So just a couple of words. First, when I started university back in the early 1990s and the German treasury yields the Bund, the 10 year Bund was at 6%, the US treasury was at 8%. The US was clearly the only geopolitical power and political risk in the developed world was almost absent. China, short after, started negotiating its access to the World Trade Organization and since then, throughout all of my career, which is not that long, only 25 years, we had it really good. From those levels of interest rates, by 2020 interest rates went almost to 0, a constant, broadly a constant fall in Europe. The Eurozone had, you know, only one currency. So currency risk was pretty much gone within the Eurozone. And in real estate investment, in order not to achieve very good performance, you had to make many mistakes. Political risk, as I said, was completely absent. Now that doesn't mean that it all was rosy and green. So we had our little hiccups, one called the global financial crisis, which followed by a very nasty euro crisis. You had wars in the Middle East, in North Africa, in Africa and in all the places. And you have some economic instability in certain places. Some countries, like Argentina defaulted on its debt. But things are changing, and the emerging trends in real estate is reflecting these changes that are going on right
First, there’s been a great reset in real estate prices due to the rise in interest rates. There’s also been a substantial fall in liquidity, as we will hear in a second. There’s also been big political change from predictability. We’ve gone into a world of unpredictability. We could have Russia invade Ukraine. We have a war in the Middle East. We have rebels attacking merchant ships in the Gulf of Aden, disrupting global trade. We have much higher energy prices, everything else constant. So politics have changed. We also have a technological change. So this webinar is possible because of a big technological leap that has facilitated hybrid working and seminars. Some of them have become webinars and this has big implications for real estate. We’ve also, we’ve also pledged to decarbonize and to make all the investments required to severely decarbonize and that we have big implications for which assets are sellable and which assets are not. So how will all these changes affect our industry and more importantly, how do they, how will they affect investment decisions? So in this webinar, I have the honour of being of moderating a panel of three very important decision makers in the industry who will hopefully cast a little bit of light of how they are thinking about all these changes that are going on around us. So let me introduce you later on, but you know, just a quick glimpse. So Lisette Van Dorn, she’s the CACEO of ULI Europe. Mark Gabe, who is the CEO of LaSalle Investment Management. I don’t know whether it’s called LaSalle Investment Management anymore, but that's how I grew up knowing it as. So you know, that's how I will die calling it
anyway.

And then we have Dennis Lopez, who is the CEO of Quadrial.

But before the panel, we will have Gareth Lewis, who's the director of PwC real estate lead advisory team, who will present to us the key highlights and the key results from this year's survey.

So let me welcome Gareth Lewis, who is on the screen right now.

Gareth, over to you.

Thank you very much, Jose for the introduction.

Good morning, good afternoon, everyone.

Wherever you are and welcome to this launch webinar for the emerging trends in real estate, global outlook brought to you by the ULI and PwC.

It's really good to see so many of you registering today.

So thank you for doing that.

As Jose said, I'm Gareth Lewis from the PwC real estate lead advisory practice.

And the first thing I'd like to do on behalf of PwC is to thank the ULI for their collaboration for the all three regional emerging trends reports published at the back end of last year as well as for the latest, the latest collaboration for this global edition.

Next slide please.

The Emerging Trends in Real Estate Global report is a joint publication by PwC and the ULI and it brings together the findings of the three regional reports I mentioned published at the end of 2023.

So it reflects the views of thousands of senior real estate professionals and that research is undertaken via a survey, round tables and interviews and it's seen as a key indicator of sentiment in the real estate investment and development trends.

And this global report was supplemented with recent interviews on the outlook for the year ahead.

So the plan for this session is, is for me to give you the brief highlights of the global report, as Jose said and then I'll hand back to Jose.
So on to the highlights of the report. The senior industry players we spoke to for this global edition of Emerging Trends believe there's a good prospect of renewed investment activity on the back end of greater clarity on monetary policy in the US, Europe and Asia-Pacific. And the hope is that buyers and sellers are starting to become reconciled to an elevated interest rate environment and will therefore find that middle ground on pricing that's been so elusive over the past two years.

But what is complicated in the picture is the fact that many real estate investors are grappling with some of the more fundamental challenges around the industry's role in society and in making buildings fit for purpose in what is an uncertain current and future environment. Next slide, please.

