

Real Estate Investment Management 2020 and Beyond Workshop Report



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IMPORTANT DISCLAIMER: The purpose of this document is to summarize the discussions held at the workshop. The workshop was conducted under the rules whereby no specific comments should be attributed to any individual participants or their organizations. Views expressed by participants were in the context of a creative process to consider future possibilities, and nothing in this document should be taken to represent the views or opinions of any of Thomson Reuters, Outsights, workshop participants or their firms.

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Executive summary

What is the future of real estate investment management business?

In the long-term, the value of commercial real estate should be tied to the underlying demand, which, in turn, will ultimately be driven by a combination of economic, environmental, socio-demographic, technological and regulatory forces.

20 senior real estate executives and representatives of academia joined forces at the 'REIM 2020 and Beyond' Workshop organized by Thomson Reuters and Outrights to explore what these long-term trends are how they may affect the underlying demand for real estate and through that what implications we may derive for the global commercial real estate investment markets and businesses

Stretching the imagination - Scenarios developed in the workshop were very broadly defined and some perceived as unrealistic but they forced to stretch the imagination as summed up in one observation at the workshop **"The scary thing is that our current business plans rely on one scenario of the future – the 'Global Utopia' world of increasing globalization and uninterrupted economic growth with all current problems resolved in the future."** Not many investors and planners seem to be taking into account the possibility of significantly different futures.

The mega forces – The theme of **globalization vs localization** was ranked as the one with most impact and uncertainty for real estate. There is further general consensus about some of the trends shaping our future, most notably the demographic shifts and **ageing**. As an industry, we also seem to agree there will be an inevitable **split between 'property as a financial asset' and 'property as a built structure'**.

Investment management business was seen as **surviving in all scenarios** but no scenario suggests a return to the 'go go' years of fantastic returns across the globe and sectors.

The **green agenda**, or rather its role as either a driver or an 'also-aspect' of the future of real estate, sparked a lively debate. **Mobility and urban trends** in the future are a bit of an unknown due to two major uncertainties – **cost of travel and new technology**. Hotly debated issue of **diversification**, argued to be only a result of imperfect market information which may disappear with improved information flows, new financial instruments, and higher correlation of economic cycles around the world, was another contentious issue raised.

Future of professions - Scenarios suggested various professions could disappear or fundamentally change, e.g. technology threatens the role of **agents** and even **investment managers** as intermediaries, under some scenarios. Similarly, **surveying** as a profession faces fundamental challenges in an increasingly complex world of investment management.

Polarizations - Elimination of the 'middle ground' in many aspects of real estate seemed to emerge as a theme across the discussions – for example, polarity of **finance real estate vs brick and mortar** real estate, specialist **niche funds vs global universal brands**. On the other hand, we have seen a contrary force to e.g. expand the role of surveying into a more multi-disciplinary profession.

Next steps – We hope this paper provides food for thought on high-level strategic issues for the real estate investment management business. It can also help set the agenda for in-depth discussions at various conferences. You may want to look at the scenarios and ask yourself the questions for your own organization: **how robust would my current strategy be under different scenarios?** Are we 'betting the house' on an official view of the future?

1. Opening questions – what would we want to know about the future?

To open the workshop, participants were asked for their quick-fire thoughts on what they wanted to know about the future, thereby shedding some light on important issues on their minds and industry uncertainties. Several themes emerged:

Current market conditions and the outcome of the current crisis / recession

Is the cyclical nature of real estate and financial markets inherent, given the market mechanics of supply and demand drivers, and thus unavoidable, or has this experience changed our understanding of the cycles so that they can be avoided in the future? Assuming the cyclical nature is inherent, what is the timing of next crash – 10-15 years? Is the next banking crisis inevitable? When is it going to come?

What kind of world will we be doing business in?

Politically

Which nations will be leading powers in the future, and assuming we will see a shift of geopolitical and economic power from west to east, how will the rest of the world cope with the dominance of China and India? What will be the impact of the current crisis on Europe and London as financial hubs? What will be the relationship between public and private sectors, will the government continue on the path of greater state ownership and market regulation, or will it reverse the trend? How will international and inter-cultural relationships evolve? Will the borders continue being open, and cooperation between nations continue, with melting trade barriers? Or, will we see a world of fiercely competing closed nation-states? Or perhaps the collaboration will be fostered in only a few closed trading blocks / regions, such as the EU, leaving the developing world behind and closed off? Will the cities rise in importance as centres of power, replacing countries as dominant international players? What will happen to tension areas? Will there be peace in Middle East?

Socio-ecologically

What are going to be real effects of global warming and climate change? Will they be as pronounced as feared? Will technology progress enable us to slow climate change? Is human, social behavior and thinking changing irreversibly in reaction to climate change? How far are humankind and individuals willing to go in adjusting our behavior? Are we becoming more 'responsible' or do we even have sufficient 'emotional intelligence' to save our climate and planet from destruction?

How we do business in such a world

What is the future of corporate responsibility? Will the green agenda and social responsibility of corporations fall victim to the bottom line? If not, will companies pay attention to these issues as a result of government push or customer pull? Are real estate markets evolving towards greater transparency by nature of structural development in the industry? Will real estate agents remain in the market as intermediaries or will they become redundant as a result of either technological change or change in ownership structure?

