many investors and investment managers they are supposed to report on a short term performance quarterly, annually, they need to deliver financial results. Whereas with the ESG it's all about you know, long term plan, long term potential improvements. You need to spend a lot of money. You need to have a plan of the CapEx in order to get something at the end or perhaps perhaps in order to protect the value from falling down. And there is this dilemma between between you know those two streams. Do I need to report my financials and my here and now performance or do I take a hit now and underperform for a while, but maybe we'll get the better result in the future. This is something that clearly is there and there has to be a lot of more. There have to be a lot more KPIs embedded
at the strategic level of the corporates, not only real estate, to basically motivate decision makers to invest.

Yeah, absolutely.

Completely agree around the measurement piece.

And you know, I think maybe we're moving into an environment where you know, traditional benchmarking doesn't really serve the purpose that we need it to, to serve if we are to make progress along that decarbonisation path to 2050.

So how are these challenges actually reflected in your specific strategies? So are you now thinking about how you weight your portfolios differently today than how we would have done pre COVID Clemens?

That one's you. We COVID.

All right.

So first of all, thank you.

You know I.

From training, I'm economist, yeah.

So I, I, I always ask myself, is this a complete disruption or is it a parallel shift?

And as hard as hard as it feels right now that increases in interest rates and inflation are a parallel shift and not the disruption.

Yeah, it creates this, it creates distress, but that.

Shouldn't over over paint basically the the, the situation that we're in a in a parallel shift scenario for for in general.

So therefore the the way to judge about investments in our view is, is still it needs to drive on a relative basis versus other asset classes attractive risk adjusted returns.

And ESG, well we we tried to move actually away from from the term ESG and because we say it's part of our decision making therefore therefore we try to avoid that nomenclature.

But effectively the the biggest disruptional effect I've seen, we we've noticed since since since COVID is, it's
And as I said, the interest rates and the inflation, it's probably the work from home for the office sector and that's where we think the impact on the sector's probably the biggest however it's it's bifurcating right.

So, you know, certain office locations are the winners and others are the losers, right?

I want to leave a little space for the others if you intend to pass that question around right I could go on for ages but generally speaking you know it's we're it's in a parallel shift and the disruption is probably the the hardest in the in the office sector on the niche I would leave the niche sectors for my fellows here on the pen.

Very thoughtful, Clemence.

Thanks Manuela.

So as you think about what sort of balance diversified exposure might look like for real estate as you know the report is telling us that and as it has done over the last the last few years.

Now that you know the winning sectors are inverted common as the alternative sectors and we won't debate whether they should be called alternatives or not. But has your view of balanced exposures fundamentally changed?

Yeah, I think.

I think if I look at our investment criteria pre COVID, we were already very much focused on alternative residential for example and all the subsets that you can find that within that.

So I think in a way we believed into a big a big component of what the alternatives were already before COVID, I think.

I think what has changed over the last 18 months is how you look at the capital structure of your investments rather than asset classes and how fortunately speculative.
approach to real estate is probably off the table now and we need to go back to the basics and create values based on what our tenants want and need. In terms of asset classes, I think I like to take a slightly more contrarian position when it comes to office. I think there are clear differences between most European centres and the and the largest US office markets. But you want to be. Central in a modern asset which is multi tenant and provides services over and above what the old office used to be. In that case, I think it's a it's a good place to be at the moment. Yeah, I don't think the other the theme that we're hearing here is one of huge dispersion, no, not just between locations but also between assets. And am I willing just why we've got you so, so do you think we're likely to see that famed wave of distress as we move into 2024? I know a bit of a switch to sort of a bit more of a capital markets focus as we start to wrap up. Yeah, it's a very good question and as most good questions it doesn't have a simple answer. My my personal view is that if. With wave of distress, we expect a huge volumes of quality income producing real estate coming to market at discounted prices. We are never going to see that and fortunately we are never going to see that because that will create a much larger systemic crisis when it comes to the financial sector on. More timid but very active way. I think we are already seeing significant distress in the market with ongoing and existing development specifically but also income producing portfolios. So that require refinancing going to look for equity and that at terms that would have been unacceptable just six months ago.
Often disguise the by structuring to try and pretend that
the mark is still higher than what it really is.
So in a way, if people are waiting on the
side of the river for the opportunity of a lifetime,
either it's not going to happen or someone will have
matched it way up river.
If we can, if we can be selective and in
the market, there is already a world of attractive investment
opportunity at the moment.
Interesting.
Thank you.
Anna, just just sort of turning to you just as
we, as you think about sort of capital markets and
financing, yeah, how are you thinking about the evolution in
the, in the debt, in the debt space?
And the availability of finance, yes, we've been active in
the Dead Space for, for the last 1218 months and
and we see a lot of opportunities there.
As I said this is a window of opportunity for
different debt strategies and alternative lenders will will have
a role to play in exactly what Emmanuel was saying
recapitalizing
and basically and ensuring that that portfolios stay healthy.
So this is exactly one of our investment themes.
At the same time I'm also the opinion that you
know the, I'm not so negative about the office sector
as such because if you look at fundamentals and occupiers
market, it's still there and with the very limited construction
activity there will be clearly a rental growth and and
for sure for the best in class the space which
has been already proven that the vacancy is very low.
So this trend will continue.
At the same time you know everybody speaks about
alternative
sectors, you know life science, medical centres, but again these
are niche products so not all the investors can chase
the same little niche sectors.
There has to be some activity also in things like
retail and in standard office and I'm sure smart investors
will find the the right structures and opportunities to
enter in in those as well.
And this is something we're watching carefully for the next year, hopefully. Yeah, I think I tend to agree with you there around around offices and I think as we move through the next cycle, you know I think the office will play an increasingly important role for occupiers in order to bring people back to the office and to. And to try and reinstate that culture at the organizational level that's so difficult to achieve when one's when one's working from home more full more full time.

