



**GRI** *Club*

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WHITE PAPER

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2023  
GRI CHAIRMEN'S RETREAT  
2023

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INFLATION, ENERGY AND THE  
FUTURE OF REAL ESTATE

FROM INDUSTRY LEADERS





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## What is the GRI Chairmen's Retreat?

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GRI Chairmen's Retreat is at the forefront of global real estate meetings, exclusively for the leaders of large companies in the industry and by invitation only. Purposefully taking place in Switzerland the same week as the World Economic Forum's yearly meeting in Davos, the event is a unique opportunity for the heads of European Real Estate to network and discuss the next year in the asset classes, inflation, financing, and global economic events. The setting of principals surrounded by fellow leaders allows for a candidness that might not otherwise be present in larger gatherings.

Each year, participants answer questions on the most pertinent topics in real estate. The approximately 100 influential executives also touched on the Ukraine Crisis and the resulting energy situation that particularly affected Europe.

To get involved with GRI, look to attend [Europe GRI 2023](#) in September.





## General Sentiments

According to GRI Club CEO, Gustavo Favaron, uncertainty seems to be part of the reality of these market leaders. *"I have been attending this event for the last 12 years, and our members have never felt so unsure about what to expect from the coming months. Unfortunately, this is the reality for leaders from all over the world."*

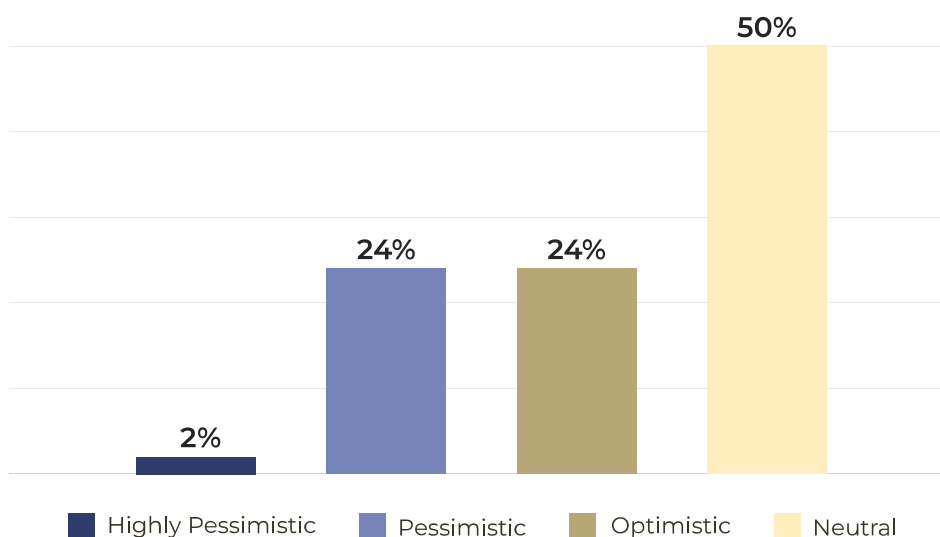
*Inflation, interest rates, war in Ukraine, tension between China and the USA, energy issues, potential global recession, the impact of working from home as a new habit etc. There are way too many aspects to be considered if a leader wants to build a clear vision of the future, making it very challenging to navigate the decision-making process".*



Overall, 50% of attendees feel neutral about the industry's performance over the next year. The optimistic and pessimistic groups each account for 24% of votes, and very few people declare themselves highly optimistic or highly pessimistic.

This is a downward trend from last year, in which 53% of participants felt positive. It is also a new peak for 'neutral' feelings, perhaps demonstrating the uncertainty of this unprecedented year.

### LEADERS' VIEW FOR THE REAL ESTATE INDUSTRY IN THE NEXT 12 MONTHS



## Interest rates

The 'new normal'  
for Central Bank interest  
rates in 2024-2026

86% 1% to 4,5%

8% Over 4,5%

4% No idea

3% 0 to 1%

In December 2022, the European Central Bank [raised interest rates](#) by 0.5%, and [again in January 2023](#); the Governing Council made this decision as a result of persisting high inflation and the expectation that it will remain above the target for some time. There is also a high probability that they will raise it more in the future. Additionally, in December the US Federal Reserve raised [interest rates by 0.5%](#), less dramatically than the four consecutive hikes of 0.75%, and in January 2023 raised them again by 0.25%

In the dedicated session on Inflation, attendees at the GRI Chairmen's Retreat agreed that this year the Central Banks will fight inflation and in the aftermath likely revise inflation targets to 3%.