So with alignment on pricing comes the belief that real estate can recover from one of the worst investment downturns in recent years. As Jose said, were there any upswing in activities expected to be much more evident in 2025 than in 2024? And if there is to be an improvement in investment markets in 2024, it's going to come from a very low base.

And as this slide shows, global transaction activity in 2023 slumped to its lowest level since 2012. The latest data from MSCI shows that transactions involving income producing real estate fell by 48% in 2023 to 615 billion, which is a 17% for on the 2022 total. Nowhere has escaped that slowdown, although the MSCI figures show that some of the major markets in Asia have been have shown more resilience than in Europe and North America and they continue to do so according to those we spoke to for this report. So whilst it's whilst it still feels like a transition...
period in the capital markets, there are signals that the market is waking up, but there's still a fair degree of caution in real estate and diversification of risk by both market and sector will be critically important.

Next slide please.

Given that all three regional additions of emerging trends identify interest rate movements as the top industry concern as you can see here, it is understandable that some clarity on monetary policy since the turn of the year has brought a measure of relief interviews for this global report. Note that as one interview put it, a change of tone towards the asset class, albeit from a more more positive in the US and Asia than in Europe. Industry leaders across all three regions acknowledge that the geopolitical backdrop to investment is fought with uncertainty and may yet override the stability on inflation and interest rates. The wars in Ukraine and Gaza, as well as the 60 plus elections due to be held around the world in 2024, including and perhaps most importantly the US elections are all weighing on that sentiment. And this is already a period of daunting challenges for the industry, not least with the colossal amount of real estate debt that needs to be refinanced this year and next.

$1.2 trillion U.S. dollars in the US alone and the deployment of so-called rescue capital will clearly be a big part of the global narrative in 2024.

Next slide please.

Though the industry has been in wait and see mode over the past two years because of the short term cyclical forces many are looking to the long term and all three editions of emerging trends reveal that many of the more progressive players have been using this time to challenge long held assumptions about market dynamics, pricing and risks.

And the clear message is that the driver of investor
and occupied behaviour is no longer about the traditional property sectors but increasingly centred around the 3DS. The demographics, digitalisation and and decarbonisation and the 3DS are reinforcing the investment case for diversification across alternative real estate sectors, most notably perhaps another D data centres which is only likely to accelerate under the influence of increasing demand for generative AI. And it's also no coincidence that industry concerns around housing affordability, highlighted again in all three regional additions of emerging trends, are translating into a far greater investor intention on an increasingly diverse range of living sub sectors. Tough market conditions made slow progress on ESD compliance this year. But there's also a strong belief that the green agenda is a genuine new force for change in real estate. And many are clearly seeing that decarbonisation, thematic approach to real estate as an opportunity rather than just an obligation that that is and and will continue to drive capital flows. And our interview suggests that this is going to open up a whole new world of real estate products which overlap between real estate and infrastructure. The transition to a much more diverse operational and complex real estate market. Together with you, you could say the ongoing relatively relative decline in traditional real estate sectors and indeed the merging of real estate and infrastructure has been a feature, but for quite some time. And you could say it's a trend that has been happening in plain sight to the extent that its significance can sometimes be missed. Next slide please. And as as Jose referred to the the great reset
as the US and Canadian editions of Emerging Trends described, it goes well beyond the industry adapting to a new era of higher for longer interest rates. It’s it’s the opportunity for a radical rethink of what will make real estate fit for purpose in the long term.

And cutting across all of this are the changing demands of the occupier. Another part of the same equation you could say, which has been a key theme over recent years, is how do you create income growth when that comfort blanket of yield compression is no longer guaranteed. And this is driving greater sophistication of the end product, for instance, enabling the shift into operational real estate and latterly the push towards Co location. Contrasting uses on the same sites such as industrial and housing. Occupied occupied drip and change is also arguably often unfolding gradually in plain sight, but it invariably ends up with significant consequences across all sectors, requiring a rethink of delivery models for real estate. And examples of this are everywhere from the impact of e-commerce and retail, the impact of dispersed hybrid work on the office sector and robotics on the logistics sector. And these are all historic examples, largely linked to technology. And looking forward you can envisage similarly significant changes driven by artificial intelligence and of course decarbonisation. And with that in mind, our research has sought to consider how the industry can work more closely with occupiers and other industries in the creation of a real estate ecosystem that can pave the way for buildings to be fit for purpose over the coming decade. And the interviews suggest that the relationship between building owners and occupiers will need to become much more entwined and much more of a partnership. And the expectation is for far greater collaboration, dialogue
and

interaction in these business relationships.

