REPORT

2024 GRI GLOBAL CHAIRMEN'S RETREAT

Q1 2024

Exclusive access to key takeaways from GRI Club's most senior annual forum with the world's leading real estate decision-makers

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GRI Club

SUMMARY

INTERACTIVE TITLES

WELCOME TO THE CHAIRMEN'S RETREAT

The annual GRI Global Chairmen's Retreat is an unmissable event for our most senior members, offering a chance to take stock of not just the real estate market, but the wider global context.

This year, the event took place against a concerning geopolitical backdrop threatening major consequences for which these leaders must strategise. In fact, geopolitical hostilities arose as the number one concern for industry players, even above the economic turbulence the market is experiencing.

Although it is impossible to predict how the year ahead will unfold, the insights exchanged and gathered at this event most certainly offer invaluable perspectives from some of the greatest minds.

Enjoy reading!

GUSTAVO FAVARON

CEO & Managing Partner, GRI Club

INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following a number of private discussions, debates, and voting sessions among the world's leading voices in the real estate industry, at the **GRI Global Chairmen's Retreat 2024** in St. Moritz, Switzerland.

As GRI Club's most senior event, the annual retreat provides the opportunity for real estate decision-makers to debate the bigger picture of real estate, and ask "what next?"

Photos: GRI Club

INFLATION & INTEREST RATES
IS TODAY THE NEW NORMAL?

There are few things which impact real estate lenders and investors as much as interest rates - they therefore play a vital role in shaping the real estate market.

When asked if inflation is under control, some expressed optimism, although it was suggested that there was a need to define what “under control” truly means in the face of external factors such as climate change and geopolitical conflicts.

A significant focus emerged on the timing of central banks reducing rates, and opinions varied on how swiftly this would happen. Some participants suggested that central banks may not align with the market’s pace in dropping rates, while also emphasising that negative interest rates are unlikely to return.

The debate extended to the reasons behind the current inflation levels - whether they were linked to post-COVID supply chain disruptions or if they indicated a structural shift. Governments’ readiness to deploy monetary stimulus during economic challenges is a huge aggravator. A government’s priority of being re-elected results in them “opening the money tap” and printing money at the first opportunity.

Participants reminded the room that the reason for such low interest rates in the past was due to the weakness of the private sector, giving governments no choice but to lower interest rates.

With a much healthier current outlook - historically low unemployment in the US and government debt of $34 trillion against $130 trillion household net wealth - the economy can now endure these higher interest rates more comfortably.

It must not be ignored that household wealth is heavily driven by the net worth of house ownership, and so extremely illiquid and concentrated among baby boomers, thus not yielding dividends.

Another critical question centred on potential weaknesses despite positive factors like high net worth in the private sector. The debate touched on real estate as a hedge against inflation, but concerns were raised about the possibility of stagflation.

The material factor is “real growth” and productivity, which many suggested is proving better of late. Optimists believe this is the last year that COVID will impact the scenario, and inflation and interest rates will be resolved within the next 12 months.

An important question lingers however: if unemployment is at a record low, and net wealth is peaking, why do 50% of Americans not feel they are in a "better place"? Can the data be trusted? Inequality still exists, and 95% of wealth remains in the hands of 5%.

In the concluding remarks, the consensus suggested that the era of near-zero interest rates was concluding, and high inflation and interest rates may have even caused a shift from real estate to other asset classes.

Caution was encouraged, citing that things will likely get better, but they could also get worse.

Will interest rates decrease by at least 1% in the next 12 months?

THE CONSENSUS WAS **"NO".**

Will inflation come under control in the next 12 months?

THE CONSENSUS WAS **"YES".**

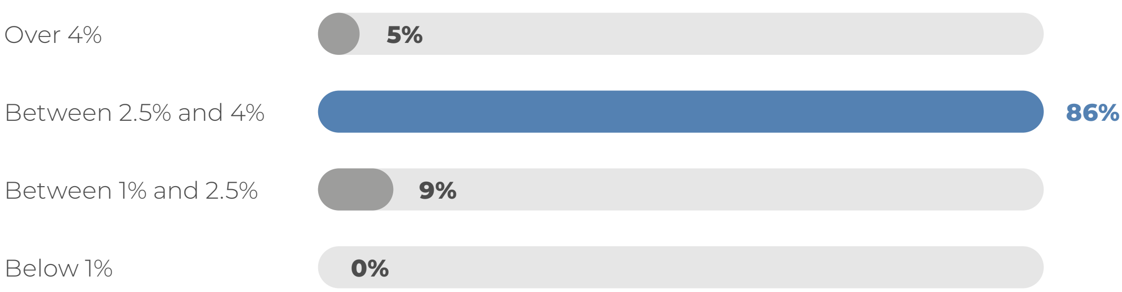
USD, GBP AND EUR CENTRAL BANK RATES WERE

1977 - 2001 (24+ yrs):
Mostly over 4.5%

2001 - 2009 (6 yrs):
Mostly between 1% and 4.5%

2009 - 2021 (12 yrs):
Mostly under 1%

Interest rates in the next 2 years will stabilise in the range of:



OFFICES
IS THIS DOWN CYCLE TEMPORARY?

The widespread adoption of remote work has led to a significant decline in the demand for traditional office spaces, prompting questions about the future of office usage. While it is evident that the dynamics differ across regions, such as the US, Europe, and Asia, the trend of remote work has been universally transformative.

Many are questioning whether offices will continue to be a staple in the post-pandemic work landscape. Despite variations in regional approaches, the consensus is that a combination of remote work preferences and technological advancements has resulted in a fundamental shift, challenging the traditional office model.