2. Contentions about the future

In addition to these big, open-ended questions and uncertainties, the workshop sought to consider whether there are some contentions within the industry about its future. To stir the debate, some possible contentions were presented and the level of agreement debated. Six specific contentions about the future were put forward, and the audience was asked to express its agreement or disagreement by voting on a scale from 1 (Very strongly disagree) to 9 (Very strongly agree).

| | |
|---|--|
| 1. DIVERSIFICATION - A myth that will fade | <ul style="list-style-type: none"> • Much of the case made for property investment in general, and international property investment in particular, is based on the notion of diversification. • However, the benefits of diversification are a 'myth' created by poor market information. • They are also destined to fade (a) as new property-related investment instruments provide better information for the accurate real time pricing of the effect of real and monetary economic events on underlying properties in domestic markets; and (b) as global economic cycles become more correlated. |
| Voting result: Mean 4.1 (Somewhat disagree) with large spread | |
| 2. PROPERTY AT THE FOREFRONT OF THE BATTLE WITH CLIMATE CHANGE | <ul style="list-style-type: none"> • The built environment will be thrust to the very forefront of the battle against climate change, with substantial market effects at regional, urban and at individual building level. |
| Voting result: Mean 6.3 (Somewhat agree/Agree) | |
| 3. REAL PROPERTY VS FINANCIAL ASSET | <ul style="list-style-type: none"> • Chartered surveying as a profession is doomed. • There will be an inevitable split between 'property as a financial asset' and 'property as a built structure'. • It is a patent nonsense for anyone to be expected to know everything from dry rot to swaptions. |
| Voting result: Mean 6.7 (Agree) | |
| 4. DECREASED MOBILITY AND PROPERTY | <ul style="list-style-type: none"> • Urban form will be affected by a general decrease in the level of personal movement. • Travel will cost more as fuel costs rise above the rate of inflation, whilst technological advances will obviate the need to travel so much. • The social aspects of work will still need to be accommodated. This will lead to more, localised, work hubs. |
| Voting result: Mean 4.7 (Don't know), large spread of responses | |
| 5. PROPERTY AND INFRASTRUCTURE MARKETS TO MERGE | <ul style="list-style-type: none"> • As governments prove less able to provide the infrastructure society needs, private investment will need to step in. • As such, the property and infrastructure markets will merge over time. |
| Voting result: Mean 6 (Somewhat Agree) | |
| 6. IT'S ABOUT AGING | <ul style="list-style-type: none"> • Aging demographic profile will materially impact the needs for commercial property worldwide. |
| Voting result: Mean 7 (Agree), strong consensus | |

Most clear-cut **agreement** was on the issue of **ageing** and the fact that ageing demographic profiles will materially impact the needs for commercial property worldwide.

As an industry, we also seem to agree there will be an inevitable **split between 'property as a financial asset' and 'property as a built structure'**. The implication of that may be a higher level of specialisation among people serving the industry, where 'system thinkers' and experts on built environment on one hand, and specialists on financial aspects of real estate

ownership and transactions on the other, may **replace generalist chartered surveyors**. This point though, understandably, is very contentious, perhaps due to the vested interests of many market participants. Arguments range from the key role of surveying by maintaining market standards, providing an independent source of valuations and acting as de facto 'regulation' in the market, which is in even more demand after the recent crisis to suggestions over too many surveyors, and mere impossibility for one person to 'understand everything from dry rot to swaptions'.

It also seems to be generally believed that over time the **property and infrastructure markets will merge**, especially as governments may prove less able to provide the infrastructure society needs, private investment will need to step in.

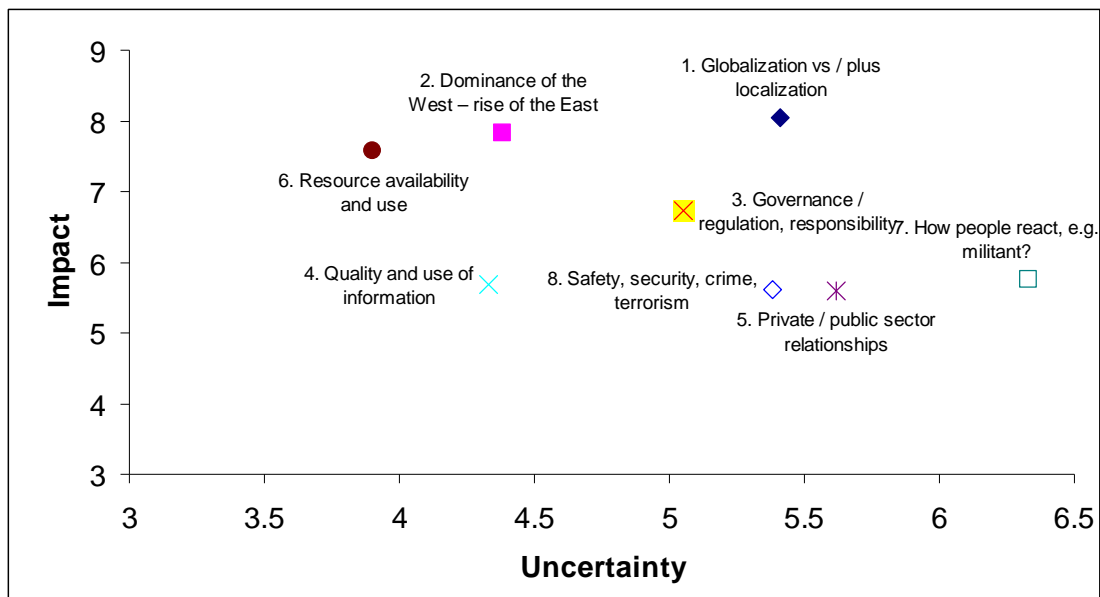
Other selected topics provoke a lot more **disagreement**. The **green agenda** is clearly at the forefront of the industry's interest and it is clear real estate will become an important, if not the key 'battleground', for green issues. However, it seems that at the moment real estate lags behind other industries in promoting greenness, and it is much less clear whether it is being pushed into adoption of environmentally friendly measures by government regulation or pulled by customers. Over time perhaps a real price premium may appear as tenants prefer green buildings but for the time being environmental measures are more of a victim to focus on profit making.