And there's a lot to play for for landlords if landlords considered true partnerships with occupiers.

And think about the the challenges beyond the physical building

in an office context this this is about the needs

of the workforce and in in the context of logistics

and retail sectors, such an approach could extend beyond single

locations to the wider needs including energy uses and storage

of the the supply chain and customers.

Next slide please.

So to conclude and before I hand back to Jose for the panel, the the real estate industry is clearly still in transition.

There's still some gap between buyers and sellers expectations and

still this ever present difficult to manage threat from geopolitical events in particular, but also lots of inpatient capital and some evidence and expectation of a ramp up in transaction activity.

And the real estate industry is being buffeted by structural changes and the megatrends of digitalization, urbanization and climate change.

And that great reset as we mentioned may require that real estate businesses no longer simply view themselves as owners of physical assets whereby the needs of the end customer represent a risk to be reduced through long leases or transferred to other parties.

So I think that's quite a change in mindset and the resistance to change here or possibly the inability to change is is reflected in PW PW CS latest global CEO survey which found that 45% of CEO surveyed were not confident that their companies would survive more than 10 years on the current path.

So Jose, I think that's quite a lot to to think about there and I look forward to hearing that the views of the panel.

So with that, I'll hand over to you Jose.
Thank you.

Well, thank you very much, Gareth.

That was a brilliant presentation.

Thank you.

And as I said earlier, so let me reintroduce my eminent panelist, Lisette Van Dorn, CEO of ULI Europe, Mark Abez, CEO of Lim and Dennis Lopez, CEO of Quadrial.

I'm going to start with Mark.

Mark, is this still called Lim?

No that that is the name we got rid of Jose.

So thank you.

Finding everyone that we just we really go by LaSalle now or the proper LaSalle Investment management.

I'm glad we can get that out of the way.

There we go.

I will, I will probably die, saying Lim.

But yeah, that's what that's what habit makes.

So you've got to stick it up more on people's minds, including mine, which is is sometimes a bit a bit stubborn anyway.

So we heard a lot of things.

Now I can see that there is a question on the question board and I promise that we will address that question.

I have read it.

It's related to data centres.

I promise we will address it.

So, so, but let me start with the big picture here.

So Gareth mentioned that particularly in Asia, a number of industry leaders have mentioned geopolitics.

I have mentioned geopolitics in my introduction.

But is this just noise, Lisette?

Do you think this is just noise or this is a structural change in the world?

I certainly don't think it is noise and I think what we're seeing often in obviously it's something not just affecting real estate, so it's also affecting our broader societies and all other asset classes I think.
But for real estate as a long term asset class, I think it does have impact and quite significantly and I think even in the run up to elections generally not a lot happens and politicians are busier with campaigning and and other things than with policy making or creating visions etcetera. So and then so that's not even knowing what comes out of it and then sort of based on where we seen elections going and where we see the different candidates, if it may lead to more short term practice, yeah, I wouldn't want to call it vision. Yeah, in the. Policy making. Yes, exactly. Whatever that may mean. Or lack of policy making. Maybe even. Or lack thereof. Exactly. And that is something I think that for real estate we need long term perspectives. Yeah, so Dennis and so obviously the the year of election, so as Lisa has said it will, it will lead to a bit of short term decision making by authorities. I think that makes sense. But in terms of the global big picture geopolitical change from, you know, the US being the leader to a world in which a number of medium sized powers are flexing the muscles, does that affect your decision making? Yeah, it does. I think we, we have less confidence in investing in certain markets because of that and frankly have pulled back. So I think one of our key premises is that to invest in countries where there's stability, where there's transparency, where there's rule of law, we we've seen that autocratic politicians have increased and and frankly we don't feel comfortable investing in countries where we don't think there's a real rule of law. So absolutely it's caused us to pull back and thinking
about you know, components of the emerging markets we want to invest in and components of the world we want to invest in.

Frankly too, when we, you know look back historically over our performance, you know we don't make any more money in these countries.

Typically it takes longer to do things there.

So on a return on investment perspective, you know you don't make more money.