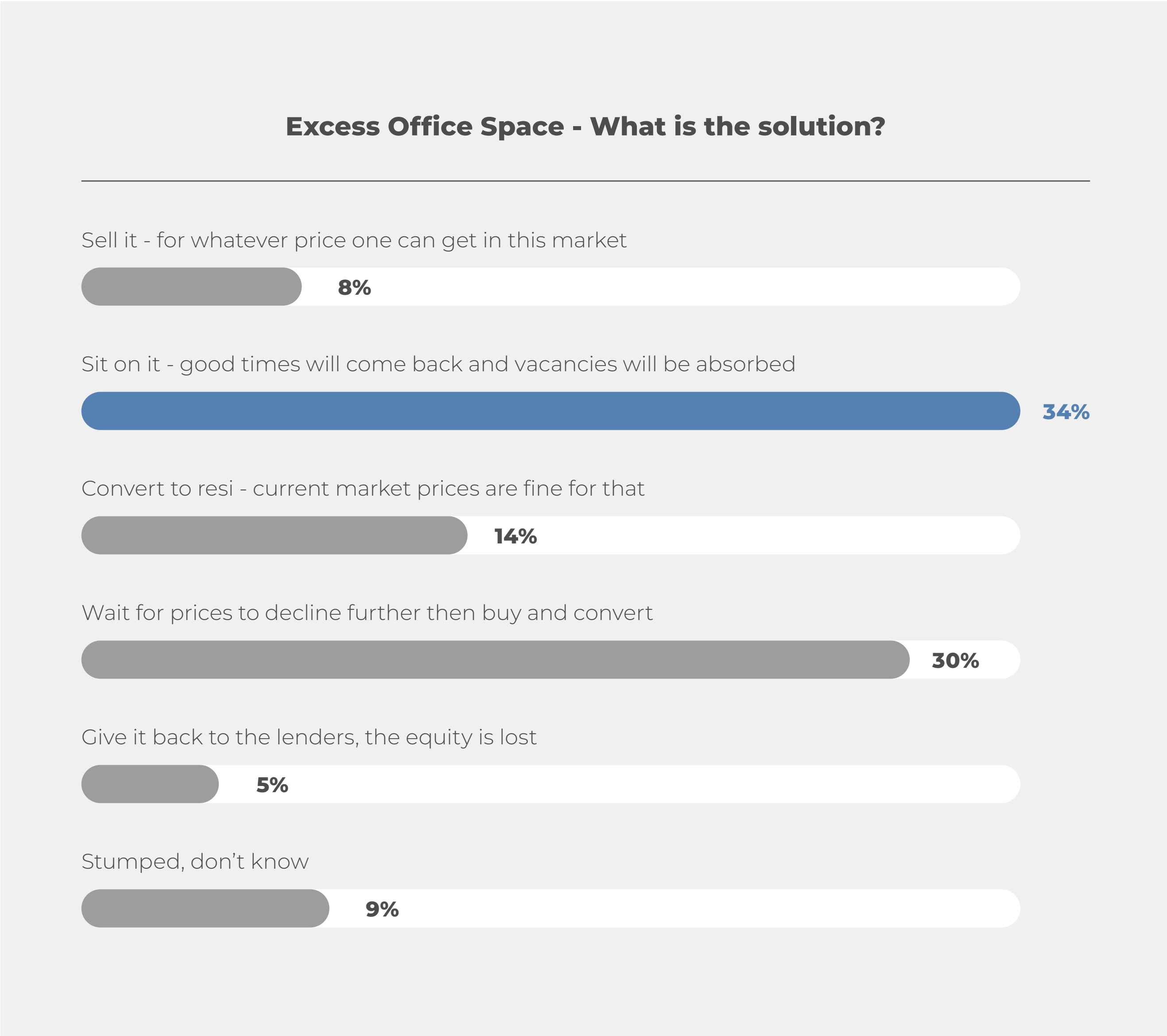
The consensus among leaders is that a premium is placed on office spaces offering a trifecta of attributes:

- » Prime location;
- » High-quality building infrastructure;
- » Compliance with ESG standards.

Such spaces are considered rare and are associated with commanding premium rents. The challenge lies in finding or creating these coveted assets. Although the concept of converting existing office spaces has been proposed, it is acknowledged that executing such conversions is intricate and there are few clear examples of successful transformations.

What does institutional capital think about Offices? It was widely agreed that the asset class has been painted with a broad brush, and due to the macro view, institutions are showing little interest. Despite the existence of opportunities, funds are therefore struggling to raise capital for office investment.

Unlocking the market requires the repricing and restructuring of assets, but the market isn't quite there yet. When asked if the asset class would follow the same path as Retail, the response was mixed, but many continued to express hope.


Excess Office Space - What is the solution?
Sell it - for whatever price one can get in this market
8%
Sit on it - good times will come back and vacancies will be absorbed
34%
Convert to resi - current market prices are fine for that
14%
Wait for prices to decline further then buy and convert
30%
Give it back to the lenders, the equity is lost
5%
Stumped, don't know
9%

RESIDENTIAL
IS THIS THE TIME TO INVEST BIG?

There is a clear supply-demand imbalance in the European market, but regulatory constraints seem to be hindering investments.

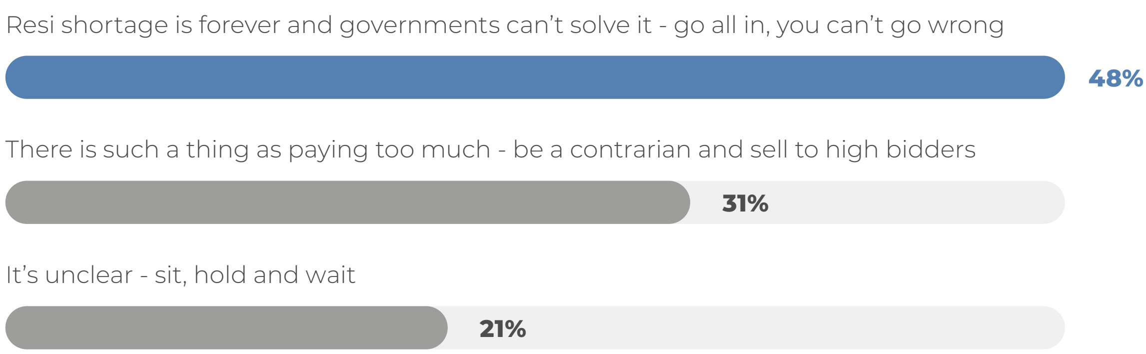
The prevailing issue identified during discussions was the resistance to change in the value of land. After the interest rate shock, the market is adjusting slowly and the value of land is yet to correct. Participants suggested that a correction of around 10-30% is necessary to align market dynamics and encourage a more fluid supply. In addition, lack of motivation for landowners to sell is further constraining supply.

Investors are also coming up against the regulatory environment including rent caps and ESG guidelines, and once in development, elevated construction costs are delaying completion to further exacerbate the situation.

Both the capital and the demand are there - rental prices are increasing throughout the continent - yet considering the above, investors must be patient for opportunities to arise.

Another intriguing prospect surfaced during the discussion: residential properties for rent could emerge as the new “infrastructure” asset class, attracting low-cost capital seeking to benefit from inflation-linked secure income.

Residential - Is this the time to invest big?



AI
PRODUCTIVITY MULTIPLIER OR OCCUPANCY KILLER?

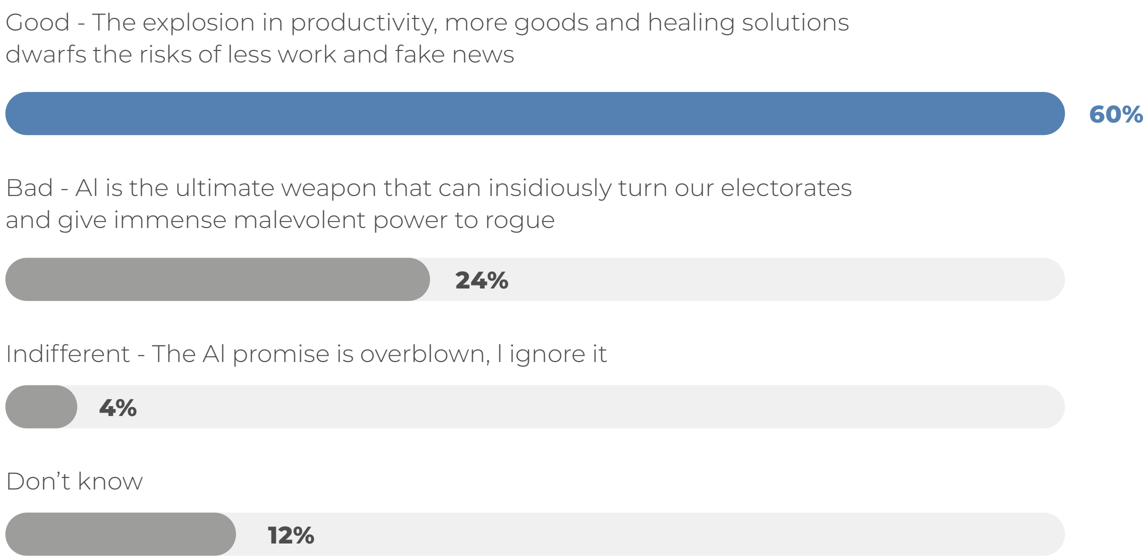
The discussion among global real estate leaders on the impact of artificial intelligence revealed significant negative sentiment regarding its potential social impact.