Mobility and urban trends in the future are a bit of an unknown due to two major uncertainties – **cost of travel and new technology**. At one extreme, high fuel prices and the additional choices that technology provides as to the physical location of where people work may lead to decreased mobility. At the other extreme, government support for greater mobility and the social aspects of working and shopping may lead to a continuation of the current demographic trends of higher density of population and higher mobility. In either scenario, the old proxy of access = proximity does not apply any longer, the **increase** in demand for **mobility of goods** will continue, with predictable requirements on real estate and in current need of adjusting **real estate valuations** for these trends. Technology has given consumers choice about where to shop (on-line vs. brick shops), but the shops are still valued.

From the investment perspective, **diversification** is another **contentious issue**, argued to be only a result of imperfect market information and that may disappear with improved information flows, new financial instruments, and higher correlation of economic cycles around the world. The current global recession seems to be proving the skeptics right.

3. Break-out discussion – What will be different in future?

To examine some of these specific contentions and the future of the Real Estate Investment Management industry at large we took a step back to identify the major drivers of change in economy, society, government, politics etc., and the way they may shape the future in to the next 10 – 20 years. Outrights presented material from their futures knowledge base, *21 Drivers of the 21st Century™* to stimulate the discussion. From the discussions in the break-out groups several themes emerged, with varying perceptions of the magnitude of their impact on the future and of their uncertainty. This is displayed in the summary chart below, where the horizontal axis represents uncertainty and the vertical axis represents the impact of each driver, as perceived by the real estate investment management industry represented in our workshop.



Unsurprisingly, **globalisation** seems to be clearly one of the most impactful trends in the world looking forward. However, there remains a large degree of uncertainty about the degree and direction it is likely to take. It is often spoken of the **globalisation with localisation twist**, where centralising structures, infrastructural, commercial, political and economic, are often complemented or conflicting with increased localisation of power and decision making (example of California and its breakdown of some forms of government). In terms of consumer behavior, we also see **re-engagement with the vernacular**, demand for locally differentiated and highly customised products and services, leading to **mass-production of the tailor-made**. Corporations and investors need to face the uncertainty of the fate of national borders, and the possible backlash of protectionism, and are increasingly required to collaborate with rivals.

A related theme with clearly high impact and comparatively low uncertainty is the **end of Western dominance and the rise of the East**, with Asia, specifically China and India, taking a much larger share of global economic and political influence, and more importantly also of the **capital** flow. In this respect many interesting questions arise around how will the world look, where the major investors and financiers are based (Shanghai or Mumbai?), or where the US\$ is no longer the world's major reserve currency.

As a result of the current financial crisis and the active role government had to play in response to it, the issues of **governance, regulation, and responsibility** emerge as important, with the expectation of increased regulation of markets, organisations not being allowed to grow as big, and regulation of real estate investment. In politics, the rise of cities, the emergence of interest-based politics rather than class-based, and the apportioning of

responsibility to specific bodies may have considerable impact on how investors operate and real estate is regulated and managed. For the same reason, in general the **relationships between public and private sectors** are seen as highly uncertain.

Quality and use of information issues, with the current glut of easily available information, often of questionable reliability, commoditisation of information and education, leading to loss of certainty about the truth is not seen by the real estate industry as a very impactful or uncertain trend, perhaps partially because the real estate industry is starting from a point of comparatively low transparency already. Rather than being a concern, this may mean even stronger **reliance on specialists and established brands**, playing into the hands of those currently at the top of the industry.

There seems to be little doubt that **resource availability and use** will be key factors in the economy in general and real estate. Scarcity of energy, raw materials and even food and water, along with complexities of waste management may lead to innovative measures, such as **recycling old buildings**, recycling materials, or in more extreme cases rationing of basic supplies, communal ownership of some resources, or even potential conflicts over resources.

The reactions of people, interest and social groups to the above themes, and others, such as loss of privacy, cultural differences, etc., is the single most uncertain factor, as seen by the industry. What is the likelihood of rebellions, militant behavior, and conflicts? Similarly, the issues of **safety, security, crime, terrorism** deserve attention, if not as much as some of the previously mentioned themes.

In addition to the above social and economic trends, the **values, attitudes and circumstances of investors** themselves are likely to change in future. Debt and financial markets are likely to undergo adjustments that should better reflect the role of human nature in the functioning of these markets. We are likely to see some technical adjustment in accounting standards (true cost accounting) with impact on valuations and investment processes. Recent experience will also likely change the perception of risk, with implications on not only financial products, and the way investments are selected and viewed (role of real estate as investment vehicle), but also the roles and attitudes of the investors and their mandates – for example, will cross-border investors need to reflect more political and social responsibility factors in their investment process?

4. Development of scenarios

To further stretch and articulate views of the future, we applied a simplified scenario methodology, using a matrix showing the extremes of two key drivers that were seen as impactful and uncertain.