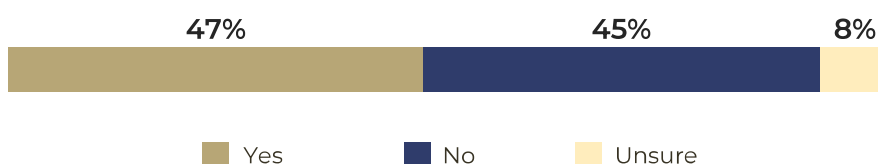
**IN THE VIEW OF THESE LEADERS, THE MOST CONCERNING ISSUE FOR THE COMING YEAR IS HIGH INFLATION AND INTEREST RATES.**

High leverage made high property prices possible, and high interest rates are the end of that era

VS

Property is the best inflation hedge; the industry may be unsteady but will be fine

**COULD INFLATION & INTEREST RATES HURT PROPERTY?**



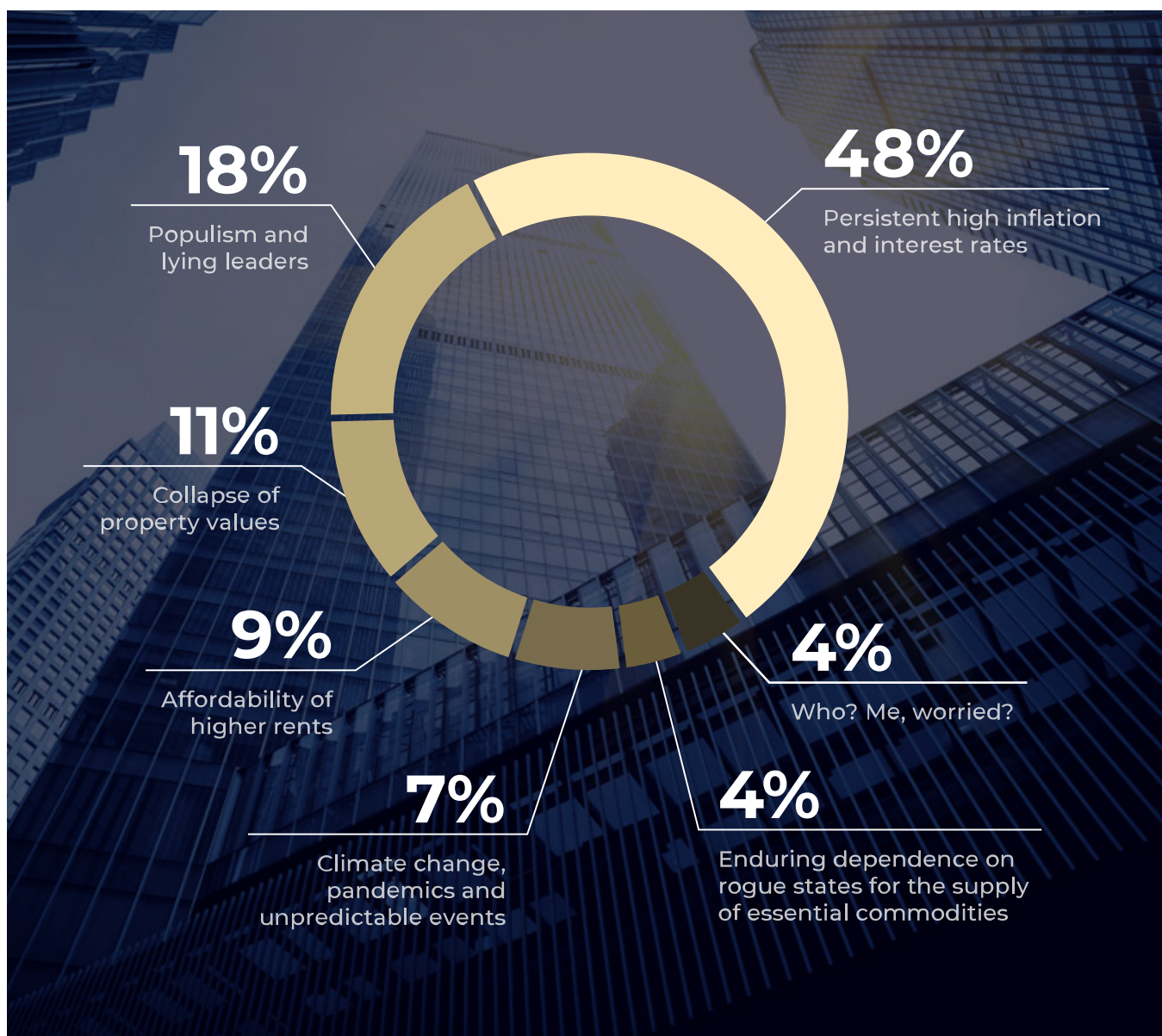
## Other causes for concern

'Populism and lying leaders' also make many uneasy, with 18% claiming this causes