So if you're basically taking more risks, you can, you can make the same returns in countries with less risk.

Why would you do it?

And we don't.

So Mark, so, so, so, so clearly a number of emerging markets without the right rule of law are you know in in Dennis's book, you know high risk countries that don't offer extra risk, extra return for the risk that they're taking.

Is that the view you take and is, is that different now than what we would have been 10 years ago and particularly you were based in?

You are based in Hong Kong I believe.

So you have a lot of Asia experience and you've probably invested in investment markets in emerging markets in Asia.

We we did 10 years ago.

I I I would say our experience is similar to how Dennis summarized it.

So I would agree with him and that way I'll be able to keep my answer super short on the on this topic.

But the the other way to sort of say it is, there's no question there's increased volatility in the world.

And I I'd say we've been surprised how the market over the last couple years has sort of absorbed that volatility when when you think about it.

And the only thing that the catalyst for change was the change in the interest rate regime which everybody, I think everyone in our industry assumed was going to happen at some, some point.
So the issue I think going forward for real estate investors and you sort of touched about this in the opening of this of this panel is just there's clearly increased volatility and so how are you going to price that? And so Dennis kind of gave an example of how he sort of pricing that type of volatility by by shifting in investments into different markets. But I think that's the thematic that we're thinking about is how do you price this volatility that's almost, it seems very difficult to price like how do you handicap the next full event?

Well, I think that, yeah, this takes me to to a point which I was planning to address a little bit later, but you know given that you've mentioned it, I'll address it now.

So obviously we are in a different interest rate environment that we've been used to over the last, you know, since the global financial crisis. Inflation is now higher than it used to be. We don't know whether interest rates have reached the peak. We don't know whether inflation has stabilized and a number of sectors are changing quite substantially.

So going back to you Mark, so so first of all just before going into the theoretical question into of is real estate fairly priced, Is there anything that you would say is definitely not fairly priced right now that is too expensive for the risk and you're not allowed to give the same answer as Dennis on you know certain emerging markets?

What do I think it's, it's to expect, Well, look we we have, we have an internal fair, fair market value model and there's definitely some sectors that look expensive based on on a forward look and based on what assumptions you want to use. And the and the assumptions are basically some spread over corporates, right, to kind of mimic a a benchmark 'cause you have to have a a benchmark.

I think with within that there probably are some areas that we think are not fairly valued.
I'd probably put some parts of the industrial market and I put data centers in that bracket. So if you want two very kind of specific assets, I'll go with that. I mean it's all real estate people. You know, we don't like to get pinned down to certain assets in certain markets, right, Because everything's a relative value argument in our world, but I'll give you those too. Oh wow, brilliant. OK, so data centers, well, I have to now go into the. The data centers was one of the highlights of what certain industry, what a number of industry leaders in the report have highlighted as favourites, but just saying that it's not fairly priced. So why is it not fairly priced, Mark? I mean again that's going to break down into certain, you know, certain markets and certain dynamics. I mean I I just think it's pretty natural when a sector is sort of crowned the next you know, emerging sector, you're gonna have a flight of capital to that. When you have a flight of capital to that, you're gonna have supply. When you when you've got supply put aside the business model that is underlying that and and sort of the monopolistic you know power of the tenants, right, you're gonna run into some fundamental issues down the the road. So I wouldn't say it's any more scientific than kind of going you know contrarian to where the capital's going at the moment. You got to say that, that there aren't gonna be good deals in that sector. There will be good deals in that sector, but you know, we're talking generalities. OK, OK, fair enough. So Lisette, question for you. So actually this here's a question in the question board from Duke Zirka and I'm really sorry if I mispronounced
So data centres have a problem, they consume a lot of energy. So in your if you as an investor have pledged to decarbonize and you buy a data an existing data centre that might, that might create some issues. But not just that. I mean the rising energy cost might contribute to inflation in general, but let's let's keep it in in on the first part of the question. So does that pose an issue you think data centres in terms of decarbonisation and therefore will that be a backlash of investor demand for data centres in your opinion? Well they're clearly opposing factors that we've seen and and that's often it is quite interesting. On the one hand, we kind of use more and more data and it needs to be faster and more secure and locally stored. And we want videos, everything as individuals but also as companies. And then we haven't even spoken about AI and the potential impact of that. That massively increased the need for data centres And then coming closer and closer to cities where we've seen similar trends as we saw with logistics probably 15 years ago. First, we put them far away and they've come closer and closer again and more tailored and smaller etcetera. And we're seeing the same with data centers. And then at the same time, obviously there's the huge resource claim, not only energy but also water to cool them. So in that sense that those need to be married and often we've seen cities, for example, in the Netherlands putting a total ban on data centers. Dublin has done the same. That's obviously not the solution. So we need to find a way to work this out in terms of whether it's they become their own energy generators. We see things coming with nuclear energy and I'm not the expert in that, but just banning them is definitely
not the solution.