One driver that stands out in the discussion and has implications for nearly all other global developments is the theme of **globalisation vs. localisation**. The current financial crisis, changes in regulation, role of government in the markets, changing political and economic structures of decision-making pose serious question marks about the continuation and possible forms of globalisation.

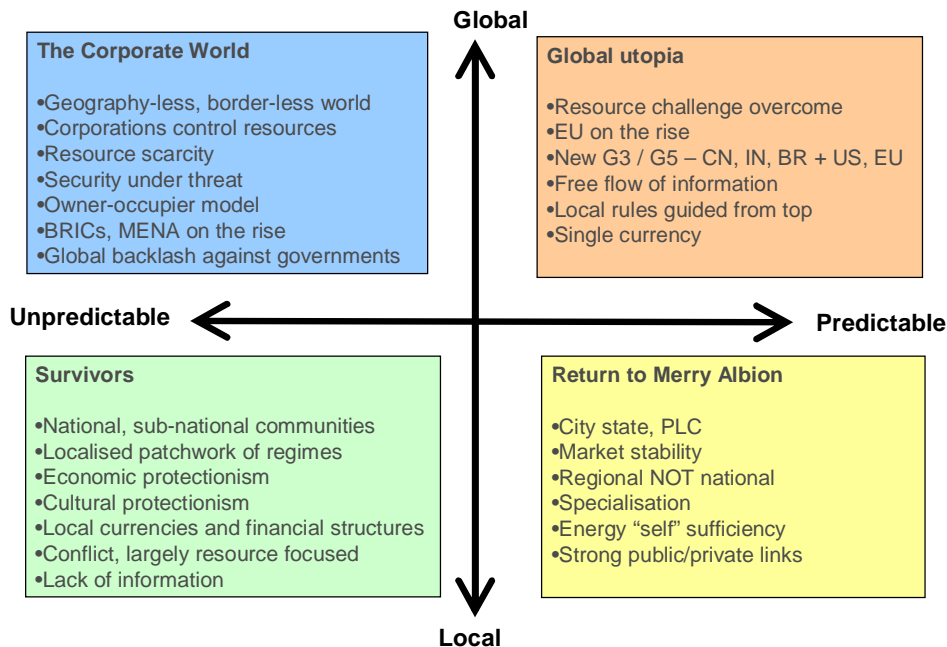
There were several contenders for the second axis:

low risk vs. high risk
 controlled vs. free
 regulated vs. unregulated
 centralised vs. fragmented
 structured vs. unstructured
 secure vs. insecure

To capture many of these aspects, we decided to use a more generalised dimension of **predictability vs. unpredictability** of behavior, social, political and economic structures, decision-making and other uncertainties.

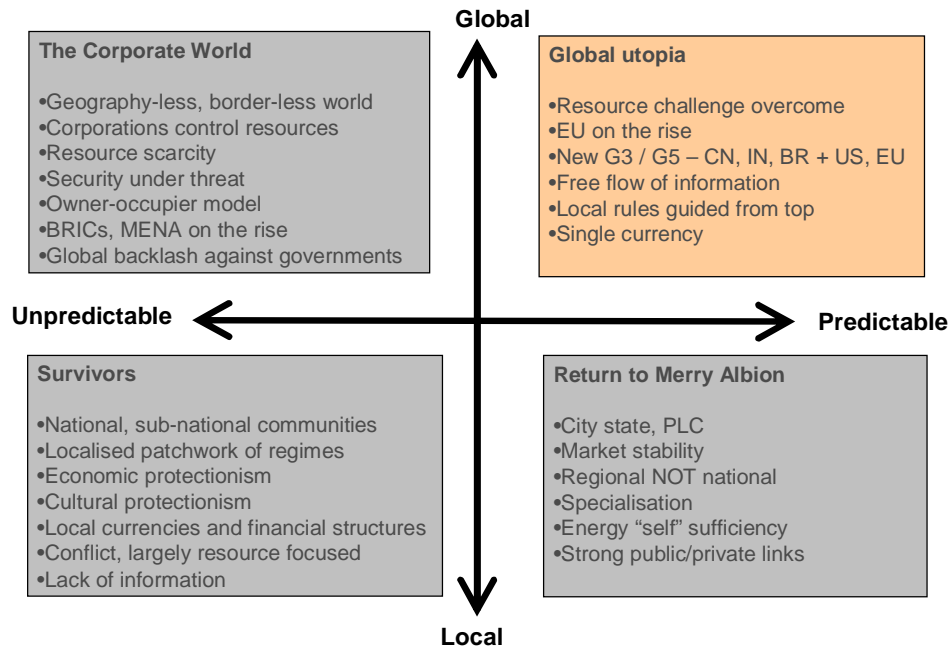
Putting these two drivers together and juxtaposing them produces four possible distinct scenarios of the future – in four distinct quadrants. This is a simplified view intended as a ‘forcing mechanism’ to inspire a subsequent development of scenarios by different groups of participants at the workshop. They would later incorporate other dimensions as well as factors considered relatively more certain (such as near-term demographics).

The main features of the four resulting scenarios are summarized below.



5. Four Scenarios

5.1 Scenario 1 - Global Utopia



5.1.1 Scenario description

'Global Utopia' is a world in which technology has enabled **resource challenges to be overcome**. New sources of oil have been identified, but renewable energy now dominates. Technology, specifically biotechnology, has also been brought to bear on the ageing process, with **people living much longer and much more healthy lives**.