The threat of AI changing the way we live was highlighted as a risk that could lead to job losses, while the issue of privacy also arose as a concern. There is a great need to protect privacy globally - especially in the context of health-related data - and for individuals to retain control over their preferences and activities in a world increasingly influenced by AI.

In terms of regulation, questions were raised about resistance to legislation and the impact of populism potentially slowing down the progress of AI.

Within the real estate sector, AI's potential as a "productivity multiplier" was acknowledged, however it was agreed that transformative tools for financial modelling and architectural modelling simply aren't developed enough to outweigh the negatives, among which is AI's ability to "kill occupancy" - especially in offices.

AI - for mankind or against mankind?



CHINA
AWKWARD CO-EXISTENCE OR COLLISION COURSE?

Ian Williams, Journalist & Author

Williams began his address delving into the complex dynamics surrounding China's relationship with Taiwan and its broader impact on the global economy. He assertively stated that China would be the "major loser" if it were to invade Taiwan.

China is a global trading nation and would suffer massive disruption and catastrophe, and numerous knock on effects, including impacts on global supply chains, and a $10 trillion hit to the global economy considering Taiwan's own trading capacities.

Besides the economic deterrents, it is important not to oversimplify the matter. A Chinese invasion of Taiwan would require some two million soldiers, and thus be easily detected well in advance of any invasion. Not to mention the sheer challenge that comes with the geography, climate, and terrain of Taiwan.

Despite this rationale, China continues to put pressure on Taiwan in the form of psychological warfare: cyber attacks and misinformation, military intimidation, and the so-called 'anaconda strategy' designed to squeeze Taiwan into submission.

Ian Williams
Journalist & Author

Photo: GRI Club

Williams drew parallels between Xi Jinping and Vladimir Putin, both driven by a desire to rebuild national greatness amid perceived Western decline, raising concerns that despite rational thinking, an invasion might not be entirely implausible.

Furthermore, Xi Jinping promised to become the great unifier, and his political career depends on unification with Taiwan. The question remains: is it worth the risk and colossal consequences of failure?

Meanwhile Taiwan demonstrates similarities with Ukraine, and is embracing a porcupine strategy, investing in small but lethal mobile kits, including drones, missiles, and small ships.

Another concern in the region is the South China Sea, which sees USD $4 trillion of world trade passing through its waters. China currently claims 90% of the area, despite the absence of any legal rights. One certainty is that any disruption would have serious consequences for the US, China, South Korea, Japan, and even further afield.

As well as being an economic powerhouse, China also possesses sophisticated security, surveillance, and technology capabilities. China's prioritisation of security and control in the development and use of AI raises concerns about potential misinformation and the sophisticated control exerted by the Communist Party.

The looming question for the future is how major corporations and nations navigate their dependencies on China. The ongoing shift from naivety to a realisation of China's dangers prompts important questions about the strategies nations should adopt in dealing with this complex geopolitical landscape.

Photo: GRI Club

HOTELS
HOW LONG WILL REVENGE TRAVEL KEEP PRICES HIGH?

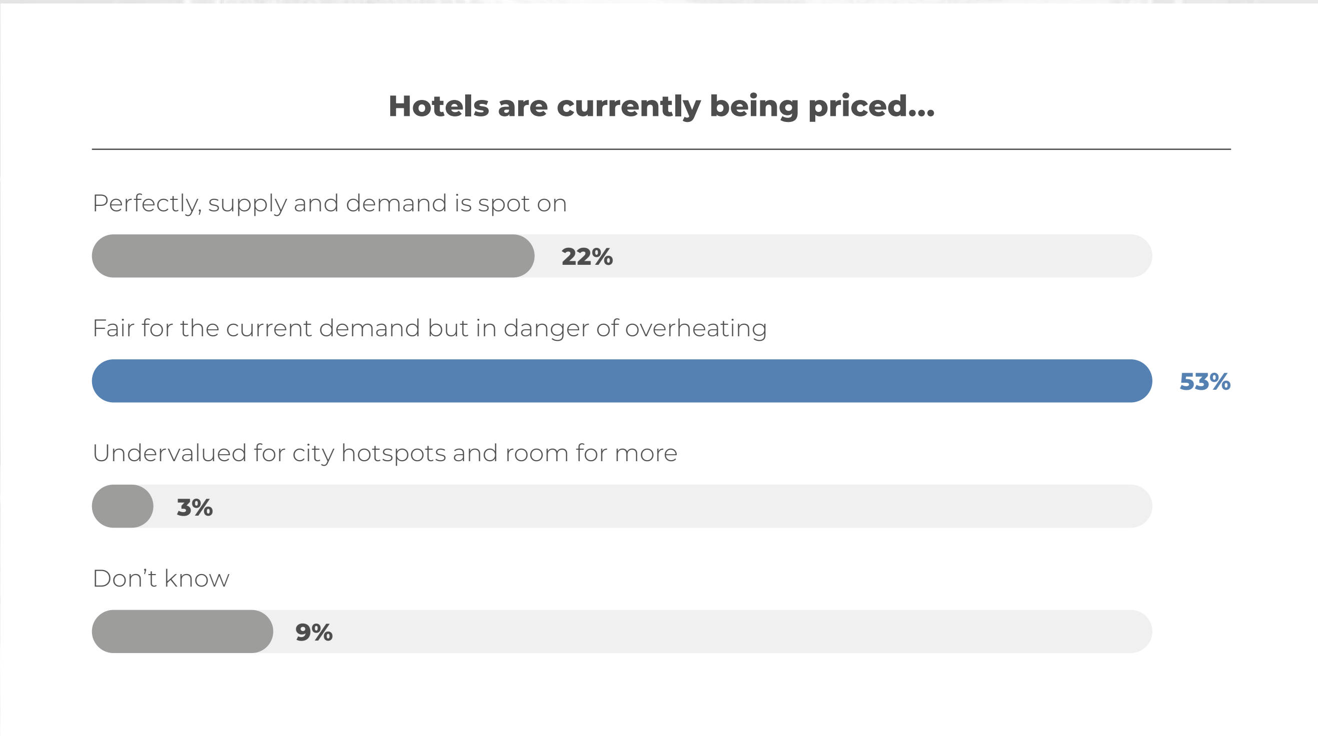
Discussions revealed a nuanced perspective on the hotel industry. Higher room rates were identified as a clear boon for the industry, and emphasis was placed on the crucial role of experience and the significance of location, particularly in city centres and key leisure destinations.