them anxiety. The affordability of higher rents and [the collapse of property values](#) are real estate themes that are chosen by 9% and 11% of attendees as troublesome; Green Street's Commercial Property Price Index dropped by 13% in 2022, and these drops are common in times of economic uncertainty.

Interestingly, not a single participant thinks that 'the distressing costs of energy' is a reason for anxiety.

(See [The Future of Energy](#))

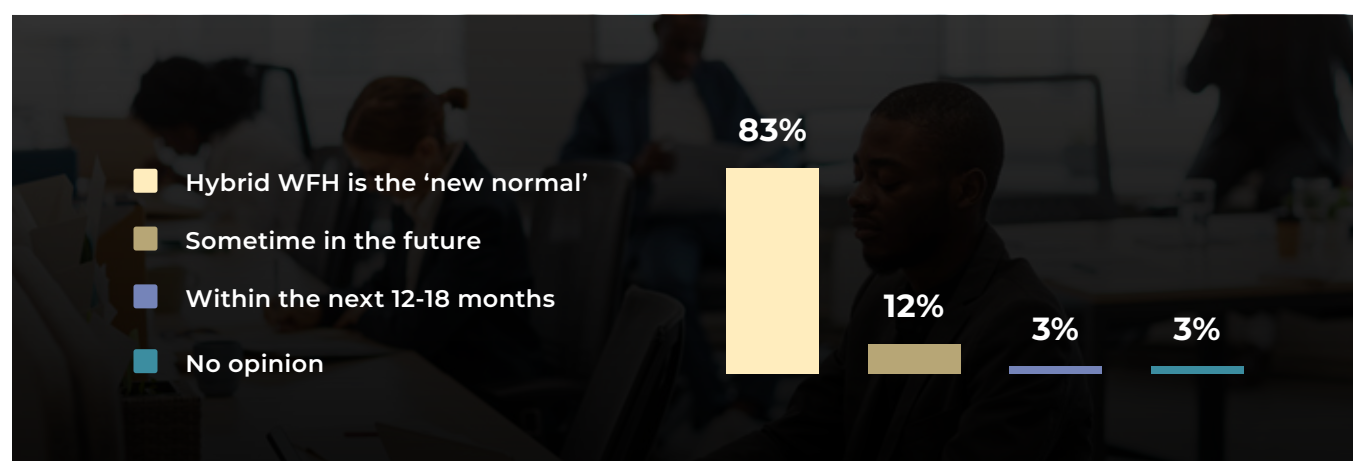
### WHAT ARE THE GREATEST WORRIES OF REAL ESTATE LEADERS?