With some of the world's biggest tensions dissipated, we have moved into an era of much greater **tolerance**. Common ground has been found with previously fragmented interest groups, and people are willing to put their faith into **multi-national governance** structures – the world is governed by a new G3: China, India and Brazil, with still influential roles for the US and an expanding EU. This has enabled a **strong global regulatory framework** for the market economy. There is top-down governance, a single world currency and **information flows freely** – it has become a commodity. This point was underlined in 2030, when a meeting of the G3 concluded it had nothing to discuss!

Stability is undoubted in 'Global Utopia'. Population growth is 0% in the developed world and 2% in the developing world. The world no longer worries about, or even takes an interest in, oil prices – they were yesterday's news.

5.1.2 Implications for real estate investment management business

The industry can **invest internationally with confidence**. There are low barriers, high transparency and no competition between jurisdictions. However, the free flow of information has made it **harder to generate an alpha**; trackers are very much in vogue, fees have fallen dramatically and there is **industry consolidation**. Securitisation returns and becomes a standard.

In the developed world, **industry bodies have greater authority** and standing, new supply is strictly controlled, there is less speculative development and **investment maintenance** is the

main game in town. There is also more **synthetic investment**, as assets have become expensive to own. **Individuals** become more powerful, but the regulators are careful to ensure that individual owners do not go bust.

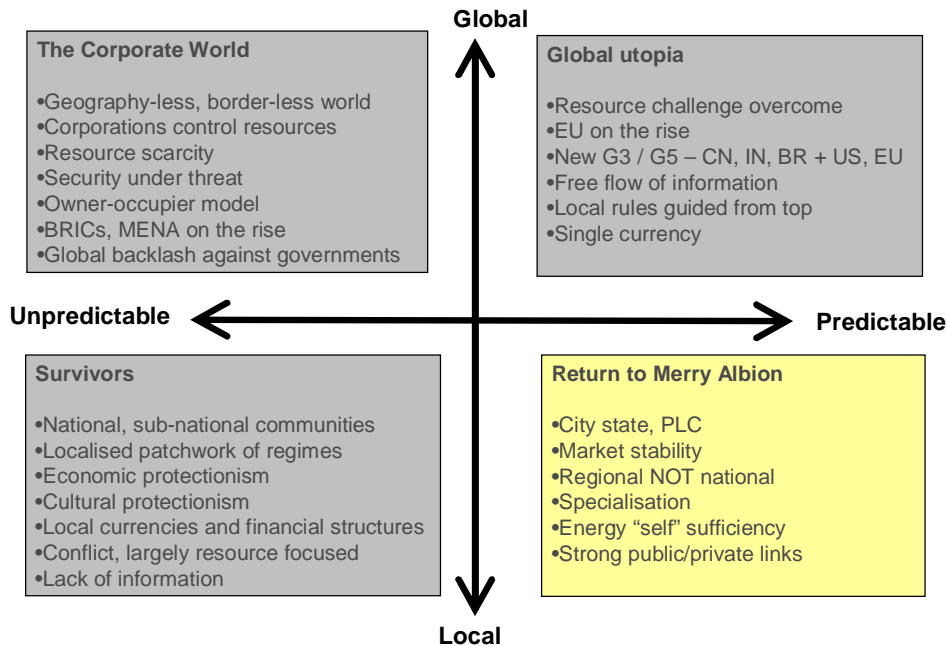
The **source of opportunity** has shifted, towards the developing world, logistics, health and catering to (extended) life cycle needs, geographically the arctic rim is the new development frontier.

The chartered surveyor does not survive – there is not much demand for their services – but the same applies to other professions: accountants and lawyers. Property law is much simpler, commoditised and easy to understand.

Overall, the market has moved away from the survival of the fittest. There is personal responsibility, but within a very strong regulatory framework to mitigate, even avoid, risks to society.

As one participant observed, the “scary thing is that our current business plans rely on this future” –current problems are always assumed to be solved in the future.

5.2. Scenario 2 - Return to Merry Albion



5.2.1 Scenario description

The markets of ‘Merry Albion’ are also very **stable**, but much more **localised**. After several centuries, power has returned to **City States**, with companies also very influential at a local level – the private and public sectors work very well together, but companies need local presence to be effective. Governance does not extend beyond the **regional blocs**, and people’s **direct participation** in the governance process ensures that local politicians and interest groups hold sway and are highly effective.

City States have found ways of working with each other, through **specialisation and trade agreements**, although technology and green policies have enabled them to retain control of and be self sufficient in energy. The principle of **subsidiarity** rules.

The emergence of this world was signaled by a shift to more localised elections, quickly followed by much greater tax raising powers at the local level

At this point it is necessary to raise two challenges to this scenario: firstly, it is hard to imagine how would the power transfer between layers (EU – Nation – City – Local) be managed, and secondly, self-sufficiency, due to lack of space for efficiency savings, is obviously inferior to international trade and collaboration. In this world people travel more, putting even more strain on the energy sources.