Both 5-star luxury and budget hotels are proving more resilient considering their lower sensitivity to price and market fluctuations, while middle-range hotels are facing more challenges.

Participants reported positive forecasts for revenues per available room (REVPAR) which are expected to increase in the next two years, driven more by occupancy than room rate. However, sales are only part of the story, and EBITDA rates are under pressure due to inflation in costs.

There is a noticeable presence of opportunities in office conversion projects, particularly in B locations, however, parallel to this, investor demand is expected to decrease amid the anticipation of political risks in 2024.

The conclusion drawn from discussions highlighted that models like Motel One and Claridges were positioned as winners, while the middle segment of the hotel industry is more problematic.



DEBT FUNDS & ALTERNATIVE LENDERS
GOOD TIMES OR TROUBLES AHEAD?

COST OF CAPITAL

There are growing challenges in generating profits within the equity realm, attributed to the increasing expense of debt and the restricted availability of affordable debt. Borrowers face the dilemma of encountering a steeper cost of capital with alternative lenders if commercial bank terms are unattainable.

The silver lining, however, is the expanding array of capital sources and choices among alternative lenders, providing a more diversified financing landscape compared to the past.

The constraints faced by commercial banks, exacerbated by concentration issues and capital requirements, further accentuate the advantages enjoyed by alternative lenders, who continue to fill the void left by traditional banking institutions.

The rise of private credit funds and the evolution of loan-on-loan financing are key factors in driving competition and compressing returns in the market. A broader spectrum of lending is also emerging with groups using insurance capital to fill in between banks and traditional debt funds.

Senior lenders currently have very favourable conditions, with high margins and base rates, but this should compress as competition increases - especially if transaction volume remains.

DEALING WITH DISTRESS

A prominent topic of concern revolves around the readiness of debt funds to step in and assume control if necessary - especially those concentrated in office spaces or holding cuspy mezzanine positions.

The ability to navigate and potentially take over distressed assets is critical for investors in this space. As a special situations lender, it is vital to thoroughly underwrite this potential situation, and be prepared to do so if needed. After all, double-digit high returns come with inherent risks.

Intercreditor agreements are crucial components that need meticulous attention in such scenarios, as well as a well-defined framework for coordination among creditors.

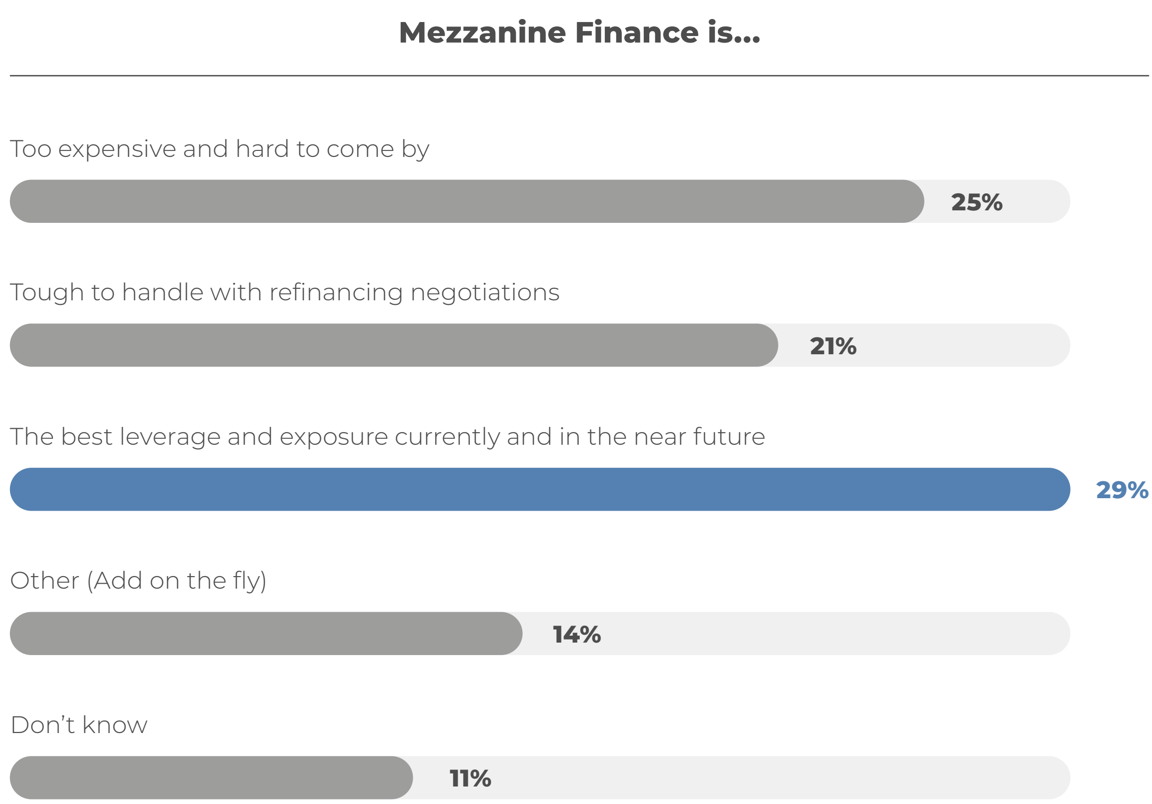
Whether debt funds will be willing to take over assets is debated, and will prompt questions such as how doing so affects fundraising and their broader relationships with borrowers.

FUNDRAISING

The gates for alternative lending in real estate are opening wider, ushering numerous new entrants into the market. This surge in participants has translated into a market where investors are becoming more discerning and now possess a broader array of choices.

These investors are inclined to support groups that exhibit reasonable fee structures and demonstrate robust capabilities. The denominator effect is a significant factor influencing investment decisions, as well as evolving risk ratings - particularly for insurance-oriented investors.

From a global perspective, relative value assessments compared to the United States have been a key factor in deployment, with risk and return relative to the US market being decisive determinants. The appeal of European deployment has consequently proven limited in comparison.



ALTERNATIVES
IS "ALTERNATIVE" WHERE VALUES ARE?

The first question posed to the room: What are "Alternatives"? The investor response being "a broad brush of multiple specialised sectors", and the alternative response being "an asset tied to an operational intensity and platform".

More specifically, discussions regarded data centres, student housing, co-living, self-storage, clinics, and senior housing.

Investors showed a keen interest in diversifying portfolios, but mentioned challenges such as creating platforms, and consolidating and sustaining alternative assets.

VALUE-ADD RESIDENTIAL

The international migration trend was identified as a significant driver, and the notion of supporting demographics through value-added services emerged as a compelling prospect.