Lissette, quick word from you on alternatives. What what sort of insights have you been hearing from your your membership around exposure to alternative sectors? Well, I think there are a few things I would like to say. I think overall if we kind of look over the long term how real estate has developed, I think the level of granularity and complexity has gone up massively. A lot of what we call niche are also kind of sub sectors to where we first just looked at the big buckets of retail versus offices and then a long time there was nothing and then we came to logistics and residential in some countries more than in others. That's not enough anymore. And we've realized also in the financial crisis as in the pandemic that one type of retail is not the other type of retail and that we need to kind of dig deeper. And therefore also new niche sectors pop up like we're now looking at medical offices, we're looking at senior living, senior living with care etcetera, etcetera, so. Every time it becomes more nuanced and I think we shouldn't forget that. And and I think it says something about the sophistication also in the industry that has developed over time. And the other thing I would say is every time we try to figure out what will happen with officers, we've seen it with retail in the financial crisis, suddenly people discovered the Internet. And there was a real price difference and kind of many people suffering so much.
There was a real advantage to kind of a shop via Internet.
A large part of that remains, but it wasn't the end of retail.
And in the pandemic we thought this is the end of the office.
We'll never go back.
And now we're trying to figure out and we got a kind of financial crisis on top of the pandemic almost.
I'm not sure if you can say financial difficulties.
Now we're trying to figure out how that's going to play out.
That might take a while to figure out what exactly will happen with officers and how much.
I see it here in London where in the city it took a long time for people to come back, but now we see all kinds of new coffee shops, cafes, etcetera coming back.
So we kind of shouldn't jump to conclusions too quickly.
And monitor how things are going.
Once we get through this, the effect might be different.
If however we get to a recession and unemployment would increase, things might also change with that again.
So I think it's a constant evolution with different sectors but and and the the last thing I would say is there's so much where we previously saw a lot of.
Social infrastructure taken care of by governments, we're seeing them pulling that back, for example on senior living and all medical care, etcetera.
Private sector stepping in and what we see is where new opportunities arise, like in energy infrastructure, communication infrastructure, the government's not even getting in there, but immediately it's sector.
So there's definitely a lot of opportunity, but looking at sectors like we used to do with big office, big retail in the past, I I think that is a thing of the past.
It's not like that anymore and it will be far more granular going forward.

Great.

Great.

Segue then, Lisette to my last very quick question for the last two minutes, and I'm taking your word of advice as being.

We don't judge the future by what we've experienced in the past, which would probably have been my word of advice.

So rather than asking people what are their top picks for 2024 because that's more than covered in the report, what would your one piece of advice be as we move into the next cycle?

Anna, starting with you, tough one, but I think understand your tenant, your occupier and for this you need and a good asset manager and the value of the smart asset managers is enormous.

Their experience, their ability to create value, to go to apply the ESG path into the best in the buildings, understanding the full life cycle and and advising really what drives the occupational demand, that's critical.

So I would say focus on your asset managers.

Great one man, Willie.

Very quickly, very quickly, I will say don't panic.

Accept that the decade of real estate being seen as bond proxy race three is over and focus on creating value for your clients who are.

As Anna said, you're occupied.

Great one, Clements.

Last word.

Revisit retail.

Love it, love it.

Well, with that we're at the top of the hour.

Thank you ever so much to my panellists, delighted that the that that we've kept the tone relatively upbeat and focused on the opportunities and the opportunity set that this market is undoubtedly going to create for us.

So just before we close out, we really do appreciate your feedback.

So you will receive a.

Survey popping up on your screen maybe now or we
will send you a link that's really, really valuable in helping us and ULI sort of shape their events for the future.

And one plug before we wrap up the ULI Europe webinar on Healthy Buildings, Tuesday, the 21st of November, put it in your diary and look forward to seeing you again soon.

Thank you very much.