Where we also see collocation, there are examples I think they're even in the report where the heat of the data center was used to heat a pool nearby. So you I think we need to think about more integrated solutions and work together public, private sector and different other stakeholders, energy providers to find solutions for that.

OK. OK. Well, thank you.

So I'm, I'm not going to keep dwelling on data centres, but I'm going to go back to technology and the change in the real estate industry. So one of the key things that technology, I think you've mentioned it Lisette. So one of the things that technology has has created is created the demise of retail and the rise of logistics, the potential demise of offices and the rise of data centre. So this probably means that real estate portfolios are going to look very different 10 years from now.

Well just taking a quick look back on The Time Machine, you know back when the Reed industry in the US was started, 55% of the market cap was in retail and office. Today the market cap of data centers is larger than retail and office combined in retail and office are probably around 2025% Max.

So. So I think one of the things that's very, very clear is that real estate like all the other industries is changing its dynamic. I mean things that were what you would invest in, you know and there were rules of you know like you know regional malls.
I'm not saying regional malls are bad, but I'm saying that the way that people think thought about them 20 years ago versus today is very, very different. So then answering your question in terms of looking forward, look, I think I think what what what are really interesting are areas where we have long term growth as an institutional investor. We have a hard time playing just tactical plays. You know right now there's a lot of discussion on let's say office to residential. We don't really feel like that's a 10 year investment thesis for us, but but we do have themes that we think are longer term. So what are the themes longer term that could impact portfolios? Well, the obvious one that people have been talking about is living affordable housing is a problem everywhere in the world and it's going to be a problem everywhere in the world for the next decade. So I think, you know, having portfolios that tap into that fundamental growth, fundamental need over a very long term. So I think living's going to continue to be a huge part of the portfolio. You know, I I do think you know technology, you know I take Mark's point on data centers. But frankly if you're developing data centers versus just buying them, the economics right now are very different. If you can buy an unzoned land, if you can bring power to a site, if you can build a data center, you know the the opportunities right now are tremendous. But one of the things that we've kind of done is we've said look what's real estate? You know we kind of say that real estate are physical structures that support economic activity And to have a broader view of it and that opens your mind to many other different sectors like we've seen you know, self storage, manufactured housing, you know, studios, cell powers, you know, things we're looking at now are you know battery
farms basically where you can store energy at those times when let's say non-fossil fuel providers electricity are producing power but it can't be used or when the power is very low and then bring it back when it's hot.

So I think things are gonna change dramatically and these historical relationships on the traditional sectors particularly office and retail, they're not going away, they're very important sectors. But you know in some countries, certainly the US, you know both retail and office were overbuilt and there's a reduction in demand for that over building and they're adjusting.

I think as as many of the retails probably made most of that adjustments. But you know, so I think I think going to be open your mind for many different types of investments in real estate and it'll be very operational.

So, so basically you see that 10 years from now the real estate portfolios will be far more diversified, many more sectors and therefore we would have to create within our industry a different level of expertise. But before going into that, I'd like to ask Mark, So could could, could you comment on that a little bit? Jose, I'm just going to agree with Dennis again and just call.

I think and look I think the difference, the difference is you're talking about in portfolio construction. I mean I agree with the thematic that we were an industry where retail and office dominated and it dominated for a simple reason.

It's it's what the market provided #1 and and #2 you could get significant amounts of capital out in an efficient way. And I think that's a that's another issue for for
global investors in terms of getting enough of a allocation deployment into a sector where it's meaningful to your portfolio composition.

But in terms of the differences, you know outside of the USI would say the specialized sectors are all having the same kind of day in Asia and in Europe.