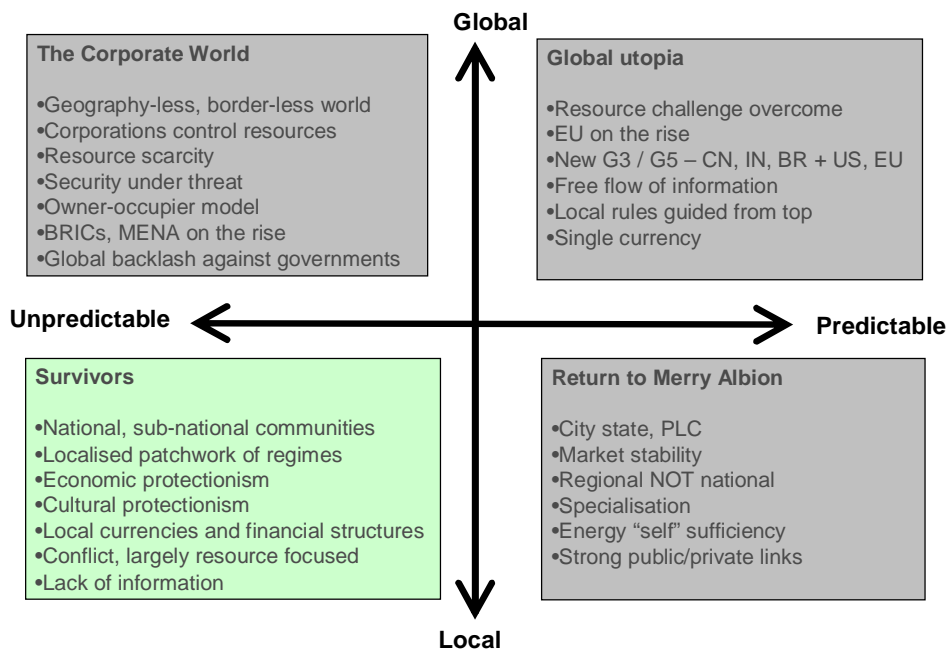
5.2.2 Implications for real estate investment management business

'Merry Albion' has meant that **stabilised assets** remain a core investment category with low volatility, but **asset classes have widened significantly**, to include mixed-use, agricultural, residential, and infrastructure. **Specialisation** has also increased cross border diversification potential. Owner-occupiers are predominant players in the market.

Global corporations need local representation, propelling the fragmentation, **local offices are necessary, local specialists are valued** – the chartered surveyor survives – and planning is a key tool in international competitiveness. Property is seen as superior investment vehicle compared to bonds (on the risk side), runs in inflation related cycles, **zero real rental growth**, with no risk premium. **Investment is mainly local** doing away with the need for sophisticated listed market and raising a question over whether the relationship between private and public investment.

Overall, this is a world of increased complexity, re-intermediation, and there remains a strong role for the professions (chartered surveying, legal, etc.).

5.3. Scenario 3 – Survivors



5.3.1. Scenario description

This scenario is driven by a **reversal of the globalisation trend**, with strengthening of national and sub-national communities, **devolved decision making** to cities and communities. The current trend of disappearing borders and obstacles to trade flows gives way to a patchwork of localised regimes, controlling resources and economic power, with a **high level of economic protectionism**, sometimes of unviable businesses. Tax policies and unpredictability of unilateral decisions on trade restrictions and regulation make international

operations uneconomic leading to a **break-down of international trade** and aid flows, local consumption – production trade cycles account for the majority of economic activity. Local currencies and financial structures prevail, the Euro disintegrates. Many of the multinational corporations demerge into local businesses.

Resources become key and **under pressure**, with many countries restricting their exports, resulting in **soaring prices of commodities**, including oil, the cost of travel rockets and energy shocks severely **limit international travel**, propelling even more cultural and political isolationism. Technology plays a role of enabler of localisation (remote work arrangements, less travel). With **high** sustained **unemployment** and negative GDP growth, societies become even more resistant to cultural / racial / national integration (“we are in this mess because of them”). Countries leave the EU, UN. Such tensions between geographies and societal strata results in more frequent conflicts, and social unrest in economically lagging areas. Information becomes scarce, not transparent, and heavily censored by governments and interest groups.

Triggered by the outbreak of swine flu, spiraling cost of resources, decline of travel this is an **unpredictable, xenophobic, tension driven world**. It is almost hard to imagine this scenario arising in the absence of conflict, either as a cause or consequence.

5.3.2. Implications for real estate investment management business

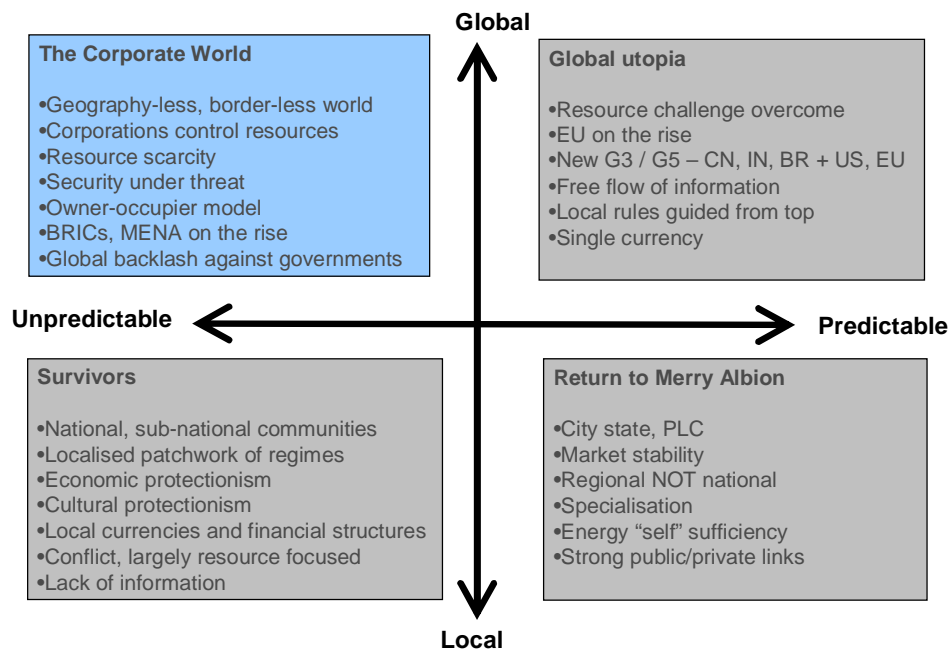
For real estate markets this would mean a **return to basics**, to **local ownership and management** of properties, with a premium on local knowledge. Chartered surveyors and agents regain a central role in the investment process. It can be argued we have been there in the 50s, 60s, with the added early 70s tensions.