The value within the social housing sector is substantial and often underestimated. Legal and regulatory aspects enhance the sector's value, and populism and politics advocates for increased state interest to support social housing, bringing more opportunities. Naturally, as is the case with any politically enhanced landscape, caution must be taken considering the risk of substantial changes to the political environment.

Discussions explored the complexities of senior housing, where standard residential models may not be financially viable for the richest demographics. Instead, specialised sectors offering value-added services are key to making the numbers work within the senior housing segment.

Independent living - housing tailored for older adults or retirees who are still active and capable of managing their daily activities - was also highlighted during discussions as a concept not fully explored, but presenting a thematic opportunity for innovation.

Finally, student living showed an attractive edge considering the robust demand and sturdy price resistance.

DATA CENTRES

Within the Data Centres asset class, one notable challenge is the difficulty in securing leases, particularly as larger entities express hesitancy and trust concerns. Despite this challenge, the consensus among participants was that for specialists in the field, data centres present a lucrative business, albeit not easy to break into.

The critical factors of land availability and electricity are key drivers for success in this sector, emphasising the need for specialised knowledge and expertise to navigate these foundational elements.

SELF STORAGE

A stabilised occupancy rate for self storage facilities is considered to be around 85%. The long stabilisation period associated with these facilities certainly poses a challenge, which is in part attributed to the lengthy ramp-up phase, primarily driven by marketing efforts.

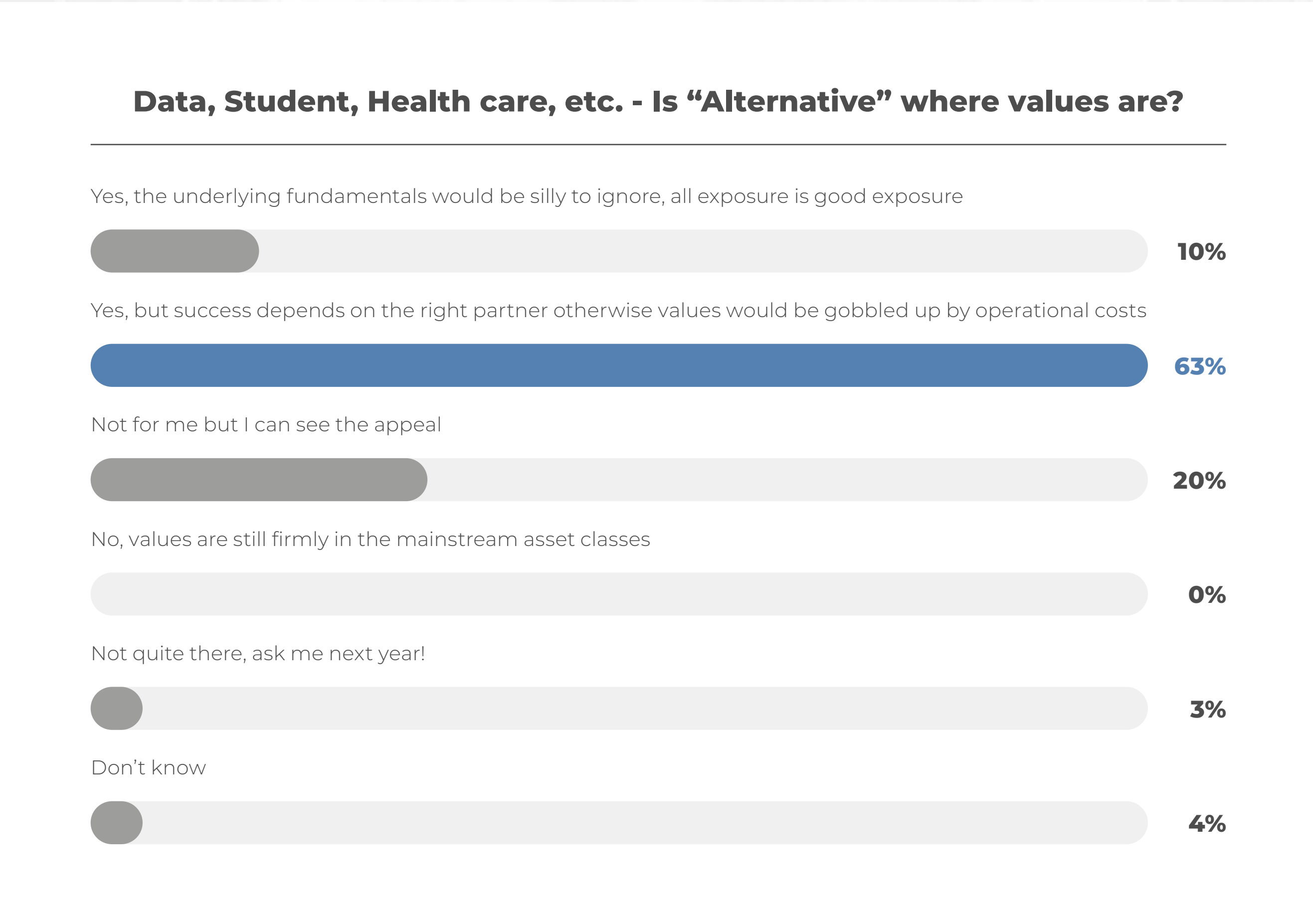
An interesting aspect discussed was the potential for self-storage properties serving as a hedge against inflation, considering the nature of their short-term contracts.

To conclude, although the specialisation involved with alternative asset classes creates value, it also brings challenges. They are operationally intensive properties, requiring specialised knowledge and significant effort to create platforms. As a result, they may not be financially viable for smaller players.

Discussions raised critical questions about whether these alternative asset classes are standalone investments or if they are intricately linked to the Private Equity business with a real estate underpinning.

The confluence of credit, real estate, and operational expertise is essential for success in these areas, and factors such as scale, operational control, demand dynamics, and cost structures must be carefully considered.

Overall, investors demonstrating enthusiasm towards “venturing” into alternative asset classes were those showing risk appetite and optimism.



REAL ESTATE
NOT THE INFLATION HEDGE ONCE THOUGHT?

Historically, real estate has outperformed all asset classes in six out of seven inflationary periods across various segments. However, in many instances, it was attributed to cap rate compression, with rental rates contributing only a small percentage (3%) to the overall price appreciation.

When the room was asked about explicit inflation measures in real estate contracts, almost all participants claimed to have such measures in their contracts. However, one investor suggested that for long-term investors, cash-flows are more important, and negotiating longer contracts should be prioritised above inflation protection clauses.