I think that could be you'll see a higher percentage of office and retail composition in in Europe and Asia, you know for for obvious obvious reasons.

So you know it, it's just, it's just how do you want to build your portfolio.

And for me, what we've been thinking about is, is really going forward, how do you price volatility because even this shift to emerging sectors and even if you have to access it via development, right, you're taking a different level of risk, different level of volatility and are you getting paid to take that relative to alternatives?

But as industry leaders, right, so I'm going to go back to Dennis now.

I look, I think there's going to be a new set of skills that are definitely needed in in our industry.

You know as you know, we're sort of in we're sort of an older industry.

We sort of stick around for a long time.

I I don't know if that's a reflection of the asset type or or the fact that we don't besides for securities don't really trade on a screen and so it takes a long time.

So you know old people like myself we we have, we have time to think about what the next decision. So I think the skill set's going to change.

The expertise is going to change.

I think you're going to have to be you know technologically more savvy.

I think that means you're probably going to have to be younger at the end of the day.
But I think more importantly and I think hopefully Dennis would agree with me, it's more about alignment in any of these things. And I think what will probably change more is, is the alignment between operators and investors. And you've already seen some of those trends in the industry with Co-ownership in in operating platforms or or a lot of investors like Co and a portion of operating part platform.

So I I see kind of convergence in in alignment. Is it? Is it bigger thematic than the? Skills, you do see vertical integration basically within the industry which so or a degree of vertical integration. I mean again it's the you know if you're a general partner it's the best way to to generate a profit if you're vertically integrated and if you're a long term investor, it's the best way to develop and own long term the assets that you want with avoiding market dynamics or market pricing. So that you know, vertical model I think makes, you know makes a makes a lot of sense and and it's already out there. I don't think I'm saying anything, anything new. I just think you'll have an acceleration of that. That's 'cause you go into the niche, the the niche sector.

So you you said. That. Jose NS agree. Dennis agree. Oh my God, Dennis. I just like it. I would just like to say one thing. I agree with a lot what Mark said, but I disagree strongly with one point he made. There is a role for all guys like me and him for the continued future, I think in the real estate industry. So other than that, Mark, I think you hit a problem.
OK.

That's good.

All right.

You guys have the wisdom, right?

You have the wisdom to discern what is fashion and what is.

There you go.

But.

That means we.

Also have.

A.

We also have a bias.

Completely true.

So they said they wanted to ask you, so as members of the ULI, the kind of questions that you get.

So do you get a lot more inquiries about operational real estate and how does how has the ULI membership and the ULI emphasis changed let's say over the last 10 years in regards to that area of operational real estate?

Well, definitely we get a lot more questions and actually we're in the process of setting up at least in Europe and I think we have it already in the Americas.

Specific product councils focus more on the operator side. And obviously it's still interesting because in some areas you see far more specialized operators emerging, for example residential, in some other areas like offices, it's still some, some of the bigger managers try to develop their own concept or work with the operator.

And obviously we see still more issues on the operator side, at least in, in some cases.

So it's definitely in a very important topic and we've looked at that also for the global report, more from the occupier side in what do they want from the real estate or the landlord if you will.

And then you also see much more of a request for not surprising, I think it's a lot of open doors you could say, but the industry is still on a journey to provide.
Much more flexibility, much more partnership services, so from the bricks and mortar it is changing to a service model and I and obviously that requires operations to be able to fulfil that. Where we come from?

Yeah.

So basically the the hotelization of real estate seems to be happening and seems to be happening at speed. I want you now to move.

Where we come from?

Yeah.

So there is here, here's a question from Juan Gallardo who's saying, but AI and robots are already changing the logistics industry. So how do you see in terms of investment decisions, the fact that there are robots and there is AI already in, you know, governing the supply chain and affecting probably locational decisions?

How do you see that?

That's a question for Dennis.

There we go.

That's a difficult one.

Yeah.

OK.

So look at, you know, it's here.

It's not like coming.

We've invested in several of these major logistics facilities that Amazon has built.

You know six story facilities that are basically where you have automated picking of all the different items that you're sending and then packaging and sending out. So it it's here now, look I I think it's it's a development of taking jobs that some people don't want to do. It's a development of not having the staffing to be
able to fulfill these jobs.

I don't think it's a negative at all.