The practical implication for investors is that they need to invest in assets/markets that remain viable if ownership and **occupier demand is “local”** not global. Current global portfolio managers should stress test their foreign assets by asking a simple question: **“Would this building be viable even if the only occupier demand was local companies producing local products / services to local economies?”**

Apart from a marked **decline of cross border investment**, the role of real estate as a **real asset** gains over its role as a financial asset, accompanied by the **decrease of available financing and investment instruments**. It is also harder to creatively manage real assets and drive (mainly local) demand. These are poor conditions for investors and mainly investment managers, and in this world we are likely to see a decrease of investment firms, funds and intermediaries.

In summary, this scenario turns out positively for traditional real estate intermediaries and agents with local knowledge and networks, however, it implies the rapid decline of cross-border investments and the decline of investment management as it currently exists.

5.4. Scenario 4 – The Corporate World



5.4.1. Scenario description

'Corporate World' describes the world in which the power is vested **with large multinational corporations**, operating on a truly global scale but in a rough, unpredictable environment.

This scenario is triggered by failed attempts of governments across the world to resolve the issue of **resource scarcity** (or allocation).

The fight over resources and overcrowding of the planet continues and leads at extremes to phenomena like compulsory euthanasia in certain countries and a more humane link of pensionable age to health, and a government-promoted I-farm grow-your-food program.

The attempt to **stabilise the food and energy supply** and prices leads to serious disputes at a G28 meeting in Tripoli in 2012. While the governments fail to agree on resources issues, the global capital continues to flow freely and for a select (although large) number of firms the business itself is flourishing. The large corporations become more and more powerful as they thrive on the global **backlash against governments**.

They start filling in the space previously occupied by traditional banks and in a 'history repeats itself' way, bring the next **major economic crisis** in 2018-2020, where the combination of **corporate governance and opaque inter-company lending issues**, combined with a series of legal battles on an international scale, push the global economy into recession even deeper than in the 2007-2009 downturn.

Progressing globalisation, demographics and natural resources, bring further power to the BRICs followed by PLAIN (**Pakistan, Libya, Afghanistan, Iran and Nigeria**) countries, whereas the large powerful corporations act as links on the East-West and North-South fronts.

Technological innovation gives corporations a further edge against the less agile government based structures and in many cases **give individual companies enormous economic power** (symbolically 'Google plays China') due to its scale and resources.

The 'Twitter Generation' (Generation T) of teenage sharers from the beginning of the century now in their adult lives and with strong positions within the global firms gain the opportunity to demonstrate their **lack of confidence in governments** but **strong reliance on technology**.

Powerful corporations pay a lot of attention to control of the information flow, as they often have to respond to data sabotage and cyber-attacks. The **friction between government organisations and corporations** remains high and power shifts occasionally to governments in times of crisis but remains largely within the global firms.

Liverpool FC's owner from Beijing sells its entire stake to one of the Libya Investment Clubs.

The 'Corporate World' scenario is a **volatile world**, for many in the room quite scary or negative, but most participants **just get on with life on a much more global scale, and there is no major breakdown of the fundamentals of the system**. Volatility implies there are great times as well as very bad times, and the economic cyclicalities continues, albeit with different types and roles for the key players.

5.4.2. Implications for real estate investment management business

The 'Corporate World' scenario would imply **greater corporate ownership of real estate assets** and in many cases the reversal of the trends seen in the 90s and 00s. Global corporations become owner-occupiers motivated by the need to control the key assets, and being able to do so thanks to scaled operations and strong positions. They capitalise on the market downturn 2007-2011, by getting in (back) on the cheap.

This means **less investable office space** and more investment interest in residential and infrastructure. **Health, leisure, education and senior sectors** gain more prominence as investment opportunities, typically with core-plus strategy. Retail evolves into global retail brands and diversified local retail players. Westfield grows even bigger. Less development in logistics as investment sector as corporations become more efficient within their structures.

There is **less need for investment management services** and less liquidity, the business declines and evolves into a barbell structure, with on one hand truly global funds and on the other very local niche players.

Speculative development fades away. At the same time, general market volatility requires greater sharing of risks and so the **securitisation comes back**, as well as more deals being done through 'clubs', in collaboration with rivals.

Significant high risk-return opportunities can be spotted in the new wave of **emerging economies** starting to actively benefit from and participate in the global world. However, these opportunities are on a one-off basis, in the early stages of developments, especially in Africa.

REITs and synthetics grow together with spreading global standards and investors' hunt for risk, yet are constantly in tension with the global regulators and occasional backlash against them in favor of the return to plain vanilla products.

Corporate governance reflects the new global economic power distribution and so many **board meetings take place in India and China** and reshuffles of board structures and forms of governance may be required.

In summary, this scenario turns relatively advantageous for big global brands and super-specialists.