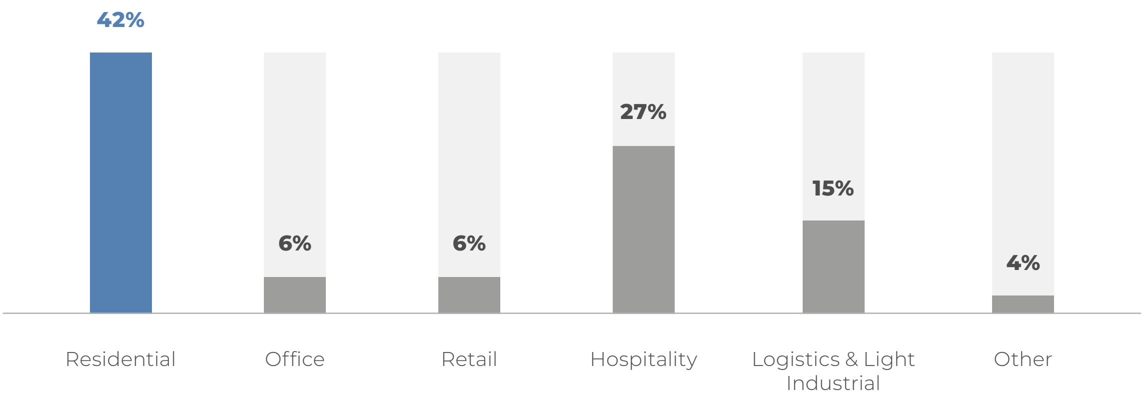
It is also important to examine contracts per sector and whether they are inflation-linked. The hotel sector, for instance, was highlighted as having the flexibility to adjust rates daily, potentially absorbing cost shocks if consumers are willing to pay.

One global wealth fund representative explained the advantage of having such an extensive portfolio, allowing them to rely on real estate to mitigate volatility through leveraging diversity by geography and asset classes.

A number of specific costs associated with real estate arose as causes for concern. Firstly, rising insurance costs, which have reportedly tripled of late. Secondly, construction, which prompted questions over whether it is more cost-effective to buy or build.

Thirdly, the cost of ESG, and more specifically protecting new and existing buildings against climate change. The term “greenflation” was introduced to encapsulate the real-world implications of these environmental considerations on the cost and sustainability of real estate assets.

Which sector in real estate provide the best inflation hedge?



AI
PRODUCTIVITY PROLIFERATOR OR UNCONTAINABLE MONSTER?

John Tasioulas, Director, Institute for Ethics, AI Faculty of Philosophy, University of Oxford

THE NEW ERA OF AI

Tasioulas began by stating the simple yet challenging necessity of establishing a meaningful dialogue between computer scientists and the wider world regarding the capabilities of artificial intelligence.

The decision to use AI is an ethical matter and requires soft regulation. It is grounded in fundamental values which come from answering two basic questions: What is it to live a life well? What is our duty to others and the world?

AI can be defined as the utilisation of machines to perform tasks that typically require human intelligence. AI is driven by algorithms and is devoid of judgement, discretion, or creativity. The rise of AI is simply attributed to the developments in creating algorithms. The question is if we can reduce the notion of "fairness" into mechanical algorithms.

The current era of AI is one of machine learning, where algorithms are trained on vast amounts of data, showcasing significant power but introducing complexity that results in outcomes not fully comprehended by humans. Machine learning has demonstrated huge progress in diverse fields, such as medical diagnosis, facial recognition, content creation, scientific experiments, and thought.

Photo: GRI Club

Ironically, it still lacks the ability to do things humans find easy, involving common sense. It has also demonstrated inherent problems surrounding privacy concerns, intellectual property issues, and environmental and workforce impacts.

DEVELOPMENT AND REGULATION

Opinions on the path of development of AI divides the AI community, with those believing we are on the right path and the problems will "get ironed out", while others believe that the methodology is wrong, and it is necessary to feed AI with intelligence by allowing it to embody a conscious creature in the world.

The acceleration in AI development, however, is indisputable, and calls for democratic control and regulation. The USA works on a market-based utilitarian approach, which can be worrying considering the ability to justify anything for the common good.

Meanwhile, the European approach is based on human rights, which also has its faults, primarily that non-human based matters, such as environmental concerns, won't be taken into consideration.

Tasioulas expressed his belief that we must favour a pluralistic approach, advocating for a nuanced perspective that considers various ideological stances.

KEY ISSUES

Key issues surrounding AI were defined, including the potential existential risk of AI spontaneously developing into artificial general intelligence (AGI) and "wiping out humanity" - a risk which must not be overemphasised.

More pressingly, is the impact on democracy through misinformation and political polarisation, and the concentration of unaccountable power in big tech companies, which are effectively writing the policy on AI in leading Western countries. AI tools must rather be explored to enhance and engage informed democracy.

The ramifications on the workforce is a considerable issue, as AI replacing human productive endeavour prompts us to reflect on the value of work. It is not merely a means to an income or to produce valuable items, but a source of personal achievement and fulfilment.

If AI can do the work of humans cheaper, faster, and more efficiently, what will happen when the possibility of achievement and fulfilment through our work disappears?

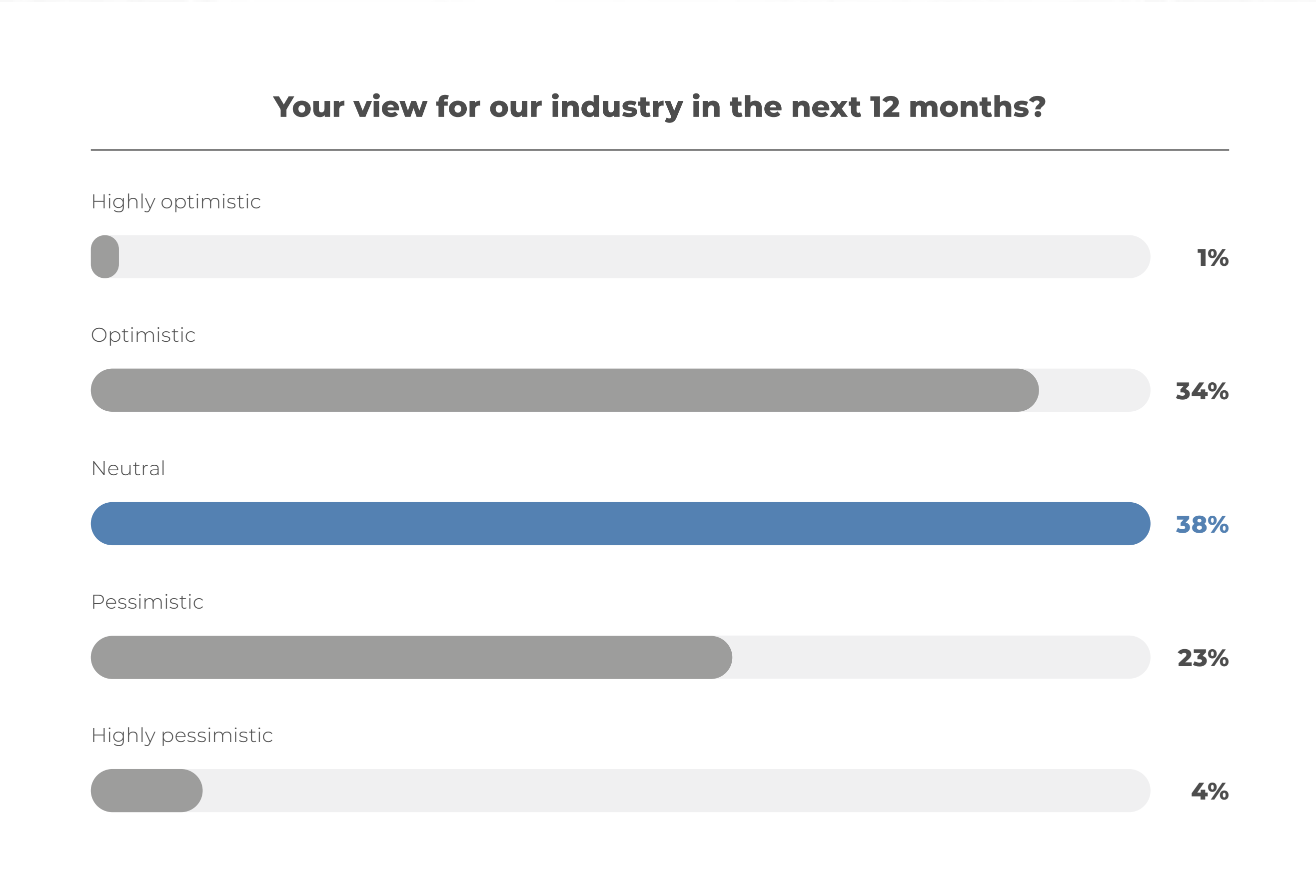
Finally, are there decisions which AI systems should never be permitted to make? Can artificial intelligence judge bias or show mercy? The US and the EU agree on this matter, affirming that the right to a human decision exists. The next step is officialising these new human rights.