## Real Estate Asset Classes

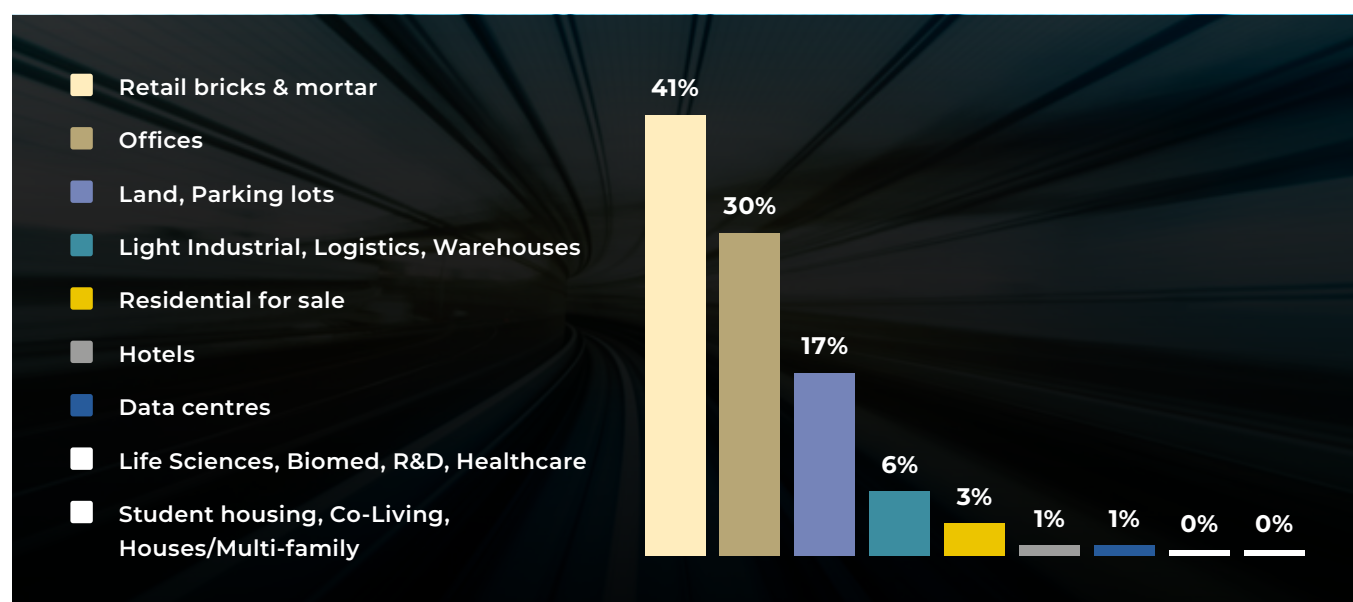
It is a consensus among retreat attendees that the hybrid model of offices and working from home is here to stay. Only 12% say that if this were to change, it will be much further in the future.

### WHEN WILL THE WORK-FROM-HOME PHENOMENON DISSIPATE AND OFFICE ASSETS REVERT TO SIMILAR HIGH OCCUPANCY AS BEFORE 2019?



30% of attendees also assert that Offices are the worst property asset class to involve oneself in over the next three years, and only 8% suggest it as one of the best opportunities. However, the most popular vote for the worst asset class is bricks-and-mortar Retail, with 41% of the vote.

### WHAT IS THE WORST PROPERTY ASSET TO BE INVOLVED WITH FOR THE NEXT THREE YEARS? (1 TO 3 CHOICES)





Several asset classes emerge for the best property asset opportunity over the next few years, with both Residential for sale and Life Sciences with 27% of the vote, and Hotels and Alternative Resi as the next most popular.

### WHAT IS THE BEST PROPERTY ASSET TO BE INVOLVED WITH FOR THE NEXT THREE YEARS? (1 TO 3 CHOICES)

Residential for sale .....	<b>27%</b>
Life Sciences, Biomed, R&D, Healthcare .....	<b>27%</b>
Hotels .....	<b>23%</b>
Student housing, Co-Living, Houses/Multi-family .....	<b>21%</b>
Data centres .....	<b>13%</b>
Light industrial, Logistics, Warehouses .....	<b>12%</b>
Offices .....	<b>8%</b>
Land, Parking lots .....	<b>2%</b>
Retail bricks and mortar .....	<b>0%</b>

## The Ukraine Crisis and the future

### Biggest questions

The most significant questions on the minds of the heads of real estate at the GRI Chairmen's Retreat were about power shifts in this new era, the next sources of energy, the future of Russia, and the outcome of the war.