6. Summary observations

6.1. What we have observed

Examining possible futures through the prism of four scenarios is inevitably **sensitive to selection of the parameters** that define these scenarios. Different choice of uncertainties would have produced different scenarios with different impact on real estate investment markets. Scenarios chosen in this workshop were fairly broadly defined and forced us to **stretch the imagination, although still at relatively high level.**

There are some obviously scary scenarios for real estate investors, such as the world with high taxes, with new or overly restrictive carbon taxes and of course the general economic climate – given the real estate industry is piggy-backing on GDP, this presents challenges in a falling GDP world. But curiously, **none of the scenarios**, as developed in the workshop, **presented a situation where real estate investment management industry was entirely absent**, perhaps only diminished and subject to smaller bubbles / cycles.

Polarisations. Elimination of the ‘middle ground’ in many aspects of real estate seemed to emerge as a theme across the discussions – for example, polarity of finance real estate vs brick and mortar real estate, specialist niche funds vs global universal brands. On the other hand, we have seen a contrary force to e.g. expand the role of surveying into a more multi-disciplinary profession.

No return. No scenario seemed to suggest a return to the ‘go go’ years of fantastic returns across the globe and sectors.

Sector shifts. Each of the scenarios had different implications for the attractiveness of the real estate sectors.

Deaths of professions. Scenarios suggested various professions could disappear or fundamentally change, e.g. technology threatens the role of agents and even investment managers as intermediaries, under some scenarios. Similarly, valuation as a profession faces fundamental challenges in an increasingly complex world of investment management.

Role of fund management. Given the potential mismatch between a typical lifecycle of a fund, property market cycle, and investment horizon of specific investors, how suitable are real estate funds for investors?

Next wave of entrepreneurial opportunities. In some scenarios, life gets really tough but all scenarios imply entrepreneurial opportunities in new fields, especially the next wave of emerging economies, even if on a ‘once-in-a-lifetime’ basis.

THE WARNING SIGN

One of the intriguing observations from examining the scenarios was the realisation, as one participant put it, that investment firms’ business plans currently implicitly plan for and assume only one future scenario, the Global Utopia, **and do not take into account** the possibility of significantly different futures such as the those described in the other scenarios.

6.2. What’s next?

The role of information is to reduce uncertainty – and to help make sense out of what is happening around us.

With this workshop, we have touched on many significant issues for the industry, although still stayed at reasonably high-level, given the time available.

The issues, questions, ideas discussed will feed into the agendas of subsequent conferences and discussions, and inform the editorial, business and research agendas.

As we make this note broadly available, it will hopefully stir further discussion and exchange of ideas and information.

6.2.1. How can you use this note and the scenarios?

Scenarios may feel uncomfortable, as we all like a level of certainty in planning. However, robust strategies and ideas should be resilient to many alternative futures. The same may apply to the whole industry or sector and not just individual business.

While 'stress-testing' has become a very popular phrase among the financial services institutions in the light of the recent crisis, it may well be applicable to real estate funds and related businesses.

Several questions you could consider in this context:

- How robust would my current strategy be under different scenarios?
- Would I change anything I'm doing today if I see that the future may also play out differently than in the master plan?
- Which scenario is best for me? Which is the worst and can I deal with it?
- Am I 'betting the house' on one of the scenarios?
- What would be a great hedge against the other scenario(s)?
- Can I make my preferred scenario happen?

The scenarios developed on June 18 are just an outline, one of the possible sets. The goal was to stir the discussions, a strategic conversation that elicits the big issues.

For any further comments, questions please email us at property@thomsonreuters.com

For enquiries about using scenarios and futures thinking: stephen@outsights.co.uk

7. List of attendees

| First Name | Last Name | Company | Title |
|------------|---------------|--------------------------------|--|
| Nick | Axford | CB Richard Ellis | Executive Director, Head of Research & Consulting EMEA |
| Asli | Ball | GIC Real Estate | Vice President |
| Andrew | Baum | University of Reading | Director of Enterprise, Prof. of Land Management |
| Timothy | Bellman | ING Real Estate | Global Head of Research and Strategy |
| Alessandro | Bronda | Aberdeen Property Investors | Head of European Research |
| Stephen | Brown | RICS | Head of Research |
| Christophe | Cuny | Eurohypo | Property Derivatives |
| Michael | Edwards | UCL | Senior Lecturer |
| Rosemary | Feenan | Jones Lang LaSalle | International Director of Research |
| Charles | Follows | ING Real Estate | Senior Director, Global Research & Strategy |
| Mervyn | Howard | Grosvenor Fund Management | Fund Management Director |
| Lars | Huber | Hines | MD, Hines Europe |
| David | Hutchings | Cushman & Wakefield | Partner |
| Paul | McNamara | PRUPIM | Head of Property Research |
| John | Ratcliffe | Dublin Institute of Technology | Director, Faculty of the Built Environment (and Outsights Associate) |
| Matt | Richardson | Fidelity International | Head of Research - European Real Estate |
| Melville | Rodrigues | CMS Cameron McKenna LLP | Partner |
| David | Skinner | Aviva Investors | Investment Strategy & Research Director - Real Estate |
| Joe | Valente | Allianz Real Estate | Head of Portfolio Management & Strategy |
| Michael | Vaughan Johns | Liberty International | Investment Director - Capital & Counties |
| Stephen | King | Outsights | Senior Consultant |
| Richard | O'Brien | Outsights | Partner |
| Robert | Ciemniak | Thomson Reuters | Global Head, Real Estate Markets |
| Jan | Skopeczek | Thomson Reuters | Business Manager, Real Estate Markets |