VOTING, CHAIRMEN'S PREDICTIONS & CONCLUSIONS

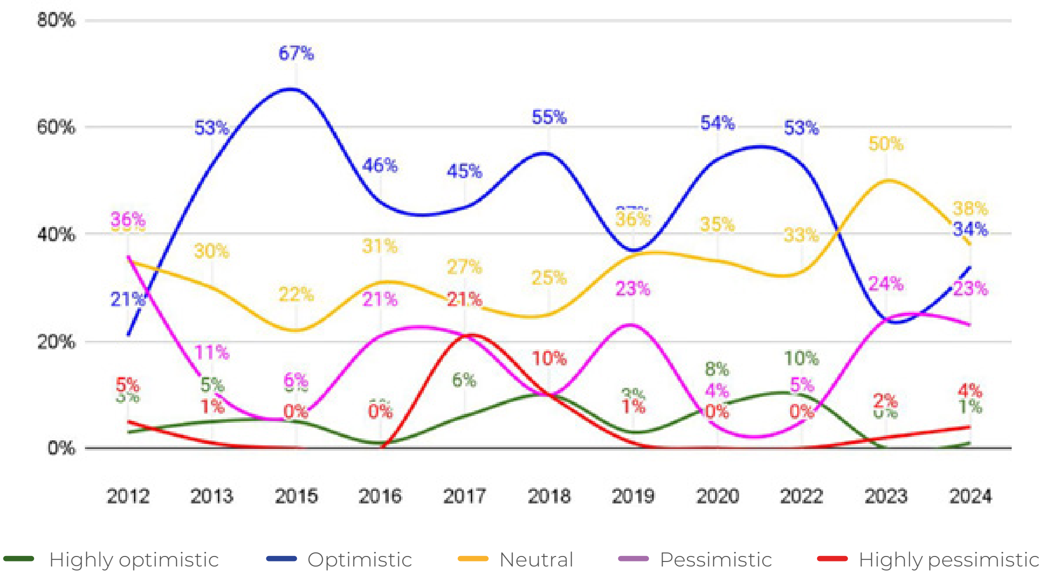
The GRI Global Chairmen's Retreat 2024 directly gauged the sentiments of the global real estate leaders with questions relating to views on the industry for the next 12 months, preferred asset classes, major concerns, and more.

Twelve months ago, voting at the GRI Global Chairmen's Retreat 2023 revealed 23% of participants felt optimistic about the industry in the next 12 months, versus today where 34% feel optimistic. Those feeling neutral represented 50% last year, and today only 38%.

Despite the increase in optimism, many participants at the event reported feeling less optimistic this year. It was suggested that the matters of concern this year have higher consequences and are further out of the control of real estate players.

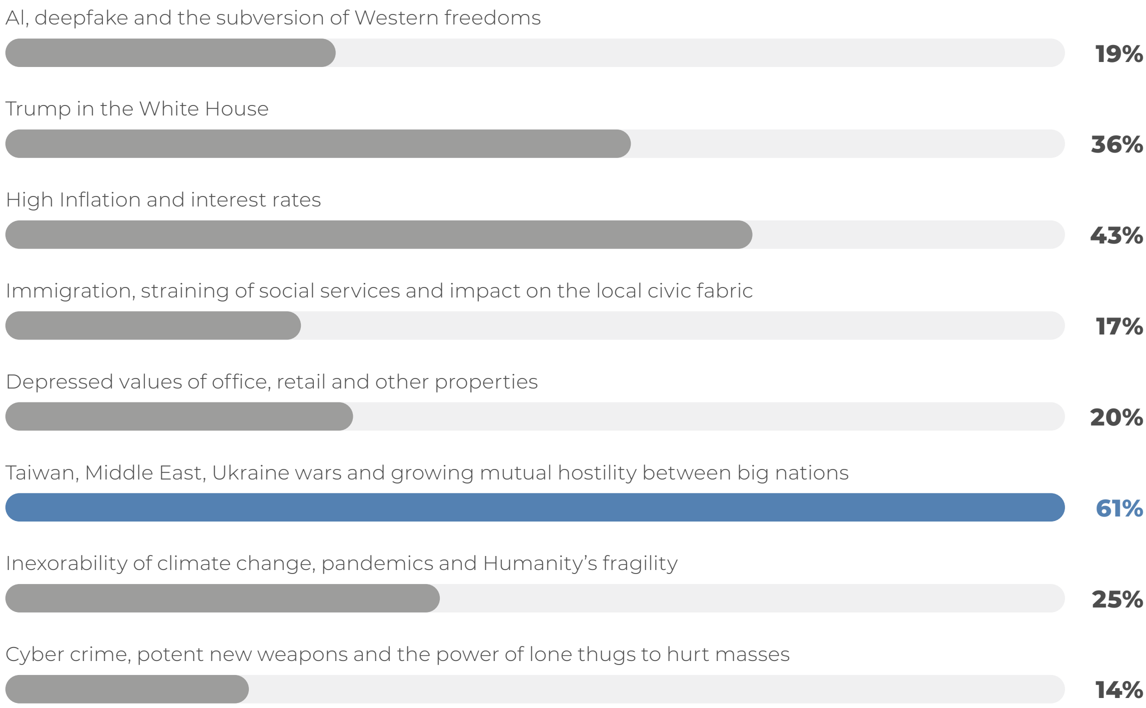


Your view for our industry in the next 12 months?



A substantial 61% of voters stated that growing mutual hostility between big nations is one of the top three issues keeping them up at night; while 43% chose inflation and interest rates not receding; and 36% selected the possibility of Trump being re-elected. It was suggested that the high likelihood of these events occurring makes them such a major concern.

What keeps you up at night?