In fact actually one of the things too it can be you know when this kind of goes back to more operational, if you look in cold storage, we're investor in a very large cold storage company And and this company actually takes the goods at the entrance of the facility and manages the goods movement and storage in the facilities and then brings them back out to the tenants afterwards.

Maybe that could happen in dry storage too, I don't know.

So I think it's just it's an evolution of where things are going.

And and then you know in in that particular situation, the landlord is actually owning a lot of the automated facilities that are allowing them to do what they're doing.

So they're not investing just in the core and shell, they're investing in the equipment as well too.

So it really kind of goes to this concept of more operational focus on real estate going away from the traditional, you know, lease a building for 10 years and kind of not pay attention to it, but you got to pay attention to it every single day.

Yeah, I think that the. What's going to be required to outperform going forward?

Yeah.

And I think that there is something else as well that you know that we generally as as an industry or the the landlord part of the industry, we've been just you we we rent a location and then we forget about it.

And I think that that world is going to finish as well to make an example like in Japan in the logistics sector, the level of services in order to attract employees into logistics facilities, it's a totally different level to the level of services that you get in, in Europe or in the US, right.

You get, you get a great cafes, you get a crash.

So you know, so it's a it's a totally people
talk about well-being in real estate and then they t\ tend to think about white collar workers. But in Japan they've gone pass that concept and applied it to blue colours. Now I want to go back to the real estate cycle and interest rates.

So I've got a great question here from Ross. Bright White was talking about the funding gap that there is in real estate at the moment. We've seen a number of developers going under in places like Germany. When Silicon Valley Bank went under, there was a big, there was a big concern about US regional banks and the commercial real estate portfolios. So do you want to comment on that? How do you see this and do you think that a second downturn is about to happen? Let me start with you, Mark.

Yes, I think it's probably in the trillions globally depending on how you want to look at it by sector or by country. I think it you know it will get failed. It just it just takes time. It's part of the repricing, the repricing that that's happening. Does it lead to a broader kind of repricing in the industry. I think our view at the moment it doesn't and and the reason is the markets has just become a lot more you know less connected to some degree although we are all all connected by something by rates, but you're seeing divergent in in returns and outlooks between different sectors, different countries etcetera.

So that this kind of dispersion I think hopefully keeps away a cascading effect, a valuation going down everywhere regardless of what it is at the moment. The market really feels like it's holding on you know to certain asset values. Having said that, I mean I think we fully expect in the office sector as more transactions take place right,
you'll see that pull down certain indexes across the board
and then it'll just depend on what percentage in your
portfolio right is is linked to that.
So I we still think we have little ways to
go here, right.
I I we don't think this is turning in terms
of a of a cycle, but there are definitely some
bright spots within.
Within it, OK, so there are bright spots and there
will be, there will be pain to be felt but
you think that the pain so so but they would
be pain to to to be felt.
Look, I look honestly I honestly, I don't really know.
But I think what the market is telling you, well
the market is telling you is that we've we've become
a lot more dispersed to some degree in terms of
the connectivity between certain asset classes and certain
markets.
And that makes sense to me because you know if
everything moved in tandem one way or the other like
it did in the the financial crisis, that's kind of
a boring market, right.
If everything was going to go down, everything was going
to go up, right?
I mean, who?
Who wants to go to a casino and just lose
every single hand in a row?
And conversely, who wants to go and win every single
hand?
You could say you might want to win.
I would.
Actually like to have my it's.
It's.
It's it's the ending all the time.
Exactly.
I'm sure.
I'm sure that Denny's wants a market where everything's gone
down so that he can take advantage of it, right?
So I I I think I think because it's dispersed,
because it's less linked, because there's a lot of capital
still in the world, you're seeing a much slower play
in terms of this repricing.

But the repricing is fundamentally healthy is our view.

It's absolutely healthy.

I think that your point about the real estate being fairly priced, real estate needs to reprise.

It's reprised a lot, but in some cases it needs to reprise more.

Now the question now is Denny's.

That's a question for you.

So that issue of the funding gap and the potential risks, do you think this is systemic in the same way as it was in the global financial crisis or do you think that as Mark has said is pockets?

Yeah, No, it's not systemic.

Look at in the GFC.

No, I don't think so.

And the GFC, you know you've got these define thirty large financial institutions globally.

When they get in trouble, the entire financial system gets in trouble and they were in trouble back in the GFC.