### Will things go back to how they were?

Many executives assert that this conflict will have consequences for years to come and that political leaders will not be able to continue to take advantage of the huge economic incentives of allyship with Russia without some kind of change in the country's leadership.

### On the next 'great power'

The age-old concept of an Empire has become irrelevant after the death of the British Empire and developments in the USA's hegemony. In a globalised world, control as a concept is different and has shifted back to 'small' or 'middle' powers. The biggest challenge is to leverage this new dynamic.



### Russia in an uncertain position

The war in Ukraine does not have sustainable popularity in Russia with some reports suggesting that over [half of the population](#) is hoping for peace talks. Vladimir Putin faces pressure as a leader and internal conflict, while Russia continues to [face sanctions](#) for the war. Most agree that while Putin remains Russia's leader, there will be no return to the status quo.

### Russia as a great asset

In the short term, a Russian alliance with the European Union may not be possible, however, in the long term, it appears inevitable; Russia's trade and energy resources are valuable. It is possible that, in another generation, there will be progress in the relationship between the EU and Russia; this will provide interesting investment opportunities.

### European dependency

European dependency on other countries for energy, military support and technology has created excessive exposure which will be addressed organically through private markets and inorganically through policy.

The response on whether the west should 'forgive and forget' China and Russia in the wake of the war is mixed, but the majority still are of the opinion that ultimately forgiveness would be more beneficial due to the need for cheap energy and the consumer population that Russia and China possess.



## The future of energy

Most of the discussion regarding energy at the event centred on who would fill the gap left by Russia due to the changing landscape after the Ukraine War. Europe reached a 'crisis moment' [in the third quarter of 2022](#), with fears over the high energy usage in winter and many industries threatening to [shut down](#).

Nevertheless, European natural gas prices were reported to have [returned to pre-crisis levels](#) at the beginning of 2023. As previously noted, the current high costs of energy are not seen as a reason for anxiety by any retreat participants.

## The question now is how to secure the future of energy and where this supply will come from

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The Middle East is one option for filling the gap left by Russia, however, infrastructure is not strong enough in this area to provide the high amounts of gas needed at this moment. Qatar, for example, has **been said to be poised** to be a great future energy source for Europe.

The general agreement among the attendees is that the USA will be more successful than China in the race to secure the necessary materials, as China's play in this area has already peaked. Last year, the shipments of gas from the US to Europe **almost doubled**.

The UK is in an interesting position with the potential for green energy exports and even energy independence, particularly with its excellent offshore wind resources, with a slightly better position than continental Europe. It also has the potential for deals with the USA, such as the energy partnership **announced by the government** at the end of 2022. Last year was also a **record-breaking year** for renewable energy in the UK.



## Conclusion

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The end of 2022 marked significant changes in the global sphere, particularly in reference to the most talked-about issues at GRI's Chairmen's Retreat: inflation and property prices, and energy prices.

The real estate leaders at the event asserted that the Central Bank's inflation rate will sit between 1% and 4.5% over the next few years; opinions were mixed on whether these inflation rates will negatively impact the real estate industry, but almost half of the participants claimed that inflation gave them cause for concern.

Attendees also agree that the war in Ukraine would have a lasting effect on international relations and the economy, although in the future, if leadership were to change in Russia, there is a possibility for alliances to be made with Europe, opening up new deal opportunities.

As for the energy crisis, the participants do not have many concerns for the future due to the myriad of alternative energy sources emerging from the USA, the Middle East, and even renewables.



GRI Club creates experiences through club events and international conferences around the world. For further discussions, get your ticket for **Europe GRI 2023**, the biggest exclusive gathering of executives in European Real Estate.

To attend GRI's Chairmen's Retreat next year, please apply by contacting Gustavo Favaron, CEO, GRI Club at **[g.favaron@griclub.org](mailto:g.favaron@griclub.org)**.





GRI Club Europe



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@griclub.europe

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