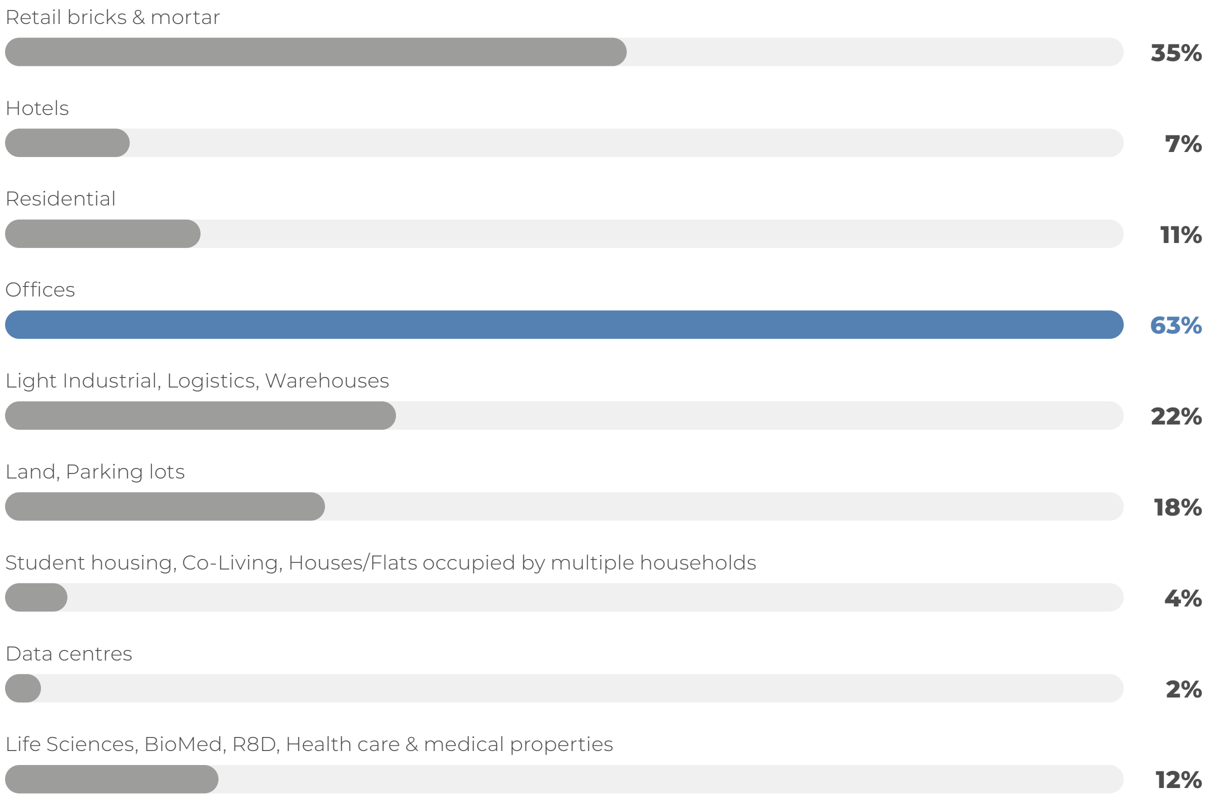
When voting on the best asset classes to be involved with in the next two years, the answers appeared somewhat theoretical and aspirational. Looking at the wider context, the global intention survey recently published by INREV revealed that 90% of investors intended to deploy capital in Residential over the next 12 months.

Contrastingly, the Chairmen's predictions revealed 54% backing Data Centres, however it was contested that few of these voters have a clear strategy as to where and how to invest in this asset class. Meanwhile, 43% backed Hotels; 39% Student Housing; and 36% Residential.

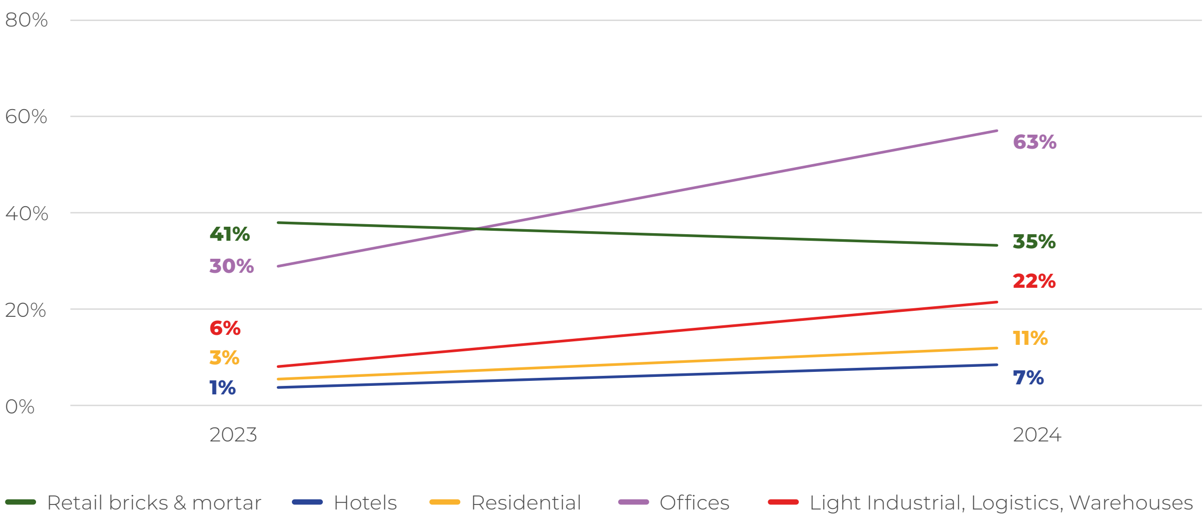
What is the BEST property asset to be involved with for the next two years?

Perhaps more convincingly, in the vote for the worst asset class to be involved with in the next two years, 63% chose Offices as one of the worst three; followed by Retail with 33%; and Logistics with 22%. The latter prompted surprise from the room, as the asset class has largely been considered the "darling" of the sector over the past years.

What is the WORST property asset to be involved with for the next two years?



What is the WORST property asset to be involved with for the next two years?



CONCLUSION

The fundamentals of the real estate sector are being questioned: Offices and the role of core real estate. In addition, the industry's major concerns threaten major consequences.

Among these concerns are inflation and interest rates, however participants reassured that there is little risk of interest rates rising further, and agreed on the high probability of stabilisation between 2.5% and 4% - not such a negative outlook considering the circumstances.

We are still experiencing upsurges in inflation (and greenflation) and the threat of war will potentially push this further, but as it stands it is under control. Though perhaps not the hedge against inflation that it once was, real estate still holds considerably more potential in this regard in comparison to other asset investments.

No one can say for certain how geopolitical hostilities will play out on the world stage, and though China is expected to make a move sooner rather than later, an invasion of Taiwan and full escalation is not considered the most likely of events. Plus, no one lives forever, not even Xi Jinping!






Founded in 1998 in London, GRI Club currently brings together more than 15,000 senior executives spread across 100 countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Club content.

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