It was a really scary time period.

This isn't that those those top 30 institutions are fine.

Their exposure to real estate's limited.

You do have in the US some of the regional banks, I think in Europe obviously you know some of the German banks.

So there are issues but it's not systemic at all and in fact you know I would also argue too in terms of the funding gap, you know the, you know the private funds are stepping into to fill these gaps you know and you know and and they're very attractive pricing and very attractive risk too.

So.

So I think the capitals there for it and you know once again going back to being old guys, we've seen this a couple of times right.

The same charts that show huge amounts of refinancing back in the GFC all the way back to the savings and loan crisis.
For those of you who remember that it's the same charts all the time and and you know the banks don't want the assets back. So they either roll over the loans and if the existing equity holders can stomach it, you know they, they accept you know very expensive financing from other sources or frankly sometimes they give up the property so.

So a colleague of mine, basically I was asking that question to a colleague of mine and he was saying that so, so central banks and regulators, they tend to think about the last crisis. And as it happened, the last crisis was a banking crisis. So if there is an issue with banks now, so be sure that central banks and regulators are all over it to bail them out should they need to. So, Lizette, you want to say something, Go ahead. Yeah.

I wanted to comment also more from maybe a climate change and bringing in more some of the more structural elements that I think need to be dealt with and might not be priced in yet. So some pricing repricing there is needed to and in some ways and and Mark alluded to differences between sectors.

I think it's also you see a lot of difference within sectors where offices again might be the best example. We're on our own hand. There's not enough supply for what tenants really wants when it's net 0 amenities, health and well-being. And then there's a huge amount of stock where a lot of work is needed. And especially because we see more and more tendency to focus on reuse this reusing existing which is a huge task in Europe, probably more than so than in the other regions. And and that is something that we need repricing for that to happen and a little bit of distress might be even helpful to speed up that process because sometimes in some countries Europe has not been especially on the
continent the quickest to reprice.

So I think it can also help and unlock the opportunity there is completely.

Completely, yeah.

I think I totally agree with you.

I think that on that, yeah.

On that topic, I think I mean you're right that the market in, in the industry should be hopeful that the repricing provides opportunities for kind of decarbonize it and show that there's a financial return to it, right, which it's it's sort of unfortunate, right, that you've got to print the financial return at first in order to get the money right, to be able to decarbonize.

So that that little cycle there is always difficult to play.

I mean I think the bigger question for the industry, when you, when you think about climate risk, do you really believe it's a tail risk, right, that can create major or even existential damage to the planet if you do as a real estate investor and owner, right. You have to take out some insurance against that and unfortunately there isn't any insurance against that kind of situation.

So what are you going to do about it?

And so when we talked to a lot of our investors, we try to position it like like that in terms of trying to accelerate that that story because you have to put it in that tail risk bucket.

And especially for an industry that's so long duration oriented, it doesn't make any sense to me that we don't, we don't think about hedging tail risks and there's there's other ones beyond just beyond just climate, but it's just not even in discussions.

So this is one that I think can be. Yeah, yeah.

OK.

So we are running out of time.

But I'm just going to ask you, you you all have just 30 seconds to ask literally, because otherwise I'm going to be in trouble.
So is there a future for offices?

So you've got 30 seconds, is office is going to go the same way as retail went?

You have 30 seconds, Dennis.

Yeah, absolutely.

There's the future for offices.

It's just been overbuilt and and frankly you need newer product that kind of fits today's requirements and needs.

But yeah, absolutely it's not going away.

It's just less.

Thank you, Lisette.

Yeah, I totally agree.

And I don't think we should underestimate how much more space per person we want to use.

And maybe coming in less and but in a totally different format than I think we've seen before.

Thank you and Mark.

Yes, I mean there's a future.

I think the, the, the, the Riddle for me is which I've never been able to figure out in every market where when the market was good occupancies were high,

you know all these positive indicators, why were the tenants getting such great deals over and over again in terms of TIS and free rent.

I mean none of that really kind of you know, crossed in my mind.

So I think there's some operational changes in in relationship changes that need to happen to make the space a lot more viable and basically less volatile from a cash flow perspective then there's a life for it.

OK.

So less and different.

Thank you so much.

I think that with this I want to thank the panellist Dennis Lisette, Mark, for this very lively conversation.